

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

EBS/76/112

CONFIDENTIAL

March 12, 1976

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Purchase Under the Oil Facility

Attached for consideration by the Executive Directors is a communication from Mauritania informing the Fund of Mauritania's intention to request a purchase under the oil facility, together with the staff's analysis and recommendation.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

INTERNATIONAL MONETARY FUND

Mauritania - Purchase Under the Oil Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations, Legal,
Research, and Treasurer's Departments)

Approved by Mamoudou Toure

March 11, 1976

I. Introduction

In a communication dated February 13, 1976 (attached), Mauritania has informed the Managing Director of its intention to request a final purchase under the oil facility for 1975 in the amount the Fund determines will be available to Mauritania under paragraph 4 of Executive Board Decision No. 4954-(76/16), adopted February 11, 1976.^{1/} Mauritania has already made a purchase on January 6, 1976 under the oil facility equivalent to SDR 3.39 million, or 50 per cent of the calculated maximum access for Mauritania under the 1975 oil facility permitted by Executive Board Decision No. 4769-(75/133), adopted July 28, 1975. Since, with the requested purchase, Fund holdings of Mauritanian ouguiyas would be raised by more than 25 per cent of the quota in a 12-month period, a waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement is required.

In its communication dated February 13, 1976, the Government of Mauritania has stated that the purchase is required to meet a balance of payments need in 1975 and that, as stated in paragraph 5 of its letter dated November 7, 1975, the representations in the letter of November 7 apply with respect to the intended request. These representations are those required by paragraph 5 of Executive Board Decision No. 4241-(74/67): under paragraph 5(a) with respect to consultations; under paragraph 5(c) with respect to the use of restrictive measures; and under paragraph 5(d) with respect to repurchases.

The Fund's holdings of Mauritanian ouguiyas now stand at 126.3 per cent of Mauritania's quota of SDR 13 million. On February 26, 1971 and November 27, 1974, Mauritania purchased from the Fund the equivalent of SDR 1.0 million each within the gold tranche. On February 26, November 27, and December 11, 1975, Mauritania repurchased the equivalent of

^{1/} A staff mission consisting of Messrs. Bornemann, Sertic, Hill, Kjellstrom, and Miss Washington (Secretary), all of the African Department, visited Nouakchott during the period February 4-14, 1976 to discuss, inter alia, further use by Mauritania of the oil facility.

SDR 500,000, SDR 124,765 and SDR 1,507,775, respectively. On December 24, 1975, Mauritania purchased again its available gold tranche, equivalent to SDR 2,132,540. On January 6, 1976, Mauritania further purchased an amount equivalent to SDR 3,390,000 under the 1975 oil facility (50 per cent of its maximum entitlement).

Mauritania is a participant in the Special Drawing Account and has received allocations totaling SDR 4.4 million. As of February 29, 1976, Mauritania's holdings were SDR 1.7 million, or 38.6 per cent of its net cumulative allocation.

The 1976 Article XIV consultation discussions were held in Nouakchott during the period February 4-14, 1976, and the Staff Report is under preparation. A staff mission visited Nouakchott from October 28-November 8, 1975 to discuss with the Mauritanian authorities the use of Fund resources under the 1975 oil facility. The request (EBS/75/465) was approved by the Executive Board on December 22, 1975.

II. Energy

The energy situation and the energy policies followed by Mauritania remain unchanged from those described in EBS/75/465.

III. Balance of Payments Need and Adjustment

The revised balance of payments for 1975, which is shown in Table 1, differs somewhat from the earlier estimates presented in EBS/75/465. These differences reflect the difficulties in projecting the balance of payments outcome in Mauritania, where basic data are not readily available. Whereas the previous estimates showed an overall deficit of SDR 64 million, the revised estimate shows a smaller overall deficit, amounting to SDR 45 million. Nevertheless, compared with the outcome of 1974, the revised estimate represents a sharp deterioration in Mauritania's external payments position.

As explained in EBS/75/465, a major factor in the deterioration in the 1975 balance of payments was the decline in export receipts from SDR 157 million in 1974 to SDR 142 million in 1975. This unfavorable export performance was due mainly to the closing of the copper mine for almost half of the year, and to the sharp decline in copper prices in world markets. Moreover, slack demand conditions for iron ore which emerged during the course of the year, reduced the export volume of iron ore by 25 per cent. However, as a result of the higher contract price negotiated at the beginning of the year, a marginal increase in receipts from this source was registered.

Table 1. Mauritania: Summary of Balance of Payments, 1973-75
(In millions of SDRs)^{1/}

	1973	1974	<u>1975</u> Preliminary
1. Exports, f.o.b.	131.6	157.4	141.5
Of which: Iron ore	(79.1)	(108.6)	(118.2)
Copper	(28.2)	(26.9)	(4.4)
Other	(24.3)	(21.9)	(18.9)
2. Imports, f.o.b.	-120.5	-165.3	-166.3
Of which: Petroleum products	(-8.3)	(-15.3)	(-12.4)
3. Trade balance (1 + 2)	11.1	-7.9	-24.8
4. Services (net)	-23.0	-28.5	-45.0
5. Transfers (net)	26.0	46.9	13.0
6. Current account balance (3 + 4 + 5)	14.1	10.5	-56.8
7. Nonmonetary capital (net)	-11.5	14.5	17.4
Of which: Private	(-14.1)	(-6.3)	(-3.8)
Official	(2.6)	(20.8)	(21.2)
8. Commercial banks (net)	1.3	12.5	-9.7
9. Errors and omissions (net) ^{2/}	-4.7	-1.3	4.1
10. Overall balance (6 + 7 + 8 + 9)	-0.8	36.2	-45.0
11. Financing:			
Monetary authorities	0.8	-36.2	45.0
Assets (increase -)	-21.7	-50.9	43.1
Liabilities (decrease -)	22.5	14.7	1.9
Of which: Oil facility	(--)	(--)	(--)
<u>Memorandum items:</u>			
Maximum access to 1975 Oil Facility	--	--	6.7
Initial purchase under 1975 Oil Facility (50 per cent of access)	--	--	3.4 ^{3/}
Fund holdings of currency as per cent of quota (end of period)	93.0	96.2	100.0 ^{3/}
Gross official international reserves (end of period)	34.9	84.9	41.1
Net official international reserves (end of period)	11.6	47.8	2.8

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

^{1/} Mauritanian ouguiyas have been converted at a period average rate of SDR 1 = UM 53.10 for 1973, UM 54.32 for 1974, and UM 52.43 for 1975. The levels and changes in official reserves, however, have been converted at the end of period rate of SDR 1 = UM 56.80 for 1973, UM 53.01 for 1974, and UM 52.47 for 1975.

^{2/} Including valuation changes in official reserves.

^{3/} The initial purchase under the 1975 Oil Facility was made on January 6, 1976. Fund holdings of currency as of January 6, 1976 represented 126.3 per cent of quota.

Although import payments for foodstuffs financed by foreign grants are estimated to have declined by SDR 27 million in 1975, nonfood imports rose by an equivalent amount, so that overall import payments remained at approximately the same level as in 1974. While the increase in import payments was largely due to rising prices abroad, it also reflected a rise in the volume of capital goods imports. As a result, the trade balance showed an estimated deficit of SDR 25 million in 1975, as compared to a deficit of only SDR 8 million in 1974.

Net service payments, which are estimated to have risen from SDR 29 million in 1974 to SDR 45 million in 1975, partly reflect increased expenditure for petroleum research. Moreover, the increase in net services also includes sizable payments for both services and merchandise used in the construction of a major new highway which was started in the second half of the year; a breakdown between goods and services for this item is not yet available. At the same time, transfers were estimated to have decreased substantially as food grants were virtually phased out in 1975. Consequently, the current account balance moved from a surplus of SDR 11 million in 1974 to an estimated deficit of SDR 57 million in 1975. Net capital inflows, including movements in the net foreign assets of commercial banks, are estimated to have been less than SDR 8 million in 1975, as compared to SDR 27 million in 1974. Therefore, the overall balance of payments showed a deficit amounting to SDR 45 million in 1975, whereas in 1974 it showed a surplus of SDR 36 million.

Gross official reserves of Mauritania, which amounted to SDR 85 million at the end of 1974, declined to SDR 41 million by the end of 1975, equivalent to about three months of 1975 imports. Net official reserves declined during 1975 by SDR 45 million from SDR 48 million at the end of 1974 to SDR 3 million at the end of 1975.

To avoid a further loss in reserves in the short term and in order to adjust its balance of payments position in the medium term, the Mauritanian authorities are implementing a financial program, which was set out in EBS/75/465 (12/12/75), and reviewed by the Executive Board on December 22, 1975.

Mauritania has not imposed new, or intensified existing, restrictions on current international payments or transactions since the request for the first purchase under the 1975 oil facility was made.

IV. Staff Appraisal and Proposed Decision

Mauritania has informed the Managing Director of its intention to request a final purchase under the oil facility for 1975 in the amount that the Fund determines will be available to Mauritania under paragraph 4 of Executive Board Decision No. 4954-(76/16), adopted February 11, 1976.

Mauritania's expenditure on imports of petroleum products in 1975 is estimated at SDR 12.4 million, representing an increase of SDR 4.1 million over its 1973 level.

Gross official reserves declined by SDR 44 million in 1975, and at the end of the year amounted to about three months of 1975 imports. A final purchase under the oil facility for 1975 could be SDR 1.3 million or SDR 1.6 million, respectively, in the event the percentage of maximum calculated access is to be established at 70 per cent or 75 per cent. There has been no increase in the restrictiveness of the trade and payments system in 1975; Mauritania has been conducting its policies consistently with the understandings set forth in paragraph 2 of the Rome Communiqué, and it is implementing the economic and financial policies described in the statement attached to the letter to the Fund dated November 7, 1975.

Therefore, in light of the representations of the Government of Mauritania, the staff believes that Mauritania's request for a final purchase is in conformity with the oil facility decisions, and the following decision is submitted for consideration by the Executive Board:

1. The Fund has received a communication dated February 13, 1976 from the Government of Mauritania informing the Fund of Mauritania's intention to request the final purchase under Executive Board Decisions No. 4634-(75/47) adopted April 4, 1975, and No. 4954-(76/16) adopted February 11, 1976. Mauritania has made representations in accordance with paragraph 5 of Executive Board Decision No. 4241-(74/67).

2. The Fund determines that a purchase in an amount to be established by the Fund in accordance with paragraph 4 of Executive Board Decision No. 4954-(76/16) would be in conformity with the decisions cited in paragraph 1 above, agrees to the purchase, notes the representations made by Mauritania in accordance with paragraph 5 of Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the communication dated November 7, 1975.

CENTRAL BANK OF MAURITANIA

THE GOVERNOR

No. 42/76

Nouakchott, February 13, 1976

Mr. H. Johannes Witteveen
Managing Director
International Monetary Fund
Washington, D.C.

Sir:

This is to inform the Fund, on behalf of the Government of Mauritania, of our country's intention to request a second purchase in an amount to be determined by the Fund under the Oil Facility, to meet a balance of payments need in 1975.

The statements contained in Mauritania's letter to the Fund dated November 7, 1975, as spelled out in paragraphs 2, 3, and 4 of that letter, apply to the present request. If the Fund finds that the intended request would be in conformity with the principles and procedures governing the Oil Facility for 1975, the request for a purchase will be submitted promptly.

Mauritania wishes to inform the Fund that it has not imposed new or intensified existing restrictions on current international payments or transactions since the letter addressed to the Fund on November 7, 1975. Furthermore, no significant change has been made in Mauritania's economic and financial policies as outlined in the statement accompanying the letter to the Fund dated November 7, 1975.

I also take this opportunity to inform you that the Government of Mauritania likewise wishes to avail itself of the Compensatory Financing Facility.

Very truly yours,

/s/

Ahmed Ould DADDAH