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EBS/83/78

CONFIDENTIAL

April 20, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Mauritius - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Mauritius and its request for a stand-by arrangement equivalent to SDR 49.5 million. Draft decisions appear on page 29. 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. Abu-zobaa, ext. 75657.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Staff Representatives for the 1983 Consultation with Mauritius

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

Approved by Oumar B. Makalou and S. Kanesa-Thasan

April 19, 1983

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I. Introduction

The 1983 Article IV consultation discussions with Mauritius were held in Port Louis during the period January 31-February 11, 1983. Discussions on a new stand-by arrangement covering the remainder of FY 1982/83 (July-June) and FY 1983/84 took place at the same time. 1/ The principal Mauritian representatives were Mr. Paul R. Bérenger, Minister of Finance; 2/ Mr. K. Ruhee, Minister of Planning and Economic Development; and Mr. I. Ramphul, Governor of the Bank of Mauritius. The mission also met with the Ministers of Foreign Affairs, Labor, and Agriculture, and the head of the mission was received by the Prime Minister, Mr. Aneerood Jugnauth. The staff representatives were Messrs. Abu-zobaa (head), Gibson, Mortimer-Lee, Hicklin (all AFR), Lee (ETR) and Ms. Buggs (secretary-AFR).

In the attached letter, dated March 21, 1983 the Government of Mauritius requests a stand-by arrangement for a period of 15 months in an amount equivalent to SDR 49.5 million, representing 122.2 per cent of quota. Of this amount, SDR 2.63 million would be from the Fund's ordinary resources, and SDR 46.87 million from borrowed resources under the enlarged access policy. As of February 28, 1983 the Fund's holdings of Mauritian rupees 3/ totaled SDR 193.56 million (477.9 per cent of quota); excluding purchases under the compensatory financing facility and the buffer stock financing facility of SDR 44.11 million (108.9 per cent of quota), the Fund's holdings amounted to SDR 149.45 million (369.0 per cent of quota).

The proposed stand-by arrangement, if fully utilized, would increase the Fund's holdings of Mauritian rupees (after taking into account scheduled repurchases) to 526.3 per cent of quota (429.9 per cent of quota excluding holdings under the compensatory and buffer stock financing facilities). A waiver of the limitations in Article V, Section 3(b)(iii) would be required. The proposed phasing of purchases, as well as scheduled repurchases, are summarized in Table 1. An initial purchase of SDR 8.25 million (16.7 per cent of the total amount of the proposed stand-by) would be made available following the Executive Board's approval of the Mauritian request; five additional purchases in equal amounts would be made available beginning July 15, 1983 subject to the observance of quarterly performance criteria, and the completion of two reviews. A summary of Mauritius' relations with the Fund is provided in Appendix III.

1/ Targets for the entire 1982/83 were established in the context of the mid-term review of the expired stand-by arrangement (EBS/82/182 of October 7, 1982).

2/ Mr. Bérenger resigned in March 1983; the Prime Minister, who had temporarily taken the Finance Ministry portfolio, has reaffirmed the Government's commitment to the attached letter of intent.

3/ At end-February 1983 Mau Rs 12 = SDR 1. Hereafter, Mauritian rupees will be abbreviated to Rs.

Table 1. Mauritius: Schedule of Proposed Purchases and Repurchases During the Proposed Stand-By Arrangement, May 1983-Expiration of the Arrangement

(In millions of SDRs)

	May 15-July 14, 1983	July 15-October 14, 1983	Oct.15, 1983-January 14, 1984	January 15-April 14, 1984	April 15-July 14, 1984	July 15-Expiration of SBA
Proposed purchases under stand-by arrangement	8.25	8.25	8.25	8.25	8.25	8.25
Ordinary resources	2.63	--	--	--	--	--
Borrowed resources	5.62	8.25	8.25	8.25	8.25	8.25
Repurchases	2.50	2.99	6.38	4.87	10.45	0.87
Of which: CFF	--	--	--	--	5.06	--
Net purchases	5.75	5.26	1.87	3.38	-2.20	7.38
Total Fund holdings of Mauritian rupees (end of period)	197.45	202.71	204.58	207.96	205.76	213.14
In per cent of quota	487.5	500.5	505.1	513.5	508.0	526.3
Holdings excluding CFF, and bufferstock financing facility	378.6	391.6	396.2	404.6	399.1	429.9

Source: IMF, Treasurer's Department.

To date, Mauritius has received 5 IDA credits and 15 IBRD loans, totaling US$148.5 million, of which US$94.2 million has been disbursed and US$13.3 million has been repaid. In May 1981 a first Structural Adjustment Loan (SAL) of US$15 million was approved; the loan was fully disbursed. Discussions between the Mauritian authorities and the Bank are at an advanced stage in respect of a second SAL of US$40 million; a Bank appraisal mission visited Mauritius in January/February 1983. The Bank is organizing a new Consultative Group of potential donors. Mauritius' relations with the World Bank Group are presented in Appendix IV.

II. Background

1. Salient features of the economy

Mauritius is an island grouping in the Indian Ocean; the principal island is densely populated, with about 950,000 inhabitants (compared with fewer than 50,000 in the rest of the country) and an area of about 2,000 square kilometers. Per capita income in 1982 amounted to about SDR 860. The IBRD considers basic needs to be extensively covered; adult literacy is over 80 per cent, and life expectancy is 65 years.

The economy is heavily dependent on sugar, which is grown on 90 per cent of the arable land and accounts for about 60 per cent of merchandise exports. Of total sugar exports, an annual quota of around 500,000 tons, or about two thirds the 1982/83 output of 690,000 tons, is shipped to the EC under the guaranteed price scheme of the Lomé Convention. While occasionally the EC price has been lower than the free market price, in general the EC guarantee has implied a preferential price. Thus, in 1982/83 the EC price was Rs 4.38/kg., compared with the current world price of Rs 1.56/kg, implying a subsidy equivalent to SDR 118 million, or 35 per cent of estimated exports. The dominance of sugar production in the economy is partly due to greater resistance of sugar cane than substitute crops to the effects of cyclones, which are a perennial threat in the area.

In recent years Mauritius has made progress toward export diversification. Export earnings from the Export Processing Zone (EPZ) have risen from 24 per cent to 33 per cent of total exports during 1978/79-1982/83. Further progress, particularly in regard to the garment industry, is hampered by trade restrictions in the major markets of the EC, and the United States. The development of tourism, which provides 9 per cent of total foreign exchange earnings, remains a priority objective. An important constraint on Mauritius' economic development is high transportation costs arising from its geographic isolation, implying that future output expansion rests with the production of goods with high value added content.

Unemployment, while difficult to measure precisely, is high. By the end of 1982 registered unemployment reached 75,000, or about 20 per cent of the labor force. A reduction in unemployment, in the context of broad internal and external financial stability, has been a principal goal of economic policy.

2. Overview of major trends

Since late 1979 Mauritius, in close cooperation with the Fund, has been implementing an adjustment program supported by three successive stand-by arrangements. The program aimed at reducing the internal and external imbalances caused by earlier expansionary policies induced by the sugar export boom of the mid-1970s. Despite unforeseen adverse external circumstances, including a major cyclone and a deterioration in the terms of trade, considerable progress has been made toward adjustment, particularly since 1981/82 (Table 2 and Chart 1). The conservative demand management policies pursued by the Government, as reflected in a decline in the overall fiscal deficit and the active use of interest rate and exchange rate policies, have contributed to a sharp reduction in the rate of inflation and in the external current account deficit (Table 3). Although more adjustment is still required, the Government has been attempting to restructure the economy by implementing liberal, outward looking policies based on export led growth. In support of this effort the World Bank has granted Mauritius a Structural Adjustment Loan in May 1981, and discussions on a second loan are at an advanced stage.

III. Recent Economic Developments

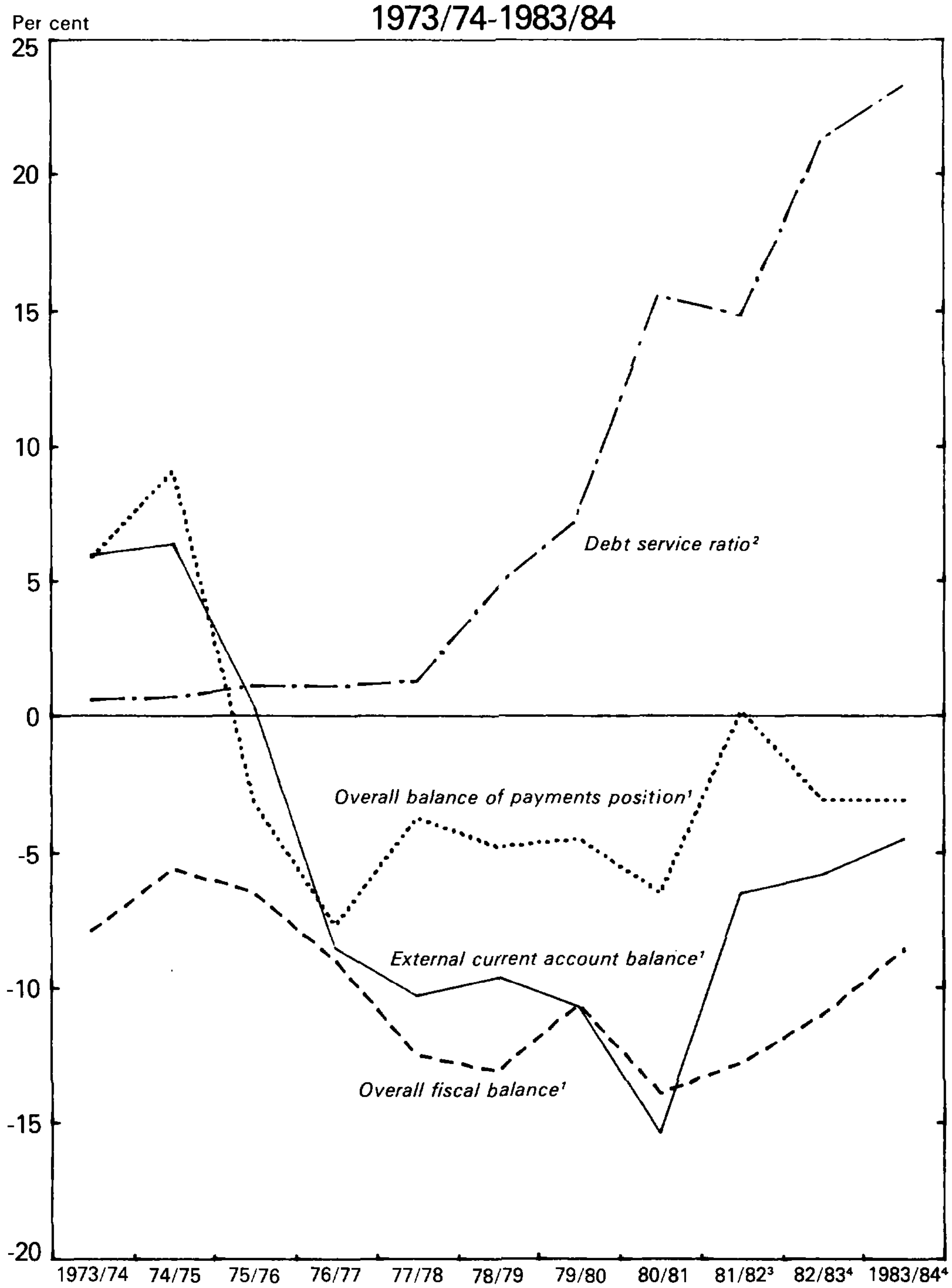
After declining substantially in 1980/81, real GDP recovered in the following two years, rising by an annual average of about 6.5 per cent. Sugarcane production rose in 1981/82 and 1982/83 to around the level of the mid-1970s. Nonsugar agricultural output also rose slightly and exceeded the level of the late 1970s. Nonsugar manufacturing output expanded by 10 per cent in 1981/82, but registered only a small increase thereafter due to the tightening of import quotas in major industrial countries and the world recession. On the expenditure side, total consumption, after increasing sharply in relation to GDP in 1980/81, rose at slower pace in the following two years, averaging 83 per cent of GDP, which is the level observed in late 1970s. The burden of adjustment fell mostly on investment expenditure with the share of gross fixed capital formation in GDP declining steadily in recent years to an estimated 20 per cent in 1982/83. The resource gap declined from 14.6 per cent of GDP in 1980/81 to an estimated 4.5 per cent in 1982/83.

In recent years post-tax export proceeds from sugar have grown by less than costs, thereby squeezing the profitability of the industry. The slower growth of export proceeds has occurred both as a result of the aforementioned reduced volume, and falling prices for that portion of exports disposed of on the free market. In 1982 the Government established a Sugar Enquiry Advisory Commission to investigate problems confronting the sugar industry. The Commission, which is fully independent, is scheduled to present its draft report by September 1983. The Commission is expected to comment, in particular, on the structure and level of taxation of the industry, the scope for increasing the efficiency of producers, the feasibility of alternative or supplementary crops, and the nature of future assistance to be provided to the industry.

CHART 1

MAURITIUS

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1973/74-1983/84



Sources: Ministry of Finance; Bank of Mauritius and staff estimates.
[1]Percentage with respect to GDP at current market prices.
[2]Debt service payments as a percentage of exports of goods and services.
[3]Preliminary.
[4]Projections.

Table 2. Mauritius: Selected Economic and Financial Indicators, 1979/80-1982/83

	1979/80	1980/81	1981/82 Program	1981/82 Prov. actual	1982/83 Program	1982/83 Proj.
	(Annual per cent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices 1/	1.2	-7.6	5.0	6.6	5.5	6.4
GDP deflator 1/	20.8	19.4	18-20	10.5	7.5	6.6
Consumer prices	33.0	26.5	25.0	13.4	12.0	8.5
External sector (on the basis of SDRs)						
Exports, f.o.b.	7.6	-6.3	14.6	16.3	6.0	-2.4
Imports, c.i.f.	8.6	11.9	1.0	-13.6	8.4	2.6
Non-oil imports, c.i.f.	3.7	12.2	...	-18.2	9.5	4.9
Terms of trade (deterioration -)	-15.3	-5.3	-6.8	6.7	...	1.4
Nominal effective exchange rate (depreciation -)	-18.8	-6.0	...	-8.3	--	--
Real effective exchange rate (depreciation -)	-5.0	7.8	...	-5.9	--	2.0
Government budget						
Revenue, excluding grants	27.8	14.0	21.9	7.7	21.3	23.9
Total expenditure 2/	17.8	24.5	19.5	9.1	13.9	13.4
Money and credit						
Domestic credit 3/	26.5	20.1	11.5	14.5	17.4	20.1
Government 3/	38.6	16.9	10.0	15.3	22.9	24.3
Private sector	13.6	18.9	19.5	13.4	10.0	14.3
Money and quasi-money	14.3	8.6	12.3	18.0	15.0	18.2
Interest rate (annual rate one-year time deposit)	10.0	10.0	...	12.25	12.25	12.25
	(In per cent of GDP) 4/					
Central government savings	-0.6	-2.5	-1.8	-4.2	-2.2	-2.4
Central government budget 2/ deficit						
Excluding grants	-10.7	-14.1	-13.4	-13.4	-12.0	-11.4
Including grants	-10.6	-13.9	-13.1	-12.8	-11.0	-10.9 6/
Domestic bank financing 3/	7.8	5.3	2.6	4.0	6.1	6.5
Foreign financing 3/	2.6	6.1	9.9	7.1	3.1	2.1
Gross domestic investment	24.9	23.3	...	23.1	...	21.6
Gross domestic savings	17.3	10.4	...	14.6	...	17.2
External current account deficit						
Excluding transfers	12.1	17.4	15.2	8.1	8.5	8.8
Including transfers	10.7	15.4	13.0	5.9	6.5	6.5
External debt (preliminary) 5/	23.0	29.9	37.7	38.8	38.6	36.1
Inclusive of use of Fund credit	30.0	42.3	51.3	53.8	53.2	51.3
Debt service ratio (in per cent of exports of goods and services, including Fund)	7.6	15.5	15.0	14.7	21.3	21.2
Interest payments (in per cent of exports of goods and services)	5.0	9.2	...	9.3	...	10.1
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	-45.0	-60.0	-30.0	-2.0	-28.0	-31.0
Gross central bank reserves (months of imports)	0.9	0.7	0.5	1.1	0.8	0.8

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

1/ At factor cost.
2/ Data exclude extrabudgetary costs of rice and wheat subsidies, in respect of which in 1981/82 and 1982/83 exchange losses of Rs 57 million and Rs 46 million, respectively, were borne by the Bank of Mauritius.
3/ For performance criteria purposes, Eurocurrency loans for Mauritius are treated as domestic bank financing.
4/ As per cent of revised GDP figures.
5/ At end of fiscal year.
6/ A target of 8.5 per cent is established for 1983/84.

Table 3. Mauritius: Principal Indicators of Economic Trends, 1977/78-1982/83

	1977/78-1979/80 Average	1980/81	1981/82 Program	1981/82 Actual	1982/83 Program.	1982/83 Est.
			(Annual per cent change)			
Real GDP	3.2	-7.6	5.0	6.6	5.5	6.4
Consumer price index	17.0	26.5	25.0	13.4	12.0	8.5
			(Per cent of GDP)			
Deficits 1/						
Overall fiscal	12.1	13.9	13.1	12.8	11.0	10.9
External current account	9.8	15.4	13.0	5.9	6.5	6.5
			(Level)			
Overall fiscal (millions of Rs)	835	1,294	1,419	1,388	1,366	1,356
External current account (millions of SDRs)	86.3	143	123	56	67	67

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

1/ GDP data have been recently revised. Program ratios have been adjusted to reflect the revised series; for the purpose of comparison absolute amounts of the deficits are presented.

In May 1981 the World Bank approved a US$15 million Structural Adjustment Loan for Mauritius. Under the program, the public sector investment program (PSIP) was restructured and scaled down, and policies were formulated in the areas of industry, agriculture, tourism, energy, and debt management (Appendix V). The Bank has indicated that the Government fulfilled most of the obligations under SAL I, and, although some delays were encountered, the remaining measures are now being implemented. In particular, studies of industrial incentives are currently under way, and measures to reform inefficient parastatals have been formulated.

Since 1977 annual tripartite negotiations between the Government, private employers, and labor unions have determined national wage increases for all sectors of the economy. Wage increases take effect from July of each year and are guided by developments in the cost of living over the preceding 12-month reference period. Wage increases of 13.6 per cent in mid-1981 and 6.5 per cent in mid-1982 were made with reference to inflation rates in each of the preceding 12 month periods averaging 26.5 per cent and 13.4 per cent, respectively; real wages have declined significantly since 1978/79, even after taking into account merit increases averaging about 3 per cent per annum.

Registered unemployment has shown a threefold rise between mid-1979 and end-1982 to about 75,000, or 20 per cent of the estimated labor force. These figures may have been distorted, however, by the announcement of plans for an unemployment benefit scheme. A 1981 survey indicated that 32 per cent of the registered unemployed worked for at least one day in the previous two weeks; the official estimates indicate that the number of unemployed was between 50,000 and 55,000 (15-16 per cent of the labor force) in 1982.

The rate of inflation, as measured by the consumer price index, has been reduced from an average of 26.5 per cent in 1980/81 to a projected 8.5 per cent in 1982/83 owing to a number of factors. The high inflation of 1980/81 occurred in the wake of the depreciation in the rupee in late 1979, and high wage settlements. Since mid-1981, wage policy has sought to support the goals of adjustment, and wage awards became more restrained. In addition to the tight demand management policies that have been pursued in recent years, higher interest rates may have also contributed to reducing inflation, firstly, by inducing traders to reduce inventories; and secondly, by encouraging a large shift toward holding financial assets, as evidenced by the growth of quasi-money.

During the period 1980/81-1982/83 the overall fiscal deficit declined from 13.9 per cent of GDP in 1980/81 to 12.8 per cent in 1981/82 and is projected at 10.9 per cent in 1982/83 (Table 4). This progress has been achieved through measures designed to restrain expenditure and maintain the share of non-grant revenues in GDP. The latter was achieved despite a decline in corporate income taxes associated with lower profits and a reduction in sugar export duty deemed necessary to alleviate the financial burden of the hard-pressed sugar industry. Principal revenue measures taken included a progressive increase in the stamp duty, covering about 70 per cent of imports, from 2 per cent to 12 per cent; the reintroduction of import duties on a number of food items; a 10 per cent surcharge on almost all taxes; and the introduction of a sales tax on goods in January 1983. At the same time, total expenditure and net lending declined from 36.3 per cent of GDP in 1980/81 to an estimated 33.7 per cent in 1982/83; the major adjustment was in capital expenditure and net lending, which remained stable in nominal terms. This reduced share is in recognition that the scale of the public sector investment program (including some make-work projects) undertaken following the sugar boom was not compatible with the reduced availability of resources and the objective of reducing the large fiscal deficit. The share of recurrent expenditure in GDP has been kept relatively stable at about 25 per cent.

Table 4. Mauritius: Central Government Operations, 1980/81-1983/84

(In millions of rupees)

	1980/81	1981/82	1982/83 Budget	1982/83 Revised est.	1983/84 Program
			(In millions of rupees)		
Total revenue and grants	2,078	2,291	2,823	2,816	...
Of which: tax revenue	(1,796)	(1,950)	(2,301)	(2,313)	...
Total expenditure	3,372	3,679	4,189	4,172	...
Current	(2,314)	(2,747)	(3,098)	(3,112)	
Capital	(1,058)	(932)	(1,091)	(1,059)	...
Overall deficit	-1,294	-1,388	-1,366	-1,356	-1,200
Financing					
External (net) 1/	566	774	387	265	...
Domestic (net)	728	614	979	1,091	...
Of which: banking system 1/	(496)	(438)	(754)	(803)	...
			(In per cent of GDP)		
Total revenue and grants	22.4	21.1	22.8	22.7	...
Total expenditure	36.3	33.9	33.8	33.7	
Current	(24.9)	(25.3)	(25.0)	(25.1)	...
Capital	(11.4)	(8.6)	(8.8)	(8.5)	...
Overall deficit	13.9	12.8	11.0	10.9	8.5

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

1/ For performance criteria purposes, gross Eurocurrency borrowing is aggregated with domestic bank finance.

The 1982/83 budget outturn, as measured by the overall fiscal deficit, is likely to conform to the program targets. Nearly two thirds of the way through the fiscal year, expenditure and revenue, excluding grants, appeared to be broadly on track. Nevertheless because of some uncertainty in the timing of the receipt of official grants, and to guard against a shortfall in revenue from income taxes, in late February 1983 the authorities adopted a number of revenue measures, estimated to yield Rs 52 million (about 2 per cent of total estimated revenue), to ensure the attainment of the fiscal target.

There has been a striking change in the composition of monetary aggregates in 1982, as time and savings deposits rose by almost 30 per cent, while narrow money supply increased by about 14 per cent (Table 5). This development followed the liberalization of deposit interest rates in the latter part of 1981; the rate applicable to one-year time deposits rose from a uniform 10 per cent to a range of 11.25-12.75 per cent during 1982. Combined with the fall in inflation, this resulted in the emergence of positive real interest rates on deposits. The rate of increase in broad money during the last four years has been in line with the growth in nominal GDP.

In 1982 the rate of increase in domestic bank credit moderated to about 18 per cent compared with 27 per cent in the previous year; net credit to the Government continued to absorb the largest share. Developments in credit to the private sector were dominated by the sugar sector; an increase in credit to this sector in the last two years reflected mainly a return of credit needs to normal levels following the reduced crop caused by the 1980 cyclone. The increase in credit to the nonsugar sector averaged about 14 per cent per year over the last three years. In February 1983 the authorities took a number of important measures in the monetary field. The liberalization of interest rates was completed; all ceilings on lending rates have been removed in line with the previous freeing of deposit rates, and the interest rate on Treasury bills has been raised from 9.9 per cent to 11 per cent. At the same time, the composition of the bank reserve requirement has been changed from 18 per cent government securities and 12 per cent cash reserves to, respectively, 20 per cent and 10 per cent. Moreover, the basis on which the central bank allocates credit for commercial bank lending to the private sector now places primary emphasis on the banks' record in mobilizing time and savings deposits rather than the size of their loan portfolios. A bearer bond scheme, guaranteeing anonymity to holders, was introduced in January 1983 to absorb cash holdings which the public might be reluctant to place in existing financial instruments.

Mauritius' balance of payments improved significantly in 1981/82 reflecting mainly a recovery of exports from the cyclone affected level of 1980/81, as well as a 17 per cent decline in the volume of imports attributable to the Government's stabilization measures (including a devaluation of the rupee by 17 per cent in foreign currency terms), and to slower economic activity partly associated with political uncertainties surrounding

Table 5. Mauritius: Monetary Survey, June 1980-June 1982

(In millions of rupees)

	1980		1981		1982				1983	
	June	Dec.	June	Dec.	Mar.	June	Sept.	Dec.	March 1/	June 1/
Foreign assets (net)	-342	-24	-969	-940	-1,026	-941	-1,065	-1,001	...	-1,314
Bank of Mauritius	-259	26	-875	-900	-985	908	-1,114	-1,119	...	...
Commercial banks	-83	-50	-94	-40	-41	-33	49	118	...	...
Domestic credit	4,167	4,278	5,004	5,450	5,550	5,730	5,911	6,451	6,727	6,882
Net claims on Government	2,358	2,397	2,854	3,191	3,210	3,292	3,401	3,990	4,132	4,096
Bank of Mauritius	(1,544)	(1,417)	(2,139)	(2,490)	(2,396)	(2,517)	(2,576)	(2,864)	(...)	(...)
Commercial banks	(814)	(980)	(715)	(701)	(814)	(775)	(825)	(1,126)	(...)	(...)
Claims on private sector	1,809	1,881	2,150	2,259	2,340	2,438	2,510	2,461	2,595	2,786
Sugar sector	332	194	427	446	467	405	501	393	450	475
Money (M2)	3,367	3,837	3,655	3,993	4,090	4,313	4,462	4,927	...	5,087
Money (M1)	1,372	1,721	1,391	1,534	1,467	1,513	1,514	1,742	...	...
Quasi-money	1,996	2,116	2,264	2,459	2,623	2,799	2,948	3,185	...	...
Other items (net)	458	417	380	517	433	477	384	524	...	481

Source: Data provided by the Bank of Mauritius.

1/ Projections based on the program for 1982/83.

the spring 1982 elections (Table 6). The external current account deficit fell from 15 per cent of GDP in 1980/81, to 6 per cent in 1981/82, and the overall deficit fell from SDR 60 million to SDR 2 million, respectively. Net purchases from the Fund in 1981/82 allowed Mauritius to build up its international reserves to about 5 weeks of imports, though they continued to be low given the country's dependence on foreign trade and the seasonality of exports.

In 1982/83 a small decline in export values and some increase in the value of imports are expected to result in a slight increase in the current account deficit, as projected under the program, to about 6.5 per cent of GDP. The overall deficit is projected to rise to SDR 31 million (program target SDR 28 million) as a result of the Government's decision to reduce the country's net indebtedness in the Eurocurrency market. Gross reserves are expected to decline slightly to about 4 weeks of imports.

Mauritius' external debt has continued to grow, mainly reflecting the financing of the current account deficit. At the end of June 1982 total medium- and long-term external debt, including the use of Fund credit, reached SDR 486 million (about 54 per cent of GDP), compared with SDR 211 million (about 30 per cent of GDP) at the end of June 1980. Because of the increase in the share of Eurocurrency borrowing, the debt service ratio has increased significantly in recent years and is expected to exceed 21 per cent in 1982/83, as against 15 per cent in the preceding year (Table 7). The Government does not have short-term external debt.

The Mauritian rupee was depreciated by 17 per cent in September 1981. Between September 1981 and October 1982 the trade-weighted real effective exchange rate appreciated by about 7 per cent (Chart 2). This occurred mainly because the SDR, to which the rupee was pegged, had appreciated against the currencies of Mauritius' major trading partners. From February 28, 1983 the rupee has been pegged to a basket of currencies more in line with the country's trade pattern. Since then the rupee has depreciated vis-à-vis the SDR, and on April 1, 1983 SDR 1 was equivalent to Rs 12.20, compared to Rs 12.0 at the end of 1982.

Except for an institutional change in November 1982, under which the system of import licensing and permits was reorganized and unified, there has been no substantive change in Mauritius' system of exchange and trade restrictions. The multiple currency practice, under which imports of rice and wheat flour were made at the old exchange rate of SDR 1 = Rs 10 was abolished effective August 31, 1982. All imports require import permits, which are liberally issued, mainly for statistical and duty collection purposes. There is a list of manufactured goods which require specific import permits under quotas. These restrictions, however, are imposed to protect the local infant industries and prevent speculation in luxury goods. The 1982 global quota for these items, which account for less than 10 per cent of total imports, was only 83 per cent utilized. Permits for other imports are liberally issued; payments for imports with permits are processed automatically.

Table 6. Mauritius: Balance of Payments, 1980/81-1986/87

(In millions of SDRs)

	1980/81	Prov. 1981/82	Program 1982/83 Original 1/	Program 1982/83 Revised	Program 1983/84	Projections 1984/85	Projections 1985/86	Projections 1986/87
Current account	-143	-56	-67	-67	-54	-54	-56	-51
Merchandise	-137	-35	-43	-50	-35	-39	-42	-36
Exports, f.o.b.	288	335	354	327	380	422	471	523
Imports, f.o.b.	-424	-370	-397	-377	-415	-460	-513	-559
Services (net)	-26	-41	-45	-40	-43	-42	-42	-46
Transfers (net)	19	20	21	23	24	26	28	31
Capital account	80	54	39	36	50	58	61	57
Public 2/	60	74	32	29	46	52	53	45
Eurodollar	29	29	-9	-13	-19	-5	--	--
Disbursements	(35)	(36)	(22)	(18)	(18)	(18)	(17)	(13)
Amortization	(-6)	(-7)	(-30)	(-31)	(-37)	(-23)	(-17)	(-13)
Existing loans	31	45	41	41	65	46	12	-15
Disbursements	(37)	(54)	(54)	(54)	(79) 3/	(62) 3/	(32)	(12)
Amortization	(-6)	(-7)	(-13)	(-12)	(-14)	(-15)	(-20)	(-27)
Long-term loans to be contracted	...	...	...	--	--	11	41	60
Private, including errors and omissions	20	-20	7	7	4	6	8	12
SDR allocation	3	--	--	--	--	--	--	--
Overall balance	-60	-2	-28	-31	-4	4	5	6
Financed by:								
IMF	56	20	19	22	14	-4	-5	-6
Purchase	(71)	(26)	(...)	(27)	(33)	(41)	(41)	(21)
Repurchase	(-14)	(-5)	(...)	(-5)	(-20)	(-44)	(-46)	(-27)
Other reserves (increase -)	(4)	-18	9	9	-10	--	--	--
Terms of trade 4/	-5.3	6.7	...	1.4	-5.8	...	...	...
Current account/GDP (per cent)	15.4	5.9	6.5	6.5	4.6	...	...	...

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

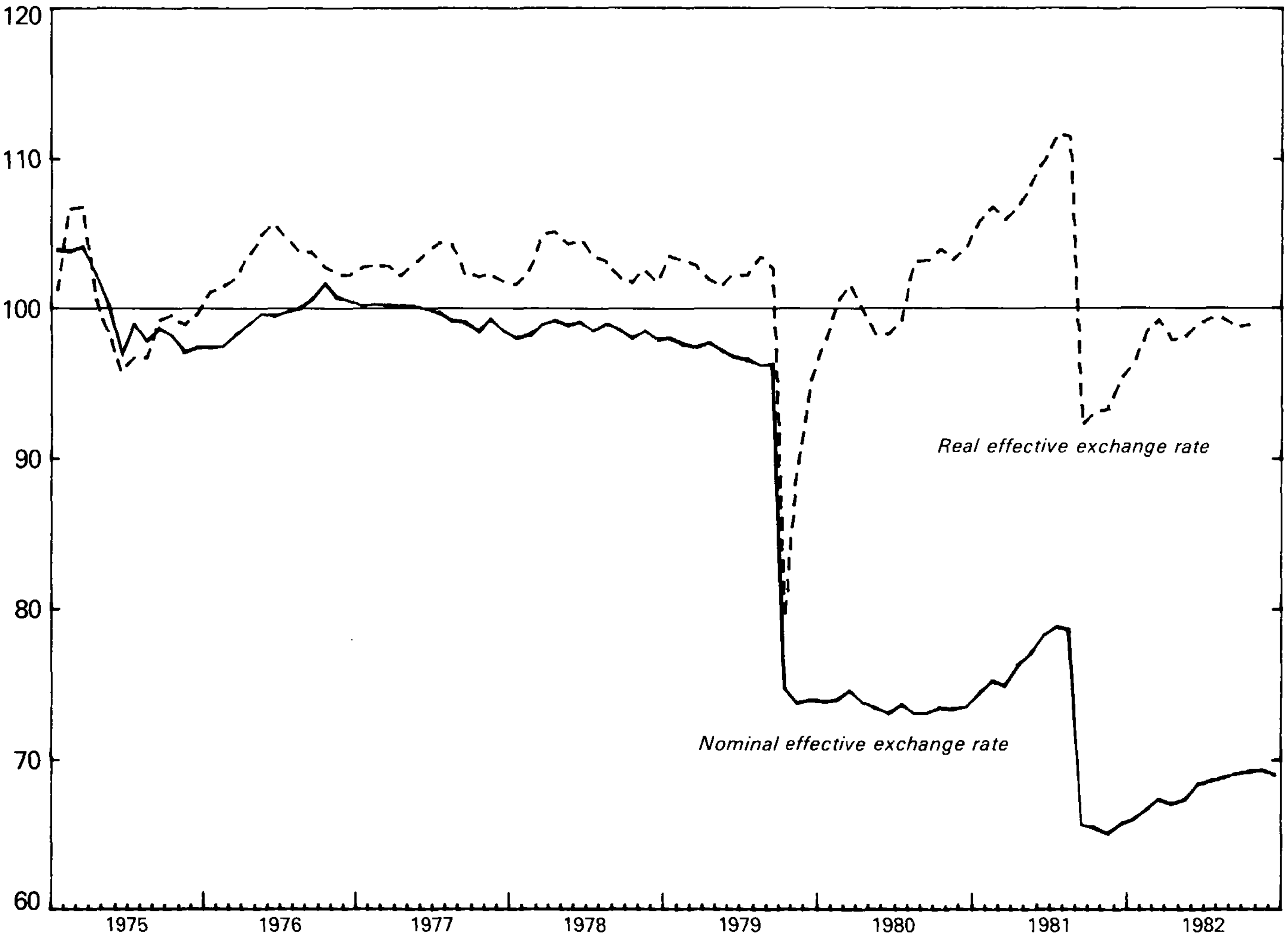
1/ Target envisaged in the mid-term review of the last program in October 1982.
2/ Including parastatal organizations.
3/ Assuming SAL II disbursements of SDR 18 million each year.
4/ Percentage change from previous year.

CHART 2

MAURITIUS

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES: TRADE WEIGHTED, 1975-82

(1975=100)



Source: Staff calculations; decline equals depreciation.

Table 7. Mauritius: Debt Service Payments on Medium- and Long-Term Debt, 1981/82-1985/86 1/

(In millions of SDRs)

	Euro-currency 2/	Other public, excluding IMF 3/	Private	IMF	Total	Debt Service Ratio 4/
1981/82	26	19	5	19	68	14.8
1982/83	50	26	5	18	98	21.2
1983/84	54	31	4	34	123	23.2
1984/85	37	38	3	59	137	23.1
1985/86	31	46	2	61	140	21.1
1986/87	30	57	1	42	130	19.0

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

1/ For existing debt as well as debt to be contracted through 1986/87. It is assumed that disbursements would be around mid-point of the fiscal year.
2/ The Mauritian authorities assume a LIBOR of 11 per cent plus the usual spread of 2 per cent. Although this seems high in view of the recent movements in LIBOR, the authorities' projections are retained in this table.
3/ On long-term debt to be contracted through 1986/87 an interest rate of 10 per cent is assumed.
4/ In per cent of exports of goods and services.

IV. Performance Under the FY 1981/82 Stand-By Arrangement 1/

The 1981/82 program, supported by a one-year stand-by arrangement, was a continuation of the stabilization efforts undertaken since late 1979. Principal policy instruments under the program included an exchange rate adjustment in September 1981, restrictive wage awards, a reduced overall fiscal deficit, restrained growth of domestic credit, liberalization of interest rates, and a continued liberal trade and payments system. All measures contained in the program were implemented, and further progress was made toward reducing the internal and external imbalances. The program targets have been either attained or surpassed (Tables 2 and 3), and all performance criteria were observed (Table 8). As a result, the authorities are now in a better position to restructure the economy, while futher reducing the financial imbalances. It is in this context that the proposed program has been formulated and discussions on a program of structural adjustment to be supported by the World Bank have been carried out.

V. Report on Discussions and Policies for the Remainder of FY 1982/83 and FY 1983/84

The authorities have requested a 15-month stand-by arrangement in an amount equivalent to SDR 49.5 million, or 122.2 per cent of quota, which would support an adjustment program covering the second half of FY 1982/83 and FY 1983/84. The proposed arrangement is a direct successor to the 1981/82 stand-by arrangement, and endorses the policies embodied therein to achieve the targets for 1982/83 outlined in the mid-term review of that arrangement. The proposed arrangement supports the authorities' continuing efforts to reduce the external current account deficit to a sustainable level, improve the allocation of resources, and increase employment in the context of continued economic growth and good price performance. The main instruments to attain these objectives are a further reduction in the overall fiscal deficit; the implementation of a restructured PSIP; flexible exchange rate management; wage settlements in the public and private sectors based on resource availability and the need to maintain competitiveness; a flexible and cautious monetary policy; an improvement in the external debt profile; and the maintenance of a relatively liberal trade and payments system.

1/ The one-year arrangement was approved by the Executive Board in December 1981. Targets were initially established for the second half of 1981/82 (EBS/81/236 of December 7, 1981). Because of change in government in June 1982, the mid-term review of the program was not completed until November 1982. In the review targets were set for the entire FY 1982/83, but with performance criteria through end-October 1982 only (EBS/82/182 of October 7, 1982).

Table 8. Mauritius: Performance under the 1981/82 Stand-by Arrangement

	1981	1982		
	Dec.	Feb.	May	Oct.
	(In millions of rupees; end of period)			
Credit to Government (net) 1/				
Ceiling	...	3,610	3,730	4,282
Actual	3,545	3,525	3,720	4,218
Total domestic credit 2/				
Ceiling	...	5,960	6,200	6,730
Actual	5,794	5,849	6,158	6,607
	(In millions of SDRs)			
New external borrowing commitments (cumulative) during program period				
1-10 years' maturity				
Ceiling		65	65	65
Actual		--	35.3	35.3
Of which:				
1-5 years' maturity				
Ceiling		(20)	(20)	(20)
Actual		--	--	--
Drawdown on new external borrowing (cumulative)				
Ceiling		35	35	65
Actual		--	35	35.3

Source: 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 nonconcessional loans of 1-10 years' maturity.

2/ Defined as credit to the Government (net) plus credit extended by the banking system to the private sector (with the exception of credit granted against nonsugar export bills and commercial bank loans in respect of external official loans), plus exchange loss on rice and wheat flour imports through May 1982; the total of these losses are excluded from the October ceiling.

The first objective of the program is to ensure the attainment of the targets for 1982/83. At the same time, broad targets for 1983/84 have been agreed upon with the authorities and policies to attain them will be articulated in greater detail at the time of the first review of the program when the 1983/84 budget proposals will be discussed. A subsequent review mid-way in 1983/84 will provide the opportunity for further monitoring of progress under the program.

1. Investment and production policies

The authorities have discussed with the World Bank staff a wide range of policies which constitute the program in support of their request for SAL II. The major objectives of the SAL II program are to reduce the high level of unemployment by encouraging growth based on export processing industries and tourism and--to a lesser extent--to substitute local energy resources for imports and increase production of certain agricultural and manufactured goods. Under the revised PSIP for 1983/84-1985/86 a number of large projects have been shelved, and the Government will consult with the Bank before including in the PSIP any project in excess of Rs 150 million (SDR 12.5 million). A draft project appraisal manual is under discussion with the Bank staff; principal factors governing project selection are: (1) economic viability; (2) low recurrent cost implications; (3) low foreign exchange content; (4) short pay-back period; and (5) creation of productive employment.

In view of the scarcity of land for agriculture, the SAL places a major emphasis on manufacturing exports, particularly those originating from the Export Processing Zone. To this end, the authorities are embarking on a major review of industrial policy to assess the current structure of protection and incentives to manufacturing.

To promote tourism the air access policy will attempt to maximize tourist arrivals, and the Tourist Office will be strengthened. The existing international airport will be expanded, and hotel prices will be closely monitored to ensure that they remain competitive.

The Mauritian authorities and the World Bank feel that the formulation of policies to develop and diversify the agricultural sector should await the recommendations of the Sugar Enquiry Commission. The establishment of the Commission reflects the authorities' concern regarding the real causes of the industry's problems so that the sugar sector may be put on a sound footing. The Commission will examine the efficient allocation of scarce resources and will investigate the impact of the sugar export tax and the low productivity of small producers on the industry's profitability. The Mauritian representatives stated that government policy aimed at increasing sugar production to about 775,000 tons from the present level of 700,000 tons. This is to be achieved by improving irrigation through the tapping of subsurface water supplies and possible consolidation of small holdings under shared management arrangements. Any decision to reduce sugar acreage will be based on the economic costs and benefits of potential substitute crops.

Meanwhile, efforts are being made to increase and diversify food production through a system of guaranteed floor prices and improved storage and marketing. Output of various food crops has increased. In particular, maize production rose from 1,000 tons in 1981 to a projected 3,500 tons in 1983 through the promotion of inter-line cropping on sugar estates; self-sufficiency could be attained by 1987.

Under the SAL II program the Government will improve the efficiency of the parastatal sector. The Development Works Corporation (DWC), which was set up in 1971 to provide temporary employment, has grown substantially and now employs over 6,000 workers, many of whom have attained the status of permanent employees. It is planned to make the DWC financially autonomous from mid-1984 and to redeploy about 1,500 employees of the DWC to the Ministry of Agriculture. The Tea Development Authority (TDA) plans to convert 1,200 hectares of its land to small-holder plots, some of which will be distributed to present TDA employees as a means of reducing underemployment. The Bank also plans to provide technical assistance to the Government to improve the structure and scope of activities of the TDA, the Central Housing Authority, and the DWC.

Mauritius imports a substantial portion of its energy requirements; in 1982/83 imports of oil are projected to account for about 17 per cent of total imports. An important step toward the use of local energy resources is the increased use by the sugar industry of bagasse (sugarcane residue after processing) for electricity generation. Energy prices currently cover costs, and the authorities intend to maintain present price levels with a view to preserving the gains that have accrued from energy pricing policy; the recent fall in world market oil prices has been followed by a rise in import duties on motor spirits.

2. Wage and employment policy

A central aim of the Government's policy has been the reduction of unemployment. The concern to promote employment opportunities and growth largely motivated the Government's decision to adopt an export-oriented growth strategy. While employment creation in the EPZ was initially substantial, this has now leveled off, in part because of the effects of the world recession and the protectionist measures adopted in export markets. The latter is of great concern to the authorities, who feel that even a continuation of protectionism at the current level may thwart the goal of the liberal, outward-looking policies they have adopted and hinder the adjustment process.

The Government is currently reviewing the Industrial Relations Act (IRA) of 1973, which severely limits the right to strike and does not permit the registration of general unions. The Mauritian representatives stated that the IRA would be repealed in the course of the year and replaced by new legislation consistent with the promotion of foreign investment. In addition, the new legislation would set new critera for wage awards.

The Government has decided to unlink wage adjustments from developments in the cost of living index which heretofore have been made with regard to developments in the consumer price index over the previous 12 months. Henceforth, public sector wage adjustments will take into account the need to curtail the overall budget deficit to a sustainable level. As to the private sector, the proposed replacement for the IRA will provide for wage settlements based on negotiations between employees and employers at the level of individual firm or industry. It is expected that such a process would result in wage adjustments consistent with movements in productivity and the need to promote labor mobility and maintain the competitiveness of Mauritian exports.

3. Price and distribution policies

The Government's policy is that administered prices should cover costs, the only exceptions being subsidies on imported rice and wheat flour. However, progress has been achieved in reducing these subsidies over the last three years; the retail prices of these commodities have been progressively raised from Rs .36/lb. to Rs. 1.14/lb. for rice and, from Rs .30/lb. to Rs. 1.09/lb for wheat flour. The most recent increase of 25 per cent and 33 per cent, respectively, for rice and wheat flour occurred in November 1982. At present, the unit subsidy on rice and wheat flour accounts for about 30 per cent and 35 per cent, respectively, of cost, compared to 56 per cent and 60 per cent, respectively in 1979/80. With a view to freeing resources for investment and employment generation, further reduction in the subsidies is envisaged in 1983/84.

The Government administers a system of surveillance and price control for about 125 commodities, to reduce the scope of excessive profit margins that may emerge in a narrow market. Markups averaging about 40 per cent over costs are negotiated with traders, and the system is flexibly administered.

4. Fiscal policies

Budgetary developments so far in 1982/83 indicate that the thrust of fiscal policy is proceeding along the lines agreed at the time of the mid-term review of the 1981/82 stand-by arrangement. With regard to expenditure, higher-than-budgeted interest payments have been offset by reductions in other recurrent expenditures and by some shortfall in capital outlays. Moreover, a moratorium has been set on recruitment of civil servants, with a view to restraining the growth in the wage bill. On the revenue side, tax receipts are developing as expected, with slightly lower income tax receipts offset by higher-than-budgeted import duties, reflecting a slight rise in the share of more heavily taxed imports. Because of some uncertainty associated with the timing of the receipt of foreign grants, the Government recently took a number of revenue measures to ensure the attainment of the fiscal target for 1982/83 (a deficit of 11 per cent of GDP). The Mauritian representatives were confident that this target was achievable; the end-June performance criterion on net credit to Government was set at a level consistent with this target and with other sources of financing, both foreign and domestic.

Under the program to be supported by the proposed stand-by arrangement the overall deficit for 1983/84 would not exceed Rs 1,200 million, or about 8.5 per cent of projected GDP. While the details of the 1983/84 budget remain to be worked out, and will be discussed with the staff at the time of the first review, the Mauritian representatives expressed their preference that more emphasis be placed on restraining the growth in current expenditure. This reflects the view that the scope for further large increases in tax revenue is limited. As noted earlier, the public sector investment program has been trimmed in agreement with the World Bank, and as a result capital expenditure in 1983/84 is expected to remain at around 9 per cent of GDP. In regard to current expenditure, the Mauritian representatives felt that the elimination of lower priority programs would achieve a more efficient use of resources than an across-the-board reduction in expenditure. On the revenue side, the Government's intention is to extend the new sales tax to services. Existing exemptions from import duties are also being examined, with a view to their rationalization. The Mauritian representatives noted that in the last few years receipts from direct taxes had not been buoyant, and the share of income taxes in total revenue fell from 22 per cent in 1978/79 to 13 per cent in 1982/1983. To reduce dependence on indirect taxes (currently more than 80 per cent of tax revenue), the Government is examining means to improve administration and broaden the base of direct taxes. With technical assistance from the Fund, a unified revenue service will be established, and the Government is considering a pay-as-you-earn scheme to accelerate and verify tax collection.

In formulating the budget for 1983/84 no allowance will be made for revenue resulting from improvements in tax administration; such additional revenue would reinforce the fiscal effort and contribute to reduce further the budgetary deficit. Looking beyond 1983/84, the Mauritian representatives stressed the Government's commitment to achieve a further reduction in the overall fiscal deficit.

5. Monetary policies

The Mauritian representatives said that they would continue to administer their monetary and credit policies flexibly, with a view to improving the allocation of resources and alleviating the pressures on the balance of payments. The freeing of interest rates on deposits, combined with the fall in the inflation rate, has led to the emergence of positive real rates. The recent decision to complete the liberalization of interest rates was a logical conclusion of policies initiated under the previous stand-by arrangements. It had become increasingly clear that ceilings on interest rates for priority sectors were impeding the flow of credit to these sectors and that when banks were lending to the priority sectors, a practice had developed of adding charges to loans, which had increased the cost of funds. The Mauritian representatives expressed the hope that the reduction of the share of cash assets in the reserve requirement in favor of Treasury bills (the interest rate on Treasury bills has been raised by 1.1 percentage points to 11 per cent) would offset pressures to increase lending rates so as to maintain profitability. The increase in the Treasury bill rate has restored it to its historic relation to the central bank's discount rate, currently at 12 per cent.

With the liberalization of deposit interest rates in November 1981, competition among banks to mobilize deposits intensified, and savings and time deposits rose sharply. This necessitated a change in the manner in which the central bank allocates credit ceilings to banks. Previously, the banks' indicative ceilings were allocated on the basis of their loan portfolios, in respect to both size and composition. Subsequent to the liberalization of deposit rates, it became clear that credit ceilings allocated to some banks were not commensurate with the rise in their deposit resources. In order to cope with this problem, the primary factor in apportioning indicative lending ceilings is now the banks' record of deposit mobilization. The monetary authorities intend to increase over time the share of deposit mobilization in the determination of bank lending ceilings, bearing in mind institutional and practical considerations. Over the longer term they intend to move toward the use of more traditional instruments to control the volume of bank credit.

During 1982/83 the Bank of Mauritius significantly increased its contribution to the Government. In 1981/82 such transfers amounted to Rs 50 million; the latest estimate for 1982/83 suggests contributions totaling Rs 180 million. 1/ The Mauritian representatives stated that future contributions from the Bank of Mauritius would take into consideration the need to protect the Bank's reserves.

6. External policies

Commenting on the pronounced improvement in the external current account in 1981/82, the Mauritian representatives stated that this was due mainly to the effect of the devaluation of September 1981, the demand management policies which the Government had pursued, and uncertainties occasioned by the elections of May 1982. In regard to 1982/83, despite a projected decline in export receipts, and an increase in the value of imports owing entirely to an increase in their prices, the external current account deficit in relation to GDP would remain very close to that of 1981/82.

Barring severe adverse weather conditions, the balance of payments outlook for 1983/84 and over the medium term is favorable (Table 6). Projections prepared by the Mauritian authorities, and discussed with the staff, indicate that the structure of the balance of payments will progressively improve. These projections are based on the assumption that Mauritius will continue on an appropriate adjustment path, particularly in regard to a further reduction in the overall fiscal deficit, and will implement the investment program as agreed with the World Bank and also the structural adjustment measures envisaged in the SAL II program. In addition to the restructuring of the pricing system, including exchange rate, interest rate, and import liberalization which are also essential elements in the Fund program, the SAL calls for specific policy actions

1/ Exchange losses of Rs 57 million in 1981/82, and Rs 46 million in 1982/83 incurred by the Bank of Mauritius when the dual exchange rate was in effect were not included.

to promote export-oriented manufacturing, tourism, labor legislation, etc. Export receipts are projected to increase by an average annual rate of 12 per cent, with EPZ exports increasing at a faster pace than sugar. Imports are projected to increase by an average of 11 per cent per annum, much of the increase reflects a 16 per cent annual increase in the EPZ imports. 1/

The Mauritian representatives stated that whereas the quota of sugar exports to the EC was guaranteed and would not be subject to negotiations, prices would be determined annually in the light of the EC agricultural policy. The balance of payments projections assume an average annual increase in the EC sugar price of 5 per cent, very close to the WEO projections. In regard to sugar exports to the free market, the authorities intend to release in 1983/84 nearly one-half of the stock of 60,000 tons accumulated in 1982/83, and a further reduction would be made as prices recover from their present level. Projections made for the purpose of the WEO suggest that sugar prices on the free market would increase through 1986 by an average of 15 per cent; however the balance of payments projections assume an average annual increase of only 6 per cent. In regard to the EPZ exports, an average annual increase of about 16 per cent was assumed, which is below the growth rate projected by the World Bank. It is assumed that the volume of food grain imports would stabilize due to the expansion in domestic output induced by the recent and planned increases in the retail prices of rice and flour. In regard to interest on Eurocurrency loans, staff has adopted the authorities' projections of a LIBOR rate of 11 per cent over the next four years, which is higher than the prevailing rate. On the basis of these assumptions the external current account deficit is estimated to average SDR 54 million per annum during 1983/84-1986/87 (compared with SDR 68 million in 1982/83), implying a steady reduction in the deficit in relation to GDP. The deficits would be financed mainly by net long-term capital inflows, including resources available under SAL II over the next two years. The Mauritian representatives underscored the Government's intention that over the next four years new borrowings on commercial terms would be less than amortization payments falling due, thereby reducing the stock of debt obtained on commercial terms and improving the debt profile.

Owing to heavy amortization payments on Eurocurrency loans falling due in 1983/84, Mauritius' debt service ratio (including obligations to the Fund) will peak at about 23.2 per cent, compared with 21.2 per cent in 1982/83. The ratio will decline gradually beginning in 1984/85, with the decline in service of debt other than to the Fund largely offset by an increase in charges and repurchases on Fund credit. Although Mauritius will continue to need the Fund's financial support, net Fund credit to Mauritius is projected to decline beginning in 1984/85.

1/ Hence, to the extent that the growth in EPZ exports would lag behind projections, imports would correspondingly decline.

During the period of the standby arrangement a ceiling on new borrowings in the 1-10 year maturity range of US$50 million has been established, with no new borrowing in the maturity range of 1-5 years. Drawings are to be limited to US$20 million in 1982/83, compared with repayments of about US$34 million. If the balance under the ceiling were to be fully utilized in 1983/84, this would amount to borrowings of US$30 million in comparison with repayments of about US$41 million.

As stated earlier, effective February 28, 1983 the Mauritian rupee was unlinked from the SDR and pegged to a basket of currencies more representative of the country's trade pattern. The Mauritian authorities stated that they intend to manage the exchange rate flexibly with a view to providing adequate incentives to exports and maintaining competitiveness. Since the rupee was unlinked from the SDR, the rupee has depreciated vis-à-vis some major currencies by an average of 2-3 per cent.

Mauritius continues to administer a relatively liberal trade and payments regime. A basic tenet of the Government's economic policy is that Mauritius' manufacturing sector must be able to compete internationally. Thus, the import policy is intended to limit reliance on quantitative restrictions. The Mauritian authorities are concerned that, at a time when they are implementing liberal trade policies, a number of members of the Fund are taking protectionist measures that limit Mauritius' access to their markets.

VI. Summary of the Proposed Program and Performance Criteria

The program outlined in the attached letter, and described above, covers the remainder of 1982/83 and all of 1983/84. The proposed program is a continuation of the adjustment process pursued by Mauritius since the latter part of 1979 which has been supported by three successive stand-by arrangements. As demand pressures on the economy have been reduced, (reflected in lower inflation and improvement in the balance of payments), the proposed program has the dual objectives of consolidating these gains by further reducing the financial imbalances, while placing emphasis on restructuring the economy with the aim to diversify the productive base, reduce unemployment and improve the competitiveness of the economy. The IBRD support of the authorities' restructuring effort with a SAL II is crucial to the attainment of the proposed program's medium-term targets and objectives.

Under the proposed program, the overall fiscal deficit, as well as the deficits on the external current account and the overall balance of payments would be reduced significantly in 1983/84. The authorities recognize that the overall fiscal deficit is still large, and that further reduction will be necessary in and after 1983/84 to attain a sustainable fiscal position. The achievement of a lower fiscal deficit will provide additional resources to support private sector investment which will, in turn, make an important contribution to expanding the productive base and employment. Additionally, a continued restrained wage policy will further support efforts to maintain the competitiveness of the economy. The projected reduction in Eurocurrency debt beginning 1982/83, and the reduction in Fund holdings of rupees, envisaged from 1984/85, will provide a margin of safety to Mauritius in the event that unforeseen external shocks threaten the maintainance of the targeted growth path.

The program targets and principal policies and assumptions are summarized in Table 9. The program contains performance criteria (Table 10) relating to (i) total domestic credit, (ii) net credit to Government, (iii) new external nonconcessional borrowing with original maturity of between one and ten years, with a subceiling on maturities between one and five years and a drawdown subceiling, and (iv) the exchange and trade practices. In addition, the program entails two reviews with the Fund before end-July 1983 and January 1984.

VII. Staff Appraisal

Since late 1979 the Mauritian authorities have pursued a comprehensive set of policies aimed at reducing the large external and internal financial imbalances that developed after the sugar boom of the mid-1970s. These policies have concentrated on wage restraint, flexible exchange rate management, reduction in the overall fiscal deficit, and the liberalization of interest rates, and have led to a marked improvement in the performance of the economy--especially since 1981/82. The recovery of sugar production following two poor harvests, and prudent demand management policies pursued have contributed to a reduction in the external current account deficit from 15.4 per cent of GDP in 1980/81 to an estimated 6.5 per cent in 1982/83. During the same period the overall fiscal deficit fell from 14.2 per cent to 11.0 per cent. Progress on inflation has been encouraging; the rate of increase in the consumer price index has been in single digits since September 1982, after having peaked at 33 per cent in 1979/80. Despite the success thus far achieved, there is need for further adjustment and for restructuring the economy with the aim at reducing the high level of unemployment. To this end, the authorities intend to continue to implement policies, within a medium-term framework, to reduce the financial imbalances to sustainable levels, while implementing measures designed to expand and diversify the productive base, reduce unemployment and improve the competitiveness of the economy.

The authorities have adopted a strategy, endorsed by the World Bank, of promoting economic growth and expanding employment through the development of export-oriented industry. It has become clear that the sugar sector cannot be expected to absorb more labor and the public sector is not considered to offer reasonable scope for expanding productive employment. Central to the success of this strategy is an improvement in productivity and in the competitiveness of Mauritian exports on the world market. The success of

Table 9. Mauritius: Summary of Economic and Financial Program

Assumptions:

Sugar crop of 690,000 tons is projected in 1982/83, with exports valued at SDR 195 million. A crop of 700,000 tons is assumed in 1983/84, with exports valued at SDR 231 million.

A terms of trade improvement of 1.4 per cent is projected in 1982/83 and a deterioration of 5.8 per cent in 1983/84.

Real GDP growth is expected to be 6.4 per cent in 1982/83 and 3.3 per cent in the following year.

Targets:

Inflation of 8.5 per cent in 1982/83 and 9 per cent in 1983/84.

Current account deficit of the balance of payments of SDR 68 million (6.5 per cent of GDP) in 1982/83 and SDR 54 million (4.6 per cent of GDP) in 1983/84; the overall balance of payments deficit of SDR 31 million (3.0 per cent of GDP) and SDR 4 million (0.3 per cent of GDP) in 1982/83 and 1983/84, respectively.

Instruments:

(1) Exchange rate

Flexibility in exchange rate policy is to be maintained, and the exchange rate is to be kept under constant review. Understandings with the Fund are to be reached in the context of the two reviews. With a view to managing the exchange rate flexibility, the Mauritian rupee was unlinked from the SDR and since February 28, 1983 has been pegged to a basket of currencies more representative of Mauritius' trade pattern.

(2) Wage policy

No further wage awards are to be granted until the end of 1982/83. Industrial Relations Act is to be repealed, and replaced with a new legislation which will call for private sector salary increases to be negotiated between employees and employers, at the level of the individual firm or industry, with the key objective being to improve competitiveness. Public sector wage increases are to be decided with the primary consideration being the need to reduce the overall fiscal deficit.

Table 9. Mauritius: Summary of Economic and Financial Program (concluded)

(3) Budget

Measures were taken to ensure that the overall budget deficit in 1982/83 will be limited to 11 per cent of GDP. The overall budget deficit in 1983/84 to be limited to Rs 1,200 million (8.5 per cent of estimated GDP). Specific policies to achieve the latter are to be discussed with the staff in the context of the first review.

(4) Money and credit

For 1982/83 expansion in total credit and in net credit to Government limited to 20 per cent and 24 per cent, respectively. 1/ For 1983/84 appropriate quarterly credit ceilings to be agreed as performance criteria in the context of the reviews.

All ceilings on lending interest rates were removed; Treasury bill rate was raised from 9.9 per cent to 11 per cent; allocation of credit ceilings between banks was changed from loan portfolio basis to give the major weight to deposit mobilization.

(5) Foreign borrowings

Foreign borrowings in maturities of 1-10 years to be limited to US$50 million with no borrowings in maturities of 1-5 years.

(6) Exchange and trade system

An undertaking not to impose new or intensify existing restrictions.

1/ For performance criteria purposes, total domestic credit and net credit to the Government are defined to include Eurocurrency loan disbursements. On this basis, total domestic credit, is programmed to increase by 20.9 per cent in 1982/83 compared with 21.3 per cent in 1981/82, while net credit to the Government is programmed to increase by 25.2 per cent in 1982/83 compared with 26.6 per cent in 1981/82.

Table 10. Mauritius: Quantitative Performance Criteria and Indicative Targets for the Remainder of FY 1982/83

	1982	1983	
	Dec.	March 1/	June
	Actual	Indicative	
	(In millions of rupees; end of period)		
Credit to Government (net) 2/			
Ceiling	4,760	4,900	5,084
Total domestic credit 3/			
Ceiling	7,221	7,495	7,872
	(In millions of US dollars)		
New external borrowing commitments (cumulative) during program period			
1-10 years' maturity 4/			50
Of which:			
1-5 years' maturity			0
Drawdown on new external borrowing (cumulative)			
Ceiling			20

Source: Mauritian authorities.

1/ Not performance criteria.
2/ Defined as credit to the Government from the banking system less government deposits plus any budgetary use of new nonconcessionary loans of 1-10 years' maturity.
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.

export-led growth originating in the EPZ will also depend on trade policies pursued by major industrial countries. It is evident, however, that for the foreseeable future sugar will remain the mainstay of the economy and the principal source of foreign exchange earnings and employment. The establishment of the Sugar Enquiry Commission to examine the problems confronting the sugar industry was long overdue; its recommendations should provide the basis for strengthening the financial health of the sugar sector and for formulating measures to develop the agricultural sector.

Despite the progress made in reducing the overall budget deficit in the last few years, and the effort envisaged for 1983/84, the deficit is still too high and is absorbing resources which could be put to better use in developing the productive sectors. Because domestic revenue is absorbing a relatively large share of GDP, a further reduction in the fiscal deficit through restraining the growth in recurrent expenditure is appropriate. Improved public sector finances will facilitate the planned reduction in budgetary dependence on Eurocurrency financing, thereby preserving access to this financing source if adverse exogenous factors should require it. The staff believes that the transfer of Central Bank profits to the budget should be undertaken in the context of the need to protect the Bank's reserves, as well as in the framework of a comprehensive monetary program.

The staff welcomes the liberalization of lending rates, which follows the previous liberalization of deposit rates. Real interest rates on deposits are positive, thereby encouraging the public to hold financial assets; the freeing of lending interest rates will insure the allocation of financial resources to the productive sectors.

The staff believes an effective policy of wage restraint is important in containing the fiscal deficit and preserving the competitiveness of the economy. Although real wages have declined since 1978/79, the unification of wage awards in the public and private sectors, as well as between various industries have added to the burden of those least able to pay and probably penalized workers in the most productive sectors. The staff welcomes the authorities' intention that wage determination in the private sector would be based on direct negotiations between employees and employers at the level of the firm or industry, and in the public sector on the need to reduce the overall fiscal deficit. These wage policies should help to improve the allocation of resources and the prospects for employment expansion.

The sharp reduction of the external current account deficit since 1980/81 is a major achievement. The continued application of the policies responsible for this achievement should lead to a sustainable external payments position in the medium term. The goal of maintaining an internationally competitive export sector depends importantly on all facets of economic policy; especially important in this regard is a trade and payments regime free of restrictions. The authorities have maintained a flexible exchange rate policy to protect the competitiveness of Mauritian exports of goods and services, and the staff welcomes their intention to continue that policy. The recent pegging of the rupee to a more representative trade-weighted basket of currencies should enhance the role of the exchange rate in the adjustment process. Mauritius continues to maintain an exchange system which is virtually free of restrictions. The multiple currency practice associated with imports of rice and wheat flour was abolished in August 1982. Mauritius follows a liberal import policy whereby import permits are required, for the most part, for statistical and duty collection purposes. In regard to items for which import quotas apply, which account for less than 10 per cent of total imports, actual imports in 1982 were equivalent to 83 per cent of the overall quotas.

The staff believes that the policy measures taken under previous stand-by arrangements, and those already taken at the start of the period of the proposed program, indicate considerable political courage and a strong commitment to continuing the policies of adjustment. All targets under the last stand-by arrangement were met, and, Mauritius' record of performance under previous stand-by arrangements has been good. The policy undertakings in the proposed program are consistent with the authorities' intention to achieve a sustainable external position in the medium term, and the staff believes that they merit the Fund's support. The staff will remain in close contact with the authorities, and the two comprehensive reviews of the program will be undertaken in June and December 1983. It is recommended that the next Article IV consultation with Mauritius will be held on the standard 12-month cycle.

VIII. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

(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 , 1983 through , 1984.

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

Mauritius - Stand-By Arrangement

Attached hereto is a letter dated March 21, 1983 from the Minister of Finance and the Governor of the Bank of Mauritius requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Mauritius intend to pursue for the period of this stand-by arrangement. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period of 15 months from , 1983, Mauritius will have the right to make purchases from the Fund in an amount equivalent to SDR 49.5 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 8.25 million until July 14, 1983, SDR 16.5 million until October 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.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Mauritius' currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources until purchases under the arrangement reach the equivalent of SDR 2,631,910, then each purchase shall be made from borrowed resources; provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Mauritius shall not make purchases under this stand-by arrangement that would increase the Fund's holdings of Mauritius' currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which:

(i) the limit on total bank credit described in paragraph 10 of the attached letter; or

(ii) the limit on net credit to the Government described in paragraph 10 of the same letter; or

(iii) the limits on contracting, guaranteeing, and drawing down of government and government-guaranteed non-concessional foreign borrowing described in paragraph 10 of the same letter;

is not observed; or

(b) during any period after July 31, 1983, or January 31, 1984, respectively until suitable performance clauses with regard to total bank credit and net credit to the Government, and the drawdown on nonconcessional foreign borrowing, as defined in paragraph 10 of the letter, have been established in consultation with the Fund as contemplated in paragraph 12 of the attached letter, or if such clauses, having been established, are not observed; or

(c) during the entire period of this stand-by arrangement, if Mauritius

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Mauritius is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Mauritius and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Mauritius' right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mauritius. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mauritius and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Mauritius, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Mauritius will consult the Fund on the timing of purchases involving borrowed resources.

8. Mauritius shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Mauritius shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Mauritius' balance of payments and reserve position improves.

(b) Any reductions in Mauritius' currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchases will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Mauritius shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mauritius or of representatives of Mauritius to the Fund. Mauritius shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Mauritius in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 12 of the attached letter, Mauritius will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government whenever the Managing Director requests consultation because any of the criteria under paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mauritius has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Mauritius' balance of payments policies.

Port Louis, Mauritius

March 21, 1983

Dear Mr. de Larosière:

1. Since the latter part of 1979 the Government of Mauritius has been implementing an adjustment program which has been supported by three successive stand-by arrangements with the Fund; the last one expired on December 20, 1982. The program has aimed at reducing the financial imbalances and putting the economy on a path of sustained economic growth. Despite adverse weather conditions, and a deterioration in the terms of trade, all policy measures contained in the program have been implemented, and the targets have been attained and, in some respects, surpassed. Hence in FY 1982/83 (July-June) the economy is expanding by about 6 per cent, and the rate of increase in domestic demand is moderating. Progress has also been achieved on the price front, and the rate of inflation has declined to about 11 per cent in 1982 compared with an average of 28 per cent in the preceding two years. Pressures on the balance of payments have been alleviated, and in FY 1982/83 the external current account deficit is expected to be of the order of 7 per cent of GDP as against an average of 11 per cent in the preceding two years. Moreover, the Government has begun to reduce its net indebtedness in the Eurodollar market. Central to the attainment of the above results was the adoption of a wide array of policies in the areas of exchange rate, reduction in consumer subsidies, wage restraint, restrictive credit and monetary policies, reduction in the overall fiscal deficit, and the maintenance of a liberal system of trade and payments for current international transactions.

2. Despite the progress thus far attained, much remains to be done. In particular, the overall fiscal deficit must be further reduced, and the rate of unemployment is unacceptably high. Therefore, the Government intends to persevere in its efforts to foster economic growth in the context of broad financial stability. To this end, in support of the policies which the Government intends to pursue for the remainder of 1982/83 and for 1983/84, we would like to request from the International Monetary Fund a 15-month stand-by arrangement in an amount of SDR 49.5 million. Discussions are also at an advanced stage with the World Bank for a second Structural Adjustment Loan in an amount of US$40 million. In the paragraphs below, we would like to outline the economic and financial policies which the Government intends to pursue in the period ahead.

3. The Government has formulated in cooperation with the World Bank the public sector investment program for the period 1983-85. The size of the program has been reduced in order to take into consideration financial constraints and implementation capacity. Furthermore, investments have been reoriented toward the productive sectors, while resources directed to housing, infrastructure, and social services have been scaled down. In view of our resource constraints, particularly the availability of land, in conformity with the World Bank's recommendations, the development of

the economy will have to be based on export-oriented industries and tourism. The key element in attracting the necessary foreign investment in these activities is the continual pursuit of macro-economic policies designed to reduce the financial imbalances and foster growth. Moreover, the Government, with the help of the World Bank, is in the process of identifying policies to restructure the economy and to remove obstacles that have hampered growth. We have not neglected the agricultural sector, but, as recognized by the World Bank, it would be difficult to formulate concrete policies in this area before the Sugar Enquiry Commission submits its report toward the end of 1983.

4. The Government is fully conscious of the need for following a policy of wage restraint in order to preserve our competitiveness and enable employment to expand. Consequently, with regard to the current fiscal year, the Government does not intend to grant any further wage increase. The Government's approach to wage policy in 1983/84 will be discussed in detail with the Fund staff next May and will be essentially guided by the need to link wage increases to productivity and ability to pay. In the context of our export drive, it is vital that the competitiveness of our industry is not eroded by unsustainable wage increases. It is also vital that Government should ensure the maintenance and promotion of harmonious industrial relations. In this context, the Government will repeal the Industrial Relations Act in the course of the year and will replace it by new legislation which will encourage a system of private sector wage settlements based on genuine bargaining between employees and employers at the level of the individual firm or industry. This legislation will strengthen the ability of the Government to ensure that wage developments are consistent with our economic situation and the economic and social objectives of the Government. In its effort to replace the present labor legislation and the mechanism for salary negotiations, which are cumbersome and which create wage inequity among various sectors and prevent labor mobility among the economic sectors, the Government, in its letter to the President of the World Bank, in connection with our request for a second Structural Adjustment Loan, has specifically requested World Bank technical assistance for this purpose. As regards the public sector, the need to reduce the overall budget deficit will be the key factor in determining the scope for wage awards in 1983/84. The preservation of our scarce financial resources for investment will, over time, expand employment and the income of all Mauritians. Wage settlements without regard to the availability of resources for investment can only increase inflationary pressures and weaken the balance of payments, thereby jeopardizing the competitiveness of the economy and the goal of expanding employment.

5. The budgetary performance in the first half of 1982/83 suggests that the fiscal target, established with the Fund staff in the context of the mid-term review of the expired stand-by arrangement, is attainable. However, the Government will not hesitate to take new revenue-raising or expenditure-saving measures in the event that data on fiscal developments during the first two months of 1983 suggest that the fiscal target may not be realized. The Government will communicate to the Fund staff by mid-

March 1983 the latest data on fiscal developments and, if warranted, details of measures that the Government is taking. In regard to the 1983/84 budget, the Government is currently formulating its policies, and several revenue and expenditure measures are under active consideration. The objective is to contain the 1983/84 overall budget deficit to no more than Mau Rs 1,200 million (about 8.5 per cent of estimated GDP) compared with Mau Rs 1,366 million (11 per cent of estimated GDP) in 1982/83. The fiscal adjustments in 1983/84 will be achieved from new measures over and above any expected benefit from improvements in tax administration. To the extent that this improvement is realized, the overall deficit will be further reduced. The Government will discuss the budget proposals for 1983/84 with the Fund staff before end-May 1983 to ensure that the budgetary policies are consistent with the objective of reducing the financial imbalances.

6. We have recently adopted a number of monetary policy measures which should make an important contribution to the allocation of financial resources and the efficiency of the banking system. All administrative ceilings on bank lending rates have now been removed. While maximum lending rates to priority sectors had been set with a view to helping these sectors, there was evidence that the effect of these limits was to impede the flow of credit to these sectors and squeeze bank profits; deposit rates have been freely determined for some time, and at present exceed the minimum rates fixed by the Bank of Mauritius. With a view to mitigating the upward pressure on lending rates as a result of the liberalization, the cash ratio has been reduced from 12 per cent to 10 per cent and the interest rate on Treasury bills, which together with government stocks will now comprise 20 per cent rather than 18 per cent of the liquidity ratio, has been raised from 9.9 per cent to 11 per cent. Whereas in the past the Bank of Mauritius allocated the expansion in credit to the private sector among commercial banks on the basis of their existing loan portfolios, this policy has now been changed. Such a policy, which benefited banks that held large portfolios, stifled competition and did not provide adequate incentives to mobilize deposits. Henceforth, the Bank of Mauritius will allocate the expansion of credit among banks on the basis of banks' deposit mobilization performance as well as their lending to priority sectors. The observance of the liquidity ratio will be strictly enforced, and penalties will be promptly imposed where such observance is not adhered to.

7. Despite the deterioration in the terms of trade, the balance of payments has strengthened in recent years, owing mainly to the restrictive demand management policies pursued by the Government. In 1982/83 the external current account deficit is expected to reach 7 per cent of GDP compared with 15 per cent and 6 per cent in 1980/81 and 1981/82, respectively. The small increase in the current account deficit in 1982/83 is attributable to a recovery of imports from their depressed level of the preceding year, brought about by uncertainties associated with the national election and a relatively slow growth of exports due partly to the world recession and growing protectionism in major markets. The current account deficit will be financed mainly by drawings on project-related concessionary foreign borrowing and by purchases from the Fund; no account has been taken of disbursements under the SAL II during the current fiscal year. During

1982/83 nonconcessionary foreign borrowing in the maturity range of 1-10 years will be less than the amortization payments falling due on previously disbursed Eurodollar loans. As a result, the external debt profile has improved, and in 1983/84 the debt service burden is expected to reach about 16 per cent of exports of goods and services. The medium-term balance of payments outlook is favorable. Barring severe adverse weather conditions, we expect the external current account deficit to decline in 1983/84 to less than 6 per cent of GDP, and in the context of the first review we will discuss with the Fund staff the appropriate policies to achieve this objective.

8. With a view to minimizing fluctuations in the rupee exchange rate arising from variations in the exchange rate of major world currencies, the rupee's peg has been changed from the SDR to a basket of currencies which is more representative of Mauritius' trade pattern. While the Government believes that the balance of payments objectives can best be attained by the pursuit of restrictive fiscal, monetary, and wage policies, it will continue to adopt a flexible stance regarding the exchange rate policy. To this end, the Government will continue to keep the exchange rate under constant review and will reach understandings with the Fund staff in the context of the reviews envisaged for July 1983 and January 1984.

9. Mauritius continues to implement a liberal system of trade and payments for current international transactions. The Government emphasizes that the import licensing and quota system, currently in place, is intended to protect infant industry and is not intended for balance of payments purposes. The system has been recently further streamlined by combining the issuance of import permits and licenses and is being administered liberally. Moreover, as part of the SAL II program, the Government is examining with the World Bank the appropriateness of the system to ensure the achievement of the purposes for which it was designed.

10. We believe the policies outlined above form a package of measures which are consistent with our request for the use of Fund resources. In view of the fact that most of the period of the stand-by arrangement would fall in FY 1983/84, we propose that a first review of the program with special emphasis on the 1983/84 budget policy be held with the Fund before end-July 1983. We also propose a second review of the program with the Fund before end-January 1984. As noted above, the financial program adopted for 1982/83 at the time of the mid-term review of the 1982 stand-by arrangement is on track. With a view to providing further support to the achievement of the 1982/83 targets, we propose that the following performance criteria apply to the remainder of 1982/83, with criteria for 1983/84 to be established at the time of the first review of the program. Therefore, we propose that total domestic credit and net credit to the Government, which amounted, respectively, to Mau Rs 7,221 million and Mau Rs 4,760 million on December 31, 1982 and are expected to amount, respectively, to Mau Rs 7,495 million and Mau Rs 4,900 million on March 31, 1983, will be limited, respectively, to Mau Rs 7,870 million and Mau Rs 5,084 million on June 30, 1983. In regard to nonconcessionary foreign borrowing, it should be noted that so far in 1982/83 Mauritius did not contract, guarantee, or

draw down on loans in the 1-10 years maturity range. During the program period ending June 30, 1984 the Government will limit the contracting and guaranteeing of nonconcessionary loans in the 1-10 years maturity range to US$50 million; no loans in the 1-5 years maturity range will be contracted or guaranteed. Of the total amount no more than US$20 million will be drawn through June 30, 1983. During the program period, the Government will not engage in nontrade external borrowings of less than one-year maturity.

11. During the program period, the Government does not intend to introduce any multiple currency practice, or 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.

12. 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 for these purposes. The Government 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 its policies. In any case the Government will consult with the Fund before end-July 1983 and end-January 1984 in order to reach understandings on the performance criteria in respect of domestic credit, net credit to the Government, and the draw-down on nonconcessional foreign borrowing for the remaining periods of the proposed stand-by arrangement.

Very truly yours,

/s/

Indurduth Ramphul
Governor
Bank of Mauritius

/s/

Paul Raymond Bérenger
Minister of Finance

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Fund Relations with Mauritius

(As of March 31, 1983)

Date of membership:	September 23, 1968.
Status:	Article XIV.
Quota:	
Present	SDR 40.5 million.
Proposed	SDR 53.6 million.
Intervention currency:	Pound sterling.
Fund holdings of Mauritian rupees:	SDR 192.70 million or 475.8 per cent of quota, including SDR 40.5 million or 100 per cent in respect of the compensatory financing facility, SDR 3.61 million or 8.9 per cent in respect of the buffer stock financing facility, and SDR 69.23 million or 170.9 per cent in respect of the supplementary financing facility.
SDR Position:	SDR 1.56 million (or 9.9 per cent of net cumulative allocation of SDR 15.7 million).
Trust Fund:	SDR 9.1 million in first period, ineligible in second period.
Gold distribution (four distributions):	18,827.858 fine ounces.
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	U.S.$3.48 million
Exchange rate system:	Since last February 28, 1983 the Mauritian rupee, which previously was pegged to the SDR at Rs 12 = SDR 1, has been pegged to a basket of currencies. On March 31, SDR 1 was equivalent to Rs 12.20.
Staff contacts:	The last Article IV consultation was held in December 1980, and the staff report (SM/81/58) was discussed by the Executive Board on April 10, 1981. The Fund has supplied a budget advisor to the Ministry of Finance and an advisor to the Bank of Mauritius. Technical assistance has been provided in the introduction of the sales tax, improvements in tax administration, and the modification of banking legislation.

MAURITIUS - Relations with the World Bank Group

(In millions of U.S. dollars)

Amounts outstanding as of January 31, 1983	Disbursed	Undis-bursed	Total commitments
Completed projects			
Six loans and five credits have been fully disbursed			
Of which:			
IBRD	37.95	--	37.95
IDA	20.42	--	20.42
Total	58.37	--	58.37
Projects in execution (IBRD)			
Ports	12.28	1.32	13.60
Development bank	6.90	12.19	19.09
Education	7.41	7.79	15.20
Power	5.71	9.29	15.00
Urban rehabilitation	3.49	11.51	15.00
Water supply	—	12.20	12.20
Total in execution	35.79	54.30	90.09
Total, disbursed and undisbursed			
Of which:	94.16	54.30	148.46
IBRD	73.74	54.30	128.04
IDA	20.42	--	20.42
Repayments			
Of which:			13.25
IBRD			13.13
IDA			0.12
Amount sold (IBRD)			4.95
Of which has been repaid			4.44
Total debt outstanding (including undisbursed)			134.70
Of which:			
IBRD			114.40
IDA			20.30
IFC investments: gross commitment less cancellations, terminations, repayments, and sales			0.04

Source: World Bank.

IBRD Structural Adjustment Loan

The loan was approved in May 1981 for an amount of US$15 million and focused on:

(a) a scaling down and restructuring of the public sector investment program (PSIP), placing greater emphasis on infrastructure directly linked to production, together with development of criteria for selection of projects for the PSIP and of a machinery for review of the PSIP;

(b) in industry, implementation of a series of measures aimed at stimulating production, exports, and investment in the sector and development of further measures to this end;

(c) development of policies and technical proposals to stimulate agricultural production other than sugar;

(d) establishment of a commission of enquiry, and a preparatory unit for this commission, so as to assess the present status of the sugar industry and to develop policies conducive to the long-term strength of the industry;

(e) establishment of an energy planning unit and drawing up a national energy plan, including an assessment of the potential use of bagasse for power generation;

(f) an assessment of the problems facing the tourism industry;

(g) a series of measures in different public sector agencies aimed at greater efficiency in the public sector and at reducing demands on the budget; and

(h) definition of debt management policy and strengthening of institutional capacity in this area.

MAURITIUS: Basic Data, 1979/80-1982/83

Area, population, and GDP per capita

Area	1,864 square kilometers
Population: Total (1982)	983,685
Growth rate (1982)	1.1 per cent
GDP at factor cost per capita (1982)	SDR 858

	1979/80	1980/81	1981/82	1982/83 Est.
Gross domestic product (in current prices)				
Total (in millions of rupees) at market prices	8,427	9,290	10,843	12,390
	(In per cent of GDP at factor cost)			
Cane production and sugar milling	17.1	9.8	12.3	13.6
Nonsugar manufacturing	11.4	13.1	13.1	13.4
Government services	12.1	13.0	12.6	12.3
Non-Government services	44.8	49.8	48.9	48.0
	(In per cent of GDP at market prices)			
Consumption	82.7	89.6	85.4	82.8
Investment	24.9	23.3	23.1	21.6
Resource gap	10.1	14.6	3.6	4.6
Gross domestic savings	14.8	8.7	19.5	17.0
	(Annual change in per cent)			
Real GDP at factor cost	1.2	-7.6	6.6	6.4
Nominal GDP at market prices	25.4	10.2	16.7	14.3
Prices				
Implicit GDP deflator	20.8	19.4	10.5	6.6
Consumer price index	33.0	26.5	13.4	8.5
Export prices (SDRs)	7.8	8.5	-1.8	5.0
Import prices (SDRs)	27.2	14.6	5.2	3.5
Terms of trade	-15.3	-5.3	-6.7	1.4
	(In millions of Mauritian rupees)			
Government finance				
Revenue	1,811	2,064	2,223	2,754
Grants	2	14	68	62
Expenditure and net lending	2,709	3,372	3,679	4,171
Of which: current expenditure	1,669	1,862	2,314	3,112

MAURITIUS: Basic Data, 1979/80-1982/83 (continued)

	1979/80	1980/81	1981/82	1982/83 Est.
Government finance (continued)	(In millions of Mauritian rupees)			
Overall surplus/deficit (-)	-897	-1,294	-1,388	-1,356
Foreign financing (net)	217	566	774	265
Domestic financing (net)	680	728	614	1,091
Of which: banking system	(657)	(496)	(438)	(803)
	(In per cent of GDP)			
Revenue (including grants)	21.5	22.4	21.1	22.7
Current expenditure	22.1	24.9	25.3	25.1
Capital expenditure and net lending	10.1	11.4	8.6	8.5
Overall surplus/deficit (-)	10.6	13.9	12.8	10.9
Money and credit	(In millions of Mauritian rupees; end of period)			
Net foreign assets	-342	-969	-941	-1,314
Domestic credit	4,167	5,004	5,730	6,882
Government	(2,358)	(2,854)	(3,292)	(4,096)
Private sector	(1,809)	(2,150)	(2,438)	(2,786)
Broad money (M_2)	3,367	3,655	4,313	5,087
	(Annual change in per cent)			
Domestic credit	26.5	20.1	14.5	20.1
Government	38.6	16.9	15.3	24.3
Private sector	13.6	18.9	13.4	14.3
Broad money (M_2)	14.3	8.6	18.0	17.9
Balance of payments	(In millions of SDRs)			
Exports, f.o.b.	313	288	335	327
Of which: sugar	(202)	(165)	(201)	(195)
Imports, f.o.b.	-380	-424	-370	-377
Trade balance	-67	-137	-35	-50
Services (net)	-42	-26	-41	-40
Transfers (net)	13	19	20	23
Current account balance	-97	-143	-56	-67
Capital (net) 1/	49	80	54	36
Allocation of SDRs	3	3	--	--
Overall surplus/deficit (-)	-45	-60	-2	-31
Payments arrears (decrease -)	--	--	--	--
Net reserves (increase -)	-45	-60	-2	-31

1/ Including errors and omissions.

MAURITIUS: Basic Data, 1979/80-1982/83 (concluded)

	1979/80	1980/81	1981/82	1982/83 Est.
	(In per cent of GDP)			
Balance of payments (continued)				
Exports, f.o.b.	34.5	31.0	35.5	31.6
Imports, f.o.b.	-41.9	-45.7	-39.2	-36.5
Current account balance (including official transfers)	-10.6	-15.4	-5.9	-6.4
	(In millions of SDRs; end of period)			
Gross reserves of central bank 1/ (end of period)	31	29	41	32
External debt				
Disbursed and outstanding (end of period)	253	393	486	530
Interest due	-18	-40	-43	-46
Amortization due	-11	-27	-26	-52
Debt rescheduling	--	--	--	--
Arrears (end of period)	--	--	--	--
	(In Mauritian rupees per SDR)			
Exchange rates				
End of period	10.000	10.000	12.000	12.000 2/
Period average	9.286	10.000	11.518	12.000 2/
	(Index, 1975 = 100)			
Trade-weighted nominal effective rate, period average	79.5	74.7	68.5	68.5
Trade-weighted real effective rate, period average	97.4	105.0	98.8	100.8

1/ Including private debt.
2/ Assumption used in balance of payments projection.