International Monetary Fund

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

December 2017

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

Nouakchott, November 21, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Madame Managing Director,

We request the IMF's support for our economic and social program to consolidate macroeconomic stability; promote strong, lasting, and inclusive growth; develop human capital and access to basic social services; reduce poverty; and improve all dimensions of governance.

The successful implementation of the previous arrangement under the Extended Credit Facility (ECF) in 2010-2013 enabled us to maintain macroeconomic stability and consolidate economic achievements. In this regard, Mauritania achieved one of the highest growth rates among petroleum importers in the Middle East and North Africa region in 2013 and reduced poverty from 42 percent to 31 percent over the period 2008-2014. Since 2014, however, we have faced a significant deterioration of terms of trade in light of the decline in mining product prices, which has slowed economic growth.

The aim of a new program for 2017–20 is first of all to counter the effects of external shocks that have slowed economic activity, jeopardized public finances, and could intensify the vulnerability of the neediest. The program will enable us to achieve our objectives of strengthening the wealth- and job-creating sectors, improve export capacities, attract foreign direct investment, and improve our economy's resilience to exogenous shocks while preserving debt sustainability.

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

We request the Fund's financial support for our program through a new three-year arrangement under the ECF in the amount of SDR 115.920 million (approximately US$162.8 million) or the equivalent of 90 percent of our quota share, to be disbursed in seven tranches of SDR 16.560 million. Our program will be monitored through semiannual reviews (the first on or after March 31, 2018 and the second on or after September 30, 2018) with quantitative criteria and structural benchmarks as described in the attached Memorandum of Economic and Financial Policies (MEFP) and defined in the Technical Memorandum of Understanding (TMU) attached. The authorities will provide the IMF with all the data and information required to monitor implementation of the measures and achievement of the objectives as detailed in the TMU.

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

Very truly yours,

/s/

Mr. El Moctar Ould Djay
Minister of Economy and Finance

/s/

Mr. Abdel Aziz Ould Dahi
Governor, Central Bank of Mauritania

Attachments (2):

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

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. This memorandum describes Mauritania's Fund-supported economic and financial program under the Extended Credit Facility (ECF) for the period 2017-2020. The program aims to preserve macroeconomic stability, consolidate the bases for sustained, inclusive growth, and reduce poverty in accordance with the country's development strategy, now known as the Accelerated Growth and Shared Prosperity Strategy (SCAPP).

2. The SCAPP, adopted by the inter-ministerial committee and to be published in 2018, covers the period 2016-30. Based on the lessons learned from the 2012–15 development strategy, it is aimed at boosting growth and employment, reducing inequality, eliminating extreme poverty and halving global poverty by speeding up the economy's structural transformation and overhauling social policy. To this end, we intend to: (i) revitalize the sectors with substantial potential for growth and employment through greater integration of the value chain in agriculture, pastoral activities and fishing; (ii) continue to modernize public infrastructure; and (iii) promote a stronger private sector role via improvements to the business climate, the development of public-private partnerships, improved access for small and medium-sized enterprises (SMEs) to financing, and encouraging foreign direct investment (FDI). Our strategy will also focus on developing human capital and improving access to basic social services such as education, vocational training and healthcare. Particular attention will be paid to gender equality through the launch and implementation of a national gender equality strategy. Lastly, strengthening governance is at the core of our development strategy. From an economic perspective, a new organic budget law will strengthen transparency and responsibility, while statistics will be reinforced to improve economic policymaking. and Greater efforts devoted to the fight against corruption and the inherent legal system will be strengthened.

A. Economic Environment and Reforms: Recent Developments

3. Since early 2014, our economy has seen a deterioration in the terms of trade, with the price of iron ore falling by 57 percent in 2016 with respect to 2013. Mining exports decreased by over 16 percentage points of GDP, and the current account deficit deteriorated in proportion. We have used fiscal and external buffers to support economic activity and, despite the shock, real GDP growth was maintained at 5.6 percent in 2014 by non-extractive activity. However, in view of the persistence of the shock, growth slowed to a rate of 1.6 percent in 2016 due to underperformance of the mining sector and weak non-extractive growth due to a slowdown in domestic demand. In 2017, the economy showed signs of recovery, supported by an improvement in the terms of trade and an uptick in investment in the extractive sector. Inflation remained moderate at 1.5 percent at end-September owing to a relatively stable exchange rate.

4. In response to the deterioration of the budget deficit in 2015 following the decline in mining receipts, resolute measures have been taken since 2016 to restore the fiscal balance. In 2016, improved tax collection and strict spending control helped to reduce the primary fiscal deficit (excluding grants) by 3 percent of non-extractive GDP (NEGDP). In 2017, budget execution at end-August reflected an improvement in revenue underpinned by the economic upturn, sustained fiscal rectitude and the slower-than-expected execution of investment expenditure, which helped keep the primary deficit (before grants) in check at 0.1 percent of NEGDP. These fiscal consolidation efforts in conjunction with the reforms implemented were included in the supplementary budget law for 2017 aimed at achieving a primary surplus (excluding grants) of 0.2 percent of NEGDP for the full year.

5. In 2016, the current account deficit narrowed to 15 percent of GDP (compared to 20 percent in 2015) due to a contraction of domestic demand and reduced private investment in extractive industries. The external adjustment was helped by depreciation of the exchange rate reaching 16 percent with respect to the dollar since mid-2014, although the exchange rate appreciated vis-à-vis the euro. This trend continued in 2017 owing to a distinct improvement in the terms of trade. The efforts of the Central Bank of Mauritania (BCM) to apply exchange rate regulations and abolish direct sales of foreign currency contributed to maintaining official reserves at US$850 million (5 months of imports) at end-August 2017 while significantly improving the demand satisfaction rate for currencies. The BCM has also increased competition on the foreign exchange market by removing the limit of 6 ouguiyas on bids to buy.

B. Short-Term and Medium-Term Outlook

6. The short-term outlook recently improved following an improvement in iron ore prices, but continues to depend significantly on commodities price trends, foreign investment in the extractive sector, and progress on reforms. We prepared an ambitious 2016–30 strategy for inclusive growth that aims to diversify the economy through human capital development, improved access to services, and strengthened governance.

7. The macroeconomic framework agreed with the IMF staff provides for prudent growth rates, gradually increasing from 4.2 percent in 2017 to 6 percent in 2022 for the non-extractive sectors. This growth will be sustained by the performance anticipated in agriculture, fisheries, livestock and fishery product processing, construction, and services – boosted by public investment and structural reforms. The mining expansion financed by foreign direct investment (FDI), particularly the gold sector, will promote the growth of the extractive sector, with spinoff effects for the non-extractive sectors. The current account deficit (excluding FDI-financed imports) is expected to decline to less than 4 percent of GDP by 2022 following increased exports, adjustment of domestic demand, improved competitiveness, and fiscal consolidation. Exploitation of the recently discovered offshore gas field, shared with Senegal, could significantly improve the economic and financial outlook as of 2021 if the final investment decision is taken by the consortium in 2018.

C. Economic Program for 2017–20

Objectives

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

Monetary and Exchange Policy

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

Strategic Framework for the Monetary Policy

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

11. A proactive monetary policy calls for enhanced independence for the BCM, which will be consolidated in the new charter to be submitted to the legislature by June 2018 (structural benchmark). In that context, the BCM has already established a macroeconomic framing and quarterly monetary programming; with support from the IMF, it will continue to develop an analytical and forecasting framework to serve as the basis for monetary policy decisions, and will adapt its institutional mechanism and organization accordingly.

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

Operational Framework for Monetary Policy and Liquidity Management

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

14. The BCM will reform the operational framework for monetary policy implementation by adopting a directive introducing new intervention instruments with different maturities, particularly deposit and credit facilities (structural benchmark, December 2017). With technical assistance from the IMF, the BCM will define a collateral framework for these monetary policy operations (priority, discounts, and conditions of use) that accords preference to Treasury bills or BCM bills as collateral (structural benchmark, March 2018). More active cash flow management by the Ministry of Finance, including new procedures for issuing Treasury bills, combined with convergence between the BCM policy rate and Treasury bill rates, will be crucial to enabling banks to reconstitute their portfolios of Treasury bills.

15. Implementation of the monetary policy requires strengthened operational autonomy for the BCM. This will entail, inter alia, recapitalizing the BCM, which could be achieved through gradual repayment of government debts, provided the BCM does not distribute dividends on that revenue. To this end, the 2013 memorandum of understanding between the BCM and the Ministry of Economy and Finance (MEF) and the related payment schedule, or a new memorandum of understanding to be agreed, will be submitted to parliament by April 2018 (structural benchmark, April 2018) with the aim of beginning payments in 2018. Securitization of that claim could also provide the central bank with instruments for use in monetary policy operations. It would also promote the formation of a yield curve, which would facilitate migration to an interest rate-based framework in the medium term.

Exchange Policy

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

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

- The first stage will represent a major step in improving the functioning of the foreign exchange market. The BCM will modify the regulations to temper the obligation to go through the foreign exchange market for currency transactions by raising the threshold from US$100,000 to US$200,000 (prior action); and to limit the rejection of bids to sell to exceptional circumstances. The BCM will modify the fixing system so that sellers will receive the marginal rate determined by the BCM on the supply side (rate that maximizes matching transactions, minimizes net supply/demand), and the maximum price paid by buyers will be limited to the marginal supply rate plus 2 percent (prior action). We will also gradually eliminate BCM commissions on those transactions.

- The second stage will promote the deepening of the foreign exchange market and convergence of BCM operating practices toward international standards. To this end, the BCM will gradually introduce one-way wholesale auctions: initially, while taking account of the continued easing of the obligation to go through the foreign exchange market by raising the threshold to US$300,000, we will implement a system of two-way wholesale auctions (structural benchmark, December 2018). Thereafter, the BCM will eliminate the obligation to go through the foreign exchange market and migrate toward one-way wholesale auctions by authorizing the internal clearing of customer orders (structural benchmark, December 2019). A mid-term technical assistance mission could evaluate the progress of reforms and assist in preparing an action plan to develop the interbank market (structural benchmark, September 2018), the objective being to adopt and implement the regulatory framework and technical platform for the interbank market by end-2019.

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

Fiscal Policies

19. Our fiscal policy will remain anchored in a rebalancing of public finances to ensure the sustainability of public debt over the medium term and contribute to the external adjustment. However, given the impact on growth of the combined effects of low prices for our exports and the macroeconomic adjustment, we expect to modulate the pace of fiscal rebalancing to support the recovery of growth to reach the objectives of our priority action plan (PAP). At the same time, we will work to make revenue sustainable, public spending more efficient and to limit the fiscal risks by undertaking thoroughgoing structural reforms to promote economic diversification. To that end, our objective by 2020 is to improve non-extractive GDP by at least 0.7 percent of the primary balance (excluding grants) with respect to 2017, following the already substantial improvement of 3percent of non-extractive GDP achieved in 2016 and 1.7 percent projected in 2017.

20. For 2017, we have adopted a supplementary budget (LFR) which reflects our intention to continue with the fiscal consolidation initiated last year, and to limit the fiscal risk of semi-public organizations. A strong tax revenue performance has helped to cover the additional costs generated owing to civil service reforms aimed at capturing all components of the government payroll and achieving a primary surplus excluding grants of 0.2 percent of non-extractive GDP, equivalent to an improvement of 1.7percent of NEGDP compared to 2016.

21. The aim of the 2018 budget is to consolidate the achievements and increase the primary surplus excluding grants to 0.3 percent of non-extractive GDP by maintaining a strong tax revenue performance and tight control over current expenditure and investment to more than offset the potential revenue losses related to the closure of the Chinguetti oil well and to petroleum products under the *Fonds d'assistance et d'intervention pour le développement* (FAID) account.

22. As part of the program, we will strengthen our fiscal policy framework to take into account the possible increase in government revenue from the extractive industries, particularly the gas sector. This framework will help to inform the choices for allocating these revenues, drafting fiscal rules that factor in the volatility and non-finite nature of non-renewable resources, and to guarantee good governance and transparency.

Tax Policy and Administration

23. Our tax policy and tax administration strategy will be based on optimizing tax performance, putting revenue on firmer footing, and simplifying and modernizing our tax system. To this end, we will submit to the legislature a customs code designed to simplify procedures and improve transparency by end-March 2018 (structural benchmark). We will submit to parliament a new corporate tax (*impôt unique*) to modernize and simplify the tax structure and encourage participation in the formal economy (submission to the Council of Ministers, structural benchmark for December 2018). We will also adopt a tax procedures code, after consultation with economic operators, that will consolidate and clarify all tax procedures for taxpayers and the administration (submission to the Council of Ministers, structural benchmark for March 2018).

24. Furthermore, in light of the fact that tax revenue has performed well in recent years, our objective is to implement a set of reforms to ensure sustainable tax administration (Directorate General of Taxation - DGI) and customs administration (Directorate General of Customs - DGD) revenue through:

- *Expansion of the tax base*. We will first protect the tax base by ensuring the integrity of taxpayer records through regular updates of the central file and by limiting the number of inactive taxpayer identification numbers (NIFs). We will strengthen risk management in terms of taxpayer compliance, beginning with control over taxpayer records. In keeping with the IMF's technical assistance recommendations, these records will be audited to eliminate duplicate entries, clean up the number of temporary taxpayer identification numbers, identify taxpayers that are managed effectively, are dormant or not registered, and monitor compliance with the tax system; the DGI will also draft a procedure and establish the actions required to update the records on a regular basis (structural benchmark for end-June 2018). To this end, a risk management unit will be created to analyze and utilize available information to prepare an action plan and take appropriate measures to expand the tax base.

- *Elimination of tax loopholes*. With support from the World Bank, we compiled a list of tax exemptions in effect in 2014-2016 and plan to estimate the cost of the foregone taxes by end-December 2017. We will then evaluate the relevance and social cost with a view to eliminating tax exemptions deemed ineffective. Beginning in 2018, we will present estimates of all tax expenditure in an appendix to the budget law.

- *Improved collection of tax arrears*. We intend to improve the management and rate of collection of tax arrears. We will identify recoverable arrears and adopt an action plan for collection. The DGI Directorate of Public Entities (DEP) and the Directorate of Financial Supervision (DTF) will rigorously monitor collection efforts in respect of public corporations. Moreover, cross arrears between public entities will be clarified in order to define an optimal rule for budget subsidies to those entities.

- *Improved DGD inspection and valuation mechanisms*. We plan to implement a program to strengthen customs inspection and valuation mechanisms for the DGD. We are in the process of strengthening customs units and their capacity to effectively manage the national customs value bureau (BNV) and the customs bureau. To this end, an evaluation of the BNV implementation will be conducted by end-March 2018 and the necessary measures will be taken to expedite effective use of the tool. In the interim, we drafted a guide for BNV procedures and will continue the application of customs clearance value to targeted products to break with previous valuation practices. We will also strengthen the merchandise valuation system implemented through the BNV by creating a post-clearance inspection unit, by end-2018, which will consolidate customs inspection and revenue collection capacities.

- In addition, by December 2017 we plan to implement the July 2013 memorandum of understanding between the DGD and the Nouadhibou free trade zone authority (AZF) with the involvement of all MEF entities

Public Expenditure Management

25. To improve public financial management, we plan first of all to secure approval of the organic budget law (LOF) by the Council of Ministers (prior action). The reforms provided by that law will considerably improve our fiscal management by unifying the government budget, encouraging the introduction of the program budget, establishing a ceiling on public debt, and improving budget formulation in a multiyear framework. The law will be submitted to the legislature by end-March 2018 (structural benchmark). It will be followed by the implementing texts in 2018, and used if possible for the 2019 budget formulation, otherwise for 2020 budget. In the interim, we have already introduced elements of the reform in the 2017 budget, such as the inclusion of externally financed capital expenditure, and will do the same in 2018, specifically by presenting 2016 tax expenditure in a budget annex.

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

- *Wage bill*. To control the impact of salaries on the government budget and capture all components of the general government wage bill, we have included employees of all administrative public entities (EPA) through the 2017 supplementary budget, and we intend to include non-permanent staff in 2017 through the 2018 supplementary budget. We will continue to control the wage bill and improve our management of wages and salaries by adapting the current RATEB payroll system, which uses the new schedule of salaries introduced in the reform of the government human resource management system, while awaiting deployment of the dedicated human resource management system (SIGRHE).

- *Public consumption expenditure*. We will continue rationalizing public consumption expenditure and strictly limit nonpriority spending. In the context of the 2017 budget and civil service reform, we have already reduced subsidies to a number of public entities, rationalized goods and services consumption, and discontinued the renewal of technical ministries' appropriations initially allocated to occasional training and studies. The resultant budget margins will be reallocated to social spending or increased investment in strategic sectors.

27. We will work to further improve the effectiveness of capital expenditure. First, we will implement the reforms provided in the decree on the public investment program (PIP) adopted in 2016 to strengthen the selection and programming of public investment projects, and facilitate institutional coordination in implementing and financing the PIP. This program places particular emphasis on producing a manual of procedures to improve the preparation and follow-up of project execution. We have set up a committee to assess and schedule public investment projects (*Comité d'analyse et de programmation de l'investissement public* - CAPIP). A timetable for rendering this framework operational has been drafted with the help of the World Bank. In addition, with support from the African Development Bank, we have begun to implement a new automated application, the Integrated Public Investment Management System (SIGIP), which will support all phases of capital project management (from contract signature to disbursement). The new SIGIP system – which analyzes the project life cycle and determines a project's social impact – will enable us to assess and prioritize investments. It will also allow us to systematically monitor external debt disbursements and strengthen the external debt management framework. We will also request assistance from the IMF to analyze the effectiveness of public expenditure using the Public Investment Management Assessment framework.

28. To continue investment in infrastructure while containing the growth of public spending and to support private sector development, we adopted a new law on public-private partnerships (PPP) in December 2016. The PPP framework be put in operation this year for infrastructure projects. We will proceed cautiously, however, to minimize contingent risks for public finances.

29. We will modernize and strengthen our cash flow management.

- We will reinvigorate the Treasury bill market by modernizing the auction system on the primary market and aligning it with international standards, particularly by distinguishing auctions by maturities, and will improve communication with investors in order to reduce refinancing risks.

- We will continue the implementation of a modern Treasury single account (TSA), and have already created a committee for that purpose. We will adopt a government account maintenance convention between the MEF and the BCM by end-December 2017, which will serve as a binding contractual framework (with firm deadlines) for both parties to fulfill all conditions for the implementation of the TSA in line with applicable industry practices. We will request technical assistance, preferably over a long term, to fully implement the convention.

- To ensure the comprehensiveness of the government cash management plan, the Public Contracts Oversight Commission (CCMP) and the Directorate General of Budget will transmit, respectively, the monthly contracting plan and the budget commitment plan to the Directorate General of Treasury and Public Accounting (DGTCP).

30. To improve fiscal transparency, we will establish a strategy to expand the scope of coverage of the government fiscal reporting table (TOFE) to subnational jurisdictions beginning in 2018, followed by EPAs, and to all public corporations and entities in 2019.

Public Corporations

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

32. We will strengthen surveillance and reporting on the quasi-public sector, with support from the World Bank, to strengthen control of expenditure and borrowing. In particular, nearly all public entities will be covered by the automated expenditure cycle system (RACHAD) in 2018.

33. After clarifying the cost and risk of public entities for the government, we plan to reduce budget support to public corporations and EPAs while intensifying financial monitoring. Their performance will be regularly measured twice a year by means of financial statements (June and December) and an auditor's report; and will be monitored by the DTF as from December 2017. The recent financial audits of the largest public corporations (SOMELEC, SOMAGAZ, SNDE, Mauripost, and SONIMEX) will be finalized and published on the Treasury website. Also, to limit potential fiscal risks the Caisse des Dépôts et de Développement (CDD) may generate in the medium term, we will oversee the allocation of resources and closely monitor the projects financed.

External Debt and Public Debt

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

35. We will improve our debt management framework. To align borrowing with spending priorities, especially for large infrastructure projects, and to ensure institutional coordination, we will improve procedures for borrowing and providing government guarantees by clarifying responsibilities and conditions of approval among the ministries. At the same time, our ongoing dialogue with IMF staff, including consultations prior to the approval of new loans, will help strengthen our medium-term debt reduction strategy. To this end, we will revive the National Public Debt Committee (CNDP) which will hold regular meetings and update its terms of reference before March 2018 (structural benchmark) to make sure it will be involved in the process of selecting, scheduling and monitoring public investment projects established under the new PIP institutional framework. It will also play a role in aligning external borrowing with our investment priorities, and assessing the impact on debt of any new project funded through external borrowing before its inclusion in the PIP. To this end, we will strengthen the Debt Directorate's capacity to perform debt sustainability analyses, and will introduce a coordination procedure between the CAPIP and the CNDP outlining their responsibilities in terms of project selection by March 2018 (structural benchmark).

36. At the same time, by end-September 2018 we will establish a gateway interface between the SYGADE-SIGIP-RACHAD software applications for institutions involved in debt servicing (the Debt Directorate, Budget Directorate, DGTCP and the BCM) that will be used to keep track of external debt disbursements and debt service payments (structural benchmark). This interface will strengthen debt management capacity through the systematic monitoring of external debt disbursements (SYGADE-SIGIP) and will make sure debt service payment transactions are included in the automated chain of expenditure system (SYGADE-RACHAD). As a first step, we will ensure that the Debt Directorate has the skills required for programming this interface to put it into operation.

37. In parallel, our ongoing discussions with the IMF, including consultations prior to the approval of new loans, will help us to strengthen our strategy for reducing our medium-term debt levels.

Financial Policy

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

39. With better-trained inspectors and supervisors, the BCM has improved on-site inspections in the context of its annual program, which covered anti-money laundering and terrorism financing mechanisms, control of transfer operations, surrender of foreign currency, general control of bank activities, and compliance in regard to exchange positions. The BCM will monitor compliance with prudential standards and is in the process of sanctioning noncompliant banks. Discussions are under way on reinforcing sanctions to make them more of a deterrent. In 2015, the BCM raised the contribution of banks to the deposit guarantee fund; we will continue to raise this contribution until the fund stands at MRO 6 billion. In view of the limited size of the Mauritanian banking sector, we will tighten conditions for licensing new banks and encourage combinations among existing banks.

40. The regulatory framework will be strengthened and adapted to international standards.

- A draft banking law is being finalized with technical assistance from AFRITAC West and IMF staff, and will be submitted to the legislature by June 2018 (structural benchmark). The draft provides, inter alia, for revision of the crisis management mechanism, in particular through the implementation of a new bank resolution system. It will expand the scope of bank supervision to include insurance and the CDD. The law will strengthen the legal force of BCM decisions by strictly limiting the conditions for appeal of its decisions before the courts.

- We also plan to adopt by March 2018 (structural benchmark) a new directive on the composition of capital and solvency requirements based on Basel II and III that will strengthen the solvency of our banks and their resilience to shocks by means of cyclical and systemic buffers. The directive will also raise the minimum capital to MRO 10 billion over two years, which should encourage combinations among banks and reduce the number of new license applications.

- We will facilitate the removal of non-performing loans from bank balance sheets. To do so, we will revise the corresponding directive by extending the duration, currently two years, for the removal of impaired assets. We will also submit by March 2018 a draft bill to parliament for the recovery of loans aimed at improving mechanisms for credit recovery and enforcement of collateral (structural benchmark). Lastly, we will clarify the accounting treatment for these debts and remove the tax barriers to resolving non-performing loans.

- To limit credit and concentration risks, we will continue to closely monitor the adjustment of exposures to related entities in excess of permissible limits, which are expected to be brought into compliance by end-2018. In the meantime, we will study the possibility of gradually tightening concentration standards.

- In regard to liquidity, we will implement an emergency refinancing mechanism to provide liquidity to banks experiencing temporary cash flow pressures against collateral (structural benchmark, March 2018). We have also initiated discussions on the methodology for calculating the liquidity ratio.

41. We will focus our efforts on improving the quality and timeliness of bank statistics. These efforts will address the following key areas:

- *Standardizing data and automating data transfers*. In this context, we have installed a secure line between the BCM and banks to facilitate secure, efficient data transfer, and with respect to the data storage and transmission mechanism, we will accelerate the integration of automated controls and analytical and feedback tools such as management dashboards for banks.

- *Continued implementation of the credit information bureau*. To reduce information asymmetries and credit risk, we have expanded the credit bureau's coverage to include microfinance institutions, lowered the reporting threshold to risks less than MRO 3000, and launched a project to migrate toward a unique identifier. We will ensure that this credit bureau, as well as the database of nonperforming loans, are updated on a regular basis and accessible to banks in real time.

42. Our objective is to promote financial inclusion and strengthen the role of the financial sector in financing the economy. Enhanced bank supervision, more reliable financial reporting, and strengthened regulation of collections will build trust between banks and economic agents, which will facilitate access to financing. Consistent with the FSAP development module, we will focus on the following pillars:

- *Reform of the microfinance sector*. We will prepare an action plan to reform the microfinance promotion agency (PROCAPEC) and another to withdraw from the sector.

- *Promotion of Islamic finance*. In view of the potential of this segment to better accommodate activity in the sector, the BCM intends to implement a regulatory framework specific to Islamic banks with technical assistance from the IMF staff.

- *Financing of small and medium-size enterprises (SMEs)*. To address the scarcity of long-term bank resources to finance productive investment, particularly for SMEs, we contracted a US$50 million line of credit in 2014 (and will continue ensuring an optimal allocation of those funds.

- *Development of financial infrastructure*. In close cooperation with the World Bank, we are undertaking the modernization of our payment system (large value transfer system, clearing system) in order to reinforce security and develop financial transactions. We have begun implementation of the banknote sorting center at the BCM and are also developing automated payment instruments and mobile banking to reduce cash in the economy and promote financial inclusion for the poorest.

- *Regular monitoring of financial inclusion indicators*. We are in the process of defining these indicators and will regularly produce a dashboard to support the evaluation of policies in this area.

Social Policies and Anti-Poverty Measures

43. To increase the effectiveness of our social spending, our social programs will be better targeted to protect the most vulnerable households. After reducing the poverty rate by 11 percentage points over the period 2008-2014, we began deployment of a better-targeted social support system with assistance from the World Bank in December 2016. We expect to complete the institutional strengthening of the consolidated social registry of vulnerable households, with complete coverage of all sectors and areas of poverty by end-2017, to ensure continuity of the policy of targeting transfers on the most vulnerable. We will also allocate resources in the 2018 budget to update the social registry. That program will be accompanied by a broad outreach campaign on the social protection strategy.

44. Our program provides for an MRO 7 billion increase in social spending (including education, health, social protection, housing and small-scale collective infrastructures, culture, recreation, and religious affairs) in 2017 and MRO 8 billion in 2018. These expenditures will continue to be increased over the program period, and will be subject to a spending floor (performance criterion, Table 1).

Governance and the Business Environment

45. We have made very significant progress in implementing the roadmap adopted by the government in December 2016 for reforms to improve the business climate. In particular, we focused on the following key reforms: (a) the effective use of a single form for business creation; (b) upgrading the information system for the one-stop business creation window; (c) implementing online filing for taxes and assessments collected by the DGI; (d) improving the one-stop window for construction permits; (e) implementing online filings for social contributions payable to the national health insurance (CNAM) and social security (CNSS) administrators; (f) drafting a code governing real property rights; and (g) implementing systematic publication of all decisions by the Nouakchott Commercial Tribunal. Most of these measures have been, or are currently being, implemented.

46. We will prepare a new roadmap in December 2017 in light of the latest results produced by the World Bank's Doing Business survey. In addition, we will enhance dialogue with the private sector through the establishment of a coordination committee by end-2017.

Economic Statistics

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

48. In the context of harmonizing accounting and statistics with international standards, the BCM plans to publish a quantification of the impact of adoption of the International Financial Reporting Standards (IFRS) for preparation of the BCM 2017 financial statements at end-December 2018 (structural benchmark). With support from the IMF staff, the coverage of public finance statistics will also be expanded during the program to the general government and public non-financial institutions, beginning with the subnational jurisdictions.

D. Program Monitoring

49. The government will create a Technical Monitoring Committee (CTS) to ensure the effective implementation of the program. It will include, inter alia, representatives of the MEF, the BCM, and representatives of other government ministries and agencies able to contribute support to the CTS as needed. The committee's actions will be guided by an inter-ministerial committee which will include the BCM governor and the minister of economy and finance. The CTS will have a permanent secretariat and will meet regularly to assess progress and forward the data required to monitor program performance. Program implementation will be evaluated semiannually by the IMF's Executive Board based on performance criteria and quantitative indicators and structural benchmarks (Tables 1 and 2). The first review will be based on the performance criteria and quantitative indicators at end-December 2017 (Table 1) and structural benchmarks (Table 2). Those criteria and quantitative benchmarks are defined in the Technical Memorandum of Understanding (TMU), as well as adjusters in case of contingencies.

Table 1. Mauritania: Performance Criteria and Quantitative Benchmarks for 2017–18 1/

	End-June 2017	End-Dec. 2017	End-Mar. 2018	End-June. 2018	End. Dec 2018
	Initial level	Performance criteria	Indicative Target	Performance criteria	Indicative Target
Quantitative targets					
Net international reserves of the BCM (floor); in million of U.S. dollars	226.3	-14.3	-24.3	-35.0	46.8
Net domestic assets of the BCM (ceiling); in billions of ouguiyas	145.6	15.4	11.8	23.6	7.3
Primary balance excluding grants; in billions of ouguiyas 2/	6.8	-3.6	4.5	9.0	5.6
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous ceiling); in millions of U.S. dollars 3/ 4/	...	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous ceiling); in millions of U.S. dollars 4/	...	0.0	0.0	0.0	0.0
New external payment arrears (continuous ceiling) 5/	0.0	0.0	0.0	0.0	0.0
Social spending (indicative target); in billions of ouguiyas	97.2	97.2	55.2	110.3	220.7
Adjustement Factors (in millions of U.S. dollars)					
Net international assistance	....	-101.8	-41.2	-147.0	-278.0
Cumulative disbursements of official loans and grants in foreign currency	....	18.8	7.7	7.7	34.8
Cumulative amounts of external cash debt service payments	....	-120.7	-48.9	-154.7	-312.8
FNRH contribution to the budget	20.0	30.2	0.0	12.9	32.5
European Union fishing compensation fee	....	66.2	0.0	0.0	66.2
Extractive revenues, in billion ouguiya	20.9	25.5	9.7	21.8	47.7
Memorandum items:					
Indicative Target: Contracting or guaranteeing of new medium- and long-term concessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous ceiling) 3/	...	100.0	200.0	200.0	200.0
Program exchange rate (ouguiyas/dollar)	358.5	358.5	358.5	358.5	358.5

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

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

3/ Cumulative limit as from November 1, 2017 to end-2018 for loans approved by the Council of Ministers.

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

5/ Excluding arrears subject to rescheduling.

Table 2. Mauritania: Structural Benchmarks, 2017–19		
Measure	**Date**	**Objectives**
Prior actions		
Fiscal policy: Submit 2018 budget consistent with the program to parliament	Approval of ECF	Maintain macroeconomic stability and strengthen debt sustainability
Fiscal policy: submit the proposed organic budget law to the Council of Ministers	Approval of ECF	Improve budget formulation and public financial management in order to support fiscal consolidation
Exchange policy: Reform the foreign exchange market by settling transactions at the rates offered within the limit of 2 percent of the marginal supply-side rate; and raise the minimum threshold for the requirement to go through the foreign currency market for amounts of US$200,000	Approval of ECF	Improve the functioning of the foreign exchange market and introduce greater flexibility in the exchange rate to offset external shocks
Monetary policy: adopt monthly averaging for required reserves	Approval of ECF	Improve liquidity management and develop an interbank market to support credit
Structural benchmarks		
Exchange policy		
Introduce two-way wholesale auctions on the foreign exchange market; and consider raising the threshold for the requirement to go through the foreign exchange market to US$300,000	December 2018	Deepen the exchange market and authorize greater exchange rate flexibility
Prepare an action plan for development of the interbank currency market by end-2019	September 2018	Deepen the exchange market
Authorize the internal clearing of foreign exchange transactions between customers in the same bank; and eliminate the obligation to surrender foreign currency	December 2019	Deepen the exchange market and authorize greater exchange rate flexibility

Table 2. Mauritania: Structural Benchmarks, 2017–19 (continued)		
Monetary policy		
Adopt a directive on monetary policy instruments	December 2017	Enhance the effectiveness of monetary policy instruments
Define a collateral framework for monetary policy operations	March 2018	Enhance the effectiveness of monetary policy instruments
Submit to parliament the 2013 memorandum of understanding on repayment of the government's liabilities to the BCM or a new memorandum to be agreed by then	April 2018	Strengthen the central bank's independence and its capacity to conduct the monetary policy
Financial policy		
Submit to parliament the bill on loan recovery	March 2018	Improve the business environment and facilitate access to credit
Adopt a directive reforming calculation of the solvency ratio and raising the minimum capital requirement for banks to 10 billion ouguiyas over two years	March 2018	Strengthen the banking system and promote closer ties between banks
Establish an emergency liquidity facility for banks	March 2018	Improve macro-prudential instruments to strengthen financial stability and the monetary policy
Submit to parliament the banking law and BCM charter prepared in consultation with IMF staff	June 2018	Improve the prudential and bank resolution framework and strengthen the central bank's independence
Publish a quantification of the BCM 2017 financial statements in accordance with the IFRS	December 2018	Bring central bank financial reports in line with international standards
Fiscal policy		
Submit the draft tax procedures code to the Council of Ministers	March 2018	Clarify tax procedures and strengthen tax administration
Submit the proposed Customs Code to parliament	March 2018	Improve customs administration to raise revenue and facilitate trade
Revive the National Public Debt Committee (hold regular meetings and update the terms of reference)	March 2018	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability

Table 2. Mauritania: Structural Benchmarks, 2017–19 (concluded)		
Establish a coordination procedure between CAPIP and CNDP outlining their responsibilities for project selection	March 2018	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Audit taxpayer records in line with the IMF technical assistance recommendations; draft a procedure to update taxpayer records on a regular basis	June 2018	Improve tax revenue mobilization and tax equity by maintaining control over taxpayer records
Establish a gateway interface between the SYGADE, SIGIP and RACHAD software applications to keep track of external debt disbursements and debt service payments	September 2018	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Submit the draft bill on corporate tax to the Council of Ministers	December 2018	Improve the mobilization of tax revenue and tax equity

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding describes the quantitative and structural assessment criteria established to monitor the program supported by the Fund's Extended Credit Facility and described in the Memorandum of Economic and Financial Policies (MEFP), Tables 1 and 2. It also specifies the content and periodicity of the data that must be forwarded to Fund staff for program monitoring purposes. Under this memorandum, the government is defined as the central government exclusively.

2. The quantitative targets are defined as ceilings and floors set on cumulative changes between the reference periods described in Table 1 of the MEFP and the end of the month covered, unless otherwise indicated.

Definitions

3. Net international reserves (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF *Balance of Payments Manual*), minus the CBM's foreign exchange liabilities to residents and nonresidents. Gold holdings will be evaluated at the gold price in effect on June 30, 2017 (US$1,242.3 per oz.), and the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates, namely, the June 30, 2017 rates for exchange of the U.S. dollar against the ouguiya ($1 = UM 358.5), the SDR ($1.39 = SDR 1), the euro ($1.14 = 1 euro), and other currencies published in the IMF's *International Financial Statistics* (*IFS*).

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

5. The primary fiscal balance excluding grants is defined, for program monitoring purposes, as the overall balance, apart from grants, of the central government, excluding interest due on public debt. This balance is equal to government revenue (excluding grants) minus government expenditure (excluding interest due on public debt). The primary fiscal balance will be measured on the basis of Treasury data. Revenue is defined in accordance with the *Government Finance Statistics Manual (GFSM 2001)*. It will be monitored on a cash basis (*revenue taken by the Treasury*). Expenditure will be monitored on a commitment basis, including interest on domestic debt (paid by the Treasury or automatically debited from the Treasury's account at the CBM, including but not limited to discounts on Treasury bills held by banks and nonbanks as well as interest due on the government's consolidated debt to the CBM).

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

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

8. **For program purposes, the definition of external debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014.[1]

(a) For the purposes of these guidelines, the term "debt" is understood to mean a current (i.e., noncontingent) liability created by a contractual arrangement whereby a value is provided in the form of assets (including currency) or services, and under which the obligor undertakes to make one or more payments in the form of assets (including currency) or services at a future time, in accordance with a given schedule; these payments will discharge the obligor from its contracted principal and interest liabilities. Debt may take several forms, the primary ones being as follows:

i) Loans, that is, advances of money to the borrower by the lender on the basis of an undertaking that the borrower will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), as well as temporary swaps of assets that are equivalent to fully collateralized loans, under which the borrower is required to repay the funds, and often pays interest, by repurchasing the collateral from the buyer in the future (repurchase agreements and official swap arrangements);

ii) Suppliers' credits, that is, contracts under which the supplier allows the borrower to defer payments until some time after the date when the pertinent goods are delivered or the services are provided; and

iii) Leases, that is, agreements governing the provision of property that the lessee has the right to use for one or more specified period(s), generally shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purposes of the guidelines, the debt is the present value (at the inception of the lease) of all lease

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

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

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

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

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

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

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

13. For program purposes, a loan is deemed concessional if it contains a grant element representing at least 35 percent, calculated as follows: the grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan is calculated by discounting future principal and interest payments, on the basis of a discount rate of 5 percent. Concessionality will be assessed on the basis of all aspects of the loan agreement, including maturity, grace period, repayment schedule, front-end fees, and management fees. The calculation is performed by the authorities, using the IMF model,[2] and verified by IMF staff on the basis of data provided by the authorities. For loans with a grant component of zero or less, the PV is set at an amount equal to the face value.

14. In the case of debt with a variable interest rate represented by a reference interest rate plus a fixed margin, the PV of the debt is calculated on the basis of a program reference rate plus a fixed margin (in basis points) specified in the loan agreement. The program reference rate for the US dollar six-month LIBOR is 3.23 percent and will remain unchanged until December 31, 2017. The margin between the euro six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the yen six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the pound sterling six-month LIBOR and the US dollar six-month LIBOR is -200 basis points. For interest rates applicable to currencies other than the euro, the yen, and the pound sterling, the difference from the US dollar six-month LIBOR is -300 basis points.[3] For the period from January 1, 2018 to December 31, 2018, the program benchmark rate for the US dollar six-month LIBOR is 3.42 percent. The margin between the euro six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the yen six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the pound sterling six-month LIBOR and the US dollar six-month LIBOR is -200 basis points. For interest rates applicable to currencies other than the euro, yen, and pound sterling, the difference from the US dollar six-month LIBOR is -300 basis points. When the variable rate is linked to a benchmark interest rate other than the US dollar six-month LIBOR, a margin corresponding to the difference between the benchmark rate and the US dollar six-month LIBOR (rounded to the closest 50 basis points) is added. For the period from September 1, 2017 to December 31, 2018 these rates will be fixed on the basis of the fall 2017 edition of the *WEO*.

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

Adjustment Factors

16. NIR and NDA targets are calculated on the basis of projections of the contribution of the National Hydrocarbon Revenue Fund (FNRH) to the budget, the amount of the European Union (EU) fishing compensation, and the volume of net international assistance. The latter is defined as the

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[2] http://www.imf.org/external/np/spr/2015/conc/index.htm.

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

difference between: (a) the sum of the cumulative loan disbursements of official foreign currency-denominated loans and grants (budget support, excluding assistance under the Heavily Indebted Poor Countries (HIPC) Initiative and project-related loans and grants) and the impact of any debt relief obtained after June 30, 2006; and (b) the total amount of cash payments for servicing the external debt (including amortizations and interests paid on the CBM’s foreign liabilities).

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

18. **The floor pertaining to the primary fiscal balance excluding grants** will be raised—in other words, the maximum deficit will be reduced—for any amount higher than the disbursements of the EU fishing compensation indicated under the program. If the EU fishing compensation is lower than expected, the floor pertaining to the primary deficit will be adjusted downward by an amount equivalent to the difference between the actual and the projected level.

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

20. **The ceiling on nonconcessional external debt contracted or guaranteed** will be adjusted upward up to US$ 103 million exclusively for the following two projects: the complementary financing for the wind power station project in Boulenoir, and the financing for the fishing port project of Nouakchott (development pole at PK28). This limit is cumulative from November 1, 2017.

IMF Reporting Requirements

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

A. Central Bank of Mauritania (CBM)

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

- The monthly monetary survey, the consolidated balance sheet of the commercial banks, and the weekly statistics on the net foreign exchange positions of the individual commercial banks, by foreign currency and in consolidated form, at the official exchange rates recorded. These details will be supplied within a period of four (4) weeks after the end of each month;

- The monthly cash flow table and projections to the end of the year, within a period of 15 days after the end of each month;

- Data on Treasury bill auctions and on the new stock of Treasury bills, within a period of one (1) week after each auction;

- Monthly data on the volume of each public enterprise's liabilities to the banking sector, within a period of one (1) month after the end of each month;

- The CBM undertakes to consult with IMF staff on any proposed new external debt;

- Monthly external debt data within a period of 30 days after the end of the month under consideration, following the monthly meeting of the technical committee on debt, the minutes of which will be attached. The information required consists of:

- The external debt status file: external debt service of the CBM, the government, and the SNIM, including any changes in arrears and in rescheduling operations; the amount of debt service that became payable and the portion of it paid in cash; the HIPC relief granted by the multilateral and bilateral creditors; and the amount of HIPC relief provided to Mauritania in the form of grants;

- The quarterly balance of payments and the annual data on the stock of external debt (broken down by creditor, debtor, and currency denomination), within a period of 45 days after the end of each quarter, or year;

- Quarterly statistics on the autonomous factors and on foreign exchange market operations, within a period of 10 days after the end of the month;

- Quarterly statistics on the required reserves and the current account balance, by bank, within a period of 10 days after the end of the month;

- Quarterly data on lending and borrowing rates, by bank, as well as the liquidity ratios;

- Quarterly data on capital-debt ratios and on claims, classified by bank and consolidated, within a period of 45 days after the end of the reference period.

B. Ministry of Economy and Finance

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

- Monthly data from the Treasury on budget operations: revenue (including FNRH transfers), expenditure and financing, data on the special accounts operations, execution of the domestically funded portion of the capital budget (capital expenditure, purchases of goods and services, and wages included in this budget), and monthly reports on revenue collected by the Directorates of Taxes and Customs. This information will be provided within a period of two (2) weeks after the end of each month;

- Monthly data, reconciled between the Treasury and the Budget Office, on the execution of expenditure on wages, including a breakdown of the indicator-based balance and civil service reviews of wages authorized for payment and of those in the process of being validated for payment for diplomatic missions, military personnel, the gendarmerie, the national guard, and public institutions;

- Monthly reports on the execution of externally funded capital expenditure, based on the summary statement of the consolidated capital budget, as well as on the external grants and loans received or contracted by the government, its agencies, and public enterprises, classified by donor or creditor and by disbursement currency. This information will be provided within a period of two (2) weeks after the end of each month;

- A monthly list of new medium-term and long-term foreign borrowings contracted or guaranteed by the government, with indications, for each loan, of: the creditor, the borrower, the amount, and the currency denomination, as well as the maturity and grace period, interest rate, and fees. This list should also cover loans under negotiation. Data on new external debt will be provided within a period of two (2) weeks;

- Monthly reports on the production of oil and other hydrocarbons and the related financial flows, including data on oil sales and the breakdown of oil revenue among the various partners, within a period of one (1) month after the end of each month;

- Annual balance sheets, audited or certified by a statutory auditor, for the public enterprises and autonomous public institutions;

- Quarterly data on the operations of enterprises in the oil sector and on those in the mining sector.

C. National Statistics Office

- The monthly consumer price index, within a period of two (2) weeks after the end of each month;

- The quarterly industrial production index, within a period of 45 days after the end of each quarter;

- Quarterly memoranda on economic activity and foreign trade.

D. Technical Committee on Program Monitoring

22. Monthly program implementation report: four (4) weeks, at the latest, after the end of the month.

23. All data will be sent by electronic means. Any revision of previously reported data will be immediately submitted to IMF staff, together with an explanatory memorandum.

CENTRAL GOVERNMENT OPERATIONS TABLE

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

- **Grants** are defined as the sum of the following components: foreign project grants (used for the implementation of foreign-financed investment projects contained in the parts of the consolidated investment budget covering the central government and other administrative units (EPA) —parts BE and BA); and foreign program grants for budget support, including multilateral HIPC debt relief as regards the public external debt and the external debt of the CBM and the SNIM (including the portion of the relief pertaining to the debt to the African Development Fund/African Development Bank on Cologne terms);

- **Domestic bank financing** of the government deficit is defined as a change in net banking system credit to the government, that is, claims on the government minus government deposits with the banking system (excluding deposits of public institutions and EPA at the CBM, but including the HIPC account);

- **Domestic nonbank financing** of the government deficit is defined as a change in the stock of Treasury bills held by nonbanks;

- **Domestic arrears** are defined as a net change (beyond a period of three months) in the Treasury float and in the stock of domestic claims on the government recorded by the Ministry of Finance (including but not limited to cumulative payment arrears to public enterprises (water, electricity, etc.) and international organizations, and those covered by government contracts and court decisions);

- **External financing** is defined as the sum of the net drawings on the FNRH (i.e., the opposite of a change in the FNRH's offshore account balance), net disbursements of foreign loans, and exceptional financing. The latter comprises: (a) the cumulative debts payable and technical arrears defined in paragraph 9; and (b) the debt relief obtained on the government's external debt net of HIPC assistance, deemed to be a part of grants.