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INFORMATION

March 14, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Morocco - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation discussions with Morocco. A draft decision appears on page 24.

It is proposed to bring this subject to the agenda of the Executive Board 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. Tahari (ext. (5)8517), or Mr. Franco (ext. (5)8515).

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INTERNATIONAL MONETARY FUND

MOROCCO

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Article IV Consultation with Morocco

Reviewed by the Committee on Article IV Consultations

Approved by J. B. Zulu and S. Kanasa-Thanan

March 13, 1984

I. Introduction

The 1983 Article IV consultation discussions with Morocco were held in Rabat during the period November 30-December 17, 1983. 1/ At the same time, discussions were also held in respect of the first review under Morocco's current 18-month stand-by arrangement, which was approved by the Executive Board on September 16, 1983 (EBS/83/178). The report on the review will be issued separately after understandings have been reached with the authorities on certain pending aspects of budgetary policies for 1984 in the light of the recent social disbalances in the country.

Morocco continues to avail itself of the transitional arrangements of Article XIV.

To date, Morocco has purchased the initial installment of SDR 30 million under the stand-by arrangement which is for a total amount of SDR 300 million. 2/ Further purchases under the arrangement have not been made because, for various considerations, the review had not been completed. Under the terms of the arrangement, further purchases are subject to the availability of adequate financing of the estimated external gap for the years 1983-84, and conditional on the completion of the first review of the program, the satisfaction of the performance criteria for end-December 1983, and the reaching of understandings relating to policies, in particular budgetary policies, and to the performance clauses for 1984.

1/ 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. Kanasa-Thanan (ETR) joined the mission during the last two days. Mr. O. Kabbaj, Alternate Executive Director, participated in most of the discussions.

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

II. Background

Over the period 1980-82 the economic and financial performance of Morocco was mixed. Following a relatively satisfactory outturn in 1980 in the context of an EFF program, the situation deteriorated in 1981, mainly as a result of unfavorable exogenous developments, including a severe drought. The real rate of growth of GDP in 1981 declined by over 1 percent; the deficits in the budget and the current account of the balance of payments widened to 14.5 percent and 12.6 percent of GDP, respectively; and the rate of inflation increased to 12.5 percent (Table 1).

The 1982 program, supported by a one-year stand-by arrangement which replaced the extended arrangement, aimed at stabilizing the situation and containing the balance of payments deficit mainly through a reduction in the budget deficit by one third, a flexible exchange rate policy, increases in interest rates, restraint on credit expansion, and trade liberalization. The authorities initially took several corrective measures in conformity with the program. However, beginning in the last quarter of 1982, they entertained optimistic assumptions regarding concessional external assistance and, in consequence, followed an expansionary policy by scaling up capital expenditures. As a result, while the real rate of economic growth (5.6 percent) was satisfactory and the rate of inflation declined to 10.6 percent, the financial outcome was disappointing. In absolute amounts, both the overall budgetary deficit and the current account deficit of the balance of payments widened; as a proportion of GDP, however, the budgetary deficit was reduced by 2 percentage points to 12.5 percent. In addition, the high levels of external debt and debt service, combined with accumulation of external arrears in 1982, were reaching critical proportions.

The 1983 budget, as approved by Parliament and prior to its modification in the mid-year, reflected the relaxed budgetary stance, with an overall deficit at the equivalent of over 20 percent of projected GDP. As a consequence, during the first half of 1983 the financial situation worsened substantially, and the net foreign assets of the central bank declined sharply. At the same time the earlier expectations of concessional external assistance did not materialize. In the circumstances, in mid-1983 the Moroccan Government decided to resume the stabilization efforts and adopted an 18-month adjustment program that is supported by the current stand-by arrangement. The program envisages the implementation of various measures, especially in the fields of consumer subsidies, employment policy, education policy, a flexible exchange rate policy, trade and exchange liberalization, export promotion, and a more careful management of the external debt. The program was formulated in a medium-term framework that aims at reaching a sustainable external position by the end of the 1980s. The medium-term outlook was reported in EBS/83/178 but was revised during

Table 1. Morocco: Selected Economic and Financial Indicators, 1981-83

	1981	1982		1983	
		Prog.	Actual	Prog.	Prov.
		(Annual percent changes, unless otherwise specified)			
National income and prices					
GDP at constant prices	-1.3	4.0	5.6	3.1	0.6
GDP deflator	10.8	12.0	9.2	10.1	6.5
Consumer prices	12.5	12.0	10.6	10.1	6.5
External sector (in SDRs)					
Exports, f.o.b.	4.4	13.3	-2.8	1.3	-0.6
Imports, f.o.b.	12.4	3.4	6.5	-11.1	-15.8
Export volume	2.1	8.5	0.2	9.2	16.3
Import volume	4.8	-0.9	6.0	-9.1	-11.7
Terms of trade (deterioration -)	-4.5	-0.2	-5.2	-5.1	-9.5
Nominal effective exchange rate (depreciation -) <u>1/</u>	-10.7	-3.5	-4.3	...	-6.0
Real effective exchange rate (depreciation -) <u>1/</u>	-9.1	...	-4.4	...	-6.6
Government budget					
Revenue (excluding grants)	17.4	20.0	14.8	7.5	4.5
Total expenditures <u>2/</u>	27.5	-0.8	9.2	-2.6	-8.4
Money and credit					
Domestic credit	19.6	13.8	13.8	20.0	20.0
Economy	(17.5)	(20.2)	(20.6)	(14.8)	(11.5)
Government	(21.2)	(9.5)	(9.2)	(23.9)	(26.4)
Money and quasi-money	16.4	8.5	12.5	16.6	16.4
		(In percent of GDP)			
Central Government					
Budget deficit <u>2/</u>					
Excluding grants	14.5	8.2	12.5	8.7	8.5
Including grants	12.4	8.2	12.2	7.7	6.0
Domestic bank financing	4.8	2.6	2.5	5.2	7.1
Foreign financing (incl. grants)	9.4	5.3	7.0	5.0	2.5
Gross domestic investment	22.4	22.4	22.9	18.8	21.0
Gross domestic savings	8.7	12.6	9.4	10.0	12.2
External current account deficit (before rescheduling)					
Excluding grants	12.6	9.9	13.2	8.9	8.8
Including grants	10.5	9.9	11.9	7.8	7.7
External current account deficit (after rescheduling)					
Excluding grants	12.6	9.9	13.2	...	7.5
Including grants	10.5	9.9	11.9	...	6.4
External debt <u>3/</u> (inclusive of use of Fund credit)	62.0	6.12	78.0	82.2	87.1
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 <u>4/</u>	47.3 <u>5/</u>
After rescheduling	33.2	33.7	41.4	...	36.1 <u>5/</u>
		(In millions of SDRs, unless otherwise specified)			
Overall balance of payments					
Before rescheduling	-208	-404	-578	-612	-595
After rescheduling	-208	-404	-578	...	-200
Gross official reserves (months of imports)	0.9	0.8	0.8	0.8	0.4

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

^{1/} Based on Morocco's currency basket.

^{2/} Excluding changes in "fonds réservés", for 1983 after rescheduling.

^{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.

the course of the present consultation; this revised outlook as well as the assumptions on which it was based will be discussed in the forthcoming report on the review of the stand-by arrangement.

III. Recent Economic Developments

After a sharp rebound in real GDP in 1982, the overall rate of economic growth in 1983 is estimated to have declined to 0.6 percent. Output of the agricultural and construction sectors declined, while the mining sector recovered somewhat following declines in production in 1980-82, and the manufacturing sector stagnated. The agricultural sector, including livestock, was particularly badly hit by a drought, which resulted in a decline in cereal output by 27 percent. The mining sector as a whole is estimated to have grown by 5 percent in 1983, recouping most of the loss registered in the previous year. Although Morocco's mining sector contributes only about 5 percent of GDP, it accounts for almost 50 percent of export receipts. The dominant product is phosphate rock, which, with phosphate derivatives, accounts for about 40 percent of exports and 7 percent of government receipts. During 1983 production of rock expanded, leading to an increase in exports by 5 percent in volume terms, while phosphate derivatives (phosphoric acid and fertilizer) export volume increased substantially. Value added in construction and public works registered a marked decline as a result of a drastic cut in public investment. The rate of growth of the value added by government services decelerated markedly to 6 percent (compared with 14 percent in 1982), reflecting government actions to contain current expenditure.

Notwithstanding the poor performance of the real sector, the resource gap as a percentage of GDP is estimated to have declined by almost 5 percentage points from that in 1982, the ratio of gross domestic savings to have risen by over 2.5 percentage points, and the rise in the cost-of-living index to have decelerated to below 7 percent.

Nominal aggregate consumption is estimated to have risen by 3.9 percent in 1983 (compared with 14.9 in 1982); as a result, as a share of nominal GDP it declined from an average of 91 percent during 1981-82 to 88 percent in 1983. Total investment as a percentage of GDP declined from 23 percent in 1982 to 21 percent, as the cut in non-defense government capital expenditure was only partially offset by an acceleration in private investment. Domestic savings increased from 9.4 percent in 1982 to 12.2 percent in 1983, and the resource gap declined from 13.5 percent to 8.8 percent.

In the budgetary field, before the introduction of the program in mid-1983 the fiscal situation had worsened substantially, with the current account budget deficit reaching DH 1.4 billion during the first half of the year, compared to DH 0.3 billion over the same period

in 1982. During the same period, with the liquidation of some unpaid bills, the cash deficit rose to DH 6 billion, compared to DH 4.3 billion in the first semester of 1982. Reflecting these developments, during the first half of 1983 net credit to the Government increased by 23 percent. To redress this situation, in mid-1983 the authorities introduced various fiscal measures that aimed at reducing the overall budgetary deficit for 1983 by about 4 percent of GDP compared to the outcome in 1982. In the event, according to preliminary estimates, the overall Treasury deficit (after debt relief) turned out to be DH 8.0 billion (8.5 percent of GDP), and the Treasury reduced the stock of unpaid bills by DH 2.3 billion; they were financed by domestic bank borrowing of DH 6.7 billion (or 7.1 percent of GDP) and by net external loans and grants of DH 3.4 billion (or 2.5 percent of GDP) (Table 2).

Regarding monetary and credit developments, total domestic credit is estimated to have increased in 1983 by 20 percent, with net claims on Government rising by 26 percent and on the economy by 12 percent (Table 3). Broad money is estimated to have increased by 16 percent, with a higher rise in quasi-money (24 percent) than in narrow money. The bulk of the increases occurred during the first six months of the year, the period not covered by the present program under the stand-by arrangement. During the first half of 1983 total domestic credit increased by 13.5 percent due to the sharp rise in claims on Government (24.2 percent), which was partly offset by a reduction in total outstanding credit to the private sector (-1 percent). For the second half of the year total credit is estimated to have increased by 5.7 percent, as credit to the Government rose by only 1.8 percent and credit to the private sector increased by 12.2 percent.

In the external field, for 1983 the program envisaged an improvement of the current account (before debt rescheduling) by over 3 percentage points of GDP, mainly on account of merchandise trade, and limiting the overall balance of payments deficit, before rescheduling, to SDR 612 million (Table 4). This gap was to be covered by debt relief from official creditors and commercial banks, and by exceptional balance of payments assistance from Morocco's partner countries.

The outcome for the current account deficit is estimated to have been better than programmed, notwithstanding the fact that the terms of trade deteriorated by 9.5 percent, compared to the 5 percent projected under the program. The current account deficit before rescheduling is estimated at SDR 1,093 million (8.8 percent of GDP), or SDR 100 million lower than projected under the program, representing a decline of more than SDR 550 million from the 1982 level. This outcome is mainly the result of lower imports, despite the ongoing trade liberalization that started in mid-1983 in line with the intentions under the program. Partly owing to the demand restraining measures under the program, imports are estimated to have declined in SDR terms by 16 percent, compared to the program's projected decline of 11.5 percent. On the other hand, although in volume terms exports grew by 16 percent

Table 2. Morocco: Financial Transactions of the Central Government, 1980-83

(In millions of dirhams)

	1980	1981	1982	1983			
				Program	Actual	Program	Prov.
		Actual		First nine months	First nine months	Dec.	Dec.
Current revenue	15,193	17,838	20,480	15.895	15.225	22,022	20,873
Of which: OCP <u>1/</u>	(970)	(1,487)	(710)	(225)	(250)	(725)	(750)
Current expenditures	15,310	18,898	20,475	17.070	16.315	22,672	21,572
Interest payments on public debt	(1,759)	(2,924)	(3,144)	(3.100)	(3.017)	(3,869)	(3,526) <u>2/</u>
Expenditures on goods and services	(12,124)	(13,872)	(15,336)	(12.520)	(11.856)	(17,259)	(16,414)
Consumer subsidies	(1,427)	(2,102)	(2,000)	(1.450)	(1.442)	(1,544)	(1,632)
Current deficit (-)	-117	-1,060	5	-1.175	-1.090	-650	-699
Capital expenditures	8,565	9,612	12,481	5.400	5.286	8,000	7,842
Net extrabudgetary operations <u>3/</u>	1,172	-426	1,368	-100	501	-100	510
Overall deficit (-)	-7,510	-11,098	-11,108	-6.675	-5.875	-8,750	-8,031
Changes in " <u>fonds réservés</u> " (decrease -)	264	-131	2,061	-1.800	-2.063	-2,061	-2,362
Cash financing	7,246	11,229	9,047	8.475	7.938	10,811	10,393
Grants	380	1,623	285	1.008	1.010	1,008	1,010
Foreign borrowing (net)	3,531	5,588	5,913	1.713	1.002	4,042	2,382
Domestic bank borrowing (net)	2,743	3,697	2,174	5.454	5.314	5,184	6,703
Central bank	(2,028)	(2,443)	(1,520)	(1.542)	(3.532)	(4,472)	(4,081)
Domestic money banks	(715)	(1,254)	(654)	(912)	(1.782)	(712)	(2,622)
Other domestic sources (net)	592	321	675	300	200	577	298
Deferred interest payments	--	--	--	...	412	...	626
Memorandum item:							
Overall deficit/GDP	10.7	14.5	12.5	...	...	8.7	8.5

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

1/ Contribution of the state-owned phosphate company.2/ Excluding debt relief on interest payments of DH 626 million.3/ Excluding changes in "fonds réservés" (domestic bills awaiting payments).

Table 3. Morocco: Monetary Survey, 1982-84

(In millions of dirhams; end of period)

	1981 Dec.	1982 Dec.	March	June	1983 Sept. Prog.	1983 Sept. Actual	Dec. Prog.	Dec. 1/ Prov.
Foreign assets (net)	-176	-2,192	-3,533	-3,806	-3,900	-3,691	-4,295	-3,992
Central bank	(-1,517)	(-3,744)	(-5,288)	(-5,406)	(...)	(-5,362)	(...)	(-5,456)
Deposit money banks	(1,341)	(1,552)	(1,695)	(1,600)	(...)	(1,671)	(...)	(1,464)
Domestic credit	37,128	42,258	45,590	47,963	49,598	48,880	50,719	50,693
Claims on the Government (net)	22,047	24,068	27,786	29,887	30,048	29,616	29,829	30,412
Banking system	18,860	21,034	24,475	26,376	26,488	26,348	26,218	27,734
Central bank	(11,226)	(12,746)	(15,438)	(16,678)	(17,288)	(16,278)	(17,218)	(16,827)
Deposit money banks	(7,634)	(8,288)	(9,037)	(9,698)	(9,200)	(10,070)	(9,000)	(10,907)
Nonbank private sector <u>2/</u>	3,187	3,034	3,311	3,511	3,560	3,268	3,611	2,678
Claims on the economy	15,081	18,190	17,804	18,076	19,550	19,264	20,890	20,281
<u>Assets = Liabilities</u>	<u>36,952</u>	<u>40,066</u>	<u>42,057</u>	<u>44,157</u>	<u>45,698</u>	<u>45,189</u>	<u>46,424</u>	<u>46,701</u>
Money plus quasi-money	34,644	38,959	40,646	42,619	44,698	44,178	45,424	45,333
Money	28,722	31,631	32,614	34,046	35,058	35,313	35,674	36,271
Currency outside banks	(11,120)	(12,023)	(11,927)	(12,549)	(12,679)	(13,325)	(12,900)	(13,686)
Demand deposits <u>3/</u>	(17,602)	(19,608)	(20,687)	(21,497)	(22,379)	(21,988)	(22,774)	(22,585)
Quasi-money	5,922	7,328	8,032	8,573	9,640	8,865	9,750	9,062
Import deposits	702	288	270	502)		699)		600
				)	1,000	)	1,000	
Other items (net)	1,606	819	1,141	1,036)		312)		768

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 transferred 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.

Table 4. Morocco: Balance of Payments, 1980-83

(In millions of SDRs)

	1980	1981	1982	1983	
				Prog.	Prov.
Merchandise trade (net)	-1,042	-1,320	-1,585	-1,174	-1,049
Exports	1,855	1,936	1,882	1,895	1,871
Phosphates and derivatives	(773)	(894)	(833)	(765)	813
Other	(1,082)	(1,042)	(1,049)	(1,130)	(1,058)
Imports, f.o.b.	-2,897	-3,256	-3,467	-3,069	-2,920
Services (net)	-907	-1,165	-1,065	-886	-870
Freight and insurance	-300	-354	-328	-264	-259
Other transport	39	49	41	40	41
Tourism	273	257	298	343	351
Investment income	-432	-596	-671	-676	-771 ^{1/}
Government and other services	-488	-521	-405	-329	-232
Private transfers (net)	858	906	886	860	826
Current account	-1,091	-1,579	-1,764	-1,200	-1,093
Nonmonetary capital (net)	900	1,356	1,186	588	498
Private ^{2/}	-89	40	152	40	169
Official grants	75	266	185	144	132
Public sector loans (net)	914	1,050	849	404	197
Disbursements ^{3/}	(1,342)	(1,571)	(1,618)	(1,216)	(1,064)
Government	1,082	1,220	1,246	731	567
Guaranteed debt	260	351	372	485	497
Amortization	(-428)	(-521)	(-769)	(-812)	(-867) ^{4/}
SDR allocation	16	16	--	--	--
Debt relief (net)	--	--	--	...	395
Overall balance	-175	-208	-578	-612	-200
Financing	175	208	578	612	200
Net use of Fund credit	98	139	401	151	91
Change in foreign assets (increase -)	77	69	-76	--	109
Financing gap	--	--	--	461	--
Arrears	--	--	253	--	--
Memorandum items:					
Current account deficit in percent					
of GDP (before rescheduling)	8.0	12.6	13.2	8.9	8.8
DH/SDR	5.12	6.10	6.65	...	7.61

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.

compared with the programmed increase of 9 percent, they declined slightly in value terms, reflecting especially the decline in the price of phosphates by 18 percent. Phosphates and nonphosphate exports performed well in volume terms and exceeded the projections incorporated in the program. The trade deficit narrowed by more than SDR 500 million to SDR 1,049 million. This was reinforced by an improvement in the service account, owing mainly to a reduction in net outflows on government transactions and a 17 percent increase in tourism receipts.

Before taking into account the exceptional financing and rescheduling package described below and the reduction of 1982 outstanding arrears by SDR 60 million (unknown at the time of inception of the program), the overall balance of payments deficit is estimated to be lower by about SDR 50 million. There was a significant decrease in gross disbursements as nonexceptional capital inflows dried up and a ceiling was imposed on new nonconcessional borrowing. The estimated gap of SDR 652 million was financed by net debt relief estimated at SDR 395 million and an exceptional balance of payments assistance of about SDR 30 million, a net recourse to Fund resources of SDR 91 million, and a decrease of international reserves of SDR 109 million. At end-1983 gross official reserves were estimated at SDR 87 million, or equivalent to less than two weeks' imports.

In recent years the financing requirements resulted in large increases in Morocco's external debt from about SDR 6.5 billion (42 percent of GDP) in 1979 to SDR 10.3 billion (78 percent of GDP) in 1982, representing an annual average rate of growth of 17 percent. In 1983 the rate of increase in external debt decelerated to 5 percent, and total external debt (including short-term debt) amounted to about SDR 10.9 billion, or 87 percent of GDP. The debt service payments before rescheduling for 1983 were estimated at 47.3 percent of exports of goods and nonfactor services and private transfers; after rescheduling this ratio was estimated at 36.1 percent (Table 5).

IV. Report on the Discussions

This report deals for the most part with developments during 1983. Detailed discussions were also held with the authorities concerning financial policies for 1984 in a medium-term framework. Preliminary understandings were achieved on these policies in the context of the required first review of the program, but these understandings have to be re-discussed due to the subsequent social disturbances in the country which led the Government to revoke its earlier announced policy of reducing consumer subsidies further in 1984. The authorities are currently reviewing the policy package for 1984. However, the authorities have assured the staff that the general thrust of the stabilization policies would be maintained, with continued progress being envisaged to reduce the budgetary and balance of payments deficits. They have confirmed that the wage increases in 1984, if any, would be

Table 5. Morocco: External Debt Service Indicators, 1980-90

(In millions of SDRs)

	1980	1981	1982	1983	1983	1984	1985	1986	1987	1988	1989	1990
				Arrears out- standing at end- August								
A. Total long-term debt service before consolidation	885	1,120	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 consolidation	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/ Repurchases	76	72	84	97	126	222	337	282	192	142	100	
Charges	(9)	(19)	(52)	(25)	(43)	(143)	(277)	(257)	(160)	(123)	(91)	
	(67)	(53)	(32)	(72)	(83)	(79)	(60)	(25)	(32)	(19)	(9)	
H. Short-term debt 6/	...	...	...	770	770	770	770	770	770	770	770	770
Principal	...	...	...	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)
Interest	...	...	...	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
I. Debt service on new financing, 1984-90	...	...	...	--	43	119	166	214	367	585	618	
Principal	...	...	...	(--)	(--)	(--)	(--)	(--)	(107)	(274)	(256)	
Interest	...	...	...	(--)	(43)	(119)	(166)	(214)	(260)	(311)	(362)	
J. Debt service ratio before consolidation	0.28	0.33	0.41	0.12	0.47	0.54	0.50	0.61	0.45	0.31	0.28	0.21
Principal (without short-term)	(0.14)	(0.17)	(0.23)	(0.07)	(0.25)	(0.32)	(0.31)	(0.45)	(0.32)	(0.20)	(0.18)	(0.12)
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 consolidation	0.28	0.33	0.41	0.36	0.27	0.59	0.69	0.49	0.37	0.47	0.27	
Principal payment ratio	(0.14)	(0.17)	(0.23)	(0.19)	(0.09)	(0.36)	(0.50)	(0.33)	(0.23)	(0.35)	(0.16)	
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 out-standing (end of period) 7/	7,286	8,475	10,342	10,861	11,804	11,304	10,037	9,375	9,298	9,358	9,800	
In percent of GDP	53.0	62.0	78.0	87.0	95.0	82.0	73.0	56.0	50.0	46.0	44.0	
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.

severely limited, the net recruitment in the public sector would be minimal, the educational reforms would continue to be implemented, monetary expansion would be kept below the forecast growth in nominal GDP, and flexible exchange rate policy and further liberalization of the trade and exchange restrictions would continue to be implemented. The first discussions on a policy package were held in Washington in the first week of March, and it is hoped to finalize it in the near future in further discussions and to present it in the staff report on the first review of the program.

1. Economic policies

In its discussions of economic policies, the mission concentrated on several areas of particular importance in terms of domestic production, exports, and import substitution. In the agricultural sector, the Moroccan representatives stated that they were pursuing their efforts to diminish the cereal deficit, reconstitute the livestock, expand sugar production, and encourage the export of fruits and vegetables. To promote agricultural production, producer prices, which had remained unchanged during 1982/83, were raised by between 7 and 30 percent for cereals, cotton, sugar cane and sugar beets, and the Government had adopted a policy of announcing price changes at the beginning of the crop year. The Moroccan representatives stated that these increases were sufficient at this time to make cereal growing profitable. In a continuous effort to promote vegetable exports, the Government was pursuing a plan to restructure vegetable production (mainly tomatoes, potatoes, and legumes) to change the seasonal production pattern to conform more to the period in which the EC market is open to Morocco, and to produce a more uniform quality of exportable product. This plan involves mainly the expansion of acreage under greenhouses. The Moroccan representatives voiced concern about the possible adverse consequences for Morocco of the forthcoming entry of Spain and Portugal into the EC, which could potentially close the European market to Morocco's agricultural products. With this in mind they were exploring new markets, such as those in the Mideast, Northern Europe, and Canada. Moreover, they were studying ways to raise the efficiency of the state monopoly export agency (OCE) and the role private exporters could play.

As mentioned earlier, production and exports of phosphates and derivatives recovered (in volume) in 1983. The Moroccan representatives felt that production and export of all phosphate products would rise further in 1984. The state-owned phosphate company (OCP) was planning to expand its production capacity to 32 million tons by 1988 (compared with 26 million presently), while the objective was to raise the share of rock production processed locally from the present 6.5 million tons to 11 million by 1988. The Moroccan representatives considered Morocco well placed to exploit the growth potential of the world market, which was projected at an annual rate of 5.5 percent.

For nonphosphate minerals, production and exports were affected by world market conditions, and in 1983 production and exports for most minerals were below 1982. The Moroccan representatives noted plans for expanded output of coal, iron, copper, and bauxite; the latter three are destined entirely for the export market. Substantial efforts are directed at coal to meet domestic energy requirements. The objective is to raise production by one half by 1986 through both extension and increased mechanization of the coal mines.

Manufacturing has become increasingly important in Morocco, accounting for about 20 percent of GDP. The most important sectors are food processing, textiles, and leather, the output of which are domestically consumed and also exported. Increasingly, however, Morocco has been able to export newer types of goods such as electronics, appliances, and cosmetics. The Moroccan representatives noted that Morocco's competitiveness in the international markets has stemmed from its low labor costs; they added that Morocco is being successful in exporting certain manufactured goods to the Mideast. In 1983, as mentioned earlier, manufacturing output rose by only 1.5 percent, while exports increased by 28 percent; domestic real demand declined, reflecting the demand restraining measures and the adverse impact of the drought.

Discussions on energy policy focused on Morocco's attempts to exploit domestic sources of energy, especially natural gas and petroleum, and also to conserve on energy use. In 1983 domestic consumption of energy increased by 3 percent, and imports of oil declined by 3 percent. This moderate growth in consumption and decline in oil imports reflected the policy to price energy products at their cost levels in an effort to save on imports. The Moroccan representatives stated that significant reserves had been discovered in the region of Meskala (gas) and Gharb (oil). These exploration efforts are supported partly by the World Bank, which provided a second loan of US\$75 million in April 1983. The strategy now is to develop the capacity of the Meskala site and to start the exploitation of the already proven reserves in 1984. It is expected that by 1986 production will reach 350,000 tons of fuel equivalent (representing about 800,000 tons of crude oil equivalent), which will correspond to imports savings of the same amount, implying that Morocco could satisfy 50 percent of its energy requirements by the end of the decade compared with only 15 percent presently. The Moroccan representatives also noted that the drought had substantially reduced the output of hydroelectric power and that several dams which were to be built during the 1981-85 Plan have been postponed because of the current austerity measures. Nevertheless, hydropower was still being viewed as an important element in making Morocco less reliant on petroleum-based energy. Concerning energy consumption, especially of petroleum products, the Moroccan representatives pointed to declines in consumption over recent years, which resulted mainly from the elimination of subsidies and the consequent retail price increases, which had

more than doubled over the last four years. Other measures to restrain the growth of imported energy include the substitution of domestic coal for petroleum.

As regards the growth prospects for 1984, the Moroccan representatives noted that after a modest beginning, the present agricultural season suffered another serious drought and that, therefore, prospects were that the agricultural output would further decline, with adverse impact on other sectors. Some late rains that occurred recently may soften the impact, but the overall growth prospects were rather disquietening. On the other hand, there was some revival in the demand and price of phosphate exports and other manufacturing exports are likely to continue to grow.

2. Budgetary policies

In reviewing fiscal developments in 1983, the Moroccan representatives explained that the measures envisaged under the program had been implemented. These measures were reflected in a revised budget, which was approved by a special session of Parliament on July 29, 1983. On the revenue side, the basic rate of the sales tax was raised from 17 percent to 19 percent; the additional tax on income was also raised; certain registration fees and stamp duties were restructured; and a new exit tax was introduced. These measures were initially estimated to yield 1 percent of GDP in additional revenue on an annual basis. Measures on the expenditure side included limiting new employment in the public sector to 25,000 (or a 5 percent rate of increase), compared to an average of about 50,000 in the preceding three years (or a 10 percent annual rate of growth), with no replacement of vacancies caused by retirement (about 8,000 annually); implementation of the education reform; reducing transfers to public entities following increases in utilities charges for electricity and water and in harbor fees; and containing expenditures on material and on scholarships. Regarding consumer subsidies, retail prices were raised in August 1983 by between 15 and 67 percent. Retail prices of petroleum products were also raised by 6 percent on average. However, due to the appreciation of the U.S. dollar, the per unit cost in dirhams of the oil refineries exceeded the fixed sale price in the second half of the year. The Moroccan representatives explained, that for petroleum products, *budgetary subsidies had been provided only at the distributors' level*, which did not register any losses. To reestablish the financial balance of the whole petroleum sector, prices were raised further by an average of 12 percent in January 1984.

With regard to capital expenditures, while the authorities confirmed that cash payments were limited to the programmed amount, uncertainties remain as to the status of previous years' appropriations. They explained that, in view of the Moroccan budgetary practice of carrying over unspent amounts in the following years, commitments could continue to be made even though actual cash expenditures are

controlled by the Treasury. Recognizing this, the Moroccan authorities have asked the World Bank to assess all projects for which credits from previous years remain unutilized with a view to determining whether some projects could be canceled and to integrating the balance in their annual budgetary exercises.

The estimated budgetary outcome (before debt relief) in 1983 was the result of lower current revenue and lower expenditures than programmed; the shortfall in fiscal receipts was more than compensated for by lower-than-projected expenditure on goods and services, reflecting the austerity measures adopted by the Government, slightly lower-than-programmed capital expenditure and a small surplus on net extra-budgetary operations.

Current revenues increased by only 2 percent in 1983, compared to 7.5 percent projected under the program and 14.9 percent in the previous year. This is mainly because of a decline in import duties and taxes by 7 percent, reflecting a reduction in imports. Receipts from these taxes represent over one third of total revenues. Dividends from certain public agencies also declined by 13 percent, while the OCP contributions to the Treasury increased by 6 percent. It should be noted, however, that, excluding OCP contributions, dividends from public entities, and import duties and taxes, current revenues grew by over 10 percent, compared with an estimated increase of 7 percent in nominal GDP, reflecting the new tax measures introduced in mid-1983 in conformity with the program.

Expenditures on goods and services (before debt relief) increased by 8 percent, compared with 13 percent foreseen under the program and 10 percent realized in the previous year. Also, owing to the retail price increases of most subsidized commodities in August, expenditures on consumer subsidies amounted to DH 1.6 million compared to DH 2 billion in 1982. Outlays on capital expenditures remained within the program's target of DH 8 billion. The performance criterion relating to the reduction in the stock of "fonds réservés" was also observed.

Although the overall budget deficit before debt relief for 1983 was within the program target, the end-December performance criterion relating to net bank credit to Government was exceeded, as disbursement from external loans for the budget was delayed and therefore was lower than assumed under the program. The excess of credit over the ceiling, however, was smaller than the shortfall in programmed disbursement from external loans. It is expected that the carry-over of unutilized loans into 1984 would reduce bank financing correspondingly.

For 1984, the authorities intended to reduce further the overall budgetary deficit (after debt relief) to DH 6.7 billion or 6.1 percent of GDP. The targeted adjustment is to be achieved mainly through restraints on Government expenditures by limiting recruitment to 10,000 with no replacement of vacancies caused by retirement; continuing the

implementation of the education reform; and reducing budgetary transfers to public entities. In addition, capital outlays are to be limited to DH 8.4 billion. On the basis of the recent decision to not to increase the prices of three essential commodities - vegetable oil, sugar and flour, the subsidy bill is expected to amount to DH 2.3 billion. Accordingly, the Moroccan representatives stated that to keep within the abovementioned budgetary target, other compensatory measures both on the expenditure and on the revenue side would be taken.

Another important element of the fiscal policy for 1984 relates 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 prepared draft bills which will be submitted to the new Parliament after the elections now scheduled for May.

3. Monetary and credit policies

The Moroccan representatives noted that the sharp rise in claims on Government through the end of June was due principally to the reduction in the stock of the "fonds réservés" equivalent to DH 2 billion, which was financed to a large extent by bank credit. The decline in credit to the private sector over the same period correspondingly reflected the injections of liquidity into that sector as a result of the government payments of this DH 2 billion of unpaid bills of 1982, and partly the slowdown in economic activity. For the whole year, banking system credit to the Treasury increased by 32 percent to an estimated level of DH 27.7 billion at end-December 1983, or about 7 percent above the targeted level of DH 26.2 billion. As noted earlier, the excess was caused by a shortfall in the foreign financing of budgetary operations. Of the banking system's credit to the Treasury, the proportion financed by the central bank was lower than anticipated in the program, as the Treasury substituted central bank financing of its operations with financing from the commercial banks. The Moroccan representatives stated that the principal reason for the increase in the role of the deposit money banks in financing the deficit of the Treasury was the automatic impact of the increased deposits with the commercial banks, via the mandatory plancher requirement, which obliges banks to deposit 30 percent of their demand and time deposit liabilities with the Treasury; the Treasury currently owes DH 9 billion to the deposit money banks at 4.25 percent under the mandatory requirements. Also, it reflected the issuance, for the first time, of a new, one-month Treasury bill yielding 10 percent interest, which induced commercial banks to invest additional amounts in Treasury bills. The Moroccan representatives noted that this was the first time the Treasury had paid close to the market interest rates to use bank resources.

The estimated increase of 16 percent in broad money, compared with the estimated rise in nominal GDP during 1983 of just over 7 percent, implied a decline in the income velocity of circulation to 2.1 compared to 2.3 in 1982. The Moroccan representatives recognized that the decline in income velocity could be reversed in 1984 and that accordingly they planned to be cautious in permitting monetary and credit expansion in 1984.

With regard to the interest rate structure, the following changes were introduced in 1983: as called for in the program, beginning October 1, the interest rate on new deposits by Moroccan workers abroad was set at 8 percent (formerly none was paid) to encourage a rise in workers' remittances; in addition, the minimum interest rate for export credit, which was 5 percent, was eliminated on December 1, and the current maximum rate for such credit is 7 percent; furthermore, as of that date, there was also an increase of 1 percentage point in the maximum rate of all short- and medium-term nonrediscountable credit, to 13 percent for the former and 14 percent for the latter.

For 1984, the authorities intended to pursue a restrictive monetary and credit policy and to enhance the role of the money market in order to improve resource allocation and to encourage savings. Accordingly, the rate of expansion of the money supply will be limited to a rate well below that of nominal GDP with the Government absorbing a significantly lower share of the expected expansion in total credit than in 1983. In early 1984, the authorities eliminated the plancher requirement on time deposits of over one year, and have decided to rely more on the money market to meet the financing needs of the Treasury. These steps are expected to increase the flexibility of monetary policy and improve its efficiency.

4. External policies

The Moroccan representatives noted that the improvement in the external position in 1983 was due to the implementation of adjustment measures since mid-1983, including the continued real effective depreciation of the dirham, and to debt relief obtained from both official and commercial bank creditors, together with the provision of exceptional balance of payments assistance by partner countries. There was a significant decline in imports due partly to the temporary intensification of import restrictions earlier in the year and partly to the demand-restraining measures implemented since mid-1983. On the other hand, export receipts declined by less than 1 percent, as the decline of phosphate exports was partly offset by the good performance of semi-manufactured and consumption goods exports.

Under the program, external policies comprise four major elements: a flexible exchange rate, trade and exchange liberalization, export promotion, and external debt management. The Moroccan representatives stated that these policies under the program were fully implemented.

In September the effective exchange rate was allowed to depreciate by 10 percent, in nominal terms, bringing the cumulative depreciation since 1980 to 20 percent (Table 6 and Chart 1). In real terms, the effective depreciation against the Moroccan currency basket amounted to 19 percent since 1980. On a trade-weighted basis, the effective exchange rate depreciated by 12 percent in real terms and by 11 percent in nominal terms. The nominal effective rate was further depreciated by 2 percent in the first two months of 1984. This continued flexible exchange rate policy has ensured the maintenance of the competitiveness of Moroccan exports. In the field of restrictions, as intended under the program a gradual easing of the trade and exchange system (which had been tightened early in the year) was introduced, with a transfer of about 20 percent of imports back to the free list. Moreover, the advance import deposit requirement, the coverage of which had been expanded significantly early in 1983, was reduced in the second half of the year from 25 percent to 15 percent of the total cost of imports, as intended under the program. Morocco has maintained bilateral payments agreements with Guinea and Mali. Both agreements have remained inoperative for several years, but there are outstanding balances under the arrangements that have not been settled, giving rise to a continued restriction on the making of transfers for current international transactions subject to approval under the Fund's Article VIII. Morocco also maintains restrictions on payments for invisible transactions under the transitional provisions of Article XIV. Regarding external debt management, ceilings on short-term debt and on new nonconcessional borrowings were imposed. The ceilings for end-September were observed, and it is expected that the ceilings for end-December were also met.

Several measures have been undertaken to facilitate exports, including the elimination of the requirement for an export certificate for many commodities. In addition, a revision of the 1973 Investment Code was approved by Parliament. The code was designed to expand the scope of tax benefits and includes measures to encourage and increase value added in the export sector and improve the efficacy of existing incentives. The ten-year tax holiday has been extended for all eligible enterprises until the end of 1984 for both commercial and industrial firms selling abroad. Also, in August 1983 a new tourism investment code was introduced, which assures 100 percent expatriation of tourist-related profits after tax, without time or quantity limits. More recently, an agreement has been reached between Morocco and the World Bank on an industrial and trade policy adjustment loan. The aim of the policies agreed upon is to reduce the bias in the system of effective protection against import substituting and export industries. These policies include mainly the abolition of the special imports tax over three years (starting with a reduction of 5 percentage points in 1984), a more flexible policy on the application of ceilings on export credit, the creation of a medium-term export facility for capital goods, further 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.

Table 6. Morocco: Exchange Rate Indices, 1970-1983 ^{1/}

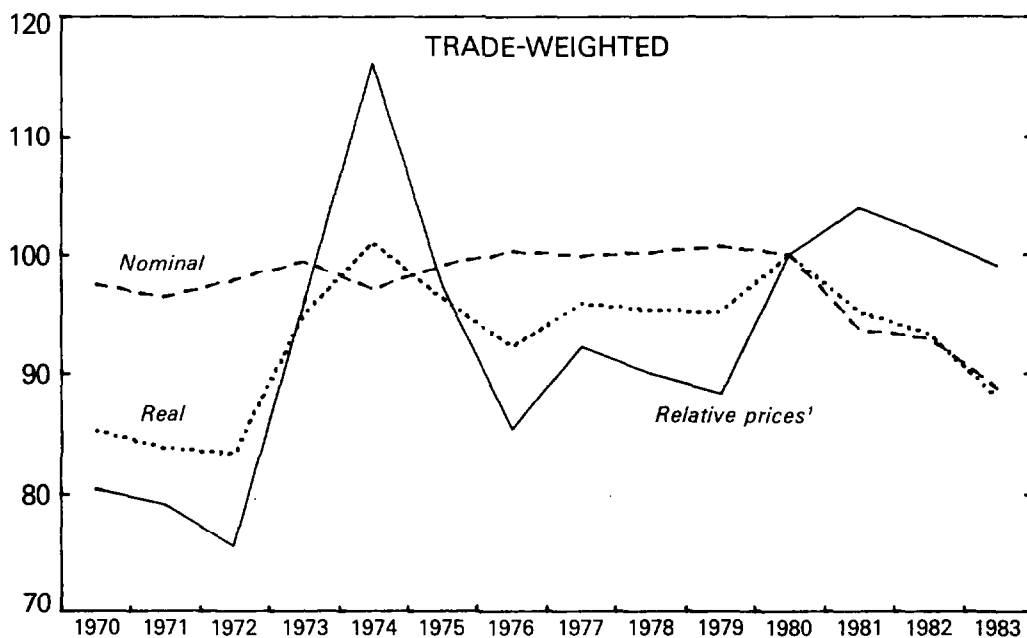
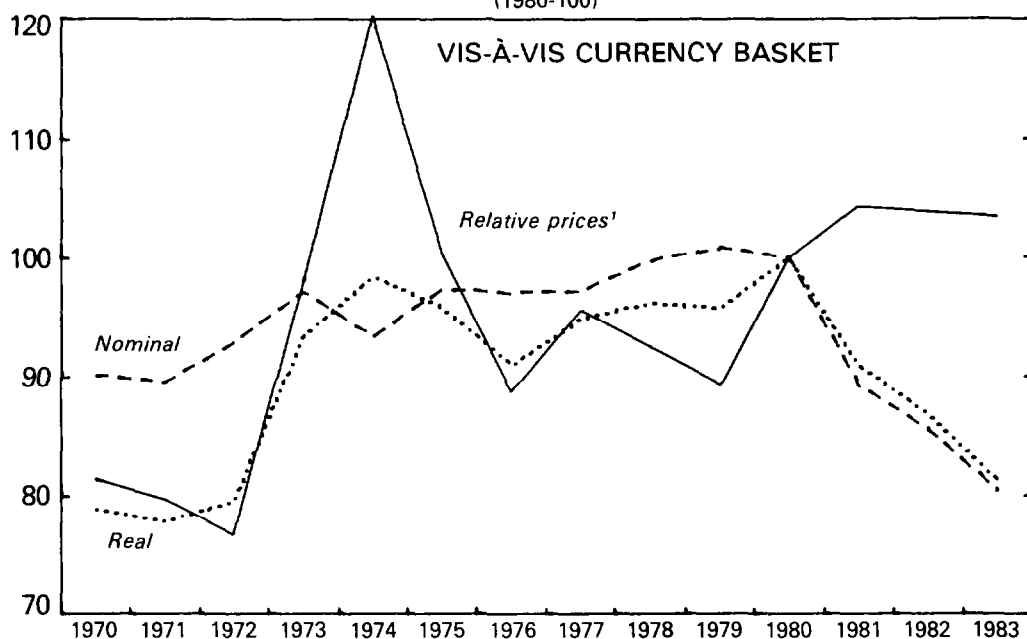
(1980 = base year)

	Trade Weighted 2/			Against Currency Basket 3/			DH/SDR	
	Nominal	Real	Domestic Price Index 4/ Weighted Price Index	Nominal	Real	Domestic Price Index 4/ Weighted Price Index	Average Value	Indices
1970	97.5	85.2	80.4	90.2	78.8	81.3	5.037	101.7
1971	96.5	83.9	79.0	89.6	77.8	79.7	5.037	101.7
1972	97.9	85.3	75.6	93.0	79.5	76.7	5.000	102.4
1973	99.5	95.1	96.1	97.2	93.5	98.1	4.896	104.4
1974	97.2	101.1	116.2	93.5	98.5	120.3	5.253	97.5
1975	99.2	96.3	97.3	97.4	95.9	100.4	4.920	104.0
1976	100.3	92.3	85.4	97.1	91.0	88.7	5.102	100.4
1977	100.0	95.9	92.2	97.2	94.9	95.6	5.257	97.4
1978	100.2	95.4	89.9	99.8	96.2	92.5	5.217	98.2
1979	100.8	95.2	88.3	100.8	95.8	89.2	5.037	101.7
1980	100.0	100.0	100.0	100.0	100.0	100.0	5.129	100.0
1981	93.7	95.2	103.8	89.3	90.9	104.2	6.099	81.0
1982	92.9	93.4	101.6	85.5	86.9	103.8	6.650	70.2
1983	88.7	87.9	99.0	80.4	81.2	103.4	7.608	51.5

Sources: IFS; and staff estimates.^{1/} A decrease of the indices is equal to a depreciation.^{2/} Trade weights: on the basis of DOT statistics and excluding oil payments, phosphate receipts, and including tourism.^{3/} Effective rate calculated on the basis of currency basket.^{4/} Domestic price is CPI.

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.
¹Relative prices: Domestic price indices/Weighted partner price indices.



For 1984, the authorities intended to further reduce the current account deficit of the balance of payments (before consolidation) to around 7.5 percent of GDP. The authorities intend to continue the implementation of the external policies envisaged under the original request of the stand-by arrangement, including flexible exchange rate policy, further liberalization of the trade and exchange system, export-promoting policy (described above) and cautious debt management. After taking into account the debt relief and the external assistance expected to be disbursed as a consequence of the donors' meeting, this target of the current account implies that the overall balance of payments would register a small surplus.

5. Financing of the external gap

To cover the external gap for 1983 and 1984 Morocco has sought and obtained, in addition to the net use of Fund resources, external assistance in the form of debt rescheduling from official creditors and commercial banks and exceptional balance of payment assistance.

(a) Debt rescheduling 1/

On October 24, 1983 the Paris Club agreed to the Moroccan request to reschedule medium- and long-term debt owed to the members of the Club. The agreement provides for rescheduling of 85 percent of the amounts in principal and interest due from September 1, 1983 up to December 31, 1984 as well as for rescheduling of arrears. Comparable terms are expected to be obtained from other official creditors. As regards rescheduling of debt owed to commercial banks, understandings have been reached on the principal financial terms. They provide for consolidation of 100 percent of principal due in the last quarter of 1983 and 90 percent of principal due in 1984 and for rolling over of the outstanding short-term debt. On the basis of the terms obtained, net relief on scheduled debt service to official creditors is estimated at SDR 305 million in 1983, combined with consolidation of end-1982 arrears of SDR 250 million, and SDR 110 million in 1984, while debt relief from commercial banks is estimated at SDR 90 million in 1983 and SDR 220 million in 1984.

(b) Exceptional balance of payments assistance 2/

An aid donors' meeting, convened by the Fund, was held in Paris on November 3, 1983 to coordinate balance of payments assistance to Morocco. The 12 countries and the IBRD represented in the meeting agreed to provide Morocco with additional external assistance of SDR 560 million to cover the external gap for 1983-84. Of this amount, Morocco drew SDR 30 million in 1983. The remainder is expected to be drawn in 1984.

1/ See SM/83/256 for more details.

2/ See SM/83/252 for more details.

Thus, with the alleviation of part of Morocco's external debt service and the balance of payments assistance obtained, the gaps for 1983 and for 1984 are estimated to be filled.

6. Performance under the stand-by arrangement

As performance criteria for 1983, the stand-by arrangement contains (i) quarterly ceilings on total bank credit; (ii) quarterly ceilings on net credit of the banking system to the Treasury; (iii) quarterly ceilings on total net borrowing by the Treasury; (iv) quarterly ceilings on changes in "fonds réservés"; (v) ceilings on nonconcessional foreign loans with maturity of between 1-15 years contracted by the Government or guaranteed or approved for public enterprises by the Government; (vi) ceilings on outstanding short-term foreign debt; (vii) the usual understandings relating to the exchange and trade system; and (viii) satisfactory completion of the first review of the program.

Table 7 summarizes the quantitative performance criteria and the outcome for end-September, as well as the estimated outcome for end-December 1983. It will be noted that all the quantitative performance criteria for end-September were met. The provisions relating to trade payments and exchange arrangements were also observed. For end-December 1983, on the other hand, the criterion related to net credit of the banking system to the Treasury was exceeded, although that relating to total bank credit was observed. As explained above, the overall budget deficit being within the program target, the excess of bank credit to the Treasury reflected the shortfall in disbursements of external loans even though the commitments were in accordance with the implied expectations under the program. All other performance criteria for end-December are expected to be met.

V. Staff Appraisal

The economic and financial outcome in 1983 is viewed by the staff with both concern and optimism. While considerable progress was made during the second half of 1983, the disequilibria in the Moroccan economy remain large. During 1983 the Moroccan economy registered a real growth rate of less than one percent, the rate of domestic savings remains low; the overall budget deficit was still over 9 percent of GDP; the external current account deficit equaled 8.8 percent of GDP; and the size of external debt and its servicing remains beyond the immediate capacity of the country. On the other hand, progress has been made in policy implementation and in strengthening the financial situation during the second half of the year as evidenced by the decline in the resource gap and the increase in the savings rate, accompanied by a decline in the rate of inflation. The present course of policy, if pursued with persistence and determination, should bring about a favorable and sustainable turnaround in the external and domestic finances of the country.

Table 7. Morocco: Quantitative Performance Criteria for 1983

	1983					
	September			December		
	Program	Effective <u>1/</u>	Actual	Program	Effective <u>1/</u>	Prov.
(In billions of dirhams)						
Net borrowing by the Treasury <u>2/</u>	6.70	6.29	5.87	8.75	8.12	8.03
Total bank credit <u>3/</u>	49.6	49.6	48.9	50.7	50.7	50.7
Bank credit to the Treasury (net) <u>3/</u>	26.5	26.5	26.3	26.2	26.2	27.7
Changes in " <u>fonds réservés</u> "	-1.8	-1.8	-2.1	-2.0	-2.0	-2.3
(In millions of SDRs)						
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		200	200	200
Short-term debt	950	950		950	950	700

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

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.

As a consequence of policies implemented from mid-1983, that included reductions in consumer subsidies, increased taxation, reduced budgetary expenditure--including a limitation on public employment--restrained credit expansion, depreciation of the exchange rate of the dirham, and liberalization of the trade and exchange regime, the deficit in the current account of the balance of payments, as well as the overall deficit, were reduced in relation to that realized in 1982 and were below the program's targets. In addition, the implementation of these policies evoked an encouraging response from Morocco's creditors and donor countries in the form of substantial debt relief and other exceptional balance of payments assistance to cover the program period through 1984.

In the staff's view, the improvement registered during the second half of 1983 justifies the continuation and reinforcement of the posture of policies as designed under the current stand-by arrangement. During the discussions the authorities concurred with this view and agreement was reached on a policy package for 1984, the focal point of which was the further reduction in the overall budgetary deficit to about 6.1 percent of GDP. However, in the meantime, social unrest erupted in the country, and demonstrations were held in various places against the "high cost-of-living." This prompted the authorities not to go ahead with the intended further reduction in consumer subsidies and to announce that there would be no increase in the prices of essential commodities. This decision would entail that the estimates for the 1984 budget would have to be revised and the subsidy costs to the Treasury in 1984 would once again begin to rise, with an adverse impact on the overall deficit. The staff understands the authorities' reaction to the social unrest but feels that, given the large budget deficit compensatory measures would need to be taken. With the consumer subsidies equaling over 2.5 percent of GDP and the inflexibility in regard to other budgetary expenditures, the staff feels that the budget cannot indefinitely support such a large burden. The freeze on price increases that had followed the earlier similar riots in 1981 has amply demonstrated the futility of such an inaction and the undesirability of withholding compensatory policy measures to minimize the adverse short- and medium-term impact on the budget and the balance of payments of the decision to postpone the programmed price increases. In this respect, the staff is encouraged by the recent assurance by the authorities that compensatory measures are contemplated and will be enacted soon.

The staff believes that the Moroccan economy remains excessively liquid and that the budgetary and credit policies should aim at reducing this excess liquidity. The aim should not only be to reduce the overall budget deficit but also to cut back the part that is to be financed by bank borrowing. The rate of expansion of domestic credit must be further restrained, but more through the use of traditional instruments of monetary policy than direct credit controls; a more active use of the money market would be desirable.

The flexible exchange rate policy, followed since 1981, has served Morocco well, as is evidenced by the continued increase in the volume of manufacturing and other exports. The staff believes that this policy would need to be continued, if not intensified, especially if the needed flexibility on the fiscal side is not forthcoming. The staff also welcomes the recent steps taken to liberalize trade restrictions and to reduce the scope of the advance import deposits. It hopes that the liberalization will proceed as programmed. 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 views, would call for further debt relief or refinancing for the next few years.

Looking ahead to 1984, the staff believes that, with an appropriate mix of policies, and given the size of the exceptional balance of payments assistance already promised, the overall balance of payments should register an approximate equilibrium especially as the export markets for phosphates are recovering. However, this prospect is somewhat clouded by the drought conditions that have prevailed during the current crop season. As envisaged in the current stand-by arrangement, the continuation of an appropriate adjustment policy over the medium term should contribute to the attainment of a viable balance of payments prior to the end of the present decade.

It is proposed that the next Article IV consultation discussions with Morocco be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Morocco's exchange measures subject to Article VIII, 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 to eliminate the remaining bilateral payments arrangements with two Fund members.

Morocco: Relations with the Fund
(As of January 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 1,185.4 million; 386.6 percent of quota

	<u>Millions of SDRs</u>	<u>Percent of quota</u>
(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 (July 1983-March 1985)	65.2	21.3

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 11.5 million; 13.01 percent of net cumulative allocations.

V. Administered accounts

Trust Fund loans

- (i) Disbursed: SDR 110.43 million
- (ii) Outstanding: SDR 106.67 million

VI. Overdue obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Other managed floating.

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.

2. The letter of the Minister of Finance of September 1, 1982 shall be attached to the stand-by arrangement.

3. The Fund considers Morocco's interest and exchange rate policies appropriate for the remainder of the period of the stand-by arrangement and finds that no further understandings are necessary.

Last use of Fund resources mission - July 1983; Request for Stand-By Arrangement approved by the Executive Board on September 16, 1983. Decisions are as follows:

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)

	<u>Total</u>		<u>Disbursed</u>	<u>Undisbursed</u>
	IBRD	IDA		
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.

MOROCCO - Basic Data

Area, population, and GDP per capita

Area (1975 borders):	459,000 square kilometers
Population: Total (1982)	21.3 million
Growth rate	3 percent
GDP per capita (1982)	SDR 625

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Prov.
	(In millions of dirhams)				
<u>National accounts</u>					
Gross domestic product at 1969 prices	<u>30,993</u>	<u>32,127</u>	<u>31,712</u>	<u>33,497</u>	<u>33,697</u>
Primary sector <u>1/</u>	4,067	4,317	3,328	3,961	3,720
Secondary sector <u>2/</u>	9,484	9,255	9,245	9,195	9,226
Tertiary sector <u>3/</u>	12,991	13,576	13,682	14,115	14,151
Government	4,451	4,979	5,457	6,226	6,600
Gross domestic product at current prices	<u>62,043</u>	<u>70,161</u>	<u>76,737</u>	<u>88,519</u>	<u>94,838</u>
Net imports of goods and nonfactor services	<u>7,190</u>	<u>7,114</u>	<u>10,537</u>	<u>11,908</u>	<u>8,383</u>
Consumption	54,038	61,407	70,087	80,184	83,291
Private	(40,807)	(47,124)	(53,318)	(60,945)	(63,446)
Public	(13,231)	(14,283)	(16,769)	(19,239)	(19,845)
Gross fixed investment	14,875	14,811	16,869	20,363	19,930
Changes in stocks	320	1,057	318	-120	--
	(In percent of GDP)				
Gross fixed investment	24.0	21.1	22.0	23.0	21.0
Gross domestic savings	12.9	12.5	8.7	9.4	12.2
Resource gap	11.6	10.1	13.7	13.5	8.8
Growth rate of real GDP	4.8	3.7	-1.3	5.6	0.6

1/ Agriculture, livestock, and fishing.

2/ Mining, energy, industry, and construction.

3/ Transport, commerce, and other services.

MOROCCO - Basic Data (continued)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Prov.
<u>Price movements (average annual percentage changes)</u>					
Cost of living	8.3	9.4	12.5	10.5	6.5
GDP deflator	7.3	9.1	10.8	9.2	6.5

(In millions of dirhams)

Government finance

Current revenue	13,802	15,193	17,838	20,480	20,873
Of which: OCP	(800)	(970)	(1,487)	(710)	(750)
Current expenditures	-12,073	-15,310	-18,898	-20,475	-21,572
Current surplus or deficit (-)	1,729	-117	-1,060	5	-699
Capital expenditures	-9,016	-8,565	-9,612	-12,481	-7,842
Extrabudgetary transactions (net)	1,018	1,172	-426	1,368	510
Overall deficit (-)	-6,269	-7,510	-11,098	-11,108	-8,031
Changes in "fonds réservés" (decrease -)	--	264	-131	2,061	-2,362
Cash financing	6,269	7,246	11,229	9,047	10,393
Grants	1,640	380	1,623	285	1,010
External borrowing (net)	2,376	3,531	5,588	5,913	2,382
Domestic (net)	2,253	3,335	4,018	2,849	7,001
Of which: banking system	1,604	2,743	3,697	2,174	6,703
Overall deficit as percent of GDP	10.1	10.3	14.5	12.5	8.5

Money and credit (end-year) 1/

Foreign assets (net)	1,648	752	-176	-2,192	-3,992
Domestic credit	26,528	30,793	37,128	42,258	50,693
Claims on Government (net)	(15,428)	(18,159)	(22,047)	(24,068)	(30,412)
Claims on economy (net)	(11,100)	(12,634)	(15,081)	(18,190)	(20,281)
Money plus quasi-money	27,035	29,963	36,644	38,959	45,333

1/ Monetary data for years previous to 1981 are not comparable with those after given the adoption of a new presentation following the introduction of a revised "plan comptable bancaire" in 1982. Data for 1983 differ somewhat from those published in the Recent Economic Developments Report (SM/84/51) because of more recent information received on credit.

MOROCCO - Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Prov.
<u>(In millions of SDRs)</u>					
<u>Balance of payments</u>					
Exports, f.o.b.	1,546	1,855	1,936	1,882	1,871
Of which: phosphates and derivative products	(576)	(773)	(894)	(833)	(813)
Imports, f.o.b.	-2,580	-2,897	-3,256	-3,467	-2,920
Trade deficit (-)	<u>-1,034</u>	<u>-1,042</u>	<u>-1,320</u>	<u>-1,585</u>	<u>-1,049</u>
Services (net)	<u>-907</u>	<u>-907</u>	<u>-1,165</u>	<u>-1,065</u>	<u>-870</u>
Of which: government transactions	(-546)	(-488)	(-521)	(-405)	(-232)
Transfers (net)	730	858	906	886	826
Of which: workers' remittances	(730)	(845)	(892)	(877)	(818)
Current account deficit (-)	<u>-1,211</u>	<u>-1,091</u>	<u>-1,579</u>	<u>-1,764</u>	<u>-1,093</u>
Capital account	1,170	900	1,356	1,186	498
Private (net)	(89)	(-89)	(40)	(152)	(169)
Public (net)	(1,081)	(989)	(1,316)	(1,034)	(329)
SDR allocations	16	16	16	--	--
Debt relief (net)	--	--	--	--	395
Overall deficit (-)	<u>-25</u>	<u>-175</u>	<u>-208</u>	<u>-578</u>	<u>-200</u>
					<u>Nov.</u>
Gross international reserves of Central Bank (end-year)	447	337	222	222	56
<u>(In percent)</u>					
Ratio of current account deficit to GDP	9.6	8.0	12.6	13.2	8.8
Ratio of external debt (disbursed) to GDP	40.0	53.0	62.0	78.0	87.0
Ratio of debt service to exports of goods and services plus private transfers	21.3	28.2	33.0	41.0	36.0