FOR AGENDA

EBS/85/205

CONFIDENTIAL

August 28, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Mauritius - Staff Report for the 1985 Article IV Consultation and First Review of the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Mauritius and the first review of its stand-by arrangement. Draft decisions appear on pages 29 and 30.

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

Mr. Lanyi (ext. 7401) or Mr. Kakoza (ext. 6944) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MAURITIUS

Staff Report for the 1985 Article IV Consultation and First Review of the Stand-By Arrangement

Prepared by the Staff Representatives for the 1985 Consultation with Mauritius

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

Approved by Alassane D. Ouattara and S. Kanesa-Thasan

August 27, 1985

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I. Introduction

The 1985 Article IV consultation discussions with Mauritius were held in Port Louis during May 18-June 5, 1985. At the same time, the first review of the program under the current stand-by arrangement, which covers January 1985-June 1986, was undertaken, and targets and performance criteria were set for fiscal year 1985/86 (July-June). Policy discussions were held principally with Mr. S. Lutchmeenaraidoo, Minister of Finance, and Mr. I. Ramphul, Governor of the Bank of Mauritius. The mission also met with the Ministers of Trade and Agriculture, the Financial Secretary, and other officials from various ministries, agencies, and parastatals, as well as representatives of commercial banks and private industry. The staff representatives were Messrs. A. Lanyi (head--RES), M. Niebling, J. Kakoza (both AFR), P. Stella (ETR), and Mrs. C. Smith (secretary--AFR).

On March 1, 1985, the Fund approved Mauritius' request for an 18-month stand-by arrangement, in an amount equivalent to SDR 49 million, (representing 91.4 percent of Mauritius's quota of SDR 53.6 million, or 60.9 percent of quota on an annual basis), as well as a request for a purchase of SDR 7.50 million (14 percent of quota) under the compensatory financing facility. Mauritius has thus far purchased SDR 14.0 million under the current arrangement. As of end-July 1985, the Fund's holdings of Mauritian rupees subject to repurchase amounted to SDR 152.3 million (284 percent of quota), of which SDR 124.5 million (232 percent of quota) was under tranche policies and SDR 17.8 million (52 percent of quota) was under special facilities (Table 1).

Purchases of the remaining amount under the stand-by arrangement would be exceeded by scheduled repurchases of SDR 45.7 million during the balance of the stand-by period, leaving Fund credit outstanding to Mauritius by end-August 1986 at SDR 141.6 million, or 264 percent of quota, of which SDR 7.5 million (14 percent of quota) would remain outstanding under special facilities (Table 1). The next drawing under the current stand-by arrangement is conditional upon completion of the first review, as well as compliance with the performance criteria for June 30, 1985. With one minor exception, explained in Section II.3 below, Mauritius has been in compliance with the performance criteria under the program. Mauritius continues to avail itself of the transitional arrangements of Article XIV. A reliable and generally timely flow of economic and financial data to the Fund has been maintained (see Appendix VII). Mauritius' relations with the Fund are summarized in Appendix IV.

The World Bank has been closely involved with Mauritius' development effort in recent years. It has committed a total of US$258 million, including two structural adjustment loans, and has disbursed US$205 million through June 30, 1985. Under the second structural adjustment loan (SAL II), approved in December 1983, two tranches of US$20 million

Table 1. Mauritius: Projected Fund Transactions and Position During the Stand-By Arrangement, 1984-86

	Outstanding end-Dec. 1984	1985 Jan.-March	1985 Apr.-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-March	1986 Apr.-June	1986 July-Aug.
				(In millions of SDRs)				
Tranche policy transactions	...	1.55	-0.40	1.78	1.12	1.92	-0.75	5.50
Purchases	...	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Ordinary resources	(...)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)
Enlarged access resources	(...)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)
Repurchases (-)	...	-5.45	-7.40	-5.22	-5.88	-5.08	-7.75	-1.50
Ordinary resources	(...)	(-2.46)	(-3.40)	(-2.23)	(-1.88)	(-2.09)	(-2.09)	(--)
Supplementary financing	(...)	(-2.99)	(-4.00)	(-2.99)	(-4.00)	(-2.99)	(-5.66)	(-1.50)
Special facility transactions	...	-1.17	-5.06	-5.06	-5.06	-5.06	-5.06	--
Purchases	...	7.50	--	--	--	--	--	--
Repurchases (-)	...	-8.67	-5.06	-5.06	-5.06	-5.06	-5.06	--
Outstanding Fund credit (end of period), under:	157.32	157.70	152.24	148.96	145.02	141.88	136.07	141.57
Tranche policies	123.34	124.89	124.49	126.27	127.39	129.31	128.56	134.06
Special facilities	33.98	32.81	27.75	22.69	17.63	12.57	7.51	7.51
				(In percent of quota)				
Outstanding Fund credit (end of period), under:	293.5	294.2	284.0	277.9	270.5	264.7	253.9	264.1
Tranche policies	230.1	233.0	232.3	235.6	237.7	241.3	239.9	250.1
Special facilities	63.4	61.2	51.7	42.3	32.8	23.4	14.0	14.0

Source: IMF, Treasurer's Department.

each were disbursed in April-May 1984 and in May-June 1985, the second after commitments had been made by the Mauritian authorities with regard to future reforms of the import tariff system. Further lending in the industry, energy and sugar sectors, as well as a third structural adjustment loan, are currently in the exploratory stage. During the course of the discussions, the Fund has maintained close collaboration with the Bank. A Fund staff representative participated in the second Consultative Group meeting, sponsored by the Bank, which took place in Paris on May 13-15, 1985. Mauritius' relations with the Bank are summarized in Appendix III.

II. Background

Mauritius is a small island country with a population of slightly over 1 million and a per capita GDP of about SDR 1,000. Since colonial times, the economy has been dominated by the sugar industry, but in recent years the sharply higher manufacturing output in the Export Processing Zone (EPZ) industries, 1/ in addition to rising tea production and tourism receipts, have led to a striking decline in the relative importance of sugar exports. Mauritius's financial difficulties over the past decade originated in the boom in sugar prices from late 1973 to late 1976, which set off expansionary financial policies that continued even after prices had again collapsed, entailing substantial foreign borrowing. Since late 1979 a series of Fund-supported programs have, after initial setbacks, brought about a reduction in inflation, an improvement in the balance of payments, and a recovery in economic activity. The debt service ratio is peaking in 1985/86 and is projected to decline somewhat over the next several years.

1. Recent Executive Board discussions

The discussion of the 1984 Article IV consultation with Mauritius was held on October 5, 1984 (EBM/84/146) and another Executive Board discussion of the request for the stand-by arrangement was held on March 1, 1985 (EBM/85/32). On both occasions, Directors noted that the Mauritian authorities had resolutely pursued a comprehensive program of adjustment. Progress with regard to inflation, the external current account deficit, the diversification of exports, and the fiscal deficit were considered especially laudable; and the roles of demand management, wage policies, market liberalization, and flexible exchange rate policy in bringing about these results were acknowledged. Nevertheless, Executive Directors noted certain remaining problems: a fiscal deficit that was still too

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1/ There is no one geographical zone for export processing activities; rather "EPZ" refers to industries holding Export Enterprise Certificates, which give duty-free status and extensive tax holidays.

high and whose reduction had relied disproportionately on curtailment of capital expenditures; the need for structural reforms in the sugar industry; a low level of foreign exchange reserves and projected external financing gaps for the remainder of the 1980s; excessively high import duties; and the large role of direct controls in the expansion and allocation of credit to the private sector. Executive Directors also mentioned the importance to Mauritius's adjustment effort of additional concessional financing and foreign direct investment, as well as the reduction of protectionist policies in some major countries.

2. Recent economic developments

The program under the current stand-by arrangement continues the thrust of the Government's adjustment efforts under the previous four stand-by programs. The major objectives of the program are a stronger external position, a reasonable degree of price stability, and a satisfactory rate of economic growth. The principal policy targets of the program were designed to achieve these objectives: the implementation of measures to improve the financial position and efficiency of the sugar sector; the provision of incentives for export diversification; a reduction of the fiscal deficit from 6.4 percent of GDP in 1983/84 to 5.9 percent in 1984/85; a ceiling of 5.2 percent for total credit expansion in 1984/85; a flexible exchange rate policy; cautious wage policies; and no new external commercial borrowing for the first six months of 1985.

Developments in 1984/85 clearly reflected this overall policy stance. Particularly striking was the contribution of the export diversification drive to economic growth. Although sugar output declined for the second year in a row, GDP rose by 4 percent in 1984/85, largely on the strength of a 16 percent growth in EPZ output. EPZ employment grew by almost 50 percent, for the first time more than offsetting continuing job losses in the sugar sector and some other activities. There was also strong, if less dramatic, expansion in tourism, tea earnings, and domestic food production.

Inflation remained moderate in 1984/85, with the average consumer price index (CPI) for the fiscal year estimated to have risen by 8.3 percent; although this rate was higher than the 5.6 percent increase recorded in 1983/84, it had slowed to 7 percent by mid-1985. An important factor in maintaining relatively low inflation was the slow growth of average earnings, which increased by 2.9 percent in 1984/85. This figure reflected in part an average cost-of-living adjustment of only 3 percent, but also seems to have been influenced by a shift in the composition of employment toward low-wage occupations in the EPZ sector.

Tight demand management policies were also reflected in the steady decline of total expenditure as a proportion of GDP from almost 110 percent in 1980/81 to about 101 percent in 1984/85, with the share of consumption falling by 6 1/2 percentage points. Underlying these developments has been the compression of the fiscal deficit from a high of 14 percent in 1980/81 to about 6.0 percent in 1984/85, according to early revised estimates (Table 2). Compared with 1983/84, the deficit rose slightly to some Mau Rs 905 million, but its ratio to GDP fell by 0.4 percentage points, about as much as targeted. Developments contributing to the outturn in 1984/85 were a further small decline in real wages and salaries of government employees, combined with a virtually unchanged overall level of government employment; a 10 percent import duty surcharge; a decrease in net lending by the Government; and a rise in grants. These developments more than offset a considerable increase in capital expenditures, a cut in corporate tax rates, and a reduction in export tax receipts. Total current subsidies and transfers in the budget rose by 10 percent in 1984/85. Although the subsidy on rice and flour consumption had been budgeted to decline in 1984/85 to Mau Rs 72 million (from Mau Rs 100 million in 1983/84) as a result of substantial consumer price increases in March 1984, it actually rose to Mau Rs 130 million due to unexpected increases in import prices. Most of this excess was offset, however, by an unanticipated grant in kind of rice, and the net effect of the increased subsidy and grant on the overall deficit was limited to an additional Mau Rs 18 million. Other subsidies and current transfers together rose by 8 percent.

Credit policy also contributed to the cutback in expenditure growth and low rates of inflation. Because the government deficit in 1984/85 was financed entirely by domestic nonbank sources and enlarged external borrowing (including a Eurocurrency loan), total domestic credit expansion was held to a relatively low 5.2 percent (Table 3). It was concentrated in a 16.6 percent increase in credit to the private sector, a large part of which was directed toward the EPZ sector. With the exception of the second half of 1984, the level of private credit has been controlled since 1974 by ceilings on credit expansion of individual banks. In late 1984, when there was no stand-by arrangement in effect, the authorities experimented with using only sectoral guidelines without bank-by-bank ceilings, but a higher than desired credit expansion resulted.

The narrowing of the resource gap in recent years was reflected in the decline in the current account deficit of the balance of payments from 15 1/2 percent of GDP in 1980/81 to 2 1/2 percent in 1983/84 and 1984/85. In the latter year, the deficit fell by SDR 2 million to SDR 25 million, despite a decline in sugar export receipts and increased interest payments (Table 4), due largely to a 52 percent rise in net exports from EPZ firms. A Eurocurrency loan of US$40 million, together with official

Table 2. Mauritius: Summary of Central Government Finances, 1980/81-1985/86

Fiscal year (July-June)	1980/81	1981/82	1982/83	1983/84	1984/85 Budget	1984/85 Program 1/	1984/85 Revised Est. 2/	1985/85 Budget
	(In millions of Mauritian rupees)							
Revenue and grants	2,073	2,289	2,825	3,123	3,474	3,459	3,473	3,924
Tax revenue	1,801	1,953	2,437	2,803	2,960	2,955	2,943	3,269
Nontax revenue	258	268	366	267	394	394	376	379
Grants	14	68	23	52	120	110	154	276
Expenditure and net lending	3,366	3,677	3,985	3,980	4,458	4,341	4,378	4,821
Current expenditure	2,471	2,892	3,223	3,394	3,706	3,749	3,769	4,061
Capital expenditure	483	444	360	349	635	475	546	626
Net lending	413	341	402	237	117	117	63	134
Overall deficit (-)	-1,293	-1,388	-1,160	-857	-984	-882	-905	-897
External financing	707	797	-175	-141	381	728	700	198
Disbursements	807	947	314	521	859	1,251	1,245	718
Eurocurrency	(358)	(423)	(--)	(--)	(--)	(584)	(584)	(--)
Other 3/	(449)	(524)	(314)	(521)	(859)	(667)	(661)	(718)
Amortization	-100	-150	-489	-662	-478	-523	-545	-520
Domestic financing	586	591	1,335	998	603	154	205	699
Banking system (net)	496	438	875	620	278	-196	-235	205
Nonbank (net)	90	153	460	378	325	350	440	494
Memorandum items: GDP at current market prices	9,236	10,818	12,242	13,470	15,090	15,090	15,090	16,900
	(In percent of GDP)							
Revenue and grants	22.4	21.2	23.1	23.2	23.0	22.9	23.0	23.2
Tax revenue	19.5	18.1	19.9	20.8	19.6	19.6	19.5	19.3
Nontax revenue	2.8	2.5	3.0	2.0	2.6	2.6	2.5	2.2
Grants received	0.2	0.6	0.2	0.4	0.8	0.7	1.0	1.6
Expenditure and net lending	36.4	34.0	32.6	29.5	29.5	28.8	29.0	28.5
Current expenditure	26.8	26.7	26.3	25.2	24.6	24.8	25.0	24.0
Capital expenditure	5.2	4.1	2.9	2.6	4.2	3.1	3.6	3.7
Net lending	4.5	3.2	3.3	1.8	0.8	0.8	0.4	0.8
Overall deficit (-)	-14.0	-12.8	-9.5	-6.4	-6.5	-5.9	-6.0	-5.3

Sources: Ministry of Finance; Central Statistical Office; and staff estimates.

1/ Program projections for 1984/85 as in EBS/85/27 (February 1, 1985).
2/ Revised estimates based on actuals through April 1985.
3/ Includes net use of working balances abroad.

Table 3. Mauritius: Monetary Survey, June 1983 - June 1986

(In millions of Mauritian rupees)

	1983		1984				1985 Actual		1985 Program		1986 (Program) 1/	
	June	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
Foreign assets, net	-1,205	-1,520	-1,330	-1,514	-1,314	-1,202	-1,084	-904	-1,104	-929	-754	-727
Bank of Mauritius 2/	-1,240	-1,635	-1,395	-1,577	-1,368	-1,387	-1,315	-1,297	-1,466	-1,366	-1,166	-1,120
Commercial banks	35	115	65	63	54	185	231	393	362	437	412	393
Domestic credit	6,909	7,553	7,435	7,984	7,794	8,313	7,939	8,400	8,844	9,280	9,145	9,321
Claims on Government, net	4,226	4,756	4,541	4,831	4,380	4,906	4,537	4,723	4,901	5,337	5,127	5,063
Bank of Mauritius 3/	(2,887)	(3,559)	(3,218)	(3,564)	(3,189)	(3,570)	(3,249)	(3,343)	(...)	(...)	(...)	(...)
Commercial banks 4/	(1,339)	(1,197)	(1,323)	(1,267)	(1,191)	(1,336)	(1,288)	(1,380)	(...)	(...)	(...)	(...)
Claims on private sector	2,683	2,797	2,894	3,153	3,414	3,407	3,402	3,677	3,943	3,943	4,018	4,258
Broad money (M2)	5,213	5,427	5,400	5,622	5,738	6,198	6,149	6,552	6,752	7,312	7,302	7,535
Money (M1)	1,772	1,805	1,686	1,725	1,807	2,053	1,829	2,021	...	...	...	...
Quasi-money	3,441	3,622	3,714	3,897	3,931	4,145	4,320	4,531	...	...	...	...
Other items, net	491	605	705	848	742	913	706	944	988	1,039	1,089	1,059

Sources: Bank of Mauritius and staff estimates.

1/ Indicative targets.
2/ Liabilities to Fund included at original transactions value, net of stand-by repurchases at actual transactions value.
3/ Includes credit entries equal to IMF transactions posted to Treasury (pre-1985 CFF, BSF, and SDR allocation) at original transaction values.
4/ Includes credit to State Trading Corporation (STC), net of pertinent deposits, relating to purchases of rice and flour.

Table 4. Mauritius: Balance of Payments, 1980/81-1985/86

(In millions of SDRs)

	1980/81	1981/82	1982/83	1983/84	1984/85 Est.	1985/86 Proj.
Current account	-143	-54	-53	-27	-25	-9
Merchandise	-137	-35	-43	-18	-18	-12
Exports, f.o.b.	288	335	318	361	378	425
Sugar	(165)	(201)	(196)	(200)	(181)	(190)
EPZ	(92)	(109)	(100)	(125)	(162)	(197)
Other	(31)	(25)	(22)	(36)	(35)	(38)
Imports, f.o.b.	-424	-370	-361	-379	-396	-437
Imports, c.i.f.	-500	-432	-418	-436	-450	-496
Rice and flour	(-50)	(-42)	(-36)	(-32)	(-31)	(-32)
Petroleum	(-73)	(-83)	(-81)	(-71)	(-71)	(-66)
EPZ	(-70)	(-63)	(-62)	(-92)	(-112)	(-133)
Other	(-308)	(-244)	(-238)	(-240)	(-236)	(-265)
Services (net)	-26	-39	-35	-33	-32	-32
Of which:						
gross tourist receipts	(39)	(39)	(39)	(43)	(46)	(52)
Transfers (net)	19	20	25	24	25	35
Public	(9)	(9)	(13)	(7)	(8)	(17)
Other	(10)	(11)	(12)	(17)	(17)	(18)
Capital account	62	70	-10	5	35	27
Public (net)	60	74	-5	-2	47	21
Disbursements	73	90	39	54	88	58
Government	(66)	(82)	(33)	(47)	(82)	(44)
Other	(7)	(8)	(6)	(7)	(6)	(14)
Amortization	-13	-16	-44	-56	-41	-37
Government	(-10)	(-12)	(-40)	(-52)	(-37)	(-33)
Other	(-3)	(-4)	(-4)	(-4)	(-4)	(-4)
Private direct investment	1	1	1	3	9	6
Commercial banks (net)	1	-5	-6	4	-21	--
Errors and omissions 1/	20	-24	35	-6	8	--
SDR Allocation	3	--	--	--	--	--
Overall balance	-59	-9	-28	-28	18	18
Financed by:						
IMF	56	20	22	13	-19	-16
Purchases	(71)	(26)	(27)	(33)	(29)	(28) 2/
Repurchases	(14)	(-6)	(-5)	(-20)	(-48)	(-44)
Reserves (increase -) 3/	2	-12	6	15	1	-2
Memorandum items:						
Net EPZ exports	22	46	38	33	50	64
End-of-year reserves 3/	29	41	34	19	18	20
End-year reserves in months of imports, c.i.f. 3/	0.7	1.1	1.0	0.5	0.5	0.5
Current account/GDP (percent)	-15.5	-5.8	-5.2	-2.5	-2.5	-0.9

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

1/ Includes revaluation adjustment.
2/ Includes purchases under the current stand-by arrangement.
3/ Gross reserves net of short-term borrowing by Bank of Mauritius.

program loans (including the second US$20 million tranche of SAL II) and a modest increase in private direct investment (mainly in the EPZ sector), resulted in a net capital inflow of SDR 35 million and an overall surplus of SDR 18 million (an improvement of SDR 46 million over 1983/84). Because repurchases of Fund resources in 1984/85 exceeded new purchases by SDR 19 million, however, there was a decline of SDR 1 million in gross official reserves, leaving them at the equivalent of little more than 2 weeks' imports. In order to ensure uninterrupted imports despite fluctuations in foreign exchange receipts, the Bank of Mauritius has made occasional use of short-term lines of credit with foreign banks; such use was limited under the program to US$30 million, and only US$5 million was outstanding at end-June 1985. Debt service, including Fund repurchases and charges, peaked at some 26 percent of exports of goods and services in 1984/85, but is projected to decline in later years.

The system of exchange restrictions is relatively liberal, although there are restrictions on certain current payments, notably on travel allowances. There has been a substantial liberalization of import and price controls over the past year and a half. During the course of 1984, quotas were progressively reduced and removed on items with increasingly lower tariff protection, and the last remaining quotas were removed on January 31, 1985, although in January and February tariff increases were introduced on some of these items where additional protection was felt necessary. Over the course of 1984, the number of commodities for which maximum prices were set was reduced from 51 (23 imports) to 22 (12 imports); and in June 1985 the list was further reduced to 8 (3 imports), mainly essential foodstuffs and petroleum products. 1/ The number of articles or groups of items subject to the more flexible system of maximum markup controls was also halved during 1984/85, to 18.

3. Performance under the first six-months of the current stand-by arrangement

With one minor exception, described below, Mauritius's performance during the first six months of its program (January-June 1985) was on track. Net credit to the Government was held some Mau Rs 69 million under the ceiling for end-March 1985 and Mau Rs 28 million under that for end-June 1985 (Table 5). This performance occurred despite a greater-than-projected extension of net credit to the State Trading Corporation (STC) with respect to rice and flour purchases. Overall domestic credit was Mau Rs 151 million below the March ceiling and Mau Rs 56 million

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1/ As indicated in EBS/85/27, p. 19, the staff had previously understood that only 12 items in total (locally produced as well as imported) remained subject to maximum prices; the number in fact applied to imports only at that time.

Table 5. Mauritius: Quantitative Performance Criteria and Targets, June 1984-June 1986

	1984		1985				1986	
	June	Dec.	Mar.	June	Sept.	Dec.	Mar. 1/	June 1/
	(In millions of Mauritian rupees)							
Net credit to Government 2/								
Ceiling	5,076 3/	--	4,606	4,751	4,901	5,337	5,127	5,063
Actual	4,831	4,380	4,537	4,723	...	...	...	...
Total domestic credit 4/								
Ceiling	8,159 3/	--	8,090	8,456	8,844	9,280	9,145	9,321
Actual	7,984	8,313	7,939	8,400	...	...	...	...
New external borrowing 5/ Commitments (cumulative) during program period	(In millions of U.S. dollars)							
1-12 years' maturity								
Ceiling	10.0 3/	--	--	--	20.0	20.0	20.0	20.0
Actual	...	...	0.9	0.9	...	...	...	...
1-5 years' maturity								
Ceiling	--	--	--	--	--	--	--	--
Actual	...	...	--	--	--	--	--	--
Utilization of short-term lines of credit by Bank of Mauritius								
Ceiling	--	--	30.0	30.0	40.0	40.0	40.0	40.0
Actual	22.0	7.0	--	5.0	...	...	...	...

Sources: EBS/85/27 and data provided by the Bank of Mauritius.

1/ The ceilings for March and June 1986 are to be established at the time of the Second Review. The figures shown for these months are indicative targets.
2/ Net credit to Government from the banking system plus net bank credit to the State Trading Corporation for rice and flour operations.
3/ 1983/84 program; external borrowing ceiling is for 1-10 years' maturity. Credit ceilings and actuals are adjusted to correspond to the basis of the 1984/85 program described in footnote 2.
4/ Net credit to Government plus credit extended by the banking system to the private sector.
5/ New external borrowing contracted or guaranteed by the Government or the Bank of Mauritius on nonconcessional terms.

below that for June. The growth in credit to the private sector from end-June 1984 to end-June 1985 was 16.6 percent, compared with the programmed expansion of 17.5 percent.

The performance criterion regarding the Bank of Mauritius's utilization of short-term lines of credit (not to exceed US$30 million) was observed through June 1985. However, there was nonobservance, apparently based on misunderstanding, of a performance criterion relating to the Government's commitment not to guarantee new external commercial loans in the 1-12 year maturity range during the period through June 30, 1985. On March 3, 1985, the Government guaranteed a suppliers' credit equivalent to about US$900,000, at 8.65 percent interest and of 10 years' maturity. Moreover, the authorities did not report this nonobservance to the Fund in early April 1985, when Mauritius made a purchase under the stand-by arrangement. Accordingly, that purchase gave rise to a noncomplying purchase under the Fund's Guidelines on Corrective Action. Consultations with the authorities have, therefore, taken place, and the Managing Director has submitted a report to the Executive Board on the appropriate action to be taken in accordance with the above Fund Guidelines. In addition, the Mauritian authorities have communicated with the Fund to request a waiver regarding the nonobservance of the performance criterion. The staff is satisfied that the nonobservance constitutes only a minor deviation from Mauritius's economic program and would, therefore, recommend such a waiver.

In most other respects, the policies and targets specified in the program have been carried out. Wage policies, as embodied in the recent cost-of-living settlement (see Section III.2 below), and flexible exchange rate policies have improved Mauritius's international competitiveness. The intentions expressed with respect to financial relief and structural reform of the sugar industry have been carried out (see Section III.1.a below). Interest rates on time and savings deposits have, except for a short period in early 1985, remained positive in real terms, and the removal of the last remaining import quotas was also in line with an undertaking specified in the authorities' letter of December 1984. The performance criterion with respect to exchange and import restrictions and multiple currency practices has been observed.

In two respects, however, the policy initiatives set out in the same letter appear to be behind schedule. First, no action has yet been taken to simplify and rationalize the system of import tariffs, despite the earlier stated intention to initiate such action by April 1985. In their letter of August 1985 (Appendix VI), the authorities stated their intention to present to the Legislative Assembly no later than February 1986 a comprehensive plan for import tariff reform, which is being developed in collaboration with the Bank and includes simplification and rationalization as well as other changes. Second, the targets for strengthening tax administration have not yet been met, but steps to do so have been taken:

further extension of the scheme for tax deduction from pay has been publicly announced, but its implementation has been delayed because of the revision of income tax rates; and provision has been made in the Budget, and additional legislation passed, for strengthening the Unified Revenue Board and appointing a full-time administrator for it.

III. Report on Discussions with the Authorities

1. Production and investment

a. The sugar sector

Although the sugar industry remains of major importance to the Mauritian economy, the incentives and resources to make the investments required to maintain productivity of the mills and associated large estates that dominate the industry 1/ have been severely limited by export taxation and world market conditions. Free-market sugar prices now cover only a fraction of production costs, and while most of Mauritius's sugar, about 570,000 tons, is sold in protected markets, 2/ neither the authorities nor industry representatives expect quotas or real prices to rise over the long term, owing to subsidized sugar production in the industrial countries and the growing importance of substitutes. Although the Mauritius Sugar Syndicate (the sole marketing agency) is at times able to arrange remunerative free-market sales or to make up for other countries' shortfalls in quota markets, and while some excess production is necessary in good years to preclude quota shortfalls in cyclone and drought years, the authorities recognize that production should be targeted at 650,000 tons, resulting in an average of around 615,000 tons. Meanwhile, most of the margin between export prices in protected markets and production costs of the estates and mills has been absorbed by a progressive export duty and surtax. With real external prices tending downward, the need for rationalization and cost-cutting therefore became evident in the past few years, along with adjustment in the fiscal regime.

After extensive consultation with various domestic interests, as well as the Bank and the Fund, the authorities produced an Action Plan for the Sugar Industry in February 1985 under the aegis of a newly

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1/ The estates produce about 60 percent of the cane, and some 33,500 small planters produce most of the rest. Since mills receive 26 percent of the sugar they produce from all cane as compensation for milling, some 70 percent of total sugar output accrues to the mills and estates together. As noted below, the number of mills has just been reduced from 21 to 19.

2/ About 505,000 tons in the EC, 26,000 tons in the United States, and some 38,000 tons on the domestic market.

established Sugar Authority. The plan is designed, inter alia, to rationalize and improve the efficiency of the milling industry and to improve the productivity of planters, especially smallholders. As provided for under the current stand-by arrangement, the Government permitted two relatively uneconomic mills to close and revised the structure of the export duty and surtax in March 1985, with retroactive effect to July 1984. As a result, the average rate of export tax (now paid almost entirely by the estates and mills) has been reduced from some 24 percent to about 19 percent. Tax relief with respect to the 1984 crop amounted to approximately Mau Rs 99 million. The mission, while acknowledging the political difficulty of the measures taken, expressed doubts that incentives for investment had become adequate and suggested that the level of export duties continue to be kept under close review.

The export tax reform was part of a "Sugar Sector Package Deal Act" of March 16, 1985, which also eliminated tax disincentives for estates to sell parcels of land to individual planters or farmers up to aggregate purchases of 25 arpents (about 10 1/2 hectares) per buyer, as well as for combined companies to divide their milling and growing operations into separate enterprises. The Government believed that such land sales would be used to improve the financial position of estates with large outstanding debts and at the same time lead gradually to a more equitable distribution of land. Under the aegis of the Sugar Authority and other government bodies, the Government planned during the 1985/86 fiscal year to concentrate its efforts on articulating a sector investment program suitable for IBRD financing, while making improvements in services to small planters and furthering efforts toward agricultural diversification. In addition, the authorities planned to make certain legal and accounting changes that they hoped would serve to improve the rationality of private and public decision making in the sugar sector: legal separation of milling companies from plantations, improvements in the transparency and uniformity of sugar companies' accounts, and an industry-wide revaluation of these companies' assets.

b. Nonsugar agriculture

The Mauritian representatives were pleased with the progress in stimulating the expansion of nonsugar agriculture. Tea production had risen in part due to the maturing of trees planted when the Tea Development Authority (TDA) was set up several years ago and in part due to its reorganization (under the SAL-II program with the World Bank) and the change in the status of the tea estate workers from that of TDA employees to independent farmers. Productivity had risen substantially, and new factories were being built to handle the increased leaf output. The authorities expected future increases in tea output without expansion of land under cultivation. Substantial increases had also been achieved over the last few years in production of food crops, and the authorities expected to achieve self-sufficiency soon in some foodstuffs that were previously imported. Modest crop subsidies were being provided, but only long enough to get output established and competitive with imports, then were to be switched to other items, so that the total amount of subsidy was to be held to about Mau Rs 30 million. Development of certain food exports--mainly fish, other seafood, venison, and vegetables--had been facilitated by the removal of previous restrictions on food exports.

c. Industrial policy.

The authorities regarded manufacturing as the leading growth sector in Mauritius, and the best hope for reducing the high level of unemployment. In view of the extent of subsidies implicit in tax exemptions (as well as government services) enjoyed by export manufacturers and the high but uneven protection afforded import-substituting activities, the authorities were reviewing the general thrust and specific content of industrial policy. On the one hand, they realized that an export-oriented policy stressing efficient domestic production was inconsistent with the encouragement of inefficient import-substituting industries operating behind extremely high protective walls. On the other hand, they also saw the need to ensure that all producers, whether holding special certificates 1/ or not, were given equal incentives to export. For these reasons, the authorities were in the process of formulating a rationalization of the structure of Mauritius's import tariffs, which they expected to present to the Assembly early next year. In addition, under the 1985/86 budget, a new scheme was introduced that fixes the corporate profits tax at 15 percent for the entire life of the firm for new firms operating under the EPZ and similar schemes, compared with existing 5-10-year tax holidays and the general corporate tax rate of 35 percent. Moreover, since mid-1984 the latter rate has been reduced for firms not operating under one of the special certificates by 2 percentage points for each 10 percent of their turnover exported, up to a limit of 50 percent; since mid-1985, this limit has been eliminated, so that a firm exporting its entire turnover under this regime would receive the same tax incentive rate as a new firm with a special certificate.

2. Prices and wages

The Mauritian representatives attributed the temporary acceleration of inflation in the third quarter of 1984 and again in the first quarter of 1985 in part to the depreciation of the Mauritian rupee since late

1/ These include Export Enterprise Certificates (EPZ firms), Development Certificates (import-substituting firms), Hotel Management Service Certificates, and Agricultural Development Certificates.

1983, and in part to shortages of vegetables in early 1985 caused by heavy storms; the rapid credit expansion in the third quarter of 1984 was considered another possible factor. The increase in consumer prices slackened off, however, during the second quarter of 1985, and the authorities expected that prices could be held to an average increase of about 7 percent in 1985/86.

The wage settlement for 1985/86 provided for cost-of-living increases for wages and salaries averaging 5.0 percent, equal to 60 percent of the average rise (8.3 percent) in the CPI in 1984/85. Additionally, an additional 0.8 percent was held aside for possible selective end-year bonuses. Recent wage experience suggests that the rise in average wages will therefore not exceed the increase in the CPI. 1/ The wage award, as in the past several years, favored lower-paid workers; those with monthly incomes of Mau Rs 1,200 or less received increases slightly higher than the 8.3 percent increase in the CPI, while all others received only an additional Mau Rs 100 per month, leaving those in the highest salary bracket with an increase of only 1.4 percent. The authorities were concerned that this pattern of wage and salary increases had resulted in the emigration of employees with professional qualifications, and this concern underlay the sharp reductions in income tax rates announced in the new budget (see subsection 4 below).

3. External policies

The authorities believed that their policies to improve Mauritius's external competitiveness--a flexible exchange rate policy, average wage awards lower than increases in the CPI, the reduction of quantitative controls on imports, and special incentives to exporters of manufactures and certain other nontraditional goods and services--had contributed greatly to the narrowing of the current account deficit between 1980/81 and 1984/85 (Table 4, p. 8). Most of this improvement was accounted for by the growth of net EPZ exports (exports net of imports from this sector) and by the growth of other nonsugar exports, mainly tea. The Government also emphasized the importance of its promotional efforts, now centered in the recently established Mauritian Export Development and Investment Authority (MEDIA). The Government has also been active in lobbying the country's main customers for greater market access and more favorable terms. Notably, a fivefold increase was recently negotiated in the U.S. quota on shirts manufactured in Mauritius.

Sugar export receipts tend to reflect external market conditions more than annual fluctuations in production, as stocks are managed to ensure that EC and U.S. quotas are met and any excess now sold on the

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1/ The increase in average wages is pushed upward by wage drift but downward by the shift toward low-wage employment in EPZ firms.

free market has little value. In 1984/85 extremely low prices led the Syndicate to discontinue sales in the free market, with the result that total volume shipped fell even more (7 percent) than output (5 percent) and some 30,000 tons of stocks were carried over into the new fiscal year despite prospects for a good crop. Even in the protected foreign markets, realized prices declined in 1984/85 by some 3 1/2 percent in SDR terms, due to stability of ECU prices for exports to the EC and the appreciation of the SDR. Although little improvement in free-market prices was anticipated in 1985/86, the Syndicate expected that substantial sales would have to be made in that market to avoid an excessive addition to stocks. As for protected markets, Mauritius' EC quota had just been raised by some 3,000 tons, but the Syndicate did not assume that the extra shipments made in the past two years to make up other countries' shortfalls would continue; at the same time, ECU prices for 1985/86 were raised by only a little over 1 percent. U.S. quotas, meanwhile, were cut substantially, but for 1985/86 the Syndicate expects that Mauritius's quota will remain close to 26,000 tons because of a special allocation to correct for the past undercalculation of the country's entitlement. Because of these factors, a further small decline in average realized prices in SDR terms and only a modest increase in export value are projected by the Fund staff.

The Mauritian rupee was unlinked from the SDR on February 28, 1983, and linked to a basket of trading partners' currencies. Since late in that year, the Mauritian authorities have adjusted the exchange rate from time to time. Between February 1983 and May 1985 the nominal and real trade-weighted exchange rate indices depreciated by 12.2 percent and 9.0 percent, respectively, thereby reversing the real appreciation of the rupee that had occurred between September 1981, when the rupee was last devalued, and February 1983. The changes in these indices were 5 percent and 2.7 percent, respectively, during the course of the 1984/85 fiscal year. The authorities restated their commitment to continuing a flexible exchange rate policy as a major element of the overall strategy of strengthening Mauritius's external competitiveness.

The Mauritian representatives reported that since the removal of the last remaining import quotas on January 31, 1985, there have been no significant delays in the processing of import permits for any goods. Nevertheless, the authorities found it difficult, under a liberalized import regime, to deal with fluctuations in international payments and receipts so long as the official reserve position remained extremely weak. While the overall balance of payments for 1985/86 is projected to reach a surplus of SDR 18 million, this will be nearly matched by net repurchases to the Fund of at least SDR 16 million, so that gross official reserves will not show substantial improvement. The authorities preferred to deal with the tight reserve situation by relying on temporary use of short-term lines of credit from foreign banks rather than undertaking a new borrowing on the Eurocurrency market.

In light of the recent meeting of the Consultative Group (May 1985), the authorities expected levels of concessional assistance to be somewhat lower than foreseen when the current stand-by arrangement was negotiated. In order to finance the higher imports of capital goods corresponding to a long-deferred rise in public sector investment expenditures, the Government was in the process of negotiating a limited number of new suppliers' credits from official sources. The total amount of such credits is not to exceed US$20 million, and the authorities intended to ensure that the maturity range of such credits will be over five years. The country's external debt servicing would be relatively less strained over the medium term than originally foreseen, because of higher exports and lower interest rates on foreign borrowing, and servicing the proposed moderate increase in suppliers' credits would therefore be supportable.

4. Fiscal policy

The discussions of fiscal policy centered on the budget for 1985/86, which was in preparation at the time of the staff visit. Fiscal developments in 1984/85 are summarized in Section II.2. The authorities and the Fund staff representatives agreed upon a fiscal deficit equivalent to 5.3 percent of GDP (including grants) under the stand-by program for 1985/86, and a deficit of this size (Mau Rs 897 million) was called for in the budget presented at the end of June. Total revenues were to rise by 10 percent, with tax revenues increasing by 11 percent (slightly less than projected nominal GDP) and nontax revenues growing little. External grants were projected to rise sharply, reflecting mainly a large increase in grants from the United States. Expenditures were budgeted to grow by 10 percent, with the rise in current outlays held below 8 percent but capital expenditures and net lending increasing by 25 percent (Table 2, p.6).

In reviewing recent fiscal developments and formulating the budget for 1985/86, the Mauritian authorities emphasized the importance of strengthening incentives to the private sector. Having reduced the corporate profits tax to 35 percent in mid-1984, they now planned to reduce personal income tax rates. In the 1985/86 budget, the maximum tax rate on personal income was reduced from 70 to 35 percent, with rates for lower brackets also reduced and allowances increased; the authorities estimated that these measures would reduce income tax revenues by Mau Rs 90 million. This step was seen by the Government as a necessary step to redress the long downtrend in salaries of employees with professional qualifications, which has led to a worrisome "brain drain." In order to achieve the targeted cut in the fiscal deficit, the Government decided to raise the stamp duty on imports 1/ from 13.2 to 17.0 percent, yielding estimated additional revenue of Mau Rs 140 million.

1/ This is a uniform ad valorem duty on most goods, other than basic foodstuffs and EPZ imports, paid at the time when import permits are issued.

The authorities expected that some of the loss of revenue directly resulting from the income tax cut might be recouped through a reduced incentive to tax evasion and a parallel toughening of tax enforcement (although the impact of higher tax collections has not been included in the fiscal projections). Under the Unified Revenue Board, established in June 1984, efforts to identify and collect from nonfilers of income taxes and to probe more deeply into customs duty evasion had been stepped up, cross-checking of information had been facilitated, and management had been strengthened. The present budget includes provision for a permanent staff for the Board, including a full-time administrator. The authorities acknowledged that much remained to be done to improve collections from higher-income, self-employed persons known to be evading income taxes on a large scale, as well as to combat evasion of customs and excise duties, especially with regard to luxury consumer goods.

The staff representatives pointed out that domestic-based taxes had not proven highly buoyant in recent years, due in part to the reductions in corporate and personal income taxes: the only major domestic source of tax revenue projected to rise roughly in line with nominal GDP in 1985/86 was the sales tax. The staff, while acknowledging the need to improve personal and corporate incentives and strongly supporting the reduction in taxation of sugar exports, cautioned against increased reliance on import taxation. They also supported comprehensive reform of the import tariff system, as proposed by the Bank (which calls for a more uniform level of tariffs with lower maximum levels), and suggested that other means of improving the buoyancy of tax revenues needed to be examined. To some extent, the Bank's proposals would meet the need of expanding domestic-based tax revenue by substituting excise taxes for import taxes for certain consumer goods presently subject to extremely high import duties.

The authorities tended, in principle, to prefer expenditure reduction to tax increases as a means to effect further reductions in the fiscal deficit. For a number of categories of expenditure, however, the scope for further cutbacks in 1985/86 was in their view limited: wages and salaries, because of the fall in real levels that had already occurred; pensions and interest payments on government debt, which were both legal commitments; expenditures on health and education, which were subject to a political consensus on minimum levels of social services; and investment expenditures, which had to be cut back severely during the last four fiscal years. Subsidies on rice and flour consumption were to be reduced to Mau Rs 80 million, the amount originally targeted for the previous fiscal year. The staff did not believe that these subsidies could be kept to this level without an increase in retail prices. The authorities stated their intention to take the appropriate measures necessary to meet this target and also agreed with the staff's view that external grants in kind should be accounted for as general resources and not earmarked to mask increases in subsidies beyond their targeted amount.

The chief area where the Mauritian representatives saw possibilities for major expenditure cuts was in transfers to certain parastatal organizations, particularly those which a number of years ago were obliged to take on large numbers of unemployed workers--temporarily at first, but subsequently with full public service wages, benefits, and security. The activities of these workers were characterized by high wages and low productivity, relative to their private-sector counterparts, and could be replaced by private sector firms. (Certain ministries also carried out public works programs liable to the same criticism.) The authorities faced difficulties of a legal and political nature in attempting to reduce government support to these activities, in particular the protected status of the employees involved, but were determined to do so over time.

The Government was also considering possible changes in the structure and levels of incentives under the EPZ and similar schemes. While there was no question of reneging on tax holidays already granted, or of changing such features of the system as duty-free imports for the EPZ sector, the Government nevertheless felt that it had been giving away a great deal (e.g., in foregone tax revenues from the most rapidly growing sectors of the economy) while receiving little directly in return, and that there might be an arbitrary element in the relative incentives given to different sectors. These considerations lay behind the recent measure (see Section III.1(c) above) to place all new firms holding various incentive certificates under a uniform corporate tax regime.

5. Monetary and credit policy

Despite the fact that credit to the private sector grew by 16.6 percent (Table 3, p. 7), compared with an increase of 12 percent in nominal GDP, the Mauritian representatives insisted that credit on the whole had been rather tight throughout 1984/85, except for the latter part of 1984, when there were no individual ceilings on credit by the commercial banks. The reasons given for this view were that the rapid growth of EPZ activity during this period had required an extraordinary expansion of credit to this sector alone, mainly for the buildup of inventories of imported inputs, which did not impinge on demand for domestic output. There had been a tendency for broad money to grow somewhat faster than nominal GDP, as positive real interest rates on savings and time deposits encouraged the holding of these assets.

From June to December 1984, in an effort to develop a more flexible method of credit control than the bank-by-bank ceilings imposed before, the authorities experimented with a system based only on sectoral allocation of credit. Sectoral guidelines, applied to each bank, provided that a maximum of 25 percent of a bank's total credit could be lent for nonpriority uses (trade, real estate, private housing, and personal consumption), within which there was a subceiling on credit for trade, and that a minimum of 50 percent of that credit had to be lent for priority purposes (EPZ sector, agriculture, and Development Certificate enterprises). The authorities found the system inadequate to contain overall credit expansion to a desirable level and in January 1985 the Bank of Mauritius reverted to the system of controlling the overall level of credit by means of bank-by-bank ceilings, adjusted quarterly to take into account the growth in each bank's deposits and credit to priority sectors. The sectoral allocation system also remained in effect. The staff indicated that the system of direct credit controls ought to be replaced gradually by one relying on the use of other instruments of monetary policy. The authorities felt that the scope for doing so was very limited in the short run, as the legal maximum liquidity ratio (30 percent) had already been reached and was high by international standards. Nevertheless, as of the third quarter of 1985, they eliminated all the guidelines for sectoral allocation of credit, except for the maximum of 25 percent of credit for nonpriority uses. They felt that this simplification of the credit guidelines would give the banks greater flexibility and eliminate a somewhat questionable distinction between the priority activities and those of some manufacturing firms that did not happen to hold special certificates.

Interest rate policy has continued to consist of a mixture of official guidance and free-market determination. Interest rates on time and savings deposits were not changed during the 1984/85 fiscal year; the minimum interest rate on savings deposits, fixed by the Bank of Mauritius, remained at 8 1/2 percent, with somewhat higher rates on time deposits determined by the commercial banks. Treasury bills remain broadly competitive with time deposit rates. In general, therefore, interest rates on the main liquid assets in the financial system have remained positive in real terms, and it was the intention of the authorities to maintain positive real rates on such assets. Lending rates tend to be two-tiered, with lower rates on loans to priority sectors than on loans to other sectors; although lending rates are in principle set by the market, they are greatly influenced by the views of the financial authorities with regard to their appropriate levels. The staff was told, however, that the commercial banks did not regard loan rates to firms in the EPZ sectors as inappropriately low, because of the earnings gained on the foreign exchange business generated by such firms.

IV. The Medium-Term Balance of Payments and Debt Outlook

The staff has prepared medium-term balance of payments (Table 6) and debt service projections (Table 7) covering the period 1985/86-1989/90, based on the assumption that the thrust of current policies will be

Table 6. Mauritius: Medium-Term Balance of Payments Projections, 1984/85-1989/90

(In millions of SDRs)

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Current account	-25	-9	-13	-18	-18	-16
Merchandise	-18	-12	-10	-12	-14	-15
Exports, f.o.b.	378	425	454	486	522	560
Sugar	(181)	(190)	(196)	(204)	(212)	(221)
EPZ	(162)	(197)	(217)	(239)	(264)	(291)
Other	(35)	(38)	(40)	(43)	(45)	(48)
Imports, f.o.b.	-396	-437	-463	-499	-535	-575
Imports, c.i.f.	450	-496	-529	-568	610	-655
Petroleum	(-71)	(-66)	(-68)	(-70)	(-72)	(-74)
EPZ	(-112)	(-133)	(-147)	(-162)	(-178)	(-196)
Other	(-267)	(-297)	(-314)	(-336)	(-360)	(-385)
Invisibles (net)	-7	3	-3	-5	-4	-1
Of which:						
investment income 1/	(-43)	(-45)	(-47)	(-49)	(-51)	(-51)
gross tourist receipts	(46)	(52)	(56)	(61)	(66)	(71)
Capital account	35	27	61	47	55	63
Public	47	21	55	41	48	56
Disbursements	(88)	(59)	(90)	(92)	(100)	(107)
1984 Eurocurrency loan	(40)	(--)	(--)	(--)	(--)	(--)
New commercial debt 2/	(--)	(8)	(30)	(30)	(35)	(40)
Other	(48)	(51)	(60)	(62)	(65)	(67)
Amortization 1/	(-41)	(-38)	(-35)	(-51)	(-52)	(-51)
Private direct investment	9	6	6	6	7	7
Commercial banks	-21	--	--	--	--	--
Errors and omissions	8	--	--	--	--	--
Overall balance	18	18	49	30	37	47
Financed by:						
IMF	-19	-16	-20	-25	-27	-24
Purchases 3/	(29)	(28)	(7)	(0)	(0)	(0)
Repurchases	(-48)	(-44)	(-27)	(-25)	(-27)	(-24)
Change in reserves						
(- indicates increase)	1	-2	-29	-5	-10	-23
Memorandum items:						
Reserves	18	20	49	54	64	87
Reserves/One month's imports	0.5	0.5	1.1	1.1	1.3	1.6

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

1/ Includes debt service on assumed new commercial debt disbursements (see footnote 6, Table 7).
2/ See footnote 6, Table 7.
3/ Includes all purchases under current stand-by arrangement and SDR 7.5 million purchased under the Compensatory Financing Facility.

Table 7. Mauritius: Medium- and Long-Term External Debt and Debt Service 1983/84-1980/90

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
1. Total medium- and long-term external debt 1/	513	540	542	571	588	603	624
a. Debt on commercial terms 2/	77	93	83	100	117	131	147
b. Other public 3/	244	276	307	341	368	396	425
c. Private	14	14	14	14	14	14	14
d. IMF 4/	178	157	138	116	89	62	38
2. Debt service 5/							
a. On existing debt and assumed inflow of official capital	119	135	132	112	122	126	118
Eurocurrency	52	36	28	17	22	21	18
Principal	40	24	18	9	15	15	14
Interest	12	12	10	8	7	6	4
Other public	29	32	41	52	62	67	67
Principal	16	17	20	25	33	34	30
Interest and charges	13	15	21	27	29	33	37
Private	5	4	4	3	3	3	4
Principal	4	3	3	2	2	2	3
Interest and charges	1	1	1	1	1	1	1
IMF	33	63	59	40	35	35	29
Repurchases	20	48	44	27	25	27	24
Charges	13	15	15	13	10	8	5
b. On assumed additional commercial borrowing 6/	--	--	--	3	8	11	19
Principal	--	--	--	1	3	3	7
Interest	--	--	--	2	5	8	12
c. On total debt service (2.a + 2.b)	119	135	132	115	130	137	137
Principal	80	92	85	64	78	81	78
Interest	39	43	47	51	52	56	59
Ratio of (2.a) to exports of goods and nonfactor services	24.1	26.3	22.8	18.2	18.5	17.8	15.5
Ratio of (2.c) to exports	24.1	26.3	22.8	18.6	19.7	19.3	18.0
Ratio of (1) to exports	49.4	54.4	52.4	52.1	50.6	48.9	47.8
Memorandum item:							
Exports of goods and nonfactor services	494	514	578	617	661	710	762

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

1/ End of period.
2/ Includes existing Eurocurrency loans and assumed additional borrowing by the public sector at commercial terms.
3/ Borrowing by Government and parastatals at non-commercial terms.
4/ Includes obligations to IMF Trust Fund.
5/ For private and Eurocurrency debt on the basis of debt outstanding as of December 31, 1984. For other public on the basis of currently contracted debt, loans in the pipeline and on the assumption that disbursements of official loans (excluding Fund) will increase by 4 percent annually from the 1986/87 level.
6/ Assuming that disbursements of new commercial debt are as assumed in the balance of payments projection. SDR 20 million contracted in 1985/86 is assumed disbursed in tranches of 10 and 10 over the years 1985/86 and 1986/87. This is consistent with the ceiling on commitments of $20 million in the program. The terms assumed on this are 9.5 percent interest, 1 year's grace and 7 years' maturity. An additional SDR 125 million contracted thereafter is disbursed in tranches of 20, 30, 35, and 40 over the years 1986/87-1989/90 and financed on terms of 10.5 percent interest, 3 years' grace, 8 years' maturity.

continued and on certain other assumptions concerning developments in world markets and in Mauritius. These assumptions, summarized below, are presented in greater detail in Appendix II.

On the merchandise trade account, the volume of sugar exports is assumed to be constant, with an unchanged real price, resulting in an annual increase of 4 percent in the total export value of sugar in SDR terms (in large part reflecting assumed exchange rate developments). The total SDR value of EPZ exports, which is projected to rise by 22 percent in 1985/86, is assumed for the medium term to rise by 10 percent annually, 6 percent of which is due to growth in volume. Imports of the EPZ sector are assumed to rise in line with exports, while most other imports are assumed to rise by 7 percent, based on projected rates of increase of 3 percent in real GDP and 4 percent in world trade prices. Petroleum imports, however, are projected to decline in 1985/86 and, for 1986/87 and beyond, to increase at 3 percent per year in volume and at a constant SDR price of oil. Imports of rice and flour, however, are projected to rise by 5 1/2 percent a year, reflecting the population growth rate of 1.4 percent and a rate of price increase of 4 percent. Other projected developments influencing the current account outcome include gradually rising interest payments (owing to continued net external borrowing), although this trend is moderated by a projected lower LIBOR, reflecting recent developments and the revised projection for the World Economic Outlook. Unrequited transfers are expected to rise by SDR 10 million in 1985/86, reflecting the large increase in grants (mainly from the United States) budgeted for that year, but for later years are assumed to rise by 4 percent per annum, thus remaining constant in real terms. As a result of these developments (and others described in Appendix II), the current account deficit is projected to fall sharply in 1985/86, owing especially to the strong performance of the EPZ sector, an unusually high level of grants, and an above-average volume of sugar exports, but to widen somewhat afterwards, mainly because of a return to average volumes of sugar exports and the increases in interest payments.

In the capital account, projected loan disbursements are a combination of inflows from already contracted and expected official loans, suppliers' credits in an amount consistent with the program ceilings, and new commercial borrowing after 1985/86. The level of disbursements on commercial terms was determined by an assumed target of official reserves equivalent to six weeks' imports by 1989-90. Debt service payments on this newly contracted debt have been incorporated into the projections, using an assumed LIBOR of 9 percent as the basis for interest rates. As can be seen in Table 7, the resulting debt-reserve ratio falls below 20 percent by 1986/87 and remains so through 1989/90.

The current medium-term balance of payments projection differs from that contained in the original program paper (EBS/85/17) in a number of respects. For 1985/86, current account performance is stronger owing to the large size of the 1985 sugar crop, a greater-than-anticipated growth of EPZ exports, lower petroleum imports, and higher external grants. EPZ growth also accounts for the improved current-account outlook in 1986/87, while the different treatment of interest payments (described below) accounts in large part for the subsequent widening of the current account deficit. In the capital account, the differences are both substantive and presentational. Disbursements of bilateral and multilateral loans are substantially lower than previously expected, and government borrowing on commercial terms, previously reflected in a "financing gap," is now incorporated in the capital account itself. Similarly, interest payments on new commercial debt are now included in the projected invisibles account, while in the original presentation such payments (although included in the debt service projection) were not presented as part of the balance of payments projection.

V. The Financial Program for 1985/86

The principal objectives of the program for the 1985/86 fiscal year, the remaining 12 months of the program under the current stand-by arrangement, continue to be strengthening the external position, maintaining price stability, and sustaining the previous rate of economic expansion. An especially strong effort to narrow the current account deficit is required in 1985/86, owing to the large debt repayments due and the relatively modest level of capital inflows expected. At the same time, because of high unemployment, the authorities lay great emphasis on strengthening the momentum of the economic recovery already under way, but doing so by means that do not raise inflation above a target rate of 7 percent. The stimulation of domestic activity and strengthening of the current account are both furthered by continuation of a flexible exchange rate policy and a cautious wage policy. At the same time, to maintain price stability and to control aggregate demand so as to permit the targeted current account improvement, the fiscal deficit is to be reduced from some 6 percent in 1984/85 to 5.3 percent in 1985/86, and private credit expansion is to be somewhat slower than during 1984/85. Growth and international competitiveness in the medium term are to be fostered by supply-side measures, including (as discussed above in Section III) the flexible exchange rate policy, steps under the Action Plan for the Sugar Industry, maintenance of positive real interest rates, reductions in personal income taxes, and an import tariff reform. External borrowing will be limited so as to maintain a sustainable medium-term debt service profile. A tabular description of the principal objectives and measures of the program for 1985/86 is given in Appendix III.

The fiscal program for 1985/86 (described in Section III.4) targets an increase of 7.2 percent in net domestic credit to the Government; in

1984/85, there was a decline in the level of such credit made possible by high levels of external and domestic nonbank financing. An increase of 15.8 percent is projected for credit to the private sector, which rose by 16.6 percent in 1984/85. Total domestic credit expansion, which increased by 5.2 percent in 1984/85, is therefore targeted to increase by 11 percent in 1985/86. Given the projected increase in net foreign assets of the banking system, broad money is programmed to rise by 15 percent, a rate of growth consistent with a projected increase of about 12 percent in nominal GDP, given the tendency over the last five years for broad money to grow somewhat faster than nominal income, especially when positive real interest rates have been maintained.

The Government's plan for external borrowing remains cautious, but an improved debt service projection for the medium term permits a modest amount of new commitments at nonconcessional terms. Such new commitments, either contracted or guaranteed by the Government, will not exceed US$20 million during 1985/86, of which the staff expects about US$10 million to be disbursed during the program period. In its management of the economy's foreign exchange needs, the Bank of Mauritius must still operate with very low foreign exchange reserves, which are projected to increase only slightly in 1985/86, because most of the balance of payments surplus will be used to reduce Mauritius's net liabilities to the Fund. Since the program for 1985/86 is adequately financed, the authorities prefer not to undertake an additional Eurocurrency borrowing at this time; instead, the Bank of Mauritius continues to require use of a short-term line of credit for temporary financing of negative fluctuations in the overall balance of payments during the year. In view of the larger volume of foreign trade, and the demonstrated unpredictability of delays in aid disbursements, the program permits this line of credit to be increased from US$30 million to US$40 million, provided that outstanding credit at no time exceeds US$30 million for a period of more than three months.

Quantitative performance criteria are summarized in Table 5. Quarterly performance criteria for total domestic credit and net credit to the government are set for the period July 1-December 31, 1985; indicative targets for the last six months of the fiscal year are included in the Letter of Intent, with quarterly performance criteria to be set at the time of the second review. Performance criteria with regard to external borrowing are set for the entire 1985/86 fiscal year, however, as the sources of external financing need to be planned on an entire fiscal-year basis.

VI. Staff Appraisal

Over the past six years, supported by five successive stand-by arrangements with the Fund, the Government of Mauritius has followed a policy course that has gone far to restore its country's financial stability and external position, while permitting a resumption of growth on a sustainable basis. The fiscal deficit has been cut from 14 percent to 6 percent of GDP; the growth of credit to the private sector has been held firmly within planned targets; new official external borrowing on nonconcessional terms and maturities under 12 years has been kept within moderate bounds; external competitiveness has been improved by measures such as a flexible exchange rate policy, cautious wage policies, and import liberalization; and a beginning has been made in the structural reform of the sugar industry. As a result of these policies, the current account deficit has been narrowed, inflation has been reduced to low rates, the increase in the debt service burden has been brought to a halt, and the growth of the economy has resumed. At the same time, Mauritius has succeeded in managing its external debt problems without recourse to rescheduling and has, with a minor exception, adhered to virtually all performance criteria under recent stand-by arrangements. Moreover, the authorities have strengthened the importance of market prices, rather than government intervention, as the basis of economic decision making. They have done so by implementing a policy of realistic exchange rates and interest rates, removing the last remaining quantitative restrictions on imports, sharply reducing the number of items subject to price controls, and liberalizing selective credit controls.

Under the current stand-by arrangement, as explained in previous sections, there has been, or is targeted to be, further progress in these areas. By the end of the program period in mid-1986, Mauritius's external position is projected to become sustainable even if substantial commmercial borrowing is required. The momentum generated by the successful fostering of nontraditional exports and tourism should continue to assure a healthy rate of growth and a sustainable current account position--provided, of course, that there is no weakening in demand-management policies or the authorities' stance on supply-oriented policies of realistic prices, exchange rates, and interest rates. In examining the present policy mix and medium-term prospects of Mauritius, however, the staff feels there are certain areas where the need for improvements should be emphasized and the role of the current program explained.

First, the progress made thus far in reducing the fiscal deficit has resulted mainly from cutbacks in expenditure, in terms both of a decline in real wages and salaries for much of the population and of a postponement of public investment; much of the rest has come from increases in taxes on imports. Although the reduction in the fiscal deficit programmed for 1985/86 is adequate for the objectives of this year's program, further compression will be necessary in the medium term and will require budgetary measures in areas other than wages, investment and import taxes.

On the expenditure side, the Government acknowledges that one such area involves transfers to certain parastatal enterprises where major elements of waste and inefficiency remain, but cuts in these transfers have been constrained by contractual obligations to the employees of these entities. With regard to subsidies on the production and consumption of food, the Government is committed under the current program to reducing the level of consumer subsidies on rice and flour, and to using food production subsidies only as temporary support to particular crops until their domestic production becomes well established. A final type of expenditure that requires careful scrutiny is the assistance given new manufacturing (especially exporting) industry, some of which might well be borne by the private sector.

An especially disturbing fiscal problem is the shrinking revenue base, due in large part to the Government's efforts to improve incentives to investment and output in the private sector. While the cuts in corporate profit tax rates and sugar export duties in 1984/85, and in personal income tax rates in 1985/86, have understandable rationales, their effects on revenues have been offset by additional taxes on imports, which by and large are already subject to excessive levels of duties and surcharges. Meanwhile, other domestic sources of revenues, with the exception of sales taxes, have displayed low buoyancy. The authorities need to take a careful look at ways to improve tax administration and the elasticity of the tax system, and in particular to reduce the heavy reliance on taxes on foreign trade. For this reason, the second review under the stand-by arrangement will pay special attention to these matters.

Despite the more rapid growth of manufacturing, nonsugar agriculture, and tourism, an efficient sugar industry will remain vital to the country's balance of payments prospects for many years to come. In recent years, the financial position of the industry, and hence the level of its investment, have been undercut not only by poor crops and weak international prices but also by high taxes and regulation. The ability of the Government to develop a coherent medium-term program of action to revitalize the sugar sector, acceptable at least in part to all elements of the community, has constituted a major political achievement, and the initial concrete steps taken have certainly been in the right direction. Nevertheless, the authorities face a difficult task in attempting to balance the desire for a gradual and orderly redistribution of agricultural land ownership, which would be facilitated by continuing financial pressure on the estates, with the need to maintain productivity and provide adequate incentives for owners and new investors to put their funds into long-overdue rehabilitation of the capital stock--a dilemma that is compounded by the continuing pressure on government finances.

While export diversification has undoubtedly been fostered by incentives to stimulate manufacturing production, the loss of revenue arising from granting extensive tax holidays to EPZ firms has become a heavy fiscal burden. The reform of the corporate tax regime for new exporting firms is a welcome measure in this respect. The next major step in the area of industrial policy, the long-gestating reform of the import tariff system, is of equal importance, and any further delays in its implementation will only serve to perpetuate existing distortions in the pattern of investment and production. This reform must now take into account the additional import taxation represented by the rise in the stamp duty contained in the 1985/86 budget, as well as the import surcharges of recent years.

Policies of the Government to improve the underlying external competitiveness of export and import-competing activities--principally through a flexible exchange rate policy and a tight control on wage increases--will continue to play an important role, in view of the continued need for export diversification, the precariously low level of official reserves, and the sluggish flow of concessional assistance. While a limited amount of nonconcessional external borrowing will be necessary in the medium term, such borrowing should continue to be kept under careful review so as to limit debt service to tolerable levels. One channel through which the capital account might be strengthened is through encouragment of greater inflows of foreign direct investment--for instance, as contributions to foreign-owned investments in the EPZ sector.

The Bank of Mauritius has, for the most part, succeeded in holding to tight overall ceilings on credit to the private sector, while in general still ensuring that the legitimate credit needs of the productive sectors of the economy have been met. The authorities might well aim at a banking system in which both the level of interest rates and the allocation of credit are determined by the market. Nevertheless, removal of the present system of direct controls would be difficult at present, because the liquidity ratio is already at the relatively high legal limit, most banks have considerable excess liquidity, and new instruments of credit control might therefore have little immediate impact. Moreover, the staff is satisfied that controls are administered in a flexible and pragmatic manner. As first steps toward making the system less cumbersome, the abolition of the subceiling on credit to traders and the merging of high- and medium-priority borrowers into a single minimum share of total credit are to be welcomed. A greater degree of market determination of interest rates is also to be encouraged.

VII. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

1985 Consultation

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Mauritius, in the light of the 1985 Article IV consultation with Mauritius conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

Review under Stand-By Arrangement

1. Mauritius has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Mauritius (EBS/85/27, Supplement 2, March 4, 1985) in order to establish suitable performance criteria as contemplated in paragraph 11 of the letter dated December 7, 1984 from the Minister of Finance and the Governor of the Bank of Mauritius attached to the stand-by arrangement. Also by telex dated July 4, 1985 Mauritius has requested a waiver pursuant to paragraph 4 of the stand-by arrangement concerning the observance of the performance criterion on government guarantee of foreign borrowing referred to in paragraph 4(a)(iii) of the stand-by arrangement.

2. The letter dated August 28, 1985 from the Minister of Finance and the Governor of the Bank of Mauritius shall be attached to the stand-by arrangement for Mauritius, and the letter dated December 7, 1985 shall be read as modified and supplemented by the letter of August 28, 1985. Accordingly, the performance criteria on total domestic credit and net credit to the Government, and the contracting and guaranteeing of nonconcessional foreign borrowing referred to in paragraph 4(a) of the stand-by arrangement shall be those specified in paragraph 16 of the letter of August 28, 1985.

3. The Fund finds that, notwithstanding the nonobservance of the performance criterion on government guarantees of foreign borrowing, no further understandings are necessary, and that Mauritius may proceed to make purchases under the stand-by arrangement.

Mauritius: Selected Economic and Financial Indicators, 1980/81-1985/86

Fiscal years (July-June)	1980/81	1981/82	1982/83	1983/84	1984/85 Program	1984/85 Prov. Actual	1985/86 Program
	(Annual percentage changes, unless otherwise specified)						
National income and prices, and employment							
GDP at constant market prices 1/	-5.9	4.8	5.0	1.1	2.9	4.2	5.7
Nonsugar GDP at constant factor cost	0.7	2.7	3.0	4.4	4.0	4.8	4.3
GDP deflator 1/	16.6	11.8	7.7	8.8	8.8	7.6	6.0
Consumer prices (average)	26.5	13.4	7.5	5.6	9.5	8.3	7.0
Employment (larger establishments)	-1.2	-0.4	-1.4	--	...	4.7	...
Unemployment rate (percent, end-FY)	12.7	14.7	17.2	17.2	...	17.0	...
External sector (in terms of SDRs)							
Exports, f.o.b.	-8.0	16.3	-5.1	12.6	2.5	4.7	12.4
Imports, c.i.f.	10.2	-13.7	-3.5	4.3	1.6	3.2	9.6
Non-oil imports, c.i.f.	10.8	-18.3	-3.7	8.3	1.9	3.8	13.5
Terms of trade (deterioration -)	-6.4	-4.5	3.6	3.4	2.0	-4.3	-1.0
Effective exchange rates 2/							
Nominal	-6.0	-8.3	0.7	-4.1	-6.5	-1.9	...
Real	7.8	-5.9	1.1	-4.7	-2.5	-3.6	...
Government budget							
Revenue	13.7	7.9	26.2	9.5	9.1	8.1	9.9
Total expenditure and net lending	24.3	9.2	8.4	-0.1	9.1	10.0	10.1
Money and credit 3/							
Domestic credit	19.8	14.3	19.4	15.5	5.9	5.2	11.0
Government (net)	20.5	15.0	26.1	14.3	-1.6	-2.2	7.2
Private sector	18.9	13.4	10.0	17.5	17.5	16.6	15.8
Money and quasi-money	8.6	18.0	20.9	7.8	13.9	16.5	15.0
Interest rate (annual rate - one-year time deposit)	10.0	12.25	12.0	10.25	10.5	10.5	10.5
	(In percent of GDP at market prices, as revised)						
Central government budget							
Savings (current balance)	-4.3	-5.6	-3.3	-2.0	-1.9	-2.0	-0.8
Overall deficit (-)							
Excluding grants	-14.2	-13.5	-9.7	-6.7	-6.6	-7.0	-6.9
Including grants	-14.0	-12.8	-9.5	-6.4	-5.9	-6.0	-5.3
Domestic bank financing	5.4	4.0	7.1	4.6	-1.3	-1.6	1.2
External financing (net)	7.7	7.4	-1.4	-1.0	4.8	4.6	1.2
Gross domestic investment 3/	23.0	21.7	17.7	18.9	18.7	20.3	...
Gross domestic savings 3/	12.6	15.1	16.2	17.5	18.0	19.3	...
External current account deficit (-) 4/							
Excluding transfers	-17.6	-7.9	-7.7	-4.6	-5.3	-5.0	-4.3
Including transfers	-15.5	-5.7	-5.2	-2.5	-2.8	-2.5	-0.9
External debt (year-end) 4/							
Excluding Fund credit	30.1	37.6	34.1	33.7	40.0	39.2	39.6
Including Fund credit	42.5	52.1	49.5	50.4	54.4	54.4	52.6
	(In units indicated)						
Debt service ratio (percent) 4/	15.8	14.7	21.7	24.1	28.2	26.3	22.7
Interest payments	9.3	9.2	9.8	7.9	9.9	8.4	8.1
Overall balance of payments (in millions of SDRs) (deficit -)	-60.0	-9.0	-28.0	-28.0	30.0	18.0	18.0
Gross central bank reserves (in months of imports)	0.7	1.1	1.0	0.5	0.6	0.5	0.5
Memo: GDP at current market prices (in millions of Mauritian rupees)	9,236	10,818	12,242	13,470	15,070	15,090	16,900

Sources: Ministry of Finance, Bank of Mauritius, Central Statistical Office, and staff estimates.

1/ Sugar crops and milling included in fiscal year harvested; otherwise averages of calendar-year data.
2/ Trade-weighted annual averages of end-of-month rates; negative indicates depreciation.
3/ Based on averages of calendar year data.
4/ Including the Fund.

Mauritius: Assumptions Underlying Medium-Term Balance of Payments and External Debt Service Projections

(Prices and Values in SDRs)

I. Current Account

1. Sugar. A crop of 660,000 tons is projected in 1985/86 and crops averaging 625,000 tons thereafter. Quotas at 505,000 tons in the EC and 26,000 tons in the United States prevail throughout the period. Prices in the EC rise at 6 percent in 1985/86 and 4 1/2 percent thereafter, reflecting World Economic Outlook assumptions with regard to depreciation of the U.S. dollar vis-à-vis European currencies. World market prices in 1986/87 and beyond are assumed to remain roughly constant at the average of 1983-84. Sugar prices in the protected U.S. market are projected to fall 1 percent per year.

2. EPZ. In 1985/86 EPZ exports are projected to rise by 22 percent while imports rise 19 percent. In later years the values of exports and imports are both assumed to rise at 10 percent per annum (of which 4 percentage points are accounted for by the WEO-assumed rise in world prices of manufactures).

3. Other exports. These are projected to rise by 8.6 percent in 1985/86 and 6 percent thereafter. Prices are projected to rise by 4 percent and volume by 2 percent.

4. Petroleum. Based on contracts already signed, it is projected that imports of petroleum will fall by 7 percent in 1985/86. In the year thereafter, imports are projected to increase 3 percent in volume terms--in line with the growth in GDP--and zero percent in prices. This price assumption reflects recent developments in the world oil market and the WEO's assumption that the U.S. dollar will depreciate against the SDR.

5. Rice and flour. Values of rice and flour imports are projected to increase by 5.5 percent. This is explained by an assumed 4 percent increase in price and 1.5 percent increase in volume--the projected rate of population growth.

6. Other imports. Other imports are projected to rise by 7 percent after rising 12 percent in 1985/86. The 7 percent figure comprises a 3 percent real increase in line with real GDP growth and a 4 percent price increase in line with world trade prices.

7. Investment income. This item consists primarily of interest payments and receipts. It is assumed that LIBOR will be at 9 percent during the projection period and that the Bank of Mauritius will earn

6 percent a year on its holdings of reserves. For interest on the new Eurocurrency borrowing assumed, it is projected that Mauritius will pay 1.5 percent over LIBOR.

8. Freight and insurance. This item increases at the same rate as overall imports.

9. Gross tourist receipts. After being projected to rise by 13 percent in 1985/86, this item rises by 8 percent per annum.

II. Capital Account

1. Disbursements. After a projected increase of 6.25 percent in 1985/86, disbursements from official bilateral and multilateral sources are projected to increase by 4 percent, thus remaining roughly constant in real terms. Disbursements of suppliers' credits and new Eurocurrency loans are projected so as to allow the attainment of a level of official foreign exchange reserves equal to 1.5 months' imports by end-1989/90. This may be regarded as comparable to the "financing gap" shown outside the balance of payments accounts in previous presentations.

2. Amortization. Terms of suppliers' credits are assumed to be one year's grace and six years repayment and those of Eurocurrency borrowing to be three years' grace and five years' repayment.

Mauritius: Summary of the Financial Program, 1983/84-1985/86

	1983/84 Actual	1984/85 Prov. Actual	1985/86 Program
A. Principal targets and assumptions		(In percent)	
1. Output and prices			
Real GDP growth rate	1.1	4.2	5.7
Nonsugar GDP growth	4.4	4.8	4.3
GDP deflator increase	8.8	7.6	6.0
Consumer price increase (annual average)	5.6	8.3	7.0
2. External sector (On the basis of SDR values)			
Growth of exports	13.5	4.7	12.4
EPZ export growth	25.0	29.6	21.6
Sugar exports growth	2.0	-9.4	4.7
Volume	4.3	-5.9	7.1
EC market price (in ECU terms)	4.0	--	1.2
U.S. market price	-2.1	-3.7	-2.2
Current account deficit (-)/ GDP ratio 1/	-2.5	-2.5	-0.9
Balance of payments overall surplus/deficit(-) (million SDRs)	-28.0	18.0	18.0
Gross debt service ratio	24.1	26.3	22.7
Terms of trade (percentage change)	6.9	-4.3	-1.0
3. Public finance (percent of GDP)			
Central Government overall deficit (-) 2/	-6.4	-6.0	-5.3
Domestic bank financing	4.6	-1.6	1.2
4. Money and credit (increase)			
Total domestic credit	15.5	5.2	11.0
Credit to private sector	17.5	16.6	15.8
Money and quasi-money	7.8	16.5	15.0

B. Principal elements of the program for 1985/86

1. Fiscal policies

In order to compensate for the loss of revenue arising from the reduction in personal income taxes, the stamp duty on imports was increased by 3.8 percentage

1/ Current account includes official transfers.
2/ Including grants.

points. However, in view of the already high taxation of imports and the excessive protection for some domestic activities arising from very high tariffs, the Government is committed to the simplification and rationalization of the external tariff, and will examine with the Fund, on the occasion of the second review, options for reducing the dependence of the budget on taxes on international trade and transactions. Initial measures to implement tariff reform will be presented by February 1986. The Government will also strengthen tax administration to reduce tax evasion. Subsidies for rice and flour will be limited to Mau Rs 80 million during 1985/86.

2. Exchange rate

A flexible exchange rate policy will continue to be pursued to ensure further improvement in competitiveness.

3. Wage policy

The 1985/86 wage discussions were concluded with an average settlement equal to about 70 percent of the average increase in the cost of living in the previous year.

4. Credit policy

Guidelines governing the sectoral allocation of bank credit have been revised. The sub-ceiling on credit to traders was abolished; henceforth, there will be one single sectoral ceiling which will limit bank credit to low priority sectors (trade, personal consumption, residential housing) to a maximum of 25 percent of outstanding bank credit. Total domestic credit expansion will not exceed 11 percent, with credit to Government programmed to increase by no more than 7.2 percent. Interest rates will be kept positive in real terms.

5. Foreign borrowing

During fiscal year 1985/86, no new external loans will be contracted or guaranteed by the Government or the Bank of Mauritius in the over 1- and up to 5-year maturity range, and new external loans contracted or guaranteed by the Government or the Bank of Mauritius in the range of over 5 and up to 12 years' maturity will not exceed US$20 million. At the same time, the use by the Bank of Mauritius of short-term external credit lines will not exceed US$40 million at any time and the average of the daily amounts outstanding shall not exceed US$30 million for any consecutive three-month period.

6. Exchange and trade system

The Government will not impose new or intensify existing restrictions on trade and payments for current transactions.

MAURITIUS - Fund Relations

(Amounts in millions of SDRs, as of
July 31, 1985, unless otherwise indicated)

I. Membership Status

Date of membership:	September 23, 1968
Status:	Article XIV

A. Financial Relations

II. General Department

	Millions of SDRs	Percent of quota
Quota:	53.6	100.0
Total Fund holdings of member's currency:	199.26	371.76
Fund credit:	145.68	271.79
Compensatory financing facility (exports)	22.69	42.33
Buffer stock financing facility	--	--
Credit tranches - ordinary resources	23.9	44.6
Credit tranches - SFF resources	45.23	84.38
Credit tranches - enlarged access resources	53.9	100.6
Reserve tranche position:	-- 1/	--
Current operational budget:	--	--
Lending to the Fund:	--	--

III. Stand-By Arrangements and Use of Special Facilities

Current stand-by arrangement:

Duration :	March 1, 1985-September 1, 1986
Amount :	SDR 49 million
Utilization :	SDR 14 million
Undrawn balance:	SDR 35 million

Previous stand-by arrangements:

Dates	Duration	Amount	Utilized
February 1978	12 months	7.97	7.97
October 1979	12 months	73.03	40.00
September 1980	12 months	35.00	35.00
December 1981	12 months	30.00	30.00
May 18 1983	15 months	49.50	49.50

1/ The actual reserve tranche position is SDR 23,000.

MAURITIUS - Fund Relations (continued)

Special facilities:

Compensatory financing facility (exports):	April 1981 - 40.5
Buffer stock financing facility:	January 1983 - 3.60

IV. SDR Department

Net cumulative allocation:	15.74
Holdings: Amount	1.36
Percent of net cumulative allocation	(8.6)
Current designation plan:	--

V. Administered Accounts (amounts)

Trust Fund Loans	
Disbursed	9.10
Outstanding	5.77
SFF Subsidy Account	
Donations to Fund	--
Loans to Fund	--
Payments by Fund	4.27

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Since February 28, 1983 the Mauritian rupee, which previously was pegged to the SDR at Mau Rs 12 = SDR 1, has been pegged to a tailored basket of currencies. On July 31, 1985, SDR 1 was equivalent to Mau Rs 15.57.

VIII. Last Article IV Consultation and Stand-By Review.

Last Article IV Consultation — October 5, 1984

Mauritius is on the standard 12-month cycle. The last Article IV consultation discussions with Mauritius were held in June 1984. The staff report (SM/84/196) was discussed by the Executive Board on October 5, 1984, and the decision was:

MAURITIUS - Fund Relations (concluded)

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Mauritius, in the light of the 1984 Article IV consultation with Mauritius conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

IX. Technical Assistance

Banking (CBD)

Mission on banking legislation, November 1982
Research Advisor to Governor, Bank of Mauritius, March 1981-September 1983
Advisor to the Governor, September 1983-March 1985
Consultant on external debt, April/May 1985 (five weeks)
Foreign Exchange Advisor, Ministry of Finance, March 1985-February 1986
Advisor to the Governor, July 1985-June 1986

Fiscal (FAD and LEG)

Advisor on introduction of sales tax, excise duties, and planning for Unified Revenue Board, November 1980-July 1981
Staff visit to review sales tax legislation, December 1980
Budget Advisor, January 1981-July 1983
Staff visit on tax administration legislation, June 1981
Advisor on implementation of sales tax and customs and excise matters, October 1982-August 1983
Advisor for Unified Revenue Board, January 1984-February 1986
Advisor on customs tariff rationalization, January 1984-January 1985
Corporate taxation policy and legislation mission, February 1984

Other (Bureau of Statistics)

General statistics economic mission, April 1984

X. Resident Representative or Advisor: None

Mauritius--Status of Bank Group Operations

(As of June 30, 1985)

A. Bank Loans and IDA Credits

Loan or Credit Number	Year	Borrower	Purpose	US$ millions Amount (less cancellations) 1/ Bank	IDA	Undisbursed
Ten Loans and Five Credits fully disbursed				96.46	20.42	--
Of which: SAL I and SAL II				(55.00)		--
1543	1978	Mauritius	Second Education	15.20		4.26
1548	1978	Mauritius	Second Power	14.85		5.11
1789	1980	DBM	Development Bank V	5.59		2.86
1926	1981	Mauritius	Urban Rehabilitation and Development	15.00		6.28
2164	1982	DBM	Development Bank VI	6.00		5.14
2229	1983	Mauritius	Water Supply	12.20		10.09
2337	1983	Mauritius	Highways	15.20		14.95
2362	1983	Mauritius	Technical Assistance	5.00		4.79
Total				184.50	20.42	53.48
Less: Repaid				18.56	.52	--
Total now outstanding				165.94	19.90	--
Less: Sold				4.95	--	--
Of which: repaid				(4.95)	(--)	(--)
Total outstanding to Bank and IDA				160.99	19.90	53.48

B. IFC Investments

Year	Type of Business	Loan	Equity	Total
1971	Tourism	0.6	--	0.6
Total gross commitment		0.6	--	0.6
Less: cancellations, terminations, repayments and sales		0.56		0.56
Net held by IFC		0.04		0.04
Total undisbursed		--	--	--

Source: IBRD.

1/ Prior to exchange adjustments.

Port Louis, Mauritius

August 28, 1985

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

1. In our letter of December 7, 1984 we outlined the targets and the policies to be pursued in fiscal year 1984/85 (July/June), during the last six months of which the program supported by the current 18-month stand-by arrangement was initiated. In this letter we review developments during the fiscal year just ending and describe the policies to be taken during 1985/86, the remainder of the program period.

2. The encouraging upturn in economic growth that had begun to appear in the previous two years strengthened in 1984/85. It was chiefly accounted for by increases in the output of Export Processing Zone (EPZ) industries and nonsugar agriculture, both areas where growth makes an especially strong contribution to external adjustment. Real GDP has risen by an estimated 4 percent, despite a poor sugar crop in 1984 (for the second year in a row), with nonsugar GDP alone increasing by 4.8 percent as compared with a program assumption of 4.0 percent. As expected, there was also some upturn in domestic inflation, due mainly to import price developments, but the estimated 8.3 percent rise in average consumer prices was considerably below the 9.5 percent forecast, and by year-end it appeared to be slowing. In line with our tight incomes policy, cost-of-living increases of wages were again held below the rise in the consumer price index. A particularly heartening sign was the rapid increase in manufacturing employment, due chiefly to the expansion in the size and number of manufacturing firms in the EPZ, which more than fully offset continuing job losses in sugar and other sectors. Private investment has also turned up substantially, and foreign investment is assuming increased significance.

3. While the sugar crop to be harvested in 1985 now appears to be a good one, the financial difficulties of the sugar sector still constitute a major economic problem--a matter described at some length in our previous letter to you. In that letter, we stated our intentions with respect to the first measures to be taken under a program of structural improvement in the sugar sector. These measures have now been taken. Legislation was enacted in March 1985 to rationalize the export duty on sugar, and to

facilitate both the separation of milling from planting activities and the sale of estate land to small planters. The modifications in export taxation, which were retroactive to the start of the fiscal year, substantially raised the tonnage exempted and made the progressive rates applicable to only incremental output. These changes provided a total of some Mau Rs 100 million annually in tax relief, which is now in the process of being refunded to planters and millers. In addition, two uneconomic sugar mills have been closed down, thereby initiating a process of centralizing and rationalizing the sugar milling industry.

4. On the external side, Mauritius continues, in part through a flexible exchange rate policy, to make strong efforts in increasing the competitiveness of its export and import-substituting industries. The current account deficit, which had been reduced from SDR 53 million to SDR 27 million in 1983/84, was further reduced to SDR 25 million in 1984/85. Nevertheless, the balance of payments position of Mauritius has continued to be precarious, with an overall balance of payments surplus in 1984/85 achieved only by virtue of disbursement of a Eurocurrency loan of US$40 million. Net official foreign assets rose by about SDR 18 million, with net repurchases to the Fund and a reduction in reliance on short-term foreign bank accommodation being partly offset by a disquieting further decline in official foreign exchange reserves. Net foreign assets of the commercial banks, however, rose by SDR 21 million.

5. As stated in our letter of last December, we have continued a process of thoroughgoing import liberalization and reduction of price controls. The last quotas on imports were removed on January 31, 1985, only one month behind schedule, and import licenses continue to be granted virtually automatically. As planned, tariff increases on some of the liberalized items were introduced in February 1985 where local protection was needed. Although not a program commitment, further price liberalization took place in June 1985. The number of commodities under maximum price control now stands at 3 imported and 5 locally manufactured goods. The numbers of items (groups of items) under the system of control on maximum percentage mark-up has declined to 18.

6. The finances of the Central Government, a cause of acute disequilibrium in the economy in 1980/81 and 1981/82, continued to show improvement in 1984/85, with the overall deficit declining to an estimated 6.0 percent of GDP, only marginally above the target specified in our letter of December 1984. The measures underlying this improvement, which were described in that letter, have thus had the expected effects. Nonetheless, while the fiscal deficit has returned to a more reasonable level, the structure of revenues and expenditures leaves much to be desired. Major problems still to be tackled include dependence on import and export duties, lack

of buoyancy in other tax revenues, the depressed level of capital expenditures and excessively high individual income tax rates. Moreover, although the corporate income tax was recently restructured and some relief has been granted from sugar taxation, these areas will need further attention. Meanwhile, we have made considerable progress in improving tax administration over recent years, in large part with Fund technical assistance, notably in establishing a Unified Revenue Board (June 1984), a Tax Appeal Tribunal (October 1984), and a compulsory deduction scheme for nonfiling employees (March 1985), but further sustained effort will be needed to reduce the level of evasion and ensure that all pay their fair share.

7. Private credit expansion has remained under the tight control of the Bank of Mauritius. The credit ceilings for March 31, 1985, and June 30, 1985, specified in the letter of December 1984, were observed. The method of controlling credit to the private sector by individual bank ceilings, based primarily on deposit mobilization, and by sectoral credit guidelines remains in place. There has been no change over the past six months in the level and structure of interest rates. Rates on savings and time deposits have remained positive in real terms.

8. In the financial program for 1985/86, continued external adjustment remains the highest priority. At the same time, however, it is imperative that stimulation be given to the growth of output, in view of the unacceptably high level of unemployment that has arisen during our protracted adjustment effort and the decline that has occurred over a number of years in the living standards of most of the population. Clearly, the principal means for meeting both these objectives is the continued improvement of incentives and support to the export sectors--and, where economically rational, to import-substituting activities. At the same time, these goals must be pursued within a framework of financial policies that avoid a rise in inflation--specifically, by a further reduction in the government deficit and continued moderation in the rate of credit expansion to the private sector. It is also recognized that the outward-oriented development envisioned for the Mauritian economy is best encouraged through an emphasis on private sector initiatives and market-determined decisions.

9. As mentioned in paragraph 3, a major initiative is under way to restructure the sugar industry. The Government has adopted an Action Plan with four main objectives: improvement in the productivity of planters, rationalization and modernization of the sugar mills, energy production from sugar by-products, and research and diversification. Discussions are presently under way with the World Bank to elaborate and support this program. The measures specifically planned for the 1985/86 fiscal year include: improvements in tractor and extension services to small planters, legal separation of milling companies from plantations, improvements in the transparency and uniformity of sugar companies' accounts, and an industry-wide revaluation of their assets with a view to ensuring reliability

and credibility. If, upon examination of these data and further analysis in consultation with the World Bank, it becomes evident that further measures need to be taken to provide for adequate investment in the sugar industry, we will act accordingly so as to ensure that production and exports are maintained. Meanwhile, although we continue to aim at ensuring an average sugar crop of 650,000 tons a year, we are actively promoting agricultural diversification so as to increase self-sufficiency in noncereal foodcrops and promote nonsugar agricultural exports. A key element in a thus-far successful program has been the stabilization of producer prices for certain crops with only limited subsidies that are terminated as production becomes profitable on its own. We have also recently greatly strengthened our tea industry, transforming parastatal employees into independent smallholders and raising production capacity.

10. The impressive growth in EPZ activity that has taken place since 1983 reflects the impact of policies carried out by the Government under the last five stand-by arrangements. These policies include: a flexible exchange rate policy, geared to an improvement in external competitiveness; cost-of-living settlements that have led average earnings to rise more slowly than domestic prices; the special fiscal incentives extended to the EPZ; priority given to productive activities in the extension of commercial bank credit, as regards both the availability and the terms of such credit; export and investment promotion missions abroad; and complementary investment undertaken by the Government, such as the construction of new industrial sites. The Government will maintain all these policies during 1985/86. In particular, a flexible exchange rate policy will be aimed at continued improvement in the international competitiveness of the Mauritian economy. In addition, the recent agreement governing wage settlements in 1985/86 will limit the total of cost-of-living increases and year-end bonuses to an average of 5.8 percent, corresponding to 70 percent of the average increase in the cost of living during the previous fiscal year. These measures not only serve to stimulate the further growth of the EPZ but also to help ameliorate the financial condition of the sugar industry and encourage other export activities, as well as import substitution.

11. As a result of the measures just enumerated and the financial policies described below, the external current account deficit is expected to decline from SDR 25 million in 1984/85 to SDR 9 million in 1985/86, and an overall balance of payments surplus of SDR 18 million is projected for the coming fiscal year. Despite a 22 percent growth in EPZ exports and lower costs for petroleum imports, this overall result is less favorable than initially hoped because, inter alia, of a disappointingly small inflow of concessional assistance. Gross international reserves of the Bank of Mauritius, which were projected at an amount equivalent to only two weeks' imports by the end of June 1985, are projected to rise slightly, enough to keep them at the equivalent of two weeks' imports by the end of 1985/86. Because an uninterrupted flow of imports has become crucial to

Mauritius's export drive, and foreign exchange receipts are subject to wide fluctuations, the Bank of Mauritius has found it increasingly necessary to resort to temporary use of short-term lines of foreign bank credit in order to maintain a liberalized import system. In view of these difficulties, the Bank of Mauritius will seek to enlarge these lines of credit to US$40 million.

12. With respect to government finances, the budget for 1985/86 will ensure a further reduction in the overall deficit to no more than 5.3 percent of GDP, despite major initiatives to promote vigorous and sustained economic growth. On the revenue side, following last year's reduction in corporate tax rates and elimination of the dividend exclusion, we have substantially widened the brackets and reduced to 35 percent the highest marginal rate of the individual income tax, which previously reached 70 percent on taxable incomes over Mau Rs 91,000 (equivalent to some SDR 5,700) per year. In so doing, we expect to greatly increase incentives for work and saving, while sharply reducing those for tax evasion. This measure will be accompanied by a substantial and well publicized step-up in enforcement, concentrated on current obligations. As a result, we expect the revenue loss to be limited to Mau Rs 90 million, or 2.7 percent of total 1984/85 revenues. A plan for the rationalization and gradual reduction of import tariffs is presently being formulated, in close collaboration with the World Bank as regards industrial policy, and subject to the aim of protecting government revenues. To these ends, we intend to lower some exceptionally high tariff rates by January 1986, offsetting any revenue losses with increases for lightly dutied inputs and equipment or with other tax measures; and we expect to present the above described plan for tariff reform by February 1986. In order to limit the 1985/86 overall budget deficit to the abovementioned target, the stamp duty on imports was increased from 13.2 percent to 17 percent, as a result of which additional revenue of Mau Rs 140 million is expected. The government is conscious of the heavy dependence of the budget on taxes on international trade and transactions. We will examine with the Fund, on the occasion of the second review, this situation, and consider the possible options available to reduce this heavy dependence of the budget on one sector. We will also continue with the ongoing program of improvements in tax administration, including, if necessary, amendments to the Unified Revenue Act to strengthen the Board's administrative powers. Meanwhile, additional staff are being provided to strengthen enforcement of income and sales tax collections.

13. With respect to government expenditure, it is our firm intention to continue the policy of stringency in recurrent spending while endeavoring to permit a long-overdue upturn in essential capital expenditures. To ensure that the latter no longer bear the brunt of further adjustment in the overall deficit, and despite the burden already imposed on our people by a necessary but long and difficult period of adjustment, we

have carefully scrutinized all elements of the recurrent budget. Nevertheless, the scope for further compression of these expenditures is very limited. As mentioned above, we are limiting the average cost-of-living adjustment for 1985/86, together with end-1985 bonuses, to only 70 percent of the 1984/85 rise in consumer prices. In addition, we have decided to reduce the subsidies on imported rice and flour once again to only Mau Rs 80 million (Mau Rs 80 per capita, or only 1.7 percent of total government outlays). To ensure that the full cost of these subsidies is accounted for in our budgetary and resource allocation, the value of externally donated rice and flour is being included in costs and the counterpart of the grants is being made available for general budgetary purposes. Meanwhile, public utility tariffs will continue to be adjusted to fully reflect costs so as to preclude a drain on the Treasury. Several of our parastatal enterprises are now operating on a commercial basis, earning a respectable return, and therefore no longer in need of subsidization. For example, as a result of the restructuring of the Tea Development Authority, its subsidy, which amounted to Mau Rs 63 million in 1983/84, was reduced to Mau Rs 10 million in 1984/85, and will be eliminated in 1985/86. By contrast, some parastatals have failed to be self-supporting, with make-work practices continuing at major expense to the budget. It is the Government's intention gradually to streamline their operations and to reduce subsidies to them. On the other hand, we feel that the modest budgeted increase in other capital expenditures is more than justified. Our infrastructure is showing signs of protracted neglect. The increase could and should have been larger, had greater amounts of external concessional project and program assistance been made available to Mauritius.

14. Because of the relatively small amount of net foreign financing available to the Central Government in 1985/86, it must depend heavily on the domestic credit market for financing its fiscal deficit. It is envisioned that recourse to nonbank financing can be increased somewhat over past years, to Mau Rs 500 million, leaving Mau Rs 340 million as the increase in net credit of the banking system to the Government. If the overall budget developments turn out to be more favorable, as was the case in the past, government recourse to net bank credit would be reduced, and the overall credit program will be reviewed in this light. Fiscal developments during the first few months of the year will be reviewed with the Fund at the time of the next review and, if they so indicate, appropriate adjustment will be made in the indicative targets for net credit to the Government in agreeing on the ceilings for the rest of the program period. Credit to the private sector is to be expanded by 15.7 percent, a rate consistent with the growth of investment and economic activity. Such a credit expansion reflects both the special needs of the EPZ sector, which are related primarily to foreign trade financing, and at the same time the need to keep the overall growth of money and credit in close check. The credit policies just outlined are projected to result in an increase of 15 percent in broad money.

15. Credit to the private sector has continued to be administered by means of individual bank ceilings, sectoral lending guidelines, and a subceiling on credit to traders. The combination of these three types of credit controls has become very difficult for the commercial banks to abide by and for the Bank of Mauritius to administer, because of the different rates of growth of the various sectors of the economy; the use of overdraft facilities as a means of extending credit; and the fact that the same business may have activities that fall in different categories under the sectoral guidelines. A simplification of these guidelines would considerably reduce these difficulties. The Bank of Mauritius therefore intends to abolish the subceiling on credit to traders and to simplify the remaining guidelines to a single ceiling of 25 percent of a bank's total credit to less favored borrowers (trade, personal consumption, and residential housing). At the same time, the minimum interest rate on savings deposits will be adjusted whenever necessary to assure a positive real return on such deposits.

16. We believe the policies outlined above are consistent with our objectives and our request for the use of Fund resources. As undertaken in our letter of December 1984, a second review of the program is to be held with the Fund before end-January 1986. We propose that the following credit ceilings apply to the first six months of 1985/86, with ceilings for the remainder of the fiscal year to be established at the time of the second review of the program. However, barring a revision at that time it is our intention to adhere to the indicative targets for the last six months that are given below. Other performance criteria are for the entire fiscal year but subject to review before end-January 1986. Total domestic credit, which amounted to Mau Rs 8,400 million on June 30, 1985, will be increased by no more than Mau Rs 444 million by September 30, 1985 and by no more than Mau Rs 880 million by December 31, 1985; indicative targets for its increase from June 30, 1985 are Mau Rs 745 million through March 31, 1986 and Mau Rs 921 million through June 30, 1986. Net credit to the Government, which amounted to Mau Rs 4,723 million on June 30, 1985 will increase by no more than Mau Rs 178 million on September 30, 1985 and by no more than Mau Rs 614 million by December 31, 1985; indicative targets for its increase from June 30, 1985 are Mau Rs 404 million by March 31, 1986 and Mau Rs 340 million by June 30, 1986. During the period through June 30, 1986, the Government of Mauritius and the Bank of Mauritius will together contract or guarantee no nonconcessional external borrowing in the 1-5-year maturity range and no more than US$20 million of such borrowing with maturities of over 5 years and up to 12 years. During the same period, the Government of Mauritius will engage in no nontrade external borrowing of under one year's maturity. In view of the wide fluctuations experienced in foreign exchange receipts during the year, short-term external borrowing by the Bank of Mauritius of less than one year's maturity will be undertaken

will not exceed US$40 million at any time during this period and the average of the daily amounts outstanding shall not exceed US$30 million during any three consecutive calendar months. These limits will be reviewed at the time of the second review of the program.

17. The Government of Mauritius believes that the policies and measures set forth in this letter are adequate to meet the objectives of its program, but will take any further measures that may become necessary for these purposes. The Government will remain in close contact with the Fund staff, will provide the Fund with all the information necessary to monitor the program's results, and will consult with the Fund in accordance with the policies of the Fund.

Very truly yours,

/s/

Indurduth Ramphul
Governor
Bank of Mauritius

/s/

Seetanah Lutchmeenaraidoo
Minister of Finance

Mauritius--Statistical Issues

1. Outstanding Statistical Issues

a. Government finance

Data in the 1984 Government Finance Statistics Yearbook cover the period 1974-83 and relate to the transactions of the budgetary central government only. The reply to the 1985 questionnaire has already been received with data for 1984 for publication in the next issue of the Yearbook. The possibility of obtaining data for extrabudgetary units in order to enable the publication of consolidated central government data was explored during the present consultation mission and, in view of the long time lags in the availability of data, a technical assistance mission would be useful.

b. Monetary accounts

Some differences between the data reported by the Bank of Mauritius for publication in IFS and those received by the African Department, for program monitoring, cannot be fully identified on the basis of the available data breakdown. The main problems are: (a) the classification and sectorization of "other assets/liabilities" components, in order to reduce their relative importance in the Bank of Mauritius's balance sheets; (b) the valuation procedures for foreign assets/liabilities in these balance sheets; (c) the revision of the IMF accounts; and (d) the appropriate treatment of bankers' acceptances in the commercial banks' balance sheets. There is room for improvement in the current procedures for compiling the data and a technical assistance mission in this field should also be considered.

2. Coverage, currentness, and reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Mauritius in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Mauritius, which during the past year have been provided on a timely basis.

Status of IFS Data

			Latest Data in August 1985 IFS
Real Sector	-	National Accounts	1983
	-	Prices	April 1985
	-	Production	n.a.
	-	Employment	n.a.
	-	Earnings	n.a.
Government Finance	-	Deficit/Surplus	October 1984
	-	Financing	October 1984
	-	Debt	1983
Monetary Accounts	-	Monetary Authorities	May 1985
	-	Deposit Money Banks	May 1985
	-	Other Financial Institutions (Post Office savings only)	March 1985
External Sector	-	Merchandise Trade:	
		Values	September 1984
		Unit values	1983
		Unit values for sugar exports	September 1984
	-	Balance of Payments	2nd Half 1984
	-	International Reserves	June 1985
	-	Exchange Rates	June 1985