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EBS/84/256

CONFIDENTIAL

December 7, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Morocco - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the third review under the stand-by arrangement for Morocco. A draft decision appears on page 11.

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

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Bhatia (ext. 73253), Mr. François (ext. (5)8510) or Mr. Fassassi (ext. (5)8392).

Att: (1)

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INTERNATIONAL MONETARY FUND

MOROCCO

Staff Report for Review Under Stand-by Arrangement

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

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

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

December 7, 1984

I. Introduction

On September 16, 1983, the Executive Board approved an 18-month stand-by arrangement for Morocco (EBS/83/178) in an amount equivalent to SDR 300 million (98 percent of quota).1/ The first review under the arrangement was completed by the Executive Board on April 9, 1984 (EBS/84/71). The second review of the program was concluded by the Executive Board on September 10, 1984 (EBS/84/129 and Supplement 1). To date Morocco has purchased four installments totaling SDR 210 million under the arrangement. The next purchase of SDR 50 million will become available upon the completion of the present review of the program and the meeting of the performance criteria for end-September 1984; a final purchase of SDR 40 million will become available after January 31, 1985, subject to the observance of the performance criteria for end-December 1984. If all purchases are made under the arrangement, use of Fund credit by Morocco at the end of the stand-by arrangement would amount to SDR 1,090.6 million (355.7 percent of quota); excluding the CFF purchases, it would amount to 278.6 percent of quota (Table 1).

The present review was to focus on understandings on the main aspects of 1985 budget. Furthermore, the review was also to encompass the agreement between commercial banks and Morocco on debt rescheduling, the progress in the introduction of the tax reform, and the increase in agricultural producer prices for the 1985 crop season. The review was also to cover the progress in the preparation of a plan for an orderly liquidation of the overhang of capital expenditure authorization outstanding from earlier years which did not give rise to actual expenditures because of lack of financing (see EBS/84/129 of June 6, 1984, page 11). Discussions that provided the basis for this review were held in Washington during the period November 19-23, 1984, and

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

Table 1. Morocco: Fund Position During Period of Stand-by Arrangement, 1983-85

	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)	(--)	(40.03)	(--)	(--)	(--)	(--)
Enlarged access resources	--	(16.36)	(--)	(59.97)	(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)
Supplementary financing	(--)	(--)	(--)	(--)	(-9.19)	(-3.73)	(-13.45)	(-3.73)
Transactions under special facilities (net) 8/	--	--	--	--	--	--	--	--
Purchases	--	--	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--	--	--
Total Fund credit outstanding (end of period)	848.81	878.81	878.81	978.81	1,002.59	1,031.83	1,061.34	1,090.58
Under tranche policies 7/	612.41	642.41	642.41	742.41	766.19	795.43	824.94	854.18
Special facilities 8/	236.40	236.40	236.40	236.40	236.40	236.40	236.40	236.40
				(In percent of new quota)				
Total Fund credit outstanding (end of period)	276.8	286.6	286.6	319.2	327.0	336.5	346.2	355.7
Under tranche policies 7/	199.7	209.5	209.5	242.1	249.9	259.4	269.1	278.6
Special facilities 8/	77.1	77.1	77.1	77.1	77.1	77.1	77.1	77.1

Source: International Monetary Fund.

1/ End of the calendar month in which the paper on the request for stand-by arrangement was issued. (EBS/83/78)

2/ Based on end-September 1983 and end-December 1983 performance criteria and completion of first review.

3/ Based on end-April 1984 performance criteria.

4/ Based on end-June 1984 performance criteria and completion of second review.

5/ Based on end-September 1984 performance criteria and completion of third review.

6/ Based on end-December 1984 performance criteria.

7/ Ordinary and enlarged access resources.

8/ Compensatory financing facility.

followed a staff visit to Rabat in November 7-10, 1984 1/. As indicated below, the measures necessary for the completion of the review have been taken and the performance criteria up to end-September 1984 have been met. A letter from the Minister of Finance summarizing the conclusions of the review discussions is attached. Discussions on an economic and financial program for 1985 which could be supported by a stand-by arrangement are expected to take place in early 1985, together with an Article IV consultation.

II. Projected Outcome for 1984

The present program supported by the use of Fund resources covers the second half of 1983 and calendar year 1984. As indicated in the staff reports for the first and second reviews of the stand-by arrangement, during the second half of 1983 the Moroccan authorities have implemented the measures envisaged under the program; noticeable progress was made in reducing the domestic and external financial imbalances and reducing inflation, and the outcome in the 1983 budget and the balance of payments was better than programmed (Table 2) 2/. The main objectives of the program for 1984 were to further reduce the external current account deficit (before debt relief) to SDR 940 million (7.5 percent of GDP), and realize a small surplus of SDR 12 million in the overall balance of payments after taking into account debt relief. The rate of inflation was planned at 11 percent, while the real rate of growth of GDP was assumed at 3 percent. To achieve these objectives, the program envisaged a further reduction in the budget deficit through revenue-raising and expenditure-containing measures; the latter included, in particular, a strict limit on recruitment and a wage freeze. The program also envisaged a further increase in certain administered prices and tariffs on public utility services, liberalization of other controlled prices, in particular petroleum products, a significant restraint on credit expansion, a further depreciation of the dirham, export promotion measures (including a reduction of 5 percentage points in the special import tax), and a further liberalization of the trade and exchange system. In addition, strict limits were adopted on short-term debt and on new nonconcessional loans.

1/ Staff members participating in the discussions in Washington were Messrs. Bhatia (head), François, Sacerdoti, Fassassi (all of African Department), and Hicklin (ETR). Messrs. Bhatia (head), Tahari and Fassassi took part in the staff visit to Rabat. Mr. Kabbaj, Alternate Executive Director for Morocco, participated in both the discussions.

2/ While the overall budget deficit in 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, 1981-85

	1981	1982 Actual	1983 Prog.	1983 Prel.	1984 Prog. EBS/84/71	1984 Rev. Prog. EBS/84/129	1984 Est.	1985 * Proj.
	(Annual percent changes, unless otherwise specified)							
National income and prices								
GDP at constant prices	-1.3	5.6	3.1	0.6	3.0	3.0	1.6	3.0
GDP deflator	10.8	9.2	10.1	6.5	11.7	11.7	12.0	13.0
Consumer prices	12.5	10.6	10.1	6.3	11.0	11.0	11.0	12.0
External sector (in SDRs)								
Exports, f.o.b.	4.4	-2.8	1.3	2.4	8.7	12.0	8.9	11.3
Imports, f.o.b.	12.4	6.5	11.1	-14.6	1.8	3.9	16.7	7.4
Export volume	2.1	0.2	9.2	14.9	6.5	6.6	7.4	7.1
Import volume	4.8	6.0	-9.1	-9.6	-0.5	1.1	12.8	0.6
Terms of trade (deterioration -)	-4.5	-5.2	-5.1	-5.7	1.0	2.2	-2.0	...
Nominal effective exchange rate (depreciation -) 1/	-10.7	-4.2	...	-6.0	...	...	-11.9	...
Real effective exchange rate (depreciation -) 1/	-9.1	-3.3	...	-6.6	...	...	-7.1	...
Government budget								
Revenue (excluding grants)	17.4	14.8	7.5	3.0	16.2	17.1	12.9	11.9
Total expenditures 2/	27.5	9.2	-2.6	-7.9	7.3	9.8	6.7	10.9
Money and credit								
Domestic credit	19.6	13.8	20.0	20.0	8.8	9.9	9.8	11.4
Economy	(17.5)	(20.6)	(14.8)	(11.5)	(14.1)	(14.9)	(14.9)	...
Government	(21.2)	(9.2)	(23.9)	(26.4)	(5.3)	(6.6)	(6.5)	...
Money and quasi-money	16.4	12.5	16.6	17.4	10.4	11.7	10.1	(12.0)
Money velocity	2.4	2.5	...	2.2	...	...	2.2	...
	(In percent of GDP)							
Central Government								
Budget deficit (before debt relief) 2/								
Excluding grants	14.5	12.5	8.7	9.1	7.3	7.8	7.8	6.5
Including grants	12.4	12.2	7.7	8.0	7.3	7.7	7.7	6.5
Budget deficit (after debt relief) 2/								
Excluding grants	14.5	12.5	...	8.5	6.2	6.7	6.7	...
Including grants	12.4	12.5	...	7.4	6.2	6.6	6.6	...
Domestic bank financing	4.8	2.5	5.2	7.1	1.7	2.0	2.0	2.0
Foreign financing (incl. grants)	9.4	7.0	5.0	3.6	5.0	5.1	4.4	2.9
Gross domestic investment	22.4	22.9	18.8	21.0	21.0	20.5	20.5	20.5
Gross domestic savings	8.7	9.4	10.0	12.2	12.7	13.8	10.0	12.3
Resource gap	13.7	13.5	8.8	8.8	8.3	6.7	10.5	8.2
External current account deficit (before debt relief)								
Excluding grants	12.6	13.2	8.9	8.0	7.5	7.3	9.7	7.4
Including grants	10.5	11.9	7.8	6.9	7.5	7.1	9.5	7.0
External current account deficit (after debt relief)								
Excluding grants	12.6	13.2	...	6.7	6.4	6.1	8.3	...
Including grants	10.5	11.9	...	5.6	6.4	6.0	8.1	...
External debt 3/ (inclusive of use of Fund credit)	62.0	7.02	82.2	87.1	95.0	95.0	95.0	...
Debt service ratio (in percent of exports of goods and nonfactor services and private transfers)								
Before debt relief	33.2	41.4	42.4 4/	45.8 5/	54.0	50.1	53.0	59.0
After debt relief	33.2	41.4	...	35.0 5/	27.0	24.8	23.3	...
	(In millions of SDRs, unless otherwise specified)							
Overall balance of payments								
Before rescheduling	-208	-578	-612	-496	-1,020	-1,030	-1,227	-1,322
After rescheduling	-208	-578	...	-101	12	12	-65	...
Gross official reserves (months of imports)	0.9	0.8	0.8	0.5	1.3	1.3	0.8	...

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.

* Tentative at this time.

During the first nine months of 1984, the authorities have implemented the measures under the program, all performance criteria up to end-September 1984 were met (Table 3) and it is expected that the performance criteria for end-1984 will also be met.

While the implementation of the program has been on track, Morocco's economic recovery has been slower than earlier projected. The adverse impact of the 1983/84 drought is worse than projected earlier in the year and the prolonged rainfall just before the harvest caused a further unanticipated reduction of the cereals crop. The severe drought in the first part of the year lead to a sharp cut in production of hydroelectric power. The result has been a shortfall of agricultural production relative to that envisaged in the program, and higher imports of cereals and petroleum. Accordingly, real GDP is now estimated to increase by only 1.6 percent, which, although higher than the 0.6 percent growth realized in 1983, is still lower than the 3 percent rate projected under the program. The rate of inflation for 1984 is expected to remain broadly consistent with the program's target. Between December 1983 and October 1984, the rate of inflation on an annual basis has been 9.6 percent.

Despite the lower level of economic activity and its adverse impact on government revenues, the overall Treasury deficit for 1984 before debt relief is projected to be at the program level of DH 7.2 billion (equivalent to 7.8 percent of revised lower GDP as against 9.1 percent in 1983), as the authorities have offset the revenue shortfall by a cut in capital expenditure. Budgetary receipts are now estimated to have increased by 13 percent, or about 3.3 percent lower than projected under the program, as there was a shortfall in excise taxes, other indirect taxes and in receipts from the income tax. At the same time, the shift in the composition of imports towards food imports and capital goods which are exempt from custom duties and the tariff reductions resulted in lower than projected revenues from custom duties (Table 4).

In order to offset the shortfall in budgetary receipts and achieve the targeted reduction on the overall Treasury deficit, the authorities have contained the growth in total expenditure to below the projected level under the program (6.7 percent instead of 7.3 percent).

Current budgetary expenditures for wages and materials have been strictly contained as envisaged in the program, and recruitment of personnel has been kept within the program limit. Net government subsidies for the petroleum sector has been eliminated, as the new system of periodical petroleum price adjustments has been implemented effectively. On the expenditure side, however, the burden of subsidies on the budget is higher than programmed partly because of the reduction in cereal production and the appreciation of the U.S. dollar. Reflecting this, current expenditures are expected to exceed by DH 200 million the original projections under the program, as other current

Table 3. Morocco: Quantitative Performance Criteria for 1984

	April		June		September		December
	Program	Actual	Program	Actual	Program	Actual	Program
				(In billions of dirhams)			
Net borrowing by the Treasury 1/	1.90	1.74	3.40	3.35	5.47	5.42	7.24
Total bank credit 2/	52.30	51.81	53.10	52.87	54.67	53.23	55.71
Bank credit to the Treasury (net) 2/	28.60	28.37	28.90	28.75	29.54	29.06	29.94
Change in "fonds réservés" 3/ (reduction-)	0.30	-0.49	0.30	-0.30	-0.30	-0.30	0.30
				(In millions of U.S. dollars)			
New nonconcessional foreign borrowing contracted or guaranteed by the Government or approved for public enterprises by the Government with maturity of 1 to 15 years	500.00	63.4	500.00	69.3	500.00	211.3	500.00
Of which 1 to 5 years	250.00	16.0	250.00	21.9	250.00	121.9	250.00
Short-term debt (outstanding)	1,000.00	961.00	1,000.00	913.00	1,000.00	970.88	1,000.00

Sources: Data provided by the Moroccan authorities.

1/ As defined in paragraph 9 of the Annex to EBS/83/178.
2/ As defined in paragraph 11 of the Annex to EBS/83/178. These limits will be automatically reduced up to DH 400 million if corresponding additional external concessional assistance is received.
3/ Cumulative limits.

Table 4. Morocco: Financial Transactions of the Central Government, 1982-85

(In millions of dirhams)

	1982	1983		1983	1984	1984			1985
	Actual	Program	Actual	First nine months		Program EBS/84/71	Revised Prog. EBS/84/129	Est.	Projected
Current revenue	20,480	22,022	21,094	15,225	17,041	24,516	24,704	23,815	26,440
Of which: OCP 1/	(710)	(725)	(750)	(250)	(500)	(1,100)	(1,100)	(1,100)	(1,950)
Current expenditure	20,475	22,672	21,525	15,903	17,054	23,261	23,449	23,644	26,614
Interest payments on public debt	(3,144)	(3,869) 2/	(3,526) 2/	(2,605) 2/	(3,018) 2/	(3,930) 2/	(4,118) 2/	(4,118) 2/	(5,330)
Expenditures on goods and services	(15,336)	(17,259)	(16,367)	(11,856)	(12,151)	(17,151)	(17,151)	(17,151)	(19,184)
Consumer subsidies	(2,000)	(1,544)	(1,632)	(1,442)	(1,885)	(2,180)	(2,180)	(2,375)	(2,100)
Current surplus or deficit (-)	5	-650	-431	-678	-13	1,255	1,255	171	26
Capital expenditures	12,481	8,000	7,979	5,286	-5,143	7,955	8,494	7,410	-8,200 4/
Extrabudgetary operations(net) 3/	1,368	-100	407	501	-267	--	--	--	--
Overall deficit (-)	-11,108	-8,750	-8,003	-5,463	-5,423	-6,700	-7,239	-7,239	-8,174
Changes in "fonds réservés" (decrease -)	2,061	-2,061	-2,282	-2,063	-342	-300	-300	-300	--
Cash financing	9,047	10,811	10,285	7,526	5,765	7,000	7,539	7,539	8,174
Grants	285	1,008	1,010	1,010	139	--	139	139	--
Foreign borrowing (net)	5,913 5/	4,042 5/	2,382 5/	1,002 5/	3,913 5/	5,400 5/	5,400 5/	4,630 5/	-1,251
Domestic bank borrowing (net)	2,174	5,184	6,703	5,397	1,360)	1,800	2,200	2,170	(
Central bank	(1,520)	(4,472)	(4,081)	(2,770)	(895)	(1,100)	(638)	(608)	(
Domestic money banks	(654)	(712)	(2,622)	(2,627)	(465)	(700)	(1,562)	(1,562)	(2,770
Other domestic sources (net)	675	577	190	117	353	-200	-200	600	(
Expected debt relief									6,655
Memorandum items:									
Debt relief on interest payments	--	...	626	...	...	1,174	1,174	1,174	(389)
Overall deficit/GDP									
After debt relief	12.5	9.3	8.5	...	...	6.2	6.7	6.7	6.2
Before debt relief	12.5	9.3	9.1	...	...	7.3	7.8	7.8	6.5

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

1/ Contribution of the state-owned phosphate company.

2/ After debt relief on interest payments.

3/ Excluding changes in "fonds réservés" (stock of unpaid bills).

4/ Provisional, consistent with the objective of an overall fiscal deficit equivalent to 6.5 percent of the projected GDP.

5/ After debt relief on capital payments.

expenditures have remained on target. Capital expenditures are now estimated at DH 7.4 billion for 1984, compared with an expected level under the program of DH 8.5 billion and DH 7.9 billion in 1983.

With regard to the financing of the Treasury deficit, there was a shortfall in net foreign borrowing, because of a cut in investments and delays in the receipt of exceptional assistance from donor countries; this shortfall has been offset by higher than expected nonbank domestic borrowing in the form of sale of government bonds. The Government has reduced the "fonds réservés" (unpaid bills) by DH 300 million in the first nine months of the year. The expansion in net credit to the Government and in total credit is projected at 7.8 percent and 9.8 percent respectively for the whole year, and is consistent with the program ceilings (Table 5). As net foreign assets are expected to decline slightly compared to a modest improvement projected under the program, broad money is projected to increase by 10 percent compared with 11.7 percent under the program.

The text of the laws concerning the fiscal reforms (income tax, corporate tax and value added tax), which have been prepared with substantial technical assistance from the Fund staff, will be approved shortly by the Government and will be submitted to Parliament in December. It is expected that the reform will be reviewed speedily so as to become operational by mid-1985.

The import liberalization program, begun in 1983 under the present stand-by arrangement, has continued. In July 1984, a new set of measures was introduced liberalizing a further 27 percent of total imports, thereby bringing to 48 percent the share of liberalized imports in total imports, compared with 17 percent in mid-1983 1/; in addition, in the context of the Industrial and Trade Adjustment Program supported by the World Bank, the maximum import tariff has been substantially reduced to 60 percent, and the special tax on imports was reduced by 5 percentage points in January 1984 from 15 percent to 10 percent. These reforms involve a sharp decline in the degree of protection of the Moroccan economy, and are expected to provide important gains in efficiency and promote a reorientation of the economy towards exporting. In line with the flexible exchange rate policy envisaged under the program, the Moroccan dirham was depreciated in nominal effective terms, against the currency basket used by the authorities, by 6.9 percent between end-December 1983 and end-October 1984, bringing the cumulative nominal effective depreciation of the dirham to 13 percent since the beginning of the present program in August 1983. In real terms, the effective depreciation since August 1983 has been 6 percent (Chart 1).

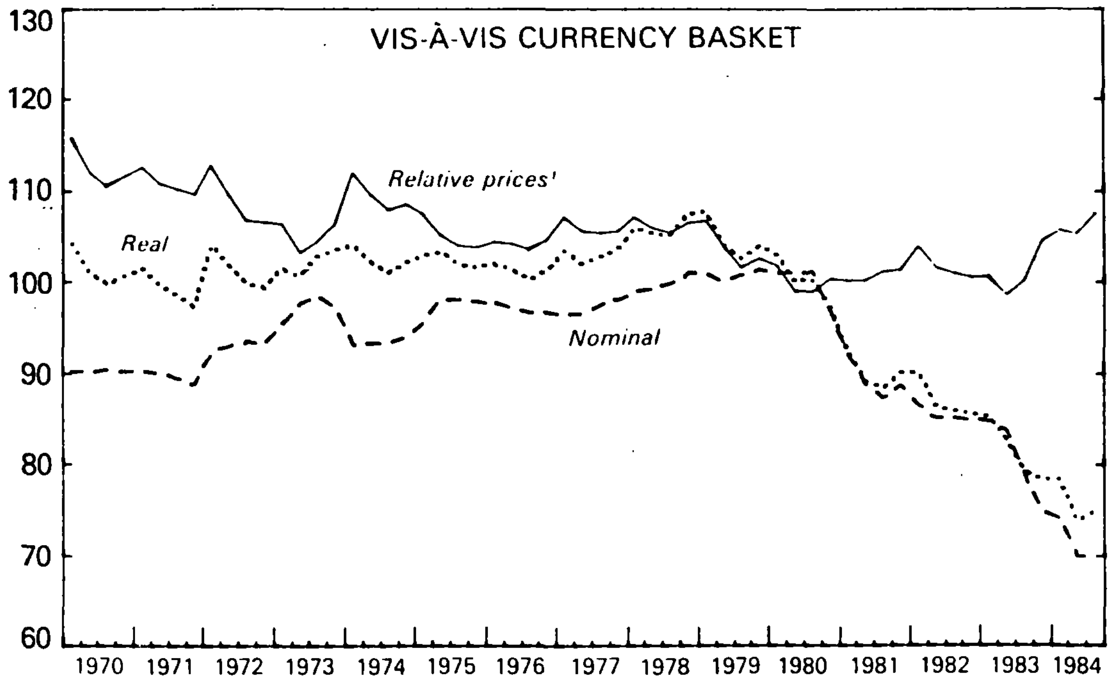
1/ In addition, import of petroleum products, cereals and sugar, representing about 27 percent of the total, are administratively controlled but imported without restriction taking into account domestic demand.

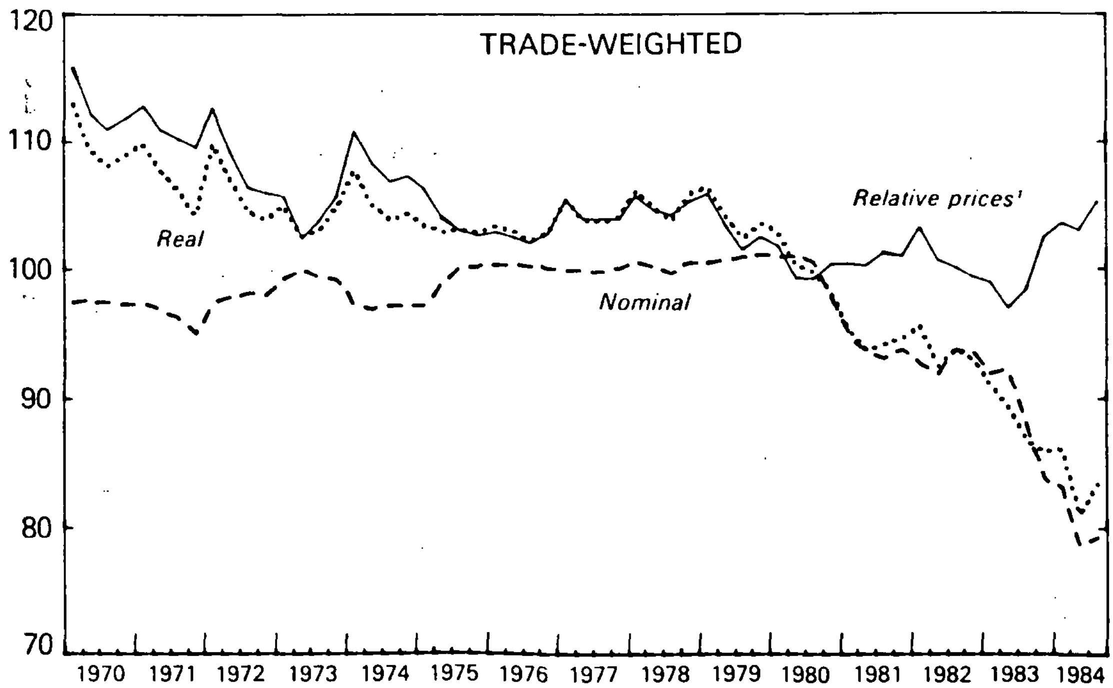
CHART 1

MOROCCO

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1970-84

(1980=100)





Source: Currency weights supplied by Moroccan authorities, decrease in index indicates depreciation.
[1]Relative prices: Domestic price indices/Weighted partner price indices.

Table 5. Morocco: Monetary Survey, 1982-84

(In millions of dirhams; end of period)

	1982	1983	1984							
	Dec.	Dec. 1/	March	April		June		Sept.		Dec.
				Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.
Foreign asset (net)	-2,192	-3,528	-3,719	-3,600	-4,061	-3,550	-4,037	-3,490	-4,238	-3,425
Central Bank	(-3,744)	(-5,381)	(-5,638)	(...)	(-6,120)	(...)	(-5,971)	(...)	(-6,274)	(...)
Deposit money banks	(1,552)	(1,853)	(1,919)	(...)	(2,059)	(...)	(1,934)	(...)	(2,036)	(...)
Domestic credit	42,258	50,693	52,166	52,293	51,969	53,093	52,868	54,674	53,233	55,712
Claims on the Government (net)	24,068	30,412	32,188	31,112	30,969	31,512	31,402	32,062	31,171	32,412
Banking system	21,043	27,734	29,536	28,634	28,460	28,934	28,747	29,534	29,055	29,934
Central Bank	(12,746)	(16,128)	(17,320)	(17,373)	(16,419)	(16,524)	(17,403)	(16,679)	(17,016)	(16,766)
Deposit money banks	(8,297)	(11,606)	(12,216)	(11,261)	(12,041)	(12,410)	(11,344)	(12,855)	(12,039)	(13,168)
Nonbank private sector 2/	3,025	2,678	2,652	2,478	2,509	2,578	2,655	2,528	2,116	2,478
Claims on the economy	18,190	20,281	19,978	21,181	21,000	21,581	21,466	22,612	22,062	23,300
Assets = Liabilities	40,066	47,165	48,477	48,693	47,908	49,543	48,831	51,184	48,995	52,287
Money plus quasi-money	38,959	45,744	46,832	47,382	46,682	48,226	48,195	49,903	48,836	51,106
Money	31,631	36,142	36,942	37,436	36,787	38,099	38,162	39,424	38,235	40,374
Currency outside banks	(12,023)	(13,636)	(13,781)	(14,124)	(13,841)	(14,288)	(14,237)	(14,784)	(14,773)	(15,141)
Demand deposits 3/	(19,608)	(22,506)	(23,161)	(23,312)	(22,946)	(23,811)	(23,934)	(24,640)	(23,462)	(25,233)
Quasi-money	7,328	9,602	9,890	9,946	9,895	10,127	10,033	10,479	10,601	10,732
Import deposit	288	576	434	250	350	200	343	100	61	--
Other (net)	819	845	1,181 4/	1,061 4/	876	1,117 4/	293	1,181 4/	98	1,181 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 information on credit.
2/ Counterparts of postal checking deposits, private sector deposits with the Treasury, and import deposits tranfered 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.

On the external side, exports are estimated to grow by 8.9 percent in SDR terms, in line with the program target, with exports of phosphates and derivatives increasing by 15 percent. While agricultural exports have remained stable because of unfavorable climatic condition, exports excluding agriculture and phosphate derivatives have increased by 7 percent in SDRs reflecting improved competitiveness. However, as explained above, imports of cereals and petroleum products have been higher than envisaged under the program, resulting in an excess of such imports of about SDR 270 million (equivalent to 2.3 percent of GDP) in relation to the program projections. Other imports are estimated to be approximately 4 percent higher than projected under the program, reflecting a more rapid import liberalization than envisaged, some restocking and an increase in import of capital goods by the non-government sector. The excess of imports has been partially offset by a lower than projected deficit on the services account, and higher workers' remittances. As a result, the external current account deficit is now estimated to amount to SDR 1,129 million (9.7 percent of the revised lower GDP and 9.5 percent of initially projected GDP) compared to the target of SDR 940 million (7.5 percent of GDP) (Table 6). However, the final outcome is subject to some uncertainties, depending upon the timing of arrival of bulk imports such as petroleum, cereal and the delivery of ships purchased by Morocco.

A shortfall in the net capital inflow of SDR 22 million has taken place because of slower than projected disbursements of exceptional aid pledged in a donor's meeting held in November 1983; this is more than compensated for by higher debt relief than originally estimated, on account of more favorable rescheduling terms obtained from non Paris Club countries. The overall balance of payments (after taking into account debt relief) is now expected to register a deficit of SDR 65 million compared to the program's target of a surplus of SDR 12 million. As a consequence, the reconstitution of gross official reserves will be somewhat smaller than envisaged under the program.

III. The 1985 Budget and the Other Elements of the Review

The main budgetary policies and targets for 1985 were established taking into account the objective of reducing the external imbalances in 1985 in line with the medium-term scenario established under the 1983/84 program (see EBS/84/71 of March 28, 1984). The 1985 target for the current account deficit before debt relief is a reduction to SDR 1 billion, equivalent to 7.4 percent of GDP. Taking into account net capital inflows presently expected and net repurchases to the Fund, the staff presently estimates a financing gap of SDR 1.4 billion. The Moroccan authorities intend seeking external debt relief for maturities and interest due in 1985; if debt relief conditions similar

Table 6. Morocco: Balance of Payments, 1982-85

(In millions of SDRs)

	1982	1983		1984			1985
		Prog.	Act.	Prog. EBS/84/71	Rev. Prog. EBS/84/129	Est.	Proj.
Merchandise trade (net)	-1,585	-1,174	-1,032	-918	-915	-1,356	-1,376
Exports	1,882	1,895	1,928	2,095	2,159	2,099	2,336
Phosphates and derivatives	(833)	(765)	(834)	(934)	(989)	(959)	(1,027)
Other	(1,049)	(1,130)	(1,094)	(1,161)	(1,170)	(1,140)	(1,309)
Imports, f.o.b	-3,467	-3,069	-2,960	-3,013	-3,074	-3,455	-3,713
Services (net)	-1,065	-886	-855	-893	-897	-795	-652
Freight and insurance	-328	-264	-259	-268	-284	-195	-205
Other transport	41	40	36	44	38	28	33
Tourism	298	343	351	404	404	383	458
Investment income	-671	-676	-755 1/	-804	-815	-767	-693
Government and other services	-405	-329	-228	-269	-240	-243	-245
Private transfers (net)	886	860	892	871	910	1,022	1,033
Current account	-1,764	-1,200	-995	-940	-902	-1,129	-995
Nonmonetary capital (net)	1,186	588	499	-80	-128	-102	-327
Private 2/	152	40	6	50	-13	-13	--
Official grants	266	144	132	--	15	15	51
Public sector loans (net)	849	404	361	-130	-130	-104	-378
Disbursements 3/	(1,618)	(1,216)	(1,262)	(1,041)	(1,041)	(907)	(1,153)
Government	1,246	731	625	815	815	750	849 5/
Guaranteed debt	372	485	637	226	226	157	304
Amortization	(-769)	(-812)	(-901)4/	(-1,171)	(-1,171)	(-1,011)	(-1,531)
Debt relief (net) 6/	--	...	395	1,032	1,042	1,162	...
Overall balance	-578	-612	-101	12	12	-65	-1,322
Financing	578	612	101	-12	-12	65	1,322
Net use of Fund credit	401	151	91	183	183	183	-103
Change in foreign assets (increase -)	-76	--	10	-195	-195	-118	...
Financing gap	--	461	--	--	--	--	1,425
Arrears	253	--	--	--	--	--	--
Memorandum items:							
Current account deficit in percent of GDP							
(before rescheduling)	13.2	8.9	8.0	7.5	7.3	9.7	7.4
(after rescheduling)	13.2	...	6.7	6.4	6.1	8.3	7.1
DH/SDR	6.65	...	7.61	8.9	8.9	9.2	9.2

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

1/ Taking into account the payment 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 payment of part of end-1982 outstanding arrears of SDR 36 million.
5/ Including expected World Bank disbursements under the Financial, Industrial, and Trade Policy Adjustment Loan (FITPA).
6/ Includes relief under agreements with the Paris Club, other official creditors and commercial banks.

to those for 1984 were obtained in respect of 1985, debt relief would total about SDR 1.3 billion. Under this assumption the current account deficit would be broadly financeable. Included in this estimate is the assumption that exports would continue to grow rapidly (by 11 percent in SDR terms), following the good performance in 1984, and imports would grow by no more than 7.4 percent in SDR terms. The import estimates are underpinned by the authorities' stated intention to continue to follow restrained financial and income policies, and the reduction expected by the authorities in the quantities of imported wheat, sugar and petroleum from the drought induced level in 1984. These projections have been established on the basis of a growth of nominal GDP of 16 percent, and of a growth in real terms of 3 percent.

1. The 1985 budget

The budgetary objective for 1985 is a reduction of the overall Treasury deficit (before external debt relief) to an amount equivalent to 6.5 percent of presently projected GDP, compared with a deficit for 1984 estimated at 7.8 percent of GDP. This objective takes into account a further reduction of the special tax on imports by 2.5 percentage points as of January 1985, in the context of a program agreed with the World Bank, which entails a loss of revenue corresponding to 0.8 percent of GDP. In spite of this, current revenues are projected to grow by 12 percent. To achieve the reduction in the deficit, the Government will limit the expansion of total expenditure to 11 percent. The increase in current expenditures for personnel and material will be strictly limited and consumer subsidies will be reduced. The net increase in the number of civil servants will be limited to 2,000, as a result of personnel reduction and retirements of 8,000 persons and new recruitment of 10,000. Simultaneously, the Government will limit general salary increases to 10 percent, to be granted in 2 equal tranches of 5 percent each in January and July (equivalent to an average annual increase of 7.5 percent); it may be noted that since the last general increase in early 1983 the cost of living has increased by 25 percent. Total budgetary expenditures for subsidies on consumption goods will not exceed DH 2.1 billion, compared with DH 2.4 billion in 1984; despite an expected increase in domestic production and lower import, the reduction in subsidies may require an increase in the prices of the subsidized products, as producer prices have been increased substantially (see below). With interest charges on the government debt rising by 20 percent, current expenditures will grow by 11 percent; expenditures excluding interest charges will grow by 9 percent. In total, current operations are projected to be in small surplus before debt relief and to register a surplus of DH 400 million after the envisaged relief of interest on external debt, a surplus twice as large as that in 1984.

Capital expenditures, after having being reduced sharply in 1983 and 1984 to DH 7.6 billion per year, a level 25 percent below the average for 1980-82, are provisionally set at DH 8.2 billion, an amount which implies no growth in real terms. These provisional figures are to be revised during future discussions with the Fund in the context of the preparation of a program for 1985 in light of updated estimate for GDP in 1985 and the outcome of the forthcoming meeting of the Consultative Group for Morocco, under the auspices of the World Bank, scheduled for January 1985.

The authorities had intended to finalize by November 1984 their plan to reduce the overhang of capital expenditures appropriations, for which no cash financing is available, on the assumption that a Consultative Group meeting would be held by that time, during which this issue would have been discussed, and needed external financing sought. As the Consultative Group meeting has been postponed to January 1985, the finalization of this plan has been delayed. During the forthcoming meeting of the Consultative Group the Government intends to seek external grants used to reduce the investment authorization overhang in line with priorities to be established in consultation with the World Bank and donor countries. This would lead to some increase in the fiscal deficit, which is expected to be modest. The medium-term plan for reducing the overhang will be finalized in line with available resources, and in consultation with the World Bank, in the framework of a new economic and financial program for 1985. At the same time the authorities will take appropriate measures to avoid a repetition of this problem in the future.

The overall Treasury deficit is expected to be financed by net external borrowing, nonbank borrowing, and by an amount of bank credit consistent with a rate of growth of money supply below that of projected nominal GDP. The amount of bank financing, as well as other performance criteria for 1985, would be agreed upon with the authorities in the context of negotiations on a new stand-by arrangement in early 1985.

2. Debt rescheduling

It will be recalled (EBS/84/129, Supplement 1, of September 5, 1984) that although an agreement on the financial terms of the rescheduling of external debt obligations falling due in the last quarter of 1983 and in 1984 with commercial banks had been reached, the final agreement on the rescheduling had not been concluded, pending the finalization of a side letter by the Central Bank providing certain assurances on related foreign exchange transfers. Both the Moroccan authorities and commercial banks requested that the Fund management and staff provide their good offices to resolve the issue. Accordingly, meetings were held at the Fund headquarters in September and in November and an agreement in principle on this remaining issue has now been reached.

3. Producer prices

In order to provide adequate pricing incentives to producers, thereby stimulating production, the authorities have increased in November 1984 producer prices by between 8 percent and 36 percent for cereals, cotton, sugar cane, and sugar beet in November; in particular, wheat prices have been increased by 20 percent, barley by 36 percent, and maize by 23 percent.

These price adjustments, which are larger than those granted in previous years, represent a substantial increase of the level of producer prices in real terms, calculated in reference to the consumer price index; for wheat, the producer price in real terms is now 10 percent higher than at the end of 1982 (but still about 8 percent lower than the previous peak level reached in 1980), while for barley and maize the price in real terms is now more than 30 percent higher than at end-1982, and about 20 percent above the peak level reached in 1980. The price increases should provide adequate incentives for production and, provided that adequate transport and storage infrastructure are ensured, should increase domestic marketing and reduce the need for imports.

IV. Staff Appraisal

The authorities have adopted in 1984 all the measures envisaged under the program and the performance criteria up to end-September have been met; it is expected that the December criteria will also be met. However, adverse climatic conditions in the first half of the year necessitated a volume of imports of cereal and petroleum products higher than anticipated, thereby leading to a higher current account deficit of the balance of payments for 1984 than envisaged under the program. Nevertheless, the outcome of the overall balance of payments should permit some reconstitution of external reserves. The unfavorable weather conditions, by depressing economic activity, have also caused a revenue shortfall, and the authorities have taken offsetting measures on capital expenditure to maintain the absolute level of the Treasury deficit on target, while also reducing unpaid bills in the "fonds réservés" account.

The main purpose of the present review was to reach understandings with the authorities on the broad thrust of 1985 budgetary policies. In addition, the review was to include the proposed tax reform, the plan to reduce the overhang of capital expenditures from the previous years, agreement with commercial banks on debt rescheduling, and policies on producer prices.

The discussion of the 1985 budgetary policies was held within the overall objective to reduce further the current account deficit in the balance of payments before debt relief to about SDR 1.0 billion, or 7.4 percent of the projected GDP, a deficit that was broadly considered to be financeable without recourse to exceptional financing other than new debt rescheduling, and in line with the targeted progress towards medium-term viability.

In these discussions, the staff agreed that the plan of the authorities to submit a comprehensive tax reform bill for approval to Parliament in its current session (a condition for the completion of the present review) effectively limited their ability to undertake additional tax efforts presently. The staff also recognized the direct, negative, revenue impact of the further reduction of 2 1/2 percentage points in the import surcharge (following a 5 percent reduction in 1984) required by the World Bank in the context of the Industrial and Trade Policy Adjustment loan. Nevertheless, the authorities have set, as their objective, to reduce the overall Treasury deficit in 1985 before debt relief to 6.5 percent of GDP, as compared to an estimated 7.8 percent in 1984 and 9.1 percent in 1983. The main brunt of the adjustment will fall on capital expenditures, which will show little increase in real terms from the 1984 estimated levels. However, substantive efforts will also be made to contain recurrent expenditures, including only a partial cost-of-living related wage increase, and to curtail consumer subsidies--moves that should produce locally-generated resources for public investment. The authorities must make determined efforts to mobilize additional resources if investment expenditure is to rise to an acceptable level. In the meantime, the staff believes that the projected further reduction in the overall Treasury deficit relative to GDP demonstrates the authorities' determination to continue with the adjustment policies. The financing of the deficit should also be consistent with reasonable limits on overall domestic credit expansion that should leave enough credit to meet the requirements of the private sector. However, credit and other policies will be discussed further in early 1985 in the context of the negotiations on a new stand-by arrangement and in the light of the actual outcome in 1984 and the balance of payments prospects for 1985.

The staff has reviewed the draft texts in respect of the proposed tax reform which the authorities have stated would be submitted to Parliament in December for approval. The texts have been prepared with substantial technical assistance from the Fund staff and reflect the latter's recommendations. In view of the delays in the finalization of this long awaited tax reform, every effort should be made to seek an early enactment of the bill, with a view to making it operational by mid-1985. This would provide the authorities with the necessary flexibility in fiscal management and improve the revenue elasticity.

As the Consultative Group's meeting, to be convened by the World Bank, was postponed to January 1985, the authorities have as yet not finalized their plan to reduce the overhang of capital expenditure authorizations. However, this subject would be discussed at that meeting and the authorities are seeking external assistance to resolve the problem. The staff believes that, in the absence of a reduction in the outstanding capital authorizations, management of public finances has become cumbersome and detrimental to sound practices. It supports the authorities' efforts to seek external assistance in the form of grants, which could be used to finance, when appropriate, capital expenditures over and above those included in the budgetary targets for 1985. As a result, the staff would expect the fiscal deficit to increase, but by a modest amount. This support is conditional on the assumption that the authorities would have worked out, with the assistance of the World Bank, appropriate priorities as to the capital projects awaiting financing, and relate the use of such assistance to only those projects. Reform must also be made in planning and budgetary procedures so as to avoid the repetition of such build-up in unspent capital authorizations in the future.

Following protracted negotiations on debt rescheduling, agreement has been reached in principle with commercial banks on the one outstanding issue of Central Bank assurance regarding related foreign exchange transfers, with the help of the Fund management and staff which provided its good offices to the two parties. One provision is that agreement relates to the monitoring of adjustment policies undertaken by Morocco. The language of this provision is still to be finalized and would be reported to the Board at the time of discussion. This ensures that the 1983-84 balance of payments will be completely financed.

The authorities recognize that domestic production of agricultural commodities must be increased to reduce the present dependance on imports and to continue to expand exports. For this purpose, they have announced substantial increases in producer prices for the next crop season without being unduly influenced by their concern about the impact on the domestic cost of living. Urgent attention now needs to be given to the improvement of the storage and transport infrastructure.

The staff believes that the understandings arrived at in respect of the 1985 budget, as well as the actions taken by the authorities to increase producer prices and to complete an agreement in principle with commercial banks on debt rescheduling, constitute a satisfactory basis to conclude the third review of the program under the present stand-by arrangement. These policies will need to be complemented by others in the context of the new stand-by arrangement to be negotiated in early 1985. The following draft decision is recommended for the Executive Board's approval.

V. Proposed Decision

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.

2. The letter of the Minister of Finance, dated November 23, 1984, shall be attached to the stand-by arrangement for Morocco, and the letters of July 30, 1983, March 18, 1984, and May 18, 1984 shall be read as supplemented by the letter of November 23, 1984.

3. The Fund finds that no further understandings are necessary to enable Morocco to make purchases under the stand-by arrangement.

Morocco: Relations with the Fund
(October 31, 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 1,335.4 million; 436.5 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	1.031.8	336.5
Credit tranches	210.9	68.8
EFF	137.4	44.8
SFF	124.6	40.6
EAR	322.5	105.2
CFF	236.4	77.1

III. Current stand-by arrangement

(a) Duration: September 16, 1983-March 15, 1985
(b) Amount: SDR 300 million.
(c) Utilization: SDR 210 million.
(d) Undrawn balance: SDR 90 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 allocation: SDR 85.7 million.
(b) Holdings: SDR 13.0; 15.2 percent of net cumulative allocation.

V. Administered accounts

Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 95.85 million

VI. Overdue obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Other managed floating; SDR 1 = DH 9.3156

VIII. Last Article IV Consultation December 1983, completed by the Executive Board on April 9, 1984. Decisions as follows:

Article IV Consultation

1. The Fund takes this decision relating to Morocco's exchange measures subject to Article VII, Section 2 (a) in concluding the 1983 Article XIV consultation with Morocco, and in the light of the 1983 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 authorities in their determination to eliminate the remaining bilateral payments arrangements with two Fund members.

XI. Last Stand-by Review May 1984, completed by the Executive Board on September 6, 1984. Decision as follows:

Review Under Stand-By Arrangement

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.

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

3. 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 12.5 percent of quota during any period in which the data for the first nine months of 1984 or for the entire year, respectively, indicate that:

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

(ii) the ceiling on total credit specified in paragraph 3 of the letter of May 18, 1984; or

(iii) the ceilings on net bank credit to the Treasury specified in paragraph 3 of the letter of May 18, 1984; or

(iv) the ceiling on increases in the "fonds rêservês" specified in paragraph 3 of the letter of March 18, 1984; 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 letter of March 18, 1984; or

(vi) the ceilings on short-term external debt also described in paragraph 6 of the letter of March 18, 1984

are not observed.

4. The Fund finds that until November 30, 1984, Morocco may proceed to make purchases under the stand-by arrangement notwithstanding any arrears in payments and transfers in current international transactions in respect of the debt to commercial banks that are in the process of being rescheduled.

5. Paragraph 4(c)(i) of the stand-by arrangement for Morocco (EBS/83/178, Supplement 1) shall be amended to read as follows:

"(i) during the entire period of this stand-by arrangement, while Morocco has any overdue financial obligation to the Fund, or if Morocco..."

IX. Technical assistance

(a) CBD: One advisor on money market operations.
(b) FAD: Tax reform (1982, 1983, 1984).

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	457.9	14.0	83.5	388.4
Education	188.0	--	40.1	147.9
Energy, power, and utilities	178.0	--	56.9	121.1
Transportation	147.0	--	45.1	101.9
Industry and tourism	378.6	--	216.0	162.6
Of which: ITPA 2/	(150.4)	(--)	(150.4) 3/	--
Urban development	54.0	--	9.2	44.8
Other (after 1974)	214.7	--	8.3	206.4
Other (prior to 1974)	804.2	38.6	842.8	--
Total	2422.4	52.6	1301.9	1173.1
Of which has been repaid	-335.4	-1.8		
Total outstanding	2087.0	50.8		
IFC investments		59.1		

Recent economic reports and missions:

Several missions on the Industrial and Trade Policy Adjustment loan, 1983
Policy reforms in the Education Sector, October 1983
Report on Industrial Incentives and Export promotion, January 1984
Report on the Financial Sector, February 1984
Public investment Review mission, April 1984
Preparation mission for a Financial Industrial Trade Policy Adjustment Loan, October-November 1984

Source: World Bank.

1/ As of June 30, 1984.
2/ Industrial and Trade Policy Adjustment Loan.
3/ Entirely disbursed as of October 31, 1984.

Kingdom of Morocco
Ministry of Finance
The Minister

Washington, November 23, 1984

Sir:

As the stand-by arrangement requires, the Government of Morocco and the Fund staff have carried out the third review of performance under the program for 1984/85 and have reached agreement on budgetary policy for 1985. The main conclusions of this review are summarized below. 1. Since the second review with the Fund staff which took place in Rabat in May, the Government has had to evaluate the full consequences for performance under the program arising from the deterioration in climatic conditions during the spring. This deterioration has caused a further loss in agricultural and hydroelectric production and has made it necessary to import unforeseen additional quantities of cereals and petroleum products.

2. As a consequence of the reduction in economic activity, the growth in GDP has been reduced from 3 percent in the program to 1.6 percent, and budgetary receipts have registered a shortfall of 3.5 percent. To limit the overall Treasury deficit to the level envisaged in the program (7.8 percent of GDP), the Government has taken the measures necessary to maintain current expenditure within the limits initially envisaged and to slow down investment expenditure commitments. All the performance criteria for September have been observed and the Government expects that the criteria for December will also be met. Despite all the austerity measures introduced, and for the exceptional reasons already mentioned, the current deficit of the balance of payments before external debt rescheduling will reach 9.7 percent of revised GDP instead of the 7.5 percent envisaged in the program. Nevertheless, it will be possible to reconstitute the external reserves of the Bank of Morocco by about SDR 100 million.

3. Given the exceptional nature of the circumstances which have prevailed in 1984, the Government considers that the medium-term adjustment targets established under the program still remain valid. Thus, in accordance with the adjustment scenario for the medium term, the Government has set as an objective for 1985 to limit the current account deficit of the balance of payments (before taking account of external debt rescheduling) to SDR 1 billion (or DH 9.2 billion, equivalent to approximately 7.4 percent of GDP). After their rapid expansion in 1984 (9 percent in SDR terms), exports should continue to increase rapidly. The adjustment policies should limit imports to approximately DH 38 billion. This total includes limits on imports of wheat (2 million tons), (sugar 250,000 tons) and petroleum products (5 million tons). These limits will be adhered to and may be revised only if

climatic conditions are unfavorable, and only after consultation with the Fund in the context of the first review of the stand-by arrangement envisaged for 1985. Under these circumstances, the overall deficit would be SDR 1.5 billion, which could be covered by the rescheduling of external debt envisaged for 1985 and other external assistance expected.

4. To achieve the balance of payments objectives mentioned above, the Government will define the package of necessary measures in the near future in the context of negotiations for the next stand-by arrangement. Meanwhile, the Government intends to limit the overall Treasury deficit before external debt rescheduling) to approximately 6.5 percent of GDP in 1985 as against 7.8 percent of GDP in 1984. This deficit takes into account a further reduction of 2 1/2 percentage points in the special import duty in the context of an agreement with the World Bank which will involve a revenue loss equivalent to 0.75 percent of GDP. This deficit implies a recourse to bank credit which will be consistent with a maximum increase of the money supply at a rate slightly lower than that of projected GDP growth. The texts of the drafts concerning the tax reform (income tax, corporate tax, and value-added tax) will shortly be approved by the Government and will be submitted to Parliament for review in December 1984.

5. The Government will continue to limit severely the growth of current expenditure. To this end, the net increase in public employment will not exceed 2,000 persons and total subsidies will be limited to DH 2.1 billion by appropriate adjustments in consumer prices. Taking into account the fact that no general salary increase has been granted for two years despite an increase in the cost of living of 25 percent, the Government has decided to grant a general increase in salaries in two stages--5percent in January and 5 percent in July--which will correspond to an average increase of 7.5 percent for the year.

6. Investment expenditure will be limited to a level consistent with the objective for the overall Treasury deficit. However, negotiations with some friendly countries are advances sufficiently to be able to project that the Goverment will receive external grants which have not been reflected in the objectives for the budget and the balance of payments mentioned above. When these grants become available, the Government will use them to finance the current level of capital expenditure authorization for which there is no domestic financing available. The problem of this capital expenditure authorization overhang will be one of the issues examined by the Consultative Group which will meet in January 1985 under the auspices of the World Bank. Moreover, in the context of another stand-by arrangement envisaged for 1985, the Government will establish in consultation with the Fund and the World Bank a medium-term plan for reducing the capital expenditure authorization overhang in line with available resources, and will examine all appropriate solutions to avoid the reappearance of this problem in the future.

7. With the aim of stimulating agricultural production and reducing imports, the Government has just decided to raise agricultural producer prices substantially for the 1984/85 crop year. The increases granted range from 8 to 36 percent, and are about 25 percent for cereals.

Very truly yours,

Abdellatif Jouahri
Minister of Finance

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