

DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR
AGENDA

EBS/85/157
Supplement 2

CONFIDENTIAL

September 6, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Morocco - Staff Report for the 1985 Article IV Consultation
and Request for Stand-By Arrangement

The attached supplement to the staff report for the 1985 Article IV consultation with Morocco and its request for a stand-by arrangement has been prepared on the basis of additional information. A draft decision on the stand-by arrangement appears on page 31.

This subject, together with Morocco's request for a purchase under the compensatory financing facility (EBS/85/159, 6/25/85 and Supplement 1, 9/6/85) has been scheduled for discussion on Thursday, September 12, 1985.

Mr. François (ext. 8510) or Mr. Sacerdoti (ext. 8512) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

MOROCCO

Supplement to Staff Report for the 1985 Article IV Consultation
and Request for Stand-By Arrangement

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

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

Approved by A. D. Ouattara and S. Kanesa-Thanan

September 6, 1985

I. Introduction

Since the issuance of the staff report (EBS/85/157 of June 21, 1985) the staff has obtained detailed information on economic and financial developments in the first half of the year, which indicated that some problems had emerged in the implementation of the program as envisaged, and that the fiscal and balance of payments objectives for 1985 may not be realized. In view of these difficulties, staff and management have been in frequent contact with the authorities. ^{1/} A staff mission visited Rabat in the period August 8-17 both to assess the developments and to discuss with the authorities the adoption of further measures. ^{2/} As a result, the original program has been strengthened by the authorities' decision to take additional measures and to accelerate their implementation. In the attached letter dated September 6, 1985 (Appendix II), which supplements the letter of April 15, 1985, the Government of Morocco presents these additional measures and, in support of the program, requests a stand-by arrangement of approximately 18 months for the period beginning at the date of Board approval and ending February 28, 1987, in an amount equivalent to SDR 200 million representing 65 percent of Morocco's quota and an annual rate of access of

^{1/} A staff visit of Mr. François (AFR) to Rabat took place in the period June 24-28, 1985. Mr. François met with the authorities in Paris on July 5-8, on occasion of negotiations with commercial banks, and on July 15-16, with Mr. Hicklin (ETR), in connection with a Paris Club meeting. The Prime Minister of Morocco Mr. Lamrani, met with the Managing Director at headquarters on July 30.

^{2/} The staff representatives were Mr. François (head-AFR), Mr. Sacerdoti (AFR), Mr. Hicklin (ETR), Mr. Fassassi (AFR), Mr. Mansoor (FAD) and Ms. Odell (secretary-FAD). Mr. Kabbaj, Alternate Executive Director for Morocco, attended the discussions.

44 percent of quota. This amount is lower than the arrangement originally requested in the letter of April 15, 1985 (SDR 225 million), to take into account the shorter period of the proposed arrangement. The amount of the purchases requested under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports has been adjusted to SDR 115.1 million, from SDR 85.5 million originally requested, taking into account the larger amount that has since become available to Morocco under the access limits as a result of a repurchase in July 1985. The phasing of the purchases under the proposed stand-by arrangement is reported in Table 1. These purchases, if fully made, would result in a decrease in total Fund credit outstanding (after taking into account scheduled repurchases) from 338.9 percent of quota at the end of August 1985 to 308.4 percent of quota by the end of February 1987 (compared with 306.9 percent under the arrangement proposed in EBS/85/157) or from 271.4 percent of quota at the end of August 1985 to 261.2 percent, excluding credit under the compensatory financing facility (269.4 percent under the previously proposed arrangement).

II. Recent Economic Developments

The staff has received some revisions to the balance of payments data for 1984 which now indicate that the current account deficit reached 11.1 per cent of GDP (Table 2). It has also received some revised information on the cost of subsidies in 1984 and related unsettled claims of private flour millers (see below).

The information obtained confirms the estimate given in EBS/85/157 that the 1985 cereal harvest has been favorable as a result of good rains; production is expected to amount to 4.6 million tons (Table 3), compared with 3.7 million tons in 1984. The rate of consumer price inflation decelerated in the first seven months of the year; in the 12-month period to July 1985 it declined to 5.8 percent, from 7.5 percent during 1984; some acceleration is however expected in the second half of the year reflecting the exchange rate depreciation and increases in administered prices and wages. The projected growth rates of real and nominal GDP for 1985 have not been revised (Table 2).

Developments in public finance and credit in the first six months of the year diverged significantly from the course envisaged in the program, though, on the basis of provisional data, there was significant improvement in both the fiscal and credit performance in July. In the first six months, the overall Treasury deficit on a cash basis (including the settlement of domestic arrears) reached DH 6.7 billion, 1/ exceeding by DH 1.6 billion the program target of DH 5.1 billion (Table 4 and

1/ This Treasury deficit figure, used for the purpose of program monitoring, is obtained after revising upward the actual outcome by DH 660 million, to include certain scheduled debt service payments which were not effected by end-June.

Table 1. Morocco: Fund Position During Period of the Proposed Stand-by Arrangement, 1985-87 ^{1/}

	Outstand- ing at beginning of arrange- ment August 31, 1985	1985			1986			1987
		Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- Feb.
(In millions of SDRs)								
Transactions under tranche policies (net) ^{2/}		-3.96	-22.26	7.61	-12.99	4.10	-14.69	11.02
Purchases		10.00	15.00	35.00	35.00	35.00	35.00	35.00
Ordinary resources		(5.00)	(7.50)	(17.50)	(17.50)	(17.50)	(17.50)	(17.50)
Enlarged access resources		(5.00)	(7.50)	(17.50)	(17.50)	(17.50)	(17.50)	(17.50)
Repurchases		-13.96	-37.26	-27.39	-47.99	-30.90	-49.69	-23.97
Ordinary resources		(-10.23)	(-18.37)	(-19.82)	(-23.35)	(-17.58)	(-25.06)	(-14.38)
Supplementary and enlarged access financing		(-3.73)	(-18.88)	(-7.57)	(-24.64)	(-13.32)	(-24.64)	(-9.59)
Transactions under special facilities (net)		115.08	-29.55	-29.55	-29.55	-29.55	-29.55	-29.55
Purchases		115.08	--	--	--	--	--	--
Repurchases		--	-29.55	-29.55	-29.55	-29.55	-29.55	-29.55
Total Fund credit outstanding (end of period)	1,038.95	1,150.07	1,098.26	1,076.32	1,033.78	1,008.33	964.09	945.56
Under tranche policies ^{2/}	832.10	828.14	805.88	813.49	800.50	804.60	789.91	800.93
Special facilities	206.85	321.93	292.38	262.83	233.28	203.73	174.18	144.63
(In percent of quota)								
Total Fund credit outstanding (end of period)	338.86	375.10	358.21	351.05	337.18	328.88	314.44	308.40
Under tranche policies ^{2/}	271.40	270.10	262.84	265.33	261.09	262.43	257.64	261.23
Special facilities	67.47	105.00	95.36	85.72	76.09	66.45	56.81	47.17

Source: International Monetary Fund.

^{1/} Including CFF purchase at beginning of stand-by arrangement.

^{2/} Ordinary and enlarged access resources.

Table 2. Morocco: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983	1984		1985	
	Actual	Actual	Actual	Rev. prog. (EBS/84/129)	Actual	Initial program (EBS/85/157)	Program revised
(Annual percent changes; unless otherwise specified)							
National income and prices							
GDP at constant prices	-1.3	6.8	2.2	3.0	2.2	4.4	4.4
GDP deflator	10.8	9.2	2.7	11.7	9.3	12.0	12.0
Consumer prices (period average)	12.5	10.5	6.2	11.0	12.5	12.0	12.0
External sector (in SDRs)							
Exports, f.o.b.	4.4	-4.4	5.5	8.7	8.0	10.8	3.7
Imports, f.o.b.	12.4	6.1	-10.7	1.8	12.8	-3.5	-6.0
Export volume	3.8	0.5	10.1	6.5	4.6	9.1	2.2
Import volume	4.5	5.7	-4.7	-0.5	7.9	-4.1	-5.8
Terms of trade (deterioration -)	-6.3	-4.4	-1.4	1.0	-2.8	1.4	0.9
Nominal effective exchange rate ^{1/}							
Currency basket	-10.7	-4.2	-6.0	...	-12.0	...	...
Trade weighted	-6.3	-0.8	-4.3	...	-9.7	...	...
Real effective exchange rate ^{1/}							
Currency basket	-10.0	-3.3	-6.6	...	-7.0	...	...
Trade weighted	-5.8	-0.7	-6.1	...	-4.8	...	...
Central Government budget							
Revenue (excluding grants)	9.0	22.5	-1.6	14.9	9.2	15.9	18.9
Total expenditures	21.2	13.9	-10.5	8.3	3.9	9.8 ^{4/}	10.1 ^{4/}
Money and credit							
Domestic credit	19.6	13.8	19.7	9.9	9.5	10.1	9.0
Economy	(17.5)	(20.6)	(11.5)	(14.9)	(16.0)	(11.9)	(11.9)
Government	(21.2)	(9.2)	(25.9)	(6.6)	(5.3)	(8.7)	6.9
Money and quasi-money	16.4	12.5	17.4	11.7	10.3	12.5	11.3
Money velocity (level)	2.4	2.5	2.2	...	2.2	2.3	2.2
Interest rate (one-year time deposit)	8.5	10.0	10.0	...	10.0	12.0	12.0
(In percent of GDP)							
Central Government							
Overall deficit payment order basis							
Before debt relief	14.5	12.3	9.1	7.8	8.1	6.5	6.1
After debt relief	14.5	12.3	8.5	6.8	6.8	6.0	5.7
Overall deficit cash basis ^{2/}							
Excluding grants	14.6	10.0	10.9	7.0	7.1	8.9	8.5
Including grants	12.5	7.7	9.8	6.9	6.9	6.5	6.1
Domestic bank financing	5.0	2.2	6.7	1.9	1.5	2.3	1.8
Foreign financing (incl. grants)	9.4	6.9	3.6	5.1	5.0	1.1	1.0
Financing gap	--	--	--	--	--	4.7	4.6
Gross domestic investment	23.6	24.9	21.6	20.5	22.8	20.9	20.9
Gross national savings	8.6	10.0	12.4	13.2	12.0	15.0	15.0
External current account deficit							
(before debt relief)							
Excluding grants	12.5	13.3	8.0	7.3	11.1	6.5	7.1
Including grants	10.5	11.9	6.9	7.1	10.9	4.1	4.7
External current account deficit							
(after debt relief)							
Excluding grants	12.5	13.3	6.7	6.1	8.5	...	...
Including grants	10.5	11.9	5.6	6.0	8.3	...	...
External debt ^{3/}							
(Inclusive of use of Fund credit)	67.4	81.3	93.6	95.0	107.9	108.3	108.2
(In percent of exports of goods, nonfactor services and transfers)							
Debt service ratio							
Before debt relief	34.1	41.8	44.0	50.1	57.9	60.5	63.0
After debt relief	34.1	41.8	33.4	24.8	23.5	35.9	37.5
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments							
Before debt relief	-169	-585	-573	-1,030	-1,555	-876	-946
After debt relief	-169	-585	15	12	-222	...	...
Gross official reserves							
(months of imports)	0.6	0.6	0.4	1.3	0.2	0.6	0.5

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

^{1/} Minus sign indicates depreciation.

^{2/} Before debt relief for 1985, and after debt relief for other years.

^{3/} Including short-term debt; for 1982-85 includes military debt.

^{4/} Before debt relief.

Table 3. Morocco: Cereals Production, 1981/82-1984/85 1/

	1981/82	1982/83	1983/84	1984/85
Area under cultivation (Thousands of hectares)	4,133	4,562	4,366	4,613
Production (thousands of tons)	4,764	3,457	3,658	4,611
Hard wheat	1,406	1,239	1,171	1,207
Soft wheat	777	732	818	1,015
Barley	2,334	1,228	1,405	2,108
Maize	247	258	264	281

Source: Data provided by the Moroccan authorities.

1/ Crop year: November-October.

Table 4. Morocco: Targets and Outcome Under the Initial 1985 Program

	1985	
	June	July
<u>(In millions of dirhams)</u>		
Cumulative overall Treasury deficit on a cash basis <u>1/</u>		
Target (a)	5,100	6,500 <u>2/</u>
Outcome	6,082	6,195
Plus external arrears	660	406 (provisional)
Adjusted outcome (b)	<u>6,742</u>	<u>6,601</u>
Excess (-) (a-b)	-1,642	-101
Cumulative Treasury deficit on a payments order basis		
Target (c)	3,880	5,280
Outcome	5,290	4,844
Plus external arrears	660	400
Adjusted outcome (d)	<u>5,950</u>	<u>5,250</u>
Excess (-) or margin (+) (c-d)	-2,070	30
Bank credit to the government		
Target (e) <u>3/</u>	32,317	32,450 <u>2/</u>
Outcome (f)	<u>32,733</u>	<u>31,898</u>
Excess (-) or margin (+) (e-f)	-416	552
Total domestic credit		
Target (g) <u>3/</u>	59,222	59,600 <u>2/</u>
Outcome (h)	<u>60,488</u>	<u>59,474</u> (provisional)
Excess (-) or margin (+) (g-h)	-1,266	126
<u>(In millions of U.S. dollars)</u>		
External payments arrears		
Target	...	-- <u>2/</u>
Plus shortfall in foreign financing	...	135 <u>4/</u>
Adjusted target (i)	...	135
Outcome (j)	90 <u>5/</u>	41 (provisional)
Excess (-) or margin (+) (i-j)	...	94

1/ Excluding changes in "fonds réservés", as agreed under the program.

2/ These targets constituted performance criteria at end-July under the program described in EBS/85/157.

3/ These targets in principle should also be adjusted by the offsetting factors; see footnote 1, page 6.

4/ Represents one third of the envisaged drawing from the Industrial and Trade Policy Adjustment Loan of the World Bank, which was delayed, plus the envisaged purchases from the Fund of SDR 95.5 million in July.

5/ Includes an amount of US\$ 27 million paid in the first few days of July.

Table 5). The Treasury deficit on a payment order basis (i.e. before arrears settlement), at DH 5.9 billion, was above the target by DH 2.1 billion. This overrun reflected higher than expected capital expenditures of DH 1.7 billion, expenditures on goods and services of DH 370 million and on consumer subsidies of DH 360 million. These overruns were partially offset by lower-than-projected scheduled interest payments on external public debt and higher-than-projected fiscal revenues. During the last staff visit the authorities explained that the higher-than-expected capital expenditures were due to a more rapid execution of projects in the southern provinces, but that this should have no effect on the total capital expenditures envisaged in the program for the year 1985. The more rapid expenditures on goods and services resulted from a relatively large use of budgetary allocations for materials and supplies by government departments in the first months of the year following the budgetary restraint in 1984; the expenditures for consumer subsidies were higher than planned because they included substantial unprogrammed outlays for settling obligations that had arisen in 1984. ^{1/} The Treasury deficit led to a larger than programmed recourse to bank credit (DH 2,856 million compared with a DH 2,400 million target). Also, due to the postponement of purchases from the Fund, external arrears at end-June rose to DH 936 million, up from DH 590 million at end-1984; the figure of end-June comprises military debt service arrears of DH 660 million and an amount of DH 276 million for which payments were made in early July.

The Moroccan authorities indicated that these deviations should not be construed as deviations from the annual targets of the program but were related to the timing of expenditures; they were confident that the annual targets were still realistic and could be realized. Confronted with these deviations from the program targets during the first six months, in July the authorities slowed down disbursement for current expenditures, reflecting in part delays in the payments for consumer subsidies. At the same time revenues were boosted by the payment of the second installment of the tax on business and professional income and by a large transfer from the phosphate company OCP, which brought its contribution to the budget by end-July in line with that envisaged under the program. Provisional data indicate that at end-July external arrears were reduced by DH 530 million to DH 406 million. These developments led to a decline of the cumulative Treasury deficit on a cash basis for the period January-July, adjusted to take account of the level of external arrears outstanding, to DH 6.6 billion, which slightly exceeded the original program ceiling of DH 6.5 billion

^{1/} In 1984 commitments for consumer subsidies amounted to DH 2.8 billion, while disbursements were DH 2.1 billion. Following the unprogrammed liquidation of arrears on consumer subsidies in the first half of 1985, new arrears are expected to be incurred in the second half of the year. However, by end 1985, the stock of arrears and payment delays will be unchanged from end-1984.

Table 5. Morocco: Financial Transactions of the Central Government, 1984-85

(In millions of dirhams)

	1984	1985		1985	
		Year		1st half	2nd half
		Original Program (EBS/85/157)	Revised Program	Actual	Revised program
Total revenue	23,469	27,203	27,806	12,775	15,031
Tax revenue	21,173	23,660	24,027	11,612	12,415
Non tax revenue	1,196	1,443	1,679	863	816
Phosphate mining company (OCP)	1,100	2,100	2,100	300	1,800
Extrabudgetary revenue (net)	--	--	--	--	--
Total expenditure	30,653	35,203	35,306	18,725	16,581
Current expenditure	23,390	28,503	28,606	14,610	13,996
Goods and services	(16,793)	(18,183)	(18,313)	(9,570)	(8,743)
Interest ^{1/}	(4,442)	(7,520)	(7,793)	(3,277)	(4,516)
Consumer subsidies	(2,155)	(2,800)	(2,500)	(1,763) ^{2/}	(737)
Capital expenditure	7,030	6,700	6,700	4,115 ^{3/}	2,585
Extrabudgetary expenditure (net)	233	--	--	--	--
Overall deficit, payment order basis ^{1/}	-7,184	-8,000	-7,500	-5,950 ^{3/}	-1,550
"Fonds réservés" (reduction -)	-273	--	--	-134	134
Domestic arrears (reduction -)	...	-3,000 ^{4/}	-3,000 ^{4/}	-792 ^{4/}	-2,208 ^{4/}
Overall deficit, cash basis ^{3/}	-7,457	-11,000	-10,500	-6,876	-3,624
Financing	7,457	11,000	10,500	6,876	3,624
Foreign sources	5,319	1,396	1,192	-78	1,270
Grants	139	3,000 ^{4/}	3,000 ^{4/}	792 ^{4/}	2,208 ^{4/}
Foreign borrowing (net)	-5,180	-1,604	-1,808	-1,806	-2
Gross borrowing	(6,363)	(7,083)	(6,879)	(2,565)	(4,314)
Amortization ^{3/}	(-1,183)	(-8,687)	(-8,687)	(-4,371)	(-4,316)
Arrears and payments delays	--	--	--	936 ^{5/}	-936
Domestic sources	2,138	3,800	3,600	3,980	-380
Domestic banking system (net)	1,600	2,800	2,200	3,236	-1,036
Domestic bank borrowing (net)	2,183	2,800	2,200	2,856	-656
Central Bank	(1,303)	(...)	(...)	(...)	(...)
Deposit money banks	(880)	(...)	(...)	(...)	(...)
Other banking sources (net)	-583	--	--	380	-380
Other domestic sources (net)	538	1,000	1,400	744	656
Statistical discrepancy	--	--	--	22	-22
Financing gap/Expected debt relief ^{6/}	--	5,804	5,708	2,952	2,756
Memorandum items:					
Possible debt relief	7,175	5,804	5,708	2,952	2,756
Interest	(1,402)	(542)	(446)	(203)	(243)
Principal	(5,773)	(5,262)	(5,262)	(2,749)	(2,513)
Overall deficit, payment order basis					
Before debt relief	-8,586	-8,000	-7,500	-5,950 ^{3/}	-1,550
Current deficit (-)	79	-1,300	-800	-1,835	1,035
		(In percent of GDP at current market prices)			
Total revenue	22.2	22.0	22.4		
Total expenditure	29.0	28.5	28.5		
Current	(22.1)	(23.1)	(23.1)		
Capital ^{7/}	(6.9)	(5.4)	(5.4)		
Overall deficit, payment order basis (excluding grants)					
Before debt relief	-8.1	-6.5	-6.1		
After debt relief	-6.8	-6.0	-5.7		
Overall deficit, cash basis					
Excluding grants	-7.1	-8.9	-8.5		
Including grants	-6.9	-6.5	-6.1		
Debt rescheduling (net)					
Interest	(1.3)	(0.4)	(0.3)		
Amortization	(5.5)	(4.3)	(4.3)		
GDP (in millions of dirhams)	105,647	123,530	123,530		

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

^{1/} Before debt relief for 1985 and after debt relief for other years.

^{2/} Includes a reduction of arrears of DH 360 million.

^{3/} Including scheduled payments relating to military debt for DH 660 million which had not been effected. Actual capital expenditures have amounted to DH 3,455 million, and the actual overall deficit, on a payment order basis, to DH 5,290 million.

^{4/} The amount of grants is to be used to reduce domestic arrears.

^{5/} Comprises arrears on scheduled payments of military debt (DH 660 million) and other payments delays (DH 276 million).

^{6/} Expected debt relief, on the assumption of broadly similar terms as in 1984.

^{7/} Defined as capital expenditures plus extrabudgetary expenditures (net).

(Table 4). The Treasury deficit on a payment order basis was reduced more significantly, and, if no allowance is made for the delays in payments of consumer subsidies, remained slightly below the program target of DH 5,280 million. The overall surplus in the month of July was accompanied by a large placement of Treasury bonds with non-bank financial intermediaries, permitting a substantial reduction in bank credit to the Government; by end-July this aggregate was below the program ceiling by DH 550 million, and total domestic credit was also below the ceiling.

After a decline in the first quarter of the year, credit to the economy expanded rapidly in the second quarter; in the first six months credit to the economy expanded by 7.2 percent instead of the 5.5 percent programmed (Table 6). As a result total domestic credit expanded by 8.9 percent, instead of 6.6 percent envisaged under the program. In July total domestic credit declined significantly, as a result of a reduction of both credit to the Government and credit to the economy. In the 12-month period to June 1985 the growth rate of broad money was 15.9 percent, a result of the rapid growth of quasi-money. Money recorded a growth rate of 12.8 percent.

While the program envisaged originally that external arrears be fully settled by end-July, the authorities had indicated to the staff in early July that this would not be possible in view of the postponement of the Board discussion of the program, originally scheduled for July 12, and the consequent delay in anticipated disbursements from the Fund. There were also delays in disbursements from the World Bank. 1/ Developments in domestic arrears are discussed below.

With regard to the tax reform, by end-July the parliamentary commission had examined the draft texts regarding the value added tax. The texts and amendments will be reviewed during the parliamentary session beginning in October 1985, and the Government expects that the value added tax will enter into effect on January 1, 1986, as indicated in EBS/85/157. The draft texts regarding the general income tax and the corporation tax will also be examined by the Parliament during the next parliamentary session in October.

1/ The non elimination of external arrears at end-July of DH 406 million was a factor reducing the need by the Government of bank credit below what it would otherwise have been, and therefore facilitated the observance of the credit ceilings of the original program. At the same time the need for domestic credit in July was increased by the lower-than-envisaged foreign financing estimated at DH 415 million, resulting from delayed disbursements under the Industrial Trade Policy Adjustment Loan from the World Bank. Thus the effect of the two factors on the need for credit broadly offset each other.

Table 6. Morocco: Monetary Survey, 1983-85

(In millions of dirhams; end of period)

	1983 Dec.	1984 Dec.	1985			
			June	Sept.	Dec.	
			Indicative targets (EBS/85/157)	Actual	Revised program	
Foreign assets (net)	-5,211	-6,900	-7,819	-7,850	-7,708	-6,799
Monetary authorities	-7,064 ^{1/}	-9,011 ^{1/}	-10,032	-10,203 ^{1/}	-9,819	-8,910
Deposit money banks	1,853	2,111	2,213	2,353	2,111	2,111
Domestic credit	50,693	55,532	59,222	60,469	60,440	60,540
Claims on the Government (net)	30,412	32,012	34,402	35,248	34,515	34,215
Banking system	27,734	29,917	32,317	32,773	32,220	32,120
Central Bank	(16,128)	(17,431)	(...)	(16,279)	(...)	(...)
Deposit money banks	(11,606)	(12,486)	(...)	(16,494)	(...)	(...)
Nonbank private sector ^{2/}	2,678	2,095	2,085	2,475	2,295	2,095
Claims on the economy	20,281	23,520	24,820	25,221	25,925	26,325
<u>Assets = Liabilities</u>	<u>45,482</u>	<u>48,632</u>	<u>51,403</u>	<u>52,619</u>	<u>52,732</u>	<u>53,741</u>
Money plus quasi-money	45,744	50,469	53,265	55,844	55,173	56,175
Money	36,142	39,188	41,465	43,060	42,536	42,258
Currency outside banks	(13,636)	(14,771)	(16,020)	(15,283)	(16,317)	(16,180)
Demand deposits ^{3/}	(22,506)	(24,417)	(25,445)	(27,777)	(26,219)	(26,078)
Quasi-money	9,602	11,281	11,800	12,784	12,637	13,917
Import deposit	576	15	--	4	--	--
Other (net) ^{4/}	-838	-1,852	-1,862	-3,299	-2,441	-2,434
			<u>(Percent change) ^{5/}</u>			
Domestic credit	19.7	9.5	12.0	14.4	13.5	9.0
Claims on the Government (net)	25.9	5.3	9.6	12.2	10.7	6.9
Banking system	31.3	7.9	12.4	14.0	10.9	7.4
Nonbank private sector	-11.5	-21.8	-21.5	-6.8	8.5	-
Claims on the economy	11.5	16.0	15.6	17.5	17.5	11.9
Money plus quasi-money	17.4	10.3	10.5	15.9	13.0	11.3
Money	14.3	8.4	8.7	12.8	11.2	7.8
Currency outside banks	13.4	8.3	12.5	7.3	10.5	9.5
Demand deposits	14.8	8.5	6.4	16.1	11.8	6.8
Quasi-money	31.0	17.5	17.6	27.4	19.2	23.4
<u>Memorandum items:</u>			<u>(In percent)</u>			
Money/GDP	38.2	37.1				34.2
Quasi-money/GDP	10.2	10.7				11.3
Broad money/GDP	48.4	47.8				45.5

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

^{1/} Includes net Fund position at end of period exchange rate.

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

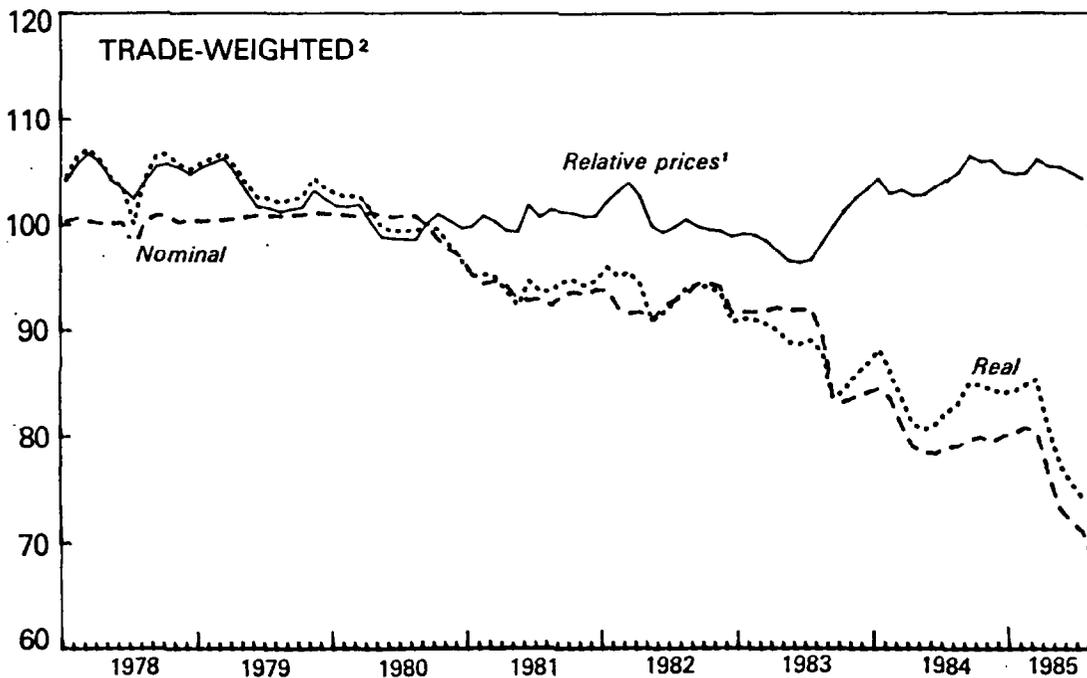
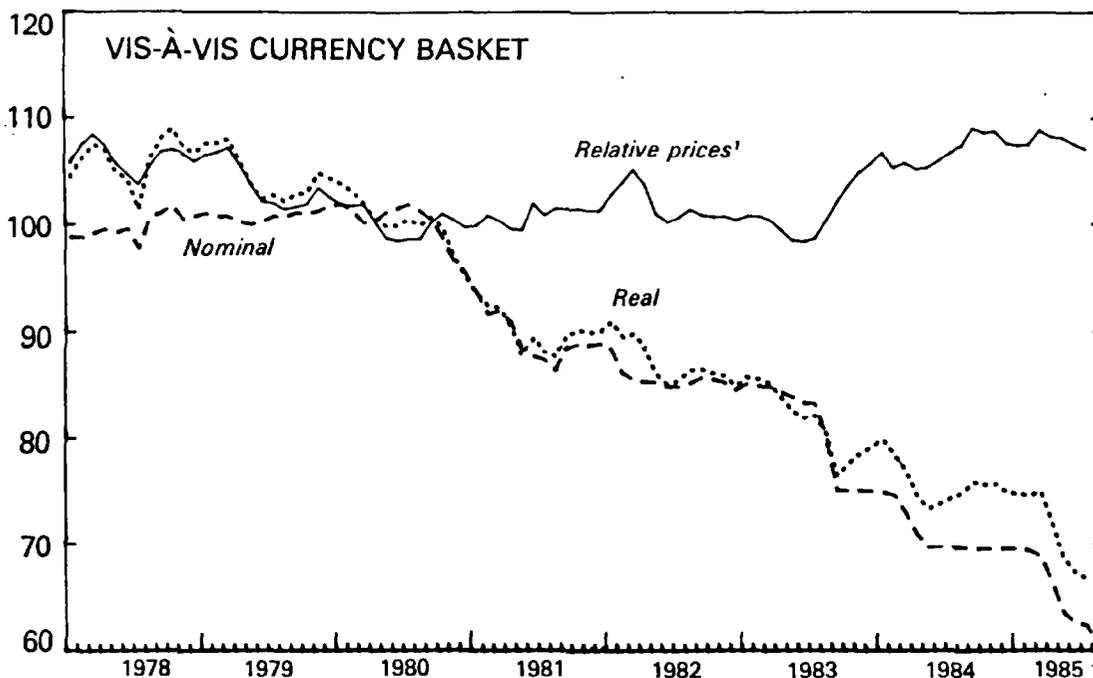
^{3/} Includes checking deposits with deposit money banks, private sector deposits with the Central Bank, postal checking deposits, and private sector deposits with the Treasury.

^{4/} Includes counterpart of valuation changes of net foreign assets.

^{5/} The percentage changes data are over a 12-month period.

CHART 1
MOROCCO
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES,
1978-85

(1980 = 100)



Source: Currency weights supplied by Moroccan authorities, decrease in index indicates depreciation.

¹Relative consumer prices; domestic prices indices/weighted partner price indices.

²Excluding oil imports and phosphate exports and including tourism.



On the external side, the Government implemented in July a further depreciation of 3 percent in the nominal effective exchange rate of the dirham vis-à-vis the currency basket, bringing the cumulative depreciation from end-December 1984 to end-July 1985 to 13.4 percent. The depreciation on a trade-weighted basis over the same period was 15 percent. Adjusted for relative price movements, the cumulative depreciation in the first seven months of the year is estimated at about 15 percent on a trade-weighted basis (Chart 1).

Developments of external trade during the first six months of the year were substantially worse than envisaged, as the trade deficit totalled SDR 719 million against a target for the whole year of SDR 998 million (Table 7). This result was in part due to continuing large purchases of cereals, following the poor harvest of last year, and to a restocking of crude petroleum. In addition, exports of phosphate derivatives, especially phosphoric acid, were low in comparison with those envisaged in the program, because of unfavorable conditions in the world market. The volume of phosphoric acid exports was 380,000 tons, compared with a program projection for the year of 1.2 million tons. Other exports and imports performed broadly in line with the relatively ambitious program targets. In particular exports of manufactured products rose substantially, with a rate of growth of 15 percent in SDR terms between the first six months of 1984 and of 1985. There is little data yet available on the services and transfers accounts. Despite the higher-than-expected trade deficit, net foreign assets of the banking system decreased by less than envisaged under the program. With government capital transactions broadly as envisaged, the higher trade deficit in the first six months was financed by unidentified capital inflows of about SDR 140 million, and the non-elimination of arrears totalling SDR 90 million.

III. Program for 1985-86

1. Prospects for 1985 and additional policy measures

Export projections for the second half of the year made in mid-August indicated that phosphoric acid exports, while increasing somewhat in volume, would remain substantially below program projections for the whole year, and that this could be offset only partially by diverting phosphoric acid to the production and export of fertilizers. Reflecting also the benefits from the exchange depreciation, total exports are projected to rise by 14 percent in the second half of the year. Although cereal and petroleum imports were expected to decline in volume, it was expected that the current account deficit could be considerably higher than programmed with attendant financing problems, even with a return on track of fiscal and monetary performance. In these circumstances, the authorities decided to take measures not only to bring the fiscal and credit performance back in line with the original program, but to

Table 7. Morocco: Balance of Payments, 1985

(In millions of SDRs)

	January-June 1985	July-December 1985		January-December 1985	
	Provisional ^{1/} Estimate	To Achieve Original Program ^{2/} (EBS/85/157)	Revised Program	Original Program (EBS/85/157)	Revised Program
Trade balance	-719	-279	-368	-998	-1,087
Exports	1,022	1,323	1,165	2,345	2,187
Of which: food	(257)	(282)	(282)	(539)	(539)
phosphates	(256)	(294)	(266)	(550)	(522)
fertilizers	(29)	(60)	(86)	(89)	(115)
phosphoric acid	(142)	(290)	(150)	(432)	(292)
manufactured products	(187)	(180)	(203)	(367)	(390)
other exports	(151)	(217)	(178)	(368)	(329)
Imports, f.o.b.	-1,741	-1,602	-1,533	-3,343	-3,274
(Imports, c.i.f)	(-1,914)	(1,760)	(1,685)	(-3,674)	(-3,599)
Of which: cereals	(-156)	(-134)	(-123)	(-290)	(-279)
petroleum	(-554)	(-389)	(-479)	(-943)	(-1,033)
capital goods	(-323)	(-422)	(-329)	(-745)	(-652)
consumer goods	(-132)	(-109)	(-115)	(-241)	(-247)
other imports	(-749)	(-706)	(-639)	(-1,455)	(-1,338)
Services (net)	-352	-440	-441	-792	-793
Non factor services	(112)	(124)	(135)	(236)	(245)
Investment income	(-464)	(-564)	(-576)	(-1,028)	(-1,038)
Transfers (net)	500	490	510	990	1,010
<u>Current account</u>	<u>-571</u>	<u>-229</u>	<u>-299</u>	<u>-800</u>	<u>-870</u>
<u>Capital account</u>	<u>-18</u>	<u>-58</u>	<u>-58</u>	<u>-76</u>	<u>-76</u>
Private (including errors and omissions)	140	-170	-150	-30	-10
Official grants	150	147	147	297	297
Public short-term (net)	7	73	73	80	80
Public long-term	-315	-108	-128	-423	-363
Disbursements	(420)	(600)	(580)	(1,020)	(1,000)
Amortization	(-735)	(-708)	(-708)	(-1,443)	(-1,443)
<u>Overall balance</u>	<u>-589</u>	<u>-287</u>	<u>-357</u>	<u>-876</u>	<u>-946</u>
Net foreign assets (increase -)	16	-96	-26	-80	-10
Of which: gross international reserves	(-60)	(-74)	(-38)	(-134)	(-98)
Changes in arrears (repayment -)	27	-90	-90	-63	-63
Payment to banks for 1983/84 rescheduling	--	-40	-40	-40	-40
Possible debt relief	546	513	513	1,059	1,059

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

^{1/} Only limited data are available on services, transfers and capital accounts.

^{2/} Consistent with achievement of program targets described in EBS/85/157, given estimated performance to end-June.

tighten further the fiscal and monetary stance in 1985. These measures, which are described below, should permit a reduction of 0.4 percent of GDP in the Treasury deficit on a payments order basis (excluding arrears payments), from 6.5 percent to 6.1 percent, and a reduction of 1.1 percentage points of the rate of increase of total domestic credit, from 10.1 initially programmed to 9 percent. Taking account of these measures as well of new actions adopted to foster the flow of workers' remittances 1/, and to reduce foreign borrowing for cereal imports, the trade deficit would then stand at SDR 1,087 million, as against SDR 998 million targeted. The current account deficit of the balance of payments is projected to be contained in 1985 to SDR 870 million, equivalent to 7.1 percent of GDP (Table 8); this deficit is SDR 70 million higher than the initial program projection of SDR 800 million (6.5 percent of GDP). This compares with a recently revised deficit for 1984 of SDR 1,295 million, or 11.1 percent of GDP; thus the reduction in the deficit, in percentage points of GDP, would still be the same as envisaged originally. With little change in the projected capital flows, the revised current account deficit would involve a smaller than originally programmed increase in net foreign assets of the banking system (SDR 10 million instead of SDR 80 million), and a smaller reconstitution of gross international reserves (SDR 98 million instead of SDR 134 million).

The level of net foreign assets at end-September and end-December consistent with expected balance of payments and fiscal projections are shown in Table 2 attached to the letter of intent of September 6, 1985. After the elimination of external arrears (both on previously rescheduled debt and on non-reschedulable debt) and payments of about SDR 40 million to the commercial banks in respect of 1983/84 rescheduling, there would remain a financing gap of SDR 1,059 million in 1985, as envisaged in EBS/85/157. Assuming broadly similar terms to those granted in 1984 on reschedulable arrears and debt service payments due in 1985 to the Paris Club, to other official creditors, and to commercial banks, this gap would be fully financed.

The fiscal measures aim to reduce the Treasury deficit on a payment order basis by DH 500 million, from the programmed level of DH 8 billion to DH 7.5 billion. The Treasury deficit on a cash basis will be curtailed by a similar amount from DH 11 billion to DH 10.5 billion. The reduction of the Treasury deficit would result mainly from an additional amount of revenues of DH 600 million. There will also be a saving of DH 300 million on consumer subsidies resulting from substantial

1/ These actions consist in the placement with workers abroad of a tranche of a 3 year government bond issue scheduled for September at 14 percent interest, a rate substantially higher than the remuneration of foreign workers' deposits.

Table 8. Morocco: Balance of Payments, 1984-85

(In millions of SDRs)

	<u>1984</u> EBS/85/157	<u>1984</u> Revised	<u>1985</u> Program EBS/85/157	<u>1985</u> Revised Program
Merchandise trade (net)	<u>-1,350</u>	<u>-1,373</u>	<u>-998</u>	<u>-1,087</u>
Exports	2,115	2,108	2,345	2,187
Imports, f.o.b	-3,465	-3,481	-3,343	-3,274
Services (net)	<u>-816</u>	<u>-829</u>	<u>-792</u>	<u>-793</u>
Freight and insurance	-220	-225	-195	-197
Other transport	22	22	33	33
Tourism	405	399	479	479
Investment income	-904	-916	-1,028	-1,038
Government and other services	-120 <u>2/</u>	-108 <u>2/</u>	-81 <u>2/</u>	-70 <u>2/</u>
Transfers (net)	918	907	990	1,010
Current account	<u>-1,248</u>	<u>-1,295</u>	<u>-800</u>	<u>-870</u>
Nonmonetary capital (net)	<u>-307</u>	<u>-260</u>	<u>-76</u>	<u>-76</u>
Private <u>1/</u>	27	75	-30	-10
Official grants	15	15	297	297
Public sector loans (net)	-350	-350	-343	-363
Disbursements <u>3/</u>	(934)	(934)	(1,100)	(1,080)
Amortization	(-1,284)	(-1,284)	(-1,443)	(-1,443)
Debt relief	<u>1,333</u> <u>4/</u>	<u>1,333</u> <u>4/</u>	<u>...</u>	<u>...</u>
Overall balance	<u>-222</u>	<u>-222</u>	<u>-876</u>	<u>-946</u>
Financing	222	222	876	946
Net use of Fund credit	<u>133</u>	<u>133</u>	<u>72</u>	<u>87</u> <u>5/</u>
Change in other net foreign assets (increase-)	-13	-13	-152	-97
Financing gap to be filled by debt relief	--	--	1,059	1,059
Arrears	63 <u>6/</u>	63 <u>6/</u>	-63 <u>6/</u>	-63 <u>6/</u>
Delays in completing bank rescheduling	40	40	-40	-40
<u>Memorandum items:</u>				
Current account deficit in percent of GDP (before debt relief)	10.7	11.1	6.5	7.1
End-year gross reserves (months of imports)	0.2	0.2	0.6	0.5
DH/SDR	9.0	9.0	10.1	10.1

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

1/ Including errors and omissions.

2/ Excludes military debt service payments which are now included under investment income and amortization.

3/ Including net increases in public sector short-term debt.

4/ Assumes debt rescheduling for 1983/84 to have been completed. Includes an amount of approximately SDR 34 million of payments due in 1984 and not paid to Fund member countries, which is not yet formally rescheduled.

5/ Includes Fund purchases under proposed program of SDR 25 million (SBA) and SDR 115 million (CFF).

6/ Represents late payments of rescheduled debt at end-1984. This definition of arrears excludes amounts to be rescheduled for which agreements have not yet been signed.

price increases effective on September 2. These higher revenues and savings would be partly offset by larger projected interest payments on the domestic public debt (DH 270 million), and a 5 percent salary increase ^{1/} for the last four months of the year (DH 130 million), granted in connection with the price increase. The wage increase to the civil servants will be accompanied by a 10 percent increase in the minimum wage effective September 1, which follows a similar increase of 10 percent at the beginning of the year. Measures are being taken to ensure that the budgetary expenditures on goods and services will remain within the initial annual program target after adding the DH 130 million due to the wage increase in September. This will be achieved, despite the acceleration of outlays during the first half of the year, by curtailing outlays for materials, supplies and current transfers during the second half of the year. Investment expenditures will be curtailed in the second half of the year to maintain them at the originally envisaged level of DH 6.7 billion.

Revenue is projected to increase by DH 600 million over the initial program target due to the continuation of the improved revenue collection efforts, which have already lead to about DH 400 million more direct tax revenue than programmed in the first half of the year. In addition, DH 180 million will be obtained from higher contributions from state monopolies, in particular, the post office, telecommunications companies, port authorities, and the exchange office representing a substantial increase over the original program projections. These are made possible mainly by a better financial performance and recent increases in tariffs.

The reduction of outlays on material and current transfers involves a substantial decline in these expenditures between the first and second half of the year (from DH 3 billion to DH 2 billion), and will require the freeze of an amount equivalent to 13 percent of the budgetary appropriations for the year. Details of these large cuts by departments and by some major categories of expenditures have been provided to the staff. Expenditures on materials and supplies will be cut by DH 339 million and transfers by DH 411 million. The largest cut by department will be for the Ministry of Finance reflecting the reduction in transfers.

To contain investment expenditure to the amount initially programmed, these outlays will have to decline from DH 4.1 billion in the first half of the year to DH 2.6 billion in the second; the decline in non military expenditures will be more substantial. However, taking account of the amounts available for the reduction of arrears related to capital expenditures, total capital outlays including the settlement of arrears would rise from DH 4.2 billion in the first half of the year

^{1/} The salary increase will apply only to the first 150 points of the wage scale; it represents on an annual basis 3 percent of the total wage bill, and 1.1 percent of total government expenditure.

to DH 5.3 billion in the second. Details on the slowdown in capital expenditures in the second half have been provided by the authorities. Instructions have been given to spending ministries to limit new commitments to achieve the target for investment outlays. Overall new commitments will decline from DH 8.7 billion in the first seven months to no more than DH 5.4 billion in the last five months. The largest reduction in new commitment will take place for the Ministry of Equipment and the Ministry of Agriculture.

The cut in outlays for consumer subsidies will result from a substantial increase in the retail price of the subsidized products, (sugar, edible oil, and flour), ranging from 11 percent for sugar cubes to 21 percent for low quality flour, and 40 percent for luxury flour, which has taken place on September 2 (Table 9). The last price increase for these commodities took place in August 1983. The subsidy on sugar cubes and on luxury flour will be completely eliminated, so that only granulated sugar, edible oil, and low quality flour would remain subsidized. Together with the adoption of the price measures, the Government will start at end-September a complete review of the subsidy policy, with the technical assistance of the World Bank, with a view to gradually eliminating over a period of almost five years the remaining subsidies, with more frequent but smaller price adjustments.

The reduction in the Treasury deficit in 1985, together with the higher level of non bank borrowing envisaged, will permit a reduction of the bank credit expansion to the Government in 1985 to DH 2.2 billion, instead of DH 2.8 billion initially programmed. The expansion of total domestic credit in 1985 will be correspondingly reduced to DH 5 billion, equivalent to a growth rate of 9 percent (compared with the initial program target of DH 5.6 billion, and a 10.1 percent growth rate). Because of the rapid increase in credit in the first six months of 1985, total domestic credit will remain broadly unchanged in the second half of the year.

The Government is firmly committed to achieve a significant improvement in the financial structure of public enterprises so as to reduce the burden of budgetary transfers and subsidies, and improve the saving performance of the country. To that end, additional tariff adjustments will be introduced in October, following the increases in the first months of the year discussed in EBS/85/157. In September the authorities will start formulating, with World Bank assistance, a comprehensive program of public enterprises rehabilitation, which will be operational for a number of enterprises in 1986.

2. Balance of payments prospects for 1986 and the medium-term

In view of the heavy debt service burden requiring debt relief, the prolonged use of Fund resources, and the slippage in the current account target for 1985, it is essential that the substantial reduction

Table 9. Morocco: Consumer Subsidies and Retail Prices effective on September 2, 1985

	Total amount of consumer subsidies initially programmed	Subsidy per unit	Last price increase	Retail prices before increases	New retail prices		Percentage increase	Percentage increase in retail price index (CPI) since last price increase	Savings of the fiscal year 1985
<u>Sugar</u>									
Sugar cube	DH 99 million	0.23 DH/kg	August 1983	4.05 DH/kg	4.50 DH/kg	11.1% <u>1/</u>	23%	DH 64.5 million	
Sugar granulated	DH 328 million	1.49 DH/kg	April 1981	2.80 DH/kg	3.35 DH/kg	19.6%	45%	DH 40.3 million	
<u>Flour</u>									
Luxury flour	DH 113 million	0.47 DH/kg	August 1983	2.15 DH/kg	3.00 DH/kg	39.5% <u>1/</u>	23%	DH 68.0 million	
Regular flour	DH 1470 million	0.95 DH/kg	April 1981	1.20 DH/kg	1.45 DH/kg	20.8%	45%	DH 128.9 million	
<u>Edible oil</u>	DH 800 million	4.00 DH/kg	August 1983	6.00 DH/liter	7.00 DH/liter	16.6%	23%	DH 66.7 million	
<u>Total</u>	DH 2810 million								DH 368.4 million <u>2/</u>

1/ These increases are more than sufficient for the elimination of budgetary subsidies on these commodities.

2/ Comprises DH 68.4 million of increase in the margin for the intermediaries and DH 300 million of net budgetary savings for the fiscal year 1985.

in the current account deficit programmed to take place by 1986, as envisaged in EBS/85/157, be achieved as well as the authorities' aim of achieving balance of payments viability at the latest by 1988.

The recent developments have made the achievement of the 1986 current account targets more difficult than previously envisaged in EBS/85/157. Firstly, if the weakness in the phosphoric acid market is continued, there will be an export shortfall relative to the initial projections for 1986 of about SDR 130 million. Projections for 1986 of phosphoric acid exports have now been made on the basis of the present unit price of SDR 320 per ton and a volume of 940,000 tons, which would be 10.5 percent higher than now projected for 1985. With the growth of other exports in 1986 broadly as projected in EBS/85/157, reflecting the benefits of the export promotion policies, the same current account target as initially envisaged would require a contraction of total imports of 2.3 percent in SDR terms, compared with an increase of 1.2 percent projected in EBS/85/157 (Tables 10 and 11). This would necessitate tighter domestic management policies and other adjustment measures.

Secondly, in view of the lower than previously envisaged increase in gross reserves in 1985, the target of a level of gross international reserves equivalent to one month's imports at the end of 1986 implies a larger ex-ante financing gap for 1986 than previously envisaged. The residual financing gap that cannot reasonably be assumed covered by debt relief would be SDR 450 million out of SDR 2.1 billion, and accordingly would require further adjustment in the current account in the absence of external grants or more concessional finance.

Beyond 1986, the maintenance of the same current account targets as envisaged in EBS/85/157, even with the optimistic assumptions of an average 10 percent per annum growth of exports in SDR terms, would imply a further contraction of the growth of imports in SDR terms (see Scenario A in Table 10 and 11). The high export growth is assumed to arise from the large expansion in the potential output of the phosphate derivative sector and the recovery of the world market. There would be no growth of import volume on average between 1987 and 1990. With less favorable export growth assumptions (see Scenario B in Table 10 and 11), the import restraint would need to be much greater. Average export growth of 8 percent in SDR terms, for example, would require import volume reduction of 1.7 percent per annum between 1987 and 1990.

The policy package needed to achieve the programmed external adjustment will be elaborated during the next two reviews of the program; these will include, inter alia, a review of the adequacy of the targeted reduction in the Treasury deficit/GDP ratio in 1986 to between 4-4.5 percent which is already contained in the program, and the

Table 10. Morocco: Medium-Term Balance of Payments Projections, 1984-1990 1/

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989	1990
Scenario a. Higher export growth from 1987							
Trade balance	-1,373	-1,087	-849	-619	-413	-379	-356
Exports, f.o.b.	2,108	2,187	2,350	2,587	2,846	3,134	3,452
Percent change	8.0	3.7	7.4	10.1	10.0	10.1	10.1
Imports, f.o.b.	-3,482	-3,274	-3,199	-3,206	-3,259	-3,513	-3,807
Percent change	12.8	-6.0	-2.3	0.2	1.8	7.8	8.4
(Imports, c.i.f.)	-3,809	-3,599	-3,515	-3,523	-3,581	-3,860	-4,184
Percent change	13.1	-5.5	-2.3	0.2	1.5	7.8	8.4
Services balance	-829	-793	-763	-712	-609	-535	-510
Nonfactor services	97	245	288	350	424	486	554
Net investment income	-916	-1,038	-1,051	-1,062	-1,033	-1,021	-1,064
Transfers account	907	1,010	1,068	1,128	1,197	1,268	1,344
Current account (before debt relief) 2/	-1,295	-870	-544	-203	175	354	478
Nonmonetary capital account	-260	-76	-1,297	-799	7	-127	-265
Private (including errors and omissions)	75	-10	25	25	55	55	55
Official grants	15	297	--	--	--	--	--
Public short-term (net)	-65	80	--	--	--	--	--
Public medium- and long-term loans	-285	-443	-1,322	-824	-49	-190	-334
Disbursements	999	1,000	820	820	1,260	1,260	1,390
Amortization	-1,284	-1,443	-2,142	-1,644	-1,309	-1,450	-1,724
Debt relief	1,333	--	--	--	--	--	--
Overall balance	-222	-946	-1,841	-1,002	182	228	213
Net foreign assets of the banking system	119	-10	-258	-344	-182	-228	-214
Monetary authorities	125	-10	-258	-344	-182	-228	-214
Net use of fund credit	133	87	-124	-209	-169	-216	-205
Purchases	180	230	150	35	--	--	--
Repurchases	-47	-143	-274	-244	-169	-216	-205
Gross reserves (+ increase)	52	-98	-134	-135	-13	-12	-9
Other net assets	-59	1	--	--	--	--	--
Deposit money banks	-6	0	--	--	--	--	--
Financing gap	103	956	2,145	1,346	--	--	--
Possible debt relief 3/	...	1,059	1,700	1,200	--	--	--
Other	103	-103	445	146	--	--	--
Scenario b. Lower export growth from 1987							
Trade balance	-1,373	-1,087	-849	-621	-417	-385	-366
Exports, f.o.b.	2,108	2,187	2,350	2,541	2,743	2,963	3,196
Percent change	8.0	3.7	7.4	8.1	8.0	8.0	7.9
Imports, f.o.b.	-3,482	-3,274	-3,199	-3,162	-3,160	-3,348	-3,562
Percent change	12.8	-6.0	-2.3	-1.2	.0	5.9	6.4
(Imports, c.i.f.)	-3,809	-3,599	-3,515	-3,474	-3,473	-3,679	-3,914
Percent change	13.1	-5.5	-2.3	-1.2	.0	5.9	6.4
Service balance	-829	-793	-763	-710	-606	-529	-501
Current account deficit (before debt relief) 2/	-1,295	-870	-544	-203	175	354	477
Memorandum items:							
Current account before debt relief/GDP	-11.1	-7.1	-4.2	-1.5	1.2	2.3	2.9
End-year reserves (SDR million)	50	148	318	453	466	478	487
End-year reserves (months imports, c.i.f.)	0.2	0.5	1.1	1.5	1.6	1.5	1.4
Debt service ratio (in percent of exports of goods, nonfactor services, and transfers)							
Scenario a. before debt relief	57.9	63.0	77.6	60.9	47.8	46.9	47.9
after debt relief	23.5	37.5	39.6	36.3	47.8	46.9	47.9
Scenario b. before debt relief	57.9	63.0	77.6	61.6	48.8	48.5	50.0
after debt relief	23.5	37.5	39.6	36.7	48.8	48.5	50.0

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

1/ On the basis of continued adjustment policies through 1988.

2/ Includes interest payments on exceptional financing, including debt relief.

3/ From the Paris Club, other official creditors and commercial banks. Illustrative amounts assume terms broadly similar to those obtained in 1984.

Table 11. Morocco: Assumptions Behind Medium-Term Scenarios, 1983-1990 ^{1/}

(In percent changes)

	1983	1984	1985	1986	1987	1988	1989	1990
<u>Scenario a. Higher export growth from 1987</u>								
Trade prices (in SDRs)								
Total export prices	-6.9	0.7	0.8	1.1	4.0	4.0	4.0	4.0
Phosphate rock	(-14.5)	(7.9)	(-3.5)	(-1.0)	(4.0)	(4.0)	(4.0)	(4.0)
Semifinished goods ^{2/}	(0.1)	(7.6)	(2.2)	(-3.2)	(4.0)	(4.0)	(4.0)	(4.0)
Finished manufac- tures	(-1.0)	(1.4)	(3.7)	(2.5)	(4.0)	(4.0)	(4.0)	(4.0)
Total import prices	-5.6	3.7	-0.1	1.9	4.6	4.6	4.6	4.6
Cereals	(2.2)	(7.1)	(-10.1)	(1.9)	(7.5)	(7.5)	(7.5)	(7.5)
Crude oil	(-10.9)	(1.3)	(-2.2)	(-1.0)	(4.0)	(4.0)	(4.0)	(4.0)
Finished manufac- tures	(-1.0)	(-1.4)	(3.7)	(2.9)	(4.0)	(4.0)	(4.0)	(4.0)
Terms of trade	<u>-1.4</u>	<u>-2.8</u>	<u>0.9</u>	<u>-0.8</u>	<u>-0.6</u>	<u>-0.6</u>	<u>-0.6</u>	<u>-0.6</u>
Volumes								
Total exports	10.1	4.6	2.2	7.0	5.7	5.6	5.7	5.7
Phosphate rock	(4.8)	(2.0)	(5.7)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Semifinished goods ^{2/}	(22.8)	(5.8)	(-10.0)	(8.9)	(7.0)	(7.0)	(7.0)	(7.0)
Finished manufactures	(8.0)	(9.2)	(14.4)	(10.5)	(11.0)	(11.0)	(11.0)	(11.0)
Total imports, c.i.f.	-8.2	8.3	-5.3	-3.3	-4.0	-2.8	2.9	3.5
Cereals	(-1.2)	(41.1)	(-23.3)	(5.8)	(3.8)	(3.0)	(3.0)	(3.0)
Sugar	(-8.3)	(14.4)	(-20.8)	(3.5)	(-1.0)	(0.0)	(2.5)	(2.5)
Crude oil	(-5.7)	(10.2)	(-3.7)	(3.5)	(-1.0)	(0.0)	(2.5)	(2.5)
Other imports	(-9.8)	(3.1)	(-4.6)	(-7.6)	(-6.6)	(-5.2)	(3.2)	(4.1)
Values								
Total exports, f.o.b.	5.5	8.0	3.7	7.4	10.1	10.0	10.1	10.1
Total imports, f.o.b.	-10.7	12.8	-6.0	-2.3	0.2	1.6	7.8	8.4
<u>Scenario b. Lower export growth from 1987</u>								
Values								
Total exports, f.o.b.	5.5	8.0	3.7	7.4	8.1	8.0	8.0	7.9
Total imports, f.o.b.	-10.7	12.8	-6.0	-2.3	-1.2	0.0	5.9	6.4
Memorandum items								
Non-oil import volumes in partner countries	0.7	5.7	5.7	5.9	5.5	5.5	5.5	5.5
U.S. dollars per SDR	1.07	1.03	0.99	1.00	1.00	1.00	1.00	1.00

Sources: Moroccan authorities; and staff estimates.

^{1/} As shown in Table 10, on the basis of continued adjustment policies through 1988.

^{2/} Of which phosphoric acid and fertilizers accounted for 83 percent by value in 1984.

exchange rate policies. The authorities have already assured the staff that all the necessary measures would be taken to ensure realization of the external targets.

3. Debt rescheduling with commercial banks and official creditors

As indicated in the last staff report (EBS/85/157) it was the staff's understanding in June that the Moroccan authorities and the representatives of the banks' steering committee had already reached agreement in January 1985 on the 1983/84 debt rescheduling package. However, as the legal texts were being prepared for transmission to all creditor banks, problems of legal language emerged between the parties relating to the rescheduling; this was finally resolved at a meeting between the steering committee and Morocco in early July. Following this, the parties addressed themselves to formalizing the operational aspects of the agreement relating, inter alia, to the renewal of the short-term facilities. In the course of this exercise, the co-chairmen have been informed by some member banks of the steering committee that they were dissatisfied on a technical issue concerning the operation of the short-term financing facilities. This issue is only now being resolved. Following the resolution of this issue relating to the 1983/84 agreement, the staff expects to receive confirmation before Board discussion from the chairmen of the steering committee that the documentation has been sent to all creditor banks for approval and that they expect that agreements relating to 1985-86 debt obligations will not be substantially different from those for 1983/1984. The staff also expects to receive similar assurances from Morocco regarding the 1985-86 rescheduling.

A Paris Club meeting of official creditors to discuss the rescheduling of debt service payments falling due in 1985-86 is now scheduled to take place on September 17, i.e., after Executive Board consideration of the program.

The two remaining bilateral agreements with Japan and Italy, relating to the 1983/84 Paris Club rescheduling, have been signed. Arrears on debt service payments falling due in 1983/84 to other Fund member countries have been rescheduled, with the exception of those to Iran (SDR 7 million). In addition, formal rescheduling agreements with Kuwait, the United Arab Emirates, Qatar, and Oman have not yet been finalized. The Moroccan authorities are continuing their efforts to conclude these rescheduling agreements, and the position will be examined at the time of the first review of the program.

4. Domestic arrears and payments delays

In the staff report EBS/85/157 the staff had indicated the total amount of identified domestic arrears and payments delays at end-1984 under the capital and the current budget, which were estimated respectively at DH 6 billion and DH 3.4 billion. Since the time of the

preparation of the staff report, the amount of identified domestic arrears outstanding at end of 1984 and related to the current budget has been increased to DH 4.3 billion to include the amount of unsettled claims in respect of consumer subsidies. Further, a more precise composition of arrears by creditor enterprises (public enterprises or private sector), and by expenditure category, has become available, together with additional information on the evolution of these arrears in recent years (Table 1 of Appendix III). On the basis of this information, the authorities have now proposed the composition by category of the DH 3 billion of arrears reduction in 1985 envisaged under the program, together with a precise time schedule. They have also set up a detailed system for the monitoring of arrears by expenditure category; these proposals are reported in the Technical Memorandum of Understandings on Domestic Arrears which is presented in Appendix III.

The amount of DH 6 billion of arrears and payments delays under the capital budget corresponds to the difference between approved commitment authorizations through 1984 and actual cash payments; it comprises DH 4.1 billion of payments due to public enterprises (DH 2.1 billion) and private sector companies (DH 2 billion) for investments already executed, and an estimate of DH 1.9 billion in respect of operations for which payments obligations have not yet arisen. A detailed time series of the difference between approved commitment authorizations under the capital budget and actual outlays, together with the annual carry-over of unused authorizations, is reported in Table 20 of the Recent Economic Developments paper (SM/85/193 of July 3, 1985).

The arrears under the current budget at end-1984 include debts to public enterprises of DH 6.3 billion and to the private sector of DH 0.9 billion, which are partially offset by recoverable claims of DH 2.9 billion. ^{1/} These arrears are the result of consumption of public utility services in excess of budgetary allocations, and of delays in the payment of subsidies to the companies providing the subsidized goods; the latter include, in addition to arrears to private flour mills (estimated at about DH 900 million), amounts related to the payment of petroleum subsidies for the period prior to the termination of these subsidies in 1984, and for fertilizer subsidies, which are

^{1/} A detailed matrix of debts and claims at end-1984 between the Government and 80 public enterprises, by category of enterprises, is reported in Appendix Table XIII of the Recent Economic Developments paper, SM/85/193 of July 2, 1985. That table does not however include an estimated DH 900 million in additional arrears and payments delays on consumer subsidies related to flour operations and which were only recently reported.

presently being phased out over a period of five years. As the data on arrears for current operations at end-1984 were obtained from a one-time survey (completed in May 1985), precise data on these arrears for previous years are not available. An estimate for end-1983 is available on the basis of a more limited survey, which suggests that during 1984 the accumulation of arrears to public enterprises for current operations was negligible; as mentioned above there was, however, an increase in arrears of DH 800 million to the private sector related to consumer subsidies. On the basis of information available, it would appear that current arrears toward public enterprises have been built up over a long period, of about 10 years.

Taking account of the available information and using estimates for the accumulation of current arrears, time series from 1980 onwards have been established by the staff for government expenditures and the deficit on a commitment basis (Table 12). These series indicate that, although the deficit on a commitment basis has often been higher than on a payments order basis, in 1984 the fiscal adjustment was considerable also on a commitment basis, with the deficit on the latter basis declining from an estimated 13.2 percent of GDP in 1983 to 9.1 percent of GDP in 1984. The difference between the deficits on a commitment and payment order basis in 1984 was about 2 percent of GDP and reflects the increase of arrears and payment delays under the capital budget and on consumer subsidies.

The authorities have taken a number of measures in 1985, as reported in EBS/85/157, pages 21, 22, 28 and 29, to avoid any new arrears under the capital and the current budget. It has been agreed under the program that the stock of existing arrears will be reduced during 1985 by DH 3 billion with the use of external grants, and that no new arrears will be incurred during 1985, except for consumer subsidies. In respect of consumer subsidies, in view of the overall financial constraint and the unanticipated payment of arrears in the first half of the year, it is envisaged that to remain within the total outlays programmed for the year of DH 2.5 billion, which correspond to the total yearly commitments, an increase in arrears will take place in the second part of the year (see section II).

Table 3 annexed to the supplementary letter of intent dated September 6, 1985 (Appendix II) specifies the time schedule for the DH 3 billion arrears reduction during 1985. The reduction will comprise DH 2.8 billion under the investment budget, of which DH 800 million represent payments vis-à-vis the public enterprises and DH 2 billion payments vis-à-vis the private sector. Total arrears and payments delays under the capital budget will, however, decline by only DH 1.4 billion reflecting an increase in operations in progress (Table I of Appendix III). This increase in operations in progress arises from an additional amount of DH 1.4 billion for operations in 1985, while no reduction has been imputed to the operations in progress outstanding

Table 12. Morocco: Financial Transactions of the Central Government
on a Commitment basis, 1980-85 ^{1/}

(In millions of dirhams)

	Actual					Rev. Program
	1980	1981	1982	1983	1984	1985
Total revenue	<u>16,365</u>	<u>17,838</u>	<u>21,848</u>	<u>21,501</u>	<u>23,469</u>	<u>27,806</u>
Tax revenue	13,888	15,321	18,141	19,097	21,173	24,027
Nontax revenue						
excluding OCP	335	1,030	1,629	1,097	1,196	1,679
OCP	970	1,487	710	900	1,100	2,100
Extrabudgetary revenue (net)	1,172	--	1,368	407	--	--
Total expenditure	<u>27,510</u>	<u>28,824</u>	<u>30,075</u>	<u>34,030</u>	<u>33,068</u>	<u>36,706</u>
Current expenditure	15,610	19,198	20,775	22,030	24,035	28,606
Wages and salaries	(7,912)	(9,330)	(10,420)	(11,420)	(11,939)	(13,192)
Other goods and services	(4,212)	(4,542)	(4,911)	(4,947)	(4,854)	(5,121)
Interest	(1,759)	(2,924)	(3,144)	(3,549)	(4,442)	(7,793)
Consumer subsidies	(1,427)	(2,102)	(2,000)	(1,614)	(2,765)	(2,500)
Unallocated expenditure	(300)	(300)	(300)	(500)	(35)	(--)
Capital expenditure	11,900	9,200	9,300	12,000	8,800	8,100
Extrabudgetary expenditure	--	426	--	--	233	--
Overall deficit (commitment basis)	<u>-11,145</u>	<u>-10,986</u>	<u>-8,227</u>	<u>-12,529</u>	<u>-9,599</u>	<u>-8,900</u>
Plus: Ongoing operations arising from						
capital expenditure ^{2/}	^{3/} 3,335	2,888	-281	4,003	6,000	1,400
Arrears arising from current expenditure	300	300	300	500	1,015	-- ^{4/}
Overall deficit (payment order basis for expenditures of current year) ^{3/ 5/}	<u>-7,510</u>	<u>-7,798</u>	<u>-8,208</u>	<u>-8,026</u>	<u>-2,584</u>	<u>-7,500</u>
Payment orders on arrears from previous years ^{3/}	--	-3,300	-2,900	--	-4,600	-2,800
Overall deficit (payment order basis)	<u>-7,510</u>	<u>-11,098</u>	<u>-11,108</u>	<u>-8,026</u>	<u>-7,184</u>	<u>-10,300</u>
Changes in Fonds réservés	264	-131	2,061	-2,282	-273	--
Other arrears reduction	--	--	--	--	--	-200
Overall deficit on a cash basis	<u>-7,246</u>	<u>-11,229</u>	<u>-9,047</u>	<u>-10,308</u>	<u>-7,457</u>	<u>-10,500</u>
	(In percent of GDP)					
Overall deficit						
Commitment basis	15.9	14.3	9.1	13.2	9.1	7.2
Payment order basis ^{6/}	10.7	14.5	12.3	8.5	6.8	6.1
Cash basis	10.3	14.6	10.0	10.9	7.1	8.5

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

^{1/} After debt relief, except for 1985.

^{2/} Includes statistical discrepancy arising from differences in Treasury and CED data, possibly due to lags in recording.

^{3/} Estimated assuming capital expenditures are settled on a "first in, first out" basis. Actual for 1985.

^{4/} On a net basis there is no arrears accumulation but there is a build-up of new arrears in the second half.

^{5/} Payment orders arising from expenditures of the current year.

^{6/} The figure for 1985 is based on the payment order basis deficit arising from payment orders issued that related to operations of the current year. The figures for 1980-84, calculated from the overall deficit (payment order basis) since the settlement of arrears on capital expenditures, is not known with precision and is estimated as explained in footnote 3.

at end-1984 (DH 1.9 billion) because of absence of information on the phasing of investment expenditures. An additional amount of DH 200 million will be applied to current expenditure arrears owed to public enterprises. Thus, total arrears to public enterprises under the current and capital budget will be reduced by DH 1 billion, from DH 5.4 billion at end-1984 to DH 4.4 billion at end-1985. In addition, the Government will conclude before end-1985 reciprocal compensation of debts and claims vis-à-vis public enterprises in an amount of about DH 2 billion. The remaining amount will be settled over the next 2 to 3 years in the context of the public enterprise rehabilitation project supported by the World Bank, and a timetable will be established during the second review. The phasing of the elimination of arrears for consumer subsidies to the private sector will be discussed and decided upon in the context of the elaboration of the program for 1986.

The Technical Memorandum includes two provisions in respect to the commitment not to incur new arrears. First, with regard to the capital budget, the Government will ensure that the difference between approved commitment authorization under the capital budget and cash outlays reflects only normal time lags in the execution of projects and the time required for administrative procedures. A cumulative quarterly schedule from June 1985 of approved commitment authorizations and cash outlays has been established (Table II of Appendix III). In the event that the quarterly targets for authorizations and disbursements are exceeded, the authorities will consult with the Managing Director as to whether measures are needed to ensure that the expenditure program remains within the program targets. Second, for monitoring arrears under current operations, the authorities will report on a quarterly basis the outstanding stock of arrears to the major public enterprises (the electricity companies, the water distribution company, and the telephone company), which account for the bulk of arrears owed by the Government. The matrix of reciprocal payments arrears between the Government and public enterprises will be updated at end-1985. The adherence to the targets for the reduction of outstanding arrears and the commitment not to incur new arrears except for those on consumer subsidies as described above will be a crucial element of the periodic reviews under the arrangement. The system of monitoring of arrears will be reviewed on the basis of experience gained so far in the context of the second review under the arrangement.

5. Performance criteria and reviews

The revised limits on the cumulative Treasury deficits on a cash basis, bank credit to the Government and total domestic credit at end-September and December, which represent performance criteria under the program, are indicated in Table 13, together with the other quantitative performance criteria related to external arrears and external borrowings. The limit on nonconcessional external borrowing for September and December 1985, which also constitute a performance criterion, has been

Table 13. Morocco: Quantitative Performance Criteria for 1985

	1984	1985			
	Dec. Actual	June Actual	July Prelim.	Sept. Programmed	Dec.
	(In millions of dirhams)				
Cumulative overall Treasury deficit	7,457	6,742	6,603	7,850 <u>1/</u>	10,500 <u>1/</u>
Total domestic credit	55,532	60,488	59,474	60,440 <u>2/</u>	60,540 <u>2/</u>
Bank credit to the Government	29,917	32,773	31,898	32,220 <u>2/</u>	32,120 <u>2/</u>
Net outstanding " <u>fonds réservés</u> "	962	828	869	1,000	1,000
	(In millions of U.S. dollars)				
New nonconcessional foreign borrowing with maturities of 1 to 15 years <u>3/</u> (cumulative)	...	273	...	480	480
Of which: with maturities of 1 to 5 years <u>4/</u>	...	(146)	...	(230)	(230)
Maximum outstanding short-term external credit <u>5/</u>	918	926	...	1,000	1,000
External payment arrears	62	90 <u>6/</u>	41	--	--

1/ Deficit before debt relief on interest payments. This limit, which excludes change in "Fonds réservés", will be reduced by (a) the amount of external grants not used to reduce payment arrears; and (b) the debt relief which will be obtained on the interest payments on external debt.

2/ This limit will be reduced by (a) the amount of external grants not used to reduce payments arrears; (b) the excess of the combined debt relief on interest and principal and net external borrowing over the cumulative amount of DH 2,380 million at end-September, and DH 3,900 million at end-December 1985.

3/ Contracted, guaranteed or approved by the Government.

4/ These credits will be reduced by the equivalent of the amount of drawings on loans with maturities in excess of five years contracted directly by the Government on the international financial market.

5/ Credits contracted by the Government and public enterprises.

6/ Include US\$ 27 million paid in early July.

reduced from the originally programmed level of US\$500 million to US\$480 million. The subceilings on borrowings with maturities from 1 to 5 years has been reduced from US\$250 million to US\$230 million. The authorities are committed to eliminate external arrears by end-September and not to incur any new arrears subsequently. As indicated in EBS/85/157, for the purposes of the performance criterion, payments in respect of rescheduling agreements which are currently being negotiated are not included within the definition of external arrears. Completion of reviews which are expected to take place no later than end-November 1985, end-February 1986 and end-August 1986 are also performance criteria.

In the course of the first review the Fund will review the arrangements having been made to refinance debt service payments falling due to banks and official creditors, the exchange rate and external payments policies and the reduction of domestic arrears including for consumer subsidies. Progress toward the implementation of the tax reform will also be evaluated and understandings will be reached with the Fund on program adjustments that may be necessary. During the first review, discussions will also take place on the measures necessary to attain the 1986 objectives. Such a discussion may well include a tightening of policies beyond what was previously envisaged, in such areas as budgetary, credit, exchange rate, wage and pricing policies. As envisaged in the letter of April 15, 1985 and in EBS/85/157, detailed understandings on the policies for 1986 and the establishment of performance criteria for 1986 will be the object of the second review. The timing and coverage of the second and third review mentioned in that letter and in EBS/85/157 remain unchanged, except that the situation with respect to domestic arrears will also be examined. Satisfactory progress in the reduction of arrears will be an essential element of the completion of the periodic reviews under the arrangement.

The phasing of the drawings under the arrangement, indicated in Table 1, is different than the one reported in EBS/85/157, to reflect the smaller amount of the arrangement and the shorter time period. The initial purchase after Executive Board approval of the arrangement remains equal to SDR 10 million. Scheduled purchases would amount to SDR 25 million in 1985, SDR 140 million in 1986 and SDR 35 million in the first two months of 1987.

IV. Staff Appraisal

Since the issuance of EBS/85/157, the staff has obtained information indicating that developments relating to exports and fiscal performance in the first half of 1985 have diverged substantially from those envisaged under the program. A rapid growth in government expenditure led to an overall Treasury deficit and domestic credit growth higher than targeted, and there was some accumulation of external arrears. Although by end-July the authorities had implemented the required credit measures and

had depreciated the dirham by 15 percent in trade-weighted terms since end-December, the trade deficit was also much larger in the first six months than programmed, primarily reflecting a shortfall in exports, especially of phosphoric acid.

In these circumstances, in July the Moroccan authorities began to take steps to bring the program back on track, and provisional data for end-July indicate that the cumulative Treasury deficit on a cash basis was contained, exceeding the indicative target by only a small amount while credit growth was within the indicative ceilings. To ensure the achievement of the original targets for end-September and end-December, however, substantial additional measures have been taken, including those to contain sharply the growth of certain categories of government expenditure in the second half of the year. Nevertheless, given the unfavorable exogenous developments in the export markets and notwithstanding a substantial improvement in export performance projected for the second half of the year, the overall export growth for 1985 is now projected at only 3.7 percent in SDR terms, compared to the initially envisaged rate of 8.4 percent. As a result, the original current account and reserve accumulation targets for 1985 would be missed by a substantial margin.

Against this background, the authorities are taking additional expenditure and revenue measures which will reduce the Treasury deficit on a payment order basis to 6.1 percent of GDP, instead of the original target of 6.5 percent. The package of fiscal measures includes increases in prices of flour, sugar, and edible oil varying from 11 to 40 percent, worth DH 300 million in the remaining four months of 1985, offset in part by an increased wage award worth DH 130 million. This fiscal adjustment, combined with a recovery in exports in the second half, and a reduction in imports financed from nonconcessional borrowing as well as measures to attract migrant worker remittances, are estimated to contain the external current account deficit in 1985 to 7.1 percent of GDP, instead of 6.5 percent initially targeted. This would represent a significant improvement of 4 percentage points of GDP over the outcome for 1984.

The authorities are conscious that in the past efforts to reduce budget expenditures have resulted in the affected departments incurring arrears toward suppliers. To forestall this possibility, and to reduce somewhat the arrears carried over from the previous years, they introduced a new system to monitor expenditure and arrears. The staff attaches great importance to this new system and feels that the improved monitoring of government expenditure and domestic and external arrears must be carried out meticulously as an essential step towards improved management of public finances. In addition, as the success of the adjustment program hinges crucially on the effective implementation of the programmed budgetary cuts, the authorities must further

allocate the intended cuts in expenditure (especially in the capital budget) as between individual spending agencies and projects in order to implement these cuts more effectively. The staff also urges the authorities to promptly draw up a timetable for the elimination of outstanding domestic arrears, including those on consumer subsidies.

The recently announced increase in the prices of subsidized consumer goods had become inevitable given that retail prices of subsidized commodities have remained unchanged for over 2 years and that other expenditures are being constrained to levels where the scope for further economies is very limited. Even after the announced increase, the real cost of subsidies services remains above that incurred by the Government after the last increase in prices in 1983. It is thus essential to move quickly towards a system that provide adequate and frequent enough adjustments in administered prices.

The increased current account deficit now projected for 1985 and the additional uncertainties about the export performance in 1986 and beyond, which depend so much on conditions in the world phosphate market, make it essential that the authorities maintain the flexibility to implement whatever additional adjustment measures are necessary to achieve further large reductions in the current account deficit/GDP ratio already programmed for 1986, as well as the authorities' medium-term objective of external viability by 1988 without further recourse to exceptional financing. In this context the authorities have confirmed their readiness to take needed additional measures in the context of the first review of the program. The staff is of the view that such measures will have to be broad based, including budgetary, credit, exchange rate, wage and pricing policies. The staff also urges that further structural reforms in the areas of agriculture, public enterprises, taxation, and budgetary procedures relating to capital expenditures, be put in place as soon as possible. The socially difficult decision to increase prices of essential foodstuffs together with the depreciation implemented this year will contribute importantly to the required adjustment in the allocation of resources.

In EBS/85/157 it was reported that agreement on the 1983/84 debt rescheduling between Morocco and the commercial banks' steering committee had been reached, and that the legal documentation was expected to be completed within a few weeks. However, as the legal texts were being prepared for transmission to all bank creditors, problems of legal language emerged between the parties relating to the rescheduling. These were finally resolved at a meeting in Paris in July between Morocco and the steering committee. Following this, the parties addressed themselves to formalizing the operational aspects of the agreements relating, inter alia, to the renewal of the short-term facilities. In the course of this exercise, the co-chairmen have been informed by some member banks of the steering committee that they were

dissatisfied on a technical issue concerning the operation of the short-term financing facilities. This issue is only now being resolved. Following the resolution of this issue relating to the 1983/84 agreement, the staff expects to receive confirmation before Board discussion from the chairmen of the steering committee that the documentation has been sent to all creditor banks for approval and that they expect that agreements relating to 1985-86 debt obligations will not be substantially different from those for 1983/84. The staff also expects to receive similar assurances from Morocco regarding the 1985-86 rescheduling. Executive Directors will be informed of the latest position on the 1983-84 and 1985-86 rescheduling at the time of the Board discussion. The meeting of the Paris Club to discuss the rescheduling of debt service payments falling due in 1985-86 is now scheduled to take place shortly after Executive Board consideration of the program.

In the staff's view there is reasonable assurance that rescheduling terms broadly similar to those of 1984 will be granted by commercial banks, Paris Club and other official creditors, and that the financing gap for 1985 is likely to be fully covered. Nevertheless, the completion of the first review under the arrangement in November will be dependent on satisfactory arrangements having been completed to refinance debt service payments falling due to banks and official creditors. The first purchase under the stand-by arrangement which will precede the first review will be limited to SDR 10 million.

The staff feels that the revised program for 1985 should enable Morocco to reduce its domestic and external disequilibria and contribute to the medium-term attainment of viability of the balance of payments.

V. Proposed Decision

In light of the foregoing, the following draft decision is proposed for adoption by the Executive Board.

1. The Government of the Kingdom of Morocco has requested a stand-by arrangement for the period _____, 1985 to February 28, 1987 in an amount equivalent to SDR 200 million.
2. The Fund approves the stand-by arrangement attached to EBS/85/157, Supplement 2.
3. The Fund waives the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement.

Morocco--Stand-By Arrangement

Attached hereto are a letter, with annexed memorandum, dated April 15, 1985, and a letter dated September 6, 1985 with annexed memorandum from the Minister of Finance of Morocco, requesting a stand-by arrangement and setting forth:

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

(b) the policies and measures that the authorities of Morocco intend to pursue for the period of this stand-by arrangement falling in 1985; and

(c) 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 remaining period of this stand-by arrangement.

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

1. For the period from _____, 1985 to February 28, 1987, Morocco will have the right to make purchases from the Fund in an amount equivalent to SDR 200 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 10 million until November 30, 1985; the equivalent of SDR 25 million until February 1, 1986; the equivalent of SDR 60 million until May 1, 1986; the equivalent of SDR 95 million until August 1, 1986; the equivalent of SDR 130 million until November 1, 1986; and the equivalent of 165 million until February 1, 1987.

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

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

4. Morocco will not make purchases under this arrangement, other than the initial purchase of SDR 10 million that it may request not later than within 20 days of the effective date of this arrangement, that would increase the Fund's holdings of Morocco's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data for the preceding calendar quarter within the period of this arrangement indicate that

(i) the ceiling on the cumulative overall Treasury deficit specified in Table 1 annexed to the attached letter dated September 6, 1985; or

(ii) the ceiling on total domestic credit specified in the same Table 1; or

(iii) the ceiling on bank credit to government also specified in the same Table 1; or

(iv) the ceiling on changes in "fonds réservés" specified in the same Table 1; or

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

(vi) the ceiling on short-term external debt also specified in the same Table 1

has not been observed; or

(b) if the intentions as regards external payments arrears referred to in paragraph 7 of the attached letter dated September 6, 1985, have not been carried out; or

(c) after November 15, 1985, until the first review contemplated in paragraph 9 of the letter of September 6, 1985 has been completed;

(d) after January 31, 1986, until the second review contemplated in paragraph 4 of the letter of April 15, 1985, and paragraph 9 of the letter of September 6, 1985 has been completed and suitable performance criteria have been established, or, after such performance criteria have been established, while they are not being observed; or

- (e) after July 31, 1986, until the third review contemplated in paragraph 4 of the letter of April 15, 1985 and paragraph 9 of letter of September 6, 1985 has been completed;
- (f) 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 new, or modifies existing, 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 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 non-complying 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 purpose at the time of the reduction.

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

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 letters and annexed memoranda.

12. In accordance with paragraph 5 of the attached letter, of April 15, 1985 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, September 6, 1985

Dear Mr. de Larosière,

With reference to my letter of April 15, 1985, I am presenting the recent developments of the economic and financial situation of the Kingdom of Morocco, and the additional measures that the Government has adopted to achieve a substantial adjustment of the balance of payments in 1985, and to facilitate the achievement of the program objectives for 1986.

1. During the first semester of 1985, government revenues increased in line with program projections. However, an acceleration took place in the pace of expenditure for material and capital expenditures from the programmed level. Substantial payments were also made to settle arrears related to consumer subsidies. As a result, the overall Treasury deficit reached DH 6.7 billion, exceeding by DH 1.6 billion the indicative target of the program. Owing to the improvement mainly in ordinary revenue in the month of July, resulting in particular from receipts from the tax on professional income (impôts sur les bénéfices professionnels) and from the OCP, the phosphate mining company, the cumulative overall Treasury deficit declined marginally to DH 6.6 billion for the period January-July 1985, an amount slightly above the indicative target of the program. The lower overall Treasury deficit in July and a large placement of government bonds with nonbank financial institutions made it possible to reduce substantially outstanding bank credit to the Government, to a level within the program limit for end-July. Taking into account the estimated change in credit to the economy, total domestic credit at end-July is estimated to be within the limits of the program.

2. With regard to the trade balance, during the first semester the rate of increase of exports of products other than phosphate derivatives has been favorable and in line with the program. However, an important shortfall has appeared in exports of phosphoric acid, because of a deterioration in the world market. In addition, imports of petroleum have been higher than forecast, because of a reevaluation of the need of the country in 1985. In the absence of additional measures, trade balance projections indicate that the current account deficit would exceed the initial program target, which would create financing problems and would jeopardize the envisaged build-up of foreign assets of the banking system.

3. In view of this situation, the Government is firmly committed to take measures to contain aggregate demand so as to limit the deterioration in the current account of the balance of payments. These measures consist in a strengthening of Treasury revenue, a reduction of current

expenditure, and an increase in the prices of subsidized products and of certain public tariffs. Also, an increased effort will be made to mobilize the savings of Moroccan workers abroad. The fiscal actions are expected to result in a reduction of the programmed overall Treasury deficit by 0.4 percent of GDP, thus allowing domestic credit expansion to be reduced by 1.1 percentage points compared to the original program. Together with the exchange rate policy already adopted, these measures should make it possible to limit the current account deficit of the balance of payments to SDR 870 million, or about 7 percent of GDP, and to increase by about SDR 100 million gross international reserves and by SDR 10 million net foreign assets of the banking system, as defined in Table 2 annexed as compared with an initial target of a net foreign assets increase of SDR 80 million.

4. The Treasury deficit resulting from the execution of the government budget will be reduced by DH 500 million, from DH 8 billion programmed (6.5% of GDP) to DH 7.5 billion, equivalent to 6.1 percent of GDP. This reduction will result from an increase in revenue and a decline in expenditure. Regarding revenue, the increase will arise from the intensification of the effort of direct tax collection and by an additional contribution by state monopolies. With regard to expenditure, the containment in the Treasury's outlays during the second semester will result from a reduction in expenditure for goods and services of 10 percent from the level of the first semester. These reductions will concern mainly expenditures on materials and "charges communes". To this effect, instructions have been given to the different departments. In addition, the Government has increased at the beginning of September the price of subsidized products so as to achieve in 1985 a savings of DH 300 million on subsidy payments. The reform of the subsidy policy which is envisaged in the program will be examined starting end-September with a World Bank mission. It will imply more frequent price adjustments but of a smaller magnitude. The overall Treasury deficit including payments of arrears will be reduced in 1985 to DH 10.5 billion compared with DH 11 billion originally programmed. This reduction, combined with a new loan placed with the public in September, will permit the Treasury to limit the recourse to bank credit to DH 2.2 billion over the whole of 1985, or DH 600 million less than envisaged in the initial program. The expansion of total domestic credit will thus be lowered to DH 5 billion (equivalent to a 9 percent growth rate), compared with DH 5.6 billion initially programmed. The limits established for the overall Treasury deficit, net bank credit to the Government and total domestic credit for end-September and end-December, which represent performance criteria under the program, are indicated in annexed Table 1.

5. The examination by the parliamentary commissions of the draft texts regarding the value added tax was completed in July. It is expected that the texts and the amendments will be reviewed during the parliamentary session beginning in October. The Government expects

that the value added tax will be implemented on January 1, 1986. The draft texts regarding the general income tax and the corporation tax will be also examined by the Chamber of Representatives during the next parliamentary session.

6. To permit an improvement in the financial situation of public enterprises, and reduce the burden of budgetary transfers and subsidies, the Government will adjust tariffs during the month of October. A substantial program of public enterprises rehabilitation will be prepared with the assistance of the World Bank starting in September.

7. The Government has also decided to reduce the limit on non-concessional borrowing from US\$500 million to US\$480 million, in order to reduce the increase in indebtedness. The sublimit on borrowings with a maturity from 1 to 5 years will be reduced from US\$250 million to US\$230 million. At end-June 1985, total external payments arrears as defined under the program amounted to US\$90 million, of which US\$49 million were settled during the first days of July; the Government is committed to eliminate by end-September the outstanding external payments arrears, with the exception of arrears on debt service payments which are currently being renegotiated, and not to incur any external payments arrears subsequently.

8. Following further intensive work of government departments, I am in the position to elaborate in more detail on the commitment given in paragraphs 7 and 10 of the Memorandum attached to my letter of April 15 to reduce domestic arrears during 1985 by DH 3 billion and to avoid incurring any new arrears except for consumer subsidies. Accordingly, a technical memorandum of understandings on domestic arrears is attached to this letter. The satisfactory progress in the reduction of existing domestic arrears will be an essential element of the completion of the periodic reviews under the arrangement.

9. To support the program presented, the Government wishes to obtain a stand-by arrangement in an amount equivalent to SDR 200 million for the period through end-February 1987. In addition, the Government wishes to request a purchase under the Fund's Compensatory Financing Facility in an amount equivalent to SDR 115 million to cover the excess in the cost of cereal imports as well as a temporary shortfall in merchandise exports.

I would now propose that the first review of the arrangement, originally scheduled to be completed no later than September 30, 1985, be completed no later than November 30, 1985. In that context, the Fund will review the arrangements having been made to refinance debt service payments falling due to banks and official creditors, the

exchange rate and external payment policies; progress towards the implementation of the tax reform will also be evaluated, and understandings will be reached with the Fund on program adjustments that may be necessary. Subject to paragraph 8, the timing and coverage of the other reviews mentioned in my letter of April 15, 1985 will remain unchanged.

Sincerely yours

/s/

Abdellatif Jouahri
Minister of Finance

Attachment

Table 1. Morocco: Quantitative Performance Criteria for 1985

	1984	1985			
	Dec. Actual	June Actual	July Prelim.	Sept. Programmed	Dec.
(In millions of dirhams)					
Cumulative overall Treasury deficit	7,457	6,742	6,603	7,850 <u>1/</u>	10,500 <u>1/</u>
Total domestic credit	55,532	60,488	59,474	60,440 <u>2/</u>	60,540 <u>2/</u>
Bank credit to the Government	29,917	32,773	31,898	32,220 <u>2/</u>	32,120 <u>2/</u>
Net outstanding " <u>fonds réservés</u> "	962	828	869	1,000	1,000
(In millions of U.S. dollars)					
New nonconcessional foreign borrowing with maturities of 1 to 15 years <u>3/</u> (cumulative)	...	273	...	480	480
Of which: with maturities of 1 to 5 years <u>4/</u>	...	(146)	...	(230)	(230)
Maximum outstanding short-term external credit <u>5/</u>	918	926	...	1,000	1,000
External payment arrears	62	90 <u>6/</u>	41	--	--

1/ Deficit before debt relief on interest payments. This limit, which excludes change in "Fonds réservés", will be reduced by (a) the amount of external grants not used to reduce payment arrears; and (b) the debt relief which will be obtained on the interest payments on external debt.

2/ This limit will be reduced by (a) the amount of external grants not used to reduce payments arrears; (b) the excess of the combined debt relief on interest and principal and net external borrowing over the cumulative amount of DH 2,380 million at end-September, and DH 3,900 million at end-December 1985.

3/ Contracted, guaranteed or approved by the Government.

4/ These credits will be reduced by the equivalent of the amount of drawings on loans with maturities in excess of five years contracted directly by the Government on the international financial market.

5/ Credits contracted by the Government and public enterprises.

6/ Include US\$ 27 million paid in early July.

Table 2. Morocco: Net External Assets of the Banking System, 1984-85

	1984		1985					
	December		June		July		Sept.	Dec.
	In millions of dirhams	In millions of SDRs	Original target	Actual	Original target	Prelim.	Program	
(In millions of SDRs)								
A. Bank of Morocco								
1. Gold holdings	125	13	13	12	13	12	12	12
2. Net foreign exchange holdings ^{1/} (international reserves)	315	34	88	77	57	29	94	132
Gross holdings	(467)	(50)	(104)	(110)	(73)	(67)	(119)	(148)
Liabilities	(-152)	(-16)	(-16)	(-33)	(-16)	(-38)	(-25)	(-16)
3. Net holdings of nonconvertible currencies	17	2	2	2	2	2	2	2
B. Use of IMF credit								
4. Net liabilities	-9,451	-1,011	-1,077	-1,070	-1,135	-1,039	-1,150 ^{2/}	-1,098 ^{2/}
C. Commercial banks								
5. Net external assets	2,111	225	225	266	235	...	225	225
Total (A + B + C)	-6,900	-737	-779	-753	-828	...	-817	-727

^{1/} Holdings of convertible currencies, AMF subscription, SDRs, less external liabilities in convertible currencies (excluding net liabilities to IMF).

^{2/} Based on proposed timetable of drawings.

Table 3. Morocco: Cumulative Quarterly Treasury Resources and Uses, 1985

(In millions of dirhams)

	1985				
	Mar. Actual	June Actual	July Prov.	Sept. Program	Dec.
A. <u>Ordinary revenue</u>	<u>6,306</u>	<u>12,775</u>	<u>16,306</u>	<u>20,292</u>	<u>27,676</u>
Direct taxes	1,885	3,331	4,419	5,267	6,750
Customs duties	1,123	2,299	2,756	3,460	4,583
Indirect taxation	2,394	4,828	5,681	7,300	10,294
Registration duty and stamp tax	605	1,154	1,438	1,715	2,400
Monopolies	100	524	570	600	700
Property income	25	38	44	50	70
Other revenue	174	301	348	500	779
OCP [phosphates]	-	300	1,050	1,400	2,100
B. <u>Total expenditure</u>	<u>9,364</u>	<u>18,065</u>	<u>21,150</u>	<u>26,592</u>	<u>35,176</u>
1. <u>Ordinary expenditure</u>	<u>7,525</u>	<u>14,610</u>	<u>16,958</u>	<u>21,452</u>	<u>28,476</u>
(a) Goods and Services	4,935	9,570	11,131	13,600	18,183
(b) Public debt	1,562	3,277	4,064	5,652	7,793
Domestic	(291)	(837)	(973)	(1,253)	(1,653)
External (scheduled)	(1,271)	(2,440)	(3,091)	(4,399)	(6,140)
(c) Consumer subsidies	1,028	1,763	1,763	2,200	2,500
<u>Current deficit</u> ^{1/}	<u>-1,219</u>	<u>-1,835</u>	<u>-652</u>	<u>-1,160</u>	<u>-800</u>
2. <u>Investments</u>	<u>1,839</u>	<u>3,455</u> ^{2/}	<u>4,192</u>	<u>5,140</u> ^{3/}	<u>6,700</u> ^{3/}
C. <u>Overall deficit on a payment order basis (General budget)</u>	<u>-3,058</u>	<u>-5,290</u> ^{2/}	<u>-4,844</u>	<u>-6,300</u>	<u>-7,500</u>
D. <u>Fonds réservés (decrease -)</u>	<u>-111</u>	<u>-134</u>	<u>-93</u>	<u>--</u>	<u>--</u>
E. <u>Payments of domestic arrears</u>	<u>-472</u>	<u>-792</u>	<u>-1,351</u>	<u>-2,200</u>	<u>-3,000</u>
F. <u>Overall Treasury deficit on a cash basis</u>	<u>-3,641</u>	<u>-6,216</u>	<u>-6,288</u>	<u>-8,500</u>	<u>-10,500</u>
G. <u>Domestic financing</u>	<u>2,619</u>	<u>3,980</u>	<u>3,656</u>	<u>3,920</u>	<u>3,600</u>
1. Banks	2,034	2,856	1,981	2,300	2,200
2. Other monetary resources	482	380	380	200	--
3. Nonbank resources	103	744	1,295	1,420	1,400
H. <u>External financing</u>	<u>1,022</u>	<u>2,214</u>	<u>2,632</u>	<u>4,580</u>	<u>6,900</u>
1. Grants	472	792	1,351	2,200	3,000
2. Net borrowing	-1,869	-1,806	-1,961	-2,761	-1,808
(a) Disbursements	(789)	(2,565)	(2,718)	(4,396)	(6,876)
(b) Amortization (Scheduled)	(-2,658)	(-4,371)	(-4,679)	(-7,157)	(-8,687)
3. Possible debt relief	2,419	2,952	3,242	5,141	5,708
(a) Interest	(112)	(203)	(...)	(390)	(446)
(b) Principal	(2,307)	(2,749)	(...)	(4,751)	(5,262)
4. Delayed payments		276	...	--	--
Statistical discrepancy	--	22	--	--	--

Source: Data provided by the Moroccan authorities.

^{1/} Ordinary revenue less ordinary expenditures.^{2/} Does not include an adjustment for the level of external arrears at end of June.^{3/} Includes repayment of external debt arrears outstanding at end of 1984 (DH 590 million).

Annex to the Memorandum of Economic and Financial
Financial Policies of the Kingdom of Morocco

Technical Memorandum of Understanding on Domestic Arrears

This technical memorandum explains the quantitative targets on domestic arrears and the concrete measures adopted by the Government to ensure the cash reduction of DH 3.0 billion in the stock of domestic arrears during 1985, while avoiding incurring any new arrears during the year (except for arrears related to consumer subsidies) in line with the stated commitment of the Government as expressed in paragraphs 7, 10 and 11 of the Memorandum on the Economic and Financial Policy of the Kingdom of Morocco and in paragraph 8 of the letter dated September 6, 1985. The cash reduction of DH 3.0 billion in the stock of arrears is as follows: DH 2.8 billion is related to arrears on capital expenditures, and DH 0.2 billion to arrears on current budget expenditures.

A. Arrears and payment delays related to capital expenditures

Total arrears and payment delays on the account of capital expenditures amounted to DH 6.0 billion at end-1984, consisting of DH 2.1 billion on the account of government contribution to the financing of public enterprises' investments and DH 3.9 billion on the account of other capital expenditures. In 1985 arrears will be reduced by DH 2.8 billion in line with the quarterly schedule prepared by the Ministry of Finance. According to this schedule, DH 0.8 billion will be paid to public enterprises and DH 2.0 billion will be paid on account of other capital expenditures.

Quarterly targets on approved capital commitment authorizations as recorded at the level of the Controller of Expenditures Commitments (CED) and on targeted actual capital expenditure disbursements by the Treasury (including the reduction of arrears) should make it possible to reduce the amount of the capital expenditure in pipeline from DH 6 billion at end 1984 to DH 4.6 billion at end 1985. The ratio of capital expenditure in pipeline to total approved commitment authorizations would thus be reduced from 45 percent at end 1984 to 32 percent at end 1985. It is the intention of the Government to ensure that the difference between approved commitment authorizations and actual disbursements will represent only the normal lags between authorization commitment and cash payments and will not include delayed payments or arrears. Normal lags comprise the contractual period necessary for the completion of projects as well as minimum time limit for the completion of administrative and accounting procedures which currently apply in Morocco. On the basis of the present structure of commitments, it is estimated that about 60 percent of total commitments in a given year result in actual disbursements during that year.

The capital budget for 1985 on a cumulative quarterly basis is shown in Table II, attached. In the event that the quarterly targets for authorizations and disbursements are exceeded, the authorities will consult with the Managing Director of the Fund as to whether measures are needed to ensure that the expenditure program is returned to the original path. The targets shown in Table II on approved capital commitment authorizations and disbursements, and the targets on cash reduction of arrears, will be elements for review at each review envisaged under the program. The amount of arrears on the account of government capital transfers to public enterprises which remains at end-1985 (DH 1.3 billion) will be eliminated over a period of two years within the framework of a project of rehabilitation of public enterprises which is now being prepared with the assistance of the World Bank. An economic classification of capital expenditures will be established for 1985 both on an authorization (commitment) basis and on cash or disbursement basis and reported to the Fund staff by the first review in October 1985.

B. Arrears and payment delays related to current expenditures

1. Reduction in the stock of arrears

As of end 1984, total current expenditure arrears of the Central Government (including local governments) to public enterprises and the private sector was tentatively estimated by the Standing Oversight Committee at DH 6.2 billion consisting of DH 4.9 billion on the account of materials and DH 860 million on the account of subsidies, and DH 470 million on the account of debts to local governments. Taking into account the Government's claim on public enterprises amounting to DH 3.9 billion on the account of taxes due and of Treasury advances and other lending, of which DH 0.9 billion appears non-recoverable, net claims of public enterprises on the government amounted to DH 3.3 billion. In addition at end-1984 there were DH 900 million of unsettled claims of private flour mills mostly related to 1984 consumer subsidy operations. It is the intention of the Government to reduce the stock of the domestic arrears to public enterprises in 1985 and the following years as follows:

- a. About DH 2 billion out of gross total arrears existing at end-1984 will be eliminated by clearing house operations (cross compensation) between public enterprises and the government without any new financial resources. Necessary legal and fiscal dispositions for such a clearing are now being prepared by the Government. The cross compensation exercise will be completed by December 31, 1985.
- b. Remaining arrears after cross-clearing (DH 3.3 billion) will be eliminated through cash payments over a period of three years starting January 1986 in the context of the project of rehabilitation of public enterprises in preparation with the assistance of the World Bank.

In addition to the elimination through cross compensation, the Government will reduce current expenditure arrears to both public enterprises and the private sector by DH 0.2 billion in 1985 through cash payments. A list of beneficiary public enterprises as well as a timetable of the reduction have been prepared and provided to the Fund staff. According to the timetable, DH 50 million are to be paid before the end of August, DH 100 million before the end of September, DH 200 million before the end of December. In the framework of the program for 1986 arrangements will be made for the phasing out of the outstanding arrears on account of consumer subsidies toward the private sector.

2. Reporting system on current expenditure

Quarterly targets have been set for current commitment authorizations and for actual disbursement according to the 1985 Budget Law and in conformity with the attached table on Treasury Operations. Any authorization which is not approved during the year will be cancelled on December 31.

3. Measures to avoid incurring new arrears

The Government has adopted a set of measures to avoid incurring in 1985 new arrears or payment delays to public and private enterprises. Hence the 1985 Budget law provided substantial upwards revisions of budgetary allocations for materials, particularly for electricity, water, telephone and telexes, and petroleum products, to a level corresponding to rationalized consumption of the administration. Measures have been taken also to monitor closely administrative consumption of these public utilities in order to avoid any overspending over the limits stipulated in the budget. Finally, specific arrangements were put in place to ensure quick settlement of bills to utilities, and utilities have been instructed to cut off services to government entities if not promptly paid.

The stock of gross arrears of the Government to major public enterprises (in particular ONE, ONEP, public utilities network ("Regies"), ONPT, SNPP) was established as of December 31, 1984 and will be updated as of September 30, 1985 and December 31, 1985. The matrix of cross debt and claims between major public enterprises, the private sector, and the Government will be updated as of December 31, 1985.

C. Measures for appropriate reduction in bank credit

Arrangements will be made and reviewed with the Fund staff during the review of the program to ensure that retirement by the Government of some of its arrears results in an appropriate slowdown in domestic credit expansion.

D. Monthly reporting system

Data on commitment authorizations related to current and capital expenditures, as well as data on arrears reduction and Treasury operations, will be communicated to the Fund staff every month in accordance with the agreed reporting system.

Table I . Morocco: Outstanding Domestic Arrears and Payment Delays
by Category of Expenditure, 1984-85

(In millions of DH)

Origin of Arrears and Payment Delays	1983	1984	1985	Change
	Dec. 31	Dec. 31 (Provisional)	Dec. 31 (Provisional)	
I. Capital budget--arrears and payment delays	<u>4,600</u>	<u>6,000</u>	<u>4,600</u>	<u>-1,400</u>
a. Arrears	...	4,100	1,300	-2,800
Capital transfers ^{1/}	...	(2,100)	(1,300)	(-800)
Other capital expenditure	...	(2,000)	(--)	(-2,000)
b. Operations in progress	...	1,900	3,300 ^{2/}	1,400
II. Current expenditure (net)	<u>3,245</u> ^{3/}	<u>4,260</u>	<u>4,060</u>	<u>-200</u>
Gross arrears	5,945	7,160	...	...
Administration	(4,620)	(4,920)	...	...
Consumer subsidies	(970)	(1,770)	(1,770)	...
Local government	(355)	(470)	...	...
Recoverable claims	-2700	-2,900 ^{4/}	...	...
Total arrears (Ia+II)	<u>...</u>	<u>8,360</u>	<u>5,360</u>	<u>-3,000</u>
Total arrears and payment delays (I + II)	<u>7,845</u>	<u>10,260</u>	<u>8,660</u>	<u>-1,600</u>
Of which: Arrears owed to public enterprises	...	(5,440)	(4,440)	(-1,000)

Source: Data provided by the Moroccan authorities.

^{1/} Share of government in the financing of already executed public enterprise investments.

^{2/} Includes DH 1,900 million of operations in progress in 1984 and a further DH 1,400 million of operations in progress arising in 1985. The DH 1,900 million from 1984 could be partly due in 1985 and hence classified with arrears, but in the absence of precise information on the phasing of investment operations, this has not been done here.

^{3/} Estimate based on a survey of arrears compiled from data provided by the 64 major public enterprises and ONPT (Posts and Telegraphs).

^{4/} Survey figure of government claims on public enterprises (DH 3,856 million) less DH 950 million regarded as not recoverable.

Table II. Morocco: Investment Budget Commitments and Disbursements, 1984-85

(In billions of DH)

	Cumulative approved capital commitment authorizations ^{1/} (a)		Cumulative disbursements			Outstanding commitment (c)=(a)-(b)
	Program	Actual	Current operations	Settlement of arrears	Total	
Through 1984	...	13.4	7.4	--	7.4	6.0
Through April 1985	...	3.4	2.8	0.5	3.3	0.1
Through May 1985	4.1	5.3	3.3	0.5	3.8	1.5
Through June 1985	5.2	...	3.5	0.8	4.3 (outturn)	0.9 (est.)
Through July 1985	6.5	8.7	4.2	1.3	5.5 (outturn)	2.2 (est.)
Through September 1985	9.2	...	5.1	2.1	7.2 (program)	2.0
Through December 1985	14.1	...	6.7	2.8	9.5 (program)	4.6

Source: Data provided by the Moroccan authorities.

^{1/} Comprises carry-overs from previous years, commitment consolidations, and new commitments.^{2/} Includes settlement of arrears and payments delays.

Morocco - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

The authorities have revised the weights and the base period of the indices on wholesale prices (from 1939 to 1977) and manufacturing and mining production (from 1969 to 1978). However, there are coverage problems in the wholesale price index and there is a need to update the weighting structure of the consumer price index (base 1972/73) on the basis of a new household budget survey.

b. Monetary accounts

As a result of technical assistance missions undertaken in May 1982 and November 1983, a revised presentation of money and banking statistics in IFS was proposed. In April 1985, the implementation of improved and more current IFS data had taken place for the series covered in the sections on monetary authorities, deposit money banks, and the monetary survey. Data on other financial institutions are being revised.

c. Government finance

The 1984 issue of Government Finance Statistics Yearbook (GFSY) contains consolidated data for the central government sector. A technical assistance mission visited Morocco in March 1985 to help the authorities improve the compilation of government finance statistics and to prepare a reconciliation between the government finance data appearing in Fund reports on Recent Economic Developments (REDs) and the corresponding data appearing in GFSY and IFS. The report of the mission, which was transmitted to the authorities recently, emphasized, inter alia, the need for (a) expanding the coverage of central government data through the inclusion of the transactions of the Compensation Fund and (b) the development of timely and comprehensive statistics on the operations of local government which would permit the compilation of data for the general government as a whole.

d. External sector

The weights and the base year pertaining to export and import volume indices have been revised (from 1972 to 1976); however, only annual data are compiled in respect of these indices with the latest information available through 1983. No unit value indexes are compiled at present for aggregate exports and imports.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Morocco in the September 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Ministry of Finance, which during the past year have been provided on a timely basis, although there is a need to improve the currentness of government finance data.

Status of IFS Data

		<u>Latest Data in September 1985 IFS</u>
Real Sector	- National Accounts	1983
	- Prices: consumer	March 1985
	wholesale	December 1984
	- Production: manufacturing	Q2 1984
	mining	Q2 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	December 1982
	- Financing	December 1982
	- Debt	December 1982
		January 1985 (partial)
Monetary Accounts	- Monetary Authorities	February 1985 (partial)
	- Deposit Money Banks	December 1984
	- Other Financial Institutions	Q3 1984
External Sector	- Merchandise Trade: Value	January 1985
	Unit value	
	phosphate	January 1985
	oranges	January 1985
	- Balance of Payments	1984
	- International Reserves	June 1985
	- Exchange Rates	July 1985