MAURITANIA

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Economic Research

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EXECUTIVE SUMMARY

Mauritania is the Africa's second largest iron ore producer (after South Africa). Half of the country's exports are ores and slag. Low iron ore prices will halt new projects from coming online. The country also has large deposits of gold and copper. Many oil and gas fields have been discovered in the recent years. The country's gold sector is expected to flourish, with rising prices. Mauritania's mining sector could benefit from the construction of a new deep-water port, which should ease some of the country's infrastructure constraints. Farming, practised by Mauritanian nomads, is also an important area of activity.

The mining sector will consolidate its position as the driving force of the domestic economy and will continue to contribute about 10% of the national GDP. Much of the interest in Mauritania's mining sector is focused on iron ore and gold. Investment in the sector will remain low, as prices fall from 2020 onwards after peaking in 2019. On the other hand, gold output will be supported by positive gold prices and a stronger project pipeline relative to the domestic iron ore sector. The performance of the economy will depend on the continuation of current reforms in the sectors of agriculture, port infrastructure. Further important factors are business climate and production in the extractive sector following the expansion of the country's gold mines. In 2019, Mauritania's economy continued to recover thanks to fiscal consolidation efforts made in line with IMF recommendations. The inflation has been maintained around 2.3% in 2019 and it is expected to reach 3.9% in 2020. The Debt to GDP ratio has fallen to 78.5% in 2019 and is expected to remain at this level in the medium-term. According to the IMF, the country managed to maintain its macroeconomic stability and has recorded a rise in the official reserves.

The government took measures to improve the functioning of the tax administration, as well as to increase VAT and the cost of fishing licences, while allocating expenditure more efficiently to promote economic diversification. The government will need to modernise the country and to support education and industrial diversification to limit its dependence to raw material price fluctuations (iron, copper, gold, quartz, cattle and fish). The country also depends on international aids.

Banking sector vulnerabilities, particularly for small banks, persisted despite ongoing reforms to address them. Progress by six large banks in meeting the newly increased minimum capital requirement contributed to an increase in the capital adequacy ratio to 24.7% in 2018 from 22.2% in 2017. Non-performing loans (NPL) stabilized around 22% in 2018, of which 78% were provisioned

In April 2020, the IMF Executive Board approved the disbursement of USD 130 million to be drawn under the Rapid Credit Facility to help Mauritania cope with the COVID-19 pandemic. The IMF's emergency support will provide additional resources for health services and social protection programs.

The economic and social impact of the pandemic is rapidly unfolding, with a contraction of output expected in 2020. The economic and social impact of the crisis is expected to be substantial in Mauritania. The economy is currently projected to contract this year and the overall budget deficit could rise to 3.4% of GDP.

1. MAURITANIA’S SWOT ANALYSIS

Strengths

- Mauritania has a strategically advantageous location in the Maghreb and West Africa.
- Mauritania' s economy is supported by donors and international organisations.
- There are rich in minerals (iron, gold, copper) and fishery resources.
- Oil was discovered in Mauritania in 2001 in the offshore Chinguetti field. The country become Africa's newest small-scale oil producer.
- The country has considerable energy reserves (gas, renewables).

Weaknesses

- Its political instability, as experienced during the last coup in August 2009.
- Security problems, such as development of armed groups claiming to be part of Al-Qaïda.
- Inadequate infrastructures which hamper the economic development of the country.
- A very young population (more than 64% of the population is under 25 years old) without an adequate level of qualifications for management positions.
- An increase of desertification phenomena. A majority of the population still depends on agriculture and livestock for living.
- A high level of poverty (40% of its population).
- Corruption, which affects all the sectors of the economy.
- Low level of diversification of the economy, vulnerable to fluctuations in commodity prices.
- Restricted size of the formal economy.

Opportunities

- Government efforts to combat corruption could improve investor perceptions in the coming years.
- After completion of Greater Tortue/Ahmeyim FLNG(Floating liquefied natural gas) project, Mauritania will become member of an exclusive group of LNG exporters in Sub-Saharan Africa.

Threats

- Although Mauritania has not been affected by terrorism since 2011, the threat remains given the country’s porous border with Mali.
- The political and social context remains fragile, in a country still plagued by poverty, unemployment, inequality and even slavery.

2. ECONOMIC OUTLOOK

Main Economic Indicators	2015	2016	2017	2018	2019	2020[f]
Nominal GDP, USD bn	4.82	4.67	4.90	5.23	5.65	5.92
Real GDP growth, % y-o-y	0.43	1.84	3.07	3.55	5.9	-2.0
Consumer price inflation, % y-o-y, ave	3.24	1.49	2.28	3.05	2.3	3.9
Budget balance, % of GDP	-2.44	0.13	0.53	3.42	-	-
Current account balance, % of GDP	-27.32	-19.80	-15.10	-14.45	-10.6	-17.3

Source: IMF – World Economic Outlook Database

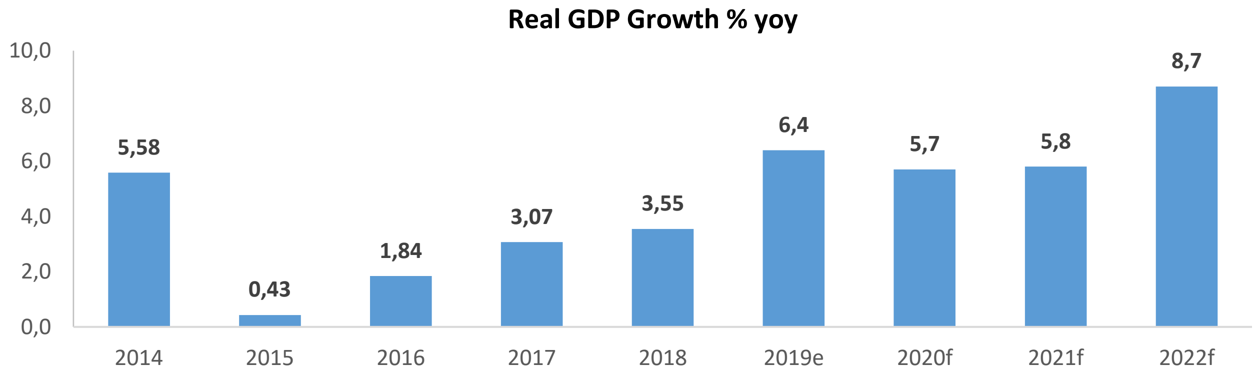
A&T Bank View: *The medium-term economic outlook is favorable. Growth is projected to an average of 5.5% for the 2019-2021 period. Continued expansion of the primary sector, strengthening of the services sector through the implementation of structural reforms, and an increase in mining production are expected to keep the country on this sound path. This macroeconomic framework is expected to strengthen, provided the government maintains fiscal prudence, by ensuring that public debt remains viable. An improvement in the foreign trade depends on the international iron prices, which is expected to mitigate external pressures and allow the central bank to respond to financing needs.*

CORE VIEWS

- The economy continued its gradual recovery in 2018. GDP growth has been on an upward trajectory since 2015, rising from 3% in 2017 to 5.9% in 2019. This increase was driven by robust activity in the telecommunications, transport, electricity, and primary sectors.

- By contrast, the extractive sector continues to curb growth. In addition, strong population growth (roughly 2.8%) is outstripping the pace of economic recovery, which remains slow, with real GDP per capita income having risen a mere 0.6%. This situation jeopardizes the gains made in poverty reduction in the past.

- The fiscal position continued to improve in 2018. Efforts to achieve fiscal rebalancing helped transform the deficit of 0.3% of GDP in 2017 into a surplus of 1.5% in 2018, the first surplus since 2013. However, unfavourable terms of trade, combined with persistent production challenges in the extractive industries, exacerbated the current account deficit, which is expected to rise from 14% of GDP in 2018 to 17% of GDP in 2020. Despite the deepening deficit, financing was ensured by an increase of foreign direct investment linked to offshore gas exploration and financial flows from the extractive sectors.



Source: World bank e:estimate f:forecast

GDP is expected to shrink in 2020, against the strength of the mining sector and the rest of the economy. Gold production (about 25% of exports) will continue to increase, thanks to high prices and the recent expansion of the Tasiast mine, while other mining projects are in the works. Iron ore mining will also increase, providing half of exports, even though prices are expected to decline in coming years, partly due to softer Chinese demand. In addition, future development of an enormous natural gas field opens up bright new prospects, with the Grande Tortue Ahmeyim (GTA) offshore platform set to be operational in 2023 (postponed owing to Covid 19). Apart from generating significant revenues for the government (estimated at 8% of 2019 GDP each year), this project will mean a boom in FDI from 2020 onwards (when FDI will be equivalent to 18% of GDP). This will further add to the momentum of the construction sector, which is already growing vigorously, notably in connection with the projects to extend the port infrastructure at Nouakchott and Nouadhibou.

Public investment (12% of GDP) is expected to remain high, especially in infrastructure, and will benefit from international aid, particularly from the World Bank (USD 500 million for the 2018/2023 period, mainly in grants) and the Islamic Development Bank. In addition, agriculture, and especially fisheries (20% of exports), will once again make a significant contribution to growth. Fishing activity is benefiting from the recent signature of an agreement with Senegal, which provides a framework for development of the resource in Mauritanian waters. However, unequal distribution of the benefits of growth, in a context of high poverty, will continue to be a drag on household consumption.

Inward FDI will finance a widening current account deficit. The budget balance should remain in surplus in 2020. The slight increase in social and investment expenditure is expected to be offset by an increase in income, as a result of continued strong activity and recent tax reforms. The governance of the tax administration has been improved, the taxpayer register has been cleaned up, while VAT and the cost of fishing licences have been increased. Public debt relief is likely to continue, but debt remains high and vulnerable to exogenous shocks, being almost exclusively external. Important part of the total debt is to Kuwait and cancellation negotiations of some part of the total debt is under way. However, a large portion of the debt is composed of concessional loans, which mitigates the risk.

On the external accounts, the massive current account deficit is set to widen further due to a deterioration in the trade deficit. The increase in exports of fish, iron ore and gold will not offset the boom in imports of capital goods needed for extractive activities. At the same time, the increase in imports of services linked to the expansion of these activities will exacerbate the services deficit (11% of GDP in 2019), despite the gradual development of the tourism sector, mainly in the Mauritanian Sahara area. The current account deficit will be financed by a parallel inflow of FDI into extractive activities. This will fuel the foreign exchange reserves, which are growing, and thereby reduce the exchange risk.

3. FOREIGN DIRECT INVESTMENT (FDI)

FDI inflows totalled to USD70.7 mn in 2018 and displayed a significant decrease compared to last year (USD588.2 mn). According to the UNCTAD's World Investment Report 2019, total stock of FDI reached to USD7.4 bn in 2018 (representing 142.6% of the country's GDP). Most of the investments has targeted the sectors of oil exploration and exploitation, mineral mining of iron ore and gold, telecommunications with the acquisition of mobile phone licenses and the construction sector. China has been showing a steadily increasing interest in Mauritania, and its traditional trading partners, including its European partners (primarily Hungary and France), seem likely to pursue their investment projects in the country (infrastructure and telecommunications). In 2018, oil major Shell signed two production sharing contracts with the government for the exploration and potential future production of hydrocarbons in the offshore area.

The country is trying to promote its strategic geographical location to attract new investors. It is rich in minerals and fisheries resources and presents a great energy potential (gas and renewable). In 2016, the World Bank granted USD 10 mio in aid to the country to support the development of the Nouadhibou duty-free zone, which aims to attract foreign investors. Mauritania will develop its first deep-water port, in an effort to promote Nouadhibou as a multipurpose service platform in the sub-region. Mauritania is making steady progresses in matter of business climate. It gained 20 places since the 2016 ranking of World Bank Doing Business report, reaching the 148th position out of 190 economies in the 2019 report. In the 2020 edition, the country has been ranked 152nd, worldwide, for the ease of doing business. This represents a slide backward from the 2019 edition. Nevertheless, according to the report, Mauritania improved access to credit information and made enforcing contracts easier. Among the factors still impeding FDI, there are political and security instability, corruption, inefficient and politically vulnerable judicial system and a poorly diversified and highly informal economy.

Mauritania has signed bilateral investment agreements with the Arab Maghreb Union (Algeria, Libya, Morocco, and Tunisia) as well as with Saudi Arabia, France, Belgium, and Romania. Also, agreements exist with Burkina Faso, Cameroon, The Gambia, Ghana, Mauritius, Italy, Lebanon, Qatar, Yemen, Korea and Egypt.

Foreign Direct Investment In Mauritania				
Indicator Name	2015	2016	2017	2018
FDI inflows, USDmn	501.7	271.1	588.2	70.7
FDI inflows, % of GDP	10.39	5.79	11.99	1.35
FDI outflows, USD mn	0.2	1	10	-772
FDI outflows, % of GDP	0	0.02	0.2	-14.75
Net portfolio investment, USDbn	0	0	0	0
Net FDI, USDbn	-501.7	-271.1	-588.2	-772.2

Source: World Bank

3.1. Investment outlook

Latest Developments in the investments:

- **Mauritania's Greater Tortue/Ahmeyim (GTA) Floating liquefied natural gas(FLNG) project** is an offshore gas field straddling the maritime boundary between Mauritania and Senegal under development by BP, Kosmos Energy, and the two national oil companies. Gas resources are currently estimated at 15 trillion cubic feet. The project will be developed in three phases, the first of which is scheduled to start producing about 2.3 million tons annually (mtpa) from 2023. Each subsequent two phases would raise production by 4 mtpa over 2–3 years, for about 25 years. The final investment decision to launch the project was made at end-December 2018. Estimates suggest aggregate gross revenues for all three phases around USD 80 billion over a total of 30 years, under a baseline Brent oil price of USD 60 per barrel.

  The project delayed by one year owing to Covid 19 impact. Project partner Kosmos report impacts from Covid-19 have delayed the Greater Tortue/Ahmeyim field start-up by twelve months to mid-year 2023. The claim of a force majeure event by operator BP was used to request the delay in delivery of the Gimi FLNG vessel from Golar LNG (Golar LNG the parent of company of the Gimi MS Corporation) and signals that delays may impact related phases of the project. The delay will hold back the expected fiscal boost to both Mauritania and Senegal who were due to become members of an exclusive group of LNG exporters in Sub-Saharan Africa. Cited as part of wider impacts to operations globally, coronavirus has restricted Kosmos' ability operate normally in light of travel bans, border and office closures, and social distancing. The delay in the project will allow Kosmos to move a significant portion of capital expenditure from 2020 into later years.

  The landmark ultra-deepwater gas project operated by BP would utilise a unique combination of two vessels, an FPSO (Floating Production Storage and Offloading) for production, separation and dehydration and an FLNG vessel for liquefaction of natural gas for LNG exports. The FPSO will be moored at mid-water depths at 70km from the subsea drill site while the FLNG vessel will be located 35km away at new build breakwater to protect the hub and terminal facility. The total project cost was reported to be USD 2 billion.

- In September 2019, **Kinross Gold** (Canadian-based gold and silver mining company) announced intentions to proceed with a USD150mn investment to expand production capacity at the Tasiast gold mine. The expansion will increase daily throughout to 21,000 tonnes by 2021, ramping up to 24,000 tonnes by 2023. The company had previously suspended work on a larger 30,000 tonnes mine expansion at Tasiast following the government's request to hold talks concerning the project's contribution to the domestic economy.

- In April 2019, **Algold Resources** (Canadian-based gold and silver mining company) announced an exploration program at the Tijirit gold project, which will concentrate on further drilling efforts, as well as additional technical studies. The exploration programme follows the Mauritanian Ministry of Oil, Energy and Mines' decision to grant the firm a 12-month extension to complete the project's feasibility study.

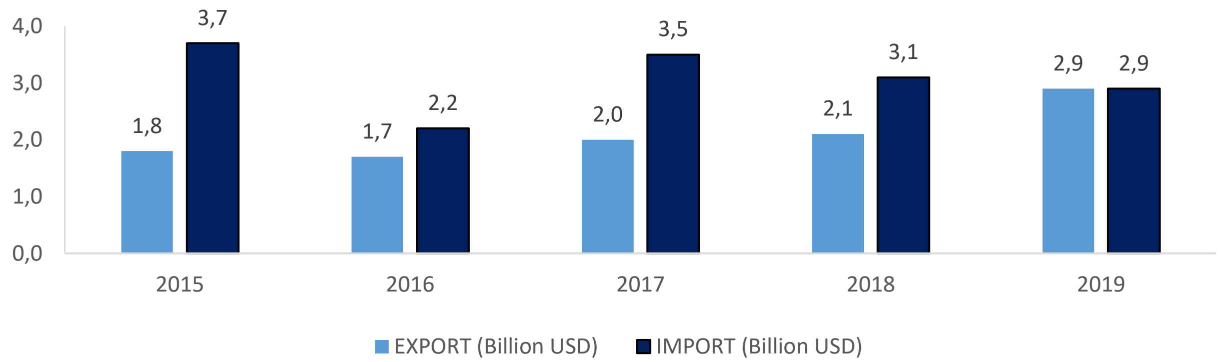
- The Mauritanian exploration company **Suricate Minerals** is seeking USD 4mn to develop various gold projects. The company is looking for a partner to drill on its Inal gold permit and in the gold-rich Tasiast area of Mauritania.

- The former president Mohamed Ould Abdel Azez announced plans to develop **a new deepwater port in the city of Noudhibou** in 2018. The new port will provide positive outlook for the mining sector of the country, as poor infrastructure is the largest constraint to domestic mining sector growth. The commercial wharf will have a depth of 18 m and will be able to accommodate large ships. The facility will be developed as a free trade zone to attract foreign investment and will support trade in the country. Currently, the movement of goods in and out of Mauritania is also a key problem for investors. The only major port, Nouakchott, has severe capacity constraints, preventing efficient shipping of exports. On this front, there has been some progress, with the World Bank, IMF and the African Development Bank announcing projects to develop the country's infrastructure. Further investment plans include more than **1,300km of new roads**, helping the transport flows to and from key mining areas.

- Construction of a USD352mn **military and commercial port in the Mauritanian city of N'Diago** is nearing completion. Being built by Poly Technologies, the development will have a naval base, a fishing port with a capacity of seven landing docks, and a shipyard with a capacity of 70 ships per year. It will also have a commercial quay with a capacity to accommodate larger boats and a landing bridge for artisan fishing.

4. FOREIGN TRADE OUTLOOK

In 2019, country's exports rose by 38% in comparison to previous year and stood at USD2.9 billion, while imports decreased by 6% to USD2.9 billion.



Source : Trademap

Iron ores/slag (46%), fish and fish products (24%) and pearl/precious metals mineral fuels (20%), are the main exported products of Mauritania. The major export partners of Mauritania were China (30%), Switzerland (15%) and Spain (%15). Main imported goods are machinery (10%), electrical equipment (8 %), articles of iron and steel (5%) and vehicles (4%). Main import partners are United Arab Emirates (14%), Spain (11%) and Belgium (11%).

Mauritania Foreign Trade Indicators					
Indicator Name	2015	2016	2017	2018	2019
Exports, USDMn	1,832	1,731	2,057	2,184	2,932
Exports, USDbn, % y-o-y	-14	-6	19	6	34
Exports, % of GDP	37.9	37.0	41.9	41.7	n/a
Imports, USDMn	3,701	2,257	3,530	3,183	2,943
Imports, USD, % y-o-y	1.6	-39.0	56.4	-9.8	-7.5
Imports, % of GDP	76.7	48.2	72.0	60.8	n/a
Net trade, USDbn	-1,869	-526	-1,473	-999	-11
Balance of trade , USD, % y-o-y	24	-71.9	180.0	-32.2	-98.9
Balance of trade, % of GDP	-38.7	-11.2	-30.0	-19.1	n/a

Kaynak : Trademap n/a: Not available.

5. BANKING SECTOR OUTLOOK

After its independence, Mauritania discontinued its membership to the West African Monetary Union (Union Monétaire Ouest Africaine - UMOA) and the African Finance Community (Communauté Financière Africaine (CFA) in 1973, printing its own currency Ouguiya, and establishing its national bank of Mauritania (Banque Centrale de Mauritanie - BCM).

After the privatization wave in 1989, various banks were established in Mauritania including Banque Arbe Libyene-Mauritanienne pour le Commerce Extérieur et le Développement (BALM). BALM, founded in 1990, was 51% owned by Libyans and 49% owned by the state. Banque Al-Baraka Mauritanie Islamique (BAMIS) established in 1990, was 50% Saudi owned and 10% BCM owned. Banque Mauritanie pour le Commerce Internationale (BMCI) founded in 1990, was 10% BCM owned, and 90% of the bank was held by private sector. Banque Nationale de Mauritania (BNM), established in 1988, was 50% state owned.

List of commercial banks in Mauritania are:

- BNP Paribas (BNP)
- Société Générale (SGM)
- Chinguitty Bank
- Banque pour le Commerce et l'Investissement en Mauritanie (BACIM)
- Banque El Amana (BEA)
- Banque Al Wava Mauritanienne Islamique (BAMIS)
- Générale de Banque de Mauritanie (GBM)
- Banque pour le Commerce et l'Investissement (BCI)
- Banque Mauritanienne pour le Commerce International (BMCI)
- Banque Nationale de Mauritanie (BNM)

The central bank of Mauritania (BCM) established in 1973, is continuing to upgrade the prudential supervision framework to address financial sector vulnerabilities and is strengthening its governance and transparency. The passage establishment of new banking and central bank laws last year were welcomed steps towards strengthening prudential requirements, bank supervision, and the BCM's governance. The BCM adopted Basel III regulatory standards for capital adequacy and liquidity and established an internal audit committee in April 2019. It also published a quantification of its financial statements for 2017 in accordance with IFRS (SB for December 2018). Banks are raising their capital to meet the new minimum capital requirement (nearly doubled) by March 2020. Upgraded bank regulatory standards and supervision are needed to strengthen banking sector soundness and financial inclusion.

Credit to the private sector expanded by 19% in 2018 despite tight overall liquidity conditions. Credit expansion largely to the telecom, transportation and construction sectors was supported by recapitalization of several large banks; the operationalization of two new banks; support from an externally provided credit line for small and medium enterprises; and some softening of lending rates amidst greater bank competition. Banks' net foreign assets also improved due to high fishing sector receipts. Meanwhile, reserve money growth remained low at 6.8 %, and tight bank liquidity exposed potential vulnerabilities for several small, less liquid banks. Specifically, high costs, the lack of necessary documents and complexity of the process and geographical isolation represent the main barriers to financial inclusion in Mauritania. The geographic concentration of financial services in urban areas and within a postal banking network offering limited services, as well as the low financial literacy, presents other impediments to financial inclusion. Moreover, despite rapid changes and innovations in technology, digitalization remains low: only 4 % of adults have a mobile money account and 3 percent use the internet to pay bills. On the other hand, the share of adult population that saved money was 42%.

Banking sector vulnerabilities, particularly for small banks, persisted despite ongoing reforms to address them. Progress by six large banks in meeting the newly increased minimum capital requirement contributed to an increase in the capital adequacy ratio to 24.7% in 2018 from 22. % in 2017. Non-performing loans (NPL) stabilized around 22½% in 2018, of which 78% were provisioned (71% in 2017); however, accrued interests on old impaired loans continued to inflate NPLs.

Mauritania : Banking soundness indicators (%)

Indicator Name	2013	2014	2015	2016	2017	2018
Assets / GDP	35	43	43	47	53	56
Net private sector credıt/total assets	52	56	57	55	44	41
Public enterprise credit / total assets	3	7	3	5	5	5
Government securities /total assets	6	6	2	2	1	1
Private sector credit growth y-o-y	15	21	8	8	8	19
Gross NPLs/gross loans	20	23	30	26	22	23
Provisions / gross NPLs-accrued interest	53	53	79	63	71	78
Deposits / total assets	58	61	61	59	60	56
Capital /total assets	19	15	14	14	14	13
Capital adequacy ratio	32	28	23	24	22	25
Fx assets / total assets	11	11	7	9	12	10
Fx assets / fx liabilities	107	139	108	116	103	100
Liquid assets / total assets	24	24	21	17	25	20
Number of banks	15	15	16	16	17	17

Sources: Mauritanian authorities and IMF

6. TURKEY & MAURITANIA RELATIONS

Since the opening of Turkish Embassy in Nouakchott/Mauritania in 2011, one visit on presidential level and two visits of ministerial level have been carried out. Turkish Airlines has 5 flights per week.to Nouakchott. Turkish investors are particularly interested in fishery sector of Mauritania, given its rich fish reserves and advantages presented to foreign investors. Turkish investors are also interested in furniture and construction sectors. There are also Turkish companies producing fishmeal and fish oil in the country. Through Turkish Cooperation and Coordination Agency (TİKA), Turkey is providing development assistance to Mauritania in various domains.

Following the success of the Istanbul, Istinye US embassy project (completed in 2003) the US embassy building project in Mauritania was also given to Enka Construction by United States Overseas Construction Operations Department. Enka Construction completed the US embassy building in Mauritania in 2013.

Starting with a figure of USD110 mn in 2015, bilateral trade volume increased to USD246 mn in 2019. Turkey's exports to Mauritania increased by 20% to USD163 mn and imports tripled to USD83 mn in 2019 in comparison to 2018. Mauritania mainly imports iron and steel, non-metal mineral products, cereals and products, machinery and equipment used in industry from Turkey, while mainly exports fish, metal ores, feed products, raw leathers, ready leathers to Turkey. Foreign transactions are in favour of Turkey.

Mauritania – Turkey foreign trade relationship				
Years	**Export (USDmn)**	**Import (USDmn)**	**Trade Balance (USDmn)**	**Trade Volume (USDmn)**
2015	97	13	84	110
2016	73	15	58	88
2017	87	45	42	132
2018	135	31	105	166
2019*	163	83	80	246
2020/06*	43	3	40	46

Source : Turkstat
*as of June 2020

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