IMF Country Report No. 18/75

MOROCCO

March 2018

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

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 2017 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 13, 2017 consideration of the staff report that concluded the Article IV consultation with Morocco
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2017, following discussions that ended on November 7, 2017, 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 November 28, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Morocco.

The document listed below have been or will be separately released.

Selected Issues

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

COMMUNICATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
December 13, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Morocco

On December 13, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Morocco.[1]

Following last year's drought, economic growth has picked up in 2017 and is expected to reach 4.4 percent, mostly driven by a significant rebound in agricultural activity while non-agricultural activity remains subdued. The unemployment rate increased to 10.6 percent in Q3 2017 (year-on-year) while youth unemployment remains high at 29.3 percent. Headline inflation (year-on-year) is expected to decline to 0.6 percent in 2017, reflecting lower food prices.

Following a marked deterioration in 2016, the current account deficit is projected to improve in 2017 to 3.9 percent of GDP. This primarily reflects Morocco's global environment, particularly the stronger recovery in Europe, and strong export growth (6.5 percent), mostly due to the good performance of food product and phosphate and derivatives exports. International reserves are expected to remain comfortable, at about six months of imports.

On the fiscal side, the consolidation process continues and developments as of end-October 2017 were broadly positive. Tax revenues performed better than projected, but grant revenues were lower than anticipated. Public spending on wages and interest payments was below expectations and capital expenditures decelerated (by 2 percent year-on-year).

Banks are well capitalized, and the risks to financial stability are limited. Nonperforming loans remain relatively high but they are closely monitored and are well provisioned. Regulatory limits to reduce credit concentration as well as collaboration with cross-border supervisory bodies to contain risks related to Moroccan banks' expansion in Africa are being strengthened. Morocco's medium-term prospects remain favorable, with growth expected to reach 4.5 percent by 2021. However, risks remain elevated, and relate mainly to growth in advanced and emerging countries, geopolitical tensions in the region, world energy prices, and global financial market volatility. Stronger medium-term growth will hinge on continued implementation of comprehensive reforms regarding labor market efficiency, access to finance, quality of

[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.

education, public spending efficiency, and further improvements to the business environment. Strengthening the social safety nets system will also be crucial to achieve more inclusive growth.

Executive Board Assessment[2]

Executive Directors commended the authorities for the sound macroeconomic policies and reform implementation that have helped improve the resilience of the Moroccan economy, upgrade the fiscal and financial policy frameworks, and increase economic diversification. To consolidate the gains achieved and promote higher and more inclusive growth, Directors underscored the need to maintain sound fiscal and monetary policies and to step up structural reform efforts, supported by measures to strengthen the social safety net.

Directors welcomed the resumption of fiscal consolidation to ensure debt sustainability. They supported efforts to control spending on wages and goods and services to create fiscal space for priority spending in the medium term. Directors agreed that continued fiscal consolidation should benefit from a comprehensive approach to tax reforms, aiming to broaden the tax base and promote greater equity and simplicity. They supported a careful implementation of fiscal decentralization, a comprehensive civil service reform, strengthened state-owned enterprise (SOE) oversight, and steps to improve the targeting of social spending to protect vulnerable segments of the population.

Directors noted that inflation was likely to remain moderate while the accommodative monetary policy allowed for continued credit recovery. Directors supported the authorities' intention to move to a more flexible exchange rate regime and a new monetary policy framework, which will help the economy to absorb external shocks and remain competitive.

Directors noted that the banking sector remains sound and well capitalized, but stressed the need to remain vigilant. They welcomed Bank Al Maghrib's continued efforts to increase supervisory capacity in line with 2015 Financial Sector Assessment Program recommendations, including more risk-based and forward looking supervision and tighter provisioning requirements.

Directors emphasized the importance of sustained implementation of broad-based structural reforms. Continued efforts to strengthen the business environment, including through better governance, improved education and vocational training, will be key to reduce unemployment, especially among the youth, and to increase women's participation in the labor force. Directors looked forward to further progress in implementing the national strategy against corruption and in making the Competition Council operational.

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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 summing up can be found here: http://www.imf.org/external/np/sec/m/qualifiers.htm.

Morocco: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016	Proj. 2017	Proj. 2018
	(Annual percentage change)					
Output and Prices						
Real GDP	4.5	2.7	4.5	1.2	4.4	3.1
Real agriculture GDP	17.2	-2.2	11.9	-12.8	15.2	-1.0
Real non-agriculture GDP	2.9	3.4	3.7	3.1	3.0	3.6
Consumer prices (end of period)	0.4	1.6	0.6	1.8	0.9	1.6
Consumer prices (period average)	1.9	0.4	1.5	1.6	0.6	1.3
	(In percent of GDP)					
Investment and Saving						
Gross capital formation	34.7	32.5	30.8	32.6	33.4	34.5
Of which: Nongovernment	29.6	27.2	25.3	26.9	28.0	29.0
Gross national savings	27.1	26.6	28.7	28.2	29.5	30.8
Of which: Nongovernment	25.6	24.6	25.6	25.0	26.3	27.0
	(In percent of GDP)					
Public Finances						
Revenue	27.8	28.0	26.5	26.1	26.1	26.5
Expenditure	32.9	32.9	30.7	30.2	29.6	29.5
Budget balance	-5.1	-4.8	-4.2	-4.1	-3.5	-3.0
Primary balance (excluding grants)	-3.2	-3.6	-1.9	-2.4	-1.9	-1.3
Cyclically-adjusted primary balance (excl. grants)	-2.9	-3.0	-1.6	-2.2	-1.8	-1.2
Total government debt	61.7	63.3	63.7	64.7	64.3	64.0
	(Annual percentage change; unless otherwise indicated)					
Monetary Sector						
Credit to the economy	3.8	2.5	2.0	4.3	5.7	...
Base money	9.0	6.2	5.7	5.0	6.0	...
Broad money	3.1	6.2	5.7	5.0	6.0	...
Velocity of broad money	0.9	0.9	0.9	0.8	0.8	...
	(In percent of GDP; unless otherwise indicated)					
External Sector						
Exports of goods and services (in U.S. dollars, percentage change)	4.5	7.4	-7.0	2.9	6.5	7.2
Imports of goods and services (in U.S. dollars, percentage change)	4.3	1.0	-16.5	9.6	5.3	6.0
Merchandise trade balance	-20.5	-18.7	-14.5	-17.1	-16.4	-16.0
Current account excluding official transfers	-8.3	-7.6	-2.6	-5.3	-4.8	-4.3
Current account including official transfers	-7.6	-5.9	-2.1	-4.4	-3.9	-3.7
Foreign direct investment	2.8	2.8	2.6	1.6	1.9	2.4
Total external debt	29.3	33.3	33.9	34.6	33.5	33.9
Gross reserves (in billions of U.S. dollars)	19.0	20.5	23.0	25.4	24.8	27.6
In months of next year imports of goods and services	4.6	6.0	6.1	6.4	5.9	6.2
In percent of Fund reserve adequacy metric 1/	74.3	79.9	94.7	99.3	90.3	93.8
Memorandum Items:						
Nominal GDP (in billions of U.S. dollars)	106.8	110.1	101.2	103.6	110.0	117.6
Unemployment rate (in percent)	9.2	9.9	9.7	9.4	5.0	...
Population (millions)	33.4	33.8	34.1	34.5	-0.8	35.2
Population growth (in percent)	1.21	1.17	1.05	1.06	9.3	1.06
Net imports of energy products (in billions of U.S. dollars)	-12.2	-11.0	-6.8	-5.5	34.9	-7.3
Local currency per U.S. dollar (period average)	8.4	8.4	9.8	9.8	...	...
Real effective exchange rate (annual average, percentage change)	1.8	0.0	0.3	2.3	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Based on revised ARA weights.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

November 28, 2017

KEY ISSUES

Context. Growth has recovered and should reach 4.4 percent in 2017, although non-agricultural activity remains subdued. Inflation is low and well-anchored. The fiscal deficit is expected to decline to 3.5 percent in 2017 and public debt is sustainable. The current account deficit is projected to decline moderately and international reserves are at a comfortable level. Job creation has improved, but social tensions have increased in 2017, and much remains to be done to reduce structural unemployment, especially for the young, and to promote higher and more inclusive growth.

Outlook and risks. Growth is expected to increase gradually and reach 4.5 percent over the medium term, assuming sustained reform implementation. Headline inflation should remain low in 2018 and stabilize around 2 percent over the medium term. The fiscal deficit is projected to decline and the external position should continue to improve. However, the outlook remains subject to significant domestic and external risks, including delays in implementing key reforms, weaker-than-expected growth in the euro area, and geopolitical risks in the region.

Policy discussions. Sound macroeconomic policies and reform implementation have improved the resilience of the Moroccan economy in recent years. However, reform implementation has been slow in key areas, such as the exchange rate regime or governance, and needs to be stepped up to reach the government's objectives to consolidate gains in macroeconomic stabilization, achieve higher and more inclusive growth, address unemployment, and reduce inequalities. The discussions focused on: (i) securing fiscal sustainability; (ii) implementing the exchange rate transition; (iii) strengthening financial sector soundness; and, (iv) implementing key structural reforms to promote higher and more inclusive growth.

Approved By
Adnan Mazarei and Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela, Babacar Sarr (all MCD), Andrea Presbitero (SPR), and Virginia Alonso Albarran (FAD). The discussions took place in Rabat and Casablanca during October 25–November 7, 2017. Jihad Azour (MCD) joined the team for the concluding meetings. Gregory Auclair, Geraldine Cruz, and Ravaka Prevost (MCD) assisted in the preparation of the report.

The mission met with the Head of Government Mr. El Othmani, the President of the Chamber of Representatives Mr. El Malki, the Minister of Economy and Finance Mr. Boussaïd, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Minister of Labor and Professional Integration Mr. Yatim, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Daïri (OED) participated in most meetings.

Morocco has not introduced or intensified exchange restrictions, and has not introduced or modified multiple currency practices in line with Article VIII.

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Glossary

ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
EBA	External Balance Assessment
ESI	External Stress Index
FDI	Foreign Direct Investment
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GRA	General Resources Account
G-RAM	Global Risk Assessment Matrix
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PLL	Precautionary and Liquidity Line
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
TA	Technical Assistance
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **Macroeconomic vulnerabilities have been reduced in recent years, but sustained reform efforts are needed to achieve higher and more inclusive growth**. The resilience of the economy and its medium-term growth outlook have improved. The authorities have upgraded the fiscal and financial policy frameworks, and supported economic diversification. However, reform implementation needs to accelerate in key areas such as the exchange rate regime, governance, education, and the labor market. The IMF is supporting the authorities' program through a two-year precautionary and liquidity line (PLL) arrangement approved in July 2016. The arrangement provides insurance against external risks as the authorities aim to strengthen fiscal sustainability, introduce greater exchange rate flexibility, and promote higher and more inclusive growth.

A. Recent Developments

2. **The government appointed in early April 2017 remains committed to implement sound policies, and reforms have resumed.** The government's economic program is in line with that of the previous government, especially on priorities such as fiscal consolidation, exchange rate flexibility, tax reforms, civil service reform, governance and oversight of state owned enterprises, fiscal decentralization, and improvements to the business environment.[1] In addition, increased priority is put on reducing inequality and increasing access to quality health and education services. Following a long pause in reform implementation since October 2016, the new government has taken steps to resume and accelerate some of the above reforms. Furthermore, the strategic coordination, execution, and accountability of reforms has been strengthened with the creation of a national commission placed directly under the authority of the Head of government.

3. **Social tensions increased this year**. These tensions, mostly in the northern region of the Rif, are due to perceptions of corruption and demands for better access to health services, jobs, greater public investment, and more broadly, increased voice and accountability in government. In response, the government took steps to accelerate local social programs and investment projects. Following a report from the *Cour des Comptes* in October 2017 about the situation in the Rif region, the King dismissed several high-level officials, sending a strong signal that accountability in public service delivery will be enforced going forward. Protests have abated in recent weeks, but the situation remains precarious, since addressing the sources of social discontent is likely to take time.

4. **Growth has recovered and should reach 4.4 percent in 2017, but unemployment remains high.** After a sharp slowdown in 2016, growth is expected to pick up in 2017, mostly driven by a significant rebound in agricultural activity, while non-agricultural activity remains subdued. On the demand side, growth has been mainly supported by private consumption, while private investment is recovering gradually following its decline in recent years (from 35.4 percent to 26.9 percent of GDP between 2008 and 2016). Unemployment increased slightly to 10.6 percent in

[1] Key objectives are, by 2021, to: raise economic growth to 4.5-5.5 percent; keep inflation below 2 percent; and reduce public debt to 60 percent of GDP and unemployment to 8.5 percent.

the third quarter of 2017 from 10.4 percent in the same period last year, and remains high among the youth (29.3 percent).

5. Following a pause in fiscal consolidation in 2016, developments have been positive so far in 2017. The deficit in 2016 (4.1 percent of GDP) was almost at the same level as in 2015. This weaker-than-expected outcome was due primarily to a revenue shortfall and accelerated capital spending. As of end-October 2017, tax revenues performed better than projected, but grant revenues (mostly from Gulf countries) were lower than anticipated (32 percent of expected amounts). Public spending on wages and interest payments was below expectations and capital expenditures decelerated (by 2 percent y-o-y).

6. Inflation has declined further and credit growth continues to recover as economic activity is picking up. Inflation is expected to decline to about 0.6 percent in 2017 due to decreasing food prices. Core inflation, however, is estimated at about 1.2 percent in 2017. Bank-Al-Maghrib (BAM) has kept its policy rate unchanged at 2.25 percent since its last reduction in March 2016. Lending and deposit rates have decreased and credit growth is recovering (5.1 percent y-o-y in August 2017) driven by investment lending to public enterprises and household borrowing (mortgage and consumption). Real estate prices have declined gradually in recent years.

7. Following a marked deterioration in 2016, the current account is projected to improve moderately. The current account deficit is expected to reach 3.9 percent of GDP in 2017, a moderate reduction compared to 2016 (4.4 percent of GDP). This improvement is related primarily to Morocco's global environment, particularly the stronger recovery in Europe, and strong export growth (6.5 percent), mostly due to the good performance of food product and phosphate and derivative exports. Imports are also expected to increase rapidly (5.3 percent), mainly because of higher raw material and energy imports, while capital goods imports would stabilize at their 2016 level (as large investment projects in public infrastructure approach completion). Tourism receipts and remittances have remained strong in 2017, and net FDI increased moderately compared to 2016 (reaching 1.9 percent of GDP). The real effective exchange rate has continued to appreciate gradually in 2017.

8. International reserves have recouped part of the losses incurred in May–June 2017. Two months before the expected announcement of the exchange rate transition, the dirham came under pressure as banks and importers hedged against a potential depreciation. International reserves dropped by about US$3.8 billion to US$21.6 billion by end-June, their lowest level in nearly two years. Market confidence was restored in early July, when enforcement of existing foreign exchange controls was tightened and the Head of the government announced that the width of the fluctuation band would be initially of +/-2.5 percent (from +/-0.3 percent currently). While direct investment is expected to be close to 2 percent of GDP, portfolio and other private capital inflows declined at the time of the exchange rate pressures. Thus, at end-September, reserves were at US$24.4 billion and they are projected to reach US$24.8 billion by end-2017, a lower level than initially projected, but still equivalent to a comfortable six months of imports, or 90 percent of the Assessing Reserve Adequacy (ARA) metric (120 percent of the ARA adjusted for capital controls).[2]

9. Banks are well capitalized, but levels of non-performing loans (NPL), credit concentration, and expansion in Africa remain significant risks. Banks' Tier 1 capital ratio was at 13.7 percent at end-June 2017. NPL ratios remain relatively high at 7.9 percent, but provisioning levels are comfortable (70 percent) and increasing. Risks from large credit exposures persist and have increased slightly in 2017 despite strict regulatory limits. The continued expansion of Moroccan banks in Africa (most recently in Egypt) provides diversification and profit opportunities, but is also a channel of risk transmission given the riskier local operating environment and lower regulatory standards in host countries. A national strategy for financial inclusion is currently being developed by the authorities.

B. Outlook and Risks

10. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term. These favorable outcomes are predicated on the sustained implementation of key reforms, including to improve the business environment, boost productivity, and enhance tax revenues.

- **Growth** is expected to slow in 2018 due to a negative base effect following a particularly good agricultural season in 2017, and to reach 4.5 percent over the medium term.

- **Inflation** is projected to increase to 1.3 percent in 2018 (as domestic food prices rise) and to stabilize around 2 percent over the medium term.

- The overall **fiscal deficit** is expected to decline to 3 percent of GDP in 2018 and to stabilize around 2.5 percent of GDP in the medium term, consistent with the authorities' objective of reducing public debt to 60 percent of GDP by 2021.

- The **current account deficit** is expected to decline to 3.7 percent of GDP in 2018 and to about 3 percent of GDP in the medium term, driven primarily by sustained export growth (especially in aeronautics and automotive) and tourism receipts and remittances, which would compensate a drop in official grants (mostly from GCC countries). With continued economic growth and diversification, foreign direct investment is expected to reach 2.6 percent of GDP in the medium term. Reserves are projected to increase steadily and reach 100 percent of the ARA metric by 2022 (about 132 percent of the ARA adjusted for capital controls).

11. The balance of risks remains tilted to the downside (RAM, Table 1). On the domestic front, delays in implementing key fiscal and structural reforms could reduce future fiscal space and contribute to social tensions, and adversely affect the external sector (e.g., through lower tourism

[2] The ARA metric is a measure of reserve adequacy developed by the IMF that aims to balance simplicity and completeness while permitting cross-country comparability.

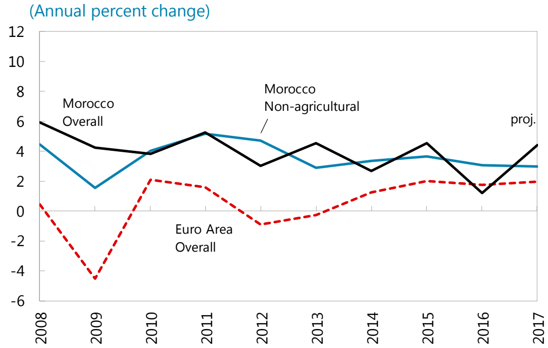
receipts or remittances), and the expected pickup in potential growth. Also, renewed uncertainty regarding the transition to greater exchange rate flexibility could lead to market pressures, potentially weakening the external accounts (e.g., through lower remittances and reserves levels). Externally, weak growth in the euro area could slow economic activity through lower exports, tourism, FDI flows, and remittances, worsening fiscal and external imbalances; geopolitical risks could raise oil prices, reduce tourism activity, and weaken investor confidence; tighter, more volatile financial conditions, global policy uncertainty, and a retreat from cross-border integration could affect global growth, increase borrowing costs, lead to reduced trade and capital flows, and weaken investor confidence more generally. On the upside, lower energy prices would help further narrow external and fiscal imbalances.

12. The authorities broadly agreed with the outlook and characterization of risks in the RAM, but viewed the impact of some of these risks as less severe, including risks of rising nationalism in large economies, fragmentation and security dislocation, and slower than expected pace of reforms. They also noted that there is upside growth potential as economic activity in Europe strengthens and current structural reforms bear fruit and help increase diversification and move up the value chain. They agreed that a higher growth path would require significantly higher gains in productivity. On the external sector assessment (Annex II), the authorities view is that the exchange rate is globally in line with fundamentals.

Figure 1. Morocco: Real Sector Developments

Economic activity recovered in 2017…

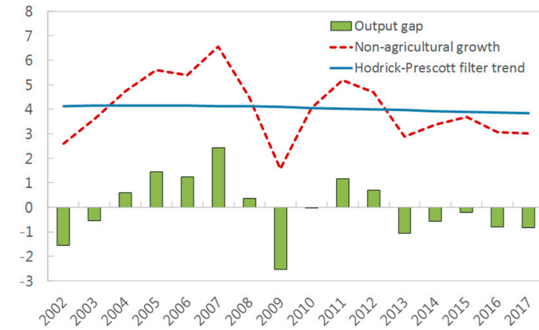
Morocco and Euro Area Growth
(Annual percent change)



Sources: WEO.

…but non-agricultural output remains below potential.

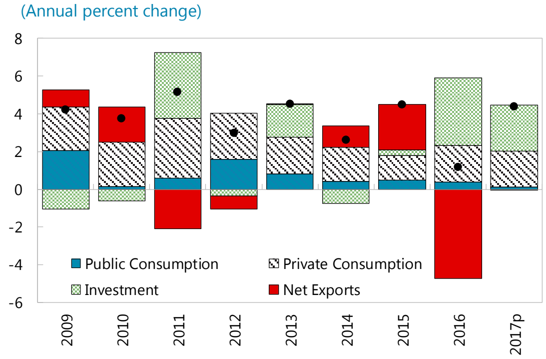
Non-agricultural GDP
(Percent)



Sources: National authorities; and IMF staff estimates.

Domestic demand was a key growth driver in the first half of 2017.

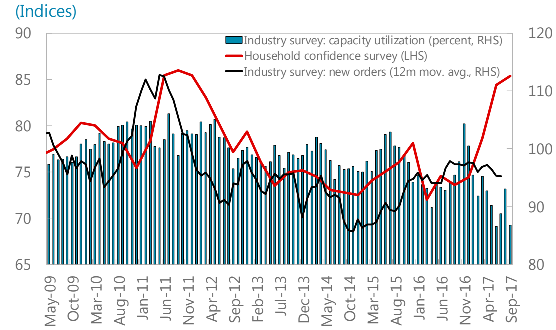
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Household and business surveys confirm stronger activity in the first half of 2017.

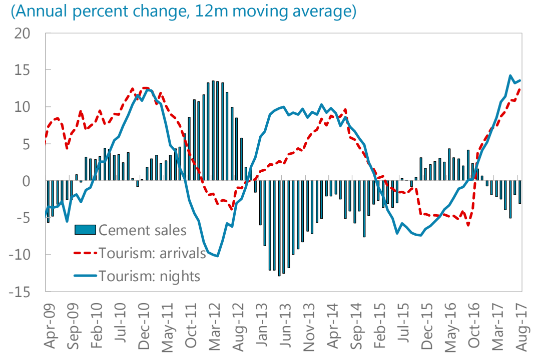
Household and Industry Confidence Surveys
(Indices)



Sources: HCP; and IMF staff estimates.
Note: For the industry survey indices: greater than 100 indicates above average, less than 100 indicates below average.

Other high frequency indicators also point to strong activity in tourism and weak activity in the construction sector.

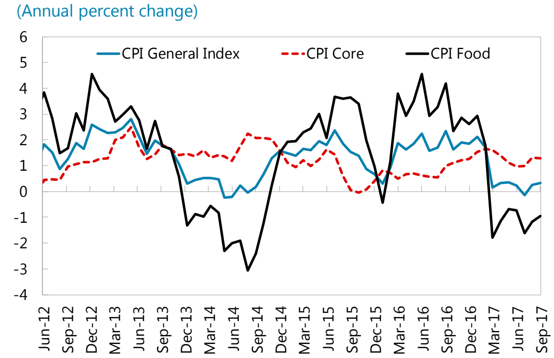
Tourism and Cement Sales
(Annual percent change, 12m moving average)



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

Food prices declined and core inflation remains low.

Inflation
(Annual percent change)

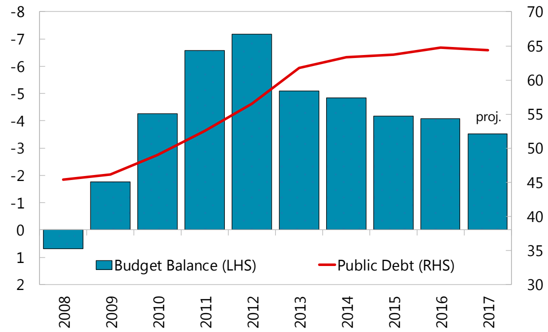


Sources: National authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments

Fiscal consolidation is resuming in 2017.

Budget Balance and Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

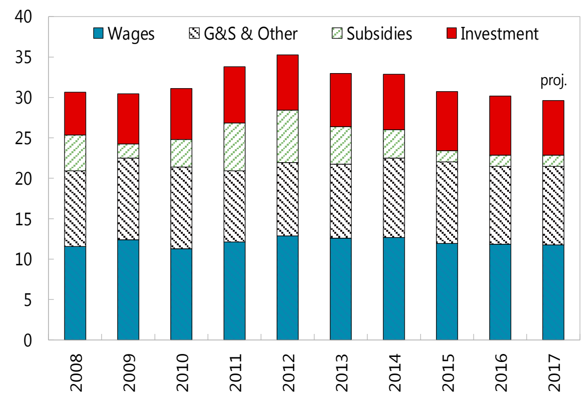
Public revenues remain at a relatively low level.

Government Revenue
(Percent of GDP)

Sources: National authorities; and IMF staff estimates.

Public expendure is well contained.

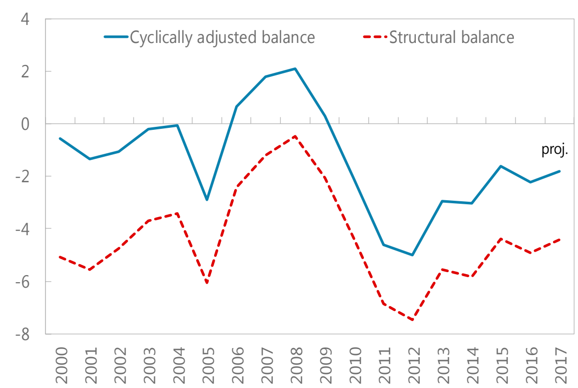
Government Expenditure
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Cyclical and structural fiscal balances have improved.

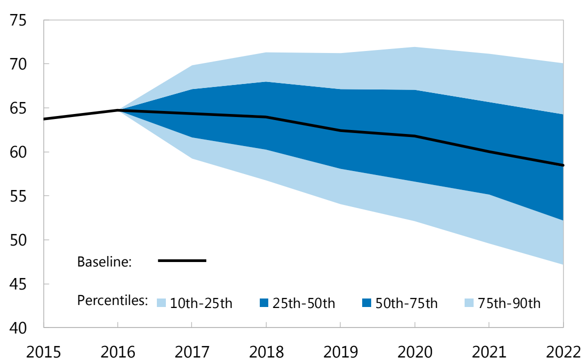
Cyclical and Structural Balance
(Percent of GDP)



Sources: IMF staff estimates.

Public debt is sustainable and projected to decline gradually.

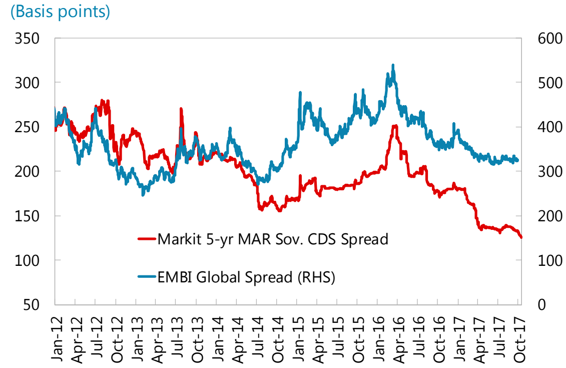
Evolution of Predictive Densities of Gross Public Debt
(Percent of GDP; Symmetric Distribution)



Sources: DSA and IMF staff estimates.

Sovereign spreads have further declined in 2017.

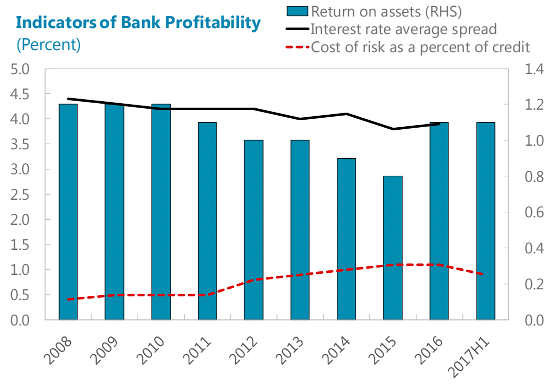
CDS Spreads
(Basis points)



Sources: Bloomberg; Markit.

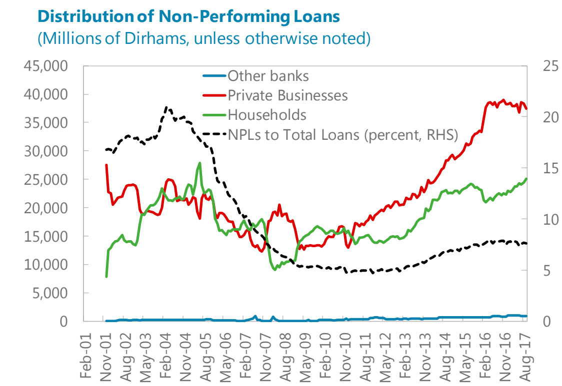
Figure 3. Morocco: Financial Sector Developments

Banks have adequate capital buffers and profitability has been stable.



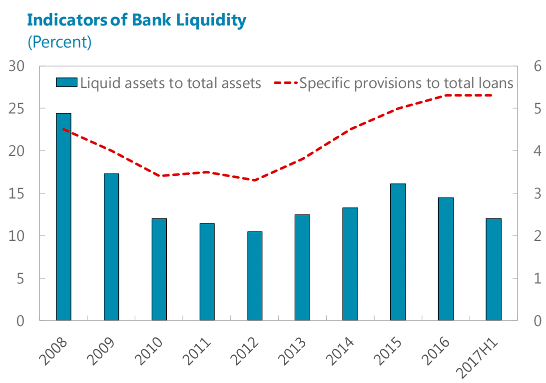
Sources: Bank Al-Maghrib

NPLs remain relatively high, particularly from household loans.



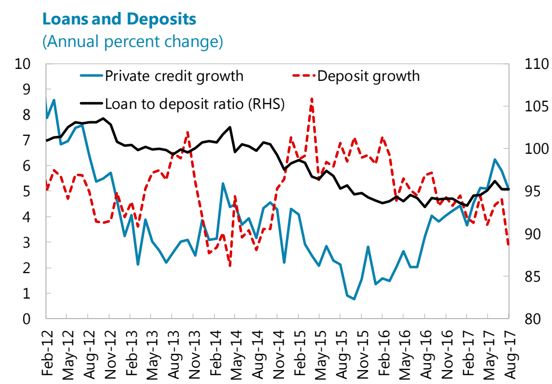
Source: Bank Al-Maghrib.

Provisioning is rising while liquidity conditions have deteriorated…



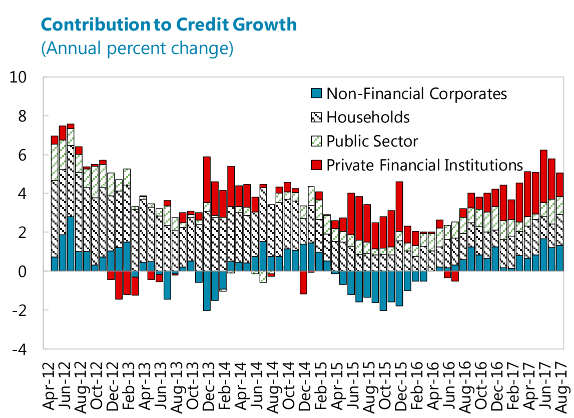
Sources: Bank Al-Maghrib

… but loan to deposits ratios remain low.



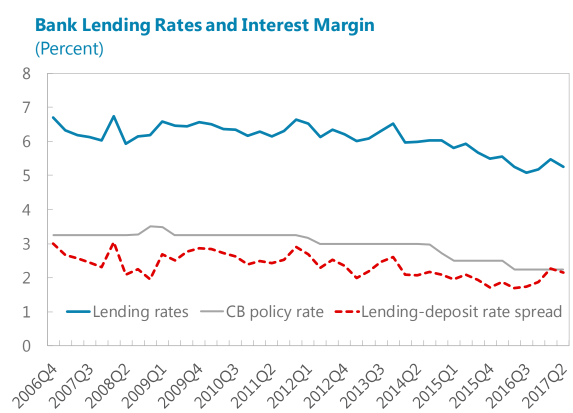
Sources: Bank Al-Maghrib; and IMF staff estimates.

Lending to public enterprises and households is supporting credit growth.



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

Lending rates have declined in line with the policy rate.

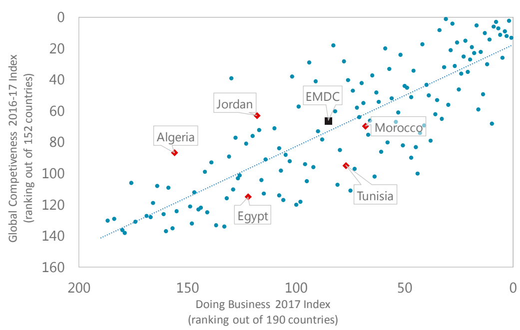


Sources: Bank Al-Maghrib; and IMF staff estimates.

Figure 4. Morocco: Structural Reforms

Morocco fares relatively well at the regional level in terms of overall business climate and competitiveness…

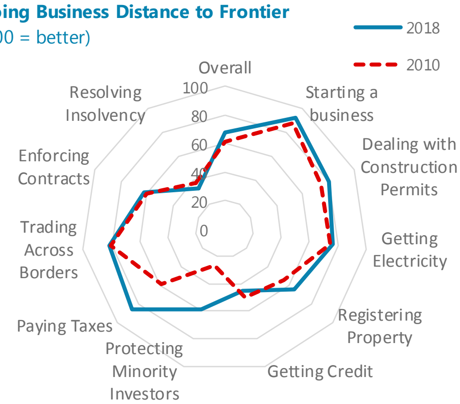
Doing Business vs. Global Competiveness Indices, 2017



Sources: World Bank Doing Business; and World Economic Forum.

…but there is room to further improve business regulations.

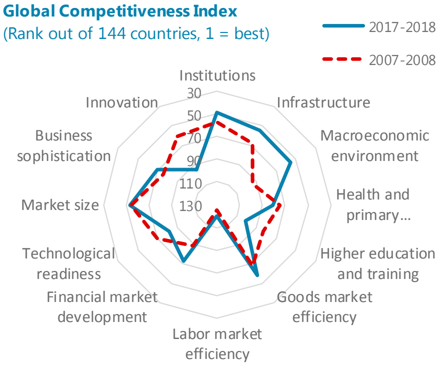
Doing Business Distance to Frontier
(100 = better)



Source: World Bank Doing Business 2018.

Further progress is also needed on education, the functioning of the labor market and financial market development.

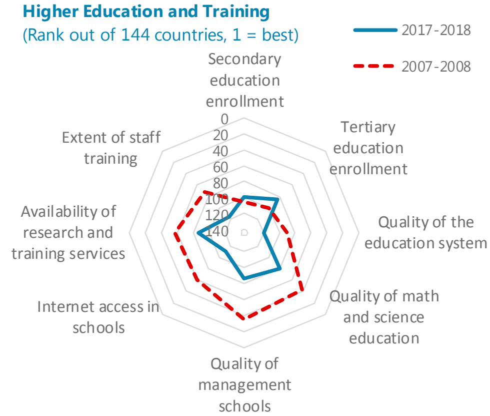
Global Competitiveness Index
(Rank out of 144 countries, 1 = best)



Source: World Economic Forum Global Competitiveness Index (2017-18).

On education, efforts should focus on teacher training, secondary education enrollment and the quality of the educational system.

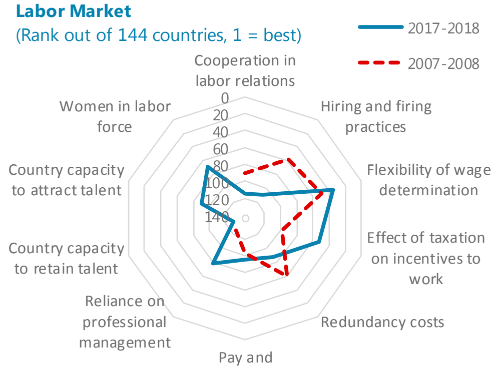
Higher Education and Training
(Rank out of 144 countries, 1 = best)



Source: World Economic Forum Global Competitiveness Index (2017-18).

On labor market, progress is needed to increase women's labor force participation and to reduce regulatory rigidities

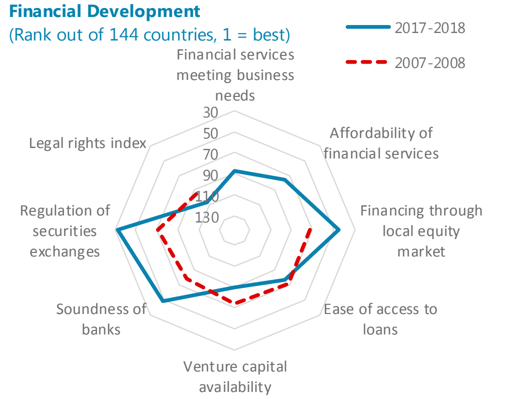
Labor Market
(Rank out of 144 countries, 1 = best)



Source: World Economic Forum Global Competitiveness Index (2017-18).

Progress is also needed to facilitate access to finance.

Financial Development
(Rank out of 144 countries, 1 = best)

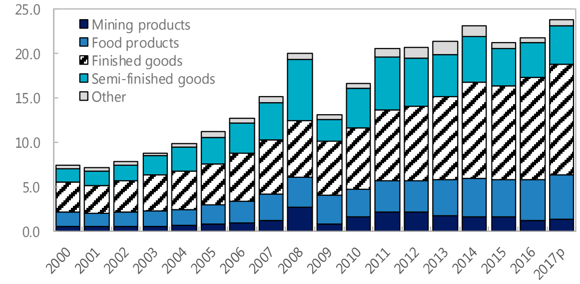


Source: World Economic Forum Global Competitiveness Index (2017-18).

Figure 5. Morocco: External Sector Developments

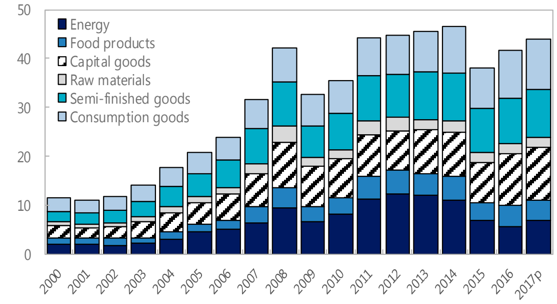
Export growth has been driven by emerging manufacturing sectors…

Exports by Type of Good
(in US$ billions)



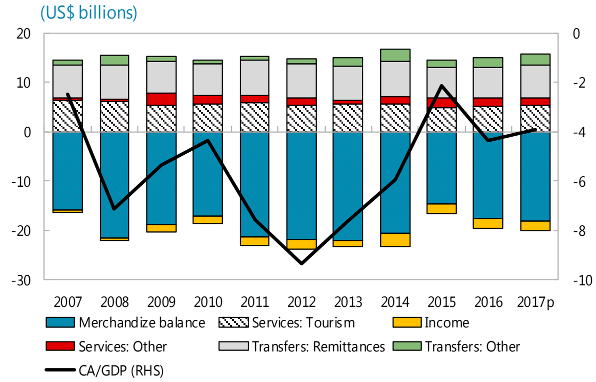
…while energy and raw material imports have also increased

Imports by Type of Good
(in US$ billions)



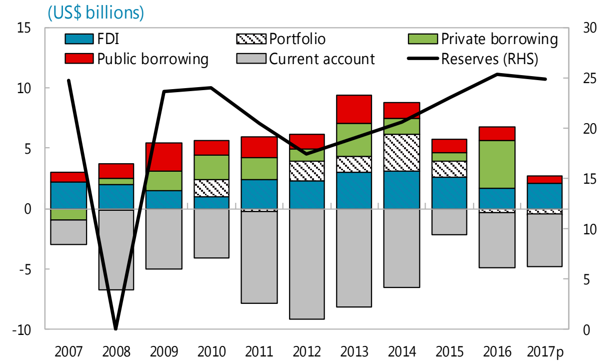
The trade deficit has increased in 2016-17, weakening the current account.

Current Account Components
(US$ billions)



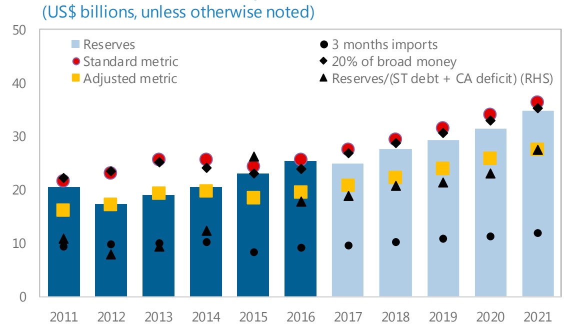
FDI and, recently, private borrowing, play a key role in financing the current account deficit.

Current Account Financing
(US$ billions)



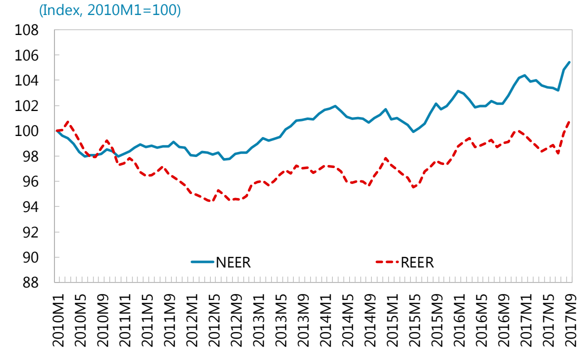
Morocco's reserves coverage is expected to improve in the medium term.

Morocco: Reserve Adequacy Metrics
(US$ billions, unless otherwise noted)



The real effective exchange rate has continued to appreciate moderately in 2017.

Real and Nominal Effective Exchange Rates, 2010-2017
(Index, 2010M1=100)



Sources: National authorities; and IMF staff estimates.

POLICY DISCUSSIONS

13. Building on progress in recent years, the reform momentum needs to be stepped up to cement macroeconomic stability and promote higher and inclusive growth and employment (Annex I). This will require policy action on several fronts:

- Securing fiscal sustainability;
- Implementing the exchange rate transition;
- Strengthening financial sector soundness; and,
- Promoting higher and more inclusive growth.

A. Safeguarding Fiscal Sustainability

14. Gradual fiscal consolidation is resuming despite a shortfall in grant revenues. The fiscal deficit objective of 3.5 percent of GDP for 2017 is expected to be met, including due to strong revenue performance (from both improved tax enforcement and economic activity) and continued efforts to contain current spending (such as wages and goods and services) and offset the expected grants shortfall (up to 0.6 percent of GDP). The cyclically adjusted primary deficit would thus decrease compared to 2016 by 0.4 percent of the GDP. For 2018, the proposed budget continues the consolidation effort, and the deficit is expected to decline further to 3.0 percent of GDP. This would reflect: (i) measures to enhance tax revenues (e.g. VAT rate increases on fuel products and insurance services, which would more than compensate for revenue losses from the introduction of progressive corporate taxation);[3] (ii) continued efforts to contain current spending below budgeted levels; and, (iii) contingency measures to cope with potential grant revenue shortfalls. Staff supported these objectives, which will allow to reduce public debt while preserving growth-friendly expenditures and social programs.

15. Consistent with the authorities' medium-term objective, the debt-to-GDP ratio is expected to start declining in 2017 to 64.3 percent of GDP. Morocco has some fiscal space, reflecting moderate gross financing needs, a balanced composition of debt, and manageable medium and long-term adjustment needs. The debt sustainability analysis (DSA) also shows that public debt, which rose from 47 percent of GDP in 2009 to 64.7 percent of GDP in 2016, remains sustainable, resilient to various shocks, and below the benchmark of 70 percent of GDP for emerging markets (Annex II). Nevertheless, increasing policy space is key to further address growth constraints (see below), while significant fiscal risks remain, related mainly to delays in reforms to raise growth in

[3] The 2018 budget draft bill proposes a shift from proportional to progressive corporate taxation: 10 percent up to 300,000 dirhams, 20 percent between 300.001 and 1,000,000 dirhams, and 31 percent above that.

the medium term. The authorities and staff agreed that gradually reducing public debt to 60 percent of GDP by 2021 would not undermine growth.

16. Accelerated fiscal reforms are needed to bring the fiscal deficit to about 2.2 percent of GDP over the medium term. Building on progress made in recent years in controlling public spending, including through energy subsidy reforms, the new organic budget law, and public pension reform, fiscal consolidation efforts going forward should focus on several key reform areas:

- **Taxation.** Following the 2013 National Conference on Taxation, a consensus emerged to broaden the tax base and make the tax system more equitable and better able to support competitiveness.[4] To facilitate progress in this direction, and based on an analysis of distribution effects of tax reforms, staff recommended a comprehensive strategy aiming to: align reduced VAT rates on manufacturing goods and services with the standard VAT rate; reduce tax exemptions; lower and simplify corporate tax rates; and, raise property tax (Box 1). In parallel, better targeted social programs should help offset the adverse impact on the poor. Such a comprehensive reform, phased in over the medium term, would not affect the business cycle and would be consistent with the projected path of fiscal consolidation. The authorities welcomed staff's analysis and confirmed that they will aim for a more equitable tax system and better targeted social programs (see below).

- **Fiscal decentralization**. While important to improve access to public services, fiscal decentralization and the increasing transfers of public resources to local entities raise fiscal risks. The organic budget law for the regions adopted in June 2015 defines the contours of this process, including by modernizing the institutional framework and reinforcing governance at the local level, where proper capacity and mechanisms are required to ensure sound public financial management. Staff highlighted several priorities going forward: clearly define competences; adopt the *deconcentration charter;* introduce transparent criteria for intergovernmental transfers; mitigate contingent liability risks; and, in the long term, enhance local taxation (Annex III). Staff welcomed the authorities' interest in Fund TA in some of these areas.

- **Civil service.** The authorities intend to keep the public payroll below 10.5 percent of GDP over the medium term so as not to compromise priority spending. In addition, staff stressed the need for a comprehensive civil service reform to generate durable public savings while strengthening the efficiency and quality of public services, including through changes to the civil service statute and public wage structure. The authorities noted that they have already introduced several reforms, such as contractual employment and personnel mobility across ministries, and agreed that a more comprehensive reform will be needed to yield additional public savings.

- **Public enterprises**. The authorities continue to address potential state-owned enterprise (SOE)-related fiscal risks. A draft law to strengthen the governance and oversight of SOEs and to further improve their performance should be submitted to parliament during the current session

[4] See 2016 Article IV consultation report (Box 2) on measures taken since the 2013 National Conference on Taxation.

(ending in February 2018). The authorities are also preparing consolidated SOE balance sheet data. Staff recommended advancing these plans expeditiously.

- **Public investment management**. Morocco allocates a significant share of public spending to investment, but the efficiency of public investment remains low. A joint IMF/World Bank mission conducted a Public Investment Management Assessment (PIMA) in September 2017 and recommended: (i) better coordination in project planning and execution; (ii) legal enhancements to operationalize public-private partnerships; and, (iii) stronger project implementation and risk management capacity (Box 2). The authorities welcomed these recommendations and noted that a dedicated unit has been created to coordinate their implementation.

17. The authorities are about to increase the coverage of public finance statistics from central to general government. They intend to complete this consolidation and produce new fiscal and public debt data in 2018.[5] Staff welcomes the move to the broader coverage, which may imply that the public debt target will be recalibrated in the future, and supports the authorities' efforts, including through the provision of technical assistance.

B. Implementing the Exchange Rate Transition

18. The accommodative monetary policy stance remains adequate. The policy rate has not changed since March 2016 and has supported a nascent credit recovery in 2017, suggesting that monetary transmission is effective. Staff noted that in the baseline scenario, the current monetary policy stance would remain appropriate as long as inflation expectations remain well anchored. Staff supported continued initiatives by the authorities to provide SME credit guarantees and to address potential obstacles to SME credit access.

19. Morocco's economy will benefit from a gradual transition to a more flexible exchange rate regime. This reform, to which the authorities remain committed, will help the economy to absorb external shocks and preserve price competitiveness. Indeed, Morocco's external competitiveness may face challenges in the future from low productivity growth and nominal appreciation relative to competitor economies.[6] The reform will also improve the allocation of productive resources between tradable and non-tradable sectors, and allow BAM to conduct a more domestically oriented monetary policy.

[5] This will entail incorporating third party deposits at the Treasury and netting out intra-governmental claims in public debt data. The incorporation of Treasury deposits (which amount to 3-5 percent of GDP) will address a statistical shortcoming observed by STA in several members, where public sector statistics are gradually being aligned with international standards. With the netting out of intra-governmental claims (especially public debt held by the social security fund), the authorities and staff estimate that the public debt level after consolidation may decline significantly.

[6] See *Morocco: Unit Labor Costs and External Competitiveness* (Country Report No. 17/65).

20. Current conditions remain favorable for the introduction of greater exchange rate flexibility. Although the current account deficit has generally narrowed over the last five years, based on the 2017 external balance assessment (EBA), the current account approach is expected to show a gap of -2.2 percent of GDP above the norm, which suggests a real effective exchange rate (REER) overvaluation, as the external position is weaker than implied by fundamentals and desirable policies. Other methods suggest an undervaluation, but are less reliable for Morocco.[7] Reserves are assessed as adequate based on a range of metrics. Morocco's external debt is relatively low (34.1 percent of GDP) and expected to decline in the medium term. Other pre-conditions remain in place, including: improved fiscal buffers; financial sector resilience; limited currency risk exposures; and a relatively low estimated pass-through of exchange rate movements to consumer prices. The authorities agreed that current conditions continue to offer a window of opportunity to implement the transition in a gradual and orderly manner, and that preparations for the reform have essentially been completed.[8]

21. While the authorities remain committed to this reform, a protracted postponement may introduce uncertainty. The authorities have indicated that they are waiting for the right moment to start the exchange rate transition. Staff recommended starting as soon as possible, which would help reduce uncertainty, demonstrate the strength of the authorities' reform commitment, and pre-empt any further deterioration in the current account or renewed foreign exchange pressures in the period ahead.

22. The adoption of fully-fledged inflation targeting should be envisaged in the later stage of the exchange rate transition. In the meantime, maintaining the current monetary policy regime will help avoid any major conflict between the adoption of a formal inflation target and the existence of a still narrow exchange rate band. Staff and the authorities agreed that restrictions on capital outflows by residents should not be eliminated in the short run, to minimize risks during at least the initial phases of the transition.

C. Strengthening Financial Sector Soundness

23. The financial system is resilient but significant risk exposures remain and the financial sector policy framework should be further strengthened accordingly, in line with the 2015 FSAP recommendations (Table 8). Changes in the financial system, including its increasing complexity, the cross-border expansion of Morocco's banks, and the forthcoming exchange rate flexibility, require continuous improvements in several areas:

- **NPLs.** The authorities are advancing reforms, including: aligning loan classification and provisioning rules with International Financial Reporting Standards (IFRS), and formalizing and

[7] The external sustainability approach suggests an undervaluation, but this estimate is very sensitive to the net foreign assets benchmark used; the REER approach also suggests an undervaluation, however, limitations in the underlying series on the home bias affect the robustness of the estimate.

[8] The Fund has provided extensive technical assistance in this area in recent years, including on: macro-economic modelling; forecasting and policy analysis; communication strategy; legal, institutional and regulatory structures; and foreign exchange market development.

harmonizing the criteria for inclusion in supervisory "watch lists" (associated with tighter provisioning requirements). The new legal framework for collateral execution, which will help accelerate NPL resolution and increase recovery rates, is expected to be approved in early 2018.

- **Concentrated credit exposures**. Further action is needed to reduce such exposures, which have recently increased. Since June 2016, corporate groups are required to prepare consolidated financial statements including all existing debt, and specifying future borrowing plans. In addition, risk weights have been raised for large connected exposures.

- **Supervisory capacity**. Bank supervision is shifting toward a more risk-based and forward-looking approach, including in preparation for increased exchange rate flexibility, and the Fund is providing TA support (e.g., to strengthen internal capital adequacy assessments). New BAM units dedicated to the oversight of systemic banks, cross-country exposures, and bank recovery plans, are now operational.

- **Macro prudential policy.** The new macroprudential framework includes countercyclical capital buffers as a policy tool. Progress is underway to address data gaps for macro-prudential surveillance (e.g., loan-to-value and debt-service-to-income ratios) and to design capital surcharges for systemic banks.

- **Crisis management and bank resolution**. The authorities are pursuing a multi-year initiative to upgrade Morocco's bank resolution framework, consistent with recent FSAP and TA recommendations (including the "least-cost" principle, changes to the deposit guarantee scheme, and bail-in powers). Given the need for a comprehensive overhaul of the legal framework, BAM's designation as the resolution authority will not be introduced in the new central bank law expected to be approved by parliament in 2018—but the new emergency liquidity assistance (ELA) framework will.

- **Cooperation with host-country authorities.** The oversight of Moroccan banks expanding in Africa is being strengthened. Formal arrangements have been established with host-country and regional supervisory bodies (such as at the BCEAO and CEMAC) and supervisory colleges are in place for all the largest banks. Crisis resolution frameworks and supervisory requirements for cross-border activities have also been strengthened, including as regards country and sovereign risk management.

24. AML/CFT framework. The evaluation of Morocco's AML/CFT regime will take place in March 2018 based on the revised Financial Action Task Force (FATF) standard, and the assessment report will be published by the end of the year. The authorities have reviewed the current framework in light of the new standard, and they are strengthening their capacity to assess money laundering and terrorist financing risks. They also continue to improve the availability of beneficial ownership information and to enhance risk-based AML supervision to mitigate cross-border risks, especially in the context of the banking sector's expansion in Africa.

D. Macro-Structural Reforms: Promoting Higher and Inclusive Growth

25. Raising potential growth and reducing unemployment are top priorities for the government that will require accelerated reform implementation. Morocco's total factor productivity (TFP) is low relative to emerging market peers, and the contribution of employment to growth has declined over the last decade despite an increase in the share of the working-age population.[9] Staff's analysis suggests that implementing mutually-reinforcing structural reforms in education, the labor market, and the business environment could significantly increase potential growth over the medium to long-term, while the short-term costs of these reforms, including in terms of output and employment, are limited.[10] The authorities agreed that accelerating reform implementation, especially for education and vocational training, will be key to boost job-rich growth. They noted that reforms will also be better coordinated going forward.

26. Structural transformation across sectors should be encouraged to increase job-creation, aggregate labor productivity, and growth. Such structural transformation has only played a minor role in Morocco's productivity growth compared to faster-growing emerging countries. Staff's analysis shows that institutional factors can weigh on the efficient movement of labor and job creation in high-productivity sectors, including governance, labor regulations, restrictions on trade and openness, and the quality of education, infrastructure, and access to finance.[11] The authorities are pursuing reforms in several of these areas, including to increase women's participation in the labor force. However, more is needed to address rigidities and improve labor allocation, including in the context of the action plan underpinning the 2015–30 National Employment Strategy, which is currently being finalized.

27. Continued improvements to the business environment are needed to support more private sector-led growth. Important efforts have been made in recent years, such as in simplifying administrative procedures for customs transactions, property rights, and enterprise creation, and Morocco's ranking in the *Doing Business* index improved from 128th in 2010 to 68th in 2017. Reform priorities now include: reducing chronic payment delays (which increased last year), facilitating SME access to finance, and strengthening the insolvency regime. Staff also stressed the need to improve governance by implementing the National strategy against corruption (including the criminalization of corruption offenses and enhancements to the asset disclosure regime) and by making the Competition Council operational.[12] The authorities agreed with these priorities and noted that a

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[9] The labor force participation rate was 46.4 percent in 2016, against 51.3 percent in 2006. Female labor force participation is very low at 23.6 percent (2016), reflecting a combination of low education, informality, and social norms. See *Morocco—Implications of Gender Inequality for Growth* (Country Report No. 17/65).

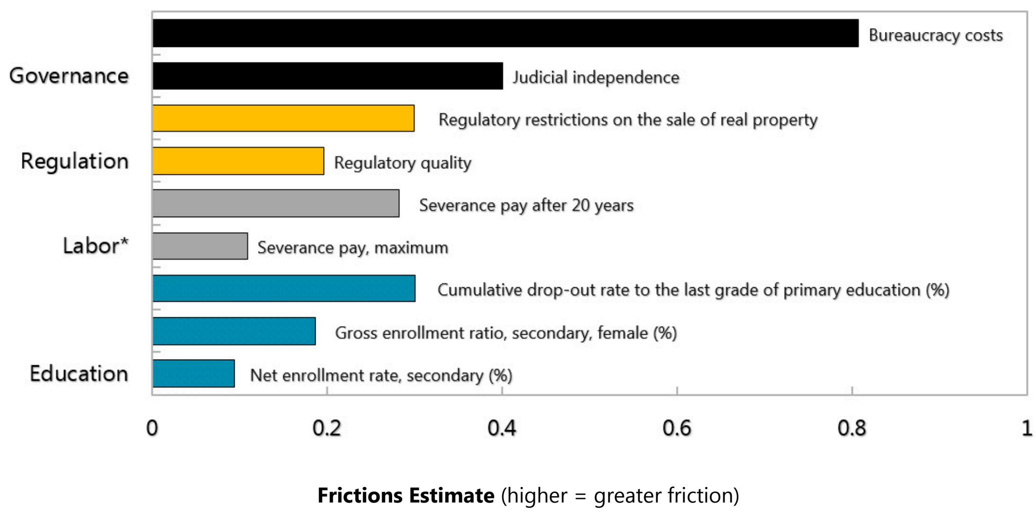
[10] Staff's baseline scenario assumes that ongoing reforms to improve the business environment and access to finance would increase potential growth by about one percentage point in the medium term. However, structural reforms addressing all major growth constraints may increase long-term potential growth by about two percentage points (acknowledging that confidence intervals around these estimates are relatively wide).

[11] See 2017 Selected Issues paper: *Structural Reforms, Sectoral Labor Reallocation, and Job Creation*.

[12] This council was created in 2014 with strong powers to promote competition and reduce rent-seeking, but the appointment of its members has been delayed since then.

status report on the National strategy against corruption would be presented to the Head of Government in December 2017, and that the appointment of Competition Council members was imminent.

Morocco: Key Frictions Affecting Labor Market Reallocation



Source: IMF staff estimates.

28. Better targeting of social programs is key to further reduce poverty and inequalities and limit the risk of mounting social discontent. Existing social programs are large but highly fragmented, and their coordination and evaluation are inadequate.[13] As a result, the social safety net is ineffective, especially in targeting the most vulnerable and the unemployed (Box 3).[14] Better targeting would also help offset any adverse impact of tax reforms (see above). The authorities agreed and are working with international partners to address these shortcomings, including through the development of a social registry. They also noted that the ongoing regionalization is an opportunity to better coordinate and adapt national policies and programs to local needs, address the still large urban-rural gap in poverty rates, and improve access to public services and infrastructure.

[13] Current programs support: education, through conditional cash transfers (*Tayssir*); health (*Ramed*); vulnerable groups (e.g., widows, orphans, and disabled persons); and, the development of local infrastructure and revenue-generating activities (National Initiative for Human Development).

[14] See *Morocco—2017 Systematic Country Diagnostic* (SCD), World Bank, forthcoming.

STAFF APPRAISAL

29. Sound policies have improved the resilience of the economy but further reforms are needed to achieve higher and more inclusive growth. In recent years, domestic and external vulnerabilities have declined as the authorities upgraded the fiscal and financial policy frameworks, and the dynamism of new industrial sectors supported strong export growth. However, unemployment remains high, and reaching the government's objectives requires accelerated reforms. Key priorities are to preserve fiscal space; start the transition to greater exchange rate flexibility; and raise job creation and the growth potential through structural reforms. Recent steps to resume reforms, and to strengthen their coordination, execution and accountability, are welcome.

30. Fiscal reforms should continue to increase policy space and support growth and social spending for the most vulnerable. Building on ongoing progress in fiscal consolidation, this will require: efforts to enhance public revenues, including by broadening the tax base and reducing exemptions and tax evasion; civil service reform to generate long-term savings on public wage spending; careful implementation of fiscal decentralization; and, strengthened state-owned enterprise (SOE) oversight.

31. The conditions for an orderly transition to greater exchange rate flexibility are still favorable and this reform should start as soon as possible. It will help the economy absorb external shocks and remain competitive in the future. It should start gradually and as soon as possible because the economy is in a position of strength and undue delays may introduce uncertainty regarding the authorities' reform commitment and credibility.

32. Continued progress in strengthening financial oversight is important to safeguard financial soundness and support credit and growth. This is particularly relevant given the expansion of Moroccan banks into riskier economic environments and the forthcoming exchange rate reform. Increased supervisory capacity, the move toward more risk-based and forward-looking supervision (including on AML/CFT), and tighter provisioning requirements, in line with the 2015 FSAP recommendations, are welcome. The new central bank law should be adopted soon.

33. On the structural front, reaching higher and more inclusive growth and reducing unemployment will require to accelerate broad-based reforms. Reforms are needed in particular to: strengthen the business environment, including through better governance and reduced corruption, and by making the Competition Council operational without further delay; improve education and vocational training; and stimulate job creation and women's participation in the labor force. In parallel, there is a need to better coordinate and target the various social programs toward the poorest population groups and regions.

34. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

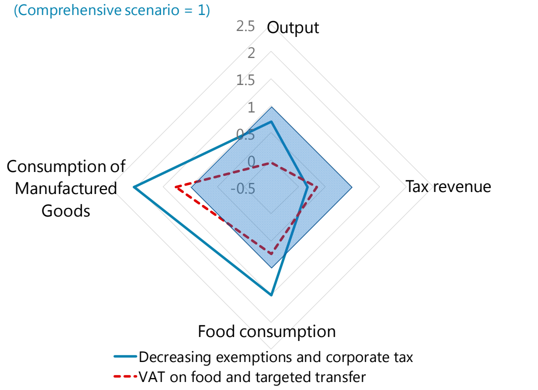
Box 1. Distributional Effects of Tax Reforms[1]

Background. The performance of Morocco's tax system is satisfactory, but there is scope to make it more equitable and less distortive. The tax to GDP ratio has declined in recent years from almost 24 percent of GDP in 2012 to 21.5 percent in 2016, but it remains above the average for middle-income economies. Key features of Morocco's tax system relative to peer countries are: (i) a narrow and skewed tax base, (ii) high tax rates, (iii) a low level of tax expenditure in aggregate (in percentage of GDP) but numerous exemptions that introduce distortions, and (iv) an (untaxed) informal sector employing a large part of labor force. Against this background, staff analysis has aimed to assess the potential effects on growth and distribution of various tax reform scenarios, combined with efforts to better target public transfers.

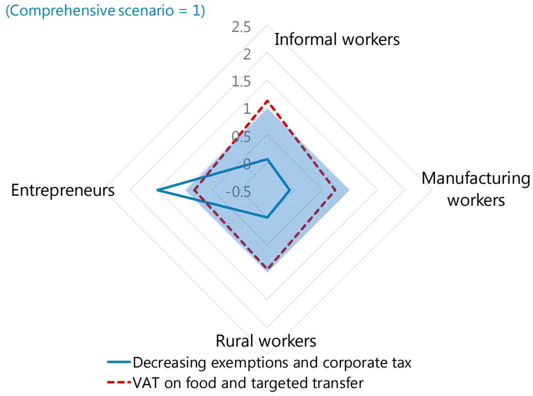
Methodology. Staff built a dynamic stochastic general equilibrium (DSGE) model adapted to Morocco's specificities. Tax reform impacts are assessed using various yardsticks, including distribution effects, tax revenues, long-term growth. The simulations focus on the impact of the following reforms: higher VAT rates and/or the introduction of a property tax; reduced exemptions and corporate tax rates; the introduction of a flat tax; better tax enforcement (especially for the self-employed and liberal professions); and, stronger social safety nets (especially through better targeting).

Main findings. Overall, a comprehensive tax reform strategy could combine several components: aligning the VAT rate on manufacturing goods and services to the standard VAT rate; reducing tax exemptions; raising property tax; and lowering corporate tax rates. Such a comprehensive approach, associated with better targeted social programs, would help broaden the tax base, remove tax distortions, and better distribute the tax burden (e.g., through lower corporate tax rates). The figures below illustrate that relative to partial tax reforms, a comprehensive approach would better mitigate adverse distributional effects (improve welfare) by making the tax system more progressive and reducing inequalities (especially for rural workers); boost growth (by 1 percent); and, enhance government revenue (by 1.8 percent).

Change in Macroeconomic Aggregates Relative to Comprehensive Scenario
(Comprehensive scenario = 1)



Change in Household Welfare Relative to Comprehensive Scenario
(Comprehensive scenario = 1)



[1] See 2017 Selected Issues Paper on *Distributional Effects of Tax Reforms in Morocco*.

Box 2. Public Investment Management Assessment (PIMA)

An FAD PIMA mission visited Rabat in September 2017 and recommended several improvements to Morocco's public investment management (PIM) framework. Public investment in Morocco covers all sectors. 60 percent is realized by state-owned enterprises (SOEs) and 20 percent by local governments (a share that is expected to increase in the coming years as part of ongoing decentralization). Morocco has developed a strong institutional framework for PIM, including robust practices for sectoral investment planning and budget execution. However, shortcomings in the selection, appraisal, and management of investment projects during their implementation, were identified. Key recommendations are to:

- **Reinforce central coordination and project monitoring**. Currently, investment decisions are made based on sectoral priorities, implying that the central government, local governments, and SOEs make investment decisions largely independently from each other. The mission recommended that central oversight currently exercised by the Budget Directorate be reinforced to provide overall strategic guidance and ensure convergence in sectoral priorities, at least for large projects.
- **Design and disseminate common tools and methodologies for central government PIM**. Currently, project appraisal and selection are based on sector-specific methodologies, with some sectors applying more rigorous selection criteria than others. The mission recommended that standardized selection and appraisal tools/criteria be developed and disseminated at all levels of government. In addition, a central public investment database should be introduced to consolidate line ministries' databases and information, and support monitoring.
- **Improve risk management practices**. The mission recommended that the authorities develop a framework for risk analysis and management of investment projects. This would strengthen project implementation, in particular to accommodate necessary adjustments or delays, and help mitigate common difficulties that are not properly assessed and addressed currently, such as land holds.
- **Introduce standardized tools for project implementation to increase investment return and outcomes**. Intra-ministerial circulars defining procedures for large projects, including mandatory milestones over the project cycle, should be adopted. Also, the authorities should disseminate guidance, for each investment category, on how to calculate project costs (maintenance, operating and service costs), and criteria that would trigger a project implementation evaluation. These tools should build on the existing—but fragmented—tools already developed in different ministries.
- **Increase capacity** to support the Ministry of Finance's leading role in PIM and develop homogenous skills across line ministries, SOEs, and the local administration.

Box 3. Improving the Targeting of Morocco's Social Programs[1]

Since 2013, Morocco has shifted from a costly social safety net (SSN) system dominated by regressive subsidies to a more diversified net of programs for the poor and vulnerable populations. In 2013, the country spent about 4.2 percent of GDP on largely regressive subsidies for energy and food products. Amid falling energy prices, the country has eliminated energy subsidies except for liquefied petroleum gas (LPG), a commodity which represents a significant proportion of the consumption basket of the poor. By 2016, the cost of the remaining subsidies (food and LPG) fell to about 1.4 percent of GDP, while spending on non-subsidy SSN programs went up to about 0.4 percent of GDP.[2] With a level of social spending of about 1.8 percent of GDP, Morocco is close to the worldwide median level.

However, the non-subsidy SSN system lacks a coherent strategy, a simple institutional framework, and concentration on few core programs to cover key life-cycle risks. A recent UNICEF study has identified 140 different programs, many of which are small and focused on niche target groups. About 50 different administrations (ministries, departments, institutions, commissions) are in charge of the programs' governance, implementation or financing. Despite such a large number of programs and institutions, the SSN system has significant gaps (e.g., for non-school children or the disabled), while some programs have overlapping mandates (e.g., focusing on the same population subgroups).

Out of multiple social programs, only two (RAMED and DAAM) use a scoring (proxy means test) formula to identify the beneficiaries in addition to community targeting. However, even for these two programs, the targeting accuracy should be improved. For instance, in 2014, only 26 percent of RAMED beneficiaries were from the poorest population quintile, while 45 percent were from the upper three quintiles. Several factors have contributed to the loss of targeting accuracy of RAMED over time, including: (i) the RAMED formula was estimated about eight years ago and has not been updated; and (ii) current eligibility mechanisms gives significant discretion to community councils to include non-poor families in the program.

The government is working to address these deficiencies with World Bank support, including by improving the targeting accuracy of three large social assistance programs (RAMED, Tayssir and DAAM). Applications to these programs will be handled through a new social registry, which will help identify consumption-poor households based on a new scoring formula and the most recent household survey.[3]To maintain targeting accuracy, the authorities intend to update this formula every 2–3 years. Furthermore, the social registry will be coordinated with a new national population registry that will issue a unique ID linked to biometrics, also helping improve the targeting accuracy of these social programs by reducing the number of duplicate or false beneficiaries.

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[1] Box provided by World Bank Staff.

[2] The non-subsidy SSN comprises five types of programs: (i) education support programs, including a conditional cash transfer (Tayssir) and in-kind social programs; (ii) a health waiver program (RAMED); (iii) social programs targeted to vulnerable groups, such as widows (DAAM); (iv) social services for the same vulnerable groups; and, (v) a social fund, mainly to revamp local infrastructure and create revenue-generating activities in poor areas (National Human Development Initiative, or INDH).

[3] The *Haut-Commissariat au Plan* has estimated different scoring models, including a national formula or separate formulae for rural and urban areas, and using various regression approaches. The best model, applied to a target group of 20 percent of the population (i.e., similar in size to RAMED), correctly identifies 61 percent of the people in the poorest quintile.

Table 1. Morocco: Risk Assessment Matrix[1/]

Source of Risk	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Structurally weak growth in key advanced economies.	High	Medium Term	**High.** Weak external demand for Morocco's exports, particularly from the Euro Area, could weaken growth and the external position.	Diversify export composition and markets, implement structural reforms to boost competitiveness. Greater exchange rate flexibility can help absorb external shocks.
Significant slowdown in other large EMs/frontier economies.	Medium	Short Term	**Low.** Whereas direct links to large EMs are limited, low growth in EMs could spill back to Morocco's advanced economy trading partners. Low growth in frontier markets where Moroccan banks are present could pose a risk, for instance through elevated NPLs.	
Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, Africa, and Europe.	High	Short and Medium Term	**High**. Negative sentiment could reduce Morocco's tourism receipts, and impair investor confidence, reducing FDI and other capital inflows. Disruptions in oil production may create upside risks for oil prices.	
Retreat from cross-border integration	Medium	Short and Medium Term	**High**. The policy shifts could reduce the cross-border flow of trade and labor (including remittances), with adverse effect on external sector sustainability, longer-term growth and poverty reduction.	
Tighter global financial conditions, including stronger U.S. dollar and euro	High	Short Term	**Low**. External debt is only about 30 percent of GDP, with long maturities, and foreign portfolio investments are moderate. The effect of surges in the US dollar and euro could harm competitiveness. Foreign exchange exposures in the corporate and banking sectors are limited.	Increase policy responsiveness by building fiscal and external buffers. Greater exchange rate flexibility can help absorb external shocks.
Reduced financial services by global/regional banks (withdrawal of correspondent banking relationship)	High	Medium Term	**Low**. A decline in correspondent banking services could curtail cross-border payments, trade finance, FDI, and remittances, especially vis-à-vis domestic banks. However, most cross-border transactions are denominated in euro, while de-risking is mainly in US$.	Continue to strengthen bank supervision and resolution frameworks; build external and fiscal buffers to increase policy space. Continue to strengthen the AML/CFT framework in line with international standards.
Persistently lower energy prices, driven by stronger-than-expected U.S. shale and/or recovery of oil production in Africa.	Low	Short and Medium Term	**High**. A reduced oil import bill would improve Morocco's external position; lower domestic fuel prices would boost consumption.	Preserve gains from lower oil prices; reduce long term reliance on energy imports.
Slower than expected pace of reforms.	Low	Medium Term	**Medium**. Increase in fiscal vulnerabilities, low potential growth, and potential drop in domestic and foreign investor confidence.	Build consensus on key reforms to reduce vulnerabilities and foster higher, inclusive growth.

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Table 2. Morocco: Selected Economic Indicators 2012–22

						Proj.							
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022
	(Annual percentage change)												
Output and Prices													
Real GDP	3.0	4.5	2.7	4.5	1.2	4.4	4.8	4.4	3.1	4.0	4.2	4.5	4.6
Real agriculture GDP	-9.1	17.2	-2.2	11.9	-12.8	10.8	16.6	15.2	-1.0	6.6	6.4	6.4	6.8
Real non-agriculture GDP	4.7	2.9	3.4	3.7	3.1	3.5	3.3	3.0	3.6	3.7	3.9	4.2	4.3
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.8	1.2	1.1	0.9	1.6	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.6	1.2	0.9	0.6	1.3	2.0	2.0	2.0	2.0
	(In percent of GDP)												
Investment and Saving													
Gross capital formation	35.0	34.7	32.5	30.8	32.6	32.1	33.2	33.4	34.5	35.0	35.4	35.6	36.0
Of which: Nongovernment	29.6	29.6	27.2	25.3	26.9	27.4	27.8	28.0	29.0	29.5	29.7	29.7	29.9
Gross national savings	25.7	27.1	26.6	28.7	28.2	29.8	29.2	29.5	30.8	31.3	32.0	32.6	33.4
Of which: Nongovernment	26.1	25.6	24.6	25.6	25.0	26.7	26.0	26.3	27.0	27.2	27.6	27.6	28.0
	(In percent of GDP)												
Public Finances													
Revenue	28.0	27.8	28.0	26.5	26.1	26.0	25.9	26.1	26.5	26.0	26.0	26.2	26.3
Expenditure	35.2	32.9	32.9	30.7	30.2	29.1	29.4	29.6	29.5	28.8	28.7	28.6	28.5
Budget balance	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Primary balance (excluding grants)	-4.8	-3.2	-3.6	-1.9	-2.4	-1.4	-1.9	-1.9	-1.3	-0.7	-0.5	-0.2	0.0
Cyclically-adjusted primary balance (excl. grants)	-5.0	-2.9	-3.0	-1.6	-2.2	-1.3	-1.8	-1.8	-1.2	-0.7	-0.5	-0.5	-0.6
Total government debt	56.5	61.7	63.3	63.7	64.7	63.8	63.2	64.3	64.0	62.4	61.8	60.0	58.5
	(Annual percentage change; unless otherwise indicated)												
Monetary Sector													
Credit to the economy	4.8	3.8	2.5	2.0	4.3	5.1	5.5	5.7	...	...	...	...	...
Base money	-0.5	9.0	6.2	5.7	5.0	6.0	6.0	6.0	...	...	...	...	...
Broad money	4.5	3.1	6.2	5.7	5.0	6.0	6.0	6.0	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)												
External Sector													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.4	5.1	6.5	7.2	6.5	6.4	6.5	6.1
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	3.9	4.4	5.3	6.0	5.4	5.1	5.2	5.2
Merchandise trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-15.8	-16.4	-16.4	-16.0	-15.6	-15.1	-14.7	-14.4
Current account excluding official transfers	-9.6	-8.3	-7.6	-2.6	-5.3	-3.3	-4.9	-4.8	-4.3	-4.0	-3.5	-3.0	-2.7
Current account including official transfers	-9.3	-7.6	-5.9	-2.1	-4.4	-2.3	-4.0	-3.9	-3.7	-3.7	-3.4	-3.0	-2.6
Foreign direct investment	2.4	2.8	2.8	2.6	1.6	2.1	1.6	1.9	2.4	2.6	2.6	2.6	2.6
Total external debt	28.5	29.3	33.3	33.9	34.6	31.9	33.5	33.5	33.9	32.4	30.9	29.7	28.5
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	25.4	27.6	24.2	24.8	27.6	29.3	31.4	34.7	38.8
In months of next year imports of goods and services	4.3	4.6	6.0	6.1	6.4	6.9	5.9	5.9	6.2	6.3	6.4	6.7	7.8
In percent of Fund reserve adequacy metric 2/	75.6	74.3	79.9	94.7	99.3	101.7	90.1	90.3	93.8	93.2	92.6	95.8	100.1
In percent of CA deficit and ST debt at rem. mat. basis	156.5	188.7	247.5	523.3	355.0	605.7	374.5	379.1	419.3	425.8	459.2	540.4	638.6
Memorandum Items:													
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	110.1	101.2	103.61	106.6	108.6	110.0	117.6	124.8	132.4	140.4	149.0
Nominal GDP per capita (in U.S. dollars, percent change)	-4.2	7.4	1.9	-9.0	1.3	3.9	3.7	5.0	5.8	5.0	5.0	5.0	5.1
Output gap (percentage points of non-agricultural GDP)	0.7	-1.1	-0.6	-0.2	-0.8	...	...	-0.8	-0.2	-0.1	0.1	0.0	0.0
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	9.4	...	...	9.3	...	...	...	...	...
Population (millions)	33.0	33.4	33.8	34.1	34.5	34.2	34.9	34.9	35.2	35.6	36.0	36.3	36.7
Population growth (in percent)	1.22	1.21	1.17	1.05	1.06	0.95	1.06	1.06	1.06	1.04	1.03	1.00	0.98
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.0	-6.8	-5.5	-6.4	-6.4	-6.9	-7.3	-7.4	-7.7	-7.9	-8.0
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3	2.3	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 2nd review under PLL arrangement in EBS/17/79.
2/ Based on revised ARA weights.

Table 3a. Morocco: Budgetary Central Government Finance, 2012–22
(Billions of dirhams)

						Proj.							
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Revenue	237.7	250.0	259.3	262.1	264.9	275.9	278.0	278.3	294.8	305.7	324.6	347.0	371.3
Taxes	202.7	200.7	203.8	208.9	217.4	231.8	232.9	232.9	244.2	261.9	281.0	300.8	322.1
Taxes on income, profits, and capital gains	77.4	75.7	76.3	78.6	83.6	89.1	89.1	90.1	96.8	102.0	109.9	117.4	125.5
Taxes on property	11.6	11.7	13.9	14.1	14.3	15.7	15.7	15.7	15.2	19.5	20.6	21.8	23.0
Taxes on goods and services	99.0	100.0	100.7	102.0	104.2	111.8	112.8	111.8	115.1	125.2	134.4	144.5	155.4
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	9.5	9.3	9.3	9.3	10.0	8.9	9.4	10.0	10.5
Other taxes	5.4	5.2	4.7	6.1	5.9	5.9	6.0	6.0	7.1	6.4	6.7	7.2	7.6
Grants	0.5	6.1	13.8	5.0	9.7	9.8	9.8	10.2	8.1	3.8	1.2	1.2	1.2
Other revenue	34.6	43.2	41.7	48.3	37.9	34.3	35.3	35.3	42.5	40.0	42.4	45.1	48.0
Expense	252.5	250.0	254.5	248.5	249.1	257.2	258.2	258.3	267.0	273.9	286.9	300.8	315.8
Compensation of employees	108.9	112.8	117.3	118.5	120.6	125.2	125.2	125.2	127.3	129.7	132.3	135.0	137.6
Of which: wages and salaries	96.7	99.0	101.6	103.0	104.3	106.7	106.7	106.7	108.9	111.0	113.3	115.6	117.9
social contributions	12.2	13.7	15.7	15.5	16.3	18.5	18.5	18.5	18.5	18.6	19.1	19.4	19.8
Use of goods and services and grants	56.6	59.3	65.0	72.0	70.6	76.1	76.1	76.1	84.2	87.3	97.5	105.3	115.0
Of which: Use of goods and services	20.9	21.5	23.6	25.4	26.6	26.2	26.2	26.2	28.5	30.7	32.4	34.8	37.0
Grants	35.6	37.8	41.4	46.6	43.9	49.9	49.9	49.9	55.7	56.7	65.1	70.6	78.0
Interest	20.7	23.3	25.6	27.3	27.1	27.6	27.5	27.6	27.1	28.7	28.8	30.0	31.7
Subsidies	54.9	41.6	32.6	14.0	14.1	14.6	14.7	14.7	13.7	11.8	10.8	10.6	10.3
Other expenses 2/	11.5	13.0	13.9	16.8	16.8	13.7	14.7	14.8	14.6	16.5	17.5	19.9	21.2
Net acquisition of nonfinancial assets	46.1	45.7	49.7	54.8	57.3	50.8	57.8	57.8	61.1	64.7	71.1	78.2	86.0
Net lending / borrowing (overall balance)	-60.9	-45.7	-44.9	-41.2	-41.5	-32.1	-38.0	-37.7	-33.3	-32.9	-33.4	-32.0	-30.5
Net lending / borrowing (excluding grants)	-61.3	-51.8	-58.7	-46.2	-51.2	-41.9	-47.8	-47.9	-41.4	-36.7	-34.6	-33.2	-31.7
Change in net financial worth	-60.9	-45.7	-44.9	-41.2	-41.5	-32.1	-38.0	-37.7	-33.3	-32.9	-33.4	-32.0	-30.5
Net acquisition of financial assets	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	57.6	45.7	42.4	41.2	40.0	32.1	38.0	37.7	33.3	32.9	33.4	32.0	30.5
Domestic	42.3	30.7	33.1	40.9	37.2	30.0	34.4	34.4	16.1	30.9	21.7	29.2	16.9
Currency and Deposits	3.2	-5.9	17.0	0.7	5.5	-8.0	5.0	2.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	45.6	47.7	20.4	42.9	23.7	22.0	29.4	32.4	15.1	29.9	20.7	28.2	15.9
Other accounts payable	-6.4	-11.1	-4.2	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	15.2	15.0	9.3	0.3	2.8	2.2	3.6	3.3	17.1	2.0	11.8	2.8	13.7
Memorandum Item:													
Total investment (including capital transfers)	57.5	58.7	63.6	71.6	74.1	64.5	72.5	72.5	75.7	81.2	88.5	98.1	107.2
GDP	847.9	897.9	925.4	988.0	1,016.1	1,060.1	1,073.4	1,066.3	1,111.6	1,176.5	1,247.1	1,325.4	1,410.5

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

1/ Refers to the macro framework for the 2nd review under PLL arrangement in EBS/17/79.

2/ Includes capital transfers to public entities.

Table 3b. Morocco: Budgetary Central Government Finance, 2012–22
(Percent of GDP)

										Proj.			
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Revenue	28.0	27.8	28.0	26.5	26.1	26.0	25.9	26.1	26.5	26.0	26.0	26.2	26.3
Taxes	23.9	22.3	22.0	21.1	21.4	21.9	21.7	21.8	22.0	22.3	22.5	22.7	22.8
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.2	8.4	8.3	8.4	8.7	8.7	8.8	8.9	8.9
Taxes on property	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.5	1.4	1.7	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.3	10.3	10.5	10.5	10.5	10.4	10.6	10.8	10.9	11.0
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Other taxes	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.7	1.5	0.5	1.0	0.9	0.9	1.0	0.7	0.3	0.1	0.1	0.1
Other revenue	4.1	4.8	4.5	4.9	3.7	3.2	3.3	3.3	3.8	3.4	3.4	3.4	3.4
Expense	29.8	27.8	27.5	25.2	24.5	24.3	24.1	24.2	24.0	23.3	23.0	22.7	22.4
Compensation of employees	12.8	12.6	12.7	12.0	11.9	11.8	11.7	11.7	11.5	11.0	10.6	10.2	9.8
Of which: wages and salaries	11.4	11.0	11.0	10.4	10.3	10.1	9.9	10.0	9.8	9.4	9.1	8.7	8.4
social contributions	1.4	1.5	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.4
Use of goods and services and grants	6.7	6.6	7.0	7.3	6.9	7.2	7.1	7.1	7.6	7.4	7.8	7.9	8.2
Of which: Use of goods and services	2.5	2.4	2.6	2.6	2.6	2.5	2.4	2.5	2.6	2.6	2.6	2.6	2.6
Grants	4.2	4.2	4.5	4.7	4.3	4.7	4.6	4.7	5.0	4.8	5.2	5.3	5.5
Interest	2.4	2.6	2.8	2.8	2.7	2.6	2.6	2.6	2.4	2.4	2.3	2.3	2.2
Subsidies	6.5	4.6	3.5	1.4	1.4	1.4	1.4	1.4	1.2	1.0	0.9	0.8	0.7
Other expenses 2/	1.4	1.5	1.5	1.7	1.6	1.3	1.4	1.4	1.3	1.4	1.4	1.5	1.5
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.5	5.6	4.8	5.4	5.4	5.5	5.5	5.7	5.9	6.1
Net lending / borrowing (overall balance)	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Net lending / borrowing (excluding grants)	-7.2	-5.8	-6.3	-4.7	-5.0	-4.0	-4.5	-4.5	-3.7	-3.1	-2.8	-2.5	-2.3
Change in net financial worth	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Net acquisition of financial assets	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.8	5.1	4.6	4.2	3.9	3.0	3.5	3.5	3.0	2.8	2.7	2.4	2.2
Domestic	5.0	3.4	3.6	4.1	3.7	2.8	3.2	3.2	1.5	2.6	1.7	2.2	1.2
Currency and Deposits	0.4	-0.7	1.8	0.1	0.5	-0.8	0.5	0.2	0.1	0.1	0.1	0.1	0.1
Securities other than shares	5.4	5.3	2.2	4.3	2.3	2.8	3.2	3.2	1.5	2.6	1.7	2.2	1.2
Other accounts payable	-0.8	-1.2	-0.5	-0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	1.8	1.7	1.0	0.0	0.3	0.2	0.3	0.3	1.5	0.2	0.9	0.2	1.0
Memorandum items:													
Total investment (including capital transfers)	6.8	6.5	6.9	7.2	7.3	6.1	6.8	6.8	6.8	6.9	7.1	7.4	7.6
Total government debt 3/	56.5	61.7	63.3	63.7	64.7	63.8	63.2	64.3	64.0	62.4	61.8	60.0	58.4
Deposits at the Treasury from third parties	5.1	4.9	5.0	5.1	5.5	5.7	5.7	5.7	5.8	5.9	5.6	5.4	5.1

Sources: Ministry of Economy and Finance; and IMF staff estimates.
1/ Refers to the macro framework for the 2nd review under PLL arrangement in EBS/17/79.
2/ Includes capital transfers to public entities.
3/ Does not include deposits at the Treasury from third parties (SOEs, private entities and individuals).

Table 4. Morocco: Balance of Payments, 2012–22
(In billions of US dollars, unless otherwise indicated)

						Proj.							
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Current account	-9.2	-8.1	-6.5	-2.2	-4.5	-2.5	-4.4	-4.3	-4.3	-4.6	-4.6	-4.1	-3.9
Trade balance	-21.9	-21.9	-20.6	-14.7	-17.7	-16.8	-17.8	-18.0	-18.9	-19.4	-20.0	-20.7	-21.4
Exports, f.o.b.	17.0	18.3	20.0	18.6	18.9	20.3	20.3	20.5	21.9	23.4	25.1	26.9	28.7
Food products	3.5	4.0	4.3	4.2	4.5	5.1	4.9	5.0	5.4	5.8	6.2	6.6	7.1
Phosphates and derived products	5.6	4.4	4.6	4.5	4.0	4.1	4.3	4.3	4.6	4.9	5.3	5.7	5.9
Automobiles	2.9	3.7	4.8	5.0	5.6	6.0	5.9	5.9	6.3	7.2	7.9	8.6	9.4
Imports, f.o.b.	-38.9	-40.2	-40.6	-33.3	-36.6	-37.2	-38.1	-38.5	-40.7	-42.9	-45.1	-47.6	-50.1
Energy	-12.4	-12.2	-11.0	-6.8	-5.5	-6.4	-6.8	-6.9	-7.3	-7.4	-7.7	-7.9	-8.0
Capital goods	-8.1	-9.1	-8.8	-8.4	-10.6	-10.8	-12.5	-10.7	-11.4	-12.0	-12.7	-13.4	-14.1
Food products	-4.8	-4.3	-5.0	-3.6	-4.5	-4.8	-4.0	-4.2	-4.4	-4.5	-4.7	-4.8	-4.9
Services	6.9	6.4	7.0	6.8	6.8	7.5	6.7	6.9	7.5	7.9	8.4	9.0	9.6
Tourism receipts	6.7	6.9	7.1	6.3	6.5	6.8	6.8	6.9	7.5	7.9	8.4	9.0	9.5
Income	-1.9	-1.3	-2.7	-1.9	-1.8	-1.9	-1.7	-1.9	-2.0	-2.2	-2.4	-2.5	-2.5
Transfers	7.7	8.7	9.7	7.7	8.2	8.8	8.6	8.7	9.1	9.1	9.4	9.9	10.5
Private transfers (net)	7.4	7.9	7.8	7.2	7.3	7.8	7.6	7.7	8.3	8.8	9.3	9.9	10.4
Workers' remittances	6.7	6.8	7.1	6.1	6.3	6.7	6.6	6.6	7.1	7.5	7.9	8.4	8.9
Official grants (net)	0.2	0.8	1.9	0.5	0.9	1.0	1.0	1.0	0.8	0.4	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	0.0	0.0
Financial account	6.2	9.4	8.8	5.8	6.5	4.5	2.5	2.2	6.9	6.1	6.3	7.1	7.5
Direct investment	2.3	3.0	3.1	2.6	1.7	2.3	1.7	2.1	2.8	3.2	3.5	3.7	3.9
Portfolio investment	1.6	1.3	3.0	1.3	-0.3	0.1	-0.4	-0.5	1.7	0.6	0.6	0.7	0.7
Other	2.2	5.1	2.7	1.8	5.1	2.1	1.3	0.6	2.4	2.3	2.3	2.7	2.8
Private	1.0	2.8	1.3	0.7	3.9	1.4	0.4	0.0	1.6	1.9	2.1	2.4	2.6
Public medium-and long-term loans (net)	1.3	2.4	1.4	1.2	1.2	0.7	0.9	0.6	0.8	0.3	0.2	0.4	0.3
Disbursements	2.9	4.1	3.2	2.8	3.3	2.5	3.2	3.0	2.8	2.4	2.2	2.4	2.2
Amortization	-1.6	-1.8	-1.8	-1.6	-2.1	-1.8	-2.3	-2.4	-2.1	-2.1	-2.1	-2.1	-2.0
Reserve asset accumulation (-increase)	3.3	-1.8	-2.9	-4.3	-2.8	-2.0	1.8	2.1	-2.6	-1.4	-1.8	-3.0	-3.6
Errors and omissions	-0.3	0.5	0.6	0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
							(Percent of GDP)						
Current account	-9.3	-7.6	-5.9	-2.1	-4.4	-2.3	-4.0	-3.9	-3.7	-3.7	-3.4	-3.0	-2.6
Trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-15.8	-16.4	-16.4	-16.0	-15.6	-15.1	-14.7	-14.4
Exports, f.o.b.	17.3	17.1	18.1	18.4	18.2	19.1	18.6	18.6	18.6	18.8	18.9	19.1	19.2
Food products	3.6	3.7	3.9	4.2	4.3	4.8	4.5	4.5	4.6	4.6	4.7	4.7	4.8
Phosphates and derived products	5.7	4.2	4.1	4.5	3.8	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0
Automobiles	3.0	3.5	4.4	4.9	5.4	5.7	5.4	5.3	5.3	5.8	6.0	6.1	6.3
Imports, f.o.b.	-39.6	-37.7	-36.9	-32.9	-35.3	-34.9	-35.1	-35.0	-34.6	-34.4	-34.0	-33.9	-33.6
Energy	-12.6	-11.4	-10.0	-6.7	-5.4	-6.0	-6.2	-6.3	-6.2	-6.0	-5.8	-5.6	-5.4
Capital goods	-8.2	-8.5	-8.0	-8.3	-10.2	-10.1	-11.5	-9.7	-9.7	-9.6	-9.6	-9.5	-9.5
Food products	-4.9	-4.0	-4.5	-3.6	-4.4	-4.5	-3.7	-3.8	-3.7	-3.6	-3.5	-3.4	-3.3
Services	7.1	6.0	6.4	6.7	6.5	7.1	6.1	6.3	6.4	6.3	6.3	6.4	6.5
Tourism receipts	6.8	6.4	6.4	6.2	6.3	6.4	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Income	-1.9	-1.2	-2.4	-1.9	-1.7	-1.8	-1.6	-1.7	-1.7	-1.8	-1.8	-1.7	-1.7
Transfers	7.8	8.1	8.8	7.6	7.9	8.2	7.9	7.9	7.8	7.3	7.1	7.1	7.0
Private transfers (net)	7.6	7.4	7.1	7.1	7.0	7.3	7.0	7.0	7.1	7.0	7.0	7.0	7.0
Workers' remittances	6.9	6.4	6.5	6.1	6.1	6.3	6.1	6.0	6.0	6.0	6.0	6.0	6.0
Official grants (net)	0.2	0.7	1.7	0.5	0.9	1.0	0.9	0.9	0.7	0.3	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	0.0	0.0
Financial account	6.3	8.8	8.0	5.7	6.2	4.2	2.3	2.0	5.9	4.9	4.8	5.1	5.0
Direct investment	2.4	2.8	2.8	2.6	1.6	2.1	1.6	1.9	2.4	2.6	2.6	2.6	2.6
Portfolio investment	1.6	1.3	2.8	1.3	-0.3	0.1	-0.4	-0.4	1.5	0.5	0.4	0.5	0.5
Other	2.3	4.8	2.4	1.8	4.9	2.0	1.2	0.6	2.0	1.8	1.7	2.0	1.9
Private	1.0	2.6	1.2	0.7	3.8	1.3	0.4	0.0	1.4	1.5	1.6	1.7	1.7
Public medium-and long-term loans (net)	1.3	2.2	1.2	1.2	1.1	0.6	0.8	0.6	0.6	0.3	0.1	0.3	0.2
Disbursements	2.9	3.9	2.9	2.8	3.1	2.4	3.0	2.8	2.4	2.0	1.7	1.7	1.5
Amortization	-1.6	-1.7	-1.6	-1.6	-2.0	-1.7	-2.2	-2.2	-1.7	-1.7	-1.6	-1.5	-1.3
Memorandum items:													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.4	5.1	6.5	7.2	6.5	6.4	6.5	6.1
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	3.9	4.4	5.3	6.0	5.4	5.1	5.2	5.2
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.6	-2.6	-5.3	-3.3	-4.9	-4.8	-4.3	-4.0	-3.5	-3.0	-2.7
Terms of trade (percentage change) 2/	-12.5	-12.6	-0.1	7.5	-2.5	-2.7	-0.5	-0.1	0.4	-0.1	-0.1	-0.1	0.0
Gross official reserves 3/	17.4	19.0	20.5	23.0	25.4	27.6	24.2	24.8	27.6	29.3	31.4	34.7	38.8
In months of prospective imports of GNFS	4.3	4.6	6.0	6.1	6.4	6.9	5.9	5.9	6.2	6.3	6.4	6.7	7.8
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	75.6	74.3	79.9	94.7	99.3	101.7	90.1	90.3	93.8	93.2	92.6	95.8	100.1
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	101.6	98.4	104.4	124.3	129.5	133.6	118.8	119.5	124.0	123.3	122.3	126.6	132.3
Debt service (percent of export of GNFS and remittances) 5/	6.5	7.0	6.7	6.9	7.8	8.0	7.9	8.3	7.0	6.9	6.5	6.2	5.7
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.0	30.5	30.7	29.5	29.9	29.9	30.3	28.9	27.4	26.0	24.6
DHs per US$, period average	8.6	8.4	8.4	9.8	9.8	…	…	…	…	…	…	…	…
GDP (US$)	98.3	106.8	110.1	101.2	103.6	106.6	108.6	110.0	117.6	124.8	132.4	140.4	149.0
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	52.4	44.0	53.5	52.9	51.4	51.4	51.9	52.6	53.4	54.6

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

1/ Refers to the macro framework for the 2nd review under PLL arrangement in EBS/17/36.

2/ Based on WEO data for actual and projections.

3/ Excluding the reserve position in the Fund.

4/ Based on revised ARA weights.

5/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–17

	2011	2012	2013	2014	2015	2016	2017
	(Billions of dirhams)						
Net International Reserves	170.0	141.4	146.5	179.6	222.1	249.2	228.7
Of which: Gross reserves	173.2	144.5	153.2	183.3	225.4	253.5	234.6
Deposit money banks	1.7	2.7	-1.5	0.1	8.3	-1.8	25.1
Net domestic assets	777.1	848.6	874.2	904.3	923.4	953.9	1,049.4
Domestic credit	798.3	855.0	906.5	920.1	940.0	971.3	1,014.7
Net claims on the government	102.1	125.4	149.3	143.7	148.0	142.4	139.6
Banking system	102.1	125.4	149.3	143.7	148.0	145.1	139.6
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-1.2	-0.3	-0.1
Of which: deposits	-3.4	-4.5	-4.6	-4.6	-6.0	-4.9	-5.2
Deposit money banks	99.9	124.9	148.5	143.8	149.2	142.6	139.7
Credit to the economy	696.2	729.6	757.2	776.4	792.0	826.2	875.1
Other liabilities, net	23.0	9.0	30.7	15.8	24.9	15.9	-34.7
Broad money	949.3	992.2	1,022.8	1,086.2	1,148.0	1,202.4	1,278.1
Money	586.8	612.2	628.9	660.6	707.1	751.9	800.1
Currency outside banks	158.3	163.6	171.4	179.4	192.6	203.2	213.5
Demand deposits	428.5	448.5	457.6	481.2	514.4	548.6	586.7
Quasi money	340.9	354.7	370.8	390.7	401.7	410.0	426.4
Foreign deposits	21.6	25.3	23.1	35.0	39.3	43.2	51.6
	(Annual percentage change)						
Net International Reserves	-12.8	-16.6	3.5	22.4	23.5	12.1	-9.2
Net domestic assets	12.4	9.2	3.0	3.4	2.1	3.3	10.0
Domestic credit	11.6	7.1	6.0	1.5	2.2	3.3	4.5
Net claims on the government	25.8	22.8	19.0	-3.7	3.0	-1.9	-3.8
Credit to the economy	9.8	4.8	3.8	2.5	2.0	4.3	5.9
Banking credit	10.6	3.9	2.2	2.2	2.8	4.2	5.0
Broad money	6.4	4.5	3.1	6.2	5.7	5.0	6.0
	(Change in percent of broad money)						
Net International Reserves	-2.8	-3.0	0.5	3.3	3.9	2.4	-1.8
Domestic credit	9.3	6.0	5.2	1.3	1.8	2.7	3.6
Net claims on the government	2.3	2.5	2.4	-0.5	0.4	-0.2	-0.5
Credit to the economy	6.9	3.5	2.8	1.9	1.4	3.0	4.1
Other assets net	0.2	1.5	-2.2	1.5	-0.8	0.8	4.2
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.86	0.84	0.83
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.76	0.75	0.73
Credit to economy/GDP (in percent)	84.9	86.0	84.3	83.9	80.2	81.3	82.2
Credit to economy/nonagricultural GDP (in percent	96.7	97.2	96.4	94.0	90.7	91.3	94.0

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

Table 6. Morocco: Financial Soundness Indicators, 2010–17

(Percent, unless otherwise indicated)

							2016				2017	
	2010	2011	2012	2013	2014	2015	Mar	Jun	Sep	Dec	Mar	Jun
Regulatory capital 1/												
Regulatory capital to risk-weighted assets	12.3	11.7	12.3	13.3	13.8	13.7		13.7 (*)	na	14.2	na	13.7
Tier 1 capital to risk weighted assets	9.7	9.6	10.2	11.1	11.6	11.4		11.1 (*)	na	11.5	na	11.0
Capital to assets	8.3	8.1	8.5	8.6	8.8	9.1	9.2	9.4	9.3	9.1	9.1	9.1
Asset quality												
Sectoral distribution of loans to total loans												
Industry	18.4	18.6	18.4	18.6	19.3	18.0	18.9	18.5	18.8	17.8	17.7	17.8
Of which: agro-business	3.8	3.4	3.2	3.6	3.5	3.6	3.7	3.3	3.4	3.1	3.3	3.3
Of which: textile	1.4	1.3	1.2	1.0	0.9	0.8	0.9	0.9	0.9	0.8	0.8	0.8
Of which: gas and electricity	3.9	4.5	4.8	4.7	6.1	6.3	6.5	6.3	6.2	6.2	6.2	6.2
Agriculture	4.1	4.2	4.1	4.1	3.9	4.0	4.3	4.1	4.2	4.0	3.8	3.6
Commerce	6.7	6.6	6.7	6.2	6.6	6.4	6.5	6.7	6.5	6.4	6.3	6.7
Construction	13.3	13.9	12.6	12.4	12.2	10.7	11.5	11.4	11.6	11.2	11.2	11.2
Tourism	2.9	2.8	2.9	2.4	2.4	1.9	2.2	2.1	2.1	1.9	2.0	1.9
Finance	12.1	11.9	11.0	12.7	11.6	13.4	11.1	11.8	11.6	13.1	12.3	13.0
Public administration	5.0	4.8	5.0	5.0	4.7	4.5	4.7	4.9	4.5	4.7	4.8	4.6
Transportation and communication	4.0	4.1	4.0	3.8	3.7	4.2	4.1	4.6	4.4	4.1	4.1	4.8
Households	28.1	27.6	28.9	29.7	31.4	32.3	33.5	32.8	33.3	32.4	33.2	32.4
Other	5.4	5.5	6.4	5.1	4.2	4.6	3.2	3.1	3.0	4.4	4.6	4.0
FX-loans to total loans	2.5	3.5	2.9	2.7	3.9	2.5	2.8	2.6	2.6	2.7	2.7	2.9
Credit to the private sector to total loans	91.0	92.0	91.0	91.0	91.0	91.0	91.0	90.5	90.9	89.5	89.9	89.9
Nonperforming Loans (NPLs) to total loans	4.8	4.8	5.0	5.9	6.9	7.4	7.8	7.7	8.0	7.6	7.8	7.5
Specific provisions to NPLs	70.1	68.7	67.8	64.0	65.0	68.0	67.0	67.0	68.0	69.0	70.0	70.0
NPLs, net of provisions, to Tier 1 capital	12.2	12.9	13.6	16.8	19.2	17.8	18.8	18.4	18.7	17.3	17.5	16.4
Large exposures to Tier 1 capital	336.0	354.0	347.0	327.0	341.0	294.0		302.0	na	297.4	na	318.0
Loans to subsidiaries to total loans	6.1	6.3	5.4	7.2	6.8	7.0	7.4	7.2	5.8	7.8	8.1	8.8
Loans to shareholders to total loans	0.8	1.2	1.0	1.3	1.4	1.7	1.9	1.4	0.7	1.1	1.3	1.0
Specific provisions to total loans	3.4	3.5	3.3	3.8	4.5	5.0	5.3	5.1	5.3	5.3	5.4	5.3
General provisions to total loans	0.2	0.3	0.7	0.7	0.8	0.8	0.9	0.8	0.9	0.9	0.9	0.9
Profitability												
Return on assets (ROA)	1.2	1.1	1.0	1.0	0.9	0.8		1.1	na	1.1	na	1.1
Return on equity (ROE)	14.2	13.4	11.8	10.6	10.2	9.1		11.7	na	11.4	na	11.2
Interest rate average spread (b/w loans and deposits)	4.2	4.2	4.2	4.0	4.1	3.8		3.8	na	3.9	na	na
Interest return on credit	5.7	5.7	5.6	5.5	5.5	5.0		5.0	na	5.0	na	na
Cost of risk as a percent of credit	0.5	0.5	0.8	0.9	1.0	1.1		1.2	na	1.1	na	0.9
Net interest margin to net banking product (NPB) 2/	76.3	75.8	76.5	74.0	68.9	72.0		67.9	na	70.6	na	70.7
Operating expenses to NPB	46.4	47.9	47.5	47.7	46.1	49.1		43.9	na	46.2	na	46.3
Operating expenses to total assets	1.8	1.9	1.8	1.8	1.9	1.9		1.9	na	1.9	na	1.9
Personnel expenses to noninterest expenses	49.1	49.4	49.2	48.4	47.6	47.4		47.6	na	47.5	na	47.3
Trading and other noninterest income to NPB	23.7	24.2	23.4	26.0	30.8	28.0		32.1	na	29.4	na	29.3
Liquidity												
Liquid assets to total assets	12.0	11.4	10.5	12.5	13.3	16.1	14.3	13.0	13.1	14.5	13.5	12.0
Liquid assets to short-term liabilities	16.0	16.1	14.7	17.4	17.7	21.2	18.7	17.1	16.8	18.6	17.1	16.2
Deposits to loans	104.0	99.0	96.1	96.2	100.8	104.3	106.6	105.4	105.0	105.0	105.1	104.2
Deposits of state-owned enterprises to total deposits	5.2	2.9	3.4	2.0	2.5	2.9	2.3	1.9	2.0	2.7	2.0	2.3
Sensitivity to market risk												
FX net open position to Tier 1 Capital	10.3	7.3	7.4	11.3	9.0	7.4		5.6	na	4.1	na	na

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.

Table 7. Morocco: Capacity to Repay Indicators, 2016–22 1/

			Proj.				
	2016	2017	2018	2019	2020	2021	2022
Exposure and repayments (in SDR million)							
GRA credit to Morocco	0.0	0.0	2,504.0	2,504.0	2,504.0	1,565.0	313.0
(In percent of quota)	0.0	0.0	280.0	280.0	280.0	175.0	35.0
Charges due on GRA credit	0.0	0.0	57.3	58.6	58.6	53.2	18.1
Principal due on GRA credit	0.0	0.0	0.0	0.0	0.0	939.0	1,252.0
Debt service due on GRA credit	0.0	0.0	57.3	58.6	58.6	992.2	1,270.1
Debt and debt service ratios							
In percent of GDP							
Total external debt	33.6	34.1	36.9	35.6	34.2	32.2	30.0
Public external debt	29.9	30.4	33.4	32.1	30.9	28.9	26.9
GRA credit to Morocco	0.0	0.0	3.0	2.8	2.7	1.6	0.3
Total external debt service	3.1	3.1	2.8	2.7	2.5	3.3	3.3
Public external debt service	2.0	2.2	1.8	1.7	1.6	2.4	2.5
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.1	1.0	1.2
In percent of gross international reserves							
Total external debt	137.2	151.0	157.2	151.4	144.2	130.1	115.3
Public external debt	122.0	134.9	142.0	136.8	130.2	117.1	103.3
GRA credit to Morocco	0.0	0.0	12.8	12.0	11.2	6.4	1.1
In percent of exports of goods and services							
Total external debt	104.4	112.4	128.8	131.0	133.1	133.5	133.6
Public external debt	92.8	100.4	116.1	118.1	119.9	119.9	119.6
GRA credit to Morocco	0.0	0.0	9.0	8.5	8.0	4.7	0.9
In percent of total external debt							
GRA credit to Morocco	0.0	0.0	7.0	6.5	6.0	3.5	0.7
In percent of public external debt							
GRA credit to Morocco	0.0	0.0	7.8	7.2	6.6	3.9	0.7
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	103.6	110.0	117.6	124.8	132.4	140.4	149.0
Gross international reserves (in billions of U.S. dollars)	25.4	24.8	27.6	29.3	31.4	34.7	38.8
Exports of goods and services (in billions of U.S. dollars)	34.3	36.5	39.1	41.6	44.3	47.2	50.1
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.

1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 280 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Table 8. Morocco: FSAP Key Recommendations—Status as of November 2017

Recommendations	Priority [1/]	Implementation Status
Banking Regulation and Oversight		
Address banking supervisor's capacity constraints; strengthen on-site supervision capacity.	I	In progress. Internal reorganization implemented.
Review loan classification and provisioning rules on a solo basis; conduct an impact study for implementing the relevant IFRS in coordination with tax authorities.	NT	Ongoing impact assessment, the conclusions of which will make it possible to lay down transitional provisions. Circular (19) will be finalized in 2018 after finalizing consultation with industry.
Advance recovery & resolution plans; more frequent comprehensive assessments for SIFIs	I/NT	The circular R&R was examined by the CEC in July 2017. it is in the process of publication in the Gazette. New units dedicated to oversee individual SIFIs since January 2016.
Macro Prudential Oversight		
Clarify the powers, instruments and voting arrangements of the CCSRS.	I	Finalized. The draft decree, taking into account the recommendations of the FSAP mission (clarifying the CCSRS's role in issuing recommendations and following up on implementation ("complain & explain" approach), and its voting arrangements), was adopted by the Government Council in September 2017. This project will be published shortly in the Gazette.
Amend laws governing regulators for capital markets, and insurance and pensions to include financial stability objective.	I/NT	In progress. Legal framework addressing overlap among various regulatory bodies being designed.
Implementation countercyclical buffer; expand data coverage for the risk map; include more targeted sectoral instruments.	NT	Countercyclical buffers introduced in June 2016. Data coverage being expanded, including for real estate risks, household sector data, and payment delays for enterprises.
Emergency Liquidity Assistance (ELA)		
Separate BAM's ELA function clearly from government solvency support.	I	In progress. Amendment included in the draft of Bank Al-Maghrib's Act to be approved in 2018.
Strengthen BAM's recapitalization process; review its profit distribution mechanism.	NT	In progress.

[1/] "I-Immediate" is within one year; "NT-near-term" is one to three years; "MT-medium-term" is three to five years.

Table 8. Morocco: FSAP Key Recommendations—Status as of November 2017 (concluded)

Recommendations	Priority [1/]	Implementation Status
Early Intervention/Bank Resolution Framework		
Define the objectives of banking resolution; incorporate "the least-cost principle"	I	In progress. Comprehensive overhaul of legal framework for banking resolution has been initiated with TA support and with help from legal firm that has been hired in April 2017. Estimated time frame for completion: up to three years, approximately by the end of 2018.
Formalize the hierarchy of creditors' claims; introduce bail-in powers	I/NT	
Designate an explicit bank resolution authority; limit its legal liabilities in this mandate	I/NT	
Deposit Insurance		
Remove any type of open bank assistance via the deposit guarantee fund (DGF).	NT	In progress. Part of above overhaul of legal framework for resolution.
Grant DGF a priority over uninsured depositors and general creditors.	NT	
Financial Market Infrastructures		
Implement guarantee scheme and default handling procedures for securities transactions	I	In progress. A new legal framework should be introduced soon to provide more flexibility in the use of collateral and to reduce costs.
Strengthen BAM's oversight of the payment systems	NT	In progress.
Publish all policies applicable to FMIs and the disclosure framework of the SRBM	NT	
Securities Market Regulation and Oversight		
Apply consistent regulations and supervision to all participants in securities markets	NT	In progress, as part of the ongoing revision of the legal framework for capital markets. Main issue being evaluated is the competencies of different supervisory authorities.
Strengthen enforcement in sanctions and fines imposed on individuals	NT	
Improve valuation of government securities and review valuation rules of mutual funds	NT	
Financial Inclusion		
Establish a well-resourced governance and a robust monitoring and evaluation framework	I	In progress, with GTZ and World Bank assistance.
Improve credit bureau data quality; expand data providers to non-financial institutions	I/NT	In progress. Second credit bureau started operating in November 2017. New services introduced, including enterprise scoring and portfolio surveillance.
Review blanket ceiling on lending rates	NT	Partially done. Still being assessed as part of draft law on micro-credit. Micro-credit institutions already allowed higher-than-ceiling rates according to risk level.

[1/] "I-Immediate" is within one year; "NT-near-term" is one to three years; "MT-medium-term" is three to five years.

Annex I. Implementation of Past Fund Advice

Policy implementation has been broadly in line with past Fund advice, but there is a need to speed up the implementation of key structural reforms.

1. Fiscal policy. The deficit in 2016 (4.1 percent of the GDP) was almost at the same level as in 2015 (4.2 percent of the GDP), higher than the authorities' objective of 3.5 percent of the GDP, but not as the result of major policy shortcomings. In 2017, the authorities are resuming fiscal consolidation, and remain committed to reducing public debt to 60 percent of GDP by 2021. The new organic budget law provisions on making ceiling on wage appropriations binding entered into force in January 2017, and the authorities plan to gradually implement the remaining provisions (including limiting the carryover of investment appropriations, triennial budget and programming) by 2020. The parametric reform of the main public pension plan, approved by the parliament in July 2016, is being implemented.

2. Monetary and exchange rate policy. Inflation remains low and inflation expectations are well-anchored. BAM has kept its main policy interest rate unchanged at 2.25 percent since March 2016. The authorities have been reassessing their plans as regards the timing of the introduction of greater exchange rate flexibility, following a period of strong pressures in foreign exchange markets and reserves losses during May–June 2017.

3. Financial sector policies. Solid progress has been made in upgrading the financial policy framework, including implementing Basel III and FSAP recommendations. Most regulations to implement the new banking law have been introduced, except for the crisis management and bank resolution frameworks. The authorities submitted the new central bank law for parliament approval in 2018.

4. Structural reforms. Morocco has made continued progress to improve the business climate and access to finance, but much remains to be done to significantly raise productivity and potential GDP. Reaching the medium-term government's objectives will require accelerating reforms to facilitate job creation and to improve the quality of education outcomes and vocational training.

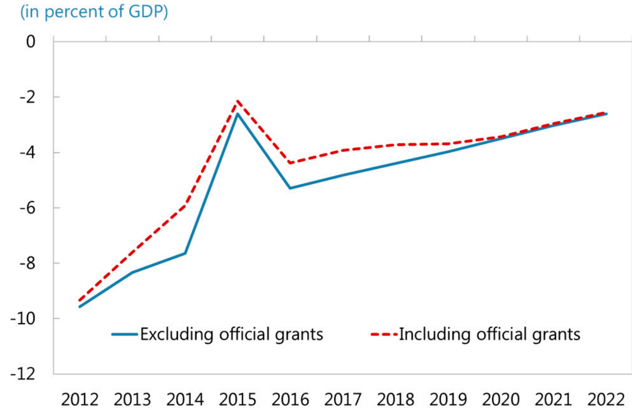
Annex II. External Sector Assessment

Morocco's external position is assessed as weaker than that implied by fundamentals and desired policies. It has worsened since 2015, because of a widening current account deficit (due mainly to higher capital goods imports and negative terms of trade movements) and slower reserve accumulation, due to uncertainties about the transition to a more flexible exchange rate regime. Looking ahead, continued policy action to resolve remaining fiscal imbalances, increased exchange rate flexibility, and structural reform to improve the business climate and boost competitiveness would further bolster buffers and support the economy's resilience.

Current account and exchange rate

1. After a sharp decline in 2016, the current account deficit has moderately improved in 2017. After a sustained improvement between 2012 and 2015—due to favorable oil prices and growth in emerging export sectors, the trade balance significantly deteriorated in 2016 and it is expected to recover moderately in 2017. The worsening of the current account was initially expected to be temporary, and due mainly to higher imports of capital goods and lower export growth, because of negative terms of trade changes. However, the improvement in 2017 is less than initially expected, mostly because of the stabilization of capital goods imports at around the 2016 level in nominal terms. Looking forward, the current account is expected to gradually improve, driven by strong export growth—reflecting strong FDI in the aeronautics and automotive sectors, a slowdown in import growth, and sustained tourism receipts and remittances. These trends would also offset the reduction in official grants expected in 2019–20. Overall, the current account deficit is expected to temporary stabilize in 2019 at 3.7 percent of GDP, and to decrease to 2.6 percent in the medium term.

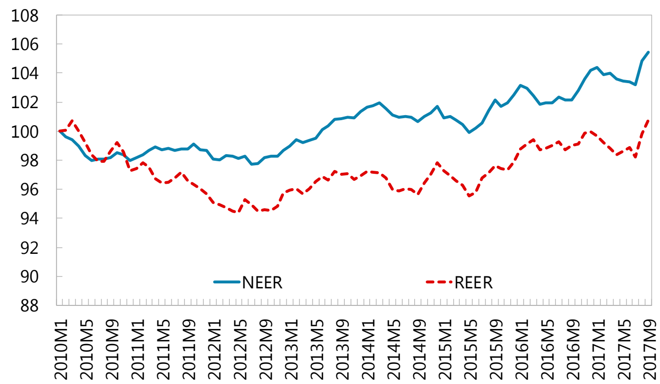
Current Account, 2012-2022
(in percent of GDP)



National Authorities; and IMF Staff Estimates

2. Morocco's current account is characterized by large trade deficits, a tourism-driven surplus in services, and strong remittances. The trade deficit in turn is highly sensitive to external demand, particularly from the Eurozone (2/3 of export market), and the price of oil, of which Morocco is one of the largest net importers. Since 2012, the sharp decline in oil prices has helped shrink the share of oil imports from 28 percent in 2012 to 13.3 percent in 2016, with a slight recover to 15.7 in 2017. At the same time, the composition of exports has gradually shifted toward higher value-added sectors, with automobile exports overtaking the traditional export engines, phosphate and textiles. Tourism receipts, at about 6½ percent of GDP, have remained robust despite low euro area growth, as markets have become more diversified, with an increasing number of tourists from emerging markets (e.g., GCC countries and China) and the United States. In the medium term, further growth in emerging export sectors, a diversification of markets, and structural reform implementation should support a slight narrowing of trade deficit and improvement in the current account.

Real and Nominal Effective Exchange Rates, 2000M1–17M9
(2010=100)



Source: National authorities; and IMF staff estimates.

3. **Starting in 2012, the REER has been appreciating moderately.** The Moroccan dirham, which is pegged to the euro (60 percent of the basket) and US dollar (40 percent), has moderately appreciated in the first ten months of 2017.

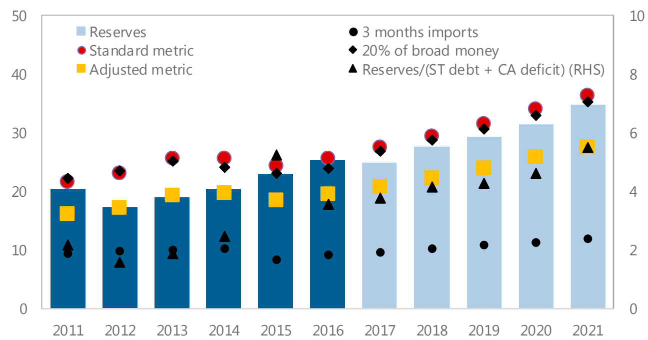
4. **Morocco's external position is weaker than that implied by fundamentals and desired policies.** Based on the IMF's External Balance Assessment (EBA) Methodology, the *current account* (CA) method suggests a current account gap of -2.2 percent of GDP for 2017, down from -3.6 percent in July 2017, which corresponds to an over-valuation of the REER of 7.6 percent. This gap consists of a policy gap of -0.7 percent of GDP, comprising mainly a fiscal policy gap of -0.4 percent of GDP, a health spending gap of -0.3 percent of GDP, a credit gap of 0.4 percent of GDP, and a reserves gap of -1.1 percent of GDP; there is a sizeable residual of -1.6 percent of GDP. Over the medium term, planned fiscal consolidation and the move to exchange rate flexibility should help close the current account gap. The *REER method* suggests an under-evaluation of 1 percent; however, the underlying series on the home bias variable is limited for Morocco, which affects the robustness of the estimate.

CA Model		REER Model	
Actual CA (2017)	-4.0%	ln(REER)	4.61
Cyclically adjusted CA	-4.6%	ln(REER)-Norm	4.62
CA Norm	-2.4%	**REER-Gap**	**-1%**
CA Gap	**-2.2%**	ln(REER)-Fitted	4.60
o/w Policy gap	-0.7	Residual	0.01
Fiscal	*-0.5*	Policy gap	-0.01
Health	*-0.3*		
Reserves	*-1.1*		
Credit	*0.4*		
Capital controls	*0.9*		
Residual	-1.6		
Elasticity	0.29		
REER gap	**7.6%**		
Source: IMF Staff calculations		Source: EBA-lite methodology; IMF Staff calculations	

Capital and financial accounts

5. **A decline in net FDI and lower private capital inflows weakened the financial account.** At about 1.8 percent of GDP in 2016–17, net FDI has declined significantly from the average of 2.6 percent experienced during 2011–15. In the medium term, FDI is expected to recover and reach 2.6 percent of GDP, due to ongoing and expected investments in the aeronautics, chemicals, and automobile sectors. The pick-up, starting in 2018, would reflect strong direct investment inflows (+7 percent compared to 2017) and a reduction of Morocco's direct investment abroad (in line with the historical average). In terms of other financing, both the government and corporates have recently been able to issue bonds in international markets at favorable rates supported by an accommodative global financing environment. The government expects three large sovereign bond issuances between 2018 and 2022, and private portfolio investment and other inflows should continue to contribute to the financing of the current account deficit. While moderately increasing in 2017, external debt is contained at 34.1 percent of GDP and its structure poses limited risks at present (see Figure 6, External Debt Sustainability Assessment).

Reserve Adequacy Metrics
(US$ billion, unless otherwise noted)

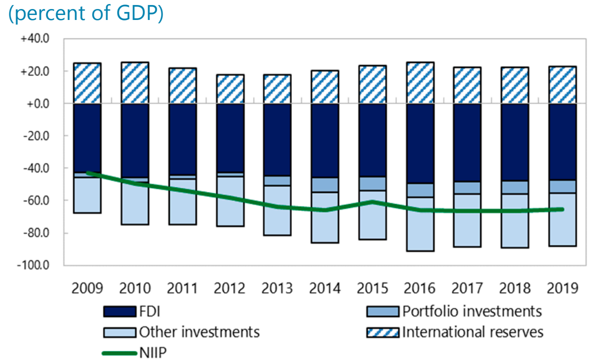


Source: Office des Changes du Maroc; and IMF staff calculations.

Reserves

6. **Morocco's reserves are assessed as adequate based on a range of metrics.** Reserves declined in May–June 2017 (about US$3.8 billion), before the expected start of the exchange rate transition. However, since then, these reserve losses have been partly recouped and reserves are expected to account for a comfortable six months of imports by end-2017, or 90 percent of the standard reserve adequacy metric (against 99 percent in 2016). Looking ahead, as the current account deficit narrows and the financial account improves, reserve coverage is expected to reach 93.5 percent of the standard reserve adequacy metric in 2018 and 100 percent (132 percent of the adjusted metric) in the medium term.

Composition of Net International Investment Position
(percent of GDP)

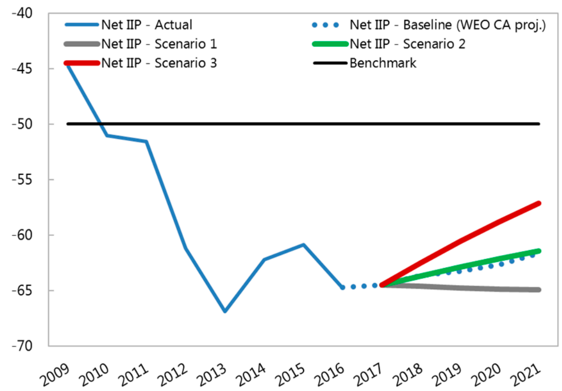


Sources: National authorities; and IMF staff calculations.

External balance sheet

7. Larger current account deficits have worsened Morocco's net international investment position (NIIP). After an improvement in 2015, the NIIP position weakened again in 2016 and 2017, following the same path seen since 2009. The NIIP has moved from -61 percent of GDP in 2015 to about -66.6 percent of GDP in 2017 (due mainly to reduced direct and other investments).

Net IIP: Actual & Projected
(In percent of GDP)



Source: Lane and Milesi-Ferretti's External Wealth of Nations Dataset, IMF WEO.

8. The projected path of the NIIP does not imply external sustainability risks. Morocco's NIIP position is projected to stabilize over the medium term to about -60 percent of GDP, as trade deficits narrow notwithstanding sustained FDI growth. The EBA's external sustainability approach suggests that the projected current account is stronger than the level required to stabilize the IIP, suggesting an REER undervaluation of 5.6, a significant worsening compared to 11.7 percent in April 2016. A current account deficit of 4.2 percent of GDP, weaker than projected in the baseline, would stabilize the IIP at its 2017 level of -66.6 percent of GDP (Scenario 1 below). To maintain the IIP at its ten-year average of about -50 percent of GDP (Scenario 2), a current account deficit of 3.3 percent is required; to reach this level in ten years, the CA deficit would need to strengthen to 2.1 percent of GDP (Scenario 3). While the first two scenarios imply varying degrees of real undervaluation, the last one implies a positive real exchange rate gap. However, these estimates remain sensitive to the choice of base year and NIIP targets.

		CA norm (% of GDP)	Underlying CA (% of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at	-66.6 % of GDP	-4.2	-2.6	1.6	-5.6
Scenario 2: Stabilizing net IIP at	-50.0 % of GDP	-3.3	-2.6	0.7	-2.3
Scenario 3: Reaching net IIP at	-50.0 % of GDP in 2027	-2.1	-2.6	-0.5	1.7

External competitiveness

9. Morocco's external competitiveness has improved since 2000, but some weaknesses in non-price competitiveness persist. The unit labor cost (ULC)-based REER has been on a depreciating trend since 2000 due to relatively low unit labor costs, suggesting gains in Morocco's external competitiveness. Although Morocco's unit labor costs are lower than in its main trading partners and competitors, structural measures to increase labor productivity and improve labor market efficiency would help preserve external competitiveness, irrespective of exchange rate fluctuations. A recent report on investment attractiveness in Africa ranks Morocco first among 25 African countries (it was second in 2016), thanks to good performances in diversification, infrastructure investment and business enablement.[1] This report shows that Morocco attracted the largest number of FDI projects in 2016, second only to South Africa, and better than Egypt, Tunisia and Algeria. Currently, Morocco ranks 71 out of 137 countries in the 2017-2018 World Economic Forum's Global Competitiveness Index, with low scores in higher education and training, innovation, and labor market efficiency, where it performs worse than countries in Middle East and North Africa. According to the 2018 World Bank Ease of Doing Business Indicators, Morocco ranks 69th out of 190 countries, performing better than the regional average (for instance, Tunisia ranks 88th and Egypt 128nd). However, there has not been significant progress in recent years and some weaknesses persist, especially as regards access to credit (where Morocco ranks 105th), and the insolvency framework.

[1] The report ranks 25 African countries per their resilience to macroeconomic pressures, as well as progress being made in critical areas for longer-term development, namely governance, diversification, infrastructure, business enablement and human development (Ernst and Young, 2017).

Annex III. Fiscal Decentralization

Fiscal decentralization is ongoing in Morocco as part of the "advanced regionalization" process that aims to promote economic and social development. To avoid fiscal risks, expenditure responsibilities should be clarified and combined with adequate human and financial resources under a gradual and transparent action plan. Also, governance mechanisms need to continuously adapt to mitigate new sources of subnational fiscal risks, such as contingent liabilities.

1. "**Advanced regionalization" is enshrined in the 2011 Constitution and the 2015 Organic Laws for each government level.**[1] The Constitution gives regions a preeminent role in economic and social development. In 2015, 12 new regions were defined (they were previously 16), and local democratically-elected political structures were successfully introduced. New institutional frameworks are now being introduced through regulations that implement the organic laws.

2. **While a gradual process is appropriate, its scope and pace need to be clearly defined.** This complex process includes not only the devolution of powers to subnational governments (decentralization), but also the restructuring of the central government with effective delegation (deconcentration). The pace of the devolution process should be conditioned by capacity at the subnational level, to ensure efficient expenditure and tax management, and by changes to decision-making powers. Within a progressive approach, a clear definition of the scope and sequence of devolution would help build expectations and the needed human and financial capacities, which is essential to avoid fiscal stability risks.

Managing fiscal risks associated with decentralization

3. **Fiscal risks commonly emerge in decentralization reforms.** International experience shows that the risk of weakening fiscal discipline is embedded in the process if some preconditions are not met.[2] As expenditure pressures emerge and elected governments are accountable for their programs, a lack of adequate financial and human resources may lead to lower quality of service provision, to circumvent controls by means of state-owned enterprises (SOE) and other off-budget units, and to inadequate borrowing conditions or accumulation of arrears. To mitigate these risks a comprehensive fiscal decentralization strategy should be in place, combining clear spending responsibilities with intergovernmental transfers (grants, shared taxes), and own revenues sufficient to finance those needs, based on adequate human resources.[3]

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[1] Subnational governments consist of the regions, provinces and municipalities.

[2] See *Macro Policy Lessons for a Sound Design of Fiscal Decentralization,* Fiscal Affairs Department, IMF, 2009; and *Fiscal Federalism in Theory and Practice,* Ter-Minassian, IMF, 1997.

[3] In a speech to Parliament, on October 13, 2017, King Mohammed VI emphasized the need to combine competence transfers with qualified human resources and sufficient financial means.

4. Morocco has introduced key institutional changes to manage these risks, but continued efforts are needed. Key steps were the 2015 Organic Budget Law and the Organic Laws for each subnational level. These laws establish key mechanisms to extend competences and good governance as cornerstone of the fiscal decentralization process. By November 2017, most implementation decrees had been approved (69 on total) and a few were being finalized.[4]

Expenditure

5. Expenditure competences are not yet clearly defined by levels of government. Some own competences are clear but other transferred or shared competences are more discretionary. Efficiency can be increased by reinforcing the responsibility of government levels that are closer to citizens (subsidiarity) and by having the deconcentrated central government act in parallel or in partnership with subnational governments. Key examples are in health and education, where loopholes in the delineation of roles have been filled asymmetrically by local governments, putting pressure on resources, and potentially through borrowing. Delimitation of expenditure responsibilities should help define resource and capacity needs by levels. The government is currently working on a deconcentration chart to that effect. Special attention should be given to coordination within levels, including by regrouping ministries by sectors and avoiding overlaps.

Revenues

6. Financial resources should match potential responsibilities. International experience shows that fiscal discipline is better ensured when subnational governments have tax powers, which commonly are own taxes, shares or surcharges over general taxes collected in their territories. In Morocco, the share of subnational governments in total revenues was 15 percent in 2016 (own taxes representing 35 percent of subnational revenues), while their share in total investment and other spending was 16 and 10 percent, respectively. As spending responsibilities increase, subnational revenue capacity will also need to grow. However, the current own taxation potential is low, with tax collection and part of tax policy dependent on the central government.[5]

7. Distribution mechanisms are an important component of the decentralization process. Transfers from the central to subnational levels may correct both (i) vertical imbalances between devolved spending responsibilities and the (usually low) own taxation capacity, and (ii) horizontal imbalances among subnational governments. They can be unconditional or conditional transfers, but they need to be transparent and predictable. In Morocco, intergovernmental transfers (share of general taxes) to regions incorporate criteria based on population and surface, and consider some non-observable criteria related to fiscal effort and potential. These criteria entail a discretionary

[4] http://www.pncl.gov.ma/fr/News/Alaune/Pages/default.aspx; http://www.pncl.gov.ma/fr/Publication/regle/Pages/loi-organique-relative-%C3%A0-la-r%C3%A9gion-.aspx.

[5] The local taxation law dates back to 2007 (http://www.pncl.gov.ma/fr/Publication/regle/Pages/fiscalit%C3%A9-des-collectivit%C3%A9s-locales.aspx). Dysfunctionalities exist between regional and local levels, with the regional level more dependent on central government transfers (only 18 percent of regional revenue comes from own taxes).

component and need to be updated. The 2015 Organic Law for the regions also envisaged the creation of an equalization fund and a solidarity fund for redistribution purposes, which are expected to take into account social and development indicators.

Local capacity

8. Building up human capacity is essential for successful decentralization. Accelerating the devolution of powers without adequate local capacity to carry out the new functions represents a core risk for expenditure efficiency and quality, and for local tax administration and collection. In Morocco, the decentralization process appropriately allows for a gradual build up in human resources. However, there still is a need to better define the scope for future resource needs and civil service incentives while preserving fiscal discipline. A new statute for the civil service is being considered and the deconcentration chart is expected to include new incentives (e.g., for mobility).

Public financial management

9. Public Financial Management (PFM) institutions at the subnational level protect fiscal discipline. This is commonly achieved through PFM and surveillance mechanisms such as Fiscal Responsibility Laws. In the case of Morocco, the 2015 Organic Budget Law set procedural rules that were transposed to the subnational Organic Laws. Tight controls are in place through the tutelage of the Interior Ministry, and the Cour des Comptes exerts external control. In particular, recent regulations provide for multiannual expenditure frameworks, quarterly reporting, harmonized budget classification, and program and performance budgeting that will allow for targeted monitoring. Public investment management is also expected to improve, which is a major task for subnational governments, including for accountability purposes.

10. Contingent liability risks increase in decentralization processes. Regional and local governments are generally subject to strong pressures to invest and may use tools that allow for flexibility in circumventing surveillance mechanisms. These include certain public-private partnerships (PPPs), guarantees, SOEs, or agencies that are commonly off-budget. In the case of Morocco, the Regional Development Plans envisage an increase in overall investment that is expected to be financed by PPPs, concessions, development societies, guarantees, and bank lending.[6] These entail contingent liabilities and fiscal risks that will need to be limited.

11. Potential fiscal risks also arise from borrowing pressures. Loans to local governments in Morocco used to be provided only by the FEC (a national fund to support regional equipment) and under strict controls. The new Organic Laws have opened other borrowing channels. International experience shows that subnational borrowing is a source of fiscal risk and strict controls are needed. For instance, debt ceilings are useful to anchor discipline, while foreign bank lending and market issuance are not recommended when capacity is weak. Also, in some countries prudential

[6] To date, eight regional development plans have been presented with an annual average investment level of 4.5 percent of GDP. Transfers to the regions have increased and are expected to reach 10 billion dirhams by 2021 (1 percent of GDP). Subnational government expenditures currently amount to about 3.5 percent of GDP.

regulations are used to limit the cost of bank lending to regions and municipalities. Decrees related to subnational borrowing practices are currently in preparation and should address these risks.

Policy issues

Short-term priorities (2017–18)

- **Define clearly the competences of each government level**: Map competences to levels of provision; identify gaps; and quantify cost of public services provision.
- **Deconcentrate powers**: Approve and implement the deconcentration chart, extending it to off-budget units (*établissements publics*) and improve coordination.
- **Build capacity as a precondition for increasing revenue transfers and own taxation**, including through civil service reform and incentives for fiscal discipline.
- **Establish transparent criteria for revenue-sharing transfers and the new solidarity and equalization funds**: Provide the methodologies and a timetable for revenue transfers.
- **Reinforce controls on borrowing and contingent liabilities**: Establish limits, reporting obligations and controls over off-budget units, SOEs, development societies, PPPs and implicit guarantees.

Longer term issues

- **Establish program and performance-based budgeting**: Prepare integrated information systems at subnational levels, including performance indicators.
- **Elaborate sound data by regions**: Regional indicators should be used for access to the solidarity and equalization funds, and for performance-based budgeting.
- **Revise local and regional taxation**: Enhance own taxation powers (tax policy) and revenue administration incentives and cadaster.
- **Establish a monitoring and evaluation system for public policies**. To evaluate the results and monitor the impact of policies and programs at the regional level.
- **Improve the Public Investment Management cycle including at the regional and local levels**. Reinforce planning, coordination, evaluation, selection, project management and monitoring of public investment at subnational levels.

Annex IV. Public Debt Sustainability Analysis (DSA)

Morocco's public debt remains sustainable. While the gross debt-to-GDP ratio declined between 2000 and 2010, external shocks and domestic factors have caused the ratio to rise again since then. Nevertheless, at about 64.7 percent of GDP at the end of 2016, public debt remains sustainable, and the DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear to be moderate for the most part. Gross financing needs (mainly linked to the rollover of existing debt) have exceeded the benchmark of 15 percent of GDP in 2014, but are now declining, further mitigating rollover risks.

1. **This DSA updates the analysis conducted at the 2016 Article IV Consultation.** The overall analysis is largely unchanged, and public debt remains sustainable. A slight revision to the real GDP growth projections for 2018–22 has not affected the debt to GDP ratio significantly given that the authorities resumed fiscal consolidation in 2017, plan to finance a small portion of fiscal deficits through deposits, and intend to put the debt to GDP ratio on a downward path over the medium term.

2. **After declining in the previous decade, Morocco's public debt to GDP ratio started rising in 2010 following a deterioration in its macroeconomic performance.** Rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 64.7 percent in 2016. About half of this increase occurred in 2012, when the economy was most affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices, and the authorities encountered difficulties in containing the fiscal deficit. The increase in public debt to GDP over the past three years has been mostly driven by the levels of the primary deficit and higher-than-expected real interest rate/growth differential. However, the authorities' ongoing fiscal consolidation efforts are expected to help bring the debt ratio down to at most 60 percent of GDP by 2021.

3. **Public debt is generally resilient to shocks, but there are residual risks linked to financing needs and, to a lesser extent, to shocks to growth and the primary balance (heat map).** Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts, aimed at lowering the overall deficit to about 2.1 percent of GDP in the medium term, do not appear exceptional relative to the distribution of other country cases. The debt level remains well below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance where it slightly approaches the benchmark. Vulnerabilities linked to the profile of debt are mostly moderate and short-term debt on downward path in recent years represents a very small part of the total debt (about 3 percent at end-2016). Relevant indicators exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (chart). Gross financing needs, which exceeded the benchmark of 15 percent in 2014, declined under that benchmark in 2015, and are expected to continue declining over the medium term due to a lengthening of average maturities through improved debt management. Although gross financing

needs could increase under the shock scenario, the nature of the investment base (mostly local investors, many of whom are long-term investors) mitigates the associated risks. Nonetheless, these risks highlight the importance of continuing the path of fiscal consolidation to reduce debt-financed deficits, and of carefully managing the maturity profile of public debt.

External Debt Sustainability

4. Risks to external debt sustainability are contained. Morocco's external debt to GDP is projected to increase slightly to 34.1 percent of GDP in 2017 due mainly to the widening current account deficit. However, external debt is expected to decline below 30 percent of GDP in the medium term due mainly to steady GDP growth, improving current account, as well as strong FDI inflows reducing the need for external borrowing. The structure of external debt entails limited vulnerabilities: 75 percent is owed to official bilateral and multilateral creditors with long maturities, and about 75 percent carries fixed-rate terms. The external debt position remains resilient to a range of shocks (Figure 6); in the event of a large depreciation, external debt is projected to reach 50 percent in 2018 and increase from 30 to 44 percent of GDP by 2021.

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

(In percent of GDP, unless otherwise indicated)

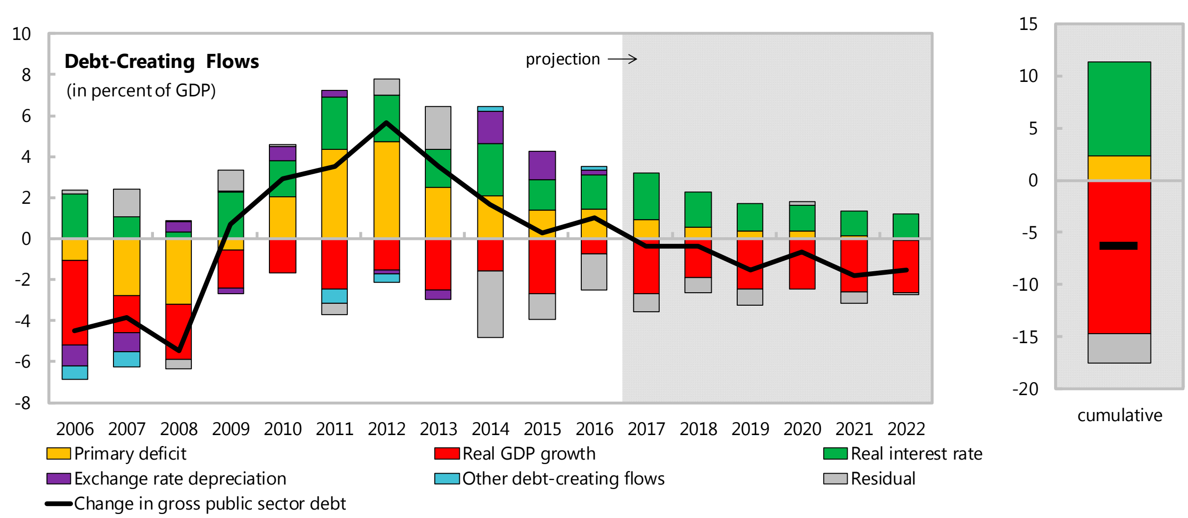
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2006-2014 [2]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	53.6	63.7	64.7	64.3	64.0	62.4	61.8	60.0	58.5
Public gross financing needs	13.7	13.4	10.4	10.1	11.9	11.2	9.7	9.3	7.9
Real GDP growth (in percent)	4.5	4.5	1.2	4.4	3.1	4.0	4.2	4.5	4.6
Inflation (GDP deflator, in percent)	1.4	2.1	1.6	0.5	1.1	1.7	1.7	1.8	1.7
Nominal GDP growth (in percent)	5.9	6.8	2.8	4.9	4.2	5.8	6.0	6.3	6.4
Effective interest rate (in percent) [4]	5.2	4.7	4.3	4.2	4.0	4.0	3.9	3.9	4.0

As of November 27, 2017		
Sovereign Spreads		
Spread (bp) 3/		182
CDS (bp)		134
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	0.5	0.3	1.0	-0.4	-0.4	-1.5	-0.6	-1.8	-1.5	-6.2	
Identified debt-creating flows	0.3	1.6	2.8	0.5	0.4	-0.7	-0.8	-1.2	-1.4	-3.4	
Primary deficit	0.9	1.4	1.4	0.9	0.6	0.4	0.4	0.2	-0.1	2.3	-1.5
Primary (noninterest) revenue and grants	28.0	26.5	26.1	26.1	26.5	26.0	26.0	26.2	26.3	157.1	
Primary (noninterest) expenditure	28.9	27.9	27.5	27.1	27.1	26.3	26.4	26.3	26.2	159.4	
Automatic debt dynamics [5]	-0.4	0.1	1.2	-0.5	-0.2	-1.1	-1.2	-1.4	-1.4	-5.7	
Interest rate/growth differential [6]	-0.4	-1.3	0.9	-0.5	-0.2	-1.1	-1.2	-1.4	-1.4	-5.7	
Of which: real interest rate	1.9	1.4	1.7	2.3	1.7	1.3	1.2	1.2	1.2	9.0	
Of which: real GDP growth	-2.2	-2.7	-0.8	-2.7	-1.9	-2.4	-2.5	-2.6	-2.6	-14.7	
Exchange rate depreciation [7]	0.0	1.4	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CG: Privatization Proceeds (negative)	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	0.2	-1.3	-1.7	-0.9	-0.8	-0.8	0.2	-0.6	-0.1	-2.9	



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

3/ Bond Spread over U.S. Bonds.

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 2/ as ae(1+r).

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

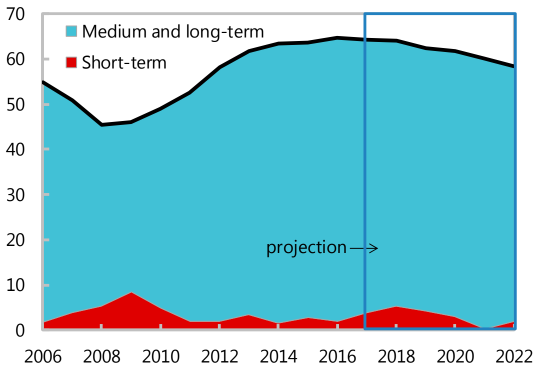
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

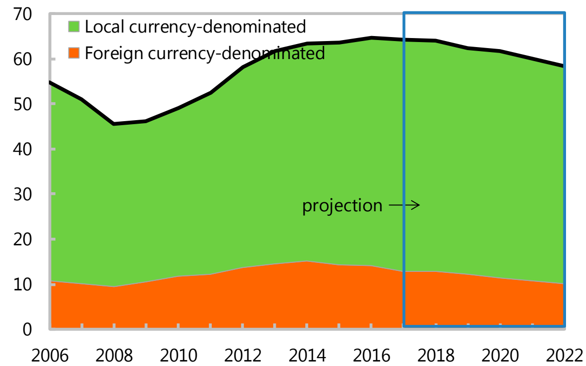
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

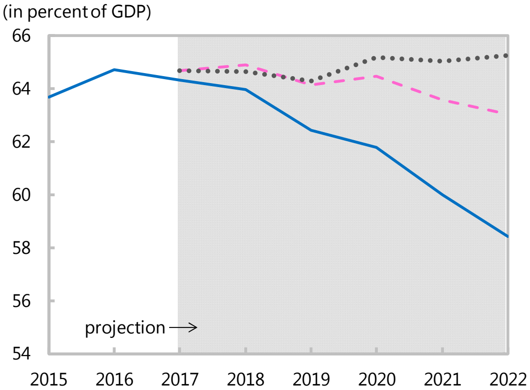


Alternative Scenarios

Baseline Historical Constant Primary Balance

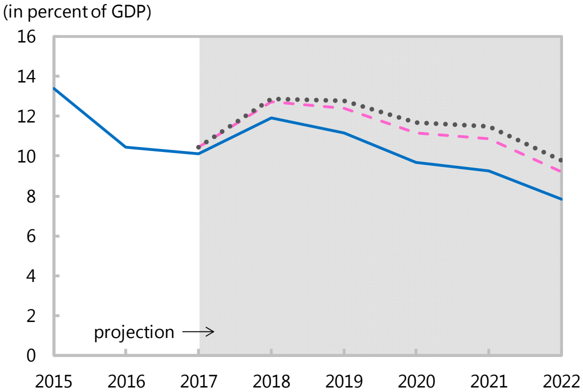
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	4.4	3.1	4.0	4.2	4.5	4.6
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary Balance	-0.9	-0.6	-0.4	-0.4	-0.1	0.1
Effective interest rate	4.2	4.0	4.0	3.9	3.9	4.0
Constant Primary Balance Scenario						
Real GDP growth	4.4	3.1	4.0	4.2	4.5	4.6
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary Balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	4.2	4.3	4.5	4.5	4.3	4.1

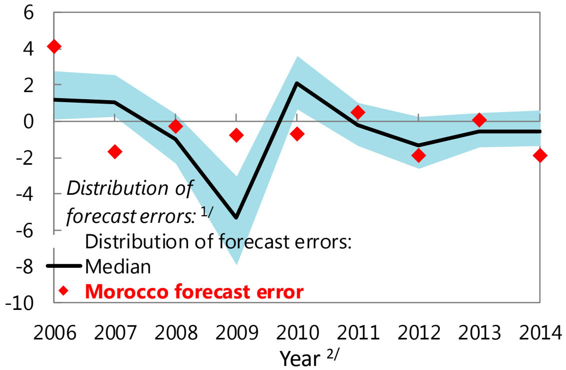
Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	4.4	3.9	3.9	3.9	3.9	3.9
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary Balance	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	4.2	4.3	4.6	4.7	4.6	4.3

Source: IMF staff.

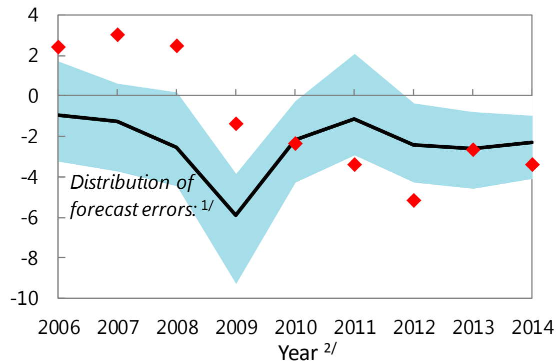
Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries

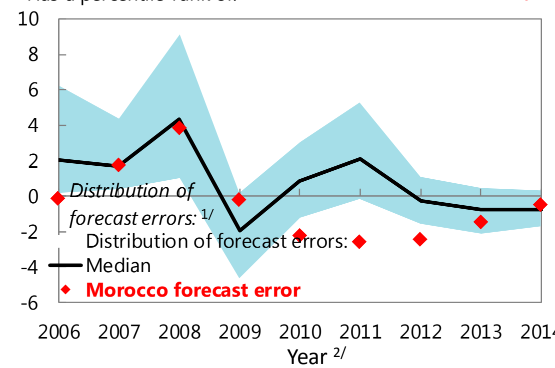
Real GDP Growth
(in percent, actual-projection)
Morocco median forecast error, 2006-2014: **-0.70**
Has a percentile rank of: **31%**



Primary Balance
(in percent of GDP, actual-projection)
Morocco median forecast error, 2006-2014: **-2.33**
Has a percentile rank of: **27%**

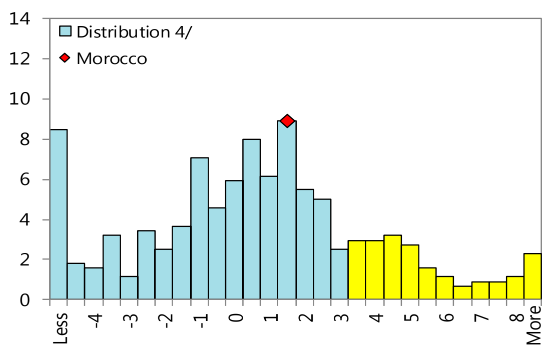


Inflation (Deflator)
(in percent, actual-projection)
Morocco median forecast error, 2006-2014: **-0.41**
Has a percentile rank of: **22%**

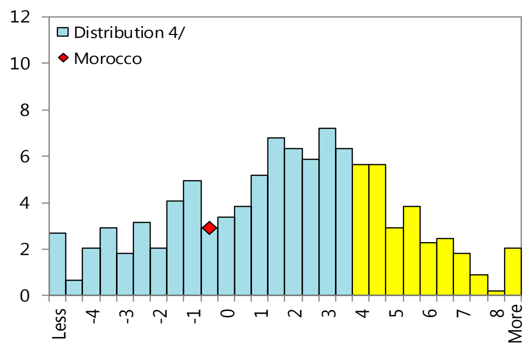


Assessing the Realism of Projected Fiscal Adjustment

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

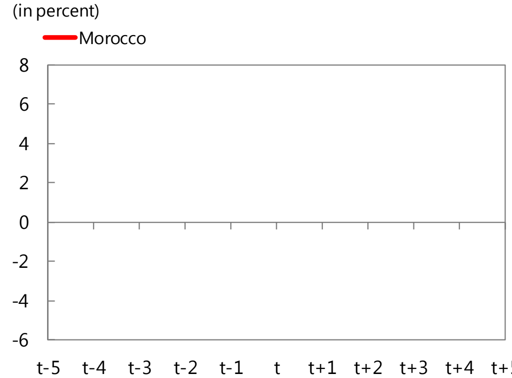


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis[3/]

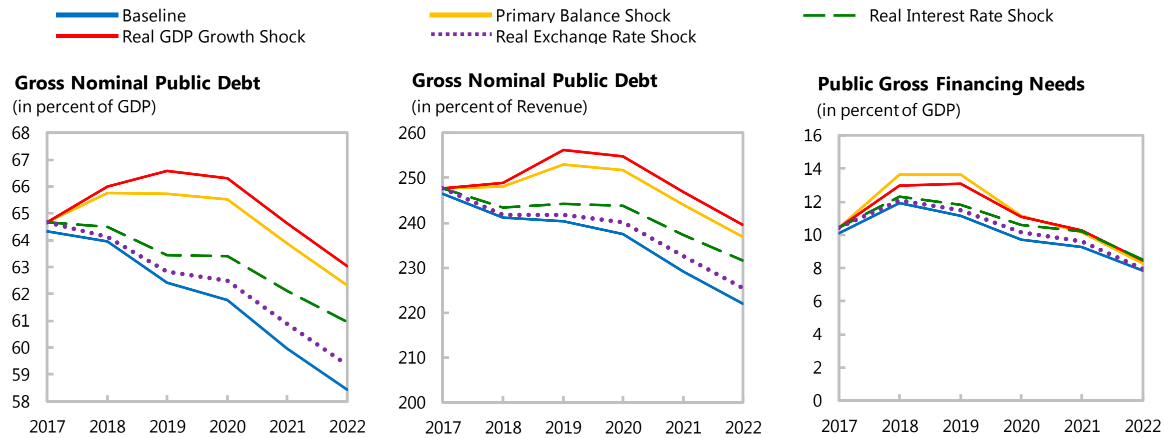
Real GDP growth
(in percent)



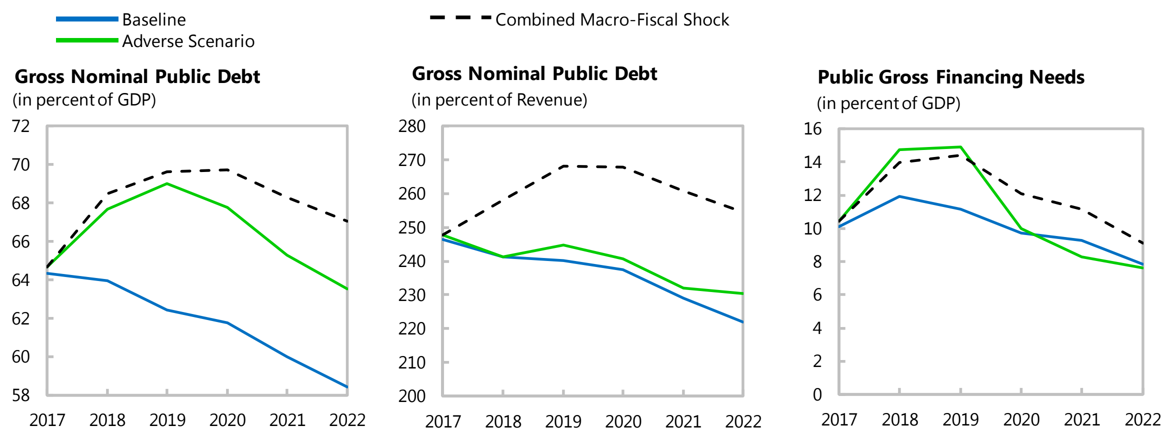
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Morocco.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	4.4	3.1	4.0	4.2	4.5	4.6
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary balance	-0.9	-1.9	-1.7	-0.4	-0.1	0.1
Effective interest rate	4.2	4.3	4.6	4.7	4.4	4.1
Real Interest Rate Shock						
Real GDP growth	4.4	3.1	4.0	4.2	4.5	4.6
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary balance	-0.9	-0.6	-0.4	-0.4	-0.1	0.1
Effective interest rate	4.2	4.3	4.9	5.0	4.9	4.7
Combined Shock						
Real GDP growth	4.4	1.7	2.7	4.2	4.5	4.6
Inflation	0.5	0.8	1.4	1.7	1.8	1.7
Primary balance	-0.9	-1.9	-1.7	-0.4	-0.1	0.1
Effective interest rate	4.2	4.4	4.9	5.1	4.9	4.8
Adverse Scenario						
Real GDP growth	4.4	1.5	2.4	2.6	2.8	3.0
Inflation	0.5	1.1	1.7	1.7	1.8	1.7
Primary balance	-0.9	-2.8	-2.1	1.8	1.8	1.3
Effective interest rate	4.2	4.3	4.7	4.8	4.3	4.2

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	4.4	1.7	2.7	4.2	4.5	4.6
Inflation	0.5	0.8	1.4	1.7	1.8	1.7
Primary balance	-0.9	-1.0	-1.2	-0.4	-0.1	0.1
Effective interest rate	4.2	4.3	4.5	4.6	4.3	4.1
Real Exchange Rate Shock						
Real GDP growth	4.4	3.1	4.0	4.2	4.5	4.6
Inflation	0.5	4.3	1.7	1.7	1.8	1.7
Primary balance	-0.9	-0.6	-0.4	-0.4	-0.1	0.1
Effective interest rate	4.2	4.4	4.5	4.5	4.3	4.1

Source: IMF staff.

Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

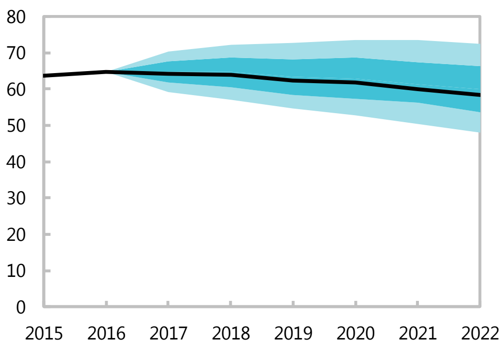
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	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

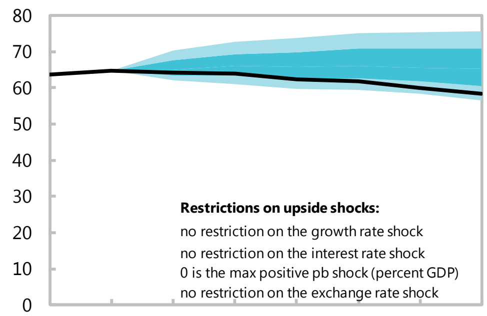
(in percent of GDP)

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

Symmetric Distribution

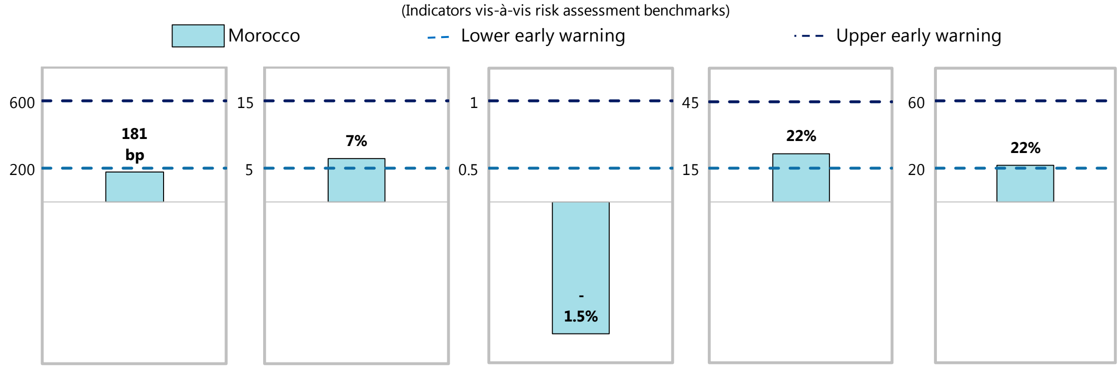


Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Bond Spread over U.S. Bonds (in basis points) 4/

External Financing Requirement (in percent of GDP)

Annual Change in Short-Term Public Debt (in percent of total)

Public Debt Held by Non-Residents (in percent of total)

Public Debt in Foreign Currency (in percent of total)

Source: IMF staff.

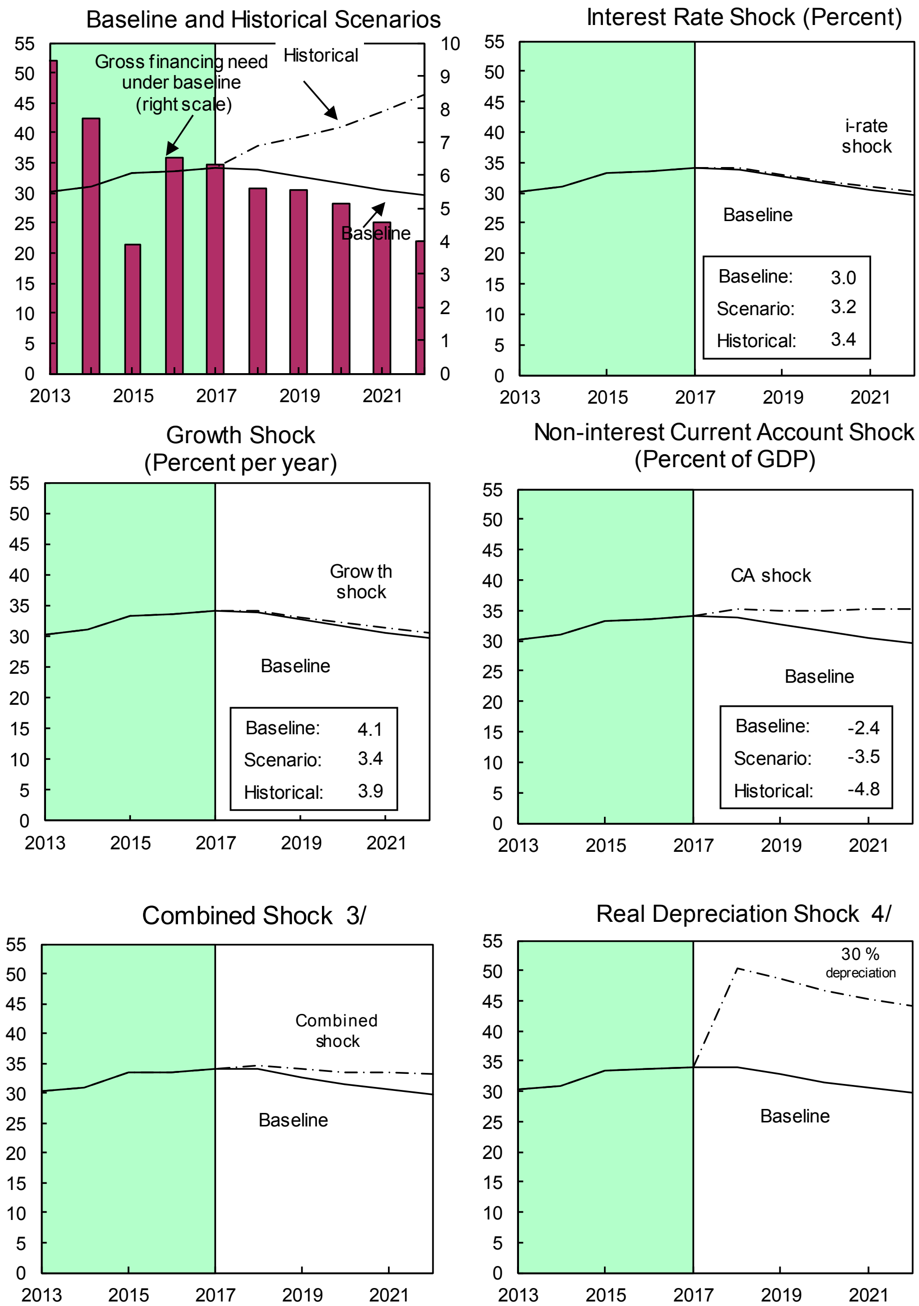
1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

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, 20-Apr-17 through 19-Jul-17.

Figure 6. Morocco: External Debt Sustainability—Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: IMF country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 28, 2017

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of November 14, 2017)

Membership Status

Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	899.40	100.00
Fund holdings of currency	747.40	83.56
Reserve position in Fund	147.01	16.44

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	548.43	97.69

Outstanding Purchases and Loans

None

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
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
Precautionary and Liquidity Line	08/03/2012	07/27/2014	4,117.40	0.00

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

	Forthcoming			
	2017	2018	2019	2020
Principal				
Charges/interest	0.05	0.05	0.05	0.05
Total	**0.05**	**0.05**	**0.05**	**0.05**

Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies comprising the euro and the U.S. dollar, with respective weights of 60 percent and 40 percent. BAM fixes daily rates for the rated currencies on the basis of variations on the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. As of November 15, 2017, the SDR/dirham exchange rate was SDR 1=MAD 13.32.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 23, 2017. The discussions for the 2017 consultation were held in Rabat and Casablanca during October 27–November 7, 2017.

Technical Assistance

STA	Monetary and Financial Statistics	March 1–March 11, 2010
MCM	Stress Testing and Macroprudential Analysis	February 9–February 18, 2011
STA	Monetary and Financial Statistics	March 30–April 12, 2011
LEG	Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Diagnostic and Legislative Drafting	January 17–21, 2011 and September 26–30, 2011
LEG	AML/CFT Supervision	May 28–June 6, 2012
MCM	Strengthening Macroprudential Analysis.	June 21–29, 2012
MCM	Diagnostic Assessment of Capital Markets in Morocco (Jointly with the Arab Monetary Fund and G8 Deauville Partnership Initiative for Local Currency Capital Market Development in the MENA region)	March 5–14, 2013
LEG	AML/CFT Supervision	March 3–15, 2013
FAD	Transfer Pricing Mission	April 1–12, 2013
MCM	Local Government Sukuk Market	June 2013
FAD	Implementation of Budgetary Reforms and Organic Budget Law Preparation	July 8–18, 2013
MCM	Macro-Economic Modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the OpenData Platform for Data Reporting	January 2014
LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	March 27–April 14, 2014

MCM/MCD	Exchange Rate Flexibility	May 26–30, 2014
RES	Quarterly Prediction Model (4 short visits)	May through December 2014
AFR/MCM/MCD	Pan-African Cross-Border Banks Exercise	June 2–6, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	June 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	July 2014
RES	Quarterly Prediction Model (6 short visits)	February. through Nov.2015
MCM	Exchange Rate Flexibility	September 15–19, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 22–October 3, 2014
MCM	Development of Macro Prudential Instruments	November 3–14, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	May, 2015
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September, 2015
RES	Forecasting and Policy Analysis system (FPAS)	Nov.30–Dec.3, 2015
RES	MAPMOD Framework for Macroprudential	January 12–15, 2016
MCM	Crisis Management and Banking Resolution	February 8–12, 2016
STA	National Accounts Assessment	April 25–29, 2016
STA	Government Financial Statistics	April 20–29,2016
MCM	Take Stock ER Flexibility	May 26–27, 2016
RES	FPAS Under ER Flexibility	May 26–June 2, 2016
RES	Macro-Prudential Policy	September 26–30, 2016
MCM	Exchange Rate Flexibility	October 17–27,2016
RES	Building Capacity for Macroeconomic Modeling	October 31–November 8,2016
MCM	Management of Foreign Currency Liabilities,	April 5–14, 2017
METAC	ER Flexibilization: Enhancing Risk-Based and Forward-Looking Banking Supervision	September 04-08, 2017
STA	Government Finance Statistics Capacity Development	September 11–22, 2017
MCM	Control and Audit Frameworks of Macroeconomic Models	October 16-20, 2017

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.

Safeguard Assessment

An update of the 2013 safeguards assessment of the BAM, completed in January 2015, found that the safeguards framework at the BAM remains relatively strong. The Board continues to be engaged and governance arrangements are supported by strong internal audit and risk management functions. A new law on BAM statutes that would lead to sustained good governance practices and autonomy is expected to be approved in 2017. Regarding staff's recommendation to implement IFRS, the BAM carried out a feasibility study with the assistance of an audit firm and decided to maintain the current accounting standards. Instead financial statement disclosures were improved to enhance transparency.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY17

As of November 14, 2017

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program	a. Development Policy Lending on: • MA - Inclusive Green Growth DPL2 • MA: Transparency and Accountability DPL2 (approved 10/22/2015) • MA - Second Capital Market Development and SME Finance DPL b. P4R Lending on: • Morocco Urban Transport Project • MA - Integrated Risk Management Project • MA - Municipal Support Program • Improving Social Protection Delivery c. Investment Lending • Seed and Early Stage Equity Financing in Morocco • Large Scale Irrigation Modernization Project (approved 7/8/2015) • Investing in Opportunities for Youth in Morocco • Education support d. Sector work (ESW) • Programmatic Agriculture Sector Dialogue • Strategic Country Diagnostic • MA: Cost of Environmental Degradation e. Technical assistance (TA) • Casablanca Urbanization Review • MA SP Systems TA • Support the Preparation of COP 22 • IUWM in MA—A review of options • Morocco City Energy Efficiency		FY16 FY16 FY17 FY16 FY16 FY17 FY17 FY17 FY16 FY17 FY17 FY17 FY17 FY17 FY17 FY17 FY17 FY17 FY17

	• Public Investment Management • Poverty Monitoring • MA: Int. Urban Water Mgmt. Strategic Sup.		FY17 FY16 FY16
IMF work program	• Bank Regulation and Supervision • Financial Soundness Indicators • National Accounts Statistics • Public Financial Management • Revenue Administration • Second Review of the PLL • Public Investment Management • Government Finance Statistics • Article IV Consultation • Third Review of the PLL	FY17 April 2017 Jan./Feb. 2017 FY17 FY17 June-July 2017 September 2017 September 2017 December 2017 January 2018	
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on labor market, education reforms Developments on decentralization	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Data sharing	Semiannual (and on ad hoc basis if requested) Ongoing	Following Article IV and staff visits for PLL reviews
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Collaboration on the SCD. Continuous close coordination on the reform agenda	Ongoing	

STATISTICAL ISSUES

As of November 14, 2017

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.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank and other depository corporations to the IMF's Statistics Department (STA) with monthly periodicity, using the standardized report forms. An MFS TA mission conducted in July/August 2017 assisted Bank Al Maghrib in expending the coverage of monetary statistics to include other financial corporations (OFCs). Regular reporting of OFC data is expected in 2018.	
Financial Sector Surveillance. Morocco does not report financial soundness indicators (FSIs) to STA. A technical assistance mission on FSIs would be helpful to assist the central bank staff in their efforts to compile FSIs on the basis of internationally-accepted standards as set out in the IMF's *FSI Compilation Guide*.	
II. Data Standards and Quality	
Morocco has been a 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 14, 2017)

	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	Sep.2017	10/31/2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep.2017	10/31/2017	W	W	W		
Reserve/Base Money	Sep. 2017	10/31/2017	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Sep.2017	10/31/2017	M	M	M		
Central Bank Balance Sheet	Sep.2017	10/31/2017	M	M	M		
Consolidated Balance Sheet of the Banking System	Sep.2017	10/31/2017	M	M	M		
Interest Rates[2]	Sep. 2017	10/31/2017	D	D	D		
Consumer Price Index	August 2017	10/02/2017	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2015	11/14/2017	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	July 2017	8/25/2017	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2017	11/14/2017	Q	Q	Q		
External Current Account Balance	Q2, 2016	10/05/2016	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Q3/2017	11/14/2017	Q	Q	Q		
GDP/GNP	Q2, 2017	11/14/2017	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2017	11/14/2017	Q	Q	Q		
International Investment Position [6]	Q2/2017	9/29/2017	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 Mohammed Daïri, Alternative Executive Director for Morocco
December 13, 2017

As illustrated in the Staff Report and Selected Issues Paper, Morocco's economic performance is significantly improving. Supported by a recovery in agriculture, growth is estimated at close to 4.5 percent, up from 1.2 last year, inflation remains low, the twin deficits are projected to decline, and the reserve position remains comfortable. A surge in the labor force, a sign of confidence that labor market conditions are improving, resulted in a slight increase in the unemployment rate in the third quarter of 2017. The country's vulnerabilities have been further reduced, reflecting continued strong commitment to macroeconomic and financial stability and growth-enhancing reforms, even though the payoff of recent reforms and the positive impact on nonagricultural GDP of improved activity in the Euro area have yet to materialize in full. Continued progress is being made in building the economy's resilience and improving the business climate, along with further efforts at export diversification towards new destinations, in particular in Africa, and moving up in the value-added chain. This, together with the firming of global demand, including in the Euro area, should help raise growth to close to 5 percent over the medium term. The authorities broadly share staff assessment, except with regards to the exchange rate assessment and the strength of the external position, the pace of reform implementation, and the presentation of the social tensions, and agree with their main recommendations.

Fiscal policies

Fiscal discipline was maintained in the run up to the September 2016 elections and during the prolonged political transition. Moreover, the new government confirmed its commitment to the policies of its predecessor announced in the PLL-supported program, as reflected in the 2017 budget approved last May. Fiscal developments this year are favorable so far, reflecting strong revenue mobilization and tight expenditure control. Moreover, the shortfall of GCC grants indicated in the report was fully offset, and the target for all of 2017 has already been met, for which the authorities are grateful to their GCC partners. As a consequence, the planned reduction of the fiscal deficit to 3.5 percent of GDP is within reach, and the authorities stand ready to take appropriate action as needed to achieve this target. In line with their objective of reducing the public debt-to-GDP ratio to 60 percent by 2021, the 2018 Budget aims at a further reduction of the deficit to 3 percent of GDP, which would put public debt on a firm declining trend. Tight control of spending on wages and goods and services will continue, while meeting the priority needs in education and health and protecting key investment spending and social programs.

Structural fiscal reforms

A wide-ranging structural reform agenda is being implemented to anchor fiscal and debt sustainability and improve revenue mobilization and spending prioritization and efficiency.

Tax reform continues, in line with the recommendations of the 2013 National Conference, with the objective of broadening the base, reducing exemptions, improving compliance, bringing the informal sector into the tax net, and enhancing equity and the growth impact of the tax system. In this regard, the draft budget law introduces a progressive corporate income tax and strengthens the framework for fighting tax evasion by requiring businesses to provide information for cross-checking their customers' incomes. Progress also continues in implementation of the Organic Budget Law, with the introduction under the 2018 Budget of program and performance budgeting and a ceiling on carryover of investment budget appropriations. Work is underway for preparation of a comprehensive reform of the civil service to improve efficiency and service delivery, while reducing the budgetary cost. Several reforms have already been implemented in this area, including recent adoption of decrees on contractual employment and personnel mobility. Also, following the recommendations of a FAD PIMA mission last September, the authorities will establish an integrated system for management and evaluation of public investments and for promoting public-private partnership. A draft law on SOEs to improve their governance and performance and strengthen their monitoring is being discussed by the government and should be submitted to parliament during the April 2008 session. To enhance targeting and efficiency of social protection, the authorities are working to introduce a social registry with World Bank assistance. As part of the second phase of the reform of the pension system aimed at greater harmonization and expanding coverage, a law creating a pension regime for independent workers and liberal professions was adopted by parliament in mid-November.

The authorities appreciate staff analysis and recommendations on fiscal decentralization as part of the Advanced Regionalization Program (Annex III). They believe that regionalization will be crucial for more effective resource use and for stronger and more inclusive growth. They are also aware of the fiscal risks involved and have introduced a broad range of institutional changes through a number of laws and decrees to mitigate these risks, as indicated in the Annex, and the Charter on decentralization is expected to be finalized by year-end. The authorities look forward to Fund TA in this area.

Monetary, external sector, and exchange rate developments and policies

Monetary policy continues to be accommodative in view of moderate inflation and credit demand and comfortable reserves. The central bank will continue to aim at ensuring adequate financing of the economy, in particular for SMEs. The recent recovery in credit to the economy, which has mainly benefited the private sector but also, to a lesser degree, public enterprises, bodes well for improved economic activity and prospects. The draft new central bank law to enhance its independence and broaden its mandate was adopted by the government and was sent to parliament in July, and its approval is expected in early 2018.

External developments through September have been favorable. Exports grew by close to 7 percent, driven by food and phosphates and derivatives, as well as newly emerging exports of manufactured products. Imports also grew, even if at a more moderate rate, driven by raw materials and energy. Both tourism and remittances receipts continue to be strong. These trends strengthened further in October, and it is expected that the 2017 current account should improve even further than projected in the staff report.

The authorities are of the view that there is no strong evidence that the real effective exchange rate is overvalued by 7.6 percent, based on EBA current account approach. Out of the 2.2 percent estimated current account gap, the share of the reserves gap is 1.1 percent, but the loss of reserves in mid 2017 was lower than indicated in the staff paper by more than $1 billion. In addition, part of the decline in net portfolio investment flows in 2017 was due to the bullet repayment of a $500 million (0.5 percent of GDP) bond, which was not renewed, and the decline in net other private capital reflected the large increase (3 percent of GDP) in Moroccan banks foreign assets deposited abroad, and did not indicate a decline in portfolio inflows triggered by exchange rate uncertainty mentioned in paragraph 5 of Annex II. Moreover, the apparent decline in net FDI flows was explained to a large extent by a large Moroccan investment abroad (purchase of a bank in Egypt for $500 million). Overall, the loss in reserves has already been fully reversed even though the increase in banks' foreign assets has not been fully reversed, indicating that the recovery in official reserves was mainly due to favorable current account trends. Also, the residual gap accounts for 1.6 percent (75 percent of the CA gap), which significantly reduces the quality of the assessment. Other methods point to undervaluation, but have been dismissed by staff. The REER method is considered of limited reliability because of the lack of long-time series on the home bias and the large unexplained residual, but the size of domestic currency debt held by nonresidents has traditionally been very small (estimated at about 1 percent of total domestic currency debt), and the residual seems to be very small (0.1 percent), and in any case much smaller than under the CA method. The external sustainability method was dismissed because it is very sensitive to the net foreign assets benchmark, which in the authorities' view should not preclude its use. In view of this and given the methodological weaknesses and uncertainties associated with such estimates, and for the sake of evenhandedness, the authorities request adding the usual language regarding the small size of the "appreciation" and the limitations of such calculations used in similar cases. The authorities were also disappointed that staff did not include in the report their own assessment during the discussion with the authorities that the exchange rate is globally in line with fundamentals, which was included in the agreed Written Communication for the Third Review of the PLL signed on November 30.

The authorities remain committed to moving to greater exchange rate flexibility and inflation targeting, and have completed their preparatory work, with the benefit of Fund TA, for which they are grateful. The postponement of the start of the transition to a more flexible exchange rate regime did not reflect indecision or reversal of their commitment, but resulted from the fact that the new government, which was appointed a short time before the announced start of the transition, needed some time to reassess the roadmap of the transition, as well as its impact, including as a result of the large size of hedging operations. This episode should not be seen either as pressure on the exchange rate, which was not subject to volatility and continued to reflect the evolution of the two currencies in the basket under the peg. There was no tightening of exchange regulations, even though the Exchange Office enhanced its monitoring of existing regulations. With the loss of reserves fully reversed, gross international reserves are expected to recover to close to their level of 6.4 months of imports reached at end-2016. The announcement by the Head of the Government that the width of the band in the early phase of the transition will be limited to +/- 2.5 percent helped stabilize pressures on reserves. The new government has confirmed its commitment to introducing a more flexible exchange rate regime, and the authorities intend to seize the most appropriate opportunity for starting the transition. However, this would be a challenging task if doubts are unduly cast by the Fund on the strength of the external position or the broad alignment of the exchange rate with fundamentals.

Financial sector policies

Significant progress has been made in strengthening the soundness of the financial system, including in implementation of the 2015 FSAP recommendations. The Moroccan financial system is resilient, banks are well capitalized, and NPLs have stabilized at about 7.5 percent and are well provisioned. Bank Al Maghreb (BAM) is aligning loan classification and provisioning with IFRS. Credit concentration risks are closely monitored; they have significantly declined over the past several years and remain below the relatively tight prudential limits. Moroccan banks' expansion to other parts of Africa offers opportunities for win-win economic cooperation. Stress tests conducted during the FSAP mission concluded that the channels of transmission of risks in this area are limited. The authorities remain vigilant and continue to strengthen their oversight in order to identify and mitigate potential related risks, including through cooperative arrangements with host countries' supervisory authorities. They are also strengthening the macro prudential toolkit and upgrading the crisis management and bank resolution frameworks, and are developing a national strategy for further promoting financial inclusion.

Structural reform implementation

Staff indication that the pace of reforms has slowed should have been usefully complemented by a reference to the prolonged political transition following the September 2016 general election. This transition impacted the pace of reform by slowing the legislative process, which was outside the government's control. However, structural reform implementation continued, even during the transition, and gained momentum under the new Cabinet, including in new areas.

The authorities are firmly determined to accelerate structural reform implementation to achieve higher and more inclusive growth, significantly reduce unemployment, which remains high, in particular for the youth, and improve living conditions, in particular in rural areas. In addition to the ongoing upgrading of infrastructure, high priority is attached to improving the business climate. After gaining close to 60 positions in the Doing Business ranking since 2010 to reach the 69th rank in the 2018 Report, it is expected that Morocco' rating would improve significantly in the near term following the adoption of a revised Commerce Code on the insolvency regime and of a law on securitization to facilitate access to credit, which are at the final phase of their preparation. Diversification efforts will continue toward creating new niches for growth, moving up in the value chain, and improving competitiveness. Key for the success of these efforts is the recent launch of the reform of education and training (Vision 2015-30) to upgrade skills and improve employability and productivity. In the context of the National Strategy for Employment, an action plan for 2017-21 was adopted by the Government in September 2017, and several working groups were tasked with presenting specific recommendations to the government by early 2018.

Governance

The recent social tensions in the Northern city of Al-Huceima have brought considerable attention on the part of the authorities and the public to the issue of accountability and good governance. As indicated in the Auditor General's Report, these tensions were due mainly to delays and indecisiveness in execution of the regional development program, for which prominent members of the Cabinet and senior officials were dismissed or sanctioned. Moreover, measures were taken to accelerate the program's implementation and respond swiftly to the needs of the population and ease these tensions. These measures were not limited to the northern region, but were involved ongoing social and development programs in other regions in Morocco as well. Further, a high-level committee chaired by the Head of Government has been appointed to coordinate and evaluate public policies and their implementation and enhance effectiveness and accountability. These measures have resulted in a significant easing of social tensions. Under the circumstances, staff indication that "the situation remains precarious" is unfounded.

In addition to ongoing efforts to reduce red tape and streamline regulations, including through e-government platform, the authorities have adopted a National Anti-Corruption Strategy. A status report on implementation of the strategy will be presented to the Head of Government this month. Also, pending the upcoming evaluation of the AML/CFT framework in March 2018, the authorities are in the process of strengthening their capacity to assess money laundering and terrorist financing risks under the revised standards.

Conclusion

The authorities are cognizant of the many remaining constraints Morocco is facing and are determined to address them so as to strengthen the foundations for stronger and more inclusive growth, further reduce unemployment, improve living conditions, and achieve a more balanced distribution of opportunities and welfare across regions and social groups. They are in parallel maintaining macroeconomic and financial stability, and further building buffers and strengthening the macroeconomic policy framework to improve the economy's resilience to shocks. Key in this regard will be accelerated pace of structural reforms to attract private investment and improve productivity and competitiveness, and enhanced efficiency of public policies, including through strengthened governance. To meet the evolving needs of the population in an evolving global and regional environment, the authorities have recently embarked on the design of a new development model which will be subject to a broad consultative process with domestic and international partners.

On behalf of my Moroccan authorities, I wish to thank staff for their hard work and interesting report and Selected Issues Paper, and for the high quality technical assistance. I also thank management and the Executive Directors for their valuable guidance and support.