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**MOROCCO CONTINUES LIBERALIZING ITS TRADE REGIME BUT THE
WTO RAISES CONCERNS IN SOME SECTORS**

Morocco is pursuing its process of economic and trade reforms, launched in 1983, although the momentum of change has differed between sectors. According to a WTO Secretariat report on Morocco's trade policies and practices, recent developments include a significant push to liberalize certain services areas, in particular banking, and to privatize state-owned companies. Regulations limiting foreign holdings of Moroccan companies have been abolished, exchange regulations and operations relating to foreign investment and borrowing have been eased, and joint ventures with foreign companies are now being encouraged. Of the 133 state-owned companies scheduled to be sold, 32 had been privatized by June 1995.

The report, which will be discussed at a review of Morocco by the WTO's Trade Policy Review Body on 17 and 18 January, notes that since agriculture and farm-related activities play a large role in Morocco's economy, short-term economic growth is strongly influenced by climatic conditions. Morocco's economy expanded rapidly in 1994, with GDP growth exceeding 11 per cent. However, severe drought caused the economy to shrink in 1995.

After hosting the Marrakesh Ministerial Meeting in April 1994, Morocco immediately ratified the WTO Agreements to become a founding member of the World Trade Organization. Under the General Agreement on Trade in Services (GATS), Morocco bound access condition in various services categories, including professional services, other business services, value-added telecommunications services, environmental services, and financial and tourism services. Morocco is an active participant in the negotiating groups on maritime transport services and basic telecommunications.

Within the WTO framework, Morocco undertook to bind all tariff lines. Like other WTO members, it is also committed to converting all quantitative measures affecting imports of farm products to tariffs. In June 1993, Morocco introduced tariff equivalents of between 100 and 365 per cent for live animals, meat, dairy products and some of their derivatives; other tariff equivalents are to be introduced in 1996. Morocco has no legislation concerning GATT Article XIX or emergency safeguard measures. While its foreign trade regulations provide for anti-dumping and countervailing measures, these have never been used. Morocco is currently adapting its laws to conform with the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

In July 1995, the simple average tariff across all items was 23.5 per cent. This average conceals duty escalation in the industrial sector, especially in regard to products which compete with Moroccan goods. According to the report, high protection for local production, including raw materials, tends to affect the competitiveness of downstream activities such as tourism, and more advanced manufacturing activities. In turn, the motor vehicle sector benefits from a local content scheme, under which assembly firms must incorporate 60 to 70 per cent of Moroccan components or conduct compensatory exports. A recent contract with a European producer foresees a local content of 50 per cent after three years.

On the export side, Moroccan goods, especially those with a high level of local processing, are being promoted by means of tariff and tax concessions. Merchandise exports, states the report, comprise three main product groups: agricultural produce and seafood, textiles and clothing, and phosphate and phosphate derivatives. These products account for some 80 per cent of the country's merchandise export earnings. Morocco is the world's leading phosphate supplier.

The European Union is Morocco's main commercial partner. It supplies over half of the country's merchandise imports, receives more than 60 per cent of its exports and originates three-quarters of Morocco's inward foreign investment. Trade with Japan and the United States is increasing.

The report concludes that Morocco's economy stands to gain from its recent efforts to develop its services economy. With the decline of agricultural activities, services now contribute more than 50 per cent of the country's GDP. This trend is likely to continue, states the report, especially since the sector was the one to benefit most from recent trade liberalization and privatization measures. With the WTO Agreements in place, Morocco has an opportunity to pursue and extend its liberalization policy and revitalize its adjustment process across the board.

Notes to Editors:

The WTO Secretariat's report, together with a report prepared by Morocco, will be discussed by the WTO Trade Policy Review Body (TPRB) on 17 and 18 January 1996. The WTO's TPRB conducts a collective evaluation of the full range of trade policies and practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

Two reports, together with a report of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of Morocco and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover development of all aspects of Morocco's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property

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rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Costa Rica (1995), Côte d'Ivoire (1995), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992) and Zimbabwe (1994).

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TRADE POLICY REVIEW BODY**MOROCCO****Report by the Secretariat - Summary Observations****The economic environment**

Confronted with internal and external payment imbalances, in 1983 Morocco embarked on a series of economic adjustment programmes. The monetary and budgetary policy and trade liberalization measures adopted have yielded significant results. The government deficit and inflation have been contained and at the end of 1994 foreign exchange reserves represented about five months of exports. The dirham has been made convertible for current transactions and for capital transactions effected by non-residents. The dirham has held up relatively well against the principal foreign currencies. The external debt fell from more than 100 per cent of GDP in the mid-eighties to less than 70 per cent in 1994, but debt service is absorbing almost one third of current revenue in the balance of payments.

The country's present problems include unemployment and drought, which has been a frequent occurrence in Morocco for nearly 20 years. Because of its severity, the drought of 1995 is regarded as the drought of the century and the resulting poor harvests could chop 4 to 6 per cent off real GDP. These adverse climatic conditions have aggravated the exodus from rural areas and also unemployment, which has now reached about 16 per cent of the labour force at national level. The social impact of unemployment has been softened by the existence of an extensive informal sector which, however, is having a negative effect on government revenue and helping to increase the burden on tax-paying enterprises.

Transport costs (including freight costs for air, sea and road transport) are relatively high as compared with those in other countries in a similar economic situation. Moreover, the taxes levied do not reflect the level of basic infrastructure (including electricity and telecommunications) required by industry as government revenue is mostly used for paying civil service wages.

With a view to promoting investment, especially foreign investment, the law limiting foreign holdings in Moroccan companies, known as the "Moroccanization" law, was abolished in September 1993, new banking regulations were adopted and a privatization programme was launched. Out of the 113 State-owned companies and hotels scheduled for privatization, 32 had already been privatized by June 1995 and today public investment is concentrated in the social and infrastructure sectors. Foreign financing for joint ventures with Moroccan partners is now being encouraged; such investment could also help to finance the replacement of obsolete plant and equipment.

Morocco in world trade

Morocco's merchandise exports comprise three main groups of products which account for about 80 per cent of the country's merchandise export earnings: agricultural produce and seafood, textiles and clothing, and phosphate and phosphate derivatives. Morocco possesses more than half the world's phosphate reserves and, internationally, is the leading phosphate exporter. Moreover, it is phosphates that enable Morocco to maintain a presence in a large number of foreign markets.

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The structure of Morocco's merchandise imports has changed in recent years to reflect the needs associated with the investment encouraged by economic adjustment and growth. The shares of food and energy imports are declining whereas imports of machinery and other capital goods, together with imports of raw materials needed by the chemical industry, are increasing.

The services sector in Morocco is mainly based on tourism which is favoured by the natural beauty of the country and its cultural heritage. Tourist activities bring in as much foreign currency as agricultural and seafood exports combined (about 30 per cent of merchandise export earnings). European tourists represent about 60 per cent of the total. Although considerable, tourist earnings and the remittances from Moroccans working abroad are not sufficient to absorb the structural deficits of the trade balance.

The European Union continues to be Morocco's main trading partner. It supplies about 54 per cent of merchandise imports, receives 63 per cent of exports and every year is responsible for about 75 per cent of direct foreign investment. Within the Union, France, Spain, Italy and Germany have the largest shares in the trade with Morocco. Outside the EU, Morocco's trade with Japan and the United States is on the increase.

The factors that have favoured trade with the EU include both Morocco's lower labour costs and the preferential treatment granted to many Moroccan products. However, some categories of agricultural products are subject to tariff quotas and the country has also agreed to restrict its exports of trousers to the Union. Morocco and the European Union intend to conclude an association agreement which should eventually make it possible to establish a free-trade area.

Institutional and legislative framework

The Kingdom of Morocco is a constitutional monarchy; the executive power is in the hands of the King, as Head of State, and his Government. The King signs and ratifies international treaties. Where trade is concerned, bills are generally initiated by the competent Ministers and then submitted to the Chamber of Representatives for approval. The Chamber is composed of 333 Members, two thirds of whom are elected directly by universal suffrage and one third by an electoral college.

In the early 1990s, the Government began revising the Moroccan legislation, parts of which dated from the last century. A draft Company Act and three new Codes, one for investment, one for trade and one for labour, have been prepared. A draft Competition Act is also in preparation. All these texts, which are based in general on the corresponding French legislation, are intended to adapt the legislative framework to the various reforms which have been carried out, especially in the area of trade. With the exception of the draft Competition Act, these texts are in the process of adoption.

The constitutional reforms of 1993 were concerned, among other things, with reducing the time required for the adoption or ratification and implementation of laws in Morocco. However, there are still many bills which have been signed but not ratified or ratified but not yet implemented.

Features of economic policy

International commitments

Morocco acceded to the GATT in 1987. It participated actively in the Uruguay Round negotiations and hosted the Marrakesh Summit in April 1994. It has accepted the WTO Agreements

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and has therefore committed itself to pursue the liberalization of its external trade in a multilateral context.

Within the framework of the WTO, Morocco has completed the binding of all its tariff lines. The country has also bound its fiscal import levy and, like other members of the WTO, it has undertaken the tariffication of the quantitative measures which affect agricultural products. In June 1993, Morocco introduced tariff equivalents of between 100 and 365 per cent for live animals, meat, dairy products and some of their derivatives. Other tariff equivalents are to be introduced in 1996. For some meat categories the ceiling rates reach 380 per cent.

Subject to limitations concerning the physical presence of foreigners, Morocco has entered into commitments under the General Agreement on Trade in Services. It has bound the conditions of market access for certain categories of services, in particular professional services, other business services, value-added telecommunications services, environmental services, and financial and tourism services. Morocco is participating actively in the work of the maritime transport services and basic telecommunications negotiating groups. A bill is currently being prepared with a view to adapting the legislation in force to the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

Within the Arab Maghreb Union (AMU), of which Morocco is a member, Tunisia and Algeria are the two most important destinations for Moroccan products. Exports to these markets are exempt from import duties (in the case of Tunisia for certain products) or pay a countervailing tax of 17 per cent rather than a higher rate. The volume of trade within the Union is still limited but the Member countries are planning to establish a free-trade area. Morocco is a member of, inter alia, the Organization of the Islamic Conference and has concluded bilateral trade and tariff agreements with several Arab and Sub-Saharan African countries.

Trade policy instruments and their effects

Morocco's current trade policy combines progressive import liberalization with the promotion of industrial exports and heavy protection for certain agricultural staples. On the import side, domestic production is protected by a number of measures such as the licences required for a few products (10.2 per cent of total merchandise imports in 1994 as against 8.4 per cent in 1993), import duties, the fiscal import levy and a parafiscal tax. Subsidies have been granted in order to encourage the consumption of certain locally-produced agricultural products.

By 1993, Morocco had considerably simplified its import tariff by reducing the number and the maximum level of duty rates; the maximum rates had generally been reduced to 35 per cent, except for certain products which were subject to duty at 40 or 45 per cent. Since then, the maximum rates have been raised, more particularly as a result of the introduction of certain tariff equivalents. At the end of the first half of 1995 the simple average duty rate was 23.5 per cent. This average conceals a progressivity of duties in the industrial sector, especially as regards products which have been or could be manufactured in Morocco.

The agricultural sector, whose importance resides not only in the proportion of the population that it employs but also in the food security policy now in place, is the sector that receives the most protection: cereals, in particular soft wheat, and oilseed, sugar, milk and meat are the products more especially concerned. The Foreign Trade Act provides for variable levies on imports of certain staple foods. Farmers are exempt from taxation.

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On the export side, Moroccan goods, especially those with a high level of local processing, are being promoted by means of tariff and tax concessions. These concessions include relief and exemption from or reduction of duties and levies, especially on imported inputs, and concessions with respect to the tax on exporters' profits. Goods for export are exempt from value-added tax. There is provision for refunds on exports of certain agricultural products in surplus on local markets, but so far there appears to have been no instances of this measure being applied. Industrial zones, in which State aid is available for the purchase of land, and a free zone are currently operational. Except for hydrocarbons and certain services, duties and taxes on exports have been progressively abolished; the taxes levied on agricultural and mining exports were abolished by the 1995 Finance Act.

The instruments designed to protect local industry could make exporting enterprises less efficient. The principle is to give favourable treatment only to goods, in particular inputs, which are not or cannot be locally produced. At the same time, raw materials of Moroccan origin are relatively expensive. In fact, sheltered from foreign competition and benefiting from subsidies, the local producers have little incentive to reduce their costs. Moreover, although the importing countries have not so far taken any countervailing measures against Moroccan exports, the concessions granted could increase the risk of their doing so. These regimes also have a prejudicial effect on exports of certain services, including tourism, which mainly use locally-produced inputs.

Morocco has no legislation concerning the emergency measures described in Article XIX of the GATT. However, the foreign trade regulations currently in force provide for anti-dumping and countervailing measures which, it seems, have never yet been applied. As a precaution, pending the entry into force of a new law intended, among other things, to adapt these measures to the WTO Agreements, a preliminary import declaration was introduced in April 1994. Bananas are the only import for which this declaration is required.

Sectoral aspects of trade policy

Agriculture provides work for about 40 per cent of the Moroccan labour force. However, the contribution of the sector to GDP has fallen from nearly 20 per cent in the mid-80s to less than 15 per cent on average since 1990. During the last 10 years drought has become an increasingly regular feature of the climate and, accordingly, is now a factor which must be taken into consideration in making forecasts. Thus, the Government has reoriented its agricultural policy away from the broader goal of self-sufficiency towards the narrower objective of guaranteed food security. The progressive liberalization of this sector could be facilitated by the commitments entered into by Morocco in the context of the WTO Agreements and the development of more efficient modern production units using irrigation systems. At present, such units are farming about 11 per cent of the cultivated area and account for a quarter of agricultural production and 80 per cent of the country's agricultural exports.

The motor vehicle sector has been experiencing difficulties for several years. Accordingly, the Government has undertaken to revitalize the local content system introduced in 1982, according to which motor vehicle assembly firms must incorporate, in their production, 60 to 70 per cent of parts of Moroccan origin or offset by exports. A contract recently signed with a European manufacturer calls for a local content of 50 per cent after the first three years; the contract also provides for certain tax concessions.

The services sector contributes more than 50 per cent to the formation of Moroccan GDP. The increase in its share is attributable to the decline in that of agricultural activities during recent years. At the same time, the sector has especially benefitted from the dynamism generated by the

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country's achievements in the area of liberalization. In fact, this is the sector in which the disengagement of the State has been most pronounced in terms of the number of enterprises privatized.

The liberalization of the banking subsector has facilitated the entire opening-up process currently under way in Morocco. The liberalization of the other branches of the services sector, such as telecommunications and insurance, is less advanced but, given the commitments entered into by Morocco in the context of the WTO Agreement on Trade in Services, there are plans for certain activities to be opened up.

Trade policies and foreign trading partners

As in the case of other countries, the liberalization programme carried out unilaterally by Morocco over a period of more than 10 years was made necessary by economic difficulties. As indicated in the first review of Morocco's trade policy in 1989, the thrust of the policy pursued has been to promote exports of manufactures. The favourable results obtained in such areas as economic growth, inflation, government finance and external trade in goods and services should have encouraged the country to continue with the reforms. However, internal resistance and administrative and legislative delays seem to have blunted the initial enthusiasm.

Morocco's active participation in the Uruguay Round negotiations and the commitments it has entered into in this connection reaffirm its attachment to the multilateral trading system. The WTO Agreements offer it an opportunity to pursue and extend its liberalization policy and to eliminate the distortions inherent in the preferential regimes currently in place. Thus, the conditions are now favourable for Morocco to take up the challenge of the drought and revitalize its adjustment process.

TRADE POLICY REVIEW BODY

MOROCCO

Report by the Government - Summary Extracts

Introduction: Economic Environment and Policy

Profound changes took place in the overall economic environment in which Moroccan trade policy developed during the period 1990-1994.

During this period Morocco pursued a policy of economic reorganization and restructuring that focused in particular on modernization and liberalization of the economy, greater openness to the exterior, and strengthening and consolidation of the macroeconomic framework.

The policies implemented in this context were aimed especially at strengthening market forces and eliminating distortions and bottlenecks, so as to achieve a more efficient allocation of resources among the various economic sectors while at the same time creating favourable conditions for the development of the private sector's role in economic activity.

This process of economic reorganization and reform, launched in 1983, was pursued during the period 1990-1994.

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Thus, along with the discontinuation of debt rescheduling, the introduction of dirham convertibility for current transactions and the launching of the privatization programme, the main areas in which reforms were pursued and deepened were:

Implementation of a thorough overhaul of the financial sector with a view to liberalizing, modernizing and stimulating the banking system and capital and money markets. This reform was begun in 1991 and is now being completed;

Further liberalization of foreign trade, in particular by cutting the maximum tariff rates from 45 per cent to 40 per cent in 1992 and to 35 per cent in 1993 and reducing the number of tariff rates from 15 to 12, as well as through the adoption of the Foreign Trade Act, which provides a modern, liberal legal framework that includes anti-dumping and countervailing mechanisms similar to those usually found at the international level;

Further liberalization of the exchange regulations, going beyond the sphere of current transactions. This liberalization concerned in particular all operations relating to foreign investment and foreign borrowing by economic operators so as to enable them to tap international markets directly to finance their imports and investments; in addition, exporters and Moroccan residents abroad were authorized to open foreign currency accounts in the Moroccan banking system.

Liberalization of the economy and consolidation of its openness to the outside world are the bedrock principles of Morocco's economic policy. These principles have been more firmly anchored in the country's overall economic, commercial and financial structures since 1983, with the implementation of the structural adjustment process.

Hence, the reforms already carried out or still under way are aimed at the more thorough liberalization of the economy and at integrating it more firmly into the world economy.

Privatization is an integral part of this process. Its objectives include expanding the scope of private sector activity, encouraging foreign investment, modernizing the production sectors and improving the mobilization of private saving for productive purposes. Accordingly, the privatization programme covering 113 public enterprises could be extended to include some additional ones. Furthermore, in line with privatization, the scope of private sector activity will be further expanded through the elimination of public sector monopolies for a number of public services such as energy generation, telecommunication services and so forth. Finally, the private sector will also have a role to play in infrastructure projects that were hitherto exclusively reserved to the public sector, in particular roads, industrial zones, etc.

Meanwhile, as its role in economic activity dwindles the State will become more of a partner for the private sector in economic development, rather than the engine of growth which it has been for so long.

In this context, a committee chaired by the Prime Minister has been set up to oversee the development of the private sector. Its members are government and private sector representatives, and its purpose is to make proposals to the Government on measures or strategies which would contribute to the country's economic development and to the strengthening of private sector activity.

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In addition, national legislation on investment, trade and labour is currently being overhauled. The new basic law on investment is designed to incorporate investment incentives into ordinary law and simplify administrative procedures.

Consequently, the role of government will focus more on regulating the economy and maintaining a viable, stable and favourable framework for investors and savers, since a stable macroeconomic framework is the best means for achieving the further liberalization of the economy and its integration into the world economy.

With regard to economic trends in Morocco during the period 1990-1994, average annual growth over this period was in the order of 3.2 per cent. This average rate conceals erratic variations largely reflecting the impact of exogenous - and frequently adverse - factors on the Moroccan economy.

This period was marked by two successive years of severe drought which had a serious impact on agricultural production, with the result that GDP declined in real terms by 4.1 per cent in 1992 and 1.1 per cent in 1993. It was also marked by the negative effects of the Gulf crisis and the uncertainties preceding the conclusion of the Uruguay Round negotiations on the world economy and trade, which led to the strengthening of regional groupings and the resurgence of protectionism.

Finally, this period was marked by the adverse effects of turmoil in international currency markets, in particular in 1992 and 1993 and at the end of 1994. Despite these unfavourable circumstances, Morocco made significant progress in consolidating its macroeconomic framework, improving the investment environment and strengthening economic liberalization.

Morocco put an end to successive rounds of rescheduling and resumed normal repayment of its foreign debt as from 1 January 1993. It also established convertibility of the dirham for current transactions in January 1993, and launched the privatization programme, likewise in 1993.

As far as the macroeconomic situation and outlook are concerned, it is worth noting that after a period of negative growth of 4.1 per cent and 1.1 per cent in 1992 and 1993, respectively, in 1994 GDP expanded sharply, by about 11.5 per cent. With the exception of the building and public works sector, all branches of activity contributed to this growth, although to a varying extent. The agricultural sector alone expanded by 63 per cent, accounting for some three quarters of total GDP growth. Output of the secondary and tertiary sectors rose by 4.3 per cent and 2.6 per cent, respectively.

In contrast with the two previous years which had been marked by drought, in 1994 the agricultural sector enjoyed favourable weather conditions, which led to an extension of the area under cultivation and a sharp improvement in yields, particularly of cereals. There was also an improvement in the livestock sector, thanks to abundant fodder crops, which led to herd restocking. Finally, fisheries production reached the level of 750,000 tonnes, an increase of almost 20 per cent, attributable exclusively to coastal fishing.

After a 1.3 per cent drop in 1993, the value added of secondary activities rose by 4.3 per cent in 1994, thanks in particular to the phosphates sector. Output of the "energy and water" sector increased by 8 per cent as a result of a rise in electricity generation, essentially from thermal power stations, as a result of the expansion of installed capacity. The industrial sector

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recorded growth of 4.2 per cent, to which all industries contributed, in particular the agro-industry and chemical and parachechemical industries.

Lastly, in parallel with the growth in other activities traded services rose by 2.6 per cent, as a result of increases of 9.2 per cent, 5.3 per cent and 1.9 per cent in trade, transport and communications, and other services, respectively.

All in all, taking into account a 2.7 per cent rise in the deflator, gross domestic product growth was 14.5 per cent in current terms as opposed to 2.5 per cent in 1993.

Final consumption rose by 16 per cent, compared with 2.8 per cent in 1993 and 1.3 per cent in 1992, primarily as a result of the 18 per cent jump in household consumption, which had remained virtually flat over the two previous years. This surge was linked with the rise in agricultural output and the reserves built up in rural areas.

Investment expenditure rose by 7.7 per cent in 1994. However, this was largely accounted for by inventory replenishment of some 2.3 billion dirhams, essentially in energy and industrial products. Gross Fixed Capital Formation (GFCF) increased slightly, by 2.6 per cent, so that its level in relation to current GDP gives an investment rate of 20 per cent compared with an average of 22.5 per cent over the four previous years.

Foreign trade

Moroccan foreign trade grew by 7 per cent in 1994 over 1993, with increases in both imports (6.6 per cent) and exports (7.7 per cent). The rise in imports is accounted for primarily by purchases of semi-finished products, energy products and some primary commodities and raw materials such as wood, cotton and oilseeds. On the other hand, total imports of foodstuffs fell considerably as a result of the exceptional harvest in 1994.

Export growth was accounted for primarily by phosphates and phosphate products, which represented slightly over a quarter of total exports, as well as food products, which accounted for nearly 28 per cent.

No significant changes have taken place in the geographical distribution of Morocco's foreign trade over the last four years. The European Union continues to take the lion's share of both imports (54 per cent) and exports (63 per cent). Within this grouping, Morocco's main suppliers and clients are France, Spain, Italy and Germany. The balance-of-payments current account deficit should be around 2.2 per cent of GDP in 1994 (much the same as in 1993), and was entirely covered by the inflow of foreign investment. As a consequence, foreign currency reserves could be consolidated at a level covering more than six months of imports of goods and services.

External debt

Foreign debt indicators have improved sharply in recent years. The principal represented the equivalent of 68 per cent of GDP in 1994 as opposed to over 80 per cent in 1993 and over 100 per cent in the mid-1980s. The debt service ratio also improved significantly. Nevertheless, debt service remains a heavy burden, still accounting for more than a third of total current receipts in the balance of payments.

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Prices and interest rates

Consumer prices continued to rise in 1994 at the same rate as in 1993 and 1992, i.e. 5 per cent, thus confirming that inflation has been brought under control, which is one of the main goals of the country's economic policy. Lending interest rates, which have been progressively liberalized since 1991 as part of the overall reform of the financial sector, currently stand at about 11.5 per cent, which represents a 4 point fall over three years. This fall has occurred in line with the curbing of inflation, which has helped to improve investment financing conditions.

Public finances

Despite the adverse impact of the economic recession in 1992 and 1993 on the level of budgetary receipts, the Treasury deficit did not exceed the equivalent of 3 per cent of GDP in 1994 compared with 2.4 per cent of GDP in 1993.

As a consequence of this slight increase in the deficit, combined with a negative net flow of external financing, the Government has to have greater recourse to domestic financing, but as this primarily concerned non-bank resources and in so far as there was surplus liquidity in the banking system, it did not create any serious pressure on the money supply.

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