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Islamic Republic of Mauritania: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for a Waiver of Performance Criterion—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver of a performance criterion, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for a Waiver of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on September 18, 2007, 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 November 5, 2007. 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 supplement of November 20, 2007 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its November 21, 2007 discussion of the staff report that completed the review and request.

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

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Islamic Republic of Mauritania*
Memorandum of Economic and Financial Policies by the authorities of the Islamic Republic of Mauritania*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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ISLAMIC REPUBLIC OF MAURITANIA

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for a Waiver of Performance Criterion

Prepared by the Middle East and Central Asia Department
in collaboration with other departments

Approved by Amor Tahari and Anthony R. Boote

November 5, 2007

- Discussions for the second review under the three-year PRGF arrangement were held in Nouakchott from September 5–18, 2007. The arrangement, in an amount of SDR 16.1 million (25 percent of quota), was approved on December 18, 2006. The staff team comprised Messrs. Guillaume (head, MCD) and Martin (MCD), and Mses. Hijazi (MCD), Al-Zein (PDR), and Lacoche (FAD). Mr. Sidi Bouna (OED) participated in policy discussions. The mission was assisted by the resident representative, Mr. Carre, and worked with World Bank staff in the field. The mission overlapped with an MCM technical assistance mission.

- The mission met with the Prime Minister, the Governor of the Central Bank of Mauritania (BCM), the Ministers of Economy and Finance, Petroleum and Mining, Civil Service and Public Administration Reform, Refugee Affairs, and the National Delegate for private investment, as well as with other high-ranking officials and representatives of the business, banking, and donor communities.

- In the attached letter of intent and memorandum of economic and financial policies (Attachments I and II), the authorities set their policies for the second year of the program and request completion of the second review and a waiver for the nonobservance of the end-June 2007 performance criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt.

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Executive Summary

Performance under the PRGF-supported program has been satisfactory. End-June quantitative performance criteria were met, except for the criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt, for which the authorities have been taking remedial action. The indicative target related to the treasury float was met. Delays in implementing investment projects contributed to lower-than-targeted poverty reducing spending. The structural benchmarks were also met.

Macroeconomic developments remain broadly in line with program projections, despite a steeper-than-expected decline in oil production reflecting persistent technical difficulties. Activity in the non-oil sector accelerated. The basic non-oil fiscal balance was significantly higher than projected, owing mainly to high fiscal revenues and delays in investment spending. Monetary policy remained prudent, contributing to a further decline in inflation. The external position improved further, while the exchange rate appreciated slightly vis-à-vis the dollar. The authorities have also made progress in implementing structural reforms.

Looking ahead, reducing poverty will require the implementation of policies to enhance growth and encourage private sector investment. In particular, it is important that the authorities tackle effectively the most significant impediments to growth, including the poor quality of public services and infrastructure, limited access to banking financing, and weak governance. A better prioritization of spending should also contribute to increasing its contribution to reducing poverty.

The maintenance of a cautious fiscal stance is necessary in view of the downward revision of the oil revenue outlook. Particularly important will be the mobilization of additional tax revenue—including through the reduction of VAT and tariff exemptions—the implementation of the civil service reform, and the improvement of budget preparation, execution, and controls. The authorities also need to finalize and implement promptly a restructuring strategy for key public enterprises, so as to improve their services, ensure their financial soundness, and avoid any further drain on the budget. In line with the financial sector assessment program recommendations, the authorities should also pursue financial sector reforms, with a view to facilitate access to banking services and increase competition.

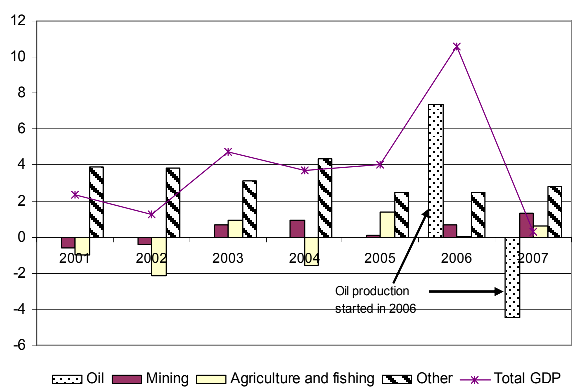
In view of its limited oil revenue prospects for the next few years, Mauritania needs to continue mobilizing concessional support to finance its poverty reduction strategy, including in the context of the consultative group meeting scheduled for early December 2007. The authorities should also pursue discussions with creditors that have not yet provided debt relief under the enhanced HIPC Initiative and strengthen their debt management framework.

I. Recent Developments and Performance Under the Program[1]

1. **Following his election in March 2007, President Sidi Mohamed Ould Cheikh Abdallahi appointed Mr. Zeine Ould Zeidane, a former central bank Governor, as Prime Minister.** The priorities of the new government are to consolidate democracy, improve governance, and intensify efforts to stimulate growth and reduce poverty in the context of the PRGF-supported program. The authorities intend in particular to increase the government's efficiency in delivering public services, promote private sector development, fight corruption, improve fiscal management, implement integrated programs in the poorest areas, and ensure the repatriation of displaced populations.

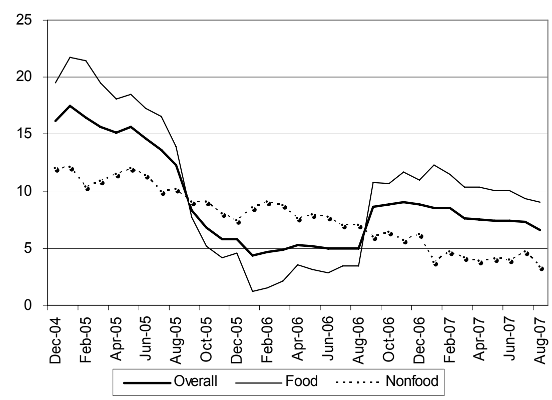
2. **Despite a steeper-than-expected decline in oil production, macroeconomic developments remain broadly in line with the PRGF-supported program** (Table 1). Reflecting persistent technical difficulties, oil production declined from 22,000 barrels per day in December 2006 to about 14,000 barrels per day in August.[2] Activity in the non-oil sector accelerated, benefiting from a rebound in agriculture, fishing, and construction, and the development of gold and copper mining projects. Year-on-year inflation declined from 8.9 percent at end-2006 to 6.6 percent at end-August 2007.

Sectoral Contributions to Real GDP Growth 1/
(In percent)



1/ GDP at factor costs.

Consumer Price Index, December 2004–August 2007 1/
(Year-on-year growth, in percent)



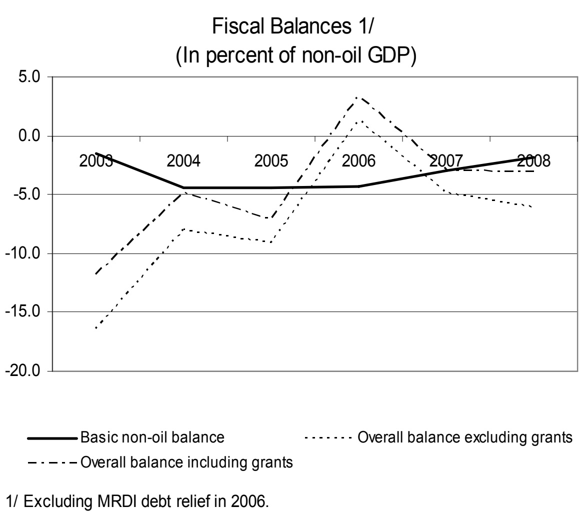
1/ Following discussions engaged by the new transition government, wholesale traders agreed to eliminate noncompetitive practices in the meat industry, resulting in a substantial decline in retail prices for meat in September 2005.

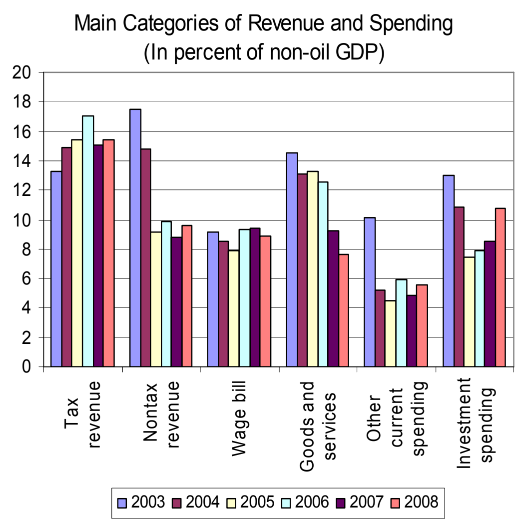
[1] This report focuses on the performance since the first review. For more details on developments in the last quarter of 2006, and the first quarter of 2007, see Country Report 07/224.

[2] This further decline in oil production appears to have been a major factor in the decision of the main oil company, Woodside, to sell its shares in the existing oil consortium to the Malaysian company Petronas.

3. **Performance under the PRGF-supported program has been satisfactory** (Attachment II, Tables 1 and 2). End-June quantitative performance criteria were met, except for the criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt. This nonobservance reflected the contracting of nonconcessional loans, totaling $146.6 million, with the Arab Fund for Economic and Social Development (AFESD) and the Islamic Development Bank (IsDB) to finance water and electricity supply projects deemed crucial from an economic and social point of view (Attachment II, paragraphs 6–8 and Table 1).[3] The authorities have initiated negotiations with their creditors to increase the grant element of these loans. In view of the remedial actions, they are requesting a waiver for the nonobservance of this performance criterion. The structural benchmarks were also met.

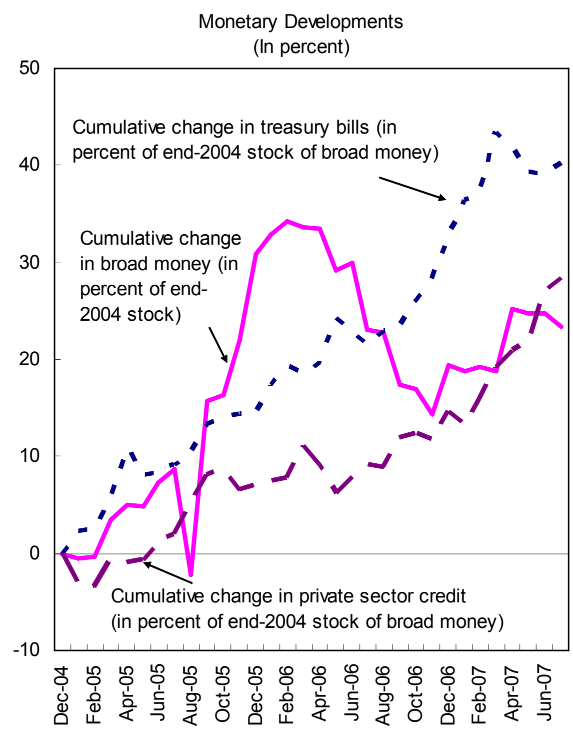
4. **The end-June fiscal performance criterion was met** (Table 2). The basic non-oil fiscal balance—excluding oil revenue, foreign-financed spending, and interest due on external debt —registered a surplus of 0.5 percent of non-oil GDP compared with a projected deficit of 1.4 percent on non-oil GDP, owing mainly to high fiscal revenues and delays in implementing investment projects related to the change of government. These delays also contributed to lower-than-targeted poverty reducing spending. The wage bill was somewhat higher-than-budgeted, largely as a result of classification inaccuracies in the calculation of the 2006 base used for projections. The treasury float was significantly lower than targeted as a result of the computerization of budget execution.

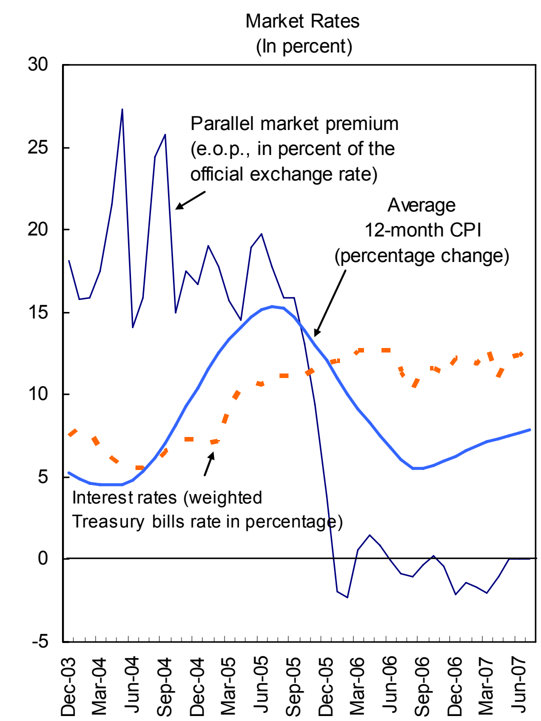




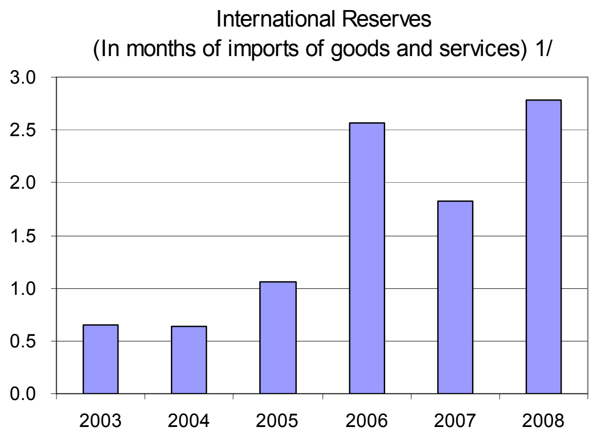
[3] The loan contracted on May 26 with the AFESD had a grant element of 34.6 percent, and the loan and lease contracted with the IsDB on June 17 had a combined grant element of 17.2 percent.

5. **The authorities maintained a prudent monetary policy stance** (Table 3). Broad money growth was limited to 5 percent over the first half of 2007, slightly below program estimates. Following a significant increase during the electoral period, currency in circulation declined sharply during the second quarter of 2007, as its ratio to broad money regained normal grounds. Credit to the economy accelerated, rising by 11 percent over the first half of 2007 (compared with 7 percent for 2006 as a whole), owing mainly to a rebound in the construction sector and increased borrowing by public enterprises. After remaining essentially unchanged from October 2005 to April 2007, the exchange rate vis-à-vis the dollar appreciated slightly, from UM/$269 to UM/$256 at end-September, as a result initially of BCM's intervention to limit the inflationary impact of the Euro appreciation against the dollar.

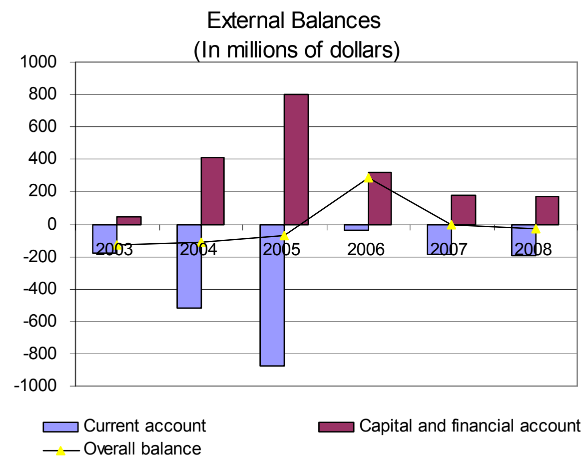




6. **Despite a deterioration of the current account, the BCM's reserve position strengthened further,** largely as a result of high election-related informal capital inflows (Table 4). The current account turned from a surplus of 0.6 percent of GDP in the first half of 2006 to a deficit of 7.3 percent of GDP in the first six months of 2007, reflecting the decline in oil exports, higher imports from extractive industries, and higher import prices. Gross international reserves were nevertheless higher-than-targeted, amounting to $258 million at end-August (equivalent to 3.4 months of imports of goods and services).



1/ Excluding imports from the extractive industries and imports financed by FDI and aid.



7. **The authorities made further progress in implementing structural reforms** (Attachment II, paragraphs 12–18). The audit of the central bank was published in June 2007, audits of commercial banks were completed, and the microfinance law's implementing regulations were adopted. An oil revenue management law in line with Fund recommendations was submitted to parliament on October 15, 2007, and the 2006 Extractive Industries Transparency Initiative report was published. A financial transparency law was adopted. Customs were strengthened with the implementation of the latest ASYCUDA software. Lastly, water and electricity tariffs were increased in November 2007.[4]

II. Economic and Financial Policies for the Second Year of the Program

A. Macroeconomic Outlook

8. **Real GDP growth is projected to increase from 0.9 percent in 2007 to 4.5 percent in 2008,** benefiting mainly from the extension of capacity in iron ore mining and an increase in gold production. The decline in oil production in 2008 is also projected to be significantly smaller than in 2007. As a result of increases in electricity tariffs and bread and cereal prices in the last quarter of 2007, year-on-year inflation is expected to increase to about 8 percent by end-2007 (compared with an initial target of 7 percent), but would decline to 6 percent by end-2008. Gross international reserves are targeted to increase substantially (from the equivalent of 1.8 months of imports of goods and services at end-2007 to 2.8 months at end-2008), owing mainly to the lengthening of the duration of oil import credits (see paragraph 15).

[4] To limit their social impact, these tariff increases were substantially smaller (5 percent for electricity and 0 percent for water) for those with limited consumption than for other consumers (21.6 percent for electricity and 11.8–20.3 percent for water).

B. Fiscal Policy and Reforms

9. **In view of the decline in oil revenues, the authorities have adopted a cautious fiscal stance, aiming at reducing the non-oil basic fiscal deficit to 1.4 percent of non-oil GDP by 2009.** This would allow for the maintenance of precautionary savings in the oil fund and the repayment of debt to the BCM in line with contractual obligations. The basic non-oil balance target for 2007 was kept unchanged in nominal terms as the authorities are expecting some large capital projects to be executed by year-end (Attachment II, paragraph 24). To help finance their social and poverty reduction priorities, the authorities will organize a consultative group meeting on December 4–6, 2007. The overall fiscal balance will be adjusted to accommodate capital and poverty reducing spending financed by additional international assistance, provided it is consistent with debt sustainability, macroeconomic stability, and sectoral absorption capacity (Attachment II, paragraph 25).

Box 1. Accelerating Tax Policy and Tax Administration Reforms

Repeated downward revisions of oil revenue prospects, and the limited dynamism of nontax revenue, have made the need to increase tax revenue more pressing. In this context, the authorities intend to implement significant tax policy and tax administration measures during the second year of the program.

The far-reaching tax policy reforms initiated in 2007 (see Box 1 of Country Report 07/43) will be pursued through:

- a significant reduction of VAT and customs duties exemptions, which, together with an increase of the consumption tax on petroleum products, is estimated to yield about 0.6 percent of non-oil GDP in additional revenue in 2008, and the alignment of the external tariff's product classification with that of the Economic Community of West African States;

- a reduction of the minimum presumptive tax rate on imports and public procurement contracts from 3.5 percent to 3 percent in 2008; and

- the preparation of a reform strategy for domestic taxation with the support of external technical assistance.

Tax and customs administration will be strengthened through:

- the establishment of a central taxpayer database for Nouakchott and Nouadhibou by end-2007, which will be updated on the basis of a taxpayer census;

- the establishment of a VAT reimbursement mechanism by end-2007;

- an increase in the VAT threshold to UM 30 million to facilitate the reorganization of the medium and large taxpayer units; and

- the modernization of custom administration procedures, including trade facilitation measures and better risk management for controls.

10. **The authorities are committed to mobilizing non-oil revenue and reprioritizing spending toward capital and poverty reduction spending.** To step up tax revenue in 2008, the authorities will implement significant tax policy and administration reforms (Box 1). Non-tax revenues are expected to increase, mainly as a result of higher mining revenues and the recovery of nontax arrears. Efforts will also be made to control current spending, including the wage bill (Attachment II, paragraph 25) and transfers to public enterprises (see paragraph 17).

11. **The authorities have adopted an ambitious program of fiscal reforms** (Attachment II, paragraphs 27–31). In addition to tax administration reforms, this program includes reforms aimed at: (a) increasing transparency; (b) strengthening budget preparation, execution, and controls; (c) modernizing and streamlining the civil service; and (d) enhancing oil revenue management. The authorities will also adopt an anticorruption strategy and strengthen oversight institutions (Attachment II, paragraph 40).

C. Monetary and Exchange Rate Policies and Financial Sector Reforms

12. **Monetary policy will be geared towards reducing inflation in the context of a flexible exchange rate.** As in 2007, the monetary program for 2008 projects broad money to increase in line with non-oil GDP growth. This increase should leave sufficient room for private sector credit expansion, as the planned reduction in bank financing to the government and public enterprises should be only partly offset by the projected strengthening of the banking system's external position. To enhance the effectiveness of monetary policy, and promote the development of money markets, the BCM will enhance its coordination with the ministry of economy and finance, and manage liquidity more actively, including through strengthening liquidity forecasts (Box 2).

13. **The authorities will pursue far-reaching central bank and financial sector reforms.** They reiterated their intention to implement the safeguards assessment recommendations related to the strengthening of the central bank control framework and transparency, including through international audits and the gradual adoption of international financial reporting standards (IFRS) (Attachment II, paragraph 36). In line with the recent Financial sector assessment program recommendations (FSAP), and with a view to promoting competitiveness in the sector, banking sector reforms will aim at enhancing the regulatory environment and consolidating the banks' financial situation (Attachment II, paragraph 35).

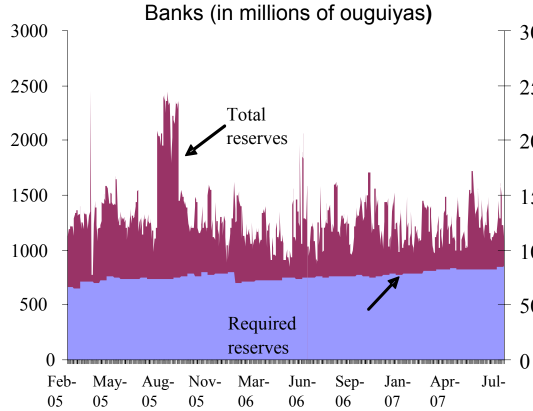
D. External Sector

14. **The medium-term external sector outlook continues to be dominated by developments in the oil and mining sectors.** The current account deficit would stabilize at 6.7 percent of non-oil GDP in 2008, before increasing to 16.2 percent of non-oil GDP by

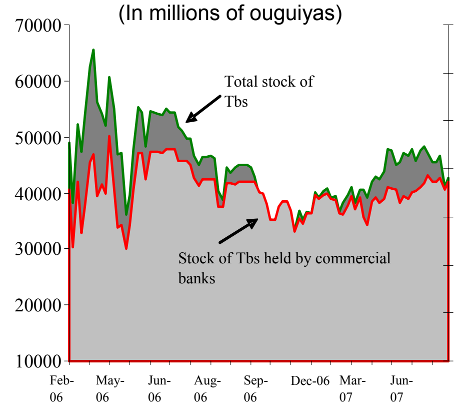
Box 2. Enhancing the Liquidity Management Framework

To date, liquidity management has remained limited, relying mostly on the weekly issuance of treasury bills, while the required reserve ratio and the central bank discount rate remained essentially unchanged. Moreover, banks typically finance themselves through the central bank's discount window rather than the interbank market, despite large excess reserves.

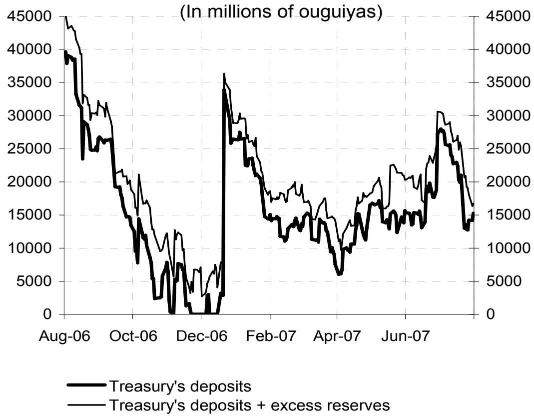
Total and Required Reserves of Commercial Banks (in millions of ouguiyas)



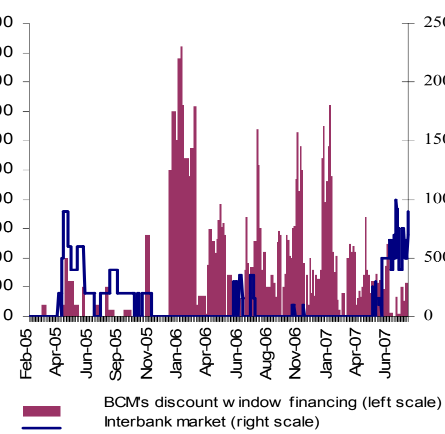
Stock of Treasury Bills (Tbs) (In millions of ouguiyas)



Treasury's Deposits with the BCM and Commercial Banks' Excess Reserves (In millions of ouguiyas)



Interbank Market and BCM Refinancing (In millions of ouguiyas)



To enhance the effectiveness of monetary policy, the Mauritanian authorities have recently taken a number of measures to allow a more active liquidity management, including:

- the computerization of expenditure management in line ministries, providing a more timely monitoring of the government's liquidity position;
- the establishment of a committee in charge of coordinating fiscal and monetary policies;
- the introduction of a new liquidity management instrument (central bank bills); and
- the adoption of rules and a procedure manual for the monetary market.

Additional measures will include:

- the adoption of a securitization plan for part of the central bank's claims on the government;
- the creation of a sterilization account held by the treasury at the central bank, to be used exclusively for liquidity management;
- the preparation of weekly liquidity forecasts by the treasury and the central bank; and
- the daily publication of data on money markets.

2010 on account of a decline in oil, iron ore, and copper exports and an increase in imports by the extractive industries.[5] The deterioration of the current account in the medium term will largely be offset by an increase in foreign direct investment, allowing further accumulation of international reserves.

15. **Consistently with its targeting the increase in international reserves, the central bank will continue to implement a flexible exchange rate policy.** It will limit its intervention on the foreign exchange market to the smoothing of day-to-day volatility. The net international reserves target for end-2007 was revised substantially downwards, in view of the recent reduction from 180 to 90 days of the duration of oil import credits provided by the oil trading company to Mauritanian oil importers. The impact of this reduction on the BCM's reserves, estimated at about one month of imports of goods and services, should be temporary as the duration of oil import credits is expected to be brought back to 180 days. The expected increase in mining exports should also contribute to raising the central bank's international reserves in 2008, despite the sharp increase of oil prices.

16. **The authorities reiterated their commitment to a prudent debt strategy** (Attachment II, paragraphs 38–39). They will ensure that the revised terms of the loans with the IsDB and AFESD become effective as soon as possible. They will also remain current on their external debt service payments and pursue their efforts to reach an agreement with creditors that have not yet provided irrevocable debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.[6] To help prevent the contracting of nonconcessional loans, they will strengthen the debt management framework by adopting an order specifying the budgetary and accounting mechanisms and the modalities for disseminating information on government external debt.

E. Other issues

17. **The authorities committed to restructure their public enterprises portfolio, with a view to improving their services, ensuring their financial soundness, and reducing government involvement** (Attachment II, paragraphs 41–42). In particular, in coordination with the World Bank, they will conduct an in-depth review of the monitoring and control of these enterprises by the ministry of economy and finance, and adopt a strategy for the sector, providing in particular for the divestment of some enterprises and the introduction of performance contracts for the others. In the short term, the authorities will continue to increase tariffs to ensure the

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[5] These imports are related in part to foreign direct investments planned in the Tiof and Tevet oil fields, for which production is now expected to start in 2011 at the earliest.

[6] The authorities indicated that they had been making progress toward reaching an agreement with Kuwait, and that discussions with other creditors were ongoing.

operational balance of public enterprises while limiting budget transfers.[7] By the time of the third review, they will decide on whether to divest or liquidate Air Mauritania, and by the time of the fourth review, they will adopt a restructuring plan for the electricity company.

18. **The authorities will intensify their efforts to improve economic statistics.** They will adopt a national strategy for the development of statistics, which will focus on updating the national accounts and improving balance of payments data.

III. PROGRAM FINANCING AND CONDITIONALITY

19. **The second year of the program is fully financed** aside from the additional spending that will be linked to the outcome of the December consultative group meeting. The program's performance criteria and benchmarks are specified in Attachment II, Tables 3 and 4, and in Attachment III. The third and fourth reviews will be based on end-December 2007 and end-June 2008 quantitative performance criteria, respectively. The quantitative performance criteria for end-June 2008 and structural performance criteria applicable to the fourth review are expected to be set at the time of the third review. Completion of the third review will be conditional on the authorities taking a decision on how to divest from Air Mauritanie.

IV. STAFF APPRAISAL

20. **The authorities' commitment to the PRGF-supported program was instrumental in Mauritania's continued satisfactory performance.** Despite a further downward revision of oil production prospects, macroeconomic developments were broadly in line with projections. The observance of all but one of the end-June performance criteria owes to a large extent to the enhanced coordination of fiscal and monetary policies. Further progress was also made in implementing structural reforms.

21. **Reducing poverty will require the implementation of policies to enhance growth and encourage private sector investment.** It is therefore essential that the authorities effectively tackle the most significant impediments to growth, including the poor quality of public services and infrastructure, limited access to banking financing, and weak governance and tax structure. A better prioritization of spending, an enhancement of the capacity to execute capital projects, and the implementation of integrated programs in the poorest areas should also contribute to increasing poverty reducing spending.

22. **Maintaining a cautious fiscal stance will be essential in view of the downward revision of the oil revenue outlook and other fiscal risks.** Particularly important will be the mobilization of additional tax revenue, the implementation of the civil service reform, the

[7] In 2008, transfers will include: a UM 1.5 billion subsidy for gas to avoid the severe environmental damages, related to a shift to wood for domestic consumption, that would result from high gas prices; and a UM 3.4 billion loan guarantee and a UM 3 billion transfer in favor of the SOMELEC.

streamlining of government activities, and effective commitment controls. The maintenance of precautionary savings in the oil fund will help the authorities address possible financing shortfalls.

23. **Efforts should be intensified to restructure key public enterprises.** The authorities should urgently finalize and implement a restructuring strategy for these enterprises, so as to avoid any further drain on the budget.

24. **In line with the FSAP recommendations, the authorities should pursue financial sector reforms, with a view to facilitate access to banking services and increase competition.** Efforts in this area should focus on enhancing the regulatory framework and banking supervision, recapitalizing domestic banks, reducing nonperforming loans, improving judicial support to banks' mobilization of loan guarantees, and modernizing the payment and accounting systems.

25. **While pursuing a prudent debt strategy, the authorities need to strengthen their debt management framework.** In view of its limited oil revenue prospects for the next few years, Mauritania needs to continue mobilizing concessional support to finance its poverty reduction strategy, including in the context of the December consultative group meeting, and to pursue discussions with creditors that have not yet provided debt relief under the enhanced HIPC Initiative to reach agreements on comparable terms.

26. In light of these considerations, and in view of the authorities having taken remedial action, the staff supports the authorities' request for a waiver of nonobservance of the end-June 2007 performance criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt and recommends the completion of the second review under the PRGF-supported program.

Table 1. Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006	2007		2008
				Prel.	Proj. Country Report No. 07/224	Rev. Proj.	Proj.
	(Percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	5.6	5.2	5.4	11.4	1.9	0.9	4.5
Non-oil GDP at constant prices	5.6	5.2	5.4	4.1	5.6	5.7	5.0
GDP deflator	2.5	11.5	18.0	32.5	-2.6	-1.6 1/	4.4
Non-oil GDP deflator	2.5	11.5	18.0	10.8	8.8	11.0	5.4
Consumer price index (period average)	5.3	10.4	12.1	6.2	7.9	7.6	7.3
Consumer price index (end of period)	2.9	16.1	5.8	8.9	7.0	7.9	6.0
External sector							
Exports of goods, f.o.b. (percentage change in US$)	-4.1	38.1	42.2	118.6	4.1	-1.8	8.0
Of which: non-oil	-4.1	38.1	42.2	15.9	39.6	42.6	7.4
Imports of goods, f.o.b. (percentage change in US$)	25.7	70.3	54.7	-18.3	5.8	2.7	5.2
Imports of goods, f.o.b. (percentage change in US$) 2/	22.1	33.7	24.8	8.5	7.8	12.7	5.1
Official transfers (in percent of GDP)	6.9	4.1	5.4	3.4	3.5	3.8	4.9
Current account balance (in percent of GDP)	-13.7	-34.6	-47.2	-1.3	-3.7	-6.7	-6.7
Current account balance (in percent of GDP) 2/	-7.1	-12.0	-7.4	-3.7	-3.3	-5.7	-6.3
Overall balance (in percent of GDP)	-10.0	-7.3	-4.0	10.4	0.2	-0.1	-1.0
Official reserves							
Gross official reserves (in millions of US$, end-period) 3/	32	39	70	194	229	148	232
In months of following year's imports of goods and services 2/	0.7	0.6	1.1	2.6	3.0	1.8	2.8
Money and interest rates							
Money and quasi-money	25.5	13.5	14.6	15.7	14.8	15.5	10.7
Currency in circulation	47.5	-3.4	14.8	35.3	-1.5	-1.2	10.7
	(In percent of non-oil GDP)						
Consolidated government operations							
Revenue and grants	35.4	32.9	26.6	82.0	31.4	29.1	31.3
Revenue and grants (excluding oil)	35.4	32.9	26.6	71.4	27.3	25.8	28.1
Idem, excluding grants	30.7	29.7	24.5	27.0	25.3	23.9	25.1
Oil revenue 4/	0.0	0.0	0.0	10.6	4.1	3.4	3.1
Expenditure and net lending	47.2	37.7	33.7	36.3	33.8	32.1	34.3
Overall balance including grants	-11.8	-4.8	-7.1	45.7	-2.4	-3.0	-3.1
Overall non-oil balance excluding grants	-16.5	-8.0	-9.2	-9.3	-8.5	-8.2	-9.3
Overall non-oil balance including grants	-11.8	-4.8	-7.1	35.1	-6.5	-6.3	-6.2
External debt							
Nominal external debt (in millions of US$)	2,809	3,037	3,137	2,379	2,267	2,528	2,604
Nominal external debt (in percent of GDP)	220	203	169	88	86	92	87
Memorandum items:							
Ouguiya/US$ exchange rate (end of period)	265.6	256.2	268.6	268.6	...	...	...
Exports, f.o.b. (in millions of US$)	318	440	625	1,367	1,423	1,343	1,450
Imports, f.o.b. (in millions of US$) 2/	468	625	781	847	914	955	1,003
Nominal GDP (in billions of ouguiya)	338	397	493	729	710	724	790
Nominal non-oil GDP (in billions of ouguiya)	338	397	493	569	639	667	739
Nominal GDP (in millions of US$)	1,276	1,493	1,857	2,713	2,644	2,762	2,979
Population (in millions)	2.7	2.8	2.8	2.9	3.0	3.0	3.0
GDP per capita (in US$)	474	541	658	938	893	933	983
REER (12-month percentage change; end of period)	-13.4	8.0	8.8	-2.9	...	...	...
Price of oil (US$/barrel): APSP baseline: September 20, 2007	28.9	37.8	53.4	64.3	60.8	68.5	75.0
Annual production of oil (in millions of barrels)	...	...	...	11.2	7.7	5.7	4.8

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

1/ The decline in the deflator in 2007 reflects the sharp decline in the share of the oil sector in total GDP that year and the fact that, owing to the authorities' choice of 1998 (when oil prices were particularly low) as the base year for the calculation of national accounts at constant prices, the price index for oil is much higher than the indices for other sectors.
2/ Excluding oil exploration/production and other mining (copper, gold)-related activities, and imports financed by FDI and aid.
3/ Excluding oil account.
4/ Including oil signature bonuses.

Table 2. Central Government Operations, 2006–10

(In billions of ouguiya, unless otherwise indicated)

	2006	2007				2008	2009	2010
	Prel.	End-June		End-Dec		Proj.	Proj.	Proj.
		Country Report No. 07/224	Est.	Country Report No. 07/224	Proj.			
Non-oil revenue and grants	**406.0**	**77.7**	**78.6**	**174.3**	**171.9**	**207.8**	**210.4**	**217.0**
Non-oil revenue	153.5	70.9	73.8	161.4	159.5	185.0	194.3	206.7
Tax revenue	97.1	48.5	54.2	95.7	100.6	114.1	126.0	137.1
Taxes on income and profit	26.7	16.5	18.0	28.7	30.5	33.2	35.7	38.4
Taxes on goods and services	45.0	22.9	25.8	48.1	50.0	60.0	65.7	69.2
Taxes on international trade	14.8	8.0	8.8	16.2	17.7	18.6	22.0	26.7
Other	10.6	1.1	1.6	2.8	2.3	2.4	2.6	2.8
Nontax revenue	56.4	22.4	19.6	65.7	58.9	70.9	68.2	69.5
Of which: revenue from the fishing sector	39.4	7.7	6.0	46.8	41.5	45.8	47.0	48.3
Of which: public enterprises dividends	8.3	11.5	8.5	11.5	8.8	11.7	11.7	11.7
Total grants	252.5	6.8	4.8	12.8	12.4	22.7	16.1	10.3
Of which: projects	2.1	4.0	3.1	8.5	8.5	21.2	14.6	8.9
Expenditure and net lending 1/	**206.4**	**97.0**	**83.9**	**216.1**	**214.2**	**253.4**	**249.5**	**251.7**
Current expenditure 2/	157.9	71.7	69.0	154.3	157.2	161.7	160.5	166.1
Compensation of employees	52.8	30.1	32.5	60.2	63.0	65.3	66.6	67.9
Goods and services	71.6	27.0	25.4	61.9	61.9	55.0	58.5	62.1
Of which: electoral process	7.1	3.6	...	3.6	3.6	…	…	…
Subsidies and transfers 3/	15.1	7.6	6.3	15.2	15.2	22.8	17.5	18.4
Interest	13.5	5.9	4.7	11.9	11.9	12.3	11.5	11.3
External	5.0	2.0	2.2	4.1	4.1	4.2	3.4	3.3
Domestic	8.5	3.9	2.5	7.8	7.8	8.1	8.1	8.0
Special accounts and others	4.8	1.2	0.2	5.2	5.2	6.3	6.3	6.3
Of which : oil sector development	...	...	...	1.3	1.3	1.3	1.3	1.3
Capital expenditure	44.6	25.3	14.9	61.7	57.0	80.5	79.9	75.9
Foreign-financed investment 4/	20.7	14.2	11.4	30.0	30.0	50.4	40.5	30.2
Domestically financed investment	23.9	11.1	3.5	31.7	27.0	30.0	39.4	45.7
Restructuring and net lending	3.8	0.0	0.0	0.0	0.0	3.4	0.0	0.0
Common reserves	0.0	0.0	0.0	0.0	0.0	7.9	9.1	9.7
Non-oil balance excluding grants (deficit -)	-52.9	-26.1	-10.0	-54.6	-54.7	-68.4	-55.2	-45.0
Non-oil balance including grants (deficit -)	199.6	-19.3	-5.3	-41.8	-42.3	-45.7	-39.1	-34.7
Basic non-oil balance; program definition 5/	**-24.4**	**-9.1**	**3.6**	**-19.6**	**-19.6**	**-13.8**	**-11.3**	**-11.5**
Net revenue from oil	**60.5**	**16.5**	**7.3**	**26.4**	**22.4**	**23.1**	**20.5**	**21.2**
Overall balance excluding grants (deficit -)	**7.6**	**-9.6**	**-2.8**	**-28.2**	**-32.3**	**-45.3**	**-34.8**	**-23.8**
Overall balance including grants (deficit -)	**260.1**	**-2.9**	**2.0**	**-15.4**	**-19.8**	**-22.6**	**-18.7**	**-13.5**
Financing	**-260.1**	**2.9**	**-2.0**	**15.3**	**19.8**	**22.5**	**18.7**	**13.5**
Domestic financing 6/	-38.7	-5.1	-8.5	-8.2	-1.6	-2.8	-2.8	-2.8
Banking system	-47.7	3.2	4.2	-3.5	3.6	-2.8	-2.8	-2.8
BCM 7/	-27.3	-2.4	-3.4	0.0	5.1	-2.8	-2.8	-2.8
Commercial banks	-20.3	5.6	7.6	-3.5	-1.5	0.0	0.0	0.0
Nonbanks	4.6	0.0	0.7	3.0	4.9	0.0	0.0	0.0
Privatization and other 8/	22.2	0.0	-3.4	0.0	0.0	0.0	0.0	0.0
Domestic arrears 9/	-17.8	-8.3	-10.0	-7.7	-10.0	0.0	0.0	0.0
External financing	-223.9	8.0	8.1	23.6	23.0	25.3	21.5	16.3
Oil account (net)	-13.1	-1.7	0.5	3.2	2.8	-2.3	-1.2	-1.6
Net revenue from oil (net)	-60.5	-16.5	-7.3	-26.4	-22.4	-24.7	-20.5	-21.2
Oil account contribution to the budget	47.4	14.8	7.8	29.6	25.3	22.4	19.3	19.6
Other (net)	-210.8	9.7	7.6	20.4	20.2	27.6	22.6	17.9
Net borrowing (net)	6.4	6.1	4.1	12.1	12.1	19.7	16.6	12.1
Exceptional financing	10.7	3.6	3.5	8.3	8.1	7.9	6.1	5.8
MDRI (IDA and AfDF)	-227.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	2.5	0.0	-1.6	0.0	-1.6	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Oil revenue (in millions of US$)	223.4	61.4	27.1	96.1	81.5	78.5	74.4	76.9
Oil account balance (e.o.p., in millions of US$)	48.8	55.0	46.7	37.0	38.3	35.0	39.3	45.4
Stock of treasury bills	40.0	45.6	47.1	39.4	43.4	43.4	43.4	43.4
Of which : commercial banks	32.3	37.9	38.7	28.8	30.8	30.8	30.8	30.8
Stock of (identified) domestic arrears 9/	14.6	6.3	4.6	7.0	4.6	4.6	4.6	4.6
Treasury float (registered payment orders) 10/	12.5	6.4	4.5	7.0	4.6	4.6	4.6	4.6
Poverty reducing expenditure	49.9	31.1	18.4	64.1	64.1	71.6	79.1	86.2

Table 2. Central Government Operations, 2006–10 (concluded)

(In percent of annual non-oil GDP, unless otherwise indicated)

	2006	2007				2008	2009	2010
	Prel.	End-June.		End-Dec.		Proj.	Proj.	Proj.
		Country Report No. 07/224	Est.	Country Report No. 07/224	Proj.			
Non-oil revenue and grants	**71.4**	**12.2**	**11.8**	**27.3**	**25.8**	**28.1**	**26.5**	**26.0**
Non-oil revenue	27.0	11.1	11.1	25.3	23.9	25.1	24.5	24.8
Tax revenue	17.1	7.6	8.1	15.0	15.1	15.4	15.9	16.4
Taxes on income and profits	4.7	2.6	2.7	4.5	4.6	4.5	4.5	4.6
Taxes on goods and services	7.9	3.6	3.9	7.5	7.5	8.1	8.3	8.3
Taxes on international trade	2.6	1.3	1.3	2.5	2.7	2.5	2.8	3.2
Other tax revenue	1.9	0.2	0.2	0.4	0.4	0.3	0.3	0.3
Nontax revenue	9.9	3.5	2.9	10.3	8.8	9.6	8.6	8.3
Of which: fishing sector revenue	6.9	1.2	0.9	7.3	6.2	6.2	5.9	5.8
Of which: public enterprises dividends	1.5	1.8	1.3	1.8	1.3	1.6	1.5	1.4
Total grants	44.4	1.1	0.7	2.0	1.9	3.1	2.0	1.2
Of which: project grants	0.4	0.6	0.5	1.3	1.3	2.9	1.8	1.1
Expenditure and net lending 1/	**36.3**	**15.2**	**12.6**	**33.8**	**32.1**	**34.3**	**31.4**	**30.2**
Current expenditure 2/	27.8	11.2	10.3	24.1	23.6	21.9	20.2	19.9
Compensation of employees	9.3	4.7	4.9	9.4	9.4	8.8	8.4	8.1
Goods and services	12.6	4.2	3.8	9.7	9.3	7.4	7.4	7.4
Of which: electoral process	1.2	0.6	...	0.6	0.5	...	...	...
Subsidies and transfers 3/	2.7	1.2	0.9	2.4	2.3	3.1	2.2	2.2
Interest	2.4	0.9	0.7	1.9	1.8	1.7	1.5	1.4
External	0.9	0.3	0.3	0.6	0.6	0.6	0.4	0.4
Domestic	1.5	0.6	0.4	1.2	1.2	1.1	1.0	1.0
Special accounts and others	0.8	0.2	0.0	0.8	0.8	0.9	0.8	0.8
Capital expenditure	7.8	4.0	2.2	9.7	8.5	10.9	10.1	9.1
Foreign-financed investment 4/	3.6	2.2	1.7	4.7	4.5	6.8	5.1	3.6
Domestically financed investment	4.2	1.7	0.5	5.0	4.0	4.1	5.0	5.5
Restructuring and net lending	0.7	0.0	0.0	0.0	0.0	0.5	0.0	0.0
Common reserves	0.0	0.0	0.0	0.0	0.0	1.1	1.1	1.2
Non-oil balance excluding grants	-9.3	-4.1	-1.5	-8.5	-8.2	-9.3	-7.0	-5.4
Non-oil balance including grants	35.1	-3.0	-0.8	-6.5	-6.3	-6.2	-4.9	-4.2
Basic non-oil balance; program definition 5/	-4.3	-1.4	0.5	-3.1	-2.9	-1.9	-1.4	-1.4
Net revenue from oil	10.6	2.6	1.1	4.1	3.4	3.1	2.6	2.5
Overall balance excluding grants	1.3	-1.5	-0.4	-4.4	-4.8	-6.1	-4.4	-2.9
Overall balance including grants	45.7	-0.4	0.3	-2.4	-3.0	-3.1	-2.4	-1.6
Financing	-45.7	0.5	-0.3	2.4	3.0	3.1	2.4	1.6
Domestic financing 6/	-6.8	-0.8	-1.3	-1.3	-0.2	-0.4	-0.4	-0.3
Of which: banking system	-8.4	0.5	0.6	-0.6	0.5	-0.4	-0.4	-0.3
External financing	-39.4	1.3	1.2	3.7	3.4	3.4	2.7	1.9
Of which: oil account	-2.3	-0.3	0.1	0.5	0.4	-0.3	-0.1	-0.2
Errors and omissions	0.4	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil GDP (in billions of ouguiya)	568.9	639.2	667.4	639.2	667.4	738.6	793.8	834.3
Non-oil primary balance including grants	37.5	-2.1	-0.1	-4.7	-4.6	-4.5	-3.5	-2.8
Total Revenue	37.6	13.7	12.2	29.4	27.3	28.2	27.1	27.3
Total public debt e.o.p. 11/	138.0	...	...	117.7	123.2	114.2	105.6	99.0
Of which : central government domestic debt	25.7	...	...	22.4	21.5	19.6	17.8	16.6
Float (in billion of ouguiya) 10/	12.5	6.4	4.5	7.0	4.6	4.6	4.6	4.6
Transfer from the oil fund to the budget (in billions of ouguiya)	47.4	14.8	7.8	29.6	25.3	22.4	19.3	19.6
Oil fund balance (in billions of ouguiya)	13.1	14.8	12.6	9.9	10.3	9.4	10.6	12.2
Poverty reducing expenditure	8.8	4.9	2.8	10.0	9.6	9.7	10.0	10.3

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

1/ On the basis of payment orders registered by the treasury in 2006 and on the basis of payment orders as from 2007.
2/ Reflecting the authorities new classification, which is closer to GFS standards; estimates for 2006.
3/ Including transfers to public entities outside the central government.
4/ Including public investment from public enterprises financed through the government onlending of foreign assistance.
5/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest due on external debt).
6/ Domestic financing was adjusted in line with paragraph 17 of the TMU.
7/ BCM financing was adjusted in line with paragraph 17 of the TMU.
8/ In 2006, includes receipts from the sales of a telecom license for $103 million.
9/ Treasury float and other unpaid obligations recognized by the government.
10/ Registered payment orders not executed by the treasury in 2006; payment orders not executed by the treasury starting in 2007.
11/ After MDRI stock of debt operation. Domestic debt excludes the "float".

Table 3. Monetary Accounts, 2006–08

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

	2006	2007				2008			
		Jun.		Dec.		Mar.	Jun.	Sept.	Dec.
	Prel.	Country Report No. 07/224	Prel.	Country Report No. 07/224	Proj.	Projection			
Monetary survey									
Net foreign assets	0.7	-0.7	-5.7	14.5	11.4	9.2	5.8	15.0	13.3
BCM	4.6	4.2	2.2	22.4	0.3	-2.3	14.6	23.8	22.1
Commercial banks	-3.9	-5.0	-7.9	-7.9	11.1	11.5	-8.8	-8.8	-8.8
Net domestic assets	177.2	191.2	192.6	189.5	194.2	204.0	212.9	209.2	214.2
Domestic credit	266.2	279.0	292.7	277.4	292.3	302.1	311.0	307.4	312.4
Net credit to the government	112.3	115.5	121.9	108.7	115.9	123.9	124.5	115.4	113.1
Claims	158.5	135.3	165.4	128.5	156.4	160.4	162.4	158.7	156.4
Deposits	-46.2	-19.8	-43.5	-19.8	-40.5	-36.5	-37.9	-43.3	-43.3
Credit to the economy	153.9	163.6	170.7	168.7	176.4	178.3	186.6	192.0	199.3
Other items net	-89.0	-87.9	-100.1	-87.9	-98.1	-98.1	-98.1	-98.1	-98.1
Broad money	177.9	190.4	186.9	204.0	205.6	213.2	218.7	224.2	227.5
Currency in circulation	66.4	63.3	61.7	65.1	65.6	68.1	69.8	71.6	72.6
Demand deposits	82.3	95.5	92.2	105.0	103.7	107.6	110.3	113.1	114.8
Term deposits	29.2	31.6	32.9	33.9	36.2	37.6	38.6	39.5	40.1
Monetary authorities									
Net foreign assets	4.6	4.2	2.2	22.4	0.3	-2.3	14.6	23.8	22.1
Assets	52.2	54.6	52.1	61.4	38.4	37.9	54.5	64.5	62.7
Liabilities 1/	-47.6	-50.4	-50.0	-38.9	-38.2	-40.2	-39.9	-40.7	-40.6
Net domestic assets	79.3	78.0	81.4	66.4	84.2	88.2	76.8	71.4	71.4
Net credit to the government 1/	85.4	83.0	87.5	85.4	90.5	94.5	93.1	87.7	87.7
Of which: central government	88.6	86.1	85.2	88.5	93.7	97.7	96.3	90.9	90.9
Claims	131.0	102.2	130.4	104.6	130.4	130.4	130.4	130.4	130.4
Deposits	-45.6	-19.2	-42.9	-19.2	-39.8	-35.8	-37.2	-42.6	-42.6
Of which: central government	-42.4	-16.1	-45.2	-16.1	-36.6	-32.6	-34.0	-39.4	-39.4
Claims on private sector	2.0	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Claims on commercial banks	0.3	0.0	0.0	-14.0	0.0	0.0	-10.0	-10.0	-10.0
Credit to banks (discount window)	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCM bills	…	0.0	…	-14.0	0.0	0.0	-10.0	-10.0	-10.0
Other items net	-8.3	-6.9	-8.3	-6.9	-8.3	-8.3	-8.3	-8.3	-8.3
Reserve money	84.0	82.3	83.5	88.9	84.5	85.9	91.4	95.2	93.5
Currency in circulation	66.4	63.3	61.7	65.1	65.6	68.1	69.8	71.6	72.6
Reserves of banks	17.5	19.0	21.8	23.7	18.9	17.8	21.6	23.6	20.9
Commercial banks									
Net foreign assets	-3.9	-5.0	-7.9	-7.9	11.1	11.5	-8.8	-8.8	-8.8
Assets	30.1	30.1	25.2	30.1	29.1	30.3	30.3	30.3	30.3
Liabilities	-34.0	-35.1	-33.0	-38.1	-18.0	-18.7	-39.1	-39.1	-39.1
Net domestic assets	115.4	132.1	133.0	146.8	128.8	133.6	157.7	161.4	163.7
Domestic credit	178.8	194.0	203.0	190.0	199.8	205.6	215.9	217.6	222.7
Net credit to the government	26.8	32.4	34.4	23.3	25.3	29.3	31.3	27.6	25.3
Claims	27.5	33.1	35.0	24.0	26.0	30.0	32.0	28.3	26.0
Of which: treasury bills	32.3	37.9	38.7	28.8	30.8	34.8	36.8	33.1	30.8
Deposits	-0.7	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Credit to the economy	151.9	161.6	168.6	166.7	174.5	176.3	184.6	190.0	197.3
Net claims on the BCM	17.2	19.0	21.8	37.7	18.9	17.8	31.6	33.6	30.9
Total Reserves	17.5	19.0	21.8	23.7	18.9	17.8	21.6	23.6	20.9
Credit from BCM	-0.3	0.0	0.0	14.0	0.0	0.0	10.0	10.0	10.0
Other items net	-80.6	-80.9	-91.8	-80.9	-89.8	-89.8	-89.8	-89.8	-89.8
Deposit liabilities to nonbank residents	111.5	127.1	125.1	138.9	139.9	145.2	148.9	152.6	154.9
Memorandum items:									
End-of-period velocity of broad money	3.2	…	…	3.1	3.2	…	…	…	3.2
Currency/broad money (in percent)	37.3	33.2	33.0	31.9	31.9	31.9	31.9	31.9	31.9
Broad money (in percent) 2/	15.7	6.9	5.0	14.8	15.5	3.7	6.4	9.1	10.7
Credit to private sector (in percent) 2/	7.2	6.3	11.0	9.6	14.6	1.0	5.8	8.8	13.0
Foreign assets of the BCM (in millions of US$)	194.4	203.3	201.2	228.4	147.8	141.1	202.9	240.1	232.0
Foreign liabilities of the BCM (in millions of US$)	-177.2	-187.5	-192.9	-145.0	-146.8	-149.8	-148.5	-151.5	-150.3
Net foreign assets (in millions of US$)	17.2	15.8	8.4	83.5	1.0	-8.7	54.4	88.6	81.7
Net international reserves (in millions of US$)	7.8	6.3	-7.6	74.0	-8.8	-18.5	44.6	78.8	71.9
Foreign assets of banks (in millions of US$)	112.1	112.1	97.2	112.1	112.1	112.1	112.1	112.1	112.1
Foreign liabilities of banks (in millions of US$)	-126.6	-130.6	-127.5	-141.7	-69.4	-69.4	-144.7	-144.7	-144.7
Net foreign assets of banks (in millions of US$)	-14.5	-18.5	-30.3	-29.6	42.7	42.7	-32.6	-32.6	-32.6
Nominal non-oil GDP (in billions of ouguiya)	568.9	639.2	665.7	639.2	667.4	738.6	738.6	738.6	738.6

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

1/ Reflects MDRI debt relief from the Fund.

2/ Change relative to the end of the previous year.

Table 4. Balance of Payments 2006–10

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

	2006	2007		2008	2009	2010
	Prel.	Country Report No. 07/224	Proj.	Proj.	Proj.	Proj.
Trade balance	**199.6**	**188.9**	**143.7**	**189.3**	**48.0**	**-210.1**
Exports	1366.6	1423.2	1342.5	1450.5	1333.6	1181.0
Of which: Iron ore	467.2	525.0	533.0	521.6	496.1	405.4
Fish	200.6	205.9	205.9	214.7	222.1	237.2
Crude oil	642.1	412.0	309.8	341.0	257.7	191.3
Copper	5.6	144.0	183.6	177.2	132.1	102.1
Gold	1.6	91.3	58.2	146.0	164.6	167.1
Imports, fob	-1167.0	-1234.3	-1198.8	-1261.1	-1285.5	-1391.1
Petroleum products	-227.4	-266.9	-276.8	-308.4	-313.8	-308.7
Equipment for mining and extractive industries	-434.4	-408.4	-339.6	-363.0	-384.0	-486.6
Other	-505.2	-559.0	-582.4	-589.8	-587.7	-595.8
Services and income (net)	-393.9	-457.2	-499.0	-605.4	-519.5	-450.4
Services (net)	-319.6	-379.1	-413.2	-432.3	-409.8	-403.6
Credit	86.7	101.1	100.1	116.4	120.0	124.2
Of which: Fishing licenses	33.7	48.1	44.5	60.8	62.6	65.1
Debit	-406.3	-480.2	-513.3	-548.8	-529.7	-527.8
Of which: freight (including oil and mining)	-159.1	-168.3	-163.5	-172.0	-175.3	-189.7
Income (net)	-74.3	-78.1	-85.7	-173.1	-109.7	-46.8
Credit	119.0	151.6	143.1	142.8	148.0	150.0
Of which: EU fishing compensation	108.0	111.9	115.9	117.5	118.1	118.9
Debit	-193.3	-229.7	-228.8	-316.0	-257.7	-196.8
Of which: Interest due on public debt	-27.4	-23.6	-24.5	-25.6	-20.3	-19.4
Oil sector profits and salaries 1/	-160.0	-115.4	-101.6	-119.3	-90.2	-55.9
Current transfers (net)	158.7	170.1	170.8	217.3	194.5	168.6
Private unrequited transfers (net)	66.5	68.5	68.5	71.9	75.5	79.3
Official transfers	92.1	92.4	102.2	145.3	119.0	89.3
Of which: Multilateral HIPC assistance 2/	14.3	8.5	8.2	6.0	5.8	5.6
Current account (including transfers but excluding oil) 3/	-121.0	-144.9	-211.5	-251.4	-258.1	-302.2
Current account balance	**-35.6**	**-98.2**	**-184.5**	**-198.8**	**-276.9**	**-491.9**
Capital and financial account	257.8	104.9	180.8	168.5	269.1	506.4
Capital account	1107.2	0.0	7.0	0.0	0.0	0.0
Of which: MDRI relief from the IMF 4/	48.5	0.0	0.0	0.0	0.0	0.0
From IDA 4/	607.3	0.0	0.0	0.0	0.0	0.0
From AfDF 4/	241.3	0.0	0.0	0.0	0.0	0.0
Other (oil bonuses, license sales)	210.2	0.0	7.0	0.0	0.0	0.0
Financial account	-849.4	104.9	173.8	167.5	269.1	506.4
Direct investment (net)	154.6	141.4	152.9	148.1	229.2	455.1
Of which: Oil exploration (net)	1.6	153.2	151.1	140.9	216.5	405.3
Official medium- and long-term loans	-835.7	28.0	64.6	62.4	47.8	29.4
Disbursements	73.8	80.3	117.1	110.3	94.5	75.6
Amortization	-909.5	-52.3	-52.5	-47.9	-46.7	-46.3
Other financial flows 5/	-168.3	-64.5	-43.7	-43.0	-8.0	22.0
Of which: change in private external arrears	-74.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	**60.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**282.3**	**6.7**	**-3.7**	**-30.3**	**-7.8**	**14.5**
Financing	-282.3	-6.7	3.7	30.3	7.8	-14.5
Net foreign assets	-315.7	-39.6	-30.1	-2.8	-18.2	-39.8
Central bank (net)	-162.0	-66.4	16.3	-81.4	-16.2	-36.8
Assets	-124.2	-34.2	46.6	-84.9	-18.7	-34.8
Liabilities	-37.8	-32.2	-30.4	3.5	2.5	-2.0
Commercial banks (net)	-104.9	15.1	-57.2	75.3	2.3	3.1
Oil account flow	-49.2	11.7	10.9	3.3	-4.4	-6.1
Exceptional financing	33.4	32.9	33.8	33.1	26.0	25.2
Financing gap (shortfall +)	...	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Trade Balance (in percent of annual GDP)	7.4	7.1	5.2	6.4	1.6	-6.9
Current account balance (in percent of annual GDP)	-1.3	-3.7	-6.7	-6.7	-9.2	-16.2
Idem, excluding oil and other mining (except SNIM)	-3.7	-3.3	-5.7	-6.3	-6.9	-8.4
Gross official reserves	194.4	228.6	147.8	232.6	251.3	286.1
In months of imports 6/	2.6	3.0	1.8	2.8	2.9	3.2
Oil account	49.2	37.0	38.3	35.0	39.3	45.4
Net BOP impact of oil operations	246.1	110.1	89.3	91.8	90.5	107.8
PPG external debt (in percent of annual GDP) 7/	87.7	85.8	91.5	87.4	85.9	84.5
Debt service after debt relief (in percent of exports of goods and services)	6.3	3.9	6.5	2.7	3.0	3.3

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

1/ The increase in oil sector profits from 2007 to 2008 reflects the fact that, acoording to the production sharing agreements, the share of oil revenue affected to "Profit oil" is 40 percent when prices are lower than $55 per barrel, as was the case during the first quarter of 2007, and 50 percent otherwise.

2/ Excluding HIPC grants on debt service that have fallen subject to MDRI relief.

3/ Excludes exports and FDI-related imports of the oil and mining sectors.

4/ The multilateral debt cancelation is accounted for as a stock reduction operation.

5/ In 2007, includes US$ 26.3 million in election-related unrequired transfers observed during the first half of the year.

6/ Imports of goods and services for the year ahead, excluding FDI- and external aid-financed imports.

7/ Excludes short-term debt service payment by the BCM to the IsBD in 2007.

Table 5. Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	PRSP 2010	PRSP 2015	MDGs 2015
			(In percent of total population)					
1. Eradicate extreme poverty and hunger								
Overall poverty incidence	56.6	54.3	51.0	...	46.7	35.0	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	...	25.9	...	...	...
Prevalence of child malnutrition	47.6	...	32.0	...	30.2	26.0	21.0	23.8
			(In percent of primary school age group)					
2. Achieve universal primary education								
Gross primary enrollment ratio	46.0	82.0	87.0	88.0	95.1	98.0	100.0	100.0
			(In percent of students enrolled in first grade)					
Retention rate at the entrance of the 5th grade in primary education	….	….	55.0	48.0	48.8	68.8	100.0	100.0
			(In percent of total enrollment)					
3. Promote gender equality								
Share of girls in total primary enrollment	42.0	46.0	48.0	49.0	49.8	49.0	50.0	50.0
			(Per 1,000 live births)					
4. Reduce child mortality								
Child mortality (under five years)	137.0	122.0	135.0	...	...	128.0	55.0	45.7
			(Per 100,000 live births)					
5. Improve maternal health								
Reduce the rate of maternal mortality	...	...	747.0	...	...	400.0	300.0	...
			(In percent of ages 15–24)					
6. Combat HIV/AIDS, malaria, and other diseases								
Reduce by half the incidence of HIV/AIDS	...	...	0.5	0.6	0.5	<1.1	<1.0	1.0
			(In percent of population)					
7. Ensure environmental sustainability								
Access to improved water source	...	...	60.4	...	63.7	65.0	75.0	...
Access to electricity	...	...	18.0	...	23.8	...	...	...
Memorandum items:								
Population (in millions) 1/	1.96	2.27	2.51	2.63	2.82	...	...	...
UNDP Human Development Index	0.387	0.423	0.449	0.465	...	...	...	...
Gini index of inequality	...	0.34	0.39	...	0.39	0.40	0.41	...
Child vaccination rate (in percent)	...	30	40	70	93	...	...	...

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

1/ Estimates based on the population census data in 1988 and 2000.

Goal 1: Halve, between 1990 and 2015, the proportion of people whose income is less than $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.

Table 6. Reviews and Disbursements Under the PRGF Arrangement, 2006–09

Decision Date	Action/Status	Amount of the Disbursement: In SDRs	Amount of the Disbursement: In percent of quota 1/	Disbursement Date
December 18, 2006	Board approval of a PRGF arrangement	4.52 million	7.0	January 12, 2007
April 23, 2007	Completion of the first review first review	1.93 million	3.0	April 27, 2007
November 2007	Completed second review based on end-June 2007 performance criteria	1.93 million	3.0	
April 2008	Completed third review based on end-December 2007 performance criteria	1.93 million	3.0	
October 2008	Completed fourth review based on end-June 2008 performance criteria	1.93 million	3.0	
April 2009	Completed fifth review based on end-December 2008 performance criteria	1.93 million	3.0	
October 2009	Completed sixth review based on end-June 2009 performance criteria	1.93 million	3.0	
Total		**16.1 million**	**25.0**	

1/ Mauritania's quota is SDR 64.4 million.

Attachment I: Letter of Intent

Nouakchott, November 2, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Managing Director:

The government that was formed last April has set as priorities the consolidation and furtherance of democracy, the strengthening of governance, and the intensification of efforts to stimulate economic growth and reduce poverty. The government intends in particular to enhance the effectiveness of government intervention; to promote private sector development; to combat corruption and improve fiscal management; and to implement integrated emergency programs in the poorest areas.

To meet these objectives, the government intends to continue implementing the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF) arrangement that was approved on December 18, 2006.

The attached Memorandum on Economic and Financial Policies (MEFP) takes stock of performance under the program during the first half of 2007, describes the economic and financial policies the government intends to implement during the second year of the program, and sets out the macroeconomic objectives, structural measures, and indicators for that year.

In view of Mauritania's continued strong performance, we hereby request completion of the second review under the PRGF arrangement, and approval for a third disbursement for an amount of SDR 1.93 millions. We also request a waiver for the nonobservance of the end-June 2007 performance criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt, because of loans that had been contracted with the Islamic Development Bank and the Arab Fund for Economic and Social Development to finance water and electricity supply projects deemed crucial from an economic and social standpoint. We have reached agreements in principle on more favorable terms that would increase the grant element of these two loans, and will ensure that these new terms become effective as soon as possible. The third and fourth review of Mauritania's performance under the arrangement will be conducted by end-March, 2008 and end-September, 2008, respectively.

The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation.

Sincerely yours,

/s/	/s/
Ousmane Kane	Abderrahmane Ould Hama Vezaz
Governor of the Central Bank of Mauritania	Minister of Economy and Finance

Attachment II: Memorandum of Economic and Financial Policies

November 2, 2007

I. Introduction

1. The election of Mr. Sidi Mohamed Ould Cheikh Abdallahi as Head of State in March 2007 and the formation of a government led by Zeine Ould Zeidane in April constitute the culmination of the democratic transition process, which the international community commended for its transparency and impartiality. Our country now has legitimate and pluralistic institutions.

2. The new government set as priorities the consolidation and furtherance of democracy, the strengthening of governance, and the intensification of efforts to stimulate economic growth and reduce poverty. We intend in particular: to enhance the effectiveness of government intervention by focusing on improving in health, education, access to drinking water and energy, and basic infrastructure; to promote private sector development; to combat corruption and improve fiscal management; and to implement integrated emergency programs in the poorest areas, starting with the town of Tintane, which was devastated by floods last August. The repatriation of persons displaced abroad is also one of the government's priorities for strengthening social cohesion. The pursuit of these objectives will be guided by the second Poverty Reduction and Strategy Paper (PRSP2) and will be consistent with macroeconomic stability. To that end we intend to pursue the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and growth Facility (PRGF) arrangement.

3. In the Memorandum on Economic and Financial Policies (MEFP) of November 29, 2006, we described the broad outline of this program for the period October 2006–September 2009, as well as the actions we intended to take during the first year. The purpose of this memorandum, which complements the MEFP of November 2006 and our Letter of Intent of March 7, 2007, is to take stock of program implementation, update the medium-term framework, and describe the actions to be taken during the second year of the program.

II. Economic Climate and Reform: Recent Developments

4. Despite a faster-than-expected decline in oil production as a result of repeated technical problems, macroeconomic developments in the first part of 2007 remained broadly consistent with the objectives of the PRGF-supported program. Average oil production amounted to 16,250 barrels a day during the first eight months of 2007, when we were expecting an average of 21,000 barrels a day over the year, based on the information we had been provided by the operator. Non-oil GDP growth was in line with expectations, benefiting from the upswing in agricultural production and construction, and the development of new

mining projects. Despite inflationary pressure related to the rise in the prices of a number of imported foodstuffs, consumer prices continued to decelerate in 2007, with year-on-year inflation moving from 8.9 percent at end-2006 to 6.6 percent at end-August 2007, mainly as a result of a slowdown in food and transport prices.

5. The current account slid from a surplus equivalent to 1.5 percent of GDP in the first half of 2006 to a deficit equivalent to 7.3 percent of GDP in the first half of 2007, owing mainly to the drop in oil exports, compounded by the negative effect of the rise in import prices. The gross international reserves of the Central Bank of Mauritania (BCM) amounted to $258 million at end-August or 3.4 months of imports of goods and services,[8] which was slightly higher than expected, as informal capital inflows seemingly related to the electoral process more than offset the shortfall in oil exports. Having remained stable for a number of weeks after the launch of the exchange market in January 2007, the exchange rate vis-à-vis the dollar appreciated from UM/$269 at end-April to UM/$255 at end-August, as a result initially of BCM intervention to limit the inflationary impact of the appreciation of the Euro against the dollar.

6. All end-June quantitative performance criteria were met (Table 1), with the exception of the criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt by the government and the BCM, owing to the coming into effect, on June 17 and May 26, 2007, respectively, of loans contracted with the Islamic Development Bank (IsDB) and the Arab Fund for Economic and Social Development (AFESD). The quantitative indicative target related to the treasury float was met by a large margin as a result of better tracking of the cash balance position and the computerization and decentralization of the chain of spending. However, the indicative target related to poverty reducing spending was not met owing to delays in the execution of the investment budget. Lastly, the measures covered by structural benchmarks were implemented (Table 2).

7. With regard to the contracted nonconcessional debt, it consists of two loans that are important to our poverty reduction strategy. The first loan was contracted with the AFESD for an amount of 37 million Kuwaiti dinars (approximately $129 million). Following an increase in prices since the initial project assessment, this loan complements an initial loan from the same agency to finance the Aftout Essahli project, which will supply drinking water to Nouakchott from the Senegal river, and will prevent delays in the execution of this project that is vital to our country. While estimates made prior to the signing of the loan pointed to a grant element in excess of the 35 percent program threshold, the grant element later turned out to be 34.6 percent. We consequently initiated negotiations with the AFESD in early August, which led to an agreement in principle on more favorable terms, which make the loan concessional.

[8] Imports of goods and services, with the exception of imports of the extractive industries and imports funded with foreign aid.

8. The second nonconcessional financing (for an amount of about $18 million), which was guaranteed by the government, was contracted with the IsDB and comprises a loan of SDR 2.65 million and a leasing agreement in the amount of Euro 10.1 million that will contribute to financing a project to boost the electricity production capacity of the national electricity company (SOMELEC). The latter can no longer meet the demand for power, which is major impediment to growth and employment, in particular in the manufacturing sector. There also, we have reached an agreement in principle with the IsDB and the Japanese authorities on improved financial terms, thanks in particular to a Euro 1.75 million grant from Japan, which will complement the IsDB funding. We have also started proceedings to amend the arrangements related to the different components of this financing package to ensure that these components are complementary and that they are treated as a single integrated debt, meeting thereby the conditionality of the PRGF arrangement.

9. We have continued to implement a prudent monetary policy, guided by our inflation reduction objectives. Broad money grew by 5 percent over the first six months of the year, slightly less than was expected (7 percent). After growing strongly in the period preceding the elections, the ratio of currency in circulation to broad money returned to its normal level. Mainly as a result of increased activity in the construction sector and advances to some public enterprises, credit to the economy accelerated, increasing by 12 percent in the first seven months of the year, compared with only 7 percent for all of 2006. Interest rates on Treasury bills remained within the 11–13 percent range, while the central bank's discount rate was reduced from 14 percent to 12 percent on October 16, 2007.

10. The non-oil basic fiscal balance recorded a surplus of 0.5 percent of non-oil GDP in the first semester, compared with the 1.4 percent deficit forecast in the program. This good performance is due to a higher-than-expected level of tax revenue and the low rate of execution of domestically financed capital expenditure, which more than offset the low level of nontax revenue from the fishing sector and public enterprise dividends. It is worth noting that the wage bill was 5 percent higher than projected, owing mainly to inaccuracies related to the end-2006 wage bill used as the basis for the projections. In order to limit the impact of the decline in oil revenue on the level of reserves of the National Hydrocarbon Revenue Fund (FNRH), transfers from the Fund to the budget were revised downwards. As provided for in the program, the Treasury position vis-à-vis the BCM and Treasury bill issues were adjusted accordingly.

11. Following the reorganization of the ministries in April 2007 and with a view to finance our new priorities, we prepared a supplementary budget law (LFR), which was adopted by the parliament on August 21, 2007. The LFR provides for UM 6 billion in new spending (equivalent to 0.9 percent of non-oil GDP) to be financed by additional revenue and savings on spending on goods and services.

12. We also continued to implement our structural reform program. The structural benchmark related to the publication of the audit of the BCM's financial statements was met

in June and the draft law on a transparent and optimal oil revenue management was submitted to parliament on October 15, 2007.

13. With regard to taxes, targeted audit programs were implemented by the Directorate General of Taxes (DGI), and the customs administration now has the latest version of the ASYCUDA software. Expenditure execution was substantially accelerated with the transfer of payment order authority to the line ministries in early 2007 and the rollout of the RACHAD computer application. We also published the 2006 annual report of the General State Inspectorate. Finally, in order to safeguard the integrity of the government treasury, all the autonomous accounts of the ministerial departments (excluding foreign financing) and government entities were transformed into subaccounts of the Treasury.

14. As part of our efforts to improve governance, we adopted a law on financial transparency, which requires that a number of high-level government officials declare their assets. We also created a commission for financial transparency in public life, headed by the President of the Supreme Court. Lastly, since June 2007, the monthly cash balance position has been published on the Treasury's website.

15. We continued to work toward a more transparent and optimal oil revenue management. The draft law that we submitted to parliament on October 15 is consistent with the recommendations of the IMF's Fiscal Affairs Department and strengthens the provisions of the April 2006 ordinance on the FNRH. It provides for the incorporation of the management of the FNRH in the budgetary process, particularly through the establishment of a hydrocarbons council. Furthermore, the report on the Extractive Industries Transparency Initiative (EITI) for 2006 was published at the beginning of August, and we started to audit the end-December 2006 accounts of the national hydrocarbon company (SMH).

16. We also made further progress in modernizing the financial system. In addition to the above-mentioned audit of the BCM, we completed in October 2007 the audit of the end-2005 financial statements of each of the commercial banks. A new electronic payment card was introduced in August. After the adoption in April of the regulations organizing the money market, we adopted a manual of procedures for liquidity management instruments, including the issuance of BCM bonds by the BCM. With assistance from the World Bank and the Bank of France, we started to prepare the implementing regulations of the law on the banking sector. With the support of the United Nations Development Programme (UNDP) and in coordination with the World Bank, the African Development Bank, the IMF, and the commercial banks, we finalized the implementing regulations of the law on microfinance. Following their adoption and publication on the BCM's website, we have started implementing these regulations.

17. With respect to public enterprises, we adjusted the prices of gas cylinders in February 2007 and the water and electricity rates in November 2007 to restore the operating balance of the distribution companies and prevent any further drain on the 2007 budget.

18. Finally, in terms of economic statistics, we prepared and published a quarterly industrial production index and a quarterly bulletin on foreign trade.

III. Medium-Term Macroeconomic Framework

19. We are convinced that the achievement of our goals of accelerating economic growth, significantly reducing poverty, and improving the living conditions of households in the medium term will require the reform of the management of our public enterprise portfolio and the government's gradual divestment from the productive and commercial sector, a more transparent and effective public expenditure management, and a stronger private sector. Private sector development is considered essential to growth and promoting employment. A strategy for the development of this sector is being prepared and will in particular address the issues of access to bank financing, basic infrastructure development, improvement in the business climate, increased foreign direct investment, implementation of the commercial code, and adoption of a new investment code.

20. Our medium-term macroeconomic framework was updated to take into account recent developments, and more specifically the substantial downward revision of oil production prospects for the coming years, which have resulted both from the problems experienced with the Chinguetti oilfield operations and from the uncertainty about the timing of the start-up of production operations at the Tevet and Tiof oilfields, which will probably be delayed until 2011–12. In keeping with these objectives, and in light of these developments, our economic program for 2008–10 targets: (a) an annual non-oil GDP growth of more than 4.5 percent on average; (b) a gradual decline in inflation to less than 5 percent; and (c) an increase in BCM reserves to a level equivalent to more than three months of imports at the end of the period.

21. To increase poverty reducing spending while ensuring medium-term sustainability in a context of reduced oil revenue, our medium-term fiscal framework seeks to substantially reduce the deficit of the basic non-oil fiscal balance over the 2008–10 period by increasing tax revenue and re-prioritizing public spending. This reprioritization is based on the justification of sectoral appropriations and a willingness to control operating expenses, including the progression of the wage bill, pending the results of the civil service reform.

22. Finally, in order to mobilize financial assistance from our development partners and foster the development of a public-private partnership, which is necessary for the achievement of our objectives, we will organize, with the support of the World Bank, European Union, UNDP, and the IMF, a consultative group in Paris on December 4–6, 2007.

IV. Program for the Period October 2007-September 2008

23. In 2007, growth in the non-oil sector will be sustained, on account of the resurgence in agricultural output and construction and the buoyancy of the mining sector. Total GDP growth would nonetheless be limited to about 1 percent owing to the difficulties encountered

by the oil sector. In 2008, we have based our projections on a prudent hypothesis of a gradual reduction in oil production, which should average 13,000 barrels a day over the year. Growth in non-oil GDP should continue to be propelled by the mining sector in 2008, while agriculture and construction should return to growth rates consistent with their medium-term potential. Overall, our goal is to reach a growth rate of 5.7 percent in 2007 and 5.0 percent in 2008 for the non-oil sector. Given the substantial increase in electricity rates in the second half of the year, inflation should be higher than initially envisaged in 2007 but should remain below 8 percent. In 2008, our objective will be to bring year-on-year inflation down to less than 6 percent and international reserves to the equivalent of 2.8 months of imports of good and services at year end.

A. Public Finance

Fiscal policy

24. During the last months of 2007, we are committed to executing the LFR in accordance with program objectives, and, in particular, to limiting the basic non-oil balance deficit to UM 19.6 billion (2.9 percent of non-oil GDP), a level slightly lower than the supplementary budget estimate (UM 20.2 billion). In response to the worrisome increase in the wage bill, measures—including reconciling the payroll file with the civil service roster, checking employee indemnities, and suspending unregistered staff—will be taken to keep spending within program levels. The additional expenses envisaged in the LFR will be executed only if the additional revenue expected by end-2007 materialize, failing which decisions will be taken on which expenses to implement. We will monitor budget execution on a weekly basis to ensure that it is consistent with program objectives and, if need be, to make the necessary adjustments in a timely manner. The revenue departments, line ministries, and budget and treasury directorates will participate in this monitoring, which will be facilitated by the use of the RACHAD payments system.

25. The 2008 budget law will be part of our medium-term fiscal framework and will seek to limit the basic non-oil budget deficit to UM 13.8 billion (1.9 percent of non-oil GDP), consistent with medium-term sustainability, the maintenance of precautionary savings in the oil fund, and reduced domestic borrowing. In order to allow a level of spending that is compatible with our poverty reduction objectives, we will adopt fiscal policy and tax administration modernization measures that would increase revenue by the equivalent of at least 0.6 percent of non-oil GDP. We will also make every effort to contain nonpriority current spending and to limit the increase in the wage bill in nominal terms, pending measures that will follow the civil service census scheduled for end-2007 to early-2008. The budget deficit will be financed mainly through the transfer from the FNRH (of UM 22.4 billion), concessional financing, and grants. The target for the basic non-oil fiscal balance will be revised to take into account expenditures financed with domestic resources aimed at facilitating the return of displaced persons or to respond to humanitarian disasters, such as the one in Tintane. In addition, the overall fiscal balance could be adjusted to take

into account investment or poverty reducing spending to the extent that new concessional external financing becomes available, provided that the corresponding borrowing and spending are compatible with debt sustainability, macroeconomic stability, and sectoral absorption capacity.

26. To accelerate convergence with the Economic Community of West African States (ECOWAS), simplify procedures for operators, and generate additional revenue, we will adopt by end-December 2007 an updated list of essential goods benefiting from VAT and customs duties exemptions. We will continue to harmonize our classification with that of ECOWAS in 2008. In 2008, we will also prepare a study to evaluate the cost of exceptional regimes (mining and oil sector, public enterprises, and new investment code) and will develop an action plan to reduce the informal sector and reform domestic taxation.

Tax administration and fiscal management

27. Based on IMF staff recommendations, we will continue to strengthen tax administration, focusing our efforts on identifying taxpayers and on modernizing the VAT administration. By end-2007, we will establish a centralized taxpayer database covering Nouadhibou and Nouakchott based on a single identifier. This data file will be updated after the taxpayer census that will be completed by June 2008. With regard to VAT, we will put in place by end-2007 an effective refund system and will simplify the legislation to raise its threshold to UM 30 million. In parallel, we will develop the intermediate regime for small- and medium-sized enterprises. We will also proceed to the reallocation of enterprises between the Large Enterprise Directorate (DGE) and the Small- and Medium-sized Enterprises Directorate based on the new VAT threshold, which will allow for the development and implementation of selective monitoring programs based on risk analysis. We also intend to strengthen the human and other resources of the DGI and the oil taxation expertise of the DGE. Lastly, the customs administration will continue to implement its action plan, in particular as regards the modernization of customs clearance procedures, and will prepare a computerized risk assessment system.

28. With technical assistance from our partners, we will pursue public finance reforms in order to strengthen budget preparation, the monitoring of budget execution, and the supervisory bodies, and to modernize public finance management. By end-2007, we will adopt a timetable for budget preparation. A new organic law will be drafted in 2008 to modernize the legal framework for preparing and executing the budget, with a view to gradually move towards management by program and by objectives. In the meantime, we will apply the existing organic law, strictly limiting commitments to budget lines for the central government and government agencies, the military, and embassies. However, appropriations may be transferred, following the issuance of an order by the Ministry of Economy and Finance, from the reserves for common and miscellaneous expenses. These reserves will not exceed 5 percent of total budget appropriations. Any additional appropriation, including for wages, must be the subject of a supplementary budget law. We

will gradually develop accrual basis accounting and will change the budget and accounting classification by end-2007 to make it consistent with the standards of the 2001 Government Finance Statistics Manual.

29. Budget execution will be further strengthened by the introduction of the RACHAD payment module by end-November 2007; the adoption, in November 2007, of an order limiting the use of requests for immediate payment to cases of emergency and strictly defined categories of expenditures—this will improve the quality of financial control; and an enhanced accountability by payment authorization officers, especially through the adoption of a procedures manual. Payment authorizations will be regulated on a monthly basis, taking into the account cash balance forecasts, which will be updated weekly. We will also strengthen the monitoring of poverty reducing expenditures using the functional classification.

Civil service reform

30. With the assistance of the World Bank, we will continue civil service reforms and the modernization of the government, which are key to controlling the wage bill and improving the quality of the public service. An exhaustive census of government employees will be conducted by end-March 2008 and will be supplemented with an assessment of functional personnel needs in each ministry by end-August 2008. On this basis, we will take measures to tailor staffing to personnel needs while improving the quality of public service within the framework of the 2009 budget. A system of integrated government personnel management, including a hiring and staffing forecast management system, will also be introduced. In 2008, we will evaluate our pension and retirement system, with a view to restructuring it. In the short term, on the basis of the simplified civil service census conducted in recent months, we will reconcile the payroll with the civil service database by end-January 2008. The implementing regulations of the general status for civil servants and government officials will also be finalized by March 2008.

Oil revenue management

31. With regard to greater transparency in oil revenue management, we will publish the annual budget of the SMH and the contracts to which it is a party. We will also publish the audit of SMH’s end-2006 accounts by end-2007, and the audit of its end-2007 accounts by end-June 2008. The SMH will remain a minority partner in production sharing arrangements until it acquires all the necessary skills to manage oil projects. The audit of the FNRH’s 2006 financial statements will be completed and published by end-November 2007. We will also continue to publish the EITI annual reports. Finally, by end-2007 we will adopt the law on the oil code and a new model of production sharing contract.

B. Monetary and Exchange Policies

32. The BCM's monetary policy will continue to be guided by its inflation reduction targets. In 2007, broad money is expected to grow on par with non-oil GDP. Given that objective, the anticipated improvement in the banking system's external position and the planned reduction in the government's debt to the banking sector and public enterprises should be compatible with a growth of credit to the private sector of about 14.6 percent. The monetary policy council will determine on a monthly basis the level of intervention rates consistent with reaching these objectives. To facilitate the achievement of these objectives within the framework of a flexible exchange policy, we will pursue a more active liquidity management. In collaboration with the commercial banks and the Ministry of Economy and Finance, and based on liquidity absorption needs, the BCM will enhance the modalities of its collaboration with the Treasury and will stand ready to use the new liquidity management instrument (BCM bills) as necessary. With assistance from the IMF, the BCM will prepare, by end-December 2007, a program for restructuring and securitizing some of its claims on the government and a memorandum of understanding between the BCM and the Ministry of Economy and Finance establishing transparent modalities for assigning the cost of monetary policy and determining the nature and the modalities of the services exchanged between the two institutions.

33. The BCM will continue to implement a monetary policy consistent with the macroeconomic stabilization objectives. The fiscal and monetary policy coordination committee, comprising representatives of the central bank and the ministries, will meet weekly to discuss the short-term operational implementation of monetary policy objectives, on the basis of BCM staff estimates of autonomous liquidity factors. Based on the automated expenditure management system and information on revenue collection, the committee will update, on a weekly basis and starting in November 2007, its monthly liquidity forecasts and the schedule of Treasury bills and BCM bills auctions. This will make it possible to limit budgetary commitments to available resources, to ensure that the expenditure identified as priority are properly executed, and that the schedule for issuing Treasury bills and BCM bills is consistent with fiscal and monetary policy objectives. We will support the development of secondary markets for securities, which will contribute to increasing liquidity on these markets and to developing the money market. The publication of information on overall liquidity conditions, by creating greater visibility, will enable market participants to more effectively manage their cash flow and help reduce the demand for excess reserves. The BCM will improve payment systems to strengthen the efficiency of the money market.

34. Consistently with its monetary policy, the BCM will implement a flexible exchange policy, limiting its foreign exchange market interventions to the smoothing of day-to-day fluctuations. This flexible policy will help us cope with possible changes in our terms of trade and safeguard the competitiveness of the Mauritanian economy.

C. Financial Sector Reform and Safeguards Assessment

35. We will continue to modernize the financial system with a view to enhancing competition by consolidating the sector and the possible entry of new actors. With assistance from the World Bank and the Banque de France, and in consultation with the IMF, we will adopt by end-December 2008, all the implementing regulations of the banking sector law. By March 2008, an initial set of regulations considered as a priority will be adopted, including the ones related to terms and conditions for bank licensing, risk concentration, management rules applicable to affiliates, and on the establishment of a sanction policy. These texts will provide for: the full provisioning of the banks' nonperforming loans by end-2009, the increase of their net capital up to a per-bank minimum of UM 4 billion by end-2009 and UM 6 billion by end-2010, and the conversion of their accounting systems to international financial reporting standards (IFRS). By end-2008, we will establish a deposit guarantee fund to which all the banks will contribute. This fund will only be used once the terms of the regulations on net capital and provisioning are met. We will also strengthen on-site controls and continue to prohibit the distribution of dividends by banks with provisioning shortfalls. We will prepare a plan to implement the recommendations of the audits of the commercial banks' end-2005 financial statements and, by end-2008, we will have the end-2007 financial statements of all banks audited by internationally renowned firms. The banks will also publish on a weekly basis the rates for their services. Finally, with the assistance of the World Bank and UNDP in particular, we will prepare a chart of accounts for microfinance by end-December 2007.

36. The BCM will continue to strengthen its accounting practices, in particular by implementing the recommendations of the IMF safeguards assessment reports. Thus, we will proceed to adopt international accounting standards and strengthen internal audit procedures by: (a) preparing, in collaboration with the new audit firm and by end-March 2008, a program for converting the BCM's financial statements to IFRS standards, pending the conversion of its accounting systems to those standards; (b) resolving, by end-December 2007, any of the BCM's external audit qualifications within the immediate control of the BCM; (c) continuing the half-yearly audits, by an internationally renowned firm, of BCM international reserves; and (d) preparing an annual audit and an interim audit at June 30 of the BCM. The investment committee will continue to actively manage the BCM's international reserves. Finally, by May 2008, in coordination with the IMF, we will adopt a strategic plan for market and financial system development supported by the reorganization of the BCM.

D. External Sector and Financing Policies

37. The outlook for the external sector will continue to be dominated by the developments in oil, mining, and fishing exports. Although the outlook for the oil sector has considerably deteriorated, mining output is expected to increase as a result of the anticipated growth in the output of the national industrial and mining company, the start-up of operations

at the Tasiast gold mine in July, and the resumption of copper exports from the Akjoujt mine. Overall, exports should decline noticeably over the next three years, which, combined with an increase in extractive industry imports, will result in a deepening of the trade deficit and current account deficit, with the latter plunging from 6.7 percent of GDP in 2007 to 16.2 percent of GDP in 2010. This deficit would be largely financed by direct investments by the extractive industries, which would enable the BCM to accumulate additional international reserves, which would cover more than three months of imports (excluding extractive industry imports and imports financed with foreign aid) at end-2010. In the short run, however, the level of reserves will be impacted by the shortening (from 180 to 90 days) at the beginning of July of the duration of documentary credits used by oil sector importers within the framework of an agreement with the oil trading company. The termination of this measure should allow for a replenishment of these reserves from an import coverage level of 1.8 months at end-2007 to 2.8 months at end-2008.

38. In order to avoid a repetition of recent problems related to the contracting of nonconcessional debt, we will considerably strengthen the framework for debt management, which will continue to be governed by the medium- and long-term debt sustainability imperative. To better monitor and manage public debt, we will adopt by end-March 2008 an order instituting budgetary and accounting mechanisms and modalities for disseminating information on the government external debt. We will also install the latest version of the DMFAS program in the debt directorate and will ensure that the dissemination of debt data will comply with IMF recommendations. A technical committee will meet monthly and will transmit its minutes to the IMF staff to keep it informed of any new loans contracted and of the level of debt service.

39. To bring our external indebtedness to a sustainable level, we will continue our efforts to find a solution to the problems of arrears owed to some of our partners, in particular Kuwait, Libya, and the Arab Organization of Petroleum Exporting Countries (AOPEC), on terms comparable with those granted under the enhanced Highly Indebted Poor Countries (HIPC) Initiative.[9] Finally, we will resort solely to concessional borrowing and grants to consolidate our gains in terms of debt sustainability under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), of which we were a beneficiary in 2006. In keeping with that commitment, we will complete the ongoing negotiations with the AFESD and IsDB.

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[9] In July 2007, we sent a letter to Kuwait proposing the cancellation of the arrears, offering different options for the treatment of interest, and encouraging the Kuwaiti authorities to invest in Mauritania. We sent a similar letter of the United Arab Emirates requesting the cancellation or rescheduling of our debt under the enhanced HIPC Initiative. We are continuing to negotiate with Algeria within the framework of a mixed commission. Finally, we sent a letter to Libya last November proposing relief of our debt under the HIPC Initiative.

E. Governance

40. We will continue our efforts to improve governance with the ongoing preparation of a strategy to combat corruption. The government intends to ask Transparency International to include Mauritania in its reports. We will conduct a diagnostic study by end-March 2008 of the relationship between the competences of the budget control institutions and their weaknesses, on the basis of which we will define an overall strategy to improve the quality of ex-ante and ex-post controls and of audits of the quality and effectiveness of expenditures. By June 2008, the budget control institutions' annual audit reports for 2007 will be published. These reports will adequately cover the administration's response to the administrative violations and irregularities found the previous year. After revising the public procurement code, we will establish by end-June 2008 a negative list of government suppliers.

F. Public Enterprises

41. We have decided to restructure our public enterprise portfolio in order to improve the quality of the services they provide, guarantee their financial viability, and introduce greater competition. To that end, in coordination with the World Bank, we will conduct an in-depth review of the monitoring and control of these enterprises by the Ministry of Economy and Finance, and will adopt a strategy for restructuring them, providing in particular for the government's divestment of some enterprises and the introduction of performance contracts for the others. Within this framework, performance contracts with SOMELEC, the national water utility, and SMH will be completed by June 2008.

42. In coordination with the World Bank and the French Development Agency, we will prepare a restructuring strategy for SOMELEC by end-June 2008. In the medium term, this strategy will aim at increasing production and improving competition, including through the opening of the sector to new actors. Pending the implementation of this strategy, the financial viability of the company will be ensured through: (a) adjustment of electricity tariffs, including the 21.6-percent increase implemented in November 2007; (b) a UM 3.4-billion government loan guarantee to clear arrears to suppliers and a UM3-billion government current transfer, which will be included in the 2008 budget law; (c) measures to fight against fraud and increase billing recovery. The 2008 budget will also continue providing subsidy for gas in the amount of UM 1.5-billion to avoid severe environmental damages stemming from the use of wood for domestic purpose that would result from high gas prices. We will take, by the time of the third review, a decision on the best way (i.e. to liquidate or to restructure and then sell) to disinvest from Air Mauritanie. Completion of the third review will be conditional on the government taking a decision on how to disinvest from Air Mauritanie. The government will provide no financial assistance or guarantee to Air Mauritanie prior to such decision.

G. Improvement of Economic Statistics

43. By end-November, the National Statistical Council will adopt a national statistical development strategy, which will cover as a sectoral priorities short-term statistics, national accounts, and balance of payments, and will identify the actions needed to implement the General Data Dissemination System. With technical assistance from Afristat and the IMF, the National Statistical Office will finalize the final national accounts for 2001-05 by end-December 2007, the provisional national accounts for 2006 by end-January 2008, and the provisional national accounts for 2007 and final national accounts for 2006 by end-September 2008. Lastly, we will strengthen monitoring of the extractive industries by adopting a new quarterly format for data transmission by end-December 2007.

V. Program Monitoring

44. To monitor program execution, Table 3 establishes quantitative performance criteria for end-December 2007 and quantitative indicators for March, June, and September 2008. The quantitative indicators for end-June 2008 will be converted to performance criteria at the time of the third program review. The Technical Memorandum of Understanding (TMU) defines these quantitative criteria and benchmarks and the readjustment factors for contingencies. Table 4 identifies performance criteria and structural benchmarks and the corresponding cutoff dates. These criteria and benchmarks are more precisely defined in the TMU. The fiscal and monetary policy coordination committee will monitor on a weekly basis developments in quantitative performance criteria related to the basic non-oil fiscal balance and net domestic and foreign assets of the BCM.

45. Program implementation will be assessed every six months in consultation with IMF staff. The third and fourth staff reviews will take place by end-March 2008 and end-September, 2008, respectively.

Table 1. Quantitative Performance Criteria and Indicative Targets for the First Year of the PRGF-Supported Program 1/

(Cumulative change from end-December 2006)

	End-December 2006	End-March 2007			End-June 2007		
	Initial Stock	Target	Adjusted target	Actual	Target 2/	Adjusted target 2/	Actual
Quantitative targets							
Net international reserves of the BCM (floor); in million of US$ 3/	3.6	2.5	-22.5	-17.8	-1.5	-26.5	-16.2
Net domestic assets of the BCM (ceiling); in billion of UM 3/	79.3	1.1	7.8	16.0	-1.3	5.4	2.0
Basic non-oil government balance (floor); in billion of UM	...	-9.8	-9.8	-1.1	-9.1	-9.1	3.6
New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in million of US$	0.0	0.0	0.0	0.0	0.0	0.0	146.6
Short-term debt (ceiling); in million of US$	42.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
New external payments arrears (continuous ceiling); in million of US$	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury float (ceiling); in billion of UM 4/	12.5	-1.8	-1.8	-8.3	-6.0	-6.0	-7.9
Poverty reducing expenditures (floor); in billion of UM 4/ 5/	...	12.9	12.9	n.a.	31.1	31.1	18.4
Adjustors (in million of US$)							
Net international assistance	...	-2.8	…	-8.3	-8.9	…	-12.8
Cumulative disbursements of official loans and grants in foreign currency	...	0.0	…	0.0	0.0	…	0.0
Impact of any additional debt relief	...	0.0	…	0.0	0.0	…	0.0
Cumulative amounts of external cash debt service payments	...	-2.8	…	-3.0	-8.9	…	-12.8
FNRH contribution to the budget	...	27.5	…	0.0	55.1	…	29.1
Memorandum item:							
UM/$ exchange rate (program)	268.6	…	…	…	…	…	…

Sources: Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding.
2/ Performance criteria, unless otherwise indicated.
3/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.
4/ Indicative target.
5/ The end-June 2007 estimate underestimates actual poverty-reducing expenditure as the authorities have yet to reclassify expenditure executed under the advance decree.

Table 2. Structural Performance Criteria and Benchmarks for the First Year of the PRGF-Supported Program

	Date	Status
Prior action:		
• Government adoption of 2007 budget ordinance consistent with paragraphs 25–29 of the MEFP of November 29, 2006.	Approval of the arrangement	Completed
Performance criteria:		
• Elimination of the requirement to partially surrender fish export proceeds to the BCM.	End-December 06	Met
• Adoption by cabinet of ordinance on the statutes of the central bank that will establish price stability as the primary objective of the BCM, protect the governor of the central bank from arbitrary dismissal, and place stronger limits on direct monetary financing of the government.	End-December 06	Met
• Adoption by cabinet of ordinance on commercial banking that will limit loans to related parties and ensure separation between bank managers and owners.	End-December 06	Met
Benchmarks:		
• Introduction of a new instrument for bank liquidity management.	End-January 07	Met 1/
• Semiannual adjustment of water and electricity rates based on the estimated operating balance.	End-January 07	Met 2/
• Transmission to Fund staff of the computerized monthly monitoring of budget execution with a lag of no more than a month (budget allotments, commitments, payment orders).	End-January report available at end-February 2007	Met 3/
• Publication of the audit of BCM's 2006 financial statements.	End-June 07	Met
• Submission to parliament of a draft law on a transparent and optimal oil revenue management, consistent with paragraph 32 of the MEFP of November 29, 2006.	End-August 07	Met 4/

Sources: Mauritanian authorities; and Fund staff.

1/ The operational framework for the central bank bills was adopted by the monetary policy committee on April 18, 2007.
2/ This measure was implemented on March 15, 2007.
3/ The end-March report was transmitted to Fund staff in early April. Subsequent monthly reports have been submitted on a monthly basis.
4/ A draft law was submitted to parliament on October 15, 2007.

Table 3. Quantitative Performance Criteria and Quantitative Benchmarks for the Second Year of the PRGF-Supported Program 1/
(Cumulative change at end-December 2006 for 2007 targets and at end-December 2007 for 2008 targets)

	End-December 2006	End-September 2007		End December 2007		End-March 2008	End-June 2008	End-Sept 2008
	Initial Level Estimate Stock	Initial Target Country report No. 07/224	Revised Target	Initial Target 2/ Country report No. 07/224	Revised Target 2/	Target	Target	Target
Quantitative targets								
Net international reserves of the BCM (floor); in million of US$ 3/	3.6	76.7	51.1	66.2	-16.6	-8.9	54.1	88.3
Net domestic assets of the BCM (ceiling); in billion of UM 3/	79.3	-17.6	-9.2	-12.9	4.9	4.0	-7.4	-12.8
Basic non-oil government balance (floor); in billion of UM	…	-0.7	-1.4	-19.6	-19.6	-21.1	-21.1	-9.5
New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in million of US$	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (ceiling); in million of US$	42.5	-34.6	-38.2	-42.5	-46.6	0.0	0.0	0.0
New external payments arrears (continuous ceiling); in million of US$	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury float (ceiling); in billion of UM 4/	12.5	-6.1	-7.9	-5.5	-7.9	0.0	0.0	0.0
Poverty reducing expenditures (floor); in billion of UM 4/	…	46.1	46.1	64.1	64.1	14.3	32.2	53.7
Adjustors (in million of US$)								
Net international assistance	…	-11.7	-12.1	-19.8	-18.6	-3.0	-10.5	-13.3
Cumulative disbursements of official loans and grants in foreign currency	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impact of any additional debt relief	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	…	-11.7	-12.1	-19.8	-18.6	-3.0	-10.5	-13.3
FNRH contribution to the budget	…	82.6	66.3	110.1	94.0	37.7	54.2	70.4
Memorandum item:								
UM/$ exchange rate (program)	268.6	…	…	…	…	…	…	…

Sources: Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding.
2/ Performance criteria, unless otherwise indicated.
3/ Adjusted by net international assistance and FNRH contribution to the budget (see technical memorandum of understanding).
4/ Indicative target.

Table 4. Performance Criterion and Structural Benchmarks for the Second Year of the PRGF-Supported Program

	Date
Performance criterion:	
• Submission to Parliament of a list of products for which VAT or customs tariff exemptions will be eliminated.	End-December 2007
Structural benchmarks:	
• Assignment of a single tax identifier to all taxpayers registered in Nouadhibou and Nouakchott and establishment of a centralized taxpayer database.	End-December 2007
• Resolution of the external audit qualifications on the BCM's 2006 financial statements within the immediate control of the BCM.	End-December 2007
• Adoption of an order instituting fiscal and accounting systems and modalities for disseminating information on the government external debt.	End-March 2008
• Adoption by the monetary policy council of implementing regulations of the banking sector law on licensing of banks, risk concentration, and rules of management applicable to affiliates.	End-March 2008

Sources: Mauritanian authorities; and Fund staff.

ATTACHMENT III: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period July 1, 2007–September 30, 2008, which are set forth in the Memorandum of Economic and Financial Policies (MEFP) and reported in Table 3. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.

2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference period described in Table 3 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (BCM) are defined as the reserve assets of the BCM (i.e., the external assets that are readily available to, and controlled by, the BCM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the BCM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on June 30, 2006 ($613.50 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**: the June 30, 2006 exchange rates between the U.S. dollar and the ouguiya (UM/$ 268.6), the SDR ($/SDR 1.4794), the Euro (Euro/$ 1.2713), and other non-dollar currencies as published in the IFS.

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

5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001),* excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (*recettes encaissées par le Trésor*). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the

BCM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the BCM).

6. **The new medium- and long-term nonconcessional external debt contracted or guaranteed** by the government and the BCM is defined as the foreign currency debt, with maturities of one year or longer, contracted or guaranteed by the government or the BCM with a grant element (defined as 1 minus the NPV-to- face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274-(00/85) August 24, 2000; see Annex) but also to commitments contracted or guaranteed for which value has not been received.[10] For program purposes, the following will be excluded from the ceiling on medium- and long-term nonconcessional external debt contracted or guaranteed by the government or the BCM: (i) the SDR 5.1-million loan and the Euro 10-million leasing agreement between the national electricity company (SOMELEC) from the Islamic Development Bank effective on June 17 2007; and (ii) the 37 million Kuwaiti dinars loan between Mauritania and the Arab Fund for Economic and Social Development effective on May 26, 2007.

7. **The short-term debt** is defined as the stock of foreign currency debt, with original maturity of less than one year, contracted or guaranteed by the government or the BCM. This definition applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000; see Annex). This definition excludes foreign currency deposits with the BCM.

8. **External payments arrears** are defined as overdue payments (principal or interest) on the external debt contracted or guaranteed by the government or the BCM.

9. **Treasury float (*Paiements en instance au Trésor*)** is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury. Once the RACHAD payment module is implemented, the float will be defined as the payment orders validated by the RACHAD payment module and not yet executed by the Treasury.

10. Poverty reducing expenditures will be estimated on the basis of the public expenditure functional classification based on the recommendations of the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("Les réformes en cours de la gestion budgétaire et financière", March 2006). This estimate will only take into account domestically financed expenditures.

[10] Although the definition does not include public enterprise loans that are not government-guaranteed, this type of borrowing is to be avoided except in exceptional circumstances an after consultation with IMF staff.

B. Performance Criteria and Structural Benchmarks

11. **Submission to Parliament of a list of products for which VAT or customs tariff exemptions will be eliminated.** The list of goods will include some fruits and milk products, and heavy fuel.

12. **Assignment of a single tax identification number to all taxpayers registered in Nouadhibou and Nouakchott and establishment of a centralized taxpayer database.** To meet this structural benchmark, the authorities will have to submit by end-December 2007 to the IMF staff the Nouadhibou and Nouakchott taxpayer databases, as well as a database covering all these taxpayers and assigning them a single tax identification number.

13. **Resolution of the qualification of the external audit of BCM's 2006 financial statements within the immediate control of the BCM.** These qualifications relate to loans to personnel, personnel costs, and provisioning of employee social benefit liabilities.

14. **Adoption of regulations establishing budgetary and accounting mechanisms and modalities for disseminating information on the government external debt.**

15. **Adoption by the monetary policy council of implementing regulations of the banking sector law on bank licensing, risk concentration and rules of management applicable to affiliates.**

II. Program Adjustors

16. **NIR and NDA targets** are derived based on the projected amounts of **the FNRH contribution to the** budget and of the net **international assistance.** The latter is defined as the difference between (a) the sum of cumulative disbursements of official loans and grants (budget support; excluding HIPC assistance and project-related loans and grants) in foreign currency and of the impact of any additional debt relief obtained after June 30, 2006; and (b) the toil amount of external cash debt service payments (including interest on foreign liabilities of the BCM).

17. In case **net international assistance** or **the contribution of the FNRH to the budget falls short** of the amounts projected in Table 3, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA, this amount will be converted into ouguiyas at the program exchange rates. The cumulative downward adjustments to NIR will be limited to $25 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $25 million at program exchange rates. In case **the contribution of the FNRH to the budget exceeds** the amounts projected in Table 3, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

18. The floor on the government balance will be adjusted downwards by an amount equivalent to the **national aid** collected to finance solidarity expenditures related to the floods in Tintane and the repatriation of persons displaced abroad. National aid contributions will be deposited in a special allocation account created for that purpose and spending will originate from that account.

III. Reporting Requirements

19. To allow for the monitoring of economic developments and program performance, the Mauritanian authorities will provide the IMF with the following specific information.

BCM

- The monthly balance sheet of the BCM, and monthly data on (a) BCM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two weeks following the end of each month.

- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three weeks from the end of each month.

- Data on Treasury bills auctions within a week following each auction.

- Monthly data on the level of liabilities of each public enterprise to the banking sector, within three weeks from the end of each month.

- Monthly external debt data within one month of the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

1) The external debt data file: service of the external debt of the BCM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.

2) The monthly list of medium- and long-term public or publicly guaranteed external loans contracted during each month, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor and by currency) within one month following the end of each quarter.

- Bimonthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

Ministry of Economy and Finance

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

- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two weeks following the end of each month.

- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.

- Monthly data on the execution of the foreign-financed part of the investment budget based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two weeks following the end of each month

- Monthly reports on oil- and other hydrocarbon-related production and financial flows, including data on oil sales and repartition of oil revenue among all partners involved in oil production within one month from the end of each month.

- Annual balance sheets audited or certified by a statutory auditor of the accounts of public enterprises and autonomous public institutions.

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

National Statistical Office

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

- Quarterly industrial production index within one month of the end of each quarter.

- Quarterly foreign trade bulletin within one month of the end of each quarter.

20. All data will be transmitted electronically. Any revisions to previously reported data accompanied by an explanatory note shall be promptly communicated to the staff.

IV. Central Government Operations Table

21. The Treasury will prepare a monthly budget execution report in the format of a Central Government Operations Table (TOFE). In preparing this table, the following definitions shall be used:

- **Grants** are defined as a sum of: foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of BCM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account) The Treasury current account at the BCM is adjusted for changes in items for collection and the Treasury float during the month at the BCM. Domestic bank financing does not include the deposits of public establishments and other administrative units (*EPA*) with the BCM, namely, the subaccounts and former earmarked accounts (CAS) with the BCM. The BCM shall provide detailed data on the deposits of public establishments and other administrative units on a monthly basis.

- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.

- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims on government acknowledged by the Ministry of Economy and Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).

- Changes in deposit and reciprocal accounts shall be taken into account in domestic financing.

- **External financing** is defined as the sum of: the net outflows from (i.e. the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears on the debts owed to Libya, Kuwait, Libya, Algeria, the United Arab Emirates, and Arab Organization of Petroleum Exporting Countries, as defined in paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Annex: Definition of Debt Set Forth in No. 9 of the Guidelines

The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows:

(a) for the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances on money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' creditors) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title top the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

ANNEX I. MAURITANIA: RELATIONS WITH THE FUND

As of September 30, 2007

I. Membership Status: Joined: September 10, 1963 — Article VIII

	SDR Million	% Quota
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

	SDR Million	% Allocation
III. SDR Department	**SDR Million**	**% Allocation**
Net cumulative allocation	9.72	100.00
Holdings	0.04	0.38

	SDR Million	% Quota
IV. Outstanding Purchases and Loans	**SDR Million**	**% Quota**
PRGF Arrangements	6.45	10.02

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Dec. 18, 2006	Dec. 17, 2009	16.10	6.45
PRGF	Jul. 18, 2003	Nov. 07, 2004[1]	6.44	0.92
PRGF	Jul. 21, 1999	Dec. 20, 2002	42.49	42.49

VI. Projected Payments to Fund

(In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.11	0.40	0.40	0.40	0.40
Total	0.11	0.40	0.40	0.40	0.40

[1] Cancellation date.

VII. Implementation of HIPC Initiative

		Enhanced Framework
I.	Commitment of HIPC assistance	
	Decision point date	Feb. 2000
	Assistance committed by all creditors (US$ millions)[2]	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[3]	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 as defined in the footnote above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

[2] 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.

[3] 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.

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million)[4]		32.91
Of which:	MDRI	30.23
	HIPC	2.68

II. Debt Relief by Facility (SDR Million):

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
June 2006	n/a	32.91	32.91

IX. 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, most critically in the areas of financial reporting (including reporting of monetary data to the Fund) and controls, and made specific recommendations to address these vulnerabilities. An update assessment was conducted in early 2007 and found that while steps had been taken to improve the BCM's safeguards, several previously recommended safeguards measures had not been effectively implemented, including those related to the establishment of an investment committee and an internal audit department and the implementation of the IFRS. In view of these gaps and of uncertainties about the external audit arrangements for 2007 and beyond, the assessment recommended the continuation of special reviews of monetary data, the expeditious appointment of an international auditor for 2007–09, the implementation of the IFRS, and the establishment of an investment committee.

X. Exchange Rate Arrangement

The currency of Mauritania is the ouguiya (UM). In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second imposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. In July 2005, this surrender requirement was reduced to 60 percent. In July 2006, the surrender requirement was cancelled for small-scale pelagic fish exports and in October 2006, it was further reduced to 25 percent for exports of the public trading company SMCP. The BCM eliminated in October 2006 foreign exchange

[4] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004, which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2 (a). From October 2005 to January 2007, the ouguiya was de facto pegged to the U.S. dollar, at an exchange rate of UM 268.6 per dollar. The BCM launched a foreign exchange auction market in late January 2007. After remaining essentially unchanged over the first few months of 2007, the exchange rate vis-à-vis the dollar has appreciated slightly, from UM 268.5 per dollar on April 25 to UM 256.4 per dollar at end-September 2007.

XI. Last Article IV Consultation

Discussions for the 2006 Article IV consultation were held in Nouakchott from April 26 to May 9, 2006. The Country Report No. 06/272 was considered by the Executive Board on June 21, 2006.

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

A joint Fund/Bank FSSA, based primarily on work undertaken during two visits to Mauritania in February 2005 and February–March 2006 as part of the Financial Sector Assessment Program (FSAP), was presented to the Executive Board in April. Its main findings are that:

- The financial sector, while not exhibiting any sign of distress, does not support economic development and presents significant challenges.
- Banks are vulnerable and inefficient; they primarily serve their affiliated economic groups.
- Nonbank financial intermediaries are underdeveloped; microfinance is emerging, with institutions depending on subsidies.
- Financial sector regulation still needs some additional improvement and enforcement, in spite of recent progress, is still weak.
- The financial sector infrastructure needs to be modernized—including the legal and judicial framework, accounting and auditing practices, and the payment system.

Some recommendations have already been implemented, including: upgrading the financial sector legal framework and gradually increasing competition in the banking sector by encouraging entry of reputable international banks.

The fiscal transparency module of the Report on the Observance of Standards and Codes (ROSC) was based on two missions, conducted from May 14–24, 2002, and from August 6–13, 2002, respectively. The final fiscal ROSC report is published on the IMF website.

XIII. Technical Assistance (since 2005)

1. MCM

TA mission on foreign exchange market issues: January 9–23, 2005.
Peripatetic TA missions by panel expert on foreign exchange reserves management: July13–26, 2005.
TA mission on money market instruments: March 7–19, 2006.
TA mission on foreign exchange market, December 17–19, 2006.
TA mission on central Bank accounting, March 6–May 4, 2007.
TA mission on securitization of government debt, September 9–21, 2007.

2. FAD

TA mission on public expenditure management: April 3–19, 2005.
TA mission on fiscal administration reform: June 14–18, 2005.
TA mission on tax policy: May 25–June 8, 2006.
TA mission on customs administration: June 5–16, 2006.
TA mission on oil revenue management: October 24–November 7, 2006.
TA mission on tax administration: March 12–23, 2007.

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 consultant on banking and monetary statistics: November 8–22, 2005.
TA mission on balance of payments statistics: April 5–18, 2006.
TA mission on monetary and financial statistics: July 13–26, 2006.
TA mission on National Accounts Statistics, April 16–27, 2007.

5. AFRITAC

Several TA missions in 2005–07, including on tax and customs administration, computerization of public expenditure chain, external debt management, public finance statistics, and microfinance supervision and regulation.

XIV. Resident Representative

Mr. Marc Carre has been resident representative in Mauritania since January 2007.

Annex II. Mauritania: Relations with the World Bank Group

As of October 3, 2007

Partnership in Mauritania's Development Strategy

1. Mauritania's second PRSP (PRSP-2), which was discussed by the Boards of the IMF and the World Bank in December 2006 and January 2007, respectively, builds on the lessons learned from the implementation of the first PRSP and was prepared in a participatory way. Covering the period 2006–10, one of the central themes in the PRSP-2 is the transparent and prudent management of the country's new oil wealth, with the objective of maintaining macroeconomic stability and achieving broad-based growth.

2. Under the transition government (2005–07), an ambitious program aimed at improving public financial management, strengthening the rule of law and re-establishing democracy has begun to be implemented. The progress made to date was acknowledged at a stock taking meeting between the government and Mauritania's development partners, held on March 6, 2007. The governance environment is also improving considerably, thanks to several important initiatives including the adherence to the Extractive Industries Initiative (EITI) and the launch of a National Anti-Corruption Strategy (currently under preparation). The transition to democracy was completed with a new, democratically elected government taking office in April 2007.

3. 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, including the financial sector, private sector development and poverty monitoring and evaluation. The two institutions cooperate closely in advising the government on the implementation of the PRSP. Other areas of close collaboration include public financial management, the oil sector, the financial sector, public sector enterprises, external debt sustainability, poverty and social impact analysis, and private sector development.

Bank Group Country Assistance Strategy

The Country Assistance Strategy

4. The World Bank supported the implementation of the government's first PRSP (PRSP-1) through its Country Assistance Strategy (CAS, FY03–05—extended to cover FY06). The CAS program of lending and non-lending operations was specifically designed to support implementation of the four strategic axes of the PRSP-1, with particular emphasis on capacity building. In the 2002 CAS it was assumed that a series of Poverty Reduction Support Credits (PRSCs) would gradually become the main pillars of the lending program,

but this shift did not materialize, mainly as a result of the deterioration of macrobudgetary discipline, which emerged in 2004. Since then, the macro-budgetary framework has greatly improved.

5. The new CAS (FY08-11) was discussed and approved by the Board in July 2007. It presents a Bank program that is closely aligned with the priorities of the second PRSP and outlines the Bank's strategy for transitioning to Mauritania's possible graduation from IDA to IBRD. Taking into account the Bank's comparative advantages and offering a flexible range of financing instruments, the new CAS focuses on: (a) economic governance and public sector capacity; (b) diversified growth through investment climate improvement, and possibly key enabling infrastructures through enclave operations; and (c) continued efforts to fight poverty and inequalities in both urban and rural areas. The CAS will be implemented through both upcoming and recently approved lending operations and analytical and advisory activities (AAA). The Bank may consider possible IBRD enclave operations in support of port development and the energy sector.

6. To advance the collaborative implementation of the new PRSP and CAS by the Government and all development partners, the Bank—together with assistance from the EU and UNDP—is currently helping to prepare a Consultative Group meeting in December 2007 to facilitate donor coordination and new lender mobilization. To support discussions, financing gaps have been calculated on the basis of MDG Costing and the 3-year MTEF and a special focus will be placed on improved development and engagement of the private sector in Mauritania.

The Bank Portfolio

7. To date, the World Bank has approved 60 projects in Mauritania for a total of \$947.2 million. The current portfolio has 11 operations (including a GEF project) for a total of \$294.5 million, with an undisbursed balance of \$149.2 million as of September 3, 2007. The portfolio also includes three regional projects, for which Mauritania's share is \$66.9 million, and an additional GEF project. With the regional program, the total Mauritania portfolio is \$361.4 million. The Bank's program concentrates on rural development, urban development and social sector operations (health and education), with other specific investments in growth-stimulating sectors, such as mining, energy, and transport. In FY06, the Bank delivered the second Health and Nutrition Project (\$10 million), a GEF Community based Watershed Management Project (\$6 million) and two regional projects: (a) the Senegal River Basin Multi-Purpose Water Resources Development Project (Credit to Mauritania: \$31.78 million); and (b) the Felou Hydroelectric Project (Credit to Mauritania: \$25 million). In the first quarter of FY07 the Bank also delivered a Public Sector Capacity Building Project (PRECASP—\$13 million), and an Additional Financing Credit to the Second Mining Sector Capacity Building Project (\$5 million) to provide technical assistance to the oil sector. For FY08/09, a Private Sector Development operation is also planned.

8. The Bank's program also encompasses nonlending services including Economic and Sector Work (ESW), the provision of Institutional Development Facility (IDF) grants and Trust Funds (TF). A Public Expenditure Review update—which benefited from the revision of all main economic data—was completed in FY06, along with an update of the 2003 Country Economic Memorandum (CEM), focusing chiefly on natural resources management (oil and mining). A Gender Assessment and an Investment Climate Assessment (ICA) were completed in March and June 2007 respectively. The current ESW portfolio also includes a Study on Corruption in Mauritania (including a paper on the effects of corruption on private sector development), which will serve as an input into the government's Anti-Corruption Strategy, a Poverty Map and a Sources of Growth study, to be completed in FY08–09. Land tenure and fisheries studies, and a Country Procurement Assessment are also planned in FY08. The Bank provided $448,000 in an IDF for the Justice Sector (which closed in September 2005). In addition, the Bank is currently providing $273,000 through an IDF to support the accountancy profession and $349,000 through an IDF to strengthen the public procurement function. A Trust Fund for Statistical Capacity Building ($105,930) was approved in September 2005 and aims at supporting the development of a statistical master plan.

Main Policy Reform Areas

9. The Bank supports the authorities in the implementation of the four priority areas at the core of the PRSP-1 and PRSP-2.

10. *Accelerate growth and maintain macroeconomic stability.* One of the key objectives of the government is to strengthen macroeconomic policy, to optimize the impact of oil production on growth, and to stimulate private sector development. The Bank's policy dialogue in this area focuses, inter alia, on: (a) identifying and implementing structural reforms and macroeconomic policies, through the PRECASP project and the ESW program (including the Sources of Growth and Fisheries studies); (b) improving access to financial services; and (c) improving the business environment through legal and judicial reform, and through a detailed analysis of the ICA. The Bank is also promoting the growth agenda in its rural operations, particularly through the activities supported by the PDIAIM project, which works with private sector operators in the Senegal valley area. IFC will closely coordinate its interventions with the Bank in supporting government reforms, privatization and investment opportunities. IFC's strategy for Mauritania is focused on: (i) improving the investment climate; (ii) building up the capacity of MSMEs and institutions that can support them; and (iii) proactive support to project development in the financial, tourism and oil/mining sectors. As of June 30 2007, IFC's committed portfolio stood at US$35.12 Million and was comprised of projects in banking and agribusiness sectors.

11. *Anchor growth in the economic sphere of the poor*. This requires: (a) renewed efforts to ensure a sustainable urban development; and (b) a comprehensive approach to rural development. In the urban sector, following the successes of the ongoing UDP project, a

second phase project will be prepared in FY08, with the participation of other donors, which will continue to address economic development of cities, improvement of urban management with greater devolution of management and resources to the municipalities. In the rural sector, the government has prepared a review of the sector as a first step towards the preparation of a comprehensive rural development strategy. Bank support will be aligned with this strategy. This would include measures to increase productivity in the livestock and agricultural sectors, which employ a large swathe of the rural poor. In livestock, the policy dialogue centers, on the one hand, on growth and poverty reduction, paying particular attention to key value chains identified in the strategy, such as meat export, cattle and leather production. On the other hand, the Bank will encourage a concrete application of the new Livestock Code elaborated with the assistance of the German cooperation agency. 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 roads, and improving natural resource management practices. Bank support will also promote decentralization and local development with particular focus on direct transfer of funds to poor rural communities, including through access to micro finance, which will prevent the marginalization of the sector and rural poor.

12. *Develop human resources and provide access to basic social services*. *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). Main actions have led to: (a) the expansion of infrastructure to boost access to schools; (b) the recruitment of new tutors and teachers; (c) the reform of the teacher training institutions in line with the bilingual teaching requirements; and (d) the implementation of training schemes for teachers to strengthen education quality. The Bank also supports higher education reform through the Higher Education Development Project, including technical assistance and the construction of a new university campus. Mauritania has also benefited from the Education for All Fast Track Initiative to accelerate the implementation of the national education program (receiving a total of $9 million in 2004–05), and it currently is in the process of requesting additional assistance.

13. *Health*. Additional efforts are needed to accelerate progress toward the health and nutrition related MDG targets. Actions—which will continue to be supported by the Bank mainly through the upcoming Health and Nutrition Support Project—have resulted in: (a) greater access to primary health; (b) improvements in the quality of health services, especially for the poor; (c) the establishment of new benefit packages to attract health personnel in rural areas; and (d) the recruitment of additional health personnel. The authorities have adopted a multisectoral approach to combat HIV/AIDS, which is supported by the Bank's ongoing Multisector HIV/AIDS Control Project. The leadership for this program is located in the prime minister's office and has translated to date in strong cross-sectoral response at both the central and local levels.

14. *Promote good governance and institutional capacity building*. The new government has made good governance one of its key priorities and an important first step was Mauritania's signing of the UN Convention against Corruption during the democratic transition process. An Ethics Code of civil servants has been approved. The authorities have been working on elaborating a national Anti-corruption Strategy, which the Bank is supporting through a comprehensive anti-corruption study. The Bank also advises the government on its Anti-Money Laundering (AML) program, following the recently passed AML legislation and Mauritania's adherence to the Financial Action Task Force against Money Laundering for the Middle-East and North Africa (MENAFATF). Finally, the PRECASP project supports governance reforms in a number of areas, including public expenditure management, decentralization, modernization of public administration and strengthening of civil society capabilities.

Bank-Fund Collaboration in Specific Areas

15. 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:

16. ***Public Expenditure Management***. The Fund and Bank jointly emphasize the need to significantly improve public expenditure management (PEM), accountability, and transparency. Substantial progress has been made in key areas of PEM, most notably: (a) the preparation of monthly treasury balances and fiscal reports, reconciled with the Central Bank (BCM); (b) the adoption of a functional classification to facilitate public expenditure tracking; (c) an update of the global Medium-Term Expenditure Framework (MTEF); (d) the new Automated Expenditure Chain Network (RACHAD), put in place in November 2005 on a pilot basis, which integrates all budget execution procedures; and (e) the de-concentration of authority over payment orders to the ministerial level and at the regional level.

17. ***Oil***. The government has established a National Hydrocarbon Revenue Fund (FNRH), an offshore account administered by the Central Bank, which will receive all government oil revenues. The transparency surrounding oil revenues has also been strengthened through the transparent treatment of oil revenues in the 2006 and 2007 budgets; and the government's commitment to adhere to the EITI. Further progress is required to elaborate, finalize and enact the National Hydrocarbon Law. The Bank and Fund actively support the authorities in the implementation of the EITI, the management of oil revenues, and in defining the role of the National Hydrocarbon Society (SMH). The World Bank Treasury is also providing technical assistance to the BCM in the area of reserve management, following a specific request from the authorities and in agreement with the IMF.

18. ***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. A joint Bank/IMF in-depth review of the financial sector (FSAP) took place in late March/early April 2006 and found that: (a) Financial services in Mauritania are underdeveloped, with the banking system still accounting for an overwhelming share of the financial sector; (b) Credit risk, including risk concentration, is Mauritanian banks' main vulnerability; (c) Banking supervision has been strengthened but the regulatory framework still lags significantly behind international standards; and (d) Nonbank financial services (e.g., microfinance, insurance) are at an early stage of development. The authorities have asked the Bank to assist with the implementation of the FSAP proposed action plan and a proposed financial/private sector and judicial project is under preparation for delivery in FY08.

19. ***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, a PSIA has been conducted to evaluate the impact of reducing the auxiliary services provided by the national mining company (SNIM) to different groups of people (electricity and water). Additional poverty related analytical work includes: (a) a survey on the dynamics of rural labor markets (finalized); and (b) the elaboration of poverty maps (ongoing).

Contact Persons. Questions may be addressed to Mr. James Bond, Country Director, ext.; 32644; Mr. Francois Rantrua, Country Manager, ext. 5353-312, or Mr. Nicola Pontara, Senior Economist, ext. 8040.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion

Supplement and Supplement to the Letter of Intent

Prepared by the Middle East and Central Asia Department
in collaboration with other departments

Approved by Amor Tahari and Adnan Mazarei

November 20, 2007

This supplement reports on policy developments since the staff report was issued on November 6, 2007. The thrust of the staff appraisal remains unchanged.

Supplementary Information

In response to violent protests in the South of Mauritania and in Nouakchott against the recent oil and wheat price increases, the authorities have decided to adopt additional fiscal measures in the 2008 budget aimed at alleviating the social impact of these price increases (see attached Supplement to the Letter of Intent):

- the authorities decided to provide subsidy for bread, amounting to UM 0.5 billion (0.1 percent of non-oil GDP);

- to boost the population purchasing power, the authorities amended the tax on wages and salaries (ITS), by raising the minimum threshold from UM 21,000 to UM 30,000 and lowering the marginal rate of the ITS from 35 percent to 30 percent. This measure will translate in UM 1.8 billion in lower tax revenue (0.2 percent of non-oil GDP).

The authorities will offset the impact of these measures through a reduction of the general reserves for unexpected spending (initially budgeted at UM 8 billion), leaving the non-oil fiscal balance unchanged. In view of the lower reserves, the risks for the program have somewhat increased, although the authorities at the highest level remain fully committed to the program. The attached fiscal table (Revised Table 2) presents revised fiscal projections for 2008 that take into account these measures.

The authorities have also indicated that they will be considering additional fiscal measures in the coming weeks, which they will discuss with staff prior to their adoption.

Revised Table 2. Central Government Operations, 2006–10

(In billions of ouguiya, unless otherwise indicated)

	2006	2007				2008	2009	2010
	Prel.	End-Jun.		End-Dec.		Proj.	Proj.	Proj.
		Country Report No. 07/224	Est.	Country Report No. 07/224	Proj.			
Non-oil revenue and grants	**406.0**	**77.7**	**78.6**	**174.3**	**171.9**	**206.0**	**210.4**	**217.0**
Non-oil revenue	153.5	70.9	73.8	161.4	159.5	183.2	194.3	206.7
Tax revenue	97.1	48.5	54.2	95.7	100.6	112.3	126.0	137.1
Taxes on income and profit	26.7	16.5	18.0	28.7	30.5	31.4	35.7	38.4
Taxes on goods and services	45.0	22.9	25.8	48.1	50.0	60.0	65.7	69.2
Taxes on international trade	14.8	8.0	8.8	16.2	17.7	18.6	22.0	26.7
Other	10.6	1.1	1.6	2.8	2.3	2.4	2.6	2.8
Nontax revenue	56.4	22.4	19.6	65.7	58.9	70.9	68.2	69.5
Of which: revenue from the fishing sector	39.4	7.7	6.0	46.8	41.5	45.8	47.0	48.3
Of which: public enterprises dividends	8.3	11.5	8.5	11.5	8.8	11.7	11.7	11.7
Total grants	252.5	6.8	4.8	12.8	12.4	22.7	16.1	10.3
Of which: projects	2.1	4.0	3.1	8.5	8.5	21.2	14.6	8.9
Expenditure and net lending 1/	**206.4**	**97.0**	**83.9**	**216.1**	**214.2**	**251.6**	**249.5**	**251.7**
Current expenditure 2/	157.9	71.7	69.0	154.3	157.2	162.2	160.5	166.1
Compensation of employees	52.8	30.1	32.5	60.2	63.0	65.3	66.6	67.9
Goods and services	71.6	27.0	25.4	61.9	61.9	55.0	58.5	62.1
Of which: electoral process	7.1	3.6	...	3.6	3.6	…	…	…
Subsidies and transfers 3/	15.1	7.6	6.3	15.2	15.2	23.3	17.5	18.4
Interest	13.5	5.9	4.7	11.9	11.9	12.3	11.5	11.3
External	5.0	2.0	2.2	4.1	4.1	4.2	3.4	3.3
Domestic	8.5	3.9	2.5	7.8	7.8	8.1	8.1	8.0
Special accounts and others	4.8	1.2	0.2	5.2	5.2	6.3	6.3	6.3
Of which: oil sector development	...	...	...	1.3	1.3	1.3	1.3	1.3
Capital expenditure	44.6	25.3	14.9	61.7	57.0	80.5	79.9	75.9
Foreign-financed investment 4/	20.7	14.2	11.4	30.0	30.0	50.4	40.5	30.2
Domestically financed investment	23.9	11.1	3.5	31.7	27.0	30.0	39.4	45.7
Restructuring and net lending	3.8	0.0	0.0	0.0	0.0	3.4	0.0	0.0
Common reserves	0.0	0.0	0.0	0.0	0.0	5.6	9.1	9.7
Non-oil balance excluding grants (deficit -)	-52.9	-26.1	-10.0	-54.6	-54.7	-68.4	-55.2	-45.0
Non-oil balance including grants (deficit -)	199.6	-19.3	-5.3	-41.8	-42.3	-45.7	-39.1	-34.7
Basic non-oil balance; program definition 5/	**-24.4**	**-9.1**	**3.6**	**-19.6**	**-19.6**	**-13.8**	**-11.3**	**-11.5**
Net revenue from oil	**60.5**	**16.5**	**7.3**	**26.4**	**22.4**	**23.1**	**20.5**	**21.2**
Overall balance excluding grants (deficit -)	**7.6**	**-9.6**	**-2.8**	**-28.2**	**-32.3**	**-45.3**	**-34.8**	**-23.8**
Overall balance including grants (deficit -)	**260.1**	**-2.9**	**2.0**	**-15.4**	**-19.8**	**-22.6**	**-18.7**	**-13.5**
Financing	**-260.1**	**2.9**	**-2.0**	**15.3**	**19.8**	**22.5**	**18.7**	**13.5**
Domestic financing 6/	-38.7	-5.1	-8.5	-8.2	-1.6	-2.8	-2.8	-2.8
Banking system	-47.7	3.2	4.2	-3.5	3.6	-2.8	-2.8	-2.8
BCM 7/	-27.3	-2.4	-3.4	0.0	5.1	-2.8	-2.8	-2.8
Commercial banks	-20.3	5.6	7.6	-3.5	-1.5	0.0	0.0	0.0
Nonbanks	4.6	0.0	0.7	3.0	4.9	0.0	0.0	0.0
Privatization and other 8/	22.2	0.0	-3.4	0.0	0.0	0.0	0.0	0.0
Domestic arrears 9/	-17.8	-8.3	-10.0	-7.7	-10.0	0.0	0.0	0.0
External financing	-223.9	8.0	8.1	23.6	23.0	25.3	21.5	16.3
Oil account (net)	-13.1	-1.7	0.5	3.2	2.8	-2.3	-1.2	-1.6
Net revenue from oil (net)	-60.5	-16.5	-7.3	-26.4	-22.4	-24.7	-20.5	-21.2
Oil account contribution to the budget	47.4	14.8	7.8	29.6	25.3	22.4	19.3	19.6
Other (net)	-210.8	9.7	7.6	20.4	20.2	27.6	22.6	17.9
Net borrowing (net)	6.4	6.1	4.1	12.1	12.1	19.7	16.6	12.1
Exceptional financing	10.7	3.6	3.5	8.3	8.1	7.9	6.1	5.8
MDRI (IDA and AfDF)	-227.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	2.5	0.0	-1.6	0.0	-1.6	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Oil revenue (millions of US$)	223.4	61.4	27.1	96.1	81.5	78.5	74.4	76.9
Oil account balance (e.o.p., in millions of US$)	48.8	55.0	46.7	37.0	38.3	35.0	39.3	45.4
Stock of treasury bills	40.0	45.6	47.1	39.4	43.4	43.4	43.4	43.4
Of which: commercial banks	32.3	37.9	38.7	28.8	30.8	30.8	30.8	30.8
Stock of (identified) domestic arrears 9/	14.6	6.3	4.6	7.0	4.6	4.6	4.6	4.6
Treasury float (registered payment orders) 10/	12.5	6.4	4.5	7.0	4.6	4.6	4.6	4.6
Poverty reducing expenditure	49.9	31.1	18.4	64.1	64.1	71.6	79.1	86.2

Revised Table 2. Central Government Operations, 2006–10 (concluded)

(In percent of annual non-oil GDP; unless otherwise indicated)

	2006	2007				2008	2009	2010
	Prel.	End-June.		End-Dec.		Proj.	Proj.	Proj.
		Country Report No. 07/224	Est.	Country Report No. 07/224	Proj.			
Non-oil revenue and grants	**71.4**	**12.2**	**11.8**	**27.3**	**25.8**	**27.9**	**26.5**	**26.0**
Non-oil revenue	27.0	11.1	11.1	25.3	23.9	24.8	24.5	24.8
Tax revenue	17.1	7.6	8.1	15.0	15.1	15.2	15.9	16.4
Taxes on income and profits	4.7	2.6	2.7	4.5	4.6	4.2	4.5	4.6
Taxes on goods and services	7.9	3.6	3.9	7.5	7.5	8.1	8.3	8.3
Taxes on international trade	2.6	1.3	1.3	2.5	2.7	2.5	2.8	3.2
Other tax revenue	1.9	0.2	0.2	0.4	0.4	0.3	0.3	0.3
Nontax revenue	9.9	3.5	2.9	10.3	8.8	9.6	8.6	8.3
Of which: fishing sector revenue	6.9	1.2	0.9	7.3	6.2	6.2	5.9	5.8
Of which: public enterprises dividends	1.5	1.8	1.3	1.8	1.3	1.6	1.5	1.4
Total grants	44.4	1.1	0.7	2.0	1.9	3.1	2.0	1.2
Of which: project grants	0.4	0.6	0.5	1.3	1.3	2.9	1.8	1.1
Expenditure and net lending 1/	**36.3**	**15.2**	**12.6**	**33.8**	**32.1**	**34.1**	**31.4**	**30.2**
Current expenditure 2/	27.8	11.2	10.3	24.1	23.6	22.0	20.2	19.9
Compensation of employees	9.3	4.7	4.9	9.4	9.4	8.8	8.4	8.1
Goods and services	12.6	4.2	3.8	9.7	9.3	7.4	7.4	7.4
Of which: electoral process	1.2	0.6	...	0.6	0.5	...	...	...
Subsidies and transfers 3/	2.7	1.2	0.9	2.4	2.3	3.1	2.2	2.2
Interest	2.4	0.9	0.7	1.9	1.8	1.7	1.5	1.4
External	0.9	0.3	0.3	0.6	0.6	0.6	0.4	0.4
Domestic	1.5	0.6	0.4	1.2	1.2	1.1	1.0	1.0
Special accounts and others	0.8	0.2	0.0	0.8	0.8	0.9	0.8	0.8
Capital expenditure	7.8	4.0	2.2	9.7	8.5	10.9	10.1	9.1
Foreign-financed investment	3.6	2.2	1.7	4.7	4.5	6.8	5.1	3.6
Domestically financed investment 4/	4.2	1.7	0.5	5.0	4.0	4.1	5.0	5.5
Restructuring and net lending	0.7	0.0	0.0	0.0	0.0	0.5	0.0	0.0
Common reserves	0.0	0.0	0.0	0.0	0.0	0.8	1.1	1.2
Non-oil balance excluding grants	-9.3	-4.1	-1.5	-8.5	-8.2	-9.3	-7.0	-5.4
Non-oil balance including grants	35.1	-3.0	-0.8	-6.5	-6.3	-6.2	-4.9	-4.2
Basic non-oil balance; program definition 5/	**-4.3**	**-1.4**	**0.5**	**-3.1**	**-2.9**	**-1.9**	**-1.4**	**-1.4**
Net revenue from oil	**10.6**	**2.6**	**1.1**	**4.1**	**3.4**	**3.1**	**2.6**	**2.5**
Overall balance excluding grants	**1.3**	**-1.5**	**-0.4**	**-4.4**	**-4.8**	**-6.1**	**-4.4**	**-2.9**
Overall balance including grants	**45.7**	**-0.4**	**0.3**	**-2.4**	**-3.0**	**-3.1**	**-2.4**	**-1.6**
Financing	**-45.7**	**0.5**	**-0.3**	**2.4**	**3.0**	**3.1**	**2.4**	**1.6**
Domestic financing 6/	-6.8	-0.8	-1.3	-1.3	-0.2	-0.4	-0.4	-0.3
Of which: banking system	-8.4	0.5	0.6	-0.6	0.5	-0.4	-0.4	-0.3
External financing	-39.4	1.3	1.2	3.7	3.4	3.4	2.7	1.9
Of which: oil account	-2.3	-0.3	0.1	0.5	0.4	-0.3	-0.1	-0.2
Errors and omissions	0.4	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Non-oil GDP (in billion of ouguiya)	568.9	639.2	667.4	639.2	667.4	738.6	793.8	834.3
Non-oil primary balance including grants	37.5	-2.1	-0.1	-4.7	-4.6	-4.5	-3.5	-2.8
Total Revenue	37.6	13.7	12.2	29.4	27.3	27.9	27.1	27.3
Total public debt e.o.p. 11/	138.0	...	...	117.7	123.2	114.2	105.6	99.0
Of which : central government domestic debt	25.7	...	...	22.4	21.5	19.6	17.8	16.6
Float (in billion of ouguiya) 10/	12.5	6.4	4.5	7.0	4.6	4.6	4.6	4.6
Transfer from the oil fund to the budget (in billion of ouguiya)	47.4	14.8	7.8	29.6	25.3	22.4	19.3	19.6
Oil fund balance (in billion of ouguiya)	13.1	14.8	12.6	9.9	10.3	9.4	10.6	12.2
Poverty reducing expenditure	8.8	4.9	2.8	10.0	9.6	9.7	10.0	10.3

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

1/ On the basis of payment orders registered by the treasury in 2006 and on the basis of payment orders as from 2007.
2/ Reflecting the authorities new classification, which is closer to GFS standards; estimates for 2006.
3/ Including transfers to public entities outside the central government.
4/ Including public investment from public enterprises financed through the government onlending of foreign assistance.
5/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest due on external debt).
6/ Domestic financing was adjusted in line with paragraph 17 of the TMU.
7/ BCM financing was adjusted in line with paragraph 17 of the TMU.
8/ In 2006, includes receipts from the sales of a telecom license for $103 million.
9/ Treasury float and other unpaid obligations recognized by the government.
10/ Registered payment orders not executed by the treasury in 2006; payment orders not executed by the treasury starting in 2007.
11/ After MDRI stock of debt operation. Domestic debt excludes the "float".

Supplement to the Letter of Intent

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Nouakchott, November 19, 2007

Object: Addendum to the Letter of Intent

Dear Managing Director:

Since the signing of our letter of intention on November 2, 2007, Mauritania has experienced violent protests against the increase in some basic food prices. These protests, which affected most cities in Mauritania, resulted in the death of one person, injured people, and material damages.

The country has not experienced demonstrations of such a scale for more than ten years. The simultaneous increases in food prices (including wheat and vegetable oil), as well as in electricity, water, and oil products prices over the last months, following the sharp increase of international prices of these products, along with the absence of mechanisms aimed at limiting the impact of these increases, have led to the disarray of the population.

These events, however, do not call into question the government's commitments toward the International Monetary Fund. These commitments have been confirmed, once again recently, at the highest level of the state. In this context, we are pleased with the success of the first review under the PRGF-supported program and with the excellent collaboration with Fund staff toward the conclusion of the second review.

Nevertheless, to ensure a smooth continuation of the reforms envisaged under the program, the government judged necessary to face proactively the social crisis by including in the 2008 budget law framework the following additional measures:

- a downward adjustment of the tax on wages and salaries (ITS) in favor of the lowest income earners. This measure, which consists in an increase of the minimum threshold from

UM 21,000 to UM 30,000, and a downward adjustment of the marginal rate of the ITS from 35 percent to 30 percent, will translate in UM 1.8 billion in lower tax revenue;

- a subsidy, amounting to UM 0.5 billion, aimed at stabilizing the price of bread;

- these two measures, totaling UM 2.3 billion (i.e., 0.91 percent of total budgeted spending) will be financed through savings on government spending.

Although their fiscal impact is rather limited, these measures will have significant social implications, owing to their direct impact on low-income people and the importance of bread for the most vulnerable population. Moreover, the cost of these measures will be financed from the general reserves provided in the budget to deal with unexpected expenditures.

Furthermore, we are considering additional measures, which will be discussed with IMF staff and will aim at accelerating reforms envisaged under the program. The modalities and timetable for implementing these measures will be discussed and agreed upon with your staff. In any case, we reiterate our willingness to pursue our fruitful cooperation with the IMF and are counting on your valuable support in the context of the consultative group meeting that will take place December 4–5, 2007 in Paris.

/s/
Ousmane Kane
Governor of the
Central Bank of Mauritania

/s/
Abderrahmane Ould Hama Vezaz
Minister of Economy and Finance

Press Release No. 07/272
FOR IMMEDIATE RELEASE
November 21, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Poverty Reduction and Growth Facility with the Islamic Republic of Mauritania and Approves US$3.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of the Islamic Republic of Mauritania's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of an amount equivalent to SDR 1.93 million (about US$3.1 million), bringing total disbursements under the arrangement to SDR 8.38 million (about US$13.3 million).

In completing the review, the Board approved a waiver for the nonobservance of a performance criterion against the contracting or guaranteeing of medium- and long-term nonconcessional external debt.

The three-year PRGF arrangement for Mauritania (see Press Release No. 06/288) was approved on December 18, 2006 in an amount equivalent to SDR 16.1 million (about US$25.6 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies that are adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Following the Executive Board discussion on Mauritania, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Mauritania's economic performance under its PRGF-supported program remained satisfactory despite a steeper-than-expected decline in oil production. Sound macroeconomic policies helped contain inflation, improve government finances, and enhance the external position. Significant progress was achieved in the governance and structural reform areas, including the submission to parliament of an oil revenue management law in line with best practices.

“The authorities intend to intensify efforts to stimulate private sector-led growth and reduce poverty. To that effect, they will tackle the most significant impediments to growth, including the poor quality of public services and infrastructure, limited access to bank financing, weak governance and tax structure.

“The authorities are committed to maintaining a stable macroeconomic environment. In light of the downward revision of the oil revenue outlook, this will imply the maintenance of a cautious fiscal stance, based on the mobilization of additional tax revenue, the implementation of civil service reform, and further strengthening of budget preparation, execution, and control. A better prioritization of spending will also increase its contribution towards poverty reduction. Monetary policy will continue to be geared towards reducing inflation in the context of a flexible exchange rate.

“The program envisages ambitious public sector reforms and good governance measures. In particular, the restructuring of the state-owned enterprises will contribute to improving their services, ensuring their financial viability and avoiding further drain on the budget. Financial sector reforms will aim at improving the commercial banks’ financial situation, developing the foreign exchange and money markets, facilitating access to banking services and increasing competition in the sector.

“To ensure external sustainability, the authorities will need to rely on concessional external financing and seek agreements with the creditors that have not yet provided debt relief under the enhanced HIPC initiative,” Mr. Portugal said.

Statement by Laurean W. Rutayisire
Executive Director for the Islamic Republic of Mauritania

November 21, 2007

I would like to express my deep appreciation to Management and the Board for their guidance and continued support to my Mauritanian authorities. I would also like to thank Staff for the quality of their advice and assistance to Mauritania.

My Mauritanian authorities continue to make substantial progress in stabilizing the economy, and laying the foundations for higher and more sustainable growth rate and for improving the prospects of reducing poverty. Important reforms have effectively been implemented in a number of areas, notably in governance and the financial sector. These include strengthened oil revenue management; increased transparency in this area; improved technological support in customs administration; increased utilities tariffs to better account for the marginal costs, improve the financial situation of enterprises in the water and electricity sectors while limiting the burden on government budget; the pursuit of financial soundness of the central bank and commercial banks; and the adoption of a regulatory law for microfinance activities.

My authorities acknowledge, however, that more needs to be done if they are to raise more rapidly the living standards of the populations. Progress is especially needed in the areas of business climate, private sector development, and the restructuring of public enterprises. While they reiterate their commitment to press ahead with their reforms in these areas –in close collaboration with the World Bank–, and also to maintain a prudent fiscal stance, they call on the international community to increase financial support to Mauritania, given the significant downward revision of oil production and revenues in the period ahead, to enable a full implementation of their development strategy. In this regard, they look forward to a successful donors' conference meeting in Paris, in December 4-6, 2007. They would also like to take this opportunity to call on all members that have not yet provided debt relief under the HIPC and MDRI initiatives to do so, on comparable terms.

The implementation of the PRGF-supported program continues to be satisfactory. All quantitative performance criteria at end-June 2007 were met with the exception of the criterion on the non-contraction of nonconcessional borrowing. The authorities had informed staff, prior to the second review, that two loans intended to finance highly needed social and development projects did not meet the requirements under the program, in terms of their minimum grant element. The largest of the two loans –129 million dollars– granted by the Arab Fund for Economic and Social Development (AFESD) to finance a project to supply Nouakchott, the capital, in drinking water had a grant element of 34.6 percent –less than one percentage point below the 35 percent required under the program (it should also be noted that the loan was initially concessional but was later revised to take into account cost increases). The second loan, however –of a lesser amount (18 million dollars) and granted by the Islamic Development Bank (IsDB) to ease bottlenecks in the electricity sector– had a lower grant element. The authorities have since initiated negotiations to revise the conditions of the loans, with the view to meet the loan concessionality requirements under the program. They are grateful, in particular, to the Japanese authorities for providing a grant that will help raise the grant element of the Islamic Development Bank loan to 35 percent. In view of the important economic and social dimension of the projects involved, the remedial actions swiftly taken, and the authorities' good faith, they request a waiver for the nonobservance of the performance criterion.

My Mauritanian authorities would also like to reiterate their commitment to a prudent borrowing strategy consistent with Mauritania's debt sustainability framework. In order to avoid repeating the sort of problems related to the contracting of nonconcessional debt, they will considerably strengthen the framework for debt management, including through mechanisms to monitor and manage public debt, disseminate information on the government external debt, and keep, on a timely basis, the Fund staff informed of any new loans contracted and of the level of debt service. My authorities have committed to resort solely to concessional borrowing and grants to consolidate the gains achieved in terms of debt sustainability under the enhanced HIPC Initiative and the MDRI.

In view of their continued good record of policy and reform implementation, the remedial action undertaken to correct the sole quantitative criterion missed under this review, I call on the Executive Board to grant my authorities a waiver of performance criterion and to approve the completion of the second review under the PRGF arrangement.

I. Recent Economic Developments

Oil production has continued to be revised downward in 2007 due to the persistence of technical difficulties experienced by the main foreign offshore operator. It reached an average of 16,000 barrels-per-day (bpd) at end-August 2007, compared to a projected 21,000 bpd. Consequently, real GDP growth will likely reach slightly less than one percent in 2007. Nonetheless, macroeconomic performance remains in line with the objectives of the program. Non-oil GDP growth is expected to reach 5.7 percent in 2007 thanks to the strong performance by the agriculture, construction, and mining sectors.

The basic non oil fiscal balance reached a surplus of 0.5 percent of non oil GDP at end-June 2007, compared to a projected deficit of 1.4 percent, despite the upward revision of the wage bill by 5 percent (due to corrections to its end-2006 level). This good performance was due to higher-than-expected fiscal revenues and also to the slow execution of capital spending.

Monetary policy implementation remained prudent in accordance with the central bank's objective to reduce inflation and maintain price stability. Broad money grew by 5 percent during the first half of 2007, lower than the projected 7 percent but in line with non oil GDP. Credit to the economy, however, grew more rapidly than projected and accompanied the rebound in economic activity in the non-oil sector. Inflation at end-August 2007 reached 6.6 percent –also lower than initially projected–, despite the impact of the surge in commodities prices worldwide. International oil price increases were subsequently passed on to the price of electricity this month, and also at the pump by gasoline importers. Overall, while consumer price inflation at end-2007 will likely exceed the previous projection of 7.0 percent, the year average will remain within the program target.

Due to the simultaneous effect of the substantial drop in the volumes of oil exports, on the one hand, and the increase of oil import prices, on the other, the current account balance further deteriorated in 2007 shifting from a surplus of 1.5 percent of GDP during the first semester of 2006 to a deficit of 7.3 percent in the first semester of 2007. Foreign exchange reserves reached 258 millions of dollars at end-August 2007, equivalent to 3.4 months of import cover. The nominal exchange rate appreciated earlier in the year following the launching of the foreign exchange market in January 2007, due in part to the intervention of the central bank to mitigate the inflationary impact of a strong Euro in which the majority of Mauritania's imports are labeled.

On the structural front**,** the program benchmark pertaining to the publication of the 2006 financial statements of the central bank was met last June and the draft law on the transparent and optimal management of oil resources was submitted to Parliament in October. This draft law takes into account the recommendations made by FAD, notably the need to integrate the management of the oil fund (FNRH) in the medium-term budgetary framework. Furthermore, the 2006 EITI report was published in August 2007, the audit of the FNRH was finalized in October 2007, and the audit of the accounts of the national hydrocarbon company (SMH) at end-2006 was initiated. As regards the financial sector, the audit of the financial statements of all commercial banks at end-2005 have also been finalized in September 2007.

With regard to public enterprises, prices were adjusted in 2007 in the gas, water, and electricity sectors with the objective of improving the enterprises' financial situation, and to avoid additional transfers from the government in 2007. Gas prices were increased in February while water and electricity prices were adjusted in October.

II. Policies for 2008 and the Medium Term

Oil production in the medium term is expected to remain weak. The authorities have projected a prudent level of 13,000 bpd for 2008. This will result in a real GDP growth of 4.5 percent for the whole year. Excluding oil, growth should reach 5.7 percent, driven mainly by the mining sector, especially by strong iron ore, gold, and copper production while agriculture and construction would revert to their medium-term potential. Inflation is expected to decline to 6 percent at end-December 2008.

On **the fiscal sector**, the authorities project a basic non oil fiscal deficit at 2.9 percent of non oil GDP in 2007 despite the increase in the wage bill. Additional measures to increase tax revenues will be implemented. The authorities will also keep a strict control over expenditures while safeguarding priority sectors. For 2008, they intend to further reduce the basic non oil fiscal deficit to 1.7 percent of non oil GDP. Efforts will also be made to contain the wage bill until measures are considered following the results of the civil service census, expected to be finalized by early 2008.

Monetary policy will continue to be guided by the objective of reducing inflation. In order to closely manage liquidity, the central bank will make use of its new instrument whenever needed while continuing to improve its collaboration with the Ministry of Finance on the management of treasury bills. With IMF assistance, the central bank will also prepare by the end of December 2007 a plan to restructure and securitize part of its claims on the government. With regard to exchange rate policy, the authorities will limit their interventions on the foreign exchange markets to smooth day-to-day fluctuations out.

On **the external front**, the current account balance should remain in 2008 at the same level as in 2007 (6.7 percent of GDP) as it continues to be influenced by weak oil production and strong mining growth.

To strengthen and modernize **the financial sector**, my authorities will implement vast and ambitious reforms, including measures based on the recommendations of the safeguards assessment and the FSAP. The measures that will be adopted by March 2008 include the strengthening of provisioning conditions, the substantial increase in the minimum capital requirement, and the adoption of IFRS norms. In addition, audits of the financial statements at end-2007 of all commercial banks will be undertaken in 2008 by internationally renowned audit firms.

III. CONCLUSION

Mauritania continues to make important strides in macroeconomic stability and laying robust foundations for stronger and sustainable poverty reduction. Fully cognizant of the challenges that lies ahead, particularly in light of the lower-than-expected oil revenue (due to technical difficulties), my Mauritanian authorities continue to make efforts, both on the policy and reform fronts, to meet these challenges. They appreciate the continued support of the Fund and are hopeful that the international community will maintain its assistance to the country. In particular, they call on all of the country's remaining bilateral creditors to materialize debt relief on terms comparable with those granted under the enhanced HIPC Initiative.

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