FOR AGENDA

EBS/82/231

CONFIDENTIAL

December 13, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Mauritius - Use of Fund Resources - Buffer Stock Financing Facility - Special Stocks Under the International Sugar Agreement

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Mauritius for a purchase equivalent to SDR 3.605 million under the buffer stock financing facility. A draft decision appears on page 8.

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

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MAURITIUS

Use of Fund Resources--Buffer Stock Financing Facility--Special Stocks Under the International Sugar Agreement

Prepared by the Research Department and the African Department

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

Approved by Wm. C. Hood and J.B. Zulu

December 10, 1982

The Managing Director has been informed that the authorities of Mauritius will shortly request a purchase of SDR 3.605 million, equivalent to 8.9 per cent of quota, in connection with the obligation of Mauritius to constitute special stocks under the 1977 International Sugar Agreement (ISA). The expected request is to be made in accordance with the provisions of paragraph 1 of Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended by Decision No. 4913-(75/207), adopted December 24, 1975, and of Decision No. 5597-(77/171), adopted December 16, 1977. The proposed purchase relates to the maximum level of sugar stocks that Mauritius, as an exporting member of the ISA, is obligated to accumulate in the period ending December 31, 1983. The special stocks have been accumulated in two installments, the first in July 1982 and the second in September 1982. For the purpose of a Fund purchase, they have been valued in accordance with the provisions of Decision No. 5597-(77/171), adopted December 16, 1977.

Mauritius has no purchase currently outstanding under the buffer stock financing facility. If approved, the purchase would raise the Fund's holdings of the member's currency from 452.4 per cent to 461.3 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement will be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Mauritius, is presented in four sections and an annex. The sections deal with: (1) balance of payments position; (2) sugar exports and the performance of Mauritius under the 1977 International Sugar Agreement; (3) the amount of purchase and repurchase requirements; and (4) staff appraisal and proposed decision. The member's relations with the Fund are summarized in the Annex.

1. Balance of payments position

In recent years Mauritius has made significant progress toward internal and external adjustment by implementing a series of financial programs supported by use of Fund resources. Under the current program, the third in the series, in support of which the Fund approved a one-year stand-by arrangement on December 21, 1981, the results achieved so far have been encouraging (EBS/82/182). Thus, in the fiscal year ended June 1982, the external current account deficit was reduced to SDR 56 million (5.3 per cent of GDP), compared with a programmed deficit of SDR 123 million, while the overall balance of payments deficit was limited to SDR 33 million (3.2 per cent of GDP), as against a target of SDR 65 million (Table 1). This improvement was due mostly to a 13 per cent decline in imports, reflecting the impact of the reduction in project-related imports, the depreciation of the rupee in September 1981, and the pursuit of prudent demand management policies.

Despite this progress, the external situation is still fragile, and hence the authorities are continuing their adjustment efforts. In 1982/83, with a small recovery in import volume, the current account deficit is expected to widen somewhat to SDR 67 million (5.9 per cent of GDP). Although sugar output is forecast to be close to 700,000 tons, up from 574,000 tons in 1981/82, the SDR value of sugar exports is projected to remain unchanged. This is due in part to the depreciation in SDR terms of the European Currency Unit in which prices are set for the bulk of Mauritian sugar exports and also to depressed prices on world markets where the remainder of the crop is sold. Nonsugar exports, however, are expected to continue to benefit from the effects of the September 1981 depreciation of the rupee and the policy of wage restraint. In all, a 6 per cent rise in total export value is expected to be exceeded by an 8 per cent increase in imports, owing to restocking, some recovery in project-related imports, and the requirements of the export sector. As a result of the somewhat larger current account deficit and a sharp rise in amortization payments due on Eurodollar borrowings, the overall balance of payments deficit in 1982/83 is projected to amount to SDR 50 million (4.4 per cent of GDP). This deficit is expected to be financed by net use of Fund resources, recourse to new Eurodollar borrowing, and some drawdown of reserves. Gross reserves are forecast to decline to an amount equivalent to about three weeks' imports by the end of 1982/83.

2. Sugar exports and the performance of Mauritius under the 1977 International Sugar Agreement

The free market price of sugar stagnated in October 1982 at about the September price of 6 U.S. cents per pound (Table 2). Latest world production and consumption estimates, however, continue to indicate that the imbalance between world supply and demand is likely to persist at least through 1982/83 and there seems to be little prospect of any marked improvement in sugar prices in the coming months. In an effort to alleviate the pressure on prices, which are presently less than half the production costs of the most efficient producers, the International Sugar Organization (ISO) in cooperation with the European Community (EC), which is not a member of the ISA, but a leading supplier of sugar to the free market, has been exploring various possible measures to limit the availability of sugar to the free market. So far, it has not been possible to agree on any measures. In view of this, the International Sugar Council

Table 1. Mauritius: Balance of Payments, 1980/81-1982/83

	1980/81	1981/82 Program	1981/82 Actual	1982/83 Program
	(In millions of SDRs)			
A. Current account	-143	-123	-56	-67
Merchandise	-137	-101	-34	-43
Exports, f.o.b.	287	329	334	354
Imports, f.o.b.	-424	-430	-368	-397
Services, net	-25	-42	-42	-45
Transfers	19	20	20	21
B. Capital account	45	58	23	17
Official	20	58	31	10
Other	9	--	-7	7
Errors and omissions	15	--	-1	--
C. SDR allocation	3	--	--	--
D. Overall balance	-95	-65	-33	-50
Financed by:				
Eurodollar	(35)	(35)	(36)	(22)
IMF (net)	(56)	(28)	(20)	(19) 1/
Bank of Mauritius (increase -)	(4)	(2)	(-23)	(9)
Memorandum items:				
Current account (as per cent of GDP)	-14.5	-11.8	-5.3	-5.9
Overall balance (as per cent of GDP)	-9.7	-6.2	-3.2	-4.4
Eurodollar amortization (In millions of SDRs)	6.0	7.0	7.0	30.0
Gross reserves (end of period)				
In millions of SDRs	21.0	19.0	38.0	30.0
In months of imports, c.i.f.	0.5	0.5	1.1	0.8

Sources: Bank of Mauritius; and staff estimates.

1/ Exclusive of buffer stock purchase.

Table 2. Sugar Prices on the Free Market

		In U.S. Cents Per Pound		In SDRs Per Metric Ton	
		U.S. Cents	Percentage Change 1/	SDRs	Percentage Change 1/
1976		11.56	-43.8	220.68	-40.9
1977		8.11	-29.8	153.22	-30.6
1978		7.82	-3.6	137.79	-10.1
1979		9.66	23.5	164.91	19.7
1980		28.67	196.8	485.68	194.5
1981		16.89	-41.1	315.70	-35.0
1981	I	24.56	-31.2	435.63	-28.8
	II	16.43	-33.1	306.44	-29.7
	III	14.25	-13.3	277.12	-9.6
	IV	12.31	-13.5	233.69	-15.7
1982	Jan.	12.90	-0.6	246.60	0.3
	Feb.	13.08	1.4	254.54	0.3
	Mar.	11.26	-13.9	220.96	-13.2
	Apr.	9.58	-14.9	189.41	-14.3
	May	8.11	-15.3	157.57	-16.8
	June	6.84	-15.7	136.83	-13.2
	July	7.80	14.0	157.55	15.1
	Aug.	6.77	-13.2	137.36	-12.8
	Sept.	5.77	-14.8	117.81	-14.2
	Oct.	5.93	2.8	122.03	3.6

1/ From previous period.

has decided that, in order to secure a long-term solution to the world crisis in sugar, a negotiating conference should be held in Geneva in May 1983, in the hope that a new and more effective agreement with full EC participation can be put into effect by January 1, 1984, a year before the expiry of the current ISA. A preparatory Committee, including the EC, has been established to begin work immediately.

Mauritius is a relatively large exporter of sugar, and sugar accounts for over half of the total value of its merchandise exports. Mauritian sugar is exported to the EC under the provisions of the Lomé Convention and to the rest of the world under those of the ISA. As a member of the African Caribbean Pacific (ACP) countries, Mauritius receives an annual quota of about 500,000 tons to the EC at preferential prices which are negotiated annually. The balance of Mauritian sugar exports is sold on the free market under the terms of the ISA, mainly to Canada and the United States.

Depending on climatic conditions and the incidence of crop disease, which affect both cane yields and their sucrose content, sugar production has fluctuated between a low of 475,000 tons in 1980, when the crop was reduced by a third owing to the exceptionally severe cyclones, and a record of 718,000 tons harvested in 1973. In 1981, production recovered to about 574,000 tons, but after allowing for domestic consumption, estimated at 38,000 tons, and some rebuilding in stocks, which had been reduced in 1980 to well below minimum working levels, Mauritius was able to export only 432,000 tons, all of which was shipped to the EC. 1/ Mauritius could not meet any of its ISA export quota of 156,763 tons in 1981 and declared a shortfall of that amount.

Sugar production in 1982 is estimated at 690,000 tons, 20 per cent above the previous year. The Basic Export Tonnage (BET) of Mauritius under the ISA has been set at 185,773 tons for 1982 and the quota in effect for exports to the free market at 157,907 tons (85 per cent of its BET), but its actual exports to that market, after allowing for enlarged shipments to the EC, are expected to amount to only about 48,000 tons. Mauritius has consequently declared a shortfall of 110,000 tons for 1982. In addition, Mauritius was permitted by the ISO to postpone the deadline for accumulation of its initial minimum stock, equivalent to 40 per cent of the maximum stock, from June 30, 1982, until December 31, 1982. In the event, this minimum special stock was accumulated in July 1982. Moreover, with the approval of the ISO, an additional amount of 16,180 tons of special stocks was constituted in September 1982, thereby meeting Mauritius' maximum stocking obligation. Certificates of existence have been received from the ISO and verification of the special stocks by an on-site inspection is scheduled for June 1983.

1/ The shortfall in shipments to the EC during the year ended June 1981 has been allowed by the EC to be delivered in the following year.

3. The amount of purchase and repurchase requirements

a. Amount of purchase

Under the terms of the ISA, Mauritius is obligated to constitute an amount equivalent to 26,966 tons of special stocks of sugar during the period ending December 1983. The minimum quantity to be constituted, equivalent to 10,786 tons, was accumulated in July 1982, and the balance of 16,180 tons in September 1982. The proposed purchase relates to the full amount of these special stocks.

Valuation of the special stocks for the purpose of determining the amount of the purchase has been made in accordance with paragraphs 3, 4, and 5 of Executive Board Decision No. 5597-(77/171), adopted December 16, 1977, and the procedures set out in SM/78/229. Since the market price of sugar during both July and September 1982 was below the floor price of the Agreement (13 cents per pound), the stocks constituted in July and September have been valued, respectively, at the average market prices for July and September. Valued in this way, the stocks amount to SDR 3.605 million, which is the amount of the purchase expected to be requested (Table 3).

Table 3. Valuation of Special Stocks of Sugar

Month of Stock Accumulation	Amount of Stocks Constituted (Metric Tons)	Price in U.S. Cents/lb.	SDR/$ Rate	Price in SDR/Metric Ton	Value of Stocks (SDR Millions)
July 1982	10,786	7.80	0.91618	157.547	1.699
September 1982	16,180	5.77	0.92610	117.806	1.906
Total	26,966				3.605

The authorities of Mauritius have stated that there are no outstanding loans in foreign exchange for which the special stocks held under the terms of the ISA have been used as collateral. They have also stated that they will promptly inform the Fund of any such loans that may be obtained in in future while any part of the proposed purchase remains outstanding.

b. Repurchase requirements

Mauritius will be required to repurchase the proposed purchase in equal quarterly installments during the period beginning three years and ending five years after the date of purchase. 1/ Mauritius will also be be expected to make repurchases at an earlier date in accordance with the

1/ Article V, Section 7(c), and Decision No. 5703-(78/39), as amended by Decision No. 6862-(81/81).

relevant provisions of the Fund Articles and decisions relating to repurchase in the light of an improvement in a member's balance of payments and reserve position. 1/ Moreover, as required under the Fund decision regarding the financing of special stocks of sugar, 2/ the member will be expected to make repurchases at an earlier date:

(i) when and to the extent that stocks are released from the control of the International Sugar Organization, and

(ii) when the member obtains a loan in foreign exchange for which the special stock is used as collateral, to the extent that the amount of this loan, together with the amount of purchases outstanding exceeds the amount that the member may purchase in accordance with paragraphs 4 and 5 of Decision No. 5597-(77/171).

In accordance with the procedures outlined in Section 5 of SM/78/229, Mauritius would be expected to repurchase from the Fund in the first event, within 90 days from the date on which stocks are released from the control of the International Sugar Organization, and in the second event, within a few days after the Fund has been informed of the loan for which the special stocks have been used as collateral.

4. Staff appraisal and proposed decision

Mauritius is expected to request a purchase of SDR 3.605 million, equivalent to 8.9 per cent of its quota in the Fund, under the buffer stock financing facility in connection with special stocks of sugar constituted under the terms of the 1977 International Sugar Agreement.

With the implementation of a series of financial programs supported by use of Fund resources, the external current account deficit of Mauritius has declined substantially, from SDR 143 million (14.5 per cent of GDP) in 1980/81 to SDR 56 million (5.3 per cent of GDP) in 1981/82. Similarly, the overall balance of payments deficit fell to SDR 33 million in 1981/82, from SDR 95 million in 1980/81. In 1982/83 the current account deficit is expected to widen somewhat to SDR 67 million, reflecting a deterioration in the terms of trade and higher imports, while the overall balance of payments deficit is projected to increase to SDR 50 million. Reserves in this very open economy are expected to drop to an amount equivalent to about three weeks' imports by the end of 1982/83. The staff considers that the balance of payments need of Mauritius justifies the proposed purchase.

Mauritius has constituted its maximum stocking obligation amounting to 26,966 tons of sugar for the period ending December 1983 under the terms of the 1977 International Sugar Agreement. Stocks were accumulated in two installments, 10,786 tons in July 1982, in fulfillment of its stocking

1/ Article V, Section 7(b) and Decision No. 6172-(79/101).
2/ Paragraph 6 of Decision No. 5597-(77/171) and the procedures set out in SM/78/229.

obligation for the year ended June 1982, and the remainder of 16,180 tons in September. The proposed purchase in respect of these special stocks of sugar, calculated in accordance with Executive Board Decision No. 5597-(77/171) and the procedures set out in SM/78/229, amounts to SDR 3.605 million.

There are no outstanding loans in foreign exchange for which the special stocks have been used as collateral, and the authorities of Mauritius have indicated that they will inform the Fund of any such loans that may be obtained while the proposed purchase remains outstanding. The request is expected to include a statement that Mauritius will cooperate with the Fund, where required, in finding appropriate solutions for its balance of payments difficulties. The forthcoming request will include an appropriate representation by Mauritius that it will make early repurchases of outstanding amounts of the proposed purchase in accordance with paragraph 6 of Executive Board Decision No. 5597-(77/171) as outlined in Section 3 of this paper.

The staff believes that the expected request for a purchase of SDR 3.605 million will meet all the requirements of Executive Board Decision No. 2772-(69/47) on the Problem of Stabilization of Prices of Primary Products, as amended by Decision No. 4913-(75/207) and Executive Board Decision No. 5597(77/171) on Fund Financing of Special Stocks under the 1977 International Sugar Agreement. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request for a purchase of the above-mentioned amount has been received:

1. The Fund has received a request by the Government of Mauritius for a purchase of SDR 3.605 million under the decision on Buffer Stock Financing Facility: The Problem of Stabilization of Prices of Primary Products, Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended by Decision No. 4913-(75/207), adopted December 24, 1975, and the decision on Buffer Stock Financing Facility: 1977 International Sugar Agreement, Executive Board Decision No. 5597-(77/171), adopted December 16, 1977.

2. The Fund determines that this purchase would be in conformity with the decisions referred to in (1) above, notes the representations of Mauritius, and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Fund Relations with Mauritius
(As of November 30, 1982)

Date of membership:	September 23, 1968.
Status:	Article XIV.
Quota:	SDR 40.5 million.
Intervention currency:	Pound sterling.
Fund holdings of Mauritian rupees:	SDR 183.24 million or 452.4 per cent of quota, including SDR 40.5 million or 100 per cent in respect of the compensatory financing facility, SDR 61.7 million or 152.4 per cent in respect of the supplementary financing facility.
SDR Department:	SDR 1.7 million (or 10.98 per cent of net cumulative allocations of SDR 15.7 million).
Trust Fund:	SDR 9.1 million in first period, ineligible in second period.
Gold distribution:	18,827.858 fine ounces.
Exchange rate system:	The Mauritian rupee is pegged to the SDR at Rs 12 = SDR 1.
Exchange practices subject to Article VIII:	None.
Staff contacts:	The last Article IV consultation was held in December 1980 and the staff report (SM/81/58) was discussed at the Executive Board on April 10, 1981. Further discussions relating to the mid-term review of the present stand-by were held in Port Louis in April and July, and in Washington in September 1982.