I Introduction

The year 1993 marked a watershed for the Moroccan economy. After a decade of working toward remedying the imbalances that had led to a serious crisis in the early 1980s—in which Morocco's gross official foreign exchange reserves were nearly exhausted and the country was forced to seek rescheduling of its external debt—the authorities managed by 1993 to restore financial equilibria and substantially reduce the natural and policy-induced weaknesses in the economy. Two elements were at the heart of the Government's adjustment strategy: (1) to align aggregate demand with available resources as well as to shift resources away from the government sector to support the growth of private sector investment; and (2) to dismantle government controls to allow market forces to play a greater role in resource allocation, and, in that context, to switch from an inward-oriented to an outward-oriented growth policy stance. Although these efforts were at times complicated by adverse movements in the terms of trade, droughts, public resistance, and longer-than-expected preparatory work, Morocco made steady progress.

As a result, Morocco maintained, on average, a healthy rate of economic growth during 1981–93, bringing about an improvement in per capita income; significantly reduced inflationary pressures; built up its gross foreign exchange reserves to reach a record of about six months of import coverage at the end of 1993; achieved a viable balance of payments position in 1993; and regained access to international capital markets. In the process, Morocco "graduated" from a prolonged use of IMF resources and debt rescheduling.

This paper reviews and analyzes how Morocco overcame the economic and financial crisis it confronted at the beginning of the 1980s. Section II provides a snapshot of the major problems facing the Moroccan economy, which had resulted primarily from (1) the pursuit of an inward-oriented development strategy since independence in 1956; and (2) the impact of the high level of government expenditure, which had originally been prompted by the boom in the price of phosphate exports in the early 1970s but which continued at an unsustainable level even after the sharp drop in phosphate prices in the mid-1970s—similar to the experience of many other countries following the commodity booms of the 1970s. The piecemeal efforts made to redress the economic and financial situation in 1978–79 were insufficient, and the situation continued to deteriorate.

Against this background, Section III provides an overview of Morocco's adjustment strategy during the 1980s and early 1990s. It explains the evolving comprehensiveness of the policies adopted to stabilize the economy and alleviate the structural constraints; the challenges to sustaining the pace of reforms in the face of exogenous shocks; and the massive financing required over a prolonged period. It shows how the authorities sequenced the reform policies, focusing primarily on financial stabilization through 1985 and moving on, after time-consuming preparatory work, to accelerate the pace of structural reforms through 1993. It also underscores the setbacks suffered initially in 1981–82, as adverse exogenous factors interacted with domestic public resistance to the reforms.

Section IV focuses on the authorities' efforts to redress the fiscal position. It explains how, in the initial phase, they attempted to reduce the budget deficit primarily by cutting back on the unsustainably high level of capital expenditure—which rose from 5.5 percent of GDP in the early 1970s to 11.6 percent of GDP in 1980—as well as by limiting the growth of current expenditure. Preparatory work was undertaken concurrently to reform the tax system so as to widen the tax base, enhance the elasticity of the tax system, improve the distribution of the tax burden, and reduce tax-induced distortions. The section shows how the implementation of the tax reforms, combined with a continued restrained expenditure policy, enabled the Government to bring the deficit down to 2.8 percent of GDP in 1993, compared with a deficit of 14.0 percent in 1981. It also illustrates how the authorities sought to reduce the deficit while protecting the more vulnerable segments of the population and reducing overall poverty. In addition, the chapter describes the authorities' efforts—including the problems they

encountered—to decentralize government activities by giving a greater role to local governments.

Section V analyzes the difficulties that the monetary authorities encountered in conducting monetary policy in the late 1970s and early 1980s, as their efforts to promote price stability and provide sufficient credit to the private sector to support growth were hampered by the heavy domestic financing requirements of the budget and the decreasing efficiency of the credit-control instruments at their disposal. It shows how the improvement in the fiscal position enabled the authorities to direct credit increasingly to support the expansion of the private sector, reduce inflationary pressures, and improve the external sector position. The section also explains the shift from direct to indirect monetary policy instruments and the reform of the financial system, which together contributed to the reduction of distortions, the increased monetization of the economy, and the enhancement of financial intermediation.

Section VI focuses on the authorities' wide-ranging actions to liberalize the Moroccan economy. It explains the steps taken to improve the operations of public enterprises and privatize a number of them, with a view to reducing the burden of these enterprises on the budget and widening the scope for private sector activity. It then traces the liberalization of the trade system, which involved the virtual abolition of quantitative import restrictions and a sharp reduction of effective protection and was critical to improving efficiency and promoting the export-oriented growth strategy. It also describes the authorities' efforts to decontrol prices, liberalize marketing arrangements, and reform the investment codes so as to foster competition, reduce distortions, and enhance investment incentives, thereby complementing the liberalization of the trade system.

Section VII shows how the Government's efforts to re-establish macroeconomic balances, move to a realistic exchange rate, liberalize the incentive structure, and build up gross foreign reserves enabled Morocco to eliminate exchange restrictions for current account transactions and accept the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement at the beginning of 1993. The resulting convertibility of the dirham for current account transactions has enabled Morocco to begin reaping the benefits of the liberalization of the economy, while the phasing out of restrictions on nonresidents' capital transactions has helped to mobilize rising levels of private foreign investment.

Section VIII provides an overview of the progress that the Moroccan economy has made as a result of the reforms undertaken. It shows that, in spite of recurrent droughts and other adverse exogenous shocks, Morocco managed to achieve an annual average growth rate of 3.2 percent during 1981–93. However, there were substantial fluctuations, with growth rising from an average annual rate of 3.4 percent during 1981–85 to 4.7 percent during 1986–91 before severe droughts contributed to a drop in activity in 1992–93. It also points out how Morocco diversified its productive base, increased the share of private sector investment significantly, and improved national savings performance. In addition, the chapter focuses on the impact of the policies pursued on reducing both demand-pull and cost-push inflationary factors. Furthermore, it explains how the combination of restrained demand-management policies and structural reforms contributed to a rapid growth of exports and a more diversified export base, a slowdown in import growth, and an increase in remittances and foreign investment. With the resulting improvement in the external sector position and the pursuit of a prudent debt-management policy, Morocco was able to reduce its scheduled debt-service ratio and resume fully the servicing of its external debt in 1993.

The last section highlights the challenges that still confront the Moroccan economy and the lessons that can be drawn from Morocco's adjustment experience. It underscores the appropriateness of the authorities' policies to build upon the foundation laid between 1981 and 1993 by forging ahead with the ongoing structural reforms while consolidating the gains made on the macroeconomic front, with a view to shifting Morocco to a higher sustained growth trajectory. Finally, the section points to salient features of the Moroccan experience that may help other countries in designing and implementing adjustment and reform programs.