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Islamic Republic of Mauritania: Fifth Review Under the three-Year Extended Credit Facility Arrangement, Requests for Modification of Performance Criteria and Extension of the Arrangement—Staff Report and Press Release

In the context of the fifth review under the three-year Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the fifth review under the Three-Year Extended Credit Facility arrangement, requests for modification of performance criteria and extension of the arrangement, prepared by a staff team of the IMF, following discussions that ended on September 24, 2012, with various stakeholders and 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 8, 2012. 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.

- Press Release

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

Letter of Intent sent to the IMF by the authorities 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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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Fifth Review Under the Three-Year Extended Credit Facility Arrangement, Requests for Modification of Performance Criteria and Extension of the Arrangement

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Daniela Gressani and Dhaneshwar Ghura

November 8, 2012

Context: Despite several external shocks and a severe drought, economic activity has been resilient. Strong revenue efforts, substantial mining inflows, and exceptional donor assistance boosted fiscal and external buffers to record levels. For the near future, the main challenge will be to use this windfall to scale up investment without putting undue pressure on absorptive capacity. Reducing the economy's vulnerabilities to external shocks and stimulating broad-based inclusive growth remain the overarching priorities.

Program: All continuous and quantitative performance criteria for end-June 2012 were met with comfortable margins. The end-June indicative target on social expenditures was missed by a relatively small margin, but the full-year target is on track to be met. The relevant structural benchmarks were all met, with the exception of the end-July benchmark on electricity tariffs, pending the completion of the ongoing tariff study. A modification of end-December 2012 performance criteria and an extension of the arrangement from mid-March 2013 until end-June 2013 are requested.

Exchange rate regime: The exchange rate is de facto classified as other managed arrangement. Mauritania has accepted the obligations of Article VIII, Sections 2-(a), 3, and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Discussions: The team comprised A. Mati (head), R. Blotevogel, S. Mazraani, L. Moers (all MCD), and C. Ebeke (SPR). T. Najeh (Resident Representative) assisted. Discussions were held in Nouakchott during September 11–24, 2012. The mission met with the President, the Governor of the Central Bank, the Minister of Finance, the Minister of Economic Affairs and Development, the Minister of Energy, the Minister of Fisheries, the Minister of Rural Development, other senior officials, and representatives of the corporate and banking sector, diplomatic and donor community, civil society, and Parliament (including members of the opposition).

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EXECUTIVE SUMMARY

Mauritania successfully weathered several exogenous shocks during 2011–12. Economic growth was resilient despite a severe region-wide drought that hit agricultural production in 2011, and unfavorable terms of trade developments in 2012. Full-year GDP growth is set to reach 6.2 percent. Inflation is well contained. Substantial mining inflows and exceptional external assistance have fortified external and fiscal buffers.

All continuous and quantitative performance criteria for end-June 2012 were met with comfortable margins. The end-June indicative target on social expenditures was missed by a relatively small margin, but the full-year target is on track to be met. The relevant structural benchmarks were all met, with the exception of the end-July benchmark on electricity tariffs, pending the completion of the ongoing tariff study, expected before the end of the year.

Large downside risks are somewhat mitigated by sizeable buffers. In addition to the risks inherent to being a commodities' exporter (terms of trade and external demand shocks), lengthy ratification procedures by the European parliament—and opposition by some EU member countries—make timing of the disbursement of the EU fishing compensation fees uncertain. Fortunately, sizeable fiscal and external buffers, built during the ECF-supported program, provide a cushion against these downside risks. Efficient use of recent windfall donor assistance will be the main challenge for Mauritania over the next year. Diversifying the economy and stimulating broad-based inclusive growth to significantly reduce poverty remain overarching challenges.

Fiscal policy will be anchored on developments in nonextractive industries while protecting pro-poor spending. The new anchor will help preserve fiscal discipline without undue reliance on volatile mining revenue. Ambitious subsidy reform, wage bill containment, and fish license payments will create sufficient space for scaling-up public investments in 2013. A nearly neutral income tax reform and the scaling up of well-targeted social safety nets will help lift the purchasing power of the most vulnerable.

The CBM is committed to preserve macroeconomic and financial stability, by conducting monetary policy more actively and strengthening the functioning of the foreign exchange market. Efforts to enhance banking supervision should focus in the near term on improving asset quality and monitoring credit risk.

Structural reforms remain vital for generating broad-based inclusive growth, improving competitiveness, and reducing poverty. There is a need to deliver on reforms that reduce the regulatory burden, simplify tax and customs procedures, promote private sector employment, and improve governance.

I. Background

1. **Mauritania successfully weathered several exogenous shocks during 2011–12**. Economic growth was resilient despite a severe region-wide drought that hit agricultural production in 2011 and unfavorable terms of trade developments in 2012—declining metal prices coincided with still-elevated food and energy prices. Substantial mining inflows and exceptional external assistance have fortified external and fiscal buffers.

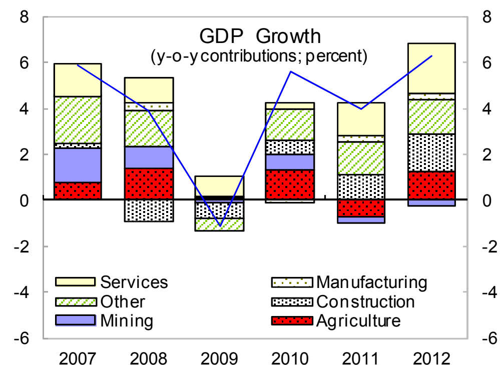
2. **Political upheaval in neighboring countries has not had detrimental economic effects so far, but political uncertainty remains high**. Parliamentary elections—already postponed twice—will likely be delayed again. A renewed election delay would spark additional criticism from the opposition, which has become increasingly vocal in questioning the President's achievements, particularly those relating to social improvements and poverty reduction. Pre-electoral spending pressures appear contained so far, and most observers consider policy continuity the most likely scenario following the legislative elections. Presidential elections are scheduled for early 2014.

3. **Poverty remains pervasive**. Despite Mauritania's sound macroeconomic performance, progress in reducing poverty and unemployment has been insufficient. Poor infrastructure, an unfavorable business climate, and restricted access to finance thwart private-sector development, which remains essential for diversifying the economy away from commodity dependence. Consequently, Mauritania is still heavily exposed to external shocks.

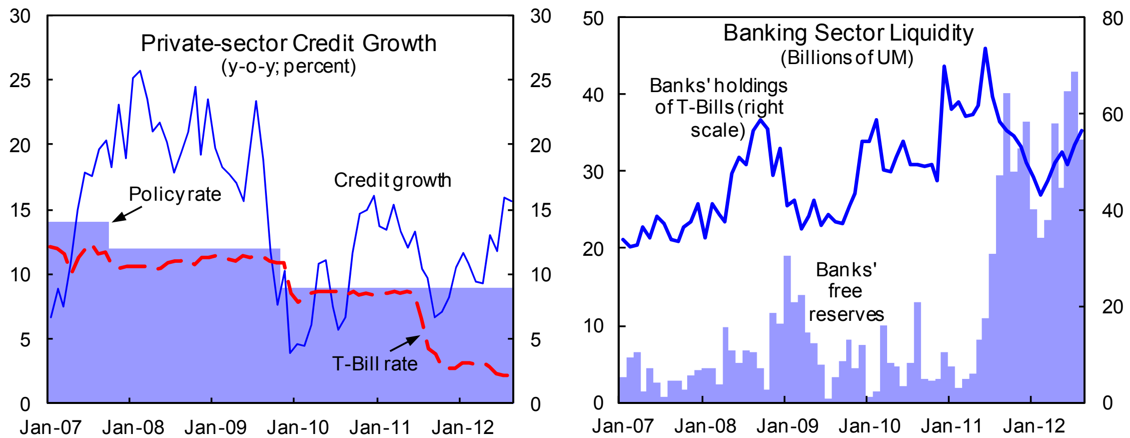
II. Recent Economic Developments and Program Implementation

4. **Resilient growth and a continued buildup of external and fiscal buffers characterize better-than-expected macroeconomic developments** (LOI, ¶4–7, Tables 1–8 and Figures 1–5):

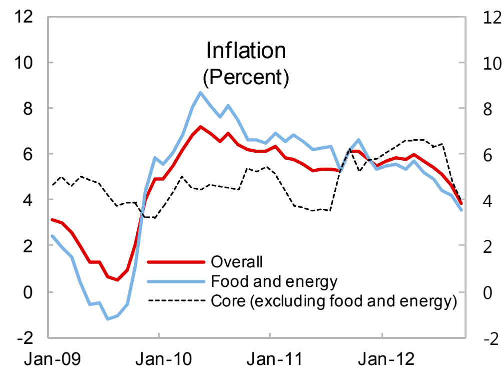
- Economic activity has picked up markedly after the drought-related slowdown last year, with brisk growth in construction and the recovery in agriculture compensating for ongoing technical problems in mining production and a slowdown in external demand. Full-year GDP growth is set to reach 6.2 percent (corresponding to 7.4 percent growth in nonextractive GDP).



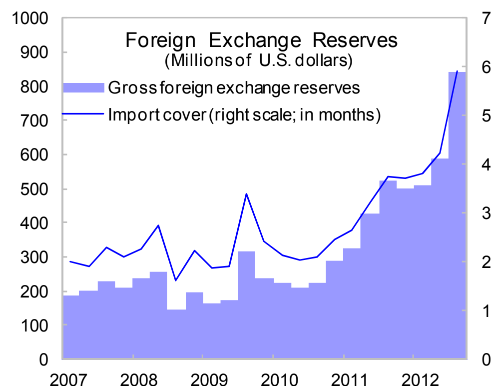
- Against the backdrop of abundant liquidity in the banking sector and negative real T-bill yields, credit growth to the private sector picked up to a higher level than expected in August (15.1 percent y-o-y increase), driven mainly by higher consumer lending (30 percent y-o-y increase to 9.4 percent of GDP at end-June).



- Headline inflation moderated further to 3.9 percent (y-o-y) at end-September. The main driver was decelerating food price inflation, reflecting the dampening effects of administered prices for some food staples. Core inflation (excluding food and energy prices) has also recently been declining, although it is still higher than noncore inflation.



- The current account deficit has widened sharply to 27.6 percent of GDP, driven by falling mining exports and massive investments in mining production capacity. The deficit narrows to only 4.5 percent of GDP after FDI-financed investments are excluded. Higher than expected inward repatriation by the state-owned mining company, as well as exceptional donor assistance, more than fully financed the remaining deficit, helping boost foreign exchange reserves to $840 million (covering 5.8 months of imports) at end-September.



- Fiscal performance has been strong. Thanks to considerable tax collection efforts, high mining revenue flowing from last year's record exports, and some spending

under execution, the basic non-oil balance (excluding grants and foreign-financed capital expenditures) was 3.6 percent of non-oil GDP at end-June, 0.6 percentage points better than programmed (LOI, ¶6). However, the end-year basic non-oil deficit target will still be 1 percentage point higher than initially programmed, because higher tax revenue will not fully compensate for the likely delay in the disbursement of the European Union fishing license envisaged at the time of the Fourth Review. That said, and despite the emergency drought-relief program earlier in the year, an exceptional one-off grant from Libya of $200 million (5 percent of GDP), promised as part of the Brussels 2010 donor roundtable, will turn the 2012 overall fiscal balance into a surplus for the first time since 2006.

5. **Program implementation continues to be solid**. The authorities met all continuous and quantitative performance criteria for end-June 2012 with comfortable margins (LOI, Table 1). The structural reform agenda progressed as planned, except for the end-July structural benchmark on raising electricity tariffs for large consumers. The authorities decided to wait for the results of a World Bank–supported market study before adjusting tariffs, which is about to be finalized. The tariff revision is an end-December structural benchmark. The authorities missed the end-June indicative target on pro-poor spending by a relatively small margin, but are on track to meet the full-year target now that the advance decree authorizing additional drought-relief spending is in effect.

6. **Nevertheless, poverty and unemployment remain high and implementation of Mauritania's current PRSP proceeds unevenly**. Solid macroeconomic results notwithstanding, progress in closing in on the 2015 MDGs has been slow. There are no new data on poverty incidence, but last year's drought is likely to have had aggravating effects—70 percent of the poor live in rural areas. Similarly, recent evaluations have shown that the achievements in education, health, and environmental sustainability are insufficient to meet the MDGs in these areas (Table 9). More encouragingly, to address pressing infrastructure needs, the authorities have stringently executed the public investment envelope, which will reach 11.0 percent of non-oil GDP in 2012 (up from 6.7 percent in 2010).

III. POLICY DISCUSSIONS

A. Macroeconomic Outlook

7. **A recovering mining sector will sustain overall economic activity in 2013.** Real GDP growth is set to exceed 6 percent, as the mining industry recovers from the technical problems that beleaguered production in the past two years. Inflation will rise slightly to 6.3 percent, due to planned increases in administered energy prices. The current account deficit will remain elevated, but will improve somewhat on the back of recovering mining production and additional EU fish license payments (Annex 1). Imports linked to the airport construction and expanding mining capacity (financed through FDI) will limit the improvement of the current account deficit. The repatriation of mining receipts will more

than cover the imports that are not FDI-financed, taking gross official reserves to $810 million, about 6.5 months of imports (a level already higher than what was planned for 2017 at the onset of the program).

Mauritania: Main Macroeconomic Indicators, 2009–13

	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Real GDP growth (in percent)	-1.2	5.1	3.9	6.2	6.3
Real GDP growth excluding extractive industries (in percent)	-1.1	5.6	4.8	7.4	5.9
Inflation (end-of-period; in percent)	4.9	6.1	5.5	6.0	6.3
Current account balance (in percent of GDP)	-10.7	-8.7	-7.3	-27.6	-25.1
Current account balance excluding FDI-financed imports of extractive industries (in percent of GDP)	-11.2	-6.4	7.1	-4.6	-8.9
Gross official reserves (in months of following year's imports excluding extractive industries)	2.4	2.5	3.7	5.3	6.6

Sources: Mauritanian authorities; and IMF staff estimates.

8. **Large downside risks are somewhat mitigated by more comfortable buffers**. With its economy concentrated in exports, Mauritania remains heavily exposed to a slowdown in global external demand. In addition to the terms of trade risks inherent to being a commodity exporter and energy/food importer, lengthy ratification procedures by the European parliament—and opposition by some EU member countries—may generate additional uncertainty over the expected EU fishing compensation fees (Annex I). Fortunately, Mauritania's sizeable fiscal and external buffers, built during the ECF-supported program, provide a cushion against these downside risks (see Box 1). However, the buffers themselves carry some macroeconomic challenges. The planned ramp up in investment spending—financed through domestic resources—may strain Mauritania's absorptive capacity (see below).

Box 1. Mauritania's Downside Risks are Mitigated by Comfortable Buffers

An updated downside risk scenario for Mauritania shows that the negative impact of a large drop in external demand—and significant reversal in commodity prices—would be dampened by the comfortable buffers accumulated over the past two years. Risks arising from the uncertainty surrounding the disbursement of the EU fishing compensation fees are also reflected.

Main Scenario Assumptions: In addition to the sharp deterioration of Mauritania's terms of trade already featured in staff's baseline scenario, the downside scenario assumes the following: (i) a drop in external demand (30 percent decline in iron ore demand, and in turn, production), (ii) a decline in metal prices (40 percent for iron ore, and 15 percent for gold and copper), (iii) a 25 percent decline in fuel prices (in line with global recession—to remain conservative, food prices were kept at today's elevated levels), and (iv) further delays in the disbursement of the EU fishing license, with only one-third (EUR 67 million) of the total amount paid. On balance, this scenario is more adverse than the 2009 global crisis, and therefore represents a tail-risk event (low probability of occurrence but high impact).

Simulations reveal sizeable effects on Mauritania's economy although existing buffers provide an important shield:

- The decline in iron ore production has immediate effects on economic activity with **real GDP growth,** declining by more than 2 percentage points relative to the baseline. Lower growth, as well as falling fuel prices, also lead to a decline in **inflation**.
- The **overall fiscal deficit** will widen by about 5 percentage points of non-oil GDP due to the drop in mining exports and the delay in the payment of the EU fishing license (spending is kept to budgeted levels). However, having saved this year's exceptional donor assistance, the authorities will be able to fully finance the deficit by drawing on the Treasury account, avoiding any recourse to public-sector borrowing.
- The **current account balance** will deteriorate by 12 percentage points of GDP following the collapse in mining exports and delays in receiving license payments. The drop in fuel imports and the postponement of some FDI-financed mining investment limit the deterioration. The implied **financing need** will be filled by drawing down foreign exchange reserves and through repatriations of the state-owned mining company. Consequently, Mauritania's **reserve coverage** will fall by about 3 months of prospective imports (from 6.5 to 3.8 months of prospective imports).
- **Financial sector risks** are relatively contained as Mauritanian banks are well capitalized and largely isolated from the rest of the world.

Impact of Reversal in Commodities Prices and External Demand in 2013

	Baseline	Downside scenario	Deterioration compared to 2013 baseline
Real and monetary sectors			
Real GDP growth (percent)	6.3	3.9	-2.4
Private-sector credit growth (percent)	14.7	9.9	-4.8
CPI inflation (period average; percent)	6.1	4.6	-1.5
Fiscal sector			
Basic non-oil balance (percent of non-oil GDP); program definition 1/	-0.2	-4.3	-4.1
Overall balance (percent non-oil GDP)	-1.8	-6.6	-4.8
Public debt (percent of GDP)	69.2	78.9	9.7
External sector			
Current account balance (percent of GDP)	-25.1	-37.1	-12.0
PPG external debt (percent of GDP)	61.4	70.0	8.6
SNIM drawdown of foreign assets (millions of U.S. dollars)	-21.0	264.2	285.2
International reserves			
Percent of GDP	18.5	14.0	-4.5
In months of following year's imports excluding extractive industries	6.5	3.8	-2.7
Millions of U.S. dollars	817.3	542.5	-274.8

1/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

B. Fiscal Policy

9. **Staff and the authorities agreed to anchor fiscal policy on developments in nonextractive industries, while protecting pro-poor spending**. This new anchor will help ensure that permanent recurrent spending does not unduly rely on mining revenues that are volatile and finite. Staff and authorities agreed to further sustain this strategy by moving quickly in setting up a well-managed and transparent mining fund that is well-integrated into the budget process. In 2013, more restrained growth in current expenditures and increases in fishing revenues will help compensate for the large decline in mining revenues, thus leading to a 7 percentage point of GDP improvement in the overall balance (excluding extractive industries) that ensures a sustained decline in the debt-to-GDP ratio. This corresponds to a basic deficit target (excluding grants and foreign-financed capital expenditures) of 0.2 percent of non-oil GDP, financed mostly through concessional loans. The expenditure composition underlying the planned fiscal adjustment remains consistent with the authorities' pro-poor and pro-growth strategy:

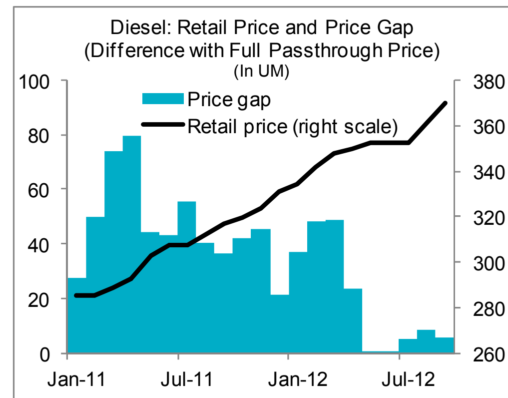
Mauritania: Main Fiscal Indicators

	2009	2010	2011	2012	2013
	(In percent of non-oil GDP)				
Non-oil Revenue and grants	24.9	25.8	26.2	34.7	30.1
Non-oil Revenue	24.1	24.6	25.6	28.4	28.1
of which : Tax revenue	14.1	15.0	16.0	19.1	17.5
Expenditure and net lending	32.1	29.1	29.7	35.9	33.4
Current expenditure	24.6	21.1	21.5	24.7	20.5
Capital expenditure	6.8	6.7	8.0	11.0	12.9
Basic non-oil balance	-5.3	-2.4	-0.2	-2.0	-0.2
Net revenue from oil	1.8	1.4	2.0	1.6	1.5
Overall balance including grants (deficit -)	-5.4	-2.0	-1.5	0.4	-1.8
Memo Items:	(In percent of GDP excluding extractive industries)				
Primary fiscal balance excluding revenues from extractive industries	-12.6	-11.7	-15.1	-20.3	-13.4
Overall balance excluding revenues from extractive industries and foreign-financed investment	-12.0	-11.4	-13.3	-15.3	-8.0

Sources: Mauritanian authorities; and IMF staff estimates.

- **Public investment will represent the largest spending category of the 2013 budget.** About one-third of the exceptional donor grant received in 2012 will be used to increase investment by 50 percent in 2013, mostly in roads, agriculture, and energy projects. Given the country's large needs and available financing, staff agreed with this approach, but stressed the importance of proper project identification and prioritization, which should be aligned with absorptive capacity. Developing internal capacities to conduct project selection, budgeting, and appraisal will be crucial. In response, the authorities noted past progress made in addressing investment bottlenecks, notably through the new procurement procedures and the creation of a project monitoring agency.

- **Energy subsidy reform.** Despite substantial increases in international fuel prices, the authorities' strong determination in applying the new simplified automatic fuel price formula on a biweekly basis helped to bring domestic retail prices closely in line with international prices—eliminating most of the existing price gap. To sustain this important achievement, staff urged the authorities to continue applying the automatic price formula and put a cap on the monthly retail price increase to ensure that large price increases do not lead to excessive retail price volatility which would undermine the political support for the formula (LOI, ¶20). Additional electricity and gas price increases will further reduce ill-targeted generalized price subsidies (LOI, ¶12 and ¶35).



- **Reform the temporary drought-related program toward permanent well-targeted social safety nets**. Staff encouraged the authorities to conduct a full assessment of the existing drought-emergency program, particularly the functioning of the "food shops" programs, which were extended through the end of 2012. This food subsidy program has not always been effective in reaching the poorest households in rural areas. Moreover, with the worst of the drought's impact behind, staff and authorities agreed on the need to gradually remove most components of this emergency program, re-orienting the savings toward scaling up well-targeted cash transfer schemes, in line with recent pilot experiences in Nouakchott and rural areas (LOI, ¶21).

- **A rise in net real wages while containing the wage bill.** Staff and the authorities agreed on a nearly-neutral income tax reform that increases the exemption thresholds for lower wage categories while increasing the marginal tax rate for the richest, which is currently at 30 percent, considerably below the 40 percent regional average (Box 2). The wage bill itself will rise in line with inflation, with higher increases for lowest civil servants compensated by smaller hikes for those at the top. Containing the wage bill, including through controlling recruitment, remains crucial for Mauritania, as its wage bill (about 8 percent of GDP and 30 percent of non-oil revenue) is among the highest in Sub-Saharan Africa.

- **Public financial management reforms will continue,** with staff and authorities agreeing on the need to limit the use of cash advances and exceptional spending procedures. Staff noted the continued use of the advance decree procedures and stressed to the authorities the importance of presenting a revised budget to Parliament early in the year and not for ex-post approval by end-year. The ongoing efforts to

repay longstanding domestic arrears are a commendable first step toward restoring confidence in the government; and staff welcomed government plans to expand this approach to guarantees that have been called but not yet paid (LOI, ¶29).

10. **Tax revenue mobilization will be strengthened.** Higher fishing license payments in 2013 will not be enough to compensate the return of mining revenue to average levels**.** However, the authorities are committed to increasing tax revenues through higher excise taxes, closing of mining taxation loopholes, identification of existing tax exemptions, and a review of transfer pricing legislation (LOI, ¶10). The authorities are also taking action to reduce the backlog of VAT credits and avoid their future accumulation (LOI, ¶24). The modernization of revenue administration—through a more effective large taxpayer unit, an operational customs valuation unit and strengthened human resources capacity—will further enhance tax collection (LOI, ¶26–27).

Box 2. Proposed Income Tax Reform

Background. Income tax brackets and thresholds have not been revised in Mauritania since 2008, despite several increases in minimum wages. Consequently, only about 12 percent of civil service employees are in the lowest bracket, which exempts the first 30,000 ouguiyas from personal income tax. Most of the taxed employees are in the second bracket (at a rate of 15 percent for income between 30,000 and 70,000 ouguiyas). About 25 percent of the workforce earns more than 70,000 ouguiyas a month, and is taxed at the higher bracket (30 percent marginal tax rate, low by regional standards; see table).

Highest Marginal Income Tax Rates in the Region
(In percent)

Country	Rate
Algeria	40
Burkina Faso	30
Egypt	40
Guinea Bissau	20
Mali	50
Morocco	42
Mauritania	30
Niger	45
Senegal	50
Togo	50
Tunisia	35

Source: IMF staff estimates, based on most recently available data.

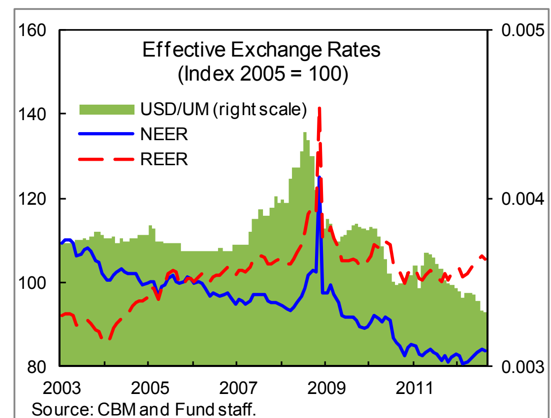
Proposal. The proposed schedule would exempt the first 60,000 ouguiyas, while levying 15 percent on the income between 60,000 and 100,000 ouguiyas, 25 percent on the income between 100,000 and 250,000 ouguiyas, and 40 percent on the income over 250,000 ouguiyas. Such a schedule will allow the exclusion of a higher number of low wage earners, and will increase their incentives to shift to the formal sector. This reform has been long overdue as the threshold has never taken into account the increase in inflation as it should have.

Impact. Conservative estimates of the impact of the reform—which abstract from possible gains generated by additional wage earners in the formal tax system and higher purchasing power—imply a net revenue loss of only 0.2 percent of GDP. The increase in the highest marginal tax rate makes this reform even more progressive and helps compensate for losses that result from higher exemption thresholds.

C. Monetary, Exchange Rate, and Financial Sector Policies

11. **Monetary policy will become more active**. To date, the authorities have not seen the need to actively conduct monetary policy given the muted impact of excess liquidity on credit growth and inflation (see IMF Country Report No. 12/249). However, to preemptively reduce risks of an unhealthy credit spiral, and given the uptick in consumer lending, the authorities endorsed staff's advice to gradually start issuing seven-day T-bills starting in December—with costs to be covered by the Treasury and incorporated in the budget (LOI, ¶14). Issuance will at first be modest but will gradually increase to absorb some of the excess liquidity in the banking sector. The CBM stands ready to tighten monetary policy if increases in real wages for the lowest earners turn out inflationary or if risks from excess liquidity start materializing. The CBM will increase the required reserve ratio if it judges that full sterilization of excess liquidity is too slow or costly, particularly given the additional liquidity to be created by large fiscal outlays in the last few months of 2012.

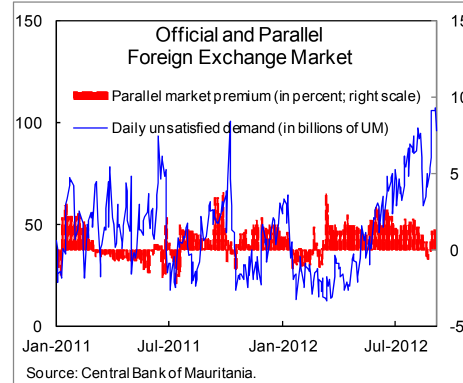
12. **The authorities remain committed to increasing exchange rate flexibility**. As the main supplier of foreign exchange in the official market, the CBM underscored its intention to use its interventions solely as a means of providing liquidity (LOI, ¶15), while letting market fundamentals decide on the equilibrium exchange rate. Despite a surge in unmet demand for foreign exchange in the official market, the premium on the parallel market has remained remarkably stable, suggesting that significant flows of foreign exchange circulate in the informal economy (see Box 3). The real effective exchange rate slightly appreciated this year, in contrast with staff's findings of a modest overvaluation at the time of the 2012 Article IV consultations. To ensure greater efficiency of the foreign exchange market, staff reiterated the importance of minimizing sales of foreign exchange in off-market sessions and of publishing the overall amounts sold through this channel.



Source: CBM and Fund staff.

Box 3. Exchange Rate: Explaining the Low Premium Puzzle

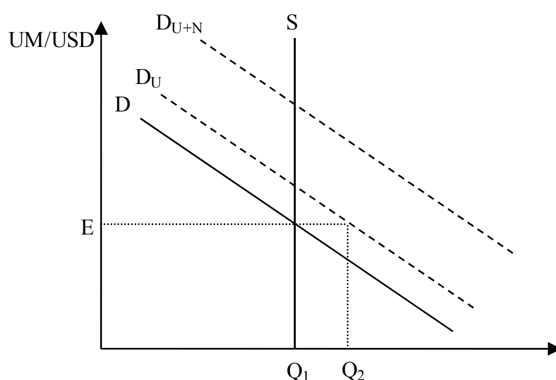
The black market premium—the difference between the ouguiya exchange rate in the official market and the rate in the informal parallel market—has remained stable at around 2 percent this year, despite a tripling in unmet demand for foreign exchange in the official market between March–September 2012. The stable premium suggests that—in contrast to the 2009 episode when the premium rose to 20 percent—unmet demand in the official market did not result in undue pressure on the parallel market. Non-urgent demand and excess supply in the parallel market help reconcile this apparent paradox:



Source: Central Bank of Mauritania.

- **Non-urgent demand**. A fraction of the demand surge in the official market is not linked to current import transactions. Instead, some demand reflects past transactions that banks have already settled for their clients using their own treasury of foreign exchange. The need to have this type of demand satisfied immediately is therefore less urgent, making banks more reluctant to access the "illegal" parallel market. Put differently, when banks pay their foreign counterparties at the due date (for a maturing letter of credit) out of their treasury, their demand in the official market just represents an attempt to replenish their stock of foreign exchange and not a current account transaction that needs immediate settling. However, as the CBM has no full oversight over banks' treasury flows, it does not always consider this type of demand justified.

- **Excess supply in the parallel market**. Some foreign exchange flows, which are reportedly large, never leave the informal sector. They are, however, at the disposal of local currency dealers. The Mauritanian diaspora, for example, sends money home through the traditional *hawala* system—Mauritanians abroad deposit their foreign exchange in a foreign bank account and in exchange an operator in Mauritania makes a payment in ouguiya to a designated beneficiary. Two additional sources of foreign exchange are informal re-exports of food staples to neighboring countries across Mauritania's vast landline borders and small-scale fish exports that circumvent official repatriations requirements.



Note: Demand is initially at D and the CBM fixes supply at S. Following a surge in banks' free reserves, demand in the official market shifts out to D_{U+N}. But only an amount equal to D_U represents urgent demand, in need to be settled immediately. The parallel market is sufficiently liquid to satisfy the difference between D_U and D, supplying foreign exchange in an amount equal to $(Q_2 – Q_1)$. In this scenario, there is no pressure on the exchange rate in either the official or the parallel market.

13. **The focus in the banking sector will be on improving asset quality**. A special information request initiated by staff revealed that the asset quality of Mauritanian banks is worse than previously reported (Box 4). To address this vulnerability, the authorities plan to draw up performance contracts with each bank, asking them to bring provisioning to more prudent levels within a tight deadline while respecting prudential capital regulations. At 35 percent, banks' aggregate capital ratio will provide an important cushion for increasing provisioning. Moreover, a private asset management company could also play a role in cleaning up banks' balance sheets. Staff welcomed progress made in improving banking supervision and regulations (LOI, ¶16). Staff agreed with the CBM's intention to further limit risks to the banking system by (i) carefully monitoring consumer lending (mostly driven by foreign banks that are keen to develop the market); and (ii) assessing, with help from AFRITAC WEST, the appropriateness of existing consumer lending norms.

14. **The CBM is pressing ahead with safeguards improvement**. With the help of an international auditor, the CBM quantified the difference between local accounting standards and IFRS using its 2010 financial statements (end-September structural benchmark). This step was crucial to building capacity for moving toward full IFRS implementation. In addition, the authorities are committed to restructuring the balance of the CBM, which is saddled with legacy loans to the government carrying nonmarket terms. The restructuring will recapitalize the CBM, necessary to guarantee its financial independence on a sustainable basis. As before, an international accounting firm will continue to audit the CBM's financial statements and program targets.

D. Debt Management

15. **A cautious borrowing strategy and improved debt management are necessary to safeguard medium-term fiscal sustainability**. In this context, staff welcomed the debt strategy adopted by the authorities in September 2012, which recommended external borrowing on concessional terms for large-scale projects while working gradually to develop a domestic debt market. The mission encouraged the authorities to ensure that new borrowing remain concessional and be considered only for essential projects that cannot be financed internally. Mauritania's debt risk status remains *Moderate,* although close to the *High* threshold.

16. **The authorities are making their best efforts to conclude bilateral debt restructuring discussions with Kuwait.** To facilitate the negotiations, the portion of the Kuwaiti debt owed by the CBM to the Kuwaiti central bank has been transferred to the Ministry of Finance in exchange for claims due to the CBM.

Box 4. Nonperforming Loans

Background. Banks in Mauritania have long suffered from weak asset quality. A special information request by staff revealed that previously reported information was based on nonperforming loans (NPLs) *net* of collateral value. If, instead, NPLs are assessed at gross total amounts due, they could amount to as much as 44 percent of gross loans (compared to 28 percent reported previously), with an overall coverage rate of only 50 percent. NPLs split into three subcategories: accrued interest, legacy (i.e., loans made before 2010), and new.

Mauritania: Nonperforming Loans, Based on Previous and New Data 1/
(as of March 2012; in percent)

	Previous	New
Gross nonperforming loans / gross loans	27.5	44.0
of which: accrued interest on NPLs / gross loans	-	11.9
of which: legacy NPLs (pre-2010) / gross loans	-	14.9
of which: new NPLs / gross loans	-	17.2
Provisions / gross nonperforming loans	90.8	48.7
of which: provisions / legacy NPLs (pre-2010)	-	64.5
of which: provisions / new NPLs	-	32.9

1/ The new data originate from an information request by Fund staff. The accuracy of the data submitted by banks, including gross nonperforming loans and loan classification into legacy and new, is preliminary. Bank supervisors are currently verifying the data.

Risk to banking system. NPLs pose a threat to banks' capitalization to the extent that they give rise to a provisioning shortfall. In particular, at 65 percent, the provisioning rate on legacy loans appears low in light of the loans' age, the absence of any repayments in the past year, and the difficulty banks encounter in enforcing collateral rights. Moreover, banks reportedly understate legacy NPLs through "ever-greening"—that is, they misclassify loans as performing whose principal increases in line with interest payments that have not been received.

Why no solution yet. In theory, banks could remove fully provisioned legacy loans from their balance sheets without any negative effect on profits or capital. In practice, however, banks carry the majority of these legacy loans at positive book values because of the collateral that borrowers pledged when contracting the loan. Auditors and the banking supervision department are currently assessing banks' collateral valuations, taking into account the unfavorable legal environment for creditors in Mauritania. Also, of late, banks have been reluctant to write off legacy NPLs for fear of moral hazard by the borrower.

Possible solution. One way around this problem would be to transfer banks' legacy NPLs to an asset management agency that specializes in recovering overdue loans, freeing up internal resources in banks for making new loans. However, to avoid any possible fiscal liability from such an arrangement, the agency would need to acquire the loans at very low valuations. At the moment of the transfer of the loans, banks regulatory capital would shrink by an amount equal to the difference between the loans' book value and selling price.

Next Steps. The banking supervision department is in the process of assessing whether banks' capital cushions—which at 35 percent in aggregate are considered prudent by regional standards—are sufficient to absorb the write-offs that would be required before banks could transfer the loans to an asset management company. In case of capital shortfalls, banks would have to find additional capital through shareholder injections or retained earnings.

E. Other Structural Reforms

17. **Staff and the authorities agreed that ambitious structural reforms are vital for generating broad-based inclusive growth, promoting employment, and reducing poverty.** The authorities indicated that the new investment code and the newly created Ministry directorate in charge of investment will help identify and remove constraints to investment. Staff welcomed the authorities' new action plan—designed with help of the World Bank—aimed at improving Mauritania's dismal ranking in the Doing Business Survey (Mauritania ranks 159th out of 183 countries). Key priorities include: (i) reviewing the commercial code to streamline regulations and protect investors; (ii) developing a collateral registry and broadening the reach of the credit bureau to boost access to credit; and (iii) simplifying tax and customs procedures (including the adoption of the new customs code). Other actions include:

- **Promoting employment**, through new vocational programs tailored to the needs of the private sector and through implementation of the new rural development strategy, which creates new jobs in irrigated agriculture.

- **Reforming public enterprises** (LOI, ¶33–34), through steps that include pursuing the restructuring plan of the national electricity and gas companies, and increasing electricity supply through new power plants. Completing remaining audits is essential to strengthen the performance of public enterprises and decide on a new strategy. Staff stressed the need to avoid creating unnecessary state-owned companies.

- **Governance.** Full implementation of the anticorruption strategy adopted in 2010 and strict application of the new procurement code to all government projects is essential to promote private investment and enhance the quality of public investment spending.

18. **The authorities will continue improving transparency and economic statistics.** Mauritania is now a fully compliant member under the Extractive Industries Transparency Initiatives (EITI), which will be extended to cover revenues from the fishing industry. With regard to statistics, staff encouraged the authorities to continue improving economic data provision through the construction of a new price index, updated employment and household surveys, and a quicker move toward international statistical standards (particularly for its balance of payments and national account statistics).

IV. Program Design

19. **Program design and monitoring will remain broadly unchanged.** Staff recommends modifying performance criteria for end-December 2012, reflecting the new fiscal position and stronger foreign exchange inflows (LOI, Table 1). With only one program review remaining, new structural benchmarks have been established for end-December 2012, notably agreement on a schedule for repayment of the CBM's legacy loans to the

government. The outstanding measures focus on the macro-critical areas of public financial management and CBM transparency and accounting (LOI, Table 2). The definition of the basic oil deficit performance criterion has been modified to exclude any interest rate costs linked to the new monetary policy instrument (TMU, ¶5). Staff supports the requested extension of the arrangement until end-June 2013 in order to have all the end-December 2012 data available that are needed to complete the final program review (LOI, ¶42).

V. Staff Appraisal

20. **Policy actions laid the foundation for a sound macroeconomic performance, although important challenges and vulnerabilities remain**. Economic activity has been resilient, despite a severe drought last year and several external shocks. Inflation was contained, and fiscal and external buffers have reached unprecedented levels. Nonetheless, progress in reducing poverty and unemployment is uneven, and the economy is still too dependent on developments in extractive industries.

21. **Fiscal discipline needs to be preserved, while allowing for the scaling up of much needed investment spending.** Anchoring fiscal policy through developments in nonextractive industries is a welcome move; it will ensure that fiscal policy is delinked from volatile mining revenues. The planned ramp up of investment spending is appropriate, but should be in line with PRSP priorities, proper project vetting, absorptive capacity, and the new procurement code. Staff welcomes the progress made in subsidy reform during difficult times, including through the application of the new simplified automatic fuel price formula. The nearly neutral income tax reform will help improve the population's purchasing power while containing the wage bill. Raising tax revenues will be imperative to generate much-needed fiscal space.

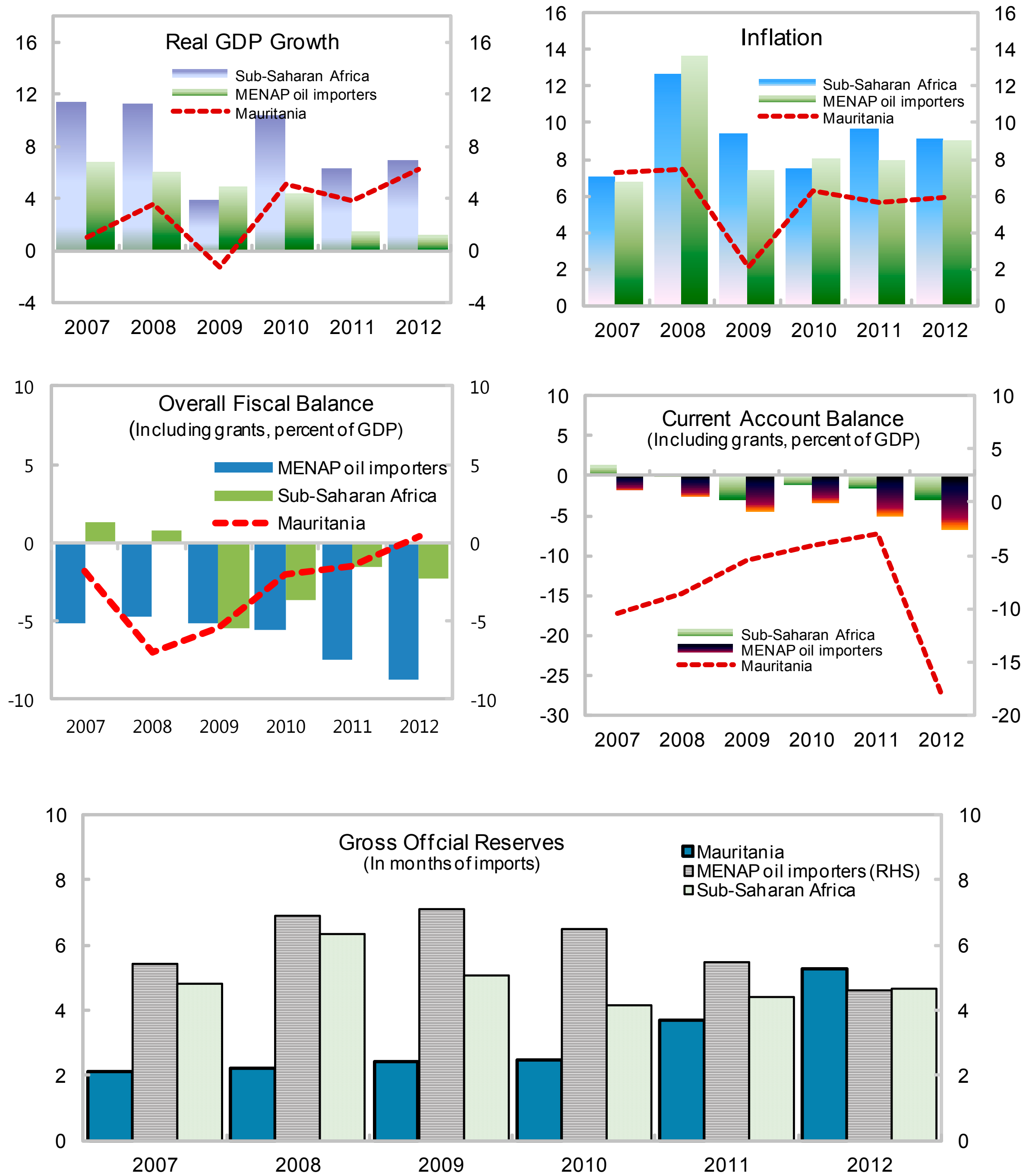
22. **Monetary policy should become more active.** The introduction in the immediate future of a new monetary policy instrument will help absorb excess liquidity and reduce risks of an unhealthy credit spiral. The CBM should stand ready to further tighten monetary policy, through required reserves, if inflationary pressures from wage increases or credit growth materialize. Efforts made to enhance banking supervision are commendable, and these can have greater focus in the near term on improving asset quality and monitoring credit risk. Further progress towards adopting IFRS accounting standards will significantly improve central bank transparency.

23. **Sustaining greater exchange rate flexibility is essential for absorbing external shocks.** Larger reserve buffers are welcome, particularly if the global environment deteriorates further or external pressures emerge. Regular sales of foreign exchange to market participants, while strictly limiting off-market transactions, are essential to guarantee the proper functioning of the foreign exchange market and to provide appropriate market signals.

24. **Progress on structural reforms will support employment and broad-based inclusive growth objectives.** Planned reforms to reduce the regulatory burden, boost access to credit, and simplify tax and customs procedures will strengthen the investment climate and competitiveness. New employment initiatives, including the new rural development strategy, will help promote job creation. Strengthening governance and transparency will require the rigorous implementation of the procurement code and of the anticorruption strategy to all projects and parties.

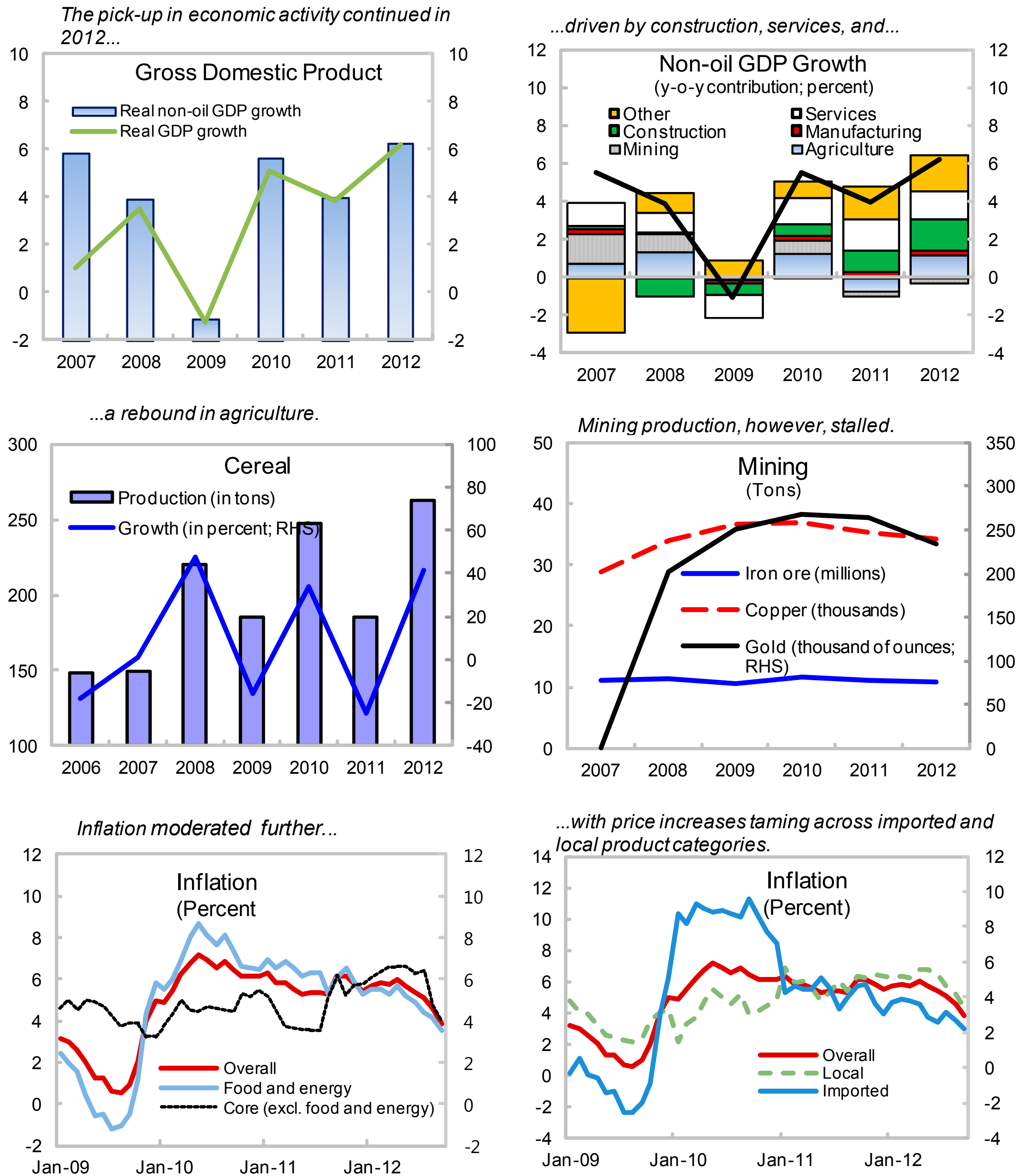
25. **Staff recommends completing the fifth review under the ECF and supports the authorities' requests for a modification of performance criteria and extension of the arrangement.** The sixth and final review under the ECF will be concluded on or after May 31, 2013.

Figure 1. Mauritania: Recent Economic Developments, 2007–12
(Percent, unless otherwise indicated)



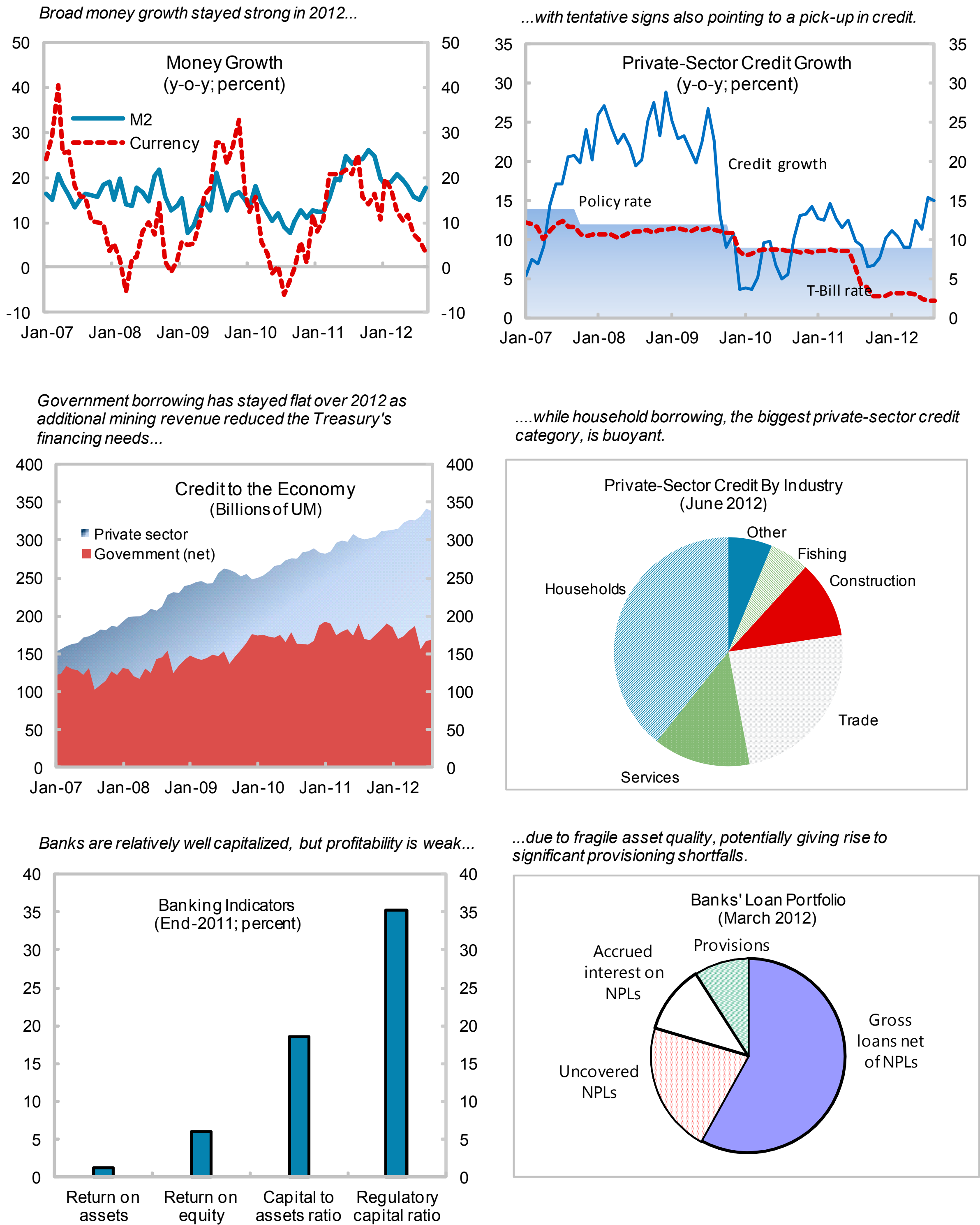
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 2. Mauritania: Real Sector Developments, 2007–12



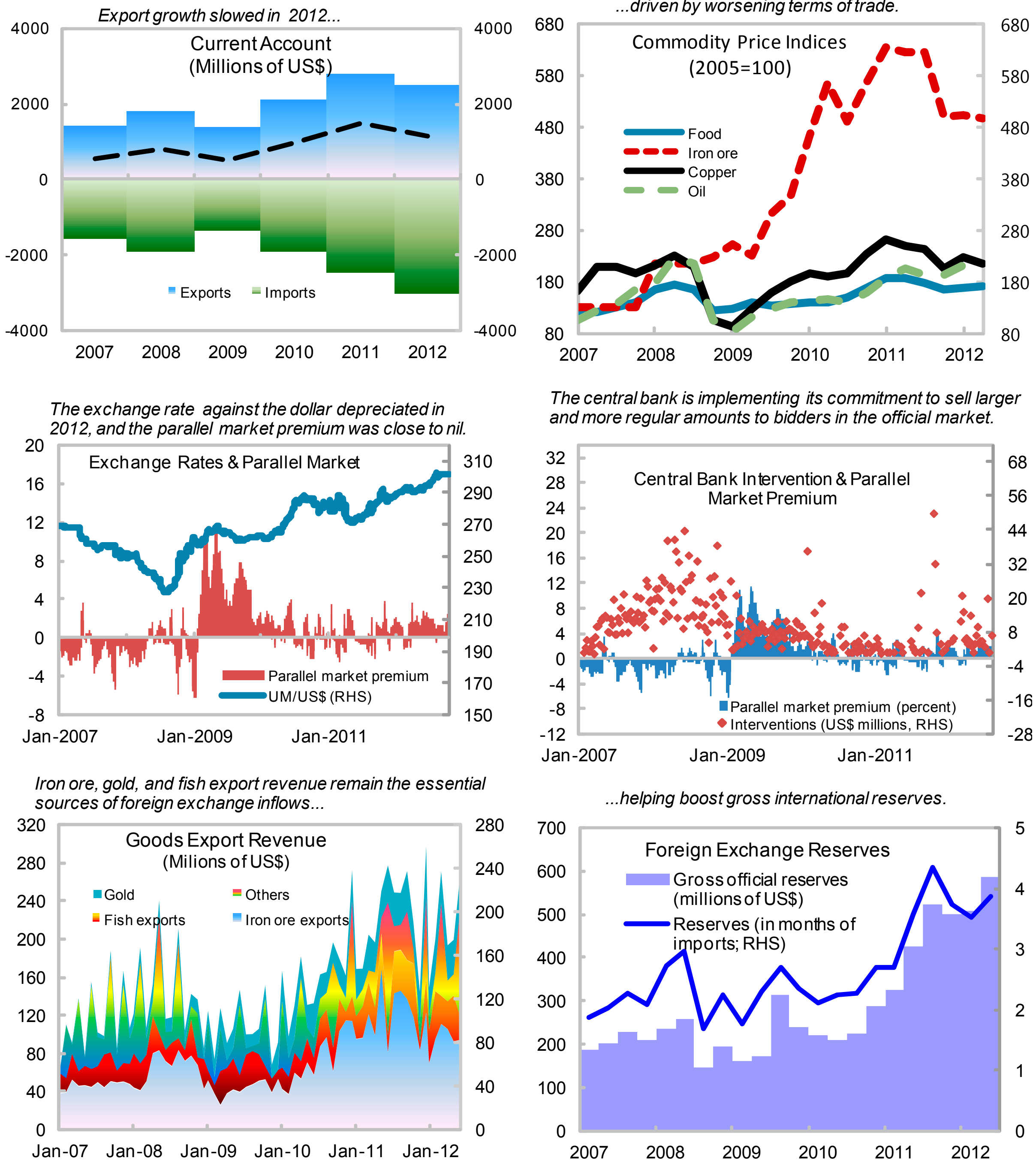
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 3. Mauritania: Selected Monetary and Financial Sector Indicators, 2007–12



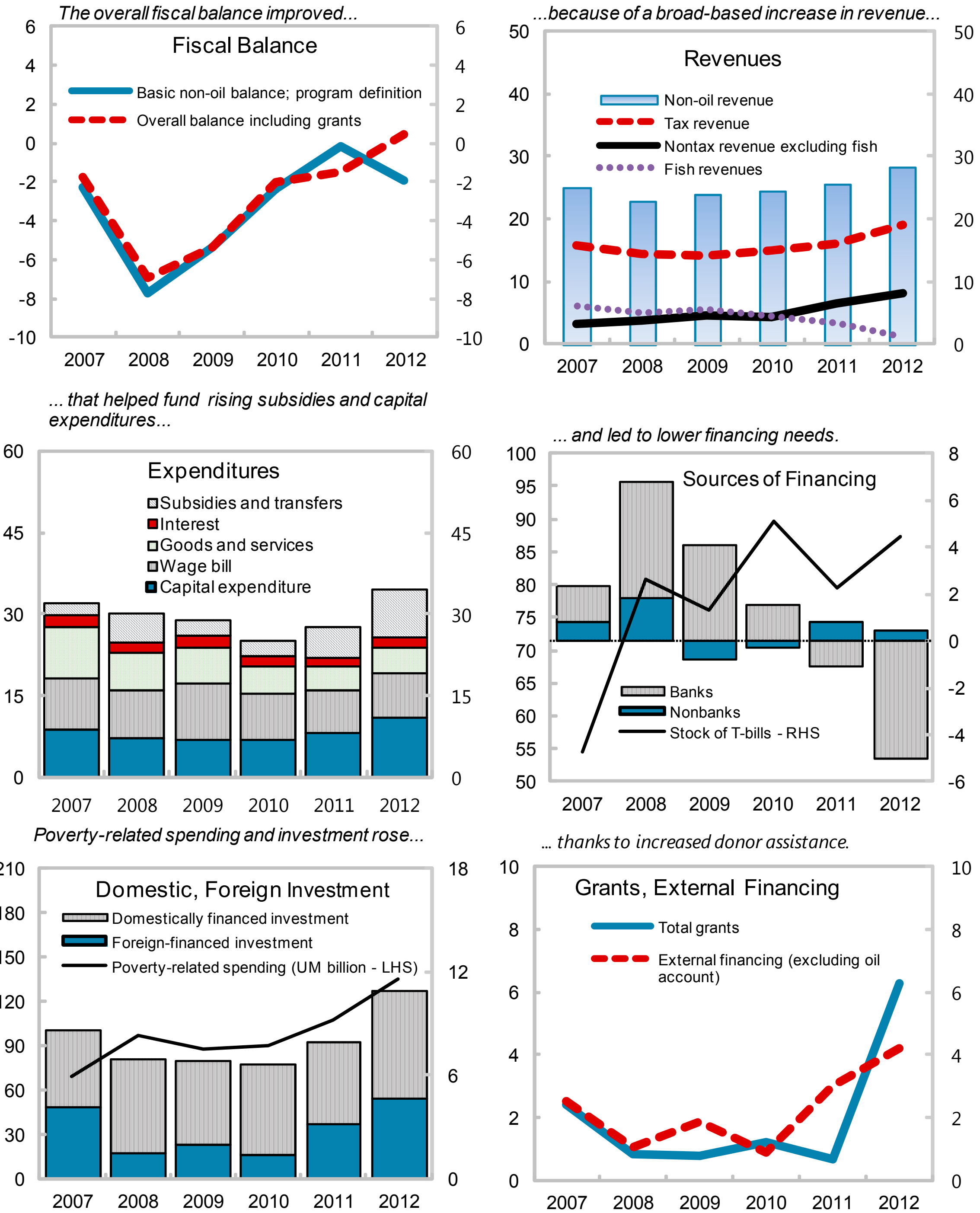
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 4. Mauritania: External Sector, 2007–12



Sources: Mauritanian authorities; and IMF staff estimates.

Figure 5. Mauritania: Fiscal Sector Developments, 2007–12
(Percent of non-oil GDP, unless otherwise indicated)



Sources: Mauritanian authorities; and IMF staff estimates.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2009–13

(Quota: SDR 64.4 million)
(Population: 3.46 million; 2010)
(Per capita GDP: $1,247; 2011)
(Poverty rate: 42 percent; 2008)
(Main exports: Iron ore, gold, fish; 2010)

	2009	2010	2011 Est.	2012 IMF Country Report No. 12/246	2012 Proj.	2013 Proj.
	(Percent; unless otherwise indicated)					
National income and prices (y-o-y growth)						
GDP at constant prices	-1.2	5.1	3.9	5.7	6.2	6.3
Non-oil GDP at constant prices	-1.1	5.6	4.0	5.7	6.3	6.4
GDP excl. extractive industries at constant prices	-1.1	5.6	4.8	6.1	7.4	5.9
GDP deflator	-5.9	21.4	14.2	-0.9	-2.4	2.8
GDP excl. extractive industries deflator	1.0	6.6	5.4	4.4	4.7	5.1
Consumer price index (period average)	2.1	6.3	5.7	5.9	5.9	6.1
Consumer price index (end of period)	4.9	6.1	5.5	6.0	6.0	6.3
External sector						
Value growth of exports of goods, f.o.b.	-23.7	52.0	33.6	0.8	-10.6	2.9
Value growth of imports of goods, f.o.b.	-27.2	39.1	28.9	16.6	22.3	3.0
Current account balance (in percent of GDP)	-10.7	-8.7	-7.3	-19.5	-27.6	-25.1
Gross official reserves 1/						
In millions of U.S. dollars, end of period	238.5	287.8	501.6	523.5	756.2	817.3
In months of following year's imports excluding extractive industries	2.4	2.5	3.7	3.8	5.3	6.6
PPG external debt (percent of GDP) 2/	96.5	84.0	75.7	62.4	62.1	61.4
Money						
Money and quasi-money (percentage change)	14.9	12.9	19.9	13.0	15.7	13.6
Credit to the private sector (percentage change)	3.7	14.2	10.1	14.4	13.9	14.7
Investment and savings						
Gross investment (percentage of GDP)	24.6	24.1	32.1	37.1	38.9	38.7
Gross savings (percentage of GDP)	13.9	15.4	24.8	17.7	11.3	13.6
	(Percent of non-oil GDP; unless otherwise indicated)					
Consolidated government operations						
Revenue and grants	26.7	27.2	28.2	32.3	36.3	31.6
Non-oil revenue	24.1	24.6	25.6	29.4	28.4	28.1
Oil revenue	1.8	1.4	2.0	1.5	1.6	1.5
Expenditure and net lending	32.1	29.1	29.7	35.9	35.9	33.4
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-0.9	-2.0	-0.2
Overall balance including grants	-5.4	-2.0	-1.5	-3.5	0.4	-1.8
Public sector debt (percent of GDP) 2/	106.1	93.2	82.3	70.0	70.8	69.2
Memorandum items:						
Nominal GDP (in billions of UM)	794.2	1,012.9	1,201.3	1,239.9	1,245.5	1,361.1
Nominal non-oil GDP (in billions of UM)	757.6	970.7	1,148.4	1,180.6	1,190.2	1,306.8
Nominal GDP (in millions of U.S. dollars)	3,031.2	3,686.7	4,284.5	4,177.9	4,193.7	4,427.6
Price of iron ore (US$/Ton)	80.0	146.7	167.8	136.4	133.9	120.3

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ HIPC debt relief from Kuwait was initially programmed in 2011 and is now expected to take place in 2012.
3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 2. Mauritania: Balance of Payments, 2009–13

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

	2009	2010	2011	2012	2012	2013
				IMF Country Report No.		
			Est.	12/246	Proj.	Proj.
Trade balance	-26.7	138.2	274.9	-122.5	-576.2	-596.0
Exports	1,364.2	2,073.5	2,769.2	2,787.9	2,475.0	2,546.0
Of which: Iron ore	521.6	997.0	1,470.6	1,236.5	1,150.5	1,147.9
Imports, fob	-1,390.9	-1,935.3	-2,494.3	-2,910.4	-3,051.2	-3,142.0
Of which: Imports of extractive industries	-477.3	-852.6	-1,206.8	-1,258.9	-1,428.8	-1,404.6
Of which: Imports for airport construction	-	-	-	-80.0	-80.0	-120.0
Services and income (net)	-427.1	-619.5	-704.6	-850.4	-969.1	-697.7
Services (net)	-479.2	-550.9	-528.5	-504.3	-575.3	-577.4
Income (net)	52.1	-68.5	-176.2	-346.0	-393.8	-120.3
Credit	118.0	113.7	126.9	28.3	24.2	249.6
Of which: EU fishing compensation	107.5	97.8	104.3	0.0	0.0	223.0
Debit	-65.9	-182.2	-303.0	-374.3	-418.0	-369.9
Current transfers (net)	130.8	162.1	116.4	159.9	388.4	184.3
Private unrequited transfers (net)	66.4	59.3	31.5	46.0	46.0	46.9
Official transfers	64.4	102.8	84.9	114.0	342.4	137.5
Current account balance	-323.0	-319.1	-313.3	-813.0	-1,156.9	-1,109.4
Capital and financial account	205.8	455.9	581.9	1,673.0	2,266.1	1,164.8
Capital account	0.0	209.0	0.0	869.1	869.1	0.0
Financial account	205.8	246.9	581.9	803.9	1,397.0	1,164.8
Direct investment (net)	-3.1	128.3	776.4	527.5	1,082.5	844.9
Official medium- and long-term loans	166.3	79.5	280.6	458.6	474.3	333.4
Disbursements	240.7	135.2	349.5	536.7	559.8	451.6
Amortization	-74.4	-55.6	-68.9	-78.1	-85.5	-118.2
Other financial flows	42.6	39.0	-475.1	-182.2	-159.9	-13.5
Of which: Change in deposits held abroad by the state-owned mining company	27.0	-135.0	-523.1	-111.6	17.5	-21.0
Errors and omissions	108.8	99.2	-22.5	0.0	0.0	0.0
Overall balance	-8.4	235.9	246.1	860.0	1,109.2	55.4
Financing	8.4	-235.9	-246.1	-860.0	-1,109.2	-55.4
Net foreign assets	-24.2	-46.0	-213.2	-4.1	-252.1	-68.4
Central bank (net)	32.3	-40.8	-186.1	0.9	-232.1	-53.4
Commercial banks (net)	-56.5	-5.2	-27.2	-5.0	-20.0	-15.0
Oil account flow	12.8	-1.8	-47.5	0.0	0.0	0.0
Exceptional financing 1/	19.7	-188.2	14.6	-855.9	-857.1	13.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Nominal GDP (in millions U.S. dollars)	3,031.2	3,686.7	4,284.5	4,177.9	4,193.7	4,427.6
Trade balance (in percent of GDP)	-0.9	3.7	6.4	-2.9	-13.7	-13.5
Current account balance (in percent of GDP)	-10.7	-8.7	-7.3	-19.5	-27.6	-25.1
Gross official reserves						
In millions of U.S. dollars	238.5	287.8	501.6	523.5	756.2	817.3
In months of imports excluding extractive industries	2.4	2.5	3.7	3.8	5.3	6.6
Oil account	33.6	35.4	82.9	82.8	82.9	82.9

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

1/ MDRI debt and assumed arrears relief (including passive debt owed to Kuwait and Libya) is treated as a one-time stock operation.

Table 3. Mauritania: External Financing Requirements, 2009–13

(In millions of U.S. dollars)

	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Total Requirements	-378	-355	-367	-1223	-1183
Current account deficit	-323	-319	-313	-1157	-1109
Scheduled public debt amortization	-55	-36	-54	-66	-73
Total Sources	378	355	367	1223	1183
Capital inflows	368	321	512	1198	1195
FDI, net	-3	128	776	1083	845
Disbursements from official creditors (WB, AfDB, FADES)	193	131	115	240	232
Other flows 1/	178	62	-379	-125	118
Of which: SNIM disbursements	27	0	168	285	201
Financing Items	41	85	116	280	48
IMF	0	35	35	34	17
France	0	4	46	34	19
Arab Monetary Fund	22	0	22	0	0
Libya	0	25	0	200	0
Exceptional financing 1/	20	21	15	12	13
Change in oil account (- increase)	13	-2	-48	0	0
Change in reserves (- increase)	-44	-49	-214	-255	-61
Residual financing gap	0	0	0	0	0
Memorandum item:					
Overall balance 1/	-8	27	246	240	55

Source: Mauritanian authorities, and IMF staff estimates and projections.
1/ Bilateral debt relief with Kuwait is not included.

Table 4a. Mauritania: Central Government Operations, 2009–13
(In billions of UM, unless otherwise indicated)

	2009	2010	2011	2012	2012	2013
				IMF Country Report No.		
			Est.	12/246	Proj.	Proj.
Non-oil revenue and grants	188.5	250.3	301.2	364.6	412.8	393.2
Non-oil revenue	182.4	238.7	293.5	347.5	338.3	367.0
Tax revenue	106.6	145.6	183.7	218.2	227.0	228.5
Nontax revenue	75.8	83.1	109.8	127.2	109.3	138.4
Exceptional revenue 1/	0.0	10.0	0.0	2.1	2.1	0.0
Total grants	6.1	11.6	7.7	17.1	74.6	26.3
Of which: Projects	3.7	0.6	6.7	10.0	10.0	9.8
Expenditure and net lending	242.9	282.9	341.4	423.6	427.0	436.8
Current expenditure	186.7	204.4	247.4	292.7	294.1	268.1
Compensation of employees	77.0	83.6	90.1	95.0	95.0	101.8
Goods and services	51.6	47.2	51.6	55.4	55.4	61.5
Subsidies and transfers 2/	20.3	27.0	65.4	102.1	105.8	70.3
Of which: Emergency program	0.0	0.0	8.4	33.3	33.3	0.0
Energy subsidies	6.4	0.0	19.1	29.4	30.7	15.0
Arrears repayments	0.0	0.0	9.8	11.2	13.6	10.8
Interest	16.2	19.4	18.4	20.6	22.1	16.7
External	5.1	7.5	8.4	9.4	9.9	9.7
Domestic	11.1	11.9	10.0	11.2	12.2	6.9
Special accounts and others 3/	4.9	12.6	11.0	8.9	5.0	6.0
Capital expenditure	51.8	65.1	91.8	128.5	130.5	168.6
Foreign-financed investment	14.9	13.7	37.1	55.5	55.5	58.0
Domestically financed investment	36.9	51.5	54.7	73.0	75.0	110.6
Restructuring and net lending	4.4	13.4	2.2	2.4	2.4	0.1
Common reserves	16.6	13.2	10.9	10.8	10.8	11.8
Basic non-oil balance; program definition 4/	-40.5	-23.0	-2.4	-11.2	-23.3	-2.1
Non-oil balance excluding grants (deficit -)	-60.5	-44.2	-47.9	-76.1	-88.7	-69.8
Non-oil balance including grants (deficit -)	-54.4	-32.6	-40.2	-59.0	-14.1	-43.5
Net revenue from oil	13.7	13.5	22.9	17.3	19.0	19.5
Overall balance including grants (deficit -)	-40.7	-19.2	-17.3	-41.7	4.9	-24.0
Financing	45.2	20.6	20.6	41.7	-6.8	24.1
Domestic financing	27.7	12.2	-0.6	-8.3	-56.9	-18.3
Banking system	31.3	14.8	-12.4	-2.4	-59.5	-15.5
BCM	23.1	-1.0	8.5	0.6	-62.0	-15.5
Commercial banks	3.0	15.8	-20.9	-3.0	2.5	0.0
Nonbanks	-5.9	-2.5	9.8	-3.1	5.4	0.0
Privatization and other	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Domestic arrears	0.3	2.7	3.0	0.0	0.0	0.0
External financing	17.5	8.4	21.2	50.1	50.1	42.4
Oil account (net)	3.4	-0.5	-13.3	0.0	0.0	0.0
Net revenue from oil (net)	-13.7	-13.5	-22.9	-17.3	-19.0	-19.5
Oil account contribution to the budget	17.1	13.0	9.6	17.3	19.0	19.5
Other (net)	14.2	8.9	34.5	50.1	50.1	42.4
Net borrowing (net)	9.0	3.2	30.4	46.1	46.5	38.4
Exceptional financing	5.2	5.7	4.1	4.0	3.6	4.0
Errors and omissions	4.5	1.4	3.3	0.0	0.0	0.0

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Tax arrears from the public electricity company.
2/ Including transfers to public entities outside the central government. For 2012, it also includes payments arrears to hydrocarbon companies and SOMELEC.
3/ These include the development fund (FAID).
4/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 4b. Mauritania: Central Government Operations, 2009–13
(In percent of non-oil GDP, unless otherwise indicated)

	2009	2010	2011	2012	2012	2013
				IMF Country		
				Report No.		
			Est.	12/246	Proj.	Proj.
Non-oil revenue and grants	24.9	25.8	26.2	30.9	34.7	30.1
Non-oil revenue	24.1	24.6	25.6	29.4	28.4	28.1
Tax revenue	14.1	15.0	16.0	18.5	19.1	17.5
Nontax revenue	10.0	8.6	9.6	10.8	9.2	10.6
Exceptional revenue 1/	0.0	1.0	0.0	0.2	0.2	0.0
Total grants	0.8	1.2	0.7	1.4	6.3	2.0
Of which: Projects	0.5	0.1	0.6	0.8	0.8	0.7
Expenditure and net lending	32.1	29.1	29.7	35.9	35.9	33.4
Current expenditure	24.6	21.1	21.5	24.8	24.7	20.5
Compensation of employees	10.2	8.6	7.8	8.0	8.0	7.8
Goods and services	6.8	4.9	4.5	4.7	4.7	4.7
Subsidies and transfers 2/	2.7	2.8	5.7	8.6	8.9	5.4
Of which: Emergency program	0.0	0.0	0.7	2.8	2.8	0.0
Energy subsidies	0.8	0.0	1.7	2.5	2.6	1.1
Arrears repayments	0.0	0.0	0.9	0.9	1.1	0.8
Interest	2.1	2.0	1.6	1.7	1.9	1.3
External	0.7	0.8	0.7	0.8	0.8	0.7
Domestic	1.5	1.2	0.9	0.9	1.0	0.5
Special accounts and others 3/	0.7	1.3	1.0	0.8	0.4	0.5
Capital expenditure	6.8	6.7	8.0	10.9	11.0	12.9
Foreign-financed investment	2.0	1.4	3.2	4.7	4.7	4.4
Domestically financed investment	4.9	5.3	4.8	6.2	6.3	8.5
Restructuring and net lending	0.6	1.4	0.2	0.2	0.2	0.0
Common reserves	2.2	1.4	0.9	0.9	0.9	0.9
Basic non-oil balance; program definition 4/	-5.3	-2.4	-0.2	-0.9	-2.0	-0.2
Non-oil balance excluding grants (deficit -)	-8.0	-4.6	-4.2	-6.4	-7.5	-5.3
Non-oil balance including grants (deficit -)	-7.2	-3.4	-3.5	-5.0	-1.2	-3.3
Net revenue from oil	1.8	1.4	2.0	1.5	1.6	1.5
Overall balance including grants (deficit -)	-5.4	-2.0	-1.5	-3.5	0.4	-1.8
Financing	6.0	2.1	1.8	3.5	-0.6	1.8
Domestic financing	3.7	1.3	0.0	-0.7	-4.8	-1.4
Banking system	4.1	1.5	-1.1	-0.2	-5.0	-1.2
BCM	3.1	-0.1	0.7	0.1	-5.2	-1.2
Commercial banks	0.4	1.6	-1.8	-0.3	0.2	0.0
Nonbanks	-0.8	-0.3	0.9	-0.3	0.5	0.0
Privatization and other	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2
Domestic arrears	0.0	0.3	0.3	0.0	0.0	0.0
External financing	2.3	0.9	1.8	4.2	4.2	3.2
Oil account (net)	0.4	0.0	-1.2	0.0	0.0	0.0
Net revenue from oil (net)	-1.8	-1.4	-2.0	-1.5	-1.6	-1.5
Oil account contribution to the budget	2.3	1.3	0.8	1.5	1.6	1.5
Other (net)	1.9	0.9	3.0	4.2	4.2	3.2
Net borrowing (net)	1.2	0.3	2.7	3.9	3.9	2.9
Exceptional financing	0.7	0.6	0.4	0.3	0.3	0.3
Errors and omissions	0.6	0.1	0.3	0.0	0.0	0.0
Memorandum items:						
Non-oil GDP (in billion of ouguiya)	757.6	970.7	1148.4	1180.6	1190.2	1306.8
Total revenue	25.9	26.0	27.5	30.9	30.0	29.6
Revenue excluding extractive industries	24.6	26.8	27.5	28.7	27.2	30.9
Tax Revenue excluding extractive industries	15.3	17.2	18.1	22.1	22.4	20.1
extractive industries and foreign-financed investment 5/	-12.0	-11.4	-13.3	-15.3	-15.3	-8.0
Oil fund balance (in billion of ouguiya)	8.8	9.7	23.2	24.6	24.6	25.5

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

1/ Tax arrears from national electricity company.

2/ Including transfers to public entities outside the central government.

3/ These include the development fund (FAID).

4/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

5/ In percent of GDP excluding extractive industries.

Table 5. Mauritania: Monetary Situation, 2009–13

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

	2009	2010	2011	2012	2012	2013
				IMF Country Report No.		
			Est.	12/246	Proj.	Proj.
Monetary survey						
Net foreign assets	-3.3	9.4	70.8	76.8	170.0	191.7
Net domestic assets	279.9	302.7	303.3	349.2	267.6	306.9
Net domestic credit	424.2	470.9	502.2	547.9	484.8	524.1
Net credit to the government	175.5	186.8	189.4	190.0	139.9	128.4
Credit to the economy	248.7	284.1	312.9	357.9	344.9	395.7
Other items net	-144.4	-168.2	-198.9	-198.7	-217.2	-217.2
Broad money	276.5	312.1	374.2	423.0	432.8	491.6
Monetary authorities						
Net foreign assets	1.6	13.3	67.1	71.1	161.3	178.3
Net domestic assets	124.3	113.6	110.8	122.0	34.9	15.4
Net domestic credit	146.2	141.1	163.9	161.9	93.3	73.8
Net credit to the government	127.1	122.3	144.9	142.5	86.9	67.4
Other items net	-21.9	-27.5	-53.1	-39.9	-58.4	-58.4
Reserve money	125.9	126.9	178.0	193.2	196.2	193.7
Currency in circulation	81.6	91.3	100.9	117.7	110.3	128.7
Reserves of banks	44.3	35.6	77.1	75.5	85.9	65.0
Of which: Banks deposits in FX	14.0	8.1	8.6	12.0	13.6	11.5
Commercial banks						
Net foreign assets	-5.0	-3.9	3.7	5.6	8.7	13.4
Net domestic credit	280.7	334.0	342.6	385.8	391.3	446.1
Net credit to the government	48.5	64.5	44.5	44.5	50.0	54.0
Credit to the private sector	232.3	269.5	298.1	341.3	341.3	392.2
Other items net	-122.5	-140.7	-145.8	-158.8	-158.8	-158.8
Memorandum items:						
Velocity of broad money	2.7	3.1	3.1	2.8	2.8	2.7
Velocity of broad money (GDP excluding extractive industries)	2.2	2.2	2.0	1.9	2.0	1.9
Credit to the private sector (percent of non-oil GDP)	30.7	27.8	26.0	28.9	28.7	30.0
Net foreign assets of banks (in millions of U.S. dollars)	-18.9	-13.8	13.4	18.4	28.4	43.4

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

Table 6. Mauritania: Banking System at a Glance, 2009–11

(Percent, unless otherwise indicated)

	2009	2010	2011 Est.
Balance sheet			
Assets / GDP	42.7	36.8	37.4
Net private-sector credit / total assets	51.1	53.2	48.2
Public enterprise credit / total assets	13.1	13.0	-
Government securities / total assets	16.0	18.8	11.1
Private-sector credit growth (y-o-y)	4.0	16.0	10.6
Gross NPLs / gross loans	-	45.3	39.2
Of which: accrued interest on NPLs / gross loans	-	11.6	11.5
Of which: legacy NPLs (pre-2010) / gross loans	-	16.7	13.7
Of which: new NPLs / gross loans	-	17.0	14.1
Provisions / (gross NPLs - accrued interest)	-	30.0	28.5
Of which: provisions / legacy NPLs (pre-2010)	-	45.2	47.8
Of which: provisions / new NPLs	-	15.0	11.6
Deposits / total assets	57.4	59.3	60.9
Private-sector gross loans / private-sector deposits	115.3	118.4	105.9
Capital ratios			
Capital / total assets	16.7	16.7	18.5
Capital adequacy ratio	38.2	34.0	35.3
Foreign exchange exposure			
Fx assets / total assets	13.9	10.5	10.5
Fx assets / fx liabilities (on balance sheet)	123.7	112.1	135.2
Profitability and liquidity			
Return on assets	1.4	0.4	1.2
Return on equity	8.5	2.7	6.0
Liquid assets / total assets 1/	29.8	29.5	29.7
Memorandum items:			
Share of assets held by three largest banks	53.6	53.7	50.7
Number of banks	10	10	12
Bank private-sector credit / GDP	29.2	26.6	24.8

Sources: Mauritanian authorities; and IMF staff.

1/ Liquid assets: cash, reserves, and treasury bills.

Table 7. Mauritania: Indicators of Capacity to Repay the Fund, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projections				
Payments to the Fund based on existing credit					(In millions of SDRs)				
Principal	0.2	1.9	2.1	3.2	7.6	10.3	11.2	11.0	9.9
Charges and interest	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Payments to the Fund based on existing and prospective credit					(In millions of SDRs)				
Principal	0.2	1.9	2.1	3.2	15.9	21.3	14.0	11.0	9.9
Charges and interest	0.0	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Total payments to the Fund based on existing and prospective credit									
In millions of SDRs	0.2	1.9	2.3	3.4	16.1	21.5	14.2	11.2	10.1
In millions of US$	0.3	2.9	3.5	5.2	24.6	32.8	21.6	17.1	15.3
In percent of exports of goods and services	0.0	0.1	0.1	0.1	0.4	0.6	0.4	0.3	0.2
In percent of debt service	0.1	0.7	0.7	1.1	4.9	6.5	4.6	3.6	3.0
In percent of GDP	0.0	0.0	0.1	0.1	0.3	0.3	0.2	0.1	0.1
In percent of Gross International Reserves	0.0	0.2	0.3	0.4	1.8	2.3	1.5	1.1	1.0
In percent of quota	0.3	3.0	3.6	5.3	25.0	33.4	22.0	17.4	15.6
Outstanding Fund credit									
In millions of SDRs	75.9	85.1	83.0	79.9	72.3	62.0	47.5	32.0	17.7
In millions of US$	115.5	129.6	126.6	121.9	110.3	94.7	72.5	48.9	27.0
In percent of exports of goods and services	2.8	3.1	3.2	2.3	2.0	1.6	1.2	0.8	0.4
In percent of debt service	42.2	32.5	25.7	24.9	22.1	18.9	15.5	10.4	5.4
In percent of GDP	1.8	1.9	1.8	1.4	1.1	0.9	0.6	0.4	0.2
In percent of Gross International Reserves	10.0	10.4	10.0	9.5	8.2	6.7	4.9	3.2	1.7
In percent of quota	117.9	132.1	128.9	124.0	112.2	96.3	73.7	49.7	27.4
Net use of Fund credit (in millions of SDRs)	21.9	9.2	-2.1	-3.2	-15.9	-21.3	-14.0	-11.0	-9.9
Disbursements	22.1	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.2	1.9	2.1	3.2	15.9	21.3	14.0	11.0	9.9
Memorandum items:									
Exports of goods and services (in millions of US$)	2,702.4	2,776.2	2,588.3	3,470.9	3,673.1	3,873.8	3,930.5	4,018.0	4,109.0
Debt service (in millions of US$)	179.8	262.2	323.3	321.1	326.6	328.5	307.1	307.0	329.9
Nominal GDP (in millions of US$)	4,193.7	4,427.6	4,566.8	5,899.6	6,352.5	6,861.5	7,401.4	7,973.2	8,577.5
Gross international reserves (in millions of US$)	756.2	817.3	832.8	838.3	884.7	927.5	970.3	1,013.1	1,056.0
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4	64.4	64.4	64.4

Sources: IMF staff estimates and projections.

Table 8. Mauritania: Selected Economic and Financial Indicators, 2009–17

	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
			Est.	IMF Country Report No. 12/246	Projections					
	(Percent; unless otherwise indicated)									
National income and prices (y-o-y growth)										
GDP at constant prices	-1.2	5.1	3.9	5.7	6.2	6.3	5.5	27.3	6.2	6.2
Non-oil GDP at constant prices	-1.1	5.6	4.0	5.7	6.3	6.4	5.5	28.3	6.4	6.4
GDP excluding extractive industries at constant prices	-1.1	5.6	4.8	6.1	7.4	5.9	5.3	5.4	5.4	5.4
Oil production (1000 barrels per day)	10.7	8.3	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
GDP deflator	-5.9	21.4	14.2	-0.9	-2.4	2.8	-0.1	4.7	4.9	4.7
GDP excluding extractive industries deflator	1.0	6.6	5.4	4.4	4.7	5.1	5.3	5.2	5.2	5.1
Consumer price index (period average)	2.1	6.3	5.7	5.9	5.9	6.1	6.1	5.7	5.3	5.1
Consumer price index (end of period)	4.9	6.1	5.5	6.0	6.0	6.3	5.9	5.5	5.1	5.1
External sector										
Value growth of exports of goods, f.o.b.	-23.7	52.0	33.6	0.8	-10.6	2.9	-7.6	37.3	6.1	5.9
Value growth of imports of goods, f.o.b.	-27.2	39.1	28.9	16.6	22.3	3.0	-22.1	7.0	2.5	6.6
Current account balance (in percent of GDP)	-10.7	-8.7	-7.3	-19.5	-27.6	-25.1	-12.3	2.0	2.9	2.9
Gross official reserves 1/										
In millions of U.S. dollars, end of period	238.5	287.8	501.6	523.5	756.2	817.3	832.8	838.3	884.7	927.5
In months of following year's imports excluding extractive industries	2.4	2.5	3.7	3.8	5.3	6.6	6.2	5.9	5.6	5.5
PPG external debt (percent of GDP) 2/	96.5	84.0	75.7	62.4	62.1	61.4	63.2	50.4	48.4	44.1
Money										
Money and quasi-money (percentage change)	14.9	12.9	19.9	13.0	15.7	13.6	14.0	13.6	13.6	10.8
Credit to the private sector (percentage change)	3.7	14.2	10.1	14.4	13.9	14.7	13.8	12.9	12.9	12.9
Investment and savings										
Gross investment (percentage of GDP)	24.6	24.1	32.1	37.1	38.9	38.8	32.3	27.8	27.0	26.2
Gross savings (percentage of GDP)	13.9	15.4	24.8	17.7	11.3	13.8	20.0	29.8	29.8	29.2
	(Percent of non-oil GDP; unless otherwise indicated)									
Consolidated government operations										
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-0.9	-2.0	-0.2	-0.3	0.1	0.7	0.9
Overall balance including grants	-5.4	-2.0	-1.5	-3.5	0.4	-1.8	-3.0	-2.0	-1.1	-0.7
Public sector debt (percent of GDP) 2/	106.1	93.2	82.3	70.0	70.8	69.2	70.6	56.1	53.6	48.7
Memorandum items:										
Nominal GDP (in billions of UM)	794.2	1,012.9	1,201.3	1,239.9	1,245.5	1,361.1	1,434.0	1,911.5	2,129.5	2,367.9
GDP per capita (in U.S. dollars)	897.6	1,065.5	1,209.3	1,206.7	1,155.9	1,191.8	1,200.4	1,514.4	1,592.5	1,695.3
Price of iron ore (US$/Ton)	80.0	146.7	167.8	136.4	133.9	120.3	96.5	94.5	93.5	93.5

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

1/ Excluding the oil account.

2/ HIPC debt relief from Kuwait was initially programmed in 2011 and is now expected to take place in 2012.

3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 9. Mauritania: Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	2008	2011	PRSP 2015	MDGs 2015
(In percent of total population)									
1. Eradicate extreme poverty and hunger									
Overall poverty incidence	56.6	50.0	46.3	…	46.7	42.0	…	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	…	25.9	15.6	…	…	…
Prevalence of child malnutrition	43.3	20.3	32.0	…	30.2	15.9	…	21.0	23.5
(In percent of primary school age group)									
2. Achieve universal primary education									
Net enrollment ratio in primary education	49.2	58.5	61.1	65.7	74.3	76.0	72.7	100.0	100.0
(In percent of total enrollment in first grade)									
Proportion of pupils starting grade one who reach last grade of primary	63.8	42.6	54.7	…	52.8	81.8	65.2	100.0	100.0
(In percent)									
3. Promote gender equality									
Ratio of girls to boys in primary enrollment	75.37	89.50	97.15	98.60	101.24	104.90	102.00	100.0	100.0
(Per 1,000 live births)									
4. Reduce child mortality									
Child mortality (under five years)	124.1	118.2	115.2	114.2	113.8	112.4	77.0	55.0	45.0
(Per 100,000 live births)									
5. Improve maternal health									
Maternal mortality	…	…	930.0	…	747.0	686.0	626.0	300.0	232.0
(In percent of ages 15-24)									
6. Combat HIV/AIDS, malaria, and other diseases									
Incidence of HIV/AIDS among 15–49-year olds	…	…	0.5	0.6	0.5	0.6	0.7	< 1	1.0
(In percent of population)									
7. Ensure environmental sustainability									
Proportion of population using an improved drinking water source	30.0	…	40.0	…	…	…	63.3	75.0	82.0
Proportion of population using an improved sanitation facility	16.0	…	21.0	…	24.0	…	32.4	…	70.0
Memorandum items:									
Population (in millions) 1/	1.95	2.29	2.64	2.80	2.96	3.30	3.54	…	…
UNDP Human Development Index	0.35	…	0.41	…	…	0.45	0.45	…	…
Gini index of inequality	…	0.34	0.39	…	0.41	0.40	…	0.41	…
Child vaccination rate (in percent)	…	30.00	40.00	70.00	79.00	68.80	…	…	…

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

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

Table 10. Mauritania: Access and Phasing Under the Three-Year ECF Arrangement, 2010–13 1/ 2/

Timing	Available		Conditions
	Millions of SDR	Percent of Quota	
March 15, 2010	11.04	17.14	Approval of the arrangement.
November 19, 2010	11.04	17.14	Completion of the first review (relevant PCs for end-June 2010).
June 22, 2011	11.04	17.14	Completion of the second review (relevant PCs for end-December 2010).
December 12, 2011	11.04	17.14	Completion of the third review (relevant PCs for end-June 2011).
June 1, 2012	11.04	17.14	Completion of the fourth review (relevant PCs for end-December 2011).
November 26, 2012	11.04	17.14	Completion of the fifth review (relevant PCs for end-June 2012). 3/
May 31, 2013	11.04	17.14	Completion of the sixth (final) review (relevant PCs for end-December 2012).
Total	77.28	120.00	

1/ Mauritania's quota is SDR 64.4 million.
2/ The table is based on the assumption that the program will be extended until June 2013.
3/ To align availability and board dates, staff proposes to change the former from November 30 to 26.

ANNEX: MAURITANIA-EU—NEW FISHERIES AGREEMENT

Background: The first fisheries agreement between Mauritania and the EU dates back to 1987. The most recent one was in effect from 2006 to August 1, 2012 (this was in the form of a two-year agreement that was extended twice). It allowed 110 ships to fish in Mauritanian waters in exchange for an annual compensation fee of €75.5 million.

New agreement: Under the new agreement signed on July 27, 2012, the European Commission grants Mauritania a financial contribution of €113 million per year divided as follows : (i) €67 million as a flat financial fee; (ii) €43 million as ship license fees and for development of the local fishing industry; and (iii) €3 million in budget support. This agreement covers pelagic fisheries, tuna, and shrimp.

What is new: The new agreement better protects resource sustainability by reducing the amount of allowed captures, notably in the coastal fishing area, and excluding cephalopods. In addition, the new agreement increases job opportunities for Mauritanian seamen: (i) 60 percent of the crews of EU vessels in Mauritania will be Mauritanians (compared to 15 percent in the previous agreement); (ii) captures have to be processed and readied for shipping in Nouadhibou.

Controversy: The agreement was signed between the European Commission (EC) and the Mauritanian government with an official start date in August 2012. The first payment was expected within three months. However, no payment has yet been made. The agreement has yet to be ratified by EU member states; some EU fisheries Ministers consider the new agreement unbalanced and not commercially viable.

Next steps: The Mauritanian government is expecting the EU to fully abide by the agreement, viewing the current discussion as only a postponement of its implementation. If final ratification by the EU Parliament fails, a renegotiation with the EU may have to be initiated or the granting of bilateral fishing licenses will have to be explored more actively.

APPENDIX

LETTER OF INTENT

Nouakchott, November 5, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20433
USA

Dear Madam Managing Director:

1. The government has successfully addressed the challenges of consolidating macroeconomic stability and restoring growth in a difficult global context. By implementing appropriate economic policies consistent with the priorities set out in our Poverty Reduction Strategy Paper (PRSP), we have been able to restore macroeconomic resilience and maintain price stability, while putting in place a series of emergency programs to support our most vulnerable people. Nevertheless, in spite of our considerable efforts, the Mauritanian economy continues to face high unemployment and poverty rates while our development indicators are not closing in rapidly enough on the Millennium Development Goals that are our official development targets.

2. We have achieved the objectives laid out for the first half of 2012 under the program supported by the three-year arrangement under the Extended Credit Facility (ECF); consequently, we have met or exceeded all the quantitative performance criteria of end-June 2012 (see Table 1). Moreover, all structural benchmarks (see Table 2) have been met but one: the increase in electricity rates, initially scheduled for end-July, remains pending until the ongoing tariff study is completed (new structural benchmark for end-December 2012). As for the end-June indicative target on pro-poor spending, it could not be met because of the delay in adopting the "advance decree" amending this year's official budget law (*décret d'avance*). Nevertheless, the indicative target for the year is on track to be met.

3. This Letter of Intent (LOI) is based on the previous LOI approved by the Fund's Executive Board on July 2, 2012. Our economic policy program will continue to balance our efforts to consolidate economic stabilization with the need to strengthen efforts to fight unemployment and poverty.

I. Recent Economic Developments and the Program for 2012

4. The strong recovery of agricultural production and buoyant construction activity have been the main drivers of the economic recovery in 2012. In real terms, GDP growth for 2012 will climb higher than 6 percent (and higher than 7 percent for nonextractive industries), despite the significant drop in mining output and the slowdown of demand from Europe, one of our main trading partners. Inflation will remain contained at 6 percent (year-on-year), partly thanks to administered prices and only modest increases in credit to the private sector. Unemployment and poverty rates remain high, however.

5. The deterioration of the current account deficit will be financed by significant external flows, largely from foreign direct investment. The current account deficit is expected to worsen from 7 percent of GDP in 2011 to 27.6 percent of GDP in 2012 owing to a combination of reduced iron ore exports, nonpayment of financial compensation under the EU fishing agreement, and the sharp rise in imports due to the EMEL 2012 emergency program and new investment projects. Still, the current account deficit would be only 4.6 percent of GDP if imports associated with foreign direct investment were excluded. Improved management of foreign exchange reserves, significant repatriation of mining revenue, and an increase in foreign support (including an additional grant under the Brussels Round Table commitments) will enable us to build up our stock of reserves, which is expected to reach yet another record level by the end of the year, at US$756 million, equivalent to 5.3 months of imports. This level already exceeds both the optimal level calculated for Mauritania and the level forecast for 2017 as necessary to absorb exogenous shocks.

6. In the area of government finance, budget execution in the first half of the year has seen a significant effort in tax collection (a 40 percent y-o-y increase in tax revenue), a noticeable increase in mining revenue, and an underexecution of some social expenditures, partly as a result of the delay in adopting the "advance decree". As a result, there has been a greater improvement than expected in the basic fiscal balance, which stood at 3.6 percent of non-oil GDP at end-June versus the forecast figure of 3 percent. The basic deficit for the remainder of the year is expected to deteriorate more than initially expected. Better than expected tax revenues (the year-end target for the Directorate General of Taxation (DGI) had already been met at end-August) could not offset the decline in nontax revenues (to be prudent, the financial contribution under the new fishing agreement with the European Union has not been taken into account in our projections, given the uncertainties surrounding it). However, the overall balance will be positive (+0.4 percent) for the first time in our recent history because of exceptional external support and in spite of the emergency program and a significant increase in domestically funded capital investment.

7. As of end-June 2012, the monetary base posted growth of 34 percent year-on-year. This was higher than forecast mainly because of a larger buildup of foreign assets, which we

have not fully sterilized as current inflationary pressures remain low. Consequently, banks' free reserves remained at high levels. But excess liquidity has to date not brought about excessive growth in lending to the private sector. This is why the Central Bank of Mauritania (CBM) has not yet considered it useful to make use of the new monetary policy instrument introduced in June (seven-day Treasury bills). Nevertheless, the CBM remains vigilant and is ready to respond if surges in credit will generate inflationary pressures in the economy, particularly in the context of accelerating investment spending and phasing-out of subsidies toward the end of 2012. The exchange rate has depreciated 4 percent against the dollar, but remains stable in nominal effective terms. On the parallel market, the premium against the dollar and the euro remains small, indicating that there is no fundamental imbalance in the official market.

II. The Program for 2013

8. The strong recovery, which began in 2012, is expected to continue in 2013 despite falling demand from Europe. Real GDP growth will be 6.3 percent, largely thanks to continued strong construction activity and a rebound in mining production. Inflation will remain under control at 6 percent (year-on-year) thanks to prudent monetary policy and the dampening effects of administered prices. The current account deficit will remain high at 25 percent of GDP, owing to a steep rise in imports linked to mining investments and infrastructure projects. These investments are largely financed by foreign direct investment, amounting to nearly 17 percent of GDP, as well as external credit lines. The ability of the Mauritanian economy to withstand exogenous shocks will continue to be strengthened thanks to the buildup of foreign exchange reserves (equivalent to 6.6 months' worth of imports at end-2013).

A. The macroeconomic program

Fiscal policy

9. In 2013, fiscal policy will for the first time be anchored in the performance of nonextractive industries to ensure that the fiscal position remains sustainable over the medium term, especially if mining revenues fall (due to either lower prices or shrinking output). Thus, the overall balance (excluding revenues from the extractive industries and externally funded investment) is forecast at 8 percent of GDP excluding nonextractive industries in 2013, corresponding to an adjustment of 7 percent of GDP excluding nonextractive industries. This in turn is equivalent to an improvement in the basic balance of approximately 2 percent of non-oil GDP. Financing needs will be covered primarily by nonbank financing and concessional budget support.

10. The revenue target is 30 percent of non-oil GDP. Although mining revenues are lower than in 2012 because of a decline in mining profits, they still account for a significant portion of revenue, with a dividend rate on SNIM's profit set at a minimum of 25 percent. As well as

improving the performance of nonmining tax revenues by strengthening tax and customs administration and receiving the higher license fee under the fishing agreement with the European Union (including the postponed 2012 payment and EUR 113 million for 2013 that includes private licenses), the 2013 budget aims to establish more progressive tax rates (especially on earned income), while being simpler and increasing collection from the mining sector and consumer tax:

- Taxes on earned income will be revised by altering tax brackets to keep pace with inflation and reflect the recent increase in the minimum wage. This change will make the wages and salaries tax (ITS) more progressive by raising tax thresholds for low income earners and raising the threshold for high income earners. This will translate into higher real wages for all wage earners while minimizing the projected impact on tax revenues to UM -2 billion.

- Excise taxes on tobacco will be raised from 10 percent to 30 percent, and those on beverages to 30 percent (for a total increase of 0.1 percent of non-oil GDP).
  Taxation and transparency will be further enhanced by means of technical assistance recommendations provided by the Fund, with the general tax on receipts being eliminated (a revenue loss of UM 400 million).

- Collection of mining revenue will be strengthened, and legislation will be introduced to charge fees for transfers of mining rights. We also expect in 2013 to eliminate the exemption on registration fees established in the mining code. The tax on real estate income (IRF) will be extended to cover capital gains on real estate, including for licenses linked to mining exploration.

- The new exemptions on excise taxes for agricultural machinery will have only a minimal impact on the budget. To maintain proper control, an inventory of all exemptions (tax expenditures) and their fiscal cost will be established. These figures will be presented in the 2013 budget and used to identify potential savings.

11. Fiscal policy in 2013 will aim at further increasing investment and social spending while eliminating nonessential emergency programs such as those linked to the 2011–12 drought. The programs of dedicated food shops used in the solidarity program will be partly replaced by a better-targeted social protection system such as cash transfers. Total budget expenditure will be UM 437 billion (33 percent of GDP), of which more than a fourth will be domestically financed investment (which will increase by almost 50 percent compared to 2012, making it the largest expenditure category). We believe that more public investments, particularly in the agricultural sector, are essential to ensure that growth becomes more

inclusive. Our planned investments will remain commensurate with our absorption capacity thanks to our new procurement code procedures and improved project identification and prioritization. We are committed to ensuring that these expenditures will be in line with the priorities established in the PRSP, subject to an assessment and feasibility study, and that they comply with the new procurement code.

12. Current expenditure will be reduced to 20.5 percent of non-oil GDP through the following measures: (i) stabilizing the wage bill at 8 percent of GDP in 2012, while increasing pay for those earning less than UM 100,000 by 7 (instead of 3) percent; (ii) eliminating emergency programs and fuel subsidies; (iii) raising electricity tariffs for industrial consumers following the tariff study to be completed by end-2012 (rate increases already took effect in January 2012); and (iv) reducing subsidies on butane gas. Better-targeted social safety nets will accompany these cuts in subsidies. In the event of a revenue shortfall, including a renewed delay in the EU fishing license, we are committed to reducing nonessential spending, including non-urgent investment projects.

Monetary, financial, and exchange rate policies

13. For 2013, the monetary policy stance will be prudent, with a target of 14 percent growth in broad money supply. The monetary authorities are ready to tighten monetary policy to restrain any tendency for inflationary pressures to re-emerge, using indirect monetary policy instruments. Increasing reserve requirements will be considered if excess liquidity turns out to have a destabilizing effect on the banking system.

14. We are committed to managing liquidity actively. In the immediate future, to prepare for the active use of the new liquidity management instrument (seven-day Treasury bills), we expect to start experimenting by issuing small amounts on the order of approximately UM 1 billion by November 2012, which will gradually increase to UM 3 billion by early January 2013. The size of the issuance will be adjusted as necessary according to the circumstances. Our liquidity forecasts, prepared at weekly meetings of the CBM-Treasury coordinating committee, will be supplemented with detailed information on SNIM's local spending and repatriation plans. We are working to establish mechanisms for the repayment of government claims on the CBM under an agreement to be submitted to the Council of Ministers by the end of the year (a structural benchmark for December 2012), which will help recapitalize the CBM.

15. The CBM will continue to reinforce the workings of the foreign exchange market. It will continue to regularly supply foreign exchange to the market by selling a portion of mining revenues (a minimum of US$40 million a month is planned). To further enhance the transparency of these operations, the CBM will publish in November the amount of all transfers of foreign exchange sold (both during market sessions and off-market) and will continue to ensure that off-market transfers are limited to exceptional transactions. The exchange rate will continue to be aligned with fundamentals dictated by supply and demand in the market. In November, an IMF technical assistance mission will provide recommendations to help the further development of the foreign exchange market.

16. Financial sector reform will be accelerated to deepen financial intermediation and remedy weaknesses identified by IMF technical assistance (including the ones on related-party lending). The financial sector strategy prepared in collaboration with the World Bank will be validated by the government in November and will be used to set the priorities and sequencing of reforms. Moreover, all commercial banks have already attained the minimum capital requirement of UM 6 billion, the end-year target. Our actions will continue to focus on the following:

- *Continuous monitoring of risks.* With the assistance of the World Bank, we have computerized the credit bureau and started setting up a database on customer defaults which will be finalized in 2013. The results of the international audit of commercial banks are already available for most banks and show that, by international standards, nonperforming loans, may be higher than forecast (44 percent of gross lending). We are committed to establishing performance contracts to ensure that banks have adequate capital and provisions. Together with the banks, we will study the possibility of setting up a private collection agency to recover loans that have been outstanding for a long time, which will allow banks to remove them from their balance sheets.

- *Strengthening of banking regulation and supervision.* In collaboration with AFRITAC West technical assistance, we are continuing to implement recently overhauled regulations, in particular the new rules on related-party lending, capital adequacy, concentration risk, and internal audit. We have stepped up our ex-post controls of banks' open foreign exchange positions. Following the adoption of new regulation in this area, we will apply appropriate penalties in case banks' transactions are found to be in breach of our regulation. The CBM is in the process of strengthening its financial and human resources devoted to bank supervision, and is recruiting new inspectors.

- *Introduction of IFRS accounting.* We have asked an audit firm to assist commercial banks in the transition to IFRS accounting. The final report has been submitted in end-September 2012. In regard to the quantification of differences between local CBM and IFRS accounting standards on the CBM's 2010 financial statements, a preliminary report has been prepared by an international audit firm and a final version will be

available by at end-November 2012. A timetable for transitioning to IFRS standards is currently being developed.

- *Enhancement of transparency.* The CBM's 2011 financial statements and the auditors' opinion have been posted on the CBM's website as planned. The CBM will continue to have its accounts, including its reserve position, audited by an international audit firm selected through a bidding process.

External debt and debt management

17. We are committed to safeguarding the sustainability of our external debt position. We are aware that the most recent DSA shows that the net present value of our debt stock exceeds 40 percent of GDP for four consecutive years, even after cancellation of the Kuwaiti debt. Reclassifying Mauritania's risk of debt distress from "moderate" to "high" would have adverse consequences, particularly because some lenders would be obliged to cease operations in Mauritania. Even though we are committed to mobilizing concessional financing, we are now looking at the possibility of financing a greater share of our public investments from domestic resources. Implementation of our new medium-term debt strategy, prepared by the National Debt Management Committee in line with international standards and Fund Staff recommendations, will enable us to better manage our debt. Its validation by the Full Council of Ministers is expected by end-November. Moreover, the work now under way by a dedicated unit to modernize our data management tools will improve programming and portfolio allocation.

18. We will actively continue to deploy our best efforts to complete debt relief agreements with bilateral creditors. In this regard, we will continue our discussions with the Kuwaiti authorities to agree on a treatment of the bilateral debt that is consistent with the terms of the HIPC Initiative, cancelling this passive debt. Meanwhile, the portion of the Kuwaiti debt owed by the CBM will be removed from its balance sheet in exchange for a reduction of the CBM's claim on the government.

B. Structural reforms

19. We attach great importance to structural reforms because of their positive effect on improving the business climate, promoting growth, creating jobs, and reducing poverty.

Strengthening the social protection system and gradually eliminating subsidies

20. Our policy of phasing out generalized and poorly targeted subsidies has continued. Applying a new fuel price structure has enabled us to bring domestic fuel prices to international levels in 2012, although regrettably we have been unable to maintain them consistently at this level because of the steep increase in international prices. To ensure that the pricing formula can continue to be applied automatically even in the face of a sharp

increase in international prices, a new instruction will establish a cap of 3 percent on any one adjustment in cases when the formula would dictate a bigger increase.

21. Accompanying our subsidy reform, several programs have been put in place to provide cash transfers (with World Food Program assistance). We have also increased the number of dedicated food shops used in the solidarity program to offset the impact of food price increases on the most vulnerable people. This component of the EMEL program and the new cash transfer programs will be evaluated by January 2013. We are aiming to reduce the number of dedicated food shops substantially and to instead introduce new, better-targeted social transfer programs (for a total cost of about 1.5 percent of GDP); this agenda will also benefit from the expansion of the vulnerability and poverty survey to provide nationwide coverage by March 2013 (domestically funded).

22. Implementing the social protection strategy developed with UNICEF will make it possible to further strengthen the coverage of the social protection system and better protect the poor and vulnerable in our society. Accordingly, we shall, with the assistance of our technical and financial partners (TFPs), strengthen programs such as free school cafeterias, food-for-work, and support for pregnant women. Moreover, recognizing the adverse effects of the drought on food security, we have started to implement a national food security strategy for the period 2015 to 2030 and an associated national investment program.

Reform of government finances

23. The strategy for reforming public finance and its medium-term operating plan were adopted in February 2012. The technical steering committee will be established in October, and will bring together all the organizational units in question in the Ministry of Finance.

Management of natural resources and mining taxation policy

24. The government has been discussing ways to further optimize the resources flowing from the mining sector, which remains undertaxed despite the recent legislation introducing progressive royalty rates. Hence, the government has decided to evaluate the prospects of renegotiating taxation systems in the mining sector with investors who so wish, while maintaining a stable business climate. For now, the priority is to set up an interministerial committee by December 2012 to improve coordination between the different government agencies involved in the mining sector, to ensure that tax and customs regimes negotiated with new foreign investors are consistent with the current mining code, and to fill any existing gaps in our tax code in order to tax capital gains resulting from transfers of ownership of assets in Mauritania. In addition, to prevent the accumulation of tax credits owed to mining companies, we plan to introduce a VAT self-assessment for foreign-owned service providers.

25. The government seeks to assure full transparency in the development and use of financial resources originating from the mining industry. That is why we are planning to establish a mining fund in 2013. The aim is to use mining resources to finance our large development needs in the event of exogenous shocks. A technical assistance mission by Fund staff will help us set up the institutional requirements. Moreover, the fact that Mauritania has joined the Extractive Industries Transparency Initiative (EITI) assures greater transparency of revenues from the extractive industries. Over the short term, we plan to publish tax and nontax revenue from the mining sector (SNIM, TASIAST, MCM) every month on the Ministry of Finance website, just as is now being done for the oil and gas sector.

Maintaining the upward trend in revenue collection

26. We are committed further improve our tax collection efforts. The DGI has made important progress in the following areas: (i) adopting the principle of a Large Taxpayer Unit (LTU) with national jurisdiction, and raising the threshold for application of the LTU to UM 300 million; (ii) significantly increasing tax audits; and (iii) extending the system of Tax Identification Numbers (TINs) to all identified taxpayers. We expect to increase the DGI's operating budget in 2013 and reinforce training of staff, which will modernize its operations. We are also planning to identify three or four performance indicators for each directorate based on their various functions (arrears, new taxpayers). At the same time, we will carry out a communication campaign to make our existing collection and appeal procedures, as well as the existence of the joint arbitration committees more widely known.

27. We will accelerate customs reform to strengthen its role in revenue collection, facilitate trade operations, and combat fraud. In this regard, the new scanner is operational and a system of selective inspection parameters has been established. Moreover, all the necessary provisions are in place to make both the valuation office and customs intelligence office operational by end-2012. To strengthen performance-based management, we intend in the next few months to introduce performance indicators for customs staff (new taxpayers, recovery of arrears, customs clearance times, and number of seizures). Synergies with the DGI have been developed through a memorandum of understanding signed by the Directorate General of Customs (DGD), the DGI, the Directorate General of the Budget (DGB), and the Directorate General of Public Works (DGTP) to formalize exchanges of information on taxpayers. Work on drafting the new customs code remains in the final stages. Strengthening human resources capacity in the DGD remains a priority.

Managing public expenditure

28. With regard to the budget preparation and execution, we are continuing to incorporate the functional government expenditure classification in the budget, including breaking down all subsidy expenditures entered under the heading "common expenditures" (*dépenses communes*). To enhance transparency, we submitted the end-June budget execution report to

the parliament. Following a new instruction by the Ministry of Finance, we intend to publish on our website every month documents pertaining to the government's financial situation (cash flow table (TOFE), cash position, and report on oil revenues). In addition, we took stock of all existing imprest accounts (*régies d'avance*) and we will continue to avoid using exceptional procedures (*procédures dérogatoires*) and budget advances (*procédures d'avance*) except in cases of extreme need. All budget advances under the 2012 year, including UM 9 billion not regularized by end-August 2012, will be included in the budget amendment. We intend to prepare a new organic law in 2014 for which we have requested technical assistance from the Fund.

29. To solidify the government's financial situation, we have produced, as planned, a report on the government's pending payment disputes as of end-March 2012. The claims recognized by the government total nearly UM 6 billion and have been publicly released. At the same time, joint government-supplier committees have been established and an office dedicated to dispute resolution has been established. We will make every effort to adhere scrupulously to the plan to settle the recognized arrears in the period 2012 to 2014. We have also established an inventory of government guarantees that have been called but not paid; these total approximately UM 6 billion; and a repayment timetable is under preparation. Repayment of VAT credits owed to mining companies will be made as planned.

30. The new public procurement code came into force in 2012. The relevant decrees have all been adopted and implemented in February 2012. From now on, the new code will be applied without exception to all contracts awarded by the public sector. Awarding contracts through private negotiation will remain exceptional and continue to be overseen by the monitoring committee set up under the new code. To encourage private-sector involvement in major projects, we intend to prepare draft legislation on public-private partnerships.

Containing the wage bill and improving the quality of public services

31. We have devoted considerable efforts to make up the delay in implementing civil service reform. We have reconciled the civil service database with the payroll file and have produced a unified payroll system using a single database. To carry this work further and assure tighter control on payments for salaries and family allowances, we are committed to undertaking a large-scale project to bring all files for civil servants and their families fully up to date. In the short term, we are working to put in place an effective and permanent mechanism to check whether civil servants and other government employees actually do report to work, including continuing on-site inspections and censuses of the largest ministries.

32. We continue to ban any recruitment that is not governed by the civil service regulations. To strengthen human resource management, we plan by December 2012, with technical assistance from the World Bank, to initiate an organizational audit of line

ministries, beginning with the Ministries of Education, Finance, and Health. With assistance from AFRITAC West, we plan to put in place a better means of tracking personnel expenditure and introducing forward-looking management of staffing levels. This will make it possible to replace departing personnel with an appropriate level of new recruits that reflects actual government needs.

Improving the performance of public enterprises

33. To strengthen and improve the management of public enterprises, we are committed to conducting, together with the World Bank, technical and financial audits of public enterprises. Unfortunately, it has not been possible to complete this step as planned under the program owing to delays in procurement procedures. To meet the fixed deadlines, some audit reports will be financed with domestic resources (SONIMEX, SOMAGAZ, and the SNDE), while the MAURIPOST audit is already under way. We are aware that rebalancing the financial situation of these enterprises is essential, and we want to ensure that they are more effectively managed, especially by means of signed performance contracts. We will pay special attention to the new public transport companies to make sure that any budget impact remains minimal. We also intend to monitor more closely the wage bill of the public enterprises and institutions by carrying out a personnel census and producing a centralized database of staff in the Directorate General of Government Assets.

Reforming the electricity sector

34. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC and adopting an arrears repayment plan, the government has regularly paid its SOMELEC bills, paid a substantial proportion of the company's operating subsidy, and is committed to ensuring that all government agencies' electricity bills will be paid regularly. We will support SOMELEC's efforts to recover unpaid debt from other public entities. Furthermore, electricity rates for the services sector have been aligned with the rates for medium-voltage electricity since the beginning of 2012. These measures, together with the new credit line from the Islamic Development Bank, have enabled the company to significantly limit its recourse to bank borrowing at high interest rates, which were a drain on its finances in the past.

35. Additional measures will improve SOMELEC's situation in 2012. A tariff study, conducted by an international firm, will be completed in November 2012 and will result in electricity rates being revised, particularly those paid by large consumers. The latter will be revised by December 2012 (new structural benchmark). In addition, we have called on a consulting firm to establish a performance contract between SOMELEC and the government.

Promoting the private sector and employment

36. We are determined to significantly improve the investment climate and to identify constraints that hinder private-sector development, helping us to master the challenge of creating employment. The new investment code adopted in June 2012 and the creation of a new directorate general within the Ministry of Economy to promote the private sector mark important steps in this direction. We are also intent on removing constraints regarding the business climate as identified in the World Bank's *Doing Business* survey, particularly regarding the possibility of streamlining tax procedures. A 2012–13 action plan has been drawn up with the assistance of the World Bank. We are committed to making the one-stop shop operational and providing it with the necessary structure and staff by end-2012, with a view to simplifying procedures and shortening administrative timeframes for new investors.

37. We will continue to rely on a multipronged strategy to promote employment. We plan to introduce a national strategy for developing skills tailored to the needs of the private sector, which will strengthen our vocational training programs and help unemployed young graduates join the labor market. New investment in agriculture will result from new rural development strategy (such as the development of new irrigation areas). A new strategic study of the telecommunications sector will help identify and create new jobs in this industry. To fully understand labor market conditions and trends, we will complete the nationwide study on employment and the informal sector in Mauritania in 2012, with the assistance of other technical and financial partners (ILO and UNDP).

Strengthening governance

38. Fighting corruption remains an absolute government priority. With the national anticorruption strategy (SNLCC) having been adopted in 2010, it will be made operational by implementing a plan to define the contours of the authorities' actions against corruption, reflected in draft legislation to be submitted to parliament by end-2012. Among other things, we also intend to establish a technical commission by end-2012 to make recommendations to the government on rationalizing oversight structures.

Improving economic statistics

39. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress toward the MDGs. Accordingly, a number of surveys are under way or about to begin: a complete revision of the consumer price index (CPI), an update of the national directory of industrial firms, an employment survey, and the fourth general census of household living conditions. We have requested World Bank assistance to build the country's statistical capacity by pressing ahead with the organizational and institutional reform of the National

Bureau of Statistics (ONS). We also intend to embed statistical functions as part of the ministries' operations and set up ongoing training and development in this area.

C. Risks

40. In spite of the positive developments seen in 2012, various risks may jeopardize our attainment of program objectives: (i) a downturn in external demand and export prices (iron ore, copper, and gold) and the volatility of import prices for wheat, rice, and oil; (ii) low levels of concessional external financing; and (iii) cancellation of the fishing agreement recently concluded with the European Union. Nevertheless, the government stands ready to take appropriate measures to mitigate the effects of such risks, if they should materialize, in consultation with Fund staff.

III. Conclusion

41. As the principal objectives of the program set for June 2012 have been achieved (see Tables 1 and 2), the government requests the completion of the fifth review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. To reflect the better-than-expected program performance in 2012 and the new external environment, the government also requests modification of the end-December 2012 performance criteria relating to net international reserves, net domestic assets, and the non-oil basic balance (see Table 1). The technical memorandum of understanding will also be amended to exclude costs associated with the issuance of the new seven-day Treasury bonds from the basic balance.

42. We believe that the policies set forth herein are adequate to achieve the program objectives, but stand ready to take any further measures that may become necessary to that end. We will consult with the Fund on the adoption of such measures and in advance of any revision of the macroeconomic policies contained herein. We will remain in close consultation with Fund staff and we are committed to providing the information necessary for regular monitoring of the program. New performance criteria have been proposed for end-December 2012, as well as structural benchmarks for end-December 2012 and end-

March 2013 (see Table 2). These quantitative criteria and benchmarks are described in the attached technical memorandum of understanding. The government also requests that the program be extended by about three and a half months, to June 30, 2013, to enable Fund staff to verify the end-December benchmarks and authorize the last disbursement planned under the ECF arrangement. The sixth review under the program is expected to be completed on or after May 31, 2013.

Very truly yours,

/s/
Sid' Ahmed Ould Raiss
Governor
Central Bank of Mauritania

/s/
Thiam Diombar
Minister of Finance

/s/
Sidi Ould Tah
Ministry of Economic Affairs and Development

ATTACHMENT: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Letter of intention (LOI) 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 between the reference periods described in Table 1 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the CBM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 ($1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/$262.0), the SDR ($/SDR 1.61), the euro (Euro/$1.49), and other nondollar currencies as published in the IFS.

4. **Net domestic assets** (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., NDA = Reserve Money – NFA, based on the CBM balance sheet). NFA will be measured at the **program exchange rates** 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 and seven-day Treasury Bills issued for liquidity management). 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 (*revenue recorded by Treasury*). Expenditure will be monitored on

the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the CBM, 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 CBM).

6. **The new medium- and long-term nonconcessional external debt contracted or guaranteed** by the government, the CBM, and State-Owned Enterprises (excluding SNIM) is defined as debt to nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM 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 External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

7. **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows**: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

8. **The short-term nonconcessional debt** is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the CBM 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 External Debt in Fund Arrangements, attached to IMF Executive Board

Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments contracted or guaranteed for which value has not been received. This definition excludes foreign currency deposits with the CBM. It also excludes normal import-related credits.

9. **External payments arrears** are defined as overdue payments (principal or interest) on the external debt contracted or guaranteed by the government or the CBM after the expiration of the applicable grace period.

10. **Treasury float (outstanding payments at the Treasury)** is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury. Once the RACHAD payment module is implemented, the float will be defined as the payment orders validated by the RACHAD payment module and not yet executed by the Treasury.

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

B. Structural Benchmarks

12. **Structural benchmarks for the 2011 tranche of the program were:**

- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number.

- Full implementation and use of ASYCUDA++ in major customs offices by end-December 2011.

- Introduction of a Treasury Single Account by end-December 2011.

- Design by end-December 2011 an overall external debt management strategy **(deferred to end-September 2012)**.

- Increase by end-December 2011 bank minimum capital to UM 5 billion ($18 million).

- Complete by end-December 2011 the study on the financial situation of major public enterprises. This will be based on the financial audit of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX **(deferred to end-December 2012)**.

- Complete by end-December 2011 a government arrears repayment plan for SOMELEC.

- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

13. **Structural benchmarks for the 2012 tranche of the program are:**

- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.

- Audit the CBM's NIR and NDA data as of end-December 2011, end-June 2012, and end-December 2012 by end-March 2012, end-September 2012, and end-March 2013, respectively.

- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.

- Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties by end-March 2012.

- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.

- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.

- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011 by end-June 2012.

- Fix the modalities for the repayment of government claims to the CBM through a convention that will be presented for adoption to the Council of Ministers (**end-December 2012**).

- Update the payroll file with actual results from the census of employees by end-June 2012.

- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012 (**deferred to end-December 2012**).

II. Program Adjustors

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

15. In case **net international assistance or the contribution of the FNRH to the budget falls short** of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA ceiling, this amount will be converted into ouguiya at the program exchange rates. The cumulative downward adjustments to NIR will be limited to $35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

16. **The floor on the basic non-oil deficit** will be adjusted upward—that is, the maximum deficit will be increased for any higher than programmed disbursement of budgetary grants.

III. Reporting Requirements

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

Central Bank of Mauritania (CBM)

- The monthly balance sheet of the CBM, and monthly data on (a) CBM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.

- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.

- Data on Treasury bills auctions and the new stock outstanding within a week following each auction.

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

- Monthly external debt data within 30 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

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

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

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor, and by currency) within 30 days following the end of each quarter.

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

Ministry of Finance

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

- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically-financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two (2) weeks following the end of each month.

- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay

and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.

- Monthly data on the execution of the foreign-financed part of the investment budget, based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two (2) 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 (1) month from the end of each month.

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

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

National Statistical Office

- Monthly consumer price index within two (2) weeks following the end of each month.

- Quarterly industrial production index within one (1) month of the end of each quarter.

- Quarterly note on economic activity and international trade.

Technical Monitoring Committee

18. Monthly report on program execution three (3) weeks at the latest after the expiration of the month.

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

IV. Central Government Operations Table

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

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA*

parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of CBM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (*EPA*) with the CBM).

- **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 (beyond a period of three months) 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 net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears and passive debts as defined in Paragraph 9; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Table 1. Mauritania: Quantitative Benchmarks and Performance Criteria for 2010, 2011, and 2012

(Cumulative changes from end-December 2010 and 2011) 1/

	End-Dec. 2010			End-Dec. 2011			End-Mar. 2012			End-Jun. 2012			End-Sep. 2012			End-Dec. 2012	
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Proposed performance criteria
Quantitative targets																	
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	-6.9	22.9	-17.0	8.3	8.7	63.4	-4.0	25.1	122.8	-16.1	292.3
Net domestic assets of the BCM (ceiling); in billions of UM 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-3.1	-10.9	-1.4	4.0	3.9	-6.6	13.5	5.8	-4.4	19.8	-62.4
Basic non-oil balance; in billions of UM	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-1.7	-1.7	13.3	29.3	28.4	45.2	10.4	-40.3	17.4	-11.2	-23.3
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 4/	0		0	105.0		0.0	0.0		105.0	0.0		105.0	0.0		105.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0		0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous quantitative	0		0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
Poverty-related expenditures; in billions of UM (indicative target)	106.7		89.9	106.5		107.9	24.3		24.9	68.2		64.5	107.3		104.0	133.8	135.6
Adjustors (in millions of U.S. dollars)																	
Net international assistance	35.4		34.0	32.8		-6.5	-8.0		23.4	2.1		24.1	34.7		218.8	8.1	202.4
Cumulative disbursements of official loans and grants in foreign	76.6		34.0	92.6		58.6	0.0		31.3	40.5		63.0	80.0		265.4	84.4	279.5
Impact of any additional debt relief	0		0	0.0		0.0	0.0			0.0		0.0	0.0		0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	-41.2		0.0	-59.8		-65.1	-8.0		-7.9	-38.4		-38.9	-45.3		-46.5	-76.3	-77.1
FNRH contribution to the budget	47.2		110.8	34.8		34.7	0.0		29.8	29.4		29.8	29.4		58.6	56.8	64.4
Cumulative disbursements of official grants in foreign currency	46.9		34.0	24.6		3.6	0.0		0.0	9.6		12.9	21.8		215.3	26.3	219.9
Memorandum item:																	
UM/US$ exchange rate (program)				262.0			262.0			262.0			262.0			262.0	262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.

2/ Adjusted upward by FNRH contribution to the budget and downward by net international assistance and FNRH contribution to the budget (see TMU).

3/ Adjusted upward by net international assistance and FNRH (see TMU) contribution to the budget.

4/ The higher ceiling for 2011 only accommodates the financing of a hybrid power plant. Due to the delayed parliamentary approval of this financing, this performance criterion was technically missed in 2012. However, there has been no nonconcessional borrowing in addition to the $105 million.

Table 2. Mauritania: Structural Benchmarks, 2012–13

Item	Measure	Date (end-of-period)	Outcome	Objective	Comment
Expenditure policy					
1	Update the payroll file with actual results from the census of employees.	June 2012	Met	Control public wage bill.	The payroll database is now consistent with the civil service database. In addition, a new survey of staffing levels in line ministries has started.
2	Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study.	December 2012		Phase out poorly targeted subsidies.	Rephased after not met in July 2012. The study started in April but has progressed more slowly than anticipated. Adjustments in tariffs will follow the completion of the study, now expected by end-November.
Public financial management					
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Met		A report on domestic arrears—and the action plan to settle these arrears—has been prepared.
4	Design an overall external debt management strategy.	September 2012	Met	Safeguard fiscal and external sustainability.	Rephased after not met in December 2011. The technical committee in charge of public debt management has finalized and adopted an official medium-term debt management strategy, which fully incorporates World Bank and Fund staff's recommandations.
5	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2012		Ensure efficient use of public resources.	Rephased after not met in December 2011.
Central bank transparency					
6	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	September 2012	Met, with delay	Enhance central bank transparency.	Rephased after not met in March 2012. The auditors have completed the quantification and submitted a preliminary report, together with detailed background information, to the authorities for comments. The final version of the report will be available in November.
7	Audit the CBM's NIR and NDA data as of: end-December 2011.	March 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-June 2012.	September 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-December 2012.	March 2013			
8	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012	Met	Enhance central bank transparency.	
9	Sign a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.	June 2012	Met	Improve monetary policy effectiveness.	The memorandum was signed in June, and the authorities plan to start issuing the new instrument in November.
10	Agree on the modalities of repayment of the loans to the government that the CBM carries on its balance sheet. The agreement will be presented for adoption to the Council of Ministers.	December 2012		Strengthen the financial health of the CBM to allow for a more active conduct of monetary policy.	
Financial sector					
11	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Met		The regulation on connected lending has been approved in early March by the Monetary Policy Council and signed by the governor on March 26, 2012. An assessment of the impact of the new instruction has been prepared with help from Fund TA.
Social Policy					
12	Conduct with the support of the World Food Program a vulnerability and poverty survey.	April 2012	Met		As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to early 2013.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Mauritania's Extended Credit Facility Arrangement and Approves US$16.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the fifth review of Mauritania's economic performance under the program supported by an Extended Credit Facility arrangement (ECF) and approved an extension of the arrangement by three months until June 30, 2012.[1] The Board's decision, which was taken on a lapse of time basis,[2] enables the immediate disbursement of an amount equivalent to SDR 11.04 million (US$16.9 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 66.24 million (US$101.6 million).

The Executive Board approved a three-year arrangement for Mauritania in March 2010 for an amount equivalent to SDR 77.28 million (about 120 percent of the country's quota in the IMF, see Press Release No. 10/89).

Economic activity in Mauritania has been resilient, despite a severe drought and several external shocks. Inflation was contained, and fiscal and external buffers have reached

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[1] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm). The Fund reviews the level of interest rates for all concessional facilities every two years.

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

unprecedented levels. Nonetheless, progress in reducing poverty and unemployment is uneven, and the economy is still too dependent on developments in extractive industries.

The sizeable buffers accumulated during the ECF-supported program provide a cushion against downside risks in 2013. As before, the economy remains exposed to a sharp fall in external demand, renewed bouts of volatility in the terms of trade, and a delay in the disbursement of fishing licenses. Yet a record level of foreign exchange reserves and a surplus in the overall fiscal balance this year create room for policy to respond if downside risks materialize. Over the medium term, reducing poverty by making growth more inclusive remains an overarching challenge.

Anchoring fiscal policy on developments in nonextractive industries will help preserve debt sustainability while protecting pro-poor spending. The draft 2013 budget preserves fiscal discipline through ambitious subsidy reform and wage bill containment, reducing reliance on volatile mining revenues. At the same time, the spending on well-targeted social safety nets will increase. The planned ramp-up in public investment spending is appropriate in light of Mauritania's pressing infrastructure needs, but should take into account absorptive capacity constraints and the new procurement code.

Monetary policy will become more active through the introduction in the immediate future of a new monetary policy instrument that will help absorb excess liquidity and reduce risks of an unhealthy credit spiral. Sustaining greater exchange rate flexibility is essential for absorbing external shocks.

Continued satisfactory program implementation—based on phasing-out ill-targeted subsidies, strictly applying the new investment and procurement codes, and reinvigorating labor market and public enterprise reforms—will help diversifying the economy. This, in turn, is necessary for making growth more inclusive and reducing poverty. The sixth and final review of the ECF-supported program is scheduled for May 2013.