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### **Islamic Republic of Mauritania:** Staff-Monitored Program: Supplementary Letter of Intent

June 5, 2006

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## **Mauritania: Supplementary Letter of Intent**

Nouakchott, June 5, 2006.

To the Managing Director:

Sir:

1. Further to my letter of March 14, 2006 and the accompanying Memorandum on Economic and Financial Policies (MEFP), I wish to advise you of the progress in implementing the staff-monitored program (SMP) covering the period January 1–June 30, 2006.
2. The macroeconomic results recorded in the first quarter of 2006 were in line with program targets. Our monetary and budgetary policies are on track and the quantitative performance indicators established for end-March were met, thereby confirming in first quarter 2006 the return to macroeconomic stability observed in the fourth quarter 2005. We have also continued the implementation of the structural reform program, in particular through enhancing the reliability of our economic and financial data, establishing an institutional framework for the transparent and optimal management of oil resources, improving the management of government finances and tax administration, and making preparations for an exchange market reform. The structural indicators established for end-April were met, and all the corrective measures needed for Mauritania to qualify under the Multilateral Debt Reduction Initiative (MDRI) have been taken, including implementation of the tracking of poverty-reducing expenditures, and the preparation of a medium-term expenditure framework. The other measures scheduled for the first five months of the year have also been taken.
3. Regarding the enhancement of the reliability of data, since April 30 the National Statistical Council has been examining the provisional report on the review of historical data over the period 1992–2004 and will publish the final report by end-2006. The final audit reports of the BCM for the 2003 and 2004 accounts have been forwarded to Fund staff, and the final report on the accounts for 2005 will be sent by end-June. The BCM will be continuing its efforts in the months ahead to overcome the auditor's remaining reservations, particularly by revaluating the IMF quota resources on its books and through concerted efforts to reach agreements to set the amounts of the BCM's liabilities to Libya and Kuwait and determine the manner in which these are to be repaid. These liabilities, which had been included within the domain of the HIPC Initiative, are currently being negotiated with creditors.
4. Regarding the oil sector, the first monthly report on the production and sales of oil and gas, and the oil revenues of the government and the Mauritanian Hydrocarbon Corporation (SMH), was prepared in April 2006. The National Hydrocarbon Revenue Fund

(FNRH) has begun operation, following the signing in May of a management agreement between the Ministry of Finance and the Central Bank (BCM) and the opening of an account at the Bank of France. Henceforth, all government revenues from the oil sector are to be deposited in this account, in accordance with the edict establishing the FNRH and the instructions given to operators. The government has entrusted a working group with the task of making the preparations for a law on oil resources management as well as for the public consultations on this subject. Furthermore, a further upward adjustment of fuel prices reflecting trends in prices on global markets was decided on May 2. With respect to the additional oil revenues (over and above the forecasts in the initial program) anticipated from the new agreement with the operator Woodside, including the signing bonus for the next production sharing contract, a supplementary budget law will allocate these funds to saving in the form of redemption of the government's domestic debt, including some liabilities to the Central Bank of Mauritania (BCM), in such a way as to strengthen the exchange reserves of the BCM.

5. The reforms of the tax and customs administrations have continued, inter alia through the establishment of a single tax identification number and strengthened control of customs valuations. With respect to the reorganization of the Directorate of Large Enterprises (DGE) within the General Directorate of Taxes (DGI), we have decided—mainly for logistical reasons, and in line with the recommendations of the technical assistance mission—to delegate the monitoring of the large enterprises headquartered in Nouadhibou to a division of the Regional Directorate of the DGI, under the jurisdiction of the DGE. A detailed report on the work of this division will be submitted monthly to the General Director of Taxes.

6. The technical preparations for introducing a new exchange market are continuing with IMF assistance. The projected improvement in Mauritania's exchange reserves beginning in the third quarter 2006 is expected to facilitate the elimination of foreign exchange rationing, which is scheduled by end-October 2006. The phasing out of the requirement to surrender to the Central Bank a part of the foreign exchange proceeds from fishery exports will continue insofar as the rising level of BCM reserves allows and the requirement will be eliminated before the new foreign exchange market starts operating, which is planned for end-2006.

7. The Poverty Reduction Strategy Paper (PRSP) is nearing completion. This paper reviews the lessons to be learned from the implementation of the initial strategy for the period 2001–04, redefines Mauritania's objectives through 2015, and establishes a priority action plan for 2006–10 as well as assessment and monitoring mechanisms. A preliminary version of the PRSP has been discussed with political parties, civil society and private sector organizations and Mauritania's external partners. This action plan will be validated by interregional workshops and national forums, prior to its adoption by the government by end-July 2006.

8. Monetary and fiscal policies during the second quarter 2006 will be implemented in accordance with the quantitative indicators for end-June as defined in the MEFP. The structural indicators for the second quarter are also confirmed. We intend to pursue the macroeconomic stabilization policies throughout the remainder of 2006, in accordance with the objectives established in the MEFP. We wish to discuss the details of these policies and the timing of the structural measures envisaged for the third and fourth quarters of 2006 on the occasion of the second assessment of the SMP based on the results achieved at end-June.

We believe that the actions we implemented, and the commitments we have undertaken, show our determination to ensure the success of the SMP and to lay the groundwork for a medium-term program capable of being supported by the Poverty Reduction and Growth Facility.