INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/324

ISLAMIC REPUBLIC OF MAURITANIA

October 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ISLAMIC REPUBLIC OF MAURITANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with the Islamic Republic of Mauritania, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 28, 2017 consideration of the staff report that concluded the Article IV consultation with the Islamic Republic of Mauritania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 28, 2017, following discussions that ended on March 13, 2017 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 July 13, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Islamic Republic of Mauritania.

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

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August 9, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with the Islamic Republic of Mauritania

On July 28, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Islamic Republic of Mauritania.

Mauritania continues to face a challenging external environment with low and volatile metal prices. A steep decline in iron ore prices in 2014–15 took away half of exports, widened the fiscal deficit, put pressure on reserves, and exposed bank vulnerabilities. In response, the authorities adjusted the budget significantly in 2016 (by 3 percent of GDP), allowed the exchange rate to adjust, and mobilized foreign grants and loans. These efforts contributed to reducing external imbalances and maintaining macroeconomic stability: the external current account deficit narrowed to 15 percent and inflation was contained at 1.5 percent on average in 2016. However, growth remained low at an estimated 1.7 percent and external debt continued to rise (to 72 percent of GDP). The deceleration of economic activity also increased financial stability risks. In response, the authorities are strengthening bank supervision and are preparing a national strategy for accelerated and inclusive growth covering 2016–30, including structural reforms and large-scale, foreign-financed infrastructure investment program to support jobs, growth, and diversification.

Growth prospects have improved along with planned public investment and structural reforms and some—albeit short-lived— recovery in metal prices. However, large external imbalances remain; exogenous commodity price developments and foreign investment in the extractive sectors continue to shape the outlook; and upcoming debt repayments could put further pressure on reserves, which have dipped to 4.8 months of non-extractive sector imports as of March 2017. Possible development of a recently discovered off-shore gas field could be a game-changer starting in 2021.

[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.

Executive Board Assessment[2]

Executive Directors commended the Mauritanian authorities for their strong economic policy response to the challenging external environment of low metal prices, but noted that macroeconomic and financial stability as well as the incipient recovery remain fragile. Against this background, they agreed that the main challenge now is to support growth, reduce poverty and unemployment, diversify the economy, and meet infrastructure needs while, at the same time, strengthening macroeconomic stability, the external position, and debt sustainability. To achieve these objectives in the context of limited resources and elevated debt, Directors called for sustained prudent policies and structural reforms.

Directors concurred that structural reforms and infrastructure improvements are critical to address external imbalances and promote economic diversification. At the same time, most Directors called for greater exchange rate flexibility as a priority to help boost competitiveness, improve the external position, absorb shocks, and allow monetary policy to better address tight bank liquidity and support economic growth. A few Directors questioned the exchange rate's potential to boost competitiveness, given the country's limited production base. Some Directors also noted the authorities' concern that an accommodative monetary policy could jeopardize ongoing efforts to stabilize the still weak external position. More generally, Directors encouraged the authorities to introduce a competitive and transparent foreign exchange auction system, remove regulatory obstacles to the development of an interbank market, and strengthen reserve buffers.

Directors recommended that fiscal policy be focused on consolidating the adjustment achieved so far and on creating fiscal space by accelerating ongoing reforms. This would allow for higher social and infrastructure spending without jeopardizing macroeconomic stability and debt sustainability. Directors encouraged the authorities to continue to modernize tax and customs administration, introduce a corporate income tax, adopt the new organic budget law, and review and phase out tax exemptions. They called for recent measures to strengthen public investment and debt management to be operationalized promptly to help prioritize projects. Directors generally agreed on the need to avoid non-concessional borrowing and, instead, give preference to concessional loans and grants. Regarding Mauritania's ongoing negotiations with bilateral non-Paris Club creditors, a few Directors reiterated the importance of preserving comparability of treatment across official bilateral creditors.

Directors stressed the importance of addressing heightened financial stability risks and boosting credit to the private sector. In this regard, they encouraged the authorities to build on recent progress and accelerate the implementation of the 2014 FSAP recommendations,

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

especially strengthening banking supervision and adopting the new banking law and central bank statute.

Directors welcomed the authorities' draft multi-year development strategy to achieve higher and more inclusive growth, and encouraged its swift finalization and implementation. They recommended expanding social policies, strengthening social safety nets, and continuing efforts to improve the business climate and governance to support private sector growth, job creation, and diversification. Directors emphasized that higher spending on education and health would improve social outcomes and productivity, and help reduce poverty.

Mauritania: Selected Economic Indicators, 2015–18

Population: 4 million (2014 est.)

Poverty rate: 31 percent (2014)

Per capita GDP: US$ 1,335 (2014)

Unemployment: 13 percent (2014)

	2015	2016	2017	2018
			Proj.	
	(Annual change in percent)			
Output and prices				
Real GDP	0.9	1.7	3.8	3.0
Extractive	-6.7	-1.4	10.3	-3.5
Non-extractive	2.1	2.2	2.9	4.0
GDP deflator	-4.4	4.1	4.2	2.6
Consumer prices (period average)	0.5	1.5	2.1	3.7
	(In percent of non-extractive GDP; unless otherwise indicated)			
Central Government Operations				
Revenues and grants	32.5	31.8	30.8	30.3
Non-extractive	26.7	28.0	26.9	26.5
Taxes	16.8	18.9	18.8	19.0
Extractive	3.8	1.7	1.9	1.7
Expenditure	36.3	32.2	31.5	32.8
Current	20.5	19.0	18.5	18.1
Capital	15.5	13.3	12.9	14.5
Primary balance (excl. grants)	-4.5	-1.3	-1.5	-2.8
Overall balance (in percent of GDP)	-3.4	-0.3	-0.6	-2.1
Public debt (in percent of GDP) 1/	77.8	78.3	77.7	80.8
	(Annual change in percent; unless otherwise indicated)			
Money and Credit				
Broad money	0.4	7.1	7.3	7.5
Credit to the private sector	9.7	8.0	6.5	7.4
Balance of Payments				
Current account balance (in percent of GDP)	-19.7	-14.9	-15.3	-11.2
Excl. FDI-financed imports of extractive capital goods	-11.9	-11.1	-8.1	-9.3
Foreign direct investment (net, in percent of GDP)	32.0	16.3	25.0	11.1
Gross official reserves (in millions of US$, end of period)	822.8	824.5	724.9	622.8
In months of prospective non-extractive imports	5.6	5.5	4.3	3.7
External public debt (in percent of GDP) 1/	68.1	72.2	71.2	73.9
Real effective exchange rate (period average)	8.2	-5.7	…	…
Memorandum items:				
Price of iron ore (US$/Ton)	56.1	58.6	65.1	51.7
Nominal GDP (in millions of US$)	4,844.2	4,729.0	4,960.6	4,999.6

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding passive debt to Kuwait under negotiation.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

July 13, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

KEY ISSUES

Context. Mauritania continues to face a challenging external environment with low and volatile metal prices. A steep decline in iron ore prices in 2014–15 took away half of exports, widened the fiscal deficit, put pressure on reserves, and exposed bank vulnerabilities. In response, the authorities adjusted the budget significantly in 2016 (by 3 percent of GDP), allowed the exchange rate to depreciate, and mobilized foreign grants and loans. These efforts were successful in reducing external imbalances and maintaining macroeconomic stability, but growth slowed considerably, external debt continued to rise (to 72 percent of GDP, with a high risk of debt distress), and financial stability risks heightened. In parallel, the authorities are preparing a national strategy for accelerated and inclusive growth covering 2016–30, including structural reforms and large foreign-financed infrastructure investments to support growth and diversification.

Outlook and risks. Growth prospects have improved along with planned public investment and structural reforms and some—albeit short-lived— recovery in metal prices. However, the external position remains substantially weaker than warranted by fundamentals and desirable policies. The outlook hinges heavily on commodity price developments and foreign investment in the extractive sectors, while continued external imbalances and upcoming debt repayments could put pressure on reserves. Possible development of a recently discovered off-shore gas field could be a game-changer starting in 2021.

Policy discussions. Discussions focused on policies to support inclusive job-rich growth, reduce poverty, diversify the economy, and meet infrastructure needs while maintaining macroeconomic stability and debt sustainability. Staff recommended greater exchange rate flexibility to boost competitiveness and absorb shocks, along with countercyclical monetary policy to address tight liquidity and support growth. Continued gradual fiscal consolidation is needed to strengthen debt sustainability, while fiscal space for higher social spending and investment should be created through revenue mobilization, expenditure prioritization, and public investment management reforms. New borrowing should focus on growth-enhancing infrastructure and preference be given to concessional loans and grants. Stronger bank supervision is needed to ensure financial stability. Improving the business climate is a priority for growth and job creation.

Approved By
Daniela Gressani and Vitaliy Kramarenko

Discussions took place in Nouakchott during February 28–March 13 and in Washington, D.C. during April 20–22, 2017. The team comprised Eric Mottu (head), Aminata Touré, Tarak Jardak (all MCD), Racha Moussa (SPR), and Nooman Rebei (Resident Representative), assisted by Aichetou Maaloum Braham (local economist). Mohamed-Lemine Raghani and Mohamed Sidi Bouna (both OED) attended the meetings. Louis Dicks-Mireaux (SPR) joined the team subsequently. Ms. Kalla provided research assistance and Ms. Cruz, Ms. Prevost, and Mr. Kane provided support.

The mission met with Prime Minister Yahya Ould Hademine, Central Bank Governor Abdel Aziz Ould Dahi, Minister of Economy and Finance El Moctar Ould Djay, Minister of Petroleum, Energy, and Mining Mohamed Abdel Vettah, Minister of Fisheries and Maritime Economy Nanni Ould Chrougha, Minister of Budget Mohamed Ould Kembo, and other senior officials, as well as representatives of business associations, labor unions, banks, and development partners.

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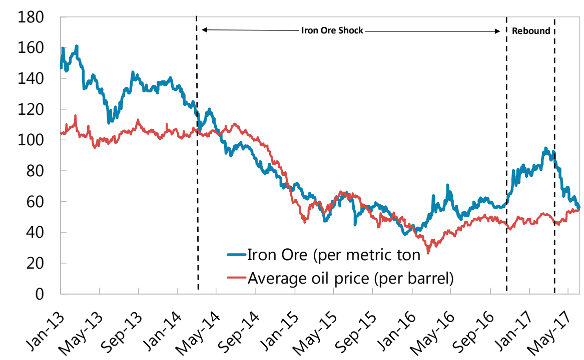
CONTEXT

1. **Mauritania continues to face the challenges posed by lower metal prices.** The economy largely depends on mining (iron ore, gold, copper) and fishing exports. Several years of high metal prices in 2010–13 accompanied by high GDP growth of 5.3 percent on average annually led to a reduction in poverty to 31 percent by 2014. However, the terms of trade deteriorated by about 38 percent in 2014–15, taking away half of exports, widening the fiscal deficit, and putting pressure on reserves. Financial stability risks heightened as liquidity tightened and non-performing loans (NPLs) rose significantly. Iron ore prices rebounded temporarily in November 2016 but dropped again in April 2017.

International Commodity Prices
(In U.S. dollars)



Sources: IMF; and Bloomberg.

2. **The authorities responded to the terms-of-trade shock with significant policy adjustment.** They achieved a notable fiscal consolidation of 3 percent of GDP in 2016, while the central bank (BCM) allowed for gradual exchange rate depreciation against the dollar and stopped direct sales of foreign exchange (FX) outside the market. In parallel, the authorities mobilized external resources which helped finance deficits, maintain reserves, and mitigate pressure on liquidity. However, growth slowed and debt continued to rise, albeit at a slower pace. Despite efforts to strengthen bank supervision, financial risks remain elevated.

3. **The authorities are finalizing a new development strategy for more inclusive and diversified growth.** The plan aims at modernizing traditional sectors like fishing and agropastoral activities, developing human capital, and strengthening governance. It also seeks to promote a greater role for the private sector. Yet, in the near term, the public sector is expected to continue to play a pivotal role through a large-scale public investment program aimed at addressing the still large infrastructure gaps and support diversification.

4. **Many key recommendations of the 2016 Article IV consultation are under implementation** (Annex I). The authorities have implemented policies to address fiscal and external imbalances, strengthen the financial sector, and improve the business environment. Continued efforts are needed, however, to address the public debt buildup, reform the FX market, adopt a more active monetary policy, maintain financial stability, and improve governance.

5. **Political developments.** A referendum to amend the constitution to abolish the Senate and certain judicial institutions is scheduled for August 2017. Presidential elections are due in 2019; the sitting president has stated that he would not seek a third term.

6. The authorities have requested Fund support for their economic program. Discussions on a possible Fund arrangement under the Extended Credit Facility were launched in February and are progressing.[1] Issues under discussion include the pace of fiscal consolidation, the public investment program, foreign exchange reforms, and other structural reforms.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

Macroeconomic imbalances caused by the terms-of-trade shock narrowed in 2016–17 following policy adjustment, but growth has yet to fully recover.

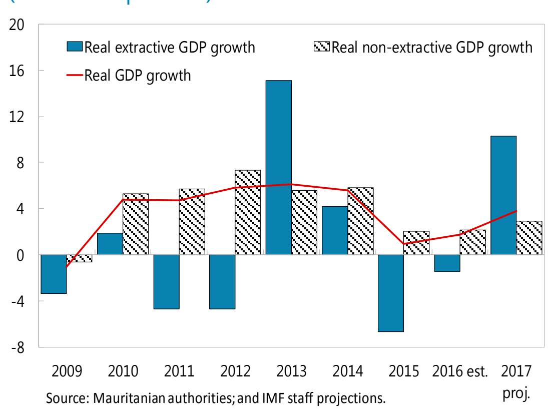
7. Growth rebounded somewhat to an estimated 1.7 percent in 2016 on the back of stabilized extractive output, but non-extractive growth remained subdued due to the policy adjustment.

- **In the mining sector**, iron ore production rebounded but was offset by lower gold and copper extraction due to strikes and aging equipment.

- **Non-extractive GDP growth was also subdued** due to low agriculture—mainly rice—manufacturing and services reflecting domestic demand contraction on the back of cuts in public spending and weaker extractive sector investment. Preliminary indicators for Q1 2017 point to some recovery, especially in construction and fishing.

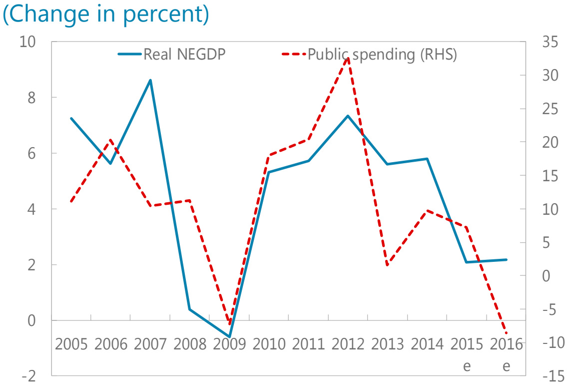
- The growth slowdown of the past two years opened a **negative output gap** of about 1½ percent of non-extractive GDP (NEGDP), and potential NEGDP growth slowed to about 4 percent (from 5 percent earlier in the decade).

Gross Domestic Product
(Growth in percent)



Source: Mauritanian authorities; and IMF staff projections.

Impact of Public Spending on Growth
(Change in percent)

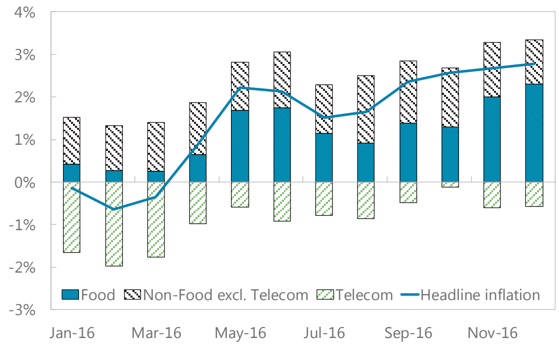


Sources: Mauritanian authorities; and IMF staff calculations.

[1] IMF Press Release No. 17/82.

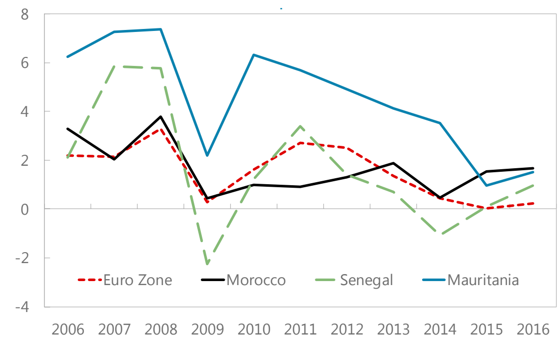
8. Inflation picked up in 2016–17 along with imported food prices and exchange rate depreciation, but remained contained at 2.9 percent y-o-y as of May. Food prices rose by 4.5 percent while non-food inflation remained at a low 1 percent due to a sharp drop in telecommunications prices.

Contribution to Inflation
(In percent)



Sources: ONS; and IMF staff calculations.

Inflation—Mauritania/Partners
(In percent)



Sources: ONS; INS; and IMF staff calculations.

9. Determined efforts significantly reduced the overall budget deficit to close to balance in 2016, and the adjustment is expected to be sustained this year. As extractive revenues continued to shrink to 1.7 percent of NEGDP (down from 10.5 percent in 2013), non-extractive revenues rose on the back of strengthened tax collection and some tax and non-tax measures,[2] especially on petroleum products.[3] Prioritization of current and foreign-financed capital spending lowered total expenditure by 4 percent of NEGDP in 2016. As a result, the primary deficit narrowed by 3.2 percentage points of NEGDP to 1.3 percent (excluding grants). Fiscal consolidation continued in 2017 Q1, supported in part by continued strong revenue performance, and the primary deficit is expected to remain around 1½ percent of NEGDP.

10. The current account deficit narrowed by 5 percent of GDP (to 15 percent) in 2016 due to lower investment in extractive industries and a contraction in domestic demand. Excluding FDI-financed imports, which are neutral on reserves, the current account deficit narrowed by about 1 percent of GDP (to 11 percent), and was financed mainly by official loans and mining companies' repatriations. The assessment of current account developments is clouded by a large swing in errors and omissions of close to 6 percent of GDP between 2015–16, which could suggest a larger adjustment.[4] The authorities mobilized sizable foreign grants and loans, mainly from Arab

[2] Measures also included higher VAT and excise taxes on some products initiated in 2015 and an upward revision of fishing license fees.

[3] Fuel subsidies continued to be negative: the budget generated a large oil windfall (2.6 percent of GDP) as lower international prices were not passed on to domestic prices (the automatic diesel pricing formula adopted in 2012 was not applied). Gas subsidies are minimal given low international prices, and electricity subsidies to the state-owned electricity company were discontinued in 2015.

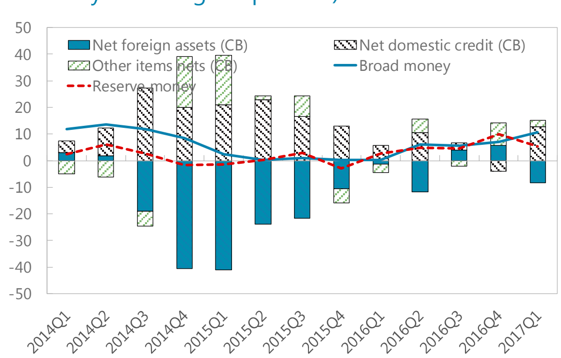
[4] These errors and omissions could be due to underestimation of imports, omission of grants and financing items, or lags between export transactions and payments.

multilateral funds and bilateral donors—some of them related to Mauritania hosting the Arab League summit in July 2016. This, combined with the enforcement of the repatriation of fishing proceeds and the discontinuation of direct sales of FX by the BCM outside of the market (which was generating sizable distortions), helped support international reserves at US$795 million (4.8 months of non-extractive imports) as of end-March 2017—somewhat below the adequacy metric for low-income countries (LICs) (Annex III).

11. The external adjustment was aided by sizable nominal exchange rate depreciation, which exceeded 16 percent against the dollar since mid-2014. However, the rate of crawl, largely managed by the BCM, slowed after May 2016, and other trading partner currencies, such as the euro, also depreciated. Hence, depending on the relative weights given to the dollar and the euro, estimates of the effective exchange rate range between a 3.6 percent real *appreciation* and a 4.9 percent real *depreciation* between mid-2014 and April 2017. Given continued external imbalances despite considerable adjustment, the exchange rate is estimated to be overvalued in the range of 14–21 percent in real terms, although estimates are subject to considerable uncertainty (Annex III).

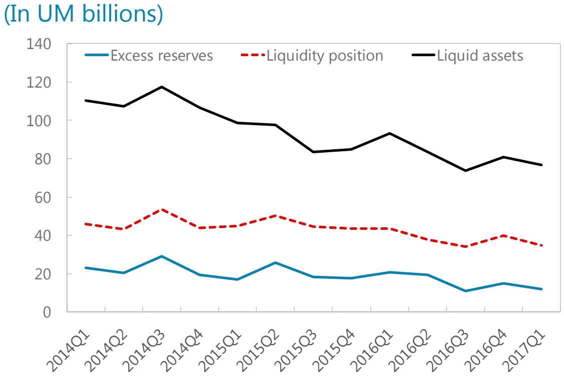
12. Monetary aggregates rebounded in 2016–17, but domestic liquidity continued to tighten amidst passive monetary policy. Broad money, which had remained flat in 2015 following the large drop in net foreign assets, grew by 7 percent in 2016, as external resources and reduced official intervention more than compensated for the drop in credit to the public sector due to fiscal consolidation. This provided space for private sector credit which rose by more than 8 percent in 2016, also with support from an external credit line for SMEs. However, strains on bank liquidity continued, driven by rising NPLs, unsterilized FX interventions, and higher demand for cash. The BCM kept its high policy rate and banks' reserve requirements unchanged to limit demand for FX and support the exchange rate, and conducted limited repo operations because of the lack of eligible collateral. As a result, credit growth slowed to 5 percent at end-March amidst tightening liquidity conditions.

Monetary Aggregates
(Year-on-year change in percent)



Sources: BCM; and IMF staff calculations.

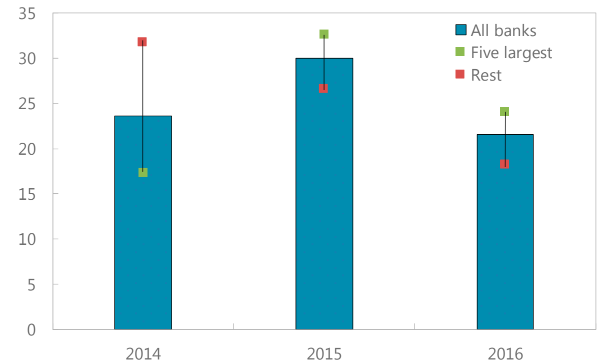
Liquidity Indicators
(In UM billions)



Sources: BCM; and IMF staff calculations.

13. Financial stability risks remain elevated. The deceleration of economic activity deteriorated banks' asset quality and increased financial stability risks, exacerbated by loan concentration, including vis-à-vis related parties. Preliminary data point to an improvement in the NPL ratio from 30 percent in 2015 to 21 percent in 2016, largely due to a purely accounting transfer of fully provisioned NPLs out of banks' balance sheets. Three banks' NPL ratios exceed 40 percent. One bank under liquidity stress with high NPLs could potentially pose a risk to financial stability. Official capital adequacy ratios suggest that on average banks remain well-capitalized at 23.7 percent, but the methodology suffers from shortcomings. At least five banks, including a large one, were recurrently unable to meet reserve requirements due to lack of liquidity. With a shallow interbank market and in the absence of lender-of-last-resort arrangements, some banks raised deposit rates to attract deposits or resorted to external borrowing, which made them more vulnerable to exchange rate movements. This, and higher provisioning needs, curtailed banks' profitability. Some small banks reportedly face difficulties finding foreign correspondent banks, possibly due to anti-money laundering and counter financing of terrorism (AML/CFT) deficiencies.[5] To address rising risks, the BCM is reinforcing banking supervision and has finalized a new banking law and central bank statute which will strengthen the prudential and bank resolution frameworks and its operational independence.

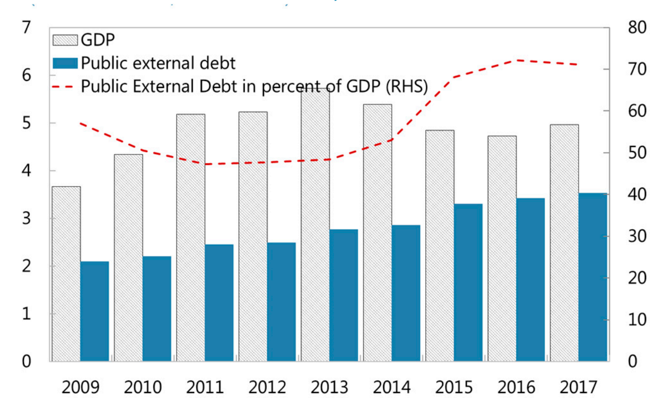
Nonperforming Loans
(In percent of total loans)



Sources: BCM; and IMF staff calculations.

14. External public debt rose during the past two years to 72 percent of GDP due to sizable borrowing, although the headline impact was amplified by the economy's nominal contraction; the debt ratio is expected to decline this year.[6] In 2015–16, external public debt rose by about $550 million (10 percent of 2014 GDP), but the debt-to-GDP ratio rose by 19 percentage points on the back of a 12 percent contraction in the nominal dollar GDP due to the terms-of-trade shock and exchange rate depreciation.

Public External Debt
(Excl. Kuwaiti debt, in USD billion)



Sources: Mauritanian authorities; and IMF staff projections.

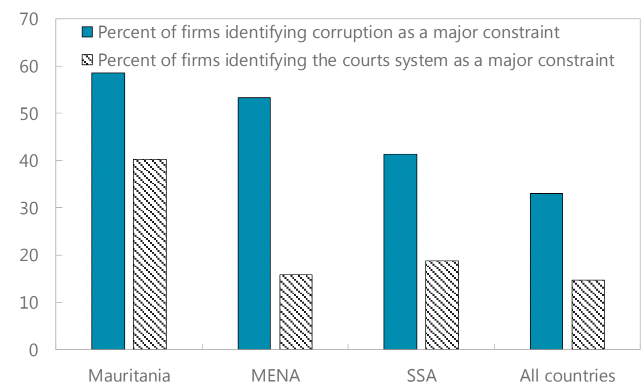
[5] An evaluation against the revised FATF standard, currently underway, will help identify outstanding AML/CFT gaps.

[6] Additionally, a passive debt in arrears, estimated at 21 percent of GDP, is owed to Kuwait since the 1970s and is under negotiation to achieve debt relief on at least terms comparable to the 2002 HIPC Initiative operation. As this debt has had no impact on balance of payments flows for the past four decades, staff report tables show two debt stock figures, one including and one excluding it, for completeness.

Much of the nominal increase in debt was due to a $300 million (6.2 percent of GDP) deposit from Saudi Arabia at the BCM in 2015 to support reserves, and other loans for budget support or infrastructure from Arab and Islamic multilateral funds. External public debt is projected to decline to 71 percent of GDP in 2017 on account of continued fiscal consolidation and a slower pace of project disbursements. Nevertheless, the high debt ratio, the deteriorated commodity price outlook, the amortization of the Saudi deposit and other multilateral loans over 2018–22, and weak debt management capacity put Mauritania at high risk of debt distress according to the debt sustainability analysis (see accompanying report). These risks, however, are mitigated by the concessional or semi-concessional terms of much of outstanding debt, and the existence of some—albeit below the adequacy metric—reserve buffers. The authorities have started addressing weaknesses in their public investment management but have yet to strengthen debt management, particularly debt recording and monitoring.

15. Structural reforms helped improve the business climate. Reform efforts in the areas of investor protection, starting a business, credit information, trade, getting electricity, and paying taxes led to a 16-rank gain over two years in the World Bank's Doing Business indicator, to 160th out of 190 countries in 2017. However, significant institutional and governance issues still weigh on private sector development (Figure 1 in Annex III) and a number of gender-based legal differences potentially restrict women's employment and entrepreneurship according to World Bank analysis. The authorities are finalizing a new development strategy for 2016–30, which aims at promoting more diversified and inclusive growth with a greater role for the private sector and a focus on human capital development and governance (Box 1).

Main Constraints for Private Sector Development
(In percent)



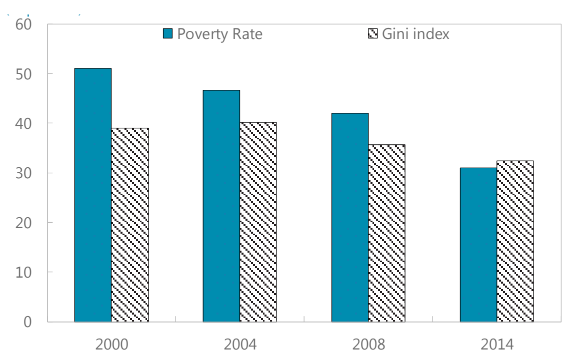
Source: World Bank Enterprises Survey 2014.

16. Social safety nets are being strengthened to build on the poverty reduction achieved in the past decade. Past growth and spending on social protection helped reduce the poverty rate by about 11 points since 2008, to 31 percent in 2014. In December 2016, a pilot targeted cash transfer scheme was launched with World Bank support. Unemployment was estimated at about 13 percent on average in 2014, with particularly high youth unemployment of up to 35 percent in major cities. Women's labor participation rate was low at 27 percent, and their unemployment rate of 19 percent was double the rate of men's.

Box 1. The Authorities' Inclusive Growth Strategy for 2016–30

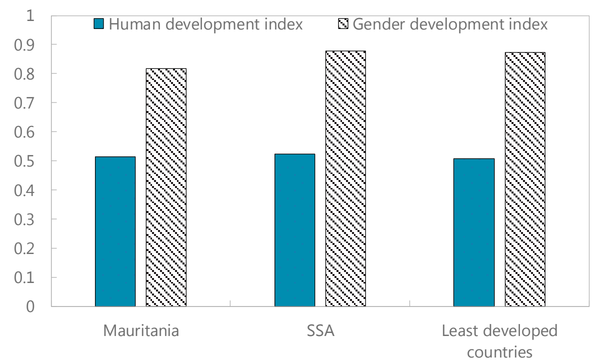
The experience of the last development strategy covering 2001–15 was mixed. Growth during the high commodity-price cycle of 2010–13 led to accelerated poverty reduction (from 42 percent in 2008 to 31 percent in 2014), although unevenly across regions. High public investment in infrastructure allowed better access to electricity and water, especially in urban areas. However, the economy continued to depend largely on natural resources, and employment creation remained insufficient to absorb population growth. Headway was slow on human development, specifically education, health, and gender equality; Mauritania ranked 157 out of 188 countries on the human development index in 2016.

Poverty and Inequality
(In percent)



Sources: Mauritanian authorities; and WDI.

Human Development and Gender Inequality
(In unit)



Source: United Nations human development indicators.

Based on lessons learned, the authorities formulated a new Strategy for Accelerated Growth and Shared Prosperity for 2016–30. The strategy aims at raising growth (eventually to 12 percent annually) and employment, reducing inequalities, eliminating extreme poverty, and halving overall poverty by accelerating the structural transformation of the economy and reforming social policies. It comprises three pillars:

- ***Promoting a higher, sustainable and more inclusive growth and job creation.*** The authorities plan to revitalize sectors with high employment and growth potential by (i) encouraging higher integration in the value chain in agriculture, pastoral activities, and fishing; (ii) improving public infrastructure; and (iii) promoting a greater role for the private sector by improving the business climate, developing PPPs, improving access to finance to SMEs, and encouraging FDI.

- ***Developing human capital and improving access to basic social services.*** The strategy will focus on improving both access and quality of education, vocational training, and health.

- ***Strengthening governance.*** In the economic area, a new organic budget law will strengthen transparency and accountability, while statistics will be improved to better support policymaking. The judicial system will be strengthened, and efforts will focus on fighting corruption. A national strategy for gender equality will be launched.

OUTLOOK AND RISKS

17. Near-term growth prospects are promising—supported by the authorities' public investment program, planned structural reforms, and higher FDI in the extractive sector—but external pressures are expected to persist under continued low commodity prices. Under staff's baseline scenario, non-extractive growth is expected to pick up gradually to 2.9 percent in 2017 and reach 6 percent by 2021.[7] The near-term performance reflects the demand impact of scaled-up and more efficient public investment in infrastructure, which will benefit essentially construction, manufacturing (cement), and services. Better infrastructure and accelerated structural reforms to improve the business climate, including property rights and land reform, will increase potential growth in the medium term, notably in processing fishing and agropastoral products. However, higher capital spending, especially foreign-financed, will widen the budget deficit to over 2 percent of GDP from 2018 onwards, and will raise public external debt to a peak of 75 percent of GDP by 2019. FDI-financed mining expansion (gold and iron ore) will boost extractive growth and support export revenues, with spillovers to the non-extractive sectors. Despite policy efforts, the current account deficit (excluding FDI-financed extractive capital imports) is projected to remain around 8–9 percent of GDP over the projection period due to continued low commodity prices. Reserves are expected to remain under pressure—due to continued external imbalances and sizable amortization payments—and could drop below 3 months of non-extractive imports by 2020.

18. On the upside, possible development of a recently discovered gas field could be a game-changer starting in 2021. The off-shore gas field shared with Senegal is under development by a consortium led by British Petroleum. It is not included in staff's projections as a final investment decision has yet to be made.

19. Significant downside risks remain, however, due to continued reliance on commodity exports and a narrow domestic productive base. The economy remains highly vulnerable to lower commodity prices and global growth, which would widen external and fiscal deficits, raise debt ratios, and strain buffers, with attendant stability risks (Figure 1). A less benign international environment, deterioration of regional security, and weak policy implementation would reverse recent economic and social gains (Risk Assessment Matrix, Annex II).

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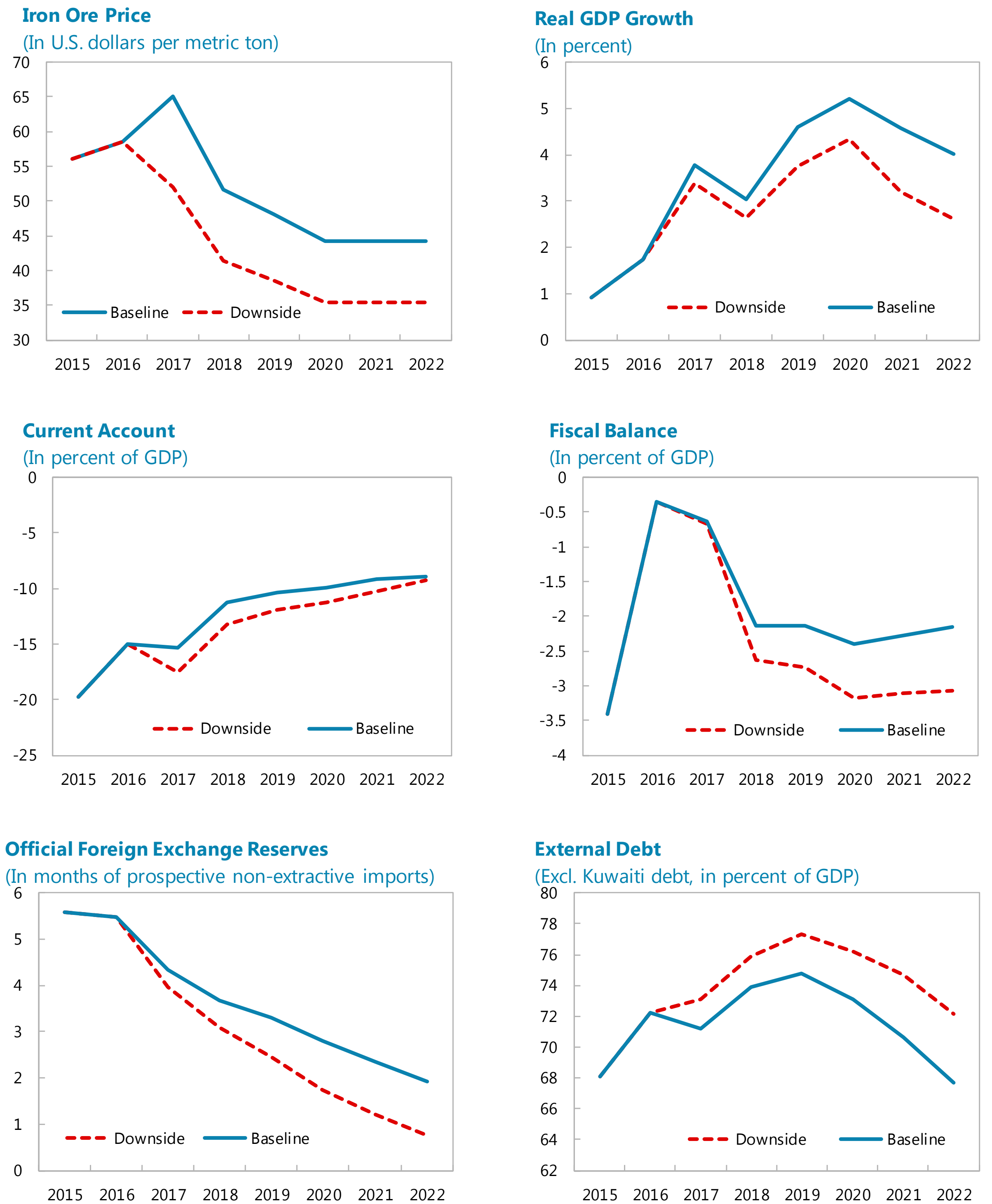
[7] Temporary dips in extractive GDP growth in 2018 and 2021–22 are due to planned shutdowns of oil production and a copper and gold mine, respectively.

Figure 1. Baseline and Downside Scenarios, 2015–22



Sources: Mauritanian authorities; and IMF estimates and projections.
Downside scenario assumption: 20 percent lower iron ore prices, 0.5-1.5 pp lower GDP.

POLICY DISCUSSIONS

20. Discussions focused on policies needed to consolidate the significant fiscal and external adjustment achieved so far, support the nascent recovery, meet infrastructure needs, and foster economic diversification while strengthening debt sustainability. Staff proposed a policy mix including greater exchange rate flexibility (through FX market reforms) and a more active and accommodative monetary policy to help address tight liquidity and support growth, accompanied by a gradual and growth-friendly fiscal consolidation that would create fiscal space for higher social spending and infrastructure investment through domestic revenue mobilization and expenditure prioritization. Strengthened bank regulation and supervision would help address rising financial stability risks and support credit to the economy. Expansion of social policies would help reduce poverty, while renewed business climate reforms would support private sector development, job creation, and diversification.

A. Increasing Exchange Rate Flexibility and Activating Monetary Policy

21. The current monetary policy framework, aimed at stabilizing the exchange rate, has effectively been contractionary and has led to some overvaluation. With unsterilized FX interventions aimed at countering pressure on the exchange rate, passive monetary policy contributed to tighter liquidity and higher real interest rates. If continued, this policy could slow credit growth and threaten both the recovery and financial stability. Moreover, despite some exchange rate depreciation in 2015–16, considerable external imbalances remain, the external position is substantially weaker than warranted by fundamentals and desirable policies, and there are signs of real exchange rate overvaluation in the range of 14–21 percent (Annex III).

22. Discussions focused on the scope for greater exchange rate flexibility to help address the weak external position. In staff's view, exchange rate policy could support fiscal consolidation efforts to correct external imbalances and safeguard reserves, and promote competitiveness and diversification. This, along with a new monetary policy anchor, would allow running a countercyclical monetary policy.

23. Authorities' views. The authorities, while agreeing in principle that the exchange rate could be used as a shock absorber (as exemplified by the depreciation of the past two years), felt that staff overstated the degree of overvaluation (in the absence of any meaningful premium on the parallel market), as well as the ability of the exchange rate to correct external imbalances given the limited non-extractive production base and the low elasticity of essential imports, notably food. They saw structural reforms and infrastructure improvements as priorities to address external imbalances by promoting economic diversification and broad-based growth.

24. There was broad agreement on the need to simultaneously upgrade the foreign exchange market and the monetary policy framework. With Fund technical assistance, the authorities intend to reform the FX market by introducing a competitive and transparent multiple price auction system, following international practice, and to gradually remove regulatory obstacles to the development of an FX interbank market. They will seek to implement a more active monetary policy by targeting monetary aggregates (as the nominal anchor instead of the exchange rate) to meet their price stability objective. Staff suggested a flexible reserve money target as the operational objective, which would reduce daily interest rate volatility. It called for rebuilding FX buffers that could be used in case of negative shocks and to address exchange rate volatility. Staff welcomed the BCM's efforts to build analytical and forecasting capacities, and encouraged further reforms of the central bank's organization and decision-making processes to adapt to the new framework. It also called for recapitalizing the BCM to strengthen its autonomy and capacity to conduct monetary policy operations (i.e., the government should repay its debt to BCM following the schedule agreed in 2013, and BCM should discontinue counting unpaid interest revenue on this debt as profits).

Box 2. Limits of the Current Monetary Policy and Exchange Rate Framework

Current framework

The BCM has a price stability objective and uses the exchange rate as de facto nominal anchor, but its monetary policy has been essentially passive. With a policy rate fixed at 9 percent since 2009 and disconnected from banks' interest rates, the monetary policy transmission channel is not functioning. Unsterilized FX interventions and the issuance/withdrawal of government T-bills are the main instruments used to manage liquidity. Banks' required reserves have remained fixed at 7 percent since 2007 and the BCM's interventions have been limited to spot repo operations at banks' initiative to help them comply with reserve requirements. So far, limited analytical capacity and monitoring/forecasting tools, particularly for inflation and liquidity, have hampered the modernization of the monetary policy framework.

Foreign exchange market

Since the market's establishment in 2007, unmet FX demand—mostly from importers—has been a permanent feature. The BCM is the only official supplier of FX, channeling iron ore and fishing proceeds through two windows: the official market and direct sales until mid-2016. The exchange rate is set on the official market through a "fixing" arrangement, namely a two-way auction mechanism under which the BCM controls both the price and the quantity of FX. Following the terms-of-trade shock which cut about half of the FX supplied, and the structurally high FX demand, the BCM's policy led to sizable reserve losses despite the gradual exchange rate depreciation. For a commodity exporter with few buffers, a more flexible arrangement would help absorb terms-of-trade shocks, limit volatility of output and interest rates, and provide room for countercyclical monetary policy.

25. The authorities emphasized the need for gradual implementation of reforms to account for capacity limitations and to allow all stakeholders, including banks, to prepare for greater exchange rate flexibility. They noted the need to strictly enforce existing regulations on repatriation of banks' FX before initiating reforms, and for an adequate reserve cushion for possible interventions to prevent volatility and overshooting during the transition period.

26. In the near term, discussions focused on the scope for a more accommodative monetary policy stance to address tight liquidity and support credit, while monitoring possible effects on the exchange rate and inflation. The negative output gap and relatively low inflation in 2017 provide room to reduce the BCM's policy rate, which would also make this instrument more effective given its large spread with T-bill rates (9 percent versus 4.8 percent). To ease liquidity conditions, the authorities are considering allowing monthly averaging of reserve requirements to give banks more flexibility in managing liquidity. If pressures persist and inflation remains subdued, more active liquidity management by the BCM, possibly by reducing reserve requirements, reactivating repo operations, and resuming weekly liquidity auctions, will likely be needed—the latter two requiring establishment of a framework defining eligible collateral. In this context, the BCM should proceed cautiously with the planned extension of collateral to private debt and rely primarily on T-bills and FX as collateral.

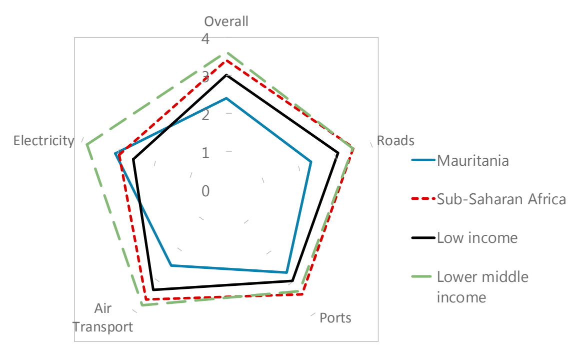
B. Balancing Growth, Infrastructure Needs, and Debt Sustainability

27. As in many low-income countries, fiscal policy faces an acute trade-off between supporting growth and infrastructure development, and ensuring macroeconomic stability and debt sustainability. Continued fiscal consolidation is needed to help address external imbalances and put public debt on a downward medium-term trajectory. At the same time, fiscal policy can play a role in supporting the nascent recovery, following the severe terms-of-trade shock and the rapid consolidation in 2016 which contributed to a sharp slowdown in growth—in an economy still heavily reliant on the public sector. Moreover, despite high investment in the past years, the infrastructure gap remains large and could stifle sustained growth and diversification.

Short- and Medium-Term Fiscal Policies to Create Fiscal Space

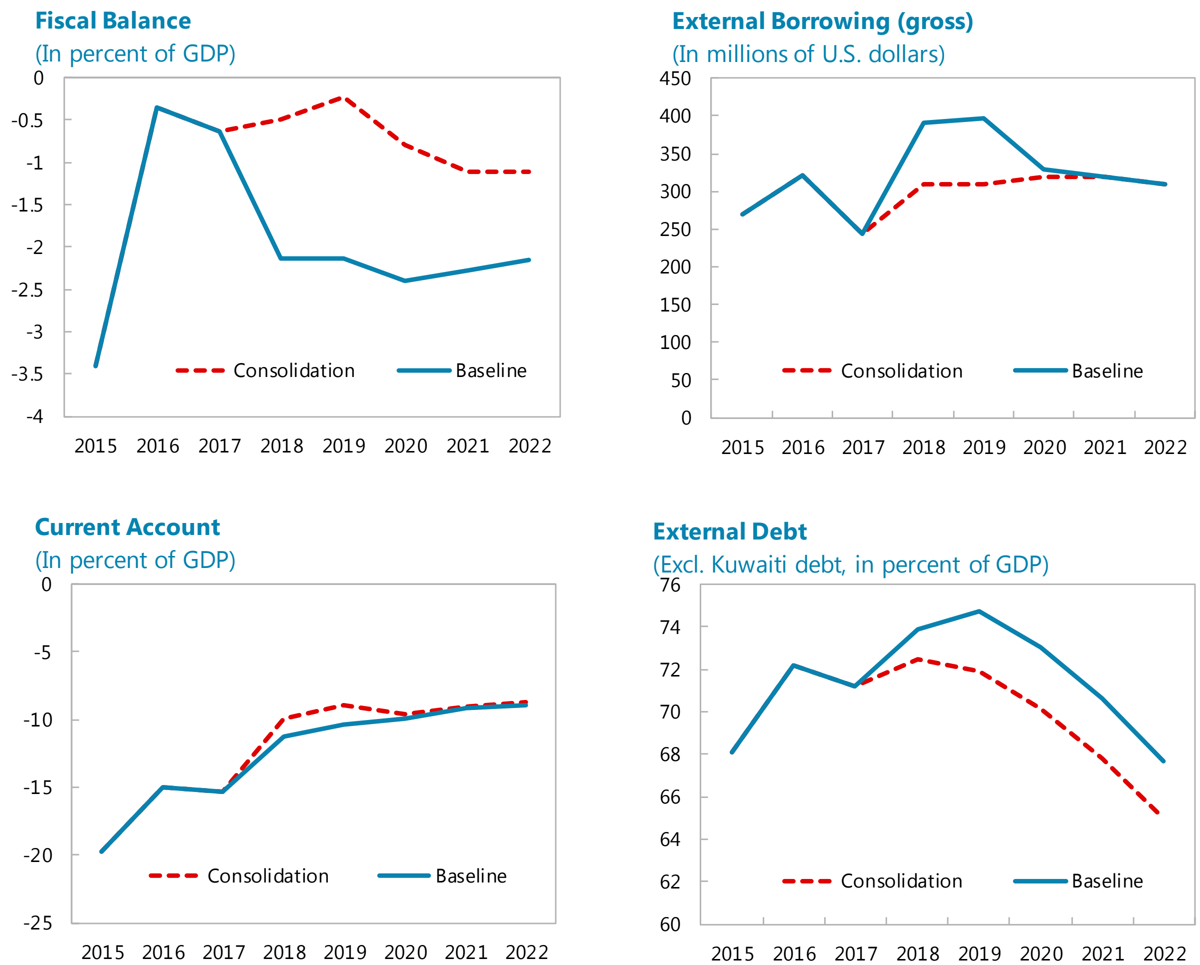
28. Staff recommended further moderate consolidation over the next few years, which would help return public debt on a downward trajectory while supporting the economic recovery through quality reforms. The authorities are implementing a tight 2017 budget, but their plans to expand infrastructure investment over the next few years need to be carefully calibrated so as not to derail the external adjustment while avoiding non-concessional foreign financing which could jeopardize debt sustainability. In this context, a further adjustment in the primary balance (excluding grants) by about 1 percent of NEGDP over 2018–20, associated with a moderate pace of external borrowing for priority infrastructure and social investment—carefully selecting projects based on their expected growth dividends—and growth-enhancing structural policies, would put the external public debt-to-GDP ratio on a downward path, while addressing the trade-off between growth and sustainability (Figure 2). While determining a specific debt target is premature given large swings in nominal GDP, the objective should be to firmly set the debt ratio on a downward trajectory over time to levels consistent with reduced risks of debt distress. There was a shared view that in the absence of prospects for sustained

Quality of Infrastructure



Source: Global Competitiveness Index (2015–16) higher commodity export prices in the foreseeable future, only significant economic transformation and diversification will durably address vulnerabilities and entrench debt sustainability. This will require determined and sustained implementation of the authorities' reform strategy supported by sizable foreign aid on concessional terms. The successful development of the off-shore gas field is unlikely to change this scenario in the next 5–10 years.

Figure 2. Fiscal Consolidation Scenario, 2015–22



Sources: Mauritanian authorities; and IMF estimates and projections.

29. Staff proposed to focus policy efforts on growth-friendly domestic revenue mobilization and expenditure prioritization to create fiscal space, sustain fiscal consolidation over time, and enhance resilience to shocks. Discussions focused on consolidating the recent improvement in revenue mobilization, containing current spending, and prioritizing capital spending to create fiscal space for priority social spending and infrastructure investment. While recognizing the importance of public investment projects, staff stressed the need to further prioritize—given the limited policy space—to avoid crowding out needed social spending and account for capacity constraints and project management inefficiencies. Staff also recommended strengthening debt management and controlling borrowing taking place in the parastatal sector; relying as much as possible on concessional financing; and promoting public-private partnerships (PPPs). Promoting a sustainable non-extractive revenue base, streamlining current expenditure, and raising public investment efficiency would enhance resilience to future commodity price shocks. Creating fiscal buffers in case metal prices improve would help as well.

Mobilizing Sustainable Revenue

30. Notable efforts to reform tax policies and strengthen tax administration are underway, but much remains to be done. The authorities are working, with Fund support, to replace the profit tax with a modern corporate income tax (CIT) to improve collections and help formalize the economy. They have started, with World Bank support, to compile a tax exemption registry and have committed to publishing estimates of tax expenditures and eliminating inefficient and distortionary tax exemptions over time.[8] However, despite considerable technical assistance, tax administration remains in need of modernization; taxpayer compliance remains low; and tax arrears have risen. Procedures remain cumbersome: a tax procedure code and a customs code have yet to be adopted, many processes are manual, and a customs valuation office remains to be operationalized. Stepped up tax controls in the past year has heightened the perceived tax pressure and provoked some taxpayer backlash.

31. There was broad agreement that domestic revenue mobilization should continue to focus on broadening tax bases and strengthening tax administration to increase efficiency, fairness, and predictability, and sustain the already high tax-to-GDP ratio. This involves (i) adopting the new CIT and reviewing and phasing out costly and untargeted tax exemptions; (ii) adopting the tax procedure and the customs codes and operationalizing the customs valuation office; and (iii) modernizing customs administration and continuing to strengthen taxpayer registration, filing, computerization and e-filing, controls and audits, arrears collection, and taxpayer services. Over time, the large oil taxation windfall (due to the differential between retail prices and currently low international oil prices) should be replaced by more efficient taxation, allowing the fuel pricing formula adopted in 2012 to be gradually phased in.

Prioritizing Expenditure and Increasing Its Efficiency

32. Building on recent improvements, public expenditure could be further rationalized and prioritized, while expanding social spending. The authorities have started streamlining public employment (notably by identifying and removing ghost workers from databases, piloting rationalized wage structures, and integrating parastatal entities into the central treasury system[9]), and reforming subsidies through a new targeted cash transfer program. These efforts could free up resources for productive investment, education and health. The authorities have also taken measures

[8] Tax exemptions, estimated at 3–5 percent of GDP, are granted through preferential regimes in the mining sector, the investment code, free zones, and VAT.

[9] About 50 state-owned enterprises and over a hundred autonomous public agencies deliver important economic and social services, some financed through own revenues but many by budget transfers.

to address shortcomings in managing public investment, which doubled to 15 percent of NEGDP between 2010–15, but has been poorly coordinated. To improve prioritization, a decree was passed in September 2016 establishing a framework to select and monitor projects. To better integrate all phases of project implementation, steps are being taken to introduce a new information system, with donor support. To encourage private sector investment in infrastructure, a legal framework governing PPPs was adopted in October 2016. In addition, while awaiting the adoption of the organic budget law that would unify domestically and foreign-financed investment and introduce multi-year budgeting, the 2017 budget placed a ceiling on both domestic and foreign-financed investment for the first time. This is a welcome step for strengthening public debt sustainability.

33. There was broad agreement that rationalizing and prioritizing current spending and public investment should continue, including under ongoing employment and wage reforms and the new framework unifying public investment management. Selecting and prioritizing financially viable projects based on their economic and social impact, their relevance for development and sectoral strategies, and their impact on debt will be critical. Future maintenance costs and their impact on the budget, especially for infrastructure projects, also need to be considered. Investment in human capital and social priorities, in line with the authorities' development strategy, should be considered in parallel with infrastructure. Inefficiencies due to weak procurement processes and project monitoring should be addressed. To support ongoing reforms, the new organic budget law should be adopted swiftly to unify the investment budgets and introduce multi-year budgeting. Stronger oversight and reporting of the parastatal sector should be developed, with World Bank support, to strengthen control over spending and contracting debt. The new PPP framework should be gradually operationalized, also with World Bank support, initially through a newly created unit and for small-scale projects.

Strengthening Debt Management

34. The authorities are strengthening the debt management framework. Better coordination between the Ministry of Economy and Finance and the BCM, associated with integrated information systems currently being introduced, would help contract, record, and monitor debt more effectively. This would also support formulation of a debt policy consistent with medium-term sustainability, given high debt levels and vulnerability to adverse terms-of-trade developments. Staff emphasized the need to avoid non-concessional borrowing, and to focus instead on grants and concessional loans for growth-enhancing projects at a pace consistent with debt sustainability. Staff also underscored the importance for the authorities to continue best efforts to resolve the debt in arrears with Kuwait.

35. Authorities' views. The authorities acknowledged the need for prudent debt policies and stronger investment management, but questioned the DSA's high risk of debt distress rating. They considered that public debt was sustainable and could be serviced, even in the current environment of low commodity prices. The authorities agreed to seek concessional and grant financing for priority infrastructure projects, but highlighted its limited availability and the fact that some loans on favorable terms fell short of the Fund's concessionality threshold; therefore, they may need semi-concessional financing as well in the context of their development strategy. They highlighted the progress made this past year to strengthen public investment and debt management, as demonstrated by improved prioritization in their latest public investment program. They assured their best efforts to resolve the debt in arrears with Kuwait by seeking debt relief on terms at least comparable to those granted under the 2002 HIPC Initiative completion point.

C. Preserving Financial Stability and Developing the Banking System

36. Discussions focused on addressing heightened financial stability risks, which could threaten the recovery. The situation of a few banks is precarious, and a single bank failure could trigger a loss of confidence for all local banks, even if the deposit insurance fund is able to address such situation. Against this background, there was broad agreement to accelerate implementation of the 2014 FSAP recommendations, in particular to continue strengthening bank supervision, enforcing regulations, and accelerating adoption of the new banking law and central bank statute (Annex IV). To limit the number of banks in the current conditions, the BCM hoped that strengthening licensing requirements in the upcoming banking law and raising the minimum capital requirement would encourage mergers.

37. The tight liquidity in the banking system requires a coordinated policy response. Deteriorating liquidity conditions call for enhanced monitoring of liquidity risks through regular reporting by banks and stress testing. Importantly, the BCM should introduce promptly the new instrument for emergency liquidity assistance, designed with Fund technical support, and accelerate the elaboration of a framework for eligible collateral; implementation will have to proceed cautiously given inherent risks. Over the medium term, structural measures are needed to deepen the interbank market, reduce maturity mismatches (mainly by diversifying and lengthening the maturity of banks' resources), reduce the use of cash, and develop a liquidity management framework for Islamic banks. Ongoing development of a real-time settlement system and an automated clearing house, with World Bank support, as well as the recent issuance of Islamic treasury bills, represent welcome steps in this regard.

38. Addressing NPLs and strengthening the resolution framework are critical to reduce mounting credit risks. The BCM is reinforcing inspections to ensure adequate provisioning of NPLs and urging banks to transfer fully provisioned NPLs out of their balance sheets. On regulation, it plans to upgrade the capital adequacy ratio to comply with Basel III and increase gradually the minimum capital requirement from UM6 to UM10 billion. While the authorities are awaiting to submit the new banking law to parliament which will enhance the resolution framework, they should freeze the granting of new bank licenses. On infrastructure, the reform of the credit registry has progressed and real time access has been granted to banks; the BCM is now planning to develop a registry for NPLs. Despite these measures, more efforts are needed to enforce concentration limits, including vis-à-vis related parties. Poor data quality and timeliness could hinder the transition toward risk-based supervision and need to be addressed. Finally, the lack of collateral—related to the outdated legal framework for property rights—and inadequate insolvency regulations increase the risk premium and the willingness of banks to expand private sector credit.

D. Improving the Business Climate and Expanding Social Policies

39. Staff welcomed the authorities' new development strategy for 2016–30 and its focus on more diversified and inclusive growth (Box 1). Economic diversification will increase resilience to shocks, create employment opportunities, and entrench poverty reduction. Staff urged finalizing the strategy through an inclusive and consultative process, and encouraged the authorities to initiate rapidly those reforms that will take time to bear fruit, such as education, justice, and institutions. Given weak demand and limited policy space, reforms should prioritize structural measures that yield both long-term payoffs and short-term gains, and are budget-neutral as much as possible—focusing on raising productivity, reforming public finances, improving the business environment, and establishing a macro-fiscal framework to manage extractive revenues (Annex V). Greater resources should be devoted to priority social policies such as education and health.

40. Despite recent progress, determined business climate reform efforts continue to be needed for private sector development. The authorities plan to address the main shortcomings identified by the Doing Business report to facilitate payments of taxes and social contributions, improve the single window for enterprise creation and construction permits, and strengthen the legal framework for property rights. They are also seeking to strengthen anti-corruption efforts and the AML/CFT framework.

41. Expanding social safety nets will consolidate progress in reducing poverty. The institutional setup of the social registry should be finalized, and resources need to be identified to ensure updating and expanding it. The pilot social transfer program should be expanded and permanent funding secured to replace donor funding in the medium term.

E. Article VIII, Safeguards, and Statistics

42. The authorities remain committed to meeting Mauritania's obligations under Article VIII. Since the 2014 Article IV consultation, Mauritania has maintained an exchange restriction arising from the insufficient availability of FX at the fixing sessions organized by the BCM for those transactions that are required to be submitted to those sessions, which was approved by the Board in 2014, and again in April 2016 for one year. The authorities request again Fund's approval to temporarily maintain the exchange restriction, as it continues to be necessary for balance of payments reasons and does not discriminate among Fund members. In the context of ongoing program discussions and planned FX market reforms, the authorities are committed to removing the restriction within one year following Board approval.

43. Progress in implementing the 2010 safeguards recommendations has been mixed. While the BCM has published its audited financial statements for 2007–16 and improved its internal audit practices, it has yet to provide the 2015–16 external auditor's management letters on internal controls to Fund staff, in line with the IMF's safeguards policy. Moreover, the legal reforms to strengthen the BCM's autonomy and governance, envisaged in amendments to the central bank law, have not yet been passed, and the BCM should improve its financial reporting in line with international standards.

44. There continues to be scope to improve statistics. Data provision is broadly adequate for surveillance but shortcomings remain, especially in balance of payments, fiscal, debt, and financial sector statistics. Notable improvements include the recent introduction of a new consumer price index with a wider geographical coverage and an updated consumption basket, as well as steps to migrate national accounts to SNA 2008. The authorities intend to further develop economic and social indicators and surveys to assess implementation of their reform strategy. The Fund has supported the authorities' efforts through technical assistance and will continue to coordinate with other international organizations to help prioritize and address remaining shortcomings.

STAFF APPRAISAL

45. The Mauritanian authorities have taken notable steps to adjust economic policies to the challenging external environment of low metal prices, but the incipient recovery needs to be supported. A steep decline in iron ore prices in 2014–15 took away half of exports, widened the fiscal deficit, put pressure on reserves, and exposed bank vulnerabilities. In response, the authorities adjusted the budget significantly in 2016 (by 3 percent of GDP), allowed the exchange rate to depreciate, and mobilized foreign grants and loans. These efforts were successful in reducing external imbalances and maintaining macroeconomic stability, but growth slowed considerably, external debt continued to rise (to 72 percent of GDP, with a high risk of debt distress), and financial stability risks heightened. In parallel, the authorities are preparing a national strategy for accelerated and inclusive growth covering 2016–30, including structural reforms and a large-scale, foreign-financed infrastructure investment program to support growth and diversification.

46. Growth prospects have improved along with planned public investment and structural reforms and some—albeit short-lived— recovery in metal prices. However, the external position remains weak and exogenous commodity price developments and foreign investment in the extractive sectors continue to shape the outlook, while upcoming debt repayments could put pressure on reserves. Possible development of a recently discovered off-shore gas field could be a game-changer starting in 2021.

47. The main policy challenge now is to support an inclusive growth recovery, diversify the economy, and meet infrastructure needs while maintaining macroeconomic stability and strengthening the external position and debt sustainability. Moreover, reducing poverty and unemployment remains an ongoing challenge despite progress made over the past decade.

48. Achieving these objectives in a context of limited resources and already high debt requires policy reorientation and structural reforms to complement public investment. A policy mix of greater exchange rate flexibility, associated with more active monetary policy and gradual fiscal consolidation anchored on debt sustainability, would support growth, strengthen the external position, and help rebuild buffers. Domestic revenue mobilization, expenditure prioritization, and public investment management reforms should be accelerated to create fiscal space for higher social spending and public investment. New borrowing should focus on growth-enhancing infrastructure on concessional terms and be complemented by structural reforms. Stronger bank supervision is a priority to ensure financial stability and boost credit. Expansion of social policies is urgently needed to raise human capital and help reduce poverty, while an improved business climate is a priority to support private sector growth, job creation, and diversification. The authorities' program, which broadly follows these lines, is welcome.

49. Greater exchange rate flexibility, achieved through foreign exchange market reforms, is a priority to help boost competitiveness, reduce external imbalances, and absorb shocks. Despite significant adjustment last year, the external position is substantially weaker than warranted by fundamentals and desirable policies, the real exchange rate remains overvalued, and international reserves are below the adequacy metric for LICs. While structural reforms and infrastructure improvements will be critical to address external imbalances by promoting economic diversification and broad-based growth, the exchange rate and FX market have an important role to play as well. Staff urges the authorities to introduce rapidly a competitive and transparent FX auction system in line with international best practices, remove regulatory obstacles to the development of an FX interbank market, strengthen reserve buffers, and upgrade the monetary policy framework.

50. A more active and countercyclical monetary policy is needed to address tight bank liquidity and support growth, with due consideration for its impact on inflation. Monthly averaging of banks' reserve requirements should be introduced promptly as planned. Should liquidity pressures persist, consideration should be given to reducing reserve requirements and the BCM's policy rate, which is currently ineffective in controlling liquidity, and to activating other existing liquidity management instruments, while continuously monitoring these measures' impact on inflation. In this context, the BCM should proceed cautiously with the planned extension of collateral to private debt. The BCM should be recapitalized to strengthen its autonomy and capacity to conduct monetary policy operations.

51. Fiscal policy should focus on consolidating the adjustment achieved so far while creating fiscal space by accelerating ongoing reforms. This involves further efforts to modernize tax and customs administration, introduce a new corporate income tax, and review and phase out tax exemptions. The recent measures to strengthen public investment management, enhance control over the public sector wage bill, and improve the oversight of parastatals should be operationalized rapidly. Creating fiscal space will allow for higher social spending on education and health, as well as public investment in much-needed infrastructure without jeopardizing short-term macroeconomic stability and long-term debt sustainability. New infrastructure borrowing should focus on growth-enhancing projects and be phased consistent with capacity. Public investment management should be strengthened through better coordination and introduction of integrated information systems to help prioritize projects. Public-private partnerships should be encouraged in the context of the newly adopted framework.

52. Debt management should be strengthened. Better coordination and integrated information systems would strengthen contracting, recording, and monitoring of debt. New borrowing on non-concessional terms should be avoided and preference given to concessional loans and grants given the already high debt. An incremental borrowing strategy would allow to reassess periodically investment needs, growth prospects, and debt sustainability. The objective should be to set the debt-to-GDP ratio on a downward trajectory over time, keeping in mind that a prudent borrowing strategy may involve short-term trade-offs with growth objectives. Only significant economic transformation and diversification will durably address vulnerabilities and entrench debt sustainability. This will require determined and sustained implementation of the authorities' reform strategy supported by sizable foreign aid on concessional terms.

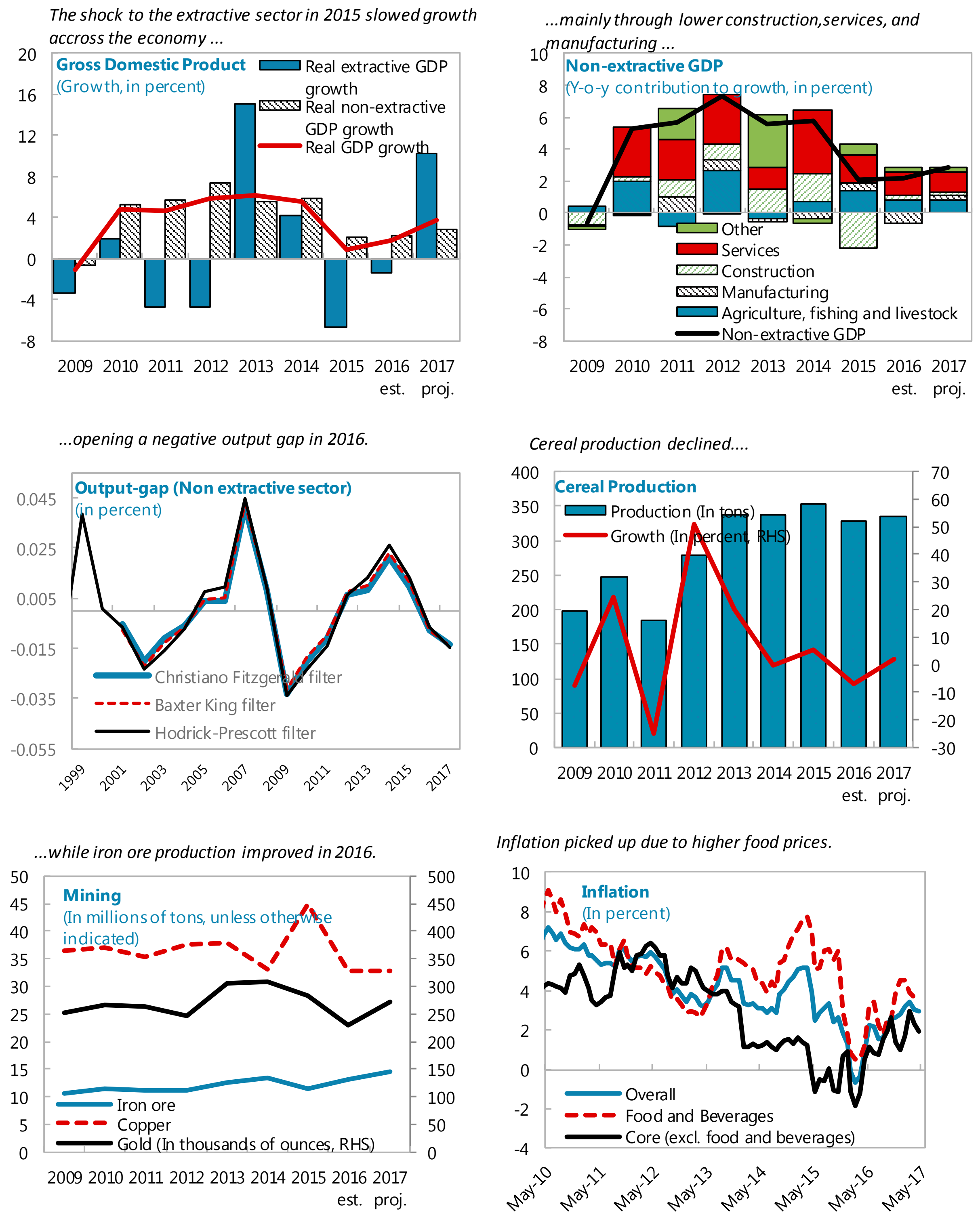
53. Stronger bank supervision is needed to address heightened financial stability risks and boost credit. The authorities should accelerate implementation of the 2014 FSAP recommendations, especially strengthening bank supervision, enforcing regulations, and accelerating adoption of the new banking law and central bank statute. Tight bank liquidity and mounting credit risks require a coordinated policy response, including by implementing the newly developed emergency liquidity assistance framework, addressing NPLs, and strengthening the resolution framework.

54. Social policies should be expanded, and continued efforts are needed to improve the business climate and governance to support private sector growth, job creation, and diversification. Higher spending on education and health would improve social outcomes and productivity, and help reduce poverty which remains a challenge despite progress made over the past decade. Expanding social safety nets is a priority in this regard.

55. Staff supports the authorities' request for approval of the existing exchange restriction. In the context of ongoing discussions on a possible Fund arrangement under the ECF, the authorities have advanced preparations for extensive reforms of the FX market which are expected to bring Mauritania's foreign exchange regime in compliance with its Article VIII obligations. Staff considers that the temporary retention of the existing exchange restriction is necessary for balance of payments reasons, and does not discriminate among Fund members. Hence, staff recommends the temporary approval of the retention of this restriction until July 28, 2018 or the date of the conclusion of the next Article IV consultation, whichever is earlier.

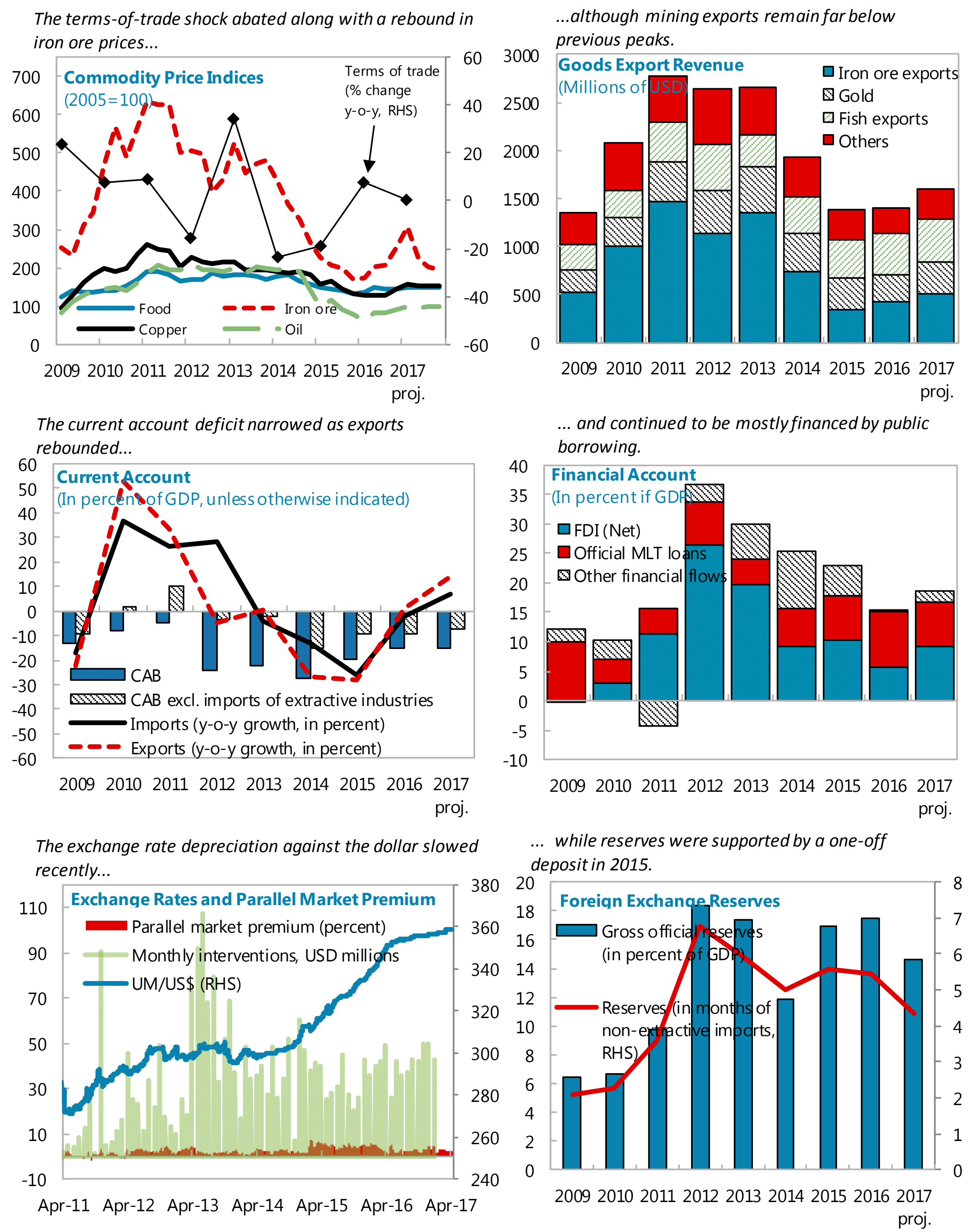
56. It is proposed that the next Article IV consultation be held on the standard 12-month consultation cycle.

Figure 3. Mauritania: Real Sector Developments, 2009–17



Sources: Mauritanian authorities; and IMF staff estimates.

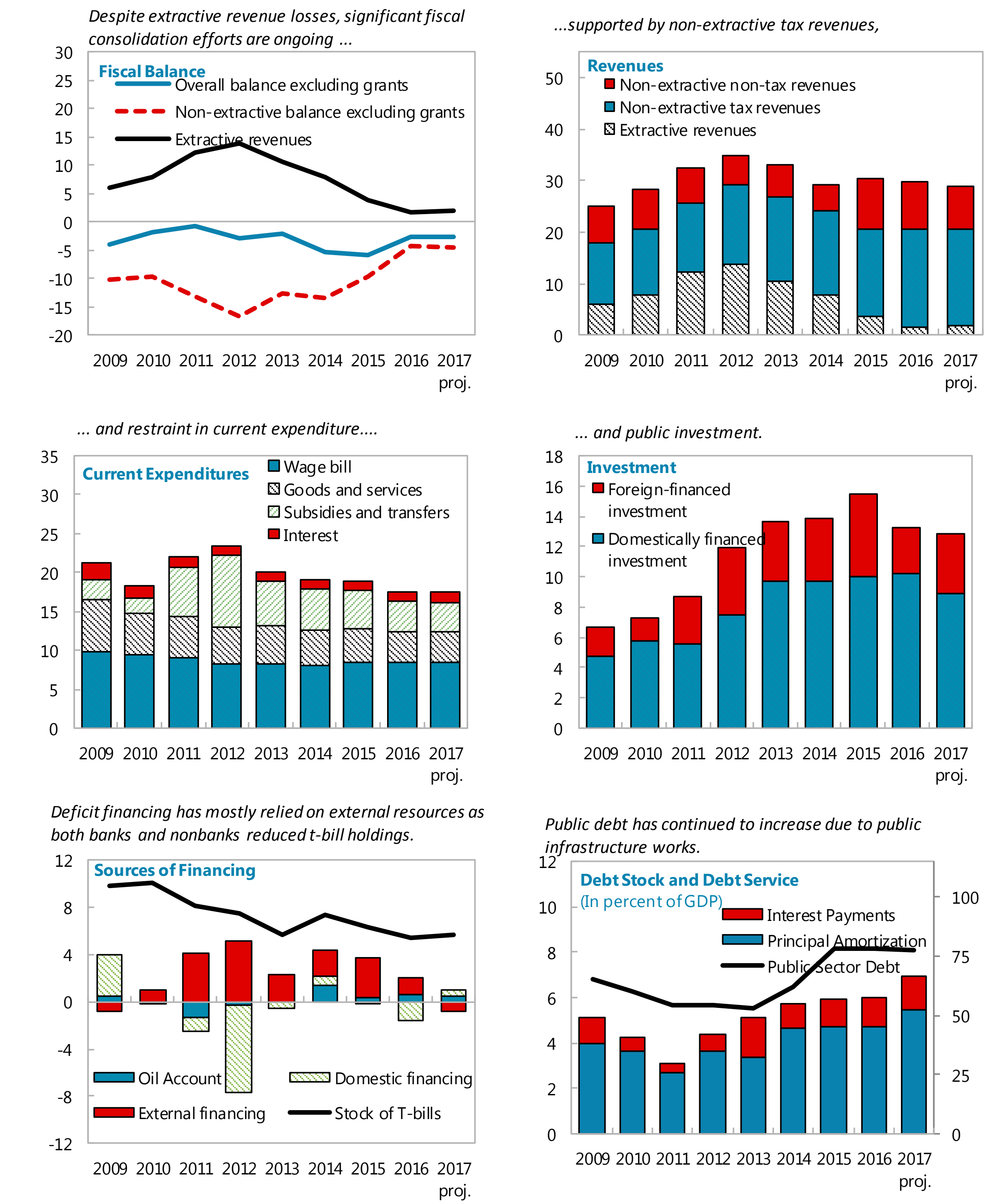
Figure 4. Mauritania: External Sector Developments, 2009–17



Sources: Mauritanian authorities; and IMF staff estimates.

Figure 5. Mauritania: Fiscal Sector Developments, 2009–17

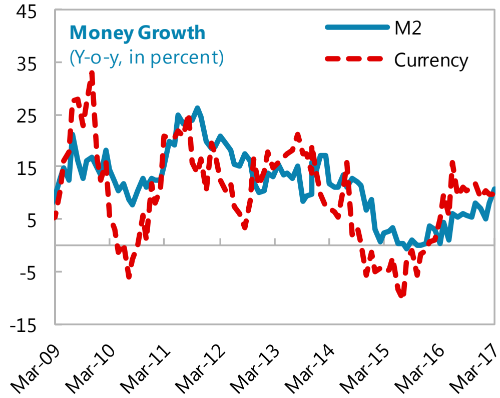
(Percent of non-extractive GDP, unless otherwise indicated)



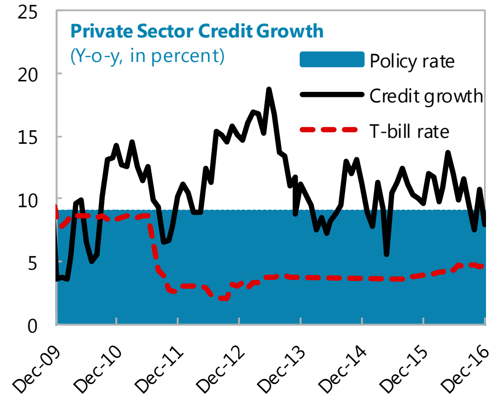
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 6. Mauritania: Monetary and Financial Sector Indicators, 2009–17

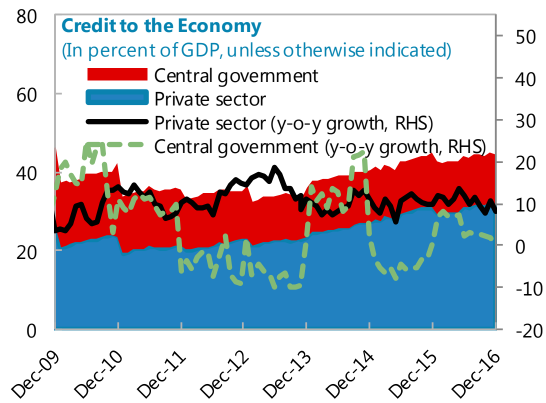
Broad money and currency in circulation picked up in 2016....



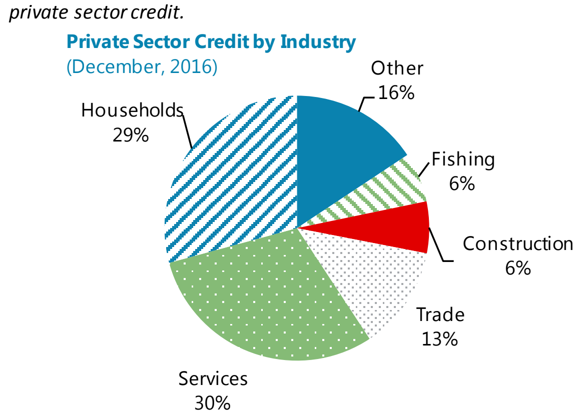
...and credit growth remained sustained...



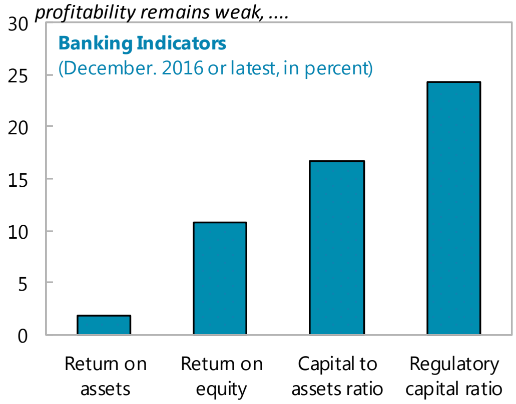
...despite a slowdown in credit to the central government.



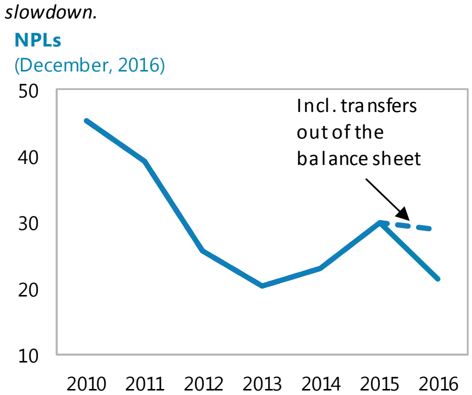
Household credit continues to represent a sizeable share of private sector credit.



While banks' capital levels remain adequate, their profitability remains weak, ...



... and asset quality has been affected by the economic slowdown.



Sources: Mauritanian authorities; and IMF staff estimates.

Table 1. Mauritania: Macroeconomic Framework, 2013–22

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Proj.					
	(Annual change in percent; unless otherwise indicated)									
National accounts and prices										
Real GDP	6.1	5.6	0.9	1.7	3.8	3.0	4.6	5.2	4.6	4.0
Real extractive GDP	15.1	4.2	-6.7	-1.4	10.3	-3.5	1.6	2.8	-7.0	-14.1
Real non-extractive GDP	5.6	5.8	2.1	2.2	2.9	4.0	5.0	5.5	6.0	6.0
Iron ore production (million tons)	12.5	13.3	11.6	13.3	14.5	16.0	17.0	17.5	18.0	18.0
GDP deflator	3.0	-9.2	-4.4	4.1	4.2	2.6	3.7	3.2	3.0	4.5
Nominal GDP	9.3	-4.1	-3.5	6.0	8.2	5.8	8.5	8.6	7.7	8.6
Consumer prices (period average)	4.1	3.8	0.5	1.5	2.1	3.7	5.0	4.0	4.0	4.0
Consumer prices (end of period)	4.5	5.0	-2.8	2.8	1.6	4.7	5.0	4.0	4.0	4.0
	(In percent of GDP)									
Savings and Investment										
Gross investment	56.0	52.2	38.7	39.6	43.1	38.2	37.3	35.9	33.7	32.5
Gross national savings	33.3	25.0	18.9	24.7	27.8	26.9	26.9	26.0	24.5	23.5
Saving - Investment Balance	-22.7	-27.2	-19.7	-14.9	-15.3	-11.2	-10.3	-9.9	-9.2	-8.9
	(In percent of nonextractive GDP; unless otherwise indicated)									
Central government operations										
Revenues and grants	34.1	29.4	32.5	31.8	30.8	30.3	29.9	29.2	28.7	28.8
Nonextractive	22.7	21.3	26.7	28.0	26.9	26.5	26.0	25.8	26.0	26.1
Taxes	16.4	16.1	16.8	18.9	18.8	19.0	19.3	19.1	19.2	19.3
Extractive	10.5	8.0	3.8	1.7	1.9	1.7	2.0	2.2	1.9	2.0
Grants	0.9	0.2	2.0	2.1	2.0	2.1	2.0	1.2	0.8	0.8
Expenditure and net lending	35.2	34.7	36.3	32.2	31.5	32.8	32.4	31.9	31.2	31.2
Current	21.5	20.8	20.5	19.0	18.5	18.1	17.7	17.4	17.2	17.2
Capital	13.7	13.9	15.5	13.3	12.9	14.5	14.5	14.3	13.8	13.9
Primary balance (excl. grants)	-0.8	-4.3	-4.5	-1.3	-1.5	-2.8	-2.6	-2.1	-1.6	-1.5
Primary balance	0.1	-4.2	-2.5	0.8	0.6	-0.8	-0.6	-0.9	-0.8	-0.7
Overall balance (in percent of GDP)	-0.8	-4.5	-3.4	-0.3	-0.6	-2.1	-2.1	-2.4	-2.3	-2.2
Public sector debt (expressed in UM, in percent of GDP)	70.6	80.4	98.4	99.3	97.8	100.7	101.6	98.3	94.1	90.1
Public sector debt (expressed in UM, in percent of GDP) 1/	53.1	61.9	77.8	78.3	77.7	80.8	82.3	80.0	76.7	73.7
	(Annual change in percent; unless otherwise indicated)									
Money										
Broad money	13.6	8.6	0.4	7.1	7.3	7.5	9.8	9.7	10.2	10.5
Credit to the private sector	11.1	11.2	9.7	8.0	6.5	7.4	9.7	9.7	10.1	10.4
External sector										
Exports of goods, f.o.b.	0.4	-27.0	-28.3	0.9	13.7	8.8	2.1	1.4	-1.8	-5.1
Imports of goods, f.o.b.	-4.0	-13.1	-26.4	-2.5	7.1	-2.6	0.7	0.9	0.4	1.1
Terms of trade	34.2	-23.4	-18.7	7.6	0.4	-6.9	1.6	1.6	3.0	2.8
Real effective exchange rate	1.5	3.1	8.2	-5.7	…	…	…	…	…	…
Current account balance (in percent of GDP)	-22.0	-27.3	-19.7	-14.9	-15.3	-11.2	-10.3	-9.9	-9.2	-8.9
Excl. FDI-financed imports of extractive capital goods	-6.9	-19.5	-11.9	-11.1	-8.1	-9.3	-8.9	-8.5	-7.9	-7.7
Gross official reserves (in millions of US$, end of period) 2/	996.4	639.1	822.8	824.5	724.9	622.8	558.8	481.4	410.6	345.9
In months of prospective non-extractive imports	5.9	5.0	5.6	5.5	4.3	3.7	3.3	2.8	2.4	1.9
External public debt (in millions of US$)	3,770.1	3,856.0	4,291.8	4,407.6	4,524.6	4,686.2	4,853.3	4,951.1	5,027.2	5,102.8
In percent of GDP	65.9	71.5	88.6	93.2	91.2	93.7	94.0	91.4	88.0	84.0
External public debt (in millions of US$) 1/	2,769.2	2,858.8	3,297.9	3,414.5	3,531.6	3,693.1	3,860.2	3,958.0	4,034.1	4,109.7
In percent of GDP	48.4	53.0	68.1	72.2	71.2	73.9	74.8	73.1	70.6	67.7
Memorandum items:										
Nominal GDP (in billions of UM)	1,695.8	1,626.5	1,569.0	1,662.4	1,798.1	1,902.0	2,062.8	2,240.6	2,412.4	2,620.9
Nominal non-extractive GDP (in billions of UM)	1,240.4	1,381.0	1,416.9	1,457.6	1,535.1	1,650.1	1,812.0	1,988.6	2,191.1	2,420.4
Nominal GDP (in millions of US$)	5,724.2	5,391.5	4,844.2	4,729.0	4,960.6	4,999.6	5,164.0	5,417.4	5,710.2	6,073.4
Nominal GDP (annual change in percent)	9.5	-5.8	-10.2	-2.4	4.9	0.8	3.3	4.9	5.4	6.4
Exchange rate (UM/US$)	296.2	301.7	323.9	351.5	…	…	…	…	…	…
Price of oil (US$/barrel)	104.1	96.2	50.8	42.8	51.9	52.0	51.5	51.7	52.5	53.7
Price of iron ore (US$/Ton)	135.4	97.4	56.1	58.6	65.1	51.7	48.1	44.2	44.2	44.2
Price of gold (US$/Ounce)	1,411.1	1,266.2	1,160.1	1,248.3	1,256.8	1,289.3	1,311.6	1,338.8	1,363.3	1,389.8
Price of copper (US$/Ton)	7,331.5	6,863.4	5,510.5	4,867.9	5,705.9	5,710.0	5,732.0	5,737.1	5,732.6	5,732.5

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding passive debt to Kuwait under negotiation.
2/ Excluding the oil account.

Table 2. Mauritania: Balance of Payments, 2013–22

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Proj.			
Current account balance	-1,262.0	-1,470.7	-956.1	-706.8	-758.9	-561.3	-532.1	-536.1	-524.7	-543.1
Of which: excl. FDI-financed imports of extractive capital goods	-396.1	-1,052.6	-577.3	-524.2	-402.7	-463.3	-457.1	-461.1	-449.7	-468.1
Trade balance	-392.9	-710.9	-559.4	-499.4	-442.1	-248.1	-226.8	-220.1	-260.4	-372.6
Exports, fob	2,651.4	1,935.4	1,388.6	1,400.7	1,592.9	1,733.4	1,769.1	1,793.5	1,761.4	1,670.9
Of which: Iron ore	1,358.1	730.7	340.0	418.3	507.8	445.1	440.2	415.7	427.6	427.6
Crude oil	216.9	194.8	73.1	87.0	90.4	0.0	0.0	0.0	0.0	0.0
Copper	216.3	165.8	195.1	138.2	162.0	184.0	155.0	162.8	81.7	0.0
Gold	471.7	407.4	333.6	288.5	333.5	571.7	605.2	605.4	603.0	552.5
Fish	329.7	377.5	388.9	421.3	441.4	464.3	489.5	519.9	549.7	581.3
Imports, fob	-3,044.4	-2,646.3	-1,948.0	-1,900.1	-2,034.9	-1,981.5	-1,995.9	-2,013.6	-2,021.9	-2,043.4
Of which: Food	-377.0	-370.5	-395.3	-334.4	-351.9	-362.3	-375.0	-380.3	-399.3	-420.6
Petroleum	-633.8	-595.9	-337.9	-355.3	-434.2	-441.1	-437.5	-447.5	-460.3	-468.2
Capital goods	-1,293.8	-954.8	-640.0	-538.1	-654.6	-476.4	-462.0	-443.8	-413.2	-424.9
Services and income (net)	-1,009.8	-873.5	-575.0	-452.0	-502.8	-506.9	-500.9	-483.9	-419.9	-332.8
Services (net)	-841.4	-731.0	-394.6	-335.5	-500.5	-475.8	-474.9	-457.2	-416.2	-355.9
Credit	158.3	168.1	246.2	269.9	201.6	207.9	214.3	220.3	226.3	232.4
Debit	-999.8	-899.1	-640.7	-605.4	-702.1	-683.7	-689.2	-677.5	-642.5	-588.3
Income (net)	-168.4	-142.5	-180.5	-116.5	-2.3	-31.1	-26.0	-26.8	-3.7	23.1
Credit	147.5	128.7	77.0	59.3	161.8	172.1	173.2	173.3	176.6	172.8
Debit	-315.9	-271.1	-257.4	-175.8	-164.1	-203.3	-199.2	-200.1	-180.3	-149.7
Current transfers (net)	140.8	113.7	178.4	244.6	185.9	193.7	195.6	168.0	155.7	162.2
Private unrequited transfers (net)	56.9	49.8	77.3	74.8	77.4	80.2	83.1	86.0	89.0	92.1
Official transfers	83.9	63.9	101.0	169.8	108.5	113.5	112.5	82.0	66.7	70.1
Capital and financial account	1,569.6	1,222.6	953.4	491.6	656.4	539.4	551.0	540.1	542.4	549.4
Capital account	4.8	16.0	31.2	8.4	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1,564.8	1,206.6	1,222.2	483.2	656.4	539.4	551.0	540.1	542.4	549.4
Foreign direct investment (net)	1,126.0	501.9	501.7	271.1	450.0	212.0	211.2	239.0	273.4	307.7
Official medium- and long-term loans	103.9	175.3	173.6	204.7	106.8	215.5	223.8	152.9	164.6	146.7
Disbursements	176.4	256.8	270.4	321.5	244.0	391.0	397.0	330.0	320.0	309.8
Amortization	72.5	81.5	96.7	116.8	137.2	175.5	173.2	177.1	155.4	163.1
SNIM medium- and long-term loans	112.1	-51.5	-66.0	-60.5	-31.4	-31.6	-24.9	-23.6	-57.7	-48.6
Other financial flows	222.8	581.0	312.9	67.9	131.0	143.5	140.9	171.8	162.1	143.6
Errors and omissions	-291.3	-61.3	-137.9	135.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	16.3	-309.4	-140.6	-79.8	-102.5	-21.9	18.9	4.1	17.8	6.3
Financing	-16.3	309.4	140.6	79.8	102.5	21.9	-18.9	-4.1	-17.8	-6.3
Net foreign assets	-27.3	298.8	134.7	79.8	102.5	21.9	-18.9	-4.1	-17.8	-6.3
Central bank (net)	-29.2	312.1	102.7	-20.9	83.6	21.9	-18.9	-4.1	-17.8	-6.3
Assets (negative value implies accumulation of reserves)	-36.9	326.1	-182.1	-1.8	99.6	102.1	64.0	77.4	70.8	64.8
Liabilities	7.7	-14.0	284.8	-19.1	-15.9	-80.2	-82.9	-81.4	-88.5	-71.1
Of Which: Use of Fund resources (prospective)	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	5.8	-17.6	15.7	76.7	0.0	0.0	0.0	0.0	0.0	0.0
Oil account flow	-3.9	4.3	16.3	23.9	18.9	0.0	0.0	0.0	0.0	0.0
Exceptional financing	11.0	10.6	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account balance (in percent of GDP)	-22.0	-27.3	-19.7	-14.9	-15.3	-11.2	-10.3	-9.9	-9.2	-8.9
Of which: excl. FDI-financed imports of extractive capital goods	-6.9	-19.5	-11.9	-11.1	-8.1	-9.3	-8.9	-8.5	-7.9	-7.7
Trade balance (in percent of GDP)	-6.9	-13.2	-11.5	-10.6	-8.9	-5.0	-4.4	-4.1	-4.6	-6.1
Total external financing requirements (in percent of GDP)	23.8	30.0	23.1	18.8	19.4	16.1	14.8	14.3	12.9	12.4
External public debt (in millions of US$)	3,770.1	3,856.0	4,291.8	4,407.6	4,524.6	4,686.2	4,853.3	4,951.1	5,027.2	5,102.8
External public debt (in percent GDP)	65.9	71.5	88.6	93.2	91.2	93.7	94.0	91.4	88.0	84.0
External public debt service (in millions of US$)	166.6	133.8	141.2	161.1	207.4	312.3	315.5	319.9	306.7	298.1
External public debt service (in percent of revenue)	12.0	10.0	10.6	13.1	17.0	25.5	24.9	23.8	21.2	19.0
SNIM contribution to BOP (in millions of US$)	613.0	430.2	135.4	102.2	204.1	138.2	130.4	132.9	141.6	149.7
Gross official reserves										
In millions of US$	996.4	639.1	822.8	824.5	724.9	622.8	558.8	481.4	410.6	345.9
In months of imports excluding extractive industries	5.9	5.0	5.6	5.5	4.3	3.7	3.3	2.8	2.4	1.9
Oil account	97.1	92.8	76.6	52.7	33.8	33.8	33.8	33.8	33.8	33.8
Nominal GDP (in millions of US$)	5,724.2	5,391.5	4,844.2	4,729.0	4,960.6	4,999.6	5,164.0	5,417.4	5,710.2	6,073.4

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

Table 3. Mauritania: Central Government Operations, 2013–22
(In billions of UM, unless otherwise indicated)

	2013	2014	2015	2016	2017		2018	2019	2020	2021	2022
					LFR 1/	Proj.			Proj.		
Total revenues and grants	422.7	406.0	460.2	464.0	484.3	473.0	500.7	542.6	580.0	628.6	697.7
Nonextractive revenue and grants	293.0	296.1	406.7	439.0	457.5	444.3	471.9	506.3	536.9	587.2	650.2
Nonextractive revenue	281.7	293.9	378.4	407.7	426.5	413.3	437.4	470.5	513.1	569.4	630.6
Tax revenue	203.8	222.7	237.9	274.8	303.1	288.3	313.6	349.8	379.9	419.9	466.8
Nontax revenue	77.9	71.2	140.5	132.9	123.3	125.0	123.7	120.6	133.2	149.5	163.8
Total grants	11.3	2.2	28.3	31.3	31.0	31.0	34.5	35.8	23.8	17.8	19.7
Of which: Projects	1.8	1.6	7.8	6.3	14.0	14.0	14.0	12.0	13.0	7.1	7.7
Extractive revenue	129.7	109.9	53.5	25.0	26.9	28.6	28.9	36.3	43.1	41.4	47.5
Net revenue from oil	20.7	6.1	13.2	10.9	8.0	8.0	0.0	0.0	0.0	0.0	0.0
Mining revenue	108.9	103.8	40.3	14.1	18.9	20.6	28.9	36.3	43.1	41.4	47.5
Expenditure and net lending	436.7	479.1	513.7	469.8	496.2	484.3	541.2	586.8	633.6	683.4	754.3
Current expenditure	267.2	287.6	290.9	276.4	283.5	283.9	299.0	320.4	346.1	377.2	415.8
Compensation of employees	103.7	110.4	119.4	123.1	130.4	130.4	135.9	144.5	156.2	169.7	187.9
Goods and services	60.1	64.7	62.4	58.7	65.8	60.9	62.6	65.6	68.7	75.9	84.0
Subsidies and transfers 2/	70.2	72.5	67.8	55.8	57.1	57.1	56.1	59.8	65.6	72.7	79.9
Of which: Emergency program	12.3	18.0	21.0	16.0		20.4	24.2	26.7	28.7	30.5	32.4
Energy subsidies	14.1	14.0	6.9	1.9		1.9	0.0	0.0	0.0	0.0	0.0
Arrears repayments	13.3	3.6	3.6	3.6		3.6	0.0	0.0	0.0	0.0	0.0
Interest	15.7	15.8	17.8	17.4	15.5	20.0	28.0	33.1	35.3	37.4	39.3
External	12.0	11.9	12.7	13.4	12.5	12.5	18.7	21.5	23.6	25.5	27.3
Domestic	3.6	3.9	5.1	4.0	3.0	7.6	9.3	11.6	11.7	11.9	12.0
Special accounts	6.5	10.3	3.2	9.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Common reserves	10.7	11.3	11.9	11.4	12.2	12.2	12.9	14.0	16.7	18.0	21.1
Others	0.2	2.6	8.5	0.8	0.0	0.8	0.8	0.9	1.0	1.0	1.1
Capital expenditure	169.6	191.5	219.9	193.7	209.7	197.4	239.3	263.4	284.5	303.2	335.4
Foreign-financed investment	48.7	57.9	78.2	44.6	70.0	60.1	109.6	121.1	128.3	131.5	146.5
Domestically financed investment	120.9	133.6	141.7	149.1	139.7	137.3	129.6	142.3	156.2	171.7	189.0
Restructuring and net lending	0.0	0.0	2.9	-0.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Primary balance (excl. grants)	-9.7	-59.5	-64.0	-19.6	-27.4	-22.3	-47.0	-46.9	-42.2	-35.2	-36.9
Primary balance	1.6	-57.3	-35.7	11.6	3.6	8.7	-12.5	-11.1	-18.3	-17.4	-17.3
Overal balance (excl. grants)	-25.4	-75.3	-81.8	-37.1	-42.9	-42.4	-75.0	-80.0	-77.4	-72.6	-76.2
Overall balance	-14.1	-73.2	-53.5	-5.8	-11.9	-11.4	-40.5	-44.2	-53.6	-54.8	-56.5
Financing	14.1	73.2	53.5	5.8	11.9	11.4	40.5	44.2	53.6	54.8	56.5
Domestic financing	-5.5	11.0	-1.2	-23.8	-17.0	9.2	13.3	5.9	12.3	2.3	-11.1
Banking system	58.1	50.0	12.2	-16.0	-7.6	3.2	7.3	-0.1	6.3	2.3	-11.1
Treasury account	83.7	49.2	36.9	-10.1	-1.9	1.2	2.3	-15.1	-6.7	-5.7	-11.1
Commercial banks	-25.6	0.9	-24.7	-5.9	-5.7	2.0	5.0	15.0	13.0	8.0	0.0
Nonbanks	8.3	5.3	8.9	-7.1	-11.4	6.0	6.0	6.0	6.0	0.0	0.0
Domestic arrears	-5.5	-8.8	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits accounts	-74.8	-31.4	7.5	-0.7	2.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	25.8	68.2	57.2	38.1	24.1	2.2	27.3	38.3	41.3	52.5	67.7
Oil account (net)	-1.3	18.9	4.8	8.5	4.0	7.0	0.0	0.0	0.0	0.0	0.0
Net revenue from oil (net)	-20.7	-6.1	-13.2	-10.9	-11.0	-8.0	0.0	0.0	0.0	0.0	0.0
Oil account contribution to the budget	19.4	25.0	18.0	19.4	15.0	15.0	0.0	0.0	0.0	0.0	0.0
Other (net)	27.1	49.3	52.3	29.6	20.1	-4.8	27.3	38.3	41.3	52.5	67.7
Net borrowing (net)	23.8	46.1	48.4	27.7	20.1	-4.8	27.3	38.3	41.3	52.5	67.7
Disbursements	46.9	69.9	77.0	63.4	61.0	46.1	95.6	109.1	115.3	124.4	138.8
Amortization	-23.1	-23.9	-28.3	-35.6	-40.9	-50.9	-68.4	-70.9	-74.0	-71.9	-71.1
Exceptional financing	3.7	3.1	3.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	-6.2	-6.1	-2.5	-8.5	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Real growth rate of public expenditure	-2.5	5.7	6.7	-9.9	1.9	1.0	7.8	3.3	3.9	3.8	6.2
Current expenditure	-12.4	3.8	0.6	-6.3	-0.6	0.6	1.5	2.1	3.9	4.8	6.0
Capital expenditure	18.9	8.8	14.3	-13.2	2.5	-0.2	16.9	4.9	3.9	2.5	6.4
Non-extractive balance (excl. grants)	-155.1	-185.2	-135.3	-62.1	-69.7	-71.0	-103.9	-116.3	-120.5	-114.0	-123.7
Non-extractive balance	-143.8	-183.0	-107.0	-30.8	-38.7	-40.0	-69.4	-80.5	-96.7	-96.2	-104.0
Basic budget balance (excl. grants) 3/	23.3	-17.4	-3.6	7.5	27.1	17.7	34.6	41.1	50.9	58.9	70.3

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Supplementary budget.
2/ Including transfers to public entities outside the central government.
3/ Overall balance excluding foreign-financed investment expenditure.

Table 4. Mauritania: Central Government Operations, 2013–22

(In percent of nonextractive GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017		2018	2019	2020	2021	2022
					LFR 1/	Proj.			Proj.		
Total revenues and grants	34.1	29.4	32.5	31.8	31.6	30.8	30.3	29.9	29.2	28.7	28.8
Nonextractive revenue and grants	23.6	21.4	28.7	30.1	29.8	28.9	28.6	27.9	27.0	26.8	26.9
Nonextractive revenue	22.7	21.3	26.7	28.0	27.8	26.9	26.5	26.0	25.8	26.0	26.1
Tax revenue	16.4	16.1	16.8	18.9	19.7	18.8	19.0	19.3	19.1	19.2	19.3
Nontax revenue	6.3	5.2	9.9	9.1	8.0	8.1	7.5	6.7	6.7	6.8	6.8
Total grants	0.9	0.2	2.0	2.1	2.0	2.0	2.1	2.0	1.2	0.8	0.8
Of which: Projects	0.1	0.1	0.5	0.4	0.9	0.9	0.8	0.7	0.7	0.3	0.3
Extractive revenue	10.5	8.0	3.8	1.7	1.7	1.9	1.7	2.0	2.2	1.9	2.0
Net revenue from oil	1.7	0.4	0.9	0.7	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Mining revenue	8.8	7.5	2.8	1.0	1.2	1.3	1.7	2.0	2.2	1.9	2.0
Expenditure and net lending	35.2	34.7	36.3	32.2	32.3	31.5	32.8	32.4	31.9	31.2	31.2
Current expenditure	21.5	20.8	20.5	19.0	18.5	18.5	18.1	17.7	17.4	17.2	17.2
Compensation of employees	8.4	8.0	8.4	8.4	8.5	8.5	8.2	8.0	7.9	7.7	7.8
Goods and services	4.8	4.7	4.4	4.0	4.3	4.0	3.8	3.6	3.5	3.5	3.5
Subsidies and transfers 2/	5.7	5.3	4.8	3.8	3.7	3.7	3.4	3.3	3.3	3.3	3.3
Of which: Emergency program	1.0	1.3	1.5	1.1		1.3	1.5	1.5	1.4	1.4	1.3
Energy subsidies	1.1	1.0	0.5	0.1		0.1	0.0	0.0	0.0	0.0	0.0
Arrears repayments	1.1	0.3	0.3	0.2		0.2	0.0	0.0	0.0	0.0	0.0
Interest	1.3	1.1	1.3	1.2	1.0	1.3	1.7	1.8	1.8	1.7	1.6
External	1.0	0.9	0.9	0.9	0.8	0.8	1.1	1.2	1.2	1.2	1.1
Domestic	0.3	0.3	0.4	0.3	0.2	0.5	0.6	0.6	0.6	0.5	0.5
Special accounts	0.5	0.7	0.2	0.6	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Common reserves	0.9	0.8	0.8	0.8		0.8	0.8	0.8	0.8	0.8	0.9
Others	0.0	0.2	0.6	0.1		0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	15.4	13.9	15.5	13.3	13.7	12.9	14.5	14.5	14.3	13.8	13.9
Foreign-financed investment	4.7	4.2	5.5	3.1	4.6	3.9	6.6	6.7	6.5	6.0	6.1
Domestically financed investment	10.8	9.7	10.0	10.2	9.1	8.9	7.9	7.9	7.9	7.8	7.8
Restructuring and net lending	0.0	0.0	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Primary balance (excl. grants)	-0.8	-4.3	-4.5	-1.3	-1.8	-1.5	-2.8	-2.6	-2.1	-1.6	-1.5
Primary balance	0.1	-4.2	-2.5	0.8	0.2	0.6	-0.8	-0.6	-0.9	-0.8	-0.7
Overal balance (excl. grants)	-2.0	-5.5	-5.8	-2.5	-2.8	-2.8	-4.5	-4.4	-3.9	-3.3	-3.1
Overall balance	-1.1	-5.3	-3.8	-0.4	-0.8	-0.7	-2.5	-2.4	-2.7	-2.5	-2.3
Financing	1.1	5.3	3.8	0.4	0.8	0.7	2.5	2.4	2.7	2.5	2.3
Domestic financing	-0.4	0.8	-0.1	-1.6	-1.1	0.6	0.8	0.3	0.6	0.1	-0.5
Banking system	4.7	3.6	0.9	-1.1	-0.5	0.2	0.4	0.0	0.3	0.1	-0.5
Treasury account	6.7	3.6	2.6	-0.7		0.1	0.1	-0.8	-0.3	-0.3	-0.5
Commercial banks	-2.1	0.1	-1.7	-0.4	-0.4	0.1	0.3	0.8	0.7	0.4	0.0
Nonbanks	0.7	0.4	0.6	-0.5	-0.7	0.4	0.4	0.3	0.3	0.0	0.0
Domestic arrears	-0.4	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits accounts	-6.0	-2.3	0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External financing	2.1	4.9	4.0	2.6	1.6	0.1	1.7	2.1	2.1	2.4	2.8
Oil account (net)	-0.1	1.4	0.3	0.6	0.3	0.5	0.0	0.0	0.0	0.0	0.0
Net revenue from oil (net)	-1.7	-0.4	-0.9	-0.7	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0
Oil account contribution to the budget	1.6	1.8	1.3	1.3	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Other (net)	2.2	3.6	3.7	2.0	1.3	-0.3	1.7	2.1	2.1	2.4	2.8
Net borrowing (net)	1.9	3.3	3.4	1.9	1.3	-0.3	1.7	2.1	2.1	2.4	2.8
Disbursements	3.8	5.1	5.4	4.3	4.0	3.0	5.8	6.0	5.8	5.7	5.7
Amortization	-1.9	-1.7	-2.0	-2.4	-2.7	-3.3	-4.1	-3.9	-3.7	-3.3	-2.9
Exceptional financing	0.3	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	-0.5	-0.4	-0.2	-0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Non-extractive balance (excl. grants)	-12.5	-13.4	-9.5	-4.3	-4.5	-4.6	-6.3	-6.4	-6.1	-5.2	-5.1
Non-extractive balance	-11.6	-13.3	-7.6	-2.1	-2.5	-2.6	-4.2	-4.4	-4.9	-4.4	-4.3
Overall balance (in percent of GDP)	-0.8	-4.5	-3.4	-0.3	-0.7	-0.6	-2.1	-2.1	-2.4	-2.3	-2.2
Basic budget balance (excl. grants) 3/	1.9	-1.3	-0.3	0.5	1.8	1.2	2.1	2.3	2.6	2.7	2.9

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

1/ Supplementary budget.

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

3/ Overall balance excluding foreign-financed investment expenditure.

Table 5. Mauritania: Monetary Survey, 2013–19

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

	2013	2014	2015	2016	2017	2018	2019
						Proj.	
Monetary survey							
Net foreign assets	196.7	108.1	78.5	61.4	32.9	26.0	35.0
Net domestic assets	273.0	402.1	433.5	487.0	555.8	606.8	659.8
Net domestic credit	522.6	618.2	669.5	693.4	730.4	779.1	837.5
Net credit to the government	124.2	175.3	183.8	168.9	172.1	179.4	179.3
Credit to the economy	398.4	443.0	485.7	524.4	558.2	599.7	658.1
Other items net	-249.6	-216.1	-236.0	-206.4	-174.6	-172.4	-177.7
Broad money (M2)	469.7	510.2	512.1	548.4	588.7	632.8	694.8
Monetary authorities							
Net foreign assets	220.0	126.1	102.4	115.2	88.8	84.7	96.7
Net domestic assets	10.9	101.0	118.3	127.4	171.6	195.2	210.7
Net domestic credit	96.6	142.7	172.5	163.1	164.3	166.6	151.5
Net credit to the government	91.8	138.1	167.8	158.9	160.1	162.4	147.3
Other items net	-85.8	-41.8	-54.2	-35.7	7.2	28.6	59.1
Reserve money	230.8	227.0	220.7	242.6	260.4	279.9	307.4
Currency in circulation	132.7	130.9	129.7	141.4	151.8	163.1	179.1
Reserves of banks	98.1	96.1	91.0	101.2	108.6	116.8	128.2
Of which : Banks deposits in FX	27.1	28.5	20.8	28.8	30.9	33.2	36.5
Commercial banks							
Net foreign assets	-23.3	-18.0	-23.9	-53.7	-55.9	-58.7	-61.7
Net domestic credit	426.3	475.5	497.1	530.2	566.0	612.5	685.9
Net credit to the government	32.3	37.1	16.0	10.0	12.0	17.0	32.0
Credit to the private sector	394.0	438.4	481.1	520.2	554.0	595.5	653.9
Other items net	-163.8	-174.4	-181.8	-170.7	-181.8	-200.9	-236.8
			(Annual change in percent)				
Monetary survey							
Net foreign assets	2.3	-45.1	-27.3	-21.8	-46.4	-20.9	34.7
Net domestic assets	23.4	47.3	7.8	12.3	14.1	9.2	8.7
Net domestic credit	13.9	18.3	8.3	3.6	5.3	6.7	7.5
Net credit to the government	23.8	41.1	4.9	-8.1	1.9	4.2	0.0
Credit to the economy	11.1	11.2	9.7	8.0	6.5	7.4	9.7
Other items net	5.0	-13.4	9.2	-12.6	-15.4	-1.3	3.1
Broad money (M2)	13.6	8.6	0.4	7.1	7.3	7.5	9.8
Monetary authorities							
Net foreign assets	2.7	-42.7	-18.8	12.5	-22.9	-4.6	14.1
Net domestic assets	-700.7	829.5	17.1	7.8	34.6	13.7	7.9
Net domestic credit	45.4	47.7	20.8	-5.4	0.7	1.4	-9.0
Net credit to the government	80.3	50.4	21.5	-5.3	0.7	1.4	-9.3
Reserve money	8.7	-1.6	-2.8	9.9	7.3	7.5	9.8
Commercial banks							
Net foreign assets	6.6	-22.7	32.4	125.0	4.1	5.0	5.0
Net domestic credit	8.6	11.5	4.5	6.7	6.8	8.2	12.0
Net credit to the government	-34.5	14.8	-56.9	-37.4	20.0	41.6	88.1
Credit to the private sector	14.9	11.3	9.7	8.1	6.5	7.5	9.8
Memorandum items:							
Broad money (M2) to GDP (in percent)	27.7	31.4	32.6	33.0	32.7	33.3	33.7
Velocity of broad money (non-extractive GDP)	2.6	2.7	2.8	2.7	2.6	2.6	2.6
Credit to the private sector (in percent of non-extractive GDP)	31.8	31.7	34.0	35.7	36.1	36.1	36.1
Net foreign assets of banks (in millions of U.S. dollars)	-78.0	-57.7	-70.5	-150.7	-150.7	-150.7	-150.7

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

Table 6. Mauritania: Banking Soundness Indicators, 2008–16
(In percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015 Est.	2016 Est.
Balance sheet									
Assets / GDP	32.0	35.3	31.1	30.9	32.5	35.2	42.5	43.2	45.6
Net private-sector credit / total assets	56.6	51.1	53.2	48.2	50.8	52.1	55.5	57.0	54.9
Public enterprise credit / total assets	15.0	13.1	13.3	10.2	7.2	3.4	6.9	3.3	5.4
Government securities / total assets	17.2	16.0	18.8	11.1	11.2	5.8	5.8	2.0	2.0
Private-sector credit growth (y-o-y)	23.6	4.0	16.0	10.6	15.1	14.9	21.3	8.0	8.3
Gross NPLs / gross loans	...	...	45.3	39.2	25.7	20.4	23.0	30.0	21.5
Of which: accrued interest on NPLs / gross loans	...	...	11.6	11.5	8.3	7.1	...	...	...
Of which: legacy NPLs (pre-2010) / gross loans	...	...	16.7	13.7	13.8	12.8	...	...	...
Of which: new NPLs / gross loans	...	...	17.0	14.1	3.6	0.5	...	...	...
Provisions / (gross NPLs - accrued interest)	...	...	30.0	31.2	53.1	52.9	52.5	78.5	63.0
Provisions / loans 360+ days in arrears	84.1	85.2	87.7	90.7	88.0	88.8	87.0	93.0	58.0
Uncovered loans 360+ days in arrears / gross loans	84.1	85.2	87.7	90.7	88.0	88.8	87.0	93.0	58.0
Deposits / total assets	55.5	57.4	59.3	60.9	59.1	57.8	61.0	60.8	59.0
Private-sector gross loans / private-sector deposits	127.4	115.3	118.4	105.9	110.7	113.7	137.7	134.1	110.4
Capital ratios									
Capital / total assets	16.9	16.7	16.7	18.5	17.5	18.7	14.7	13.7	14.2
Capital adequacy ratio	33.0	38.2	34.0	35.2	29.2	32.4	28.1	23.1	23.7
Foreign exchange exposure									
Fx assets / total assets	9.3	13.9	10.5	10.5	10.5	10.6	10.5	6.7	8.9
Fx assets / fx liabilities (on balance sheet)	75.0	123.7	112.1	135.2	100.1	106.6	138.6	108.2	116.0
Open fx position / capital (including off balance sheet)	-19.1	5.0	-16.0	-32.7	-45.9	-26.0	-70.4	-72.7	-69.8
Profitability and liquidity									
Return on assets	1.9	1.4	0.4	1.2	1.4	1.2	1.2	0.7	...
Return on equity	10.7	8.5	2.7	6.0	8.4	6.4	6.6	5.1	...
Liquid assets / total assets 1/	30.9	29.8	29.5	29.7	29.8	24.0	23.5	21.4	17.0
Memorandum items:									
Share of assets held by three largest banks	53.4	53.6	53.7	50.7	45.4	42.3	45.7	42.0	41.0
Number of banks	10	10	10	12	12	15	15	16	16

Sources: Mauritanian authorities; and IMF staff.

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

Table 7. Mauritania: External Financing Requirements and Sources, 2015–20

(In millions of U.S. dollars)

	2015	2016	2017	2018	2019	2020
			Proj.			
Total Requirements	**-1,220.5**	**-1,051.4**	**-1,088.1**	**-998.3**	**-961.8**	**-936.3**
Current account deficit, excl. grants	-1,057.1	-876.6	-867.4	-674.8	-644.6	-618.1
External public debt amortization [1/]	-163.3	-174.8	-220.7	-323.4	-317.1	-318.2
Of which: Saudi Arabia	-2.6	-3.3	-7.2	-67.2	-68.1	-68.2
Arab Monetary Fund	-3.8	0.0	-21.1	-44.8	-37.4	-27.6
Arab Fund for Economic and Social Dev.	-30.3	-36.9	-38.6	-43.6	-44.3	-51.0
Islamic Development Bank	-18.3	-19.6	-19.8	-25.4	-25.9	-26.8
China	-19.3	-18.0	-23.0	-23.0	-23.0	-23.0
IMF	-4.6	-10.1	-13.7	-18.0	-20.7	-19.2
Total Sources	**1,220.5**	**1,051.4**	**1,088.1**	**998.3**	**961.8**	**936.3**
Foreign direct investment and capital inflows (net)	533.0	279.6	450.0	212.0	211.2	239.0
Official grants	101.0	169.8	108.5	113.5	112.5	82.0
Of which: European Union	12.6	11.2	...	...	...	...
World Bank	0.0	26.0	...	...	...	...
AfDB	...	10.0	...	...	...	...
United Arab Emirates	...	40.0	...	...	...	...
Saudi Arabia	50.0	5.3	...	...	...	...
Official loan disbursements	270.4	321.5	244.0	391.0	397.0	330.0
Of which: Arab Monetary Fund	20.8	99.6	...	...	...	...
Arab Fund for Economic and Social Dev.	127.7	80.7	...	...	...	...
Islamic Development Bank	83.2	50.7	...	...	...	...
China	8.9	39.4	...	...	...	...
Deposit from Saudi Arabia at the Central Bank	300.0	...	...	...	...	...
Other flows [2/]	182.0	258.4	167.2	179.6	177.0	207.9
Drawdown of reserves	-182.1	-1.8	99.6	102.1	64.0	77.4
Drawdown of oil account	16.3	23.9	18.9	0.0	0.0	0.0
Financing gap	...	...	**0.0**	**0.0**	**0.0**	**0.0**

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

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

[2/] Including SNIM, commercial banks, errors and omissions, and exceptionnal financing.

Annex I. Authorities' Response to Key 2016 Article IV Recommendations

Monetary, Exchange Rate, and Financial Policies

Support external stability through greater exchange rate flexibility supported by foreign exchange market reform

- *Ongoing*. Direct foreign exchange sales were discontinued, and the central bank enforced the repatriation of fishing proceeds. Foreign exchange market reforms to support greater exchange rate flexibility are under preparation but have yet to be implemented.

Strengthen the monetary policy and liquidity management framework

- *Limited*. The BCM is developing its capacity to forecast liquidity and inflation. However, monetary policy has remained passive and the BCM has yet to be recapitalized.

Strengthen bank supervision and the prudential and resolution frameworks

- *Partial*. The BCM reinforced banking supervision, finalized preparation of a new banking law and central bank statute, and granted real-time access to the credit registry for banks. The BCM has prepared an emergency liquidity assistance framework and is adapting regulations on capital adequacy to Basel III. Yet, it continued to grant licenses to new banks, and the quality of financial data remains poor.

Fiscal Policy

Support debt sustainability through fiscal adjustment and fiscal reforms

- *Ongoing*. A sizable fiscal consolidation was achieved in 2016 through stronger revenue mobilization and expenditure restraint and external public debt is being stabilized. The authorities initiated fiscal structural reforms with Fund and Bank support and ongoing efforts are taking place to broaden the tax base, strengthen tax administration, and improve expenditure prioritization. However, the new organic budget law has yet to be passed.

Structural Reforms

Renewed structural reform effort to support private sector development and job creation

- *Ongoing*. The authorities have designed an ambitious reform strategy for 2016–30 aimed at stronger and more inclusive and diversified growth through human capital development, private sector development, and strengthened governance—although this strategy remains in its initial stage of implementation. They have implemented measures leading to improved rankings in the Doing Business survey, but additional reforms need to be pursued.

Annex II. Risk Assessment Matrix 1/

Sources of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
		Global Risks		
Retreat from cross-border integration	**High**	Short to Medium Term	**Medium.** Reduced prospects of attracting higher FDI in new sectors, impacting diversification, exports and growth potential.	Accelerate structural reforms to diversify the export base and export markets. Speed up business climate reforms and increase exchange rate flexibility to boost competitiveness and mitigate external shocks. Develop prudent borrowing plans based on concessional financing.
Significant further strengthening of the US dollar and/or higher rates	**High**	Short Term	**High.** Exchange rate appreciation would affect competitiveness. Higher rates could increase funding costs for infrastructure investment.	
Intensification of the risks of fragmentation/ security dislocation in part of the Middle East, Africa and Europe	**High**	Short to Medium Term	**High.** Trade with neighbors would be adversely affected. Migrants from neighboring countries would generate fiscal and security-related costs. Negative investors' sentiment would jeopardize economic diversification plans.	Creating policy space for contingencies by consolidating the budget and broadening the tax base through reforms and economic diversification. Develop contingency plans, in coordination with neighbors and the international community.
Significant China slowdown and its spillovers; and significant slowdown in other large EMs/ frontier markets	**Low/ Medium**	Short to Medium Term	**High.** Lower global commodity prices (metal and oil) and lower trade flows would reduce exports and investment, with a negative impact on the external and fiscal positions.	In the short term, greater exchange rate flexibility and use of external buffers for a gradual adjustment. Over the medium term, structural reforms to diversify the economy, exports, and export markets to increase resilience to shocks. .
Structurally weak growth in key advanced and emerging economies	**High/ Medium**	Medium Term	**Medium.** Weaker partner countries' growth would impact trade and the external position.	
Climate change	**Medium**	Medium term	**High.** Adverse climate changes would jeopardize development of agriculture and fishing, hampering diversification efforts.	Build long-term economic diversification, food security and climate resilience, and transition to targeted social safety nets.
Lower energy prices	**Low**	Short to Medium Term	**Medium positive.** Improved fiscal and external positions, but risks for gas development.	Rebuild fiscal and external buffers.
		Domestic Risks		
Political and social unrest	**Medium**	Short to Medium Term	**High.** Lack of improvement in living standards and social inequalities could lead to higher public spending, impair investor confidence, and slow growth prospects.	Promote good governance for a fair, stable, and predictable economic environment, including by strengthening anti-corruption frameworks. Prioritize and sequence reforms to promote more inclusiveness in growth.
Slower-than-expected pace of reforms	**Medium**	Short to Medium Term	**High.** Negative impact on domestic and foreign investors' confidence and on growth prospects.	Build consensus on reforms. Invest in human capital and institutions.

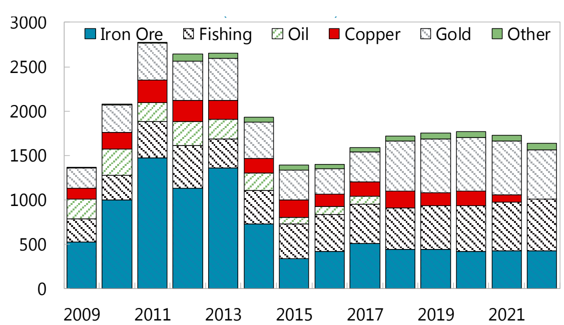
1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. External Sector Assessment

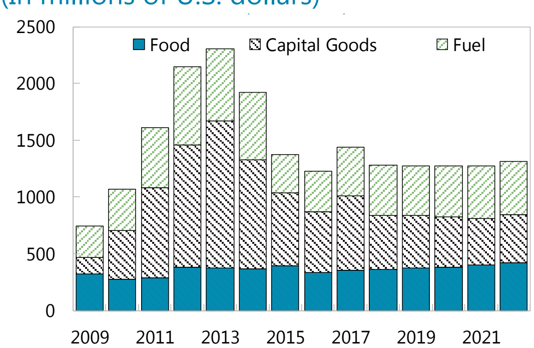
Mauritania has been affected by a severe terms-of-trade shock since 2014. Nevertheless, external imbalances narrowed in 2016 because of lower private investment in extractive industries and a contraction in domestic demand supported by fiscal consolidation and exchange rate depreciation. Over the medium term, external imbalances are expected to persist due to subdued prospects for commodity export prices and the authorities' expansionary investment program, which is complementary to reforms to diversify the economy. The exchange rate has depreciated significantly against the U.S. dollar between mid-2014 and mid-2016 following a de facto crawl-like arrangement. As a result, the real effective exchange rate depreciated considerably in 2016. Still, the external position remains substantially weaker than warranted by fundamentals and desirable policies, and the real exchange rate is overvalued in the range of 14–21 percent, although estimates are subject to considerable uncertainty. Official international reserves are below the adequacy metric for low-income countries (LICs), and strengthening reserve buffers is needed to mitigate the impact of possible future external shocks.

1. **Mauritania has been affected by a severe terms-of-trade shock since 2014.** The shock was driven by the sharp decline in the price of iron ore, Mauritania's main export, and resulted in a halving of exports. In response, the extractive sector adjusted and imports of capital goods destined for that sector contracted. The severity of the shock was partly mitigated by the concurrent fall in the price of oil (Mauritania is a net importer). Iron ore prices rebounded briefly between November 2016 and April 2017, but are projected to remain well below pre-2014 levels.

Exports
(In millions of U.S. dollars)



Imports
(In millions of U.S. dollars)



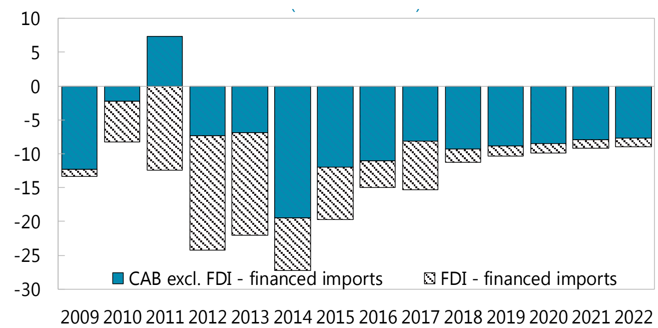
Sources: Mauritanian authorities; and IMF staff calculations.

2. **External imbalances caused by the terms-of-trade shock narrowed in 2016 on account of lower private investment in extractive industries and a contraction in domestic demand supported by fiscal consolidation and exchange rate depreciation.** The current account deficit contracted by 5 percentage points to 15 percent of GDP (from 20 percent in 2015). Excluding FDI-financed capital imports, which are neutral on reserves, the deficit narrowed to 11 percent of GDP (from 12 percent) financed mainly by official loans and mining companies. A large swing in

errors and omissions of close to 6 percent of GDP between 2015–16 complicates the assessment of current account developments, suggesting a larger adjustment.[1]

3. **Over the medium term, external imbalances are expected to persist due to subdued prospects for commodity export prices and the authorities' expansionary investment program, which is complementary to reforms to diversify the economy.** The current account deficit, excluding FDI-financed extractive capital imports, is projected to decline from about 11 percent of GDP in 2016 to slightly under 8 percent of GDP over the projection period. Expansion of gold mining, further gas exploration, and development of the fishing sector are expected to drive export growth, in addition to iron ore. Imports (excluding FDI-financed imports), would expand modestly, benefiting from relative stable import prices while private domestic demand continues to adjust to the deterioration in the terms of trade and the depreciation of the real effective exchange rate since 2014. Foreign direct investment, official borrowing, and revenues from the public mining company are expected to continue to finance the bulk of external needs.

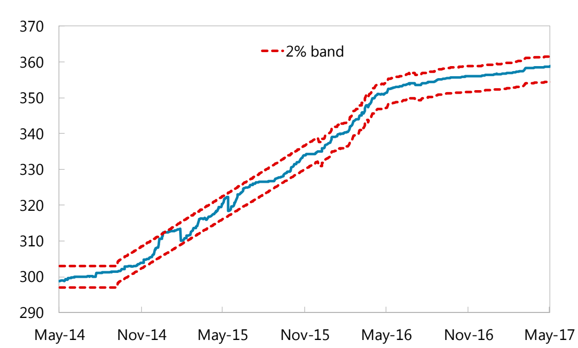
Current Account Balance
(Percent of GDP)



Sources: Mauritanian authorities; and IMF staff calculations.

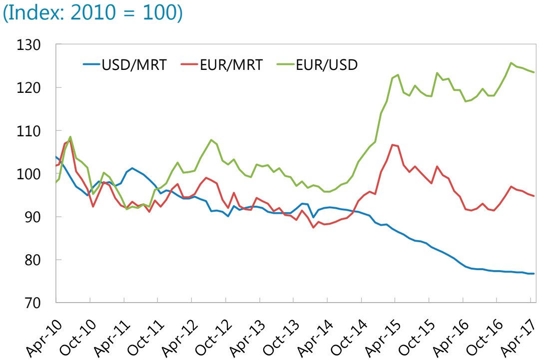
4. **The exchange rate depreciated significantly against the U.S. dollar from mid-2014, following a *de facto* crawl-like arrangement.** The cumulative *depreciation*, managed by the central bank, exceeded 16.3 percent between mid-2014 and April 2017, although the pace slowed in the second half of 2016. Despite depreciating by 2.6 percent against the euro in 2016, overall the exchange rate *appreciated* against the euro between mid-2014 and April 2017 because of the dollar's appreciation in 2015.

Mauritania Ouguiya to US Dollar (WMR) Exchange Rate



Source: Mauritanian authorities; and IMF staff calculations.

Mauritania Exchange Rate, Apr. 2010–Apr. 2017
(Index: 2010 = 100)

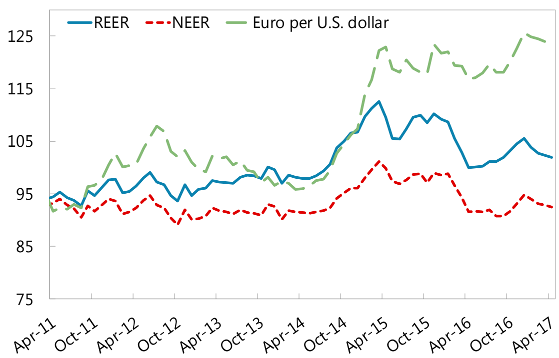


Sources: Mauritanian authorities; and IMF staff calculations.

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

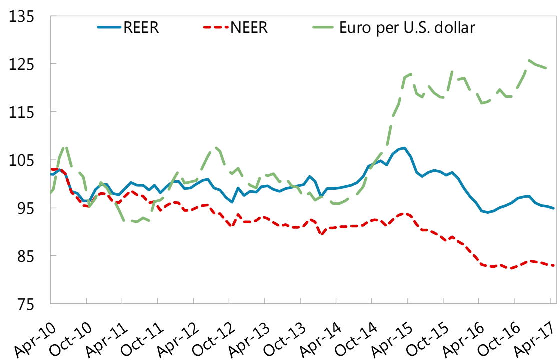
5. **The real effective exchange rate (REER) depreciated considerably in 2016, but there is some uncertainty regarding the appropriate metric to assess developments over the past few years,** because of the sharp appreciation of the U.S. dollar vis-à-vis the euro at end-2014. On one hand, the REER as calculated by the Fund's INS (based on 2010 trade weights giving prominence to the euro) suggests a real *depreciation* of 6.7 percent over the course of 2016 to April 2017; however, the REER still *appreciated* by 3.6 percent between mid-2014 and April 2017 due to the sharp appreciation in 2015. On the other hand, using alternative weights based on currency shares in trade (giving more prominence to the U.S. dollar[2]) leads to an estimated real *depreciation* of 6.2 percent over the course of 2016 to April 2017, and still 4.9 percent between mid-2014 and April 2017, despite some appreciation in 2015.

Effective Exchange Rate
(Index: 2010 = 100)



Sources: INS; and IMF staff calculations.

Effective Exchange Rate: Alternative Weights
(Index: 2010 = 100)



Sources: Mauritanian authorities; and IMF staff calculations.

6. **The real exchange rate is overvalued according to the External Balance Assessment (EBA-lite) current account (CA) and related external sustainability (ES) models.**[3,4] The two estimates of real exchange rate overvaluation range between 14 and 21 percent. By contrast, the equilibrium real effective exchange rate (REER) model suggests an undervaluation of 9 percent. These estimates of the over/undervaluation of the real exchange rate are subject to considerable uncertainty. There are challenges in applying the EBA-lite methodologies to resource-rich low-income countries associated with the poor statistical fit of the regressions,[5] and the use of trade

[2] Trade data from 2015–16 suggest that about 65 percent of trade occurs in U.S. dollar.

[3] See IMF (2016), "Methodological Note on EBA-Lite." For the EBA-lite current account assessment, the reference current account excludes FDI-financed capital goods imports of the extractive sector, as those represent self-financed investments unrelated to the country's external competitiveness. The external sustainability assessment targets an international investment position (IIP) of -70 percent of GDP in ten years, in line with a plausible medium-term debt target. The elasticities used are import and export elasticities weighted by imports and exports to GDP. For the current account approach, the elasticity is calculated excluding FDI-financed capital imports of the extractive sector.

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

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

elasticities that do not account for the concentration of trade on a small number of natural resources. The real exchange rate gap estimate is also subject to uncertainties relating to the future path of commodity prices. Moreover, in the REER model, while the introduction of the country-specific constant (fixed effect) is in principle an improvement, it is less reliable for countries with a short sample span (1995-2013) or that have experienced large structural changes. In fact, large negative regression residuals during the early years of the sample period are likely to have biased the value of the parameter down, thereby reducing/increasing the estimate of over/undervaluation. For this reason, staff puts greater weight on the CA-model indication of overvaluation rather of undervaluation as indicated by the REER-model. At the same time because of the uncertainties discussed above in the estimates of CA and REER gaps, staff recognizes that the magnitude of the indication of real exchange rate overvaluation is uncertain. Staff will also continue to explore other possible complementary indicators of exchange rate over/undervaluation with the authorities.

External Balance Assessment (EBA-lite)
(In percent of GDP, unless otherwise indicated)

	Current Account Model 1/	External Sustainability Approach 2/	Real Effective Exchange Rate Model /1
Current account reference 3/	-11.1	-7.1	...
Current account norm	-4.8	-2.7	...
Current account gap	-6.3	-4.3	...
Real exchange rate gap 4/	21.0	14.5	-8.8

1/ Based on EBA-lite methodology (Methodological Note on EBA-Lite, February 201

2/ Achieve a Net International Investment Position equal to -70% of GDP in 2026 (from 93.2 percent in 2016).

3/ For the CA method: 2016 outcome excluding FDI financed imports of goods. For the ES method: 2022 projection.

4/Positive numbers indicate overvaluation, in percent. The elasticity of current account to the real exchange rate which is used in the current account and external sustainability models is -0.30.

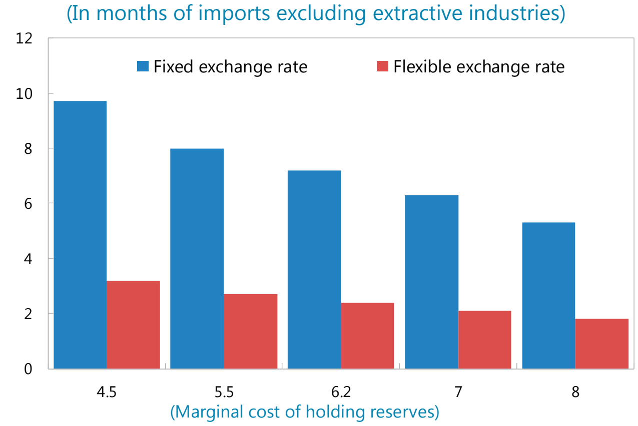
7. **These estimates are markedly different from those reported in the previous Article IV report, which found an overvaluation under all three models and a much wider range of estimates.**[6] In addition to the shift in the reference year, and the fact that the real effective exchange rate depreciated between 2015 and 2016, there are also some technical/methodological differences between the two estimates. In the new CA model estimate, as foreseen in the EBA-lite model, the current account is adjusted to exclude large-scale capital imports of the extractive sector financed by FDI, which are likely not captured by the model. Secondly, the standard import and export elasticities used in the calculation of the current account (trade balance) have been re-estimated based on a more recent sample period (1995-2014). For example, applying the old elasticity used in 2016 to the

[6] See IMF Country Report No. 16/115, Annex IV.

current estimates would give a higher overvaluation of 31 percent. Also, the 2016 REER model estimate omitted a country-specific constant for Mauritania needed to take into account country-specific effects, such as being a resource-rich low-income country.[7] In the current estimate, a country-specific constant was introduced, but as noted above the estimated parameter is subject to considerable uncertainty.[8]

8. **Official international reserve holdings are below the adequacy metric for LICs.** The Fund's LIC reserves template applied to Mauritania suggests an adequate reserve level of 7.2 months of non-extractive sector imports, assuming a fixed exchange rate and the standard 6.2 percent marginal cost of holding reserves.[9] This compares to Mauritania's actual reserves of 5.5 months at end-December 2016 and 4.8 months at end-March 2017 (including a US$300 million deposit at the central bank from Saudi Arabia in 2015 to maintain reserves). While the assessment of the adequate level of reserves is sensitive to the assumed marginal cost of holding reserves—which is uncertain—Mauritania's official reserves would be assessed as less than adequate using a reasonable range of values for that cost. The presence of a Fund arrangement would lower the assessed adequate level of reserves. In that case, with a 6.2 percent cost of holding reserves, a level of reserves of 5.3 months of imports would be adequate—slightly more than Mauritania's current reserve level. Similarly, greater exchange rate flexibility would reduce the need for reserve buffers.

Optimal Level of Reserves: No IMF Program
(In months of imports excluding extractive industries)



Sources: ARA for credit-constrained economies template; and data from authorities.

9. **Policy adjustments are needed to strengthen reserve buffers to mitigate the impact of possible future external shocks.** Under the baseline scenario, reserves are projected to decline over the medium term due to continued external imbalances, increasing the gap between the reserve level and the adequacy metric. A downward trajectory heightens vulnerability to a possible decline in iron ore prices or increases in global food and oil prices, which would lead to significant deterioration in trade balances. While greater exchange rate flexibility would decrease the need for

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[7] In the estimation of the panel regression used to estimate the parameters of the models, country-specific constants were included. As Mauritania was not part of the panel sample, the model template does not directly provide an estimate of this constant.

[8] In line with the fixed effect estimation, the country-specific constant is set to ensure that the country's regression residuals average zero over the sample period.

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

reserve buffers, Mauritania's high vulnerability to price shocks and the price inelasticity of non-extractive imports requires that reserves be increased gradually.

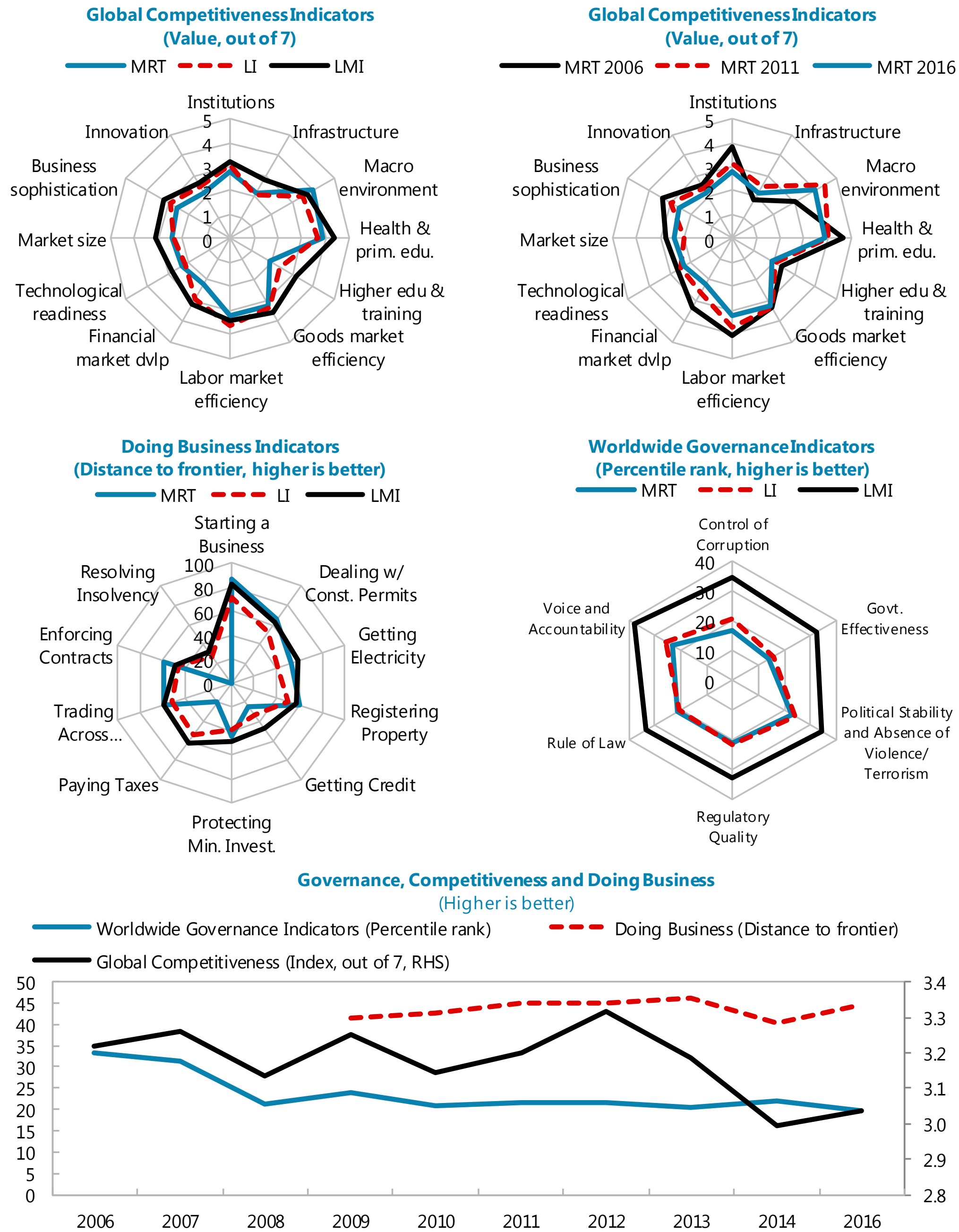
10. Despite recent progress, the economy would benefit from improvements in the business environment and governance. Although indicators for governance, competitiveness, and doing business have improved significantly since 2014, more effort is need to converge and surpass comparable peers. Mauritania ranks lower than the average for low-income and lower middle-income countries (LICs and LMICs, respectively) in most categories of the competitiveness indicators, except for infrastructure, health and education, and technological readiness relative to LICs, and macroeconomic environment relative to LICs and LMICs. With respect to governance indicators in the areas political stability, regulatory quality and rule of law, Mauritania's performance declined relative to LICs and LMICs, compared to the situation in 2015. As regards doing business, Mauritania's overall distance to frontier (DTF) score continued to improve in 2016 and exceeded the average for LICs but was still below that of LMICs. Relative to LMICs, performance was mixed, with Mauritania's DTF exceeding the average for LMICs in the categories of starting a business, enforcing contracts, registering property, and dealing with construction permits. In contrast, Mauritania scored worse than the average for LICs in getting credit, paying taxes, and resolving insolvency (Figure 1).

11. The scope for gains in non-price competitiveness remains large. The authorities intend to continue to address deficiencies through targeted measures to improve the business environment, as well as infrastructure improvements. Areas of focus include facilitating payments of taxes and social contributions, improving the single window for enterprise creating and construction permits, and strengthening the legal framework for property rights.

12. The current external position is weak and external pressures are expected to persist over the medium term. The EBA-lite estimates indicate that the external position is substantially weaker than warranted by fundamentals and desirable policies, and the real effective exchange rate is overvalued although the magnitude of the overvaluation is uncertain. Despite policy efforts, the current account deficit (excluding FDI-financed extractive capital imports) is projected to remain around 8–9 percent of GDP over the projection period. International reserves are assessed to be below the adequacy metric for LICs, and are expected to remain under pressure—including due to sizable amortization payments—possibly dropping below 3 months of non-extractive imports by 2020. The economy remains highly vulnerable to lower commodity prices and global growth, which would widen external and fiscal deficits, raise debt ratios, and strain buffers, with attendant stability risks. The current position and vulnerabilities would be mitigated by a more restrained fiscal position and a more flexible exchange rate, which would support further adjustment in the current account, strengthen buffers including reserves, and put the economy in a better position to absorb shocks.

13. Authorities' views. The authorities, while agreeing in principle that the exchange rate could be used as a shock absorber, felt that staff overstated the degree of overvaluation, as well as the ability of the exchange rate to correct external imbalances given the limited non-extractive production base and the low elasticity of essential imports, notably food. They saw structural reforms and infrastructure improvements as priorities to address external imbalances by promoting economic diversification and broad-based growth.

Figure 1. Mauritania: Business and Governance Indicators, 2006–16



Sources: World Bank's Worldwide Governance Indicators; World Bank's Doing Business Report; World Economic Forum's Global Competitiveness Report; and IMF staff estimates.

Annex IV. 2014 FSAP Main Recommendations and Progress

Recommendation	Timeframe 1/	Status
Central Bank		
Adopt the Banking Act giving more legal protection to decisions made as part of the exercise of the BCM's powers.	Near term	In preparation, envisaged under the draft banking law
Adopt the Act concerning the BCM's charter, bolstering its independence, responsibilities and transparency.	Near/Medium term	In preparation, envisaged under the draft central bank statute
Parliamentary approval of the 2013 agreement on BCM's claims on the government.	Near term	No progress
Financial stability		
Issue a timeline in which scheduled auction dates for Treasury bills are separate from those for Treasury bonds.	Immediate	No progress
Quarterly updates of monetary programming tables, setting out medium-term monetary objectives.	Medium term	Partial progress, the BCM has a monetary program and is developing a forecasting model
Gradually securitize the stock of BCM's claims on government, using marketable securities that would extend the yield curve.	Medium term	No progress
Increase the quality and reliability of data gathered by the banks' supervisor.	Near/Medium term	In progress
Ensure strict compliance with the new instruction issued in June 2014 concerning loan classification and provisioning.	Immediate	Done
Foreign exchange markets		
Adopt an instruction concerning systematic field audits for banks by applying the foreign currency regulation (authentication of the request, application of the upper limit of USD 100,000).	Immediate	Partially done, the BCM reinforced compliance with FX operations requirements
Adopt an instruction on non-compliance with FX regulations, and applying penalties with repeated violations, including suspension of participation in FX auctions on the fixing market (after two warnings).	Immediate	Partially done
Eliminate all penalties and commissions applied to foreign exchange auctions.	Near term	Partially done (commissions are still applied)
Adopt a multiple-rate auction system with a benchmark rate.	Near term	Not done
Eliminate direct sales of FX outside the official market	Near term	Done
Non-banking financial institutions (MFIs, pensions, insurance)		
Encourage the establishment of insurance companies.	Medium term	No progress
Transfer auditing and surveillance of the CDD (public development bank) and insurance companies to the BCM.	Medium term	In preparation, envisaged under the draft banking law
Supervision and oversight		
Publish the financial statements of banks audited by the BCM in June after the year-end.	Medium term	No progress
Establish a qualification approval system by the BCM for auditors, based on objective and known criteria.	Medium term	In preparation, envisaged under the draft banking law
Implement, without exceptions, the regulation on loans to related parties and application of sanctions in cases of infractions.	Immediate	In progress, gradual implementation
Crisis Management and Bank Resolution		
Approve the legal and regulatory framework on bank resolution.	Immediate	In preparation, envisaged under the draft banking law
Increase banks' contributions to the Deposits Guarantee Fund, to reach at least UM6 billion in 3 years.	Near term	No progress
1/ "Immediate" refers to within one year; "near term" is 1–3 years; "medium term" is 3–5 years.		

Annex V. Macro-Structural Reform Priorities

This annex applies the Fund's new macro-structural framework, currently under development, to prioritize Mauritania's structural reform agenda to promote durable, job-rich growth and achieve longer-term development goals.[1] *Following a three-step approach, the note first identifies structural performance and policy gaps, then considers Mauritania's macroeconomic context, and lastly proposes a structural reform agenda. The main takeaway is that structural reforms should focus on raising productivity, reforming public finances, improving the business environment, and establishing a macro-fiscal framework to manage extractive revenues.*

A. Identifying Structural Policy Gaps

As a commodity exporter, Mauritania's main challenge is to diversify its economy to non-extractive sectors. Past staff analysis found that the binding constraints to diversification, growth, and job creation relate to Mauritania's macroeconomic vulnerabilities, high microeconomic risks, low productivity, low access to finance, and weak competitiveness.[2] [3] The authorities acknowledge these challenges and are seeking to transform the economy to raise growth and diversify its sources.

B. Considering the Macroeconomic Context

Low-income country. Mauritania is a low-income developing country, with high unemployment and poverty rates. For LIDCs, research suggests that structural reforms areas that would likely provide the greatest benefits include fiscal structural reforms, measures to improve the provision and quality of infrastructure, banking sector reforms to improve access to finance, and measures to raise agricultural sector performance.

Negative output gap. Mauritania recently suffered from a severe terms-of-trade shock that slowed growth for two consecutive years and opened a negative output gap. For economies in this position in the economic cycle, priority should be given to structural reforms that both support demand in the short term and raise potential growth in the longer term, e.g., infrastructure investment or active labor market policies.

Limited policy space. Mauritania faced the recent terms-of-trade shock with limited buffers, and responded with a mix of external financing and adjustment. Going forward, lower extractive revenues and higher debt have limited the fiscal space available for expansionary policies. This will likely

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[1] *Staff Note for the G20—A Guiding Framework for Structural for Reforms,* April 2016.

[2] See Chapters 2 and 3 in *Islamic Republic of Mauritania: Selected Issues Paper*, IMF Country Report No. 15/36.

[3] See Box 3 in *Islamic Republic of Mauritania: Staff Report for the 2016 Article IV Consultation*, IMF Country Report No. 16/115.

constrain the authorities' plans to raise public investment, using external financing, to stimulate demand in the short term and to reduce the infrastructure gap to increase potential growth in the long term.

C. Prioritizing Structural Reforms

Drawing on the assessment of Mauritania's structural gaps and macroeconomic context which suggests weak demand and limited policy space, reforms should prioritize structural measures that yield both long-term payoffs and short-term gains, and are budget-neutral as much as possible. Below is a menu of reforms that can be implemented with potentially positive short-term demand effects and long-term productivity and supply benefits.

Increasing productivity

Increasing productivity would require comprehensive reforms encompassing banking and financial sector reforms and measures aimed at enhancing production factors (human and physical capital). Financial sector reforms to enhance financial stability, ease access to finance, and diversify the sources of financing can help boost productivity by spurring the movement of resources to their more productive uses. Reforms targeted at developing human capital, reducing gender inequality, and improving physical capital can raise the economy's productive capacity.

a) ***Accelerating banking and financial sector reforms***. A strong and stable banking sector is critical to support overall macroeconomic stability and boost credit. Steps to strengthen the banking sector regulatory and supervisory framework include (i) strengthening banks' capital and establishing provisions for nonperforming loans (NPLs); (ii) improving the quality of bank portfolios to reduce the share of NPLs; and (iii) enhancing the central bank's capacity for more effective supervision. Adoption of the new banking law will enhance the bank resolution framework, safeguard financial stability, and ensure the banking sector's positive role in economic development.

b) ***Easing access to finance and improving financial inclusion*** through lower interest rates, greater availability of credit, and access to financial services can help boost credit to the private sector and support economic diversification and productivity growth.

c) ***Diversifying sources of financing.*** With the banking sector mainly financing short-term trade activities or consumer credit, and the *Caisse de Dépôts et de Développement* (CDD) financing some of the longer-term and riskier credits, there are limited sources of financing to support medium- to long-term economic growth opportunities. Developing a stock market would help increase the potential pool of investable funds. To support bank credit and other financing mechanisms, further deepening of the financial sector and strengthening the monetary policy framework with a liquidity management framework would be needed.

d) ***Developing human capital***. Growth has been constrained by insufficient quality of labor. Reforms geared at education, improving the skills set of the workforce, and better functioning labor markets would be key. Going forward, increasing investment in human capital relative to physical capital would help move from a factor-driven towards an efficiency-driven economy, which will be key for structural transformation and economic diversification.

e) ***Improving the efficiency of physical capital.*** Better prioritizing investment projects and strengthening public investment management (PIM) will be key. Since 2011, Mauritania has been scaling up its public investment not only to enhance basic infrastructure networks such as roads, water, ports, airports, and electricity, but also to support sectors deemed key for economic diversification, such as agriculture and fishing. However, in addition to addressing infrastructure gaps, it will be equally important to ensure the quality and efficiency of public investment to maximize its growth benefits and support the transformation of the economy into an efficiency-driven economy. These benefits have not yet fully materialized, suggesting room to improve the efficiency of public investment. Projects could be further prioritized by focusing on financially viable projects based on their economic and social impact, their relevance for development and sectoral strategies, and their low impact on debt. Despite recent improvements, the PIM could be further strengthened to address (i) the fragmented management system for domestic and foreign-financed projects which precludes a clear assessment of the public investment program, and (ii) inefficiencies in project implementation linked to the procurement process and insufficient capacity to monitor projects.

f) ***Reducing gender inequality.*** Policies to better integrate women in the economy may help increase overall incomes and significantly lift growth prospects through various channels. First, increasing the number of women in the labor force increases both the pool of talent to be hired as well as the potential number of entrepreneurs—hence a more efficient allocation of resources and higher productivity and growth.[4] Second, women are more likely to invest a larger share of the household income in children's education, hence developing human capital.[5] Third, gender inequality is highly correlated with income inequality, which in itself can penalize growth.[6] To further lift productivity and growth, Mauritania could reform the legal framework to address gender inequality, including by amending laws relating to employment and entrepreneurship that differentiate between women and men; develop gender budgeting to help direct public spending toward promoting gender equality, women development, and female labor force participation; remove gender discrimination practices; and promote equal access to education and employment.

[4] Cuberes, D., and M. Teigner, 2015, "Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate." University of Barcelona Economics Working Paper 2015/308.

[5] Elborgh-Woytek, K. and others, 2013, "Women, Work, and the Economy: Macroeconomic Gains from Gender Equity," IMF Staff Discussion Note, SDN/13/10.

[6] Ostry, J.D., A. Berg, and C.G. Tsangarides, 2014, "Redistribution, Inequality, and Growth", IMF Staff Discussion Note, SDN/14/02.

Fiscal structural reforms

Further fiscal structural reforms geared at improving the composition and quality of taxation and public spending could have significant productivity, growth, and labor market impacts. Priorities include:

- Broadening the tax base and reducing informality,
- Strengthening tax and customs administration,
- Simplifying taxation by introducing a corporate income tax,
- Eliminating inefficient and distortionary tax exemptions,
- Targeting subsidies and enhancing social safety nets,
- Strengthening public financial management and adopting the new organic budget law.

Improving the business environment and developing the private sector

A business climate that facilitates private sector operations would support growth and diversification. Mauritania has made great strides in improving its business environment, and could further improve in the areas of resolving insolvency, promoting fair and predictable taxation, and easing access to credit. Adopting the revised tax and customs procedure codes would help in this regard.

Developing a macro-fiscal framework to manage extractive revenues

As a commodity exporter, Mauritania should take advantage of the current economic stability, low iron ore prices, and exploration phase for off-shore gas to strengthen governance and establish a macro-fiscal framework to manage extractive wealth.[7] This would help address the medium-term fiscal policy challenges arising from volatile resource revenues, avoid pro-cyclical fiscal policies, and guide the adoption of rules to anchor medium-term fiscal sustainability. The experience of the oil fund, which has operated transparently and with accountability, could serve as a starting point for designing a broader resource fund for extractive revenues which could stabilize the budget across the cycle and serve as a savings fund for future generations. This will be all the more important should greater income from mining and gas materialize in the next decade, providing a unique opportunity to improve the living standards of the population.

[7] See Chapter 1 in *Islamic Republic of Mauritania: Selected Issues Paper*, IMF Country Report No. 15/36.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 13, 2017

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of June 30, 2017)

Membership Status: Joined September 10, 1963; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	128.80	100.00
Fund holdings of currency	112.65	87.46
Reserve Tranche Position	16.16	12.54

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	61.67	100.00
Holdings	0.90	1.46

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ECF Arrangements	66.82	51.88

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Mar 15, 2010	Jun 25, 2013	77.28	77.28
ECF [1]	Dec 18, 2006	Nov 1, 2009	16.10	10.31
ECF [1]	Jul 18, 2003	Nov 7, 2004	6.44	0.92

Projected Payments to Fund [2]

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

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	4.80	14.55	15.46	14.35	9.94
Charges/Interest	0.18	0.36	0.36	0.36	0.36
Total	4.98	14.91	15.82	14.71	10.30

[1] Formerly PRGF.

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

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date[3]	February 2000
Assistance committed by all creditors (US$ million)[4]	622.00
Of which: IMF assistance (US$ million)	46.76
(SDR equivalent in millions)	34.80
Completion point date[5]	June 2002

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	34.80
Interim assistance[6]	16.88
Completion point balance	17.92
Additional disbursement of interest income[7]	3.63
Total disbursements	38.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[8]	32.91
Financed by: MDRI Trust	30.23
Remaining HIPC resources	2.68

II. Debt Relief by Facility (SDR Million)

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

[3] Decision point: point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

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

[5] Completion point: point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 7 below. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

[6] Interim assistance: amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

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

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed into the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessments

The 2010 safeguards assessment of the Central Bank of Mauritania (BCM) found significant risks in the central bank's safeguards framework. The assessment noted that action was needed to develop the BCM's financial reporting, which lagged behind international standards and the practices of other central banks in the region. Legal reforms were also recommended to strengthen the central bank's autonomy and governance. The assessment further noted that capacity building was needed in the areas of information systems and internal audit. Since then, progress in implementing safeguards recommendations has been mixed. Steps have been taken to strengthen the internal audit function and the audited financial statements for 2007-16 have been published in full. Other important recommendations remain outstanding, including the implementation of IFRS and legal reforms to strengthen the BCM's autonomy and establish adequate oversight arrangements.

AML/CFT

The Middle East and North Africa Financial Action Task Force (MENAFATF) adopted the mutual evaluation report for Mauritania in November 2006, in which it recommended corrective measures to address the deficiencies in the country's AML/CFT framework. Since then, Mauritania amended the AML/CFT law and the CT law. At the time of the 12th follow-up report, Mauritania's lack of responsiveness caused the MENAFATF to conduct a high level official visit in March 2016, during which the authorities informed that Parliament had amended the definition of terrorist financing in the AML/CFT law and included procedures to implement United Nations Security Council Resolutions (UNSCRs) 1267 and 1373 on listing and freezing of terrorist assets. However, MENAFATF considered that these amendments did not sufficiently address the deficiencies identified. The FIU submitted a request to join the Egmont Group of Financial Intelligence Units as recommended by the 2012 FATF. Mauritania is currently undergoing an evaluation against the revised FATF standard, with the report expected to be published on the second half of 2017.

Exchange Arrangement

Mauritania's de jure exchange rate arrangement is floating. Since September 2014, the ouguiya has followed a depreciating trend within a 2 percent band against the U.S. dollar. Accordingly, the de facto exchange rate arrangement is classified as a crawl-like arrangement. Mauritania maintains one exchange restriction subject to IMF approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction arises from the insufficient foreign exchange availability at the fixing sessions (auctions) organized by the BCM for those transactions which are required to be submitted to the auctions. In 2014 and in 2016, the IMF's Executive Board approved the temporary retention of this restriction. In 2017, the authorities have requested, and staff recommends, Board approval for a further temporary retention of this restriction.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on April 25, 2016 (IMF Country Report No. 16/115).

Technical Assistance (past two years)

Monetary and exchange rate policy

AFRITAC West—Bank supervision	January–February 2015
AFRITAC West—Macroeconomic analysis and forecasting	March 2015
AFRITAC West—Bank supervision	November 2015
AFRITAC West—Bank supervision	February 2016
MCM—Islamic finance	April–May 2016
MCM—Foreign exchange and monetary policy	May–June 2016
AFRITAC West—Bank supervision	September 2016
AFRITAC West— Macroeconomic analysis and forecasting	October 2016
AFRITAC West—Bank supervision	January 2017
MCM—Emergency liquidity assistance framework	April–May 2017

Fiscal policy

FAD—Tax administration	March 2015
FAD—Tax administration	April–May 2015
FAD—Organic public finance law	May 2015
FAD—Tax administration	July–August 2015
FAD— Organic public finance law	November 2015
AFRITAC West—Tax administration	February 2015
AFRITAC West—Public expenditure management	February–March 2015
AFRITAC West—Tax administration	September 2015
AFRITAC West—Public debt management	January 2016
AFRITAC West—Public expenditure management	February 2016
AFRITAC West—Tax administration	February 2016
FAD—Tax administration	February 2016
FAD—Tax administration	March 2016
FAD—Tax administration	April–May 2016
AFRITAC West—Public debt management	May–June 2016
FAD—Tax administration	July 2016
AFRITAC West—Public expenditure management	August 2016

AFRITAC West—Tax administration	September–October 2016
AFRITAC West—Tax and customs administration	October–November 2016
AFRITAC West—Public debt management	November–December 2016
AFRITAC West—Public accounting	January 2017
AFRITAC West—Public expenditure management	January–February 2017
AFRITAC West—Tax administration	January–February 2017
AFRITAC West—Tax administration	February–March 2017
AFRITAC West—Tax and customs administration	March 2017
AFRITAC West—Tax and customs administration	April 2017
FAD—Tax administration	April–May 2017

Statistics

AFRITAC West—Public finance statistics	January 2015
AFRITAC West—Real sector statistics	February–March 2015
AFRITAC West—Real sector statistics	March 2015
AFRITAC West—Public finance statistics	January 2016
AFRITAC West-–National accounts	May and November 2016
AFRITAC West—Public finance statistics	November–December 2016
AFRITAC West-–National accounts	January–February 2017
AFRITAC West— National accounts	April 2017

Resident Representative

Mr. Nooman Rebei is the IMF’s Resident Representative in Mauritania since January 2015.

BANK-FUND COLLABORATION

Joint Management Action Plan of the World Bank and IMF (As of June 30, 2017)		
Title	**Products**	**Expected delivery**
	A. Mutual Information on Relevant Work Programs	
Bank Work Program (Next 12 months)	- Systemic Country Diagnostic - Mauritania Economic Update - Oil & Gas Technical Assistance - Second Development Policy Grant - Country Partnership Framework - Poverty and Jobs Technical Assistance Project - Land Policies (Urban and Rural) - Adaptive Social Protection (Advisory services analytics) - Water Sector Public Expenditure Review - Nouadhibou Free Zone Support and Competitiveness—Additional Financing - Social Inclusion Study - Youth Employment Project - Mauritania Economic Diversification Study - Extractive Industries Transparency Initiative (EITI) Support - Public Sector Governance Project - Public Sector Governance Additional Financing with focus on central bank core banking and payment systems, support for treasury, and land reforms - Banda Gas-to-Power Project - Technical Assistance on Country Policy and Institutional Assessment (CPIA) - Social Safety Net Project	June 2017 July 2017 August 2017 November 2017 December 2017 December 2017 December 2017 December 2017 December 2017 April 2018 June 2018 June 2018 June 2018 Ongoing Ongoing February 2018 Ongoing Ongoing Ongoing
Fund Work Program (Next 12 months)	**Macroeconomic policy analysis and advice** Article IV consultation **Technical Assistance** Tax and customs administration Public financial management National accounts statistics Government finance statistics Monetary and financial statistics Enhanced General Data Dissemination System (e-GDDS) Anti-money laundering and combatting the financing of terrorism (AML/CFT)	 H1 2018 2017-18

B. Requests for Work Program Inputs		
Fund Requests to Bank	- Periodic update on activities - Reports, macroeconomic and financial data to be shared regularly - Fund staff to participate in review of key analytical work	Ongoing
Bank Requests to Fund	- Periodic update on technical assistance activities, especially in the banking sector and national accounts. - Macroeconomic and financial data to be shared regularly.	Ongoing
C. Agreement on Joint Products and Missions		
Joint Products (Next 12 months)	Debt sustainability analysis	H1 2018

STATISTICAL ISSUES

General. Data provision has some shortcomings, but is broadly adequate for surveillance. Most shortcomings are in the areas of national accounts, balance of payments, external debt, and financial sector statistics. Since 2005, STA and AFRITAC West have been assisting the authorities with macroeconomic statistics.

Mauritania is participating in the enhanced General Data Dissemination System (e-GDDS). The metadata have been posted on the Dissemination Standards Bulletin Board (DSBB), but, except for population statistics, have not been updated since 2004. ROSC data for most internationally recognized standards and codes is not available except for fiscal transparency.

National accounts. Mauritania's annual national accounts approached the e-GDDS timeliness benchmark (three quarters), when estimates for 2015 were published in November 2016. With support from AFRITAC West, the authorities expect to achieve this objective by publishing estimates for 2016 by September 2017. These estimates use the *System of National Accounts, 1993* and are compiled from an outdated base year (2005). The authorities intend to implement the *System of National Accounts, 2008* and update the base year (to 2014) when estimates for 2017 are published in 2018. Mauritania does not currently produce quarterly estimates of GDP as encouraged by e-GDDS.

Price statistics. The *Office National de la Statistique* (ONS) publishes a monthly consumer price index with a base year of 2014. Since January 2016, the index is compiled using a wider geographical coverage (the previous index was limited to Nouakchott, while the new index covers four additional locations: Nouadhibou, Atar, Aioun and Rosso) with an expanded product basket (624 products). The import content of the basket is lower at the national level than for Nouakchott since the population outside the capital city consumes more local food products, the prices of which depend more on weather conditions. The weights have been updated based on the consumer survey conducted in 2014. The main change is a higher share of services (non-tradables) such as education, health and communication.

Old and New Weights in CPI (National and Nouakchott)			
	Old CPI (NKC)	**New CPI (National)**	**New CPI (NKC)**
Food and beverages	5,305	5,100	4,329
Tobacco	133	21	18
Clothing and footwear	588	668	573
Housing, water, gas, electricity and other fuels	1,368	1,032	1,333
Furniture, household articles and maintenance	628	333	300
Health	148	534	540
Transport	1,030	755	1,076
Communication	184	707	833
Leisure and culture	186	105	178
Education	33	390	433
Restaurants and hotels	176	31	131
Other goods and services	221	323	256
Total	10,000	10,000	10,000

Source: Mauritanian authorities.

Government finance statistics

Fiscal data at the central government level are available monthly with a delay (recently a 3-month lag) and are broadly adequate. The adoption of systematic compilation practices has improved data comprehensiveness, but there is a need to make operational a data validation process as a quality control measure. In view of ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts. Work is ongoing to move towards GFS2014 and broaden the scope of government statistics beyond the central government to generate a comprehensive assessment of public sector statistics. The plan is to first broaden the coverage to include local collectivities and social security funds, and then the parastatal entities. The foreign financed public investment and associated external debt disbursements data are sometimes not accurate due to weaknesses in debt management capacity (recording and monitoring of external debt).

Monetary and financial statistics

The Central Bank of Mauritania (BCM) reports monetary and financial statistics to STA for the central bank (10R) and for depository corporations (20R) based on old reporting forms. The data are reported to STA with a one-year lag. The BCM has compiled preliminary Standard Reporting Forms (SRFs) for the central bank (1SR) and other depository corporations (2SR), which were last sent to STA in 2016. Following remote technical assistance (TA) on the preliminary SRFs, it was agreed to conduct a TA mission during FY2018 to finalize migration of the monetary and financial statistics to the SRFs. The BCM does not report financial soundness indicators to STA.

External sector statistics. The BCM is responsible for the compilation of balance of payments statistics, following the *Balance of Payments Manual, fifth edition* methodology, on a quarterly basis. The BCM reports these data regularly to STA, but with some delays. IIP data are not yet compiled. Improvements are needed to data collection systems to enhance the comprehensiveness and accuracy of the information. Major limitations include inadequate use of the banking declarations system, and incomplete collection of information related to foreign direct investment (FDI). Furthermore, the values of exports and imports are understated under the current customs procedures. The BCM has been working to improve its sources and methods following a recent STA technical assistance mission.

Data standards and quality

Mauritania is a participant in the Fund's e-GDDS since September 1, 2004.

Mauritania: Table of Common Indicators Required for Surveillance
(As of June 30, 2017)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	April 2017	April 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2017	May 2017	M	M	NA
Reserve/Base Money	March 2017	May 2017	M	M	NA
Broad Money	March 2017	May 2017	M	M	NA
Central Bank Balance Sheet	March 2017	May 2017	M	M	NA
Consolidated Balance Sheet of the Banking System	March 2017	May 2017	M	M	NA
Interest Rates[2]	February 2017	March 2017	I	I	I
Consumer Price Index	May 2017	June 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 2017	May 2017	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2016	February 2017	M	M	I
External Current Balance	March 2017	June 2017	Q	Q	I
Exports and Imports of Goods and Services	March 2017	June 2017	Q	Q	I
GDP/GNP	2015	February 2017	A	A	I
Gross External Debt	December 2016	February 2017	M	M	I

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

July 13, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Daniela Gressani and Vitaliy Kramarenko (IMF) and Paloma Anós Casero (IDA)

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

Mauritania's risk of debt distress remains high. Although an improvement in its CPIA rating led to an increase in debt thresholds this year, the risk rating is unchanged, owing to a substantial increase in external debt over the past three years to finance infrastructure and external deficits, and the contraction in nominal GDP due to the 2014–15 terms-of-trade shock. The outlook has improved, though, due to higher projected growth and lower projected disbursements in the medium term relative to the 2016 DSA. Nevertheless, baseline projections over the next twenty years show sizeable breaches of the debt indicator thresholds for the present value (PV) of public external debt-to-GDP ratio and the debt service-to-revenue ratio—the latter essentially due to the amortization of short-term loans extended to the central bank and the central government to weather the terms-of-trade shock. The PV of public external debt-to-GDP ratio remains above its threshold due to disbursements linked to the authorities' infrastructure projects.[1]

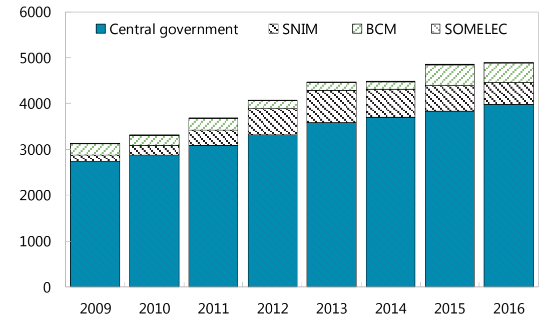
The DSA highlights the need to follow sound economic policies, including a prudent borrowing strategy that avoids non-concessional borrowing and relies instead on grants and concessional financing at a moderate pace. To limit existing near-term liquidity risks, new external borrowing resulting in significant additional short-term debt service should be avoided. The authorities should also continue their best efforts to resolve the external debt in arrears with Kuwait, consistent with the HIPC Initiative.

[1] Prepared under the joint Fund-Bank Low-Income Country Debt Sustainability Framework. The 2016 DSA was published in IMF Country Report No. 16/115. Mauritania's policy performance according to the Country Policy and Institutional Assessment (CPIA) improved from "weak" to "medium" this year as the three-year moving average CPIA score remained above 3.25 for two consecutive years (3.30 in 2015 and 3.33 in 2016).

BACKGROUND

1. **External debt rose during the past two years due to sizable borrowing, although the headline impact was amplified by the large contraction in nominal GDP**. Between 2014–16, external public debt rose by $552 million (10 percent of 2014 GDP), but the debt ratio rose by 22 percentage points of GDP to 93.2 percent of GDP on the back of a 12 percent contraction in the nominal dollar GDP, on account of the terms-of-trade shock and the exchange rate depreciation. Mauritania's stock of external debt includes a passive debt in arrears owed to Kuwait. [2] Excluding this latter debt, external public debt reached 72.2 percent of GDP at end-2016. Much of the nominal increase was due to a $300 million non-concessional deposit from Saudi Arabia to support the central bank's reserves in 2015. The rest was mostly contracted by the central government to finance the budget and public investment projects.

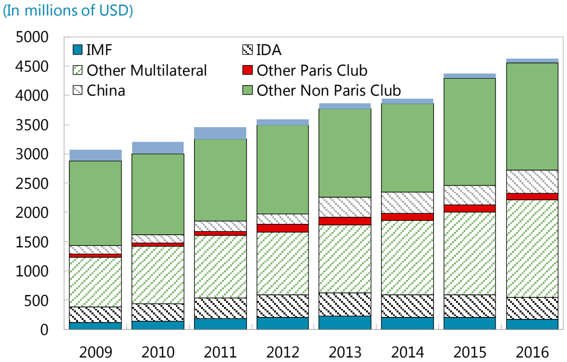
External Debt by Debtor, 2009–16
(In millions of USD)



Source: Mauritanian authorities.

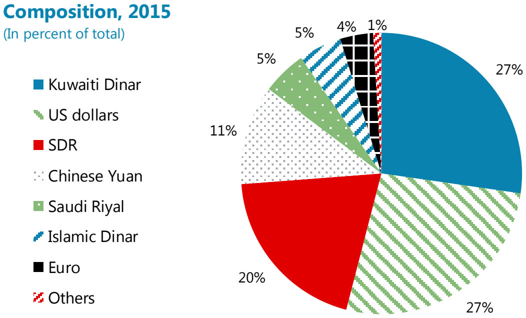
2. **External debt is largely composed of public debt contracted on concessional or semi-concessional terms with official creditors.** Public and publicly guaranteed (PPG) debt represented about 85 percent of total external debt at end-2016. PPG external debt includes debt contracted by the central government, the central bank, and state-owned enterprises (mainly the electricity company SOMELEC). It excludes borrowing by the public mining company, SNIM, as the company is run on a commercial basis and borrowed without government guarantees up to end-2016.[3]. External debt is mostly denominated in U.S. dollars and currencies pegged to or closely following it.

PPG External Debt by Creditor, 2009-16
(In millions of USD)



Sources: Mauritanian authorities.

External Debt of the Central Government: Currency Composition, 2015
(In percent of total)



Sources: Mauritanian authorities.

[2] A passive debt, now estimated at 21 percent of GDP, is owed to the Kuwait Investment Authority (KIA) since the 1970s. The authorities are seeking debt relief from Kuwait, but no agreement has been reached yet. This DSA, as in the previous one, assumes debt relief in the first year of the projection period (2017).

[3] Nevertheless, SNIM debt represents a contingent liability for the central government.

Table 1. Mauritania: Public and Publicly Guaranteed External Debt, 2013–16

	2013	2014	2015	2016	2013	2014	2015	2016
	(in Million of USD)				(in percent of GDP)			
Public and Publicly Guaranteed External Debt	**3,770.1**	**3,856.0**	**4,291.8**	**4,407.6**	**65.9**	**71.5**	**88.6**	**93.2**
Bilateral Creditors	1,985.7	1,994.7	2,289.3	2,294.3	34.7	37.0	47.3	48.5
Paris Club	136.3	123.1	119.4	115.9	2.4	2.3	2.5	2.5
Of which: France	95.5	87.0	81.4	81.5	1.7	1.6	1.7	1.7
Spain	35.8	31.7	34.3	31.1	0.6	0.6	0.7	0.7
Non Paris Club	1,849.4	1,871.6	2,169.9	2,178.4	32.3	34.7	44.8	46.1
Of which: China	333.4	367.3	340.4	339.3	5.8	6.8	7.0	7.2
Kuwait [1/]	1,140.9	1,140.1	1,141.8	1,146.5	19.9	21.1	23.6	24.2
Saudi Arabia [2/]	214.6	212.0	509.4	522.8	3.7	3.9	10.5	11.1
Multilateral Creditors	1,784.4	1,861.4	2,002.5	2,113.2	31.2	34.5	41.3	44.7
Of which: Islamic Development Bank (IDB)	218.1	273.8	340.5	374.9	3.8	5.1	7.0	7.9
International Development Association (IDA)	396.6	379.5	385.6	364.8	6.9	7.0	8.0	7.7
International Monetary Fund (IMF)	211.3	195.5	190.9	166.1	3.7	3.6	3.9	3.5
Arab Monetary Fund (AMF)	18.7	47.4	62.4	159.8	0.3	0.9	1.3	3.4
Arab Fund for Economic and Social Development (AFESD)	702.5	749.0	819.2	856.4	12.3	13.9	16.9	18.1
Memorandum items:								
Passive debt to Kuwait Investment Authority (KIA)	1,001.0	997.2	993.9	993.1	17.5	18.5	20.5	21.0
Saudi deposit at BCM	-	-	300.0	300.0	-	-	6.2	6.3
PPG external debt excluding passive debt to KIA	2,769.2	2,858.8	3,297.9	3,414.5	48.4	53.0	68.1	72.2
Nominal GDP	5,724.2	5,391.5	4,844.2	4,729.0	-	-	-	-

Source: Mauritanian authorities.

[1/] Including passive debt to KIA under negotiation.

[2/] Including Saudi deposit at BCM.

3. **The authorities' capacity to monitor and record debt remains weak.** Debt stock figures reported to staff for 2013–15 were revised upward by up to $300 million due to incomplete or delayed reporting from government agencies. Improving capacity to monitor and record debt will be critical for effective debt management in the future. In this respect, several initiatives are underway to strengthen debt management: the authorities are introducing information systems that should improve the exchange of information between the Ministry of Finance, central bank and project/investment entities; they also intend to reactivate the National Committee for Public Debt to ensure that it is involved in the investment selection and loan contracting process and to monitor the impact on debt and debt sustainability.

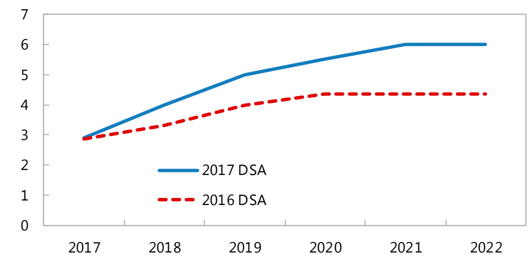
4. **The authorities continue to actively seek debt relief from Kuwait.** An agreement has not yet been reached between the Kuwait Investment Authority (KIA) and Mauritania to resolve this longstanding issue. Both parties are seeking agreement on the valuation of the debt, including interest in arrears. Under the 2002 Paris Club agreement following the completion point for Mauritania in 2002, Mauritania was expected to seek debt relief on at least comparable terms from non-Paris Club creditors.

DEBT SUSTAINABILITY ASSESSMENT

A. Macroeconomic Assumptions and Outlook

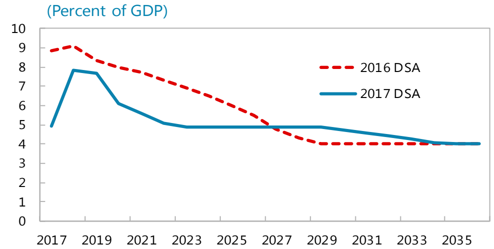
5. Compared to the previous DSA, the outlook has improved, mainly due to higher growth and lower projected disbursements in the medium term. Real GDP growth is projected to be 1–2 percent higher over the medium term on account of the expected rebound in mining and non-extractive activity under the authorities' development strategy for a more inclusive and diversified growth. Growth would be supported by an ambitious public investment program, foreign investment in the extractive sector, and planned structural reforms aimed at improving the business climate, diversifying the economy, and raising inclusive growth. Non-extractive growth is expected to pick up gradually to 2.9 percent in 2017 and should reach 6 percent by 2021, supported by gains in agriculture, fishing, construction, and services as the authorities scale up public infrastructure and implement reforms. The current account deficit will be lower due to higher exports fueled by higher iron ore prices, development of the fishing industry, and continued macroeconomic adjustment to the terms-of-trade shock. Moreover, this DSA projects lower debt disbursements than the previous one, averaging about 6½ percent of GDP over the medium term and converging gradually under 4 percent in the long term, reflecting prioritization of public investment and financing and administrative capacity constraints. The average grant element of new disbursements is assumed to decline over time, along with gradually expanding access to borrowing on commercial terms. As in the 2016 DSA, debt relief from KIA is assumed

Real Non-Extractive GDP Growth
(Percent change)



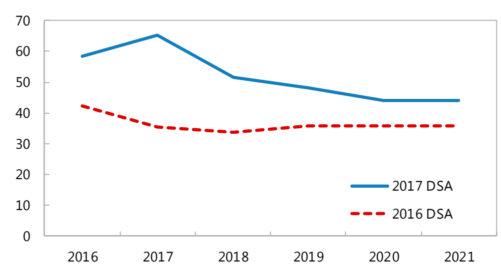
Source: IMF staff projections.

Projected New Debt Disbursements
(Percent of GDP)



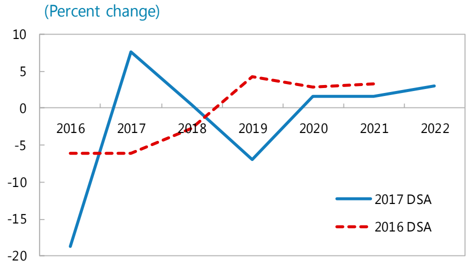
Source: IMF staff projections.

Price of Iron Ore
(US$/Ton)



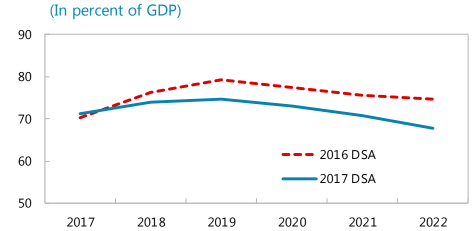
Source: WEO

Terms of Trade
(Percent change)



Source: IMF staff estimates.

PPG External Debt 1/
(In percent of GDP)



1/ Debt relief from Kuwait under the HIPC-MDRI is assumed.
Sources: IMF staff projections.

to take place in the first projection year; this drives the large reduction in public and external debt in 2017. Lastly, an improvement in the CPIA rating has led to Mauritania's classification in the "medium" policy performance group, which results in more accommodative debt thresholds than in the previous DSA.

Table 2. Mauritania: Macroeconomic Assumptions, 2016–37

	2016	2017	2018	2019	2020	2021	2022	2023-29	2030-37
Real GDP growth									
Current DSA	1.7	3.8	3.0	4.6	5.2	4.6	4.0	5.3	4.8
2016 DSA	4.1	3.9	1.7	3.8	3.9	3.2	4.1	4.1	4.2
Nominal GDP (in millions of US$)									
Current DSA	4,729.0	4,960.6	4,999.6	5,164.0	5,417.4	5,710.2	6,073.4	8,132.8	13,503.5
2016 DSA	4,541.3	4,520.1	4,598.6	4,856.1	5,169.2	5,455.1	5,890.6	8,087.7	13,749.2
Exports of goods (growth)									
Current DSA	0.9	13.7	8.8	2.1	1.4	-1.8	-5.1	4.0	0.0
2016 DSA	-4.8	2.8	-3.7	0.9	-1.1	-7.3	4.6	5.3	4.6
Imports of goods (growth)									
Current DSA	-2.5	7.1	-2.6	0.7	0.9	0.4	1.1	4.0	4.2
2016 DSA	-19.2	5.7	-0.4	0.7	3.8	1.1	0.0	0.0	0.0
Current account balance (in percent of GDP)									
Current DSA	-14.9	-15.3	-11.2	-10.3	-9.9	-9.2	-8.9	-7.6	-6.2
2016 DSA	-13.6	-15.8	-13.2	-11.1	-11.3	-10.5	-9.4	-3.0	3.1
Revenue and grants (in percent of GDP)									
Current DSA	27.9	26.3	26.3	26.3	25.9	26.1	26.6	26.6	20.1
2016 DSA	30.6	30.7	29.7	29.0	28.1	28.2	27.6	27.3	26.8
Primary balance (in percent of GDP)									
Current DSA	0.7	0.5	-0.7	-0.5	-0.8	-0.7	-0.7	-0.9	-1.0
2016 DSA	-0.8	-1.4	-1.8	-1.7	-1.5	-1.4	-2.0	-2.6	-3.5
Price of iron ore (US$/Ton)									
Current DSA	58.6	65.1	51.7	48.1	44.2	44.2	44.2	44.2	44.2
2016 DSA	42.4	35.5	33.8	35.9	35.9	35.9	35.9	35.9	35.9

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

B. External Debt Sustainability

6. **Baseline projections for three of the five debt indicators breach their respective thresholds, although one indicator shows only a small breach.**[4] The size of the breaches is less severe than in the 2016 DSA. The PV of debt-to-GDP ratio is projected on a firm downward trajectory after 2019 and falls below the threshold from 2030 onward. The PV of debt-to-exports ratio breaches its threshold in 2022 and remains above it by a relatively small margin, peaking at 7 percent in 2031 after which it gradually tapers lower. The debt service-to-revenue ratio breaches the threshold during 2018–21 due to the amortization of the $300 million deposit from Saudi Arabia in 2015 to support reserves and of the budget support loans contracted from the Arab Monetary Fund (AMF). Private external debt, which mainly consists of debts of the iron ore mining company SNIM and banking sector liabilities, is relatively small and is projected to decline over the projection period based on a conservative assumption on new borrowing, as private sector borrowing plans are unknown.

7. **Standardized stress tests show breaches of respective thresholds by all five debt indicators.** Stress tests highlight vulnerabilities to shocks to exports and to exchange rate depreciation. However, the standard historical scenario, which projects rising debt and debt service ratios, is unrealistic since it assumes that the current account deficits due to FDI-financed expansion of mining capacity would in the future be financed by debt.

8. **The outlook for external debt sustainability has improved compared to the 2016 DSA, although Mauritania's risk of debt distress continues to be assessed as high.** The debt profile has improved owing to projected higher growth and iron ore prices, an improved current account, and lower projected debt disbursements. This DSA suggests that with prudent policies, the authorities can improve debt prospects towards sustainability. However, in the near term the authorities should monitor closely the considerable rise in debt service falling due (owing to the repayment profile of both the $300 million deposit at the central bank and AMF loans to the central government), and ensure that adequate resources are available to meet those payments without undue disruption to other budget expenditures or sharp reductions in international reserves.

C. Public Debt Sustainability

9. **While the dynamics of total public debt reflect the large share of external debt, the public debt sustainability assessment is somewhat more favorable than for external debt.**[5] The public debt stock is largely composed of external debt, with domestic debt only about 5 percent of GDP at end-2016. Domestic debt consists mostly of short-term (up to 6 months) treasury bills. Under the baseline, the PV of public debt-to-GDP ratio is projected to peak at 61 percent in 2019 and to take a downward trajectory

[4] The external debt sustainability framework (Table 2) shows persistent negative residuals, which are large in the medium term but persist at a lower level throughout the projection horizon. These reflect (i) debt relief on the debt in arrears to the KIA in 2017; (ii) a drawdown in reserves over the medium term; and (iii) net private sector financial inflows of the mining sector.

[5] The public debt sustainability framework (Table 4) shows a sizeable residual in 2017, which, as in the external debt sustainability framework, reflects debt relief on the debt in arrears to the KIA. The remaining residuals are due to debt flows of parastatals that are not captured in the central government budget.

thereafter, crossing the 56 percent benchmark in 2022. The breach is less pronounced and protracted than in the external DSA. The stress test which assumes a fixed primary balance (a small surplus in contrast to persistent deficits in the baseline) shows the importance of a restrained fiscal policy stance to reduce the existing high public debt-to-GDP ratio. The historical scenario illustrates well the risk of a sustained shortfall in growth compared to the baseline which would preclude any marked decline in the debt-to-GDP ratio. This is further highlighted in the bound test for a temporary shock to growth, in which during 2018-2019 real growth is 0.8 percent versus 3.8 percent on average in the baseline. Over the medium-term the impact of the growth shock steadily increases over time: the PV of public debt-to-GDP is initially higher than under the baseline by some 5 percentage points of GDP and the gap steadily widens over the projection horizon reaching 20 percentage points by 2037 and the debt burden indicator remains above the benchmark level until 2037. A similar pattern is observed for the negative impact of a growth shock on the PV of public debt-to-revenue ratio and the debt service-to-revenue ratio. Indeed, this bound test has the second largest impact (after the most extreme test) on the debt burden indicators during the first 10 years of the projections. The most extreme shock is associated with a one-time depreciation and illustrates the significant vulnerability related to the preponderance of foreign currency-denominated debt.

CONCLUSIONS

10. Mauritania's risk of debt distress remains high despite an improvement in its CPIA rating, following the increase in external debt over the past three years to finance infrastructure and external deficits, and a contraction in nominal GDP due to the terms-of-trade shock and exchange rate depreciation. The outlook has improved since the previous DSA due to stronger projected growth and lower projected disbursements in the medium term. Nevertheless, baseline projections over the next twenty years indicate sizeable breaches in thresholds for the present value (PV) of debt-to-GDP ratios and the debt service-to-revenue ratios; the latter is mainly due to the amortization of short-term loans extended to the central bank and the central government to weather the terms-of-trade shock.

11. The DSA highlights the need to follow sound economic policies, including a prudent borrowing strategy that takes on new debt at a moderate pace, avoids non-concessional borrowing, and relies instead on grants and concessional financing. To avoid exacerbating short-term liquidity risks, new borrowing resulting in significant additional short-term debt service should be avoided. The authorities should also continue their best efforts to resolve the external debt in arrears with Kuwait. More generally, raising prospects for debt sustainability hinge on sustaining structural reforms to promote inclusive growth and economic diversification through private sector development; improving monitoring and governance to raise the efficiency and growth dividends of the public investment program; and strengthening debt management capacity. To the extent that the authorities, as planned, turn to public-private partnerships (PPP) to finance and manage future projects, they should also strengthen their capacity to evaluate and monitor PPP-related contingent liabilities for the budget. They should also minimize their direct financial participation in PPPs and avoid providing explicit guarantees or taking on implicit contingent budget liabilities related to the financial performance of PPP projects.

12. The authorities acknowledge the need for prudent debt policies and stronger investment management, but question the risk rating of external debt distress. They consider that public debt is sustainable and can be serviced, even in the current environment of low commodity prices. They acknowledge the need to strengthen public investment and debt management by implementing the recently adopted framework to prioritize projects under the public investment program, and highlight the progress made in this regard during this past year. They believe that their long-term public investment strategy is critical for Mauritania's development and that this strategy will be viable if it generates the sustained strong economic growth and crowds-in sufficient FDI, which would serve as an alternative financing source for future development. They also note that most borrowing benefits from favorable terms, even if those terms fall slightly short of the Fund's concessionality threshold. They underscore the high priority given to strengthening the governance and efficiency of public enterprises as well to improving the business climate. They also aim at relying more on financing projects through PPPs involving only a small financial participation, if any, by the government. However, in the absence of alternative financing options, they consider that it will be necessary to use external borrowing to finance projects considered critical for the country's development and demonstrated to be cost-effective.

Table 3. Mauritania: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**88.9**	**108.1**	**110.5**			**87.0**	**88.3**	**87.5**	**83.1**	**79.6**	**75.2**		**62.0**	**42.2**	
of which: public and publicly guaranteed (PPG)	74.1	92.7	94.5			72.9	75.7	76.6	73.8	71.4	68.4		57.6	40.0	
Change in external debt	7.0	19.2	2.4			-23.5	1.3	-0.8	-4.4	-3.5	-4.5		-2.2	-2.1	
Identified net debt-creating flows	23.0	19.5	11.9			2.3	4.4	2.3	1.2	0.8	0.9		0.4	-1.0	
Non-interest current account deficit	**25.6**	**17.9**	**12.9**	**15.1**	**7.0**	**13.3**	**9.2**	**8.4**	**8.1**	**7.5**	**7.3**		**6.5**	**4.3**	5.9
Deficit in balance of goods and services	26.7	19.7	17.7			19.0	14.5	13.6	12.5	11.8	12.0		9.8	6.4	
Exports	39.0	33.7	35.3			36.2	38.8	38.4	37.2	34.8	31.3		26.4	20.9	
Imports	65.8	53.4	53.0			55.2	53.3	52.0	49.7	46.7	43.3		36.2	27.2	
Net current transfers (negative = inflow)	-2.1	-3.7	-5.2	-3.7	1.2	-3.7	-3.9	-3.8	-3.1	-2.7	-2.7		-2.2	-1.4	-1.9
of which: official	-1.2	-2.1	-3.6			-2.2	-2.3	-2.2	-1.5	-1.2	-1.2		-0.9	-0.5	
Other current account flows (negative = net inflow)	1.0	1.9	0.4			-2.0	-1.4	-1.4	-1.3	-1.7	-2.0		-1.1	-0.7	
Net FDI (negative = inflow)	**-9.3**	**-10.4**	**-5.7**	**-9.3**	**8.3**	**-9.1**	**-4.2**	**-4.1**	**-4.4**	**-4.8**	**-5.1**		**-4.0**	**-4.2**	-4.2
Endogenous debt dynamics 2/	**6.7**	**11.9**	**4.8**			**-1.9**	**-0.6**	**-1.9**	**-2.5**	**-1.9**	**-1.4**		**-2.1**	**-1.1**	
Contribution from nominal interest rate	1.7	1.9	2.2			2.1	2.0	2.0	1.9	1.7	1.6		0.9	0.9	
Contribution from real GDP growth	-4.9	-0.9	-1.9			-4.0	-2.6	-3.9	-4.3	-3.6	-3.0		-3.1	-2.0	
Contribution from price and exchange rate changes	9.9	11.0	4.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-16.1**	**-0.3**	**-9.5**			**-25.8**	**-3.1**	**-3.1**	**-5.6**	**-4.3**	**-5.3**		**-2.6**	**-1.2**	
of which: exceptional financing	-0.2	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	91.0			67.8	67.9	66.4	62.5	59.6	56.0		46.8	33.0	
In percent of exports	...	...	257.7			187.5	174.8	172.8	168.1	171.2	178.7		176.8	158.4	
PV of PPG external debt	**...**	**...**	**75.0**			**53.7**	**55.2**	**55.5**	**53.2**	**51.4**	**49.2**		**42.4**	**30.8**	
In percent of exports	**...**	**...**	**212.4**			**148.5**	**142.3**	**144.4**	**143.1**	**147.5**	**157.0**		**160.3**	**147.7**	
In percent of government revenues	**...**	**...**	**288.2**			**218.6**	**225.4**	**225.7**	**214.3**	**202.8**	**190.2**		**161.7**	**117.5**	
Debt service-to-exports ratio (in percent)	**11.9**	**15.5**	**16.6**			**17.9**	**21.8**	**21.0**	**20.8**	**20.1**	**20.0**		**14.3**	**18.1**	
PPG debt service-to-exports ratio (in percent)	**6.4**	**8.6**	**9.6**			**11.6**	**16.1**	**15.9**	**15.9**	**15.4**	**15.7**		**14.3**	**18.1**	
PPG debt service-to-revenue ratio (in percent)	**10.0**	**10.6**	**13.1**			**17.0**	**25.5**	**24.9**	**23.8**	**21.2**	**19.0**		**14.4**	**13.6**	
Total gross financing need (Billions of U.S. dollars)	1.3	0.8	0.8			0.8	0.9	0.9	0.9	0.8	0.8		0.8	0.9	
Non-interest current account deficit that stabilizes debt ratio	18.7	-1.3	10.5			36.8	7.9	9.2	12.4	11.0	11.8		8.7	6.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.6	0.9	1.7	3.2	2.5	3.8	3.0	4.6	5.2	4.6	4.0	4.2	5.1	4.8	5.0
GDP deflator in US dollar terms (change in percent)	-10.8	-11.0	-4.0	1.5	10.6	1.1	-2.2	-1.3	-0.3	0.8	2.3	0.1	1.9	2.0	1.9
Effective interest rate (percent) 5/	1.9	1.9	2.0	1.5	0.9	2.0	2.4	2.3	2.3	2.2	2.2	2.2	1.5	2.2	1.8
Growth of exports of G&S (US dollar terms, in percent)	-25.1	-22.3	2.2	4.2	24.5	7.4	8.2	2.2	1.5	-1.3	-4.2	2.3	3.9	4.8	4.2
Growth of imports of G&S (US dollar terms, in percent)	-12.3	-27.0	-3.2	9.0	25.1	9.2	-2.6	0.7	0.2	-1.0	-1.2	0.9	4.1	3.9	3.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	34.2	33.9	33.8	33.9	32.9	32.8	33.6	30.3	18.1	26.1
Government revenues (excluding grants, in percent of GDP)	24.8	27.5	26.0			24.6	24.5	24.6	24.8	25.3	25.9		26.2	26.2	26.2
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1			0.2	0.3	0.3	0.2	0.2	0.2		0.2	0.2	
of which: Grants	0.0	0.1	0.1			0.1	0.1	0.1	0.1	0.0	0.0		0.0	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.2	0.2	0.2	0.1	0.1		0.2	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.6	4.6	4.5	3.3	2.6	2.4		1.9	1.1	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			50.1	45.7	45.4	43.1	40.7	41.4		35.6	26.4	32.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.4	4.8	4.7			5.0	5.0	5.2	5.4	5.7	6.1		8.6	16.8	
Nominal dollar GDP growth	-5.8	-10.2	-2.4			4.9	0.8	3.3	4.9	5.4	6.4	4.3	7.1	6.9	7.0
PV of PPG external debt (in Billions of US dollars)			3.5			2.6	2.7	2.8	2.9	2.9	3.0		3.6	5.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-18.9	1.9	2.0	1.1	0.9	1.0	-2.0	1.8	0.7	1.5
Gross workers' remittances (Billions of US dollars)	0.0	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	73.9			52.9	54.4	54.6	52.4	50.6	48.5		41.9	30.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	203.3			142.4	136.6	138.6	137.2	141.2	149.8		153.1	141.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.2			11.1	15.4	15.3	15.2	14.8	14.9		13.7	17.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

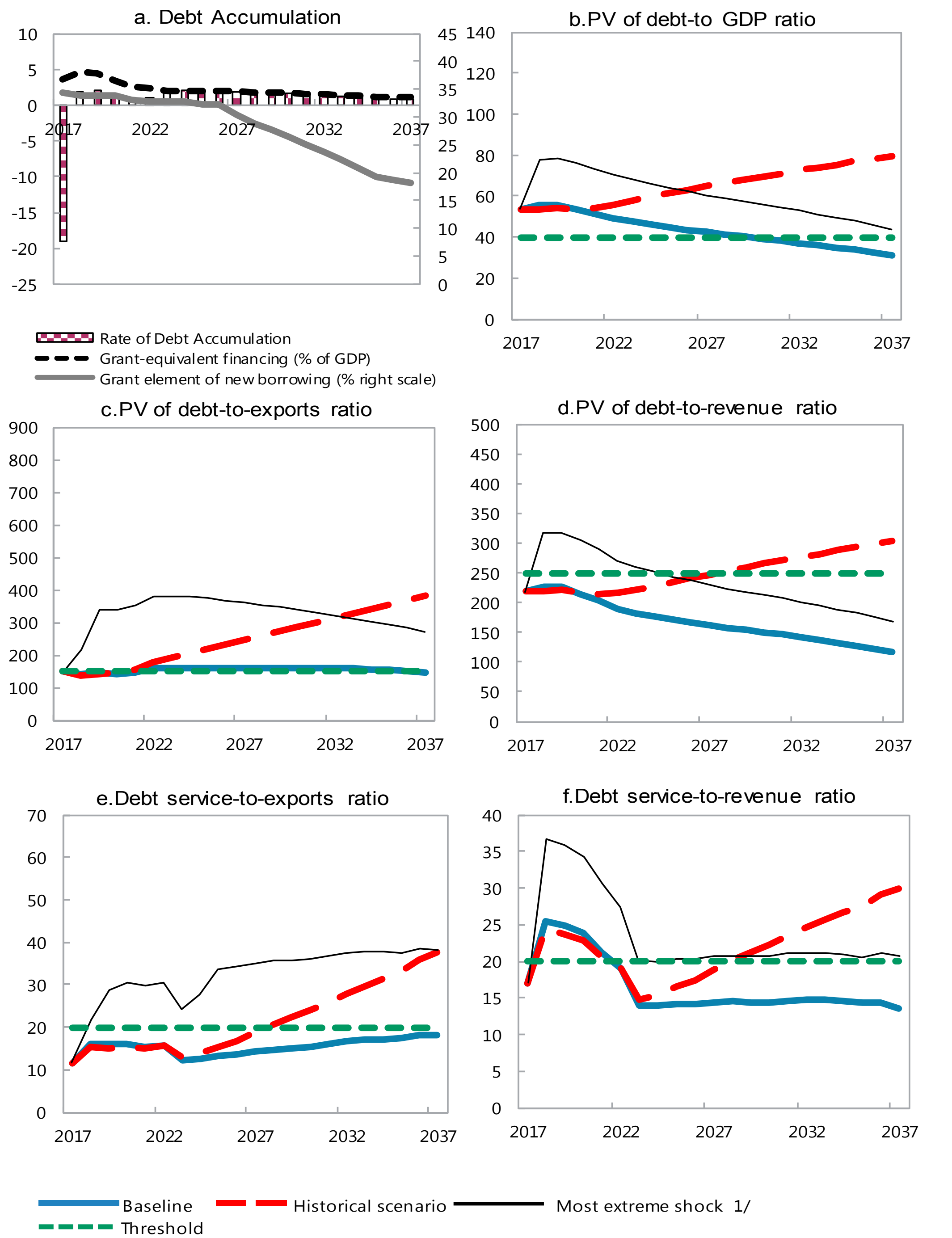
5/ Current-year interest payments divided by previous period debt stock.

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

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

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

Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37 1/



Sources: Country authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure (b) it corresponds to a one-time depreciation shock; in (c) to an exports shock; in (d) to a one-time depreciation shock; in (e) to an exports shock; and in figure (f) to a one-time depreciation shock.

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	54	55	55	53	51	49	**42**	31
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	54	54	54	54	54	56	**65**	79
A2. New public sector loans on less favorable terms in 2017-2037 2/	54	56	58	58	57	56	**53**	49
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	54	55	57	56	54	52	**44**	32
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	54	62	74	73	71	68	**55**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	54	58	63	61	59	57	**49**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	54	57	61	59	57	55	**46**	31
B5. Combination of B1-B4 using one-half standard deviation shocks	54	60	71	69	67	65	**53**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	54	78	78	76	73	70	**60**	44
PV of debt-to-exports ratio								
Baseline	149	142	144	143	148	157	**160**	148
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	149	138	141	144	156	178	**244**	381
A2. New public sector loans on less favorable terms in 2017-2037 2/	149	143	150	155	164	178	**201**	236
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	149	139	141	141	146	155	**158**	146
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	149	216	337	341	354	379	**361**	269
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	149	139	141	141	146	155	**158**	146
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	149	148	159	160	165	176	**174**	149
B5. Combination of B1-B4 using one-half standard deviation shocks	149	177	224	225	233	249	**243**	197
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	149	139	141	141	146	155	**158**	146
PV of debt-to-revenue ratio								
Baseline	219	225	226	214	203	190	**162**	118
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	219	219	221	216	215	215	**246**	303
A2. New public sector loans on less favorable terms in 2017-2037 2/	219	227	235	232	225	216	**203**	188
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	219	225	234	225	213	199	**169**	123
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	219	252	303	293	279	264	**209**	123
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	219	236	257	247	234	219	**186**	135
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	219	234	248	239	227	213	**176**	118
B5. Combination of B1-B4 using one-half standard deviation shocks	219	245	289	279	265	250	**203**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	219	317	318	305	289	271	**230**	167

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2017–37 (concluded)

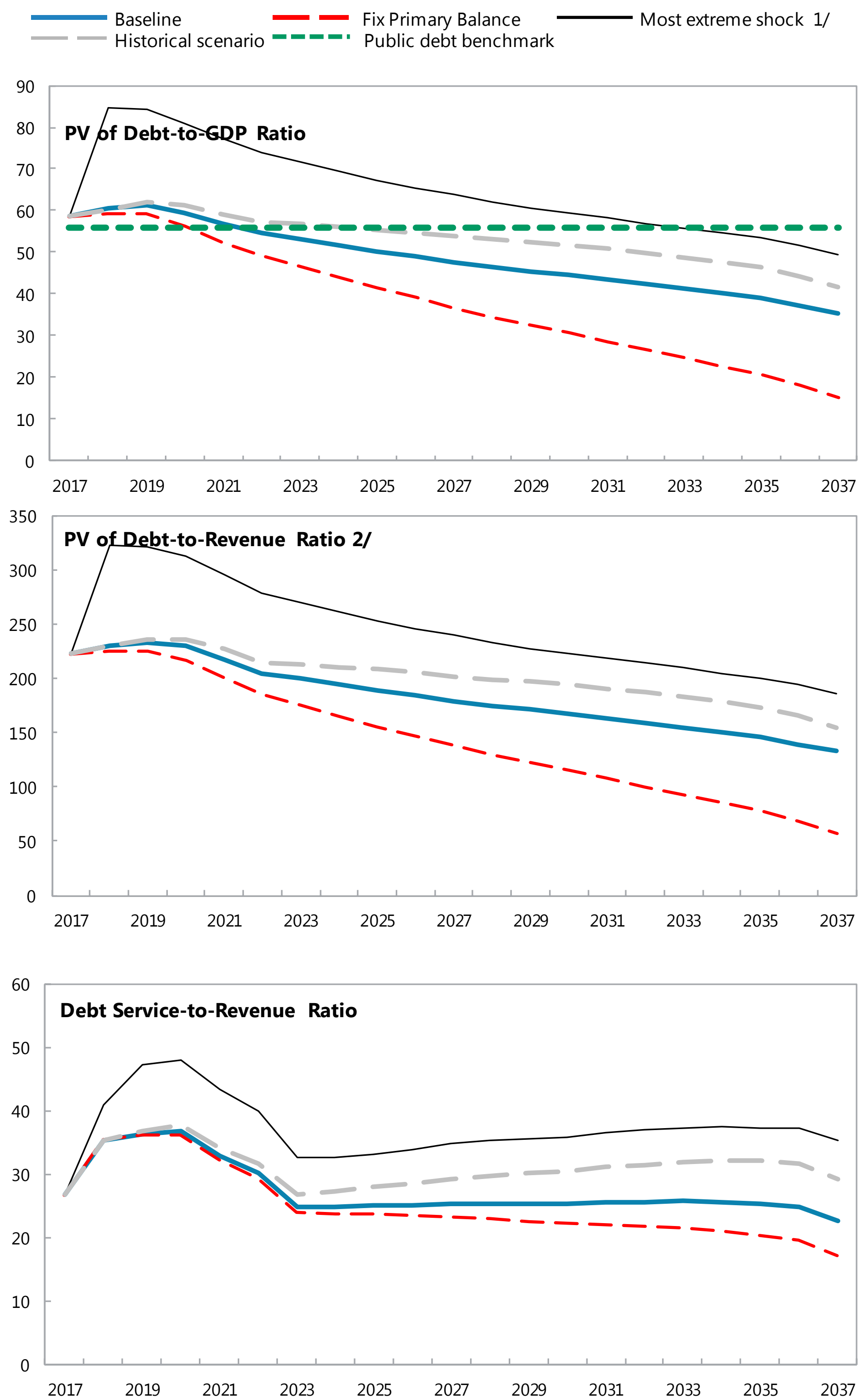
(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	12	16	16	16	15	16	**14**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	12	15	15	15	15	16	**19**	38
A2. New public sector loans on less favorable terms in 2017-2037 2/	12	16	16	16	16	17	**17**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	12	16	16	16	15	16	**14**	18
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	12	22	29	30	30	30	**35**	38
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	12	16	16	16	15	16	**14**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	12	16	16	16	16	16	**16**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	12	19	21	22	21	22	**23**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	12	16	16	16	15	16	**14**	18
Debt service-to-revenue ratio								
Baseline	17	25	25	24	21	19	**14**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	17	25	24	23	21	19	**19**	30
A2. New public sector loans on less favorable terms in 2017-2037 2/	17	25	25	24	22	21	**17**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	17	26	26	25	23	20	**15**	15
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	17	25	26	26	23	21	**20**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	17	27	29	28	25	22	**17**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	17	25	25	25	22	20	**16**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	17	26	27	27	24	22	**19**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	17	37	36	34	31	27	**21**	21
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Country authorities; and staff estimates and projections.

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

Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2017–37 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 5. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	80.4	98.4	99.3			77.7	80.8	82.3	80.0	76.7	73.7		62.9	44.4	
of which: foreign-currency denominated	74.1	92.7	94.5			72.9	75.7	76.6	73.8	71.4	68.4		57.6	40.0	
Change in public sector debt	9.8	18.0	0.9			-21.5	3.1	1.5	-2.3	-3.3	-3.0		-1.9	-2.4	
Identified debt-creating flows	10.7	12.8	-0.6			-3.3	1.4	-0.6	-2.6	-1.9	-2.5		-2.2	-0.7	
Primary deficit	3.5	2.2	-0.9	0.6	2.2	-0.9	0.5	0.4	0.7	0.7	0.7	0.4	0.9	1.3	0.9
Revenue and grants	25.0	29.3	27.9			26.3	26.3	26.3	25.9	26.1	26.6		26.6	26.6	
of which: grants	0.1	1.8	1.9			1.7	1.8	1.7	1.1	0.7	0.8		0.4	0.4	
Primary (noninterest) expenditure	28.4	31.5	27.0			25.4	26.8	26.8	26.6	26.7	27.3		27.6	27.9	
Automatic debt dynamics	7.2	10.7	0.3			-2.4	0.8	-1.1	-3.4	-2.6	-3.2		-3.2	-1.9	
Contribution from interest rate/growth differential	-3.5	-0.1	-1.8			-4.3	-2.4	-3.6	-4.0	-3.5	-3.1		-3.3	-2.0	
of which: contribution from average real interest rate	0.2	0.6	-0.1			-0.6	-0.1	0.0	0.0	0.0	-0.1		-0.1	0.2	
of which: contribution from real GDP growth	-3.7	-0.7	-1.7			-3.6	-2.3	-3.6	-4.1	-3.5	-3.0		-3.2	-2.1	
Contribution from real exchange rate depreciation	10.7	10.7	2.1			1.9	3.2	2.5	0.7	0.9	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.9	5.2	1.5			-18.3	1.7	2.2	0.3	-1.3	-0.5		0.4	-1.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	79.8			58.6	60.4	61.2	59.4	56.7	54.5		47.7	35.3	
of which: foreign-currency denominated	...	...	75.0			53.7	55.2	55.5	53.2	51.4	49.2		42.4	30.8	
of which: external	...	...	75.0			53.7	55.2	55.5	53.2	51.4	49.2		42.4	30.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	13.6	14.7	10.4			10.5	14.4	14.7	15.6	14.9	13.6		12.6	11.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	285.8			222.6	229.4	232.8	229.3	217.6	204.9		179.3	132.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	306.5			238.3	246.4	249.2	239.1	223.9	210.8		182.1	134.6	
of which: external 3/	...	...	288.2			218.6	225.4	225.7	214.3	202.8	190.2		161.7	117.5	
Debt service-to-revenue and grants ratio (in percent) 4/	23.4	20.7	21.6			26.7	35.3	36.3	36.7	32.7	30.2		25.4	22.6	
Debt service-to-revenue ratio (in percent) 4/	23.5	22.0	23.1			28.5	37.9	38.8	38.3	33.7	31.0		25.7	22.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.3	-15.8	-1.9			20.7	-2.6	-1.1	3.1	3.9	3.7		2.8	3.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.6	0.9	1.7	3.2	2.5	3.8	3.0	4.6	5.2	4.6	4.0	4.2	5.1	4.8	5.0
Average nominal interest rate on forex debt (in percent)	1.2	1.1	1.2	0.8	0.9	1.2	1.6	1.6	1.6	1.6	1.6	1.5	1.7	2.3	1.9
Average real interest rate on domestic debt (in percent)	16.0	9.7	0.3	4.9	8.6	4.9	7.6	7.6	6.3	5.4	4.6	6.0	2.0	1.9	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	17.2	14.6	2.4	0.8	9.4	2.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-9.2	-4.4	4.1	4.3	8.5	4.2	2.6	3.7	3.2	3.0	4.5	3.5	4.1	4.2	4.1
Growth of real primary spending (deflated by GDP deflator, in percent)	25.3	12.0	-12.9	3.1	11.2	-2.2	8.8	4.2	4.7	5.0	6.1	4.4	5.2	13.3	5.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	34.2	33.9	33.8	33.9	32.9	32.8	33.6	30.3	18.1	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes central government, state owned enterprises and central bank debt. Gross debt is used.

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

3/ Revenues excluding grants.

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

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

Table 6. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	59	60	61	59	57	55	48	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	59	60	62	61	59	57	54	41
A2. Primary balance is unchanged from 2017	59	59	59	56	52	49	37	15
A3. Permanently lower GDP growth 1/	59	61	62	61	59	57	56	58
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	59	62	67	66	64	63	61	55
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	59	62	65	63	60	58	51	37
B3. Combination of B1-B2 using one half standard deviation shocks	59	62	65	64	62	60	56	47
B4. One-time 30 percent real depreciation in 2018	59	85	84	81	77	74	64	49
B5. 10 percent of GDP increase in other debt-creating flows in 2018	59	68	69	67	64	62	54	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	223	229	233	229	218	205	179	132
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	223	229	236	236	227	215	202	155
A2. Primary balance is unchanged from 2017	223	225	225	217	201	184	138	57
A3. Permanently lower GDP growth 1/	223	231	236	235	226	216	209	217
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	223	236	252	253	245	236	228	206
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	223	236	246	243	231	217	190	138
B3. Combination of B1-B2 using one half standard deviation shocks	223	235	248	247	237	226	210	177
B4. One-time 30 percent real depreciation in 2018	223	322	320	312	296	278	239	186
B5. 10 percent of GDP increase in other debt-creating flows in 2018	223	258	262	258	246	232	202	146
Debt Service-to-Revenue Ratio 2/								
Baseline	27	35	36	37	33	30	25	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	35	37	38	34	32	29	29
A2. Primary balance is unchanged from 2017	27	35	36	36	32	29	23	17
A3. Permanently lower GDP growth 1/	27	35	37	37	34	31	27	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	27	36	38	39	35	33	29	29
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	27	35	36	38	34	31	26	23
B3. Combination of B1-B2 using one half standard deviation shocks	27	36	38	38	34	32	28	27
B4. One-time 30 percent real depreciation in 2018	27	41	47	48	43	40	35	35
B5. 10 percent of GDP increase in other debt-creating flows in 2018	27	35	37	39	34	31	28	24

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Daouda Sembene, Executive Director for Islamic Republic of Mauritania, Mr. Mohamed-Lemine Raghani, Alternate Executive Director, and Mr. Mohamed Sidi Bouna, Senior Advisor to Executive Director
July 28, 2017

The Mauritanian authorities welcome the informative staff report and appreciate the fruitful and candid discussions held during the recent Article IV consultation.

The protracted commodity price downturn continues to weigh on Mauritania's economy. Against this backdrop, the authorities have favored prudent and gradual adjustment policies in their efforts to address the severe terms-of-trade shock. The central bank enabled the exchange rate to depreciate steadily in response to the weakening external environment, while the finance ministry engaged in sustained fiscal consolidation.

The authorities are pleased to note that their adjustment efforts and policy choices continue to bear fruit, as the impact of the shocks on the economy is being contained without hampering their poverty reduction initiatives. The staff report appropriately confirms that "macroeconomic imbalances narrowed", the fiscal deficit was "significantly reduced," and the depreciation of the exchange rate facilitated the external adjustment, while social safety nets are being strengthened. On structural reforms, steady progress is being made, as attested by Mauritania's improved World Bank's doing business rankings.

Notwithstanding these improvements, the authorities are fully aware that significant challenges lie ahead as they strive to elevate growth to higher and more sustainable levels, while diversifying the economy away from reliance on commodity exports. As also noted in the report, liquidity within the financial system remains relatively tight amid rising external public debt.

The authorities highly value their collaboration with the Fund and are grateful to the excellent quality of the advice provided. In the process of designing and implementing sound economic policies, they will maintain close engagement with the IMF.

Fiscal Policy

Significant fiscal consolidation has been achieved in recent years in order to preserve macroeconomic stability and debt sustainability. They authorities intend to pursue these efforts. A key contributing factor to the sizeable fiscal consolidation over the years has been the strong performance of fiscal revenues from the non-extractive sector which rose to 28 percent of non-extractive GDP in 2016.

The authorities believe that this performance illustrates the effectiveness of their tax policy and administration reforms, supported by Fund technical assistance. However, there is room for further improvement as indicated by staff. In this regard, work is underway with the support of the IMF and the World Bank to modernize tax administration and broaden the tax base. This includes ongoing efforts to replace the profit tax with corporate income tax and eliminate some tax exemptions.

On the spending side, substantial efforts have also been made to prioritize and rationalize public expenditures, encompassing both current and capital spending. These include integrating parastatal entities into the central treasury system and issuing a decree that establishes a framework to select and monitor projects. At the same time, the authorities have endeavored to ensure that the evolution of public debt remains in check, notably with the 2017 budget placing for the first time a ceiling on both domestic and foreign-financed investment. As a result of a strong revenue performance and efforts to contain expenditures, the overall fiscal deficit stood at 0.4 percent of non-extractive GDP in 2016

Monetary Policy

The authorities take good note of the staff's call for a more active and accommodative monetary policy to help address relatively tight liquidity and support growth given the low inflation environment. However, they are concerned that a more accommodative stance could jeopardize ongoing efforts to stabilize the country's still weak external position. Given Mauritania's structurally strong demand for foreign currency, any increase in liquidity will likely be channeled to the foreign exchange market and put undue pressure on the exchange rate rather than contribute to supporting credit to the private sector. Therefore, unless liquidity pressures persist —in which case the central bank will consider a more active liquidity management—, they have chosen to err on the side of caution with a view to preserving macroeconomic stability.

In close consultation with staff, the authorities are actively working to finalize the reform of the foreign exchange market and the monetary policy framework, with the aim of gradually introducing greater exchange rate flexibility. They would like to reiterate their commitment to meeting all their obligations under the Fund's Article VIII. They note that the current exchange restriction is part of the broader ongoing discussions with staff on the reform of the foreign exchange market towards greater flexibility, and will be eliminated once the reform is finalized and implemented.

Financial Sector Reforms

The economic slowdown has affected the financial sector, although the health of banking system is showing signs of improvement. Although asset quality has been affected by decelerating economic activity, credit to the private sector has begun to grow, and capital adequacy ratios remain strong. That being said, liquidity remains relatively tight and profitability has somehow weakened.

The central bank will continue to closely monitor financial sector developments, including through enhanced supervision. It will also aim to further improve regulation, and in this connection, the newly finalized banking law and central bank statute will contribute to strengthening the prudential and bank resolution frameworks.

External Stability

While Mauritania's current account deficit has narrowed significantly, it remains large amid weak domestic demand and export performance. International reserves continue to be strong at 5.5 months of non-extractive imports. Over the medium-term, both the current account and international reserves are being pressured by projected low international commodities prices.

In light of the DSA finding that the country remains in high risk of debt distress, the authorities would like to emphasize a few points. First, it is noteworthy that Mauritania's nominal GDP has consistently declined, since 2013, which helped increase substantially the debt ratio. Also, over the projected period, a major gas discovery off-shore Mauritania could significantly alter all assumptions on growth and other key indicators in the DSA. Second, the debt service stands at a manageable 1.3% of non-extractive GDP (as shown in Table 4). Most importantly, Mauritania has generated in 2016 and will generate in 2017, primary fiscal surpluses that are expected to contribute to easing the repayment of the country's debt service. Third, Mauritania's debt management capacities have improved, as illustrated by the improvement in the country's most recent CPIA rating.

In all, the DSA methodology could be signaling a heavier debt burden than might be warranted. The authorities are hopeful that the new DSA framework will address some of the shortcomings in the present framework, including its inability to capture adequately the growth and investment nexus. In this latter respect, it is worth noting that much of Mauritania's external borrowing in recent years has been sought to finance the country's significant infrastructure gap.

The authorities will continue to strengthen their debt management framework while avoiding as much as possible non-concessional borrowing.

Structural Reforms

Progress is being achieved in several areas, including investor protection and business creation. However, as noted in the report, significant institutional weaknesses still weigh on private sector development. To address these issues, a new development strategy which spans the coming fifteen years (2016-2030) is being finalized, focusing on policies and reforms to accelerate economic diversification while also striving to make growth more inclusive

Conclusion

The authorities will maintain prudent and gradual policies as they continue to make progress toward preserving macroeconomic stability and boosting growth. In this endeavor, they will focus notably on safeguarding the stability of the financial system and debt sustainability.

They are thankful to the Board and management for their support over the years and look forward to continued close engagement with the IMF along with other development partners, in support of their efforts to address the challenges facing the country and implement their development agenda.