FOR AGENDA

EBS/88/154

CONFIDENTIAL

August 2, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Morocco - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on Morocco's request for a stand-by arrangement equivalent to SDR 210 million, which is tentatively scheduled for discussion on Tuesday, August 30, 1988. Draft decisions appear on page 36.

Mr. Anjaria (ext. 8357) or Mrs. C. Fisher (ext. 8513) 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 and Exchange and Trade Relations Departments

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

Approved by A.D. Ouattara and H.B. Junz

August 1, 1988

Contents

Contents (concluded)

I. Introduction

Discussions on an economic and financial program for the two-year period 1988-89 that could be supported by a stand-by arrangement from the Fund were initiated in Rabat during the period April 25-May 8, 1988. 1/ The discussions were concluded in Washington during the period June 20-24, 1988. The Moroccan representatives included: Mr. Mohammed Berrada, Minister of Finance; Mr. Ahmed Bennani, Governor of Bank Al-Maghrib, and other senior officials concerned with economic and financial matters. Mr. Omar Kabbaj, Alternate Executive Director for Morocco, attended the policy discussions in Washington.

In a letter dated July 28, 1988, accompanied by a memorandum on economic and financial policies (Appendix II), the Government of the Kingdom of Morocco requests a stand-by arrangement over the period ending December 31, 1989 in an amount equivalent to SDR 210 million. Over the 16-month period through end-1989, this represents an annual rate of access equivalent to 51 percent of quota. It is proposed that purchases may be made in six equal installments according to the schedule and under the conditions set out in Table 1. Performance criteria and reviews are defined in Section IV.5. As of June 30, 1988, the Fund's holdings of Moroccan dirhams subject to repurchase were equivalent to SDR 716.50 million, representing 234 percent of quota. 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 642.71 million as at December 31, 1989, representing 210 percent of quota (Table 2). A waiver of the limitation in Article V, Section 3(b) is therefore required and is being proposed. Morocco's relations with the Fund are summarized in Appendix III.

The last Article IV consultation discussions with Morocco, combined with the second review under its previous stand-by arrangement, were held in Rabat during the period July 27-August 17, 1987. The staff report and review under stand-by arrangement (EBS/87/224) and the report on recent economic developments (SM/87/261) were considered by the Board on December 7, 1987. Executive Directors commended the authorities for continuing their overall adjustment effort, through maintaining tight income, expenditure and credit policies. They urged the authorities to rapidly implement needed fiscal measures and, more generally, to pursue a growth-oriented strategy, based on bolder fiscal adjustment efforts and structural reforms to raise domestic savings and productive investment, and to improve efficiency.

1/ The staff representatives were Mr. J.R. Artus (head-AFR), Mr. J.M.F. Braz (ETR), Mrs. C.H. Fisher (AFR), Mr. R.A. Franks (AFR), Mr. A. Ize (FAD), and Ms. A. de Korver (secretary-AFR). Mr. C. Michalopoulous and Mr. U.A. Hewer of the IBRD also participated in the discussions in Rabat.

Table 1. Morocco: Schedule of Purchases During Period of Stand-By Arrangement, July 1988-December 1989

Amount (in millions of SDRs)	Scheduled availability date	Conditions necessary for purchase
35	August 31, 1988	Board approval of program.
35	November 15, 1988	Compliance with quantitative performance criteria as of September 30, 1988.
35	February 28, 1989	Compliance with quantitative performance criteria as of end-December 1988 and completion of first review.
35	May 15, 1989	Compliance with quantitative performance criteria as of end-March 1989.
35	September 30, 1989	Compliance with quantitative performance criteria as of end-June 1989. Completion of second review.
35	November 15, 1989	Compliance with quantitative performance criteria as of end-September 1989.

Table 2. Morocco: Fund Position During the Period of the Stand-By Arrangement, 1988-89

	1988			1989			
	June 30	Jul.-Sept.	Oct.-Dec.	Jan.-March	Apr.-June	Jul.-Sept.	Oct.-Dec.
				(In millions of SDRs)			
Transactions under tranche policies (net)		-0.75	-5.32	0.33	-5.95	5.34	4.49
Purchases		35.00	35.00	35.00	35.00	35.00	35.00
Repurchases		-35.75	-40.32	-34.67	-40.95	-29.66	-30.51
Transactions under special facilities 1/		—	-14.39	-14.39	-14.39	-14.39	-14.39
Total net transactions		-0.75	-19.71	-14.05	-20.34	-9.05	-9.90
Use of Fund credit outstanding (end of period)	716.50	715.76	696.05	681.99	661.66	652.61	642.71
Under tranche policies	601.40	600.66	595.33	595.67	589.72	595.06	599.54
Special facilities 1/	115.10	115.10	100.71	86.32	71.94	57.55	43.16
				(In percent of quota)			
Use of Fund credit outstanding (end of period)	233.69	233.45	227.02	222.44	215.80	212.85	209.62
Under tranche policies	196.15	195.91	194.17	194.28	192.34	194.08	195.55
Special facilities 1/	37.54	37.54	32.85	28.16	23.46	18.77	14.08

Source: IMF Treasurer's Department.

1/ Compensatory financing facility.

Discussions with the Moroccan authorities with respect to the third and final review were concluded in Rabat during the week of March 21-25, 1988, and the review paper (EBS/88/75) was considered by the Executive Board on April 20, 1988. On this occasion Directors noted the further degree of external and internal adjustment that was achieved in 1987. They nonetheless expressed their concern over the slippages in the implementation of fiscal policy under the 1987 program. Directors indicated that a 1988 fiscal deficit that was lower than the authorities' budget target equivalent to 4.8 percent of GDP would be more consistent with the authorities' external and other objectives. They encouraged the authorities to establish effective control over public investment both to avoid overruns such as had been incurred at the end of 1987 and to redirect expenditure to the most productive uses. Finally, Directors urged the authorities to persevere in their overall adjustment efforts, for hesitancy now risked losing much of that which had been achieved so far.

World Bank lending to Morocco is substantial, and the Fund and Bank staffs continue to work together closely in assisting the Moroccan authorities to prepare and implement appropriate solutions to their economic and financial problems. In addition to project lending, the World Bank has, since 1983, extended six policy-based sector loans. The Bank is currently preparing a Structural Adjustment Loan (SAL), which is expected to become effective before the end of 1988. The World Bank Group's relations with Morocco are summarized in Appendix IV.

II. Recent Developments and Policies

1. Background, 1983-86

In the wake of the commodities boom of the mid-1970s, Morocco pursued expansionary policies, which resulted in large internal and external imbalances and heavy foreign borrowing. Economic output was initially boosted, primarily through investment, especially public investment, financed by substantial external borrowing on commercial terms. A succession of bad harvests and the emergence of structural weaknesses in the economy made correction of these imbalances even more difficult.

In 1983 the Moroccan authorities launched a comprehensive effort of macroeconomic adjustment and structural reform with the assistance of the Fund and the World Bank, which they sustained throughout much of the 1983-86 period. The adjustment policies pursued under two successive Fund-supported programs were complemented by, and partly overlapped with, four sectoral adjustment loans of the World Bank. Morocco's adjustment effort was also supported by debt relief from official and private creditors.

Morocco's financial adjustment during the 1983-86 period was based on a policy mix that relied significantly on a reduction in the fiscal deficit, together with a depreciation of the real effective exchange rate, a tight monetary policy, and improvements in the incentives for increasing domestic savings and productive investment. These policies were supplemented by structural measures in the areas of trade, pricing, agriculture, education, and public enterprises, with a view to increasing economic efficiency, improving the management of the economy and reducing government intervention.

As a result, a substantial measure of financial stabilization was achieved. Helped by a rapid expansion of exports of manufactures and an improvement in the terms of trade, mainly owing to lower oil prices in 1986, the external current account deficit was reduced from the equivalent of 11.8 percent of GDP in 1982 to 2.3 percent of GDP in 1986 (Table 3). Prudent monetary and incomes policies, together with good crops resulting from favorable weather conditions during several years, were important elements in lowering the rate of inflation, as measured by the GDP deflator, from nearly 10 percent in 1982 to 6.4 percent in 1986. By contrast, the achievement of higher real growth remained elusive during this period, with an average rate of increase of real GDP of 3.7 percent per annum in 1983-86.

In spite of the substantial measure of macroeconomic adjustment attained, there remained a number of areas of weakness in policy implementation, the most important of which was the fiscal area. While a considerable reduction of the fiscal deficit was attained, with the deficit on a payment order basis estimated at slightly below 6 percent in 1986, compared with 12.1 percent in 1982, the annual fiscal reductions tended to lag behind program objectives. In 1986, the Moroccan authorities were concerned by, in particular, the relatively weak revenue performance in 1986 that was partly related to difficulties associated with recent tax reform measures and tax administration problems. In addition, the need to narrow the budget deficit in the period 1983-86 had resulted in unsustainable reductions in public investment expenditures.

2. Performance under the 1987 stand-by arrangement

Against this background, the main objective of the Government's program for 1987 was to achieve a further immediate reduction in the imbalances in the Moroccan economy, while raising economic growth and keeping inflation on a downward trend. This objective was to be achieved by centering the adjustment effort on public finances, accompanied by new structural measures for the rehabilitation of the public enterprises, a continuation of programs of reform in pricing, trade, and agriculture, and adherence to cautious monetary and income policies.

Table 3. Morocco: Selected Economic and Financial Indicators, 1982-89

	1982	1983	1984	1985	1986	1987	1988	1989 Program
	(Annual percent changes, unless otherwise indicated)							
Production and prices								
GDP at constant prices	6.8	2.3	2.1	4.4	5.8	1.5	6.0	4.5
GDP deflator	9.9	2.7	8.5	9.0	6.4	4.5	5.0	4.5
Consumer prices:								
Annual average	10.5	6.2	12.4	7.7	8.8	2.7	4.5	4.0
End-period to end-period	6.7	12.5	7.5	10.0	4.4	2.4	5.0	4.0
External sector (in SDRs)								
Exports, f.o.b.	-4.4	5.5	8.0	0.2	-2.7	4.7	14.9	14.0
Imports, f.o.b.	6.1	-10.7	12.8	-0.6	-14.3	0.5	5.7	7.8
Export volume	0.5	10.1	4.6	1.9	6.6	7.2	11.3	9.6
Import volume	5.8	-8.2	8.3	0.3	2.6	6.7	2.2	3.1
Terms of trade (deterioration -)	-5.2	-1.6	-0.8	-0.8	9.4	3.9	-0.1	-0.6
Nominal effective exchange rate	—	-3.1	-7.6	-5.3	-7.4	-0.7	...	...
Real effective exchange rate	-1.5	-6.6	-5.7	-6.6	-4.4	-3.3	...	...
Central Government budget								
Revenue (excluding grants)	14.8	3.0	11.3	14.0	9.0	13.1	24.5	...
Total expenditure (before debt relief) 1/	9.6	3.4	9.0	8.8	-4.6	12.7	15.2	...
Money and credit								
Domestic credit	14.0	20.0	9.5	15.4	11.3	7.7	7.4	6.0
Government	(9.4)	(26.4)	(5.3)	(14.7)	(13.3)	(6.6)	(5.6)	(5.3)
Economy	(20.6)	(11.5)	(16.0)	(16.5)	(8.6)	(9.3)	(9.8)	(6.9)
Money and quasi-money	12.5	17.4	10.3	17.7	15.9	9.7	13.0	9.8
Money velocity (ratio)	2.60	2.36	2.31	2.30	2.14	2.07	2.07	2.05
Liquidity (in percent of GDP)	38.4	42.5	43.2	43.5	46.8	48.2	48.4	48.8
Interest rate (one-year time deposit)	9.6	10.0	10.0	11.5	12.0	12.0	11.0	11.0
	(In percent of GDP, 1980 basis)							
Central government								
Overall deficit (payment order basis) 2/	12.1	12.0	11.4	9.9	5.8	6.1	4.5	3.5
Overall deficit (cash basis) 2/	9.0	11.4	8.2	8.8	6.2	6.5	6.0	4.6
Domestic bank financing	2.1	6.3	2.0	3.6	3.3	1.5	1.5	1.4
Net foreign financing (including grants and debt relief)	6.8	5.4	6.3	3.9	0.8	1.7	3.3	...
Gross domestic investment (incl stocks)	22.0	19.8	20.6	21.7	19.2	20.0	20.0	20.0
Gross national savings and private transfers	9.4	11.7	9.6	13.8	16.8	19.4	19.7	20.7
External current account (including grants)	-11.8	-7.0	-10.9	-5.6	-2.3	-0.6	-0.3	0.7
External debt (including IMF)	79.3	99.1	115.7	122.0	109.4	99.0	93.3	94.8
Gross official reserves (months of imports)	0.6	0.1	0.2	0.3	0.5	0.9	1.2	1.9
	(In percent of exports of goods, nonfactor services, and private transfers)							
External debt (including IMF)	317.0	350.8	366.3	359.6	329.9	297.4	275.9	254.5
Debt service ratio (before debt relief)	41.8	50.9	56.5	58.0	71.3	61.6	50.9	45.1
Debt service ratio (after debt relief)	41.8	32.2	27.9	31.2	37.0	33.1	34.6	45.1
	(In millions of SDRs)							
Overall balance of payments								
Before debt relief	-585	-679	-1,353	-1,231	-1,488	-984	-432	-160
After debt relief	-585	15	-246	-113	20	337	390	-160
Gross official reserves	183	41	49	81	144	253	353	588
External arrears	253	—	127	224	510	378	—	—
	(In billions of dirhams)							
GDP at current prices (1980 basis)	95.1	99.9	110.7	126.0	141.9	150.5	167.6	183.0

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

1/ On a payment order basis.
2/ Before debt relief.

As indicated in the staff reports on the three reviews under the arrangement, 1/ the program achieved a further measure of adjustment of external and internal imbalances while assuring continued progress in tax reform and other structural reforms. However, owing mainly to a substantial reversal of previously favorable exogenous factors, it was not possible to reach all the original objectives of the program, in particular the original fiscal and external current account deficit targets and the elimination of all external payments arrears. Instead, revised targets were established at midyear to incorporate supplementary measures to help offset the reversal in exogenous factors. Under the revised program and in spite of further setbacks in the real sector of the economy, the external current account performance was better than envisaged, and all monetary and credit targets and performance criteria were met. However, three performance criteria at end-December 1987 were not met, one of which was a purely technical breach, and the other two were related to slippages in fiscal policy implementation. As explained below, the fiscal slippage in 1987 was partly compensated by new measures included in the 1988 budget and by additional measures for 1988 that were agreed during the discussions under the third review.

a. Production and prices

Real GDP growth decelerated sharply from 5.8 percent in 1986 to 1.5 percent in 1987. This reflected large declines in agricultural production that were only partly offset by the continued growth of the manufacturing sector and a recovery in the building and construction industry. Owing to a premature cessation of rains in the spring, there was a sharp decline in 1987 in both the cereal harvest and citrus production. Furthermore, the world phosphate market remained weak, and there was another significant fall in prices. Nevertheless, with the coming on stream of new capacity, Morocco's exports of phosphoric acid increased significantly in both volume and value terms. Exports of manufactures again increased by a fifth in volume terms, the same as in 1986, reflecting partly the effects of trade liberalization and the depreciation of the exchange rate. The nominal and real effective exchange rates declined for the fourth consecutive year, by 0.7 percent and 3.3 percent, respectively.

In spite of the decline in agricultural production, price performance continued to improve significantly in 1987, with the rise in the GDP deflator declining from 6.4 percent in 1986 to 4.5 percent in 1987. This reflected both the restrictive monetary policy and a decline in import prices. Consumer price inflation, as measured by the consumer price index, declined even more abruptly from 8.8 percent in 1986 to only 2.7 percent in 1987. However, this was partly due to the absence of any increase in the prices of subsidized foodstuffs since September 1985, as these items have a significant weight in the index. Excluding food, other elements in the index increased by 5.6 percent in 1987, compared with 8 percent in 1986.

1/ Most recently in EBS/88/75, April 4, 1988.

b. Fiscal policy

The 1987 budget deficit, on a payment order basis, reached 6.1 percent of GDP, against a 1986 outturn of 5.8 percent and a revised program target for 1987 of 4.7 percent (Table 4). Revenue fell slightly short of the revised program objectives in spite of the significant measures taken to improve the structure and administration of taxation, including the introduction of a value-added tax (VAT) in 1986. The revenue shortfall reflected partly lower-than-programmed transfers from the phosphate company (owing to less favorable conditions in the world market than expected) and from certain financial institutions. On the expenditure side, outlays for consumer subsidies were substantially reduced in 1987 owing to the limited wheat crop and the substitution of low-price imported wheat for high-price domestic wheat in the production of subsidized flour. Moreover, the authorities placed considerable restraint on other current expenditures. In addition, both the original and revised programs envisaged continued severe restraint on the investment budget. In the event, however, most of the slippage in the 1987 fiscal outcome was due to overruns in capital budget expenditure, mainly project-related, on the order of 1.5 percent of GDP compared with the revised targets. The overruns stemmed both from budgetary authorizations that substantially exceeded targeted public investment in the program and from inadequate monitoring procedures and controls after the budget had been approved.

Partly because of the overrun in total expenditure, domestic payments arrears were reduced by less than targeted, and the performance criterion on domestic payments arrears was not observed. Even with the lower-than-programmed arrears reduction, the budget deficit objective on a cash basis of 6.3 percent of GDP, which was also a performance criterion, was also exceeded. The latest estimates of the authorities indicate an actual cash deficit equivalent to 6.5 percent of GDP. This deficit was financed by recourse to the domestic nonbank sector beyond that programmed, namely, the sale of treasury bonds to the general public. 1/ In the event, the treasury bonds gained wide acceptance and the offering therefore was larger than anticipated, which allowed the Government's net recourse to bank credit to be well below programmed amounts. Despite a sharp increase in the rate of drawings on project-related loans during the second half of 1987, the total amount of net external financing was lower than the program targets, mainly because of delays in meeting the preconditions for drawing certain program loans.

1/ This bond offering, sometimes known as a tap-stock, took the form of a continuous issue to private investors during the second half of 1987. The bonds carried an exceptionally favorable tax-free coupon when compared with the net return offered by commercial banks on certificates of deposit (bons de caisse) and term deposits, after taking into account the newly introduced tax on interest withheld at source. The tax exemption on the bonds was considered necessary to initially attract nonbank purchasers who were relatively unfamiliar with the treasury bonds.

Table 4. Morocco: Financial Transactions of the Central Government, Before Debt Relief, 1984-88

	1984	1985	1986	1987	1988 Third review 1/	1988 Program
	(In millions of dirhams)					
Total revenues	23,469	26,746	29,150	32,972	37,430	41,059
Tax revenue (excluding OCP) 2/	20,971	23,161	23,876	26,107	30,325	31,780
Nontax revenue (excluding OCP)	1,196	1,629	1,315	1,554	2,135	3,157
Petroleum levy	—	—	3,771	4,669	4,270	5,182
Phosphate company (OCP)	1,302	1,956	188	642	700	940
Total expenditure	36,044	39,204	37,386	42,143	45,430	48,559
Current expenditure	26,960	29,899	31,764	31,928	35,660	37,416
Goods and services	17,093	18,484	21,153	22,143	24,555	25,291
Interest	6,834	8,066	9,180	9,153	10,355	10,485
Domestic	(1,332)	(1,927)	(2,738)	(2,987)	(3,585)	(3,715)
External	(5,502)	(6,139)	(6,442)	(6,166)	(6,770)	(6,770)
Consumer subsidies	3,033	3,349	1,431	632	750	1,640
Capital expenditure	9,084	9,305	5,622	10,215	9,770	11,143
Local authorities	(...)	(950)	(978)	(1,600)	(2,085)	(2,085)
Other	(9,084)	(8,355)	(4,644)	(8,615)	(7,685)	(9,058)
Overall surplus/deficit (-) on a payment order basis	-12,575	-12,458	-8,236	-9,171	-8,000	-7,500
Variations in net governemnt arrears (increase +)	3,514	1,353	-544	-623	-2,000	-2,500
Overall surplus/deficit (-) on a cash basis	-9,061	-11,105	-8,780	-9,794	-10,000	-10,000
Financing	9,061	11,105	8,780	9,794	10,000	10,000
Foreign financing	6,923	4,884	1,192	2,511	3,685	3,715
Foreign grants	139	2,508	140	—	—	—
Foreign borrowing (net)	-1,905	-4,831	-11,601	-7,385	-2,262	-2,232
Drawings	(6,363)	(5,071)	(5,026)	(5,296)	(7,500)	(7,530)
Amortization	(-8,268)	(-9,902)	(-16,627)	(-12,681)	(-9,762)	(-9,762)
Debt relief	8,689	7,207	12,653	9,896	5,947	5,947
Domestic sources	2,138	6,221	7,588	7,283	4,490	4,460
Banking system	(2,166)	(4,490)	(4,635)	(2,225)	(2,500)	(2,500)
Nonbank (including PERL bonds) 2/	(-28)	(1,731)	(2,953)	(5,058)	(1,990)	(1,960)
Financing gap	—	—	—	—	1,825	1,825
Current balance (payment order basis)	-3,491	-3,153	-2,614	1,044	1,770	3,643
Memorandum items:	(In percent of GDP; 1980 basis)					
Revenue	21.2	21.2	20.5	21.9	22.4	24.5
Expenditure	32.6	31.1	26.4	28.0	27.1	29.0
Current	24.4	23.7	22.4	21.2	21.3	22.3
Capital	8.2	7.4	4.0	6.8	5.8	6.6
Current balance (payment order basis)	-3.2	-2.5	-1.8	0.7	1.1	2.2
Overall deficit (payment order basis)	-11.4	-9.9	-5.8	-6.1	-4.8	-4.5
Overall deficit (cash basis)	-8.2	-8.8	-6.2	-6.5	-6.0	-6.0
Net foreign financing	6.3	3.9	0.8	1.7	3.3	3.3
Domestic bank financing	2.0	3.6	3.3	1.5	1.5	1.5

Sources: Ministère des Finances; and staff estimates.

1/ Under the previous stand-by arrangement.
2/ OCP, phosphate company; PERL, public enterprise rehabilitation loan.

c. Money and credit

The reduction of net government borrowing from the banking system in 1987, together with continued restraint on credit to the private sector, 1/ enabled the monetary authorities to achieve a further slowing in the rate of growth of the monetary aggregates as well as an increase in the net foreign assets of the banking system. Total domestic credit increased by 7.7 percent in 1987, compared with 11.3 percent in 1986, and money and quasi-money increased by 9.7 percent in 1987, compared with 15.9 percent in 1986 (Table 5). However, owing to the sharp reduction in the nominal growth of GDP, together with the effects of an increase in real interest rates, there was a further reduction in the velocity of circulation of broad money from 2.14 in 1986 to 2.07 in 1987.

With the sharp increase in real interest rates in 1987 resulting from the slowing of inflation, the authorities were able to reduce some lending rates. For example, the lending rates of some specialized financial institutions were reduced by 1 1/2 percentage points, and further adjustments have taken place in 1988. In addition to the constraining effect on liquidity of the implementation of the provisioning system for external payments arrears in late 1986, the authorities also increased gradually the bank reserve ratio to 5 percent from April 30, 1987, the maximum rate permitted under the then-existing legislation.

d. External sector developments

In 1987 Morocco's balance of payments after debt relief showed a surplus of SDR 337 million, compared with a revised program projection of SDR 473 million (Table 6). The less favorable outcome reflects lower disbursements under foreign loan commitments that were not fully offset by the external current account outturn, which was better than the revised program target.

Exports rose by 4.7 percent in 1987, owing to a 20 percent increase in the volume of manufactured exports that more than offset a substantial shortfall in exports of citrus fruits and certain other food products stemming from the poor harvest (Table 6). Imports were virtually unchanged, owing to a larger-than-expected decrease in import prices. Remittances picked up unexpectedly in the second half of the year and therefore exceeded the revised target by SDR 176 million. In 1987, travel allowances were substantially increased. The impact of this liberalization on outflows was more than offset, however, by the increase in travel and tourism receipts. Consequently, the external current account deficit was limited to SDR 90 million (0.6 percent of GDP), about one third the revised program target of 1.8 percent of GDP.

1/ In the monetary survey, a number of public entities are included in the private sector and the money supply.

Table 5. Morocco: Monetary Survey, 1984-89

	1984 Dec.	1985 Dec.	1986 Dec.	1987 Dec.	1988 March	1988 June	1988 Sept.	1988 Dec.	1989 Dec.
							Program		
				(In millions of dirhams; end of period)					
Net foreign assets	-6,900	-7,965	-4,772	-2,679	-2,983	-3,335	-2,164	-918	2,273
Monetary authorities	-9,011	-10,593	-7,410	-5,558	-5,952	-6,214	-5,043	-3,797	-606
Reserves	(457)	(856)	(1,531)	(2,799)	(2,016)	(2,103)	(2,877)	(3,906)	(6,506)
Net IMF position	(-9,468)	(-11,448)	(-8,941)	(-8,357)	(-7,968)	(-8,316)	(-7,921)	(-7,702)	(-7,112)
Deposit money banks	2,111	2,628	2,638	2,879	2,969	2,879	2,879	2,879	2,879
Domestic credit	55,532	64,108	71,364	76,861	80,091	80,569	81,832	82,548	87,501
Net credit to government	32,012	36,715	41,604	44,343	47,769	48,343	47,343	46,843	49,343
Credit to the private sector	23,520	27,393	29,760	32,518	32,322	32,226	34,489	35,705	38,158
Cereal credit	(...)	(...)	(1,756)	(1,486)	(...)	(2,400)	(2,700)	(2,600)	(1,600)
Other credit	(...)	(...)	(28,004)	(31,032)	(...)	(29,826)	(31,789)	(33,105)	(36,558)
Money and quasi-money	50,469	59,414	68,848	75,546	77,936	79,690	82,504	85,403	93,747
Money	39,188	45,131	53,223	59,212	61,016	62,460	64,666	66,938	73,477
Currency outside banks	(14,771)	(16,194)	(18,694)	(20,004)	(19,786)	(21,101)	(21,847)	(22,614)	(24,823)
Demand deposits	(24,417)	(28,937)	(34,529)	(39,208)	(41,230)	(41,358)	(42,819)	(44,324)	(48,654)
Quasi-money	11,281	14,283	15,625	16,334	16,920	17,230	17,838	18,465	20,269
Import deposits	15	2	—	—	—	—	—	—	—
Provisions or/and foreign exchange	—	—	1,064	2,209	1,371	1,218	886	—	—
Other items net	-1,852	-3,273	-3,320	-3,573	-2,199	-3,673	-3,723	-3,773	-3,973
				(Annual change in millions of dirhams)					
Net foreign assets	-1,688	-1,065	3,193	2,093	1,382	863	1,609	1,761	3,191
Domestic credit	4,840	8,576	7,256	5,497	6,204	5,838	4,217	5,687	4,953
Net credit to government	1,601	4,703	4,889	2,739	4,067	3,863	1,276	2,500	2,500
Credit to the private sector	3,239	3,873	2,367	2,758	2,137	1,975	2,941	3,187	2,453
Cereal credit	(...)	(...)	(...)	(-270)	(...)	(867)	(901)	(1,114)	(-1,000)
Other credit	(...)	(...)	(...)	(3,028)	(...)	(1,108)	(2,040)	(2,073)	(3,453)
Money and quasi-money	4,725	8,945	9,434	6,698	7,436	7,437	8,097	9,857	8,344
Other items net	-1,573	-1,434	1,015	892	150	-736	-2,272	-2,409	-200
				(Annual change in percent)					
Domestic credit	9.5	15.4	11.3	7.7	8.4	7.8	5.4	7.4	6.0
Net credit to government	5.3	14.7	13.3	6.6	9.3	8.7	2.8	5.6	5.3
Credit to the private sector	16.0	16.5	8.6	9.3	7.1	6.5	9.3	9.8	6.9
Other credit	(...)	(...)	(...)	(10.8)	(...)	(3.9)	(6.9)	(6.7)	(10.4)
Money and quasi-money	10.3	17.7	15.9	9.7	10.5	10.3	10.9	13.0	9.8
Money	8.4	15.2	17.9	11.3	11.1	9.4	10.2	13.0	9.8
				(Annual change in percent of broad money at the beginning of the period)					
Net foreign assets	-3.7	-2.1	5.4	3.0	2.0	1.2	2.2	2.3	3.7
Domestic credit	10.6	17.0	12.2	8.0	8.8	8.1	5.7	7.5	5.8
Net credit to government	3.5	9.3	8.2	4.0	5.8	5.3	1.7	3.3	2.9
Credit to the private sector	7.1	7.7	4.0	4.0	3.0	2.7	4.0	4.2	2.9
Money and quasi-money	10.3	17.7	15.9	9.7	10.5	10.3	10.9	13.0	9.8
Memorandum items: (Excluding the counterparts of Treasury and Postal Checking system deposits)									
				(In millions of dirhams; end of period)					
Domestic credit	53,447	61,838	68,840	73,753	76,879	77,461	78,724	79,440	84,393
Net credit to government	29,927	34,445	39,080	41,235	44,557	45,235	44,235	43,735	46,235

Sources: Bank Al-Maghrib; and staff estimates.

Table 6. Morocco: Balance of Payments, 1984-93

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
					Program		Projections			
Trade balance	-1,373	-1,347	-909	-826	-675	-573	-606	-685	-817	-970
Exports, f.o.b.	2,108	2,113	2,055	2,151	2,473	2,818	3,069	3,323	3,592	3,879
Percent change	(8.0)	(0.2)	(-2.7)	(4.7)	(14.9)	(14.0)	(8.9)	(8.3)	(8.1)	(8.0)
Imports, f.o.b.	-3,482	-3,460	-2,964	-2,977	-3,147	-3,392	-3,675	-4,008	-4,409	-4,849
Percent change	(12.8)	(-0.6)	(-14.3)	(0.5)	(5.7)	(7.8)	(8.4)	(9.0)	(10.0)	(10.0)
Services (net)	-882	-676	-737	-624	-732	-712	-720	-655	-601	-563
Tourism	399	510	545	620	660	703	749	797	848	903
Other nonfactor services	-311	-302	-363	-296	-399	-422	-463	-492	-529	-568
Factor services	-969	-884	-920	-948	-993	-993	-1,005	-960	-921	-897
Private transfers	907	1,047	1,320	1,360	1,360	1,387	1,415	1,443	1,472	1,502
Current account balance	-1,348	-976	-326	-90	-46	102	89	103	55	-32
In percent of GDP	(-11.0)	(-7.9)	(-2.5)	(-0.6)	(-0.3)	(0.7)	(0.6)	(0.6)	(0.3)	(-0.2)
Nonmonetary capital	-120	-235	-1,066	-894	-386	-262	22	11	204	356
Private capital	45	—	71	—	176	82	150	160	170	180
Official grants	15	290	14	—	—	—	—	—	—	—
Public short-term capital	-65	—	—	—	—	—	—	—	—	—
Public medium- and long-term capital	-177	-569	-1,126	-921	-562	-344	-128	-149	34	176
Disbursement	(999)	(839)	(835)	(756)	(850)	(960)	(1,266)	(1,370)	(1,350)	(1,373)
Of which: banks	70	100	21	19	—	—	306	377	357	325
Amortization	(-1,176)	(-1,408)	(-1,961)	(-1,677)	(-1,412)	(-1,304)	(-1,394)	(-1,519)	(-1,316)	(-1,197)
Of which: banks	-405	-353	-386	-365	-486	-397	-306	-377	-357	-325
Errors and omissions	61	44	-25	27	—	—	—	—	—	—
Overall balance	-1,468	-1,211	-1,392	-984	-432	-160	111	114	259	324
Debt relief	1,107	1,118	1,508	1,321	822	—	—	—	—	—
Obligations relating to debt relief	115	-20	-96	—	—	—	—	—	—	—
Overall balance (after debt relief)	-246	-113	20	337	390	-160	111	114	259	324
Financing										
Net foreign assets (increase -)	120	17	-306	-205	-229	-428	-291	-250	-259	-324
Net IMF 1/	(133)	(72)	(-244)	(-84)	(-129)	(-193)	(-166)	(-125)	(-73)	(-39)
Gross reserves	(52)	(-54)	(-63)	(-109)	(-100)	(-235)	(-125)	(-125)	(-186)	(-285)
Other net assets	(-59)	(22)	(1)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Deposit money banks	(-6)	(-23)	(—)	(-12)	(—)	(—)	(—)	(—)	(—)	(—)
Change in arrears	127	97	286	-132	-378	—	—	—	—	—
Financing gap	—	—	—	—	217	588	180	136	—	—
Of which: rescheduling					(147)	(448)				
IMF purchases					(70)	(140)				
Memorandum items:					(End of period)					
International reserves	49	81	144	253	353	588	713	838	1,024	1,309
External arrears outstanding	127	224	510	378	—	—	—	—	—	—
	(In percent of exports of goods, nonfactor services, and private transfers)									
External debt (including IMF)	366.3	359.6	329.9	297.4	275.9	254.5	238.9	224.7	213.1	204.7
Debt service ratio (before debt relief)	56.5	58.0	71.3	61.6	50.9	45.1	43.8	42.0	35.2	30.8

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

1/ On the basis of the previous stand-by arrangement.

There was a shortfall in net capital inflows in 1987 of SDR 279 million compared with the revised program target. In particular, the conversion of SDR 154 million of external payments arrears into medium-term loans by commercial banks did not materialize in 1987, as described below. Attainment of the external payments arrears reduction objective was further impeded by the fact that disbursement of a World Bank loan (SDR 84 million), included in the 1987 capital inflows, was not effected until the last day of the year, giving rise to a breach of the performance criterion on external payments arrears. For 1987 as a whole, the outstanding amount of external payments arrears declined by SDR 132 million, compared with a programmed reduction of SDR 206 million, excluding amounts in arrears that were to have been covered by the creation of a medium-term loan facility by commercial banks. The counterpart of the delays in the settlement of payments arrears was reflected in Bank Al-Maghrib's net foreign exchange reserves, which rose by SDR 109 million in 1987, or SDR 79 more than projected. Subsequently, in the early months of 1988, more than two thirds of the external payments arrears outstanding at end-December 1987 were settled through cash payments, leaving an outstanding amount of only an estimated SDR 220 million at the end of June 1988. Foreign exchange holdings declined during the same period from SDR 287 million to an estimated SDR 190 million.

The ratio of external public debt to exports of goods, nonfactor services, and transfers continued to decline in 1987, dropping from 330 percent to 297 percent, as exports increased and net financing dropped. The profile of the debt has also continued to improve, with the average interest rate on new commitments declining from 10 percent in 1982 to less than 6 percent in 1987, while average maturity increased from 11 years to about 20 years, easing the debt service burden borne by the budget.

In March 1987, official creditors meeting in the framework of the Paris Club agreed to reschedule all interest and amortization payments, including part of those amounts already rescheduled, on Morocco's medium-term debt falling due between Mach 1, 1987 and June 30, 1988. Nearly all of the bilateral agreements have been signed, and the Moroccan authorities have also reached agreement with most of the official creditors not participating in the Paris Club with a view to rescheduling debts owed to them on terms similar to those agreed with creditors participating in the Paris Club.

On January 4, 1988, a rescheduling agreement with the commercial banks, originally agreed in principle in December 1986, became effective. This agreement covers repayment obligations on medium-term debt coming due over the period January 1, 1985 to December 31, 1988, including payments falling due in 1987 and 1988 under the 1983-84 rescheduling. Rescheduling of the amounts due over the period April 1, 1988 to December 31, 1988 is contingent on the existence of a new Fund arrangement for Morocco. The agreement also included a consolidation of bankers' acceptances and the conversion of certain

overdraft and short-term credit facilities into a medium-term credit maintenance facility amounting to SDR 154 million. In the event, the amount confirmed by creditors by the time the agreement was effected in early 1988 amounted to only SDR 57 million.

Reflecting the continued depreciation of the U.S. dollar and the sharp reduction in inflation in 1987, Morocco's real effective exchange rate depreciated further during 1987 (Chart 1).

III. Medium-Term Framework

The Moroccan authorities consider the good results obtained over the 1982-87 period to be a clear indication that the broad thrust of their financial and economic policies is appropriate and thus should serve as the basis of their medium-term program. On the other hand, they wish to achieve a significant acceleration in the rate of economic growth compared with that registered in the earlier period. Thus the medium-term program that will be supported in 1988-89 by the requested stand-by arrangement is directed at achieving both more rapid and sustainable growth and balance of payments viability. Specifically, the objectives for the period 1988-93 are:

(i) to achieve an average annual growth of GDP of 4.5-5.0 percent in real terms;

(ii) To contain domestic price inflation (measured by the average annual increase in the GDP deflator) to 5 percent; and

(iii) to achieve a small surplus on the external current account during most of the period.

To achieve faster growth, Morocco will push ahead vigorously with its program of structural reforms in order both to increase the level of investment, including public infrastructure, and to increase its productivity. The main sectors contributing to GDP growth are expected to be manufacturing, including phosphate products, and services such as tourism, and, to a lesser extent, agriculture. The relative weight of other sectors in the economy (particularly phosphate rock mining, energy, and government services) would decrease gradually, notably as a result of the further shift of resources toward the nontraditional tradable goods sector. In addition to new investment, this restructuring will be achieved partly through the continuation of ongoing programs of trade and price liberalization 1/ and through a major program of privatization, 2/ which will supplement other measures to

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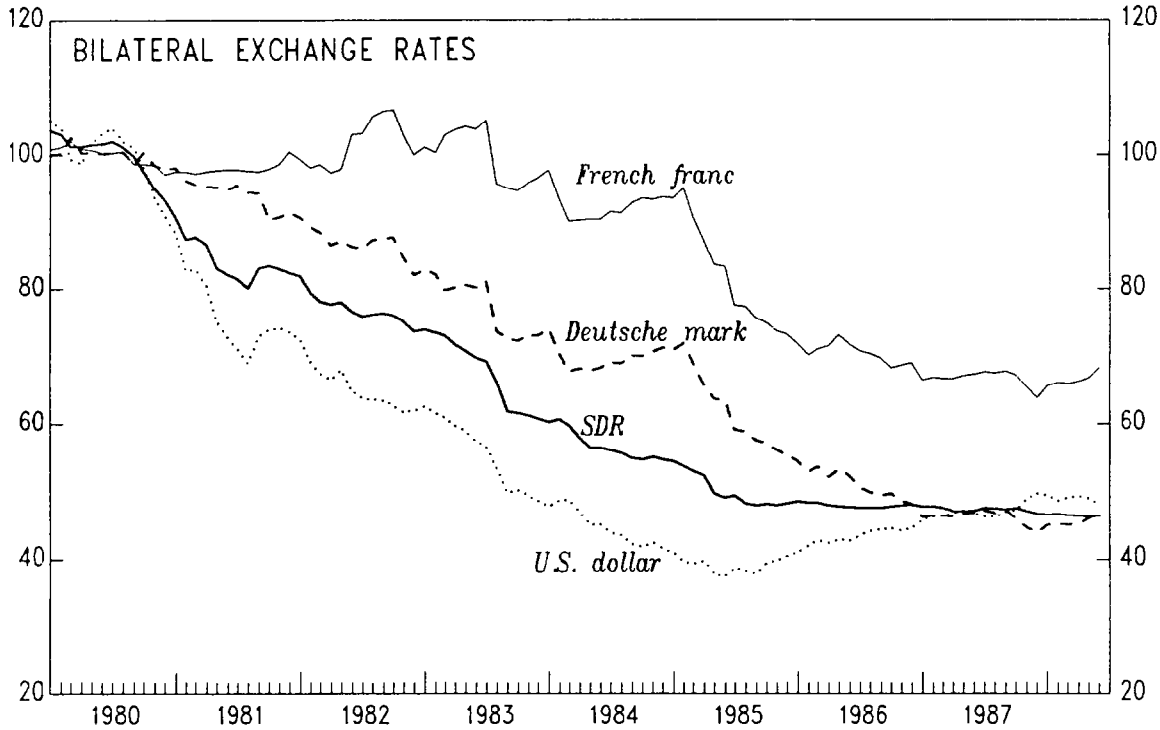
1/ The details of the expected impact of liberalization on trade and industrial adjustment are elaborated in the World Bank's Report No. 6714-MOR, March 15, 1988.

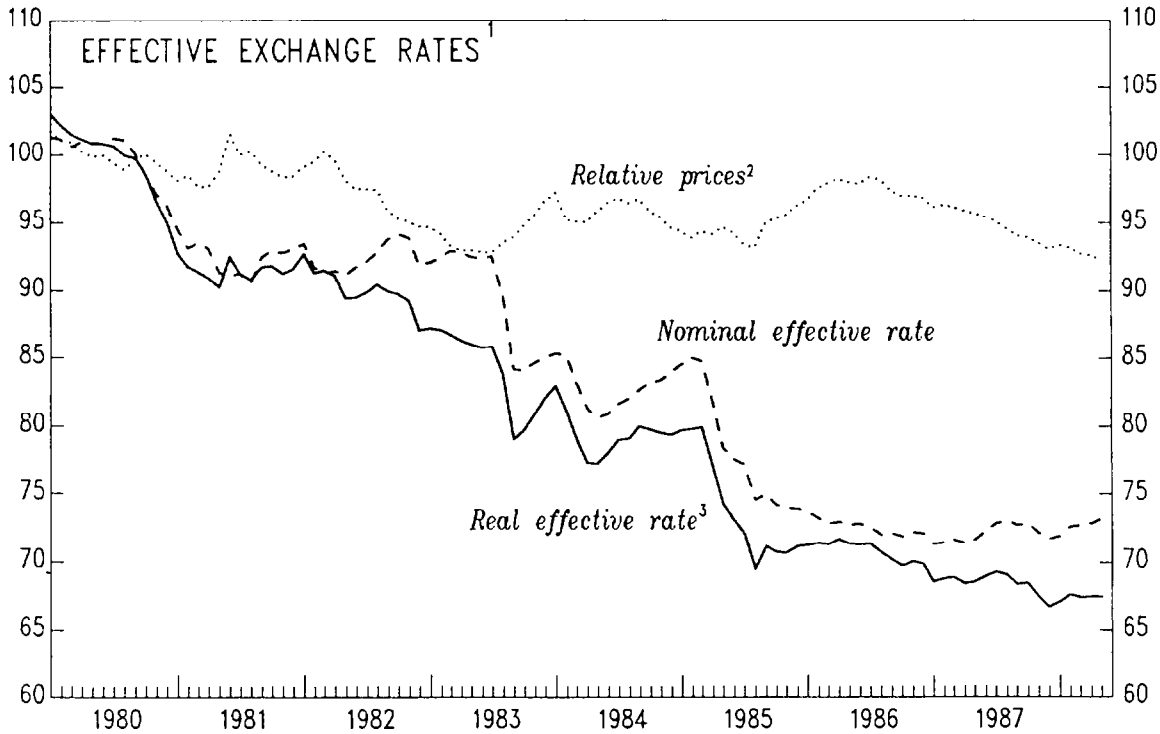
2/ Privatization of state enterprises that could be operated by private-sector agents, especially in the manufacturing sector, is a part of the World Bank-supported public enterprise rationalization program, as described in Report No. P-4545-MOR, April 30, 1987.

CHART 1
MOROCCO

INDICES OF SELECTED EXCHANGE RATES, 1980-88

(1980=100; foreign currency per Moroccan dirham)





Source: IMF Data Fund

1/ Multilateral Information Notice System weights based on the geographical pattern of trade and tourism and including third market effects in 1980-82 on average.
2/ Relative consumer price; domestic price index/weighted partner price indices.
3/ Based on relative consumer prices.

improve the efficiency of the public enterprise sector. Reflecting the policies to boost exports, especially nontraditional exports, the ratio of exports of goods and nonfactor services to GDP is projected to increase by 4 percentage points between 1983-87 and 1988-93, while imports are expected to decrease by 1 percentage point.

While total investment is projected to increase only from 20 percent of GDP in 1987 to about 21 percent in the early 1990s, the relative share of directly productive investment is expected to increase more rapidly, with the public sector progressively focusing on the development of accompanying infrastructure, leaving new investment in production increasingly to the private sector. In addition to the factors mentioned above, this change will also reflect the steps being taken to promote a greater inflow of direct foreign investment into the Moroccan economy, particularly into those sectors such as tourism, export manufacturing, or high technology, where foreign investors may have a special contribution to make in improving the productivity of Morocco's own human and material resources. Additionally, the authorities will seek to rely increasingly on Moroccan resources to finance new investment in order to achieve a reduction in the stock of outstanding external debt. In particular, the authorities intend to finance a greater share of public investment from the generation of public savings through restraint in fiscal policy. Reflecting these policies, and the envisaged reduction of overall external and internal imbalances, it is projected that the resource gap will be eliminated in 1989 and will not re-emerge thereafter (Table 7).

The envisaged reduction of external and internal imbalances, together with the cautious monetary and wage policies to be pursued by the authorities, should make it possible to contain the increase in the domestic price level to 5 percent. An even lower inflation would have been possible except for the impact of the significant upward adjustments to be made in certain administered prices and public tariffs and the freeing from price control of other products. Significant new job creation is expected to take place, especially in the tradable goods sector. Wage policy will reflect partly the need to avoid unduly raising production costs, which could harm external competitiveness and hamper job creation.

In the continued reduction of macroeconomic imbalances, fiscal policy will continue to play a key role, with a further significant reduction in the fiscal deficit contributing significantly to the external adjustment in the medium term. Moreover, the projected lower financing requirements will permit a reduction of the public sector's absorption of domestic private savings. Additional measures have been taken and will be taken to increase revenues and revenue buoyancy over the medium term. Emphasis will be placed on the enhancement of the quality of revenue, so that the budget relies on a durable revenue base and remaining nonrecurrent revenue sources will be phased out. Increased revenues, together with overall restraint in current expenditure, should enable productive public investment to be increased somewhat while still reducing the overall deficit.

Table 7. Morocco: Selected Macroeconomic Indicators, 1983-93

	1983-87 (Average)	1988-93 (Average)
	(Annual percent change)	
Real GDP	3.2	4.8
GDP deflator	6.2	4.9
	(In percent of GDP, at current prices)	
Investment 1/	20.3	20.6
Gross national savings plus private transfers	14.3	20.9
Resource gap	6.0	-0.3

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

1/ Includes net change in stocks.

The implementation of the structural and macroeconomic adjustment program will help to re-establish balance of payments viability and a more manageable debt profile. Medium-term projections of Morocco's balance of payments through 1993 (Table 6) are based mainly on the assumptions shown in Appendix Table I. The external current account is projected to shift from a deficit averaging 0.5 percent of GDP in 1987-88 to a surplus of 0.7 percent in 1989, and to remain in a small surplus at least through 1992. The current account targets are based on an average volume growth of exports of 6.1 percent and of 3.9 percent for imports during 1988-93. As indicated in Appendix Table I, the growth projection for exports exceeds that of projected demand in trade partner countries, owing to the assumption that Morocco's further increases in production capacity, the vigorous promotion of exports, and the prospection of new markets will permit increasing market shares for Moroccan products during the period. On the other hand, Morocco will need to continue to keep abreast of trends in export competitiveness of other North African, Middle Eastern, and European countries, and to be prepared to adopt additional measures to at least maintain its position vis-à-vis its principal competitors.

The strengthening of the overall balance of payments would allow a substantial accumulation of gross reserves, which are targeted to increase from the equivalent of less than one month's imports in 1987 to the equivalent of 2.5 months of imports in 1992, despite significant repurchase obligations to the Fund during this period. Taking into account scheduled amortization, projected borrowing of medium- and long-term credits, and the direct investment from abroad, the need for exceptional financing in the form of debt rescheduling could be eliminated by 1992 at the latest. In the interim years 1988-91, the residual financing gaps drop off sharply, implying that the amount of rescheduling could be limited to progressively smaller proportions of scheduled debt service, or alternatively, the projected financing needs after 1989 could be met without new rescheduling if voluntary lending resumes at an early stage, or if domestic savings can be raised more rapidly than is currently envisaged. At the same time, the debt and debt service ratios are also projected to be reduced significantly over the period. The debt service ratio (before debt relief) is expected to drop rapidly, from 61.6 percent in 1987 to 30.8 percent in 1993. Outstanding external debt, including repurchase obligations to the Fund, would be reduced from 297 percent of exports of goods, nonfactor services, and private transfers in 1987 to 205 percent in 1993.

Outstanding use of Fund resources, which is included in the above numbers, accounted for 8 percent of external public debt in 1985, when Morocco's obligations to the Fund peaked. These obligations have been declining since then, and would fall to 2 percent in 1993 if there are no further Fund arrangements after the one presently requested. By 1997, Morocco would have no further use of Fund resources outstanding.

IV. The 1988-89 Program

In 1988-89, while prospects for overall economic growth are favorable and the outlook for phosphate exports is improving, the external debt service burden remains heavy. Following the sustained adjustment efforts of 1983-87, the 1988-89 program aims at a further improvement in the external account, the total elimination by cash payments of external payments arrears and all other delays in current external payments in 1988, and a significant increase in reserves. In the attached memorandum on economic and financial policy, the Government has outlined the policies it intends to follow in 1988-89. These policies are summarized in Table 8. In both years there will be a further significant reduction in the fiscal deficit, and maintenance of cautious credit policies. The ongoing program of structural reforms, many of which are supported by World Bank lending, will be pressed forward, and a study of the reform of the financial system will be undertaken.

1. Fiscal policies

a. Fiscal objectives

The program's fiscal objectives for 1988 include a reduction of the central government deficit on a payment order basis to 4.5 percent of GDP, down from 6.1 percent in 1987, and a DH 2.5 billion reduction in net government arrears, equivalent to about 50 percent of outstanding arrears at the Treasury at the end of 1987 (Table 4 and Appendix Table II). A further reduction to 3.5 percent of GDP is the 1989 fiscal deficit objective. Current expenditure is expected to reach 22.3 percent of GDP in 1988, as against 21.3 percent envisaged during the third review 1/ and 21.2 percent realized in 1987. This increase in expenditure, however, should be more than offset by an increase in revenue. Government revenue is now expected to reach 24.5 percent of GDP, as against 22.3 percent envisaged during the third review and 21.9 percent realized in 1987. Revenue should be nearly DH 3.7 billion higher than envisaged during the third review.

The large increase in government revenue results from various favorable factors and from two important measures already taken in the context of the original 1988 budget. These measures, which are expected to contribute to a durable enhancement of tax revenue in 1988-89 and beyond, were: (i) the replacement of the flat 5 percent import surcharge and a 10 percent import stamp duty by a single 12.5 percent flat surcharge, yielding about DH 0.9 billion in net additional revenue; and (ii) the taxation, under the value-added tax regime, of some products formerly exonerated, as well as the shift to higher tax rates of some products formerly taxed at low rates, in particular transportation, rice, coffee, and cattle feeds, for an additional revenue of DH 0.3 billion. Recent favorable developments include, on the other hand, a

1/ See EBS/88/175, pp. 11-14 for a detailed description of the authorities' original 1988 budgetary projections.

Table 8. Morocco: Summary of the Economic and Financial Program, 1988-89

Assumptions and objectives	1988	1989
Growth in real GDP (in percent)	6.0	4.5
Inflation (in percent, December to December)	5.0	4.5
Terms of trade (percent change)	--	-0.6
Phosphate rock ($ per metric ton)	32.5	35.4
Oil ($ per barrel)	17.0	17.6
Volume of nonphosphate exports (percent change)	8.8	10.0
Current account deficit 1/ (percent of GDP)	-0.3	0.7
International reserves (months of imports)	1.2	1.9
External debt (including IMF) (percent of GDP)	93.3	94.8
Debt service ratio 1/ (percent of exports)	50.9	45.1
Government deficit (payment order) 1/ (percent of GDP)	4.5	3.5
Government deficit (cash) 1/ (percent of GDP)	5.7	4.1

Principal elements

1. Public finance

Overall fiscal deficit on a payment order basis limited to 4.5 percent of GDP in 1988, compared with 6.1 percent in 1987; to be reduced to 3.5 percent in 1989.

Revenue increased by nearly 25 percent in 1988, reflecting substantial gains from direct taxes, a higher levy on imported petroleum products as a result of the decline in the world price that is not passed through to final users and several nonrecurrent revenue items. Continued structural reform of taxation.

Increase in total expenditure in 1988 limited to 15 percent. Current expenditure would increase by 17 percent, owing to increases in, inter alia, the cost of foodstuff subsidies and teachers' salaries. Capital expenditure would be limited to DH 11.1 billion. Reform of investment budgeting procedures, including adherence to a consistent set of targets for authorizations, commitments, payment orders, and payments.

DH 2.5 billion in cash payments to reduce domestic arrears in 1988.

Elements of 1989 budget to be discussed at time of first review.

1/ Before debt relief.

Table 8 (concluded). Morocco: Summary of the Economic and Financial Program, 1988-89

2. Money and credit

Growth of domestic credit limited to 7.1 percent in 1988 and 6 percent in 1989, of which DH 2.5 billion to Government. Growth in broad money 13 percent in 1988, broadly in line with nominal GDP, and the strong improvement in the net foreign asset position.

Structural measures to promote savings and to improve financial intermediation. Gradual increase in monetary reserve ratio and frequent adjustment of deposit and lending rates, in line with market developments. Studies will be prepared, within the next two years, which will focus on the introduction of a reserves-based system of credit determination and on the modernization of the financial market.

3. External policies

Continued liberalization of trade and payments, including elimination of all external payments arrears in 1988.

Liberalization of 128 import products and timetable to remove other remaining quantitative restrictions.

Maintenance of flexible exchange rate policy.

Reform of present system of exchange rate risk guarantees for specialized financial institutions.

Limitation on nonconcessional debt of 1-12 year maturity, with sublimit on that in maturity range of 1-3 years. Limit on short-term debt, excluding import-related credits.

4. Pricing and other structural policies

Continued liberalization of trade, prices, and agriculture, including programmed reduction in some consumer subsidies and elimination of subsidies on agricultural inputs. Improved targeting of flour subsidy for the poor.

Promotion of greater direct foreign investment in Morocco, particularly in tourism and export manufacturing.

Preparation of program of privatization to improve the efficiency of the public sector and to permit disengagement from nonstrategic sectors. Continued streamlining of public administration, with World Bank assistance.

Reform of the agriculture sector through further liberalization of agricultural marketing, improved government services delivery, and a reorientation of development policy, with a view to improving efficiency and attaining reasonable sufficiency in domestic food production.

DH 0.9 billion increase in revenue from the special petroleum levy, owing to a $1 per barrel reduction in the average world price of oil now expected in 1988, and to a revision of refinery accounts. The yearly revenue projections for certain other taxes were also revised on the basis of their high buoyancy observed during the first five months of the year. In particular, revenue from direct taxes is expected to rise by DH 0.8 billion, owing to a strong recovery of economic activity and significant wage increases in both the private and public sectors. A further DH 0.45 billion gain is expected from the value-added tax, the tax on tobacco products, and stamp and registration duties. The signing of a new fishing contract with the European Communities will provide an additional DH 0.7 billion. Higher transfers to the Treasury are also expected from the phosphate company (OCP) in payment of its corporate income tax obligations (DH 0.24 billion), and from certain financial institutions, on account of dividends that were higher than initially envisaged (DH 0.3 billion). Finally, the Government introduced a number of further measures designed to yield an additional DH 0.2 billion in 1988, including an increase in the tax on tobacco products.

The DH 1.8 billion increase in current expenditure, relative to the level envisaged at the time of the third review, results essentially from three factors: (i) the expected cost of the wage raise being negotiated with the education sector was revised upward by DH 360 million; (ii) the total cost of consumer subsidies is now estimated at DH 1.65 billion as against a forecast of DH 0.75 billion made at the time of the third review; and (iii) finally, a DH 0.4 billion upward revision of purchases of goods and services had to be made on account of expenditures incurred in the fight against locusts, and because of a revision of budgetary appropriations for utilities, after final consumption figures in 1987 turned out to be still somewhat higher than budgetary appropriations, in spite of efforts made by the authorities to control them.

The total cost of the wage adjustment to be granted to the education sector in 1988 is now expected to reach DH 920 million, of which only DH 140 million, half of the cost of the wage increase given to university professors, had originally been included in the budget. These increases, which involve pay raises of 30 percent to 40 percent, have been triggered by the significant wage erosion that has taken place in the public sector since 1983 and follow similar adjustments given in the recent past to other public servants, particularly engineers, architects, and the police. In the case of university professors, it was a one-time increase while, for teachers at the primary and secondary level, it will be paid in two or three equal yearly installments.

Following the steep rise of cereal prices in the world market and the exceptionally good harvest in Morocco, the flour subsidy is now expected to cost about DH 0.9 billion in 1988. This estimate includes the effect of the recent implementation of an increase in the extraction rate from 78 percent to 80 percent, the limitation on the production of subsidized "national" flour to 12 million quintals in 1988 (and 10 million quintals in subsequent years, as against 16 million quintals

in the past), and the complete liberalization of all other qualities of flour. Although the amount of subsidized flour is thus limited, the higher extraction rate, entailing a higher percentage of bran in the flour, is intended to provide for more effective targeting of poor consumers than was possible in the past.

The current surplus of the budget is now projected at DH 3.6 billion, 2.2 percent of GDP, or twice the DH 1.8 billion level projected at the time of the third review. On the basis of a DH 7.5 billion deficit, capital expenditure will thus reach DH 11.1 billion, which corresponds to maintaining the same proportion of GDP, 6.6 percent, as the one finally reached in 1987 after the DH 3.0 billion overrun over program targets for that year (Appendix Table III). On the other hand, given the blocking of DH 700 million that was to be transferred to local authorities as part of their 30 percent appropriation of value-added tax receipts, offsetting a like amount of local government operating expenditures met by the central government current budget, expenditure commitments on projects under direct central administration control should reach 73 percent of budgetary appropriations, up from 62 percent reached in 1987. Although the risk of expenditure overruns is thus substantially reduced compared with 1987, when only 40 percent of budgetary appropriations could have been spent according to program objectives, a monthly review of the investment budget will be carried out by the Moroccan authorities to determine whether a slowing down of the pace of expenditure commitments is needed at any time to remain within current program targets.

The DH 10.0 billion cash deficit is expected to be covered by DH 5.5 billion in net foreign borrowing (including exceptional financing), which represents a DH 3.0 billion increase over the level reached in 1987, mainly on account of higher drawings from the World Bank and the African Development Bank. On the other hand, net domestic financing is expected to fall from DH 7.3 billion in 1987 to DH 4.5 billion in 1988, with a DH 2.5 billion limit on credit from the banking system, and the balance of domestic resources to be raised through the issue of treasury bonds.

Given the program's objective of a further reduction of the fiscal deficit to 3.5 percent of GDP on a payment order basis in 1989, the Moroccan authorities are aware that both revenue and expenditure targets for 1989 will need to be carefully assessed in the coming months to avoid the risk of underperformance. On the revenue side, such a risk emanates from the fact that, despite recent reform, government revenues continue to be somewhat dependent on exogenous factors. For example, the revenues stemming from the petroleum levy have been particularly buoyant owing to the declining world prices. Furthermore, the overall revenue performance in 1988 was especially affected by positive developments in nonrecurrent revenue items. For these reasons, the authorities recognize the need in 1989 and beyond to match expenditure growth to the sustainable growth in government revenues and foreign resources. Specific fiscal measures needed to reach that target will be discussed during the first review of the program.

b. Structural measures

A major program of fiscal reform in Morocco has been carried out in recent years with the assistance of the Fund and the World Bank. Some important additional measures to improve the efficiency and equity of the tax system, as well as to reduce excess tax burdens have already been introduced in 1988. A general reform of investment codes was approved by Parliament at the beginning of the year. The aim of the reform was mainly to eliminate excessive and open-ended exemptions. It limited to five years the duration of the exemption, except for the export sector for which a 50 percent exemption for the corporate income tax was maintained after the five-year period, and it increased from 4.5 percent to 8 percent the minimum tax rate on profits paid by exempt firms. In the 1988 budget, the zero-bracket threshold for the personal income tax was raised from DH 6,000 to DH 8,000, in order to simplify tax administration and to improve equity, by eliminating from the tax records a large number of low-income taxpayers. The tax rate applicable under the new corporate income tax was also lowered from 48 percent to 45 percent on 1987 profits, payable in 1988; it will be reduced further to 40 percent next year. Although some immediate revenue losses are expected as a result in 1989, the incentives benefit of the rate reduction and the raising of the threshold for personal income should in time outweigh its cost, provided in particular that sufficient improvements in tax administration are also made in the near future. In fact, the buoyancy evident in tax revenue performance during the first months of 1988 indicates that some of these losses have been largely offset by the impact of improvements in collection and other aspects of administration. Measures to improve the quality and frequency of tax audits and to simplify and reinforce the structure of penalties applicable to late payments and tax evasion are being introduced. In particular, the authorities will improve the training and sharply increase the number of tax inspectors and will reorganize the function of the Tax Department so as to benefit systematically from the pooling of information provided by the corporate income tax and the value-added tax. Finally, the authorities reasserted their intention to submit the draft law for the new general income tax on individuals to the fall session of Parliament.

On the expenditure side, improvements in the investment budgeting process are being implemented, including a new nomenclature and improved computerization of the accounts. The lack of consistency of budgetary appropriations for investment expenditure with available financing has been in the past a source of substantial difficulties, and has led to a large accumulation of arrears and to a stop-go pattern of spending, as all departments have been required in recent years to resubmit each year all remaining appropriations granted but unused in the previous year, as well as all amounts that are already committed but have not yet given rise to payment orders. The Moroccan authorities are currently considering the possibility of returning to a system in which only authorizations not committed by the end of the year are subject to cancellation. This would, however, require substantial improvements in

budgetary programming and a sharp reduction of yearly budgetary appropriations submitted to Parliament. This issue will be further discussed at the time of the first review of the program.

2. Monetary policies

a. Credit policies

A moderately tight credit policy will be maintained in 1988 and 1989 to validate the fiscal, external, and inflation objectives of the program. The expansion in domestic bank credit will be limited to 7.4 percent in 1988 which, in view of the 5.6 percent increase targeted for net credit to Government, will permit an increase in credit to the private sector of 9.8 percent (Table 5 and Appendix Table IV). The proportionately higher increase in credit to the private sector reflects the expectation that there will be larger statutory cereal crop financing in 1988 owing to the record cereal harvest that is projected. It is expected that total financing for cereal crops will grow from DH 1.5 billion at the end of 1987 to a peak of DH 2.7 billion in September, dropping to DH 2.6 billion at the end of 1988, and dropping further thereafter. Taking into account the rapid expansion of crop credit, the growth of other credit to the private sector will be about 7 percent, or less than that granted in 1987. Under the 1988-89 program, however, some of the financing needs of the private sector will be met by the substantial further repayment by the Government of its domestic payments arrears. Moreover, on the assumption of a return to more normal harvest levels in 1989, other credit to the private sector would increase more rapidly in 1989, helping to accommodate the expansion in productive investment by the private sector that is foreseen under the program.

The level of counterpart deposits under the system for the dirham provisioning of requests for foreign exchange not immediately met by Bank Al-Maghrib 1/ will fall progressively in 1988 as external arrears are eliminated and the net foreign assets of the banking system improved (Appendix Table V). Since the end of March 1988, the average waiting period between the time a request for foreign exchange was registered with Bank Al-Maghrib and the receipt of the foreign exchange has been reduced to 25-27 days, compared with an average waiting period of 90 days in 1987.

Reflecting the impact of the expected improvement in the net foreign assets of the banking system, together with the authorities' domestic credit objectives, money and quasi-money is projected to

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1/ The provisioning system currently entails counterpart deposits against commercial arrears. It has absorbed domestic private liquidity by requiring that 50 percent of the domestic currency counterpart be transferred by the banks to the Treasury as an interest-free loan, which is, however, included under the ceiling on credit to Government.

increase by 13 percent in 1988 and 9.8 percent in 1989, slightly higher than the rate of nominal GDP growth in 1988 and about the same as GDP growth in 1989.

b. Liberalization of the financial system

In the course of the past several years, the Moroccan authorities have recognized that the financial system could benefit from a gradual liberalization of the credit containment or encadrement policy, in order to promote saving and to make financial intermediation more efficient. To this end, and to address the current problem of excess liquidity in the banking system and a degree of misalignment of deposit and lending rates, interest rates have recently been modified. Notably, lower rates apply to certain types of lending and the rate on one-year time deposits has been lowered, to reflect the recent decline in price inflation. All interest rates remain positive in real terms, with deposit rates ranging in real terms from 3.3 percent to 6.2 percent (Appendix Table IV). As a further means of correcting the liquidity situation, the bank reserve ratio was further increased in May 1988 from 5 percent to 6 percent, and the relevant monetary regulations were liberalized so as to permit Bank Al-Maghrib to freely revise the ratio up to a maximum of 10 percent. In the remainder of 1988 and in 1989, the authorities will build on the progress made to date by enhancing the link between the ceiling on credit to an individual bank and its performance, and by reviewing annually the current method of distribution of credit among banks on the basis of the volume of deposits, in particular fixed-term deposits, the level of bank equity and reserves, and the level of export credit operations. In addition, the authorities will prepare, within the next two years, studies of the financial system that will focus especially on the introduction of a credit control system based on the use of the monetary reserve instrument and interest rates as well as on the modernization of the financial markets. The progress of these studies will be reviewed with the authorities at the time of the second program review.

In line with the liberalization and with a view to reducing the share of the Treasury in the financing provided by the banking system, the Government will reinstitute the practice of allowing the public to directly acquire treasury bonds rather than limiting their issuance to the deposit money banks through the money market. Bonds issued to the public will carry a maturity of two to five years, initially with tax-free interest rates of 11 percent and 11.5 percent, respectively. These rates will be reviewed periodically to assure an adequate subscription at the lowest possible rates. The rate on bonds placed in the money market will initially range from 8.5 percent (1 month) to 9 percent (6 months). By the end of 1988, the Treasury will establish an auction-based system for placing treasury bonds on the money market in tandem with the system of continuous issues currently used. The bond yield to the public will initially be significantly above the net return offered by commercial banks to depositors, and thus the bonds should gain wide immediate acceptance and help to absorb liquidity. In the course of

1988, as well as under the envisaged auction system, the yields should progressively be reduced, thus reducing the average borrowing cost to the Treasury, while maintaining competitiveness with alternative savings instruments currently offered by the banking system.

3. External sector

Morocco's external outlook for 1988-89 is favorably affected by the improving prospects on world markets for its major exports, especially phosphate rock, phosphate products, and other semifinished goods and manufactures. On this basis the authorities hope to consolidate in 1988 the progress toward equilibrium in the external current account; in 1989, it is expected to swing into a small surplus equivalent to 0.7 percent of GDP (Table 6 and Appendix Table VI). Based on expected public and private nonmonetary capital flows, the overall deficit in 1988, before rescheduling or other exceptional financing, would drop to SDR 432 million, its lowest level in the 1980s, with a further decline to SDR 160 million in 1989.

Data for the first few months of the year indicate a good performance on the trade account. In 1988 export receipts in SDR terms are projected to grow by nearly 15 percent, reflecting the impact of higher prices and demand for, in particular, phosphate rock and phosphate products as well as other semifinished goods. The export growth also reflects the increases in the volume of phosphate rock exports by 7.5 percent and of phosphoric acid and other semifinished goods by 18.3 percent. The higher phosphoric acid and fertilizer export volume was made possible by recently expanded processing plant capacity. Similarly, the volume of manufactured exports is projected to increase by 16.7 percent, reflecting substantial new investment in plant and equipment. In 1989, a further 14 percent increase in export receipts is projected, mainly owing to the continuation of the same factors.

Imports are expected to rise in 1988 by 2 percent in volume terms and by 6 percent in SDR terms. Reflecting the bumper domestic cereal crop, the volume of cereal imports is expected to drop by nearly 16 percent, following the high level of cereal imports in the previous year, when drought conditions prevailed. For similar reasons, sugar imports are expected to drop by 8 percent. The volume of other imports, by contrast, will increase by 5.5 percent as the rebound of domestic demand and the ongoing investments in the manufacturing and other sectors raises demand for foreign inputs and consumer goods. The drop of 10 percent in the average unit value of crude petroleum imports projected for 1988 should contribute to the containment of the increase in all import prices to about 3 percent. With the return to a more normal harvest in 1989, total imports are expected to increase by about 8 percent.

Information available for the first months of 1988 also indicates a good performance for travel and tourism receipts, which are projected to increase by 6 percent. Three new measures are expected to support an increase in capacity and foreign exchange earnings of the tourism sector in 1988-89 and beyond. Hotel tariffs, already liberalized for five-star hotels since 1985, will be freed for four-star and three-star hotels by end-September 1988. Also, credit to the hotel sector will be exempt from quantitative credit limits by end-December 1988. In addition, a major program to improve the Agadir tourist zone, making significantly more land available for hotel construction and related activities, will be introduced by end-December 1988.

Although workers' remittances are expected to remain roughly unchanged in 1988, the authorities hope to encourage a resumption of growth in remittances in 1989 and thereafter. To this end, since May 2, 1988, Moroccans living abroad are authorized to open convertible dirham accounts with Moroccan banks, with a minimum deposit of DH 500,000.

A substantial reduction in net capital outflows (before debt relief) will be possible in 1988 and 1989, reflecting mainly the continued decline in scheduled amortization payments as past efforts to improve the debt profile begin to bear fruit, but also increased disbursements related to the level of foreign-financed investment during the program period. In 1988 the net outflow of nonmonetary capital will be limited to SDR 386 million, compared with SDR 894 million in 1987. An increase in private short- and medium-term lending, mainly by commercial banks, is expected to contribute to this outcome. Nearly one third of the total increase in private capital of SDR 176 million in 1988 is related to the January 1988 rescheduling agreement with commercial banks--as noted in Section II.2.d, SDR 57 million of the planned SDR 154 million medium-term credit maintenance facility was confirmed in early 1988. On the other hand, banks other than those participating in the facility have in the meantime extended short-term financing to Moroccan agents, and this financing has helped to effectively fulfill the same needs. This modification affects, however, the definition of external payments arrears under the program. Under the previous stand-by arrangement, the banks' contribution in debt relief was expected to include the aforementioned credit maintenance facility, and the 1987 balance of payments thus included that amount as part of the external payments arrears reduction and as a private capital inflow. Since the actual amount confirmed is smaller, and as the form of the maintenance commitment does not permit the allocation of the medium-term loan to specific amounts awaiting payment, in the 1988-89 program, external payments arrears are defined as the totality of the requests for the provision of foreign exchange at Bank Al-Maghrib that cannot be met immediately.

Taking into account disbursements of medium- and long-term borrowing under already contracted loans and identified commitments, the overall deficit in 1988 before debt relief is expected to amount to SDR 432 million. After accounting for debt relief provided under

previous rescheduling arrangements, the elimination of all outstanding external payments arrears, and a small increase in net foreign assets, there would remain a financing gap of SDR 217 million (Appendix Table VII). In 1989, the deficit before debt relief is projected to be SDR 160 million and, after allowing for Fund repurchases and a further increase in reserves, a gap of SDR 588 million would need to be covered by exceptional financing. The Moroccan authorities would request consideration by the Paris Club and by other creditor groups to provide rescheduling to cover part of these gaps. The remainder could be financed by the purchases under the requested arrangement. It should be noted that the above-mentioned gaps are based on the assumption that the World Bank SAL and several other program and sector loans--currently in preparatory stages or under negotiation with the Moroccan authorities--would be committed and disbursed during 1988-89. Should any of these commitments or disbursements fail to be made effective, the gaps for 1988-89 and subsequent years would need to be reassessed.

Under this scenario, and following several years of delays in the repayment of external payments arrears, Morocco is expected to be able to clear all such outstanding payments in the course of 1988 and to establish a reserves base equivalent to nearly two months of imports by the end of 1989. The debt service ratio before debt relief, another measure of creditworthiness, is projected to decline below 50 percent in 1989 for the first time since 1982 (Appendix Tables VII and IX). Yet another indicator of Morocco's improved creditworthiness is the fact that, starting in the second half of 1988, it will be possible to close the remaining financing gaps with increasingly lower proportions of debt rescheduling. With the aim of continuing to improve the debt profile, the contracting and guaranteeing of new nonconcessional debt in the 1- to 12-year maturity range and the utilization of short-term debt are subject to limits under the program.

Exchange rate management will be conducted with a view to ensuring that the program's external objectives are achieved. Following significant terms of trade gains in 1986/87 (a total gain of almost 13 percent), which offset most of the large losses experienced previously, stability is projected for 1988 and a 1/2 percent deterioration in 1989. The authorities view the current level of the exchange rate, and its real effective counterpart, as appropriate. They will continue to follow a flexible exchange rate policy designed, along with other economic policy instruments, to preserve the economy's competitiveness, thus facilitating the achievement of the objectives relating to growth, balance of payments, and price stability. The management of exchange rate policy will be one of the areas examined during the two program reviews.

The current system of exchange risk coverage, under which the Treasury covers the exchange-rate related losses of three of the specialized financial institutions has proved expensive, with the budgetary cost amounting to DH 450 million in 1987. In addition, the staff is looking into the system to determine whether it gives rise to a

multiple currency practice subject to Fund approval under Article VIII, Section 3. The authorities are concerned by the difficulties relating to the present system of exchange risk coverage and will undertake its reform to improve the system's operation and to eliminate the budgetary burden carried by the Government. A new system will be examined with the Fund staff during the first review of the program and will be put into application before the end of June 1989. The staff are also looking into a second exchange risk coverage system managed by Bank Al-Maghrib for commercial banks' transactions, and a determination will likewise be made with respect to whether it has given rise to a multiple currency practice.

The long-term import liberalization program will be carried one step further under the program, with the switching of at least 128 items (1 percent of imports in 1987) from the prior authorization list to the free import list. This measure is to be announced by the end of August 1988. Also, by end-November 1988, the authorities will establish a schedule for the elimination of most of the remaining quantitative restrictions and for the continued streamlining of the tariff structure. The modalities and schedule for this stage of liberalization are being discussed by the authorities with the World Bank staff in the context of the proposed SAL. Export promotion policies to be implemented during the program period include the allocation of financial resources to the Moroccan Export Insurance Company (SMAEX) by the end of August 1988, to permit it to provide government compensation for losses resulting from ordinary commercial risks and the establishment of procedures that will make it possible to provide compensation for certain political risks. In addition, budgetary allocation will be increased under the 1989 Budget Law for the Moroccan Export Promotion Centre (CMPE) to enable it to function effectively in export promotion, especially the development of new markets. Furthermore, bureaucratic procedures related to exports will be simplified, with the objective of reducing the customs clearance delay by end-1988 to half the average delay at end-1986.

More generally, investment inflows are being promoted by a liberalization of the bureaucratic procedures related to capital flows, dividend transfers, and eventual capital repatriation, already in effect in the first half of 1988. The liberalization affects not only foreign investors but also Moroccans residing abroad. With a view to simplifying procedures for prospective foreign investors, a central information service will be established and resources will be budgeted for an enhanced effort at promoting foreign investment in Morocco.

4. Structural policies

The two main strands of the authorities' program of structural reform of the economy not already discussed above are the reform of the public enterprise sector, including privatization, and the ongoing reform of the agricultural sector. It should be noted, however, that the education reform, by controlling costs and reorienting the output of

the education sector to the real needs of the economy for trained manpower, will have an important impact on public expenditure in the medium term and on the efficiency of the economy in the long term. The education program is supported by a World Bank sectoral adjustment loan and cofinancing from the African Development Bank. Measures of educational attainment and other social indicators are included in Appendix Table X.

Morocco's program of reform of the public enterprise sector is supported by the World Bank's Public Enterprise Rationalization Loan (PERL), the first tranche of which was disbursed at the end of 1987. Within the sector itself, the program includes a schedule of tariff adjustments for the major public utilities to increase their self-financing and reduce their dependence on budgetary transfers to finance investment. In 1988, water charges were raised by 12 percent from April 1, electricity tariffs by 5 percent from May 1. In addition, on the basis of studies already carried out or now being carried out, contract programs will be established for a number of the major public enterprises, setting out the reciprocal obligations of the Government and the enterprise in carrying out their respective responsibilities. An initial condition for the effectiveness of the PERL was the implementation of a scheme that would provide for the settlement of arrears between the Government and public enterprises while minimizing any inflationary effect. As a result of this scheme, treasury bonds of DH 2.7 billion were issued in settlement of the arrears. These bonds, which are of limited negotiability vis-à-vis the banking system, are being amortized over five years and pay, from the third year, an interest of 6 percent. A second bond offering of DH 1.4 billion to settle remaining arrears is currently being prepared and a shorter maturity is envisaged.

The final element of the PERL program is the establishment of a privatization scheme. Already, certain enterprises in the sugar sector, in which the Government held a minority shareholding, have been sold to the private sector. In April 1988, Parliament held a special session to discuss privatization on the lines set out in a major speech by the Head of State. A negative list, that is, of enterprises not to be privatized, will be established and an action program developed in the coming months. The action program will be examined in the course of the first review of the program. The success of privatization will require accompanying steps to ensure maintenance of an adequate degree of competitiveness in the private sector and avoid any undue concentration of economic and financial power. In addition, the IFC is providing technical assistance to the authorities in developing a program for a reactivation of the Casablanca Stock Exchange.

Reform of the agricultural sector is being supported by a second sectoral adjustment loan (ASAL II) from the World Bank, and the African Development Bank has agreed recently to provide US$150 million of cofinancing in three tranches. Agreement has recently been reached on the initial package of measures (described in Section IV.1). The

authorities are taking steps to implement the remaining conditions, and it is expected that ASAL II will become effective in the near future. Other elements and objectives of the program are described in Appendix II, Attachment I, paragraph 25.

5. Performance criteria, indicative targets, and reviews

The program contains the following quantitative performance criteria: (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 Government; (iv) quarterly ceilings on total bank credit; (v) quarterly ceilings on outstanding external public-sector short-term debt; (vi) quarterly ceilings on new nonconcessional external borrowing with a maturity of between 1 and 12 years contracted or guaranteed by the Government, with a subceiling on loans with a maturity of 1 year to less than 3 years; and (vii) quarterly ceilings on the level of external payments pending. The ceilings are defined in paragraphs 2 through 8 of the Technical Memorandum of Understanding (Appendix II, Attachment II) and shown in Table 9. Ceilings shown for December 1989 constitute indicative targets and will be reviewed during program reviews. Performance criteria for end-March, end-June 1989, and end-September 1989 will be established during the first program review scheduled for completion by February 28, 1989.

In addition, the program contains the following indicative targets: (i) quarterly ceilings on cumulative government revenue; (ii) quarterly ceilings on public investment expenditure commitments; and (iii) quarterly ceilings on the net foreign assets of Bank Al-Maghrib. As with the quarterly performance criteria, the quarterly indicative targets for end-March, end-June, and end-September 1989 will be set during the first review. Failure to observe any indicative target will entail consultation with the Managing Director as to whether additional measures may be required to ensure adherence to the program.

Two reviews are scheduled with the Fund to be completed by end-February 1989 and end-September 1989. The first review, which will be combined with the 1988 Article IV consultation, will focus on the 1989 budget to be approved by Parliament at the end of 1988, on the accompanying financial measures, and their effect on the economic and financial program for 1989. The first 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, and exchange rate policy, including the Treasury's new system of exchange risk coverage. It will examine possible changes to be made in the end-December 1989 indicative targets, and, as noted above, performance criteria and indicative targets for end-March, end-June, and end-September 1989 will be set during this review. The second review will examine the execution of the economic and financial program during the first half of 1989, and assess progress in the preparation of the studies regarding the reform of the financial system and the behavior of private investment. During both reviews,

Table 9. Morocco: Performance Criteria and Indicative Targets, 1988-89

	1987	1988			1989
	Dec.	June	Sept.	Dec.	Dec.
	Actual	Program			
A. Performance criteria		(In millions of dirhams)			
1. Budgetary deficit (cumulative)	9,794	3,600	5,600	10,000	
2. Reduction in government payments arrears	623	2,800	500	2,500	
3. Net bank credit to the Government	41,235	45,200	44,200	43,700	
4. Total bank credit	73,753	77,400	78,700	79,400	
		(In millions of U.S. dollars)			
5. External borrowing by the Government					
a. Outstanding short-term debt 2/	225	300	300	300	300 1/
		(In millions of SDRs)			
b. New nonconcessional borrowing 1-12 years 3/	...	350	350	350	700 1/
Of which: 1-3 years 3/	...	50	50	50	100 1/
6. Outstanding external payments arrears 4/	378	220	160	—	—
B. Indicative targets		(In millions of dirhams)			
1. Total government revenue	32,972	20,100	30,400	41,000	
2. Investment expenditure commitments	8,274	4,000	7,000	11,000	
		(In millions of SDRs)			
3. Net foreign assets of Bank Al-Maghrib	253	190	260	355	590

Source: Technical Memorandum of Understanding of July 28, 1988.

1/ Indicative targets.
2/ Excluding Kuwaiti deposit.
3/ Cumulative amounts of new commitments since January 1, 1988.
4/ Measured as valid payments requests pending settlement by Bank Al-Maghrib plus external payments arrears of the Treasury.

progress in improving tax administration and bringing the public investment budget under more effective control, particularly as regards its content, will be closely monitored. The amounts, timing, and conditions of purchases from the Fund available to Morocco under the stand-by arrangement are set out in Table 1.

V. Staff Appraisal

Under three successive economic and financial programs supported by the Fund, as well as six sectoral adjustment programs supported by the World Bank, Morocco has sustained a noteworthy adjustment effort over the last five years. As a result of this effort, and thanks to the support of the international financial community, Morocco's internal and external financial position has been strengthened considerably. Morocco's program for 1987, in particular, achieved a further reduction of the external current account deficit and a marked decline in the inflation rate. At the same time, the fiscal performance remained disappointing. Although there were significant increases in revenue, and a decrease in the cost of food subsidies, these savings were more than offset by a significant overrun in investment budget expenditures. Consequently, the target for the overall fiscal deficit, on both a payment order and a cash basis, was not met. The impact of the slippages that occured in 1987 in the fiscal area, however, has been partly compensated by measures included in the 1988 budget together with additional measures undertaken subsequently. With further adjustment efforts, Morocco should now be able to boost its rate of economic growth, while rapidly restoring a viable internal and external financial position. These efforts should seek to achieve a further sustained increase in domestic savings and productive investment, while maintaining restrained financial policies and consolidating recent reforms undertaken in the fiscal area.

The proposed 1988-89 program reflects these concerns. While providing for a continuation of the thrust of the adjustment policies of the last five years, it places increased emphasis on policies to encourage the private sector, namely, the promotion of exports and the exploration of new export markets, the encouragement of foreign direct investment in Morocco, and the reform of the financial system. These measures should boost private commerce, industry, and tourism, as well as agricultural production.

Under the program for 1988-89, the authorities are aiming for a further significant reduction in the fiscal deficit, together with substantial cash repayments of domestic payments arrears. On the revenue side, the reform of the investment codes undertaken earlier this year will help to eliminate excessive fiscal exemptions. Measures to improve the quality and frequency of tax audits should be effective in significantly reducing tax evasion. Together with the full implementation of the value-added tax with its expanded product coverage, and other measures that are to be implemented under the proposed program,

these improvements should contribute to the achievement of the proposed revenue target as well as to the greater equity and efficiency of the tax system. The recent increase in the zero-bracket threshold for the personal income tax will reduce or eliminate altogether the tax burden borne by low-income taxpayers.

On the expenditure side, improvements in budgetary control have been undertaken to assure that the targeted fiscal adjustment will be achieved. Current expenditure will be restrained through, inter alia, the implementation of a series of measures to reduce over time the budgetary cost of the bread flour subsidy. At the same time the needs of the poor have been safeguarded through the technical changes in the composition of the flour. The level of public investment expenditure under the program for 1988 was determined in light of the World Bank staff's investment program review and in the context of the medium-term macroeconomic framework, taking the budgetary impact of investments into account. Morocco's public investment program for 1989 will be similarly examined on the occasion of the first review of the program. In addition, the monthly review of the investment budget, together with other new measures included under the proposed program, should substantially reduce the risk of expenditure overruns.

During the course of the program period, the external current account is expected to switch from a small deficit to a small surplus, and, in 1988, the remaining arrears and other delays on current external payments stemming from foreign exchange shortages at the central bank will be eliminated. Among their external sector policy priorities, the authorities have reiterated their commitment to continue to exercise flexibility in the management of exchange rate policy in order to achieve the above-mentioned goals. The staff considers exchange rate policy to be an area in which a more active stance may be called for in the event that the achievement of the program's external objectives appears to be at risk. The staff believes that the Moroccan authorities should be encouraged to accelerate the program for import liberalization in order to take advantage of the occasion afforded by the strengthening of the balance of payments to remove distortions in the economy. In particular, an early date for termination of the remaining quantitative restrictions would be an important element of such a program.

Morocco maintains exchange restrictions subject to Fund approval under Article VIII, namely, the exchange restriction evidenced by external payments arrears and those remaining pending the execution of rescheduling agreements with each official creditor. The staff is also looking into the officially supported schemes for exchange risk cover to determine whether they give rise to a multiple currency practice subject to Fund approval under Article VIII, Section 3. In view of Morocco's commitment to eliminate its external payments arrears by the end of the year, it is recommended that the Executive Board approve the exchange restrictions they evidence until December 31, 1988. The staff welcomes the progress toward liberalization of the import system and the increase in travel allowances.

Despite the expected improvement in the external current account, significant financing gaps will remain during the program period owing to the large existing stock of external debt. In the staff's judgment, these gaps could be covered by rescheduling of debt in 1988 and 1989, in amounts significantly smaller than during the recent past, together with the purchases under the requested stand-by arrangement. The assessment of these gaps, however, is also based on the effective disbursement of some foreign lending that is not yet committed. It is expected that, on the basis of the envisaged financing, Morocco's external debt, including outstanding use of Fund resources, and debt service will continue to decline relative to domestic output and foreign exchange earnings. Moreover, barring any unforeseen adverse exogenous developments and given continued flows of external financing on favorable terms, it is anticipated that, by 1992 at the latest, Morocco would be in a position to begin meeting all its debt obligations without further recourse to exceptional financing. During the interim period until 1992, Morocco's precise path of adjustment, and its capacity to sustain higher rates of growth, will depend on the degree to which it succeeds in generating greater domestic savings and re-establishing spontaneous access to foreign savings through the international financial system. For example, an early resumption of voluntary lending or more rapid domestic financial liberalization could allow Morocco to meet financing gaps without new rescheduling after 1989, or two years earlier than currently forecast. The envisaged further improvement in the balance of payments over the medium term and the structural improvements to diversify the economy should enable Morocco to make timely settlement of its obligations to all creditors, including the Fund.

The expeditious implementation of the authorities' program for 1988-89 as set forth in the attached letter of intent will contribute importantly toward the goal of further stabilizing Morocco's financial position, restoring its international creditworthiness, and developing its growth potential. It is the staff's view that the Moroccan Government, having demonstrated its determination by the generally successful implementation of its economic and financial programs over the period 1983-87, merits the continued support of the Fund under the requested stand-by arrangement.

VI. Proposed Decisions

Stand-By Arrangement

1. The Government of Morocco has requested a stand-by arrangement for the period from August--, 1988 to December 31, 1989 in an amount equivalent to SDR 210 million.

2. The Fund approves the stand-by arrangement attached to EBS/88/154.

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 evidenced by external payments arrears and the exchange restrictions remaining pending the execution of rescheduling agreements with each official creditor until December 31, 1988.

Morocco--Stand-By Arrangement

Attached hereto is a letter, with annexed Memorandum on Economic and Financial Policies and Technical Memorandum of Understanding dated July 28, 1988, 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 reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Morocco will pursue for the 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 August --, 1988 to December 31, 1989, Morocco will have the right to make purchases from the Fund in an amount equivalent to SDR 210 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 35 million until October 31, 1988; the equivalent of SDR 70 million until January 31, 1989; the equivalent of SDR 105 million until April 30, 1989; the equivalent of SDR 140 million until August 31, 1989; and the equivalent of SDR 175 million until October 31, 1989;

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Morocco's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under the stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Morocco will not make purchases under this 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 total bank credit; or
(v) the limit on outstanding short-term external debt of the public sector; or
(vi) the limits on new nonconcessional external borrowing contracted or guaranteed by the Government; or
(vii) the limit on external payments arrears,

set forth in paragraphs 2 through 7 and Table 1 of the Technical Memorandum of Understanding annexed to the attached letter, have not been observed; or

(b) after February 28, 1989 and September 30, 1989 until the first and second reviews, respectively, contemplated in paragraph 3 of the attached letter and in paragraph 11 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 4 of the attached letter of July 28, 1988, 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 28, 1988

Dear Mr. Camdessus:

1. I am transmitting herewith a memorandum describing the economic and financial policies that the Government of the Kingdom of Morocco plans to implement in the second half of 1988 and in 1989. This comprehensive and coherent program is an important supplementary stage in the continuing effort to re-establish the fundamental equilibria of our economy and to achieve lasting growth commensurate with the country's potential.

2. Despite the significant progress made since 1983 in restructuring the economy and improving its financial soundness, often under difficult circumstances, the success of our recovery and development efforts requires support from the international financial community. The Government of the Kingdom of Morocco would like to obtain a stand-by arrangement from the Fund in an amount equivalent to SDR 210 million for the period ending December 31, 1989. It is also counting on the support of the International Monetary Fund and the World Bank to ensure that it meets its targets for economic growth and for improving the external debt profile.

3. The Government of the Kingdom of Morocco, in close cooperation with the Fund, will closely monitor the progress made in achieving the program targets and in implementing the policies and measures defined. It proposes two reviews of the program with the Fund, the first to be completed by end-February 1989, and the second by end-September 1989.

4. The Government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program but will take any additional measures that may prove necessary for this purpose. 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 policies on such consultations.

Sincerely yours,

/s/

Mohamed Berrada
Minister of Finance

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

Memorandum on Economic and Financial Policies

Rabat, July 28, 1988

I. Introduction

1. The adjustment efforts made since 1983 have enabled the Moroccan economy, despite often difficult circumstances and a net outflow of capital, to make significant progress in the reduction of domestic and external disequilibria, the reform of economic structures, and financial rehabilitation. The growth of the economy nevertheless remains relatively slow, and, despite a significant improvement, the external payments situation is still difficult. In 1987, in particular, the rate of growth of GDP was only 1.5 percent as a result of the drought which affected agricultural production and the sluggishness of the world phosphate market. However, inflationary pressures eased, with the cost of living index increasing by less than 3 percent in 1987 compared with almost 9 percent in 1986, and Morocco's external accounts continued to improve in 1987, with a reduction of the current deficit to 0.6 percent of GDP compared with 2.5 percent in 1986. As regards government finance, the results were below the program targets due to an overrun in capital expenditure. Despite an improvement of almost DH 3.7 billion in the current budget compared with 1986, the overall deficit on a payment order basis is now estimated at DH 9.2 billion, or 6.1 percent of GDP, a slight increase over the 5.8 percent of 1986. This result reflects a DH 3.0 billion overrun in the capital budget compared with the program objectives, chiefly because we were unable to limit as much as we had hoped the pace of execution of the investment spending authorized in the budget. Despite a smaller-than-anticipated reduction in the Government's domestic payments arrears, the Treasury deficit on a cash basis was also slightly higher than targeted. Under the 1988-89 program, the Government has adopted significant measures to get the public finance adjustment back on track.

2. Rainfall has been abundant in 1988, and a cereals harvest of approximately 80 million quintals, double the previous harvest, is anticipated. In addition, there was a marked upturn in the international market for phosphate products, with an improvement in demand and prices. As a result of the full entry into service of the new phosphate complex at Jorf-Lasfar in 1988, Morocco is in a very good position to benefit from this upturn by increasing its exports of phosphoric acid and fertilizer. The significant increase in exports of phosphate products, the continued expansion of manufactured exports, and the decline in imports of cereals should mean a substantial improvement in the trade balance in 1988. Given the continued growth of the tourism sector and maintenance of the level of remittances by Moroccans working abroad, the current account deficit could be almost eliminated in 1988. Thus, the Government of Morocco faces a favorable outlook as it proposes its economic and financial program for 1988-89.

II. The Program for 1988-89

Objectives

3. The economic and financial program for 1988-89 will be implemented within the framework of medium-term objectives aimed at significantly speeding up economic growth and restoring a viable balance of payments situation, which should lead to the resumption of normal relations with international financial markets. The structural policies are aimed at improving investment productivity and increasing the level of national savings to be mobilized for investment, so as to produce in the medium term an increase in annual real growth of at least 1 percentage point above the 3.5 percent achieved on average in the last five years. Improved investment productivity should result from public enterprise reforms, the implementation of a program of privatization, better programming and monitoring of the Government's budgeted capital expenditures, and a shift in the composition of private investment toward more productive investment. To increase savings and investment levels, the Government will increase public saving, continue its active interest rate policy, undertake a program to reform financial intermediation, and introduce a series of measures to reduce and simplify the administrative procedures required for investment, for foreign as well as domestic investors. The macroeconomic adjustment policy already in place will be pursued with the objective of consolidating and facilitating the restoration of equilibria so as to move toward the achievement of a level of indebtedness, debt servicing, and foreign assets that is more in keeping with the size of the Moroccan economy and with its external transaction flows. This adjustment should in particular eliminate the need for Morocco to obtain exceptional external financing, including debt service rescheduling, after 1991.

4. The real growth of GDP should be 6.0 percent in 1988 and 4.5 percent in 1989, with an inflation rate, measured by the GDP deflator, of 5.0 percent and 4.5 percent, respectively. (The slight acceleration of the deflator in 1988 reflects a slightly higher increase in wages.) As regards the external sector, the program is aimed at completely eliminating external payments arrears by the end of 1988, increasing official reserves to at least the equivalent of five weeks of imports by end-1988 and eight weeks of imports by end-1989, compared with four weeks at the end of 1987, and reducing the external debt to the equivalent of 256 percent of exports of goods and services and private transfers by the end of 1989, compared with 298 percent at the end of 1987. Program execution will be monitored by means of performance criteria and indicative targets and two reviews with the Fund, as defined in the attached Technical Memorandum of Understanding.

5. To support the implementation of this program during the remainder of 1988 and in 1989, the Government requests from the Fund a stand-by arrangement in an amount equivalent to SDR 210 million for the period through December 31, 1989. The Fund's resources will reinforce the financial assistance provided by the World Bank and other multilateral

development institutions and the aid Morocco expects to obtain from fraternal and friendly countries. Furthermore, the Government intends to ask creditor countries and commercial banks to reschedule at least a part of the debt falling due during the program period. Taking into account expected external resources and debt relief already obtained or anticipated, Morocco's balance of payments is fully financed in 1988 and 1989. Any additional concessional foreign aid over and above the current forecasts will be used to increase productive investment or, insofar as possible, to reduce more costly external debts. In the event that this financing should be channeled to public enterprises, the Government will make certain that the projects concerned conform fully with the priorities specified in the framework of the World Bank-supported public enterprise restructuring program.

External Policies

6. The Government will continue to follow a flexible exchange rate policy designed, along with other economic policy instruments, to preserve the economy's competitiveness, thus facilitating the achievement of the objectives relating to growth, balance of payments, and price stability. This policy will be subject to examination during the two program reviews.

7. The Government will continue its policy of liberalizing imports in 1988 and 1989, according to the program established in conjunction with the World Bank in the context of the ITPA loans. The General Import Program for 1988, which will include the liberalization of at least 128 products, representing 1 percent of imports in 1987, will be implemented by end-August 1988. The Government will then develop a program of action by end-November 1988 with World Bank assistance to eliminate most of the remaining quantitative restrictions and to continue the streamlining of the tariff structure. This program will be discussed with Fund staff during the first program review.

8. Export promotion policy will also be reinforced in 1988. In particular, the authorities will considerably improve the export insurance system. The Société Marocaine d'Assurances à l'Exportation (Moroccan Export Insurance Company) will begin operating by end-August 1988 with adequate financial resources to cover ordinary commercial risks and with administrative procedures that will make it possible to provide compensation for losses resulting from political risks covered by the Government within the six-month period provided in the regulations. Budgetary allocations to the Centre Marocain de Promotion des Exportations (Moroccan Export Promotion Center) will be increased under the 1989 Budget Law to provide it with the necessary resources to promote Moroccan exports, especially to new markets. Finally, the Government will improve the administrative environment to facilitate the work of exporters, with the specific objective of halving, by end-1988 compared with end-1986, the time required for goods to clear customs.

9. In view of the importance of tourism for Morocco, the Government plans to take additional measures to promote investment in this sector. Further to the removal of price controls on 5-star hotels in 1985, the price controls on 3- and 4-star hotels will be removed by end-September 1988. In addition, medium-term and long-term bank loans to the hotel sector will no longer be included among the crédits encadrés, i.e., those subject to limitations, by end-December 1988; and a major program to improve the Agadir tourist zone, making significantly more land available for hotel construction and related activities, will be introduced by end-December 1988.

10. In order to increase the investment rate and improve the balance of payments and external debt structure, the Government has undertaken an *active foreign investment promotion policy. Since the beginning of* 1988, a number of steps have been taken to liberalize further the exchange regulations in this area. Specifically, (i) the requirement of Office des Changes (Exchange Office) approval has been dropped for virtually all operations of resident and nonresident foreign investors financed in foreign currency or with the internal funds of the corporation or related companies; (ii) the requirement of Office des Changes approval has been dropped for transfers of investments between resident or nonresident foreign individuals or corporations, whether or not the investments included a transfer guarantee, and the purchaser may pay for the transfer directly abroad out of his own funds; (iii) the right to retransfer capital and to transfer earnings from capital is now automatically guaranteed; and (iv) all income from capital may now be directly transferred by banks to nonresident foreigners without Office des Changes authorization. Such transfers may be freely made under a general delegation of authority to authorized intermediary banks. Similarly, Moroccan nationals residing abroad have been authorized since June 13, 1988 to invest foreign exchange in Morocco with a guaranteed right to retransfer the capital and the earnings from it and to transfer these investments without the prior authorization of the Office des Changes. Also, since May 2, 1988 deposit money banks have been authorized to open accounts in convertible dirhams with a minimum of DH 500,000 for Moroccans residing abroad. The Government intends to pursue this investment incentives policy, simplifying and clarifying administrative procedures and designating a government unit to act as liaison and assist foreign investors.

11. In addition to its policy of promoting direct foreign investment, the Government will take any steps required to improve its external debt profile. In particular, new nonconcessional borrowing by the Government (including government-guaranteed debt) will be limited to SDR 350 million per year for maturities of from 1 to 12 years, with only SDR 50 million per year for maturities of from 1 to less than 3 years, and the total outstanding short-term debt (less than 1 year) of the Government and the public enterprises will be limited to US$300 million during the program period. The Government will pursue any strategies which would make it possible to reduce the total external debt, while continuing to strengthen Morocco's creditworthiness.

Budgetary Policy

12. Pursuit of the external adjustment described in the foregoing paragraphs is supported by continuation of the tax reform and of the effort to reduce the budget deficit. A significant number of tax measures have already been adopted or applied in 1988. These measures are aimed at increasing the effectiveness and equity of the tax system by broadening its base, at reducing tax evasion, at increasing investment incentives by reducing certain tax rates, and generally at facilitating tax collection by simplifying the tax system. As regards the value-added tax (VAT), the rates applicable to some products, particularly transportation, livestock feed, rice and coffee, which were previously exempt or taxed at a very low rate, were raised, resulting in an increase in revenue from this tax of DH 300 million. The new tax on companies (IS), which was applied in 1988 for tax year 1987, includes a reduction in the tax rate from 48 percent to 45 percent but also introduces a minimum levy, deductible from the IS, and shortens the due date of the second payment on account by two months. The 1988 Budget Law reduces the IS tax rate further for fiscal 1988, from 45 percent to 40 percent. The same law also increased the National Solidarity Contribution tax rate on enterprises exempt from the IS in order to improve the distribution of the tax burden. Moreover, in January 1988 Parliament adopted a major reform of the investment codes, limiting the duration and rate of the exemptions granted to beneficiary enterprises. As regards individual income, the 1988 Budget Law also increased the minimum taxation threshold from DH 6,000 to DH 8,400, for greater equity and simpler administration. Finally, a 12.5 percent special import levy was introduced. This levy, which applies uniformly to all imports with the exception of temporary admissions and certain exempt products, replaces the stamp duty and special import tax and will both simplify the customs taxation system and generate DH 1.5 billion in additional revenue.

13. The current budget surplus, which improved by the equivalent of 2.5 percent of GDP in 1987, should experience a further improvement of DH 2.6 billion, or 1.5 percent of GDP, in 1988. As a result of this, and taking into consideration a 9 percent increase in capital expenditures, the consolidated deficit on a payment order basis should be limited to DH 7.5 billion (4.5 percent of GDP), compared with DH 9.2 billion (6.1 percent of GDP) in 1987. Taking into account a reduction in outstanding domestic payments arrears of DH 2.5 billion, the deficit on a cash basis will be limited to DH 10.0 billion, of which a maximum of DH 2.5 billion will be financed using bank credit. The deficit on a cash basis and the change in arrears will constitute performance criteria under the program.

14. Tax revenue for the first five months of the year is up sharply over last year. Full implementation of the VAT and the rate increases for some products introduced in the Budget Law resulted in a 25 percent increase in the revenue from this tax over last year. The introduction of the new tax on companies also resulted in a slight increase in

revenue. The tax on wages and salaries is up 19 percent over last year as a result of a sharp increase in its base, caused mainly by recent wage increases. Because of the drop in the average oil price in 1988, from US$18 (c.i.f.) to US$17 (c.i.f.) per barrel, the oil levy should bring in DH 5,200 million this year, including the repayment by the oil companies of DH 270 million owed as a result of adjustments for previous years. In addition, some revenue that was not initially envisaged in the budget has now been taken into account. Such is the case of the additional revenue resulting from a new fishing agreement signed with the European Communities in April 1988, totaling DH 675 million, and slightly higher contributions from monopolies and Government equity participations, of approximately DH 590 million. Taking into account further measures which will generate additional revenue of DH 200 million, total government revenue should amount to DH 41.1 billion, 24.5 percent more than in 1987 and 13.7 percent more than initially forecast in the budget.

15. On the current expenditure side, there have been three major changes since the approval of the budget. (i) Wage negotiations with teachers resulted in a DH 920 million rise in the Central Government's wage bill, of which only DH 140 million, earmarked for higher education, had been taken into account in the original budget. (ii) Significant changes have also affected the forecast outlays of the Caisse de Compensation (Price Stabilization Fund) as a result of the record cereals harvest expected in 1988 and a sharp rise in the import price for cereals. To alleviate the fiscal burden posed, the Government has implemented a reform of the flour subsidy system. As of April 1988, the extraction rate for subsidized flour was increased from 78 percent to 80 percent. In addition, effective June 15, 1988, a limit was placed on the production of subsidized flour, and flour mills will be able to produce, and sell at uncontrolled prices, all other flour. These measures should make it possible to limit the subsidy on flour to DH 830 million in 1988. However, given the DH 810 million required to cover the subsidies on sugar and vegetable oil, the total cost of subsidies in 1988 is estimated at DH 1,640 million, compared with the DH 750 million estimated during discussions for the third review of the last economic and financial program in March 1988, which already took into account the measures with respect to flour described above. (iii) Finally, the estimates of other purchases of goods and services were increased by DH 400 million to cover unanticipated expenses for combating locusts and a revision of budgetary allocations for government procurement.

16. Taking into account the objective of keeping the overall Treasury deficit on a payment order basis to DH 7.5 billion, equivalent to 4.5 percent of GDP, payment orders for investment expenditure may reach DH 11.1 billion, DH 1.4 billion more than the amount envisaged at the time of the third review. Moreover, as a result of the reduction by DH 700 million of certain transfers, the payment orders corresponding to development projects will increase by DH 1.4 billion more than the amount envisaged at the time of the third review. Thus, the likely

disbursements under development projects in 1988 will more closely match the amounts provided for in the Budget Law. Nevertheless, the Government will monitor carefully the implementation of capital expenditure so as to maintain consistency between its commitments on such expenditure and the overall fiscal objectives. In addition, by end-July 1988, the Government will conduct, with the assistance of the World Bank, a full review of its capital expenditure program for 1988 and, in a preliminary way, for 1989, in order to better direct expenditure toward productive activities.

17. The Moroccan authorities will undertake a reform of the exchange risk coverage system to gradually eliminate the budgetary burden carried by the Government, which totaled DH 450 million in 1987. To this end, possible improvements are under discussion, and a new system will be examined during the first review and introduced by end-June 1989.

18. The draft law to reform the individual income tax will be submitted to Parliament at its October 1988 session. This draft law is aimed at standardizing the tax burden by aggregating incomes and reducing the highest marginal rate.

19. The direct taxation rate reductions introduced in 1988 are intended particularly to reduce tax evasion, which tends to increase when marginal rates are very high. However, the authorities are aware that in order to benefit fully from this rate reduction, they must at the same time improve the administration of the tax system. To this end, they are in the process of undertaking a number of measures relating to the quality and frequency of audits by means of: (i) accelerated training for tax examiners, at a minimum rate of 50 new examiners per year; and (ii) a functional reorganization of the Tax Directorate to take systematic advantage of the benefits derived from the cross-checking of data obtained from the direct and indirect taxes, especially the VAT, and thus have teams of cross-qualified tax examiners. Along with these administrative measures, the authorities intend to implement measures to improve and simplify the structure of the penalties for violation of the tax laws, including: (i) simplifying and standardizing the structure of the penalties; and (ii) applying penalty interest in case of violations from the date on which the tax was initially due rather than from the date on which the violation was detected.

20. The 1989 budget will continue the adjustment effort, with enhanced budgetary saving and a further reduction in the consolidated deficit on a payment order basis to a level of no more than 3.5 percent of GDP. The elements of the 1989 budget will be discussed with Fund staff in October 1988. In addition, to facilitate the control of capital expenditure, total capital expenditure included in the budget will be limited to an amount consistent with the resources provided in the budget.

Monetary Policy

21. The expansion of domestic bank credit will be limited to 7.4 percent in 1988, which, given the ceiling of DH 2.5 billion (5.6 percent) on the expansion of credit to the Government, should permit a rise in credit to the rest of the economy of at least 9.8 percent. These limits on the expansion of domestic credit and net claims on the Government as of September 30, 1988 and December 31, 1988 will serve as performance criteria under the program. Because of the record harvest expected in 1988, a larger-than-normal proportion of the expansion of credit to the private sector will be absorbed by cereals financing, which should total DH 2.7 billion by September 30, 1988 and then decrease slightly to DH 2.6 billion by December 31, 1988. Consequently, even with a sharp reduction in the growth of direct credit from the Bank Al-Maghrib, noncereals credit to the private sector will only increase by about 7 percent. Private liquidity will be improved nevertheless by the settlement by the Government of a not insignificant portion of its payments arrears to the nongovernment sector. If the harvest is more normal in 1989, the expansion of credit to the noncereals sector will be larger. Taking into account an additional reduction of the Government's payments arrears, this should fully support the expansion of productive private investment targeted in the program. Under the impact of the substantial increase in net foreign assets of the banking system, money and quasi-money should increase by 13.0 percent in 1988--slightly faster than nominal GDP in 1988--and by 9.8 percent in 1989, about the same as GDP growth in 1989.

22. A recent interest rate adjustment lowered lending rates and the rate on one-year deposits to take into account the decline in the inflation rate. In 1988 and 1989, the monetary authorities plan gradually to decontrol some interest rates. By end-1988, the interest rates applicable to deposits of more than six months will be set freely by the banks. In addition, the regulatory ceiling on the monetary reserve ratio was increased from 5 to 10 percent to provide greater flexibility in the use of this instrument; the current rate has been 6 percent since May 1, 1988. These two measures reflect the determination of the monetary authorities to move toward a credit policy based on gradual liberalization of the credit containment or encadrement policy, in order to promote saving and to make financial intermediation more effective. During 1988 and 1989, the monetary authorities will continue to tighten the link between the credit ceiling for a given bank and its performance, by reviewing annually the allocation of the ceilings among banks on the basis of (i) the volume of deposits, in particular fixed-term deposits, (ii) the level of bank equity and reserves, and (iii) the level of export credit operations. In addition, the monetary authorities will, within the next two years, prepare studies of the financial system with a view to better adapting it to a freer and more dynamic economy. These studies will focus in particular on the introduction of a credit control system based on the use of the monetary reserve instrument and interest rates as well as on the modernization of the financial market. The status of these studies will be discussed with the Fund during the second program review.

23. In order to decrease the share of credit to the Treasury in the financing granted by the banking system as a whole, the Government will continue its efforts to sell treasury bonds directly to the public. The terms of the bonds will be reviewed periodically to ensure adequate subscription. By end-1988, the Treasury will establish an auction system for placing treasury bonds on the money market in tandem with the system of continuous issues currently used. The Government intends to discontinue selling treasury bonds in the money market with terms of more than six months so as to facilitate the transition to direct sales to the public.

Other Structural Reform Policies

24. Reform of the public enterprise sector. The Government will continue the program for the rehabilitation of the public enterprises undertaken with the assistance of the World Bank. This program calls for the regular adjustment of public utility tariffs to ensure an adequate rate of self-financing for the public enterprises, reducing the drain on the government budget. In 1988, contract-programs will be implemented with enterprises of strategic importance. After settling its payments arrears to this sector by issuing treasury bonds, the Government will ensure that no new payments arrears build up, especially by providing adequate budgetary allocations to cover government consumption needs.

25. Agriculture. The Government will deepen its reform of the agricultural sector in the context of the ASAL II program supported by the World Bank. The aim of this program is to create a more favorable climate for the growth of the agricultural sector and the economy in general during a period of severe budgetary constraints. The specific aims of the reform program are: (i) to liberalize agricultural prices and distribution networks; (ii) to increase the productivity of the sector; (iii) to provide adequate protection for the poorest segments of the population; (iv) to complete the program for redefining agricultural priorities in the medium term; (v) to improve government support services for agriculture and to transfer them, insofar as possible, to the private sector or cooperatives; (vi) to promote agricultural exports: (vii) to improve the management of the country's natural resources; and (viii) to consolidate the research services of the Ministry of Agriculture so as to improve the economic analysis of the agricultural sector, including monitoring of the introduction of the new measures.

26. Privatization. In accordance with the Government's liberalization policy, and as a supplement to the program to streamline the public enterprise sector, the Moroccan authorities have decided to undertake a broad privatization program aimed at gradually withdrawing the Government from a number of nonstrategic economic activities. This program will be supported by incentives directed in particular at invigorating the stock market and accelerating the liberalization of the banking and financial system. Overall, this approach will increase the competitiveness of the economy and make it easier for business to react to the market.

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

The Government will monitor implementation of the program with reference to the performance criteria (Section A) and the indicative targets (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 indicative targets will entail consultations with the Managing Director of the Fund with a view to determining the causes of the overruns and such remedial measures as may prove necessary. In addition, provision is made for two reviews of program implementation (Section C) during the period of the stand-by arrangement. The purchases dependent on observance of performance criteria for end-December 1988 and for end-June 1989 will also depend on the successful completion of these reviews with the Fund by end-February 1989 and by end-September 1989, respectively. The ceilings indicated below (Section A) for end-December 1989 constitute indicative targets. These ceilings will be revised during the first program review. The performance criteria and the indicative targets for end-March, end-June, and end-September 1989 will also be fixed at the time of the first program review.

I. Performance Criteria

2. The deficit on budgetary operations on a cash basis, which is estimated at DH 2.1 billion for the first three months of 1988, will not exceed DH 5.6 billion as at September 30, 1988 and DH 10.0 billion as at December 31, 1988. 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 of interest due prior to rescheduling.

3. The Government's domestic payments arrears, which amounted to DH 6,300 million at December 31, 1987, will be reduced by cumulative amounts of at least DH 500 million by September 30, 1988 and of DH 2,500 million by December 31, 1988. For the purposes of this paragraph, domestic payments arrears will include all government arrears, including fonds réservés, pending payments, consumption arrears of the administration, arrears in transfers to public enterprises, and unpaid external debt service and financial transfer charges.

4. Outstanding net bank credit to the Government, which amounted to DH 41,235 million on December 31, 1987, will not exceed DH 44,200 million on September 30, 1988 and DH 43,700 million on December 31, 1988. For the purposes of this paragraph, bank credit is defined as the sum of credit to the Government granted by Bank Al-Maghrib and deposit money banks, the provisions for purchases of foreign currency paid to the

Treasury, minus the cash balance of the public accountants. Excluded from the definition for the purposes of this paragraph are the outstanding counterpart balances of drawings on the Fund transferred to the Treasury.

5. Total bank credit, which amounted to DH 73,753 million on December 31, 1987, will be limited to DH 78,700 million on September 30, 1988 and to DH 79,400 million on December 31, 1988. This ceiling includes bank credit to the Government as defined in paragraph 4 and bank credit to the rest of the economy.

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 import and export 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 350 million for the period from January 1 to December 31, 1988, and SDR 350 million for the period from January 1 to December 31, 1989. Under these ceilings, new loans with maturities of 1 to less than 3 years will be limited to SDR 50 million for the period from January 1 to December 31, 1988, and to SDR 50 million for the period from January 1 to December 31, 1989.

7. External payments arrears, which amounted to SDR 378 million on December 31, 1987, will not exceed SDR 160 million on September 30, 1988, and will be completely eliminated by December 31, 1988. Thereafter, no further external payments arrears will be accumulated. For the purposes of this program, the existing external payments arrears cover the payments arrears on the Government's direct debt as identified by the Ministry of Finance and the commercial arrears of the rest of the economy as identified by Bank Al-Maghrib.

II. Indicative Targets

8. Total government current revenue, which amounted to DH 16.8 billion as at May 31, 1988, is estimated at DH 30.4 billion for end-September 1988 and DH 41.0 billion for end-December 1988.

9. Commitments targeted by the Expenditure Commitment Controller (CED) under the investment budget, including the balance of the special Treasury accounts but excluding those relating to the military debt and to transfers to local authorities and public enterprises, will not exceed DH 7 billion by September 30, 1988 and DH 11 billion by December 31, 1988. The authorities will communicate monthly to Fund staff data relating to the implementation of the investment budget, at the latest two months after the month in which they are implemented, in accordance with the format set out in Table 2.

Net foreign assets of Bank Al-Maghrib, which amounted to SDR 253 million at December 31, 1987, will not be lower than SDR 260 million at September 30, 1988, SDR 355 million at December 31, 1988, and SDR 590 billion at December 31, 1989. Net external assets of Bank Al-Maghrib as defined in this Technical Memorandum of Understanding include gold holdings, convertible and inconvertible foreign exchange assets, SDR holdings (according to the IMF accounts), and the subscription to the Arab Monetary Fund, less the other commitments of the institute of issue (not including use of IMF credit).

III. Program Reviews

11. The reviews scheduled during the period of the stand-by arrangement will be completed before end-February 1989 (at the same time as the Article IV consultation for 1988) and before end-September 1989. The first review will be devoted to an examination of program implementation for 1988. It will also deal with the 1989 budget as adopted by Parliament at year-end, and with the financial policies associated with it. It will also review progress in mobilizing external assistance, including the rescheduling of debt service, in developing the privatization program, and in liberalizing imports. It will also be concerned with the credit policy and exchange rate policy. Finally, it will examine possible changes to be made in the indicative targets for 1989 and will establish the performance criteria and the indicative targets for March 31, 1989, June 30, 1989, and September 30, 1989. During the second review, there will be an examination of program implementation during the first half of the year. The review will also touch upon the exchange rate policy, progress in studies regarding the reform of the financial system, and the behavior of private investment.

Attachments

Table 1. Morocco: Performance Criteria and Indicative Targets, 1988-89

	1987	1988			1989
	Dec.	June	Sept.	Dec.	Dec.
	Actual	Program			
A. Performance criteria		(In millions of dirhams)			
1. Budgetary deficit (cumulative)	9,794	3,600	5,600	10,000	
2. Reduction in government payments arrears	623	2,800	500	2,500	
3. Net bank credit to the Government	41,235	45,200	44,200	43,700	
4. Total bank credit	73,753	77,400	78,700	79,400	
		(In millions of U.S. dollars)			
5. External borrowing by the Government					
a. Outstanding short-term debt 2/	225	300	300	300	300 1/
		(In millions of SDRs)			
b. New nonconcessional borrowing 1-12 years 3/	...	350	350	350	700 1/
Of which: 1-3 years 3/	...	50	50	50	100 1/
6. Outstanding external payments arrears 4/	378	220	160	—	—
B. Indicative targets		(In millions of dirhams)			
1. Total government revenue	32,972	20,100	30,400	41,000	
2. Investment expenditure commitments	8,274	4,000	7,000	11,000	
		(In millions of SDRs)			
3. Net foreign assets of Bank Al-Maghrib	253	190	260	355	590

Source: Technical Memorandum of Understanding of July 28, 1988.

1/ Indicative targets.
2/ Excluding Kuwaiti deposit.
3/ Cumulative amounts of new commitments since January 1, 1988.
4/ Measured as valid payments requests pending settlement by Bank Al-Maghrib plus external payments arrears of the Treasury.

Table 2. Morocco: Investment Budget

	Fonds réservés beginning of period, 12/31/87	New appropriations	Potential commitments	Commitments that can be carried out	Commitments carried out	Payment orders	Payments	Fonds réservés, end of period
Investment								
Transfers								
Public enterprises								
Local governments								
Financial								
Special accounts								
General budget transfers								
Balance								
Other								
Projects								
Old appropriations								
Consolidation and new appropriations								
ADN (National Defense Administration)								
Debt								
Projects								
Total								
Budgetary total 1/								

Source: Based on information provided by the Moroccan authorities.

1/ Not including local governments and balance of special accounts.

Morocco - Relations with the Fund
(June 30, 1988)

I. Membership status

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

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 306.6 million
(b) Total Fund holdings of member's currency:
SDR 1,023.08 million; 333.68 percent of quota

		Millions of SDRs	Percent of quota
(c)	Use of Fund credit	716.50	233.69
	Credit tranches	108.39	35.35
	EFF	66.84	21.80
	EAR	426.17	138.99
	CFF	115.10	37.54

(d) Reserve tranche position: SDR 0.02 million

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

(a) Previous stand-by and extended arrangements:

(i) 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.

(ii) 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.

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

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

Morocco - Relations with the Fund (concluded)

(v) Extended arrangement approved in October 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 23.24 million; 27.1 percent of net cumulative allocation.

V. Administered accounts

SFF Subsidy Account payments: SDR 10.04 million

Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 24.09 million

VI. Financial obligations due to the Fund

	Overdue financial obligations 06/30/88	Principal and Interest Due 1988 July 1-Dec. 31	1989	1990
Principal				
Repurchases	--	90.5	193.3	164.2
Trust Fund repayments	--	9.0	11.2	3.4
	--	99.5	204.5	167.6
Charges and interest including SDR and Trust Fund (provisional)	--	27.2	45.4	32.4
Total	--	126.7	249.8	200.1

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	685.3	16.5	701.8	410.9
Of which: ASAL I	(100.0)	(--)	(100.0)	(--)
ASAL II	(--)	(--)	(--)	(225.5)
2. Industry and energy	1,275.7	--	1,275.7	478.4
Of which: ITPA I	(150.4)	(--)	(150.4)	(--)
ITPA II	(200.0)	(--)	(200.0)	(--)
PERL	(118.6)	(--)	(118.6)	(121.4)
3. Population and human resources	219.6	20.4	240.0	150.1
Of which: education sector reform	(87.2)	(--)	(87.2)	(62.8)
4. Infrastructure	343.7	8.2	351.9	250.6
Total	2,524.3	45.1	2,569.4	1,290.0
Less: repaid	(-715.6)	(-3.4)	(-719.0)	
Total outstanding (IBRD/IDA) net of cancellations:				3,140.4
(ii) IFC investments 2/			123.4	17.1

1/ As of March 31, 1988.
2/ As of May 30, 1988; of which $115.8 million in loans, and $7.7 million in equity holdings.

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), 1983-87:

	1983	1984	1985	1986	1987	
Commitments	308.2	265.8	379.2	366.4	802.3	
Projects	308.2	115.4	79.2	216.4	465.0	
Policy loans	--	150.4	300.0	150.0	337.3	
Disbursements	175.9	276.3	307.0	362.6	404.5	
Projects	175.9	126.4	158.6	192.0	189.2	
Policy loans	--	149.9	148.4	170.6	215.3	
ITPA I	(--)	(149.9)	(0.5)	(--)	(--)	
ITPA II	(--)	(--)	(120.0)	(80.0)	(--)	
Agriculture I		(--)	(--)	(27.9)	(62.1)	(37.9)
Education I		(--)	(--)	(--)	(28.5)	(58.8)
PERL	(--)	(--)	(--)	(--)	(118.6)	
Debt service	112.6	149.2	175.9	227.1	345.1	
Interest 1/	61.2	70.4	80.8	125.3	181.6	
Principal	51.4	78.8	95.1	101.8	163.5	
Net transfer	63.3	127.1	131.1	135.5	59.4	

1/ Includes charges.

Policy loans

The first policy loans approved by the Bank for Morocco were the two Industrial and Trade Policy Adjustment loans (ITPA I and II) approved in fiscal year 1984 and 1985, respectively. A first Agricultural Sector Adjustment Loan (ASAL I) was also approved in fiscal year 1985. Subsequently, a US$150 million loan to support Education Sector Reform was approved in March 1986. One result of the reform will be to reduce unit costs and thus limit the growth of expenditures in education. A Public Enterprise Rationalization Loan (PERL) of US$240 million was approved by the Bank's Board in May 1987. The project involves the restructuring of a number of key public enterprises, reform of investment planning and pricing, limitations on budget transfers to key public enterprises, and a scheme for the repayment of government arrears. A second Agricultural Sector Adjustment Loan (ASAL II) of US$225 million to rationalize the pricing and incentive framework was approved by the Board in November 1987. A Structural Adjustment Loan was appraised in June 1988.

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

Project loans

In fiscal year 1987, five loans were approved--the Second Vocational Training Project (US$22.3 million), the Greater Casablanca Sewerage Project (US$60 million), the Fourth Water Supply Project (US$60 million), the Telecommunications Project (US$125 million), and the Industrial Export Finance Project (US$70 million). In fiscal year 1988, two additional loans, Small and Medium Irrigation II (US$20 million), and Power Distribution (US$90 million) have been approved.

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, and is preparing a free-standing technical assistance in fiscal year 1988 in support of a proposed Structural Adjustment Loan and the Government's efforts to improve and streamline Morocco's public administration.

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)

Table I. Morocco: Assumptions Behind the Medium-Term Scenario, 1986-93

(Annual changes in percent)

	1986	1987	1988	1989	1990-93 1/
			Program		Proj.
Trade prices (in SDRs)					
Exports	-8.7	-2.3	3.3	4.0	4.3
Food	0.3	0.6	3.6	3.0	3.0
Phosphate rock	-19.6	-12.6	6.6	8.8	5.6
Semifinished goods	-18.3	-6.3	7.1	5.8	4.2
Finished manufactures	1.3	3.9	2.6	2.1	4.7
Imports, c.i.f.	-16.5	-6.0	3.4	4.5	4.2
Cereals	-24.0	-31.5	22.7	10.5	4.6
Crude oil	-50.7	6.7	-10.2	3.5	3.5
Finished manufactures	1.3	3.9	2.6	2.1	4.7
Terms of trade	9.4	3.9	-0.1	-0.6	0.1
Volumes					
Exports	6.6	7.2	11.3	9.6	3.9
Food	13.2	-4.5	2.6	6.1	4.0
Phosphate rock	-7.4	-4.6	7.5	5.5	2.0
Semifinished goods	10.0	18.9	18.3	14.0	4.2
Finished manufactures	20.2	20.1	16.7	11.3	5.0
Imports	2.6	6.7	2.2	3.1	4.5
Cereals	-24.3	36.5	-15.6	-4.3	2.8
Sugar	24.9	-1.1	-8.2	2.8	2.8
Crude oil	-10.3	7.3	--	4.0	4.0
Other imports	10.3	4.0	5.5	3.5	4.9
Values (in SDRs)					
Total exports, f.o.b.	-2.7	4.7	14.9	14.0	8.3
Total imports, f.o.b.	-14.3	0.5	5.7	7.8	9.4
Memorandum items:					
Phosphate rock ($ per ton)	30.1	29.0	32.5	35.4	...
Oil price (US$ per barrel), c.i.f.	15.3	18.0	17.0	17.6	...
Non-oil export unit value of suppliers (US$, percentage change)	16.0	12.3	7.5	3.8	3.3
Non-oil import volume in partner countries	4.5	6.4	5.9	4.7	5.2
US$/SDR	1.173	1.293	1.383	1.387	1.387

Sources: Office des Changes; IMF, World Economic Outlook; and staff estimates.

1/ Annual average.

Table II. Morocco: Quarterly Consolidated Central Government Transactions (Cumulative), 1988

(In millions of dirhams)

	1988				
	March	May	June	Sept.	Dec.
	Actual		Program		
Revenue	9,086	16,762	20,103	30,455	41,059
Direct taxes	2,616	5,026	6,031	7,538	9,045
Indirect taxes	3,020	5,427	6,512	9,979	13,445
Customs duties	1,892	3,046	3,655	5,563	7,470
Registration and stamp duties	620	955	1,146	1,551	1,955
Dividends	34	38	46	500	1,207
Property income	10	53	64	79	95
Other revenue	169	307	368	1,112	1,855
OCP	55	55	55	398	740
Petroleum products	670	1,855	2,226	3,704	5,182
New revenue measures	—	—	—	33	65
Total expenditure	8,940	16,621	22,889	35,569	48,559
Current expenditure	8,259	14,067	18,889	28,069	37,416
Goods and services	5,700	10,334	12,401	18,846	25,291
Public debt	2,438	3,442	5,738	8,028	10,485
Domestic	(506)	(803)	(1,975)	(2,770)	(3,715)
External	(1,932)	(2,639)	(3,763)	(5,258)	(6,770)
Consumer subsidies	121	291	750	1,195	1,640
Capital expenditure	681	2,554	4,000	7,500	11,143
Transfers	(681)	(1,438)	(2,500)	(5,000)	(6,459)
Projects	(—)	(1,116)	(1,500)	(2,500)	(4,684)
Deficit (payment order basis)	146	141	-2,785	-5,114	-7,500
Change in net government arrears	-2,260	-2,347	-813	-500	-2,500
Deficit (cash basis)	-2,114	-2,206	-3,598	-5,614	-10,000
Financing	2,114	2,206	3,598	5,614	10,000
Domestic	1,439	1,842	2,400	3,566	4,460
Banking system	3,153	4,225	4,000	3,000	2,500
Nonbanks	-1,714	-2,383	-1,600	566	1,960
External (net)	675	364	1,198	2,048	5,540
Net borrowing	-1,842	-2,667	-2,856	-3,952	-2,230
Disbursements	(956)	(1,641)	(2,000)	(3,500)	(7,530)
Amortization	(-2,798)	(-4,308)	(-4,856)	(-7,452)	(-9,760)
Debt relief 1/	2,517	3,031	4,054	6,000	7,770

Sources: Ministère des Finances; and staff estimates.

1/ Including financing gap.

Table III. Morocco: Investment Budget, 1987-88

(In millions of dirhams)

	Arrears outstanding 12/31/86	1987 Authorizations	1987 Commitments	1987 Payment orders	1987 Payments	1987 Arrears outstanding 12/31/87	1988 program Authorizations	1988 program Commitments	1988 program Payment orders	1988 program Payments	1988 program Arrears outstanding 12/31/88
Arrears	2,675		5,586	5,136	3,663	1,473		—	—	3,919	—
Fonds Reserves	1,292		4,203	4,203	2,730	1,473		—	—	3,919	—
External debt	383		383	383	383	—		—	—	—	—
Matrix	1,000		1,000	550	550	—		—	—	—	—
Investment	2,911	18,105	10,920	9,594	7,148	2,446	16,855	13,982	11,143	8,275	2,868
Transfers	1,668	7,580	4,184	4,184	3,875	309	6,719	6,459	6,459	5,909	550
Public enterprises	(58)	(3,033)	(1,360)	(1,360)	(1,360)	(—)	(1,980)	(1,690)	(1,690)	(1,690)	(—)
Local authorities	(—)	(2,775)	(1,600)	(1,600)	(1,600)	(—)	(2,785)	(2,085)	(2,085)	(2,085)	(—)
Financial	(422)	(853)	(611)	(611)	(435)	(176)	(970)	(900)	(900)	(350)	(550)
Employment	(—)	(350)	(350)	(350)	(350)	(—)	(350)	(350)	(350)	(350)	(—)
Other	(—)	(130)	(130)	(130)	(130)	(—)	(130)	(130)	(130)	(130)	(—)
Special accounts	(1,188)	(439)	(133)	(133)	(—)	(133)	(504)	(1,304)	(1,304)	(1,304)	(—)
Balance	...	—	-306	-306	—	...	—	800	800	800	—
Other transfers	...	439	439	439	—	...	504	504	504	504	—
Development projects	1,243	8,878	5,553	3,535	1,541	1,994	8,286	5,902	3,324	1,366	1,958
Old appropriations	(...)	(3,334)	(3,334)	(2,501)	(1,541)	(960)	(2,018)	(2,018)	(1,514)	(1,066)	(448)
New appropriations	(...)	(5,544)	(2,219)	(1,035)	(—)	(1,035)	(6,268)	(3,884)	(1,811)	(300)	(1,511)
Other projects	...	1,647	1,183	1,875	1,732	143	1,850	1,622	1,360	1,000	360
External debt	—	1,819	761	761	761	—	1,980	1,646	1,646	1,646	—
Grand total	5,586	19,924	12,064	10,738	11,022	3,919	18,835	15,628	12,789	13,840	2,868

Sources: Ministère des Finances, Direction Générale du Budget; and staff estimates.

Table IV. Morocco: Monetary Indicators, 1985/88 1/

	1984	1985	1986	1987	1988 Prog.
			(Ratios)		
Velocity of circulation:					
Money and quasi-money (M2)	2.31	2.30	2.14	2.07	2.07
Money (M1)	2.95	3.00	2.82	2.64	2.63
			(In percent of GDP, 1980 base)		
Liquidity ratios:					
Money and quasi-money (M2)	43.2	43.5	46.8	48.2	48.4
Money (M1)	33.9	33.4	35.4	37.8	38.1
Quasi-money	9.3	10.1	11.3	10.4	10.3
			(In percent per annum)		
Nominal growth rates					
GDP	10.8	13.8	12.6	6.1	11.3
Money and quasi-money (M2)	12.8	14.5	21.0	9.4	11.8
Money (M1)	10.6	11.9	19.5	13.4	12.0
Quasi-money	21.6	24.1	26.2	-2.9	10.8
Real growth rates 2/					
GDP	2.1	4.4	5.8	1.5	6.0
Money and quasi-money (M2)	0.3	6.3	11.3	6.6	6.9
Money (M1)	-1.6	3.9	9.9	10.4	7.2
Quasi-money	8.2	15.2	16.0	-5.4	6.0
Nominal interest rates					
Small savers 3/	8.0	8.8	9.0	9.0	9.0
Migrant workers	8.0	8.0	8.0	8.0	8.0
Large savers 4/	10.0	11.5	12.0	12.0	11.0
Treasury bonds (6 months)	8.5	8.5	10.0	10.5	10.5
Treasury bonds (15 years)	11.5	12.6	13.0	13.0	11.0
Short-term credit 5/	13.0	13.8	14.0	14.0	13.0
Long-term credit	15.0	15.8	16.0	16.0	14.0
from BNDE	13.0	14.5	15.4	14.4	12.0
Real interest rates 2/					
Small savers 3/	-3.9	1.0	0.2	6.2	4.3
Migrant workers	-3.9	0.3	-0.7	5.2	3.3
Large savers 4/	-2.2	3.5	3.0	9.1	6.2
Treasury bonds (6 months)	-3.5	0.7	1.1	7.6	5.7
Treasury bonds (15 years)	-0.8	4.5	3.9	10.0	6.2
Short-term credit 5/	0.5	5.6	4.8	11.0	8.1
Long-term credit	2.3	7.5	6.7	13.0	9.1
from BNDE	0.5	6.3	6.1	11.4	7.2
Memorandum items:					
Change in GDP deflator	8.5	9.0	6.4	4.5	5.0
Change in CPI (annual average)	12.4	7.7	8.8	2.7	4.5
Change in CPI (December to December)	7.5	10.0	4.4	2.4	5.0

Sources: Bank Al-Maghrib; and staff estimates.

1/ Monetary aggregates are 13-month averages.
2/ Monetary aggregates are deflated by the consumer price index.
3/ National Savings Bank.
4/ Twelve-month term deposit.
5/ Nonrediscountable.

Table V. Morocco: Net Foreign Assets of the Banking System, 1984-89

	1984	1985	1986	1987	1988				1989
	December				March	June	Sept.	Dec.	Dec.
						Program			
	(In millions of dirhams; end of period)								
A. Bank Al-Maghrib	457	856	1,531	2,799	2,016	2,103	2,877	3,906	6,506
Assets	610	1,247	1,986	3,351	2,351	...	...	...	...
Gold holdings	(125)	(125)	(125)	(125)	(125)	(...)	(...)	(...)	(...)
SDR holdings	(6)	(1)	(168)	(32)	(2)	(...)	(...)	(...)	(...)
Convertible foreign exchange	(432)	(885)	(1,455)	(2,948)	(1,979)	(...)	(...)	(...)	(...)
AMF subscription	(29)	(218)	(220)	(228)	(227)	(...)	(...)	(...)	(...)
Nonconvertible exchange	(18)	(18)	(18)	(18)	(18)	(...)	(...)	(...)	(...)
Liabilities	153	391	455	552	335	...	...	...	...
Convertible	(152)	(391)	(455)	(552)	(335)	(...)	(...)	(...)	(...)
Nonconvertible	(1)	(—)	(—)	(—)	(—)	(...)	(...)	(...)	(...)
B. Net IMF position	-9,468	-11,448	-8,941	-8,357	-7,968	-8,316	-7,921	-7,702	-7,112
Reserve tranche	—	—	—	—	—	...	...	...	...
Use of Fund credit	9,468	11,448	8,942	8,357	7,968	...	...	...	...
Fund charges	—	—	—	—	—	...	...	...	...
C. Deposit money banks	2,111	2,628	2,638	2,879	2,969	2,879	2,879	2,879	2,879
Assets	2,433	3,100	3,378	3,428	3,742	...	...	...	...
Liabilities	322	472	740	549	773	...	...	...	...
Grand total (A+B+C)	-6,900	-7,965	-4,772	-2,679	-2,983	-3,335	-2,164	-918	2,273
D. External payments pending	1,189	2,367	5,434	4,182	2,594	2,435	1,771	—	—
	(In millions of SDRs; end of period)								
A. Bank Al-Maghrib	49	81	144	253	183	190	260	353	588
B. Net IMF position	-1,011	-1,083	-839	-755	-722	-752	-716	-696	-643
C. Deposit money banks	225	249	248	260	269	260	260	260	260
Grand total (A+B+C)	-737	-754	-448	-242	-270	-301	-196	-83	205
D. External payments pending	127	224	510	378	235	220	160	—	—
Memorandum item:									
Exchange rate - DH/SDR (end-period)	9.3622	10.5682	10.6561	11.0660	11.0334	11.0660	11.0660	11.0660	11.0660

Sources: Bank Al-Maghrib; IMF, Treasurer's Department; and staff estimates.

Table VI. Morocco: Quarterly Balance of Payments, 1988

(In millions of SDRs)

	Q I	Q II	Q III	Q IV	Year
Exports, f.o.b.	540	619	580	735	2,473
Imports, f.o.b.	-785	-756	-756	-850	-3,147
Trade balance	-246	-137	-176	-116	-674
Services	-231	-220	-118	-162	-732
Freight and insurance	-42	-40	-40	-45	-168
Other transport	7	8	8	10	32
Travel	145	145	205	165	660
Investment income	-276	-267	-224	-225	-992
Government services	-83	-83	-83	-83	-331
Other services	17	17	17	17	67
Private transfers	340	340	354	326	1,360
Current account (before debt relief)	-137	-17	60	48	-46
Nonmonetary capital	252	35	-1	151	436
Private 1/	210	-38	-55	59	176
Official transfers	—	—	—	—	—
Gross disbursements	115	168	274	292	850
Amortization	-399	-320	-364	-330	-1,412
Debt relief	325	224	144	129	822
Overall balance	115	18	59	199	390
Net foreign assets	28	-3	-106	-148	-229
IMF (net)	-33	-5	-36	-55	-129
Purchases	0	40	—	—	40
Repurchases	-33	-45	-36	-55	-169
Gross reserves	70	-7	-70	-93	-100
Other	-9	9	—	—	—
Change in arrears	-143	-15	-60	-160	-378
Financing gap	—	—	107	109	217

Sources: Ministère des Finances; Office des Changes; and staff estimates.

1/ Including errors and omissions.

Table VII. Morocco: External Financing and Net Transfers, 1984-89

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989
					Program	
A. Public sector						
1. Gross borrowing from:	1,179	1,054	865	916	890	960
Governments 1/	628	447	451	401	400	524
World Bank	270	222	309	313	400	376
Other multilateral	31	70	54	23	50	60
Other	70	100	21	19	--	--
IMF 2/	180	215	30	160	40	--
2. Official grants	15	290	14	--	--	--
3. Amortizations to: 3/	1,223	1,551	2,236	1,921	1,581	1,497
Governments 1/	652	887	1383	1067	733	736
World Bank	76	93	106	126	109	118
Other multilateral	33	65	76	109	84	53
Other	415	363	396	375	486	397
IMF	47	143	274	244	169	193
4. Rescheduling	1,107	1,118	1,508	1,321	822	--
Governments	733	807	1106	951	451	--
Commercial banks	374	311	402	370	372	--
5. Remaining financing gap	--	--	--	--	217	588
6. Net financing (1+2-3+4+5)	1,078	911	151	316	348	51
Governments (incl. grants)	725	657	187	284	335	191
World Bank	194	129	203	187	291	258
Other multilateral	-2	5	-22	-86	-34	7
Other	29	48	27	14	-114	-212
IMF	133	72	-244	-84	-129	-193
7. Interest payments	893	804	851	887	950	958
Governments	420	369	335	447	509	509
World Bank	68	79	107	114	125	140
Other multilateral	18	27	34	39	76	80
Other	301	232	293	232	187	187
IMF	86	98	82	55	53	43
8. Net transfers (6-7)	186	107	-700	-572	-601	-907
Governments	305	289	-148	-163	-174	-318
World Bank	126	50	96	73	166	118
Other multilateral	-20	-22	-56	-125	-110	-73
Other	-272	-184	-266	-218	-301	-399
IMF	47	-26	-326	-139	-182	-236
9. Net short-term financing	1	-8	45	-103	--	--
Short-term borrowing (net)	-65	--	--	--	--	--
Debt arrears (repayment -)	66	-8	45	-103	--	--
10. Short-term interest	70	70	52	48	38	38
11. Total net financing (6+9)	1,079	903	196	213	348	51
12. Total net transfers (8+9-10)	116	29	-707	-722	-639	-946

Table VII (concluded). Morocco: External Financing and Net Transfers, 1984-89

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989
					Program	
B. Private sector						
1. Net financing	106	105	312	-29	-202	82
Private investment	45	0	71	0	176	82
Trade arrears	61	105	241	-29	-378	0
2. Interest and dividends	22	21	23	25	25	25
3. Net transfers (1-2)	84	84	289	-54	-227	57
C. Total (A+B)						
1. Net financing	1,185	1,008	508	184	146	133
Governments	791	649	232	181	335	191
Multilateral institutions	192	134	181	101	257	265
Private sector	70	153	339	-15	-317	-130
IMF	133	72	-244	-84	-129	-193
2. Net transfers	201	113	-418	-776	-867	-889
Governments	371	281	-103	-266	-174	-318
Multilateral institutions	106	28	40	-52	56	45
Private sector	-323	-170	-29	-319	-567	-380
IMF	47	-26	-326	-139	-182	-236
Memorandum item:						
Current account 3/ 4/	-1,348	-976	-326	-90	-46	102

Sources: Ministère des Finances; and staff estimates.

1/ Including private lending guaranteed by creditor governments.
2/ Previous programs only.
3/ Before rescheduling.
4/ The difference between net financing and the current account balance covers reserve accumulation and errors and omissions.

Table VIII. Morocco: External Public Debt Service 1/ and Debt Relief, 1984-89

	1984	1985	1986	1987	1988	1989
					Program	
			(In millions of SDRs)			
Debt service due	2,186	2,425	3,139	2,856	2,569	2,493
Principal 2/	1,223	1,551	2,236	1,921	1,581	1,497
Interest	963	874	903	935	988	996
Debt service after debt relief	1,079	1,307	1,631	1,535	1,747	2,493
Principal 2/	301	628	909	892	942	1,497
Interest	778	679	722	643	805	996
			(In percent of exports of goods, nonfactor services, and private transfers)			
Debt service due	56.5	58.0	71.3	61.6	50.9	45.1
Principal	31.6	37.1	50.8	41.4	31.3	27.1
Interest	24.9	20.9	20.5	20.2	19.6	18.0
Debt service after debt relief	27.9	31.2	37.0	33.1	34.6	45.1
Principal	7.8	15.0	20.6	19.2	18.6	27.1
Interest	20.1	16.2	16.4	13.9	15.9	18.0
			(In millions of SDRs)			
Debt rescheduling 3/	1,107	1,118	1,508	1,321	822	—
Principal	922	923	1,327	1,029	639	—
Interest	185	195	181	292	183	—
Paris Club	576	609	455	605	233	—
Principal	403	425	320	369	125	—
Interest	173	184	135	236	108	—
Other official creditors	157	198	651	346	218	—
Principal	145	187	605	290	143	—
Interest	12	11	46	56	76	—
Financial institutions 4/	374	311	402	370	372	—

Source: Ministère des Finances.

1/ Debt service on total external public debt, including short-term debt and use of Fund resources.
2/ Excluding amortization of short-term debt.
3/ Under existing arrangements.
4/ Principal only.

Table IX. Morocco: External Debt Outstanding, 1984-88 1/

	1984	1985	1986	1987	1988 Prog.
	(In millions of SDRs; end of period)				
I. Public and publicly guaranteed debt					
Medium- and long-term	12,169	12,971	12,509	11,949	12,427
Financial institutions	3,676	3,428	3,138	2,265	2,150
Other private creditors 2/	1,322	1,231	1,111	...	...
Multilateral loans	1,603	1,754	1,973	1,877	2,134
IBRD/IDA	(1,082)	(1,158)	(1,253)	(1,318)	(1,609)
Other	(521)	(595)	(720)	(559)	(525)
Bilateral loans	5,568	6,558	6,287	7,807	8,142
O.E.C.D.	(2,111)	(3,345)	(3,319)	(5,319)	(5,522)
Other	(3,456)	(3,213)	(2,968)	(2,488)	(2,619)
Short-term debt	734	634	506	441	441
Use of Fund credit	1,011	1,083	839	755	626
Total public debt	13,914	14,688	13,855	13,145	13,493
II. Private debt (without public guarantee)					
Medium- and long-term debt	204	191	262	262	438
Trade arrears	61	166	407	378	—
Total private debt	265	357	669	640	438
Total external debt outstanding	14,179	15,045	14,524	13,785	13,931
Memorandum items:	(in percent of GDP) 3/				
Total external debt outstanding	115.7	122.0	109.4	99.0	93.3
Public	113.5	119.1	104.3	94.4	90.4
Private	2.2	2.9	5.0	4.6	2.9
	(In millions of U.S. dollars; end of period)				
Total external debt outstanding	13,898	16,526	17,766	19,557	19,326
Public	13,638	16,134	16,947	18,648	18,719
Private	260	392	819	908	607

Sources: IBRD Debtor Reporting System; IMF Treasurer's Department; Ministère des Finances; and staff estimates.

1/ The stock data for end-1984-87 are not directly comparable with the flow data shown in the external financing table, because of valuation adjustments owing to exchange rate changes. The stock data for end-1988, however, do not take into account exchange rate changes.

2/ Included with bilateral loans in 1987 and 1988.

3/ Expressed in SDRs.

Table X. Morocco: Social Indicators, 1987

	1965	1973	Most recent estimate	Reference groups: Lower mid-income	Reference groups: Upper mid-income
Area					
Total land area ('000 sq. km)	446.6	446.6	446.6		
Agricultural (percent of total)	54.7	59.2	65.5		
GNP per capita (current US$)	220	340	580	820	1,830
Population and vital statistics					
Total population ('000)	13,323	16,478	22,474		
Urban population (percent of total)	32	36	44	36	65
Population growth rate (percent					
Total		2.7	2.4	2.5	2.1
Urban		4.4	4.0	4.2	3.6
Life expectancy at birth (years)	49	53	59	58	66
Population projections					
Population in 2,000 ('000)			31,267		
Stationary population ('000)			65,846		
Population density per sq.km of agricultural land	68	82	73	284	238
Population age structure (percent)					
0-14 years	46	48	45	39	36
15-64 years	50	48	52	55	59
65 and above	3	4	3	6	5
Crude birth rate (per thousand)	49	44	36	36	28
Crude death rate (per thousand)	18	15	11	11	8
Total fertility rate	7.1	6.7	4.9	3.6	3.7
Infant mortality rate (per thousand)	145	120	90	82	52
Child death rate (per thousand)	32	26	10	11	4
Family planning:					
Acceptors, annual ('000)	6	37	...	...	...
Users (percent of married women)	...	5	27	...	...
Food, health, and nutrition					
Index of food production per capita (1979-81 = 100)	...	113	105	108	106
Per capita supply of:					
Calories (per day)	2,182	2,548	2,729	2,514	2,987
Proteins (grams per day)	58	67	73	56	75
Population per physician ('000)	4.5	...	0.9	1.4	0.7
Population per hospital bed ('000)	...	0.7	0.8	0.8	0.4
Access to safe water (percent of population): Total	...	55	57	...	...
Urban	...	100	100	...	...
Rural	...	25	...	...	...
Labor force					
Total labor force ('000)	3,694	4,413	6,906		
Female (percent)	11	15	20	29	34
Agriculture (percent)	61	54	46	55	29
Industry (percent)	15	19	25	16	31
Participation rate (percent)					
Total	28	27	30	35	38
Male	49	45	49	49	50
Female	6	9	12	20	26
Age dependency ratio	1.0	1.1	0.9	0.8	0.7
Housing					
Average size of household:					
Total	...	6	...	...	...
Urban	...	5	...	...	...
Rural	...	6	...	...	...
Percentage of dwellings with electricity:					
Total	...	...	...	...	...
Urban	...	68	...	...	...
Rural	...	...	...	...	...

Table X (concluded). Morocco: Social Indicators, 1987

	1965	1973	Most recent estimate	Reference groups: Lower mid-income	Reference groups: Upper mid-income
Education					
Enrollment rates					
Primary: Total	57	62	80	103	105
Male	78	78	97	110	108
Female	35	45	62	97	101
Secondary: Total	11	16	31	40	63
Male	16	21	37	48	64
Female	5	12	25	39	61
Pupil-teacher ratio:					
Primary	39	36	36	32	28
Secondary	26	21	21	20	19
Pupils reaching grade 6 (percent)	...	...	...	71	85
Income, consumption, and poverty					
Energy consumption per capita (kg of oil equivalent)	124	204	237	345	1,960
Percentage of private income received by:					
Highest 10 percent of households	...	...	...	...	...
Highest 20 percent	43 1/	49	...	...	...
Lowest 20 percent	7 1/	4	...	...	...
Lowest 40 percent	18 1/	12	...	...	...
Estimated absolute poverty income level (US$ per capita):					
Urban	...	157	389 2/	...	...
Rural	...	101	238 2/	...	...
Estimated population below absolute poverty income level (percent)					
Urban	51 1/	38	28 2/	...	...
Rural	49 1/	45	45 2/	...	...
Passenger cars per thousand population	12.2	17.1	...	4.0	50.4
Newspaper circulation (per thousand population)	16.5	14.2	11.9	14.0	88.0

Source: World Bank.

1/ 1960.
2/ 1979.

Note: Most recent estimates of population and GNP per capita are for 1986 unless otherwise noted. Group averages are population weighted. Country coverage depends on data availability and is not uniform. Unless otherwise noted, 1965 refers to any year between 1962 and 1968; 1973 between 1970 and 1976; and most recent estimate between 1980 and 1986.