FOR AGENDA

EBS/83/234

CONFIDENTIAL

October 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Mauritius - First Review of the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the first review under the stand-by arrangement for Mauritius. A draft decision appears on pages 26 and 27.

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) or Mr. Mortimer Lee (ext. 73739).

Att: (1)

INTERNATIONAL MONETARY FUND

MAURITIUS

First Review of the Stand-By Arrangement

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

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

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

October 28, 1983

I. Introduction

On May 18, 1983 the Executive Board approved Mauritius' request for a 15-month stand-by arrangement in an amount equivalent to SDR 49.5 million (122.2 percent of the present quota), 1/ phased to be purchased in six equal amounts. So far, Mauritius has made one purchase of SDR 8.25 million following the Board's approval of the arrangement. The second purchase was contingent upon the observance of end-June performance criteria and completion of the first review of the stand-by arrangement. The June performance criteria were observed. Because of the delay in the completion of the review, however, the second and third purchases, scheduled after July 14 and October 14, respectively, have not yet been made. Both purchases, totalling SDR 16.50 million, will be made available to Mauritius upon the Executive Board's completion of the review, and the observance of end-October performance criteria. As of September 30, 1983, the Fund's total holdings of Mauritian rupees were equivalent to SDR 194.45 million (480.1 percent of quota); excluding purchases under the compensatory financing facility and the buffer stock financing facility of SDR 44.11 million, they were equivalent to SDR 150.34 million (371.2 percent of quota). If the remaining amount available under the stand-by arrangement were purchased, the Fund's total holdings of Mauritian rupees (after taking into account scheduled repurchases) would rise to SDR 213.1 million, or 526.3 percent of quota; excluding purchases under the special facilities, holdings would equal 429.8 percent of quota. 2/ The proposed new phasing of purchases, as well as scheduled repurchases, are summarized in Table 1.

1/ EBS/83/78 of April 20, 1983.
2/ As a percentage of the proposed quota, the respective ratios would be 397.6 percent and 324.8 percent.

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

	May 15-July 14, 1983 Actual	July 15-Nov. 14, 1983	Nov. 15, 1983-Jan. 14, 1984	Jan. 15-April 14, 1984	April 15-July 14, 1984	July 15-Aug. 17, 1984
			(In millions of SDRs)			
Purchases under stand-by arrangement	8.25	--	16.50 1/	8.25	8.25	8.25
Ordinary resources	2.63	--	--	--	--	--
Borrowed resources	5.62	--	16.50	8.25	8.25	8.25
Repurchases	2.50	3.99	5.38	4.87	10.45	0.88
Of which: CFF	--	--	--	--	5.06	--
Net purchases	5.75	-3.99	11.12	3.38	-2.20	7.38
Total Fund holdings of Mauritian rupees (end of period)	197.45	193.45	204.57	207.95	205.75	213.13
			(In percent of present quota)			
Total holdings	487.5	477.6	505.1	513.5	508.0	526.3
Holdings excluding CFF, and buffer stock financing facility	378.6	368.7	396.2	404.5	411.6	429.8

Source: IMF, Treasurer's Department.

1/ Including the delayed second purchase of SDR 8.25 million.

When the present stand-by arrangement was approved by the Executive Board, it was envisaged that the first review would be completed before end-July 1983. The review was to reach understandings with the Fund on exchange rate policy, wage policy, and budgetary policy for 1983/84 (July-June), as well as the establishment of performance criteria on total domestic credit, net credit to Government for the period through end-December 1983, and drawdowns on nonconcessionary foreign borrowing for the remaining period of the stand-by arrangement. Discussions were held with the Mauritian authorities on the review in June 1983, but these were not completed owing to the dissolution of the Legislative Assembly on June 17, 1983, and the consequent delay in presenting and implementing the 1983/84 budget. Further discussions were held in early September following the general elections, held in August, and the return of the Government to office with an increased majority in the Legislative Assembly. 1/

To date, Mauritius has received 5 IDA credits and 16 IBRD loans, totalling US$161.8 million, of which US$98.2 million has been disbursed and US$15.72 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 World Bank in respect of a second SAL, of US$40 million, have been completed; consideration by the Bank's Executive Board of Mauritius' request for SAL II awaits the completion of the first review of the stand-by arrangement. The Bank organized a Consultative Group meeting of potential donors, held in Paris on June 1-2, 1983, at which pledges in excess of US$30 million were made. Mauritius' relations with the Fund and the World Bank are presented in Appendices II and III, respectively.

II. Background

The current stand-by arrangement supports an adjustment program covering the period January 1983-June 1984. It is the fourth in a series initiated in 1979 that have supported an adjustment strategy designed to reduce the internal and external imbalances and promote sustained economic growth. Policies supported by the first three stand-by arrangements emphasized mainly demand management measures. Despite unfavorable external factors, including adverse weather conditions in 1980/81 and 1981/82, and continued deterioration in the terms of trade, progress has been good (Table 2). The external current account deficit and the overall budgetary deficit have been reduced, and the inflation rate has declined. In view of this progress, policies supported by the fourth stand-by arrangement were designed with the twin objectives of encouraging supply and continuing on the path of adjustment.

1/ The staff members who participated in one or both missions consisted of Messrs. Abu-zobaa (head), Gibson, Mortimer-Lee, Hicklin (all AFR), Ms. Heflin (secretary-AFR), and Mrs. Nueno (secretary-TRE).

Table 2. Mauritius: Selected Economic and Financial Indicators, 1979/80/1983/84

	1979/80	1980/81	1981/82	1982/83 Program 1/	1982/83 Revised est. 2/	1982/83 Prov. actual	1983/84 Program
	(Annual per cent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices 3/	3.8	-8.1	5.3	5.5	6.4	7.2	3.1
GDP deflator 3/	20.8	19.4	10.9	7.5	6.6	6.1	7.8
Consumer prices	33.0	26.5	13.4	12.0	8.5	7.4	9.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	7.6	-6.3	16.2	6.0	-2.4	-4.3	4.5
Imports, c.i.f.	8.6	11.9	-13.3	8.4	2.6	-3.0	5.0
Non-oil imports, c.i.f.	3.7	12.2	-18.3	9.5	4.9	-1.4	7.6
Terms of trade (deterioration -)	-15.3	-5.3	-9.7	...	1.4	2.4	-0.3
Nominal effective exchange rate (depreciation -) 4/	-18.8	-6.0	-8.3	--	--	0.7	...
Real effective exchange rate (depreciation -) 4/	-5.0	7.8	-5.9	--	2.0	1.1	...
Government budget 5/							
Revenue, excluding grants	27.8	14.0	7.7	21.3	23.9	25.6	13.8
Total expenditure	17.8	24.5	9.1	13.9	13.4	9.5	11.2
Money and credit 6/							
Domestic credit 7/	26.5	20.1	14.5	17.4	20.1	19.5	15.8
Government 7/	38.6	21.0	15.3	22.9	24.3	26.5	16.3
Private sector	13.6	18.9	13.4	10.0	14.3	10.0	14.9
Money and quasi-money	14.3	8.6	18.0	15.0	17.9	20.9	15.0
Interest rate (annual rate one-year time deposit)	10.0	10.0	12.25	12.25	12.25	12.0	11.5
	(In per cent of GDP)						
Central government savings	-0.6	-2.5	-4.2	-2.2	-2.4	-2.3	-0.7
Central government budget deficit							
Excluding grants	-10.7	-14.1	-13.4	-12.0	-11.4	-10.1	-10.2
Including grants	-10.6	-13.9	-12.8	-11.0	-10.9	-9.9	-8.8
Domestic bank financing 7/	7.8	5.3	4.0	6.1	6.5	7.1	6.4
Foreign financing 7/	2.6	6.1	7.1	3.1	2.1	-0.9	0.9
Gross domestic investment	24.9	23.3	23.1	...	21.6	21.0	21.5
Gross domestic savings	14.8	8.7	19.4	...	17.0	17.0	17.8
External current account deficit							
Excluding transfers	12.1	17.6	7.9	8.5	8.8	7.5	6.9
Including transfers	10.7	15.5	5.7	6.5	6.5	5.0	4.5
External debt (preliminary) 8/	23.0	29.9	38.8	38.6	36.1	33.2	33.1
Inclusive of use of Fund credit	30.0	42.3	53.8	53.2	51.3	50.0	49.5
	(In percent of exports of goods and nonfactor services)						
Debt service ratio (including Fund)	7.6	15.8	14.7	21.3	21.2	21.6	25.2
Interest payments	5.0	9.3	9.2	...	10.1	9.7	8.9
	(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	-45.0	-61.0	2.0	-28.0	-31.0	-22.0	-20.0
Gross central bank reserves (months of imports)	0.9	0.7	1.2	0.8	0.8	1.0	0.7

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

1/ EBS/82/182 of October 7, 1982.
2/ EBS/83/78 of April 20, 1983.
3/ At market prices, revised series.
4/ Trade weighted.
5/ GFS presentation.
6/ Domestic banking system.
7/ Eurocurrency loans are shown within foreign financing; for performance criteria purposes, Eurocurrency loans are aggregated with domestic bank financing.
8/ At end of June.

This report reviews in Section III the targets and performance in 1982/83; the program for 1983/84 is described in Section IV; the medium-term balance of payments outlook is described in Section V. Policies and targets for FY 1982/83, described in the letter of intent of September 30, 1982, 1/ were supported initially by the previous stand-by arrangement, which expired last December, and thereafter by the current arrangement. Although the attainment of the targets for 1982/83 appeared very likely at the time of the negotiation of the current arrangement, early in 1983 the Government took additional measures in order to guard against unforeseen developments and to smooth the adjustment process in succeeding years. These measures were outlined in the letter of of intent of March 21, 1983, 2/ which also described in broad terms targets and policies for the full year 1983/84; these were elaborated during the first review of the current stand-by arrangement, and are incorporated in the attached letter of intent dated September 30, 1983 (Appendix I).

III. Targets and Performance in 1982/83

The principal objectives of the 1982/83 program were to contain the external current account deficit, including official transfers, to about 6.5 percent of GDP and to reduce the inflation rate to 12 percent, while sustaining the recovery in economic growth. Early in 1983 indications were that the external current account would be close to the target, while growth and price performance would be better than projected. However, because of some uncertainty associated with the timing of receipt of foreign grants, the Government took new revenue measures estimated to yield more than Mau Rs 50 million, or about 2 percent of total revenue, to ensure that the overall fiscal deficit would not exceed the program target of Mau Rs 1,366 million, or about 11 percent of GDP. With respect to monetary policy, the authorities completed the process of interest rate liberalization by removing all ceilings on lending rates; the ceilings on deposit rates had been lifted in the latter part of 1981. In the exchange area, to forestall a further appreciation of the Mauritian currency in trade-weighted terms, 3/ the rupee was unlinked from the SDR and pegged to a basket of currencies more representative of Mauritius' trade pattern. Furthermore, the authorities lifted some of the quantitative restrictions on imports.

1/ EBS/82/182 of October 7, 1982.

2/ EBS/83/78 of April 20, 1983.

3/ Between September 1981, when the rupee was last devalued and February 1983, the nominal trade-weighted exchange rate index appreciated by 6.2 percent. During the same period the real rate appreciated by 11.0 per cent.

Available data indicate that the targets for 1982/83 were attained, or even surpassed (Tables 2 and 3), and all performance criteria were observed. The external current account deficit was of the order of 5 percent of GDP, compared with 5.7 percent and 15.5 percent in 1981/82 and 1980/81, respectively (Table 4). The deficit was smaller than envisaged and reflected a 3 percent reduction in imports brought about by lower prices of petroleum, rice and wheat flour, and little growth in other imports. Exports were slightly below the original target; while sugar exports were as programmed, the performance of the Export Processing Zone (EPZ) was below expectations. Indications are that the EPZ was adversely affected by slack demand due to the world recession, increased competition from other free trade areas, the protectionist measures taken by some industrialized countries, and the appreciation of the rupee. Net capital inflows were smaller than projected because the Government chose not to seek recourse to the Eurocurrency market while repaying SDR 32 million on previously contracted loans. The overall balance of payments deficit of SDR 22 million was financed entirely by net Fund credit. At the end of June 1983, foreign exchange reserves stood at SDR 34 million, equivalent to about 4 weeks' imports. The debt service burden, inclusive of charges and repurchases related to Fund credit, increased from 14.7 percent of exports of goods and nonfactor services in 1981/82 to 21.6 percent in 1982/83, largely reflecting heavy repayments of Eurocurrency loans. Between February and June 1983, the nominal trade-weighted exchange rate index depreciated by about 2 percent, while the real rate depreciated by about 3 percent.

Progress on the inflation front was also encouraging. The consumer price index rose in 1982/83 by an average of 7.4 percent, compared with 13.4 percent in 1981/82 and 26.5 percent in 1980/81. The lower inflation rate occurred despite the introduction of a sales tax, the increase in stamp duties on imports (see below), and increases in retail prices of the two staple foods, rice and wheat flour. The better than expected price performance can be attributed to a slow rise in import prices brought about partly by the appreciation of the rupee, the increase in domestic output of certain food items and, more generally, the restrictive demand policy stance.

Provisional data on the 1982/83 budgetary outturn indicate an overall deficit of Mau Rs 1,215 million, equivalent to 9.9 percent of GDP, compared with 12.8 percent and 13.9 percent in 1981/82 and 1980/81, respectively (Table 5). The larger than expected reduction in the budget deficit (original target Mau Rs 1,366 million or 11.0 percent of GDP) was due mainly to a shortfall of Mau Rs 156 million in capital expenditure on account of delays in project implementation; if actual capital expenditure had turned out as budgeted, the overall fiscal deficit would have been Mau Rs 1,371 million, or 11.2 percent of GDP. The revenue measures taken in February 1983, which in the event were not required to achieve the overall fiscal target, kept the deficit

Table 3. Mauritius: Principal Indicators of Economic Trends, 1979/80-1983/84

	1979/80	1980/81	1981/82	1982/83			1983/84
	Actual			Prog. 1/	Revised est. 2/	Prov. actual	Prog.
	(Annual percentage change)						
Real GDP	3.8	-8.1	5.3	5.5	6.4	7.2	3.1
Consumer price index	33.0	26.5	13.4	12.0	8.5	7.4	9.0
	(Percent of GDP) 3/						
Deficits							
Overall fiscal	10.6	13.9	12.8	11.0	10.9	9.9	8.8
External current account	10.7	15.5	5.7	6.5	6.5	5.0	4.5
	(Level)						
Overall fiscal (millions of Mau Rs)	897	1,294	1,388	1,366	1,356	1,215	1,200
External current account (millions of SDRs)	97	144	54	67	67	51	49

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

1/ EBS/82/182 of October 7, 1982.
2/ EBS/83/78 of April 20, 1983.
3/ On the basis of revised GDP figures.

Table 4. Mauritius: Balance of Payments, 1980/81-1986/87

(In millions of SDRs)

	1980/81	1981/82	Program					Projections		
			1982/83			1983/84		1984/85	1985/86	1986/87
			Program (October 1982) 1/	Revised Estimates (April 1983) 2/	Prov. Actual	Original (April 1983) 2/	Revised Estimates			
Current account	-144	-54	-67	-67	-51	-54	-49	-47	-46	-49
Merchandise	-137	-35	-43	-50	-39	-35	-44	-41	-39	-43
Exports, f.o.b.	288	334	354	327	320	380	334	367	393	420
Imports, f.o.b.	-424	-369	-397	-377	-359	-415	-378	-408	-431	-464
Services (net)	-26	-39	-45	-40	-37	-43	-31	-34	-38	-39
Transfers (net)	19	20	21	23	25	24	26	28	31	33
Capital account	80	56	39	36	29	50	30	63	63	54
Public 3/	60	75	32	29	-7	46	34	62	62	52
Eurocurrency	29	30	-9	-13	-32	-37	-39	-24	-17	-8
Disbursements	(35)	(37)	(22)	(18)	(--)	(...)	(...)	(...)	(...)	(...)
Amortization	(-6)	(-7)	(-30)	(-30)	(-32)	(-37)	(-39)	(-24)	(-17)	(-8)
Existing concessionary loans	31	45	41	41	25	65	58	53	21	-7
Disbursements	(37)	(54)	(54)	(54)	(38)	(79) 4/	(72) 4/	(71) 4/	(42)	(20)
Amortization	(-6)	(-9)	(-13)	(-12)	(-13)	(-14)	(-14)	(-18)	(-21)	(-27)
Loans to be contracted	...	...	...	...	...	18	15	33	56	68
Eurocurrency	(...)	(...)	(...)	(...)	(...)	(18)	(15)	(22)	(15)	(8)
Concessionary	(...)	(...)	(...)	(...)	(...)	(...)	(--)	(11)	(41)	(60)
Private, including errors and omissions	20	-19	7	7	36	4	-4	2	3	3
SDR allocation	3	--	--	--	--	--	--	--	--	--
Overall balance	-61	2	-28	-31	-22	-4	-20	17	17	5
Financed by:										
IMF	56	20	19	22	22	14	12	...	...	...
Purchases 5/	(71)	(26)	(...)	(27)	(27)	(33)	(33)	(...)	(...)	(...)
Repurchases 6/	(-14)	(-6)	(...)	(-5)	(-5)	(-20)	(-21)	(-46)	(-46)	(-30)
Reserves 5/	5	-22	9	9	--	-10	8	...	...	...
End-year reserves in months of imports	0.7	1.2	...	...	1.0	...	0.7	...	...	...
Merchandise terms of trade 7/	-5.3	-9.7	...	1.4	2.4	-5.8	-0.3	-1.6	-0.6	0.1
Current account/GDP (percent)	-15.5	-5.7	-6.5	-6.5	-5.0	-4.6	-4.5	-4.2	-3.8	-3.8

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

1/ Projections envisaged in EBS/82/182 of October 7, 1982.
2/ Projections envisaged in EBS/83/78 of April 20, 1983.
3/ Including parastatal organizations.
4/ Assuming SAL II disbursements of SDR 18 million in 1983/84 and in 1984/85.
5/ From 1984/85-1986/87 no figure for gross use of Fund resources is given. The projections, however, do assume further Fund financing, which would allow net reduction in Fund credit, and no further decrease in reserves.
6/ Including Trust Fund.
7/ Percentage change from previous year.

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

	1980/81	1981/82	1982/83 Budget	1982/83 Revised estimates	1982/83 Prov. results	1983/84 Program
	(In millions of Mauritian rupees)					
Total revenue and grants	2,078	2,291	2,823	2,816	2,812	3,279
Of which: tax revenue	(1,796)	(1,950)	(2,301)	(2,313)	(2,394)	(2,820)
Total expenditure	3,372	3,679	4,189	4,172	4,027	4,479
Current	(2,314)	(2,747)	(3,098)	(3,113)	(3,092)	(3,368)
Capital	(1,058)	(932)	(1,091)	(1,059)	(935)	(1,111)
Overall deficit	-1,294	-1,388	-1,366	-1,356	-1,215	-1,200
Financing						
External (net) 1/	566	774	387	265	-111	304
Domestic (net)	728	614	979	1,091	1,326	896
Of which: banking system 1/	(496)	(438)	(754)	(803)	(875)	(680)
Memorandum item:						
Bank financing on a performance criterion basis 2/	850	853	1,023	1,023	816	750
	(In percent of GDP)					
Total revenue and grants	22.4	21.1	22.8	22.7	22.9	24.1
Total expenditure	36.3	33.9	33.8	33.7	32.8	32.9
Current	(24.9)	(25.3)	(25.0)	(25.1)	(25.2)	(24.7)
Capital	(11.4)	(8.6)	(8.8)	(8.5)	(7.6)	(8.2)
Overall deficit	13.9	12.8	11.0	10.9	9.9	8.8

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

1/ External finance includes nonconcessionary foreign borrowing; for performance criteria purposes, such borrowing is aggregated with domestic bank finance.
2/ Including drawings on nonconcessionary foreign loans.

on current operations to the programmed level. Despite the smaller than programmed overall budget deficit, net domestic borrowing, including recourse to the domestic banking system, was higher than envisaged, as the Government amortized existing Eurocurrency loans, and refrained from contracting new ones. However, on a performance criterion basis (i.e., including nonconcessionary foreign loans in the 1-10 years' maturity range), bank financing of the overall fiscal deficit was lower than programmed (see below), reflecting the larger than expected decline in the fiscal deficit and higher domestic nonbank finance. In this respect, in 1983 the Government introduced an anonymous bearer bond scheme, receipts from which totaled Mau Rs 35 million in the second half of the fiscal year.

In 1982/83 total revenue and grants increased by 22.7 percent over 1981/82, reflecting mainly an increase of 7 percentage points to 12 percent in the rate of stamp duties on imports, and the introduction, in January 1983, of a 5 percent sales tax on goods at the wholesale level. As a result, the share of total revenue and grants in GDP increased from 21 percent in 1981/82 to about 23 percent in 1982/83. Total expenditure declined in 1982/83 by one percentage point in relation to GDP due entirely to the shortfall in capital outlays. Current expenditures were kept constant in relation to GDP despite increases of 24 percent in interest on public debt, and of 13 percent in wages, salaries, and related payments. The latter reflected a 6.4 percent cost-of-living adjustment granted in June 1982 (compared with a rate of inflation of 13.4 percent in 1981/82), the reinstatement of one week's end-of-year bonus, and wage drift close to 5 percent due to increments. The budgetary cost of subsidies on rice and wheat flour was reduced in 1982/83 from Mau Rs 230 million to Mau Rs 190 million due to increases in retail prices and lower import costs.

The thrust of monetary policy continued to focus on reducing balance of payments pressures through credit restraint, while stimulating financial savings and improving credit allocation within the private sector. Apart from completing the process of interest rate liberalization referred to above, in early 1983 the method of allocating credit ceilings between banks was changed from an entirely loan-portfolio basis to one giving primary emphasis to the mobilization of time and savings deposits. With the liberalization of the structure of interest rates in late 1981, and the subsequent emergence of positive real interest rates, the change in the composition of the monetary aggregates toward quasi-money has continued; in the year ended June 1983 quasi-money grew by 23 percent, compared with an increase of 17 percent in money supply, strictly defined.

Total domestic credit increased in 1982/83 by 19.5 percent, as against 14.5 percent and 20.1 percent in 1981/82 and 1980/81, respectively (Table 6). The higher rate of increase in 1982/83 was due to the fact that, in contrast to the preceding two years, the Government

Table 6. Mauritius: Monetary Survey, June 1980-June 1984

(In millions of Mauritian rupees)

	1980		1981		1982				1983				1984
	June	Dec.	June	Dec.	Mar.	June	Oct.	Dec.	March	June	Oct.	Dec.	June
											Projections		
Foreign assets (net) 1/	-317	--	-969	-940	-1,026	-941	-885	-1,001	-976	-1,205	-1,345	-1,475	-1,452
Bank of Mauritius 1/	-234	50	-875	900	-985	-908	-941	-1,119	-1,024	-1,240	...	...	...
Commercial banks	-83	-50	-94	-40	-41	-33	56	118	48	35	...	...	...
Domestic credit	4,167	4,278	5,004	5,450	5,550	5,730	5,850	6,452	6,202	6,851	7,120	7,729	7,930
Net claims on Government	2,358	2,397	2,854	3,191	3,210	3,292	3,450	3,991	3,676	4,167	4,320	4,879	4,847
Bank of Mauritius	(1,544)	(1,417)	(2,139)	(2,490)	(2,396)	2,517	(2,497)	(2,865)	(2,537)	(2,828)	(...)	(...)	(...)
Commercial banks	(814)	(980)	(715)	(701)	(814)	(775)	(952)	(1,126)	(1,139)	(1,339)	(...)	(...)	(...)
Claims on private sector	1,809	1,881	2,150	2,259	2,340	2,438	2,400	2,461	2,525	2,683	2,800	2,850	3,083
Of which: sugar sector	(332)	(194)	(427)	(446)	(467)	(405)	(400)	(393)	(450)	(508)	(520)	(500)	(615)
Money (M_2)	3,367	3,837	3,655	3,993	4,090	4,313	4,449	4,927	4,775	5,213	5,323	5,789	5,995
Money (M_1)	1,371	1,721	1,391	1,534	1,467	1,513	1,461	1,742	1,586	1,772	...	...	...
Quasi-money	1,996	2,116	2,264	2,459	2,623	2,799	2,987	3,185	3,190	3,441	...	...	...
Other items (net) 1/	482	441	380	517	433	477	516	524	450	432	452	465	483
Memorandum items:													
Monetary survey on a performance criteria basis													
Foreign assets (net)	-317	-354	-1,323	-1,294	-1,380	-1,710	-1,654	-1,770	-1,745	-1,914	-2,054	-2,126	-2,232
Domestic credit	4,167	4,632	5,358	5,804	5,904	6,500	6,618	7,221	6,970	7,560	7,830	8,380	8,710
Of which: net claims on Government	(2,358)	(2,751)	(3,208)	(3,545)	(3,564)	(4,061)	(4,218)	(4,760)	(4,445)	(4,877)	(5,030)	(5,530)	(5,627)
Amount of Eurocurrency loans 2/	--	354.3	354.3	354.3	354.3	768.6	768.6	768.6	768.6	709.6	709.6	650.5	779.9

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

1/ Including valuation adjustment on liabilities to Fund.
2/ Valued at the rate of exchange on the date of drawing.

did not seek recourse to nonconcessionary foreign borrowing to finance the overall budgetary deficit. If account is taken of nonconcessionary foreign borrowing, which is included in the performance criterion definition, domestic credit expanded by 16.3 percent in 1982/83, compared with 21.3 percent in 1981/82 and 28.6 percent in 1980/81. On the same basis, net credit to the Government increased by 20.1 percent in 1982/83, compared with 26.6 percent and 36.1 percent in 1981/82 and 1980/81, respectively.

Parallel with the reduction in the internal and external imbalances and the lower rate of inflation, real GDP is estimated to have increased in 1982/83 by 7.2 percent, following an increase of 5.3 percent in 1981/82. Much of this growth, however, reflected the continued recovery of sugar output from adverse weather conditions in 1980/81 and 1981/82. The underlying rate of economic growth seems to have been much lower. Indications are that both the EPZ and tourism sectors have stagnated, and that the increase in nonsugar output emanated mostly from other services. Notwithstanding the recovery in sugar output, the financial position of the sugar industry appears to have deteriorated in recent years. While no data are available on the magnitude of this deterioration, it was partly due to external factors, namely weather-induced shortfalls in output and the reduction in prices on the free market. The difficulties have been exacerbated by the high rate of taxation, the increases in wages and salaries, and the appreciation of the rupee. An enquiry commission has been formed to examine the financial situation of the sugar sector, and the commission's draft report is due before the end of 1983.

The recent stagnation in investment and in output growth, other than sugar, have contributed to a worsening in the unemployment situation. Official estimates indicate that the rate of unemployment is now around 20 percent of the labor force.

IV. Targets and Policies for 1983/84

It was against the background of continued progress toward reducing the external and internal imbalances and a relatively low rate of inflation on the one hand, but also a slow rate of underlying economic growth, a reduction in the investment/GDP ratio, and a high level of unemployment on the other, that the program for 1983/84 has been formulated. The program aims at giving impetus to investment activity, improving the competitiveness of the economy and reducing the high level of unemployment, while continuing to reduce the financial imbalances.

The assumptions and targets for 1983/84, which differ somewhat from those presented in EBS/83/78 of April 20, 1983, in view of changing circumstances, are presented in Appendix IV. Real GDP growth at market prices is forecast at 3.1 percent in 1983/84 (5.0 percent previously), as against 7.2 percent realized in 1982/83; the slowdown in growth reflects the effects of drought on the sugar crop, which is expected to fall to 615,000 tons in 1983/84 (compared with an original assumption of 700,000 tons) from 688,000 tons in 1982/83. Consumer price inflation, which was 7.4 percent in 1982/83, is expected to increase to around 9 percent in 1983/84, owing mainly to a more rapid rise in the rupee price of imported goods. Wage awards for 1983/84 announced in late June allow for an increase in average public sector wages and salaries of 4.3 percent (compared with 6.4 percent in 1982/83) and of about half a percentage point more in the private sector. The external terms of trade are now expected to show little change from 1982/83, compared to the earlier expectation of a deterioration of 5.8 percent, due largely to a higher average sugar export price. The 1983/84 target for the external current account deficit is now SDR 49 million, as against an earlier projection of SDR 54 million. The overall deficit in 1983/84 is projected to improve only slightly to SDR 20 million, from SDR 22 million the year before.

1. The external sector

a. Balance of payments prospects

Prospects for 1983/84 are for small increases in both exports and imports and for the current account deficit to decline to about SDR 49 million (4.5 percent of GDP), compared with SDR 51 million (5 percent of GDP) in 1982/83. Despite the lower sugar crop in 1983/84, export tonnage is projected to rise by 16,000 tons to 578,000 tons as the Mauritius Sugar Syndicate is expected to end its stockbuilding. Assuming no change from the end-June 1983 stocks, 1/ normal domestic consumption, and export quotas to the EC and U.S., 2/ around 49,000 tons will be available for exports at the free market price, up from 27,000 tons in 1982/83. The increased share of exports sold at the relatively low free market price will mean a 1 percent reduction in the average export price. Sugar export receipts are nevertheless expected to rise by 2 percent in 1983/84 to SDR 200 million, representing 60 percent of total exports of goods. EPZ exports are projected to rise by 8 percent in 1983/84, and thereby almost recover to the 1981/82 level. The improvement reflects an expected upturn in world trade after the fall in 1982/83 and a rise in export prices of manufactures.

1/ Totaling 70,000 tons, of which 25,000 tons are kept under the provisions of the International Sugar Agreement.

2/ Domestic consumption averages 37,000 tons per annum, while export quotas to the EC and the U.S. are 503,000 tons and 26,000 tons, respectively.

Total imports (c.i.f.), which fell in SDR terms by 16 percent between 1980/81 and 1982/83, are projected to rise by about 5 percent in 1983/84. Project-related imports associated with the SAL II program and the aid pledged during the Consultative Group meeting of June 1983 are expected to increase at a faster rate than other categories. In total, a deterioration in the merchandise deficit of SDR 5 million is projected for 1983/84, to SDR 44 million. The services and transfer accounts are expected to improve, however, by some SDR 7 million, owing mainly to lower interest payments on Eurocurrency loans, as the stock of such debt is reduced.

Net capital inflows in 1983/84 are projected at SDR 30 million, close to the level in 1982/83. However, expectations are that the composition of the capital account will be substantially changed. Whereas in 1982/83 there was a net short-term private capital inflow, reflecting delayed payments for sugar shipped in 1981/82, and external borrowing by the Mauritius Sugar Syndicate, this is expected to be partly reversed in 1983/84. On the other hand, the public sector net capital inflow is expected to benefit from large disbursements of concessional loans, including SDR 18 million from the World Bank's SAL II. Despite further large Eurocurrency amortization of SDR 39 million, and assuming a drawdown of only SDR 15 million of nonconcessionary loans to be contracted, the total public sector capital account is projected to register a net inflow of SDR 34 million, compared with a net outflow of SDR 7 million in 1982/83. The net effect of the current and capital account projections is for an overall deficit of SDR 20 million in 1983/84, an improvement of SDR 2 million over 1982/83. The deficit is projected to be financed by net use of Fund credit of SDR 12 million, and the remainder by a drawdown on official reserves; the end-year level of reserves is expected to decline to the equivalent of about three weeks' imports. Because of the large increase in repayment of Fund credit in 1983/84, the debt service ratio is expected to rise to 25.2 percent, compared with 21.6 percent in 1982/83 (Table 7).

b. Import liberalization

Although Mauritius' trade and payments system is basically liberal, trade restrictions apply to a number of commodities. During 1983/84 the Government will implement a policy of import liberalization, with a view to improving the allocation of resources and enhancing the efficiency of the import-competing sectors. Twenty-two items, which at present are subject to quotas on the basis of volume or value, will be completely liberalized before the end of 1983. Additionally, by the same date, imports that are currently banned to protect local industries will become subject to quotas of not less than 25 percent of the estimated total demand in 1982. As part of its program of structural adjustment, developed in conjunction with the World Bank, Mauritius will move gradually to replace quota restrictions by import tariffs.

Table 7. Mauritius: Debt Service Payments on Medium- and Long-Term Debt, 1981/82-1986/87 1/

(In millions of SDRs)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Eurocurrency 2/	26	51	51	34	28	19
Principal	7	32	39	24	17	8
Interest	19	19	12	11	11	11
Other public (excluding IMF) 3/	19	24	29	39	47	59
Principal	9	13	14	18	21	27
Interest and charges	10	11	16	21	27	32
Private	5	4	4	3	2	2
Principal	4	4	3	2	1	1
Interest	1	1	1	1	1	1
IMF 4/	19	18	35	61	62	44
Repurchases	6	5	21	46	46	30
Charges	13	12	14	15	15	15
Total (including IMF)	68	97	119	137	139	126
Principal and repurchases	26	54	77	90	86	67
Interest and charges	43	44	42	47	54	59
Debt service ratio 5/	14.7	21.6	25.2	26.6	25.0	21.0
Principal service ratio	5.5	11.9	16.3	17.5	15.4	11.2
Interest service ratio	9.2	9.7	8.9	9.2	9.7	9.8

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 the midpoint of the fiscal year.

2/ From 1984/85 the Mauritian authorities assume a LIBOR of 11 percent plus the usual spread of 2 percent. These projections are retained in this table.

3/ On long-term debt to be contracted through 1986/87 an interest rate of 10 percent is assumed.

4/ Including Trust Fund.

5/ In percent of exports of goods and nonfactor services.

c. The exchange rate

Since the rupee was unlinked from the SDR and pegged to a basket of currencies more representative of the country's trade pattern, both the nominal and the real effective exchange rates have depreciated, thereby partially reversing the appreciation that took place between September 1981 and February 1983 (Chart 1). Between end-February and end-September 1983, the nominal and real effective rates are estimated to have depreciated by about 3 percent and 4 percent, respectively. The Government will continue to pursue a flexible exchange rate policy with a view to improving the competitiveness of the economy and the allocation of resources. Given the priority goals of economic growth and providing employment opportunities, the financial position of the sugar industry, the EPZ, and tourism are, inter alia, important indicators of the appropriateness of the exchange rate level.

2. Fiscal policy

The budget for 1983/84 was presented to the Legislative Assembly on October 11. The budget continues the prudent stance of demand management policies and provides for a steady reduction in the deficit/GDP ratio and in the rate of increase in net domestic credit to the Government. The 1983/84 budget aims at improving the structure of the budget by bringing the current operations of Government into broad equilibrium for first time since the mid-1970s, and at reducing the overall fiscal deficit from an estimated outturn of Mau Rs 1,215 million (9.9 percent of GDP) in 1982/83 to no more than Mau Rs 1,200 million (8.8 percent of projected GDP).

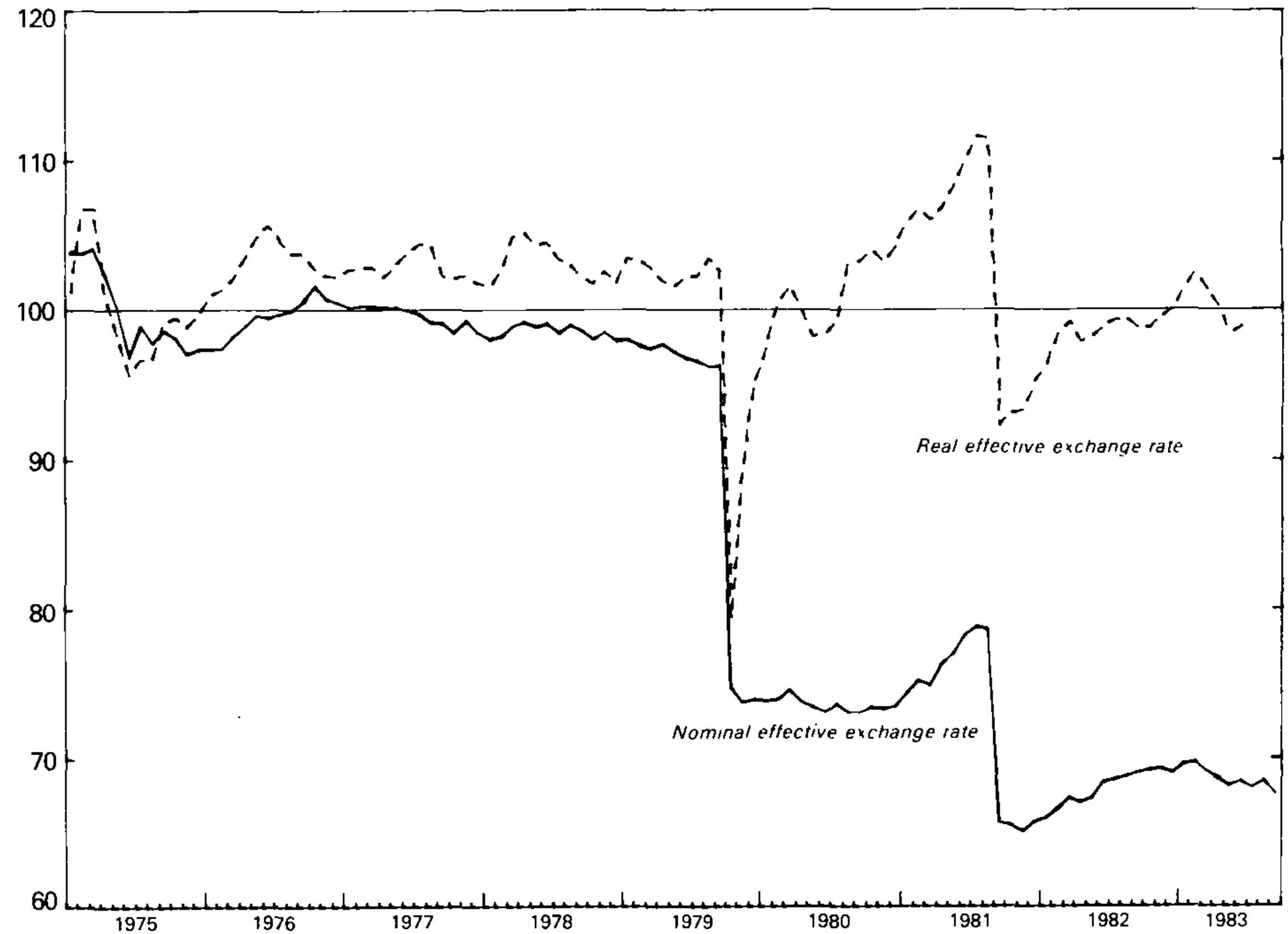
The attainment of the 1983/84 fiscal target depends upon discretionary revenue measures and tight expenditure controls. Total revenue and grants are budgeted to rise by about 17 percent, and to account for around 24 percent of GDP, compared with 23 percent in 1982/83. Principal new revenue measures, estimated to yield Mau Rs 190 million in 1983/84 (equivalent to 7 percent of 1982/83 revenue), include the reimposition of customs duties on nonbasic food items and public sector imports, the introduction of a tax on capital gains arising from the conversion of agricultural land to residential use, and a withholding tax on dividends; a list of the revenue measures taken, with estimates of their yield in 1983/84, is given in Appendix V. Additionally, prior to the dissolution of the Legislative Assembly in June 1983, the Government raised the rate of sugar export duties to its pre-1982/83 level. Further increases in revenue compared with 1982/83 will accrue from the first full year's impact of the sales tax, introduced in January 1983, and from the policy of maintaining the retail price of gasoline at about US$2.80 per imperial gallon, despite the fall in the unit value of petroleum imports. Because the budgeted new revenue measures will apply to the last eight months of 1983/84, their full impact can be expected from 1984/85 onward.

CHART 2

MAURITIUS

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

(1975=100)



Source: Staff calculations; decline equals depreciation.

Parallel with these measures, tax administration is being strengthened and improved. Personal income tax receipts have already risen due to cross referencing between the sales tax and income tax departments. Steps are under way toward the establishment of a Unified Revenue Board, and an Income Tax Tribunal. Furthermore, the penalties for nonfiling of tax returns, by both corporate and individual taxpayers, will be decriminalized, and replaced by an automatic penalty action. Steps are being taken to establish formally the Sales Tax Department, increase the number of staff, and improve enforcement. Prospective revenue increases arising from improvements in tax administration have not been incorporated in the estimates for 1983/84 but will serve to reduce further the overall budgetary deficit. During the course of the year the Government will, with technical assistance from the Fund, examine the system of company taxation with a view to encouraging higher investment. The customs tariff structure is to be thoroughly reviewed and rationalized.

Total expenditure in 1983/84 is budgeted to increase by 11.2 percent from the estimated outturn in 1982/83 and to remain at about a third of GDP. Current expenditure is programmed to decline in relation to GDP from 25.2 percent to 24.7 percent, the lowest ratio since 1979/80. Only expenditure related to public debt interest, as well as wages and wage-related payments, has been budgeted to increase. The increase in wages, salaries, and related transfers (8.8 percent), reflects mainly annual increments and the cost-of-living adjustment, partly offset by the withdrawal of the one week's year-end bonus. However, the Government is reviewing the system of public sector wage awards (combining cost-of-living adjustments and increments), with a view to limiting the overall budget deficit and reducing the share of personnel costs in total expenditure. With the same objectives, the Government will hold the total number of government positions, permanent and temporary, to the 1982/83 level. Expenditure on goods, services, and transfers has been budgeted at the 1982/83 outturn, with increases in some items, such as the Government's contribution to a newly established unemployment hardship relief fund, being offset by reductions in subsidies on rice and wheat flour. In 1983/84 the total cost of rice and wheat flour subsidies will be limited to no more than Mau Rs 100 million, compared with a budgetary cost of Mau Rs 190 million in 1982/83. This saving is attributable mainly to the increases in retail rice and wheat prices (of around 30 percent) in November 1982 and to lower import prices. Depending on the prices negotiated for new contracts of rice and flour imports, further increases in retail prices may be necessary to ensure that the cost of subsidies is limited in 1983/84 to Mau Rs 100 million.

In 1983/84 capital expenditure and net lending is budgeted to rise by 18.8 percent (to 8.2 percent of GDP) over the 1982/83 outturn (7.6 percent of GDP); external project loan disbursements are expected to finance 40 percent of the total and program aid will contribute a further 27 percent. The Public Sector Investment Program (PSIP), which has been reappraised with the World Bank, stresses the development of infrastructure aimed at encouraging growth based on export processing industries and tourism. Capital expenditures have so far included transfers to parastatal bodies, such as the Development Works Corporation (DWC), for infrastructure projects, which contain some "make-work" elements. To reduce this burden, the DWC is to be replaced in 1983/84 by the State Construction Corporation which will be run on commercial lines. Almost 2,000 of the DWC's current labor force of about 6,000 are to be transfered to productive employment in the agricultural diversification program. Moreover, to reduce the cost to the budget of the Tea Development Authority (TDA) and to improve productivity, some TDA employees are to be given plots of land and become independent smallholders.

While the authorities hope to implement fully the capital budget, some shortfall may occur due to several factors, including delays in project implementation and in the preparation of feasibility studies. If the outturn of the capital outlays were lower than the budgeted figure, as was the case in 1981/82 and 1982/83, the overall fiscal deficit would also be reduced; related disbursements of foreign project aid would also be lower than projected.

3. Monetary policy

The Mauritian authorities intend to continue pursuing cautious credit and monetary policies with a view to improving further the balance of payments and containing inflation. The new system of allocating private sector credit ceilings between banks, introduced in January 1983, is based primarily on deposit mobilization; during the course of 1983/84 the authorities will increase further the weight given to this criterion. In response to the increasing importance of credit provided by some nonbank financial intermediaries, banking legislation will be revised so as to subject these intermediaries to reserve requirements. Since June 1983 these nonbank financial institutions have been expanding their loans at about the same rate as commercial banks.

Since the structure of interest rates was liberalized, the spread between deposit and loan rates has widened by around two percentage points, and the rates have not responded to the pronounced reduction in the inflation rate. Lending rates are now substantially positive in real terms (nominal rates are at least 14 percent) and are probably contributing to the slack in investment demand. In order to encourage investment activities and help lower the unemployment rate, in October 1983 the Mauritian authorities lowered both the bank rate and the treasury bill rate by one percentage point to 11 percent and 10 percent, respectively, so as to provide a clear signal to the market; they hope hope that commercial banks will follow suit.

The increase in broad money is projected at about 15 percent during 1983/84, compared with 20.9 percent in 1982/83, and is consistent with the likely evolution of money demand and the continuing monetization of the economy. Although formal credit ceilings for March and June 1984 have not yet been set, it is expected that total domestic credit, including nonconcessionary foreign borrowings by the Government, will increase by 15.2 percent in 1983/84, compared with increases of 16.3 percent and 21.3 percent in 1982/83 and 1981/82, respectively. Similarly, net credit to Government is projected to rise by around 15 percent, as against 20.1 percent and 26.6 percent in 1982/83 and 1981/82, respectively. Private sector credit is expected to increase in 1983/84 by about 15 percent, compared with only 10 percent in 1982/83; within the total, the sugar industry's borrowing is expected to increase by 21 percent, reflecting the difficult financial position of the industry, the impact of a reduced crop, and the increase in the sugar export duty. Furthermore, whereas in 1982/83 there were net short-term capital inflows to the sugar industry, these are not expected to be repeated in 1983/84, and, therefore, the sugar industry's borrowing from domestic banks is projected to rise.

Performance criteria relating to expansion in total domestic credit and net credit to Government have been set for end-October and end-December 1983 (Table 8); 1/ indicative targets have also been formulated for the end of the program period. The ceilings take account of usual seasonal patterns, official projections of the government deficit, and long-term external and internal nonbank borrowing. Performance criteria for end-March and end-June 1984 will be set in the context of the second review of the program.

4. Wage policy

In regard to wage policy, fiscal year 1983/84 is the last year for which a global wage award is to be made; a cost-of-living adjustment of 7.6 percent has been granted to all employees earning up to Mau Rs 1,000 per month, and a flat increase of Mau Rs 75 per month has been granted for those earning above this level, resulting in average wage increases of 4.3 percent in the public sector, and 5 percent in the private sector. The wage policy for public sector employees, described above, will result in a lower fiscal deficit and, it is hoped, will set an example for private sector wage settlements. The Government continues to view wage restraint as vital to improving competitiveness and employment prospects. In this regard, appropriate legislation will be in place before the 1984/85 wage negotiations so as to base

1/ The ceilings for end-December 1983 imply that total domestic credit and net credit to the Government (inclusive of nonconcessionary foreign borrowing) at the end of 1983 would be no more than 16.1 percent and 16.2 percent higher than a year earlier, respectively, compared with corresponding increases during 1982 of 24.4 percent and 34.3 percent.

Table 8. Mauritius: Quantitative Performance Criteria and Indicative Targets for the Period to June 1984 1/

	1982 Dec. Actual	1983 March	1983 June	1983 Oct.	1983 Dec.	1984 June
	(In millions of Mauritian rupees; end of period)					
Credit to Government (net) 2/						
Ceiling	...	4,900 3/	5,084	5,030	5,530	5,627 3/
Actual	4,760	4,445	4,877	...	...	
Total domestic credit 4/						
Ceiling	...	7,495 3/	7,870	7,830	8,380	8,710 3/
Actual	7,221	6,970	7,560	...	...	
	(In millions of U.S. dollars)					
New external borrowing commitments (cumulative) during program period						
1-10 years' maturity 5/						
Ceiling			50	50	50	50
Actual			0	...	...	...
1-5 years' maturity						
Ceiling			(0)	(0)	(0)	(0)
Actual			(0)	(...)	(...)	(...)
Drawdown on new external borrowing (cumulative in program period)						
Ceiling			20	40	40	40
Actual			0	...	...	...

Source: Mauritian authorities.

1/ Performance criteria for March and June 1984 will be set at the time of the second review of the program.

2/ Defined as credit to the Government from the banking system less government deposits plus any budgetary use of new nonconcessionary loans (net) of 1-10 years' maturity.

3/ Indicative target, not performance criterion.

4/ Defined as net credit to the Government plus credit extended by the banking system to the private sector.

5/ 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.

wage adjustments in the private sector on direct negotiations between employees and employers at the level of the firm or industry. The principal objective is to achieve more moderate wage settlements than the generalized awards, and thereby improve the competitiveness of the economy.

5. Price controls

Price controls are currently applied to a wide range of goods. For imported goods, where supplies are controlled by a few large traders, price control is largely on the basis of fixed markups (averaging around 40 percent) over costs, but in some cases involves the setting of maximum prices. By January 1, 1984, maximum prices on imported goods will be replaced by the markup system, with the exception of basic foods and a few other essential commodities. The authorities will ensure that markups provide for an adequate rate of return and that administered prices fully reflect increases in the rupee cost of imported goods. The principal imported goods for which maximum prices are fixed and which receive subsidies from the budget are rice and wheat flour; the budgetary cost of these subsidies was lowered from Mau Rs 230 million in 1981/82 to Mau Rs 190 million in 1982/83; a further reduction to Mau Rs 100 million is programmed in 1983/84. With regard to price controls on locally produced goods, as a first step, by January 1, 1984 maximum prices will be removed from 12 commodities, but will continue to apply to 28 items, comprising food, other basic commodities, and items produced under conditions of monopoly or oligopoly.

V. The Medium-Term Balance of Payments Outlook

With a continuation of the adjustment effort after 1983/84, and assuming no severe adverse weather or other external shocks, the balance of payments outlook over the medium term is generally favorable (Table 4). Projections prepared by the staff and the Mauritian authorities maintain, as objectives, continued improvement in the structure of the balance of payments, so as to reduce rapidly the net outstanding Fund credit and Eurocurrency loans.

The balance of payments projections assume implementation of policies envisaged in the SAL II program to promote manufactured exports and tourism, along with reductions in real wages, continued exchange rate and interest rate flexibility, and import liberalization. With some improvement in competitiveness, export receipts are projected to increase at an average annual rate of 7.0 percent between 1982/83 and 1986/87, exceeding slightly the rate of increase in imports (6.6 percent). Only modest improvements, in absolute terms, are projected in the current account deficit, but in relation to GDP, the deficit will decline from 5 percent in 1982/83 to 3.8 percent in 1986/87.

In projecting sugar exports from 1984/85 onward, an annual output of 650,000 tons has been assumed, which is below the estimated potential production of about 700,000 tons and allows, therefore, for some safety margin in case of bad weather. The Mauritian authorities indicated that the EC annual quota of approximately 500,000 tons is not subject to reduction. A 4 percent annual increase in the EC price, quoted in ECU terms, has been projected through 1986/87, the same as the increase granted for 1983/84. The annual quota to the U.S. of 26,000 tons is assumed to remain unchanged, with prices projected to rise by 3 percent in 1984/85 and by 5 percent per annum thereafter. As to sugar exports outside the EC and the U.S., it is assumed that the volume will rise to 84,000 tons beginning 1984/85, compared with 49,000 tons in 1983/84. This is based on the assumption of no further accumulation of stocks above the June 1983 level of 70,000 tons. Prices outside the EC and the U.S. are assumed to increase from an average of 10.8 U.S. cents per pound in 1983/84 to 14 U.S. cents per pound by 1986/87. Price projections in the U.S. and the free market are broadly in line with those made by the Fund's Commodities Division. In total, sugar export receipts are projected to rise by an average of 6 percent in SDR terms in the three years 1984/85 to 1986/87.

A gradual recovery from world recession is expected to benefit EPZ exports and receipts from tourism. EPZ exports are projected to rise at an annual average of 11.6 percent during the three years to 1986/87, of which 6.8 percent is volume growth, generated by the assumed 5 percent annual expansion of world trade and some improvement in competitiveness. Tourism receipts are projected to rise at an average 12 percent per annum reflecting also the change in air access policy and other measures envisaged under SAL II. On the imports side, demand for petroleum and consumer goods is assumed to rise in line with the projected growth in the economy; the volume of rice and wheat flour imimports is projected to increase parallel with population growth; EPZ and the public sector's capital goods imports are assumed to grow proportionately with EPZ exports and public capital expenditure, respectively.

On the basis of these assumptions, the external current account deficit is projected to average SDR 47 million per annum during 1984/85-1986/87, compared with an average of SDR 50 million in 1982/83 and 1983/84. The deficits are expected to be financed mainly by net long-term public sector capital inflows. These include disbursements under the IBRD's SAL II, and under commitments pledged during the Consultative Group meeting in June 1983. The Mauritian authorities reaffirmed their intention that, over the next few years, new borrowings on commercial terms would be less than amortization payments falling due, and accordingly, total nonconcessionary borrowings during the period 1984/85-1986/87 are projected at SDR 45 million. In regard to concessionary capital inflows, projections have been made separately for disbursements under existing loans and under new loans yet to be contracted. In fact, early in October the United Kingdom provided Mauritius with £12 million, of which £3 million is in the form of grant. In addition, active discussions are currently under way with other friendly governments for concessionary financial assistance. In all, net disbursements (i.e., after amortization payments) under existing and new concessionary loans have been estimated at about SDR 60 million per annum, which is the level projected for 1983/84. If a short fall in project loans occurs, imports of capital goods are expected to be below projections.

Given the projections for the capital account and interest payments, the debt service ratio is expected to peak in 1984/85 at 26.6 percent of exports of goods and nonfactor services and to decline thereafter (Table 7). Following large repayments in 1982/83 and 1983/84, the burden of servicing Eurocurrency loans will drop sharply. This will be more than offset, however, by a pronounced increase in repurchases from the Fund, leading to an increase of 15 percent in total debt service payments in 1984/85. As a consequence of the continuing decline in repayments of nonconcessionary loans, lower repurchases from the Fund after 1985/86, and the increase in exports, the debt service ratio is projected to fall to 21 percent in 1986/87.

VI. Staff Appraisal

The economic and financial position of Mauritius has responded well to the comprehensive policy program implemented since 1979. Under four successive stand-by arrangements, substantial progress has been achieved in reducing the external and internal financial imbalances. The external current account deficit has fallen, the overall fiscal deficit has been reduced, and the inflation rate has declined to a single digit. The progress made in the financial sphere has been marred, however, by a continuing rise in unemployment, and a low rate of underlying economic growth. Furthermore, the financial position of the sugar industry appears to have deteriorated in recent years, with implications for the long-term prospects of this industry. The authorities' development strategy, endorsed by the World Bank, focuses on promoting growth and employment through the development of export-oriented industry and tourism. The former has been stymied, however, by the effects of the world recession, aggravated by increasing protectionism in industrialized countries, and by some loss of competitiveness since the rupee's second devaluation in September 1981.

The program for 1983/84 places emphasis on the supply side, while continuing the process of adjustment. Given the narrow resource base of Mauritius, it is important to improve the financial health of the sugar industry and the competitiveness of nonsugar sectors. In this regard, the staff welcomes the authorities' intention to pursue a flexible exchange rate policy, with the financial position of the sugar industry and the EPZ being among the prime factors determining the extent of adjustment required. As to wage policy, future increases (combining increments and cost-of-living increases) need to be held below the inflation rate. The authorities expect that the introduction of the new systems of wage awards in the public and private sectors beginning in 1984/85 will lead to a reduction in real wages, thereby improving the competitive position of Mauritius and increasing the scope for capital formation and employment.

The overall fiscal deficit has been progressively reduced but is still high, given the scarcity of noninflationary sources of financing. The fiscal effort in 1983/84 includes tax measures, as well as curbs on current expenditure, which, excluding wages and salaries and interest on public debt, will be kept stable in nominal terms. In the period ahead, further effort will be required to generate current budgetary savings to finance capital outlays and to reduce the overall fiscal deficit.

Restrictive credit and monetary policies have, so far, contributed importantly to the adjustment process, and this policy stance needs to be continued in the period ahead. The emphasis on deposit mobilization to allocate credit ceilings between banks is appropriate, and further action in this direction is welcome. Until mid-September 1983, the structure of interest rates was substantially positive in real terms. However, in view of the recent reduction in the discount rate and treasury bill rate and the projected slight increase in the inflation rate, the authorities will need to keep the interest rate structure under close review.

The staff welcomes the recent and prospective reduction in quantitative controls on imports and the decision to reduce the scope and rigidity of price controls. Together, these measures should improve the allocation of resources and stimulate production.

In the staff's judgment, the balance of payments outlook for Mauritius for the medium-term is generally favorable, assuming no severe exogenous shocks. Mauritius should be able to make substantial net repurchases to the Fund (including special facilities) beginning from 1984/85. In order to achieve this, the authorities will need to implement appropriate adjustment policies on a sustained basis beyond 1983/84, and continue to mobilize concessional external assistance at least at the level projected for 1983/84, both of which are feasible in the staff's judgment. Two aspects of the medium-term balance of payments projections contained in this report deserve special mention in this context. First, is the considerable reduction in outstanding Eurocurrency loans that has taken place. Second, is the conservative basis on which sugar exports have been projected. These two factors provide some cushion for the balance of payments for the medium term. However, it would still be important for the authorities to be prepared always to strengthen their adjustment policies, given especially the relatively high degree of risk of untoward exogenous developments, including adverse movements in external terms of trade, that Mauritius is exposed to.

The Mauritian authorities have demonstrated a firm and sustained commitment to adjustment and have taken steps to implement all measures described in the program; the policy undertakings are consistent with the authorities' targets to attain a sustainable medium-term external position. The staff believes that the measures that the authorities have taken in the context of the first review reflect their determination to persevere in the adjustment effort, and that they deserve continued Fund support.

VI. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

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

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

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

"4(a) during any period in which:

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

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

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

is not observed; or

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

Port Louis, Mauritius
September 30, 1983

Dear Mr. de Larosière:

1. The present stand-by arrangement with Mauritius supports an 18-month program covering the period January 1983 - June 1984. Our letter dated March 21, 1983 described policies for the first six months, which ended June 30, 1983, and broadly outlined policies and targets for 1983/84 (July-June); detailed policies to attain these targets were to be articulated in the context of the first review of the stand-by arrangement. In regard to performance for 1982/83, all targets established for this year were attained, and in some respects surpassed, and all performance criteria were observed. Preliminary estimates indicate that the external current account deficit was of the order of 5 percent of GDP, the overall fiscal deficit was equivalent to about 10 percent of GDP, and the rate of inflation was contained to 8 percent; real GDP is estimated to have increased by about 7 percent. Despite a relatively high rate of economic growth in the last two years, the rate of unemployment has continued to increase and currently is equivalent to about 20 percent of the labor force.

2. The Government has now formulated its policies for 1983/84. The policies aim at reducing further the external current account deficit to about 4.5 percent of estimated GDP, the overall fiscal deficit from an estimated outturn of Mau Rs 1,215 million to no more than Mau Rs 1,200 million (8.8 percent of GDP), and to contain the rate of inflation to about 9 percent. The 1983/84 budget will be presented to the newly-elected Legislative Assembly in early October, and the Government expects that it will be approved and implemented before end-October 1983.

3. The attainment of the 1983/84 fiscal target depends on both discretionary revenue measures and tight expenditure controls. The measures taken will ensure that for the first time since the mid-1970s the Government's current operations will be in broad equilibrium. Total revenue and grants are budgeted to rise by about 17 percent, and to account for about 24 percent of GDP, compared with less than 23 percent in 1982/83. Principal new revenue measures, estimated to yield Mau Rs 190 million in 1983/84, include the rationalization of import tariffs, the reimposition of customs duties on non-basic food items, and public sector imports, the introduction of a tax on capital gains arising from conversion of agricultural land to residential use, and a withholding tax on declared dividends. Furthermore, pending the findings of the Sugar Enquiry Commission, the Government has withdrawn since July 1983 the relief given to the sugar industry in 1982/83, by restoring the rate of export tax on sugar to its pre-1982/83 level. Following the report of the Commission, scheduled in late 1983, the Government will implement the Commission's recommendations with a view to improving efficiency and productivity, and promoting the long-term viability of the industry. The 1983/84 revenue estimates do not take into consideration the intended improvement in tax administration; any such improvement will help to reduce further the overall fiscal deficit.

To this end, a Unified Revenue Board is being established and will become fully operational on January 1, 1984. Parallel with this, specific steps will be taken to improve the performance of the income tax department with a view to reducing tax evasion. An income tax tribunal will be set up before January 1, 1984, to hear and determine expeditiously taxpayers' objections on income tax assessments. Moreover, the penalties for nonfiling of tax returns, by both corporate and individual taxpayers, will be decriminalized and an automatic penalty action substituted by January 1, 1984. Immediate steps will be taken to establish formally the Sales Tax Department, to increase the number of staff, and to improve the administration and enforcement of the sales tax. A timetable for the proposed improvements in tax administration has been provided to the Fund staff.

In regard to expenditure, its total is expected to remain around one third of GDP. In respect to current outlays, expenditure related to wages and salaries and to interest on public debt has been budgeted to increase, whereas the total of all other current outlays has been maintained at the 1982/83 level. Expenditure on wages, salaries and wage-related transfers is budgeted to increase by 8.8 percent over the 1982/83 estimated outturn, reflecting mainly annual increments and the cost-of-living adjustment (see below). In 1983/84, the Government will not grant any end-year bonus. Although a number of new posts will be created, an equivalent number will be abolished, and, as a result, the total number of government positions, permanent and temporary, will be held to the 1982/83 level of 64,275. Expenditure on goods and services subsidies, and non-wage related transfers has been budgeted at the 1982/83 estimated outturn, with increases in some items offset by reductions in transfers to parastatals and subsidies on rice and wheat flour. The subsidies will be limited in 1983/84 to no more than Mau Rs 100 million, compared with Mau Rs 190 million in 1982/83. Capital expenditure is budgeted to increase in 1983/84 in line with the Public Sector Investment Program approved by the World Bank and in conformity with an improvement in external development finance.

4. In regard to wage policy, fiscal year 1983/84 is the last year for which a global wage award is to be made; a full cost-of-living adjustment of 7.6 percent has been granted to all employees earning up to Mau Rs 1,000 per month, and a flat rate of Mau Rs 75 per month has been granted for those earning above this level. As a result, average wages are estimated to increase by around 4.3 percent in the public sector, and by about 5 percent in the private sector. Before the next round of wage negotiations, the Government will develop a scheme to link public sector employees' annual total wage awards (combining increments and cost-of-living adjustments) to labor productivity, with a view to improving the allocation of resources.

The Government continues to view wage restraint as vital to improving competitiveness and employment prospects in the private sector. In this regard, appropriate legislation will be in place before the 1984/85 wage negotiations so as to base the annual wage adjustment on direct negotiations between employees and employers at the level of the firm or industry. The above changes in the system of wage awards for both the public and private sectors will take place beginning 1984/85.

5. Monetary policy has played a major role in the adjustment process. With the full liberalization of interest rates, the rates on deposits have become positive in real terms. Reflecting this, the share of quasi-money in broad money has been increasing, and this trend is expected to continue. With the reduction in the underlying rate of inflation, it is expected that market forces will encourage a decline in the overall structure of interest rates. For the purpose of monitoring the program, total domestic credit, which amounted to Mau Rs 7,560 million at the end of June 1983, will not exceed Mau Rs 7,830 million on October 31, 1983 and Mau Rs 8,380 million on December 31, 1983. Within the above ceilings net credit to the Government, which amounted to Mau Rs 4,877 million at the end of June 1983, will not exceed Mau Rs 5,030 million on October 31, 1983, and Mau Rs 5,530 million on December 31, 1983. The ceilings on total domestic credit and net credit to Government are defined to include credit extended by the domestic banking system and any budgetary use of nonconcessionary foreign borrowing in the 1-10 years' maturity range. The ceilings for the remaining period of the stand-by arrangement will be established in the context of the second review to be completed before end-January 1984. In formulating its credit policy for 1983/84 the Government intends that total domestic credit and net credit to the Government will not exceed Mau Rs 8,710 million and Mau Rs 5,627 million, respectively, on June 30, 1984.

6. On trade policy, the Government will carry out an import liberalization program phased over 1983/84. In this regard, the importation of 22 items currently subject to quota limitations will be completely liberalized prior to January 1, 1984. Furthermore, by this date imports which are completely restricted as a measure of protection for local industries will become subject to quotas of not less than 25 percent of estimated total demand in 1982. A complete list of goods which will remain subject to quota limitations, and a timetable for removing the quotas, will be provided to the Fund staff before end-October 1983.

7. Price controls are applied to a wide range of goods. During 1983/84, maximum prices applied to imported goods will be replaced by a system of mark-ups above costs, with the exception of certain foodstuffs and other essential goods for which maximum prices will continue to apply. The Fund staff has been provided with a list of imported goods currently subject to maximum prices and a list of these goods which will be removed from maximum price control by January 1, 1984. The Government will ensure that administered retail prices will fully

reflect increases in the rupee cost of imported goods, and that the size of the mark-ups provides for an adequate rate of return. In regard to domestically produced goods, by January 1, 1984, maximum prices will be removed from 12 commodities, but will continue to apply to 28 items, comprising food, a few other basic commodities and some products of firms operating under conditions of monopoly or oligopoly. A list of locally produced goods which will remain subject to maximum prices has been provided to the Fund staff.

8. On February 28, 1983, the peg for the Mauritian rupee was changed from the SDR to a basket of currencies more representative of the country's trade pattern. Since then the rupee has depreciated by more than 1 percent in effective terms, thereby partially offsetting some of the effective appreciation that had taken place since September 1981. The Government will continue to pursue a flexible exchange rate policy with a view to improving the competitiveness of the economy. The financial position of the sugar industry, the EPZ, and the tourism industry will be prime factors in exchange rate management, thereby promoting economic growth and improving employment prospects.

9. Under the stand-by arrangement a ceiling of US$50 million was established on the Government's contracting and guaranteeing of nonconcessionary loans in the 1-10 years' maturity range through end-June 1984; no loans were allowed in the 1-5 years' maturity range. So far no loans in the 1-10 years' maturity range have been contracted or guaranteed. During the year ending June 1984 the Government will limit the drawing on nonconcessionary loans to US$40 million. This amount, if fully drawn, will equal the amortization payments falling due in 1983/84. The Government affirms, however, that in line with its established policy it will refrain from recourse to nonconcessional external borrowing except in the event of unforeseen circumstances.

10. During the program period, the Government does not intend to introduce any multiple currency practice, impose any new, or intensify any existing, restrictions on payments and transfers for current international transactions, or introduce any new, or intensify any existing, restriction on imports for balance of payments reasons, or enter into any bilateral payments agreements with Fund members.

11. The Government of Mauritius believes that the policies set forth in this letter are adequate to meet the objectives of its program, but will take any further measures that may become necessary to ensure the achievement of program targets. The Government will remain in close contact with the Fund staff, will provide the Fund will 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-January 1984 in order to reach understandings on the performance criteria in respect of domestic credit and net credit to the Government for the remaining period of the stand-by arrangement.

Very truly yours,

Indurduth Ramphul
Governor
Bank of Mauritius

Seetanah Lutchmeenaraidoo
Minister of Finance

Fund Relations with Mauritius

(As of September 30, 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 194.45 million or 480.1 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, SDR 69.59 million, or 166.9 percent in respect of the supplementary financing facility and SDR 5.61 million, or 13.9 percent in respect of the enlarged access policy.
SDR Position:	SDR 18,095 (or 0.11 per cent of the net cumulative allocation of SDR 15.7 million).
Trust Fund loans:	SDR 9.1 million in the first period, ineligible in the second period.
Gold distributions (four):	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 February 28, 1983 the Mauritian rupee, which previously was pegged to the SDR at Mau Rs 12 = SDR 1, has been pegged to a basket of currencies. On September 30, 1983, SDR 1 was equivalent to Mau Rs 12.82.
Staff contacts:	The last Article IV consultation was held in January/February 1983 and the staff report (EBS/83/78) was discussed by the Executive Board on May 18, 1983. Technical assistance has been provided in budgetary policy, introduction of the sales tax, improvements in tax administration, the modification of banking legislation, and by assigning an advisor to the Bank of Mauritius.

MAURITIUS - Relations with the World Bank Group

(In millions of U.S. dollars)

Amounts outstanding as of August 31, 1983 1/	Disbursed	Undis-bursed	Total commitments
Total of completed projects 2/	64.04	--	64.04
IBRD	43.62	--	43.62
IDA	20.42	--	20.42
Total projects in execution (IBRD)	34.14	63.65	97.79
Ports	12.50	1.10	13.60
Development bank	1.60	9.99	11.59
Education	8.13	7.07	15.20
Power	5.85	9.15	15.00
Urban rehabilitation	5.56	9.44	15.00
Water supply	0.50	11.70	12.20
Highways	--	15.20	15.20
Total, disbursed and undisbursed	98.17	63.65	161.83
IBRD	77.75	63.65	141.41
IDA	20.42	--	20.42
Repayments			15.72
IBRD			15.52
IDA			0.20
Amount sold to third party			4.95
Of which has been repaid			4.66
Total debt outstanding (including undisbursed) 3/			145.82
IBRD			125.60
IDA			20.22
IFC investments: gross commitment less cancellations, terminations, repayments, and sales			0.10

Source: World Bank.

1/ Prior to exchange adjustments.
2/ Seven loans and five credits have been fully disbursed. Net of IBRD cancellations of US$2.29 million.
3/ Total, disbursed and undisbursed, minus repayments, minus amount sold that has not been paid.

Mauritius: Summary of Economic and Financial Program

Assumptions:

A reduced sugar crop of 615,000 tons is assumed in 1983/84, with exports of 578,000 tons valued at SDR 200 million, compared with a crop of 688,000 tons in 1982/83, with exports of 562,000 tons valued at SDR 196 million.

A deterioration in the terms of trade of 0.3 percent is projected in 1983/84 as against an improvement of 2.4 percent in 1982/83.

Real GDP growth of 3.1 percent at market prices is projected for 1983/84 compared with 7.2 percent in 1982/83.

Targets:

Inflation is projected to be 9 percent in 1983/84 compared with 7.4 percent in 1982/83.

The external current account and the overall balance of payments deficits are projected to be SDR 49 million (4.5 percent of GDP) and SDR 20 million (1.8 percent of GDP), respectively. Corresponding figures for 1982/83 were SDR 51 million (5 percent of GDP) and SDR 22 million (2.2 percent of GDP).

Instruments:

(1) Exchange rate

Flexibility in exchange rate policy is to be maintained, and the exchange rate is to be kept under constant review. On February 28, 1983 the Mauritian rupee was unlinked from the SDR and pegged to a basket of currencies more representative of Mauritius' trade pattern.

(2) Wage and price policy

For 1983/84 a cost-of-living adjustment equivalent to 4.3 percent of average public sector wages, and about 5 percent of those in the private sector, has been granted. Beginning in 1984/85 private sector pay increases will be negotiated between employees and employers at the level of the individual firm or industry, with the key objective of improving competitiveness. Public sector total wage increases (combining increments and cost-of-living awards) are to be decided with the primary consideration being the need to reduce the overall fiscal deficit.

The scope and rigidity of the system of price controls is being reduced, to promote local production and reduce imports.

Mauritius: Summary of Economic and Financial Program
(concluded)

(3) Budget

The overall budget deficit will be limited in 1983/84 to Mau Rs 1,200 million (8.8 percent of projected GDP). Measures to achieve this target include revenue increases of Mau Rs 190 million, or 7 percent of total revenue in 1982/83, and containing total current expenditure, other other than wages and salaries and interest on public debt, to the 1982/83 level.

(4) Money and credit

Credit ceilings for October and December 1983 would entail an expansion in total domestic credit and net credit to Government in the year to December 1983 of no more than 19.8 and 22.3 percent, respectively. The corresponding figures in 1982 were 18.4 percent and 25.1 percent, respectively. 1/ Credit ceilings for March and June 1984 will be set as performance criteria in the context of the second review.

All ceilings on lending as well as deposit interest rates have now been removed. The discount rate and the treasury bill rate have been reduced by one percentage point each with a view to encouraging investment. Allocation of credit ceilings between banks was changed from a loan-portfolio basis to give the major weight to deposit mobilization; this will be increased further during 1983/84. Certain nonbank financial intermediaries are to be brought under the control of the central bank.

(5) Foreign borrowings

Contracting of nonconcessionary foreign loans in maturities of 1-10 years is to be limited to US$50 million with no more than US$40 million to be drawn down prior to end-June 1984, and no borrowings are to be made in the maturity range of 1-5 years.

(6) Exchange and trade sytem

An undertaking is made not to impose new or intensify existing restrictions. The coverage of import quotas was reduced in May 1983. During 1983/84 a number of imports subject to quota limitations are to be totally freed of restrictions; and banned goods would be subject to quota limitations as a first step toward liberalization.

1/ For performance criteria purposes, total domestic credit and net credit to the Government are defined to include nonconcessionary foreign borrowing. On this basis, total domestic credit and net credit to the Government in December 1983 would be no more than 16.1 percent and 16.2 per cent higher than a year earlier, respectively, compared with 24.4 percent and 34.3 percent in 1982.

Mauritius: Fiscal Measures Included in Budget for 1983/84

Measure	Yield 1983/84 Mau Rs million	Remarks
Withholding tax on dividends.	20	Companies paying dividends will deduct 15 percent and remit it to the Income Tax Department. The tax paid in 1983/84 will be treated as advance payments of 1984/85 income tax. Assumed to be effective as from November 1983, and to result in no fall in the value of dividends from the 1982/83 level.
Land transfer tax at 5 percent rate payable by the vendor, exempting the first Mau Rs 75,000 of the sale proceeds from the tax.	8	The tax is proposed in addition to the Registration duty paid by the purchaser. It is proposed that Capital Gains Tax should remain in force and the vendor pay that or land transfer tax, whichever is the higher. Assumed introduction from November 1983.
Land development tax at a 40 percent rate on gains realized by owners upon converting agricultural land to residential use.	30	Each year, about 1,000 arpents 1/ of agricultural land are converted to residential use, increasing the value from Mau Rs 40,000 to Mau Rs 200,000 per arpent. Allowing for a reduction in transactions by 25 percent, and only six months' yield, gives additional revenue of Mau Rs 30 million in 1983/84.
Tax on campement sites, of up to Mau Rs 8,000 per arpent per year, to be paid by the leaseholders.	7.5	To tax all campements would require a comprehensive survey, which could not be completed for 2 years. For the time being, campements will be defined for tax purposes as properties excluding those leased by Government to low income groups, and agricultural land, which have sea frontage or private access to the beach. Introduction expected in November 1983.
Requirement for notarized deed before granting request for transfer of a campement lease.	0.5	Regulatory measure to prevent evasion of registration duty in transfer of such leases.
No reduction in existing retail prices of gasoline despite reduction in import costs.	15	This is already in force and requires no additional legislation. Undertakings have been given by the authorities to pass on in full any increases in costs resulting from changes in the dollar/ Mauritian rupee rate.
Restoring import duty on nonbasic food items presently zero-rated but which were mainly dutiable in the pre-1979/80 customs tariff.	14	The goods affected include fruit, fish and meat, chocolate, pastry, fruit juices, prepared and preserved vegetables. Effective October 1983.
Increase in rate of import duty on durable luxury items and other selected imports.	8	Covers items such as refrigerators, washing and sewing machines, calculators, televisions, cameras. Effective October 1983.
Remove exemptions from import duty in private sector	35	Effect comprises: manufacturer's rebates Mau Rs 13 million; ending special exemptions Mau Rs 25 million; sugar industry exemptions Mau Rs 13 million; less relief of Mau Rs 15 million. Effective October 1983.
Remove exemptions from import duty in public sector.	52	Affects government departments and parastatals. Expenditures will be allowed to increase by half the effect of the increase in costs. Effective October 1983.
Total	190	

1/ One arpent is equal to 1.043 acres.