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EBS/85/157

CONFIDENTIAL

June 21, 1985

To: Members of the Executive Board

From: The Acting Secretary

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

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Morocco and its request for a stand-by arrangement equivalent to SDR 225 million. A draft decision appears on page 45. A supplement, together with a draft decision on the stand-by arrangement, will be issued shortly.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. François (ext. 8510), Mr. Sacerdoti (ext. 8514), or Mr. Fassassi (ext. 8392) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

MOROCCO

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-Thasan

June 21, 1985

Contents | Page

Contents   Page

Contents | Page

I. Introduction

The 1985 Article IV consultation discussions with Morocco were held in Rabat during the period February 22-March 7, 1985. 1/ Discussions on an economic and financial program for 1985-86 that could be supported by a stand-by arrangement took place at the same time. Both sets of discussions were continued in Washington during the period March 19-22 and April 1-2, 1985 and were concluded in Rabat during the period April 11-15, 1985. Additional discussions took place in Washington in June 3-5, 1985 with a Moroccan delegation headed by the Prime Minister. The Moroccan representatives during the discussions in Rabat included Mr. Abdellatif Jouahri, Minister of Finance, Mr. Tayeb Bencheik, then Secretary of State for Economic Affairs, Mr. Abdelhaq Tazi, then Minister of Planning, Mr. Azzedine Guessous, then Minister of Commerce, Industry and Tourism, Mr. Moussa Saadi, then Minister of Energy and Mines, Mr. Bensalem Smili, Minister of Fishing and Shipping, Mr. Mohammed Kabbaj, Minister of Equipment, Mr. Othmane Demnati, Minister of Agriculture and Agrarian Reform, Mr. Ahmed Bennani, the Governor of the Banque du Maroc, and other senior officials concerned with economic and financial matters. Mr. Kabbaj, Alternate Executive Director for Morocco, attended the policy discussions. Morocco continues to avail itself of transitional arrangements under the provisions of Article XIV.

Since September 1980, Morocco has made use of Fund resources under three successive arrangements, the first of which was an extended arrangement. The latest of these was approved by the Executive Board on September 16, 1983 in an amount equivalent to SDR 300 million or 98 percent of quota for a period of 18 months. Under this arrangement, which expired on March 15, 1985, Morocco purchased all the amounts available under the arrangement, having satisfied the quantitative performance criteria as envisaged in the program, and with a waiver for the introduction of a restriction resulting from the delay in concluding the 1983/84 rescheduling with the commercial banks. As of May 31, 1985, Morocco's use of Fund credit was equivalent to SDR 1,077.1 million or 351.3 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, it amounted to 274.2 percent of quota. 2/

In the attached letter dated April 15, 1985 (Appendix II), which is accompanied by a memorandum on economic and financial policies, the Government of Morocco requests a 20-month stand-by arrangement ending

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1/ The staff representatives were Mr. Ch. A. François (head-AFR), Mr. E. Sacerdoti (AFR), Mr. V.C. Thai (FAD), Mr. J. Hicklin (ETR), Mr. Y. Fassassi (AFR), and Mrs. M. Dowsett (secretary-AFR). Mrs. E. Meldau-Womack (RES) participated in part of the discussions in Rabat.
2/ For details on Morocco's relations with the Fund, see Appendix V.

February 28, 1987, in an amount equivalent to SDR 225 million, representing 73.4 percent of Morocco's quota, and an annual rate of access of 44 percent of quota. The economic program which provides the basis for the arrangement covers the calendar years 1985 and 1986. Of the amount requested, SDR 112.5 million would be from the Fund's ordinary resources, and SDR 112.5 million from borrowed resources. The Government of Morocco is also requesting a drawing under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports, for an amount of SDR 85.5 million (27.9 percent of quota). These drawings, if fully made, would result in a decrease in total Fund credit outstanding (after taking into account scheduled repurchases) by the end of February 1987 to 306.9 percent of quota, or to 269.4 percent excluding credit under the compensatory financing facility. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required. According to the phasing of the proposed stand-by arrangement (Table 1), purchases may be made in eight installments; performance criteria including reviews are indicated in Section V.

The Government of Morocco has also requested rescheduling of its external obligations vis-à-vis official creditors and commercial banks for part of the obligations falling due on or after January 1, 1985. Since the requested debt relief from official creditors would be on terms broadly comparable to those obtained in 1983-84, involving current maturities not previously rescheduled, it seems reasonable to expect that it will be forthcoming. As for bank debt, the 1983/84 agreement is expected to be completed soon and it is expected that before Board consideration of the proposed arrangement, the staff will receive confirmation that an agreement in principle has been reached between Morocco and the banks' steering committee as to the amount of debt relief in 1985, the period of consolidation, as well as of an understanding on the related covenants. Therefore, the staff proposes that the stand-by arrangement be made effective as of the date of Board's approval, with an initial small purchase. A meeting of the Paris Club to discuss Morocco's request is expected shortly after Board consideration. Any discrepancy in the amount of relief obtained compared with that assumed in this paper and needed adjustment can be appropriately dealt with in the context of the first review of the program, which is expected to be completed no later than end-September 1985. Completion of this review is a performance criterion for all purchases beyond the initial purchase.

Fund and Bank staff have cooperated closely and constructively on major issues of concern to Morocco's adjustment and development effort in order to ensure consistency between the programs and policies under the respective Fund stand-by arrangement and the Bank loans. The collaboration related in particular to the need to improve public investment policy, the rehabilitation of public enterprises, the reform of the financial system, trade liberalization, export promotion and

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

	Outstanding at beginning of arrangement	1985			1986				1987
	May 31, 1985	June-July	Aug.-Sept.	Oct.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-Feb.
	(In millions of SDRs)								
Transactions under tranche policies (net) 2/		1.37	1.04	-22.26	12.61	-12.99	9.10	-14.69	11.02
Purchases		10.00	15.00	15.00	40.00	35.00	40.00	35.00	(35.00)
Ordinary resources		(5.00)	(7.50)	(7.50)	(20.00)	(17.50)	(20.00)	(17.50)	(17.50)
Enlarged access resources		(5.00)	(7.50)	(7.50)	(20.00)	(17.50)	(20.00)	(17.50)	(17.50
Repurchases		-8.63	-13.96	-37.26	-27.39	-47.99	-30.90	-49.69	(-23.97)
Ordinary resources		(-8.63)	(-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)		55.95	--	-29.55	-29.55	-29.55	-29.55	-29.55	-29.55
Purchases		85.50	--	--	--	--	--	--	--
Repurchases		-29.55	--	-29.55	-29.55	-29.55	-29.55	-29.55	-29.55
Total Fund credit outstanding (end of period)	1,077.13	1,134.45	1,135.48	1,083.68	1,066.74	1,024.20	1,003.74	959.50	940.98
Under tranche policies 2/	840.73	842.10	843.13	820.88	833.49	820.50	829.59	814.90	825.93
Special facilities	236.40	292.35	292.35	262.80	233.25	203.70	174.15	144.60	115.05
	(In percent of quota)								
Total Fund credit outstanding (end of period)	351.31	370.01	370.35	353.45	352.93	334.05	327.38	312.95	306.91
Under tranche policies 2/	274.21	274.66	274.99	267.74	271.85	267.61	270.58	265.79	269.38
Special facilities	77.10	95.35	95.35	85.71	76.08	66.44	56.80	47.16	37.52

Source: International Monetary Fund.

1/ Including CFF purchase at beginning of stand-by arrangement.
2/ Ordinary and enlarged access resources.

agricultural policy. Negotiations for a second Industrial and Trade Policy Adjustment (ITPA II) loan for US$ 200 million from the World Bank were completed at the end of April. A sector adjustment loan for agriculture for US$100 million was also negotiated in early May. These two loans are expected to be considered by the World Bank Board in June. A meeting of the Consultative Group for Morocco was held under the auspices of the World Bank in Paris on January 9-10, 1985. 1/

The last Article IV consultation discussions were held in Rabat during the period November 30-December 17, 1983, concurrently with the first review of Morocco's stand-by arrangement for 1983/84. The staff report for the consultation (SM/84/63) together with the report on Recent Economic Developments (SM/84/51), were considered by the Executive Board on April 9, 1984. There were three reviews under the last arrangement, which were discussed by the Executive Board on April 9, 1984 (EBS/84/71), on September 6, 1984 (EBS/84/129 and Supplement 1), and on January 4, 1985 (EBS/84/256 and Supplement 1).

Morocco's statistics are compiled essentially along the lines of Fund's methodology; unpublished data provided to staff missions are generally satisfactory and up-to-date though the authorities are in the process of improving the external debt data by centralizing and computerizing the information. Technical assistance by the Fund was provided early in 1985 to improve the completeness and currentness of government finance statistics published by the Fund. The currentness of the other official data published in the Fund's International Financial Statistics is adequate.

II. Background to Discussions

Since 1978, Morocco attempted to correct the large internal and external imbalances (see Charts 1 and 2) brought about by the continuation of expansionary policies in the late 1970s in a context of sharply deteriorating terms of trade, a succession of bad harvests and the emergence of structural weaknesses in the economy. As these stabilization attempts were not pursued consistently, they met with mixed success and the external debt grew rapidly. Faced with a rapidly deteriorating financial situation and large structural problems, in July 1983 the Moroccan authorities decided to resume their adjustment efforts in the context of a new stand-by arrangement, and sought a rescheduling of external debt obligations due between September 1983 and December 1984. The program, which covered the period July 1983-December 1984, was designed with the objective of restoring a sustainable balance of

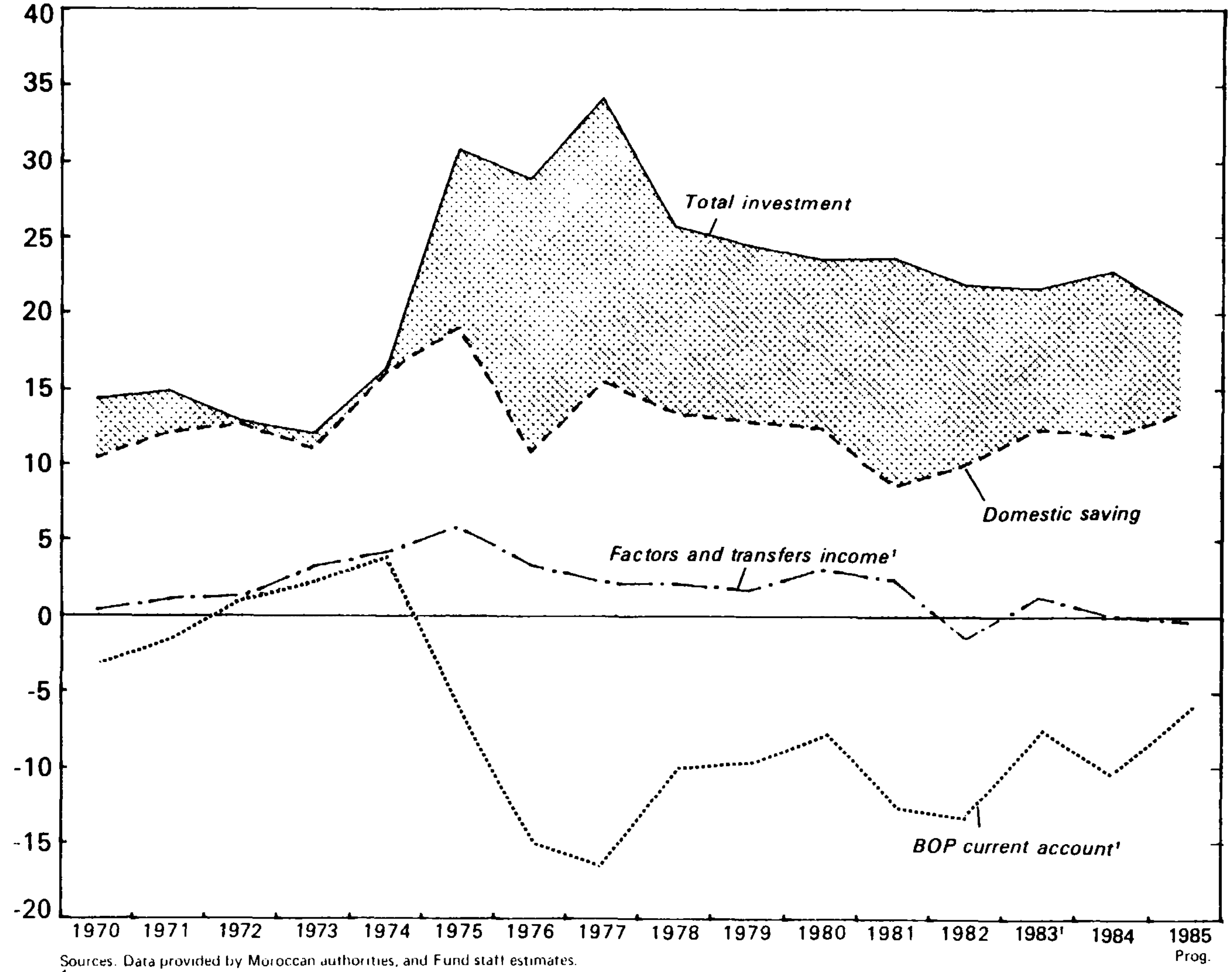
1/ Morocco's relations with the World Bank Group are summarized in Appendix VI.

CHART 1

MOROCCO

INVESTMENT, SAVING AND EXTERNAL CURRENT ACCOUNT, 1970-85

(In percent of GDP)



Sources. Data provided by Moroccan authorities, and Fund staff estimates.

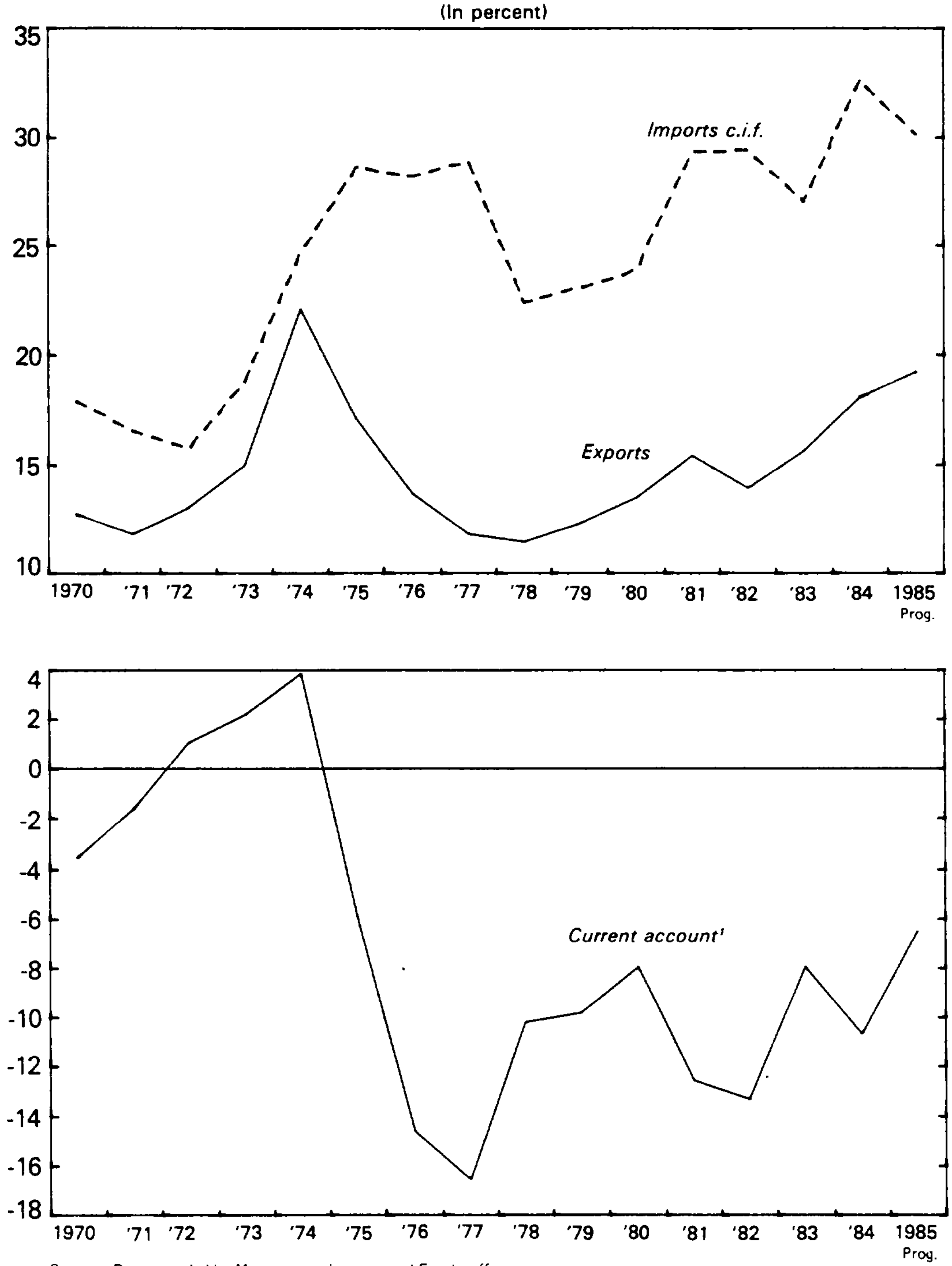
[1] Before debt relief.

CHART 2

MOROCCO

EXPORTS, IMPORTS, CURRENT ACCOUNT AS SHARES OF GDP, 1970-85

(In percent)



Sources: Data provided by Moroccan authorities; and Fund staff estimates.
[1]Before debt relief.

payments by 1988 through a restrictive demand management policy and the adoption of structural measures to improve the efficiency of the economy. The program for 1983/84 aimed at reducing the current account deficit of the balance of payments from 13.3 percent of GDP in 1982 to 9 percent in 1983 and to an initial target of 6.6 percent in 1984. The external targets were to be achieved by a sharp curtailment of the overall budget deficit, a tight incomes and credit policy, and a flexible exchange rate policy. The budget deficit 1/ was to be reduced from 12.3 percent of GDP in 1982 to 8.7 percent in 1983 and, as an initial target, to 6 percent in 1984, through substantial tax increases, a curtailment of recruitment, a reduction in consumer subsidies and transfers to public enterprises, and a cut in capital expenditure. In addition, the structural weaknesses in production, investment and export incentives were to be alleviated by a continuation of the policy of gradual depreciation of the exchange rate, substantial trade and price liberalization, significant increases in agricultural producer prices, and a rationalization of public investment policy.

Considerable progress was made by Morocco toward realizing the objectives of its program in 1983. The current account deficit of the balance of payments was sharply reduced by 5 percentage points to 8 percent of GDP, while the overall budget deficit before debt relief declined by 3 percentage points to 9.1 percent, through a substantial curtailment of expenditures and revenue measures. However, part of the improvement in the balance of payments was achieved by an intensification of import restrictions, and in 1984 the progress toward achieving the external targets of the program was lower than expected (Table 2).

III. Economic Developments in 1984 and Performance Under the 1984 Adjustment Program

As discussed below, the overall fiscal and monetary targets of the program in 1984 were achieved and all the quantitative performance criteria were observed (Table 3), although the composition of fiscal operations was different than that programmed and there was a further increase in domestic payment arrears. Important steps were taken to implement structural measures essential to correct weaknesses in the economy and to make the adjustment more efficient in the coming years, although delays occurred in some areas, such as the tax reform and consumer subsidies. The external targets of the program in 1984 were not reached mainly because of higher imports necessitated by a continued severe drought during the first part of the year and greater degree of liquidity in the economy than anticipated. As a result, the

1/ Before debt relief and official grants, unless otherwise specified; the budget deficit is on a payment order basis.

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

	1981 Actual	1982 Actual	1983 Actual	1984 Rev. Prog. EBS/84/129	1984 Est.	1985 Prog.
	(Annual percent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	-1.3	6.8	2.2	3.0	2.4	4.4
GDP deflator	10.8	9.2	2.7	11.7	9.1	12.0
Consumer prices (period average)	12.5	10.5	6.2	11.0	12.5	12.0
External sector (in SDRs)						
Exports, f.o.b.	4.4	-4.4	5.5	8.7	8.4	10.8
Imports, f.o.b.	12.4	6.1	-10.7	1.8	12.3	-3.5
Export volume	3.8	0.5	10.1	6.5	4.6	9.1
Import volume	4.5	5.7	-4.7	-0.5	7.4	-4.1
Terms of trade (deterioration -)	-6.3	-4.4	-1.4	1.0	-2.8	1.4
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
Total expenditures	21.2	13.9	-10.5	8.3	3.9	9.8 4/
Money and credit						
Domestic credit	19.6	13.8	19.7	9.9	9.5	10.1
Economy	(17.5)	(20.6)	(11.5)	(14.9)	(16.0)	(11.9)
Government	(21.2)	(9.2)	(25.9)	(6.6)	(5.3)	(8.7)
Money and quasi-money	16.4	12.5	17.4	11.7	10.3	12.5
Money velocity (level)	2.4	2.5	2.2	...	2.2	2.3
Interest rate (one-year time deposit)	8.5	10.0	10.0	...	10.0	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
After debt relief	14.5	12.3	8.5	6.8	6.8	6.0
Overall deficit cash basis 2/						
Excluding grants	14.6	10.0	10.9	7.0	7.1	8.9
Including grants	12.5	7.7	9.8	6.9	6.9	6.5
Domestic bank financing	5.0	2.2	6.7	1.9	1.5	2.3
Foreign financing (incl. grants)	9.4	6.9	3.6	5.1	5.0	1.1
Financing gap	—	—	—	—	—	4.7
Gross domestic investment	23.6	24.9	21.6	20.5	22.8	20.9
Gross national savings	8.6	10.0	12.4	13.2	12.0	15.0
External current account deficit (before debt relief)						
Excluding grants	12.5	13.3	8.0	7.3	10.7	6.5
Including grants	10.5	11.9	6.9	7.1	10.5	4.1
External current account deficit (after debt relief)						
Excluding grants	12.5	13.3	6.7	6.1	8.1	...
Including grants	10.5	11.9	5.6	6.0	8.0	...
External debt 3/ (inclusive of use of Fund credit)	67.4	81.3	93.6	95.0	107.9	108.3
	(In percent of exports of goods, nonfactor services and private transfers)					
Debt service ratio						
Before debt relief	34.1	41.8	44.0	50.1	57.2	60.5
After debt relief	34.1	41.8	33.4	24.8	23.0	...
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments						
Before debt relief	-169	-585	-573	-1,030	-1,555	-876
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

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; after expected debt relief it would be 13.1 percent.

Table 3. Morocco: Quantitative Performance Criteria for 1984

	April		June		September		December	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual
	(In billions of dirhams)							
Net borrowing by the Treasury 1/	1.90	1.74	3.40	3.35	5.47	5.42	7.24	7.18
Total bank credit 2/	52.30	51.81	53.10	52.87	54.67	53.23	55.71	55.53
Bank credit to the Treasury (net) 2/	28.60	28.37	28.90	28.75	29.54	29.06	29.94	29.92
Change in "fonds réservés" 3/ (reduction-)	0.30	-0.49	0.30	-0.30	0.30	-0.30	0.30	-0.27
	(In millions of U.S. dollars)							
New nonconcessional foreign borrowing contracted or guaranteed by the Government or approved for public enterprises by the Government with maturity of 1 to 15 years	500.0	73.4	500.0	105.4	500.0	272.0	500.0	287.4
Of which 1 to 5 years	250.0	8.3	250.0	22.6	250.0	139.4	250.0	139.4
Short-term debt (outstanding)	1,000.0	961.0	1,000.0	913.0	1,000.0	971.0	1,000.0	918.0

Sources: Data provided by the Moroccan authorities.

1/ As defined in paragraph 9 of the Annex to EBS/83/178.
2/ As defined in paragraph 11 of the Annex to EBS/83/178. These limits will be automatically reduced up to DH 400 million if corresponding additional external concessional assistance is received.
3/ Cumulative limits.

current account deficit of the balance of payments before debt relief rose from SDR 990 million, equivalent to 8 percent of GDP, to SDR 1,250 million, equivalent to 10.7 percent of GDP or well in excess of the program target, and the external gross reserve target was not met; there was also some accumulation of arrears and the conclusion of the rescheduling arrangements was delayed. The status of implementation of the financial program for 1984 is summarized in Table 4.

1. Developments in real output and aggregate demand

Reflecting continued adverse climatic conditions during the 1983/84 crop season, cereal production, though 5 percent higher than in 1982/83, was still 23 percent below 1981/82. The extensive drought also caused substantial losses in livestock herds and in production of citrus and vegetables. Despite a better performance of phosphate rock and phosphoric acid output, the growth of the secondary sector slowed down considerably reflecting depressed agricultural incomes and low public investment activity. Taking into account some expansion in services, real GDP is estimated to have grown by 2.4 percent (against a projected rate of 3 percent), a rate considerably below the average growth rate of the 1970s.

After a stagnation in 1983 in the context of the severe import restrictions imposed during the first part of the year, gross domestic expenditure recovered in nominal terms in 1984. In volume terms, gross expenditure is estimated to have grown by about 3 percent. The recovery was concentrated on private consumption and gross investment, including a reconstitution of stocks, while public consumption remained practically unchanged. Reflecting both the increase in domestic demand and the shortfall in agricultural production, total imports of goods and nonfactor services on a national accounts basis rose by about 5 percent in volume, to a level equivalent to 36 percent of GDP. Despite a substantial increase in exports, the resource gap widened to 10.8 percent of GDP in 1984, compared with 9.2 percent in 1983. As a proportion of GDP, gross national savings was unchanged at about 12 percent of GDP.

2. Prices and wages

Although the rate of inflation as measured by the average consumer price index for the year accelerated from 6.2 percent in 1983 to 12.5 percent in 1984, it decelerated on a December-December basis from 12.5 percent in 1983 to 7.5 percent in 1984. The high rate of inflation during the period June 1983-June 1984 can be ascribed in part to the effective depreciation of the dirham but, in large measure, it also reflected adjustments of administered prices for key goods and services as well as changes in the system of price control. Subsidies on petroleum products were eliminated in early 1984 and since then their prices have been adjusted automatically to reflect fluctuations

Table 4. Morocco: Status of Implementation of the Financial Program for 1984 1/

	Outturn
A. Assumptions	
1. GDP growth: 3 percent	2.4 percent
2. Exports of phosphates rocks: volume: 15.7 million tons (14.7 million tons in 1983)	14.95 million tons
price: SDR 32.5 per ton (SDR 30.6 per ton in 1983)	SDR 35.0 per ton
3. LIBOR: 10 percent	9.57 percent
4. Terms of trade: 1 percent	-2.8 percent
B. Targets	
1. Balance of payments: Overall balance (after rescheduling): SDR 12 million	SDR -222 million
Overall balance (before rescheduling): SDR -1,020 million	SDR -1,555 million
Current account deficit (before rescheduling): SDR 940 million	SDR 1,248 million
2. Inflation: CPI growth 11 percent (6.2 percent in 1983)	12.5 percent
C. Fiscal policies	
1. Limiting the overall deficit at DH 6.7 billion or 6.1 percent of GDP (after rescheduling)	1. The overall deficit was contained at DH 7.2 billion or 6.8 percent of GDP (after rescheduling), in line with the Board-approved revised target (EBS/84/129).
2. Generating a balance in the current budget (before rescheduling).	2. A slight surplus on the current budget was generated.
3. New tax measures to yield DH 750 million of additional receipts bringing current revenues to DH 24.5 billion (16 percent increase).	3. The increase in revenues was only 9 percent.
4. Maintaining capital expenditures at the same level as in 1983 or DH 8 billion, revised to DH 8.5 billion in EBS/84/129; revised to DH 8.5 billion in EBS/84/129	4. Capital expenditures were sharply reduced to DH 7.3 billion in an amount commensurate to the shortfall in total revenue.
5. Limiting expenditures on goods and services to DH 17.1 billion (or 6 percent increase).	5. Expenditures on goods and services were limited to DH 16.8 billion (or 2.6 percent increase).
6. Freeze on general wage increases.	6. Implemented.
7. Limiting of new recruitment to 10,000 persons, non-replacement of retirees (8,000).	7. Implemented.

1/ Original program as in EBS/84/71; revised in EBS/84/129 (June 6, 1984).

Table 4. Morocco: Status of Implementation of Financial Program for 1984 (concluded)

	Outturn
8. Elimination of all subsidies except on flour, sugar, and edible oil.	8. By mid-1984, subsidies were eliminated except for those three products.
9. Setting up a plan in consultation with the World Bank to reduce gaps between cash expenditures and budgetary commitments for capital expenditures.	9. Progress was made toward setting up the plan.
10. Introduction of the tax reform regarding a general income tax, corporate tax, and VAT during 1984.	10. The introduction of the tax reform was delayed.
D. Pricing policy	
Increase in early January 1984 in prices of petroleum products by 12 percent on average; liberalization of prices of butter; increase as of March 15, 1984 in electricity and water rates by 10 percent and transportation costs by 6 percent, and liberalization of certain controlled prices.	A system of automatic price adjustment was set for petroleum to avoid any budgetary subsidy; all the prices targeted for liberalization were liberalized; tariffs on electricity, water and transportation were increased as scheduled.
E. Monetary policy	
Domestic bank credit increase of 8.8 percent, credit to the economy to grow by 14.1 percent and to the Government by 5.3 percent. These imply growth in M2 of 10.4 percent. These objectives were slightly revised in May 1984.	The increase in money and credit aggregates was in line with the revised targets.
F. Exchange and trade policies	
Continuation of a flexible exchange rate policy; further trade liberalization including elimination of advance import deposits system by mid-1984, and enlargement of List A imports (commodities that can be imported freely).	A flexible exchange rate policy was pursued in 1984 and trade liberalization agreed under Fund and Bank programs was fully implemented. By mid-1984 the import deposit scheme was eliminated.
G. External borrowing	
New commitments of nonconcessional loans with original maturities of between 1-15 years to equal no more than US$500 million, with a US$ 250 million subceiling for maturities of 1-5 years. Short-term debt limited to US$1 billion to be adjusted downward for any consolidation of short-term debt to medium- or long-term debt. to follow developments in the program.	New commitments were below the ceilings.

in import costs. In addition, the Government decontrolled or subjected to self-review adjustments 1/ the prices of nearly 35 products constituting about half of the products whose prices were still controlled at the beginning of 1983. Throughout 1984, rates charged for public services, particularly electricity, were adjusted more frequently than in earlier years. Following substantial increases in the price of basic food items and the complete elimination of subsidies on milk and butter, further price increases for sugar, flour, and edible oil were envisaged for January 1984. However, because of social unrest, the Government deferred these increases. The measures taken released some of the pent-up inflationary pressure that had built up during the previous years of price freezes and general price control.

As envisaged under the program, substantial increases in agricultural producer prices were introduced in November 1984, for the crop year 1984/85, in order to stimulate agricultural production. These increases ranged between 8 percent and 36 percent. Over the last two years wheat prices have been increased by 30 percent representing a substantial increase in real terms, after a number of years in which producer prices declined in terms both of labor costs and consumer prices. The real producer prices for wheat established for the 1984/85 crop still remains below the peak level reached in 1980.

Following the 20 percent increase in minimum wages in July 1983, there was no increase in 1984 resulting in a decline in real terms of about 3 percentage points between July 1983 and December 1984. No general wage increase was granted to the civil service in 1984.

3. Fiscal developments

A principal instrument of adjustment under the 1984 program was the further reduction of the overall Treasury deficit. The 1984 deficit target, on a payment order basis, was originally set at 7.2 percent of GDP before debt relief on interest charges, and 6.1 percent of GDP after debt relief. However, in the context of the mid-term review, in May 1984, the overall Treasury deficit ceiling for the year was raised by DH 540 million to 7.8 percent of GDP, in order to meet cash payments for priority investments. This target, after debt relief, amounted to DH 7.2 billion, which was also a performance criterion under the program. This ceiling was observed, as a shortfall in revenue was offset by a cut in total expenditures, mainly in capital expenditures (Table 5 and Chart 3). However, as the level of approved commitments on capital expenditure continued to exceed actual payments, because of the large amount of authorizations carried over from previous years, some further increase in domestic arrears was incurred. Some payment

1/ Under this system, enterprises can adjust sales prices without prior authorization subject to ex-post control by the administration.

Table 5. Morocco: Financial Transactions of the Central Government, 1980-85

(In millions of dirhams)

	1980	1981	1982	1983	1984 Program EBS/84/71	1984 Revised EBS/84/129	1984 Prov.	1985 Prog.
Total revenue	16,365	17,838	21,848	21,501	24,516	24,704	23,469	27,203
Of which : OCP 1/	(970)	(1,487)	(710)	(900)	(1,100)	(1,100)	(1,100)	(2,100)
Tax revenue	13,888	15,321	18,141	19,097	21,939	22,127	21,173	23,660
Non tax revenue	1,305	2,517	2,339	1,997	2,577	2,577	2,296	3,543
Extrabudgetary revenue (net) 2/	1,172	--	1,368	407	--	--	--	--
Total expenditure	23,875	28,936	32,956	29,527	31,216	31,943	30,653	35,203
Current expenditure	15,310	18,898	20,475	21,548	23,261	23,449	23,390	28,553
Goods and services	(12,214)	(13,872)	(15,331)	(16,367)	(17,151)	(17,151)	(16,793)	(18,233)
Interest 3/	(1,759)	(2,924)	(3,144)	(3,549)	(3,930)	(4,118)	(4,442)	(7,520)
Consumer subsidies	(1,427)	(2,102)	(2,000)	(1,632)	(2,150)	(2,180)	(2,155)	(2,800)
Capital expenditure	8,565	9,612	12,481	7,979	7,955	8,494	7,030	6,650
Extrabudgetary expenditure (net) 2/	--	426	--	--	--	--	233	--
Overall deficit, payment order basis 3/	-7,510	-11,098	-11,108	-8,026	-6,700	-7,239	-7,184	-8,000
"Fonds réservés" (reduction -)	264	-131	2,061	-2,282	-300	-300	-273	--
Arrears (reduction -)	...	...	...	...	...	...	...	-3,000
Overall deficit, cash basis 3/	-7,246	-11,229	-9,047	-10,308	-7,000	-7,539	-7,457	-11,000
Financing	7,246	11,229	9,047	10,308	7,000	7,539	7,457	11,000
Foreign sources	3,911	7,211	6,989	3,392	5,400	5,539	5,319	1,396
Grants	380	1,623	744	1,010	--	139	139	3,000 4/
Foreign borrowing (net)	3,531	5,588	6,245	2,382	5,400	5,400	5,180	-1,604
Gross borrowing	(5,574)	(8,451)	(9,861)	(3,574)	(7,679)	(7,679)	(6,363)	(7,083) 5/
Amortization 3/	(-2,043)	(-2,863)	(-3,616)	(-1,165)	(-2,279)	(-2,279)	(-1,183)	(-8,687)
Domestic sources	3,335	4,018	2,058	6,916	1,600	2,000	2,138	3,800
Domestic banking system (net)	2,731	3,842	2,021	6,344	1,600	2,000	1,600	2,800
Domestic bank borrowing (net)	2,743	3,697	2,174	6,691	1,800	2,200	2,183	2,800
Central Bank	(2,028)	(2,443)	(1,520)	(3,382)	(1,100)	(638)	(1,303)	(...)
Deposit money banks	(715)	(1,254)	(654)	(3,309)	(700)	(1,562)	(880)	(...)
Other banking sources (net)	-12	145	-153	-347	-200	-200	-583	--
Other domestic sources (net)	604	176	37	572	--	--	538	1,000
Financing gap	--	--	--	--	--	--	--	5,804 6/
Memorandum items:								
Debt relief (net)	--	--	--	1,500	4,096	4,096	7,175	5,804 6/
Interest	(--)	(--)	(--)	(626)	(1,174)	(1,174)	(1,402)	(542) 6/
Principal	(--)	(--)	(--)	(874)	(2,922)	(2,922)	(5,773)	(5,262) 6/
Overall deficit, payment order basis Before debt relief	-7,510	-11,098	-11,098	-8,629	-7,874	-8,413	-8,586	-8,000
Current deficit (-) 7/	117	1,060	5	-431	1,255	1,255	79	-1,350
	(In percent of GDP at current market prices)							
Total revenue	23.3	23.2	24.3	22.7	22.8	23.0	22.2	22.0
Total expenditure	34.0	37.7	36.6	31.2	29.0	29.7	29.0	28.5
Current	(21.8)	(24.6)	(22.7)	(22.8)	(21.6)	(21.8)	(22.1)	(23.1)
Capital 8/	(12.2)	(13.1)	(13.9)	(8.4)	(7.4)	(6.9)	(6.9)	(5.4)
Overall deficit, payment order basis (excluding grants)								
Before debt relief	-10.7	-14.5	-12.3	-9.1	-7.3	-7.8	-8.1	-6.5
After debt relief	-10.7	-14.5	-12.3	-8.5	-6.2	-6.7	-6.8	-6.0
Overall deficit, cash basis								
Excluding grants	-10.3	-14.6	-10.0	-10.9	-6.5	-7.0	-7.1	-8.9
Including grants	-9.8	-12.5	-9.7	-9.8	-6.5	-6.9	-6.9	-6.5
Debt rescheduling (net)	--	--	--	1.6	3.8	3.8	6.8	4.7 6/
Interest	(--)	(--)	(--)	(0.7)	(1.1)	(1.1)	(1.3)	(0.4) 6/
Amortization	(--)	(--)	(--)	(0.9)	(2.7)	(2.7)	(5.5)	(4.3) 6/
GDP (in millions of dirhams)	70,161	76,737	90,088	94,589	107,860	107,860	105,647	123,530

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

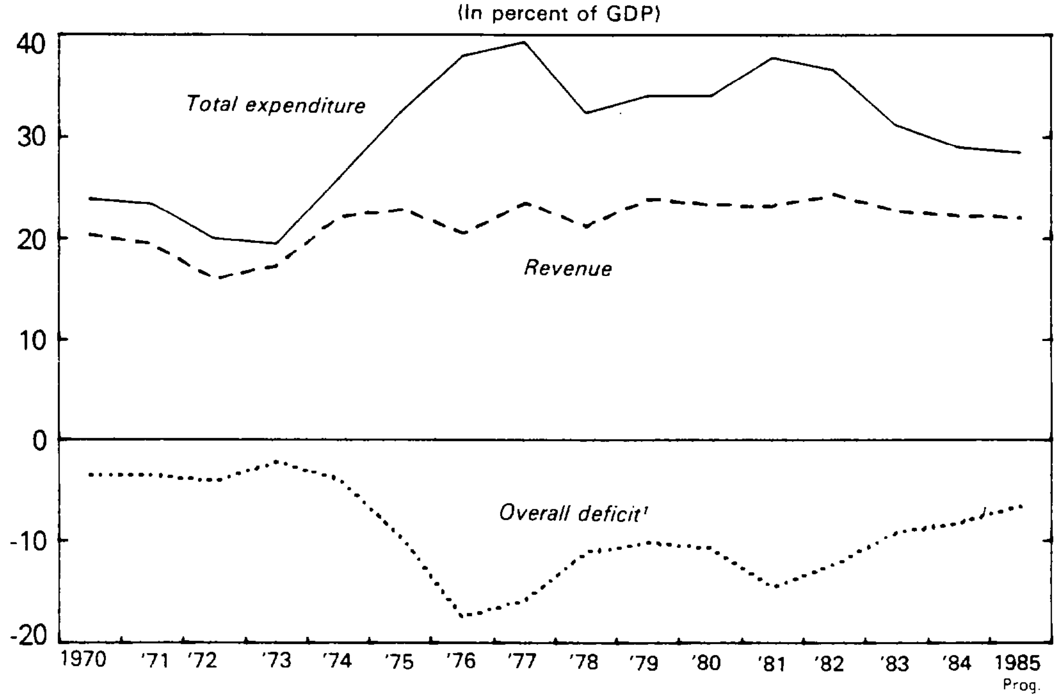
1/ Contribution and taxes paid by the state-owned phosphate company
2/ Excluding changes in "fonds réservés" (domestic bills awaiting payment).
3/ Before debt relief for 1985 and after debt relief for other years.
4/ The amount of grants is to be used to reduce arrears.
5/ Including in 1985 expected World Bank disbursements under ITPA II and US$250 million short-term cereal loans.
6/ Expected debt relief, on the assumption of the same terms as in 1984.
7/ Defined as total revenue less extrabudgetary revenues (net) less current expenditure.
8/ Defined as capital expenditures plus extrabudgetary expenditures (net).

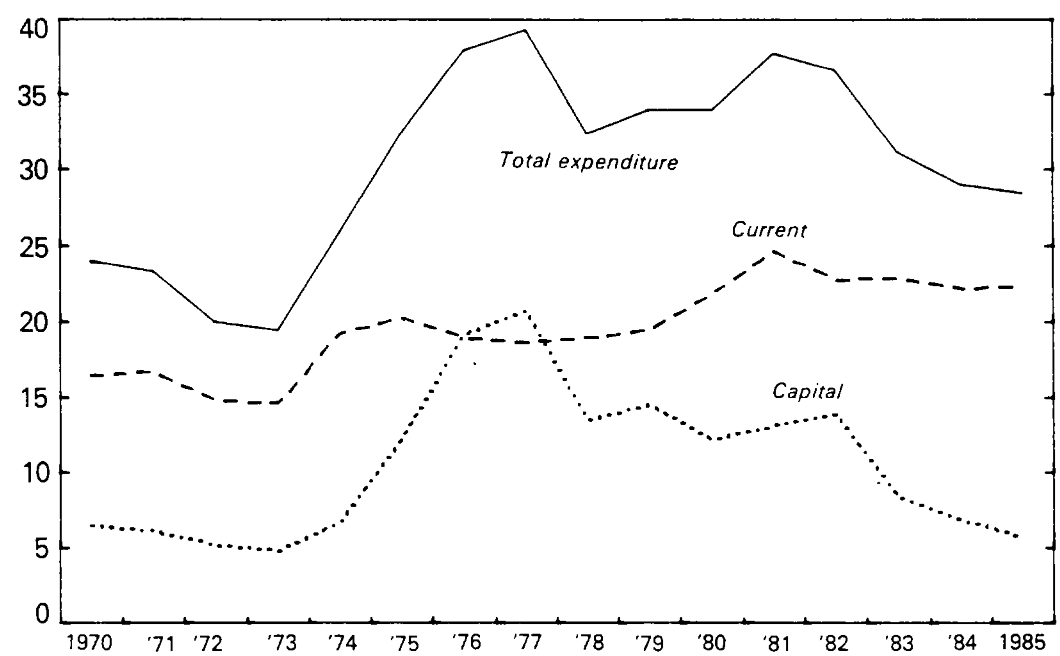
CHART 3

MOROCCO

FISCAL DEVELOPMENTS, 1970-85

(In percent of GDP)





Sources: Data provided by Moroccan authorities; and Fund staff estimates.
[1] On payment order basis.

delays in recent years have existed also under the current budget, mainly for consumer subsidies and public utility bills. Although the estimated deficit on a commitment basis was higher than on a payment basis, it was also reduced substantially.

The rate of increase in total revenues in 1984 was 9.2 percent, or about 5 percentage points lower than projected, despite the introduction of new tax measures which yielded an estimated DH 0.7 billion. The shortfall in revenues was caused mainly by the decline in economic activity due to the drought, and by a shift in the composition of imports toward exempt or less taxed products. As envisaged in the program, the special tax on imports was reduced from 15 percent to 10 percent in January 1984, in the context of a trade liberalization program; this reduction involved a revenue loss of DH 1.3 billion.

As regards expenditure, its rate of increase was reduced by 4 percentage points from the 8.3 percent envisaged under the revised program resulting mainly from the above-mentioned cut in capital outlays. Actual current outlays, following the drastic cut in mid-1983, continued to be strictly contained and remained virtually at the revised level for 1984. The net increase in public employment was limited to 2,000 persons, corresponding to an increase of less than 1 percent, the wage freeze was continued for the second successive year and expenditures for material were reduced. Outlays for consumer subsidies were maintained within the limit of DH 2.1 billion established under the program, which compares with subsidy payments in 1983 of DH 1.6 billion; the increase was due mainly to higher cost of imported cereals. With a significant increase in interest payments, current expenditures before debt relief on interest charges rose by 11.8 percent, in line with the program target.

As a result of these developments, current budgetary operations were in balance, whereas the program envisaged a surplus of DH 1.2 billion. To achieve the overall Treasury deficit target, the authorities limited capital outlays, including net extrabudgetary expenditure, to DH 7.3 billion, an amount well below the initial program target of DH 8 billion and the revised target of DH 8.5 billion, which had been established in May 1984. Despite some cancellation of capital expenditure authorizations carried-over from previous years, and limits established by the Ministry of Finance on the authorization that could be commited, the curtailment in capital outlays gave rise to payment delays, which are difficult to assess precisely. Some indication of these delays is provided by the difference between carried-over authorizations committed during the year and actual outlays, which amounted to DH 4 billion at end-1983 and DH 6 billion at end-1984, but it should be noted that this difference includes also some authorized expenditures for which no payments obligation has yet arisen.

The financing of the overall Treasury deficit in 1984 was also different than envisaged under the program, as there was a shortfall in net foreign borrowing on account of delays in the receipt of exceptional assistance from donors. This was offset by larger placement of Treasury bonds with the nonbank domestic sector, mainly insurance companies. The expansion of bank credit to the Government of 7.9 percent was in line with program ceilings.

Concerning the tax reform, due to the need to complete the discussions with professional groups, the draft law was not submitted to Parliament before the end of the year, as scheduled, but only in April 1985.

4. Monetary and credit developments

Following a rapid increase in monetary aggregates in 1983, well in excess of the expansion of nominal GDP, the expansion of domestic credit decelerated significantly, to 9.5 percent in 1984, in line with program targets (Table 6). The growth of overall credit to the Government was moderate, at 5.3 percent, as the increase in bank credit to the Government (7.9 percent) was partly offset by the elimination of import deposits. In view of the restrained expansion of credit to the Government, more room was provided under the program for the expansion of credit to the private and public enterprise sector, which rose by 16 percent in 1984, compared with 11.5 percent growth in 1983. Reflecting in part the decline in net foreign assets, broad money increased by 10.3 percent in 1984 (compared with 11.7 percent in the program) which is less than the increase in nominal GDP. The ratio of broad money to GDP, which had increased substantially in 1983 from 43 percent to about 48 percent, was somewhat reduced by the end of 1984 and the share of time deposits in broad money increased.

As envisaged under the program, significant progress was made in increasing the scope of the money market, with a view to increasing the reliance on market mechanisms for the control of liquidity and allocation of resources. As a result of the elimination of the minimum Treasury bills requirement for time deposits of more than one year maturity at the beginning of 1984 and the reduction in Central Bank direct advances to the Government, the Treasury's borrowing requirements have increasingly been satisfied through the money market at market interest rates. Because of the relative liquidity of the banking system, the Central Bank's interventions in the money market were modest and interest rates were stable around 10 percent.

Table 6. Morocco: Monetary Survey, 1983-85

(In millions of dirhams; end of period)

	1983	1984	1985			
	Dec.	Dec.	March	July	Sept.	Dec.
			Actual		Program	
Foreign asset (net)	-5,211	-6,900	-7,162	-7,819	-7,121	-6,100
Monetary authorities	-7,064 1/	-9,011 1/	-9,334	-10,032	-9,385	-8,415
Deposit money banks	1,853	2,111	2,172	2,213	2,264	2,315
Domestic credit	50,693	55,532	57,533	59,600	60,272	61,122
Claims on the Government (net)	30,412	32,012	34,622	34,535	34,702	34,802
Banking system	27,734	29,917	32,045	32,450	32,617	32,717
Central Bank	(16,128)	(17,431)	(17,012)	(...)	(...)	(...)
Deposit money banks	(11,606)	(12,486)	(15,033)	(...)	(...)	(...)
Nonbank private sector 2/	2,678	2,095	2,577	2,085	2,085	2,085
Claims on the economy	20,281	23,520	22,911	25,065	25,570	26,320
Assets = Liabilities	45,482	48,632	50,371	51,781	53,151	55,022
Money plus quasi-money	45,744	50,469	52,102	53,643	55,013	56,765
Money	36,142	39,188	40,299	41,760	42,413	42,702
Currency outside banks	(13,636)	(14,771)	(14,643)	16,134	(16,270)	(16,350)
Demand deposits 3/	(22,506)	(24,417)	(25,656)	25,626	(26,143)	(26,352)
Quasi-money	9,602	11,281	11,803	11,883	12,600	14,063
Import deposit	576	15	8	--	--	--
Other (net) 4/	-838	-1,852	-1,739	-1,862	-1,862	-1,743
			(Percent change) 5/			
Domestic credit	19.7	9.5	3.6	7.3	8.5	10.1
Claims on the Government (net)	25.9	5.3	8.2	7.9	8.4	8.7
Banking system	31.3	7.9	7.1	8.5	9.0	9.4
Nonbank private sector	-11.5	-21.8	23.0	-0.5	-0.5	-0.5
Claims on the economy	11.5	16.0	-2.6	6.6	8.7	11.9
Money plus quasi-money	17.4	10.3	3.2	6.3	9.0	12.5
Money	14.3	8.4	2.8	6.6	8.2	9.0
Currency outside banks	13.4	8.3	-0.9	9.2	10.1	10.7
Demand deposits	14.8	8.5	5.1	4.9	7.1	7.9
Quasi-money	31.0	17.5	4.6	5.3	11.7	24.7
Memorandum item:			(In percent)			
Money 5//GDP	38.2	37.1				34.6
Quasi-money 5//GDP	10.2	10.7				11.4
Broad money 5//GDP	48.4	47.8				45.9

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

1/ Includes net Fund position at end of period exchange rate as recorded in IFS.
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 change of December data are over a 12-month period; the percentage change for end-March, July, September 1985 are in relation to end-1984 data.

5. Balance of payments developments and external policies

The program targets for 1984 (as subsequently revised) included a current account deficit of SDR 902 million (7.3 percent of GDP), 1/ an overall balance of SDR 12 million (after debt relief), and an increase in foreign exchange reserves of SDR 195 million (Table 7). These targets assumed an export growth of 12 percent and an import growth of 3.9 percent in SDR terms. External policies envisaged under the program, in particular the flexible exchange rate policy, the import liberalization, and external debt management, were implemented during 1984, though there were delays in the finalization of debt rescheduling for 1983/84 (see below).

Between July 1983 and May 1984 in nominal effective terms, the dirham depreciated by 16.2 percent (including 7 percent between January and May 1984) against the Bank of Morocco's currency basket and by 14.9 percent on a trade-weighted basis. Adjusted for relative movements in consumer prices, the real effective exchange rate is estimated to have depreciated by 10.7 percent against the currency basket and by 9.5 percent on a trade-weighted basis over the same period (see Chart 4). Though there was a subsequent appreciation in real terms by December 1984 of 2 percent against the currency basket and of 4.3 percent on a trade-weighted basis, there still remained a significant improvement in the competitiveness of exports. In terms of imports, the impact was lessened by the reduction in the special import tax from 15 percent to 10 percent in January 1984 and by the lowering of import tariffs (reducing the maximum tariff to 60 percent) which was implemented in order to bring about greater trade liberalization.

Apart from the reduction in import tax and tariffs, the import restrictions which had been severely tightened in the first months of 1983 and partially relaxed in the period May-December 1983 were further eased in January and July 1984. As a result, the share of unrestricted imports in total imports, which had declined from 42 percent at end-1982 to 17 percent by mid-1983, rose to 48 percent 2/ in July 1984, thus achieving a degree of liberalization exceeding that prevailing before 1983. In addition, the import deposit scheme was reduced from

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1/ This target, established in EBS/84/129 (June 6, 1984), excluded the estimated interest costs of the rescheduling exercise (SDR 90 million) which were deducted from the estimates of gross debt relief; when included, the target was SDR 992 million, equivalent to 8.1 percent of GDP.

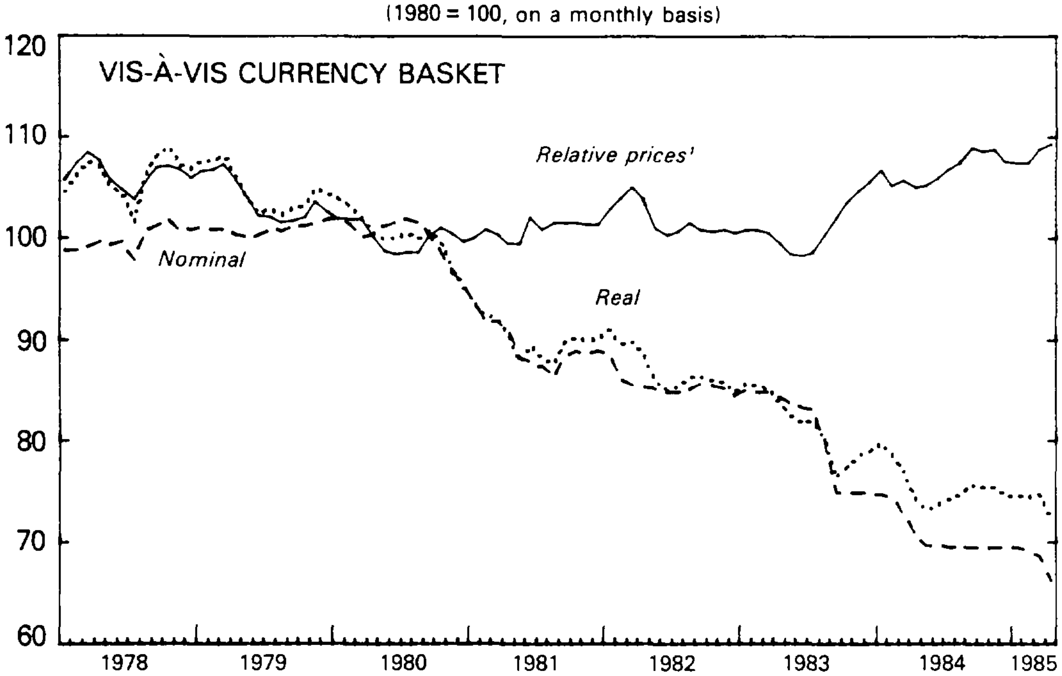
2/ In addition, imports of petroleum products, cereals, and sugar, representing about 27 percent of the total, are administratively controlled but imported without restrictions taking into account domestic demands.

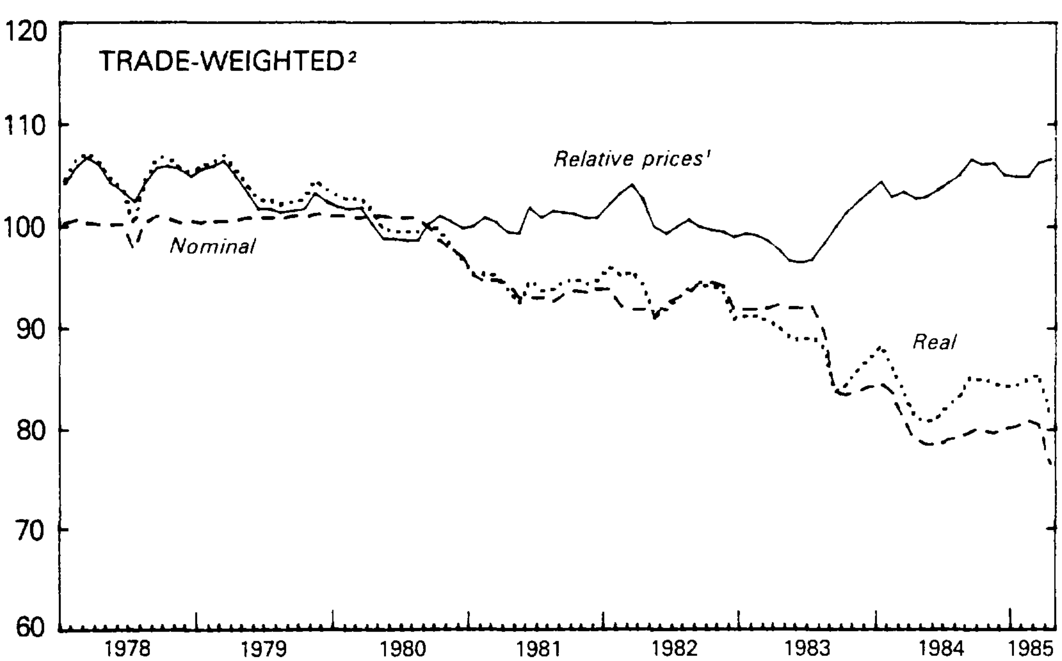
CHART 4

MOROCCO

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978-85

(1980 = 100, on a monthly basis)





Source: Currency weights supplied by Moroccan authorities, decrease in index indicates depreciation.
[1] Relative consumer prices; domestic prices indices/weighted partner price indices.
[2] Excluding oil imports and phosphate exports and including tourism

Table 7. Morocco: Balance of Payments, 1982-85

(In millions of SDRs)

	1982 Revised	1983 Revised	1984 Prog. EBS/84/71	1984 Rev. Prog. EBS/84/129	1984 Est.	1985 Proj.
Merchandise trade (net)	-1,605	-1,136	-918	-915	-1,350	-998
Exports	1,850	1,951	2,095	2,159	2,115	2,345
Phosphates and derivatives	(827)	(865)	(934)	(989)	(985)	(1,057)
Other	(1,023)	(1,086)	(1,161)	(1,170)	(1,131)	(1,288)
Imports, f.o.b	-3,456	-3,087	-3,013	-3,074	-3,465	-3,343
Services (net)	-1,085	-769	-893	-897	-816	-792
Freight and insurance	-328	-171	-268	-284	-220	-195
Other transport	41	36	44	38	22	33
Tourism	298	350	404	404	405	479
Investment income	-671	-755	-804	-815	-904	-1,028
Government and other services	-425	-229	-269	-240	-120 2/	-81 2/
Private transfers (net)	889	914	871	910	918	990
Current account	-1,802	-992	-940	-902	-1,248	-800
Nonmonetary capital (net)	1,217	359	-80	-128	-307	-76
Private 1/	152	-134	50	-13	27	-30
Official grants	185	132	—	15	15	297
Public sector loans (net)	849	361	-130	-130	-350	-343
Disbursements 3/	(1,618)	(1,262)	(1,041)	(1,041)	(934)	(1,100)
Amortization	(-769)	(-901)	(-1,171)	(-1,171)	(-1,284)	(-1,443)
Debt relief	—	395 4/	1,032	1,042	1,333 4/	...
Overall balance	-585	15	12	12	-222	-876
Financing	585	-15	-12	-12	222	876
Net use of Fund credit	401	91	183	183	133	72 5/
Change in other net foreign assets (increase-)	-69	147	-195	-195	-13	-152
Financing gap to be filled by debt relief	—	—	—	—	—	1,059
Arrears	253	-253	—	—	63 6/	-63 6/
Delays in completing bank rescheduling	—	—	—	—	40	-40
Memorandum items:						
Current account deficit in percent of GDP (before debt relief)	13.3	8.0	7.5	7.3	10.7	6.5
End-year gross reserves (months of imports)	0.6	0.4	1.3	1.3	0.2	0.6
DH/SDR	6.65	7.61	8.9	8.9	9.0	10.1

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

1/ Including errors and ommissions.
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.
5/ Includes Fund purchases under proposed program of SDR 40 million (SBA) and SDR 85.5 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.

15 percent to 10 percent in January 1984 and eliminated in July. The elimination of the export monopoly of the Office de Commmercialisation et d'Exportation (OCE) for processed food exports and the elimination of export licensing requirement for industrial and most agricultural products were measures taken as part of the program to promote exports.

These policies achieved some success in 1984. Exports, at SDR 2.1 billion, were in line with the revised program target, and represented an 8.4 percent increase over the revised level recorded in 1983. In volume terms exports grew by 4.6 percent reflecting a strong performance of finished and semi-finished goods which offset the weak demand for Morocco's traditional exports, such as phosphate rock, and lower agricultural exports resulting from adverse weather conditions. However, imports on a c.i.f. basis grew by 13.1 percent, substantially more than the 3.9 percent projected in the program. Two thirds of the excess relative to target can be attributed largely to the drought, which made necessary the higher imports of cereals and of fuel, to compensate for the reduced production of hydroelectric power. The remaining one third reflected some restocking after the severe import restrictions in 1983, the relatively high degree of liquidity in the economy at the beginning of the period, and some recovery in investment in the public enterprise sector.

The higher than projected trade deficit was partially offset by an improved performance on the services and transfers accounts, which reflected, inter alia, lower freight charges, and a rapid rise in tourist receipts. Nonetheless, the current account in 1984 registered a deficit of SDR 1,248 million (10.7 percent of GDP), substantially higher than had been programmed (see Table 7).

Capital inflows were significantly lower than had been anticipated, but this was offset to some extent by higher debt relief than originally estimated, resulting from better terms obtained from non-Paris Club official creditors. The overall balance of payments recorded a deficit of SDR 222 million compared with a programmed surplus of SDR 12 million. The projected reconstitution of reserves to an amount equivalent to 1.3 months of imports did not take place; gross reserves declined instead by SDR 52 million to a level of SDR 50 million and net reserves other than net liabilities to the Fund remained stable after taking into account a reduction of certain foreign liabilities of the Central Bank. There was an accumulation of external arrears of SDR 63 million on payments of rescheduled military debt; the authorities stressed that these arrears were caused by administrative delays by certain government departments in the processing of obligations falling due and that requests for foreign exchange had not been presented to the Central Bank. SDR 5 million of these arrears were paid in January 1985. In March 1985 the authorities stated that the remaining arrears would be paid as soon as possible, after verification of the amounts, and in any case before end-July 1985.

Following protracted negotiations on the 1983/84 debt rescheduling with commercial banks covering about US$ 530 million of principal payments, the Moroccan authorities and the banks' Steering Committee reached agreement in late January 1985 on the outstanding issue of the formulation of the covenants related to the monitoring of adjustment policies by Morocco. The full rescheduling agreement including the complete legal documentation is expected to be finalized in the coming weeks. The delay in completing the 1983/84 rescheduling agreements led to delays in paying 10 percent of the 1984 principal due to commercial banks (estimated at SDR 40 million). As of end-May 1985, debt rescheduling agreements for 1983/84 with official creditors have been signed except for those with Italy, Japan, the Islamic Republic of Iran, and some non-Fund member countries with whom contacts are continuing. The amount of principal and interest payments for which bilateral agreements have not been signed yet totaled SDR 112 million at end-December 1984. As a result of the debt relief from rescheduling arrangements either completed or under negotiation, the debt service ratio which, before debt relief, would have risen from 44 percent in 1983 to 57 percent in 1984, actually fell from 33 percent in 1983 to 23 percent in 1984. The total outstanding stock of external debt, including short-term debt and liabilities to the Fund, is estimated to have risen from SDR 11.6 billion at end-1983 (94 percent of GDP) to SDR 12.6 billion (108 percent of GDP) at end-1984. Of this stock, some SDR 3.7 billion was owed to OECD countries, SDR 3.2 billion was owed to non-OECD countries, SDR 2.5 billion to multilateral agencies, and SDR 2.8 billion to commercial banks.

Morocco continues to maintain restrictions on payments and transfers for current international transactions in the form of limits on the availability of foreign exchange for most invisibles. These restrictions are maintained under Article XIV. In addition, there is an exchange restriction giving rise to external payment arrears, which is subject to Fund approval under Article VIII, Section 2 (a). Morocco also maintains bilateral payments agreements with two Fund members which have been inoperative for some years. Since there are no outstanding balances owed by Morocco under these arrangements, they do not involve exchange restrictions on the part of Morocco subject to Fund jurisdiction.

IV. Report on Discussions

The authorities are fully aware that the achievement of a viable equilibrium over the medium term requires the implementation of strict management policies and the introduction of measures designed to strengthen the instruments of control over aggregate demand, and to ensure a more efficient utilization of industrial and agricultural productive potential. To that end, a number of policy actions are presently underway, which are supported, in part, by the technical and financial assistance provided by the World Bank. The policy discussions during the consultation focused on the reasons for the divergence, especially in the second half of 1984, between program targets and actual outcome, and on the necessary actions to ensure successful implementation of adjustment within a medium-term scenario; they concentrated in particular on the strengthening of public finance, the rehabilitation of public enterprises, financial sector reform, price adjustments and liberalization, and the strategy undertaken to liberalize imports and encourage export growth.

The Moroccan authorities have reaffirmed in the letter of intent their commitment, first provided in the 1983/84 program and again at the Consultative Group meeting in Paris in January 1985 to achieve a viable external position by 1988. The Moroccan authorities recognize that, given the disappointing current account performance in 1984, the attainment of the objective by 1988 would represent a considerable challenge, and would require a substantially strengthened adjustment effort for each of the next four years. 1/

1. Fiscal policies

The discussions focused on the need to achieve over the next two years a further substantial decline in the overall Treasury deficit in order to support the external adjustment effort. This will require an important revenue effort, restraint on current expenditure, and a comprehensive restructuring of investment expenditure, including a strengthening of budgeting, and monitoring procedures.

On the revenue side, the staff mission expressed concern at the slow pace in the adoption of the long-awaited tax reform, also in view of the fact that pending its implementation the authorities consider it inappropriate to introduce new tax measures. Taking into account the reduction in the special import tax, the tax effort as a ratio of GDP declined from 24.3 percent in 1982 to 22.2 percent in 1984. While recognizing that the reduction in the special import tax will help to reduce the degree of protection and ultimately contribute to higher growth, the authorities emphasized the difficulties in finding alternative sources of revenues. Regarding the tax reform, the authorities explained that the longer-than-expected consultations with the social partners which caused the delayed presentation to Parliament will facilitate the discussion of the reform in Parliament. Although

1/ The details of the medium-term framework within which the 1985/86 program is designed are provided in Appendix IV along with scenarios which indicate the sensitivity of the projection to some alternative assumptions.

this reform will improve the elasticity and the equity of the tax system, the authorities do not expect in the short-term major revenue gains; they indicated that an increase in the tax rates would have made more difficult the orderly implementation of the tax reform. The mission stressed that if the tax reform would not contribute to a significant increase in revenue, and other tax increases could not be considered, more effort would have to be made in restraining expenditure, or in reducing the extended system of tax exemptions that have been granted in recent years to important economic sectors, such as agriculture, investment activities, and export industries under various tax codes.

A major weakness in public finance management in recent years has resulted from the ambitious Development Plan for 1981-85, which has involved too high a level of annual authorizations. Since Morocco faced growing financial constraints in this period, the amount available for actual investment outlays fell considerably short of the initial authorizations. The budgetary system was unable to limit the level of expenditure authorizations, which, to the extent that they were not utilized, were carried over cumulatively from year to year. Confronted with this situation, the authorities adopted in 1984 some ad hoc measures to ensure that executive approvals for capital expenditure by the Ministry of Finance which is necessary to begin procurement activities would remain within the limit of the resources available. These have included cancellation of authorizations, postponement of appropriations which had not yet been committed, and delay in the granting of executive approval by the Ministry of Finance. Priorities were set in consultation with the World Bank in the context of detailed sectoral reviews. Cancelled authorizations amounted to DH 4.6 billion in 1983 and DH 6.0 billion in 1984. In 1985 the Government further tightened the review procedure for approving expenditures, and carried out a comprehensive inventory of all remaining projects of the 1981-85 Plan according to their stage of preparation or execution in physical as well as financial terms. This review was completed in May 1985. For the time being, no new projects are being approved. With the further cuts of authorization (tentatively estimated at DH 4 billion), which are expected to take place, total outstanding appropriations for capital expenditures will be reduced to DH 22.8 billion, which compares with expected resources available in 1985 of DH 10 billion, including a special grant of DH 3 billion. Further cuts in authorizations are expected to take place as projects are reviewed to be carried over into the new Plan beginning in 1986. It is expected that the remaining carry-over will be absorbed over the next two or three years.

The authorities recognize that these stop gap measures have to be replaced by a substantially strengthened system of planning, budgeting and monitoring procedures to ensure that project proposals are consistent with priorities and resources availability, and that the investment budget is controlled at an early enough stage to prevent delays due to inadequate resources later on. To that end, with the assistance of the World Bank, the capability of the Ministry of Finance to review project proposals prior to the inclusion in the budget is being strengthened, and a system of monitoring investment projects, from their inception in the Plan and inclusion in the Budget Law to their execution and completion, is being designed for implementation in 1986. An investment review is scheduled to be carried out with the World Bank in October 1985 to examine the composition of the new Plan and the 1986 investment budget.

An inventory of the payment delays under the current budget has been recently established in the context of a comprehensive survey of reciprocal debt and claims between the Government and public enterprises. This shows that at end-1984 there was a net debt of the Government toward public enterprises of DH 5.4 billion, of which DH 3.4 billion is related to current operations. In addition to an unspecified amount attributable to normal delays in the settlement of bills, this debt includes Government payments arrears for public utility services and consumer subsidies. To ensure that public utility services are promptly paid, the provisions for public utility consumption have been substantially increased in the 1985 budget, and measures have been taken to contain government consumption of such services. For example, utilities have been authorized to cut services to departments in arrears. In addition, the comprehensive program for rehabilitation of public enterprises now underway, as discussed below, should permit a substantial curtailment of subsidies and transfers from the government to public enterprises, which have been a main cause of the weakness of public finance.

2. Public enterprises reform and price policies

Following a number of studies undertaken since 1981, the Government has established as one of its main priorities an improvement in the performance of public enterprises, both operationally and financially. To ensure progress in this area, an Interministerial Committee under the chairmanship of the Prime Minister was assisted by a special Oversight Committee established in 1984, and has coordinated the adoption and implementation in 1984 and early 1985 of a number of rehabilitation measures in six major economic sectors. These include cancellation of reciprocal debt and claims, tariff and price adjustments, consideration of means to rationalize the organizational and management structure and improve financial performance, including overall restructuring and, in certain cases, liquidation and privatization. The price measures adopted concern mainly the energy, transportation and water distribution sectors. Since early 1985 rail fares have been increased on average by 7 percent, but on some routes by 15 percent to 20 percent; coal prices have increased by 20 percent; power tariffs were increased by 12.5 percent; water rates were raised by 13 percent.

The authorities stressed that efforts would be intensified in 1985 to improve the performance of state enterprises, rationalize their operations, and reduce further their financial dependence on the budget. The formula of "contrat programme" with major public enterprises, which defines the objectives of the enterprises' performance, would be applied in 1985 to three major enterprises in the transportation and energy sector, following the first program with the national airline which was finalized in 1982. The Government is considering a program of enterprise reform with World Bank assistance. A World Bank mission visited Morocco in May 1985 to analyze the key changes that would be needed in the Government's administrative and control mechanism over public enterprises, and the other main measures necessary for a rehabilitation of the public enteprise sector. These include better procedures for evaluating and implementing enterprises' investment, and improved internal control and accounting methods. Together with these comprehensive measures of reform, which are to be elaborated and implemented starting in the coming months with World Bank assistance, specific rehabilitation programs for key enterprises will be prepared in the second half of 1985, so as to be operational in 1986.

The authorities stressed their determination to continue with the policy of price liberalization in order to increase the flexibility of productive activity and provide appropriate incentives for economic expansion. After the substantial measures of price decontrol adopted in 1984 and early 1985, apart from public tariffs and food items subject to budget subsidies, only few products which represent mostly natural monopolies or goods for which imports are restricted remain subject to price controls. Parallel to the import liberalization envisaged for the period ahead, further price decontrols will take place. In addition, the price of certain agricultural inputs still under administrative surveillance will be liberalized in the context of a structural reform project in agriculture under way with World Bank support.

3. Financial sector reform

The authorities are aware of the need to improve the efficiency of the financial sector, so as to ensure a larger mobilization of domestic savings, decrease the rigidity in credit allocations and provide adequate financial resources to the priority sectors. To that end, some significant measures of reform have been adopted in 1984 and early 1985, and further actions will be undertaken in the coming months. Assistance in the financial sector reform is being provided by the World Bank in the framework of an adjustment loan for 1985 and 1986.

The minimum Treasury bond purchase requirement at low interest rate (4.25 percent) against banks' deposits distorted the interest rate structure and represented a strong disincentive to the mobilization of term deposits. To correct this situation, the requirement was eliminated in January 1984 on deposits with more than 12 months' maturity, and in April 1985 on all term deposits. With the abolition of the obligatory placement requirement on term deposits, it is expected that the competition of banks for attracting these deposits will increase; to promote this development, the Central Bank intends to adjust credit ceilings on individual banks taking into account their success in increasing their time deposit base.

The authorities stressed that in 1984 and early 1985 the Treasury recourse to the Central Bank was reduced, while they promoted the issue of Treasury bills to the commercial banks on the money market at flexible interest rates. They intend to continue this policy in the future, so as to gradually reduce the stock of outstanding advances to the Treasury in the portfolio of the Central Bank. This will improve the efficiency of the financial system in several ways. It already permits the Central Bank to control monetary developments and liquidity in a more flexible manner through the money market rather than, as in the past, through rediscount quotas which include elements of rigidity; ultimately, when the Central Bank liquidity control will have become fully effective, it will be possible to dispense with the present administrative ceilings on bank credit expansion, which hamper competition. Secondly, this new policy forces the Treasury to compete for resources with the private sector on the financial market at interest rates which fully reflect the relative scarcity of resources. Implementing this new policy, in 1984 and on a larger scale in the first months of 1985 the Central Bank conducted operations on the money market with banks on a very short-term basis, at variable interest rates and on a fully discretionary basis; at the same time, over the last two years, rediscount quotas have not been adjusted.

As discussed below, the authorities have agreed during the consultation discussion to increase the level of interest rates so as to stimulate savings mobilization, and to reduce certain rigidities in the structure of lending rates, which induced undesired distortions in lending patterns. Measures are also under preparation, with the assistance of the World Bank, to increase the amount of resources channelled to medium- and long-term lending; to that end, the role of the long-term lending financial institutions is being strengthened, and obstacles to commercial banks' long-term lending are being removed.

4. External policies

Since the second half of 1983 Morocco embarked on an ambitious process of trade liberalization, aimed at increasing the efficiency of the industrial sector by gradually exposing it to external competition and at eliminating the biases which favored production for the domestic market and benefitted high cost producers. At the same time, administrative restrictions and procedures which hampered export activity have been phased out and several export promotion measures adopted. An important instrument in support of this strategy has been the flexible exchange rate policy, which has strengthened the incentive to export, while providing a more efficient protection to the domestic industry to compensate for the reduction in tariff and quantitative import restrictions.

There has been considerable debate within the Government on the extent to which the trade liberalization program has contributed, along with the drought, to the difficult trade account performance in 1984. The mission stressed that the liberalization program is essential to ensure the removal of the distortions which have hampered in the past the channelling of resources to the more efficient sectors of the economy and toward the export sector, thereby limiting economic growth. At the same time the mission emphasized the need that this program be complemented by appropriate demand and exchange rate policies so as to avoid an unsustainable import expansion.

The authorities intend to continue over the next four years the process of trade liberalization in the framework of a program supported by the World Bank, by eliminating quantitative trade restrictions for an increasing number of industrial goods which are domestically produced and reducing the overall level of protection to 25 percent. The process of liberalization will also permit the elimination of price controls on the products where imports are presently restricted. The authorities also intend to continue to promote exports by eliminating export licensing requirements for additional products, and by the simplification of trade procedures at the level of customs, banks, and transport authorities, which they recognize to be overly cumbersome and cause unnecessary delays.

The authorities expressed their concern about the import restrictions by the EC, its main export market, and about the possible negative repercussions of the EC enlargement on Morocco's access to the EC market for its products. Regarding protectionism in the EC, the staff notes that although Morocco's industrial exports to the EC are free of custom duties (which is a more liberal arrangement than the one applied by the EC to competing developing countries in Asia), and that room exists under voluntary export arrangements for some exports to EC countries, the uncertainties regarding both the voluntary restraint arrangements and the common agricultural policy have adverse impact on investment in Morocco. With regard to the EC enlargement, there may be no adverse impact on Morocco's exports of some industrial products, for instance textiles, taking into account that Spain and Portugal are exporters of goods of different qualities, and that Morocco enjoys strong advantages vis-à-vis these countries in terms of labor costs; on the contrary, the enlargement may increase the possible outlet for its products. On the other hand, the impact of enlargement on Morocco's substantial citrus exports appears at present uncertain, as it will depend on production trends in the enlarged community.

V. The Adjustment Program for 1985 and 1986

1. Overall objectives

In view of the disappointing performance in 1984, there is a need for substantial adjustment to achieve a viable balance of payments position by 1988. To this end, the authorities have established an adjustment program for calendar years 1985 and 1986 in support of which the Government of Morocco is requesting the proposed stand-by arrangement. The principal objectives of the program are to reduce the current account deficit of the balance of payments to the equivalent of 6.5 percent of GDP in 1985 and to some 4-4.5 percent in 1986. This would enable them to reconstitute foreign reserves and to limit the financing requirements to a level which, taking into account debt relief, can be covered with the projected assistance of donor countries.

The balance of payments targets are predicated on a substantial growth of exports and a containment of imports. They imply a significant increase in domestic savings, a containment in the investment ratio and a shift of resources toward the export sector. Real GDP is estimated to rise by 4.4 percent in 1985 in view of the recovery in agricultural production, resulting from better rainfall; GDP growth in 1986 is assumed at 4 percent. The rate of inflation is expected to remain at about 12 percent in 1985. The external adjustment is to be achieved through a further substantial decline in the overall Treasury deficit, tight income and monetary policies, further price adjustment for public services and mass consumption goods, and a flexible exchange rate policy. At the same time, the structural policies underway to make more efficient use of the available agricultural and industrial potential are to be continued as discussed above, so as to ensure adequate growth of the economy. These policies include an improvement in the performance of public enterprises, further liberalization of prices and of foreign trade, further increases in agricultural producer prices and export promotion measures. The program will include a strict monitoring of the reduction in government arrears and payments delays, and measures to avoid the emergence of any new domestic and external arrears. To ensure strict implementation of the program and greater flexibility of policies in the light of changing circumstances, in addition to quarterly performance criteria, the program includes prior actions, monitoring through three reviews and an indicative net foreign asset test.

A detailed policy package for 1986 will be prepared at the time of the second review of the program scheduled for end-1985, but the principal fiscal objectives for 1986 have already been established.

2. Fiscal policy

As in 1983 and 1984 fiscal adjustment will continue to be a key element of the program. To help limit aggregate demand to a level compatible with available resources, a number of measures have been taken to reduce the overall Treasury deficit in 1985 on a payment order basis, (excluding the settlement of payment arrears and before debt relief) to an amount of DH 8 billion, equivalent to 6.5 percent of GDP, from DH 8.6 billion (8.1 percent of GDP) in 1984. In addition, in 1985, the Government will reduce domestic payments delays and arrears, estimated at about DH 9.4 billion and mostly related to capital expenditures, by DH 3 billion (an amount equivalent to 2.4 percent of GDP) by using a foreign grant obtained by the Government of Morocco in 1985. Thus, the overall Treasury deficit on a cash basis will amount to DH 11 billion. Although detailed budgetary estimates for 1986 have not yet been prepared, the authorities' objective will be to reduce further in 1986 the overall fiscal deficit, on a payment order basis, to an amount equivalent to a range between 4 percent and 4.5 percent of estimated GDP. As indicated in the letter of intent, the Government will reach understandings with the Fund in the context of the second review of the program on the policies and measures to be implemented in 1986, so as to achieve the above fiscal target.

Revenues are expected to increase by 16 percent, about the same rate as the increase in GDP and higher than the expected increase in expenditure, despite a further reduction of the special import tax of 2.5 percentage points to 7.5 percent in January 1985, which results in an estimated loss of DH 800 million. Pending implementation of the tax reform, the authorities feel that no new tax measures can be envisaged. The contribution to the budget of the state phosphate company, OCP, will rise by DH 1 billion to DH 2.1 billion, in light of the favorable financial prospects for the company in 1985, resulting from higher export volumes and the exchange rate adjustments underway. An important source of new revenues will be provided by the collection of the tax amnesty payments (contribution libératoire) with regard to income taxes, stamp duty and other taxes, which are expected to yield DH 600 million, and by the strengthening underway of tax assessment and collections, expected to yield DH 400 million. The latter is supported by new legislation and increased administrative resources. In the first three months of the year fiscal revenues were in line with program targets, with a small shortfall in custom duties and indirect taxes offset by larger than expected direct tax revenues. The Government recognizes that the proposed tax reform is urgently needed to provide flexibility in fiscal management and to increase revenue elasticity, and intends to make a maximum effort to ensure that the reform presently under consideration by Parliament be approved rapidly. Priority is to be given to the adoption of the value added tax, so that this tax may enter into force before end 1985. However, no additional revenue from the introduction of the value added tax is included in the present estimates.

The growth of total expenditures (before debt relief) will be contained to 9.8 percent through strict limitation both of current and of capital expenditure. 1/ With regard to current expenditure, the measures adopted include the limitation of net recruitment in the civil service to 2,000 persons, an amount equal to that of 1984, and the limitation of the wage increase, granted after 2 years of freeze, to 5 percent. This increase will be applied only to the first 150 points of the salary scale. Taking into account recruitment and advancement the total wage bill will rise by 9.4 percent. As indicated above, the budgetary provisions for public utility services have been increased substantially and control on consumption has been strenghtened to ensure that such services will be promptly paid and no new arrears occur. Reflecting a postponement of price increases for social reasons, consumer subsidies are projected to increase by 30 percent to DH 2.8 billion in 1985. Total current expenditures excluding interest payments are expected to rise by 12 percent, compared with a 5.3 percent growth in 1984. With a relatively substantial increase in interest payments due partly to the upward adjustments in domestic interest rates and an appreciation of the U.S. dollar, total current expenditures before debt relief is projected to increase by 16.0 percent, compared with a growth of 11.8 percent in 1984.

Capital expenditure is targeted in 1985 at DH 6.65 billion. In addition, as indicated above, during 1985 the Government will reduce payment delays under the capital budget by using the main part of a grant of DH 3 billion. Carried-over authorization for capital expenditure which will be committed in 1985 will be limited to DH 14.3 billion, an amount which is consistent with the limit on actual outlays and should permit the absorption of existing payment delays under the capital budget. The reprogramming of investments which the Government is presently preparing will be discussed during the second review of the program, in the context of the discussion on the 1986 budget. It is envisaged that an additional cancellation of authorizations of about DH 4 billion will take place at end-1985.

To cover the overall Treasury deficit, the domestic financing is planned at DH 3.8 billion of which DH 2.8 billion will represent the recourse to bank credit and DH 1 billion non-bank financing. The latter will take the form of placements with nonbank financial institutions and, for the first time, of bond issues placed among the public

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1/ After debt relief the rate of growth is estimated to be 13.1 percent. The difference between the growth rates reflects the smaller amount of debt relief on interest charges expected in 1985.

at competitive interest rates. External financing is projected at DH 7.2 billion, including DH 3 billion from grants, gains from debt relief, long-term borrowing, and an anticipated amount of DH 2.4 billion in external medium-term borrowing representing financing for cereal imports. The stock of fonds réservés (bills awaiting payment) which represents a financing item and a performance criterion under the program, amounted to DH 962 million at end-1984, and is limited to a maximum of DH 1 billion in 1985. The limits on the overall Treasury deficit, established on a cumulative basis, for end-July, September and December 1985 are performance criteria (Table 8); these limits will be reduced by the amount by which actual interest payments on external debt will remain below scheduled payments, because of debt relief, and to the extent that grant disbursement will exceed the reduction of arrears, as explained in Table 8. In the first quarter of 1985 the overall Treasury deficit on a cash basis, i.e. including the settlement of arrears, amounted to DH 3.5 billion, in line with program targets.

As indicated above, the Government will adopt provisions to prevent the emergence of new arrears or payment delays under the current and the capital budget, and to gradually liquidate existing arrears or payment delays. In 1985 the main emphasis is on the reduction of the arrears and payment delays under the capital budget. With regard to net arrears related to the current budget, a system of quarterly monitoring will be established to avoid any new arrears; the situation of public finance in 1985 does not permit a significant decline of the outstanding arrears; a timetable and financing of their reduction will be discussed with the staff in the context of the preparation of the financial program for 1986.

3. Monetary and credit policies

The program envisages that monetary and credit policy will be consistent with the targets for the balance of payments and the increase in external reserves, and the budgetary policies indicated above. Net domestic credit will be allowed to increase by 10.1 percent, or slightly more than in 1984 (9.5 percent). This increase is less than the projected increase in nominal GDP (17 percent), and, taking into account the reduction between 1984 and 1985 of projected capital inflows, should ensure adequate liquidity tightness in the economy. The expansion of credit to the economy is set at DH 2.8 billion (11.9 percent), somewhat below the expansion recorded in 1984 (DH 3.2 billion), partly because of the large settlements of arrears by the Government, which is expected to reduce the need of bank credits by enterprises. Credit to the Government will increase by no more than 8.7 percent. Taking into account the targeted increase in international reserves, broad money is estimated to increase in 1985 by 12.5 percent, considerably below the 17 percent increase projected for nominal GDP. Quarterly ceilings, which represent performance criteria, have been established for total domestic credit and bank credit to the Government for end-July, end-September and end-December 1985 (Table 8). These

Table 8. Morocco: Quantitative Performance Criteria for 1985

	1984 Dec. Actual	1985 March Prelim.	July	Sept.	Dec.
			Programmed		
		(In millions of dirhams)			
Cumulative overall Treasury deficit	7,457	3,418	6,500 1/	8,600 1/	11,000 1/
Total domestic credit	55,532	57,533	59,600 2/	60,272 2/	61,122 2/
Bank credit to the Government	29,917	32,045	32,450 2/	32,617 2/	32,717 2/
Net outstanding "fonds réservés"	962	851	1,000	1,000	1,000
		(In millions of U.S. dollars)			
New nonconcessional foreign borrowing with maturities of 1 to 15 years 3/ (cumulative)	...	65	500	500	500
Of which: with maturities of 1 to 5 years 4/	...	(56)	(250)	(250)	(250)
Maximum outstanding short-term external credit 5/	918.0	...	1,000	1,000	1,000
External payment arrears	62	42 6/	0	0	0

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 excess of the scheduled interest payments on external debt (amounting to a cumulative total of DH 2,788 million at end-July 1985, DH 4,871 million at end-September 1985, and DH 6,027 million at end-December 1985) over the actual interest payments. The figures in (b) will be re-estimated during the first review. The figure for July is at present an estimate and a firm figure will be provided before Board discussion.

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 973 million at end-July, DH 2,949 million at end-September, and DH 4,200 million at end-December 1985; the figures in (b) will be re-estimated during the first review. The figure for July is at present an estimate and a firm figure will be provided before Board discussion.

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/ At end-May.

ceilings will be reduced by the amount of foreign aid including debt relief which will not be used for the programmed reduction of arrears, and by the amount by which external financing exceeds the amount programmed. The ceilings for September and December will be reexamined in July during the first review of the program, in light of balance of payments and external reserve developments, and of the debt relief obtained by certain large public and private enterprises. The authorities are adopting measures to ensure that enterprises which benefit from debt relief appropriately limit their recourse to bank credit and budgetary transfers, and are putting in place a monitoring mechanism to ensure that the settlement of delayed payments by the Government lead to a repayment by enterprises of bank debt obtained in the past to cover these delays.

During the first three months of the year, domestic credit developments have been in line with expectations; credit to the economy declined by 2.5 percent from the level of end-December 1984, because of seasonal factors, while credit to the Government has recorded, as expected, a significant increase, reflecting relatively limited external financing obtained in the first quarter. In the 12-month to March 1985, total domestic credit increased by 10.3 percent. The growth of broad money in the same period was 11.2 percent, with quasi-money continuing to grow more rapidly than the total.

To stimulate domestic resource mobilization and to increase the efficiency of the financial system, the authorities have adopted a package of measures effective April 1, 1985 which raise interest rates, increase their flexibility, and eliminate certain distortions in the financial system which represented a disincentive to savings mobilization and to more competition between institutions. The interest rate schedule for time deposits has been raised by 2 points, and has been expressed in the form of minimum rates ranging from 8.5 percent for 3 months deposits to 12 percent for 12 month deposits. Interest rates on deposits with longer maturities have been freed. The interest rate on deposits with the national savings institution (CEN) have been increased by 1 percent to 9 percent. At the same time, lending rates have been raised by 2 percentage points, with the rate on overdrafts raised to 14 percent, and the rediscount rate of the Central Bank has been increased by 1.5 percentage points to 8.5 percent. In the framework of a World Bank supported program aiming at improving the efficiency of the financial system, the system of preferential lending rates is scheduled to be simplified, and discussions will be held by the authorities with the World Bank before the end of the year on a strategy to eliminate interest rate rebates, so as to alleviate distortions in credit allocations.

4. Structural reform

a. Public enterprises and price liberalization

As indicated above, the Government will intensify in 1985 its efforts to improve the performance of public enterprises. It will put into effect the measures adopted in 1984 by the Interministerial Committee and monitored by the Oversight Committee and not yet implemented, particularly in the transportation, energy, water supply and sugar sectors. These measures include pricing, taxation, and investment actions necessary to improve the performances of the enterprises in these sectors, in addition to compensation of reciprocal claims and debts between enterprises and enterprises and the government. The policy of frequent price adjustments will be continued, and the Government will ensure prompt payments for its use of public services. Government transfers to public enterprises for capital expenditures will be limited to DH 1.9 billion, which represents a stabilization in real terms. As previously indicated, three new program contracts with major enterprises will be established.

In the context of the public enterprise structural program which is being prepared with World Bank assistance it is expected that specific reform measures in the area of control by the State, accounting, and pricing policies will be elaborated in the second half of the year, and that they will be rapidly implemented in a number of key enterprises; at the same time a comprehensive rehabilitation program of some key enterprises will be prepared. The progress made in the implementation of these reforms and of the measures already adopted for 1985 will be examined in the course of the second review of the program.

The extensive price liberalization carried out in the period 1983-early 1985, will be continued in the coming months. To that effect the Government has undertaken to decontrol prices of 11 more products during 1985.

b. Subsidy and agricultural reform policies

The Government intends to eliminate over a maximum period of five years the consumer subsidies on the three basic agricultural products (flour, sugar and edible oil), in view of their heavy budgetary costs and of their adverse impact on the structure of production. To this end, the Government will take a number of measures, which will include, in addition to periodical adjustment of retail prices, some of which are to take place in the second half of 1985, a revision of the methods of intervention, a reform of the marketing channels, and the targeting of the sectors and the lower income groups which are to benefit in priority of the subsidies. These measures will be prepared, in consultation with Fund and World Bank staff, during the coming months.

The gradual elimination of subsidies and the reform of the system will be accompanied by measures, which are being prepared in consultation with the World Bank in the context of a structural adjustment loan for agriculture, aimed at promoting cereal production and improving marketing; these measures are required by the fact that the low subsidized retail price of flour, together with rigidities in marketing arrangements, depresses the cereal rice obtained by the majority of producers at a level well below the official producer price, thereby hampering production incentives. The reforms are to be finalized in the second half of 1985; they will include an increased participation of the private sector in the marketing, processing and storage of cereals, the reform of the procurement system to broaden the coverage of the flour price support system, the development of a new methodology for the establishment of support producer prices which should give a greater role to market mechanisms, and a change in import policy to ensure that it does not adversely affect the incentives to domestic production.

The progress in the reform of the subsidy system and in the implementation of the agricultural reforms mentioned above will be examined by the staff in the context of the second review of the program.

5. External policies and prospects

To achieve the current account targets, the main monetary and fiscal policies described above are being supplemented with a continuation of a flexible exchange rate policy. Improvements in the medium-term structure of the balance of payments will be aided by appropriate debt management, and by a continued liberalization of trade. Between end-December 1984 and end-May 1985 the nominal effective exchange rate, measured both vis-à-vis the currency basket and on a trade-weighted basis depreciated by 10 percent. This more than compensates for the further reduction from 10 percent to 7.5 percent in the special import tax in January 1985 and for the real appreciation of the dirham in the latter part of 1984. The export and import competing sectors will be helped by continued exchange rate flexibility in light of anticipated relative inflation so as to maintain through the rest of 1985 the improved competitiveness achieved so far. Exchange rate policy will be re-examined during each review in the light of the progress that will have been achieved in the balance of payments, taking into account the quarterly indicative targets for net foreign assets; the exchange rate policy for 1986 will be established in the context of the program for 1986. In addition, measures are being taken in the context of the World Bank ITPA II loan to streamline customs procedures for exporters and to reduce the number of both export and import items subject to licensing.

Total exports are projected to rise by 10.8 percent in SDR terms in 1985 and by a further 8.3 percent in 1986 (Table 9). SDR export prices are expected to rise on average by 1.8 percent each year, reflecting a small projected decline in the price of phosphate rocks and derivatives, and export volumes to grow by 9.1 percent in 1985 and 6.8 percent in 1986. Increased orders from Eastern Europe and Asia are expected to raise phosphate rock exports by 10.4 percent to 16,500 tons in 1985. Phosphoric acid and fertilizer export are also expected to expand by 10 percent in 1985 and 9 percent in 1986 as more capacity becomes available. Morocco's market share in phosphates and derivatives is projected to rise aided in part by relative cost advantages. The volume of finished manufactured goods, whose growth averaged 8 percent between 1980 and 1984, is projected to rise by 7.9 percent in 1985 and 10.5 percent in 1986 reflecting improved competitiveness.

Total imports in SDRs are projected to decline by 3.5 percent in 1985 and to increase slightly by 1.2 percent in 1986. With the adjustment measures designed to keep imports other than cereals, sugar and crude oil little changed between 1984 and 1986, the fall in imports in 1985 and the subsequent partial recovery is attributed to declines in these three categories of imports. Despite some improvement in rainfall and therefore in the cereal harvest, relative to 1984, cereal imports in 1985 are projected to be 2.2 million tons, compared to 2.7 million tons in 1984 and 1.9 million tons in 1983. The authorities also stated that crude oil imports could be kept to about 7 percent less than the 1984 figure which had reflected some restocking, and substitution for lower hydroelectric power.

The trade deficit is thus projected to be reduced by SDR 350 million in 1985 and a further SDR 155 million in 1986. A small overall improvement in the services and transfer accounts is achieved by a continued sharp growth of tourism, lower freight costs as imports fall, and increased workers' remittances (aided by interest rates and exchange rate policies) which offset the increase in scheduled interest payments on external debt. The current account deficit is, therefore, projected to decline to SDR 800 million (6.5 percent of GDP) in 1985 and SDR 544 billion (4.25 percent of projected GDP) in 1986. Preliminary external trade data for the first quarter of 1985 indicate a substantial decline in imports in SDR terms, by 7 percent, from the level in the first quarter of 1984, reflecting in particular a substantial drop in imports of cereals and of semi-finished products, as programmed. On the export side, exports of agricultural and manufactured products increased markedly in comparison in the first quarter of 1984; there was, however, a decline in the exports of phosphate derivatives due to some special factors, which are expected to be corrected in the ensuing months. Reflecting the performance of phosphate derivatives, total exports in SDR terms were 8 percent below the level of the first quarter of 1984.

Table 9. Morocco: Medium-Term Balance of Payments Projections, 1984-1990 1/

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989	1990
Trade balance	-1,350	-998	-843	-609	-402	-366	-342
Exports, f.o.b.	2,116	2,345	2,540	2,796	3,076	3,388	3,731
Percent change	8.4	10.8	8.3	10.1	10.0	10.1	10.1
Imports, f.o.b.	-3,466	-3,343	-3,383	-3,405	-3,478	-3,754	-4,073
Percent change	12.3	-3.5	1.2	0.6	2.2	7.9	8.5
(Imports, c.i.f.)	-3,809	-3,674	-3,717	-3,741	-3,822	-4,125	-4,476
Percent change	13.1	-3.5	1.2	0.6	2.2	7.9	8.5
Services balance	-816	-792	-769	-723	-624	-547	-524
Nonfactor services	88	237	281	343	416	477	544
Net investment income	-904	-1,028	-1,050	-1,065	-1,036	-1,025	-1,067
Transfers account	918	990	1,068	1,128	1,197	1,268	1,344
Current account (before debt relief) 2/	-1,248	-800	-544	-203	175	354	478
Nonmonetary capital account	-307	-76	-1,297	-799	6	-135	-279
Private (including errors and omissions)	27	-30	25	25	55	55	55
Official grants	15	297	--	--	--	--	--
Public short-term (net)	-65	80	--	--	--	--	--
Public medium- and long-term loans	-285	-423	-1,322	-824	-49	-190	-334
Disbursements	999	1,020	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	-876	-1,841	-1,002	181	219	199
Net foreign assets of the banking system	119	-80	-258	-344	-181	-220	-199
Monetary authorities	125	-62	-258	-344	-181	-220	-199
Net use of Fund credit	133	72	-124	-209	-178	-209	-190
Purchases	180	216	150	35	--	--	--
Repurchases	-47	-143	-274	-244	-178	-209	-190
Gross reserves (- increase)	52	-134	-134	-135	-3	-11	-9
Other net assets	-59	--	--	--	--	--	--
Deposit money banks	-6	-19	--	--	--	--	--
Financing gap	103	956	2,099	1,346	--	--	--
Possible debt relief 3/	...	1,059	1,700	1,200	--	--	--
Other	103	-103	399	146	--	--	--
Memorandum items:							
Current account before debt relief/GDP	-10.7	-6.5	-4.2	-1.5	1.2	2.3	2.9
Share of exports, f.o.b., in GDP	18.1	19.2	19.8	20.6	21.2	21.8	22.4
Share of imports, f.o.b., in GDP	-29.6	-27.4	-26.4	-25.1	-24.0	-24.1	-24.5
Trade balance/GDP	-11.5	-8.2	-6.6	-4.5	-2.8	-2.4	-2.1
End-year reserves (SDR million)	50	184	318	453	456	467	476
End-year reserves (months imports, c.i.f.)	0.2	0.6	1.0	1.5	1.4	1.4	1.3

Sources: 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.

Disbursements of medium- and long-term loans are estimated to be SDR 1 billion in 1985, of which about SDR 200 million represents three-year cereal financing and SDR 170 million disbursements from the World Bank. With scheduled amortization of SDR 1.4 billion in 1985, some margin to increase short-term borrowing under the program borrowing ceilings, and a grant of SDR 300 million, the capital account would show a deficit of SDR 80 million in 1985. Taking into account the targeted increase in net foreign assets of SDR 80 million 1/ (allowing gross reserves to reach 0.6 months of imports), the delayed payments due under the 1983/84 rescheduling agreements, and the payments of arrears outstanding at end-1984, there remains a financing gap of SDR 1.1 billion in 1985, to be covered by anticipated debt relief. In 1986, with scheduled amortization rising to SDR 2.1 billion and disbursements presently assumed to be lower by SDR 200 million than in 1985, the capital account would be in a deficit of SDR 1.3 billion. This would imply a financing gap of some SDR 2.1 billion in 1986 after net repurchases to the Fund and an increase in gross reserves to the equivalent of one month's imports.

To address the problem of the financing gaps, the authorities have requested from the Paris Club and other official creditors and from commercial banks a rescheduling of debt service obligations falling due from January 1, 1985. (A Paris Club meeting will take place after Board discussion). On the basis of terms broadly similar to those obtained in 1984, the financing gap in 1985 should be fully covered. On the same basis there would remain a financing gap of some SDR 400 million in 1986 and needed additional measures to close this or to finance it will be discussed at the time of the second review of the proposed stand-by arrangement.

The authorities intend to eliminate the existing external arrears by end-July 1985 and not to incur any new arrears subsequently. 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. However, in order to ensure that such agreements are speedily concluded, the completion of the first review of the program, which would be a precondition for all purchases beyond the initial purchase under the proposed stand-by arrangement, is dependent on satisfactory arrangements having been made to refinance debt service payments falling due to banks and official creditors.

An indicative quarterly target for net foreign assets of the banking system has been established in order to permit a closer monitoring of external developments and ensure that corrective actions, if necessary, are taken in a timely fashion. These targets, which are reported

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1/ See table 2 attached to the Memorandum of Economic and Financial Policies (Appendix II).

in Table 2 of Appendix II, are based on an approximate quarterly evaluation of receipts and outlays in foreign exchange, consistent with the balance of payments targets. The development of net foreign assets will be an important element in the scheduled reviews of the program.

To avoid any further deterioration in the debt profile on the medium term (see Appendix IV) the authorities are committed to limiting to US$ 500 million new loans of 1-15 years contracted in 1985, with a subceiling of US$250 million on 1- to 5-year maturities and to limiting short-term debt outstanding to US$1 billion. The sub-ceiling on one to five-year maturities reflects mainly credits with three year maturity with foreign government guarantee to finance cereal imports. Taking into account the amortization coming due on cereal loans, the outstanding stock of such loans could increase only modestly in 1985. It is the intention of the authorities to replace the recourse to such loans with longer-term borrowing on the international capital market, if feasible.

6. Performance criteria, and reviews

The program contains the following performance criteria: (a) quarterly ceilings on total bank credit; (b) quarterly ceilings on net credit of the banking system to the Treasury; (c) quarterly ceilings on overall Treasury deficit; (d) quarterly ceilings on the stock of "*fonds réservés*"; (e) ceilings on new nonconcessional loans with a maturity of between 1-15 years contracted, guaranteed or approved by the Government, with a subceiling on loans of 1-5 years; (f) ceilings on the short-term debt; (g) ceilings on external arrears; and (h) satisfactory completion of reviews which are expected to take place no later than end-September 1985, end-February 1986, and end-August 1986.

In the course of the first review, the Fund will ensure that satisfactory arrangements have been made to reschedule external debt service payments, and reach understandings on exchange rate policies and on program adjustments that may be necessary to achieve the targets of the program; progress toward the implementation of the tax reform will also be evaluated. The second review will involve reaching detailed understandings on the fiscal, credit, pricing, exchange rate, and external borrowing policies for 1986, and on the implementation of the structural reforms in regard to government investment budget, public enterprises, pricing policies, agriculture and subsidies policies; in addition, performance criteria will be established for end-March, June, September, and December 1986. This review will also examine the means by which the authorities intend to cover the external financing requirement for 1986. The third review will focus on the program execution during the first half of 1986 and examine prospects for the rest of 1986.

An initial purchase of SDR 10 million (4.5 percent of the amount available under the stand-by) would be available after Executive Board approval of the arrangement; a second purchase of SDR 15 million, after August 31, 1985, after completion of the first review of the program which would be subject to satisfactory debt rescheduling arrangements having been made for adequate financing of the estimated gap for 1985 and the observance of the performance criteria for end-July 1985; a third purchase of SDR 15 million after October 31, 1985, upon observance of the end-September 1985 performance criteria; a fourth purchase of SDR 40 million after January 31, 1986, upon observance of the end-December 1985 performance criteria and the completion of the second review involving the definition of the program for 1986; a fifth purchase of SDR 35 million after April 30, 1986 upon observance of the performance criteria for end-March 1986; a sixth purchase of SDR 40 million after July 31, 1986 upon observance of performance criteria for end-June 1986, and completion of the third review of the program; a seventh purchase of SDR 35 million after October 31, 1986 upon observance of performance criteria for end-September 1986; and a final purchase of SDR 35 million after January 31, 1987, upon observance of the performance criteria for end-December 1986.

The Government further intends to hold discussions with the staff beginning in November 1986 on economic and financial policies for 1987 so as to assure continuity in the adjustment process.

VI. Medium-Term Outlook

Consistent with the authorities' objective of external viability by 1988, the following scenario envisages a reduction in the current account deficit to 1.5 percent in 1987 (from 10.7 percent in 1984), and a small surplus in 1988 and thereafter (Table 9). This reduction would be achieved by cutting significantly public and private consumption and investment as a share of GDP. The savings ratio would increase from 12 percent in 1984 to 16 percent in 1987. At the same time, the fixed investment ratio would decline from 21 percent to about 17 percent as a result of the containment of government investment and a slowing down of investment by public enterprises. The decline in the investment ratio should be offset by an improved utilization of productive capacity and an increase of investment productivity. As a result of the pursuit of policies directed to reduce distortions and increase efficiency in the economy, GDP is projected to grow, on average, by 3 percent per year during the period 1985-88, slightly above population growth.

The external current account targets are predicated on a relatively rapid growth of exports in SDR terms of 11 percent in 1985 and 10 percent thereafter, and a modest import growth of 1 percent per year in SDR terms in 1986-88, after a decline in 1985 which reflects a correction from the high import level of 1984; in addition receipts from tourism and private remittances are targeted to rise relatively rapidly; the terms of trade are assumed to remain broadly unchanged after a slight improvement in 1985. The export objectives take into account the reversal underway of the loss of market shares in phosphate rocks which Morocco suffered in 1982-84, the large capacity which is becoming operational for fertilizers production and exports, and the increase of competitiveness of exports of manufactured products. On the import side the return to more normal weather conditions together with the implementation of measures to stimulate domestic agricultural production are expected to lead to a reduction of the import growth of foods and in particular of cereals. In addition, the restocking of petroleum, semi-manufactured goods and consumer goods which took place in 1984 should permit a reduction in these imports in 1985, so that total imports are targeted to decline in SDR terms by 3.5 percent in 1985. For the period 1986-88, the very low growth rate of imports assumes a favorable performance of agricultural production while imports of consumer goods and equipment goods would remain restrained. This will require tight aggregate financial and income policies and also rapid progress in import substitution so as to decrease the reliance on imported goods. These policies should permit a reversal of the substantial rise in the import ratio which has taken place in recent years.

Even with the achievement of external balance in 1988, the debt service burden will remain high. Debt relief is assumed for each year through 1987. Before relief the debt service ratio is projected to peak at 74 percent in 1986 before declining to about 45 percent in 1988-90 (Table 10). This level in 1988-90 would represent a substantial increase, from an average of 36 percent (after debt relief) in the years 1985-87. Though the stock of outstanding debt is estimated to increase to about SDR 14.2 billion in 1987, it is projected to remain unchanged, as a ratio to GDP, between 1984 and 1986, and to decline thereafter.

VII. Staff Appraisal

Under the adjustment program which covered the second half of 1983 and calendar year 1984, the authorities made some progress in strengthening financial discipline and in initiating structural reforms. The overall fiscal deficit on a cash basis was reduced and so was the rate of domestic credit expansion. Steps were also taken to restructure production and exports through a more flexible exchange rate policy, a substantial trade and price liberalization, a reduction of effective domestic protection, an increase in agricultural producer prices, and more generally a relaxation of administrative control and greater reliance on private initiatives and market forces. Reflecting improved competitiveness, exports grew markedly. At the same time, imports of

Table 10. Morocco: Public Debt Service Payments, 1980-1993

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
						(In millions of SDRs)								
1. Medium- and long-term public debt														
a. On debt disbursed at end-1984 2/	885	1,120	1,408	1,530	2,028	2,228	2,697	2,047	1,602	1,476	1,183	1,055	753	490
Principal	(456)	(609)	(769)	(865)	(1,284)	(1,443)	(2,027)	(1,506)	(1,166)	(1,137)	(909)	(857)	(611)	(376)
Interest	(429)	(511)	(639)	(665)	(744)	(785)	(670)	(541)	(436)	(339)	(274)	(198)	(142)	(114)
b. On projected new disbursements of debt, 1985-1993	--	--	--	--	--	20	192	251	361	442	586	755	948	1,151
Principal	(--)	(--)	(--)	(--)	(--)	(--)	(84)	(84)	(120)	(110)	(163)	(235)	(326)	(423)
Interest	(--)	(--)	(--)	(--)	(--)	(20)	(108)	(167)	(241)	(332)	(423)	(520)	(622)	(728)
c. On projected exceptional financing, 1985-1987 3/	--	--	--	--	--	46	140	269	267	458	943	1,229	1,277	960
Principal	(--)	(--)	(--)	(--)	(--)	(--)	(31)	(54)	(23)	(202)	(652)	(983)	(1,101)	(870)
Interest	(--)	(--)	(--)	(--)	(--)	(46)	(109)	(215)	(244)	(256)	(291)	(246)	(176)	(90)
2. Interest on short-term debt 4/	--	--	--	--	70	70	70	70	70	70	70	70	70	70
3. IMF 5/	124	81	89	106	133	244	373	333	253	266	229	134	56	30
Repurchases	(113)	(54)	(33)	(23)	(47)	(143)	(274)	(244)	(178)	(209)	(190)	(110)	(42)	(19)
Charges	(12)	(27)	(56)	(83)	(86)	(101)	(99)	(99)	(75)	(58)	(39)	(24)	(14)	(10)
4. Total debt service 6/	1,009	1,201	1,497	1,636	2,231	2,609	3,471	2,970	2,551	2,712	3,011	3,243	3,104	2,701
Principal	(569)	(663)	(802)	(888)	(1,331)	(1,586)	(2,416)	(1,888)	(1,487)	(1,659)	(1,914)	(2,185)	(2,080)	(1,688)
Interest	(441)	(538)	(695)	(748)	(899)	(1,022)	(1,055)	(1,082)	(1,065)	(1,054)	(1,097)	(1,058)	(1,024)	(1,012)
5. Total debt service, less debt relief 7/	1,009	1,201	1,497	1,241	898	1,550	1,771	1,770	2,551	2,712	3,011	3,243	3,104	2,701
						(In billions of SDRs)								
6. Total stock of disbursed debt	7.3	8.5	11.0	11.6	12.6	13.2	13.9	14.2	14.0	13.6	13.1	12.5	12.2	12.2
Memorandum items:														
						(As ratio of exports of goods and nonfactor services and transfers)								
7. Total debt service 6/	29.9	34.1	41.8	44.0	57.2	60.5	74.3	58.4	45.9	44.7	45.4	44.4	38.6	30.6
Principal	(16.9)	(18.8)	(22.4)	(23.9)	(34.2)	(36.8)	(51.7)	(37.1)	(26.8)	(27.3)	(28.8)	(29.9)	(25.9)	(19.1)
Interest	(13.1)	(15.3)	(19.4)	(20.1)	(23.1)	(23.7)	(22.6)	(21.3)	(19.2)	(17.3)	(16.5)	(14.5)	(12.7)	(11.5)
8. Total debt service, less debt relief 7/	29.9	34.1	41.8	33.4	23.0	35.9	38.1	34.8	45.9	44.7	45.4	44.4	38.6	30.6
						(As ratio of GDP)								
9. Total stock of disbursed debt	53.2	67.4	81.3	93.6	107.9	108.3	108.3	104.8	96.3	87.3	78.4	69.4	63.9	59.6

1/ On the basis of the medium-term scenario shown in Table 9. Excludes cash payment of arrears and delayed payments.
2/ Including debt rescheduled in 1983-84.
3/ Includes assumptions of debt relief and further exceptional financing on terms broadly similar to those obtained in 1984.
4/ Estimated from 1984 onwards. Excludes interest on Kuwaiti deposit, which is treated as a medium-term loan.
5/ Includes debt service on purchases under proposed compensatory financing facility and stand-by arrangement.
6/ Includes amortization and interest payments on financing gaps in 1985-87.
7/ Less estimated gross debt relief in 1985-87 only, on broadly similar terms to those obtained in 1984 from the Paris Club, other official creditors and commercial banks.

goods and services increased substantially more than programmed and led to a disappointing external current account and reserve performance. In addition, there were continued weaknesses in fiscal management, with some further accumulation of domestic arrears. There were also some external payments arrears and deferred payments due to delays in concluding debt rescheduling agreements.

The large divergence between the program targets and outturn with respect to imports was partly the result of continued adverse climatic conditions in the first half of 1984 which necessitated unplanned additional imports of cereals, other food items and crude oil to compensate for the shortfall in agricultural production and the decline in hydroelectric power output. But other factors were also important. Following the lifting of the severe import restrictions imposed in early 1983, some restocking took place. Moreover, the increase in imports in the context of the import liberalization reflected a more rapid expansion of domestic demand than had been anticipated in the program. This in turn resulted from a relatively high level of liquidity in the economy at end-1983, a continued high level of investment by public enterprises, and the delay by the Government in the payment of certain scheduled external debt obligations. The decision to postpone the intended increase in the prices of essential commodities following social unrest in early 1984 also contributed to a higher level of domestic consumption than envisaged.

In addition to the impact of adverse weather conditions and other exogenous factors on the performance of the economy, Morocco clearly continues to face major structural and financial problems, partly as a result of past delays in preparing and implementing essential structural policies such as the tax reform, the rehabilitation of public enterprises, and the restructuring of the public investment program. Despite a relatively high level of investment, the underlying rate of growth in the economy has been slow. The rate of domestic savings remains low and not commensurate with the investment effort. Public finances are precarious and there are substantial domestic arrears. The external current account deficit is still unsustainably large. The external debt and the prospective debt servicing burden are very worrisome. Against this background and in view of the limited availability of concessional aid, Morocco must undertake a strong adjustment in order to reach a viable position in the medium term.

In light of this, the Moroccan authorities have adopted a program of adjustment for 1985-86 which, if carried out on a timely basis and with determination, the staff believes should advance Morocco toward a sustainable external position by 1988 and lay the foundation for a resumption of growth over the medium term. The program gives emphasis to the reduction in the rate of growth of domestic demand through further reduction in the overall budget deficit, tight monetary policies, and price and income policies. The restraint on demand moreover is complemented by additional structural measures aimed at improving the efficiency in the production system, particularly in the areas of investment planning, public enterprises and agriculture, and at promoting a shift of resources into the export sector. These measures are supported by continuation of a flexible exchange rate policy. The Government has already taken a number of important steps in the areas of exchange rate and interest rates. Despite the social constraints, it is essential that reform of the system of subsidy on essential consumer goods be implemented rapidly, to reduce the burden on the budget. In addition, gradual but sustained price adjustments will be necessary in order to establish appropriate conditions for stimulating agricultural production and reduce reliance on imports.

A major role in the adjustment program is to be played by the targeted improvement in public finance. The measures envisaged by the authorities to increase revenues and contain the growth of expenditure will require measures to strengthen tax collection, to limit recruitment, and to reduce in real terms the level of subsidy payments. In order to ensure close monitoring of fiscal development through the year and the timely adoption, if necessary, of corrective measures, quarterly ceilings have been established, as performance criteria, on the overall Treasury deficit and external payments arrears. As part of the program for 1985, the authorities will complete, with the assistance of the World Bank, the restructuring of the investment program, including the cancellation of additional low priority projects, and the reform of the planning and budgetary system. Measures have also been taken to prevent the emergence of new arrears and to eliminate gradually existing arrears in an orderly fashion. This will be facilitated by the use of an external grant. The formulation of the 1986 budget to be discussed in the context of the second review will constitute an important additional test of the Government's commitment. Inevitably, the magnitude of the adjustment needed in the fiscal deficit will require great restraint on recurrent expenditures and additional tax effort. In this regard, it is important that the tax reform be adopted and implemented as soon as possible and that a review of all tax exemptions under various codes be undertaken.

The monetary and credit policy in the proposed program seeks to strike a balance between providing adequate credit to support a moderate expansion of activity and investment in the private sector and being sufficiently tight to contain the growth in imports. The staff feels that the authorities' credit targets for 1985 are broadly appropriate and consistent with the balance of payments objectives. However, the authorities should be ready to tighten further credit expansion below the proposed ceilings in light of balance of payments and reserve performance. A number of important measures were implemented in April to increase financial savings, improve the allocation of financial resources, and more generally to improve the effectiveness of the system of intermediation. They include an increase of 2 percentage points in interest rates on key deposits and lending rates, the elimination of the minimum Treasury bill requirement for time bank deposits, the reduction of the Central Bank direct financing at nonmarket-related interest rates, and a further expansion of the scope of the money market. Further structural measures are necessary to increase competition among financial institutions and reduce direct government intervention and subsidies in credit allocations. In this respect, the staff welcomes the authorities' intention to prepare additional measures in this area before the end of 1985.

In order to reestablish a viable external balance, the proposed program also includes supply-oriented policies, which should help the economy to return to its potential growth path, include measures to liberalize further the pricing system, to improve the performance of public enterprises, and to revive agricultural production, particularly cereals. As the beneficial effects of these measures are likely to materialize only with some delay, it will be particularly important that these policies be implemented fully and rapidly. The World Bank is assisting the authorities in these areas in the context of two sector adjustment loans to be considered in June.

The pursuit of a flexible exchange rate policy has been instrumental in bringing about improvement in the volume of manufacturing and other exports. The staff believes that this policy needs to be continued, if not intensified, to support the growth of exports and maintain the competitiveness of Morocco's domestic production in the context of the programmed import liberalization and reduction of import taxes. The recent additional steps to liberalize trade restrictions will help the authorities' objectives to promote exports, encourage foreign investment, improve the overall efficiency of the economy, and moderate inflationary pressure. Morocco continues to maintain restrictions on payments and transfers for current international transactions in the form of limits on the availability of foreign exchange for most invisibles. The staff recommends that the authorities aim at the progressive liberalization of these restrictions. All except one of the restrictions on payments and transfers for current international transactions are maintained by Morocco in accordance with Article XIV, and, therefore, are not subject to Fund approval. The exception relates to an exchange restriction giving rise to payment arrears, which is subject to Fund approval under Article VIII, Section 2 (a). In view of the temporary nature of this restriction, the staff recommends the approval until March 31, 1986 or the completion of the 1986 Article IV consultation with Morocco, whichever is earlier.

Within the framework of the external medium-term adjustment, external debt needs to be managed with great care, as the bunching of principal payments poses difficulties for the next few years. The authorities should in particular reduce borrowing with maturities ranging from 1 to 5 years. The authorities have requested from creditor countries and from commercial banks the rescheduling of external obligations falling due from January 1, 1985, and in addition they anticipate some external assistance that would ensure the full financing of the balance of payments deficit for 1985. Following finalization of the 1983/84 rescheduling arrangement, it is anticipated that before Board consideration of the proposed program the staff will have received confirmation of an agreement in principle between Morocco and the banks' steering committee for debt falling due in 1985 on amount of debt relief, the period of consolidation, and related covenants.

The staff believes that the adjustment policies and measures set forth in the authorities' attached memorandum for 1985 represent a further significant effort towards resolving Morocco's economic and financial problems and achieving a viable external payments position with no exceptional financing. Clearly, in view of the size of the required adjustment, the policies will have to be pursued with great determination in a timely fashion. The prior actions already taken and the program reviews with the Fund as provided should reasonably ensure implementation of the proposed measures and their adaptation to changing circumstances. The early adoption of additional measures for 1986 will be crucial to bring about the further necessary adjustment. In the staff's judgement the proposed stand-by arrangement merits Fund support.

It is recommended that the next Article IV consultation with Morocco be held on the standard 12-month cycle.

VIII. Proposed Decision

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

1. The Fund takes this decision relating to Morocco's exchange measures subject to Article VIII, Section 2 (a) in concluding the 1985 Article XIV Consultation with Morocco, and in the light of the 1985 Article IV Consultation with Morocco conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance Over Exchange Rate Policies").

2. Morocco maintains restrictions on payments and transfers for current international transactions under Article XIV, as well as an exchange restriction giving rise to payments arrears which is subject to approval under Article VIII, Section 2 (a). In the circumstances of Morocco, the Fund grants approval for the retention of that restriction until March 31, 1986 or the completion of the next Article IV consultation with Morocco, whichever is earlier.

Morocco--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum dated April 15, 1985, 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 first six months of this stand-by arrangement; 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 225 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 through August 31, 1985; the equivalent of SDR 25 million through October 31, 1985; the equivalent of SDR 40 million through January 31, 1986; the equivalent of SDR 80 million through April 30, 1986; the equivalent of SDR 115 million through July 31, 1986; the equivalent of SDR 155 million through October 31, 1986; and the equivalent of 190 million through January 31, 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 of the memorandum on economic and financial policy annexed to the attached letter; or

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

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

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

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

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

has not been observed; or

(b) if the intentions as regards external payments arrears referred to in paragraph 22 of the memorandum annexed to the attached letter have not been carried out; or

(c) after August 31, 1985, until the first review contemplated in paragraph 4 of the attached letter has been completed; or

(d) after December 31, 1985, until the second review contemplated in paragraph 4 of the attached letter 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) 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 letter and annexed memorandum.

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

Memorandum on the Economic and Financial Policy of the Kingdom of Morocco for 1985 and 1986

I. Introduction

1. The major changes that have affected the international environment since the first oil shock, the severe crisis in the world economy at the beginning of the decade, and the difficulties produced in this context by the inadequate result of the economic policies followed by Morocco, all contributed to the decline in the performance of the economy and to the emergence of major external disequilibria between 1980 and 1982. The deterioration of weather conditions since 1980 has also contributed to these disequilibria. In 1983, faced with this situation, the Moroccan Government re-examined its economic policy and in consultation with the IMF and the World Bank, prepared a medium-term adjustment program to restore a viable equilibrium of external payments and to recreate the conditions for the kind of economic growth that would be suited to Morocco's potential and to the needs of its population. This objective is fundamentally based on a strategy designed to restore the financial condition of the country and to bring about more effective use of existing productive capacities and installed capital.

2. Substantial efforts were made in 1983 and 1984 to arrest the deterioration of the financial situation. However, despite a marked reduction in the fiscal deficit, the balance of payments deficit remains large, and the external debt service burden has increased because of the increase in the outstanding debt, the appreciation of the dollar and the rise in interest rates. In the view of the constraints resulting from the level of its external indebtedness, Morocco must carry out its adjustment and restructuring process over a relatively short period of time and chart a precise course of action between the difficult requirement of restoring the basic equilibria and the need to sustain economic growth and social stability. The main objectives set by the Government for 1983-1988 may be summed up as follows:

a. An average annual growth target of 3 percent. This target calls for a range of measures leading to more efficient use of the available agricultural and industrial potential in normal weather conditions, both for import substitution and for export. These measures, currently being implemented, include the raising of agricultural producer prices, a flexible exchange rate policy, greater liberalization of domestic prices and foreign trade, and elimination of the distortions that discourage exports. They will be accompanied by an effort to increase private sector participation in development, an improvement in the performance of public enterprises, and a redefinition of State intervention in the economy.

b. Continuing moderation in the growth of public and private consumption, which will be kept lower than the growth of domestic product during the period of adjustment. This moderation will be brought about by restraining pay and staff levels in the public sector, and maintaining a high but better distributed tax effort through implementation of a tax reform. The policy will also continue the efforts to establish realistic prices for public services and mass consumption goods. The combination of these measures should make it possible to increase the domestic saving rate. A reform of the financial system, which has already begun, should help increase financing saving and improve its allocation.

c. A decline in the overall investment as a ratio to GDP from 20 percent in 1983 to about 16 percent in 1988 through the stabilization of Government investment in real terms and a slowing down of investment by public enterprises. The public investment program is being restructured so as to promote directly productive projects, and a plan to liquidate the carried-over budgetary authorizations ("crédits de report") through abandonment of projects of low priority and cash payments of arrears will be finalized in the next few months. This plan will be an important element of the second review of the program with the Fund. With the prospect of a new development plan starting in 1986, the procedures for planning, budgeting, and monitoring capital expenditure will be strengthened and rationalized. The negative effect on growth of the projected relative decline in investment should be largely offset by a greater utilization of existing productive capacity and the expected increase in the profitability of investments resulting from a more judicious selection of projects.

3. The achievement of these macroeconomic targets and the implementation of underlying policies will make it possible to restore in stages a sustainable equilibrium in the current account of the balance of payments by 1988. This framework of adjustment calls for a rapid expansion of exports, a slowdown in the growth of imports, and a continued rise in revenues from tourism and in remittances from Moroccan workers abroad. This should make it possible to slow down the increase in external debt and to reduce the debt service burden in relative terms.

In order to achieve these objectives, the Government has prepared a set of policies and measures to be implemented over several years. The first part of this memorandum briefly summarizes the outcome in 1984; the second defines the targets and measures envisaged for 1985 and 1986.

II. Economic and financial developments in 1984

4. During 1984, the Government pursued its adjustment and restructuring policy designed to meet its medium-term objectives. Positive results were achieved in many areas, particularly exports and control of government current expenditure. However, the macroeconomic results fell short of the original targets, mainly because of the deterioration of weather conditions. The decline in agricultural and hydroelectric production has slowed down economic activity. The growth of domestic product, which had initially been projected to reach 3 percent, was cut to 2.4 percent. This slowdown led to a decline in tax revenue. To keep the budget deficit to the programmed level, the Government maintained current expenditure strictly within the planned limits and slowed down capital expenditure. Reflecting unfavorable weather conditions which necessitated unplanned higher imports of cereals and petroleum as well as the need to replenish stocks after the sharp reduction of imports in the first half of 1983, the current account of the balance of payments recorded a deficit equivalent to 10.7 percent of GDP in 1984, as opposed to 8.3 percent initially programmed, on the same basis, for 1984, and the envisaged reconstitution of international reserves could not take place.

III. The Program for 1985-86

5. The program intends to reduce the current account deficit to 6.5 percent of GDP in 1985 and to a range of 4 to 4.5 percent in 1986. This reduction will be helped by the continuing recovery of exports which started in 1984, especially in the areas of phosphates and their derivatives, and by the prospects of a good harvest of citrus fruits and vegetables. Imports of nonfactor goods and services are expected to increase moderately in dirham terms, reflecting the combined effect of greater control of domestic demand and an expected better cereal harvest. Taking into account the anticipated external assistance and the contractual amortization of external debt, the overall balance of payments deficit before debt rescheduling is expected to be about SDR 0.9 billion in 1985 and SDR 1.9 billion in 1986. In addition, net foreign assets of the banking system must be expanded by about SDR 80 million. To cover these financing requirements, over and above the expected assistance from the IMF, the Government has officially requested creditor countries and commercial banks to reschedule debts falling due on or after January 1, 1985. It is anticipated that the debt relief will be in order of SDR 1.2 billion in 1985 and 1.7 billion in 1986. For 1986, given the need to replenish the stock of international reserves to a level equivalent to one month of imports c.i.f, a substantial gap remains to be covered by a set of appropriate measures and arrangements to be discussed in the framework of the program for 1986 with the Fund.

6. To achieve the 1985 balance of payments targets, the program stresses adjustment measures in the areas of public finance, money and credit, exchange rate policy, and foreign trade. Further structural action will accompany these measures in the financial sector and in the areas of pricing, public enterprises, food strategy, and investment policy, in order to facilitate the pursuit of adjustment in the years to come. The economic and financial program for 1986 will be established not later than end-1985, in consultation with the staff, when the 1986 Budget Law is prepared.

Public finance

7. To improve the external accounts by means of strict control of overall demand, the Government has set the target of reducing the 1985 overall Treasury deficit (excluding settlement payments of arrears and changes in fonds réservés and before any debt relief on interest payment) to about 6.5 percent of GDP (DH 8 billion). At the same time, the Government will reduce payments arrears estimated at about DH 9.4 billion by DH 3 billion (an amount equivalent to 2.4 percent of GDP), in order to reestablish a more orderly situation in the flow of payments and will avoid incurring any further arrears in the future.

8. In its revenue policy, the Government is faced with two major constraints. On the one hand, the special import tax was reduced by 2.5 points in January 1985 under a foreign trade liberalization program, which will result in a revenue loss of some DH 800 million in 1985. On the other hand, new tax measures cannot be envisaged at the present stage of adoption of the tax reform. However, the Government will ensure that the tax burden is kept at about the same level as in 1984. To this end, the strengthening of tax assessment and collection and the collection of tax amnesty payments [contribution libératoire] should provide an additional increase in revenue of about DH 1 billion. The contribution of OCP (the state-owned phosphate company), which will rise from DH 1.1 billion in 1984 to DH 2.1 billion in 1985, will be another major source of increased revenue. Total revenue is expected to increase by 16 percent, that is, faster than the expected growth in expenditure. The Government is aware of the fact that implementation of the tax reform is a vital factor in increasing its margin of flexibility in conducting its fiscal policy. Because of the need to complete consultations with the private sector, the submission of the draft laws for this reform to Parliament had to be delayed, but would be made before end-April 1985. The Government will do its best to ensure that the reform is adopted rapidly and implemented as soon as possible; it will give priority to the draft on the value added tax and will make the maximum effort to have this tax implemented before end-1985. The forthcoming reviews of the program will take into account the progress made in this respect.

9. To contain the growth of current expenditure, the Government will limit net recruitment in the civil service to 2,000 persons. Furthermore, the wage increase granted in 1985, after a two-year freeze, is limited to 5 percent of the first 150 points in the scale; it will result in an additional cost of DH 350 million, equivalent to 3 percent of the 1984 wage bill. Consumer subsidies will be limited to DH 2.8 billion. On the basis of these measures, and in view of the significant increase in scheduled interest payments (before external debt relief), current expenditure is expected to rise by 15.1 percent, against 11.1 percent in 1984. These measures would make it possible to hold down the current budget deficit to DH 1,350 million and to keep the level of capital expenditure at DH 6.7 billion, not including the settlement of payments deferred from previous fiscal years. If the growth of revenue during the year turns out to be lower than forecast, the Government will take the necessary steps to increase revenue or hold expenditure below the specified level in order to achieve the planned deficit target. If the value of OCP's exports and its production level permit, OCP will make a supplementary contribution to the government budget.

10. In order to reduce the gap between capital budget authorizations and the available means of financing, the Government will take action in three directions. First, it will suspend a portion of the carried-over authorizations (crédits de report) and of the new authorizations for non-priority and as yet uncommitted projects until they can be re-examined in the context of the preparation of the new development plan. Second, to absorb some of the arrears due mainly under the capital budget, the Treasury will pay DH 3 billion by using the foreign grants obtained by the Government of Morocco in 1985. Lastly, it will limit the amount of new expenditure commitments to DH 14.3 billion, an amount compatible with effective disbursement (DH 9.7 billion, including arrears retirement for 1985) to be made in 1985 taking into account the normal lags between authorizations and disbursements. All these measures will make it possible to avoid incurring further arrears in the future. If grants received during the year exceed the expected DH 3 billion, the Government will consult with the Fund in order to determine their use under the program.

11. The overall Treasury deficit excluding changes in "fonds réservés", resulting from execution of the government budget and settlement of arrears, will reach DH 11 billion in 1985. This amount will be covered by (i) net external financing estimated at DH 7.2 billion, including grants, expected gains from debt relief, and an anticipated DH 2.4 billion in external medium-term borrowing, and (ii) domestic financing in the amount of DH 3.8 billion, including DH 2.8 billion in net bank credit and DH 1 billion from the non-bank financial market.

The overall Treasury deficit as defined above, established on a cumulative basis for end-July, September, and December 1985, will be a performance criterion. The ceilings are presented in attached Table 1. These ceilings will be reduced by the amount of the saving in 1985 interest payments resulting from debt relief and to the extent that grant disbursements exceed the reduction of arrears. Furthermore, the net stock of "fonds réservés," which will also be a performance criterion, will remain below DH 1 billion in 1985. The attached technical memorandum of understanding describes the provisions adopted to monitor domestic payments arrears.

12. Capital expenditure authorizations available for 1985 amount to DH 27 million, to which over DH 48 billion in allocations for uncommitted projects must be added. These totals, which represent the remainder of authorizations not spent during the 1981-85 Plan, are excessive in terms of present financial possibilities. Consequently, apart from the measures specified above, the various government departments concerned will completed a survey and an analysis of progress in the implementation of projects in their respective departments before end-May 1985. Based on this analysis, the Government will reprogram investments (including a timetable for reduction of arrears) consistent with expected resources, to be agreed with the Fund during the second review of the program. Until the capital expenditure payments process has been brought back to normal, no new projects will be committed unless they receive highly concessional financing. Furthermore, in preparing the new Development Plan, the Government will implement, in consultation with World Bank and Fund staff, a set of measures to rationalize capital expenditure planning, budgeting and monitoring procedures.

13. For 1986 the Government has established the target to reduce the overall Treasury deficit (exclusive of settlement of arrears and before debt relief on interest payments) to an amount equivalent to a range of 4 to 4.5 percent of GDP. This target will be achieved by increasing revenue through implementation of the tax reform, and by pursuing the efforts to curb current expenditure. Within this overall target, the Government will also seek to attain a current budgetary surplus, so as to generate more resources for financing a larger part of public investment. The Government will continue reducing arrears with the exceptional external aid it hopes to obtain.

Monetary and credit policy

14. One of the main objectives of credit policy in 1985 will be to restore the international reserves gradually to a level which will ensure a more flexible management of the economy. To this end, the monetary authorities will limit the growth of domestic bank credit in 1985 to DH 5.6 billion, corresponding to a growth rate of 10 percent. Within this ceiling, bank credit to the Government will increase by DH 2.8 billion and credit to the economy by DH 2.8 billion. The expansion of

credit to the economy will remain below that recorded for 1984, partly because of the large settlement of arrears to the rest of the economy by the Government. This will lessen the need for net bank credit to enterprises. The objective of increasing external reserves and the limits on domestic credit will permit the maintenance of a moderate growth rate in the broad money supply of about 12.5 percent in 1985, which should make it possible to reduce the level of liquidity in the economy in relation to domestic production. Ceilings for end-July, September and December 1985, shown in attached Table 1, have been established for total domestic credit and total bank credit to the Government in 1985. These ceilings will be reduced by the amount of external grants which will not be used to reduce arrears and of possible increase in other net external resources.

15. The monetary authorities have adopted a package of measures, effective April 1, 1985, to mobilize savings and improve the efficiency of financial intermediation. These measures are included in a more comprehensive program to restructure the financial sector which is prepared in consultation with the World Bank. To encourage saving, the interest schedule for time deposits has been raised by 2 points so that the saver is remunerated in real terms. Minimum lending rates have been set. The interest rate on deposits with the National Savings Institution has been raised by 1 point. The rates on financial bonds issued by the Treasury and specialized financial institutions have been raised by 1.5 points. Interest rate policy will be periodically reexamined by the monetary authorities. In addition, in order to encourage banks to mobilize additional savings, the monetary reserve and the government-security purchase requirement on all time deposits and convertible dirham accounts have been eliminated. At the same time, the rediscount rate (taux de base) of the Central Bank has been raised by one and a half percentage point. The Central Bank preferential lending interest rate schedule in favor of agriculture, export, and investment has been raised by 1 point. The banks' lending interest rate schedule has been raised by from 1 to 2 points. The Government is examining the possibility to authorize certain other financial institutions to accept time deposits. To improve control over the liquidity of banks and the economy, the expansion of the money market, begun in 1983, will be continued, thus enabling the Bank of Morocco to reduce further its lending to the Government and to banks outside this market. Furthermore, in March 1985 the Treasury has started to issue bonds to the public on the financial market at attractive rates of interest.

Current structural reforms

a. Public enterprises

16. In 1983 and 1984 an Interministerial Commission adopted a package of measures to halt the deterioration in the condition of the major public enterprises, particularly in the energy and transportation sectors, the sugar industry, agriculture, water and power distribution, tourism

and mining. These measures were selected after an extended examination of the specific situation of the sectors and enterprises concerned; their implementation is being closely monitored by a Standing Oversight Committee created in July 1984; they include rate and price adjustments, payments of arrears between public enterprises and between them and the Government, the settlement of disputes between enterprises, and, generally speaking, a number of measures to rationalize and improve the management of these enterprises. About one third of the measures adopted went into effect on April 12, 1985, specifically in the energy, transportation, and water distribution sectors. Thus, in the first quarter of 1985, average electric rates were increased by 12.5 percent, water rates by 13 percent, and rail transportation rates by 6.6 percent. The program contract (contrat-programme) concluded in June 1982 between the Government and Royal Air Maroc (RAM) is progressing as scheduled and will be evaluated in 1985.

17. The Government intends in 1985 to intensify its efforts to improve the performance of public enterprises and reduce their financial dependence on the budget. It will put into effect those measures adopted in 1984 that have not yet been instituted, particularly, in the mining sector, the sugar sector, and agriculture. On the other hand, total Government transfers to public enterprises for capital expenditures will aggregate about DH 1,900 million, or as much in real terms as in 1984. New program contracts are being prepared and those with the Office National d'Electricité (ONE) and the Office National des Chemin des Fer (ONCF) will be finalized in the coming months. It is the intention of the Government to place on a contractual basis its relationship with public enterprises, and to that end similar mechanisms will be established in the coming years for all main enterprises. The budgetary appropriations for government use of public services were updated in the 1985 budget, and accelerated payment facilities have been established. The Fund staff will review the progress made in the implementation of these measures in the context of the second review of the program.

18. To achieve a solution of the problems posed by public enterprises, the Government has undertaken the preparation of a structural reform project with the technical assistance of the World Bank. A main objective of the project is to solve the problem of arrears and to adopt measures to avoid their reappearance. The measures required to achieve this objective involve the formulation of public services pricing policies, investment policies, the reform of management, internal control and accounting methods, and the relations between the Government and the enterprises. In this context, specific reorganization programs will be drawn up for certain enterprises. It is expected that by October-November 1985 the World Bank's general report and recommendations will be discussed with the Government and that at the same time the enterprises for which rehabilitation plans will be drawn up will

be selected. These plans will be operational in 1986. The rationalization measures which will be agreed upon between the World Bank and the Government, and the timing of their implementation, will be examined by the Fund staff in the context of the second review of the program.

b. Pricing policy

19. In the context of the adjustment programs agreed in 1983 with the Fund and the World Bank, in 1983 and 1984 the Government decontrolled or subjected to self-review adjustments the prices of nearly 35 products, or about half of the products whose prices were still controlled at the beginning of 1983. In the first four months of 1985, eight further products were decontrolled. In the remainder of 1985 the Government plans to decontrol another 11 products. Controls will thus remain only on the prices of goods which are subsidized, the prices of public services, and the prices charged by the subsisting monopolies. For products which imports are still restricted, the Government will apply for the liberalization of their price the measures accepted under the ITPA program. The rates charged for public services, particularly transportation, electricity and water, were adjusted several times in

1983 and 1984 and more recently in April 1985 as part of the effort to rehabilitate public enterprises. The prices of petroleum products will continue to be adjusted regularly to their costs in order to avoid any budgetary subsidy.

20. In November 1984, in consideration of the 1984/85 harvest, the Government raised agricultural producer prices by 8-36 percent, including almost 25 percent for cereals. The Government will re-examine its agricultural pricing policy before November 1985 with a view to maintaining sufficiently attractive producer prices for the next agricultural season.

c. Agricultural and subsidy policy

21. Aware of the negative impact of the consumer subsidies on the structure of production and consumption, and of the substantial budgetary costs that they entail, the Government will pursue a policy which will permit the elimination of these subsidies over a maximum period of five years. This policy will be accompanied by measures to promote agricultural production and to reorganize the marketing channels. Measures in the area of production and marketing have already been envisaged in the context of a structural adjustment loan to agriculture which has recently been negotiated with the World Bank. This program involves, in particular, an increased participation of the private sector in the marketing, processing and storage of cereals, the establishment of a new method to determine the producer prices, and new institutional mechanisms for a better coordination of cereal import

policy with the encouragement to domestic production. It is the intention of the Government to implement rapidly the measures indicated above, and any other measures which will be considered necessary to achieve an increase in production.

In the context of the objective to gradually eliminate food subsidies the Government will reduce from 1986 the amount of subsidies in percentage of GDP. To achieve this target, the Government, in addition to periodical adjustments of retail prices, will examine the methods of intervention, the marketing channels, and the targeting of the sectors and the lower income groups which could benefit in priority of the subsidies.

In the coming months the Government will formulate with the assistance of the World Bank the measures for the implementation of the policies indicated above; the measures will be discussed with the Fund staff in the context of the second review of the program.

External payments

22. In order to meet the external targets and to improve the competitiveness of Moroccan industry, the Government will continue to pursue a flexible exchange policy and deregulate the exchange and trade system in 1985 and 1986. In coordination with the adjustment program prepared jointly with the World Bank, the Government will implement specific measures to simplify administrative procedures concerning international trade and reduce tariff and nontariff barriers. In February 1985, a number of products were transferred from List B (import licences) to List A (unrestricted); additional transfers will take place in the context of the preparation of the General Import Program for 1986. The Government does not intend to impose or intensify restrictions on payments and transfers for current international transactions nor to impose or intensify import restrictions for balance of payments reasons. In addition, it will not introduce or modify multiple exchange rate practices or conclude bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. Furthermore, the Government intends to eliminate by end-July 1985 the existing external payments arrears (which amounted to US$42 million at end-May 1985), and not to incur foreign payments arrears subsequently.

23. In view of the high level of the public external debt and the heavy financial burden anticipated for the years to come, the amount of nonconcessional loans contracted, guaranteed or approved by the Government with maturities from 1 to 15 years will not exceed US$ 500 million in 1985, including a maximum of US$ 250 million in maturities ranging from 1 to 5 years. This latter amount consists mainly of planned borrowings in 1985 to finance wheat imports made necessary by the shortfall in cereal production. The Government intents to reduce substantially the recourse to loans with maturities between 1 to 5 years

and to replace it with longer-term borrowing. The ceilings on this borrowing will be lowered by the amount of drawings on loans at more than 5 years contracted directly by the Government on the international financial market. Finally, the outstanding short-term (less than one year) in 1985 will not exceed US$1 billion in 1985. The amount of credits to be consolidated in the medium or long-term will be automatically deducted from this amount.

24. In all, the policies discussed in this memorandum should lead to an improvement of about 80 million in the level of net external assets of the banking system as defined in attached Table 2. This indicative target will make it possible to increase the level of international reserves as defined in attached Table 2 by SDR 134 million in 1985, thus raising them to the equivalent of about two weeks of imports at the end of 1985. It is expected that these net foreign assets of the banking system which totaled SDR -737 million at end-December 1984 will not be less than SDR -657 million at end-December 1985. The quarterly targets are shown in attached Table 2 and are estimated on the basis of an approximate evaluation of the foreign exchange receipts and outlays. These quarterly targets have an indicative nature and do not consitute performance criteria.

Morocco: Summary of Program for 1985 Under Stand-By Arrangement

A. Assumptions

1. Real GDP growth of 4.2 percent (2.4 percent in 1984).

2. Cereal production: 4.5 million tons (3.7 million in 1984).

3. Exports of phosphate rock:

   volume: 16.5 million tons (15 million in 1984);
   price: US$33per ton (US$35 in 1984).

4. Growth of export markets: 6 percent (6 percent in 1984, 1 percent in 1983).

5. Terms of trade: improvement of 1.4 percent (decline of 2.8 percent in 1984).

6. Consumer prices: 12.5 percent, of which 6 percentage points attributable to adjustment measures in the program.

7. Gross domestic expenditure is projected to increase in volume by 1.5 percent (3 percent in 1984).

B. Targets

1. Reduction the external current account deficit (before debt relief but including estimated interest cost of rescheduling) from 10.7 percent of GDP to 6.5 percent.

2. Build-up of gross reserves: SDR 134 million (instead of a decline of SDR 52 million in 1984).

C. Principal elements

1. Fiscal policies

a. Reduce the overall deficit on a payment order basis (before debt relief) from 8.1 percent of GDP in 1984 to 6.5 percent. Reduce the unsettled domestic obligations by DH 3 billion. Quarterly ceilings on the overall Treasury financing.

b. Increase in total revenue of 16 percent (9 percent in 1984) mainly on account of higher transfers from the Phosphate Mining Company (DH 2.1 billion) and of collection of tax payment arrears and improved tax administration (DH 1 billion); other revenue will increase by 10 percent. Best efforts to ensure adoption and implementation of the tax reform before the end of the year, with priority to the introduction of the VAT.

c. Limit the increase of total expenditure (before debt relief) to 9.8 percent (6.3 percent in 1984) in nominal terms, through strict limits on net recruitment (2,000 persons), wage increase (5 percent on the lower part of the subsidy scale), and transfers to public enterprises. Completion of the review of all investment projects authorized (May 1985). No new arrears incurred in 1985 and a close monitoring of payment delays both under the capital and the current budget. Review of the new Plan 1986-88 and the 1986 investment budget with the World Bank (October 1985). Preparation of a reform of the capital planning and budgeting system to be introduced in 1986.

2. Money and credit

a. Limit the increase in net domestic credit to 10.1 percent (9.5 percent in 1984) with maximum increase of 12.5 percent in bank credit to the Government. With the expected rapid increase in term deposits, the stock of money (M1) in real terms is forecast to decline by about 3 percent during the year.

b. With effect from April 1, 1985, increase in the interest rate schedule for time deposits by 2 percentage points to levels which constitute minimum and will be reviewed on a semi-annual basis. Minimum rate for 12 months deposits is 12 percent. Commensurate adjustments on discount rate and other lending rates.

c. Adoption effective April 1, 1985 of several measures to improve financial intermediation, notably the exclusion of all time deposits with commercial banks from the obligatory placement in low-yielding Treasury bills. Other measures to increase competition among banks are being studied with a view to implementation in 1986.

3. Structural policies

a. Price policy. Removal of price controls before end-1985 on 10 additional products. Increase in prices of public utilities between 13-25 percent in April 1985.

b. Subsidy policy. Reform of the system of subsidies on flour, sugar and edible oil, and gradual price increases of these commodities.

c. Rehabilitation of public enterprises. Full implementation of the remaining specific measures adopted by the Interministerial Committee for six important sectors. Limits on government transfers to public enterprises for capital expenditure. Settlement of reciprocal payment arrears among public enterprises and between them and the private sector. Partial reduction of government arrears to public enterprises with the grant received in 1985. Preparation, in collaboration with the World Bank, of a global reform of public enterprises; for that purpose a Bank mission visted Morocco in May 1985, and discussion on recommendations will take place before end-1985.

d. Rehabilitation of agriculture. A program has been defined with the World Bank in May 1985. It includes a reorganization of the multi-purpose agricultural development offices, a gradual reduction in the government subventions to these offices, a reform of the marketing and procurement system for cereals.

4. External policies

a. Depreciation of about 10 percent in terms of the currency basket during the first five months of 1985. Maintenance of flexible effective exchange rate policy. Review of the system of exchange rate determination.

b. Further liberalization of imports in early 1985 involving a further reduction of 2.5 percentage points in the special import tax, the shift of 105 items to the freely importable list, and the virtual elimination of the list of goods banned from import.

c. Adoption of additional measures to encourage exports, including elimination of export licensing requirements for all mining products and the simplification of foreign trade procedures.

d. Elimination of outstanding arrears on public and public-guaranteed external debt before the end of July 1985, with no further accumulation subsequently.

e. Satisfactory rescheduling of external obligations with Paris Club and other official and commercial creditors.

f. Ceiling on new nonconcessional borrowings with original maturities of 1-15 years, with subceiling for maturities of 1-5 years, and limit on short-term debt.

Morocco: Medium-Term Scenario

Given the high level of the debt service burden which would remain into the early 1990s (see Table 10), the achievement of a viable balance of payments position by 1988 will require a sharp improvement in the trade account and a reduction in the current account deficit to 4-4.5 percent of GDP in 1986 to about 1.5 percent in 1987, with small surpluses thereafter. With the authorities' intention of seeking no further debt relief after 1987, the required current account target in 1988 and beyond will depend on the augmented capital inflows that would occur without further debt rescheduling. For the purpose of the illustrative scenario in Table 9, normal gross public capital inflows are assumed to increase from SDR 0.8 billion in 1987 to SDR 1.3 billion in 1988 and SDR 1.4 billion by 1990. With these inflows, a current account surplus is required after 1987 to finance the scheduled amortization of debt (including the amortization on debt contracted from 1985 and on the loans, including debt relief, needed to cover the projected financing gaps until 1988), as well as Fund repurchases and some small reserve increase.

Within the current account, the assumption of a steady improvement in the net factor services and transfers accounts is based on continued growth in tourism, and on receipts from workers abroad, which will offset the adverse effects of the high interest payments. For that part of the debt which is at variable interest rate, an assumption of LIBOR at 9 percent has been made.

The improvement in the current account depends primarily on a substantial narrowing of the trade deficit. (Further details on the assumptions behind the trade account projections are provided in Table 11). Morocco has suffered a cumulative deterioration in its terms of trade since 1980 of some 14.2 percent, and assumptions made for 1985 suggest that this decline may be arrested. With contract prices of imported cereals and sugar relatively low, and a continued fall in the real oil price, the terms of trade are assumed to improve by 1.4 percent in 1985 even if the export prices of phosphate rock and fertilizers would fall below those projected by the World Bank. A slight worsening terms of trade from 1986 has been assumed as most commodity prices are set to remain constant in real terms (measured against the world manufactured price index used in the World Economic Outlook) except for cereal prices which are assumed to recover somewhat from their present level.

The assumption that the Moroccan export prices of phosphates and derivatives will be a little lower than world prices would allow some slight increase in Morocco's share of the world market; the latter is projected to grow on average by 2 percent per annum during the period 1986-90. On the supply side, the new capacity becoming available for phosphoric acid and fertilizer production would allow for large increases in the volume of Morocco's semifinished manufactured exports.

Table 11. Morocco: Assumptions Behind Medium-Term Scenario, 1983-1990 1/

(In percent changes)

	1983	1984	1985	1986	1987	1988	1989	1990
Trade prices (in SDRs)								
Total export prices	-6.9	0.7	1.8	1.7	4.0	4.0	4.0	4.0
Phosphate rock	(-14.5)	(7.9)	(-2.6)	(-1.0)	(4.0)	(4.0)	(4.0)	(4.0)
Semifinished goods 2/	(0.1)	(7.6)	(0.3)	(0.9)	(4.0)	(4.0)	(4.0)	(4.0)
Finished manufactures	(-1.0)	(1.4)	(3.7)	(2.5)	(4.0)	(4.0)	(4.0)	(4.0)
Total import prices	-5.6	3.7	0.4	1.9	4.6	4.6	4.6	4.6
Cereals	(2.2)	(7.1)	(-10.3)	(1.9)	(7.5)	(7.5)	(7.5)	(7.5)
Crude oil	(-10.9)	(1.3)	(1.5)	(-1.0)	(4.0)	(4.0)	(4.0)	(4.0)
Finished manufactures	(-1.0)	(-1.4)	(3.7)	(2.5)	(4.0)	(4.0)	(4.0)	(4.0)
Terms of trade	-1.4	-2.8	1.4	-0.2	-0.6	-0.6	-0.6	-0.6
Volumes								
Total exports	10.1	4.6	9.1	6.8	5.7	5.6	5.7	5.7
Phosphate rock	(4.8)	(2.0)	(10.4)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Semifinished goods 2/	(22.8)	(5.8)	(8.5)	(8.1)	(7.1)	(7.1)	(7.1)	(7.1)
Finished manufactures	(8.0)	(9.2)	(7.9)	(10.5)	(11.0)	(11.0)	(11.0)	(11.0)
Total imports, c.i.f.	-8.2	8.3	-4.3	-0.2	-3.6	-2.3	3.1	3.6
Cereals	(-1.2)	(41.1)	(-19.5)	(15.4)	(3.0)	(3.0)	(3.0)	(3.0)
Crude oil	(-5.7)	(10.2)	(-6.8)	(3.5)	(-1.0)	(0.0)	(2.5)	(2.5)
Sugar	(-8.3)	(14.4)	(-11.7)	(3.5)	(-1.0)	(0.0)	(2.5)	(2.5)
Other imports	(-9.8)	(3.1)	(-0.4)	(-3.7)	(-5.8)	(-4.2)	(3.4)	(4.2)
Values								
Total exports, f.o.b.	5.5	8.4	10.8	8.3	10.1	10.0	10.1	10.1
Total imports, f.o.b.	-10.7	12.3	-3.5	1.2	0.6	2.2	7.9	8.5
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 9, on the basis of continued adjustment policies through 1988.
2/ Of which phosphoric acid and fertilizers accounted for 83 percent by value in 1984.

The tendency since 1980 for Morocco's export structure to shift from raw minerals and primary products to semi-finished and finished manufactures is projected to continue. With the policy of exchange rate flexibility and further liberalization of the customs and exchange regime, manufactured exports are projected to increase by an average of 11 percent from 1986. In all, export volumes are projected to rise by 6 percent from 1986 to 1990 after a larger increase of 9 percent in 1985 which reflects the return of phosphate rock exports to the level of 1980.

Unless policies and the world economy allow for a faster export growth, a major burden of adjustment would fall on imports. Import volumes would fall by 4 percent in 1985 and by an average of 2 percent per annum until 1989, when volume growth in line with real GDP has been assumed. The composition of imports will depend on the impact of structural policies to encourage import substitution and to reduce dependence on cereal imports. Assuming normal harvests and constant per capita consumption, and implementation of further relative price changes, cereal imports growth in volume terms could be limited to 3 percent per annum. The early implementation of the policies to reduce the structural dependence on food imports and to encourage exports would lessen the need for policies severely restricting imports in other sectors, particularly in capital goods and raw materials that would otherwise be necessary for a satisfactory growth and export performance. Even with the implementation of such structural policies, substantial adjustment through demand-management policies will be required in each year through 1988 so as to achieve the decline in import volumes (other than cereals, sugar, and crude oil) of about 3.5 percent per annum between 1984 and 1988 consistent with the targeted trade balance.

The scenario presented in Table 9 shows a medium-term path assuming the continued implementation of demand-management and structural policies until 1989 which will achieve viability. This can be compared with a "base" scenario of no continuation of the tight adjustment policies after 1986. In this case, import volumes are assumed to grow in line with GDP from 1987, and average export growth is assumed to be 8 percent per annum, instead of 10 percent for 1987-90. Under these assumptions, the current account deficit of the balance of payments would average 3.6 percent of GDP in 1988-90, with extra financing requirements averaging SDR 0.9 billion in the three years 1988-90.

Another variant of the scenario presented in Table 9 gives some idea of the sensitivity of the projections to changes in the terms of trade. If the terms of trade were to improve by 1 percent per annum between 1985 and 1990, this would reduce the current account deficits and lead to overall surpluses averaging SDR 250 million in 1988-90, which implies that imports could be higher by that amount, without requiring additional finance.

Morocco: Relations with the Fund
(As of May 31, 1985)

I. Membership status

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

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 306.6 million
(b) Total Fund holdings of member's currency: SDR 1,383.73 million; 451.31 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	1,077.1	351.3
Credit tranches	196.9	64.2
EFF	137.4	44.8
SFF	93.9	30.6
EAR	412.5	134.5
CFF	236.4	77.1
(d) Repurchase obligations: in 1985	143.2	46.7
" " : in 1986	274.2	89.4
" " : in 1987	53.5 (Jan.-Feb.)	17.4

(e) Reserve tranche position: SDR 18,475

III. Stand-by arrangements, Extended Arrangements or Special Facilities

a. Most recent Stand-by:

(i) Duration: September 16, 1983-March 15, 1985
(ii) Amount: SDR 300 million, 98 per cent of quota.
(iii) Utilization: SDR 300 million.

b. Previous stand-by and extended arrangements:

(i) Extended arrangement approved in October 1980 in an amount of SDR 810 million, 540 percent of quota, raised to SDR 817 million in March 1981, following increase in quota.

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

c. Compensatory Financing Facility (with the cereals option)

(i) Date : April 30, 1982
(ii) Amount: SDR 236.4 million (105.1 per cent of quota)

IV. SDR department

(a) Net cumulative allocation: SDR 85.7 million.
(b) Holdings: SDR 0.6 million: 0.7 percent of net cumulative allocations.

V. Administered accounts

Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 87.75 million

VI. Overdue obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Other managed floating; SDR 1 = DH 10.4349

VIII. Last Article IV Consultation: December 1983, completed by the Executive Board on April 9, 1984. The consultation is under the 12-month cycle. Decision as follows:

1. The Fund takes this decision relating to Morocco's exchange measures subject to Article VIII, Section 2 (a) in concluding the 1983 Article XIV Consultation with Morocco, and in the light of the 1983 Article IV Consultation with Morocco conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance Over Exchange Rate Policies").

2. The Fund encourages the authorities in their determination to eliminate the remaining bilateral payments arrangements with two Fund members.

IX. Last Stand-by Review: November 1984, completed by the Executive Board on January 4, 1985. Decision as follows:

1. Morocco has consulted with the Fund in accordance with paragraph 4 (b) of the stand-by arrangement for Morocco (EBS/83/178), August 19, 1983) and paragraph 2 of

the letter of the Minister of Finance dated July 30, 1983, attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Morocco under the stand-by arrangement.

2. The letter of the Minister of Finance dated November 23, 1984, shall be attached to the stand-by arrangement for Morocco, and the letters of July 30, 1983, March 18, 1984, and May 18, 1984 shall be read as supplemented by the letter of November 23, 1984.

3. The Fund finds that Morocco may proceed to make purchases under this stand-by arrangement notwithstanding any arrears in payments and transfers for current international transactions in respect of the debts to commercial banks that are in the process of being rescheduled.

X. Resident representative/Advisor: None

Morocco: Financial Relations with the World Bank Group 1/

(In millions of U.S. dollars)

IBRD/IDA lending operations:	Disbursed			Undisbursed
	IBRD	IDA	Total	
Agricultural and rural development	93.7	6.4	100.1	371.8
Education	26.7	--	26.7	136.3
Energy, power, and utilities	65.4	--	65.4	112.6
Transportation	47.6	--	47.6	99.4
Industry and tourism	256.8	--	256.8	53.1
Of which: ITPA 2/	(149.8)	(--)	(149.8)	0.6
Urban development	10.7	--	10.7	70.4
Other (after 1974)	110.7	--	110.7	172.8
Other (prior to 1974)	839.3	38.6	877.9	--
Total	1,450.9	45.0	1,485.2	1,017.0
Of which has been repaid	-355.9	-2.0		
Total outstanding	1,095.0	43.0		
IFC investments		53.5		

Sectoral adjustment loans

A first Industrial and Trade Policy Adjustment Loan (ITPA) of US$150 was approved by the World Bank Board in January 1984 and was entirely disbursed in 1984 in two tranches. The loan supported the first phase of the Government's industrial and trade policy reform program. The objectives of the reform was to redirect the economy toward a system of market determined prices for a more efficient allocation of resources. The measures include a reduction of the special import tax, a reduction of the maximum tariff rate and import liberalization.

A second Industrial and Trade Policy Adjustment Loan (TPA II) of US$200 million is expected to be considered by the World Bank Board in early June 1985 (Report No. P-4075-MOR of May 6, 1985). The proposed loan would support the second phase of implementation of the Government's economic adjustment program. The program comprises actions extending export promotion and reform of protection policies, rationalizing the public investment program and improving investment planning

1/ As of December 31, 1984.
2/ Industrial and Trade Policy Adjustment Loan.

and budgeting, and introducing financial sector reform. The loan would be disbursed in two tranches. The first tranche of US$120 million would be available for disbursement at the time of loan effectiveness. The second tranche of US$80 million would be released after the implementation of specified actions and a progress review, approximately six months after effectiveness.

A loan of US$100 million, in support of a program for agricultural sector policy adjustments, is also expected to be considered by the World Bank Board in June 1985 (Report No. P-4032-MOR of May 28, 1985). The program comprises a number of actions to achieve a restructuring of public investment and expenditure in the agricultural sector, to introduce an appropriate prices and incentives framework, to strengthen the agricultural support services offered by the Government, and to build up institutional capacity for agricultural policy planning and analysis. The first tranche of US$50 million would be available for disbursement at the time of loan effectiveness; the second tranche of US$50 million would be released once conditions for its release are met, approximately one year after effectiveness.

Technical assistance

The IBRD has provided extensive technical assistance to Morocco through its various lending operations for sectoral projects as well as through its sectoral adjustment loan.

Recent economic and sector reports

June 10, 1983:	Morocco: Education and Training Sector Survey (in six volumes) (Report No. 4105-MOR)
June 15, 1983:	Morocco: Priority for Public Sector Investment 1981-85 (Report No. 4156-MOR)
January 11, 1984:	Morocco: Industrial Incentives and Export Promotion (Report No. 4893-MOR)
January 19, 1984	Morocco: Agricultural Strategy Paper (Report No. 5725-MOR)
December 12, 1984:	Morocco: Financial Sector Study (Report No. 4957-MOR)

Aid consultative group

The last meeting was held under the chairmanship of the IBRD in Paris on January 9-11, 1985. The following documents were distributed and discussed:

a) Kingdom of Morocco: Macroeconomic and Sectoral policies, dated December 5, 1984;

b) World Bank: Morocco: Medium-term Adjustment Policies and Prospects, dated December 12, 1984.

MOROCCO - Basic Data

Area, population, and GDP per capita

Area (1975 borders):	459,000 square kilometers
Population: Total (1983)	20.8 million
Growth rate (1983)	2.5 percent
GDP per capita (1983)	SDR 598

	1980	1981	1982	1983 Rev.	1984 Prov.
	(Annual percent changes, unless otherwise specified)				
National accounts					
Gross domestic product at 1969 prices	3.6	-1.3	6.8	2.2	2.4
Primary sector	6.1	-22.9	19.9	-4.6	2.0
Secondary sector	-2.5	-0.1	2.2	3.1	0.8
Tertiary sector	4.5	0.8	4.8	1.0	2.4
Government	11.9	9.6	11.7	8.3	5.0
	(In millions of dirhams)				
Gross domestic product at current prices	70,161	76,737	90,088	94,589	105,647
Aggregate domestic expenditure	77,933	88,261	103,520	103,330	117,045
Consumption	61,407	70,131	81,024	82.827	92,969
Private	(47,124)	(53,362)	(61,785)	(64,120)	(73,745)
Public	(14,283)	(16,769)	(19,239)	(18,707)	(19,224)
Gross fixed investment	14,811	16,825	21,091	20,705	22,363
Changes in stocks	1,715	1,305	1,405	-202	-1,713
Net imports of goods and nonfactor services	7,772	11,524	13,432	8,741	11,398
Net investment income and Private transfers	2,183	1,894	1,449	1,202 1/	127 1/
	(In percent of GDP)				
Gross domestic investment	23.5	23.6	24.9	21.6	22.8
Gross domestic savings	12.4	8.6	10.0	12.4	12.0
Resource gap	11.1	15.0	14.9	9.2	10.8
Current account	8.0	12.5	13.3	8.0 1/	10.7 1/

1/ Before debt relief.

MOROCCO - Basic Data (continued)

	1980	1981	1982	1983	1984
Price movements			(Percentage changes)		
GDP deflator	9.1	10.8	9.2	2.7	9.1
Cost of living Annual average	9.4	12.5	10.5	6.2	12.5
December/December	9.7	13.2	6.7	12.5	7.5
			(In millions of dirhams)		
Government finance					
Current revenue	15,193	17,838	20,480	21,094	23,469
Current expenditures	-15,310	-18,898	-20,475	-21,548 1/	-23,390 1/
Current surplus or deficit (-)	-117	-1,060	5	-454	79
Capital expenditures	-8,565	-9,612	-12,481	-7,979	-7,030
Extrabudgetary transactions (net)	1,172	-426	1,368	407	-233
Overall deficit (-)	-7,510	-11,098	-11,108	-8,026	-7,184
Changes in "fonds réservés" (decrease -)	264	-131	2,061	-2,282	-273
Cash financing	7,246	11,229	9,047	10,308	7,457
Grants	380	1,623	744	1,010	139
Foreign borrowing (net)	3,531	5,588	6,245	2,382 1/	5,180 1/
Domestic bank borrowing (net)	2,731	3,842	2,021	6,344	1,600
Of which: banking system	(2,743)	(3,697)	(2,174)	(6,691)	(2,183)
Other domestic sources (net)	604	176	37	572	538
Overall deficit as percent of GDP (cash basis)	10.3	14.6	10.0	10.9	7.1
Money and credit (end-year)					
Foreign assets (net)	670	-631	-2,625	-5,211	-6,900
Domestic credit	30,793	37,128	42,258	50,693	55,532
Claims on Government (net)	(18,159)	(22,047)	(24,068)	(30,412)	(32,012)
Claims on economy (net)	(12,634)	(15,081)	(18,190)	(20,281)	(23,520)
Money plus quasi-money	29,963	34,644	38,959	45,744	50,469

1/ After debt relief.

MOROCCO - Basic Data (concluded)

	1980	1981	1982	1983	1984 Prov.
	(In millions of SDRs)				
Balance of payments					
Exports, f.o.b.	1,855	1,936	1,850	1,951	2,115
Of which: phosphates and derivates products	(773)	(894)	(827)	(865)	(985)
Imports, f.o.b.	-2,897	-3,256	-3,456	-3,087	-3,465
Trade balance	-1,042	-1,320	-1,605	-1,136	-1,350
Services (net)	907	-1,165	-1,085	-769	-816
Of which: net investment income 1/	-432	-596	-671	-755 1/	-904 1/
Private transfers	858	906	889	914	918
Current account deficit (-)	-1,091	-1,579	-1,802	-992	-1,248
Capital account (net)	900	1,356	1,217	359	-307
Gross disbursements	1,342	1,571	1,618	1,262	934
Amortization	-428	-521	-769	-901	-1,284
Other (including private)	-14	306	368	-2	43
SDR allocations	16	16	--	--	--
Debt relief	--	--	--	395	1,333
Overall deficit (-)	-192	-169	-585	-239	-222
Outstanding external public debt	7,286	8,475	11,011	11,648	12,626
Gross international reserves of Central bank (end-year)	313	197	197	102	50
Exchange rates (period averages)					
DH/SDR	5.1236	6.0990	6.6495	7.6020	9.0309
DH/US$	3.9366	5.1723	6.0230	7.1113	8.8105
DH/FF	0.9315	0.9517	0.9164	0.9331	1.0080

1/ Before debt rescheduling.