October 2003
IMF Country Report No. 03/314

Islamic Republic of Mauritania: 2003 Article IV Consultation, and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with the Islamic Republic of Mauritania, and request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the combined 2003 Article IV consultation, and request for a three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **April 25, 2003**, with the officials of the Islamic Republic of Mauritania on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 27, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 18, 2003** updating information on recent economic developments.

- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its July 18, 2003, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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

The document(s) listed below have been or will be separately released.

Poverty Reduction Strategy Paper Progress Report
Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report
Statistical Appendix

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2003 Article IV Consultation, and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Middle Eastern Department

(In consultation with other departments)

Approved by Mohammad Shadman-Valavi and Michael Hadjimichael

June 27, 2003

Discussions took place in Paris from April 14 to 25. The staff team included Mr. Chami (head), Mr. Iradian, Ms. Beidas, Mr. Mati (all MED), Mr. Price (PDR), and Mr. Youm (Resident Representative). The Mauritanian team included the former Minister of Economic Affairs and Development, Mr. Ould Nany, the Minister of Finance, Mr. Boydiel, the former Governor of the Central Bank, Mr. Ba, and the Head of the Agency for Human Rights Fight Against Poverty and Integration (CDHLCPI), Mr. Ould Ahmed, as well as other senior government officials.

In concluding the 2002 Article IV consultation on June 7, 2002, Executive Directors commended the authorities for Mauritania's continued strong economic performance and the good progress made in implementing its poverty reduction strategy, and for their sound macroeconomic and structural policies. They urged the authorities to strengthen their efforts to improve further social indicators and ensure sustainable and equitable reduction in poverty. They also encouraged the authorities to maintain a relatively high level of reserves and adopt responsive macroeconomic policies, including through better coordination. Directors stressed the need to improve public expenditure management, implementation capacity, and banking supervision, and address the difficult financial position of the social security fund (CNSS).

The previous PRGF arrangement was approved by the Board on July 21, 1999, and the PRSP was presented to the Boards of the Fund and the Bank in January 2001. Mauritania reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative on June 7, 2002, and the sixth and last review was completed on December 4, 2002. Mauritania accepted the obligations of Article VIII, Sections 2, 3, and 4 in July 1999.

The principal author of this report is Saade Chami, with inputs by Garbis Iradian, Samya Beidas, Amine Mati, and Robert Price.

Contents

Text Boxes

Appendices

Attachments

Appendix Tables

EXECUTIVE SUMMARY

Background—Mauritania successfully completed its previous PRGF arrangement in December 2002. Growth has been relatively strong despite repeated exogenous shocks, inflation has remained subdued, the external current account deficit has narrowed, and the reserve position has reached a very comfortable level. These achievements were underpinned by appropriate macroeconomic policies and far-reaching structural reforms. However, the banking system has remained highly concentrated with inadequate financial intermediation, the functioning of the foreign exchange market has continued to be fraught with difficulties, and there has been little improvement in capacity building.

Proposed PRGF arrangement—The authorities expressed a keen desire in a successor PRGF arrangement to consolidate past gains and complete the remaining structural agenda, drawing on lessons from the past arrangement. The proposed program is based on a draft memorandum of economic and financial policies prepared by the authorities on the basis of their poverty reduction strategy. The program aims at increasing growth and reducing poverty by focusing on banking and exchange rate reform, capacity building, and governance—main weaknesses of the previous arrangement—while maintaining macroeconomic stability.

Medium-term outlook—The medium-term macroeconomic framework targets an inflation rate of less than 4 percent, a growth rate of 5–6 percent until 2005, increasing to about 9 percent in 2006 when oil production comes on stream, and a level of reserves equivalent to at least 5-6 months of imports. The increased growth, boosted by a broad range of structural reforms, is expected to come from a rebound in the traditional sectors, a continued growth in services, and potentially from oil. While the medium term outlook is subject to downside risks, these risks could be balanced by potential oil revenues if used efficiently.

Policies under the 2003–04 program—Fiscal policy will focus on reforming direct taxation and strengthening tax administration and public expenditure management, while increasing pro-poor spending. The central bank will maintain a prudent monetary policy and follow a more flexible exchange rate policy with limited interventions in the foreign exchange market. Structural policies seek to deepen financial intermediation and improve the functioning of the banking system and the foreign exchange market. Credit concentration is being addressed in the context of the contracts signed between the BCM and commercial banks, and banking supervision will be reinforced to help separate banking and commercial activities and ensure that all prudential regulations are respected including the net foreign assets position of commercial banks. Key program measures will also include (a) strengthening implementation capacity, with assistance from the recently inaugurated West Africa Technical Assistance Center (AFRITAC), (b) improving governance, including through establishing a civil service ethic code, and (c) improving the judiciary.

Staff appraisal—Staff supports the authorities' request for a new PRGF arrangement and considers that the chances of its success are strong given the authorities' ownership of the program and their commitment to reform. Staff recognizes that Mauritania is moving to a higher and more difficult tier of reforms that require intensive efforts to build institutions, improve governance, and address weaknesses in the banking sector and exchange market. At the same time, continued vigilance is needed to maintain macroeconomic stability and external debt sustainability following the completion point under the enhanced HIPC Initiative.

I. Background

1. Mauritania has had a long-standing good relationship with the Fund. Since 1989, it has completed four programs supported by the Poverty Reduction and Growth Facility (PRGF) and its predecessor the Enhanced Structural Adjustment Facility (ESAF). Mauritania prepared its Poverty Reduction Strategy Paper (PRSP) in a broad participatory process in early 2001 and reached its completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2002.

2. The previous three-year (1999–2002) PRGF arrangement expired on December 20, 2002. The Mauritanian authorities have expressed a keen interest in a successor arrangement and drafted a paper outlining their vision for a new Fund-supported program. This paper constituted the starting point of the discussions on a new Fund-supported program and was modified in light of these discussions to become the Memorandum of Economic and Financial Policies (MEFP) (attached).

3. At the same time, the staff prepared a country strategy paper (CSP) to take stock of progress made, draw lessons from the experience under the previous PRGF arrangement, and take a "fresh perspective" on the future and its challenges. This paper benefited from the views of the authorities expressed on different occasions during the last PRGF arrangement and the views of Directors at the Board discussion of the last PRGF arrangement review in December 2002.

4. In the MEFP, the authorities review recent developments, set forth their economic program for the next three years and the policies for 2003–04, and request a new three-year PRGF arrangement. In light of the lessons drawn from the recent experience, the new program focuses on maintaining macroeconomic stability and advancing structural reforms in key areas such as the foreign exchange market, public expenditure management, banking, capacity building, and governance.

5. In the context of discussions on the 2003 Article IV consultation and a new PRGF arrangement, the focus of this report is on the effectiveness of policies adopted in the last few years and the medium-term strategy. Based on discussions with the authorities and to put the policy discussions in context, the report summarizes the main lessons from the previous PRGF arrangement before reviewing briefly recent developments and reporting on policy discussions.[1]

[1] Discussions on a new PRGF arrangement started before the Board endorsed the conclusions of the Task Force on Prolonged Use of Fund Resources in April. In the operational guidance note on the implementation of the recommendations of the Task Force, Mauritania was considered as one of the transitional cases and as such staff decided to proceed with Article IV and the request for a new arrangement at the same time.

II. Taking Stock: Achievements Under the Previous PRGF Arrangement, Lessons and Challenges for the Future

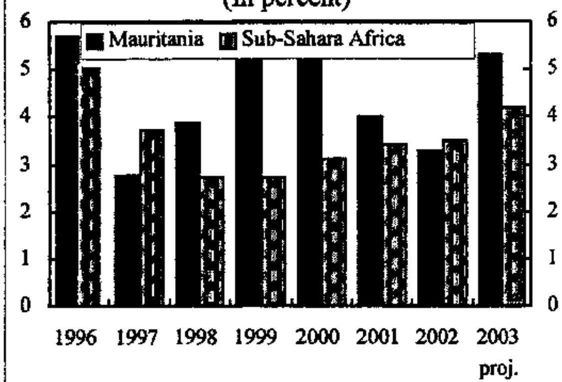
6. **Looking back over the past three years, Mauritania's performance was strong, leading to the successful conclusion of the PRGF arrangement and to the completion point under the enhanced HIPC Initiative in June 2002.** The 1999–2002 program was set in a stable political environment with strong domestic ownership and close monitoring.

A. Areas of Strong Performance

7. **Several accomplishments were realized in the macroeconomic area. During the program period,** (a) the inflation rate was on target, averaging 4.3 percent; (b) the reserve position reached about nine months of imports by end-2002, systematically exceeding reserve targets for each year of the program; (c) the growth rate averaged 4.4 percent against a 5.1 percent programmed rate (Figure 1), due essentially to repeated exogenous shocks; and (d) the spread between the official rate and the parallel rate narrowed to about 6 percent in recent months, from very high levels in earlier years due to a better functioning of the foreign exchange market.

Figure 1. Real GDP Growth

(In percent)



8. **Mauritania has implemented an impressive array of structural reforms over the last few years,** the most important of which are:

- reforming the tax system, including the unification of the VAT rates, elimination of VAT exemptions except where they protect the poor, and strengthening tax administration;
- strengthening public expenditure management, tracking HIPC financed poverty-related expenditures, and developing medium-term expenditure frameworks for important sectors;
- streamlining the procurement code and revising the investment code to enhance its transparency;
- liberalizing trade policy by reducing the number of tariff bands to four with the maximum tariff set at 20 percent; and
- completing an ambitious privatization program with notable success—by regional standards—in the telecommunication sector.

9. **Macroeconomic stability under the Fund-supported program and the above structural reforms underpinned progress in reducing poverty and improving social indicators, and the development of the PRSP was a major achievement.** The national poverty rate declined to 46 percent in 2000 from 51 percent in 1996, the gross primary school enrollment rate reached 88 percent in 2000, and the child vaccination rate attained 72 percent in 2002. Mauritania was one of the first few countries to develop a homegrown PRSP in a broad participatory process and without any help from outside.

B. Areas of Weaker Performance

10. **Staff and the authorities agreed that reforms under the PRGF arrangement and the ones preceding it had little impact on the diversification of the economy and on foreign direct investment.** The productive and export base remained concentrated on iron ore and fish, leaving the economy vulnerable to exogenous shocks. Despite the more liberal business environment, foreign direct investment, apart from the telecommunications and more recently the oil sector, remains modest. The PRSP included a number of measures to promote the development of the private sector and attract foreign investment, including the reduction and the simplification of the corporate tax regime (which is virtually finished) and the promotion of the export sectors in line with the recommendations of the integrated framework.

11. **The banking system has remained highly concentrated with inadequate financial intermediation,** and difficulties have persisted in the operations of the foreign exchange market. In particular:

- financial transactions are for the most part cash based, and access to credit is limited to a few businesses closely associated with bankers;
- the distinction between banking and commercial activities has remained blurred and the banking law has not been strictly applied;
- commercial banks have been cushioned by large government deposits at virtually no cost until very recently (a 3 percent remuneration on government deposits commenced in 2002), with little incentive to attract private deposits; and
- the foreign exchange market remains inefficient, with lingering complaints about difficulties in obtaining foreign exchange by those who are not closely associated with commercial banks.

12. **There has been little improvement in capacity building or in project implementation capacity.** The government has not been able to target large spending on poverty-reducing projects and has spent only a small portion of the HIPC debt relief.

C. Lessons Drawn

13. **Several important lessons were drawn from the experience under the previous PRGF arrangement**, including:

- **the success of the PRGF-supported program rests in large part on the authorities' commitment to reform and their ownership of the program;**

- **institutional reform and capacity building should be at the center of Mauritania's Fund-supported programs.** In this context, technical assistance is crucial but its usefulness depends on effective monitoring and on knowledge transfer;

- **structural conditionality should be more focused and inversely related to the degree of ownership of the program.** By way of example, following the streamlining of structural conditionality in the context of the fourth review (the number of conditions dropped from 36 to 7) in 2001, the authorities implemented most of the dropped measures;

- **deeper understanding of the political, social, as well as economic structures in the country should help in the sequencing and design of economic reform programs.** For example, the original program targeted a reduction in the degree of credit concentration in the banking system without due attention to the highly concentrated banking structure and the links that exist between banking and other commercial activities; [2]

- **program targets in general and growth and poverty reduction targets, in particular, should be more realistic.** For example, the social triggers for reaching the completion point under the enhanced HIPC Initiative were overly ambitious;

- **more emphasis should be placed on governance issues.** While the PRGF arrangement focused on public expenditure management, more should be done on general transparency and governance issues.

D. Future Fund Involvement

14. **Against this background, the staff considers that a new PRGF arrangement (with a small access) is needed to maintain macroeconomic stability and complete the structural reform agenda in the Fund's purview.** While a continued Fund involvement

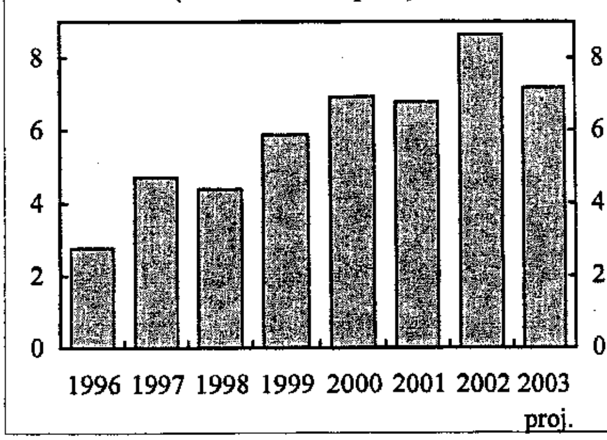
[2] This was eventually rectified by resorting to a more realistic time frame for reaching the credit concentration targets in the context of contractual arrangements between commercial banks and the *Banque Centrale de Mauritanie* (BCM) (*contrats programmes*).

could undermine the incentive of the authorities for capacity building and self-reliance, staff believes that Mauritania has not yet built a critical mass of institutional and technical capability to implement, on a sustained basis, consistent policies in the fiscal, monetary, and exchange rate areas. In addition, there remains an important structural reforms agenda in the Fund's area of expertise that would require a close involvement by the Fund, preferably in the context of a program. Another Fund arrangement will also send a strong positive signal to donors and demonstrate the Fund's continued commitment to the PRSP process in its infancy. The objectives of such a program are consistent with those in the PRSP, which is based on four main pillars: (a) accelerating economic growth as the basis for reducing poverty with an enhanced role for the private sector; (b) developing growth potential in areas where poverty is concentrated; (c) developing human resources and improving access to health and education; and (d) building institutions based on good governance.

III. Economic Developments in 2002–03

15. **Unfavorable exogenous shocks had a major drag on growth in 2002 while other indicators remain relatively sound.** A severe drought and a weak demand for Mauritania's main exports led to a lower growth rate of 3.3 percent, down from 4 percent in 2001 (Table 1). Growth seems to have come essentially from construction and the growing contribution of services, particularly trade, transport, and telecommunications. The impact of the drought on food prices and the depreciation of the ouguiya, especially against the euro, largely explain the pickup in the end-period inflation rate to 8.4 percent, while the 12-month average inflation rate remained close to its 4 percent target. Gross official reserves reached US$400 million at year-end, equivalent to 8.7 months of imports, in spite of the central bank's heavy sale of foreign exchange in the last quarter, which contributed to narrowing the spread (to about 6 percent) between the official and the parallel market rates.

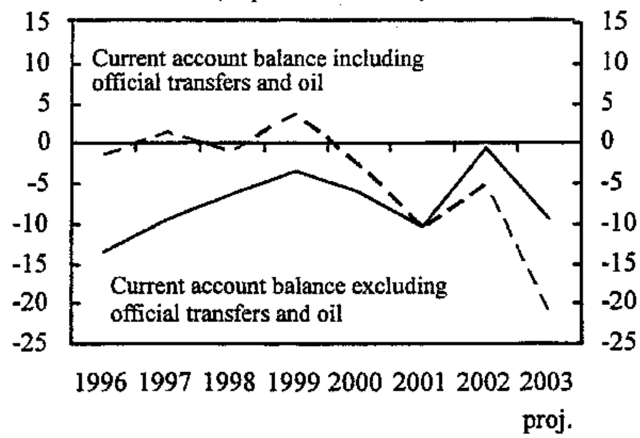
Figure 2. Gross Official Reserves
(In months of imports)



16. **The external current account deficit narrowed significantly in 2002 mainly due to the late receipt of the 2001 European Union (EU) fishing license payment.** The trade balance worsened on account of both lower exports and larger imports. For the first time, the balance of payments reflects oil sector activities, including investments and imports. Since these activities are financed by foreign direct investment, there is virtually no impact on the overall balance of payments position (Table 2). The real effective exchange rate depreciated by 7 percent in 2002, with the ouguiya depreciating by 1.2 percent against the U.S. dollar and by 20 percent against the euro in nominal terms. Between end-September 2002 and end-April 2003, the ouguiya appreciated in nominal terms by 2.7 percent against the U.S. dollar and

depreciated by 9.8 percent against the euro—given the euro's sharp appreciation vis-à-vis the U.S. dollar.

Figure 3. External Sector Developments
(In percent of GDP)

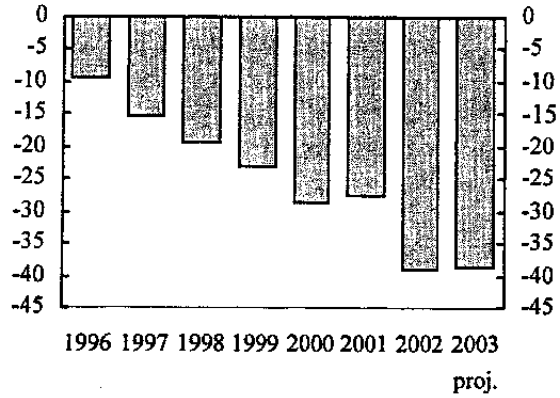


17. **The overall fiscal position in 2002 was in surplus equivalent to 6.2 percent of GDP also on account of the late fishing license payment (Table 3).** Taxes were marginally lower than budgeted on account of a shortfall in tax receipts on goods and services, while capital spending increased due to a marked improvement in the project execution rate. Social and poverty-related spending also increased to reach 10.6 percent of GDP, as compared with 8 percent of GDP in 2001. The fiscal surplus and the size of net external financing led to a substantial accumulation of government deposits in the banking system amounting to UM 37 billion or 13.5 percent of GDP, with total stock of government deposits reaching 44 percent of GDP.[3]

18. **Monetary policy remained prudent, with broad money growing at 9 percent and private sector credit at about 20 percent (Table 4).** The cautious fiscal stance contributed to keeping monetary policy relatively tight, as did the unsterilized heavy intervention of the central bank in the foreign exchange market in the last quarter of the year. The repo rate, the main interest rate of the BCM, remained constant at 11 percent, and the treasury bill rate at about 6 percent.

[3] These deposits represented 39 percent of total deposits in commercial banks at end-2002.

Figure 4. Net Credit to Government
(In percent of GDP)



19. **Preliminary data for the first quarter of 2003 are encouraging.** After picking up at end-2002, the inflation rate started to decline through March with a monthly average of 0.13 percent, thus rendering the end-year inflation target of 3.5 percent within reach. This reversal in the inflation trend reflects the decline in food prices and to some extent a relative stability in the nominal value of the ouguiya. Monetary aggregates were close to their targets except for private sector credit which appears to have remained stagnant largely due to seasonal factors. The level of international reserves declined by US$8.6 million since end-2002 reflecting the BCM sales of foreign exchange. The fiscal position came in very close to estimates with tax revenues slightly over their target.

20. **The authorities have continued to manage their external debt prudently and have made further progress in discussions with creditors on debt relief.** They have reached an agreement with most of the creditors and will continue their discussions with the others in the months ahead (MEFP, para. 8).

21. **Significant progress was made on structural reforms in 2002 with all structural measures under the previous program implemented** (Table 6). The privatization of the SOMELEC, which could not be completed on time last year due to external factors related to the situation in the global energy sector, will be re-launched in early 2004 with the assistance of the World Bank.

22. **The authorities finalized the second annual PRSP progress report and began to regionalize their poverty reduction strategy.** They plan to strengthen the poverty monitoring mechanisms and develop the tools necessary to carry out a poverty and social impact analysis. More efforts will be made to provide frequent poverty updates—the latest data belong to 2000, and a new survey to measure poverty will not be available before 2004. Recent data showed an improvement in the child vaccination rate to 81 percent in January

2003 (from 70 percent in June 2002), but the school retention rate has declined for the third consecutive year to 48 percent in 2003.

IV. Policy Discussions

23. **Assessing the effectiveness of the policy strategy over the last few years and identifying the main challenges for the future provided a good basis for the discussions on both the 2003 Article IV consultation and a new PRGF arrangement.** The authorities and staff agreed on the main conclusions drawn from past experience and stressed that constant dialogue was one of the most important factors behind the success of economic reforms in Mauritania. The focus of the new arrangement will be on banking and exchange rate reform, capacity building, and governance—main weaknesses under the previous arrangement.

A. Medium-Term Policy Framework

24. **Mauritania's medium-term strategy is based on its poverty reduction strategy, as revised in the second PRSP progress report, and aims at stimulating growth and reducing poverty.** These objectives will be at the core of the new PRGF arrangement, and require maintaining macroeconomic stability, increasing public spending on poverty and social sectors, and further improving the environment for private sector-led growth, including by addressing governance issues.

25. **The medium-term macroeconomic framework is consistent with that in the PRSP progress report, which targets single-digit inflation (less than 4 percent), and a growth rate of 5–6 percent until 2005, increasing to about 9 percent in 2006 when oil production comes on stream (Table 5).** The growth rates in 2006–07 are based on very conservative assumptions on oil production and its contribution to growth. Including oil-sector investments averaging annually about US$170 million between 2003 and 2007, the ratio of total investment to GDP is expected to reach more than 50 percent in 2005 (half of which is foreign direct investment in the oil sector) before tapering off thereafter.[4] Government investment, particularly in social sectors, is also expected to rise, by 1.4 percentage points of GDP to 12.2 percent by 2007.

26. **Growth over the medium term is expected to come from a rebound in the traditional sectors, a continued growth in services, and potentially from oil.** Mining activities should reach their peak in 2005 following the capacity expansion of the state mining company (SNIM), and agriculture and livestock are expected to recover from recent shocks. Oil production is expected to begin in 2006, contributing 3.3 percent to GDP growth (Box 1).

[4] The inclusion of the oil sector at this stage has resulted in a substantial widening of the saving-investment imbalance, which is merely a statistical issue, as the offshore exploration activities are expected to have a negligible impact on non-oil domestic activities through 2005.

Box 1. Mauritania: Sources of Growth

Mauritania's growth rate in the past few years was primarily characterized by uneven growth in traditional sectors and increased activity in services. Traditional sectors, such as agriculture, livestock, and the two main export sectors (industrial fish and iron ore), which account for one-third of Mauritania's output, have been affected by unfavorable weather conditions, such as droughts and freezing rain, and by a slowdown in the demand for, or a decline in the prices of, Mauritania's exports. During this period, economic growth came primarily from transport and communications, trade, restaurants and hotels, construction, and public works.

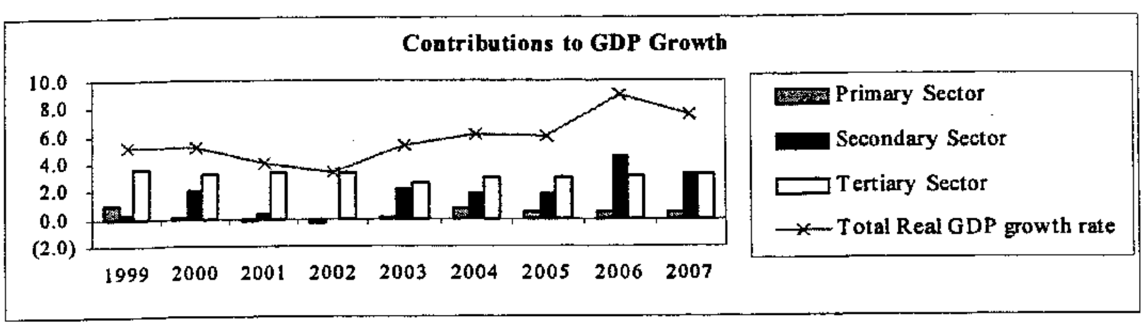
In 2002, the services industry helped sustain an overall growth rate of 3.3 percent. The telecommunications sector continued its boom first started during the privatization phase of 2001–02 with the number of cellular subscribers doubling in 2002 alone and the number of fixed lines increasing to a record number. Large investments in urban development also helped spur the services industry as well as the construction and public works sector.

The agriculture sector is expected to recover in 2003 from its dismal performance of the last three years. Over the medium term, agricultural production's contribution to growth, while still relatively small, will improve mainly due to progress in the development of irrigated agriculture, which has already shown some promise in the rice sector this year. Such progress could reduce the sector's vulnerability to drought especially if agricultural credit is extended to other varieties of crops.

Mining production will increase as a result of past and current SNIM investments in its capacity expansion, which will peak in 2003. Assuming a favorable external demand climate, iron ore production contribution to growth will be close to 1 percent in 2004 and 2005, reflecting respectively a 12 and 13 million-ton production by 2004 and 2005. Planned changes in the mining code could also encourage more exploration for other minerals and increase value added in the sector.

The services sector, representing about one-third of GDP in the medium term, will continue to be the main contributor to growth. The transport sector will continue to expand, helped by new road constructions. The telecommunications sector will stay dynamic as the phone infrastructure for the country is developed and as the fixed telephone system opens up to competition. The tourism sector will build on progress already made—recorded tourist visits increased from 270 in 1996 to 60,000 in 2001. These sectors, as well as trade, restaurants, and hotels, will be helped by new airport, port, and road construction and by larger private sector investments through improvements in the judicial system, the regulatory framework, and financial intermediation.

Oil production is expected to start at end-2005 and to contribute significantly to GDP. Using a conservative estimate of 50,000 barrels a day, production during the last six months of 2006, and high intermediate costs of 80 percent, oil would contribute 3.3 percentage points to growth in 2006 alone. Production will double in 2007, contributing 2.2 percentage points to growth in that year.



27. **Achieving the growth and poverty reduction objectives will depend in large part on maintaining macroeconomic stability, as acknowledged in the PRSP.** Fiscal policy aims at increasing expenditures on priority sectors in the context of a medium-term expenditure framework (to 12 percent of GDP by 2005) and at raising tax revenues by 0.4 percentage points of GDP to 14.8 percent by 2005. Beginning in 2006 budgetary revenue from production of crude oil is projected at about 3 percent of GDP. This increase in revenue together with the assumed modest level of grants should allow the authorities to achieve their twin objectives of increasing pro-poor spending while reducing external borrowing over the medium term to maintain external debt sustainability. Net inflows of grants and concessional loans and HIPC relief are projected to decline from an average of 7.4 percent of GDP in 2000–02 to 3.5 percent in 2003–05 and 2.0 percent in 2006–07. Monetary policy would continue to be oriented toward maintaining price stability, through broad money targeting as the nominal anchor in a context of increased exchange rate flexibility.

28. **Mauritania's external current account deficit is expected to widen significantly through 2005 on account of oil exploration-related imports (Table 2).** The current account deficit (including official transfers and oil exploration related imports) is projected to reach 27.6 percent of GDP in 2005. This will be largely offset by the substantial increase in the capital account surplus (to 24.4 percent of GDP in 2005) as a result of the sharp increase in foreign direct investment (FDI) in the oil sector, particularly during the development phase. FDI, excluding the oil sector, will also improve to about US$29 million on account of the expected investment in mining and privatization, mainly of SOMELEC (now expected to be completed in 2005). As a result, Mauritania's international reserve position is projected to remain strong in the medium term, averaging about 6.5 months of imports, and the debt service ratio after debt relief under the HIPC completion point is expected to decline gradually to 7.7 percent by 2007 as compared with 19.4 percent in 2002.

29. **The authorities' strategy relies also on an extensive structural reform agenda aimed particularly at improving the environment for private sector investment.** Key among the structural measures is the need to improve the transparency of the judicial system, with the help of the World Bank, and enforce the rule of law. The Mauritanian government has prepared a program of good governance covering the central government, parliament, judiciary, local governments, civil society, and human rights organizations.[5] Ensuring an unimpeded access to foreign exchange and enhancing financial intermediation of the banking sector are also crucial steps.

30. **While the medium-term outlook appears promising, it is subject to a number of risks.** Mauritania's economy remains vulnerable to exogenous factors, arising either from a continued slowdown in the demand for Mauritania's two main exports (iron ore and fish) or

[5] Key measures include (a) strengthening the institutional capability for oversight and accountability at the legislative level; (b) building a more effective prosecution and enforcement capability; (c) broadening the formal channels of public access to information on public sector activity and data; and (d) enhancing public sector management in such areas as civil service pay reform.

from adverse weather conditions affecting agriculture and livestock. While risks could be balanced by the prospects of oil production and exports in 2006, these prospects are still clouded with uncertainty given that the commercial viability of oil has not yet been confirmed. However, for oil to lead to higher growth rates and faster and more sustained reduction in poverty, considerable efforts are needed to put in place transparent systems and procedures to account for oil resources and avoid the "oil curse" experienced by some oil producing countries.

B. The Reform Program for 2003–04

31. **The 2003–04 financial program was guided by the medium-term macroeconomic framework.** The program for 2003 targets a growth rate of 5.4 percent, a reduction in the 12-month end of period inflation rate to 3.5 percent by year's end, and a gross reserves level of 7.2 months of imports (excluding oil exploration-related imports), down from 8.7 months in 2002 to allow the BCM to respond to demand and smooth short-term fluctuations in the exchange rate. The growth target is based on the assumption of a recovery in agriculture and mining, in addition to higher public spending, while other sectors are projected to grow on normal trends.

32. **Discussions on structural reforms focused on areas identified as major weaknesses in recent years.** These include banking and exchange rate issues as well as capacity building and governance with a view to enhance diversification.

Banking and exchange market reforms

33. **The authorities and staff discussed several measures aimed at deepening financial intermediation and improving the functioning of the banking system.**[6] Credit concentration is being addressed in the context of the contracts signed between the BCM and commercial banks (*contrats programmes*), with credit ratios expected to reach their targets by 2004. Other measures (MEFP, para. 21) include (a) further improving banking supervision; (b) discussing with commercial banks the possibility of allocating any increase in capital to new investors to dilute the degree of ownership; and (c) cleaning up some commercial banks' balance sheets by writing off non-performing loans that have no chance of being recovered.[7] In addition, the authorities intend to strictly enforce separation between banking and commercial activities, and to launch an active information campaign to attempt to lure foreign banks to operate in Mauritania in the hope of increasing competition and reducing intermediation costs. They also plan to modernize the payment system and put in

---

[6] Mauritania has one of the lowest degrees of monetization among countries at a similar stage of development. At end 2002, broad money was equivalent to about 15 percent of GDP.

[7] Regarding the restructuring of the Chinguetty Bank, a plan was turned down by the Board of Directors in April, and a new plan would be proposed by the BCM and shared with the staff by end-December 2003.

place the necessary regulations on money laundering with technical assistance from the Fund.

34. **While all other banking prudential ratios for end-2002 were observed, the staff reiterated that the ratio of banks and net foreign exchange open position should be prepared promptly and regularly (MEFP, para. 21).** This is not only an important prudential ratio but also is crucial for a better functioning of the foreign exchange market. At the end of each day, a bank with excess foreign exchange will be forced to sell this excess either to another bank—thus helping the interbank market, which is virtually nonexistent—or to the central bank, which is until now the main supplier of foreign exchange in the market. Furthermore, this would prevent commercial banks from hoarding foreign exchange for their own groups or their clients, and this could reduce the spread between the official and parallel market rates.

35. **The authorities indicated that they will begin the withdrawal of government deposits from commercial banks to the central bank in June 2003 (Box 2).** A first step will be the transfer of ownership of these deposits from the government to the BCM, which would enhance the BCM management of liquidity and its conduct of monetary policy. The withdrawal will take place according to a detailed and indicative bank-by-bank plan that is based on the financial position of banks and the size of these deposits in their balance sheets. To compensate for the expected shortfall in commercial banks' liquidity, the BCM will re-allocate some of these deposits to banks through a market-based credit auction, using treasury bills and other private sector assets (following the recent classification of commercial banks' assets) as collateral. At the same time, the rate paid by commercial banks on government deposits should increase gradually to a market rate.

36. **The foreign exchange market remains marred by structural rigidities and inefficiency, contributing to the existence of a spread between the parallel and official rates.** A set of measures, which have been under discussion for some time, will be implemented in 2003–04 (MEFP, para. 26). Among them is a strict application of the banking law by BCM that would help in eliminating commercial banks' discriminatory behavior, which at times restrict the availability of foreign exchange to their own groups and customers. The authorities argued that eliminating the surrender requirement on fish exports was premature given the links between banks and fish exporters—preventing these proceeds from being available to all market participants in a transparent manner. It was agreed that the surrender requirement will be eliminated by September 2004, by which time banking supervision will have improved further.

Monetary and exchange rate policy

37. **The authorities' monetary program for 2003 is designed to achieve the inflation and growth objectives while allowing for a decline in the level of international reserves.** Broad money is programmed to increase by 12 percent, consistent with an end-period inflation rate of 3.5 percent, a pick-up in the growth rate to 5.3 percent, and a small decline in velocity consistent with recent trends. Private sector credit is projected to grow year-on-year

Box 2. Mauritania: Government Deposits' Transfer and Credit Auction

Over the last two years, the authorities and staff have been discussing ways to move sizable government deposits from commercial banks to the central bank without squeezing private sector credit or adversely affecting the financial positions of banks. The authorities have decided to begin this transfer in mid-2003 on the basis of *ex ante indicative* transfer schedules for each bank using transparent criteria in the context of an annual financial program and a medium-term macroeconomic framework.

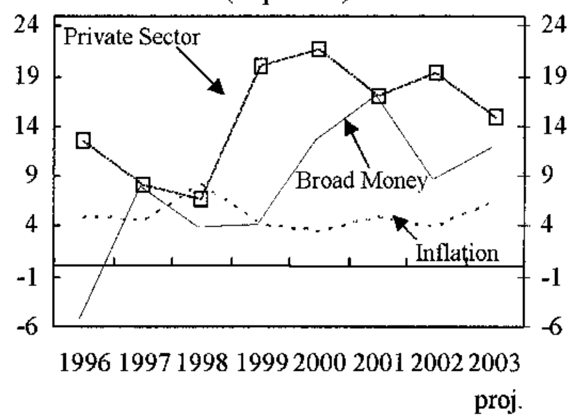
To mitigate the impact of this transfer on commercial banks' liquidity position, the central bank will reduce the required reserve ratio from 4.5 percent to 2 percent, while commercial banks would attempt to mobilize private sector deposits. However, simulations by staff show that these measures will not suffice to compensate for commercial banks' loss of liquidity, and consequently, the central bank would need to auction liquidity through a market-based credit allocation mechanism.

The operational first step toward a smooth transfer would be for the treasury to pull out the entire stock of deposits from commercial banks and deposit it immediately at the central bank. Concurrently and over night, the central bank would re-inject the same amount back to commercial banks while maintaining the same distribution of this liquidity across banks. This would end the treasury's direct role in liquidity allocation and ensure the central bank's independence in the management of liquidity. The second step consists of the actual transfer and the allocation of credit. This is simulated annually for end-2003, -2004, and -2005, in line with the macro-framework and on the basis of various assumptions that aim, among other things, at maintaining the soundness (and profitability) of each bank.

Simulations yield different projections per bank since each has different initial conditions (at end-2002). The result is that about 20 percent of government deposits would be transferred by end-2003 and 65 percent in three years. The speed of transfer varies across banks, depending on their initial conditions, but is unlikely to take beyond five years for the slowest.

For a successful credit allocation process, a credit auction design would need to be tailored to overcome Mauritania's shallow financial market. The staff suggests: (a) a high frequency auction (under a fortnight and perhaps once a week) given the large size of government deposits and the short-term nature of private sector credit; (b) a partial collateralization in view of the insufficient stock of bills, particularly at the beginning while at the same time developing new collateral instruments—such as the highest quality assets; (c) a longer maturity (8–12 weeks of auctioned credit), since most short-term credit is rolled over at the end of the maturity period; (d) access rules that would enhance sound banking, requiring, for example, the observance of reserves requirements and prudential ratios; and (e) limits on access for each bank perhaps on the basis of its balance sheet (total deposits or capital) and its observance of prudential regulations.

Figure 5. Monetary Developments
(In percent)



by 15 percent (Table 4). In case of inflationary pressures, the authorities stand ready to tighten monetary policy through open market operations or an increase in the discount rate.

38. **In discussing exchange rate policy, the authorities indicated that they were pursuing an exchange rate policy aimed at maintaining export competitiveness.** This was done through monitoring the real effective exchange rate (REER) using, among other indicators, the nominal exchange rate of the ouguiya against the U.S. dollar. As a result, over the last few years the REER has depreciated significantly, accompanied by a continued depreciation of the ouguiya with respect to the U.S. dollar and the euro.[8] Against this background, staff does not consider the exchange rate misaligned or that competitiveness is an issue.

39. **Staff argued that a more flexible exchange rate in both directions and a comfortable level of gross reserves would help reduce Mauritania's external vulnerability.** The continuous depreciation of the currency over the last decade does not seem to have had a major impact on exports or diversification, especially since Mauritania is a small producer and a price-taker in the market for fish and iron ore. Rather, it reinforced market expectations for continued depreciation and encouraged one-way bets by market participants.[9] The staff proposed more flexibility (in both directions) in exchange rate management, particularly in light of potential increases in capital flows and payments to the oil sector. Intervention by the BCM in the foreign exchange market should be limited to smoothing temporary large fluctuations subject to a reserve floor.[10]

---

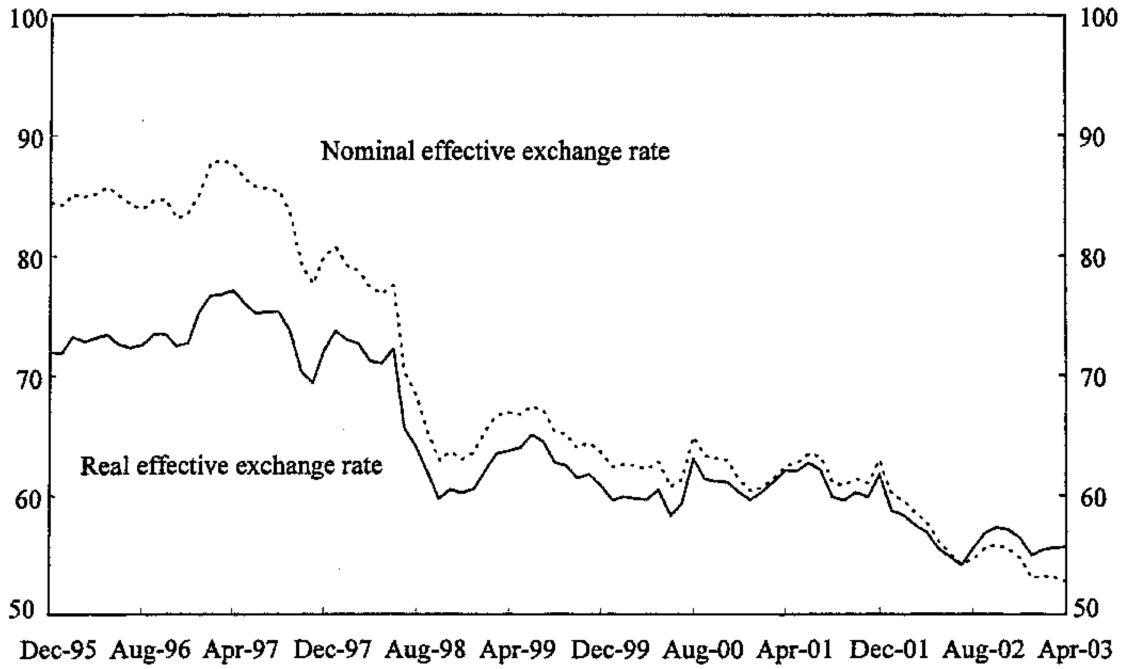
[8] The real effective exchange rate has depreciated by 35 percent since 1992, including a devaluation of close to 12 percent in 1998 after it became misaligned. Between 1999 and 2002, the real effective exchange rate with respect to the euro and the U.S. dollar depreciated by about 12 percent.

[9] This has led economic agents to hold on to their foreign exchange in the hope of getting a better return, which may have contributed to the existence of the parallel market and, at times, the widening of the gap between the official and the parallel market rates.

[10] For a description of how the central bank provides foreign exchange to the market, see IMF Country Report/03/15, page 29.

Figure 6. Mauritania: Real and Nominal Effective Exchange Rates, Dec 1995–April 2003

(1990=100)



Capacity building and governance

40. **In light of the lessons drawn from the experience of the past few years, capacity building will be one of the main pillars of the new program.** Strengthening administrative, absorption, and implementation capacity over the medium term will rely primarily on technical assistance with increased focus on knowledge transfer and training of local staff. In this context, AFRITAC, which was inaugurated in Mali on May 29, and of which Mauritania has become a member, will play a crucial role in providing such assistance on the basis of the needs recently identified by the authorities in the areas of economic policy formulation, public finance, financial sector reform, and statistics. The World Bank is also expected to provide assistance in this area in the context of an envisaged capacity-building operation.[11]

[11] While this is still at a very early stage, the Bank would focus on multisectoral and cross-cutting public sector management and capacity-building issues in core ministries and regional agencies. This assistance would go beyond the traditional help to Project Implementation Units (PIUs), which rather than contributing to capacity building, have become a major obstacle to developing a strong public service, since ministries have become somewhat dependent on these PIUs for higher-level technical expertise and logistical support.

41. **The authorities underscored the importance of public service reform, which is a key component of their medium-term strategy.** This reform aims mainly at raising wages in the public service to reward merit, while examining the size of the public sector with a view to adapting it to the current needs. The World Bank does not intend to play any direct role in this area but could provide some technical assistance, including in the context of the envisaged capacity-building operation (MEFP, para. 30).

42. **The authorities considered the staff's recommendation for instituting a financial disclosure law for high government officials impractical and suggested instead to establish a code of ethics for all civil servants by the end of 2004** (MEFP, para. 30). They felt that financial disclosure requirements would have limited practical implications in a society where family and tribal links are predominant—thus making it possible for those officials to place their assets in the name of their relatives or tribesmen. Furthermore, the resources available to the state audit agency (*la Cour des Comptes*) and to the ministry of finance inspectors will be reinforced to ensure that public sector agencies are audited systematically. The staff saw merit in these arguments, but still argued that financial disclosure would still send a very strong positive signal to investors and to the international community, noting that financial disclosure is already required from high officials at the audit agency, and therefore should be extended to all government agencies.

43. **Staff stressed that judicial reform is critical for private sector development.** This is an area where the Bank intends to provide assistance, as indicated in the latest Country Assistance Strategy (CAS). Furthermore, the staff fully supported the intention of the authorities to promulgate the implementing regulations of the law on competition, which could help lower barriers to entry and encourage foreign and diversified investment in Mauritania.

44. **The authorities judged premature the staff's call for putting in place systems and procedures to account for the use of potential oil revenue expected in 2006.** They argued against it for fear of raising false expectations, particularly since oil companies had not yet confirmed the commercial viability of oil. However, the authorities provided the staff with all information pertaining to oil-sector investments, the share of the government in, and the taxation of, oil revenue, as well as other technical details related to the production sharing contracts with the oil companies. Staff welcomed the information received and indicated that while production will not begin before end-2005, it would be useful to begin the preparatory work once the oil companies decide to move to the development phase. Staff also intends to pursue this issue at the time of the first review. The authorities assured the staff that they would provide the Fund with all relevant information on the oil sector as it becomes available.

45. **The authorities also contended that oil is not different from any other sector and hence they did not quite understand the rationale for the staff's specific focus on it.** In response, the staff explained that oil requires a different treatment because (a) it could generate considerable revenues, larger than any other sector, and if not cautiously managed, it may lead to an increase in the relative price of nontradables and hence a loss of

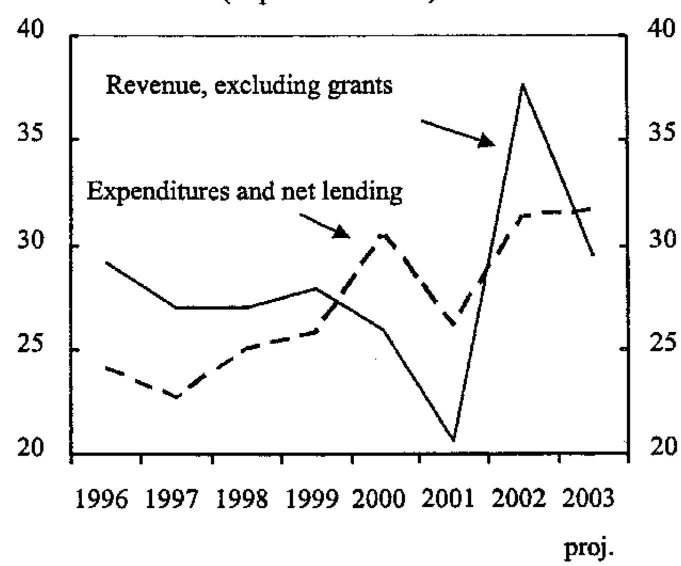
competitiveness (Dutch Disease argument); (b) it is an exhaustible resource, but experience has shown that is has not been treated so in some natural-resource based countries with a tendency to overspend and could lead to rent-seeking behavior; and (c) associated revenues are volatile and thus could have major implications on the conduct of macroeconomic policies in general and fiscal policy in particular. Furthermore, since Mauritania is still in the exploratory phase with no experience in this field, it would need to ensure that it has all the prerequisites for drawing the maximum revenue from oil to help achieve its poverty reduction objectives.

Fiscal policy and public expenditure management

46. **The authorities and staff did not see a need to modify the fiscal policy stance as articulated in the 2003 budget.** The overall fiscal deficit, excluding grants, is projected at 2.1 percent of GDP and would be more than financed by external borrowing, grants, and debt relief, leading to a significant accumulation of government deposits in the banking system, amounting to 3 percent of GDP. The staff stressed the importance of achieving the revenue target—particularly since the actual tax revenue for 2002 fell, albeit marginally, below its target—so that the medium-term target remains achievable. The authorities were confident that the revenue target for 2003 would be met, but identified a few additional measures that could be implemented in the event of a shortfall (MEFP, para. 15). The authorities intend on meeting the objectives set in the 2003 budget for capital spending and social expenditures, most of which would be spent on social sectors.

Figure 7. Consolidated Government Operations

(In percent of GDP)



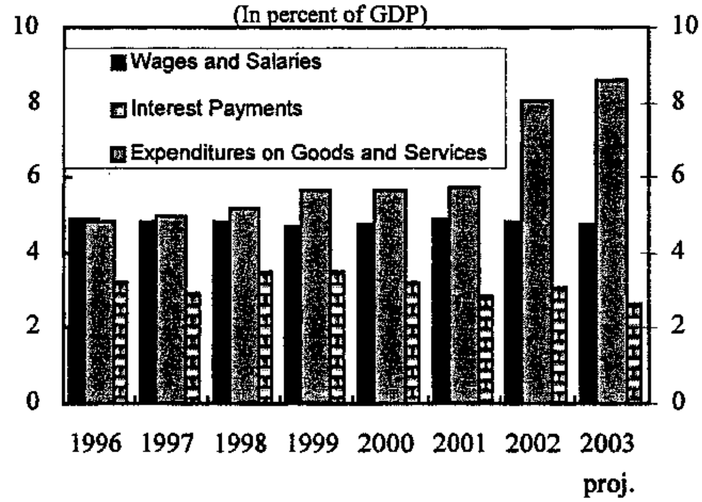
47. **The focus of fiscal policy in 2004 will be on reforming direct taxation and strengthening tax administration.** With the assistance of FAD, a comprehensive examination of the direct taxation system will be undertaken soon with a view to eliminate any distortions that may have been introduced following the recent changes in the corporate and wage and salary tax rates. Concrete tax measures would be implemented in the context of the 2004 budget. The FAD mission will also evaluate the two measures proposed by the authorities, namely a presumptive tax on occasional importers and a lump sum tax on foreign companies operating temporarily in Mauritania. A number of tax administration measures were identified by the authorities including improving the VAT audits and the cancellation of any unutilized credit within three months, and cross checking the record of tax payers with

other departments (Customs and National Social Security Fund (CNSS) for example) (MEFP, para. 17). Staff will need to discuss these and alternative measures, which will be implemented in 2004, in the context of discussions on the 2004 budget.

48. **Strengthening public expenditure management will be at the forefront of the authorities' preoccupation during the program period.** In line with the recommendations of the fiscal Report on the Observance of Standards and Codes (ROSC), several measures would be implemented in 2003–04, including the production of the monthly government financial and economic accounts (TOFE),[12] and the preparation of the global medium-term expenditure framework in time for the 2004 budget (August 2003) (MEFP, para. 18).[13] In addition, the preliminary results of the poverty and social impact analysis of expenditures on health, education, and water are expected by end-2003.

Figure 8. Central Government Current Spending

(In percent of GDP)



49. **The production of quarterly reports on expenditures financed by debt relief under the HIPC continues to be a useful tool for tracking these expenditures (Box 3).** These expenditures represented less than 50 percent of total HIPC resources received, pointing clearly to Mauritania's limited absorption capacity. The staff recommended that this tracking be extended to all poverty-related expenditures, now that the functional classification is available, and to all expenditures at a later stage. The authorities agreed with tracking all expenditures, but indicated that they would have to wait for the computerization of all expenditures before this could be done systematically.

[12] The systematic production of a computerized TOFE would not be possible before 2005 (MEFP, para. 18)

[13] At the time of the first review of the program, staff will explore a more extensive use of the functional classification of expenditures, improving the accounting system to make outturns consistent with the budget.

Box 3. Mauritania: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending[1]

		Timing (S/M)[2]	Status (FI/II/NS)[3]	Comment
Actions to strengthen budget formulation				
1	Unified 2003 budget, including investment and external financing.	S	II	Work has been initiated.
2	Preparation of a budget annex presenting consolidated data from decentralized entities.	M	NS	
3	Quantification and tracking of grants not in budget.	M	II	
4	Preparation of a strategy for improving information and putting in place a system to track spending by grant.	M	NS	
5	Inclusion of off-budget revenue in budget from the ministries into the 2003 budget.	S	FI	
6	Application of budget classification identifying and tracking HIPC expenditure, consistent with budget nomenclature.	S	FI	
7	Identification and tracking of all poverty-reducing expenditure, including HIPC, using functional classification.	S	FI	
8	Utilization of new functional classification to track all poverty-reducing expenditure.	M	FI	Implemented ahead of time.
9	Update functional classification to make consistent with 1999 UN nomenclature.	S	FI	
10	Preparation of new classification modules.	M	II	
11	MTEFs included in budget cycle for health and education.	S	FI	Overall MTEF postponed (12/2002 to 6/2003).
12	MTEFs prepared for rural and urban development, rural infrastructure; and an overall MTEF.	S	II	
13	Ensure overall MTEF used to prepare 2004 budget, establishing spending ceilings by ministry.	M	II	
Actions to strengthen budget execution				
14	Computerization of expenditures in place and implemented.	S	II	
15	Implementation of detailed central government chart of accounts for the decentralized entities with the same classification as the government's.	S	II	
16	The IGF (additional audit body) reactivated and reinforced by giving it necessary resources.	M	II	IGF has five inspectors.
17	Ensure adoption of the budget execution law for 2001 and the audit of related accounts by the external audit agency (*Cour des Comptes*).	S	FI	
18	Continue to adopt the budget execution law (for 2002) and audit the 2002 accounts in the statutory time frame.	M	NS	
19	Integrate the commissariat into the treasury accounting via an interim system.	S	FI	
20	Decentralize HIPC expenditures to line ministries and local government.	M	II	
Actions to strengthen budget reporting				
21	Prepare treasury accounting balances, identifying accounts payable on a monthly basis, and prepare a TOFE based on the monthly treasury account balances.	M	II	
22	Audited accounts are closed within two months of fiscal year-end.	M	NS	

[1] As identified by FAD in the October 2001 assessment report, and updated in the August 2002 progress report.
[2] S=Short-term action; M=Medium-term action.
[3] FI=Fully implemented, II=Implemented partially, NS=Not started.

External debt sustainability

50. **Staff emphasized the importance of maintaining Mauritania's external debt sustainability after the completion point under the enhanced HIPC Initiative.** This will require both a prudent external debt policy relying on highly concessional external debt and preferably grants, and improved debt management. On the latter, several steps will be taken (MRFP, para. 28) to improve coordination between the agencies concerned and to unify the debt databases. In this context, staff discussed with the authorities the possibility of substituting domestic financing—given the large government deposit base—for external borrowing, which though is at concessional terms still carries an exchange rate risk.

51. **Staff's projections for external debt indicate a sharp drop in the debt burden over the medium term.** Nominal debt-to-GDP declines from 183 percent in 2002 to 112 percent in 2008, and the net present value (NPV) of debt-to-exports from 150 percent to 94 percent (Tables 10 and 11, baseline projections). Stress tests were conducted using historical averages and shocks to key macroeconomic variables to the staff's baseline projections. On the whole, the debt burden remains manageable. Under a scenario based on the historical average of GDP growth and a two standard deviation shock in 2003–04, nominal debt-to-GDP declines to 120 percent over the period. However, the low export growth stress test results in large increases in both the debt-to-GDP ratio and the NPV of debt-to-exports ratios (217 percent and 173 percent respectively in 2008), highlighting the importance of exports to Mauritania's debt sustainability. [14]

Other structural reforms

52. **The authorities provided the mission with a restructuring plan for the national social security fund (CNSS) to be implemented beginning mid-2003 (MEFP, para. 36).** This plan aims essentially at (a) reducing the CNSS operating costs, including through voluntary layoffs (with a severance package of about one year's salary to be financed by the CNSS) of almost half of its labor force within a year; (b) raising the ceiling on the wage rate subject to social contribution from UM 50,000 to UM 70,000 in January 2004; and (c) raising the contribution rate from 14 percent to 17 percent (15 percent to be paid by employers) in 2005 following consultation with social partners. The envisaged increase in the contribution rates is in line with the recommendations of the actuarial study of the International Labor Organization (ILO), although its timing was brought forward. This plan also recognizes that further actions have to be taken by 2006 to ensure the CNSS's long term viability.

---

[14] Although the external current account deficit is projected to widen over the medium term, mainly on account of additional imports related to oil exploration, this deficit will be financed by non-debt creating flows (foreign direct investment). Export growth had in fact been negative over the historical period, which reflects partly the depreciation of the euro against the U.S. dollar during 1996–2001 (EU countries are Mauritania's main trading partners and the fishing license with the EU is in euros). Staff projects an average export growth of 15 percent reflecting mainly the expansion of iron ore production capacity by SNIM, and anticipated exports of oil beginning in 2006. Excluding oil, the average export growth over the projection period will be about 5 percent.

53. **On safeguards assessment,** the authorities submitted all the documents requested by the Fund and will implement the recommendations of the previous assessment before year-end (MEFP, para. 37).

54. **The authorities intend to maintain an open trade regime free of restrictions.** Following the completion of the second round of tariff reform in 2000, the tariff rates were reduced to 0, 5, 10, and 20 percent.[15] According to information provided by the authorities, the average tariff rate was estimated at about 13 percent in 2002. There was no progress in regional integration at the level of the Arab Maghreb Union, of which Mauritania is a member. The authorities do not envisage any new trading arrangements in the near future.

55. **The Mauritanian authorities are focusing their efforts on strengthening the statistical system and are closely cooperating with AFRISTAT to achieve adhesion to GDDS soon.** Recent work has resulted in the construction of a new and a more comprehensive consumer price index to be published in May 2003. Future actions to improve statistics will benefit from the expertise of AFRITAC and from Statistics Department missions on national accounts, BOP and GDDS, all scheduled in 2003. These actions will entail developing a better estimate of (a) output through statistical surveys, (b) social sector indicators through developing short-term measures on the basis of more frequent informal surveys, and (c) the poverty situation once the results of the household survey on living conditions for 2003 become available by mid-2004.

V. Program Financing, Monitoring, Risks, and Exit

56. **Staff believes (and authorities agree) that a new PRGF arrangement should help Mauritania's exit from Fund-supported programs.** Such an exit will depend essentially on (a) building the necessary capacity to carry out consistent macroeconomic policies and integrate the macroeconomic framework within the poverty reduction strategy; (b) addressing the remaining structural reforms that are in the Fund's area of expertise; and (c) convincing donors that Mauritania would be able to carry out reforms on its own. In addition, the need for external financing is expected to diminish particularly beyond 2006 if oil comes on stream.

57. **The new PRGF-supported program covers the period from April 2003 to March 2006 and will be monitored through a set of quantitative and structural performance criteria and benchmarks to be reviewed semi-annually.** For the first-year program, quantitative performance criteria are proposed for end-September 2003 and indicative targets for end-December 2003 and end-March 2004; the latter will be converted to performance criteria at the time of the first review (MEFP, Table A.2). A number of structural conditions covering the whole year, along with four prior actions, are also proposed (MEFP, Table A.1).

[15] As a result, the trade restrictiveness index has improved from 3 to 2 (on a scale of 1 to 10, with 10 being the most restrictive).

58. **Structural conditionality (Box 4) focuses on issues within the Fund's domain, while other important structural reforms will be dealt with by the World Bank.** However the World Bank's Poverty Reduction Support Credit (PRSC), which was originally targeted for end-2001, had been pushed to 2003 (according to the latest CAS), and was pushed back again to 2005. In the absence of a Bank's lending vehicle at this time, the responsibility of important structural issues, as they arise, will need to be assumed by the Fund.

59. **Under the baseline scenario, Mauritania's financing gaps under the arrangement are projected to be small and the proposed access is SDR 6.44 million, equivalent to 10 percent of Mauritania's quota, to be disbursed in seven equal tranches.** This level of access is consistent with Mauritania's financing needs, its comfortable level of international reserves, and with the level of access for prolonged users of Fund resources. While limited downside risks could be accommodated by drawing down the level of international reserves, severe exogenous shocks could be accommodated by an augmentation of access if justified. Mauritania's debt service to the Fund would average about 10.4 percent of its exports over the program period. Mauritania's reserve position is expected to remain strong, and its payment risks to the Fund are small.

60. **The authorities' strong ownership, as manifested in their good track record and their strong desire in having a new PRGF arrangement, should help ensure the success of the new arrangement.** The program has strong support at the highest levels of government and this was evidenced by the authorities' preparation of the first draft of the MEFP. Following the recent failed military coup, the authorities reaffirmed their determination to go ahead with the program and emphasized the importance of continued dialogue with the Fund. In this context, the chances of the success of the program are still strong.

61. **Nonetheless, the program is subject to some risks.** These include (a) a sharp fall in the demand for, and the prices of, Mauritania's main exports (iron ore and fish) on account of a prolonged and more severe global slowdown; (b) unfavorable weather conditions affecting agriculture and livestock and growth; and (c) failure to improve institutional capacity and governance with their potential impact on the macroeconomic situation.

62. **The staff plans to be more proactive than in the past in its outreach activities.** This would involve meeting more often with NGOs, labor and employers' unions, the poor, and elected officials, including parliamentarians, to listen to their views, engage them in a dialogue, and explain in simple language what the program is all about and what the Fund is trying to accomplish. For the same purpose, the staff could also participate in seminars, workshops, and other activities, including with academics.

Box 4. Mauritania: Structural Conditionality

Coverage of structural conditionality in the proposed program. Structural conditionality under the new PRGF-supported program (MEFP, Table 1) covers mainly public expenditure management reforms, fiscal transparency, financial sector reform, and governance—all considered essential to the success of the government's growth and poverty reduction strategy.

- Prior actions comprise (a) preparation of the first monthly TOFE (financial and economic operations table) based on treasury account balances reconciled with the BCM; (b) transmitting to the Fund the foreign exchange position of commercial banks as of end-April 2003; and (c) initiation of transfer of all government deposits from banks to the BCM. The preparation of the TOFE is long overdue and should help improve the transparency of the budget execution. The reporting of the foreign exchange position is an important prudential requirement and would also help improve the functioning of the foreign exchange market. The transfer of government deposits, also overdue, from commercial banks to the BCM would improve the conduct of monetary policy and encourage banks to seek more ambitious private deposits growth targets.

- Performance criteria comprise (a) preparation of a global and unified medium-term expenditure framework in the context of the 2004 budget; (b) inclusion of all off-budget revenue and expenditure items in the 2004 budget; (c) elimination of the surrender requirement on fishing export proceeds; (d) preparation of an action plan for the restructuring of Chinguity Bank; and (e) implementing the reform plan of the social pension fund.

- Structural benchmarks under the program also focus on improving governance and transparency in the fiscal area and in the financial sector. These include: (a) preparation of the professional code of ethics (deontology) for public sector employees; (b) putting in place transparent systems and procedures to account for potential oil revenues; (c) announcement of all credit auction rules to commercial banks; and (d) completion of the computerization and classification of expenditures.

Reforms in expenditure management would help to improve the timeliness and transparency and enhance internal and external control of public expenditure. Financial sector reform would increase confidence in the banking system and deepen financial intermediation. Improved governance and reduced corruption are not only essential to encourage more investment and growth, but they will also reduce poverty and produce a more equitable income distribution.

Status of structural conditionality from earlier programs. Virtually all structural measures included in the previous PRGF arrangement, which expired in December 2002, were implemented, except for the privatization of the electricity company (SOMELEC). The privatization of SOMELEC (targeted for 2002) could not be completed due to technical reasons beyond the authorities' control, owing mainly to the weakness in the international energy financial markets that year.

The World Bank will continue to lead the policy dialogue on sectoral reforms, including social sector, privatization of SOMELEC, civil service, institutional reform and capacity building, agriculture, and poverty monitoring and evaluation. Bank and Fund staffs will also coordinate their approach on reforms in the areas of public expenditure management, financial sector reform, external debt sustainability, and governance.

VI. Staff Appraisal

63. **Mauritania's performance under the previous PRGF arrangement was commendable, leading among many other achievements to the completion point under the enhanced HIPC Initiative in June 2002.** Despite the adverse impact of repeated exogenous shocks and unfavorable weather conditions on Mauritania's vulnerable economic base, growth remains solid, foreign reserves are at a comfortable level, inflation is under control, and the poverty situation is improving. However, Mauritania has not yet built a critical mass of institutional capacity, nor has it addressed the vulnerability of the economy to exogenous shocks and the high concentration in the banking sector.

64. **Strong commitment to reform and ownership of the program by the authorities, sound macroeconomic policies, and sustained structural reforms were key to this strong performance.** Macroeconomic stability has been maintained all along by pursuing prudent monetary and fiscal polices, even when additional resources permit some loosening, and steadfast implementation of several structural reform measures have led to a leaner and more liberal business environment. Staff fully agrees with the authorities' view that political stability and good collaboration with the staff were also instrumental to the success of the program.

65. **Mauritania's medium-term strategy builds on these achievements, draws on the lessons from the previous experience, and addresses remaining enormous challenges that will move the reform agenda to a higher and perhaps more difficult tier.** Key among those are: poverty reduction, capacity building, institutional reform, judicial reform, transparency, and governance—the focus of the new PRGF arrangement. Of course, maintaining the hard-won macroeconomic stability against the vulnerability of the economy to exogenous shocks and its limited institutional capacity is critical for the success of the poverty reduction strategy.

66. **Faster and sustainable growth and poverty reduction depend on capacity building and institutional reform.** Staff welcomes Mauritania's joining AFRITAC, which will provide timely technical assistance in important areas to support the country's reform agenda as set out in the PRSP. Staff is pleased with the recent acceleration in the execution of poverty-reducing and social projects and urges the authorities to improve it further to help reduce poverty and achieve the Millennium Development Goals (MDG) poverty objectives.

67. **Building strong institutions is critical as institutional weaknesses feed poor governance and hinder both private sector investment and growth.** Staff welcomes the authorities' intention to pursue a comprehensive public service reform and to adopt, before the end of next year, an ethics code for public servants. Strengthening the role of the state audit agency with a view to systematically auditing public sector agencies is a good step toward improving transparency and integrity of the public sector. In this context, reforming the transparency of the judicial system is of particular importance. Staff remains of the view that preparing the groundwork for the efficient use of potential oil revenues should begin as soon as possible and certainly once the commercial viability of oil is confirmed.

68. **The authorities should continue to reduce the degree of concentration in the banking sector and improve the operations of the foreign exchange market.** While recognizing that credit concentration is well entrenched in the Mauritanian society, staff emphasizes the importance of respecting the credit concentration targets set in the context of the contracts signed between BCM and the commercial banks, and of introducing a more "arm's length" relationship between banks and associated businesses, although this could be a long, drawn out process. In addition, the staff strongly recommends that the net foreign asset position of commercial banks be monitored closely to ensure the respect of this important prudential ratio and to help improve the functioning of the exchange market.

69. **Staff considers that strengthening public expenditures management is essential for enhancing efficiency and ensuring the success of the poverty reduction strategy.** The staff welcomes the authorities' commitment to implement the measures in the fiscal ROSC, and recommends that the tracking of HIPC-financed poverty-related expenditures be extended to all expenditures.

70. **Fiscal policy should concentrate on accelerating pro-poor spending and broadening the tax base within a stable macroeconomic environment supported by a prudent monetary policy and a more flexible exchange rate.** The tax revenue to GDP ratio, which has declined recently due to reductions in some income tax rates, should increase over the medium term to minimize the dependence of Mauritania on volatile non-tax revenues. The conduct of monetary policy should improve through strengthening the monetary policy committee and remain focused on controlling inflation while allowing sufficient credit to the private sector. The staff believes that more flexibility in the management of the exchange rate and a comfortable level of reserves will help reduce Mauritania's vulnerability to exogenous shocks.

71. **Vigilance is required to maintain external debt sustainability over the medium and long terms.** The authorities intend to pursue a prudent debt strategy within a well-prioritized investment plan and to refrain from nonconcessional external borrowing. Given the sizable government deposits in the banking system, staff sees also a need to monitor closely and reduce the dependence on concessional borrowing. The staff believes that maintaining sustainability of external debt requires in particular better coordination between the agencies concerned and improving debt monitoring and analysis.

72. **Staff supports Mauritania's request for a new three-year PRGF arrangement.** Mauritania's administrative and absorption capacity remains limited, the structural reforms agenda is not yet finished, and the need to safeguard macroeconomic stability over the medium term is crucial. While the program is subject to a number of risks, these could be balanced by medium-term prospects and by the authorities' commitment to reforms. In view of this and of Mauritania's strong performance record, the staff supports the request for a three-year PRGF arrangement for an amount equivalent to SDR 6.44 million.

73. In light of the authorities' request for a three-year PRGF arrangement, it is proposed that the next Article IV consultation with Mauritania be held on the 24-month consultation cycle.

Table 1. Mauritania: Selected Economic Indicators, 1999–2004

	1999	2000	2001	2002	2003	2004
				Est.	Program	
	(Period percentage change; unless otherwise noted)					
National income and prices						
GDP at constant prices	5.2	5.2	4.0	3.3	5.4	6.1
GDP deflator	3.8	5.7	5.3	3.6	4.6	3.5
Consumer price index (period average)	4.1	3.3	4.7	3.9	6.4	3.7
Consumer price index (end of period)	1.9	5.6	1.7	8.4	3.5	3.5
External sector						
Exports, f.o.b. (in U.S. dollars)	-7.4	3.5	-1.8	-2.4	3.3	7.7
Imports, f.o.b. (in U.S. dollars)	-13.2	8.3	10.7	12.3	12.9	6.0
Export volume	5.6	-0.4	-5.5	-10.1	3.8	7.0
Import volume 1/	-10.9	6.8	13.2	10.3	6.3	5.0
Terms of trade	-10.0	2.5	6.3	6.6	-7.5	-0.2
Nominal effective exchange rate	1.0	-4.6	-1.1	-8.6	...	...
Real effective exchange rate	1.1	-3.8	1.0	-7.0	...	...
Money and credit						
Money and quasi-money 2/	5.1	12.8	17.3	8.9	12.0	11.9
Net foreign assets 2/	24.1	58.1	6.1	78.4	-11.2	-5.1
Net domestic assets 2/	-18.9	-41.5	7.9	-69.4	22.1	16.9
Domestic credit 2/	-10.1	-26.0	21.9	-60.1	8.6	17.6
Credit to the government 2/	-39.5	-62.5	-8.8	-95.5	-20.9	-12.9
Credit to the economy 2/	29.4	36.5	30.8	35.1	29.7	30.5
Velocity of money	7.1	7.0	6.5	6.4	6.3	6.2
Interest rate 3/	10-11	8-9	8.0	8.0	8.0	8.0
	(In percent of GDP; unless otherwise noted)					
Investment and savings						
Investment 4/	18.6	32.1	34.5	33.0	43.1	42.6
Non-oil investment	17.1	28.6	26.6	21.9	24.6	23.4
National saving	22.1	29.4	23.9	27.9	21.6	20.5
Consolidated government operations						
Revenue, excluding grants	27.1	25.3	20.6	37.6	29.4	28.4
Expenditure and net lending	25.0	29.6	26.1	31.4	31.6	31.1
Overall balance excluding grants 5/	2.1	-4.4	-5.5	6.2	-2.1	-2.7
Primary balance excluding grants 5/	5.6	-1.2	-2.6	9.3	0.5	-0.4
External sector						
Current account balance						
Including official transfers and oil	3.5	-2.7	-10.6	-5.2	-21.5	-22.1
Excluding official transfers and oil	-3.3	-5.8	-10.4	-0.6	-9.5	-8.0
Debt outstanding (NPV) 6/	...	...	115.0	57.6	54.1	52.5
Debt service ratio (as percent of exports of GNFS)						
Before rescheduling	36.4	32.2	28.5	30.1	30.4	25.8
After rescheduling	22.4	23.0	19.6	19.4	13.7	14.1
Gross official reserves (in months of imports of GNFS)	5.9	6.9	6.8	8.7	7.2	6.4
Memorandum items:						
Ouguiya/US$ exchange rate (period average)	209.5	240.0	254.3	271.7	...	...
Current account balance (in millions of U.S. dollars)						
including official transfers and oil	34.3	-26.0	-104.5	-51.2	-237.7	-263.5
excluding official transfers and oil	-32.5	-55.8	-102.4	-6.4	-104.7	-95.6
Nominal GDP (in billions of ouguiyas)	206.5	229.4	251.3	269.1	296.4	325.6

Sources: Data provided by the Mauritanian authorities; and Fund staff estimates and projections.

1/ Does not include imports of machinery and equipment related to oil exploration.

2/ In percent of broad money at the beginning of the period.

3/ Interest rates on 12-months passbook savings.

4/ The sharp increase in 2000/2001 reflects new investment in the telecom sector, an increase in government investment, and a rebound in SNIM investment.

5/ The increase in the deficit in 2000 is due mainly to the cash advance granted by the government to the telecom company Mauritel.

6/ The NPV of Debt to GDP ratio is halved in 2002 with assumed delivery of total debt relief under HIPC by end of that year.

Table 2. Mauritania: Balance of Payments, 2000–07
(In millions of dollars)

	Actual		Est.	Projections				
	2000	2001	2002	2003	2004	2005	2006	2007
Trade balance	8.5	-33.7	-87.7	-130.7	-132.7	-145.2	77.7	179.9
Exports	344.7	338.6	330.3	341.2	367.5	392.9	589.0	725.1
Of which : iron ore	194.1	178.5	183.8	189.4	210.1	231.2	231.4	231.5
fish	149.1	156.9	143.5	146.3	147.8	149.3	150.8	153.8
crude oil	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	189.0	315.0
Imports, fob 1/	-336.2	-372.3	-418.0	-471.9	-500.2	-538.1	-511.4	-545.2
Of which : petroleum products	-99.4	-94.5	-107.6	-118.7	-114.4	-112.7	-121.1	-128.5
oil related machinery and equipment	-6.7	-15.6	-22.0	-40.9	-45.9	-65.1	-24.4	-38.5
Services (net) 2/	-133.3	-194.4	-59.0	-214.9	-233.2	-319.1	-319.4	-489.2
Nonfactor services	-152.2	-171.5	-193.5	-275.9	-294.1	-381.7	-218.3	-273.3
Of which: Oil exploration related payments	-26.8	-62.2	-87.9	-163.6	-183.4	-260.5	-97.8	-154.1
Factor services 2/	19.0	-22.8	134.4	61.0	61.0	62.6	-101.1	-215.9
Of which: fish license payment 2/	47.5	0.0	161.6	84.2	85.5	85.5	81.3	73.0
oil payments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-160.7	-267.8
interest payments due	-38.3	-33.2	-36.6	-35.2	-39.0	-37.9	-37.2	-37.0
Private unrequited transfers (net)	35.4	47.9	30.4	36.5	41.0	47.4	54.3	62.1
Official transfers 3/	63.4	75.6	65.1	71.4	61.4	62.7	65.9	65.9
Of which: multilateral HIPC assistance	n.a.	33.4	42.2	48.8	36.9	36.2	34.1	34.1
Current account (including official transfers and oil)	-26.0	-104.5	-51.2	-237.7	-263.5	-354.3	-121.6	-181.4
Capital account	17.6	40.2	106.8	163.0	200.6	312.5	102.5	180.1
Direct investment 1/ 4/	40.1	92.2	117.6	214.1	241.7	354.5	152.5	228.4
Of which: related to oil exploration	33.5	77.8	109.9	204.5	229.3	325.6	122.2	192.6
Official medium- and long-term loans	-8.0	-30.0	-31.9	-39.2	-37.1	-38.0	-49.9	-45.8
Disbursements	55.7	45.0	46.2	33.6	29.7	29.2	23.4	25.1
Principal due	-83.7	-75.0	-78.1	-84.7	-70.8	-71.2	-73.4	-73.4
Other capital and errors and omissions	5.5	-22.1	21.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-8.4	-64.3	55.6	-74.7	-62.8	-41.8	-19.1	-1.3
Financing	8.4	64.3	-55.6	74.7	62.8	41.8	19.1	1.3
Net foreign assets (excluding arrears)	-59.4	4.7	-117.7	20.0	11.2	-7.4	-22.0	-38.9
Central bank (net)	-58.8	2.6	-118.1	22.7	13.7	-4.9	-19.5	-36.4
Commercial banks (net)	-0.6	2.1	-0.4	-2.7	-2.5	-2.5	-2.5	-2.5
Exceptional financing	67.9	59.5	62.1	33.9	28.6	26.2	28.0	28.0
Accruals (+) / reductions (-) of arrears 5/	-180.0	13.3	15.1	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and cancellation 6/	226.7	28.0	29.8	33.9	28.6	26.2	28.0	28.0
Other identified resources (including program loans)	21.2	18.2	17.2	0.0	0.0	0.0	0.0	0.0
Financing gap (shortfall +)	n.a.	n.a.	n.a.	20.8	23.0	23.0	13.1	12.3
IMF	n.a.	n.a.	n.a.	1.3	2.5	3.5	2.5	0.0
World Bank	n.a.	n.a.	n.a.	5.9	15.0	15.0	6.3	6.8
African Development Bank and EU	n.a.	n.a.	n.a.	12.4	5.5	5.5	5.5	5.5

Table 2. Mauritania: Balance of Payments, 2000–07 (concluded)

(In millions of dollars)

	Actual		Est.	Projections				
	2000	2001	2002	2003	2004	2005	2006	2007
Memorandum items:								
Current account balance (percent of GDP)								
Excluding oil but including official transfers	0.8	-2.7	5.9	-3.0	-2.9	-2.2	0.0	0.7
Excluding official transfers and oil	-5.8	-10.4	-0.6	-9.5	-8.0	-7.1	-4.6	-3.6
Including official transfers and oil	-2.7	-10.6	-5.2	-21.5	-22.1	-27.6	-8.6	-11.9
Overall balance (percent of GDP)	-0.9	-6.5	5.6	-6.8	-5.3	-3.3	-1.4	-0.1
Gross official reserves (end of period)								
In millions of dollars	283	286	400	360	333	327	335	361
In months of imports of goods and NFS (excl. oil) 7/	6.9	6.8	8.7	7.2	6.4	6.0	5.5	5.4
In percent of broad money	217	196	255	206	173	154	142	137
Net inflows of grants and loans as percent of GDP 8	6.7	8.9	6.7	3.7	3.6	3.4	2.1	2.0
Debt service ratios 9/								
Before debt relief	32.2	28.5	30.1	30.4	25.8	24.0	16.9	13.8
After debt relief (excluding arrears' reduction)	23.0	19.6	19.4	13.7	14.1	13.4	9.6	7.7

Sources: Data provided by the Mauritanian authorities; and Fund staff estimates and projections.

1/ Oil company investment in the exploration phase on the Chenguiti Wells is included both in imports and FDI from 2001 to 2007.

2/ The relatively high fish license payment in 2002 reflects the late arrival of the EU fishing royalties that were expected in 2001.

3/ Includes HIPC interim assistance up to mid-2002 and asssistance agreed upon beyond the completion point from the IMF, World Bank, and AfDB.

4/ Foreign direct investment in 2001 reflects privatization of telecommunications. From 2001 to 2007 FDI includes preliminary estimates of machinery, equipment, and other oil exploration activities by foreign oil companies to discover crude oil with counterpart included in imports of goods and nonfactor services (debit).

5/ The 2001 and 2002 accumulation of arrears reflects debt service due to bilateral creditors who had not yet agreed to rescheduling.

6/ Reflects Paris Club flow rescheduling on Cologne terms from July 1999 to June 2002, rescheduling on comparable terms from Arab funds and the Saudi government. Also reflects stock rescheduling agreed by the Paris Club in July 2002, but pending bilateral agreements.

7/ Excludes oil exploration related imports of goods and nonfactor services.

8/ Defined as official transfers (including multilateral HIPC assistance) plus disbursement of loans minus principal due on external debt

9/ Includes HIPC assistance after completion point but not yet agreed upon by multilateral creditors, and loans from World Bank, EU, and AfDB. The debt service ratio is in percent of export of goods and nonfactor services (credit).

Table 3. Mauritania: Consolidated Government Financial Operations, 2000–07

	2000	2001	2002	2003			2004	2005	2006	2007
	Act.	Act.	Est.	Year Prog.	Q1 Prog.	Q1 Act.	Prog.	Prog.	Prog.	Proj.
				(In billions of ouguiya)						
Total revenue	58.0	51.8	101.1	87.2	12.7	13.7	92.6	99.5	117.6	138.8
Tax revenue	33.3	36.4	38.7	41.8	9.2	9.3	46.8	52.8	63.8	77.5
Tax on income and profits	10.6	11.3	12.1	11.4	2.3	2.1	13.1	15.3	20.8	29.6
of which: oil	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	4.3
Other direct taxes	0.5	0.6	0.6	0.8	0.2	0.2	0.9	1.0	1.2	1.4
Taxes on goods and services	16.5	18.2	19.5	22.4	5.3	5.5	25.1	27.8	31.9	35.5
Taxes on international trade	5.5	6.1	6.3	6.9	1.4	1.4	7.5	8.4	9.7	10.7
Registrations and stamps	0.3	0.2	0.2	0.2	0.1	0.0	0.2	0.3	0.3	0.3
Nontax revenue	24.6	15.4	62.5	45.4	3.5	4.4	45.8	46.7	53.9	61.3
Fishing royalties and penalties	16.4	5.3	51.8	33.0	1.5	1.4	34.1	35.0	33.3	33.9
Non-tax oil revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.6	16.0
Revenue from public enterprises 1/	4.1	3.6	4.9	4.6	0.9	2.2	5.8	5.6	5.0	5.0
Other 2/	4.0	6.5	5.8	7.8	1.2	0.8	5.9	6.1	6.0	6.4
Expenditure and net lending	68.1	65.6	84.4	93.5	21.2	20.5	101.3	109.9	121.4	135.4
Current expenditure	39.4	42.6	52.4	57.3	13.8	12.8	62.0	66.5	73.0	79.9
Wages and salaries	11.0	12.2	13.0	14.0	3.6	3.4	14.7	15.8	17.4	19.1
Goods and services	13.0	14.3	21.6	25.5	6.2	5.4	29.4	32.5	36.8	41.2
Current transfers	3.9	4.4	4.6	5.1	1.3	1.0	5.5	6.1	6.7	7.4
Military expenditure	4.2	4.4	4.9	4.8	1.2	1.2	4.8	4.8	4.8	4.8
Interest on public debt	7.4	7.2	8.3	7.9	1.6	1.7	7.6	7.4	7.2	7.4
Capital expenditure and net lending	28.7	23.1	32.0	36.2	7.4	7.7	39.2	43.4	48.4	55.5
of which: Fixed capital formation 3/	16.9	20.5	29.0	35.5	7.3	7.2	39.2	43.3	48.4	54.1
Overall balance (deficit -)	-10.1	-13.8	16.8	-6.3	-8.5	-6.8	-8.7	-10.4	-3.8	3.3
Financing	10.1	13.8	-16.6	6.3	8.5	7.0	8.7	10.4	3.8	-3.3
External (net)	2.5	1.0	3.1	-2.6	0.5	0.2	0.3	-0.6	-4.6	-3.0
Grants 4/	2.7	4.0	4.2	4.2	1.0	0.5	4.2	4.2	2.7	2.7
Net borrowing	-0.2	-3.1	-1.1	-6.7	-0.5	-0.3	-3.9	-4.8	-7.3	-5.6
Domestic (net)	-19.4	-3.4	-37.0	-8.9	4.4	3.4	-7.0	-4.5	-8.4	-17.1
Banking system	-18.2	-2.9	-36.9	-9.4	4.3	3.3	-7.6	-5.1	-9.0	-17.9
Nonbank	-1.2	-0.5	-0.1	0.5	0.1	0.1	0.6	0.6	0.7	0.7
Exceptional external financing 5/	10.8	12.6	17.3	17.8	3.6	3.4	15.4	15.5	16.8	16.8
Total HIPC assistance	11.9	17.0	22.5	23.6	5.6	4.8	19.7	19.3	20.0	20.1
				(In percent of GDP)						
Revenue and grants	26.5	22.2	39.2	30.8	4.6	4.8	29.7	29.1	30.1	32.0
Total revenue excluding grants	25.3	20.6	37.6	29.4	4.3	4.6	28.4	27.9	29.4	31.4
Tax revenue	14.5	14.5	14.4	14.1	3.1	3.1	14.4	14.8	16.0	17.5
Non tax revenue	11.0	6.1	23.2	15.3	1.2	1.5	14.1	13.1	13.5	13.8
of which: EU fish royalties	5.3	0.5	17.6	9.7	0.2	0.2	9.0	8.5	7.1	6.5
Grants	1.2	1.6	1.6	1.4	0.4	0.2	1.3	1.2	0.7	0.6
Expenditure and net lending	29.7	26.1	31.36	31.6	7.2	6.9	31.1	30.8	30.4	30.6
Current	17.2	16.9	19.5	19.3	4.7	4.3	19.1	18.6	18.3	18.1
Capital formation	7.4	8.1	10.8	12.0	2.5	2.4	12.0	12.1	12.1	12.2

Table 3. Mauritania: Consolidated Government Financial Operations, 2000–07 (concluded)

	2000	2001	2002	2003			2004	2005	2006	2007
	Act.	Act.	Est.	Year Prog.	Q1 Prog.	Q1 Act.	Prog.	Prog.	Prog.	Proj.
	(In percent of GDP)									
Overall balance (deficit = -)										
excluding grants	-4.4	-5.5	6.2	-2.1	-2.9	-2.3	-2.7	-2.9	-0.9	0.8
excluding grants and fishing royalties	-8.8	-13.3	-10.0	-10.6	-2.9	-2.3	-10.5	-10.2	-6.9	-4.7
External financing	1.1	0.4	1.2	-0.9	0.2	0.1	0.1	-0.2	-1.2	-0.7
Grants	1.2	1.6	1.6	1.4	0.3	0.2	1.3	1.2	0.7	0.6
Net borrowing	-0.1	-1.2	-0.4	-2.3	-0.2	-0.1	-1.2	-1.3	-1.8	-1.3
of which: gross borrowing	5.8	4.3	5.3	3.0	3.9	3.9	2.9	2.6	2.1	2.3
Domestic financing	-8.5	-1.3	-13.8	-3.0	1.4	1.0	-2.2	-1.3	-2.1	-3.9
Banking system	-8.0	-1.2	-13.7	-3.2	1.3	1.0	-2.3	-1.4	-2.3	-4.0
Exceptional financing	11.7	7.1	6.4	6.0	1.1	1.0	4.7	4.3	4.2	3.8
Memorandum items										
Social expenditure (current and capital)	7.3	8.0	10.6	11.4	n.a.	n.a.	11.7	12.0	12.4	12.8
Education expenditure	4.4	4.5	5.5	5.8	n.a.	n.a.	5.9	6.1	6.3	6.5
Health expenditure	1.6	1.9	2.9	3.4	n.a.	n.a.	3.5	3.6	3.7	3.8
Poverty reduction expenditure	1.3	1.7	2.2	2.2	n.a.	n.a.	2.3	2.4	2.4	2.5

Sources: Data provided by the Mauritanian authorities; and Fund staff estimates and projections.

1/ It includes HIPC relief from the IMF transferred to the budget by the Central Bank.

2/ For 2000–2002, it includes the transfer to the budget of debt service relief granted on public enterprises' debt (HIPC Initiative).

3/ It includes additional expenditures financed by the interim relief from the HIPC Initiative (2.6 billion in 2000, 4.2 billion in 2001, and 8 billion in 2002).

4/ Grants are composed of program and project grants.

5/ Exceptional financing is as per BOP lines official transfers/HIPC assistance plus exceptional financing/debt rescheduling and cancellations.

Table 4. Mauritania: Monetary Accounts, 2000–04

	2000	2001	2002	2003	2003	2003	2003	2004
	December			Mar.	Jun.	Sep.	Dec.	Mar.
	Actual			Actual	Program			Prog.
	(In millions of ouguiyas, unless otherwise indicated)							
Monetary authorities								
Net foreign assets	21,787	24,250	54,398	53,076	43,102	55,423	49,435	46,590
Assets	71,429	76,028	107,383	103,639	92,702	103,718	96,732	92,083
Liabilities	-49,642	-51,778	-52,985	-50,563	-49,599	-48,296	-47,297	-45,493
Net domestic assets	-12,565	-14,527	-44,360	-42,889	-32,507	-44,821	-38,591	-35,644
Net credit to the government	-51,604	-51,501	-80,062	-78,121	-73,321	-120,566	-112,666	-111,366
Claims	16,912	16,912	16,912	16,912	16,912	16,912	16,912	16,912
Deposits	-68,516	-68,413	-96,974	-95,033	-90,233	-137,478	-129,578	-128,278
Net Credit to banks	0	0	0	0	0	24,310	26,949	22,098
Claims on private sector	1,294	978	949	907	907	907	907	907
Other items net	37,745	35,996	34,753	34,325	39,907	50,528	46,219	52,717
Reserve money	9,222	9,723	10,038	10,187	10,595	10,602	10,845	10,947
Commercial banks								
Net foreign assets	2,286	1,828	1,969	1,403	1,881	2,418	2,687	2,821
Assets	5,450	5,022	5,224	5,072	5,293	5,643	5,911	6,046
Liabilities	-3,164	-3,194	-3,255	-3,669	-3,412	-3,224	-3,224	-3,224
Net domestic assets	24,263	30,134	33,851	35,271	36,620	36,513	37,742	38,601
Domestic Credit	47,170	54,831	60,970	62,383	64,017	67,264	70,486	76,527
Net credit to the Government	-14,203	-17,213	-25,448	-24,191	-25,153	-1,883	-1,758	-1,633
Claims	-3,122	-3,083	-2,403	-2,133	-2,008	-1,883	-1,758	-1,633
Deposits	-11,081	-14,130	-23,045	-22,058	-23,145	0	0	0
Credit to the economy	58,486	68,939	82,534	82,599	85,104	89,405	95,094	96,054
Claims on BCM (net)	2,887	3,105	3,884	3,975	4,066	-20,258	-22,850	-17,895
Other items net	-22,900	-24,690	-27,119	-27,112	-27,397	-30,751	-32,744	-37,926
Deposit liabilities to nonbank residents	26,549	31,962	35,820	36,674	38,501	38,931	40,429	41,422
Monetary survey								
Net foreign assets	24,073	26,078	56,367	54,479	44,983	57,841	52,122	49,412
of which: BCM	21,787	24,250	54,398	53,076	43,102	55,423	49,435	46,590
Net domestic assets	8,878	12,572	-14,265	-11,593	47	-12,360	-4,947	-1,246
Domestic credit	-6,027	1,203	-22,027	-18,806	-12,463	-32,137	-18,423	-16,038
Net credit to the government	-65,807	-68,714	-105,510	-102,312	-98,474	-122,449	-114,424	-112,999
Claims	13,790	13,829	14,509	14,779	14,904	15,029	15,154	15,279
Deposits	-79,597	-82,543	-120,019	-117,091	-113,378	-137,478	-129,578	-128,278
Credit to the economy	59,780	69,917	83,483	83,506	86,011	90,312	96,001	96,961
Other items net	14,905	11,369	7,762	7,213	12,510	19,777	13,475	14,792
Broad money	32,951	38,650	42,102	42,886	45,030	45,481	47,175	48,166
of which: time and savings deposits	8,800	10,929	13,192	13,311	14,545	14,781	15,473	16,087
Memorandum items:								
Velocity of broad money (GDP/M2)	7.0	6.5	6.4	5.4	6.4	6.3	6.3	6.3
Money multiplier (M2/Reserve money)	3.6	4.0	4.2	4.2	4.3	4.3	4.4	4.4
Broad money (annual percenty change)	12.8	17.3	8.9	6.1	9.0	15.7	12.0	12.3
Credit to private sector (annual percent change)	21.7	17.0	19.4	17.5	12.7	15.5	15.0	16.1
Foreign assets of the BCM (in millions of dollars)	283.1	287.9	399.6	385.7	345.0	386.0	360.0	342.7
Foreign assets of banks (in millions of dollars)	21.6	19.0	19.4	18.9	19.7	21.0	22.0	22.5

Sources: Mauritanian authorities; and Fund staff projections.

Table 5. Mauritania: Macroeconomic Framework, 2001–07

(In percent of GDP; unless otherwise indicated)

	2001 4/	2002	2003	2004	2005	2006	2007
		Est. 4/	Projected				
Economic growth and prices							
Real GDP (percentage change)	4.0	3.3	5.4	6.1	6.0	9.0	7.6
Real per capita GDP (percentage change)	1.6	0.9	3.0	3.7	3.6	6.6	5.2
Non-oil Real GDP (percentage change)	4.0	3.3	5.4	6.1	6.0	5.7	5.6
Nominal GDP (percentage change)	9.5	7.1	10.2	9.8	9.6	12.0	10.7
GDP Implicit deflator (percentage change)	5.3	3.6	4.6	3.5	3.4	2.8	2.9
Consumer price index , eop (percentage change)	1.7	8.4	3.5	3.5	3.5	3.5	3.5
Investment and savings							
Gross fixed investment	34.5	33.0	43.1	42.6	49.8	31.2	35.3
Oil	7.9	11.1	18.5	19.2	25.4	8.7	12.6
Non-oil Gross fixed investment	26.6	21.9	24.6	23.4	24.5	22.5	22.7
Government	8.1	10.8	12.0	12.0	12.1	12.1	12.2
Nongovernment	18.5	11.2	12.7	11.3	12.3	10.4	10.5
Public enterprise excluding SNIM	2.6	1.4	1.2	1.2	1.1	1.0	1.0
SNIM	5.1	4.1	5.2	3.7	3.1	2.3	2.1
Private 1/	10.9	5.6	6.3	6.4	8.1	7.0	7.4
Gross national savings	23.9	27.9	21.6	20.5	22.2	22.5	23.5
Government	2.5	16.0	7.8	7.0	7.4	8.8	10.7
Nongovernment	21.4	11.9	13.8	13.5	14.9	13.7	12.8
Current account (including official transfers and oil)	-10.6	-5.2	-21.5	-22.1	-27.6	-8.6	-11.9
Net exports of goods and non factor services	-20.9	-28.4	-36.8	-35.8	-41.1	-10.0	-6.1
Exports of goods and non factor services	38.6	38.5	35.6	35.7	35.4	46.5	52.1
Imports of goods and non factor services 2/	59.5	66.9	72.4	71.4	76.5	56.5	58.2
Net factor income 3/	-2.3	13.6	5.5	5.1	4.9	-7.2	-14.1
Net transfers	12.6	9.7	9.8	8.6	8.6	8.5	8.4
Memorandum items:							
Nominal GDP (in billions of ouguiyas)	251.3	269.1	296.4	325.6	356.9	399.7	442.7
Non-oil gross investment (as percent of non oil GDP)	26.6	21.9	24.6	23.4	24.5	23.6	24.3
Government revenue, excluding grants	20.6	37.6	29.4	28.4	27.9	29.4	31.3
Of which: tax revenue	14.4	14.4	14.1	14.4	14.8	16.0	17.5
Government expenditures	26.1	31.4	31.6	31.1	30.8	30.4	30.6
Overall government balance	-5.5	6.2	-2.1	-2.7	-2.9	-0.9	0.8

Sources: Mauritanian authorities; and staff estimates and projections.

1/ The high private investment in 2001 and 2005 reflects the privatization of telecommunications and the expected privatization of SOMELEC, respectively.

2/ The increase in the import GDP ratio from 2001–2005 represents the development phase of oil exploration, which peaks in 2005 and declines thereafter.

3/ Includes EU fish license payments and oil-related payments.

4/ The delayed payment of the 2001 fish royalties explains the uneven movements in gross national saving, government balance and saving, the current account, and net factor income.

Table 6. Mauritania's Structural Measures in 2002

STRUCTURAL MEASURES	Scheduled Timing	Status
A. Monetary Instruments/Central Bank Operations		
1. Impose an interest rate of 3 percent on government deposits held at commercial banks	Jan-02	Implemented
2. Issue a circular on the 3 percent remuneration on public deposits with commercial banks	Feb-02	Implemented
3. Complete report on transferring public deposits with commercial banks to the central bank	Jun-02	Implemented
4. Appoint auditors for the 2001 financial year through a formal and transparent selection process 1/	Jun-02	Implemented
5. Publish audited financial statements and audit opinion for 2001 with the objective of increasing the transparency of central bank operations 1/	Sep-02	Implemented in Nov. 2002
6. Submit first quarterly report of the monetary policy committee	Jul-02	Implemented 2/
B. Fiscal Reforms		
1. Sign the implementing regulation for government procurement code adopted in 2001	Jul-02	Implemented 2/
2. Draw a medium term expenditure framework for remaining priority sectors (road infrastructure, rural and urban development)	Mar-02	Implemented in June 2002 1/
3. Raise the ceiling on taxable wages for social security contributions to CNSS after consultation with social partners	Mar-02	Implemented
4. Identify and classify budgetary expenditures associated with poverty reduction in accordance with the new (functional) nomenclature 1/	Sep-02	Implemented
C. Privatization		
1. Complete Privatization of SOMELEC 1/	Apr-02	Not Implemented
D. Pricing Policy		
1. Adopt the law organizing the distribution of petroleum products and guaranteeing unrestricted entry into the sector	Mar-02	Implemented

Sources: IMF Staff; and Mauritanian authorities.

1/ Structural Performance Criterion.

2/ Prior action.

Table 7. Review and Phasing of Disbursements under the PRGF July 2003–July 2006

Availability Dates	Conditions to be Observed	Disbursements Millions of SDRs
July, 2003	Board Approval of PRGF Arrangement	0.92
February 1, 2004	First PRGF Review End-September 2003 Performance criteria	0.92
July 1, 2004	Second PRGF Review End-March 2004 Performance criteria	0.92
January 1, 2005	Third PRGF Review End-September 2004 Performance criteria	0.92
July 1, 2005	Fourth PRGF Review End-March 2005 Performance criteria	0.92
January 1, 2006	Fifth PRGF Review End-September 2005 Performance criteria	0.92
July 1, 2006	Sixth PRGF Review End-March 2006 Performance criteria	0.92

Table 8. Mauritania: External Financing Requirements, 2000–07
(In millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007
				Projection				
				(In millions of U.S. dollars)				
External Financing Requirments	-375.0	-190.0	-174.0	-159.7	-142.7	-141.1	-130.4	-131.3
Current account deficit								
excluding official transfers 1/	-89.3	-180.1	-116.3	-309.1	-324.9	-417.0	-187.4	-247.3
Priniciple due	-83.7	-75.0	-78.1	-84.7	-70.8	-71.2	-73.4	-73.4
Fund repurchases	11.5	13.7	16.7	7.9	10.1	9.5	8.0	12.1
Private capital 2/	45.6	70.2	138.7	214.1	241.7	354.5	152.5	228.4
Change in arrears	-180.0	13.3	15.1	0.0	0.0	0.0	0.0	0.0
Change in net international reserves								
(without IMF)	-79.1	-32.1	-150.1	12.1	1.2	-16.9	-30.1	-51.1
Available financing	311.6	114.4	108.9	67.5	58.3	55.4	51.4	53.1
Project financing	55.7	45.0	46.2	33.6	29.7	29.2	23.4	25.1
Program financing	21.2	18.2	17.2	0.0	0.0	0.0	0.0	0.0
IMF	8.0	23.2	15.7	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and cancellation	226.7	28.0	29.8	33.9	28.6	26.2	28.0	28.0
Official transfers (grants)	63.4	75.6	65.1	71.4	61.4	62.7	65.9	65.9
Financing gap	0.0	0.0	0.0	20.8	23.0	23.0	13.1	12.3
Disbursements under a new PRGF								
supported program	....	....	....	20.8	23.0	23.0	13.1	12.3
IMF	....	....	....	1.3	2.5	2.5	2.5	0.0
World Bank	....	....	....	7.1	15.0	15.0	5.1	6.8
African Development Bank	....	....	....	6.9	0.0	0.0	0.0	0.0
European Union	....	....	....	5.5	5.5	5.5	5.5	5.5
				(In percent of GDP)				
Memorandum items:								
Grants, loans, and program financing	15.5	16.4	14.6	11.4	9.6	9.0	7.3	6.7
Official transfers (grants)	6.6	7.7	6.6	6.5	5.1	4.9	4.7	4.3
Project loans	5.8	4.6	4.7	3.0	2.5	2.3	1.7	1.6
Program financing including IMF	3.1	4.2	3.3	1.9	1.9	1.8	0.9	0.8
Net inflows of grants and loans 3/	6.8	8.8	6.7	3.7	3.6	3.4	2.1	2.0
Gross reserves in months of imports	6.9	6.8	8.7	7.2	6.4	6.0	5.5	5.4

Sources: Mauritanian authorities; and staff projections.

1/ Includes imports of machinery and equipments related to the exploration activity in the oil sector and leasing cost of the platforms.

2/ Includes foreign direct investment in oil exploration and production of crude oil.

3/ Defined as official transfers (including multilateral assistance) plus disbursement of project and program loans (including IMF) minus principle due on external debt.

Table 9. Mauritania: Indicators of Fund Credit, 2000–12 1/

	2000	2001	Est. 2002	Projections 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Outstanding Credit													
In millions of SDR	75.4	83.2	82.9	71.1	61.8	54.0	46.3	36.8	28.3	19.3	11.8	5.8	2.7
In millions of U.S. dollars	99.4	106.0	107.3	98.0	85.1	74.4	63.8	50.7	40.2	27.4	16.8	8.2	3.8
In percent of:													
Quota	117.0	129.2	128.6	110.3	95.9	83.8	71.8	57.1	43.9	30.0	18.3	9.0	4.2
Gross official reserves	35.1	37.0	26.8	27.2	25.6	22.7	19.0	14.0	10.4	6.7	3.8	1.8	0.8
Exports 2/	26.2	27.9	28.1	24.9	20.0	16.4	9.7	6.4	4.8	3.1	1.8	0.9	0.4
External debt	5.0	5.3	5.9	5.9	5.0	4.3	3.6	2.9	2.2	1.5	0.9	0.4	0.2
Debt service to the Fund													
In millions of SDRs	9	11.1	13.1	12.3	11.6	10.2	9	9.9	8.8	9.3	7.8	6.2	3.3
In millions of U.S. dollars	11.9	14.1	17.0	16.9	16.0	14.0	12.4	13.6	12.5	13.2	11.1	8.8	4.7
In percent of:													
Exports	3.1	3.7	4.4	4.3	3.7	3.1	1.9	1.7	1.5	1.5	1.2	0.9	0.5
Gross official reserves	4.2	4.9	4.2	4.7	4.8	4.3	3.7	3.8	3.2	3.2	2.5	1.9	1.0

Sources: IMF Finance Department, and Fund staff estimates.

1/ Under the assumptions of the new program, assuming disbursements under the PRGF for 2003–2006.

2/ Exports of goods and nonfactor services.

Table 10. Mauritania: External Debt Sustainability Framework, 1996–2008

(In percent of GDP; unless otherwise indicated)

	Actual							Projections					
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Baseline Medium-Term Projections													
Nominal external debt to exports of G&S	476.3	569.3	601.7	575.2	524.3	526.0	474.3	424.4	398.4	379.1	266.6	222.6	213.1
External debt	216.1	223.4	239.9	211.9	207.8	204.3	182.8	151.2	142.1	134.3	124.1	116.0	111.7
Change in external debt	-4.0	7.2	16.5	-27.9	-4.1	-3.5	-21.6	-31.6	-9.0	-7.8	-10.2	-8.0	-4.3
Identified net debt-creating flows (5+10+11)	-7.7	2.6	22.5	1.4	4.9	-4.4	-8.2	-17.0	-9.3	-9.9	-14.2	-12.8	-9.6
Current account deficit, excluding interest payments	-2.3	-3.1	-1.5	-4.4	-1.3	7.3	1.5	18.3	18.8	24.7	6.0	9.4	8.2
Deficit in balance of goods and services	12.3	9.6	13.9	12.8	15.0	20.7	28.4	36.8	35.8	41.1	10.0	6.1	4.6
Net current transfers (negative = inflow)	-15.6	-15.9	-16.8	-18.4	-10.3	-12.5	-9.6	-9.8	-8.6	-8.6	-8.5	-8.4	-7.9
of which: official	-12.1	-11.0	-11.2	-14.1	-6.6	-7.7	-6.6	-6.5	-5.1	-4.9	-4.7	-4.3	-4.1
Other noninterest current account flows	1.0	3.1	1.4	1.2	-5.9	-0.9	-17.3	-8.7	-8.4	-7.9	4.5	11.7	11.5
Net FDI (negative = inflow)	0.0	0.3	0.0	0.0	-4.4	-9.4	-11.9	-19.3	-20.3	-27.7	-10.8	-14.9	-14.1
Endogenous debt dynamics 1/	-5.5	5.4	24.0	5.7	10.5	-2.3	2.2	-16.0	-7.8	-6.9	-9.4	-7.4	-3.7
Contribution from nominal interest rate	3.9	1.6	2.6	2.1	4.0	3.4	3.7	3.2	3.3	3.0	2.6	2.4	2.3
Contribution from real GDP growth	-12.0	-6.1	-9.5	-12.6	-11.3	-8.1	-6.8	-8.8	-8.6	-7.9	-11.0	-8.7	-5.4
Contribution from price and exchange rate changes	2.6	9.9	31.0	16.2	17.8	2.4	5.3	-10.4	-2.5	-1.9	-1.0	-1.1	-0.6
Residual (3-4) 2/	3.7	4.6	-6.0	-29.3	-9.0	0.9	-13.3	-14.6	0.3	2.1	4.0	4.8	5.3
NPV of external PPG debt-to-exports ratio (in percent) 3/	...	...	...	...	...	220.5	149.7	155.0	156.5	153.2	131.4	109.0	93.6
NPV of external PPG debt-to-GDP ratio (in percent)	...	...	...	...	...	115.0	57.6	54.1	52.5	50.7	47.8	45.3	44.5
Debt service-to-exports ratio	22.5	22.6	23.3	21.7	23.9	21.0	22.2	21.8	19.1	18.2	12.6	10.3	9.7
Key macro and external assumptions													
Nominal GDP (billions of U.S. dollars)	1.12	1.10	1.00	0.99	0.96	0.98	0.99	1.11	1.19	1.28	1.41	1.53	1.61
Real GDP growth (in percent)	5.7	2.8	3.9	5.2	5.2	4.0	3.3	5.4	6.1	6.0	9.0	7.6	4.9
GDP deflator in U.S. dollar terms (change in percent)	-1.2	-4.4	-12.2	-6.3	-7.8	-1.1	-2.5	6.0	1.7	1.4	0.8	0.9	0.5
Effective interest rate (percent) 4/	1.9	0.7	1.1	0.9	1.8	1.7	1.8	1.9	2.3	2.2	2.2	2.1	2.1
Growth of exports of G&S (U.S. dollar terms, in percent)	-3.6	-15.0	-7.3	-9.0	4.4	0.8	-0.1	3.2	8.1	6.7	44.2	21.6	6.0
Growth of imports of G&S (U.S. dollar terms, in percent)	1.2	-16.7	0.4	-9.1	6.7	12.1	13.3	20.8	6.5	15.1	-18.8	11.8	3.1

Table 10. Mauritania: External Debt Sustainability Framework, 1996–2008
(In percent of GDP; unless otherwise indicated)

	Actual							Projections					
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sensitivity Analysis for External Debt-to-GDP Ratio													
Key variables at their historical averages in 2003–2008 5/							182.8	171.3	180.6	179.3	176.6	177.4	183.0
Real GDP growth at historical average minus two standard deviations in 2003 and 2004							182.8	155.9	152.4	143.9	133.0	124.4	119.7
Export value growth at historical average minus one standard deviations in 2003–04 6/							182.8	156.0	157.0	158.5	159.7	164.1	172.8
US$ GDP deflator at historical average minus two standard deviations in 2003							182.8	184.4	173.4	163.9	151.4	141.6	136.3
Net official transfers at historical average minus two standard deviations							182.8	153.6	145.5	137.5	127.0	118.7	114.3
Combination of 2-5 using one standard deviation shocks (one-half for export growth)							182.8	185.7	189.9	189.5	188.3	190.8	198.4

IV. Averages and Standard Deviations	Historical Avg. 7/	Historical St.dev. 7/	Projected Avg.
Current account deficit, excluding interest payments	-0.5	3.9	14.2
Net official transfers	9.9	2.9	4.9
Net non-debt creating capital inflows	3.6	5.1	17.9
Effective interest rate (in percent) 4/	1.4	0.5	2.1
Real GDP growth rate (in percent)	4.3	1.1	6.5
Export growth (US dollar terms, in percent)	-4.3	6.6	15.0
GDP deflator in US dollar terms (change in percent)	-5.1	4.0	1.9

Source: Staff projections and simulations.

1/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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.

2/ Includes change in arrears, exceptional financing, change in gross foreign assets, and valuation adjustments.

3/ The ratio is defined in consistency with the HIPC framework (i.e., NPV of public and publicly guaranteed external debt in the numerator and backward-looking three-year averages of exports in the denominator.

4/ Derived as interest payments as a percent of previous period debt stock.

5/ These variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), export value growth, and official transfers in percent of GDP.

6/ Consistent with the notion of isolated shocks, the export shock is not assumed to affect other variables, such as growth, inflation, or imports.

7/ Historical averages and standard deviations are derived over the seven-year period of 1996–2002.

Table 11. Mauritania: Sensitivity Analysis for NPV of Debt-to-Exports Ratio and Debt Service Ratio, 2002–08

	2002	Projections 2003	2004	2005	2006	2007	2008
NPV of debt-to-exports ratio 1/							
Baseline	149.7	155.0	156.5	153.2	131.4	109.0	93.6
Stress tests							
Key variables at their historical averages in 2003–2008 2/	149.7	159.8	178.4	197.7	189.9	170.8	158.3
Real GDP growth at historical average minus two standard deviations in 2003 and 2004	149.7	155.0	156.5	153.2	131.4	109.0	93.6
Export value growth at historical average minus one standard deviations in 2003–04 3/	149.7	169.1	206.9	245.9	248.2	228.9	216.8
US$ GDP deflator at historical average minus two standard deviations in 2003	149.7	155.0	156.5	153.2	131.4	109.0	93.6
Net official transfers at historical average minus two standard deviations	149.7	158.1	161.1	157.7	135.3	112.2	96.4
Combination of 2–5 using one standard deviation shocks (one-half for export growth)	149.7	167.2	197.2	225.3	221.1	200.8	187.7
NPV of debt-to-GDP ratio							
Baseline	57.6	54.1	52.5	50.7	47.8	45.3	44.5
Stress tests							
Key variables at their historical averages in 2003–2008 2/	57.6	61.3	67.2	68.8	69.7	71.7	76.0
Real GDP growth at historical average minus two standard deviations in 2003 and 2004	57.6	55.8	56.3	54.4	51.2	48.6	47.7
Export value growth at historical average minus one standard deviations in 2003–04 3/	57.6	56.2	59.2	61.7	64.2	67.7	73.3
US$ GDP deflator at historical average minus two standard deviations in 2003	57.6	66.0	64.1	61.9	58.3	55.3	54.3
Net official transfers at historical average minus two standard deviations	57.6	55.1	54.1	52.2	49.2	46.7	45.8
Combination of 2-6 using one standard deviation shocks (one-half for export growth)	57.6	66.9	71.4	73.6	75.3	78.2	83.5
Debt service ratio							
Baseline debt service ratio	22.2	21.8	19.1	18.2	12.6	10.3	9.7
Stress tests							
Key variables at their historical averages in 2003–2008 2/	22.2	23.5	23.2	22.3	15.5	12.9	12.3
Real GDP growth at historical average minus two standard deviations in 2003 and 2004	22.2	21.8	19.1	18.2	12.6	10.3	9.7
Export value growth at historical average minus one standard deviations in 2003–04 3/	22.2	25.3	26.9	26.1	18.2	15.2	14.5
US$ GDP deflator at historical average minus two standard deviations in 2003	22.2	21.8	19.1	18.2	12.6	10.3	9.7
Net official transfers at historical average minus two standard deviations	22.2	21.8	19.1	18.3	12.6	10.3	9.7
Combination of 2-6 using one standard deviation shocks (one-half for export growth)	22.2	24.4	25.0	24.2	16.9	14.0	13.4

Source: Staff projections and simulations.

1/ The ratio is defined in consistency with the HIPC framework (i.e., NPV of public and publicly guaranteed external debt in the numerator and backward-looking three-year averages of exports in the denominator).

2/ These variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), export value growth, and official transfers in percent of GDP.

3/ Consistent with the notion of isolated shocks, the export shock is not assumed to affect other variables, such as growth, inflation, or imports.

Mauritania: Fund Relations

As of April 30, 2003

I. **Membership Status:** Joined: 09/10/1963; Article VIII

II. **General Resources Account:**	SDR Million	% Quota
Quota	64.40	100.00
Fund holdings of currency	64.41	100.01
Reserve position in Fund	0.00	0.00

III. **SDR Department:**	SDR Million	% Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.10	1.08

IV. **Outstanding Purchases and Loans:**	SDR Million	% Quota
ESAF/PRGF Arrangements	77.50	120.34

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	07/21/1999	12/20/2002	42.49	42.49
ESAF	01/25/1995	07/13/1998	42.75	42.75
ESAF	12/09/1992	01/24/1995	33.90	33.90

VI. **Projected Payments to Fund**

Without HIPC Assistance

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

		Forthcoming			
	2003	2004	2005	2006	2007
Principal	8.24	11.09	9.66	8.63	9.53
Charges/Interest	0.50	0.48	0.44	0.39	0.35
Total	8.74	11.58	10.09	9.02	9.87

With Board-approved HIPC Assistance

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

		Forthcoming			
	2003	2004	2005	2006	2007
Principal	5.21	6.87	6.49	5.39	8.43
Charges/Interest	0.50	0.48	0.44	0.39	0.35
Total	5.71	7.35	6.93	5.78	8.78

VII. Implementation of HIPC Initiative

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Feb. 2000
Assistance committed	
By all creditors (US$ million)[1]	622.00
Of which: IMF assistance (US$ million)	46.76
(SDR equivalent in millions)	34.80
Completion point date	June 2002
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[2]	3.63
Total disbursements	38.43

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the Central Bank of Mauritania (CBM) was subject to a transitional assessment with respect to the PRGF arrangement, which expired in December 2002. The transitional assessment of the CBM's external audit mechanism was completed on April 9, 2002, and concluded that CBM's external audit mechanism may not be adequate in certain respects and appropriate recommendations were made to the authorities, as reported in the Staff Report for the 2002 Article IV Consultation and the Fifth Review Under the Poverty Reduction and Growth Facility, and Request for Waivers of Performance Criteria. Two recommendations, which were subject to conditionality, have been implemented (appointing auditors and publication of both the financial statements and the audit opinion); the four remaining recommendations are in progress and will all be implemented before the end of the year. Under the Fund's safeguards assessment policy, the CBM is now subject to a full assessment with respect to the expected new arrangement. The necessary documentation, requested from the authorities on March 18, 2003, was received in April.

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.

[2] Under the enhanced HIPC Initiative, 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.

IX. Exchange and Trade Arrangements

Mauritania is following a managed floating exchange rate regime and is free of exchange restrictions and multiple currency practices on the making of payments and transfers for current international transactions. During the period from January 1974 to December 1995, the official exchange rate of the ouguiya was determined on the basis of a basket of currencies. On December 31, 1995, the official and the free market exchange rates were unified, and official transactions were effected at the average exchange rate in the free market. At end-July 1997, the authorities adopted a more active exchange rate policy. And, beginning November 1998, the central bank maintained a weekly announced official exchange rate at which it sold/bought any quantity required to clear the market. On April 17, 2000, Mauritania introduced the Extended Exchange Market (EEM), unifying different components of the official exchange market. The rate fixed in the daily sessions of this market is then announced by the BCM as the official exchange rate for the following day. On August 4, 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes, and the second reimposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. On March 20, 2003, US$1 was equivalent to 264.6 UM.

X. Last Article IV Consultation

Mauritania is on the standard 12-month cycle for Article IV consultations.

Discussions for the 2002 Article IV consultation were held in Nouakchott during January 29–February 12, 2002. The staff report (EBS/02/77, 05/07/02) was considered by the Executive Board on June 7, 2002. The Executive Board approved the HIPC Completion Point document for Mauritania (EBS/02/82,05/10/02) on June 7, 2002.

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

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

XII. Technical Assistance (since 1998)

1. MAE

a. Money and banking

Technical assistance missions on strengthening the functioning of the treasury bill market: March 8–22 and June 8–14, 1998.

Technical assistance mission on deepening of financial sector reforms and strengthening of the financial system: February 18–March 3, 1999.

Technical assistance mission on monetary instruments: May 6–20, 2000.

Technical assistance mission on money market development and reform of monetary instruments: September 30–October 10, 2000.

Follow-up mission on reform of monetary instruments and assessment of technical assistance needs: February 7–20, 2001.

Resident expert on banking supervision: August 1, 2001–August 1, 2002.

Resident expert on banking supervision: August 3, 2002–February 2, 2003.

b. Exchange system

Bi-monthly visits by panel expert on the reform of the exchange system: December 1992–present.

Advisor to the BCM governor on the development of foreign exchange market and related operations: May 1999–April 2000.

c. Other

Advisor to the governor: May 1994–February 2000.

2. FAD

Technical assistance mission on budget nomenclature: July 15–26, 1998.

Technical assistance mission on reinforcing fiscal administration and improving VAT performance: April 25–May 9, 1999.

Long-term resident technical advisor on tax administration and tax system reform for six months beginning April 25, 2000, extended by government requests until April 24, 2001.

Technical assistance mission on tracking of execution of poverty-reducing expenditures, October 10–17, 2001.

Follow-up mission on improving VAT performance: November 10–17, 2000.

TA mission on tracking poverty-related expenditure: October 10–17, 2001.

TA mission on setting up a VAT refund system: November 18–23, 2001.

TA mission on taxation system in place. Second Quarter of 2003. (exact dates of mission still to be announced)

3. STA

Technical assistance mission on national accounts: November 8–22, 1997.

Technical assistance mission on balance of payments statistics: August 30–September 9, 1999.

Technical assistance mission on monetary statistics: January 9–22, 2002.

Technical assistance mission on real statistics: June 2–15, 2003.

Technical assistance mission on balance of payments statistics: August 13–26, 2003.

Technical Assistance mission to GDDS: December 1–12, 2003.

XIII. Resident Representative

A resident representative (Mr. Prosper Youm) took position in Nouakchott in April 2001.

Mauritania: Relations with the World Bank Group

Partnership in Mauritania's Development Strategy

1. The Mauritanian government's development strategy is set forth in the Poverty Reduction Strategy Paper (PRSP), approved in early 2001. The PRSP focuses on four pillars: (a) stimulating accelerated and redistributive growth; (b) anchoring growth in the economic environment of the poor; (c) developing human resources and ensuring universal access to basic infrastructure and services; and (d) strengthening institutional capacities and governance. In June 2002 Mauritania presented its first PRSP Progress Report (PRSP-PR), reviewing first-year implementation of the PRSP. The next PRSP-PR will be presented to the Boards of the World Bank and IMF in the second quarter of 2003. The next PRSP is due in 2005.

2. The World Bank and the IMF will continue to cooperate closely in assisting the government of Mauritania to implement its medium-term poverty reduction strategy, as presented in the PRSP and updated in the PRSP-PR, with each institution taking the lead in the policy dialogue in its areas of expertise.

3. The Fund will continue to lead the policy dialogue on macroeconomic policy (fiscal, monetary, and exchange rate policies) and in the following areas of structural reforms: fiscal management and control, banking supervision and banking sector issues, pension reform, and tax reform.[1] The Bank will continue to lead the policy dialogue on sectorial structural reforms, including privatization and poverty monitoring and evaluation. Areas of close collaboration include the PRSP, public expenditure management, external debt sustainability, and poverty and social impact analysis. The Bank and the Fund also routinely exchange views on tax reform, private sector development, and financial sector reform.

Bank Group Country Assistance Strategy

The Country Assistance Strategy

4. The World Bank supports the implementation of the PRSP through its Country Assistance Strategy (CAS, FY03–05).[2] The following strategic elements are pursued in the CAS: (a) the program of lending and nonlending operations has been specifically designed to support implementation of the four strategic axes of the PRSP; (b) capacity building is the main emphasis of the CAS; (c) the focus of the Bank's lending program will take the form of

---

[1] A Poverty Reduction and Growth Facility (PRGF) expired in December 2002. Discussion for a new PRGF arrangement will begin during the second half of April 2003.

[2] The CAS base- and high-case lending scenarios assume a lending level of US$110 million and US$140 million, respectively.

programmatic support through a series of Poverty Reduction Support Credits (PRSC); (d) fiduciary issues are fully taken into account within the scope and sequencing of the PRSCs; and (e) the shift to programmatic lending through the PRSCs will be underpinned by the Bank's core diagnostic ESW. While a series of PRSCs will be the main pillar of the lending program, the shift from traditional investment lending to programmatic lending will be phased in gradually. During the CAS period, the Bank will continue with selected investment projects targeting poverty reduction, institutional strengthening, and capacity building.

5. To date, the World Bank Group has approved 64 loans and credits for Mauritania for a total of US$857.5 million. The current project portfolio consists of 13 investment operations for a total commitment of US$294 million with an undisbursed balance of US$179 million. The Bank's lending operations reflect a cross-sectorial emphasis on accelerating diversified and private sector-led growth and reducing poverty.

6. The Bank's proposed lending program for FY03 comprises a US$20 million IDA grant for a Multi-Sectorial HIV/AIDS Project and a US$12 million IDA credit for a Second Mining Sector Technical Assistance Project. In FY04, it is expected that four operations will be prepared for presentation to the Board: (a) the second phase of the Natural Resources Management Project; (b) a PRSC Capacity Building Project; (c) a partial risk guarantee for the privatization of the national energy company (SOMELEC); and (d) the first in the series of PRSCs.

7. The Bank's program also encompasses Economic and Sector Work (ESW), the provision of Institutional Development Facility (IDF) grants, and Trust Funds (TF). A public expenditure review and a gender assessment are planned for FY04. A poverty assessment and a new Country Procurement Assessment Report (CPAR) are planned for FY05. A series of IDFs covering public procurement, gender, legal reform and judiciary, and institutional capacity building will be delivered during FY03–05. In addition, TFs will be used to strengthen statistical capacity, analytical capacity in the areas of poverty analysis, and PRSP monitoring and evaluation.

Main Policy Reform Areas

8. In line with the priorities highlighted in the PRSP, the Government of Mauritania has focused in recent years on fostering the development of the private sector (the main engine of growth), promoting urban and rural (agriculture, livestock) sectors, improving health and education outcomes, and strengthening institutions and governance. The World Bank fully supports this agenda.

- **Promoting the Private Sector.** Significant progress has been achieved in recent years to provide a favorable environment for private sector development. The fiscal pressure on firms has been reduced considerably. The Investment Code has been reviewed and the decrees for its implementation adopted. An important study has been conducted, shedding light on the reform of the regulatory framework and market performance, and presenting a set of key recommendations. In addition, the partnership between the state and private sector has been reinforced through the revitalization of the National Committee for the Consultation between State and Private Sector (CNCESP). The Bank's policy dialogue in this area will focus, *inter alia*, on the promotion of greater competition in key sectors of the Mauritanian economy (mining, energy, and fisheries), further reduction of fiscal pressure on firms and simplification of the tax system, the approval of the implementation decrees for the Commerce Code, and the elaboration of a new Labor Code.

- **Achieving Broad-based Growth.** Anchoring growth in the economic environment of the poor is a key strategic objective of the government. Achieving this objective will require, above all, increasing productivity in the livestock and agricultural sectors, which employ a large swathe of the rural poor. In livestock, the policy dialogue will focus on the application of the new Livestock Code and the elaboration of a coherent sector strategy, paying particular attention to key sub-sectors (e.g., cattle, meat, and leather). In agriculture, attention will be paid to improving farm productivity by easing access to inputs and credit and promoting training schemes for farmers. Urban development also deserve attention, in light of high urbanization rates in the country and an increase in the incidence of poverty in Nouakchott during 1996–2000. The policy dialogue in urban areas will concentrate on: (a) the improvement of living condition in urban outskirts, (b) the promotion of income generating activities, and (c) the provision of key urban infrastructures.

- **Developing Human Resources.** *Education*. Mauritania enjoys high gross enrollment rates at the primary and secondary levels and is well positioned to reach education-related Millennium Development Goals by 2015. However, the retention rate remains low due to high repetition and dropout rates; and the mastery of curricula content by most pupils is poor. The Government has recently prepared a ten-year plan, i.e., the National Program for the Development of the Education Sector (PNDSE 2002–2010), aimed at achieving universal access to basic education, improving the quality of teaching and learning in the classroom, and the efficiency of the system. Bank's operations and policy advice are in tune with these objectives. Mauritania will also benefit from the Education for All Fast Track Initiative, expected to contribute US$24 million over the period 2003–2005, to accelerate the implementation of the national education program;

  Health. Although health indicators in Mauritania compare favorably with neighboring countries, additional efforts are needed to reduce (child and maternal) mortality rates and malnutrition rates, and improve vaccination coverage. Overall, health care suffers from the low quality of services provided, owing to the inadequacy of human resources in the sector and poor access to health facilities, notably in rural areas. Health expenditure as a proportion of total expenditure is higher in poorer than richer households, a factor that contributes to maintain people in poverty. The management capacity at the central level is low, and the mechanisms of participation by communities in the management of health services at the local level are still underdeveloped. Priorities for action, supported by the Bank through its operations and policy dialogue with the authorities, include: (a) improving health indicators, especially for the poor; (b) limiting the impact of health expenditure on the revenues of poor households and (c) fostering the involvement of local communities in the management and decision making process of health care at the local level.

- **Strengthening Institutions and Governance.** The government of Mauritania will begin the implementation of the National Program of Good Governance in mid-2003. This program aims at strengthening the judiciary system, improving the efficiency of the parliament, promoting human rights, and further consolidating the democratic process in the country. In addition, the authorities have taken significant steps to elaborate a Strategy for the Strengthening of National Capacity, which focuses chiefly on improving capacity in areas of key strategic importance, including public expenditure management, economic planning, project conception, execution and monitoring, and PRSP (and poverty) monitoring and evaluation. Concerning the management of public expenditure, a key focus area for the upcoming operations in FY04, the policy dialogue will focus on key aspects of budget elaboration, execution, and monitoring (see below).

Bank-Fund Collaboration in Specific Areas

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

- **Public Expenditure Management.** The Fund and Bank jointly emphasize the urgent need to further improve public expenditure management, accountability, and transparency. The two institutions support policy reforms in the areas of budget formulation, execution, and monitoring. On budget formulation, it has been agreed with the authorities that an overall Medium-Term Expenditure Framework (MTEF) will be in place by June 2003 and will be used in the preparation of the 2004 budget. To date, five sectorial MTEFs (rural development, transport infrastructure, health, education, and urban sectors) have been prepared with the collaboration of the Bank and the preparation of three additional sectors (fisheries and water sectors, and rural electrification) is underway. On budget execution, emphasis has been placed on the need to accelerate the execution of expenditure, notably in social sectors, modernization of the public procurement system, and expediting the computerization of expenditure. On budget reporting, the Bank and Fund will support Mauritania in its efforts to strengthen the capacity of audit institutions and produce budget execution laws in a timely fashion.[3] Other common areas of advice include the need to increase overall absorption capacity

[3] A set of recommendations concerning these important topics are elaborated in the reports prepared (or under way) by the Bank and IMF, including: a Country Procurement Assessment Review (WB, 2002), a Report on the Observance of Standard and Codes (IMF, 2002), a HIPC Expenditure Tracking Study (Joint IMF/WB, 2002), and a Country Financial Accountability Assessment (WB, forthcoming 2003).

and improve the tracking of poverty-related spending, both in the budget and those financed by HIPC resources.

- **Maintaining External Debt Sustainability.** Mauritania reached its completion point under the enhanced HIPC Initiative in June 2002. As a result, more resources have been freed up to support the government's efforts toward improving the standard of living of the population. Both the Bank and Fund have emphasized the need to improve the authorities' debt management practices by strengthening the coordination between the departments concerned, building technical capacity, and unifying the debt database. In addition, given the country's vulnerability to external shocks, vigilance will be required to ensure that a prudent external policy is pursued.

- **Financial Sector Reform.** As part of the CAS, the Bank, in close collaboration with the Fund, is helping the authorities in improving financial sector intermediation for private sector development, and mobilizing savings, while promoting competition in the financial sector.

- **Poverty and Social Impact Analysis (PSIA).** As part of the preparation of future Bank structural adjustment lending and the IMF program supported by PRGF Arrangements, the Bank and Fund have agreed to review closely the poverty and social impact of reforms that are being implemented. In particular, given increased allocation of expenditure to social sectors, it has been agreed that a benefit incidence analysis will be conducted in the health and education sectors to assess the welfare impact of public spending on different groups of people. At the same time, PSIA will be conducted on the proposed policy reforms in the water sector. This work will begin by April 2003 and will be carried out by the authorities with the technical assistance of the World Bank.

Contact Persons

Questions may be addressed to Mr. David Craig, Country Director, at 202-473-2589; or Mr. Nicola Pontara, Economist, at 202-458-0400.

Mauritania: Statistical Issues

General

1. Mauritanian authorities have established a five-year development plan (*Schéma Directeur de la Statistique Publique* for 2000–05) in order to improve their statistics. With expert help from AFRISTAT, the authorities have made progress towasrds adhesion to the GDDS system. Authorities are expected to make full use of the West Africa Regional Technical Center (AFRITAC), once it becomes operational, to help address some of the following issues:

Real sector

2. The national accounts data and the consumer price index (CPI) require substantial improvements. A technical assistance mission on national accounts visited Mauritania in November 1997 and concluded that the GDP estimates are very weak. GDP estimates are derived by rudimentary extrapolation, from 1983 base, using inappropriate and unreliable data. However, a cooperation program supported by AFRISTAT is under way with a view to produce by 2004 national accounts following the *1993 SNA* with 1998 as a base year. In that context, the National Statistical Office (ONS) has already published revised national accounts for 1998 and 1999, while the 2000 numbers will be published within the first half of 2003. Technical assistance is still needed to produce a better estimate of output based on statistical surveys (thereby not limiting the estimation to data reported by tax authorities) and estimates for the informal sector.

3. Regarding the CPI methodology, in 1996, a Fund technical assistance mission had made recommendations about geographical and product coverage, updating of weights, improving computer resources, and creating a specialized team. The national accounts mission in November 1997 found that relatively little progress had been achieved. New weighting data were not available at that time, as Mauritania was not included in the 1995/96 Euro stat project to conduct a survey of household living conditions. After the completion of a household expenditure survey in 2001, the ONS is now expected to publish, starting in May 2003, a new CPI index with an updated consumption basket, covering a wider range of markets, albeit with a geographical coverage still limited to Nouakchott.

Government finance

4. Mainly as a result of the unavailability of human resources to complete the required forms, no monthly or annual government finance statistics are currently reported to STA. With recent methodological improvements, the monthly statements of treasury accounts now submitted to MED, with a delay of one month, could provide the basis for future publication

by STA. However, no information is being provided on the accounts of the Social Security Institute and on any of the largest local communities' budgets.

5. The measurement of the execution of the Public Investment Program (PIP) needs to consistently reflect actual disbursements of foreign loans and grants and ensure that the estimated import component is compatible with customs data. In general, the current accounting system can produce reliable and comprehensive information on budget execution.

6. A recent Fiscal ROSC report (November 2002) set in place a set of recommendations that Mauritanian authorities should adopt in order to ensure that the government's accounting system is capable of producing reliable, comprehensive and timely annual government accounts and monthly fiscal reports.

Money and banking

7. Monetary data received by MED are transmitted to STA for publication in *International Financial Statistics (IFS)*. Data on monetary authorities and deposit money banks are reported on a regular monthly basis.

8. A monetary and financial statistics mission to Mauritania (January 9–22, 2002) assisted the BCM in revising and updating its monetary and financial data compilation procedures to better reflect institutional and accounting developments in the financial sector (banking and nonbanking). The mission set the ground for these statistics to be in accordance with the Fund's *Monetary and Financial Statistics Manual (MFSM)* and for work toward *MFSM* implementation. The mission also investigated some specific data transmission problems and discrepancies and issued an action plan for following up on recommendations. The central bank is now implementing some of these recommendations.

Balance of payments

9. The balance of payments methodology is being revised in light of the changes in the exchange system. The foreign exchange record of the central bank is being supplemented by alternative sources of information to capture the international transactions increasingly carried out in the free market. However, significant weaknesses in the balance of payments data remain, in particular concerning non mining exports, short-term capital flows, and private transfers. These are sometimes reflected in large errors and omissions. There are also inconsistencies between different national agencies' data on official transfers.

10. Balance of payments data collection and compilation need to be improved urgently. A Fund technical assistance team, upon request from the authorities, visited Nouakchott from August 30 until September 9, 1999. To address BCM's problems in collecting and properly recording the BOP statistics, the mission recommended that the BCM (a) eliminate the separate recording and reporting of BOP data at two different departments (*Direction des Etudes Economiques* and *Direction de la Balance des Paiements*) by unifying the preparation

and reporting of the BOP statistics; (b) together with the banks, work out a simpler method of reporting the information, which the banks and the bureaus will use in the transition period, until a more detailed system of reporting could be put in place; and (c) put pressure on the banks for providing the required information, including using legal measures. In 2000, the BCM began submitting BOP data for *IFS* using the BOP classification consistent with the fifth edition of the balance of payments manual. Nevertheless, further improvements in the balance of payments methodology are needed. An STA mission looking at the BOP sector is scheduled for 2003.

11. Debt data were reconciled as at end-1998 for the HIPC Decision Point in January 2000 and again as at end-2001 in preparation for the Completion Point by mid-2002. The debt database needs to be unified while debt management needs to be strengthened. Currently, a new debt management system is being installed by UNCTAD, but personnel need to be trained in the elaboration of new borrowing strategies as well as renegotiation techniques. Coordination among the ministry of economic affairs and development, the ministry of finance and the central bank needs to be strengthened in order to ensure that new borrowing policies will be consistent with current debt management and the country's capacity to service its debt.

Poverty

12. Household expenditure surveys have been conducted for the years 1990, 1996, and recently for the year 2000. The results of these surveys are one of the main sources for building poverty profiles and setting poverty reduction targets. Results of the 2000 survey still formed the basis for the second PRSP progress report (a draft of which was received in March 2003). A more updated survey (EPCV 2003), being conducted by ONS, with expert help from AFRISTAT, is already in progress with first results expected in mid 2004. The results of the new survey will provide an update of the poverty situation. The authorities are considering conducting surveys at more regular intervals in order to better follow the country's progress in its fight against poverty.

Mauritania: Core Statistical Indicators as of March 21, 2003

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Public Debt Service	External Public Debt Stock
Date of latest observation	Mar. 2003	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	Dec. 2002	2002	Dec. 2002	Dec. 2002
Date received	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003	Mar. 2003
Frequency of data 1/	D	M	M	M	M	M	M	M	...	M	A	M	A
Frequency of reporting	D	M	M	M	M	M	M	M	...	M	...	M	A
Source of data 2/	O	O	O	O	O	O	O	O	O	O	O	O	O
Mode of reporting 3/	EM/F	EM/F	EM/F	EM/F	EM/F	M	EM/F	EM/F	S	EM/F	S	EM/F	EM/F
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C	C	C	C

1/ D = Daily; W = Weekly; M = Monthly; Q = Quarterly; A = Annual.
2/ O = Official sources: Central Bank or Ministry of Finance.
3/ C = Cable/Telex; EM= Email; F = Facsimile; M = Mission; S = Staff estimates.
4/ A = Fund staff only; B = Staff and Executive Directors; C = Unrestricted.

Nouakchott, June 26, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Kohler:

The International Monetary Fund Executive Board approved, on July 7, 1999, a program supported by the Poverty Reduction and Growth Facility (PRGF). This program, which helped support the government's economic reform, expired on December 20, 2002.

In order to consolidate progress made so far, the government has prepared a new economic reform program, based on the policies set out in the Poverty Reduction Strategy Paper (PRSP), covering a three-year period starting in April 2003. The government plans to maintain macroeconomic stability and deepen the structural reforms, notably by increasing the country's implementation and institutional capacity, improving the functioning of the banking system and financial intermediation, and enhancing fiscal transparency. Details of the program objectives and measures that will be undertaken during the first year are set out in the attached memorandum of economic and financial policies (MEFP).

To support this program, the government is thereby requesting a three-year arrangement under the PRGF in the amount of SDR 6.44 million.

The government believes that the policies set forth in the attached MEFP will enable it to meet the objectives established in the PRGF-supported program, but will take any further measures that might be necessary for this purpose. The government will continue to provide the Fund with all the information required for better monitoring of the implementation of established economic policies.

It is understood that the government will remain in contact with Fund staff and will consult the IMF from time to time, on its own initiative or whenever the Managing Director so requests, regarding Mauritania's economic and financial policies.

Sincerely yours,

/s/

Ahmed Salem Ould Tebakh
Governor
Central Bank of Mauritania

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

I. Introduction

1. Over the last three years, Mauritania has resolutely focused its development efforts on achieving the goals of macroeconomic stability and poverty reduction. Accordingly, the government has implemented an economic program supported by the Poverty Reduction and Growth Facility (PRGF) and prepared a poverty reduction strategy framework (PRSP) for 2001–15, with the aim of achieving a significant reduction in poverty.

2. The government of Mauritania requests the Fund's assistance, in the context of a new PRGF arrangement, to strengthen its capacity in designing and implementing appropriate macroeconomic policies and structural reforms that are necessary to ensure macroeconomic stability and accelerate growth. The new PRGF arrangement would build upon the results achieved so far and contribute to the successful implementation of the poverty reduction strategy framework. The government also hopes to have the support of other development partners—notably a poverty reduction support credit (PRSC), currently being prepared by the World Bank.

3. Considerable progress has been made in consolidating macroeconomic stability, achieving high rates of growth, strengthening public expenditure management, and improving social indicators. Nonetheless, much work remains to strengthen further the banking system and deepen financial intermediation, enhance the functioning of the exchange market, diversify the production and export base, increase social spending, and improve its efficiency (PRSP Progress report, paras. 9 and 11).

4. This memorandum confirms the main outline of the documents prepared by the government and forwarded to IMF staff, and revises a number of details in light of discussions with Fund staff. In addition, it evaluates the progress achieved under the previous arrangement, presents the medium-term strategy, and describes the measures and actions envisaged in the program for the first year (April 2003–March 2004).

II. Recent Economic Developments

5. In 2002, in spite of an unfavorable domestic and external economic environment, Mauritania obtained good results in the conduct of its macroeconomic policy. Cold rains early in the year, the insufficient rains, and the contraction of fish exports and iron ore production affected economic activity. Thus, economic growth—initially projected at 5 percent—was 3.3 percent. The contribution of services to growth has continued to increase, primarily reflecting the favorable results achieved in construction, commerce, transport, and telecommunications. The 12-month inflation rate at end-2002 reached 8.4 percent compared with the program target of 5.6 percent, on account of: (a) the higher food prices due to the drought, (b) the adjustment of oil and gas prices in September, and (c) the delayed effect of the sustained depreciation of the ouguiya, in particular with respect to the euro. The average inflation rate, nonetheless, remained slightly below the target of 4 percent (PRSP, para. 27).

6. The external current account balance recorded a substantial surplus partly reflecting the receipt of two payments (for 2001 and 2002) under the fisheries agreement with the EU. Gross official reserves rose to US$400 million by end-December 2002 (i.e., approximately 9 months of imports, excluding imports of goods and nonfactor services related to crude oil exploration). The real effective exchange rate depreciated by 7 percent in 2002, with the ouguiya slipping by 1.2 percent vis-à-vis the dollar and 20 percent relative to the euro. The spread between the parallel market rate and the official rate has narrowed to less than 6 percent in recent months, thanks in particular to the fact that the central bank engaged in substantial intervention operations on the exchange market beginning in the last quarter of 2002.

7. Cautious monetary and fiscal policies were followed during 2002. While credit to the private sector increased at about 20 percent in spite of the high lending rates, the growth in the money supply was only 9 percent. To some extent this reflected the large budget surplus (here again attributable to the two payments under the fisheries agreement with the EU). The fiscal surplus (excluding grants) reached 6.2 percent of GDP. The tax revenue to GDP ratio was slightly lower than anticipated—14.2 percent—reflecting a shortfall in the operating profit tax (TCA) on the SNIM mining company. Capital expenditure increased significantly following the marked improvement in the project execution rate in comparison with previous years.

8. In the wake of the agreement reached with Paris Club member countries, the government has redoubled its efforts to have non-Paris Club creditors grant debt relief on terms at least comparable to the terms obtained from the Paris Club. Accordingly, since the completion point under the enhanced HIPC Initiative, agreements have been reached with all participating countries and international financial institutions with the exception of Brazil, the United Kingdom (among members of Paris Club), and Algeria, Libya, Iraq, and the Organization of Arab Petroleum Exporting Countries (OAPEC).

III. POLICY FRAMEWORK AND OBJECTIVES IN THE MEDIUM-TERM

9. In accordance with the guidelines of the PRSP, the fundamental goal of the Mauritanian government is to reduce poverty and to improve the living conditions of the population. Accordingly, the chosen strategy is based on 4 complementary and self-reinforcing components: (a) achieving more rapid economic growth; (b) anchoring economic growth in poor areas; (c) pursuing human resource development and expansion of basic social services; and (d) promoting institutional capacity-building and governance (PRSP, Box 1).

10. The new program will be based on the PRSP strategy, and in that context, the macroeconomic framework has been revised in accordance with the second progress report on the implementation of the PRSP (PRSP progress report, Appendix 1). The new program envisages real growth of GDP in the range of 5–6 percent a year, end of period inflation rate of less than 4 percent over the period 2003–05, and a comfortable level of gross

reserves equivalent to about 6 months of imports in order to safeguard the economy—specifically, priority expenditures—against any unfavorable external shocks.

11. Economic growth is projected to be driven by the following sectors: commerce, transport and telecommunications, irrigated agriculture, as well as the anticipated increase in iron ore output following the expansion in SNIM's production capacity. Beginning in 2006, oil production is expected to make a significant contribution toward growth, even on the basis of conservative assumptions, with a growth rate reaching 9 percent by 2006. The increase in public investment (with a view to achieve more rapid poverty reduction), as well as the sizable level of private investment—notably in development phase of the petroleum sector (2004–05)—will also help to achieve higher growth. Finally, with a view to broaden the production and export base, the government—with the support of its development partners—will implement the recommendations of the studies on the competitiveness of the economy and its commercial integration, economic regulations, stockbreeding, livestock, industry, tourism, and artisanal fishing.

12. Higher economic growth requires maintaining macroeconomic stability, boosting private investment, building infrastructure in support of investment, and implementing appropriate sectoral strategies. Reforms designed to improve financial intermediation and the performance of the exchange market, simplify business taxation, improve governance—specifically reform of the judiciary—and achieve capacity building can be expected to stimulate private investment and growth. The government will focus its efforts on strengthening the capacities of the administration and on improving governance. In this respect, a capacity-building strategy is currently being prepared and will be implemented in 2004 (PRSP, Sections 1 and 4).

13. In the medium term (2003–07), fiscal policy will aim at supporting pro-poor expenditure, monetary policy will be geared toward maintaining price stability, while exchange rate policy will aim at safeguarding the economy from exogenous shocks. The slight increase in the budget deficit in 2003–05 (an average of 2.6 percent of GDP) will be accompanied by a broadening of the tax base and financed by grants and concessional loans, in order to ensure the sustainability of the external debt following the recent attainment of the completion point under the enhanced HIPC Initiative. The downtrend in tax revenues will continue in 2003, reflecting the reduction in income taxes, although this trend will reverse and pick up over the period 2004–07. The fact that social spending is to rise from 10.5 percent of GDP in 2002 to 12.7 percent of GDP in 2007, at a time when overall expenditure relative to GDP remains around 31 percent, clearly demonstrates the shift in expenditure in favor of poor people.

IV. The 2003–04 Program

14. The first year of the program extends from April 2003 to March 2004. The objectives for 2003 are as follows: a growth rate of 5 percent, an end-of-period inflation rate of 3.5 percent (i.e., an average rate of 6.4 percent), a current external deficit—excluding oil exploration related payments and official transfers—of 9.5 percent of GDP, and a reserves

level of US$360 million (i.e., the equivalent of 7.3 months of imports). The 12-month inflation rate at end 2003 is expected to fall, reflecting the impact of the stability of food prices due to the anticipated improvement in the agriculture sector, the delayed impact of the modest exchange rate appreciation with respect to the U.S. dollar upon consumer prices, and the decrease in international oil and gas prices.

A. Budget Policy and Reform

15. Budget policy in 2003 is intended to achieve the tax revenue target and to accelerate the execution and enhance the efficiency of social and poverty-reducing expenditures. Budget policy parameters have already been set in the context of the 2003 budget law. The compensatory measures adopted since the decline in the BIC rate and the rate reduction for the tax on wages and salaries (*impôt sur les traitements et salaires, ITS*) are sufficient to ensure attainment of the revenue objective. However, supplementary measures may need to be considered—specifically, the institution of an investment income (IRCM) tax on treasury bond interest and the extension of the airport tax to include secondary airports. At the same time, concerted efforts will be made to ensure that social and poverty-reducing expenditures can meet their target of 11.3 percent of GDP (PRSP, para. 28).

16. In 2004, budget policy will focus on reforming direct taxation. The government has requested Fund staff assistance in performing an overall assessment of direct taxation, correcting any distortions introduced by the reforms recently adopted in this area (ITS and BIC), and broadening the tax base. A FAD mission will visit Nouakchott shortly to address these issues. This mission will also make recommendations on the tax measures envisaged for 2004, particularly the introduction of a presumptive minimum tax (IMF) increased for occasional importers, and the establishment of a single levy assessed on foreign firms performing short-term contracts.

17. The enhancement of tax administration and tax compliance will be reflected in major efforts undertaken by the Finance Department during the first year of the program. VAT supervision will be established on a more systematic footing, making it possible to cancel unutilized credits after 3 months. New measures will be adopted to control and broaden the tax base while strengthening the capacities of the tax administration. In particular, these measures will include the regular and systematic assessment of taxpayers through cross-checking with the agencies concerned (Customs, National Social Security Fund (*Caisse Nationale de Sécurité Sociale—CNSS*)), and making increased use of tax payments.

18. Concerning the improvement of fiscal management, the government intends to implement the measures recommended by Fund staff, particularly the missions working on the ROSC and the tracking of poverty-reducing expenditures:

- Production of the government's monthly report on budget execution (TOFE) has recently been improved through the use of regular reconciliations between the directorate of budget and accounts, the general treasury, and the BCM. The complete [monthly] report on budget execution (TOFE), including financing, for February and March 2003 will be transmitted to Fund staff by mid-May.

- Computerization of the TOFE will take effect as of January 2005. TOFE production cannot be automated until after the (a) integration of all government expenditures into the accounts of the general treasurer (including external financing), a requirement necessitated by the planned or delegation of expenditure authorization authority to the spending ministries [September 2004]; (b) computerization of the entire expenditure system in December 2004; (iii) modernization of the governmental accounting system in 2004; and (d) automation of the interface between the treasury's accounts with the BCM, the general directorate of customs, and the general directorate of taxes in [January 2005].

- Harmonization of the accounts of the local governments with the accounts of the treasury in June 2003.

- Preparation of a comprehensive medium-term expenditure framework (CDMT) on the basis of sectoral CDMTs (health, education, infrastructure, urban development, rural development, rural supply, fisheries, and rural electrification) at end-August 2003. The comprehensive CDMT will serve as the basis for preparing the 2004 Budget Law.(PRSP, para. 59)

- Completion of the computerization of the system for expenditures on equipment in March 2004.

- Extension of the report on the use of HIPC resources to encompass all poverty-reducing expenditures, beginning in first quarter 2005, following the implementation of the functional classification for public expenditures [and the computerization of the entire expenditure system].

- Effective September 2003, production of the provisional results of the Poverty and Social Impact Analysis (PSIA) of public health, education, and water supply expenditures. In addition, prior to their implementation, PSIA will also be done on major future structural reforms (beginning with the prospective privatization of SOMELEC).

B. Monetary Policy and Financial Sector

19. In order to achieve the inflation target set forth in the program, monetary policy will remain prudent. The growth in the money supply is projected at 12 percent, a figure slightly higher than the growth in nominal GDP, consistent with a rise in prices of 3.5 percent in 2003, a 15 percent increase in credit to the private sector, and a modest decline in velocity. If inflationary pressures emerge in the coming months, the BCM will tighten monetary policy by raising the rate applicable to repos. The differential between the repo rate and the rate applicable to treasury bonds will be kept at a level sufficiently high to encourage interbank

activities. The recently instituted assets classification mechanism will henceforth make it possible to broaden the basis of private instruments available for trading in interbank transactions in addition to treasury bonds.

20. The conduct of monetary policy will be improved by strengthening the capacity of the monetary policy committee. The committee's reports will henceforth explain the rationale underlying the measures adopted, and the committee will develop its capacity to analyze trends in the real sector, the external sector, and the consumer price index.

21. Banking activity continues to be characterized by strong credit concentration. To remedy this situation and strengthen financial intermediation, the BCM will take the following measures:

- Continue efforts to improve the strengthening of bank supervision, with technical assistance from the IMF in the form of ad hoc visits by experts.
- Implement the provisions of individual programs with banks [*contrats programmes*], particularly those pertaining to compliance with concentration ratios that should fall to the level of international standards by 2004.
- Effective end-May 2003, notify the IMF of the foreign exchange position of commercial banks along with other prudential ratios.
- After consultation with the banks, consider the possibility of increases in their capital by end-2003, in order to encourage the opening-up of new capital and to help reduce risk concentration. In addition, the BCM will continue to foster competition in the banking sector, including through targeted advertising campaigns inviting foreign banks to do business in Mauritania.
- By end-June 2004, review the banking law with technical assistance from the IMF, to reflect the new environment.
- Clean up the balance sheets of commercial banks by writing-off the nonrecoverable claims that are recorded as nonperforming loans, and through provisioning for doubtful claims.
- Modernize the payments system by end-2005, with IMF technical assistance if necessary. This measure will have a favorable impact on financial intermediation.

22. The BCM has prepared a detailed plan, on a bank-by-bank basis, for the gradual transfer to the BCM of the central government's deposits held with commercial banks. In accordance with the agreed-upon multi-year timetable, the actual transfer of these deposits began on June 30, 2003. At the same time, a credit allocation mechanism has been established that allows for these resources to be mobilized at the BCM, as a means of offsetting the anticipated decline in the commercial banks liquidity. This resource

mobilization will be achieved through treasury bonds and reverse repurchase operations involving private instruments bearing signatures eligible for inclusion into the BCM portfolio.

23. With regard to the particular case of Chinguitty bank, the BCM will prepare a new restructuring plan and have the endorsement of the bank's shareholders. Such a plan will be communicated to IMF staff by end-December 2003.

24. The government will seek IMF assistance in implementing a system to combat money laundering and the financing of terrorism.

C. Exchange Market

25. The BCM will pursue a flexible exchange rate policy (in both directions) and will limit its intervention in the exchange market to the smoothing of sharp temporary fluctuations, while maintaining a comfortable level of reserves. In the past, the policy of adjusting the ouguiya vis-à-vis the U.S. dollar was adopted as a benchmark for measuring competitiveness. As Mauritania's competitiveness is not currently an issue, a sustained depreciation policy might reinforce the one-way bets [*Paris à sens unique*] by market participants.

26. To enhance the functioning of the exchange market and to enable the BCM to ensure that commercial banks meet all customer requests for foreign exchange, the BCM intends to implement the following measures:

- Require banks, starting June 1, 2003, to file a detailed weekly report with the BCM on customers' foreign exchange buying and selling orders in amounts exceeding US$10,000, designating orders that have not been filled.

- Amend Law No. 74-022 relating to the exchange regulations by end-December 2003. This amendment is now required as a result of the series of reforms implemented in this connection.

- Require banks to post daily foreign exchange buying and selling rates applicable to foreign exchange (cash) transactions, beginning in September 2003.

- Enforce the banking law clauses, and particularly the provision that prohibits banks from engaging in other commercial activities.

- Beginning in June 2003, publish, on a monthly basis on the BCM's website, the level of the BCM's reserves one week after the end of the period, to reassure market participants.

- Broadly disseminate a brochure by August 2003 clarifying the rights and obligations of banks and the public in the area of access to foreign exchange.

- By end-September 2004, eliminate the obligation to surrender foreign exchange receipts from fish export that was instituted temporarily in August 2002. This measure will be facilitated when the normal operation of the exchange market is restored, notably with the application of the earlier mentioned measures, a more effective surveillance of banks' foreign asset positions, and the effective repatriation of foreign exchange receipts from exports.

D. External Debt

27. The government's main objective is to ensure the sustainability of its external debt that was achieved following the completion point under the enhanced HIPC Initiative. In this regard, the authorities' debt strategy will rely solely on grants or highly concessional loans to finance its deficits. Nevertheless, the government will examine the possibility of replacing external financing with domestic resources, including through drawings on government deposits in the banking sector. The government will share with IMF staff any information on the amount of new loans, and will keep them abreast of the status of discussions with creditors.

28. The government will also ensure that external debt management is strengthened. Debt monitoring will be computerized by June 2004 and capacities to analyze debt sustainability will be strengthened with the acquisition of the appropriate software, training, fresh impetus for the interministerial committee on debt monitoring, and unification of the debt databases by end-2003.

E. Capacity Building and Governance

29. Institutional development is vitally important in the context of the new program. In this regard, the West African regional technical assistance center (AFRITAC West), can be expected to play an important role transferring its expertise, based on the needs assessment identified by the government. The government will also make every effort to build capacities in the areas of planning, programming, and projects preparation. Similarly, procurement procedures will be streamlined to accelerate the rate of public expenditure execution, and particularly, expenditures related to poverty reduction.

30. Modernization of the civil service is a key element of the government's strategy. The planned actions will involve increased remuneration for civil servants, adaptation of staffing to reflect requirements, enhanced human resources management through competence-based recruitment and merit-based promotion. General status of the civil service, accompanied by a professional code of ethics for all government officials, will be updated by december 2004 in order to take these measures into account. This approach will enable the civil service to attract and retain in the administration the talent pool essential for the discharge of the government's tasks. The government has requested technical assistance from the World Bank in connection with the capacity building program, and from the African

Development Bank and UNDP in connection with implementation of the national good governance program (PRSP, Para. 87).

31. The government will reinforce all internal and external controls on public expenditures. The audit office and the general finance inspectorate will be provided with the human and material resources required for proper execution of their respective duties, to ensure that public resources are properly used, in particular through systematic audits and controls of any institution that uses public funds.

32. The government will regularly provide IMF staff with all information relative to the oil sector useful in assessing the economy and government finance, as such information becomes available. The legal and regulatory framework, and particularly the tax system, will be updated to take account of this newl sector.

33. In the context of private sector development, the government intends to accelerate the reform of the judiciary, which has an essential role in enforcing property rights and contractual obligations, and specifically the provisions of the banking law and the commercial code, which are necessary to attract foreign private investment and capital. The World Bank will assist Mauritania in implementing the recommendations of the study on economic regulation. Further, the competitive environment will be enhanced, primarily through the promulgation of the implementing texts for the law on competition by end-2003.

F. Implementation, Monitoring, and Assessment of the Poverty Reduction Strategy Paper (PRSP)

34. The government has adopted a regional approach for the PRSP. The PRSP guidelines will be implemented through regional poverty reduction programs (RPRP) (PRSP, Box 7). These programs will be prepared and implemented with a participatory approach similar to the approach used for the PRSP. The poverty reduction strategies for four regions will be completed in December 2003, and the authorities plan to replicate this process in all regions in the country by end-2005. A methodological guide and "toolboxes" have now been developed.

35. In addition, major efforts will be made to strengthen the system for poverty monitoring and analysis, in order to better assess the impact of policies and programs on the living conditions of the population, and to make appropriate recommendations to increase the chances of success for the PRSP. These efforts will focus, in particular, on the following areas: (a) preparation of a poverty map; (b) revision of monitoring indicators in a participatory context when the PRSP is revised in 2004; (c) performance, at regular intervals, of spot surveys to compensate for the lack of poverty data; (d) conduct of participatory studies to better understand poverty from the viewpoint of the people; (e) strengthening of administrative statistics; and (vi) enhancement of the poverty analysis function through training, modeling, and impact analysis.

G. Other Measures

36. CNSS has prepared a restructuring plan that includes a detailed timetable of measures to be taken during the year and beyond. The aim is to ensure the long-term financial viability and sustainability of the CNSS through improved collections and registrations, while rationalizing all expenditure. Accordingly, administrative expenditures, and particularly personnel outlays, will over time be brought in line with the recommendations of the actuarial study carried out by the ILO. A program of assisted voluntary departures was adopted and its implementation began in June 2003. The work force of the CNSS will be cut in half by end-June 2004. In 2003, departures may entail one-fourth of the targeted staff. Further, the ceiling on the contribution base will be raised to UM 70,000 in January 2004, and the contribution rate will be revised upward after coordination with the social partners in 2005.

37. The BCM has submitted all documents requested by the IMF Finance Department in connection with the safeguards assessment. To meet the four high priority recommendations of the prior safeguards assessment, the BCM will implement a formal mechanism for recruiting auditors and will take the necessary steps to address the problems identified in connection with the audit (end-September 2003). The BCM will inform IMF staff by end-June 2003 of the status regarding the application of the other recommendations, which will be implemented by the end of the year.

38. The government intends to pursue the quarterly adjustment of hydrocarbon prices and liberalization of imports and distribution of petroleum products. Against this backdrop, the rules for setting prices will be reviewed to give distributors greater latitude.

39. The privatization of the electricity company, SOMELEC, which was postponed as a result of problems in the world energy sector, will be resumed in 2004. In this connection, a study on the privatization plan for SOMELEC will be carried out in 2003 and a timetable for implementing its recommendations will be discussed with World Bank staff.

40. The customary economic and financial statistics will now be transmitted within the agreed-upon time frames so that the macroeconomic situation can be properly monitored. Mauritania has also taken steps to achieve full participation in the GDDS of the Fund. To that end, with technical assistance from the IMF, the authorities have improved the country's balance of payments, monetary, and financial statistics. Mauritania is also benefiting from its participation in AFRISTAT in the area of price statistics (with the publication of a new index in May), while strengthening the preparation of its national accounts with the conversion to the *System of National Accounts, 1993*, as well as its poverty indicators.

V. Program Monitoring

41. **The attached technical memorandum of understanding** specifies the program monitoring conditions. The government will provide IMF staff with the required information, in a timely manner, in accordance with the timetable specified in the technical memorandum of understanding.

42. **Prior actions.** The government will implement the measures indicated in Table A.1, to ensure effective implementation of the strategy described in this memorandum, before the IMF Executive Board meets to examine the request for a new arrangement under the PRGF.

43. **Performance criteria and benchmarks.** Quantitative performance criteria for the program for end-September 2003 and indicative targets for December 2003 and March and June 2004 are provided in Table A.2. Further, the government will not introduce any payment restrictions in connection with international current account transactions or transfers that would violate its obligations under Article VIII of the IMF Articles of Agreement. Performance criteria and structural benchmarks are provided in Table A.1.

44. **The first program review** will be completed by January 31, 2004. The second review will be completed by July 1, 2004.

Table A.1. Prior Actions, Performance Criteria, and Structural Benchmarks for 2003–04

VI. Actions prior to approval of the PRGF arrangement

- Prepare monthly reports on budget execution TOFE (financial and economic operations table) based on treasury account balances reconciled with the BCM (the actual outcome for March 2003 will be reported by June 2003).
- Transmit to IMF staff the foreign exchange position of commercial banks.
- Initiate transfer of all government deposits (maintained with commercial banks) to the BCM.

VII. Structural Performance Criteria

- Prepare a comprehensive medium-term expenditure framework, including full set of government expenditures (whether financed domestically or externally) to serve as a basis for preparing the 2004 Budget Law (end-August 2003).
- Raise the maximum wage subject to contributions—used by the CNSS—to ouguiyas 70,000 (end-January 2004).
- Adopt a code of ethics for all public employees (end-December 2004).

VIII. Structural Benchmarks

- Eliminate the surrender requirement on fishing export proceeds (end September 2004).
- Initiate voluntary retirements at the CNSS (end-July 2003).
- Finalize computerization of government expenditures (end-January 2004)
- Prepare plan for restructuring Chinguitty Bank (end-December 2003).
- Unify the debt databases of the Ministry of Finance and of the BCM (end-December 2003).
- Publish and disseminate the brochure clarifying the rights and obligations of banks and the public in the area of access to foreign exchange (end-August 2003).
- Adopt official procedure for selection and rotation of external auditors for the BCM, and address the problems identified by the audit of the BCM's accounts for FY 2000 (end-September 2003).

Table A.2. Mauritania: Quantitative Performance Criteria and Benchmarks
Under the First Year Proposed PRGF Arrangement, April 2003--March 2004 1/
(cumulative flows from beginning of calendar year unless otherwise stated)

	2002	2003				2004
	End-Dec. Actual	End-Mar. Prel.	End-June Benchmark	End-Sept. Performance Criteria	End-Dec. Benchmark	End-Mar. Benchmark
			(In billions of ouguiyas)			
Performance Criteria						
Net domestic assets of the BCM (ceiling)	-44.4 2/	1.5	11.9	-0.5	5.8	2.9
Net domestic financing of the budget (ceiling)	-37.0	3.4	7.0	-16.9	-8.9	1.4
			(In millions of U.S. dollars)			
Accumulation of external payments arrears (ceiling) 3/	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves of the BCM (floor)	202.4 2/	-4.9	-42.0	3.8	-18.5	-10.6
New nonconcessional external debt contracted or guaranteed by the government or the BCM (ceiling) 3/	0.0	0.0	0.0	0.0	0.0	0.0
			(In billions of ouguiyas)			
Indicative Targets						
Tax collection (floor)	38.7	9.3	20.5	30.0	41.8	11.4
Social expenditure (floor)	28.5	7.2	15.2	24.3	33.6	8.1
Reserve money (ceiling)	10.0 2/	0.1	0.6	0.6	0.8	0.1
			(In millions of U.S. dollars)			
Memorandum items: 4/						
Grants (including multilateral HIPC assistance)		17.8	35.7	53.5	71.4	15.4
Program loans (excluding IMF)		0.0	0.0	12.4	19.5	5.1
Project loans		8.4	16.8	25.2	33.6	7.4
Debt service due (principal and interest)		30.0	60.0	89.9	119.9	27.5
Debt service rescheduled		8.5	17.0	25.4	33.9	7.2
EU fish license payment		0.0	0.0	84.2	84.2	0.0

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

1/ The definitions of the line items and the adjusters are specified in the technical memorandum of undertanding (TMU). Performance criteria are set for end-September 2003.

2/ Stock at end of 2002.

3/ Continuous criterion.

4/ All memorandum items are consistent with the balance of payments definitions.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative performance criteria and benchmarks for the new program supported by the Poverty Reduction and Growth Facility (PRGF) reported in Table 1 of the associated Memorandum of Economic and Financial Policies (MEFP). It also establishes the content and frequency of the data to be provided for monitoring the program. The government is defined to include only the central government and excludes the social security scheme.

2. The quantitative performance criteria (ceilings and floors) and indicative targets listed in Table A.2 of the MEFP are defined as cumulative changes from beginning of calendar year until the end of the month indicated. Some floors and ceilings are adjusted by cumulative deviations of external financing (grants and loans) flows from projections, converted at the respective projected exchange rates.

3. Quantitative targets for 2003 and 2004 are presented in Table A.1. Benchmarks are set for end June 2003, end December 2003, and end March 2004, while performance criteria for end-September 2003.

PERFORMANCE CRITERIA

4. Net official international reserves (NIR) of the Central Bank of Mauritania (BCM): The program targets a minimum level of NIR of the BCM, defined as the unencumbered (i.e., readily available) gross official reserves of the BCM less foreign liabilities of the BCM. For purposes of monitoring performance against the program target for NIR, valuation effects on the stock of gold holdings will be excluded, and gold holdings will be evaluated at the gold price in effect on December 31, 2002. Similarly, the U.S. dollar value of gross international reserves and foreign liabilities will be converted into ouguiya (UM) at the exchange rate of December 31, 2002. Thus defined, NIR was US$202.4 million on December 31, 2002. The exchange rates of the SDR and non-dollar currencies will be kept at their end-December 2002 levels as published in the IFS. All required adjustments will be calculated at these program exchange rates.

5. **Net domestic assets** (NDA) of the BCM are defined as reserve money minus net foreign assets of the BCM, adjusted for valuation changes arising from the difference between the program and the actual exchange rates.

6. **Net domestic financing of the budget** (NDF) is defined as the sum of net bank and nonbank financing of the government. Net bank financing is the net credit to the government from the banking system (NCG), defined as claims on the government less deposits of the government with the banking system.

7. **The contracting or guaranteeing of nonconcessional external debt** by the government and the Central Bank of Mauritania includes foreign currency debt contracted or guaranteed by the government or the Central Bank of Mauritania with a grant element (NPV

discount relative to face value) of less than 35 percent, based on the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates). This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) (See Annex) but also to commitments contracted or guaranteed for which value has not been received. Although this definition excludes borrowing by public enterprises (without government guarantee), such borrowing should be avoided except in exceptional circumstances (like in the case of SNIM), and after consultations with the Fund staff.

8. **External payments arrears** are defined as the stock of external arrears on debt contracted or guaranteed by the government or the central bank, excluding debts subject to rescheduling or debt forgiveness. This performance criterion applies on a continuous basis.

QUANTITATIVE BENCHMARKS

9. **Reserve money** is defined as the sum of: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the central bank. Bank foreign currency deposits at the central bank will be evaluated at the program exchange rates.

10. **Tax revenue** is defined as the sum of all taxes on goods and services, on income, and on international trade.

11. **Social expenditure** is defined as the sum of government spending on education, health, and poverty reduction expenditures (*CDHLCPI*, agency for human rights fight against poverty and integration, and the *CSA*, Commissariat de Sécurité Alimentaire).

PROGRAM ADJUSTERS

12. The NIR, NDA, and NDF targets are defined based on the assumption of projected cumulative amounts of external cash debt service payments, program related financing (loans and grants), the amount of the fish license payment from the European Union (EU), and privatization proceeds to the budget, as determined in the attached table.

13. In cases where **total external debt service payments** (due basis) exceed (fall short of) the target, the floor for NIR will be adjusted downward (upward) and the ceiling on NDA will be adjusted upward (downward) by the amount of any excess over (shortfall from) the target.

14. In cases where **program related financing** or the **fixed part of the fishing royalties from the EU** exceeds (falls short of) their targets, the floor for NIR will be adjusted upward (downward) and the ceiling on NDA will be adjusted downward (upward) by the amount of any excess over (shortfall from) the targets. Any downward adjustment to NIR resulting from the shortfall in program-related financing will be limited to US$10 million, and from the shortfall in fish license payments to the U.S. dollar equivalent of 5 million euros. Any upward adjustment to NDA resulting from the shortfall in program related financing will be

limited to ouguiya equivalent of US$10 million, and from the shortfall in fishing royalties to ouguiya equivalent of 5 million euros.

15. In cases where **government external cash debt service payments** exceed (fall short of) the target, the ceiling on NDF will be adjusted upward (downward) by the amount of excess over (shortfall from) the target. NDF will also be adjusted downward (upward) by the amount of any excess (shortfall) of either program related financing or the fixed part of fishing royalties from the EU over (from) their respective targets. Any upward adjustment to NDF resulting from the shortfall in program-related financing will be limited to the UM equivalent of US$10 million, and from the shortfall in fishing royalties to US dollar equivalent of ε5 million. In addition NDF will be adjusted downward (upward) by the amount of any excess (shortfall) of privatization proceeds over (from) the program target.

REPORTING REQUIREMENTS

16. The government, the BCM, and the National Statistical Office (ONS) will provide the IMF with all necessary economic and financial statistical data to monitor economic developments and program performance including, but not necessarily limited to, the following specific information.

- The balance sheet of the BCM will be reported to the IMF by the BCM within four weeks of the end of the reporting period.

- The monetary survey, the consolidated balance sheet of the commercial banks, and the balance sheet of individual banks will be reported to the IMF by the BCM within 4 weeks of the end of each month. The balance sheets of commercial banks should also include their net foreign exchange positions.

- Weekly data on every foreign exchange market session held at the Central Bank of Mauritania at the end of each week.

- Weekly data on BCM's gross foreign exchange reserves in two variants: (1) at program exchange rate (end December 2002 rate); and (2) at actual official exchange rates.

- Data on treasury bills auctions following each auction.

- Monthly consumer price index within 3 weeks following the end of each month.

- Monthly data on budget operations, revenues, expenditures, and financing items, including data on the execution of the investment budget, with details on the foreign financed part and the budgetary counterpart funds on which donor's conditions apply. Once the computerization of spending is completed in 2004, social spending will be reported monthly. This data will be provided within one month following the end of each month.

- Monthly data on foreign grants and loans received by government and by public enterprises by creditor and by currency of disbursement within 4 weeks following the end of each month.

- Detailed monthly data on exports (iron ore and fish) and custom import, and data on SNIM operations within 4 weeks following the end of the month; and on a quarterly basis a balance of payments within 2 months of the end of each quarter.

- Monthly data on external debt developments including arrears and rescheduling operations within 4 weeks following the end of each month.

- Monthly list of medium- and long-term public or publicly guaranteed external loans contracted during each month, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, and interest rate arrangements. This data will be provided within 4 weeks following the end of each month.

- Quarterly data on the outstanding stock of external debt by creditor, by debtor and by currency within 4 weeks following the end of the quarter.

- Quarterly data on the "Comité de Suivi"of HIPC related expenditures, within a maximum period of 4 weeks after the end of each quarter.

- Any revisions to previously reported data should be promptly communicated to the staff and adequately explained.

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

The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: (a) for the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances on money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' creditors) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title top the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Statement by the IMF Staff Representative
July 18, 2003

1. This statement reports on the implementation of prior actions that have been specified in the Memorandum of Economic and Financial Policies (MEFP) and provides an update on the main recent political and economic developments. The information contained in the statement does not alter the analysis and appraisal contained in the staff report.

2. **The three prior actions have been implemented on time.** In May, the authorities communicated a report on budget execution for the first three months of 2003, based on treasury accounts and reconciled with the central bank accounts. Commercial banks' net foreign exchange positions as of end-April 2003 have been communicated to Fund staff on July 3, and conform with the related prudential ratios. The authorities instructed end-June commercial banks to close all their central government accounts and to transfer the deposits to the Central Bank of Mauritania (BCM). To neutralize the impact on banks' liquidity, the BCM opened special accounts with commercial banks in the same amount, which will progressively be drawn down over the next three years, according to bank-specific schedules that are expected to be finalized in the coming weeks.

3. **The recent failed military coup and the subsequent government reshuffling has not altered the authorities' determination to proceed with the program as agreed with staff in April.** The coup attempt had a negligible impact on the economy and therefore has no significant implications for the agreed program. On July 6, President Taya named a new prime minister, and a cabinet was formed, in which a new finance minister was appointed. The BCM Governor and the minister for economic affairs and development had already been replaced in May, leading to a complete renewal of the three key officials that negotiated the program. However, the new team has signaled a firm intention to proceed as scheduled with the new three-year program, and the new BCM Governor, Mr. Tebakh, has signed the letter of intent. In his first address to the parliament, the prime minister confirmed the policy orientations of the previous cabinet, as defined in the PRSP.

4. **Preliminary indications for the first half show that 2003 macroeconomic targets are attainable.** Production of iron ore was 13 percent higher in the first six months of 2003, as compared with the same period of last year. Provided the declining trend in fishing activity does not accelerate and rainfalls are normal, the targeted real GDP growth rate for 2003 (5.4 percent) is within reach. The inflation rate continued its decline through May with an average monthly rate below 0.1 percent, and is currently on track to achieve the 3.5 percent end-year objective.

5. **Fiscal outcomes and monetary aggregates through May were close to program targets.** Tax revenue slightly exceeded program projections, boosted by recent measures to improve tax collection, including financial incentives for the tax directorate's staff. Total government expenditures remained close to the program's projection. According to the latest quarterly report on Heavily Indebted Poor Countries (HIPC)-related expenditures, the

execution of HIPC-financed programs has markedly accelerated over the first quarter of 2003.

6. **In recent months, the exchange rate vis-à-vis the U.S. dollar has been stable while Mauritania's external position further strengthened.** The level of international reserves reached US$380 million as of end June 2003, compared with US$345 million in the program projection, in part due to a slowdown in the central bank's sales of foreign exchange. The ouguiya depreciated in real effective terms by about 5 percent during the first half of 2003, reflecting the appreciation of the euro against the dollar. The average spread between the parallel and the official rates remained around 5 percent during the first half of this year.

7. **Ongoing reforms are proceeding as scheduled in the program.** A FAD technical assistance mission is currently in Mauritania to review direct taxation and formulate proposals aimed at simplifying and improving the efficiency and equity of the present system. A substantial number of the National Social Security Fund (CNSS) staff have already expressed interest in a voluntary departure program that should cut in half its workforce by June 2004. Specific proposals to address two recommendations raised by FIN's safeguard assessment (on improving internal control and setting up an internal audit committee) are expected to be approved by the new BCM governor in the coming days.

8. The authorities have consented to publish the staff report.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/100
FOR IMMEDIATE RELEASE
August 13, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with the Islamic Republic of Mauritania

On July 18, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Islamic Republic of Mauritania.[1]

Background

Since the last Article IV consultation, Mauritania has weathered unfavorable exogenous shocks with sound macroeconomic policies. The authorities have moved their poverty reduction strategy and reform agenda forward, in line with the recommendations of the Executive Board.

The drought had a major drag on growth in 2002, but macroeconomic performance remained relatively sound. A severe drought and weak demand for Mauritania's main exports led to a lower growth rate of 3.3 percent, down from 4 percent in 2001. Growth seems to have come essentially from construction and services, particularly trade, transport, and telecommunications. The impact of the drought on food prices and the depreciation of the ouguiya, especially against the euro, largely explain the pickup in the end-period inflation rate to 8.4 percent, while the 12-month average inflation rate remained close to its 4 percent target. Gross official reserves reached US$400 million at year-end, equivalent to 8.7 months of imports, in spite of the central bank's heavy sale of foreign exchange in the last quarter, which

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

contributed to narrowing the spread (to about 6 percent) between the official and the parallel market rates.

The external current account deficit narrowed significantly in 2002 mainly due to the late receipt of the 2001 EU fishing license payment. With the weakening of the U.S. dollar, the ouguiya has depreciated by about 23 percent in nominal effective terms and by an estimated 16 percent in real effective terms from end December 2001 to May 2003.

The overall fiscal position in 2002 was in surplus, equivalent to 6.2 percent of GDP, also on account of the late fishing license payment. Taxes were marginally lower than budgeted on account of a shortfall in tax receipts on goods and services, while capital spending increased due to a marked improvement in the project execution rate. Social and poverty-related spending also increased to reach 10.6 percent of GDP, as compared with 8 percent of GDP in 2001. The fiscal surplus and the size of net external financing led to a substantial accumulation of government deposits in the banking system amounting to UM 37 billion or 13.5 percent of GDP, with total stock of government deposits reaching 44 percent of GDP.

Monetary policy remained prudent, with broad money growing at 9 percent and private sector credit at about 20 percent. The cautious fiscal stance contributed to keeping monetary policy relatively tight, as did the unsterilized heavy intervention of the central bank in the foreign exchange market in the last quarter of the year. The repo rate, the main interest rate of the BCM, remained constant at 11 percent, and the treasury bill rate at about 6 percent.

Preliminary data for the first half of 2003 are encouraging. The targeted real GDP growth for 2003 (5.4 percent) appears to be achievable. After picking up at end-2002, the inflation rate started to decline through May with a monthly average of 0.1 percent, thus rendering the end-year inflation target of 3.5 percent within reach. The overall fiscal deficit of the 2003 budget, is projected at 2.1 percent of GDP and would be more than financed by external borrowing at concessional terms, grants, and debt relief, leading to a significant accumulation of government deposits in the banking system. Tax revenues slightly exceeded projections, boosted by recent measures to improve tax collection, and government expenditure on social sector continued to increase as expected. The level of international reserves remained at very comfortable level of US$380 million by end June 2003. Ongoing reforms are proceeding as scheduled in the program.

The authorities have continued to manage their external debt prudently. Mauritania reached its completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2002. External public debt, in net present value terms, at end-December 2002 was equivalent to 58 percent of GDP and 150 percent of exports. The authorities have already reached an agreement with most of the creditors.

Mauritania has implemented an impressive array of structural reforms over the last few years, the most important of which are: the unification of the VAT rates and elimination of exemptions except where they protect the poor; strengthening public expenditure management; stream lining the procurement code and revising the investment code to enhance its transparency; and completing an ambitious privatization program.

Executive Board Assessment

Executive Directors commended the authorities for the robust economic growth, macroeconomic stability, and progress in social indicators achieved despite the exogenous shocks experienced by the Mauritanian economy. In particular, substantial progress has been made in reducing poverty. Directors noted that this strong performance reflects the authorities' determined implementation of sound macroeconomic policies and far-reaching structural reforms in the context of a comprehensive country-owned poverty reduction strategy.

Directors observed that while Mauritania has made significant progress under a series of Poverty Reduction and Growth Facility-supported arrangements, the economy remains vulnerable to external shocks as well as to weaknesses in capacity and institutional development. They remarked that achieving the authorities' objective of reducing poverty under the new PRGF-supported program will require higher, sustained rates of economic growth—based on further efforts to reform and diversify the economy, improve governance and transparency, and strengthen institutions. Directors agreed that the Fund will continue to have an important role to play in Mauritania, providing technical assistance and policy advice.

Directors endorsed the authorities' medium-term fiscal strategy, which focuses on broadening the tax base and containing the growth of total expenditure, while accelerating pro-poor spending. They supported the emphasis on simplifying the tax system and strengthening tax administration, and noted that an improvement in public expenditure management will be essential for enhancing efficiency and ensuring the success of the poverty reduction strategy. Directors welcomed the authorities' commitment to implement the measures suggested in the fiscal Reports on the Observance of Standards and Codes, and suggested that the authorities consider extending the tracking now in place for HIPC-financed expenditures—which should help ensure better targeting of social spending—to all expenditures.

Directors commended the authorities for their commitment to maintaining low inflation. They remarked that continued success in this area would require active use of open market operations to manage bank liquidity. Directors welcomed the transfer of government deposits from commercial banks to the central bank as a means of enhancing liquidity control, but advised that it should be carefully executed to avoid adverse effects on bank liquidity and private sector credit.

Directors agreed that the authorities' efforts to promote investment, growth, and poverty reduction would be helped by strengthening the financial sector and deepening financial intermediation. In this context, they underscored the importance of ensuring the separation between banking and commercial activities and adhering to the credit concentration targets agreed between the central bank and the commercial banks. It will also be important to ensure the adequate capitalization of banks and encourage the diversification of banks' capital—including through foreign ownership.

Directors endorsed the authorities' commitment to maintaining a flexible exchange rate that will ensure competitiveness and the country's capacity to respond to external shocks. They noted, however, that this will require further improvements in the operation of the foreign exchange market, including the strict application of the banking law to reduce commercial banks' preferential treatment of certain customers, and more generally, steps to ensure the ready access by all to foreign exchange. Given the comfortable level of international reserves, a more active foreign exchange policy should contribute to further narrowing the spread between the parallel and official rates.

Directors underlined the importance of maintaining external debt sustainability over the medium term. They noted the authorities' intention to pursue a prudent debt strategy within a well-prioritized investment plan and to refrain from nonconcessional external borrowing. Given the sizable government deposits in the banking system, Directors saw a need to monitor closely and reduce—to the extent possible—the dependence on external borrowing.

Directors encouraged the authorities to intensify their efforts to improve transparency and governance in the public sector, which they considered vital for enhancing the environment for private investment and growth. Directors welcomed the authorities' intention to pursue a comprehensive public service reform, adopt, before the end of next year, an ethics code for public servants, and reform the judicial system. Also, some Directors suggested that the authorities adopt a financial disclosure law for government officials. In addition, the authorities were encouraged to start preparing, as soon as possible, the groundwork for the efficient and transparent use of potential oil revenues.

Directors welcomed the authorities' plan to address the weaknesses in the production and dissemination of economic and financial data. Future actions to improve statistics would benefit from the expertise of Africa Regional Technical Assistance Center and the Statistics Department, especially in the national accounts, balance of payments, and the consumer price index. Directors also encouraged the authorities to develop a set of social indicators that could be updated yearly through more frequent informal surveys.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

The Islamic Republic of Mauritania: Selected Economic Indicators

	1999	2000	2001	2002
	(Percentage change; unless otherwise noted)			
National income and prices				
GDP at constant prices	5.2	5.2	4.0	3.3
Consumer price index (period average)	4.1	3.3	4.7	3.9
Consumer price index (end of period)	1.9	5.6	1.7	8.4
External sector				
Exports, f.o.b. (in U.S. dollars)	-7.4	3.5	-1.8	-2.4
Imports, f.o.b. (in U.S. dollars)	-13.2	8.3	10.7	12.3
Export volume	5.6	-0.4	-5.5	-10.1
Import volume 1/	-10.9	6.8	13.2	10.3
Real effective exchange rate	1.1	-3.8	1.0	-7.0
Money and credit				
Money and quasi-money 2/	5.1	12.8	17.3	8.9
Net foreign assets 2/	24.1	58.1	6.1	78.4
Net domestic assets 2/	-18.9	-41.5	7.9	-69.4
Domestic credit 2/	-10.1	-26.0	21.9	-60.1
Credit to the government 2/	-39.5	-62.5	-8.8	-95.5
Credit to the economy 2/	29.4	36.5	30.8	35.1
Interest rate 3/	10-11	8-9	8.0	8.0
	(In percent of GDP; unless otherwise noted)			
Investment and savings				
Investment 4/	18.6	32.1	34.5	33.0
Non-oil investment	17.1	28.6	26.6	21.9
National saving	22.1	29.4	23.9	27.9
Consolidated government operations				
Revenue, excluding grants	27.1	25.3	20.6	37.6
Expenditure and net lending	25.0	29.6	26.1	31.4
Overall balance excluding grants 5/	2.1	-4.4	-5.5	6.2
External sector				
Current account balance				
Excluding official transfers and oil	-3.3	-5.8	-10.4	-0.6
Debt service ratio (as percent of exports)				
Before rescheduling	36.4	32.2	28.5	30.1
After rescheduling	22.4	23.0	19.6	19.4
Gross official reserves (in months of imports)	5.9	6.9	6.8	8.7
Memorandum items:				
Ouguiya/US$ exchange rate (period average)	209.5	240.0	254.3	271.7
Nominal GDP (in billions of ouguiyas)	206.5	229.4	251.3	269.1

Sources: Data provided by the Mauritanian authorities; and IMF staff estimates and projections.

1/ Does not include imports of machinery and equipment related to oil exploration.
2/ In percent of broad money at the beginning of the period.
3/ Interest rates on 12-months passbook savings.
4/ The sharp increase in 2000/2001 reflects new investment in the telecom sector, an increase in government investment, and a rebound in SNIM investment.
5/ The increase in the deficit in 2000 is due mainly to the cash advance granted by the government to the telecom company Mauritel.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 03/117
FOR IMMEDIATE RELEASE
July 18, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves a Three-Year, US$8.8 Million PRGF Arrangement for the Islamic Republic of Mauritania

The Executive Board of the International Monetary Fund (IMF) approved today a three-year, SDR 6.4 million (about US$8.8 million) Poverty Reduction and Growth Facility (PRGF) arrangement for the Islamic Republic of Mauritania. As a result of this approval, Mauritania can draw SDR 920,000 (about US$1.3 million) under the arrangement immediately.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion of Mauritania's economic program and poverty-reduction strategy, Ms. Anne Krueger, First Deputy Managing Director and Acting Chair, stated:

"In recent years, Mauritania has registered strong economic performance supported by sound policies and a firm commitment to reform. As a result, growth has been robust, inflation has remained low, and the external position has strengthened. In addition, substantial progress has been made in reducing poverty. Mauritania demonstrated sustained program ownership over the period of the last PRGF-supported arrangement, whose key objectives were achieved.

"Despite these achievements, much remains to be done to alleviate poverty further, and achieve Mauritania's Millennium Development Goals. In particular, implementation capacity and key public institutions continue to be weak, and there is a need to strengthen governance and transparency, and pursue the reform agenda with respect to the public finances and the financial sector. In this context, the Fund supports the request by the Mauritanian authorities for a successor PRGF-supported program which aims at addressing those challenges, and setting the stage for sustained growth and poverty reduction.

"Macroeconomic policies under the program will require maintaining a prudent fiscal stance, effective management of bank liquidity, flexibility in exchange rate management, and careful debt management. Fiscal policy will need to concentrate on accelerating pro-poor spending and broadening the tax base. Particular attention should be placed on better targeting of social spending, and a broad-based improvement in public expenditure management.

"The authorities' strategy for growth and poverty reduction is anchored firmly in the PRSP, which places emphasis on improving access to social services, employment and income-generating activities for the poor. As part of this strategy, structural measures during the first year of the PRGF arrangement will be targeted toward building capacity, reforming the civil service and the judicial system, enhancing transparency, and furthering good governance.

"Increasing the efficiency of financial intermediation will be crucial for promoting private investment and activity. To this end, efforts will continue to reduce the degree of concentration in the banking sector and separate banking and commercial operations. More generally, supervision of the banking system should be enhanced, and there is a need to bolster banks' capital and broaden the ownership base.

"It will be essential for the authorities to closely involve civil society and the poor in monitoring and evaluating actions taken by the government to reduce poverty. For the success of this strategy, the authorities are encouraged to develop a set of social indicators that could be updated and discussed on a regular and timely basis," Ms. Krueger stated.

ANNEX

Recent Economic Developments

Mauritania completed its previous PRGF arrangements in December 2002 (see News Brief No. 02/119). Growth has been relatively strong despite repeated external shocks, and inflation has remained subdued. The external current account has narrowed, Mauritania's reserve position has reached a comfortable level, and some progress was made in the reduction of poverty. These achievements are underpinned by appropriate macroeconomic policies and far-reaching structural reforms. However, the banking system has remained highly concentrated with inadequate financial intermediation, and the functioning of the foreign exchange market has continued to face some structural rigidities that contribute to a small spread between official and parallel market rates. Additionally, there has been modest improvement in building and strengthening administrative capacity.

Program Summary

The program seeks to increase growth and reduce poverty by focusing on banking and exchange rate reform, capacity building, and governance – which are the main weaknesses of the previous arrangement – while maintaining macroeconomic stability. For the medium term, the macroeconomic framework targets an inflation rate of less than 4 percent, a growth rate of about 5 percent to 6 percent until 2005. The level of official reserves is expected to be equivalent to at least 5 to 6 months of exports, under the program. And the increased growth envisioned under Mauritania's PRGF-supported program is expected to come from a rebound in the traditional sectors of the economy – agriculture and livestock – continued growth in services, and potentially from oil. Growth is expected to be further underpinned by a broad range of structural reforms envisioned under the PRGF-supported program.

For the period through 2004, fiscal policy is expected to focus on reforming direct taxation and strengthening tax administration and public expenditure management, while spending on pro-poor programs is increased. The central bank is expected to maintain a prudent monetary policy and follow a more flexible exchange rate policy. Structural policies are designed to deepen financial intermediation and improve the functioning of the banking system and Mauritania's foreign exchange market. This includes measures to reinforce banking supervision to help separate banking and commercial activities, and to ensure that all prudential regulations are respected. The authorities intend to draw on the resources of the recently inaugurated West Africa Technical Assistance Center (AFRITAC) to assist the government's efforts to strengthen capacity building. The PRGF-supported program also envisions improvements in governance, including through the establishment of a civil service ethics code, and measures to support private-sector led development, which would be particularly enhanced through improvements in Mauritania's judiciary envisioned under a program supported directly by the World Bank.

The Islamic Republic of Mauritania: Selected Economic Indicators

	2000	2001	Est 2002	Projection 2003	Projection 2004
	(Percentage change; unless otherwise noted)				
National income and prices					
GDP at constant prices	5.2	4.0	3.3	5.4	6.1
Consumer price index (period average)	3.3	4.7	3.9	6.4	3.7
Consumer price index (end of period)	5.6	1.7	8.4	3.5	3.5
External sector					
Exports, f.o.b. (in U.S. dollars)	3.5	-1.8	-2.4	3.3	7.7
Imports, f.o.b. (in U.S. dollars)	8.3	10.7	12.3	12.9	6.0
Export volume	-0.4	-5.5	-10.1	3.8	7.0
Import volume 1/	6.8	13.2	10.3	6.3	5.0
Real effective exchange rate	-3.8	1.0	-7.0	....	....
Money and credit	(In percent of broad money at beginning of period)				
Money and quasi-money	12.8	17.3	8.9	12.0	11.9
Net foreign assets	58.1	6.1	78.4	-11.2	-5.1
Net domestic assets	-41.5	7.9	-69.4	22.1	16.9
Domestic credit	-26.0	21.9	-60.1	8.6	17.6
Credit to the government	-62.5	-8.8	-95.5	-20.9	-12.9
Credit to the economy	36.5	30.8	35.1	29.7	30.5
Interest rate 2/	8-9	8.0	8.0	8.0	8.0
	(In percent of GDP; unless otherwise noted)				
Investment and savings					
Investment 3/	32.1	34.5	33.0	43.1	42.6
Non-oil investment	28.6	26.6	21.9	24.6	23.4
National saving	29.4	23.9	27.9	21.6	20.5
Consolidated government operations					
Revenue, excluding grants	25.3	20.6	37.6	29.4	28.4
Expenditure and net lending	29.6	26.1	31.4	31.6	21.1
Overall balance excluding grants 4/	-4.4	-5.5	6.2	-2.1	-2.7
External sector					
Current account balance					
Excluding official transfers and oil	-5.8	-10.4	-0.6	-9.5	-8.0
Debt service ratio (as percent of exports)					
Before rescheduling	32.2	28.5	30.1	30.4	25.8
After rescheduling	23.0	19.6	19.4	13.7	14.1
Gross official reserves (in months of imports)	6.9	6.8	8.7	7.2	6.4
Memorandum items:					
Ouguiya/US$ exchange rate (period average)	240.0	254.3	271.7	....	....
Nominal GDP (in billions of ouguiyas)	229.4	251.3	269.1	296.4	325.6

Sources: Data provided by the Mauritanian authorities; and IMF staff estimates and projections.

1/ Does not include imports of machinery and equipment related to oil exploration.

2/ Interest rates on 12-months passbook savings.

3/ The sharp increase in 2000/2001 reflects new investment in the telecom sector, an increase in investment, and a rebound in SNIM investment.

4/ The increase in the deficit in 2000 is due mainly to the cash advance granted by the government to the telecom company Mauritel (for details see Box 1 in EBS/00/287).

Statement by Damian Ondo Mañe, Executive Director for Islamic Republic of Mauritania
July 18, 2003

The Mauritanian economy continues to perform well, despite unfavorable weather conditions and exogenous shocks. Strong ownership of reforms and the continued implementation of sound economic policies resulted in the improved performance and have enabled Mauritania to reach the completion point under the HIPC Initiative in June 2002, leading to a more sustainable debt level. Mauritania also completed successfully the PRGF-supported program. Growth has been robust, inflation low, and the reserve position has reached a comfortable level. Far-reaching structural reforms have also been implemented over the past few years, and these have significantly improved the performance of the economy.

My Mauritanian authorities are of the view that the Fund-supported adjustment programs of the past few years have been critical to this progress, and as was noted in the Board meeting of December 2002, they would like to continue the close collaboration with the Fund in the context of a successor PRGF Arrangement. This program will help to consolidate the progress made, address remaining structural weaknesses, build the needed capacity so that the authorities can carry out consistent macroeconomic policies and integrate the macroeconomic framework within the poverty reduction strategy and also prepare Mauritania to exit from Fund-supported programs.

My Mauritanian authorities would like to reiterate their full commitment to the program of adjustment that is being presented to the Board. They would like to reassure the Board that the recent coup attempt by a dismissed military officer was an isolated incident and had very little support from the population. This incidence will have little impact on program implementation, as the program has the full ownership of the authorities as well as of the country, as it is based on the PRSP which was prepared through a broad participatory process.

Recent Economic Developments

Economic and financial performance in 2002 remained satisfactory, although real GDP turned out to be lower than projected due to adverse climatic conditions, and lower fish and iron exports. Growth came mainly from activities in the construction, commerce, transportation and telecommunications sectors. Inflation increased in the last part of the year due to higher food prices, as a result of the adverse weather conditions, adjustment in oil and gas prices, and the depreciation of the ouguiya, but the average inflation rate for 2002 was 4 percent, compared to 4.7 percent in the previous year. Monetary policy remained tight in 2002 and helped to contain inflationary pressures.

In the fiscal sector, although government revenue was lower due to the weaker economic activity, and capital spending increased as a result of improvement in project execution, the overall fiscal position was in surplus on account of the payment from the E.U.

related to the fisheries agreement. Fiscal measures taken, included, the continuation of the simplification of the tax system, the broadening of the tax base through the elimination of exemptions and the strengthening of tax administrations, and improving budget programming with the adoption of a new sectoral medium-term expenditure framework. Social and poverty-related expenditure also increased in 2002.

The external current account recorded a surplus at the end of the year, mainly on the basis of two payments (for 2001 and 2002) under the fisheries agreement with the E.U., and the level of international reserves increased to about 9 months of imports.

The Mauritanian authorities made significant progress on structural reforms in 2002, including the reform of the customs department, improving the functioning of the foreign exchange market and in the preparation of the studies for the rehabilitation of the National Social Security Fund. The second annual PRSP progress report, and the regionalization of the poverty reduction strategy were started. The authorities also adopted the standard mining convention, which has already led to a significant increase in the number of exploration permits delivered, as well as the number of operators. In the fisheries sector, the measures implementing the fisheries code have been adopted.

The authorities have also taken a number of important actions to develop the tourism industry, such as the preparation of a development strategy, the creation of an office for promoting the sector, and the development of related basic infrastructure. Measures were taken to improve the transport, energy and telecommunications sectors. The authorities have pursued their efforts to enhance the development of the private sector. These have consisted of reduction of taxes on businesses, the adoption of the texts implementing the investment code, the conduct of a study on economic regulation, and the strengthening of the government-private sector partnership through the Consultation Committee and organization of regional workshops to promote private investment in Mauritania.

New PRGF Program

As noted above, the Mauritanian authorities are requesting a new PRGF-supported program which covers the period April 2003 to March 2006. This program will help to consolidate the progress already achieved as well as help to address existing weaknesses. Working closely with the staff, the authorities have reviewed the previous programs, and drawn the appropriate lessons from them. The review has helped to revise some of the medium-term objectives to make them more consistent with the PRSP. It has also indicated the need, among others, to take steps to make the economy more resilient to exogenous shocks, improve financial intermediation so as to be better supportive of private sector development, develop capacities for managing the economy and executing public expenditure programs, and to intensify rural development and better target poverty reduction programs. The new PRGF, thus, includes measures to strengthen further the banking system and deepen financial intermediation, enhance the functioning of the exchange market, diversify the production and export base, increase social spending, and promote good governance. The program is closely aligned with the PRSP.

The medium-term macroeconomic framework targets a growth rate of 5-6 percent until 2005, increasing to 9 percent in 2006 as oil production comes into stream; the maintenance of inflation to below 4 percent; and the level of gross reserves to about 6 months of imports.

Program for 2003-04

Macroeconomic Policies

The authorities will maintain the current stance of **fiscal policy** with a special effort to ensure that the revenue target is achieved. The overall fiscal deficit for 2003 is projected at 2.1 percent of GDP. However, if there are indications of a revenue shortfall, the authorities have agreed with staff on a number of additional measures that could be taken. Improving the efficiency of the tax system and strengthening tax administration will remain important objectives of the program. In that context, the authorities have requested Fund technical assistance for a comprehensive review of the direct taxation system, with a view to the elimination of any distortion that may exist. Changes in the tax laws will be included in the 2004 budget. The authorities will also continue the strengthening of public expenditure management, and will introduce measures consistent with the recommendations of the fiscal ROSC. As regards the tracking of expenditure financed by debt relief, in the context of HIPC, progress is being made in this area, and it is the intention of the authorities to continue their efforts to include all the related expenditure in the quarterly reports.

Monetary policy will continue to be geared towards lowering inflation while also supporting the growth objective of the program. Consistent with this policy, private sector credit is projected to grow in 2003, while government deposits in the banking system are expected to increase. Moreover, in the context of improving the functioning of the monetary system, and enabling the central bank to better conduct monetary policy and enhance its management of liquidity, the authorities will start transferring government deposits from commercial banks, where they have traditionally been deposited, to the central bank. This will be done gradually and in an orderly way, according to an established plan with each commercial bank. The central bank will take every precaution to minimize the impact of this transfer on commercial banks' liquidity position. These changes are also being undertaken in the context of improving the functioning of the banking system and to help with the deepening of financial intermediation. Banking supervision is being strengthened, banks' balance sheets are being cleaned up by writing off non-performing loans that have no chance of being recovered, and other steps are being taken to increase competition in the banking sector. The authorities, thus, intend to strictly enforce the separation between banking and commercial activities. The banking law will be reviewed with Fund technical assistance and an information campaign will be started to attract foreign banks to operate in Mauritania.

The central bank will pursue its flexible exchange rate policy, and ensure external competitiveness. The authorities will also take additional measures as described in their Memorandum of Economic and Financial Policies to reduce the rigidities in the exchange market and enhance its operation. In this regard, a number of important measures are being implemented, and include, the requirement for banks to sell, at the end of the day, their excess foreign exchange to another bank or to the central bank, thus helping to develop an interbank market, as well as preventing the hoarding of foreign exchange for their own groups or clients. The authorities will also start an information campaign to explain the rights and obligations of banks and the public in the area of access to foreign exchange. It is the intention of the authorities to eliminate later in the year, the obligation to surrender foreign exchange receipts from fish export that was instituted in August 2002, will be eliminated.

Structural Reforms

Structural reforms will be focused on enhancing the functioning of the Mauritanian economy, including the strengthening of the climate for the development of a strong private sector. The program gives full attention to areas identified as major source of weaknesses. Measures to deepen financial intermediation and improving the operations of the banking system and the foreign exchange market are being taken, as described above.

As noted in their MEFP, the authorities view **institutional development** as vitally important in raising the level of development of Mauritania. The program therefore places much emphasis on capacity building. In this regard, the authorities will rely much on Fund and World Bank's technical assistance, including training from AFRITAC. The assistance will be in the areas of planning, programming and projects preparation. It is the intention of the authorities to develop a pool of qualified personnel who will then be able to train other Mauritanians, thus reducing the need for external technical assistance, over time. The authorities also intend to modernize the civil service, and will update the professional code of ethics for all government officials. The reform of the judiciary system and the regulatory framework will also be accelerated. A broad program of good governance covering the central government, parliament, judiciary, local governments, civil society and human rights organizations has been prepared and is being implemented.

Other areas of reform include the restructuring of the national social security fund according to the plan established. The authorities will also implement the recommendations regarding the safeguards assessment. In addition, they will continue their wide-ranging reform program aimed at increasing output. The program of rural development, and that of improving fisheries resources management will be pursued. A number of actions are envisaged to further expand the production capacity of the iron ore company, SNIM, and improve its productivity. Development of the mining sector and oil and natural sector will be accelerated, as well as that of the tourism sector. A number of vital infrastructure projects in the transportation sector are being implemented. Electrification projects are also underway.

As regard the **oil sector**, which is expected to start production at end-2005, the authorities have taken a fully transparent approach. They have provided the staff with all information on ongoing investments, including the taxation of oil revenue, as well as the technical details relating to the production sharing contracts with oil companies. However, at this time, the authorities do not have all the information needed to put in place reliable systems and procedures for use of potential revenue which will only start to flow in 2006. As more data become available, the authorities will prepare such a plan which will be shared with the staff.

Poverty Reduction Strategy

Mauritania has submitted its second annual PRSP progress report prepared with a broad participatory process. While the report indicates that the second year implementation has been successful, it also draws important lessons from the experience gained, and makes recommendations for improvements and revisions of some the targets of the PRSP. The authorities are acting on these recommendations. The emphasis on rural development with better access to micro finance is being emphasized, as described in the PRSP report. Improving the living conditions of the poor is also being addressed through the intervention in housing, community activities and training schemes.

In the area of education, despite the decline in the retention rate, the authorities are continuing their efforts which have resulted in the gross enrollment rate reaching 88 percent. The issue of declining retention, however, does concern my authorities who intend to look into it. Efforts are being pursued to expand access to basic health care, but here again inadequate human resources, have caused the quality to be low. As more capacity is built, the authorities expect the quality to improve, but it may take some time. Furthermore, the authorities were able to lessen the adverse impact of the recent drought on the poor through the implementation of an Emergency Action Plan.

Overall, my authorities are broadly satisfied with the poverty reduction strategy, but as noted above, they will continue to improve its implementation with experience. They are of the view that the regional approach that they have adopted will enhance the implementation of the PRS. They will further strengthen the system of monitoring and analysis in order to better assess the impact of policies and poverty reduction programs

In conclusion, following the completion of the previous PRGF, Mauritania has made considerable progress towards macroeconomic stability, achieving high rates of growth, and improving social indicators. The new program, on which my authorities have embarked, aims at consolidating this progress, addresses remaining weaknesses, and prepares the country for an exit from Fund-supported program. The program draws important lessons from previous programs and addresses directly the issue of capacity-building. The authorities have shown a strong commitment to the reform program and are determined to achieve the medium term objectives. My Mauritanian authorities are thankful for the support that they have received up to now, but as they explained in their MEFP, major challenges remain, and they hope that the international community will continue to support their efforts, through both technical and financial assistance.