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THE ISLAMIC REPUBLIC OF MAURITANIA

February 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ISLAMIC REPUBLIC OF MAURITANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with the Islamic Republic of Mauritania, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 28, 2015, following discussions that ended on October 30, 2014, with the officials of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 14, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 28, 2015 consideration of the staff report that concluded the Article IV consultation with the Islamic Republic of Mauritania.
- A **Statement by the Executive Director** for the Islamic Republic of Mauritania.

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

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

January 14, 2015

KEY ISSUES

Context. Mauritania's economy has benefited from macroeconomic stability and high growth in the context of contained inflation, responsible macro-policies, high iron ore prices and scaled-up public investment. However, economic growth has not translated into broadly improved living standards and is being hit by a sharp decline in iron ore prices.

Outlook and Risks. Although the outlook remains favorable, it hinges heavily on stabilizing iron ore prices and expanding mining capacity. Downside risks to the outlook dominate because iron ore prices may decline further in response to excess supply in the global market.

Key Policy Recommendations. With high risk of debt distress and deteriorating terms of trade, Mauritania's fiscal policy needs to remain focused on consolidation to support fiscal sustainability. Over the medium term, a fiscal framework with a full-fledged fiscal rule will help prevent the boom–bust cycles that ensue from volatility in natural resource revenue, and with strengthened governance in managing mining wealth. The central bank should take advantage of the low-inflation environment to strengthen monetary policy formulation, gradually liberalize the foreign exchange market, and introduce liquidity support and banking resolution frameworks. The implementation of the recent FSAP recommendations should be pursued to enhance the stability of the financial sector stability.

Economic diversification and inclusive growth are the foremost medium-term challenges. The authorities should accelerate structural reforms needed to raise Mauritania's potential growth, create jobs, and improve living standards for all Mauritanians.

Article VIII. A comprehensive analysis of the foreign exchange market identified exchange restrictions and multiple currency practices (MCPs) subject to Fund approval under Article VIII. Effective November 20, 2013, the exchange rate regime is classified as "stabilized" arrangement.

Approved By
Daniela Gressani and Dhaneshwar Ghura

Discussions took place in Nouakchott during October 20–30. The Staff team comprised Ms. Vera Martin (head), Ms. Touré, Mr. Jardak (all MCD), Mr. Ricka (SPR), and Ms. Luca (FAD). The team was supported in the field by Ms. Maaloum (local economist) and from headquarters by Ms. Kebet and Mr. Selim (all MCD).

The mission met with President Mohamed Ould Abdel Aziz, Prime Minister Yahya Ould Hademine, Governor of the Central Bank Sid' Ahmed Ould Raiss, Minister of Finance Thiam Diombar, Minister of Economic Affairs and Development Sidi Ould Tah, and other senior government officials; representatives of the banking and private sectors, trade unions, and civil society; and members of the diplomatic and donor communities. The mission held a press conference at the conclusion of the mission.

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CONTEXT

1. With macroeconomic stability restored, Mauritania needs to focus its economic policies on increasing the economy's resilience to external shocks and promoting inclusive growth. With the support of the ECF arrangement (2010–13), the authorities managed to restore macroeconomic stability with high economic growth, contained inflation, a more prudent fiscal stance, and improved policy space. Both fiscal and external buffers improved thanks to exceptional donor assistance, better tax collection, rising iron ore prices, and fishing proceeds. However, a 49 percent decline (year-on-year) in iron ore prices in 2014 again exposed Mauritania's vulnerability to terms-of-trade shocks: receipts related to the extractive sector account for 75 percent of exports and 30 percent of fiscal revenues. The medium-term outlook hinges on the authorities' capacity to consolidate macroeconomic stability by strengthening policy formulation and governance; strengthen the financial sector and promote financial inclusion; and undertake broad structural reforms to promote private sector development and economic diversification, to broaden and sustain growth and promote inclusion.

2. After a double victory in parliamentary and presidential elections, Mauritania's ruling party has the political space to undertake renewed economic reforms. The ruling party and its allies gained a majority in the Parliament, paving the way for legislative economic reforms. President Abdel Aziz intends to strengthen national unity, the judiciary system, and governance, while reducing social inequality and poverty through better redistribution.

ECONOMIC DEVELOPMENTS

3. Economic growth in 2013–14 remained elevated in the context of contained inflation. Based on the new national accounts,[1] real GDP growth is estimated at 5.7 percent in 2013, from 6.0 percent in 2012. Reduced activity in fishing and agricultural sectors was only partly offset by better mining and services activity. Preliminary economic indicators for the first part of 2014 point to weaker than expected oil, manufacturing, and agricultural output, partly offset by stronger fishing and construction activity and higher iron production. Average headline inflation declined from 4½ percent at end-2013 to 3 percent in mid-2014, owing to declining international prices. A spike in domestic food prices, together with a gas price increase, accelerated average inflation to 4.1 percent (year-on-year) in October 2014.[2]

4. The current account deficit remained wide during 2013–14 because of large capital imports associated with the extractive sector and, lately, to worsening terms of trade. The current account deficit reached 25 percent of GDP in 2013, reflecting large imports to expand capacity in extractive industries—mostly financed by FDI. Reserve levels remained stable

[1] See Box in Appendix IV for details.

[2] Administered gas prices increased by 11.3 percent during 2014.

(6½ months of prospective imports excluding those related to the extractive industries). But an improvement in the terms of trade during 2013 (at 34 percent) reversed during 2014 (at minus 18 percent). During the first half of 2014, the current account deteriorated to an annualized 32 percent from 18 percent of GDP compared to a year earlier, on account of a deteriorating trade balance.

5. The deterioration of the terms of trade has been absorbed by lower foreign exchange reserves. The nominal exchange rate against the U.S. dollar slightly depreciated (by 2 percent) since end-2012; but appreciated in real terms owing to the inflation differential between Mauritania and its trading partners. In 2014, the ouguiya continued its gradual depreciation with respect to the U.S. dollar, with an appreciation of 7 percent vis-à-vis the euro, given the U.S. dollar's appreciation relative to the euro. Because the euro is a major trading partner currency, the real effective exchange rate appreciated cumulatively by about 12 percent since 2013. The Central Bank of Mauritania (CBM) stepped up its volume of foreign exchange sales in both fixing sessions and direct sales from US$1.2 billion in 2012 to US$1.5 billion in 2013, and kept a similar trend during 2014 with sales totaling US$1.5 billion. Weaker foreign exchange repatriation from mining companies to Mauritania and no EU fishing compensation have decreased gross reserves to US$639 million in December 2014 from US$996 million at end-2013, to close to five months of prospective imports excluding those related to extractive industries.

6. Fiscal policy has aimed at maintaining consolidation efforts. In 2013, the overall balance, excluding grants, posted a deficit of 2.2 percent of non-extractive GDP, down from 3 percent in 2012.[3] Budget execution up to the third quarter of 2014 showed an overall deficit (excluding grants) of 3 percent because of high capital spending execution compared to the annual envelope. Within tax revenues, lower domestic VAT revenues were more than offset by higher corporate income taxes, customs revenues, and taxes on wages and salaries. For nontax revenues, higher revenues from fishing licenses partially mitigated the slight decline in dividends and royalties from public enterprises. Despite progress in revenue mobilization (Box 1), fiscal consolidation did not result in improved non-extractive fiscal balances and external debt maintained an upward trend and—despite the upward revision in national income accounts—remains elevated at 73½ percent of GDP at end-2014.[4]

7. The risk of debt distress is assessed to be high because of the lagged effects of the deterioration of the institutional environment in 2009 on debt thresholds (Annex I)**.** The debt sustainability analysis reports the breach of one of the debt thresholds in the baseline scenario, leading to a deterioration of the assessed risk of debt distress. This is associated with lower debt thresholds, driven by the lagged effects of the worsened institutional capacity as measured by the World Bank's CPIA rating in 2009, even though this rating has improved continuously since 2010.

[3] On a cash basis. Fiscal outcomes do not fully capture the transfers to SOMELEC, the electricity public company, to cover for operational losses, nor oil revenues from the decline in international oil prices.

[4] The public debt-to-GDP ratio has declined from the previously reported level (98 percent of GDP in June 2013) due to higher GDP figures in the new national accounts.

The projected increase in new debt disbursements for infrastructure projects has also contributed to this reclassification.

Box 1. Tax Revenue Performance in Mauritania[1/]

Mauritania has experienced a rapid and significant increase in tax revenue collection over the past years. The tax effort is especially worth noting, given the crisis in neighboring Mali and elections in the past year. The ratio of tax revenues (excluding those from natural resources) to GDP improved by more than 50 percent since 2010, reaching an estimated 22 percent of GDP in 2013. Corporate Income Tax (CIT) doubled, to 4.0 percent. Payroll tax and VAT increased by about 60 percent, to 3 percent and 8 percent respectively. This increase does not consider revenues associated with extractive industries. The amount of tax revenues generated by mining activities reached 5.0 percent of GDP in 2013.

Mauritania seems to have so far avoided the resource curse regarding taxation; domestic revenue mobilization improved during the recent boom in commodity prices. This can be attributed to the low share of foreign exchange earnings that re-enter the country.

Non-extractive tax revenues performed strongly as the VAT regime in the mining supported formalizing the economy. For any developing country, the VAT self-enforcing property dominates its neutrality: (1) the cascading effect of a general sales tax—the alternative to a neutral VAT—is limited by the low number of production stages in Mauritania; (2) economic agents in the formal sector—especially exporters—who can claim VAT credit have an incentive to acquire their purchases from formal suppliers that provide proper VAT invoices. Mining firms, taxed at a zero rate because they are exporters, can be reimbursed if and only if they can prove that their domestic purchases are taxed under local VAT. These transactions provide useful information that can be used to broaden the tax base. However, Mauritania could benefit further on this front, as local purchases in Mauritania remain comparatively low: the World Gold Council estimated that local purchases represented 38½ percent of total expenditure in 2012—compared with 89 percent for Mali, 91 percent for Ghana, and 67 percent for Burkina Faso.

In addition, the Mauritanian government engaged in several important and complementary reforms in revenue administration and tax policy.

- By eliminating the global income tax in 2012, Mauritania switched to a dual tax system, where progressivity of the tax system is kept only on wages.

- Mauritania implemented reforms to protect its tax base against aggressive tax optimization by multinational companies. In 2013, a withholding tax of 15 percent on any payment to nonresidents limits profit-shifting to foreign countries. The authorities are working on a thin-cap rule and taxation on capital gains from indirect transfer of mining titles.

Mauritania-specific factors can also explain the increase in revenue collection. For example, the rise of CIT can be explained by the end of the CIT exemption in 2012 and by the end of the minimum tax revenue (2.5 percent on turnover) collected by customs. CIT revenues rose by 1.3 percent of GDP to 3.7 percent in 2012, while minimum tax revenue increased from 0.8 percent to 1.4 percent of GDP. The latter tax is similar to a royalty at 2.5 percent; however, it is creditable against the CIT and collected by customs. This point is important because it reinforces the coordination between the ministries of finance and mining, and improves the quality of valuation of exported minerals.

1/ Based on a note by Salvatore Dell'Erba and Gregoire Rota-Graziosi (Fiscal Affairs Department, IMF (2014)).

8. Monetary indicators suggest a moderate increase in credit and excess liquidity (FSSA report). Between October 2013 and 2014, as short-term deposits fueled broad money growth from 9.8 percent to 11.4 percent, banks' credit growth slowed from 13.3 percent to 12.1 percent. Despite the CBM's increased FX sales, which helped stabilize excess liquidity in the past, liquidity in the banking system has started to increase since mid-2014, on account of limited investment opportunities. Free reserves increased in October 2014 on an annual basis.[5]

9. The banking sector is well capitalized and liquid, but remains fragile to shocks. High credit concentration (including credit to the public sector), foreign-exchange risk exposures, and low profitability due to a constrained business model and higher competition exacerbate banking vulnerabilities. Although the banking system appears well-capitalized overall, some banks are not meeting the minimum capital requirement and are under-provisioned. Asset quality remains weak: nonperforming loans (NPLs) represented 20 percent of loans in the second quarter of 2014. On December 31, 2014 the CBM removed the licenses of Maurisbank, an undercapitalized bank, and of FCI, a financial institution with negative capital and little credit activity. The cases are likely to be contested in courts and deposits be covered by the existing deposit insurance.

10. Advances in social indicators remain stalled. Poverty and unemployment remain elevated and progress toward achieving the MDGs is uneven. About 26 percent of households were estimated to be food-insecure in June 2014, in part because of higher rural migration to Nouakchott. Progress toward building the foundation for inclusive growth, as set at the time of 2012 Article IV, has been mixed (Appendix I).

OUTLOOK AND RISKS

11. The near-term outlook remains favorable despite slower economic activity and lower iron ore prices.

- **Slower economic activity in 2015.** After recovering to 6.4 percent in 2014 (to the effect of the strong rebound in fishing, which drives non-extractive GDP growth to 7.1 percent), real GDP growth is projected at 5.5 percent in 2015 because of lower growth in mining activity, and lower public investment and consumption from the demand side. Terms of trade are projected to deteriorate by 4.5 percent as lower iron ore prices (24 percent) are partially compensated by the decline in oil prices (40 percent). The current account deficit in 2015 (at 7.7 percent of GDP) narrows significantly due to higher transfers associated with the telecom licensing. The overall fiscal deficit is projected at 4.7 percent of non-extractive GDP (compared to 3 percent of non-

[5] Banks are requested to hold 100 percent of the total bank's bid in the exchange rate fixing sessions as excess reserves in ouguiya as of the previous day's close.

extractive GDP under the revised 2014 budget law) on account of lower-than-expected SNIM's contribution and VAT receipts and similar capital execution with respect to the original budget.[6]

- **Inflation is expected to accelerate somewhat but remain below 5 percent,** favored by the decline in international food prices and lower non-extractive GDP growth. Continued appreciation in real terms could result in higher private sector demand given the high share of imported goods and services in the consumption basket.

12. Downside risks to the outlook are dominated by global developments (see Risk Assessment Matrix). The authorities acknowledged the downside risks to the external outlook.

- Spillovers from weakening external demand for commodities could further reduce iron ore prices and mining export revenues (Box 2). Advanced economies will eventually exit from the supportive monetary policies implemented in recent years—which could lead to lower demand. China's economy is expected to rebalance away from an investment-based growth model toward a more consumption-based model. Both these factors will likely have significant spillovers globally and affect commodity markets. Larger-than-envisaged declines in main export prices would further reduce exports and FDI, and cast doubts on mining expansion plans, dimming growth prospects and worsening fiscal balances. External shocks could expose vulnerabilities in the banking system, exacerbating a negative shock to growth and financial stability.

- Spillovers from global oil and food prices—other important channels for inward transmission—could work favorably for Mauritania as a net importer in the context of subdued global growth. However, a worsening of geopolitical risks in Ukraine/Russia or the Middle East that could reverse oil price dynamics would negatively affect trade flows.

- At the domestic level, the Mauritanian economy remains exposed to drought, which could require additional budget support to assist the affected population. At the regional level, although Mauritania is not affected by the Ebola outbreak, the effects of health risks in West Africa could dampen Mauritania's economy through its trade ties with neighboring countries.

[6]Dividends from SNIM—the state-owned mining company—are estimated to account for 2.1 percent of non-extractive GDP, against the originally budgeted 3.8 percent of non-extractive GDP.

Box 2. External Spillovers to Mauritania's Economy

This box explores a scenario in which iron ore prices decline further than envisaged, the planned mining expansion comes to a halt, and SNIM's dividend contribution to the budget stops. The medium-run implications of such a scenario would require adequate policy response from the authorities, including a depreciation of the ouguiya to reflect weaker fundamentals and the use of buffers.

Global spillovers from iron ore markets. Iron ore represents about half of Mauritania's exports. Global iron ore demand has been highly dependent on China, which imports about two-thirds of the global volume. With record high prices in recent years, iron ore supply surged, in anticipation of China's increasing steel production. However, analysts have now identified signs of oversupply and predict that the largest world suppliers, Australia and Brazil, are taking the opportunity to reduce competition. Iron ore futures, at about US$64–66 in 2015–16, suggest a further 20 percent decline in prices below the projections embedded in the baseline. If these prices materialize, they would pose risks to Mauritania's budgetary revenues because of SNIM's lower dividend contribution, balance of payment dynamics through lower FX receipts, and, ultimately, lower potential economic growth if the planned mining capacity expansion does not take place; project feasibility depends on how far prices are from projects' reservation prices.

Downside scenario. Under an alternative (somewhat extreme) scenario with no mining expansion beyond the almost-complete Gelb II project and no SNIM dividend contribution to the budget during 2015–20, economic growth would be lower by more than 3 percentage points for 2018–19 relative to the baseline and the fiscal position would substantially deteriorate over the medium term—with an additional fiscal deficit, ranging from 1.6 percent to 2.5 percent of non-extractive GDP. Although private transfers and other capital inflows in 2015–17 will support reserve levels, starting in 2018 the cancellation of additional mines will lower mining exports and widen the external financing gap for 2018–20.

To dampen first-round effects, the authorities will need to respond using all policy tools at their disposal. Weaker fundamentals will result in a more depreciated ouguiya. The government would likely have to prioritize its public investment plan to achieve maximum possible fiscal savings without sacrificing the most pressing investment projects. At the same time, the country would have to accelerate its plans to diversify the economy away from mining so as to maintain potential without the mining expansion. The government would seek the appropriate policy mix to mitigate the revenue shortfall by adjusting spending, raising revenues, and seeking additional budget support from donors.

Downside Scenario: Key Variables, 2015–20

	2015	2016	2017	2018	2019	2020
Real output growth (%)	5.5	6.4	4.8	4.7	4.8	4.9
Difference vs baseline	0.0	-0.4	-0.2	-3.3	-3.6	-0.1
Overall fiscal balance excl. grants (% of non extractive GDP)	-4.7	-3.4	-3.7	-3.9	-2.9	-1.4
Difference vs baseline	-2.5	-1.8	-2.0	-2.3	-2.0	-1.6
External financing (% of GDP)	0.0	0.0	0.0	6.3	9.6	8.8

Source: IMF Staff estimates.

Mauritania: Risk Assessment Matrix

Sources of Risks	Relative Likelihood	Expected Effect	Channel Mechanism	Policy Response
A. Global Shocks				
1. Protacted period of slower growth in advanced and emerging economies				
In advanced economies, lower-than-anticipated potential growth and persistently low inflation due to a failutre to fully address legacies of the financial crisis leads to secular stagnation.	High	Medium/High	Further slowdown in growth in the Euro Area (second trading partner) would negatively affect the balance of payments, through lower demand. The impact could be beneficiary for Mauritania if oil prices decline.	In the short-term, external and fiscal buffers and higher exchange rate flexibility would provide room for a gradual adjustment. Sound macroeconomic management, a well-aligned exchange rate and reforms to increase the resilience of the economy to external shocks will require diversifying the economy and exports away from natural resources. A fiscal framework that includes a fiscal rule and an stabilization fund will support sound policy management.
In emerging markets, maturing of the cycle, misallocation of investment, and incomplete structural reforms lead to prolonged slower growth	High	High	A slowdown in emerging markets, including China (main trading partner), will result in lower trade flows due to lower demand. A decline in mining prices (especially iron ore) will the balance of payments and the fiscal position could deteriorate substantially.	
2. Growth slowdown in China: Significant growth slowdown in 2014-15 absent offsetting stimulus.	Low	High	A slowdown in China's economy will worsen the external and fiscal positions, due to lower demand for commodities and, likely, lower commodity prices.	In the short-term, external and fiscal buffers and higher exchange rate flexibility would provide room for a gradual adjustment.
3. Geopolitical fragmentation that frays globalization:				
Displacement and inefficiency associated with increased geopolitical surrounding Russia/Ukraine , affecting global financial, trade, and commodity markets.	Medium	Medium/High	While direct trade links are limited, tension between Russia and Ukraine could result in higher oil prices with the potential of worsening the trade and fiscal balances, and fueling inflation. Disruptions to cereal markets could worsen the trade balance and fuel inflation, given Mauritania's dependence on food imports.	Sound macroeconomic management will require increasing the effectiveness of the transmission mechanism to anchor inflation expectations. The authorities could use a portion of the fiscal buffers to compensate the poor temporarily.
Heightened risk of state failures in the Middle East, leading to a sharp rise to oil prices and negative confidence spillovers to the global economy.	Medium	High	Higher oil prices will put pressure on the external account and fuel inflation.	As above.
4. Sustained decline in energy prices, triggered by deceleration of global demand and coming on-stream of excess capacity	Medium	Medium ↑	Lower oil and gas prices would improve the current account and the fiscal balance.	Additional policy space could help buildup additional buffers to increase the resilience of the economy to external shocks.

Mauritania: Risk Assessment Matrix (concluded)

Sources of Risks	Relative Likelihood	Expected Effect	Channel Mechanism	Policy Response
B. Mauritania-specific Shocks				
1. Delays in increasing mining capacity	Low	High	Lower-than-expected mining production could result in worsening trade and fiscal balances.	Establish a fiscal framework that takes into account non-renewable resources, with an embeded stabilization fund that facilitates gradual fiscal adjustments.
2. Climate change shock	Low	Medium	Mauritania is prone to droughts and climate change disasters, which affects agriculture (the sector with the highest level of employment) and more intensively the poor. Climate change events could result in worsening trade and fiscal balances.	Build long-term food security and climate resilience, in addition to targeted social safety nets that builds in risk management and adaptation to climate change.
3. Political and/or social unrest	Low	High	Lack of improved living standards for the population in general could put pressure for further additional current spending, and may slow down the pace of reforms hampering long-term growth prospects.	Prioritize and sequence reforms to promote more inclusiveness in economic growth.
4. Ebola (regional risk)	Low	Low	Mauritania borders on countries where the Ebola virus has been identified and the authorities are actively monitoring the situation to prevent cases of Ebola fever in the country.	Authorities' announced a strengthening of borders controls with Mali after the announcement of the first case of Ebola in the city of Kayes located in western Mali, which is a commercial hub between the two countries.

13. Medium-term prospects remain promising. With iron ore prices stabilizing at US$72 per ton under the baseline, Mauritania's large resource endowment provides ample opportunities for development. Iron production is projected to more than double over the medium term, with real GDP growth averaging 6.5 percent per year during 2015–20. SNIM, the public mining company, is projected to ramp up production to MT22.75 per year by 2020 and by MT49.5 by 2030. The start of the Tazadit underground mine in 2015 (peak production is expected after 2017 with MT2.5 per year) and the Askaf mine in 2017 (with peak production of MT22.5 per year by 2023) are projected to keep the growth of extractive GDP at 11 percent per year, on average, during 2015–20. Moving forward with the Banda Gas project (with the potential of up to BTU65 billion per day over 20 years) will provide Mauritania and the sub-region affordable and cleaner power, resulting in an additional upside for growth in Mauritania.

14. The authorities expressed confidence in the continued strong growth and a strengthening of the BOP over the medium term, while acknowledging the downside risks to the external outlook.

- The authorities pointed to their recent achievements despite the external shocks, including continued elevated economic growth and contained inflation in 2014. They emphasized that risks to macroeconomic stability could materialize in the context of a double shock (with declining mining prices and rising oil prices, as in 2008), and noted upside risks to the outlook, given that their development strategy was focused on scaled-up public investment that was to be sustained by rising export earnings and fiscal revenues over the medium term.

- The authorities emphasized steps to address the 2014–16 terms of trade deterioration. The budget in 2015 aims at absorbing this external shock (¶16), and further adjustment or use of buffers is envisaged if additional revenue shortfalls materialize. The CBM discussed the scope to further accumulate reserves in the context of reduced FX demand for imports and additional receipts from telecomm licensing, while envisaging higher exchange rate flexibility (¶21). Scaled-up investment and progress in the business environment would support private sector development and economic diversification, especially in agriculture, fishing, and services (¶26). On that basis, the authorities did not consider additional adjustments necessary at this time.

POLICY DISCUSSIONS

The outlook depends on consolidating macroeconomic stability by strengthening governance and addressing vulnerabilities. In addition, strengthening of the financial sector, greater financial inclusion, and implementation of broad structural reforms to support private sector development and economic diversification will make it possible to support growth, create jobs and promote its inclusiveness.

A. Consolidating Macroeconomic Stability by Strengthening Policy Formulation and Public Sector Governance

Strengthening fiscal policy formulation to support medium-term sustainability

15. The 2015 budget focuses on mitigating the mining revenue shortfall. The budget envisages keeping the fiscal position to an overall deficit (excluding grants) of 2.1 percent of non-extractive GDP. Extractive revenue losses, estimated at 3.2 percent of non-extractive GDP, would be mostly offset by an increase in VAT revenues (0.6 percent of non-extractive GDP) resulting from a hike of 2 percentage points in the VAT rate to 16 percent and from lower current spending (of 1.8 percent of non-extractive GDP), mainly in transfers, goods, and services. A public sector wage increase has been limited to UM10 billion (0.6 percent of GDP), with the wage bill remaining at 8.3 percent of non-extractive GDP. Staff called for postponing wage increases in light of the need for fiscal adjustment, and agreed with the authorities on making use of fiscal buffers to smooth the shock in the short term. The authorities highlighted the relatively small magnitude of the wage increase.

Mauritania: Main Fiscal Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In percent of non-extractive GDP)								
Non-extractive Revenue and grants	19.3	21.5	21.2	29.2	25.4	24.3	26.8	26.3	26.2
Non-extractive Revenue	19.0	20.4	20.4	22.8	24.4	23.3	25.9	25.4	25.5
Of which : Tax revenue	11.7	12.7	13.3	16.9	17.6	17.3	19.0	19.1	19.2
Extractive Revenues	6.1	7.8	12.5	14.9	11.2	8.3	5.6	4.8	4.9
Of which : Mining	4.4	6.3	10.1	12.9	9.4	6.4	4.0	3.0	3.2
Expenditure and net lending	29.2	30.1	33.6	40.7	37.8	36.3	33.7	31.8	32.0
Current expenditure	23.9	22.5	24.8	27.8	23.1	22.5	20.6	19.5	19.8
Capital expenditure	4.2	6.9	8.8	13.0	14.7	13.8	13.0	12.3	12.2
Basic non-oil balance	-4.3	-0.8	0.6	0.5	1.0	-1.2	1.3	2.3	2.4
Overall balance excluding grants (deficit -)	-4.1	-1.9	-0.8	-3.0	-2.2	-4.7	-2.1	-1.6	-1.6
Memorandum Items:									
Non-extractive overall balance, excluding grants	-10.2	-9.7	-13.3	-18.0	-13.4	-13.0	-7.8	-6.4	-6.5
Public expenditure real growth (in percent)	-14.4	11.0	14.0	26.5	-2.5	1.8	-1.4	-2.0	5.9

Sources: Mauritanian authorities; and Fund staff estimates.

16. The budget may come under stress. The expected dividend contribution from SNIM, at UM36 billion, seems optimistic, given the 27 percent decline in iron ore average prices during 2014.[7] SNIM has also undertaken ambitious investments that may hinder its ability to distribute dividends. In addition, the envisaged contribution from the higher VAT tax rate could underperform in light of slower economic activity. Because of the unclear effect of fiscal consolidation on economic activity, staff recommended using fiscal buffers to address additional revenue shortfalls. The authorities should rebalance their spending, continue to rely on financing on concessional terms, and refrain

[7] SNIM's contribution to the budget through dividend represented, on average, 8 percent of revenues over 2007-13.

from non-concessional external borrowing—even in the form of pledging future resource revenues.[8] The authorities, however, were confident about budget risks remaining manageable given the additional oil revenue windfall, which should be registered in the fiscal accounts; and the renewal of telecom licenses at end-2015, which could provide room for reducing debt and smoothing adjustment in case of larger-than-envisaged shocks.[9]

17. Staff made the following recommendations on measures to buttress medium-term fiscal sustainability and reduce the risk of debt distress. The authorities recognize the need to maintain efforts on these fronts.

- Renew revenue mobilization efforts through improved tax collection capacity and a widening of the tax base. To increase non-resource revenue, reforms need to be accelerated to limit tax expenditures (under evaluation) and strengthen human resources of the tax and customs administrations, improve information technology systems, and widen the list of taxpayers.

- Curb current expenditure by proactively managing the wage bill, and by gradually phasing out subsidies and transfers to other public sector entities. As a first step, the budget should fully recognize the transfers to SOMELEC, the public electricity company, and establish a clear mechanism that determines budget support,[10] and register the revenue windfall from declining oil prices to improve budget transparency. More importantly, the authorities should apply the automatic pricing rule formula. Efforts to reduce the size of the civil service and introduce a performance-based compensation system would reduce the wage bill and increase productivity. A timeline for eliminating subsidies (on electricity and food products) should be accompanied by appropriate communication and the broad establishment of the targeted cash transfer program to limit the impact on the neediest.

- Enhance monitoring of public enterprises to foster greater efficiency, including analyzing potential fiscal risks. The authorities need to make progress in resolving pending arrears with SOMELEC. The macro relevance of SNIM requires stronger accountability and transparency. A broader coverage of public finances, beyond the central government, will facilitate a better understanding and management of the fiscal stance.

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[8] Collateralized borrowing, by pledging future mineral revenues, is made on nonconcessional terms, and reduces budget flexibility (by earmarking revenues for debt service) and a country's flexibility in mobilizing and managing foreign exchange, increasing its potential vulnerability to shocks. It could also worsen the status of current and future creditors by protecting some; can raise creditworthiness risks; and usually ends up being more costly than more traditional borrowing schemes. Careful consideration of their full implications needs to be taking into account before engaging in such schemes.

[9] The authorities introduced a new petroleum price structure and adjustment formula, bringing domestic prices to international levels in 2012 (IMF Country Report No. 12/323); however, domestic prices have remained relatively stable despite the recent decline in oil prices, which has translated into a revenue windfall for the authorities. These additional revenues have not yet been registered in the TOFE, the budget reporting system, nor in the 2015 budget.

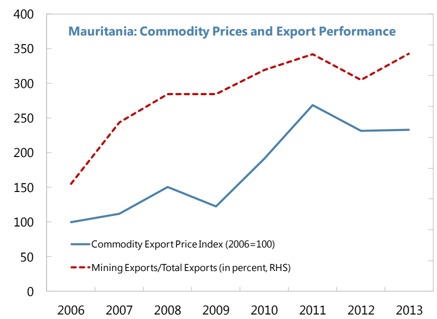
[10] The MoF is in discussions with SOMELEC to determine the budget transfer required to support the operations of SOMELEC.

- Enhance the efficiency of capital spending by ensuring consistency with PRSP priorities and absorption capacity, while ensuring debt sustainability. Identifying the magnitude of the infrastructure gap and establishing a multiyear program of investment could increase investment efficiency.

- Reduce risks of debt distress by resolving Kuwait's passive debt; contracting external loans on concessional terms; enhancing the oversight and capacity of the public debt management office at the Ministry of Finance; and improving institutional capacity and coordination to enhance debt management practices.

18. Addressing fiscal dependence on extractive resources is necessary to improve fiscal policy formulation. The budgetary framework should include a fiscal rule, a fiscal anchor, and a fiscal stabilization fund that take price volatility into account, while incorporating intergenerational equity considerations through a resource wealth fund. This budgetary framework should be supported by robust institutions to enhance the management of mining wealth. Strengthening fiscal policy formulation will help better safeguard the budget against boom-and-bust cycles in nonrenewable resources (Box 3), reduce procyclicality, and provide predictability to fiscal policy. The authorities agreed in principle with this approach but felt that such reforms are premature. Staff supported the authorities' intention to continue pursuing reforms in public financial management, including a multiyear fiscal framework and the approval of the organic finance law (planned for 2015), which are considered prerequisites for introducing the fiscal rule.

Box 3. Strengthening the Macro-Fiscal Framework in Mauritania[1/]



Mauritania's economy is dependent on natural resources, with minerals accounting for over 75 percent of total exports and 30 percent of the central government's revenues. Given the significance of mineral revenues, fiscal policy needs to address not only issues of demand management and long-term sustainability as in other countries, but also challenges arising from the volatility of commodity prices and their effect on government finances, and from the exhaustibility of the mining reserves in the ground to address intergenerational equity considerations.

Resource-rich developing countries (RRDCs) are more inclined to run procyclical fiscal policies, which often results in fiscal expenditure volatility. The current deterioration in iron ore prices and, on the other hand, the potential expansion of production both rise important fiscal policy challenges for Mauritania. Avoiding procyclical fiscal policies and adopting rules that guide medium-term budget formulation will help increase the resilience of the economy to external shocks, reduce fiscal stance and growth volatility, and enhance policy predictability.

RRDCs face the double challenge of transforming their resource wealth into assets that support sustained development, while also maintaining mechanisms to avoid the boom-bust cycles that stem from volatility in natural resource revenues.

- Depleting resource wealth will be converted into a portfolio of other assets to support sustained development, including human capital, domestic public and private capital, and foreign financial assets. Capital scarcity (including infrastructure gaps and constrained capital market access) suggests that the returns on domestic investment are likely to be higher than returns to international financial assets. Therefore, part of the resource wealth should be invested in building domestic capital, subject to absorptive capacity constraints, while low incomes may justify some tilting of consumption toward poorer current generations.

- RRDCs also need to avoid boom-bust cycles by working to delink spending from the volatility dynamics of resource revenues, which result from resource exhaustibility and price volatility. Resource exhaustibility gives rise to intertemporal decisions about how much of the resource wealth to consume and how much to save, with implications for intergenerational equity and long-term fiscal and external sustainability (that is, avoiding the need for massive fiscal adjustment once resource wealth is depleted). Revenue volatility calls for distinct medium-term fiscal rules and precautionary savings to limit procyclicality (by delinking expenditures from resource revenues).

The fiscal framework requires appropriate fiscal institutions to support the transparent and efficient management of resource wealth. The adoption of a fiscal rule must be mirrored by a stabilization/savings fund with clear objectives and a strong governance structure. The fiscal framework for RRDCs sets out additional indicators on resource use, and fiscal rules for managing price volatility and establishing fiscal sustainability benchmarks. Additionally, resource-rich countries with stronger institutions tend to have better macroeconomic and growth performance. Challenges to setting up sound institutions include pressures to redistribute of a windfall when institutions are weak; pressures to earmark investments to geographic areas from which resources are extracted; and investments that are not integrated into the budget or not fully transparent. Appropriate fiscal institutions include those that affect the capacity to undertake long-term revenue forecasts, establish medium-term budget objectives, implement high-quality investment projects, and manage special institutions such as natural resource funds. Institutionalized savings rules could support incentives for saving revenues.

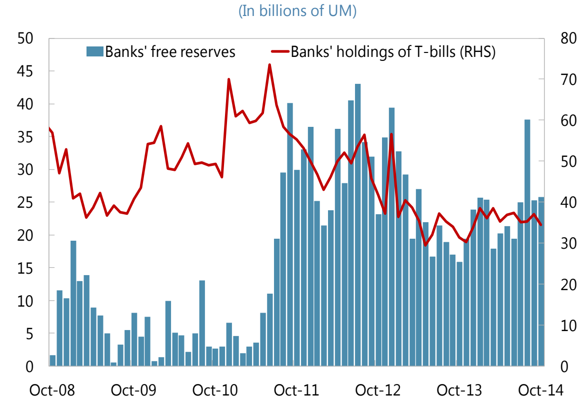
1/ For further details, see "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries," IMF (2012) at http://www.imf.org/external/pp/longres.aspx?id=4698

Coordinating monetary and exchange rate policies to support contained inflation and enhance exchange rate flexibility

19. Monetary conditions are favorable to strengthening the monetary policy framework. Staff agreed with the authorities on the need to evaluate liquidity conditions, adopt a formal liquidity forecasting framework and enlarge liquidity management tools. In the context of contained inflation, the CBM has relied on indirect monetary policy instruments (FX interventions and T-bills) to reduce liquidity, leaving its policy rate and reserve requirements unchanged since 2009.[11] However, FX interventions will be constrained by lower reserves as an instrument for managing liquidity. Staff called for a start to formalizing monetary policy and the liquidity management framework in the context of weak inflationary pressures with a view to strengthening governance and institutions for the conduct of monetary policy; and agreed with the authorities on expanding the instruments to include standing facilities and deposit certificates. The authorities noted that implementing the strategy to develop these instruments needs to go in parallel with the recapitalization of the CBM to ensure its operational autonomy and facilitate bearing the costs of monetary policy. Although inflation has remained contained in recent years, a volatile global outlook and pressures on FX reserves could result in rapid changes in price expectations. Staff agreed with a proactive use of reserve requirements if demand pressures materialize ahead of reforms, given the limited effectiveness of the interest rate transmission mechanism.

20. Gradually reforming the foreign exchange market will be essential to increase the role of the exchange rate as a shock absorber and to support economic development. The exchange rate regime has been reclassified as "stabilized," from "other managed" (see Informational Annex), and staff assessed the ouguiya as broadly consistent with medium-term fundamentals (Appendix II). However, the current exchange rate policy of gradual depreciation vis-à-vis the U.S. dollar may result in misalignment from a short-term perspective in the event of further strengthening of the U.S. dollar vis-à-vis other major currencies, given the extended negative terms of trade. The authorities agreed with staff's assessment and noted the challenges of assessing the exchange rate while in the process of economic transformation. In light of declining reserves in 2014, Mauritania needs to rebuild external buffers to support external stability, and plans to gradually liberalize the foreign exchange market. The market is characterized by excess demand, segmentation, and high levels of central bank intervention. Reducing market imperfections,

Banking Sector Liquidity
(In billions of UM)



[11] The CBM does not have standing deposit and lending facilities nor plays a lender-of-last-resort role in practice, putting pressure on banks to hold large precautionary reserves. An additionally, banks are required to hold 100 percent of their demand at the FX fixing auction as ouguiyas' excess reserves in their CBM's current account.

increasing predictability in FX intervention (by, among other measures, regulating private sector access to direct sales under exceptional circumstances) and shifting toward a wholesale auction may deepen the market and support exchange rate flexibility. Over the long term, deeper coordination between exchange rate and monetary policies, combined with changes in regulatory and institutional arrangements, will support gradual development of the interbank FX market.

21. The authorities are committed to meeting Mauritania's obligations under Article VIII of the Fund's Articles of Agreement. A recent comprehensive review of Mauritania's foreign exchange system identified three multiple currency practices (MCPs) and two exchange restrictions.[12] The authorities have already eliminated the three MCPs and the exchange restriction arising from the limitation on the availability of foreign exchange for multiple transactions below US$50,000, while ensuring a minimal impact on the functioning of the market; therefore the only remaining exchange restriction arises from the insufficient foreign exchange availability at the fixing sessions (auctions) organized by the CBM for those transactions that are required to be submitted to the fixing sessions. The authorities noted that these exchange measures existed since the FX market was first set up in 2007 with Fund technical assistance. The authorities request the Fund's approval to temporarily maintain the remaining exchange restriction as it is necessary for BOP reasons and does not discriminate among Fund members. The authorities commit to eliminate the restriction, working with staff, within one year following the approval.

B. Strengthening Financial Stability and Promoting Financial Inclusion

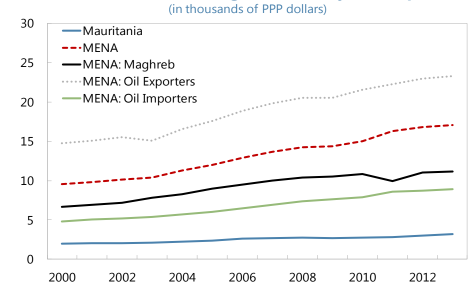
22. The strengthening of the financial regulatory framework needs to be accompanied by its enforcement, to support financial stability. The CBM has adopted regulation on risk classification, provisioning, and bank governance, and is developing risk-based supervision procedures and on-site inspection methodology. Supervisory capacity has also been strengthened with new personnel for inspections and IT systems to support real-time data transmission. However, enforcement is weak because of the lack of legal protection for the supervisory authorities. In addition, strengthened procedures for licensing and consolidated supervision, for risk concentration and capital requirements, higher reporting standards and transparency on the financial situation of credit institutions as well as expanding CBM supervision to the Deposit and Development Fund (CDD) and the insurance sector will help support financial stability. Staff welcomed the authorities' interest in anchoring the medium-term financial reform agenda in the accompanying FSAP (Appendix III).

[12] The MCPs arise from (i) the mandatory commissions and penalties on transactions at the fixing session (auctions); (ii) the mandatory use of the official rate for direct FX transactions with the CBM and the lack of a mechanism to prevent the deviation by more than 2 percent of the official rate from the fixing rate used in the fixing session and from the exchange rate used in other transactions in the market; and (iii) the segmentation of the market in the absence of a mechanism to ensure that the exchange rates in the fixing sessions and bank-to-client bilateral transactions do not deviate from each other by more than 2 percent. The exchange restrictions arise from (i) the insufficient foreign exchange availability at the fixing sessions organized by the CBM for those transactions that are required to be submitted to the fixing sessions, and (ii) the limitation on the availability of foreign exchange for multiple transactions below US$50,000.

23. The CBM's role in times of stress needs to be strengthened. The CBM agreed with staff's recommendations on the need to revise the existing banking resolution framework for addressing troubled financial institutions. Following the FSSA recommendations, the authorities agreed to expedite a revised banking law that provides independence and legal protection to the authorities in exercising their competencies, while introducing early-warning solvency and liquidity indicators. The authorities also agreed on the need to reinforce the deposit guarantee fund, which remains insufficient.

24. Promoting financial inclusion requires reducing economic informality. The financial system remains small, underdeveloped, and constrained by dependence on short-term funding. The small number of depositors reflects the still-large informal economy. According to the World Bank, only 17 percent of the population has accounts in a formal financial institution, lower than the Middle East and North Africa regional average (36 percent). As a result of the short maturity of funding sources, credit to the private sector is essentially short-term. Loans to small and medium-sized enterprises (SMEs) are constrained by collateral requirements. In addition, the banks' ability to play a decisive role in supporting private sector development is limited by nonperforming loans. At the same time, financial services are difficult to access because of physical and geographic isolation, insufficient infrastructure, and a lack of financial knowledge—reflected in high banking fees. Promoting long-term credit by using the CDD as a primary bank could be considered. Staff also welcomed efforts to promote financial inclusion by easing access to financial services (next section) and promoting microcredit (currently done by one institution) and Islamic banking activities (five banks), but urged the authorities to develop a specific regulatory framework. Authorities' efforts to set standards for corporations' financial statements and regular updates in the credit registry are also welcome.

Mauritania: Purchasing Power Parity, Per Capita
(in thousands of PPP dollars)

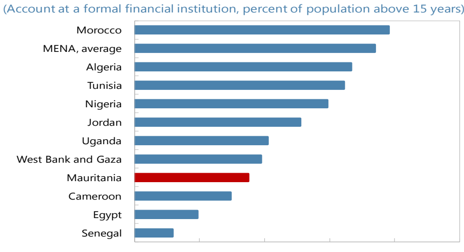


Source: World Economic Outlook.

C. Structural Reforms to Facilitate More Inclusive Growth

25. With macroeconomic stability regained, policies need to focus on promoting inclusive growth. The economy is characterized by low productivity, and most of the Millennium Development Goals in education, health, and environmental sustainability appear out of reach by 2015. Mauritania's private sector is narrow and its development is hindered by longstanding structural bottlenecks, a weak business environment, and poor governance. The government has scaled up public investment to address large infrastructure gaps. Continued efforts are crucial to tackle a challenging reform agenda: strengthening institutions, the business climate, human capital, and labor markets and promoting the private sector

Financial Inclusion in Selected Economies
(Account at a formal financial institution, percent of population above 15 years)



Sources: Demirguc-Kunt and Klapper, 2012 as the engine of growth, economic diversification, and job creation while supporting better social protection and economic inclusion of vulnerable and marginalized people.

26. The authorities envisage structural reforms to manage external risks more effectively and promote job creation. The authorities recognized the need to focus on promoting private sector development and economic diversification while protecting the most vulnerable. This strategy will strengthen the economy's resilience to external shocks and offer macroeconomic benefits associated with job creation and inclusiveness.

- The authorities have identified comparative sectoral advantages (in agriculture, livestock, and fishing) and have started implementing plans to increase value added in production and to diversify an export base narrowly concentrated in unprocessed fishing and mining.

- The private sector development strategy is supported by an action plan to improve the business environment. Mauritania ranks low on the World Bank's 2014 Doing Business indicators (173 out of 189). The business climate is encumbered by burdensome procedures related to insolvency, payment of taxes, starting a business, and obtaining credit. The authorities have taken steps to improve the business climate by eliminating minimum capital requirements and by introducing a one-stop shop to facilitate SME creation. In addition, staff encouraged the authorities to increase transparency in procurement, develop the public-private partnership framework, and strengthen dialogue with private sector stakeholders.

- The authorities recognized the need for higher human capital and better jobs. Reforms are needed to improve education and the functioning of the labor market so as to generate more jobs in the formal sector. Assuming a constant rate of participation, the economy will need to create some 200,000 jobs during 2014–20 to absorb new entrants in the labor market. The unemployment rate reported and the informal sector mask significant heterogeneity across age, gender, and region.

27. The authorities have made progress in targeting social transfers. With the support of the World Bank, the authorities launched a household survey to identify poverty profiles. The survey will result in a registry of beneficiaries that will facilitate better targeting of transfers to the most vulnerable. Progress has been limited, however, and the timeline for implementing countrywide targeted social transfers is unclear, with important implications for subsidy reform. A parallel strategy to enhance access to, and quality of, public services will also be important for the future development of conditional cash transfers to improve food security, education, and health outcomes.

28. Strengthening governance and institutions will support a more inclusive economic process. A level playing field that allows private companies to participate and compete will increase the contribution of the private sector as a growth engine. This will also require large state-owned companies such as SNIM—which has become active in non-mining activities—to refocus on their mandate to improve their efficiency. In addition, enhancing the governance of public institutions, which should include communicating decisions undertaken in the conduct of macro policies, would enhance policy predictability. Better access to public sector information would also provide a better understanding, in general, of the public sector's economic role.

29. Efforts to strengthen macroeconomics statistics should continue. Data provision is broadly adequate for surveillance purposes, but data gaps, related mostly to capacity constraints, still affect many areas, including balance of payments, fiscal, debt and labor markets indicators (Appendix IV). Good progress is being made in upgrading national accounts statistics, and new surveys have allowed for updated employment data and social indicators. A replacement for the outdated CPI index is expected to be available in 2015, and will offer broader geographical coverage. Incorporating *GFM2001* in fiscal statistics and expanding data coverage beyond the central government will facilitate a comprehensive assessment of the fiscal policy stance. Additional Fund and World Bank technical assistance is planned to help strengthen data quality.

STAFF APPRAISAL

30. Mauritania continues to be one of the fastest-growing economies in the Middle East and North Africa region. Growth in 2012–14 remains elevated supported by infrastructure investment, increasing mining production, and strong services activity. Inflation fell to a three-year low in August but has picked up recently on higher gas prices and domestic food prices.

31. The near-term outlook remains favorable, but vulnerable to external shocks. Larger-than-envisaged deterioration in terms of trade—beyond the declines in iron ore prices realized in 2014 and projected for 2015–16—would require a rapid policy response, including higher exchange rate flexibility and fiscal measures to absorb the shock, as well as further policy adjustments down the road. Maintaining FX intervention, despite lower FX receipts, resulted in a significant decline in reserves, a trend that may not be sustainable. In particular, the outlook is subject to downside risks from the uncertain prospects for global demand for commodities, which could negatively impact Mauritania via trade and FDI channels. Vulnerabilities in the banking system could be exposed, and these could exacerbate a negative shock to growth.

32. The 2015 draft budget focuses on adjusting to lower mining revenues, but additional measures may be needed. Extractive revenue losses would be offset by an increase in the VAT rate and lower current spending; however, the authorities should prepare to take additional measures if the budget comes under stress. In particular, the authorities should record the oil windfall revenues in the fiscal accounts, rebalance their spending, use buffers, rely on financing in concessional terms and refrain from pledging mineral resources to collateralize nonconcessional borrowing—especially in the context of Mauritania's elevated debt level. Measures should concentrate on renewing revenue mobilization efforts; curbing current expenditure; enhancing monitoring of public enterprises; making capital spending more efficient; and managing external debt so as to reduce the risks of debt distress. The authorities should apply the automatic pricing rule formula to enhance its credibility.

33. Reforming the fiscal framework to address fiscal dependence on extractive resources will strengthen fiscal policy formulation. The budgetary framework should include a fiscal rule, a fiscal anchor, and a fiscal stabilization fund that take price volatility into account to help safeguard the budget against boom-and-bust cycles, while incorporating intergenerational equity considerations through a natural resource fund. Robust institutions are also needed to manage prospective increasing mining wealth. Continuing with reforms in public financial management, including a multi-year fiscal framework and the approval of the organic finance law, are crucial for introducing the fiscal rule.

34. Strengthening the monetary policy framework will facilitate proactive use of monetary policy. The authorities should take advantage of the present contained inflation to adopt a formal liquidity forecasting framework and enlarge the set of liquidity management tools. This will help to formalize monetary policy; improve the transmission mechanism to the real economy, and strengthen institutions and governance for the conduct of monetary policy. By managing liquidity more effectively, the CBM would be in a better position to reduce FX intervention. The recapitalization of the CBM should be undertaken to support its conduct of monetary policy.

35. Gradually increasing exchange rate flexibility will help absorb external shocks and support economic development over the long term. The exchange rate regime has been reclassified as "stabilized" from "other managed". While the ouguiya is in line with fundamentals from a medium-term perspective, the current exchange rate policy of gradual depreciation vis-à-vis the U.S. dollar may result in misalignment from a short-term perspective in the event of further strengthening of the U.S. dollar vis-à-vis other major currencies given the extended negative terms of trade. Mauritania needs to rebuild external buffers to support external stability, and plans to gradually liberalize the foreign exchange market. Reducing market imperfections, increasing predictability in FX intervention and shifting toward a wholesale auction would deepen the market and support higher exchange rate flexibility. Over the long term, the central bank needs to transition toward the objective of intervening only to smooth excessive exchange rate volatility. Coordination between exchange rate and monetary policies, combined with changes in the regulatory and institutional arrangements, will support gradual development of the interbank FX market.

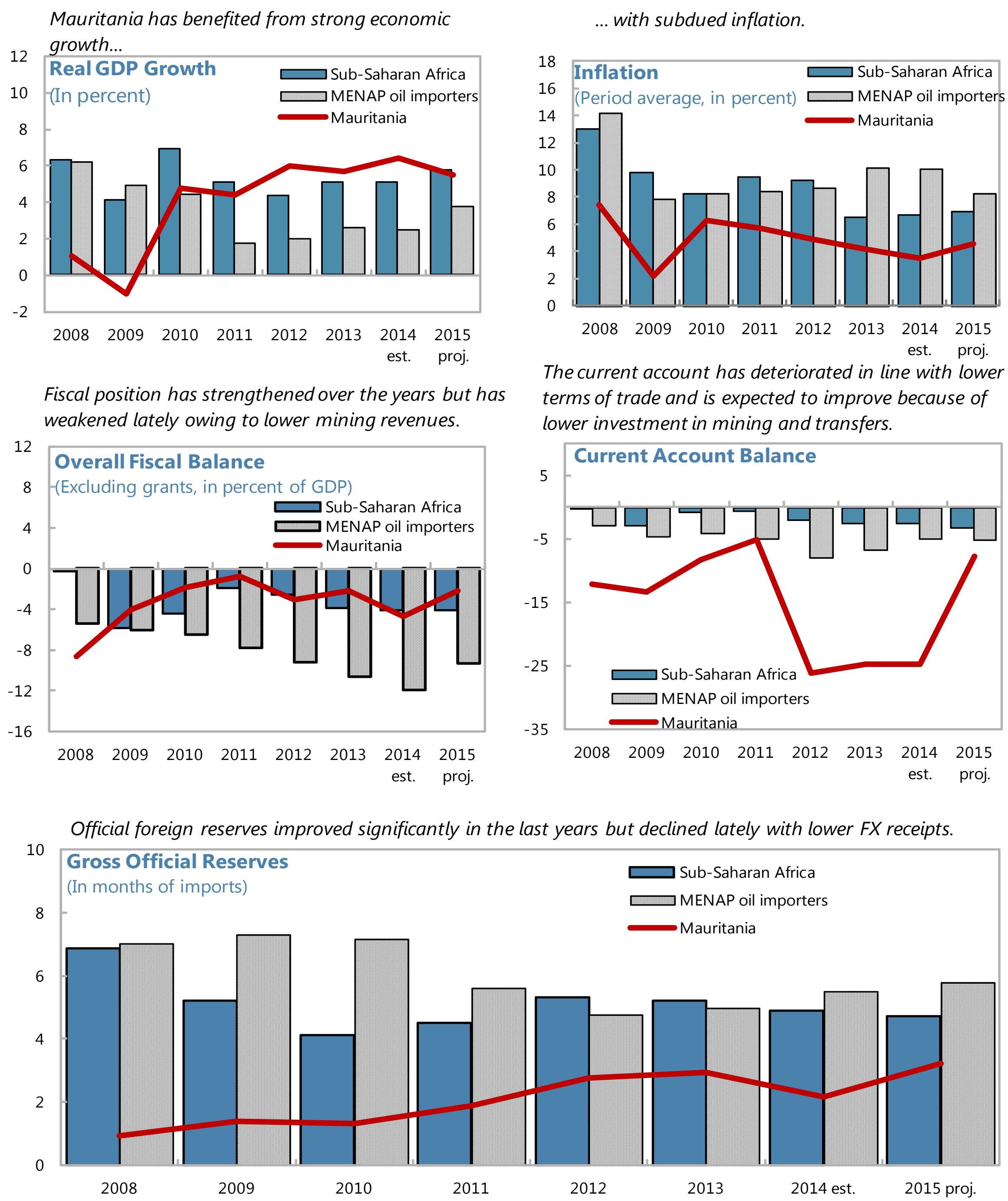
36. Efforts to strengthen financial stability should continue. Building on progress in strengthening banks' capitalization and liquidity, the CBM should strictly enforce the existing regulatory framework, which will require revising the banking law to provide legal protection of staff in the exercise of their competencies. In addition, strengthening procedures for licensing and consolidated supervision and for risk concentration and capital requirements, higher reporting standards, and transparency on the financial situation of credit institutions, as well as expanding CBM supervision to the public bank and the insurance sector, will help support financial stability. The bank resolution regime should be enhanced, and a legal framework developed for introducing early-warning solvency and liquidity indicators. The deposit guarantee fund needs additional funding. Staff welcomed the authorities' objective in anchoring the medium-term financial reform agenda in the accompanying FSSA recommendations.

37. Mauritania's medium-term prospects remain promising. Natural resource endowments provide ample opportunities for development. Mining GDP is projected to expand rapidly during the next five years as large projects come on stream. Sustained growth outside the mining sector would need to be supported by continued structural reforms to promote private sector development and economic diversification through improvements in the business environment and higher human capital, while protecting the most vulnerable. Promoting access to credit and financial inclusion are also required for private sector development. Efforts to strengthen macroeconomic statistics should continue.

38. Staff supports the authorities' request for approval of the remaining exchange restriction. Staff welcomes the determination of the authorities to bring Mauritanian foreign exchange regime in compliance with the member's Article VIII obligations, and the timely elimination of most of the identified exchange measures. Staff considers that the temporary retention of the remaining exchange restriction is necessary for balance of payments reasons. In addition, the exchange restriction does not discriminate among Fund members. In view of the authorities' commitment to eliminate this restriction in the next calendar year, and progress already achieved regarding other identified measures, staff recommends the temporary approval of the retention of this restriction until January 28, 2016 or the date of the conclusion of the next Article IV consultation, whichever is earlier.

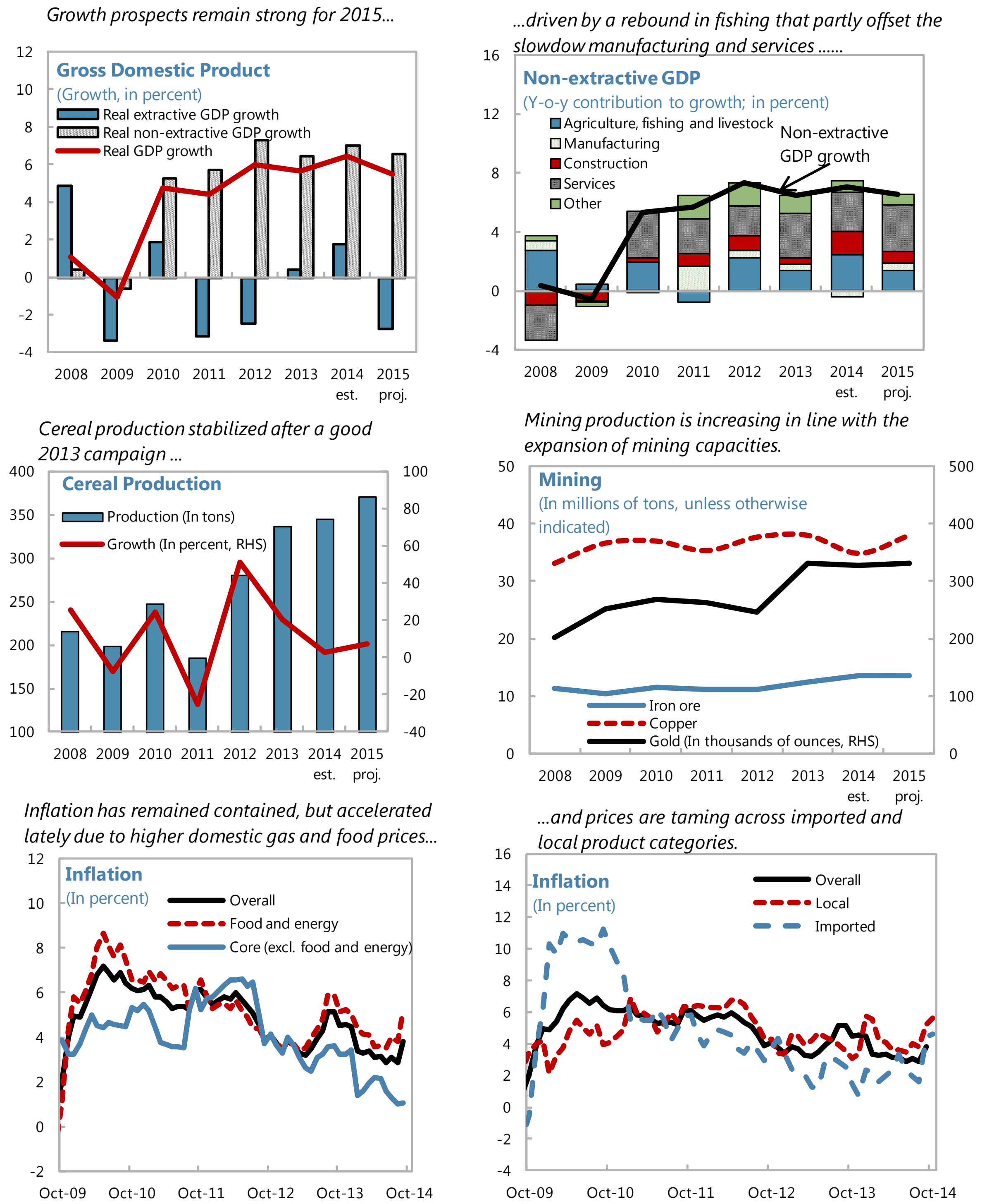
39. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Mauritania: Economic Developments vis-à-vis Regional Developments, 2008–15



Sources: Mauritanian authorities; and IMF staff estimates.

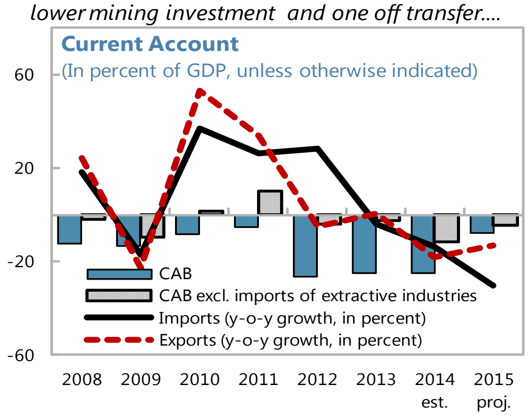
Figure 2. Mauritania: Real Sector Developments, 2008–15



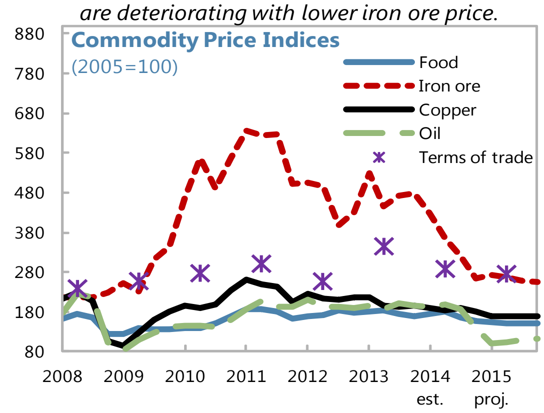
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 3. Mauritania: External Sector Developments, 2008–15

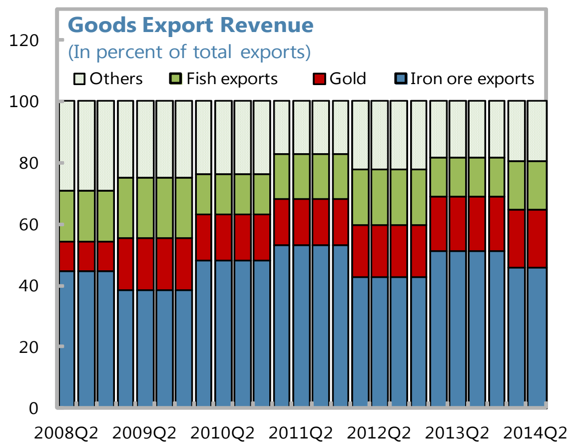
Current account deficit is projected to narrow, with lower mining investment and one off transfer....



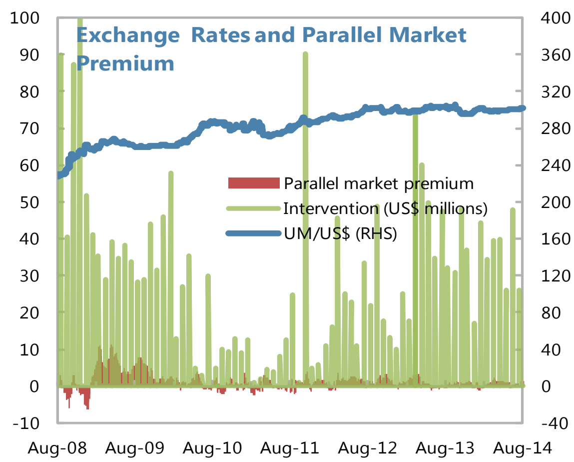
...and despite lower oil prices, terms of trade are deteriorating with lower iron ore price.



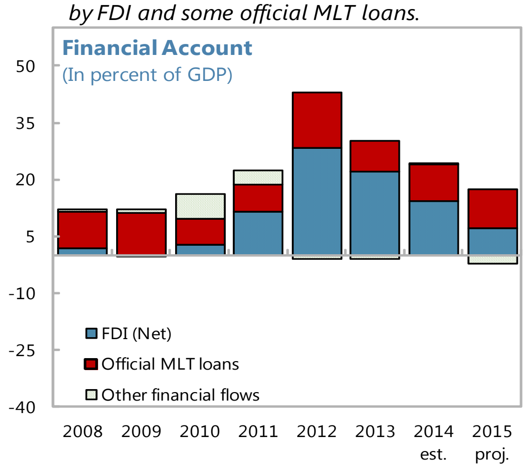
Exports remain highly concentrated in mining and fishing...



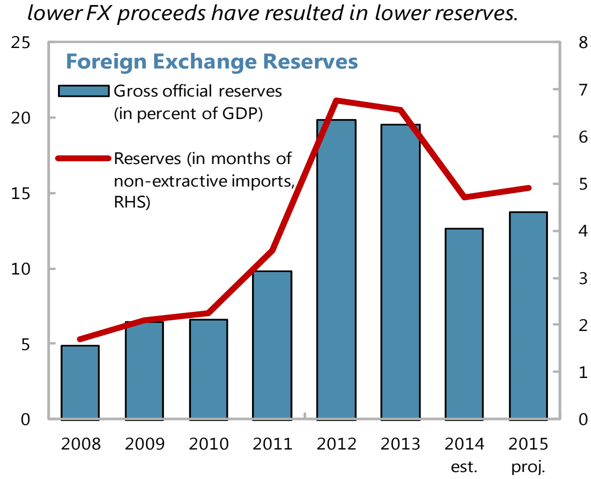
...while the exchange rate against the U.S. dollar continues its very gradual nominal depreciation.



The current account balance is mostly financed by FDI and some official MLT loans.



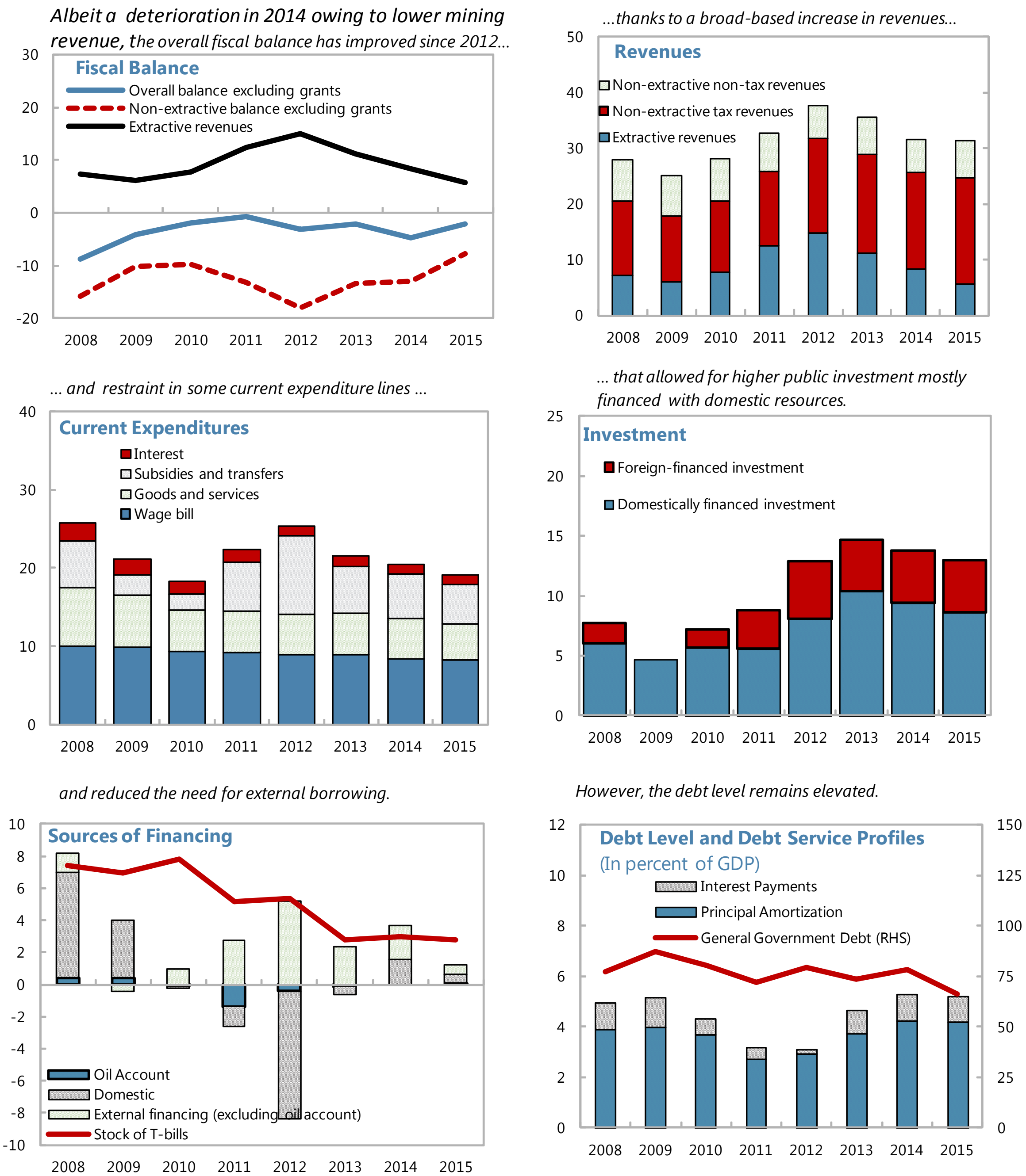
After years of rising gross international reserves, lower FX proceeds have resulted in lower reserves.



Sources: Mauritanian authorities; and IMF staff estimates.

Figure 4. Mauritania: Fiscal Sector Developments, 2008–15

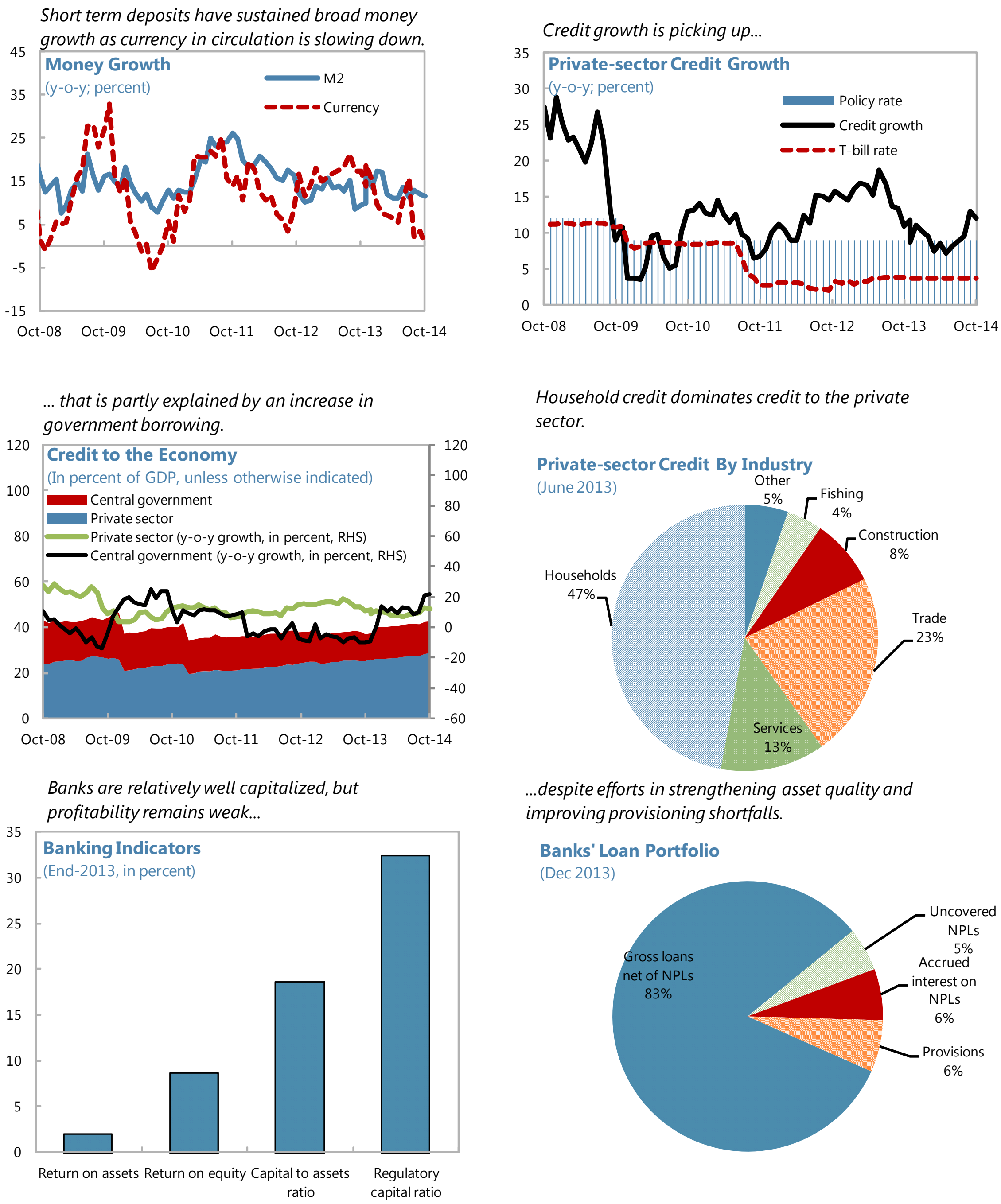
(Percent of nonextractive GDP, unless otherwise indicated)



Sources: Mauritanian authorities; and IMF staff estimates.

1/ Excluding passive debt in 2013.

Figure 5. Mauritania: Monetary and Financial Sector Indicators, 2008–15

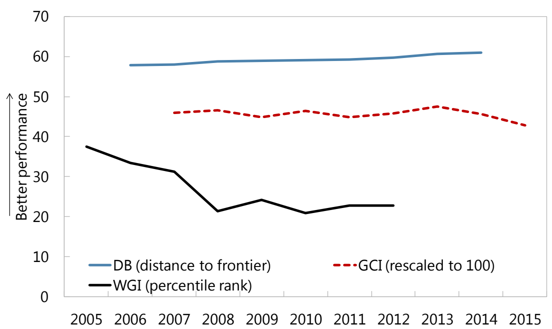


Sources: Mauritanian authorities; and IMF staff estimates.

Figure 6. Mauritania: Impediments to Growth and Competitiveness, 2014–15 1/

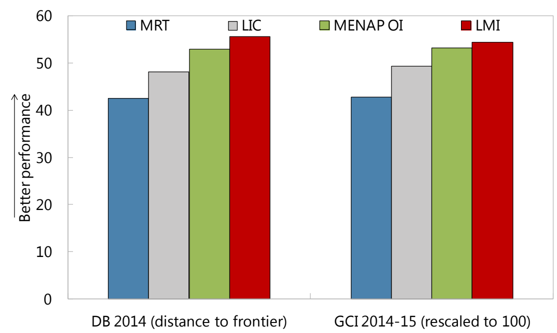
The business environment remains subdued for Mauritania…

Evolution of the Business Environment 2/



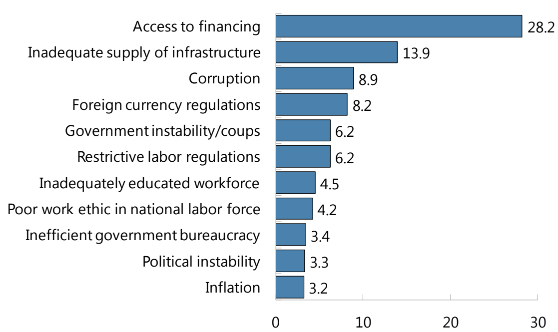
…even with respect to comparable groups.

Business Environment in International Perspective



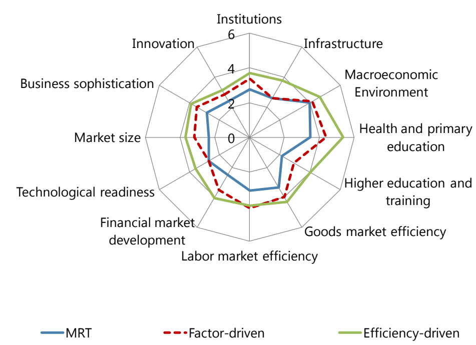
Access to financing, inadequate supply of infrastructure and corruption are, by far, the highest constraints…

The Most Problematic Factors for Doing Business
(In percent of responses, lower is better)



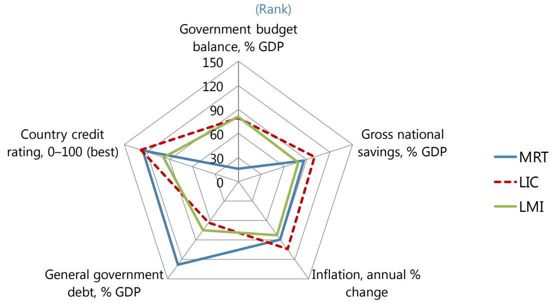
…scoring below the average factor-driven economies.

Stages of Development
(Score)



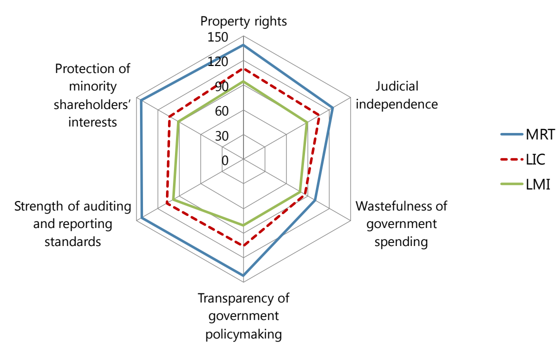
While Mauritania scores well on the macro front…

Macroeconomic Environment
(Rank)



…institutions are weak.

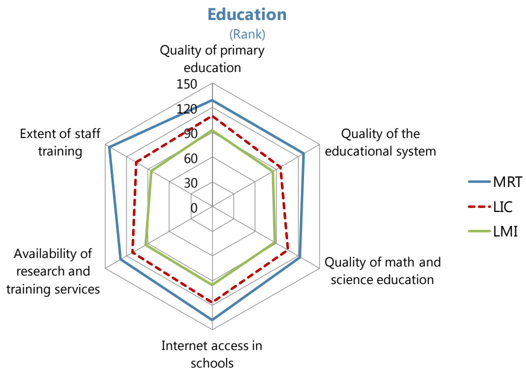
Institutions
(Rank)



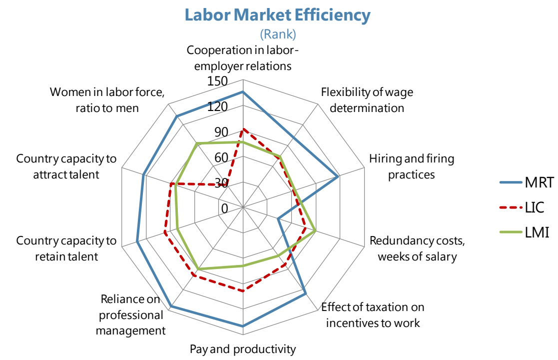
Sources: World Economic Forum's Global Competitiveness Index (GCI); World Bank's Worldwide Governance Indicators (WGI); World Bank's Doing Business (DB); and IMF staff calculations.
1/ MRT: Mauritania; LMI: Lower Middle Income; LIC: Low-Income Countries; MENAP OI: Middle East and North Africa, Afghanistan and Pakistan Oil Importers.
2/ Where 0 represents the lowest performance and 100 represents the frontier.

Figure 6. Mauritania: Impediments to Growth and Competitiveness, 2014-15 (concluded) 3/

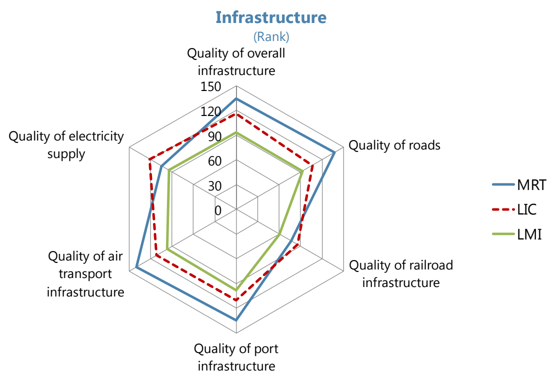
Education is hindering competitiveness…



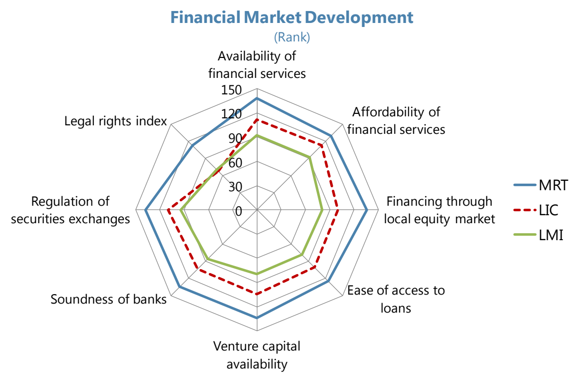
…as well as labor market inefficiencies.



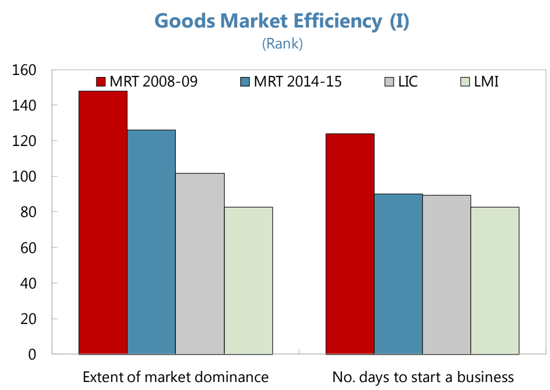
Weak infrastructure, despite noticeable improvements in electricity production matrix…



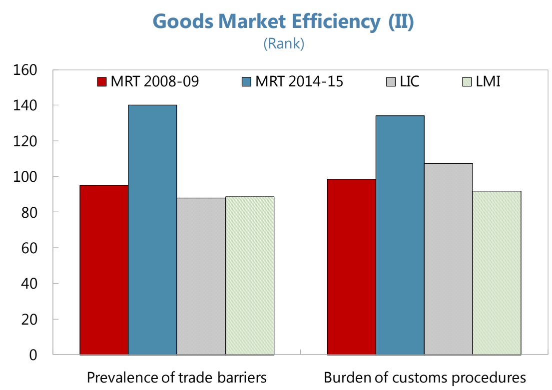
…and limited financial development hinder growth.



Progress on improving the efficiency…



…has been unbalanced.

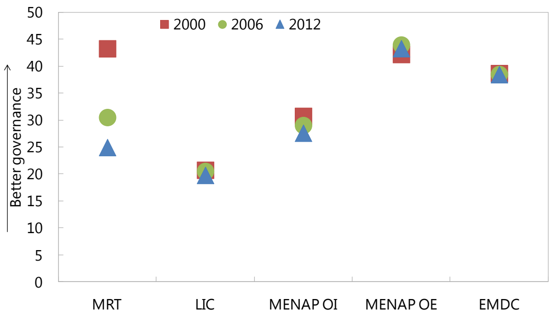


Sources: World Economic Forum's Global Competitiveness Index (GCI); and IMF staff calculations.
3/ 2008-09 normalized to 148 countries.

Figure 7. Mauritania: Governance Environment

Governance indicators have worsened for Mauritania…

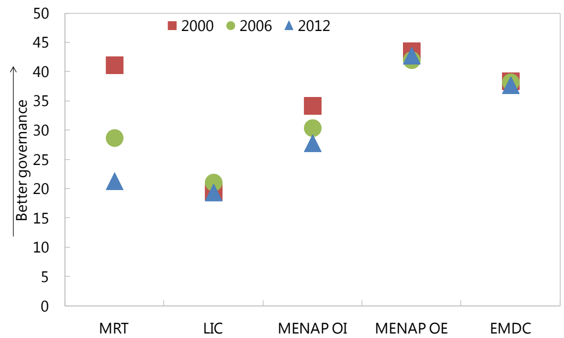
WGI-4 1/
(Percentile rank)



1/ Control of corruption, government effectiveness, regulatory quality and rule of law)

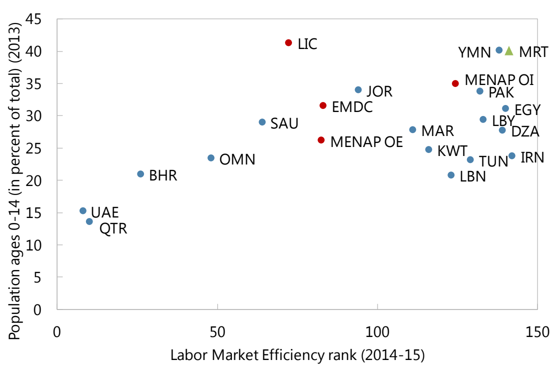
…especially for the rule of law.

Rule of Law
(Percentile rank)



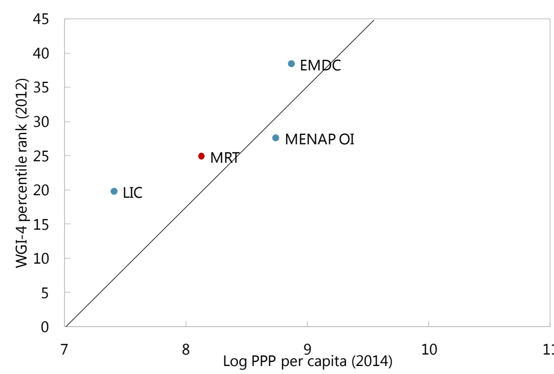
High young population and low labor market efficiency will pose important challenges going forward…

Labor Market Efficiency and Young Population Ratio



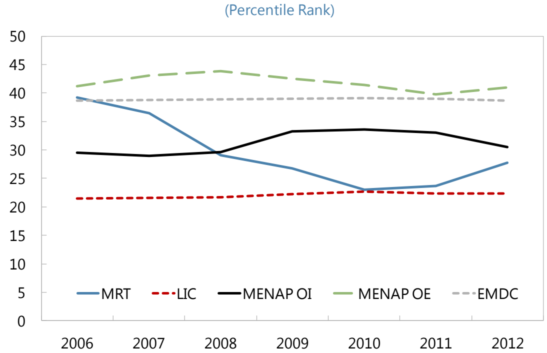
…despite relatively good governance indicators when taking into account per capita GDP.

WGI-4 and GDP per Capita



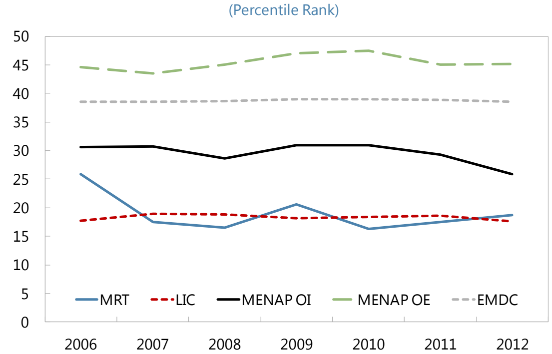
The regulatory quality has deteriorated in relative terms…

Regulatory Quality
(Percentile Rank)



…in line with worsened government effectiveness.

Government Effectiveness
(Percentile Rank)

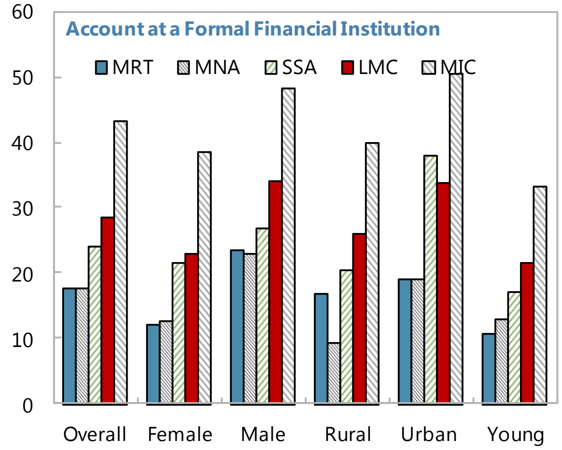


Sources: Worldwide Governance Indicators; World Economic Outlook; World Development Indicators; Global Competitiveness Index; and IMF staff calculations.

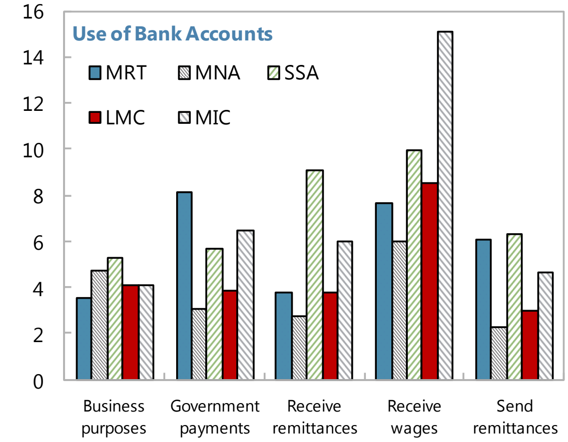
Figure 8. Mauritania: Financial Inclusion Indicators, 2011

(In percent of respondents, aged 15+)

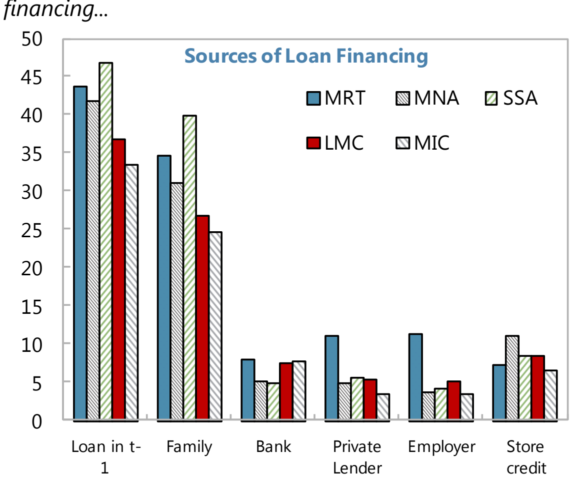
Access to bank accounts is limited in Mauritania, especially for women and young....



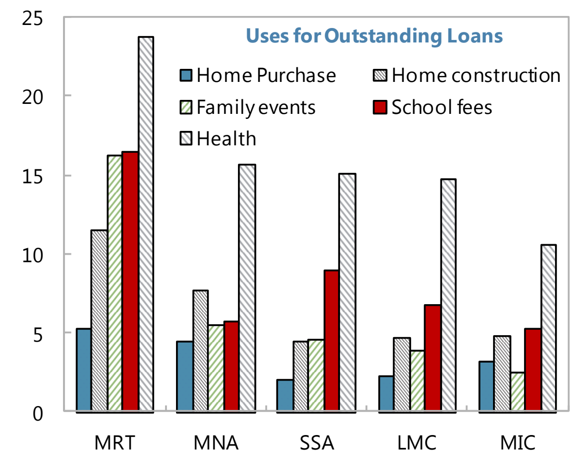
...and bank accounts are mostly used for government payments and wages.



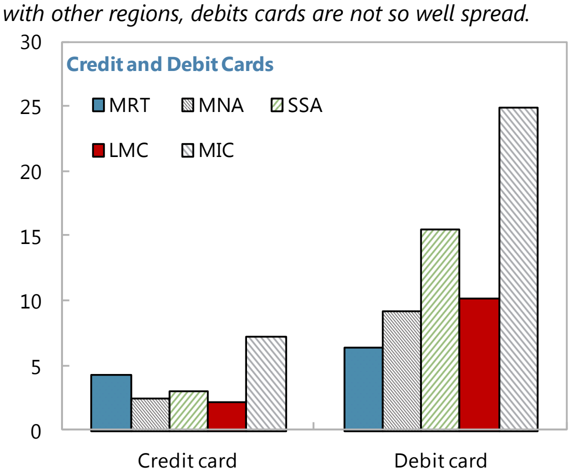
Family, by far, and private lenders and employers provide financing...



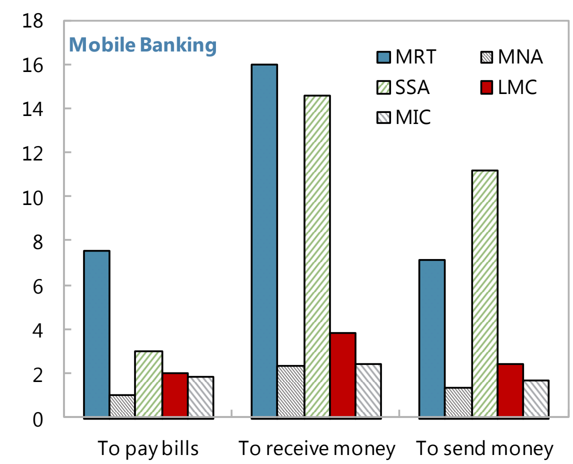
...mostly used for health, school fees and family events.



While the use of credit cards in Mauritania compares well with other regions, debits cards are not so well spread.



Maybe, because of the expansion of mobile banking.



Source: Global Findex (Global Financial Inclusion Database, 2012)

Table 1. Mauritania: Selected Economic and Financial Indicators, 2012–20

(Quota: SDR 64.4 million)
(Population: 3.46 million; 2010)
(Per capita GDP: $1,247; 2011)
(Poverty rate: 42 percent; 2008)
(Main exports: Iron ore, gold, fish; 2010)

	2012 Est.	2013 Est.	2014	2015	2016	2017 Proj.	2018	2019	2020
	(Percent; unless otherwise indicated)								
National income and prices (y-o-y growth)									
GDP at constant prices	6.0	5.7	6.4	5.5	6.8	5.0	8.0	8.4	5.0
GDP excluding extractive industries at constant prices	7.3	6.4	7.1	6.6	5.5	5.6	5.7	5.7	6.1
Iron ore production (tons)	11.2	12.5	13.5	13.6	18.0	18.0	25.5	35.0	35.0
GDP deflator	-5.8	0.1	-5.3	0.5	2.4	4.2	4.6	4.5	4.6
GDP excluding extractive industries deflator	2.1	2.8	2.7	4.3	2.8	4.6	4.8	4.8	4.6
Consumer price index (period average)	4.9	4.1	3.5	4.6	4.6	4.9	5.1	5.1	5.1
Consumer price index (end of period)	3.4	4.5	4.7	4.4	4.8	5.0	5.2	5.2	5.2
External sector									
Value growth of exports of goods, f.o.b.	-4.9	0.4	-18.2	-13.3	9.8	1.4	21.6	22.2	-6.9
Value growth of imports of goods, f.o.b.	28.5	-4.0	-13.8	-30.0	44.2	21.2	28.4	-4.7	-8.7
Terms of trade	-14.7	34.2	-16.4	-4.4	-6.8	-0.7	-0.6	0.8	1.3
Current account balance (in percent of GDP)	-26.1	-24.8	-24.7	-7.7	-22.8	-31.3	-36.8	-23.1	-17.5
Gross official reserves 1/									
In millions of U.S. dollars, end of period	961.9	996.4	639.1	704.0	761.7	819.2	877.3	1115.1	1273.1
In months of following year's imports excluding extractive industries	6.8	6.6	4.7	4.9	5.0	5.1	5.2	6.5	7.0
PPG external debt (percent of GDP) 2/	73.5	69.2	73.7	61.3	61.1	60.5	56.8	53.4	51.9
Money									
Money and quasi-money (percentage change)	10.5	13.6	13.4	13.4	10.2	11.8	11.7	11.2	11.1
Credit to the private sector (percentage change)	14.6	11.1	14.5	15.0	13.9	13.9	13.9	13.9	14.9
Investment and savings									
Gross investment (percentage of GDP)	57.3	50.3	44.8	30.3	43.3	50.3	57.2	44.7	39.1
Gross savings (percentage of GDP)	31.2	25.5	20.1	22.6	20.5	19.0	20.4	21.6	21.6
	(Percent of nonextractive GDP; unless otherwise indicated)								
Central government operations									
Nonextractive revenue and grants	29.2	25.4	24.3	26.8	26.3	26.2	25.9	25.9	26.1
Nonextractive revenue	22.8	24.4	23.3	25.9	25.4	25.5	25.3	25.3	25.6
Expenditure and net lending	40.7	37.8	36.3	33.7	31.8	32.0	31.3	31.1	30.9
Basic non-oil balance (percent of non-oil GDP) 3/	0.5	1.0	-1.2	1.3	2.3	2.4	2.1	2.6	3.5
Overall balance excluding grants	-3.0	-2.2	-4.7	-2.1	-1.6	-1.6	-1.5	-0.9	0.1
Overall balance excluding grants (in percent of GDP)	-2.2	-1.7	-3.9	-1.9	-1.4	-1.4	-1.3	-0.7	0.1
Public sector debt (percent of GDP) 2/	79.4	73.7	78.4	66.0	65.9	65.2	61.6	58.4	57.3
Memorandum items:									
Nominal GDP (in billions of UM)	1,437.2	1,520.8	1,533.2	1,624.5	1,777.4	1943.9	2196.4	2488.6	2731.0
Nominal non-oil GDP (in billions of UM)	1,393.4	1,479.7	1,501.8	1,606.5	1,756.7	1921.5	2172.5	2463.8	2705.6
Nominal nonextractive GDP (in billions of UM)	1055.8	1155.1	1,269.4	1,410.7	1,529.3	1689.4	1872.0	2074.4	2303.1
Nominal GDP (in millions of U.S. dollars)	4,839.9	5,089.9	5,060.0	5,109.4	5,477.1	5876.4	6500.3	7210.2	7746.4
Price of oil (US$/barrel)	105.0	104.1	96.3	56.7	63.9	68.0	70.9	72.1	72.6
Price of iron ore (US$/Ton)	128.5	135.4	96.8	74.1	71.9	71.9	71.9	71.9	71.9
Price of gold (US$/Ounce)	1,668.8	1,411.1	1,266.2	1,205.0	1,211.9	1229.8	1251.2	1276.5	1333.5
Price of copper (US$/Ton)	7,958.9	7,331.5	6,863.4	6,239.0	6,188.0	6161.3	6139.1	6116.8	6103.0

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ Debt relief from Kuwait under the HIPC-MDRI is assumed in 2015.
3/ Previous program definition; defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 2. Mauritania: Balance of Payments, 2012–20
(In millions of U.S. dollars, unless otherwise indicated)

	2012 Est.	2013 Est.	2014	2015	2016	2017 Proj.	2018	2019	2020
Current account balance	-1,263.6	-1,262.0	-1,247.9	-395.3	-1,249.0	-1,838.6	-2,393.4	-1,667.3	-1,358.3
Trade balance	-529.7	-392.9	-457.6	42.8	-584.4	-1115.3	-1572.6	-815.2	-689.1
Exports	2,640.6	2,651.4	2,168.2	1,879.8	2,063.7	2,093.0	2,545.5	3,109.6	2,893.5
Of which : Iron ore	1,130.7	1,358.1	992.3	790.2	1,015.1	1,015.1	1,438.0	1,973.8	1,973.8
Crude oil	271.2	216.9	169.1	99.7	112.2	119.4	124.6	126.7	127.6
Copper	238.0	216.3	190.1	188.5	187.0	186.2	185.5	184.8	0.0
Gold	445.2	471.7	405.1	391.2	393.5	399.3	406.2	414.4	362.5
Fish	479.0	329.7	350.9	347.3	290.6	305.1	320.4	336.4	353.2
Imports, fob	-3170.3	-3044.4	-2625.7	-1837.0	-2648.1	-3208.4	-4118.1	-3924.8	-3582.7
Of which : Food Products	-381.1	-377.0	-397.7	-402.7	-415.5	-437.3	-460.3	-483.7	-510.3
Petroleum products	-687.5	-633.8	-606.6	-377.0	-459.7	-505.6	-643.4	-765.1	-760.8
Capital goods	-1076.6	-1293.8	-826.3	-326.0	-986.3	-1451.2	-2169.4	-1759.0	-1381.9
Services and income (net)	-1,053.7	-1,009.8	-932.2	-767.4	-794.7	-854.7	-953.4	-986.2	-806.1
Services (net)	-863.1	-813.7	-675.8	-530.7	-631.4	-689.9	-788.9	-773.7	-652.6
Income (net)	-190.6	-196.1	-256.5	-236.7	-163.4	-164.8	-164.5	-212.4	-153.5
Credit	111.9	119.8	31.5	31.9	111.3	121.4	136.8	143.8	144.5
Of which : EU fishing compensation	89.0	91.2	0.0	0.0	70.5	69.2	67.7	66.3	64.9
Debit	-302.6	-315.9	-287.9	-268.6	-274.7	-286.1	-301.3	-356.2	-298.0
Of which: Profit, salary remittances of non-public mining companies	-146.0	-190.6	-165.4	-161.7	-161.6	-162.6	-163.9	-165.5	-70.2
Of which: Interest due on debt	-59.1	-60.8	-68.5	-69.0	-69.9	-79.2	-91.3	-139.1	-176.2
Current transfers (net)	319.8	140.8	141.9	329.3	130.2	131.4	132.6	134.0	136.9
Private unrequited transfers (net)	42.7	56.9	58.7	60.9	63.2	65.8	68.4	71.2	74.0
Official transfers	31.6	57.3	56.6	241.8	40.3	39.0	37.6	36.3	36.3
Of which: Multilateral HIPC assistance 1/	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital and financial account	1,808.7	1,569.6	891.3	1,322.2	1,327.7	1,918.3	2,464.7	1,857.4	1,468.6
Capital account	30.6	4.8	0.0	869.1	0.0	0.0	0.0	0.0	0.0
Of which: MDRI and other debt stock relief 2/	0.0	0.0	0.0	869.1	0.0	0.0	0.0	0.0	0.0
Financial account	1,778.1	1,564.8	891.3	453.1	1,327.7	1918.3	2,464.7	1,857.4	333.1
Direct investment (net)	1,381.1	1,126.0	725.2	361.9	860.9	1274.8	1052.0	744.4	608.1
Official medium- and long-term loans	243.9	103.9	208.1	269.2	215.5	202.3	134.5	152.7	165.8
Disbursements	315.4	176.4	301.0	360.1	327.1	336.2	281.0	311.7	334.9
Amortization	71.5	72.5	92.9	90.9	111.5	133.9	146.5	159.1	169.1
SNIM medium- and long-term loans	257.8	112.1	-59.9	-76.7	91.9	157.7	832.7	655.2	413.3
Other financial flows	-46.9	-43.4	17.9	-101.3	159.4	283.5	445.4	305.1	281.4
Of which : Change in deposits held abroad by SNIM	-57.8	-76.2	85.0	-30.0	-110.0	-40.0	400.0	220.0	250.0
Other credit financing	11.0	32.8	-67.1	-71.3	269.4	323.5	45.4	85.1	31.4
Errors and omissions	-56.4	-291.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	488.7	16.3	-356.7	926.9	78.7	79.7	71.3	190.1	110.3
Financing	-488.7	-16.3	356.7	-926.9	-78.7	-79.7	-71.3	-190.1	-110.3
Net foreign assets	-402.1	-27.3	356.7	-57.8	-78.7	-79.7	-71.3	-190.1	-110.3
Central bank (net)	-473.6	-29.2	357.3	-64.9	-57.7	-57.6	-58.1	-237.8	-158.0
Assets (negative value implies accumulation of reserves)	-457.7	-36.9	357.3	-64.9	-57.7	-57.6	-58.1	-237.8	-158.0
Liabilities	-15.8	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	84.9	5.8	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Oil account flow	-13.5	-3.9	1.4	9.1	-19.0	-20.1	-11.2	49.7	49.7
Exceptional financing 1/	-86.6	11.0	0.0	-869.1	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in millions U.S. dollars)	4,839.9	5,089.9	5,060.0	5,109.4	5,477.1	5,876.4	6,500.3	7,210.2	7,746.4
Trade balance (in percent of GDP)	-10.9	-7.7	-9.0	0.8	-10.7	-19.0	-24.2	-11.3	-8.9
Current account balance (in percent of GDP)	-26.1	-24.8	-24.7	-7.7	-22.8	-31.3	-36.8	-23.1	-17.5
Gross official reserves									
In millions of U.S. dollars	961.9	996.4	639.1	704.0	761.7	819.2	877.3	1115.1	1273.1
In months of imports	2.8	3.0	2.2	3.2	2.6	2.4	2.0	2.7	3.4
Imports of goods and services excluding extractive industries	1,695.6	1,707.1	1,824.4	1,624.7	1,724.0	1,828.0	1,927.6	2,024.6	2,058.7
In months of imports excluding extractive industries	6.8	6.6	4.7	4.9	5.0	5.1	5.2	6.5	7.0
Oil account	93.3	97.1	95.8	86.6	105.7	125.8	137.0	87.3	99.6

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

1/ MDRI debt relief, debt relief from Libya and Iraq, and passive debt owed to Kuwait are treated as a one-time stock operation.

Table 3a. Mauritania: Central Government Operations, 2012–20
(In billions of UM, unless otherwise indicated)

	2012 Est.	2013 Est.	2014	2015	2016	2017 Proj.	2018	2019	2020
Nonextractive revenue and grants	308.0	293.0	308.2	377.4	401.5	443.1	485.5	537.0	601.4
Nonextractive revenue	240.2	281.7	295.2	364.8	389.1	430.9	473.5	525.2	589.6
Tax revenue	178.1	203.8	219.6	268.7	291.4	324.6	360.1	399.0	445.3
Nontax revenue	62.2	77.9	75.6	96.1	97.7	106.3	113.4	126.2	144.3
Total grants	67.8	11.3	13.0	12.6	12.4	12.2	12.0	11.8	11.8
Of which: Projects	2.9	1.8	5.0	10.0	9.8	9.6	9.4	9.2	9.0
Extractive revenue	157.6	129.7	105.8	79.7	72.8	82.6	84.7	102.6	125.3
Net revenue from oil	21.5	20.7	25.0	23.5	27.0	29.3	31.2	32.3	33.3
Mining revenue	136.1	108.9	80.8	56.2	45.8	53.3	53.5	70.2	92.1
Exceptional revenue 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	430.0	436.7	460.3	474.7	486.7	540.5	586.4	646.1	712.6
Current expenditure	293.0	267.2	285.1	290.8	298.6	333.8	366.1	403.7	446.0
Compensation of employees	94.7	103.7	106.9	116.9	122.2	135.5	150.2	166.3	183.9
Goods and services	54.6	60.1	65.2	65.2	78.5	94.4	106.7	118.5	131.6
Subsidies and transfers 2/	105.7	70.2	72.6	71.4	56.7	59.2	60.6	66.0	73.7
Of which: Emergency program	32.7	12.3	0.0	25.0	26.2	27.4	28.8	30.3	31.9
Energy subsidies	24.6	14.1	0.0	6.9	6.9	6.9	6.9	6.9	6.9
Arrears repayments	13.6	13.3	0.0	0.8	0.8	0.0	0.0	0.0	0.0
Interest	12.6	15.7	16.1	15.8	18.5	20.6	22.7	24.8	26.8
External	9.9	12.0	11.3	12.1	14.7	16.1	17.5	18.7	19.7
Domestic	2.7	3.6	4.8	3.7	3.9	4.5	5.3	6.1	7.2
Special accounts and others 3/	10.0	6.5	12.0	9.1	9.1	9.1	9.1	9.1	9.1
Capital expenditure	136.9	169.6	175.0	183.7	188.1	206.7	220.3	242.4	266.6
Foreign-financed investment	50.8	48.7	55.1	61.8	78.1	85.7	88.0	96.4	105.6
Domestically financed investment	86.1	120.9	120.0	122.0	110.0	121.0	132.3	146.0	161.0
Restructuring and net lending	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Common reserves	10.8	10.7	12.4	12.4	13.6	14.9	16.8	19.0	20.9
Overal balance excluding grants (deficit -)	-32.2	-25.4	-59.4	-30.2	-24.7	-27.0	-28.2	-18.3	2.3
Overall balance including grants (deficit -)	35.7	-14.1	-46.4	-17.6	-12.3	-14.8	-16.2	-6.5	14.1
Financing	-35.7	14.1	46.4	17.6	12.3	14.8	16.2	6.5	-14.1
Domestic financing	-83.9	-5.5	19.9	7.6	10.7	20.0	30.6	30.5	55.0
Banking system	-141.9	58.1	56.8	-59.0	6.2	15.3	22.6	18.5	43.0
Treasury account	-151.7	83.7	51.2	-61.0	3.7	11.5	17.6	10.5	35.0
Commercial banks	9.8	-25.6	5.6	2.0	2.5	3.8	5.0	8.0	8.0
Nonbanks	-1.3	8.3	-1.9	3.0	4.5	4.8	8.0	12.0	12.0
Privatization and other	-2.2	0.0	0.0	63.6	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-5.4	-5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	50.4	25.8	26.5	10.0	1.6	-5.2	-14.4	-24.0	-69.2
Oil account (net)	-4.2	-1.3	0.0	1.5	-6.8	-7.3	-4.7	16.2	-5.0
Net revenue from oil (net)	-21.5	-20.7	-25.0	-23.5	-27.0	-29.3	-31.2	-32.3	-33.3
Oil account contribution to the budget	17.3	19.4	25.0	25.0	20.3	22.0	26.5	48.5	28.3
Other (net)	54.6	27.1	26.5	8.6	8.4	2.1	-9.8	-40.2	-64.2
Net borrowing (net)	53.0	23.8	26.5	8.6	8.4	2.1	-9.8	-40.2	-64.2
Disbursements	68.4	46.9	77.4	61.8	68.3	76.1	78.5	87.1	96.5
Amortization	-15.4	-23.1	-50.9	-53.3	-59.9	-74.0	-88.3	-127.3	-160.7
Exceptional financing	3.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-2.1	-6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Real growth rate of public expenditure	26.5	-2.5	1.8	-1.4	-2.0	5.9	3.2	4.8	5.0
Current expenditure	11.5	-7.6	1.9	-1.5	-1.1	4.1	2.7	3.1	3.2
Capital expenditure	15.0	5.2	-0.1	0.1	-0.9	1.8	0.5	1.8	1.7
Nonextractive balance excluding grants (deficit -)	-189.7	-155.1	-165.2	-109.9	-97.6	-109.6	-112.9	-120.9	-123.0
Non-extractive balance including grants (deficit -)	-121.9	-143.8	-152.2	-97.3	-85.2	-97.4	-100.9	-109.1	-111.2
Basic non-oil balance 4/	7.1	14.6	-18.0	20.2	41.0	45.6	46.0	64.3	94.2

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

1/ Tax arrears from the public electricity company.

2/ Including transfers to public entities outside the central government. For 2012, it also includes payments arrears to hydrocarbon companies and SOMELEC.

3/ These include the development fund (FAID).

4/ Previous program definition defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 3b. Mauritania: Central Government Operations, 2012–20
(In percent of nonextractive GDP, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Proj.						
Nonextractive revenue and grants	29.2	25.4	24.3	26.8	26.3	26.2	25.9	25.9	26.1
Nonextractive revenue	22.8	24.4	23.3	25.9	25.4	25.5	25.3	25.3	25.6
Tax revenue	16.9	17.6	17.3	19.0	19.1	19.2	19.2	19.2	19.3
Nontax revenue	5.9	6.7	6.0	6.8	6.4	6.3	6.1	6.1	6.3
Total grants	6.4	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5
Of which: Projects	0.3	0.2	0.4	0.7	0.6	0.6	0.5	0.4	0.4
Extractive revenue	14.9	11.2	8.3	5.6	4.8	4.9	4.5	4.9	5.4
Net revenue from oil	2.0	1.8	2.0	1.7	1.8	1.7	1.7	1.6	1.4
Mining revenue	12.9	9.4	6.4	4.0	3.0	3.2	2.9	3.4	4.0
Exceptional revenue 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	40.7	37.8	36.3	33.7	31.8	32.0	31.3	31.1	30.9
Current expenditure	27.8	23.1	22.5	20.6	19.5	19.8	19.6	19.5	19.4
Compensation of employees	9.0	9.0	8.4	8.3	8.0	8.0	8.0	8.0	8.0
Goods and services	5.2	5.2	5.1	4.6	5.1	5.6	5.7	5.7	5.7
Subsidies and transfers 2/	10.0	6.1	5.7	5.1	3.7	3.5	3.2	3.2	3.2
Of which: Emergency program	3.1	1.1	0.0	1.8	1.7	1.6	1.5	1.5	1.4
Energy subsidies	2.3	1.2	0.0	0.5	0.5	0.4	0.4	0.3	0.3
Arrears repayments	1.3	1.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Interest	1.2	1.4	1.3	1.1	1.2	1.2	1.2	1.2	1.2
External	0.9	1.0	0.9	0.9	1.0	1.0	0.9	0.9	0.9
Domestic	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Special accounts and others 3/	0.9	0.6	0.9	0.6	0.6	0.5	0.5	0.4	0.4
Capital expenditure	13.0	14.7	13.8	13.0	12.3	12.2	11.8	11.7	11.6
Foreign-financed investment	4.8	4.2	4.3	4.4	5.1	5.1	4.7	4.6	4.6
Domestically financed investment	8.2	10.5	9.5	8.6	7.2	7.2	7.1	7.0	7.0
Restructuring and net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common reserves	1.0	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Overall balance excluding grants (deficit -)	-3.0	-2.2	-4.7	-2.1	-1.6	-1.6	-1.5	-0.9	0.1
Overall balance including grants (deficit -)	3.4	-1.2	-3.7	-1.3	-0.8	-0.9	-0.9	-0.3	0.6
Financing	-3.4	1.2	3.7	1.3	0.8	0.9	0.9	0.3	-0.6
Domestic financing	-7.9	-0.5	1.6	0.5	0.7	1.2	1.6	1.5	2.4
Banking system	-13.4	5.0	4.5	-4.2	0.4	0.9	1.2	0.9	1.9
Treasury account	-14.4	7.2	4.0	-4.3	0.2	0.7	0.9	0.5	1.5
Commercial banks	0.9	-2.2	0.4	0.1	0.2	0.2	0.3	0.4	0.3
Nonbanks	-0.1	0.7	-0.1	0.2	0.3	0.3	0.4	0.6	0.5
Privatization and other	-0.2	0.0	0.0	4.5	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	4.8	2.2	2.1	0.7	0.1	-0.3	-0.8	-1.2	-3.0
Oil account (net)	-0.4	-0.1	0.0	0.1	-0.4	-0.4	-0.2	0.8	-0.2
Net revenue from oil (net)	-2.0	-1.8	-2.0	-1.7	-1.8	-1.7	-1.7	-1.6	-1.4
Oil account contribution to the budget	1.6	1.7	2.0	1.8	1.3	1.3	1.4	2.3	1.2
Other (net)	5.2	2.3	2.1	0.6	0.5	0.1	-0.5	-1.9	-2.8
Net borrowing (net)	5.0	2.1	2.1	0.6	0.5	0.1	-0.5	-1.9	-2.8
Disbursements	6.5	4.1	6.1	4.4	4.5	4.5	4.2	4.2	4.2
Amortization	-1.5	-2.0	-4.0	-3.8	-3.9	-4.4	-4.7	-6.1	-7.0
Exceptional financing	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nonextractive balance excluding grants (deficit -)	-18.0	-13.4	-13.0	-7.8	-6.4	-6.5	-6.0	-5.8	-5.3
Non-extractive balance including grants (deficit -)	-11.5	-12.4	-12.0	-6.9	-5.6	-5.8	-5.4	-5.3	-4.8
Overall balance (in percent of GDP)	2.5	-0.9	-3.0	-1.1	-0.7	-0.8	-0.7	-0.3	0.5
Basic non-oil balance 4/	0.5	1.0	-1.2	1.3	2.3	2.4	2.1	2.6	3.5

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

1/ Tax arrears from the public electricity company.

2/ Including transfers to public entities outside the central government. For 2012, it also includes payments arrears to hydrocarbon companies and SOMELEC.

3/ These include the development fund (FAID).

4/ Previous program definition, in percent of non-oil GDP.

Table 4. Mauritania: Monetary Situation, 2009–16
(In billions of ouguiyas at end-of-period exchange rates, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
				Est.			Proj.	
Monetary survey								
Net foreign assets	-3.3	9.4	70.8	192.2	196.7	92.2	118.1	139.9
Net domestic assets	279.9	302.7	303.3	221.2	273.0	440.5	486.0	525.6
Net domestic credit	419.6	470.9	502.2	458.9	522.6	673.0	724.8	850.5
Net credit to the government	175.5	186.8	189.4	100.3	124.2	216.6	200.3	253.1
Credit to the economy	244.1	284.1	312.9	358.5	398.4	456.3	524.6	597.4
Other items net	-139.7	-168.2	-198.9	-237.6	-249.6	-232.4	-238.8	-324.9
Broad money	276.5	312.1	374.2	413.4	469.7	532.8	604.1	665.5
Monetary authorities								
Net foreign assets	1.6	13.3	67.1	214.1	220.0	114.6	140.9	162.5
Net domestic assets	124.3	113.6	110.8	-1.8	10.9	133.5	125.0	133.8
Net domestic credit	129.8	129.5	163.9	66.4	96.6	151.5	95.5	106.2
Net credit to the government	127.1	122.3	144.9	50.9	91.8	146.7	90.7	101.5
Other items net	-5.4	-15.9	-53.1	-68.3	-85.8	-18.0	29.5	27.5
Reserve money	125.9	126.9	178.0	212.3	230.8	248.1	265.9	296.3
Currency in circulation	81.6	91.3	100.9	115.3	132.7	149.1	161.1	181.6
Reserves of banks	44.3	35.6	77.1	97.0	98.1	98.9	104.8	114.7
Of which : Banks deposits in FX	14.0	8.1	8.6	21.9	27.1	26.5	28.9	32.0
Commercial banks								
Net foreign assets	-5.0	-3.9	3.7	-21.9	-23.3	-22.3	-22.8	-22.6
Net domestic credit	280.7	334.0	342.6	392.4	426.3	521.8	629.7	744.6
Net credit to the government	48.5	64.5	44.5	49.4	32.3	69.9	109.5	151.6
Credit to the private sector	232.3	269.5	298.1	343.0	394.0	451.9	520.1	593.0
Other items net	-134.3	-152.3	-145.8	-169.4	-163.8	-115.9	-163.9	-238.1
Memorandum items:								
Velocity of broad money	3.4	3.7	3.7	3.4	3.2	2.8	2.7	2.6
Velocity of broad money (GDP excluding extractive industries)	2.8	2.9	2.6	2.6	2.6	2.4	2.3	2.3
Credit to the private sector (percent of GDP)	24.2	22.5	20.7	23.9	25.9	29.5	32.0	33.4
Net foreign assets of banks (in millions of U.S. dollars)	-18.9	-13.8	14.1	-72.4	-75.6	-73.6	-71.6	-69.6

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

Table 5. Mauritania: Banking Soundness Indicators, 2008–13
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013
					Est.	
Balance sheet						
Assets / GDP	32.0	35.3	31.1	31.2	35.1	38.4
Net private-sector credit / total assets	56.6	51.1	53.2	48.2	50.8	52.1
Public enterprise credit / total assets	15.0	13.1	13.3	10.2	7.2	3.4
Government securities / total assets	17.2	16.0	18.8	11.1	11.2	5.8
Private-sector credit growth (y-o-y)	23.6	4.0	16.0	10.6	15.1	14.9
Gross NPLs / gross loans	n.a.	n.a.	45.3	39.2	25.7	20.4
Of which: accrued interest on NPLs / gross loans	n.a.	n.a.	11.6	11.5	8.3	7.1
Of which: legacy NPLs (pre-2010) / gross loans	n.a.	n.a.	16.7	13.7	13.8	12.8
Of which: new NPLs / gross loans	n.a.	n.a.	17.0	14.1	3.6	0.5
Provisions / (gross NPLs - accrued interest)	n.a.	n.a.	30.0	31.2	53.1	52.9
Provisions / loans 360+ days in arrears	84.1	85.2	87.7	90.7	88.0	88.8
Uncovered loans 360+ days in arrears / gross loans	84.1	85.2	87.7	90.7	88.0	88.8
Deposits / total assets	55.5	57.4	59.3	60.9	59.1	57.8
Private-sector gross loans / private-sector deposits	127.4	115.3	118.4	105.9	110.7	113.7
Capital ratios						
Capital / total assets	16.9	16.7	16.7	18.5	17.5	18.7
Capital adequacy ratio	33.0	38.2	34.0	35.2	29.2	32.4
Foreign exchange exposure						
Fx assets / total assets	9.3	13.9	10.5	10.5	10.5	10.6
Fx assets / fx liabilities (on balance sheet)	75.0	123.7	112.1	135.2	100.1	106.6
Open fx position / capital (including off balance sheet)	-19.1	5.0	-16.0	-32.7	n.a.	n.a.
Profitability and liquidity						
Return on assets	1.9	1.4	0.4	1.2	1.4	2.0
Return on equity	10.7	8.5	2.7	6.0	8.4	8.7
Liquid assets / total assets 1/	30.9	29.8	29.5	29.7	29.8	24.0
Memorandum items:						
Share of assets held by three largest banks	53.4	53.6	53.7	50.7	45.4	42.3
Number of banks	10.0	10.0	10.0	12.0	12.0	15.0
Bank private-sector credit / GDP	23.3	24.2	22.5	20.7	23.9	25.9

Sources: Mauritanian authorities; and IMF staff.

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

Table 6. Mauritania: Selected Economic and Financial Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.				Proj.			
				(Percent; unless otherwise indicated)					
National income and prices (y-o-y growth)									
GDP at constant prices	6.0	5.7	6.4	5.5	6.8	5.0	8.0	8.4	5.0
Non-oil GDP at constant prices	6.7	5.9	7.0	5.7	6.8	5.0	8.0	8.4	5.0
Nonextractive GDP at constant prices	7.3	6.4	7.1	6.6	5.5	5.6	5.7	5.7	6.1
Iron ore production (tons)	11.2	12.5	13.5	13.6	18.0	18.0	25.5	35.0	35.0
GDP deflator	-5.8	0.1	-5.3	0.5	2.4	4.2	4.6	4.5	4.6
Non-oil GDP deflator	-6.3	0.1	-5.4	1.1	2.2	4.1	4.5	4.5	4.5
GDP excluding extractive industries deflator	2.1	2.8	2.7	4.3	2.8	4.6	4.8	4.8	4.6
Consumer price index (period average)	4.9	4.1	3.5	4.6	4.6	4.9	5.1	5.1	5.1
Consumer price index (end of period)	3.4	4.5	4.7	4.4	4.8	5.0	5.2	5.2	5.2
External sector									
Value growth of exports of goods, f.o.b.	-4.9	0.4	-18.2	-13.3	9.8	1.4	21.6	22.2	-6.9
Value growth of imports of goods, f.o.b.	28.5	-4.0	-13.8	-30.0	44.2	21.2	28.4	-4.7	-8.7
Current account balance (in percent of GDP)	-26.1	-24.8	-24.7	-7.7	-22.8	-31.3	-36.8	-23.1	-17.5
Gross official reserves 1/									
In millions of U.S. dollars, end of period	961.9	996.4	639.1	704.0	761.7	819.2	877.3	1,115.1	1,273.1
In months of following year's imports excluding extractive industries	6.8	6.6	4.7	4.9	5.0	5.1	5.2	6.5	7.0
PPG external debt (percent of GDP) 2/	73.5	69.2	73.7	61.3	61.1	60.5	56.8	53.4	51.9
Money									
Money and quasi-money (percentage change)	10.5	13.6	13.4	13.4	10.2	11.8	11.7	11.2	11.1
Credit to the private sector (percentage change)	14.6	11.1	14.5	15.0	13.9	13.9	13.9	13.9	14.9
Investment and savings									
Gross investment (percentage of GDP)	57.3	50.3	44.8	30.3	43.3	50.3	57.2	44.7	39.1
Gross savings (percentage of GDP)	31.2	25.5	20.1	22.6	20.5	19.0	20.4	21.6	21.6
				(Percent of nonextractive GDP; unless otherwise indicated)					
Consolidated government operations									
Nonextractive revenue and grants	29.2	25.4	24.3	26.8	26.3	26.2	25.9	25.9	26.1
Nonextractive revenue	22.8	24.4	23.3	25.9	25.4	25.5	25.3	25.3	25.6
Expenditure and net lending	40.7	37.8	36.3	33.7	31.8	32.0	31.3	31.1	30.9
Nonextractive balance excluding grants	-18.0	-13.4	-13.0	-7.8	-6.4	-6.5	-6.0	-5.8	-5.3
Basic non-oil balance 3/	0.5	1.0	-1.2	1.3	2.3	2.4	2.1	2.6	3.5
Overall balance including grants	3.4	-1.2	-3.7	-1.3	-0.8	-0.9	-0.9	-0.3	0.6
Public sector debt (percent of GDP) 2/	79.4	73.7	78.4	66.0	65.9	65.2	61.6	58.4	57.3
Memorandum items:									
Nominal GDP (in billions of UM)	1,437.2	1,520.8	1,533.2	1,624.5	1,777.4	1,943.9	2,196.4	2,488.6	2,731.0
Nominal GDP (in millions of U.S. dollars)	4,839.9	5,089.9	5,060.0	5,109.4	5,477.1	5,876.4	6,500.3	7,210.2	7,746.4
GDP per capita (in U.S. dollars)	1,401.4	1,438.9	1,397.3	1,378.7	1,443.8	1,513.9	1,637.4	1,776.6	1,867.8
Price of iron ore (US$/Ton)	128.5	135.4	96.8	74.1	71.9	71.9	71.9	71.9	71.9
Price of gold (US$/Ounce)	1,668.8	1,411.1	1,266.2	1,205.0	1,211.9	1,229.8	1,251.2	1,276.5	1,333.5
Price of copper (US$/Ton)	7,958.9	7,331.5	6,863.4	6,239.0	6,188.0	6,161.3	6,139.1	6,116.8	6,103.0

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

1/ Excluding the oil account.

2/ HIPC debt relief from Kuwait is programmed to take place at end-2014.

3/ Previous program definition in percent of non-oil GDP. Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 7. Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	2008	2011	PRSP 2015	MDGs 2015
	(In percent of total population)								
1. Eradicate extreme poverty and hunger									
Overall poverty incidence	56.6	50.0	46.3	...	46.7	42.0	...	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	...	25.9	15.6	...	...	...
Prevalence of child malnutrition	43.3	20.3	32.0	...	30.2	15.9	...	21.0	23.5
	(In percent of primary school age group)								
2. Achieve universal primary education									
Net enrollment ratio in primary education	49.2	58.5	61.1	65.7	74.3	76.0	72.7	100.0	100.0
	(In percent of total enrollment in first grade)								
Proportion of pupils starting grade one who reach last grade of primary	63.8	42.6	54.7	...	52.8	81.8	65.2	100.0	100.0
	(In percent)								
3. Promote gender equality									
Ratio of girls to boys in primary enrollment	75.4	89.5	97.2	98.6	101.2	104.9	102.0	100.0	100.0
	(Per 1,000 live births)								
4. Reduce child mortality									
Child mortality (under five years)	137.0	...	127.0	...	...	122 2/	...	55.0	45.0
	(Per 100,000 live births)								
5. Improve maternal health									
Maternal mortality	930.0	...	...	...	747.0	686.0	626.0	300.0	232.0
	(In percent of ages 15-24)								
6. Combat HIV/AIDS, malaria, and other diseases									
Incidence of HIV/AIDS among 15-49-year olds	...	...	0.5	0.6	0.5	0.6	0.7	< 1	1.0
	(In percent of population)								
7. Ensure environmental sustainability									
Proportion of population using an improved drinking water source	30.0	...	40.0	...	...	...	63.3	75.0	82.0
Proportion of population using an improved sanitation facility	16.0	...	21.0	...	24.0	...	32.4	...	70.0
Memorandum items:									
Population (in millions) 1/	2.0	2.3	2.6	2.8	3.0	3.3	3.5	...	...
UNDP Human Development Index	0.4	...	0.4	...	...	0.5	0.5	...	...
Gini index of inequality	...	0.3	0.4	...	0.4	0.4	...	0.4	...
Child vaccination rate (in percent)	...	30.0	40.0	70.0	79.0	68.8	...	...	...

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

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

2/ Data for 2008.

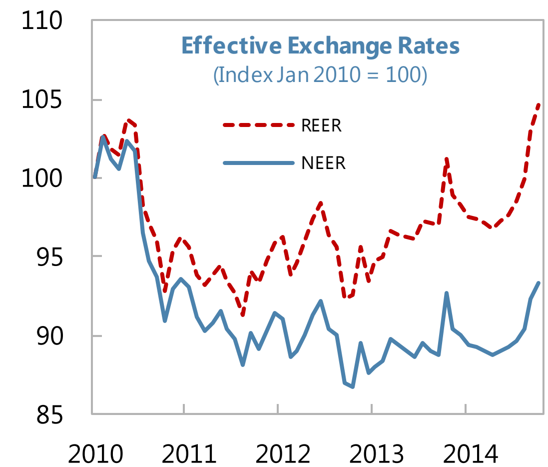
Appendix I. Mauritania: Implementation Status of the Main 2012 Article IV Recommendations

Mauritania's 2012 Article IV policy recommendations were focused on maintaining short-term macroeconomic stability in the face of the 2011 drought and building the foundation for inclusive growth over the medium term. Progress in implementing the recommendations has been mixed.

Recommendations	Implementation status
Fiscal Policy	***Partial progress***
Framework for managing the mining wealth	*Partial progress.* Revenues from high iron ore prices allowed for higher social and capital spending. However, more progress is needed to anchor fiscal policy to non-mining revenues and to adopt a fiscal framework for managing mining wealth, including a stabilization fund.
Subsidy reform and wage bill containment	*Partial progress*. The subsidy for diesel products was removed, but the rule-based mechanism has not been applied. The tariff study on electricity was completed, but progress is lacking on removing the electricity subsidy. A study was launched to clarify SOMELEC's optimal budget transfer. The authorities are advancing with SOMAGAZ privatization and the gas subsidy. The design of an automatic pricing formula along with a timetable for rate increases has not been completed. The wage bill has continued to rise.
Public sector governance: improving public financial management (PFM) and limiting fiscal risks of large infrastructure projects	*Partial progress*. With technical assistance, the authorities are implementing the single account. However, the repayment plan for domestic arrears stopped in 2013. SNIM facilitated financing for the new airport project by acquiring land in an operation that exposed financing constraints.
Mining taxation	*Progress*. Some aspects of the new mining code are in line with best international practices; but issues on IT exemptions, asymmetric and stability clauses, and reduced rate on payroll taxes need further improvements.
Debt sustainability	*No progress*. Although most debt is contracted on concessional terms, some nonconcessional debt has been contracted. Debt level of 54.5 percent by 2017 is out of reach by a wide margin.
***Monetary and Financial Policies*; to enhance banking system stability, the effectiveness of monetary policy and financial intermediation**	*Partial Progress.* The central bank has taken significant steps to strengthen banking supervision and the regulatory framework to limit banking risk profile; and efforts are needed on enforcement. On the monetary policy framework, the liquidity management framework and the monetary transmission mechanism are weak, hindering effective monetary policy. Financial intermediation has improved but remains low.
***Structural reforms,* enhancing the investment climate and labor market policies to create more employment opportunities.**	*Partial progress.* The authorities have progressed on implementing new investment and procurement codes, establishing a one-stop shop, and streamlining taxpayers' procedures. Reforms to the agricultural sector support developing its potential as an employment generator.

Appendix II. Mauritania: External Sector Assessment

1. Mauritania's real effective exchange rate (REER) has appreciated by over 6 percent over the past two years. The nominal effective exchange rate (NEER) appreciated by a similar magnitude over the same period, largely owing to the recent depreciation of the euro, a major trading partners' currency, against the dollar, relative to which the ouguiya remained stable. With inflation rates in trading partner countries at historical lows, even the relatively modest price increases in Mauritania over the past few years resulted in a more substantial appreciation of the real exchange rate of 12 percent since the end of 2012.



2. Mauritania's foreign reserves increased rapidly in 2012 but they de-accumulated substantially in 2014 as a result of a terms-of-trade shock. As the macroeconomic conditions improved during the ECF program, the country managed to raise its reserve cover from less than four to almost seven months of prospective imports (excluding mining industry imports) between in 2011 and 2012. The overall current account deficit expanded from 6 percent in 2011 to more 30 percent in 2013 owing to a substantial increase in imports by the extractive industry, which now accounts for more than half of total imports. The non-extractive current account deficit remained stable at about 30 percent of GDP in the past five years. In the financial account balance, foreign direct investments used to finance the mining industry expansion increased dramatically from 5 percent of GDP in 2010 to almost 35 percent in 2012. These, in turn, contributed to higher international reserves. Yet the collapse in the price of iron and other metals, and the resulting worsening of Mauritania's terms of trade in 2014, have resulted in the loss of about 25 percent of foreign reserves to five months of imports.

3. Mauritania's external position is undergoing a substantial change from current account deficits of more than 25 percent of GDP to much smaller ones at about 6 percent of GDP by 2021. The country's mining industry is financing (mostly through FDI and to a lesser extent using long-term external debt) a large investment program that is expected to substantially increase mining output over the medium term. Virtually all output of the extractive sector is exported and already accounts for more than three quarters of total exports. The expansion thus translates into a change of a large FDI-financed current account deficit in 2014, estimated at 24 percent of GDP, into a much smaller negative deficit of 6 percent in 2021, by which time major projects will have come on stream. The external balance should then remain at a similar level for the long run. The CGER-like REER assessment methods rely on steady-state equilibrium values of a country's external variables, usually taken to be their medium-term—five years ahead—forecasts. In 2020, the transformation of Mauritania's current account will not be quite complete; therefore, the analytical approaches used in this assessment consider the 2021 value of Mauritania's current account deficit as an estimate of the underlying steady-state equilibrium value.

4. **Mauritania's exchange rate appears to be in line with fundamentals**. The CGER-like macroeconomic balance, external sustainability, and equilibrium REER approaches all suggest the rate is in line with fundamentals (with an undervaluation of 0.1 percent under the former two and 0.4 percent under the latter method).

Exchange Rate Assessment

	Current account balance to GDP		REER
	Norm	Underlying	Degree of over(under)valuation 1/
Macrobalance approach	-10.0%	-4.9%	-3.0%
External sustainability	-6.8%	-4.9%	-3.0%
Equilibrium REER			-0.4%

Source: IMF staff estimates.

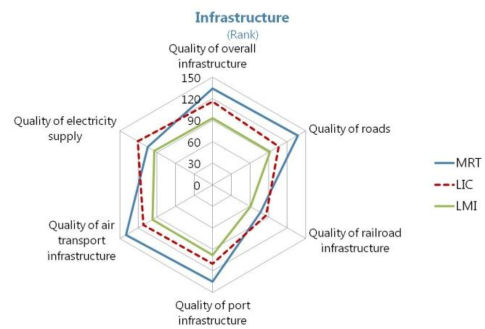
1/ Positive values correspond to overvaluations.

5. **In the short term, Mauritania needs to rebuild foreign reserve buffers to mitigate the impact of possible future external shocks**. The country has already suffered a recent terms-of-trade shock, which demonstrated the economy's vulnerability to swings in global commodity prices, particularly those for metals. At the same time, Mauritania as a net oil importer has benefited from the sharp drop in oil prices. Nonetheless, the country had to use a substantial part of its foreign reserves to weather the impact of the shock. Higher prices of oil or food—the country relies heavily on food imports to satisfy domestic demand—would bring about another substantial deterioration in trade and current account balances. Other things equal, a 20 percent rise in world food prices would result in a 10 percent decrease in Mauritania's foreign reserves, assuming the shock is fully absorbed with reserves. Similarly, a 20 percent increase in oil prices would deplete reserves by more than 15 percent. Because Mauritania is very vulnerable to such external price shocks, both through its food and oil product imports and commodity exports, it needs to maintain a sufficient level of foreign reserves to ensure the economy's stability in the face of exogenous price changes. Additionally, the country's optimal level of reserves is between three and six months of overall imports , whereas under current baseline projections reserves are only forecasted to reach three months of total imports in 2020 (they will temporarily reach that threshold in 2015 because of a fall in capital imports as mining expansion projects are delayed). Mauritania thus needs to focus on rebuilding external buffers over the coming years back to and above the levels seen in 2013.

6. **The exchange rate is not a driver of overall export competitiveness but may affect employment in the export sector.** A large and growing share of Mauritania's exports comprises commodities, whose extraction requires little in terms of local factors of production. In particular, the local labor intensity of the extractive industry is very low, implying that changes in the REER would

be unlikely to affect the country's competitiveness on global commodity markets. At the same time, Mauritania is attempting to expand its artisanal fish industry precisely because of its high labor intensity, in order to increase formal employment in a higher value-added sector. A substantial REER appreciation, which may result from the improvement in the country's current account balance, could negatively affect local employment in the export-focused fishing industry.

7. Non-price measures of structural competitiveness suggest that Mauritania can improve its external competitiveness substantially through structural reforms. Both the 2014 Doing Business indicators and the 2014–15 Global Competitiveness Index (GCI) show that Mauritania is lagging behind the average for lower-income countries (LICs) and behind the oil importers of the MENAP region. The Doing Business survey indicates that access to finance may present the largest constraint to businesses in the economy, followed by supply of adequate infrastructure. GCI data, in turn, demonstrate that, within infrastructure, Mauritania particularly lags behind other LICs in quality of roads, port, and air transport infrastructure. The authorities are already addressing deficiencies in these areas through their public investment program. Continued well-targeted and effective improvements—as well as better access to finance through a more developed financial system—can ease the operating conditions for local business and thereby improve their external competitiveness.



Appendix III. Mauritania: Financial Sector Assessment Recommendations

	Assessment	Recommendations
Banking sector structure	Large number of banks and low profitability	Favor purchases and absorption of existing banks, strict requirement on bank licensing.
	Low penetration rate and weak financial inclusion	Further develop microfinance and Islamic banking.
	Short-term funding dependence, with activity concentrated on short-term loans and foreign-exchange operations	Restore confidence through effective banking supervision, enhance the existing infrastructure (credit registry), and create a registry of collateral.
Financial stability (FSI and Stress tests)	Poor data quality	Banks' external auditors should be chartered by the central bank.
	Banks are broadly well capitalized and liquid but two banks are not respecting the minimum capital requirement	
	High level of NPLs	
	Under provisioning for some banks	Enforce regulation on risk classification and provision public sector loans
	High concentration of loans and deposits	
	Banking system remains fragile to shocks	Preemptive actions: create a financial stability committee to identify indicators and monitor macro systemic risks. Revise the banking resolution law to strengthen the resolution framework and increase banks' contribution to the deposit guarantee fund.
Central bank independence and banking supervision	Improved banking supervision regulatory framework but weak implementation	Improve CBM independence by clarifying the conditions of dismissal of the governor and protecting the staff vis-à-vis decisions made as part of their mandate; parliamentary approval of the 2013 agreement on the CBM's claims on the government.
	Unsupervised financial institutions by the CBM	CDD and insurance companies to be supervised by the CBM.

FX market development	Distortions reduce the FX supply and may increase the preference for FX	Eliminate penalties and commissions applied to foreign exchange auctions, accept all bids to sell on the fixing market and clearly state the policy for rejecting the bids to sell, shorten the timeframe for currency transfer transactions after the auction, ensure strict application of the FX regulation and strengthen sanctions, and increase transparency on CB intervention and policy by communicating to the market an intervention range for the next one to three months.
	The exchange rate does not reflect the demand and the supply	Adopt a multiple-rate auction system with a benchmark rate. Move to a wholesale auction and develop the IT infrastructure to better monitor the market.
Monetary policy and money markets	Shallow interbank market	Enhance transparency by regular publication of banks' financial statements; standardize model Islamic contracts for interbank transactions.
	Weak liquidity management framework	Quarterly update the monetary program tables in order to establish medium-term monetary objectives and set a daily liquidity forecasting system. Widen the range of instruments to manage liquidity (standing facilities, seven-day Treasury bills), examine issuing Islamic securities, and use the average for the establishment of the reserve requirement.
	Weak transmission mechanism	Develop a yield curve by separating auctions for Treasury bills and bonds with different maturities, gradually securitizing the CBM's claims on the government using marketable securities with longer maturities.
	Weak coordination between monetary and FX policies	Coordinate the regulatory framework for liquidity and foreign exchange and banks' liquid assets in ouguiyas, review the CBM's organizational structure and the division of duties relating to monetary and currency exchange transactions.

Appendix IV. Mauritania: Statistical Issues

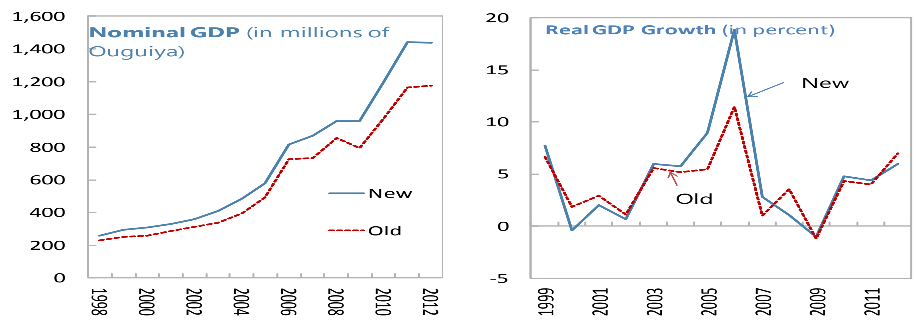
I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance.	
National Accounts: Following STA recommendations, the National Office of Statistics (ONS) is now compiling annual national accounts (ANA) at 2009 year prices. Data for 2011–12 is still provisional but has been incorporated in the macro framework. The ANA broadly follow the 1993 SNA recommendations. Afritac West is providing technical assistance to complete ANA by mid-2015 and progress with the compilation of quarterly national accounts. **Price Statistics:** Data are published with a delay of less than one month. The current edition of the consumer price index (CPI), developed with the assistance of AFRISTAT has been published since May 2004. Geographical coverage of the CPI is limited to the capital Nouakchott. The authorities are working on a new CPI with broader scope to better reflect pricing trends.	
Government finance statistics: Key shortcomings include insufficient institutional coverage (coverage is limited to Budgetary Central Government, albeit in a wide sense that includes the general budget, the annexed budget, and the special treasury accounts), classification problems, long lags for production of statistics, and lack of reconciliation of financing with the monetary accounts. Key factors behind these weaknesses include the lack of financial resources allocated to the compilation of statistics, insufficient interagency coordination, and concern about accuracy that give rise to reluctance to publish provisional data. It has however benefited from recent efforts to increase the comprehensiveness of the data through the adoption of systematic compilation practices. With ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts.	
Monetary statistics: CBM monetary statistics are in line with the statistical methodologies of the *Monetary and Financial Statistics Manual* and data dissemination recommendations of the GDDS. More specifically, CBM developed and implemented bridge tables from source data for monetary statistics to the new Standardized Report Form (SRFs) for reporting monetary statistics to STA. In parallel, CBM pursued the implementation of the recommendations of the various IMF safeguards assessment missions. CBM posts monetary statistics on its official website (the most recent data refer to December 2013). With recent methodological improvements, the CBM is expected to submit monetary data to STA monthly by using the SRFs 1SR, 2SR, and 5SR beginning with end-January 2010 data onwards, and to progressively compile SRFs back to December 2001.	
Balance of payments: Balance of payments statistics are affected by significant shortcomings, because many components are routinely based on estimates and there are no systematic efforts to collect data on certain transfers and foreign direct investment. In addition, non-mining exports, services, and short-term capital flows are not well measured because the reporting by commercial banks is problematic. TA from AFRICA West could help address some of these shortcomings.	
II. Data Standards and Quality	
Mauritania began participation in the General Data Dissemination System (GDDS) in September 2004. Metadata need to be upgraded.	No Data ROSC is available. A fiscal ROSC was undertaken in 2002.

Mauritania: New National Accounts (1998–2012)

The Mauritanian National Office of Statistics (ONS) recently released revised national accounts (NA) data for the period 1998–2012. The publication follows efforts supported with Fund technical assistance from AFRITAC West. Data are definitive for 1998–2010, and provisional for 2011 and 2012. According to ONS, the new NA are in line with SCN 1993 methodology and better capture the informal sector which is dominant in the Mauritanian economy. The reported real GDP figures correspond to chained GDP with 2004 as a base year.

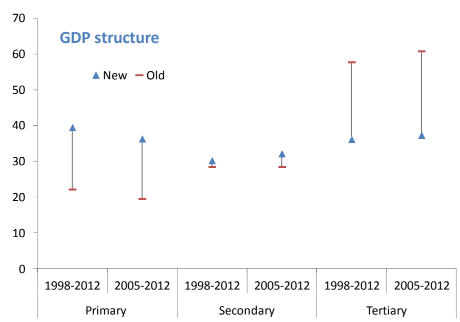
The most visible changes resulting from the revision came in the areas of nominal GDP levels, real GDP growth rates, and sectoral shares of GDP.

- *Both the level and the growth rate for nominal GDP are higher*. The revised nominal GDP is, on average, 18 percent higher than the one previously reported. In 2012, nominal GDP rose to UM1.44 billion. GDP per capita, taking into account the 2013 population survey census, is estimated at about US$1400. The revised real GDP growth rate is 0.5 percentage point higher on average over 1999–2012 with the main difference in 2005–06 owing to higher oil production levels in the revised data.



Source: ONS and staff estimates.

- *Sectoral composition in GDP has changed significantly vis-à-vis the previously GDP figures*. In particular, the share of the primary sector—mainly livestock—increased significantly at the expense of services. Trade and public administration were the most affected, with their shares declining respectively by 4.9 percent and 5 percent in 2012 compared to old national accounts.



INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

January 14, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of November 30, 2014)

Membership Status: Joined: September 10, 1963 — Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	64.4	100
Fund holdings of currency (Exchange Rate)	64.39	99.99
Reserve Tranche Position	0.02	0.03

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	61.67	100
Holdings	0.93	1.52

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	83.01	128.9

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	15-Mar-10	25-Jun-13	77.28	77.28
ECF [1]	18-Dec-06	1-Nov-09	16.1	10.31
ECF [1]	18-Jul-03	7-Nov-04	6.44	0.92

Projected Payments to Fund [2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal		3.17	7.58	10.25	14.55
Charges/Interest		0.23	0.22	0.2	0.17
Total		3.4	7.8	10.45	14.72

[1] Formerly PRGF

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Feb-00
Assistance committed by all creditors (US$ million)[3]	622
Of which: IMF assistance (US$ million)	46.76
(SDR equivalent in millions)	34.8
Completion point date	Jun-02

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	34.80
Interim assistance	16.88
Completion point balance	17.92
Additional disbursement of interest income[4]	3.63
Total disbursements	38.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5]	32.91
Financed by: MDRI Trust	30.23
Remaining HIPC resources	2.68

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
June 2006	N/A	32.91	32.91

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed. **Interim assistance**—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

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

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

[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments

The latest safeguards assessment of the CBM, completed on April 30, 2010, concluded that significant risks remain. Action is needed to develop the CBM's financial reporting, which lags significantly behind international standards and the practices of other central banks in the region. The CBM will also need to build capacity in the areas of information systems and internal audit, and notwithstanding recommendations to improve governance, has no plans to establish an Audit Committee or require the Board to fulfill its functions.

AML/CFT

The Middle East and North Africa Financial Action Task Force (MENAFATF) adopted the mutual evaluation report for Mauritania in November 2006, where it recommended corrective measures to address the deficiencies in the country's AML/CFT framework. In the ninth follow-up report last November 2014, the MENAFATF noted the positive steps taken by the authorities, such as Senate approval of the amended AML/CFT draft law. However they concluded that some core and key recommendations remain unaddressed, in particular, (a) shortcomings in the legal definition of the act of terrorist financing; and (b) lack of sufficient procedures to implement United Nations Security Council Resolutions (UNSCRs) 1267 and 1373 on listing and freezing of terrorist assets. Mauritania was thus kept under the enhanced follow-up procedures and was asked to report back on new actions taken at the next Plenary scheduled for end-April 2015. Authorities are committed to improving the AML/CFT laws to address the identified deficiencies, and have undertaken measures to expedite procedures for joining the Egmont Group of Financial Intelligence Units as recommended by the 2012 FATF.

Exchange Arrangement

Mauritania's de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified from "other managed" to "stabilized" effective November 20, 2013. Since end-March the nominal exchange rate against the U.S. dollar has remained within a 2 percent band. Mauritania maintains one exchange restriction subject to IMF approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction arises from the insufficient foreign exchange availability at the fixing sessions (auctions) organized by the Central Bank of Mauritania (CBM) for those transactions which are required to be submitted to the auctions. The authorities have requested, and staff recommends, Board approval for the temporary retention of this restriction.

Last Article IV Consultation

Previous Article IV discussions were held in Nouakchott during April 29–May 16, 2012 together with the Fourth Review under the Three-Year Extended Credit Facility Arrangement. The Country Report No. 12/246 was considered by the Executive Board on July 2, 2012.

Technical Assistance

Department	Type	Topic	Date
MCM			
	TA mission	Foreign exchange market issues	Jan. 9–23, 2005
	Peripatetic TA missions by panel expert	Foreign exchange reserves management	Jul.13–26, 2005
	TA mission	Money market instruments	Mar. 7–19, 2006
	TA mission	Foreign exchange market	Dec. 17–19, 2006
	TA mission	Central Bank accounting	Mar. 6–May 4, 2007
	TA mission	Securitization of government debt	Sept. 9–21, 2007
	TA mission	Central Bank accounting	Oct. 2007–Oct. 2008
	TA mission	Foreign exchange market	Apr. 28–May 6, 2010
	TA mission	Central bank accounting	Jun 6–16, 2011
	TA mission	Liquidity management	Feb. 5–15, 2012
	TA mission	Bank Supervision	Jun. 20–Jul. 4, 2012
	Joint WB-IMF TA mission	Debt strategy	Jun. 3–10, 2012
	TA mission	FX and monetary operations	Mar. 24–Apr. 1, 2013
FAD			
	TA mission	Public expenditure management	Apr.3–19, 2005
	TA mission	Fiscal administration reform	Jun. 14–18, 2005
	TA mission	Tax policy	May 25–Jun. 8, 2006
	TA mission	Customs administration	Jun. 5–16, 2006
	TA mission	Oil revenue management	Oct. 24–Nov. 7, 2006
	TA mission	Tax administration	Mar. 12–23, 2007
	TA mission	Tax policy	Feb. 27–Mar. 11, 2008
	TA mission	Single treasury account, cash management plan	May 16–30, 2010
	TA mission	Tax and customs administration	Jul. 30–Aug. 12, 2010
	TA mission	Tax policy	Sept. 19–30, 2010
	TA mission	Fiscal and trade tariff systems	Feb. 8–22, 2011
	TA mission	TSA/cash management (3/3)	Jul. 11–25, 2011
	TA mission	Subsidy reform and Expenditure rationalization	Oct. 4–17, 2011
	TA mission	Tax administration - TPA TTF Module 4 and 5	Jan. 15–26, 2012
	TA mission	Taxation of the mining sector - MNRW Module 1	Apr. 2–16, 2012
	TA mission	Tax administration TTF - Module 4	Apr. 10–30, 2012
	TA mission	Tax administration TTF - Module 5	Apr. 10–30, 2012
	TA mission	Tax Policy TPA TTF 2013 (BTB w/ FRA 13FAZD9)	Jun. 22–28, 2012
	TA mission	Customs administration Diagnostic	Jun. 26–Jul. 9, 2012

	TA mission	TPA-TTF (Module 4 - tax administration)	Oct. 21–Nov. 8, 2012
	TA mission	TPA-TTF (Module 8 - support functions)	Oct. 21–Nov. 8, 2012
	TA mission	PFM Reform	Nov. 11–24, 2012
	TA mission	Customs Administration	Jan. 13–24, 2013
	TA mission	Resources TTF	Jan. 22–29, 2013
	TA mission	TPA TTF Modules 4, 5, and 8 Follow-Up	Feb. 16–28, 2013
	TA mission	TPA-TTF (Module 5 - tax procedures)	Apr. 14–29, 2013
	TA mission	Support Functions of the Tax Department (Module 8 TPA TTF)	Sept. 10–30, 2013
	TA mission	Tax Department Organization (Module 4 TPA TTF)	Sept. 1–30, 2013
	TA mission	Follow-up under NRW TTF	Oct. 9–21, 2013
	TA mission	Provide advice to support the authorities with implementation (Module 5&6 TPA TTF) [1/2]	Jan. 13–24, 2014
	TA mission	Tax Procedures (Module 5)	Jan. 13–Feb. 1, 2014
	TA mission	Tax Procedures (Module 5)	Jan. 28, 2014
	TA mission	Customs Administration	Mar. 20–Apr. 2, 2014
	TA mission	Customs Administration	Mar. 22–25, 2014
	Follow-Up Mission	TPA TTF Module 4 and 5	Apr. 16–29, 2014
	TA mission	Further implementation of enforcement strengthening (module 6 of the TPA-TTF)	Nov. 17–30, 2014
	TA mission	Further implementation of enforcement strengthening (module 6 of the TPA-TTF)	Nov. 17–30, 2014
	TA mission	Tax Administration	Dec. 1–14, 2014
LEG			
	TA mission	Jurisdictional assessment of the foreign exchange system (with MCM)	June 22-30, 2014
	TA mission	The drafting of laws to combat money laundering and the financing of terrorism	Feb. 23–Mar. 1, 2005
STA			
	TA consultant	Banking and monetary statistics	Nov. 8–22, 2005
	TA mission	Balance of payments statistics	Apr. 5–18, 2006
	TA mission	Monetary and financial statistics	Jul. 13–26, 2006
	TA mission	National Accounts Statistics	Apr. 16–27, 2007
	TA mission	Monetary and financial statistics	May 11–24, 2010
	TA mission	Balance of payments statistics	Apr. 10–21, 2011

AFRITAC West			
	TA mission	Customs Administration	Jun. 1–14, 2011
	TA mission	Bank Supervision	Jun. 15–28, 2011
	TA mission	Bank Restructuring	Jun. 19–30, 2011
	TA mission	Capacity Building on Tax Administration	Jun. 20–30, 2011
	Joining FAD-Mission and Contribution TA	Cash flow Management	Jul. 18–25, 2011
	TA mission	Public Debt-Support /Issuance of Government Securities	Jul. 24–Aug. 1, 2011
	TA mission	Improvement of customs procedures and streamlining of controls	Sept. 18–29, 2011
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Sept. 18–29, 2011
	TA mission	Public Financial Management	Oct. 10–20, 2011
	TA mission	Bank Supervision and Regulation	Oct. 23–Nov. 3, 2011
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Dec. 6–15, 2011
	TA mission	Customs Administration	Jan. 15–26, 2012
	TA mission	National Accounts Statistics	Jan. 22–Feb. 2, 2012
	TA mission	Public Debt	Jan. 23–Feb. 2, 2012
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Feb. 1–16, 2012
	TA mission	Banking Supervision and Regulation	Feb. 12–23, 2012
	TA mission	Public Financial Management/Public accounting	Mar. 25–Apr. 5, 2012
	TA mission	Banking Supervision and Regulation	May 7–21, 2012
	TA mission	Bank Supervision	May 8–23, 2012
	TA mission	National Accounts Statistics	May 20–31, 2012
	TA mission	Public Debt Management	Jun. 3–8, 2012
	TA mission	Revenue Administration	Jun. 14–25, 2012
	TA mission	Public Financial Management - Treasury Management	Jul. 8–13, 2012
	TA mission	Public Financial Management - Treasury Management	Jul. 8–19, 2012
	TA mission	Bank Supervision and Regulation	Nov. 10 –23, 2012
	TA mission	Public Financial Management	Nov. 11–23, 2012
	TA mission	Bank Supervision	Nov. 14–27, 2012
	TA mission	Institutional Support Debt Management Centralization	Dec. 5–14, 2012
	TA mission	Customs Administration	Jan. 13–24, 2013

	TA mission	Strengthening on MTO operations	Feb. 17–28, 2013
	TA mission	Strengthening the MTO operations	Feb. 17–28, 2013
	TA mission	Public Financial Management	Feb. 19–21, 2013
	TA mission	Bank Supervision	Apr. 8–19, 2013
	TA mission		Apr. 18–29, 2013
	TA mission	National Accounts Statistics	Jun. 2–13, 2013
	TA mission	Bank Supervision - Central Bank of Mauritania	Jun. 9–20, 2013
	TA mission	Liability Management/Supervision	Nov. 3–14, 2013
	TA mission		Nov. 4–8, 2013
	TA mission	Public Debt	Jan. 13–26, 2014
	TA mission	Public Debt Management	Jan. 13–24, 2014
	TA mission	Government Finance Statistics	Jan. 27–Feb. 6, 2014
	TA mission	Customs Administration	Feb. 9–13, 2014
	TA mission	Budget Treasury	Feb. 9–20, 2014
	TA mission	Public Expenditure	Feb. 9–20, 2014
	TA mission	Tax Administration	Feb. 10–14, 2014
	TA mission	Tax Administration	Feb. 10–21, 2014
	TA mission	Customs Administration	Mar. 20–Apr. 2, 2014
	TA mission	Multi annual program in banking supervision	Mar. 22–Apr. 3, 2014
	TA mission	Multi annual program in banking supervision	Mar. 22–Apr. 3, 2014
	TA mission	Customs Administration	Mar. 23–Apr. 3, 2014
	TA mission	National Accounts Statistics	Apr. 20–28, 2014
	TA mission	Bank Supervision	May 18–29, 2014
	TA mission	Public Debt Management/Politique d'emission des Titres publics	Jul. 15–25, 2014
	TA mission	Banking Supervision	Oct. 5–16, 2014
	TA mission	Bank Supervision / BCM	Nov. 3–14, 2014
	TA mission	National Accounts Statistics	Dec. 15–26, 2014

Resident Representative

Mr. Nooman Rebei is the resident representative in Mauritania since January 2015.

JOINT MANAGEMENT ACTION PLAN OF THE WORLD BANK AND IMF

MAURITANIA: JMAP IMPLEMENTATION MATRIX			
Title	**Products**	**Mission timing**	**Expected delivery**
A. Mutual information on relevant work programs			
World Bank work program (next 12 months)	Poverty and Jobs Technical Assistance Project	November 2014 and March 2015	June 2015
	Social Protection Technical Assistance (CCT)	November 2014 and February 2015	August 2015
	Regional Sahel Pastoralism Support Project	November 2014 and February 2015	May 2015
	EITI Support	December 2014 and February 2015	Ongoing
	Public Sector Efficiency Program	January 2015 and May 2015	April 2015 (first year)
	Nouadhibou Free Zone Support and Competitiveness	January 2015 and April 2015	June 2015
	Public Expenditure Review Update	November 2014 and February 2015	June 2015
	Banda Gas-to-Power Project	March 2015, June 2015 and September 2015	Ongoing
	Tax Efficiency Study	January 2015	June 2015
	Diagnostic Trade Integration Study	January 2015, June 2015 and October 2015	December 2015
	Technical Assistance on Country Policy and Institutional Assessment	Various (2014 and 2015)	Ongoing

IMF work program (next 12 months)	**Technical Assistance**		
Monetary and banking sector	Bank Supervision and Capital Account Liberalization	Apr. 1–15, 2015	
	Monetary and FX operations, including Islamic Banking	Apr. 27–May 8, 2015	
	Bank Supervision	Mar. 2–14, 2015	
Fiscal sector	Tax Administration	Feb. 3–16, 2015	
	PFM Reform	Mar. 1–10, 2015	
	Cash Management	Jul. 1–10, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Public Financial Management	Feb. 9–20, 2015	
	Tax Administration	Feb. 9–20, 2015	
National accounts and statistics	Government Finance Statistics	Jan. 25–31, 2015	
	National Accounts Statistics	Feb. 2–13, 2015	
B. Agreement on joint products and missions			
Joint products (next 12 months)	LIC DSA for the 2014 Article IV Consultations	November 2014	January 2015
	Medium-term debt strategy		
	Mining Taxation		
	Financial Sector Strategy	2015	2015

STATISTICAL ISSUES

(As of December 31, 2014)

Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, balance of payments, external debt, and financial sector statistics. Since 2005, STA and AFRITAC West have been assisting the authorities with macroeconomic statistics. Mauritania is participating in the General Data Dissemination System (GDDS). The metadata has been posted on the Dissemination Standards Bulletin Board (DSBB); and ROSC data for most internationally recognized standards and codes is not available except for fiscal transparency.

Real sector

Under AFRITAC West technical assistance, the National Statistical Office (ONS) released revised national accounts for 1998-2010 based on 2004 prices, and also produced provisional estimates for 2011-12. The revised national accounts are in compliance with the 1993 System of National Accounts (1993 SNA), however the ONS is planning to move to SNA 2008 by 2016 and to develop quarterly national accounts in parallel.

The current consumer price index (CPI), developed with the assistance of AFRISTAT, has been published since May 2004 with a geographical coverage limited to Nouakchott (the capital). The authorities plan to update and broaden the consumer basket by using the 2013 consumer survey titled "Enquete sur la Pauvreté et les Conditions de Vie" (EPCV), and by extending the geographical coverage to four cities.

Government finance statistics

The adoption of systematic compilation practices has improved data comprehensiveness, but there is a need to operationalize a data validation process as a quality control measure. In view of ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts. Substantial work is needed to move towards GFS2001.

Monetary and financial statistics

CBM monetary statistics are broadly in line with the statistical methodologies of the Monetary and Financial Statistics Manual and data dissemination recommendations of the GDDS. The CBM developed and implemented bridge tables from source data to the Standardized Report Form (SRFs) and since last year submits SRF 1SR (central bank) and 2SR (other financial institutions) to STA on a preliminary basis. The quality of these data needs to be further enhanced, and the scope of 2SR should be expanded to cover micro-finance institutions, and the *Caisse de Dépôts et de Développement (CDD)* which is a deposit and development fund created in 2011. The CBM should be moving to prepare its financial reporting system for IFRS implementation, a key safeguards assessment recommendation. The CBM should also publish monetary statistics on its official website in a timely manner.

Balance of payments

Balance of payments statistics are affected by significant shortcomings, as many components are routinely based on estimates, and there are no systematic efforts to collect data on certain types of transfers, foreign direct investment, or tourism receipts. In addition non mining exports, services and short-term capital flows are not well measured. Similarly, under-reporting of external transactions by commercial banks is problematic. No balance of payments statistics are reported to STA. An April 2011 STA TA mission provided recommendations, which, if implemented by the authorities, would significantly address identified shortcomings.

Mauritania: Common Indicators Required for Surveillance

(As of December 2014)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	Dec. 2014	Jan. 2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2014	Oct. 2014	M	M	NA
Reserve/Base Money	Oct. 2014	Dec. 2014	M	M	NA
Broad Money	Oct. 2014	Dec. 2014	M	M	NA
Central Bank Balance Sheet	Mar. 2014	Jun. 2014	Q	Q	NA
Consolidated Balance Sheet of the Banking System	Mar. 2014	Jun. 2014	Q	Q	NA
Interest Rates[2]	Oct. 2014	Oct. 2014	I	I	I
Consumer Price Index	Nov. 2014	Dec. 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Oct. 2014	Dec. 2014	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Oct. 2014	Dec. 2014	M	M	I
External Current Balance	Jun. 2014	Oct. 2014	Q	Q	I
Exports and Imports of Goods and Services	Jun. 2014	Oct. 2014	Q	Q	I
GDP/GNP	2013[7]	Oct. 2014	A	A	I
Gross External Debt	Oct. 2014	Dec. 2014	M	M	I

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 14, 2014

Approved By
Daniela Gressani and Dhaneshwar Ghura (IMF) and John Panzer (IDA)

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

Mauritania's risk of debt distress is rated high due to a breach of the debt-to-GDP ratio threshold under the baseline scenario. This represents a downgrade from the moderate risk of debt distress at the time of the 2012 Debt Sustainability Analysis. The downgrade is mostly due to a combination of higher projected debt disbursements and a more stringent level of the policy-dependent debt thresholds as measured by the World Bank CPIA score. The expected resolution of bilateral debt relief with Kuwait and a hike in export-led growth are projected to lower Mauritania's debt level and enhance the capacity of carrying debt over the next years; however, strengthening the quality of policies and institutions—and particularly debt management capacity—will prove critical to rapidly revert to a moderate risk of debt distress. Overall, external debt dynamics tend to follow public debt dynamics, while private sector debt represents a modest portion of external debt.

INTRODUCTION

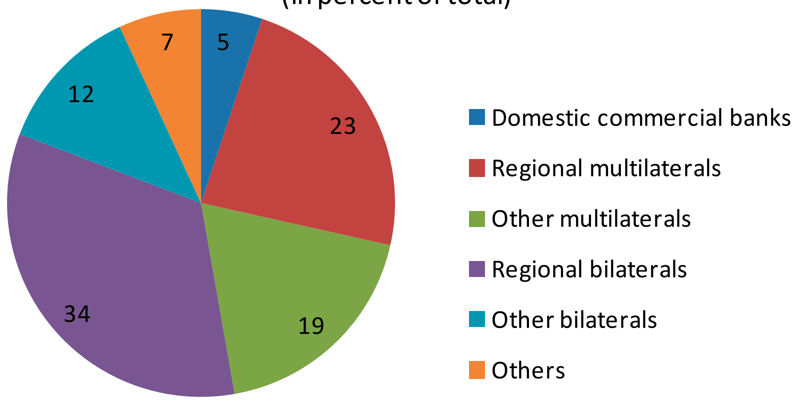
Risk of external debt distress:	High
Augmented by significant risks stemming from domestic public and/or private external debt?	No

BACKGROUND

1. **Debt level remains elevated and mostly represented by public and publicly guaranteed (PPG) debt.** Private sector's access to finance remains limited. Public debt is mostly of an external nature, in the form of official lending with multilateral or bilateral institutions at concessional terms. Debt peaked during 2012 as the central government put in place large investment projects to address Mauritania's infrastructure gap. The public and publicly guaranteed (PPG) debt includes the debt of the central government, central bank and few state-owned enterprises (SOEs); and it is mainly constituted of external debt as the domestic debt is small. The non-publicly guaranteed external debt includes the state-owned mining company SNIM (which does not need government guarantees) and commercial banks' debt. In 2012, the PPG external debt rose 7 percentage GDP points to 73½ percent of GDP (2012) due to higher external debt disbursements for the central government financing of large infrastructure projects and it is projected to decline to about 52 percent of GDP over the medium term. The non-publicly guaranteed external debt, at 17 percent of GDP in 2013, has recently increased as SNIM has borrowed externally to finance its mining expansion plans.

2. **Mauritania's debt structure remains broadly sound.** Despite its high level, Mauritania's debt structure remains solid. Debt is contracted with bilateral and multilateral institutions, a stable creditor base, and mostly at concessional terms. Multilateral and bilateral creditors account for 42 and 46 percent of total debt, respectively. Mauritania's exposure to regional Arab lenders, with about 60 percent of the total debt portfolio, could make it vulnerable to a change in their lending policies. Its debt structure includes very limited guaranteed borrowing by SOEs and debt is contracted on fixed terms, with long maturities. Sources of risks in the debt structure relate to foreign currency exposure due to the size of the external debt, as 95 percent of its debt stock is denominated in foreign currency (mainly US dollar, Kuwaiti Dinar, and SDR). Domestic debt remains small (about 5 percent of stock) and consists of treasury bills for budgetary and liquidity management purposes. It is, nevertheless, issued at short maturity (up to six months) with some limited rollover risks. The debt service profile remains stable and relatively benign, but a term-of trade shock could hamper Mauritania's ability to servicing its external debt.

Text Chart 1. Creditor base, 2013
(in percent of total)



3. The authorities are actively seeking debt relief from Kuwait. An agreement has not yet been reached on this longstanding issue between the Kuwait Investment Authority (KIA) and Mauritania. Both parties are seeking agreement about the valuation of the passive debt, including interest in arrears. In accordance with Paris Club's debt relief, Mauritania is seeking comparability of treatment consistent with the HIPC Initiative.

UNDERLYING ASSUMPTIONS

4. This debt sustainability analysis (DSA) updates the join IMF-World Bank DSA produced in June 2012 for the fourth review under the Extended Credit Facility (ECF). The previous DSA concluded that the risk of debt distress was moderate but borderline high. It also highlighted that the debt dynamics were subject to risks emanating from country vulnerability to fiscal, FDI, exchange rate fluctuations and growth shocks, underscoring the need to continue improving debt management to safeguard medium-term sustainability. Key changes to the DSA inputs since the last exercise are as follows:

- ***Real GDP growth*** is expected to be higher mainly due to a large expansion in the extractive industry and in particular in iron mining. Existing and new producers are already undergoing a large expansion of mining capacity which will increase production capacity from 11,000 to 18,000 tons by 2016. Another planned expansion will bring the country's extraction capacity to over 60,000 tons by 2025. The mining projects result in a pronounced hump-shaped investment plan that will boost growth dynamics over the medium and long term. In addition, scaled-up public investment in agriculture aims at doubling the arable land.

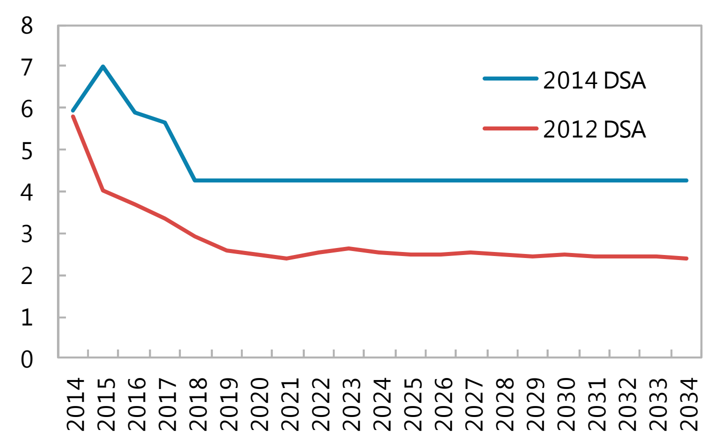
- ***Current account balances*** in the long run have been revised to account for the more ambitious mining expansion plans that could triple iron ore exports over the next ten years against forecasts of a much smaller 40 percent hike in the last DSA. In particular, during 2016-20, substantial FDI-financed current account deficits are projected as the mining capacity is expanded; to be followed by a sharp improvement as investment-related imports abate and exports expand, before stabilizing at a long-run level marginally better than forecast in the 2012 DSA (between 4 and 5 percent of GDP).

- ***Level of GDP*** has been revised upwards as the authorities improved the national account statistics with the help of technical assistance from the AFRITAC West. On average, GDP has increased by about 20 percent compared to previously reported GDP series used in the previous DSA. Average real GDP growth will average 7 percent over the medium term and expected to anchor around 6 percent afterwards.

- ***Metal prices*** have considerably changed since the previous DSA. Mauritania benefitted until recently from high iron ore prices and positive terms of trade. Iron prices sharply decreased during 2014 both due to a rise in global mining capacity and lower global demand (mainly driven by the heightened uncertainty associated with China and Europe's growth prospects). Medium-term projections suggest iron ore prices about 32 percent lower than forecasted at the time of the 2012 DSA (at US$72 per ton). Therefore, medium-run terms of trade are therefore expected to deteriorate relative to the expectations at the time of the last DSA.

- ***Public financing needs*** have increased as the authorities have embarked on a program of public investments, with central government capital expenditure averaging over 12 percent of non-extractive GDP in the coming years (up from 9 percent in 2011). Projected new debt disbursements have been revised upwards starting in 2015, when they will reach around USD 360 million (7 percent of GDP). They will gradually decline afterwards to stabilize at about 4 percent of GDP by 2018. It is envisaged that most of the initial new borrowing will be on concessional terms, with the share of non-concessional borrowing in the total growing over the forecast horizon.

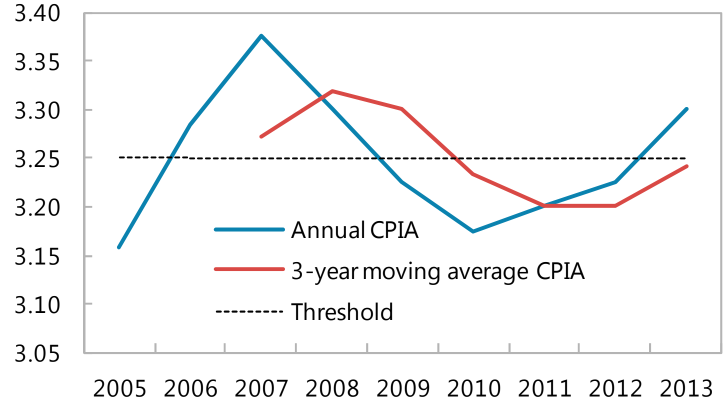
Projected new debt disbursements, percent of GDP



Source: IMF staff. Note: Both series use updated GDP projections

- ***CPIA*** scores determine a country's quality of policies and institutions which, in turn, affect debt thresholds against which the various debt ratios calculated in the DSA are compared. The CPIA score of Mauritania has reported significant gains in the institutional environment since 2011. However, the DSA considers a three-year moving average of the CPIA score and small fluctuations in the moving average have to be maintained for at least 2 years to have an effect on the DSA.[1] According to this rule, Mauritania's debt ratio thresholds have moved down to the weak institutional performers in this DSA due to the lagged impact of the low CPIA score the country received in 2011. This includes a move from 40 to 30 percentage points for the ratio of the present value of PPG external debt to GDP. The latest three-year average CPIA score (at 3.24 for 2011-13) has now been below the threshold for weak performers of 3.25 for over two years (which had not been the case at the time of the 2012 DSA). This precipitated the reclassification.[2]

Mauritania: Annual and 3-year moving average CPIA



Source: World Bank.

- ***KIA debt relief*** is assumed to take place in 2015 and incorporated into the analysis since Mauritania had reached the HIPC completion point. The last DSA assumed the debt relief to take place in 2012.

EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

5. PPG external debt ratios remain below indicative thresholds in the baseline scenario over the medium term except for the debt-to-GDP ratio (Figure 1 and Tables 1 and 2). The debt profile of the country has improved relative to the 2012 DSA despite the higher projected disbursements mainly due to the upward revision of the GDP[3]. Yet under the baseline scenario, the ratio of PV of PPG external debt to

[1] The methodology is described in https://www.imf.org/external/np/pp/eng/2013/110513.pdf. The new methodology incorporates, among others, revised debt thresholds and benchmarks for public sector debt, and revised guidance for the incorporation of remittances in the DSA. The latter is, however, not relevant in Mauritania due to low private remittances.

[2] The use of the 3-year moving average aims at avoiding frequent changes in the risk of external debt distress ratings as a result of small changes in the CPIA around the thresholds used to determine the institutional quality classification. If only the current CPIA rating (at 3.3) were used, Mauritania would have maintained the moderate risk of debt distress.

[3] With the new national accounts, GDP numbers have been revised upwards by 20 percent on average, and the 2013 PPG external debt-to-GDP ratio has been revised from 84 percent to 69.2 percent.

GDP breaches its threshold through 2025 because this threshold has been lowered to 30 percent from 40 percent due to the reclassification of the country's institutional quality. The ratio will reach slightly over 39 percent in 2015-16 (after a decline due to the assumed KIA debt relief) and then decline slowly to stabilize at around 35 percent. The decrease over time is driven by the pick-up in exports which will translate into both stronger growth and fiscal revenues. The breach of the relevant threshold by the ratio of PV of PPG external debt to GDP is, at over 9 percentage points in 2015, somewhat larger but much more sustained than the breach of the threshold for the same ratio in the 2012 DSA.

6. **Standardized stress tests lead to breaches of three debt ratio thresholds and point to the vulnerability of projected debt reduction** to both domestic and external factors. A currency devaluation and failure to secure the projected non-debt creating flows would be particularly damaging to the ratios, even though the latter would probably be partially offset by lower imports.

7. **The historical scenario produces unrealistically large swings in the level of projected external debt.** This result is driven by the large discrepancy between changes in external debt and identified net debt-creating flows in the baseline scenario. This scenario involves a substantial change in the current account balance from a large FDI-financed deficit while the mining capacity is being expanded in the short run to a much diminished one once mining exports have increased. A large portion of the projected current account deficits in the short run will be financed by SNIM and a substantial share of the improvement in current account balances in the medium run will accrue to SNIM. The former will not raise the PPG external debt and the latter will not be necessarily used to rapidly decrease the external indebtedness of the sovereign. The large residuals in the analysis arise from the fact that a large share of SNIM's project financing as well as use of the resulting higher export proceeds is unlikely to fall under the identified net debt-creating flow categories, which include non-interest current account balance.

8. **The outlook for overall external debt has worsened in absolute terms compared to the last DSA.** This can be attributed to the public external borrowing disbursements planned for infrastructure projects as well as increased borrowing from SNIM—whose significant debt-financed expansion plans could further raise external debt vulnerabilities. In addition, the 2012 DSA assumed that the now-delayed KIA debt relief would have been completed by this point.

PUBLIC DEBT SUSTAINABILITY ASSESSMENT

9. **Indicators of overall public debt (external and domestic) and debt service mirrors the vulnerabilities associated with the external debt.** The total public debt mildly breaches its indicative benchmark after the assumed KIA debt relief even though the breach steadily declines over the forecast horizon. The stress scenarios show that this projection is particularly vulnerable to currency depreciation and depends on the materialization of the expected export-led growth.

10. **Overall public debt is largely comprised of PPG external debt.** Almost 90 percent of total public debt in Mauritania is PPG external debt. Domestic public debt has hovered around 5 to 7 percent of GDP and is not a significant contributing factor to the overall public debt level.

CONCLUSION

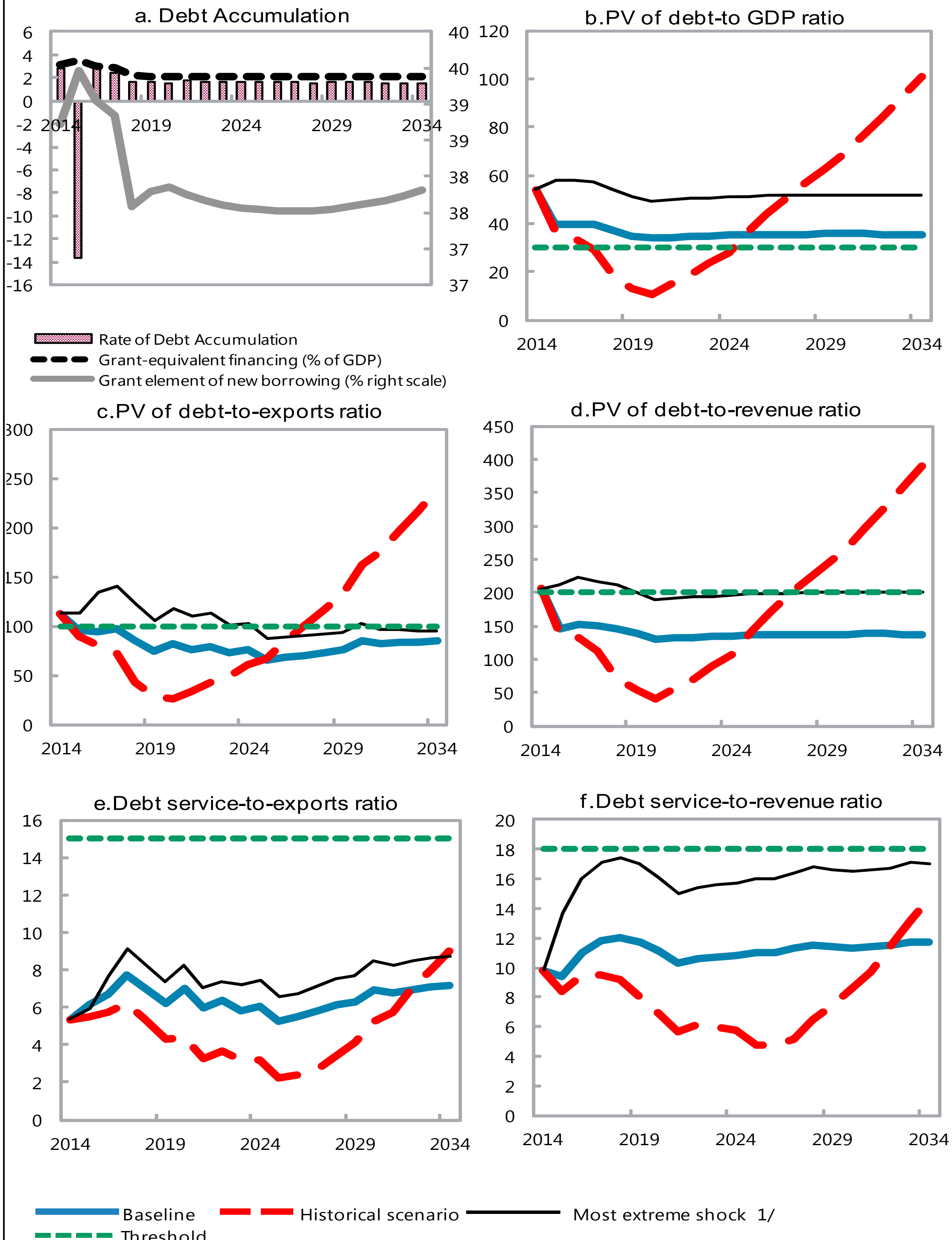
11. **Mauritania's risk of external debt distress has increased due to a combination of the reclassification of its institutional capacity and higher projected new debt disbursements.** The new institutional capacity classification has resulted in lowering of Mauritania's debt thresholds, including from 40 to 30 percentage points for the ratio of the present value of PPG external debt to GDP. As a result of a baseline breach due to a lower threshold, the risk of debt distress has increased from moderate to high. In addition, the projected disbursement path in the coming years will increase PPG external debt level. The projected KIA debt relief will not, in itself, resolve breaching the threshold for the ratio of PV of PPG external debt to GDP. In the medium term, increased exports and the resulting output growth should decrease the country's debt burden. The outlook would worsen substantially should the projected increases in exports and the subsequent higher growth and improvements in current account balances not materialize, in particular due to delays to or cancellations of mining capacity expansion plans.

12. **Given the challenges of reducing debt rapidly, Mauritania needs to continue improving its institutional environment to quickly return to a moderate risk of debt distress.** An anticipated debt relief and a hike in export-led growth are projected to lower Mauritania's debt level and enhance the capacity of carrying debt over the next years; but debt management capacity needs to be strengthened. Given that under the baseline a breach of a threshold occurs for the duration of the projection period, Mauritania could gain substantially from a stronger institutional environment to increase the debt tolerance level. Within the categories of institutions considered by the CPIA score, Mauritania has largest scope for improvement in debt policy, financial sector, social protection and transparency in the public sector. The country should therefore, among other measures, redouble its efforts to implement a social protection framework that would help the socially vulnerable. Elsewhere, following the recommendation of the recent FSAP exercise should aid Mauritania in improving its financial sector institutions.

13. **Recent technical assistance from AFRITAC-West provides recommendations to improve debt management practices** which both bear on the overall CPIA score and is directly linked to Mauritania's debt management capacity. The technical assistance mission assessed that debt management in Mauritania is fragmented and the relevant operational responsibilities are shared and duplicated. The authorities should therefore reorganize the functions of the various departments of the Ministry of Economic Affairs and Development, Ministry of Finance and the Central Bank that participate in debt management to increase the efficiency and coordination in debt contraction and management.

14. **The authorities do not agree with the reclassification of the country's quality of policies and institutions into the weak category as a function of the past CPIA scores, which has a direct bearing on the change in the country's risk of external debt distress from medium to high**. In particular, they believe the methodology in the joint Bank-Fund Debt Sustainability Framework for low-income countries places too much weight in its assessment of institutional quality on the past and too little on the present. The country's institutional quality is being downgraded at a point in time when the CPIA has both been increasing for 3 consecutive years and has risen above the 3.25 minimum level required for medium quality of institutions. This means that the risk of the external debt distress is being increased while the actual institutional quality is improving and the macroeconomic environment remained stable.

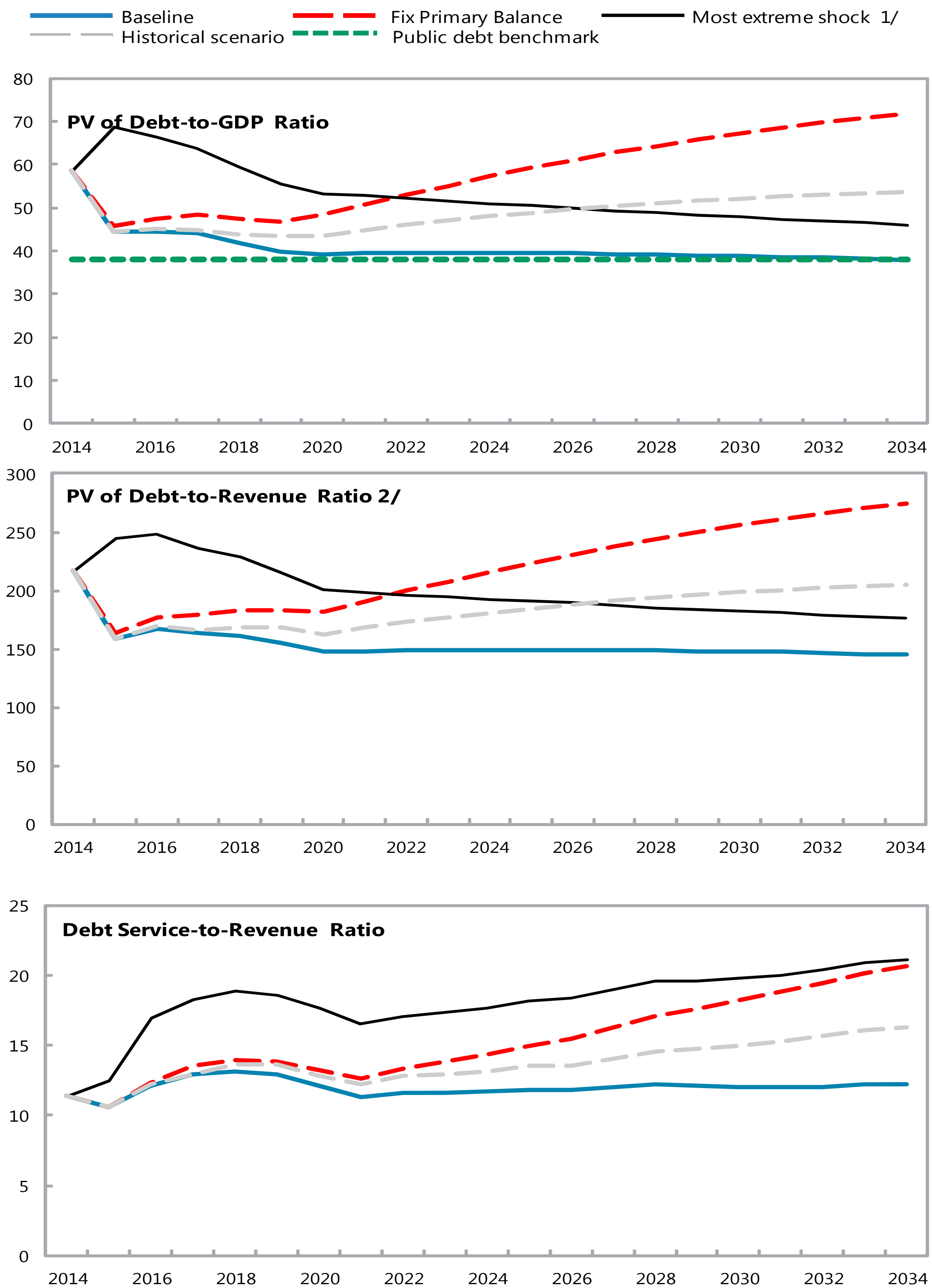
Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2014-34 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1. Mauritania: External Debt Sustainability Framework, Baseline Scenario, 2011-34 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**75.5**	**88.9**	**86.5**			**90.1**	**76.2**	**76.9**	**78.0**	**85.6**	**88.6**		**72.8**	**56.1**	
of which: public and publicly guaranteed (PPG)	66.7	73.5	69.2			73.7	61.3	61.1	60.5	56.8	53.4		53.2	52.4	
Change in external debt	-5.4	13.5	-2.5			3.6	-13.9	0.7	1.1	7.6	3.0		-3.9	-0.4	
Identified net debt-creating flows	-18.9	2.2	-1.7			4.7	-4.2	2.2	6.0	15.0	6.3		-9.8	-23.4	
Non-interest current account deficit	**4.6**	**25.4**	**23.3**	**16.1**	**13.1**	**22.9**	**6.0**	**21.1**	**29.6**	**35.1**	**20.9**		**2.1**	**2.5**	2.1
Deficit in balance of goods and services	5.0	28.8	23.7			22.4	9.5	22.2	30.7	36.3	22.0		0.3	2.2	
Exports	58.1	57.9	55.7			47.9	42.0	42.7	40.5	43.7	47.3		46.8	41.9	
Imports	63.1	86.7	79.5			70.3	51.6	64.9	71.2	80.0	69.4		47.1	44.1	
Net current transfers (negative = inflow)	-2.9	-6.6	-2.8	-4.5	1.7	-2.8	-6.4	-2.4	-2.2	-2.0	-1.9		-1.6	-1.4	-1.6
of which: official	-2.3	-5.7	-1.6			-1.6	-5.3	-1.2	-1.1	-1.0	-0.9		-0.7	-0.4	
Other current account flows (negative = net inflow)	2.6	3.3	2.4			3.3	2.9	1.3	1.1	0.8	0.7		3.4	1.7	
Net FDI (negative = inflow)	**-11.5**	**-28.5**	**-22.1**	**-13.1**	**13.4**	**-14.3**	**-7.1**	**-15.7**	**-21.7**	**-16.2**	**-10.3**		**-9.5**	**-23.3**	-13.3
Endogenous debt dynamics 2/	**-12.0**	**5.3**	**-2.8**			**-3.8**	**-3.1**	**-3.2**	**-1.8**	**-3.9**	**-4.2**		**-2.4**	**-2.6**	
Contribution from nominal interest rate	0.5	0.7	1.5			1.7	1.8	1.7	1.7	1.8	2.3		1.9	0.7	
Contribution from real GDP growth	-3.0	-4.8	-4.8			-5.6	-4.9	-4.9	-3.6	-5.7	-6.5		-4.3	-3.2	
Contribution from price and exchange rate changes	-9.5	9.4	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**13.5**	**11.3**	**-0.8**			**-1.1**	**-9.7**	**-1.5**	**-4.9**	**-7.4**	**-3.3**		**5.9**	**23.0**	
of which: exceptional financing	-0.3	1.8	-0.2			0.0	17.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	68.0			70.2	54.7	55.6	56.9	65.9	70.1		54.7	39.0	
In percent of exports	...	...	122.0			146.8	130.3	130.2	140.8	150.9	148.1		117.0	93.0	
PV of PPG external debt	**...**	**...**	**50.7**			**53.8**	**39.8**	**39.8**	**39.4**	**37.1**	**34.9**		**35.1**	**35.3**	
In percent of exports	**...**	**...**	**91.0**			**112.5**	**94.8**	**93.2**	**97.3**	**84.9**	**73.7**		**75.0**	**84.2**	
In percent of government revenues	**...**	**...**	**187.5**			**205.9**	**145.5**	**153.1**	**149.0**	**145.8**	**138.2**		**134.7**	**137.1**	
Debt service-to-exports ratio (in percent)	**1.4**	**2.2**	**6.3**			**10.6**	**12.0**	**11.8**	**13.7**	**13.2**	**15.6**		**15.5**	**7.2**	
PPG debt service-to-exports ratio (in percent)	**0.0**	**0.0**	**3.9**			**5.4**	**6.1**	**6.7**	**7.7**	**7.0**	**6.2**		**6.0**	**7.2**	
PPG debt service-to-revenue ratio (in percent)	**0.0**	**0.0**	**8.0**			**9.8**	**9.4**	**11.0**	**11.8**	**12.0**	**11.7**		**10.8**	**11.7**	
Total gross financing need (Billions of U.S. dollars)	-0.2	0.0	0.4			0.9	0.4	0.8	1.0	1.8	1.5		0.3	-2.1	
Non-interest current account deficit that stabilizes debt ratio	10.0	12.0	25.8			19.3	19.9	20.4	28.4	27.4	17.9		6.0	2.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.4	6.0	5.7	5.7	5.4	6.4	5.5	6.8	5.0	8.0	8.4	6.7	5.8	6.0	5.9
GDP deflator in US dollar terms (change in percent)	13.3	-11.1	-0.5	7.0	10.3	-6.6	-4.3	0.3	2.2	2.4	2.3	-0.6	-1.6	-1.2	-1.3
Effective interest rate (percent) 5/	0.7	0.8	1.8	0.5	0.6	2.0	2.0	2.3	2.4	2.5	2.9	2.4	2.6	1.2	2.2
Growth of exports of G&S (US dollar terms, in percent)	32.9	-6.2	1.3	27.0	35.5	-14.6	-11.4	9.0	1.6	19.4	20.2	4.0	0.7	3.1	3.9
Growth of imports of G&S (US dollar terms, in percent)	22.5	29.4	-3.6	22.2	29.7	-12.1	-25.9	34.9	17.7	24.3	-3.8	5.9	3.6	4.5	1.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.7	39.5	39.0	38.8	37.6	37.8	38.6	37.6	37.8	37.6
Government revenues (excluding grants, in percent of GDP)	22.0	27.7	27.0			26.2	27.4	26.0	26.4	25.4	25.2		26.1	25.8	26.0
Aid flows (in Billions of US dollars) 7/	0.0	0.2	0.3			0.3	0.4	0.3	0.3	0.3	0.3		0.4	0.6	
of which: Grants	0.0	0.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
of which: Concessional loans	0.0	0.0	0.3			0.3	0.3	0.3	0.3	0.2	0.3		0.3	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.2	3.6	3.0	2.9	2.2	2.1		2.1	2.1	2.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			46.4	45.4	45.4	44.8	44.5	43.9		42.8	43.0	42.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.1	4.8	5.1			5.1	5.1	5.5	5.9	6.5	7.2		9.1	14.0	
Nominal dollar GDP growth	18.2	-5.8	5.2			-0.6	1.0	7.2	7.3	10.6	10.9	6.1	4.1	4.7	4.5
PV of PPG external debt (in Billions of US dollars)			2.6			2.7	2.0	2.2	2.3	2.4	2.5		3.2	5.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.8	-13.6	2.8	2.4	1.6	1.6	-0.4	1.7	1.5	1.6
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	50.2			53.2	39.3	39.3	38.9	36.7	34.5		34.8	35.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.2			109.8	92.2	90.7	94.7	82.9	72.1		73.5	82.4	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.8			5.2	6.0	6.5	7.5	6.8	6.1		5.9	7.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of debt-to GDP ratio								
Baseline	54	40	40	39	37	35	35	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	54	37	34	29	18	13	28	101
A2. New public sector loans on less favorable terms in 2014-2034 2	54	42	43	44	43	41	47	59
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	54	42	45	44	41	39	39	40
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	54	39	43	42	40	37	37	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	54	39	41	40	38	36	36	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	54	47	58	57	53	50	48	40
B5. Combination of B1-B4 using one-half standard deviation shocks	54	34	33	33	31	29	30	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	54	58	58	57	54	51	51	51
PV of debt-to-exports ratio								
Baseline	112	95	93	97	85	74	75	84
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	112	89	80	73	42	28	60	240
A2. New public sector loans on less favorable terms in 2014-2034 2	112	99	101	109	98	88	101	140
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	112	95	93	97	85	74	75	84
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	112	90	116	121	105	91	92	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	112	95	93	97	85	74	75	84
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	112	112	135	140	122	106	102	94
B5. Combination of B1-B4 using one-half standard deviation shocks	112	68	64	67	59	51	54	66
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	112	95	93	97	85	74	75	84
PV of debt-to-revenue ratio								
Baseline	206	145	153	149	146	138	135	137
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	206	136	131	111	72	53	108	391
A2. New public sector loans on less favorable terms in 2014-2034 2	206	152	166	167	168	164	182	228
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	206	153	171	167	163	155	151	153
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	206	142	164	160	156	148	143	140
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	206	144	157	153	150	142	138	141
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	206	173	221	214	210	199	183	154
B5. Combination of B1-B4 using one-half standard deviation shocks	206	124	128	125	123	116	117	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	206	212	223	217	212	201	196	200

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	5	6	7	8	7	6	6	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	5	5	6	6	5	4	3	9
A2. New public sector loans on less favorable terms in 2014-2034 2	5	6	6	7	7	6	7	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	5	6	7	8	7	6	6	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	5	6	8	9	8	7	7	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	5	6	7	8	7	6	6	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	5	6	7	9	8	7	9	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	6	5	5	4	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	5	6	7	8	7	6	6	7
Debt service-to-revenue ratio								
Baseline	10	9	11	12	12	12	11	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10	8	9	9	9	8	6	15
A2. New public sector loans on less favorable terms in 2014-2034 2	10	9	11	11	12	12	13	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	10	12	13	13	13	12	13
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	9	11	12	12	12	12	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	9	11	12	12	12	11	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10	9	12	13	14	13	16	15
B5. Combination of B1-B4 using one-half standard deviation shocks	10	9	10	11	11	11	9	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	14	16	17	17	17	16	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	32	32	32	32	32	32	32

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-34
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	72.2	79.4	73.7			78.4	66.0	65.9	65.2	61.6	58.4		57.5	54.9	
of which: foreign-currency denominated	66.7	73.5	69.2			73.7	61.3	61.1	60.5	56.8	53.4		53.2	52.4	
Change in public sector debt	-8.4	7.2	-5.7			4.7	-12.4	-0.2	-0.6	-3.6	-3.2		0.0	-0.4	
Identified debt-creating flows	-12.2	1.5	-4.2			3.4	-16.9	-3.8	-3.8	-5.6	-5.9		-2.7	-2.5	
Primary deficit	-0.4	-2.7	0.0	0.1	2.6	2.0	0.1	-0.3	-0.3	-0.3	-0.7	0.1	-1.2	-0.7	-1.1
Revenue and grants	22.5	32.4	27.8			27.0	28.1	26.7	27.0	26.0	25.7		26.5	26.2	
of which: grants	0.5	4.7	0.7			0.8	0.8	0.7	0.6	0.5	0.5		0.4	0.4	
Primary (noninterest) expenditure	22.1	29.7	27.8			29.0	28.2	26.3	26.7	25.7	25.0		25.2	25.4	
Automatic debt dynamics	-11.8	4.1	-4.2			1.4	0.1	-3.5	-3.5	-5.3	-5.2		-1.4	-1.7	
Contribution from interest rate/growth differential	-4.8	-4.5	-4.4			-4.2	-4.3	-4.4	-3.4	-5.1	-5.0		-2.3	-2.3	
of which: contribution from average real interest rate	-1.4	-0.4	-0.1			0.2	-0.3	-0.1	-0.3	-0.3	-0.2		0.9	0.8	
of which: contribution from real GDP growth	-3.4	-4.1	-4.3			-4.4	-4.1	-4.2	-3.1	-4.8	-4.8		-3.2	-3.1	
Contribution from real exchange rate depreciation	-7.0	8.6	0.2			5.6	4.4	0.9	-0.1	-0.2	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-17.0	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 implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	-17.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.8	5.7	-1.5			1.3	4.5	3.7	3.2	2.0	2.7		2.6	2.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	55.2			58.5	44.6	44.5	44.1	41.9	39.9		39.4	37.9	
of which: foreign-currency denominated	...	...	50.7			53.8	39.8	39.8	39.4	37.1	34.9		35.1	35.3	
of which: external	...	...	50.7			53.8	39.8	39.8	39.4	37.1	34.9		35.1	35.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.1	3.2	8.1			9.5	7.5	7.2	7.5	7.3	6.8		6.2	5.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	198.7			216.8	158.4	166.9	163.2	161.3	155.3		149.1	144.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	204.2			223.9	162.9	171.3	167.1	164.8	158.2		151.4	147.0	
of which: external 3/	...	...	187.5			205.9	145.5	153.1	149.0	145.8	138.2		134.7	137.1	
Debt service-to-revenue and grants ratio (in percent) 4/	14.2	1.2	9.3			11.4	10.6	12.1	12.9	13.2	12.9		11.7	12.2	
Debt service-to-revenue ratio (in percent) 4/	14.5	1.4	9.5			11.7	10.9	12.5	13.2	13.4	13.1		11.9	12.4	
Primary deficit that stabilizes the debt-to-GDP ratio	7.9	-9.8	5.7			-2.8	12.5	-0.2	0.3	3.3	2.4		-1.2	-0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.4	6.0	5.7	5.7	5.4	6.4	5.5	6.8	5.0	8.0	8.4	6.7	5.8	6.0	5.9
Average nominal interest rate on forex debt (in percent)	0.0	0.0	1.0	0.1	0.3	1.1	1.1	1.4	1.5	1.5	1.5	1.3	1.4	1.3	1.4
Average real interest rate on domestic debt (in percent)	-7.2	9.8	4.1	3.8	8.8	12.9	4.7	2.5	1.1	1.0	1.2	3.9	5.1	5.2	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.1	13.9	0.3	-4.0	7.9	8.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	15.3	-5.8	0.1	8.2	8.3	-5.3	0.5	2.4	4.2	4.6	4.5	1.8	-0.5	-0.2	-0.1
Growth of real primary spending (deflated by GDP deflator, in percent)	5.3	42.8	-1.2	6.7	16.1	11.0	2.6	-0.2	6.6	3.7	5.5	4.9	5.9	6.0	6.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.7	39.5	39.0	38.8	37.6	37.8	38.6	37.6	37.8	...

Sources: Country authorities; and staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt 2014-34

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	59	45	45	44	42	40	39	38
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	59	45	45	45	44	43	48	54
A2. Primary balance is unchanged from 2014	59	46	47	48	47	47	57	72
A3. Permanently lower GDP growth 1/	59	45	46	47	46	45	55	91
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	59	48	53	54	54	53	63	78
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	59	46	48	48	45	43	43	40
B3. Combination of B1-B2 using one half standard deviation shocks	59	47	49	50	48	47	52	59
B4. One-time 30 percent real depreciation in 2015	59	69	66	64	59	55	51	46
B5. 10 percent of GDP increase in other debt-creating flows in 2015	59	51	51	50	48	45	45	42
PV of Debt-to-Revenue Ratio 2/								
Baseline	217	158	167	163	161	155	149	145
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	217	158	170	166	168	168	181	204
A2. Primary balance is unchanged from 2014	217	163	177	179	182	182	216	274
A3. Permanently lower GDP growth 1/	217	161	173	173	176	175	208	347
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	217	170	198	201	206	206	236	297
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	217	165	181	177	174	168	161	154
B3. Combination of B1-B2 using one half standard deviation shocks	217	165	185	185	186	183	196	225
B4. One-time 30 percent real depreciation in 2015	217	244	248	236	228	215	193	176
B5. 10 percent of GDP increase in other debt-creating flows in 2015	217	182	191	186	184	177	169	160
Debt Service-to-Revenue Ratio 2/								
Baseline	11	11	12	13	13	13	12	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	11	12	13	14	14	13	16
A2. Primary balance is unchanged from 2014	11	11	12	13	14	14	14	21
A3. Permanently lower GDP growth 1/	11	11	12	13	14	14	14	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	11	11	14	15	16	16	16	22
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	11	11	12	14	14	13	13	13
B3. Combination of B1-B2 using one half standard deviation shocks	11	11	13	14	15	14	14	18
B4. One-time 30 percent real depreciation in 2015	11	12	17	18	19	19	18	21
B5. 10 percent of GDP increase in other debt-creating flows in 2015	11	11	13	15	14	14	13	14

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

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IMF Executive Board Concludes 2014 Article IV Consultation with the Islamic Republic of Mauritania

On January, 28, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritania.

In recent years, Mauritania's economy has benefited from macroeconomic stability and high growth in the context of contained inflation, responsible macro policies, high iron ore prices, windfall donor assistance, and scaled-up public investment. Real GDP growth is estimated at 6.4 percent in 2014, from 5.7 percent in 2013 owing to a rebound in the fishing sector. The current account deficit has remained at 25 percent of GDP during 2013–14 owing to large capital imports associated with investments in the extractive sector and, lately, to worsening terms of trade. International reserves, which remained at 6½ months of prospective imports, excluding those related to the extractive industries in 2013, have absorbed the deterioration of the terms of trade, declining to 4.7 months in 2014. The overall balance, excluding grants, posted a deficit of 2.2 percent of non-extractive GDP in 2013, down from 3.0 percent in 2012, but deteriorated to 4.7 percent of non-extractive GDP in 2014 on lower revenues, mainly mining revenues from SNIM, the public mining company. Monetary indicators suggest a moderate increase in credit.

The Financial System Stability Assessment (FSSA) concluded that the banking sector is well capitalized and liquid, but remains fragile to shocks. High credit concentration (including credit to the public sector), foreign exchange risk exposures, and low profitability due to a constrained business model and higher competition exacerbate banking vulnerabilities. While the banking system appears well capitalized overall, some banks are not meeting the minimum capital requirement and are under-provisioned. Asset quality remains weak with nonperforming loans representing 20 percent of loans in the second quarter of 2014.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The near-term outlook remains favorable despite slower economic activity and lower iron ore prices. Real GDP growth is projected to decline to 5.5 percent in 2015 because of lower growth in mining activity and lower private investment and consumption. Terms of trade are projected to deteriorate by 4.5 percent as lower iron ore prices (by 24 percent) are partially compensated by the decline in oil prices (of 40 percent). Inflation is expected to accelerate somewhat but remain below 5 percent, favored by the decline in international food prices and lower non-extractive GDP growth. Continued appreciation in real terms could result in higher private sector demand. Medium-term prospects remain promising: Mauritania's large resource endowment provides ample opportunities for development. Structural reforms are essential to generate more growth and jobs and to address the challenges of economic diversification, inequality, and unemployment.

Risks to the outlook are tilted to the downside and dominated by global developments. Spillovers from weakening external demand for commodities could further reduce iron ore prices and mining export revenues. Larger-than-envisaged declines in main export prices would further reduce exports and FDI and cast doubts on mining expansion plans, dimming growth prospects and worsening fiscal balances. External shocks could expose vulnerabilities in the banking system, exacerbating a negative shock to growth and financial stability.

Executive Board Assessment[2]

Executive Directors commended the Mauritanian authorities for policies that have secured macroeconomic stability and supported development in recent years. Directors noted, however, that the risks from further declines in iron ore prices and weak activity in key trading partners cloud the outlook for the near term. Accordingly, they encouraged the authorities to persevere with prudent policymaking and the implementation of institutional and structural reforms to boost the economy's resilience and foster more inclusive growth.

Directors welcomed progress with fiscal consolidation and the improved revenue performance. They agreed that the 2015 budget mitigates shortfalls in mining revenue, but considered that additional measures may be needed if the budget comes under pressure. Directors also stressed the importance of strengthening public financial management to reduce the risk of debt distress. Looking ahead, they underscored the need to improve the fiscal framework over the medium term to enhance the management of resource wealth and support macrostability. They recommended implementing an appropriate fiscal rule that takes into consideration the development needs of the country and helps safeguard the budget from boom-bust cycles of natural resource revenue, while reinforcing fiscal governance.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors encouraged the authorities to take advantage of the favorable inflation environment to reinforce Mauritania's monetary framework by strengthening liquidity management. They also noted that prompt recapitalization of the central bank is essential to safeguard its credibility and independence. Directors emphasized the importance of a gradual liberalization of the foreign exchange market, noting that greater exchange rate flexibility would help absorb external shocks and support the reconstitution of reserve buffers. They welcomed the authorities' steps toward compliance with Article VIII obligations, and encouraged them to eliminate the remaining exchange restriction as soon as possible.

Directors underscored the need to further strengthen the stability of the financial system. They welcomed the authorities' intention to implement the recommendations of the recent Financial System Stability Assessment. Priorities include strengthening regulatory enforcement and supervisory independence, expanding central bank supervision to cover public banks and the insurance sector, and enhancing the bank resolution framework.

Directors encouraged the authorities to accelerate reforms to promote private sector development and economic diversification, which would boost employment and reduce poverty. In particular, they recommended working closely with development partners to address infrastructure bottlenecks, invest in human capital and education, improve governance and institutions, and deepen financial inclusion.

Mauritania: Selected Economic Indicators, 2010-16

	2010	2011	2012	2013	2014	2015	2016
			(percent; unless otherwise indicated)				
National income and prices							
GDP at constant prices	4.8	4.4	6.0	5.7	6.4	5.5	6.8
GDP excluding extractive industries at constant prices	5.3	5.7	7.3	6.4	7.1	6.6	5.5
GDP deflator	18.9	15.3	-5.8	0.1	-5.3	0.5	2.4
Consumer price index (average)	6.3	5.7	4.9	4.1	3.5	4.6	4.6
External sector							
Terms of trade	7.7	8.5	-14.7	34.2	-16.4	-4.4	-6.8
Current account balance (in percent of GDP)	-8.2	-5.1	-26.1	-24.8	-24.7	-7.7	-22.8
Gross official reserves (U.S. millions) 1/	287.8	504.5	961.9	996.4	639.1	704.0	761.7
In months of following year's imports excluding extractive industries	2.3	3.6	6.8	6.6	4.7	4.9	5.0
PPG external debt (percent of GDP) 2/	73.1	66.7	73.5	69.2	73.7	61.3	61.1
Money							
Money and quasi-money (percentage change)	12.9	19.9	10.5	13.6	13.4	13.4	10.2
Credit to the private sector (percentage change)	16.4	10.1	14.6	11.1	14.5	15.0	13.9
				(percent of GDP)			
Investment and savings							
Gross investment	39.2	42.9	57.3	50.3	44.8	30.3	43.3
Gross savings	28.2	34.9	31.2	25.5	20.1	22.6	20.5
Central government operations							
				(percent of non-extractive GDP)			
Non-extractive revenue	20.4	20.4	22.8	24.4	23.3	25.9	25.4
Expenditure and net lending	30.1	33.6	40.7	37.8	36.3	33.7	31.8
Overall balance excluding grants	-1.9	-0.8	-3.0	-2.2	-4.7	-2.1	-1.6
Public sector debt (percent of GDP) 2/	80.6	72.2	79.4	73.7	78.4	66.0	65.9
Memorandum items:							
Nominal GDP (in billions of UM)	1,196.8	1,440.2	1,437.2	1,520.8	1,533.2	1,624.5	1,777.4
Nominal GDP (in millions of U.S. dollars)	4,343.7	5,136.3	4,839.9	5,089.9	5,060.0	5,109.4	5,477.1
Price of oil (US$/barrel)	79.0	104.0	105.0	104.1	96.3	56.7	63.9
Price of iron ore (US$/Ton)	146.7	167.8	128.5	135.4	96.8	74.1	71.9

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

1/ Excluding the oil account.

2/ Debt relief from Kuwait under the HIPC-MDRI is assumed in 2015.

Statement by Ngueto Yambaye, Executive Director for Mauritania and Mohamed Sidi Bouna, Advisor
January 28, 2015

I. INTRODUCTION

Mauritania has made significant progress in recent years towards both raising economic growth and achieving macroeconomic stability. Real GDP growth averaged over 5 percent in the past decade owing to the exploitation of the country's large fishing and mineral resources, most notably iron ore but also copper and gold. Fiscal revenues rose significantly, and sound macroeconomic management along with the mining sector's rapid expansion has enabled the buildup of sizable external and fiscal buffers. While prudent policies and a favorable external environment have played a key role, my authorities also recognize and appreciate the support and candid policy advice of staff and the Fund, over the years, in this improved performance.

Mauritania also made some progress in the area of poverty reduction, including through improved targeting of social safety nets and investment in key social projects to address the country's immense infrastructure gap. They acknowledge, however, that much remains to be done in this area. In particular, as noted in the report, progress towards the MDGs has been mixed. They would like nonetheless to reiterate that the fight against poverty remains at the center of their development agenda and that they will continue to promote growth-enhancing polices that are also inclusive in nature, in order to address the population's large social needs and provide employment opportunities, especially for the youth. They are aware that reaching their ambitious objectives in this area requires continued improvement in the country's business climate and renewed efforts to accelerate the development of the private sector.

Given the importance of natural resources in Mauritania's economy, its recent performance and the economic outlook has been adversely affected by the steep decline in the international prices of the main commodities exported and the economic slowdown in key trading partners. These external developments constitute the key downside risk to the Mauritania's outlook. However, my authorities expect that the country's external buffers built in recent years and the lower international oil and food prices (Mauritania being a net importer of both) will help mitigate the impact of external shocks. Going forward, they view as their key short-term challenge, the implementation of well-designed policies to address these external risks, while preserving the hard-won macroeconomic gains, as buffers are being increasingly used. Negotiations on the EU fishing compensation are ongoing and my authorities expect an agreement that will be mutually beneficial to all parties.

Over the longer term, the focus as rightly underscored by staff will be to enhance the economy's resilience to shocks, including through the imperative diversification of the economy away from natural resources. My authorities share the overall assessment by staff along with the key identified challenges which they intend to address in close coordination with the Fund and other key partners.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Growth: While real GDP growth is projected to slowdown slightly to 5.5 percent in 2015, from 6.4 percent in 2014, the external and fiscal sectors will be the most affected by the decline in the international prices of iron ore, copper, and gold exported by Mauritania.

External sector: The substantial deterioration in the terms of trade and large FDI-related imports are having a significant adverse impact on the trade and current account balances, and on the level of foreign exchange reserves (dropping from 6.6 months of imports cover in 2013 to 4.7 months in 2014) despite the favorable effect of lower international oil and food prices.

Fiscal sector: The fiscal deficit is estimated to have widened to 3.9 percent of GDP in 2014, from 1.7 percent in 2013, despite the decline in both current and capital expenditures. This is due in part to the drop in the contribution of SNIM (the national iron ore mining company) and other mining companies to the budget.

Inflation: It remains in check and is expected to stay moderate over the medium-term (within the approximate 4-5 percent range) thanks to lower international food and fuel prices, and a prudent monetary policy stance.

Outlook: In spite of the fall in iron ore prices and slower economic activity, the short- and medium-term outlook remains broadly favorable. Real GDP over the medium-term is expected to average over 6 percent reflecting in part increased mining activity coming from new mines. The fiscal deficit is projected to narrow gradually from 1.9 percent of non-extractive GDP in 2015 to 1.3 percent by 2013. The buildup of international reserves is projected to resume in 2015 to reach 6.5 months of imports cover by 2019.

III. POLICY ADJUSTMENTS TO EXTERNAL RISKS

While the outlook remains favorable, the economy faces important risks in the near to medium-term, and my authorities will continue to work closely with staff to design and implement the necessary policies that will help preserve macroeconomic stability and continued economic growth.

Fiscal policy adjustments: My authorities are addressing the projected decline in revenues from the mining sector in the 2015 budget through an increase in the VAT rate (from 14 to 16 percent) and cuts in current expenditures, while containing the increase in the public sector wages within a level that does not increase the ratio of the wage bill as a percentage of non-extractive GDP. The wage bill is actually projected to decline to 8.3 percent of non-extractive GDP in 2015, from 8.4 percent in 2014 and 9 percent in 2013.

As a medium- to long-term fiscal policy reform, my authorities very much welcomed the discussion on a fiscal rule in a country like Mauritania with relatively abundant mineral resources. However, they would like to emphasize that on the issue of pro-cyclicality of fiscal policy, it is important to note, first, that while spending had increased during the recent mining sector boom, budget revenues from non-extractive industries as a share of GDP have also increased substantially, as my authorities continued to broaden the tax base and strengthen fiscal revenue administration. Second, and more importantly, my authorities believe that the implementation of a fiscal rule in a low-income country like Mauritania with considerable basic social infrastructure needs would inevitably delay the implementation of their development agenda and ultimately weigh on the ongoing policy efforts to accelerate the fight against poverty. Therefore, in the short-term, they believe that the focus should remain on implementing projects that are deemed viable and that take into account the country's absorptive capacity constraints. Nonetheless, they look forward to continued constructive discussions with staff on this issue, as a potential and significant long-term reform.

Monetary policy and exchange rate policy adjustments: My authorities agree with staff that with declining foreign exchange reserves, now is a right time to strengthen the monetary policy framework and reestablish the use of more direct and traditional liquidity management instruments such as interest rates and reserve requirements, and limit the use of indirect instruments like foreign exchange interventions and Treasury bills. They look forward to continue discussions with staff on the formalization of monetary policy and the liquidity management framework. My authorities also agree that in the context of declining reserves, a more flexible exchange rate would contribute to acting as shock absorber. They are of the view, however, that given Mauritania's very shallow foreign exchange market, characterized by considerably higher demand over supply, the liberalization of the foreign exchange market should remain gradual.

My authorities welcome the assessment of Mauritania's financial sector stability and thank staff for the findings and recommendations made in the FSSA report. They would like to reiterate their commitment to implementing the recommendations made in the report, as rapidly as possible, and according to the agreed timeframe.

IV. OTHER ISSUES

Deterioration of the risk of debt distress: Mauritania's public sector debt has risen to an estimated 78.4 of GDP in 2014 (from 73.7 percent in 2013). The downward revision of the country's risk of debt distress (from moderate to high) is a concern to my authorities, especially given that this revision is taking place at a time when they are facing daunting external challenges which are having an immediate and direct impact on the economy. They remain committed however to a prudent external borrowing policy and look forward to further discussions with the IMF and the World Bank on improving the institutional environment and stabilizing debt levels, including in the context of the new public debt limits policy framework.

Obligations under Article VIII: My authorities take note of the report's findings and will continue to address the remaining restrictions highlighted in the report, with a view to meeting all obligations under Article VIII. In the meantime, they request the Board's approval to temporarily maintain the remaining exchange restriction which, as indicated by staff, is necessary for balance of payments reasons and does not discriminate among

IMF members. As also indicated in the report, my authorities will eliminate the remaining restrictions within one year.

V. CONCLUSION

Mauritania has made important progress in the past few years in improving economic and financial performance, and raising economic growth. However, the economy faces important challenges in the foreseeable future resulting from increased external risks which have exposed the economy's vulnerability to terms of trade shocks and could jeopardize the recent hard-won macroeconomic stability gains. In this regard, my authorities will continue to work closely with staff to put in place the necessary policies to address the risks, preserve the gains achieved and also continue their efforts to develop the economy. In this endeavor, they will work closely with the Fund staff and their development partners.