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MOROCCO

October 2019

FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the first review under the arrangement under the Precautionary and Liquidity Line (PLL), the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 12, 2019, following discussions that ended on April 4, 2019, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the PLL. Based on information available at the time of these discussions, the staff report was completed on May 30, 2019
- A **Statement by the Executive Director** for Morocco.

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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June 14, 2019

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IMF Executive Board Completes the First Review Under the Precautionary and Liquidity Line Arrangement for Morocco

On June 12, the Executive Board of the International Monetary Fund (IMF) completed the first review under the Precautionary and Liquidity Line (PLL) Arrangement for Morocco. The arrangement supports the authorities' policies to strengthen the economy's resilience and promote higher and more inclusive growth.

The two-year PLL arrangement for Morocco in the amount equivalent to SDR 2.1508 billion (about US$3 billion) was approved by the IMF's Executive Board in December 2018 (See Press Release No. 18/477). The Moroccan authorities have not drawn on the arrangement and continued to treat it as precautionary. The arrangement will expire on December 16, 2020.

Following the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"Morocco has made significant strides in strengthening the resilience of its economy in recent years. While economic activity has weakened since 2018 due to lower agricultural growth, growth is expected to accelerate gradually over the medium term, subject to improved external conditions and continued reform implementation.

"However, the outlook remains subject to significant downside risks, including weaker growth in Morocco's main trading partners, geopolitical risks, and volatile global financial conditions. In this context, the PLL arrangement continues to provide valuable insurance against external risks and support the authorities' economic policies.

"The authorities are committed to sustaining sound policies. The government's economic program remains in line with key reforms agreed under the PLL arrangement, including to further reduce fiscal and external vulnerabilities, while strengthening the foundations for higher and more inclusive growth.

"Building on progress made in recent years, continued fiscal consolidation will help lower public debt, which remains sustainable with high probability and resilient to shocks, while securing higher priority investment and social spending in the medium term. Morocco will benefit from a comprehensive tax reform aimed at greater equity and simplicity of the tax system, improvements in the efficiency and governance of the public sector, sound public financial management at the local level as part of fiscal decentralization, strengthened state-owned enterprise oversight, and better targeting of social spending.

"The transition to greater exchange rate flexibility initiated last year will enhance the economy's capacity to absorb shocks and preserve its external competitiveness. The current favorable economic environment remains supportive to continue this reform in a carefully sequenced and well-communicated manner. The recent adoption of the central bank law, addressing weaknesses in the AML/CFT framework, and continuing to make the supervisory framework more risk-based and forward-looking will help further improve financial sector soundness.

"Finally, continued reforms are needed to raise potential growth and reduce high unemployment levels, especially among the youth, increase female labor participation, and reduce regional disparities. In particular, reforms of education, governance, the labor market, and the business environment would help support more private sector-led growth and job creation."

INTERNATIONAL MONETARY FUND

MOROCCO

May 30, 2019

FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

Context. Despite a challenging external environment, improved fiscal management and economic diversification have strengthened the resilience of Morocco's economy in recent years. Yet, economic growth, at 3 percent in 2018, has not been robust enough and unemployment remains high, especially among the youth. The outlook also remains subject to elevated risks, including fragile recovery in the euro area and geopolitical risks in the region. In this context, sustaining the recent momentum in reforms will be key to achieve a higher, more inclusive, and more private sector-led growth. Key priorities include improving the quality of education, the functioning of the labor market and the business environment; continuing the fight against corruption; and, increasing female labor force participation.

PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board during the 2019 Article IV consultation, staff considers that Morocco continues to meet the PLL qualification criteria and recommends the completion of the first review of the PLL arrangement:

- Morocco's economic fundamentals and policy frameworks are sound: the authorities continue to have a track record of implementing sound policies and remain committed to maintaining such policies in the future.

- Morocco meets the PLL qualification criteria: it performs strongly in three out of the five PLL qualification areas (monetary, financial, and data), and does not substantially underperform in the areas of fiscal policy, and external position and market access. Morocco does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.

- The end-March 2019 quantitative indicative targets (IT) for the fiscal deficit and net international reserves (NIR) were met. The authorities have not drawn on the arrangement and continue to treat it as precautionary.

Approved By
Taline Koranchelian and Vitaliy Kramarenko

The discussions took place in Rabat and Casablanca during March 19–April 4, 2019; and in Washington DC during the Spring Meetings. The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela, Vassili Bazinas (all MCD), and Borislava Mircheva (SPR). Taline Koranchelian participated in the concluding meetings. Tucker Stone, Nataliya Bondar, and Geraldine Cruz (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. Benchaâboune, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Daïri (OED) participated in most meetings.

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ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
EBA	External Balance Assessment
EMDE	Emerging Market and Developing Economies
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
IFRS	International Financial Reporting Standard
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PIMA	Public Investment Management Assessment
PLL	Precautionary and Liquidity Line
PPP	Public-Private Partnerships
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TA	Technical Assistance
TFP	Total Factor Productivity
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook
WGI	World Global Indicators

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in December 2018** in the amount of SDR 2.15 billion (or 240 percent of quota), equivalent to about US$3 billion. The arrangement supports the authorities' policies to strengthen the economy's resilience and promote higher and more inclusive growth. The 2019 Article IV consultation with Morocco was concluded on May 13, 2019. Executive Directors commended the authorities for implementing sound macroeconomic policies and welcomed the accelerated reforms, which have helped improve the resilience of the Moroccan economy and increase its diversification.

2. **Macroeconomic vulnerabilities have been reduced in recent years.** The authorities have strengthened macro-economic resilience and implemented difficult reforms, especially regarding the pension system, energy subsidies, fiscal framework, business environment, and financial sector. The transition to greater exchange rate flexibility was initiated in January 2018. Key structural reforms need to be pursued to further enhance macroeconomic resilience and move towards more private sector-led, inclusive and job-rich growth.

3. **Economic activity has weakened since 2018, while unemployment declined slightly.** In 2018, weaker growth reflected lower agricultural growth, despite a second consecutive year of good cereal harvest, while non-agricultural growth continued at a modest pace due to slow growth in the tertiary sector. Early estimates suggest that growth slowed further in the first quarter of 2019 (2.3 percent against 3.3 percent over the same period last year) due mainly to negative agricultural growth. On the demand side, private consumption continues to be the main driver of growth, while private investment recovered gradually following its decline in recent years (from 30.7 percent in 2008 to 22.8 percent of GDP in 2015). Unemployment declined to 10 percent in the first quarter of 2019 (from 10.5 percent in the first quarter of 2018) but remains particularly high among youth and graduates (about 24.1 percent and 17.1 percent, respectively).

4. **Fiscal consolidation slowed down in 2018, but developments through April 2019 have been positive**. Despite lower-than-expected grants, the authorities met the end-March 2019 Indicative Target (IT) (deficit of 0.1 percent of GDP against an indicative target of 0.8 percent). This outcome was primarily due to strong revenues (mostly from new taxes to compensate for revenue losses from progressivity in corporate taxation) and continued efforts to contain current spending, while capital spending accelerated slightly. Preliminary data suggest that the fiscal deficit at end-April 2019 was lower relative to the same period last year (1.2 percent of GDP against 1.4 percent). The fiscal stance, as measured by the cyclically-adjusted primary deficit (excluding grants), remains neutral. Public debt is sustainable and decreased slightly to 64.9 percent of GDP at end 2018.

5. **Monetary policy has remained accommodative in a context of low inflation and subdued economic and credit growth.** Headline inflation declined 0.1 percent y-o-y in March 2019 (compared to a 2.5 percent increase last year) due to lower food and commodity prices, while core inflation was 0.9 percent. Bank-Al-Maghrib (BAM) has kept its policy rate unchanged at

2.25 percent since its last reduction in March 2016. Lending rates have declined marginally, and bank credit growth increased to 5.1 percent (y-o-y) in March 2019 after remaining sluggish throughout 2018 (including for SMEs). Real estate prices are stable.

6. The external position has deteriorated. In 2018, despite continued strong export performance in the automobile and phosphate sectors, the current account deficit widened to 5.4 percent of GDP (against 3.4 percent in 2017) due to higher imports of energy products (reflecting higher oil prices) and capital goods, as well as lower remittances, official grants, and tourism receipts. At the same time, net FDI increased substantially to 2.5 percent of GDP (due in part to one very large transaction). International reserves dropped by US$1.7 billion to US$24.4 billion, equivalent to 5.2 months of imports and 87.1 percent of the Fund's Assessing Reserve Adequacy (ARA) metric.[1] Preliminary data for the first quarter of 2019 suggest some improvements in the trade deficit, but a decline in remittances and tourism receipts (5.7 and 3.5 percent y-o-y, respectively), as well as in net FDI (47.2 percent y-o-y). Exchange rate fluctuations have remained very limited since January 2018, when the authorities announced the widening of the dirham fluctuation band to +/-2.5 percent (from 0.3 percent) on either side of a reference parity (based on a euro/US dollar basket). The central bank has not intervened in the foreign exchange market since March 2018.

7. Bank capitalization is adequate, while non-performing loan (NPL) levels, credit concentration, and expansion in Africa, present risks. Banks' regulatory capital ratio increased to 14.7 percent as of December-2018. The International Financial Reporting Standard (IFRS9) was introduced in January 2018, requiring banks to upgrade their loan classification and provisioning practices, as well as to increase capital accordingly over a period of five years. NPL ratios remain relatively elevated at 7.7 percent, but provisioning levels are comfortable (about 70 percent). Risks from large credit exposures persist despite strict regulatory limits. The continued expansion of Moroccan banks in Africa provides diversification and profit opportunities but is also a potential channel of risk transmission.[2]

8. Building on recent progress, reforms are expected to focus on the fiscal and financial policy frameworks, the exchange rate regime, and structural improvements to raise potential growth:

- **Fiscal policy framework.** Recent progress includes the continued implementation of the organic budget law (OBL) and the adoption of a deconcentration charter and transparent criteria for the transfer of public resources to regions. Over the medium term, further fiscal consolidation to reduce public debt to 60 percent of GDP by 2024 (64.9 percent in 2018), and to increase fiscal buffers, requires: (i) accelerating tax reforms in line with recommendations from the May 2019 national tax conference, especially to broaden the tax base (e.g., through reduced tax exemptions and fight against fiscal fraud); and (ii) improving the efficiency and quality of

[1] 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. The decline in reserves during 2018 was driven by BAM's market interventions (until March 2018) and Treasury transactions, mainly servicing external public debt.

[2] The international exposures of the three largest Moroccan banks, mostly on the African continent, represent about 20–30 percent of their total assets and a third of their profits.

public investment and services through a comprehensive civil service reform, strengthened financial oversight of state-owned enterprises (SOEs), implementation of the recent Public Investment Management Assessment (PIMA) recommendations, and sound public financial management at the local level as part of fiscal decentralization.

- **Financial sector policy framework.** Progress is being made to upgrade the financial sector policy framework, in line with the 2015 FSAP recommendations, including by increasing supervisory capacity, as well as improving BAM's stress-testing and macroprudential policy framework with Fund technical assistance. Continued efforts are needed to safeguard banking soundness considering risks exposures and the increasing complexity and cross-border expansion of Morocco's banks, as well as the forthcoming exchange rate flexibility. In this context, weaknesses identified in Morocco's AML/CFT framework need to be addressed.[3] A draft central bank law, which will strengthen the central bank's independence and clarify its role for financial stability, has been submitted to parliament. Based on recommendations from the January 2019 safeguards assessment, further amendments will be needed on aspects related to BAM's autonomy and governance.

- **Exchange rate regime.** Greater exchange rate flexibility will benefit Morocco's economy, helping preserve reserve buffers and competitiveness, and better positioning the economy to absorb external shocks. Preparations for this reform have been completed and current conditions are supportive of a continuation of the gradual and orderly transition. While remaining committed to pursue the transition, the authorities are waiting for the opportune moment to move to the next phase, in the context of a well-structured communication strategy to ensure that economic agents, in particular SMEs, are fully aware of the potential foreign exchange risks and able to manage them. Relaxing the remaining restrictions on capital outflows by residents would only be done gradually and at a later stage, to minimize risks to the transition.

- **Business environment, access to finance, and labor market.** Since mid-2018, structural reforms have accelerated in several key areas. Regarding the business environment, the Competition Council was reactivated, and efforts are underway to limit payment delays in the public sector and support private sector development. The authorities also launched a comprehensive financial inclusion strategy which, together with other initiatives (e.g., the strengthened legal framework for collateralization), will improve SME access to finance. Further efforts are needed to improve the quality of education and the functioning of the labor market, and to reduce inequalities and middle-class vulnerabilities through better targeted social programs. Continued implementation of the national strategy against corruption is necessary to reinforce public trust, and specific measures under the national strategy for employment adopted in 2015 should be finalized.

[3] The Middle East and North Africa Financial Action Task Force (MENAFATF) recently assessed Morocco's AML/CFT framework and identified weaknesses in the areas of effectiveness and technical compliance.

OUTLOOK AND RISKS

9. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term. These projections assume sustained reform implementation reflecting the government's commitments, including continued fiscal prudence, progress toward greater exchange rate flexibility, and reforms of taxation, governance, oversight of state-owned enterprises (SOEs), fiscal decentralization, the labor market, and the business environment. Greater emphasis is also being put on reducing social and regional inequalities and increasing access to quality public services

- **Growth** is expected to remain at 3 percent in 2019 due to weaker-than-expected economic activity in the euro area and a normalization of agricultural output following two years of strong production. Subject to continued reform implementation, growth is expected to reach 4.5 percent over the medium term.

- **Inflation** is projected to slow to 0.6 percent in 2019 due to lower increases in commodity and food prices and to stabilize around 2 percent over the medium term.

- **The fiscal deficit** is projected to remain at 3.7 percent of GDP in 2019, with privatization receipts reducing the public financing needs to 3.3 percent of GDP. The deficit would decline and stabilize around 3 percent of GDP after 2020 which, together with expected privatization revenues, would contribute to reducing public debt to 60 percent of GDP over the medium term.

- The **current account deficit** is expected to decline to 4 percent of GDP in 2019 and 2.8 percent of GDP over the medium term, driven by sustained growth in exports, tourism receipts, and remittances, as well as lower imports, particularly energy products. Foreign direct investment is expected to remain stable at about 2 percent of GDP, and other private flows (including trade credit) would hover around 2 percent of GDP as well. International reserves are expected to reach 100 percent of the ARA metric in the medium term (about 128 percent of the ARA metric adjusted for capital controls).

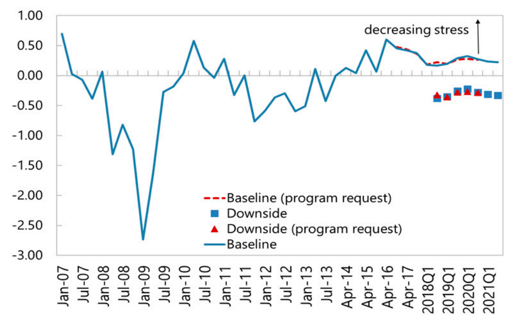
10. The balance of risks remains tilted to the downside. On the domestic front, delays in implementing key fiscal and structural reforms could reduce future fiscal space and contribute to social tensions, thus adversely affect the external sector (e.g., through lower tourism receipts and FDI inflows) as well as the expected pickup in potential growth. Externally, higher oil prices, weaker growth in the euro area, and geopolitical risks could slow economic activity through lower exports, tourism, FDI flows, and remittances. Increasingly volatile global financial conditions may also increase borrowing costs and weaken investor confidence. On the upside, lower international oil (and butane gas) prices could help further enhance the economy's resilience and increased regional integration in the Maghreb region could be an added source of medium-term growth for Morocco.[4]

[4] See International Monetary Fund (IMF). 2018. "Economic Integration in the Maghreb: An Untapped Source of Growth." IMF Departmental Paper 19/01, Washington, DC.

Box 1. External Economic Stress Index

Background. The external economic stress index is an indicator of the evolution of the external environment faced by a country. Its use was mandated by the IMF Executive Board for Flexible Credit Line (FCL) and PLL arrangement countries at the time of the review of these instruments in June 2014.[1] The index is based on: (i) a consideration of the key external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of the weights to apply to each of these variables. The model was first developed at the time of the 2012 PLL arrangement request.

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates.

Risks. The main external risks for Morocco, based on the February 2019 Global Risk Assessment Matrix (G-RAM), are: (i) weaker than expected global growth, particularly in Europe and Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) intensification of security risks in parts of the Middle East, Africa, and Europe, resulting in negative sentiment and lower capital inflows and tourism receipts; (iii) tighter global financial conditions, resulting in higher borrowing costs and disruption to portfolio flows; and (iv) large swings in oil prices.

Proxy variables. (i) Lower exports, remittances, FDI, and tourism receipts are captured by growth in the euro area (which represents more than 50 percent of Morocco's trade, FDI, and remittances); (ii) higher oil imports are captured by oil prices; and (iii) the impact of global financial volatility on portfolio flows and borrowing costs are captured by the emerging markets volatility index (VXEEM).

Weights. A data-based approach was used to determine the weights of each proxy variable. Weights are estimated using the balance of payments and IIP data as a share of GDP. The weight on euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts from Europe. The weight on the VXEEM (0.095) corresponds to the stocks of external debt and equity, and the weight on the change in oil price (0.324) corresponds to oil imports. The three weights are as set at the PLL request stage, in December 2018. The highest weights fall on the euro area growth and oil price (based on their relative contribution to items on the balance of payments/financing needs). The VXEEM has a smaller weight, reflecting the small size of portfolio flows in the financial account.

Baseline scenario. The baseline corresponds to the April 2019 World Economic Outlook (WEO) projections for euro area growth and oil prices. The VXEEM volatility index (VIX) futures at end-March 2019. The graph suggests that, at the current juncture, the level of external economic stress is virtually unchanged relative to the December 2018 request (solid lines). This is due to lower oil price assumptions, which are offset by lower growth in advanced economies, particularly Europe, and improved VXEEM index projections.

Downside scenario. The downside scenario is broadly consistent with staff's adverse scenario and assumes euro area growth that is 0.5pp lower than the baseline, a US$10 increase in oil prices relative to the baseline, based on historical standard deviations, and an increase in the VXEEM by two standard deviations, similar to the assumption at the time of the PLL request.[2] The graph suggests that in a downside scenario, external economic stress is broadly comparable to that at the time of the December 2018 request.

Overall assessment. The external economic stress index for Morocco suggests that external pressures abated between 2012-16, but increased more recently. However, the model does not include a proxy for geopolitical risk (given the difficulty in choosing such a variable). At present, this would suggest a relatively heightened stress index.

[1] See "The Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument," IMF Policy Paper, January 2014

[2] The scenario combines a US$15 increase in oil prices and a US$5 drop consistent with lower growth in the euro area.

REVIEW OF PLL QUALIFICATION

A. General Assessment

11. Staff assesses that Morocco continues to qualify for a PLL arrangement, in line with the generally positive assessment of Morocco's policies by the Executive Board during the 2019 Article IV consultation. Morocco meets the qualification criteria for a PLL arrangement and performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other two areas (external position and market access, and fiscal policy).

12. Morocco's economic fundamentals and institutional policy frameworks are sound, the authorities have a track record of implementing sound policies, and they remain committed to doing so in the future (W-COM.-¶1)**.** Morocco has met the PLL qualification standard since 2012. Staff's review of the relevant core indicators over the five most recent years confirms this assessment (see below). This strengthens confidence that Morocco will take the policy measures needed to reduce remaining vulnerabilities and will respond appropriately to the balance of payments difficulties that it might encounter:

- **Macroeconomic developments are broadly positive**. Growth averaged 3.3 percent during 2012–17 and inflation remained below 2 percent. Fiscal developments were favorable, with contained current expenditures offsetting weaker revenues, although the deficit increased slightly in 2018 due mostly to exogenous factors. On the external front, the current account deficit widened in 2018 due to higher imports of energy and capital goods, as well as lower remittances, official grants, and tourism receipts (which were not offset by sustained export growth in the automobile, phosphates, and aeronautic sectors). The banking system has remained stable. Over the medium term, economic growth is projected to increase steadily in the context of moderate inflation, and the fiscal and current account deficits are expected to narrow. Both public and external debts are sustainable.

- **The authorities have implemented generally sound policies and have recently accelerated structural reforms** (W-COM.-¶4). During the last Article IV consultation, concluded on May 13, 2019, the Executive Board commended the authorities for implementing sound macroeconomic policies and welcomed the acceleration in reforms, which have helped improve the resilience of the Moroccan economy and increase its diversification.

- **The authorities are committed to maintain sound policies** (W-COM.-¶22). They remain committed to secure strong revenue performance, contain current spending, and reduce public debt to about 60 percent of GDP over the medium term. They are advancing tax and structural reforms aiming to improve public sector governance and efficiency, enhance competition, lower hiring costs, and increase SME financial inclusion, while reducing inequalities (W-COM.-¶12). These reforms are key to raise the growth potential and boost job creation, especially for youth and women.

- **Flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks**. Implementation of the OBL continues to improve the fiscal policy framework, including by maintaining current spending within budgeted levels. Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs relatively well in the fiscal policy area.[5] Morocco scores lower in the monetary policy area, but this criterion is less relevant given Morocco's pegged exchange rate with horizontal bands arrangement.[6] BAM has a clear mandate to implement monetary and exchange rate policies, and the authorities are in the process of upgrading their monetary policy regime as part of the transition to greater exchange rate flexibility and inflation targeting. Finally, Morocco performs well relative to its peers in the 2018 Worldwide Governance Indicators on control of corruption and government effectiveness.[7]

B. Assessment of Specific Criteria

13. Morocco performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy) and does not substantially underperform in the other two areas (external position and market access, and fiscal policy). The underlying current account deficit remains large, with a substantial trade deficit, and the external position weakened in 2018. On the fiscal front, public debt is assessed to be sustainable with a high probability and resilient to various shocks. It declined to 64.9 percent of GDP in 2018 after continuously increasing from 56.5 to 65.1 percent of GDP during 2012-17. This qualification assessment has not changed since the request of the PLL arrangement.

External position and market access: *Morocco does not substantially underperform in the external position and market access area.*

- **Criterion 1—Sustainable external position.** Based on the April 2019 external balance assessment (EBA), Morocco's external position is moderately weaker than implied by fundamentals and desirable policies. The current account deficit narrowed in 2017 but widened substantially in 2018 due to higher imports of energy and capital goods, as well as lower remittances, official grants from the Gulf states, and tourism receipts. The current account deteriorated in spite of strong export performance in the food, phosphate, automobile, and aeronautic sectors. It is expected to gradually improve over the medium term as export growth benefits from the expansion of higher value-added export sectors—reflecting strong FDI in the aeronautics and automotive sectors, and import growth slows in an environment of lower

[5] The fiscal policy measure used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the ratio of government spending to GDP.

[6] The indicator of monetary policy cyclicality used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the real short-term interest rate.

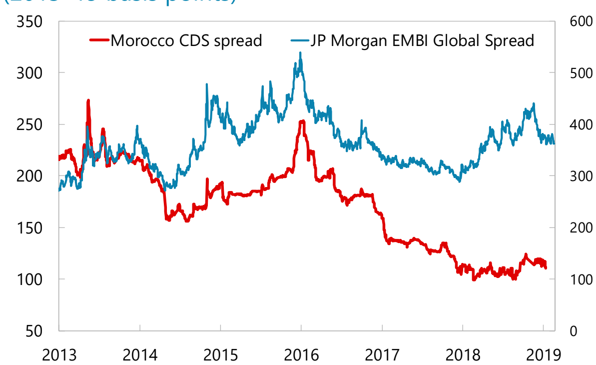
[7] Morocco scores -0.1 and -0.1 on control of corruption and government effectiveness, respectively, compared to -0.3 and -0.5 for the average emerging market and developing economy for which WGIs are reported (the indexes range between +/-2.5; and for Morocco, lower (upper) bound of 90 percent confidence interval is about 35 (57), in percentile).

commodity prices. Morocco's external debt remains low, at 32.7 percent of GDP in 2018, and is expected to decline to about 28.2 percent of GDP in the medium term.

- **Criterion 2—Capital account position dominated by private flows.** Private capital flows constitute the largest share of the capital account (at around 80 percent on average between 2015 and 2018), and FDI is their largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 2 percent of GDP). Loans from bilateral and development partners constitute the bulk of public capital flows.

- **Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms**. Morocco has not issued sovereign international bonds since 2014, but the authorities plan to issue a 1-billion-euro bond in 2019.[8] The country continues to be rated favorably by major ratings agencies, despite a weaker outlook assessment at the end of 2018.[9] Sovereign spreads remained low in 2018, and it is expected that Morocco can tap international markets on a durable and substantial basis—even though the scale or duration of actual sovereign borrowing fell short of core indicators under PLL policy.

CDS Spreads
(2013–19 basis points)



Sources: Bloomberg; and Markit.

- **Criterion 4—A reserve position, which—notwithstanding potential balance of payments (BOP) pressures that justify Fund assistance—remains relatively comfortable**. On average, Morocco's reserves were below 100 percent of the ARA metric in the last three years, but they have not declined below 80 percent of the ARA metric in any of the current and two previous years. At end-2018, reserves were equivalent to 87 percent of the ARA metric and remained adequate according to several metrics (Figure 4): 5.2 months of imports, ample coverage of short-term debt and broad money, and 115 percent of the ARA metric adjusted for capital controls. By 2024, reserves are expected to reach nearly six months of imports, 99 percent of the ARA metric, and 127 percent of the ARA metric adjusted for capital controls.

Fiscal policy: *Morocco does not substantially underperform in the fiscal area.*

- **Criterion 5—Sound public finances, including a sustainable public debt position.** The authorities remain committed to fiscal sustainability and a track record of sound public finances.

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[8] Morocco's latest sovereign bond issuances include a 10-year EUR1 billion bond at 3.5 percent in 2014, a 10-year US$1.5 billion bond at 4.25 percent in 2013, and a 30-year US$0.75 billion bonds at 5.5 percent in 2013.

[9] Two rating agencies downgraded their outlook for Morocco's sovereign rating in October-November 2018, mainly due to the slower pace of fiscal consolidation expected in 2018-19.

A deficit of 3.7 percent of GDP is expected in 2019, and the authorities aim to reduce public debt to 60 percent of GDP over the medium term (against 64.9 percent of GDP in 2018), which will require bringing the fiscal deficit to about 3 percent of GDP by 2020 (W-COM.-¶5).[10] Morocco's public debt is sustainable with high probability and resilient to various shocks and vulnerabilities despite high gross financing needs (which should decline due to longer average maturities achieved in recent years). Future fiscal consolidation is expected to benefit from accelerated tax reforms, including measures to broaden the tax base through reduced exemptions and fight against fraud, simpler VAT regime and corporate tax rates, and better-enforced tax payments by self-employed and liberal professions. In the medium term, civil service reform will be needed to help durably reduce the relatively high wage bill and improve the quality of public services. Institutional mechanisms to control risks from fiscal decentralization are being put in place. The authorities intend to submit to parliament in 2019 a draft law reinforcing the governance and oversight of SOEs, and the forthcoming privatization program will also support SOE performance.

Monetary policy: *Morocco performs strongly in the monetary policy area.*

- **Criterion 6—Low and stable inflation.** In the context of a sound monetary and exchange rate policy framework, inflation has been in the single digits over the last five years. Inflation has decelerated recently, declining 0.1 percent y-o-y in March 2019 and is expected to stabilize around 2 percent in the medium term. The monetary policy framework continues to be based on an exchange rate anchor vis-à-vis a composite basket comprising the euro and the U.S. dollar. The transition to greater exchange rate flexibility initiated in January 2018 is expected to last several years and to lead to inflation targeting (W-COM.-¶20), allowing the economy to better absorb external shocks. In staff's assessment, this transition is likely to proceed smoothly as pre-conditions are in place and Morocco is moving from a position of strength, with reasonable fiscal and external buffers, a resilient financial sector, and restrictions on capital outflows by residents.

Financial sector soundness and supervision: *Morocco performs strongly in the financial sector area.*

- **Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability.** Banks have adequate capital buffers and benefit from stable funding (mainly non-remunerated deposits). The 2015 FSAP stress tests showed that the banking system could withstand severe shocks. NPLs remain relatively high at 7.7 percent, but provisioning levels are comfortable (70 percent). Risks from large credit exposures persist despite strict regulatory limits. Moroccan banks' expansion into Africa provides diversification and profit opportunities,

[10] The objective of lowering public debt to 60 percent of GDP may be affected by the forthcoming change in the coverage of public sector statistics. This change 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 estimate that the public debt level after consolidation may decline significantly. The implication for fiscal consolidation will be reassessed once updated figures become available, in June 2019.

but also increases risks given the riskier operating environment and lower regulatory standards in some host countries.

- **Criterion 8—Effective financial sector supervision.** Bank supervision capacity is improving along the lines of the 2015 FSAP recommendations. Together with recent enhancements to the macroprudential policy framework, the oversight of Moroccan banks expanding into Africa has intensified, in close collaboration with supervisory agencies in host countries. To reduce large credit exposures, since 2016, corporate groups are required to prepare consolidated financial statements and risk weights have been raised for large connected exposures. More broadly, bank supervision is becoming more risk-based and forward-looking and the authorities are in the process of addressing weaknesses identified in Morocco's AML/CFT framework (W-COM.-¶19).

Data adequacy: *Data provision and quality are fully adequate.*

- **Criterion 9—Data transparency and integrity.** Overall data quality continues to be adequate to conduct effective surveillance and program monitoring. Morocco subscribes to the Special Data Dissemination Standard. The authorities are committed to improving data quality and access.

OTHER PROGRAM ISSUES

14. The end-March 2019 quantitative indicative targets (IT) for the fiscal deficit and net international reserves (NIR) were met. Specifically, the end-March 2019 fiscal deficit IT was met without adjustments, and with a substantial margin once the adjustor for grants is considered. The end-March 2019 NIR target was met by a small margin once the adjustor for multilateral and bilateral loans and grants was applied. However, the NIR (relatively to the level envisaged at the time of the PLL request) was lower than projected by US$0.5 billion, reflecting a widened current account deficit in 2018 (by nearly US$3 billion between end-2017 and end-2018) and thus a slower increase in reserve accumulation.

15. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 6).[11] Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent only a small share of Morocco's total external debt (a maximum of 5.3 percent over the projection period), gross international reserves (11.6 percent), and exports (6.7 percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and

[11] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL request, reserves may be 9 percent lower and exports 2.5 percent lower, suggesting peak IMF credit ratios of 12.4 percent and 6.8 percent instead of 11.6 percent and 6.7 percent in the table. These considerations suggest caution in interpreting Table 6, but do not materially impact staff's current view of Morocco's capacity to repay.

potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

16. The 2019 safeguards assessment found that while BAM continues to maintain strong operational controls in key areas, a few improvements are needed to fully meet international best practice. The internal and external audit mechanisms, internal controls, and the related Audit Committee oversight remain robust. The authorities are considering staff's recommendations, including further amendments to strengthen the central bank law in the areas of autonomy and governance, and that BAM transition to IFRS.

17. Given projected improvements in Morocco's economic resilience and growth, the authorities will need to communicate about their exit strategy from the PLL arrangement. Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be on a downward path. The current account deficit would be close to what would be expected for an emerging market country like Morocco, and reserves would be at comfortable level (just above 87 percent of the ARA metric, or 114 percent of the adjusted metric). The authorities' communication about their exit strategy should take into account changes in external risks facing the economy, the strengthening of the economic resilience and policy space, as well as reform achievements and commitments, including as regards the exchange rate transition (as articulated in W-COM.-¶22). The authorities agreed but also stressed the importance of the PLL arrangement at this juncture, including in supporting public confidence in the implementation of key reforms.

STAFF APPRAISAL

18. The PLL arrangement is serving Morocco well and remains on track. Despite a challenging external environment, macroeconomic vulnerabilities have been reduced in recent years, and the end-March 2019 indicative targets were met.

19. Fiscal and public sector reforms will help further enhance macroeconomic resilience and the efficiency and quality of public investment and services. Fiscal sustainability is expected to benefit from a comprehensive tax reform to boost revenues while increasing fairness, based on the outcome of the May 2019 national tax conference. In addition, the efficiency and quality of public investment and services need to improve. This will require overhauling public sector governance and modernizing the civil service, moving forward with careful implementation of fiscal decentralization, and increasing project implementation and risk management capacity, including in the SOE sector.

20. Current conditions remain supportive to continue with the transition to a flexible exchange rate regime. This reform will allow to modernize Morocco's monetary policy regime through the eventual introduction of inflation targeting. Greater exchange rate flexibility will help further strengthen the economy's resilience and growth potential.

21. Sustained structural reform implementation is essential to achieve higher growth and reduce unemployment. Key reforms have recently accelerated, including as regards the business environment and financial inclusion, which will help shift to a more private sector-led growth model. Mutually-reinforcing reforms are also needed to improve the quality of the education system, the functioning of the labor market, and female labor force participation, while ensuring that social programs are better targeted at the most vulnerable groups. Finally, continuing to implement the 2015 FSAP recommendations will help further strengthen the financial sector policy framework.

22. Morocco continues to meet the PLL qualification criteria. The IMF Executive Board's assessment in the context of the 2019 Article IV consultation was positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies, and remains committed to such policies in the future. Morocco performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other two qualification area (external position and market access and fiscal policy).

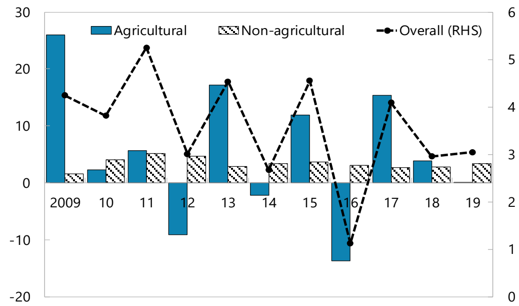
23. Against this background, staff recommends the completion of the first review under the PLL arrangement.

Figure 1. Morocco: Real Sector Developments, 2009-19

The pick-up in non-agricultural growth in 2018 is expected to continue in 2019

Gross Domestic Product

(Annual percent change)

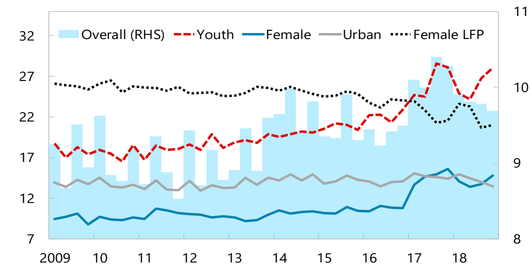


Sources: National authorities; and IMF staff estimates. *Note: 2019 projected.*

Unemployment has declined slightly since 2017 but remains high for the youth and women

Unemployment

(Percent, seasonally adjusted)

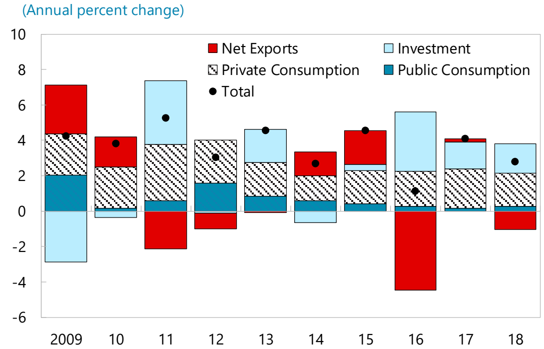


Sources: National authorities; and IMF staff estimates. *Note: LFP = Labor Force Partipation.*

On the demand side, private consumption and investment remain the main growth drivers

Contributions to GDP Growth

(Annual percent change)

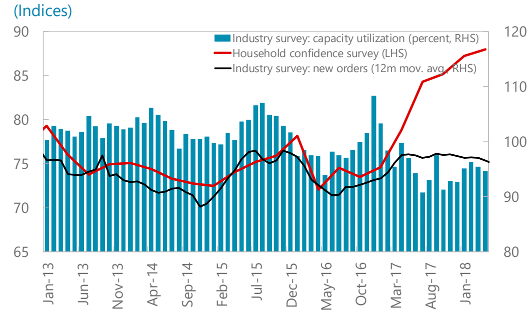


Sources: National authorities; and IMF staff estimates.

Surveys confirm strong household confidence, while business confidence remains relatively low

Household and Industry Confidence Surveys

(Indices)

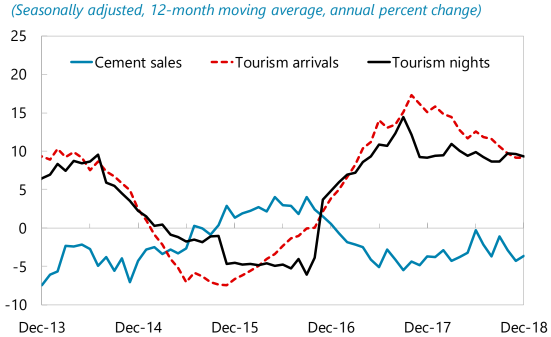


Sources: HCP; and IMF staff estimates.
Note: For the industry survey indices: greater than 100 indicates above average, less than 100 indicates below average.

High-frequency indicators point to still strong tourism activity and subdued construction activity

Tourism and Cement Sales

(Seasonally adjusted, 12-month moving average, annual percent change)

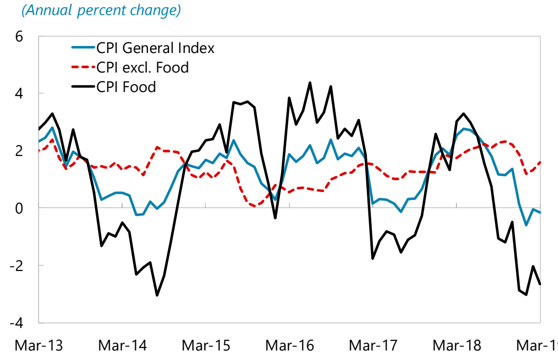


Sources: National authorities and IMF staff estimates.

Inflation has remained low despite volatile food prices

Consumer Price Index

(Annual percent change)



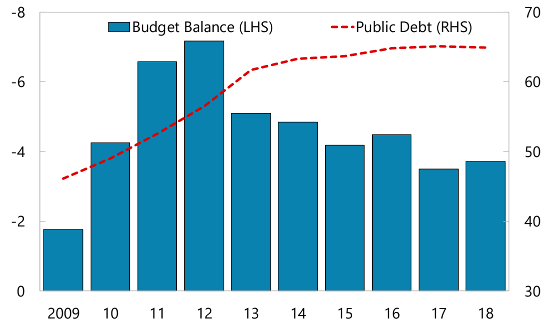
Sources: National authorities and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments, 2009–18

Fiscal consolidation slowed in 2018

Budget Balance and Public Debt

(Percent of GDP)

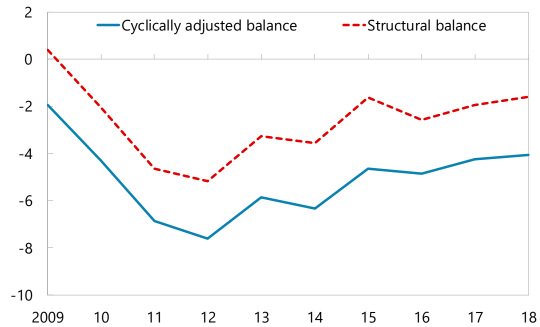


Sources: National authorities; and IMF staff estimates.

...but cyclical and structural fiscal balances have slowly been improving

Cyclical and Structural Balance

(Percent of GDP)

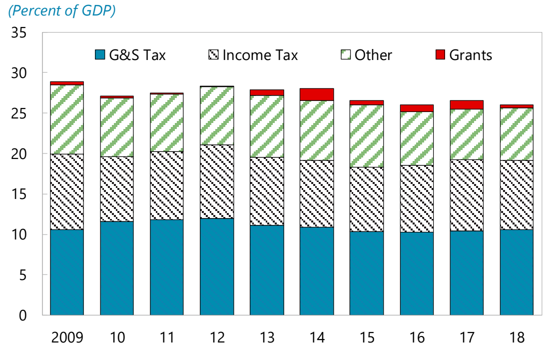


Sources: National authorities; and IMF staff estimates.

Revenues were lower than expected in 2018 due to subdued corporate tax revenues and grants...

Government Revenue

(Percent of GDP)

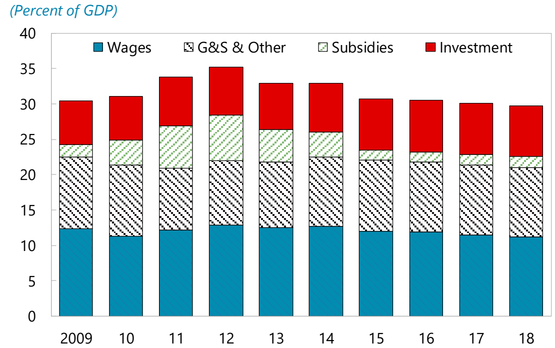


Sources: National authorities; and IMF staff estimates.

...and expenditures remain contained

Government Expenditure

(Percent of GDP)

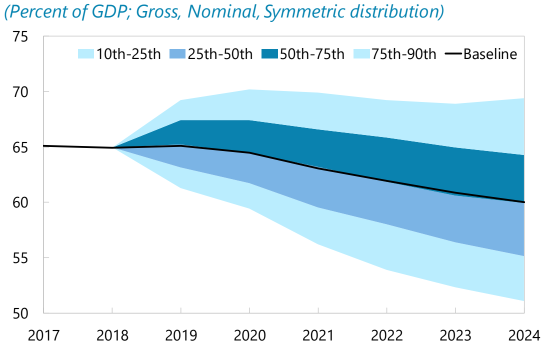


Sources: National authorities; and IMF staff estimates.

Public debt is sustainable and projected to decline gradually in the medium term

Predictive Densities of Public Debt

(Percent of GDP; Gross, Nominal, Symmetric distribution)

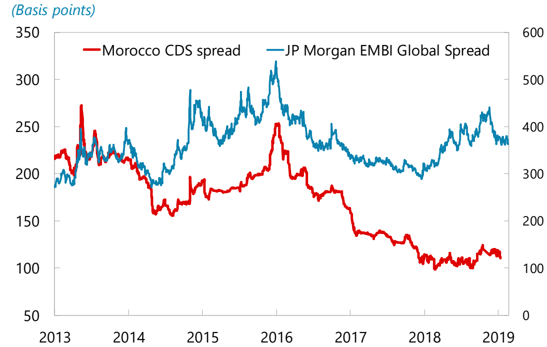


Sources: National authorities; and IMF staff estimates.

Sovereign spreads have remained low and stable despite the increase in the EMBI

CDS Spreads

(Basis points)



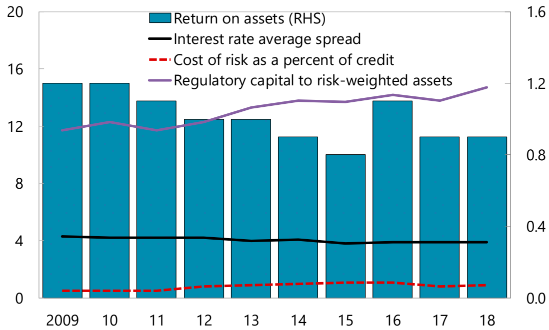
Sources: Bloomberg and Markit.

Figure 3. Morocco: Financial Developments, 2009–19

Banks continue to be profitable, and capitalization levels are stable

Bank Profitability and Capitalization

(Percent)

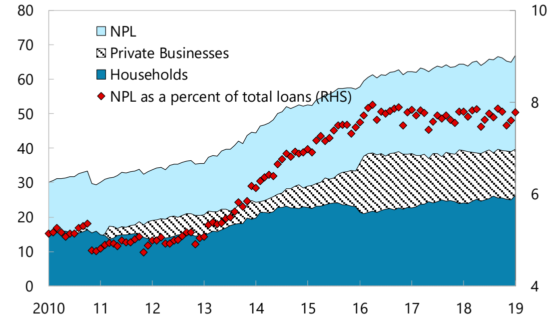


Sources: National Authorities; as of Dec. 2018.

NPLs remain relatively high for private businesses and household loans

Distribution of Non-Performing Loans

(National currency, Billions)

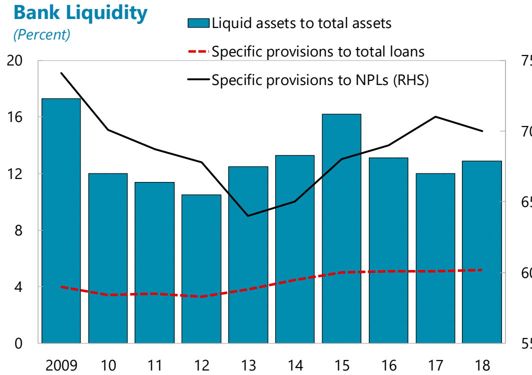


Sources: National authorities and IMF staff estimates.

Provisioning is relatively high while liquidity conditions remain favorable

Bank Liquidity

(Percent)

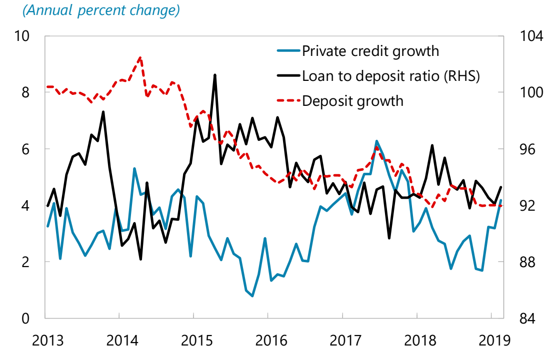


Sources: National Authorities; and IMF Staff Calculations.

Private credit growth has slightly increased in 2019 after the lackluster performance of 2018

Loans and deposits

(Annual percent change)

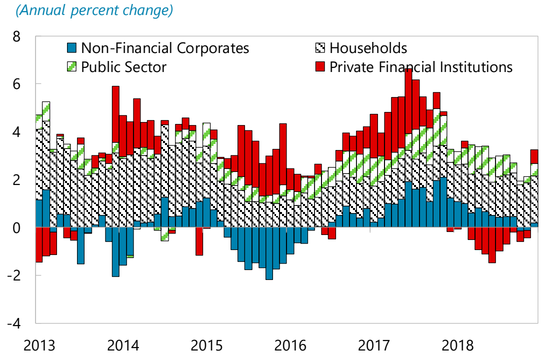


Sources: National authorities and IMF staff calcuations.

Household lending is driving credit growth

Contribution to Credit Growth

(Annual percent change)

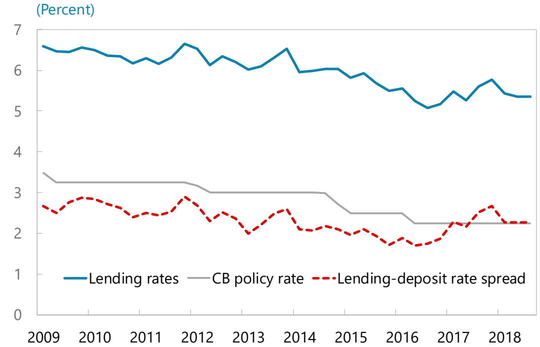


Sources: National Authorities and IMF staff estimates.

Lending rates have decreased slightly since 2018

Bank Lending Rates and Interest Margin

(Percent)

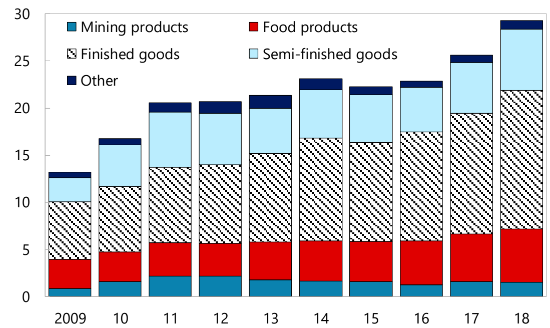


Sources: National authorities and IMF staff estimates; as of Q3 2018.

Figure 4. Morocco: External Developments, 2009–18

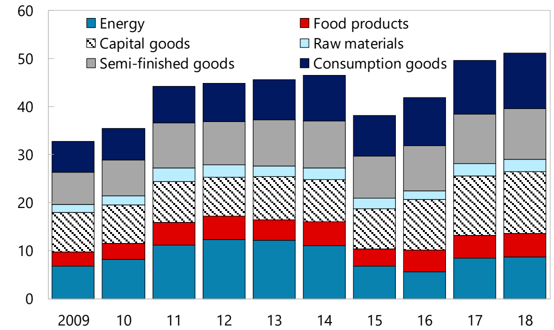
Export growth has been driven by emerging manufacturing sectors…

Exports by Type of Goods
(US$, Billions)



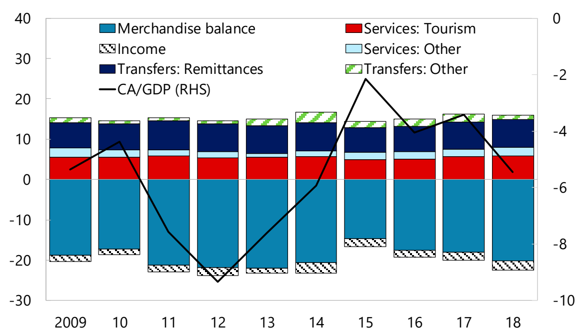
…while imports of energy, capital goods, and raw material also increased

Imports by Type of Goods
(US$, Billions)



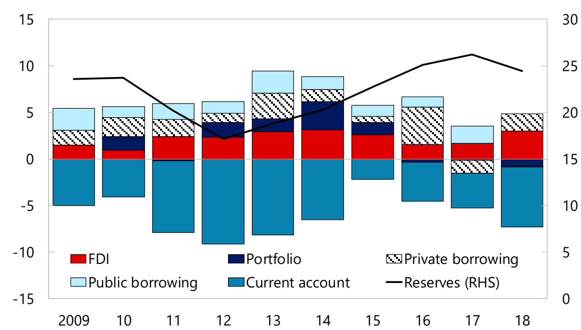
The trade deficit has been increasing since 2016, weakening the current account

Current Account Components
(US$ Billions)



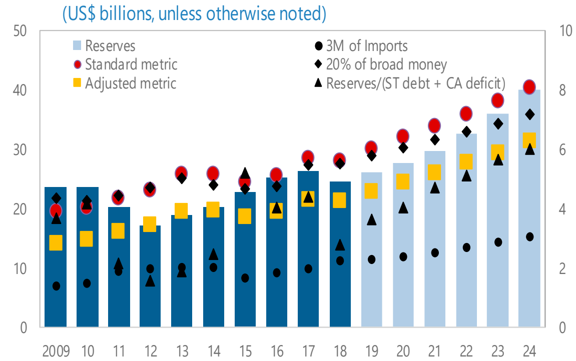
FDI and private borrowing played a key role in financing the current account deficit in 2018

Current Account Financing
(US$ Billions)



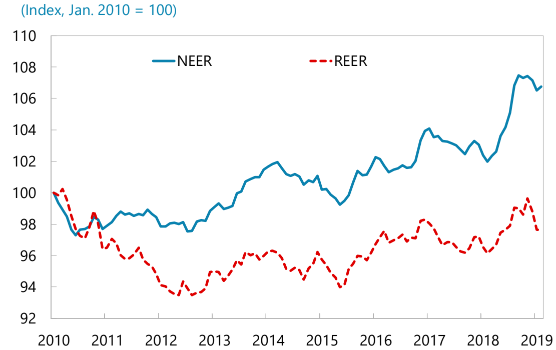
Morocco's reserves coverage is expected to improve in the medium term

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



The real effective exchange rate appreciated in 2018

Real and Nominal Effective Exchange Rates
(Index, Jan. 2010 = 100)



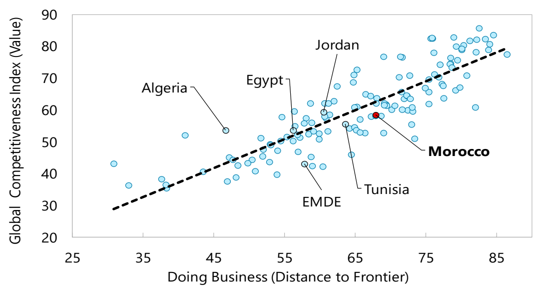
Sources: National authorities; and IMF staff estimates.

Figure 5. Morocco: Structural Reforms

Morocco fares relatively well in terms of overall business climate and competitiveness

Doing Business & Global Competitiveness, 2018

(0-100; Worst to best)

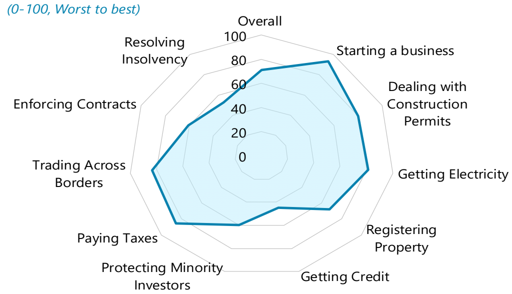


Sources: World Bank's 2019 Doing Business Report, World Economic Forum's 2018 Global Competitiveness Report.

Recent reforms include a new bankruptcy law that improved the insolvency regime and further streamlining of administrative procedures

Doing Business Indicators, 2018

(0-100, Worst to best)

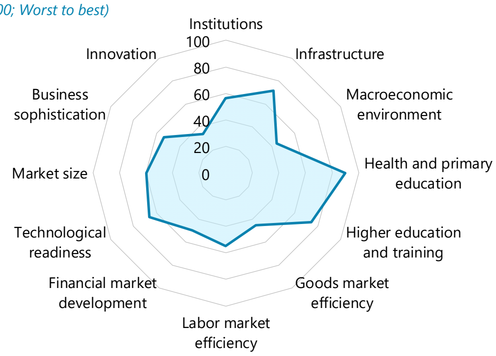


Sources: World Bank's 2019 Doing Business Report.

However, limited progress has been made in improving the education system and labor market functioning

Global Competitiveness Indicators, 2018

(0 - 100; Worst to best)

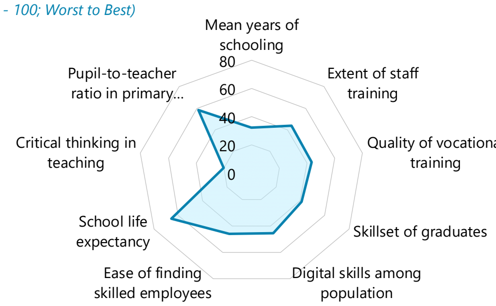


Sources: World Economic Forum's 2018 Global Competitiveness Report.

On education, efforts should focus on increasing years of schooling, teachers' training, and vocational training

Higher Education and Training, 2018

(0 - 100; Worst to Best)

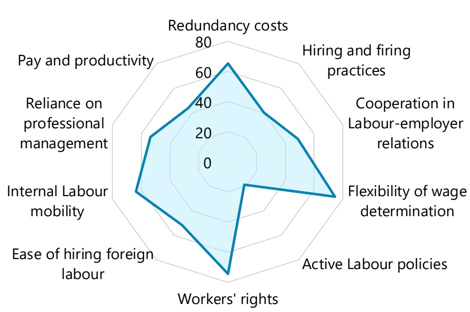


Sources: World Economic Forum's 2018 Global Competitiveness Report.

Efforts are needed to strengthen labor market policies and reduce regulatory rigidities

Labor Market, 2018

(0 - 100; Worst to Best)

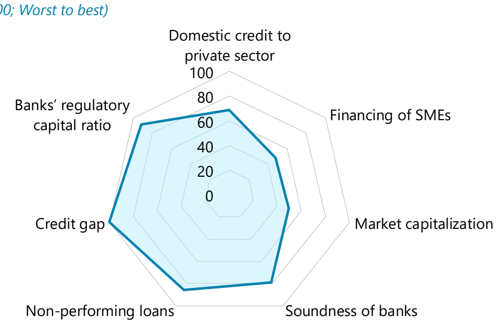


Sources: World Economic Forum's 2018 Global Competitiveness Report.

Facilitating access to finance for SMEs is a priority

Financial Development, 2018

(0 - 100; Worst to best)



Sources: World Economic Forum's 2018 Global Competitiveness Report.

Sources: World Bank's 2019 Doing Business Report, World Economic Forum's 2018 Global Competitiveness Report and IMF staff calculations. The World Economic Forum's Global Competitiveness Index combines both official and survey responses from business executives on several dimensions of competitiveness. Some of the scores rely on perceptions-based data and should be interpreted with caution. Note: Scores, 0-100, where 100 represents the optimal situation or 'frontier'.

Table 1. Morocco: Selected Economic Indicators, 2015–24

					Proj.						
					PLL 1/	Rev.					
	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
	(Annual percentage change)										
Output and Prices											
Real GDP	4.5	1.1	4.1	3.0	3.3	3.0	3.8	4.1	4.3	4.4	4.5
Real agriculture GDP	11.9	-13.7	15.4	3.9	0.7	0.1	3.3	3.7	4.0	4.3	4.5
Real non-agriculture GDP	3.7	3.1	2.7	2.8	3.6	3.4	3.9	4.2	4.3	4.4	4.5
Consumer prices (end of period)	0.6	1.8	1.9	0.1	1.4	0.6	1.1	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.5	1.6	0.7	1.9	1.4	0.6	1.1	2.0	2.0	2.0	2.0
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	30.8	32.6	32.6	33.2	36.9	34.0	34.4	34.8	35.2	35.6	35.9
Of which: Nongovernment	25.3	26.9	27.1	27.8	31.4	29.0	28.9	29.1	29.0	29.3	29.4
Gross national savings	28.8	28.4	28.9	27.8	32.9	30.0	30.9	31.8	32.2	32.8	33.1
Of which: Nongovernment	25.7	25.5	25.1	24.3	29.8	27.5	27.4	27.6	27.4	27.8	27.8
	(In percent of GDP)										
Public Finances											
Revenue	26.5	26.0	26.6	26.0	26.0	26.2	26.2	26.3	26.5	26.7	26.9
Expenditure	30.7	30.5	30.0	29.8	29.7	29.9	29.6	29.3	29.5	29.7	29.9
Budget balance	-4.2	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Primary balance (excluding grants)	-1.9	-2.7	-2.0	-1.7	-1.5	-1.5	-1.2	-0.9	-1.0	-1.0	-1.1
Cyclically-adjusted primary balance (excl. grants)	-1.6	-2.5	-1.7	-1.4	-1.4	-1.3	-1.1	-0.9	-1.0	-1.0	-1.1
Total government debt	63.7	64.9	65.1	64.9	65.2	65.1	64.5	63.1	62.0	60.9	60.0
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	1.6	5.9	3.3	3.4	...	5.2	...	...	...	...	...
Broad money	5.7	4.7	5.5	4.1	...	4.0	...	...	...	...	...
Velocity of broad money	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)	-7.0	3.3	12.7	11.2	5.5	5.4	7.1	7.0	6.7	6.7	6.0
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	3.4	2.1	5.4	5.4	6.3	6.2	5.8
Merchandise trade balance	-14.5	-17.1	-16.4	-17.1	-16.3	-15.8	-15.3	-14.8	-14.7	-14.6	-14.3
Current account excluding official transfers	-2.6	-5.0	-4.5	-5.8	-4.3	-4.4	-3.8	-3.2	-3.1	-3.0	-2.9
Current account including official transfers	-2.1	-4.0	-3.4	-5.4	-4.0	-4.0	-3.5	-3.0	-2.9	-2.8	-2.8
Foreign direct investment	2.6	1.5	1.5	2.5	1.8	1.8	1.9	1.9	2.0	2.1	2.2
Total external debt	33.4	33.7	34.5	31.1	34.1	32.7	31.9	30.8	30.0	29.1	28.2
Gross reserves (in billions of U.S. dollars)	22.8	25.1	26.2	24.4	26.8	26.0	27.4	29.6	32.5	35.9	39.9
In months of next year imports of goods and services	6.0	6.1	5.7	5.2	5.4	5.2	5.2	5.3	5.5	5.7	6.2
In percent of Fund reserve adequacy metric 2/	93.6	98.5	92.3	87.1	85.4	86.9	85.8	87.4	90.7	94.5	99.2
In percent of CA deficit and ST debt at rem. mat. basis	517.5	404.8	439.0	279.4	364.9	360.3	400.5	454.5	504.0	552.0	595.1
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	101.2	103.35	109.7	118.6	122.9	120.7	127.3	135.4	144.3	153.8	164.0
Nominal GDP per capita (in U.S. dollars, percent change)	-9.0	1.1	5.0	6.9	2.7	0.7	4.5	5.3	5.5	5.6	5.7
Output gap (percentage points of non-agricultural GDP)	-0.2	-0.8	-1.1	-1.0	-0.2	-0.8	-0.2	0.0	0.0	0.0	0.0
Unemployment rate (in percent)	9.7	9.9	10.2	9.8	...	...	...	...	...	...	...
Population (millions)	34.1	34.5	34.9	35.2	35.6	35.6	36.0	36.3	36.7	37.0	37.4
Population growth (in percent)	1.05	1.06	1.06	1.06	1.04	1.04	1.03	1.00	0.98	0.96	0.94
Net imports of energy products (in billions of U.S. dollars)	-6.8	-5.6	-7.2	-8.8	-9.4	-7.9	-8.3	-8.7	-9.1	-9.6	-10.0
Local currency per U.S. dollar (period average)	9.8	9.8	9.7	9.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	-0.3	2.1	-0.4	0.9	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Based on revised ARA weights.

Table 2a. Morocco: Budgetary Central Government Finance, 2015–24

(Billions of dirhams)

	2015	2016	2017	2018	2019 PLL 1/	2019 Rev.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Revenue	262.1	264.0	282.4	289.8	301.6	302.1	317.7	337.0	361.2	385.4	413.1
Taxes	208.9	216.9	232.1	242.5	259.0	254.3	273.5	292.2	313.6	335.1	359.7
Taxes on income, profits, and capital gains	78.6	83.7	93.3	95.5	101.5	103.7	107.1	114.6	122.9	130.7	140.6
Taxes on property	14.1	13.6	12.6	12.6	19.2	15.6	20.0	21.2	23.7	24.0	25.6
Taxes on goods and services	102.0	103.9	111.0	117.6	122.4	118.3	129.9	138.9	148.6	160.7	172.7
Taxes on international trade and transactions	8.1	9.5	9.0	10.1	9.6	9.8	10.0	10.5	11.1	11.8	12.5
Other taxes	6.1	6.3	6.0	6.7	6.3	7.0	6.5	6.9	7.4	7.8	8.3
Grants	5.0	9.1	11.4	4.4	3.2	3.2	3.0	1.2	1.2	1.2	1.2
Other revenue	48.3	38.0	39.0	42.9	39.4	44.5	41.2	43.6	46.3	49.2	52.3
Expense	248.5	251.6	261.6	270.3	280.8	288.2	291.7	302.5	317.4	338.2	359.6
Compensation of employees	118.5	121.2	122.2	124.5	130.8	133.6	138.1	141.8	144.2	146.7	149.2
Of which: wages and salaries	103.0	104.9	104.9	106.0	112.2	112.2	116.1	119.3	121.2	123.1	125.1
social contributions	15.5	16.3	17.3	18.5	18.6	21.5	22.0	22.5	23.0	23.5	24.0
Use of goods and services and grants	72.0	72.5	78.2	82.0	87.8	93.5	93.4	102.0	112.4	126.6	139.2
Of which: Use of goods and services	25.4	26.7	27.6	30.5	30.2	34.3	30.3	33.7	35.7	37.9	40.3
Grants	46.6	45.8	50.6	51.5	57.6	59.2	63.2	68.3	76.6	88.7	98.9
Interest	27.3	27.1	27.1	27.3	28.7	28.7	29.3	28.5	28.8	30.4	31.4
Subsidies	14.0	14.1	15.3	17.7	18.4	18.4	13.9	10.9	10.2	10.0	10.6
Other expenses 2/	16.8	16.8	18.8	18.8	15.1	14.0	17.0	19.3	21.8	24.6	29.2
Net acquisition of nonfinancial assets	54.8	57.8	57.9	60.8	63.3	57.1	66.4	73.2	84.5	91.1	99.9
Net lending / borrowing (overall balance)	-41.2	-45.4	-37.1	-41.4	-42.5	-43.2	-40.4	-38.7	-40.7	-43.9	-46.4
Net lending / borrowing (incl. privatization)	-41.2	-43.9	-37.1	-41.4	-37.5	-38.2	-35.4	-33.7	-37.7	-40.9	-46.4
Net lending / borrowing (incl. privatization excl. grants)	-46.2	-53.0	-48.5	-45.7	-40.7	-41.4	-38.4	-34.9	-38.9	-42.1	-47.6
Net lending / borrowing (excluding grants)	-46.2	-54.5	-48.5	-45.7	-45.7	-46.4	-43.4	-39.9	-41.9	-45.1	-47.6
Change in net financial worth	-41.2	-45.4	-37.1	-41.4	-42.5	-43.2	-40.4	-38.7	-40.7	-43.9	-46.4
Net acquisition of financial assets	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	0.0
Domestic	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	0.0
Shares and other equity	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	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
Net incurrence of liabilities	41.2	43.9	37.1	41.4	37.5	38.2	35.4	33.7	37.7	40.9	46.4
Domestic	40.9	41.1	28.1	43.2	18.8	19.7	17.8	28.4	16.3	33.5	38.9
Currency and Deposits	0.7	5.5	2.0	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	42.9	27.0	26.1	39.2	17.8	18.7	16.8	27.4	15.3	32.5	37.9
Other accounts payable	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	2.8	9.0	-1.9	18.7	18.5	17.6	5.2	21.4	7.4	7.5
Memorandum Item:											
Total investment (including capital transfers)	71.6	74.6	76.7	79.6	78.4	71.1	83.4	92.4	106.2	115.7	129.1
GDP	988.0	1,013.6	1,063.3	1,112.8	1,159.0	1,155.0	1,211.1	1,283.6	1,362.1	1,446.1	1,536.8

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Includes capital transfers to public entities.

Table 2b. Morocco: Budgetary Central Government Finance, 2015–24

(Percent of GDP)

	2015	2016	2017	2018	PLL 1/ 2019	Rev. 2019	Proj. 2020	2021	2022	2023	2024
Revenue	25.6	26.0	26.6	26.0	26.0	26.2	26.2	26.3	26.5	26.7	26.9
Taxes	20.5	21.4	21.8	21.8	22.3	22.0	22.6	22.8	23.0	23.2	23.4
Taxes on income, profits, and capital gains	7.7	8.3	8.8	8.6	8.8	9.0	8.8	8.9	9.0	9.0	9.1
Taxes on property	1.4	1.3	1.2	1.1	1.7	1.3	1.7	1.7	1.7	1.7	1.7
Taxes on goods and services	10.2	10.3	10.4	10.6	10.6	10.2	10.7	10.8	10.9	11.1	11.2
Taxes on international trade and transactions	0.8	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.4	0.6	0.6	0.6	0.5	0.6	0.5	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
Grants	1.0	0.9	1.1	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Other revenue	4.1	3.7	3.7	3.9	3.4	3.9	3.4	3.4	3.4	3.4	3.4
Expense	25.2	24.8	24.6	24.3	24.2	25.0	24.1	23.6	23.3	23.4	23.4
Compensation of employees	12.1	12.0	11.5	11.2	11.3	11.6	11.4	11.0	10.6	10.1	9.7
Of which: wages and salaries	10.3	10.3	9.9	9.5	9.7	9.7	9.6	9.3	8.9	8.5	8.1
social contributions	1.8	1.6	1.6	1.7	1.6	1.9	1.8	1.8	1.7	1.6	1.6
Use of goods and services and grants	7.2	7.2	7.4	7.4	7.6	8.1	7.7	7.9	8.2	8.8	9.1
Of which: Use of goods and services	2.8	2.6	2.6	2.7	2.6	3.0	2.5	2.6	2.6	2.6	2.6
Grants	4.4	4.5	4.8	4.6	5.0	5.1	5.2	5.3	5.6	6.1	6.4
Interest	2.8	2.7	2.5	2.5	2.5	2.5	2.4	2.2	2.1	2.1	2.0
Subsidies	1.7	1.4	1.4	1.6	1.6	1.6	1.2	0.8	0.8	0.7	0.7
Other expenses 2/	1.5	1.7	1.8	1.7	1.3	1.2	1.4	1.5	1.6	1.7	1.9
Net acquisition of nonfinancial assets	4.7	5.7	5.4	5.5	5.5	4.9	5.5	5.7	6.2	6.3	6.5
Net lending / borrowing (overall balance)	-4.3	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Net lending / borrowing (incl. privatization)	-4.3	-4.3	-3.5	-3.7	-3.2	-3.3	-2.9	-2.6	-2.8	-2.8	-3.0
Net lending / borrowing (incl. privatization excl. grants)	-5.3	-5.2	-4.6	-4.1	-3.5	-3.6	-3.2	-2.7	-2.9	-2.9	-3.1
Net lending / borrowing (excluding grants)	-5.3	-5.4	-4.6	-4.1	-3.9	-4.0	-3.6	-3.1	-3.1	-3.1	-3.1
Cyclical adjusted balance	-5.0	-4.9	-4.3	-4.1	-3.9	-4.0	-3.6	-3.4	-3.6	-4.0	-4.2
Change in net financial worth	-4.3	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	0.0
Domestic	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	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
Loans	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	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	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
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.3	4.3	3.5	3.7	3.2	3.3	2.9	2.6	2.8	2.8	3.0
Domestic	4.1	4.1	2.6	3.9	1.6	1.7	1.5	2.2	1.2	2.3	2.5
Currency and Deposits	0.0	0.5	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	4.9	2.7	2.5	3.5	1.5	1.6	1.4	2.1	1.1	2.2	2.5
Other accounts payable	-0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.2	0.3	0.8	-0.2	1.6	1.6	1.5	0.4	1.6	0.5	0.5
Memorandum items:											
Total investment (including capital transfers)	6.2	7.4	7.2	7.2	6.8	6.2	6.9	7.2	7.8	8.0	8.4
Total government debt 3/		64.9	65.1	64.9	65.2	65.1	64.5	63.1	62.0	60.9	60.0
Deposits at the Treasury from third parties		5.5	5.5	5.3	5.2	5.2	5.1	4.8	4.6	4.4	4.2

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Includes capital transfers to public entities.

3/ Does not include deposits at the Treasury from third parties (SOEs, private entities and individuals).

Table 3. Morocco: Balance of Payments, 2015–24

(In billions of US dollars, unless otherwise indicated)

					Proj.						
					PLL 1/	Rev.					
	2015	2016	2017	2018	2019		2020	2021	2022	2023	2024
Current account	-2.2	-4.2	-3.7	-6.5	-4.9	-4.8	-4.5	-4.1	-4.2	-4.3	-4.6
Trade balance	-14.7	-17.6	-18.0	-20.2	-20.0	-19.1	-19.5	-20.0	-21.2	-22.4	-23.5
Exports, f.o.b.	18.6	19.1	21.5	24.6	26.5	26.2	28.3	30.5	32.6	35.0	37.4
Food products	4.2	4.6	5.1	5.6	5.8	6.0	6.5	7.0	7.5	8.0	8.5
Phosphates and derived products	4.5	4.0	4.6	5.5	5.7	6.0	6.4	7.0	7.4	7.9	8.5
Automobiles	5.0	5.6	6.1	6.9	8.8	7.5	8.2	9.0	9.6	10.4	11.2
Imports, f.o.b.	-33.3	-36.7	-39.5	-44.8	-46.4	-45.3	-47.8	-50.5	-53.8	-57.4	-60.9
Energy	-6.8	-5.6	-7.2	-8.8	-9.4	-7.9	-8.3	-8.7	-9.1	-9.6	-10.0
Capital goods	-8.4	-10.6	-11.3	-12.8	-12.8	-12.8	-13.4	-14.1	-15.0	-16.0	-16.8
Food products	-3.6	-4.5	-4.4	-4.9	-5.2	-4.8	-5.1	-5.4	-5.7	-5.9	-6.2
Services	6.8	6.9	7.5	8.0	8.3	8.1	8.6	9.3	10.1	10.8	11.4
Tourism receipts	6.3	6.5	7.4	7.8	8.0	7.8	8.2	8.7	9.1	9.6	10.0
Income	-1.9	-1.6	-1.9	-2.2	-2.1	-2.1	-2.3	-2.4	-2.6	-2.7	-2.8
Transfers	7.7	8.2	8.8	8.0	8.9	8.3	8.8	9.0	9.5	10.0	10.3
Private transfers (net)	7.2	7.3	7.6	7.6	8.5	7.9	8.3	8.8	9.2	9.7	10.2
Workers' remittances	6.1	6.4	6.8	6.9	7.3	7.2	7.6	8.0	8.4	8.9	9.4
Official grants (net)	0.5	1.0	1.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.8	6.4	2.0	4.0	6.7	6.3	5.8	6.1	7.1	7.6	8.5
Direct investment	2.6	1.6	1.7	3.0	2.2	2.1	2.4	2.6	2.9	3.2	3.6
Portfolio investment	1.3	-0.3	-0.1	-0.8	1.6	1.2	0.2	0.2	0.3	0.2	0.2
Other	1.8	5.1	0.4	1.9	2.9	2.9	3.2	3.3	3.9	4.2	4.7
Private	0.7	4.0	-1.4	1.9	2.2	1.9	2.3	2.6	2.8	3.0	3.6
Public medium-and long-term loans (net)	1.2	1.2	1.8	-0.1	0.6	1.1	0.9	0.7	1.1	1.1	1.1
Disbursements	2.8	3.2	3.7	2.1	2.9	3.2	3.2	3.2	3.2	3.2	3.2
Amortization	-1.6	-2.1	-1.9	-2.1	-2.2	-2.2	-2.3	-2.4	-2.1	-2.1	-2.1
Reserve asset accumulation (-increase)	-4.3	-2.7	0.9	1.1	-1.8	-1.4	-1.3	-2.0	-2.9	-3.3	-3.9
Errors and omissions	0.7	0.6	0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)							
Current account	-2.1	-4.0	-3.4	-5.4	-4.0	-4.0	-3.5	-3.0	-2.9	-2.8	-2.8
Trade balance	-14.5	-17.1	-16.4	-17.1	-16.3	-15.8	-15.3	-14.8	-14.7	-14.6	-14.3
Exports, f.o.b.	18.4	18.4	19.6	20.7	21.5	21.7	22.2	22.5	22.6	22.8	22.8
Food products	4.2	4.5	4.6	4.7	4.7	5.0	5.1	5.2	5.2	5.2	5.2
Phosphates and derived products	4.5	3.9	4.2	4.7	4.7	5.0	5.1	5.1	5.2	5.2	5.2
Automobiles	4.9	5.4	5.5	5.8	7.1	6.2	6.4	6.6	6.7	6.8	6.8
Imports, f.o.b.	-32.9	-35.5	-36.0	-37.8	-37.8	-37.5	-37.5	-37.3	-37.3	-37.3	-37.1
Energy	-6.7	-5.4	-6.5	-7.4	-7.7	-6.6	-6.5	-6.4	-6.3	-6.2	-6.1
Capital goods	-8.3	-10.2	-10.3	-10.8	-10.4	-10.6	-10.5	-10.4	-10.4	-10.4	-10.3
Food products	-3.6	-4.4	-4.0	-4.1	-4.2	-4.0	-4.0	-4.0	-3.9	-3.8	-3.8
Services	6.7	6.7	6.8	6.7	6.8	6.7	6.8	6.9	7.0	7.0	6.9
Tourism receipts	6.2	6.3	6.8	6.6	6.5	6.5	6.5	6.4	6.3	6.3	6.1
Income	-1.9	-1.6	-1.8	-1.9	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7
Transfers	7.6	7.9	8.0	6.7	7.3	6.9	6.9	6.7	6.6	6.5	6.3
Private transfers (net)	7.1	7.0	6.9	6.4	6.9	6.5	6.5	6.5	6.4	6.3	6.2
Workers' remittances	6.1	6.1	6.2	5.8	6.0	5.9	5.9	5.9	5.8	5.8	5.7
Official grants (net)	0.5	0.9	1.1	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.1	1.8	3.4	5.4	5.2	4.6	4.5	4.9	4.9	5.2
Direct investment	2.6	1.5	1.5	2.5	1.8	1.8	1.9	1.9	2.0	2.1	2.2
Portfolio investment	1.3	-0.3	-0.1	-0.7	1.3	1.0	0.2	0.2	0.2	0.1	0.1
Other	1.8	5.0	0.4	1.6	2.3	2.4	2.5	2.4	2.7	2.7	2.9
Private	0.7	3.8	-1.3	1.6	1.8	1.6	1.8	1.9	2.0	2.0	2.2
Public medium-and long-term loans (net)	1.2	1.1	1.7	-0.1	0.5	0.9	0.7	0.5	0.7	0.7	0.7
Disbursements	2.8	3.1	3.4	1.7	2.3	2.7	2.5	2.3	2.2	2.1	2.0
Amortization	-1.6	-2.0	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.5	-1.4	-1.3
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	3.3	12.7	11.2	5.5	5.4	7.1	7.0	6.7	6.7	6.0
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	3.4	2.1	5.4	5.4	6.3	6.2	5.8
Current account balance excluding official grants (percent of GDP)	-2.6	-5.0	-4.5	-5.8	-4.3	-4.4	-3.8	-3.2	-3.1	-3.0	-2.9
Terms of trade (percentage change) 2/	7.5	-3.8	0.5	1.1	0.4	2.2	0.5	0.4	0.5	0.6	0.4
Gross official reserves 3/	22.8	25.1	26.2	24.4	26.8	26.0	27.4	29.6	32.5	35.9	39.9
In months of prospective imports of GNFS	6.0	6.1	5.7	5.2	5.4	5.2	5.2	5.3	5.5	6.2	6.2
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	93.6	98.5	92.3	87.1	85.4	86.9	85.8	87.4	90.7	94.5	99.2
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	122.9	128.6	121.5	115.5	112.6	114.5	112.2	113.9	117.7	122.1	127.5
Debt service (percent of export of GNFS and remittances) 5/	6.9	7.8	6.5	6.4	6.4	6.1	6.1	5.7	5.2	4.9	4.7
External public and publicly guaranteed debt (percent of GDP)	30.5	30.8	31.2	29.7	30.8	30.5	29.8	28.7	27.8	26.9	26.0
DHs per US$, period average	9.8	9.8	…	…	…	…	…	…	…	…	…
GDP (US$)	101.2	103.3	109.7	118.6	122.9	120.7	127.3	135.4	144.3	153.8	164.0
Oil price (US$/barrel; Brent)	52.4	44.0	54.4	71.1	72.3	61.8	61.5	60.8	60.4	60.6	61.0

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

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 4. Morocco: Monetary Survey, 2015–19

	2015	2016	2017	2018	2019
	(Billions of dirhams)				
Net International Reserves	222.1	249.2	240.9	230.7	241.2
Of which: Gross reserves	225.4	253.5	244.3	233.7	247.2
Memo item: Deposit money banks	8.3	-1.8	27.7	25.6	25.7
Net domestic assets	924.3	961.0	1,006.8	1,070.4	1,134.1
Domestic Claims	1,052.1	1,100.0	1,157.3	1,225.9	1,289.6
Net claims on the government	148.0	142.4	167.8	203.0	213.5
Banking system	148.0	142.4	167.8	203.0	213.5
Bank Al-Maghrib	-1.2	-0.3	0.2	0.8	0.7
Of which: deposits	-6.0	-4.9	-3.9	-2.9	-3.0
Deposit money banks	149.2	142.6	167.6	202.2	212.8
Claims to the economy	904.2	957.6	989.5	1,005.7	1,076.1
Other liabilities, net	-127.9	-139.0	-150.5	-155.5	-155.4
Broad money	1,148.0	1,202.4	1,269.1	1,320.6	1,373.4
Money	707.1	751.9	811.0	858.7	910.7
Currency outside banks	192.6	203.2	218.8	233.6	242.5
Demand deposits	514.4	548.6	592.2	625.1	668.2
Quasi money	401.7	407.3	417.0	424.5	441.5
Foreign deposits	39.3	43.2	41.1	37.4	21.3
	(Annual percentage change)				
Net International Reserves	23.7	12.2	-3.3	-4.2	4.6
Net domestic assets	1.9	4.0	4.8	6.3	6.0
Domestic credit	1.8	4.6	5.2	5.9	5.2
Net claims on the government	3.0	-3.8	17.8	21.0	5.2
Claims to the economy	1.6	5.9	3.3	3.4	5.2
Banking credit	2.8	4.2	3.1	3.2	4.5
Broad money	5.7	4.7	5.5	4.1	4.0
	(Change in percent of broad money)				
Net International Reserves	3.9	2.4	-0.7	-0.8	0.8
Domestic credit	1.7	4.2	4.8	5.4	4.8
Net claims on the government	0.4	-0.5	2.1	2.8	0.8
Claims to the economy	1.3	4.7	2.7	2.6	4.0
Memorandum items:					
Velocity (GDP/M3)	0.86	0.84	0.84	0.84	0.84
Velocity (non-agr. GDP/M3)	0.76	0.75	0.74	0.75	0.74
Claims to economy/GDP (in percent)	91.5	94.5	93.1	91.9	93.2
Claims to economy/non-agr GDP (in percent)	103.6	106.1	104.9	103.7	106.4

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

Table 5. Morocco: Financial Soundness Indicators, 2015-18

(Percent, unless otherwise indicated)

		2016		2017		2018	
	2015	Jun	Dec	Jun	Dec	Jun	Dec
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	13.7	13.7	14.2	13.7	13.8	14.0	14.7
Tier 1 capital to risk weighted assets	11.4	11.1	11.5	11.0	10.9	10.5	10.9
Capital to assets	9.1	9.4	9.1	9.1	9.1	9.1	9.1
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.0	18.5	17.8	17.8	17.1	17.8	16.5
Of which : agro-business	3.6	3.3	3.1	3.3	3.3	3.6	3.6
Of which : textile	0.8	0.9	0.8	0.8	0.7	0.7	0.6
Of which : gas and electricity	6.3	6.3	6.2	6.2	5.5	5.6	4.9
Agriculture	4.0	4.1	4.0	3.6	3.8	3.6	4.1
Commerce	6.4	6.7	6.4	6.7	6.7	6.6	6.2
Construction	10.7	11.4	11.2	11.2	11.3	11.1	10.5
Tourism	1.9	2.1	1.9	1.9	1.8	1.8	1.6
Finance	13.4	11.8	13.1	13.0	12.7	11.6	12.6
Public administration	4.5	4.9	4.7	4.6	4.9	5.7	8.4
Transportation and communication	4.2	4.6	4.1	4.8	4.5	4.7	4.0
Households	32.3	32.8	32.4	32.4	32.6	32.8	31.9
Other	4.6	3.1	4.4	4.0	4.6	4.2	4.3
FX-loans to total loans	7.1	6.9	7.1	8.8	7.8	7.3	7.4
Credit to the private sector to total loans	91.0	90.5	89.5	89.9	89.2	88.2	85.9
Credit to non financial public enterprises to total loans	4.9	5.2	5.8	5.5	6.2	6.1	6.1
Nonperforming Loans (NPLs) to total loans	6.8	7.2	7.1	7.0	7.0	7.1	6.8
Specific provisions to NPLs	68.0	67.0	69.0	70.0	71.0	70.0	69.1
NPLs, net of provisions, to Tier 1 capital	17.8	18.4	17.3	16.3	15.8	16.4	14.8
Large exposures to Tier 1 capital	294.0	302.0	297.4	318.0	284	296	288
Loans to subsidiaries to total loans	7.0	7.2	7.8	8.8	8.5	8.3	8.3
Loans to shareholders to total loans	1.7	1.4	1.1	1.0	0.6	0.8	1.0
Specific provisions to total loans	5.0	5.1	5.3	5.3	5.3	5.2	5.0
General provisions to total loans	0.8	0.8	0.9	1.0	1.0	1.0	1.0
Profitability							
Return on assets (ROA)	0.8	1.1	1.1	1.1	0.9	1.1	0.9
Return on equity (ROE)	9.1	11.7	11.4	11.2	9.5	11.5	9.5
Interest rate average spread (b/w loans and deposits)	3.8	3.8	3.9	3.9	3.9	3.9	na
Interest return on credit	5.0	5.0	5.0	4.9	4.9	4.8	na
Cost of risk as a percent of credit	1.1	1.2	1.1	0.9	0.8	0.9	0.9
Net interest margin to net banking product (NPB) 2/	72.0	67.9	70.6	71.4	70.1	72.1	71.2
Operating expenses to NPB	49.1	43.9	46.2	46.4	50.6	46.7	50.6
Operating expenses to total assets	1.9	1.9	1.9	1.9	1.9	1.8	1.8
Personnel expenses to noninterest expenses	47.4	47.6	47.5	47.5	47.5	47.0	47.5
Trading and other noninterest income to NPB	28.0	32.1	29.4	28.6	29.9	27.9	28.8
Liquidity							
Liquid assets to total assets	16.1	13.0	14.5	11.8	13.7	12.9	12.2
Liquid assets to short-term liabilities	21.2	17.1	18.3	15.7	17.3	14.4	15.1
Deposits to loans	104.3	105.4	105.0	104.2	107.5	104.9	103.8
Deposits of state-owned enterprises to total deposits	2.9	1.9	2.7	2.4	2.4	1.9	2.7
Sensitivity to market risk							
FX net open position to Tier 1 Capital	7.4	5.6	4.1	5.6	7.0	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.

Table 6. Morocco: Capacity to Repay Indicators, 2018–25 1/

	2018	2019	2020	2021	2022	2023	2024	2025
Exposure and repayments (in SDR million)								
GRA credit to Morocco	0.0	2,150.8	2,150.8	2,150.8	1,838.1	762.7	0.0	0.0
(In percent of quota)	0.0	240.5	240.5	240.5	205.5	85.3	0.0	0.0
Charges due on GRA credit	0.0	20.8	51.8	55.3	54.5	35.02	10.8	0.3
Principal due on GRA credit	0.0	0.0	0.0	0.0	312.7	1,075.4	762.7	0.0
Debt service due on GRA credit	0.0	20.8	51.8	55.3	367.1	1,086.2	763.0	0.2
Debt and debt service ratios								
In percent of GDP								
Total external debt	31.1	35.2	34.3	33.1	31.8	29.8	28.2	27.3
Public external debt	27.8	31.8	30.9	29.8	28.6	26.7	25.2	24.5
GRA credit to Morocco	0.0	2.5	2.4	2.2	1.8	0.7	0.0	0.0
Total external debt service	2.7	2.7	2.6	2.5	2.6	3.1	2.6	1.8
Public external debt service	1.7	1.7	1.6	1.5	1.7	2.2	1.8	1.1
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.4	1.0	0.7	0.0
In percent of gross international reserves								
Total external debt	151.0	163.0	158.8	151.0	140.4	127.1	115.5	108.6
Public external debt	135.0	147.1	143.2	136.2	126.4	114.0	103.3	97.1
GRA credit to Morocco	0.0	11.6	11.0	10.2	7.9	3.0	0.0	0.0
In percent of exports of goods and services								
Total external debt	110.7	124.9	128.2	131.1	134.4	136.0	138.8	143.5
Public external debt	99.0	112.5	115.4	117.9	120.7	121.8	124.1	128.4
GRA credit to Morocco	0.0	6.7	6.2	5.8	4.7	1.8	0.0	0.0
In percent of total external debt								
GRA credit to Morocco	0.0	5.3	4.9	4.4	3.5	1.3	0.0	0.0
In percent of public external debt								
GRA credit to Morocco	0.0	5.9	5.4	4.9	3.9	1.5	0.0	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	118.6	120.7	127.3	135.4	144.3	153.8	164.0	175.0
Gross international reserves (in billions of U.S. dollars)	24.4	26.0	27.5	29.7	32.6	36.0	40.1	44.1
Exports of goods and services (in billions of U.S. dollars)	43.1	45.5	48.7	52.1	55.6	59.3	62.8	66.6
Quota (in millions of SDRs)	894.4	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 240 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary, and the table presents the full drawing scenario.

Appendix I. Written Communication

Rabat, May 28, 2019

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States

Dear Madame Lagarde

1. Morocco's economic fundamentals are strong and steadily improving, and the authorities continue to implement sound economic and financial policies while carrying out wide-ranging structural reforms to further strengthen the resilience of the economy and make growth stronger and more inclusive. As a result, the vulnerabilities in the economy have been reduced considerably and Morocco's medium-term outlook is improving. We remain committed to implementing the economic and financial policy described in our written communication of November 30, 2018.

2. In 2018, growth was robust at around 3 percent, reflecting a modest rebound in the non-agricultural sector and strong agricultural production, despite slower growth in our main partners and higher energy costs. Inflation remains moderate at 1.9 percent. The current account deficit increased to 5.4 percent of GDP as a result of the significant increase in oil prices, rising imports of capital goods, and declining grants and transfers from Moroccans residing abroad, but the foreign exchange reserves remained at a comfortable level, above 5 months of imports. Despite these adverse developments, which constrained budget execution, particularly the increase in butane gas subsidies and lower grant revenues, the fiscal deficit did not exceed 3.7 percent of GDP owing to better control of current expenditure. The public debt ratio stabilized at around 65 percent of GDP.

3. Although Morocco does not require balance of payments financing, the PLL arrangement approved on December 17, 2018 provides useful insurance against external shocks while bolstering investor confidence. The authorities will continue to treat the PLL as precautionary and draw on it only in the event of unforeseen exogenous shocks.

4. The objectives of the program supported by the PLL are to accelerate the pace of the structural reforms in order to promote stronger and more inclusive growth that will create more jobs and to further strengthen economic resilience, the fiscal and external buffers, and the stability of the financial system. To this end, the authorities plan to build new momentum that can mobilize synergies and boost investor confidence to reach a new level of growth of 4.5 to 5 percent per year, accelerate the creation of jobs and reduction of social and spatial disparities, and sustainably improve the standard of living of its citizens.

5. The government remains committed to strengthening fiscal sustainability by maintaining its public debt sustainability and improving its resilience to shocks. The fiscal deficit excluding privatization proceeds will be held at 3.7 percent of GDP in 2019 (3.3 percent if privatizations are

included) and reduced to 3 percent of GDP by 2021, thus ensuring convergence toward the target of 60 percent for the public debt/GDP ratio in the medium term. This will be achieved through stronger tax revenue mobilization and better expenditure control and efficiency, while prioritizing investment in infrastructure and human capital and strengthening social protection. The main tax measures introduced in the 2019 Budget Law aim to expand the tax base and improve taxpayer compliance and tax equity. They involve easing the progressive scale of the corporate income tax (IS) in favor of SMEs, increasing the minimum contribution for businesses posting a structural deficit, eliminating exemptions for banks and offshore holding companies, reducing the personal income tax (IR) for self-employed, increasing taxation on income from property, introducing a temporary social solidarity contribution on profits, increasing taxes on cigarettes, and removing the exemptions for loan protection insurance operations. In net terms, these measures should bring in the equivalent of 0.5 percent of GDP.

6. The national tax reform consultations held on May 3 and 4, 2019 with the participation of the main partners resulted in the basic outline for a wide-ranging reform of the Moroccan tax system to increase its efficiency, equity and contribution to growth. The recommendations adopted at the conclusion of these consultations are aimed primarily at expanding the tax base, reducing exemptions, ensuring tax equity and improving taxpayer compliance, specifically through (i) the restructuring of the IR in favor of low-income groups and the middle classes, while gradually expanding its base; (ii) recognition of the principle of VAT neutrality; (iii) gradual normalization of the regimes applicable to exports, free zones and Casablanca Finance City and an increase in the marginal rate applied to protected activities; (iv) simplification of the taxation of low-income merchants and artisans; (v) simplification of local taxation and harmonization of its tax base and procedures with central government taxation; (vi) strengthening of the tax administration by completing its automation and professionalization and the promotion of ethical values and transparency; and (vii) rebalancing of the rights and obligations of the taxpayer and the tax administration. On the basis of the recommendations emerging from these national consultations, a tax framework law will be prepared that will establish the parameters of the reform and give a greater visibility to economic agents.

7. The government's objective is to keep its personnel expenditure, including social contributions, below 10.5 percent of GDP in the medium term and to take the measures needed to achieve this objective. The reform of public administration will continue with a view to improving its efficiency and productivity by reforming the organizational and management structures, modernizing the HR management system, enhancing public service ethics, and expanding the automation and simplification of procedures. For the civil service in particular, this will involve implementing and promoting the gradual introduction of contractual employment, for which the legal framework is already in place, implementing and promoting personnel mobility, and modernizing the civil service bylaws, particularly by introducing performance-based remuneration and promotion.

8. After remarkable progress in recent years, resulting in a gain of 9 positions in the most recent Doing Business ranking (2019), the government's structural reform efforts will involve

continuing to improve the business environment, particularly by modernizing the system of incentives and the legal environment applicable to businesses, improving the quality of infrastructure and public services, and simplifying and automating administrative procedures. To this end, a draft law revising the organization and powers of the Regional Investment Centers (CRIs) was adopted in 2019. The revision of the Investment Charter is also under way so as to harmonize and streamline the system of investment incentives. A new legal framework governing the establishment of secured transactions system has been introduced to facilitate business access to sources of financing and to make investment financing operations more secure. As well, a new Competition Council Chairman was appointed in November 2018, followed by the appointment of the other members of the Council, which will enable it to play its role with full independence and neutrality and thus help to enhance good economic governance and the competitiveness of the national economy and its capacity to create value and jobs. To this end, the Council will ensure transparency and equity in economic relations, specifically by analyzing and regulating market competition and monitoring anti-competitive practices, economic concentration, and monopolistic operations. To improve businesses' cash flow, the government has introduced an accelerated program for clearing VAT credits and reducing payment delays in the public and private sectors.

9. The national anti-corruption strategy is being implemented. An initial progress report covering the period 2016-2018 will be published this year and notes significant progress in improving the reception and guidance given to citizens, simplifying and standardizing administrative procedures, monitoring and processing claims, and increasing electronic data-sharing between government departments. Moreover, the appointment in December 2018 of a new Chair of the National Body on Probity and the Prevention and Combating of Corruption will allow this constitutional body to perform its mission of coordinating, supervising, and monitoring the implementation of policies in this area. Significant progress has been made in digitalizing the administration, with the enactment in November 2018 of a law making it mandatory to complete business creation formalities electronically and the enactment in January 2019 of a law creating an electronic platform to automate all legal formalities required to start and arising over the life of businesses. The government is also continuing to take the necessary steps to enhance transparency and consolidate the rules of good governance. In this context, a law on public access to information entered into effect in March 2019. Morocco also improved its Corruption Perception Index ranking by 8 positions in 2018 and in July 2018 became a member of the Open Government Partnership (OGP), which aims to promote transparency in public action, enhance integrity, and combat corruption.

10. As part of the strategic vision for the 2015-2030 reform of the education system and the national employment strategy, the government is committed to improving the quality of human resources so as to improve productivity and ensure a better match between training and jobs, pursue active labor market policies, and promote the employment of young people and women. It has also implemented an ambitious program to increase teacher staffing levels, the last phase of which will be completed in 2019, in order to reduce class sizes and better serve remote areas. The public preschool system created in 2018 is being further expanded. The draft framework law on the education, training and scientific research system was submitted to Parliament in September 2018

and is still under discussion. As well, a new roadmap for vocational training was adopted in April and calls for the creation of professions and skills centers in the 12 regions of the Kingdom offering training adapted to the needs of each region and provided with a governance system that allows for the involvement of the private sector in the development of the training programs.

11. A far-reaching reform is being prepared to strengthen the role of the agricultural sector in creating jobs and promoting investment by facilitating land ownership with the aim of promoting the emergence of an agricultural middle class that can provide the impetus for rural development. In this context, a million hectares of collective lands will be made available to small-scale farmers, particularly young people, to ensure more profitable use of these lands and to create job- and income-generating activities. An important step in this direction was completed in February 2019 with the adoption by the Council of Government of a new legislative framework covering the Soulaliyate collective lands to facilitate their management and transfer and allow their use as collateral for access to credit.

12. The national financial inclusion strategy was approved by the government in January 2019 and adopted by the National Financial Inclusion Council on April 1, 2019. Specific measures targeting very small, small, and medium-sized enterprises (VSMEs), young people, women and rural populations are already being implemented, and steps have been taken to review the existing support instruments for SMEs. As well, the government plans to prepare a Small Business Act in 2019, which will provide solutions to the constraints encountered by VSMEs and cover aspects such as financing, the legal framework, market access, taxation, and support and guidance. Some measures will be implemented starting in the second half of the year, specifically the establishment of a portal for entrepreneurs. A revision of the legislative framework for microcredit is also being undertaken by the authorities to improve access of VSEs to financing. In this context, the maximum authorized amount of microcredit has been increased threefold.

13. The government will continue to improve the governance of the public enterprise and establishment (EEP) sector by promoting transparency and accountability. A draft law to enhance governance and improve performance and government financial control over EEPs is expected to be submitted to Parliament in the April 2019 session. Discussions are under way in this context, with the help of the IMF, for the development of an integrated system for monitoring and assessing EEP risks, particularly fiscal risks. At the same time, the government has launched discussions on the in-depth reform of the EEP business model, which should result in a gradual government divestment from sectors and activities that could be handled by the private sector, a refocusing of EEPs on their core business, the sale of assets not related to their mission, and the outsourcing to the private sector of related activities. In this context, the privatization program planned by the government is expected to contribute the equivalent of 2 percent of GDP to the budget over the period 2019-2024. The list of enterprises that could potentially be privatized has been updated and the members of the entity for assessing and arranging the transfers provided by law No. 39.89 have been appointed.

14. The enhancement of social safety nets and improvement of their consistency, targeting, and efficiency are an essential component of the government's program. The national consultations on social protection organized in November 2018 identified the deficiencies of the current system and

established a roadmap for expanding basic health and pension coverage to the entire population and replacing the nontargeted subsidies still in place with direct assistance to vulnerable categories based on a single social registry to be implemented by end-2020. The recommendations of these national consultations focused in particular on the adaptation of the social protection system to current international standards, the simplification of procedures for obtaining severance payments, the enhancement of the legal framework covering work-related accidents, the introduction and expansion of unemployment insurance, and the consolidation of the RAMED medical coverage system.

15. The level of public investment will be maintained, and its efficiency enhanced by improving the system for the selection of investment projects to ensure that they are selected on the basis of their impact on employment, reduction of disparities, and improvement of the living conditions of citizens, based on the recommendations of the recent Public Investment Management Assessment (PIMA). Specifically, the government plans to adopt an integrated system for the centralized management of public investments and to introduce public-private partnerships (PPPs) to enhance the supply and quality of infrastructure while limiting their cost and potential risks for the budget. A unified legal framework governing the public investment management system is being prepared for this purpose. As well, a draft law amending and supplementing Law No. 86.12 on PPPs was adopted in April 2019 by the Council of Government to ease the procedures for PPPs and expand their scope to local governments.

16. As part of the implementation of advanced regionalization, which is another priority focus for the government, fiscal decentralization has been introduced conservatively to protect fiscal sustainability. Subnational governments have been given a number of responsibilities, and their resources, both their own resources and transferred resources, are expected to increase gradually. A draft law reforming local taxation to improve its consistency and yield is being prepared and should benefit from the recommendations of the national consultations on tax reform in May 2019. The government will aim to ensure that good governance and efficiency are preserved at the local level, particularly through increased capacity, transparency and accountability. The national charter on administrative deconcentration was adopted in November 2018 to ensure consistency in the activities of the various ministries at the regional level, clearly define the powers of each government level, and establish transparent criteria for revenue sharing and the use of the new solidarity and equalization funds.

17. The preparation of consolidated government finance and debt statistics for 2017 at the level of general government should be completed by the end of the first half of 2019, and the updating of the statistics for 2018 should begin immediately thereafter. The government is receiving technical assistance from the IMF for this work.

18. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of moderate inflation, a slow recovery of non-agricultural and credit growth, and a comfortable level of foreign exchange reserves. BAM will continue to promote appropriate financing of the economy, with an emphasis on VSMEs. The draft law reforming the central bank law was adopted by the second house of Parliament on May 14, 2019 and will be brought before the first house for final

adoption on June 11, 2019. This law will strengthen BAM's independence to contribute to financial stability and promoting financial inclusion.

19. The Moroccan banking sector is sound and resilient, and the authorities will continue to strengthen the financial sector policy framework in line with the FSAP recommendations. Although still relatively high, nonperforming loans are declining and are well provisioned. Supervisory capacity will continue to be increased, and a regulation governing financial conglomerates is being prepared and should be finalized by the end of 2019. Accounting rules were further strengthened, following the adoption of the International Financial Reporting Standards (IFRS 9) in January 2018, and the resulting requirement to increase bank capitalization is being phased in over a period of five years. BAM will continue to increase its coordination with the supervisory authorities in countries where Moroccan banks are established and will promote best practices for the management of risks. As part of their efforts to combat money laundering and terrorist financing, the authorities plan to further strengthen the supervisory framework in accordance with the recommendations of Morocco's AML/CFT assessment report adopted by MENAFATF in April 2019. The authorities are also strengthening the macroprudential and bank resolution frameworks, particularly by preparing a legal framework for resolution in line with international standards and designating BAM as the resolution authority. The technical work on this framework will be completed in 2019. In this context, the provision of emergency liquidity assistance (ELA) was introduced in the draft of the central bank law.

20. The government initiated the transition to greater exchange rate flexibility in January 2018 by widening the dirham fluctuation band to ± 2.5 percent (from ± 0.3 percent) around its reference parity. This reform is progressing well, with the dirham moving within its fluctuation band while remaining far from the upper and lower limits without any intervention of the central bank since March 2018. At the same time, the banks' holding of foreign currency (assets) has increased and the interbank foreign exchange market has deepened. The authorities plan to move to the next phase of the reform at the appropriate time. It is essential to ensure that economic agents, particularly SMEs, are fully aware of the risks related to greater fluctuations of the dirham and are able to use the existing hedging instruments. This transition will help the economy to better absorb potential external shocks, maintain its competitiveness, and support its diversification and integration in the global economy.

21. As regards the indicative targets established in the PLL arrangement for end-March 2019, the indicative target on the fiscal deficit has been met and net international reserves are above the target. We will provide the IMF with any information needed to monitor the economic and policy developments within the framework of the PLL arrangement, particularly information relating to the indicative targets listed in Table 1. In accordance with the requirements of the PLL, we will also observe the standard performance criteria on import restrictions, exchange restrictions, bilateral payment arrangements and multiple currency practices, and the continuous performance criterion on non-accumulation of payment arrears on the external debt.

22. We believe that the policies and reforms described in this communication are adequate to achieve the economic goals of the program supported by the PLL, and we are committed to taking

any additional measures that may be necessary for this purpose. By continuing to strengthen the economy's resilience, particularly by increasing its fiscal and external buffers and further diversifying its economy, Morocco should be well positioned for exiting the PLL once the exogenous risks to which the economy is exposed have significantly declined. Morocco will engage with the Fund, in accordance with relevant Fund procedures, to ensure the success of its economic policies.

/s/	/s/
Mohamed BENCHAABOUN	Abdellatif JOUAHRI
Minister of Economy and Finance	Governor, Bank Al-Maghrib

Table 1. Morocco: Quantitative Indicative Targets

	3/31/19			9/30/19		3/31/20
	Target	Adjusted	Actual	Target	Adjusted	Target
Indicative targets						
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	24,369	23,539	23,869	25,228	24,216	25,648
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	9,369	9,771	1,236	27,908	28,608	10,293
Memorandum items:						
Adjustor on NIR (in millions of U.S. dollars) 2/	1,733	830	903	2,152	2,373	3,278
Adjustor on the fiscal deficit (in millions of dirham) 3/	500	402	98	1,500	1,500	500

Source: IMF staff estimates.

1/ End-of-period (eop) stock, in millions of U.S. dollars, evaluated at the program exchange rate fixed on November 9, 2018 - namely 9.527 MAD/$.

2/ The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2018.

3/ The fiscal deficit ceiling will be adjusted upward (downward) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors for 2019 are cumulative from end-December 2018. The adjustors for 2020 will be cumulative from end-December 2019.

Table 2. Morocco: Schedule and Terms Under the Precautionary and Liquidity Line Arrangement

Review Date	Conditions for access	Indicative targets 1/		Credit Available 4/			
		Central government fiscal deficit, ceiling, cumulative since beginning of fiscal year (eop in millions of dirham) 2/	Net international reserves (NIR) of Bank Al-Maghrib (BAM), floor, eop stock, in millions of dollars ($) 3/	Million SDR 5/	Million Dollars 6/	Percent of Quota, cumulative	Percent of Total Access
December 17, 2018	Board approval of the PLL			1,250.66	1,747.47	140	58
June 12, 2019	First review, based on March 31, 2019 indicative targets	9,771	23,539	1,250.66	1,747.47	140	58
December 16, 2019	Second review, based on September 30, 2019 indicative targets	28,608	24,411	2,150.80	3,005.19	240	100
June 16, 2020	Third review, based on March 31, 2020 indicative targets	10,293	25,648	2,150.80	3,005.19	240	100
Total				2,150.80	3,005.19	240	100

Source: IMF staff estimates.
1/ Evaluated at the program exchange rate (November 9, 2018 - namely 9.527 MAD/$.) for 2019 and 2020.
2/ The adjustors are specified in the Technical Appendix.
3/ The adjustors are specified in the Technical Appendix.
4/ Credit available assuming no purchase.
5/ Full access will be available on December 17, 2019.
6/ SDR/Dollar Exchange rate of $1 = 0.715694 SDR as of October 16, 2018.

Statement by Mr. Mohammed Daïri, Alternative Executive Director on Morocco
June 12, 2019

The Article IV consultation discussions held last month gave the Board the opportunity to review recent macroeconomic, financial, and social developments in Morocco and the authorities' policies and reforms. The authorities appreciate the positive assessment of their policies by the Board and the emphasis on the strengthened resilience of the economy and its increased diversification as a result of sound macroeconomic policies and accelerated pace of structural reforms. In view of the global uncertainty and risks, the authorities agree on the importance of sustained sound policy implementation to achieve higher and more inclusive growth. Under the current unfavorable and uncertain global environment, the PLL continues to play a key role in supporting the authorities' policies. The authorities are hopeful that their track record of solid policy implementation and their strong commitment going forward will continue to earn them the confidence and support of the Board, including in completing this first review of the December 2018 PLL arrangement. They thank staff for their hard work and their broadly balanced and concise paper and concur with the thrust of staff appraisal.

As highlighted in the staff paper, performance under the PLL was favorable. The indicative targets for the fiscal deficit and net international reserves for March 2019 were met, the first with a wide margin. Morocco continues to meet the PLL qualification criteria, performing strongly in monetary, financial, and data areas, without substantially underperforming in the fiscal policy area and in external sector and market access. Bank Al-Maghrib has been successful in maintaining inflation under firm control over the past decades, supported by continued strengthening and modernization of the monetary policy framework. The start of the transition to exchange rate flexibility has been smooth, and the authorities will seek the earliest opportunity to move further in this process in an orderly manner. The financial sector is sound and well supervised, with continued strengthening of the regulatory and supervisory framework and the macroprudential toolkit, in line with FSAP recommendations, and there are no signs of significant financial stability risks. The authorities are committed to addressing the remaining shortcomings in Morocco's AML/CFT framework. Data provision and quality under the SDDS are adequate for surveillance and program monitoring.

Fiscal vulnerabilities have been significantly reduced, and public debt remains sustainable and resilient to shocks and should start to decline. In line with their medium-term target of bringing public debt-to GDP ratio down to 60 percent, and to create more space for pro-growth and social spending, the authorities are implementing a wide range of reforms to strengthen revenue mobilization, enhance spending prioritization and efficiency, and monitor and mitigate fiscal risks, including in SOEs. Recourse to PPPs within a prudent regulatory framework will help maintain an adequate level of infrastructure investment. The announced privatization program, which is off to a good start, will contribute to focusing SOEs on their core activities and reducing gross financing needs. Progress continues to be made in implementation of the advanced regionalization program to reap its potential benefits while mitigating fiscal risks through strong governance. Social protection is being overhauled, with the aim of achieving broader coverage to meet the needs of vulnerable households and enhancing effectiveness and targeting of social spending.

External sector vulnerabilities are also being reduced following increased export diversification toward higher value-added activities. Reserves remain comfortable by traditional and IMF ARA metrics. External debt has remained relatively low and is assessed as sustainable and resilient to a series of adverse shocks. As a result, investor confidence remains strong, as evidenced by favorable spreads and steady FDI inflows. Even though the sovereign has not accessed international capital markets since 2014, private capital flows constitute the largest share of the capital account, with limited contribution of volatile portfolio investment flows, demand for Moroccan paper is strong, and the authorities intend to tap markets in 2019 and 2020.

While noting an improvement compared to last Article IV report, the authorities continue to have reservations about staff assessment of the external sector under EBA. As indicated during the Article IV discussions, they are surprised by the excessive reliance on the current account (CA) approach, even though it leads to opposite conclusions to those of the two other approaches and to a large residual which is explained, according to staff, by worker-employer relations. However, it is not clear how valid this explanatory factor is in Morocco's particular circumstances. Moreover, the residual under the CA approach increased from a "sizable" -1.6 percent in the 2017 exercise to -3.4 percent in this report, while there was no meaningful change in labor market policies. The authorities are therefore of the view that the two other methods should also be taken into consideration in the external sector assessment to reach a more balanced conclusion and stand ready to provide any data required for this purpose.

The significant progress in enhancing the business climate, as reflected in improved ratings under the Doing Business indicators and the Corruption Perception index, which is expected to continue under the ambitious reform program, attests to the commitment of the authorities in this area and bodes well for improved economic performance going forward. Recent entry into function of the Competition Council and the new anti-corruption agency will help establish a level playing field for business to flourish. Further easing of business regulations, greater financial inclusion and support to SMEs, increased transparency, and improved interagency coordination are areas where important progress is being made.

While they remain firmly committed to staying the course of sound policy implementation, the authorities are also cognizant of the importance of social stability and catalyzing broad support to reforms. Reform implementation, in particular in some socially sensitive areas can be challenging and time consuming. While significant progress has been achieved on several key reform fronts, the authorities will continue to engage key partners to reach broad consensus on the reform agenda.

The authorities will continue to treat the PLL as precautionary. After several reductions in access since the first PLL arrangement, they will monitor closely the progress made in further strengthening Morocco's resilience and the global risks facing the economy and will assess the possibility of further reducing access or even exiting the PLL as conditions permit. The authorities are grateful to staff, management, and the Board for their continuous invaluable support.