FOR AGENDA

EBS/83/178

CONFIDENTIAL

August 19, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Morocco - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Morocco for a stand-by arrangement equivalent to SDR 300 million. A draft decision appears on page 38.

It is proposed to bring this subject to the agenda for discussion on Friday, September 16, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Franco, ext. 74379.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MOROCCO

Request for Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department 1/

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

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

August 19, 1983

I. Introduction

In the attached letter dated July 30, 1983, the Government of the Kingdom of Morocco requests a stand-by arrangement for a period of 18 months, in support of a stabilization program covering the second half of 1983 and calendar year 1984, in an amount equivalent to SDR 300 million, representing 133 percent of quota. Of this amount, SDR 53.67 million would be from the Fund's ordinary resources and SDR 246.33 million from borrowed resources. Under the last stand-by arrangement (for SDR 281.25 million, or 125 percent of quota), which expired on April 26, 1983, Morocco purchased all the amount under the arrangement, having satisfied the various performance criteria as initially envisaged in the program. In 1982 Morocco also purchased an amount equivalent to SDR 236.4 million (105.1 percent of quota) under the compensatory financing facility--cereal facility.

The Fund's holdings of Moroccan dirhams 2/ (as of July 29, 1983) amounted to SDR 1,080.8 million (or 480.4 percent of quota), including SDR 243.4 million (108.2 percent of quota) drawn under the compensatory financing facility 3/. The proposed stand-by arrangement, if fully utilized, would increase the Fund's holdings of dirhams to SDR 1,315.6 million (or 584.7 percent of quota), including holdings in respect of purchases under the compensatory financing facility and after taking

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1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Rabat during the period July 11-23, 1983. Staff members participating in the mission were Mr. Bhatia (head-AFR), Mr. Tahari (AFR), Mr. Franco (AFR), Ms. Puckahtikom (ETR), and Ms. Elwell (secretary-AFR). Mr. Kabbaj, Alternate to the Executive Director, participated in these discussions.

2/ SDR 1 = DH 7.4486 (July 29, 1983).

3/ Summaries of Morocco's relations with the Fund and the World Bank are provided in Appendices I and II.

into account the scheduled repurchases in the amount equivalent to SDR 58.2 million (25.9 percent of quota); excluding the CFF purchases, the holdings will amount to 479.6 percent of quota. 1/

According to the phasing of the proposed stand-by arrangement (Table 1), purchases may be made in seven installments. An amount equivalent to SDR 90 million would be available during the remainder of 1983, of which SDR 30 million (10 percent of the amount of the stand-by) would be available after Executive Board approval of the arrangement; it is expected that at that time further indications as to how the 1983 balance of payments would be financed, would be available. The second purchase, not before November 30, 1983, may be made by Morocco after completion of the first review of the program and subject to the availability of adequate financing of the estimated external gap for the program period, the satisfaction of the performance criteria for end-September 1983, and understandings on budgetary policy for 1984, as well as on such additional measures as may be needed. A second review of the program will take place before August 30, 1984, and a third review before November 30, 1984. The last two purchases are conditional upon completion of the third review during which understandings regarding the 1985 budget would be reached. The last purchase would be available upon the observance of the end-1984 performance criteria.

II. Background

1. An overall view of adjustment efforts

Following the rapid increases in budgetary and export receipts that resulted from the boom in phosphate prices in 1974-75, the Moroccan authorities sharply scaled up government expenditure and public investment. However, phosphate demand and world prices fell subsequently, causing a precipitous decline in export receipts and related budgetary revenues. Nevertheless, the Government continued the high levels of government expenditures, and as a result both the budget deficit and the current account deficit of the balance of payments widened considerably. To redress these financial imbalances, in 1978 the authorities adopted a stabilization plan that was financial in nature, designed primarily to improve the budgetary and balance of payments situation, mainly through a drastic cut in government investment outlays. These policies had some initial success, but the momentum could not be maintained beyond 1978, and the policies failed to redress the structural imbalances that had emerged in the economy.

1/ The corresponding ratios, as a percent of the proposed new quota of SDR 306 million would be 429.8 and 352.7 percent respectively.

Table 1. Morocco: Proposed Schedule of Purchases and Repurchases During the Stand-By Period, September 1983-March 1985

(In millions of SDRs)

	1983		1984				1985	Total
	Upon Board approval	Oct.-Feb.	March-May	June-Aug.	Sept.Nov.	Nov.-Jan.	Jan.-March	
Purchases	30.00	60.00	40.00	40.00	40.00	50.00	40.00	300.00
Ordinary resources	(13.64)	(27.27)	(12.76)	(--)	(--)	(--)	(--)	(53.67)
Enlarged access resources	(16.36)	(32.73)	(27.24)	(40.00)	(40.00)	(50.00)	(40.00)	(246.33)
Repurchases	--	--	--	16.22	10.76	20.49	10.76	58.23
Compensatory financing facility 1/	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Stand-by and extended arrangements	(--)	(--)	(--)	(16.22)	(10.76)	(20.49)	(10.76)	(58.23)
Net purchases	30.00	60.00	40.00	23.78	29.24	29.51	29.24	(241.77)
Total (cumulative)	1,103.82	1,163.82	1,203.82	1,227.60	1,256.84	1,286.35	1,315.59	
In percent of quota 2/								
Total holdings	490.59	517.25	535.03	545.60	558.60	571.71	584.71	
Holdings excluding CFF	385.52	412.19	429.96	440.53	453.53	466.64	479.64	
In percent of proposed quota 3/								
Total holdings	360.73	380.33	393.41	401.18	410.73	420.38	429.93	
Holdings excluding CFF	283.47	303.08	316.15	323.92	333.48	343.12	352.68	

Sources: IMF, Treasurer's Department; and the stand-by arrangement contained in Attachment A.

1/ Including cereal facility.
2/ Current quota of SDR 225 million.
3/ Proposed quota of SDR 306 million under the Eighth Quota Review.

The second attempt to redress the situation came in mid-1980, when the Government adopted a three-year program covering the period July 1980-June 1983. In support of this program, which contained policies to both stimulate and restructure domestic supply and to contain the growth of demand, the Fund approved an extended arrangement in October 1980. During the initial period of the arrangement (mid-1980 to mid-1981), the authorities made considerable progress in implementing a broad spectrum of policies envisaged under the program, including substantial increases in retail prices of subsidized commodities and an effective depreciation of 11.5 percent in the exchange rate of the dirham. As a result, the economic and financial outturn in 1980 was relatively satisfactory (Table 2).

However, the momentum of adjustment was not sustained thereafter, and economic and financial developments were importantly affected by unforeseen unfavorable exogenous factors, including a severe drought, slackened world demand for Morocco's major export (phosphates), the sharp appreciation of the U.S. dollar, and the steep rise in international interest rates. As a result, the outcome for 1981 fell short of the program targets by a wide margin, and the original medium-term assumptions and targets of the EFF program became no longer feasible. Accordingly, the EFF program was canceled and replaced by a one-year financial program for 1982, which was supported by the Fund (April 1982) with a one-year stand-by arrangement. The program was premised on stabilizing the situation and containing the balance of payments deficit, while reworking the medium-term strategy, including a review of the Five-Year Development Plan. The emphasis of the 1982 program was on a reduction in the overall budget deficit by over one third, complemented by other elements, including an additional small depreciation of the dirham; increases in the interest rates; restraint on overall credit and monetary expansion; and further trade liberalization.

2. Performance and developments under the 1982 program

Under the 1982 one-year stand-by arrangement, all the performance criteria were met (Table 3). The status of implementation of the policies under the program is summarized in Table 4. As envisaged in the program the authorities initially took several corrective measures in conformity with the program, including new tax and expenditure-containing measures; some upward adjustments in petroleum prices and in tariffs on water, electricity, and transport; increases in interest rates; an effective depreciation of 3.1 per cent of the exchange rate; and liberalization of the trade and exchange system. However, the intended structural measures, especially in the areas of education policy, reform of public enterprises, and tax reform, were not introduced. Moreover, beginning in the last quarter of 1982, the authorities entertained optimistic assumptions regarding concessional external assistance, and increased capital expenditures well beyond the program limits, financing them partly by short-term

Table 2. Morocco: Selected Economic and Financial Indicators, 1980-84

	1980	1981		1982		1983	1984
	Actual	EFF Program	Actual	SBA Program	Actual	Prog.	Proj.
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	3.7	4.5	-1.3	4.0	5.6	3.1	2.5
GDP deflator	9.0	10.0	10.8	12.0	9.2	10.1	11.2
Consumer prices	9.4	11.0	12.5	12.0	10.6	10.1	11.0
External sector (in SDRs)							
Exports (f.o.b.)	20.0	22.4	4.4	13.3	-3.4	1.3	15.1
Imports (c.i.f.)	15.2	7.7	12.4	3.4	6.1	-11.1	0.2
Non-oil imports (c.i.f.)	9.4	4.2	6.9	0.5	6.9	-9.1	1.3
Export volume	0.5	16.2	2.1	8.5	0.2	9.2	8.2
Import volume	-5.1	4.0	4.8	-0.9	6.0	-9.1	-4.5
Terms of trade (deterioration -)	-1.1	0.7	-6.2	-0.2	-5.5	-5.1	1.4
Nominal effective exchange rate (depreciation -) 1/	-6.2	...	-6.9	-3.5	-4.2	...	...
Real effective exchange rate (depreciation -) 1/	-8.8	...	-5.4	...	-3.4	...	...
Government budget							
Revenue, excluding grants	10.1	23.7	17.4	20.0	14.8	7.5	...
Total expenditures 2/	11.7	9.4	27.5	-0.8	9.2	-2.6	...
Money and credit							
Domestic credit	16.1	16.4	19.6	13.8	13.8	20.0	10.7
Economy	(13.8)	(17.4)	(17.5)	(20.2)	(20.6)	(14.8)	(15.1)
Government	(17.7)	(15.7)	(21.2)	(9.5)	(9.2)	(23.9)	(7.1)
Money and quasi-money	10.8	11.9	16.4	8.5	12.5	16.6	9.6
Velocity (GDP relative to M2)	2.34	2.32	2.19	2.38	2.27	2.21	2.30
Interest rate (annual rate, one year savings deposit)	8.5	8.5	8.5	10.0	10.0	10.0	...
	(In percent of GDP)						
Central Government							
Budget deficit 2/							
Excluding grants	10.7	7.4	14.5	8.2	12.5	8.7	5.9
Including grants	10.2	7.4	12.4	8.2	12.2	6.8	...
Domestic bank financing	3.9	3.9	4.8	2.6	2.5	4.5	...
Foreign financing (incl. grants)	5.6	3.2	9.4	5.3	7.0	4.4	...
Gross domestic investment	22.8	21.1	22.9	22.4	22.9	18.8	19.0
Gross domestic savings	13.7	12.3	8.7	12.6	9.3	10.0	12.6
External current account deficit							
Excluding grants	8.0	6.5	12.6	9.9	12.9	8.9	6.6
Including grants	7.4	6.5	10.5	9.9	8.7	7.8	6.2
External debt 3/							
Inclusive of use of Fund credit	54.8	42.7	63.7	61.2	72.4	82.2	83.9
Debt service ratio (in per cent of exports of goods and nonfactor services and private transfers)	28.2	22.6	33.2	33.7	34.5	42.4	47.3
Interest payments (in per cent of exports of goods and nonfactor services and private transfers)	14.6	...	17.5	17.3	17.0	19.2	19.9
	(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	-175.0	-344.0	-208.0	-404.0	-325.0	-612	-1,225
Gross official reserves (months of imports)	1.2	1.0	0.9	0.8	0.8	0.8	0.8
External payments arrears	—	—	—	—	—	—	...

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.

Table 3. Morocco: Quantitative Performance Criteria for 1982

	1982								
	June			September			December		
	Prog.	Effective 1/	Actual	Prog.	Effective 1/	Actual	Prog.	Effective 1/	Actual
	(Changes from end-1981 levels; in millions of dirhams)								
Total bank credit 2/3/	4,050	4,018	3,314	5,510	5,415	5,252	6,920	6,825	6,602
Bank credit to the Treasury 2/3/	2,350	2,318	2,009	3,010	2,915	2,847	3,920	3,825	3,646
	(In millions of SDRs)								
New nonconcessional foreign borrowing contracted or guaranteed with original maturity of 1 to 10 years 3/	500	495	170	500	486	225	500	486	386
Of which: with maturity of 1-5 years	(300)	(300)	(70)	(300)	(300)	(125)	(300)	(300)	(226)

Sources: Data provided by the Moroccan authorities; and Annex to EBS/82/53.

1/ Adjusted as per conditions in footnote 3 on basis of resources received.
2/ Including use by the Treasury of medium-term nonconcessional loans from the international financial markets amounting to DH 1,226 million in June 1982 and DH 1,472 million in September and December 1982.
3/ These limits were to be reduced by the equivalent of 50 per cent of any additional resources that may become available in the form of new untied grants, concessional loans, and nonconcessional loans of over 10-year maturity. For the months of June and September 1982 the limits were reduced by DH 32 million (based on DH 64 million received), and for December 1982 the limits were reduced by DH 95 million (based on DH 190 million received).

Table 4. Morocco: Policy Measures Under the 1982 Stand-By Program—Status of Implementation

Program	Status of Implementation
1. Budgetary measures	
a. Revenue	
(i) New tax measures to yield DH 1 billion (equivalent to 1 per cent of GDP)	These tax measures were introduced in the 1982 budget, including increases in taxes from 40 percent to 48 per cent on salaries and business profits in excess of DH 250,000; an increase in the sales tax from 15 percent to 17 per cent; and increases in taxes on fringe benefits and in selective excise duties on alcohol and luxury goods.
(ii) Agreement between OCP and the Treasury to assure that the budgeted amount of OCP's contribution accrues to the Treasury on a periodic basis	Agreement was reached early in the year, but, due to an unanticipated decline in phosphate exports, the actual contribution was smaller than projected.
(iii) Parliamentary approval of the Loi Cadre (Tax Reform)	Approved in the November session. Implementing legislation is yet to be submitted to Parliament.
b. Expenditures	
(i) No general wage and salary increase in public sector	Implemented
(ii) Economies totaling DH 900 million in current expenditures from the approved budget	Specific areas of economies were identified with the estimated saving of DH 900 million, but actual savings turned out to be DH 200 million lower.
(iii) Limit capital expenditures to DH 8.4 billion	Capital expenditure exceeded the program target by DH 4 billion, as expenditures were accelerated in the last quarter.
(iv) Adjustments in petroleum prices, if necessary, so as to eliminate subsidies on petroleum	Some upward adjustments in prices were announced with considerable delay in November; as a result, subsidies on these products for the whole year were increased by the Treasury.
(v) Introduction of new education policy in September 1982	A new education policy was approved by the Government but was not introduced as programmed.
2. Monetary measures	
(i) Increase in interest rates by up to 1.5 percentage points	Effected April 1, 1982.
(ii) Limits on credit expansion to both the private sector and Government	Credit expansion has been within the program limits, though the ceiling on credit to Government was respected only because the Treasury secured short-term (less than one year) and concessional external loans and accumulated unpaid bills not covered by the program-related ceilings.
3. Public enterprises	
(i) Tariff adjustments to reduce deficits of public enterprises	Adjustments were made for irrigation and potable water electricity, and rail transport, with an estimated increase in revenue of more than DH 400 million.
(ii) Application of recommended reforms to Royal Air Maroc (RAM) and at least two other enterprises.	A development contract outlining the mutual responsibilities of Royal Air Maroc and the state was signed. However, no further progress was made in initiating contracts with other enterprises.
4. External sector measures	
(i) Exchange policy: a depreciation of 3.5 percent in the effective exchange rate of the dirham. Except for minor fluctuations, the effective exchange rate would not be allowed to appreciate from the end-February 1982 level throughout the program period, subject to mid-term review of the exchange policy.	Exchange rate depreciation undertaken, bringing the cumulative depreciation at end-program period 1982 to 16 percent since September 1980. Flexible exchange policy has been maintained, and the fluctuations in the effective exchange rate have been limited to within 1 percent of the end-February level.
(ii) Trade liberalization, including virtual elimination of the advanced import deposit system	Coverage of the advance import deposit system reduced from 16 percent of imports in 1981 to 7 percent in 1982. Also a number of items shifted from the most restrictive list of imports to a less restrictive one. However, there was a substantial reversal toward more restrictiveness in early 1983.

external loans but mostly resulting in an accumulation of unpaid bills ("fonds réservés"), both of which were not covered by the performance criteria.

Thus, although the performance criteria under the stand-by arrangement were met, the financial outcome was disappointing, and the objective of achieving stability and containing the deficit in the balance of payments was not achieved. The current account outcome in both the budget and the balance of payments fell short of the program targets (Tables 5 and 6). The overall Treasury and the balance of payments deficits were also higher in 1982 than in 1981, even though the Treasury deficit as a proportion of GDP was reduced by 2 percentage points to 12.5 percent, and the overall balance of payments deficit was SDR 79 million lower than the program target. On the positive side, however, there was a strong rebound in agricultural output following a severe drought, and, despite a depressed mining sector, Morocco registered a real rate of growth of 5.6 percent, compared to 4.5 percent projected under the program. At the same time the rate of inflation declined to 10.6 percent.

In the fiscal field, total expenditure increased by 9.2 percent, compared with the programmed decline of 0.8 percent, due principally to a substantial step-up in capital outlays. The increase in current expenditure (by 8 percent) was only slightly higher (by 1 percent) than the program objective, due largely to higher interest payments on public debt. Expenditures on goods and services and on consumer subsidies 1/ were within the program targets. The containment of these expenditures was realized through various measures envisaged under the program including no wage increases, a 5 percent across the board reduction in the initial budgetary appropriations for expenditures on materials, and economies realized in unforeseen expenditure and in transfers to public enterprises, which were made possible partly by increases in tariffs for water, electricity, and transportation. Capital expenditure, however, rose by 30 per cent and exceeded the program objective by about 50 percent. On the revenue side, although fiscal receipts increased by 15 percent, this rate was 5 percentage points lower than that envisaged under the program. Owing to the introduction of new tax measures (estimated to have yielded 1 percent of GDP) early in the year, current revenues, excluding OCP's contribution to the Treasury, increased in conformity with the 23 percent projected under the program. However, fiscal receipts from OCP fell short by about 60 percent owing to lower phosphate exports. As a result, the overall Treasury deficit in 1982 (as defined in the program to include changes in "fonds réservés" as an above the line item) exceeded the program target by over 2 percentage points of GDP. The

1/ The cost of subsidies would actually have been higher, by about DH 400 million, in respect of petroleum products, had the Price Stabilization Fund billed the Government before the end of the year.

Table 5. Morocco: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982		1983	1984
			Prog.	Actual	Prog.	Proj.
Merchandise trade (net)	-1,042	-1,320	-1,168	-1,585	-1,174	-892
Exports	1,855	1,936	2,166	1,871	1,895	2,182
Phosphates and derivatives	(773)	(894)	(1,077)	(827)	(765)	(866)
Other	(1,082)	(1,042)	(1,089)	(1,044)	(1,130)	(1,316)
Imports, f.o.b.	-2,897	-3,256	-3,334	-3,455	-3,069	-3,074
Services (net)	-907	-1,165	-1,128	-983	-886	-900
Freight and insurance	-300	-354	-352	-328	-264	-255
Other transport	39	49	32	41	40	45
Tourism	273	257	326	298	343	385
Investment income	-432	-596	-652	-589	-676	-745
Government and other services	-488	-521	-481	-405	-329	-330
Private transfers (net)	858	906	908	886	860	902
Current account	-1,091	-1,579	-1,387	-1,720	-1,200	-890
Nonmonetary capital (net)	900	1,356	983	1,394	588	-336
Private 1/	-89	40	—	190	40	50
Official grants	75	266	—	185	144	50
Public sector loans (net)	914	1,050	983	1,020	404 3/	-436 3/
Disbursements 2/	(1,342)	(1,571)	(1,590)	(1,618)	(1,216)	(613)
Government	1,082	1,220	1,110	1,246	731	311
Guaranteed debt	260	351	480	372	485	302
Amortization	(-428)	(-521)	(-607)	(-598)	(-812)	(-1,049)
SDR allocation	16	16	--	--	--	--
Overall balance	-175	-208	-404	-325	-612	-1,225
Financing	175	208	404	325	612	1,225
Net use of Fund credit	98	139	401	401	151	123
Change in foreign assets (increase -)	77	69	3	-76	--	[
Financing gap	--	--	--	--	461	[1,102
Memorandum items:						
Current account deficit in percent of GDP	8.0	12.6	9.9	12.9	8.9	6.6
DH/SDR	5.12	6.10	6.44	6.65	...	...

Sources: Data provided by the Moroccan authorities; and staff estimates and projections.
1/ Including errors and omissions.
2/ Short-term debt included on a net basis.
3/ On the basis of existing loan commitments.

Table 6. Morocco: Financial Transactions of the Central Government, 1980-83

(In millions of dirhams)

	1980	1981	1982		First six months		1983
					1982	1983	
	Actual	Actual	Program	Actual	Actual	Estimates	Program
Current revenue	15,193	17,838	21,350	20,480	9,977	9,744	22,022
Of which: OCP 1/	(970)	(1,487)	(1,300)	(540)	(--)	(--)	(725)
Current expenditures	15,310	18,898	20,130	20,390	10,292	11,142	22,672
Interest payments on public debt	(1,759)	(2,924)	(2,930)	(3,144)	(1,575)	(1,741)	(3,869)
Expenditures on goods and services	(12,124)	(13,872)	(15,200)	(15,246)	(7,927)	(8,394)	(17,259)
Consumer subsidies	(1,427)	(2,102)	(2,000)	(2,000)	(790)	(1,007)	(1,544)
Current deficit (-)	-117	-1,060	1,220	90	-315	-1,398	-650
Capital expenditures	8,565	9,612	8,400	12,481	3,783	3,061	8,000
Net extrabudgetary operations 2/	1,172	-426	-180	1,283	370	410	-100
Overall deficit (-)	-7,510	-11,098	-7,360	-11,108	-3,728	-4,049	-8,750
Changes in "fonds réservés" (- decrease)	264	-131	--	2,061	-645	-2,000	-2,061
Cash financing	7,246	11,229	7,360	9,047	4,373	6,049	10,811
Grants	380	1,623	--	285	64	318	1,008
Foreign borrowing (net)	3,531	5,588	4,860	5,913	3,731	1,042	4,042
Domestic bank borrowing (net)	2,743	3,697	2,490	2,174	797	5,055	5,184
Central bank	(2,028)	(2,443)	(1,790)	(1,520)	(503)	(3,071)	(4,472)
Domestic money banks	(715)	(1,254)	(700)	(654)	(294)	(1,984)	(712)
Other domestic sources (net)	592	321	10	675	-219	-366	577
Memorandum item:							
Overall deficit/GDP	10.7	14.5	8.2	12.5	...	...	8.7

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

1/ Contribution of the state-owned phosphate company.

2/ Excluding changes in "Fonds réservés" (domestic bills awaiting payments).

larger budgetary deficit was met partly through a DH 2.0 billion build-up in unpaid bills and partly through larger-than-programmed capital inflows under previously negotiated loans, new project-tied aid, external short-term borrowing, and nonbank domestic borrowing.

Regarding monetary and credit developments, the growth in broad money was targeted under the program at 8.5 percent, while provisions were made for an increase in total credit and in net credit to the Government of 13.8 percent and 9.5 percent, respectively (Tables 2 and 7). The rises in credit to the economy and the Government (by 13.8 percent and 9.2 percent, respectively) were in conformity with these targets 1/, but the growth in broad money of 12.5 percent was 4 points more than targeted, due to the smaller-than-projected decline in net foreign assets, which in turn reflected a higher-than-anticipated capital inflow.

In keeping with the intentions under the program, as of April 1, 1982 the interest rate structure was increased by up to 1.5 percentage points. Thus, the 12-month deposit rate was raised from 8.5 percent to 10 percent, or close to the realized rate of inflation, and the maximum rate for short-term nonrediscountable credit was raised from 11.5 to 12 percent. However, the main instrument used for containing credit expansion continued to be the encadrement whereby the central bank prescribed the maximum credit level to be reached by commercial banks (6 and 9 percent in the first and second semesters, respectively), and supplemented it with strict instructions to banks not to exceed the credit limits under the encadrement. While there is no direct penalty for exceeding the ceiling, the banks' ordinary rediscount facilities are reduced by the amount of any excess, thus forcing banks, if necessary, to have recourse to more expensive facilities, such as the money market. The expansion of credit to the economy during 1982 was only slightly higher than projected initially. While in the first half of the year credit to the economy was below what was projected, it accelerated considerably in the second half when there was a considerable demand for credit to the agricultural sector.

On the external side, as mentioned earlier, the outcome was below expectations principally because of the unanticipated weakening of demand for phosphates, Morocco's main exports. Instead of declining, the current account deficit rose further to SDR 1,720 million (12.9 percent of GDP). Compared with the program, the larger deficit (SDR 333

1/ It should be pointed out that during 1982 the Bank of Morocco revised its presentation of the monetary survey. The quantitative performance criteria for the 1982 stand-by were based on the original presentation (old series) but were expressed as changes rather than absolute values. Consequently, it is possible to compare the targets based on the old series with the outcome of the revised presentation (new series), which is presented in Table 7.

Table 7. Morocco: Monetary Survey, 1981-84

(In millions of dirhams; end of period)

	1981 1/	1982	1983				1984
	Dec.	Dec.	March	June	Sept.	Dec.	Dec.
			Actual	Prov.	Program		Staff Proj.
Foreign assets (net)	-176	-2,192	-3,533	-3,705	-3,900	-4,295	-5,740
Central Bank	(-1,517)	(-3,744)	(-5,228)	(-5,364)	(...)	(...)	(...)
Deposit money banks	(1,341)	(1,552)	(1,695)	(1,659)	(...)	(...)	(...)
Domestic credit	37,128	42,258	45,590	47,739	49,598	50,719	56,129
Claims on Government (net)	22,047	24,068	27,786	29,589	30,048	29,829	32,079
Banking system	18,860	21,034	24,475	26,089	26,488	26,218	27,909
Central Bank	(11,226)	(12,746)	(15,438)	(15,817)	(17,288)	(17,218)	(18,109)
Deposit money banks	(7,634)	(8,288)	(9,037)	(10,272)	(9,200)	(9,000)	(9,800)
Nonbank private sector 2/	3,187	3,034	3,311	3,500	3,560	3,611	4,170
Claims on private sector	15,081	18,190	17,804	18,150	19,550	20,890	24,050
Assets = Liabilities	36,952	40,066	42,057	44,034	45,698	46,424	50,389
Money	28,722	31,631	32,614	34,054	35,058	35,674	36,844
Currency outside banks	(11,120)	(12,023)	(11,927)	(12,454)	(12,679)	(12,900)	(13,264)
Demand deposits 3/	(17,602)	(19,608)	(20,687)	(21,600)	(22,379)	(22,774)	(23,580)
Quasi-money	5,922	7,328	8,032	9,380	9,640	9,750	12,945
Import deposits	702	288	270	473)			
				)	1,000	1,000	600
Other items (net)	1,606	819	1,141	127)			

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

1/ The December 1981 values differ from those presented in the documents of the 1982 Article IV Consultation and Stand-By Review (EBS/82/168 and SM/82/205) because of a change in the presentation of the monetary survey adopted by the Bank of Morocco.

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

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

million) reflected primarily the global recession and a substantial shortfall (SDR 250 million) in phosphate exports, combined with a more rapid growth in noncereal and non-oil imports, especially in the second half of the year, when policies became more expansionary. In comparison with 1981, total export value fell by 3 percent (against the programmed increase of 12 percent), whereas imports grew by 6 percent (against the programmed target of 2 percent). In volume terms, exports stagnated while imports rose by 6 percent, and there was a further loss of 6 percent in the terms of trade stemming from the exceptional decline in phosphate prices. The services account provided a partial respite owing to lower international interest rates and reduced net outflows on government transactions. The larger current account deficit was met by an even larger capital inflow, including private capital and official grants, which lowered the overall payments deficit to SDR 325 million, or SDR 79 million lower than programmed. Net use of Fund resources amounted to SDR 401 million and gross official reserves rose slightly to SDR 259 million (3 weeks' imports) at end-1982, while there was a decline in other foreign liabilities.

Reflecting depressed world demand, the export value of phosphates and phosphate derivatives (accounting for 44 percent of total exports) dropped, by 7.5 percent, for the first time since 1978 and in contrast to the program's target increase of 17 percent; while export volume increased by 5 percent in terms of rock equivalent, export prices fell from an average of US$47 per ton to US$41 per ton. Nonphosphate exports had performed reasonably well in the first half of the year but began to slack off in the second half, and, as a result, did not show the expected improvement for the year as a whole. In volume terms, most categories of exports registered a decline, with the notable exception of consumer goods, which grew remarkably by almost 20 percent. Regarding imports, lower-than-expected prices for primary commodities led to sizable savings in imports of foodstuffs, petroleum, and raw materials. However, this was more than offset by substantial increases in all other imports. In particular, the volume of capital goods imports grew sharply (by over 30 percent), roughly in line with the stepped-up public sector investment spending during the second half of the year.

There was a significant improvement in the services account. Net interest payments rose by much less than expected, as the average international interest rate (6 month LIBOR) turned out to be 13.5 percent compared with the program assumption of 16.5 percent. 1/ Thus, despite the rapid increase (by SDR 1.4 billion) in debt, total interest payments actually declined from SDR 628 million to SDR 612 million in

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1/ Currently, about 60 percent of Morocco's interest payments are subject to floating interest rates; for 1983, a 1 percent variation in LIBOR leads to approximately SDR 35 million variation in interest payments.

1982 (Table 8). In addition, there was a sizable decline in net outflows on government transactions and a considerable increase in freight and insurance receipts as more Moroccan charters came into operation in the year. Private transfers fell slightly in SDR terms, reflecting the recession in Europe--the main source of transfers--and the appreciation of the SDR.

On the capital account, official grants, which at the time of finalizing the program were expected to be none, amounted to SDR 185 million, or about the average received during 1980-81. Gross disbursements on loans to the public sector of SDR 1,618 million were slightly above the projected disbursements of SDR 1,590 million. However, the composition was different, with the short-term debt rising by SDR 201 million (against the program assumption of only a marginal increase). At end-1982 Morocco's external debt (including use of Fund credit but excluding military debt and private nonguaranteed debt) is estimated at SDR 9,900 million (72 percent of GDP), of which SDR 820 million is short-term. Debt service payments for 1982 rose to 35 percent of current receipts (including private transfers) in 1982. Given the heavy debt service burden, the program prescibed ceilings on new nonconcessional external loans (an overall limit of SDR 500 million), which were to be automatically reduced by an amount equal to half of additional untied grants or new nonconcessional loans; these ceilings were fully observed.

A flexible exchange rate policy was adopted in September 1980, and the value of the dirham has been determined daily on the basis of a currency basket reflecting Morocco's currencies of settlement as well as its trading pattern. In terms of this currency basket, the dirham was allowed to depreciate by 11.5 percent in nominal terms between Septemer 1980 and end-1981 (Table 9 and Chart 1). As intended under the program, during the first two months of 1982 the dirham depreciated further by 3.1 percent, and the nominal effective exchange rate of the dirham (based on the currency basket) was not allowed to appreciate above the level at end-February 1982, except for minor fluctuations. Overall, between September 1980 and when the program ended in April 1983, the effective exchange rate of the dirham depreciated by a total of 16 percent both in nominal terms and in real terms. When measured on a non-oil trade-weighted basis, the effective depreciation during this same period was 4.3 percent in nominal terms and 8.8 percent in real terms.

In regard to the exchange and trade restrictions, the program provided for a further reduction in the scope of advance import deposits, which were introduced in 1978. It was intended to reduce the coverage of such deposits further from about 16 percent of imports at the end of 1981 to about 4 percent by the end of 1982 and to phase them out during 1983. In 1982 the list of products exempted from the deposit requirement was expanded, with the result that at end-1982 the coverage of advance deposits had fallen to 7 percent of total

Table 8. Morocco: External Debt Services, 1/ 1980-1987

(In millions of SDRs)

	1980	1981	1982	1983	1984	1985	1986	1987
				Projections				
I. Debt services on debt contrated through end-1983	885	1,120	1,158	1,424	1,709	1,663	2,178	1,703
Interest	(456)	(609)	(560)	(612)	(660)	(630)	(567)	(500)
Principal	(429)	(511)	(598)	(812)	(1,049)	(1,033)	(1,611)	(1,203)
II. IMF 2/	76	72	84	92	132	231	345	317
Charges	(9)	(19)	(52)	(69)	(85)	(88)	(71)	(56)
Repurchases	(67)	(53)	(32)	(23)	(47)	(143)	(274)	(261)
III. Total (I + II)	960	1,192	1,242	1,516	1,841	1,894	2,523	2,020
Interest	(495)	(628)	(612)	(681)	(745)	(718)	(638)	(556)
Principal	(465)	(564)	(630)	(835)	(1,096)	(1,176)	(1,885)	(1,464)
IV. Additional services on financing during 1984-1987 3/	...	...	...	12	53	127	226	419
Interest	(...)	(...)	(...)	(12)	(53)	(127)	(226)	(329)
Principal	(...)	(...)	(...)	(—)	(—)	(—)	(—)	(90)
V. Total debt services (III + IV)	960	1,192	1,242	1,528	1,894	2,021	2,749	2,439
Interest	(495)	(628)	(612)	(693)	(798)	(845)	(864)	(885)
Principal	(465)	(564)	(630)	(835)	(1,096)	(1,176)	(1,885)	(1,554)
Memorandum items:								
Debt service ratio (percent of exports of goods, services, and private transfers)	28.2	33.2	34.5	42.4	47.3	45.6	56.0	45.0
Interest payments ratio	(14.6)	(17.5)	(17.0)	(19.2)	(19.9)	(19.1)	(17.6)	(16.3)
Principal payments ratio	(13.7)	(15.7)	(17.5)	(23.1)	(27.4)	(26.5)	(38.4)	(28.7)
Exports of goods, services, and private transfers	3,402	3,594	3,600	3,607	4,006	4,435	4,905	5,422
Disbursed debt (end period) 4/	7,286	8,475	9,897	10,910	11,700	13,390	12,970	13,330
(In percent of GDP) 5/	(54.8)	(63.7)	(72.4)	(82.2)	(83.9)	(79.6)	(75.2)	(70.0)
Of which: use of Fund credit 2/	(248)	(387)	(788)	(939)	(1,062)	(959)	(685)	(424)

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

1/ Including interest payments on short-term debt. LIBOR for floating rate debt is assumed at 10 percent for 1983 and 11 percent for 1984 to 1987. The figures project a situation before any debt rescheduling.
2/ Including drawings and scheduled charges and repurchases under the proposed stand-by arrangement.
3/ Assuming an average interest rate of 6.6 percent (after allowing for the customary concessional component, and a 40 percent commercial component at LIBOR of 11 percent plus spreads and fee) and grace period of 4 years on new borrowing.
4/ Staff estimates, including short-term debt.
5/ Debt outstanding at end-year in percent of average GDP for the two adjacent years.

Table 9. Morocco: Index of Dirham vis-à-vis Currency-Weighted Basket, January 1979-June 1983

(January 1980 = 100)

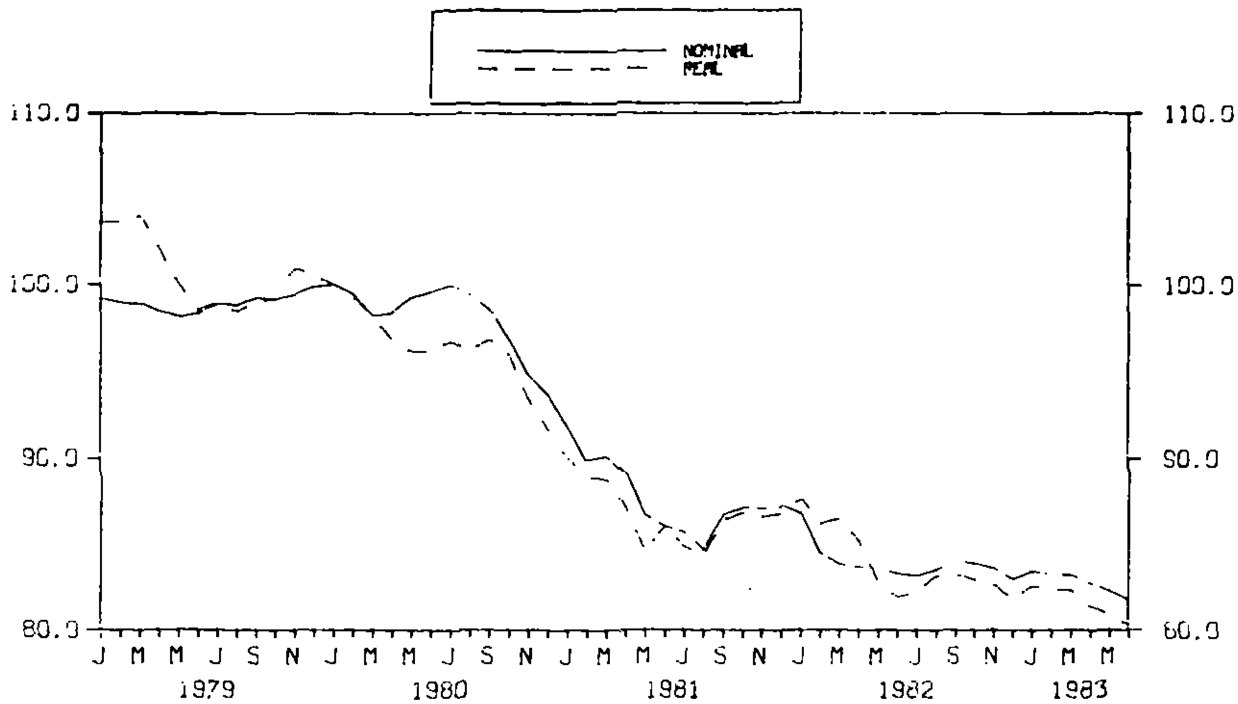
	1979	1980	1981	1982	1983
			(Nominal index)		
January	99.2	100.0	91.9	86.8	83.5
February	98.9	99.5	89.9	84.6	83.3
March	98.9	98.2	90.2	83.9	83.2
April	98.4	98.4	89.2	83.7	82.7
May	98.1	99.3	86.7	83.6	82.2
June	98.4	99.6	86.1	83.3	81.7
July	98.9	100.0	85.7	83.2	
August	98.8	99.4	84.7	83.6	
September	99.2	98.6	86.8	84.1	
October	99.2	96.9	87.2	83.9	
November	99.4	94.8	87.1	83.6	
December	99.9	93.7	87.2	83.0	
			(Real index) 1/		
January	103.7	100.0	90.1	87.7	82.6
February	103.7	99.3	89.0	86.3	82.4
March	104.0	98.2	88.8	86.6	82.3
April	102.1	96.8	87.1	85.3	81.4
May	100.0	96.2	84.6	82.9	80.8
June	98.6	96.2	86.2	82.0	80.3
July	99.0	96.8	84.9	82.2	
August	98.4	96.2	84.5	83.2	
September	99.0	96.9	86.4	83.3	
October	99.2	96.0	86.9	82.9	
November	101.0	93.5	86.7	82.7	
December	100.5	91.7	86.8	81.8	

Sources: IMF, International Financial Statistics; and weights provided by the Moroccan authorities.

1/ Nominal index deflated by relative consumer prices.

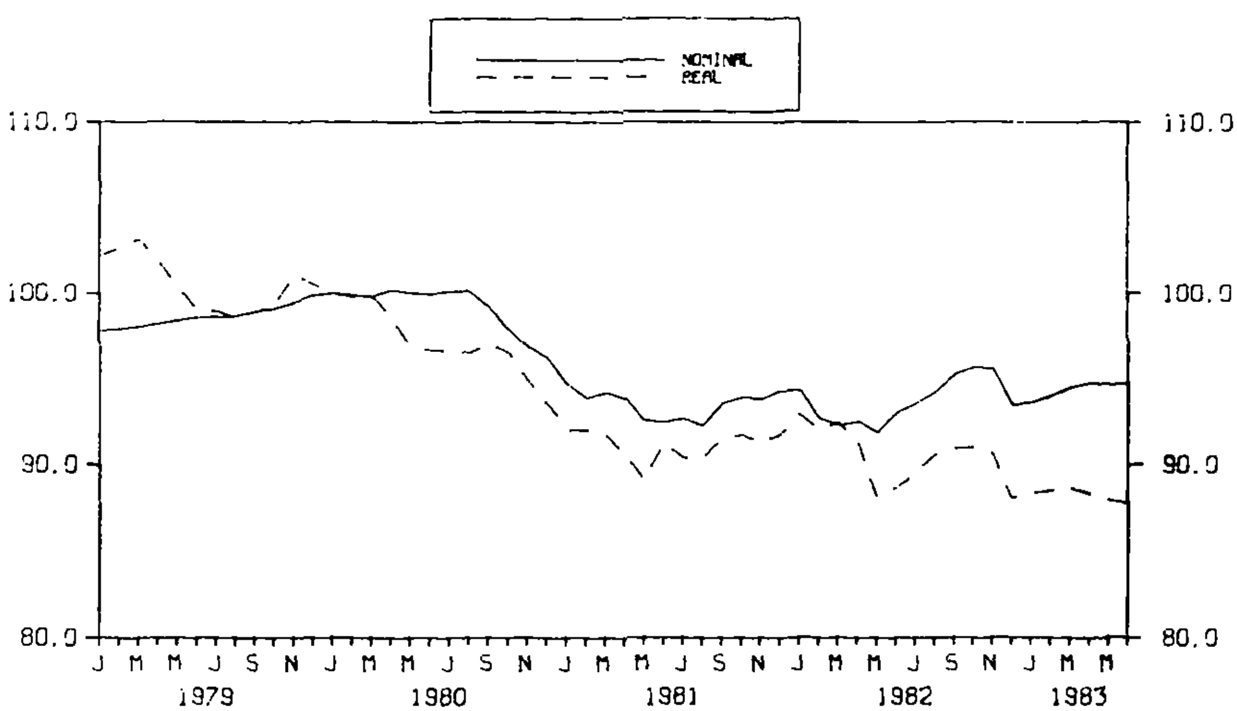
CHART 1.

MOROCCO: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
VIS-A-VIS CURRENCY BASKET
JAN 1979 - JUNE 1983 1/



SOURCES: IMF, INTERNATIONAL FINANCIAL STATISTICS. CURRENCY WEIGHTS SUPPLIED BY THE MOROCCAN AUTHORITIES.

MOROCCO: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
NON-OIL TRADE WEIGHTED
JAN 1979 TO JUNE 1983 1/



SOURCES: IMF, INTERNATIONAL FINANCIAL STATISTICS; IMF, DIRECTION OF TRADE STATISTICS.
NOTE: DECREASE IN INDEX INDICATES DEPRECIATION.

1/ JAN 1980 = 100.

imports. In addition, the program aimed at further progress toward the liberalization of imports that was begun in 1981. The import program for 1982, announced at the beginning of the year, provided for a significant transfer of imports from List B (requiring a license) to List A (imported freely); a number of products were also moved from List C (usually prohibited) to List B. As a result, the share of List A imports rose from 30.5 per cent in 1981 to about 42.3 percent in 1982, that of List B fell from 68.1 percent to 57 percent, and the share of List C became negligible.

3. Developments during the first half of 1983

As mentioned above, since the last quarter of 1982 the authorities began to entertain optimistic assumptions regarding concessional external assistance and followed an expansionary budgetary policy by scaling up capital expenditures. The 1983 budget reflected the relaxed budgetary stance, with an overall deficit budgeted at the equivalent of over 20 percent of projected GDP. As a consequence, during the first half of 1983 the financial situation worsened substantially, with the current account budget deficit reaching DH 1.4 billion (DH 0.3 billion over the same period in 1982). During the same period, the overall deficit (commitment basis) reached DH 4.0 billion, although with the liquidation of unpaid bills, the cash deficit rose to DH 6 billion (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 DH 5.2 billion (23 percent). Total domestic credit, however, grew by 13 percent, as other credit to the economy stagnated, partially reflecting the general slowdown in the economy, and probably the reduction in the abovementioned unpaid bills. Given a decline in net foreign assets of over DH 1.5 billion, broad money rose by 11.5 percent.

The sharp decline in the net foreign assets of the central bank reflected the further decrease in world market prices for phosphates and the rising debt servicing burden. At the same time the earlier expectations of unconditional concessional external assistance have not been fulfilled. These developments prompted the authorities to reverse the earlier move toward trade liberalization by tightening import restrictions early in the year, when all imports were placed on List B requiring licenses for imports. In the absence of adjustment measures the current account deficit of the balance of payments could well amount to SDR 1.9 billion (13 percent of GDP) in 1983. With freely usable reserves being virtually depleted, and the high level of external debt entailing almost unsupportable debt service for the next few years, the financial situation has become critical and threatens orderly growth of the economy. In the circumstances, the Moroccan authorities have decided to resume the stabilization efforts that had been virtually abandoned since the last quarter of 1982.

III. The Proposed Program - July 1983-December 1984

The program, in support of which the authorities have requested a stand-by arrangement, was devised with several considerations in the background. Morocco has been attempting stabilization efforts since almost 1978, when it introduced the first stabilization plan, which has been followed by three successive arrangements with the Fund. Notwithstanding these programs, financial disequilibria have widened, partly reflecting a sharp worsening of the terms of trade (especially the sharp decline in the export prices of phosphates). In the meantime, Morocco has financed its deficits by external borrowing, which has now reached serious proportions and threatens a rational management of external finances. Also, in the present international context, Morocco is hardly in a position to secure additional credits in amounts comparable with those obtained in the past. Furthermore, the authorities are aware that over the period, while investment has declined, consumption has been maintained or increased; in 1982 the ratio of consumption to GDP, at 91 percent, was well above that in 1978 (88 percent), when stabilization efforts were initiated. Finally, given the heavy debt burden, the sought after improvement in the balance of payments must come through improving the current account. The above considerations have compelled the authorities to seek adjustment within a relatively short period and, probably, with comparatively smaller amounts of net external financial inflows. In practical terms, emphasis needs to be placed on reducing total demand in the economy, especially on curtailing consumption, which may be import-intensive. Simultaneously, export receipts must be raised by encouraging and diversifying exports, given the rather somber prospects for phosphates and their derivatives.

1. Medium-term scenario

A first step in devising the program for the period July 1983-December 1984 was the establishment of a medium-term scenario, with the specific objective of reducing the resource gap to a sustainable level. This scenario foresees a reduction in the resource gap from 14 percent of GDP in 1982 to about 3 percent by 1987 (Table 10) through a significant cut in both public and private consumption.

These targets are consistent with a moderation in real GDP growth rate in comparison with recent years, and entail a strategy of increasing domestic savings as a percentage of GDP from 9 percent in 1982 to 17 percent by 1987. The targets are also predicated on the central assumption that the external environment would improve moderately. In particular, it was assumed that first, after significant losses in the last few years, there would be some small gains in the terms of trade; second, as a working hypothesis, the average international interest rate is assumed at 11 percent throughout the period after 1983; and third, adequate financing in appropriate forms is assumed to become available to cover the financing gaps.

Table 10. Morocco: Medium-Term Scenario, 1982-87

	1981	Prov. 1982	Projections 1983	1984	1985	1986	1987
			(In percent of GDP)				
Consumption	91.3	90.7	90.0	87.4	85.6	84.0	82.8
Investment	22.9	22.9	18.8	19.0	19.5	20.0	20.0
Savings	8.7	9.3	10.0	12.6	14.4	16.0	17.2
Resource gap	-12.8	-13.6	-8.8	-6.4	-5.1	-4.0	-2.8
			(In millions of SDRs)				
Exports, f.o.b.	1,936	1,871	1,895	2,182	2,460	2,765	3,105
Imports, f.o.b.	-3,256	-3,455	-3,069	-3,074	-3,310	-3,565	-3,810
Net services	-1,165	-983	-875	-847	-775	-685	-520
Private transfers (net)	906	886	860	902	950	1,000	1,050
Current account before new financing 1/	-1,579	-1,720	-1,189	-837	-675	-485	-175
Add: interest payments on additional financing	...	...	-11	-53	-130	-225	-330
Current account	-1,579	-1,720	-1,200	-890	-805	-710	-505
Capital (net) 2/	1,356	1,394	588	-335	-560	-1,185	-845
Of which: amortization	(-521)	(-598)	(-812)	(-1,049)	(-1,035)	(-1,610)	(-1,295)
Overall deficit	-208	-325	-612	-1,225	-1,365	-1,895	-1,350
Memorandum items:							
Current account deficit 3/ (in percent of GDP)	12.6	12.9	8.9	6.6	5.3	4.2	2.7
Exports (in percent of GDP)	15.4	14.1	14.0	16.2	16.3	16.5	16.8
Imports (in percent of GDP)	25.9	26.0	22.6	22.8	22.0	21.3	20.6
Projected GDP (in billions of DH; current prices)	76.7	88.5	100.4	114.5	128.2	142.6	157.5

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

1/ External terms of trade are assumed to improve marginally during the period compared to 1983 levels.

2/ Allowances made only for inflows of capital on account of existing (and nearly completed) loan commitments. The amortization figures are prior to any debt rescheduling.

3/ After accounting for the interest cost of new financing needed during the period.

Under this "adjustment" scenario, the external current account deficit would decline steadily by about 1.3 percentage points of GDP per year on average, to reach less than 3 percent of GDP in 1987. The debt service ratio (including payments to the Fund), on the other hand, would increase from 34.5 and 42.4 percent in 1982 and 1983 to an average of 48 percent during 1984-87 (Table 8). This average takes into account the servicing costs of new financing, to meet the projected current account deficits and net capital outflows (aggregating SDR 1.4 billion per year on average). Given the large financing requirements as projected through 1987, the Moroccan authorities are seeking not only new financing but also appropriate debt rescheduling that could make the debt servicing profile more manageable 1/. Beyond 1987, the situation could be regarded as sustainable in the light of the normal capital inflows and the prospects that, beginning in 1988, Morocco should be able to satisfy about one fifth of its energy requirements from the recently discovered domestic sources. Moreover, for this outcome, export volume would need to rise at an average annual rate of 6.6 percent during 1984-87. Financing constraint would make it necessary to devise policies that would contain the volume of import growth to about 1 percent per year. The compression of imports, notwithstanding the reintroduction and maintenance of a liberal import regime, is not unrealistic in view of the substantial increases in imports registered for several years through 1982. However, this would require not only a continuation but probably also a further strengthening of the adjustment effort being currently undertaken.

2. Objectives for 1983-84

The main objectives of the proposed program for 1983/84 are to reduce the current account deficit of the balance of payments from SDR 1.7 billion (12.9 percent of GDP) in 1982 to SDR 1.2 billion (9 percent of GDP) in 1983 and SDR 890 million (6.6 percent of GDP) in 1984. These external targets take account of an estimated annual real rate of growth of GDP at around 3 percent over the program period, with the rate of inflation targeted to be kept below 11 percent. The current account estimates are based on the assumption that the terms of trade would deteriorate by 5 percent in 1983 but could begin to improve slightly in 1984, when the world recovery is assumed to be better established; export prices of rock phosphate are assumed to decline by nearly 20 percent to US$32.90 in 1983 but to recover by about 7.5 percent to U.S.$35.40 in 1984. International interest rates (LIBOR), on the other hand, are assumed to be on average 10 percent in 1983 but to rise to 11 percent in 1984.

1/ The staff projects that net purchases from the Fund could become negative as from 1986.

Taking into account external debt amortization of SDR 810 million in 1983 and SDR 1 billion in 1984, as well as the external assistance already lined up, the implicit overall balance of payments deficits for the two years would be SDR 612 million and SDR 1.2 billion, respectively; the corresponding deficit for the second half of 1983 is projected at SDR 400 million. Thus, for the program period the total financial gap is estimated at SDR 1.6 billion. The Government has already begun to seek, in addition to Fund assistance, exceptional external assistance from friendly countries and other sources of funds, including commercial banks.

In order to achieve these objectives, the program includes specific policy measures for the second half of 1983; most of them have been taken as prior actions, which are described below. While a detailed policy package for 1984 will be finalized at the time of the preparation of the 1984 budget, specific measures have already been provided for in the program to reach the 1984 targets, including strict limits on recruitment in the public sector, phased introduction of reforms in education policy, introduction of VAT and reform of direct taxes, further reduction in consumer subsidies, and a flexible exchange policy.

The main assumptions, targets, policies, and monitoring procedures of the program are summarized in Table 11.

3. Policies

a. Pricing policies

The pricing system in Morocco is characterized by substantial state intervention in the form of direct subsidies over a selected range of vital consumer and producer goods and various degrees of price controls, mainly to protect the purchasing power of consumers, but also to keep down costs of production of certain items. The basis for price administration is provided in the Price Law of 1979, which introduced centralized administration of prices in Morocco; over 240 goods are covered by this law. Direct subsidies of consumer goods, on the other hand, were introduced in 1973. In recent years eight commodities were the object of price subsidies; five of them were consumer goods (flour, sugar, edible oil, milk and butter) and the remainder were producer inputs (cement, fertilizer, and petroleum products). Although since 1979 the Government has increased retail prices on several occasions and eliminated subsidies on milk and cement in 1982, the amount of subsidies still accounted for 3 percent of private consumption and for 10 percent of current expenditure.

These past increases in prices have often evoked serious opposition and, in 1981, social unrest. The main argument of those resisting subsidy reductions is that an average Moroccan can ill afford the resulting higher prices and that production costs would

Table 11. Morocco: Summary of the Financial Program, 1983-84

	1982 Actual	1983 Program	1984 Projected
I. Targets			
1. Balance of payments			
a. Current account deficit			
(in millions of SDRs)	1,720	1,200	890
(As a percentage of GDP)	(12.9)	(8.9)	(6.6)
b. Overall deficit (in millions of SDRs)	325	612	1,225
(As a percentage of GDP)			
2. Inflation (CPI)	10.6	10.1	11.0
II. Assumptions			
1. Real GDP (percentage increase)	5.6	3.0	2.5
2. Exports of phosphates			
a. Rock			
Volume (in thousands of metric tons)	13.98	14.00	14.20
Price (US$/ton)	40.90	32.40	35.38
b. Phosphoric acid			
Volume (in thousands of metric tons)	0.66	0.76	0.84
Price (US$/ton)	397	350	376
3. Changes in terms of trade	-5.5	-5.1	1.4
4. LIBOR (in percent)	13.5	10.0	11.0
III. Principal policies			
1. Price increases of subsidized commodities (in percent)			
a. Consumer goods	...	17-67	...
b. Fertilizers	...	47	...
c. Petroleum products	...	4-8	...
d. Public utilities		To be determined	
		Phased introduction	
2. Liberalization of controlled prices			
3. Budget			
a. Overall deficit as percent of GDP	12.5	8.7	6.0

Table 11. Morocco: Summary of the Financial Program , 1983-84 (continued)

	1982 Actual	1983 Program	1984 Projections
b. Limit on new recruitment (in numbers)	44,000	25,000 1/	10,000 1/
c. New revenue measures (as a percentage of GDP)	...	1.0	...
d. Reduction in budgeted expenditure (as a percentage of GDP)	...	6.3	...
(i) current expenditure	...	(1.3)	...
(ii) capital expenditure	...	(5.0)	...
4. Credit and money			
a. Domestic bank credit (percent increase)	13.8	20.0	10.7
(i) Government	(9.2)	(23.9)	(7.1)
(ii) Economy	(20.6)	(14.8)	(15.1)
b. Broad money (percent increase)	12.5	16.6	9.6
c. Interest rate			
(i) Simplification of the structure, combined with some increases in rates immediately.			
(ii) Gradual replacement of direct control of credit by the use of more traditional instruments of credit policy and greater role for the money market.			
5. Trade and exchange			
a. Exchange rate	Maintenance of flexible policy.		
b. Trade restrictions	Phased shifting of restricted items to liberal List A, which will comprise 30 percent by January 1984 and 42 percent by July 1984.		
c. Advance import deposit rate (in percent)	25 (June 1983), 15 (September 1983), 10 (January 1984) 0 (July 1984).		
6. External borrowing			
a. Ceilings on new concessional borrowing contracted, guaranteed, or approved by the Government with original maturity of 1-5 years.			
b. Ceilings on short-term external debt.			

1/ With further commitment that vacancies caused by retirement (about 8,000 per year) would not be filled.

Table 11. Morocco: Summary of the Financial Program, 1983-84 (concluded)

IV. Monitoring procedures

1. Performance criteria covering total bank credit, net bank credit to the Treasury, total net borrowing by the Treasury, changes in "Fonds réservés", and external debt, for each quarter of the second half of 1983. Performance criteria for 1984 will be quantified during the first review of the program.

2. Reviews with the Fund:
   - (i) October 1983 - To review the financial package to fill the balance of payments gap and reach understandings on the 1984 budget.
   - (ii) July 1984 - Review involving understandings on exchange policies.
   - (iii) October 1984 - Review including understandings on 1985 budget.

be raised to the detriment of production and exports. The latter argument has been made particularly in respect of increases in petroleum products, which are already effectively taxed on a net basis (in 1982 petroleum taxes yielded about DH 1 billion for the budget, as against an estimated subsidy of DH 800 million). On the other hand, most of the subsidized commodities are imported, and their relative cheapness has unduly encouraged consumption and imports. The cost of subsidies has also weighed heavily on the budget and resulted in a loss of budgetary control.

Taking into account these latter considerations, in the context of the present program the Government decided to reduce subsidies substantially. As a first step in this new policy, on July 31, 1983 the Government announced increases in prices ranging from 17 percent to 67 percent, except for granulated sugar and non-luxury flour accounting for 40 percent of total subsidies (Table 12). As a result, subsidies on sugar cubes, luxury flour, edible oil, and butter are eliminated. Furthermore, the Government has decided to grant henceforth only a fixed per unit subsidy for granulated sugar, thereby letting the retail price reflect fluctuations in costs. In addition, the prices of fertilizers, electricity, water, and harbor fees were raised by up to 48 percent, thereby reducing budgetary transfers to the concerned public enterprises. The authorities have also announced several pricing measures concerning petroleum products. First, retail prices have been raised by between 4 and 8 percent, implying an average increase of 6.5 percent. Second, the Ministry of Energy has now been granted the authority to raise prices by up to 5 percent without going through the Price Commission. Third, special subsidies on sales of petroleum to charter companies and fishing vessels were reduced by one half.

For 1983 the estimated impact of the price increases is a reduction in subsidies for the whole year by about one fourth and a reduction in consumer purchasing power by about 1 percent of GDP. For 1984 the Government has also undertaken to reduce subsidies further on remaining products and to examine the pricing and marketing system of the petroleum sector with a view to putting into practice a policy of liberalized prices. In the meantime, the authorities will, if necessary, take any additional measures, including price adjustments, to ensure that no overall subsidies for petroleum products will arise over the program period.

b. Fiscal policies

Continuing and rising budgetary deficits, along with increasing private consumption, have been the main causes of the widening in the resource gap in the economy; as a proportion of GDP the overall Treasury deficit has averaged over 10 percent during the past few years. Accordingly, a major emphasis of the program is on a reduction in the overall budgetary deficit. The program aims at reducing the overall deficit by nearly 4 percentage points of GDP from DH 11.1 billion in 1982 to

Table 12. Morocco: Consumer Subsidies and Retail Prices, 1983

(In dirhams per unit and in percent)

	Prior to price increases in July 1/				After the price increases			
	Cost per unit 2/	Retail price	Subsidy per unit	Subsidy as percent of cost	Retail price	Subsidy per unit	Subsidy as percent of cost	% increase in retail price
Sugar cubes (DH/kg)	3.97	3.45	0.52	13.1	4.05	-0.08	--	17.4
Sugar, granulated (DH/kg)	4.22	2.80	1.42	33.6	2.80	1.42	33.6	--
Edible oil (DH/liter)	6.26	4.60	1.66	26.5	6.00	0.26	4.2	30.4
Butter (DH/kg)	21.69	13.00	8.69	40.1	21.70	-0.01	--	66.9
Luxury flour (DH/kg)	2.19	1.60	0.59	26.9	2.15	0.04	--	34.4
Other flour (DH/kg)	1.84	1.20	0.64	34.8	1.20	0.64	34.8	--
Fertilizers (DH/ton), average	1,086	620	466	42.9	908	178	16.4	46.5
Petroleum products (DH/ton), average	2,524	2,367	157	6.2	2,520	--	--	6.5
Regular gasoline (DH/liter)		4.50			4.70			4.4
Premium gasoline (DH/liter)		4.70			4.90			4.3
Kerosene (DH/liter)		2.25			2.43			8.0
Gas-oil (DH/liter)		2.55			2.73			7.1
Fuel oil (DH/liter)		1,420			1,505			6.0
Butane and propane (DH/ton)		2,458			2,625			6.8

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

1/ Increases in prices announced on July 31, 1983.
2/ Estimated average for each half of 1983.

DH 8.75 billion in 1983. The current account deficit is targeted to move from DH 1.4 billion in the first semester to a surplus of DH 0.7 billion in the second half of the year, and the overall deficit will be limited to DH 4.7 billion in the second half of 1983, compared to DH 7.4 billion over the same period in 1982 1/ when large increases in capital outlays occurred.

The proposed adjustment in the budgetary deficit is being achieved through revenue-raising and expenditure cutting measures. These measures were reflected in a revised budget, which was approved by a special session of Parliament on July 29, 1983. The revised budget incorporates new taxes and raises other taxes to yield DH 450 million in additional revenue for the remaining half of 1983 (1 percent of GDP on an annual basis). The new measures include an exit tax, an increase in the basic rate of the sales tax from 17 percent to 19 percent, restructuring certain registration fees and stamp duties, and an increase in the additional tax on income.

Originally, budgeted current expenditure has been also cut drastically (by DH 1,280 million). In the past, a major impetus to rising expenditure has been large recruitment and increasing expenditure in the education sector. The program envisages a substantial reduction in these areas. New employment in the public sector will be limited to 25,000, compared to the budgeted 44,000, and vacancies caused by retirement, estimated at 8,000 will not be replaced. Included in these limits is the recruitment in the education sector up to a maximum of 15,000 for the school year 1983/84. Transfers to public enterprises are also being reduced following further increases in utilities charges for water, electricity, and harbor fees; expenditure on material and on scholarships is also reduced; and consumer subsidies will amount to DH 1.5 billion, after taking account of the changes in retail prices described above. As a result of these measures, current expenditures (excluding scheduled interest payments on external debt) in 1983 will increase by 9 percent over the actual outlay in 1982. In addition, capital expenditure would be limited to DH 8 billion (compared with DH 12.5 billion in 1982). These cuts have been carefully reviewed with the spending ministries by project, and the authorities are confident that capital outlays will not exceed this limit as they are being confined to the ongoing projects.

In the program, Treasury outlays are to be monitored via three ceilings, all of which are performance criteria. First, the program sets a limit on total borrowing by the Treasury, including changes in outstanding bills awaiting payment ("fonds réservés"). This limit, at DH 8.75 billion for the whole year (compared to DH 11.1 billion in 1982)

1/ The cash financing required in the second half of 1983, at DH 4.7 billion, will be substantially less than in the first half when accumulated bills were paid.

and DH 6.70 for the first nine months through September 1983, corresponds to the targeted budgetary deficit. In addition, subceilings have been set on net bank credit to the Treasury and on changes in "fonds réservés"; the former was established to ensure that the public sector's requirements for credit would not pre-empt the need of the private sector, while the latter ceiling was set to ensure that the outstanding float at end-1982 vis-à-vis the nongovernment sector is reduced during 1983 as intended by the authorities.

For 1984 the program envisages a further reduction in the budgetary deficit to 6 percent of GDP. This reflects the intention to limit net recruitment to 2,000 persons; implementation of the new education policy, 1/ where the Government has broadly accepted the World Bank recommendations; a phased introduction of the tax reform; and a further reduction in consumer subsidies. Regarding tax reform, the Government has committed itself to submit with the 1984 budget, draft bills concerning the general income tax (IGR), and the corporate income tax for approval by Parliament. The authorities will also begin to set up an administrative machinery to enable it to start collecting revenues from VAT, beginning July 1984. To this end, at the request of the authorities, technical assistance from the Fund is being provided to Morocco. The detailed budget proposals will be discussed toward the end of October 1983, when understandings will be reached on the 1984 budget policy as part of the completion of the first review of the program.

c. Monetary and credit policies

Monetary and credit policies under the program take into account the budgetary policies as described above and maintain the thrust of policies vis-à-vis the private sector, as provided in the previous programs. In assessing the program targets in this field, however, it should be borne in mind that in the previous years a significant part of the Treasury requirements were met by borrowing from the international financial markets and that, therefore, domestic bank borrowing alone should not be regarded as the sole, or even the principal, indicator of fiscal adjustment.

Domestic credit is projected to rise during 1983 by 20 percent, compared to 14 percent in 1982 (Tables 2 and 7). However, the bulk of the rise (13 percent) has already occurred during the first six months of the year, the period not covered by the present program. Net credit to Government is to rise by 24 percent (9 percent in 1982), reflecting almost entirely the rise in credit in the first semester. Thus, for the last semester of 1983, which is covered by the proposed program,

1/ Incorporating: (a) replacement of "pré-salaires" by scholarships (reducing the education allowances by half); (b) limiting recruitment of teachers in 1984/85 to 8,000; and (c) tightening the eligibility requirements of school teachers.

credit to Government is programmed to rise by less than 1 percent. When account is taken of the borrowing in 1982 by the Treasury from the international financial markets, total credit expansion to the Government was 19 percent in 1982 compared to 16 percent projected for 1983.

Credit to the economy is projected to rise by 14.8 percent in 1983, compared to 21 percent in 1982. This reduced rate of expansion should not adversely affect economic activity in the private sector, as the unpaid bills by the Government (DH 2.0 billion, or 10 percent of the outstanding credit) at end-1982 were liquidated during the first half of 1983, when there was no increase in credit to the economy. It is expected that in the second half of the year there would be a pickup in credit demand by enterprises and the agricultural sector. Taking into account the projected deficit in the balance of payments, the rise in broad money will be about 17 percent, compared with a 14 percent rise in the nominal GDP.

Given the aforementioned projections for the entire year and actual developments during the first semester of 1983, credit ceilings have been established for the remainder of 1983. Thus, total bank credit, which at end-June 1983 is estimated at DH 47.7 billion, will not exceed DH 49.6 billion and DH 50.7 billion during the period end-June-end-September and end-September-end-December, respectively. Furthermore, net bank credit to the Treasury, estimated at DH 26.1 billion at end-June 1983, will not exceed DH 26.5 billion and DH 26.2 billion during the same period, respectively (Table 13). Appropriate ceilings for 1984 will be established during the first review of the program in light of detailed budgetary proposals for 1984.

The program also envisages some simplifications of the interest rate structure through the elimination of the minimum rates for export credits; the maximum rates for nonrediscountable credits are also being raised by one percentage point. Furthermore, to provide an incentive for transfers from Moroccan workers abroad, the interest rate on the resulting demand deposits with Moroccan banks, currently carrying no remuneration, is being set at 8 percent.

With regard to monetary policy in general, the authorities intend to scale down the predominant use of quantitative controls on credit, relying instead on more traditional and indirect policy tools. The objective would be to enhance the role of the money market in the allocation of resources, with central bank intervention carried out largely through the market. The tools to be used would include minimum reserve requirements, liquidity ratios, and open-market operations.

d. External policies

The external sector policy under the program comprises four major elements: a flexible exchange rate, trade and exchange liberalization, export promotion, and external debt management. A flexible exchange

Table 13. Morocco: Quantitative Performance Criteria for 1983 1/

	1983	
	September	December
	(In billions of dirhams)	
Total bank credit	49.6	50.7
Bank credit to the Treasury	26.5	26.2
Total net borrowing by the Treasury	6.70	8.75
Of which: Changes in "fonds réservés"	-1.8	-2.0
	(In millions of SDRs)	
Short-term external debt	950	950
New nonconcessional foreign borrowing contracted or guaranteed or approved with original maturity of 1-15 years	200	200

Sources: Data provided by the Moroccan authorities; and Annex.

1/ Based on new monetary series (Table 7).

rate policy, initiated in late 1979, continues to be regarded as an effective element in the overall adjustment effort to improve the balance of payments. In the first half of 1983 the dirham was allowed to depreciate by 2.2 percent in nominal effective terms and by 2.8 percent in real terms as measured against the Moroccan currency basket. Additional adjustments in the rate will be made, if considered necessary and as advancing the realization of the program targets.

The program sets out a specific timetable for reversing the recent significant tightening of the system of import restrictions. Already, while discussions on the proposed stand-by arrangement were in progress, a gradual easing of these restrictions was introduced, beginning in May. Currently, about 20 percent of imports have been transferred back to List A, the unrestricted category. Further progress in this field is planned, beginning with the 1984 import program, when another 10 percent of imports will be transferred to List A; furthermore, by end-July 1984 the 1982 import program position will be restored. Similarly, the coverage of the advance import deposit requirement, which had been expanded significantly earlier this year, is being reduced to 15 percent before end-September 1983 and to 10 percent in 1984; the deposit requirement is to be eliminated before July 1, 1984.

Special attention is being focused on promoting exports, principally through liberalization and reduction of other barriers. Already in early 1983, the procedure of obtaining export licenses for some products was changed, delegating the authority to commercial banks. Discussions between Morocco and the World Bank are in progress in the context of an industrial and trade policy adjustment loan. The thrust of the policies under discussion is to reduce the inherent bias in the system of effective protection against import substituting and export industries.

External debt management is regarded as a key element of the program, as its objective will be to minimize additional debt burden and to improve the debt profile and restructure it in the light of the estimated resources available for debt servicing. With heavy recourse to external financing in recent years, Morocco's external debt is estimated to have increased rapidly, from 55 percent of GDP in 1980 to 82 percent in 1983. Similarly, the debt service ratio (including interest payments on short-term debt) has increased from 28 percent in 1980 to 42 percent now projected for 1983. The bunching of principal payments and the unfavorable maturity profile pose difficulties for debt management over the next five years. Given these factors, the authorities are committed to cautious external debt management policies, with reliance on nonconcessional borrowing to be reduced significantly. Accordingly, stricter ceilings are being imposed with broadened definition and more comprehensive coverage than hitherto. For the remainder of 1983, the Government will not contract, guarantee, or approve for public enterprises any new nonconcessional borrowing with a maturity of over 1 year and up to, and including, 15 years, with the exception of certain contracts amounting to about SDR 200 million (none of which will be for the Treasury), which are now at the signing stage. Thus, including commitments in the first half of the year, such loan commitments would be limited to SDR 470 million for 1983. Moreover, total outstanding short-term debt (of up to and including one year's maturity), which has increased by 33 percent over the last 18 months to SDR 950 million at end-June 1983, will not be allowed to increase further through end-1983. These limits do not apply to refinancing/restructuring loans in the context of the debt-restructuring arrangement that is now envisaged (see below). Appropriate limits for 1984 will be established during the first review of the program.

In addition to strictly limiting the volume of nonconcessional borrowing, the authorities are also seeking appropriate debt restructuring with the Paris Club and other creditors. The authorities have already been in contact with the Secretariat of the Paris Club and with principal banks, as well as other creditors, to obtain an early resolution of this issue. While the program makes no explicit assumptions about the actual terms of the rescheduling, the authorities will be proposing terms in the light of the projected overall financing gap mentioned below.

Based on the above policies, the current account for 1983 is programmed to improve by about 3 percentage points of GDP, mainly on account of merchandise trade. 1/ Export value is now projected to increase only marginally and imports to decline by 11 percent in SDR terms, with the trade deficit projected to decline sharply to SDR 1,174 million. For 1984 the projections assume a further improvement, again to derive from better prospects for exports and continued moderation in imports. Tentative estimates suggest that export value could increase by 15 percent in 1984, reflecting the recovery in phosphate demand, while imports could remain unchanged, and the trade deficit could fall further to SDR 890 million.

For 1983 the weak export performance reflects essentially the exceptionally depressed world market for phosphates during the first half of the year, which is expected to continue for the rest of the year. So far this year, rock prices have fallen sharply to the lowest level since 1977, but there was a significant increase in export volume. For the year as a whole, the value of exports of phosphates and derivatives is projected to decline by 7.5 percent--representing a 9 percent increase in volume combined with a 15 percent decline in average prices. Nonphosphate exports, however, are expected to improve

1/ Preliminary estimates for the first five months of 1983 show a trade deficit of SDR 445 million (or about SDR 1,070 million on an annual basis); the decline in net foreign assets for the first half of of the year is provisionally estimated at SDR 189 million.

and increase by 8 percent as the world recovery gathers momentum. Exports of consumer goods (accounting for 18 percent of total) should especially benefit from improved market conditions, and the volume growth is projected to at least match the 19 percent registered in 1982. Imports, which have increased relatively rapidly in recent years, are now projected to decline sharply, reflecting partly the effect of import control earlier in the year as well as the more restrictive policy stance adopted in the second half of the year. The value of food and petroleum imports in particular should decline, not only because of lower international prices but also because of demand restraint following recent domestic price adjustment. Finally, a significant decline (28 percent) in the value of capital goods imports is now forecast, virtually as a direct outcome of the sharp cutback in public investment spending incorporated in the revised budget for this year.

Continued improvement is projected for the service account--to stem from declining net outflows on the freight and insurance account, as imports fall, and also a further drop in net outflows on government transactions. Partly offsetting these savings, however, is a substantial increase in interest payments abroad--a result of higher stock of debt. Assuming an interest rate of 10 percent for 6-month-LIBOR, the average interest cost for Morocco (which reflects the relatively large concessional component) should decline to 6.7 percent in 1983 from 7.5 percent in 1982. Net private transfers, although increasing in terms of European currencies, in which most transfers are denomiated, are projected to decline in SDR terms, reflecting the appreciation of the SDR; depressed labor market conditions in Europe would also adversely affect transfers of Moroccan workers from abroad.

On the basis of grants already received and existing (and nearly completed) loan commitments, and assuming that short-term loans will be rolled over, net inflows of nonmonetary capital are forecast to drop sharply from SDR 1,394 million in 1982 to only SDR 588 million in 1983. Official grants received so far amounted to SDR 144 million--considerably lower than the average of SDR 225 million received in 1981-82. Similarly, gross loan disbursements are presently forecast to fall by SDR 400 million-entirely on the account of the Government. This reduction reflects the absence so far of highly concessional, bilateral loans of the type received in the preceding few years, as well as the Government's abstention from market borrowing on a large scale owing to uncertain market conditions. While loan disbursements are projected to decline, principal payments are scheduled to increase substantially by SDR 214 million, thus reducing the net flows available for financing the current account deficit. For 1984, principal repayments are scheduled to rise considerably while disbursements from existing commitments will decline. On the basis of loan commitments to date, there could be a net capital outflow on the order of SDR 300 million.

The overall deficit in the balance of payments is projected at SDR 612 million for 1983 and more tentatively for 1984 at SDR 1,225 million. After accounting for net use of Fund resources under the proposed stand-by arrangement, a financing gap of SDR 461 million remains for 1983, followed by SDR 1,100 million for 1984. In addition, there is a need to rebuild to an adequate level official foreign reserves, which had fallen to less than one week of imports at end-June 1983. To cover these financing gaps and to maintain adequate reserves, Morocco is seeking exceptional balance of payments assistance from friendly countries and suitable debt restructuring/refinancing arrangements. Commercial banks have also been approched with a view to arranging additional financing. The requirement of such financing is related to the amount and type of debt restructuring the authorities may obtain. It is expected that firm indications as to how the financing gap, especially for 1983, could be filled, would be available by the time the Executive Board meets to consider Morocco's request. The elements of total financing for the program period should become known before the scheduled first review of the program with the Fund by the end of November 1983.

e. Other policies

(i) Education policy

In recent years Morocco has been devoting a high and growing percentage of public resources to education; the ratio of education expenditure to total expenditure increased from 16 percent in 1976 to 25 percent in 1982. Nevertheless, as pointed out in a recent report by the World Bank, the education system suffers from various deficiencies and imbalances.

The Moroccan authorities have assumed in the past that problems facing the education sector could somehow be solved through additional funding. However, it is now recognized that a rationalization and reform of the education policy, while implying reductions in budgetary costs, have become essential. Accordingly, beginning in the 1982/83 school year (September), the authorities adopted provisions aimed at rationalizing the system of scholarships and decreasing the number of years that students can spend at each educational level. Furthermore, the present system whereby trainees received full salary for their professional training (pré-salaires) would be replaced by a system of fixed (lower by almost half) stipends. In addition, as a part of its overall employment policy referred to above, recruitment of additional teachers will be limited to about 15,000 in 1983 and to 8,000 in 1984. The Government is also tightening the eligibility requirements for scholarships and will implement in the medium term various policies recommended by the World Bank. Generally these policies emphasize primary and secondary education at the expense of university education and vocational schooling versus more formal education. An important objective of the reforms would be to develop mechanisms, such as, for example, examinations, to identify those students who should proceed to a formal education and those who should go to professional training schools.

(ii) Investment strategy

Given the shortage of resources, the emphasis of new investment will be on the quality and effectiveness of the investment program and on projects where productivity increases would be the highest. In the context of that strategy, the moderate investment ratios assumed in the proposed stand-by program (of 18-20 percent of GDP) are compatible with a satisfactory growth in economic activities. Generally, there is a need for less emphasis on large capital-intensive projects in the public sector and for an increase in the share of resources going to the directly productive and export sectors. In the private sector, the proposed liberalization of prices, as well as the intended changes in incentives, should direct resources into appropriate sectors.

The World Bank staff has recently made a detailed assessment of the public investment program in Morocco, including sectoral investment allocations and project phasing. For the agricultural sector, the World Bank recommends a shift of investment from irrigation to rainfed agriculture, livestock and forestry, and extension services, while completing ongoing irrigation projects. For the industrial and mining sectors, investment expenditures should emphasize resource-based projects aimed at export and import substitution. In addition, in the area of energy, resources should be used to raise energy output from local sources, in order to reduce reliance on oil imports; the recent discoveries provide optimism in this area. Little additional investment in the transport and telecommunications sectors should be undertaken, as the emphasis should be made on raising productivity of the existing infrastructure. The Bank staff considers that the investment projects retained in the reduced investment program for 1983 are in conformity with their recommendations.

(iii) Producer prices

In recent years the authorities have been following policies assuring remunerative producer prices in order to encourage agricultural production. Although the prices are sufficiently remunerative for the 1982/83 crop year, they will be reviewed before the next crop year, and further adjustment will be made if necessary to take into account cost increases. The aim is to promote domestic production further, in particular of cereals, grains, and sugar, so as to reduce imports of these products.

f. Prior actions and performance criteria

The program outlined above includes the following prior actions: (a) approval by Parliament (on July 29, 1983) of the revised budget incorporating various fiscal measures, as described on p. 22 above, to ensure compliance with the 1983 program target; (b) upward adjustment of retail prices of subsidized commodities (announced on July 31, 1983); and (c) partial reversal of the import restrictions introduced in early 1983.

The program contains the following performance criteria: (a) quarterly ceilings on total bank credit; (b) quarterly ceilings on net credit of the banking system to the Treasury; (c) quarterly ceilings on total net borrowing by the Treasury; (d) quarterly ceilings on changes in "fonds réservés"; (e) ceilings on new nonconcessional loans with a maturity of between 1-15 years contracted by the Government or guaranteed or approved for public enterprises by the Government; (f) ceilings on the short-term debt; (g) the usual undertakings relating to the exchange and trade system; and (h) satisfactory completion of reviews before November 30, 1983, August 30, 1984, and November 30, 1984. In the course of the first review, results of Morocco's efforts to obtain financing of the 1983-84 balance of payments deficit will be assessed and understandings reached on additional adjustment measures as needed. In the course of this review, understandings will also be reached on budgetary policy as well as performance criteria for 1984. The quantitative performance criteria for the second half of 1983 are given in Table 13.

IV. Staff Appraisal and Proposed Decision

The proposed program is the fourth in a series of stabilization programs Morocco has attempted since 1978 and for which it has sought Fund support. The discussions between the authorities and the staff have been intense and protracted, not because there was any disagreement between the two sides as to the underlying size of the payments deficit, but because the authorities had optimistic expectations of obtaining external concessional assistance. The staff's argument in favor of continuing with a strong adjustment effort was based on a more cautious view of external finance and on its assessment that adjustment would in any event be required both in the short and the medium term. It was not until after the authorities had revised their expectations that discussions on the program moved forward and with rapidity; in the meantime, the earlier adjustment efforts remained suspended for over six months.

The authorities are also conscious that, notwithstanding the previous stabilization programs, the size of the financial disequilibria remain large and have not been compressed. This is, of course, partly a result of the sharp decline in the export price of phosphates, Morocco's major export, but it is also because the authorities, for various reasons, did not persist in the implementation of agreed policies and were not sufficiently ready to adopt policies to changing (deteriorating) circumstances. For the present program to succeed, therefore, the authorities cannot allow a repetition of substantial slippages in policy implementation or abandon flexibility in favor of rigidity in policy formulation.

While disequilibria are now large, the possibilities of obtaining external assistance have become more restricted, partly in view of the large external debt and the debt servicing burden. Morocco must, therefore, aim at reaching a sustainable position in a relatively short period. The medium-term scenario, in which the program for 1983-84 is set, aims at reaching this sustainability by 1988, which, in the view of the staff, is an appropriate time horizon. Nevertheless, in the meantime, the financing gap will be large which will need to be filled by exceptional balance of payments assistance and debt relief.

The immediate strategy of the program is to cut consumption, supported by efforts to promote exports, and to maintain overall investment consistent with resource availability and with the realization of a satisfactory rate of growth. The proposed strategy, if successful, should simultaneously reduce the resource gap between savings and investment, and assure an improvement in the balance of payments.

The proposed reduction in consumption is to be effected in both the private and the public sectors. The strategy to cut consumption is based on two considerations: (1) in recent years consumption has been encouraged through a policy of subsidy and pricing, which resulted in an increase in private consumption at a rate higher than that in GDP; (2) a large part of the subsidized consumption has been of imported commodities. The chosen policy instruments--a reduction in subsidies, liberalization of prices, and a flexible exchange rate are considered the most effective way to reduce consumption. Furthermore, the ensuing reduction in government outlays on subsidies should improve the budgetary situation where the overall Treasury deficit remains large and is a direct cause of excess demand in the economy. Several other actions are envisaged in the fiscal field to reduce the 1983 deficit by about 4 percentage points of GDP, through severe limits and cutbacks in recruitment, a reformed education policy, a more rational investment outlay package, and new revenue-raising measures. In addition, emphasis on exports is being renewed through a change in the incentives, including reform of the system of taxation that discriminates against exports, a flexible exchange rate policy, and liberalization of restrictions affecting exports. Futhermore, to provide an incentive toward efficiency, the recently introduced restrictions on imports are being reversed. All these general policies have been put together within a coherent framework that prescribes specific performance criteria, in the context of the requested stand-by arrangement. These criteria include ceilings on credit to the economy, on borrowing by the Treasury, and on additional external short- and medium-term nonconcessional loans contracted, guaranteed, or approved by the Government. Finally, the program has been launched with several of the intended measures actually having been implemented as a "prior action."

Thus, in the staff's judgment, the program addresses the causes of the present disequilibria and the need to reach a sustainable position within a relatively short period, while being appropriately sensitive to the sociopolitical constraints. The prior actions already taken, and the series of reviews with the Fund as provided, should reasonably ensure a continued implementation of the proposed measures. Also, although the proposed program covers only the period through 1984, the arrangement provides that, as one of the performance criteria for the last two purchases, understandings with the Fund be reached on the budgetary policies for 1985.

Nevertheless, the size of the financing gap, estimated at SDR 1.6 billion for the program period, remains large and must be covered if the program is to be viable and implemented. While the requested stand-by arrangement would cover about one fifth of the gap, the remainder will need to be covered by exceptional balance of payments assistance and by debt restructuring and refinancing. The authorities have already contacted friendly countries and creditor agencies, including commercial banks, with a view to obtaining such assistance. The staff, which is being kept informed of these contacts, fully supports the need for such assistance. Given the existing external debt burden, the staff hopes that such assistance will be obtained on concessional terms and that debt restructuring should minimize the additional interest burden and be consistent with a more acceptable and sustainable debt profile. It is expected that firm understandings would be available about the financing of the balance of payments gap before the Board consideration of the proposed program. Progress in this area would be reviewed with the Fund during the first review of the program next November when, inter alia, understandings would be reached on any additional measures as may be needed to eliminate any remaining balance of payments gap.

In summary, the proposed program targets and policies represent a substantial adjustment effort. Accordingly, the following draft decision is submitted for the approval of the Executive Board:

1. The Government of the Kingdom of Morocco has requested a stand-by arrangement for the period September __, 1983 to March __,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).

Morocco: Relations with the Fund

Date of membership:	April 25, 1958	
Quota: Present	SDR 225 million	
Proposed	SDR 306 million	
Fund holdings of currency (as of July 29, 1983):	Millions of SDRs	Percent of quota
General resources account		
Fund's holdings of dirhams	1,080.80	480.36
Use of Fund credit	855.81	380.36
Of which:		
Credit tranches	171.33	76.14
Extended Fund Facility	137.43	61.08
Supplementary financing facility	137.48	61.10
Enlarged access	166.18	73.85
Compensatory financing facility	243.40	108.17
Repurchase obligations (July 1983-March 1985):	65.2	29.0
SDR position (as of July 29, 1983):		Percent of allocation
Net cumulative allocation	85.69	100.00
Holdings	0.23	0.26
Exchange rate (as of July 29, 1983):	SDR 1 = DH 7.4496	
Last Article IV consultation:	August 1982, completed by the Executive Board on November 8, 1982.	

Morocco: Financial Relations with the World Bank Group 1/

(In millions of U.S. dollars)

	Total		Disbursed	Undisbursed
	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

Source: World Bank.

1/ As of March 31, 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--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated July 30, 1983, from the Minister of Finance of Morocco, requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Morocco intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of Morocco intend to pursue for the first six months of this stand-by arrangement; and

(c) understandings of Morocco with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Morocco will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from September , 1983 to March 1985, Morocco will have the right to make purchases from the Fund in an amount equivalent to SDR 300.00 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 30.00 million until October 31, 1983; the equivalent of SDR 90.00 million until January 31, 1984; the equivalent of SDR 130.00 million until April 30, 1984; the equivalent of SDR 170.00 million until July 31, 1984; the equivalent of SDR 210.00 million until October 31, 1984; and the equivalent of SDR 260.00 million until January 31, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not 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.

3. Purchases under the stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2 until total purchases under the arrangement reach the equivalent of SDR 118,074,736 and thereafter from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Morocco will not make purchases under this arrangement, other than the initial purchase of SDR 30 million that it may request not later than within 20 days of the effective date of this 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:

(a) during any period through April 30, 1984, in which

(1) the data for the preceding calendar quarter within the period of this arrangement indicate that

(i) the ceiling on total net borrowing by the Treasury described in paragraph 9 of the memorandum on economic and financial policy annexed to the attached letter; or

(ii) the ceiling on changes in "fonds réservés" described in paragraph 9 of the same memorandum; or

(iii) the ceiling on total bank credit described in paragraph 11 of the same memorandum; or

(iv) the ceiling on bank credit to the Treasury also described in paragraph 11 of the same memorandum; or

(v) the ceiling on contracting and guaranteeing new nonconcessional external borrowing with a maturity of between 1 and 15 years described in paragraph 14 of the same memorandum; or

(vi) the ceiling on short-term external debt also described in paragraph 14 of the same memorandum

is not observed; or

(2) understandings on additional adjustment measures have not been reached in accordance with paragraph 2 of the attached letter, or having been reached, are not being observed;

(b) during the period after April 30, 1984, until understandings have been reached with the Fund on appropriate policies, and suitable performance criteria have been established in consultation with the Fund, as contemplated by paragraph 2 of the attached letter or, after such performance criteria have been established, while they are are not being observed; or

(c) during the entire period of this stand-by arrangement, if Morocco

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Morocco is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Morocco and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Morocco's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Morocco. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Morocco and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Morocco, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will normally be either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Morocco will consult with the Fund on the timing of purchases involving borrowed resources.

8. Morocco shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) Morocco shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Morocco's balance of payments and reserve position improves.

(b) Any reductions in Morocco's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will normally be either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Morocco shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Morocco or of representatives of Morocco to the Fund. Morocco shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Morocco in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. In accordance with paragraph 3 of the attached letter, dated July 30, 1983, Morocco will consult the Fund on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Morocco has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Morocco's balance of payments policies.

Kingdom of Morocco

Ministry of Finance

The Minister

Rabat, July 30, 1983

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

Dear Mr. de Larosière:

1. The attached memorandum sets forth the economic and financial objectives of a stabilization program adopted by the Government of the Kingdom of Morocco for the period from July 1983 to December 1984, as well as the measures the Government has already taken or will take during the period in order to meet these targets. In support of this program, the Government of the Kingdom of Morocco requests the use of International Monetary Fund resources under an 18-month stand-by arrangement in the amount of SDR 300 million.

2. The attached memorandum also indicates the performance criteria of the program for the remainder of 1983, which relate to (a) net borrowing by the Treasury, (b) total bank credit, (c) net bank credit to the Treasury, (d) external debt contracted, guaranteed or authorized by the Government, and (e) the foreign trade and exchange system. Before November 30, 1983, the Government of the Kingdom of Morocco will hold a first consultation with the Fund to assess the results of efforts to obtain financing of the 1983 and 1984 balance of payments deficits and will reach understandings with the Fund on required additional adjustment measures. In the course of this review, the Government will also reach agreement with the Fund on the fiscal policy to be reflected in its 1984 Budget Law and on suitable quarterly performance criteria for 1984. Before August 30, 1984, the Government will hold a second consultation with the Fund on the progress of the program and on exchange policy. A third consultation will take place before November 30, 1984, during which the Government will reach agreement with the Fund on the fiscal policy to be reflected in the 1985 Budget Law and which could subsequently serve as a basis for another stand-by arrangement.

3. The Government believes that the policies described in the attached memorandum are adequate to achieve the objectives of the program. However, it will take any additional measures that might become necessary for this purpose. Furthermore, Morocco will consult with the Fund in accordance with the policies of the Fund.

Sincerely yours,

/s/

Abdellatif JOUAHRI
Minister of Finance

Memorandum on the Economic and Financial Policy of the Kingdom of Morocco

I. Introduction

1. Despite the recession on world phosphate markets and the impact of the drought prevailing since 1980, economic activity in Morocco picked up in 1982, as reflected by a growth rate estimated at 5.6 per cent. In addition, the overall Treasury deficit (adjusted for changes in "Fonds réservés": domestic bills awaiting payment) was reduced from 14.5 per cent of GDP in 1981 to 12.5 per cent in 1982, while the inflation rate was brought down to 10.6 per cent. However, largely because of the decline in phosphate exports, high interest rates, and the sharp appreciation of the U.S. dollar, the current account deficit of the balance of payments remained extremely high, representing 12.9 per cent of GDP, and the overall balance of payments deficit amounted to SDR 325 million, or SDR 118 million more than in 1981. During the year, the Government introduced a number of recovery measures, including increasing some taxes, reducing current expenditure as projected in the Budget Law, raising the prices of petroleum products, as well as water, electricity, and transport tariffs, increasing interest rates, adjusting the exchange rate, and liberalizing the trade and the exchange system. These measures were taken under the program supported by a stand-by arrangement with the Fund dated April 26, 1982.

2. Despite this improvement, financial disequilibria are still cause for concern. The economic and financial situation has recently deteriorated because of exogenous factors, in particular the continued recession in the phosphate sector and the world economy as a whole, but also because of a pronounced acceleration in capital expenditure, which exceeded that projected in the program. This expansion occurred in anticipation of external receipts which were not realized. In addition, the burden represented by the external debt, which has risen to over 70 per cent of GDP, has become unsustainable. Service on this debt is estimated at about 42 per cent of export earnings and transfers in 1983 as against 34 per cent in 1982. In the absence of adjustment measures, the current account deficit could amount to SDR 1.9 billion in 1983.

3. In view of the above and the external financing outlook, the Moroccan economy must undergo a major adjustment in a relatively short time in order to restore financial equilibria and to maintain a satisfactory and lasting rate of growth. This adjustment should principally relate to total consumption, which now amounts to about 91 per cent of GDP. The adjustment strategy, designed in the context of a medium-term framework, is aimed mainly at reducing the resource gap from 14 per cent of GDP in 1982 to less than 3 per cent in 1987. Such a reduction would be compatible with maintaining an investment rate of 20 per cent of GDP, allowing for an average rate of economic growth of about 3 per cent.

4. Private and public consumption will be affected by an austerity policy in several areas, in particular employment, national education, prices, incomes, the budget and exchange matters. The Government has thus already revised the investment program to reflect the financial situation. This strategy will be accompanied by an appropriate monetary policy.

II. Program for 1983-84

5. The Government has adopted, in the context of a medium-term outlook, a stabilization program covering the second half of 1983 and all of 1984. The principal objective of this program is to limit the current account deficit to SDR 1.2 billion (approximately 9 per cent of GDP) in 1983 and SDR 850 million (less than 7 per cent of GDP) in 1984. These estimates, which do not take into account new exceptional resources, are based on the assumption that the terms of trade will deteriorate by 5 per cent in 1983 and improve in 1984. For 1983, exports should increase only slightly in value terms because of a slack in world demand for phosphates, while the value of imports should decrease by 11 per cent. Taking into account external debt amortization of SDR 810 million in 1983 and SDR 1 billion in 1984, as well as the external assistance already lined up, the overall balance of payments deficits for 1983 and 1984 are expected to amount to SDR 600 million and SDR 1.2 billion, respectively. To cover these deficits, the Government intends to seek, in addition to Fund assistance, exceptional assistance from friendly countries and other sources of funds, including commercial banks. To meet these objectives, the Government has drawn up the policy described below and adopted specific measures under the program for 1983; additional measures to be taken in 1984 will be determined in consultation with the Fund when the 1984 Budget Law is prepared at the time of the first review of the program.

6. For the past several years the Government has endeavored to stabilize prices by pursuing a policy of price controls and subsidies. This policy has encouraged consumption and has placed a progressively larger and more unpredictable burden on the budget. The Government has decided to reduce the subsidies, even to eliminate them for certain products, and at the same time to review subsidy-granting practices and deregulate certain controlled prices. As a first stage of this new policy, on July 31, 1983 the Government announced increases ranging from 18 per cent to almost 70 per cent in the prices of block sugar and sugarcube, edible oils, butter and high-quality flour (*farine de luxe*), virtually eliminating the subsidies on these products. In addition, the prices for fertilizers, electricity, and water and harbor fees have been raised by similar amounts. Furthermore, the Government has decided henceforth to grant only a fixed per-unit subsidy of DH 1.42 per kilogram of granulated sugar. Expenditures on subsidies will be reduced even further in 1984 by limiting the per-unit subsidies to a maximum of DH 1.30 per kilogram of granulated sugar and DH 0.50 per kilogram of low-quality flour (*farine nationale*). As for petroleum products, on July 31, the Government announced a 6 per cent average increase in prices and a reduction in the discounts available to some petroleum consumers, thereby eliminating the subsidies. The Government will also be examining the present system for marketing these products with a view to deregulating prices completely by June 30, 1984. In order to ensure that there will be no subsidies during the program period, before the new system is put into place the Government will take, if necessary, additional measures including further price adjustments to fully reflect future cost increases. Already the Ministry of Energy has

the authority to increase prices within a maximum range of 5 per cent without recourse to the central pricing commission." Moreover, the Government is planning to deregulate the controlled prices for certain items, including coffee, beverages, sanitary products, cardboard, paper, and spare parts, and for services relating to merchandise transport, etc.

7. The policy of using producer prices to encourage agricultural production will be continued. Although these prices are sufficiently remunerative for the 1982/83 crop year, they will be reviewed before the next crop year in order to encourage domestic production, in particular of cereal grains and sugar, so as to decrease imports of these products. In any case, policy in this area will be re-examined in the course of a forthcoming review of the program with the Fund.

8. A reform of the national education policy, taking into account the recommendations of the national panel and the World Bank, is now being implemented. The Government will take the following measures during the program period: (i) beginning in September 1983 (the start of the school year), the new students concerned will receive scholarships in lieu of stipends (<u>pré-salaires</u>), reducing the budget burden by half; (ii) in the 1984 Budget Law, the Government will announce more selective eligibility requirements for scholarships, which will apply to those awarded beginning academic year 1984/85; and (iii) the recruitment of new teachers will be limited to about 15,000 in 1983 and 8,000 in 1984. Furthermore, in order to contain budgetary outlays for national education and improve its effectiveness, the Government, in consultation with the World Bank, will examine before the end of 1983 the Bank's other recommendations and the timetable for implementation.

9. Among the principal causes of the external disequilibria is the impact of the large, and persistent budget deficits. Since 1979, these deficits have exceeded 10 per cent of GDP. In the absence of new recovery measures, the deficit for fiscal year 1983 could amount to DH 16 billion (16 per cent of GDP). The program aims at a sizable reduction of the deficit (adjusted for changes in the "<u>Fonds réservés</u>"), limiting it to DH 8.75 billion for the full year as against DH 11 billion in 1982. To this end, the Government submitted to the House of Representatives a draft amendment of the 1983 Budget Law, which was adopted on July 29. The amendment included changes in the amounts of outlays and resources recorded in the original Budget Law with a view to substantially improving the balance of the current budget and to adjusting capital expenditure. On the revenue side, the new measures include the introduction of an exit tax as well as increases in the rates of some taxes and levies. These consist basically in raising the basic rate of the tax on goods from 17 per cent to 19 per cent, restructuring certain registration fees and stamp duties, and increasing the additional tax on income /Contribution de la Solidarité Nationale/. It is estimated that these measures will yield an additional DH 450 million (or 0.5 per cent of GDP) for the remainder of 1983. A saving of DH 1,280 million in current expenditure (or 1.5 per cent of GDP) will result from the following measures: foregoing the

creation of 19,107 jobs, eliminating vacated positions, cutting expenditure on material, reducing charges communes including subsidies to public enterprises, and reducing the subsidies on consumer goods in accordance with the new policy described in paragraph 6 above. Budgetary appropriations for capital expenditure have been reduced by DH 5.1 billion (or 27.5 per cent), thus limiting payments to DH 8 billion for the entire year. This reduction will be achieved by rescheduling commitment appropriations in all sectors and by spreading the project execution schedule over a longer period than initially planned in the Budget Law. As a performance criterion, total net borrowing by the Treasury (defined as the sum of foreign grants, net external borrowing, net bank credit to the Treasury, net domestic borrowing from sources other than banks, the claims of enterprises and individuals on the Treasury, and changes in "Fonds réservés") will not exceed DH 6.70 billion for the period from January to September 1983 and DH 8.75 billion for 1983 as a whole. These ceilings will be reduced by an amount equivalent to any net debt relief relating to interest payments. Also as a performance criterion, the stock of "Fonds réservés," which amounted to DH 3.5 billion at end-1982, will be reduced by no less than DH 1.8 billion by end-September 1983 and DH 2 billion by end-December 1983.

10. For fiscal year 1984, the Government will limit the Treasury deficit to less than 6 per cent of GDP, excluding any possible relief in interest payments on the external debt as defined in paragraph 9. Although the exact details of the next budget law will not be known until the fourth quarter of 1983, the Government will limit hiring to about 10,000 jobs and will eliminate the positions of retirees. The budget will also reflect the subsidy and national education policies described in paragraphs 5 and 8 above. Moreover, in the context of the tax reform, the Government will submit draft bills concerning the general income tax and the corporate income tax for approval by the House of Representatives, together with the draft Budget Law for 1984. The Government also intends to introduce the VAT during the next fiscal year, and will set up the administrative machinery for levying this tax beginning July 1, 1984. The Government will consult the Fund and reach agreement on fiscal policy as part of the first review of the program.

11. With the assistance of the Fund staff, the monetary authorities are now examining a reorientation of monetary policy. The objective of this reform will be to enhance the role of the money market in the allocation of resources; central bank intervention should be carried out largely through the market. This will make it possible to ease the direct control on credit and interest rates and to make more active use of traditional monetary instruments, including monetary reserve and liquidity ratios and open market operations. Initial implementation of this reform began in 1983 and will be continued gradually beginning in 1984. In the meantime, the monetary authorities will continue to control the expansion of credit by using the existing mechanism of encadrement of credit to the economy or

by using the other monetary policy instruments. In 1983, total bank credit (defined as the sum of net bank credit to the Treasury and claims of enterprises and individuals on the Treasury including import deposits, plus credits to the economy excluding claims originating abroad) will not exceed DH 49.6 billion during the period from end-June to end-September and DH 50.7 billion for the period from end-September to end-December. Net bank credit to the Treasury (defined as the sum of gross borrowing from the Bank of Morocco, banks' deposits with the Treasury excluding import deposits, banks' holdings of government securities, and any use of funds in respect of the counterpart of purchases from the International Monetary Fund, minus the Treasury's current account and the cash balances of government accounts) will not exceed DH 26.5 billion during the period from end-June to end-September and DH 26.2 billion during the period from end-September to end-December 1983. As a reference, total bank credit and net bank credit to the Treasury at end-May 1983 amounted to DH 46.2 billion and DH 25.2 billion, respectively. These ceilings will allow an annual increase in credit to the economy of about 15 per cent in 1983 compared to almost 21 per cent in 1982. Taking into account the abovementioned targets for the balance of payments, these ceilings would result in an increase in the money supply of 17 per cent as against an estimated increase of 14 per cent in GDP. The quarterly credit ceilings for 1984 will be established in consultation with the Fund during the first review of the program. Pending the implementation of the new monetary policy mechanism in 1984, the Government intends shortly to simplify the interest rate structure by eliminating the minimum rates for export credits, while the maximum rates for nonrediscountable credits will be raised by one point. To provide an incentive for transfers from Moroccan workers abroad, the interest rate on their demand deposits with Moroccan banks will be set at 8 per cent.

12. Consistent with the provisions of earlier programs, a flexible exchange rate policy was adopted in 1980, and in the period through May 1983 the dirham was depreciated by 17 per cent in effective nominal terms against the currencies in the basket. The Government will continue to pursue a flexible exchange rate policy during the period of the program.

13. In order to encourage exports, the procedures for granting export licenses required for some products were made more flexible in 1983, in particular by enabling banks to approve these licenses on the authority of the Exchange Office. Other measures to improve export performance, in particular by reforming the system of effective protection for export-oriented firms and industries producing import substitutes, are now under discussion with the World Bank in connection with a loan. The import system, after having been liberalized extensively under previous programs, was made more restrictive earlier this year in order to deal with the shortage of foreign exchange. However, the Government has recently eased these restrictions considerably. Thus, in May 1983 a number of imported items (equivalent to 20 per cent of total imports) were reclassified from List B (restricted imports) to List A (unrestricted). Altogether, the products virtually free of import restrictions represent about 60 per cent

of all imports. The Government intends to liberalize the system further in the near future with a view to restoring the 1982 levels by end-July 1984. The first step toward this goal, involving the liberalization of about 10 per cent of imports, will be carried out under the 1984 import program. In addition, the coverage of the system of advance import deposits, which had recently been expanded, will be reduced. The deposit rate will be reduced from 25 per cent to 15 per cent of the value of the imports by end-September, to 10 per cent in early 1984, and to zero by July 1, 1984.

14. The external debt, including government and government-guaranteed debt plus short-term debt of SDR 950 million, totals about SDR 10 billion. The debt service ratio has been estimated at 42 per cent for 1983 and 45 per cent for 1984. In view of the heavy debt service burden, for the remainder of 1983 the Government will not contract, guarantee, or approve for public enterprises any new nonconcessional loans with a maturity of between 1 and 15 years, with the exception of contracts amounting to about SDR 200 million which are now at the signing stage. The short-term debt will be held to its end-June level of SDR 950 million through end-December 1983. These limits do not include borrowing for purposes of refinancing or restructuring 1983 external debt maturities, which will be incorporated into the financing plan mentioned in paragraph 15 below. Appropriate limits for 1984 will be established during the first review of the program.

15. As mentioned in paragraph 5 above, the Government intends to establish a financing plan for the 1983 and 1984 balance of payments deficits which involves recourse to Fund assistance, concessional loans and grants, and the rescheduling or refinancing of the debt. Consequently, the Government will shortly be contacting friendly countries and other donors, including banks, to clarify the details of these financing arrangements. The objective of this plan will be to improve the debt profile and to minimize the problems of servicing the debt in the years to come. The Government will consult with the Fund on the outcome of the steps taken in this area during the first review of the program, and will reach an understanding with the Fund on a satisfactory financing program, and reach agreement with it on the additional adjustment measures required to eliminate the remaining deficit.

16. During the period of the stand-by arrangement, the Government will not impose restrictions on payments and transfers for current international transactions, enter into any bilateral payments arrangements with Fund members, or introduce multiple currency practices. In addition, the Government will not introduce new or intensify existing restrictions on imports for balance of payments reasons.