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Islamic Republic of Mauritania: 2002 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and News Brief on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with the Islamic Republic of Mauritania, the fifth review under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2002 Article IV consultation, the fifth review under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **February 12, 2002**, 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 May 6, 2002**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **June 7, 2002** updating information on recent economic developments.

- a Public Information Notice (PIN) and News Brief, **summarizing the views of the Executive Board as expressed during its June 7, 2002, discussion** of the staff report that concluded the Article IV consultation, the fifth review under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, respectively.

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

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

Completion Point Document Under the Enhanced HIPC Initiative
Joint Staff Assessment of the Poverty Reduction Strategy Paper—Annual Progress Report
Letter of Intent sent to the IMF by the Authorities of the Islamic Republic of Mauritania*
Memorandum of Economic and Financial Policies by the Authorities of the Islamic Republic of Mauritania*
Poverty Reduction Strategy Paper—Progress Report
Selected Issues Paper
Statistical Appendix
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2002 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria

Prepared by the Middle Eastern Department

(In consultation with other departments)

Approved by Paul Chabrier and Michael Hadjimichael

May 6, 2002

- The staff team included Mr. Chami (head), Mr. Ben Ltaifa, Ms. Beidas, Mr. Carnot (all MED), and Messrs. Jones and Bandiera (PDR). Mr. Youm, the Fund resident representative, assisted the mission. Mr. Dhonte participated in the final policy discussions.

- The staff team met with the Governor of the Central Bank, the Minister of Finance, the Minister of Economic Affairs and Development, the Head of the Agency for Human Rights, Fight Against Poverty and Integration (CDHLCPI), as well as with other senior officials. The team also met the President of the Republic who expressed an interest in pursuing a close relationship with the Fund that goes beyond the completion point under the enhanced HIPC Initiative.

- In concluding the 2001 Article IV in May 2001, Executive Directors welcomed Mauritania's first PRSP and considered it a major step toward sustainable reduction in poverty. Directors agreed to the easing of the fiscal stance to increase poverty-reducing expenditures, and stressed the need to strengthen public expenditure management. They urged the authorities to maintain a prudent monetary stance and agreed to the new approach of the central bank in enforcing credit concentration limits on a bank-by-bank basis while strengthening its supervision capacity.

- The present PRGF arrangement was approved by the Board on July 21, 1999, and the PRSP was presented to the Boards of the Fund and the Bank in January 2001. The first progress report on the implementation of the PRS, completed in March 2002, describes one year of successful implementation. Mauritania expects to reach the completion point under the enhanced HIPC Initiative at the same time as the completion of this fifth review under the arrangement. The sixth review is expected to be completed before year-end, and for this the authorities are requesting a five-month extension of the PRGF arrangement. Mauritania accepted the obligations of Article VIII, Sections 2, 3, and 4, in July 1999.

- This report was put together by Saade Chami with significant contributions Nabil Ben Ltaifa, Samya Beidas, Nicolas Carnot, and Dennis Jones.

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Executive Summary

Background—Performance under the PRGF-supported program was solid in 2001, reflecting sound economic policies and greater ownership. A few days delay in the receipt of the 2001 fishing license fees from the EU caused the nonobservance of three quantitative performance criteria, larger fiscal and current account deficits, as well as a lower reserve cover. Two of three structural performance criteria were met, with the privatization of SOMELEC being delayed for technical reasons and for reasons related to weaknesses in the global energy sector. Real GDP grew by 4.6 percent, slightly lower than envisaged, reflecting weaker external demand for Mauritania's iron ore and a contraction in agriculture. Inflation remained low at 4.7 percent for the year.

Fiscal policy—Fiscal revenue fell slightly short of the program target due to lower mining exports in the second half of 2001. However, this was more than compensated for by bringing expenditures in below the program target. In 2002, owing to two annual fishing payments, the overall budget position will turn into a surplus of over 6 percent of GDP, despite a significant increase in social and investment spending. Improvements in public expenditure management and in implementation capacity will continue to feature prominently in the 2002 program.

Monetary and exchange rate policy—In the context of subdued inflationary pressures, the central bank reduced the discount rate in the last quarter of 2001 to further ease monetary conditions. At the same time, a large reduction in the net stock of treasury bills in October–November, caused mainly by technical difficulties in forecasting liquidity, led to a sharp drop in the rates and to the emergence of excess liquidity, putting pressure on the exchange rate. Some seasonal factors usually associated with an excess demand for foreign exchange notes also exerted pressure on the exchange rate and widened the gap between the transfer rate and the cash rate. The 2002 program will focus on improving liquidity management and the conduct of monetary policy. The central bank will also improve its foreign exchange note management and play a more active role in guiding the exchange market.

Medium-term outlook—The medium-term macroeconomic framework, consistent with the revised framework in the first PRSP progress report, targets single digit inflation, an average growth of 6 percent, and a 7–8 month reserve cover. This will require a rise in investment, a budget deficit of close to 5 percent, and a current account deficit of 6 percent. While the risks to the outlook appear balanced, Mauritania's vulnerability to exogenous shocks calls for continued vigilance in macroeconomic policies as well as readiness for strong policy responses.

Rehabilitation of the Social Security Fund (CNSS)—Although the authorities have raised the wage ceiling for contributions to the CNSS, more radical measures to contain the financial deterioration of the CNSS are expected in 2002 on the basis of the recently completed actuarial study.

PRSP progress report and the completion point under the enhanced HIPC Initiative—The first progress report describes a successful first year of implementation, and there has been significant progress toward meeting the completion point triggers. The authorities hope to reach the completion point with the completion of this fifth review.

Staff appraisal—The staff supports the authorities' macroeconomic policies for 2002 with emphasis on improved macroeconomic policy coordination, particularly monetary and exchange rate policies. The fiscal focus on upgrading all expenditure tracking and implementation capacity is welcomed. Diversification of the economy to contain vulnerability to external shocks, structural reforms related to the CNSS, banking supervision, and meeting all HIPC completion point conditions, as soon as possible are stressed. On the strength of performance in 2001 and the policies for 2002, the staff recommends the completion of the fifth review and the request for waivers.

I. Introduction

1. A staff team visited Nouakchott from January 29 to February 12, 2002 to conduct discussions for the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement and the 2002 Article IV consultation. In collaboration with the World Bank, the mission assessed progress made toward reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, including progress in the implementation of the Poverty Reduction Strategy (PRS) adopted in early 2001. The fourth review under the PRGF arrangement was completed on November 21, and the 2001 Article IV consultation was concluded on May 9, 2001.[1]

2. In the attached letter of intent and Memorandum of Economic and Financial Policies (MEFP), the authorities review the implementation of the PRGF-supported program during 2001, report on progress in the implementation of the poverty reduction strategy, and set forth their economic program for 2002. The authorities request waivers for the nonobservance of three end-December quantitative performance criteria, resulting from the delayed payment of the 2001 fishing license fees by the European Union (EU), and one structural performance criterion on the privatization of the electricity company (SOMELEC) due to technical delays and problems in the global energy sector (Tables 1 and 2).

II. Recent Developments and Performance Under the Program

A. Macroeconomic Performance

3. **A few days delay in the receipt of the 2001 fishing license fees from the EU, which was completely outside the authorities' control, caused most of the deviations from the program original quantitative targets and the nonobservance of three end-December quantitative performance criteria.**[2] These fees, amounting to ε86 million (US$77 million) or about 8 percent of GDP, were not paid until January 8. As a result, three end-December quantitative performance criteria were not met:[3] net domestic assets of the central bank (*Banque Centrale de la Mauritanie*—BCM), net domestic financing of the

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[1] At the completion of the fourth review, SDR 6.07 million was disbursed, bringing total disbursements to SDR 30.35 million. The current PRGF arrangement was approved by the Board on July 21, 1999, in the amount of SDR 42.49 million (66 percent of quota), while the decision point under the enhanced HIPC Initiative was reached in February 2000. On November 21, 2001, the Board approved the release of the 2002 interim assistance under the enhanced HIPC Initiative of SDR 6.96 million. The Fund delivered interim assistance to Mauritania of SDR 3.76 million in 2000 and SDR 6.16 million in 2001.

[2] A five-year fishing agreement with the EU was signed in 2001 for financial compensation of ε430 million, paid in annual installments from 2001 to 2005.

[3] The program does not have a full adjustor on this payment (the adjustor is capped at ε5 million) since it was regarded as certain by the authorities and the staff.

budget, and net international reserves. Adjusting fully for this payment, these performance criteria would have been met with comfortable margins (Table 2). Also because of this delay, the fiscal deficit was higher than budgeted, the current account deficit exceeded its programmed level, and the level of reserves fell short of its target.

4. **Economic growth decelerated in 2001, mainly on account of weaker foreign demand for iron ore and the impact of adverse weather conditions on agriculture.** The global slowdown, exacerbated by the events of September 11, caused a decline in iron ore exports by US$15 million (1.5 percent of GDP) from their programmed level. In addition, uneven rain and flooding led to a contraction in agriculture (by about 10 percent). Given the size of mining and agriculture, their decline could not be fully compensated for by stronger performance in other sectors—industrial fishing, construction, and telecommunications—and strong domestic demand. As a result, the growth rate was revised to 4.6 from 5.2 percent under the program (Table 3 and Figure 1).

5. **The exchange rate came under pressure in the second half of 2001 and in early 2002, but consumer price inflation remained low.** Several factors, mainly seasonal, accounted for this pressure, including: the protracted impact of the customary closure of the fishing season (September–October); the rise in imports during the month of Ramadan; and the rise in demand for foreign exchange (mainly cash) during the Haj (January–February 2002).[4] In 2001, the ouguiya depreciated by 5 percent against the U.S. dollar and by under 1 percent against the euro. Given that the euro is the currency of origin for most of Mauritania's imports, CPI inflation remained subdued at 4.7 percent over the year with a modest end-year rate of 1.7 percent. The real effective exchange rate remained virtually unchanged (Figure 2).

6. **The external current account deficit (excluding fishing payments) was lower than programmed,** essentially owing to lower imports, since stronger fish exports compensated for some of the decline in the export of iron ore.[5] Although capital flows were lower than programmed due to lower foreign direct investment (including expected further expansion of telecommunications) and loan disbursements probably reflecting weak implementation capacity, gross official reserves remained at a comfortable level of nearly seven months of imports (Table 4).

7. **A prudent fiscal stance was maintained in 2001** (Table 5). The overall budget deficit was slightly below the program target excluding the delayed fishing payment by the EU—reflecting lower-than-projected total expenditures. Facing a shortfall in revenue from

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[4]The official exchange rate is determined in the daily sessions of the *Marché de Change Elargi*, in which the central bank receives bids for foreign exchange by banks and exchange bureaus.

[5]With fishing payments included, the deficit (including official transfers) stood at 5.7 percent of GDP against a target of 1.2 percent of GDP.

the state mining company (SNIM) turnover tax on account of lower mining exports (causing nonobservance of the quantitative indicator on tax revenue), the authorities made a deliberate effort to save on current expenditures. At the same time, and despite their efforts to make up for earlier delays, capital expenditures came in below their target. Social spending was lower than programmed (0.3 percent of GDP) mainly due to delays in implementing a training program for poor unskilled labor.

8. **In a low inflation environment, the central bank continued to ease monetary conditions.** In late October 2001, the central bank further reduced its discount rate by 2 percentage points (to 11 percent), leading to lower bank lending rates.[6] At the same time, the BCM reduced the stock of treasury bills from its September level, triggering a sharp fall in treasury bill rates from 10 percent in September to close to 4 percent in December. In 2001, broad money grew faster than programmed, excluding the fishing payment (Table 6), reflecting larger net foreign assets owing mainly to lower imports, more than offsetting lower private sector credit and net claims on government.

9. **The authorities have continued to manage their external debt prudently and have made further progress in discussions with creditors on debt relief.** The recently contracted concessional loan with the Arab Fund for Economic and Social Development (FADES) of about US$52 million is crucial for constructing the road between Nouakchott and Nouadhibou—a Poverty Reduction Strategy Paper (PRSP) priority project for poverty reduction. Most multilateral creditors have now agreed to participate in debt relief under the enhanced HIPC Initiative—the exception being the Arab Monetary Fund. The Mauritanian government has already contacted all official non-Paris Club bilateral creditors on their participation in debt relief, although agreements have not yet been reached in all cases (MEFP, ¶27). Details are provided in the completion point document.

B. Structural Reforms and Poverty Profile

10. **Progress in structural reforms has continued, although with some delays** (Table 1 and Box 1). The two structural performance criteria on the revised investment code and the set-up of a VAT refund system were observed.[7] The privatization of the SOMELEC was targeted for end-April 2002, but in view of the weakness in the global energy sector, three out of the five prequalified companies have withdrawn from the bidding process.[8] The two

[6] The maximum lending rate, which is capped at 10 percentage points above the discount rate, was thus reduced to 21 percent.

[7] In accordance with the recommendations of the Fiscal Affairs Department (FAD) technical assistance mission, VAT refunds should take place within one month, thus obviating the need for a deferred VAT payments system.

[8] According to the World Bank, one company pulled out shortly before the first round of transaction document negotiation, while the interest of the others waned by the impact of the global situation (September 11, Argentina, and the Enron case). The remaining two companies were instructed by their headquarters to be highly selective and scrutinize their new investments more carefully to spare cash, thus imposing further delays (MEFP &2 and &30).

Box 1. Mauritania: Structural Conditionality

Coverage of Structural Conditionality in the Current Program

The structural prior actions, performance criteria, and benchmarks for the 2002 program are set out in Table 4 of the MEFP. These conditions relate to monetary, fiscal, implementation capacity, and pricing issues—important for macroeconomic stability. The privatization of SOMELEC is included in the program since it is a condition for the completion point under the enhanced HIPC Initiative and could not be covered by World Bank conditionality.

Status of Structural Conditionality from Earlier Programs

All structural measures that were dropped from the 2000 program following the streamlining of structural conditionality at the time of the third review in May 2001 under the arrangement, and that fall in the Fund's area of responsibility have since been implemented, except for the strengthening of the customs inspections unit, which is currently under way. The status of implementation of structural conditions for the 2001 program is described in Table 1.

Structural Areas Covered by World Bank Lending and Conditionality

As shown in Table 8, two measures (the re-examination of the municipal import surcharge and the implementation of an action plan to remove administrative barriers constraining private sector development) that were dropped from the PRGF conditionality and were to be taken over by the World Bank, are not yet implemented. These measures might be included in a PRSC program that could be negotiated along with a successor PRGF program by end-2002.

Structural Areas Covered by HIPC Completion Point Conditionality

All structural conditions for the completion point have been fulfilled, except the privatization of SOMELEC and the credit concentration ratios at commercial banks. The former has been delayed in view of the less favorable world environment while for the latter, a new time frame was set for some banks within the context of the *contrats programmes* in order to meet these ratios by 2003–04.

Other Relevant Structural Conditions not Included in the Current Program

Implementation capacity remains one of the main obstacles to increasing social spending and improving its efficiency. Following the adoption of a new procurement code in November 2001 and the signing of its implementation provisions in March 2002, further actions will be needed in light of the recently issued government study. Another area critical for macroeconomic stability, because of its potential impact on the budget, is the reform of the CNSS. Since the increase in the ceiling on wages used for calculating contributions, implemented in March 2002 (a structural benchmark), will not suffice to restore financial sustainability, a wider set of measures is expected to be taken on the basis of the recently completed actuarial study, after discussions with social partners.

remaining companies visited Nouakchott in early April to work with the privatization commission and to study the data (control) room of SOMELEC. However, by end-April, one company informed the authorities of its decision to withdraw, leaving only one company in the bidding process. The terms of reference for the computerization of expenditures on goods and services, targeted for year-end, was completed in January 2002. The 3 percent interest rate remuneration imposed on government deposits held at commercial banks has been applied since January 2002, and the wage ceiling on CNSS contributions was increased in March, as envisaged under the program.

11. **Despite some improvements, the poverty situation remains very difficult** (Box 2). According to the 2000 household survey, the poverty rate declined from 50.5 percent in 1996 to 46.3 percent in 2000, although this improvement was not uniform across regions as there was an increase in poverty in the Senegal river valley and in the capital city Nouakchott. While progress has been achieved in education and literacy indicators in recent years, little has been achieved in increasing access to health and other basic services.

III. Medium-Term Outlook

12. **The thrust of Mauritania's medium-term macroeconomic strategy, as revised in the PRSP progress report, is to continue to stimulate growth and reduce poverty, maintain macroeconomic stability, and shield the economy from exogenous shocks.** These challenging tasks, which have been an integral part of the PRGF arrangement, require further improving the environment for private sector-led growth, maintaining prudent fiscal and monetary policies, and increasing public spending on poverty and social sectors. Equally important is maintaining external competitiveness and helping diversify the economic and export bases, which remain very susceptible to the vagaries of international prices and other exogenous shocks. Until the economy becomes more immune to unpredictable changes, gross international reserves should be maintained at a comfortable level to help absorb exogenous shocks without undermining priority spending.

13. **The medium-term macroeconomic framework targets single-digit inflation (less than 4 percent), an average growth rate of about 6 percent,[9] and a comfortable level of foreign reserves (more than seven months of imports)** (Table 7).[10] To reach these objectives, investment is set to rise by 3 percentage points of GDP between 2003 and 2006 (to 28 percent), to be financed mainly by a rise in domestic private and foreign saving, as

[9]The sources of growth are: the rural sector contributing about 1 percentage point; the industrial sector—mining, food, and fish processing—contributing about 1.25 percentage point; and services (including public infrastructure), trade, telecom, and tourism sectors contributing the residual.

[10]In the original PRSP, the average annual real GDP growth was targeted at 6.5 percent over 2001–05. The revision to the PRSP macroeconomic framework reflects recent developments, including the weaker global economy and changes in commodity prices, leading to lower growth rates during 2002–06.

Box 2. Mauritania: 2000 Poverty Profile

A household survey for 2000 was completed in late 2001, forming the basis of the newly constructed poverty profile (for 2000) used in the first PRSP progress report.

According to this survey, in 2000, 46.3 percent of the population was below the poverty line, defined as monetary poverty with a level of spending under UM 67,316 (approximately US$280). This represents an improvement of about 1 percent per year over the past decade (i.e., a fall from 56.6 percent in 1990). However, between 1996 and 2000, the absolute number of poor remained broadly constant, and inequality worsened slightly.

The 2000 survey continues to show that poverty in Mauritania is primarily a rural phenomenon, with six out of ten people considered poor or extremely poor. Independent farmers as well as agricultural salaried workers in the Senegal river valley are the most exposed groups (72 percent are poor). However, vulnerability remains high among female-headed households.

Between 1996–2000, poverty declined in most urban centers (as well as in the northern rural areas) possibly reflecting the benefits of increased development spending. However, poverty increased in Nouakchott due to migration from the rest of the country in search of better living conditions. In general, poverty is increasingly found within migrant urban settlements, especially among those unemployed or working in the informal sector. In addition, poverty worsened in the Senegal river valley apparently due to the adverse 1999–2000 agricultural campaign caused essentially by floods.

Although much remains to be done, some improvements in social conditions have been made, notably:

- Literacy and school enrollment rates have increased, although the rural areas lag behind, and survival rates at the end of primary school are somewhat lower.

- Infant mortality rates have declined somewhat, but the richest had three times more access to health services than the poorest of the poor. Nutrition indicators still do not compare favorably to the sub-Saharan region.

- There has been no improvement in access to drinking water and only a modest change in access to electricity (except for the poorest of the urban poor).

In light of the 2000 poverty profile outcome, the PRSP progress report outlines the authorities' approach to tackling poverty in the medium term, with emphasis on five priority sectors (education, health, infrastructure, urban development, and rural development).

public sector saving is expected to fall with the increase in spending on poverty-related projects and priority sectors, assuming improved implementation capacity.[11] This increased role of government is likely to raise its share in total investment by 1.5 percentage point of GDP, with nongovernment investment increasing slightly faster during this period (1.8 percentage point of GDP).

14. **The expected increase in nontraditional sectors activity in the medium term should enhance the diversification of the export base and reduce Mauritania's vulnerability to exogenous shocks.** To sustain higher growth, Mauritania's production and export base will need to extend beyond fishing and mining activities. In the medium term, and in addition to the role of public investment, especially in the social sector, other sources of growth are expected to include an expansion in agricultural and livestock activity, a rise in the domestic value added of the fishery sector, and some expansion in tourism. Also, mining production activity by SNIM is expected to increase beginning in 2004 with an increase in SNIM's capacity, while other mineral exploration by new investors is projected to pick up.

15. **Fiscal policy is expected to reflect increased public expenditures on priority sectors, and monetary policy would continue to be oriented toward maintaining price stability.** The budget deficit is targeted to increase over the medium term to close to 5 percent of GDP, to be financed entirely by external concessional lending and grants and debt relief under the enhanced HIPC Initiative. In case of shortfalls in external financing, the government could draw down some of its large deposits in the banking system. Monetary policy, through broad money targeting, would continue to be the nominal anchor for maintaining low inflation and should take on an important role in managing liquidity and credit, given the increased flexibility of the exchange rate.

16. **Debt relief under the enhanced HIPC Initiative following the completion point and other concessional financing should finance Mauritania's external current account deficit in the medium term.** The current account deficit (including official transfers) is projected to widen slightly to reach 6.7 of GDP in 2006, with growth of mining exports reaching their peak in 2004 in line with the expected increase in SNIM's production capacity and imports growing slightly faster than nominal GDP. The increase in the current account deficit is necessary to sustain the rise in investment while maintaining private consumption at a reasonable level. At the completion point, external debt indicators should become sustainable as shown in the updated DSA in the forthcoming completion point document. Mauritania's international reserve position is projected to remain strong in the medium term, averaging 7.5 months of imports.

[11] The shift in national saving between 2001 and 2002 (Tables 3 and 7) reflects the delay in the receipt of fishing payments from the EU. As a result, the current account balance is expected to swing from a deficit of 5.7 percent of GDP to a surplus of 3.8 percent of GDP, accounting for most of the shift in national savings.

17. **While the medium-term outlook appears balanced, it could go in either direction depending on how the risks to the outlook would play out.** If the global economic recovery intensifies and if oil (and other mineral) exploration prospects materialize in the next few years, growth should be higher, leading to a faster and more sustained reduction in poverty. However, downside risks remain large, as highlighted by the recent downturn and by the vulnerability of the Mauritanian economy to exogenous shocks. If external demand falters, commodity prices drop unexpectedly, or the global slowdown proves deeper than anticipated, the medium-term objectives could be threatened, and strong policy responses will be needed.

IV. The 2002 Program

18. **Against this background, discussions on the 2002 program continued to emphasize creating the conditions for sustained growth and poverty reduction, as stated in the PRSP and in the PRSP progress report.** Growth in 2002 is expected to recover to more than 5 percent based on a conservative assumption about mining activity, some recovery in agriculture, and strong growth in construction and public spending, while other sectors are projected to grow on normal trends. Inflation is programmed to remain in check (4 percent) and the current account to swing into a surplus (3.8 percent of GDP) owing to the receipt of the two fishing payments (for 2001 and 2002), and foreign gross reserves are targeted to reach US$372 million, or eight months of imports.

A. Fiscal Policy and Reforms

19. **The staff and the authorities agreed that the stance of the 2002 budget, discussed last September, remained appropriate.** Only three minor adjustments were made to reflect (i) the delayed receipt of the 2001 fishing payment; (ii) the supplementary budget law adopted in January 2002, whereby resources were reallocated within the overall budget envelope to promote book distribution and reading in poor regions;[12] and (iii) the downward revision to the growth rate. The 2002 fiscal deficit, excluding fishing payments, is now projected at 1.4 percent of GDP compared with 1.6 percent envisaged last September. Including these payments, the overall budgetary position should turn into a surplus of about 6.3 percent of GDP.

20. **The objective of expenditure policy in 2002 is to increase markedly investment spending and allocate a higher share of resources to spending on priority sectors.** The significant increase in spending on operations and maintenance is also needed to make up for past neglect and to enhance the effectiveness of existing infrastructure. Social and poverty-reducing expenditures should reach 11.4 percent of GDP in 2002 (from 8.2 percent of GDP

[12]This consisted of an across-the-board cut of 3 percent in current expenditures on goods and services (except for wages and interest payments), amounting to about UM 600 million.

in 2001) and are largely based on the medium-term expenditure frameworks (MTEFs) for health and education completed in the first half of 2001 (Table 5).

21. **Strengthening public expenditure management was at the forefront of fiscal policy discussions.** On the basis of the assessment and recommendations of the October 2001 joint Bank-Fund mission on poverty expenditure tracking, the authorities decided to introduce several measures in 2002 to enhance this tracking and ultimately the efficiency and transparency of all spending categories (Box 3 and MEFP, &16). Most importantly, the capacity of the treasury should be strengthened to produce data on payments by type that correspond to payment authorizations issued by the budget. Monthly production of such data should greatly enhance the monitoring of fiscal operations. Another joint Bank-Fund mission on a fiscal Report on the Observance of Standards and Codes (ROSC) and Country Financial Accountability Assessment (CFAA) is scheduled for May 2002; this will be the first case of such collaboration in this specific area between the Bank and the Fund.

22. **The preparation of the medium-term expenditure frameworks for road infrastructure and rural and urban development is running behind schedule.** A delay in the initiation of the process made the completion of this task by end-March 2002 (a structural benchmark under the program) impossible. Given its importance, completion of this measure is proposed as a structural performance criterion for end-June 2002. The authorities indicated that they remained committed to producing an MTEF for all public expenditures before year-end (MEFP, ¶16).

23. **The quality of the fourth quarterly report of the committee in charge of monitoring HIPC expenditures improved considerably.** This was achieved through (i) enhancing transparency by the use of project identification codes; (ii) improving the reporting on actions performed by the CDHLCPI, in particular by providing more detailed descriptions of its actions and their expected impact on the poor; and (iii) presenting a summary of the impact of enhanced HIPC interim debt relief on social spending.

24. **Mauritania has not undertaken a formal poverty and social impact analysis of the reform measures it has implemented or of those it will implement.** However, the government has taken some measures to protect the most vulnerable groups in response to the adverse social effects of its policy. These measures include improved targeting, reallocating public expenditures to social sectors, and introducing a labor-intensive public works program. The staff has based its policy advice on informed judgments of the likely social and poverty impact of policies (Box 4).

25. **Efforts to improve implementation capacity are continuing.** While no concrete measures have yet been adopted from the authorities' recent assessment, several measures will be adopted in 2002 to address this problem, including (i) taking steps to facilitate the implementation of the new procurement code (Bank and Fund staffs have reviewed the

Box 3. Mauritania: Strengthening Public Expenditure Management

A joint Bank-Fund mission visited Mauritania in October 2001 to assess the capacity of the public expenditure management system (PEM) in tracking poverty-reducing expenditures. The mission found that the system is functioning reasonably well at the budget preparation and upstream budget execution stages (functioning *a priori* controls on expenditure commitments and adequate recording of detailed expenditures at the payment order stage).

However, a number of weaknesses were identified including (i) weak budget execution systems at the treasury, essentially due to the absence of a detailed chart of accounts to track expenditures by type, making it difficult to prepare monthly balances consistent with payment orders issued to the budget; (ii) weak internal control on external audit systems; and (iii) lack of functional classification of the budget and a limited use of medium-term expenditures projections. The authorities agreed with this assessment and committed to gradually introduce new reform measures. For 2002, they agreed to:

- Adopt by end-June a functional classification of poverty-reducing expenditures financed through HIPC debt relief, including those executed by the CDHLCPI.

- Identify all budget lines related to poverty reduction before September 2002. This will facilitate the monitoring of the delivery of these expenditures and will enable a more accurate assessment of their impact on the poor beginning in 2003.

- Adopt before June 2002 a new chart of accounts (at the treasury) harmonized with charts used by local governments. This action is aimed at integrating central government with local government accounts, thus permitting a comprehensive monitoring of budget execution at the level of the treasury.

- Work on developing a system for the preparation of monthly treasury account balances, which will eventually serve for the regular production of cash-based monthly budget execution reports (TOFE), to be adopted beginning 2003.

- On the computerization of expenditures, the authorities commissioned a study to assess the needs and lay out an implementation plan for the computerization of all stages of expenditures on goods and services, to be completed in the first half of 2002.

Box 4. Mauritania: Poverty and Social Impact Analysis of the PRGF-Supported Program

To date, there has not been a comprehensive poverty and social impact analysis (PSIA) of the PRGF-supported program owing mainly to the limited capacity on the part of the authorities to carry out such analysis and to the paucity of data. In the JSA of the first PRSP progress report, the staffs emphasize the need to develop further the capacity to undertake a PSIA, and a fuller analysis is expected in the next PRSP progress report, benefiting from the results of the recent household survey and possibly from technical assistance.

Nonetheless, discussions with the authorities on macroeconomic and structural policies have always considered the impact of these policies on the poor. Apart from the beneficial impact of pursuing anti-inflationary and pro-growth economic policies under the PRGF arrangement, mainly through creating employment and protecting the purchasing power of the poor, specific actions have aimed to maximize the positive impact on the poor. In particular:

The creation of the *Commissariat aux droits de l'homme, à la lutte contre la pauvreté et à l'insertion* (CDHLCPI) in 1998 aimed at better targeting of government policies to serve the poor by coordinating national policies on poverty reduction. The CDHLCPI was empowered to cut down on red tape and increase efficiency of government poverty-related actions. Its budgetary allocations increased to almost 2.2 percent of GDP in 2002 from about 0.7 percent of GDP in 1999. Activities supervised by the CDHLCPI included training unskilled poor labor and helping create private microeconomic activities for the poor. In rural areas, its actions extended to the construction of small roads connecting remote areas to urban centers and the provision of microfinance for artisanal fisheries and agricultural activities.

Improving public expenditure management. In 2001, the authorities started formulating medium-term expenditure frameworks for all priority sectors (to be generalized to the whole economy by end-2002) to improve the budgetary process and free up resources for poverty reduction, while improving the quality of services and their impact on living conditions of the poor. In addition, the government began in 2001 preparing quarterly reports to track poverty expenditures financed by HIPC relief. This effort is expected to be elevated to a more formal process within the framework of budget execution to monitor all poverty-reducing expenditures and their impact on the poor.

Increasing budgetary allocations to social sectors and poverty reduction. Overall social spending will rise to 11.1 percent in 2002, while spending on health and education is projected to reach almost 9.4 percent of GDP in 2004 against about 7 percent in 1999. Other expenditures for the benefit of the poor include (i) a budgetary reallocation of 0.3 percent of GDP in 2002 to promote book distribution and reading in poor regions; (ii) a ten-year urban development program launched in 2002 to improve living conditions in the poor quarters of Nouakchott through access to better housing and basic services; and (iii) a rural development program to promote investment and employment creation in the rural sector (where most of the poor reside).

Mitigating the impact of tax policies on the poor. Tax reforms aiming at minimizing distortions and preserving government revenue have also aimed at mitigating their adverse impact on the poor. The unification of the VAT rate at 14 percent in 2001 exempted a minimum level of electricity and water consumption that are usually consumed by the poor and some basic items (basic food staples and medications), while eliminating other VAT exemptions. The revision to the investment code in 2002 and the elimination of discretionary tax measures aimed at improving competition and efficiency will benefit consumers in general, including the poor.

Reforming the CNSS. Given that the CNSS provides pensions and social benefits, its reform, which has already been initiated, should provide better protection for the poor, while safeguarding the CNSS's long-term financial sustainability.

related regulations for implementation) and (ii) providing the necessary means for the *Commission Centrale des Marchés* (procurement committee) to better perform its work.

26. **The staff discussed with the authorities the simplification of the payroll tax in the context of the 2003 budget and reviewed the recently adopted VAT refund system.** The objective of the payroll tax reform is to reduce the tax brackets from 11 to 5, in line with the general income tax. The authorities indicated that they would prepare a study on the design and implications of such a reform.[13] In addition to the sharp reduction in the corporate tax rate (BIC) from 35 to 25 percent in 2002, the authorities adopted a VAT refund system with FAD technical assistance. The staff reviewed with the authorities the newly created mechanisms and procedures to ensure their effective implementation (MEFP, ¶13–14).

B. Monetary Policy

27. **The monetary program for 2002 is designed to achieve the inflation objective while building up gross foreign reserves to eight months of imports.** It assumes a broad money increase of about 9 percent, consistent with continued low inflation and a pick-up in the growth rate from 2001. Taking into account the fiscal position (particularly the larger accumulation of government deposits in the banking system on account of the two fishing payments in 2002) and an increase in gross foreign reserves (of more than US$85 million), credit to the private sector is programmed to grow year-on-year by 21.5 percent, consistent with lower interest rates and higher growth (Table 6).[14]

28. **However, a key challenge facing the central bank in 2002 is to improve the conduct of monetary policy and to stand ready to act on interest rates.** The staff expressed concerns about the sharp drop in the treasury bill rates in October and November 2001, which was more than had been discussed at the time of the fourth review, and particularly so given the pressure on the exchange rate.[15] This resulted from a sizable fall in the stock of treasury bills, which took commercial banks by surprise. As banks found themselves with excess liquidity and little time to adjust their portfolios, they bid down the rates substantially. Although the extent of the drop in the rates exceeded what the authorities had envisaged—due mainly to problems in liquidity forecasts—there was no quick policy response to reverse this decline through the use of indirect monetary instruments to mop up liquidity and push the rates back up. The staff and the authorities agreed that engineering a

[13] While the issue was not discussed in detail, the staff was of the view that this reform should be revenue neutral unless a reduction in the tax burden is part of an overall public sector reform.

[14] This is consistent with maintaining velocity at its end-2001 level of 6.3, after declining from 6.9 in 1999 to 6.8 in 2000.

[15] At that time, the staff and the authorities agreed on the need to maintain a 3–4 percentage point gap between the discount rate and the treasury bill rate to encourage interbank activity.

rise in the treasury bill rates (through larger net treasury bill issues) was warranted to avoid potential destabilizing effects on prices and the exchange rate (MEFP, ¶18).

29. **Nonetheless, the reduction in treasury bill rates and the remuneration of government deposits beginning in January 2002 are expected to have some desirable consequences.** Since holding government deposits and treasury bills became less attractive, some commercial banks began to look elsewhere for lending opportunities and to mobilize private sector deposits. This should also pave the way for an easier transfer of government deposits to the central bank. But it is important for the monetary authorities to strike a balance between these objectives and the objective of maintaining macroeconomic stability.

30. **The staff raised with the monetary authorities the issue of strengthening the role of the recently created monetary policy committee.** The staff noted that the committee was not fully operational, although it has an extremely important role to play in liquidity and monetary management, particularly as the exchange rate was being managed more flexibly. The authorities did not take issue with this observation, but indicated that improving the conduct of monetary policy would require reinforcement of the capabilities of the BCM, which will be undertaken in the context of its comprehensive restructuring (see below). The staff and the authorities agreed on the need for the committee to hold weekly meetings to allow for closer monitoring of monetary developments and to enhance weekly (and eventually daily) liquidity forecasting, including through better coordination with the ministry of finance (Box 5). The committee will provide the staff with quarterly reports, so feedback and assistance can be provided as needed (MEFP, ¶19).

C. Exchange Rate Policy

31. **While the exchange rate has become more responsive to market forces, exchange rate policy should be further improved through better cash management and policy coordination.** To reduce the spread between the official (*cours de transfert*) and the cash rate (*cours manuel*), the BCM will need to increase the supply of foreign banknotes and, more generally, improve its cash management to meet the demand for cash and avoid large fluctuations in the cash rate.[16, 17] Creating a stock of foreign currency notes to respond to

[16]The spread declined to about 7 percent in December reflecting the BCM's response to the demand for notes. However, in the period between end-January and early February, the spread increased to about 8 percent due to the sharp increase in demand for cash before the Haj and the shortage of foreign exchange notes at the BCM.

[17]The spread between the two rates does not constitute a multiple currency practice as it does not arise as a consequence of an official action by the authorities. In fact, the demand for notes in the cash market is in connection with capital transfers or with current transactions by individuals who chose voluntarily to use this market.

Box 5. Mauritania: Liquidity Forecasting

The main purpose of liquidity forecasting is to assist the BCM in conducting monetary policy through the use of indirect monetary instruments. The current practice of forecasting liquidity at the BCM is to estimate expected changes in the main items of its balance sheet (currency, net foreign exchange sales, net government position, maturing treasury bills, and financing) and changes in reserve money (reserve requirements and currency in circulation) on the basis of data requested from commercial banks, to meet an operational target of zero excess reserves, consistent with NDA and NFA targets. This determines the net flow of liquidity to inject or withdraw, and the volume of treasury bills to be auctioned is then set fortnightly. With a closed capital account and low inflation, fluctuations in liquidity should be small.

Some difficulties in liquidity forecasting and management have recently emerged, and recommendations for improvement, which draw upon recent MAE missions, are suggested below.

Measures to improve liquidity forecasting

1. **On the components of liquidity**, the BCM should (i) estimate excess bank reserves on the basis of historical data, especially since the current reserve averaging system results in higher (and longer) fluctuations in the demand for excess reserves (compared with those fulfilled daily); (ii) reduce the penalty on required reserve shortfalls as this induces more excess reserve holdings; (iii) isolate large value transactions in the payment system (to minimize the holding of reserves); (iv) formalize communication with the treasury for timely cash flow projections; (v) identify seasonality in currency changes from historical data; and (vi) extrapolate historical data and assess the current practice and determinants of the "reserve float"—this arises if the payor's and payee's accounts with the BCM are not credited and debited on the same day.

2. **On the conduct of monetary policy**, the BCM should (i) use all instruments to inject and mop up liquidity: reserve requirements, treasury bill auctions, and repurchase and reverse-repurchase agreements; (ii) give prominence to liquidity forecasting as the main task for *Service de la Politique et de Programmation Financière, Direction des Etudes*; and (iii) include in the recently established Monetary Policy Committee (MPC) representatives of the BCM and the ministry of finance so as to establish the latter's cash flow projection and minimize forecasting errors.

3. **On the institutional side**, several measures would need to be adopted. To enhance communication with data providers, a preset timetable to contact them should be established. The unit in charge of liquidity forecasting should liaise closely with the external payment unit, the foreign exchange unit, and the banking supervision unit, as well as other units. Coordination with the foreign exchange unit should be iterative, and regular contact with the few major foreign exchange providers (e.g., SNIM) should be direct and frequent. Coordination with the banking supervision unit should seek to track the daily reserve position of each bank. In addition, to produce an overall forecast of liquidity needs, the current operating sheet for liquidity forecasting needs to be upgraded and maintained over the forecasting cycle to incorporate all liquidity components and ensure their consistency (as they originate from different sources) in order to make an assessment to the MPC on how much liquidity to inject or mop up. Finally, an attempt should be made to assess forecasting errors to improve future projections.

seasonal and unpredictable variations in the demand would be useful. More importantly, the BCM should improve coordination between monetary and exchange rate policies to avoid the kind of tension that arose in late 2001 when excess liquidity put additional pressure on the exchange rate (MEFP, ¶25).

32. **Given the still underdeveloped exchange market, the staff saw merit in the BCM providing more guidance to the market.** The staff suggested that the BCM announce at the start of each market day a minimum and maximum bidding rate to provide some direction to the market.[18] However, the authorities were reluctant to adopt this approach given their limited ability to have in-depth analysis of the market and to distinguish genuine economic fundamentals from speculative bubbles, although the BCM remains the principal player in the market. In this spirit, the staff and the authorities agreed that the BCM should influence expectations by providing signals to the market (either through providing information relating to the economic situation or through the daily choice of opening bid prices) that the rate could move in either direction, thus discouraging people and businesses from holding on to their foreign exchange until the last minute to hedge against a perceived depreciation of the ouguiya.[19]

33. **Export competitiveness has been broadly maintained over the past two years.** Real depreciation against the U.S. dollar has been matched by a slight appreciation vis-à-vis Asian currencies, while it remained stable with respect to European partners—Mauritania's main trade partners. The authorities indicated that they had been watching closely the real effective exchange rate and had avoided a loss of export competitiveness. This view was shared by the staff and is reinforced by the conclusions drawn in the accompanying paper (on export competitiveness and exchange rate policy).

D. Key Structural Reforms

34. **The banking supervision unit will continue monitoring the implementation of the *contrats programmes* and prepare the ground for moving government deposits to the central bank.** Some progress has already been made in meeting the obligations of individual banks under these programs, and some key milestones were set for the future.[20] The preparation of the study on the implications of transferring government deposits from

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[18]This could be based on developments in the external sector and external competitiveness.

[19]This perception is based on the predictable behavior of the exchange rate in recent years, as the ouguiya has displayed a fairly smooth depreciating trend vis-à-vis the U.S. dollar.

[20]At year-end, three out of seven commercial banks complied with the loan concentration ratio target for group borrowers, while five out of the seven complied with the individual ratio. The best performers were the recently established banks, which did not have high concentration ratios to start with. However, all banks observed the liquidity and capital adequacy ratios of 20 percent and 10 percent, respectively. It should be noted that two new banks were licensed in 2001, the first is *la Banque du commerce et d'investissement en Mauritanie*, which has its capital now in place and is expected to commence business by end-March 2002. The second is *la Compagnie de banque commerciale*, a joint Tunisian-Mauritanian venture. In addition, several banks increased the number of branches in 2001: BADH from 0 to 4; BMCI from 7 to 10; and BCI from 2 to 5.

commercial banks, originally targeted for end-2001, will be completed by end-June 2002 (a structural benchmark) to determine if and when such a transfer could take place.

35. **A comprehensive restructuring plan of the central bank has been initiated.** This plan aims to improve the efficiency of the BCM's operations and the conduct of monetary policy. It involves identifying departmental needs and redeploying human resources across departments according to newly-established job profiles, starting with the banking supervision and research departments. To avoid expanding the already large size of the BCM, the authorities are seeking external financing to encourage and compensate voluntary departures (MEFP, ¶20).

36. **The authorities began addressing the precarious financial situation of the CNSS, but much remains to be done.** While the increase in the ceiling of the monthly wage used for calculating social security contributions is a step in the right direction, ensuring CNSS's financial sustainability would most likely require an increase in the social contribution rates, which are considered low by regional standards. However, the authorities indicated that a comprehensive strategy would not be adopted before receiving the actuarial study prepared by the International Labor Organization.[21] The staff and officials at the CNSS agreed on the need to reduce CNSS administrative costs through internal restructuring and on the merit of continuous discussions with social partners on prospective reforms (MEFP, ¶32).

37. **In other areas of structural reforms**, the authorities adopted in March the law organizing the distribution of petroleum products. They will prepare a modernization plan for customs by September 2002, based on the Integrated Framework (IF),[22] and continue the work on the determination of customs value in accordance with World Trade Organization rules (MEFP, ¶33).

38. **The trade regime in Mauritania is open and free of restrictions.** Following the completion of the second round of tariff reform in 2000, the tariff rates were reduced to 0, 5, 10, and 20 percent.[23] According to information provided by customs, the average tariff rate was below 10 percent in 2001. Little progress has been made in terms of regional integration at the level of the Arab Maghreb Union, of which Mauritania is a member, and at the level of the Euro-Mediterranean countries' initiative. The authorities do not envisage any new trading arrangements in the near future.

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[21]The authorities received a first draft of the study in late March, but this was not seen by the staff until very recently. Therefore, the staff is not yet in a position to comment on the recommendations of this study.

[22]As a result of the UN's initiative recognizing the importance of export growth as a major contributor to growth in developing countries, the IF was launched to form a cross-cutting component of the PRSP process. The IF formulates a strategy to stimulate trade and offer appropriate technical assistance. Mauritania's IF was completed in 2001 and highlights reform efforts made in recent years to improve competitiveness and integration with the world economy, and the impact of these on poverty reduction.

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

39. **Mauritania's statistical system needs to be strengthened.** Recent efforts have focused on updating the poverty profile and supporting the poverty reduction strategy. Work has begun on the construction of a new CPI, the publication of which is now targeted for early 2003. However, national accounts data remain very weak, and BOP data have important gaps and are in need of a significant upgrade. The authorities have expressed interest in receiving Fund technical assistance, but they also need to implement the recommendations of previous technical assistance missions.[24]

V. Poverty Reduction Strategy and the Completion Point

40. **The authorities prepared the first PRSP progress report in a broad participatory process.** The report depicts a successful first year implementation of the PRS, identifies major constraints associated with Mauritania's vulnerability to external shocks and its limited implementation capacity, updates the social and poverty targets for 2004 in light of the outcome of the 2000 household survey, and sets out a number of actions to reach these objectives and overcome some of the difficulties faced during the first year of implementation. Bank and Fund staff generally agree with the overall assessment of the report as indicated in the joint staff assessment (JSA).

41. **In view of the significant progress made against the HIPC completion point triggers and Mauritania's strong track record under the PRGF arrangement, the authorities hope to reach soon the completion point under the enhanced HIPC Initiative.**[25] Bank and Fund staff shared the authorities' assessment and discussed the status of the completion point triggers and noted, with the benefit of hindsight, that indeed some of the social targets set at the decision point were unrealistic—as demonstrated in the more realistic targets set in the PRSP in early 2001, which are still in line with the Millennium Development Goals (MDG) objectives (MEFP, ¶31). As for banks' credit concentration ratios, the BCM adopted an alternative approach to meet this condition on a bank-by-bank basis with the support of the staff and the Executive Board. Regarding SOMELEC, and in view of the fact that there is only one company left in the bidding process, the chances of a successful privatization soon are low. However, the authorities reaffirmed their commitment to complete this operation as soon as the market conditions of the international energy sector improve.[26] Bank and Fund staff are of the view that delaying SOMELEC's privatization by a

[24]In January 2002, a monetary and financial statistics mission assisted the BCM in revising its data compilation procedures and set the groundwork for the implementation of the Fund's Monetary and Financial Statistics Manual.

[25]In concluding discussions on the fourth review under the PRGF arrangement, and notwithstanding the nonobservance of some floating conditions, which may have been too ambitious, Executive Directors hoped that Mauritania would reach the completion point expeditiously and before mid-2002 and expected the Fund to show flexibility in this matter.

[26]On their part, the authorities have taken all the necessary measures to bring the company to the point of sale. These included the adoption of the electricity code, the law on privatization, and the law on multi-sectoral regulation. The bidding documents were completed by September, and the prequalification for bids was finished by end-November 2001. The World Bank is providing technical assistance, in addition to a partial guarantee to encourage private investors and facilitate the privatization.

few weeks is a preferred option over selling it at a low (below market) price. The completion point document describes in detail the status of these triggers.

VI. Safeguards Assessment

42. **Under its current arrangement with the Fund, Mauritania is subject to the transitional procedures governing safeguards assessments.** These procedures require the BCM to demonstrate, by providing certain documentation to Fund staff, that it publishes annual financial statements that are independently audited in accordance with internationally accepted standards (the "external audit mechanism").

43. **Although the BCM has taken positive steps in engaging independent external audits, the staff has concluded, on the basis of the documentation provided, that the BCM's external audit mechanism may not be fully adequate at present.** In particular, the process of selecting auditors appears arbitrary, and the BCM's audited financial statements are not published. Furthermore, the audit opinions were qualified on the basis of significant adjustments required to bring the BCM's financial statements in line with local standards. The staff therefore recommends that the BCM establish a formal process for appointing auditors (structural performance criterion for end-June 2002), publish its full audited financial statements (structural performance criterion for end-September 2002), and take steps to resolve the reasons for the audit qualifications (MEFP, ¶21).

VII. Program Financing, Monitoring, and Reporting

44. **Mauritania's financing gap in 2002 is fully financed by HIPC debt relief, concessional loans from international financial institutions, and the Fund.** The impact of the September 11 events on the balance of payments in 2001 was limited, and in view of the apparent recovery in the world economy, no obvious risks exist for 2002 that would widen the gap. However, limited downside risks could be accommodated through the comfortable level of international reserves as targeted under the program.

45. A set of **quantitative performance criteria** for end-June 2002 and indicative quantitative targets for end-September and end-December 2002 are proposed (MEFP, Table 3). A number of **structural conditions covering the whole year,** along with **two prior actions** that aim at addressing two problem areas, monetary policy and implementation capacity are proposed (MEFP, Table 4).

46. Following the streamlining of conditionality at the time of the third review, the Fund assumed the responsibility of some structural conditions that fall in the Bank's area since there was no Bank's lending vehicle at that time to take on these structural conditions (Box 1 and Table 8). The Bank's Poverty Reduction Support Credit (PRSC) was originally targeted for late 2001 and later postponed to July–August 2002. However, it now appears that the PRSC would not be in place before end-2002, following the preparation of the CFAA.[27]

[27] The Bank will be providing financial support through a Country Assistance Strategy (CAS) that would include a PRSC beginning in 2003. The amount of assistance under the proposed three-year CAS is US$150 million, with a financial sector reform package of US$15 million projected for fiscal year 2003.

Since the current PRGF arrangement will expire by the end of the year (see below), this would not be a problem. However, the staffs agreed that in case there is a successor PRGF arrangement, it would be crucial to have a PRSC in parallel beginning in early 2003.

47. **To allow for the completion of this review, the authorities request an extension of the PRGF commitment period by five months.** The sixth and last review under the PRGF arrangement will be completed before December 20, 2002, on the basis of end-June quantitative performance criteria, and structural performance criteria through September 2002.

VIII. Staff Appraisal

48. **Mauritania has established a commendable track record under its PRGF-supported program and has moved quickly on the implementation of its PRS.** Despite the recent slowdown in the demand for Mauritania's mining exports and the adverse weather conditions on the agricultural sector in 2001, growth has remained relatively solid, the foreign reserves position has been comfortable, and inflation has been well contained.

49. **The poverty situation, although improving, remains the key challenge for the future.** While the results of the 2000 household survey show some improvements in poverty and social indicators, it is evident that considerable and persistent efforts are needed to improve these indicators and ensure a sustained and equitable reduction in poverty. Lessons should also be drawn from the first-year implementation of the PRS, so that the obstacles and difficulties encountered could be overcome in the years to come.

50. **Achievements under the PRGF-supported program owe much to the government's sound macroeconomic and structural policies.** The fiscal position has been placed on solid footing, the exchange rate has become more responsive to market forces, and adhering to the monetary program has helped maintain macroeconomic stability. Sustained structural reforms in all areas have created a good environment for investment and attracted over the last two years foreign investors in the telecommunications sector, which has experienced a significant leap forward.

51. **However, macroeconomic policy making is in need of better coordination to enhance its effectiveness.** With the exchange rate responding flexibly to market signals, the role of monetary policy in containing liquidity and in maintaining the hard-won macroeconomic stability is paramount. In particular, the monetary authorities should bolster their technical capacity to use indirect monetary instruments more proactively—something that has been missing so far. Furthermore, the authorities should stand ready to raise interest rates to stem growing pressure on the ouguiya and any potential emergence of inflationary pressures.

52. **While the improvements in the foreign exchange market are welcome, the central bank needs to improve further exchange rate policy and foreign exchange cash management.** The BCM's intervention in the exchange market is useful to ensure orderly market conditions and provide signals to the still underdeveloped market with a view to influencing market expectations that are not based on economic fundamentals. Ensuring that the demand for foreign exchange cash, including seasonal variations, can be met by the

central bank through its holding of sufficient quantities of notes should lead to a narrowing of the spread between the cash rate and the transfer rate.

53. **The staff welcomes the authorities' commitment to implement measures in 2002 to upgrade poverty expenditure tracking and implementation capacity.** Transparency and accountability of public spending is one of the core reform areas for the coming period, and tracking all expenditures should be the ultimate objective of the fiscal authorities. The staff also welcomes the forthcoming joint Bank-Fund mission combining fiscal ROSC and the Bank's CFAA, the first such collaboration between the Bank and the Fund in this area. Considerable efforts should be devoted to improving implementation capacity, which remains a major impediment to project execution and poverty reduction.

54. **The outlook for the economy is relatively favorable, but important risks remain.** Given Mauritania's vulnerability to exogenous shocks, essentially emanating from its heavy dependence on two main export commodities (iron ore and fish), and the uncertain prospects concerning external demand and commodity prices, macroeconomic policies will need to remain vigilant and mindful of the attendant risks. In this context, maintaining a relatively high level of foreign reserves is essential for absorbing, at least partly, the impact of any potential exogenous shocks.

55. **Further progress with structural reforms will be key to sustained growth and poverty reduction.** In particular, the authorities should follow through on improving banking supervision, reforming customs, and proceeding with privatization. With the recent completion of the actuarial study of the CNSS, the staff reiterates its previous recommendation on the need to address the parlous financial state of the CNSS in the very near future.

56. **Effective implementation of macroeconomic and structural policies requires reinforcement of human resources in different government agencies.** The restructuring of the central bank, which has recently been initiated, is a first step in this direction. However, the staff is of the view that no net additional hiring should take place to avoid further swelling of the size of the central bank. Voluntary departures, the financing for which is being sought, should be encouraged.

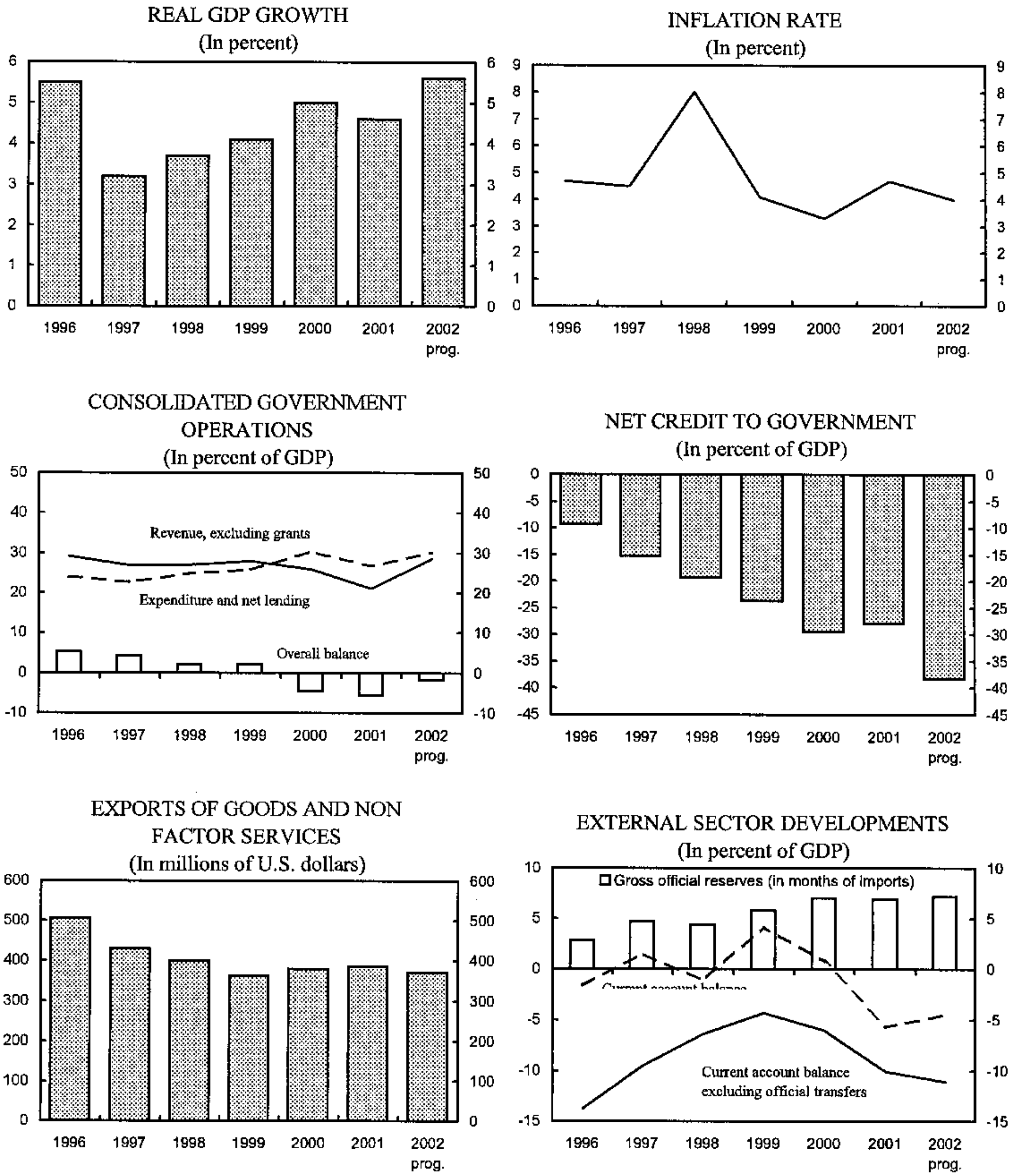
57. **The authorities have implemented the key conditions established for reaching the completion point under the enhanced HIPC Initiative.** Although meeting some conditions will take longer than originally anticipated, the staff sees merit in reaching the completion point now, given the very strong record established under the PRGF-supported program, and the credibility of the authorities' commitment to meet some of the overly ambitious social targets set at the decision point as soon as feasible.

58. **Strengthening Mauritania's economic and financial data is essential,** including in priority areas such as the national account data, the balance of payments, and the consumer price index. In addition, the central bank should act on the recommendations made by the Fund regarding safeguards assessment, particularly the appointment of external auditors and the publication of its audited financial statements.

59. **On the strength of performance in 2001 and the policies set out for 2002, the staff recommends completion of the fifth review under the PRGF arrangement and supports the authorities' request for waivers.** The staff also supports the request for an extension of the commitment period under the PRGF arrangement until December 20, 2002, to allow time for the seventh and final disbursement under the arrangement to be made.

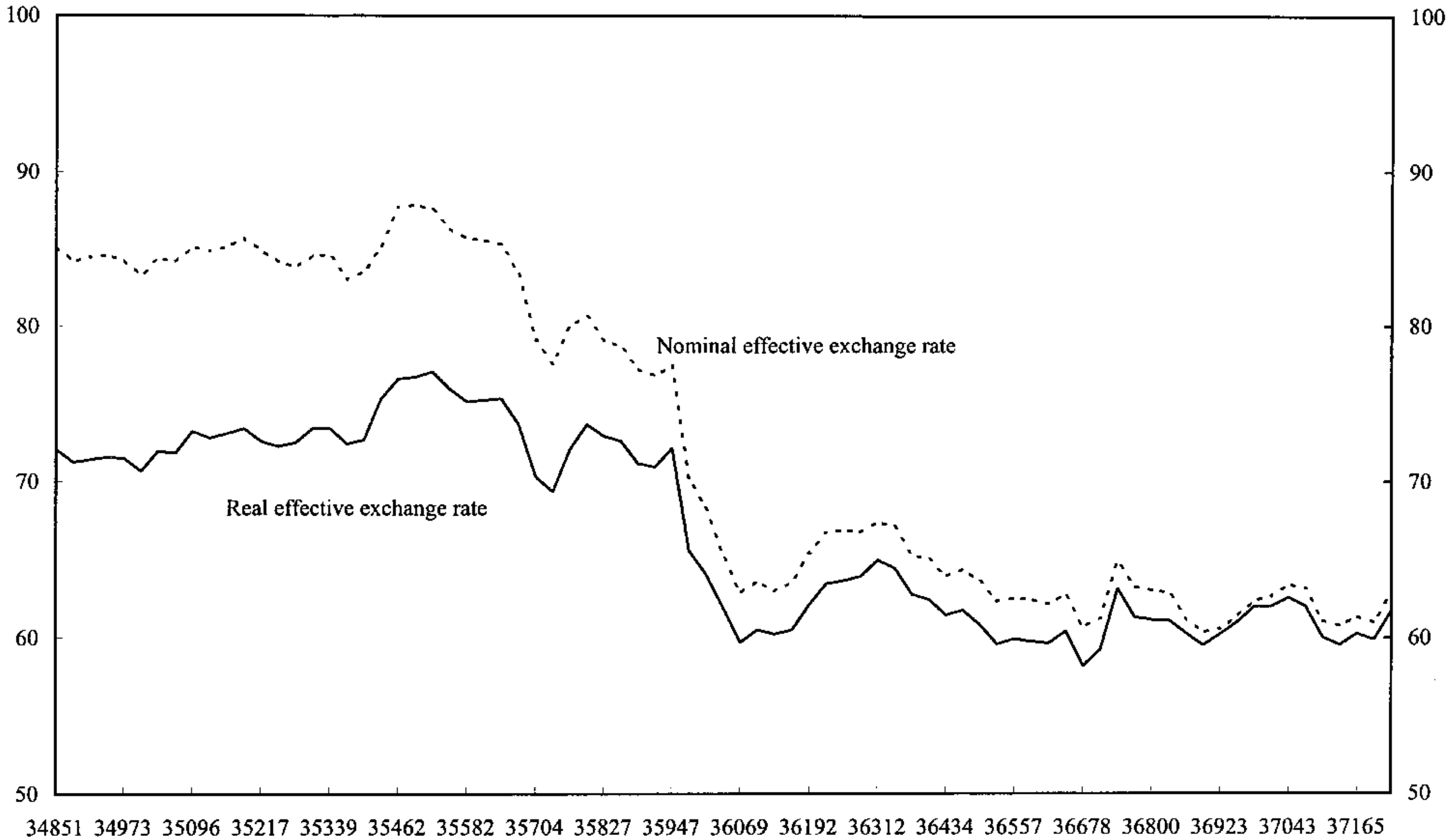
60. It is proposed that Mauritania remain on the standard 12-month cycle for Article IV consultations.

Figure 1
Mauritania: Selected Economic Indicators, 1996–2002



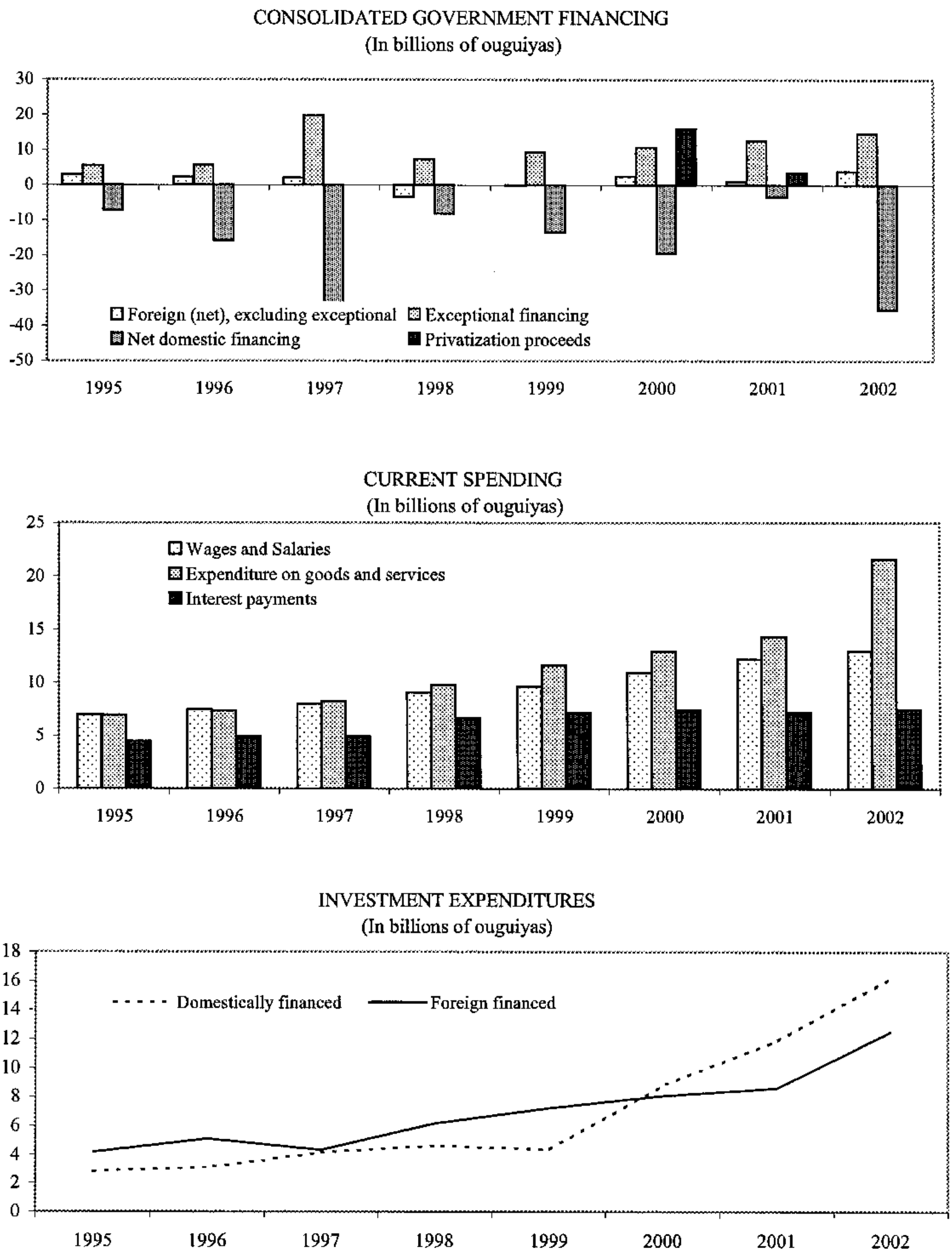
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 2. Mauritania: Real and Nominal Effective Exchange Rates, June 1995–December 2001
(1990=100)



Source: International Monetary Fund, Information Notice System.

Figure 3
Mauritania: Consolidated Government Operations, 1995–2002



Source: Mauritanian Authorities; and Fund staff estimates.

Table 1. Mauritania: Status of Implementation of the Structural Performance Criteria and Benchmarks Under the PRGF-Supported Program for 2001–02

	Structural Performance Criteria and Benchmarks	Timetable	Status
A.	**Structural Performance Criteria**		
1.	Amend the Investment Code so as to eliminate all tax incentives provided for under the Code	November 2001	Met
2.	Complete the privatization of SOMELEC	April 2002	Not met
3.	Put in place an expeditious VAT refund system together with a system of deferred VAT payments on capital good imports	December 2001	Met
B.	**Structural Benchmarks**		
1.	Prepare the terms of reference for the computerization of expenditures on goods and services	December 2001	Not met
2.	Impose an interest rate of 3 percent on government deposits held at commercial banks	January 2002	Met
3.	Develop a medium-term expenditure framework for the remaining priority sectors (roads, infrastructure, rural and urban development)	March 2002	Delayed 1/
4.	Raise the ceiling on taxable wages for social security contributions to CNSS after consultation with social partners	March 2002	Met

1/ Proposed to be converted to a structural PC for June 2002, after discussion with the Bank and the authorities during the February 2002 mission.

Table 2. Mauritania: Quantitative Performance Criteria for 2001 1/

	Dec-00	Performance Criteria Jun-01			Performance Criteria Dec-01						
	Actual Stock	Target	Adjusted Target	Actual	Target	Adjusted Target	Target Fully Adjusted for Delay in 2001 Fishing Payment	Actual	Program Target Stock	Adjusted Target Stock	Actual Stock
					(In millions of ouguiyas)						
Ceiling on net domestic assets of the central bank	-12,565	3,092	1,498	-3,137	-15,134	-13,919	5,096	-756	-27,699	-26,484	-13,321
Net domestic financing of the budget	...	-2,285	-3,653	-5,608	-23,170	-21,032	-2,017	-3,368	...	...	...
					(In millions of U.S. dollars)						
New nonconcessional external borrowing contracted or guaranteed by the government or the central bank	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.9	7.9	7.9
Ceiling on the accumulation of new arrears on public or publicly guaranteed external debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves of the central bank	86.4	-10.1	-3.7	12.5	64.5	59.7	-15.7	5.0	150.9	146.1	91.4
Memorandum items:											
					(In millions of ouguiyas)						
Reserve money	9,222	554	554	15	1,142	1,142	0.0	501	10,364	10,364	9,723
Tax revenues	...	16,981	16,981	15,777	37,011	37,011	0.0	36,403	...	...	...

Sources: Mauritanian authorities; and Fund staff estimates.

1/ For definitions of variables and the adjusters, see the attached technical memorandum of understanding (TMU). Targets are set on the basis of cumulative flows from the beginning of the year; unless otherwise noted.

Table 3. Mauritania: Selected Economic and Financial Indicators, 1999–2003

	1999	2000	Rev. Prog. 2001	Actual 2001	Prog. 2002	Proj. 2003
	(Period percentage changes; unless otherwise noted)					
National income and prices						
GDP at constant prices	4.1	5.0	5.2	4.6	5.1	5.5
GDP deflator	2.1	6.1	6.2	5.0	3.6	3.7
Consumer price index (period average)	4.1	3.3	5.0	4.7	4.0	3.8
Consumer price index (12 months, end of period)	1.9	5.6	2.6	1.7	5.6	3.5
External sector						
Exports, f.o.b. (in U.S. dollars)	-7.4	7.8	3.3	-3.9	-4.6	5.6
Imports, f.o.b. (in U.S. dollars)	-14.9	12.7	18.4	3.9	7.2	4.8
Export volume	5.6	-0.4	-0.6	-6.3	4.4	3.9
Import volume	-11.3	-2.5	24.7	10.7	9.0	3.2
Terms of trade	-10.7	-6.3	7.8	9.2	-7.2	0.0
Nominal effective exchange rate	1.0	-3.7	...	...	...	...
Real effective exchange rate	1.1	-0.9	...	...	...	...
Money and credit						
Money and quasi-money 1/	5.1	12.8	12.4	17.3	9.1	...
Net foreign assets 1/	24.1	58.1	49.5	2.2	66.6	
Net domestic assets 1/	-19.0	-45.3	-37.1	15.1	-57.5	...
Domestic credit 1/	-10.1	-26.0	-32.6	21.9	-54.2	...
Credit to the government 1/	-39.5	-62.5	-67.3	-8.8	-93.1	...
Credit to the economy 1/	29.4	36.5	34.7	30.8	38.9	...
Velocity of money	6.9	6.8	6.8	6.3	6.3	...
Interest rate 2/	10–11	8–9	...	8.0	...	...
	(In percent of GDP)					
Investment and savings						
Investment 3/	17.5	30.3	28.7	26.7	24.7	26.9
National saving	21.7	31.1	27.5	21.0	28.5	21.2
Consolidated government operations						
Revenue, excluding grants	27.9	25.9	28.8	21.1	37.1	28.8
Expenditure and net lending	25.7	30.3	26.9	26.7	30.8	31.0
Overall surplus or deficit (-) excluding grants 4/	2.2	-4.5	1.9	-5.6	6.3	-2.2
Primary balance excluding grants (deficit -) 4/	5.7	-1.2	5.0	-2.7	9.1	0.4
External sector						
Current account balance						
Excluding official transfers	-4.3	-6.0	-8.5	-10.0	0.0	-9.4
Including official transfers	4.2	0.8	-1.2	-5.7	3.8	-5.7
Debt outstanding	212.0	189.5	...	...	...	...
Debt service ratio before rescheduling 5/	36.4	36.3	33.1	31.4	27.0	24.6
Debt service ratio after rescheduling 5/	22.4	24.0	19.0	15.5	12.3	11.4
Gross official reserves (in months of imports of GNFS)	5.8	7.0	7.5	6.9	8.0	7.6
Memorandum items:						
Ouguiya/US$ exchange rate (period average)	209.5	240.0	...	254.3	...	...
Current account balance						
excluding official transfers (in millions of U.S. dollars)	-41.4	-58.1	-82.6	-96.9	0.2	-97.3
Nominal GDP (in billions of ouguiyas)	200.9	223.7	250.0	245.6	267.3	292.5

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

1/ In percent of broad money at the beginning of the period, adjusted starting from 2000 to include two additional banks.
2/ Interest rates on 12 months passbook savings.
3/ The sharp increase in 2000 reflects mainly new investments in the telecom sector, an increase in poverty reduction investments financed by debt relief under the HIPC, and a rebound in SNIM investment.
4/ The increase in the deficit in 2000 is due mainly to the cash advance granted by the government to the telecom company Mauritel (for details see Box 1 in EBS/00/287, 12/28/00).
5/ Until 1999, these ratios include Paris Club rescheduled debt on Naples terms. For the years 2000, 2001, and 2002, it includes rescheduling under Cologne terms by Paris Club creditors, comparable treatment by non-Paris Club bilaterals and HIPC interim assistance, as reported in Mauritania's decision point document. For 2003, it reflects assumed debt relief under Cologne terms after the completion point.

Table 4. Mauritania: Balance of Payments, 1999–2006
(In millions of U.S. dollars)

	1999 Actual	2000 Actual	2001 Rev. Prog.	2001 Provisional	2002 Program	2003	2004	2005	2006
Trade balance	28.4	15.9	-34.0	-11.5	-53.1	-53.0	-77.8	-90.0	-93.9
Exports	333.1	359.1	356.2	345.1	329.3	347.8	375.3	402.3	434.8
Of which: iron ore	177.1	202.2	202.9	188.3	173.9	187.4	209.1	226.6	237.1
Imports, fob	-304.7	-343.2	-390.2	-356.7	-382.4	-400.7	-453.1	-492.4	-528.7
Of which: petroleum products	-61.0	-99.4	-100.3	-94.5	-105.1	-107.8	-111.0	-118.1	-126.1
Services (net) 1/	-112.2	-110.8	-81.3	-133.3	3.1	-82.6	-80.2	-89.9	-100.2
Nonfactor services	-136.0	-130.6	-139.0	-110.5	-129.5	-146.7	-147.5	-159.2	-171.3
Factor services 1/	23.8	19.8	57.7	-22.8	132.6	64.1	67.3	69.3	71.1
Of which: fish license payment	57.2	49.5	76.8	0.0	154.8	77.9	79.1	79.1	79.1
Of which: interest payments due	-36.6	-39.8	-33.7	-33.2	-33.2	-25.9	-24.5	-23.6	-22.7
Private unrequited transfers (net)	42.4	36.9	32.8	47.9	50.1	38.2	56.7	60.0	64.8
Current account (excl. official transfers)	-41.4	-58.1	-82.6	-96.9	0.2	-97.3	-101.3	-119.9	-129.3
Official transfers 1/	81.4	66.0	70.9	42.2	36.9	38.4	35.8	38.1	41.6
Current account (incl. official transfers)	40.0	7.9	-11.7	-54.7	37.1	-59.0	-65.5	-81.8	-87.7
Capital account	-58.9	3.2	-26.0	-42.8	-38.0	-17.8	-7.3	-1.2	-0.5
Direct investment 2/	0.0	41.8	38.7	14.4	17.7	18.7	19.9	21.2	22.7
Official medium- and long-term loans	-38.2	-8.4	-5.5	-29.7	-31.7	-32.7	-27.2	-25.2	-23.1
Disbursements	48.0	78.8	70.1	45.0	42.6	37.9	34.1	36.8	39.6
Principal due	-86.3	-87.2	-75.5	-74.7	-74.3	-70.5	-61.3	-62.0	-62.8
Other capital and errors and omissions	-20.6	-30.2	-59.2	-27.4	-24.0	-3.7	0.0	2.8	0.0
Overall balance	-18.8	13.3	-37.7	-97.5	-0.9	-76.7	-72.8	-83.0	-88.2
Financing	18.8	-13.3	-19.4	45.9	-57.1	-18.1	-47.1	-34.7	-26.7
Net foreign assets (excluding arrears)	-23.4	-61.9	-56.4	4.6	-92.1	-18.1	-47.1	-34.7	-26.7
Central bank	-24.1	-61.3	-56.3	2.4	-90.1	-18.1	-47.1	-34.7	-26.7
Assets	-21.0	-57.7	-61.9	-3.3	-85.6	-1.0	-33.2	-22.5	-15.9
Liabilities	-3.1	-3.5	5.6	5.6	-4.5	-17.1	-13.9	-12.1	-10.8
Of which: use of Fund resources (net)	1.3	-3.1	10.0	10.0	-0.4	-17.1	-13.9	-12.1	-10.8
Commercial banks (net)	0.7	-0.6	-0.1	2.2	-2.0	0.0	0.0	0.0	0.0
Exceptional financing	42.2	48.6	37.0	41.3	35.0	0.0	0.0	0.0	0.0
Accruals (+) / reductions (-) of arrears 3/	30.6	-187.5	10.7	13.3	7.5	0.0	0.0	0.0	0.0
Debt rescheduling and cancellation 4/	11.6	236.1	26.3	28.0	27.5	0.0	0.0	0.0	0.0
Financing gap 5/	0.0	0.0	57.1	51.5	58.0	94.8	119.9	117.7	114.9
HIPC assistance 6/	...	...	27.9	33.4	35.3	69.1	55.7	53.8	52.0
Other identified resources 7/	...	...	29.2	18.2	22.7	25.4	25.5	25.5	25.5
Excess (+) / shortfall (-) in financing	...	...	-0.1	0.0	0.0	-0.3	-38.7	-38.4	-37.4
Memorandum items:									
Current account deficit									
Including official transfers (percent of GDP)	4.2	0.8	-1.2	-5.7	3.8	-5.7	-5.9	-6.8	-6.7
Excluding official transfers (percent of GDP)	-4.3	-6.0	-8.5	-10.0	0.0	-9.4	-9.1	-10.0	-9.9
Overall balance (percent of GDP)	-2.0	1.4	-3.9	-10.1	-0.1	-7.4	-6.5	-6.9	-6.8
Gross official reserves (end of period)									
In millions of U.S. dollars	228	255	345	286	372	373	406	429	444
In months of imports of goods and NFS	5.8	7.0	7.5	6.9	8.0	7.6	7.5	7.4	7.0
In months of subsequent year imports	5.4	6.5	7.0	6.3	7.5	7.0	6.9	6.9	6.7
In percent of short term debt (after relief)	271	374	679	642	645	665	716	775	779
In percent of broad money	175	217	244	199	247	...	...	...	...
Debt service ratios 8/									
Before debt relief	36.4	36.3	33.1	31.4	27.0	24.6	21.2	19.5	17.7
After debt relief (excluding arrears' reduction)	22.4	24.0	19.0	15.5	12.3	11.4	10.5	9.7	9.1

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

1/ Includes the fixed part of fishing royalties under the EU fishing agreement. (In earlier presentations, these were included in official transfers.) The 2001 payment was made in 2002.

2/ 2000 and 2001 reflect privatization of telecommunications.

3/ The reduction of arrears in 2000 results from Arab creditors agreeing on rescheduling terms comparable to those agreed with the Paris Club. The 2001 accumulation of arrears reflects debt service due to bilateral creditors who have not yet agreed to rescheduling.

4/ Already agreed. It reflects Paris Club flow rescheduling on Cologne terms from 07/99–06/02, rescheduling on comparable terms from the following Arab funds, FKDEA, FSD, and the Saudi government.

5/ Assumed to be filled with debt relief under the enhanced HIPC initiative by bilateral official and private creditors and by multilateral institutions, as well as by concessional external assistance.

6/ It includes HIPC interim assistance up to 2002 from the IMF, World Bank, and AfDB. (Relief from FADES not yet agreed.) For later years, it includes the effect of HIPC debt reduction at the completion point (expected in the second half of 2002).

7/ In 2002, reflects AfDB and EU.

8/ Excludes debt service on passive debt (debt not claimed by creditors), in percent of exports of goods and services.

Table 5. Mauritania: Consolidated Government Financial Operations, 2000–04

	2000	2001		2002		2003	2004
	Actual	Actual	Revised Program	Budget	Prog.	Proj.	Proj.
	(In billions of ouguiyas)						
Total revenue	58.0	51.8	71.9	78.1	99.2	84.2	89.2
Tax revenue	33.3	36.4	37.0	38.9	38.5	42.1	46.9
Tax on income and profits	10.6	11.3	11.1	11.7	11.8	13.1	14.3
Other direct taxes	0.5	0.6	0.5	0.5	0.5	0.5	0.6
Taxes on goods and services	16.5	18.2	19.1	20.3	20.0	21.6	24.5
Taxes on international trade	5.5	6.1	6.1	6.1	6.0	6.6	7.2
Other	0.8	0.8	0.7	0.7	0.7	0.8	0.8
Nontax revenue	24.6	15.4	34.9	39.2	60.6	42.1	42.3
Fishing royalties and penalties	16.4	5.3	24.8	27.4	48.8	29.7	30.8
Of which:							
EU fishing royalties	12.2	1.1	20.7	22.9	44.1	24.9	25.9
Revenue from public enterprises 1/	4.1	3.6	3.7	5.6	5.7	6.4	5.8
Other 2/	4.0	6.5	6.4	6.2	6.2	5.9	5.7
Expenditure and net lending	68.1	65.6	67.2	82.6	82.4	90.6	99.3
Current expenditures	39.2	42.2	43.1	51.6	51.4	55.6	60.1
Wages and salaries	11.0	12.2	12.2	13.0	13.0	14.6	15.3
Goods and services	13.0	14.3	14.7	21.6	21.6	23.4	26.8
Current transfers	3.6	4.0	4.0	4.4	4.4	4.8	5.3
Military expenditures	4.2	4.4	4.4	4.9	4.9	5.2	5.2
Interest on public debt	7.4	7.2	7.8	7.7	7.5	7.6	7.4
Capital expenditures and net lending	28.7	23.1	23.7	30.7	30.7	34.7	38.9
Fixed capital formation 3/	16.9	20.5	21.6	28.7	28.7	33.4	38.3
Of which:							
Expenditures financed by HIPC interim assistance	2.6	4.2	4.3	8.0	8.0	...	...
Restructuring and net lending 4/	11.8	2.6	2.1	2.0	2.0	1.3	0.6
Other expenditures	0.2	0.4	0.4	0.3	0.3	0.3	0.4
Balance (deficit -)	-10.1	-13.8	4.7	-4.5	16.7	-6.4	-10.1
Balance excluding Mauritel operation (deficit -) 5/	-1.3	-14.7	3.8	-6.1	15.2	-8.6	-12.2
Financing	10.1	13.8	-4.7	4.5	-16.7	...	...
External (net)	2.5	1.0	1.8	4.4	3.9	...	...
Grants	2.7	4.0	6.0	7.1	7.1	...	...
Net borrowing	-0.2	-3.1	-4.2	-2.7	-3.2	...	...
Domestic (net)	-19.4	-3.4	-23.2	-14.5	-35.5	...	...
Banking system	-18.2	-2.9	-22.2	-14.0	-36.0	...	...
Nonbank	-1.2	-0.5	-1.0	-0.5	0.5	...	...
Exceptional external financing	10.8	12.6	13.0	14.5	14.8	...	...
Proceeds from sale of cellular licenses	12.8	0.0	0.0	0.0	0.0	...	...
External debt assumed from Mauritel	2.7	0.0	0.0	0.0	0.0	...	...
Privatization revenue	0.6	3.7	3.6	0.0	0.0	...	...
Memorandum item:							
Total HIPC assistance	11.9	17.0	17.7	19.2	19.5	...	...

Table 5. Mauritania: Consolidated Government Financial Operations, 2000–04

	2000	2001		2002		2003	2004
	Actual	Actual	Revised Program	Budget	Prog.	Proj.	Proj.
				(In percent of GDP)			
Revenue and grants	27.1	22.7	31.2	31.2	39.8	31.3	30.7
Total revenue excluding grants	25.9	21.1	28.8	28.5	37.1	28.8	27.7
Tax revenue	14.9	14.8	14.8	14.2	14.4	14.4	14.6
Non tax revenue	11.0	6.3	14.0	14.3	22.7	14.4	13.1
Grants	1.2	1.6	2.4	2.6	2.7	2.5	3.0
Expenditure and net lending	30.4	26.7	26.9	30.2	30.8	31.0	30.9
Current	17.5	17.2	17.2	18.9	19.2	19.0	18.7
Capital formation	7.5	8.3	8.6	10.5	10.7	11.4	11.9
Other (including net lending)	5.4	1.2	1.0	0.8	0.9	0.6	0.3
Balance excluding grants (deficit = -)	-4.5	-5.6	1.9	-1.6	6.3	-2.2	-3.1
Balance excluding grants and 2001 fishing royalties (deficit = -)	-4.5	-5.6	-5.9	-1.6	-1.4	-2.2	-3.1
Balance including grants (deficit = -)	-3.3	-4.0	4.3	1.0	8.9	0.3	-0.1
Primary balance	-1.2	-2.7	5.0	1.2	9.1	0.4	-0.8
Additional revenue from HIPC relief	1.0	1.8	1.9	1.7	1.8	1.8	1.3
Social expenditures	7.5	8.2	8.5	11.1	11.4	...	...
Education expenditures	4.5	4.6	4.5	5.7	5.8	5.8	5.9
Health expenditures	1.6	2.0	2.1	3.3	3.4	3.4	3.4
Poverty reduction expenditures	1.3	1.7	1.9	2.2	2.2	...	...

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

1/ It includes SDR 3.76 millions (for 2000), SDR 6.16 millions (for 2001), and SDR 6.96 millions (for 2002) of HIPC relief from the IMF transferred to the budget by the Central Bank.

2/ For 2000–02, it includes the transfer to the budget of debt service relief granted on public enterprises debt, as requested under the HIPC Initiative.

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

4/ It includes a shareholder's advance to Mauritel for UM 9.4 billion and a participation in the capital increase of Chinguetti Bank for UM 750 million in 2000.

5/ The effects of Mauritel's operations in 2000 are described in Box 1 (EBS/00/287, 12/28/00). For 2001, the government receives additional revenues for UM 986 million (UM 538 million in interest payment on shareholder's advance and UM 448 million equivalent to 1/15 of the value of the license) and faces increased accrued interest of UM 81 millions on the debt taken over. The net effect is positive for UM 905 million.

Table 6. Mauritania: Summary Monetary Accounts, 2000–02

(In millions of ouguiyas; end of period)

	2000	2001					2002	
		June		Dec.			Dec.	
		Prog. 1/	Actual 1/	Revised Prog. 1/	Actual 1/	Actual	Proj. 2/	Prog. 2/
I. Monetary authorities								
Net foreign assets	21,787	19,249	24,939	38,063	23,044	24,250	47,711	48,174
Assets	71,429	70,715	74,270	87,046	72,248	76,028	97,017	98,766
Liabilities	-49,642	-51,465	-49,331	-48,983	-49,204	-51,778	-49,305	-50,592
Of which:								
Use of Fund credit	24,711	...	26,461	...	27,771	27,771	...	...
Net domestic assets	-12,565	-9,473	-15,702	-27,699	-13,321	-14,527	-35,938	-37,564
Net credit to the government	-51,604	-48,512	-53,955	-65,952	-51,501	-51,501	-73,030	-74,538
Claims	16,912	16,912	16,912	16,912	16,912	16,912	16,912	16,912
Deposits	-68,516	-65,424	-70,867	-82,864	-68,413	-68,413	-89,942	-91,450
Credit to banks	1,539	1,539	1,539	1,539	1,539	1,539	1,539	1,539
Other items net	37,500	36,206	35,716	35,716	35,663	34,457	34,554	34,457
Reserve Money	9,222	9,776	9,237	10,364	9,723	9,723	11,773	10,610
Currency in circulation	6,402	6,986	6,955	7,407	6,688	6,688	8,413	7,298
Bank reserves	2,820	2,790	2,282	2,958	3,035	3,035	3,360	3,312
II. Monetary Survey								
Net foreign assets	24,073	21,573	27,220	40,383	24,781	26,078	49,451	50,533
Central Bank	21,787	19,249	24,939	38,063	23,044	24,250	47,711	48,174
Commercial banks	2,286	2,324	2,281	2,319	1,737	1,828	1,740	2,359
Net domestic assets	8,878	13,359	7,805	-3,350	13,869	12,572	-7,386	-8,357
Domestic credit	-6,027	-1,546	-5,623	-16,778	1,203	1,203	-19,581	-19,726
Net credit to the government	-65,807	-67,792	-71,726	-87,977	-68,714	-68,714	-101,936	-104,686
Claims	13,790	12,717	13,504	12,273	13,829	13,829	9,217	10,781
Deposits	-79,597	-80,508	-85,230	-100,250	-82,543	-82,543	-111,153	-115,468
Credit to private sector	59,780	66,245	66,103	71,199	69,917	69,917	82,355	84,960
Other items net	14,905	14,905	13,428	13,428	12,666	11,369	12,195	11,369
Broad money	32,951	34,932	35,025	37,033	38,650	38,650	42,065	42,176
Currency in circulation	6,402	6,986	6,955	7,407	6,688	6,688	8,413	7,298
Demand deposits	17,749	...	18,640	...	21,033	21,033	...	...
Time and savings deposits	8,800	...	9,430	...	10,929	10,929	...	...
Memorandum items:								
Reserve money 2/	1.5	1.7	0.0	3.5	1.5	1.5	3.8	0.7
Broad money 2/	12.8	6.0	6.3	12.4	17.3	17.3	13.6	9.1
Credit to private sector 2/	36.5	19.6	19.2	34.7	30.8	30.8	30.1	38.9
Reserve money 3/	4.9	...	...	12.4	5.4	5.4	21.1	9.1
Broad money 3/	12.8	...	...	12.4	17.3	17.3	8.8	9.1
Credit to private sector 3/	21.7	...	...	19.1	17.0	17.0	17.8	21.5
Money multiplier	3.6	3.6	3.8	3.6	4.0	4.0	3.6	4.0
Velocity of broad money	6.80	6.75	...	6.75	6.34	6.34	6.50	6.34
Outstanding treasury bills/bonds	16,887	...	17,939	...	18,697	18,697	...	...
Issued for bank restructuring	12,547	...	12,547	...	12,547	12,547	...	...
Issued through auction	4,340	...	5,392	...	6,150	6,150	...	...
Of which:								
To banks	3,680	...	3,405	...	5,950	5,950	...	...
To nonbanks	660	...	595	...	200	200	...	...

Sources: Mauritanian authorities; and Fund staff estimates.

1/ Based on an exchange rate of US$1 = UM 252.3 (end-December 2000 actual exchange rate).
2/ Based on an exchange rate of US$1 = UM 265.5 (end-December 2001 actual exchange rate).
3/ As a percentage of beginning period's broad money.
4/ Year-on-year growth.

Table 7. Mauritania: Macroeconomic Framework, 1999–2006

(In percent of GDP; unless otherwise indicated)

	1999	2000	2001 Rev. Prog.	2001 Act. 1/	2002	2003	2004	2005	2006
Economic growth and prices									
Real GDP (percentage change)	4.1	5.0	5.2	4.6	5.1	5.5	6.1	6.4	6.7
Nominal GDP (percentage change)	6.2	11.3	11.8	9.8	8.9	9.4	10.0	10.2	10.6
GDP implicit deflator (percentage change)	2.1	6.1	6.2	5.0	3.6	3.7	3.6	3.6	3.6
Consumer price index (annual percentage change, period average)	4.1	3.3	5.0	4.7	40.0	3.8	3.5	3.5	3.5
Gross domestic expenditures									
Consumption	93.7	81.6	89.0	86.0	94.0	92.4	92.4	92.2	92.4
Government	15.2	17.3	15.4	15.6	18.4	18.4	18.4	17.8	17.7
Nongovernment 2/	78.5	64.3	73.7	70.3	75.6	74.0	74.0	74.3	74.7
Gross fixed investment	17.5	30.3	28.7	26.7	24.7	26.9	27.8	28.5	27.9
Government	5.8	7.5	8.6	8.3	10.7	11.4	11.9	12.2	12.2
Nongovernment 2/ 3/	11.8	22.7	20.0	18.3	13.9	15.5	15.9	16.3	15.7
Private	5.6	10.2	10.1	10.0	9.2	9.7	10.4	11.0	11.4
Gross national savings	21.7	31.1	27.5	21.0	28.5	21.2	21.9	21.7	21.2
Government	10.1	4.7	10.9	2.5	16.9	8.6	8.4	8.2	7.5
Nongovernment 2/	11.6	26.4	16.6	18.5	11.5	12.5	13.5	13.6	13.7
Current account (including official transfers)	4.2	0.8	-1.2	-5.7	3.8	-5.7	-5.9	-6.8	-6.7
Net exports of goods and services	-11.2	-11.8	-17.7	-12.6	-18.6	-19.3	-20.2	-20.7	-20.4
Exports of goods and services	37.9	40.7	40.0	40.0	37.8	37.8	37.8	37.6	37.6
Imports of goods and services	49.1	52.5	57.7	52.6	56.4	57.1	58.1	58.3	57.9
Net factor income	2.5	2.0	5.9	-2.4	13.5	6.2	6.0	5.8	5.5
Net transfers	12.9	10.6	10.6	9.3	8.9	7.4	8.3	8.2	8.2
Memorandum items:									
Nominal GDP (in billions of ouguiyas)	200.9	223.7	250.0	245.6	267.3	292.5	321.7	354.5	392.0
Government revenue, excluding grants	27.9	25.9	28.8	21.1	37.1	28.8	27.7	26.7	25.7
Government expenditures	25.7	30.3	26.9	26.7	30.8	31.0	30.9	30.9	30.5
Overall government balance	2.2	-4.5	1.9	-5.6	6.3	-2.2	-3.1	-4.2	-4.8

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

1/ The delayed payment of the 2001 fishing royalties explains the uneven movements in gross national saving, government balance and saving, and the current account.

2/ Includes public enterprises with SNIM.

3/ The decline in the share of non-government investment to GDP reflects the decline in public enterprises' share which is partially offset by the increase in private sector investment share over the period 2000–05.

Table 8. Mauritania: Status of Structural Measures that were Dropped Following the Streamlining of Conditionality in May 2001 1/

	Structural Measures	Status
A.	**Measures monitored by the Fund**	
	1. Set up and maintain a mechanism for petroleum product prices that adjusts domestic retail prices automatically every quarter in addition, every time international oil price changes exceed +/- 5 percent.	Met
	2. Strengthen the Customs Inspection Unit and install a database linking it to the pre-shipment inspection company.	In progress 2/
	3. Adopt the law organizing the distribution of petroleum products and ensuring free entry to the sector.	Met
	4. Complete the evaluation phase of pre-qualification bidding documents for the privatization of SOMELEC.	Met
B.	**Measures monitored by the World Bank**	
	1. Re-examine the municipal import surcharge in light of the conclusions of the municipal taxation study, with a view to abolish it while identifying equivalent. 3/	In progress
	2. Implement an action plan to remove administrative barriers constraining private sector development.	Not met

1/ This table only reports on developments since the fourth review in November 2001. Before that, twelve other structural measures which were dropped from the program were adopted by the authorities, and two were abandoned, with the staffs of the Fund and the World Bank agreeing that they were no longer relevant (EBS/01/181, 11/5/01).

2/ This requires having in place the SYDONIA 3 information system which was acquired in late 2001 but is not fully operational yet.

3/ This measure is monitored within the World Bank Urban Development Project as part of an overhaul of the municipal tax system.

Table 9. Mauritania: Work Program for 2002–03

Key dates	Events	Disbursements	
		Millions of SDRs	Cumulative to date
May 22, 2002	Board meeting for Article IV, Fifth Review, JSA, HIPC completion point and request for 5-month extension of PRGF arrangement	6.07	36.42
June 30, 2002	Test date for performance criteria		
July 20, 2002	Original PRGF arrangement expires		
Upon extension of arrangement			
September 2002	Mission for Sixth Review, discussion of 2003 budget, and initiation of discussions for a new PRGF program		
November 2002	Board meeting for completion of Sixth Review	6.07	42.49
December 20, 2002	Extended PRGF arrangement expires		
February 2003	Mission for Article IV and finalization of new PRGF program		

Mauritania: Fund Relations

As of March 31, 2002

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

	SDR Million	% Quota
II. General Resources Account:		
Quota	64.40	100.00
Fund Holdings of Currency	64.41	100.01

	SDR Million	% Allocation
III. SDR Department:		
Net cumulative allocation	9.72	100.0
Holdings	0.10	1.05

	SDR Million	% Quota
IV. Outstanding Purchases and Loans:		
ESAF/PRGF arrangements	79.27	123.08

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	07/21/1999	07/20/2002	42.49	30.35
ESAF	01/25/1995	07/13/1998	42.75	42.75
ESAF	12/09/1992	01/24/1995	33.90	33.90

VI. Projected Obligations to Fund: Under the Repurchase Expectations Assumptions[1] (SDR Million; based on existing use of resources and Present holdings of SDRs):

	Forthcoming				
	2002	2003	2004	2005	2006
Principal	8.5	13.6	11.1	9.7	8.6
Charges/Interest	0.5	0.5	0.5	0.4	0.4
Total	9.0	14.1	11.6	10.1	9.0

[1] Repurchase Obligations: Repurchases in the credit tranches including the Compensatory Financing Facility, are to be completed in 3 ¼–5 years. Repurchases under the EFF are due in 4 ½–10 years.

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	2/2/2000[2]
Assistance committed (in 2000 NPV terms)[3]	
Total assistance (US$ million)	622
Of which: Fund assistance (SDR million)	34.8
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	16.88
Interim assistance	16.88
Completion point[4]	...
Amount applied against member's obligations (cumulative)	12.23

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the Banque Centrale de Mauritanie (BCM) is subject to the transitional procedures with respect to the PRGF arrangement, which was approved on July 21, 1999, and is scheduled to expire on July 20, 2002. The transitional procedures require a review of only the BCM's external audit mechanism. This assessment determines whether the BCM publishes annual financial statements that are independently audited in accordance with internationally accepted standards. The assessment concluded that the BCM's current external audit mechanism may not be adequate in certain respects, and appropriate recommendations have been made to the authorities, as reported in the Staff

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[2] World Bank Board, 1/27/00.

[3] NPV terms at the decision point under the enhanced framework.

[4] Under the enhanced HIPC initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

Report for the 2002 Article IV Consultation and the Fifth Review Under the Poverty Reduction and Growth Facility, and Request for Waivers of Performance Criteria.

IX. Exchange and Trade Arrangements

Mauritania is following a managed floating exchange rate regime and is free of exchange restrictions and multiple currency practices. During the period from January 1974 to December 1995, the official exchange rate of the ouguiya was determined on the basis of a basket of currencies. On December 31, 1995, the official and the free market exchange rates were unified and official transactions were effected at the average exchange rate in the free market. At end-July 1997, the authorities adopted a more active exchange rate policy. And, beginning November 1998, the central bank maintained a weekly announced official exchange rate at which it sold/bought any quantity required to clear the market. On April 17, 2000, Mauritania introduced the "Extended Exchange Market" (EEM) unifying different components of the official exchange market. The rate fixed in the daily sessions of this market is then announced by the central bank as the official exchange rate for the following day. The Fund's Legal Department has determined that this practice is in agreement with Article VIII obligations. On February 28, 2002, US$1 was equivalent to UM 274.

X. Last Article IV Consultation

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

Discussions for the 2001 Article IV consultation were held in Nouakchott during February 17–March 2, 2001. The staff report (EBS/01/59, 4/24/01) was considered by the Executive Board on May 9, 2001. The Executive Board approved the HIPC Decision Point document for Mauritania (EBS/00/5, 1/14/00) on February 2, 2000.

XI. Technical Assistance (since 1998)

1. MAE

a. Money and banking

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

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

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

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

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

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

b. Exchange system

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

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

c. Other

Advisor to the Governor: May 1994–February 2000.

2. FAD

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

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

Long-term resident technical advisor on tax administration and tax system reform for 6 months beginning April 25, 2000, extended by the government requests until April 24, 2001.

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

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

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

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

3. STA

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

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

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

XII. Resident Representative

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

Mauritania: Financial Relations with the World Bank Group

(As of March 13, 2002)

1. **Date of membership, IBRD/IDA**: September 10, 1963

2. **Capital subscription,IBRD**: SDR 46 million
   IDA: US$0.64 million

3. **Status of disbursements:**

	Committed IBRD and IDA	Undisbursed IBRD and IDA
	(In millions of U.S. dollars)	
13 active credits:		
Cultural Heritage	5.0	3.6
Education Sector Development	49.2	48.8
General Education Project	35.0	5.1
Global Distance Learning Center	3.3	3.3
Health Sector Investment	24.0	13.4
Integrated Development Program	38.1	22.2
Mining Sector Capacity Building	15.0	8.0
Energy/Water/Sanitation	9.9	6.8
Regional Power	11.1	3.0
Nutrition	4.9	3.1
Rainfed Natural Resource Management	18.0	7.7
Telecom and Postal Reform	10.8	6.5
Urban Development Program	70.0	69.4
TOTAL	294.3	200.6

Status of World Bank Group dialogue and operations currently under supervision

4. As of March 13, 2002, the World Bank Group has approved 64 loans and credits for Mauritania for a total of US$857.5 million. The World Bank's share in Mauritania's external debt outstanding amounted to about 6 percent in 1999. In light of Mauritania's qualification for debt relief under the enhanced HIPC Initiative, IDA started providing its share of interim relief in April 2000.

5. The World Bank's Country Assistance Strategy (CAS) for FY03–05 is currently being prepared and will be discussed by the Board of Directors on May 21, 2002. The CAS continues to be fully supportive of the Government's development program as outlined in the

PRSP, namely accelerating private sector-led growth, reducing poverty and improving living standards. All actions in the CAS fall into the four strategic axes of the PRSP: (i) accelerating private sector-led growth; (ii) developing basic infrastructure supportive to growth; (iii) developing human resources and ensuring universal access to basic infrastructure and services; and (iv) institutional development and governance.

6. In terms of rural development, a ***Rainfed Natural Resources Management Project***, approved in June 1997, aims at breaking the poverty spiral of population growth, environmental degradation, and reduction of agricultural productivity. The project's expected impact would be the activation of the process of natural regeneration of land fertility, rangeland vegetation, and livestock and forest production by encouraging the emergence of better-adapted and more sustainable exploitation systems likely to result in greater biodiversity, while generating more income and a better quality of life. An ***Integrated Development Program for Irrigated Agriculture in Mauritania (PDIAIM)*** credit was approved in July 1999. Its objective is to increase agriculture value-added, income and employment for the population living in the Senegal River Valley by (i) generating income upstream and downstream of production, (ii) providing consumers with new agricultural products, and (iii) improving the balance of trade through a reduction in agricultural imports and the development of exports.

7. In the education sector, the government is seeking to improve the quality of education, expand primary school enrollment, and to correct the imbalance between secondary and higher education. ***A General Education Project*** was approved by the World Bank's Board in April 1995. The first phase of the ***Education Development Program*** (US$49.2 million) was approved in FY02 and aims at (i) implementing bi-lingual education at the primary and secondary levels; (ii) improving access and equity; (iii) enhancing quality and increasing the internal efficiency of the education system; and (iv) improving the relevance and the external efficiency of the vocational, technical and higher education levels. A ***Global Distance-Learning Center Project*** (US$3.3 million) was approved in FY02 to help develop capacity and international knowledge sharing in development issues.

8. In health, a ***Health Sector Investment Project*** was approved in March 1998 to support the implementation of the government's program for the health sector during the period 1998–2002. A ***Nutrition project*** was approved in March 1999. The project aims at assisting the government in testing the effectiveness of various activities to improve mother and child nutrition status and health through the provision of technical and financial resources.

9. A ***Regional Power Project*** was approved in June 1997. It aims at increasing the efficiency and reliability of the power systems and at mitigating environmental problems caused by dams. A ***Mining Sector Capacity Building Project*** was approved in May 1999. Its objective is to strengthen the government's capacity to act as facilitator and regulator of mining activities and significantly increase private investment in Mauritania's mining sector.

10. A ***Telecommunications Postal Reform Project*** was approved in June 1999. Its objective is to extend access to communications and information services at more competitive prices through establishing a legal, regulatory, and institutional framework favorable to competitive private provision of telecommunications infrastructure and services, and to postal development.

11. The ***Energy Water Sanitation Sector Reform TA credit*** operation in the amount of US$9.9 million is aimed at (i) restructuring the legal and institutional framework of the water/sanitation and energy sectors to create an environment for private sector participation; and (ii) preparing future investments in the water/sanitation and energy sectors (urban and rural).

12. The ***Cultural Heritage LIL***, in the amount of US$5.0 million is aimed at assisting the Government of Mauritania in testing appropriate methods to determine how to safeguard and enhance the cultural heritage (CH) of Mauritania. The project will support the setting-up of an appropriate institutional and financial framework for the elaboration of a CH strategy. It will also support the conservation and valorization of CH assets through restoration and preservation and will contribute to the revitalization of economic activities through the creation of small-scale enterprises and by capitalizing on tourism potential.

13. An ***Urban Development Program*** (US$17.0 million) was approved in FY02 to (i) support Mauritania's central and local governments to improve living conditions and promote employment opportunities in the main towns and, in particular, in slums; (ii) support decentralization; and (iii) strengthen the institutional framework and capacity for urban and land management at the central and municipal levels.

14. **IFC** has financed a copper mining project (US$10.0 million) and a gold mining project (US$4.1 million). It also approved, in 1996, a credit line (US$4.0 million) to a newly established commercial bank. **MIGA** has provided an investment guarantee in the telecommunications sector for US$66.7 million.

15. **Resident Representative**: The World Bank has had a resident mission in Nouakchott since October 1985.

Mauritania: Statistical Issues

Real sector

The national accounts data and the Consumer Price Index (CPI) require substantial improvements. A technical assistance mission on national accounts visited Mauritania in November 1997 and concluded that the GDP estimates are very weak. GDP estimates are derived by rudimentary extrapolation, from 1983 base, using inappropriate and unreliable data. However, a cooperation program supported by AFRISTAT is under way with a view to produce 1998 based national accounts consistent with the NAS 93 by 2004.

Regarding the CPI methodology, in 1996, a Fund technical assistance mission had made recommendations about geographical and product coverage, updating of weights, improving computer resources, and creating a specialized team. The national accounts mission in November 1997 found that relatively little progress had been achieved. New weighting data were not available at that time as Mauritania was not included in the 1995/96 Eurostat project to conduct a survey of household living conditions. After the completion of a household expenditure survey in 2001, the ONS is now expected to produce some time in 2002 a new CPI index with an updated consumption basket, albeit with a geographical coverage still limited to Nouakchott.

Government finance

Mainly as a result of the unavailability of human resources to complete the required forms, no monthly or annual government finance statistics are currently reported to STA. With recent methodological improvements, the monthly statements of treasury accounts now submitted to MED with a delay of one month could provide the basis for future publication by STA. However, no information is being provided on the accounts of the Social Security Institute and on any of the largest local communities' budgets.

The measurement of the execution of the Public Investment Program (PIP) needs to consistently reflect actual disbursements of foreign loans and grants and ensure that the estimated import component is compatible with customs data.

Money and banking

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

A monetary and financial statistics mission visited Nouakchott in 1991. Recently, another mission to Mauritania (January 9–22, 2002), assisted the BCM in revising and updating its monetary and financial data compilation procedures to better reflect institutional and accounting developments in the financial sector (banking and nonbanking). The mission set the ground for these statistics to be in accordance with the Fund's Monetary and Financial

Statistics Manual (MFSM) and for work toward MFSM implementation. The mission also investigated some specific data transmission problems and discrepancies and issued an action plan for following up on recommendations.

Balance of payments

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

Balance of payments data collection and compilation need to be improved urgently. A Fund technical assistance team, upon request from the authorities, visited Nouakchott from August 30 until September 9, 1999. To address BCM's problems in collecting and properly recording the BOP statistics, the mission recommended that the BCM (i) eliminate the separate recording and reporting of BOP data at two different departments (*Direction des Etudes Economiques* and *Direction de la Balance des Paiements*) by unifying the preparation and reporting of the BOP statistics; (ii) together with the banks work out a simpler method of reporting the information which the banks and the bureaus will use in the transition period until a more detailed system of reporting could be put in place; and (iii) put pressure on the banks for providing the required information, including using legal measures. In 2000, the BCM began submitting BOP data for *IFS* using the BOP classification consistent with the 5th edition of the balance of payments manual. Nevertheless, further improvements in the balance of payments methodology are needed.

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

Poverty

Household expenditure surveys have been conducted for the years 1990, 1996, and recently for the year 2000. The results of these surveys are one of the main sources for building poverty profiles and setting poverty reduction targets. The results of the last survey form the basis for the PRSP progress report, which was issued in March 2002.

Mauritania: Core Statistical Indicators as of March 31, 2002

	Exchange Rates	Interna-tional Reserves	Reserve/ Base Money	Central Bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ imports	Current account balance	Overall Government Balance	GDP/ GNP	External Public Debt	
												Service	Stock
Date of latest Observation	Mar. 2002	Jan. 2002	Jan. 2002	Jan. 2002	Jan. 2002	Feb. 2002	Jan. 2002	Jan. 2002	Dec. 2001	Jan. 2002	2001	Dec. 2001	2001
Date received	Mar. 2002	Mar. 2002	Mar. 2002	Mar. 2002	Mar. 2002	Mar. 2002	Mar. 2002	Mar. 2002	Jan. 2002	Mar. 2002	Feb. 2002	Feb. 2002	Feb. 2002
Frequency of data 1/	D	M	M	M	M	M	M	M	...	M	A	M	A
Frequency of Reporting	D	M	M	M	M	M	M	M	...	M	...	M	A
Source of data 2/	O	O	O	O	O	O	O	O	O	O	O	O	O
Mode of reporting 3/	EM/F	EM/F	EM/F	EM/F	EM/F	M	EM/F	EM/F	S	EM/F	S	EM/F	EM/F
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C	C	C	C

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

Nouakchott, May 2, 2002

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

Dear Mr. Köhler:

The government of the Islamic Republic of Mauritania recently held discussions with International Monetary Fund (IMF) staff concerning both the fifth review of the program supported under the Poverty Reduction and Growth Facility (PRGF) and the Article IV consultations for 2002.

The government considers that program execution during 2001 was in line with the established objectives. The quantitative performance criteria for end-December would all have been met if not for the delay in payment of the 2001 tranche of the financial compensation under the fisheries agreement with the European Union. The government requests waivers for the nonobservance of three quantitative performance criteria and for the structural performance criterion on the privatization of SOMELEC, and requests the conclusion of the fifth review under the PRGF arrangement.

The government further notes the successful implementation of the Poverty Reduction Strategy Paper (PRSP) in 2001 and the progress made toward meeting the completion point conditions of the enhanced Initiative to reduce the debt of the heavily indebted poor countries (HIPC). The government hopes to reach the completion point at the same time as the completion of the fifth review under the PRGF arrangement.

The attached memorandum takes stock of program implementation during 2001 and sets objectives for 2002. These policies continue to reflect the objectives established in the Poverty Reduction Strategy Paper (PRSP) and the PRSP progress report.

The government believes that the policies set forth in the memorandum will make it possible to achieve the objectives established in the PRGF-supported program for 2002, but will take any further measures which might be necessary for this purpose. The government will continue to provide the Fund with all information required for better monitoring of implementation of the established economic policies.

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

On behalf of the government of the Islamic Republic of Mauritania, please be assured of our determination to take all necessary steps for the program to succeed. We hope to be able to count on continued IMF support for our endeavors.

Sincerely yours,

/s/
Sid El Moctar Ould Nagi
Governor, Central Bank of Mauritania

Attachment

Memorandum of Economic and Financial Policies of the Government of Mauritania for 2002

I. Introduction

1. The government of Mauritania notes with satisfaction the continued progress under the PRGF-supported program and the successful implementation of the PRSP over the course of one year. In addition, Mauritania made significant progress toward meeting the conditions associated with reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The government would like to reach the completion point before the end of the first half of 2002.

2. The government of Mauritania requests the conclusion of the fifth review under the PRGF arrangement. It regrets the nonobservance of three quantitative performance criteria owing to the late payment of the financial contribution for 2001 under the fishing agreement with the European Union (EU), which did not arrive until early 2002. Indeed, absent this delay, all these criteria would have been met. Also, the privatization of SOMELEC could not be completed on time due to technical factors and factors outside the control of the government. The quantitative benchmark on tax revenue was not met owing to a shortfall in the turnover tax (TCA) from the state mining company (SNIM), attributable for the most part to world economic conditions and their impact on the demand for iron ore (Tables 1 and 2).

3. Both structural performance criteria, the VAT refund system and the revision of the investment code were met. The structural benchmark concerning the preparation of the terms of reference for computerizing expenditure on goods and services, targeted for end-December 2001, was observed in January 2002. The structural benchmark on the remuneration of government deposits with commercial banks took effect as scheduled at the beginning of January 2002.

II. Poverty Profile

4. According to the latest household survey, the incidence of poverty and the social indicators both improved slightly. According to that survey, income poverty affected 46.3 percent of the population in 2000 as compared to 56.6 percent in 1990 and 50.5 percent in 1996. This slight decline in poverty was not uniform throughout the country. In addition, some progress was made regarding education and health indicators, and access to basic services improved somewhat during the period.

III. Recent Economic Developments

5. The delayed receipt of the financial compensation for 2001 under the fishing agreement with the EU explains almost all deviations from the program original targets. This delay, which was only a few days long, should have no impact on economic performance, which remains encouraging. This sizable delayed payment (€86 million, or US$77 million and about 8 percent of GDP) resulted in a fiscal deficit of 5.6 percent of GDP as well as a

current account deficit (including official transfers) of 4.6 percent of GDP, as compared, respectively, to the program targets of a surplus of 1.9 percent of GDP and a deficit of 1.2 percent of GDP. The current account balance also reflects lower-than-projected imports. As a consequence, gross official reserves at the end of the year reached US$286 million (6.9 months of imports), against the program target of US$345 million.

6. Economic growth in 2001 was less robust than initially projected. The growth rate was revised downward from 5.2 percent in the program to 4.6 percent. This revision is explained principally by the global economic slowdown, which triggered a slackening of demand for iron ore in Europe. Similarly, agricultural production contracted, owing to the decline in the production of major commodities such as rice and maize, but this was offset by marked improvement in other sectors, in particular telecommunications and industrial fishing. The inflation rate remained low, at an average 4.7 percent for the year.

7. Given the magnitude of needs, expenditures related to poverty reduction accelerated in the second half of 2001. Improved project execution made it possible to make up for most of the delays registered in the first semester of the year. Excluding the financial contribution from the fishing agreement, the fiscal situation was by and large consistent with the program. The shortfall in the turnover tax (TCA) from the SNIM, attributable essentially to the drop in iron ore exports, was offset by a decline in public expenditure from the programmed level.

8. The central bank (BCM) reduced its discount rate by 2 percentage points (to 11 percent) in late October 2001, which was reflected in lower bank lending rates. There was a sharp drop in treasury bill rates, which fell to a low 3–4 percent in December before rising to 5 percent at the start of 2002, as well as faster-than-projected growth in money supply. However, the evolution of other monetary aggregates, including the expansion of credit to the private sector, was broadly in line with the program.

9. The current account deficit (including official transfers) principally reflects three factors: the late receipt of the financial compensation under the fishing agreement, a drop in mining exports of about US$15 million, and a lower-than-projected level of imports (by about US$35 million). As a result, official reserves reached US$286 million. Mauritania recently signed an agreement with the Arab Fund for Economic and Social Development (FADES) for a concessional loan of about US$52 million, which will contribute to financing construction of the road between Nouakchott and Nouadhibou.

10. Although the BCM provided the market with U.S. dollar banknotes and eliminated the ceiling on exchange bureau participation in the Expended Exchange Market (MCE), the spread between the transfer rate and the cash rate did not fall. It appears that the demand for foreign exchange increased in recent months because of several factors: the introduction of the euro, the prolonged effects of the traditional closing of the fishing season (September–October), the month of Ramadan, and departures for the Haj in early 2002. In addition, excess liquidity in the banking system following the fall in the treasury bill rates beginning October 2001 put pressure on the exchange rate (see below).

IV. The Program for 2002

A. Macroeconomic Objectives

11. The program for 2002 is aimed at achieving the government's objectives set forth in the PRSP, in particular reducing poverty in a stable macroeconomic environment. A growth rate of 5.1 percent would be achievable, with an average inflation rate of 4 percent. Given that the two annual payments (for 2001 and 2002) under the fishing agreement are being received in 2002, the current account balance will turn into a surplus of 3.8 percent of GDP, and official reserves are expected to rise to the equivalent of eight months of imports. It is noteworthy that these objectives are consistent with those of the medium-term economic framework as revised in the PRSP progress report. To achieve these objectives, the government intends to adopt the policies described below.

B. Macroeconomic Policy

Fiscal policy

12. Fiscal policy as reflected in the 2002 budget law remains appropriate. This policy is aimed at (i) sharply increasing investment expenditure and current expenditure in social sectors to over 11 percent of GDP; (ii) increasing expenditure on maintenance so as to preserve the quality of physical infrastructure; (iii) maintaining the tax collection effort over the entire year, particularly in the case of large taxpayers such as SNIM, in order to avoid undesirable fluctuations on the expenditure side; and (iv) continuing to strengthen tax and customs administrations. However, owing to the downturn in economic activity, tax receipts are expected to be slightly below the level projected in the budget law. An amended budget was adopted in early February reallocating 3 percent of current expenditure (other than wages and interest payments) to promote reading and make books available to the poor without affecting the fiscal balance.

13. A VAT refund system was recently introduced with the assistance of an expert from the IMF Fiscal Affairs Department. To facilitate the processing of refund requests and make it more efficient, a VAT refund request verification unit, as well as a control mechanism to classify enterprise risk, were created within the General Tax Directorate (DGI). A public awareness and information campaign will soon be launched, targeting economic agents; among other things, it will include meetings with representatives of the business community and providing them with a (technical) pamphlet on the refund procedure. The government would like to receive technical assistance from the IMF in the area of tax administration.

14. The government will begin preliminary consideration of the simplification of the income tax on wages and salaries (ITS), in particular by reducing the number of brackets. This review process should lead to a reform of the ITS, which could be adopted in the context of the discussions of the 2003 budget law. Should the need arise, the government will request technical assistance from the IMF to facilitate this work.

15. Following adoption of the new investment code in November, the government stopped granting tax concessions to those investors that were admitted under the old investment code in 2001. In addition, the government has prepared draft decrees implementing this code, which strengthens the effective monitoring of activities entering the free-export zones (*points francs*).

16. Following the joint (World Bank and IMF) technical assistance mission on monitoring expenditure related to poverty reduction, the government decided to take the following measures:

- Adopt by end-June 2002 a functional classification of expenditure related to poverty reduction and financed with HIPC resources, including expenditure by the *Commissariat aux droits de l'homme à la lutte contre la pauvreté et à l'insertion*, in the quarterly report of the monitoring committee.

- Improve the monitoring of poverty reduction expenditure by identifying in the budget all the lines associated with poverty reduction, by September 2002.

- Expedite the preparation of medium-term expenditure frameworks for the priority sectors (road infrastructure, rural development, and urban development) with a view to devising an overall medium-term expenditure framework by end-2002, to improve budgetary and public expenditures management. Because of the delays experienced, this measure will now be implemented by end-June 2002 (structural performance criterion).

- Adopt the new treasury chart of accounts by end-June 2002 and harmonize the charts of accounts used by the other public administrations and local governments with this new chart of accounts.

- Expedite the preparation of monthly statements of treasury operations (revenue and expenditure) and use them to produce the monthly report on budget execution (TOFE). This work is expected to be completed by end-2002.

- Commission a study to assess the needs and lay out an implementation plan for the computerization of expenditures on goods and services.

17. Despite the performance achieved with respect to project execution, implementation capacity remains below the desired level. The government has prepared a study identifying the major obstacles and proposing solutions. After adopting the procurement code in 2001, the government plans to finalize the implementing regulations (prior action). The resources of the Central Procurement Commission (CCM) and the departmental commissions will be augmented accordingly. Audit reports on project implementation will be systematically forwarded to the audit office for information purposes.

Monetary policy and financial sector reforms

18. The primary objective of monetary policy continues to be price stability and the development of the financial markets, including the interbank market. In a context of a low inflation, and in order to stimulate credit to the private sector, the BCM reduced its discount rate by 2 percentage points in late October; the treasury bill rate fell between October and November and reached 3.4 percent at the last auction of the year. This unintended sharp decline was triggered by a net reduction in the outstanding balance of treasury bills owing to problems with projecting banking system liquidity. The BCM decided to correct this excessive decline, and the treasury bill rate rebounded to over 5 percent at the auction of February 28, 2002.

19. In the weeks ahead, the BCM will continue to mop up the excess liquidity in the banking system, which is reflected inter alia in pressure on the exchange rate. To do this and to improve the conduct of monetary policy in general, the BCM intends to take the following measures:

- Improve forecasting liquidity capacity, including through enhanced collaboration with the ministry of finance, in order to better monitor changes in the government's cash flow and government deposits. In March 2002, a formal communications mechanism between the BCM and the finance ministry was adopted.

- Make use of indirect monetary policy instruments, mop up or inject liquidity such as reverse repos and repos, for which all arrangements are already in place. These quick response instruments will be an integral part of monetary policy and liquidity management, especially between treasury bill auctions.

- Improve the management of monetary policy and the coordination and monitoring processes among the various departments of the central bank. The monetary policy committee will be meeting once a week to assess information on developments in the financial market and in order to take appropriate timely measures when the need arises. By the end of the first quarter of 2002, the committee will produce quarterly reports on money and credit developments, which will be submitted to the Fund no later than two weeks after the end of the quarter. The BCM would like to receive a technical assistance mission from the Fund on monetary operations and to follow up on the recommendations of previous missions.

20. To improve its effectiveness in carrying out its missions, the BCM has initiated a comprehensive internal restructuring. Accordingly, it has adopted two new organizational charts for two key departments, banking supervision and research. In the months ahead, the BCM will undertake the reorganization of other departments and will focus on redeploying existing staff as necessary, before preparing recruitment or severance plans. In any event, there will be no increase in central bank staffing.

21. The BCM agrees with the recent analysis and recommendations of the Fund's safeguards assessment. The BCM is committed to appoint external auditors for the 2001 financial year by end-June 2002 (structural performance criterion) and publish its completed audited financial statements and audit opinion for 2001 by end-September 2002 (structural performance criterion). The BCM will also establish before year-end a formal process for selecting external auditors and a policy of publishing financial statements within three months of year-end.

22. With the support of the IMF resident advisor, the bank supervision directorate conducted three inspection missions to commercial banks, and a fourth is now in progress. Given the shortage of auditors, these missions took far longer than planned, and consequently it was not possible to complete on schedule (end-2001) the study on the impact on the individual financial positions of banks of transferring government deposits to the central bank. The BCM is committed to completing this study before end-June 2002, once the fourth inspection mission has been completed, and then to put in place a program of prudent transfers, which takes into account the importance of these deposits both for banks and for financing requirements of the private sector.

23. Limited progress was made with respect to observing the credit concentration ratios as defined in the *contract programmes* signed with commercial banks. Five of seven banks complied with the concentration ratio for individual borrowers, while only three banks observed the concentration ratio for group borrowers. The other prudential ratios, specifically the liquidity ratio and capital adequacy ratio, were observed by all the banks.

24. After discussion with commercial banks, government deposits with commercial banks began to be remunerated at a rate of 3 percent in January 2002. To improve transparency, however, by end-February 2002, the BCM will issue a circular providing a detailed explanation of the reasons for, and modalities of, this remuneration.

Exchange rate and external policy

25. In view of the continuing gap between the official (*cours de transfert*) and the cash rate (*cours manuel*), the BCM intends to pursue the following policies:

- Mop up excess liquidity in the banking system by means of treasury bill auctions, as well as other indirect monetary policy instruments.
- Provide the market with sufficient quantities of U.S. dollar and euro banknotes to meet all the market's needs. The BCM will improve its management of banknotes by ensuring that foreign exchange notes are readily available to the market.
- Play a more active role in the exchange market by intervening to smooth major fluctuations in the exchange rate.
- Continue giving more weight to the euro over the U.S. dollar in its exchange rate policy, as the bulk of foreign trade takes place with the countries of the EU.

26. In keeping with its obligations under Article VIII, Mauritania confirms that there are no restrictions on the making of foreign exchange payments and transfers for current international transactions.

27. The government will continue to follow a prudent external borrowing policy and will inform Fund staff on a regular basis of any new loans, even concessional, so as to ensure the viability of external debt indicators. There have been no new agreements reached in debt relief negotiations with non-Paris Club bilateral creditors; nor have any new debt relief commitments been received from multilateral organizations that have not already made such commitments.

V. Poverty Reduction Strategy Paper and Completion Point Under the HIPC Initiative

28. The Mauritanian government considers that its poverty reduction strategy was implemented successfully during its first year. This is well documented in the first PRSP progress report, which was prepared in a broad participatory process. The report takes stock of the progress achieved and lists the challenges that must still be met in order to effectively combat poverty, the significant reduction of which remains at the core of the government's concerns. Priority measures have been identified in the PRSP progress report and will be carried out in 2002.

29. The government expects to reach the completion point at the same time as the completion of the fifth review under the PRGF arrangement. Mauritania has made substantial progress in meeting the floating conditions for the completion point of the enhanced HIPC Initiative. Most of the macroeconomic and structural conditions have been met. As indicated in the government's memorandum for the fourth review, however, some conditions will not be met in 2002, either because they have proven unrealistic (principally in the social areas, particularly education) or because it has been determined, in consultation with Fund staff, that meeting some of these conditions (such as the credit concentration ratios for commercial banks) in 2002 may no longer be desirable.

30. The government intended to complete the privatization of SOMELEC by end-April 2002, a trigger for the completion point and a performance criterion under the PRGF-supported program. However, the process has been slower than envisaged due to delays, initially caused by the advisor (an investment bank) that the government hired to be in charge of these operations, that were compounded by difficulties in the global energy sector. Following the qualification of five international companies, three companies withdrew from the bidding process mainly as a result of the events in late 2001 and the Enron crisis, since companies were either directly affected by these events or became more careful in selecting their new investment projects. The two remaining companies visited Nouakchott in early April, but required more time to finalize the necessary technical work. At end-April, one company decided to withdraw, leaving only one company in the bidding process. In these circumstances, the government believes that the chances of successful implementation are reduced, and this could cause delays.

31. Regarding the social conditions for the completion point, in particular the targets set for income poverty, education, and health, the PRSP set more realistic objectives, compared to the targets set in the decision point document, on the basis of more in-depth analysis conducted in consultation with Mauritania's development partners in a participatory process. The government regards these objectives as the basis for the adjustment program and considers them to demonstrate clearly that the social objectives set in the decision point document were too ambitious. Be that as it may, the government reiterates its desire to do everything possible to fulfill all the other conditions as soon as possible.

VI. Other Structural Reforms

32. The government is determined to remedy the precarious financial condition of the social security fund (CNSS). However, a comprehensive solution can be identified only on the basis of the actuarial study conducted by the International Labor Organization (ILO), which has just been completed. In the meantime, a draft decree raising the ceiling on the contribution base from UM 35,000 to UM 50,000 was adopted in March 2002. This step has been taken in consultation with the representatives of labor unions and the business community, which are amenable to a comprehensive reform of the CNSS. The government also believes that an increase in the contribution rate is virtually inevitable. This rate has not changed in 28 years and is among the lowest in the region. An administrative modernization project is under way.

33. In the other structural areas:

- Petroleum prices continue to be adjusted each quarter using the automatic formula that reflects international price trends.

- The law organizing petroleum product distribution was not adopted by parliament by end-December 2001. However, parliament did pass enabling legislation, which permitted the government to adopt the law by ordinance. This was done in March 2002.

- Following the adoption of the ASYCUDA III system, a plan to modernize the customs administration in keeping with the recommendations of the Integrated Framework will be adopted by end-September 2002. This plan is aimed at facilitating and expediting customs clearance procedures and enhancing their efficiency. The work on the determination of customs value in accordance with WTO rules has started.

VII. Request for Waivers and Program Monitoring

34. The authorities request waivers for the nonobservance of three quantitative performance criteria: net domestic assets of the central bank, net domestic financing of the budget, and net international reserves, as well as a waiver for the nonobservance of the structural performance criterion on the privatization of SOMELEC.

35. **Prior actions.** The government will adopt all the prior actions indicated in the annexed table before the fifth review under the PRGF arrangement is concluded by the IMF Executive Board.

36. **Performance criteria.** The quantitative performance criteria for end-June 2002 and quarterly benchmarks for 2002, are provided in Table 3. Structural performance criteria and structural benchmarks are provided in Table 4.

37. **Program reviews and extension of the period of the PRGF.** The existing PRGF arrangement expires on July 20, 2002. To permit conclusion of the sixth review under the PRGF arrangement, the government requests a five-month extension of the period of the PRGF.

Table 1. Mauritania: Status of Implementation of the Structural Performance Criteria and Benchmarks under the PRGF-Supported Program for 2001–02

	Structural Performance Criteria and Benchmarks	Timetable	Status
A.	**Structural Performance Criteria**		
1.	Amend the Investment Code so as to eliminate all tax incentives provided for under the Code	November 2001	Met
2.	Complete the privatization of SOMELEC	April 2002	Not met
3.	Put in place an expeditious VAT refund system together with a system of deferred VAT payments on capital good imports	December 2001	Met
B.	**Structural Benchmarks**		
1.	Prepare the terms of reference for the computerization of expenditures on goods and services	December 2001	Not met 1/
2.	Impose an interest rate of 3 percent on government deposits held at commercial banks	January 2002	Met
3.	Develop a medium-term expenditure framework for the remaining priority sectors (road infrastructure, rural development, and urban development)	March 2002	Delayed 2/
4.	Raise the ceiling on taxable wages for social security contributions to CNSS after consultation with social partners	March 2002	Met

1/ Observed in January 2002.

2/ Proposed to be converted to a structural performance criteria for June 2002, after discussion with the Bank and the authorities during the February 2002 mission.

Table 2. Mauritania: Quantitative Performance Criteria for 2001 1/

	Dec-00	Performance Criteria Jun-01			Performance Criteria Dec-01						
	Actual Stock	Target	Adjusted Target	Actual	Target	Adjusted Target	Target Fully Adjusted for Delay in 2001 Fishing Payment	Actual	Program Target Stock	Adjusted Target Stock	Actual Stock
					(In millions of ouguiyas)						
Ceiling on net domestic assets of the central bank	-12,565	3,092	1,498	-3,137	-15,134	-13,919	5,096	-756	-27,699	-26,484	-13,321
Net domestic financing of the budget	...	-2,285	-3,653	-5,608	-23,170	-21,032	-2,017	-3,368	...	...	...
					(In millions of U.S. dollars)						
New nonconcessional external borrowing contracted or guaranteed by the government or the central bank	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.9	7.9	7.9
Ceiling on the accumulation of new arrears on public or publicly guaranteed external debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves of the central bank	86.4	-10.1	-3.7	12.5	64.5	59.7	-15.7	5.0	150.9	146.1	91.4
Memorandum items:											
					(In millions of ouguiyas)						
Reserve money	9,222	554	554	15	1,142	1,142	0.0	501	10,364	10,364	9,723
Tax revenues	...	16,981	16,981	15,777	37,011	37,011	0.0	36,403	...	...	...

Sources: Mauritanian authorities; and Fund staff estimates.

1/ For definitions of variables and the adjusters, see the attached technical memorandum of understanding (TMU). Targets are set on the basis of cumulative flows from the beginning of the year; unless otherwise noted.

Table 3. Mauritania: Quantitative Benchmarks and Performance Criteria for 2002 1/

	Dec-01	Quantitative Benchmark Mar-02	Quantitative Performance Criteria Jun-02	Quantitative Benchmark Sep-02	Dec-02	Dec-02
	Beginning Stock	Target	Target	Target	Target	End Stock
			(In millions of ouguiyas)			
Ceiling on net domestic assets of the central bank	-14,527	-15,587	-12,723	-8,517	-23,037	-37,564
Net domestic financing of the budget	...	-17,315	-20,342	-13,506	-35,472	...
			(In millions of U.S. dollars)			
New nonconcessional external borrowing contracted or guaranteed by the government or the central bank	7.9	0.0	0.0	0.0	0.0	...
Ceiling on the accumulation of new arrears on public or publicly-guaranteed external debt	...	0.0	0.0	0.0	0.0	...
Net international reserves of the central bank	91.3	60.4	50.0	34.8	90.1	181.4
Memorandum items:						
			(In millions of ouguiyas)			
Reserve money	9,723	461	543	715	887	10,610
Tax revenues	...	8,097	18,167	26,365	38,535	...

Sources: Mauritanian authorities; and Fund staff estimates.

1/ For definitions of variables and the adjusters, see the attached technical memorandum of understanding (TMU). Targets are set on the basis of cumulative flows from the beginning of the year; unless otherwise noted.

Table 4. Mauritania: Proposed Performance Criteria and Structural Benchmarks for 2002

Structural Measures	Timetable
A. Prior Actions	
1. Sign implementing regulation for government procurement code (para. 17)	
2. Submit first quarterly report of the monetary policy committee (para. 19)	
B. Performance Criteria	
1. Identify and classify all budgetary expenditures associated with poverty reduction in accordance with the new (functional) nomenclature	September 2002
2. Draw up medium-term expenditure frameworks for the remaining priority sectors (road infrastructure, rural development, urban development) (para. 16)	June 2002
3. Appoint auditors for the 2001 financial year through a formal and transparent selection process	June 2002
4. Publish the audited financial statements and audit opinion for 2001 with the objective of increasing the transparency of central bank operations	September 2002
C. Structural Benchmarks	
1. Issue a circular on the 3 percent remuneration on public deposits with commercial banks	February 2002 1/
2. Adopt the law organizing the distribution of petroleum products and guaranteeing unrestricted entry into the sector	March 2002 1/
3. Complete the report on transferring public deposits with commercial banks to the central bank	June 2002

1/ This was met on time.

Technical Memorandum of Understanding

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

I. Performance Criteria

2. **Net official international reserves (NIR) of the Central Bank of Mauritania (BCM)** is defined as the unencumbered (i.e., readily available) gross official reserves of the BCM less foreign liabilities of the BCM. For purposes of monitoring performance against the program target for NIR, valuation effects on the stock of gold holdings will be excluded, and gold holdings will be evaluated at the gold price in effect on December 31, 2000. Similarly, the U.S. dollar value of gross international reserves and foreign liabilities will be converted into ouguiya (UM) at the exchange rate of December 31, 2000. The exchange rates of the SDR and non-dollar currencies will be kept at their end-December 2000 levels. All required adjustments will be calculated at these program exchange rates.

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

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

5. **The contracting or guaranteeing of nonconcessional external debt** by the government and the BCM includes foreign currency debt contracted or guaranteed by the government or the BCM with a grant element (NPV discount relative to face value) of less than 35 percent, based on the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates). This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000) as shown in the annex but also to commitments contracted or guaranteed for which value has not been received. Although this definition excludes borrowing by public enterprises (without government guarantee), such borrowing should be avoided except in exceptional circumstances (like in the case of the state mining company (SNIM)), and after consultations with the Fund staff.

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

II. Quantitative Benchmarks

7. **Reserve money** is defined as the sum of (i) currency in circulation (currency outside banks' and commercial banks' cash in vaults) and (ii) deposits of commercial banks at the central bank. Required adjustments of bank foreign currency deposits at the central bank will be evaluated at the program exchange rates.

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

III. Program Adjusters

9. The NIR, NDA, and NDF targets are defined based on the assumption of projected cumulative amounts of external cash debt service payments, program related financing (loans and grants), the amount of the fixed part of the fishing royalties from the European Union (EU), and privatization proceeds to the budget.

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

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

12. In cases where **government external cash debt service payments** exceed (fall short of) the target, the ceiling on NDF will be adjusted upward (downward) by the amount of excess over (shortfall from) the target. NDF will also be adjusted downward (upward) by the amount of any excess (shortfall) of either program-related financing or the fixed part of fishing royalties from the EU over (from) their respective targets. Any upward adjustment to NDF resulting from the shortfall in program-related financing will be limited to the ouguiya equivalent of US$10 million, and from the shortfall in fishing royalties to U.S. dollar equivalent of €5 million. In addition, NDF will be adjusted downward (upward) by the amount of any excess (shortfall) of privatization proceeds over (from) the program target.

IV. Provision of Information to the Fund

13. To permit the monitoring of developments under the program, the government will provide to Division D of the Middle Eastern Department the information summarized below:

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

- **Weekly** data on BCM's gross foreign exchange reserves, within two weeks of the reference period;

- Data on treasury bills auctions following each auction;

- **Monthly** monetary statistics and monetary data including the outstanding stock of treasury bills by holder, balances in the *comptes d'affectations spéciales* of the treasury at the central bank (by individual account), and interest rates on central bank operations;

- **Monthly** consumer price index, custom import data, iron ore and fish exports, and data on SNIM monthly operations;

- **Monthly** data on summary budget operations, revenues, expenditures, and financing items, including data on the execution of the investment budget, with details on the foreign-financed part and the budgetary counterpart funds on which donor's conditions apply;

- **Monthly** data on foreign grants and loans received by government and by public enterprises by creditor and by currency of disbursement;

- **Monthly** data on external debt developments including arrears and rescheduling operations;

- **Monthly** list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying, for each loan, the creditor, the borrower, the amount and currency, the maturity and grace period, and interest rate arrangements;

- **Quarterly** data on the outstanding stock of external debt by creditor, by debtor and by currency; and

- **Quarterly**, the report of the *Comité de Suivi* of HIPC-related expenditures, within a maximum period of one month after the end of each quarter.

14. The monthly and quarterly data listed above should be sent within a period of no more than five weeks after the end of the month or quarter reported, unless otherwise noted. Any revisions to previously reported data should be promptly communicated to the staff and adequately explained.

Annex

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

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

Statement by the IMF Staff Representative
June 7, 2002

The following information has become available since the issuance of the staff report for the 2002 Article IV consultation and the fifth review under the PRGF arrangement (EBS/02/77), the completion point document and its supplement (EBS/02/82), as well as the Joint Staff Assessment of the first PRSP progress report (EBD/02/73). This information does not change the overall staff assessment of performance under the review or progress made toward reaching the completion point under the enhanced HIPC Initiative.

1. The two prior actions were met: the staff received toward mid-May the first quarterly report of the monetary policy committee and a signed copy of the implementing regulations for the procurement code adopted by the government.

2. The privatization of SOMELEC (a structural performance criterion for end-June under the PRGF and a floating condition for the completion point) was not completed. The privatization committee carefully assessed the only financial offer they received (since only one bidder remained) in relation to the asset value of SOMELEC, and considered it unacceptable. The authorities are currently in the process of discussing with the World Bank their strategy on how to re-launch the process.

3. Recent macroeconomic developments:

    - Consumer price inflation remained low, with the annualized first quarter inflation rate at 1.5 percent. On current trends, inflation is likely to fall below the program projection of 4 percent for 2002. The foreign exchange market remains stable, with the ouguiya depreciating slightly (by about 3.8 percent) vis-à-vis the U.S. dollar between January and May. Latest data from the authorities (May 30, 2002) indicate that the gap between the interbank rate (transfer rate) and the parallel rate for cash transactions (cash rate) remains below 7 percent.

    - Preliminary data indicate that the trade surplus in the first quarter of 2002 was lower than its level during the same quarter of last year. This resulted essentially from lower exports, particularly in the fisheries sector, and marginally higher imports. Gross official reserves reached US$359 million at end-March, slightly above program projections.

    - Preliminary data suggest that the fiscal position is in line with projections, with tax revenues slightly exceeding projections during the first quarter (by 4.6 percent). Broad money grew as projected, while credit to the private sector fell short of its growth target. The stock of T-Bills increased by about UM 4 billion, and the average interest rate on T-bills rose to over 5 percent by end-March (compared with 3 percent at end-December 2001).

4. The first quarterly report of the monetary policy committee indicates some improvement in the use of indirect monetary policy instruments. The staff is reviewing the report and plans on discussing its content with the committee during the next mission to further enhance its focus.

5. The staff received the central bank draft report on the transfer of government deposits from commercial banks to the central bank (a benchmark for end-June 2002), which is being reviewed by the staff. In addition, staff has already reviewed the drafts of two new banking directives received during the previous mission, and have sent comments to the authorities for further discussion.

6. A Fund mission to prepare a fiscal Report on the Observance of Standards and Codes (ROSC) and a parallel Bank mission to prepare a Country Financial Accountability Assessment (CFAA) were in Nouakchott during the second half of May 2002. The preliminary ROSC report is expected to be completed this summer.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/119
FOR IMMEDIATE RELEASE
October 11, 2002

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

IMF Concludes 2002 Article IV Consultation with the Islamic Republic of Mauritania

On June 7, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Islamic Republic of Mauritania.[1]

Background

Mauritania continued to consolidate the economic gains of recent years, and sound macroeconomic policies were supported by further structural reforms.

Real GDP growth slowed in 2001, reflecting weaker international demand for iron ore and the impact of uneven rain and flooding on agriculture. The stronger performance in other sectors, mainly industrial fishing, construction, and telecommunications, and strong domestic demand, could not fully compensate for contraction in mining and agriculture.

Consumer price inflation remained low, even though the exchange rate came under pressure in the second half of 2001 and in early 2002. The consumer price index rose by 4.7 percent on average over 2001, and there was a modest rise in the end-year rate of 1.7 percent. The pressure on the exchange rate reflected mainly seasonal factors. Over 2001, the ouguiya

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

depreciated by 5 percent against the U.S. dollar, and by under 1 percent against the euro; the real effective exchange rate remained virtually unchanged.

The external current account (including official transfers) moved from a small surplus in 2000 to a deficit in 2001, reflecting a delay in the receipt of 2001 fishing license fee (€ 86 million, 8 percent of GDP) from the European Union. Imports were lower, and higher fish exports compensated for some of the decline in iron ore exports. Capital inflows were lower than envisaged, with slower disbursements reflecting weak implementation capacity. Nevertheless, gross reserves remained at a comfortable level of about 7 months of imports. The authorities continue to manage external debt prudently and have made progress with creditors on debt relief in the context of the enhanced Highly Indebted Poor Countries Initiative.

Fiscal policy remained prudent during 2001, and although expenditure was lower than envisaged, the overall budget deficit was wider than envisaged only due to the late receipt of the EU fishing fees. Lower mining exports resulted in lower than expected turnover tax revenue and the authorities made deliberate efforts to curb current expenditure. Capital spending was lower than projected, despite efforts to make up for delays. Social spending was also lower than envisaged, mainly due to delays in implementing a training program for poor unskilled labor.

The central bank continued to ease monetary conditions, in the low inflation environment, and broad money grew by 17 percent, faster than in 2000. Credit to the private sector grew by a little less than in the previous year. The discount rate was lowered by 2 percentage points in late October, resulting in lower bank lending rates. At the same time, the central bank also reduced the stock of treasury bills sharply, resulting in a fall in treasury bill rates from 10 percent in September to around 4 percent in December 2001.

The authorities continued to make progress in structural reforms, although there have been some delays. Of note, the investment code was revised to remove targeted tax incentives, and a VAT refund system was established. However, privatization of the electricity company has not yet occurred due to weakness in the world energy sector.

The 2000 household survey indicated that although the poverty rate has declined from 50 percent in 1996 to 46 percent in 2000, the improvement has not been even across regions. Poverty has increased in both the capital city, Nouakchott, and in the Senegal River valley. Education and literacy indicators have improved, but there has been little progress in increasing access to health and other basic services.

Looking ahead, the authorities' medium term macroeconomic strategy as outlined in their revised Poverty Reduction Strategy Paper, will be to continue to stimulate growth and reduce poverty, maintain macroeconomic stability and shield the economy from exogenous shocks

Executive Board Assessment

Executive Directors commended the authorities for Mauritania's continued strong economic performance and the good progress made in implementing its poverty reduction strategy. Despite the adverse impact of the recent global economic slowdown on Mauritania's exports and a weather-related contraction in the agricultural sector, in 2001 economic growth remained relatively solid, the international reserve position was comfortable, and inflation remained subdued. Directors attributed these achievements to sound macroeconomic and structural policies, including a solid fiscal position, a market-responsive exchange rate, a prudent external debt policy, adherence to the monetary program, and sustained structural reforms.

Directors noted that poverty and social indicators have improved, as shown by the results of the 2000 household survey, but not at the pace originally expected. They urged the authorities to strengthen their efforts to further improve these indicators and ensure a sustainable and equitable reduction in poverty. They also recommended that the experience of the first-year's implementation of the Poverty Reduction Strategy (PRS) be carefully reviewed to help overcome obstacles that could be encountered over the coming years.

Although they considered the outlook for the economy to be relatively favorable, Directors cautioned that important downside risks remained, especially in view of the vulnerability of the economy to external shocks. In this context, they encouraged the authorities to pursue increased diversification of the economy to reduce the dependence on only two major export. They also recommended maintaining a relatively high level of international reserves and responsive macroeconomic policies.

Directors saw a need for better policy coordination, particularly in exchange rate and liquidity management policies, to enhance macroeconomic policy effectiveness. They encouraged the authorities to use indirect monetary instruments more proactively and stand ready to act on interest rates to stem any potential pressure on inflation. Directors also welcomed steps taken to improve foreign exchange cash management, including through providing sufficient foreign currency bank notes to narrow the spread between the cash and transfer rates.

Directors commended the authorities' prudent fiscal stance in 2001. Nevertheless, they stressed the need to improve public expenditure management. In this context, Directors welcomed the authorities' commitment to take measures to upgrade poverty expenditure tracking in line with the joint recommendations of the Bank and the Fund on this issue. They encouraged the authorities to develop analytical tools for social impact analysis. Directors also welcomed the recent joint Bank-Fund fiscal Report on the Observance of Standards and Codes (ROSC) and the Country Financial Accountability Assessment (CFAA), aimed at improving transparency and accountability of all public spending. They urged the authorities to accelerate their efforts to improve implementation capacity, which remains a major impediment to project execution and thus poverty reduction.

Directors urged the authorities to follow through vigorously with structural reforms, especially regarding banking supervision, monetary management and privatization. They also emphasized that the difficult financial position of the social security fund needs to be addressed. They welcomed the recently initiated restructuring of the central bank. Directors also commended the authorities' efforts to combat the financing of terrorism.

Directors stressed the need to improve economic and financial data, including national accounts, balance of payments, and the consumer price index, and urged the authorities to make better use of Fund technical assistance. They welcomed the authorities' commitment to follow the recommendations of the recent safeguards assessment of the central bank, particularly the appointment of external auditors and the publication of its audited financial statements before year-end.

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

The Islamic Republic of Mauritania: Selected Economic Indicators

	1999	2000	2001
	(Percentage changes; unless otherwise noted)		
National income and prices			
GDP at constant prices	4.1	5.0	4.6
GDP deflator	2.1	6.1	5.0
Consumer price index (period average)	4.1	3.3	4.7
Consumer price index (12 months, end of period)	1.9	5.6	1.7
External sector			
Exports, f.o.b. (in U.S. dollars)	-7.4	7.8	-3.9
Imports, f.o.b. (in U.S. dollars)	-14.9	12.7	3.9
Terms of trade	-10.7	-6.3	9.2
Nominal effective exchange rate	1.0	-4.6	-1.2
Export volume	5.6	-0.4	-6.3
Import volume	-11.3	-2.5	10.7
Real effective exchange rate	1.1	-3.8	0.9
Money and credit			
Money and quasi-money 1/	5.1	12.8	17.3
Net foreign assets 1/	24.1	58.1	2.2
Net domestic assets 1/	-19.0	-45.3	15.1
Domestic credit 1/	-10.1	-26.0	21.9
Credit to the government 1/	-39.5	-62.5	-8.8
Credit to the economy 1/	29.4	36.5	30.8
Velocity of money	6.9	6.8	6.3
Interest rate 2/	10–11	8–9	8.0
	(In percent of GDP)		
Investment and savings			
Investment 3/	17.5	30.3	26.7
National saving	21.7	31.1	21.0
Consolidated government operations			
Revenue, excluding grants	27.9	25.9	21.1
Expenditure and net lending	25.7	30.3	26.7
Overall surplus or deficit (-) excluding grants 4/	2.2	-4.5	-5.6
Primary balance excluding grants (deficit -) 4/	5.7	-1.2	-2.7
External sector			
Current account balance			
Excluding official transfers	-4.3	-6.0	-10.0
Including official transfers	4.2	0.8	-5.7

Debt outstanding	212.0	189.5	...
Debt service ratio before rescheduling (in percent of exports of GNFS) 5/	36.4	36.3	31.4
Debt service ratio after rescheduling (in percent of exports of GNFS) 5/	22.4	24.0	15.5
Gross official reserves (in months of imports of GNFS)	5.8	7.0	6.9
Memorandum items:			
Ouguiya/US$ exchange rate (period average)	209.5	240.0	254.3
Current account balance, excluding official transfers (in millions of U.S. dollars)	-41.4	-58.1	-96.9
Nominal GDP (in billions of ouguiyas)	200.9	223.7	245.6

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

1/ In percent of broad money at the beginning of the period, adjusted starting from 2000 to include two additional banks.

2/ Interest rates on 12 months passbook savings.

3/ The sharp increase in 2000 reflects mainly new investments in the telecom sector, an increase in poverty reduction investments financed by debt relief under the HIPC, and a rebound in SNIM investment.

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

5/ Until 1999, these ratios include Paris Club rescheduled debt on Naples terms. For the years 2000-2001, they include rescheduling under Cologne terms by Paris Club creditors, and comparable treatment by non-Paris Club bilaterals and HIPC interim assistance, as reported in Mauritania's decision point document relief under Cologne terms after the completion point.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/47
FOR IMMEDIATE RELEASE
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Completes Fifth Review Under Mauritania's PRGF Arrangement, Approves In Principle US$8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed in principle the fifth review of Mauritania's performance under an economic program supported by a Poverty Reduction and Growth Facility (PRGF) credit. The Board's decision will become effective after the World Bank's review of the PRSP Progress Report, which is currently scheduled for June 18, 2002. Upon effectiveness of the IMF Board's decision, Mauritania will be able to draw up to SDR 6.07 million (about US$8 million) from the arrangement, which would bring the total disbursements under the arrangement to SDR 36.42 million (about US$47 million).

The Executive Board also approved Mauritania's request to extend the program for another five months to December 20, 2002. This extension was requested by the authorities to permit the conclusion of the sixth review and secure approval of the final disbursement under the IMF-supported program of SDR 6.07 million (about US$8 million).

Mauritania's three-year PRGF program was originally supported under an Enhanced Structural Adjustment Facility (ESAF) that was approved on July 21, 1999 (see Press Release No. 99/32).

The PRGF, which is the IMF's concessional facility for low-income countries, is the successor arrangement to the ESAF. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty

Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion of Mauritania, Eduardo Aninat, Deputy Managing Director and Acting Chairman stated:

"The Mauritanian authorities are to be commended for Mauritania's solid economic performance and a good start to the implementation of the country's poverty reduction strategy. Despite the impact of the recent global economic slowdown and the contraction in the agricultural sector, growth was relatively solid in 2001, the reserve position was comfortable, and inflation was contained. These results reflected the sound macroeconomic and structural policies pursued by the authorities.

"Poverty and social indicators have improved, as shown by the 2000 household survey. However, the authorities need to continue to strengthen their efforts to further improve these indicators and ensure a sustainable and equitable reduction in poverty. The first-year's experience with the implementation of the PRSP should be carefully reviewed to help improve implementation in the coming years.

"Despite the favorable economic outlook, important downside risks remain, especially in view of the economy's vulnerability to external shocks. The authorities need to take steps to diversify the economy to reduce the dependence on fish and iron ore exports, and would be well advised to maintain a relatively high level of international reserves and responsive macroeconomic policies.

"The authorities are committed to take measures to upgrade poverty expenditure tracking, and have recently received a joint Bank-Fund fiscal Report on the Observance of Standards and Codes and the Country Financial Accountability Assessment, aimed at improving transparency and accountability of all public spending. The authorities intend to accelerate their efforts to improve implementation capacity, which remains a major impediment to project execution and thus poverty reduction, and are encouraged to develop analytical tools for a social impact analysis of macroeconomic policies.

"The authorities are urged to follow through vigorously with structural reforms—especially regarding banking supervision, monetary management, and privatization—and will need to address the difficult financial position of the social security fund. The initiation of a restructuring of the central bank with a view to enhance its effectiveness is also welcomed, as is the implementation of the recommendations of the Fund's safeguards assessment of the central bank.

"The broad participatory approach used to disseminate the PRSP and debate its priorities is commendable. However, the authorities need to focus their efforts on improving the linkages between policy decisions and poverty diagnostics, sharpening the sequencing and prioritization of policies, and improving monitoring and evaluation systems.

"Mauritania has made satisfactory progress toward reaching the completion point under the enhanced HIPC Initiative, having observed most of the triggers set at the time of the decision point. Continued efforts to meet all remaining triggers, and to come as close as possible in the near future to meeting the remaining ambitious education and health targets, are strongly urged.

"According to the debt sustainability analysis based on end-2001 data, Mauritania's external debt position is expected to be sustainable in the future. Nonetheless, external debt policy should remain prudent and rely as much as possible on grants or highly concessional borrowing." Mr. Aninat said.

Statement by Alexandre Barro Chambrier, Executive Director
for the Islamic Republic of Mauritania
May 24, 2002

I. INTRODUCTION

The continued success of Mauritania in implementing successive Fund-supported programs is a vivid testimony of the strong ownership of reforms. Indeed, it is encouraging to note that the continued implementation of sound economic policies enabled Mauritania to achieve a strong economic performance in 2001, despite the recent global economic slowdown. The authorities also made substantial progress in the first year of the implementation of the PRSP and implemented the key conditions established for reaching the completion point under the HIPC Initiative. Program implementation was in line with the program targets. The nonobservance of three quantitative performance criteria, notably the net domestic assets of the central bank, the net domestic financing of the budget and net international reserves, was due to the late payment of the financial contribution for 2001 under the fishing agreement with the European Union (EU). In the absence of this delay, all these criteria would have been met on time. On the basis of their strong track record and the credibility of their commitment to meeting the program objectives, my Mauritanian authorities are requesting a waiver for these performance criteria and are hopeful to reach the completion point under this review.

For the medium-term, the economic outlook is relatively favorable, but important risks remain. Indeed, Mauritania is still vulnerable to exogenous shocks, given the country's heavy dependence on two main export commodities. In this context, macroeconomic policies are geared toward maintaining its stability and at promoting the diversification of the production base. Therefore, the authorities are determined to pursue their unyielding efforts in the macroeconomic, structural and social areas to foster growth and improve the standard of living of the population, through the full implementation of their PRSP beyond program commitments.

II. PROGRAM IMPLEMENTATION AND RECENT ECONOMIC DEVELOPMENT

Performance under the PRGF-supported program remained strong in 2001, with all reviews completed on time. Real GDP growth averaged 4.8 percent compared to 4.1 percent in 1999 and 5 percent in 2000. It is to be noted that the adverse impact of weather conditions on agriculture and weaker demand for iron ore stemming from the global economic slowdown was partly offset by stronger performance in sectors such as fishing, construction and telecommunications. Inflation was subdued at 4.7 percent and, the current account deficit remained under control at 2 percent of GDP in 2001.

The fiscal stance in 2001 was prudent, as the overall budget deficit was slightly below the program target, excluding the delayed fishing payment by the European Union (EU). This deficit was financed entirely through external concessional loans and grants and the government continued to accumulate deposits with the banking system. The shortfall in turnover revenue from the SNIM was offset by a decline in public expenditure from the programmed level. Despite these efforts to contain expenditure, the authorities accelerated expenditures related to poverty reduction, thanks to improved project execution.

In the monetary area, the authorities reduced their discount rate, so as to further ease monetary policy in a low inflation setting. At the same time, they engineered a sharp drop in Treasury bill rates to make room for more bank lending to the private sector. All in all, monetary aggregates, including the expansion of credit to the private sector was broadly in line with the program. As regards, the exchange rate, the authorities adopted several measures aimed at deepening and unifying the foreign exchange market. In this regard, they are making efforts to reduce the gap between the interbank rate (transfer rate) and the parallel rate for cash transactions through ensuring a sufficient supply of foreign bank notes to meet the demand. They also eliminated all surrender requirements.

In the external sector, the current account deficit was lower than programmed, reflecting a lower than expected level of imports and stronger fish exports that compensated for part of the decline in the mining exports. Gross official reserves remained at a comfortable level of nearly seven months of imports. The authorities also continued to manage their external debt prudently and made further progress in discussions with creditors on debt relief.

In the structural area, the authorities continued to make progress, although some delays due to factors beyond their control were encountered. The two structural performance criteria on the revised investment code and the setting-up of a VAT refund system were observed, the wage ceiling on CNSS was increased, the 3 percent interest rate remuneration imposed on government deposits held at commercial banks was applied. However, despite the fact that all measures under their control were taken, including the separation of water and electricity, the cleaning of financial balances, and the launching of bid, the privatization of SOMELEC could not be completed, due to technical factors beyond the control of the government. The quantitative benchmark on tax revenue was not met owing to a shortfall in the turnover tax (TCA) from the state mining company (SNIM), attributable for the most part to world economic conditions and their impact on the demand for iron ore.

As regards poverty reduction, the poverty situation has been improving, albeit at a lower pace than envisaged at the decision point. Good progress has been made toward reaching the poverty and social objectives set in the decision point, especially for education and health, although meeting some of the quantitative targets proved to be more difficult than originally envisaged, as some of the targets were too ambitious.

III. MEDIUM-TERM PROGRAM AND POLICIES

The medium-term objective of the authorities, as revised in the PRSP, is to promote a strong and diversified economic growth and foster poverty reduction, while maintaining macroeconomic stability. To this end, the authorities intend to achieve an average real GDP growth rate of about 6 percent over the medium-term and contain inflation at 4 percent, while continuing to build a comfortable level of foreign reserves. To achieve these objectives, the authorities count on increasing investment and enhancing the diversification of the export base, so as to reduce the country's vulnerability to exogenous shocks. They are hopeful that, at the completion point, debt relief and other concessional financing will help the country achieve a medium-term external debt sustainability. However, they are aware that the economic situation remains fragile, as evidenced by the recent global economic downturn. With this in mind, they intend to maintain the momentum of reforms. My authorities are committed to continuing their efforts aimed at alleviating poverty beyond the current completion point. To this end, they have already indicated their willingness to negotiate a successor program to the current PRGF, to consolidate their gains, and maintain financial discipline.

Fiscal policy

The main objective of the authorities for 2002 is to improve expenditure management and foster economic growth for poverty reduction. To this end, they intend to increase markedly investment spending; allocate a higher share of resources to spending on priority sectors; increase expenditure on maintenance, so as to preserve the quality of physical infrastructure and maintain the momentum in the tax collection effort.

On the revenue side, the authorities are proceeding with a number of tax reform measures, including the recent cuts in the corporate tax rate from 35 percent to 25 percent and the introduction of a VAT refund system for which a public awareness and information campaign is being prepared. They also intend to proceed with the simplification of the income tax on wages and salaries, in order to reduce the number of brackets in the 2003 budget law. Following the adoption of the new investment code, the authorities intend to stop granting tax concessions to those investors admitted under the old investment code and have prepared draft implementing decrees for the new code which strengthens the effective monitoring of activities entering the free-export zones.

On the expenditure side, the authorities are giving more emphasis to the fight against poverty, in line with the PRSP. In this regard, an amended budget was adopted in February 2002 reallocating 3 percent of current expenditure (excluding wages) to promote reading and make books available to the poor without affecting the fiscal balance. My authorities are cognizant that with the marked increase in expenditure in priority sectors, strengthening public expenditure management is another priority for the success of the program, as this will help them improve the execution and tracking of public spending. To this end, the authorities will take a number of actions, including adopting a functional classification of expenditure related to poverty reduction, improving monitoring of poverty reduction expenditure, expediting the preparation of medium-term expenditure frameworks for the priority sectors, adopting the new treasury chart of accounts and conducting a study for the computerization of expenditures on goods and services. They will also introduce a budget execution law *"loi de règlements» with* the 2003 budget to improve transparency in public spending. In addition to these efforts, the authorities will devote more attention to strengthening administrative and project implementation capacity, which is a major obstacle to efficient spending and poverty alleviation. In this regard, they will take steps to facilitate the implementation of the recently adopted procurement code and provide the necessary means for the central procurement commission to better perform its work.

Monetary policy and financial sector reforms

Monetary policy is designed to achieve the inflation objective, while building-up gross reserves to eight months of imports. In this context, credit to the private sector is programmed to be consistent with the program targets. In order to improve its effectiveness in the conduct of monetary policy, the central bank "*Banque Centrale de Mauritanie*" will improve the forecasting liquidity capacity and make more use of indirect monetary instruments to mop-up or inject liquidity. The authorities will also strengthen the monetary policy committee in order to improve policy coordination. They have undertaken the reorganization of major departments of the central bank and focus on redeploying existing staff, as necessary before preparing recruitment or severance plans. In line with the Fund's recommendations for safeguards assessment, they have completed the first phase of the process and will establish for the future a formal process for selecting external auditors and a policy of publishing statements on a timely manner.

As regards the transfer of government deposits from commercial banks to the central bank, the authorities will put in place a program of prudent transfer, which takes into account the importance of these deposits both for banks and for private sector financing. Given the particularity of the prevailing private sector conditions and the oligopolistic nature of the banking system, the authorities and the Fund agreed to reach the credit concentration ratio target on a bank by bank basis.

Regarding exchange rates, the authorities are aware that the market is developing at a reasonable pace and are prepared to conduct a policy that would prudently influence expectations by providing signals to the market, so as to reduce the gap between the official and the cash rate. To this end, they will take a number of measures, including mopping up excess liquidity in the banking system by means of treasury bill auctions, as well as other indirect monetary policy instruments, providing the market with sufficient quantities of dollars and euro banknotes to meet all the market's needs and, playing a more active role in the exchange market by smoothing fluctuations. Furthermore, given the importance of trade with the euro area, the central bank is considering giving more weight to the euro over the US dollars.

Structural reforms

The main objective of the authorities is to improve competitiveness and foster poverty reduction. In this regard, they have recently adopted a more rationale law organizing the distribution of petroleum products. They also began addressing the precarious financial situation of the CNSS and are awaiting the outcome of an actuarial study conducted by ILO to adopt a comprehensive strategy. In the customs area, they will prepare a modernization plan, in line with the Integrated Framework, in order to facilitate and expedite customs clearance procedures and enhance their efficiency. They will continue the work toward complying with World Trade Organization rules and have adopted recently an action plan to this effect. In the area of privatization, despite the commitment of the authorities and the realization of the actions under their control for the privatization of SOMELEC, the process was delayed due to the adverse international situation prevailing in the energy sector, in the aftermath of the collapse of ENRON. This has prompted major companies that were interested in SOMELEC (ENRON, VIVENDI, AES) to withdraw at the last moment. The Fund and the Bank advised the authorities to postpone the privatization of SOMELEC, as there was a risk of selling below market price to the only bidder who remained in the privatization process. Notwithstanding, the authorities remain fully committed to finalizing the privatization of SOMELEC in the near future.

Poverty reduction and completion point under the HIPC Initiative

The authorities are pursuing their relentless efforts for poverty alleviation reduction. They are taking action to protect the most vulnerable groups, including improved targeting, reallocating public expenditure to social sectors, and introducing a labor-intensive public works. They have also prepared the first progress report in a broad participatory process, which shows successful first year implementation and substantial progress towards meeting most of the completion point triggers. In addition, debt indicators show that the stock of Mauritania's public debt will decline to a sustainable level at the completion point. However, as mentioned earlier, the country still relies on two major exports, which may be vulnerable to exogenous shocks. Therefore, it will be important to put in close scrutiny, the debt sustainability analysis of Mauritania.

My authorities believe that they have met all the conditions for reaching the completion point under the Enhanced HIPC Initiative and are hopeful that the Executive Board will concur with this assessment. They have made substantial progress in meeting the floating conditions for the completion point of the enhanced HIPC Initiative. As indicated in box 1 of the completion point documents, all the macroeconomic and structural conditions have been met; except those which have proven difficult to meet (principally in the education and health sectors where some targets were set above the Millennium Development Goals) and those for which it has been determined, in consultation with Fund staff, that meeting some of these conditions may no longer be desirable (such as meeting the credit concentration ratios for commercial banks where commercial banks credit concentration ratios and the privatization of SOMELEC).

IV. CONCLUSION

Since the outset of their adjustment program with the Fund, the strong commitment of the authorities to implementing sound economic policies has enabled Mauritania to achieve a solid economic and financial situation. Despite these achievements, the economy remains fragile and vulnerable to exogenous shocks, as evidenced by the adverse impact of the recent decline in the export of iron ore. My Mauritanian authorities are determined to build on past progress and persevere in their adjustment efforts, in order to create an environment conducive to private sector-led growth and poverty reduction. In view of their strong performance and solid track record, the authorities request the completion of the fifth review under the PRGF arrangement and waivers, as well as the extension of the commitment period under the PRGF arrangement until December 2002, to allow time for the sixth and final disbursement under the arrangement. They are also hopeful that the Executive Board will concur that they have met all the conditions for reaching the completion point under the enhanced HIPC Initiative during this review.