FOR AGENDA

EBS/84/71

CONFIDENTIAL

March 28, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Morocco - Staff Report for Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for review under the stand-by arrangement for Morocco. A draft decision appears on pages 25 and 26.

This subject, together with the staff report for the 1983 Article IV consultation with Morocco (SM/84/63, 3/14/84), will be brought to the agenda for discussion on Monday, April 9, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Bhatia (ext. 73253) or Mr. Tahari (ext. (5)8517).

Att: (1)

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INTERNATIONAL MONETARY FUND

MORROCCO

Staff Report for Review under Stand-by Arrangement

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

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

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

March 28, 1984

I. Introduction

On September 16, 1983 the Executive Board approved an 18-month stand-by arrangement (EBS/83/178) for an amount equivalent to SDR 300 million (98 percent of quota). 1/ To date Morocco has purchased the first installment of SDR 30 million under the arrangement (Table 1). Further purchases were made conditional upon the completion of the first review of the program and subject to the availability of adequate financing of the estimated external gap for the years 1983-84, the satisfaction of the performance criteria for end-December 1983, as well as the reaching of understandings relating to policies, in particular budgetary policies, and the performance clauses for 1984. As indicated in the relevant sections below, all these elements with the exception of one performance criterion, have now been satisfied, the envisaged measures for 1983 have been carried out, and understandings have been reached on the 1984 program.

Discussions that provided the basis for the program review were held in Rabat during the period November 30-December 17, 1983 at the same time as the 1983 Article IV consultation discussions, 2/ and were completed in Washington in March 1984. A letter from the Minister of Finance summarizing the conclusions of the review discussions and proposing economic policies and performance clauses for 1984 is attached.

1/ Summaries of Morocco's relations with the Fund and the World Bank Group are contained in the attached Appendices I and II.

2/ Staff members participating in the mission were Mr. R. J. Bhatia (head-AFR), Mr. A. Tahari (AFR), Mr. R. Franco (AFR), Mr. J. Clement (ETR), and Ms. C. Elwell (Secretary-AFR). Mr. Kanesa-Thasan (ETR) joined the mission during the last two days. Mr. O. Kabbaj, Alternate Executive Director, participated in most of the discussions.

Table 1. Morocco: Fund Position During Period of Arrangement

	Outstanding at beginning of arrangement 1/	1983	1984					1985
	Aug. 31, 1983	Sept.-Dec.	January-March	April	May-June	July-Sept.	Oct.-Dec.	Jan.-March
				(In millions of SDRs)				
Transactions under tranche policies (net) 7/	--	30.00	--	100.00	23.78	29.24	29.51	29.24
Purchases	--	30.00	--	100.00 2/	40.00 3/	40.00 4/	50.00 5/	40.00 6/
Ordinary resources	--	(13.64)	(--)	(40.00)	(--)	(--)	(--)	(--)
Enlarged access resources	--	(16.36)	(--)	(60.00)	(40.00)	(40.00)	(50.00)	(40.00)
Repurchases	--	--	--	--	16.22	10.76	20.49	10.76
Ordinary resources	--	(--)	(--)	(--)	(7.03)	(7.03)	(7.03)	(7.03)
Enlarged access resources	--	(--)	(--)	(--)	(9.19)	(3.73)	(13.46)	(3.73)
Transactions under special facilities (net) 8/	--	--	--	--	--	--	--	--
Purchases	--	--	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--	--	--
Total Fund credit outstanding (end of period)	1,073.82	1,103.82	1,103.82	1,203.82	1,227.60	1,256.84	1,286.35	1,315.59
Under tranche policies 7/	837.42	867.42	867.42	967.42	991.20	1,020.44	1,049.95	1,079.19
Special facilities 8/	236.40	236.40	236.40	236.40	236.40	236.40	236.40	236.40
				(In percent of quota)				
Total Fund credit outstanding (end of period)	350.2	360.7	360.7	392.6	401.2	410.7	420.4	429.9
Under tranche policies 7/	273.1	283.5	283.5	315.5	323.9	333.5	343.1	352.7
Special facilities 8/	77.2	77.2	77.2	77.2	77.2	77.2	77.2	77.2

Source: International Monetary Fund.
1/ End of the calendar month in which the staff paper was issued.
2/ Based on end-September 1983 and end-December 1983 performance criteria; and completion of current review.
3/ Based on end-April 1984 performance criteria.
4/ Based on end-June 1984 performance criteria and completion of second review before end-June 1984.
5/ Based on end-September 1983 performance criteria and completion of third review before end-November 1984.
6/ Based on end-December 1984 performance criteria.
7/ Ordinary and enlarged access resources.
8/ Compensatory Financing Facility.

As the report on the Article IV consultation discussions has been issued separately (SM/84/63), this report concentrates on updating the information on the outcome for 1983 and presenting the program for 1984.

II. The outcome for 1983

As mentioned in SM/84/63, during the second half of 1983 (falling within the program period) the Moroccan authorities have implemented the measures envisaged under the program and considerable progress has been made in reducing the domestic and external imbalances, increasing the savings rate, and reducing the resource gap and the rate of inflation (Table 2). On the basis of actual data, the improvement in the balance of payments was even better than was estimated last December. The current account deficit for 1983 (before debt consolidation) amounted to SDR 1,076 million (8.6 percent of GDP), or SDR 124 million lower than projected under the program (Table 3). This outcome was mainly due to a lower balance of trade deficit reflecting higher exports and lower imports than programmed notwithstanding the trade liberalization as envisaged under the program. Exports increased by 2.3 percent instead of the programmmed 1.3 percent growth, while imports declined by 14.6 percent compared with the programmed decline of 11.1 percent. After taking into account the debt relief and the exceptional balance of payments assistance obtained in 1983, the overall balance of payments deficit amounted to only SDR 101 million, or SDR 183 million lower than targeted under the program; but a part of this additional improvement may be a result of the uncertainties regarding interest payments on rescheduled debt, pending agreement. The deficit was covered by a net recourse to Fund resources of SDR 91 million and a decrease of international reserves of SDR 10 million; at end-1983 gross official reserves amounted to SDR 127 million, or equivalent to over two weeks' imports.

With regard to the budget, all the measures envisaged under the program were implemented and the overall budgetary deficit for 1983 amounted to DH 8.6 billion (9.1 percent of GDP) before debt rescheduling or to DH 8 billion (8.4 percent of GDP) after debt rescheduling and was within the program target; 1/ the shortfall in fiscal receipts was more than compensated for by lower-than-programmed expenditures (Table 4). On the basis of actual data, current revenue increased by 3 percent compared to 7.5 percent projected under the program, while expenditures on goods and services grew by 6.7 percent compared to 12.5 percent foreseen under the program. Expenditures on consumer subsidies were

1/ While the overall budget deficit during 1983 was less than programmed in absolute terms, the deficit/GDP ratio turned out to be slightly higher than in the program (8.7 percent) because of lower GDP growth.

Table 2. Morocco: Selected Economic and Financial Indicators, 1981-84

	1981	1982 Prog.	1982 Actual	1983 Prog.	1983 Prel. Actual	1984 Proj.
		(Annual percent changes, unless otherwise specified)				
National income and prices						
GDP at constant prices	-1.3	4.0	5.6	3.1	0.6	3.0
GDP deflator	10.8	12.0	9.2	10.1	6.5	11.7
Consumer prices	12.5	12.0	10.6	10.1	6.3	11.0
External sector (in SDRs)						
Exports, f.o.b.	4.4	13.3	-2.8	1.3	2.3	8.7
Imports, f.o.b.	12.4	3.4	6.5	-11.1	-14.6	1.8
Export volume	2.1	8.5	0.2	9.2	15.0	6.5
Import volume	4.8	-0.9	6.0	-9.1	-10.0	-0.5
Terms of trade (deterioration -)	-4.5	-0.2	-5.2	-5.1	-7.3	1.0
Nominal effective exchange rate (depreciation -) 1/	-10.7	-3.5	-4.3	...	-6.0	...
Real effective exchange rate (depreciation -) 1/	-9.1	...	-4.4	...	-6.6	...
Government budget						
Revenue (excluding grants)	17.4	20.0	14.8	7.5	3.0	16.2
Total expenditures 2/	27.5	-0.8	9.2	-2.6	-7.9	-1.2
Money and credit						
Domestic credit	19.6	13.8	13.8	20.0	20.0	8.8
Economy	(17.5)	(20.2)	(20.6)	(14.8)	(11.5)	(14.1)
Government	(21.2)	(9.5)	(9.2)	(23.9)	(26.4)	(5.3)
Money and quasi-money	16.4	8.5	12.5	16.6	17.4	10.4
		(In percent of GDP)				
Central Government						
Budget deficit (before rescheduling) 2/						
Excluding grants	14.5	8.2	12.5	8.7	9.1	7.2
Including grants	12.4	8.2	12.2	7.7	8.0	7.2
Budget deficit (after rescheduling) 2/						
Excluding grants	14.5	8.2	12.5	...	8.4	6.1
Including grants	12.4	8.2	12.5	...	7.4	6.1
Domestic bank financing	4.8	2.6	2.5	5.2	7.1	1.7
Foreign financing (incl. grants)	9.4	5.3	7.0	5.0	3.6	5.0
Gross domestic investment	22.4	22.4	22.9	18.8	21.0	21.0
Gross domestic savings	8.7	12.6	9.4	10.0	12.2	12.7
External current account deficit (before rescheduling)						
Excluding grants	12.6	9.9	13.2	8.9	8.6	7.5
Including grants	10.5	9.9	11.9	7.8	7.6	7.5
External current account deficit (after rescheduling)						
Excluding grants	12.6	9.9	13.2	...	7.3	6.4
Including grants	10.5	9.9	11.9	...	6.3	6.4
External debt 3/ (inclusive of use of Fund credit)	62.0	6.12	78.0	82.2	87.1	95.0
Debt service ratio (in percent of exports of goods and nonfactor services and private transfers)						
Before rescheduling	33.2	33.7	41.4	42.4 4/	47.3 5/	54.0
After rescheduling	33.2	33.7	41.4	...	36.1 5/	27.0
		(In millions of SDRs, unless otherwise specified)				
Overall balance of payments						
Before rescheduling	-208	-404	-578	-612	-496	-1,020
After rescheduling	-208	-404	-578	...	-101	12
Gross official reserves (months of imports)	0.9	0.8	0.8	0.8	0.5	1.3

Sources: Data provided by the Moroccan authorities; and staff projections.
1/ Based on Morocco's currency basket.
2/ Excluding changes in "fonds réservés".
3/ Including short-term debt; for 1982-84 includes military debt.
4/ Excludes arrears on the servicing of the military debt.
5/ Includes arrears on the servicing of the military debt.

Table 3. Morocco: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982	1983 Prog.	1983 Prov.	1984 Prog.
Merchandise trade (net)	-1,042	-1,320	-1,585	-1,174	-1,032	-918
Exports	1,855	1,936	1,882	1,895	1,928	2,095
Phosphates and derivatives	(773)	(894)	(833)	(765)	(834)	(934)
Other	(1,082)	(1,042)	(1,049)	(1,130)	(1,094)	(1,161)
Imports, f.o.b.	-2,897	-3,256	-3,467	-3,069	-2,960	-3,013
Services (net)	-907	-1,165	-1,065	-886	-870	-893
Freight and insurance	-300	-354	-328	-264	-259	-268
Other transport	39	49	41	40	41	44
Tourism	273	257	298	343	351	404
Investment income	-432	-596	-671	-676	-771 1/	-804
Government and other services	-488	-521	-405	-329	-232	-269
Private transfers (net)	858	906	886	860	826	871
Current account	-1,091	-1,579	-1,764	-1,200	-1,076	-940
Nonmonetary capital (net)	900	1,356	1,186	588	580	-80
Private 2/	-89	40	152	40	251	50
Official grants	75	266	185	144	132	--
Public sector loans (net)	914	1,050	849	404	197	-130
Disbursements 3/	(1,342)	(1,571)	(1,618)	(1,216)	(1,064)	(1,041)
Government	1,082	1,220	1,246	731	567	815
Guaranteed debt	260	351	372	485	497	226
Amortization	(-428)	(-521)	(-769)	(-812)	(-867) 4/	(-1,171)
SDR allocation	16	16	--	--	--	--
Debt relief (net)	--	--	--	...	395	1,032
Overall balance	-175	-208	-578	-612	-101	12
Financing	175	208	578	612	101	-12
Net use of Fund credit	98	139	401	151	91	183
Change in foreign assets (increase -)	77	69	-76	--	10	-195
Financing gap	--	--	--	461	--	--
Arrears	--	--	253	--	--	--
Memorandum items:						
Current account deficit in percent of GDP (before rescheduling)	8.0	12.6	13.2	8.9	8.6	7.5
DH/SDR	5.12	6.10	6.65	...	7.61	8.9

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

1/ Taking into account the payments of part of end-1982 outstanding arrears of SDR 24 million.

2/ Including errors and omissions.

3/ Short-term debt included on a net basis.

4/ Taking into account the payments of part of end-1982 outstanding arrears of SDR 36 million.

Table 4. Morocco: Financial Transactions of the Central Government, 1980-84

(In millions of dirhams)

	1980	1981	1982	1983		1984
		Actual		Prog.	Actual	Prog.
Current revenue	15,193	17,838	20,480	22,022	21,094	24,516
Of which: OCP 1/	(970)	(1,487)	(710)	(725)	(750)	(1,100)
Current expenditures	15,310	18,898	20,475	22,672	21,525	23,261
Interest payments on public debt	(1,759)	(2,924)	(3,144)	(3,869)	(3,526)2/	(3,930)2/
Expenditures on goods and services	(12,124)	(13,872)	(15,336)	(17,259)	(16,367)	(17,151)
Consumer subsidies	(1,427)	(2,102)	(2,000)	(1,544)	(1,632)	(2,180)
Current deficit (-)	-117	-1,060	5	-650	-431	1,255
Capital expenditures	8,565	9,612	12,481	8,000	7,979	7,955
Net extrabudgetary operations 3/	1,172	-426	1,368	-100	407	--
Overall deficit (-)	-7,510	-11,098	-11,108	-8,750	-8,003	-6,700
Changes in "fonds réservés" (decrease -)	264	-131	2,061	-2,061	-2,282	-300
Cash financing	7,246	11,229	9,047	10,811	10,285	7,000
Grants	380	1,623	285	1,008	1,010	--
Foreign borrowing (net)	3,531	5,588	5,913	4,042	2,382	5,400
Domestic bank borrowing (net)	2,743	3,697	2,174	5,184	6,703	1,800
Central bank	(2,028)	(2,443)	(1,520)	(4,472)	(4,081)	(1,100)
Domestic money banks	(715)	(1,254)	(654)	(712)	(2,622)	(700)
Other domestic sources (net)	592	321	675	577	190	-200
Memorandum item:						
Deferred interest payments	--	--	--	...	626	1,174
Overall deficit/GDP	10.7	14.5	12.5	8.7	8.4	6.1

Sources: Data provided by the Moroccan authorities; and staff projections.

1/ Contribution of the state-owned phosphate company.

2/ Excluding debt relief on interest payments of DH 626 million in 1983 and DH 1,174 million in 1984.

3/ Excluding changes in "fonds réservés" (domestic bills awaiting payments).

slightly higher than programmed while capital outlays were within the programmed target. Also, the Treasury reduced the stock of unpaid bills ("fonds réservés") by DH 2.3 billion; together with the overall Treasury deficit, they were financed by net external loans and grants of DH 3.4 billion and by domestic bank borrowing of DH 6.7 billion.

The actual monetary data show that total domestic credit increased in 1983 by 20 percent and was within the program ceiling, with net claims on the Government rising by 26.4 percent and on the economy by 11.5 percent (Table 5); the increase in net credit to the Government accounted for 75 percent of the expansion in total domestic credit. Owing to a better performance of the overall balance of payments, the decline in net foreign assets was even lower than that estimated in December and reported in SM/84/63. As a result, broad money increased by 17.4 percent, with a 31 percent rise in quasi-money and a 14.3 percent increase in narrow money.

For end-September 1983, all the performance criteria were met (Table 6). With the exception of the ceiling on net bank credit to Government, all the performance criteria for end-December were also observed. The net bank credit to Government was exceeded even though the overall Treasury deficit was within the program ceiling and other nonbudgetary transactions were within the targets, as disbursements from external loans were delayed and were lower than assumed under the program. In the attached letter, the Government requests that the Fund grant a waiver with regard to the performance criterion relating to net bank credit to the Government at end-December 1983.

III. The Program for 1984

1. Objectives for 1984

Based on the satisfactory financial outcome under the program in 1983 and the already secured external finance and debt relief, the main objectives of the program for 1984 go beyond what had been projected initially. The current account deficit in the balance of payments (before consolidation) is now targeted to be reduced to SDR 940 million (or 7.5 percent of GDP). After taking into account the debt relief and the external assistance expected to be disbursed as a consequence of the donors' meeting in November 1983, this target of the current account implies that the overall balance of payments would register a small surplus of SDR 12 million.

The program for 1984 also assumes that following the economic stagnation in 1983, which resulted mainly from the drought, real GDP will grow by less than 3 percent. Owing to the drought conditions that have prevailed thus far during the current crop season, the output of the agricultural sector may decline further in 1984. However, a

Table 5. Morocco: Monetary Survey, 1981-84

(In millions of dirhams; end of period)

	1981	1982	1983		1984		
	Dec.	Dec.	Dec. Prog.	Dec. 1/	April Prog.	June Prog.	Dec. Proj.
Foreign assets (net)	-176	-2,192	-4,295	-3,528	-3,600	-3,550	-3,425
Central bank	(-1,517)	(-3,744)	(...)	(-5,381)	(...)	(...)	(...)
Deposit money banks	(1,341)	(1,552)	(...)	(1,853)	(...)	(...)	(...)
Domestic credit	37,128	42,258	50,719	50,693	52,293	53,093	55,143
Claims on the Government (net)	22,047	24,068	29,829	30,412	31,112	31,512	32,012
Banking system	18,860	21,034	26,218	27,734	28,634	28,934	29,534
Central bank	(11,226)	(12,746)	(17,218)	(16,827)	(17,373)	(17,555)	(17,919)
Deposit money banks	(7,634)	(8,288)	(9,000)	(10,907)	(11,261)	(11,379)	(11,615)
Nonbank private sector 2/	3,187	3,034	3,611	2,678	2,478	2,578	2,478
Claims on the economy	15,081	18,190	20,890	20,281	21,181	21,581	23,131
Assets = Liabilities	36,952	40,066	46,424	47,165	48,693	49,543	51,718
Money plus quasi-money	34,644	38,959	45,424	45,744	47,382	48,226	50,514
Money	28,722	31,631	35,674	36,142	37,436	38,182	39,911
Currency outside banks	(11,120)	(12,023)	(12,900)	(13,636)	(14,124)	(14,406)	(15,058)
Demand deposits 3/	(17,602)	(19,608)	(22,774)	(22,506)	(23,312)	(23,776)	(24,853)
Quasi-money	5,922	7,328	9,750	9,602	9,946	10,044	10,603
Import deposits	702	288)		576	250	150	--
		)	1,000				
Other (net)	1,606	819)		845	1,061 4/	1,167 4/	1,204 4/

Source: Data provided by the Moroccan authorities; and staff projections.

1/ The data for December 1983 differ somewhat from those published in the Recent Economic Developments Report (SM/84/51) because of the availability of more recent informations on credit.

2/ Counterparts of postal checking deposits, private sector deposits with the Treasury, and import deposits transfered to the Treasury.

3/ Includes checking deposits with deposit money banks, private sector deposits with the central bank, postal checking deposits, and private sector deposits with the Treasury.

4/ Includes valuation change.

Table 6. Morocco: Quantitative Performance Criteria for 1983-84

	1983						1984	
	September			December			April	June
	Prog.	Effective 1/	Actual	Prog.	Effective 1/	Actual	Program	
	(In billions of dirhams)							
Net borrowing by the Treasury 2/	6.70	6.29	5.87	8.75	8.12	8.00	1.90	3.40
Total bank credit 3/	49.6	49.6	48.9	50.7	50.7	50.7	52.3	53.1
Bank credit to the Treasury (net) 3/	26.5	26.5	26.3	26.2	26.2	27.7	28.6	28.9
Changes in "fonds réservés"	-1.8	-1.8	-2.1	-2.0	-2.0	-2.3	0.3	0.3
	(In millions of SDRs)						(In millions of U.S. dollars)	
New nonconcessional foreign borrowing contractual or guaranteed by the Government or approved for public enterprises by the Government with maturity of 1 to 15 years	200	200	80	200	200	175	500 4/	500 4/
Short-term debt (outstanding)	950	950	940	950	950	940	1,000	1,000

Sources: Data provided by the Moroccan authorities; Annex to EBS/83/178; and staff projections.

1/ Adjusted by an amount equivalent to any relief relating to interest payments.
2/ As defined in paragraph 9 of the Annex to EBS/83/178.
3/ As defined in paragraph 11 of the Annex to EBS/83/178.
4/ With a subceiling of US$250 million for the debt with maturity of 1 to 5 years.

recovery is expected in the mining and manufacturing sectors while the other sectors are expected to show a more moderate increase. The rate of inflation as measured by the CPI index is to be contained to about 11 percent. This projected rate is higher than that realized in 1983 reflecting the full impact of increases in retail prices in mid-1983 and early 1984.

To achieve the above objectives, and given the satisfactory overall financial developments since the present program went into effect beginning in the second half of 1983, the Government intends to maintain and to some extent reinforce the posture of policies envisaged in the original request for the stand-by arrangement and to implement all the measures mentioned in the original Memorandum of Economic and Financial Policy attached to the letter of intent of July 30, 1983, with the exception of increases in the retail prices of three essential commodities--sugar, flour, and edible oil. As mentioned in SM/84/63, the authorities initially intended to reduce consumer subsidies further in 1984. Subsequent to social disturbances which occurred early in 1984, the Government decided to postpone the increases in the prices of the three food staples, while, however, continuing with the intended policy to eliminate subsidies on other products, including petroleum products. However, the Government has adopted additional measures to compensate for the impact on the budget and the balance of payments of the decision not to raise these retail prices, and thus to ensure the achievement of the above-mentioned program targets.

The main assumptions, targets, policies, and monitoring procedures of the program are summarized in Table 7.

2. Policies

The program for 1984 envisages a further reduction in the budget deficit mainly through limiting recruitment, combined with a general wage freeze, containing expenditures, raising new revenues, a further increase in certain administered prices and utility rates, liberalization of other controlled prices, a significant restraint on credit expansion in view of the excessive liquidity in the economy, a further depreciation of the exchange rate, export promotion measures, further liberalization of the trade system, and limits on short-term debt and on new nonconcessional loans.

a. Pricing policies

In conformity with the program, in July 1983 the Government raised the prices of subsidized products, including those of essential commodities and petroleum products, by between 6-67 percent, with a view to reducing the budgetary cost of the subsidies and containing consumption and imports of subsidized commodities. Under the initial provisions of the program, further reductions in subsidies were programmed for

Table 7. Morocco: Summary of Financial Program for 1984

ASSUMPTIONS

GDP growth: 3 percent; (0.6 percent in 1983)

Exports of phosphates: Rock, volume: 15.7 million tons; (14.7 million tons in 1983)
price: SDR 32.5 per ton; (SDR 30.6 per ton in 1983)

LIBOR: 10 percent

Terms of trade: (in SDRs) 1 percent: (-7.3 percent in 1983)

TARGETS

Balance of payments: Overall balance: SDR 12 million (after rescheduling) deficit of SDR 1,020 million (before rescheduling); 1983 SDR 101 million deficit (after rescheduling), SDR 496 million deficit (before rescheduling).

Current account deficit: SDR 940 million (before rescheduling); 1983 SDR 1,076 million (before rescheduling)

Inflation CPI growth 11 percent; (6.3 percent in 1983)

PRINCIPAL ELEMENTS

Budget:

1. Limiting the overall deficit at DH 6.7 billion or 6.1 percent of GDP (after rescheduling); [DH 8 billion or 8.4 percent of GDP (after rescheduling) in 1983]
2. Generating a balance in the current budget (before rescheduling)
3. New tax measures to yield DH 750 million of additional receipts bringing current revenues to DH 24.5 billion (16 percent increase)
4. Maintaining capital expenditures at the same level as in 1983 or DH 8 billion.
5. Limiting expenditures on goods and services to DH 17.1 billion (or 6 percent increase)
6. Freeze on general wage increases.
7. Limiting of new recruitment to 10,000 persons, non-replacement of retirees (8,000), continuation of national education policy, reduction in expenditures on materials, "charges communes", and blocking until end-November 1984 about 5,000 job vacancies.

Table 7. Morocco: Summary of Financial Program for 1984 (end)

8. Elimination of all subsidies except on flour, sugar and edible oil.

9. Setting up a plan in consultation with the World Bank to reduce gaps between cash expenditures and budgetary commitments (this regards investment expenditures).

10. Introduction of the tax reform regarding a general income tax, corporate tax, and VAT during 1984.

Pricing

Increase in early January 1984 in prices of petroleum products by 12 percent on average, liberalization of prices of butter, increase as of March 15, 1984 in electricity and water rates by 10 percent and transportation costs by 6 percent, and liberalization of certain controlled prices.

Monetary policy

Domestic bank credit increase of 8.8 percent, credit to the economy to grow by 14.1 percent and to the Government by 5.3 percent. These imply growth in M2 of 10.4 percent.

Exchange and trade policy

Continuation of a flexible exchange rate policy; further trade liberalization including elimination of advance import deposits system by mid-1984, and enlargement of List A imports (commodities that can be imported freely).

External borrowing

New commitments of nonconcessional loans with original maturities of between 1-15 years to equal no more than US$500 million, with a US$250 million sub-ceiling for maturities of 1-5 years. Short-term debt limited to US$1 billion to be adjusted downward for any consolidation of short-term debt to medium- or long-term debt.

MONITORING PROCEDURES

For end-April and end-June 1984 quantitative performance criteria will be total net borrowings of the Treasury, changes in "fonds réservés", total bank credit, net bank credit to the Government, and limits on external borrowing. Two additional reviews with the Fund will take place before end-June and end-November 1984; the former will deal principally with reaching understanding on performance criteria for the second half of the year, an examination of agricultural producer prices, the fiscal reform, the implementation of a system of free pricing in the oil sector, and reviewing the plan as set up in consultation with the World Bank with regard to investment expenditures; the latter will deal primarily with agreement on the 1985 budget. An inter-agency committee, with Fund participation, will meet monthly to follow developments in the program.

1984 and were to encompass all subsidy products, including sugar, flour, and edible oil. As a result of the above-mentioned social unrest, the authorities have deferred price increases of these three latter commodities, but are eliminating subsidies for all other products. Thus, in early January petroleum prices were adjusted upward by between 5-15 percent, and, the authorities have indicated that a study is being undertaken to examine the pricing and marketing system of the petroleum sector with a view to putting into practice a policy of liberalized prices before end-June 1984; this system would be reviewed with the Fund in the course of the next review of the program before June 30, 1984. For other commodities, beginning March 15, 1984, the price of butter is no longer subsidized and a significant liberalization of other controlled prices was announced. Also, on March 15, 1984, utility tariffs for electricity and water were adjusted upward by 10 percent on average, and transportation fees by 6 percent.

Regarding producer prices in the agricultural sector, the Government raised these prices in September 1983 by between 7 and 30 percent before the 1983/84 crop year. The authorities intend to continue to provide adequate pricing incentives to producers; for the next crop year, these prices will be examined during the next review of the program.

b. Fiscal policy

A significant reduction in the budgetary deficit both in absolute terms and as a percentage of GDP remains the major thrust of the program. In 1983, the overall budgetary deficit was reduced from 12.5 percent of GDP to 9.1 percent before debt rescheduling of interest payments (or to 8.4 percent after debt rescheduling). For 1984 the program envisages a further reduction in the budgetary deficit to 6.1 percent of GDP after taking into account debt relief on interest payments (or 7.2 percent before debt rescheduling). In addition, the current account of the budget (before debt relief) is targeted to show a small surplus of DH 81 million, compared with a deficit of DH 450 million in 1983. These targets take into consideration the impact of a reduction, effective from January 1984, in the special import tax by 5 percentage points, with an estimated net reduction in revenue equivalent to 1.3 percent of GDP--a measure undertaken as part of a policy package aimed at promoting efficiency in the export and import-substitutive sectors in the context of an industrial and trade policy adjustment loan with the World Bank.

The budgetary targets for 1984 take into account the above-mentioned decision on consumer subsidies, whose total cost included in the budget is put at about DH 2.2 billion, compared to DH 1.6 billion in 1983. To realize the targets, the authorities have announced various revenue measures, yielding about DH 750 million in additional receipts, and expenditure-restraining measures. The new tax measures include levying a lump-sum contribution ("contribution libératoire") equal to 25 percent of the annual average of receipts from tax on business profits and 1 percent of the annual average turnover over the period 1980-83 (estimated to yield DH 260 million), a new tax on gasoline of DH 0.50 per liter (expected to yield DH 140 million), doubling the motor vehicle tax (estimated to yield DH 130 million), and raising certain judiciary and health fees, stamp duties, and dividends from certain public agencies. Taking these into account, and the normal growth in revenue, current receipts in 1984 are projected to increase by 16 percent to DH 24.5 billion. The contribution from the state phosphate company was set at DH 1.1 billion for the whole year, of which at least DH 200 million are expected to be paid before end-April.

On the expenditure side, the authorities have decided to contain the net increase in public employment to 2,000 persons, block until end-November the replacement of 5,000 job vacancies, freeze general wage increases, implement the agreed reform of the education policy, reduce budgetary transfers to public entities, and reduce budgetary allocations for expenditures on material, "charges communes", and unforeseen expenditures. As a result of these measures, the increase in current expenditures (excluding interest payments and consumer subsidies) is to be limited to 5 percent. With regard to capital outlays, pending any additional external assistance and a review of the existing unspent cumulative budgetary allocations from past years, cash expenditures will be limited to DH 8 billion at the same level realized in 1983. However, the Government is aware that these cash expenditures are not sufficient to liquidate the budgetary allocations made for various projects in the previous years budgets which, even though unspent, do not automatically lapse under the Moroccan budgetary system. Unless a specific decision is made by the Government to abolish these commitments, the spending ministries have the legal authority to commit expenditures. Under the program, the authorities propose to discuss with the World Bank before end-April a program to reduce these outstanding budget credits and work out a plan to reduce gradually the gap between these credits and the intended cash expenditure on investment. This plan will be a subject of the next review with the Fund.

As a result of the above measures, the overall budgetary deficit (after debt relief) will be limited to DH 6.7 billion. Based on the already-secured external finance (mostly concessional), 77 percent of the financing needs of the Treasury will be covered by foreign borrowing compared to 33 percent in 1983. Net domestic bank borrowing is projected to decline by 73 percent and would finance 26 percent of the deficit, compared to 65 percent in the previous year. As a result of the proposed gradual elimination of the advance import deposits, receipts from which have accrued to the Treasury, the Treasury would be refunding almost DH 600 million to the private sector and the total net recourse of the Treasury to nonbanking sources is projected to be negative.

In the program, the budgetary situation is to be monitored via three ceilings, all of which are performance criteria: total net borrowing by the Treasury, including changes in "fonds réservés"; net bank credit to the Treasury; and changes in "fonds réservés". The budgetary performance criteria are set only for April and June 1984. The performance criteria for the remainder of the year will be established during the next review before June 30, 1984. The total increase in net borrowing by the Treasury, which corresponds to the targeted budgetary deficit, is set at DH 1.9 billion for the first four months of the year, and DH 3.4 billion for the first half of 1984. After declining by DH 2.3 billion in 1983 the increase in the stock of "fonds réservés" will not exceed DH 300 million over the year 1984, which is considered as a normal increase in the "float" of unpaid bills in conformity with the estimated rise in budgeted expenditure. However, it is estimated that by the end of 1984, the stock of "fonds réservés" will decline by DH 300 million.

Another important element of the fiscal policy in 1984 related to the introduction of the tax reform concerning the corporate income tax, the general income tax (IGR), and the value-added tax (TVA). The Government has already completed, with technical assistance from the Fund, the necessary studies and has recently prepared draft bills relating to the first two taxes. With regard to the value-added tax, a draft bill will be prepared in the near future and will be reviewed with technical assistance from the Fund. The objective is to implement the entire tax reform during 1984. The modalities of the implementation will be part of the next review of the program with the Fund.

c. Monetary and credit policies

For 1984, the program envisages a monetary and credit policy which is consistent with the balance of payments targets and the budgetary policy described above. Net domestic credit will be allowed to increase by only 9 percent in 1984 compared to 20 percent in the previous year. While in 1983 the Government absorbed 75 percent of total credit expansion, in 1984 the share of the Government will be limited to 36 percent of the programmed increase in total credit. This will ensure the satis-satisfaction of the private sector needs while at the same time maintaining the restrictive posture of credit policy. Taking into account the projected small surplus in the overall balance of payments, the increase in money supply in 1984 is estimated at 10.4 percent, or below the 15 percent increase projected for nominal GDP.

The overall credit policy in 1984 incorporates credit ceilings for both the overall credit as well as for net credit to the Government. Ceilings, however, have been set for the period through end-June; performance criteria for the rest of the year will be established during the next review before end-June. Accordingly, total bank credit, which amounted to DH 50.7 billion at end-December 1983, will not exceed

DH 52.3 billion on April 30, 1984, and DH 53.1 billion on June 30, 1984. Net bank credit to the Treasury, which amounted to DH 27.7 billion at end-December 1983, will not exceed DH 28.6 billion and 28.9 billion for the same period, respectively. Furthermore, these ceilings will be automatically adjusted downward by the accrued amount of the Treasury's net external borrowings in excess of the anticipated DH 1.2 billion for the first four months of 1984 and DH 2.5 billion for the first semester of 1984.

The 1984 program envisages no further increases or changes in the structure of interest rates, since the present levels are considered to be adequate. However, the authorities have enhanced the role of the money market. To this effect, already, the requirement that 30 percent of time deposits of over one year be deposited by commercial banks in the Treasury ("plancher d'effets publics") was eliminated and the Treasury will resort to the money market to meet a part of its financial needs. This is expected to increase the flexibility of monetary policy and improve its efficiency.

d. External policies

With regard to external policy for 1984, the program envisages the continuation of the implementation of the policies intended under the original request for the stand-by arrangement. The four main elements of external policy relate to a flexible exchange rate, export promotion, trade and exchange liberalization, and appropriate external debt management. In line with the flexible exchange rate policy followed by the Government, the Moroccan dirham was allowed to depreciate by 10 percent last September and by an additional 2 percent in the first two months of 1984 (Chart 1). It may be recalled that the exchange rate policy was to be the subject of the review with the Fund in June 1984. However, in the context of the decision relating to the policy on consumer subsidies, the exchange policy was instead extensively reviewed in the course of the present review and understandings reached on this issue for the rest of 1984. The authorities intend to continue with the flexible exchange policy which will ensure the continued competitiveness of Moroccan exports.

In accordance with the provisions of the program the Government will continue with the liberalization of the trade and exchange system. Accordingly, the 1984 import program has transferred a number of commodities to the (free) List A. The share of the free list's imports in total imports increased from 17 percent in mid-1983 to 24 percent at end-1983, and to 30 percent in early 1984, and would further increase to 42 percent by July 1984. Moreover, the requirement for import deposits will be abolished by mid-1984.

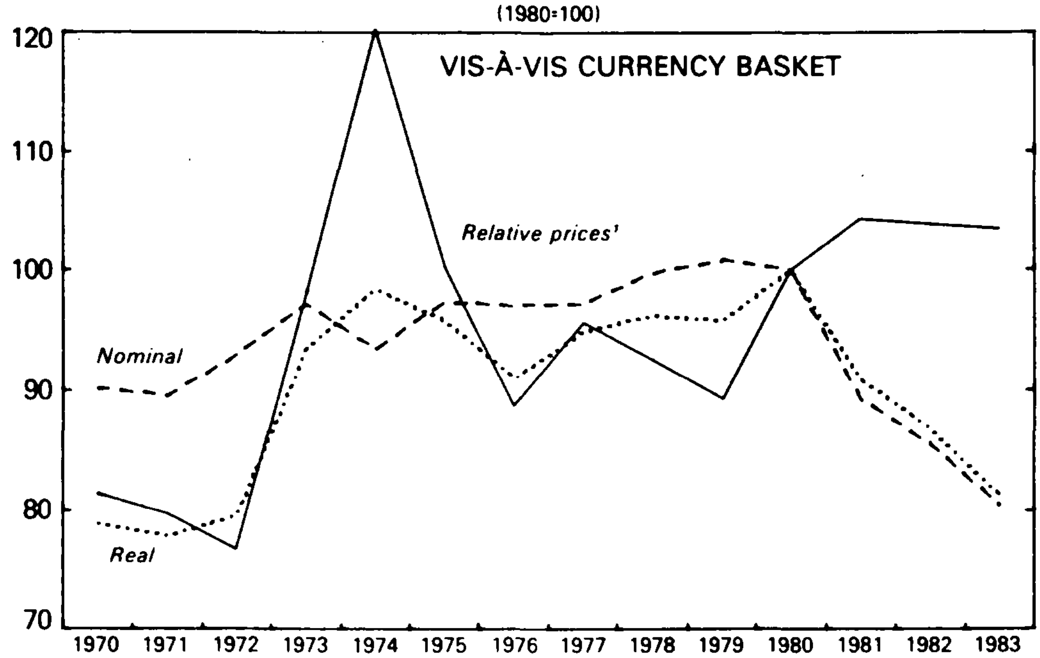
Regarding export promotion measures, an agreement has been reached between Morocco and the World Bank in the context of an industrial and trade policy adjustment loan. The aim of the policies agreed upon is

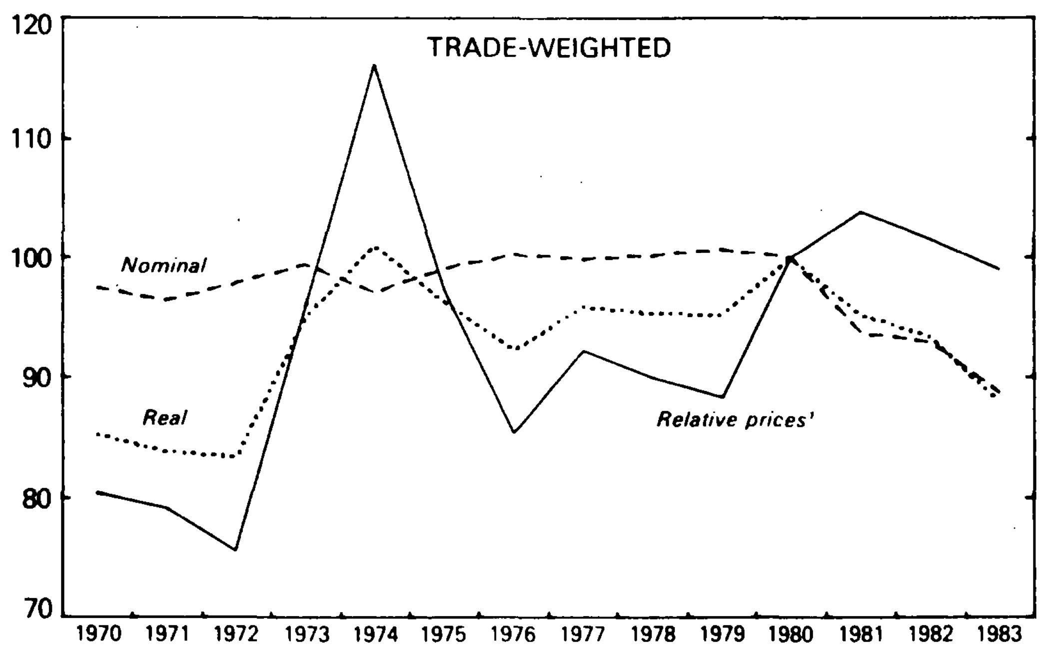
CHART 1

MOROCCO

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1970-83

(1980=100)





Source: Currency weights supplied by Moroccan authorities; decrease in index indicates depreciation.

[1] Relative prices. Domestic price indices/Weighted partner price indices.

to reduce the bias in the system of effective protection against export industries. These policies, to be implemented beginning in 1984, include mainly the reduction in the special import tax by 5 percentage points, a more flexible policy on the application of ceilings on export credit, the creation of a medium-term export facility for capital goods, the reduction of the number of products requiring an export certificate, and the abolition of the monopoly of the state export agency (OCE) for processed food products. During the negotiation of this World Bank loan there was close cooperation between the Fund and the World Bank staff, and, as an example, the budgetary performance criteria for 1984 were modified to take into account the impact of the reduction in the special import tax.

External debt management is regarded as a key element of the program. In 1984, the debt service payment before rescheduling is estimated to equal 54 percent of exports of goods and nonfactor services and private transfers; after rescheduling this ratio is estimated at 27 percent (Table 8). Given the heavy debt service burden projected for the following years, the bunching of principal payments, and the unfavorable maturity profile, which forced Morocco to seek debt rescheduling, the authorities are committed to a cautious debt management with limited reliance on nonconcessional borrowing and debt of short-term maturity. Accordingly, appropriate ceilings on short-term debt and on new nonconcessional borrowings in 1984 have been imposed. During 1984, the outstanding short-term borrowing (of less than one year's original maturity) will not be allowed to exceed the level attained at the end of 1983, estimated at US$1 billion; this ceiling will be reduced by any amount of these loans which may be consolidated into medium- and long-term debt; an amount equivalent to US$200 million is expected to be consolidated. Furthermore, commitments of new nonconcessional borrowings with maturity between 1 and 15 years contracted, guaranteed or approved by the Government will not exceed US$500 million, of which no more than US$250 million would be in the maturity range of 1 to 5 years. Most of the borrowing in the maturity range of up to 5 years will consist of a loan for the import of wheat, necessitated by the drought.

Based on the above policies and the satisfactory outcome for 1983, the current account (before consolidating) for 1984 is programmed to improve by SDR 136 million, owing mainly to an improvement in the merchandise trade balance. The trade deficit is now projected to amount to SDR 918 million compared with SDR 1,032 million in the previous year. Reflecting partly favorable prospects for exports of phosphate and phosphate derivatives, and partly the world economic recovery, exports are projected to increase by 6.5 percent in volume terms and by 9 percent in value terms. The value of phosphates and derivatives is expected to increase by 16 percent, reflecting a 6 percent increase in prices and 10 percent in volume. The good performance of nontraditional exports in 1983 is expected to continue in 1984; their value is

Table 8. Morocco: External Debt Service Indicators, 1980-90

(In millions of SDRs)

	1980	1981	1982	1983 Arrears out-standing at end-August	1983	1984	1985	1986	1987	1988	1989	1990
A. Total long-term debt service before rescheduling	885 1/	1,120 1/	1,408 1/	412	1,500 2/	1,816	1,695	2,218	1,693	1,112	908	609
Principal	(456)	(609)	(769)	(262)	(867) 2/	(1,171)	(1,158)	(1,782)	(1,341)	(860)	(713)	(463)
Interest	(429)	(511)	(639)	(150)	(633) 2/	(645)	(537)	(436)	(352)	(262)	(195)	(146)
B. Total long-term debt 3/ service after rescheduling	885	1,120	1,408	3	1,105	784	2,055	2,570	1,902	1,449	1,373	1,021
Principal	(456)	(609)	(769)	(2)	(636)	(281)	(1,347)	(1,970)	(1,415)	(997)	(987)	(737)
Interest	(429)	(511)	(639)	(1)	(469)	(503)	(708)	(600)	(487)	(452)	(386)	(284)
C. A - B	--	--	--	409	395	1,032	-360	-352	-209	-327	-465	-412
Principal	(--)	(--)	(--)	(260)	(231)	(890)	(-189)	(-188)	(-74)	(-137)	(-274)	(-274)
Interest	(--)	(--)	(--)	(149)	(164)	(142)	(-171)	(-164)	(-135)	(-190)	(-191)	(-138)
D. Exports of goods and nonfactor services and private transfers 4/	3,402	3,594	3,600	3,525	3,525	3,845	4,169	4,562	5,043	5,578	6,155	6,746
E. A/D	0.26	0.31	0.39	0.12	0.43	0.47	0.41	0.49	0.34	0.20	0.15	0.09
Principal payment ratio	(0.13)	(0.17)	(0.21)	(0.07)	(0.25)	(0.30)	(0.28)	(0.39)	(0.27)	(0.15)	(0.12)	(0.07)
Interest payment ratio	(0.13)	(0.14)	(0.18)	(0.04)	(0.18)	(0.17)	(0.13)	(0.10)	(0.07)	(0.05)	(0.03)	(0.02)
F. B/D	0.26	0.31	0.39	--	0.31	0.20	0.49	0.56	0.38	0.26	0.22	0.15
Principal payment ratio	(0.13)	(0.17)	(0.21)	(--)	(0.18)	(0.07)	(0.32)	(0.43)	(0.28)	(0.18)	(0.16)	(0.11)
Interest payment ratio	(0.13)	(0.14)	(0.18)	(--)	(0.13)	(0.13)	(0.17)	(0.13)	(0.10)	(0.08)	(0.06)	(0.04)
G. IMF 5/	76	72	84		97	126	222	337	282	192	142	100
Repurchases	(9)	(19)	(52)		(25)	(43)	(143)	(277)	(257)	(160)	(123)	(91)
Charges	(67)	(53)	(32)		(72)	(83)	(79)	(60)	(25)	(32)	(19)	(9)
H. Short-term debt 6/	...	...	...		770	770	770	770	770	770	770	770
Principal	...	...	...		(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)
Interest	...	...	...		(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
I. Debt service on new financing, 1984-90	...	...	...		--	43	195	234	278	322	540	573
Principal	...	...	...		(--)	(--)	(80)	(80)	(80)	(83)	(250)	(232)
Interest	...	...	...		(--)	(43)	(115)	(154)	(198)	(239)	(290)	(341)
J. Debt service ratio before rescheduling	0.28	0.33	0.41	0.12	0.47	0.54	0.52	0.63	0.46	0.30	0.27	0.20
Principal (without short-term)	(0.14)	(0.17)	(0.23)	(0.07)	(0.25)	(0.32)	(0.33)	(0.47)	(0.33)	(0.19)	(0.17)	(0.11)
Interest	(0.14)	(0.16)	(0.18)	(0.04)	(0.22)	(0.22)	(0.19)	(0.16)	(0.13)	(0.11)	(0.10)	(0.09)
K. Debt service ratio after rescheduling	0.28	0.33	0.41		0.36	0.27	0.61	0.71	0.50	0.36	0.46	0.26
Principal payment ratio	(0.14)	(0.17)	(0.23)		(0.19)	(0.09)	(0.38)	(0.52)	(0.34)	(0.22)	(0.34)	(0.15)
Interest payment ratio	(0.14)	(0.16)	(0.18)		(0.17)	(0.18)	(0.23)	(0.19)	(0.16)	(0.15)	(0.13)	(0.11)
L. Disbursed debt outstanding (end of period) 7/	7,286	8,475	10,342		10,861	11,804	11,224	9,877	9,135	8,975	8,785	8,995
In percent of GDP	53.0	62.0	78.0		87.0	95.0	81.0	72.0	55.0	49.0	43.0	40.0
Of which: use of Fund credit	248	387	788		879	1,062	959	682	425	265	142	51

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

1/ Including short-term interest payment debt for the years 1980-82 for which no breakdowns are available.

2/ Including short-term Kuwaiti deposit. Service on disbursed debt as of end-1983.

3/ After consolidation of debt service 1983-84 and taking into account the terms approved at the Paris Club meeting. For commercial banks, 100 percent of 1983 (Sept.-Dec.) principal payments and 90 percent of 1984 principal payments are rescheduled with a 12 percent interest payment on amount rescheduled and with the same scheduled payments calendar as in the Paris Club meeting. The terms of the Paris Club meeting apply to the debt toward Arab governments.

4/ These projections will be discussed in the report dealing with the 1984 program.

5/ Including service payments and future drawings under present program. LIBOR is supposed to remain at 10 percent and prime rate at 11 percent during 1984-1990.

6/ Excluding short-term Kuwaiti deposit.

7/ Including short-term debt outstanding.

projected to increase by 10 percent. On the other hand, owing to the demand-restraining measures under the program, imports are projected to grow by only 2 percent in value terms, while declining by less than 1 percent in volume terms. The terms of trade are projected to improve modestly by 1 percent.

The program also forecasts a small improvement on the services account excluding interest payments on external debt on account mainly of receipts from tourism which are projected to increase by 14 percent following a good performance in 1983. Private transfers in the form of workers' remittances, which declined (in SDR terms but not in terms of French franc, which is the major currency of remittances) by 7 percent in 1983, are projected to grow by 5 percent in 1984, owing to the prospects of economic recovery in Europe, and the recently-introduced interest rate on deposits made in domestic commercial banks by Moroccans working abroad.

On the capital account, gross disbursements on loans already secured are projected at SDR 1,041 million, including disbursements on the exceptional external assistance committed by donors during the aid donors' meeting held in November 1983. Taking into account the debt relief obtained from official and private creditors estimated at SDR 1,032 billion, the overall balance of payments is expected to register a small surplus of SDR 12 million. In conjunction with the scheduled purchases from the Fund, this would enable Morocco to build up external reserves by SDR 195 million by the end of 1984 to the equivalent of five weeks of imports.

e. Monitoring of the program

The monitoring procedures of the program comprise the performance clauses specified above, two additional reviews during 1984, and the institution by the Government of an inter-agency monitoring committee. The next review of the program with the Fund will take place before end-June 1984, to reach understandings on the performance clauses for the second semester of the year, and to examine the conclusions of a study on the modalities of liberalizing petroleum prices before end-June 1984, the implementation of the tax reform during the course of the year, agricultural producer prices for the next crop season, and the plan (to be set up in consultation with the World Bank) of reducing the gap between cash expenditure and budgetary commitments regarding investment outlays. The third review of the program, during which understandings relating to the 1985 budget would be reached, will take place before end-November 1984.

Moreover, to ensure a close follow-up of the program by the authorities, the Government has set up a committee comprising representatives of the ministries concerned and the Central Bank. A Fund staff member will participate actively in its deliberation. This committee is responsible for examining each month the execution of the program and submitting a report to the Inter-ministerial Economic Committee.

IV. Medium-Term Outlook

The 1983/84 program was formulated within a medium-term scenario which foresees a reduction in the resource gap to a sustainable level by 1988. The scenario presented in EBS/83/178 was updated in light of the more satisfactory outcome in 1983, some revisions in the underlying assumptions, and debt relief recently obtained. The revised projections still indicate that Morocco would reach a sustainable balance of payments position by 1988, provided that the authorities would continue with appropriate adjustment policies during the next few years. The postponement of the gradual elimination of the remaining subsidies will render the achievement of a viable balance of payments more difficult and will call, as they have already in the context of the 1984 program, for alternative policy measures.

The revised medium-term balance of payments projections after debt rescheduling during 1983-84 are shown in Table 9. The projections are predicated on the assumption that the external environment would improve moderately, that the world market for phosphate products will recover, and that the competitiveness of Morocco's other exports would be maintained. On the basis of these assumptions, exports are projected to increase by about 6 percent a year in volume terms and by 10 percent a year in value terms over the period 1984-90 (Table 10). With appropriate demand management and structural adjustment policies, the rise in the volume of imports could be contained to 2 percent per year over the same period, reflecting a decline in imports of oil and agricultural products. This also assumes that by the end of the decade 50 percent of energy requirements would be satisfied by domestic resources. In value terms, imports are projected to increase by less than 6 percent a year. Under these assumptions, the current account deficit of the balance of payments (after debt rescheduling obtained for 1983 and 1984) is projected to decline steadily from 7.3 percent of GDP in 1983 to 1.3 percent in 1988 and to move into surplus in the following years. A resource gap in 1985-87, however, would remain and would need to be financed through additional balance of payments assistance including debt rescheduling. The debt service ratio (including payments to the Fund) would increase from 27 percent in 1984 to an average of 61 percent during 1985-87 and then decline gradually to 26 percent by 1990 (Table 8). However, with further debt rescheduling during 1985-87, the debt service ratio should be significantly lower in those years, and decline less rapidly in the following years.

Table 9. Morocco: Medium-Term Scenario, 1983-1990 1/
(After Taking Into Account Debt Service Rescheduling in 1983-84)

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989	1990
Trade balance	1,032	-918	-990 (-1,049)	-960 (-1,044)	-880 (-989)	-788 (-916)	-683 (-832)	-621 (-782)
Exports (f.o.b.)	1,928	2,095	2,239	2,452	2,730	3,043	3,377	3,702
Imports (f.o.b.)	-2,966	3,013	3,229 (3,288)	3,412 (3,496)	3,610 (3,719)	3,831 (3,959)	4,060 (4,209)	4,323 (4,484)
Services, net	-706	-751	-967 (-975)	-840 (-853)	-688 (-700)	-642 (-667)	-550 (-567)	-434 (-452)
Private transfers	826	871	940	1,015	1,097	1,185	1,279	1,382
Current account	-912	-798	-1,017 (-1,084)	-785 (-882)	-471 (-592)	-245 (-398)	46 (-120)	327 (148)
Capital account	811	810	-362	-939	-339	270	387	756
Overall balance	-101	12	-1,379 (-1,446)	-1,724 (-1,821)	-810 (-931)	25 (-128)	433 (267)	1,083 (904)
Memorandum items:								
IMF: Purchases 2/	30	230	40	--	--	--	--	--
Repurchases 3/	25	43	143	277	257	160	123	91
Current account in percentage of GDP	-7.3	-6.4	-7.4 (-7.9)	-5.1 (-5.8)	-2.8 (-3.5)	-1.3 (-2.1)	0.3 (-0.6)	1.5 (0.7)
Overall balance as percentage of GDP	-0.8	0.1	-10.0 (-10.5)	-11.3 (-12.0)	-4.8 (-5.6)	0.1 (-0.7)	2.4 (1.3)	4.9 (4.1)

Sources: Data provided by the Moroccan authorities; and staff projections.

1/ The projections of imports, services, current account, and overall balance which are not in parenthesis include the effects of the measures under the present program, and the assumption that in the absence of a further reduction of subsidies, similar compensatory measures will be taken in the years to come. The projections in parenthesis reflect the likely situation should such compensatory measures not be taken.

2/ Under current stand-by arrangement.

3/ Include repurchases under present arrangement.

Table 10. Morocco: Background Assumptions and Indicators for the Medium-Term Scenario, 1983-1990

	1983	1984	1985	1986	1987	1988	1989	1990
			(Annual percentage change)					
Terms of trade (in SDRs)	-7.3	1.0	--	1.0	2.0	1.0	1.0	-1.0
Import unit value	4.0	1.0	1.0	3.0	4.0	4.0	4.0	4.0
Export unit value	11.0	2.0	1.0	4.0	6.0	5.0	5.0	3.0
Exports, f.o.b.								
Value	2.4	8.7	6.9	9.5	11.3	11.5	11.0	9.6
Volume	15.0	6.5	6.0	5.0	5.0	6.0	6.0	6.0
Imports, f.o.b. 1/								
Value	14.6	1.8	7.2	5.6	5.8	6.1	6.0	6.4
			(9.1)	(6.3)	(6.4)	(6.5)	(6.3)	(6.5)
Volume	10.0	-0.5	4.7	2.5	1.3	2.2	2.1	2.6
			(6.2)	(3.0)	(2.0)	(2.7)	(2.5)	(2.8)
			(Underlying Assumptions)					
Average oil products Imports, c.i.f., unit prices (SDR/ton)	199.3	196.3	196.3	204.1	212.3	220.8	229.6	338.8
Partners' nontraditional export price index in U.S. dollars	-3.5	2.0	4.0	4.0	4.0	4.0	4.0	4.0
Phosphate rock weighted price (in SDRs)	30.6	32.5	33.5	33.5	36.2	39.0	40.7	41.7
Real GDP growth	0.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Sources: Data provided by the Moroccan authorities; and staff projections.

1/ The projections of imports which are not in parenthesis include the effects of the measures under the present program, and the assumption that in the absence of a further reduction in subsidies, similar compensatory measures will be taken in the years to come.

V. Staff Appraisal

The revised data for the 1983 outcome confirms the significant progress made in the second half of the year to reduce domestic and external imbalances and the rate of inflation, increase the savings rate, and reduce the resource gap. Owing to the measures undertaken under the program, the overall budgetary deficit was reduced from 12.5 percent in 1982 to 9 percent in 1983 and was within the program target, and the outcome for the balance of payments was even better than estimated last December and was below the program targets. The current account deficit was reduced from 13.2 percent in 1982 to 8.6 percent in 1983, while the overall balance of payments deficit was lower than programmed by SDR 183 million.

Although the overall budget deficit for 1983 was within the program's target, the end-December performance criterion relating to bank credit to Government was exceeded somewhat as disbursements from external loans for the budget were lower than projected under the program. In view of this, and the expectation that the aid disbursements in 1984 would be correspondingly higher and bank credit lower, the Government is requesting a waiver on this performance criterion for end-1983. All other ceilings for end-December 1983 were observed. The staff believes that the end-December excess of credit to the Government was not related to any policy slippages and that, given the adjustment program concluded for 1984, the requested waiver would be justified.

In working out the objectives and the specific measures for 1984, the staff and the authorities agreed that developments in the second half of 1983 justified that the policies intended under the original request for the stand-by arrangement should be maintained, and compensatory adjustments be made to offset the impact on the budget and the balance of payments of the decision not to increase the prices of three essential commodities--sugar, flour, and edible oil. The program calls for a further reduction in the overall budgetary deficit/GDP ratio by over 2 percentage points in 1984 to be achieved mainly by raising new revenues, and restraints on expenditures, including limiting new recruitment, a wage freeze, and the continuous implementation of the agreed reforms of the education policy. Moreover, the Government decided to eliminate subsidies on all other products, coupled with a significant liberalization of other controlled prices and increases in certain utility tariffs. The proposed level of budgetary capital expenditure, which could be regarded as a minimum, seems sufficient to achieve the economic growth target envisaged under the program. However, unspent budgetary credits from previous years' appropriations relating to capital expenditure remain very large, and commitments for them could continue to be made even though actual cash expenditures are controlled by the Treasury. The staff has expressed apprehension that such a large overhang of unspent allocations could jeopardize achievement of the fiscal targets, and recommends that they should be reviewed with a view to their orderly cancellation or drawn down in relation to available financing. In this context the Government will prepare, in consultation with the World Bank, a plan to reduce the gaps between cash expenditures and budgetary commitment. In addition to the above measures the Government has decided to introduce the long-awaited tax reform during 1984. The other main policies include a further depreciation of the Moroccan dirham in early 1984, further liberalization of the trade and exchange system, export promotion through a change in the incentives, especially a reform of the tax system that discriminates against exports, and a cautious external debt management. Credit policy under the program envisages that monetary expansion will be kept below the rate of growth in nominal GDP and that increasing reliance will be placed on the functioning of the recently-introduced money market.

The above measures, if fully implemented, should ensure the realization of the balance of payments target of the program which envisages that the current account deficit (before debt rescheduling) would be reduced to SDR 940 million, or 7.5 percent of GDP, and that the overall balance of payments would register a small surplus of SDR 12 million, after taking into account the debt relief and the assistance expected to be disbursed as a consequence of the donors' meeting held in November 1983. Taken in conjunction with the proposed use of Fund resources, Morocco should be able to reconstitute its external reserves by end-1984 to the equivalent of five weeks of imports.

The implementation of the 1984 program and the continuation of appropriate adjustment policy in the medium term should contribute to the attainment of a viable balance of payments by 1988. However, the staff's medium-term projections suggest that, in the meantime, the balance of payments situation will remain difficult and further exceptional balance of payments assistance will be required to permit an orderly adjustment compatible with a moderate rate of growth. External debt also needs to be managed with great care, as the bunching of principal payments poses difficulties for the next few years. This, in the staff's view, would call for further debt relief or refinancing for the next few years.

The Moroccan authorities are conscious of the seriousness of the problems confronting Morocco, and to assure themselves that the program would be implemented, an inter-agency committee, under the chairmanship of the Minister of Finance, has been established. A Fund staff member will participate actively in the deliberation of the committee. This committee will meet every month and prepare a report on the implementation of the program for consideration by the already-established Inter-ministerial Economic Committee.

The present program includes two further reviews with the Fund--one before the end of June and another before the end of November. During the first review, understandings will be reached on several important policy areas, including the petroleum pricing system, agricultural producer prices, and implementation of the tax reform. It was the original intention that the June review would also include a review of exchange policy. However, this matter has been covered by the present review and understandings have been reached on the modalities of implementation of a flexible exchange policy for the remainder of 1984. The second review will encompass all aspects of the program and include, in particular, agreement on the budget for 1985.

In view of the above, the following draft Decision is proposed for adoption by the Executive Board:

1. Morocco has consulted with the Fund in accordance with paragraph 4 (b) of the stand-by arrangement for Morocco (EBS/83/178; August 19, 1983), and paragraph 2 of the letter of the Minister of Finance dated July 30, 1983 attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Morocco under the stand-by arrangement. Morocco also has requested the Fund to waive observance of the performance criterion in paragraph 4(a)(iv) of the stand-by arrangement for end-December 1983.

2. The letter of the Minister of Finance, dated March 18, 1984, shall be attached to the stand-by arrangement for Morocco and the letter of July 30, 1983 shall be read as supplemented by the letter of March 18, 1984.

3. The Fund grants the waiver requested by Morocco.

4. Morocco will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Morocco's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed

resources beyond 12 1/2 percent of quota during any period in which the data for the first four months of 1984 and first semester of 1984 indicate that:

(i) the ceilings on total net borrowing by the Treasury specified in paragraph 3 of the letter of March 18, 1984; or

(ii) the ceiling on increases in the "fonds réservés" specified in paragraph 3 of the same letter; or

(iii) the ceilings on total bank credit specified in paragraph 5 of the same letter; or

(iv) the ceiling on net bank credit to the Treasury specified in paragraph 5 of the same letter; or

(v) the ceilings on contracting and guaranteeing new nonconcessional external borrowing with a maturity of between 1 and 15 years, and 1 and 5 years, described in paragraph 6 of the same letter; or

(vi) the ceiling on short-term external debt also described in paragraph 6 of the same letter

are not observed.

Morocco: Relations with the Fund
(As of February 29, 1984)

I. Membership status

(a) Date of membership - April 25, 1958
(b) Status - Article XIV

(A) Financial Relations

II. General department (General Resources Account)

(a) Quota: SDR 306.6 million
(b) Total Fund holdings of member's currency: SDR 1,185.4 million; 386.6 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	878.8	286.6
Credit tranches	185.0	60.3
EFF	137.4	44.8
SFF	137.5	44.8
EAR	182.5	59.5
CFF	236.4	77.1
(d) Repurchase obligations (April 1983-March 1985)	58.2	19.0

III. Current stand-by arrangement

(a) Duration: September 16, 1983-March 31, 1985
(b) Amount: SDR 300 million.
(c) Utilization: SDR 30 million.
(d) Undrawn balance: SDR 270 million.
(e) Previous stand-by and extended arrangements: extended arrangement approved in October 1980 in an amount of SDR 810 million, 540 percent of quota, raised to SDR 817 million in March 1981, following increase in quota. Stand-by arrangement (one-year) approved in April 1982 in an amount of SDR 281.25 million, 125 percent of quota.

IV. SDR department

(a) Net cumulative allocations: SDR 85.7 million.
(b) Holdings: SDR 0.05 million; 0.05 percent of net cumulative allocations.

V. Administered accounts

Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 101.98 million

VI. Overdue obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Other managed floating; SDR 1 = DH 8.5061

VIII. Last Article IV Consultation and Stand-by Review -- August 1982, completed by the Executive Board on November 8, 1982. Decisions as follows:

Article IV Consultation

1. The Fund takes this decision in concluding the 1982 Article XIV Consultation with Morocco in the light of the 1982 Article IV Consultation with Morocco conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance Over Exchange Rate Policies").

2. The Fund encourages the Moroccan authorities to terminate as soon as possible the bilateral payments agreements with two members of the Fund.

Review Under Stand-By Arrangement

1. Morocco has consulted the Fund in accordance with paragraph 4(a) of the stand-by arrangement for Morocco approved by Decision No. 7098-82/58, adopted April 26, 1982, and paragraph 3 of the letter of February 24, 1983 attached to the stand-by arrangement for Morocco (EBS/82/53, Supplement 1,) in order to reach understandings on exchange and interest rate policies and review the progress under the program.

1. The Government of the Kingdom of Morocco has requested a stand-by arrangement for the period September 16, 1983 to March 31, 1985 in an amount of SDR 300 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/178.

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

IX. Technical assistance

(a) CBD: None
(b) Fiscal: Tax reform (1982, 1983)

X. Resident representative/Advisor - None

Morocco: Financial Relations with the World Bank Group 1/

(In millions of U.S. dollars)

	Total IBRD	Total IDA	Disbursed	Undisbursed
Agricultural and rural development	356.5	14.0	119.0	251.5
Education	188.0	--	26.0	162.0
Energy, power, and utilities	178.0	--	31.5	146.5
Transportation	62.0	--	27.6	34.4
Industry and tourism	181.0	--	106.6	74.4
Urban development	54.0	--	6.4	47.6
Other (after 1974)	200.6	--	49.6	151.0
Other (prior 1974)	672.6	36.0	708.6	--
Total	1,892.7	50.0	1,075.3	867.4
Of which has been repaid	-259.1	-1.4		
Total outstanding	1,633.6	48.6		
IFC investments		47.1		

Recent economic and sector missions:

Urban Sector Review, July 1981
Education Sector Survey, October 1981
Telecommunication Sector Mission, November 1981
Public Sector Investment Review, December 1981 and April 1982
Housing Sector Mission, November 1982
Petroleum Exploration Mission, January 1983
Irrigation Project Mission, February 1983
Financial Intermediation Mission, August-September 1983
Country Implementation Review, October-November 1983
Several missions on the Industrial and Trade Policy Adjustment loan

Source: World Bank.

1/ As of December 30, 1983. Does not include the Housing Development Project Loan of US$60 million, signed April 11, 1983; the Oulmes-Rommani Agriculture Development Project loan of US$30 million, signed May 23, 1983; the Communal Infrastructure Fund Project loan of US$16 million, signed May 23, 1983; the Petroleum Exploration and Appraisal Project loan of US$75.2 million, signed May 23, 1983; the Fourth Highway Project loan of US$85 million approved March 29, 1983; and the Small- and Medium-Irrigation Project loan of US$42 million, approved March 29, 1983.

ATTACHMENT

Kingdom of Morocco
Ministry of Finance
The Minister

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

Washington, March 18, 1984

Dear Mr. de Larosière;

Under the stand-by arrangement approved by the International Monetary Fund on September 16, 1983, the Government of the Kingdom of Morocco was to review with the Fund the progress made under the program during the second half of 1983, and the economic and financial targets and measures, including in particular budgetary policy, and performance criteria for 1984, were to be defined. This review with the Fund staff was carried out in Rabat in December 1983 at the same time as the Article IV consultation discussions, and was continued in March 1984 in Washington.

1. During the second half of 1983, the measures provided for under the program were taken. In particular, the prices of subsidized products, including those of essential commodities and petroleum products, were increased by between 6 and 67 percent, recruitment was limited, retirees were not replaced, a reform of national education was introduced, agricultural producer prices were raised, the flexible exchange rate policy was continued, and the trade system was liberalized. Owing to these efforts under the program, the current account deficit of the balance of payments for 1983 was lower than was anticipated in the program, because of a sharper decline in imports combined with a more marked increase in exports. The overall deficit, after consolidation, amounted to SDR 101 million, or SDR 183 million less than was programmed. In the budgetary area, the overall Treasury deficit was within the programmed limits despite a revenue shortfall. The rate of inflation was reduced to less than 7 percent, instead of 11 percent as provided for in the program. In contrast to these favorable developments in the financial area, GDP growth in real terms remained low--less than 1 percent--owing largely to the drought which afflicted the country in 1983. Furthermore, receipts from external assistance were less than provided for in the program. Consequently, even though the overall Treasury deficit for 1983 was below the program target, the ceiling on bank credit to the Treasury at end-December was exceeded, so that the Government wishes to request the Fund to grant a waiver with regard to this performance criterion; all other performance criteria for end-December, as well as those for end-September, were met.

2. Encouraged by improved balances in its external and financial accounts, the Government has resolved to introduce all the recovery measures mentioned in the Memorandum on Economic and Financial Policy attached to my letter of July 30, 1983, with the exception of the measures concerning consumer subsidies for three essential commodities, namely flour, sugar, and edible oil. Because rainfall has been insufficient thus far in the current agricultural crop year, the growth rate of the economy for 1984 could remain low--below 3 percent in real terms--despite the recovery expected in the mining and manufacturing sectors. Nevertheless, the main objective for 1984 is to reduce the balance of payments deficit on current account to SDR 940 million (about 7.5 percent of GDP) before consolidation of the external debt. Taking into account the rescheduling of the external debt and external assistance secured in meetings with creditors and donor countries, the balance of payments should revert to equilibrium in 1984. To achieve these objectives, which go beyond those mentioned in my letter of July 30, 1983, the Government will adopt the following policies.

3. In the budget area, in conformity with the intention of the letter of July 30, 1983, and taking into account the reduction from 15 percent to 10 percent in the special tax on imports agreed with the World Bank in order to promote exports, the overall Treasury deficit for 1984 after rescheduling, will be limited to DH 6.7 billion--about 6 percent of GDP. In addition, the current budget will be in equilibrium before debt rescheduling. While awaiting the convening of the new Parliament, a Dahir relating to the 1984 budget law was promulgated on January 10, 1984. This Dahir stipulates the measures already planned under the program, including in particular the limiting of recruitment to 10,000 persons, the non-replacement of retirees, the continuation of the national education reform, and a further reduction in the cost of subsidies to DH 1.1 billion. However, given the economic and social situation at the beginning of the year, the Government has decided to postpone the increases in the prices of the three essential commodities. It should be recalled, nevertheless, that the prices of sugarcubes, flour, and edible oil were increased in July 1983. Total subsidies will, therefore, exceed DH 2 billion in 1984. To compensate for the impact of this decision on the budget and on the balance of payments and in order to obtain the initial budgetary and balance of payments objectives, the Government has just adopted additional measures to raise receipts and lower expenditures. With regard to the former, the measures taken will yield an additional DH 750 million, bringing current receipts to DH 24.5 billion. With regard to expenditure, the Government has decided not to grant a general increase in wages, to reduce allocations for expenditures on materials and on "charges communes", and to block until end-November 1984 the filling of about 5,000 job vacancies. Consequently, total expenditure on goods and services for the whole year will be limited to DH 17.1 billion; excluding personnel expenditures, the increase in these expenditures will not exceed 6 percent. The Government has also decided to eliminate subsidies on all other

products. Thus, as of March 15, 1984, the price of butter is no longer subsidized. With regard to petroleum products, the Government increased petroleum prices in early January 1984 by an average of 12 percent to prevent any subsidies on these products and to bring about financial equilibrium in the sector with respect to refineries and to distributors. The Government is currently preparing a study on the modalities of a policy of free pricing for this sector. The conclusions of this study will be discussed with the Fund staff during the next review of the program in order to put into place prior to June 30, 1984 a system of true market prices. Moreover, the Government effected further increases in electricity, water, and transportation rates on March 15, 1984. The Government also intends to continue adjusting these rates in line with the evolution of production costs. Capital expenditure will be maintained at least at the level reached in 1983--about DH 8 billion. The Government will, in consultation with the World Bank, set up a plan to reduce the gaps between the ability to pay and total budgetary commitments, including carry-overs, in the area of investment expenditures, which is consistent with an adequate medium-term growth rate. This plan will be examined with the Fund staff during the next review of the program prior to end-June 1984. In the context of its tax reform, the Government is also committed to introduce the IGR (general income tax), the corporate tax, and the VAT during the second semester of 1984. The tax proposals relating to the first two taxes have been prepared with technical assistance from the Fund staff. Regarding the VAT, a proposed text will be prepared in the near future; it will be finalized with technical assistance to be provided by the Fund staff. The implementation of the entire fiscal reform will be part of the next review with the Fund staff. As performance criteria, the total increase in net borrowing by the Treasury (as defined in paragraph 9 of the aforementioned memorandum) will not exceed DH 1.9 billion during the period January-April 1984, and DH 3.4 billion for the period January-June 1984. The increase in outstanding "fonds réservés" (unpaid bills) in 1984 over the level of end-December 1983 will not exceed DH 300 million. The Government will consult with the Fund prior to June 30, 1984, and will agree on the performance criteria for the second half of 1984.

4. The Government has also decided to liberalize many controlled prices as of March 15, 1984. In September 1983, it increased producer prices for the current crop year. For the next year, the level of producer prices will be examined with the Fund staff during the next review of the program in June 1984.

5. In the monetary area, the authorities will continue to expand the role of the money market to improve resource allocation and encourage savings. To this effect, on January 2, 1984, the monetary authorities exempted time deposits of over one year from the requirement of minimum holdings of Treasury bills, thereby raising further the Treasury's recourse to the money market. In addition, the monetary authorities

will apply a credit policy designed to increase the money supply by about 10 percent--an increase below that of nominal GDP. Total bank credit (as defined in paragraph 11 of the above-mentioned memorandum), which totaled DH 50.7 billion at end-December 1983, will not exceed DH 52.3 billion on April 30, 1984, and DH 53.1 billion on June 30, 1984. During the same period, net bank credit to the Treasury (as defined in paragraph 11 of the above-mentioned memorandum), which equalled DH 27.7 billion at end-December 1983, will not exceed DH 28.6 billion and DH 28.9 billion at end-April and end-June 1984, respectively. The ceilings for the rest of 1984 will be defined in consultation with the Fund during the next review prior to end-June 1984. The ceilings described above will be automatically adjusted downward by the amount of the Treasury's net external borrowings in excess of that anticipated (i.e., DH 1.2 billion for the first four months and DH 2.5 billion for the first six months).

6. In accordance with the provisions of the program, the Government will continue to pursue a flexible exchange policy in 1984, and will further liberalize the trade system. In view of the external debt level, nonconcessional loans with maturities of from 1-15 years, which are contracted, guaranteed, or approved by the Government, will not exceed US$500 million in 1984, including no more than US$250 million in loans with maturities of 1-5 years. Finally, the oustanding short-term debt in 1984 will not exceed the level of end-1983, or US$1 billion; this level will be reduced automatically by any amount that is converted into medium- or long-term debt.

7. In order to ensure the financing of balance of payments deficits in 1983 and 1984, the Government has secured the rescheduling of its official external debt to the countries which are members of the Paris Club. Equivalent terms from other creditor countries have been obtained; the rescheduling agreement with commercial banks will be signed in the near future, with the financial terms already having been agreed upon. Furthermore, a meeting of friendly donor countries, chaired by the Fund, was held on November 3, 1983, to grant assistance to Morocco amounting to US$560 million for the period of the program.

8. To ensure follow-up of the program, a committee comprising representatives of the ministries concerned and the Central Bank has been set up by the Government. This committee is responsible for examining the execution of the program each month and submitting a report to the Inter-ministerial Economic Committee.

Sincerely yours,

/s/

Abdellatif Jouahri
Minister of Finance