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Islamic Republic of Mauritania: 2005 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice 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 the 2005 Article IV consultation with the Islamic Republic of Mauritania, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 14, 2005, 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, 2005. 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 May 27, 2005 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 2, 2005 discussion of the staff report that concluded the Article IV consultation.

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

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with the Islamic Republic of Mauritania

Approved by Amor Tahari and Anthony Boote

May 6, 2005

- Discussions for the 2005 Article IV consultation were held in Nouakchott, from January 8 to 22, 2005, and at headquarters from March 12 to 14, 2005. Staff met with the new economic team appointed in July 2004—the minister of economy and development, the minister of finance, the minister of mines and industry, the governor of the Central Bank of Mauritania, and other senior officials.

- The mission consisted of Messrs. Le Dem (head), Callier (Resident Representative), Iradian, Wieczorek (all MCD), Hauge and Frerejacque (all FIN), Tazi (FAD), Ms. Fisher (STA), and Ms. Albertin (PDR). World Bank staff participated in several meetings.

- Due to the large fiscal and monetary slippages that went unreported by the authorities until September 2004, the program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement, approved by the Executive Board on July 18, 2003, was found to be off-track and on November 7, 2004, at the authorities' request, the arrangement was canceled.

- In addition to the standard Article IV consultation topics and the challenges that Mauritania faces in preparing for oil revenues (expected to begin in 2006), this report covers important data accuracy issues, which impeded the assessment of economic developments and the formulation of policy advice.

- The Managing Director is reporting separately to the Executive Board on a noncomplying disbursement under the 2003 PRGF arrangement.

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EXECUTIVE SUMMARY

Mauritania's program, supported by a three-year PRGF arrangement approved in July 2003, went off track as a result of large extrabudgetary expenditures in 2003–04, which remained unreported by the authorities until September 2004. The resultant cumulative fiscal deficit over 18 months starting in January 2003 exceeded 50 percent of annual GDP and led to a drawdown of official reserves to less than a month of imports. Important structural reforms stalled or backtracked, and the deterioration in the functioning of the foreign exchange market was accompanied by a rise in the parallel market premium. In the event, the program was found to be irretrievably off-track, and the initial disbursement was found to be noncomplying. **In November 2004, the authorities voluntarily repaid the first and only disbursement and, at their request, the arrangement was canceled.**

Data issues remain of primary concern. The safeguards assessment conducted in 2004 identified critical vulnerabilities in the Central Bank of Mauritania's (BCM) financial reporting. The external audit of BCM's end-2002 balances was unable to reliably confirm about 85 percent of its foreign reserves and previous audits made similar qualifications. The authorities maintain that all end-2002 and prior data reported to the Fund were accurate. However, the historic series are hard to reconcile with the revised 2003–04 data, most notably for the inexplicable shifts in income velocity of money and nongovernment savings.

Following a government reshuffle in July 2004, a new economic team took actions to tighten fiscal and monetary policies. Nevertheless, inflation has been on the rise and official reserves have continued to decline. Given the authorities' preference for maintaining a stable exchange rate, policy discussions focused on the need for further fiscal and monetary tightening during the first half of 2005 to safeguard the precarious external position.

The external outlook is expected to improve markedly later in the year, and substantially so in 2006 with the **coming on stream of oil revenues.** In view of the deficiencies in public expenditure management, a transparent and efficient management of oil revenues will present a major challenge, and preparations for the oil era need to be accelerated.

Steps are being taken to **resume the structural reform agenda** with technical assistance of the Fund and World Bank staffs, including in the public expenditure management and financial sector areas. A new PRSP will be submitted to parliament by end-2005.

The authorities requested the use of the Fund's emergency assistance for natural disasters (EAND), on account of the locust invasion and the drought in 2004/05 crop year, and expressed interest in a **staff-monitored program (SMP)** to help release donors' suspended budget support and pave the way for a new PRGF arrangement. In addition to the external audit of the end-2004 central bank financial statements, staff reiterated the need for independent verification of the end-2003 central bank financial statements and full disclosure of the information available to confirm the official reserves for 2001–02, before the request for the use of Fund resources can be considered.

I. INTRODUCTION

1. **Mauritania had a long-standing good relationship with the Fund.** During the period 1989–2002, Mauritania completed four programs supported by the PRGF and its predecessor the Enhanced Structural Adjustment Facility (ESAF). Mauritania was among the first countries to reach the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), in May 2002.

2. **In July 2003, a new PRGF arrangement was approved by the Board. However, in September 2004, the authorities acknowledged substantial inaccuracies in data reported since early 2003.** The new economic team that was appointed in July 2004 revealed to staff that sizable policy slippages had occurred. In the light of these revelations, the PRGF-supported program was found irretrievably off-track, and misreporting on the implementation of a prior action for the approval of the arrangement rendered the first disbursement noncomplying. On November 4, 2004, the authorities voluntarily repaid the sum of SDR 0.92 million corresponding to the noncomplying disbursement, and, at their request, on November 7, 2004, the 2003 PRGF arrangement was canceled.

3. **In the event, most recommendations of the previous Article IV consultation (which was concluded on July 18, 2003 jointly with the approval of the PRGF arrangement) were not implemented**. Among others, the authorities failed to improve the operation of the foreign exchange market, while transparency and governance in the public sector deteriorated. On balance, there was also no improvement in public expenditure management, which Directors thought essential for enhancing efficiency and ensuring the success of the poverty reduction strategy. The sizable fiscal slippage in 2003–04 points to the lack of progress in this area, although steps have been taken recently to improve budget preparation and execution. The government's intentions for the efficient and transparent use of the forthcoming oil revenues (to start in early 2006) have been shared with staff, as recommended by Directors, although preparations need to accelerate.

4. **The political tensions that persisted after the failed military coup of June 2003 have recently abated.** The incumbent president's large victory in the November 2003 elections was widely contested. Trials against opposition candidates for the conspiracy to overturn the constitutional order and the reported mutinies of military officers further clouded the political climate. However, in February 2005, the lenient outcomes of the trials were welcomed at home and abroad as a sign of conciliation.

II. DATA REVISIONS AND ISSUES

5. **The safeguards assessment conducted in 2004 identified critical vulnerabilities in the financial reporting of the BCM**.[1] Opinions of the external auditor on end-2000 and

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[1] An on-site safeguards assessment mission took place in January 2004, and its report was finalized in May 2004.

end-2001 financial statements of the BCM were heavily qualified, largely due to systemic weaknesses in controls and accounting deficiencies. Concerning the end-2002 financial statements, the auditor was unable to reliably confirm about 85 percent of the reported level of foreign reserves, and qualified its opinion with regard to currency in circulation and claims on the government (Box 1).

6. **The authorities acknowledged in September 2004 a serious breach of their obligations to report accurate information in the context of the PRGF-supported program.** They admitted that key program data, including those pertaining to the first quarter of 2003 that were previously reported to the Board, were incorrect. Moreover, 2003 data provided between April 2003 and June 2004 misled staff in assessing that the program was on track and that all quantitative performance criteria as of end-September 2003 and most other quantitative program targets had been met. **In reality, according to the revised data provided by the authorities, exceptionally large program slippages occurred in 2003–04.** The revised fiscal, balance of payments, and monetary data, including data on commercial banks, revealed that the main program parameters were missed by large margins. The authorities explained that in early 2003, they had to initiate an off-budget emergency plan (mostly in-kind transfers to protect vulnerable segments of the population from the effects of an unusually severe drought[2]) as well as off-budget security-related outlays, which subsequently spiraled following the failed military coup in June 2003. They also admitted that the parallel weakening of budgetary oversight resulted in additional extrabudgetary expenditures.

Main Revisions to the 2003

	Prog	Reported in	
		May 1	Sep. Revised
Growth in broad money (in percent)	12.	10.	103.
	(In percent of revised GDP) 2/		
Total government expenditures	26.	28.	60.
of which: extra budgetary	….	….	32.
Overall fiscal balance excl. grants	-	-	-
	(In millions of U.S. dollars)		
Gross official reserves (end-year)	36	41	22 3

Source: Mauritanian authorities.
1/ During discussions with Fund/Bank staff of a draft PRSP progress report.
2/ GDP revisions are discussed in Appendix III.
3/ Including the then disputed amount of US$29 million.

[2] Social expenditures in 2003 reportedly exceeded by nearly two-thirds the target set in the budget, and also was largely above the budget target in 2004 (Table 2a).

Box 1. Safeguards Assessment and Status of Recommendations

The safeguards assessment carried out in January 2004 identified critical vulnerabilities in the BCM's financial reporting and internal controls, as well as severe vulnerabilities in its internal audit mechanisms and legal structure. On the financial reporting, staff learned that about 85 percent of the official reserves at end-2002 could not be reliably confirmed by the external auditor. The principal recommendations proposed by staff were to:

- Conduct a special external audit of the BCM's foreign reserves to confirm the level and availability of foreign reserves reported to the Fund at end-December 2003.

- Publish future audited financial statements and audit reports in a timely manner.

- Adopt internationally recognized accounting standards.

- Modify the central bank law to grant fixed-term mandates for the governor and the other members of the Board.

While the BCM has indicated that accounting problems preclude an external audit of the BCM's foreign reserves for end-2003, most other recommendations have been or are being implemented:

- The central bank conducted an internal audit of official reserves as of end-August 2004, which confirmed data communicated to staff in September 2004. An agreement was reached with the treasury to consolidate the government claims and liabilities with the BCM, including the net cumulative foreign exchange losses. The end-2004 accounts have been corrected in line with past recommendations of the external auditor.

- The Board of the BCM decided to carry out the external audit of the central bank's financial statements within five months of year-end from 2004 onward, but results are not to be published at this stage.

- The BCM Board also passed resolutions facilitating the future adoption of International Financial Reporting Standards (IFRS) and establishing a new internal audit function. The transition to IFRS, improvements in internal controls, and the development of a reserves management function will, however, require long-term external technical assistance.

- The BCM also adopted a recommended procedure for selection and rotation of an external auditor.

7. **The authorities proceeded with further data revisions in the ongoing effort to clean the end-2004 balance sheet of the central bank.** Revisions included writing off the previously disputed foreign assets, reclassifying as foreign liabilities a number of items that were previously reported as domestic liabilities, and correcting the stocks resulting from the exchange rate-related valuation changes. Some revisions have been made retroactively; others have been applied to the end-2004 financial figures only, while the BCM indicated that a comprehensive treatment would require a retroactive correction over a longer period (up to 20 years).

8. **Concerns remain with regard to the accuracy and consistency of key macroeconomic data in 2003 and prior years.** The main issues relate to the levels of

official reserves, the timing and composition of extrabudgetary spending, and the causes of large discrepancies between commercial bank data reported by the central bank and those published by the commercial banks, with the latter implying higher levels of monetary aggregates. Discussions with the authorities left these three data issues unresolved:

- Despite the lack of external confirmation for the 2000–02 official reserves data reported by the central bank, the authorities maintain that most data prior to 2003 remain accurate.[3] However, no evidence to support the authorities' affirmation was made available, and critical documentation on official reserves appears to have been lost by the central bank and the external auditor.[4]

- Details on some extrabudgetary spending (including on UM 30 billion, equivalent to a quarter of off-budget spending in 2003) are not available. The extent to which these expenditures have been pre-authorized by the then finance minister and approved by the procurement committee remains unclear.

- The authorities insist that data reported by commercial banks in their annual reports (even if formally audited) are subject to reservations, and should not be seen as more reliable than those reported by the central bank. However, the September 2004 BCM revisions to commercial bank data have reduced the discrepancies in the 2003 data between the two sources.

9. **The authorities have already undertaken steps to improve the quality of financial and fiscal data reporting.** In parallel with the cleaning up of the central bank balance sheet, the BCM intends to submit all commercial banks to external audits of their annual financial statements by reputable international firms, starting with their end-2005 accounts. At the finance minister's request, a FAD technical assistance mission is reviewing budget accounting and reporting procedures. Also, Mauritania began participating in the Fund's General Data Dissemination System (GDDS) in September 2004.

10. **Staff stressed to the authorities that future access to Fund resources requires their full cooperation in bringing the ongoing data verification process to a satisfactory conclusion.** Responding to the authorities' expressed interest in restoring program relations with the Fund, staff noted that further cooperation is needed to confirm that data communicated to staff in the context of the PRGF arrangement approved in 1999 were

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[3] The revisions affecting data prior to end-December 2004 (¶7) resulted in: (a) a downward adjustment of about US$29 million in foreign reserves for the 1997–2004 period, as a result of checks carried out in a BCM internal audit at end-August 2004; and (b) an upward adjustment of approximately UM 3 billion in BCM credit to the government, covering at least the 2000–02 period. The authorities argued and staff verified that these revisions would not alter the conclusions regarding the compliance with the relevant quantitative performance criteria at the dates for which staff had information.

[4] Staff continues to seek clarification and information concerning the 2001–02 reserves data from the authorities so as to ascertain whether there is evidence to pursue a case of misreporting under the 1999 PRGF arrangement.

correct. Mauritania has requested the use of the Fund's emergency assistance for natural disasters (EAND) on account of the locust invasion and the drought in the 2004/05 crop year, and expressed interest in a SMP, with a view to building a track record that would form the basis for a new PRGF arrangement. While agreeing with staff on the need to anchor program relations on a solid starting point, the authorities argued that a non-qualified external audit of the central bank financial statements as of end-2004 should be sufficient. Staff reiterated the need for independent verification of the end-2003 central bank financial statements and full disclosure of the information available to confirm the official reserves for 2001–02.

11. **In addition to dealing with data problems and the interpretation of recent economic developments, key discussions with the new economic team focused on the policies needed to address the challenges discussed below.** The authorities were eager to tackle the problems facing Mauritania now and hoped that staff would focus on the future without dwelling excessively on the mistakes of the past. Staff insisted that resolving outstanding data issues and avoiding future slippages would be equally important.

III. Recent Economic Developments

12. **On the basis of the revised data for 2003–04, Mauritania significantly departed during the past two years from the long-standing prudent policies that had earned it the reputation of a strong performer.** Instead of capitalizing on its solid fiscal stance and comfortable foreign exchange position to pursue the second generation of reforms, the authorities backtracked on many objectives outlined in their PRSP.[5] Important structural reforms stalled, most notably in banking, the foreign exchange market, governance, and capacity building. The moderate increase in public spending, which was programmed to maintain macro-stability and respect capacity absorption limits, turned into an off-budget spending spree. In the event, Mauritania registered two years of buoyant growth of close to 7 percent, exceeding the original objectives and historic averages, at the expense of seriously compromised macroeconomic stability (Table 1).

13. **The revised data show that policies pursued during the 18 months from January 2003 entailed large fiscal imbalances and a concomitant loss of foreign reserves.**[6] Under the original program's assumption of a broadly balanced budget for 2003–04, the available foreign financing would have been sufficient to maintain the reported reserve cover in excess of six months of imports of goods and services. In reality, the extrabudgetary spending resulted in a cumulative fiscal deficit exceeding 50 percent of annual GDP (Table 2). Imports directly paid for with the official reserves represented a large

[5] The PRSP was discussed by the Board in January 2001 (EBD/01/6, 1/12/01). The latest (second) PRSP Progress Report and its Joint Staff Assessment were presented to the Board in 2003 together with the request for the approval of the 2003 PRGF arrangement.

[6] Assuming that, as the authorities stated, the slippages started only in early 2003.

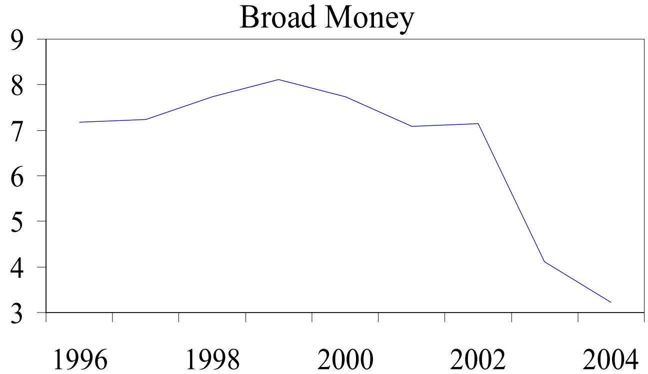
proportion of the extrabudgetary spending, and by June 2004 the reserve cover had shrunk to one month of imports (Table 3).

14. **In mid-2004, Mauritania found itself in need of radical stabilization to avert the prospect of a balance of payments crisis and tame a double-digit inflation.** The new economic team, appointed in July 2004, took coordinated measures to reverse the unraveling of macroeconomic stability by curbing extrabudgetary expenditures and withdrawing central bank financing. The BCM raised reserve requirements to mop up some of the excess liquidity and stepped up foreign exchange interventions in defense of the ouguiya. However, macroeconomic conditions continued to deteriorate in the second half of 2004 with inflation pressures unwinding progressively and the parallel foreign exchange market premium coming under recurrent stress.

Policy Slippages in 2003 and the first half of 2004

15. **The upsurge of extrabudgetary expenditures critically affected the fiscal policy stance.** Overall, on the basis of the data provided by the authorities, one-half of the extrabudgetary expenditures undertaken in 2003 and about 60 percent of those undertaken in the first half of 2004 were attributed to emergency needs and security-related outlays. The remaining part comprised diverse or unidentified outlays directly paid for by the central bank. The fiscal impulse enabled a significant increase in private sector activity generating additional tax revenues but their impact on the fiscal deficit was dwarfed by the magnitude of extrabudgetary spending.

Figure 1. Mauritania: Income Velocity of Broad Money



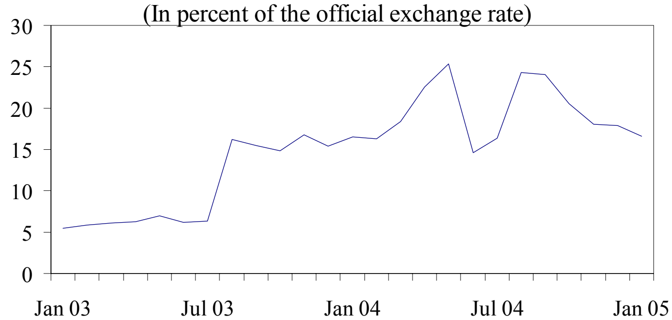
Source: Mauritanian authorities.

16. **Monetary developments in 2003 and the first half of 2004 were dominated by the uncontrolled growth of the government's financing needs (Table 4).** Half of the fiscal deficit was financed by a drawdown of official reserves and the other half was monetized without an offsetting credit tightening. Commercial banks expanded credit to the private sector by 45 percent during that period. As a result, currency in circulation and broad money more than tripled between end-2002 and end-June 2004. **However, the analysis of monetary developments is still subject to important qualifications pertaining to the difficulties in explaining the sharp decline in the income velocity of broad money**.[7]

[7] As suggested in ¶8, monetary data may have been underreported prior to 2003. The stabilization of the nominal exchange rate against the U.S. dollar since 2001 could explain only a limited fraction of this decline.

17. **The unchecked credit expansion exacerbated frictions in the foreign exchange market and triggered a temporary currency shortage.** The parallel market premium surged in the summer of 2003 and peaked above 20 percent in April/May 2004 prompting temporary measures to curb activity in the parallel foreign exchange market. Also, in the summer of 2003, commercial banks reportedly experienced difficulties in obtaining cash from the BCM, which culminated in a brief run on deposits. In retrospect, this episode was probably less related to the BCM's efforts to stem an ongoing parallel market speculation against the ouguiya (as explained to staff at that time) than to the BCM's temporary difficulties in meeting the fast-expanding demand for cash.

Figure 2. Mauritania: Premium on the Parallel Foreign Exchange Market
(In percent of the official exchange rate)



Sources: Mauritanian authorities through July 2003; and IMF Resident Representative Office thereafter.

Policy tightening from mid-2004

18. **The fiscal and monetary tightening in the second half of 2004 was substantial, but did not suffice to strengthen the ouguiya.** Reportedly, no extrabudgetary expenditures were committed after the new economic team took office, although some previously committed outlays were left unpaid.[8] The BCM curbed its financing of government operations, which resulted in a large reduction in the fiscal deficit. In July 2004, the BCM raised the reserve requirements on bank deposits from 4.5 to 8.0 percent and eliminated the facility set up a year before to offset the liquidity impact of transferring government deposits from commercial banks to the central bank. As a result, growth in all monetary aggregates slowed down in the second half of 2004.[9] Meanwhile, the BCM stepped up its foreign exchange interventions to contain the recurrent widening of the parallel market premium.

Developments in the real and external sectors in 2003–04

19. **Preliminary data provided by the authorities on the real sector seem to indicate that the impulse from the sizable extrabudgetary spending had an immediate impact on economic activity and a large, albeit delayed, impact on inflation.** With strong exogenous shocks on agricultural output in the background—a rebound in 2003 and a decline in 2004

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[8] An amount equivalent to 7 percent of GDP of the off-budget spending committed before end-July 2004 is estimated to have been left unpaid for at that date, of which a fifth (UM 7 billion) was not yet regularized by end-2004.

[9] However, the BCM relaxed somewhat the monetary tightening in December to ease bank liquidity during a comprehensive exchange of the 1974 generation of banknotes for new and more secure ones.

under the impact of locust invasion—real GDP growth increased from 3 percent in 2002 to nearly 6½ percent in 2003 and is estimated to have reached nearly 7 percent in 2004 (Figure 3). The 12-month CPI growth remained subdued in 2003, but accelerated markedly in 2004, reaching 16.2 percent at year's end, fuelled by the monetary expansion and the pass-through of the international oil price increases. An additional inflationary impulse came from the Nouakchott real estate market, reportedly booming in the wake of the favorable oil prospects.

20. **Mauritania's external position deteriorated sharply in 2003–04, resulting in a precipitous decline in foreign reserves** to a level equivalent to about two weeks of imports of goods and services at end-December 2004. While the current account deficit in 2003–04 reflected for a large part a surge in FDI-financed imports of oil production equipment, imports of goods related to the extrabudgetary expenditure tipped the underlying current account balance (excluding oil exploration related imports) from a small surplus in 2002 to double-digit deficits in percent of GDP for two consecutive years. However, the comparatively limited deterioration of the current account balance (half that of the fiscal balance in 2003) implies a sharp increase in nongovernment savings (Table 5), and an even less explicable significant private consumption drop in real terms.[10] In 2004, the stabilization of the current account deficit was due to a relatively good export performance and the mid-year reversal of the expansionary fiscal stance.

21. **Competitiveness did not significantly erode in the past two years, although the progressive widening of the parallel market premium foreshadowed a growing disequilibrium**. Given the large appreciation of the euro vis-à-vis the U.S. dollar, the de facto pegging of the ouguiya/dollar rate led to a continued modest depreciation of the average real effective exchange rate in 2003. In 2004, however, the depreciation was reversed as the inflation differential between Mauritania and its trading partners widened (Figure 4).

Structural reforms

22. **The structural agenda of the PRSP suffered from delays and setbacks, and several key measures agreed upon under the 2003 program were put aside (Table 6).** While a reform of budget execution procedures is under way, the core issues that had been identified in the 2002 fiscal ROSC have not yet been addressed. Deficiencies in the functioning of the foreign exchange market and in the financial system, including weaknesses in commercial banks' supervision, have not been corrected. Programs to support good governance and to reform public administration are still in the preparatory stages. Progress has been made, however, on the restructuring of the social security fund and on the reform of the labor market.

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[10] This suggests that in the 2003–04 period either: (a) the current account deficit is underestimated as possibly suggested by the sharp increase in the balance of payments errors and omissions; or (b) the fiscal deficit is overestimated, which would be the case if extrabudgetary spending had started before 2003.

23. **The full scope of fiscal mismanagement and misreporting came to the fore in the aftermath of the sizable fiscal slippages.** Major deficiencies in accounting, reporting, control, and treasury management functions facilitated the extrabudgetary spending in 2003–04 and its concealment (Box 2). In this context, steps that had been taken to improve budget preparation and execution (such as the elaboration of a medium-term expenditure framework in 2003 and the recently passed legislation enabling greater transparency and efficiency in expenditure management, along with devolution of expenditure authorization) were of little help.

24. **Reforms of the foreign exchange market encountered serious setbacks as the BCM struggled with the growing pressures on official reserves.** The functioning of the market deteriorated significantly between mid-2003 and mid-2004, with the BCM resorting to a discretionary rationing of foreign exchange to commercial banks and foreign exchange bureaus. In September 2004, faced with growing complaints from private operators, the new management of the BCM officially stopped the foreign exchange auctions and began to prioritize the sales toward the payments for imports of key commodities (including petroleum products and staple goods), the rest being allocated to banks according to transparent criteria.[11] External payment arrears surfaced in the private sector, reflecting the rationing of foreign exchange. The BCM also withheld the elimination (scheduled for September 2004) of the 70 percent surrender requirement on export proceeds from fishing.

[11] The criteria include banks' participation in export financing and their observance of credit concentration ceilings.

Box 2. Main Deficiencies in Fiscal Management

Many deficiencies in fiscal management were noted in the 2002 Report on the Observance of Standards and Codes (ROSC), Fiscal Transparency Module, notably in the accounting system and other areas where Mauritania had not achieved a sufficient degree of transparency. The following deficiencies were also flagged in the periodic reviews of Mauritania's tracking of poverty-reducing public spending:

- The budget is fragmented into an operating budget and a consolidated investment budget (BCI). Operations carried out through two financially independent government agencies (including a substantial proportion of social expenditures) are not subject to normal budget procedures.

- Ex ante controls of public expenditures are inefficient. For instance, until recently procurement procedures allowed large public expenditures without proper verification that budget allocations were available.

- Financial supervision, which until March 2005 was not subordinated to the minister of finance, is weak. Information on public expenditures at each stage of the process is nonexistent and, as a result, their control is poor and their tracking partial (including the tracking of the expenditures financed through HIPC debt relief).

- Complete government accounting records have not been kept for several years, and the treasury is unable to prepare the monthly treasury balance necessary for preparation of the consolidated fiscal reports (TOFE).

- Fiscal reporting is still not computerized (originally scheduled for 2004).

- The supplementary period for balancing the books exceeds the two months prescribed in the financial legislation, which makes it difficult to close the books and carry out the year-end reconciliation between the treasury and the BCM for the preparation of the Budget Execution Law.

- The treasury has only a partial view of its current and liquid assets, and management of public funds and government cash holdings is compartmentalized.

25. **Over the years, Mauritania received a substantial amount of Fund technical assistance, notably in the areas of tax policy, banking supervision, and foreign exchange system reforms, but with a mixed effectiveness record.** Some recommendations on tax policy reforms were incorporated in the 2004 budget law, but technical assistance provided in other areas is yet to produce its effects. Recently, the new economic team has actively sought the Fund's technical assistance, notably in public expenditure management, and has already initiated the implementation of several technical assistance recommendations to improve fiscal reporting.

26. **Since reaching the completion point under the enhanced HIPC initiative, Mauritania has concluded debt relief agreements with all multilateral and most bilateral creditors.** Negotiations are currently conducted with Saudi Arabia and the United Arab Emirates and the authorities plan to continue their discussions with those bilateral creditors (Algeria, Brazil, Iraq, and Libya) that have not yet provided irrevocable HIPC debt

relief. Mauritania is also discussing with Kuwait and Libya the treatment of the "passive debt," which was excluded from HIPC relief calculations at the decision point.[12]

Poverty reduction

27. **The preliminary results of the ongoing household survey show improvements in several social indicators in 2000–04, consistent with the PRSP targets.** The provision of health and education services has improved, as reflected in the literacy, primary school enrollment, and child vaccination rates (Table 7). However, access to water and electricity remains deficient. While the 2004 poverty incidence indicators for the entire country are not yet available (46.7 percent in 2000), in Nouakchott, poverty incidence declined significantly during the years 2000–02; inequality, however, increased markedly in that period.

IV. Economic Outlook and Key Challenges

28. **Mauritania's economic outlook presents difficult challenges—both in the short and in the longer term. At present**, **the authorities are confronted with the aftermath of the 2003–04 slippages**: a looming balance of payments crisis and rising inflation. Although inconsistent data and inexplicable recent economic developments (including the actual course of monetary and fiscal policy since 2001) make the design and implementation of economic policies difficult, it is clear that further tightening is needed. This may run, however, against domestic expectations that policies will be relaxed with the first offshore oilfield expected to come on stream in 2006. **Looking forward, Mauritania faces the challenge of building the capacity for managing substantial government revenue inflows from the nascent oil and other extractive industries.** Restoring integrity in financial data reporting, setting up safeguards against misuse of mineral resources, and resuming structural reforms are the key tasks that the authorities should undertake without further delays.

Near-term outlook

29. **Growth prospects for 2005 remain favorable despite the ongoing fiscal and monetary tightening.** The propitious business climate created by favorable oil, copper, and gold prospects will help sustain the growth momentum of 2003–04. The boom in construction and related sectors serving the domestic market is expected to continue and, together with the anticipated partial recovery of agricultural production and the good performance of traditional exports (particularly iron ore), will help maintain real GDP growth above 5 percent.

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[12] The service on this debt (US$40 million to Kuwait and US$15 million to Libya) was suspended because the creditors had not responded to the authorities' requests for clarifying whether the debt ought to be included in the HIPC relief calculations. Recently, both creditors asked for its repayment. In the ongoing negotiations, the Mauritanian authorities' argue for relief on terms comparable to those agreed upon by the creditors who participated in the enhanced HIPC initiative.

30. **An insufficiently tight policy mix, wage hikes, and exogenous factors will cause inflationary pressures to abate only slowly.** The remaining excess liquidity in the private sector, the budgeted 16 percent increase in civil service wages (leaving them virtually unchanged in real terms) and the 39 percent rise in the minimum wage in January 2005, the planned oil cost-driven electricity tariff increase, and the poor agricultural 2004/05 crop year will all exert upward pressure on consumer prices in the first months of the year. As a consequence, and despite a projected further policy tightening (see below), the 12-month inflation rate is unlikely to drop below 10 percent by end-2005.

31. **The consolidation of Mauritania's fragile external position will depend on a strict implementation of the policy framework envisaged by the authorities.** The expected improvement in the terms of trade will be a favorable factor. With the cessation of extrabudgetary spending and the soaring international iron prices boosting nongovernment savings, the large underlying external current account deficit (excluding FDI-related imports) is expected to disappear in 2005. Outside the mining sector, imports of goods and services are projected to contract, with the exception of emergency food imports to offset the locust invasion impact on the 2004/05 crop.[13] The capital account surplus (10.3 percent of GDP in 2004) is expected to double in 2005, boosted by a massive increase in direct investments in oil and other mining projects.

32. **The achievement of the central bank's foreign reserve objective is also predicated on the availability of external balance of payments support.** For the BCM reserves to reach the target of two months of imports by end-2005, an estimated financing gap of US$65 million would need to be covered, possibly by EU grants and disbursements of program loans from IDA and the African Development Bank. The authorities also intend to approach the Arab Monetary Fund, and encourage foreign commercial banks to roll over their import credits pending the arrival of oil export revenues in early 2006.

Medium- to long-term outlook

33. **The medium- to long-term economic outlook is increasingly favorable on account of the rapid development of extractive industries.** Exports of large quantities of oil, and significant exports of gold and copper are to begin in 2006. Oil production is expected to peak at some 150,000 barrels per day around 2010. The booming exports will lift the per capita income above US$1,000 in a few years, allowing Mauritania to graduate from IDA and PRGF status, and to reduce its reliance on official external financing.

34. **For the long term, staff has prepared two scenarios, based, among others, on different oil price assumptions (Box 3).** Both scenarios assume sound macroeconomic policies, efficient targeting of investment in infrastructure and human capital, and savings for

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[13] Cereal imports needed to maintain human consumption at its level of the (successful) 2003/04 crop year is estimated at 135,000 metric tons (US$22 million), to which exceptional imports of 66,000 metric tons of livestock feed (US$12 million) have be to be added.

future generations (oil production is projected to end by 2024). The **baseline scenario** assumes an oil price of US$43 a barrel in 2006 and high GDP growth during the 2006–10 period, declining thereafter (Table 5). Over time, the external current account surpluses are matched by the amortization of the ongoing oil and mining investment projects and a sizeable accumulation of official reserves. In parallel, the government savings (abroad) reach a level sufficient to generate income covering a primary deficit in the range of 2–3 percent of GDP during the post-oil period. A more conservative **low-case scenario**, assuming lower oil prices and recoverable reserves, shows a less rapid growth and moderated financial asset accumulation profile.

35. **Mauritania's debt sustainability indicators are expected to improve dramatically over the medium term (Appendix IV).** Staff projections indicate a substantial reduction in Mauritania's gross public external debt and debt service, reflecting the favorable external outlook and debt relief under the HIPC initiative. The net present value (NPV) of public external debt to GDP ratio is projected to drop from 53 percent in 2004 to 20 percent in 2010, while the domestic public debt (a heritage of the 2003–04 extrabudgetary expenditures) is expected to decline from 38 percent of GDP to 13 percent during the same period. A permanent adverse oil price shock portrayed in the low-case scenario induces only a mild deterioration in the external debt and debt service indicators, while the main adjustment is reflected in lower government savings (abroad).[14]

V. Policy Discussions

A. Macroeconomic Policies

Exchange rate policy

36. **Staff urged the authorities to adopt a transparent and sustainable exchange rate policy.** While the new BCM management had initially indicated its *a priori* preference for maintaining the exchange rate of the ouguiya stable against the U.S. dollar, it has recently leaned toward a managed float, benchmarked on a trade-weighted basket of currencies.[15] Staff acknowledged that an external nominal anchor could usefully contribute to abating inflationary pressures, but noted that, given the risk of depleting official reserves, defending the peg would likely entail an intensification of exchange restrictions. Staff argued that the success of the authorities' stabilization efforts would critically depend on an appropriate combination of policy tightening and mobilization of balance of payments support in 2005. The authorities agreed to prepare for the transition to a more flexible exchange rate system.

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[14] Standard stress tests suggest, however, that Mauritania's external debt and debt service indicators are relatively sensitive to negative shocks to export growth.

[15] Mauritania's exchange rate regime remains formally classified as a managed float.

Box 3. Mauritania's Petroleum Potential and Oil Revenue Management Issues

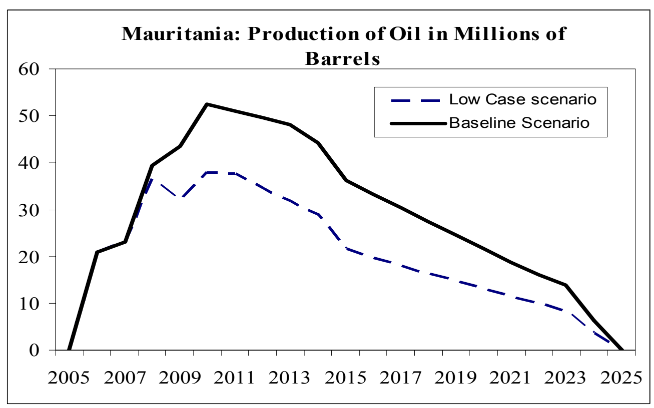
Mauritania will become an oil exporter in 2006. The production will start in one offshore field, Chinguetti, while another field, Tiof, could come on stream in 2008. Several other offshore and onshore fields are currently under exploration (see Chapter I of the Selected Issues and Statistical Appendix, 2005 at (www.imf.org)) for detailed analysis of the oil sector in Mauritania). The table below presents two scenarios based on different price and production assumptions.

Mauritania: Two Oil Scenarios, 2006–15

	Baseline 1/			Low-case 2/		
	2006–08	2009–11	2012–15	2006–08	2009–11	2012–15
	(In percent of nonoil GDP; unless otherwise indicated)					
Government revenues from oil	12.1	18.8	20.0	6.9	8.2	6.1
Nonoil primary balance	-4.5	-11.6	-10.4	-2.7	-5.6	-4.9
Overall government balance	2.4	5.3	10.0	2.0	1.5	0.5
Exports of oil in US$ millions	1,116	1,865	1,811	715	1,096	890
GNP per capita in US$	1,018	1,342	1,409	905	1,082	1,171

1/ Based on the WEO oil price assumptions (US$46 per barrel in 2006) and oil reserves of 600 million barrels.
2/ Based on a constant 2005 price of US$25 per barrel and oil reserves of 420 million barrels.

The expected budget revenues from oil are sizable and even under conservative assumptions (the low-case scenario) would on average exceed US$200 million (or 7 percent of nonoil GDP per year) over the medium term. The Government intends to integrate the use of oil revenues in its poverty reduction strategy. It has also proposed to set up an oil stabilization fund and to save for future generations.



Staff recommended that the following principles be applied to the management of oil revenues:

- Continue to subordinate the conduct of fiscal and monetary policies to the objectives of maintaining macroeconomic stability and the competitiveness of the nonoil sector.

- Focus on the primary nonoil deficit in percent of nonoil GDP—an appropriate indicator of what the government can afford to spend over the long-term without exhausting its assets—and align expenditures with a long-term objective of saving funds sufficient to sustain fiscal policy in the post-oil period.

- Make a clear policy statement on the use of oil revenues, including financial and other investments to be financed from oil revenues. Ensure that oil revenues and oil stabilization and savings funds remain transparent, fully integrated with the budget, and governed by a sound asset management strategy. Ensure accountability by conducting regular audits of the fund, to be submitted to parliament and published.

- Make sure that oil companies comply fully with the tenets of good governance, particularly with respect to accounting, auditing, and publication of accounts.

Meanwhile, they will manage the exchange rate so as to avoid its further significant appreciation in real effective terms and take measures to improve the structure of the foreign exchange market (see below).

Fiscal policy

37. **For 2005, the authorities plan a major tightening of fiscal policy compared with 2003–04, but staff stressed the need to subject the spending during the year to the imperative of safeguarding the external reserves position.** The overall fiscal deficit (including grants) is projected at 3⅓ percent of GDP in 2005, down from 20 percent in 2004. Government spending in 2005 is expected to be almost halved (in percent of GDP) compared with 2003–04, and to exceed the pre-2003 baseline (2001–02 average level) by no more than 3 percentage points of GDP, half of which is attributable to the increase in military spending and the remaining half is related to the increase in spending on goods and services. The one-off elements of the extrabudgetary spending in 2003–04 have been eliminated while some of its recurrent elements, mainly increases in wages and benefits granted to military personnel, have been accommodated.[16] The budget law also authorized the suspension of UM 7 billion (1½ percent of GDP) in self-financed capital expenditures, pending the availability of additional foreign financing. Given the projected high external vulnerability through mid-2005, staff recommended that about 15 percent of the expenditures budgeted for the first six months be postponed to later in the year, pending the anticipated repatriation of additional revenues by the national mining company, SNIM, and the disbursement of the financial compensation under the fishing agreement with the EU. There is also scope for curbing some of the increase in spending on goods and services.

38. **On the revenue side, overall government receipts as a percentage of GDP are projected to decrease,** owing to a slowdown in the growth of taxable imports and the diminished weight of nontax revenue (notably pertaining to the EU fishing compensation, which is a constant amount in euros). The revenue impact of raising the corporate income tax rate from 20 to 25 percent is expected to be negligible but this step represents an important structural improvement by realigning the general regime with special provisions for most oil producers and other mining operators prospecting in Mauritania. The authorities also requested Fund technical assistance in tax administration to prepare for the introduction of the General Income Tax, in line with the 2003 Fund technical assistance recommendations on direct tax reform.

39. **The authorities agreed with staff that the government should make no recourse to bank financing in the first half of 2005 and that there should be no accumulation of arrears during the year.** Staff also proposed that the automatic quarterly funding of the

[16] The 2005 budget introduces also a uniform, tax-free monthly bonus of UM 8,000 for civil servants, which, staff stressed, will lead to a further compression of the salary scale and add to the complexity of the government compensation system. Staff did not support either the granting in March 2005 of a US$3,000 increase in Cabinet Ministers' monthly special budget allocations, which the government justified as an anti-corruption measure.

investment budget be replaced with a system that could track the use of previous allocations. At the same time, staff emphasized that social expenditures should be executed as budgeted. The allocations for social expenditures in the 2005 budget fell behind the existing 2004–06 Medium-Term Expenditure Framework (MTEF) targets but are still projected to grow (by 6 percent in real terms) compared with their 2002 level. Their decline compared with 2003–04 reflects the withdrawal of the off-budget emergency expenditures.

Monetary policy

40. **The authorities agreed with staff on the need for further monetary policy tightening in 2005 to reduce inflation and help rebuild the level of official reserves**. Given that the CPI inflation is not expected to fall to a single-digit level by end-2005, staff argued for raising BCM reference interest rates, mostly unchanged for several years, to positive levels in real terms. The authorities agreed to raise the discount rate by 2 percentage points to 13 percent in early February 2005, and to consider raising interest rates further should the inflationary pressure exceed expectations. Staff noted that interest rates on the treasury bills also remained below the projected inflation rate, while additional sales of treasury bills, even if costly for the budget, were essential to further signal monetary tightening and to absorb the remaining excess liquidity in the banking system.[17]

41. **In view of the remaining inconsistencies in monetary data and the absence of clear interpretations of the recent monetary developments, staff and the authorities could not agree on projections for 2005.** Staff argued that since the reported large and sudden monetary expansion in 2003–04 could conceivably leave private agents with undesired large money holdings at end-2004, portfolio preferences should lead them to reduce these holdings, portending a sharp reversal of the 2003–04 decline in income velocity of money. The BCM projected instead broad money growth of 14 percent, consistent with an almost constant velocity, implying that the 2003–04 monetary policy slippages had led to a permanent shift in money demand.

B. Structural Reforms and Poverty Reduction

42. **Discussions on the structural agenda for 2005 focused on urgent reforms in public expenditure management, preparations for the petroleum era, and steps to improve the functioning of the foreign exchange market.** Other issues included the ongoing financial sector reforms, the status of actions under the Poverty Reduction Strategy for 2001–04, and the preparations for its successor.

43. **The authorities decided to strengthen public expenditure management and eliminate the risk of extrabudgetary spending recurrence.** They indicated that efforts to strengthen public expenditure management should focus on reinforcing treasury functions,

[17] The level of commercial banks' free reserves with the BCM at end-2004 (5 percent of deposits on top of the required 8 percent of deposits) indicates that some banks are still experiencing abundant liquidity.

together with the BCM disengaging from the day-to-day financial operations of the government. In close coordination with World Bank staff, a Fund technical assistance mission is currently discussing the implementation of a reform program that would cover treasury reform, budget preparation and reporting, and the strengthening of financial supervision, as well as measures to promote transparency and accountability in public finance.

44. **Staff reviewed the framework and parameters for oil revenue projections** and discussed the government's intentions with regard to the management and use of forthcoming oil revenues beginning in 2006. The authorities intend to adopt sound principles for oil revenue management, such as the inclusion of their totality in the budget. While they are carefully considering various revenue-tracking frameworks, such as the one proposed in the Extractive Industry Transparency Initiative (EITI), they wish to use existing domestic institutions to control oil-related operations (e.g., the Parliament and the General Audit Office) and to develop their own model for the optimum use of oil resources. Staff underscored the importance of preserving macroeconomic stability and competitiveness outside the oil sector, focusing fiscal policy on a sustainable nonoil primary balance, and ensuring transparency in oil revenue management.

45. **The envisaged steps toward a more transparent and sustainable exchange rate policy should be undertaken in the context of a foreign exchange market reform.** The authorities agreed that the present system of foreign exchange rationing should be replaced by a market-based system, with Fund technical assistance if needed. Staff argued that transparent auctions could initially be used to channel the foreign exchange supply of the public sector. For the medium term, an interbank foreign exchange market should be developed, in close connection with the development of the money market. To this end, the partial surrender requirement on proceeds from fish exports should be removed and prudential ratios on banks' foreign exchange positions more strictly and frequently enforced, so as to promote the diversification of foreign exchange suppliers. The authorities stated that the present rationing of foreign exchange was only a temporary and nondiscriminatory (vis-à-vis other Fund members) measure required by Mauritania's precarious official reserve position. They agreed to prepare the foreign exchange market regulations with the Fund's assistance, and to implement them as soon as official reserves rebound durably. Staff advised the authorities that the present rationing constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, Section 2(a). Staff urged the authorities to eliminate the restriction as soon as the balance of payments conditions permit. Moreover, the premium on the parallel market should be sharply reduced.

46. **The strengthening of the financial sector is a key priority for the authorities, as well as for the Fund and the World Bank.** Risk concentration, lack of confidence in commercial banks, and their rising foreign exchange exposure are of primary concern. In response to the authorities' request, a joint Fund/Bank FSAP preparatory mission visited Nouakchott in February 2005, and requested detailed financial data, including on individual

banks.[18] This will allow a full mission, expected later this year, subject to data availability, to assess the soundness and vulnerabilities of the financial sector; assess the provision of financial services and identify missing services and markets; review the regulatory, legal and judicial framework; and identify policy measures to address the vulnerabilities and the obstacles to the effective provision of a broad range of financial services. The Fund is also providing technical assistance on draft anti-money laundering and combating the financing of terrorism (AML/CFT) legislation.

47. **The authorities intend to maintain an open trade regime but pointed out that standards prevailing in developed countries are the main obstacle to market access.** Notably, sanitary and phytosanitary requirements to access EU markets hinder Mauritania's export diversification effort toward agriculture and livestock. The authorities also expressed concerns about the implications for Mauritania (a net importer of grain) of the elimination of subsidies on agricultural exports that are under discussion at the present round of WTO negotiations.

48. **A new PRSP, expected to cover the 2006–10 period, is being prepared.** The authorities are taking stock of the experience under the first PRSP (2001–04) and are preparing a new strategy that would include the plans for accelerating the poverty reduction efforts with the use of oil revenues. The stocktaking will review monetary measurements of poverty, expected to be available in July 2005, and the poverty-reducing impact of budgetary expenditure on education, health and water resources. Building on this review, the new PRSP is expected to be adopted by the government in September 2005 and forwarded to parliament by December 2005.

VI. Staff Appraisal

49. **The conjunction of weather-related, security, and—possibly—electoral challenges pressured the Mauritanian authorities into short-sighted policies, sidelining the ambitious economic and structural goals of the 2001 poverty reduction strategy and the related PRGF-supported program, and revealing serious governance and data integrity issues**. These policies undermined the country's macroeconomic stability and capacity to absorb further shocks, and delayed the preparations for the oil era beginning in 2006.

50. **Staff deeply regrets the sizable fiscal and monetary slippages that were discovered in September 2004 and the 18-month delay in notifying the Fund.** Based on data reported by the authorities, Mauritania enjoyed at end-2002 a comfortable level of official reserves and could well have accommodated some of the drought and security-related spending under the PRGF-supported program at the time of the initial discussions or the subsequent review. Instead, the slippages and the absence of adequate government and

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[18] Severe data inconsistencies need to be resolved before banking sector vulnerabilities can be assessed.

central bank control mechanisms rapidly led to an off-budget spending spree whose adverse economic impact remains visible in Mauritania's precarious foreign reserves position, higher inflation, and persistent gaps between official and parallel foreign exchange rates.

51. **Unanswered questions on revised and prior data prevented a complete assessment of economic performance and policies**. Monetary developments between 2002 and 2004 are difficult to understand and the accuracy of data provided to the Fund prior to 2003, including monetary and fiscal statistics, is still questionable. Staff urges the authorities to collaborate fully in the verification and clarification of the remaining issues.

52. **The discussions on a possible SMP will require the authorities' full cooperation to establish a solid basis on which to anchor projections.** Staff welcomes the ongoing reconciliation of the BCM and the treasury accounts, and the BCM's intention to submit its end-2004 financial statements to an audit consistent with international standards. However, it reiterated the need for independent verification of the end-2003 central bank financial statements and full disclosure of information available to confirm the official reserves for 2001–02, in order to restore trust in the data provided to the Fund. The restoration of integrity in macroeconomic and financial data reporting will also require substantial strengthening of fiscal accounting procedures as well as central bank internal and external control to prevent the recurrence of the central bank financing of non-budgeted spending. The authorities will need to make the best use of technical assistance that the Fund and World Bank staffs have to offer in these areas.

53. **In the meantime, the authorities should proceed expeditiously with the corrective policies in various areas.** Given Mauritania's preference for maintaining in the short term a stable exchange rate against a currency basket, the fiscal and monetary restraint needs to play a central role in restoring macroeconomic stability. The policies that the new economic team initiated in July 2004 represent a much needed reversal that has so far warded off a potential balance of payment crisis. However further policy tightening is needed until the crisis is well out of the way. The ending of the extrabudgetary spending in the second half of 2004 and the adoption of a strict budget law for 2005 need to be followed by further cuts in nonpriority spending. The achievement of social expenditure targets, however, should not be compromised. The central bank appropriately curbed its monetary financing of the budget and tightened liquidity during the second half of 2004, but a tighter monetary policy is urgently needed to tame inflation and avert the depletion of official reserves. The foreign exchange rationing constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, Section 2(a). Staff urges the authorities to eliminate the restriction as soon as the balance of payments conditions permit. The mobilization of external balance of payments support, and preparation for an orderly exit strategy from the peg (including through a more flexible exchange rate policy) should also be urgently pursued.

54. **Preparations for the oil era need to be accelerated.** While the government's intentions regarding the management of forthcoming revenues point in the right direction, the slippages demonstrate that a strong legal and fiscal framework for the collection and

management of oil revenues, full transparency, and multi-level controls are indispensable safeguards against the risks of over- and misspending. In particular, the updated medium-term expenditure framework should establish spending plans that reflect Mauritania's poverty reduction goals, as well as long-term savings objectives, macroeconomic stability priorities, and absorption capacity limits. Furthermore, the operations of the projected oil stabilization and savings funds should be fully reflected in the government budget and subject to a rigorous appropriation process.

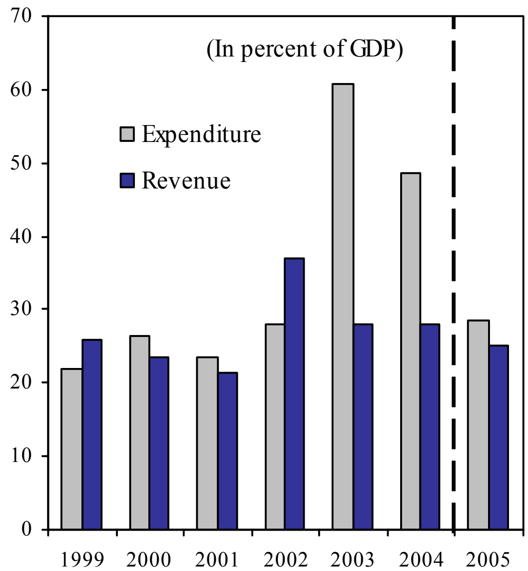
55. **For Mauritania to reap the benefits of prospective oil revenues, structural reforms should resume rapidly.** In addition to the needed overhaul of public expenditure management, reforms in the financial sector should constitute key developmental priorities. Mauritania needs a well-functioning foreign exchange market that avoids discriminatory practices and helps the development of a modern banking system by reducing foreign currency hoarding. Full cooperation, particularly on data, will be needed for the FSAP mission to deliver the best possible advice on ways to strengthen the financial sector.

56. **Concrete steps to implement the pending government programs in support of good governance and public administration reforms are needed,** including the adoption of a code of conduct and a modern system of remuneration for civil servants. Furthermore, candid and far-reaching lessons should be drawn from the execution of the first poverty reduction strategy, including on the ways to improve the targeting of social expenditure, with a view to incorporating them in the new strategy that will be discussed with development partners this year. If all these steps are implemented on time, Mauritania should be in a good position to reach the Millennium Development Goals (MDGs).

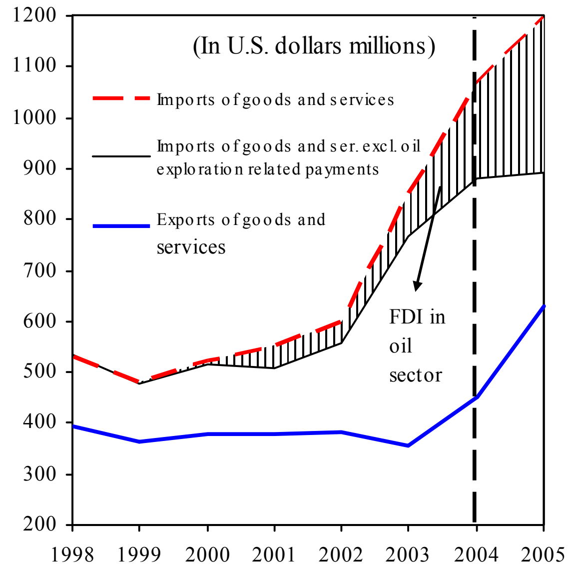
57. It is proposed that the next Article IV consultation be held on a 12-month cycle.

Figure 3. Mauritania: Fiscal, External Sector, GDP, and Price Developments

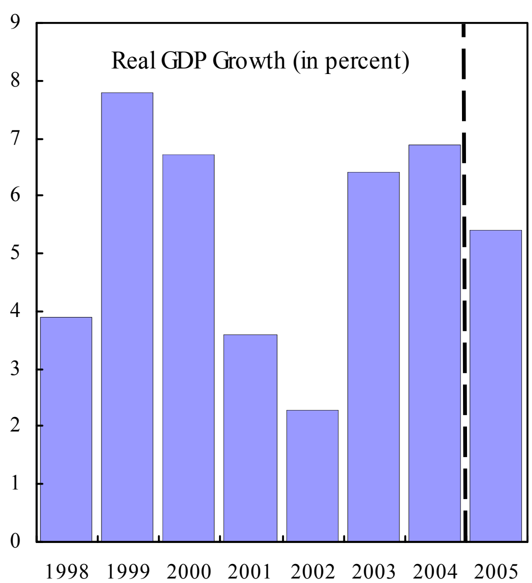
Large fiscal imbalance caused by extrabudgetary spending in 2003–04, reversed in 2005.



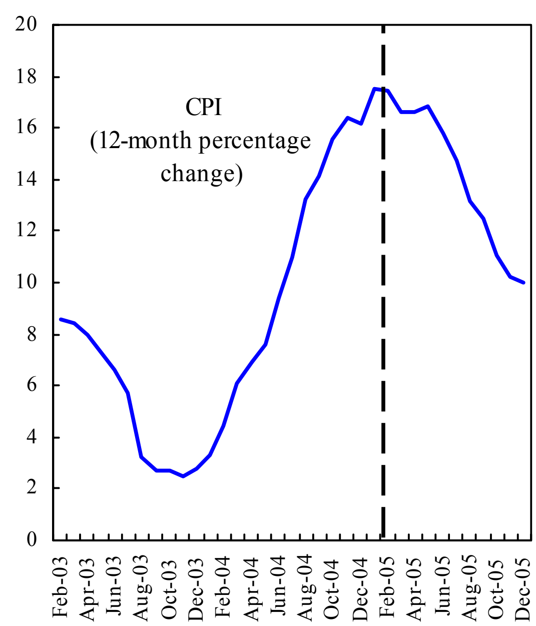
High export growth driven by rise in iron ore prices, import growth mainly reflecting the surge in public spending



Strong output growth driven by fiscal expansion in 2003–04



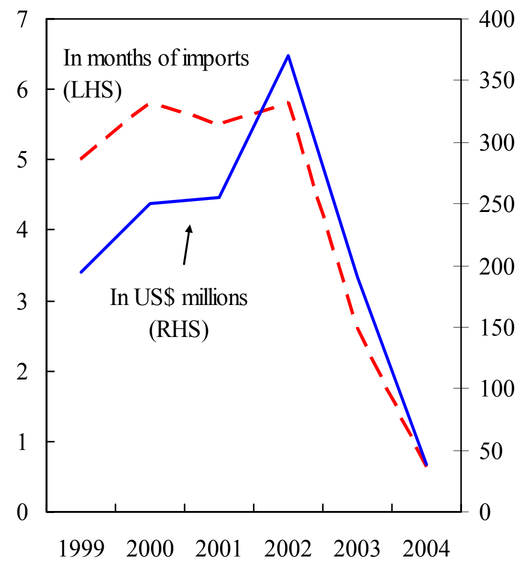
Inflation accelerated markedly, fueled by monetary expansion



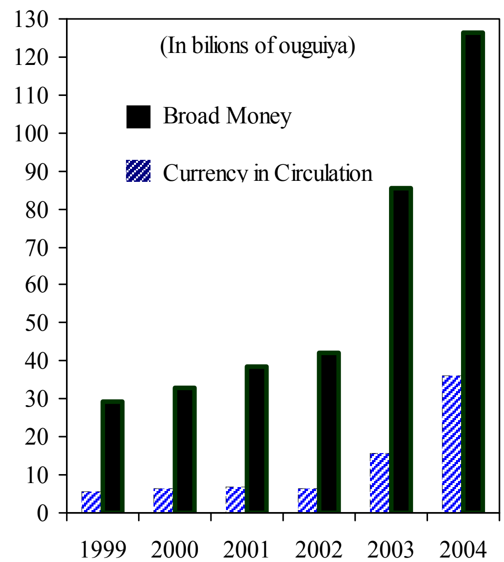
Source: Mauritanian authorities and Fund projections for 2005.

Figure 4. Mauritania: International Reserves, Monetary Developments, and Exchange Rate Indices

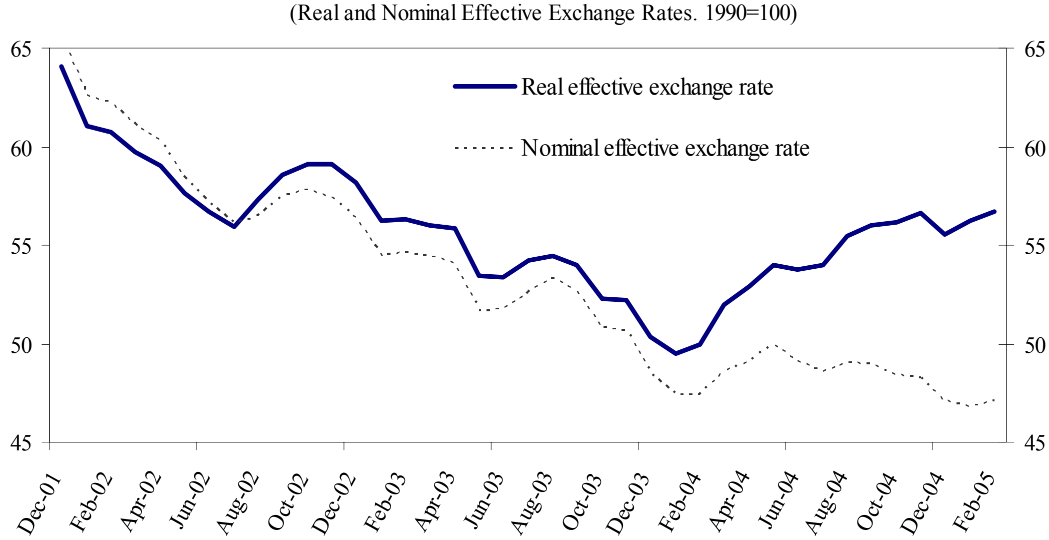
International reserves declined to less than one month of imports



Currency in circulation and broad money more than tripled in the past two years



Real effective exchange rate appreciated as a result of rising inflation
(Real and Nominal Effective Exchange Rates. 1990=100)



Source: Mauritanian authorities.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2001–05

	2001	2002	2003		2004	2005
			Prog. 1/	Est.	Prel.	Proj.
	(Percentage changes; unless otherwise					
National income and						
GDP at constant prices	3.6	2.3	5.4	6.4	6.9	5.4
GDP	4.9	5.6	4.6	9.2	7.9	17.0
Consumer price index (period	4.7	3.9	6.4	5.5	10.4	14.2
Consumer price index (end of period)	1.7	8.4	3.5	2.8	16.2	10.0
External						
Exports of goods, f.o.b. (in U.S. dollars)	-1.8	-2.4	3.3	-8.2	34.7	42.3
Imports of goods, f.o.b. (in U.S. dollars)	10.7	9.9	12.9	59.4	20.5	8.3
Imports of goods, f.o.b. (in U.S. dollars) 2/	3.7	10.3	9.1	43.7	19.3	-2.8
Official transfers (in percent of GDP)	7.2	6.0	6.4	6.6	3.6	4.2
Current account balance (in percent of GDP) 3/	-6.5	1.1	-21.5	-22.3	-27.9	-19.6
Current account balance (in percent of GDP) 2/ 3/	-2.3	5.2	-3.0	-15.9	-15.7	1.7
Overall balance (in percent of	-5.9	4.7	-6.8	-22.8	-17.2	2.6
Official reserves						
Gross official reserves (in millions of U.S. dollars, end-	255	370	360	191	39	147
In months of following year's imports of goods and services 2/	5.5	5.8	6.9	2.6	0.6	2.0
Money and						
Money and quasi-money	17.3	8.9	12.0	103.3	47.6	....
Currency in	4.5	-6.1	7.4	148.3	132.1	....
	(In percent of GDP)					
Consolidated government operations						
Revenue and	21.3	36.9	31.6	28.0	28.0	25.2
Revenue, excluding	16.9	31.7	27.2	24.1	25.4	23.0
Expenditures and net lending	23.4	27.9	31.5	60.6	48.4	28.5
Overall balance excluding grants	-6.5	3.8	-4.3	-36.4	-23.0	-5.5
Overall balance including	-2.0	9.0	0.0	-32.5	-20.4	-3.3
Memorandum						
Ouguiya/US$ exchange rate (end of period)	264.1	268.7	268.7	265.6	256.2	...
Ouguiya/US$ exchange rate (average)	255.6	271.7	…	265.0	265.3	...
Exports, f.o.b. (in millions of U.S. dollars)	339	330	336	303	408	581
Imports, f.o.b. (in millions of U.S. dollars) 2/	358	395	431	568	677	658
Nominal GDP (in billions of ouguiyas) 4/	280.7	303.4	296.4	352.5	406.5	501.4
Nominal GDP (in millions of U.S. dollars)	1,098	1,117	1,123	1,330	1,532	1,888
Population (in millions)	2.72	2.81	2.88	2.88	2.91	2.98
GDP per capita (in U.S. dollars)	404	397	390	462	526	633

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

1/ Country Report 03/314
2/ Excluding oil exploration/production and other mining (copper, gold)-related activities.
3/ The surplus in the current account in 2002 reflects the late payment of the 2001 EU fishing compensation.
4/ Using the new 1998 basis.

Table 2. Mauritania: Central Government Operations, 2001–05

	2001	2002	2003 Prog.	2003 Est.	2004 Est. 1st	2004 Prel Year	2005 Proj 1st	2005 Proj Year
	(In billions of ouguiya)							
Total revenue and grants	59.9	112.0	93.6	98.9	41.1	113.7	46.9	126.4
Total revenue excluding grants	47.3	96.1	80.7	85.0	35.2	103.2	42.5	115.4
Tax	36.4	38.7	41.8	43.5	28.5	57.6	33.5	66.7
Nontax	10.9	57.4	38.9	41.5	6.7	45.6	9.0	48.7
Of which: EU fishing compensation	0.0	43.6	25.1	25.1	0.0	29.2	0.0	30.7
Total	12.6	15.9	12.8	13.8	5.9	10.5	4.5	11.1
Of which: multilateral HIPC assistance	8.5	11.6	8.7	8.7	4.5	7.7	3.5	7.1
Total expenditures	65.6	84.5	93.5	213.5	130.7	196.7	57.8	143.0
Current expenditures	42.6	52.6	57.3	127.3	85.0	122.4	38.9	95.8
Wages and salaries	12.2	13.0	14.0	14.0	7.9	15.2	8.9	17.8
Goods and services	14.3	21.6	25.5	37.6	27.4	44.4	12.8	39.4
Subsidies and transfers	4.4	4.8	5.1	24.8	12.0	15.2	3.4	9.1
Military expenditures	4.4	4.9	4.8	42.8	33.9	36.7	7.9	15.8
Interes	7.2	8.3	7.9	8.1	3.8	10.9	5.9	13.6
Capital expenditures and net lending	23.1	32.0	36.2	56.1	45.7	67.3	18.9	47.2
Foreign-financed investment	8.6	12.5	9.9	14.0	6.3	12.9	6.0	14.4
Domestically-financed investment	11.8	16.5	25.6	36.3	38.8	53.4	12.9	32.8
Restructuring and net lending	2.6	2.9	0.7	5.9	0.6	1.0	0.0	0.1
Unidentified	...	...	...	30.0	0.0	7.0	0.0	0.0
Overall balance excluding grants	-18.3	11.6	-12.8	-128.4	-95.5	-93.5	-15.3	-27.7
Overall balance including grants	-5.7	27.4	0.0	-114.6	-89.6	-83.0	-10.9	-16.6
Financing	5.7	-27.4	0.0	114.6	89.6	83.0	10.9	1.2
External financing (net)	-3.1	-1.1	-6.7	-2.6	-1.3	-3.9	-2.3	-6.2
New	10.8	14.2	8.8	12.4	4.9	10.5	5.0	10.4
Amortization	-13.9	-15.3	-15.5	-14.9	-6.2	-14.4	-7.3	-16.6
Exceptional financing	8.5	10.7	15.6	13.8	7.1	14.1	6.8	14.5
Domestic financing (net)	-3.4	-37.0	-8.9	103.3	61.8	68.5	6.4	0.0
Banking system	-2.9	-36.9	-9.5	103.2	61.8	68.3	0.0	-12.5
Nonbank financing	-0.5	-0.1	0.5	0.1	0.0	0.2	6.4	12.5
Privatization	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears 3/	...	...	...	...	21.9	7.0	0.0	-7.0
Errors and omissions (incl. float)	0.0	0.0	0.0	0.1	0.0	-2.7	0.0	0.0
Financing gap/ additional measures 4/	...	...	...	...	...	...	0.0	15.4
	(In percent of annual GDP)							
Total revenue and grants	21.3	36.9	31.6	28.1	10.1	28.0	9.4	25.2
Total	16.9	31.7	27.2	24.1	8.7	25.4	8.5	23.0
Tax	13.0	12.7	14.1	12.3	7.0	14.2	6.7	13.3
Non tax	3.9	18.9	13.1	11.8	1.7	11.2	1.8	9.7
Of which: EU fishing compensation	0.0	14.4	8.5	7.1	0.0	7.2	0.0	6.1
Total	4.5	5.2	4.3	3.9	1.5	2.6	0.9	2.2
Of which: HIPC assistance	3.0	3.8	2.9	2.5	1.1	1.9	0.7	1.4
Expenditures and net lending	23.4	27.9	31.5	60.6	32.2	48.4	11.5	28.5
Curren	15.2	17.3	19.3	36.1	20.9	30.1	7.8	19.1
Of which: wages and salaries	4.4	4.3	4.7	4.0	1.9	3.7	1.8	3.5
Of which: military	1.6	1.6	1.6	12.1	8.3	9.0	1.6	3.2
Capital expenditures and net lending	8.2	10.5	12.2	15.9	11.2	16.6	3.8	9.4
Overall balance excluding grants	-6.5	3.8	-4.3	-36.4	-23.5	-23.0	-3.1	-5.5
Overall balance including grants	-2.0	9.0	0.0	-32.5	-22.0	-20.4	-2.2	-3.3
Financing gap/additional measures	...	...	...	...	...	...	0.0	3.1
Memorandum items:								
Extra-budgetary expenditures	...	...	...	32.8	22.3	22.3	...	...
HIPC assistance (including all exceptional financing)	6.1	7.4	8.2	6.4	2.9	5.1	2.0	4.3
Social expenditures (current and capital)	7.2	9.4	11.3	16.1	6.7	11.7	3.1	8.0

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

1/Country Report 03/314.
2/ Reportedly on a commitment basis—subject to qualifications mentioned in Box 2.
3/ Staff estimate. In the first half of 2004, includes expenditures for which the spending authorization was issued ex post.
4/ The financing gap could be filled by additional external financing (budget support). In its absence, UM 7 billion in domestically-financed investment projects would be frozen and other expenditure and/or revenue measures should be adopted.

Table 2a. Mauritania: Social Expenditures, 2003–04 1/

	2003		2004	
	Budget	Est.	Budget	Est.
	(In billions of ouguiya)			
Education	19.0	21.9	22.0	24.4
Budgeted	19.0	18.5	22.0	20.9
Extra-budgetary	...	3.4	...	3.5
Health	10.9	10.8	11.4	11.3
Budgeted	10.9	10.4	11.4	10.7
Extra-budgetary	...	0.4	...	0.6
Poverty-reducing 2/	6.2	24.1	6.3	11.9
Budgeted	6.2	6.0	6.3	6.1
Extra-budgetary	-	18.1	...	5.8
Total	**36.1**	**56.7**	**39.7**	**47.6**
Budgeted	36.1	34.9	39.7	37.7
Extra-budgetary	...	21.8	...	9.9
Memorandum items:	(In percent of GDP)			
Social expenditures	10.2	16.1	9.8	11.7
Budgeted	10.2	9.9	9.8	9.3
Extra-budgetary	...	6.2	...	2.4

Source: Data and estimates provided by Mauritanian authorities.

1/ Social expenditures are defined as a sum of government expenditures on education and health, and poverty-reducing expenditures (see below).
2/ Poverty-reducing expenditures are defined as a sum of expenditures by the Agency for Human Rights, Fight Against Poverty, and Integration (CDHLCPI) and the Agency for Food Security (CSA).

Table 3. Mauritania: Balance of Payments, 2001–05
(In millions of U.S. dollars; unless otherwise indicated)

	2001	2002	2003	2004		2005	
			Est.	Est.		Proj.	
				1st half	Year	1st half	Year
Trade balance	-33.7	-78.9	-349.1	-123.0	-377.8	-114.5	-270.2
Exports	338.6	330.3	303.1	196.6	408.2	298.8	580.8
Of which : iron ore	178.5	183.8	175.3	121.4	244.2	206.2	412.4
fish	156.9	143.5	125.8	74.5	162.7	91.8	167.0
Imports, fob	-372.3	-409.1	-652.2	-319.6	-786.0	-413.3	-851.0
Of which : petroleum products	-94.5	-107.6	-118.0	-63.4	-145.0	-91.6	-183.3
oil exploration/production related imports	-14.4	-14.3	-84.7	-54.6	-109.2	-58.0	-116.0
Government	…	…	-101.4	-81.0	-81.0	...	...
SNIM (petroleum products excl.)	-77.0	-77.2	-109.1	-67.2	-121.8	-53.0	-106.0
other	-186.3	-210.0	-239.0	-162.6	-329.0	-172.2	-368.8
Of which : primary food products	...	38.4	51.9	...	35.3	28.7	57.4
Services and Income (net)	-164.4	-6.5	-80.3	-136.4	-153.5	-169.4	-236.1
Services (net)	-141.5	-140.9	-144.9	-119.9	-238.3	-149.0	-298.5
Credit	40.8	51.3	52.8	24.6	42.0	24.6	48.9
Debit	-182.3	-192.3	-197.7	-144.5	-280.3	-173.7	-347.4
Of which : Oil exploration/production related payments	-31.5	-31.5	...	-39.0	-78.0	-95.1	-190.1
Income (net) 1/	-22.8	134.5	64.6	-16.5	84.9	-20.3	62.4
Of which : Fish license payment 1/	0.0	161.6	95.6	...	106.8	0.0	106.3
Interest due on public debt	-33.2	-36.6	-36.9	-17.4	-38.9	-20.7	-44.6
Transfers	126.5	97.3	132.9	56.3	103.3	64.5	129.8
Private unrequited transfers (net)	47.9	30.4	45.0	22.8	47.7	25.1	50.1
Official transfers	78.6	66.9	88.0	33.5	55.6	39.5	79.7
Of which: multilateral HIPC assistance	33.4	42.2	39.9	16.9	31.1	13.0	26.7
Current account balance	-71.6	12.0	-296.4	-203.2	-428.0	-219.3	-376.5
Capital account	48.1	49.4	88.4	110.1	206.8	215.9	425.2
Direct investment	64.4	57.7	101.9	102.8	201.5	222.1	444.2
Of which: related to oil exploration	50.0	50.0	95.3	93.8	187.4	153.6	307.2
Official medium- and long-term loans	-16.3	-8.3	-13.4	7.3	5.3	-6.2	-19.0
Disbursements	58.7	69.7	71.8	40.7	80.7	34.6	69.2
Amortization	-75.0	-78.1	-85.2	-33.4	-75.3	-40.8	-88.3
Errors and omissions	-11.5	-8.5	-96.0	6.5	-43.1	0.0	0.0
Overall balance	-34.9	52.8	-303.9	-196.7	-264.2	-3.4	48.7
Financing	34.9	-52.8	303.9	196.7	264.2	3.4	-48.7
Net foreign assets	-24.6	-114.9	242.7	170.1	206.1	-30.5	-113.1
Central bank (net)	-27.6	-114.5	197.6	149.3	159.6	-9.6	-61.6
Assets	-4.6	-115.7	179.0	133.3	152.3	1.8	-43.0
Liabilities	-23.0	1.2	18.6	16.0	7.3	-11.4	-18.6
Commercial banks (net)	3.0	-0.4	45.1	20.8	46.5	-20.9	-51.6
Exceptional financing	59.5	62.1	61.2	26.6	58.1	33.9	64.5
Financing gap (shortfall +)	...	...	...	...	...	...	65.2
Memorandum items:							
Current account balance (percent of GDP)							
Incl. imports related to oil and other mining operations	-6.5	1.1	-22.3	...	-27.9	....	-19.6
Excl. imports related to oil and other mining operations	-2.3	5.2	-15.9	...	-15.7	....	1.7
Gross official reserves (end of period) 2/							
In millions of U.S. dollars	254.6	370.3	191.3	58.0	39.0	37.2	147.2
In months of imports 3/	5.5	5.8	2.6	0.8	0.6	...	2.0
Nominal external debt as percent of GDP	180.4	163.6	133.8	...	123.1	...	99.3
Debt service-to-exports ratio (after debt relief)	12.3	11.5	10.1	...	9.2	...	9.0

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

1/ The relatively high fish license payment in 2002 reflects the late payment of the 2001 EU fishing compensation.
2/ Including gold.
3/ Imports of goods and services for the 12 months ahead, excluding oil exploration and other mining FDI-related imports.

Table 4. Mauritania: Monetary Accounts, 1999–2004 1/
(End-period stocks in billions of ouguiya, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004 Jun.	2004 Dec.
Monetary survey							
Net foreign assets	7.1	24.1	17.3	48.5	-16.6	-62.9	-68.3
BCM	5.3	21.8	15.5	46.5	-6.5	-46.2	-47.0
Commercial banks	1.9	2.3	1.8	2.0	-10.0	-16.7	-21.2
Net domestic assets	22.1	8.9	12.6	-14.3	102.2	173.9	194.6
Domestic credit	1.6	-6.0	4.3	-18.9	107.8	183.9	205.1
Net credit to the government	-42.3	-60.6	-65.6	-102.4	0.8	62.6	81.2
Claims	21.2	19.0	16.9	17.6	73.8	108.1	94.3
Deposits	-63.5	-79.6	-82.5	-120.0	-73.0	-45.5	-13.1
Credit to the economy	49.1	59.8	69.9	83.5	107.0	121.3	123.9
Other items net	15.3	9.7	17.1	12.5	-5.6	-10.2	-4.1
Broad money	29.2	33.0	38.7	42.1	85.6	110.9	126.4
Currency in circulation	5.5	6.4	6.7	6.3	15.6	23.0	36.2
Demand deposits	14.8	17.7	21.0	22.6	51.7	66.3	68.0
Term deposits	8.9	8.8	10.9	13.2	18.3	21.6	22.2
Monetary authorities							
Net foreign assets	-2.3	7.9	15.5	46.5	-6.5	-46.2	-47.0
Assets 2/	43.7	57.5	67.3	99.5	50.8	15.4	10.0
Liabilities	-46.1	-49.6	-51.8	-53.0	-57.3	-61.6	-57.0
Net domestic assets	11.1	1.4	-5.8	-36.5	37.4	85.7	116.8
Net credit to the government	-33.4	-46.4	-48.4	-77.0	-6.5	54.6	70.2
Claims	22.1	22.1	20.0	20.0	66.5	100.1	83.3
Deposits	-55.5	-68.5	-68.4	-97.0	-73.0	-45.5	-13.1
Claims on private sector	1.2	1.3	1.0	1.0	2.4	3.0	3.3
Credit to banks (from gov't deposits)	0.0	0.0	0.0	0.0	14.1	0.0	0.0
Other credit to banks (discount window)	0.0	0.0	0.0	0.0	4.3	1.5	0.7
Other items net 3/	43.3	46.4	41.7	39.5	23.2	26.6	42.6
Reserve money	8.8	9.2	9.7	10.0	30.9	39.5	69.8
Commercial banks							
Net foreign assets	1.9	2.3	1.8	2.0	-10.0	-16.7	-21.2
Assets	5.0	5.5	5.0	5.2	7.6	6.4	8.3
Liabilities	-3.2	-3.2	-3.2	-3.3	-17.6	-23.1	-29.5
Net domestic assets	21.8	24.3	30.1	33.9	80.0	104.7	111.4
Domestic credit	42.9	44.3	51.7	57.1	112.0	126.3	131.6
Net credit to the government	-9.0	-14.2	-17.2	-25.4	7.3	8.0	11.0
Claims	-1.0	-3.1	-3.1	-2.4	7.3	8.0	11.0
Treasury bonds/bills	4.4	3.7	6.0	8.4	11.3	9.9	13.7
Deposits	-8.0	-11.1	-14.1	-23.0	0.0	0.0	0.0
Credit to the economy	47.9	58.5	68.9	82.5	104.7	118.3	120.6
Net claims on the BCM			3.0	3.9	-3.2	15.2	26.5
Total reserves	3.3	2.8	3.0	3.9	15.2	16.7	27.2
Credit from BCM	0.0	0.0	0.0	0.0	-18.4	-1.5	-0.7
Other items net	-21.1	-20.0	-24.6	-27.1	-28.7	-36.9	-46.8
Deposit liabilities to nonbank residents	23.7	26.5	32.0	35.8	70.0	87.9	90.2
Memorandum items:							
End of the period velocity of broad money	8.11	7.74	7.09	7.15	4.12	...	3.22
Currency/deposits (in percent)	23.3	24.1	20.9	17.6	22.3	26.1	40.2
Broad money (annual percent change)	4.3	12.8	17.3	8.9	103.3	77.5	47.6
Credit to private sector (annual percent change)	20.0	21.7	17.0	19.4	28.1	34.8	15.8
Foreign assets of the BCM (in millions of US$) 2/	194.4	250.0	254.6	370.3	191.3	58.0	39.0
Foreign liabilities of the BCM (in millions of US$)	-204.8	-215.8	-192.7	-197.2	-215.9	-231.9	-223.2
Net international reserves (in millions of US$)	-10.4	34.2	61.9	173.1	-24.6	-174.0	-184.2
Net foreign assets of commercial banks (in millions of US$)	8.2	9.9	6.9	7.3	-37.8	-63.0	-84.3

Source: Mauritanian authorities.

1/ Reflecting the revisions in the balance sheet of the BCM described in ¶7–8.
2/ Excludes UM 7.9 billions (US$29 million) that were written off.
3/ Includes UM 48 billions of foreign exchange losses that were transferred to the government at end-2004.

Table 5. Mauritania: Macroeconomic Framework, 2001–10

			Est.	Prel.	Projection					
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Economic growth and prices					(Percentage change)					
Real GDP	3.6	2.3	6.4	6.9	5.4	26.7	7.8	14.7	7.4	7.8
Non oil Real GDP	3.6	2.3	6.4	6.9	5.4	12.9	7.7	7.8	8.3	5.5
Oil real GDP 1/	…	…	…	…	…	…	9.0	69.4	2.8	20.4
Nominal GDP	8.7	8.1	16.2	15.3	23.4	60.4	7.6	23.2	7.1	12.6
Implicit GDP deflator	4.9	5.6	9.2	7.9	17.0	26.5	-0.2	7.4	-0.2	4.4
Consumer price index (period average)	4.7	3.9	5.5	10.4	14.2	6.0	4.2	3.5	3.5	3.5
Consumer price index , eop	1.7	8.4	2.8	16.2	10.0	5.0	3.5	3.5	3.5	3.5
Investment and Savings					(In percent of GDP)					
Gross investment	22.2	21.9	29.0	50.3	46.2	25.2	32.1	26.0	20.2	17.1
Oil-related	5.7	5.3	7.2	24.6	25.5	10.2	16.0	11.2	4.7	2.1
Nonoil related investment	16.5	16.6	21.8	25.7	20.7	14.9	16.1	14.8	15.5	15.0
Government	5.1	6.7	10.0	11.4	7.1	5.4	6.0	6.0	6.9	6.7
Nongovernment	11.4	9.9	11.8	14.3	13.7	9.5	10.1	8.7	8.6	8.4
Gross savings	15.6	23.0	6.7	22.4	26.3	35.9	33.6	32.4	30.1	32.8
Government	7.2	16.3	-22.3	-8.9	3.7	9.0	7.5	13.1	11.7	10.5
Nongovernment	8.4	6.6	28.9	31.3	22.5	26.8	26.1	19.3	18.4	22.3
Current account (including official transfers and oil)	-6.5	1.1	-22.3	-27.9	-19.6	10.7	1.5	6.4	9.9	15.7
Balance of goods and services	-16.0	-19.7	-37.1	-40.2	-30.1	11.9	2.6	14.0	15.8	20.8
Exports	34.5	34.2	26.8	29.4	33.4	55.5	51.6	56.5	55.3	57.0
Imports 2/	50.5	53.9	63.9	69.6	63.5	43.6	48.9	42.5	39.5	36.2
Net income	-2.1	12.0	4.9	5.5	3.3	-5.1	-4.7	-10.3	-8.4	-7.4
Net transfers	11.5	8.7	10.0	6.7	6.9	3.8	3.6	2.8	2.5	2.2
Consolidated government operations					(In percent of nonoil GDP)					
Revenue and grants	21.3	36.9	28.0	28.0	25.2	32.7	30.7	40.8	38.4	36.6
Of which: nonoil revenue	21.3	36.9	28.0	28.0	25.2	23.7	22.4	21.7	20.4	19.4
Revenue, excluding grants	16.9	31.7	24.1	25.4	23.0	28.7	27.3	37.9	35.8	35.0
Of which: tax revenue	13.0	12.7	12.3	14.2	13.3	15.9	15.7	19.2	18.3	18.2
nonoil tax revenue	13.0	12.7	12.3	14.2	13.3	13.0	12.8	13.0	13.2	13.3
Expenditure and net lending	23.4	27.9	60.6	48.4	28.5	27.7	28.6	30.2	31.3	30.8
Primary expenditure	20.8	25.1	58.2	45.7	25.8	25.4	26.7	28.8	30.6	30.7
Of which : capital	10.5	10.5	10.5	9.6	9.4	9.7	10.7	12.2	13.5	13.5
Interest (net)	2.6	2.7	2.3	2.7	2.7	2.3	1.9	1.4	0.7	0.1
Overall balance excluding grants	-6.5	3.8	-36.4	-23.0	-5.5	1.0	-1.3	7.7	4.5	4.1
Overall balance including grants	-2.0	9.0	-32.5	-20.4	-3.3	5.0	2.1	10.6	7.0	5.7
Nonoil primary balance (including grants)	0.5	11.8	-30.2	-17.7	-0.6	-1.7	-4.3	-7.1	-10.2	-11.3
Memorandum items:										
Nominal GDP (in billions of ouguiyas)	281	303	353	406	501	804	866	1,066	1,142	1,286
External public debt outstanding (US$ million)	1,991	1,827	1,780	1,887	1,875	1,847	1,824	1,767	1,685	1,614
Net financial assets of the government (US$ million) 3/	269	388	-171	-492	-492	-339	-252	63	295	502
Gross official reserves of the BCM (US$ million)	255	370	191	39	147	317	444	709	809	937
GNP per capita (US$)	219	323	491	556	654	942	994	1,125	1,202	1,435
Population (millions)	2.71	2.78	2.84	2.91	2.98	3.05	3.13	3.20	3.28	3.13
Price of oil (US$/barrel)	...	...	...	...	...	42.8	40.0	38.8	38.0	37.8
Annual production of oil (millions of barrels)	...	...	...	...	...	20.9	23.1	39.4	43.5	52.4

Sources: Mauritanian authorities; and staff estimates and projections.

1/ Oil production is expected to start in 2006 and end in 2024.
2/ The relatively high imports to GDP ratio reflects the development phase of oil exploration which peaks in 2005 and declines thereafter.
3/ Gross financial assets of the government (domestic and foreign) less domestic liabilities.

Table 6. Status of Main Structural Reforms Under the 2003 PRGF-Supported Program

Measure	Date	Status and comments
Prepare monthly reports on budget execution (TOFE: financial and economic operations table) based on treasury account balances reconciled with the BCM.	June 2003	Not implemented.
Prepare a comprehensive medium-term expenditure framework, including full set of government expenditures.	August 2003	Implemented. Spending limits for 2004 largely missed.
Finalize computerization of government expenditures.	January 2004	Not implemented.
Prepare plan for restructuring Chinguitty Bank.	December 2003	Plan prepared but rejected by shareholders of Chinguitty Bank.
Initiate transfer of all government deposits (maintained with commercial banks) to the BCM.	June 2003	Implemented on time.
Eliminate the surrender requirement on fishing export proceeds.	September 2004	Not implemented.
Adopt official procedures for selection and rotation of external auditors for the BCM, and address the problems identified by the audit of the BCM's accounts for FY2000.	September 2003	Implemented in 2004-05.
Raise the maximum wage subject to contributions—used by the CNSS—to UM 70,000.	January 2004	Implemented on time.
Initiate voluntary retirements at the CNSS.	July 2003	Implemented on time.
Adopt a code of ethics for all public employees.	December 2004	Not implemented.

Table 7. Mauritania: Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	MDGs 2015
1. Eradicate extreme poverty and hunger	(In percent of total population)					
Overall poverty incidence	56.6	50.0	46.7	...	...	28.3
Incidence of poverty in Nouakchott	36.1	21.0	25.1	22.0	...	...
Prevalence of child malnutrition	47.6	...	...	...	30.0	23.8
2. Achieve universal primary education	(In percent of primary school age group)					
Gross primary enrollment ratio	46	82	88	88	96	100
Retention rate at the entrance of the 5th grade in primary education	(In percent of students enrolled in first grade)					
	….	….	55	48	47	100
3. Promote gender equality	(In percent of total enrollment)					
Share of girls in total primary enrollment	42	46	48	49	49	50
4. Reduce child mortality	(Per 1,000 live births)					
Child mortality (under five years)	137	122	123	...	...	46
	(In percent)					
5. Improve maternal health	(For each 100,000 live births)					
Reduce the rate of maternal mortality	...	...	747	...	...	...
6. Combat HIV/AIDS, malaria, and other diseases	(In percent of ages 15–24)					
Reduce by half the incidence of HIV/AIDS	...	...	0.5	0.6	….	1.0
7. Ensure environmental sustainability	(In percent of population)					
Access to improved water source	...	...	50	...	54	60
Access to electricity	...	...	18	...	20	...
Memorandum items:						
Population (in millions)	2.05	2.36	2.64	2.81	2.95	...
UNDP Human Development Index	0.387	0.423	0.449	0.465	...	...
Gini index of inequality	...	0.34	0.39	...	...	...
Child vaccination rate (in percent)	...	30	40	70	93	...

Sources: Mauritanian authorities, World Development Indicators, and UNDP Human Development Indicators (2004).

Goal 1: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day.
Goal 2. Ensure that, by 2015, children will be able to complete a full course of primary schooling.
Goal 3. Eliminate gender disparity in primary and secondary education.
Goal 4. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
Goal 5. Reduce by three-quarters, between 1990 and 2015, the under-five mortality rate.
Goal 6. Have halted the spread of HIV/AIDS, incidence of malaria and other major diseases and begin to reverse.
Goal 7. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

Mauritania: Relations with the Fund

As of March 31, 2005

I.	**Membership Status**: Joined: September 10, 1963		Article VIII
II.	**General Resources Account:**	**SDR Million**	**% Quota**
	Quota	64.40	100.00
	Fund holdings of currency	64.40	100.01
	Reserve Position	0.00	0.00
	Holdings Exchange Rate		
III.	**SDR Department:**	**SDR Million**	**% Allocation**
	Net cumulative allocation	9.72	100.00
	Holdings	0.01	0.15
IV.	**Outstanding Purchases and Loans:**	**SDR Million**	**% Quota**
	PRGF Arrangements	55.42	86.06

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jul. 18, 2003	Nov. 07, 2004[19]	6.44	0.92
PRGF	Jul. 21, 1999	Dec. 20. 2002	42.49	42.49
PRGF	Jan. 25, 1995	Jul. 13, 1998	42.75	42.75

VI. Projected Payments to Fund (without HIPC Assistance)
(In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	6.91	8.63	9.53	8.50	8.50
Charges/Interest	0.44	0.46	0.42	0.38	0.33
Total	7.36	9.09	9.95	8.87	8.83

[19] Cancellation date.

Projected Payments to Fund; (with Board-approved HIPC Assistance)
(In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	4.96	5.76	8.62	8.50	8.50
Charges/Interest	0.44	0.46	0.42	0.38	0.33
Total	5.40	6.23	9.04	8.87	8.83

VII. Implementation of HIPC Initiative:

		Enhanced Framework
I.	Commitment of HIPC assistance	
	Decision point date	Feb. 2000
	Assistance committed by all creditors (US$ millions)[20]	622.00
	Of which: IMF assistance (US$ millions)	46.76
	(SDR equivalent in millions)	34.80
	Completion point date	Jun. 2002
II	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	34.80
	Interim assistance	16.88
	Completion point balance	17.92
	Additional disbursement of interest income[21]	3.63
	Total disbursements	38.43

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.
Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).
Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income

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

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

as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

VIII. Safeguards Assessments

A full safeguards assessment of the BCM was completed on May 21, 2004. The assessment identified serious vulnerabilities in the central bank's safeguards framework and concluded that with the exception of appointing an international audit firm, the central bank had made little progress in strengthening the framework since the 2002 transitional assessment of the BCM's external audit mechanism. In particular, critical vulnerabilities were found in the areas of financial reporting (including reporting of monetary data to the Fund), and controls. A number of recommendations were made to address these vulnerabilities, including with respect to audits of reserves and quarterly monetary program data, the preparation of financial statements on the basis of International Financial Reporting Standards, and measures to improve controls in reserves management. Measures have been taken in some areas. At this stage, recommendations related to monetary program data remain relevant in the context of possible future programs.

IX. Exchange and Trade Arrangements

The currency of Mauritania is the ouguiya (UM). On December 31, 2004, US$1 was equivalent to UM 256.2. Beginning in April 2000, the official exchange rate was fixed based on the results of daily foreign exchange auctions (the Extended Exchange Market). In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second reimposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. Starting in mid-2003 the BCM suspended the foreign exchange auctions and introduced foreign exchange rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2.

X. Last Article IV Consultation

Discussions for the 2003 Article IV consultation were held in Paris from April 14 to 25, 2003. The Country Report No. 03/314 was considered by the Executive Board on July 18, 2003. The Executive Board approved the HIPC Completion Point document for Mauritania on June 7, 2002.

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

A joint Fund/Bank FSAP preparatory mission visited Nouakchott in February 2005, and requested detailed financial data, including on individual banks.[22] This will allow a full

[22] Severe data inconsistencies need to be resolved before banking sector vulnerabilities can be assessed.

mission, expected later this year, subject to data availability, to assess the soundness and vulnerabilities of the financial sector; assess the provision of financial services and identify missing services and markets; review the regulatory, legal and judicial framework; and identify policy measures to address the vulnerabilities and the obstacles to the effective provision of a broad range of financial services. The Final Report on the Fiscal transparency Module of the Observance of Standards and Codes (ROSC) was based on two missions, respectively conducted from May 14 to 24, 2002 and from August 6 to 13, 2002. The final fiscal ROSC report is now published on the IMF website.

XII. Technical Assistance (since 2001)

1. MFD (formerly MAE)

   a. Money and banking

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

      Resident expert on banking supervision: August 1, 2001–February 2, 2003, and January 6–February 3, 2004.

   b. Exchange system

      Peripatetic TA missions by panel expert on the exchange system reform: 2001–02.

      TA mission on foreign exchange market issues: January 9–23, 2005

2. FAD

   TA mission on tracking poverty-reducing expenditures: October 10–17, 2001.

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

   TA mission on reforming taxes on income and profits: July 7–21, 2003.

   TA mission on public expenditure management: April 3–17, 2005.

3. LEG

   TA mission on the drafting of laws to combat money laundering and the financing of terrorism: February 23–March 1, 2005.

4. STA

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

TA mission on balance of payments statistics: June 17–30, 2003.

TA mission on GDDS: April 14–28, 2004.

5. AFRITAC

Several TA missions in 2003 and 2004, including on tax and customs administration, computerization of public expenditure chain, and external debt management.

XIII. Resident Representative

In October 2004, a new resident representative, Mr. Philippe Callier, was assigned to Mauritania, to replace Mr. Prosper Youm whose assignment ended in July 2004.

Mauritania: Relations with the World Bank Group
(As of March 25, 2005)

Partnership in Mauritania's Development Strategy

1. The Mauritanian government's development strategy is set forth in the Poverty Reduction Strategy Paper (PRSP), approved in early 2001. It focuses on four pillars: (i) stimulating accelerated and redistributive growth; (ii) anchoring growth in the economic environment of the poor; (iii) developing human resources and ensuring universal access to basic infrastructure and services; and (iv) strengthening institutional capacities and governance. The first and second PRSP Progress Reports (PRSP-PR), reviewing the first two years of implementation of the PRSP, were discussed by the Boards of the World Bank and IMF in June 2002 and July 2003 respectively. The next PRSP is due by September 2005, and will be based on the findings of the ongoing national household survey.

2. The World Bank and the IMF continue to cooperate closely in assisting the government of Mauritania to implement its medium-term poverty reduction strategy with each institution taking the lead in the policy dialogue in its areas of expertise. The Bank leads the policy dialogue on sectoral structural reforms, as well as privatization and poverty monitoring and evaluation. Areas of close collaboration include the PRSP, public expenditure management, the nascent oil sector, financial sector, external debt sustainability, poverty and social impact analysis, tax reform and private sector development.

Bank Group Country Assistance Strategy

The Country Assistance Strategy

3. The World Bank supports the implementation of the PRSP through its Country Assistance Strategy (CAS, FY03–05). In the CAS, the program of lending and nonlending operations was specifically designed to support implementation of the four strategic axes of the PRSP, with particular emphasis on capacity building. In the CAS it was assumed that a series of Poverty Reduction Support Credits (PRSC) would gradually become the main pillars of the lending program but, as a result of the deterioration of macroeconomic management in 2003 and 2004, the preparation of the first PRSC was stopped. Dialogue has nevertheless continued on the reforms envisaged under this operation, notably in the sphere of public expenditure management. As for the sectors included in the original PRSC-1 (i.e., health and nutrition, and water and sanitation), they will benefit from Bank's investment projects in FY2006. The next CAS will follow the finalization of the upcoming PRSP and will continue to outline a Bank program that is closely aligned with the priorities of the PRSP.

4. To date the WB has approved 69 projects in Mauritania for a total of US$1,019 million. The current portfolio has 11 operations for a total of US$279.4 million, with an undisbursed balance of US$206.9 million. The Bank's program concentrates on rural development, urban development and social sector operations, with other specific

investments in growth-stimulating sectors, such as mining, energy, and transport. In FY05 the Bank delivered a US$15 million Higher Education Project and for the rest of the fiscal year one additional operation is planned: the second phase of an Integrated Development Program for Irrigated Agriculture (US$39 million). In FY2006 the Bank will deliver the second Health and Nutrition Project (tentatively US$10 million), a Capacity Building Project (tentatively US$17 million), and a Water Supply Project (tentatively US$30 million).[23] A transport Project could be delivered in FY2007 (amount to be determined).

5. The Bank's program also encompasses Economic and Sector Work (ESW), the provision of Institutional Development Facility (IDF) grants and Trust Funds (TF). A Public Expenditure Review (PER) was completed in June 2004, but remained in Green Cover (not published), given the macroeconomic developments in 2003–04 and related needs to revise key data. A PER Update is under way and will be completed in FY2006, along with an update of the HIPC Assessment and Action Plan (AAP). In collaboration with the IMF, the Bank is also working on an Oil Sector Study, which should be delivered in FY2006. An Investment Climate Assessment will be carried out by the Bank in Mauritania in FY2006. The Bank is also providing US$448,000 in an IDF for the Justice Sector, US$900,000 through a Japan Social Development Fund for Legal Aid Services for the poor, US$350,000 through an IDF to strengthen the public procurement function and US$273,000 through an IDF to support the accountancy profession. A PRSP-TF (US$500,000) is being executed by the authorities to strengthen statistical capacity, and analytical capacity in the areas of poverty analysis and PRSP monitoring and evaluation.

Main Policy Reform Areas

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

7. Promoting Private Sector-led Growth. One of the key objectives of the government is to accelerate the implementation of reforms geared at stimulating private sector-led growth and rendering Mauritania more attractive to foreign investors. The Bank's policy dialogue in this area focuses, inter alia, on: (a) lowering factor costs (energy, transport, labor); (b) stimulating growth in the mining sector by opening competition in iron ore production; and (c) improving the overall business climate by removing remaining barriers to competition and factor mobility. The Bank is also promoting the growth agenda in its rural operations, particularly through the activities supported by the PDIAIM, which works with private sector operators in the Senegal valley area.

[23] A budget support operation could be envisaged for FY2006 (e.g., SAC), depending on these factors: (i) the re-establishment of macroeconomic stability and strengthening of public expenditure management (as demonstrated by of good track record under an IMF SMP program); and (ii) the inclusion in the operation of a stronger public expenditure management component that encompasses the management of the nascent oil sector.

8. Achieving Broad-based Growth. Anchoring growth in the economic environment of the poor is a key strategic objective of the government. This requires, above all, increasing productivity in the livestock and agricultural sectors, which employ a large swathe of the rural poor. In livestock, the policy dialogue focuses on the application of the new Livestock Code and the elaboration of a coherent sector strategy, paying particular attention to key sub-sectors (e.g., cattle, meat, and leather). In agriculture, attention is being paid to improving farm productivity by easing access to inputs and credit and promoting training schemes for farmers. Efforts are also being undertaken to improve living conditions at the local level (village communities) by stimulating income generating activities, expanding access to basic socio-economic services, and improving natural resource management practices.

9. Developing Human Resources. *Education*. The Bank's operations and policy advice support the objectives of the National Program for the Development of the Education Sector (PNDSE 2002–10), prepared by the authorities, aiming at achieving universal access to basic education, improving the quality of teaching and learning in the classroom and the efficiency of the system. Efforts are also being undertaken to support the expansion of higher education, focusing on the University of Nouakchott. Mauritania has also begun to benefit from the Education for All Fast Track Initiative to accelerate the implementation of the national education program. It received US$7 million in 2004, and a further US$2 million is expected in 2005.

10. *Health*. Additional efforts are needed to reduce (child and maternal) mortality rates and malnutrition rates, at the levels needed to reach the MDGs by 2015. Priorities for action, supported by the Bank mainly through the upcoming second Health and Nutrition Project, include: (i) providing accessible and quality health services with emphasis on the rural poor population; (ii) progressively increasing the availability of financial resources for the health sector and limiting the impact of health expenditure on poor households; and (iii) strengthening health sector performance by decentralizing activities and fostering the involvement of local communities in the management and decision making process of health care.

11. *Multisectoral HIV-AIDS Control Project*. The authorities have adopted a multi-sectoral approach to combat HIV/AIDS. The leadership for this program is located in the Prime Ministers' office and has translated to date in strong cross-sectoral response at both the central and decentralized levels.

12. Strengthening Institutions and Governance. The government of Mauritania finalized in 2004 a National Program of Good Governance (NPGG) and a Strategy for the Strengthening of National Capacity. The first program aims at improving public expenditure management, strengthening the judiciary system, improving the efficiency of the Parliament, promoting human rights, and further consolidating the democratic process in the country. The second focuses chiefly on improving institutional capacity in areas of strategic importance, including the public administration, economic planning, project conception, execution and monitoring, and PRSP progress and poverty monitoring and evaluation.

13. The dialogue to ensure efficient and transparent allocation and use of public resources focuses on the following: (a) improving the budget elaboration process with a view to allocating resources more efficiently; (b) strengthening the capacity to execute and track public expenditure (notably all poverty-reducing spending); (c) strengthening the controls on the budget through the structures that exists and have the mandate to do so, especially in the light of the breakdown of budget discipline in 2003–04. The Public Sector Capacity Building Project (under preparation) supports further elements of the above-mentioned strategies, including the consolidation of the rule of law, decentralization, the modernization of public administration and strengthening of civil society capabilities.

Bank-Fund Collaboration in Specific Areas

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

- **Public Expenditure Management.** The Fund and Bank jointly emphasize the need to significantly improve public expenditure management, accountability, and transparency, notably following the deterioration in macroeconomic management during 2003–04. On budget formulation, it has been agreed with the authorities that: (i) the existing Medium-Term Expenditure Framework (MTEF) should be updated annually and used in the preparation of the budget law; and (ii) ways should be sought to unify the recurrent and (foreign) investment budgets. On budget execution, emphasis has been placed on the need to: (i) execute spending under the 2005 Budget on the basis of the ceilings agreed by Parliament; (ii) bring into the official expenditure circuit all the spending that is currently carried out by institutions with an hybrid status, such as the Poverty Commissariat (CDHLCPI) and Food Security Commissariat (CSA), as well as the spending that is carried by the Ministry of Economic Affairs and Development (MAED) on the PASEP accounts; (iii) continue the reforms to de-concentrate the order of payment issuance (towards line ministries and regions) and simplify and computerize the expenditure circuit; and (iv) strengthen the capacity of the Treasury to reconciliate accounts with the central bank, and produce in a timely manner fiscal accounts and the treasury balance. On budget reporting, the Bank and Fund are supporting Mauritania in its efforts to strengthen the capacity of audit institutions (i.e., Supreme Audit Institution) and improve the tracking of poverty reducing spending.[24]

- **Oil**. With significant oil revenues looming on the horizon, the World Bank and IMF have emphasized the need for the government to: (i) share oil sector information (e.g., investment, production, revenues) in a timely and transparent fashion; (ii) put in place

[24] Recommendations on these topics are included in reports prepared by the Bank and IMF, e.g., a Country Procurement Assessment Review (2002), a Report on the Observance of Standard and Codes (2002), a Country Financial Accountability Assessment (2003), a Country Economic Memorandum (2003), a Public Expenditure Review (2004 – to be updated) and a Public Expenditure Management: Country Assessment and Action Plan (2004 – to be updated).

appropriate legal and fiscal regimes to accelerate the growth of Mauritania's hydrocarbon industry; and (iii) build the capacity for an efficient and transparent management of oil resources through the State's budget. The Bretton Woods institutions have also expressed their willingness to provide technical assistance in the oil sector and have encouraged the Mauritanian government to adhere to the Extractive Industry Transparency Initiative (EITI). The Bank and Fund are collaborating on the elaboration of an Oil Sector Study, which aims at providing the authorities with a range of policy options geared at managing successfully the transition to an oil economy. A joint IMF-World Bank and authorities study trip to oil producing countries (one in Africa, and Norway) has also been planned for June 2005.

- **Financial Sector Reform.** As part of the CAS, the Bank, in close collaboration with the Fund, is helping the authorities in improving financial sector intermediation for private sector development, and mobilizing savings, while promoting competition in the financial sector. A Financial Sector Study was completed in 2004. An FSAP mission took place in February 2005 with a follow-up visit expected in May 2005. The Bank is also providing technical assistance to the central bank in the area of reserve management, following a specific request from the authorities and in agreement with the IMF.

- **Poverty and Social Impact Analysis (PSIA).** The Bank and Fund have agreed to review closely the poverty and social impact of reforms that are being implemented. To date, benefit-incidence analysis has been conducted in the health and education sectors to assess the welfare impact of public spending on different groups of people. In the mining sector, the PSIA is being conducted to evaluate the impact of reducing the services provided by the national mining company (SNIM) to different groups of the people. Additional poverty-related analytical work includes the following: (i) a study on Water and Poverty (first draft received); (ii) an analysis of macro-micro linkages through the development of a poverty analysis macroeconomic simulator (PAMS - ongoing); (iii) a survey on the dynamics of rural labor markets (ongoing); and (iv) the elaboration of poverty maps (ongoing).

Contact Persons. Questions may be addressed to Mr. David Craig, Country Director, at 202-473-2589; or Mr. Nicola Pontara, Economist, at ++44-(0) 207-968-4185.

Mauritania: Statistical Issues

General

There are substantial weaknesses in Mauritania's economic and financial statistics. The September 2004 revisions made to the fiscal, monetary, and balance of payments accounts have resulted in unexplained breaks in the series and hampered recent analysis of economic developments. Data reporting by the authorities to the Fund has become increasingly irregular over the past year.

With assistance from AFRISTAT, Mauritania became a GDDS participant on September 1, 2004. Against this backdrop, the authorities are expected to make full use of the West Africa regional technical center (once it becomes operational) to pursue statistical improvement.

Real sector

National accounts data require substantial further improvement. In February 2005, the authorities provided staff with a preliminary set of revised national accounts, which is reflected in this report. The revisions of national accounts has been under way for several years to take advantage of methodological refinements in the assessment of informal sector activity. The new set of national accounts following *1993 SNA* takes 1998 as a base year and shows a significant (10–15 percent) increase in the recorded activity level compared to the previous set based on 1985 accounts. Thus far, National Statistical Office (ONS) produced final estimates for 1998 and 1999 and preliminary estimates for the 2000–04, which are used in this report for the presentation of the historical time series and projections. Nevertheless, technical assistance is still needed to conduct statistical surveys (current estimates are based on data reported by tax authorities) and prepare estimates for the informal sector.

Regarding the CPI methodology, the 1996 STA mission made recommendations about geographical and product coverage, updating of weights, improving computer resources, and creating a specialized team. Based on results from the 2001 household expenditure survey and with the assistance of AFRISTAT, the ONS started to publish in May 2004 a new CPI index with an updated consumption basket, covering a wider range of markets albeit with a geographical coverage still limited to Nouakchott.

Government finance

No monthly or annual government finance statistics are currently reported to STA. With ongoing methodological improvements, the monthly statements of treasury accounts, which are not being provided, could provide the basis for future reporting to STA, to cover budgetary central government. However, no information is being provided on the accounts of the Social Security Fund and on any of the largest local communities' budgets.

The measurement of the execution of the Public Investment Program needs to consistently reflect actual disbursements of foreign loans and grants and ensure that the estimated import component is compatible with customs data. The current accounting system needs further improvement to produce reliable and comprehensive information on budget execution. The November 2002 Fiscal ROSC report set in place a set of recommendations that the authorities should adopt in order to ensure that the government's accounting system is capable of producing reliable, comprehensive and timely annual government accounts and monthly fiscal reports.

Money and banking

Data on monetary authorities and deposit money banks are reported on an irregular basis. Monetary data have been perceived in the past as generally adequate for Fund surveillance, but recent substantial revisions, apparent internal inconsistencies, and delayed submissions raise serious questions about monetary data reliability. These issues will be further addressed in the policy dialogue in the period ahead.

A monetary and financial statistics mission to Mauritania (January 9–22, 2002) assisted the Central Bank (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 eventual *MFSM* implementation. The mission also investigated data transmission problems and discrepancies and prepared an action plan for following up on recommendations. The BCM is now implementing some of these 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 secondary sources of information to capture the international transactions increasingly carried out in cash or settlement transactions. However, significant weaknesses in the balance of payments data remain, in particular concerning nonmining exports, short-term capital flows, and private transfers as reflected in often large errors and omissions.

A balance of payments statistics mission (June 17–30, 2003), in a follow-up to the 1999 mission, noted that although the authorities have not implemented earlier recommendations, they have successfully introduced the bank-reporting system through which the commercial banks are required to report regularly to the BCM details of external transactions they conduct on behalf of their customers. The 2003 mission proposed measures for improving the quality of merchandise trade statistics, external debt data coverage, data related to service and transfers components, and foreign direct investment, in particular the oil sector's transactions. The BCM agreed with the work plan set up to implement the recommendations of the mission. The latest balance of payments data reported to STA go back to 1998.

Regarding debt statistics, the databases that are maintained by the BCM and the Ministry of Finance were recently unified, but data management needs to be strengthened. A new software is being installed by UNCTAD, but personnel need to be trained.

Poverty and social indicators

Household expenditure surveys, at the national level, have been conducted for the years 1990, 1996, and 2000. The results of these surveys are one of the main sources for building poverty profiles and setting poverty reduction targets. A limited survey was conducted in 2003 by the ONS in the capital city Nouakchott (which hosts about one-third of the country's population). A new household survey covering Mauritania is currently being conducted, the results of which should be available in the summer of 2005.

MAURITANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF APRIL 30, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Jan. 2005	Mar. 2005	M	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2005	Mar. 2005	M	M	I
Reserve/Base Money	Dec. 2004	Mar. 2005	M	I	I
Broad Money	Dec. 2004	Mar. 2005	M	I	I
Central Bank Balance Sheet	Dec. 2004	Mar. 2005	M	I	I
Consolidated Balance Sheet of the Banking System	Dec. 2004	Mar. 2005	M	I	I
Interest Rates[2]	Dec 2004	Jan. 2005	I	I	I
Consumer Price Index	Mar. 2005	Apr. 2005	M	M	I
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Dec. 2004	Feb. 2005	M	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2004	Feb. 2005	A	A	I
External Current Balance	Dec 2004	Mar 2005	Q	I	I
Exports and Imports of Goods and Services	Dec. 2004	Mar. 2005	Q	I	I
GDP/GNP	2004	Mar. 2005	A	A	A
Gross External Debt	Dec. 2004	Jan. 2005	A	A	I

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

Mauritania: External and Public Debt Sustainability Analysis

This appendix assesses Mauritania's external and public debt sustainability and reports on the standard and country specific robustness checks.[25] *Under the baseline scenario, external debt and debt service indicators improve substantially over 2006–25. The outlook is robust to most of the standard stress tests and the country-specific one (low-case scenario). Under extreme assumptions, Mauritania's external debt and debt service indicators are sensitive to external shocks and policy slippages. The results depend critically on policy assumptions regarding the use of significant oil revenues in 2006–24.*

External debt sustainability

1. **Under the baseline scenario, Mauritania's external debt and debt service indicators improve markedly over the medium term.** With the oil coming on stream, real GDP and exports growth rates are expected to surge in 2006–10. Reflecting prudent policies and continued enhanced HIPC debt relief (in gradually declining amounts), the net present value (NPV) of external debt drops from 53.2 percent to 20.3 percent of GDP and from 180.9 percent to 34 percent of exports between 2004 and 2010, while the debt service-to-exports ratio declines from 9.2 percent to 2.4 percent. **These indicators are expected to further improve over the long term** despite the projected moderation of real GDP and exports growth, reflecting the gradual disappearance of oil production by 2024 (Table 1).

2. **The standard stress tests indicate high sensitivity of Mauritania's debt sustainability outlook to negative export shocks.** Under a scenario based on the historical average of export growth minus one standard deviation, the NPV of debt averages 53 percent of GDP and 390 percent of exports in 2005–25, and the debt service-to-exports ratio exceeds 30 percent on average. Under the sensitivity test with key parameters reset to their historical averages, the NPV of external debt-to-GDP ratio over the period 2005–25 averages about 100 percent while the NPV of debt-to-exports ratio is double that amount (Figure 1). However, these simulations disregard the link between oil exports and oil-related debit items (imports of equipment, cost amortization and profit transfers). In addition, growth in public investment-related imports is kept at the baseline level irrespective of lower oil revenues (Table 2).

3. **The baseline debt sustainability outlook for Mauritania is robust to a negative country-specific shock that would affect oil exports and revenues.** Under the low-case scenario (Box 3 of the main text), external debt and debt service indicators deteriorate only mildly. With the main adjustment reflected in lower foreign assets (see below), an adverse oil shock would raise the NPV of external debt by 4 percentage points of GDP and 13

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[25] The analyses were carried out using the low-income countries (LIC) debt dynamics templates.

percentage points of exports on average, and the debt service-to-exports ratio would increase by 2 percentage points over the 2006–10 period.

Fiscal sustainability

4. **At present, the combined level of Mauritania's domestic and external public debt appears relatively high and raises legitimate concerns as to its sustainability.** At end-2004, the public debt-to-GDP ratio exceeded 150 percent in nominal terms, and 90 percent in NPV terms. The heritage of the 2003–04 extrabudgetary expenditure weighs significantly on the domestic public debt component, which grew from some 5 percent of GDP at end-2002 to nearly 38 percent at end-2004. Of this amount, consolidated central bank's claims on the government constitute 87 percent.[26] The remainder comprises T-bills, and other short-term liabilities including arrears.

5. **Given the favorable medium-term outlook, it is expected that in 3–4 years Mauritania's public debt sustainability indicators will fall into a comfortable range and continue to improve over the long term.** Under the baseline scenario, the NPV and nominal debt-to-GDP ratios will decline below 40 percent and the debt-service-to-revenue ratio will decline to 11–12 percent in 2008–10.[27] This is predicated on a pro-growth fiscal policy and savings of some 50 percent of the oil windfall over 2006–24, leading to the net accumulation assets of some US$4.5 billion (or 58 percent of GDP at end-2025) with gross assets (66 percent of GDP) nearly three times the gross debts (Table 3). Under the low-case scenario, the government runs a tighter fiscal position in line with lower oil revenues but is able to save only a precautionary cushion of 9 percent of GDP; with the virtually unchanged nominal debt flows, gross public debt would equal 25.3 percent of (a somewhat lower) GDP in 2025.

6. **The standard sensitivity analysis results show a dramatically unfavorable but highly improbable scenario.** The shocks giving rise to the alternative scenarios labeled "no reform" (primary balance in percent of GDP kept unchanged at 2005 level) and "most extreme stress test" (real GDP growth in 2006–07 at historical averages minus one standard deviations) produce results similar in their pattern and magnitude (Figure 2). Both scenarios depict the unconditional pushing forward with the expansionary fiscal stance, which in the baseline scenario is contingent on the availability of oil revenues, and is moderated by precautionary savings. As a consequence, given the implicit resource constraints, both alternative scenarios appear highly unlikely (Table 4).

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[26] According to the agreement between the central bank and the ministry of finance, the government debt vis-à-vis the BCM is consolidated in two types of instruments repayable over up to 33 years with three years of grace and up to 40 years with ten years of grace at interest rates on average below the current domestic market rates.

[27] Revenue projections assume a diminishing reliance on foreign grants and nontax revenue from fishing.

Table 1. Mauritania: External Debt Sustainability Framework, Baseline Scenario, 2002–25 1/ 2/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005–10 Average	2015	2025	2011–25 Average
PPG External debt (nominal) 1/	**163.6**	**133.8**	**123.1**	**173.0**	**25.1**	**99.3**	**61.0**	**56.0**	**44.0**	**39.2**	**33.4**	**55.5**	**25.5**	**14.6**	**21.8**
Change in external debt	-16.8	-29.8	-10.7	-7.3	11.1	-23.8	-38.3	-5.0	-12.0	-4.8	-5.8	-15.0	-0.6	-0.7	-1.2
Identified net debt-creating flows	-8.3	-11.7	-2.8	-0.2	10.3	-9.0	-23.0	-8.0	-13.9	-6.5	-6.2	-11.1	-8.4	1.5	-5.5
Non-interest current account deficit	**-2.0**	**21.5**	**27.1**	**5.0**	**10.4**	**19.0**	**-11.3**	**-2.1**	**-7.0**	**-10.4**	**-15.9**	**-4.6**	**-7.9**	**2.1**	**-5.7**
Deficit in balance of goods and services	19.7	37.1	40.2	17.7	11.6	30.1	-11.9	-2.6	-14.0	-15.8	-20.8	-5.8	-13.7	6.5	-8.3
Exports	34.2	26.8	29.4	34.7	4.6	33.4	55.5	51.6	56.5	55.3	57.0	51.5	48.1	28.1	43.5
Imports	53.9	63.9	69.6	52.4	8.8	63.5	43.6	48.9	42.5	39.5	36.2	45.7	34.4	34.7	35.1
Net current transfers (negative = inflow)	-8.7	-10.0	-6.7	-8.5	1.4	-6.9	-3.8	-3.6	-2.8	-2.5	-2.2	-3.6	-1.7	-1.3	-1.6
Other current account flows (negative = net inflow)	-13.0	-5.7	-6.3	-4.2	4.2	-4.2	4.5	4.1	9.8	7.9	7.1	4.9	7.5	-3.2	4.2
Net FDI (negative = inflow)	**-5.2**	**-7.7**	**-13.2**	**-3.7**	**4.3**	**-23.5**	**4.2**	**-2.1**	**-0.9**	**6.5**	**12.2**	**-0.6**	**-0.6**	**-0.5**	**0.4**
Endogenous debt dynamics 3/	**-1.1**	**-25.5**	**-16.8**	**-1.5**	**13.7**	**-4.5**	**-16.0**	**-3.8**	**-6.1**	**-2.5**	**-2.5**	**-5.9**	**0.1**	**-0.1**	**-0.2**
Contribution from nominal interest rate	0.9	0.8	0.8	1.8	1.0	0.9	0.6	0.6	0.6	0.5	0.3	0.6	0.4	0.3	0.4
Contribution from real GDP growth	-4.1	-8.8	-8.0	-8.8	3.2	-5.4	-16.6	-4.4	-6.7	-3.0	-2.7	-6.5	-0.2	-0.4	-0.6
Contribution from price and exchange rate changes	2.1	-17.5	-9.6	5.5	13.9	…	…	…	…	…	…	…	…	…	…
Residual (3-4) 4/ 10/	**-8.5**	**-18.2**	**-7.8**	**-7.1**	**11.0**	**-14.8**	**-15.3**	**3.0**	**2.0**	**1.6**	**0.3**	**-3.9**	**7.7**	**-2.1**	**4.3**
o/w exceptional financing 7/	-9.3	-7.6	-5.8	-5.6	2.3	-4.8	-3.0	-2.4	-1.8	-1.6	-1.4	-2.5	-0.5	-0.1	-0.4
o/w accumulation of foreign assets	10.4	-13.5	-9.9	0.7	7.2	5.7	10.4	12.5	14.0	15.4	12.8	11.8	30.2	-1.8	14.2
NPV of PPG external debt	**...**	**...**	**53.2**	**...**	**...**	**45.9**	**29.9**	**29.1**	**24.1**	**22.7**	**20.3**	**28.7**	**17.9**	**9.4**	**15.2**
In percent of exports	...	...	180.9	...	...	137.7	53.9	56.4	42.6	41.0	35.7	61.2	37.2	33.6	34.7
PPG debt service-to-exports ratio (in percent)	**11.5**	**10.1**	**9.2**	**15.8**	**5.3**	**9.0**	**3.0**	**3.5**	**3.0**	**3.4**	**2.4**	**4.1**	**3.4**	**4.0**	**3.4**
Total gross financing need (billions of U.S. dollars)	0.0	0.2	0.3	0.1	0.1	0.0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.4	0.2	-0.2
Non-interest current account deficit that stabilizes debt ratio	14.8	51.3	37.8	12.3	18.7	42.8	27.1	2.9	5.0	-5.6	-10.1	10.4	-7.3	2.7	-4.4
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.3	6.4	6.9	5.1	1.8	5.4	26.7	7.8	14.7	7.4	7.8	11.6	0.9	2.8	2.7
GDP deflator in US dollar terms (change in percent)	-1.1	12.0	7.8	-2.0	7.7	16.9	26.5	-0.2	7.4	-0.2	4.4	9.1	-1.5	-0.6	0.1
Effective interest rate (percent) 4/	0.5	0.6	0.7	1.0	0.6	0.9	1.0	1.1	1.2	1.2	0.8	1.0	1.5	2.1	1.7
Growth of exports of G&S (US dollar terms, in percent) 8/	0.6	-6.7	26.5	1.8	14.3	39.9	166.7	0.0	35.0	4.8	16.1	43.8	-8.5	-8.9	-1.9
Growth of imports of G&S (US dollar terms, in percent) 9/	8.4	41.3	25.5	9.9	20.0	12.4	10.0	20.9	7.1	-0.5	3.2	8.9	-0.6	-1.7	2.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.2	38.2	28.9	36.9	35.9	34.9	34.2	29.7	20.0	26.8
Memorandum items:															
Nominal GDP (billions of US dollars)	1.1	1.3	1.5	1.2	0.1	1.9	3.0	3.3	4.0	4.3	4.8	3.6	5.5	7.2	6.1
Gross official reserves (end of period)	33.2	14.4	2.5	16.7	15.4	7.8	10.4	13.6	17.7	18.8	19.4	14.6	53.4	62.7	58.0

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

1/ Includes both public and private sector external debt.

2/ The results are highly dependent on the assumed strategy of foreign assets accumulation.

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

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

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

6/ Historical (1995–2004) averages and standard deviations.

7/ Includes debt relief provided under the enhanced HIPC Initiative.

8/ The relatively low historical average for export growth reflects the attribution of the EU fishing compensation (including the income related to EU fishing license the historical average for export growth would be at 5 percent).

9/ Includes oil and othe mining projects related imports.

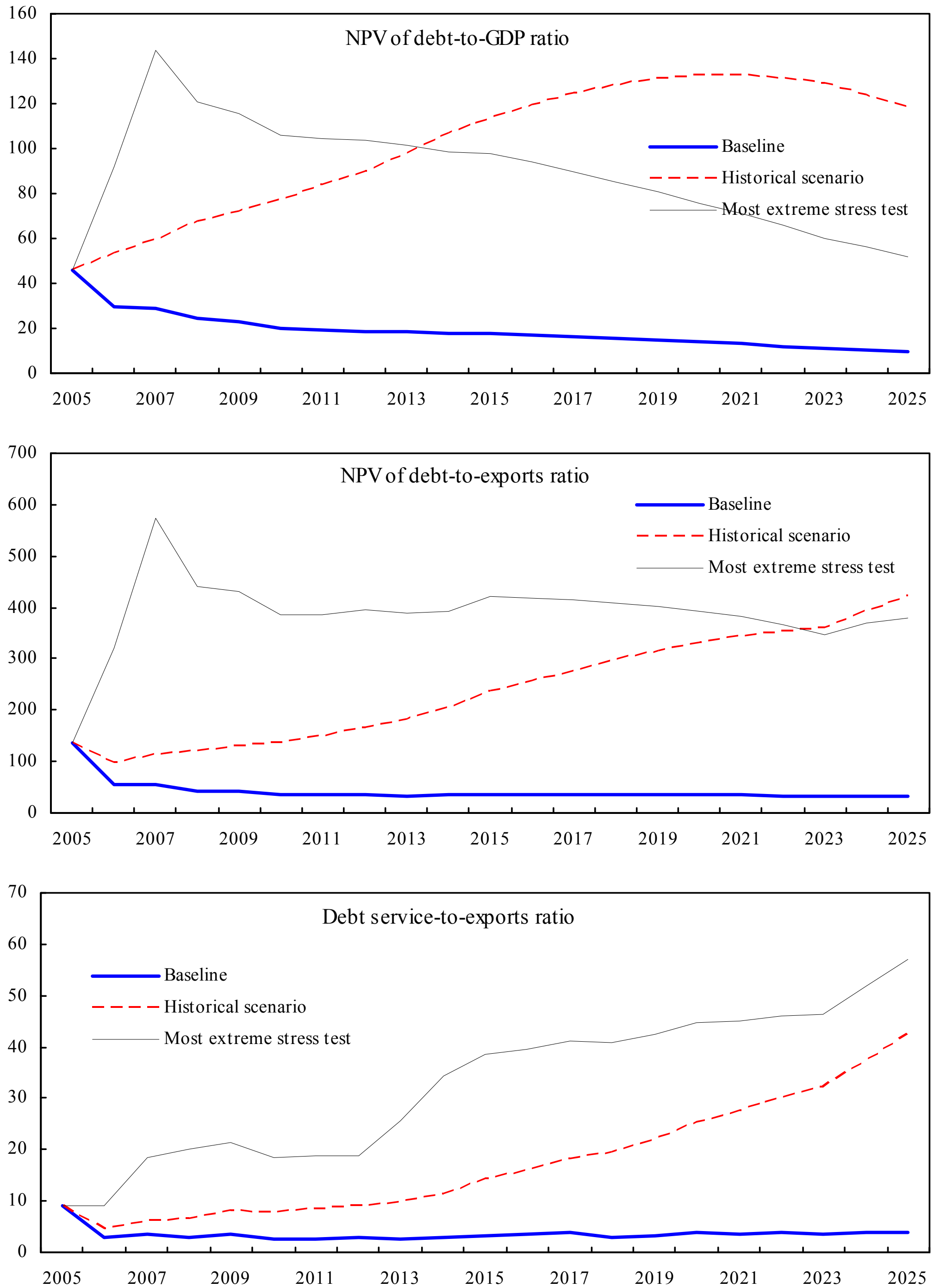
10/ The relatively high residual is in part due to the accumulation of foreign assets (as shown in the memorandum items).

Table 2. Mauritania: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005–25
(In percent)

	Est.	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
	(NPV of debt-to-GDP ratio)							
Baseline	46	30	29	24	23	20	18	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005–25 1/	46	54	59	67	72	77	113	118
A2. New public sector loans on less favorable terms in 2005–25 2/	46	31	30	26	25	22	22	16
A3. Low case scenario	46	34	33	29	29	26	23	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006–07	46	37	37	31	29	26	23	12
B2. Export value growth at historical average minus one standard deviation in 2006–07 3/	46	58	84	71	68	62	58	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006–07	46	42	45	37	35	31	28	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006–07 4/	46	25	24	19	18	16	14	7
B5. Combination of B1-B4 using one-half standard deviation shocks	46	92	143	120	116	106	98	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	46	39	38	32	30	27	23	12
	(NPV of debt-to-exports ratio)							
Baseline	138	54	56	43	41	36	37	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005–25 1/	138	97	115	119	131	135	235	420
A2. New public sector loans on less favorable terms in 2005–25 2/	138	55	59	45	44	39	45	56
A3. Low case scenario	138	68	69	56	61	53	58	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006–07	138	54	56	43	41	36	37	34
B2. Export value growth at historical average minus one standard deviation in 2006–07 3/	138	321	574	440	433	384	422	380
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006–07	138	54	56	43	41	36	37	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006–07 4/	138	45	46	34	33	28	29	26
B5. Combination of B1-B4 using one-half standard deviation shocks	138	286	464	355	349	310	340	306
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	138	54	56	43	41	36	37	34
	(Debt service ratio)							
Baseline	9	3	4	3	3	2	3	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005–25 1/	9	5	6	6	8	8	14	42
A2. New public sector loans on less favorable terms in 2005–25 2/	9	3	3	3	3	3	3	7
A3. Low case scenario	13	5	6	3	3	3	3	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	9	3	3	3	3	3	3	6
B2. Export value growth at historical average minus one standard deviation in 2006–07 3/	9	9	18	20	21	19	39	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006–07	9	3	3	3	3	3	3	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006–07 4/	9	3	3	3	3	3	3	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	15	16	18	15	31	46
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	9	3	3	3	3	3	3	6

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

Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005–25



Source: Staff projections and simulations.

Table 3.Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2002–25
(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections								
	2002	2003	2004	Historical Average 5/	Standard Deviation 5/	2005	2006	2007	2008	2009	2010	2006–10 Average	2015	2025	2011–25 Average
Public sector debt 1/	166.6	153.8	156.6			130.7	81.1	75.0	59.5	53.8	46.4		36.8	22.7	
o/w foreign-currency denominated	161.8	133.8	118.9			99.3	61.0	56.0	44.0	39.2	33.4		25.9	14.8	
Change in public sector debt	-26.7	-12.7	2.8			-25.9	-49.6	-6.1	-15.5	-5.8	-7.4		-0.8	-0.8	
Identified debt-creating flows	-27.7	3.3	-3.4			-29.3	-52.2	-9.2	-23.2	-10.4	-11.8		-10.5	-3.9	
Primary deficit	-11.8	30.2	17.7	-0.1	13.6	0.6	-5.6	-3.6	-8.9	-6.9	-5.8	-6.2	-11.5	-4.3	-9.2
Revenue and grants	36.9	28.0	28.0			25.2	24.0	23.2	27.5	27.0	25.2		30.2	23.9	
of which : grants	5.2	3.9	2.6			2.2	2.9	2.5	1.9	1.7	1.1		0.5	0.3	
Primary (noninterest) expenditure	25.1	58.2	45.7			25.8	18.5	19.7	18.6	20.0	19.4		18.6	19.7	
Automatic debt dynamics	-10.3	-22.6	-17.4			-26.5	-45.0	-4.3	-13.2	-2.4	-5.1		1.4	0.4	
Contribution from interest rate/growth differential	-5.6	-10.4	-11.0			-12.5	-29.5	-5.6	-10.8	-3.4	-4.3		0.4	0.0	
of which : contribution from average real interest rate	-0.4	-0.7	-1.2			-4.9	-4.8	0.6	-0.6	0.6	-0.2		0.5	0.4	
of which : contribution from real GDP growth	-5.1	-9.7	-9.8			-7.6	-24.6	-6.2	-10.2	-3.9	-4.1		-0.1	-0.4	
Contribution from real exchange rate depreciation	-4.8	-12.2	-6.4			-14.0	-15.5	1.2	-2.4	0.9	-0.8		...	...	
Other identified debt-creating flows	-5.6	-4.3	-3.8			-3.4	-1.7	-1.3	-1.0	-1.0	-0.9		-0.3	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-5.6	-4.3	-3.8			-3.4	-1.7	-1.3	-1.0	-1.0	-0.9		-0.3	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.0	-16.0	6.2			3.4	2.6	3.1	7.7	4.6	4.4		9.7	3.1	
NPV of public sector debt	71.7	79.1	90.9			77.3	50.1	48.1	39.6	37.3	33.4		29.1	17.5	
o/w foreign-currency denominated	67.0	59.0	53.2			45.9	29.9	29.1	24.1	22.7	20.3		18.2	9.6	
o/w external	67.0	59.0	53.2			45.9	29.9	29.1	24.1	22.7	20.3		18.2	9.6	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-3.7	36.9	25.0			8.5	3.5	5.6	-0.8	1.7	2.3		-2.1	5.3	
NPV of public sector debt-to-revenue ratio (in percent) 3/	194.4	282.0	325.1			306.7	208.3	207.4	143.9	138.1	132.6		96.4	73.1	
o/w external	181.5	210.5	190.2			182.1	124.4	125.2	87.6	84.1	80.8		60.2	40.1	
Debt service-to-revenue ratio (in percent) 3/ 4/	21.1	23.0	22.2			24.2	16.2	15.3	11.0	12.0	10.9		8.3	8.0	
Primary deficit that stabilizes the debt-to-GDP ratio	14.9	42.9	15.0			26.5	44.0	2.5	6.6	-1.2	1.6		-10.8	-3.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.7	6.2	6.8	4.5	2.4	5.1	23.2	8.3	15.7	7.1	8.2	12.5	0.1	1.9	2.2
Average nominal interest rate on forex debt (in percent)	1.2	1.4	1.5	1.1	0.4	1.6	1.6	1.6	1.7	1.7	1.3	1.6	1.7	2.3	1.9
Average real interest rate on domestic currency debt (in percent)	6.3	1.0	-2.3	6.5	6.1	-11.1	-17.5	4.7	-2.7	4.9	0.3	-2.1	5.1	5.1	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.6	-8.1	-5.1	3.7	7.5	-12.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.6	9.2	7.9	5.9	2.5	17.0	26.5	-0.2	7.4	-0.2	4.4	7.6	0.0	1.0	1.6
Growth of real primary spending (deflated by GDP deflator, in percent)	23.6	146.6	-16.1	18.7	47.4	-40.5	-9.3	14.8	8.4	15.8	4.3	6.8	2.9	5.4	2.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

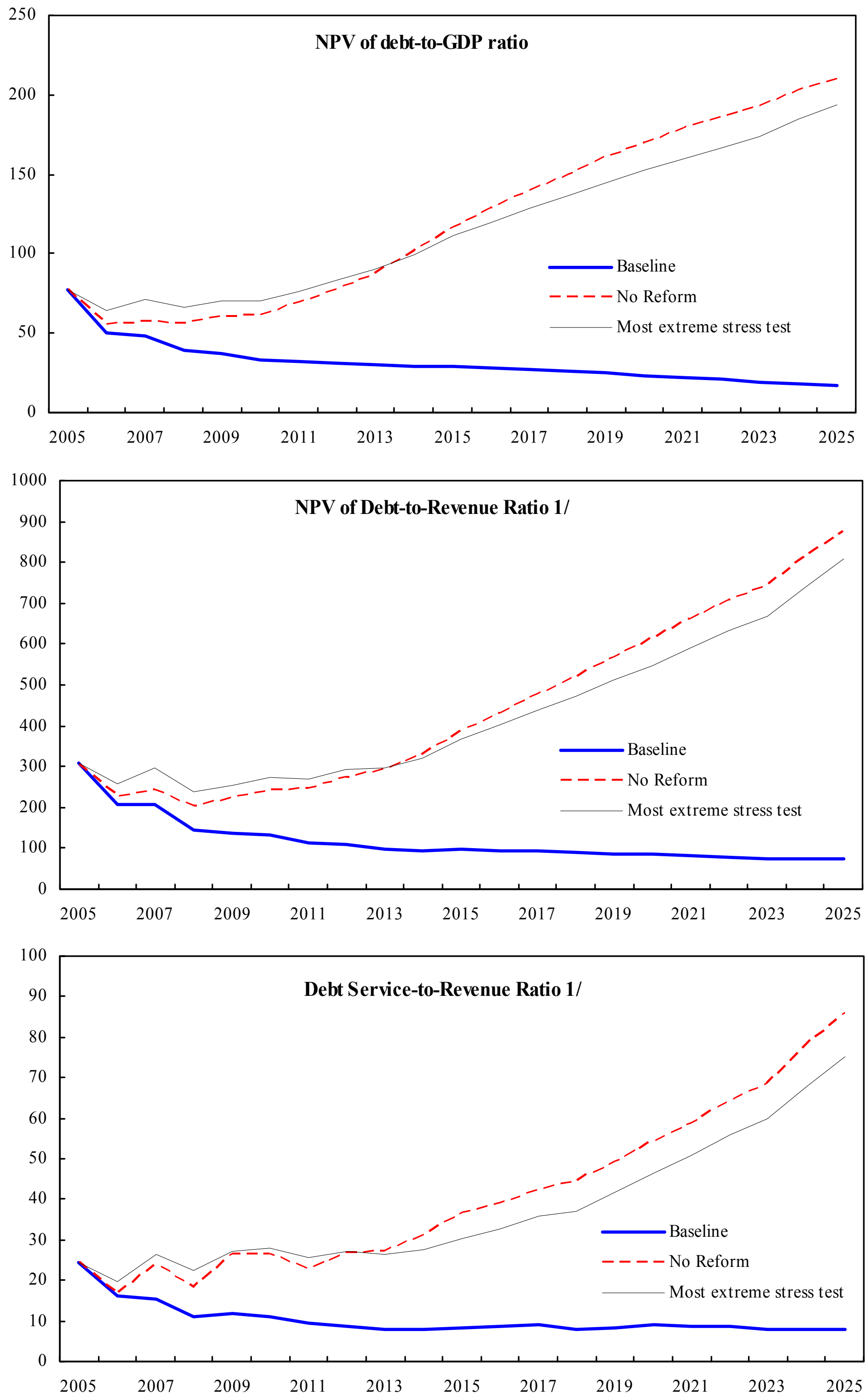
Sources: Mauritanian authorities; and Fund staff estimates and projections.
1/ Central government debt (gross basis).
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical (1995–2004) averages and standard deviations.

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt 2005–25

	Est.	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
	(NPV of Debt-to-GDP Ratio)							
Baseline	77	50	48	40	37	33	29	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	77	64	68	74	81	83	139	199
A2. Primary balance is unchanged from 2005	77	55	57	56	60	61	116	210
A3. Permanently lower GDP growth 1/	77	50	49	42	41	38	44	66
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006–07	77	64	71	66	70	70	111	194
B2. Primary balance is at historical average minus one standard deviations in 2006–07	77	67	80	67	65	59	62	62
B3. Combination of B1-B2 using one half standard deviation shocks	77	71	82	70	69	64	77	96
B4. One-time 30 percent real depreciation in 2006	77	64	63	54	52	48	49	44
B5. 10 percent of GDP increase in other debt-creating flows in 2006	77	58	56	47	45	40	38	29
	(NPV of Debt-to-Revenue Ratio 2/)							
Baseline	307	208	207	144	138	133	96	73
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	306	259	284	261	291	325	459	829
A2. Primary balance is unchanged from 2005	306	227	244	204	223	241	385	875
A3. Permanently lower GDP growth 1/	306	207	211	152	150	149	145	274
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006–07	307	259	298	237	255	275	366	807
B2. Primary balance is at historical average minus one standard deviations in 2006–07	306	277	344	244	240	236	205	260
B3. Combination of B1-B2 using one half standard deviation shocks	306	287	343	251	250	251	255	399
B4. One-time 30 percent real depreciation in 2006	306	265	271	194	193	191	161	183
B5. 10 percent of GDP increase in other debt-creating flows in 2006	306	242	242	170	165	160	126	121
	(Debt Service-to-Revenue Ratio 2/)							
Baseline	24	16	15	11	12	11	8	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	19	28	22	34	35	43	80
A2. Primary balance is unchanged from 2005	24	17	24	18	26	26	36	86
A3. Permanently lower GDP growth 1/	24	17	17	12	13	12	10	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006–07	24	20	26	23	27	28	30	75
B2. Primary balance is at historical average minus one standard deviations in 2006–07	24	17	42	37	24	18	11	19
B3. Combination of B1-B2 using one half standard deviation shocks	24	20	38	31	25	21	18	29
B4. One-time 30 percent real depreciation in 2006	24	18	19	13	14	12	8	1
B5. 10 percent of GDP increase in other debt-creating flows in 2006	24	17	29	15	14	12	9	11

Sources: Mauritanian authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2005–25



Source: Staff projections and simulations.
1/ Revenue including grants.

Statement by the IMF Staff Representative
May 27, 2005

1. This statement summarizes information, which has become available since the staff report was circulated to the Executive Board on May 9, 2005, pertaining to economic developments since the beginning of 2005, technical assistance on public finances management, and the audit of the central bank accounts at end-2004. The information does not change the thrust of the staff appraisal.

2. Preliminary data for the first quarter of 2005 indicate a prudent fiscal policy stance, with parts of spending on goods and services and domestically-financed investment held back as recommended by staff. Overall fiscal position including grants posted a balance, with expenditure execution at 4.5 percent of annual GDP. The authorities reported that about 2 percent of GDP in expenditure arrears were settled through sales of treasury bills to commercial banks, and directly from treasury accounts. As a result, broad money in the first quarter grew by 13 percent from its end-December 2004 level although interest rates on government short-term instruments rose from about 7 percent to nearly 11 percent. Inflationary pressure subsided only slowly as projected (the twelve-month CPI growth decreased from 16.2 percent in December to 15.2 percent in April). At end-April, the Central Bank of Mauritania (BCM) gross official reserves remained precariously low, broadly unchanged from end-December 2004, and net foreign assets of commercial banks showed a further drop. Foreign trade data for the first quarter show a net increase in exports with the growth in the value of iron exports more than compensating for the drop in the volume of fishing exports. The official exchange rate of the ouguiya against the U.S. dollar was quoted at 265.5 on May 22 (a 3.6 percent depreciation since end-December 2004). Based on the BCM statements, private business climate remains buoyant, particularly in services and construction. No major delay is expected for the beginning of oil production, scheduled for early 2006. The latest estimates regarding the impact of the drought and the locust invasion, indicate that the January 2005 staff assessment remains broadly valid.

3. A TA mission on public finances management, which visited Nouakchott in April, held high profile discussions. The mission provided recommendations to strengthen treasury operations, fiscal accounting, and reporting and budget preparation, execution, and control functions. The mission emphasized that greater coherence and coordination in public finances management reforms will be key to their success. The preliminary report was well-received and the authorities have already initiated improvements in fiscal reporting (e.g., the identification of the cash and commitment bases in the reconciliation between fiscal and monetary accounts). On the implementation of safeguards assessment recommendations, the BCM communicated to staff a special report prepared at its request by the external auditor. The report confirms 98.28 percent of the BCM's end-2004 foreign exchange balances with correspondent banks but does not address retroactive data issues. The external audit of the end-2004 BCM financial statements is expected to be completed by mid-June 2005.

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

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

IMF Executive Board Concludes 2005 Article IV Consultation with the Islamic Republic of Mauritania and Reviews Noncomplying Disbursement

On May 27, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Islamic Republic of Mauritania.[1] The Executive Board also discussed the Managing Director's report on the noncomplying disbursement that arose in the context of Mauritania's 2003 Poverty Reduction and Growth Facility (PRGF) arrangement. The initial disbursement, which the authorities voluntarily repaid on November 4, 2004, was found to be noncomplying as a result of inaccurate information provided to the Executive Board on the implementation of one of the prior actions required for the approval of the arrangement. In light of its voluntary repayment, the Executive Board decided to take no further action.

Background

Mauritania reached the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in May 2002, and in July 2003 embarked on a new three-year program supported by a PRGF arrangement in the amount of SDR 6.44 million (see Press Release No. 03/117). However, based on the revised fiscal and monetary figures for 2003 and the first half of 2004 that were submitted to the IMF staff in September 2004, the program was found to be irretrievably off-track. On November 7, 2004, at the authorities' request, the arrangement was cancelled. The revised figures showed large extrabudgetary spending— which the authorities

[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.

reported to be in part related to the implementation of an emergency plan to protect poor people from the effects of the 2002 drought and to security-related outlays—financed by monetary expansion and a drawdown of official reserves. The resulting cumulative fiscal deficit during the 18 months from January 2003 exceeded 50 percent of annual GDP while currency in circulation and broad money more than tripled.

In 2003–04, with the fiscal impulse and the buoyant construction sector, real GDP grew at an estimated 6–7 percent per annum. In 2003, CPI inflation remained subdued (5.5 percent on average) but in 2004 it increased to about 16 percent by year-end, reflecting a lagged effect of the fiscal and monetary expansion through mid-year and upward adjustments in the retail prices of petroleum products. Despite buoyant iron ore exports in 2004, the current account deficit (excluding oil activity and other FDI-related imports) remained close to 16 percent of GDP for two consecutive years, reflecting the rise in government imports in 2003 and the first half of 2004, related to the large extrabudgetary spending, and in international petroleum prices in 2004. The parallel foreign exchange market premium over the official exchange rate, surged in the summer of 2003 and peaked above 20 percent in April/May 2004.

In July 2004, a new economic team took actions to tighten fiscal and monetary policies. Off-budget spending was discontinued, the Central Bank of Mauritania (BCM) curbed its financing of government operations and raised reserve requirements on bank deposits to start mopping up excess liquidity. The BCM stepped up its intervention on the foreign exchange market, but at the same time officially stopped foreign exchange auctions and began to prioritize its sales toward payments for imports of key commodities (including petroleum products and staple goods). Broad money remained stable in the second half of 2004, and the parallel market premium decreased gradually to an average of 16 percent in April 2005.

In 2003–04, progress in structural reforms was slower than planned (except for the restructuring of the social security fund) and major weaknesses surfaced in fiscal, monetary, and exchange rate management. Recently, however, the authorities took steps to resume structural reforms in these areas, with technical assistance of the Fund and World Bank staffs. The quality of financial and fiscal data reporting is expected to improve with the recent reconciliation of treasury and central bank data and the planned external certification of the BCM financial statements as of end-2004.

Mauritania is expected to become an oil producer in 2006 and has started to prepare for the challenges of managing potentially significant oil revenues. The authorities intend to adopt sound principles for oil revenue management and tracking (various frameworks, such as the one proposed in the Extractive Industry Transparency Initiative, are under consideration). The authorities plan to budget all the forthcoming oil-revenue and to use it in accordance with the priorities that will be set up in the 2006–10 Poverty Reduction Strategy Paper, to be submitted to Parliament by end-2005.

Executive Board Assessment—Article IV Consultation

Executive Directors were disappointed that serious fiscal and monetary policy slippages in 2003 and the first half of 2004 undermined achievement of Mauritania's ambitious macroeconomic objectives and progress in implementing the poverty reduction strategy. Extra-budgetary spending and monetary expansion in this period led to double-digit inflation and a drawdown of foreign reserves. In Directors' view, these policy slippages revealed serious governance and ownership issues.

Directors expressed concern that weaknesses in, and unavailability of, crucial data prevented staff from conducting a complete assessment of Mauritania's economic performance and policies and projecting monetary conditions in 2005. They welcomed the authorities' recent efforts to improve the quality of monetary and fiscal data, including the reconciliation of the central bank and treasury accounts and the ongoing external audit of the central bank's 2004 financial statements. They also welcomed the central bank's intention to strengthen its financial reporting and to implement most of the safeguards assessment recommendations. However, many Directors emphasized that independent verification of the end-2003 central bank financial statements and full disclosure of information available to confirm the official reserves for 2000–02 will be required before a request for use of Fund resources or for a staff-monitored program can be considered. A number of Directors supported a prompt initiation of discussions on a staff-monitored program, noting the urgency of reestablishing program relations, and a few Directors considered the authorities' request for Emergency Assistance justifiable in light of the drought and locust invasion. Directors strongly urged the authorities to cooperate fully with the staff to resolve swiftly the remaining data issues.

Directors welcomed the return to fiscal and monetary restraint by the new economic team appointed in July 2004. They commended the coordinated measures taken since then to curb extra-budgetary spending, withdraw central bank financing of the budget, and reduce excess liquidity. They urged further tightening of fiscal and monetary policies and a re-engagement with structural reforms—with particular emphasis on data integrity, public financial management, and central bank controls—in order to bring inflation down, rebuild external reserves, and combat vulnerabilities related to the narrow export base. They also advised the authorities to step up efforts to mobilize external balance of payments support for Mauritania. Directors considered Mauritania's medium-term prospects to be favourable in light of the expected oil wealth and expansion in other extractive industries, provided the authorities continue to implement sound policies and structural reforms.

Directors welcomed the projected narrowing of the fiscal deficit in 2005, particularly the significant decline in government spending. They advised further cuts in non-priority spending, while emphasizing that social spending should continue to be protected, and encouraged broadening of the tax base and strengthening of tax administration to boost non-oil revenue. Rigorous execution of the 2005 budget law and adoption of a strict budget law for 2006 will be important steps toward maintenance of a prudent fiscal policy, which should be anchored in a medium-term expenditure framework. Directors called on the authorities to implement expeditiously the recommendations of the fiscal ROSC. They supported the proposed focus on the non-oil fiscal balance, in view of the volatility of oil prices.

Directors stressed that monetary and fiscal policies should be compatible with the de facto exchange rate peg. They welcomed the authorities' willingness to prepare for the transition to a more flexible exchange rate, and encouraged the early adoption of a strategy for orderly exit from the de facto peg. They also urged the authorities to eliminate the current restriction on the making of payments and transfers for current international transactions, as soon as balance of payments conditions permit, noting that this would reduce recourse to the parallel market for foreign exchange.

Directors called for accelerated implementation of measures to ensure transparent and efficient management of the emerging oil boom, and for equitable distribution of the oil wealth among regions and ethnic groups. They stressed that a strong legal and fiscal framework for the collection and management of oil revenue will need to be established, with due attention paid to absorption capacity, macroeconomic stability requirements, and long-term savings objectives. The legal framework should explicitly promote transparency, through measures such as an annual independent audit of the oil accounts, disclosure of all transactions, and publication of oil-related contracts. Directors recommended that the operations of the envisaged oil stabilization and savings funds be fully integrated into the government budget, which should be subject to a rigorous appropriation process. They encouraged Mauritania to participate in the Extractive Industries Transparency Initiative.

Directors urged the authorities to resume implementation of the structural reforms as quickly as possible. They stressed that the overhaul of public finance management, transparent fiscal reporting, and multi-level expenditure controls will be indispensable safeguards against over- and mis-spending. They called for concrete steps to implement the pending government programs in support of good governance and public administration reforms, including the adoption of a code of conduct and a modern system of remuneration for civil servants. Directors emphasized the need for a well-functioning foreign exchange market that bans discriminatory practices—this will help the development of a sound banking system, which currently faces high risk concentration and foreign exchange exposure and a lack of confidence. Directors also urged the authorities to cooperate fully on data issues to maximize the effectiveness of the planned FSAP mission.

Directors welcomed the authorities' intention to gear medium-term spending plans toward poverty reduction. They observed that, to achieve significant progress toward Mauritania's Millennium Development Goals, a comprehensive medium-term strategy should guide the allocation of the oil revenues to priority sectors while safeguarding macroeconomic stability. In this regard, Directors looked forward to the completion in the coming months of the new PRSP covering the period 2006–10. They hoped that candid and far-reaching lessons will be drawn from the execution of the 2001–04 PRSP, including on ways to improve the targeting of social expenditures.

Noncomplying Disbursement

The Executive Board reviewed the matter relating to one noncomplying disbursement to Mauritania, in the amount equivalent to SDR 0.92 million, that was made in July 2003 following the approval of the Executive Board of a three-year Poverty Reduction and Growth Facility (PRGF) arrangement for Mauritania.

The issue of misreporting arose because of inaccurate information provided to the IMF relating to the implementation of one of the prior actions required for the approval of the arrangement. Revised data for 2003 and the first half of 2004, provided to the IMF in September 2004, showed large extrabudgetary spending and corresponding central bank financing in the first quarter of 2003 that were excluded from data provided to the IMF in May 2003 and on the basis of which the arrangement was approved.

Directors regretted the occurrence of misreporting under the 2003 PRGF arrangement. They stressed that the provision of inaccurate information to the IMF on the PRGF-supported program over a period of one and a half years was a very serious matter. Accurate reporting of data is crucial in maintaining trust between the IMF and its members, which is fundamental to the work of the IMF as a cooperative institution. However, given the authorities' voluntary repayment of the noncomplying disbursement on November 4, 2004, Executive Directors agreed that no action be taken.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

The Islamic Republic of Mauritania: Selected Economic Indicators

	2001	2002	2003	2004 Est.	2005 Proj.
	(Percentage changes; unless otherwise indicated)				
National income and prices					
GDP at constant prices	3.6	2.3	6.4	6.9	5.4
GDP deflator	4.9	5.6	9.2	7.9	17.0
Consumer price index (period average)	4.7	3.9	5.5	10.4	14.2
Consumer price index (end of period)	1.7	8.4	2.8	16.2	10.0
External sector					
Exports of goods, f.o.b. (in U.S. dollars)	-1.8	-2.4	-8.2	34.7	42.3
Imports of goods, f.o.b. (in U.S. dollars)	10.7	9.9	59.4	20.5	8.3
Imports of goods, f.o.b. (in U.S. dollars) 1/	3.7	10.3	43.7	19.3	-2.8
Official transfers (in percent of GDP)	7.2	6.0	6.6	3.6	4.2
Current account balance (in percent of GDP) 2/	-6.5	1.1	-22.3	-27.9	-19.6
Current account balance (in percent of GDP) 1/ 2/	-2.3	5.2	-15.9	-15.7	1.7
Money and credit					
Money and quasi-money	17.3	8.9	103.3	47.6	...
Currency in circulation	4.5	-6.1	148.3	132.1	...
	(In percent of GDP)				
Consolidated government operations					
Revenue and grants	21.3	36.9	28.0	28.0	25.2
Revenue, excluding grants	16.9	31.7	24.1	25.4	23.0
Expenditures and net lending	23.4	27.9	60.6	48.4	28.5
Overall balance excluding grants	-6.5	3.8	-36.4	-23.0	-5.5
Overall balance including grants	-2.0	9.0	-32.5	-20.4	-3.3
Memorandum items:					
Ouguiya/US$ exchange rate (end of period)	264.1	268.7	265.6	256.2	…
Exports, f.o.b. (in millions of U.S. dollars)	339	330	303	408	581
Imports, f.o.b. (in millions of U.S. dollars) 1/	358	395	568	677	658
Nominal GDP (in billions of ouguiyas) 3/	281	303	353	406	501
Nominal GDP (in millions of U.S. dollars)	1,098	1,117	1,330	1,532	1,888
Population (in millions)	2.72	2.81	2.88	2.91	2.98
GDP per capita (in U.S. dollars)	404	397	462	526	633

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

1/ Excluding oil exploration/production and other mining (copper, gold)-related activities.

2/ The external current account surplus in 2002 reflects the late payment of the 2001 EU fishing compensation.

3/ Using the new 1998 basis.

Statement by Damian Ondo Mañe, Executive Director
for Islamic Republic of Mauritania
May 27, 2005

Introduction

On behalf of my Mauritanian authorities, I would like to express their deep appreciation to Management and the staff for their continued support and policy advice, over the years. The ambitious programs put in place enabled Mauritania to be one of the first countries to have benefited from Fund assistance under the Enhanced Structural Adjustment Facility (ESAF) in 1989, and was also among the first countries to reach the completion point under the HIPC Initiative, in 2002. Since the mid-1980s Mauritania has received valuable financial and technical assistance under various Fund-supported programs and has successfully implemented a wide range of macroeconomic and structural reforms that have contributed to stabilize the economy and improve the life of a large proportion of the Mauritanian population, while actively promoting the development of the private sector. My authorities have demonstrated a strong commitment to the programs and ownership of the reforms, notwithstanding repeated shocks and a difficult environment. With the support of the international community and perseverance in their adjustment efforts, Mauritania should continue to make progress in meeting the MDGs. They are grateful to the Board, management, and staff for their sustained support throughout the years and for the quality of the work that they have realized in favor of Mauritania.

My authorities very much regret the fact that the last PRGF went off-track, and under the circumstances described in the staff paper. A series of unfortunate shocks happened almost simultaneously and led to the large unmonitored extrabudgetary expenses. The way the shocks were dealt with also indicated weak government capacity and control, which have since been addressed. First, on the extrabudgetary expenses, they were caused by:

- An unprecedented drought that required immediate intervention, especially in the more remote areas to prevent loss of life;

- At the same time the country was faced with a severe internal security problem. It should be noted that Mauritania has had a stable political and security situation over the past 20 years, and the attempted coups were a major shock to everyone, and called for immediate and urgent actions on the part of the authorities. Security related expenditure increased significantly;

- Additional outlays were also needed to prevent a deterioration of the economic and financial situation.

In July of 2004, a new economic team was put in place. It included, among others, a new Governor of the Central Bank, a new Minister of Finance and a new Minister of the Economy. This team put an end to extrabudgetary spending and the depletion of foreign exchange reserves, and notified Fund's management of the slippages that had occurred and discussed corrective measures. On the basis of these discussions, a number of strong actions were taken, as outlined below. But above all, the authorities voluntarily took on themselves to repay the noncomplying disbursement which was done on November 4, 2004. Moreover, immediately after his appointment, the Governor of the central bank traveled to Washington to inform management of the important revisions underway to the data that had previously been communicated to the Fund. The central bank Governor also reported a number of significant corrective measures that were being implemented and invited staff to visit Mauritania as soon as possible.

Addressing Policy Slippages

At the Mauritanian authorities' initiative, new corrective policies were introduced in the summer of 2004 by the newly appointed economic team that coordinated their efforts to tighten fiscal and monetary policies. Extrabudgetary expenditures were immediately stopped and the central bank ceased its financing to the government. To mop up excess liquidity and mitigate inflation risks, the central bank raised the reserve requirement of commercial banks. Later, in 2005, following discussions with staff, monetary policy was further tightened with a 2 percentage points increase in interest rates. To address the tensions that appeared on the foreign exchange market and to bolster the national currency, the central bank cancelled its discretionary rationing of foreign currencies to commercial banks and started allocating foreign currencies on a transparent basis.

Other important measures were introduced to correct the 2003-04 slippages. An audit of the foreign exchange reserves at end-August 2004 was carried out and its results –showing a significant drop in the level of foreign reserves–, were immediately communicated to staff. Most of the recommendations of the 2004 safeguards assessments have also been implemented since. Starting in 2005, an annual external audit of the central bank's financial statements will be performed regularly by an international firm. The authorities are also currently reviewing budget accounting and reporting procedures with technical assistance from the Fund.

As a result of the new policies, the fiscal deficit (including grants) that had considerably deteriorated in 2003, started to decrease in 2004 and is now expected to drop to 5 percent of GDP, in 2005.

My Mauritanian authorities are confident that the measures taken will prevent any recurrence of the problems. It is their strong wish to continue the close relationship with the Fund and they look forward to the start of discussions on a strong program of economic adjustment and reforms, consistent with the PRSP, and that can receive Fund support under a new PRGF arrangement.

Recent Economic Developments

Although real GDP growth increased in 2003 and in 2004 as a result of the expansionary fiscal stance, economic conditions in rural areas remained difficult and were aggravated by the 2002 drought and the 2004 locust inflation, and the inflationary impact of monetary financing of fiscal deficits. For these reasons, my authorities are requesting the use of Fund's emergency assistance for natural disasters (EAND).

Mauritania's current account deficit deteriorated in 2003 and 2004, contributing to the depletion of foreign exchange reserves. Imports rose sharply. The current account balance went from a surplus in 2002, to deficits in 2003, and in 2004. In 2004, the deficit stabilized due to a good exports performance, and the bringing to an end of extrabudgetary spending.

On the fight against poverty and the implementation of the PRSP, several health and education indicators have improved during the 2000-04 period, notably the literacy, primary school enrollment, and child vaccination rates. However, access to water and electricity continue to lag behind. In addition, in the capital, Nouakchott –representing approximately one third of the population–, the level of poverty declined, though inequality increased.

My Mauritanian authorities agree that the current favorable external environment represents a welcome opportunity that will assist them in their efforts to strengthen the economy.. The current situation in the iron ore sector –with high prices pulled by rising demand in Asia–, along with the coming on stream of oil production, gold, and copper in 2006, will contribute towards strengthening both the fiscal and the current account deficits, while enabling the monetary authorities to build up foreign exchange reserves again. With regard to the prospects in the nascent oil sector, my authorities agree with the challenges ahead, notably the need to build capacity to manage the transition from a \$300-\$400 per capita GNP economy, to more than \$1000, in 3 or 4 years. They intend to pursue their cooperation with the Fund, in order to accelerate the preparation for the oil era.

The Issue of Past Data

My authorities have authorized Price Waterhouse Coopers (PwC) –in charge of auditing the level of the reserves–, to cooperate fully and directly with staff on the audit of the reserves. In 2004, following a recommendation by the safeguards assessment mission to Mauritania, the task of auditing central bank reserves was entrusted to PwC. At the time, staff raised no objection to the choice of the audit firm. My authorities regret the present situation. Nonetheless, they consider that they have cooperated fully and made their best efforts to assist the mission in obtaining all the information they requested.

Conclusion

Mauritania is today at a crossroads. Undeniable macroeconomic and structural progress have been achieved since the mid-1980s, with the assistance of the Fund; the near future looks bright with the beginning of oil production early next year; although the overall economic and financial situation will remain vulnerable to shocks like the recent locust invasion that destroyed the livelihood of a large proportion of the population in rural areas, and for which my authorities are requesting the use of Fund's emergency assistance for natural disasters (EAND).

My Mauritanian authorities understand the challenges ahead and the need to pursue rigorous policies and ambitious reforms. They apprehend the risks and opportunities associated with the considerable resources expected next year, in terms of development potential and acceleration of the fight against poverty. In such delicate times, we call on the Fund to continue its financial and technical support to Mauritania and assist the authorities in their efforts to see through the difficult reforms underway.