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**FOR  
AGENDA**

EBS/85/157  
Supplement 1

CONFIDENTIAL

June 24, 1985

To: Members of the Executive Board  
From: The Secretary  
Subject: Morocco - Letter of Intent

Attached is the text of the letter of intent to which reference is made in the staff report for the 1985 Article IV consultation with Morocco and its request for a stand-by arrangement, circulated as EBS/85/157 on June 21, 1985.

Att: (1)

Kingdom of Morocco

APPENDIX II

Ministry of Finance

The Minister

Rabat, April 15, 1985

Dear Mr. de Larosière,

1. I am pleased to attach a memorandum describing the principal elements of the economic and financial program that the Government of the Kingdom of Morocco has adopted for 1985 and the principal targets for 1986. This program continues the implementation of a plan for adjustment and restructuring of the Moroccan economy and is intended to bring the external accounts into sustainable balance by 1988. As you know, the broad outline of the adjustment strategy of the Kingdom of Morocco was examined by the Consultative Group which met in Paris last January under the chairmanship of the World Bank. It received the support of all participating delegations.

2. To facilitate the execution of the program adopted for 1985 and 1986 and attenuate the external payments difficulties Morocco is currently facing, the Government wishes to have the benefit of a standby arrangement in an amount equivalent to SDR 225 million for the period through end-February 1987. It also wishes to have access to the Fund's compensatory financing to cover the excess in the cost of cereal imports in 1984 as well as a temporary shortfall in merchandise exports. The Fund's resources will reinforce the financial assistance provided by the World Bank, as well as the traditional and exceptional aid which Morocco can obtain from brotherly and friendly countries, multilateral development institutions, and the international financial market. Furthermore, the Government has also officially asked creditor countries and commercial banks for a rescheduling of external debt service payments falling due on or after January 1, 1985 and has good reason to believe that it will obtain terms that are compatible with its balance of payments targets.

3. In light of the relatively improved weather conditions and international economic situation, as well as of the first favorable effects of the structural reforms initiated in previous years, the Government has set more rigorous adjustment targets for 1985 and 1986 to make up for the delays that occurred during 1984 primarily as a result of the continuing drought. Thus, the program seeks to achieve substantial reductions in the financial imbalances of government finances, public enterprises, and external accounts. It also seeks to accelerate the implementation of the priority structural reforms already adopted and the preparation of the other reforms needed to ensure continued adjustment and promote balanced growth of the Moroccan economy in the years to come. The Government's determination to pursue

and accelerate its recovery effort in 1985 is reflected in the measures recently adopted in the areas of utility tariffs, interest rates, and trade policy.

4. The Government is fully aware that the success of this program will, as in the past, require close cooperation between the Fund and the World Bank, and regular exchanges of views on progress toward the targets set. Thus, I would propose that a first review take place no later than September 30, 1985 to evaluate the outcome of the envisaged rescheduling agreements, the exchange rate and external payments policies, progress toward implementation of the tax reform and to reach understandings with the Fund on program adjustments that may be necessary. A second review should take place before end-February 1986 to examine program execution during 1985, to reach an agreement on policies and measures for 1986, especially regarding the budget, credit, exchange policy, external borrowing and structural reforms in regard to public investment, public enterprises, pricing policies, agriculture and subsidy policies, and to establish quarterly performance criteria. This review will also examine the means provided to cover external financing requirements in 1986. This second review will begin in Rabat in November 1985 before the finalization of the draft 1986 Budget Law. A third review should be held before end-August 1986 in order to review program execution during the first half of the year and to examine prospects for the rest of 1986. The Government further intends to hold discussions with the staff of the Fund beginning in November 1986 on economic and financial policies for 1987, so as to assure continuity in the adjustment process.

5. The Government believes that the policies and measures described in the attached memorandum will be sufficient to attain the objectives set forth in the program. It is, however, ready to take any additional steps that may be required for this purpose. Furthermore, it will consult with the Fund in conformity with the Fund's policies on the subject.

Sincerely yours,

/s/

Abdellatif Jouahri  
Minister of Finance

Mr. J. de Larosiere  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431