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EBS/90/127
Correction 1

CONFIDENTIAL

July 13, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Morocco - Request for Stand-By Arrangement

The following correction has been made in EBS/90/127 (7/5/90):

Page 3, first full para., lines 9 and 10: for "several months in 1981 and
1986," read "several months in 1986,"

second full para., line 4: for "(EBS/85/156)"
read "(EBS/88/154)"

A corrected page is attached.

Att: (1)

included in particular the streamlining of public investment and a transfer of expenditure to the local authorities. These measures have already been accompanied by some strengthening of the balance of payments. However, the need to reinforce the adjustment effort remains; accordingly, as described in the letter of intent, the second half of 1990 will be characterized by the implementation of a number of further important measures, notably, a substantial liberalization in interest rates that will set the basis for the abolition of the system of credit encadrement at the end of 1990.

From a peak of SDR 1.1 billion in 1985, representing 306.6 percent of the current quota, the Fund's holdings of Moroccan dirhams subject to repurchase have declined to SDR 557.7 million, representing 181.9 percent of quota, as of June 30, 1990. If the full amount available under the requested stand-by arrangement is purchased according to the proposed schedule, and taking into account scheduled repurchases, the Fund's holdings of Moroccan dirhams subject to repurchase would decline to the equivalent of SDR 547.2 million as of March 31, 1991, representing 178.5 percent of quota (Table 2). Except for several months in 1986, Morocco has remained current in servicing its obligations to the Fund.

On August 30, 1988, the Fund approved a 16-month stand-by arrangement for Morocco in an amount equivalent to SDR 210 million (51 percent of quota on an annual basis), in support of the Government's adjustment program covering the period through end-December 1989 (EBS/88/154). The last review of the stand-by arrangement was concluded on November 15, 1989 (EBS/89/207). The last Article IV consultation was concluded by the Board on June 23, 1989 (EBS/89/118). Morocco's relations with the Fund are summarized in Appendix II.

The Fund staff continues to work closely with the World Bank staff in supervising the execution of a series of sectoral and structural adjustment loans to Morocco. Morocco's relations with the World Bank Group are summarized in Appendix III.

II. Developments and Performance Under Previous Programs

After a somewhat disappointing economic performance during the first half of the 1980s, reinforced adjustment efforts, together with an improvement in rainfall and in the external terms of trade, enabled Morocco to make significant progress during 1986-88. Notably, the overall budgetary deficit on a payment order basis decreased from 9.6 percent of GDP in 1985 to 4.3 percent in 1988, and the external current account deficit, which was equivalent to 7.7 percent of GDP in 1985, turned into a surplus of 0.9 percent in 1988 (Table 3). International reserves increased in this period, while all external arrears were eliminated. Even more remarkably, by 1988 the inflation rate, as measured by the GDP deflator, had been reduced to 3.6 percent.

Table 2. Morocco: Fund Position During the Period of
the Stand-By Arrangement, 1990-91

	June 30	1990 July- Sept.	Oct.- Dec.	1991 Jan.- March
(In millions of SDRs)				
Transactions under tranche policies (net)		20.7	-13.5	-3.3
Purchases		48.0	24.0	28.0
Repurchases		-27.3	-37.5	-31.3
Transactions under special facilities <u>1/</u>		-14.4	--	--
Total net transactions		6.3	-13.5	-3.3
Use of Fund credit outstanding (end of period)	557.7	564.0	550.5	547.2
Under tranche policies	543.3	564.0	550.5	547.2
Special facilities <u>1/</u>	14.4	--	--	--
(In percent of quota)				
Use of Fund credit outstanding (end of period)	181.9	184.0	180.0	178.5
Under tranche policies	177.2	184.0	180.0	178.5
Special facilities <u>1/</u>	4.7	--	--	--

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.