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EBS/84/77

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April 4, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Mauritius - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review under the stand-by arrangement for Mauritius. A draft decision appears on page 24.

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

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Ewart Williams (ext. (5)8751) or Mr. Mortimer-Lee (ext. 76523).

Att: (1)

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INTERNATIONAL MONETARY FUND

MAURITIUS

Review Under Stand-By Arrangement

Prepared by the African and Exchange and Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

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

April 3, 1984

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I. Introduction

A staff team visited Mauritius during the period February 9-24, 1984 to conduct the second review of the adjustment program which is being supported by the 15-month stand-by arrangement, in an amount of SDR 49.5 million (92.4 percent of quota), approved by the Fund on May 18, 1983 (EBS/83/78).1/ Mauritius has so far purchased SDR 33 million under the stand-by arrangement. If the remaining amount under the arrangement were to be purchased, the Fund holdings of Mauritian rupees subject to repurchase would rise to SDR 172.6 million, or the equivalent of 322.0 percent of quota; excluding purchases under special facilities, such holdings would be equivalent to 249.2 percent of quota (Table 1) 2/.

The first review of the stand-by arrangement was completed by the Executive Board on November 23, 1983 (EBS/83/234). During that review understandings were reached on exchange rate policy, wage policy, and budgetary policy for 1983/84 (July-June). Performance criteria were also established on total domestic credit and net credit to Government for the period through end-December 1983, as well as on the contracting and drawdowns of nonconcessionary foreign borrowing for the remaining period of the stand-by arrangement. All the quantitative performance criteria for end-October and end-December 1983 were observed (Table 2).

The second review is required under the arrangement to reach understandings on the performance criteria for net credit to the Government and total domestic credit for end-March and end-June 1984 and on such additional measures as needed to achieve the objectives of the program, including steps necessary to continue the process of price and trade liberalization. The staff team also discussed with the Mauritian authorities the framework of the 1984/85 budget and the balance of payments prospects for 1984/85 and beyond. Furthermore, given the crucial importance of sugar exports to the country's balance of payments, measures were examined to alleviate the financial difficulties that the sugar industry is experiencing. The authorities' intentions in the above policy areas are summarized in the attached letter to the Managing Director, dated March 1, 1984, which also proposes the quantitative performance criteria for end-March and end-June 1984.

1/ The staff team consisted of Messrs. E.S. Williams (head), M. Niebling, P.D. Mortimer-Lee (all AFR), J. Hicklin (ETR), and Miss A. Wood (secretary-AFR).

2/ Summary statements on Mauritius' relations with the Fund and the World Bank Group are presented in Attachments 1 and 2, respectively. On December 8, 1983 the World Bank Executive Board approved a second structural adjustment loan (SAL II) for Mauritius.

Table 1. Mauritius: Fund Position During Period of Arrangement

	Outstanding at beginning of arrangement April 30, 1983	1983			1984		
		May 15–July 14	July 15–Nov. 14	Nov. 15–Jan. 14 1/	Jan. 15–Apr. 14	Apr. 15–July 14	July 15–Aug. 17
	(In millions of SDRs)						
Transactions under tranche policies (net)	--	5.75	-4.00	11.12	3.38	2.87	7.38
Purchases	--	8.25	--	16.50	8.25	8.25	8.25
Ordinary resources	(--)	(2.63)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(5.62)	(--)	(16.50)	(8.25)	(8.25)	(8.25)
Repurchases	--	2.50	4.00	5.38	4.87	5.38	0.88
Ordinary resources	(--)	(0.86)	(4.00)	(2.38)	(3.38)	(2.38)	(--)
Supplementary financing	(--)	(1.64)	(--)	(3.00)	(1.49)	(3.00)	(0.88)
Transactions under special facilities (net)	--	--	--	--	--	-5.06	--
Purchases	--	--	--	--	--	--	--
Repurchases 2/	--	--	--	--	--	5.06	--
Total Fund credit outstanding (end of period)	151.20	156.95	152.95	164.07	167.45	165.25	172.63
Under tranche policies 3/	107.10	112.85	108.85	119.97	123.35	126.21	133.59
Special facilities 4/	44.10	44.10	44.10	44.10	44.10	39.04	39.04
	(In percent of quota) 5/						
Total Fund credit outstanding (end of period)	282.1	292.8	285.4	306.1	312.4	308.3	322.1
Under tranche policies 3/	199.8	210.5	203.1	223.8	230.1	235.5	249.2
Special facilities 4/	82.3	82.3	82.3	82.3	82.3	72.8	72.8

Source: International Monetary Fund (Treasurer's Department).
1/ 1984.
2/ Compensatory Financing Facility.
3/ Ordinary, supplementary financing, and enlarged access resources.
4/ Compensatory Financing Facility (exports) and Buffer Stock Financing Facility.
5/ Reflects present quota of SDR 53.6 million throughout (raised from SDR 40.5 million in December 1983).

Table 2. Mauritius: Quantitative Performance Criteria and Targets for the Period to June 1984

	1982 Dec. Actual	1983 March	1983 June	1983 Oct.	1983 Dec.	1984 March	1984 June
		(In millions of Mauritian rupees; end of period)					
Credit to Government (net) 1/							
Ceiling	...	4,900 2/	5,084	5,030	5,530	5,330	5,627
Actual	4,760	4,445	4,877	4,951	5,347	...	...
Total domestic credit 3/							
Ceiling	...	7,495 2/	7,870	7,830	8,380	8,265	8,710
Actual	7,221	6,970	7,560	7,698	8,144	...	...
			(In millions of U.S. dollars)				
New external borrowing commitments (cumulative) during program period							
1-10 years' maturity 4/							
Ceiling			50	50	50	50	50
Actual			--	--	--	...	...
1-5 years' maturity							
Ceiling			(--)	(--)	(--)	(--)	(--)
Actual			(--)	(--)	(--)	(...)	(...)
Drawdown on new external borrowing (cumulative in program period)							
Ceiling			20	40	40	40	40
Actual			--	--	--	...	...

Source: EBS/83/234 and data provided by the Mauritian authorities.

1/ Defined as credit to the Government from the banking system less government deposits plus any budgetary use of new nonconcessionary loans (net) of 1-10 years' maturity.
2/ Indicative target, not performance criterion.
3/ Defined as net credit to the Government plus credit extended by the banking system to the private sector.
4/ Defined as new external borrowing on nonconcessionary terms contracted or guaranteed by the Government. This ceiling applies for the entire period of the stand-by arrangement.

II. Recent Performance and Projected Outcome Under the Stand-By Arrangement

1. Economic growth, prices and employment

Real GDP increased by 7 percent in 1982/83, mainly as a result of the recovery of sugar production to a normal level (688,000 tons) after two years of adverse weather conditions. Economic growth in 1983/84 was originally forecast to be about 3 percent, slightly higher than the average rate for the previous four years, but revised projections indicate that the rise in real GDP will be less than 2 percent (Table 3). Due mainly to protracted drought in 1983, sugar production fell to 605,000 tons, down 12 percent from 1982/83 (and 2 percent lower than the projection made for the first review). Nonsugar agricultural production, which was heavily damaged by a cyclone in late December 1983, is expected to show a decline in 1983/84, but both the manufacturing sector and tourism are projected to begin to show strong growth. The recovery in these sectors reflects the increase in activity abroad as well as the improvement in competitiveness of Mauritius over the past year.

The average rate of inflation, which was 11 1/2 percent in 1982, eased markedly in 1983 reflecting the slackening off in import prices and the moderation in wage increases. Price increases are projected to be somewhat greater in the first half of 1984 as a result of the depreciation of the rupee against its major trading partners, upward adjustments in many administered prices, and a general easing of price controls. Present projections indicate that the rate of inflation in 1983/84 would be around 7 1/2 percent, compared with the program target of 9 percent (Table 3).

The level of unemployment, estimated at nearly 20 percent in 1983, continues to be of major concern to the authorities. A decline in manufacturing employment since mid-1982 was halted in late-1983 and an increase in employment in the EPZ is already evident in the early months of 1984. However, the sugar industry has continued to shed labor over the past year and employment in Government has stagnated because of financial constraints. With the labor force estimated to be increasing by about 2 percent a year, Mauritius needs rapid growth in manufacturing and services to reduce the unemployment rate to a more tolerable level.

2. Price and wage policy

Until recently, price controls were applied to a wide range of goods, through either a system of fixed markups, or maximum prices. In late 1983, as envisaged under the program, about one third of the 74 items subject to maximum prices were completely freed from administrative control. The Government is reviewing the remaining items on these lists (comprising food, other basic commodities, and some goods produced or imported under

Table 3. Mauritius: Selected Economic and Financial Indicators, 1979/80-1983/84

Fiscal years (July-June)	1979/80	1980/81	1981/82	1982/83 Prov.	1983/84 Program 1/	1983/84 Rev.
	(Annual percent changes, unless otherwise specified)					
National income and prices						
GDP at constant market prices 2/	4.0	-8.1	6.0	6.9	3.1	1.6
GDP deflator 2/	20.6	19.4	10.5	6.2	7.8	6.9
Consumer prices (average)	33.0	26.5	13.4	7.4	9.0	7.4
External sector (in terms of SDRs)						
Exports, f.o.b.	7.6	-6.3	16.0	-4.8	4.5	1.3
Imports, c.i.f.	8.6	11.9	-13.3	-3.2	5.0	-0.7
Non-oil imports, c.i.f.	3.7	12.2	-18.3	-3.4	7.6	0.9
Terms of trade (deterioration -)	-15.3	-5.3	-9.7	2.4	-0.3	4.3
Effective exchange rates 3/						
Nominal	-18.8	-6.0	-8.3	0.7	-3.9	-4.2
Real	-5.0	7.8	-5.9	1.1	-1.4	-3.9
Government budget (GFS basis)						
Revenue, excluding grants	27.8	14.0	7.7	25.6	14.0	11.7
Total expenditure	17.8	24.5	9.1	9.5	11.2	6.7
Money and credit						
Domestic credit 4/	26.5	20.1	14.5	19.5	15.8	11.1
Government (net) 4/	38.6	21.0	15.3	26.5	16.3	8.6
Private sector	13.6	18.9	13.4	10.0	14.9	14.9
Money and quasi-money	14.3	8.6	18.0	20.9	15.0	11.3
Interest rate (annual rate one-year time deposit)	10.0	10.0	12.25	12.0	11.5	10.5
	(In percent of GDP, as revised)					
Central government						
Savings (current balance)	-0.6	-2.5	-4.2	-2.3	-0.7	-1.0
Overall balance						
Excluding grants	-10.7	-14.1	-13.4	-10.0	-9.8	-8.9
Including grants	-10.6	-13.9	-12.8	-9.9	-9.0	-8.3
Domestic bank financing 4/	7.8	5.3	4.0	7.1	5.1	2.7
Foreign financing 4/	2.6	6.1	7.1	-0.9	2.3	3.8
Gross domestic investment 5/	25.6	23.2	21.4	18.3	21.5	18.5
Gross domestic savings 5/	14.7	12.8	15.1	16.0	17.8	16.7
External current deficit						
Excluding transfers	12.1	17.6	7.9	7.7	7.4 6/	6.6
Including transfers	10.7	15.5	5.7	5.2	4.9 6/	4.4
External debt (year-end)						
Excluding Fund credit	23.0	29.9	38.8	34.1	33.8	36.9 7/
Including Fund credit	30.0	42.3	53.8	50.8	51.1	55.5 7/
	(In units indicated)					
Debt service ratio (percent) 8/	7.6	15.8	14.7	21.7	25.2	25.8
Interest payments	5.0	9.3	9.2	9.8	8.9	8.6
Overall balance of payments (millions of SDRs)	-45.0	-61.0	2.0	-22.0	-20.0	-3.0
Gross central bank reserves (months of imports)	0.9	0.7	1.2	1.0	0.7	1.1 7/

Sources: Ministry of Finance; Bank of Mauritius; and staff estimates.

1/ EBS/83/234 of October 31, 1983 (first review of stand-by).
2/ Sugar crops and milling included in fiscal year harvested; otherwise averages of calendar year data.
3/ Trade weighted annual averages of end-of-month rates; depreciation -.
4/ Eurocurrency loans included in foreign financing; for performance criteria purposes, they are added to domestic bank financing.
5/ Based on averages of calendar year data.
6/ Valued at revised exchange rate.
7/ Reflects expected Eurocurrency borrowings in 1983/84.
8/ Including Fund. Ratio to exports of goods and nonfactor services.

conditions of monopoly or oligopoly) and will remove maximum price control on additional items by end-June 1984.

Among the list of commodities for which maximum prices are fixed are rice and wheat flour, both of which are still subsidized from the budget, although these subsidies have been progressively reduced over the last two years. On March 9, 1984 the prices of these commodities were increased by 25 percent and the retail price of sugar was raised by 20 percent as a first step to bring domestic prices in line with production costs. In consultation with the World Bank, the Ministry of Energy has been adjusting certain utility rates, including electricity tariffs and irrigation and water rates, to promote improved resource allocation and to generate more funds for investment by the parastatals.

Since 1980/81 wage awards have been set to compensate only partly for the rate of price increase in the previous year (Table 4). In setting wage policy for 1984/85 the Government intends to keep in mind two main factors: in the Central Government, the aim will be to restrain expenditures with a view to reducing the fiscal deficit, while in the private sector, the main considerations will be the need to improve external competitiveness and employment prospects. The Government expects that the average wage increase for 1984/85 will be well below the projected rate of inflation.

There are two components to the annual wage award in the Central Government, viz., the cost of living adjustment, which is also mandatory in the private sector and is decided after national tripartite negotiations (between Government, the trade unions, and the private employers' association) and the automatic annual increment. The terms and conditions of service, which are established by the Public Service Commission, preclude the elimination of the automatic annual increment. However, the Government has now appointed a committee to devise a system to link increments more closely to job performance and productivity. In the private sector, the Government had contemplated a switch to decentralized wage negotiations and away from the system of minimum national wage awards, with effect from the 1984/85 wage round. This changeover has been postponed to allow for further discussions between the parties involved on (i) the establishment of an appropriate arbitration machinery and (ii) adequate safeguards for nonunionized workers, including almost all the work force of the EPZ. The Government also felt that an abrupt change to decentralized bargaining would cause industrial unrest, particularly in the heavily unionized sugar sector.

Table 4. Mauritius: Wages and Prices, 1978/79-1983/84

(In percent)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Average cost-of-living adjustment	7.5	13.0 1/	9.5	13.6	6.5	5.0
Year-end bonus (expressed in months of basic wage or salary)	0.75	0.25	0-2.15	0-2.15	0.25-2.15	0-2.15
Average earnings increase 2/	13.2	20.6	15.7	17.9	9.3	6.5
CPI increase during reference period 3/	10.1	8.0	33.0 4/	26.5	13.4	7.4

Source: Data provided by the Mauritian authorities.

1/ Includes an adjustment of some 8 percent made in respect of the increase in prices--assumed to be 15 percent--induced by the devaluation of the rupee in October 1979.

2/ September on September increases except for 1979/80 and 1980/81, which are March on March increases.

3/ The reference period is generally the previous 12 months.

4/ Of this, 18 percent was assumed to be exclusive of the impact of the devaluation and was the figure upon which the 9.5 percent wage adjustment was based.

3. Fiscal developments and outlook

a. Central government operations in 1983/84

The fiscal program for 1983/84 was designed to limit the overall budget deficit to Mau Rs 1,200 million (9.0 percent of revised GDP)1/ and bank financing of the budget (defined to include credit from the domestic banking system and Eurocurrency loans) to Mau Rs 750 million (5.6 percent of GDP). Projections prepared by the staff and the Mauritian authorities indicate that the fiscal target is likely to be achieved, with the overall deficit turning out to be closer to Mau Rs 1,100 million (8.3 percent of revised GDP) (Table 5). The target for bank financing of the budget should also be met with some margin. However, as there remains some uncertainty about the timing of certain external program loans (amounting to about Mau Rs 50 million), the credit ceilings for end-March and end-June 1984 assume that the full amount of credit originally programmed will be required.

In the first half of the fiscal year total revenues were about 6 percent below projections, largely on account of delays in the transfer of central bank profits. For the year as a whole total receipts are projected to be about 3 percent below budget forecasts (at the equivalent of about 24 percent of GDP), mainly because the revenue yield from two new measures--the withdrawal of exemptions from import duties on purchases by government departments and parastatal bodies, and the land development tax are now expected to be much less than projected (Appendix Table I).

Some institutional changes to improve tax administration are being introduced in 1983/84. Legislation for the establishment of a Unified Revenue Board was approved in late December 1983. The Board, whose objective is to coordinate collection of customs and excise duties with income and sales taxes, is now operating on a limited basis with technical assistance provided by the Fund. It is expected to be fully operational by April 1, 1984. Originally, the Government had undertaken to establish an Income Tax Tribunal before January 1, 1984 to hear and determine expeditiously taxpayers' objections on income tax assessments. After further consideration, the Government has decided to set up a broader tax tribunal that will deal with objections on all tax matters. This body is expected to be established by July 1, 1984.

In the first half of the fiscal year total expenditures were about 7 percent below projections; the shortfall on current spending was only 5 percent, but on capital outlays it was 17 percent. For the year as a whole total expenditures are projected to be 4 percent below budget, and

1/ The level of nominal GDP at market prices now projected for 1983/84 is about 2 percent lower than that assumed in the first stand-by review paper (EBS/83/234).

Table 5. Mauritius: Central Government Operations, 1980/81-1983/84

	1980/81	1981/82	1982/83		1983/84	
			Budget	Prov. actual	Program	Revised estimates
			(In millions of Mauritian rupees)			
Total revenue and grants	2,078	2,291	2,823	2,812	3,279	3,195
Of which: tax revenue	(1,796)	(1,950)	(2,301)	(2,394)	(2,815)	(2,752)
Total expenditure	3,372	3,679	4,189	4,027	4,479	4,298
Current	(2,314)	(2,747)	(3,098)	(3,092)	(3,368)	(3,327)
Capital	(1,058)	(932)	(1,091)	(935)	(1,111)	(971)
Overall deficit	-1,294	-1,388	-1,366	-1,215	-1,200	-1,104
Financing						
External (net) 1/ 2/	566	774	387	-111	304	512
Domestic (net)	728	614	979	1,326	896	592
Of which: banking system	(496)	(438)	(754)	(875)	(680)	(360)
			(In percent of revised GDP)			
Total revenue and grants	22.5	21.2	23.0	22.9	24.6	24.0
Total expenditure	36.5	34.1	34.1	32.8	33.6	32.2
Current	(25.0)	(25.4)	(25.2)	(25.2)	(25.2)	(24.9)
Capital	(11.4)	(8.6)	(8.9)	(7.6)	(8.3)	(7.3)
Overall deficit	14.0	12.9	11.1	9.9	9.0	8.3

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

1/ External finance includes nonconcessionary foreign borrowing; in the performance criteria definitions of net credit to Government and total domestic credit such borrowing is aggregated with domestic bank finance.

2/ Including drawings on nonconcessionary foreign loans.

the expenditure/GDP ratio is projected at 32 percent. There is likely to be a small saving on the wage bill as a result of the postponement in filling some government vacancies; subsidies, interest payments, pensions, and social security outlays are expected to be close to budgeted totals but improved monitoring of expenditures is expected to hold other current expenditures to about 10 percent under budget (Appendix Table II). Capital outlays are expected to be about 13 percent lower than the budgeted total; the extent of underspending in 1983/84 is close to that experienced in recent years (averaging 14.5 percent) and is associated with some shortfall in external concessionary assistance.

b. Fiscal framework for 1984/85

The mission discussed with the authorities a preliminary framework for the 1984/85 budget; more detailed discussions will be held in the context of the 1984 consultations scheduled to take place in May/June. This budget will have to provide for tax relief scheduled to be given to the sugar industry (see Section IV) as well as markedly higher interest payments. However, as stated in the attached Letter of Intent, the Government is committed to a further reduction in the overall fiscal deficit and in bank financing of the deficit. Measures to achieve this adjustment are likely to include (a) a small revenue package that involves a widening of the tax base rather than increasing existing tax rates and (b) a reduction in outlays and specifically in capital transfers to parastatals such as the Development Works Corporation, the Agricultural Diversification Corporation, and the Tea Development Authority. On the financing side, external concessionary borrowing is projected to increase in 1984/85. The Management Audit Bureau is to work more closely with spending agencies in order to achieve fuller implementation of capital spending plans and thus increase drawdowns of foreign concessionary assistance. This, together with some rise in domestic nonbank finance, should help to keep bank financing of the deficit below the level of 1983/84.

4. Monetary developments

In the first half of 1983/84 total bank credit expansion was below program levels, reflecting the lower fiscal deficit and higher-than-projected domestic nonbank financing of the budget. With the smaller credit expansion, money supply growth was about 6 percent below projections. For the year as a whole the financial program provides for an increase in total bank credit of Mau Rs 1,150 million (22 percent of aggregate monetary resources at the beginning of the period), with credit expansion to the Central Government (including Eurocurrency borrowing) programed at Mau Rs 750 million and credit to the private sector at Mau Rs 400 million (Table 6). Ceilings for total domestic credit and net credit to the Government for end-March 1984 and end-June 1984 have been established as shown in Table 2. With respect to end-June 1984, the indicative targets established during the first review of the stand-by

Table 6. Mauritius: Monetary Survey, June 1981-June 1984

(In millions of Mauritian rupees)

	1981		1982		1983						1984	
	June	Dec.	June	Dec.	March	June	Oct.		Dec.		March	June
							Program 1/	Actual	Program 1/	Actual	Program	Program
Foreign assets (net) 2/	-969	-940	-941	-1,001	-976	-1,205	-1,345	-1,246	-1,475	-1,521	-1,421	-1,239
Bank of Mauritius 2/	-875	-900	-908	-1,119	-1,024	-1,240	...	-1,301	...	-1,635	-1,506	-1,303
Commercial banks	-94	-40	-33	118	48	35	...	55	...	115	85	65
Domestic credit	5,004	5,450	5,730	6,452	6,202	6,851	7,120	6,988	7,729	7,494	7,615	7,610
Net claims on Government	2,854	3,191	3,292	3,991	3,676	4,167	4,320	4,241	4,879	4,697	4,680	4,527
Bank of Mauritius	(2,139)	(2,490)	(2,517)	(2,865)	(2,537)	(2,828)	(...)	(2,944)	(...)	(3,500)	(...)	(...)
Commercial banks	(715)	(701)	(775)	(1,126)	(1,139)	(1,339)	(...)	(1,298)	(...)	(1,197)	(...)	(...)
Claims on private sector	2,150	2,259	2,438	2,461	2,525	2,683	2,800	2,747	2,850	2,797	2,935	3,083
Of which: sugar sector	(427)	(446)	(405)	(393)	(450)	(508)	(520)	(464)	(500)	(463)	(515)	(600)
Money (M_2)	3,655	3,993	4,313	4,927	4,775	5,213	5,323	5,244	5,789	5,428	5,624	5,800
Money (M_1)	1,391	1,534	1,513	1,742	1,586	1,772	...	1,683	...	1,805	...	...
Quasi-money	2,264	2,459	2,799	3,185	3,190	3,441	...	3,561	...	3,622	...	...
Other items (net) 2/	380	517	477	524	450	432	452	497	465	545	570	570
Memorandum items:												
Monetary survey on a performance criteria basis												
Foreign assets (net)	-1,323	-1,294	-1,710	-1,770	-1,745	-1,914	-2,054	-1,956	-2,126	-2,171	-2,071	-2,339
Domestic credit	5,358	5,804	6,500	7,221	6,970	7,560	7,830	7,698	8,380	8,144	8,265	8,710
Of which: net claims on Government	(3,208)	(3,545)	(4,061)	(4,760)	(4,445)	(4,877)	(5,030)	(4,951)	(5,530)	(5,347)	(5,330)	(5,627)
Amount of Eurocurrency loans 3/	354.3	354.3	768.6	768.6	768.6	709.6	709.6	709.6	650.5	650.5	650.5	1,100

Sources: Data provided by the Bank of Mauritius; and staff estimates.

1/ EBS/83/234, October 31, 1983.
2/ Including valuation adjustment on liabilities to Fund.
3/ Valued at the rate of exchange on the date of drawing.

arrangement were retained as performance criteria 1/. As mentioned earlier, the present fiscal projections indicate that less credit may be required by the Central Government and that as a result, the banking system may be in a position to meet more of the rising credit needs of the private sector.

Following the removal of ceilings on some lending rates in early 1983, there was an immediate increase in the spread between deposit and loan rates charged by the commercial banks. By midyear it had become evident that the high level of real lending rates was contributing to the slack in loan demand and in an effort to prompt a cut in loan rates, the Bank of Mauritius, in October 1983, reduced its rediscount rate from 12 percent to 11 percent. To give an even clearer signal to the banks, in early January 1984, the minimum interest rate on savings deposits was reduced from 9 percent to 8.5 percent and the treasury bill rate was reduced from 11 percent to 10 percent. In response, the banks lowered actual rates paid on deposits by around one and a half percentage points and the structure of lending rates by about two percentage points; rates charged to non-priority sectors were reduced from 19 percent to 17 percent while the unofficial interest rate ceilings for loans to the sugar industry and the EPZ were reduced from 14 percent to 12 percent.

Control of private sector credit is administered through ceilings on individual banks based on a formula that favors credit expansion to the sugar industry and manufacturing. The direct controls on bank lending, as well as interest rate floors on both savings and time deposits, have reduced interbank competition for deposits and recently many banks, that now hold large excess reserves, have been refusing long-term deposits. The authorities have decided to remove the interest rate floors on time deposits and encourage greater flexibility in interest rates charged the priority sectors. Moreover, the Bank of Mauritius is also considering the introduction of an indirect method of credit control. The authorities are committed to taking measures to ensure that deposit rates remain positive in real terms.

5. The external sector

a. The balance of payments in 1983/84

On the basis of data for July-December 1983 and projections for the remainder of the fiscal year, the 1983/84 target for the current account deficit is expected to be achieved. In SDR terms, exports are projected to remain flat in 1983/84 and imports to fall slightly. As a

1/ The ceilings for end-June 1984 imply that total domestic credit and net credit to Government (inclusive of nonconcessionary foreign borrowing) would be no more than 15.2 percent and 15.4 percent higher than a year earlier, respectively.

result of the improvement in the trade account, the current account deficit is projected to be SDR 44 million (4.4 percent of GDP), as against SDR 49 million (4.9 percent of revised GDP) originally programed (Table 7). With net capital inflows in 1983/84 now projected at SDR 41 million, an overall deficit of SDR 3 million is forecast. The balance of payments estimates made during the first review had assumed lower Eurocurrency borrowings and projected an overall deficit of SDR 20 million.

Sugar exports in 1983/84 will be 10,000 tons less than projected at the time of the first review. After satisfying its quotas in the EEC and United States 1/, Mauritius will have around 37,000 tons available for export at the free market price. The EEC sugar price has increased by 4 percent in ecu terms in 1983/84, but the depreciation of the ecu will result in a fall of 2.5 percent in the SDR value of total sugar receipts. EPZ exports are expected to show some rise in volume terms in 1983/84 but weak prices for manufactured goods should limit the increase in the SDR value of these exports to only 2 percent.

Total f.o.b. imports, in SDR terms, are now projected to fall by 2 percent in 1983/84, instead of rising by 5 percent as originally envisaged. Import volume is projected to increase by about 3 1/2 percent and import prices, which were expected to rise slightly, are projected to decline by 4.2 percent in SDR terms. In all, the terms of trade are now estimated to improve by 4.3 percent in 1983/84, compared with an earlier projection of a worsening of 0.3 percent.

On the capital account, concessionary disbursements are now projected to be some SDR 9 million lower than previously expected, reflecting delays in implementing projects. In late 1983 the Bank of Mauritius engaged in external short-term borrowing in order to increase the level of official reserves. These short-term loans were repaid by end-February 1984. In order to maintain a higher level of gross reserves than previously targeted, the Government is now negotiating a Eurocurrency loan equivalent to SDR 38 million, instead of only SDR 15 million as previously planned. The revised projections of the private capital account (including net errors and omissions) still shows a small deficit in 1983/84, a turnaround from 1982/83 when delayed sugar payments and external borrowing by the Mauritius Sugar Syndicate led to a private capital inflow of SDR 36 million. The small projected overall deficit is to be financed by net use of Fund credit (SDR 12 million) which will also allow an increase in the level of official reserves to the equivalent of five weeks' imports at end-June 1984.

Because of large repurchases due to the Fund and amortization payments on previous Eurocurrency loans, debt service payments in 1983/84

1/ Exports to the EEC and the U.S. are 503,000 tons and 28,000 tons, respectively.

Table 7. Mauritius: Balance of Payments, 1982/83-1984/85

(In millions of SDRs)

	1982/83		1983/84		1984/85 Projections	
	Program 1/	Revised	Program 1/	Revised	Program 1/	Revised
Current account	-51	-53	-49	-44	-47	-45
Merchandise	-39	-43	-44	-31	-41	-23
Exports, f.o.b.	320	318	334	322	367	346
Sugar	(196)	(196)	(200)	(191)	(217)	(207)
EPZ	(99)	(100)	(107)	(102)	(121)	(115)
Other	(25)	(22)	(27)	(29)	(29)	(24)
Imports, f.o.b.	-359	-361	-378	-353	-408	-369
Imports, c.i.f.	-419	-418	-440	-415	-472	-434
Rice	(-19)	(-19)	(-21)	(-18)	(-24)	(-16)
Flour	(-17)	(-17)	(-19)	(-13)	(-22)	(-13)
Petroleum	(-75)	(-81)	(-70)	(-75)	(-73)	(-78)
EPZ	(-62)	(-62)	(-65)	(-61)	(-72)	(-69)
Other	(-246)	(-238)	(-266)	(-248)	(-281)	(-258)
Services (net)	-37	-34	-31	-35	-34	-45
Freight and insurance	(-54)	(-52)	(-54)	(-57)	(-56)	(-59)
Other transportation	(23)	(30)	(25)	(29)	(26)	(30)
Travel	(21)	(21)	(22)	(21)	(24)	(23)
Investment income 2/	(-42)	(-41)	(-40)	(-37)	(-45)	(-48)
Other	(14)	(8)	(15)	(8)	(16)	(9)
Transfers	25	25	26	22	28	23
Capital account	29	31	30	41	63	27
Public 3/	-7	-5	34	45	62	26
Existing eurocurrency	-32	-32	-39	-40	-24	-24
Disbursements	(--)	(--)	(--)	(--)	(--)	(--)
Amortization	(-32)	(-32)	(-39)	(-40)	(-24)	(-24)
Existing concessionary	25	26	58	47	53	50
Disbursements	(38)	(39)	(72) 4/	(61) 4/	(71) 4/	68 4/
Amortization	(-13)	(-12)	(-14)	(-14)	(-18)	(-18)
Loans to be contracted	...	...	15	38	33	--
Eurocurrency (net)	(...)	(...)	(15)	(38)	(22)	(--)
Concessionary	(...)	(...)	(--)	(--)	(11)	(--)
Private, including errors and omissions	36	36	-4	-4	2	2
Overall balance	-22	-22	-20	-3	17	-18
Financed by						
IMF 5/	22	22	12	12	...	-38
Purchases	(27)	(27)	(33)	(33)	(...)	(8)
Repurchases	(-5)	(-5)	(-21)	(-21)	(-46)	(-46)
Reserves	--	--	8	-9	...	3
Financing gap	--	--	--	--	...	53
Memorandum items:						
End-year reserves in months of imports, c.i.f.	1.0	1.0	0.7	1.1	...	0.9
Merchandise terms of trade (percent change)	2.4	2.4	-0.3	4.3	-1.6	0.6
Current account/GDP (percent)	-5.0	-5.2	-4.9 6/	-4.4	-4.2	-4.3

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

1/ Data presented in EBS/83/234, October 31, 1983.
2/ Not including interest on the financing gaps.
3/ Including parastatal organizations.
4/ Assuming SAL II disbursements of SDR 18 million in 1983/84 and 1984/85.
5/ Including Trust Fund.
6/ Reflects revised GDP and exchange rate estimates.

are estimated to be SDR 117 million (25.8 percent of exports of goods and nonfactor services). Though the level is some SDR 2 million lower than earlier projected, the ratio has increased from an earlier estimate of 25.2 percent on account of a lower forecast SDR value of exports (Table 8).

b. Import liberalization

At the beginning of 1983/84, there were three lists of restricted imports 1/: (a) those completely prohibited to protect local industry (28 items); (b) those restricted by quota to protect local industry (27 items); and (c) a large number of items restricted by quota for balance of payments reasons 2/. These restrictions are now being progressively reduced. By end-December 1983, 22 items from list (c) had been completely liberalized. By March 15, 1984 outright prohibition had ceased and six of the items on list (a) had been completely freed of restriction and the remainder had been allocated quotas estimated to be not less than 25 percent of local demand, as a first stage towards complete liberalization. The Government has expressed its intention to replace all remaining quota restrictions with tariffs, on a phased basis, by end-1984 3/. Proposals for rationalizing the present tariff structure, being developed with Fund technical assistance, will be implemented early in 1984/85.

c. The exchange rate

On February 28, 1983 the rupee was unlinked from the SDR and pegged to a basket of currencies more representative of Mauritius' trade pattern. From that date to end-December 1983 the nominal and real effective rates are estimated to have depreciated by about 5 percent and 8 percent, respectively, thereby offsetting most of the appreciation of the real effective rate that had taken place since the devaluation at end-September 1981 (Chart 1). The Government has undertaken to continue to pursue a flexible exchange rate policy with a view to improving the competitiveness of the economy and enhancing employment prospects.

1/ The Mauritian authorities estimate that the value of import categories currently restricted represented 11 percent of total imports in 1981.

2/ In addition, there is a small number of goods banned for reasons of public health and safety.

3/ According to the present schedule, quota restrictions for items on list (c) with tariffs higher than 60 percent will be eliminated by end-March 1984, and for items with tariffs between 30 and 60 percent, by end-June 1984. In addition, by end June 1984 some items on list (b) will be freed of quotas, following a World Bank sponsored study on appropriate tariff levels.

Table 8. Mauritius: Debt Service Payments on Medium- and Long-Term Debt, 1981/82-1990/91

(In millions of SDRs)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Eurocurrency 1/	26	51	51	39	31	29	28	32	36	30
Principal	7	32	40	24	18	16	16	20	24	19
Interest	19	19	11	14	13	12	12	12	12	11
Other public (excl. IMF) 2/	19	24	27	38	44	50	59	67	72	77
Principal	9	13	14	18	20	24	31	35	36	35
Interest and charges	10	11	14	20	24	26	28	32	37	42
Private	5	4	5	3	2	2	2	3	3	4
Principal	4	4	4	2	1	1	1	2	2	2
Interest	1	1	1	1	1	1	1	1	1	1
IMF 3/	19	18	34	61	59	39	32	20	16	9
Repurchases	6	5	21	46	46	30	25	16	13	8
Charges	13	13	13	15	13	9	7	4	3	1
Total (including IMF)	68	98	117	141	136	119	122	122	127	120
Principal and repurchases	26	54	78	91	86	71	74	72	75	65
Interest and charges	43	44	39	49	50	48	47	49	52	56
Debt service ratio 4/ 5/	14.7	21.7	25.8	29.2	26.2	21.3	20.2	18.8	18.2	16.0
Principal service ratio	5.5	11.9	17.2	18.9	16.6	12.8	12.3	11.2	10.7	8.6
Interest ratio	9.2	9.8	8.6	10.3	9.6	8.6	7.9	7.6	7.5	7.4
Memorandum items:										
Total debt service, including interest on financing gaps 6/	68	98	117	141	142	131	139	144	154	152
Debt service ratio, including interest on financing gaps 4/	14.7	21.7	25.8	29.2	27.2	23.4	23.1	22.2	22.0	20.1

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

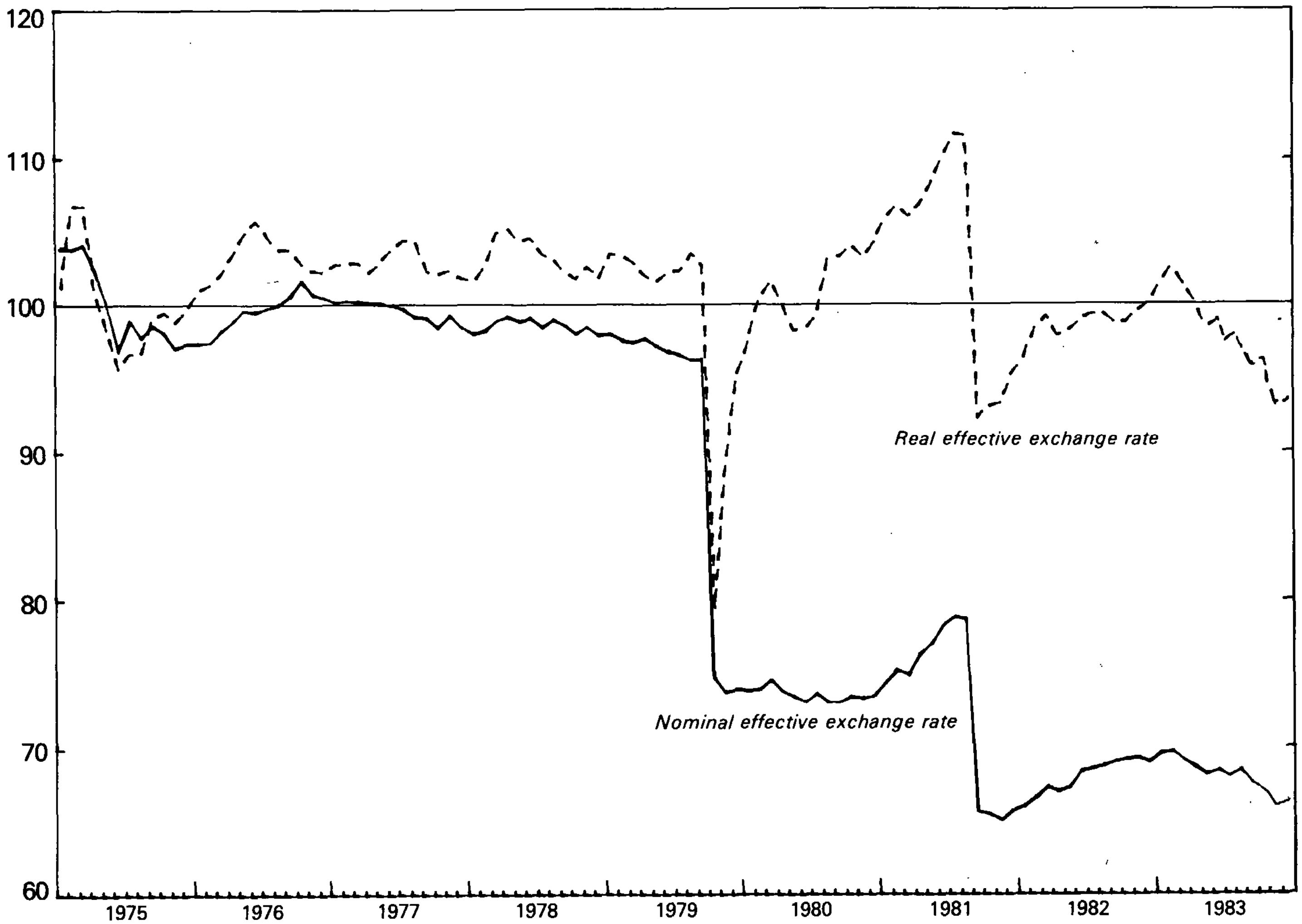
1/ Including existing and new Eurocurrency loans shown in Table 9. From 1984/85, the Mauritian authorities assume a LIBOR of 11 percent plus a spread of 2 percent; these projections are used in this table.
2/ Including existing and new loans shown in Table 9. On long-term debt to be contracted through 1990/91, an interest rate of 10 percent is assumed.
3/ Including Trust Fund. No purchases are assumed after the expiration of the present SBA.
4/ In percent of exports of goods and nonfactor services.
5/ Excluding interest on financing gaps.
6/ An interest rate of 10 percent is assumed.

CHART 1

MAURITIUS

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES: TRADE WEIGHTED, 1975-83

(1975=100)



Source: Staff calculations; decline indicates depreciation.

III. The Medium-Term Balance of Payments

The staff report on the first review of the stand-by arrangement included balance of payments projections to 1986/87. In Table 9 some revisions are made to these earlier balance of payments projections and the series is extended to 1988/89. The latest projections incorporate minor changes in the current account and more substantial revisions to capital inflows. In order to arrive at a financing gap, these projections make specific provision for scheduled Fund repurchases and for a build-up in gross official reserves.

Export projections for 1984/85 assume a sugar crop of 630,000 tons instead of 650,000 tons previously envisaged; production is assumed to return to 650,000 tons as from 1985/86. These levels are conservatively below the estimated potential production of about 700,000 tons. As in the earlier projections, prices in the EEC market are projected to increase by 4 percent in ecu terms annually, but prices in the U.S. market are now projected to be flat in 1984/85 (instead of a 3 percent increase projected earlier) and to grow by 2 percent per annum (rather than 5 percent) from 1985/86. With these revisions, sugar export receipts are now projected to rise by an average 5 percent per annum over the five years from 1983/84; the previous projection was for an average increase of 6 percent from 1983/84 to 1986/87. EPZ exports are projected to rise by nearly 11 percent in volume and 13 percent in value terms in 1984/85 and thereafter by an annual average of nearly 8 percent in volume terms and 12 percent in value. These volume increases can be achieved provided that protectionist measures now being adopted by some industrial countries against Mauritian exports are not intensified. Tourism receipts are projected to rise by nearly 7 percent in 1984/85 and by somewhat more thereafter.

Total imports, in SDR terms, are assumed to increase by 4.6 percent in 1984/85, broadly in line with the projected rise of nominal GDP (in SDRs); the 8 percent annual growth projected from 1985/86 compares with a projected GDP growth of about 6-7 percent a year, making some allowance for the effect of import liberalization. The terms of trade are expected to show an improvement of 0.6 percent in 1984/85 and to turn slightly against Mauritius thereafter.

As for the capital account, conservative assumptions are made of gross disbursements of concessionary loans. From 1984/85 total disbursements are assumed each year to be equivalent to SDR 60 million, the same level as in 1983/84, indexed for inflation. Since the 1983/84 projection is now SDR 10 million lower than at the time of the first review, the medium-term projections have also been revised downward. To the extent that the authorities are successful in obtaining more concessionary loans, these would contribute to filling the financing gaps.

Table 9. Mauritius: Medium-Term Balance of Payments, Projections 1983/84-1988/89

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Current account	-44	-45	-47	-45	-45	-48
Merchandise	-31	-23	-29	-33	-39	-46
Exports, f.o.b.	322	346	371	397	426	456
Imports, f.o.b.	-353	-369	-400	-430	-465	-502
Services (net) 1/	-35	-45	-42	-38	-34	-32
Transfers (net)	22	23	24	26	28	30
Capital account	41	27	48	47	45	45
Public 2/	45	26	45	44	41	41
Existing eurocurrency	-40	-24	-18	-9	-9	-9
Disbursements	(--)	(--)	(--)	(--)	(--)	(--)
Amortization	(-40)	(-24)	(-18)	(-9)	(-9)	(-9)
Existing concessionary loans	47	50	37	15	-9	-21
Disbursements	(61) 3/	(68) 3/	(57)	(39)	(22)	(14)
Amortization	(-14)	(-18)	(-20)	(-24)	(-31)	(-35)
New loans	38	--	26	38	59	71
Eurocurrency (net) 4/	(38)	(--)	(17)	(8)	(8)	(8)
Concessionary 5/	(--)	(--)	(9)	(30)	(51)	(63)
Private, including errors and omissions	-4	2	3	3	4	4
SDR allocation	--	--	--	--	--	--
Overall balance	-3	-18	1	2	--	-3
Financed by						
IMF 6/	12	-38	-46	-30	-25	-16
Purchases	(33)	(8) 7/	(--)	(--)	(--)	(--)
Repurchases	(-21)	(-46)	(-46)	(-30)	(-25)	(-16)
Reserves	-9	+3	-12	-20	-5	-5
Financing gap	--	53	57	48	30	24
Memorandum items:						
End-year reserves in months of imports, c.i.f.	1.1	0.9	1.2	1.6	1.6	1.6
Merchandise terms of trade (percent change)	4.3	0.6	-0.7	-0.1	-0.2	-0.2
Current account/GDP (percent)	-4.4	-4.3	-4.2	-3.8	-3.6	-3.6
Current account/GDP, including interest on the financing gaps (percent)	-4.4	-4.3	-4.7	-4.8	-4.9	-5.2

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

1/ Not including interest on the financing gaps.
2/ Including parastatal organizations.
3/ Assuming SAL II disbursements of SDR 18 million in 1983/84 and 1984/85.
4/ From 1985/86, eurocurrency borrowings assumed limited to a level that allows a slight reduction each year in eurocurrency debt.
5/ From 1985/86, it is assumed that total concessionary disbursements will reach SDR 60 million (in 1983/84 prices).
6/ Including Trust Fund.
7/ Fund purchase under current stand-by arrangement.

The earlier projections had assumed Eurocurrency borrowings of SDR 15 million in 1983/84 and SDR 22 million in 1984/85. As mentioned earlier, the authorities have instead decided to seek a Eurocurrency loan of SDR 38 million to be disbursed in 1983/84. With no Eurocurrency borrowing now assumed for next year, projections show a net repayment of nonconcessionary borrowing of SDR 24 million and an overall deficit of SDR 18 million in 1984/85. From 1985/86 onward the current account deficits are just about financed by net capital inflows, which include small net repayments of Eurocurrency borrowing (SDR 1 million a year).

A target accumulation of official reserves from the equivalent of four weeks of imports in 1984/85 to seven weeks by 1986/87 implies extra financing needs of SDR 12 million and SDR 20 million in 1985/86 and 1986/87, respectively, with smaller amounts thereafter. The present schedule of repurchases to the Fund includes SDR 38 million and SDR 46 million for 1984/85 and 1985/86, respectively. Taken together, this implies a residual financing gap of SDR 53 million in 1984/85 and SDR 57 million in 1985/86, falling to SDR 24 million by 1988/89. These gaps would need to be filled by a combination of concessionary borrowing in excess of the levels shown in Table 9, and adjustment of the current account. In the attached letter of intent the authorities have undertaken to take whatever measures are necessary to close the financing gap in 1984/85.

Projections for debt service to 1990/91 are shown in Table 8. Including interest on the estimated financing gap, the total debt service ratio is shown to peak at 29.2 percent in 1984/85 before declining steadily thereafter, as the share of debt to the Fund and commercial banks in total total debt declines.

IV. Measures to Improve the Finances of the Sugar Industry

The sugar industry in Mauritius contributes about 60 percent of the country's merchandise export earnings and 12-15 percent of GDP. In recent years, the financial condition of the industry has deteriorated to a precarious state, as revenues have been reduced by poor crops (in three of the past four years), weakening world prices and increases in costs. The situation has been aggravated by the continued maintenance of a surtax on the basic export duty, which was imposed in 1979 to mop up the excess profits resulting from the devaluation of the rupee. The surtax was reduced to 50 percent in 1982/83 but increased again to 75 percent in 1983/84. At present the total export duty ranges from zero for small producers to nearly 24 percent of export receipts for the largest producers. Additional cesses and fees raise total indirect taxes paid by the largest producers to closer to 30 percent of export revenues.

Data available for the 21 large sugar estates with factories (the "miller-planters"), who account for 70 percent of sugar output and pay

90 percent of the sugar export duty, indicate that from 1980 to 1982 these units (as a group) made operating losses of the order of Mau Rs 60 million a year after allowances for depreciation 1/, but maintained a positive cash flow before depreciation. However, their outlays on fixed assets fell from Mau Rs 132 million in 1979 to Mau Rs 65 million in 1982. In 1983, with a poor sugar crop, the consolidated accounts of these units, before depreciation, slipped into a deficit. In early 1984, five of the twenty-one firms were experiencing acute cash flow problems and were unable to raise funding from commercial banks. The banks finally agreed to extend further overdraft facilities to these units pending the adoption of a coordinated strategy by the Government to deal with the problems of the industry. It is now generally agreed that unless the industry's financial difficulties are alleviated quickly, investment could decline below the level necessary to maintain factories in operation, thereby jeopardizing output and exports.

In early 1983, the Government established a Commission of Inquiry to study the sugar industry and make recommendations by year-end. Having studied the reports of the Commission and after discussions with the Fund mission 2/, the Government has adopted a package of measures which should ease the short-term cash flow difficulties and at the same time improve prospects for longer term financial viability. These measures are estimated to yield about Mau Rs 100 million to the producers (mainly to the miller-planters) in 1984/85. In addition, the depreciation of the rupee in 1983/84 is estimated to yield Mau Rs 100 million in net relief to the industry in 1984/85. The measures adopted by the authorities include:

(a) a reform of the sugar export duty formula, to take effect in 1984/85, with a view to easing the tax burden, providing incentives to production and making the tax more elastic with respect to export volume and prices. It is estimated that the reform will result in tax relief of about Mau Rs 60 million in 1984/85 (equivalent to a reduction in the average rate of the export duty from about 24 percent to around 20 percent for the largest producers).

(b) An increase of 20 percent in domestic prices of sugar for consumers (from Mau Rs 1.25 to Mau Rs 1.50 per half kilo) and of 25 percent

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1/ As reflected in their audited accounts. There are much higher industry estimates of appropriate depreciation allowances which indicate much larger losses, and which are the subject of considerable controversy.

2/ The Commission was unable to reach a unified set of conclusions and there were two reports, one from the Chairman and one from the two other members. Both reports agreed on the need for some immediate cash relief; one focussed on the phased elimination of the export duty while the other preferrred the provision of loan assistance on a discretionary basis.

in the domestic price of sugar for industrial use, to take effect not later than March 31, 1984. This increase--estimated to yield Mau Rs 22 million--would be the first of a series of adjustments to bring the local price of sugar closer in line with production costs.

(c) The elimination of the brokerage fee of 0.75 percent, which, like the export duty, has been deducted from export earnings before proceeds were distributed to producers. This measure is projected to increase revenues to producers by about Mau Rs 18 million in 1984/85.

The authorities view the above measures as a first step in restoring the profitability of the sugar industry and have undertaken to review the export duty formula in the light of developments in the sugar industry and in Government's fiscal situation. A Sugar Authority, a semi-autonomous body representing the various interests in the industry, is being established to ensure systematic policy and planning for the sector and provide guidelines for future development. A package of supporting structural measures is still being worked out, but the Government intends to finalize, in collaboration with the World Bank, a long-term plan for the sugar industry by mid-year.

V. Staff Appraisal

Since 1979, under four consecutive stand-by arrangements, Mauritius has achieved significant progress in reducing external and internal financial imbalances. The external current account deficit and the overall fiscal deficit have been reduced, and the inflation rate has declined sharply. Despite the progress made in the financial sphere, the underlying growth rate has been somewhat low and the rate of unemployment has risen to an unacceptably high 20 percent. The slow growth has been due in large part to the effects of adverse weather on sugar output and a lack of buoyancy in the export manufacturing sector, which has been constrained by world recession and increasing protectionism in industrialized countries.

The financial program for 1983/84 is basically on track and both fiscal and balance of payments targets are likely to be met. Because of a curtailment in government outlays the overall fiscal deficit is now projected to be the equivalent of 8.3 percent of revised GDP compared with a program target equivalent to 9.0 percent of revised GDP. With regard to the balance of payments, shortfalls in export receipts are expected to be more than offset by a compression of imports resulting in a current account deficit of SDR 44 million (4.4 percent of GDP) compared with a program target of SDR 49 million (4.9 percent of GDP). Restrictive credit and monetary policies have, so far, contributed importantly to the adjustment process, and this policy stance needs to be continued in the period ahead. At the same time the monetary authorities would need to press ahead with their stated policy of reduced reliance on direct controls.

The authorities have so far fulfilled their committment to implement a flexible exchange rate policy; it is expected that from end-February 1983 to end-June 1984 the real effective rate would have depreciated by about 11 percent, thereby offsetting the real appreciation that had taken place since the last devaluation in September 1981. Partly as a result of this policy, there are indications of a resurgence in activity in export manufacturing and tourism. The authorities have also decided on important first steps which will ease the short-term cash flow difficulties of the sugar industry and intend to follow these up with a structural reform program to be finalized, in collaboration with the World Bank, by mid-year.

In the field of price policy one third of all items subject to price controls, set by Government, were completely removed from administrative control. Other administered prices and utility rates are also being adjusted to promote improved resource allocation and to generate more funds for investment. Import restrictions are being progressively reduced and the Government has undertaken to replace all remaining quota restrictions with tariffs by end-1984.

On wage policy a shift to a system of direct wage negotiations as from 1984/85, as provided for in the program, is to be postponed pending the establishment of an appropriate arbitration machinery and adequate safeguards for nonunionized workers. However, the authorities have undertaken to maintain wage increases in 1984/85 below the projected rate of inflation.

Despite the fiscal adjustment that has taken place over the past few years, the overall budget deficit, at about 8 1/2 percent of GDP, is still high and needs to be reduced considerably. In view of the planned export tax relief to the sugar industry, which the staff supports, action to reduce the deficit in 1984/85 would need to be intensified. Such action should involve measures to widen the tax base and to further reduce the growth of government outlays.

The balance of payments outlook remains basically as indicated in the first review. Even under conservative assumptions expected capital inflows will be sufficient to finance projected current account deficits. However, in order to provide for an increase in gross reserves and scheduled repurchases to the Fund, a combination of concessionary aid in excess of current levels and further adjustment measures will be required. The staff believes that with continued efficient economic management and the ongoing initiatives to improve project implementation, more concessionary assistance will be forthcoming. Adjustment policies will certainly need to be reinforced over the next few years, and the authorities should be encouraged to use all available adjustment mechanisms. Thus, wage restraint and continued exchange rate flexibility should complement a further tightening of demand management while direct measures to promote the expansion of tourism and nonsugar exports are continued. The authorities have reiterated their commitment to implement all additional adjustment measures as may be needed to achieve balance of payments viability over the medium term.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Mauritius has consulted with the Fund in accordance with paragraph 11 of the stand-by arrangement for Mauritius (EBS/83/78, Supplement 2, May 19, 1983) and paragraph 11 of the letter of September 30, 1983 annexed thereto in order to establish the performance criteria subject to which further purchases may be made by Mauritius for the remaining period of the stand-by arrangement.

2. The letter from the Minister of Finance of Mauritius dated March 1, 1984 shall be annexed to the stand-by arrangement for Mauritius and the letters of March 21, 1983 and September 30, 1983, shall be read as supplemented and modified by the letter dated March 1, 1984. Accordingly the performance criteria referred to in paragraph 4(a) of the stand-by arrangement relating to total bank credit and net credit to the Government shall be those specified in paragraph 9 of the letter dated March 1, 1984.

Table I. Mauritius: Central Government Revenue and Grants, 1980/81-1983/84

(In millions of Mauritian rupees)

	1980/81	1981/82	1982/83 Budget	1982/83 Prov. actual	1983/84 Budget	1983/84 Rev.
Taxes on income and profits	363	379	395	395	431	431
Individual	182	216	220	248	256	256
Corporate	181	163	175	147	175	175
Taxes on property	79	75	75	83	130	103
Estate land and gift	15	9	7	13	47	20
Land development	(--)	(--)	(--)	(--)	(30)	(5)
Campements	(--)	(--)	(--)	(--)	(7)	(5)
Other	(15)	(9)	(7)	(13)	(10)	(10)
Financial transactions	64	66	68	70	83	83
Registration fees	(61)	(64)	(65)	(67)	(72)	(72)
Mortgages, etc.	(3)	(3)	(3)	(3)	(3)	(3)
Land transfer	(--)	(--)	(--)	(--)	(8)	(8)
Domestic taxes on goods and services	360	408	506	498	615	631
Excises	237	263	286	277	280	277
Alcohol	(150)	(167)	(180)	(174)	(171)	(171)
Tobacco	(58)	(68)	(62)	(78)	(82)	(82)
Matches	(--)	(--)	(--)	(--)	(--)	(--)
Sugar milling	(8)	(11)	(14)	(14)	(15)	(12)
Miscellaneous	(21)	(17)	(30)	(11)	(12)	(12)
Taxes on services	68	79	80	76	88	88
Gambling	(43)	(50)	(45)	(45)	(50)	(50)
Tourism	(23)	(28)	(33)	(30)	(36)	(36)
Sugar brokerage	(1)	(1)	(2)	(2)	(2)	(2)
Taxes on use of goods	55	66	65	64	67	67
Business licences	(28)	(38)	(36)	(39)	(38)	(38)
Motor vehicles	(27)	(28)	(30)	(25)	(29)	(29)
Sales tax, goods	--	--	75	81	180	200
International trade taxes	987	1,079	1,316	1,412	1,630	1,578
Import duties	708	689	932	984	1,198	1,146
Customs duties	(649)	(584)	(620)	(649)	(844)	(782)
Stamp duties	(60)	(106)	(312)	(333)	(354)	(364)
Export duties	268	378	370	416	418	418
Travel tax	10	12	14	12	14	14
Other taxes-stamp duty	9	10	9	9	9	9
Total tax revenue	1,797	1,950	2,301	2,394	2,815	2,752
Nontax revenue	268	273	390	398	361	366
Rent, dividends, interest	129	158	255	260	236	237
Rent	(6)	(6)	(6)	(7)	(9)	(10)
Bank of Mauritius	(45)	(86)	(140)	(140)	(100)	(100)
Interest, royalties	(54)	(42)	(76)	(76)	(94)	(94)
Dividends	(24)	(25)	(33)	(38)	(33)	(33)
Fees, nonindustrial sales 1/	78	79	103	104	92	97
Fines and forfeits	7	8	8	8	8	8
Government pension fund	16	19	20	20	21	21
Other nontax revenue	37	9	4	6	4	3
Total revenue	2,064	2,223	2,691	2,792	3,176	3,118
Grants	14	68	132	20	103	77
Revenue and grants	2,078	2,291	2,823	2,812	3,279	3,195

Sources: Ministry of Finance; and staff estimates.

1/ Excluding revenue of public utilities operated by government departments.

Table II. Mauritius: Central Government Current Expenditure, 1980/81-1983/84

(In millions of Mauritian rupees)

	1980/81	1981/82	1982/83 Budget	1982/83 Actual	1983/84 Budget	1983/84 Rev.
Personal emoluments 1/	834	979	1,176	1,122	1,204	1,183
Traveling and transport	42	40	47	47	51	52
Interest	464	642	741	789	903	899
External 2/	201	333	405	364	329	336
Domestic 3/	263	309	336	425	575	563
Total subsidies and grants	468	520	500	500	465	473
Food subsidies 4/	203	230	200	200	120	120
Education subsidies	144	159	161	161	179	182
Secondary schools	(106)	(118)	(120)	(120)	(134)	(136)
University	(15)	(16)	(17)	(17)	(17)	(17)
Institute of education	(11)	(12)	(11)	(11)	(14)	(14)
Mahatma Ghandi institute	(10)	(11)	(12)	(12)	(13)	(13)
College of the air	(2)	(2)	(2)	(2)	(2)	(2)
Local authorities	108	119	126	126	152	156
Other	13	12	12	12	14	14
Total social security	153	180	240	240	295	279
National pension fund	117	142	201	201	230	230
Family allowance	21	19	20	20	16	15
Outdoor relief	16	18	19	19	22	24
Unemployment benefit fund	--	--	--	--	27	10
Public service pensions	117	142	160	160	170	185
Other 5/	296	314	308	301	337	314
Subtotal	2,373	2,817	3,171	3,158	3,426	3,385
Adjustment 6/	-59	-70	-73	-66	-58	-58
Total current expenditure 7/	2,314	2,747	3,098	3,092	3,368	3,327

Sources: Ministry of Finance; and staff estimates.

1/ Salaries, wages and overtime.

2/ Including charges on CFF and buffer stock financing facility.

3/ Net of interest paid to Consolidated Sinking Fund.

4/ From 1983/84 includes subsidy on potatoes as well as on rice and wheat flour.

5/ Mainly purchases of goods and services.

6/ Current expenditure on census, surveys and industrial promotion included in capital budget less current spending of public utilities operated Government departments.

7/ GFS basis.

MAURITIUS - Fund Relations 1/

(As of end of February 1984, unless otherwise indicated)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership status

(a)	Date of membership:	September 23, 1968
(b)	Status:	Article XIV

(A) Financial Relations

II. General Department		Millions of SDRs	Percent of quota
(a)	Quota:	53.6	100.0
(b)	Total Fund holdings of member's currency:	223.8	417.5
(c)	Fund credit:	170.2	317.5
	Compensatory financing facility (exports)	40.5	75.6
	Buffer stock financing facility	3.6	6.7
	Credit tranches - ordinary resources	31.1	58.0
	Credit tranches - SFF resources	64.6	120.5
	Credit tranche - enlarged access resources	30.4	56.7
(d)	Reserve tranche position	-- 1/	--
(e)	Current Operational Budget	--	--
(f)	Lending to the Fund:	--	--

III. Current Stand-by Arrangement

(a) Current stand-by

(i)	Duration:	May 18, 1983-August 17, 1984
(ii)	Amount:	49.50
(iii)	Utilization:	33.00
(iv)	Undrawn balance:	16.50

1/ The actual reserve tranche position is SDR 12,499.

(b) Previous stand-by arrangements:

Dates	Duration	Amount	Utilized
February 1978	12 months	7.97	7.97
October 1979	12 months	73.03	40.00
September 1980	12 months	35.00	35.00
December 1981	12 months	30.00	30.00

(c) Special facilities:

Compensatory financing facility (exports): April 1981 - 40.50
Buffer stock financing facility: January 1983 - 3.60

IV. SDR Department

(a) Net cumulative allocation:	15.7
(b) Holdings: Amount	0.2
Percent of net cumulative allocations	(1.69)
(c) Current Designation Plan:	--

V. Administered Accounts (amounts)

(a) Trust Fund Loans	
(i) Disbursed	9.1
(ii) Outstanding	8.2
(b) SFF Subsidy Account	
(i) Donations) to Fund	--
(ii) Loans)	--
(iii) Payments by Fund	1.5

VI. Overdue Obligations to the Fund: none

B. Nonfinancial Relations

VII. Exchange rate arrangement: Since February 28, 1983 the Mauritian rupee, which previously was pegged to the SDR at Mau Rs 12 = SDR 1, has been pegged to a tailored basket of currencies. On February 28, 1983 SDR 1 was equivalent to Mau Rs 13.37.

VIII. Last Article IV consultation and stand-by or extended arrangement review.

Last Article IV consultation

Mauritius is on the standard 12-month cycle. The last Article IV Consultation with Mauritius was held in January/February 1983. The staff report along with Mauritius' request for use of Fund resources (EBS/83/78) was discussed by the Executive Board on May 18, 1983 and the decisions were:

"(i) 1983 Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Mauritius, in the light of the 1983 Article IV consultation with Mauritius conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mauritius continues to maintain an exchange system which is virtually free of restrictions on payments and transfers for current international transactions.

(ii) Stand-By Arrangement

1. The Government of Mauritius has requested a stand-by arrangement in an amount equivalent to SDR 49.5 million for a period of 15 months from May 18, 1983 through August 17, 1984.

2. The Fund approves the stand-by arrangement attached to EBS/83/78, Supplement 1, and waives the limitation in Article V, Section 3(b)(iii)."

First review of current stand-by — November 23, 1983

"1. Mauritius has consulted with the Fund in accordance with paragraph 11 of the stand-by arrangement for Mauritius (EBS/83/78, Supplement 2 of May 19, 1983) in order to reach understandings subject to which further purchases may be made by Mauritius under the stand-by arrangement.

2. The letter from the Minister of Finance and the Governor of the Bank of Mauritius of September 30, 1983, shall be annexed to the stand-by arrangement for Mauritius, and the letter of March 21, 1983, attached to the stand-by arrangement, shall be read as supplemented by the annexed letter. Accordingly, paragraphs 2, 4(a), and 4(b) of the stand-by arrangement are amended to read:

'2. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 8.25 million until November 14, 1983, SDR 24.75 million until January 14, 1984, SDR 33.0 million until April 14, 1984, and SDR 41.25 million until July 14, 1984.'

'4(a) during any period in which:

(i) the limit on total domestic credit described in paragraph 10 of the attached letter dated March 21, 1983, and in paragraph 5 of the annexed letter of September 30, 1983, or

(ii) the limit on net credit by the banking system to Government as described in paragraph 10 of the attached letter dated March 21, 1983, and in paragraph 5 of the annexed letter of September 30, 1983, or

(iii) the limit on contracting, guaranteeing, and drawing down of government and government-guaranteed nonconcessional foreign financing as described in paragraph 10 of the attached letter dated March 21, 1983, and in paragraph 9 of the annexed letter of September 30, 1983,

is not observed; or

4(b) during any period after January 31, 1984, until suitable performance clauses with regard to total bank credit and net credit to the Government, as defined in paragraph 10 of the attached letter dated March 21, 1983, and in paragraph 5 of the annexed letter of September 30, 1983, have been established in consultation with the Fund as contemplated in paragraph 12 of the attached letter dated March 21, 1983 and in paragraph 11 of the annexed letter of September 30, 1983, or if such clauses, having been established, are not observed; or'"

IX. Technical Assistance

(a) Banking (CBD)

Mission on banking legislation, November 1982

Research Advisor to Governor, Bank of Mauritius, March 1981-September 1983

Advisor to the Governor, September 1983-August 1984

(b) Fiscal (FAD and LEG)

Advisor on introduction of sales tax, on excise duties, and planning for unified revenue service, November 1980-July 1981

Staff visit to review sales tax legislation, December 1980

Budget Advisor, January 1981-July 1983

Staff visit on tax administration legislation, June 1981

Advisor on implementation of sales tax and customs and excise matters, October 1982-August 1983

Advisor on establishment of Unified Revenue Board, January-December 1984

Advisor on customs tariff rationalization, January-June 1984

Corporate taxation policy and legislation mission, February 1984

(c) Other (Bureau of Statistics)

General statistics economic mission (planned), April 1984

X. Resident Representative/Advisor: none

MAURITIUS - Relations with the World Bank Group

(In millions of U.S. dollars)

Amounts outstanding as of December 31, 1983 1/	Total commitments	Disbursed	Undis-bursed
Total of completed projects 2/	64.04	64.04	--
IBRD	43.62	43.62	--
IDA	20.42	20.42	--
Total projects in execution (IBRD)	142.79	35.01	62.78
Ports (2 loans)	13.60	12.54	1.06
Development bank (2 loans)	11.59	1.67	9.92
Education	15.20	8.17	7.03
Power	15.00	6.02	8.98
Urban rehabilitation	15.00	6.01	8.99
Water supply	12.20	0.60	11.60
Highways	15.20	--	15.20
Second Structural Adjustment Loan (SAL II) 3/	40.00	--	40.00
Technical assistance 3/	5.00	--	5.00
Total completed and in execution	206.83	99.67	62.78
IBRD	186.41	79.25	62.78
IDA	20.42	20.42	--
Repayments	17.49	17.49	
IBRD	17.26	17.26	
IDA	0.23	0.23	
Held by third parties (IBRD)	--	--	
Sold to third parties	4.95	4.95	
Repayments	4.95	4.95	
Total debt to Bank Group	189.34	82.18	107.16
IBRD	169.15	61.99	107.16
IDA	20.19	20.19	--
IFC investments: tourism (loan) 4/	0.04	0.04	--

Source: World Bank.

1/ Prior to exchange adjustments.

2/ Seven loans and five credits have been fully disbursed. Net of IBRD cancellations of US$2.29 million.

3/ Effective March 7, 1984.

4/ Net holdings, i.e., gross commitment of US$0.6 million less cancellations, terminations, repayments, and sales of US$0.56 million.

Washington, March 1, 1984

Dear Mr. de Larosiere,

1. In our letter of September 30, 1983 we outlined the targets and the policies to be pursued in 1983/84 (July-June), the final 12 months of a program supported by the current 15-month stand-by arrangement. In this letter we review developments during the first six months of this program year and detail our policy stance during the remaining program period. To facilitate the process of financial and structural adjustment begun in 1979, the Government of Mauritius intends to request another stand-by arrangement at the completion of the current one and hopes that at that time the Fund will give favorable consideration to the request.

2. Economic growth in 1983/84 is unlikely to reach the level envisaged in the program; latest projections indicate that real GDP will increase by less than 2 percent, compared with a target of 3 percent originally envisaged, largely because of a shortfall in sugar production and slower-than-anticipated growth in other sectors. The average rate of inflation for calendar year 1983 was 5 1/2 percent, as against 11 percent in 1982. Indications are that the target of 9 percent average inflation in 1983/84 will be achieved. The average rate of unemployment, estimated at nearly 20 percent in 1983, continues to be of major concern to the Government.

3. The evolution of central government finances in the first half of 1983/84 was more or less in line with expectations. Tax revenue slightly exceeded the target, as higher receipts from the sales tax and import stamp duties more than offset lower-than-projected receipts from customs duties. There was some shortfall in the category of nontax revenue, reflecting in part lower external grants. Current expenditures were 5 percent below program projections, while the shortfall in capital outlays was 17 percent, reflecting delays in finalizing arrangements with donor agencies.

4. For 1983/84 as a whole, both government revenue and expenditure are expected to be about 3 percent below budget. A small reduction in the government establishment and the postponement in the filling of certain government posts will result in a saving of about 2 percent of the wage bill compared with the budget estimate. Expenditures on materials and supplies are to be compressed by more than 10 percent from budget allocations. The subsidy on rice and wheat flour which was budgeted at Mau Rs 100 million will be maintained close to that level notwithstanding the appreciation of the US dollar and the higher contract prices than expected previously. For the 1984/85, the Government will introduce a scheme which will involve reducing the number of beneficiaries of the subsidy to only the needy and more vulnerable

sections of the population. The objective is to maintain the amount of subsidy in the budget to no more than Mau Rs 100 million. Capital outlays in 1983/84 are projected to be about 13 percent below the budgeted level. The net effect of revisions to expenditure and revenues is that the overall fiscal deficit is now projected at Mau Rs 1,104 million (8.3 percent of GDP), compared with the original program target of Mau Rs 1,200 million (9 percent of revised GDP). Partly because of a shortfall in external grants, current budgetary operations are expected to show a small deficit, compared with a program target of near-balance. Reflecting the lower overall deficit, bank financing of the Government could turn out to be below the level envisaged in the budget, depending upon disbursements of external concessionary assistance.

5. Legislation for the establishment of a Unified Revenue Board was approved in December 1983. The Board, whose objective is to plan and coordinate collection of customs and excise duties, as well as of income and sales taxes, is now operating on a limited basis with the aid of technical assistance provided by the Fund. It is expected to be fully operational by April 1, 1984. Originally, the Government had undertaken to establish an Income Tax Tribunal before January 1, 1984 to hear and determine expeditiously taxpayers' objections on income tax assessments. After further consideration, the Government has decided to set up a tax tribunal that will deal with objections on all tax matters. This body is expected to be established by July 1, 1984. Government has established a Management Audit Bureau to monitor the use of public funds by government departments and parastatal bodies.

6. The Government is committed to a further significant reduction in the overall fiscal deficit and in bank financing of the budget in 1984/85. Preparations for the 1984/85 budget have recently begun, but detailed quantitative projections have not yet been finalized. In order to provide for an increase in capital expenditures, the 1984/85 budget will aim at achieving a surplus on the Government's current operations.

7. With regard to the balance of payments, the program for 1983/84 aimed at a current account deficit of 4.5 percent of GDP. Projections based on the first six months of the fiscal year indicate that this target is likely to be achieved. On the capital account, disbursements of concessionary loans are expected to be somewhat less than programmed. The Government has begun negotiations for a Eurocurrency loan for the equivalent of up to US$50 million, of which US$40 million is expected to be drawn by the end of the current fiscal year. With these inflows, the overall deficit in 1983/84 would be SDR 3 million. The program had envisaged an overall deficit of SDR 20 million, based on Eurocurrency borrowing equivalent to SDR 15 million.

8. On the basis of present policies, and using conservative estimates of sugar exports, the balance of payments deficit on current account is projected to be about 4 percent of GDP in 1984/85. Capital inflows in the pipeline will be insufficient to finance this current account deficit as well as to cover debt service obligations (including Fund repurchases) and to maintain official reserves at the equivalent of about four weeks' imports. The financing gap in 1984/85 is now projected to be about SDR 45-55 million. To help fill this gap, the Government is attempting to raise a further SDR 10 million in concessionary finance. The remainder of the financing gap will be closed by further adjustment measures. If the extra concessionary aid does not materialize, the Government is committed to taking whatever additional measures are necessary to ensure that the financing gap is closed.

9. With regard to monetary policy, credit ceilings have been established for the remainder of the program period as follows: total domestic credit, which amounted to Mau Rs 8,144 million on December 31, 1983, will not exceed Mau Rs 8,265 million on March 31, 1984 and Mau Rs 8,710 million on June 30, 1984. Within the above limits, net credit to the Government, which amounted to Mau Rs 5,347 million on December 31, 1983, will not exceed Mau Rs 5,330 million on March 31, 1984 and Mau Rs 5,627 million on June 30, 1984. The ceilings on total domestic credit and net credit to the Government are defined to include credit extended by the domestic banking system and any budgetary use of nonconcessionary foreign borrowing in the 1-10 year maturity range. Bank financing of the Central Government may turn out to be somewhat below earlier target levels, thus increasing credit availability to the private sector. In extending credit to the private sector, the banks have been requested to give priority to the productive sectors, particularly the sugar industry and the EPZ.

10. At present the Bank of Mauritius administers the credit program through subceilings on private sector credit expansion for individual banks. This procedure has introduced rigidities in monetary management and reduced interbank competition for deposits. By July 1984 the Bank of Mauritius intends to move to a more flexible method of credit control. With regard to interest rates, the existing floor on time deposit rates will be removed as from March 31, 1984. Following the recent reduction in the treasury bill rate from 11 percent to 10 percent, the general structure of interest rates has moved down. Despite this, deposit and lending rates remain positive in real terms. The authorities will keep interest rate policy under review and are prepared to take prompt action to ensure that real deposit interest rates remain positive.

11. The Government intends to complete by end-1984 the import liberalization program begun in 1983. By end-December 1983 22 items

previously subject to quota restrictions were completely liberalized. Twenty-eight items, which are completely restricted as a measure of protection for local industries, were to become subject, by end-December 1983, to quotas of not less than 25 percent of estimated total demand in 1982. This partial liberalization will now be implemented by mid-March 1984, and details of the quotas will be communicated to the Fund by March 15, 1984, along with a list of those imports that remain completely restricted. Imports that remained subject to quota restrictions at end-December 1983 were equivalent to roughly 11 percent of total c.i.f. imports in 1981. Almost all of these are restrictions for balance of payments purposes, which will be phased out in three stages during 1984. By end-March 1984 the quotas on controlled goods presently carrying import duty at the rate of 60 percent and above (representing roughly 35 percent of the 1981 value of presently controlled imports) will be removed. By end-June 1984 controlled goods presently carrying import duty at the rate of between 30 and 60 percent (representing roughly 35 percent of the 1981 value of presently controlled imports) will be freed of quota restrictions. By end-December 1984 controlled goods with import duties of less than 30 percent (representing roughly 20 percent of the 1981 value of presently controlled imports) will be freed of quota restrictions. The remaining quota restrictions, applied for the protection of local industries, will be reviewed and replaced by an appropriate tariff structure during 1984. The items in this category to be liberalized by end-June 1984 will be communicated to the Fund by mid-July 1984. With Fund technical assistance, the Ministry of Finance plans to rationalize the present system of tariffs early in fiscal year 1984/85.

12. The Government has continued to reduce price controls during 1983/84. Twelve imported commodities for which maximum selling prices were set by the Ministry of Trade and Shipping have so far been freed of control. By January 1, 1984, 22 imported goods remained subject to maximum prices. This list will be further reduced during the remainder of the program period and details of the commodity groups to remain subject to maximum prices after June 30, 1984 will be sent to the Fund by March 31, 1984. In regard to domestically produced goods, in late 1983 maximum prices on 12 commodities were abolished, as envisaged in the program. Maximum prices now apply to 28 domestically produced items, comprising mainly food, some other basic commodities, and a few products of firms operating under conditions of monopoly or oligopoly. Maximum prices for some items on this list will be abolished before end-June 1984; details will be sent to the Fund by March 31, 1984. It is the Government's policy to adjust the remaining administered prices promptly in response to cost increases, so as to maintain adequate rates of return to producers. In consultation with the World Bank, the Ministry of Energy has been adjusting certain utility charges, e.g., irrigation and water rates, to promote improved resource allocation.

13. Negotiations on the 1984/85 wage round will begin in May 1984. In deciding on the size of the wage adjustment for the civil service, the Government will take into consideration the need to restrain current expenditures with a view to reducing further the overall deficit. The Government views wage restraint as vital to improving competitiveness and employment prospects in the private sector. The Government believes that an abrupt move to wage negotiations at the level of firm or industry will create unnecessary industrial unrest. Therefore the Government proposes to continue with the present system of minimum wage awards at the national level. For 1984/85 wage policy will aim at limiting wage increases at the national level to well below past and prospective inflation.

14. Over recent years the financial condition of the sugar industry, which still accounts for 60 percent of our export earnings, has deteriorated due to low export prices, high costs of production, and increases in export taxes. Having considered the recent report of the Commission of Enquiry established in early 1983 to study the industry and make recommendations for its long-term viability, the Government is preparing a comprehensive plan aimed at stabilizing the industry's costs of production, restoring its profitability and investment levels, and rationalizing its operations on a national scale. The details of the plan will be submitted to the Fund not later than end-March 1984.

15. On February 28, 1983 the peg for the Mauritian rupee was changed from the SDR to a basket of currencies more representative of the country's trade pattern. In the subsequent ten months through December 31, 1983 the rupee depreciated by about 5 percent in nominal and 8 percent in real terms, thereby offsetting most of the effective appreciation that had taken place since September 1981, when the rupee was last devalued. The Government will continue to pursue a flexible exchange rate policy with a view to improving the competitiveness of the economy. The financial position of the sugar industry, the EPZ, and the tourism industry will be prime factors in exchange rate management.

16. Under the program a ceiling of US$50 million was established on the Government's contracting and guaranteeing of external nonconcessionary loans in the 1-10 year maturity range through end-June 1984; no loans were allowed in the 1-5 year maturity range. So far no loans in the 1-10 year maturity range have been contracted or guaranteed. During the year ending June 1984 the Government will limit the drawing on nonconcessionary loans to US$40 million, which is about the level of amortization payments falling due in 1983/84.

17. During the program period the Government does not intend to introduce any multiple currency practice, impose any new, or intensify any existing, restrictions on payments and transfers for current

international transactions, or introduce any new, or intensify any existing, restrictions on imports for balance of payments reasons, or enter into any bilateral payments agreements with Fund members.

18. The Government of Mauritius believes that the policies set forth in this letter are adequate to meet the objectives of its program, but will take any further measures that may become necessary to ensure the achievement of the program targets. The authorities will remain in close contact with the Fund staff, will provide the Fund with all the data necessary to monitor the program's results, and will consult with the Fund in accordance with Fund policies on such consultations.

Very truly yours,

/s/

Seetanah Lutchmeenaraidoo
Minister of Finance