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SM/82/246
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

February 18, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Mauritania - Staff Report for the 1982 Article IV Consultation

The attached supplement to the staff report for the 1982 Article IV consultation with Mauritania has been prepared on the basis of additional information.

This subject has been tentatively scheduled for discussion on Wednesday, February 23, 1983.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

MAURITANIA

Staff Report for the 1982 Article IV Consultation

Supplementary Information

Prepared by the African Department and the
Exchange and Trade Relations Department

Approved by J.B. Zulu and S. Kanesa-Thasan

February 17, 1983

This paper contains recent information on money and credit, the budget and external developments obtained during a recent staff visit (January 18-28, 1983).^{1/} On the basis of this information, the table on selected economic and financial indicators for the period 1978-82 shown on page 4 of SM/82/246 has been updated (see Table 1).

1. Monetary Developments

In 1982, domestic credit expanded by 20 per cent, a rate significantly lower than that projected (28 per cent) in the staff report (Table 2). Instead of the projected doubling, net claims on Government increased by only 48 per cent, reflecting a lower budget deficit during the last quarter of the year and larger than previously estimated external borrowing. Due to severe credit restrictions during the second half of the year, the growth in claims on the economy slowed down, but for the year as a whole it increased by 14 per cent, or two percentage points higher than previously estimated. These developments in domestic credit, together with a fivefold increase in net foreign liabilities due mainly to a much more pronounced deterioration in the overall balance of payments, resulted in a stabilization of monetary expansion; a 22 per cent increase was previously estimated for the whole year.

2. Fiscal developments

Preliminary fiscal data for calendar year 1982 show that both revenue and budget expenditure were considerably below the previous estimates so that the Treasury deficit amounted to only UM 3.5 billion (9.4 per cent of GDP), compared with the previous estimate of UM 4.1 billion (Table 3). The poor performance of government revenue (a decline of 10 per cent) was due mainly to delays in issuing 1982 tax assessments, following the adoption of the new tax code, and to a substantial shortfall in tax and nontax receipts from the fishing sector. Budget expenditure also declined

^{1/} Consisting of Messrs. Buu Hoan (head), R. Franco, Y. Fassassi (EP), all of the African Department, Mr. J. Tavares (FAD), and Mrs. I. Klotz (secretary-
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Table 1. Mauritania Selected Economic and Financial Indicators, 1979-82

	1979	1980		1981		1982	
	Actual	Program	Actual	Program	Actual	October est 1/	Revised est
(Annual per cent changes unless otherwise specified)							
National income and prices							
GDP at constant prices	5.5		3.7		8.5	4.0	4.0
GDP deflator	5.9		8.0		3.3	5.0	5.0
Consumer prices (Upper income group)	9.1	.	11.1		18.7	12.1	12.1
External sector (on the basis of SDRs)							
Exports, f.o.b	20.3	19.7	32.4	--	51.9	-5.5	-3.8
Imports, f.o.b	3.7	16.3	11.5	31.5	32.8	22.9	4.5
Non-oil imports, f.o.b	-3.3	13.4	18.3	13.4	23.1	25.0	7.0
Export volume	20.0		20.5		34.1	-7.5	-6.5
Import volume	-8.3		-2.2		26.5	18.3	11.0
Terms of trade	-12.2		-2.9		7.9	-1.7	-1.4
Nominal effective exchange rate (depreciation -)	-6.7		0.7		19.6	8.6	8.4
Government budget							
Revenue, excluding grants	16.1	6.9	-17.0	22.8	36.7	-0.3	-9.9
Total expenditures	-1.5	-7.3	-13.6	-1.0	14.1	6.0	-4.8
Money and credit							
Domestic credit	5.9	37.3	18.0	22.2	15.8	28.3	19.6
Government	71.0	248.4	86.3	98.3	43.2	97.3	48.2
Private sector	4.5	9.0	11.4	9.9	11.4	12.1	13.6
Money and quasi-money	13.8	19.8	20.5	21.8	33.2	21.9	-0.2
Velocity (GDP relative to M ₂)	4.1	4.3	4.4	4.2	3.9	3.2	4.0
Interest rate (annual maximum deposit rate)	6.0	9.0	9.0	9.0	9.0	9.0	9.0
(In per cent of GDP)							
Central Government							
Budget deficit 3/							
Excluding grants	18.7	12.6	13.8	8.3	9.1	12.7	11.3
Including grants	4.2	11.7	8.7	5.6	5.2	11.7	10.2
Domestic bank financing	1.3	8.2	2.5	4.4	2.1	6.7	3.0
Foreign financing (including grants)	17.0	4.4	11.3	3.8	8.0	4.3	6.5
Gross domestic investment	24.8		36.0		38.2	37.7	35.1
Gross national savings	-11.9		0.2		5.5	-6.4	6.2
External current account deficit 4/							
Excluding grants	36.6	36.3	36.2	44.6	32.7	45.8	35.1
Including grants	16.6	28.7	20.4	40.8	18.4	37.8	27.1
External debt outstanding 5/	116.1		123.5		131.9		157.3
Debt service ratio (in per cent of exports of goods and services) 6/	32.7		16.5		20.3	16.6	16.0
Interest payments (in per cent of exports of goods and nonfactor services)	8.9		7.4		6.5	8.0	7.4
(in millions of SDRs unless otherwise specified)							
Overall balance of payments	18.9	-30.0	-29.7	-18.0	28.7	-38.2	-71.9
Gross official reserves (months of imports)	5.3		5.8		5.6	3.5	4.5
Outstanding external arrears on external debt	14.5	--	38.6	--	20.4		

Source Data provided by the Mauritanian authorities, and staff estimates

1/ Estimate used in SM/82/246

2/ Trade weighted, period average

3/ On budget year basis, and including amortization of external debt

4/ Excludes rescheduled interest payments

5/ Including use of Fund credit and short-term trade credit, excluding external payment arrears

6/ Actual debt service payments

Table 2. Mauritania: Monetary Survey, 1980-82

(In millions of ouguiyas, end of period)

	1980	1981	1982	
			October est. 1/	Actual
Foreign assets (net)	<u>-1,556</u>	<u>-737</u>	<u>-2,897</u>	<u>-4,941</u>
Central Bank 2/	1,346	1,639	...	-489
Deposit money banks	-2,902	-2,376	...	-4,452
Domestic credit	<u>11,709</u>	<u>13,557</u>	<u>17,393</u>	<u>16,213</u>
Claims on Government (net)	1,628	2,331	4,814	3,455
Central Bank 2/	1,810	2,611	...	4,207
Deposit money banks	-84	-1	...	-406
Post Office and Treasury	-98	-279	...	-346
Claims on the economy	10,081	11,226	12,579	12,758
Central Bank	926	926	...	926
Deposit money banks	8,869	10,014	...	11,425
Treasury	286	286	...	407
Money and quasi-money	<u>7,080</u>	<u>9,431</u>	<u>11,496</u>	<u>9,245</u>
Money	5,677	7,654	...	7,135
Currency outside banks and Treasury	2,376	2,678	...	2,950
Demand deposits	2,990	4,845	...	4,049
Post Office	311	131	...	136
Quasi-money	1,403	1,777	...	2,110
Long-term borrowing by banks	<u>414</u>	<u>201</u>	<u>77</u>	<u>74</u>
Other items (net)	<u>2,659</u>	<u>3,188</u>	<u>2,923</u>	<u>1,953</u>

Source: Data provided by the Mauritanian authorities.

1/ Estimate used in SM/82/246.

2/ Excluding provision for public external debt service payments.

Table 3. Mauritania: Treasury Operations, 1981-83 1/

(In millions of ouguiyas)

	1981	1982		1983	
		October estimates <u>2/</u>	Prelim. actual	Budget <u>3/</u>	Staff estimates
Revenue	<u>6,981</u>	<u>6,960</u>	<u>6,293</u>	<u>10,115</u>	<u>7,988</u>
Taxes on income and profits	1,847	2,013	1,397	2,141	1,816
Import taxes	2,135	1,885	2,706	2,930	2,930
Revenue from the fishing sector	1,393	1,467	707	2,800	1,175
Others	1,606	1,595	1,483	2,244	2,067
Total expenditure and net lending	<u>-10,311</u>	<u>-11,046</u>	<u>-9,816</u>	<u>-11,462</u>	<u>-11,277</u>
Overall deficit	-3,330	-4,086	-3,523	-1,347	-3,289
Financing	<u>3,330</u>	<u>4,086</u>	<u>3,523</u>	<u>1,347</u>	<u>3,289</u>
External financing	<u>1,985</u>	<u>937</u>	<u>1,742</u>	<u>1,347</u>	<u>...</u>
Grants	<u>1,347</u>	<u>390</u>	<u>427</u>	<u>377</u>	<u>...</u>
Budgetary aid	(960)	(90)	(173)	(375)	(...)
Special Treasury accounts	(387)	(300)	(254)	(2)	(...)
Loans (net)	638	547	1,315	970	...
Drawings	(1,373)	(1,210)	(2,015)	(1,501)	(...)
Budgetary aid	(1,349)	(1,210)	(1,964)	(1,500)	(...)
Special Treasury accounts	(24)	(--)	(51)	(1)	(...)
Amortization <u>4/</u>	(-735)	(-663)	(-700)	(-531)	(-751) <u>5/</u>
Banking system	<u>703</u>	<u>2,483</u>	<u>1,124</u>	<u>--</u>	<u>...</u>
Treasury operations (net)	<u>647</u>	<u>666</u>	<u>657</u>	<u>--</u>	<u>...</u>
Of which: increase in arrears	(436)	(...)	(491)	(...)	(...)
(In per cent of GDP)					
Budgetary revenue	20.6	18.7	16.9	24.4	19.3
Total expenditure and net lending	30.4	29.6	26.3	27.6	27.2
Overall deficit	9.8	10.9	9.4	3.2	7.9
External financing (net)	5.9	2.5	4.7	3.2	...
Bank financing	2.1	6.7	3.0	--	...

Source: Data provided by the Mauritanian authorities; and staff estimates.

1/ On a calendar-year basis.

2/ Estimates used in SM/82/246.

3/ Including the three-month complementary period.

4/ Actual amortization payments as reported in the balance of payments.

5/ Including UM 220 million carried over from 1982, but excluding UM 839 million the authorities expect to be rescheduled in 1983.

(5 per cent) due to a slowing down in the processing of payment orders, and from lower-than-budgeted payments of interest on external debt following revised and more accurate budget estimates. In addition, as net external financing (UM 1.7 billion) was nearly twice the level previously estimated, the authorities were able to limit government net recourse to the banking system to UM 1.1 billion, well below the previously projected level (UM 2.5 billion).

For 1983, the financial law calls for a substantial reduction in the Treasury deficit to UM 1.3 billion, based on an expectation of a sharp increase in fiscal receipts (60 per cent). The staff, however, estimated that the deficit will reach at least UM 3.3 billion (or 7.9 per cent of GDP), even assuming a successful debt renegotiation. Taking into account the carry-over of income taxes not collected in 1982 and a major overhaul in tax administration, the staff forecast a revenue increase of about 27 per cent. Most of this increase (UM 1.7 billion) would come from tax and nontax receipts, from the fishing sector, taxes on income and profits, and taxes on petroleum products. Total expenditure and net lending, including allocations for capital expenditure carried over from the previous budget amounting to UM 0.2 billion, are projected to increase by 15 per cent, reflecting mainly a doubling of interest payments on external debt and an increase in the wage bill. Means to finance the deficit and the external debt obligations remained unclear, as the Mauritanian authorities did not anticipate new grants, and concessionary budgetary loans were becoming more difficult to obtain.

3. External developments

Based on the more recent data, the current account deficit in 1982 was smaller than previously estimated, mainly because of lower-than projected imports of goods and services related to public investment directly financed abroad. The deficit is now estimated to have increased by 11 per cent to SDR 231 million (35 per cent of GDP) instead of SDR 306 (46 per cent of GDP) as previously estimated (Table 4). However, the nonmonetary capital inflow (including official transfers) was also substantially less than previously estimated. The decline in official transfers was sharper than forecast, reflecting both a reduction in budgetary grants as well as in food aid. Gross official disbursements were also less than previously estimated, because of the slowdown in the rate of disbursements for investment projects. Actual capital repayments were less than previously estimated, partly because of an overestimation of payments due in 1982 and partly because of a new accumulation of arrears. The latter could not be estimated as renegotiations regarding part of the arrears with several creditors were not yet finalized at the time of the mission. Private short-term capital movements, instead of being positive as previously estimated, were substantially negative. Based on movements in net foreign assets, the overall balance of payments deficit amounted to SDR 72 million

Table 4. Mauritania: Balance of Payments
(Analytical Presentation) 1981-83

(In millions of SDFs) 1/

	1981	1982		1983 Proj.
		October est. 2/	Revised est.	
Exports, f.o.b.	229.1	216.5	220.4	230.0
Imports, f.o.b.	-327.8	-402.8	-342.4	-389.8
Trade balance	-98.7	-186.3	-122.0	-159.8
Net services and private transfers	-108.3	-119.8	-108.6	-119.7
Of which:				
Scheduled interest payments	-32.7	(-32.4)	(-32.2)	(-30.7)
Fishing royalties	13.1	(8.4)	(4.1)	(8.6)
Current account balance	-207.0	-306.1	-230.6	-279.5
Official transfers (net)	85.3	52.6	25.7	40.7
Nonmonetary capital (net)	150.4	215.3	133.0	140.2
Direct investment (net)	18.9	17.1	(15.4)	(5.2)
Gross official disbursements	(114.0)	(197.8)	(154.2)	(185.2)
Scheduled amortization	(-58.3)	(-42.4)	(-42.1)	(-50.2)
Debt relief	(54.1)	(25.7)	(28.6) 3/	(...)
Other 4/	(21.7)	(17.1)	(-23.1)	(...)
Overall balance	28.7	-38.2	-71.9	-98.6
Net foreign assets	-10.4	...	71.9	...
Central bank	-2.7	38.2	36.4	...
Assets	(-29.7)	(...)	(37.5)	(...)
Liabilities	(27.0)	(...)	(-1.1)	(...)
Commercial banks	-7.7	...	35.5	...
Arrears (decrease -)	-18.3	--

Source: Data provided by the Mauritanian authorities, and staff estimates.

1/ Converted at the following average annual rates per SDR 1. UM 56.904 (1981); UM 57.573 (1982 - estimates), UM 57.942 (1982 - revised estimates and 1983).

2/ Estimates used in SM/82/246.

3/ Including an undetermined amount of accumulation of new arrears.

4/ Includes private and short-term capital, SDR allocation, errors and omissions, and valuation adjustment.

(instead of SDR 38 million), and was financed equally by a loss of reserves of the Central Bank and by an increase in short-term liabilities of commercial banks. However, the overall deficit will be larger by the amount of the new accumulation of arrears.

Prospects for 1983 are for a further deterioration in Mauritania's external position. Export growth is expected to be low (possibly 4 per cent), in view of continued sluggish world demand for iron ore and continued difficulties in implementing the new fishing policy. Despite demand restraining policies, imports are expected to rise by 14 per cent as a result of higher imports of cereals caused by the bad harvest of 1982/83 and of investment goods financed abroad to implement new projects within the framework of the Fourth Development Plan. With larger net payments for services and private transfers, the current account deficit is expected to increase by 20 per cent to SDR 280 million (36 per cent of GDP). Official transfers are anticipated to increase by 58 per cent to SDR 41 million, mainly in the form of food aid. Gross official disbursements are projected to increase by 20 per cent in line with the implementation of existing and new investment projects. Scheduled capital repayments (before renegotiations) are expected to rise by 19 per cent to SDR 50 million. As a result of these developments, the overall deficit is projected to widen further to SDR 99 million (or the equivalent of 15 per cent of GDP). Since the banking system is faced with short-term debt repayments (about SDR 74 million), including the maturity of short-term deposits of oil-producing countries, the external financing requirements (before debt relief) are estimated at SDR 173 million for 1983. At the end of 1982, Mauritania's gross official reserves stood at SDR 126 million, or the equivalent of 4 months of 1983 estimated imports.

The medium-term prospects for the balance of payments (1984-86) remain unclear because of uncertainties not only regarding the prospects for the world economy, but also with respect to Mauritania's success in implementing additional adjustment measures and obtaining additional external assistance. It is likely that the external account will remain weak over the next few years given the structural weaknesses of the Mauritanian economy, the large burden of the external debt already accumulated, and the declining trend in grant assistance. Assuming a recovery of the world iron ore market, the entry into operation of the new mining capacity in 1984, and successful implementation of the new fishing policy, exports of goods and services could increase by about 16 per cent annually during the four years 1983-86. On the basis of this expected export growth, and debt commitments outstanding on December 31, 1981 which includes a substantial amount still to be disbursed but not the accumulated payment arrears at end-1982, scheduled debt service payments will rise rapidly as a proportion of exports of goods and nonfactor services.

Given the external obligations due in 1983 and in the medium term, it becomes clear that even if the authorities were to implement strong domestic adjustment measures, Mauritania could not restore a viable external position without a major restructuring of existing debt servicing. In addition, additional aid commitments are required to ensure the continued financing of productive projects and the rehabilitation of the economy.