4. Inflation is under control after the sharp increase in the 1990-91 period when changes in the urban consumer price index (CPI) averaged 8 percent. Over the past two years, inflation based on the CPI averaged 5.5 percent, while that based on the implicit GDP deflator was even lower at about 4 percent. Estimates for 1994 inflation measured both ways was around 5 percent. Since the world inflation rate as measured by the G-V Manufacture Unit Value index (MUV) has averaged about 3-4 percent over the past three years, the country has achieved a fairly stable real exchange rate without excessive movements in the nominal rate.

5. The worldwide recession and the drought-induced agricultural downturn worsened the trade balance in the 1992-93 period through their negative impact on exports and food import requirements; but the balance of payments has not suffered any significant deterioration despite these transitory difficulties. Owing to more favorable trends in other current account items, notably private transfers from abroad, the current account deficit improved steadily from 12 percent of GDP at the height of the economic crisis in 1983 to below 2 percent since the early 1990's. With the end of debt relief, net external debt disbursements and resource flows have declined in the past two years; thus, mobilizing the needed foreign capital inflows has become a major challenge. Nonetheless, foreign direct investment (FDI) flows have increased threefold since 1990 from US$227 million to an estimated US$660 million in 1994, or 2 percent of GDP. During the economic reform period, many foreign exchange restrictions were dismantled; this led to full current account convertibility in 1993. The dirham rate, which is pegged to a basket of currencies, has remained roughly stable in real terms. Trade liberalization has continued; import licensing restrictions on cereals, sugar and edible oils are scheduled to be removed this year. Finally, the country has witnessed a sharp increase in its foreign exchange reserves over the past several years, reaching the equivalent of six months of imports at the end of 1994.

6. The authorities relied consistently on stringent monetary and fiscal policies to sharply reduce the budget deficit from an average of 10 percent of GDP in 1980-83 to 3.2 percent in 1993. Alongside the introduction of a value-added tax in 1986, the Government implemented a sweeping tax reform that effectively increased the tax buoyancy and decreased major distortions in relative prices. Moreover, tight wage and salary policies undertaken under the reform program have continued; but it is estimated that the fiscal deficit has slightly worsened recently due in part to a large increase in the public investment program, drought-related relief expenditures, and