FOR AGENDA

SM/01/180
Correction 1

CONTAINS CONFIDENTIAL INFORMATION

July 10, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Morocco—Staff Report for the 2001 Article IV Consultation**

The following corrections have been made in SM/01/180 (6/20/01):

Page 19, para. 22, line 4: for "2001 by the five-year plan."
read "2004 by the five-year plan."

Page 45, column 6, line 6: for "67.2" read "69.5"

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

(ii) The modified cyclically adjusted fiscal balance, where the components of revenues and expenditures which do not directly affect demand are taken out. This measure indicates that the fiscal stimulus is still positive in 2001 (0.6 percent of GDP), although significantly lower than in 2000 (1.9 percent of GDP).

21. **The authorities expect total budgetary spending to be 31.5 percent of GDP in 2001, unchanged from 1999/2000.** Current outlays would decline to 23.9 percent of GDP in 2001 (from 24.7 percent of GDP in 1999/2000), mainly as a result of the elimination of subsidies on edible oils and petroleum products, and savings in interest payments. Capital outlays are expected to reach 7.6 percent of GDP up from 6.8 percent in 1999/2000,[8] as a result of project spending under the Hassan II Fund.

22. **The staff noted that the 2001 budget worsens the expenditure structure, while increasing budgetary rigidities.** In particular, the 2001 budget will raise the wage bill to 12.2 percent of GDP instead of lowering it toward the 9–9.5 percent range established for 2004 by the five-year plan.[9] This will result from the generalization of automatic promotions to all government ministries and from the expansion in employment (net increase of 12,000 employees in addition to 4,000 temporary workers becoming permanent).[10] Moreover, a high wage drift (3.1 percent per year) coupled with low inflation has implied an increase in real wages even in the absence of discretionary wage increases. The staff believed that the ensuing budget rigidity leaves little room for maneuvering. The wage bill, together with interest payments, absorbs almost 74 percent of tax revenues, leaving few resources for financing other essential outlays such as operations and maintenance, or for meeting exogenous shocks such as droughts or higher energy costs. The authorities responded that they were fully aware of the heavy wage burden imposed on the budget. They stressed that for 2001 most of the recruitment would be directed toward education, consistent with the plan to achieve enrollment of all children in school by 2003. Nevertheless, the authorities are determined to undertake a reform of the civil service. To avoid the buildup of wage pressures in the future, the authorities will soon appoint a high commissioner to tackle the issue of remuneration of government employees and internal promotions. The staff also noted that while the Hassan II Fund could play a key role in promoting infrastructure and social investment, it will be essential that: (a) its operations are closely coordinated with the

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[8] These figures include transfers to local authorities (which include contributions to investment projects) and are significantly higher that the national accounts definition of public investment.

[9] With the inclusion of retroactive wage increases of about 0.4 percent of GDP, the actual wage bill in 2001 amounts to 12.6 percent of GDP.

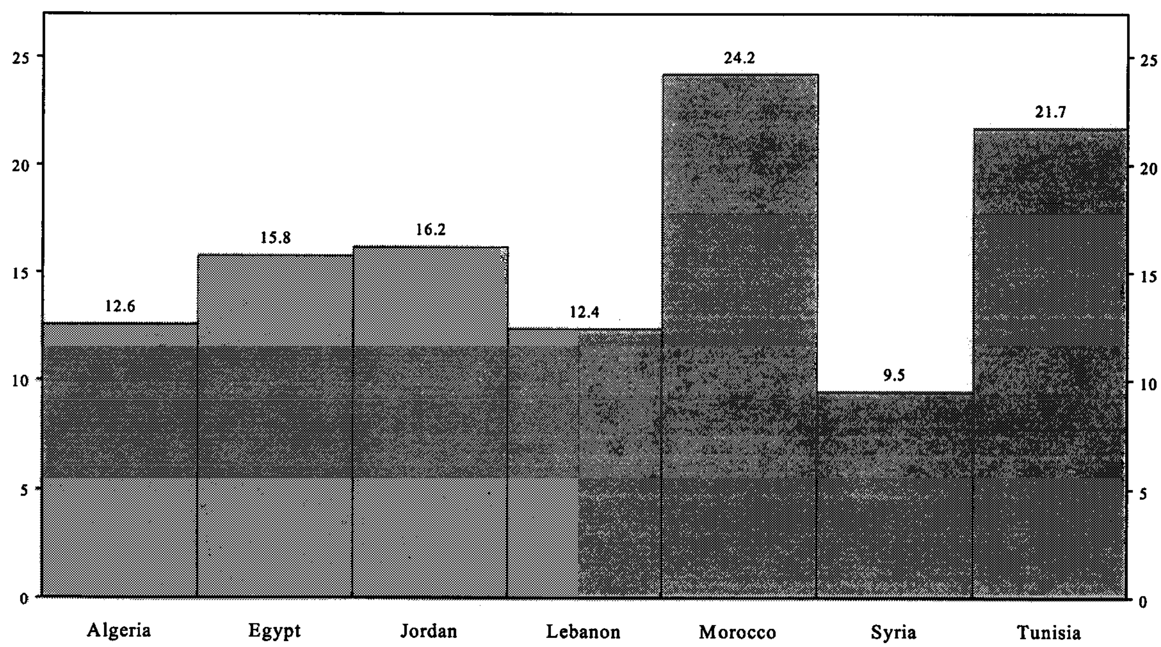
[10] Following wage negotiations in 1996, the authorities had agreed to grant promotions for the education and health ministries on a seniority basis only, de facto abolishing the pre-existent quota limits.

budgeted capital expenditures to avoid duplications; and (b) its spending decisions take into full account their impact on future, recurrent outlays.

23. **The 2001 budget targets revenues at 24.3 percent of GDP, down from 27 percent in 1999/2000.** This decline reflects: (a) a tax base that does not include agriculture and, thus, does not benefit from the upswing in agricultural production; (b) the narrowing of the tax base through increased tax exemptions, partly in the attempt to counteract competitiveness losses resulting from the real appreciation of the dirham; (c) the adverse impact of revenue measures introduced by 2001 budget, such as the lowering of excise taxes on energy production; and (d) further reductions in external tariffs in the context of the association agreement with the EU.[11] The latter trend will continue as Morocco liberalizes its trade regime during the coming years, further reducing the margins for budgetary maneuvering. Nevertheless, the staff believes that it is possible to restore the tax revenue ratio about 25 percent of GDP, given Morocco's strong track record in tax administration which raised its tax ratio above those of other countries in the region (Figure 7).

Figure 7. Morocco: Southern Mediterranean Arab Countries Tax Revenue, 1999/2000

(In percent of GDP)



Sources: Data provided by country authorities; and IMF staff estimates.

[11] Moreover external tariffs earmarked for price subsidies on edible oil products were eliminated in 2000. However, the impact of this revenue reduction on the overall fiscal balance is offset by a decline in spending for the subsidy.

Table 8. Morocco: Basic Social and Demographic Indicators, 1971–2000

	1971	1987	1993	1997	1998	1999	2000
		(In millions, unless otherwise specified)					
Population characteristics							
Total population	15.4	22.7	25.6	27.3	27.8	28.2	28.7
Rural population	10.0	12.2	12.6	12.8	12.8	12.8	12.9
Population under 15 year of age	7.0	9.6	9.8	9.6	9.3	9.3	...
Birth rate (per 1,000)	41.0	31.4	27.3	23.2	22.8	24.5	...
Death rate (per 1,000)	17.4	7.4	7.0	6.3	6.2	6.1	...
Life expectancy	52.4	65.0	67.3	68.8	69.2	69.5	...
Population growth	2.8	2.4	2.0	1.7	1.7	1.7	1.6
Urbanization rate	35.1	46.0	50.4	53.2	53.8	54.5	55.2
Number of children per woman	7.4	4.5	4.1	3.1	3.0	2.9	...
Health, food, and nutrition							
Infant mortality (per 1,000)	125.2	82.0	65.6	51.0	...	47.8	...
Persons per physician (in thousands)	13.7	4.4	3.1	2.8	2.6	2.4	...
Education							
Literacy rate (in percent)	14.0	34.0	45.0	49.0	51.7	48.0	...
Primary enrollment (in percent)	52.5	71.7	88.3	88.6	...	...	...
Secondary enrollment (in percent)	12.6	38.0	44.9	49.9	...	...	...
Pupils per teacher in primary schools	35	27	28	28	28	29	...
Pupils per teacher in secondary schools	20	20	17	19	18	19	...
		(In percent, unless otherwise specified)					
Urban employment							
Total employment (in percent of urban population)	23.6	26.7	27.7	28.5	27.3	26.4	26.4
Female employment (in percent of urban population)	...	...	6.1	6.9	...	6.2	...
Unemployment rate	2.3	14.4	15.9	16.9	19.1	22.4	21.7
Young unemployment rate (15–24 years)	...	27.1	30.2	29.9	34.7	37.8	37.6
Salary and income							
GDP per capita (1980 dirhams)	3,132	4,042	4,292	4,548	4,776	4,665	4,628
GDP per capita (current U.S. dollars)	275	819	1,027	1,224	1,284	1,239	1,159
Minimum wage (in 1980 dirhams per hour) 1/	2.17	2.21	2.72	2.84	2.76	2.74	2.82
			(In percent of GDP)				
Social investment							
Government total expenditure on education 2/	...	4.8	5.9	5.4	5.8	6.0	6.3
Government total expenditure on health 2/	...	0.8	0.9	1.0	1.1	1.4	1.4

Sources: Moroccan authorities; World Bank; and IMF staff estimates.

1/ Minimum wage in the nonagricultural sector.
2/ Between 1996 and 1999, fiscal year beginning in July of the indicated year.

Table 9. Morocco: Indicators of External and Banking Sector Vulnerability, 1996–2000

(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	2000
Financial indicators					
Central government debt (remunerated)	75.6	78.0	74.6	77.4	77.8
Broad money (percent change, 12-month basis)	4.8	9.0	5.8	10.3	8.4
Private sector credit (percent change, 12-month basis)	10.1	7.0	10.8	10.3	10.5
52-week treasury-bill yield (nominal)	9.0	7.5	7.0	6.0	5.7
52-week treasury-bill yield (deflated by 12-month CPI)	5.8	6.4	4.1	5.3	3.7
Overnight interbank rate (annual average)	7.3	6.7	6.3	5.6	5.4
External indicators					
Exports (percent change, in U.S. dollars)	0.2	2.2	1.5	5.1	-1.3
Imports (percent change, in U.S. dollars)	-2.9	-1.9	6.3	5.2	6.1
Terms of trade (percent change)	1.4	0.1	11.7	-3.4	-10.2
Current account balance	0.1	-0.3	-0.4	-0.5	-1.7
Capital and financial account balance	0.7	1.9	1.1	5.2	0.4
Of which:					
Inward portfolio investment (debt securities, etc.)	0.4	0.2	0.2	0.0	0.1
Inward foreign direct investment	0.8	3.3	1.1	2.7	0.7
Gross official reserves (in billions of U.S. dollars; end of period)	4.0	4.2	4.6	5.7	4.8
Central bank foreign liabilities (in billions of U.S. dollars)	0.1	0.1	0.1	0.1	0.1
Foreign assets of the banking sector (in billions of U.S. dollars)	0.3	0.4	0.5	0.5	0.6
Foreign liabilities of the banking sector (in billions of U.S. dollars)	0.3	0.4	0.5	0.5	0.4
Official reserves in months of imports GNFS	4.4	4.7	4.8	5.7	4.6
Broad money to reserves (in percent)	631	590	590	476	603
Total gross external debt/GDP	59.3	60.1	57.6	56.4	54.0
Of which: central government debt/GDP	40.4	40.0	38.0	36.4	33.6
Total gross external debt to exports GNFS (in percent)	227.8	215.1	198.6	191.1	167.9
Total short term external debt to reserves (percent) 1/	63.6	64.7	59.8	50.5	57.5
External gross interest payments to exports GNFS (in percent)	15.6	14.2	12.4	11.4	11.1
External amortization payments to exports GNFS (in percent)	19.9	20.9	19.6	19.0	16.3
Exchange rate (per U.S. dollars, period average)	8.72	9.53	9.60	9.80	10.63
REER appreciation (+) (annual average)	1.7	0.9	2.4	1.0	2.8
Banking sector indicators					
Problem loans/capital	72.0	78.0	78.0	98.1	121.4
Solvability ratio 2/	11.3	11.2	12.6	12.1	13.4
Share of foreign currency deposits in total deposits (in percent)	0.6	0.7	0.6	0.7	0.2
Share of construction and hotel credit in total credit (in percent)	6.7	7.4	8.1	7.8	6.9
Financial market indicators					
Stock market index (IGB)	447	668	804	777	658
Stock market transactions	6.4	11.1	17.0	28.2	10.9
Moody's rating for foreign currency bonds and note	n.a.	n.a.	Ba1	Ba1	Ba1

Sources: Bank Al-Maghrib; treasury; Office des changes; and IMF staff estimates.

1/ Includes long- and medium-term debt coming due in the next year.

2/ In 2000, excluding Crédit Immobilier et Hôtelier (CIH) and Caisse Nationale de Crédit Agricole (CNCA).