FOR AGENDA

0451

EBS/90/127

CONFIDENTIAL

July 5, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Morocco - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on Morocco's request for a stand-by arrangement equivalent to SDR 100 million. Draft decisions appear on page 30.

It is understood that the Executive Director for Morocco will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Friday, July 20, 1990.

Mr. Clément (ext. 6942) until July 13, 1990 or Mr. Artus (ext. 7676) from July 17, 1990 is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MOROCCO

Request for Stand-By Arrangement

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

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

Approved by Jacques R. Artus and A. Basu

July 3, 1990

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I. Introduction

Discussions on an economic and financial program for 1990 that could be supported by a stand-by arrangement from the Fund were initiated in Rabat during the period April 21-May 3, 1990. 1/ The discussions were concluded in Washington during the period June 11-19, 1990. The Moroccan representatives included Mr. Mohammed Berrada, Minister of Finance; Mr. Rachidi Ghazouani, Minister of Plan; Mr. Moulay Zahidi, Minister of Economic Affairs; Mr. Hassan Abou Ayoube, Minister of External Trade; Mr. Mohammed Seqat, Governor of Bank Al-Maghrib; Mr. Mohammed Dairi, Director of the Treasury; and other senior officials concerned with economic and financial matters.

In a letter dated July 2, 1990, accompanied by a memorandum on economic and financial policies (Appendix I), the Government of the Kingdom of Morocco requests a stand-by arrangement over the period ending March 31, 1991, in an amount equivalent to SDR 100 million, or 32.6 percent of the current quota of Morocco. It is proposed that purchases be made in four installments according to the schedule and under the conditions set out in Table 1. Performance criteria, indicative targets, and the midterm review are defined in Section IV. The proposed stand-by arrangement is intended to support the authorities' economic and financial adjustment program for 1990. The relatively short duration of the proposed arrangement reflects the confluence of two factors. First, although some elements of the 1990 program were put in place during the early months of the year, a number of key elements of the program were not finalized before the middle of the year. Second, the Moroccan authorities are in the process of defining a comprehensive medium-term strategy that could lay the basis for a medium-term program. Many aspects of this strategy have already been fully articulated and policy actions have either been taken or will be taken during the second half of 1990. However, it is only toward the end of 1990, with the elaboration of the 1991 budget, that the whole strategy will be in place. Thus, the Moroccan authorities view the 1990 program as a step that will lay the basis for a medium-term program.

During the first half of the year, the authorities have tightened credit policy and taken far-reaching adjustment measures in order to correct the policy weaknesses that became apparent in late 1989. In particular, the authorities have devalued the dirham and anchored it to a basket of currencies of Morocco's main trading partners. In the fiscal area, a number of important fiscal structural measures were included in the 1990 Budget Law, notably the introduction of the General Income Tax and the reform of the local authorities' tax. In addition, a supplementary Budget Law was enacted by Parliament in June 1990, which

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1/ The staff representatives were Mr. J.R. Artus (head-AFR), Mr. J.A. Clément (AFR), Mr. R. Kronenberg (ETR), Mr. A. Ouanes (FAD), and Ms. J. Murray (assistant-AFR). Mr. O. Kabbaj (Alternate Executive Director) participated in most of the meetings.

Table 1. Morocco: Schedule of Purchases During Period of Stand-By Arrangement, July 1990-March 1991

Amount (in millions of SDRs)	Scheduled availability date	Conditions necessary for purchase
24	July 31, 1990	Board approval of program.
24	September 30, 1990	Compliance with quantitative performance criteria as of July 31, 1990.
24	December 15, 1990	Compliance with quantitative performance criteria as of end-September 1990 and conclusion of review.
28	February 15, 1991	Compliance with quantitative performance criteria as of end-December 1990.

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

From a peak of SDR 1.1 billion in 1985, representing 306.6 percent of the current quota, the Fund's holdings of Moroccan dirhams subject to repurchase have declined to SDR 557.7 million, representing 181.9 percent of quota, as of June 30, 1990. If the full amount available under the requested stand-by arrangement is purchased according to the proposed schedule, and taking into account scheduled repurchases, the Fund's holdings of Moroccan dirhams subject to repurchase would decline to the equivalent of SDR 547.2 million as of March 31, 1991, representing 178.5 percent of quota (Table 2). Except for several months in 1981 and 1986, Morocco has remained current in servicing its obligations to the Fund.

On August 30, 1988, the Fund approved a 16-month stand-by arrangement for Morocco in an amount equivalent to SDR 210 million (51 percent of quota on an annual basis), in support of the Government's adjustment program covering the period through end-December 1989 (EBS/85/156). The last review of the stand-by arrangement was concluded on November 15, 1989 (EBS/89/207). The last Article IV consultation was concluded by the Board on June 23, 1989 (EBS/89/118). Morocco's relations with the Fund are summarized in Appendix II.

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

II. Developments and Performance Under Previous Programs

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

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

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

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.

Table 3. Morocco: Selected Economic and Financial Indicators, 1985-90

	1985	1986	1987	1988	1989 Initial prog. EBS/88/154	1989 2nd rev.	1989 Est.	1990 Prog.
	(Annual percent changes, unless otherwise indicated)							
Production and prices								
GDP at constant prices	6.3	8.4	-2.6	10.4	4.5	3.5	2.2	3.5
GDP deflator	8.4	10.0	5.0	3.6	4.5	4.0	5.3	6.0
Consumer prices:								
Annual average	7.8	8.7	2.8	2.3	4.0	3.3	3.1	5.0
End-period to end-period	10.0	4.4	2.4	1.5	4.0	5.0	5.6	6.0
External sector (in SDRs)								
Exports, f.o.b.	0.2	-2.7	4.7	24.9	14.0	-6.6	-3.3	16.9
Imports, f.o.b.	-0.6	-14.3	0.5	9.0	7.8	13.6	20.1	19.9
Export volume	1.9	6.5	7.3	19.5	9.6	-14.2	-10.6	16.7
Import volume	1.1	2.5	5.7	7.6	3.1	0.8	4.1	7.2
Terms of trade (deterioration -)	0.1	9.3	2.7	3.2	-0.6	-3.4	-12.2	-0.9
Nominal effective exchange rate	-5.3	-7.4	-0.7	3.1	...	...	7.9	
Real effective exchange rate	-6.6	-4.4	-3.3	-2.0	...	...	0.2	
Central government budget								
Revenue	14.0	9.0	12.3	27.1	...	9.1	5.9	20.6
Total expenditure (before debt relief) 1/	8.8	-4.5	11.6	18.4	...	9.1	11.6	7.0
Money and credit								
Domestic credit	15.4	11.3	7.7	9.1	...	4.3	10.4	5.2
Government 2/	(...)	(...)	(7.1)	(5.5)	(...)	(3.1)	(10.0)	(2.3)
Economy 2/	(...)	(...)	(7.2)	(11.1)	(...)	(6.0)	(11.0)	(11.5)
Money and quasi-money	17.7	15.9	9.7	14.7	9.8	6.3	11.8	9.5
Money velocity (GDP/M2)	2.18	2.24	2.04	2.08	2.05	2.17	2.00	2.01
	(In percent of GDP)							
Central government								
Overall deficit (payment order basis) 3/	9.6	5.4	5.7	4.3	3.5	4.4	5.7	2.8
Overall deficit (cash basis) 3/	8.6	5.7	6.1	5.6	4.6	4.9	4.7	3.7
Domestic bank financing	3.5	3.0	1.4	1.4	...	0.8	2.0	0.4
Net foreign financing (including grants and debt relief)	3.8	0.8	1.4	2.8	...	2.4	1.7	1.9
External current account (excluding official grants)	-7.7	-2.3	-1.1	0.9	0.7	-2.9	-3.5	-1.8
External debt (including use of IMF credit)	117.2	104.5	104.7	92.9	94.8	88.7	88.0	86.3
	(In percent of exports of goods, nonfactor services, and private transfers)							
External debt (including use of IMF credit)	355.1	343.1	334.7	285.3	254.5	297.8	296.6	265.5
Debt service ratio (before debt relief)	58.0	71.3	63.1	49.3	45.1	53.6	51.6	48.3
Debt service ratio (after debt relief)	31.2	37.0	34.1	29.3	...	40.5	32.1	...
	(In millions of SDRs)							
Overall balance of payments								
Before debt relief	-1,232	-1,488	-985	-503	-160	-916	-976	-759
After debt relief	-114	20	336	561	...	...	54	...
Gross official reserves (end-period)	81	144	253	372	588	452	340	640
In months of imports of goods and nonfactor services	(0.2)	(0.5)	(0.8)	(1.1)	(1.6)	(1.2)	(0.8)	(1.4)
External arrears	224	510	378	—	—	—	—	—
	(In billions of dirhams)							
GDP at current prices	129.5	154.3	157.8	180.5	...	194.3	194.3	213.1

Sources: Ministry of Finance; Bank Al-Maghrib; and staff estimates.

1/ On a payment-order basis.
2/ Government credit in the proposed program has been revised to include direct credit from Bank Al-Maghrib and special credit, which were previously included in credit to the economy. However, related statistical information is only available starting in 1986.
3/ Before debt relief.

Moreover, significant strides were made on the structural side, including the liberalization of a large part of foreign transactions and domestic prices, a comprehensive reform of the fiscal system, and the implementation of the first phase of the reform of public enterprises.

Despite the progress made, in 1988 the Moroccan economy was still suffering from severe imbalances. The fiscal and external imbalances, in particular, remained large. The budget deficit was financed without too much monetary creation only because the Government benefited from substantial external debt relief. Moreover, by end-1988 the stock of domestic arrears was still close to 4 percent of GDP. The overall balance of payments deficit, before debt relief, amounted to SDR 503 million and was financed through exceptional financing. The debt burden remained very heavy, with the external debt outstanding amounting to the equivalent of 93 percent of GDP. In addition, deep structural rigidities still impeded investment and growth, while the unemployment rate in urban centers remained above 15 percent of the labor force. While the overall policy performance was good during 1986-88, there were still some weaknesses in the fiscal area, which contributed to the persistence of the imbalances and rigidities. It is to be noted in particular that targeted reductions of the budgetary deficits set at the inception of the programs were generally not met fully. As a result, the needed adjustment was extended over a longer time period than originally envisaged.

The year 1989 saw a continuation of the structural adjustment but a worsening of the policy performance in the fiscal area. Administrative hindrances to private investment were considerably reduced; a law concerning the privatization of 110 public enterprises and establishments was adopted; and most economic sectors were opened to direct foreign investment. At the same time, the authorities relaxed their budgetary stance and allowed the overall deficit on a payment order basis to increase to DH 11.1 billion (5.7 percent of GDP), compared with 4.4 percent in 1988 and 4.5 percent in the program. 1/ The deviation was even more striking in relation to the initial target of 3.5 percent. This development is explained both by a shortfall in revenue and by an excess in total expenditures. On the revenue side, the shortfall was due to an unexpectedly weak performance in direct and value-added taxes, which was exacerbated by a shortfall in import duties and the absence of dividend payments from the Office Chérifien des Phosphates (OCP). On the expenditure side, higher interest payments combined with larger-than-anticipated subsidy payments resulted in an increase in current expenditure that was larger than programmed. However, the main cause of the slippage in expenditure was a sharp increase in investment expenditure late in 1989, which stemmed from a marked acceleration in the execution rate of the investment program. The overall budget

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1/ All references to the 1989 program targets, if not otherwise specified, are those defined during the last review of the program (EBS/89/207, 10/30/89; Sup. 1, 11/14/89).

deficit on a cash basis was limited to 4.7 percent of GDP, down from 5.6 percent in 1988 and the 4.9 percent programmed, only because of an accumulation in domestic payments arrears (an increase of DH 2 billion compared with a programmed reduction of DH 1 billion).

The budgetary problem was intensified by a large shortfall in nonbank domestic financing and in foreign financing, so that the net recourse by the Government to the banking system exceeded the programmed indicative target of DH 1.5 billion by nearly DH 2.5 billion. In addition, credit to the economy was higher than programmed. As a result, at end-December 1989 none of the indicative targets--concerning the budget deficit, reduction in government domestic arrears, net credit to the Government, and total credit--were met (Table 4). These deviations, aggravated by a trade dispute that sharply curtailed exports of phosphoric acid, and a deterioration in the terms of trade, led the external current account to shift from a small surplus in 1988 to a deficit of 3.5 percent in 1989, compared with the deficit of 2.9 percent programmed during the second review and the surplus of 0.7 percent envisaged initially. Consequently, gross international reserves in months of imports of goods and nonfactor services decreased from 1.1 in 1988 to 0.8 in 1989 (compared with 1.2 programmed and an initial target of 1.6). Despite this shortfall, money supply increased by 11.8 percent instead of the 6.3 percent programmed. Inflation, as measured by the GDP deflator, accelerated to 5.3 percent compared with 3.6 percent in 1988 and 4.0 percent programmed. The rate of economic growth was a disappointing 2.2 percent instead of the 3.5 percent programmed, largely because of the decline in the production of phosphate products as well as a deceleration in the growth of agricultural production after the record performance of 1988.

III. The Medium-Term Framework

1. Policies and objectives

The 1990 adjustment program is designed as part of a comprehensive macroeconomic framework, which aims at strengthening substantially the adjustment effort, especially in the fiscal area, in order to achieve both balance of payments viability by 1993 and an acceleration in economic growth in an environment of financial stability. Economic growth is expected to be broadly based and to increase to an annual rate of 5 percent in 1992-93, compared with an average rate of 4 percent over the past five years. The inflation rate, as measured by the GDP deflator, is expected to decelerate to 4 percent over the same period. The external current account is projected to shift from a deficit of 3.5 percent of GDP in 1990 to approximate balance in 1993 and to a surplus subsequently. This improvement, as well as the recent agreement with commercial bank creditors on a comprehensive rescheduling of Morocco's bank debt, should ensure that balance of payments viability is achieved by 1993.

Table 4. Morocco: Performance Criteria and Indicative Targets Under the Program, 1988-89

	1988	1989							
	Dec.	June		Sept.			Dec. 1/		
	Actual	1st review	Actual	1st review	2nd review	Actual	1st review	2nd review	Actual
A. Performance criteria					(In millions of dirhams)				
1. Budgetary deficit (cash basis)	10,070	3,050	3,036	5,300	5,300	4,578	9,610	9,610	9,162
2. Reduction in government payments arrears	2,220	1,000	1,050	500	500	504	1,000	1,000	-1,982
3. Net bank credit to Government 2/	43,661	45,161	45,010	45,161	45,161	43,917	45,161	45,161	48,072
4. Total bank credit	79,181	81,861	82,676	82,361	82,361	81,556	82,796	82,796	87,122
5. External borrowing by the Government					(In millions of U.S. dollars)				
a. Outstanding short-term debt 3/	119	300	141	300	300	149	300	300	235
					(In millions of SDRs)				
b. New nonconcessional borrowing									
1-12 years 4/	294	700	386	700	700	524	700	700	549
Of which: 1-3 years 4/	1	100	2	100	100	2	100	100	2
6. External payments pending	—	—	—	—	—	86	—	—	—
B. Indicative targets					(In millions of dirhams)				
1. Total government revenue	41,624	22,430	22,162	33,500	33,500	...	45,335	45,335	44,086
2. Investment expenditure commitments	10,630	4,130	4,628	6,370	6,370	...	10,100	10,100	13,953
					(In millions of SDRs)				
3. Net foreign assets of Bank Al-Maghrib	372	399	237	612	360	452	842	452	354

Sources: Technical memorandum of understanding of July 28, 1988 and letter of June 7, 1989.

1/ Indicative targets.
2/ Excluding the counterparts of treasury and postal checking system deposits.
3/ Excluding Kuwaiti deposit.
4/ Cumulative amount of new commitments since January 1, 1988.

The policy framework assumes a neutral external environment. According to the latest projections available, the growth in non-oil import volumes in Morocco's principal export markets is expected to decline from an average annual rate of 8.4 percent in 1986-89 to 5.6 percent in 1990-95. However, prices of the phosphate products exported by Morocco are envisaged to increase by about 6 percent a year in terms of SDRs, which would lead to a small improvement of about 1 percent a year in Morocco's external terms of trade (Table 5). Most of the improvement in the external position would come from the impact of adjustment policies. Such policies would be expected to contribute to: (i) a strong growth in exports of manufactured products (largely through a diversification of the export base), agricultural products and fish, and tourism; (ii) a sharp increase in foreign direct investment inflows; and (iii) sustained levels of emigrant workers' remittances; and (iv) a moderation in the growth of imports, particularly consumer goods and certain categories of capital goods.

To achieve their objectives, the authorities intend to implement a mix of policies that would include a significant strengthening in the budgetary stance, a restrained monetary policy, and the pursuit of an appropriate exchange rate policy. A key aspect of the strategy is that, after devaluing the dirham by 9.25 percent in foreign currency terms on May 2, 1990, the authorities have anchored it to a basket of currencies of Morocco's major trading partners with a margin of 3 percent. 1/ With this new arrangement, the authorities intend to pursue monetary and fiscal policies that are compatible with the achievement of a rate of inflation that will be sufficiently low to ensure a further increase in the cost and price competitiveness of the Moroccan economy. Following the recent devaluation, in May 1990 the real effective exchange rate of the dirham was 10.3 percent below its level in December 1989 and 14.2 percent below its average level in 1986, the year following the previous major exchange rate adjustment (Chart 1). The medium-term scenario presented in Table 5 envisages a further moderate gain, which should be achievable without change in the value of the dirham vis-à-vis the basket of foreign currencies. In addition, the authorities intend to continue to effect major structural reforms, which could only enhance the nonprice dimensions of the competitiveness of the Moroccan economy.

The required fiscal adjustment is quite large because the realization of balance of payments viability by 1993 implies that the Government will lose the debt relief that is still the most important source of financing of the budget. Debt relief accruing to the public sector was equivalent to about 6 percent of GDP in 1989. To avoid an undue amount of domestic monetary financing, the overall fiscal deficit on a payment order basis will have to be reduced to less than 2 percent of GDP by 1993. Even this assumes that reforms of the financial market

1/ EBD/90/177, 6/8/90.

Table 5. Morocco: External Indicators for Medium-Term Scenarios, 1989-95

	1989	1990	1991	1992	1993	1994	1995
		Projections					
				I. Baseline scenario			
				(In millions of SDRs)			
External current account	-630	-344	-212	-275	8	227	523
External financing gap	0	1223	676	408	—	—	—
				(In percent)			
External debt service ratio 1/	51.6	48.3	41.1	35.0	31.1	28.7	27.7
Principal	31.8	29.3	23.2	18.0	15.8	14.8	14.7
Interest	19.8	18.9	18.0	16.9	15.4	13.9	13.0
External debt/exports ratio 1/	293.5	260.3	241.1	229.4	207.8	189.0	173.3
International reserves/imports ratio 2/	0.8	1.4	2.0	2.6	2.9	3.4	4.0
				(Percent change)			
Export volume	-10.6	16.7	8.5	4.0	9.2	8.3	3.6
Import volume	4.1	7.2	4.5	6.4	4.5	5.3	2.0
External terms of trade	-12.2	-0.9	0.4	1.6	0.7	0.7	0.8
Real GDP	2.2	3.5	4.5	5.0	5.0	5.0	5.0
GDP deflator	5.3	6.0	5.0	4.0	4.0	4.0	4.0
				II. Higher petroleum price scenario			
				(In millions of SDRs)			
External current account	-630	-372	-243	-310	-31	183	473
External financing gap	0	1252	707	444	42	50	60
				(In percent)			
External debt service ratio 1/	51.6	48.2	41.2	35.0	31.3	28.9	27.9
Principal	31.8	29.3	23.2	18.0	15.8	14.9	14.8
Interest	19.8	18.9	18.0	17.0	15.5	14.0	13.2
External debt/exports ratio 1/	293.5	260.6	241.8	230.5	209.3	190.9	175.5
International reserves/imports ratio 2/	0.8	1.4	2.0	2.6	2.8	3.4	3.9
				(Percent change)			
External terms of trade	-12.2	-1.5	0.4	1.6	0.7	0.8	0.8
				III. Lower phosphate price scenario			
				(In millions of SDRs)			
External current account	-630	-395	-277	-349	-88	105	384
External financing gap	0	1275	740	483	101	133	160
				(In percent)			
External debt service ratio 1/	51.6	48.7	41.6	35.4	31.7	29.4	28.6
Principal	31.8	29.6	23.4	18.2	16.0	15.1	15.1
Interest	19.8	19.1	18.2	17.2	15.7	14.3	13.5
External debt/exports ratio 1/	293.5	263.4	245.0	234.0	213.4	195.7	180.9
International reserves/imports ratio 2/	0.8	1.4	2.0	2.6	2.9	3.4	4.0
				(Change in percent)			
External terms of trade	-12.2	-2.5	0.3	1.6	0.5	0.6	0.8

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

1/ In percent of current receipts.
2/ In percent of imports of goods and nonfactor services.

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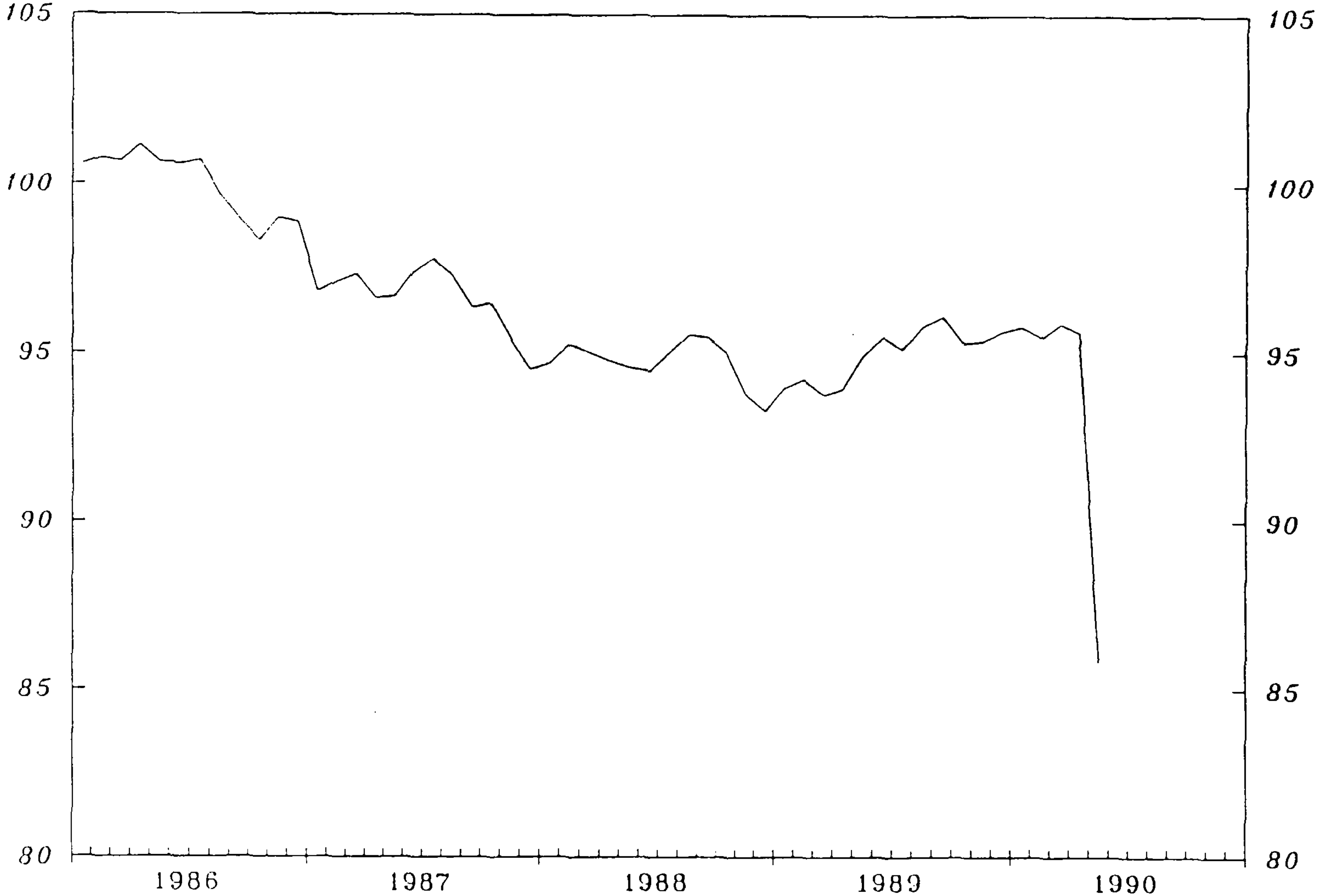
CHART 1
MOROCCO
REAL EFFECTIVE EXCHANGE RATE INDEX,
JANUARY 1986 TO MAY 1990
(1986=100)



SOURCES: IMF, Information Notice System; and staff estimates.

will be reasonably successful in enlarging what continues to be an extremely small market for treasury bonds.

Achieving this deficit target will require long-lasting expenditure and revenue measures. On the expenditure side, the authorities intend to implement measures aimed at enhancing their monitoring and control, in particular concerning the wage bill, the subsidies on sugar and vegetable oils, capital expenditure appropriations, and net transfers to the local authorities. Subsidies on sugar and vegetable oils will be fully eliminated by 1993. Net transfers to the local authorities will be reduced progressively by a shift of expenditure, including investment expenditure, from the Central Government to the local authorities' budgets. The monitoring of investment will be an important component of the medium-term strategy, with investment expenditure being redirected toward the social sectors (education, health, and housing) and the infrastructure directly needed to support private productive investment. To help them review their monitoring and control of expenditure, the authorities have requested technical assistance from the Fund.

On the revenue side, given that major reforms in the tax system have already been implemented, efforts will focus on further increasing the efficiency of the present tax system. In particular, the authorities intend to reduce exonerations sharply and to strengthen fiscal administration. The authorities intend also to revise the investment codes substantially, with a view to raising the elasticity and tax base, while rationalizing investment incentives. For their review of exemptions and tax administration, the authorities have also requested Fund technical assistance.

The reform of public enterprises will be another key element of the policy strategy. The authorities intend, with the help of the World Bank, to increase the efficiency of the Government's portfolio. Public enterprises will be classified according to two principal categories, those that should be privatized and those that provide a public service. Concerning the first category, the authorities are preparing a program of privatization for the next six years, including a precise timetable of action for 1990-91. This program will be discussed with the Fund staff before the end of 1990. As for the second category, a program of restructuring will be defined with the aim of improving their management. The restructuring will take into account that these enterprises will no longer benefit from external debt rescheduling. Accordingly, the enterprises will have to conduct a major review of their investment program, their costs, and their tariffs.

Another important aspect of the strategy will be the reform of monetary policy and of the financial sector. Morocco's achievement of financial stability and relatively low inflation in recent years has been due largely to the pursuit of a tight monetary policy. However, as growth in bank credit to the Government remained sizable, credit to the economy had to be restrained. Moreover, to avoid unduly high interest rates, the authorities relied extensively on direct controls such as credit ceilings, interest rate controls, and selective credit controls. Thus, a key objective will be to use the opportunity offered by the programmed decline in bank financing of the Government in 1990 and beyond to carry out a comprehensive liberalization of the financial sector. In particular, the authorities intend to abolish the system of credit encadrement as of January 1, 1991, and thereafter to pursue a monetary policy based on the use of indirect instruments. They also intend to revise Bank Al-Maghrib's statutes and the banking law before the end of 1991 to adapt them to the new environment.

To prepare for the reform of monetary policy, the Treasury and Bank Al-Maghrib agreed in June 1990 to limit the Treasury's direct recourse to credit from Bank Al-Maghrib. Henceforth, most of the monetary financing of the Treasury will take place through the auctioning of treasury bills. This will allow Bank Al-Maghrib to regain control of reserve money and will foster the development of a real market for treasury bills. In addition, over the next six months most of the interest rates will be liberalized. Interest rates on deposits with a maturity longer than three months will be liberalized as of July 1, 1990, while the medium- and long-term lending rates will be freed as of October 1, 1990 and the short-term lending rates as of January 1, 1991. The liberalization of the short-term lending rates was postponed to end-1990 to allow Moroccan firms, which tend to be heavily dependent on bank short-term credit, to prepare themselves for the systemic change. Moreover, in order to avoid a situation in which some borrowers are asked suddenly to pay unduly high rates, the lending rates will not be allowed in any quarter to exceed by more than one third the previous quarter's average rate of one-year treasury notes placed through the bidding process. While this cap is placed so high that it should have little if any relevance, the authorities felt that it was needed as a safeguard, at least during an initial phase.

Whereas direct controls were the main monetary instruments in the past, the authorities expect that, in coming years, reserve requirements and open market operations will play a dominant role in controlling liquidity in the economy as the auction market for treasury bills widens and a secondary market develops. The efficiency of financial intermediation is expected to increase as the financial system is deepened with the introduction of a greater range of instruments of varying maturities, returns, and risks. Moreover, as regulations limiting competition among banks are removed, it is expected that the current wide margins between deposit and lending rates would narrow, and banks would gradually take a more active role than at present in the financing of private productive investment.

The authorities are determined to continue the liberalization of the external sector to improve the allocation of resources. In particular, they intend to eliminate progressively over the medium term all remaining quantitative restrictions on imports with the exception of those necessary for the protection of public health, safety, or morals. In addition, the tariff system will be reviewed to reduce the dispersion in nominal and effective rates of protection. Infant industry protection will also be rationalized. In particular, tariffs (up to a maximum rate of 45 percent) will be the only allowable instrument for infant industry protection, and will be limited to a maximum duration of three years. The authorities intend to seek changes in the existing legal framework to reflect these new trade policy objectives.

In view of the heavy debt service burden, the authorities intend to pursue a prudent external debt management policy. In particular, they will strictly limit their recourse to nonconcessional financing. They also intend to seek a lengthening of the maturity profile of the existing debt and a reduction in interest payments through voluntary operations. To that end, in April 1990 Morocco and the Steering Committee of its commercial bank creditors reached agreement on a term sheet for a two-stage approach to alleviate Morocco's commercial debt burden. The first stage involves a restructuring and consolidation at a market interest rate but with long grace periods (from seven years to ten years depending on the category of debt) of Morocco's stock of US$3.2 billion of medium-term bank debt (including previously rescheduled bankers' acceptances) incurred prior to September 9, 1983. The agreement also allows for the possibility of debt buy-backs. The second stage, which envisages interest rate reductions, would normally become operative upon the approval by the Fund of an extended arrangement.

2. Medium-term scenario

a. Baseline scenario

The implementation of the structural and macroeconomic adjustment strategy described above is expected to result in improvements in Morocco's external balance, consistent with the authorities' objectives of raising the average annual rate of economic growth to 5 percent by 1992-93, maintaining a low rate of inflation, and eliminating the need for exceptional financing after 1992.

The decline in the current deficit during 1990-91 (an improvement equivalent to 2.5 percent of GDP) would reflect improvements in the trade, nonfactor services, and private transfers accounts, partly offset by an increase in interest payments (Table 6). The recent devaluation of the dirham is expected to stimulate merchandise exports (notably, manufactured final goods and fish), nonfactor service exports (tourism and clothing assembly), and workers' remittances. Export performance would also benefit from: (i) a reduction in import protection, which had raised costs of inputs and distorted patterns of production; and (ii) the recovery in exports of phosphate products following the resolution of a contract dispute with a major customer that had virtually halted such exports during most of 1989. Meanwhile, the growth rate of the volume of merchandise imports (net of the sulphur needed for the production of phosphate products) would decline, owing

Table 6. Morocco: Balance of Payments, 1986-95

	1986	1987	1988	1989 Est.	1990 Prog.	1991	1992	1993	1994	1995
						Projections				
					(In millions of SDRs)					
Trade balance	-909	-826	-558	-1,299	-1,246	-1,196	-1,332	-1,240	-1,189	-1,146
Exports, f.o.b.	2,055	2,151	2,686	2,598	3,038	3,432	3,772	4,318	4,905	5,330
Percent change	(-2.7)	(4.7)	(24.9)	(-3.3)	(16.9)	(12.9)	(9.9)	(14.5)	(13.6)	(8.7)
Imports, f.o.b.	-2,964	-2,978	-3,244	-3,897	-4,284	-4,628	-5,103	-5,557	-6,093	-6,476
Percent change	(-14.3)	(0.5)	(9.0)	(20.1)	(9.9)	(8.0)	(10.3)	(8.9)	(9.7)	(6.3)
Services (net)	-737	-623	-484	-530	-498	-441	-393	-226	-85	144
Tourism	545	620	698	735	851	977	1,077	1,187	1,282	1,385
Other nonfactor services	-363	-296	-162	-201	-194	-237	-297	-266	-261	-173
Factor services	-919	-948	-1,020	-1,064	-1,154	-1,181	-1,173	1,148	-1,107	-1,069
Transfers (net) 1/	1,320	1,295	1,190	1,199	1,400	1,425	1,450	1,475	1,500	1,525
Current account balance	-326	-154	148	-630	-344	-212	-275	8	227	523
in percent of GDP	(-2.3)	(-1.1)	(0.9)	(-3.5)	(-1.8)	(-1.0)	(-1.2)	(—)	(0.9)	(1.8)
Nonmonetary capital	-1,066	-830	-651	-346	-415	12	366	374	344	8
Private investment	76	86	96	169	151	195	210	225	240	255
Official grants	14	—	67	—	61	—	—	—	—	—
Public medium- and long-term capital	-1,126	-885	-595	-556	-627	-183	156	149	104	-247
Disbursement	(835)	(818)	(854)	(941)	(1,017)	(1,271)	(1,382)	(1,325)	(1,347)	(1,125)
Of which: banks	(15)	(10)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Amortization	(-1,961)	(-1,703)	(-1,449)	(-1,497)	(-1,644)	(-1,454)	(-1,226)	(-1,176)	(-1,243)	(-1,372)
Of which: banks 3/	(-386)	(-365)	(-459)	(-395)	(-308)	(-66)	(-47)	(-32)	(-8)	(-1)
Short-term capital (including errors and omissions)	-30	-31	-219	41	—	—	—	—	—	—
Overall balance	-1,392	-984	-503	-976	-759	-200	91	383	571	531
Debt relief	1,508	1,321	1,064	1,031	—	—	—	—	—	—
Obligations relating to debt relief	-96	—	—	—	—	—	—	—	—	—
Debt reduction	—	—	—	—	—	—	—	—	—	—
Allocation of SDRs	—	—	—	—	—	—	—	—	—	—
Overall balance (after debt relief)	20	337	561	54	-759	-200	91	383	571	531
Financing										
Net foreign assets (increase -)	-306	-205	-210	-54	-464	-475	-499	-383	-571	-531
Net IMF	(-244)	(-84)	(-59)	(-53)	(-164)	(-125)	(-99)	(-109)	(-84)	(-38)
Gross reserves	(-63)	(-109)	(-119)	(32)	(-300)	(-350)	(-400)	(-274)	(-487)	(-493)
Other net assets	(1)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Deposit money banks	(—)	(-12)	(-32)	(-33)	(—)	(—)	(—)	(—)	(—)	(—)
Change in arrears	286	-132	-351	—	—	—	—	—	—	—
Financing gap	—	—	—	—	1,223	676	408	—	—	—
Memorandum items: (end of period)										
International reserves	144	253	372	340	640	990	1,390	1,664	2,151	2,644
Import cover 2/	0.5	0.8	1.1	0.8	1.4	2.0	2.6	2.9	3.4	4.0
					(In percent of exports of goods, nonfactor services, and private transfers)					
External debt (including IMF)	343.3	335.0	285.4	293.5	260.3	241.1	229.4	207.8	189.0	173.3
Debt service ratio (before debt relief)	71.3	63.1	49.3	51.6	48.3	41.1	35.0	31.1	28.7	27.7

Sources: Ministère des Finances; Office des Changes; Bank Al-Maghrib; and staff estimates.

1/ Excluding official grants.
2/ International reserves, in months of imports of goods and nonfactor services.
3/ For 1991-95 the figures reflect the impact of the consolidation and restructuring of principal payments on the basis of the 1990 agreement with commercial banks.

largely to the slowdown in the growth of government investment expenditure and the impact of the devaluation on imports of consumption goods.

The current account deficit would increase modestly in 1992 (to 1.2 percent of GDP, from 1.0 percent in 1991), reflecting some moderation in export growth and a high level of capital goods imports associated with two large investment programs (the OCP's program to expand capacity for fertilizer and phosphoric acid production and Royal Air Maroc's fleet modernization program). In 1993, the current account would move into approximate balance. By this time, the OCP's new capacity would begin to come onstream, while capital goods imports for the expansion program would begin to decline. Net factor service payments, slated to remain nearly constant during 1991-92, would also decline moderately in 1993. With a continuation of these trends, the current account would record growing surpluses, which would reach nearly 2 percent of GDP in 1995.

The nonmonetary capital account would shift from a deficit of SDR 0.4 billion in 1990 to a surplus of SDR 0.4 billion in 1992-93 before moving to virtual balance in 1995. These developments would be due principally to two factors. First, disbursements of new external loans would rise from SDR 1.0 billion in 1990 to SDR 1.4 billion in 1992, reflecting the disbursement of loans to finance the OCP and Royal Air Maroc projects. With the subsequent completion of these projects, total disbursements would ease to SDR 1.1 billion in 1995. Second, amortization payments would decline from SDR 1.6 billion in 1990 to SDR 1.2 billion annually in 1992-94 before edging back to SDR 1.4 billion in 1995. The decline in amortization in the initial period reflects the impact of the debt restructuring agreement with commercial banks. The subsequent upturn in amortization starting in 1994 reflects the expiration of grace periods on previous official reschedulings.

These prospective developments would lead to a substantial improvement in Morocco's creditworthiness. Gross official reserves, which amounted to less than one month of import cover (of goods and nonfactor services) in 1989, would rise to more than 2 1/2 months of cover in 1992 and four months of cover in 1995. Meanwhile, the financing gap would decline steadily from SDR 1.2 billion in 1990 (before any purchases under the proposed stand-by arrangement) to SDR 0.4 billion in 1992, and the need for exceptional financing would be eliminated in 1993. The debt service ratio (before rescheduling) would decline sharply over the period, from 51.6 percent in 1989 to 41.1 percent in 1991 and 27.7 percent in 1995 (the nearly 8 percentage point drop in 1991 resulting largely from the commercial bank debt restructuring package). 1/ Over the same period, the stock of external debt would decline from the equivalent of nearly three times the level of exports of goods, nonfactor services, and private transfers, to well under two times. Debt service payments due to the Fund would decline from about 9.2 percent of total debt service payments in 1989 to about 6 percent in 1992-94, taking into account purchases under the proposed stand-by arrangement (Table 7).

b. Sensitivity analysis

The medium-term outlook is sensitive to external developments. For example, a 5 percent decline in the prices of phosphate products (phosphate rock, phosphoric acid, and fertilizers) relative to the baseline scenario would give rise, in the absence of corrective policies, to a deterioration in the external current account equivalent to about 0.5 percent of GDP. In contrast to the baseline scenario, in which the need for exceptional financing is eliminated after 1992, the financing gap in this scenario (Table 5, Scenario 2) would remain at about SDR 100 million in 1993 and would rise thereafter. The effect of an increase of US$1 per barrel in the price of petroleum products (Scenario 3), equivalent to a 5.8 percent rise in 1990 prices, would similarly preclude the achievement of external viability under unchanged policies and international revenue targets, although by a smaller amount than in Scenario 2.

While the alternative scenarios described above demonstrate the sensitivity of the medium-term outlook to external shocks, they do not imply that external viability would need to be delayed beyond 1993 in the face of shocks of these magnitudes. Rather, the scenarios are intended to highlight the potential need for additional adjustment measures over the medium term should the external environment be less favorable than presently assumed.

3. Capacity to repay the Fund

As discussed in Section I, Morocco has incurred no overdue obligations to the Fund in recent years, while outstanding use of Fund resources has been reduced substantially (Table 7). Similarly, debt service payments to the Fund, which reached a peak of SDR 358 million (11.4 percent of total debt service obligations before debt relief) in 1986, declined to SDR 253 million (9.2 percent of debt service before debt relief) in 1989.

1/ The estimates presented in this report do not take account of eventual debt buy-backs, or interest rate reductions that could result from the implementation of the second stage of the recent agreement with commercial bank creditors.

Table 7. Morocco: Indicators of Capacity to Repay the Fund, 1987-95

	1987	1988	1989	Projections 1990	1991	1992	1993	1994	1995
I. Excluding Purchases Under Proposed Stand-By Arrangement									
(In millions of SDRs)									
Outstanding use of Fund resources	755	696	643	478	354	254	145	62	23
(In percent)									
As ratio of									
GDP	5.2	4.3	3.6	2.5	1.7	1.2	0.6	0.2	0.1
Exports of goods, nonfactor services, and private transfers	16.5	13.1	12.1	7.8	5.2	3.5	1.8	0.7	0.2
External public debt	4.9	4.6	4.1	3.0	2.2	1.5	0.9	0.4	0.1
International reserves	298.5	187.1	189.0	74.8	35.7	18.3	8.7	2.9	0.9
Quota	246.3	227.0	209.6	156.1	115.3	82.9	47.4	20.1	7.6
(In millions of SDRs)									
IMF charges and repurchases	302	225	253	208	175	138	138	104	51
Repurchases	244	169	193	164	125	99	109	84	38
Charges	58	56	59	44	50	38	29	20	13
(In percent)									
Total as ratio of									
Debt service before relief	10.5	8.6	9.2	7.0	6.2	5.3	5.4	4.0	1.9
Debt service after relief	19.4	14.4	14.8	7.0	6.2	5.3	5.4	4.0	1.9
Exports of goods, nonfactor services, and private transfers	6.6	4.2	4.7	3.4	2.6	1.9	1.7	1.2	0.5
GDP	2.1	1.4	1.4	1.1	0.9	0.6	0.6	0.4	0.2
International reserves	119.5	60.4	74.3	32.6	17.6	9.9	8.3	4.8	1.9
II. Including Purchases Under Proposed Stand-By Arrangement									
(In millions of SDRs)									
Outstanding use of Fund resources	755	696	643	550	454	354	239	109	27
(In percent)									
A as ratio of									
GDP	5.2	4.3	3.6	2.9	2.2	1.6	1.0	0.4	0.1
Exports of goods, nonfactor services, and private transfers	16.5	13.1	12.1	8.9	6.7	4.8	2.9	1.2	0.3
External public debt	4.9	4.6	4.1	3.4	2.8	2.1	1.4	0.6	0.2
International reserves	298.5	187.1	189.0	86.0	45.8	25.5	14.4	5.1	1.0
Quota	246.3	227.0	209.6	179.5	147.9	115.5	78.0	35.6	8.8
(In millions of SDRs)									
IMF charges and repurchases	302	225	253	210	184	148	155	159	99
Repurchases	244	169	193	164	125	99	115	130	82
Charges	58	56	59	45	59	49	40	29	17
(In percent)									
Total as ratio of									
Debt service before relief	10.5	8.6	9.2	7.0	6.6	5.8	6.1	6.1	3.7
Debt service after relief	19.4	14.4	14.8	7.0	6.6	5.8	6.1	6.1	3.7
Exports of goods, nonfactor services, and private transfers	6.6	4.2	4.7	3.4	2.7	2.0	1.9	1.8	1.0
GDP	2.1	1.4	1.4	1.1	0.9	0.7	0.6	0.6	0.3
International reserves	119.5	60.4	74.3	32.8	18.6	10.7	9.3	7.4	3.7
(In millions of SDRs)									
Memorandum items:									
IMF quota	306.6	306.6	306.6	306.6	306.6	306.6	306.6	306.6	306.6
Trust Fund repayments	21	19	11	3	—	—	—	—	—
Trust Fund interest	—	—	—	—	—	—	—	—	—
Trust Fund outstanding	34	15	4	—	—	—	—	—	—

Sources: Ministry of Finance; and staff estimates.

Indicators of Morocco's capacity to repay the Fund are expected to remain strong over the medium term, provided that the Moroccan authorities successfully implement the type of medium-term strategy outlined above. Taking into account purchases under the proposed stand-by arrangement, outstanding Fund credit would decline to SDR 547 million (8.0 percent of goods, nonfactor services, and private transfer receipts) at end-March 1991. Debt service payments to the Fund would decline to SDR 210 million (7.0 percent of total debt service obligations) in 1990 and further to SDR 148 million (5.8 percent of total debt service) by 1992 before rising again to a peak of SDR 159 million (6.1 percent of total debt service) in 1994, reflecting repayments on purchases under the proposed stand-by arrangement. Other measures of Morocco's capacity to repay the Fund would show a similar pattern over the medium term. Thus, debt service obligations to the Fund would decline from a peak of 8.1 percent of goods, nonfactor services, and private transfer receipts in 1986 to 3.4 percent of such receipts in 1990 and 1.8 percent in 1994. As a share of gross international reserves, debt service obligations to the Fund would decline from a record 248.5 percent in 1986 to 32.8 percent in 1990 and 7.4 percent in 1994. Even if external developments turn out to be less favorable than assumed under the baseline scenario (see Section III.2.b, below), Morocco's capacity to repay the Fund should remain strong, especially once account is taken of the firm commitment of the authorities to implement appropriate corrective policies.

IV. The 1990 Program

1. Introduction

Consistent with the medium-term macroeconomic framework, the principal objectives for 1990 are an acceleration of economic growth from 2.2 percent in 1989 to 3.5 percent in 1990 and the containment of the inflation rate, as measured by the GDP deflator, at 6.0 percent in 1990. Other major objectives of the program include a significant reduction in financial imbalances through a tightening of the fiscal stance and the pursuit of a cautious monetary policy. In 1990, the authorities also intend to implement major structural reforms, which should pave the way to a more competitive and efficient economy. 1/

The gap between domestic investment and domestic saving, in terms of GDP, should decrease from 4.3 percent in 1989 to 3.1 percent in 1990. The achievement of this objective will hinge crucially on the reduction of the budget deficit, on a payment order basis, from 5.7 percent of GDP in 1989 to 2.8 percent in 1990, with a rise in public savings equivalent to 2.6 percent of GDP. The external current account

1/ In the attached memorandum on economic and financial policies, the Government has outlined the policies it intends to follow in 1990 (Appendix I).

deficit, excluding official grants, should decrease from 3.5 percent of GDP in 1989 to 1.8 percent in 1990. Taking into account the programmed increase in net international reserves, total domestic credit will increase by at most 5.2 percent (5.0 percent of broad money at the beginning of the year), in order to restrain monetary growth to 9.5 percent.

2. Fiscal policies

The program's key objective for 1990 is the reduction of the central government deficit, on a payment order basis, to 2.8 percent of GDP (Table 8). Total expenditures are expected to increase by 7 percent, while total government revenues are expected to rise by 20.6 percent. Taking into account the programmed reduction of domestic arrears, the deficit, on a cash basis, will be limited to DH 7.8 billion, or 3.7 percent of GDP. The deficit will be financed through an expansion of net credit to the Government equal to DH 0.8 billion; recourse to nonbank financing for an amount of DH 2.9 billion, including DH 1.5 billion of transfers from public enterprises; net foreign financing for a negative amount of DH 4.7 billion; and expected external debt rescheduling (DH 8.8 billion).

On the basis of the budgetary outturn for 1989 and taking into account the acceleration in the implementation rate of investment expenditure, the 1990 Budget Law would have resulted in an overall deficit estimated at DH 11.6 billion, or 5.6 percent of GDP. In addition, the devaluation of the dirham is estimated to have a negative impact on the deficit equivalent to 0.4 percent of GDP. Therefore, additional measures amounting to 3.2 percent of GDP have been taken to achieve the targeted programmed deficit of 2.8 percent of GDP, or a reduction of expenditure by an amount of DH 2.2 billion (1.0 percent of GDP), and an increase in revenue by an amount of DH 4.7 billion (2.2 percent of GDP). It is worth noting, however, that the 1990 Budget Law included the introduction of a number of important structural measures, notably, the General Income Tax (IGR), the reform of the urban tax, the reform of the local authorities' tax, and the introduction of a series of measures aimed at reducing tax evasion. While these measures are important structurally, some of them result in a loss of revenue, such as the implementation of the IGR for an amount equivalent to about 0.3 percent of GDP.

In view of the above, the authorities have decided to take additional revenue measures. The main measures have been included in a supplementary Budget Law voted by Parliament in June 1990. These include (a) an acceleration over three years of the payment of the corporate income tax, which is estimated to yield DH 1.2 billion; (b) a fiscal amnesty (DH 1.5 billion); and (c) the effect of the implementation of the privatization of a number of enterprises (DH 0.4 billion). Moreover, the authorities have taken the following measures: (a) the OCP will pay a dividend to the Government amounting to DH 0.6 billion; (b) the price of cigarettes has been increased by 11 percent and the

Table 8. Morocco: Financial Transactions of the Central Government, 1987-90

(In millions of dirhams)

	1987	1988	1989	1990
	Actual			Prog.
Total revenue	32,747	41,624	44,086	53,150
Direct taxes	7,621	8,982	10,358	12,340
Customs duties	4,644	7,289	8,496	10,164
Indirect taxes	11,363	13,406	14,882	16,870
Registration and stamp duties	2,666	1,897	2,022	2,280
Monopolies	475	1,264	1,346	1,666
Property income	97	107	94	200
Other revenue	1,016	1,718	1,743	2,070
Phosphate mining company (OCP)	459	740	--	600
Petroleum levy	4,406	6,221	5,145	5,060
Revenue from privatization	--	--	--	400 1/
Fiscal amnesty	--	--	--	1,500
Total expenditure	41,934	49,475	55,230	59,100
Current expenditure	32,269	37,793	40,803	44,200
Goods and services	22,304	25,440	27,315	29,092
Interest	9,333	11,076	11,792	13,233
Domestic	2,987	4,175	4,454	4,900
External	6,346	6,901	7,338	8,333
Consumer subsidies	632	1,277	1,696	1,875
Capital expenditure	9,665	11,682	14,427	14,900
Public savings	(478)	(3,831)	(3,283)	(8,942)
Overall deficit (-),				
on payment order basis	-9,187	-7,851	-11,144	-5,950
In percent of GDP	(-5.8)	(-4.4)	(-5.7)	(-2.8)
Net change in arrears	-1,051	-2,220	1,982	-1,900
Overall deficit on a cash basis	-10,238	-10,071	-9,162	-7,850
In percent of GDP	(-6.4)	(-5.6)	(-4.7)	(-3.7)
Financing	10,238	10,071	9,162	7,850
Domestic	7,480	4,996	5,767	3,750
Banking system	2,225	2,441	3,918	800
Nonbank	5,255	2,555	1,849	2,950 2/
Foreign financing (net)	2,458	5,075	3,395	-4,722
Net borrowings	-7,438	-2,537	-3,975	-4,722
Drawings	5,243	7,531	6,680	7,662
Amortizations	-12,681	-10,068	-10,655	-12,384
Debt relief	9,896	7,612	7,370	...
Interest	2,142	1,898	945	...
Capital	7,754	5,714	6,425	...
Financing gap	--	--	--	8,822 3/

Sources: Ministry of Finance; and staff estimates.

1/ Privatization of certain public enterprises.
2/ Includes part of the expected debt relief on guaranteed debt in 1990 that will be transferred to the Treasury by the public enterprises (DH 1,500 million).
3/ Expected to be financed through debt rescheduling with official creditors.

payment delay from the Régie des Tabacs has been reduced (DH 0.3 billion); (c) the imports of cars have been liberalized and the book prices on which automobile import duties are based have been updated (DH 0.2 billion); (d) rents on public buildings and stamp duties have been increased (DH 0.3 billion). Finally, domestic taxes on consumption will be increased in the near future (DH 0.2 billion).

Concerning expenditures, the authorities have also decided to take additional measures, which have been included in the supplementary Budget Law. Budgetary appropriations for investment expenditure have been reduced by 15 percent, or an amount equivalent to DH 2.0 billion, which is expected to result in a decrease in payment orders of DH 1.3 billion. Moreover, several categories of investment expenditure have been transferred to the local authorities (DH 0.6 billion). In addition to these measures, the authorities have decided to postpone new recruitment to September 1990 (DH 200 million). The authorities have also decided to implement measures aimed at keeping consumer subsidies at the level originally programmed (DH 100 million).

The budgetary target for 1991 will be to decrease the deficit (on a payment order basis) by DH 1.4 billion to 2.0 percent of GDP despite (a) the absence of tax amnesty contributions; (b) the transfer of the business license tax to the local authorities; and (c) the additional negative impact on revenues of the full application of the IGR to all taxpayers. To achieve this objective, the authorities will introduce in the draft of 1991 Budget Law, which will be presented to Parliament in December 1990, a series of measures affecting both revenue and expenditure. In particular, in line with the medium-term strategy, the increase in the wage bill will be limited by the application of the following measures: (a) fringe benefits will be frozen at their 1990 level; (b) the increase in base wages, with the wage drift and promotions taken into account, will not exceed the anticipated inflation rate for 1991; and (c) the restrictive recruitment policy followed in 1990 will be strengthened. As regards the other categories of expenditure, the measures include the transfer of additional categories of expenditure to the local governments; the quasi-stabilization, in nominal terms, of the categories of investments that will remain within the purview of the Central Government; and the limitation of consumer subsidies to DH 1.4 billion. On the revenue side, the achievement of the fiscal target for 1991 will require specific measures, especially measures to strengthen tax administration and reduce tax fraud.

3. Public enterprises

The public enterprises have been classified according to two categories: those to be privatized and those to be restructured. Concerning the former, the legal framework to implement their privatization will be adopted by the Government before end-July 1990. In particular, two committees will be established. The first one will review issues related to transfers of the enterprises to the private sector, and the second will assess the value of these enterprises. The authorities intend to begin effecting the privatization of some enterprises and establishments pertaining to different sectors of the economy before end-1990. For the enterprises to be restructured, a plan of action defined with the World Bank should be ready before the end of 1990. The public enterprises will benefit less and less from the rescheduling by official creditors of their debt contracted or guaranteed by the Government, which will be transferred in part to the Treasury in 1990 (DH 1.5 billion out of the DH 4.0 billion envisaged) and in its entirety starting in 1991.

4. Monetary and credit policy

Early in 1990, the monetary authorities decided to substantially tighten their policy of restraint. In particular, they decided not to allow any growth in the credit subject to the encadrement (most short-term credit to the nongovernmental sector) during the first half of 1990. Data for the first quarter of 1990 indicate that this policy was implemented with firmness. Total domestic credit increased by 1.4 percent during the first quarter of 1990, compared with 5.9 percent during the first quarter of 1989; during the respective quarters, net credit to the Government increased by 2.8 percent, compared with 4.5 percent. Credit to the economy was virtually flat, compared with an increase of 3.7 percent in 1989. However, partly because of an accumulation of delayed external payments, net foreign assets of Bank Al-Maghrib increased from SDR 352 million at end-December 1989 to SDR 524 million at end-March 1990, while during the first quarter of 1989 they had dropped sharply. As a result, broad money increased by 3.8 percent in the first quarter of 1989, compared with 3.4 percent in 1989. Preliminary data for April and May 1990 suggest that credit expansion will remain quite limited during the second quarter of 1990.

Under the program for the second half of 1990, the authorities will continue to implement a tight credit policy, consistent with the fiscal, external, and inflation objectives. For 1990 as a whole, the expansion in domestic credit will be limited to 5.2 percent which, in view of the 2.3 percent increase targeted for net credit to the Government, will permit an increase in credit to the economy of 11.5 percent (Table 9). It is expected that total financing for cereal crops will grow from DH 959 million at end-1989 to a peak of DH 1.25 billion at end-September 1990, dropping to DH 1.00 billion at end-December 1990. Taking into account that credit to the public enterprises is not to exceed DH 500 billion, the growth of other credit to the private sector could reach about 10.8 percent. Owing to the payments envisaged under the tax amnesty and the acceleration of payments under the corporate income tax, this should imply relatively tight liquidity conditions. Reflecting the impact of the expected improvement in the net foreign assets of the banking system, together with the authorities' domestic credit objectives, broad money is projected to increase by 9.5 percent in 1990, in line with the rate of nominal GDP growth for that year.

Table 9. Morocco: Monetary Survey, 1986-90

	1986	1987	1988	1989	1990
	December				Dec. Prog.
	(In millions of dirhams; end of period)				
Net foreign assets	-4,772	-2,679	-357	491	5,063
Monetary authorities	-7,410	-5,558	-3,583	-3,099	
Reserves	1,531	2,799	4,108	3,764	
Net IMF position	-8,491	-8,357	-7,690	-6,863	
Deposit money banks	2,638	2,879	3,226	3,590	
Domestic credit	71,364	76,861	83,856	92,602	97,402
Excluding counterparts	(68,840)	(73,753)	(79,181)	(87,119)	(91,950)
Net credit to the Government (excluding counterparts)	45,671	48,927	51,607	56,621	57,900
Credit to the private sector	23,169	24,826	27,574	30,498	33,995
Money and quasi-money	68,848	75,546	86,659	96,853	106,054
Money	53,223	59,212	68,192	76,024	
Currency outside banks	18,694	20,004	21,914	24,814	
Demand deposits	34,529	39,208	46,278	51,210	
Quasi-money	15,625	16,334	18,467	20,829	
Import deposits	--	--	--	--	
Provisions o/a foreign exchange	1,064	2,209	239	--	
Other items, net	-3,320	-3,573	-3,399	-3,760	-3,589
	(Annual change in percent)				
Domestic credit	11.3	7.7	9.1	10.4	5.2
Net credit to the Government (excluding counterparts) 1/	...	7.1	5.5	9.7	2.3
Credit to the private sector 1/	...	7.2	11.1	10.6	11.5
Money and quasi-money	15.9	9.7	14.7	11.8	9.5
Money	17.9	11.3	15.2	11.5	
	(Annual change as percent of broad money at the beginning of the period)				
Net foreign assets	5.4	3.0	3.1	1.0	4.7
Domestic credit	12.2	8.0	9.3	10.1	5.0
Net credit to the Government	...	5.6	5.6	6.7	1.3
Credit to the private sector	...	2.4	3.6	3.4	3.6
Money and quasi-money	15.9	9.7	14.7	11.8	9.5
Currency outside banks	4.2	1.9	2.5	3.3	
Demand deposits	9.4	6.8	9.4	5.7	
Quasi-money	2.3	1.0	2.8	2.7	

Sources: Bank Al-Maghrib; and staff estimates.

1/ Government credit in the proposed program has been revised to include direct credit from Bank Al-Maghrib and special credit which were previously included in credit to the economy. However, related statistical information is only available starting in 1986.

As already mentioned, during the second half of 1990 the authorities intend to prepare the shift from their current policy of credit encadrement to a policy based on indirect instruments. In particular, the Treasury will rapidly lose its access to the money market through the issuance of notes that are rediscounted by Bank Al-Maghrib at a fixed rate. The outstanding amount of these notes will be reduced from DH 8.5 billion at end-1989 to DH 7 billion at end-June 1990, DH 6.5 billion at end-September 1990, and DH 6 billion at end-1990. Thus, apart from the statutory subscriptions by commercial banks, most of the monetary financing of the Treasury will now have to go through the bidding process that is already in place but has rarely been used. At least initially, this reform is likely to imply a marked rise in the interest rate on treasury bills sold through the bidding process. Once they are liberalized, other interest rates are also likely to rise.

5. External sector

During the first quarter of 1990, the external position improved somewhat, but remained fundamentally weak. The current account deficit is estimated to have narrowed to SDR 131 million, compared with SDR 236 million in the first quarter of 1989, with much of the improvement attributable to the recovery in exports of phosphoric acid and fertilizers. Imports of most nonfood categories, however, continued to increase rapidly. Net foreign assets of the banking system increased by SDR 220 million. However, once account is taken of the accumulation of SDR 369 million of delayed payments and of the fact that only about SDR 300 million of these payments would be rescheduled under the assumptions of the program, the adjusted increase in net foreign assets of the banking system was only about SDR 150 million.

Although the real effective exchange rate of the dirham has remained relatively stable in recent years, the recent devaluation of the dirham was needed to achieve the targeted strengthening of Morocco's external position without placing the entire burden of adjustment on contractionary financial policies. In particular, the devaluation was an important means of promoting the diversification of Morocco's manufactured exports and of revitalizing growth in tourism exports, which has slowed in recent years.

The program for 1990 also includes further steps to liberalize Morocco's trade regime. In particular, the authorities intend to reduce the number of industrial products subject to quantitative restrictions by about one third before the end of the year, and a number of agricultural products will similarly be liberalized. In this connection, the authorities liberalized the importation of new and used automobiles in May 1990. In the area of tariff reform, the number of tariff rates will be reduced from 26 to 15, and a study will be conducted by end-September 1990 to define the principles that will be used to reduce the dispersion and average level of effective protection. On the basis of the study, an action program will be adopted by year-end. Moreover, the use of reference prices, which effectively result in a variable import levy by fixing import prices in local currency terms, will be limited to a few essential agricultural commodities and their major derivatives. As already mentioned, the authorities also intend to modify the legislative framework for international trade. The proposed legislative changes will be discussed with the Fund staff by end-September 1990.

Consistent with the improved competitiveness and the policy of financial restraint, the program for 1990 envisages a narrowing in the external current account deficit to SDR 344 million (1.8 percent of GDP) from SDR 630 million (3.5 percent of GDP) in 1989. The sources for the improvement are expected to be broadly based. Merchandise exports, which declined by 3.3 percent in 1989, are projected to rise by 16.9 percent in 1990, while growth in merchandise imports is expected to be reduced by nearly half, to 9.9 percent. As a result, the merchandise trade deficit would decline by SDR 53 million to SDR 1.25 billion. Most of the current account improvement is expected to come from higher receipts of nonfactor services and transfers. The combined surplus in these accounts should grow by SDR 324 million to SDR 2.06 billion. The only major current account component that is expected to weaken in 1990 is the factor services account, reflecting a 16 percent increase in interest due on medium- and long-term public and publicly guaranteed debt.

The projected improvement in the current account balance would result from a combination of macroeconomic and structural policies designed to improve the competitiveness of the economy and redress imbalances between savings and investment, particularly in the public sector. Merchandise exports should begin to benefit from the recent devaluation of the dirham, as well as from the resolution of a contract dispute with a major trading partner, which had virtually halted exports of phosphoric acid during the first ten months of 1989. On the import side, performance is expected to be positively influenced by the tightening of fiscal policy, which should lead to a marked deceleration in capital goods and consumer goods imports. Imports of petroleum products and vegetable oils would decelerate, owing to the high level of stocks at the start of the year. In contrast, imports of sulphur would rise sharply as a result of the recovery in exports of phosphate products. Among service exports, the exchange rate change should have the most immediate impact on tourism and remittances from Moroccan workers abroad.

The deficit in the nonmonetary capital account (before rescheduling) is projected to widen from SDR 346 million in 1989 to SDR 415 million in 1990, despite record disbursements of official capital and grants (SDR 1.08 billion). Amortization payments to official creditors would rise sharply (21 percent), mainly because of the expiration of grace periods on the third official rescheduling agreement. Although inflows of foreign direct investment would decline from the record level achieved in 1989, primarily reflecting policy uncertainties during the first part of the year, direct investment inflows would nevertheless be greater than in any year other than 1989.

Taking into account the programmed increase in gross international reserves (SDR 300 million), and repurchases from the Fund (SDR 164 million), a financing gap of SDR 1.22 billion would remain. This gap could be filled by purchases under the proposed stand-by arrangement, together with debt relief from official and private creditors. As already noted, Morocco and the Steering Committee of its commercial bank creditors reached agreement in April 1990 to restructure Morocco's commercial debt stock. The amount of debt relief in 1990 attributable to this agreement is estimated at SDR 252 million. Taking into account of the SDR 72 million of purchases envisaged under the proposed arrangement, the gap to be filled by bilateral official creditors would amount to SDR 896 million, which is somewhat more than the amount rescheduled in 1989.

The program for 1990 is expected to result in an improvement in Morocco's overall creditworthiness. Gross international reserves would increase from 0.8 month of import cover (of goods and nonfactor services) in 1989 to about 1.4 months of cover in 1990, and the debt service ratio, before debt relief, would decline from 51.6 percent to 48.3 percent. Consistent with the objective of improving the debt service profile, the contracting and guaranteeing of new nonconcessional debt in the 1- to 12-year maturity range and the amount of short-term debt are subject to limits under the program. There are no external payments arrears on unreschedulable external debt. The authorities intend to ensure that no new external payments arrears will be accumulated during the program period and that payments in suspense on pre-cutoff-date debt will be eliminated through rescheduling or cash payments by end-September 1990, or in accordance with terms agreed with creditors.

6. Performance criteria, indicative targets, and review

The program contains the following quantitative performance criteria, which have been set for end-July 1990, September 1990, and December 1990: (i) quarterly ceilings on the cumulative overall budgetary deficit on a cash basis; (ii) quarterly ceilings on the reduction of the Government's domestic payments arrears; (iii) quarterly ceilings on net bank credit to the Government; (iv) quarterly ceilings on gross credit to public enterprises; (v) quarterly ceilings on total domestic bank credit; (vi) quarterly ceilings on outstanding public sector short-term debt; (vii) quarterly ceilings on new nonconcessional external borrowing with a maturity of 1 to 12 years contracted or guaranteed by the Government, with a subceiling on loans with a maturity of 1 year to less than 3 years; (viii) no accumulation of external payments arrears; and (ix) quarterly minima for the net foreign assets of Bank Al-Maghrib. The quarterly ceilings on net bank credit to the Government, total domestic bank credit, and net foreign assets of Bank Al-Maghrib will be adjusted for any foreign financing to the Government in excess of the amounts programmed. The above performance criteria are defined in the technical memorandum of understanding (Appendix I) and shown in its attached Table 1. The standard clause on the intensification of exchange restrictions and multiple currency practices also constitutes a performance criterion.

In addition, the program contains the following indicative targets: (i) quarterly targets for cumulative government revenue; (ii) quarterly targets for public investment expenditure commitments; and (iii) quarterly targets for net foreign assets of Bank Al-Maghrib. As with the quarterly performance criteria, the quarterly indicative targets have been set for end-July 1990, end-September 1990, and end-December 1990. Failure to observe any indicative target will entail consultation with the Managing Director of the Fund as to whether additional measures may be required to ensure adherence to the program.

One review is scheduled with the Fund and is to be completed by mid-December 1990. The review, which will be combined with the 1990 Article IV consultation, will focus on the projected 1991 Budget Law to be presented to Parliament in November 1990 and accompanying financial measures. The review will also examine the mobilization of external resources, including debt rescheduling, to cover remaining financing gaps, the further liberalization of imports, the privatization program, credit and exchange rate policy, and the progress made in liberalizing the financial sector. The amounts, timing, and conditions of purchase from the Fund available to Morocco under the stand-by arrangement are set out in Table 1.

V. Staff Appraisal

From 1985 to 1988, the adjustment policies followed by the Moroccan authorities, as well as favorable changes in terms of trade and a return to normal rainfall levels, led to a significant reduction in domestic and external imbalances. Nonetheless, severe financial and structural disequilibria remained in the Moroccan economy in 1988. In particular, the overall balance of payments deficit (before debt relief) remained large, while the deep-rooted budgetary problem was far from solved. In addition, despite the implementation of far-reaching measures, structural impediments to productive investment and growth were still considerable. Consequently, economic growth did not accelerate and the unemployment rate in urban centers remained at about 15 percent of the labor force.

While further progress was achieved in 1989 in speeding up administrative procedures in support of private investment and in preparing the ground for the privatization of many public enterprises and establishments, the overall adjustment effort was set back by large deviations from the financial objectives envisaged in the program. A lack of prompt response to the unfavorable reversal of exogenous factors, aggravated by a shortfall in tax revenue and an excessive amount of public investment during the last few months of the year, resulted in a budget deficit and an external current account deficit that were much higher than programmed. Because of these deviations, none of the end-December 1989 targets concerning the budget deficit, credit, foreign reserves, and domestic arrears were met.

During the first half of 1990, the Moroccan authorities have taken important measures to correct for the policy weaknesses that slowed down adjustment in the past, especially in 1989. On the basis of these measures, they have elaborated an economic and financial program for 1990 that is part of a macroeconomic framework that targets the return to a viable balance of payments by 1993 and an acceleration in economic growth within a noninflationary climate. The external environment is envisaged to be at best neutral, so that the achievement of these objectives will depend crucially on the steady implementation of a mix of policies that include a significant strengthening in the budgetary policy, a restrained monetary policy, and the pursuit of an appropriate exchange rate policy. The success of the program will also depend on the authorities' prompt and adequate response to any adverse exogenous factors.

The authorities devalued the dirham in May 1990 and anchored it to a basket of Morocco's main partner currencies. With this new anchor, the authorities intend to pursue monetary and fiscal policies compatible with the pursuit of a low rate of inflation so as to continue to enhance the competitiveness of the economy without having to depreciate the dirham further. While the staff supports this approach, it is obvious that it can succeed only if the control of public finance is sufficiently strong. In particular, it must be noted that the achievement of balance of payments viability also implies the elimination of exceptional financing at the level of the public sector. The required adjustment is quite ambitious given that debt relief accruing to the public sector was equivalent to 6 percent of GDP in 1989. Achieving these targets will require long-lasting expenditure and revenue measures. Another essential part of the medium-term strategy will be the reform of public enterprises, including the privatization of many of them, and the broadening and deepening of the financial market. The authorities will also continue to open the Moroccan economy to the rest of the world. In particular, they fully intend to eliminate all quantitative restrictions, except for a small negative list, and to streamline the import tariffs.

The program for 1990 ushers in important measures in all key areas. In the fiscal area, a number of structural measures, including the introduction of the new General Income Tax, were included in the 1990 Budget Law. The supplementary Budget Law enacted by Parliament in June 1990 includes not only temporary measures such as the tax amnesty but also measures having lasting effects, particularly the transfer of certain categories of expenditure to the local authorities, the freeze on current expenditure on goods and services, and the pruning of the public investment program. These measures should foster a reduction in the budgetary deficit, on a payment order basis, from 5.6 percent of GDP in 1989 to 2.8 percent in 1990. A strict implementation of this budget and the preparation of a budget for 1991 that would be consistent with a further reduction of the deficit to 2.0 percent of GDP, this time entirely on the basis of long-lasting measures, will be the sine qua non for the success of the program.

The reform of monetary policy is another important element of the 1990 program. The staff believes that by restoring the control of reserve money to Bank Al-Maghrib and by liberalizing interest rates, the authorities will set the basis for the broadening and deepening of the financial sector. In the meantime, monetary policy has been tightened through a strict enforcement of the credit encadrement.

The staff considers that the proposed program represents a significant renewal of the adjustment effort aimed at reducing the structural imbalances of the Moroccan economy and achieving financial stability, both of which will in turn stimulate the resumption of adequate growth. The staff agrees with the authorities that the 1990 program should be viewed as a step toward formulating and implementing a comprehensive policy strategy that could lay the basis for a medium-term program that would achieve balance of payments viability by 1993, while restoring the basis for sustained noninflationary growth. Indicators of Morocco's capacity to repay the Fund are expected to remain strong over the medium term, especially once account is taken of the firm commitment of the authorities to implement appropriate corrective policies in order to ensure a restoration of a fully viable external position by 1993.

VI. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for approval by the Executive Board.

Stand-By Arrangement

1. The Government of Morocco has requested a stand-by arrangement for the period from July --, 1990 to March 31, 1991 in an amount equivalent to SDR 100 million.

2. The Fund approves the stand-by arrangement attached to EBS/90/--.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Exchange Restrictions

The Fund approves the retention by Morocco of the exchange restrictions remaining pending the execution of rescheduling agreements with each official creditor until March 31, 1991.

Morocco--Stand-By Arrangement

Attached hereto is a letter, with annexed Memorandum on Economic and Financial Policies and Technical Memorandum of Understanding dated July 2, 1990, from the Minister of Finance of Morocco, requesting a stand-by arrangement and setting forth:

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

(ii) understandings of the authorities of Morocco with the Fund regarding the review 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 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 July --, 1990 to March 31, 1991, Morocco will have the right to make purchases from the Fund in an amount equivalent to SDR 100 million, subject to paragraphs 2, 3, 4, 5, and 6 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 24 million until September 15, 1990; the equivalent of SDR 48 million until November 30, 1990; and the equivalent of SDR 72 million until January 31, 1991;

(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 resources.

4. Morocco will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Morocco's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that
(i) the limit on the cumulative budgetary deficit; or
(ii) the limit on the net reduction in the Government's domestic payments arrears; or

(iii) the limit on net bank credit to Government; or
(iv) the limit on bank credit to public enterprises; or
(v) the limit on total bank credit; or
(vi) the limit on outstanding short-term external debt of the public sector; or
(vii) the limits on new nonconcessional external borrowing contracted or guaranteed by the Government; or
(viii) the limit on external payments arrears; or
(ix) the increase in net external reserves of Bank Al-Maghrib

set forth in paragraphs 2 through 8 and Table 1 of the Technical Memorandum of Understanding annexed to the attached letter, have not been observed; or

(b) after October 31, 1990 until the review, contemplated in paragraph 3 of the attached letter and in paragraph 12 of the Technical Memorandum of Understanding annexed to the attached letter have been completed and suitable performance criteria have been established during the first review, or, after such performance criteria have been established, while they 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 or modifies 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 will not make purchases under this stand-by arrangement during any period of the arrangement in which Morocco has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. 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 6, 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.

7. 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.

8. The value date of a purchase under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Morocco will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

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

10. (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 purchase 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.

11. 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 its annexed memoranda.

12. In accordance with paragraph 5 of the attached letter of July 2, 1990, 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 4 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.

Rabat, July 2, 1990

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. Attached please find a memorandum describing the economic and financial policies that the Government of the Kingdom of Morocco plans to implement during 1990. This program should provide Morocco with a sound foundation for devising a medium-term strategy for restoring viability to its balance of payments as of 1993, while keeping inflation down and achieving lasting growth commensurate with Morocco's potential. The program accordingly entails designing and implementing far-reaching structural measures in the areas of foreign trade, the financial system, public enterprises, and government finance, as well as decisive action in the area of demand management and support for activities with the potential to improve Morocco's balance of payments.

2. In furtherance of these goals and policies, the Government of the Kingdom of Morocco is seeking support from the International Monetary Fund under a stand-by arrangement in an amount equivalent to SDR 100 million over a nine-month period.

3. Working in concert with the Fund, the Government of the Kingdom of Morocco will closely monitor the progress made in achieving the program targets and in implementing the chosen policies and measures. In particular, a review of the program will be completed prior to December 15, 1990. The review will be devoted to an examination of program execution for 1990. It will also focus on the 1991 budget proposal as submitted to Parliament; the financial policies associated with the budget; the progress achieved in mobilizing external assistance, including the rescheduling of debt service; and developments with regard to the privatization program and the liberalization of imports. The review will also touch upon credit policy, exchange rate policy, and progress with the reform of the financial system.

4. In support of its adjustment effort and to help achieve its targets for economic growth and for improving the external debt profile, the Government of the Kingdom of Morocco is also seeking the support of the International Monetary Fund and the World Bank to enable it to mobilize the needed financial assistance.

5. In connection with the policies and objectives of this program, the Government does not intend to impose new or intensify existing restrictions on payments and transfers for current international transactions, introduce or modify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, or impose new or intensify existing import restrictions for balance of payments reasons.

6. While the Government believes that the policies and measures set forth in the attached memorandum should make it possible to achieve the program targets, it will also take any additional action that may prove necessary. It will consult the Fund throughout the period of the stand-by arrangement on the adoption of any measures that may be appropriate, in accordance with Fund practice in this area.

Sincerely yours,

Mohamed Berrada
Minister of Finance

Attachment

Memorandum on Economic and Financial Policy

I. Introduction

1. From 1985 to 1988, the adjustment and restructuring policy followed by the Government of the Kingdom of Morocco, as well as a favorable change in the terms of trade and a return to normal rainfall levels, made it possible for the Moroccan economy to make satisfactory progress toward reducing domestic and external imbalances. Accordingly, the execution of the general budget resulted in a decrease in the deficit, on a payment order basis, from 9.6 percent of GDP in 1985 to 4.3 percent in 1988, and the external current account, which recorded a deficit of 7.7 percent of GDP in 1985, improved considerably and yielded a surplus equivalent to 0.9 percent of GDP in 1988. External arrears, which amounted to SDR 483 million at end-1986, were eliminated in their entirety while domestic arrears were appreciably reduced. There was also a remarkable reduction in the inflation rate, as measured by the GDP deflator, which did not exceed 3.6 percent in 1988. In addition, substantial progress was achieved in the structural area, in particular with the liberalization of a sizable proportion of external transactions and of domestic prices, a far-reaching reform of the tax system, and the first phase of the reform of public enterprises. Despite these positive developments, economic growth did not exceed 4 percent on average, while urban unemployment remained at about 14 percent of the labor force.

2. During 1989, and within the framework of the High Directives contained in the Royal Letter addressed to the Prime Minister, significant progress was made as regards the simplification of administrative procedures and the acceleration of investment. In addition, a law on the privatization of more than 110 public enterprises and establishments was adopted, and the decree subjecting some sectors to Marocanisation was abrogated. The application of these measures was followed by a far-reaching publicity campaign and had a very favorable impact at the level of economic agents, with the result that industrial investments authorized to benefit from the incentives envisaged in the investment codes increased by about 40 percent in 1989. However, GDP growth was only 2.2 percent, against growth of 10.4 percent in 1988, principally owing to the downswing in the production of phosphate products but also to a less favorable crop year than the bumper harvest of 1988. The increase in prices, as measured by the GDP deflator, accelerated to 5.3 percent, partly because of the increases in the minimum wage and civil service salaries.

3. Developments as regards financial balances were much less satisfactory, however, because of the unfavorable reversal of certain exogenous factors with the increases in the prices of petroleum and imported foodstuffs, a rise in interest rates, and the slackening of demand for phosphate products, but also because of deviations from the objectives concerning the central government budget and monetary

policy. Thus, general budget execution for 1989 resulted in a deficit, on a payment order basis, equivalent to 5.7 percent of GDP instead of the initial program objective of 3.5 percent. The main causes of this overrun were a revenue shortfall attributable in part to exogenous factors and to a substantial increase in the investment implementation rate. The magnitude of this deficit, as well as a lower-than-expected level of domestic nonbank financing, resulted in an increase in domestic arrears in an amount of about DH 2 billion compared with a programmed reduction of DH 1 billion. In addition, coverage of the Treasury's financing requirement resulted in recourse to bank financing well in excess of programmed levels. This was compounded by an increase in credit to the economy that was greater than projected despite the measures taken during the year. This development intensified the pressures on the external accounts. Accordingly, the trade deficit, which amounted to SDR 560 million in 1988, worsened to SDR 1.3 billion in 1989 under the combined impact of a slowdown in exports, attributable in particular to the slump in sales of phosphoric acid, which by itself caused a net shortfall of almost SDR 290 million (the equivalent of 1.5 percent of GDP), and the strong rise in imports, in particular of semifinished goods and capital goods. Taking into account the modest rise in tourism receipts and transfers from Moroccan expatriate workers, the current account of the balance of payments, before rescheduling, shifted from a surplus position in 1988 to a deficit equivalent to 3.5 percent of GDP in 1989, compared with an initially programmed surplus of 0.7 percent. These factors taken together resulted in a slight decline in foreign exchange reserves, which represented only 0.8 month's imports of goods and nonfactor services at end-1989 against 1.1 months at end-1988. Despite this decline, the increase in the money supply was 2 percentage points higher than the rate indicated in the initial program.

II. Medium-Term Objectives and Policies

4. The major objectives of the economic and financial program for 1990 are part of a macroeconomic framework that targets the return to a viable balance of payments by 1993 and an acceleration in economic growth within a noninflationary climate in accordance with the 1988-92 Plan. To achieve these objectives, the program will include policies and measures aimed at increasing domestic savings, making the economy more competitive, further promoting the takeoff of the private sector, and streamlining the public sector. Improved investment productivity will continue to be sought through the greater liberalization of external transactions, the modernization of the financial sector, the continued reform of public enterprises, including the implementation of the privatization program, and the enhanced programming and monitoring of the Central Government's investments. Quantitative restrictions on credit will be lifted, while interest rates will continue gradually to be deregulated. The implementation of the liberalization program, in conjunction with the modernization of the financial system and the development of a more competitive banking system, should stimulate

savings and productive investment. Within this framework, an appropriate fiscal policy will be pursued, with greater rationalization of the tax system and improvements in the structure, monitoring, and control of public expenditure. Furthermore, the conduct of monetary policy will be aimed at maintaining a low rate of inflation, which should make it possible to keep the exchange rate stable while facilitating further opening of the Moroccan economy.

5. Despite the stagnation anticipated in the agricultural sector, the rate of growth of the economy should increase from 2.2 percent in 1989 to 3.5 percent in 1990 because of a recovery in the secondary sector, in particular in the sector of phosphates and phosphate derivatives. Subsequently, this growth should accelerate and affect all sectors of the economy, reaching 4.5 percent in 1991 and 5 percent in 1992-93 under the impact of the adjustment and restructuring policies, which are already leading to a perceptible increase in private investment. The inflation rate, as measured by the GDP deflator, should be contained at 6 percent in 1990, despite the May 1990 adjustment in the exchange rate, and decline to 5.0 percent in 1991 and 4.0 percent in 1992-93, reflecting the combined impact of the structural measures and the pursuit of cautious monetary and fiscal policies. Notwithstanding a virtual stagnation of the terms of trade, the external current account should improve significantly, while the need for exceptional financing should disappear in 1993. Foreign exchange reserves should increase significantly, rising to the equivalent of three months' imports of goods and nonfactor services by end-1993. Moreover, in order to decrease the external debt burden and to improve the debt structure, the authorities will continue to limit nonconcessional external borrowing contracted or guaranteed by the Government. The Government of the Kingdom of Morocco is fully aware of the fact that the success of this medium-term program is in large measure contingent on the control of government finance through the early introduction of far-reaching structural measures affecting both expenditure and revenue, as well as on an accelerated introduction of the structural reforms. In particular, the budget deficit, on a payment order basis, will have to be reduced considerably in order to minimize recourse to the banking system, if only to facilitate the conduct of a cautious monetary policy based upon indirect instruments.

6. This medium-term fiscal policy will be in conformity with the objective of a viable balance of payments by 1993, which entails the elimination of exceptional financing (including financing in the form of debt rescheduling) both for the budget and for the public enterprises. Achievement of this objective calls for the immediate implementation of structural measures aimed at restoring and strengthening the financial position of the public sector, including a significant effort to mobilize nonbank financing within the framework of an expanded financial market. The adjustment required is quite considerable, as in 1989 external debt relief was still equivalent to 5.8 percent of GDP.

7. To achieve these objectives, the authorities will introduce better expenditure monitoring and control. In particular, the public expenditure policy will have three main foci: (a) personnel expenditure; (b) price supports; and (c) investment expenditure. As regards the wage policy, the 1991-93 objective is to limit growth in the wage bill in nominal terms while improving productivity and the system of incentives in the public sector. To do this, it will be necessary to freeze fringe benefits in nominal terms at the 1990 level and to prevent increases in base salaries from exceeding the rate of inflation. In addition, the authorities intend to pursue an extremely cautious recruitment policy. As regards price supports, the authorities intend to reduce the subsidies on sugar and vegetable oils gradually, and ultimately to eliminate them in 1993. Accordingly, the retail prices of these products will be adjusted each year, taking into account changes in international market prices and the progress achieved in the restructuring of these two sectors. Finally, as regards domestic flour, the authorities will improve the existing system, in particular with respect to distribution. The medium-term public investment policy will address the following issues: (a) definition of an overall ceiling (exclusive of transfers to the local governments of certain categories of expenditure) consistent with the medium-term objectives of the program, including that of reducing the budget deficit; (b) reorientation of investment toward the social sectors (education, health, housing) and the infrastructure required for supporting the development of the private sector; and (c) an increase in local government participation in the investment effort, through the transfer of new categories of expenditure.

8. As regards revenues, the major tax reforms have already been put in place. Nevertheless, the authorities are of the opinion that there are still a number of structural measures to be taken in order to increase tax elasticity and broaden the tax base, in particular by improving the efficiency of the tax system and its yield. In particular, the authorities plan to reduce exemptions substantially and to strengthen tax administration.

9. The major objective of the reforms undertaken with respect to the public enterprises is to achieve sound and efficient management of the Central Government's portfolio, including the implementation of a privatization plan. In an inventory of the Central Government's holdings, the public enterprises have been classified into two major categories: those for which central government divestment over time is appropriate, and those that carry out essential public services. For the first group, the ongoing privatization program constitutes a fundamental point of departure. For the others, and with assistance from the staff of the World Bank in the context of the second Public Enterprise Rationalization Loan, a restructuring program will be drawn up and introduced to improve their management. This program will take into account the fact that these enterprises will no longer benefit from the rescheduling of their external debt service. In the medium term, enterprises experiencing difficulties should no longer receive any

transfers from the Central Government. In addition, the contribution of other enterprises to the Central Government budget will be reviewed. Accordingly, the public enterprises will be called upon to review their management, their investment plans, and their rate schedules.

10. The Government is aware of the essential role that the private sector ought to play in the achievement of the economic growth objective and it intends to pursue its efforts to improve the economic and financial environment for private and foreign investment. In this context and in implementing his Highness' Royal Directives, which aim at simplifying administrative procedures for investment, the Parliament has adopted in June 1990 a law defining a maximum delay of 60 days for the administration to respond to any administrative requests related to investment. Moreover, the Government intends to review all the investment codes with the view to rationalizing the incentive system. To that end, an interministerial commission will be created at the level of the Prime Minister by July 1990. This commission will present its recommendations before the end of 1990.

11. The Government of the Kingdom of Morocco will take all necessary steps to successfully conclude the privatization of over 110 enterprises and establishments identified in the law of April 11, 1990. By mid-July 1990, the Government will approve the decrees related to the implementation of this law; these decrees in particular will specify the organization of the commission in charge of the transfers of properties, define the composition and organization of the commission in charge of the valuation of the properties, and set up the mechanisms to effect the transfers. In addition, a privatization program for the next six years, which will include a detailed timetable for 1990-1991 is now being prepared. The draft of this program will be discussed with Fund staff during 1990. The authorities intend to privatize a number of large enterprises and establishments in various sectors of activity before end-1990.

12. Another key aspect of the medium-term strategy will be the modernization of the Moroccan financial system. The first stage will be the lifting of the credit encadrement as of January 1, 1991 and the development of a monetary policy based on the use of indirect control instruments. During 1990, the authorities propose to introduce the instruments necessary for the pursuit of this new policy. In particular, while the regulations limiting the recourse of the Treasury to credit from Bank Al-Maghrib under the form of conventional advances, statutory advances, and the rediscounting of customs bills and surety bills will remain unchanged during the program period, the Treasury will reduce its recourse to the money market through the issuance of notes that are rediscounted by Bank Al-Maghrib at a fixed rate. The outstanding amount of these notes will be reduced from DH 8.5 billion at end-1989 to DH 7 billion at end-June 1990, DH 6.5 billion at end-September 1990, and DH 6 billion at end-1990. Apart from the statutory subscriptions by commercial banks, Treasury financing beyond these limits will be through a bidding process. However, in cases where

for a limited period conditions in the money market do not allow the Treasury to satisfy its needs, the Treasury will be allowed on an exceptional basis to have recourse to advances from the central bank under an agreement that will be concluded with this institution before end-June 1990. These special advances will not be allowed to accumulate beyond an aggregate amount of DH 500 million and will be reimbursed within a maximum period of three weeks. In addition, in order to adapt them to the new environment, proposals for revisions in the banking law of 1967 and the Charter of the Bank Al-Maghrib will be prepared and submitted to the Government by end-1991. During the program, Treasury notes will progressively be made available to a greater number of economic transactors, inter alia nonbank economic agents, which will thus be able to engage in arbitrage activities between different types of investments. The monetary authorities will strengthen prudential regulations related to credit and bank administration by end-1990. In particular, the coefficient limiting the exposure per customer will be revised and appropriate ratios limiting the risks resulting from cash loans and signature loans in function of the banks' own funds will be instituted. Moreover, in the context of the credit désencadrement, the interest rates on both credit and debit sides will be freed. Thus, the rates on banking deposits above three months will be freed as of July 1, 1990. The rates on loans extended by banks and specialized financial institutions will be freed as of October 1, 1990 for the medium and long term and as of January 1, 1991 for the short term. However, in any quarter the lending rates will not be allowed to exceed by more than one third the average rate for Treasury notes with a maturity of one year that were placed through the bidding process during the previous quarter. This average rate will be communicated to the banks and the specialized financial institutions by Bank Al-Maghrib. All of these measures will be announced in the meeting of the Comité du Crédit et du Marché Financier, which will be held at the end of June 1990.

13. In order to improve the competitiveness of the Moroccan economy and to strengthen the objective of financial stabilization, the Government of the Kingdom of Morocco devalued the dirham by 9.25 percent (in foreign currency terms) on May 2, 1990 and decided that henceforth the dirham would be pegged to a basket of currencies reflecting the relative importance of Morocco's trading partners, with a band of fluctuation. This basket pegging implies that Morocco will pursue monetary and fiscal policies that are compatible with the objective of maintaining an inflation rate that is sufficiently low to ensure the competitiveness of the Moroccan economy. In any event, the objective of the economic policy, including in the exchange rate area, will continue to be the achievement of a viable balance of payments by 1993.

14. The authorities intend to accelerate the liberalization of foreign trade with a view to increasing competition in the economy, allowing for the free play of market forces so as to achieve improved resource allocation. Hence, the authorities have decided to gradually abolish quantitative import restrictions. In a first stage, imports of new and used automobiles were liberalized in May 1990. Accordingly, and

following publication of the general imports program scheduled for July 1990, about one third of the industrial products on List B (products subject to restrictions) will be moved to List A (unrestricted products). In addition, the authorities intend to transfer a number of agricultural products to List A by end-1990 as envisaged in the adjustment program for the agricultural sector supported by the World Bank. If necessary, some of the products thus deregulated will be temporarily subject to a tariff rate that is higher than the rate normally corresponding to their customs nomenclature, up to a maximum rate of 45 percent. The tariff will then be reduced to the normal rate over a period of three years. In addition, the Government of the Kingdom of Morocco intends by end-June 1990 to reduce the number of customs nomenclatures from 26 to 15. Furthermore, a study will be conducted by end-September 1990 to define the principles that will be used to reduce the spread among the various tariff rates and to lower the overall effective protection, while ensuring that these measures are revenue neutral. On the basis of this study, an action program will be prepared and adopted by end-1990. The system of reference prices will be limited to a few essential agricultural commodities and their major derivatives, and the reference prices themselves will be reviewed annually to ensure the gradual reduction of protection rates. Antidumping duties and countervailing duties will be applied only to provide compensation in the event of dumping or subsidization in conformity with the rules and disciplines of the GATT. Within the framework of this new policy, and except as regards a list of imports prohibited on the grounds of security, health, and public morality, the authorities will no longer have recourse to quantitative restrictions. In the case of infant industries, the authorities envisage the application, if necessary, only of a tariff which may not exceed 45 percent and which would be gradually reduced to the normal rate over a period of three years. The authorities intend to modify the legislative framework in order to reflect this new policy. The draft legal provisions corresponding to the above changes will be discussed with the Fund staff before end-September 1990.

15. As regards the tourism sector, the Government of the Kingdom of Morocco intends to open the sector to foreign tourist agencies by end-September 1990 and to take steps to prevent overbooking by the hotels.

II. Program for 1990

16. Within the context of the medium-term economic framework, the major objectives for 1990 are an acceleration in economic growth from 2.2 percent in 1989 to 3.5 percent in 1990 and the maintenance of a relatively low rate of inflation of 6.0 percent, as measured by the GDP deflator. After reaching 22.6 percent of GDP in 1989, investment is expected to increase to 23.5 percent of GDP in 1990, while in percent of GDP, savings are projected to increase by 2.1 percent owing to a growth in public saving from 1.7 percent of GDP in 1989 to 4.3 percent in 1990. Thus, the gap between investment and saving, measured as a

percentage of GDP, will be reduced from 4.3 percent in 1989 to 3.1 percent in 1990. Notwithstanding the projected stabilization of the terms of trade for the second year in a row, the external current deficit, excluding official grants, is expected to decrease from 3.5 percent of GDP in 1989 to 1.8 percent in 1990. To achieve these objectives, the budget deficit, on a payment order basis, should decline from 5.7 percent of GDP to 2.8 percent. This result will be achieved thanks mainly to the revenue-enhancing and expenditure-cutting measures introduced in the supplementary budget law passed by the Parliament in June 1990. In addition, monetary policy will be pursued in conformity with the objectives of the program. Accordingly, broad money is expected to increase by 9.5 percent in 1990. Taking into account the target of increasing international reserves, total credit should increase by DH 4.8 billion (5.0 percent of beginning money stock), including a planned increase in net credit to the Government of DH 1.3 billion (1.3 percent of beginning money stock), which would consist in (a) DH 0.8 billion in credit to the Treasury and (b) DH 0.5 billion in other credit to the Government. In addition, the 1990 program will include the preparation and introduction of wide-ranging measures, which will form the basis of the medium-term program. The Government of the Kingdom of Morocco will monitor program execution with reference to the performance criteria and the indicative benchmarks defined in the technical memorandum of understanding annexed hereto.

Government finance

17. The target for 1990 is to reduce the overall deficit (on a payment order basis) to 2.8 percent of GDP, compared with 5.7 percent of GDP recorded in 1989. In order to achieve this objective, total expenditure will be capped at DH 59.1 billion, equivalent to 27.7 percent of GDP, or an increase of 7.0 percent over the 1989 level. Total revenue will increase to DH 53.1 billion, equivalent to 24.8 percent of GDP, or an increase of 20.6 percent over the 1989 level.

18. Developments in 1990 have already included the introduction of major tax measures within the framework of the budget law, including: (a) the introduction of the ICR (general income tax); (b) the reform of the urban tax; (c) the reform of the local government tax system; (d) an increase in the minimum payment of corporate taxes from DH 100,000 to DH 150,000; and (e) the introduction of measures aimed at fighting tax fraud, in particular the requirement of paying by check effective January 1, 1991 for any commercial transaction in an amount equal to or greater than DH 10,000, as well as the obligation to post the business license, a critical component in the identification of taxpayers. Certain of these measures, which are surely desirable from the structural standpoint, nevertheless entail a revenue shortfall beginning in 1990. This is the case of the ICR, for example, where the 1990 shortfall arising from the cut in rates has been estimated at nearly 0.3 percent of GDP. In addition, it has been decided in 1990 to carry forward the appropriations for supplies and equipment authorized under

the 1989 budget law. These measures partially offset the cost of the implementation of the last phase of the reform of the indemnification system.

19. The updated forecasts for 1990 based on 1989 performance, including the higher implementation rate for investment expenditure, indicate an overall deficit for 1990 (on a payment order basis) estimated at DH 11.9 billion, equivalent to 5.6 percent of GDP, in the absence of new measures. In addition, the adjustment in the exchange rate would induce a worsening of the deficit estimated at 0.4 percent of GDP. Accordingly, the measures required to achieve the 1990 target of 2.8 percent of GDP amount to DH 6.9 billion, or 3.2 percent of GDP. Therefore, the authorities have decided to introduce measures aimed at reducing total expenditure by DH 2.2 billion, equivalent to about 1.0 percent of GDP, and to increase revenue by DH 4.7 billion, or about 2.2 percent of GDP.

20. On the revenue side, three types of measures have been taken. First, within the framework of the supplementary budget law before the Parliament, the Moroccan authorities have introduced (a) a three-year speedup in collections of the corporate tax through the phased introduction of provisional installment payments, which will lead to the full payment of the tax on the basis of the current year by 1993 (DH 1.2 billion); (b) the introduction of an amnesty program (in the form of contributions in full payment) for violations committed during the preceding four-year period in respect of direct taxes, the value-added tax, and registration fees, with supporting measures concerning the implementation of penalties and the control of the tax administration services (DH 1.5 billion); and (c) an evaluation of the revenues from implementation of the privatization program (DH 0.4 billion). Second, the authorities have taken the following additional measures: (a) an agreement has been concluded with the OCP with regard to the payment of DH 0.6 billion in dividends in 1990; (b) cigarette prices have been increased by about 11 percent on average, and the lag in payments by the tobacco monopoly will be reduced from three months to two months (DH 0.3 billion); (c) quantitative restrictions on automobile imports were eliminated effective as of May, 1990, and the basis for taxation of all imported used cars was updated (DH 0.2 billion); and (d) rental fees on government property and certain stamp duties were increased (DH 0.1 billion). Third, the authorities will adopt the measures needed to reach the amounts programmed for the domestic taxes on consumer goods (DH 0.2 billion).

21. Three types of measures were also taken on the expenditure side. First, within the framework of the supplementary budget law, the existing investment appropriations were uniformly reduced by 15 percent, or DH 2.0 billion, which was reflected in a reduction of DH 1.3 billion as regards expected payment orders in 1990. In addition, certain categories of investment expenditure that were heretofore incorporated into the central government budget have been permanently shifted to the local governments without transferring the corresponding external

financing. This measure will reduce Treasury payments in 1990 by DH 0.6 billion. Second, it was decided to postpone the hiring date for permanent full-time government employees until September 16, 1990 (for a saving of DH 0.2 billion). Third, the authorities will take the measures needed, on the basis of current world market prices, to prevent the expenditure on account of consumer subsidies from exceeding the DH 1.875 amount envisaged in the program (for a saving of DH 0.1 billion). Finally, and in conformity with the projections of the initial budget law, prices of fertilizer will be freed at the beginning of July 1990.

22. Taking into account a reduction in domestic arrears of DH 1.9 billion, the deficit on a cash basis will be limited to DH 7.9 billion and will be financed by up to DH 0.8 billion in bank credit, DH 1.5 billion in nonbank credit, a negative DH 4.7 billion in net external borrowing, DH 8.8 billion in debt service relief on the debt of the Government, and DH 1.5 billion from the transfer to the Treasury of part of the gains from the rescheduling of the guaranteed external debt.

23. The monitoring of investment will be an important component of the program. In this context, the Moroccan authorities will ensure that the level of commitments authorized by the Office of Expenditure Commitment Control (CED) will be compatible with the financing resources foreseen in the program. In order to ensure the achievement of this objective, the authorities have identified, ministry by ministry, those projects that have been altered, postponed, or canceled, as well as the external financing relating thereto. In addition, the level of commitments approved by the CED will be an indicator under the program. Finally, the Government would like to avail itself of Fund technical assistance before end-1990 for purposes of improving the monitoring and control of expenditure, including investment expenditure.

24. The budgetary target for 1991 will be to reduce the deficit (on a payment order basis) at 2.0 percent of GDP despite (a) the absence of tax amnesty contributions; (b) the transfer of the business license to the local governments; and (c) the additional negative impact on revenues of the full application of the IGR to all taxpayers. To achieve this objective, the authorities will envisage, within the 1991 budget law, a series of measures affecting both revenue and expenditure.

25. On the expenditure side, in line with the medium-term strategy, the increase in the wage bill will be limited by the application of the following measures: (a) fringe benefits will be frozen at their 1990 level; (b) the restrictive policy followed in 1990 relating to recruitment will be strengthened in 1991; and (c) the increase in base wages, with the wage drift and promotions taken into account, will not exceed the rate of inflation envisaged for 1991.

26. As regards the other categories of expenditure, the measures include: (i) transferring to the local governments additional categories of expenditure that represented DH 1 billion of credit in 1990, net of corresponding external financing; and (ii) the quasi-stabilization in nominal terms at the level programmed for 1990 of the categories of investments that will remain within the purview of the Central Government. Moreover, measures will be taken to ensure that, taking into account the structural improvements envisaged, the expenditure on the consumer subsidies will be limited to DH 1.4 billion in 1991.

27. On the revenue side, achievement of the fiscal target for 1991 while improving revenue performance in the medium term will require major structural measures. Within this framework, the authorities would like to receive technical assistance from the Fund by end-September 1990 for purposes of identifying measures to upgrade the efficiency of the tax system, reduce distortions, broaden the tax base, and improve the elasticity of the tax system. Moreover, the authorities intend to strengthen tax administration and the fight against tax fraud.

External sector

28. The program target is to reduce the current external deficit, excluding official grants, to SDR 344 million (1.8 percent of GDP) in 1990, compared with SDR 630 million (3.5 percent of GDP) in 1989. The anticipated improvement in this deficit is explained by a substantial increase in exports (17 percent over the 1989 level), particularly phosphate products. In addition, action at the exchange rate level should have a positive impact on exports of manufactures. On the imports side, the program projects a 10 percent increase over the 1989 level, compared with an increase of 20 percent in 1989. This slowdown is envisaged despite the large increase in sulphur imports needed to sustain the recovery in exports of phosphate derivatives. Finally, the balance of services and transfers is expected to improve, despite an increase in interest payments on the external debt before rescheduling, thanks to an anticipated increase in receipts from nonfactor services, in particular tourism, as well as in transfers from Moroccan expatriate workers. Despite a deterioration in the deficit of the capital account (before rescheduling) attributable to an increase in amortization payments, the overall balance of payments deficit (before rescheduling) should decrease from SDR 976 million in 1989 to SDR 759 million in 1990.

29. As regards the external debt management policy, the objectives consist in improving the maturity profile of the external debt, reducing the outstanding external debt in relation to exports of goods and services, and containing debt service costs by strictly limiting nonconcessional borrowing. Nevertheless, debt service will continue to pose a heavy burden on the Moroccan economy. Debt service payments in 1990 before rescheduling are expected to be equivalent to 49 percent of exports of goods and services, including private transfers, compared with 52 percent in 1989. Consequently, in support of the program, the

Government of the Kingdom of Morocco hopes to receive some debt service relief from official creditors. The Government of the Kingdom of Morocco recently concluded an agreement in principle with the commercial banks regarding the restructuring of all its reschedulable debt, which will enable it to eventually negotiate debt and debt service reduction operations. There are no payments arrears on the nonreschedulable external debt. In addition, no new payments arrears will be accumulated and the amount of payments in suspense on the reschedulable debt will be eliminated through rescheduling or through cash payments by end-September 1990, or in accordance with the terms agreed with the Paris Club.

Technical Memorandum of Understanding Annexed to the Memorandum on Economic and Financial Policies

1. The Government of the Kingdom of Morocco will monitor execution of the program with reference to the performance criteria (Section A) and the benchmark indicators (Section B) set forth in this Technical Memorandum of Understanding and summarized in the attached Table 1. Purchases from the Fund under the stand-by arrangement will be contingent on observance of the performance criteria, while nonobservance of the benchmark indicators will entail consultations with the Managing Director of the Fund with a view to determining the causes of the overruns and identifying such remedial measures as may prove necessary. In addition, provision is made for one review of program execution during the period of the stand-by arrangement. The purchases contingent upon observance of the end-September 1990 performance criteria shall likewise be conditional upon the completion of this review with the Fund prior to December 15, 1990. The ceilings mentioned below (Section A) for end-July 1990, end-September 1990, and end-December 1990 constitute performance criteria.

A. Performance Criteria

2. The Government's domestic payments arrears, which amounted to DH 8,428 million as at December 31, 1989, will be reduced by cumulative amounts of at least DH 1,350 million by July 31, 1990, DH 1,350 million by September 30, 1990, and DH 1,900 million by December 31, 1990. For the purposes of this paragraph, domestic arrears include all government arrears, including the balance of the fonds réservés, public utility arrears of the administrations, arrears to the Caisse de Compensation, and unpaid financial transfer charges, including those for exchange risk. The target for the reduction of outstanding domestic arrears shall be revised upward for any surplus cumulative revenues from tax amnesty payments over and above the figure provided for in the program, i.e., zero as at July 31, 1990, DH 500 million as at September 30, 1990, and DH 1,500 million as at December 31, 1990, up to a maximum adjustment of DH 1,000 million. Beyond DH 1,000 million, all surplus cumulative revenues from tax amnesty payments will be used to achieve a further reduction in the Treasury deficit on a cash basis and in net bank credit to the Government.

3. The consolidated Treasury operations deficit on a cash basis, which is estimated at DH 2.396 billion for the first three months of 1990, will not exceed DH 4.5 billion as at July 31, 1990, DH 6.3 billion as at September 30, 1990, and DH 7.85 billion as at December 30, 1990. For the purposes of this paragraph, the total budgetary expenditure to be used in calculating the deficit shall not include repayment of debt principal. Interest charges on the external debt, including the military debt, will be included in expenditure, in the amount due prior to rescheduling. The ceiling for the Treasury deficit on a cash basis may be revised downward for: (a) any surplus cumulative revenues from

privatization over and above the figure provided for in the program, i.e., zero as at July 31, 1990, and as at September 30, 1990, and DH 400 million as at December 31, 1990; and (b) any surplus cumulative revenues from tax amnesty payments over and above the figure provided for in the program plus DH 1,000 million, as indicated in paragraph 2.

4. Outstanding net bank credit to the Government, which amounted to DH 56,621 million as at December 31, 1989, will not exceed DH 58,000 million as at July 31, 1990, DH 57,850 million as at September 30, 1990, and DH 57,900 million as at December 31, 1990. For the purposes of this paragraph, net bank credit to the Government is defined as the sum of (a) credit to the Treasury from the Bank Al-Maghrib and deposit money banks, the provisions for purchases of foreign currency paid to the Treasury, and the outstanding counterpart balances of drawings on the Fund transferred to the Treasury, minus the cash balance of the government accounting officers, and (b) direct Bank Al-Maghrib credit and special credit. Net credit to the Government will be revised downward for: (a) the amount of any overshooting of the programmed net external financing (including rescheduling of the direct external debt, delayed payments, and grants), i.e., DH 3,800 million at end-July, 1990, DH 4,200 million at end-September 1990, and DH 4,100 million at end-December 1990, and which is not to be used for debt buy-backs; (b) any surplus cumulative revenues from tax amnesty payments over and above the figure provided for in the program plus DH 1,000 million, as indicated in paragraph 2; and (c) any surplus cumulative revenues from privatization over and above the figure provided for in the program, i.e., zero as at July 31, 1990, and as at September 30, 1990, and DH 400 million as at December 31, 1990. In addition, bank credit to public enterprises, as determined by the Credit Information Department (Centrale des Risques), which amounted to DH 2,171 million at end-December 1989, will not exceed DH 2,200 million as at July 31, 1990, DH 2,600 million as at September 30, 1990, and DH 2,700 million as at December 31, 1990.

5. Total bank credit, which amounted to DH 87,119 million as at December 31, 1989, will be limited to DH 90,200 million as at July 31, 1990, DH 90,650 million as at September 30, 1990, and DH 91,950 million as at December 31, 1990. This ceiling includes net bank credit to the Government and bank credit to public enterprises as defined in paragraph 4, as well as bank credit to the rest of the economy. The ceiling on total bank credit will be revised downward for the amount of any overshooting of the programmed next external financing to the Treasury as defined in paragraph 4.

6. a. Outstanding short-term external borrowings (up to one year) contracted or guaranteed by the Government and contracted by the public enterprises, with the exception of normal import financing, will not exceed US$300 million during the program period.

b. The amount of new nonconcessional borrowings contracted or guaranteed by the Government (excluding new loans contracted in the context of debt reschedulings, restructurings or refinancings) with maturities between 1 and 12 years will not exceed SDR 500 million for the period from January 1 to July 31, 1990, SDR 500 million from the period from January 1 to September 30, 1990, and SDR 500 million for the period from January 1 to December 31, 1990. Under these ceilings, new loans with maturities of 1 to less than 3 years will be limited to SDR 100 million for the period from January 1 to July 31, 1990, SDR 100 million for the period from January 1 to September 30, 1990, and SDR 100 million for the period from January 1 to December 31, 1990. To qualify as concessional, the terms of new borrowings will need to correspond to the definition of concessionality adopted by the Development Aid Committee.

7. No new external payments arrears will be accumulated. For the purposes of this program, external payments arrears include the payments arrears on the direct debt and Government-guaranteed debt, as identified by the Ministry of Finance, and delayed external payments as identified by Bank Al-Maghrib.

8. The increase in the net foreign assets of the Bank Al-Maghrib will not be less than SDR 175 million as at July 31, 1990, SDR 175 million as at September 30, 1990, and SDR 225 million as at December 31, 1990. The net foreign assets of the Bank Al-Maghrib as defined in this Technical Memorandum of Understanding include gold holdings, convertible and nonconvertible foreign exchange assets, SDR holdings (according to IMF accounts), and the subscription to the Arab Monetary Fund, less the other commitments of the bank of issue (not including the use of Fund credit). The minimum amount of net foreign assets may be revised upward for any surplus net external financing to the Treasury (including rescheduling of direct external debt, delayed payments, and grants) over and above the figure provided for in the program (i.e., SDR 350 million at end-July 1990, SDR 370 million at end-September 1990, and SDR 370 million at end-December 1990) that is not to be used for debt buy-back operations.

B. Indicative Targets

9. Total government current revenue, which amounted to DH 11.575 billion as at March 31, 1990, is estimated at DH 28.85 billion for end-July 1990, DH 37.9 billion for end-September 1990, and DH 53.15 billion for end-December 1990.

10. Commitments authorized by the Office of Expenditure Commitment Control (CED) under the capital budget, including the balance of the special Treasury accounts, but excluding the commitments on the fonds réservés, will not exceed DH 10.1 billion as at July 31, 1990, DH 12.4 billion as at September 30, 1990, and DH 16 billion as at December 31, 1990. Each month, the authorities will provide Fund staff

with data on the execution of the investment budget, by no later than two months after the month in which they are executed, in accordance with the format set out in Table 2.

11. Net foreign assets of the Bank Al-Maghrib, as defined in paragraph 8, will amount to SDR 564 million as at July 31, 1990, SDR 574 million as at September 30, 1990, and SDR 654 million as at December 31, 1990. These indicators may be revised upward in the manner provided for in paragraph 8.

Table 1. Morocco: Performance Criteria and Indicative Targets Under the Program, 1990

	1989	1990		
	December	July	Sept.	Dec.
	Actual	Program		
A. Performance criteria	(In millions of dirhams)			
1. Budget deficit 1/	9,162	4,500	6,300	7,850
2. Reduction of Government's domestic payments arrears 2/		1,350	1,350	1,900
3. Net bank credit to the Government 3/	56,621	58,000	57,850	57,900
4. Bank credit to public enterprises	2,171	2,200	2,600	2,700
5. Total bank credit 3/	87,119	90,200	90,650	91,950
	(In millions of U.S. dollars)			
6. External borrowing by the Government				
a. Outstanding short-term debt 4/	235	300	300	300
	(In millions of SDRs)			
b. New nonconcessional borrowing 1-12 years 2/		500	500	500
Of which: 1-3 years 2/		100	100	100
7. External arrears	--	--	--	--
8. Increase in net foreign assets of Bank Al-Maghrib 2/		175	175	225
	(In millions of dirhams)			
B. Indicative targets				
1. Total government revenue 2/		28,500	37,900	53,150
2. Investment expenditure commitments 2/		10,100	12,400	16,000
	(In millions of SDRs)			
3. Net foreign assets of Bank Al-Maghrib	354	564	574	654

Source: Technical memorandum of understanding of July 2, 1990.

1/ On a cash basis.
2/ Cumulative in relation to end-December 1989.
3/ According to new definition in the program.
4/ Excluding Kuwaiti deposit.

Table 2. Morocco: Monitoring Implementation of the Investment Program

(In millions of dirhams)

			Non-PIC									
				Transfers			Projects			Utilities		
	Total	Target Investment Program (PIC)	Non-Pic	Total	Public Enterprises	Other	Total	National Defense Administration (ADN)	Non-ADN	Total	Debt	Other
1. Total carryover 1989	6,177	3,515	2,662	239	239	--	2,423	881	1,542	--	--	--
Arrears 1989	2,429	1,162	1,267	201	201	--	1,357	800	985	--	--	--
Carryovers of appropriations	3,748	2,353	1,395	38	38	--	1,357	800	557	--	--	--
2. Appropriations under 1990 Budget Law	13,105	5,621	7,484	1,346	773	573	3,389	1,377	2,012	2,749	1,200	1,549
3. Total available appropriations	19,282	9,136	10,146	1,585	1,012	573	5,812	2,258	3,554	2,749	1,200	1,549
4. Commitments (Authorizations, Expenditure Commitment Control (CED))	18,439 1/	8,737 3/	9,702 4/	1,585	1,012	573	5,363	2,087	3,281	2,749	1,200	1,549
Commitment rate (4)/(3)	95.6	95.6	95.6	100	100	100	92.4	92.4	92.4	100	100	100
5. Payment orders (General Treasury authorizations)	14,516 2/	6,145 4/	8,371 6/	1,585	1,012	573	4,037	1,566	2,471	2,749	1,200	1,549
6. Payment order rate	78.7	70.3	86.1	100	100	100	75	75	75	100	100	100

Table 2 (concluded). Morocco: Monitoring Implementation of the Investment Program

(In millions of dirhams)

7. Implementation rate (5)/(4)	75.3	67.3	82.3	100	100	100	69.3	69.3	69.3	100	100	100
8. Payments (5)/(3)	13,416	5,685	7,731	1,585	1,012	573	3,397	1,320	2,077	2,749	1,200	1,549
9. Total carryovers of appropriations 1990												
Arrears 1990	1,100	460	640	--	--	--	640	246	394	--	--	--
Carryovers of appropriations 1990	3,923	2,592	1,331	--	--	--	1,331	521	810	--	--	--
10. New General Treasury authorizations	12,087											
As defined in the Budget	12,087											
Adjustments:												
ADN debt service	-1,200											
Highway Fund	-390											
Local governments	3,582											
Balance of Special Treasury Accounts	500											
Other adjustments 1990	225											
As defined by the Treasury	14,834											

1/ 100 percent arrears + 95 percent (carryovers + "C.P.").
2/ 100 percent arrears + 75.5 percent commitments year 1990.
3/ 100 percent arrears + 95 percent (carryovers + "C.P.").
4/ Arrears + 65.8 percent commitments.
5/ Arrears + 95 percent (carryovers + "C.P.").
6/ Arrears + 84 percent commitments.

Morocco - Relations with the Fund
(June 30, 1990)

I. Membership status

(a) Date of membership : April 25, 1958
(b) Status : Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 306.6 million
(b) Total Fund holdings of member's currency:
SDR 864.29 million; 281.89 percent of quota

		Millions of SDRs	Percent of quota
(c)	Use of Fund credit	557.7	181.9
	Credit tranches	148.5	48.4
	EFF	18.2	5.9
	EAR	376.6	122.8
	CFF	14.4	4.7

(d) Reserve tranche position: SDR 0.03 million

III. Stand-by arrangements, extended arrangements, and special facilities

(a) Previous stand-by and extended arrangements:

(i) Stand-by arrangement approved on August 20, 1988, for the period ended December 31, 1989, in an amount of SDR 210 million, 69 percent of quota. Amount drawn, SDR 210 million.

(ii) Stand-by arrangement approved in December 1986, for the period ended March 31, 1988, extended to April 30, 1988, in an amount of SDR 230 million, 75 percent of quota. Amount drawn, SDR 230 million.

(iii) Stand-by arrangement approved in September 1985, for the period ended February 28, 1987, in an amount of SDR 200 million, 65.2 percent of quota. Amount drawn, SDR 10 million. Canceled on December 15, 1986.

Morocco - Relations with the Fund (continued)

(iv) Stand-by arrangement approved September 16, 1983, for the period ended March 15, 1985 in an amount of SDR 300 million, 98 percent of quota. Amount drawn, SDR 300 million.

(v) Stand-by arrangement (one year) approved April 26, 1982 in an amount of SDR 281.25 million, 125 percent of quota. Amount drawn, SDR 281.25 million.

(vi) Extended arrangement approved October 8, 1980 in an amount of SDR 810 million, 540 percent of quota, was canceled on March 8, 1981 and replaced by a new extended arrangement for SDR 817.05 million. This arrangement was canceled on April 26, 1982 with an undrawn balance of SDR 680.55 million.

(b) Compensatory financing facility (with the cereals option)

Morocco has used the CFF four times, the latest being:

(i) Date: September 12, 1985

(ii) Amount: SDR 115.1 million (37.5 percent of quota)

IV. SDR Department

(a) Net cumulative allocation: SDR 85.69 million.

(b) Holdings: SDR 1.05 million; 1.23 percent of net cumulative allocation.

V. Administered accounts

SFF Subsidy Account payments: SDR 10.23 million

Trust Fund loans

(i) Disbursed: SDR 110.43 million

(ii) Outstanding: SDR 0.97 million

Morocco - Relations with the Fund (continued)

VI. Financial obligations due to the Fund

	Overdue financial obligations 6/30/90	Principal and Interest Due 1990 July - Dec.	1991	1992
Principal				
Repurchases	--	79.2	125.0	99.4
Trust Fund repayments	--	0.5	0.4	--
	--	79.7	125.4	99.4
Charges and interest including SDR and Trust Fund (provisional)	--	29.8	50.0	38.7
Total	--	109.5	175.4	138.1

(B) Nonfinancial Relations

VII. Exchange system: Other managed floating; SDR 1 = DH 11.5855 at end-May 1990.

VIII. Last Article IV consultation: Consultation discussions took place in Rabat during January 16-30, 1989, and were concluded by the Executive Board on June 28, 1989. The decision adopted was as follows:

1. The Fund takes this decision relating to Morocco's exchange measures subject to Article VIII, Section 2(a) in concluding the 1989 Article XIV consultation with Morocco and in the light of the 1989 Article IV consultation with Morocco conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended ("Surveillance over Exchange Rate Policies").

2. Morocco maintains exchange restrictions as described in EBS/89/118 in accordance with Article XIV, Section 2.

Morocco - Relations with the Fund (concluded)

Morocco is on the standard 12-month consultation cycle.

IX. Technical assistance

BUR Government Finance Statistics mission (March 5-15, 1985)
General Economic Data mission (September 22-October 8, 1986).

FAD Since the early 1980s, there has been technical assistance to help in the preparation of the reform of the tax system. More recently:

Assistance in the budget field--budgetary and accounting procedures, link between multiyear planning and the annual investment budget, and fiscal reporting system and computerization (October 24-November 14, 1986); 1/

Assistance in the fiscal field--tax reform, structure of taxation, broadening the tax base (November 19-December 11, 1986). 1/

1/ Jointly with the World Bank.

Morocco - Financial Relations with the World Bank Group

(In millions of U.S. dollars)

A. (i) IBRD/IDA lending: 1/	Disbursed			Undisbursed
	IBRD	IDA	Total	
1. Agriculture	950.1	16.5	966.7	420.5
Of which: ASAL II	(134.9)	(--)	(194.9)	(90.1)
2. Industry and energy	1,354.0	--	1,354.0	403.4
Of which: PERL	(235.8)	(--)	(235.8)	(4.2)
3. Population and human resources	321.4	20.4	341.8	233.7
Of which: education sector reform	(150.0)	(--)	(150.0)	(--)
4. Infrastructure	609.5	8.2	617.8	276.7
5. Structural Adjustment Loan (SAL)	200.0	--	200.0	--
6. Public Administration Loan	--	--	--	23.0
Total	3,435.0	45.1	3,480.1	1,357.3
Less: repaid	(-1,032.7)	(-5.6)	(-1,038.4)	--
Total outstanding(IBRD/IDA) net of cancellations:			3,799.05	
(ii) IFC investments 2/			162.7	--

1/ As of May 31, 1990.
2/ As of March 31, 1990.

Morocco - Financial Relations with the World Bank Group (continued)

(In millions of U.S. dollars)

B. Net lending by the World Bank (by calendar year), 1985-90

	1985	1986	1987	1988	1989	1990 1/
Commitments	379.2	366.4	802.3	313.0	574.5	232.0
Projects	79.2	216.4	465.0	113.0	574.5	232.0
Policy	300.0	150.0	337.3	200.0	--	--
Disbursements	307.0	362.6	404.5	415.2	364.2	188.2
Projects	158.6	192.0	189.2	213.2	138.2	100.9
Policy	148.4	170.6	215.3	202.0	226.0	87.3
Agriculture II	(--)	(--)	(--)	(74.0)	(1.0)	(59.9)
ITPA I	(0.5)	(--)	(--)	(--)	(--)	(--)
ITPA II	(120.0)	(80.0)	(--)	(--)	(--)	(--)
Agriculture I	(27.9)	(62.1)	(37.9)	(--)	(--)	(--)
Education I	(--)	(28.5)	(58.8)	(25.5)	(10.1)	(27.1)
PERL	(--)	(--)	(118.6)	(2.2)	(114.8)	(0.2)
SAL	(--)	(--)	(--)	(100.0)	(100.0)	(--)
Debt Service IDA	0.8	0.9	1.1	1.0	0.9	0.2
Debt service IBRD	167.4	233.4	345.1	385.8	381.4	188.3
Interest 2/	80.5	125.0	181.6	197.9	200.0	102.5
Principal	86.9	108.4	163.5	187.9	181.4	85.7
Net transfer	138.8	128.3	58.3	28.4	-18.1	-0.3

1/ Actuals as of May 31, 1990.
2/ Includes charges.

Policy loans

A Structural Adjustment Loan (SAL) of US$200 million became effective in December 1988.

Progress under the loan has been satisfactory, leading to the release of the second and last tranche in August 1989.

Morocco - Financial Relations with the World Bank Group (concluded)

A second Agricultural Sector Adjustment Loan (US$225 million) became effective in July 1988. The loan supports the second phase of the implementation of the Government's medium-term agricultural sector adjustment program, within the framework of a general macroeconomic restructuring program. The essential objectives of the sector adjustment program are to foster efficient agricultural growth and to contribute to the reduction of budgetary and current account deficits to manageable levels, while minimizing the social costs of adjustment. Progress, although somewhat behind the appraisal estimate, is nevertheless sound, with release of the third tranche possibly before the end of 1990.

Project loans

In fiscal year 1989, three project loans (besides the PAL mentioned below) were approved. The three include a Rural Primary Education Project (US$83 million), an Agricultural Research and Extension Project (US$28 million) and a National Agriculture Credit Project (US$190 million). A loan for Housing Finance (US$80.5 million) became effective in April 1990.

Technical Assistance

The IBRD has provided extensive technical assistance to Morocco through its various lending operations for projects as well as through its sectoral adjustment loans. A free-standing technical assistance project in support of a Structural Adjustment Loan and the Government's efforts to improve and streamline Morocco's public administration was approved in early May 1989 for US$23 million.

Recent Economic and Sector Reports

January 30, 1987	Morocco: CEM: Issues for a Medium-Term Structural Adjustment Program (Report No. 6608-MOR)
April 16, 1987	Morocco: Report on Industrial Export Finance Project (Report No. P-4520-MOR)
April 30, 1987	Morocco: Report on the Public Enterprise Rationalization Loan (Report No. P-4545-MOR)
March 15, 1988	Morocco: CEM: The Impact of Liberalization on Trade and Industrial Adjustment (Report No. 6714-MOR)

November 8, 1988	Morocco: Report on the First Structural Adjustment Loan (Report No. 4867-MOR).

Morocco: Social Indicators, 1960-88

	1960	1971	1980	1985	1988
Population characteristics	(In millions unless indicated otherwise)				
Total population	11.26	15.21	20.05	22.06	23.92
Rural population	8.22	9.95	11.61	12.34	13.00
Population under 15 years of age	5.02	7.01	8.98	9.19	9.86
Birth rate (per 1000)	52.0	50.0	44.0	38.1	35.4
Death rate (per 1000)	23.0	16.0	13.0	10.4	9.6
Life expectancy	47.0	51.0	56.0	59.0	60.8
Population growth	2.9	2.4	2.6	2.8	2.6
Number of children per woman	...	7.4	6.5	5.9	5.1
Population in absolute poverty (percent of population)					
Urban population	38.0	...	...	...	28.0
Rural population	45.0	...	...	...	32.0
Health, food, and nutrition					
Infant mortality (per 1000)	161	149	91	91	82
Persons per physican (thousands)	9.0	12.5	11.0	6.2	4.8
Education					
Literacy rate (percent)	14	14	28	28	33.1
Primary enrollment (percent)	47	61	76	74	79
Secondary enrollment (percent)	5	16	24	33	34
Pupils per teacher in primary schools	...	...	39.4	30.1	26.0
Pupils per teacher in secondary schools	...	...	21.3	19.5	19.0
Employment		(In percent of urban population)			
Total employment rate	...	23.6	...	30.5	31.2
Female employment rate	...	7.0	...	15.3	12.7
Unemployment rate	...	2.3	...	14.0	14.3 1/
Young unemployment rate	...	...	...	27.6	28.4 1/
Salary and income					
GDP/capita (1980 dirhams)	2,802	3,098	3,695	3,949	4,243
GDP/capita (current dirhams)	852	1,527	3,695	5,870	7,495
GDP/capita (current U.S. dollars)	168	302	939	583	913
Minimum wage (In 1980 dirhams per hour)	...	...	1.96	2.32	2.36

Sources: Ministère du Plan, Direction de la Statistique, and the World Bank.

1/ 1987 estimates.