

BUFF/ED/21/29

February 26, 2021

**Statement by Mr. Andrianarivelo and Mr. Sidi Bouna on Islamic Republic of Mauritania
Executive Board Meeting
March 3, 2021**

I. Introduction

- 1. The authorities thank staff for the very candid and fruitful discussions held in the context of the sixth review under the Extended Credit Facility (ECF).** The policy discussions took place remotely during the months of December 2020 and January 2021, at a time when a second wave of the pandemic hit the country which required the reinstatement of containment measures. While cautious steps have since been taken to reopen the economy, the second wave has further exacerbated the socio-economic hardships caused by the first wave earlier last year. The authorities would like to express their deep gratitude to the Executive Board and Management for their support during these difficult times, and in particular for the disbursement under the Rapid Credit Facility in April 2020 and the augmented access under the fifth review in September 2020 which provided much-needed financial resources to help mitigate the effects of the pandemic on the population and the economy.
- 2. With the Executive Board’s consideration of the sixth and final review under the ECF, the authorities request a successor arrangement to help address the significant challenges they continue to face and pursue major reforms initiated over the past three years with the support of the Fund.** They welcome the staff’s assessment that Mauritania’s performance under the program has remained strong. The authorities have also demonstrated a strong ownership of the program and have overall delivered on their commitments under the ECF. However, Mauritania continues to face significant macro-structural challenges, including the need to raise living standards more rapidly and accelerate poverty reduction while also continuing to take actions to mitigate the country’s vulnerability to shocks, notably from periodic droughts and the effects of climate change. To meet these challenges and pursue the implementation of major structural reforms launched under the ECF that have not yet been finalized, the

authorities request a new ECF arrangement. They are also hopeful that a continued sound performance under a new Fund arrangement will help catalyze additional donor financing to support their long-term development agenda, as Mauritania's needs to achieve the Sustainable Development Goals (SDGs) remain substantial and progress towards these goals has been jeopardized by the pandemic. They are very grateful to their development partners for the financial support provided during the pandemic.

II. Recent Economic Developments, Outlook, and Risks

3. **The pandemic has weakened the economic performance in 2020.** Real GDP growth is estimated to have contracted by 2.2 percent in 2020, as result of the strict containment measures to alleviate the socio-economic impact of both waves of the pandemic. Inflation, however, has remained low at 2.3 percent on average. The primary budget balance (excluding grants) has ended the year with a surplus of 1.3 percent of non-extractive GDP, thanks largely to the sizeable increase in fiscal revenues emanating from the thriving extractive industries despite higher expenditures to address the Covid-19 pandemic. The external current account deficit (excluding externally financed extractive capital imports) narrowed to 3.3 percent of GDP, driven mainly by the strong performance of commodities' exports and rising international prices of iron ore and gold. These favorable external developments along with the increase in donor support have helped increase foreign exchange reserves to 5.9 months of non-extractive imports.
4. **Mauritania is projected to recover in 2021 from last year's recession caused by the pandemic.** Growth is forecast to reach 3.1 percent in 2021 and should accelerate over the medium-term as domestic and global conditions improve further. Inflation will remain moderate at 2.4 percent on average in 2021. While public finances will be positively affected by the economic recovery underway through, notably, an increase fiscal revenues, the authorities have maintained elevated emergency and social expenditures in their 2021 budget to continue to mitigate the effects of the pandemic and respond to the second wave. Thus, the primary fiscal deficit is forecast to reach 3 percent of non-oil GDP in 2021. The external current account deficit (excluding externally financed extractive capital imports) will widen to 7 percent of GDP in 2021 and decline to 4 percent of GDP in 2023, as global economic conditions continue to improve, and domestic demand adjusts to the new environment.
5. **The country's outlook remains subject to high uncertainty.** A weakening of global economic conditions could impact the favorable international price of the commodities exported by Mauritania, especially iron ore and gold, while volatile oil prices could affect the expected launch date of offshore gas production, currently scheduled in 2023. Regional and global challenges, notably the deterioration of the security situation in the Sahel region and more frequent and intense droughts, could also adversely affect Mauritania.

III. Performance Under the ECF

6. **Program performance has remained strong despite a challenging environment.** The authorities have met all performance criteria at end-June 2020, except the ceiling on net domestic assets of the central bank which the authorities exceeded slightly due to the accommodative monetary policy stance needed to respond to the pandemic. They request a waiver for the non-observance of the performance criterion. The pandemic has also affected the implementation of two structural benchmarks—one pertaining to the reform of the foreign exchange market and the other to cash transfers to vulnerable households—which were also observed but with delays. In addition, while the indicative targets on social spending for June 2020 and September 2020 were missed, total social spending increased significantly by the end of the year enabling the authorities to meet the much higher December indicative target.

IV. Fiscal Policy

7. **Ensuring that adequate resources are allocated to the fight against the pandemic remains the authorities' key near-term priority.** To that end, they have adopted a 2021 budget that provides for an increase in health expenditures, including new hiring and salary increases, extends social protection for the poorest, introduces measures to assist households and small enterprises, allocates resources to encourage agricultural production. The budget also raises capital expenditures for essential infrastructure projects. The authorities very much welcome the acknowledgement by staff in the report that they *“are implementing their commitments made at the time of the RCF, regarding the transparent use of Covid-19-related resources in 2020-2021.”* They are determined to continue to ensure that the monitoring and reporting of emergency spending continue to be made in a transparent manner, and this, with the help of a national commission put in charge to monitor all the resources utilized in the fight against the pandemic which is composed of a wide range of stakeholders, including trade unions representatives and external partners. They will also continue to publish all public procurement contracts on the website of the Ministry of Finance, including the names of the beneficiary companies and their legal owners, as well as the nature of the goods and services and the certification of delivery. They will also address the requirement to disclose the beneficial owners with the technical assistance of the Fund. The authorities will ensure that all Covid-related expenditures are audited by the Court of Auditors (Cour des Comptes) and that the findings of the audit are made public by September 2021.
8. **The authorities will take actions to ensure that fiscal and debt sustainability are preserved over the medium-term.** They will prepare, in coordination with Fund staff, a plan to embed the 2020 fiscal expansion in a medium-term budgetary framework. To that end, they will gradually withdraw temporary emergency expenditures and revert to a

primary fiscal surplus over the medium-term. The design of the plan will be addressed in more detail in the context of a successor arrangement. The authorities will also resume public financial management reforms, guided by the recommendations of the Public Investment Management Assessment (PIMA) finalized last year.

V. Monetary and Exchange Rate Policies

9. **The monetary authorities are determined to take all necessary actions to support the recovery while closely monitoring potential inflationary pressures.** The Central Bank of Mauritania (Banque Centrale de Mauritanie, BCM) had acted swiftly to support the economy when the Covid-19 crisis hit last year and provide liquidity to the financial system, by lowering its key interest rate and reducing banks' reserve requirements. To address the potential risks that could arise from the surge in liquidity, it raised banks' reserve requirements at the end of last year. While these measures are helping mitigate the impact of the pandemic on the financial system, credit to the private sector has remained weak and non-performing loans have risen. BCM continues to monitor the financial sector's asset quality while encouraging banks to reinforce their capital to support a resumption of higher credit to the private sector.
10. **The authorities look forward to pursuing the modernization of the foreign exchange market with Fund support under a new arrangement.** In particular, the pandemic has necessitated a revision of the initial timeline that had been anticipated for putting in place an integrated technical platform for monetary policy operations and establishing a modern interbank foreign exchange market, initially expected by end-September 2020. The authorities intend to finalize this project in 2021, subject to the availability of financing and technical experts.

VI. Financial Sector Policies

11. **Strengthening financial sector soundness and improving the regulatory framework will continue.** While the central bank has adopted a flexible approach to the financial system's requirement to raise minimum capital and liquidity ratios due to Covid-19, they will build on the progress achieved in recent years to accelerate efforts to bolster banks' solvency, improve governance in the financial system, and strengthen the country's AML/CFT framework.
12. **Transitioning to the International Financial Reporting Standards (IFRS) is a key reform that the authorities intend to pursue under a successor ECF.** The central bank is committed to aligning its accounting with international standards. To that effect, BCM is working with international partners to ensure that the required infrastructure is in place to enable the adoption of IFRS accounting norms in 2021, including a new information system.

VII. Structural Reforms and Poverty Reduction

- 13. Fostering higher and more inclusive growth will continue to be a key priority moving forward.** The authorities are aware that more rapid progress is needed in the efforts to strengthen governance and improve the business climate. Accordingly, and at the request of the authorities, the Fund will undertake in 2021, an assessment of the country's economic governance that will cover fiscal management, revenues from extractive industries, and the AML/CFT framework. Further improving the business environment is also high on the authorities' agenda as they continue to give priority to addressing the weaknesses identified in the World Bank's Doing Business reports.
- 14. A crucial lesson from the pandemic is that a well-designed social safety net is essential to providing rapid and adequate assistance to help alleviate the impact of a shock on the most vulnerable groups.** The progress achieved in recent years in reinforcing Mauritania's social protection programs has enabled the authorities to rapidly step up their assistance to the neediest segments of the population. The assistance of the World Bank has been instrumental in the establishment of a social register of the poorest households. In response to the pandemic, the authorities have substantially increased the number of vulnerable households that regularly benefit from cash transfers, and they intend to raise it further from 60,000 households at end-2020 to 100,000 by end-2021. It is the authorities' firm intention to continue to increase poverty-reducing expenditures moving forward, particularly on public education and healthcare, as well as on targeted cash transfer programs.

VIII. Conclusion

- 15. The authorities seek the Executive Directors' support for the completion of the sixth and final review under the ECF.** Mauritania's performance under the program has been consistently satisfactory despite the severe economic disruptions caused by the pandemic. Moving forward, the authorities reiterate their commitment to the prudent policies and sound reforms set forth under the program with a view to reinforcing macroeconomic stability, enhancing economic resilience and fostering inclusive growth. They have requested a successor arrangement to pursue the reforms initiated during the past three years under the ECF and that not yet been finalized.