

Islamic Republic of Mauritania: Second Review Under the Staff Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; 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 Staff Monitored Program and request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Staff Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on November 2, 2006, 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 30, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a staff statement of December 18, 2006 updating information on recent developments;
- a Press Release summarizing the views of the Executive Board as expressed during its December 18, 2006 discussion of the staff report that completed the request and review; and
- 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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Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

**Second Review Under the Staff Monitored Program
and Request for a Three-Year Arrangement
Under the Poverty Reduction and Growth Facility**

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

Approved by Amor Tahari and Anthony R. Boote

November 30, 2006

- Discussions for the second review under the staff-monitored program (SMP) and on a successor program to be supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Nouakchott from August 29–September 12, 2006 and in Washington from October 30–November 2, 2006. The staff team consisted of Messrs. Le Dem (head), Wieczorek, and Martin, Ms. Hijazi (all MCD), Mr. Meier and Ms. Al-Zein (both PDR), and Mr. Callier, the Fund resident representative. The mission in Nouakchott worked with World Bank staff in the field. Messrs. Frécaut (MCM) and Ryba (World Bank) joined the discussions with the authorities on ways to incorporate the FSAP report's recommendations in the program.
- The team met with Mr. Zeine Ould Zeidane, the then Governor of the Central Bank of Mauritania, and his successor Mr. Ousmane Kane; Mr. Abdallah Ould Cheikkh-Sidia, Minister of Finance; Mr. Mohamed Ould Abed, Minister of Economic Affairs and Development; Mr. Sidi Mohamed Ould Sidina, Minister of Fishing and Marine Economy; as well as with other high-ranking officials and representatives of the donor and business communities, political parties, and civil society organizations.
- The SMP focused on the consolidation of macroeconomic stability and the implementation of key reforms on data transparency, oil revenue management, and public expenditure management, and was expected to pave the way for a PRGF-supported program. The authorities are requesting a three-year PRGF arrangement for SDR 16.1 million (25 percent of quota) in support of a successor program covering the period October 2006–September 2009.

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Executive Summary

- Mauritania's performance since the beginning of 2006 has been fully satisfactory. All quantitative targets and structural benchmarks under the staff-monitored program (SMP) that covered the first six months of 2006 were observed. Sound macroeconomic policies reined in inflation and contributed to the elimination of the parallel foreign exchange market premium, and fiscal and monetary developments were in line with program projections. Since June 2006, fiscal and monetary policies have been prudent and the authorities made further progress on the structural reform agenda, notably in the areas of public finance management and foreign exchange market liberalization.
- Building on the positive SMP track record (including the comprehensive revision of economic and financial data), the Mauritanian authorities have prepared a medium-term program for which they request financial support from the Fund under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement, with access at SDR 16.1 million, or 25 percent of quota. The program is based on crucial structural reform measures that are part of a new poverty reduction strategy covering 2006–10. Compared to the PRSP, the program assumes lower growth to reflect the recent drastic downward revisions in oil production and oil government revenue projections.
- The proposed PRGF-supported program will consolidate the progress achieved during the SMP toward macroeconomic stabilization while developing a far-reaching program of structural reforms that should foster private-sector led growth, diversification, and enhance the implementation of the poverty reduction agenda. Over the next three years, the program will aim to achieve real GDP growth of above 4 percent, gradually reduce inflation to below 5 percent, and bring official reserves to about three months of imports. It envisages ambitious reforms in the public and financial sectors.
- The first program year foresees a set of fiscal measures, including tariff and tax policy reforms and a reduction in subsidies to public enterprises, which should result in a slight decrease in the non-oil primary deficit and a substantial increase in capital spending and poverty reducing expenditures. Public sector reforms will focus on strengthening the legislative framework for oil revenue management, improving monitoring and control of budget execution. Steps toward civil service reform and strengthened governance will also be prepared. The program entails critical foreign exchange, monetary and financial sector reforms, including the launching of a new foreign exchange market and the adoption of new laws on the central bank and commercial banks in line with the 2006 FSAP recommendations.
- The program design mitigates in part the main risks to the program, that is, lingering uncertainties about oil production prospects and the scheduled political change in May 2007. However, additional fiscal adjustment may be needed in 2008/2009 if the declining trend in oil production is not reversed.

I. INTRODUCTION

1. **The democratization process initiated by the transition authorities following the August 2005 regime change has continued as scheduled with both domestic and international support.** In line with their policy shift toward transparency and good governance, the authorities have completed the revisions of economic and financial data since 1992.¹ In a constitutional referendum on June 25, 2006, the authorities received strong support for their strategy of return to democratically elected institutions, which will culminate in presidential elections in March 2007, following parliamentary and local elections in November and December 2006.

2. **In the attached Letter of Intent (Attachment I), the authorities request a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF).** The arrangement would support the authorities' program—described in the attached Memorandum of Economic and Financial Policies (MEFP) (Attachment II)—covering the period from October 2006 through September 2009. The program is derived from the authorities' second poverty reduction strategy (PRSP), which covers 2006–10. The transition authorities see the PRSP and the present program as a natural continuation of their efforts since the regime change to put the country back on a sound economic footing. The authorities deem the program critical to providing solid economic and financial foundations for Mauritania's development without relying excessively on uncertain oil revenue prospects, and securing external financial assistance in the context of the elimination of foreign exchange rationing and the launching of the foreign exchange market.

II. PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM (SMP) AND RECENT DEVELOPMENTS

A. Performance Under the SMP (January–June 2006)

3. **The implementation of the SMP was fully satisfactory.** All quantitative targets and structural indicators under the SMP have been met (Tables 1 and 2). Strict observance of the agreed upon fiscal and monetary policy targets helped keep annualized inflation below 10 percent during the first half of 2006, while international reserves reached the program level and the premium on the parallel (illegal) foreign exchange market remained nil (Table 3).

4. **Fiscal performance was strong, reflecting revenue collection efforts** (Table 4). Government revenues were boosted by strong tax collection (tax revenues over the first half were about 13 percent higher than program projections). These efforts allowed for the

¹IMF Country Report No 06/272; and IMF Country Report No 06/255.

accommodation of higher electoral spending and debt relief provided to SONIMEX (the state trading company) within the program deficit target through June and for a faster-than-programmed reduction of domestic spending arrears.

5. **The authorities maintained a prudent monetary stance** (Table 5). Broad money grew by 7.3 percent over the first half of 2006, significantly below program targets. Treasury bill interest rates were maintained at 12–13 percent and the central bank discount rate at 14 percent. Credit to the economy through end-June expanded by a modest 1 percent, reflecting in part stagnating activity in some sectors and strengthened banking supervision.

6. **Reflecting the start of oil production and the good performance of non-oil exports, the external position started to improve.** Nevertheless, the level of official reserves remained low until late June 2006 and began to strengthen only after the treasury received payments for a new telecom license in July 2006.

B. Recent Developments and Prospects for the Remainder of 2006

7. **Notwithstanding a downward revision in oil prospects and capacity bottlenecks in power generation, real GDP is still expected to post double-digit growth in 2006 (about 14 percent).** Owing to unexpected technical difficulties, oil production has gradually declined from a level close to 75,000 barrels per day (bpd), the maximum installed capacity, in March to about 30,000 bpd in the third quarter. It is now expected to remain at that level at least through the remainder of 2006. Despite favorable market conditions, signs of output slowdown emerged in the manufacturing and transportation sectors, owing in part to power supply bottlenecks at SOMELEC (the state-owned electricity company) and increased fuel costs.

8. **Year-on-year inflation is expected to remain at single-digit levels through the maintenance of a tight monetary policy stance.** Reflecting increases in world commodity prices and a combination of local demand and supply factors, prices of essential foodstuffs (in particular meat and fish products) accelerated significantly in recent months, offsetting the broad-based deceleration in nonfood prices in the third quarter of 2006 (Figure 1).² Thus far, the Central Bank of Mauritania (BCM) has maintained a tight monetary policy stance, which has contained broad money growth below 8 percent over the first nine months, while allowing a moderate increase in credit to the economy. This policy and the recent downturn in world oil prices should help contain the CPI increase to less than 10 percent at year-end.

² The recent increase in the year-on-year inflation rate also reflects the exclusion from the base of the price drop in September 2005.

9. **The conclusion of a new fishing agreement with the EU and higher-than budgeted proceeds from the sale of a telecom license have substantially improved the short-term fiscal and external outlook.** The new fishing agreement will yield annual revenue of €108 million over six years, or nearly twice what had been projected for the proceeds from the sale of fishing licenses in 2006.³ The sale, through competitive bidding, of a third mobile telecom license brought proceeds of \$103 million, about six times the initially budgeted amount.⁴

10. **To support faltering activity and boost employment in some sectors, the government adopted in July 2006 a supplementary budget ordinance (SBO) which provides for an increase in spending equivalent to 2 percent of non-oil GDP.** The equivalent of 1.2 percent of non-oil GDP was allocated to investment spending, and the remainder to cover cost overruns of the electoral process and higher-than-expected quasi-fiscal losses from two public utilities (the authorities decided also on significant increases in water and electricity rates with a view to eliminating further losses). Overall, the measures included in the SBO were fully covered by the aforementioned additional resources and are not expected to lead to permanent increases in recurrent spending.⁵ Accordingly, transfers from the National Hydrocarbon Revenue Fund (FNRH) were maintained at their initial level in the budget (UM 49.1 billion).

11. **The sale of the telecom license and the strong non-oil export performance brought official reserves to higher, although still modest, levels.** The BCM foreign exchange reserves climbed to \$111 million at end-September, equal to about 1.4 months of imports. During this period, the BCM continued to keep the nominal exchange rate stable vis-à-vis the U.S. dollar (Figure 2).⁶ The real effective exchange rate appreciated slightly over the twelve months to September, reflecting mainly the inflation differential with Mauritania's trade partners.

³ Of this annual amount, €86 million will be disbursed from the EU budget (the first annual contribution is expected to be disbursed by end-2006) and €22 million directly by the EU fishing companies. The amount of compensation stipulated in the agreement is subject to negotiation every two years. Fishing ceilings for the species that are of particular concern for the domestic fishing industry have been lowered compared with the previous agreement.

⁴ Consistent with the GFS manual, the one-off proceeds from this asset sale have been classified below the line.

⁵ Taking advantage of the strong tax revenue performance over the first six months of 2006, the government also included in the SBO a few tax cuts aimed at supporting the ailing fishing sector and at containing the prices of sugar and a few other sensitive imported commodities. The revenue impact of these tax measures is expected to be offset by the continued buoyancy of tax revenues.

⁶ The ouguiya has been de facto pegged to the U.S. dollar since October 2005. In the staff report for the 2006 Article IV Consultation (IMF Country Report No 06/272), the staff estimated that the official exchange rate against the U.S. dollar was appropriate.

III. PROGRAM

A. Medium-Term Macroeconomic Issues and Policy Framework

12. **The second poverty reduction strategy presents an ambitious challenge, which provided a useful starting point for the PRGF discussions.** The objectives of the PRSP are broadly consistent with the Millennium Development Goals and are expected to be achieved mainly through: (a) ensuring higher growth and macroeconomic stability; (b) improving economic opportunities for the poor; (c) developing human resources and access to basic social services; (d) strengthening governance; and (e) designing and implementing effective monitoring and evaluation systems. The PRSP targets in particular a 12 percentage point reduction in the incidence of poverty between 2004 and 2010, based on higher real GDP growth, increased pro-poor expenditure and a better handling of the regional and local dimension of poverty, notably in the rural sector (Table 6). The achievement of the PRSP objectives will, however, be a challenging task, especially in view of the recent deterioration in the medium-term oil production outlook. Accordingly, the PRSP needs to set an adequate prioritization framework, better align priority objectives with the budget, and ensure a more efficient use of public resources, including oil revenue.⁷

13. **Taking into account the recent adverse developments in oil production, the authorities have developed a medium-term program based on lower—although still ambitious—growth objectives than the PRSP** (Table 7). Overall, real GDP growth is projected slightly above 4 percent on average over 2007–09, about 3½ percentage points less than the PRSP assumptions. The medium-term oil production outlook had to be revised substantially downward to reflect the technical difficulties encountered in Chinguetti, the first (offshore) field that went into production in early 2006. Over 2007–09, it is assumed that oil production will decline continuously in spite of projected additional investments in the field. This trend is expected to be reversed in 2010, when production starts in two neighboring offshore fields. Meanwhile, non-oil GDP is projected to grow by some 6 percent on average over the medium term because of new mining developments and growth in public investment. Excluding extractive industries, activity is expected to grow at an average rate of 4.8 percent in 2007–09, broadly in line with the recent performance. The program aims at gradually reducing inflation to the mid-single-digit range. Reflecting the less favorable oil export projections, official reserves are targeted to reach about three months of imports of goods and services by 2007, and to stabilize at this level through the end of the program.

14. **The program sets prudent and coordinated fiscal and monetary policies to ensure macroeconomic stability.** In view of the authorities' intention to move to a more

⁷ See Joint Staff Advisory Note (JSAN) to be published on the IMF external site shortly.

flexible exchange rate policy, the central bank will need to actively control the expansion of monetary aggregates in order to meet the program disinflation objectives. Prior experience indicates that the maintenance of fiscal discipline as envisaged in the program will be a key ingredient of the disinflation strategy, in particular through the further reduction of BCM claims on the government. The planned move toward more active liquidity management and the envisaged development of a measure of core inflation will also help.

15. The program targets a non-oil primary deficit of about 6 percent of non-oil GDP through the stabilization of revenue at a comfortable level of about 23 percent of non-oil GDP. The overall balance is projected to deteriorate temporarily before oil production starts in the two new oil fields. Reflecting less favorable oil revenue projections, the oil fund contribution to the financing of the budget will gradually decline from UM 49 billion in 2006 to UM 22 billion in 2009.⁸ Outside the oil sector, the program targets a slight increase in the tax-to-GDP ratio to offset the comparatively less buoyant performance of nontax revenues (mostly reflecting the fixed EU fishing compensation). Revenue efforts will aim at broadening the tax base, in particular through the gradual elimination of VAT exemptions, and improving tax collection through tax administration reforms (MEFP, paragraphs 30–31). These efforts should easily offset the low tax potential of the emergent mining sector and the short-term negative impact of the envisaged reform of the presumptive taxes on imports and public procurements.

16. The program foresees less ambitious spending plans than the ones included in the PRSP and in the Medium-Term Budget Framework, while preserving the objective of increasing investment and poverty reduction expenditures. So as to leave sufficient room for these outlays, the authorities will aim at gradually reducing current spending as a percent of non-oil GDP, through civil service streamlining (MEFP, paragraph 36), savings from strengthened procurement and spending control measures (MEFP, paragraph 37), and a sizeable reduction in subsidies to key public enterprises. The latter will be achieved by tariff adjustments and improved performance monitoring (MEFP, paragraph 40). Substantial increases in budgetary allocations to investment and efforts to improve the absorptive capacities of line ministries are expected to bring capital spending slightly above 10 percent of non-oil GDP from 2007. In line with the PRSP, priority will be given to infrastructure projects that may have a significant impact on private sector growth and poverty reduction projects. Using in part the MDRI savings, poverty reducing current and capital expenditures are projected to increase annually by an average of 16 percent in real terms in 2006–09.

⁸ The program expects to keep about \$60 million (the projected end-2006 level) in the FNRH over the program period. This buffer would enable the government to maintain its spending plans for one year in case oil prices decline below their projected levels by up to \$15 per barrel.

17. **Underpinning the macroeconomic framework, the PRSP sets out an extensive structural reform agenda aimed at promoting private sector-led growth.** In the proposed PRGF-supported program, particular emphasis is given to public sector and financial sector reforms, with transparency and good governance as a cross-cutting theme. The structural agenda is significantly frontloaded, including through the finalization of several legislative texts in these areas during the first program year. In particular, the adoption of the law on oil revenue management and the publication of audited reports of the FNRH (together with the Extractive Industry Transparency Initiative (EITI) commitments) will be a centerpiece of the efforts to foster transparency in oil-related matters and public finances (MEFP, paragraph 32). With the support of the World Bank and other development partners, the authorities will continue to modernize public administrations and reform the civil service, which should contribute to capacity building and improved governance. The authorities also intend to improve the management and control of public enterprises through the upgrade of performance standards and regular tariff adjustments to maintain a balanced operational budget. Based on the latest FSAP recommendations, the authorities will undertake a set of measures in the financial sector aimed at strengthening the legislative framework, enhancing competitiveness, and improving access to financial services. The success of the financial sector reforms hinges on the introduction of central bank-managed foreign exchange auctions by end-2006, to be followed by the development of an interbank foreign exchange market (MEFP, paragraphs 16–17).

18. **Uncertainties on oil revenue and implementation of the reform agenda under an unprecedented political handover are the main risks to this medium-term outlook.** The program objectives would be negatively affected by a further scaling down of oil production projections.⁹ In the annexed Debt Sustainability Analysis (DSA), the staff has developed a low-case scenario, which assumes that the operator Woodside would not develop the two other offshore fields in which significant quantities of petroleum were discovered. This scenario indicates that if the non-oil deficit stays the same, Mauritania's debt will become rapidly unsustainable; as stated in the MEFP (paragraph 47), however, the authorities stand ready to implement the fiscal adjustment that would be needed in this case. Delays in implementing public sector reforms would affect the expected positive impact of key public investment programs on the development of activity outside the oil sector, in particular agriculture and tourism. Tax and tariff measures and financial sector reforms are also key conditions to unleash the private sector's growth potential.

⁹ Prospects for new oil discoveries are reasonably good. With world prices on a rising trend, oil and gas exploration activities have peaked over the last few years. As many as 10 production sharing contracts have been approved by the transition government, in addition to the 19 contracts signed before August 2005.

B. Economic and Financial Program for October 2006–September 2007

Fiscal policy and reforms

19. **Fiscal policy during the first program year will aim at consolidating the government's financial position while leaving room for an increase in poverty reducing expenditures.**

- For 2006, the authorities plan to keep the deficit within the SBO projections. To that end, the additional spending needs identified since the SBO was enacted will be more than offset by savings on nonpriority operating expenditure and the channeling to next year, owing to expected normal delays, of some disbursements for ongoing investment projects. As a result, the non-oil primary government deficit including grants would not exceed 6.3 percent of non-oil GDP (or 1.6 percent of non-oil GDP including the proceeds from the sale of the telecom license).
- The non-oil primary deficit would decline slightly, to 6.2 percent of non-oil GDP in 2007, despite a significant drop in tax revenue, which stems primarily from the exhaustion of the recovery of tax arrears as a revenue source and from the limited revenue potential of the non-oil mineral sectors (MEFP, paragraphs 25–26). To achieve this deficit target, while making room for a significant increase in wages (a priority in their strategy to improve governance and fight corruption) and poverty reducing spending, the authorities chose to tighten the recurrent nonwage expenditure and to initiate far-reaching tariff and indirect taxation policy reforms (see Box 1). With regard to spending, the bulk of the adjustment would result from the reduction in subsidies and transfers (through the increase in utility tariffs and other measures to reduce the need for subsidies to public enterprises, see paragraph 26) and from the reduction in real terms of expenditures on goods and services (in addition to the reduction in the budgeted spending on the electoral process). Consistent with the authorities' pro-growth and pro-poor objectives, capital expenditure will increase from 9.4 percent of non-oil GDP in 2006 to 10.2 percent in 2007, with the additional expenditure directed mostly toward poverty reduction.

20. **Several steps toward the modernization of tax and customs administrations are expected to boost revenue collection.** These include computerization programs at the General Tax and Customs Directorates, a strengthened program of tax audits, notably in the nascent oil sector, and improved methods for the control of import values.

21. **Public finance management will continue to improve on a broad front, including oil revenue management and the strengthening and rationalization of spending procedures and controls** (MEFP, paragraphs 32–35). On oil revenue management, further reforms will be based on the FNRH model and EITI requirements. They will help the financial administration to strengthen the legal and institutional framework to deal

Box 1. Budget 2007: Tariff and Tax Policy Reforms

The budget for 2007 will initiate far-reaching tariff and indirect taxation policy reforms consistent with the Fund's technical assistance recommendations. The measures to be included in the budget aim primarily at reducing the distortions to investment decisions and resource allocations, and fostering private sector development, while having on the whole a positive impact on revenue. They comprise:

- The adoption of a simplified and more transparent external tariff schedule. This new four-rate schedule is inspired largely by the schedule of the West African Economic and Monetary Union: 5 percent for raw material and capital goods; 13 percent for intermediate goods; and 20 percent for consumption goods. The fourth category (with a tariff rate of 0 percent) will be restricted to imports of essential goods that represent a critical component of the poor's consumption basket, such as medicines. The schedule includes a short list of exceptions from the proposed classification (including rice, sugar, some textiles, tobacco, and some milk products), which is to be gradually eliminated over the program period. In the case of rice, this elimination implies drastically reduced protection for domestic production, which will need to be addressed by reorienting the Senegal Valley's irrigated agriculture toward more profitable products (MEFP, paragraph 26). The adoption of the new tariff is expected to generate about UM 3.5 billion in additional revenue in 2007.
- The introduction of a 7.5 percent excise tax on sugar, which is expected to generate UM 2.5 billion in additional revenue in 2007. The generalization of the statistical tax to all external trade flows (apart from oil and mining exports) and the reduction in the rate to 1 percent (from 3 percent currently). This measure, which will contribute to improving the transparency of external trade taxation, implies a revenue loss of UM 2.5 billion in 2007.
- The reduction of the minimum presumptive tax on imports and public procurement contracts (IMF) from 4 percent to 3.5 percent. This reduction is a first step toward its eventual elimination and replacement by a system of reimbursable provisions for corporate profit taxes. This measure, which should stimulate corporate tax collection efforts, is expected to reduce IMF receipts by UM 1.5 billion in 2007.
- The elimination of the VAT exemptions for a number of goods (meats and dairy products), which is expected to generate UM 0.4 billion in additional revenue in 2007.

Overall, these measures are expected to generate about UM 2.4 billion in net additional revenue, close to 0.4 percent of non-oil GDP.

transparently and efficiently with oil revenues, with a view to transforming them into an effective vehicle for poverty reduction. To this effect, the authorities are preparing with the Fund's technical assistance an oil revenue management law, which will be submitted for parliamentary approval by end-August 2007. Public expenditure management reforms will

include the computerization of all stages of the budget execution process and its progressive deconcentration among line ministries, and the strengthening of budget execution oversight by the Audit Office, the State General Inspectorate (IGE), and the Finance General Inspectorate. The program also includes the application of the new procurement code with a view to strengthening the ex-ante controls of public expenditure.

22. Civil service reform, the fight against corruption, and steps toward decentralization are expected to be prepared during the first program year (MEFP, paragraphs 36–28). The authorities recognize that the civil service needs both strengthening and streamlining to meet the challenges of the PRSP. With technical assistance from the World Bank, the transition government will prepare by September 2007 a plan that is expected to help Mauritania build a competent and efficient civil service while progressively eliminating overstaffing. Measures to fight corruption (including the promulgation of a code of ethics for civil servants) have also been incorporated in the first program year¹⁰ (MEFP, paragraphs 38–40). In addition, the authorities are planning to discuss a set of institutional and capacity building measures in order to strengthen the role of the regions and districts in implementing locally designed poverty reduction strategies.

Monetary and exchange rate policies and reforms

23. In order to provide a solid basis for the targeted reduction in inflation, the monetary program is based on the conservative assumption that broad money demand will grow in line with non-oil GDP in 2007. Assuming there will be no significant deepening of financial intermediation in 2007, the program foresees a monetary base increase of 17.3 percent. Within these targets, the projected strengthening of the central bank's external position, partly offset by the planned reduction in bank financing to the government and public enterprises, should leave enough room for private sector credit expansion. Should inflationary pressures emerge, the central bank stands ready to tighten the monetary stance as needed, including through changes in intervention rates (MEFP, paragraph 21). Steps will also be taken to improve banks' liquidity management (MEFP, paragraph 22), through the conduct of weekly liquidity forecasts, the launching of a new instrument, and the restructuring and securitization of a portion of the government debt owed to the central bank.

24. The launch of foreign exchange auctions by end-2006 will provide a transparent and market-based mechanism for the central bank's move to a more flexible exchange rate policy. To prepare for the auctions, the central bank has eliminated the remaining foreign exchange rationing—which contravened Mauritania's obligations under Article VIII, Section 2 (a), of the Fund's Articles of Agreement—on October 27, 2006, and plans to

¹⁰ The authorities have requested World Bank assistance in drafting an anti-corruption law before the end of the transition period.

complete the phasing out of the surrender requirements for fish export proceeds before the launching of the new foreign exchange market. The BCM will conduct foreign exchange auctions with a view to limiting its interventions to the smoothing of day-to-day fluctuations.

25. **As part of the modernization of Mauritania's financial sector, an extensive overhaul of the relevant legislative framework will be completed upfront** (Box 2). The authorities will strengthen the sector's legislative framework by the cabinet's adoption of new ordinances on banking, the central bank, and microfinance before end-2006. Bank supervision will be strengthened through external audits of their financial statements (MEFP, paragraph 39) and enhanced onsite inspections. The adoption of tighter provisioning and higher minimum capital requirements should encourage bank mergers; at the same time, the authorities are facilitating the entry of foreign banks into the market, which should enhance competition in the financial sector.¹¹ The authorities are also planning steps to modernize their payments system, including through the launching of an interbank electronic payment card in early 2007.

Public enterprise reforms

26. **A major objective of the program is the elimination and prevention of further losses of public enterprises.** The planned settlement of government arrears to public enterprises by end-2006 and the semiannual adjustments in tariffs of electricity and water will provide the basis for maintaining a balanced operational budget for SOMELEC and SNDE, the relevant enterprises. These actions will be completed by enhanced management monitoring of these two enterprises as well as SMH, the newly established national hydrocarbon company. To avoid the possible accumulation of new quasi-fiscal losses in 2007, progress will also be needed on a less costly subsidization scheme for gas bottles,¹² on the sale or liquidation of Air Mauritania, and on the clarification of the SONIMEX mandate.

C. External Sector Outlook and Policies

27. **Mauritania's external position is expected to strengthen moderately over the program period** (Table 8). While the oil sector's net inflows are expected to decrease and the overall fishing receipts are projected to grow only moderately during the program period, the current account would benefit in the short term from the continued strength of Mauritania's iron ore exports along with the beginning of operations at Akjoujt (copper and

¹¹ Two new international banks entered the market in 2006.

¹² The program establishes a cap in 2007 on the total amount of subsidies to butane gas bottles and steps toward a better targeting of these subsidies on social and environmental grounds (MEFP, paragraph 40).

Box 2. Financial Sector Reforms

Following the FSAP mission recommendations, the authorities intend to implement several key reform measures in the financial sector.

- **Stronger legislative framework and better access to banking services:** Adopting a new central bank law, which will give the BCM more autonomy and contribute to enhancing governance; adopting a new banking law, which will establish a separation between bank managers and owners and raise the minimum capital of banks; and adopting a law on microfinance to enhance supervision of the sector and enforce adequate prudential requirements.
- **Enhanced transparency:** Implementing more transparent accounting practices in the financial sector and producing more credible financial statements, including through the standardization of banking data and the establishment of centralized databases.
- **Capacity building:** Strengthening the capacities of the different institutions in charge of the supervision of financial institutions; improving bank management; enforcing the newly adopted law on the payments system; and resorting to technical assistance programs.
- **Financial market development:** Deepening the money market by introducing a new liquidity management instrument (BCM certificates of deposit); encouraging the development of an interbank market as well as a secondary market for government securities; and launching the foreign exchange market.
- **Better regulation:** Ensuring the strict application of prudential norms in the banking system; strengthening on-site supervision of banks; improving the commercial banks' internal controls and lending policies, including introducing strict limits to related party lending; and implementing the AML/CFT regulations.

gold) and Taziast (gold). From 2008, the projected decline in the world prices of these commodities will reduce their positive contribution to the balance of payments. Official reserves are projected to reach about three months of import cover at end-2007 and to remain at that level subsequently, ensuring a sufficient buffer for the smooth functioning of the liberalized foreign exchange market.

28. **Prospects for debt sustainability have improved markedly on account of MDRI debt relief and strong projected growth but remain clouded by the unresolved issue of bilateral arrears with two non-Paris Club creditors.** As detailed in the attached DSA, Mauritania's debt sustainability is predicated on the resolution of the considerable stock of bilateral arrears vis-à-vis Kuwait, and, to a lesser extent, Libya, both of which were expected to be covered under the enhanced HIPC initiative after Mauritania reached the HIPC

completion point in 2002.¹³ Even assuming a relief operation along the lines of the country's most recent Paris Club agreement, Mauritania would remain vulnerable to adverse shocks, notably the risk of slower-than-projected export growth.

29. **The authorities are committed to a prudent debt strategy and are strengthening their debt management capacity.** Work on a national debt strategy has begun with the recent preparation of a detailed DSA with support from Debt Relief International. The authorities recognize the need to tackle the protracted issue of bilateral arrears and took steps in that direction.¹⁴ Improvements in debt management will also involve better information sharing and cooperation regarding new loans between the different national actors, notably the ministry of finance and the ministry of economic affairs and development. As part of this prudent debt strategy, the authorities intend to rule out borrowing on nonconcessional terms (MEFP, paragraph 45).¹⁵

IV. FINANCING, ACCESS, AND PHASING

30. **Proposed access amounts to SDR 16.1 million (25 percent of quota) over the three-year period covered by the new PRGF arrangement.** The proposed access is consistent with the expected average access for sixth-time users, and the substantial although uncertain balance of payments needs during the program period. The strength of the program resides in its ambitious and government-owned structural reform agenda. The proposed

¹³ Mauritania's outstanding arrears (about \$1.3 billion at end-2005) are due mostly to the bilateral non-Paris Club creditors (Algeria, Iraq, Kuwait, Libya, the United Arab Emirates (UAE)) that have not yet provided irrevocable HIPC relief. The authorities continue their efforts to reach with these creditors debt relief agreements on similar terms to those obtained from the Paris Club after Mauritania reached the HIPC completion point in 2002. Arrears to Kuwait (close to \$1 billion at end-2005) and to Libya (\$68 million) were excluded from HIPC relief calculations at the decision point in 1998, but the Mauritanian authorities have received since then notification of debt from these two creditors. Debts to Algeria (\$93 million at end-2005), Iraq (\$70 million), and the UAE (\$12 million) were included in HIPC relief calculations at the decision point. As regards debt to a multilateral creditor, the Organization of Arab Petroleum Exporting Countries (\$7 million), the authorities discussed with the agent managing the loans, the Arab Fund for Economic and Social Development the status of these claims. This loan was also excluded from HIPC relief calculations. Since then, no request of payment of debt service was received from the creditor. With respect to arrears on rescheduled debt to China (\$23.6 million), staff has been informed that the Chinese authorities have decided to forgive all claims in arrears.

¹⁴ The most recent (inconclusive) meetings took place with Algeria in March 2006, Kuwait in April 2005, Libya in October 2006, and the UAE in April 2005. There has not been any contact with the Iraqi authorities in recent years.

¹⁵ A last disbursement of \$8 million was made in early October 2006 under a short-term nonconcessional facility of \$40 million that was granted by the Islamic Development Bank in 2006 to strengthen official reserves before the launching of the foreign exchange market.

frontloading of the disbursements is justified by the envisaged acceleration of reforms during the first program year, including the critical liberalization of the foreign exchange market and the tariff and financial sector reforms. These reforms need to be supported from the onset of the program by a rapid accumulation of official reserves. Disbursements in seven tranches will amount to SDR 8.38 million in the first year against SDR 3.86 million in the second and third years (Table 9). Mauritania is expected to be able to settle its obligations with the Fund on a timely basis (Table 10).

31. **The first program year is fully financed.** Implementation of the program of economic reforms is expected to allow two disbursements of balance-of-payments support from the Arab Monetary Fund in 2006 and 2007. Continued improvement in performance would also increase multilateral donors' aid allocations to Mauritania, which had been severely reduced in recent years, including assistance from the World Bank and the African Development Bank. It is expected that this additional support would meet the projected remaining financing gap of \$77 million over 2008–09 (Table 11).

V. PROGRAM CONDITIONALITY, MONITORING, AND DATA ISSUES

32. **The program's quantitative performance criteria and benchmarks will be based on the specifications for the quantitative indicators that were adopted in the SMP (IMF Country Report No 06/255).** The monitoring of fiscal performance will be based on the non-oil primary balance, excluding grants and foreign-financed spending. Structural conditionality is limited to measures that are critical for the realization of program objectives (Box 3). The Board consideration of the authorities' request for a PRGF arrangement is subject to one prior action: the government adoption of a 2007 budget ordinance that conforms with the understandings reflected in the MEFP (paragraphs 26–29), including the customs tariff and indirect tax reform.

33. **Performance under the program will be monitored through semi-annual reviews.** To synchronize the program with the budget year and to ease program implementation and monitoring at the time of the political handover to the legitimately elected authorities, scheduled for May 2007, the first and second reviews will be based on end-December 2006 and end-June 2007 quantitative performance criteria, respectively. The quantitative performance criteria for end-June 2007 and structural performance criteria applicable to the second review are expected to be set at the time of the first review.

34. **Mauritania's statistical information is adequate for program monitoring, although weaknesses remain in national accounts and balance of payments data.** The accuracy of economic and financial data has improved dramatically with the recent comprehensive data revisions and the SMP steps to improve the transparency and consistency of central bank and public finance statistics. In addition, since July 2006, the authorities have released detailed information on oil production and revenue on a monthly

Box 3. Structural Conditionality

The program envisages a set of structural performance criteria (PC) and benchmarks (SB) that are of critical importance for the realization of the program objectives.

- **Foreign exchange reform:** Elimination of the partial surrender requirements on fish export proceeds (PC).
- **Banking and financial sector reforms:** Adoption of ordinances on banking law (PC) and the central bank law (PC); launching a new money market instrument (SB); and timely publication of the audit of the 2006 BCM financial statements (SB).
- **Public enterprise reform:** Semi-annual adjustments of water and electricity tariffs based on a balanced operational budget (SB).
- **Oil management:** Submission to parliament of a draft law on the transparent and optimal management of oil resources (SB).
- **Fiscal transparency:** Monthly reporting of the administrative budget execution (credit allocation, engagements, and payment orders), based on the computerization of spending procedures (SB).

basis. With technical assistance from the Fund, the program targets a more timely production of national accounts data and improved balance of payments and public sector statistics (MEFP, paragraph 41). Further steps are also envisaged to monitor progress toward achieving the PRSP objectives, in the context of a broad-based action plan. Credibility of the published data will be strengthened by the publication of the audit reports of the financial statements of the central bank and of the FNRH.

VI. SAFEGUARDS

35. **The authorities are committed to making progress in implementing staff's earlier safeguards recommendations**, including preparation of the 2006 financial statements in accordance with International Financial Reporting Standards (IFRS). In conjunction with the anticipated PRGF arrangement, the 2004 safeguards assessment is being updated. Staff's preliminary findings confirm that progress has been made in the areas of accounting and transparency, but that weaknesses remain in the BCM's controls framework. Staff will continue to monitor closely the BCM's safeguards framework to ensure that remaining vulnerabilities, external audit findings, and the implementation of IFRS are adequately addressed.

VII. STAFF APPRAISAL

36. **The transition authorities have been successful in putting Mauritania back on track to reap the benefits of the recent oil discovery and MDRI debt relief.** Satisfactory implementation of the SMP during the first half of 2006 has established a good track record of sound macroeconomic policies and reform implementation. The establishment of an offshore oil fund in line with best international practices has been a key element to ensure that the new oil resources will be used optimally. These reforms have gained the full support of the international community and have formed the basis for granting debt relief under the MDRI from the Fund, the World Bank, and the African Development Bank. Overall, fiscal and monetary policies have kept a prudent course and reforms have continued since the end of the SMP.

37. **The authorities have prepared a new strategy that can generate substantial growth and enhance poverty reduction, even if the government oil revenue projections on which it was based have since been revised downward.** As discussed in the JSAN, the PRSP builds on the progress already achieved on transparency and good governance and develops a program agenda that includes critical reforms in the foreign exchange, financial sector, and public finance management areas. Nonetheless, the PRSP poverty reduction goals appear very ambitious, especially in view of the recent downward revisions in the medium-term oil revenue prospects.

38. **The macroeconomic framework that underpins the medium-term economic program developed in the attached MEFP constitutes a realistic basis for implementing the new poverty reduction strategy.** The downward revision in government oil revenue prospects in the next three years has been accommodated by a scaling down of both current and capital spending, yet is expected to leave ample room for a substantial increase in priority investment projects and poverty reducing expenditures. Provided production starts at the new oil fields as projected, the envisaged fiscal stance will be consistent with further progress toward fiscal sustainability.

39. **The transparent management and optimal use of oil revenues will remain critical to the success of the program.** The establishment of the oil fund in 2006 has enabled the clear tracking of oil production and revenues, and laid the foundations for a sustainable use of these resources. The program provides for further institutional and legislative steps that will ensure an adequate consultation, decision, and monitoring process regarding the optimal use of oil revenues and good governance in the management of the national oil company. Such a framework should also offer safeguards against Dutch disease and help promote high non-oil growth, economic diversification, and employment.

40. **Further improvements in public expenditure management will be critical for the success of projects aimed at fostering private-sector led growth and making progress**

toward the MDGs. Despite the MDRI savings, total resources to achieve these goals remain limited, which calls for strengthened budget prioritization and planning, in particular to ensure that public investment projects yield high social returns and are appropriately distributed across regions and districts. Programmed steps toward better public spending execution and control should also help increase their efficiency. In addition, the civil service reform and anticorruption plans that will be developed during the first program year should be far reaching and implemented in a timely manner to complement the significant public sector wage increases in 2006–07. The staff also welcomes the authorities' commitment to strengthen the finances of the major public enterprises and periodically adjust public utility rates as needed to eliminate drains on public finances.

41. **The staff welcomes the move to a more flexible exchange rate policy and the liberalization of the foreign exchange market, including the elimination in October 2006 of the remaining exchange restrictions.** The new exchange rate policy will strengthen the authorities' capacity to deal with external shocks. To limit exchange-rate risks for the financial sector, it is important that the imminent legislative overhaul to strengthen commercial banks' management and supervision and enhance the autonomy of the central bank proceeds as scheduled. The latter change and the central bank's more active management of bank liquidity should also facilitate the achievement of the monetary program's targets. This is all the more important given that, with a more flexible exchange rate policy, the authorities' disinflation targets need to be anchored on the central bank's control of monetary aggregates.

42. **The program provides for a further consolidation of Mauritania's external position, but lower oil revenue prospects imply that further reliance on aid, including balance of payments support will continue to be needed during the course of the program.** At the same time, the authorities' prudent external debt management strategy, including their intention to resort only to concessional external financing, and the desirable completion of the ongoing negotiations with the remaining non-Paris Club creditors will be required to consolidate progress toward external debt sustainability. In the staff's view, developments in the debt's net present value should continue to be monitored closely.

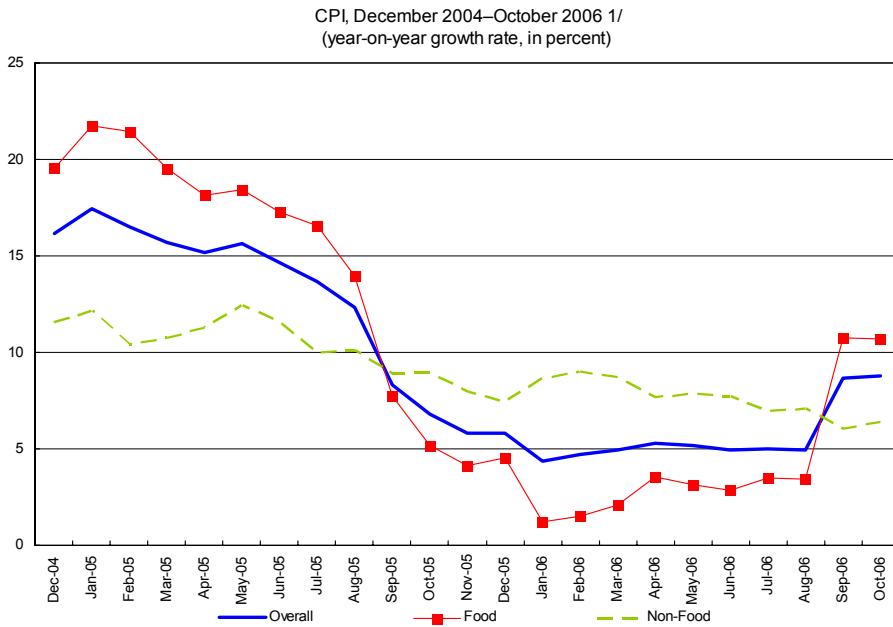
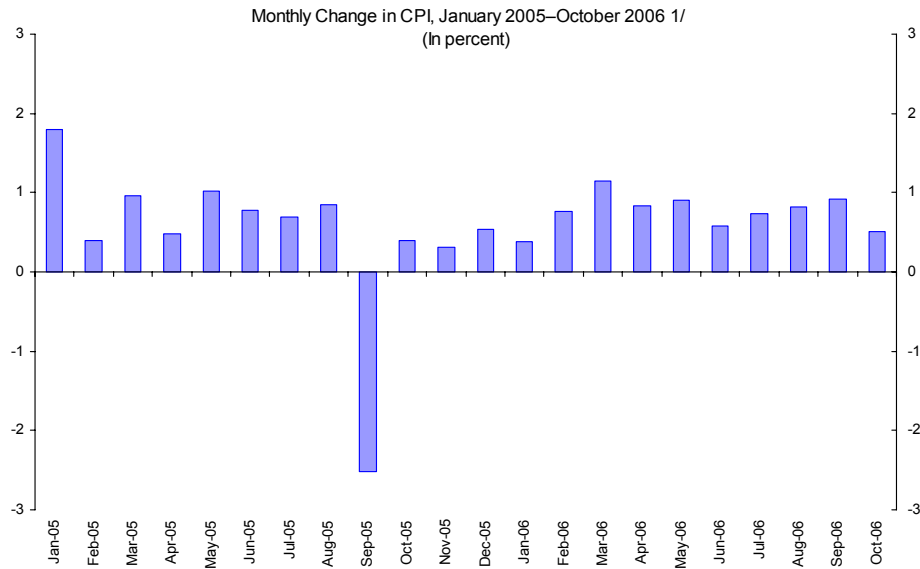
43. **Risks to the program stem mainly from the remaining uncertainties regarding oil revenues and possible delays in implementing the medium-term reform agenda.** To some extent, the oil account buffer and the foreign exchange market reforms would help absorb the short-term adverse external shocks that Mauritania is prone to, but sustainability considerations may require fiscal adjustment in 2008–09 in case the declining trend in oil production cannot be reversed, or if balance of payments support cannot be found to fill the projected financing gap for these two years. Delays in program implementation would jeopardize Mauritania's ambitious growth and poverty reduction goals. Absent a stable macroeconomic framework, transparent and efficient public finance management, and improved market-based access to foreign exchange and financial services, Mauritania's

substantial external resources (including oil and fish revenue, external assistance, and debt relief) would be of limited help for private sector development. By frontloading several key reforms in these areas, however, the program mitigates some of these risks.

44. **The program design adequately responds to the challenge of the present political transition.** Until the installation of the new government in May 2007, the first year of the program focuses on reasonable actions for which a broad consensus exists within civil society and among political parties, namely the consolidation of macroeconomic stability, the strengthening of the transparency and sound management of public resources, and financial sector reforms. In the meantime, the first program year will lay the groundwork for more politically sensitive reforms in the civil service and the fight against corruption and will facilitate the new authorities' decision making process.

45. In light of these considerations, the staff recommends approval of Mauritania's request for a three-year PRGF arrangement.

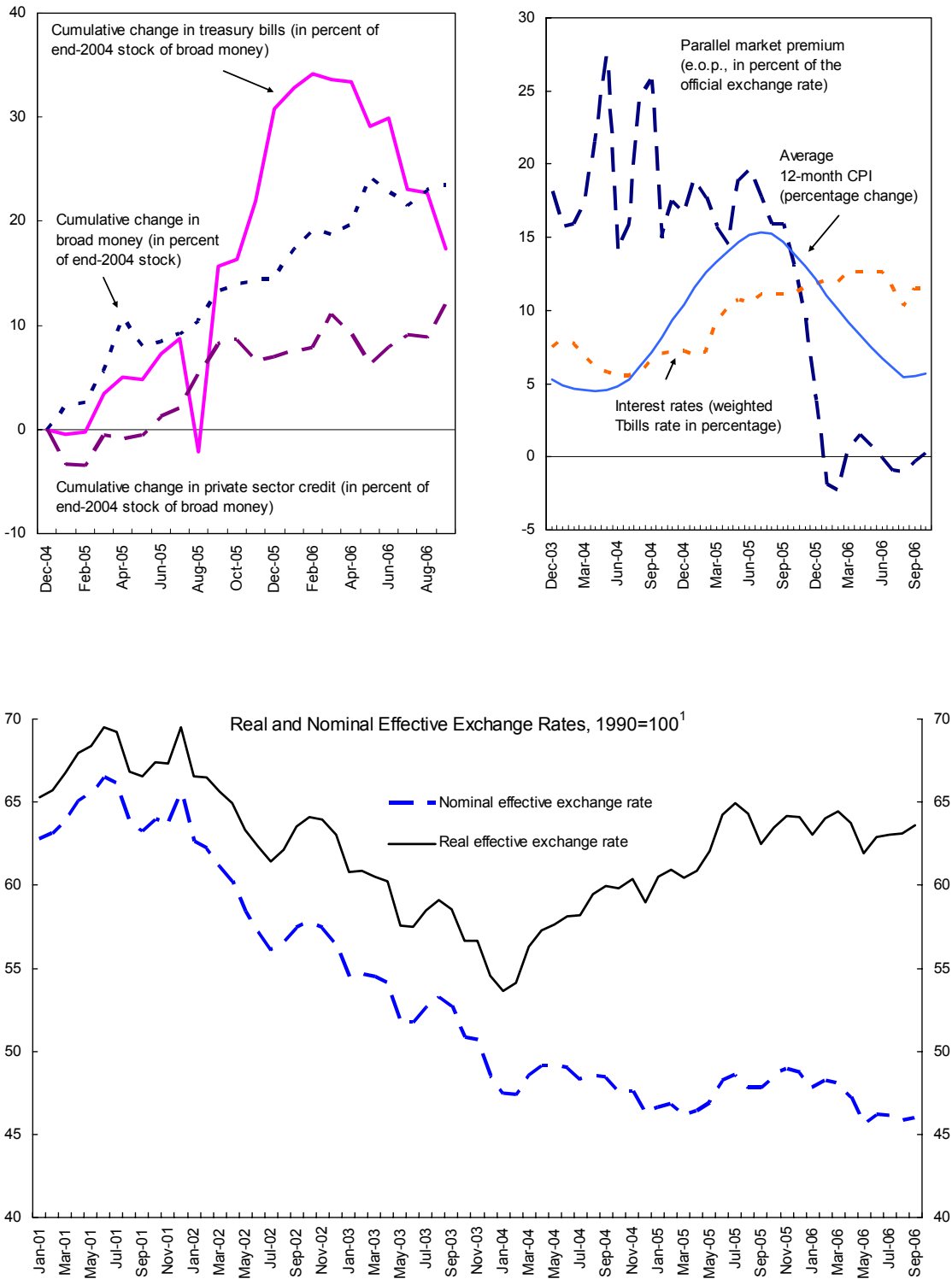
Figure 1. Mauritania: Price Developments



Sources: Mauritanian authorities; and Fund staff estimates.

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.

Figure 2. Mauritania: Monetary Developments and Exchange Rate Indices



Sources: Mauritanian authorities; and Fund staff estimates.

1/ September 2006: staff estimates.

Table 1. Mauritania: Quantitative Indicators for the Staff-Monitored Program for end-March and end-June 2006 1/

(Cumulative change from end-December 2005, unless otherwise indicated)

	End-December 2005		End-March 2006		End-June 2006	
	Original	Revised	Target	Adjusted Target	Target	Adjusted Target
Quantitative targets						
Net international reserves of the BCM (floor); in \$ million	-164.2	-162.5	-17.0	-11.1	0.9	45.8
Net domestic assets of the BCM (ceiling); in UM billion	107.4	106.9	7.2	5.6	7.2	-4.9
Balance of government non-oil operations (floor); in UM billion	...	...	-10.0	-10.0	-15.4	-12.4
Treasury float (ceiling); in UM billion	10.1	8.7	0.0	0.0	0.0	0.0
Medium- and long-term nonconcessional borrowing contracted or guaranteed by the government (continuous ceiling); in \$ million	...	...	0.0	0.0	0.0	0.0
Payments arrears on the official external debt (continuous ceiling); in \$ million	...	...	0.0	0.0	0.0	0.0
Reference projections for the adjustors (in \$ million)			Projection	Actual	Projection	Actual
Net external assistance						
Disbursement of foreign currency loans and grants (budgetary aid; excluding HIPC and project grants)			-0.8	-0.2	-9.4	36.7
Official external debt service (cash; including interest on foreign liabilities of the BCM)			4.1	4.2	4.1	4.2
Impact of any additional debt relief obtained after December 31, 2005			4.9	4.4	13.5	13.7
Transfers from the National Hydrocarbon Revenue Fund to the budget			0.0	0.0	0.0	46.2
Memorandum item: UM/\$ exchange rate (program)	268.6		4.8	10.1	58.5	57.3

Sources: Mauritanian authorities; and Fund staff estimates.

1/ For definitions, see the Technical Memorandum of Understanding dated March 14, 2006 (<http://www.imf.org/external/np/loi/2006/mrt/031406.pdf>).

Table 2. Mauritania: Structural Indicators for the Staff-Monitored Program, January–June 2006

Indicators	Date	Status
Transmission of the monthly TOFE to IMF staff with a lag of one month, based on the treasury balance and reconciled with the BCM accounts on a monthly basis; cumulative data from the start of the year.	End-March TOFE available at end-April 2006 1/	Done (through end-June)
Transmission to Fund staff of the preliminary report on the analysis of the revised economic data for 1992–2004.	End-April 2006	Done
Transmission to Fund staff of the final audit report on the BCM accounts for 2003 and 2004.	End-May 2006	Done

Sources: Mauritanian authorities; and Fund staff estimates

1/ Subsequent monthly reports will be submitted to Fund staff on a monthly basis.

Table 3. Mauritania: Selected Economic and Financial Indicators, 2001–07

	2001	2002	2003	2004	2005	2006	2007
		Revised			Prel.	Proj.	
(Percentage changes; unless otherwise indicated)							
National income and prices							
GDP at constant prices 1/	2.9	1.1	5.6	5.2	5.4	13.9	6.3
Non-oil GDP at constant prices	2.9	1.1	5.6	5.2	5.4	6.1	7.3
GDP deflator 1/	7.9	7.8	2.5	11.5	18.9	31.4	3.8
Non-oil GDP deflator	7.9	7.8	2.5	11.5	18.9	9.3	9.1
Consumer price index (period average)	7.7	5.4	5.3	10.4	12.1	6.4	8.7
Consumer price index (end of period)	4.1	8.4	2.9	16.1	5.8	9.8	7.0
External sector							
Exports of goods, f.o.b. (percentage change in U.S. dollars)	0.2	-6.6	-4.1	38.1	42.2	137.4	9.5
Of which: non-oil	0.2	-6.6	-4.1	38.1	42.2	24.9	29.5
Imports of goods, f.o.b. (percentage change in U.S. dollars)	2.4	-7.3	25.7	70.3	54.7	-12.5	2.6
Imports of goods, f.o.b. (percentage change in U.S. dollars) 2/	-7.0	-7.6	22.1	33.7	24.4	25.2	3.3
Official transfers (in percent of GDP)	6.9	5.1	6.9	4.1	5.4	3.5	2.5
Current account balance (in percent of GDP)	-11.7	3.0	-13.6	-34.6	-46.9	-3.1	-2.3
Current account balance (in percent of GDP) 2/	-6.7	7.6	-7.1	-11.9	-7.1	-8.9	-8.1
Overall balance (in percent of GDP)	-7.6	-2.8	-9.9	-7.3	-3.9	9.8	1.6
Official reserves							
Gross official reserves (end of period, in millions of U.S. dollars) 3/	40	74	32	39	70	174	228
In months of following year's imports of goods and services 4/	0.9	1.4	0.4	0.5	0.7	2.3	2.9
Money and credit							
Money and quasi-money	34.3	23.8	25.5	13.5	14.6	15.8	17.3
Currency in circulation	17.6	17.7	47.5	-3.4	14.8	15.8	17.3
(In percent of non-oil GDP)							
Consolidated government operations							
Revenue and grants	24.7	34.8	35.4	32.9	26.4	39.7	30.8
Revenue and grants (excluding oil)	24.7	34.8	35.4	32.9	26.4	28.4	25.0
Idem, excluding grants	20.7	30.4	30.7	29.7	24.4	26.2	23.1
Oil revenue 5/	...	...	...	...	...	11.3	5.7
Expenditure and net lending	35.0	37.6	47.2	37.7	33.5	37.5	33.2
Overall balance including grants	-10.3	-2.9	-11.8	-4.8	-7.0	2.2	-2.4
Overall non-oil balance excluding grants	-14.3	-7.2	-16.4	-8.0	-9.1	-11.3	-10.1
Overall non-oil balance including grants	-10.3	-2.9	-11.8	-4.8	-7.0	-9.1	-8.2
Memorandum items:							
Ouguiya/US\$ exchange rate (end of period) 6/	264.1	268.7	265.6	256.2	268.6	268.6	...
Exports, f.o.b. (in millions of U.S. dollars)	355	332	318	440	625	1,484	1,625
Imports, f.o.b. (in millions of U.S. dollars) 2/	415	383	468	625	778	974	1007
Nominal GDP (in billions of ouguiya)	287	312	338	397	497	744	821
Nominal non-oil GDP (in billions of ouguiya)	...	...	...	...	...	576	675
Nominal GDP (in millions of U.S. dollars)	1,122	1,150	1,285	1,495	1,871	2,770	3,057
Population (in millions)	2.57	2.63	2.69	2.76	2.82	2.89	2.96
GNP per capita (in U.S. dollars)	265	359	499	566	686	913	966
REER (12-month percentage change; end of period) 6/	4.5	-9.3	-13.4	8.1	8.7	2.0	...

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

1/ The large increase in the GDP deflator in 2006 (and the relatively low increase in real GDP for this year) reflect the authorities' choice of 1998 as the base year for the calculation of national accounts at constant prices. Oil prices were at a low in 1998.

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

3/ Excluding oil account.

4/ Excluding imports financed in FDI and aid.

5/ Including oil signature bonuses.

6/ In 2006: estimates through end-September.

Table 4. Mauritania: Central Government Operations, 2003–09 1/

(In billions of ouguiya, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009
		Revised			Projections		
Non-oil revenue and grants	119.7	130.4	131.3	163.7	168.9	175.6	185.3
Non-oil revenue	103.9	117.9	121.0	151.2	156.1	170.1	179.9
Tax revenue	44.9	59.2	76.0	92.4	91.0	99.4	107.7
<i>Of which: recovery of tax arrears</i>	...	...	1.3	8.2	0.0	0.0	0.0
Nontax revenue	59.0	58.7	45.0	58.9	65.1	70.7	72.2
<i>Of which: EU fishing compensation 2/</i>	25.1	29.2	27.4	28.0	28.7	28.8	28.9
SNIM dividend	...	...	...	8.1	8.7	8.1	7.8
Total grants	15.7	12.5	10.3	12.4	12.8	5.5	5.4
<i>Of which: multilateral HIPC assistance</i>	9.3	8.2	7.6	5.7	3.3	2.5	2.4
Expenditure and net lending	159.5	149.6	166.3	216.3	224.2	233.9	245.6
Current expenditure 3/	114.2	106.3	126.7	158.4	155.6	160.4	167.4
Compensation of employees	30.8	33.7	38.9	52.1	60.2	63.8	66.7
Goods and services	49.1	51.8	65.6	64.8	61.9	63.1	67.2
<i>Of which: electoral process</i>	...	...	...	7.3	3.6	0.0	0.0
Subsidies and transfers 4/	23.4	6.4	5.0	20.0	15.2	14.8	15.8
Interest	9.3	11.9	16.1	16.2	13.3	13.7	12.7
External	6.6	7.3	8.3	7.2	4.1	5.3	5.0
Domestic	2.6	4.7	7.8	8.9	9.2	8.5	7.7
Special accounts	1.7	2.4	1.1	5.4	5.0	5.0	5.0
Capital expenditure	44.0	43.0	36.6	54.1	68.6	73.5	78.2
Foreign-financed investment 5/	18.6	18.5	15.2	30.5	36.9	39.5	42.0
Domestically financed investment	25.4	24.6	21.4	23.6	31.7	34.0	36.2
Restructuring and net lending	1.4	0.2	2.9	3.8	0.0	0.0	0.0
Non-oil balance excluding grants	-55.6	-31.6	-45.2	-65.1	-68.1	-63.8	-65.7
Non-oil balance including grants	-39.8	-19.2	-34.9	-52.7	-55.3	-58.3	-60.3
Basic non-oil balance; program definition	...	...	...	-25.4	-26.2	-19.0	-18.7
Net revenue from oil	...	...	...	65.3	38.8	27.7	22.4
Overall balance excluding grants	-55.6	-31.6	-45.2	0.2	-29.3	-36.1	-43.3
Overall balance including grants	-39.8	-19.2	-34.9	12.6	-16.5	-30.6	-37.9
Financing	39.8	19.2	34.9	-12.6	16.5	22.1	25.8
Domestic financing (net)	25.0	-5.3	20.6	-23.5	-10.0	-12.6	-11.2
Banking system	20.5	-4.0	33.1	-22.6	-13.0	-12.6	-11.2
BCM 6/	18.7	-6.3	-6.3	-14.6	2.6	-5.5	-7.6
Commercial banks	1.8	2.2	39.3	-8.0	-15.5	-7.1	-3.6
Nonbanks	0.1	0.2	2.9	4.7	3.0	0.0	0.0
Privatization and other 7/	...	...	...	22.2	0.0	0.0	0.0
Domestic arrears	4.4	-1.5	-15.4	-27.7	0.0	0.0	0.0
External financing	14.0	13.6	11.1	11.6	26.5	34.8	37.0
Oil account (net)	...	...	...	-16.2	0.0	0.0	0.0
Net revenue from oil	...	...	...	-65.3	-38.8	-27.7	-22.4
Oil account contribution to the budget	...	...	...	49.1	38.8	27.7	22.4
Other (net)	14.0	13.6	11.1	27.8	26.5	34.8	37.0
Net borrowing	0.7	-0.1	-3.8	14.0	22.6	31.5	33.6
Exceptional financing 6/	13.3	13.6	14.9	13.7	3.9	3.3	3.4
Errors and omissions	0.7	10.9	3.3	-0.8	0.0	0.0	0.0
Financing gap	...	...	...	0.0	0.0	8.5	12.1

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

1/ Cash basis adjusted for extrabudgetary spending until 2004, payment order basis thereafter.

2/ Excludes disbursements made directly by EU fishing companies under the agreement.

3/ Reflecting the authorities' new classification, which is closer to GFS standards; estimates for 2003-2005.

4/ Including transfers to public entities outside central government.

5/ Starting with the 2006 projection column, including public investment from public enterprises financed through the government onlending of foreign assistance.

6/ MDR1 debt relief from the Fund is treated as exceptional financing and excluded from the BCM financing.

7/ Including telecom license proceeds equal to \$103 million.

Table 4. Mauritania: Central Government Operations, 2003–09 (concluded) 1/

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

	2003	2004	2005	2006	2007	2008	2009
	Revised			Projections			
Non-oil revenue and grants	35.4	32.9	26.4	28.4	25.0	24.3	24.1
Non-oil revenue	30.7	29.7	24.4	26.2	23.1	23.5	23.4
Tax revenue	13.3	14.9	15.3	16.0	13.5	13.7	14.0
<i>Of which: recovery of tax arrears</i>	...	...	0.3	1.4	0.0	0.0	0.0
Nontax revenue	17.5	14.8	9.1	10.2	9.6	9.8	9.4
<i>Of which: EU fishing compensation 2/</i>	7.4	7.4	5.5	4.9	4.2	4.0	3.8
SNIM dividend	...	...	...	1.4	1.3	1.1	1.0
Total grants	4.7	3.1	2.1	2.2	1.9	0.8	0.7
<i>Of which: multilateral HIPC assistance</i>	1.9	1.3	1.5	1.0	0.5	0.3	0.3
Expenditure and net lending	47.2	37.7	33.5	37.5	33.2	32.3	31.9
Current expenditure 3/	33.8	26.8	25.5	27.5	23.1	22.2	21.7
Compensation of employees	9.1	8.5	7.8	9.0	8.9	8.8	8.7
Goods and services	14.5	13.1	13.2	11.2	9.2	8.7	8.7
<i>Of which: electoral process</i>	...	...	...	1.3	0.5	0.0	0.0
Subsidies and transfers 4/	6.9	1.6	1.0	3.5	2.3	2.0	2.1
Interest	2.7	3.0	3.2	2.8	2.0	1.9	1.6
External	2.0	1.8	1.7	1.3	0.6	0.7	0.6
Domestic	0.8	1.2	1.6	1.6	1.4	1.2	1.0
Special accounts	0.5	0.6	0.2	0.9	0.7	0.7	0.6
Capital expenditure	13.0	10.9	7.4	9.4	10.2	10.2	10.2
Foreign-financed investment 5/	5.5	4.7	3.1	5.3	5.5	5.5	5.5
Domestically financed investment	7.5	6.2	4.3	4.1	4.7	4.7	4.7
Restructuring and net lending	0.4	0.0	0.6	0.7	0.0	0.0	0.0
Non-oil balance excluding grants	-16.4	-8.0	-9.1	-11.3	-10.1	-8.8	-8.5
Non-oil balance including grants	-11.8	-4.8	-7.0	-9.1	-8.2	-8.1	-7.8
Basic non-oil balance; program definition	...	...	...	-4.4	-3.9	-2.6	-2.4
Net revenue from oil	...	...	...	11.3	5.7	3.8	2.9
Overall balance excluding grants	-16.4	-8.0	-9.1	0.0	-4.3	-5.0	-5.6
Overall balance including grants	-11.8	-4.8	-7.0	2.2	-2.4	-4.2	-4.9
Financing	11.8	4.8	7.0	-2.2	2.4	3.1	3.4
Domestic financing (net)	7.4	-1.3	4.1	-4.1	-1.5	-1.7	-1.5
<i>Of which: bank financing</i>	6.1	-1.0	6.7	-3.9	-1.9	-1.7	-1.5
External financing	4.1	3.4	2.2	2.0	3.9	4.8	4.8
<i>Of which: oil account</i>	...	...	...	-2.8	0.0	0.0	0.0
Errors and omissions 6/	0.2	2.7	0.7	-0.1	0.0	0.0	0.0
Financing gap	...	...	...	...	...	1.2	1.6
Memorandum items:							
Non-oil primary balance including grants	-9.0	-1.8	-3.8	-6.3	-6.2	-6.2	-6.2
Total Revenue (in percent of non-oil GDP)	...	...	...	37.6	28.9	27.3	26.3
Oil revenue (millions of \$)	...	...	...	243.1	144.5	103.2	83.4
Oil account balance e.o.p. (millions of \$)	...	...	...	60.7	60.7	60.7	60.7
Total public debt e.o.p. 7/	...	247.3	210.4	135.8	116.7	112.1	109.9
<i>Of which: central government domestic debt</i>	...	43.8	42.7	27.0	21.6	18.4	15.8
(including payment arrears) 7/	...	...	...	...	...	...	...
Stock of Treasury bills (billions of UM)	...	...	55.4	52.1	39.5	32.4	28.8
<i>Of which: commercial banks</i>	...	...	52.3	44.3	28.8	21.6	18.1
Stock of (identified) domestic arrears (billions of UM) 8/	...	50.2	34.7	7.0	7.0	7.0	7.0
Treasury float (billions of UM) 9/	...	21.2	8.7	7.0	7.0	7.0	7.0
Idem, in months of nonwage, noninterest expenditure	...	...	1.0	0.7	0.7	0.7	0.6
(excluding foreign-financed investment)	...	...	...	...	...	...	...
Social expenditure (current and capital)	...	...	6.9	8.1	...	...	...
Poverty reducing expenditure 10/	...	...	...	9.2	9.5	11.1	13.0
Poverty reducing expenditure (In UM billion) 10/	...	...	...	52.8	64.1	80	100
MDRI savings (In UM billion)	...	...	...	3.1	5.9	5.4	5.6

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

1/ Cash basis adjusted for extrabudgetary spending until 2004, payment order basis thereafter.

2/ Excludes disbursements made directly by EU fishing companies under the agreement.

3/ Reflecting the authorities' reclassification which is closer to GFS standards; estimates for 2003–05.

4/ Including transfers to public entities outside central government.

5/ Starting with the 2006 projection column, including public investment from public enterprises financed through the government onlending of foreign assistance.

6/ A significant increase in errors and omissions in 2004 is probably related to arrears on extra-budgetary expenditure.

7/ The 2006 change in domestic debt includes a reduction in liabilities vis-à-vis the BCM of UM 13.0 billion (2.3 percent of non-oil GDP), reflecting MDRI relief from the Fund.

8/ Treasury "float" plus payment obligations, which have neither been budgeted nor paid for, that have been acknowledged by the state.

9/ Outstanding payment orders registered by the treasury.

10/ Based on the newly introduced functional classification.

Table 5. Mauritania: Monetary Program, 2003–07
(End period stocks, in billions of ouguiya; unless otherwise indicated)

	2003	2004	2005	2006 1/ Prog.	2007 1/ Prog.			
					Mar.	Jun.	Sep.	Dec.
Monetary survey								
Net foreign assets	-57.5	-68.5	-71.0	-8.2	-5.6	-0.1	30.6	13.7
BCM	-48.3	-47.0	-38.9	-0.7	3.6	8.6	38.4	26.7
Commercial banks	-9.1	-21.4	-32.1	-7.5	-9.2	-8.7	-7.8	-13.0
Net domestic assets	175.7	202.7	224.8	186.3	191.8	192.9	171.2	195.2
Domestic credit	198.9	264.0	303.1	274.2	278.3	279.3	257.7	281.7
Net credit to the government	82.0	129.9	159.7	124.2	122.5	116.4	94.5	111.3
Of which: central government	82.0	129.9	162.9	127.2	125.5	119.4	97.5	114.3
Claims	129.9	143.4	181.9	148.5	141.8	135.7	130.7	130.6
Deposits	-47.9	-13.6	-22.3	-24.3	-19.3	-19.3	-36.2	-19.3
Credit to the economy	116.9	134.1	143.5	150.0	155.8	163.0	163.2	170.4
Other items net	-23.2	-61.3	-78.4	-87.9	-86.5	-86.5	-86.5	-86.5
Broad Money	118.3	134.3	153.8	178.1	186.3	192.9	201.9	209.0
Currency in circulation	44.3	42.8	49.1	56.9	59.5	61.6	64.5	66.7
Demand deposits	55.8	68.0	79.2	91.7	95.9	99.3	103.9	107.6
Term deposits	18.1	23.5	25.5	29.6	30.9	32.0	33.5	34.7
Monetary authorities								
Net foreign assets	-48.3	-47.0	-38.9	-0.7	3.6	8.7	38.4	26.8
Assets	8.4	10.0	18.9	46.6	50.3	54.7	75.8	61.3
Liabilities 2/	-56.7	-57.0	-57.7	-47.3	-46.7	-46.0	-37.4	-34.6
Net domestic assets	109.7	117.0	106.9	79.0	78.2	75.8	47.9	65.0
Net credit to the government 2/	76.5	122.2	112.6	85.2	90.0	87.6	70.7	87.8
Of which: treasury	76.5	122.2	115.9	88.2	93.0	90.6	73.7	90.8
Claims	124.3	135.3	134.6	109.1	108.9	106.5	106.5	106.7
Deposits	-47.8	-13.1	-22.0	-24.0	-19.0	-19.0	-35.9	-19.0
Claims on private sector	2.7	3.3	3.5	1.8	1.8	1.8	1.8	1.8
Claims on commercial banks	1.3	0.8	0.0	0.0	-7.0	-7.0	-18.0	-18.0
Of which: BCM bills	...	...	...	...	-7.0	-7.0	-18.0	-18.0
Other items net	29.2	-9.2	-9.2	-8.0	-6.6	-6.6	-6.6	-6.6
Reserve money	61.4	69.9	68.0	78.3	81.8	84.4	86.3	91.8
Currency in circulation	44.3	42.8	49.1	56.9	59.5	61.6	64.5	66.7
Reserves of banks	17.1	27.1	18.9	21.4	22.3	22.8	21.8	25.0
Commercial banks								
Net foreign assets	-9.1	-21.4	-32.1	-7.5	-9.2	-8.7	-7.8	-13.0
Assets	6.8	7.8	16.5	18.7	16.5	16.5	16.5	16.5
Liabilities	-16.0	-29.3	-48.6	-26.2	-25.7	-25.2	-24.3	-29.6
Net domestic assets	83.1	112.9	136.8	128.7	136.0	140.0	145.2	155.3
Domestic credit	119.7	138.6	187.0	187.3	186.6	190.0	185.3	192.2
Net credit to the government 2/	5.4	7.7	47.0	39.0	32.5	28.8	23.8	23.5
Claims	5.6	8.1	47.4	39.4	32.9	29.2	24.2	23.9
Of which: treasury bills	8.1	13.6	52.3	42.8	36.3	32.6	27.6	27.3
Deposits	-0.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Credit to the economy	114.2	130.9	140.0	148.2	154.0	161.2	161.4	168.6
Net claims on the BCM	15.8	26.4	18.9	21.4	29.3	29.8	39.8	43.0
Total Reserves	17.1	27.1	18.9	21.4	22.3	22.8	21.8	25.0
Credit from BCM	-1.3	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Of which: BCM bills	...	...	...	...	7.0	7.0	18.0	18.0
Other items net	-52.4	-52.0	-69.2	-79.9	-79.9	-79.9	-79.9	-79.9
Deposit liabilities to nonbank residents	74.0	91.5	104.7	121.3	126.8	131.3	137.4	142.2
Memorandum items:								
Currency/Deposits (in percent)	59.9	46.8	46.9	46.9	46.9	46.9	46.9	46.9
Broad money (in percent) 3/	25.5	13.5	14.6	15.8	4.6	8.3	13.3	17.3
Credit to the economy (in percent) 3/	21.9	14.7	7.0	4.5	3.9	8.6	8.8	13.6
Broad money/non-oil GDP (in percent)	33.6	33.4	30.9	30.9	27.6	28.6	29.9	31.0
Gross international reserves (in millions of U.S. dollars)	31.7	38.8	70.2	173.5	187.3	203.5	282.3	228.4
Net international reserves (in millions of U.S. dollars)	-197.7	-210.7	-162.5	-15.3	0.9	19.6	130.4	87.1
Net foreign assets of commercial banks (in millions of U.S. dollars)	-34.4	-83.6	-119.4	-27.9	-34.3	-32.3	-28.9	-48.6

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

1/ At program exchange rates.

2/ Starting in 2006, reflects MDRI debt relief from the Fund.

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

Table 6. Mauritania: Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	PRSP		MDGs
						2010	2015	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 7. Mauritania: Macroeconomic Framework, 2003–10

	2003	2004	2005	2006	2007	2008	2009	2010
	Revised		Prel.			Projection		
(Percentage changes)								
Economic growth and prices								
Real GDP	5.6	5.2	5.4	13.9	6.3	2.6	3.9	9.2
Non oil Real GDP	5.6	5.2	5.4	6.1	7.3	4.9	4.9	4.6
Implicit non-oil GDP deflator	2.5	11.5	18.9	9.3	9.1	6.0	4.5	4.0
Consumer price index (average)	5.3	10.4	12.1	6.4	8.7	6.0	4.5	4.0
Consumer price index (end-year)	2.9	16.1	5.8	9.8	7.0	5.0	4.0	4.0
(In percent of GDP)								
Investment and Savings								
Gross investment	28.1	47.7	36.5	23.2	23.4	29.5	37.5	32.5
Oil-related	7.4	25.3	17.7	9.0	8.2	13.1	20.5	16.2
Non-oil related investment	20.7	22.5	18.8	14.1	15.3	16.4	17.0	16.3
Government	8.8	8.1	5.1	5.1	6.3	6.7	6.9	6.2
Nongovernment	11.9	14.4	13.7	9.1	9.0	9.7	10.1	10.1
Gross savings	14.5	13.1	-10.4	20.1	21.2	15.8	13.2	18.4
Government	0.4	5.2	-1.1	7.5	4.3	3.0	2.5	4.4
Nongovernment	14.1	7.9	-9.3	12.5	16.9	12.8	10.8	14.0
Current account (including official transfers and oil)	-13.6	-34.6	-46.9	-3.1	-2.3	-13.7	-24.3	-14.1
Balance of goods and services	-28.5	-46.3	-58.9	-4.1	-0.4	-13.3	-25.0	-12.7
Exports	28.2	32.9	37.7	56.8	56.7	50.2	45.7	50.8
Imports 1/	56.7	79.2	96.6	60.9	57.1	63.4	70.7	63.5
Net income 2/	4.5	4.4	3.5	-4.7	-6.4	-4.8	-3.4	-4.7
Net transfers	10.4	7.3	8.6	5.7	4.5	4.4	4.1	3.3
(In percent of non-oil GDP)								
Consolidated government operations								
Revenue and grants 3/	35.4	32.9	26.4	39.7	30.8	28.1	27.0	29.3
Non-oil revenue	35.4	32.9	26.4	28.4	25.0	24.3	24.1	23.8
Idem, excluding grants	30.7	29.7	24.4	26.2	23.1	23.5	23.4	23.2
Of which : tax revenue	13.3	14.9	15.3	16.0	13.5	13.7	14.0	14.2
Expenditure and net lending	47.2	37.7	33.5	37.5	33.2	32.3	31.9	31.5
Primary expenditure	44.4	34.7	30.2	34.7	31.2	30.4	30.3	30.1
Current	31.0	23.9	22.2	24.7	21.1	20.3	20.1	19.9
Capital 4/	13.4	10.9	8.0	10.0	10.2	10.2	10.2	10.2
Interest (gross)	2.7	3.0	3.2	2.8	2.0	1.9	1.6	1.4
Overall balance	-11.8	-4.8	-7.0	2.2	-2.4	-4.2	-4.9	-2.2
Non-oil balance excluding grants	-16.4	-8.0	-9.1	-11.3	-10.1	-8.8	-8.5	-8.2
Non-oil balance including grants	-11.8	-4.8	-7.0	-9.1	-8.2	-8.1	-7.8	-7.7
Non-oil primary balance (including grants)	-9.0	-1.8	-3.8	-6.3	-6.2	-6.2	-6.2	-6.2
Memorandum items:								
Nominal GDP (in billions of ouguiyas)	338.0	396.6	497.0	744.1	821.2	823.2	845.1	1,006.9
External public debt outstanding (in \$ million) 5/	2,813.6	3,040.3	3,137.4	2,334.6	2,391.1	2,524.1	2,695.2	2,825.6
Domestic debt (UM billion)	...	173.9	212.5	155.6	145.6	133.0	121.8	100.1
Oil account (\$ million)	...	...	...	60.7	60.7	60.7	60.7	60.7
Gross official reserves of the BCM (\$ million)	31.7	38.8	70.2	173.5	228.4	247.7	258.2	285.5
Idem, in months of imports	0.4	0.5	1.0	2.3	2.9	3.0	3.0	3.1
GNP per capita (\$)	498.6	565.7	685.5	912.9	966.4	961.7	979.3	1,123.8
Population (millions)	2.7	2.8	2.8	2.9	3.0	3.0	3.1	3.2
Price of oil (US\$/barrel): Chinguetti price	...	...	...	60.0	56.3	57.3	55.5	53.8
Price of oil (US\$/barrel): WEO baseline (APSP), Sept. 26, 2006	...	...	...	64.4	63.3	64.3	62.5	60.8
Annual production of oil (millions of barrels)	...	...	...	11.7	10.9	7.3	5.7	14.9

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

1/ The relatively high imports to GDP ratio reflects the development phase of oil exploration, which peaks in 2005 and declines thereafter.

2/ Includes fish license payments.

3/ Multilateral HIPC assistance is shown as grants.

4/ Starting in 2006, includes public investment with the use of foreign financing on-lent by the central government.

5/ Including arrears to non-Paris Club creditors under discussion.

Table 8. Mauritania: Balance of Payments, 2003-10

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

	2003	2004	2005	2006	2007	2008	2009	2010
	Revised			Projections				
Trade balance	-223.8	-483.8	-803.2	234.7	342.4	-21.7	-351.3	-6.3
Exports	318.2	439.6	625.1	1,484.3	1,624.5	1,426.9	1,325.6	1,789.3
<i>Of which: Iron ore</i>	163.9	230.2	389.4	490.3	528.9	491.1	474.0	416.5
Fish	131.5	172.6	172.7	188.5	197.5	203.0	208.9	215.0
Crude oil	0.0	0.0	0.0	703.5	613.1	417.9	316.4	800.9
Copper	0.0	0.0	0.0	42.5	148.5	108.0	86.4	75.6
Gold	0.0	0.0	0.0	9.8	86.2	136.0	143.7	151.4
Imports, fob	-542.1	-923.4	-1,428.3	-1,249.5	-1,282.1	-1,448.6	-1,676.9	-1,795.6
Petroleum products	-100.3	-145.0	-196.4	-244.1	-260.2	-275.5	-282.3	-285.9
Equipment for mining and extractive industries 1/	-182.7	-414.9	-797.6	-451.2	-427.1	-546.3	-741.5	-825.4
Other	-259.1	-363.4	-434.3	-554.2	-594.8	-626.7	-653.1	-684.4
Services and Income (net)	-84.8	-142.0	-234.6	-477.8	-549.4	-533.0	-539.8	-643.8
Services (net)	-142.5	-207.6	-299.2	-347.4	-353.7	-384.5	-434.2	-468.1
Credit	44.2	52.0	79.6	90.5	109.5	111.2	113.4	115.7
<i>Of which: fishing licenses</i>	27.5	22.1	31.6	37.5	56.1	56.3	56.8	57.4
Debit	-186.6	-259.6	-378.7	-437.9	-463.1	-495.8	-547.6	-583.8
<i>Of which: freight (including oil and mining)</i>	-73.9	-125.9	-194.8	-170.4	-174.8	-197.5	-228.7	-244.9
Income (net)	57.7	65.6	64.6	-130.4	-195.8	-148.5	-105.7	-175.7
Credit	94.6	104.5	108.6	118.5	130.0	131.3	132.6	133.7
<i>Of which: EU fishing compensation</i>	93.4	103.2	107.1	107.5	109.9	110.5	110.9	111.5
Capital income on oil account	0.0	0.0	0.0	0.5	2.8	2.8	2.8	2.8
Debit	-36.9	-38.9	-44.0	-248.9	-325.8	-279.8	-238.2	-309.4
<i>Of which: interest due on public debt</i>	-36.9	-38.9	-41.7	-23.4	-19.3	-22.1	-20.4	-19.7
Oil sector profits and salaries 2/	0.0	0.0	0.0	-197.1	-158.7	-109.4	-83.0	-154.5
Current transfers (net)	133.2	108.7	161.0	157.7	138.1	133.5	128.0	122.7
Private unrequited transfers (net)	45.0	47.7	60.0	60.0	61.2	63.0	64.9	66.9
Official transfers	88.3	61.0	101.0	97.7	76.9	70.4	63.0	55.8
<i>Of which: multilateral HIPC assistance 3/</i>	35.2	30.9	28.7	21.5	12.3	9.3	9.0	6.8
Current account balance	-175.3	-517.1	-876.8	-85.4	-68.9	-421.3	-763.1	-527.4
Capital and financial account	140.7	427.1	763.5	258.2	118.8	396.3	693.6	525.1
Capital account	0.0	15.5	0.0	1,107.2	0.0	0.0	0.0	0.0
<i>Of which: MDRI relief 4/</i>	...	...	...	897.0	0.0	0.0	0.0	0.0
Other (oil signature bonuses, license sales)	...	...	...	210.2	0.0	0.0	0.0	0.0
Financial account	140.7	411.6	763.5	-849.0	118.8	396.3	693.6	525.1
Direct investment (net)	101.9	391.6	814.1	57.0	33.6	279.5	567.4	371.6
<i>Of which: oil exploration (net) 2/</i>	95.3	362.0	731.1	-21.8	40.1	280.9	563.9	296.1
Official medium- and long-term loans	1.7	19.9	-28.0	-752.2	103.7	116.8	126.2	135.5
Disbursements	86.9	95.2	52.6	141.9	141.1	150.2	158.9	167.6
Amortization 4/	-85.2	-75.3	-80.6	-894.1	-37.4	-33.4	-32.7	-32.1
Other financial flows	37.1	0.1	-22.5	-153.8	-18.5	0.0	0.0	18.0
<i>Of which: change in private external arrears</i>	0.0	0.0	0.0	-90.5	0.0	0.0	0.0	0.0
Errors and omissions	-92.4	-19.2	39.4	98.8	0.0	0.0	0.0	0.0
Overall balance	-127.0	-109.2	-73.8	271.6	49.9	-25.0	-69.5	-2.3
Financing	127.0	109.2	73.8	-271.6	-49.9	25.0	69.5	2.3
Net foreign assets	61.1	50.9	10.7	-303.7	-81.6	-24.5	5.9	-10.2
Central bank (net)	46.5	1.7	-29.4	-151.4	-102.3	-36.8	-12.7	-29.2
Assets	42.2	-7.2	-33.0	-106.4	-54.9	-19.2	-10.5	-27.3
Liabilities 4/	4.3	8.8	3.6	-45.1	-47.4	-17.6	-2.2	-1.9
Commercial banks (net)	14.6	49.2	40.1	-91.5	20.7	12.3	18.7	19.0
Oil account flow	0.0	0.0	0.0	-60.7	0.0	0.0	0.0	0.0
Exceptional financing	65.9	58.3	63.1	14.0	14.4	12.2	12.6	12.5
Financing gap (shortfall +) 4/	0.0	0.0	0.0	18.1	17.3	37.3	51.0	0.0
<i>Of which: IMF (Prospective PRGF arrangement)</i>	...	...	0.0	6.6	5.7	5.8	5.8	0.0
Arab Monetary Fund	...	...	0.0	11.5	11.6	0.0	0.0	0.0
Unidentified	...	...	...	0.0	0.0	31.5	45.2	0.0
Memorandum items:								
Current account balance (in percent of annual GDP)	-13.6	-34.6	-46.9	-3.1	-2.3	-13.7	-24.3	-14.1
Idem, excluding oil and other mining (except SNIM)	-7.1	-11.9	-7.1	-8.9	-8.1	-10.4	-11.4	-12.4
Gross official reserves	31.7	38.8	70.2	173.5	228.4	247.6	258.2	285.5
In months of imports 5/	0.7	0.6	1.0	2.3	2.9	3.0	3.0	3.1
Oil account	0.0	0.0	0.0	60.7	60.7	60.7	60.7	60.7
Net BOP impact of oil operations	10.6	38.9	49.3	265.6	169.7	128.9	109.1	193.5
PPG external debt (in percent of annual GDP) 6/	218.9	203.4	167.7	84.3	78.2	82.4	85.7	75.4
Debt service after debt relief (in percent of exports of goods and services)	11.0	8.7	6.3	4.8	4.5	3.4	2.3	1.8

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

1/ Figures based on staff estimates and projections, for lack of data provision from the respective FDI companies.

2/ Oil-related outflows comprise profit transfers and negative FDI, the latter capturing the amortization of investment (cost oil) in line with the March 2006 agreement between Mauritania and the foreign oil operator.

3/ Excluding HIPC grants on debt service that has fallen subject to MDRI relief.

4/ MDRI debt relief is treated as a one-time stock operation and includes debt relief from the IMF (\$48.5 million), IDA (\$607.3 million) and AfDF (\$241.3 million). Offsetting positions are shown in the amortization of official medium- and long-term loans (IDA and AfDF) and the change in liabilities of the central bank (IMF).

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

6/ Including arrears to non-Paris Club creditors under discussion.

Table 9. Mauritania: Reviews and Disbursements Under the Proposed PRGF Arrangement, 2006–09

Date	Action/Status	Disbursement	In percent of quota 1/
December 2006	Board approval of a PRGF arrangement	SDR 4.52 million	7.0
April 2007	Completed first review based on end-December 2006 performance criteria	SDR 1.93 million	3.0
October 2007	Completed second review based on end-June 2007 performance criteria	SDR 1.93 million	3.0
April 2008	Completed third review based on end-December 2007 performance criteria	SDR 1.93 million	3.0
October 2008	Completed fourth review based on end-June 2008 performance criteria	SDR 1.93 million	3.0
April 2009	Completed fifth review based on end-December 2008 performance criteria	SDR 1.93 million	3.0
October 2009	Completed sixth review based on end-June 2009 performance criteria	SDR 1.93 million	3.0
Total		SDR 16.1 million	25.0

1/ Mauritania's quota is SDR 64.4 million.

Table 10. Mauritania: Fund Position During the Period of the PRGF Arrangement, 2006–09

	2006			2007				2008	2009
	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	Projections			Projections				Projections	
	(In millions of SDR)								
Disbursements									
PRGF	0.0	0.0	4.52	0.0	1.93	0.0	1.93	3.86	3.86
Repayments/MDRI	47.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI	32.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4
PRGF	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
SDR charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4
Total Fund credit outstanding (e.o.p.)	0.0	0.0	4.5	4.5	6.5	6.5	8.4	12.2	16.1
PRGF	0.0	0.0	4.5	4.5	6.5	6.5	8.4	12.2	16.1
	(In percent of quota)								
Total Fund credit outstanding (e.o.p.)	0.0	0.0	7.0	7.0	10.0	10.0	13.0	19.0	25.0
PRGF disbursements	0.0	0.0	7.0	0.0	3.0	0.0	3.0	6.0	6.0
Repayments	73.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interests	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.6	0.6

Source: Fund staff projections.

Table 11. Mauritania: External Financing Requirements and Sources, 2004–09

(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009
	Revised			Projections		
Total Requirements	592	957	979	106	455	796
Current account deficit	517	877	85	69	421	763
Scheduled public debt amortization	75	81	894	37	33	33
Total Sources	592	957	979	106	423	751
Capital inflows	559	945	1186	129	424	743
FDI 1/	392	814	57	34	280	567
Disbursements from official creditors	95	53	142	141	150	159
Other flows 2/	72	79	987	-45	-5	16
Financing items	40	45	-39	32	18	18
IMF 3/	-18	-14	-65	6	6	6
Arab Monetary Fund	0	-4	11	12	0	0
World Bank (BOP support)	0	0	0	0	0	0
AfDB (BOP support)	0	0	0	0	0	0
Exceptional Financing	58	63	14	14	12	13
Change in oil account (- increase)	0	0	-61	0	0	0
Change in reserves (- increase)	-7	-33	-106	-55	-19	-11
Residual financing gap	0	0	0	0	32	45
Memorandum item:						
Overall balance	-109	-74	272	50	-25	-70

Source: Fund staff projections.

1/ Net of amortization of oil-related investments.

2/ Includes errors and omissions, and MDRI debt relief in 2006.

3/ Includes projected disbursements under the new PRGF arrangement.

Attachment I

Nouakchott, November 29, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Mr. de Rato:

The transitional government, which in August 2005 took control of Mauritania's destiny, set itself the goal of restoring Mauritania to democracy in less than two years. In parallel with the setting up of democratic institutions, the government intends to continue focusing on poverty alleviation with the support of the international community. In consultation with civil society, the administration, labor unions, and political parties, it has prepared a new Poverty Reduction Strategy Paper (PRSP2) covering the period 2006–10. The PRSP2 seeks to achieve the challenging objective of lowering the incidence of poverty to below 35 percent in 2010, against 47 percent in 2004. Further, by restoring fiscal discipline and implementing prudent monetary policy, the government restored macroeconomic stability in the last quarter of 2005, maintaining sustained economic growth while keeping inflation under control. Against that backdrop, the international community showed its concrete support for the policies adopted by the Mauritanian authorities, in particular with the debt relief from the International Monetary Fund in June 2006 and the subsequent cancellation of debt to the World Bank and the African Development Fund under the Multilateral Debt Relief Initiative.

The attached Memorandum on Economic and Financial Policies (MEFP), guided by the PRSP2, describes the main features of the government's economic program for the next three years. It also sets out the macroeconomic objectives, structural measures, and indicators for the first year of the program.

The government is seeking IMF support for the program through a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), in the amount of SDR 16.1 million or 25 percent of quota. The government will provide the IMF with all the information

required to monitor its progress in implementing the program. The first and second review of Mauritania's performance under the arrangement will be conducted by March 31, 2007 and September 30, 2007, respectively.

The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its 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/

Ousmane Kane
Governor of the Central Bank of Mauritania

/s/

For Mohamed Ould Abed, absent
Minister of Economic Affairs and Development
Abdallah Ould Souleymane Ould Cheikkh-Sidia (acting)

/s/

Abdallah Ould Souleymane Ould Cheikkh-Sidia
Minister of Finance

Attachment II. Memorandum of Economic and Financial Policies, 2006–09

November 29, 2006

I. INTRODUCTION

1. Since the summer of 2005, the transitional government has been preparing for a return to democracy, which will culminate in the holding of legislative and municipal elections in November 2006 and presidential elections in March 2007. At the same time, we have undertaken to establish economic transparency and good governance and restored the accuracy of economic and financial statistics. This contributed to restoring confidence in our relations with the international financial community. The International Monetary Fund (IMF) staff-monitored program (SMP) covering the first six months of 2006 ended successfully with the implementation of all the measures envisaged and the achievement of the macroeconomic targets. This strong performance enabled Mauritania to qualify for debt relief under the Multilateral Debt Relief Initiative (MDRI).

2. Simultaneously, we have prepared a new Poverty Reduction Strategy Paper (PRSP2) for the period 2006–10, using a participatory approach, which involved not only the government but also the private sector, trade unions, political parties, and civil society. Meeting our ambitious poverty reduction goals will require the continuation of sound macroeconomic management and structural reforms to promote the development of a market economy, the improvement of governance, and capacity building.

3. To build on the results obtained under the SMP, ensure implementation of the macroeconomic and financial components of the PRSP2, and facilitate the mobilization of the external resources needed to achieve its goals, we have developed a three-year program, covering the period October 2006–September 2009, for which we are requesting the IMF's financial support under the Poverty Reduction and Growth Facility (PRGF). The present memorandum describes the broad outlines of this program and the actions that we will undertake during its first year. The government that will be appointed after the presidential elections is expected to pursue the efforts begun during this first year.

II. RECENT ECONOMIC DEVELOPMENTS AND REFORMS

4. The economic situation has improved markedly during the past 12 months. Our prudent macroeconomic policies have contributed to bringing back inflation to single-digit levels (8.7 percent year-on-year in September 2006) and to a sustained economic growth (5.4 percent in 2005 and 6.1 percent, excluding oil, projected for 2006). On the other hand, oil production has been lower than initially projected and fishing sector came up against temporary difficulties. The significant improvement in fiscal management that started in the

second quarter of 2005 continued under the SMP, making it possible to contain the budget deficit and reduce government arrears. Owing to a further increase in the iron ore price in 2006 and the start of oil production in February 2006, the balance of payments has improved and the parallel foreign exchange market premium has virtually disappeared since the beginning of the year. The Central Bank of Mauritania (BCM)'s foreign exchange reserves increased from 1.0 month of imports of goods and services (excluding imports by extractive industries and externally financed imports) at end-2005 to 1.4 months at end-September 2006.

5. Reflecting a strong revenue performance and the maintenance of expenditure within the SMP limits, the budget deficit, excluding oil revenue and grants, was limited to 4.6 percent of annual non-oil GDP during the first half of 2006.¹ Tax collection overperformed by about 10 percent, owing to concerted efforts by the government. Along with the containment of public spending, this strong performance made possible a reduction of the treasury float to UM 6.2 billion at end-June, equivalent to about two weeks of domestically financed expenditure (excluding wages and interest).

6. Mauritania recently benefited from substantial receipts that had not been anticipated when the 2006 budget was adopted, namely: a one-off \$100 million bonus payment in June 2006 in the context of the settlement of the dispute between the authorities and Woodside regarding some clauses of the initial production-sharing contract; and the proceeds of the sale, last July, of the third cellular telephone license for \$103 million. Mauritania also benefited from the cancellation of its multilateral debt under the MDRI and from the signing in July of a fishing agreement with the European Union (EU) covering the period 2006–12 and providing for an annual financial compensation of EUR 86 million (in addition to the charges paid by the EU vessels).

7. In this context, we adopted in July 2006 a supplementary budget, which provides for additional domestically financed spending in an amount equivalent to the additional fishing revenue. We decided to allocate the remainder of the unanticipated foreign exchange receipts to saving and to the reduction of our domestic debt. This will contribute to strengthening Mauritania's external position and to paving the way for the successful implementation of the foreign exchange market reform and the restoration of the convertibility of the ouguiya in accordance with the obligations arising under Article VIII of the IMF Articles of Agreement.

8. We have made further progress in preparing the foreign exchange market reform. We have drafted the legislation organizing the market and taken accompanying measures, including: the adoption of regulations on the commercial banks' foreign exchange position and on the reserve requirements on banks' foreign currency deposits; the gradual

¹ Except as otherwise indicated, all references to GDP in the present memorandum mean non-oil GDP.

liberalization of fish export proceeds, through the reduction of surrender requirements for the national fishing company (SMCP) from 70 percent of export proceeds in early 2005 to 25 percent in October 2006, and the elimination of surrender requirements on other fish exports proceeds; and the reorganization of manual foreign exchange operations through the raising of the thresholds above which prior authorization from the BCM is required. Furthermore, on October 27, we eliminated the remaining restriction on payments for current external transactions.

9. We are also modernizing the institutional framework for the payments system. In August 2006, we adopted a new law on electronic means of payment. In addition, we have adopted decrees setting up the framework to combat money laundering and the financing of terrorism and establishing the commission responsible for these issues, whose governing bodies we appointed.

10. Consistent with our commitment to economic transparency, we have created a national hydrocarbon revenue fund (FNRH), managed by the ministry of finance and the BCM under the terms of a contract approved by the Council of Ministers in June 2006. The FNRH has been operating since that date and all government revenues from the hydrocarbon sector are now transferred to this fund. Each month, we produce and publish a report on the oil sector, with details on the production and its sharing, exports by participant, prices, and government oil revenue. We have set up an Extractive Industry Transparency Initiative (EITI) Committee and launched the procedure for recruiting an international consulting firm to monitor the implementation of this initiative. Lastly, the retail prices of refined petroleum products have been adjusted every two months to reflect changes in international prices. These adjustments, which were conform with the existing adjustment mechanism, prevented a further accumulation of revenue losses by the distribution companies.

III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

11. Over the medium term, we intend to reduce poverty substantially and improve household living standards. The PRSP2 aims at reducing the incidence of poverty from 47 percent in 2004 to less than 35 percent in 2010. Its primary objectives are: (a) raising growth; (b) improving economic opportunities for the poor; (c) developing human resources and increasing access to basic social services; (d) strengthening governance; and (e) developing an efficient monitoring and evaluation system.

12. Consistent with these objectives, our economic program for the period 2006–09 aims at: (a) raising average annual non-oil GDP growth to 5½ percent; (b) bringing inflation under 5 percent; and (c) building up official reserves to ensure a coverage equivalent to about three months of imports from end-2007 onward. We intend to achieve these targets through the growth of the private sector, which will, in particular, stem from the start-up of oil, gold, and

copper extraction, the continuation of prudent macroeconomic policies, the implementation of major infrastructure programs to open up the country, and the pursuit of structural reforms.

13. **Fiscal policy** will be the principal instrument for implementing the economic policy framework defined in the PRSP2. Our economic program provides for a significant increase in poverty reducing expenditures during the period 2007–10. The execution and financing of these expenditures will be consistent with macroeconomic stability and allow for the continued reduction of government debt to the banking system in general and the BCM in particular. The use of oil resources to finance the budget will take into account the limited life of Chinguetti oilfield, the uncertainties relating to future oil revenue, the still limited absorptive capacity of our economy, and the risk of loss of competitiveness for our economy that could result from an excessive real exchange rate appreciation. Our medium term fiscal projections are based on the hypothesis that two new oilfields, Thiof and Tevet, will be developed in 2008, which will allow for a substantial increase in oil revenues starting 2010. **Oil revenue management** will remain transparent through the conduct, by internationally renowned firms, and publication of annual audits of government revenue (in the context of the EITI) and FNRH accounts.

14. **Tax reform** will seek to reduce the adverse impact of the current structure on private sector growth and to broaden the tax base (in particular with regards to the VAT) without penalizing the consumption of the most vulnerable. Measures in that sense will comprise: (a) the rationalization of import taxation, by adopting a new tariff schedule consistent with a simple economic categorization of products, broadening the tax base by reinstating the VAT on products that should not be classified as essential, and lowering the statistical tax rate; (b) the improvement of the VAT administration, through the implementation of an efficient credit reimbursement mechanism and the raising of the registration threshold common to the VAT and the corporate tax (*régime du bénéfice réel*); (c) the gradual reduction of the minimum presumptive corporate income tax; and (d) the strengthening of the tax administration capacity. With the technical assistance of our external partners, we will also complete an overall review of the tax system and prepare additional measures, in particular with regards to direct taxation and the strengthening of the VAT.

15. We will improve the quality and regional distribution of **public expenditure** and increase its social impact. The sectoral resource allocation will be aligned with PRSP2 targets and priority will be given to social sectors and poverty reducing programs. The medium-term fiscal framework, which will play a stronger role in the multiyear programming of investment spending during the program period, targets almost a doubling in the appropriation ceilings for poverty reduction spending between 2006 and 2009. The improvement in public expenditure transparency and effectiveness will be a critical component of the program and will include the strengthening of ex-ante and ex-post controls and the revision of the public procurement code.

16. **Monetary policy** will continue to be geared toward controlling inflation. Its implementation will take into account the expected increase in government foreign currency receipts and the reduction in government debt to the banking system. Broad money growth will be limited to a pace equivalent to that of nominal non-oil GDP. To meet these objectives, the BCM will keep its policy interest rates at a positive real level and will strengthen bank liquidity management. Lastly, we will encourage the development of a secondary market for securities, which should help increase their liquidity, and securitize a portion of the government debt to the BCM.

17. We plan to develop a **more flexible exchange rate policy**, which will help us better manage the consequences of a possible real exchange rate appreciation and of oil-related external shocks. Following the elimination of the remaining foreign exchange restriction, we will develop a foreign exchange market, initially limited to an auction system managed at the BCM, and then expanded to an interbank market.

18. Following the assessment carried out in the context of the Financial Sector Assessment Program (FSAP), we intend to implement reforms aimed at **strengthening the financial sector** while improving access to financial services in a competitive environment. These reforms will focus on: (a) strengthening the financial sector's legislative and regulatory environment; (b) enhancing the transparency of financial sector accounting practices and the reliability of financial statements; (c) strengthening the capacity of the different institutions in charge of the supervision of financial institutions; (d) improving the legal framework for collateral and the implementation of regulations on combating money-laundering and the financing of terrorism; (e) gradually developing financial markets, with the deepening of the money market, (f) the establishment of the foreign exchange market, and (g) the promotion of private bond issues.

19. We also intend to build **capacity in the public sector**, in particular by: (a) modernizing the civil service; (b) combating corruption; (c) improving the qualifications and system of remuneration of civil servants. We will also improve the **management and oversight of state-owned enterprises (SOE)**, primarily by developing a performance-based culture and adjusting public utilities' rates on a regular basis in order to keep their operating accounts in balance and reduce the risks of drains on the budget.

IV. PROGRAM FOR THE PERIOD OCTOBER 2006–SEPTEMBER 2007

20. In 2007, the pace of growth will be strongly influenced by the oil production outlook. We prudently assume the maintenance of oil production at an annual average of 30,000 barrels per day during the remainder of the year. Our objective is to achieve a non-oil sector growth of 6.1 percent in 2006 and 7.3 percent in 2007, while bringing year-on-year

inflation down to 7 percent at end-2007. The growth target for 2007 assumes, in particular, normal rainfall, a marked recovery in the manufacturing sector, and a consolidation of the recovery in the construction sector.

A. Monetary and Exchange Policies

21. The monetary authorities will maintain a prudent monetary policy stance, guided by the inflation and international reserves targets, in a context of greater exchange rate flexibility. In view of the BCM's intention to absorb a substantial amount of bank liquidity in 2007 while leaving enough room for the expansion of credit to the private sector, the monetary program for 2006 and 2007 projects broad money growth at 15.8 percent in 2006 and 17.3 percent in 2007. In 2006, the projected reduction in net credit to the government is expected to be more than offset by a strengthening of commercial banks' net foreign asset position, entailing a modest increase in private sector credit. The Monetary Policy Council will determine on a monthly basis the intervention rates consistent with the program targets.

22. We will pursue a more active liquidity management. By end-November 2006, we will establish a committee for monetary and fiscal coordination and a procedure for preparing weekly liquidity forecasts. By end-2006, we will adopt new regulations promoting interbank transactions (based on unsecured products, repos, and secondary market securities) and simplifying the tax treatment of bonds' interest. At the same time, the BCM will introduce a new liquidity management instrument (central bank certificates of deposit), which will contribute to disconnecting liquidity management from the pace of T-bill issuances. In addition, the BCM will test open market operations on T-bills in 2007, and securitize a portion of its claims on the government in the form of medium- and long-term government bonds. Lastly, the penalties for noncompliance with reserve requirements will be reduced so as to allow for a more flexible cash management by the commercial banks.

23. The new foreign exchange market will open by end-December 2006. Before that date, the requirement to surrender 25 percent of SMCP export proceeds to the BCM will be eliminated. The foreign exchange market management software program will be tested and validated by end-November. Once this market is operational, the main objective of the intervention policy will be to smooth daily fluctuations.

B. Fiscal Policy

24. During the last months of 2006, fiscal policy will aim at meeting a basic non-oil deficit (excluding grants, interest on external debt and foreign-financed expenditure) objective of UM 25 billion (equivalent to 4.4 percent of non-oil GDP), a level slightly lower than the deficit implied by the supplementary budget (UM 28 billion). To this end, the additional spending needs that were identified after this budget adoption will be more than

offset by savings on nonpriority operating expenditure and the report to 2007, owing to the usual administrative delays, of some disbursements for ongoing investment projects.²

25. The 2007 budget will be consistent with a slight increase in the basic non-oil deficit to UM 26 billion (corresponding to a ½-percent decline in the deficit-to-GDP ratio), mainly to finance priority investment programs. This budget is based on prudent non-oil revenue assumptions (in particular with regard to the impact of import taxation reforms to be introduced in 2007) as well as on comprehensive and realistic expenditure projections.

26. Owing to the low taxation of new mining projects and the stability of fishing receipts, non-oil revenue (excluding collection of tax arrears) is projected to increase only moderately in 2007 in nominal terms. A new customs tariff, which is largely in line with the tariffs applied in the neighboring West African Economic and Monetary Union region, will enter into effect in January 2007. A number of exceptions to the tariff classification principles will be gradually eliminated during the program. With regards to rice (whose production is heavily protected and subsidized), the present tariff rate (20 percent) will be revised in the 2008 budget law at the latest as part of the implementation of a restructuring plan for the sector, in the context of a new strategy for the development of rainfed agriculture. Moreover, the rate of the presumptive corporate income tax will be lowered by half a point, from 4 percent to 3.5 percent; the statistical tax will be extended to all imports and its rate reduced to 1 percent; and value-added tax exemptions on 11 products (meats and some dairy products) will be eliminated. Lastly, we will introduce a 7.5 percent excise tax on sugar. Overall, these measures are expected to generate about 0.4 percent of non-oil GDP in additional revenue. The government also intends to initiate reforms to improve the taxation of the informal sector and simplify the tax on wages and salaries (ITS) and the general income tax (IGR).

27. As regards current expenditures, the 2007 budget provides for: the second phase of wage increases initiated in 2006 (a key measure to combat corruption in the civil service); a slight decrease in expenditure on goods and services; and an appreciable contraction in subsidies to public enterprises. The stabilization of the wage bill in percentage of non-oil nominal GDP is consistent with a substantial increase in base wages (*salaires indiciaires*) and staff increases in the priority sectors of health and education. The start-up, scheduled for January 2007, of activities of the national health insurance fund for employees and retired of the civil service and military will be limited in 2007 will not result in additional costs for the government, as the broadening of the coverage of health benefits would be covered by a new user contribution. The growth in general government operating expenditure will be contained

² The new expenditure needs include cost overruns for the electoral process, emergency intervention by the Food Security Commissariat in some regions, and coverage of the operating losses of the national water company (SNDE).

despite additional allocations for the functioning of the new parliament. Centralized expenditure as a percentage of GDP will fall by 2.0 percent as a result of savings identified in 2006. The gradual rise in public utility rates will imply appreciable savings, of around 1 percent of GDP, in transfers to public enterprises in 2007 (see paragraph 40). The allocation for incidental and unforeseen expenditure will be limited to 5 percent of the budget amounts for goods and services and transfers.

28. The substantial increase in investment expenditure will reflect the priorities of the PRSP2, particularly as regards infrastructure and poverty reduction. This increase will be more marked for domestically financed expenditure, reflecting mainly the expected substantial carryover to 2007 of unused 2006 appropriations.

29. The budget deficit will be financed mainly by a transfer from the FNRH and by concessional loans. The FNRH transfer will be limited to UM 38.8 billion, the expected oil revenue in 2007 (assuming a “Chinguitty” price of \$56.3 per barrel). Any additional oil revenue will accrue to the FNRH.

C. Tax Administration and Public Expenditure Management

30. We have strengthened further the General Tax Directorate (DGI) through the adoption by the Cabinet of an ordinance transferring to the directorate the tax collection authority that is currently concentrated in the Treasury, as well as by computerizing its departments. Programs to monitor collection enforcement and to reduce and control tax exemptions will be developed in 2007.

31. We also plan to strengthen the customs administration by simplifying and computerizing customs procedures and making them more secure against fraud. Specific measures will include: upgrading human and physical resources; installing a more recent version of the ASYCUDA computer software; introducing modern management tools; and establishing an antifraud operational mechanism.³ The customs administration will also continue to strengthen its control methods for oil exports. Data reconciliation between the customs administration and the preshipment inspection company (SGS) will continue on a regular basis.

32. We will continue to abide by the principles of transparent management of oil resources introduced in the ordinance of March 2006, including the domiciliation of all hydrocarbon revenue in the FNRH and the inclusion in the budget law of a ceiling on the authorized transfer to the Treasury. A draft law on the optimal management of oil resources will be prepared during the first quarter of 2007 with IMF technical assistance by the

³ This mechanism will, in particular, provide for tightened controls on fuel supply to small fishing boats.

working group established for this purpose, and submitted, by end-August 2007, to the future legislature for adoption. In addition, the EITI Committee will publish its 2005 report by end-2006 and its 2006 report by end-July 2007. The BCM will select by end-December 2006 the international firm that will conduct the audit of the FNRH and will transmit by end-March 2007 the first annual audit report to the ministry of finance. An investment committee will be established by end-2006 and will be given the task of preparing operational recommendations on how FNRH resources should be invested. Lastly, by July 2007, the oil sector legal framework will be revised by an ordinance promulgating the oil code and by a new model for production-sharing contracts. The ordinance will provide for the publication of individual contracts and will introduce greater transparency into the awarding of contracts.

33. We will pursue the implementation of the public finance management reform that was initiated in 2005. In this context, the transfer to line ministries of the payment order authority will be finalized, with a view to refocusing the ministry of finance on its basic mission. In fact, despite upward trends in the volume of public expenditure and increasingly developed government structures, budget execution remains heavily concentrated in the central directorates of the ministry of finance. The result is a long, complex, and scarcely performing expenditure circuit that makes it difficult to track budget execution at both commitment and payment order levels. In 2007, we intend to generalize the use of the RACHAD computer application (which has already been tested in three ministries).

34. We will also strengthen the control institutions, in particular the IGE, the Audit Office (*Cour des comptes*), and the Finance General Inspectorate (IGF). In addition, the annual IGE and IGF reports will be published by end-June 2007 and the annual Audit Office report by end-October 2007. The IGE report will mention cases that may constitute administrative infractions, management deficiencies, and financial offenses, and the administrative and judicial actions that were taken in these cases.

35. We will adopt a new procurement code by end-June 2007. The new code will revise the current institutional framework with a view to improving effectiveness, strengthening ex-ante control of budget appropriation, and separating the responsibilities of regulation, awarding of contracts, audit, and appeal.

D. Civil Service Reform

36. With World Bank support, we will pursue the civil service reform. We adopted in October 2006 several decrees defining the specific provisions applicable to 15 staff categories (*corps*) and plan to complete the streamlining of the respective pay scales for these categories by end-June 2007. With the exception of higher education teachers, for which an increased appropriation has already been granted in 2006, the adoption of these new scales

will not entail an overall increase in the wage bill. Other measures for streamlining the remuneration system will be incorporated into the 2008 budget law, based on the conclusions of a study that should be finalized by September 2007.

37. To eliminate the significant overstaffing in the civil service, we will prepare by end-September 2007 a plan (including accompanying measures) to adjust staffing to the government's functional needs. This plan will be based on a comprehensive census of government employees (to be carried out during the first quarter of 2007), and on an assessment of functional needs by ministry (to be achieved by end-June 2007).

38. In the context of our anticorruption campaign, we will adopt by end-2006 a code of ethics for civil servants and other government employees, designed to instill and consolidate moral and professional values. This code will include rules governing employee conduct with regard to public funds, institutions, and users. To that avail, the code will clarify the existing rules of law, which are enumerated, among others, in the General Civil Service Statute and the Penal Code of Mauritania. The code of ethics will be disseminated to all government employees and will be published on the government's website. The anticorruption campaign strategy will be finalized before end-June 2007.

E. Reform of the Financial Sector

39. With technical assistance from the IMF and the World Bank, we have started implementing the principal recommendations of the FSAP and other policies to promote the financial sector, with a view to:

- Strengthening the legal framework, with the adoption of laws governing the central bank, banking activity, and microfinance by end-2006;
- Facilitating bank mergers and investment by new partners, by increasing the banks' minimum capital to UM 1 billion by end-2006;
- Enhancing the transparency and reliability of accounting practices, with the completion of the international audit of the 2005 financial statements for all commercial banks by end-March 2007 and monitoring the implementation of the auditors' recommendations; and the launching of an awareness-raising campaign about the financial statements of banks and enterprises;
- Modernizing the payment systems, with the launching of the interbank electronic card in early 2007;
- Improving financial sector supervision, by strengthening on-site controls and requirements with regard to the provisioning of nonperforming loans, including by maintaining the prohibition of distribution of dividends while provision shortfalls persist.

F. Public Enterprises and Administered Prices

40. We intend to put the SOE on a more solid financial footing—while reducing the government role in administering prices—and to strengthen the oversight of their management. Government arrears to SOE will be cleared and rate adjustments, particularly for water and electricity, will be implemented every six months starting in January 2007 if necessary to balance the projected operating accounts of these enterprises. In the first semester of 2007, we will start implementing a price adjustment mechanism for bottled butane gas, which will include simple, targeted measures to protect low-income households' consumption and the environment. A subsidy of no more than UM 1.5 billion to SOMAGAZ and other gas bottling companies will be budgeted in 2007. In addition, the prices of petroleum products will be adjusted every two months to reflect international market prices and eliminate distribution companies' revenue losses by end-August 2007. Performance contracts with the national electricity company (SOMELEC), the water company (SNDE), and the hydrocarbon company (SMH) will be signed by end-June 2007. Starting in January 2007, the BCM will monitor their indebtedness to the banking system on a monthly basis.

G. Improvement of Economic Statistics and Safeguards Assessment

41. The improvement of economic statistics, which is essential for adequately monitoring the implementation of PRSP2 and the present program, will be the subject of a statistical development action plan to be adopted by the National Statistics Council by end-March 2007. This plan will focus on business surveys, national accounts, and balance of payments statistics as sectoral priorities and will identify actions needed for the implementation of the General Data Dissemination System (GDDS). Specifically:

- The National Statistical Office (ONS) will publish a monthly industrial production index beginning in July 2007;
- Final national accounts for 2003, semifinal accounts for 2004, and provisional accounts for 2005 will be published by end-2006;
- Balance of payments data collection and processing will be further enhanced, and monthly foreign trade data will be published by the ONS, starting in December 2006.

42. The BCM will continue to improve its management and accounting procedures, in particular by implementing the recommendations of the IMF safeguards assessment reports. These include the application of international accounting standards and the strengthening of internal audit procedures. The BCM will perform annual audits of its financial statements, and publish them within six months following the closing of accounts.

V. EXTERNAL SECTOR POLICIES AND FINANCING

43. The development of oil and mining exports will dominate the outlook for the external sector and should result in a notable improvement of the external position in the medium to long term. While the level of oil exports is now expected to plateau during the next three years, Mauritania will benefit from the projected increase in the national industrial and mining company (SNIM) production and the impending start-up of mining activities at Akjoujt (copper and gold) and Tasiast (gold). In the fishing sector, the new agreement with the EU will translate into large and steady revenue flows to the government, while the recent measures in favor of the national fleet should support fish exports. Mauritania's recent qualification for debt relief under the MDRI will imply a substantial debt service reduction, of around \$11 million in 2006 and \$22 million in 2007.

44. The BCM's official reserves will cover more than two months of imports (excluding imports by the extractive industries and imports financed by foreign assistance) by end-2006. In the medium term, the import coverage of reserves should continue to grow, to three months by end-2009. The achievement of these objectives is based on the assumption that additional external financing totaling about \$120 million will be mobilized for the period 2006–09. In particular, satisfactory program execution should facilitate the rapid mobilization of two tranches of concessional balance of payments support from the Arab Monetary Fund for a total of about \$23 million. The program is fully financed during its first year. Additional financing sources will need to be identified in 2008 and 2009.

45. Our external borrowing will be consistent with debt sustainability and carefully monitored. An external debt strategy has been prepared by the National Public Debt Committee (NPDC) with technical assistance from a firm specializing in this area. The strategy includes a medium- and long-term debt sustainability analysis (DSA), which will guide our borrowing policy and help us consolidate the external debt reduction achieved under the MDRI. In particular, we will have recourse solely to concessional resources. Furthermore, each new financing offer will be assessed by the NPDC to ensure the project's quality and its consistency with the priorities of the PRSP2 and with the debt strategy. The NDPC will update the DSA at least every year in the context of preparation of the medium-term fiscal framework and the budget law. Finally, to bring back Mauritania's outstanding external debt to a sustainable level, we will continue our efforts to negotiate a settlement of our arrears to certain bilateral partners, including Kuwait and Libya, on terms comparable to those granted by the Paris Club creditors.

VI. RISKS

46. Two major risks could jeopardize the achievement of the program objectives: (a) uncertainties regarding the commercial viability of the proved hydrocarbon deposits and hence the volume of hydrocarbon production; and (b) the vulnerability of the Mauritanian

economy to exogenous shocks, such as fluctuations in the prices of its principal exports (iron, hydrocarbons, and fish) and the hazards of agriculture and livestock-raising in an arid zone (rainfall, locusts).

47. Mindful of the risks posed by the uncertainties surrounding the volumes of hydrocarbon production and exogenous shocks, we used caution in projecting the related revenue. Furthermore, the accumulated reserves in the FNRH should represent \$60 million by end-2006, a level sufficient (except in extreme cases) to ensure the financing of the budget programmed for 2007, even in case of developments affecting resources, or, after consultation with staff, additional emergency expenditure warranted by a natural disaster. The FNRH will therefore play from its inception the role of a macroeconomic stabilization fund, in addition to its long-term function of accumulating savings for future generations. However, if the final decision on investments in the Thiof or Tevet oilfields is not taken by end-2007, the non-oil budget deficit targets for 2008 and 2009 will be revised downward in order to maintain a sustainable medium-term fiscal position.

VII. PROGRAM MONITORING

48. To ensure the effective implementation of this program, the government will adopt a budget ordinance for 2007 consistent with the policies that are laid out in this memorandum (in particular in paragraphs 25–29) before the IMF Executive Board considers the request for a three-year PRGF arrangement.

49. To monitor program execution, there will be quantitative performance criteria for end-December 2006 and quantitative indicators for March, June, and September 2007 (Table 1). The quantitative indicators for end-June 2007 will be converted to performance criteria at the time of the first program review. These quantitative criteria and benchmarks are defined in the attached technical memorandum of understanding (TMU), along with the adjusters in case of unforeseen events (the TMU also lists the information that will be transmitted, within the indicated time frames, to IMF staff for program monitoring purposes). Table 2 identifies structural performance criteria and benchmarks and the corresponding deadlines. The non accumulation of external payment arrears (as defined in the TMU) will constitute a continuous performance criterion.

50. Program implementation will be assessed every six months in consultation with IMF staff. The first and second reviews are scheduled to be completed by March 31, 2007 and September 30, 2007, respectively.

Table 1. Mauritania: Quantitative performance criteria and indicative targets for the first year of the PRGF-supported program 1/
(Cumulative change from end-June 2006 for the 2006 targets, and from end-December 2006 for the 2007 targets)

	Initial level	Preliminary	Program		
	Estimate End-June 2006	Estimate End-September 2006	End-December 2006 2/	End-March 2007	End-June 2007 3/ End-September 2007
Quantitative targets					
Net international reserves of the BCM (floor); in \$ million 4/	-103.7	30.6	88.4	16.2	34.9
Net domestic assets of the BCM (ceiling); in UM billion 4/	95.9	-1.6	-16.9	-0.8	-3.2
Basic non-oil government balance (floor); in UM billion 5/	-12.4	-19.4	-13.0	-11.0	-11.2
New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in \$ million	0.0	0.0	0.0	0.0	0.0
Short-term debt (ceiling); in \$ million	10.9	24.7	31.6 6/	-10.4	-10.4
New external payments arrears (continuous ceiling); in \$ million	0.0	...	0.0	0.0	0.0
Treasury float (ceiling); in UM billion 7/	6.2	7.7	1.8	0.0	0.0
Poverty-reducing expenditures (floor); in UM billion 5/ 7/	20.8	...	32.0	12.9	31.1
Adjustors (in \$ million)					
Net international assistance	0.0	-2.9	-9.3	-2.8	-9.2
Cumulative disbursements of official loans and grants in foreign currency	0.0	0.0	0.0	0.0	0.0
Impact of any additional debt relief	0.0	0.9	0.9	0.0	0.0
Cumulative amounts of external cash debt service payments	0.0	-3.8	-10.2	-2.8	-9.2
FNRH contribution to the budget	57.2	39.8	125.8	36.1	72.2
Memorandum item:					
UM/\$ exchange rate (program)	268.6				108.3

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/ Will be revised and set as performance criteria at the time of the first review.

4/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.

5/ The end-June 2006 estimate corresponds to the flow over the first six months of 2006.

6/ A last disbursement of \$8 million was made in early October 2006 under a short-term nonconcessional facility of \$40 million that was granted by the Islamic Development Bank in 2006 to strengthen official reserves before the launching of the foreign exchange market.

7/ Indicative target.

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

	Date
Prior action:	
<ul style="list-style-type: none"> • Government adoption of 2007 budget ordinance consistent with paragraphs 25–29 of the MEFP. 	
Performance criteria:	
<ul style="list-style-type: none"> • Elimination of the requirement to partially surrender fish export proceeds to the BCM. 	End-December 06
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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
Structural benchmarks:	
<ul style="list-style-type: none"> • Introduction of a new instrument for bank liquidity management. 	End-January 07
<ul style="list-style-type: none"> • Semiannual adjustment of water and electricity rates based on the estimated operating balance. 	End-January 07
<ul style="list-style-type: none"> • 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 1/
<ul style="list-style-type: none"> • Publication of the audit of BCM's 2006 financial statements. 	End-June 07
<ul style="list-style-type: none"> • Submission to parliament of a draft law on a transparent and optimal oil revenue management, consistent with paragraph 32 of the MEFP. 	End-August 07

1/ Subsequent monthly reports will be submitted to Fund staff on a monthly basis.

Attachment III. Technical Memorandum of Understanding

1. This memorandum sets out the definitions of the quantitative targets for the period October 1, 2006–September 30, 2007, which are set forth in the associated Memorandum of Economic and Financial Policies (MEFP) for program monitoring purposes and reported in Table 1. 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 from the reference date defined in Table 1 until the end of the month indicated.

I. DEFINITIONS

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 fifth edition of the IMF's *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 reserve assets (other than gold) and foreign exchange liabilities will be estimated using **program exchange rates**, namely: the June 30, 2006 exchange rates between U.S. dollar and the ouguiya (268.6 ouguiya/\$), the SDR (1.4794 \$/SDR), the Euro (1.2713 Euro/\$) 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 foreign assets not included in the reserve assets, minus all foreign liabilities of the BCM (i.e., $NDA = \text{Reserve Money} - \text{NFA}$, 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 the registration of payment orders by the treasury (*prise en charge par le Trésor*), 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 external nonconcessional 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 (Decision No. 12274-(00/85) August 24, 2000; see Annex) but also to commitments contracted or guaranteed for which value has not been received.¹

7. The **short-term debt** is defined as the stock of foreign currency debt, with original maturity of less than one year, owed or guaranteed 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 BCM.

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

9. **Treasury float (*Instances de paiement au trésor*)** is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury.

10. **Poverty-reducing expenditures** will be estimated in accordance with the definition consistent with the public expenditures functional classification based on the recommendations of report of the IMF Fiscal Affairs Department's January 2006 technical assistance mission ("Les réformes en cours de la gestion budgétaire et financière", March 2006).

II. PROGRAM ADJUSTORS

11. **NIR, and NDA targets** are derived based on the projected amounts of **the FNRH contribution to the budget** and the projected amounts of **net international assistance**. The latter is defined as the difference between: (a) the sum of the cumulative disbursements of

¹ Although this definition excludes borrowing by public enterprises (without government guarantee), such borrowing should be avoided except in exceptional circumstances and after consultations with IMF staff.

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 cumulative amounts of external cash debt service payments (including interest on foreign liabilities of the BCM).

12. In case **net international assistance** or **contribution of the FNRH to the budget** exceeds (falls short of) the amounts projected in Table 1, the floor for NIR will be adjusted upward (downward) and the ceiling on NDA will be adjusted downward (upward) by an amount equivalent to the difference between the actual levels and the projected levels. In the case of NDA, this amount will be converted into ouguiya 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.

III. REPORTING REQUIREMENTS

13. The authorities will provide the IMF with all necessary economic and financial statistical data to monitor economic developments and program performance including, but not necessarily limited to, 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), (b) the balances of the FNRH, inflows and outflows (transfers to the treasury account) and their timing, and (c) on external debt service including changes in arrears and rescheduling operations, data on debt service due and debt service paid in cash, HIPC debt relief provided by multilateral and bilateral creditors, and showing the amount of HIPC debt relief provided to the government in the form of grants. These data will be provided within two weeks following the end of each month.
- The monthly monetary survey, the consolidated 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. These data will be provided within three weeks from the end of each month.
- Data on treasury bills auctions within a week following each auction.
- Monthly data on exports by main product (iron ore and fish), customs data on imports by main product categories, data on SNIM operations, monthly list of medium- and long-term public or publicly guaranteed external loans contracted during each month, identifying,

for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, and interest rate arrangements. These data will be provided within one month following the end of each month.

- 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.

Ministry of Finance

- Monthly treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts (including the operations of the new funds set out in the 2006 Budget Law), 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*). These data will be provided 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. Reports will be compiled based on data provided by all hydrocarbon industry operators, including oil- and other hydrocarbon-producing companies, and the authorities. Data on government revenue from oil- and other hydrocarbon-related activities will include all tax and nontax revenue derived from oil and hydrocarbon exploration and production including but not limited to the government part of profit oil, bonuses, tax and nontax revenue from the Mauritanian Hydrocarbon Company (SMH), taxes on profits of foreign oil companies, and presumptive taxes on the activities of their subcontractors (*régime forfaitaire*). This information shall be prepared in cooperation with the ministry of petroleum and energy, the BCM, and the SMH.

Ministry of Economic Affairs and Development

- 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 creditor and by currency of disbursement. These data will be provided within three weeks following the end of each month

National Statistical Office

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

14. All data will be transmitted electronically. Any revision to previously reported data accompanied by an explanatory note shall be promptly communicated to IMF staff.

IV. CENTRAL GOVERNMENT OPERATIONS TABLE

15. 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 (*partie 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 (excluding the deposits of public establishments and other administrative units (*EPA*) with the BCM, but including the HIPC account).
- **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 finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).
- **External financing** is defined as the sum of: the opposite of the change in the net position of the FNRH; net disbursements of foreign loans; and exceptional financing. The latter is composed of: (a) the accumulation of arrears on passive debts and of technical arrears, as defined in paragraph 9; and (b) debt relief obtained on external government 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: (a) 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’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (b) 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 (c) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

APPENDIX I. MAURITANIA: DEBT SUSTAINABILITY ANALYSIS 2006¹

1. Following substantial HIPC and MDRI relief, Mauritania faces only a moderate risk of debt distress despite some vulnerability to adverse shocks. Under the baseline scenario (which assumes that the authorities succeed in obtaining debt relief from the bilateral creditors that have not yet implemented the HIPC initiative), Mauritania's debt appears sustainable in the light of external and fiscal sustainability criteria. Ensuring this favorable debt dynamics will, however, require prudent macroeconomic policies and a careful approach to new borrowing, given that—as the standard sensitivity tests reveal it—Mauritania remains vulnerable to adverse shocks, notably the risk of lower-than-projected growth of GDP and exports. The analysis also uses a customized scenario to portray the new and material risk of oil production falling short of baseline projections.

2. **The present analysis broadly confirms the main results of the debt sustainability analysis (DSA) prepared by the IMF staff in the context of the 2005 Article IV consultation, although it is based on improved data and a refined risk assessment.** First, the comprehensive data revisions prepared in 2006 provide a more reliable basis for the stress tests that draw on the country's recent economic history. Furthermore, the present DSA is anchored on Mauritania's much improved external and fiscal position in 2006, reflecting the start of oil production—a factor of critical importance for the stress tests, which are sensitive to these initial conditions. Most importantly, the first six months of experience with oil production, featuring an unexpected decline after a promising start, allow for a better grasp of the risks facing emergent oil-producing countries.

A. Background

3. **Mauritania's external debt burden has been significantly reduced on account of HIPC and MDRI relief, but protracted negotiations with a few bilateral non Paris-Club creditors weigh on the outlook.** Since reaching the completion point of the Enhanced HIPC Initiative in June 2002, Mauritania has signed debt relief agreements with almost all its multilateral and all its Paris-Club creditors as well as a number of non-Paris Club creditors. In addition, substantial MDRI relief was obtained in mid-2006 from the IMF, IDA, and AfDF—nearly 28 percent of the total end-2005 external debt were written off. However, negotiations have stalled with a few creditors (Algeria, Iraq, Kuwait, Libya, and the United Arab Emirates), causing Mauritania to build up substantial arrears. These arrears amounted to \$1.3 billion at end-2005, representing 46 percent of Mauritania's total external nominal debt and contributing disproportionately to its NPV (Figure A1).²

¹ Prepared by IMF and World Bank staffs in consultation with Mauritanian authorities.

² The largest portion of Mauritania's arrears at end-2005 (nearly \$1 billion, mostly consisting of late interest charges) originates from liabilities that were considered to be "passive debt" and thus excluded from the DSA
(continued...)

4. **Mauritania's stock of domestic public debt has significantly increased in recent years, mostly reflecting the government recognition of central bank claims on the Treasury and domestic arrears, which resulted from substantial extrabudgetary spending over the last ten years.** Domestic gross claims on the government stood at nearly 43 percent of GDP at end-2005, with nearly two-thirds in the form of a consolidated long-term debt vis-à-vis the central bank.³ The remainder represented short-term debt including treasury bills held by banks and nonbanks and arrears toward domestic suppliers, which are expected to be eliminated by end-2006 (Figure A2).

B. Basic Assumptions

5. **The macroeconomic framework underlying the DSA is consistent with the government's medium-term program, but features more conservative assumptions than those used for the second Poverty Reduction Strategy (Box 1).** The framework rests on a combination of specific assumption for oil production, and standard hypotheses regarding the long-term behavior of the non-oil economy (Table A1).⁴ It is conservatively assumed that oil resources are limited and their extraction will end before the end of the projection period. The baseline scenario features a transitory decrease in oil production in 2007–09. Production subsequently reaches a peak of 65,500 barrels per day in 2012 and gradually declines to zero in 2026. Under this profile, the cumulative oil production reaches 280 million barrels corresponding to the estimated cumulative capacity of the existing Chinguetti deep offshore oil field and two neighboring fields, still to be developed.⁵ Regarding the non-oil economy, it is assumed that there will be a spurt of growth early on (reflecting the ongoing new mining developments and the step-up in public investment).⁶ Consequently, non-oil GDP growth is

and relief calculations at the HIPC decision point in 2000, because there was no indication at that time that the respective creditors (notably Kuwait and Libya) were requesting the repayment of this debt. Meanwhile, these creditors have indicated that the claims have not been waived, which justifies their inclusion in the present DSA. There has been no debt service paid on this passive debt since several years.

³ The consolidated BCM's claims on the government are in two types of instruments. About two-thirds of claims are repayable over up to 33 with three years of grace, at an average unweighted interest rate of about 6½ percent, with longer-term maturities bearing progressively higher interest rates. The rest corresponds to an interest-free provision for accumulated foreign exchange losses, which are repayable over 40 years with ten years of grace.

⁴ Non-oil GDP is projected to grow by some 6 percent on average over the medium term on the back of new mining developments and growth in public investment.

⁵ This scenario does not take into account the exploration activity taking place at present outside the Chinguitty zone, including on-shore (south of Nouakchott), and in-land (in the Taoudeni basin near the borders with Algeria and Mali).

⁶ Gold and copper ore production at two mining projects is expected to begin in 2007.

projected to near 5 percent on average during 2006–15. After 2015, growth returns on a long-term path slightly above 4 percent per annum, more in line with historical trends. Non-oil exports and imports would grow accordingly. It is assumed that average annual inflation will gradually decline from 12.5 percent in 2005 to 4 percent in 2010 and stay at this level during the remainder of the projection period. The projection features a degree of real exchange rate appreciation due to oil developments in the medium term horizon. In the longer run, after the impact of oil on the domestic economy is fully absorbed, the real exchange rate is assumed to remain constant.

Box 1. PRSP and DSA Growth Assumptions

Mauritania's second poverty reduction strategy targets ambitious goals for the 2006–10 period with the objective of achieving most MDGs by 2015. The incidence of poverty is projected to decline from 46.7 percent in 2004 to 35 percent in 2010 and 25 percent in 2015, mainly on account of a high growth scenario. Reflecting the initial optimism on oil production and prices when the new oil field started in early 2006, real annual GDP growth is projected at an average of 7 percent between 2006 and 2010, with non-oil real GDP growing at 5.5 percent. The macroeconomic scenario developed in this DSA is based on the more realistic assumptions that the authorities have developed in the context of a medium-term program to be supported by the Fund's Poverty Reduction and Growth Strategy (PRGF). It reflects lower oil price projections, and the recent downward revision in the potential of the new Chinguitty offshore oil field that entered into the production stage in February 2006. As a result, government oil revenue projections and the very ambitious government investment program had to be scaled down. Even so, poverty-reducing spending is projected to increase by 16 percent in real terms between 2006 and 2009.

6. **The fiscal framework envisages a stable policy stance in the medium term that makes room for the immediate development needs of the country, followed by a gradual adjustment toward a sustainable deficit.** In the near to medium term, the authorities are assumed to maintain a non-oil primary deficit of about 6 percent of non-oil GDP, enough to allow for a substantial increase in public investment and spending oriented toward poverty reduction. In the long term, the authorities are assumed to tighten gradually the fiscal stance with the level of the non-oil primary deficit reduced to 1.7 percent of GDP by 2026. The tightening reflects mostly moderation in public expenditure but also a diminished reliance on nontax revenue (from fishing and other sources), which cannot be realistically expected to keep pace with non-oil GDP growth. Under the assumed oil revenue and public spending profile (Figure A3), the deposits in the oil account at end 2006 will be kept constant during the initial years and mainly used as a stabilization fund against the risks of adverse macroeconomic developments. With the start of the new oil fields, deposits in the National Hydrocarbon Revenue Fund (FNRH) would accumulate again and continue to build up at a declining pace throughout the period until the production ends. As Mauritania's fiscal

position gradually shifts toward a tighter non-oil primary deficit, the income generated by FNRH deposits (some \$1.2 billion in 2026) would eventually cover the government's residual financing needs during the post-oil period.

7. **The ambitious public investment program is projected to be also financed by a significant amount of foreign borrowing on gradually less concessional terms.** Public investment spending prior to 2015 (in the run-up toward the MDG goals) will exceed 9 percent of non-oil GDP on average and will decline thereafter to about 8 percent in 2016–26. In the baseline scenario, the authorities use mostly domestic resources to cover two-thirds of their investment spending needs, with the rest covered by concessional borrowing. In the low oil scenario, no fiscal adjustment is assumed and the lack of oil revenues force a larger use of foreign financing covering about half of all public investment expenditure. It is assumed that Mauritania will continue to benefit from access to concessional borrowing, but the terms of this new financing are projected to gradually become less favorable over time. External borrowing is expected to remain purely on concessional terms until 2009, but some blending with nonconcessional resources is expected to commence and slowly become more prominent over the medium to long term, driving the projected average grant element on new borrowing down from 42 percent in 2006–09 to 28.5 percent by 2016 and finally to 6.2 percent by 2026.⁷

8. **Throughout, the debt burden thresholds used for the analysis are those applying to poor performers,** as measured by the World Bank's 2005 Country Policy and Institutional Assessment Index (CPIA).⁸ Specifically, Mauritania's debt burden is measured against thresholds of 30 (100 / 200) percent for the ratio of the NPV of debt to GDP (exports/government revenue) and 15 (25) percent for the ratio of debt service to exports (government revenue).

C. External Sustainability

9. **Debt sustainability requires an agreement with bilateral creditors that have not yet provided HIPC relief.** The baseline scenario, which is discussed in details below, explicitly considers a possible resolution in line with Mauritania's most recent Paris Club agreement. However, to illustrate the burden of Mauritania's unresolved arrears, Table A2 portrays the situation arising if no progress is achieved in the ongoing negotiations, thus implying a permanent roll-over of arrears.⁹ Although the analysis abstracts from further late

⁷ All NPV calculations are based on a unified discount rate of 5 percent p.a.

⁸ The World Bank currently ascribes a CPIA of 3.16 to Mauritania, placing it just below the relevant 3.25 threshold. For more information, see <http://siteresources.worldbank.org/IDA/Resources/tablesCPR.pdf>.

⁹ The set of macroeconomic assumptions introduced in the previous section continues to apply throughout.

interest charges that would be incurred upon the existing end-2005 stock of arrears, the results clearly indicate that Mauritania's external debt would be unsustainable. The NPV-of-debt-to-GDP ratio continuously and significantly exceeds the 30 percent threshold, and the NPV-of-debt-to-exports ratio breaches the 100 percent threshold, while the NPV-of debt-to-revenue ratio stays above the 200 percent sustainability threshold until 2020. The outlook would further worsen substantially if late charges were taken into account. These findings underscore the importance of seeking debt relief agreements with the bilateral creditors in question.

10. Under the baseline scenario, in which bilateral debt under discussion would receive a HIPC-like treatment, Mauritania's debt would become sustainable.

Specifically, the scenario projects debt relief based on Cologne terms starting in 2007, whereby 90 percent of the debt that was outstanding at end-June 2002 (the time of Mauritania's latest Paris Club agreement) and is still under negotiation would be written off and the remaining 10 percent rescheduled at market rates over 23 years with a 6-year grace period. Under this hypothesis (combined with the baseline macroeconomic scenario), Mauritania's debt indicators point to sustainability (Table A3). All relevant ratios fall below the respective thresholds in 2007 and stay there over the entire horizon. In particular, the NPV of external debt converges to a moderate 27 percent of GDP by 2026. Relative to exports, the debt burden rises somewhat over time, reflecting the gradual decline in oil exports, but the ratio remains well below 100 percent. Likewise, the debt service-to-exports ratios stay well below the applicable thresholds, even though the projection of substantial new borrowing on gradually less concessional terms implies a gently rising profile over time.¹⁰

11. Still, the standardized sensitivity analysis suggests some vulnerabilities, notably to lower-than-projected export growth. The application of standardized alternative scenarios and bound tests (Table A4 and Figure A4) provides a mixed picture. On the one hand, Mauritania's debt burden appears sufficiently resilient to a number of shocks, including shocks to GDP growth and nondebt creating flows when looking at NPV to exports and debt service to exports ratios. In most cases, the breaches of the relevant thresholds for the NPV-of-debt-to-GDP ratio remain moderate. However, the most extreme shock—export growth at historical levels minus one standard deviation—pushes the NPV-of-debt-to-GDP and the NPV-of-debt-to-exports ratios to 42 percent and 103 percent respectively by 2014. This type of shock, like the real GDP shock, captures historical climatic shocks such as droughts and locust invasions as well as a possible decline in fisheries receipts. Given that the beginning of oil production in 2006 presents a major structural change for the country's

¹⁰ Cash debt service is also somewhat higher than under the passive scenario (Table A1), because the assumed resolution of Mauritania's arrears problems leads to a resumption of debt service to these bilateral creditors.

economic potential, a scenario with oil shock (see section E) becomes pertinent in the case of Mauritania.¹¹ Nonetheless, the stress test results highlight the need for prudent policies and appropriate contingency planning.¹²

D. Fiscal Sustainability

12. **The fiscal sustainability analysis largely mirrors the external DSA.** It is assumed that domestic debt will account for a small share of total public debt in the long term. The baseline scenario envisages the rapid reduction of domestic debt (including through an accelerated repayment of claims to the BCM) before any significant accumulation of deposits in the FNRH, which will also help strengthen official reserves.¹³ The nontax non-oil revenues are assumed to be decreasing in terms of GDP to capture less buoyant revenues from the fishing sector. All indicators of sustainability will be satisfied under the baseline scenario, with the NPV-of-debt-to-GDP ratio gradually declining below the sustainability threshold during 2007–10 and both the NPV-of-debt-to-revenue ratio and the debt-service-to-revenue ratio comfortably below the respective sustainability thresholds throughout the projection period (Table A5).

13. **Several standard stress tests reveal the sensitivity of debt sustainability indicators, in particular to the risk of GDP growth and primary balance reverting to their historic averages.** The test involving real GDP growth in 2007–08 declining to the historical average minus one standard deviation produces the most extreme result, since it departs the most from the expectation of strong growth in 2007–08 on the back of oil and mining developments. (Table A6 and Figure A5).

E. A Less Favorable Oil Scenario

14. **The alternative macroeconomic scenario, which features lower oil production than the baseline, highlights Mauritania’s key vulnerability.** In this scenario, cumulative oil production reaches only 60 million barrels because oil operators decide not to develop the two neighboring fields. This scenario assumes no direct fiscal adjustment, a rapid depletion of the FNRH deposits, and additional external borrowing to keep the central bank reserves at three months of import cover. The main impact is an upward shift in the key NPV-based debt

¹¹ For this reason, section E below will present a less favorable oil scenario more specifically tailored to capture the major risks to Mauritania’s outlook.

¹² Mauritania is not exposed to significant risks related to possible fluctuations in the cross exchange rates in which its debt is denominated. Most exports are traded in U.S. dollar and about 75 percent of the external debt is denominated in U.S. dollar, SDR or currencies that are closely linked to the U.S. dollar, although the resolution of the debt under negotiation could bring this percentage to an estimated 58 percent.

¹³ The need to keep government securities for the conduct of monetary policy will be significantly reduced with the launching by the BCM in 2007 of central bank bills.

sustainability indicators above sustainability thresholds (Figure A6). These results reflect mainly the substitution of oil revenue with foreign borrowing resulting in an increased NPV of external debt. The ratio of debt service due to exports stays below the relevant threshold of 15 percent only in the (unlikely) case Mauritania can mobilize the additional foreign borrowing on largely concessional terms. Restoring fiscal sustainability would require a fiscal adjustment of about 4 percent of GDP on average for the 2012–26 period, which would bring the primary balance close to zero for the same period.

F. The Role of the Oil Fund

15. **Accounting for the assets accumulated in the FNRH considerably strengthens the conclusion supporting the long-term sustainability of Mauritania’s debt indicators.** In the baseline scenario, the FNRH would have accumulated \$1.2 billion potentially covering about one half of the NPV of external debt at \$2.4 billion. While the rationale for accumulating assets in the FNRH needs to be carefully examined in the context of the long-term debt management strategy, the *prima facie* reason for their accumulation (as opposed to an early external debt repayment) is the predominantly concessional nature of the pre-existing external debt. The accumulation is also advisable on prudential grounds as the mobilization of a large amount of concessional borrowing in case of an adverse shock may not be feasible.

G. Conclusion

16. Mauritania’s debt under the baseline scenario is sustainable and the risk of distress moderate, but remaining vulnerabilities highlight the need for prudent policies. To ensure debt sustainability, Mauritania needs to succeed in settling with those bilateral creditors that have not yet provided HIPC relief. The baseline DSA scenario is predicated upon such a resolution. It suggests a relatively positive outlook for sustainability as several critical ratios remain below the applicable thresholds over the entire DSA horizon. However, some standardized stress tests and, more significantly, the country-specific alternative scenario point to vulnerabilities, especially the risk of lower-than-projected export growth. Taking these aspects into account, the overall risk of debt distress is judged to be moderate. In order to increase Mauritania’s resilience to adverse shocks, the authorities need to pursue prudent policies over the medium and long term. In particular, the long-term debt sustainability critically hinges on the ability to restrain appropriately the fiscal position in response to projections of shrinking oil revenue and save financial resources for the post-oil period. It is expected that the oil revenue management law to be discussed by the parliament in 2007 will set up convincing economic policy and institutional mechanisms that can ensure such a rational response. Apart from generally sound macroeconomic management, Mauritania’s situation will also require a careful borrowing strategy, relying on the most concessional resources available, to finance the investments that are critical for much-needed future growth and export diversification.

Table A1. Mauritania: Macroeconomic Framework, 2005–26

	2005	2006	2007	2008	2009	2010	2011–15	2016–26	2006–26
	Est.				Projections 1/				
(Percentage changes)									
Economic growth and prices									
Real GDP	5.4	13.9	6.3	2.6	3.9	9.2	4.4	3.6	4.7
Non-oil Real GDP	5.4	6.1	7.3	4.9	4.9	4.6	4.3	4.3	4.6
Implicit non-oil GDP deflator	18.9	9.3	9.1	6.0	4.5	4.0	4.0	4.0	4.6
Consumer price index (period average)	12.1	6.4	8.7	6.0	4.5	4.0	4.0	4.0	4.5
Consumer price index, eop	5.8	9.8	7.0	5.0	4.0	4.0	4.0	4.0	4.5
(In percent of GDP)									
Investment and Savings									
Consumption									
Government	122.5	80.9	76.9	83.7	87.5	80.2	73.2	78.5	78.0
Nongovernment	22.5	18.4	17.6	18.3	18.8	16.5	15.2	15.1	15.8
Gross investment									
Oil-related	100.0	62.5	59.4	65.5	68.7	63.6	58.0	63.4	62.2
Non-oil related investment	36.5	23.2	23.4	29.5	37.5	32.5	18.6	17.0	20.3
Government	17.7	9.0	8.2	13.1	20.5	16.2	2.7	0.0	3.9
Nongovernment	18.8	14.1	15.3	16.4	17.0	16.3	15.9	17.0	16.5
Gross savings									
Government	5.1	5.1	6.3	6.7	6.9	6.2	5.7	5.6	5.8
Nongovernment	13.7	9.1	9.0	9.7	10.1	10.1	10.2	11.4	10.7
Current account (including official transfers and oil)									
Balance of goods and services	-10.4	20.1	21.2	15.8	13.2	18.4	23.5	16.5	18.5
Exports	-1.1	7.5	4.3	3.0	2.5	4.4	6.5	6.3	5.9
Imports 2/	-9.3	12.5	16.9	12.8	10.8	14.0	17.0	11.0	13.0
Net income 3/	-46.9	-3.1	-2.3	-13.7	-24.3	-14.1	4.9	2.4	-0.3
Net transfers	-58.9	-4.1	-0.4	-13.3	-25.0	-12.7	8.2	4.5	1.7
Consolidated government operations									
(In percent of non-oil GDP)									
Revenue and grants 4/	26.4	39.7	30.8	28.1	27.0	29.3	30.1	25.2	27.7
Non-oil revenue	26.4	28.4	25.0	24.3	24.1	23.8	22.8	21.3	22.6
Idem, excluding grants	24.4	26.2	23.1	23.5	23.4	23.2	22.4	21.2	22.1
Of which: tax revenue	15.3	16.0	13.5	13.7	14.0	14.2	14.2	14.2	14.2
Expenditure and net lending	33.5	37.5	33.2	32.3	31.9	31.5	29.1	24.4	27.6
Primary expenditure	30.2	34.7	31.2	30.4	30.3	30.1	28.0	23.6	26.5
Current	22.2	24.7	21.1	20.3	20.1	19.9	18.4	15.4	17.5
Capital and net lending 5/	8.0	10.0	10.2	10.2	10.2	10.2	9.6	8.2	8.9
Interest (gross)	3.2	2.8	2.0	1.9	1.6	1.4	1.1	0.8	1.2
Overall balance	-7.0	2.2	-2.4	-4.2	-4.9	-2.2	1.0	0.8	0.1
Non-oil balance excluding grants	-9.1	-11.3	-10.1	-8.8	-8.5	-8.2	-6.6	-3.2	-5.5
Non-oil balance including grants	-7.0	-9.1	-8.2	-8.1	-7.8	-7.7	-6.2	-3.1	-5.0
Non-oil primary balance (including grants)	-3.8	-6.3	-6.2	-6.2	-6.2	-6.2	-5.2	-2.2	-3.9
Memorandum items:									
Nominal GDP (billions of ouguiyas)	497	744	821	823	845	1,007	1,309	2,221	1,677
External public debt outstanding (\$ million), at end of period	3,137	2,335	2,391	2,524	2,695	2,826	3,356	4,275	4,275
Domestic debt (UM billion), at end of period	212.5	155.6	145.6	133.0	121.8	100.1	21.7	21.7	21.7
Oil account (\$ million), at end of period	...	61	61	61	61	61	464	1,175	1,175
Gross official reserves of the BCM (\$ million), at end of period	70.2	173.5	228.4	247.6	258.2	285.5	337.8	725.0	725.0
Idem, in months of imports	1.0	2.3	2.9	3.0	3.0	3.1	3.0	3.5	3.2
GNP per capita (\$)	686	913	966	962	979	1,124	1,286	1,629	1,395
Population (millions)	2.8	2.9	3.0	3.0	3.1	3.2	3.4	4.1	3.7
Price of oil (\$/barrel): Chinguetti price	...	60.0	56.3	57.3	55.5	53.8	52.4	63.3	59.1
Price of oil (\$/barrel): APSP baseline: Sept. 26, 2006	...	64.4	63.3	64.3	62.5	60.8	60.0	71.1	66.5
Annual production of oil (millions of barrels) 6/	...	11.7	10.9	7.3	5.7	14.9	22.2	10.8	13.3

Sources: Mauritanian authorities; and staff estimates and projections.

1/ For the last three columns, averages unless otherwise specified.

2/ The relatively high imports to GDP ratio reflects the development phase of oil exploration which peaks in 2005 and declines thereafter.

3/ Includes EU fish license payments.

4/ Multilateral HIPC assistance is shown as grants.

5/ Starting in 2006, includes public investment with the use of foreign financing on-lent by the central government.

6/ Oil production started in 2006 and is projected to end in 2024.

Table A2. Mauritania: External Debt Sustainability Framework, No resolution of arrears, 2002–26 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical		Standard Deviation 7/	Projections									
	2002	2003	2004	2005	Average 7/		2006	2007	2008	2009	2010	2011	2016	2026		
External debt (nominal) 2/	231.9	218.9	204.8	169.4			86.5	78.9	83.0	86.3	75.9	70.7	64.1	49.2		
<i>Of which: arrears under negotiation</i>				67.9			46.3	40.9	41.0	40.1	33.8	30.4	24.2	15.1		
Change in external debt	-13.1	-13.0	-14.2	-35.4			-82.9	-7.6	4.2	3.3	-10.4	-5.2	-1.9	-1.5		
Identified net debt-creating flows	-16.7	-20.3	-23.5	-38.8			-15.1	-4.0	2.4	3.0	-2.6	-3.0	-3.8	-1.0		
Non-interest current account deficit	-6.2	10.8	32.0	44.6		17.7	2.2	1.6	13.1	23.6	13.4	-0.2	-7.1	1.2		
Deficit in balance of goods and services	15.7	28.5	46.3	58.9			4.1	0.4	13.3	25.0	12.7	-2.1	-10.4	0.2		
Exports	35.3	28.2	32.9	37.7			56.8	56.7	50.2	45.7	50.8	53.8	49.5	34.1		
Imports	51.0	56.7	79.2	96.6			60.9	57.1	63.4	70.7	63.5	51.6	39.2	34.3		
Net current transfers (negative = inflow)	-7.8	-10.4	-7.3	-8.6		1.4	-5.7	-4.5	-4.1	-4.1	-3.3	-2.8	-1.8	-1.3		
Other current account flows (negative = net inflow)	-14.2	-7.4	-7.0	-5.7		-8.6	3.8	5.7	4.2	2.7	4.1	4.7	5.1	2.3		
Net FDI (negative = inflow)	-5.9	-7.9	-26.2	-43.5		15.1	-2.1	-1.1	-9.1	-18.0	-9.9	1.7	5.0	-0.8		
Endogenous debt dynamics 3/	-4.6	-23.2	-29.3	-40.0			-15.3	-4.4	-1.5	-2.6	-6.1	-4.5	-1.7	-1.4		
<i>Of which: contribution from average real interest rate</i>				1.2			0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.6		
<i>Of which: contribution from real GDP growth</i>				-8.9			-15.9	-5.0	-2.1	-3.1	-6.7	-5.0	-2.3	-2.1		
Contribution from price and exchange rate changes	-3.4	-12.9	-20.9	-32.3			...	...	...	...	...	...	...	...
Residual (3-4) 4/	3.7	7.3	9.3	3.5			-67.7	-3.6	1.7	0.3	-7.8	-2.2	1.9	-0.5		
<i>Of which: debt relief 5/</i>				-2.6			-31.7	-2.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0		
<i>Of which: variation in gross assets</i>				3.6			11.0	2.7	0.8	-0.2	0.3	1.9	3.1	0.7		
NPV of external debt				100.4			70.2	63.6	66.2	68.3	60.0	55.8	51.3	42.4		
In percent of exports				266.7			123.4	112.1	132.0	149.4	118.0	103.8	103.7	124.2		
Debt service-to-exports ratio (in percent)	9.5	13.1	8.7	8.5			4.1	4.5	3.5	2.8	2.1	2.2	3.4	6.7		
Total gross financing need (billions of U.S. dollars)	0.0	0.2	0.2	0.2			0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.3		
Noninterest current account deficit that stabilizes debt ratio	6.8	23.8	46.2	80.0			85.1	9.2	8.9	20.3	23.8	5.0	-5.2	2.7		
Key macroeconomic assumptions																
Real GDP growth (in percent)	1.1	5.6	5.2	5.4		4.1	13.9	6.3	2.6	3.9	9.2	7.4	3.7	4.4		
GDP deflator in U.S. dollar terms (change in percent)	1.4	5.9	10.6	18.7		2.6	30.0	3.8	-2.3	-1.2	9.1	4.3	1.8	2.5		
Effective interest rate (in percent) 6/	0.6	0.6	0.7	0.8		0.7	0.6	0.7	0.7	0.7	0.7	0.8	1.0	1.3		
Growth of exports of G&S (U.S. dollar terms, in percent)	1.1	-10.7	35.6	43.3		8.8	123.5	10.1	-11.3	-6.4	32.4	18.5	2.9	8.5		
Growth of imports of G&S (U.S. dollar terms, in percent)	-6.1	24.2	62.3	52.8		20.7	-6.6	3.4	11.4	14.4	7.0	-8.9	2.7	4.7		
Growth element of new public sector borrowing (in percent)	...	...	...	...		...	43.5	43.6	41.2	39.9	39.7	39.6	28.5	6.2
Memorandum item:																
Nominal GDP (billions of U.S. dollars)	1.1	1.3	1.5	1.9			2.8	3.1	3.1	3.1	3.7	4.2	5.4	8.7		

Source: Staff simulations.

1/ This projection assumes no resolution of arrears vis-à-vis Mauritania's non-Paris Club creditors but abstracts from the possibility of additional penalty charges on the end-2005 stock of arrears.

2/ Includes public sector external debt only.

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

4/ Includes debt relief, late charges on arrears, changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Includes bilateral HIPC relief (multilateral HIPC relief being already included in "net current transfers") and, in 2006, MDRI relief.

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

7/ Historical averages and standard deviations are generally derived over the period 1998-2005, subject to data availability.

Table A3. Mauritania: External Debt Sustainability Framework, Baseline (Resolution of Arrears) Scenario, 2002–26 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical			Projections											
	2002	2003	2004	2005	Average 7/	Standard Deviation 7/	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2026
External debt (nominal) 2/	231.9	218.9	204.8	169.4			86.5	39.1	43.3	47.6	43.4	41.6	42.2	42.2	42.2	41.8	41.1	34.1
Of which: arrears under negotiation				67.9			46.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in external debt	-13.1	-13.0	-14.2	-35.4			-82.9	-47.4	4.2	4.3	-4.2	-1.8	0.6	0.0	0.0	-0.3	-0.7	-0.5
Identified net debt-creating flows	-16.7	-20.3	-23.5	-38.8			-15.1	-3.2	3.6	4.6	0.5	-0.8	-0.9	-0.7	-0.7	-1.6	-2.8	-0.4
Non-interest current account deficit	-6.2	10.8	32.0	44.6	11.6	17.7	2.2	1.6	13.1	23.6	13.4	-0.2	-4.3	-7.5	-8.1	-7.3	-7.1	1.2
Deficit in balance of goods and services	15.7	28.5	46.3	58.9			4.1	0.4	13.3	25.0	12.7	-2.1	-7.0	-10.5	-11.1	-10.6	-10.4	0.2
Exports	35.3	28.2	32.9	37.7			56.8	56.7	50.2	45.7	50.8	53.8	54.5	53.5	52.2	50.8	49.5	34.1
Imports	51.0	56.7	79.2	96.6			60.9	57.1	63.4	70.7	63.5	51.6	47.5	43.0	41.1	40.2	39.2	34.3
Net current transfers (negative = inflow)	-7.8	-10.4	-7.3	-8.6	-8.6	1.4	-5.7	-4.5	-4.4	-4.1	-3.3	-2.8	-2.5	-2.3	-2.1	-1.9	-1.8	-1.3
Other current account flows (negative = net inflow)	-14.2	-7.4	-7.0	-5.7			3.8	5.7	4.2	2.7	4.1	4.7	5.2	5.3	5.1	5.2	5.1	2.3
Net FDI (negative = inflow)	-5.9	-7.9	-26.2	-43.5	-11.9	15.1	-2.1	-1.1	-9.1	-18.0	-9.9	1.7	4.4	7.7	8.2	6.2	5.0	-0.8
Endogenous debt dynamics 3/	-4.6	-23.2	-29.3	-40.0			-15.3	-3.7	-0.3	-0.9	-3.0	-2.2	-1.0	-0.9	-0.8	-0.5	-0.8	-0.8
Contribution from nominal interest rate	1.4	1.3	1.4	1.2			0.6	1.3	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.6
Contribution from real GDP growth	-2.6	-11.6	-9.7	-8.9			-15.9	-5.0	-1.0	-1.6	-3.7	-2.9	-1.7	-1.6	-1.5	-1.2	-1.5	-1.4
Contribution from price and exchange rate changes	-3.4	-12.9	-20.9	-32.3			...	...	...	...	...	...	...	...	...	...	...	...
Residual (3-4) 4/	3.7	7.3	9.3	3.5			-67.7	-44.2	0.6	-0.3	-4.7	-1.0	1.5	0.7	0.7	1.2	2.1	-0.1
Of which: debt relief 5/	-4.8	-3.8	-2.9	-2.6			-31.7	-41.9	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: variation in gross assets	3.6	-4.8	-3.4	-0.6			11.0	2.1	0.8	-0.2	0.3	2.0	2.3	1.8	1.5	2.4	3.1	0.7
NPV of external debt	...	...	...	100.4			70.2	24.0	26.7	29.7	27.5	26.7	27.5	27.9	28.3	28.4	28.4	27.3
In percent of exports	...	...	...	266.7			123.4	42.3	53.1	64.9	54.1	49.7	50.4	52.1	54.2	56.0	57.3	79.9
Debt service-to-exports ratio (in percent)	9.5	13.1	8.7	8.5			4.1	5.9	3.8	3.1	2.4	2.5	2.6	2.9	3.3	3.7	3.7	6.7
Total gross financing need (billions of U.S. dollars)	0.0	0.2	0.2	0.2			0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Noninterest current account deficit that stabilizes debt ratio	6.8	23.8	46.2	80.0			85.1	48.9	8.9	19.3	17.7	1.6	-4.9	-7.5	-8.1	-6.9	-6.4	1.7
Key macroeconomic assumptions																		
Real GDP growth (in percent)	1.1	5.6	5.2	5.4	4.1	2.1	13.9	6.3	2.6	3.9	9.2	7.4	4.2	3.9	3.6	2.9	3.7	4.4
GDP deflator in U.S. dollar terms (change in percent)	1.4	5.9	10.6	18.7	2.6	10.4	30.0	3.8	-2.3	-1.2	9.1	4.3	0.8	1.6	1.1	2.0	1.8	2.5
Effective interest rate (in percent) 6/	0.6	0.6	0.7	0.8	0.7	0.2	0.6	1.6	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.7	1.7	1.8
Growth of exports of G&S (U.S. dollar terms, in percent)	1.1	-10.7	35.6	43.3	8.8	21.7	123.5	10.1	-11.3	-6.4	32.4	18.5	6.4	3.7	2.1	2.2	2.9	8.5
Growth of imports of G&S (U.S. dollar terms, in percent)	-6.1	24.2	62.3	52.8	20.7	27.2	-6.6	3.4	11.4	14.4	7.0	-8.9	-3.3	-4.3	0.0	2.8	2.7	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	43.5	43.6	41.2	39.9	39.7	39.6	37.3	35.1	32.9	30.7	28.5	6.2
Memorandum item:																		
Nominal GDP (billions of U.S. dollars)	1.1	1.3	1.5	1.9	2.8	3.1	3.1	3.1	3.1	3.1	3.1	3.7	4.2	4.4	4.7	4.9	5.1	5.4

Source: Staff simulations.

1/ This baseline scenario assumes the resolution of Mauritania's pending arrears problems in late 2007.

2/ Includes public sector external debt only.

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

4/ Includes debt relief, late charges on arrears, changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Includes bilateral HIPC relief (multilateral HIPC relief being already included in "net current transfers") and, in 2006, MDRI relief.

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

7/ Historical averages and standard deviations are derived from the period 1998–2005.

Table A4. Mauritania: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline (Resolution of Arrears) Scenario, 2006–26
(in percent)

	Projections											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2026
NPV of debt-to-GDP ratio												
Baseline	70	24	27	30	27	27	27	28	28	28	28	27
A. Standardized Alternative Scenarios												
A1. Key variables at their historical averages in 2007–26 1/	70	25	23	21	19	18	19	19	18	19	21	25
A2. New public sector loans on less favorable terms in 2007–26 2/	70	25	29	33	32	32	33	34	35	36	37	41
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2007–08	70	25	28	31	29	28	29	30	30	30	30	29
B2. Export value growth at historical average minus one standard deviation in 2007–08 3/	70	33	45	48	44	42	42	42	42	41	40	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007–08	70	27	32	36	33	32	33	34	34	34	34	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007–08 4/	70	25	35	39	35	34	35	35	35	35	34	29
B5. Combination of B1–B4 using one-half standard deviation shocks	70	30	31	34	32	31	32	32	32	32	32	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	70	34	38	42	39	38	39	40	40	40	40	39
NPV of debt-to-exports ratio												
Baseline	123	42	53	65	54	50	50	52	54	56	57	80
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2007–26 1/	123	45	46	46	38	34	34	35	35	38	42	72
A2. New public sector loans on less favorable terms in 2007–26 2/	123	44	58	73	63	59	61	64	68	71	74	121
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2007–08	123	42	53	65	55	50	51	53	55	56	58	80
B2. Export value growth at historical average minus one standard deviation in 2007–08 3/	123	74	115	135	111	100	100	102	103	104	104	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007–08	123	42	53	65	55	50	51	53	55	56	58	80
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007–08 4/	123	45	71	84	70	63	64	65	67	68	69	86
B5. Combination of B1–B4 using one-half standard deviation shocks	123	53	57	70	58	53	54	55	58	59	60	83
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	123	42	53	65	55	50	51	53	55	56	58	80
Debt service ratio												
Baseline	4	6	4	3	2	2	3	3	3	4	4	7
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2007–26 1/	5	4	4	3	2	2	2	2	3	2	2	6
A2. New public sector loans on less favorable terms in 2007–26 2/	5	3	4	3	3	3	3	3	3	4	4	10
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2007–08	5	3	4	3	2	2	3	3	3	4	4	8
B2. Export value growth at historical average minus one standard deviation in 2007–08 3/	5	4	6	6	4	4	4	6	7	8	8	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007–08	5	3	4	3	2	2	3	3	3	4	4	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007–08 4/	5	3	4	4	3	3	3	3	3	4	5	9
B5. Combination of B1–B4 using one-half standard deviation shocks	5	4	4	3	2	3	3	3	4	4	4	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	5	3	4	3	2	2	3	3	3	4	4	8
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	24	24	24	24	24	24

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A5. Mauritania: Public Sector Debt Sustainability Framework, Baseline (Resolution of Arrears) Scenario, 2003–26
(in percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2003	2004	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006–12 Average	2016	2026	2012–26 Average
Public sector debt 1/	259.5	240.3	212.3			105.2	95.9	98.5	100.1	85.3	78.2		65.0	49.3	
<i>Of which: foreign-currency denominated</i>	221.1	196.4	169.6			84.3	78.2	82.4	85.7	75.4	70.8		63.7	48.5	
Change in public sector debt	65.0	-19.2	-28.0			-107.1	-9.2	2.6	1.6	-14.8	-7.1		-2.1	-1.3	
Identified debt-creating flows	-10.2	-43.7	-37.2			-103.9	-8.3	3.1	1.5	-14.7	-9.2		-5.9	-2.3	
Primary deficit	9.0	1.8	3.8	1.9	6.8	-3.9	0.4	2.0	3.0	0.6	-0.9	0.2	-3.0	1.1	-1.5
Revenue and grants	35.4	32.9	26.4			30.8	25.3	24.7	24.6	23.8	23.7		24.3	21.4	
<i>Of which: grants</i>	4.7	3.1	2.1			1.7	1.6	0.7	0.6	0.5	0.4		0.2	0.1	
Primary (noninterest) expenditure	44.4	34.7	30.2			26.9	25.7	26.8	27.6	24.4	22.7		21.3	22.4	
Automatic debt dynamics	-14.0	-41.6	-37.6			-68.3	-8.3	1.4	-1.1	-14.9	-8.0		-2.8	-3.3	
Contribution from interest rate/growth differential	-11.1	-17.8	-19.9			-35.4	-6.9	-1.9	-3.6	-9.9	-6.8		-2.9	-2.4	
<i>Of which: contribution from average real interest rate</i>	-0.8	-5.0	-7.5			-9.5	-0.6	0.6	0.1	-1.4	-1.0		-0.5	-0.3	
<i>Of which: contribution from real GDP growth</i>	-10.3	-12.8	-12.4			-25.9	-6.3	-2.5	-3.7	-8.4	-5.9		-2.4	-2.1	
Contribution from real exchange rate depreciation	-3.0	-23.8	-17.7			-32.9	-1.4	3.3	2.5	-5.0	-1.2		...	...
Other identified debt-creating flows	-5.2	-3.9	-3.4			-31.7	-0.5	-0.4	-0.4	-0.3	-0.3		-0.1	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-5.2	-3.9	-3.4			-31.7	-0.5	-0.4	-0.4	-0.3	-0.3		-0.1	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	75.2	24.5	9.3			-3.2	-0.9	-0.5	0.0	-0.1	2.1		3.8	1.0	
NPV of public sector debt	38.4	43.8	144.3			91.1	41.7	42.8	44.1	37.4	34.3		29.8	27.6	
<i>Of which: foreign-currency denominated</i>	0.0	0.0	101.6			70.2	24.0	26.7	29.7	27.5	26.8		28.5	26.9	
<i>Of which: external</i>	...	...	101.6			70.2	24.0	26.7	29.7	27.5	26.8		28.5	26.9	
Gross financing need 2/	24.6	16.5	18.8			11.4	10.2	10.5	10.8	5.5	2.6		0.6	4.3	
NPV of public sector debt-to-revenue ratio (in percent) 3/	108.5	133.3	546.1			296.0	165.1	173.3	179.4	157.4	144.8		123.1	129.2	
<i>Of which: external</i>	...	...	384.3			228.0	95.0	107.9	120.8	115.6	113.3		117.4	125.9	
Debt service-to-revenue ratio (in percent) 3/ 4/	19.9	20.2	24.4			14.0	13.8	14.8	16.2	8.4	6.8		9.0	11.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-56.0	21.1	31.7			103.3	9.6	-0.5	1.4	15.3	6.2		-0.9	2.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.6	5.2	5.4	3.3	3.2	13.9	6.3	2.6	3.9	9.2	7.4	7.2	3.7	4.4	3.6
Average nominal interest rate on forex debt (in percent)	1.4	1.0	1.1	1.2	0.1	0.9	0.7	0.8	0.7	0.7	0.6	0.7	1.0	1.3	1.2
Average real interest rate on domestic currency debt (in percent)	-0.2	-7.1	-12.1	-3.4	5.0	-20.7	2.0	8.3	7.1	-3.3	0.0	-1.1	6.4	5.7	6.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.0	-11.5	-9.7	2.3	9.5	-22.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.5	11.5	18.9	7.1	5.7	31.4	3.8	-2.3	-1.2	9.1	5.7	7.8	3.3	4.1	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	33.4	-17.8	-8.2	12.3	25.9	1.4	1.5	6.9	7.0	-3.5	0.2	2.3	2.4	4.4	3.5

Sources: Country authorities; and staff estimates and projections.

1/ Central government's gross debt.

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

3/ Revenues including grants.

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

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

Table A6. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, Baseline scenario 2006–26

	Projections							
	2006	2007	2008	2009	2010	2011	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	91	42	43	44	37	34	30	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	91	44	45	46	42	43	58	85
A2. Primary balance is unchanged from 2006	91	38	33	28	19	15	0	0
A3. Permanently lower GDP growth 1/	91	42	44	46	40	38	40	63
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007–08	91	46	50	53	47	45	50	64
B2. Primary balance is at historical average minus one standard deviations in 2007–08	91	49	57	58	50	46	41	38
B3. Combination of B1-B2 using one half standard deviation shocks	91	48	53	54	46	42	38	35
B4. One-time 30 percent real depreciation in 2007	91	52	52	53	45	41	36	35
B5. 10 percent of GDP increase in other debt-creating flows in 2007	91	51	52	54	46	42	38	35
NPV of Debt-to-Revenue Ratio 2/								
Baseline	296	165	173	179	157	145	123	129
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	296	175	182	185	177	180	237	397
A2. Primary balance is unchanged from 2006	296	149	135	115	0	0	0	0
A3. Permanently lower GDP growth 1/	296	167	178	187	168	158	165	295
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007–08	296	180	202	217	199	192	205	299
B2. Primary balance is at historical average minus one standard deviations in 2007–08	296	196	230	237	209	194	170	177
B3. Combination of B1-B2 using one half standard deviation shocks	296	190	213	219	193	178	156	166
B4. One-time 30 percent real depreciation in 2007	296	204	211	215	187	171	148	165
B5. 10 percent of GDP increase in other debt-creating flows in 2007	296	202	212	218	193	178	155	161
Debt Service-to-Revenue Ratio 2/								
Baseline	14	14	15	16	8	7	9	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	14	17	17	8	9	22	40
A2. Primary balance is unchanged from 2006	14	14	9	6	0	0	0	0
A3. Permanently lower GDP growth 1/	14	14	15	17	10	8	14	30
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007–08	14	15	18	21	14	12	17	32
B2. Primary balance is at historical average minus one standard deviations in 2007–08	14	14	26	30	14	11	12	19
B3. Combination of B1-B2 using one half standard deviation shocks	14	14	22	24	12	9	11	17
B4. One-time 30 percent real depreciation in 2007	14	14	16	18	10	8	11	15
B5. 10 percent of GDP increase in other debt-creating flows in 2007	14	14	28	22	12	9	11	17

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Figure A1. Mauritania: Composition of end-2005 nominal external debt stock
Total: \$3,137 million

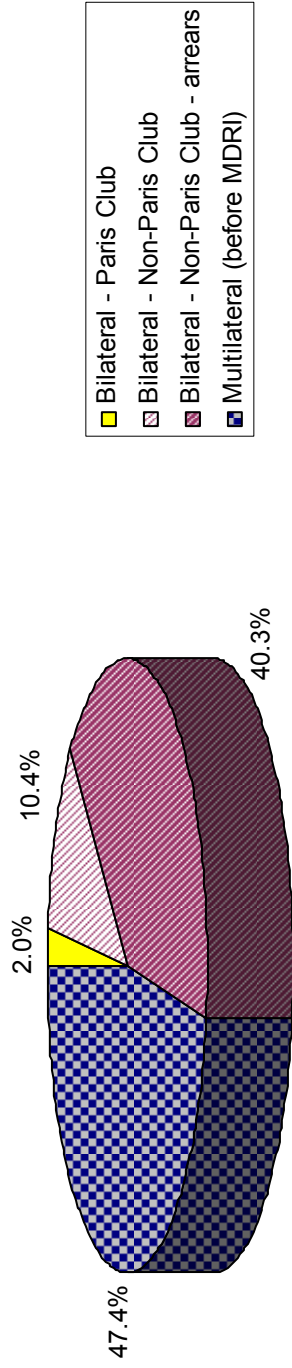
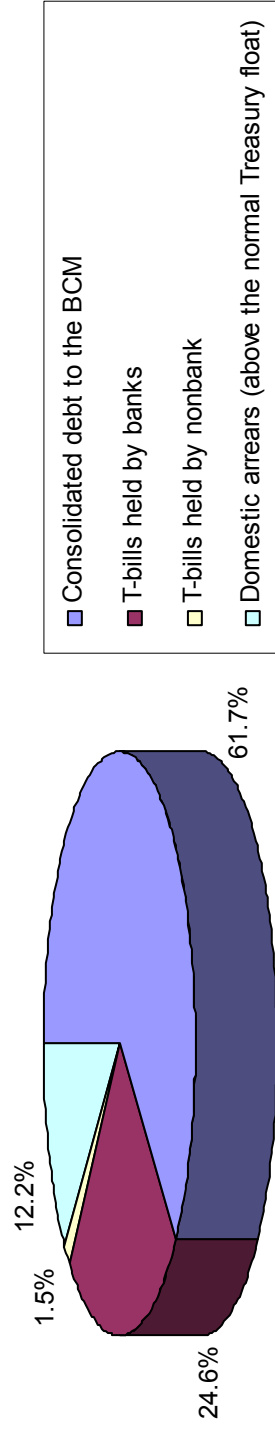
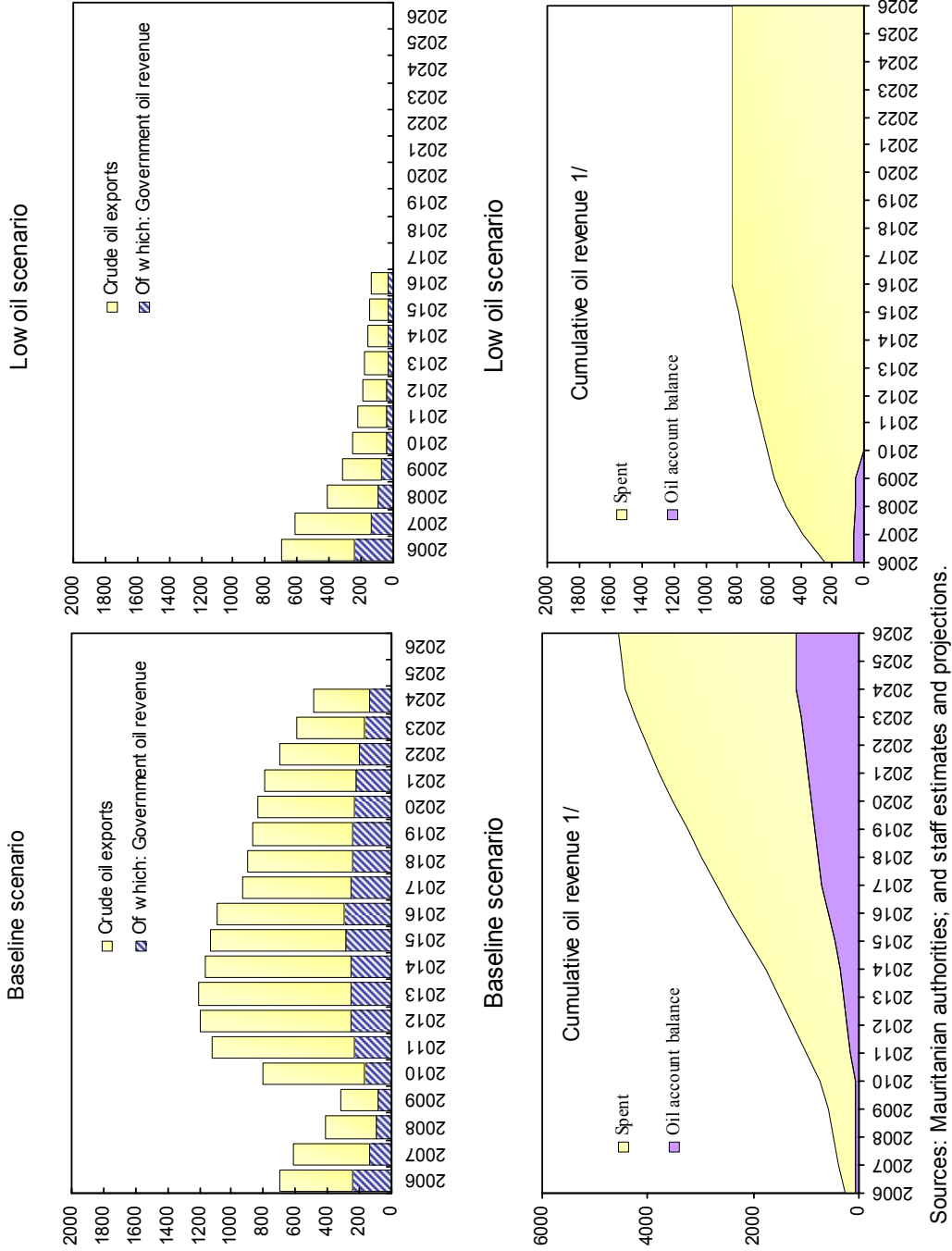


Figure A2. Mauritania: Composition of end-2005 nominal domestic debt stock
Total: UM 212.5 billion



Sources: Mauritanian authorities; and staff estimates.

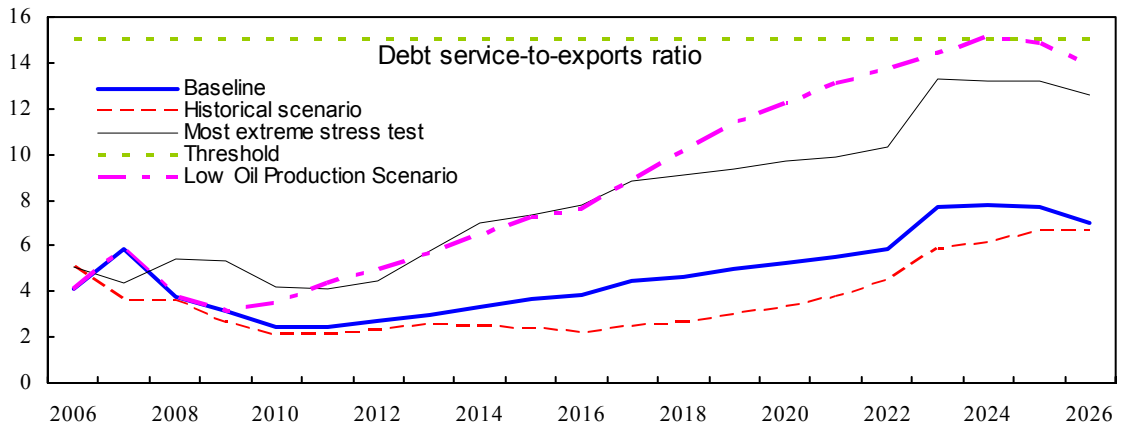
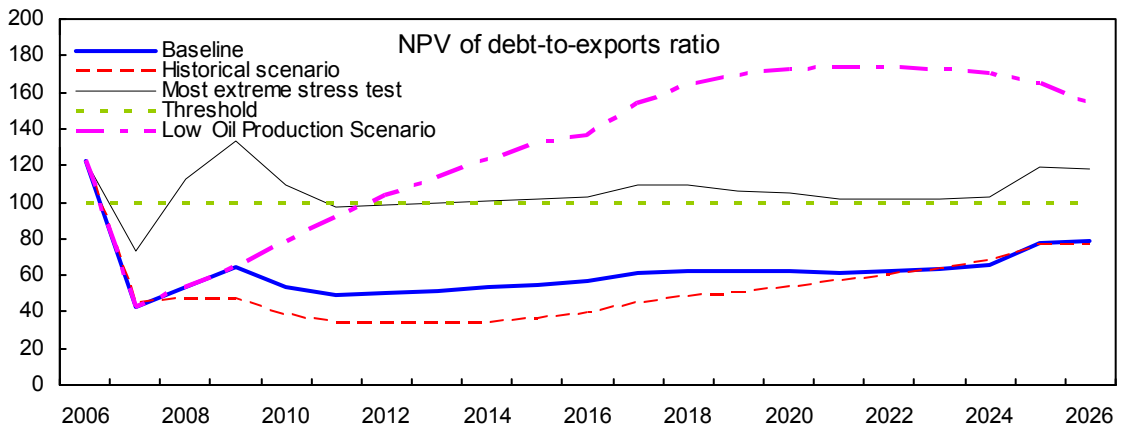
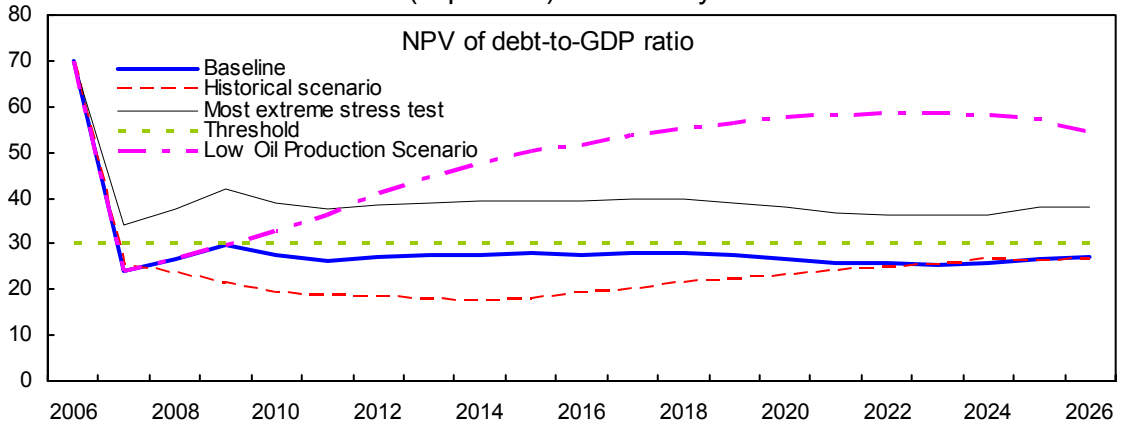
Figure A3. Mauritania: Projections for Oil Revenue and its Uses, 2006–26
(In millions of current \$)



Sources: Mauritanian authorities; and staff estimates and projections.

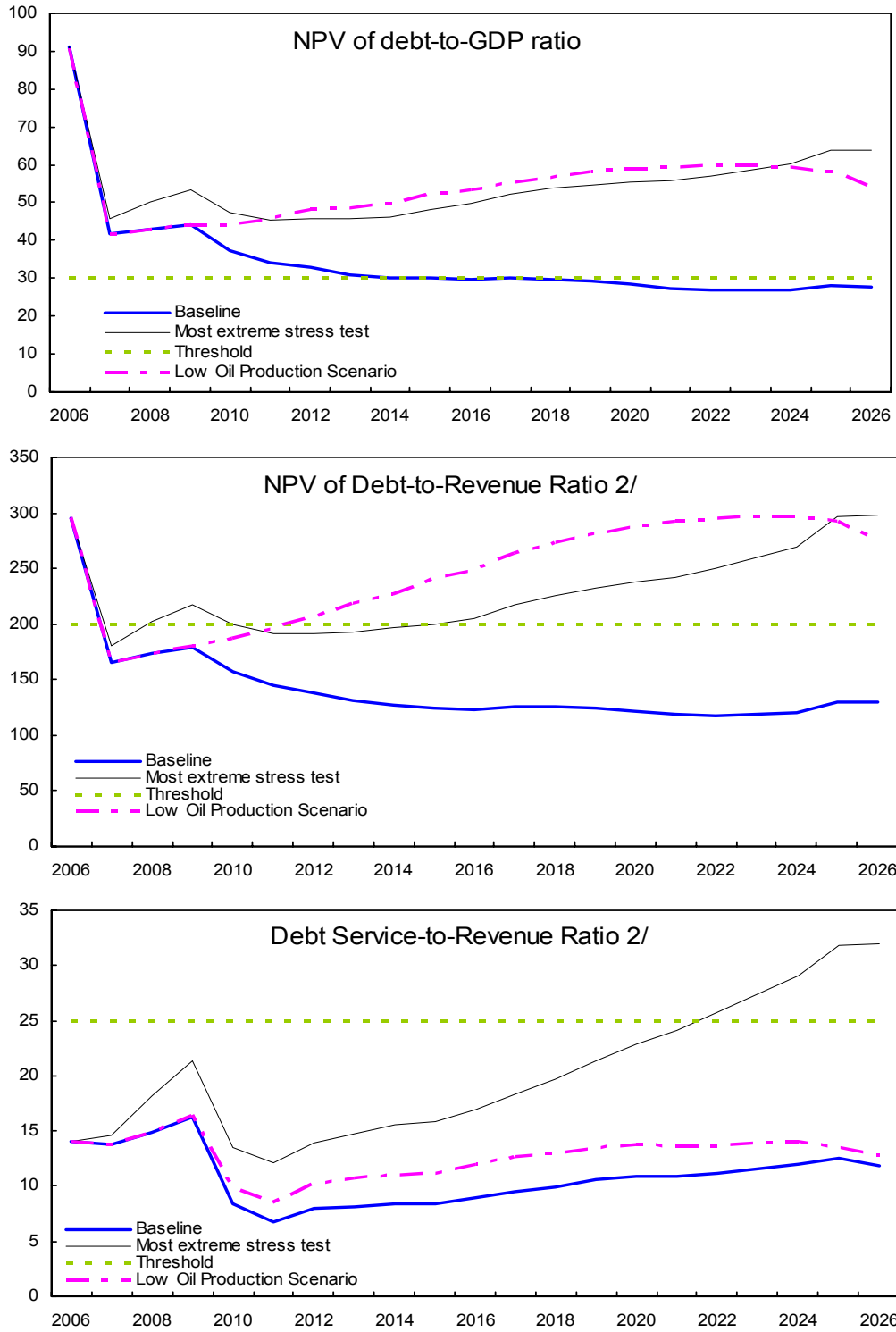
1/ Including capital revenue on oil account.

Figure A4. Mauritania: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006–26
(In percent)-Preliminary



Source: Staff projections and simulations.

Figure A5.Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2006–26



Source: Staff projections and simulations.

1/ Most extreme stress test is test that yields highest ratio in 2016.
 2/ Revenue including grants.

APPENDIX II. MAURITANIA: RELATIONS WITH THE FUND

As of October 31, 2006

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

II. General Resources Account:	SDR Million	% Quota
Quota	64.40	100.00
Fund holdings of currency	64.40	100.01
Reserve Position	0.00	0.00

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.13	1.30

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Jul. 18, 2003	Nov. 07, 2004 ¹	6.44	0.92
PRGF	Jul. 21, 1999	Dec. 20, 2002	42.49	42.49
PRGF	Jan. 25, 1995	Jul. 13, 1998	42.75	42.75

VI. Projected Payments to Fund

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

	<u>Forthcoming</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Principal					
Charges/Interest	0.09	0.39	0.39	0.39	0.39
Total	0.09	0.39	0.39	0.39	0.39

¹ Cancellation date.

VII. Implementation of HIPC Initiative:

Enhanced	<u>Framework</u>
I. Commitment of HIPC assistance	
Decision point date	Feb. 2000
Assistance committed by all creditors (US\$ millions) ²	622.00
<i>Of which:</i> 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):

Delivery Date	Eligible Debt		
	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 and concluded that, with the exception of appointing an international audit firm, the central bank had made little progress in strengthening the framework since the 2002 transitional assessment of the BCM's external audit mechanism. In particular, critical vulnerabilities were found in the areas of financial reporting (including reporting of monetary data to the Fund) and controls. A number of recommendations were made to address these vulnerabilities, including with respect to audits of reserves and monetary program data, the preparation of financial statements on the basis of International Financial Reporting Standards, and measures to improve controls in reserves management. Measures have been taken in some areas, and a new timetable for the implementation of outstanding safeguards recommendations was agreed with the authorities in November 2005. The external audits of FY 2003, FY 2004, and FY 2005 have been completed. International Financial Reporting Standards have been adopted by the BCM Board as the financial reporting framework and it is envisaged that IFRS-compliant financial statements will be prepared for FY 2006. Recommendations related to monetary program data remain relevant in the context of the proposed program.

X. Exchange Arrangements

The currency of Mauritania is the ouguiya (UM). The ouguiya has been de facto pegged to the U.S. dollar, despite minor adjustments to the central rate in 2004–05. Since October 24, 2005, \$1 has been equivalent to UM 268.6. In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second

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).

reimposes 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 rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2 (a). The BCM intends to launch a new foreign exchange market by end-2006, following suspension in mid-2003 of the previous system of foreign exchange auctions.

XI. Last Article IV Consultation

Discussions for the 2006 Article IV consultation were held in Nouakchott, from April 26 to May 9, 2006. The staff report (IMF Country Report No 06/272) was considered by the Executive Board on June 21, 2006. The Executive Board approved the HIPC Completion Point document for Mauritania on June 7, 2002.

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

A joint Fund/Bank FSAP preparatory mission visited Nouakchott in February 2005 and requested detailed financial data, including on individual banks. Following resolution of the data issues, a full mission visited Nouakchott during February 19–March 3, 2006 to assess the soundness and vulnerabilities of the financial sector; assess the provision of financial services and identify missing services and markets; review the regulatory, legal and judicial framework; and identify policy measures to address the vulnerabilities and the obstacles to the effective provision of a broad range of financial services. The Final Report on the Fiscal transparency Module of the Observance of Standards and Codes (ROSC) was based on two missions, respectively conducted from May 14 to 24, 2002 and from August 6 to 13, 2002. The final fiscal ROSC report is published on the IMF website.

XIII. Technical Assistance (since 2001)

1. MFD (formerly MAE)

a. Money and banking

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

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

TA mission on money market instruments: March 7–19, 2006.

b. Exchange system

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

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

Peripatetic TA missions by panel expert on foreign exchange reserves management: July 13–26, 2005.

2. FAD

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

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

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

TA mission on public expenditure management: April 3–19, 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.

3. LEG

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

4. STA

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

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

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

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

5. AFRITAC

Several TA missions in 2003–06, 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. Philippe Callier has been the resident representative in Mauritania since October 2004.

APPENDIX III. MAURITANIA: RELATIONS WITH THE WORLD BANK GROUP

As of October 31, 2006

Partnership in Mauritania's Development Strategy

1. Mauritania developed its Poverty Reduction Strategy (PRSP) in February 2001, and was one of the first countries to do so. Since 2001 two PRSP Progress Reports (PRs) have been prepared and discussed by the Boards of the Bretton Woods institutions in June 2002 and July 2003 respectively.¹ The final version of the second PRSP, which is based on the findings of the recently completed national household survey (EPCV 2004) and which covers the period 2006–10, was received in October 2006. The PRSP and the Joint Staff Advisory Note (JSAN) are due to be sent to the Boards of the Bretton Woods institutions in December 2006.
2. The transition government, which was installed following a coup in August 2005, moved quickly to reestablish macroeconomic stability, which had slipped due to large off-budget spending over several years. It also initiated an ambitious reform program focusing on the return to democracy, strengthening of the judicial sector, and improving public financial management. The Bank officially re-engaged with Mauritania in January 2006 (in accordance with OP7.30 “dealing with de-facto governments”) and is free to undertake new operations.
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, privatization and poverty monitoring and evaluation. The two institutions cooperate closely in advising the government on the implementation of the PRSP and are currently finalizing the JSAN. Other areas of close collaboration include public financial management, the nascent oil sector, the financial sector, 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 PRSP through its Country Assistance Strategy (CAS, FY03–05—extended to cover FY06). The CAS program of lending and nonlending operations was specifically designed to support implementation of

¹ A third PRSP-PR was not finalized in 2004 due to persisting uncertainty on key macroeconomic indicators in 2003 and 2004 (and consequently on medium-term projections).

the four strategic axes of the PRSP, with particular emphasis on capacity building. In the 2002 CAS it was assumed that a series of 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.

5. The next CAS (FY07-11), which is currently under preparation and due to be discussed by the Board in March 2007, will follow the finalization of the second PRSP. It will present a Bank program that is closely aligned with the priorities of the PRSP and will outline the Bank's strategy for transitioning to Mauritania's possible graduation from IDA to IBRD. Taking into account the Bank's comparative advantages, the CAS will put particular emphasis on four priority sectors (private sector development, urban development, rural development and public sector), also envisaging a continued engagement in the social sectors and support in the area of oil revenue management.

The Bank Portfolio

6. To date, the World Bank has approved 59 projects in Mauritania for a total of \$1,040 million. The current portfolio has 11 operations (including a GEF project) for a total of \$294.9 million, with an undisbursed balance of \$190.6 million as of November 8, 2006. The portfolio also includes three regional projects, for which Mauritania's share is \$66.9 million. With the regional program, the total Mauritania portfolio is \$361.8 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 (\$6.4 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 Hydroelectric Project—Credit to Mauritania (\$25 million). In the first quarter of FY07 the Bank also delivered a 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.

7. The Bank's program also encompasses Economic and Sector Work (ESW), the provision of Institutional Development Facility (IDF) grants and Trust Funds (TF). A Public Expenditure Review (PER) was completed in June 2004. A PER update—which benefits 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). An Investment Climate Assessment (ICA), a Financial Sector Assessment Program (FSAP) and a Gender Assessment are expected in FY07. The current ESW portfolio also includes a Study on Corruption in Mauritania, which will serve as an input into the government's Anti-Corruption Strategy, and a Sources of Growth study, to be completed in FY08. A poverty assessment, based on the EPCV 2004 data, is also planned in

FY08. The Bank provided \$448,000 in an IDF for the Justice Sector (which closed in September 2005), and \$273,000 through an IDF to support the accountancy profession (which closed in October 2006). In addition, the Bank is currently providing \$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. A PHRD to prepare a Public Sector Capacity Building project (\$549,825) closed on September 4, 2006 and a PRSP-TF (\$496,900) closed on December 31, 2005.

Main Policy Reform Areas

8. The Bank supports the authorities in the implementation of the five priority areas at the core of the PRSP, which will also serve as the main pillars of the second PRSP.

9. **Accelerate growth and maintain macroeconomic stability.** One of the key objectives of the government is to strengthen macroeconomic policymaking and to accelerate the implementation of reforms geared at stimulating private sector-led growth. 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; (b) improving access to financial services; and (b) improving the business environment through legal and judicial reform. 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 coordinate its interventions with the Bank in supporting government reforms and privatization opportunities.

10. **Anchor growth in the economic sphere of the poor.** This requires (a) formulating a comprehensive rural development strategy; and (b) renewed efforts to ensure a sustainable urban development. In the urban sector, following the successes of the ongoing UDP project, a second phase project is under preparation, with the participation of other donors, which will continue to address economic development of the cities, improvement of urban management with greater devolution of management and resources to the municipalities. In the rural sector, 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 the implementation of the sector strategy which focuses 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 push for 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. More efforts need to be made to support the recently established national authority dealing with the cross-cutting issue of the environment.

11. **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; and (c) the implementation of training schemes for teachers to strengthen education quality. Efforts are also being undertaken to support the expansion of higher education, focusing on the University of Nouakchott. Mauritania has also begun to benefit from the Education for All Fast Track Initiative to accelerate the implementation of the national education program. It received \$7 million in 2004, and a further \$2 million in 2005.

Health. Additional efforts are needed to accelerate progress toward the health and nutrition related MDGs 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 multi-sectoral 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.

12. **Promote good governance and institutional capacity building.** The government has made good governance one of its key priorities for the transition period and has taken an important first step by signing the UN Convention against Corruption. It plans to elaborate a national Anti-corruption Strategy before the end of the transition, which the Bank will support 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

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

Public Expenditure Management. The Fund and Bank jointly emphasize the need to significantly improve public expenditure management (PEM), accountability, and transparency, notably following the deterioration in macroeconomic management, which emerged in 2004. However, substantial progress has been made in key areas of PEM, most notably (a) the strict prohibition of extra-budgetary spending; (b) satisfactory progress in arrears clearance in the context of the IMF Staff-Monitored Program; (c) the preparation of monthly treasury balances and fiscal reports, reconciled with the Central Bank (BCM); (d) the adoption of a functional classification to facilitate public expenditure tracking; and (e) an update of the global Medium-Term Expenditure Framework (MTEF). Based on this progress, the Board of the World Bank approved Mauritania's MDRI debt relief effective July 1, 2006.

Oil. The government has established a National Hydrocarbon Revenue Fund (FNRH), an off-shore 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 Extractive Industry Transparency Initiative (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.

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) Non-bank 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/justice sector project is under preparation for delivery in FY08.

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). An in-depth poverty assessment is scheduled for delivery in FY08.

Contact Persons. Questions may be addressed to Mr. James Bond, Country Director, ext. 5339-6021; Mr. Francois Rantrua, Country Manager, ext. 5353-312, or Mr. Nicola Pontara, Senior Economist, ext. 80400.

**Statement by the IMF Staff Representative
December 18, 2006**

1. This statement summarizes information on recent economic developments that has become available since the staff report for the PRGF request was circulated to Executive Directors on December 4, 2006. This information does not alter the thrust of the staff appraisal.
2. The prior action related to the government's adoption of a 2007 budget ordinance was observed, as a budget ordinance consistent with paragraphs 25–29 of the MEFP was adopted by the Council of Ministers on December 1.
3. Monthly inflation was less than 0.6 percent in both October and November 2006, bringing the 12-month rate of inflation to 9.1 percent in November 2006, in line with program projections. Inflation continues to be driven by foodstuff prices, both local and imported.
4. A key component of the government revenue projection for 2006 has recently been confirmed. The adoption of the 2007 budget, which provides for fishing-related spending in line with what had been agreed with the EU under the new fishing agreement, will make possible the first disbursement of the EU annual compensation under the agreement by year-end. The new agreement will yield annual revenue of €108 million over six years, of which €86 million will be disbursed from the EU budget and €22 million directly by the EU fishing companies.
5. On December 14, 2006, the authorities eliminated the requirement to partially surrender fish export proceeds to the BCM.



Press Release No. 06/288
FOR IMMEDIATE RELEASE
December 18, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year PRGF Arrangement for US\$24.2 Million for Mauritania

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Islamic Republic of Mauritania in an amount equivalent to SDR 16.1 million (about US\$24.2 million) to support Mauritania's economic reform and poverty reduction agenda. The decision enables Mauritania to request immediately a disbursement in an amount equivalent to SDR 4.52 million (about US\$6.8 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"Mauritania's economic performance has been strong since the beginning of 2006. Real GDP grew at a double-digit rate, mainly driven by the start of oil production. Inflation was kept under control, aided by sound macroeconomic policies, and the country's external position continued to strengthen. The pace of structural reforms has continued in recent months, most notably with the elimination of the remaining exchange restriction in October 2006.

"The authorities' new three-year PRGF-supported program seeks to consolidate the progress achieved under the Staff-Monitored Program toward macroeconomic stabilization, and aims at sustaining rapid growth, further reducing inflation, and building up official reserves. It also sets an ambitious structural reform agenda based on a new poverty reduction strategy covering 2006–10. The program envisages key reforms in the public and financial sectors with a view to promoting private sector development and economic diversification. These reforms, together with substantial increases in infrastructure and social spending, should help Mauritania achieve its ambitious poverty reduction objectives.

"Public sector reforms will focus on enhancing public expenditure management, including through better planning, control, and execution of the budget. The planned modernization of the public administration and reforms in the civil service should contribute to building capacity and improving governance. In addition to the creation of the oil fund, new legislative and institutional steps will be taken in 2007 to consolidate progress achieved toward a transparent and efficient management of oil revenue.

“Financial sector reforms will cover the foreign exchange market as well as legislative and regulatory steps to develop and strengthen the banking sector. The launching of foreign exchange auctions will facilitate the authorities’ move toward a more flexible exchange rate policy.

“To ensure external sustainability, the authorities will rely exclusively on concessional external financing and continue to seek the settlement of debt issues with those creditors that have not yet provided debt relief under the HIPC Initiative,” Mr. Portugal said.

Recent Developments

The democratization process initiated by the transition authorities after the August 2005 regime change has remained on track and backed by domestic and international support. It will culminate in presidential elections in March 2007, following parliamentary and local elections in November and December 2006.

Since the beginning of 2006, Mauritania's economic performance has been fully satisfactory. All quantitative targets and structural benchmarks under the SMP (January-June 2006) were observed. Sound macroeconomic policies helped keep annualized inflation below 10 percent during the first half of the year, while international reserves reached the program level and the premium on the parallel foreign exchange market remained nil. Government revenues were boosted by strong tax collection, allowing for some increased spending within the program deficit target through June. The authorities maintained a prudent monetary stance and broad money supply growth remained significantly below program targets. Since June 2006, the authorities have maintained prudent fiscal and monetary policies and made further progress on the structural reform agenda, notably in the areas of public finance management and foreign exchange market liberalization.

Program Summary

Building on the positive SMP track record, the Mauritanian authorities have prepared a medium-term program, which is derived from the authorities' second Poverty Reduction Strategy Paper (PRSP), covering 2006-10. The objectives of the PRSP are broadly consistent with the Millennium Development Goals and aim at ensuring higher growth and economic stability; improving economic opportunities for the poor; developing human resources and access to basic social services; strengthening governance; and designing and implementing effective monitoring and evaluation systems. The PRSP targets a reduction in the incidence of poverty of 12 percentage points between 2004 and 2010.

The proposed PRGF-supported program will consolidate the progress achieved during the SMP toward economic stabilization while developing a far-reaching program of structural reforms that should foster private-sector led growth, diversification, and enhance the implementation of the poverty reduction agenda. Over the next three years, the program will aim to achieve real GDP growth of above 4 percent, gradually reduce inflation to below 5 percent, and bring official reserves to about three months of imports. It envisages ambitious reforms in the public and financial sectors.

The first year of the program foresees a set of fiscal measures, including tariff and tax policy reforms and a reduction in subsidies to public enterprises, which should result in a slight decrease in the non-oil primary deficit and a substantial increase in capital spending and poverty reducing expenditures. Public sector reforms will focus on strengthening the legislative framework for oil revenue management, and improving monitoring and control of budget

execution. Steps toward civil service reform and strengthened governance will also be prepared. The program entails critical foreign exchange, monetary, and financial sector reform, including the launching of a new foreign exchange market and the adoption of new laws on the central bank and commercial banks in line with the recommendations resulting from the 2006 Financial Sector Assessment Program.

The program design mitigates in part the main risks to the program: lingering uncertainties about oil production prospects and the scheduled political change in May 2007. However, additional fiscal adjustment may be needed in 2008/09 if the declining trend in oil production is not reversed.

Table 3. Mauritania: Selected Economic and Financial Indicators, 2001–07

	2001	2002	2003	2004	2005	2006	2007
		Revised			Prel.	Proj.	
	(Percentage changes; unless otherwise indicated)						
National income and prices							
GDP at constant prices 1/	2.9	1.1	5.6	5.2	5.4	13.9	6.3
Non-oil GDP at constant prices	2.9	1.1	5.6	5.2	5.4	6.1	7.3
GDP deflator 1/	7.9	7.8	2.5	11.5	18.9	31.4	3.8
Non-oil GDP deflator	7.9	7.8	2.5	11.5	18.9	9.3	9.1
Consumer price index (period average)	7.7	5.4	5.3	10.4	12.1	6.4	8.7
Consumer price index (end of period)	4.1	8.4	2.9	16.1	5.8	9.8	7.0
External sector							
Exports of goods, f.o.b. (percentage change, in U.S. dollars)	0.2	-6.6	-4.1	38.1	42.2	137.4	9.5
<i>Of which:</i> non-oil	0.2	-6.6	-4.1	38.1	42.2	24.9	29.5
Imports of goods, f.o.b. (percentage change, in U.S. dollars)	2.4	-7.3	25.7	70.3	54.7	-12.5	2.6
Imports of goods, f.o.b. (percentage change, in U.S. dollars) 2/	-7.0	-7.6	22.1	33.7	24.4	25.2	3.3
Official transfers (in percent of GDP)	6.9	5.1	6.9	4.1	5.4	3.5	2.5
Current account balance (in percent of GDP)	-11.7	3.0	-13.6	-34.6	-46.9	-3.1	-2.3
Current account balance (in percent of GDP) 2/	-6.7	7.6	-7.1	-11.9	-7.1	-8.9	-8.1
Overall balance (in percent of GDP)	-7.6	-2.8	-9.9	-7.3	-3.9	9.8	1.6
Official reserves							
Gross official reserves (end of period, in millions of U.S. dollars) 3/	40	74	32	39	70	174	228
In months of following year's imports of goods and services 4/	0.9	1.4	0.4	0.5	0.7	2.3	2.9
Money and credit							
Money and quasi-money	34.3	23.8	25.5	13.5	14.6	15.8	17.3
Currency in circulation	17.6	17.7	47.5	-3.4	14.8	15.8	17.3
	(In percent of non-oil GDP)						
Consolidated government operations							
Revenue and grants	24.7	34.8	35.4	32.9	26.4	39.7	30.8
Revenue and grants (excluding oil)	24.7	34.8	35.4	32.9	26.4	28.4	25.0
Idem, excluding grants	20.7	30.4	30.7	29.7	24.4	26.2	23.1
Oil revenue 5/	...	...	...	...	...	11.3	5.7
Expenditure and net lending	35.0	37.6	47.2	37.7	33.5	37.5	33.2
Overall balance including grants	-10.3	-2.9	-11.8	-4.8	-7.0	2.2	-2.4
Overall non-oil balance excluding grants	-14.3	-7.2	-16.4	-8.0	-9.1	-11.3	-10.1
Overall non-oil balance including grants	-10.3	-2.9	-11.8	-4.8	-7.0	-9.1	-8.2
Memorandum items:							
Ouguiya/US\$ exchange rate (end of period) 6/	264.1	268.7	265.6	256.2	268.6	268.6	...
Exports, f.o.b. (in millions of U.S. dollars)	355	332	318	440	625	1,484	1,625
Imports, f.o.b. (in millions of U.S. dollars) 2/	415	383	468	625	778	974	1007
Nominal GDP (in billions of ouguiya)	287	312	338	397	497	744	821
Nominal non-oil GDP (in billions of ouguiya)	...	...	...	...	...	576	675
Nominal GDP (in millions of U.S. dollars)	1,122	1,150	1,285	1,495	1,871	2,770	3,057
Population (in millions)	2.57	2.63	2.69	2.76	2.82	2.89	2.96
GNP per capita (in U.S. dollars)	265	359	499	566	686	913	966
REER (12-month percentage change; end of period) 6/	4.5	-9.3	-13.4	8.1	8.7	2.0	...

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

1/ The large increase in the GDP deflator in 2006 (and the relatively low increase in real GDP for this year) reflect the authorities' choice of 1998 as the base year for the calculation of national accounts at constant prices. Oil prices were at a low in 1998.

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

3/ Excluding oil account.

4/ Excluding imports financed in FDI and aid.

5/ Including oil signature bonuses.

6/ In 2006: estimates through end-September.

**Statement by Laurean W. Rutayisire, Executive Director for
Islamic Republic of Mauritania
December 18, 2006**

I. Introduction

On behalf of my Mauritanian authorities I would like to thank Executive Directors and Management for their continued support to Mauritania. I would also like to thank to staff for their valuable advice to Mauritania over the years. My authorities look forward to a continued dialogue with the Fund in the period ahead, and remain confident that the IMF and all major development partners will continue to assist them in their efforts to promote a sound reforms agenda.

Mauritania has gone a long way since the political changes that took place in August 2005. The transition authorities have put good governance and transparency at the center of their political and economic agendas while pursuing economic stabilization and promoting structural reforms. This has helped restore confidence in their relations with the international community. As a result of their efforts, the recent SMP has been successfully implemented with all quantitative targets and structural indicators met, enabling Mauritania to benefit from debt relief under the MDRI. They thank the Board for granting them debt relief last June, and would like to reiterate their commitment to a prudent borrowing policy consistent with debt sustainability. They look forward to remaining creditors providing their promised HIPC debt relief.

On behalf of my authorities, I request the support of the Board for a new PRGF arrangement that would enable them to consolidate the rapid and substantial achievements they have made so far, and to promote a sound and transparent management of the nascent oil sector.

Poverty remains pervasive in Mauritania and to address this other major challenge, my authorities have prepared a new PRSP, covering the period 2006-10. Consistent with the objectives of the PRSP, they believe that a new PRGF arrangement program represents an adequate framework to assist them in their efforts to achieve sustained and higher growth rates that would enable them to reach their ambitious poverty reduction objectives. In addition, a PRGF arrangement would help mobilize external resources to finance their investment program intended to diversify the country's production base and develop, notably, tourism and agriculture, in order to generate a broader-based growth that would help achieve the MDGs. Recent technical difficulties in the oil sector and the revision of oil production prospects over the medium term are a reminder of the Mauritania's fragile situation, and the need for a sustained support from the international community.

II. Recent Economic Developments

Prudent macroeconomic policies since August 2005 have helped improve the economic situation significantly. Despite lower than expected oil production levels and energy supply bottlenecks, real GDP is expected to reach 14 percent, approximately, in 2006, while non-oil real GDP growth should attain 6.1 percent, also in 2006, from 5.4 percent in 2005. Sound fiscal management has helped contain the fiscal deficit and reduce government arrears, and tight monetary policy has brought back inflation to single-digit levels. Higher iron ore prices and the start of oil production have contributed to strengthen the balance of payments while the parallel foreign exchange market premium has narrowed significantly. Thanks to these favorable external developments, the central bank's foreign exchange reserves have risen from one month of imports of goods and services cover in 2005, to a projected 2.3 months at end-2006.

Strong revenue performance and tight expenditures control, helped contain the budget deficit during the first half of 2006 at 4.6 percent of non-oil GDP. By mid-year, the fiscal stance improved further with the inflow of new foreign exchange receipts that had not been anticipated when the 2006 budget was adopted. These include a \$100 million bonus payment from the oil operator Woodside, the proceeds of the sale of the third cellular telephone license for \$103 million, and the signing of a fishing agreement with the European Union that provides for an annual compensation of 86 million euros over the period 2006-12.

Taking into account these unexpected but substantial new revenues, the government adopted in July 2006 a supplementary budget ordinance, which provides for additional domestically financed spending notably on investment and on transfers to the water and electricity companies that continue to experience financial difficulties.

III. Medium-Term Prospects

In the medium term, the pace of real GDP growth will be strongly determined by the oil production outlook. The PRSP foresees a significant increase in poverty reducing expenditures during the 2007-10 periods. It targets a reduction of poverty from 47 percent in 2004 to less than 35 percent in 2010. Consistent with these objectives, the authorities' economic program for 2006-09 aims at raising average annual non-oil GDP growth to 5.5 percent, bringing inflation under 5 percent, building up official reserves to ensure an imports cover equivalent to about three months from 2007 onward. However, the authorities' recent downward revision of oil production projections over the medium term, to take into account the unexpected technical difficulties encountered by the oil operator Woodside in the single oil field currently under production, has also led to a downward revision of growth prospects in their medium term macroeconomic framework, compared to PRSP growth projections. Production prospects for the other extractive industries are expected to remain strong.

A. Fiscal and Public Sector Policies

In the tax area, important reforms will be implemented. These include the entering into effect in January 2007 of a new customs tariff largely in line with the tariffs applied in the neighboring WAEMU countries. A broadening of the tax base, including through the elimination of VAT exemptions on a number of food products, will be implemented, and an excise tax on sugar will be introduced. VAT administration will also be further strengthened. With regard to rice production, the present tariff rate of 20 percent will be revised in the 2008 budget law, at the latest.

As for current expenditures, the 2007 budget provides for the second phase of wage increases initiated in 2006. My authorities consider this measure as key to combating corruption in the civil service. However, in order to contain the overall wage bill, my authorities will, with World Bank support, pursue civil service reform, including through the elimination of the significant overstaffing in the civil service to adjust it to government's functional needs. Other measures to combat corruption include the adoption by end-2006 a code of ethics for civil servants, designed to reinforce moral and professional values of civil servants. The code of ethics will be published on the government's website. Also, to further enhance governance and transparency, the authorities will strengthen the state control institutions, notably the *Inspection Générale des Finances* and the *Cour des Comptes*.

Subsidies to public enterprises will be reduced. In this regard, the authorities intend to strengthen public enterprises' management and financial situation, and reduce the government's role in administrating prices. Petroleum products prices will be adjusted every two months to reflect international market prices. This measure should help eliminate distribution companies' revenue losses by end-august 2007. Performance contracts with the national electricity company, the water company and the hydrocarbon company will be signed by end-June 2007. Furthermore, the launching in January 2007 of the activities of the *Caisse Nationale d'Assurance Maladie* will not result in additional costs for the government as the broadening of the coverage of health benefits would be covered by a new user contribution.

B. Oil Sector

The authorities are committed to a transparent management of oil resources and will continue to seek Fund and World Bank assistance to further strengthen the measures already taken in this regard. The authorities have created the National Hydrocarbon Revenue Fund (FNRH), managed by the Ministry of Finance and the central bank. The FNRH has been operating since June 2006 and all government revenues from the hydrocarbon sector are now transferred to this fund. The authorities have also included in the budget law, a ceiling on the authorized transfer of these resources to the Treasury. Nonetheless, as a result of less

favorable oil revenue projections, the oil fund contribution to the financing of the budget is expected to decline over the period 2006-09. A draft law on the optimal management of oil resources will be prepared during the first quarter of 2007 –with IMF technical assistance–, and submitted by end-August 2007 to the future legislature, for adoption. In addition to adhering to the EITI, the authorities have also set up an EITI Committee and have launched the procedure for recruiting an international consulting firm to monitor the implementation of this initiative.

C. Monetary and Exchange Rate Policies

The authorities will maintain a prudent monetary policy stance while promoting greater exchange rate flexibility. Monetary policy implementation will take into account the expected increase in foreign currency inflows and the reduction in government debt to the banking sector. The authorities intend to limit broad money growth to a pace equivalent to that of nominal non-oil GDP. To meet this objective, the central bank will keep its policy interest rates at a positive real level. It will also encourage the development of a secondary market for securities and securitize a portion of the government debt to the central bank. Furthermore, the central bank will introduce a new liquidity management instrument, the central bank certificates of deposit, which will contribute to disconnecting liquidity management from the pace of Treasury bills issuances.

The authorities plan to develop a more flexible exchange rate policy, which will help them better manage the consequences of a possible real exchange rate appreciation and oil-related external shocks. On October 2006, the remaining restrictions on payments for current external transactions were eliminated consistent with the Fund's Article VIII of Agreement. The new foreign exchange market which will open by end-December 2006 will be limited to an auction system managed at the central bank, and then expanded to an interbank market. Once this market is operational, the main objective of the intervention policy will be to smooth daily fluctuations.

D. Financial Sector

Consistent with the FSAP recommendations, the authorities intend to implement reforms aimed at strengthening the financial sector while improving access to financial services in a competitive environment. These reforms include: a) strengthening the financial sector's legislative and regulatory environment; b) enhancing the transparency of financial sector accounting practices and the reliability of financial statements; c) strengthening the capacity of the different institutions in charge of the supervision of financial institutions; d) improving the legal framework for collateral and the implementation of regulations on combating money-laundering and the financing of terrorism; and e) gradually developing financial markets, with the deepening of the money market.

My authorities remain committed to implementing the recommendations of the Fund safeguards assessment reports, including those that will be issued in the updated 2004 safeguards assessment. It is the central bank (BCM)'s intention to continue enhancing its management and accounting procedures, in particular by applying international accounting and reporting standards, and strengthening internal audit procedures. The annual audits of its financial statements that the BCM will perform will be published within six months following the closing of accounts.

IV. Conclusion

Over the last year and a half, my authorities have demonstrated strong commitment to program implementation under the SMP, and clear determination to pursue sound policies under an ambitious reform agenda characterized by strong ownership, as outlined in the new PRSP.

Despite the considerable and rapid progress made to this date, my authorities acknowledge the daunting challenges ahead and the vulnerability of Mauritania's economy to a number of major risks. Uncertainties related to the evolution of oil production and commodities exports prices, along with weather-related shocks and natural hazards, notably drought and locusts invasions, continue to hamper the development of the country.

To address these challenges and to consolidate the progress made thus far, I call upon the Board to support my authorities' request of a new PRGF arrangement, and on the international community to continue to provide financial and technical assistance to Mauritania.