INTERNATIONAL MONETARY FUND

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MOROCCO

January 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2023, following discussions that ended on November 4, 2022, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 16, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the IMF Staff Representative**.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with Morocco

FOR IMMEDIATE RELEASE

Washington DC - January 17, 2023: On January 17, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Morocco.

The drought and economic fallout from Russia's war in Ukraine took a toll on Morocco's economy in 2022, despite the authorities' very strong policy response. After a strong 7.9 percent rebound in 2021, economic activity is expected to slow to 1¼ percent this year, on account of the slump in agricultural output, worsening external conditions, and reduced disposable income. Rising food and energy prices fueled inflationary pressures, which have become more broad-based, with headline inflation expected to peak at 6.5 percent on average in 2022. The negative terms of trade shock from higher international commodity prices widened the trade deficit but strong tourism revenues and remittances partly offset the negative impact on the current account, and international reserves remain at comfortable levels.

Despite the increase in current spending from higher subsidies and other policy measures that mitigated the economic impact of the shocks, the overall fiscal deficit is projected to fall in 2022, This reflects strong performance of both tax (mainly corporate income and VAT) and not-tax (dividends from SOEs) revenues. The central government debt-to-GDP ratio is projected at about 69 percent by end 2022, significantly below the level projected at the time of the 2021 AIV Staff Report, mainly owing to the upward revision of GDP following the change in base year.

GDP growth is projected to accelerate to 3 percent in 2023, mainly driven by the rebound in agricultural output and its positive spillovers to the rest of the economy. Inflation is forecast to gradually decline to about 4 percent in 2023, as the commodity price shock gradually dissipates, and the monetary stance becomes less accommodative. The current account deficit is projected to narrow towards its norm of around 3 percent of GDP in the medium term, boosted by structural reforms. The baseline projections are subject to unusually high uncertainty, mostly related to a worsening of global conditions and greater fallout from Russia's war in Ukraine.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the very strong policy response that has mitigated the social and economic impact of the recent negative shocks. While risks to the economic outlook are tilted to the downside, continued strong policies and a rapid implementation of reforms would support economic activity going forward. Looking ahead, they supported continued strong Fund engagement.

Directors welcomed monetary policy tightening in 2022 and supported additional data-dependent policy rate increases as needed to contain inflationary pressures. Directors encouraged the central bank to continue the transition to an inflation-targeting framework once inflation declines and the current uncertainty dissipates.

Directors supported the 2023 Budget, which strikes a balance between the needs to reduce the deficit, mitigate the social and economic impact of shocks, and finance structural reforms. They considered that further tax and spending measures would be needed to accelerate the reduction of public debt and rebuild fiscal buffers. Directors welcomed the publication of the three-year fiscal plan, which reinforces Morocco's already strong institutional fiscal framework. Going forward, the introduction of a fiscal rule based on a debt anchor would further enhance the credibility and transparency of fiscal policy.

Directors welcomed Morocco's progress in improving its financial supervisory and regulatory framework. They praised the authorities' completion of the Action Plan designed with FATF, which should support progress toward exiting the FATF grey list. While systemic risks to the financial system appear to be limited, Directors emphasized that it remains essential to continue monitoring financial institutions' balance sheet exposures, including to climate-related risks.

Directors commended the authorities' strong commitment to implement comprehensive structural reforms. The reform of the social protection, health, and education systems would improve fairness and quality of access, better target spending, and sustain human capital in the long run. SOE reforms and other initiatives to stimulate private investment would boost private sector growth. Directors stressed that continued efforts to reduce dependance on fossil fuels, address water scarcity, and reduce gender inequality are all essential to bolster Morocco's potential growth.

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

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Morocco: Selected Macroeconomic Indicators, 2017–27

Population: 36.31 million; 2021
Quota: SDR 894.4 million
Main exports: automobiles, phosphate and derivatives; 2021
Key export markets: France and Spain (44% of total trade); 2021

Per capita GDP: $3,853; 2021
Poverty rate: 4.8 percent; 2013

	2017	2018	2019	2020	2021	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Output (annual percent change)											
Real GDP growth	5.1	3.1	2.9	-7.2	7.9	1.2	3.0	3.1	3.1	3.2	3.4
Real nonagricultural GDP growth	3.5	2.8	3.8	-7.1	6.9	2.9	2.1	3.1	3.1	3.3	3.4
Employment (percent)											
Unemployment	10.6	9.4	10.2	12.2	11.9	11.1	10.7	10.2	9.8	9.3	9.2
Prices											
Inflation (end of period)	1.7	0.1	1.0	-0.9	3.2	7.0	3.4	2.5	2.4	2.0	2.0
Inflation (period average)	0.7	1.6	0.2	0.7	1.4	6.5	4.1	2.5	2.4	2.0	2.0
Central government finances (percent of GDP) 1/											
Revenue	24.6	24.2	23.8	27.0	25.1	26.9	26.9	26.8	26.5	26.5	26.6
Expenditure	27.8	27.7	27.4	34.1	31.0	32.2	31.8	31.1	30.3	29.8	29.5
Fiscal balance	-3.2	-3.4	-3.6	-7.1	-5.9	-5.3	-4.9	-4.4	-3.8	-3.3	-2.9
Public debt	60.3	60.5	60.3	72.2	68.9	69.2	69.0	69.3	69.0	68.5	67.5
Money and credit (annual percent change)											
Broad money	5.5	4.1	3.8	8.4	5.1	4.2	4.3	4.5	4.6	4.6	4.8
Claims to the economy 2/	3.3	3.4	5.6	4.8	4.0	5.3	3.8	4.0	4.0	4.2	4.5
Balance of payments											
Current account including official transfers (percent of GDP)	-3.2	-4.9	-3.4	-1.2	-2.3	-4.3	-3.8	-3.5	-3.2	-3.1	-3.1
Exports of goods (in U.S. dollars, annual percent change)	12.8	14.5	0.3	-4.4	34.1	13.8	-1.2	5.3	4.6	5.6	5.6
Imports of goods (in U.S. dollars, annual percent change)	7.8	13.5	-0.9	-12.0	31.7	22.3	-5.5	4.0	4.0	4.9	5.2
Merchandise trade balance (percent of GDP)	-15.2	-15.9	-15.3	-12.8	-13.9	-19.6	-17.3	-16.8	-16.3	-16.1	-16.0
FDI (percent of GDP)	1.4	2.2	0.6	0.8	1.2	1.5	1.4	1.4	1.4	1.4	1.4
Gross reserves (months of imports)	5.7	5.4	6.9	7.2	5.8	5.5	5.4	5.3	5.4	5.5	5.4
External Debt (percent of GDP)	44.2	40.5	42.5	54.1	45.4	40.7	42.8	42.6	43.2	43.3	43.0
Exchange rate											
REER (annual average, percent change)	-0.3	0.8	0.8	0.7	0.7	…	…	…	…	…	…
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	118.5	127.3	128.9	121.3	142.9	138.0	138.1	145.9	154.1	162.3	171.1
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-5.3	-8.4	-14.0	-12.3	-11.6	-11.2	-11.1	-11.1
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.5	9.0	…	…	…	…	…	…

Sources: Moroccan authorities; and Fund staff estimates.
1/ Include grants.
2/ Includes credit to public enterprises.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

December 16, 2022

KEY ISSUES

Economic context: Despite the authorities' very strong policy response, another drought and the economic spillovers from Russia's invasion of Ukraine have taken a toll on Morocco's economy and ignited inflationary pressures. Assuming a return to normal agricultural seasons, stabilization of external economic conditions, and continued progress on the authorities' rich structural reform agenda, economic activity should rebound in 2023 and stabilize around 3½ percent over the medium term. Inflation is projected to have peaked in 2022 and to start falling in 2023 as the commodity price shock dissipates and the central bank reduces monetary policy accommodation. The negative terms-of-trade shock widened the trade deficit in 2022, but Morocco's external position is projected to improve from 2023 onwards, also thanks to strong remittances and tourism inflows.

Main policy challenges: Fiscal policy needs to strike a delicate balance between rebuilding buffers, mitigating the lingering economic and social impact of recent shocks, and financing the much-needed structural reforms. The 2023 Budget contains measures that significantly contribute to achieving all these objectives, but there is room for more efforts to increase revenues and rationalize spending, which would allow a faster reduction of public debt in the medium term. While Bank Al-Maghrib has appropriately raised interest rates in 2022, further increases are required to bring inflation back to 2 percent over the next two years. Preparation should continue for a swift transition to an IT regime after inflation returns to lower levels and current exceptional uncertainty on the domestic and global economic outlooks dissipates.

Structural reforms: Limited fiscal and monetary policy space and high uncertainty call for accelerating structural reforms to strengthen the resilience of Morocco's economy. Significant progress has been achieved in a number of areas, with reforms that have the potential to boost domestic demand and increase Morocco's growth potential over the medium term. Important steps have been made toward expanding social protection to all Moroccans and better targeting assistance through the introduction of a Unified Social Registry. Far-reaching reforms in both health and education systems have been designed that should improve access, efficiency, and quality of services, bolstering human capital over the medium to long term. The reform of SOEs, together with the operationalization of the Mohammed VI Fund and the implementation of the new Charter of Investment, should help stimulate private investment. Progress in liberalizing the electricity market should accelerate the transition to renewable energy, while much remains to be done to address the increasing scarcity of water resources and reduce gender gaps.

Approved By
Taline Koranchelian and Natalia Tamirisa (SPR)

The discussions took place during October 24–November 4, 2022. The team consisted of Roberto Cardarelli (head), Hippolyte Balima, Olivier Bizimana and Nordine Abidi (all MCD), David Bartolini (FAD) and Hector Perez-Saiz (SPR). Ananta Dua, Abigail Korman and Tatiana Pecherkina (all MCD) assisted in the preparation of the report. The mission met with the Head of Government Mr. Akhannouch, the President of the Chamber of Representatives Mr. Talbi Alami, the Minister of Economy and Finance Mrs. Fettah Alaoui, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. El Qorchi (OED) participated in most meetings.

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TABLES

ANNEXES

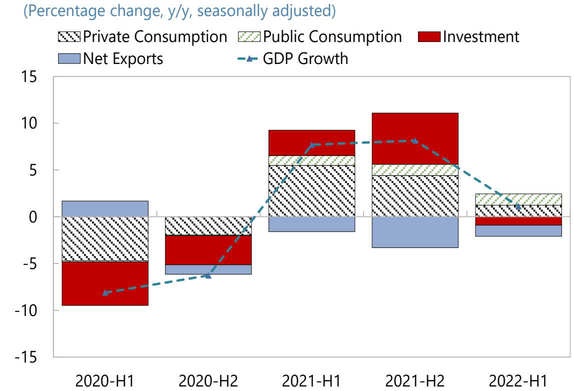
Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BAM	Bank al-Maghrib
CA	Current Account
CNSS	Social Security National Fund
ER	Exchange Rate
FATF	Financial Action Task Force on Money Laundering
FDI	Foreign Direct Investment
FX	Foreign Currency
GDP	Gross Domestic Product
IT	Inflation-Targeting
NMD	New Model of Development
NPLs	Nonperforming Loans
PP	Percentage Point
PPP	Public-Private Partnership
Q	Quarter
SOE	State-Owned Enterprise
VAT	Value-Added Tax
USD	United States Dollar
WEO	World Economic Outlook

RECENT DEVELOPMENTS

1. **The drought and economic fallout from Russia's invasion of Ukraine slowed economic activity in 2022**. After rebounding by 7.9 percent in 2021, growth averaged a modest 1.1 percent in the first half of 2022. Another drought—the third in the past five years—and the economic fallout from Russia's war in Ukraine have reduced disposable income and ultimately affected demand, despite the authorities' prompt response (through subsidies that stabilized the price of wheat and gas, fixed electricity tariffs, cash transfers to the transport sector, and subsidized credit schemes to the agricultural sector). The unemployment rate has fallen somewhat in 2022, but this mainly reflects a lower participation rate that more than offset the decline in employment rate (especially for women, possibly reflecting the relatively greater concentration of female workers in the drought-affected agricultural sector).

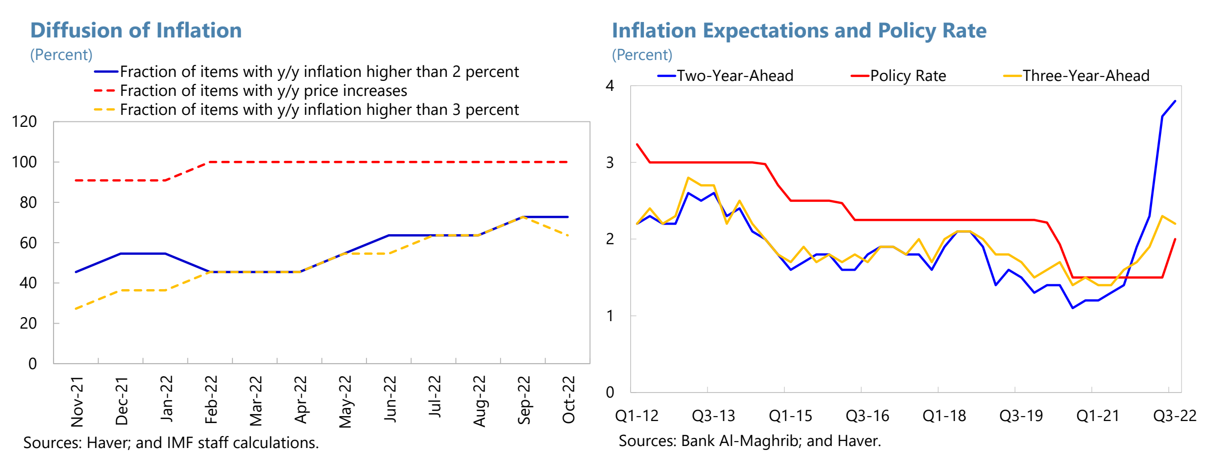
Demand Contribution to Real GDP Growth
(Percentage change, y/y, seasonally adjusted)



Sources: Haver; and IMF staff calculations.

2. **Inflation pressures have intensified**. Headline inflation slightly decelerated to 8.1 percent (y/y) in October, from 8.3 percent in September, the highest rate since the 1990s. While the food and transportation sub-indices contributed to about 80 percent of the increase, inflation pressures have become increasingly more broad-based across the CPI basket. Core inflation accelerated to 7.1 percent in October (y/y) and 2-year-ahead inflation expectations rose to 3.8 percent in Q3:2022, although longer term (3-year-ahead) inflation expectations remained broadly unchanged at 2.2 percent.

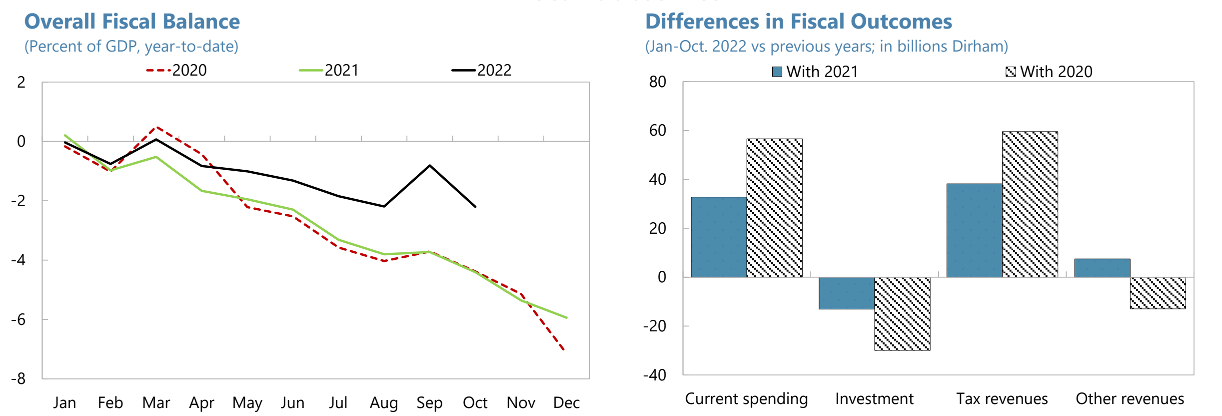
Inflation Diffusion and Expectations



3. Morocco central bank has responded by tightening somewhat the monetary policy stance. Bank Al-Maghrib (BAM) increased its policy rate by 50 bps to 2 percent in September, citing the risk that persistent high levels of inflation would de-anchor inflation expectations and trigger a self-sustaining inflationary spiral. So far in 2022, the dirham has depreciated against the dollar and the euro (by about 15 and 6 percent, respectively), moving closer to the upper side of its ±5 percent fluctuation band. The real effective exchange rate has depreciated by about 1½ percent.

4. Despite higher spending, the fiscal position has improved. In the first ten months of 2022, current spending has increased by 2.4 percent of GDP compared to the same period in 2021, driven mainly by more expensive gas and wheat subsidies (by 1.4 percent of GDP) as well as cash transfers to the transportation sectors (0.4 percent of GDP) and transfers to the national power utility to help it sustain the cost of stable electricity tariffs (by 0.3 percent of GDP). This increase, however, has been more than offset by stronger tax revenues, mainly from the corporate income tax (owing to the stronger-than-expected economic rebound in 2021), while VAT and custom revenues were boosted by higher inflation. Non-tax revenues were also lifted by higher dividends from SOEs.[1] As of October 2022, the overall fiscal deficit stood at 2.2 percent of GDP—about half the 2021 level.

Fiscal Outcomes



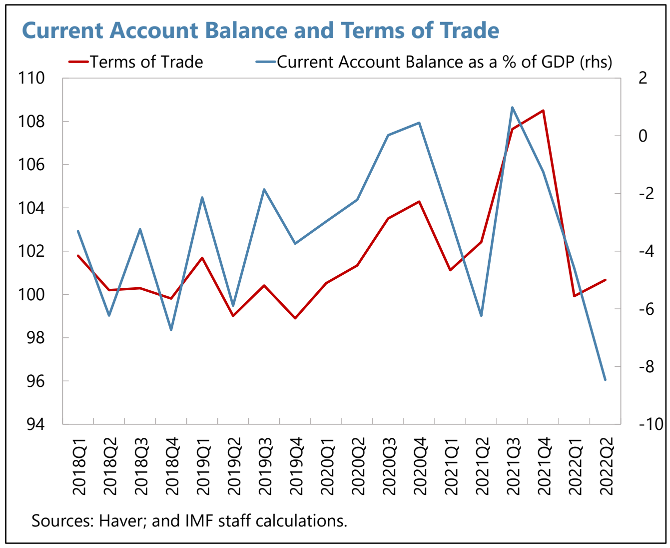
Source: National Authorities.

Source: National Authorities.

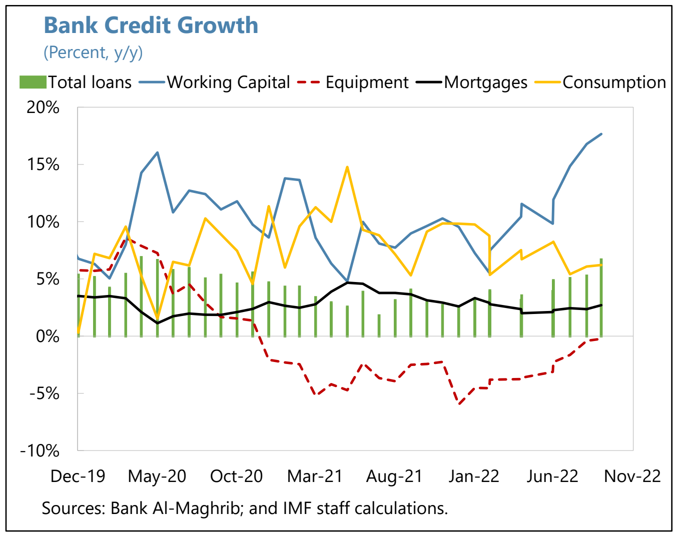
5. Morocco's current account deficit has widened. The trade deficit increased to about 16½ percent of GDP in the first ten months of 2022 (from around 12 percent last year), owing to soaring import values, particularly of energy and food products, only partially offset by stronger export values. However, the rebound in tourism receipts (which returned to 2019 levels) and still strong remittances have partially softened the negative impact on the current account. Robust net FDI inflows contributed to fund the higher external financing needs, whereas international reserves expressed in US dollars have declined mainly reflecting the depreciation of the euro against the US

[1] Mainly from the OPC (*Office Chérifien des Phosphates*), one of the world's largest producers of phosphate and phosphate-based products.

dollar (60 percent of reserves are in euros). Morocco's external position in 2022 was broadly in line with the level implied by fundamentals and desirable policies (see Annex I).



6. Banks have weathered the adverse shocks relatively well so far. Private credit growth has accelerated in 2022, driven by loans to non-financial private firms, but this mainly reflects their greater working capital needs after the increase in production costs (particularly in the energy and agricultural sectors). The forbearance measures implemented during the crisis have not led to significant deterioration in credit quality.[2] Meanwhile, the cost of risks has improved, reflecting stable nonperforming loans (NPLs) at 8.5 percent of total loans in September 2022 and healthy provisioning (with NPL coverage ratio at around 67 percent as of mid-2022). Banks' capitalization remains adequate, with Tier 1 capital ratio of around 11.8 percent, whereas risks from large credit exposures are relatively low compared to pre-crisis levels (2.5 times regulatory capital relative to 2.8 before the crisis).



OUTLOOK AND RISKS

7. GDP growth is expected to accelerate in 2023. Real GDP is forecast to grow at 1¼ percent in 2022, but to accelerate to 3 percent in 2023, mainly driven by the rebound in agricultural output and its positive spillovers to the rest of the economy. Remittances and tourism flows are projected to moderate somewhat owing to the deterioration in euro area growth, and investment is expected to remain subdued, but lower inflation and measures to support demand from the 2023 Budget are expected to sustain private consumption. Over the medium term, GDP growth is projected to stabilize at around 3½ percent, as the initial positive effects of the structural reforms help offset the scarring effects from the pandemic and Russia's war in Ukraine.

[2] As of end 2021, 8.2 percent of the loans subject to moratoria (about 10 percent of total loans) were nonperforming. As for the loans granted under the subsidized schemes introduced as a response to the Covid crisis ("*Damane Oxygene*" and "*Damane Relance*"), about 3 percent were nonperforming.

8. Inflation and the current account deficit are expected to fall, assuming no further external shocks. Average headline inflation is projected to peak at 6.5 percent in 2022 and gradually decline to about 4 percent in 2023 and 2.5 percent by 2024, as the commodity price shock gradually dissipates and the monetary stance becomes less accommodative, and despite the estimated inflationary impact of the elimination of remaining subsidies. The current account deficit is projected to increase to around 4 percent of GDP in 2022 before narrowing towards its norm of around 3 percent in the medium term, boosted by structural reforms and continued fiscal consolidation (Annex I-External Assessment). While FDIs and external borrowing are expected to finance the current account deficit, FX reserve coverage would slightly decrease over the next few years due to valuation changes and the repayment of the PLL, albeit remaining well above 100 percent of the adjusted ARA metric.[3]

9. The risks to the outlook are skewed to the downside (Annex II-Risk Assessment Matrix). In particular, a worsening of global conditions and greater fallout from Russia's war in Ukraine could affect Morocco through lower external demand (especially from the euro area), greater commodity price volatility, and tighter financial conditions. On the domestic side, Morocco's economy remains highly vulnerable to recurrent droughts, while a faster and more efficient implementation of the structural reform agenda pose upside risks to growth. Stickier inflation expectations, more persistent global supply shocks, stronger pass-through of past energy and food price increases could all cause inflation to be higher for longer than projected. A more rapid-than-expected monetary policy tightening in the United States and the euro area could tighten financial conditions further and add depreciation pressures on the dirham, which may further fuel inflation.

Authorities' Views

10. The authorities broadly shared staff's views on risks to the outlook but were more optimistic about growth prospects. They forecast growth at 1.5 percent and 4 percent in 2022 and 2023, respectively. They expected more economic momentum in the last quarter of 2022 and carrying over into 2023, as the strong performance of the tourism sector and remittances observed so far in 2022 continues. They also expected activities in the construction sector, which has been affected by rising input costs, to normalize next year. They argued that these developments, and the expected return of the agricultural output to normal levels in 2023, would further support domestic demand. Finally, they projected inflation to fall to around 2 percent in 2023, as external shocks from higher commodity prices gradually dissipate and BAM's rate hike in September 2022 takes hold.

POLICY DISCUSSION

The macro-policy trade-offs in the near term have become more challenging, given persistent and broad-based inflation pressures and limited fiscal space amid a highly uncertain global environment.

[3] Following the *Guidance note on the assessment of reserve adequacy and related considerations* (IMF, 2016) the concept of ARA for Morocco is adjusted to take into consideration the presence of longstanding and effective capital flows measures on Moroccan residents.

Given the need to tighten both fiscal and monetary policy stances, accelerating structural reforms will be more essential than ever to boost potential growth and enhance resilience.

A. Monetary Policy

11. Tackling high inflation will require higher interest rates. The future course of monetary policy in the near term will depend on incoming data on inflation, inflation expectations, and exchange rate developments. Still, in staff views, taking inflation back to around 2 percent by end 2024 (as currently projected in staff baseline) will require further increases in the policy rate, bringing the real ex-ante policy rate (currently at negative values) closer to the neutral real interest rate (estimated at between 1 and 2 percent). Higher-than-projected inflation outcomes over the next few months would call for a more rapid increase in interest rates, and potentially moving into a restrictive policy stance.

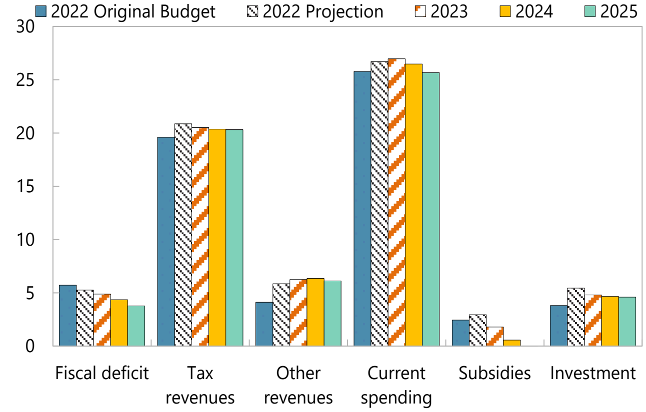
12. Protecting FX reserves should be a priority, given the exceptional uncertainty and Morocco's pegged exchange rate regime with a horizontal exchange rate band. While FX reserves are at a comfortable level, also given existing capital controls, it is important to preserve them so they can provide a buffer against the materialization of the downside risks described above. While staff welcomed the recent efforts to shore up lending from bilateral and multilateral lenders, the authorities should continue to diversify their financing sources and access international financial markets. Further increases in the policy interest rates could also help moderate depreciation pressures on the dirham, although most of the recent depreciation is associated to trade financing needs (and trade-related hedging), which are expected to ease in 2023. Once inflation and uncertainty on global and domestic outlook are lower, BAM should move forward with the final stages of the transition to an inflation-targeting framework and allow the dirham to float freely. This would strengthen Morocco's resilience to future shocks.

Authorities' Views

13. The authorities did not rule out the need for further action but stressed that this will depend on incoming data. They emphasized that the best contribution that monetary policy could provide to economic activity in Morocco is to ensure price stability, and that the central bank was firmly determined to achieve that objective. Going forward, future monetary policy actions will be data dependent, with a focus on inflation outcomes and expectations. The authorities also downplayed the role played by the interest rates differential in driving the dirham, given the limited share of volatile portfolio investment flows and capital controls on residents in Morocco. They expected depreciation pressures to subside in 2023 with the narrowing of the current account deficit. They shared staff's view that high inflation and elevated uncertainty makes the transition to the final stage of the inflation-targeting regime more challenging but pledged to continue the preparatory work that would ensure a smooth transition when conditions become more favorable.

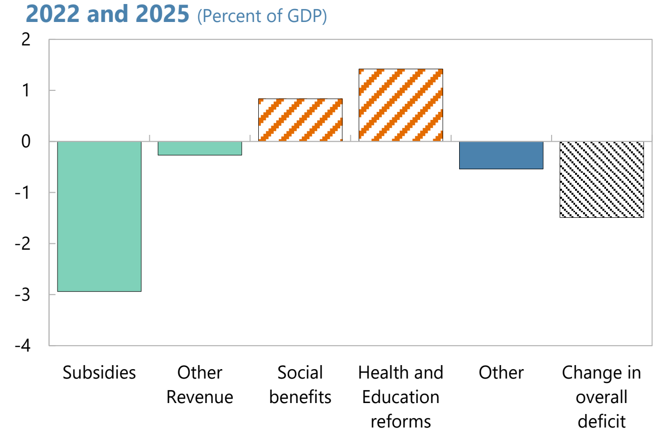
B. Fiscal Policy

14. The gradual pace of fiscal consolidation envisaged in the 2023 Budget balances the needs to reduce the deficit, mitigate the impact of recent shocks, and fund structural reforms. The fiscal deficit is expected to close at 5.3 percent of GDP in 2022—about 0.5 percentage points lower than in the Budget. The 2023 Budget projects the overall fiscal deficit to fall further to 4.9 percent of GDP in 2023 and return to pre-crisis levels by 2026, with the central government debt-to-GDP ratio stabilizing slightly below 70 percent of GDP.



Sources: Ministry of Economy and Finance; and IMF staff calculations.

15. The authorities' gradual consolidation plan reflects a series of measures included in the 2023 Budget, which are also incorporated in staff's baseline, including:



Sources: Ministry of Economy and Finance; and IMF staff calculations.

- *Reform of subsidies and family allowances*. Remaining subsidies on gas butane, wheat, and sugar will be fully eliminated by 2025, freeing resources to finance the generalization of health care insurance to all Moroccans and the extension of family allowances to 7 million of Moroccan families. The additional cost of these reforms (0.8 percent of GDP, included in Social Benefits) will also be financed by a solidarity contribution paid by firms, and an increase in the consumption tax on products that have a negative public health impact (e.g., sugar-based beverages).

- *A comprehensive reform of the corporate income tax system,* which over the next four years will i) replace the current plethora of tax rates (depending on profits, sector of activity, and location) with a standard rate of 20 percent (with the exception of companies with net profits above DH 100 Million, about USD 9 million, and financial institutions, these will pay 35 and 40 percent respectively) ; ii) reduce taxation on distributed dividends from 15 to 10 percent; and iii) lower the minimum corporate income tax rate from 0.5 to 0.25 percent (and to 0.15 percent for companies selling basic products). Overall, the reform is projected to yield additional revenues of about 0.1 percent of GDP by 2026.

- *Changes in taxation of personal income*. Taxes on employees and pensioners will be reduced through a revision of deductions and exemptions that will lower their taxable income, for about

0.2 percent of GDP. This loss of revenues is expected to be entirely offset by subjecting all personal incomes (including from real assets and non-wage activities) to the PIT, and the application of a withholding tax for certain sources of income (such as the income earned by professionals from the services they provide to government entities).

- *Mobilization of public real estate portfolio and dividends from SOEs*. Other revenues are expected to benefit from further efforts to mobilize central government real assets and more dividends from SOEs (yielding an additional 0.3 percent of GDP by 2025).
- *Reforms of health and education sectors*: these reforms are expected to add 1.4 percentage points of GDP to current and capital spending over the next three years.[4]

16. Staff welcomed the changes to the tax system, as they should increase its efficiency and overall progressivity, while also expanding the tax base. These measures are in line with the Framework Law that defined the main principles of a comprehensive reform of Morocco's tax system over a period of five years. The harmonization of the statutory corporate tax rates into a single relatively low rate simplifies the system, facilitates administration, encourages formalization, and removes potential distortions in the allocation of resources. The overall progressivity of the system also benefits from the solidarity tax on firms (as a function of their sales), that will help cover the cost of the generalization of social protection, and the reduction of taxes on wages and pensioners, who are responsible for generating about 70 percent of total PIT revenues in Morocco. Imposing a withholding tax on certain non-wage earnings should thus increase fairness and durably extend the tax base. While mobilizing government real assets could be an effective source of revenues, framing these transactions on a clear legal framework could reassure about their viability and ultimate fiscal impact.

17. The gradual introduction of the Unified Social Registry (RSU) should allow a better targeting of social programs. The RSU, currently under deployment in a pilot phase in some regions, is scheduled to be gradually extended over the country starting from 2023. All Moroccan households wishing to apply for social programs should register and will be assigned a score, based on a series of (self-declared and verified) socio-economic indicators. Only those with a score below a program-specific threshold will be eligible to receive assistance. While the replacement of remaining subsidies on wheat, gas butane, and sugar with transfers to poor families with children also helps better target social assistance, in the short term the government should stand ready to provide temporary and budget-neutral cash transfers to those households—mainly the lower three income quintiles—whose purchasing power has been disproportionally affected by higher inflation (Box 1).

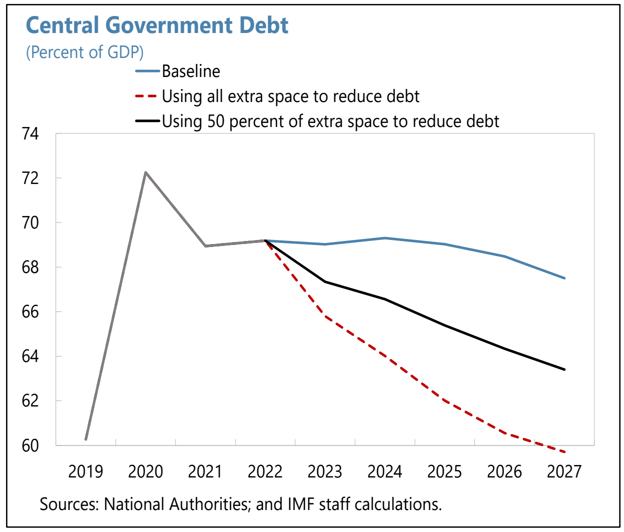
18. Staff welcomed the authorities' continued efforts to reform Morocco's pension system. Parametric reforms implemented over the past few years have reduced the funding gaps of many pension schemes, but more needs to be done to ensure the long-term financial viability of the system. The authorities are working on a comprehensive overhaul of the pension system that would eventually harmonize the different existing schemes into just two schemes (one public and one

[4] In staff baseline, the cost of these reforms is spread between compensation of employees, use of goods and services, and investment spending.

private). The details of the new system and its phasing in should be determined so as to achieve a fair, efficient, and financially sustainable pension system for all Moroccans.

19. More efforts on the tax and spending fronts are needed to accelerate the reduction of the debt-to-GDP ratio. In particular,

- On the revenues side, measures that could generate additional resources include; i) the announced *reform of the VAT regime*, with the harmonization of the current four rates toward one standard rate (this could yield about 0.6 percent of GDP annually); ii) streamlining (non VAT related) *tax expenditures*, with savings of about 0.3 percent of GDP; iii) a gradual introduction of a *carbon tax*;[5] and iv) further measures to expand the tax base, improve tax administration, and reduce informality.[6]



- On the spending side, i) a broad-based *civil service reform* that places more weight on productivity over seniority could help reduce the wage bill in the medium term;[7] ii) the *reform of state-owned enterprises* (SOEs) could generate additional dividends and reduce capital and current transfers, and iii) increased use of digitalization and further efforts to strengthen the public finance management system could boost the efficiency and rationalize spending in several areas of the public administration.

Staff estimates that these reforms could generate at least 2 percent of GDP per year and allow a faster reduction of the debt-to-GDP ratio than projected in the baseline, to between 60 and 65 percent by 2027.

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[5] According to the World Bank *Country Climate and Development Report* published in November 2022, the introduction of a carbon tax could yield close to 1 percent of GDP in revenues per year in the short run, although the adjustment to the new relative prices would gradually reduce the tax base and therefore the revenues collected.

[6] IMF (2022) estimates that the "tax gap" (difference between actual and potential tax revenues) in Morocco is about 10 percent of GDP. BAM estimates a somewhat smaller gap of 6.7 percent of GDP (Doghmi, H, 2020, *La capacité de mobilisation des recettes fiscales au Maroc,* Document de Travail, Bank-Al-Maghrib, December)

[7] The ongoing reforms of health care and education systems already plan to establish a greater link between salaries of personnel in these sectors and their performance. A more efficient management of the overall government wage bill could also benefit from integrating the personnel working in public institutions (*Etablissements Publics,* each with their own budgetary autonomy) into the central government's employment system.

Box 1. Distributional Impact of Inflation in Morocco

The increase of the headline consumer price index may not accurately reflect the impacts of inflation across Moroccan households. The consumption baskets vary across them, largely as a function of their income. As inflation rates change significantly across the various items of the baskets, different households may be affected quite differently.

This Box analyzes the impact of inflation across Moroccan households using Morocco's 2019 household survey–developed by Morocco's National Observatory for Human Development (ONDH)–and detailed 4-digit consumer price indices constructed by the national statistical office (HCP).

First, the survey's income data are used to classify each household into different quintiles of the income distribution. Second, the survey's detailed expenditure data—of about 1300 consumption items, regrouped into 27 expenditure categories, 11 foods and 16 non-foods—are used to compute the shares of spending on different consumption items by household quintile. Third, the 27 expenditure categories are mapped to the 4-digit consumer price indices.

The inflation rate index of household quintile i at time t is thus calculated as follows:

$$q_t^i = \sum_{g=1}^{27} s_g^i \frac{p_{g,t}}{p_{g,t0}}$$

where s_g^i is the expenditure share on the consumer basket item g; $p_{g,t}$ is the price of the item g at time t; and $p_{g,t0}$ is the price of the same item at a reference period. We set t to be September 2022—the latest month with available 4-digit level inflation data.

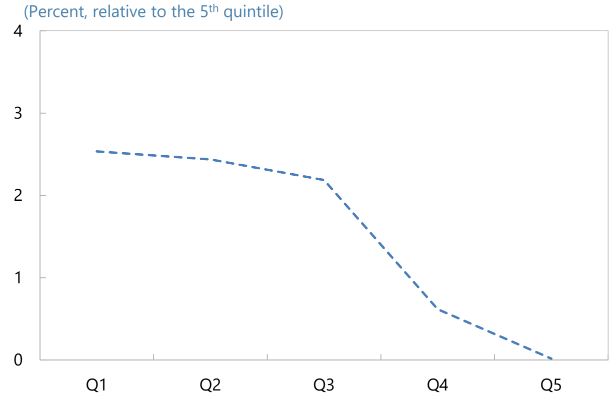
The results show that in September 2022, the effective y/y inflation rate for the lower three income quintiles was about 2 to 3 percent higher than the top quintile. The average effective y/y inflation for the lower five income quintiles was about 10.4 percent, compared to the 8.3 percent increase in the headline consumer price index.[1]

Differentiating the categories between foods and non-foods reveals important heterogeneities:

- The effective food inflation rate is monotonically declining with income, reflecting the relatively higher share of foods (vegetables in particular) in the consumption basket of low-income households. On average, the effective food inflation for the lower three quintiles was about 5 percent higher than for the top quintile.
- By contrast, the effective non-food inflation rate is monotonically increasing with income. This mainly reflects the relatively higher share of expenses related to the "use of personal vehicles" in the consumption basket of higher-income households, whose domestic price has been reflecting the pass-through effects of higher international oil prices.

Household Quintile-Based Inflation

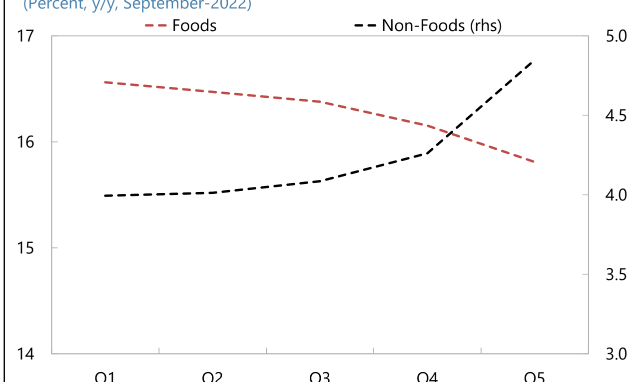
(Percent, relative to the 5th quintile)



Source: Authors' calculations.

Household Quintile-Based Foods and Non-Foods Inflation

(Percent, y/y, September-2022)



Source: Authors' calculations.

1/ These findings are broadly consistent with HCP (2022), *"Evolution des inégalités sociales dans un contexte marqué par les effets de la COVID-19 et de la hausse des prix"*.

20. The publication of the three-year budget plans is a step forward in enhancing fiscal credibility and transparency. The three-year budget plan that accompanied the 2023 Budget represents an important first step toward a stronger institutional fiscal framework, as it fully implements the Organic Budget law. Regularly publishing a credible, realistic, and consistent medium-term fiscal plan could reassure markets about the authorities' commitment to fiscal discipline, and facilitate the mobilization of financial support, both external and domestic. In addition to using the three-year budget plan to guide and communicate on fiscal policies, the introduction of a new fiscal rule, based on a well-calibrated medium-term debt anchor with operational limits (on budget balance or government expenditure) and pre-determined escape clauses, could better anchor expectations around fiscal policy (Box 2). Staff welcomed the authorities' plans to proceed in this direction with the collaboration of the Fund, starting with a technical assistance mission scheduled for January 2023. This mission will also provide an opportunity to discuss continued improvement of the three-year planning and budgeting, as well as possible ways to strengthen oversight of the medium-term framework and enhance accountability.

Authorities' Views

21. The authorities broadly agreed with staff's views on the need to create additional fiscal space. They agreed that there is space to improve the efficiency of Morocco's tax system and its tax administration, noting that a few measures were being introduced or considered for future implementation, including the reform of the civil service, the reform of the VAT system (scheduled for 2024), and further measures to reduce informality. They were also confident that the measures introduced in the 2023 Budget may generate more revenues than what is (conservatively) projected in the three-year budget plan.

C. Financial Stability

22. Good progress has been made in strengthening the financial regulatory and supervisory frameworks. Basel III standards have been fully phased in, with the introduction of the minimum leverage ratio for the banking sector and the maximum exposure to interest rate risks. The authorities have continued to work on the legal and tax aspects of the regulatory framework to develop a secondary market for NPLs, that would strengthen banks' balance sheets and support the provision of credit to the economy. Progress has been made to improve the bank resolution framework, so as to provide BAM with additional tools to deal with failures or insolvency of credit institutions, to avoid contagion risks and preserve financial stability. Meanwhile, the International Financial Reporting Standard (IFRS9), which was introduced in January 2018, will be fully phased in at the end of 2022 with a positive impact on provisioning requirements.

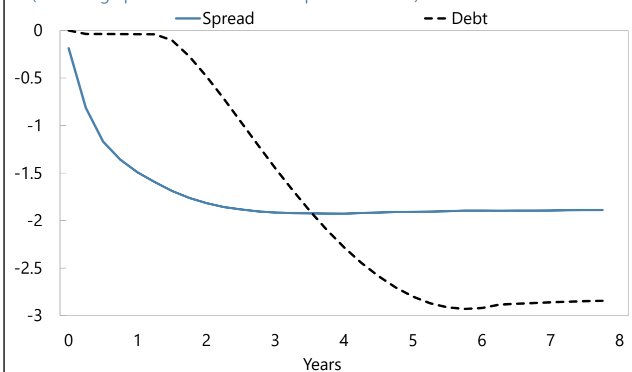
23. Risks to financial stability appear limited, although exposure to climate change risks needs careful monitoring. The latest BAM stress-test, published in July 2022, shows that banks' solvency is resilient to a severe adverse macro-economic scenario, that includes further escalation of

Box 2. Assessing the Benefits of a New Fiscal Rule for Morocco

The Covid-19 crisis has inevitably reduced Morocco's fiscal space. The adoption of a new, debt-anchored fiscal rule could help Morocco's fiscal policy face the difficult trade-off between rebuilding fiscal buffers, further supporting the economy, and funding structural reforms.

Lower Spread and Debt-to-GDP Ratio With a Fiscal Rule

(Percentage point difference with respect to no rule)



Source: Authors' calculations.

A forthcoming IMF paper (2023)[1], analyzes the potential consequences of adopting a debt-anchored fiscal rule using a sovereign default general equilibrium model calibrated to match Moroccan data. In the model, the cost of issuing sovereign debt depends on the current and projected level of the stock of debt, which affects the probability of default in future periods and thus the risk premium. In the no-fiscal-rule scenario, the government cannot credibly commit to a future debt path. Even if it were to announce a path of debt issuances, the government may find it optimal to deviate from such a plan—this possibility is internalized by international investors, who would ask for a higher risk premium. The introduction of a fiscal rule eliminates this time inconsistency, thus reducing sovereign spreads and leading to a lower (optimal) debt in a steady state. The chart shows the difference in the level of spreads and debt-to-GDP ratio between the fiscal rule and the no-rule scenarios, for Morocco. These results are based on the assumptions of the model, including that the fiscal rule will be enforced credibly.

These results are supported by an empirical analysis conducted on a panel of 214 countries over the period 1985-2020. The paper assesses the impact of a fiscal rule on the cost of servicing public debt while controlling for different institutional settings (such as the quality of fiscal institutions, which could increase the impact of the fiscal rule by boosting the credibility of the overall fiscal framework). The empirical strategy consists of regressing the government interest bill on budget deficits (in cyclically adjusted terms), controlling for country and year fixed effects as well as the size of the public debt, with a dummy for the presence of a fiscal rule. The results show that the presence of a fiscal rule does reduce the elasticity of the interest bill to changes in the fiscal deficit, suggesting that the fiscal rule tends to reduce the cost of public debt. This effect is enhanced in countries where the quality of institutions is high, as measured by indicators of government effectiveness, regulatory quality, and rule of law from the World Bank's Worldwide Governance Indicators. When the sample is restricted to emerging market economies, such as Morocco, the introduction of a fiscal rule further reduces the sensitivity of the interest bill with respect to the full sample, and the quality of institutions plays an even bigger role.

1/ Bartolini, Maggi, and Roch (forthcoming, 2023) "*A New Fiscal Framework for Morocco*", IMF.

the war in Ukraine, persistent supply disruptions, and a new pandemic outbreak.[8] Given the increased relevance of climate change-related events on Morocco's economy, further efforts to integrate climate factors in these stress tests would be important to better assess the vulnerability of Moroccan financial institutions to climate-related risks.[9]

24. The 2019 assessment found strong safeguards at the central bank. Steps taken by BAM to enhance financial reporting transparency have laid the groundwork for the transition to International Financial Reporting Standards (IFRS), which is planned in accordance with the timelines of the national convergence project in Morocco. This project, which faced some COVID-19 related delays, is nonetheless ongoing with TA from the World Bank and the national accounting body in Morocco is expected to issue a draft code in early 2023 which will lay the foundation for the legal amendments to the national accounting law later in the year.

25. Staff welcomed the Moroccan authorities' efforts to exit the FAFT grey list. The FATF plenary in October 2022 has made the initial determination that Morocco has substantially completed its action plan to address all identified deficiencies in its AML/CFT framework. This included strengthening AML/CFT risk-based supervision of designated non-financial businesses and professions (DNFBPs), completing reforms of the framework for targeted financial sanctions, and ensuring its implementation by financial institutions and DNFBPs. An on-site assessment has been scheduled for January 2023, to verify implementation of reforms and progress towards exiting the grey list. A resulting progress report and the FATF's decision will be discussed at the next plenary in February 2023.

Authorities' Views

26. The authorities were confident that the Moroccan financial system would remain resilient to the most recent shocks. They stressed that they are closely monitoring the evolution of bank balance sheets to assess the potential impact of the war in Ukraine. They plan to regularly update their macro stress-tests, using more recent macroeconomic forecasts and more extreme adverse scenarios, and noted that they already started considering the effects of climate change events on Moroccan financial system. The authorities also emphasized that they would continue to improve their AML/CFT legislations and regulations to ensure that Morocco complies with all FATF recommendations in the future.

[8] The macro stress-test assumes a worsening of geopolitical tensions and higher commodity prices, with a 1.3 percent GDP contraction in the euro area and slower growth in sub-Saharan Africa in 2022 (-2 percentage points relative to baseline). Foreign demand, remittances, and FDIs to Morocco would all decline, with Morocco's GDP falling by 3.6 percent in 2022, and inflation reaching an average of 7.2 percent and 5 percent in 2022 and 2023 respectively.

[9] A recent report from the World Bank estimates at 35 percent the share of bank assets exposed to climate physical risk (such as from droughts and floods) (see World Bank, 2022).

D. Structural Reforms

27. The ongoing reform of health care should improve access and increase efficiency and quality of services. About 11 million of Moroccans previously benefiting from free health care will transit into the new insurance scheme in 2023 and a large number of self-employed have been registered to join it. Still, the opt-in rate remains low (about 15 percent) and further efforts are needed to ensure that workers in the agricultural sector and artisans start contributing to the system (including by making it a necessary condition to access public services and assistance). Together with the generalization of the insurance scheme, the authorities are working on a complete overhaul of the health care system. This includes a restructuring of health care supply around new health care centers that will coordinate activities on a regional basis, under the direction of a new national health authority. While improving access will require building new hospitals and recruiting more personnel, the reform also aims at achieving efficiency gains from introducing protocols that favor family doctors and local practices, discourage immediate access to costly special care, and facilitate exchange of information on patients through better use of digitalization.

28. The announced reform of the education system is key to enhance Morocco's human capital. The reform aims at achieving three major objectives: reducing by one third the drop-out rate in compulsory education; doubling the number of students with basic skills at the end of primary school; and doubling the number of students who benefit from extracurricular activities. To achieve these objectives, the reform envisages more investment in school infrastructure and an overhaul of the recruiting, training, and payment of teachers. The successful implementation of the reform will require a careful monitoring of its results, through the definition of clear benchmarks and intermediate objectives, in line with the roadmap presented by the authorities in 2022.

29. Staff supported the authorities' efforts to develop a buoyant private sector. These efforts have continued in 2022 along four main axes:

- *The reform of SOEs*: the appointment in July 2022 of the CEO of the National Agency responsible for consolidating and optimizing Morocco's SOEs portfolio is an important step toward the operationalization of the reform, expected to be completed by 2025. Significant implementation challenges lie ahead, including developing plans that redesign the role of SOEs in sectors that are strategic for Moroccan economy's development, in line with the state's shareholder policy. In developing these plans, the Agency would need to ensure that state intervention will be limited to cases where there is evidence of a clear public interest, and for which cost-benefit analysis justifies the use of public resources.
- *The operationalization of the Mohammed VI Fund for Investment*; the appointment of the Managing Director should accelerate its operationalization and allow the fund to start catalyzing private investments toward key sectors of the Moroccan economy. [10]

[10] The Fund has been established as a limited-liability company, endowed with an initial allocation from the 2021 Budget. The company is expected to catalyze private investment in key sectors of the Moroccan economy, by managing a series of thematic funds that would provide equity or quasi equity to local firms in those sectors.

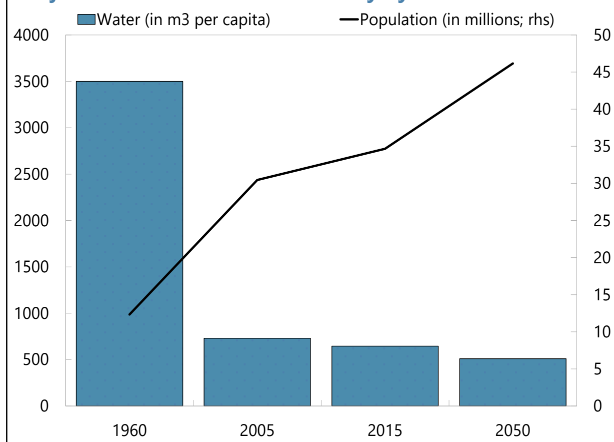
- *The implementation of a new Charter of Investment*; A framework law was approved by Parliament in 2022 that redesigns the system of incentives for private investment, particularly for very small, small, and medium-sized enterprises and for the Moroccan companies that compete internationally.
- Continued progress in strengthening the *competition and consumer protection legislative framework*. Two laws have been approved in 2022 that better clarify the criteria to quantify fines and notify economic concentrations, paving the way for a more active role of the Competition Council in sanctioning anticompetitive practices.

30. Staff welcomed continued efforts in the implementation of the national anti-corruption strategy. The legal framework of the National Authority for Probity, Prevention, and the Fight Against Corruption (INPPLC) came into effect in late October 2022 with the appointment of the Authority's secretary general and members of the Board of Directors. This will allow the Authority to fully exercise its mission. Staff encouraged the authorities to continue to work on their anti-corruption efforts as a policy priority, focusing on ensuring the effectiveness of the national anti-corruption strategy and existing anti-corruption measures. Accordingly, the authorities should i) strengthen Morocco's penal procedural code, ii) urgently resubmit the bill on illicit enrichment aligned with international standards and conventions and prioritize its implementation, iii) reinforce the country's whistleblower legislation, and iv) implement more preventive measures, including with regard to the asset declarations of public officials and politically exposed persons.

31. Good progress has been made towards a more efficient and competitive electricity market. Liberalizing Morocco's electricity production market is key to accelerate the transition towards renewable energy (RE) while reducing the cost of electricity. Achieving these objectives will require ensuring that tariffs are transparent and competitive, and that private producers of RE can sell energy to eligible end-users by enjoying free access to the transmission and distribution network at various voltage levels. A few steps have been made this year to achieve these objectives, including i) the approval of a decree that allows the direct sale of electricity produced via RE to small industrial customers; ii) the submission to Parliament of a law that allows investors to produce electricity for self-consumption while injecting the surplus in the electricity network; iii) the publication by the new Electricity Regulator (ANRE) of regulations on the access to the transmission network. The regulator is also working at introducing new tariffs for private access to transmission and distribution networks, while progress continues in redesigning the role of the national power utility (ONEE), so that it would mainly focus on the strategic task of managing the transmission network.

32. Much remains to be done to tackle water scarcity. Three severe droughts over the last 5 years clearly point to Morocco's increased exposure to climate change. Over the past decades, the availability of water resources has decreased significantly and is projected to reach the absolute water scarcity threshold (of 500 cubic meter per person per year) by 2050. Mitigating this risk will require increased efforts at infrastructure development (including upgrading the water supply network, building new desalination and water recycling plants) and water demand management policies to incentivize more efficient water use. This may require changing tariffs to better reflect the true cost of mobilizing and transporting water, while using the Unified Social Registry to ensure that access to water remains low cost for the most vulnerable. Coordinating these efforts would require setting up a separate regulator, as recommended in the New Model of Development, that would ensure an integrated approach to water production and distribution, define water resource allocation, and set tariffs.

Projections: Extreme Water Scarcity by 2050



Source: World Bank.

33. Reducing gender gaps is key to improving potential growth. Women's participation in the labor force lags behind other countries and has been falling since 2004 (Box 3). Tackling this issue would require holistic reforms that address the many social, cultural, and economic barriers to women's participation to economic life, including i) legislative changes to correct gender inequalities in remuneration, marriage-related constraints, and gender gaps in property and inheritance laws, ii) investment in public childcare facilities and incentives to firm-based facilities, as caring for children was listed as the primary reason for women not working in the 2021 New Model of Development Report; and iii) measures to facilitate access to transportation, especially for women living in rural areas. Finally, the authorities should continue to push forward with their gender budgeting efforts, including through assessing the gender (and female labor marker participation) implications of the ongoing reforms of the tax and transfer systems.

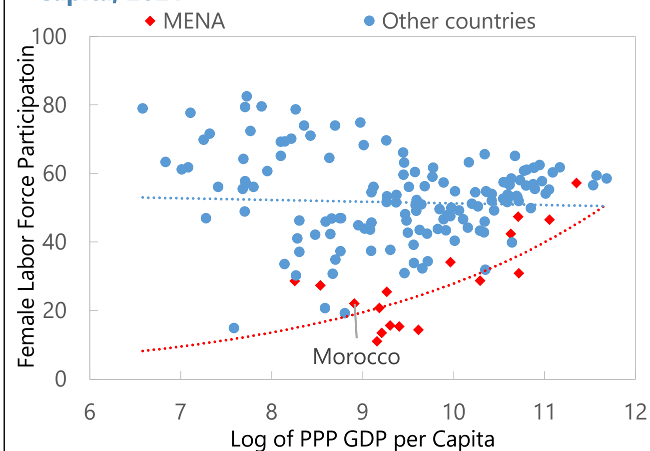
Authorities' Views

34. The authorities reiterated their strong political determination to carry out their agenda of structural reform. They stressed that the implementation of major reforms requires negotiations with social partners (including as part of the new *Dialogue Social*), as building a wide social consensus would increase the chances of their success. The authorities were hopeful that the operationalization of the Mohammed VI Fund and the implementation of the new Charter of Investment would boost private sector investment to two thirds of overall investment by 2035 (from the current one third). They agreed that water scarcity represents a key challenge and emphasized that they are stepping up the design of a large-scale action plan, with large investment in infrastructures as well as measures to improve efficiency in water consumption.

Box 3. Gender Inequality and Growth in Morocco

Much progress has been made in Morocco in closing gender gaps in education enrollment over the past few decades. For secondary education, the country is moving closer to parity, with the female to male ratio standing at 95 percent. However, these improvements have been largely driven by better performance in urban areas. Rural girls' secondary school enrollment (12-14 years old) trailed urban girls' rates by 14 percentage points, and for girls aged 15-17, this gap jumped to 53 percentage points.

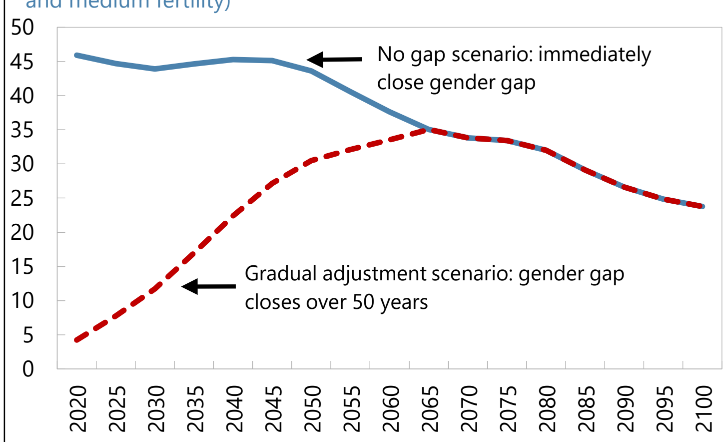
Female Labor Force Participation and GDP per Capita, 2021



Source: World Bank.

While gender gaps in education have been narrowing, gender gaps in the Moroccan labor market have been widening. At 21 percent in 2021, the rate of women's participation in the labor force lags behind other countries at a similar income level (and has been falling since 2004). Women employment rate has deteriorated from 30 percent in 1999 to slightly below 20 percent in 2019. In 2018 more than 8 million Moroccan women were not active in the labor market, and among these, almost 2 million had more than a secondary level of education—pointing to a dramatic underutilization of human capital. Many studies have argued that jobless growth, coupled with demographic factors, the perceptions of women's role in the household, the slow pace of structural transformation, and social norms, all tend to disproportionally influence female labor force participation in Morocco.

Projected Income Gain if the Gender Gap is Closed, 2020-2100
(Percent, baseline assumes continuation of the current gender gap and medium fertility)



Source: IMF staff estimates.

The pandemic has further worsened gender gaps in Morocco. A joint study from Morocco's High Commission for Planning, UN Women, UNDP, and the World Bank (2020) [1] showed that a larger share of women than men reported a decline in their income during the Covid-19 crisis. Informal sector workers, who are disproportionately women (many working in the agricultural sector, that was also hit by a severe drought in 2020), suffered higher rates of job losses than formal sector workers. The study also examined the barriers to distance learning and found that female-headed households were more likely to report that their children were not participating in distance learning than male-headed households. Lack of access to computers and the internet as well as the higher rate of illiteracy for women compared to men (42 percent vs. 22 percent) were driving factors.

Box 3. Gender Inequality and Growth in Morocco (concluded)

Dadam and others (2017) [2] draw upon analysis by Cuberes and Teigner (2016) [3] and show that in Morocco, gender gaps in labor force participation and entrepreneurship could reduce income per capita by as much as 46 percent. They also find that closing overall gender gaps would help Morocco reduce its GDP per capita gap with benchmark countries in other regions by up to 1 percentage point. Morocco's New Model of Development Report aims at doubling the female employment rate to 40 percent by 2035, which would generate additional annual GDP growth of between 0.2 and 2 percent.

Prepared by Lisa Kolovich and Anta Ndoye

1/ High Commission for Planning, the United Nations Development System, and the World Bank, 2020. "*The economic and social impact of the COVID-19 pandemic in Morocco*", August

2/ Dadam, Kolovich, and Ndoye, 2017, *Implications of Gender Inequality for Growth in Morocco*, IMF. Selected Issue Papers.

3/ Cuberes and Teigner, 2016, *Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate*, Journal of Human Capital, vol. 10, issue 1.

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35. Recent shocks have taken a toll on the Moroccan economy, but activity should rebound with the return to a normal agricultural season as well as continued implementation of strong policies and structural reforms. The growth slowdown in 2022 reflects the impact of the drought and spillovers from Russia's invasion of Ukraine. The negative terms-of-trade shock widened the trade balance, but strong remittances and the recovery of the tourism sector to pre-Covid levels have acted as important stabilizers, and the international reserve position remains at a comfortable level. Overall, Morocco's external position in 2022 was broadly in line with the level implied by fundamentals and desirable policies. Staff projects GDP growth to rebound next year to 3 percent and stabilize at around 3½ percent over the medium term, thanks to the initial positive effects of the impressive agenda of structural reforms launched by the authorities. A further deterioration of the external environment and new droughts are the main downside risks to this outlook but continued strong policies and a faster implementation of reforms could also provide further impetus to activity going forward.

36. Reducing inflation to around 2 percent by end of 2024 would warrant further monetary policy tightening. BAM's September interest rate hike has moved monetary policy to a less accommodative stance, but the real ex-ante policy rate remains negative. Recent CPI prints indicate that inflation pressures have become more broad-based and inflation expectations over the short-term have drifted up. While much will depend on incoming data, securing the projected fall of inflation would still require further policy rate increases to bring the real policy rate back to a neutral stance. Once inflation falls and the current exceptional uncertainty dissipates, BAM should move forward the planned transition to an inflation-targeting framework regime, with a more flexible exchange rate.

37. The Moroccan authorities have strengthened supervisory and regulatory frameworks to safeguard financial stability. Progress should continue on the development of a secondary market for NPLs and the improvement of the bank resolution framework. Staff welcomes the authorities' completion of the Action Plan designed with FATF, which addresses or largely addresses the identified weaknesses in Morocco's AML/CFT framework and supports Morocco's progress towards exiting the FATF grey list. While systemic risks to the financial system appear to be limited, it is essential to continue closely monitoring financial institutions' balance sheet exposures, in particular to climate-related risks.

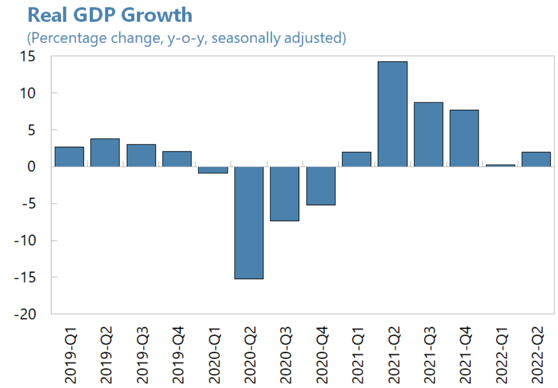
38. The 2023 Budget strikes the right balance between the needs to reduce the deficit, mitigate the social and economic impact of shocks, and finance structural reforms. The 2023 Budget forecasts a gradual decline of the fiscal deficit over the next three years, despite the increase in spending related to the generalization of social protection and the reforms of the health care and education systems. While the central government debt-to-GDP ratio is expected to stabilize at around 68 percent, further changes in the tax and spending systems are needed to ensure a faster debt reduction. The publication for the first time of an Annex that contains the authorities' fiscal plans over the next 3 years, together with the underlying policies and macroeconomic assumptions, reinforces the strong institutional fiscal framework originating from the full implementation of the Organic Budget Law. Using the medium-term plan and budgeting to guide and communicate on fiscal policies, and the eventual transition to a new, debt-anchored fiscal rule, would help enhance fiscal policy credibility and transparency and reassure markets of the authorities' intention and ability to gradually rebuild the fiscal buffers used in response to the pandemic.

39. Staff commends the authorities' strong commitment to implement the vast program of much-needed structural reforms. The reform of the social protection system, the implementation of the Unified Social Registry and the new governance of health care supply, should all improve fairness and quality of access, while better targeting assistance to those who really need it. The comprehensive reform of the education system is needed to boost the quality of human capital in the long run. The reforms of SOEs should significantly lower product market distortions that restrict competition in key sectors and hamper private sector growth. A comprehensive energy reform aimed at reducing fossil fuel dependance and policies to address water scarcity should help mitigate the economic impact of climate change. Finally, holistic reforms that encompass all hurdles faced by women are needed to significantly reduce gender inequality in the economy and bolster Morocco's potential growth.

40. The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.

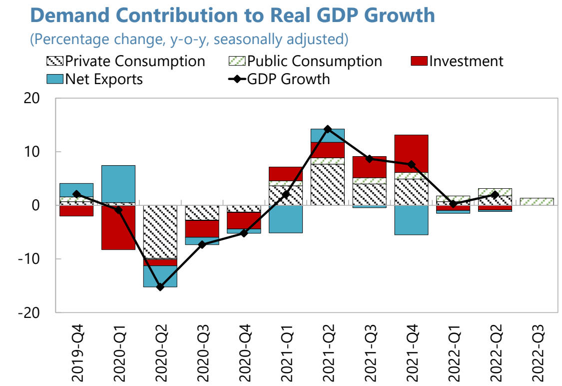
Figure 1. Morocco: Real Sector Developments

Real GDP growth slowed down in 2022: H1…



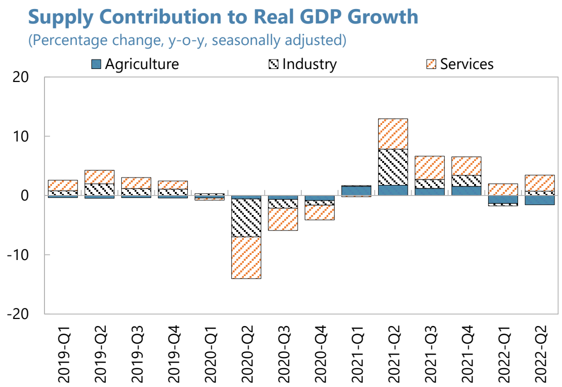
Source: Haver.

… mainly driven by drop in domestic and foreign demand.



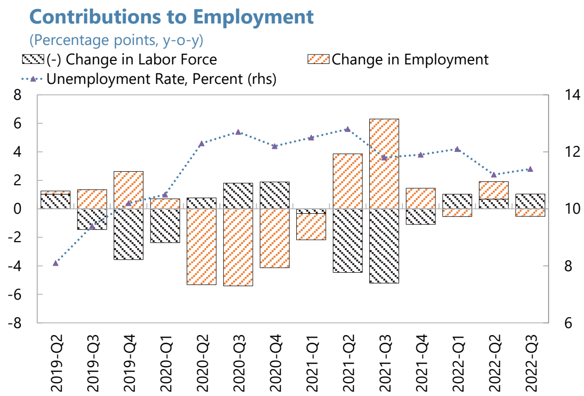
Sources: Haver; and IMF staff calculations.

The agriculture and industry sectors were affected by the drought and the war in Ukraine, …



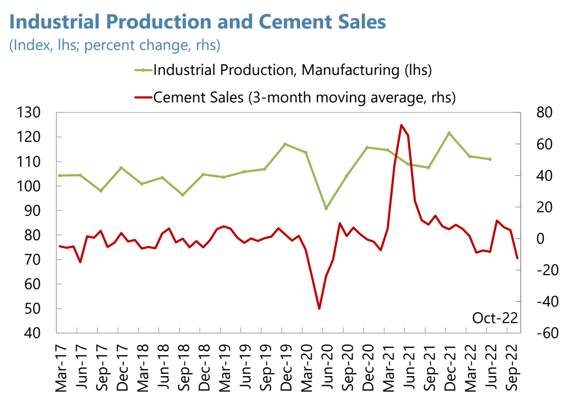
Sources: HCP; Haver; and IMF staff calculations.

… while the unemployment rate has fallen but remains above pre-pandemic level.



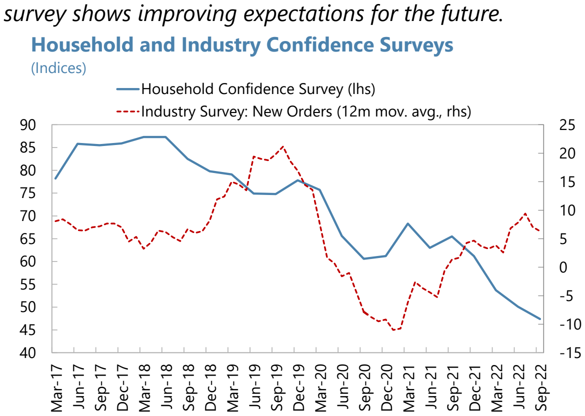
Sources: Haver; and IMF staff calculations.

Manufacturing and cement sales seem to have weakened somewhat in 2022…



Sources: HCP; and Bank Al-Maghrib.

… together with household confidence, while the industry survey shows improving expectations for the future.

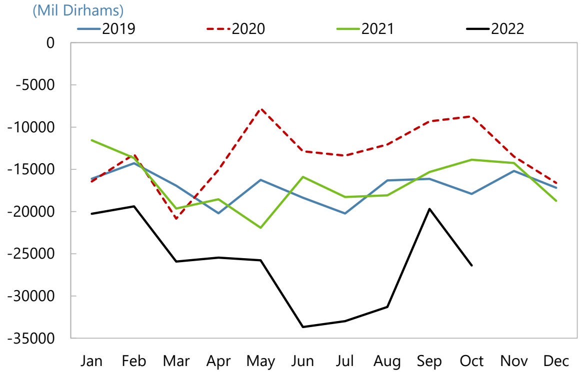


Source: HCP.

Figure 2. Morocco: External Developments

The trade deficit widened in 2022…

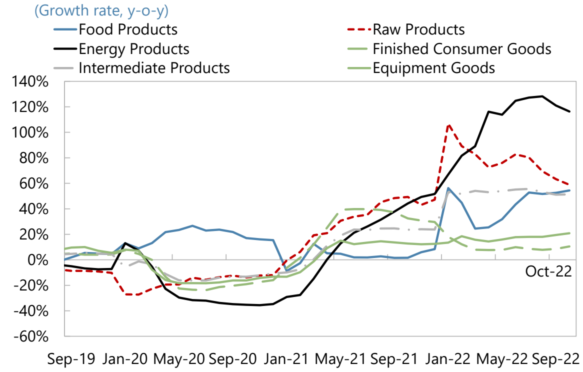
Trade Balance (Monthly)
(Mil Dirhams)



Source: Office des Changes.

…as higher commodity prices boosted import values, particularly of energy, food products, and raw products.

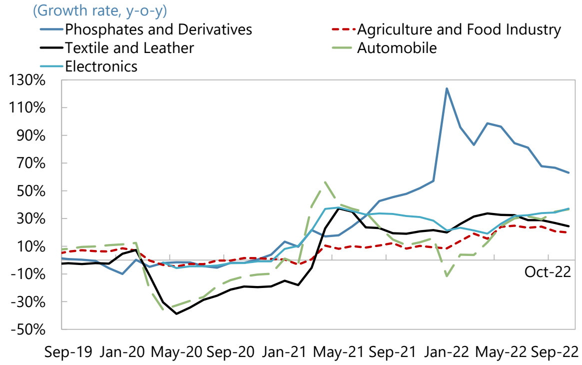
Goods Imports
(Growth rate, y-o-y)



Source: Office des Changes.

Export growth was supported by the strong expansion in phosphate and automotive products.

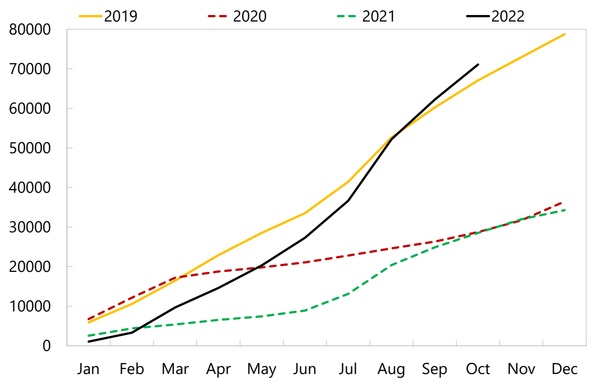
Goods Exports
(Growth rate, y-o-y)



Source: Office des Changes.

Tourism revenues returned to pre pandemic levels…

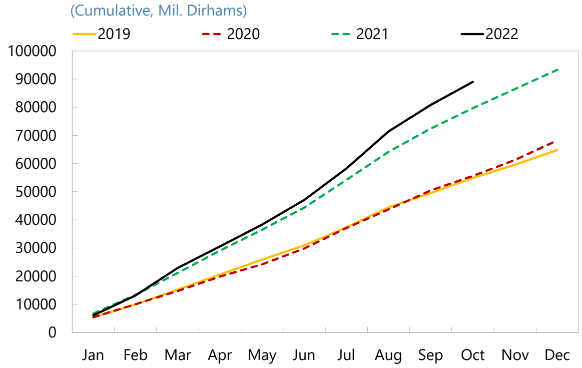
Tourism Revenues
(Cumulative, Mil. Dirhams)



Source: Office des Changes.

…while remittances have surpassed the (strong) levels of last year.

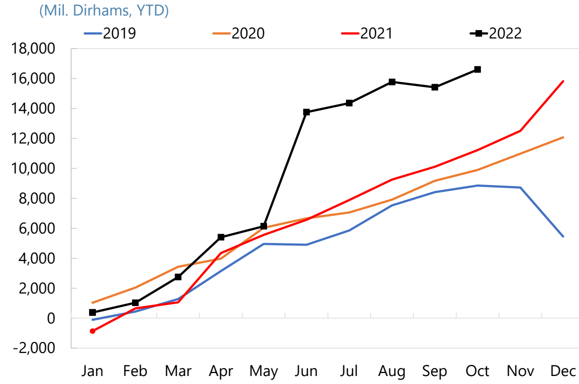
Remittances
(Cumulative, Mil. Dirhams)



Source: Office des Changes.

Net FDI increased strongly in 2022, reflecting higher inward FDIs

Net FDI
(Mil. Dirhams, YTD)

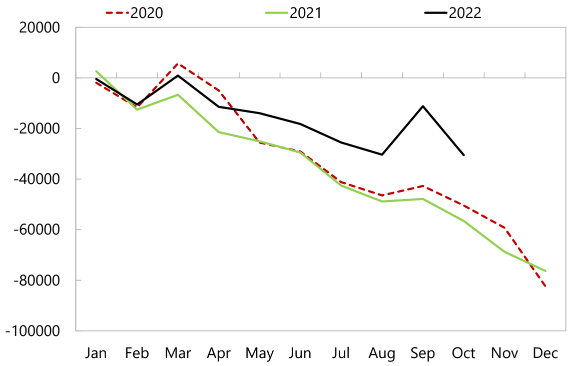


Source: Office des Changes.

Figure 3. Morocco: Fiscal Developments

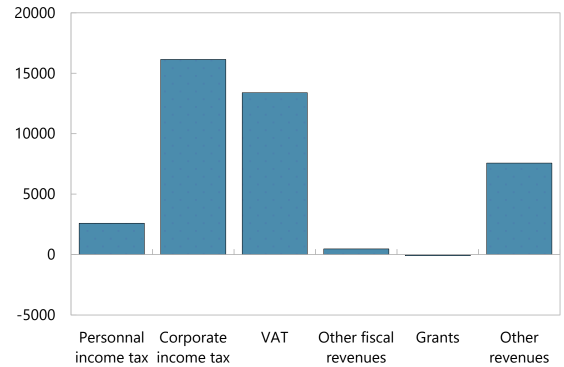
Over the first 10 months of 2022, the overall fiscal deficit was lower than last year…

Overall Fiscal Balance
(Mil. Dirhams, year-to-date)



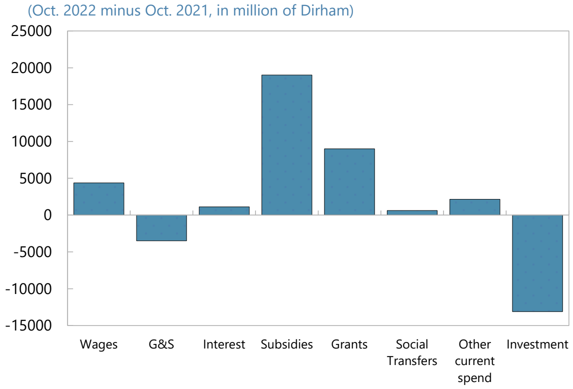
…as tax revenues (especially corporate income tax and VAT) significantly increased…

Revenues
(Oct. 2022 minus Oct. 2021, in million of Dirham)



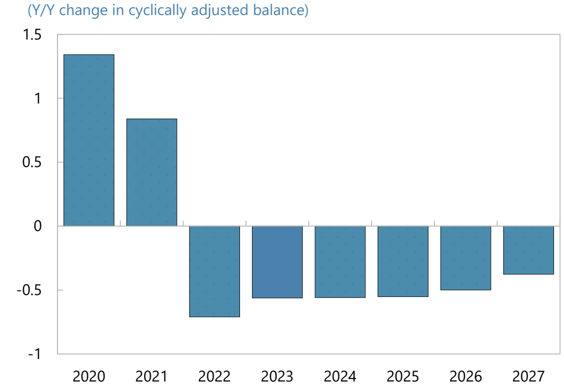
…to offset higher current spending (driven by subsidies and grants).

Expenditure
(Oct. 2022 minus Oct. 2021, in million of Dirham)



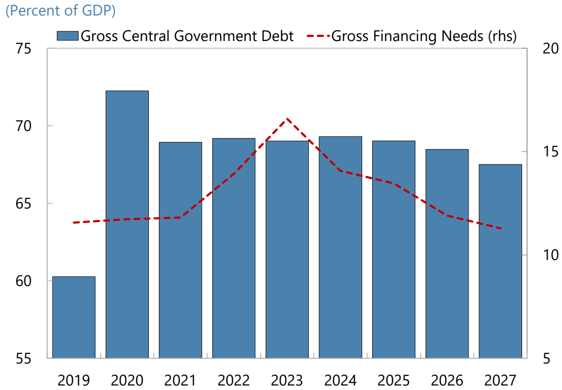
The fiscal stimulus injected in 2020-21 is expected to be phased out gradually over the medium term.

Fiscal Impulse
(Y/Y change in cyclically adjusted balance)



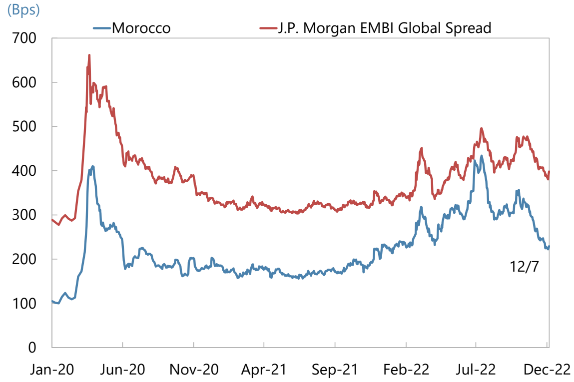
The public debt-to-GDP ratio is expected to fall in the medium term, together with gross financing needs.

Central Government Debt and Gross Financing Needs
(Percent of GDP)



Sovereign spreads increased in 2022 as in other EMs, but have fallen since their peak in July.

Weighted Average Spread
(Bps)

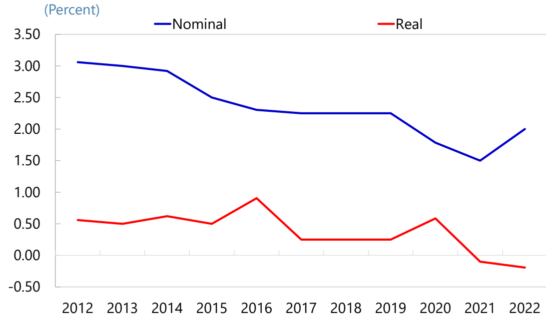


Sources: National authorities; and IMF staff calculations.

Figure 4. Morocco: Monetary and Financial Developments

BAM increased interest rates by 50 bps in September…

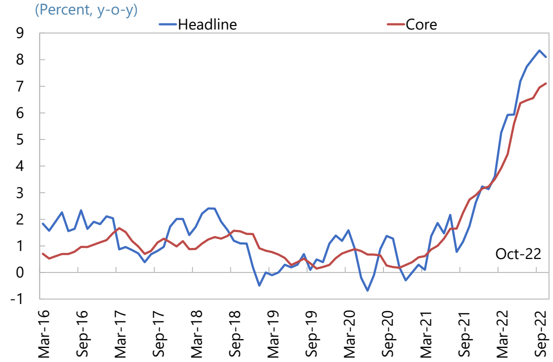
Monetary Policy Rates
(Percent)



Sources: IMF, *World Economic Outlook;* Haver; and IMF staff calculations.
Note: Real policy rate is calculated as nominal policy rate minus two-year-ahead inflation projection.

…as inflation pressures broadened in 2022

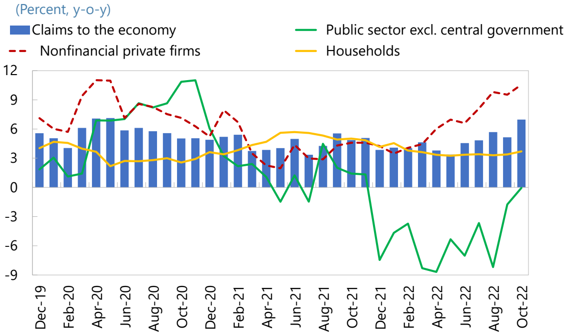
Inflation
(Percent, y-o-y)



Sources: HCP; and Haver.

Credit growth in 2022 was mainly driven by the financing of working capital of non-financial private sector firms

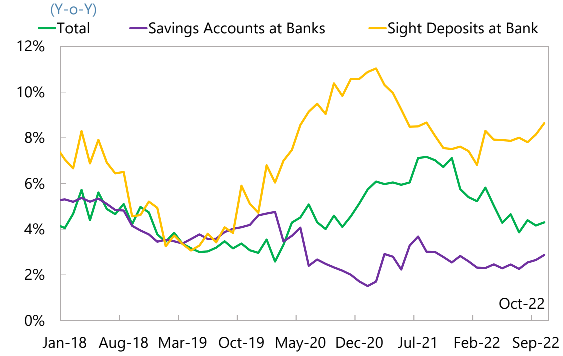
Banking Credit Growth
(Percent, y-o-y)



Sources: Bank Al-Maghrib; and IMF staff calculations.

Banks deposit growth has slowed since the peak of the pandemic but remains healthy.

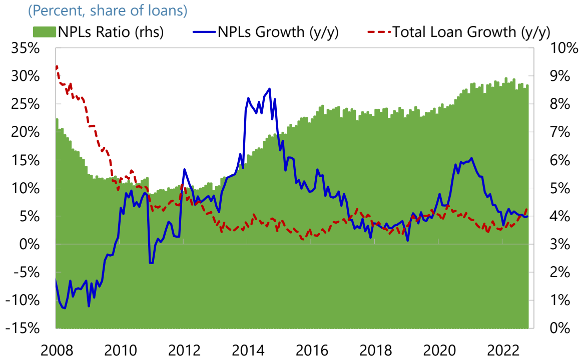
Deposits Growth
(Y-o-Y)



Sources: Bank Al-Maghrib; and IMF staff calculations.

NPLs have stabilized in 2022.

Non Performing Loans
(Percent, share of loans)



Sources: Bank Al-Maghrib; and IMF staff calculations.

Banks's holding of Treasury bonds have increased since 2020 but are still lower than historical highs

Banks: Treasury Bonds As Share of Assets
(Percent)

Sources: Bank Al-Maghrib; and IMF staff calculations.

Table 1. Morocco: Selected Economic Indicators, 2017–27

						Proj.					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percentage change)										
Output and Prices											
Real GDP	5.1	3.1	2.9	-7.2	7.9	1.2	3.0	3.1	3.1	3.2	3.4
Real agriculture GDP	21.5	5.6	-5.0	-8.1	17.8	-14.0	10.1	3.0	3.0	3.0	3.0
Real non-agriculture GDP	3.5	2.8	3.8	-7.1	6.9	2.9	2.1	3.1	3.1	3.3	3.4
Consumer prices (end of period)	1.7	0.1	1.0	-0.9	3.2	7.0	3.4	2.5	2.4	2.0	2.0
Consumer prices (period average)	0.7	1.6	0.2	0.7	1.4	6.5	4.1	2.5	2.4	2.0	2.0
Output gap (percentage points of non-agricultural GDP)	0.3	0.2	0.2	-6.5	-0.2	-0.5	-0.3	-0.1	0.0	0.0	0.0
Unemployment rate (in percent)	10.6	9.4	10.2	12.2	11.9	11.1	10.7	10.2	9.8	9.3	9.2
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	31.5	31.9	30.4	28.6	30.9	28.1	26.8	26.5	26.7	26.5	26.6
Of which: Nongovernment	26.4	27.1	26.2	23.0	25.3	23.4	22.9	22.6	22.3	22.7	23.0
Gross national savings	29.1	27.8	27.8	26.7	28.6	24.0	23.6	23.5	23.7	23.9	24.2
Of which: Nongovernment	31.5	30.5	30.6	34.6	34.6	29.3	28.6	27.9	27.5	27.2	27.1
	(In percent of GDP)										
Public Finances											
Revenue	24.6	24.2	23.8	27.0	25.1	26.9	26.9	26.8	26.5	26.5	26.6
Expenditure	27.8	27.7	27.4	34.1	31.0	32.2	31.8	31.1	30.3	29.8	29.5
Budget balance	-3.2	-3.4	-3.6	-7.1	-5.9	-5.3	-4.9	-4.4	-3.8	-3.3	-2.9
Cyclically-adjusted primary balance 1/	-1.9	-1.6	-1.7	-3.0	-3.9	-3.2	-2.6	-2.1	-1.5	-1.0	-0.6
Central government debt	60.3	60.5	60.3	72.2	68.9	69.2	69.0	69.3	69.0	68.5	67.5
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	3.3	3.4	5.6	4.8	4.0	5.3	3.8	4.0	4.0	4.2	4.5
Broad money	5.5	4.1	3.8	8.4	5.1	4.2	4.3	4.5	4.6	4.6	4.8
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	12.7	11.6	1.9	-15.0	25.9	23.5	-2.6	5.0	4.5	5.3	5.3
Imports of goods and services (in U.S. dollars, percentage change)	9.3	12.2	-2.3	-14.5	29.9	21.9	-5.3	4.1	4.0	4.9	5.2
Merchandise trade balance	-15.2	-15.9	-15.3	-12.8	-13.9	-19.6	-17.3	-16.8	-16.3	-16.1	-16.0
Current account	-3.2	-4.9	-3.4	-1.2	-2.3	-4.3	-3.8	-3.5	-3.2	-3.1	-3.1
Foreign direct investment	1.4	2.2	0.6	0.8	1.2	1.5	1.4	1.4	1.4	1.4	1.4
Total external debt	44.2	40.5	42.5	54.1	45.4	40.7	42.8	42.6	43.2	43.3	43.0
Gross reserves (in billions of U.S. dollars)	26.2	24.4	26.4	36.0	35.6	31.8	32.7	33.0	35.3	37.7	39.6
In months of next year imports of goods and services	5.7	5.4	6.9	7.2	5.8	5.5	5.4	5.3	5.4	5.5	5.4
In percent of Fund Assessing Reserve Adequacy (ARA)	93.0	83.6	86.9	109.3	100.6	92.6	94.8	91.0	92.0	93.4	93.6
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric 2/	121	110	113	143	133	121	123	118	119	120	120
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	118.5	127.3	128.9	121.3	142.9	138.0	138.1	145.9	154.1	162.3	171.1
Nominal GDP per capita (in U.S. dollars, percent change)	5.1	6.3	0.2	-6.8	16.6	-4.4	-0.9	4.7	4.7	4.4	4.6
Population (millions)	34.9	35.2	35.6	35.95	36.31	36.67	37.0	37.4	37.7	38.1	38.4
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-5.3	-8.4	-14.0	-12.3	-11.6	-11.2	-11.1	-11.1
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.5	9.0	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	-0.3	0.8	0.8	0.7	0.7	...	...	...	...	...	...
General Government Debt 3/	50.0	51.9	52.8	64.9	62.2	62.7	62.5	62.8	62.5	62.0	61.0
Interest rate (money market rate, end of period, in percent)	2.32	2.32	2.26	1.5	1.5	...	...	...	...	...	...

1/ Excl. grants
2/ Fund adjusted reserve adequacy metric
3/ IMF estimates based on government data

Table 2a. Morocco: Budgetary Central Government Finance, 2017–27
(Billions of dirhams)

	2017	2018	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Revenue	282.4	289.8	295.2	311.1	322.4	372.2	399.0	419.8	439.0	462.4	489.2
Taxes	232.1	242.5	246.9	230.8	251.0	289.0	304.5	319.3	336.6	354.6	375.0
Taxes on income, profits, and capital gains	93.3	95.5	97.8	95.8	93.4	111.8	116.3	125.1	132.1	139.4	147.2
Taxes on property	12.6	12.6	11.8	9.9	12.2	12.6	14.8	15.7	16.6	17.6	18.6
Taxes on goods and services	111.0	117.6	121.0	110.8	127.9	144.2	152.8	157.6	166.0	174.8	184.5
Taxes on international trade and transactions	9.0	10.1	10.2	9.9	12.4	14.2	13.8	13.8	14.3	15.0	16.1
Other taxes	6.0	6.7	6.1	4.3	5.2	6.3	6.7	7.1	7.5	7.9	8.6
Grants	11.4	4.4	2.8	5.0	1.5	2.2	1.9	1.0	1.0	1.0	1.0
Other revenue	39.0	42.9	45.5	75.4	69.9	81.1	92.7	99.5	101.4	106.8	113.2
Expense	261.6	272.9	286.9	328.6	327.2	377.7	400.3	415.3	425.3	438.4	456.8
Compensation of employees	122.2	124.5	131.4	133.5	140.5	148.0	155.8	161.3	166.2	174.4	184.0
Use of goods and services	27.6	29.6	31.2	33.1	45.1	29.9	39.4	44.0	47.5	49.9	52.6
Grants 1/	47.6	52.3	61.1	65.3	61.5	87.6	93.8	99.4	103.4	105.4	111.1
Subsidies	15.3	17.7	16.1	13.5	21.8	40.9	26.6	8.9	0.2	0.2	0.2
Social benefits	3.0	3.0	3.0	23.3	10.8	10.4	12.5	24.1	26.3	26.3	26.3
Interest	27.1	26.9	26.3	28.8	27.1	29.1	34.3	36.6	38.5	40.8	42.8
Other expenses 2/	18.8	18.8	17.9	31.0	20.4	32.0	38.0	41.0	43.3	41.4	39.8
Net acquisition of nonfinancial assets	57.9	57.9	52.3	64.9	71.5	67.4	71.3	73.0	76.2	81.3	85.7
Primary balance	-10.1	-14.1	-17.7	-53.6	-49.2	-43.8	-38.2	-31.8	-24.0	-16.4	-10.6
Overall balance	-37.1	-41.0	-44.0	-82.4	-76.3	-72.9	-72.5	-68.4	-62.5	-57.3	-53.3
Cyclical adjusted balance 3/	-49.4	-46.0	-47.5	-63.9	-77.0	-73.0	-73.1	-68.8	-63.4	-58.3	-54.3
Change in net financial worth	-37.1	-41.0	-44.0	-82.4	-76.3	-72.9	-72.5	-68.4	-62.5	-57.3	-53.3
Net acquisition of financial assets	-0.9	3.2	-9.8	14.7	-8.7	8.0	-5.0	-5.0	-5.0	-5.0	-5.0
Domestic	-0.9	3.2	-9.8	14.7	-8.7	8.0	-5.0	-5.0	-5.0	-5.0	-5.0
Shares and other equity	0.0	0.0	-5.3	0.0	-4.0	0.0	-5.0	-5.0	-5.0	-5.0	-5.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	36.3	44.2	34.2	97.1	67.6	80.9	67.5	63.4	57.5	52.3	48.3
Domestic	32.7	46.1	16.9	54.1	59.4	70.2	37.5	44.9	28.5	28.9	28.7
Currency and Deposits	7.0	8.2	7.7	-6.9	14.5	4.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	25.9	40.6	-1.9	73.5	38.4	60.9	36.5	43.9	27.5	27.9	27.7
Other accounts payable	-0.2	-2.7	11.2	-12.5	6.4	5.3	0.0	0.0	0.0	0.0	0.0
Foreign Loans	3.6	-1.8	17.3	43.1	8.2	10.7	30.0	18.4	29.1	23.4	19.7
Memorandum Item:											
Total investment (including capital transfers)	76.7	76.7	70.2	95.9	92.0	99.4	109.3	113.9	119.5	122.7	125.5
Central Government Debt	692.3	722.7	747.3	832.6	885.3	957.9	1,024.4	1,086.8	1,143.3	1,194.6	1,241.9
General Government Debt 4/	574.9	620.3	655.1	747.7	799.3	867.9	927.9	984.9	1,035.6	1,081.2	1,122.3
GDP	1,148.9	1,195.2	1,239.8	1,152.4	1,284.2	1,384.5	1,484.3	1,568.2	1,656.3	1,744.5	1,839.8

Sources: Ministry of Economy and Finance; and IMF staff estimates.

1/ Includes transfers to other general government units, international organizations, and foreign governments.

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data

Table 2b. Morocco: Budgetary Central Government Finance, 2017–27
(Percent of GDP)

						Proj.					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	24.6	24.2	23.8	27.0	25.1	26.9	26.9	26.8	26.5	26.5	26.6
Taxes	20.2	20.3	19.9	20.0	19.5	20.9	20.5	20.4	20.3	20.3	20.4
Taxes on income, profits, and capital gains	8.1	8.0	7.9	8.3	7.3	8.1	7.8	8.0	8.0	8.0	8.0
Taxes on property	1.1	1.1	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Taxes on goods and services	9.7	9.8	9.8	9.6	10.0	10.4	10.3	10.0	10.0	10.0	10.0
Taxes on international trade and transactions	0.8	0.8	0.8	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Other taxes	0.5	0.6	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Grants	1.0	0.4	0.2	0.4	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other revenue	3.4	3.6	3.7	6.5	5.4	5.9	6.2	6.3	6.1	6.1	6.2
Expense	22.8	22.8	23.1	28.5	25.5	27.3	27.0	26.5	25.7	25.1	24.8
Compensation of employees	10.6	10.4	10.6	11.6	10.9	10.7	10.5	10.3	10.0	10.0	10.0
Use of goods and services	2.4	2.5	2.5	2.9	3.5	2.2	2.7	2.8	2.9	2.9	2.9
Grants 1/	4.1	4.4	4.9	5.7	4.8	6.3	6.3	6.3	6.2	6.0	6.0
Subsidies	1.3	1.5	1.3	1.2	1.7	3.0	1.8	0.6	0.0	0.0	0.0
Social benefits	0.3	0.3	0.2	2.0	0.8	0.8	0.8	1.5	1.6	1.5	1.4
Interest	2.4	2.3	2.1	2.5	2.1	2.1	2.3	2.3	2.3	2.3	2.3
Other expenses 2/	1.6	1.6	1.4	2.7	1.6	2.3	2.6	2.6	2.6	2.4	2.2
Net acquisition of nonfinancial assets	5.0	4.8	4.2	5.6	5.6	4.9	4.8	4.7	4.6	4.7	4.7
Primary balance	-0.9	-1.2	-1.4	-4.6	-3.8	-3.2	-2.6	-2.0	-1.5	-0.9	-0.6
Overall balance	-3.2	-3.4	-3.6	-7.1	-5.9	-5.3	-4.9	-4.4	-3.8	-3.3	-2.9
Cyclical adjusted balance 3/	-1.9	-1.6	-1.7	-3.0	-3.9	-3.2	-2.6	-2.1	-1.5	-1.0	-0.6
Change in net financial worth	-3.2	-3.4	-3.6	-7.1	-5.9	-5.3	-4.9	-4.4	-3.8	-3.3	-2.9
Net acquisition of financial assets	-0.1	0.3	-0.8	1.3	-0.7	0.6	-0.3	-0.3	-0.3	-0.3	-0.3
Domestic	-0.1	0.3	-0.8	1.3	-0.7	0.6	-0.3	-0.3	-0.3	-0.3	-0.3
Shares and other equity	0.0	0.0	-0.4	0.0	-0.3	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.2	3.7	2.8	8.4	5.3	5.8	4.5	4.0	3.5	3.0	2.6
Domestic	2.8	3.9	1.4	4.7	4.6	5.1	2.5	2.9	1.7	1.7	1.6
Currency and Deposits	0.6	0.7	0.6	-0.6	1.1	0.3	0.1	0.1	0.1	0.1	0.1
Securities other than shares	2.3	3.4	-0.2	6.4	3.0	4.4	2.5	2.8	1.7	1.6	1.5
Other accounts payable	0.0	-0.2	0.9	-1.1	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	-0.2	1.4	3.7	0.6	0.8	2.0	1.2	1.8	1.3	1.1
Memorandum Item:											
Total investment (including capital transfers)	6.7	6.4	5.7	8.3	7.2	7.2	7.4	7.3	7.2	7.0	6.8
Central Government Debt	60.3	60.5	60.3	72.2	68.9	69.2	69.0	69.3	69.0	68.5	67.5
General Government Debt 4/	50.0	51.9	52.8	64.9	62.2	62.7	62.5	62.8	62.5	62.0	61.0
GDP (Billions Dirham)	1,148.9	1,195.2	1,239.8	1,152.4	1,284.2	1,384.5	1,484.3	1,568.2	1,656.3	1,744.5	1,839.8

Sources: Ministry of Economy and Finance; and IMF staff estimates.

1/ Includes transfers to other general government units, international organizations, and foreign governments

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data

Table 3. Morocco: Balance of Payments, 2017–27
(In billions of U.S. dollars, unless otherwise indicated)

						Proj.					
-	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account	-3.7	-6.2	-4.4	-1.4	-3.2	-6.0	-5.2	-5.1	-5.0	-5.1	-5.3
Trade balance	-18.0	-20.3	-19.8	-15.5	-19.9	-27.0	-23.9	-24.4	-25.2	-26.1	-27.3
Exports, f.o.b.	21.5	24.6	24.7	23.6	31.7	36.0	35.6	37.5	39.2	41.4	43.7
Food products	5.1	5.7	5.9	6.0	6.8	7.5	7.5	7.9	8.3	8.8	9.3
Phosphates and derived products	4.6	5.5	5.1	5.3	8.9	11.6	10.6	10.5	10.3	10.2	10.2
Automobiles	6.1	7.7	8.3	7.6	9.3	10.2	10.5	11.2	11.9	12.6	13.3
Imports, f.o.b.	-39.5	-44.9	-44.5	-39.1	-51.5	-63.0	-59.5	-61.9	-64.4	-67.5	-71.0
Energy	-7.2	-8.8	-7.9	-5.3	-8.4	-14.0	-12.3	-11.6	-11.2	-11.1	-11.1
Capital goods	-11.3	-12.8	-13.2	-11.6	-13.8	-14.4	-14.3	-15.7	-16.9	-18.2	-19.5
Food products	-4.4	-4.9	-5.0	-5.8	-6.7	-8.8	-8.4	-8.4	-8.3	-8.5	-8.8
Services	7.5	8.1	9.7	6.7	6.9	11.9	11.3	11.8	12.3	12.9	13.5
Tourism receipts	7.4	7.8	8.2	3.8	3.8	7.9	7.3	7.7	8.2	8.7	9.2
Income	-1.9	-2.1	-2.0	-1.2	-2.0	-2.0	-2.2	-2.7	-2.9	-3.2	-3.4
Transfers	8.8	8.0	7.7	8.6	11.7	11.1	9.7	10.2	10.8	11.4	12.0
Private transfers (net)	7.6	7.6	7.4	8.1	11.6	10.9	9.6	10.0	10.6	11.2	11.9
Workers' remittances	6.8	6.9	6.7	7.1	10.3	9.7	8.3	8.9	9.5	10.0	10.6
Official grants (net)	1.2	0.4	0.3	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.0	3.9	5.3	7.0	3.8	7.1	6.1	6.7	8.0	7.5	7.2
Direct investment	1.7	2.8	0.8	1.0	1.6	2.0	2.0	2.0	2.1	2.3	2.4
Portfolio investment	-0.1	-0.8	1.2	2.2	-0.3	-1.2	1.6	0.6	1.6	1.1	0.8
Other	0.4	1.9	3.3	3.9	2.5	6.3	2.5	4.1	4.3	4.1	4.0
Private	-1.4	2.0	2.4	2.1	1.5	4.0	1.2	3.0	3.2	2.9	2.8
Public medium-and long-term loans (net)	1.8	-0.1	0.9	1.8	1.0	2.4	1.3	0.2	0.1	0.1	0.2
Reserve asset accumulation (-increase)	0.9	1.0	-1.9	-7.3	-1.5	-1.1	-0.9	-1.6	-3.0	-2.4	-1.9
IMF financing				3.0	0.8	0.0	0.0	-1.3	-0.7	0.0	0.0
Errors and omissions	0.8	1.3	1.1	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)						
Current account	-3.2	-4.9	-3.4	-1.2	-2.3	-4.3	-3.8	-3.5	-3.2	-3.1	-3.1
Trade balance	-15.2	-15.9	-15.3	-12.8	-13.9	-19.6	-17.3	-16.8	-16.3	-16.1	-16.0
Exports, f.o.b.	18.1	19.3	19.2	19.4	22.2	26.1	25.8	25.7	25.4	25.5	25.5
Food products	4.3	4.4	4.5	4.9	4.8	5.4	5.5	5.4	5.4	5.4	5.4
Phosphates and derived products	3.8	4.3	3.9	4.4	6.2	8.4	7.7	7.2	6.7	6.3	5.9
Automobiles	5.1	6.1	6.5	6.3	6.5	7.4	7.6	7.7	7.7	7.7	7.8
Imports, f.o.b.	-33.4	-35.2	-34.5	-32.2	-36.1	-45.7	-43.1	-42.4	-41.8	-41.6	-41.5
Energy	-6.1	-6.9	-6.2	-4.3	-5.9	-10.1	-8.9	-8.0	-7.2	-6.8	-6.5
Capital goods	-9.5	-10.1	-10.2	-9.6	-9.6	-10.4	-10.4	-10.8	-11.0	-11.2	-11.4
Food products	-3.7	-3.8	-3.9	-4.8	-4.7	-6.3	-6.1	-5.8	-5.4	-5.3	-5.1
Services	6.3	6.4	7.5	5.5	4.9	8.7	8.2	8.1	8.0	8.0	7.9
Tourism receipts	6.3	6.1	6.4	3.2	2.7	5.7	5.3	5.3	5.3	5.3	5.4
Income	-1.6	-1.6	-1.6	-1.0	-1.4	-1.5	-1.6	-1.8	-1.9	-2.0	-2.0
Transfers	7.4	6.3	6.0	7.1	8.2	8.1	7.0	7.0	7.0	7.0	7.0
Private transfers (net)	6.4	6.0	5.8	6.7	8.1	7.9	6.9	6.9	6.9	6.9	6.9
Workers' remittances	5.7	5.4	5.2	5.9	7.2	7.0	6.0	6.1	6.1	6.2	6.2
Official grants (net)	1.0	0.3	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.7	3.1	4.1	5.8	2.7	5.1	4.4	4.6	5.2	4.6	4.2
Direct investment	1.4	2.2	0.6	0.8	1.2	1.5	1.4	1.4	1.4	1.4	1.4
Portfolio investment	-0.1	-0.6	0.9	1.8	-0.2	-0.9	1.1	0.4	1.0	0.7	0.5
Other	0.4	1.5	2.5	3.2	1.7	4.6	1.8	2.8	2.8	2.5	2.3
Private	-1.2	1.6	1.9	1.7	1.1	2.9	0.9	2.0	2.1	1.8	1.6
Public medium-and long-term loans (net)	1.5	-0.1	0.7	1.5	0.7	1.7	0.9	0.1	0.1	0.1	0.1
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	12.7	11.6	1.9	-15.0	25.9	23.5	-2.6	5.0	4.5	5.3	5.3
Imports of goods and services (in U.S. dollars, percentage change)	9.3	12.2	-2.3	-14.5	29.9	21.9	-5.3	4.1	4.0	4.9	5.2
Terms of trade (percentage change) 1/	-0.3	0.4	-0.5	2.4	2.4	-2.4	-2.2	-0.9	-1.0	-1.6	-1.7
IMF financing				2.5	0.6	0.0	0.0	-0.9	-0.5	0.0	0.0
Gross official reserves	26.2	24.4	26.4	36.0	35.6	31.8	32.7	33.0	35.3	37.7	39.6
In months of prospective imports of GNFS	5.7	5.4	6.9	7.2	5.8	5.5	5.4	5.3	5.4	5.5	5.4
In percent of the Assessing Reserve Adequacy (ARA) metric	93.0	83.6	86.9	109.3	100.6	92.6	94.8	91.0	92.0	93.4	93.6
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	121.1	110.2	113.4	143.3	133.2	121.2	123.0	117.7	118.7	120.3	120.5
Debt service (percent of export of GNFS and remittances) 2/	9.0	7.2	7.4	12.1	9.2	7.9	5.8	8.8	6.7	6.6	6.5
External public and publicly guaranteed debt (percent of GDP)	28.9	27.3	27.4	32.5	29.3	28.0	28.1	27.7	28.0	27.9	27.6
DHs per US$, period average	9.7	9.4	9.6	9.5	9.0	...	...	...	...	...	...
GDP (US$)	118.5	127.3	128.9	121.3	142.9	138.0	138.1	145.9	154.1	162.3	171.1
Oil price (US$/barrel; Brent)	52.9	66.2	61.2	41.8	69.4	98.2	85.5	80.2	76.2	73.3	71.0

Sources: Ministry of Finance; *Office des Changes* ; and IMF staff estimates and projections.

1/ Based on WEO data for projections.

2/ Public and publicly guaranteed debt.

Table 4. Morocco: Monetary Survey, 2017–22

	2017	2018	2019	2020	2021	2022
			(Billions of dirhams)			
Net foreign assets	262.3	250.2	263.9	316.5	316.9	328.0
Net domestic assets	1,006.8	1,070.4	1,106.7	1,168.6	1,243.9	1,343.3
Domestic claims	1,157.3	1,225.9	1,292.3	1,371.1	1,449.4	1,573.7
Net claims on the government	167.8	203.0	212.4	239.4	272.5	334.4
Bank Al-Maghrib	0.2	0.8	0.6	-4.2	-3.4	-3.9
Of which : deposits	-3.9	-2.9	-3.3	-7.3	-6.5	-7.0
Deposit money banks	167.6	202.2	211.9	243.6	275.9	338.4
Claims to the economy	989.5	1,022.9	1,079.9	1,131.7	1,176.9	1,239.3
of which credit to private sector	669.9	691.3	730.4	763.1	795.2	835.0
Other liabilities, net	-150.5	-155.5	-185.6	-202.5	-205.5	-230.3
Broad money	1,269.1	1,320.6	1,370.5	1,485.1	1,560.8	1,626.3
Money	811.0	858.7	911.8	1,019.4	1,086.8	1,150.2
Currency outside banks	218.8	233.6	250.2	300.6	320.1	345.1
Demand deposits	592.2	625.1	661.6	718.8	766.7	805.1
Quasi money	417.0	424.5	416.6	426.0	432.0	440.7
Foreign deposits	41.1	37.4	42.0	39.8	41.9	35.5
			(Annual percentage change)			
Net foreign assets	8.7	-4.6	5.5	20.0	0.1	3.5
Net domestic assets	4.8	6.3	3.4	5.6	6.4	8.0
Domestic credit	5.2	5.9	5.4	6.1	5.7	8.6
Net claims on the government	17.8	21.0	4.6	12.7	13.8	22.7
Claims to the economy (excl. central government)	3.3	3.4	5.6	4.8	4.0	5.3
Banking credit (excl. central government)	3.1	3.2	5.3	4.6	2.8	5.0
Broad money	5.5	4.1	3.8	8.4	5.1	4.2
			(Change in percent of broad money)			
Net foreign assets	1.7	-1.0	1.0	3.8	0.0	0.7
Domestic credit	4.8	5.4	5.0	5.7	5.3	8.0
Net claims on the government	2.1	2.8	0.7	2.0	2.2	4.0
Claims to the economy	2.7	2.6	4.3	3.8	3.0	4.0
Memorandum items:						
Velocity (GDP/M3)	0.91	0.91	0.90	0.78	0.82	0.85
Velocity (non-agr. GDP/M3)	0.81	0.81	0.81	0.70	0.73	0.77
Claims to economy/GDP (in percent)	86.1	85.6	87.1	98.2	91.6	89.5
of which credit to private sector	58.3	57.8	58.9	66.2	61.9	60.3
Claims to economy/nonagricultural GDP (in percent)	96.2	95.8	97.1	109.3	103.3	98.5

Sources: Bank Al-Maghrib; and IMF staff estimates.

Table 5. Morocco: Financial Soundness Indicators, 2017–22
(Percent, unless otherwise indicated)

	2017		2018		2019		2020		2021		2022
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Regulatory capital 1/											
Regulatory capital to risk-weighted assets	13.7	13.8	14.0	14.7	15.1	15.6	15.5	15.7	16.0	15.8	15.3
Tier 1 capital to risk weighted assets	11.0	10.9	10.5	10.9	11.0	11.5	11.4	11.4	11.9	12.0	11.8
Capital to assets	9.1	9.1	9.1	9.1	9.2	9.5	9.3	9.6	9.5	9.5	9.5
Asset quality											
Sectoral distribution of loans to total loans											
Industry	17.8	17.1	17.8	16.5	15.5	15.9	16.3	15.5	15.9	15.5	17.1
Of which : agro-business	3.3	3.3	3.6	3.6	3.3	3.4	3.3	3.4	3.5	3.7	4.0
Of which : textile	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Of which : gas and electricity	6.2	5.5	5.6	4.9	4.6	4.5	4.7	3.8	3.8	4.1	4.8
Agriculture	3.6	3.8	3.6	4.1	4.0	4.1	3.9	3.8	3.9	4.0	4.0
Commerce	6.7	6.7	6.6	6.4	6.6	6.4	6.6	6.4	6.5	6.7	7.1
Construction	11.2	11.3	11.1	10.5	10.4	10.2	9.5	9.9	8.9	7.9	7.7
Tourism	1.9	1.8	1.8	1.6	1.6	1.5	1.6	1.8	1.8	2.0	1.9
Finance	13.0	12.7	11.6	12.5	12.2	12.7	13.1	13.5	13.1	12.7	12.5
Public administration	4.6	4.9	5.7	8.4	8.2	8.6	8.2	8.3	8.6	8.4	8.0
Transportation and communication	4.8	4.5	4.7	4.0	4.5	4.2	4.1	4.1	4.0	4.1	3.5
Households	32.4	32.6	32.8	31.9	31.8	31.6	30.5	30.9	30.8	31.1	30.5
Other	4.0	4.6	4.2	4.3	5.2	4.8	6.2	5.8	6.6	7.7	7.6
FX-loans to total loans	2.8	2.3	2.7	2.7	3.1	3.3	3.8	3.0	3.3	3.1	5.0
Credit to the private sector to total loans	89.9	89.2	88.2	85.9	86.2	86.0	86.4	86.6	86.7	84.4	87.7
Credit to non financial public enterprises to total loans	5.5	6.2	6.1	6.1	6.0	5.5	5.5	5.2	5.0	4.5	4.2
Nonperforming Loans (NPLs) to total loans	7.5	7.5	7.5	7.3	7.5	7.5	8.0	8.2	8.3	8.6	8.5
Specific provisions to NPLs	70.0	71.0	70.0	69.1	69.3	69.3	67.9	68.6	68.6	67.5	66.8
NPLs, net of provisions, to Tier 1 capital	16.3	15.8	16.4	16.5	16.3	16.0	17.9	17.5	17.7	18.5	18.7
Large exposures to Tier 1 capital	318.0	284	296.0	288	262.9	240.1	255.0	237.0	249.0	228.8	259.4
Loans to subsidiaries to total loans	8.8	8.5	8.3	8.3	8.7	8.1	8.4	8.3	8.4	8.3	8.7
Loans to shareholders to total loans	1.0	0.6	0.8	1.0	0.7	0.5	0.6	0.7	0.6	0.6	0.7
Specific provisions to total loans	5.3	5.3	5.2	5.0	5.2	5.2	5.4	5.6	5.7	5.8	5.6
General provisions to total loans	1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.3	1.4	1.3
Profitability											
Return on assets (ROA)	1.1	0.9	1.1	0.9	1.1	0.9	0.6	0.5	1.2	0.8	1.0
Return on equity (ROE)	11.2	9.5	11.5	9.5	11.8	9.4	5.6	4.8	12.2	8.2	10.9
Interest rate average spread (b/w loans and deposits)	3.9	3.9	3.9	3.9	3.7	3.7	3.7	3.8	3.7	3.7	na
Interest return on credit	4.9	4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.6	4.3	na
Cost of risk as a percent of credit	0.9	0.8	0.9	0.9	0.8	0.8	1.4	1.3	0.9	1.9	0.6
Net interest margin to net banking product (NPB) 2/	71.4	70.1	72.1	71.2	68.6	67.5	68.2	68.2	69.6	69.3	73.6
Operating expenses to NPB	46.4	50.6	46.7	50.6	46.1	50.2	45.8	50.0	44.6	48.5	46.3
Operating expenses to total assets	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6
Personnel expenses to noninterest expenses	47.5	47.5	47.0	47.5	47.5	47.6	47.6	47.4	46.8	47.0	47.5
Trading and other noninterest income to NPB	28.6	29.9	27.9	28.8	31.4	32.5	31.8	31.8	30.4	32.5	35.4
Liquidity											
Liquid assets to total assets	11.8	13.7	12.9	12.2	12.8	14.0	14.8	16.1	16.5	16.4	16.6
Liquid assets to short-term liabilities	15.7	17.3	14.4	15.1	16.2	17.9	18.7	20.0	20.4	19.9	19.5
Deposits to loans	104.2	107.5	104.9	103.8	102.2	102.2	101.1	103.2	103.6	105.9	104.9
Deposits of state-owned enterprises to total deposits	2.4	2.4	1.9	2.7	2.2	2.2	1.7	1.6	2.2	1.7	2.3
Sensitivity to market risk											
FX net open position to Tier 1 Capital	5.6	7.0	7.0	6.9	0.0	-1.6	8.0	5.8	-1.2	-2.3	-3.9

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.

2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

* Provisional figures calculated according to Basel III definition and transitional provisions.

Annex I. External Sector Assessment Report

Overall Assessment: *Morocco's external position in 2022 is broadly in line with medium-term fundamentals and desirable policies. The projected widening of the CA deficit in 2022 mainly reflects the terms-of-trade shock resulting from Russia's war in Ukraine, only partly offset by continued buoyancy in remittances and the recovery of tourism inflows to pre-pandemic levels. As the shock dissipates and structural reforms and fiscal consolidation continue, the CA deficit is projected to start falling in 2023 and to gradually converge to the estimated medium-term norm. This assessment is subject to the exceptional uncertainty surrounding the evolution of Russia's war in Ukraine, and its impacts on both Morocco and its trading partner countries.*

Foreign Assets and Liabilities: Position and Trajectory

1. Background. Morocco's Net International Investment Position (NIIP) has remained relatively stable at about -61 percent of GDP over 2014-2019. During the pandemic years 2020-21, NIIP slightly increased to about -63 percent of GDP, but staff projects this position to improve to about -60 percent of GDP in 2022, mainly on the back of lower external liabilities. In staff baseline, Morocco's NIIP is projected to worsen only slightly to around -63 percent of GDP through the medium term, reflecting the gradual narrowing of current account deficits.

2. Assessment. Morocco's NIIP financing vulnerabilities appear moderate, as foreign direct investment accounts for a large share of the position. Over the medium term, Morocco should be able to sustain its net debtor position as the CA deficit will converge towards its estimated norm amidst implementation of structural reforms (that should increase Morocco's attractiveness for FDI) and fiscal consolidation (that should reduce the dependence on external debt).

	NIIP	Gross Assets	Res. Assets	Gross Liabilities	Debt Liabilities
2022 (% GDP)	-60.0	35.0	23.0	95.0	36.1

Current Account

3. Background. In the wake of the Covid-19 pandemic, the CA deficit shrank to 1.2 percent of GDP in 2020, on account of a sharp fall in imports that more than offset lower exports (and the collapse of tourism revenues), and resilient remittances. The CA deficit increased to 2.3 percent of GDP in 2021, as activity and imports recovered. In 2022, the CA deficit is expected to deteriorate to 4.3 percent of GDP on the back of higher energy and food prices, and to gradually return to about 3.0 percent of GDP over the medium term, as tourism revenues improve, remittances remain resilient, and structural reforms boost private sector competitiveness and savings (with fiscal consolidation also sustaining national savings).

4. Assessment. In 2022, the EBA model estimates a cyclically adjusted CA deficit of 2.9 percent of GDP compared with a CA norm of -3.0 percent of GDP, suggesting a relatively small CA gap, of 0.1 percent of GDP.

	Actual CA	Cyclical Contributions	Cyclically adjusted CA	Cyclically Adjusted CA Norm	Total Gap
2022 (% of GDP)	-4.3	-1.4	-2.9	-3.0	0.1

Real Exchange Rate

5. Background. The REER has been on a modest appreciating trend since 2012 (at the end of 2021 was about 6 percent stronger than in mid-2012), reflecting the nominal appreciation of the dirham (pegged to a basket including the Euro and US Dollar). As of October 2022, the REER has depreciated by about 3½ percent, reflecting a nominal effective depreciation of the dirham and a narrower inflation differential with main trading partners.

6. Assessment. The estimate of the CA gap of 0.1 percent of GDP implies a small REER gap, of –0.3 percent (applying an estimated elasticity of 0.37) in 2022.

Capital and Financial Accounts: Flows and Policy Measures

7. Background. Morocco's CA deficit tends to be financed mainly by net FDI inflows and external borrowing. In 2020, Morocco benefited from a significant increase in external borrowing from both international markets and IFI and bilateral lenders, as well as positive financing from net FDI flows. In 2021, larger net FDI flows compensated the decline in IFI and bilateral flows, helping preserve the reserve position. In the first half of 2022, net FDI and trade credit have been the main source of external financing.

8. Assessment. In the medium term, progress in structural reforms and in particular those aimed at developing the private sector, accelerating the transition to renewable energy, and increasing water resources are all expected to continue to support FDI inflows and external borrowing. Risks of capital flow reversal are limited by remaining capital account controls on residents and the structure of external debt (85 percent of which with long maturity)

FX Intervention and Reserves Level

9. Background. Morocco's exchange rate is pegged to a basket including the Euro and the US Dollar, with weights of 60 and 40 percent, respectively. The currency can fluctuate within a band that was widened to ±5 percent at the onset of the pandemic. FX reserves increased by about US$10 billion in 2020-21 relative to before the pandemic, reflecting i) the purchase of US$ 3 billion under the PLL arrangement in April 2020 (about US$ 900 million were reimbursed in January 2021), ii) the issuance of US$ denominated bonds in December 2020 (by about US$3 billion); iii) the 2021 SDR allocation of about US$1.2 billion; and iv) BAM purchase of FX in the market in the second half of 2021, when the dirham appreciated to the lower end of the band (by about US$1 billion). So far in 2022, the strong depreciation of the euro vs the dollar caused the level of reserves (60 percent of reserves are in euros) to fall by some US$5 billion since last December to around US$31 billion as of October.

10. Assessment. The level of reserves, projected at around 120 percent of the ARA metric (adjusted for capital controls) in 2022, is assessed to be adequate. Staff expects FX reserves to remain at adequate levels also over the forecasting period, as the improvement in the current account deficit and external financing associated with the continuation of structural reforms offset the repayment of the PLL in 2024 and 2025. Moving to an IT monetary policy regime, with more flexible ER, would reduce the need for reserve holdings, outside a budget that could fund FX interventions in case of excessive market volatility.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
		Global Risks	
Commodity price shocks.	**High** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High** Further increase in commodity prices could push headline inflation higher. Lower household purchasing power, supply disruptions, and higher borrowing costs could further drag down growth.	• Central bank may need to increase policy rates to keep inflation expectations from becoming unanchored and limit depreciation pressures. • Fiscal policy will need to protect the most vulnerable with well-targeted, temporary, and budget-neutral cash transfers, making full use of the Unified Social Registry.
De-anchoring of inflation expectations and stagflation.	**Medium** Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium** A tightening of global financial conditions, on the back of a faster increase in US interest rates, would negatively affect Morocco's external borrowing costs and exchange rate, but its impact would be cushioned by the current exchange rate arrangement. The peg associated with capital controls on residents' investment abroad are expected to limit large exchange rate depreciation risk and to prevent capital flight. The impact on government funding should also be contained, as the share of public debt denominated in FX is relatively low (about 25 percent).	• Monetary policy will need to be tightened more aggressively to anchor inflation expectations and limit the exchange rate depreciation • Fiscal policy should make full use of the limited space available, by i) letting automatic stabilizers work from the tax revenue side; ii) support those affected by inflationary pressures with targeted cash transfers using the Unified Social Registry, iii) reallocate resources within the Budget so as to prioritize growth friendly spending, like public investment projects already started or in the pipeline.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Abrupt global slowdown or recession.	**High** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. • **Europe**: The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession.	**High** Morocco is highly dependent on trade, remittances, tourism, and financial linkages (including FDIs) with the euro area. Hence, a significant slowdown/recession in Europe will dampen economic activity in Morocco. A decline in energy commodity prices will ease pressure on the external accounts and inflation.	• Fiscal policy should implement growth-friendly stimulus measures and targeted support to the sectors and segments of the population that are most affected. Financing could come from voluntary contributions as in the case of the Covid 19 fund, further mobilization of the central government real asset portfolio, and privatization. • Central bank should ease the monetary policy stance and provide necessary support to credit and liquidity. • Implement structural reforms to mitigate scarring from the pandemic and the war and bolster potential growth.
Deepening geo-economic fragmentation and geopolitical tensions.	**High** Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High** Morocco is a very open economy, highly dependent on trade (including that associated with key global value chains, like the automotive industry), remittances, tourism, and energy imports. Hence any disruption on each of these areas is bound to deeply affect economic activity.	• Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinders FDIs • Implement structural reforms to support international competitiveness and productivity.
A drought that reduces agricultural production.	**High** The frequency of droughts has increased recently, with Morocco experiencing 3 dry rain seasons in three of the last 5 years.	**High** Morocco is highly dependent on the agricultural sector. Even if it represents about 10 percent of value added and a quarter of goods exports, about one third of Moroccan workforce is active in this sector.	Morocco should replicate the measures that were adopted recently to cope with the effects of the drought, including subsidized credit to farmers and help in repaying debt.

Annex III. Public Debt Sustainability Analysis

While the Covid-19 crisis left a legacy of a higher central government debt-to-GDP ratio, Morocco's debt remains sustainable over the medium term, reflecting the projected gradual process of fiscal consolidation, the large base of domestic institutional investors, the long average maturity, and the low FX share of Moroccan debt.

1. Debt coverage and definition. This DSA covers central government debt, and so analyses the debt of the Treasury (both domestic and external). The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidation of the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 6½ percent of GDP in 2021 (to about 62 percent).

Background

2. After increasing to 72.2 percent of GDP in 2020, the central government debt ratio fell to 68.9 percent of GDP in 2021.[1] The decline in public debt in 2021 was mostly driven by the rebound in GDP growth (7.9 percent compared to -7.2 percent in 2020) and the reduction in primary deficit (by 0.8 percentage points of GDP). Gross financing needs for the central government decreased to 11.8 percent of GDP in 2021 (4.7 percentage points of GDP lower than in 2020). Both debt level and gross financing needs in 2021 were thus below the empirically determined high-risk benchmarks for emerging market economies (70 and 15 percent of GDP, respectively).

Baseline Projections

3. Under staff baseline scenario, public debt is expected to remain below 70 percent in the medium term. In line with the medium-term fiscal framework published as part of the 2023 Budget, the central government debt-to-GDP ratio is expected to remain relatively stable over 2022-2025, with staff projecting a modest decline thereafter as the process of fiscal consolidation continues. At the general government level, public debt would hover around 63 percent of GDP until 2025, before falling to 61.0 percent in 2027. The projected fiscal consolidation efforts over the medium term seem realistic relative to the distribution of fiscal adjustment efforts in a group of peer countries (see Figure 3) and previous episodes of fiscal consolidation in Morocco (for example during 2012-17).

4. Financing needs are projected to increase in 2022 and 2023, before falling in the medium term. Gross financing needs are expected to increase to 16.6 percent in 2023, from about 14 percent in 2022, and gradually decrease to 11.3 percent by 2027. The projected effective interest rate on debt has been revised up relative to the 2021 AIV report, given recent domestic and

[1] Relative to the 2021 Article IV, the debt-to-GDP ratio is 8.3 percentage points lower in 2022, due to the update of the National Accounts in 2022 that raised the level of GDP.

international rate increases. Still, a few mitigating factors buffer the impact on Moroccan cost of public debt, including: i) long average maturities for domestic and external borrowing, ii) continued active debt management from the authorities, with operations that tend to swap old debt with new one at more favorable terms (longer maturities and lower interest rates), and iii) a significant share of external borrowing on a concessional basis. Privatization receipts (projected at about 1½ percent of GDP in 2022-25) should also help reduce financing needs.

5. **Morocco's central government debt remains sustainable.** A few characteristics of the debt profile continue to limit potential vulnerabilities, in particular (see Figure 2): i) its relatively long maturity (weighted average maturity of about 6 years), ii) the relatively low share denominated in FX (about 25 percent) and iii) the investment base made mostly of local investors, many of whom are long-term investors. Thanks to such features, as well as to its solid track record and favorable ratings, Morocco's government has maintained steady access to international capital markets at favorable terms over the last 10 years, and more recently after the health crisis.

6. **However, Morocco's public debt remains sensitive to several shocks in the near term.** In particular, faced with the real GDP growth shock considered in this Annex, the central government debt would increase to about 80 percent of GDP, before resuming a downward path in the medium term. Vulnerabilities linked to the profile of debt are mostly moderate as short-term debt represents a very small part of the total debt (about 3 percent of GDP at end-2021). More than half of the indicators exceed the lower early-warning benchmarks, but not the upper risk assessment benchmarks, while the exchange rate shock and the change in short-term debt do not exceed the lower benchmark (Figure 5). Contingent liabilities from unfunded public pension schemes,[2] guarantees to commercial SOEs external debt (about 8 percent of GDP) and subsidized credit schemes under the Covid-19 crisis (about 5 percent of GDP) could represent additional vulnerabilities, although the transmission of the latter to a new financial institution under BAM supervision (which will absorb the first layer of losses from potential activation of guarantees) represents a mitigating factor. These risks highlight the importance of accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms, to further reduce the debt-to GDP ratio below the empirical high-risk level of 70 percent of GDP over the medium term.

[2] However, at least in part such liabilities are already recognized in the analysis, as the central government debt includes Treasury bonds that are held by the social security administration (by about 10 percentage points of GDP).

Figure 1. Morocco: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(in percent of GDP unless otherwise indicated)

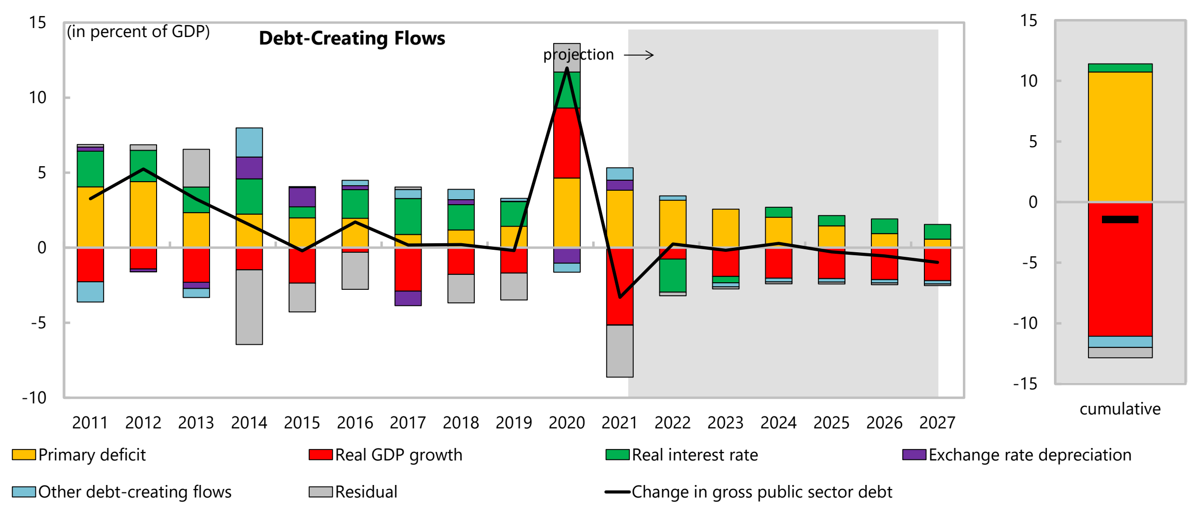
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	57.5	72.2	68.9	69.2	69.0	69.3	69.0	68.5	67.5
Public gross financing needs	12.9	16.5	11.8	13.9	16.6	14.1	13.5	11.9	11.3
Real GDP growth (in percent)	3.5	-7.2	7.9	1.2	3.0	3.1	3.1	3.2	3.4
Inflation (GDP deflator, in percent)	0.8	0.1	3.2	6.6	4.1	2.5	2.4	2.0	2.0
Nominal GDP growth (in percent)	4.3	-7.1	11.4	7.8	7.2	5.7	5.6	5.3	5.5
Effective interest rate (in percent) [4/]	4.4	3.9	3.3	3.2	3.6	3.6	3.5	3.6	3.6

As of November 09, 2022		
Sovereign Spreads		
EMBI (bp) 2/		259
CDS (bp)		278
Ratings [3/]	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BB+	BB+
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	12.0	-3.3	0.2	-0.2	0.3	-0.3	-0.5	-1.0	-1.4	
Identified debt-creating flows	2.8	10.1	0.2	0.5	0.0	0.4	-0.2	-0.4	-0.9	-0.6	
Primary deficit	2.3	4.6	3.8	3.2	2.6	2.0	1.5	0.9	0.6	10.7	-1.2
Primary (noninterest) revenue and grants	24.8	27.0	25.1	26.9	26.9	26.8	26.5	26.5	26.6	160.1	
Primary (noninterest) expenditure	27.1	31.6	28.9	30.1	29.5	28.8	28.0	27.5	27.2	170.9	
Automatic debt dynamics [5/]	0.3	6.0	-4.5	-3.0	-2.3	-1.4	-1.4	-1.1	-1.2	-10.4	
Interest rate/growth differential [6/]	0.0	7.1	-5.2	-3.0	-2.3	-1.4	-1.4	-1.1	-1.2	-10.4	
Of which: real interest rate	1.9	2.4	0.0	-2.2	-0.4	0.7	0.7	1.0	1.0	0.7	
Of which: real GDP growth	-1.8	4.7	-5.1	-0.8	-1.9	-2.0	-2.1	-2.1	-2.2	-11.1	
Exchange rate depreciation [7/]	0.2	-1.0	0.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.2	-0.6	0.8	0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.9	
CG: Privatization Proceeds (negative)	-0.1	0.0	-0.3	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net incurrence of liabilities	0.4	-0.6	1.1	0.3	0.1	0.1	0.1	0.1	0.1	0.6	
Residual, including asset changes [8/]	-1.1	1.9	-3.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.9	



Source: IMF staff.

1/ Public sector is defined as central government and debt figures do not incorporate deposits at the Treasury from third parties (SOEs, private entities and individuals).

2/ Bond Spread over U.S. Bonds.

3/ Based on available data. Moody's credit rating is unsolicited.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

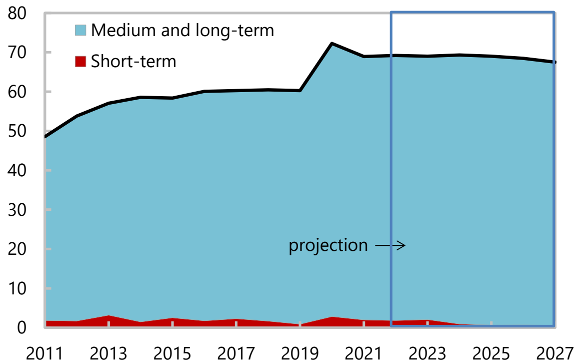
7/ The exchange rate contribution is derived from the numerator in footnote 5/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

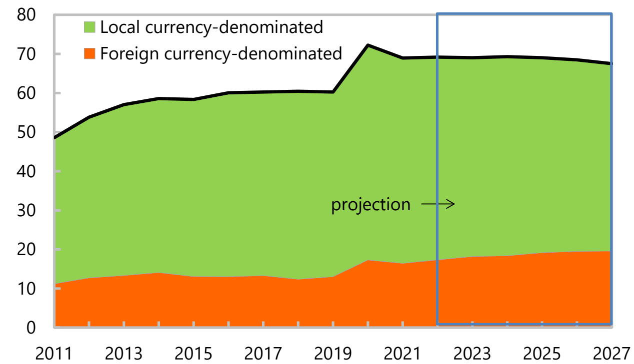
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

By Maturity
(in percent of GDP)



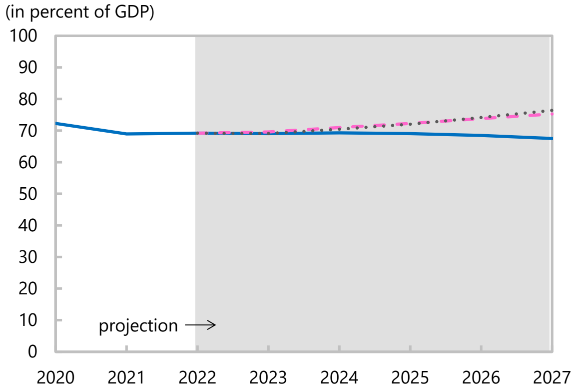
By Currency
(in percent of GDP)



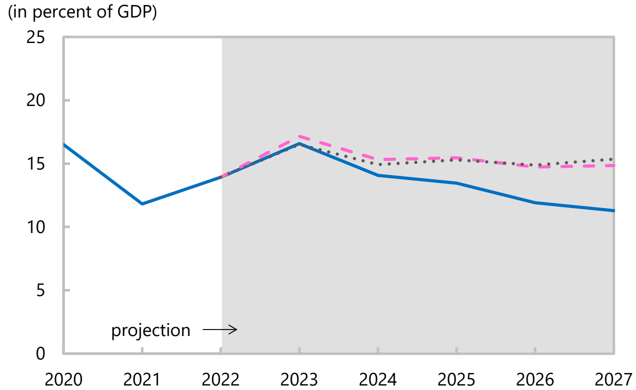
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



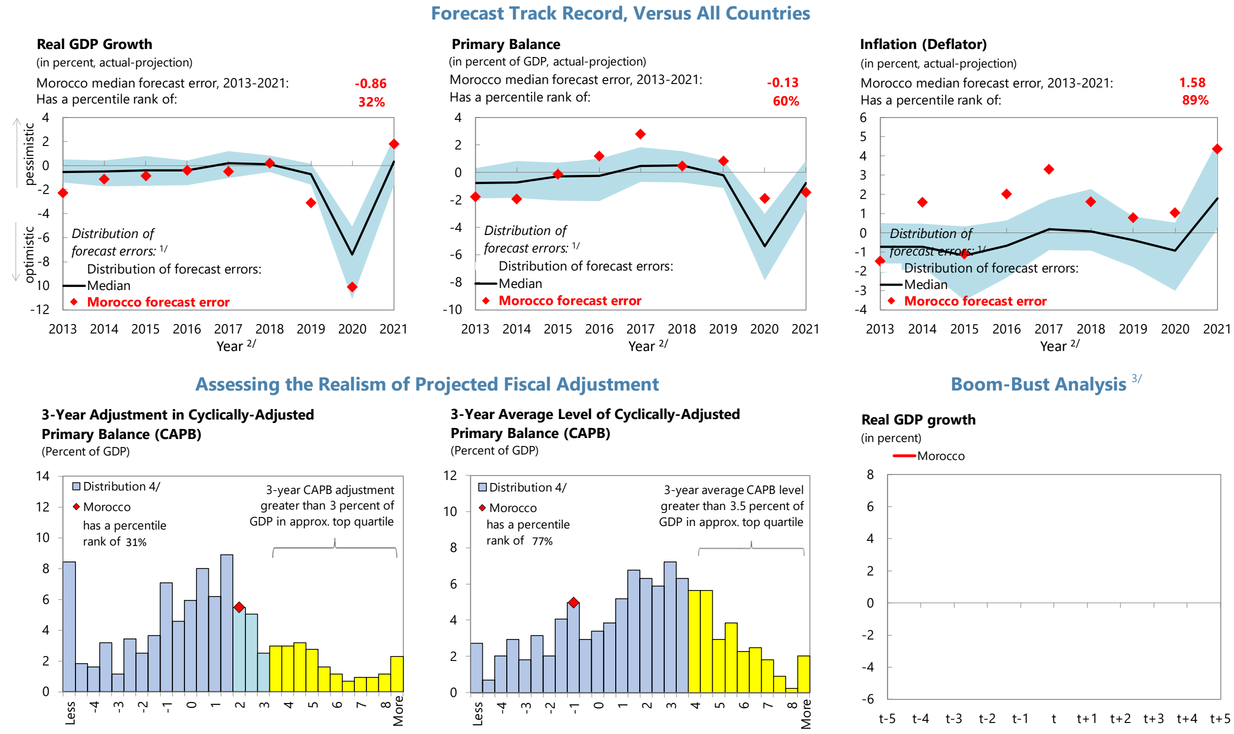
Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	1.2	3.0	3.1	3.1	3.2	3.4
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary Balance	-3.2	-2.6	-2.0	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	3.6	3.5	3.6	3.6
Constant Primary Balance Scenario						
Real GDP growth	1.2	3.0	3.1	3.1	3.2	3.4
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary Balance	-3.2	-3.2	-3.2	-3.2	-3.2	-3.2
Effective interest rate	3.2	3.6	3.5	3.4	3.5	3.4

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	1.2	2.7	2.7	2.7	2.7	2.7
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary Balance	-3.2	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	3.2	3.6	4.1	4.4	4.7	4.9

Source: IMF staff.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

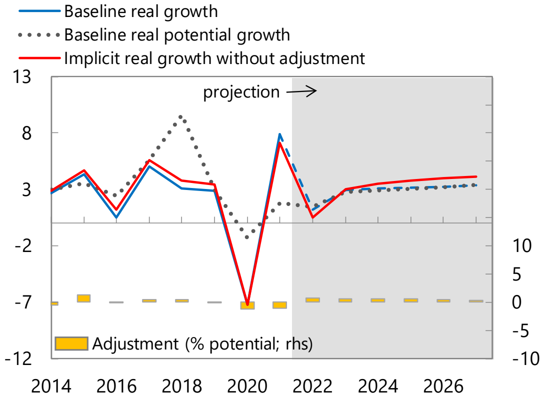
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions (concluded)

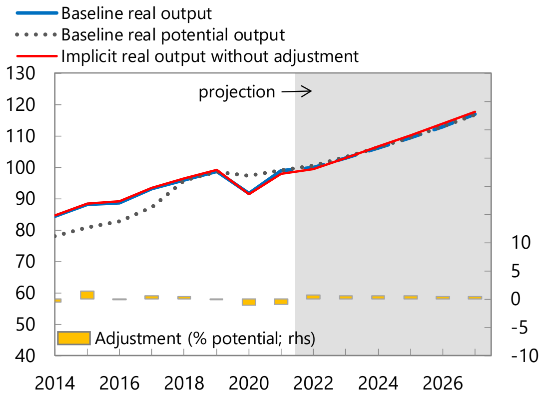
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.6, persistence of 0.6

Real GDP Growth
(in percent)

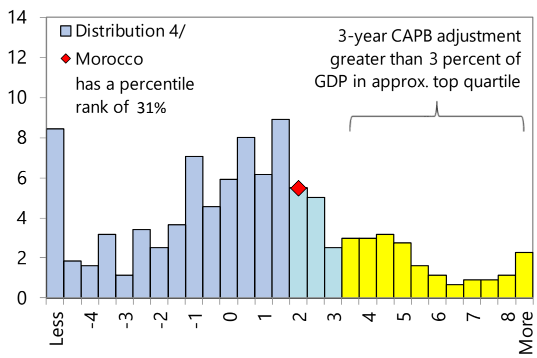


Real Output Level
(Baseline real output in 2022=100)

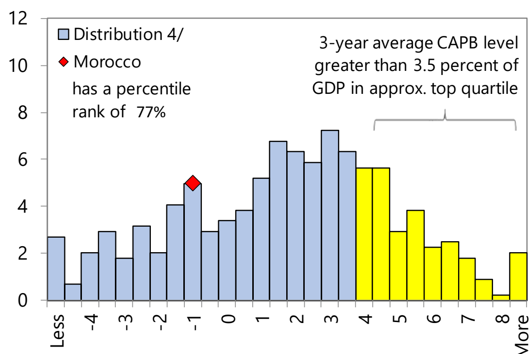


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



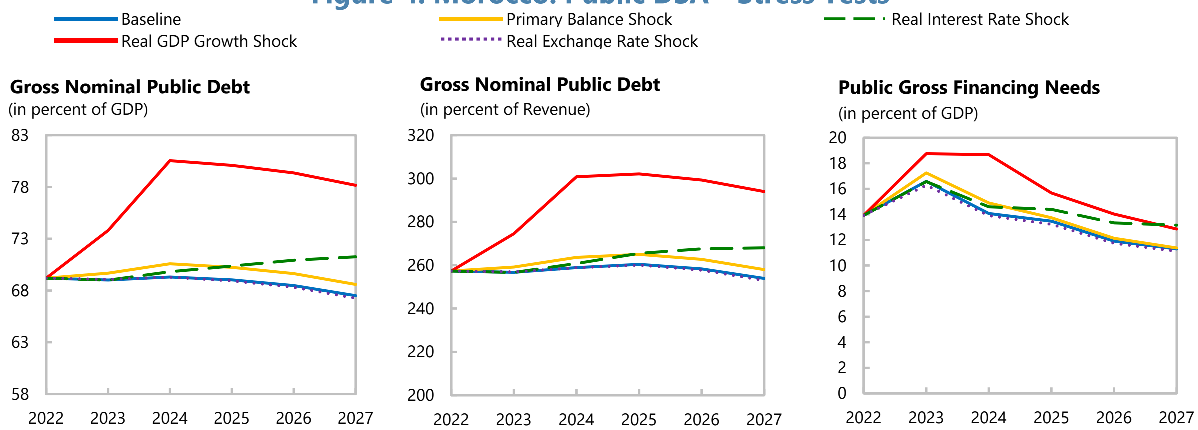
3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



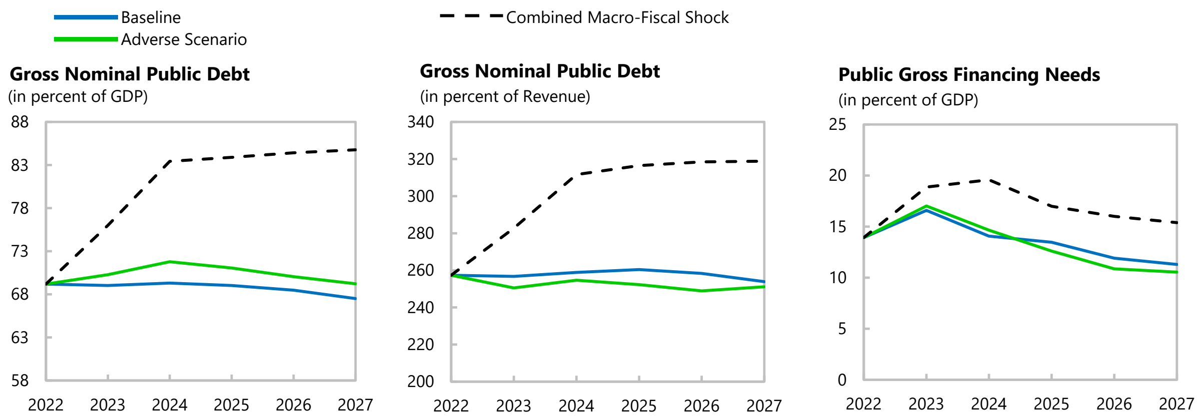
Source : IMF staff.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	1.2	3.0	3.1	3.1	3.2	3.4
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary balance	-3.2	-3.2	-2.7	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	3.5	3.5	3.5	3.5
Real Interest Rate Shock						
Real GDP growth	1.2	3.0	3.1	3.1	3.2	3.4
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary balance	-3.2	-2.6	-2.0	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	4.4	4.8	5.3	5.6
Combined Shock						
Real GDP growth	1.2	-1.0	-0.9	3.1	3.2	3.4
Inflation	6.6	3.1	1.5	2.4	2.0	2.0
Primary balance	-3.2	-4.0	-5.0	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	4.4	4.9	5.3	5.6
Adverse Scenario						
Real GDP growth	1.2	1.3	1.5	1.5	1.6	1.8
Inflation	6.6	4.1	2.5	2.4	2.0	2.0
Primary balance	-3.2	-2.8	-2.1	0.2	0.7	0.4
Effective interest rate	3.2	3.6	3.7	3.8	3.7	3.7

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	1.2	-1.0	-0.9	3.1	3.2	3.4
Inflation	6.6	3.1	1.5	2.4	2.0	2.0
Primary balance	-3.2	-4.0	-5.0	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	3.6	3.6	3.6	3.6
Real Exchange Rate Shock						
Real GDP growth	1.2	3.0	3.1	3.1	3.2	3.4
Inflation	6.6	7.3	2.5	2.4	2.0	2.0
Primary balance	-3.2	-2.6	-2.0	-1.5	-0.9	-0.6
Effective interest rate	3.2	3.6	3.4	3.4	3.4	3.4

Source: IMF staff.

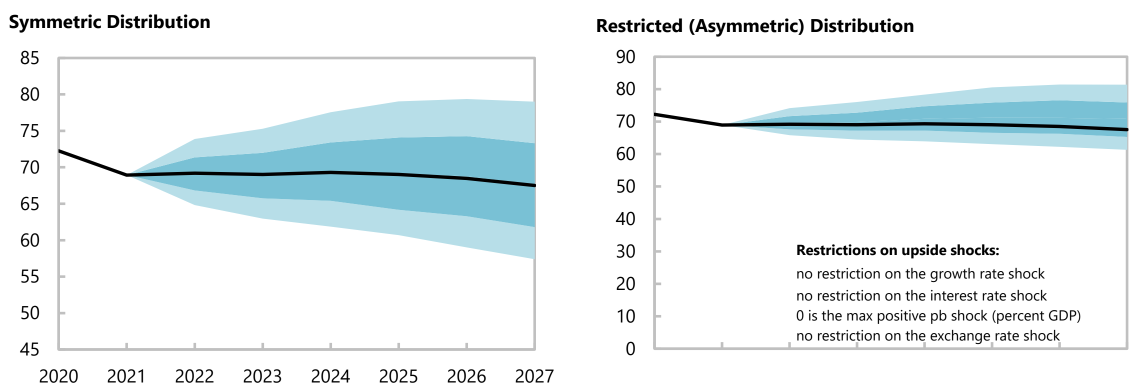
Figure 5. Morocco: Public DSA—Risk Assessment

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

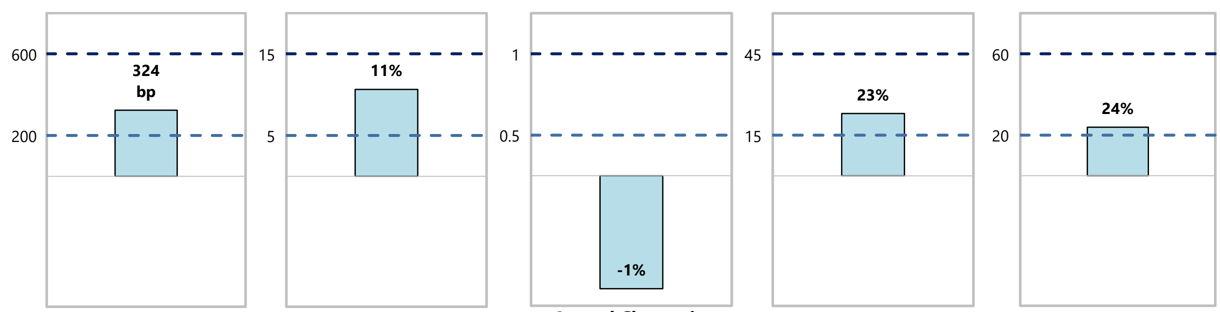
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)

Morocco Lower early warning Upper early warning



Bond Spread over U.S. Bonds	External Financing Requirement	Annual Change in Short-Term Public Debt	Public Debt Held by Non-Residents	Public Debt in Foreign Currency
(in basis points) 4/	(in percent of GDP)	(in percent of total)	(in percent of total)	(in percent of total)

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 11-Aug-22 through 09-Nov-22.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 16, 2022

Prepared By	The Middle East and Central Asia Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2022)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	894.40	100.00
Fund holdings of currency	2,246.91	251.22
Reserve position in Fund	147.35	16.47

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,418.66	100.00
Holdings	1,447.92	102.06

Outstanding Purchases and Loans

	SDR Million	Percent Allocation
Precautionary and Liquidity Line	1,499.80	167.69

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	12/17/2018	04/07/2020	2,150.80	2,150.80
Precautionary and Liquidity Line	07/22/2016	07/21/2018	2,504.00	0.00
Precautionary and Liquidity Line	07/28/2014	07/21/2016	3,235.10	0.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDR):

	2022	2023	2024	2025	2026
Principal			962.10	537.70	
Charges/interest	10.76	52.26	38.77	5.76	0.02
Total	**10.76**	**52.26**	**1,000.87**	**543.46**	**0.02**

Exchange Rate Arrangement and Exchange System

Morocco's de jure exchange rate system is a pegged exchange rate within horizontal bands. In January 15, 2018, Bank Al-Maghrib (BAM) announced the widening of the dirham fluctuation band to ±2.5 percent (from ±0.3 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent. As part of a gradual and orderly transition to a more flexible exchange rate regime, the authorities further broadened the dirham's fluctuation band to ±5 percent on March 6, 2020. Accordingly, the de facto exchange rate arrangement has been reclassified to a pegged exchange rate within horizontal bands from stabilized exchange rate, effective March 24, 2020.

BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Morocco's exchange system is free of multiple currency practices and restrictions on payments and transfers for current international transactions, except for restrictions that Morocco maintains solely for the preservation of national or international security and have been notified to the Fund pursuant to Executive Board Decision 144 (52/51). Capital controls are currently in place in Morocco, but are in the process of being loosened (e.g. lower surrender requirements for exports and higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of November 21, 2022, the USD/dirham exchange rate was USD 1=DH 10.72080.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on February 2, 2022, on a lapse-of-time basis. The discussions for the 2022 consultation were held during October 24–November 4, 2022.

Technical Assistance

FAD	Revenue Administration Gap Analysis Program	September 17–22, 2018
STA	Government Finance Statistics	September 24-October 5, 2018
STA	Financial Sector Indicators	October 15-26, 2018
FAD	Public Corporations Fiscal Risks Management	October 22–November 5, 2018
STA	Government Finance Statistics	February 14-20, 2019
MCM	Systemic Risk Monitoring – Stress Testing	February 21–March 1, 2019
STA	Government Finance Statistics	April 1-12, 2019
MCM	Macroprudential Policy	April 23–May 2, 2019
METAC	National Accounts and Price Statistics	June 10-11, 2020
FAD	Tax Administration and Medium-Term Revenue Strategy	November 12– 25, 2019
METAC	Internal Capital Adequacy Assessment Process (ICAAP)	January 20-24, 2020
STA	External Sector Statistics	January 20-30, 2020
METAC	Cash Management	January 28-February 6, 2020

MCM	Inflation-Targeting Framework and Exchange Rate Regime (virtual)	July 6-17, 2020
STA	Government Finance Statistics	September 14-25, 2020
METAC	Producer Price Index (virtual)	September 21-October 2, 2020
MCM	Insurance Supervision (virtual)	October 19 – November 5, 2020
METAC	Fiscal Risks from PPPs (virtual)	November 1-8, 2020
METAC	Implementation of Basel II and III standards (virtual)	October 26-November 3, 2020
METAC	Fiscal Risks from SOEs (virtual)	November 9-20, 2020
ICD	Review of Forecasting and Policy Analysis System (FPAS) (virtual)	November 16, 2020- January 29, 2021
METAC	Risk Management Unit and Tax Governance (virtual)	March 1-15, 2021
METAC	Fiscal Risks from SOEs (virtual)	March 8-19, 2021
METAC	Implementation of Basel II and III Standards (virtual)	April 2021
METAC	Supervisory Review and Evaluation Process (virtual)	June 25–July 27, 2021
ICD	Review of Forecasting and Policy Analysis System (FPAS) and Communications (virtual)	August 23-September 10, 2021
METAC	Internal Control framework (virtual)	October 11-22, 2021
MCM	Central Bank Digital Currency	December 15, 2021 – March 30, 2022
ICD	Financial Development and Financial Inclusion	February 7-18, 2022
FAD	Improving Compliance Risk Management	March 14-25, 2022
FAD	Revenue Administration	April 18—May 5, 2022
MCM	Financial Supervision and Regulation	June 20-24, 2022
FAD	Internal Control and Audit	June 20—July 8, 2022
MCM	Developing Trading Platform	September 7-20, 2022

FSAP Update

The latest update of the Financial Sector Assessment Program was performed in April 2015. The findings were discussed with the authorities during the October/November 2015 Article IV mission and discussed by the Board on December 14, 2015. Continued progress is being made to upgrade the financial sector policy framework in line the 2015 FSAP recommendations.

Safeguard Assessment

The 2019 assessment found strong safeguards at the BAM. Steps taken by the BAM to enhance financial reporting transparency have laid the groundwork for the transition to International Financial Reporting Standards (IFRS), which is planned in accordance with the timelines of the national convergence project in Morocco. This project, which faced some COVID-19 related delays, is nonetheless ongoing with TA from the World Bank and the national accounting body in Morocco is expected to issue a draft code in early 2023 which will lay the foundation for the legal amendments to the national accounting law later in the year.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of November 21, 2022

[Projects (worldbank.org)](https://projects.worldbank.org)

STATISTICAL ISSUES

As of November 21, 2022

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance. Morocco compiles annual and quarterly GDP. The base year used to derive constant price estimates is 2014. The HCP is currently developing a price index for services. Plans are in place to develop a construction cost index, and a producer price indexes for agricultural products. The CPI weight reference period is 2017.	
Government finance statistics: Fiscal data are adequate for surveillance. Recent expansion of the coverage to consolidated general government is an important progress, but the continuous provision of individual subsectors (central government, social security schemes and local governments) is relevant for analysis and surveillance. Future enhancements could include the provision to the Fund of debt data at both face and nominal value and initiating the compilation of other accounts payable and nonfinancial corporations debt data.	
Balance of payments statistics: External sector data are adequate for surveillance. The Office des Changes of Morocco submits timely balance of payments and international investment position statistics and participates regularly in the annual Coordinated Direct Investment Survey.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department (STA) using the standardized report forms. Bank Al-Maghrib reports some key indicators of the Financial Access Survey (FAS), including the two indicators adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults). **Financial Sector Surveillance.** Morocco does not report financial soundness indicators (FSIs). A technical assistance mission conducted in October 2018 assisted Bank Al-Maghrib in compiling a set of FSIs for deposit takers based on internationally accepted standards as set out in the IMF's *FSI Compilation Guide but* regular reporting of FSIs has not started yet.	
II. Data Standards and Quality	
Morocco has been an SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance

(As of November 21, 2022)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items: Data Quality – Methodological soundness[8]	Memo items: Data Quality – Accuracy and reliability
Exchange Rates	Nov. 2022	11/21/2022	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2022	11/07/2022	M	M	M		
Reserve/Base Money	Oct. 2022	11/07/2022	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Oct. 2022	11/07/2022	M	M	M		
Central Bank Balance Sheet	Oct. 2022	10/07/2022	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2022	10/31/2022	M	M	M		
Interest Rates[2]	Nov. 2022	11/21/2022	M	M	M		
Consumer Price Index	Sep. 2022	10/20/2022	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]			A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	Sep. 2021	10/29/2022	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2022	9/30/2022	Q	Q	Q		
External Current Account Balance	Q2/2022	9/30/2022	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Sep. 2022	9/30/2022	Q	Q	Q		
GDP/GNP	Q2/2022	9/30/2022	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2022	9/30/2022	Q	Q	Q		
International Investment Position [6]	Q2/2022	9/30/2022	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published on April 4, 2003 and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

Statement by the IMF Staff Representative
January 17, 2023

1. This statement provides additional information that has become available since the Staff Report (SM/22/279) was circulated to the Executive Board on December 19, 2022. The information does not alter the thrust of the staff appraisal.

2. National accounts data for Q3 2022 were released. Real GDP growth was 1.6 percent (y/y) in Q3, slightly below staff estimate (of 1.8 percent). Leaving everything else unchanged, the Q3 outturn implies an average GDP growth for 2022 of 1.1 percent, compared to 1.2 percent projected in the staff report.

3. CPI headline inflation slightly accelerated to 8.3 percent in November (from 8.1 in October), mainly driven by food and transportation prices. Core inflation also accelerated to 7.6 percent in November (from 7.1 percent the previous month). These outcomes are in line with staff's projected headline inflation of 6.5 percent on average for 2022.

4. The current account deficit widened to about 3.6 percent of GDP in Q3 2022, from about 1.9 percent in the same period in 2021, in line with staff projections. Monthly data for November showed an acceleration of tourism receipts and remittances while the trade deficit was about the same. Even if they were used to repay the Eurobond that matured in mid-December (for about US$ 1 billion), international reserves expressed in US dollars have closed 2022 at 32.2 billion, above the staff estimate of 31.8 billion. This mainly reflects valuation changes, given the strong appreciation of the euro against the US dollar over the last quarter of 2022 and the fact that about 60 percent of Morocco's international reserves are in euros.

5. On December 20, 2022, Bank Al-Maghrib (BAM) raised its policy rate by 50bps to 2.5 percent, after the 50 bps increase in September. The Bank cited the need to tighten monetary policy conditions to prevent inflation expectations from becoming de-anchored and preserve price stability. Indeed, 2-year-ahead and 3-year-ahead inflation expectations rose somewhat relative to last September, to 4.8 percent and 2.6 percent, respectively (from 3.7 and 2.2 percent). BAM also revised upward its inflation forecasts for 2022 and 2023 to 6.6 percent (vs 6.3 before) and 3.9 percent (vs 2.4 before), respectively. At 4.2 percent, the average inflation projected for 2024 is higher than staff's (2.5 percent) due to BAM's greater estimated inflationary impact of the removal of gas, wheat, and sugar subsides. Staff will discuss with BAM the methodology it used to assess the impact of the subsidy reform on CPI inflation, and stand ready to change the forecast for 2024 as needed.

6. Morocco's Minister of Finance and BAM signed a memorandum of understanding in November that allowed the Treasury to use the remaining part of the funds withdrawn in 2020 under the Precautionary and Liquidity Line (PLL) arrangement to fund its domestic currency financing needs. The amount corresponds to MAD 21.1 billion (or about US 2 billion at current rates).