

**Morocco: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Morocco**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 24, 2004**, with the officials of Morocco on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on April 13, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its May 5, 2004 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Morocco.

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

Selected Issues Paper  
Statistical Appendix

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INTERNATIONAL MONETARY FUND

MOROCCO

**Staff Report for the 2004 Article IV Consultation**

Prepared by Staff Representatives for the 2004 Consultation with Morocco

Approved by Saleh M. Nsouli and Matthew Fisher

April 13, 2004

- Discussions for the 2004 Article IV consultations were held in Rabat during February 11–24, 2004. The staff team comprised Ms. Eken (head), and Messrs. Fanizza, Sarr, Söderling, and Bouhga-Hagbe (all MCD).
- The mission met with Prime Minister Jettou, Ministers Oualalou (Finance and Privatization), Mossadeq (Economic Affairs), Talbi El Alami (Industry, Trade, and Telecommunications), Laenser (Agriculture), Douiri (Tourism), Central Bank Governor Jouahri, other senior government officials, and private sector representatives. Mr. Daïri (Alternate Executive Director for Morocco) attended most of the meetings.
- At the conclusion of the last Article IV consultation on April 28, 2003, Executive Directors commended the Moroccan authorities for maintaining macroeconomic stability, despite adverse weather conditions and a difficult international environment. Directors agreed that Morocco's growth performance remains insufficient to generate a significant decline in unemployment and poverty, and that its fiscal policy needed to be further strengthened. They underscored the importance of sustained structural reforms, in particular public sector and judiciary reforms, strengthening governance, improving the business environment, and labor market, trade, and financial sector reforms. Directors were generally of the view that in the context of Morocco's increasing trade and financial integration, a more flexible exchange rate regime would improve Morocco's resilience to external shocks and growth prospects.
- The authorities have enhanced the transparency of their policies. They have published the staff reports since 2001 and consented in principle to the Fund's publication of the 2004 Article IV staff report.
- Morocco accepted obligations of Article VIII, Sections 2, 3, and 4 in January 1993.

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## EXECUTIVE SUMMARY

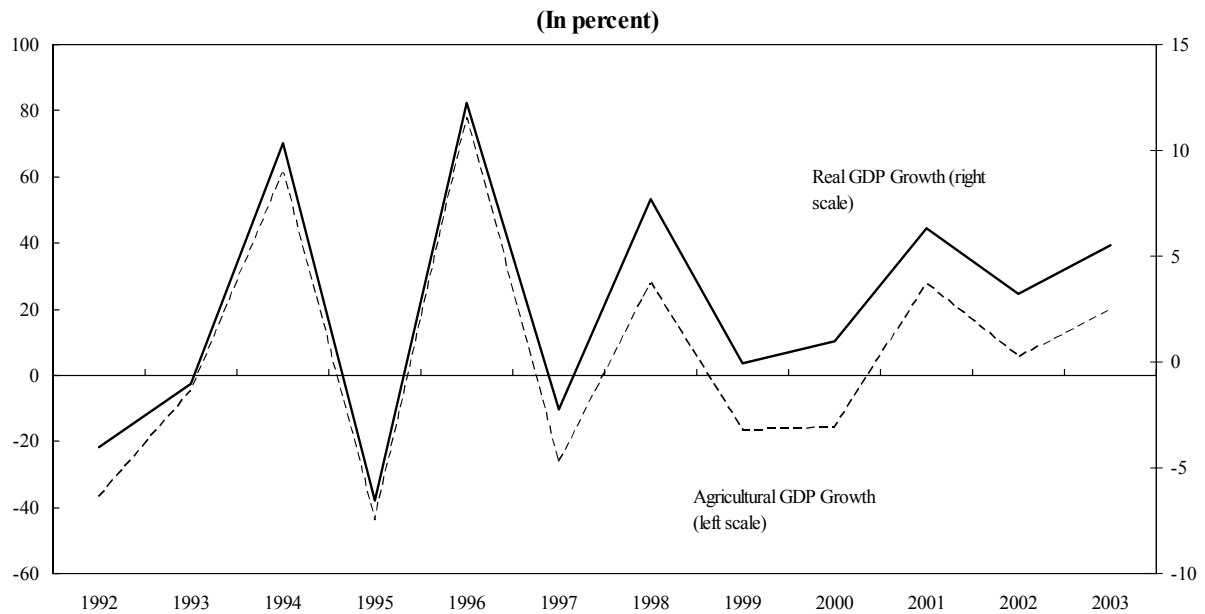
- Over the recent years, Morocco has achieved stable macroeconomic conditions with low inflation and a strong external position. However, growth has been insufficient to reduce poverty and unemployment. Poverty remains pervasive particularly in rural areas.
- Macroeconomic conditions remained strong in 2003, with inflation at below 2 percent, an external current account surplus of 3 percent of GDP, external reserves covering the outstanding public foreign debt at end 2003, and public debt-to-GDP ratio continuing to decline. Real growth accelerated in 2003 mainly because of an exceptionally good cereal harvest, but it is likely to drop from 5.5 percent to 3 percent in 2004 because of a decline in agricultural output.
- The overriding issue is to achieve strong and durable growth in a context of increasing integration of Morocco into the world economy. The authorities' strategy rests on two pillars: (a) a gradual adjustment of the fiscal position; and (b) continued structural reforms to favor both a rise in private investment and in economy-wide productivity.
- The current fiscal position cannot be sustained over the medium term in both the authorities' and staff's views. After widening by about one percentage point of GDP in 2003, the fiscal deficit is projected to remain close to 5.5 percent of GDP in 2004. Large fiscal deficits have been easily financed thanks to substantial proceeds from privatization and the abundant domestic liquidity conditions, which have prevented upward pressure on interest rates. If actions are not taken to reduce the fiscal deficit, the debt-to-GDP ratio could reach unsustainable levels over the medium term. The authorities' medium-term fiscal adjustment strategy would gradually bring the deficit down to 3 percent of GDP by 2009. The staff recommends a front-loaded fiscal consolidation effort to provide room to absorb shocks along the way and help assuage fears of future tax and interest rate increases that would hurt private investment.
- The authorities and the staff share the view that broad-based structural reforms will be needed to deliver a sustained improvement in economic performance. The authorities have already accelerated their efforts to tackle long-standing structural issues. Priority areas are trade liberalization, improvements in the business environment, and reform of the pension system and the financial sector.
- Although there is no evidence suggesting a misalignment of the dirham, the staff considers that an eventual move to a flexible exchange rate regime would improve Morocco's resilience to shocks and better support the authorities' growth objectives. Such a move would require the establishment of a monetary policy framework that would provide an alternative nominal anchor, a durable reduction in the fiscal deficit, and a continued strengthening of the financial system. The authorities have been considering the issue of the appropriate exchange rate regime to sustain their growth objectives. They are not yet fully convinced about the merits of a flexible regime, but remain open to the idea. They have requested staff to prepare a study on this issue.

## I. KEY ISSUES AND BACKGROUND

1. **Over recent years, Morocco has achieved stable macroeconomic and financial conditions.** Inflation has remained low; the external current account balance has shifted from small deficits to sizeable surpluses following a surge in workers' remittances and weak domestic demand; and external official reserves have increased and reached a comfortable level (Table 1). However, two major challenges remain:

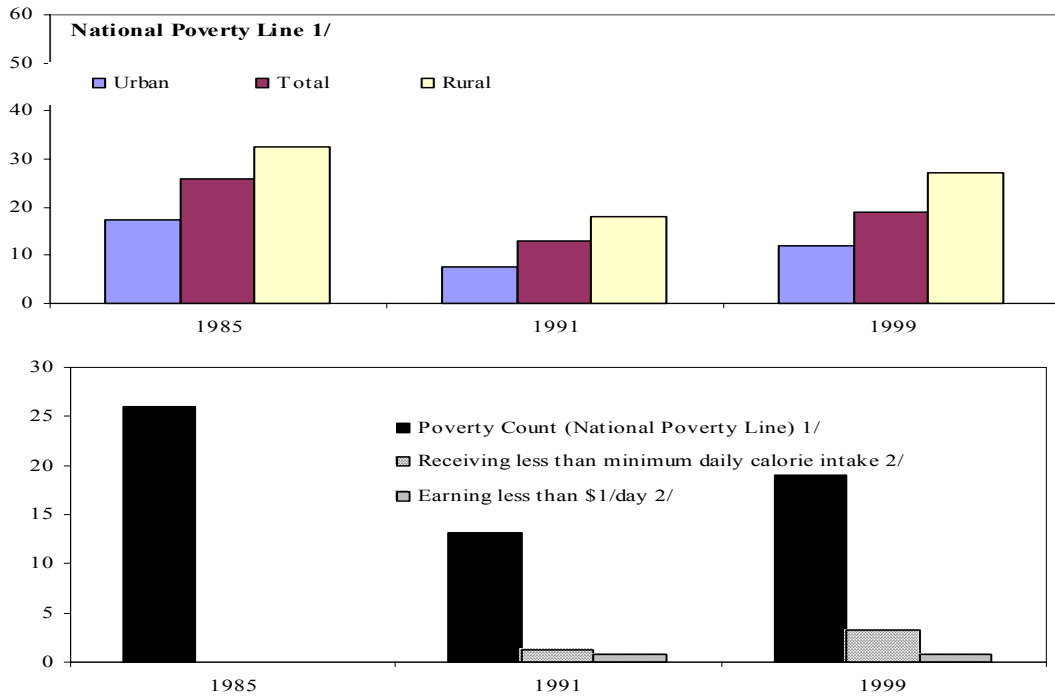
- **Accelerating growth and reducing its dependency on good weather.** Higher and less volatile growth is necessary to reduce unemployment and poverty, which remains pervasive particularly in rural areas (Charts 1, 2, and 3, and Table 2). To this end, broad-based market-oriented structural reforms are required.

Chart 1. GDP Growth, 1992–2003



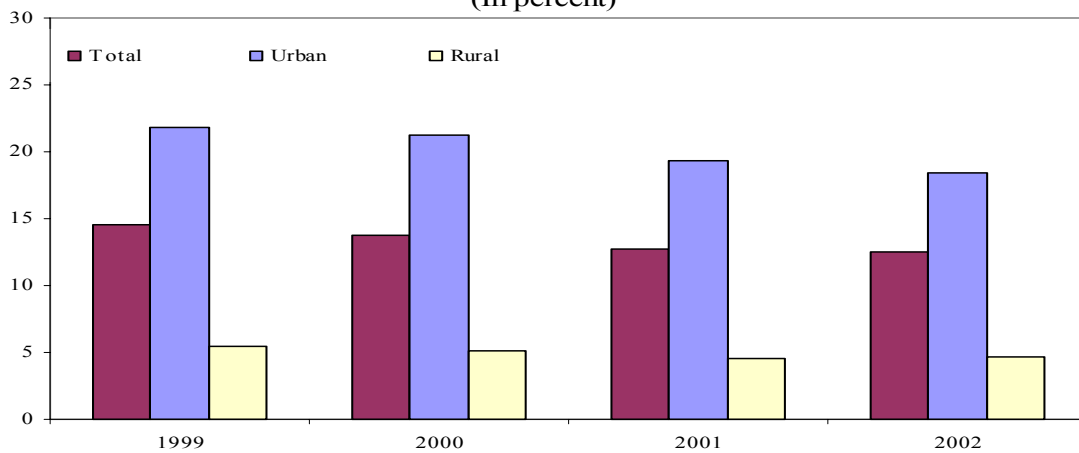
Source: Moroccan authorities and IMF staff estimates.

Chart 2. Morocco: Poverty Figures, 1985, 1991 and 1999  
(In percent of population)



Source: Moroccan authorities, "Tableau de board social", 2003.  
1/ US\$350 per month per household in 1999.  
2/ Data not available for 1985.

Chart 3. Unemployment Rate, 1999–2002  
(In percent)

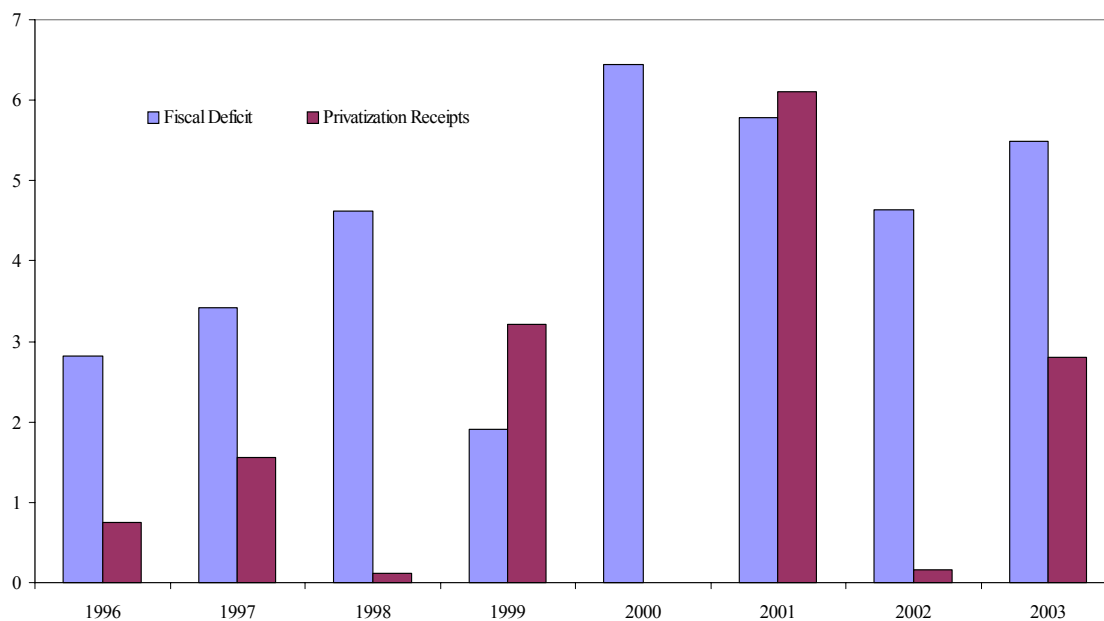


Source: Moroccan authorities.



**Making progress toward fiscal consolidation.** Fiscal deficits are large and the public debt-to-GDP ratio, although declining, remains high (Chart 4).<sup>1</sup> Strong durable growth will require fiscal reforms to place public finances on a sustainable path to foster a reorientation of domestic resources toward private activity, while dispelling the risk of future tax increases and higher interest rates.

Chart 4. Fiscal Deficit and Privatization Receipts  
(In percent GDP)



Source: Moroccan authorities and IMF staff estimates.

2. **Fund surveillance in recent years underscored the importance of tackling the growth and fiscal challenges** forcefully to improve Morocco's overall economic performance and reduce unemployment and poverty. In particular, the staff's advice focused on the need to: (a) accelerate structural reforms; (b) address the real exchange rate appreciation which took place in the early 1990s and which constrained growth; and (c) bring fiscal policy back on a sustainable position through a comprehensive reform of the civil service and the tax system.

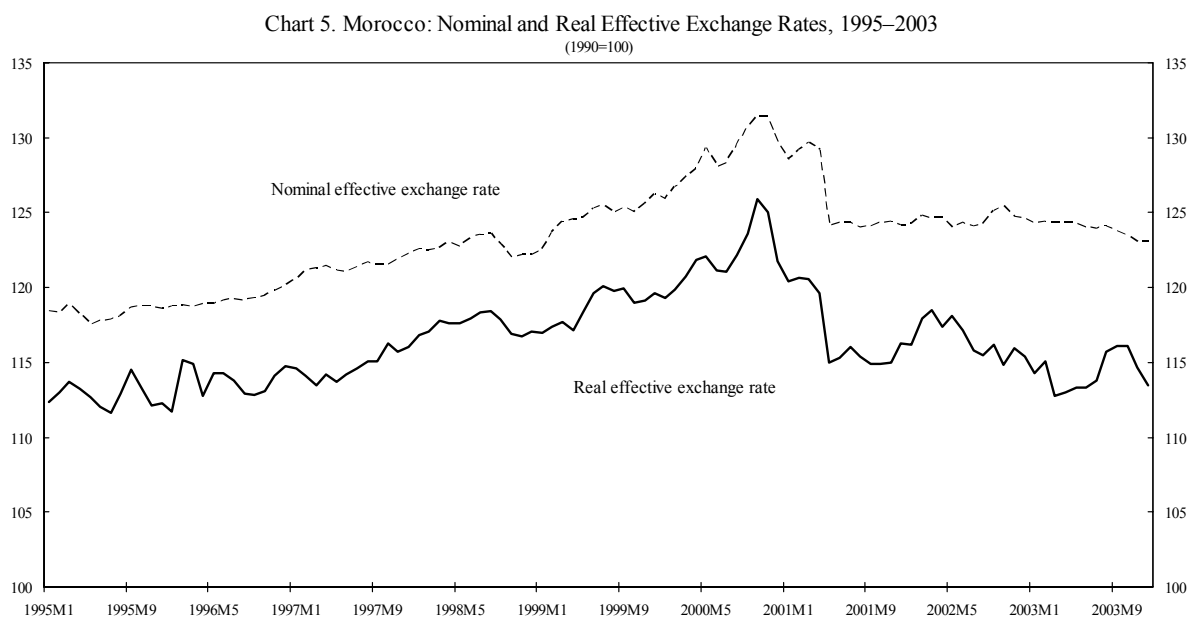
3. **The authorities' structural reform efforts accelerated substantially starting from 2002**, after the political opening and democratic transition were completed with the country holding its second general elections, and with the appointment of a new government. Major headways were: (a) the approval of a new labor code, after discussions that spanned over

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<sup>1</sup> The annual average central government deficit widened from 3.6 percent of GDP during 1996–99 to 5.5 percent during 2000–03.

more than 20 years; (b) the strengthening of the financial system in line with the recommendations of the FSAP; (c) the continued trade liberalization; and (d) the successful privatization of public enterprises, coupled with efforts to improve the financial performance of the remaining public enterprises. Moreover, efforts have been made to fight poverty and improve social conditions. These efforts include the development of rural infrastructure to favor rural development, construction of affordable housing for the low income population, and passage of the family code that enhances the rights of females

**4. The appreciation of the dirham in real effective terms has been reversed since 2001.** The nominal devaluation of the dirham in April 2001 partly corrected the real appreciation experienced since the early 1990s (Chart 5). Since the devaluation, the dirham continued to depreciate in real effective terms reflecting partly the low inflation in Morocco relative to its trading partners and partly a further depreciation of the dirham in nominal effective terms.



Source: International Monetary Fund, Information Notice System.

**5. In line with staff policy advice, the authorities started to move toward fiscal consolidation in 2002** by reducing the fiscal deficit by more than one percentage point of GDP to 4.7 percent of GDP. This reduction mainly reflected savings on the wage bill and lower investment spending from *Fonds Hassan II*.<sup>2</sup> However, due to various reasons

<sup>2</sup> *Fonds Hassan II* is a special fund that finances investments largely in infrastructure and social sectors. Up to 50 percent of privatization proceeds may be used to finance *Fonds Hassan II*. For further discussion, see section on Fiscal Policy.

discussed below, the fiscal deficit widened to 5.5 percent of GDP in 2003, reversing the deficit reduction of the previous year. Thus, fiscal consolidation remains a key issue to be attended.

6. **Macroeconomic conditions remained strong in 2003.** Inflation of below 2 percent, an external current account surplus of 3 percent of GDP, and external reserves at 10 months of imports and covering the outstanding public foreign debt have placed Morocco in a solid short-term macroeconomic position (Table 3). These developments improved market views on the Moroccan economy as evidenced by the successful issuance of a €400 million Eurobond in July 2003 (with a spread of 215 basis points over European benchmarks), the narrowing of secondary market spreads on Morocco's sovereign debt, and the recent revision by a credit agency of its foreign currency outlook on Morocco from stable to positive.<sup>3</sup>

## II. REPORT ON POLICY DISCUSSIONS

7. In view of the recent developments and the prospects of a favorable macroeconomic outlook for 2004, policy discussions focused on defining a broad-based strategy to improve growth performance over the medium period. Discussions were held in the context of a medium-term scenario that was developed jointly by the authorities and the staff (Table 4).

8. **The overriding issue for Morocco is to achieve strong and durable growth.** The authorities and the staff agreed that to make a dent in poverty and unemployment, Morocco needs to grow at rates well above 5 percent for a sustained period of time. The Moroccan economy grew at a healthy 5.5 percent in 2003 mainly because of exceptionally good cereal production. Despite the increase in non-agricultural growth to 3.8 percent, overall real GDP growth would drop to 3 percent in 2004, because of a decline in agricultural output. Thus, to sustain the desired overall growth over the medium term, nonagricultural growth would need to accelerate from its current trend of around 3 percent to close to 6 percent. Such a performance in nonagricultural sectors would also help reduce the volatility in Morocco's growth performance over the medium term. To this end, investment and total factor productivity (TFP) need to rise significantly. Recent developments are encouraging. A recovery in private economic activity appears underway, driven by investment in construction and a favorable export performance in nontraditional manufacturing sectors.

9. **The higher growth objective will be pursued in the context of increasing integration of Morocco into the world economy.** The authorities recognize the benefits of increased integration by continued trade liberalization and a gradual capital account opening. They also recognize that with increased integration, the Moroccan economy will be increasingly exposed to external shocks. This new environment will pose new challenges for macroeconomic policy.

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<sup>3</sup> Morocco's rating remains below investment grade.

10. **The authorities' strategy to achieve their growth objectives rests on two pillars.** These are: (a) a gradual adjustment of the fiscal position, which not only would translate into improved private sector confidence, but also would generate higher domestic savings to finance the increased investment needs, while maintaining a sound overall external position; and (b) continued structural reforms to favor both a rise in private investment and higher TFP. In the staff's view, these policies would eventually need to be complemented by changes in the monetary and exchange rate policy framework.

11. **Morocco's external position is likely to remain strong in 2004,** with external reserves projected at the equivalent of about 10 months of imports and the external current account surplus at 2.3 percent of GDP. Inflation is projected to remain subdued at 2 percent.

### A. Fiscal Policy

12. **The 2003 fiscal deficit is estimated to have widened to 5.5 percent of GDP** (Table 5). This deterioration resulted from salary increases and promotions for education personnel, increased security-related spending after the Casablanca bombings in May 2003, and weaker revenue performance on account of ongoing trade liberalization and tariff reductions on selected imports. However, because of high privatization revenues and interest rates on government debt lower than GDP growth, the debt-to-GDP ratio declined to 68.2 percent in 2003 from 71.5 percent in 2002.<sup>4</sup>

13. **The authorities are of the view that the staff's measure of the fiscal deficit overstates the fiscal imbalance by including spending from the special investment fund, *Fonds Hassan II*,** (0.4 percent of GDP in 2003) in overall expenditures. Spending from *Fonds Hassan II* is financed by drawing down the fund's deposits at the central bank. Thus, deficit increases generated by *Fonds Hassan II* spending affect the government's net debt position but not its gross position. In the staff's view, there are two main reasons to continue to consolidate the fund with the operations of the central government. Investment spending from the *Fonds Hassan II* has a direct impact on domestic demand. Furthermore, there is evidence that *Fonds Hassan II* spending has in part replaced central government investment spending, notwithstanding the change in its legal status.<sup>5</sup> The authorities and the staff agree that the forthcoming fiscal ROSC exercise could provide a significant input on this issue, in the context of its recommendations to improve transparency in fiscal policy.

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<sup>4</sup> Significant financing from the deposits held by public enterprises and the post office with the treasury also contributed to lower the government debt-to-GDP ratio (see Box 1 in Country Report No. 03/141, (5/28/03)).

<sup>5</sup> In an attempt to speed up the fund's disbursements, Parliament gave the *Fonds Hassan II* a legal status similar to that of a public enterprise in 2002. Prior to 2002 the Fund's operation were included in the central government.

14. **The 2004 fiscal deficit is projected at 5.4 percent of GDP, broadly unchanged from 2003.**<sup>6</sup> With such a deficit and the envisaged privatization receipts, the public debt-to-GDP ratio would decline from 68.2 percent of GDP to 67.6 percent of GDP.<sup>7</sup> Although the fiscal outlook for 2004 does not reverse the deterioration experienced in 2003, the authorities noted that excluding the expenditures from *Fonds Hassan II*, the deficit would decline to 4.6 percent in 2004, from 5.1 percent of GDP in 2003. They also noted that a number of measures with short-term budgetary costs will improve the government's ability to curb spending over the medium period. These measures, which cost about 1 percent of GDP, include: (a) the introduction of an early retirement program; (b) the impact of a long wave of wage negotiations, which came to a conclusion in April 2003 and should not reopen in the near future; and (c) the cost of the increase in the public sector pension fund contribution rates.

15. **The staff noted the risks in the fiscal outlook.** The budgeted savings resulting from the reform of the food subsidy system may not be achieved, as the authorities have not yet decided on how to reform the system.<sup>8</sup> The expected privatization proceeds (2.7 percent of GDP) may also not materialize and complicate deficit financing, possibly raising the government debt-to-GDP ratio.<sup>9</sup> In this context, the staff underscored the importance of timely implementation of budgeted measures, stepped up tax collections, and strict controls on spending to keep the deficit in 2004 below that of 2003 and enhance the credibility of the authorities' medium-term consolidation objectives. In addition, the potential budgetary implications of last the February's earthquake are not yet known.

16. **The current fiscal position cannot be sustained over the medium period, in both the authorities' and staff's views.** During 2001–03, large fiscal deficits have been financed partly by substantial proceeds from privatizations. In addition, the abundant domestic liquidity has prevented the high government domestic financing needs from translating into upward pressures on interest rates. However, privatization proceeds cannot last indefinitely and liquidity conditions are bound to change when the ongoing recovery takes momentum and investment demand picks up. Under a no policy change scenario, the fiscal deficit would

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<sup>6</sup> The fiscal deficit projection for 2004 is lower than that targeted by the 2004 budget law (6.8 percent of GDP). The difference reflects: (a) an upward revision in the expected revenue collection, which the budget projected conservatively; and (b) lower-than-originally projected spending from *Fonds Hassan II*.

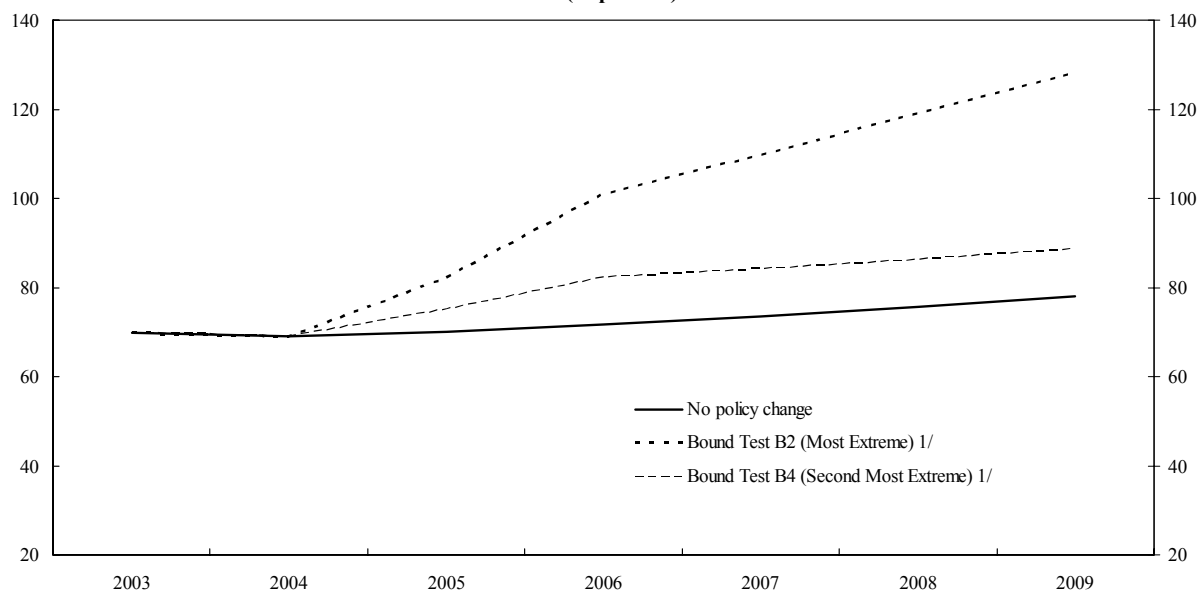
<sup>7</sup> Net of *Fonds Hassan II*'s deposits with BAM, the public debt-to-GDP ratio would decline to 64.2 percent of GDP, from 65.3 percent of GDP.

<sup>8</sup> Consumer price subsidies are provided for flour and sugar through a combination of tariff protections and budgetary contributions (which amounted to 1.1 percent of GDP in 2003).

<sup>9</sup> The authorities expect to sell an additional 16 percent of the government shares in Maroc Telecom, bringing its private ownership to above 50 percent. The *Banque Centrale Populaire* and a few small companies are also expected to be privatized in 2004.

widen to 7 percent of GDP by 2009 and the debt-to-GDP ratio would rise to about 80 percent of GDP and higher with adverse shocks (Chart 6).

Chart 6. Debt-to-GDP Ratio and Stress Test on No Policy Change Scenario  
(In percent)



Source: IMF staff estimates.

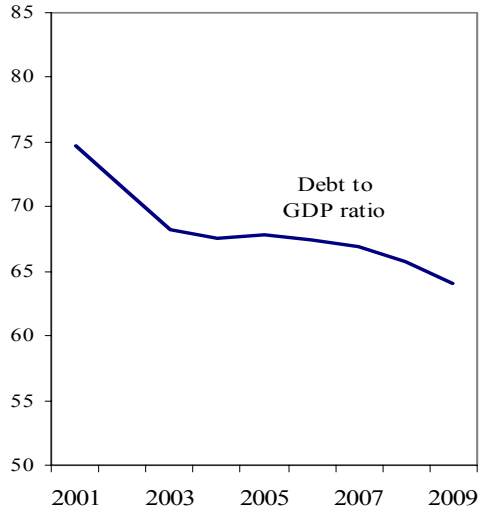
1/ See Table 6 on Public Sector Debt Sustainability Framework for the definition of bound tests.

17. **The authorities' medium-term fiscal strategy would gradually bring the deficit (including expenditures under *Fonds Hassan II*) down to about 3 percent of GDP by 2009**, implying a decline in the government debt-to-GDP ratio to 64 percent (Chart 7). On the revenue side, a comprehensive tax reform effort and strengthening tax administration would ensure that increased VAT collections offset the losses deriving from continued trade liberalization. The authorities plan to define their tax reform strategy in detail with the help of an FAD technical assistance mission in May, 2004. On the expenditure side, the ongoing public sector reform (with the assistance of the World Bank) should lower the wage bill by about 2 percentage points of GDP by 2009. Increased spending for social safety nets will offset part of the savings from the envisaged elimination of the food subsidy system.

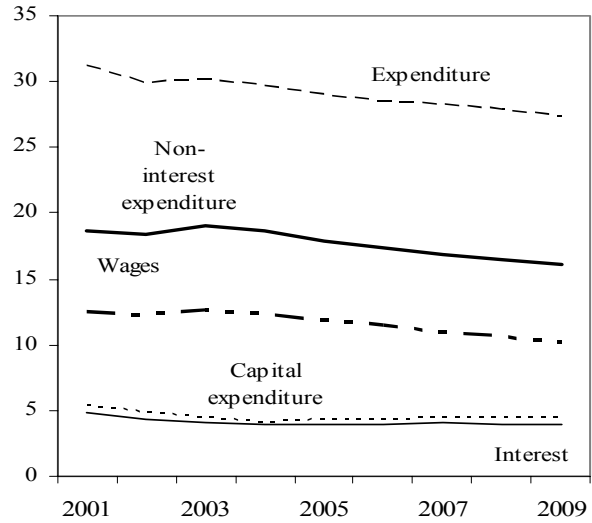
18. **The staff recommended a front-loaded fiscal consolidation strategy.** A significant deficit reduction early on will be essential to enhance the credibility of the adjustment effort and to help assuage fears of future tax and interest rate increases that could adversely affect private investment. Such a strategy would also ensure the achievement of the medium-term fiscal targets in the event of potential adverse shocks along the way, in light of the limited ability in the budget to absorb them due to the high shares of wage and interest payments in the budget. It would also be desirable to aim at a somewhat more ambitious reduction of the debt-to-GDP ratio over the medium term. The staff's standard sustainability analysis shows that this ratio could reach above 100 percent by 2006 under very pessimistic assumptions on

Chart 7. Fiscal Developments and Medium Term Projections  
(In percent of GDP)

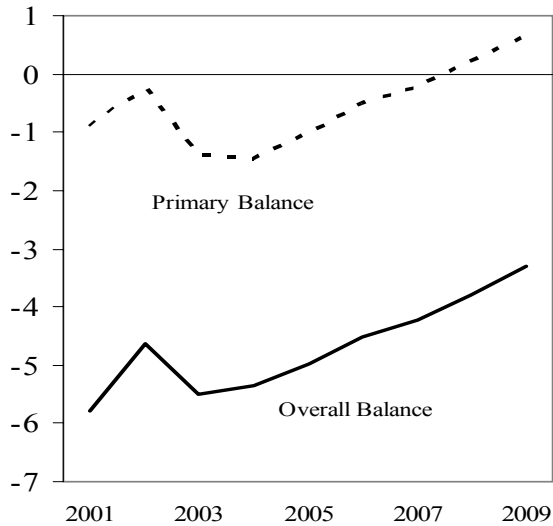
*The medium term scenario will aim at reducing the debt to GDP ratio...*



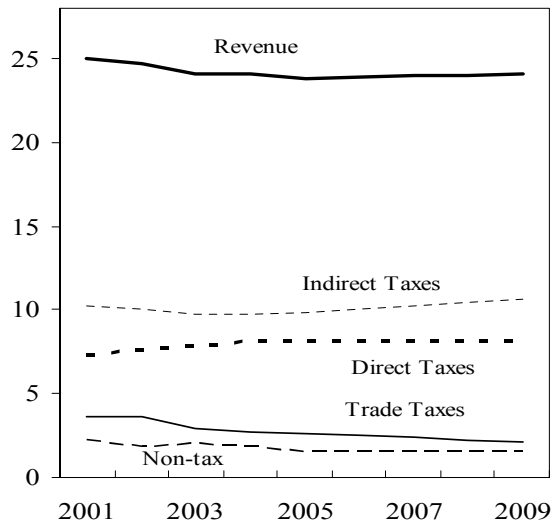
*Current expenditures will be reduced in the medium term through civil service reform and containment of non-interest expenditure...*



*Fiscal balances will improve over the medium term...*



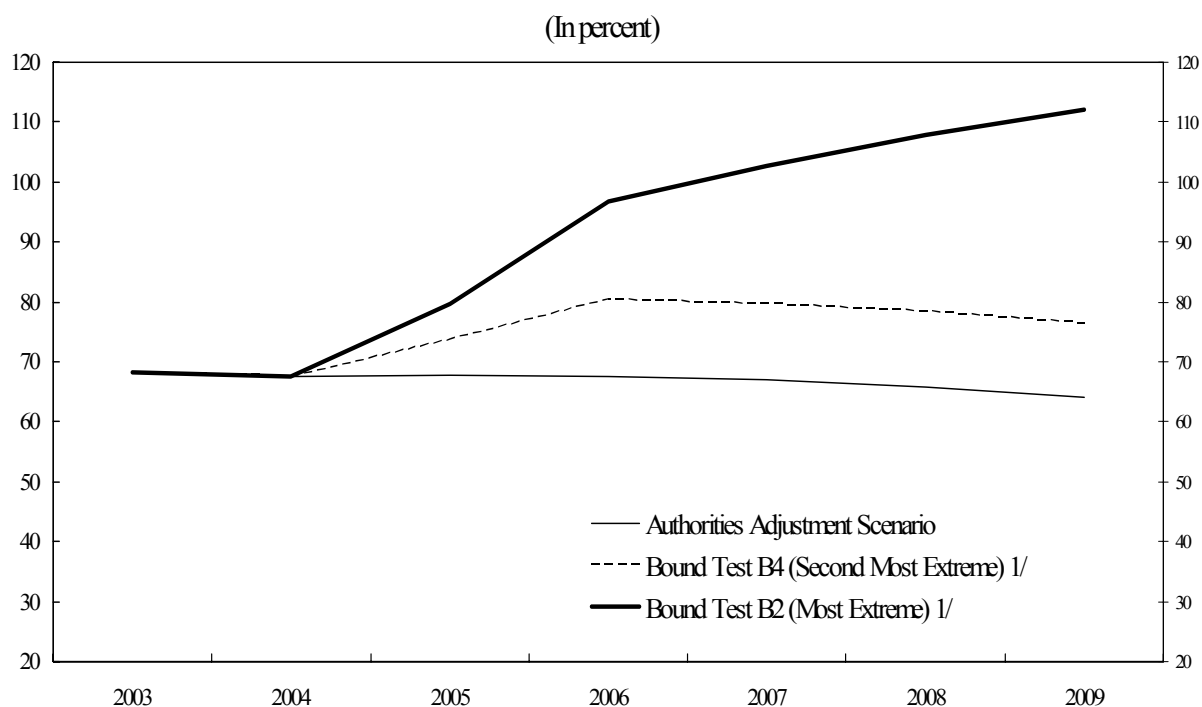
*Tax reform, in particular of the VAT, will help stabilize revenue as import taxes decline with trade liberalization...*



Source: Moroccan Authorities and IMF staff estimates.

real GDP growth (Chart 8 and Table 6).<sup>10</sup> Moreover, these debt dynamics do not take into account contingent liabilities stemming from either the restructuring of the troubled government financial institutions or the unbalanced actuarial positions of the pension funds (Box 1).

Chart 8. Debt-to-GDP Ratio and Stress Tests on Adjustment Scenario



Source: IMF staff estimates.

1/ See Table 6 on Public Sector Debt Sustainability Framework for the definition of bound tests.

<sup>10</sup> For further discussion, see “Assessing the Sustainability of Public Debt in Morocco” (to be issued).



### **Box 1. Morocco: Pension System**

- **The pension system is made of multiple funds, two of which account for the bulk of the system.** The “*Caisse Marocaine de Retraite*” (CMR) manages two separate government funds, one for civil servants, and the other for the military. The “*Caisse Nationale de Sécurité Sociale*” (CNSS) covers private sector employees.
- **The civil servant fund of the CMR is in surplus but actuarial studies indicate it could be in deficit by 2010.** Its current reserves could cover an additional three years of benefits and represent 9 percent of GDP. In 2003, the government decided to increase contribution rates (employer and employee) by 3 percentage points over 2004–06 to bring them to 10 percent and improve the fund’s financial position. Without this increase, the fund would be in deficit in 2007.
- **The military fund of the CMR has been in deficit despite an increase in the government’s contribution rate from 7 percent to 14 percent in 2002.** The annual deficit of the military fund represented 0.2 percent of GDP in 2003. The fund does not have reserves and has been borrowing from the civilian fund to cover its deficit. The outstanding obligations of the military fund to the civilian fund are estimated at about 1 percent of GDP.
- **The CNSS fund is in surplus but actuarial studies also show that it could be in deficit by 2010.** Its current reserves could cover an additional 2.3 years of benefits and represented 4 percent of GDP in 2003.
- **Parametric reforms will be needed to put the pension funds on a sound footing in the medium term.** Authorities are aware of this and have already started work on reform scenarios. The World Bank is expected to assist in this area.

## **B. Structural Reforms**

19. **The authorities and the staff share the view that broad-based structural reforms will be needed to deliver a sustained improvement in economic performance.** The authorities indicated their commitment to continue structural reform efforts to promote private sector activity and enhance productivity of the economy. In addition to fiscal reforms discussed above, policy discussions focused on the following areas:

- **Trade liberalization.** Morocco has made progress both at the bilateral and the multilateral level (Box 2).<sup>11</sup> With regard to future trade liberalization efforts, the staff recommended: (a) reducing the dispersion and average level of tariffs;<sup>12</sup> and (b) broadening trade liberalization at the regional level and ensuring that the other

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<sup>11</sup> For further discussion, see “Impact of the Barcelona Process on Morocco’s Trade” (to be issued).

<sup>12</sup> The simple average tariff rate is 26 percent. There are eight multilateral tariff rates, which vary from 0 to 50 percent for nonagricultural products.

bilateral free trade agreements align tariff rates, at a minimum, with those prescribed in the Association Agreement with the European Union (AAEU) to avoid the proliferation of tariff schedules that raise the complexity of the trade regime. Regional trade integration (including among Maghreb countries) would also help attract foreign direct investment.

### **Box 2. Morocco: Trade Liberalization Efforts**

- **A new free trade agreement was concluded with the United States in March 2004.** Under the agreement, which has to be ratified by the U.S. Congress, more than 95 percent of industrial tariff lines will become duty-free immediately, with the remainder phased out over 9 years. The agreement includes broad commitments to open services markets. Most of ordinary agricultural tariffs will be phased out over 15 years and a system of tariff-rate-quotas (TRQs) for politically sensitive products, such as wheat, will be maintained. The agreement contains a preference clause that prevents other countries from obtaining better agricultural access to the Moroccan market than the United States.
  - **In accordance with the Association Agreement with the EU, trade on industrial goods that are not produced in Morocco became duty free in 2003.** The Moroccan authorities have started the reduction of tariff rates on industrial goods that are also produced in Morocco. Trade on those goods is scheduled to become duty free in 2012. TRQs for agricultural products have been increased. The authorities have started negotiations with the EU on the liberalization of trade in the services sector.
  - **Morocco, Egypt, Jordan, and Tunisia signed an agreement in February 2004 toward the creation of a Euro-Mediterranean free trade area by 2010.** The accord calls for the lifting of trade barriers on industrial goods in two years and on agricultural products in five years.
  - **In addition the authorities reduced multilateral tariff rates to 10 percent on goods that are freely traded with the EU.** Almost 6,500 tariff lines out of about 17,000 were concerned and the average tariff rate has dropped by 4 percentage points.
- 
- **Financial sector reform.** The authorities have made good progress in implementing the recommendations of the FSAP (Box 3). In the discussions, the staff recommended speedy implementation of the remaining recommendations of the FSAP, including addressing the fragility of weak specialized public banks (*Credit Immobilier et Hotelier* (CIH) and Caisse Nationale de Credit Agricole (CNCA)) and nonbank financial institutions (i.e., pension funds and insurance companies), as well as strengthening the audit, accounting, and payments systems. The staff also emphasized that CIH and CNCA should be brought to comply with BAM's prudential regulations as soon as possible. In response to the staff enquires on the reasons behind the significant increase in the nonperforming loan (NPL) ratio in the system (Table 7), the authorities noted that BAM introduced stricter loan classification rules that

brought up the amount of the reported NPLs.<sup>13</sup> They also indicated that the decline in the capital adequacy ratios in 2003 reflected both increased bank lending and loan write-offs from two specialized banks (*Banque Nationale pour le Développement Economique* (BNDE) and CNCA). The commercial banking system remains sound.

### **Box 3. Morocco: Progress in Implementing the Main Recommendations of the FSAP**

- **Cabinet approval of new central bank and commercial banking laws in 2003.** These laws are expected to provide the legal framework to strengthen the financial sector and clarify the institutional framework for the conduct of monetary policy. Parliament is expected to approve these laws in the first half of 2004.
- **Restructuring of the two troubled state-owned banks (Credit Immobilier et Hotelier (CIH) and Caisse Nationale de Credit Agricole (CNCA)).** Parliament approved a law establishing the CNCA as a corporation in December 2003. This law separates its commercial banking operations from those that are influenced by government's policies in support of agriculture. The authorities are considering new restructuring options for the CIH. The date at which these two banks will be required to comply with BAM's prudential regulations has been moved from January 2007 to January 2006.
- **Reviewing the procedures to handle problem banks.** The new banking law establishes new and well-defined procedures that apply to banks experiencing difficulties. The law specifies when BAM can appoint new management in charge of readdressing the financial position of a troubled bank and clearly defines its powers vis-à-vis the financial institution's executive board.
- **Redefining the role of the remaining state financial institutions to limit the potential for conflict of interest.** The operations of the Caisse de Depot et Gestion (CDG) will be conducted only on a commercial basis. The internal financial control of the CDG has also been strengthened.
- **Strengthening banking supervision.** The new banking law gives BAM extended powers to conduct on-site inspections. BAM's regulations on provisioning requirements and ranking of risks have been revised. The banking law envisages the establishment of a commission to coordinate the supervision of different financial sector activities (banking, insurance and capital markets).
- **A number of laws in line with FSAP recommendations have been approved by Parliament.** These laws concern: (a) the stock market; (b) the investment funds (OPCVM); (c) public offerings on the stock market; (d) the establishment of a commission to draw up a code of conduct in the equity and bond markets; (e) the establishment of a central depository; and (f) the regulation of repo operations.

<sup>13</sup> Prior to 2003, only overdue portions of principal repayments were considered nonperforming. Under the new regulations, banks classify as nonperforming the overall amount of the outstanding loan on which a scheduled payment has not taken place.

- **Expanding the role of the private sector.** Improvement of the business environment is essential to promote private sector activity. In this context, the staff underscored the importance of reform efforts to improve the judicial system, strengthen accountability in public management, and streamline administrative procedures. The recently approved labor code, if promptly implemented, could also favor private sector activity by reducing uncertainties in labor relations and easing lay-off procedures. In addition, the authorities are implementing their privatization program that, as noted earlier, includes sales of additional government share in Maroc Telecom in 2004.
- **Public enterprises reform.** The authorities have improved the financial control of public enterprises and formalized relations between the government and these enterprises in contractual relationships that could help improve their productivity and the transparency of their management. The authorities and the staff agree that these efforts should continue with the objective of eventually privatizing the remaining commercial public enterprises (Box 4).

#### **Box 4. Morocco: Public Enterprises**

- There are **688 public enterprises and entities** in Morocco, two-thirds of which operate for commercial purposes with the remainder being administrative entities. Ten of these enterprises account for over 85 percent of total turnover.
- In 2002, their total **turnover** was DH 98 billion, **value added** was 12 percent of GDP, investment amounted to 24 percent of total **investment**, and **employment** was 175,000 (4 percent of total employment).
- Overall **profits** were slightly negative in 2002, as underfunded pension funds for the railway company and the tobacco monopoly (now privatized) were written off and transferred to an external entity. Excluding these transactions, the total net profits of public enterprises were DH 8.6 billion.
- Public enterprises account for about a third of public and publicly guaranteed **external debt**.
- Public enterprises' **investment in 2002 was concentrated in:**
  - utilities, major projects include rural electrification and water sanitation;
  - infrastructure and transport, driven by the expansion of the highway system;
  - agriculture, particularly for water management projects; and
  - telecommunication.

- **Pension reform.** The recent increase in the contribution rates (by employer and employee) will improve the prospects of the public sector pension fund (CMR). Nevertheless, the pension funds both for the public and private sectors could be in deficit by 2010 and are actuarially unsound. Thus, the staff and authorities agree that there is a pressing need to develop (in collaboration with the World Bank) a comprehensive reform strategy for the pension system.

- **Addressing poverty.** The authorities' overall strategy in addressing poverty, which is pervasive in rural areas, includes promoting the reallocation of labor from agriculture toward higher productivity sectors, while improving productivity in the agricultural sector itself. The latter is envisaged to derive from more efficient land usage, support for increased mechanization, a reform of the food subsidy system, and efforts to improve human capital among farmers. Rural infrastructure and access to credit are being improved, which should help promote the development of rural industries and services. In addition, the authorities intend to implement a universal health coverage system, the details of which are being developed.

### C. Exchange Rate and Monetary Policies

20. **The peg of the dirham to a basket of currencies has served Morocco well by helping macroeconomic stability and keeping inflation low.** Recent developments in the exchange markets have also favored Morocco's exports to the EU, Morocco's main trading partner, since the large depreciation of the dollar vis-à-vis the euro has translated into a slight nominal depreciation of the dirham vis-à-vis the euro.<sup>14</sup> Morocco's export performance in 2003 was favorable despite sluggish demand in the EU and special supply factors that weighed down export growth.<sup>15</sup> Thus, the mission and the authorities agreed that there was no evidence suggesting a misalignment of the current exchange rate level.

21. **Money market conditions in 2003 were characterized by abundant liquidity in the banking system,** resulting primarily from the sizable balance of payment surplus due to workers' remittances and financial flows relating to the privatization of the tobacco monopoly. BAM mopped up excess liquidity using deposit auctions and raising reserve requirements, which limited downward pressure on money market interest rates (Chart 9).<sup>16</sup> Credit to the economy, excluding that related to the privatization of the tobacco monopoly, increased moderately.

22. **Money market conditions are likely to continue to be characterized by abundant liquidity in 2004,** fueled again by workers' remittances and by the impact of new privatization proceeds on government financing requirements. This would require BAM to withdraw excess liquidity from the banking system. Based on the fiscal and balance of payment outlook, the government's position with the banking sector would worsen slightly

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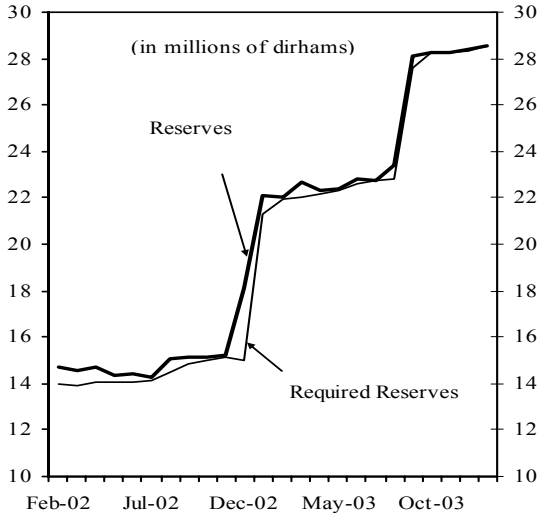
<sup>14</sup> The euro has the largest weight in the currency basket to which the dirham is pegged. Consequently, Morocco's competitiveness may have suffered vis-à-vis dollar-zone countries.

<sup>15</sup> These factors include a drop in the exports of fishing products due to the temporary ban on fishing, the disruption of production in the country's largest oil refinery because of a fire, and a bad tomato crop.

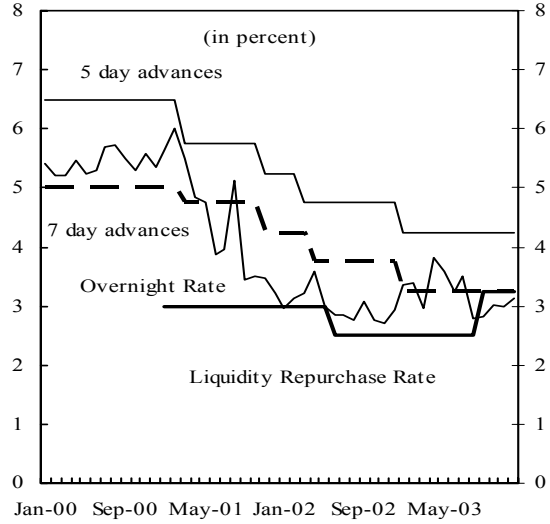
<sup>16</sup> BAM elaborates a monetary program at the beginning of the year in coordination with the Ministry of Finance. However, with the current exchange rate peg, monetary aggregates have largely been demand determined.

Chart 9. Monetary Developments

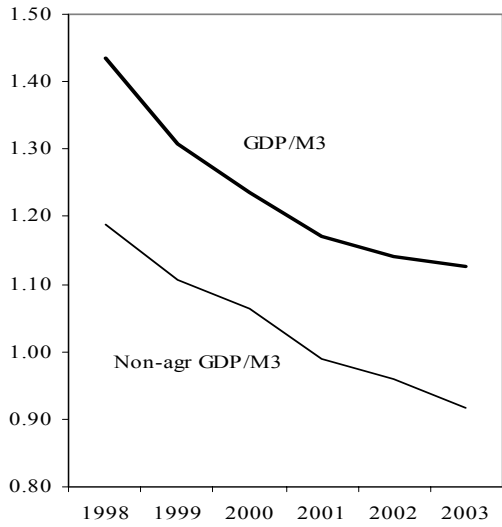
*Reserves requirements have been raised in response to excess reserves...*



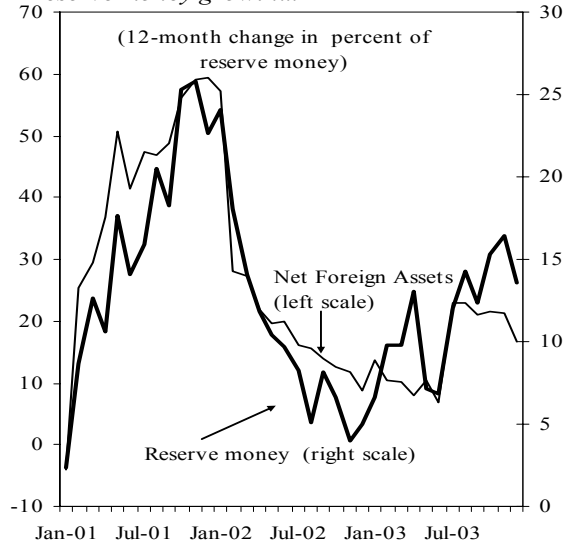
*BAM lowered its policy rates in response to abundant liquidity conditions ...*



*Money Velocity trends down and has been stable...*



*Under the peg, foreign exchange flows drive reserve money growth...*



Source: Moroccan authorities and IMF staff estimates.

and net foreign assets would increase further. Together with credit to the economy growing broadly in line with nonagricultural economic activity, broad money would grow by 8.3 percent (Table 8). Inflation is projected at 2 percent.

23. **In the staff's view, the ongoing integration of the Moroccan economy into the world economy calls for a reconsideration of the current exchange rate regime.** A flexible exchange rate regime would better support the authorities' growth objective by helping reorient resources toward exports and minimizing the risks of increased economic and financial integration. More specifically, the staff argued that a flexible exchange rate policy would: (a) help to counteract the short-term effect of lowering external tariffs, since the productivity gains stemming from trade liberalization and structural reforms in general will materialize only over the medium term; (b) facilitate adjustment to the adverse shocks that may hit the economy, since, otherwise, the domestic price level and economic activity would need to bear the brunt of the adjustment; and (c) prevent undue reliance by foreign investors on an implicit exchange rate guarantee. Thus, the staff encouraged the authorities to start laying down the groundwork for an orderly exit from the peg over the medium term. In this context, policy actions would need to focus on: (a) establishing a new monetary framework that would provide a nominal anchor for the economy to replace the exchange rate; (b) achieving significant progress in fiscal consolidation to limit the possibility of excessive pressures on the exchange rate; (c) strengthening the financial sector by completing the implementation of the FSAP's recommendations both to limit vulnerabilities as financial integration proceeds and improve the transmission mechanism of monetary policy; and (d) develop derivatives markets to allow the hedging of exchange rate risks.

24. **The authorities indicated that they have been considering the issue of the appropriate exchange rate regime to sustain their growth objectives.** They were not yet fully convinced about the merits of a flexible regime, but remained open to the idea. They believe that their medium-term growth objectives are within reach regardless of the exchange rate regime, provided continued progress is achieved both in structural reforms and fiscal consolidation. They also believe that a flexible exchange rate regime in the context of a surplus in the balance of payments could generate pressures toward a nominal appreciation, with an adverse impact on competitiveness and growth. Moreover, they fear that a flexible regime could generate excessive exchange rate volatility, since the Moroccan economy remains prone to exogenous shocks. The authorities therefore requested a paper from the staff on how an exit from an exchange rate peg would better support their growth objectives and how in the process their above-mentioned concerns could be addressed to minimize the associated risks. The staff acknowledged that these issues would need to be thought through carefully, and agreed to prepare a paper which would provide a basis for future discussions on the exchange rate regime.

25. **A new monetary framework with well-defined intermediate and operational targets would need to be put in place to ensure that inflation remains under control after exiting the peg.** Under the existing exchange rate peg, monetary development are, by and large, endogenous and play a limited role on the inflation outcome. Under a flexible exchange rate regime, monetary developments would impact inflation more since the latter would no longer be pinned down by the exchange rate peg. Thus, in the staff's view, there is

a need to adapt the framework for monetary policy to the new circumstances, while deepening the understanding of the relation between money and prices. BAM is of the view that it already has the range of instruments and the institutional capabilities needed to conduct an active monetary policy. BAM indicated that, independently from the possibility of moving to a flexible exchange rate regime, it has already started to review its instruments and operating procedures, with MFD technical assistance, in view of the enhanced independence and powers that it will receive when the new central bank law is enacted.

### III. RISKS FOR THE MEDIUM-TERM EXTERNAL OUTLOOK

26. **Risks to Morocco's external position are limited over the medium term.** Under the scenario developed with the authorities, the surplus of the current account balance will gradually decline as the impact of a recovering domestic demand on imports will more than offset the pick-up in export receipts (Table 9). External reserves would remain high at nine months of imports. The medium-term scenario cautiously assumes no significant increase in the dollar value of workers' remittances, and they constitute the main potential vulnerability (Chart 10).<sup>17</sup> The expiration of the Multifiber Agreement in 2005 will likely impact Morocco's textile exports, but ongoing efforts to restructure the sector and to diversify exports are expected to mitigate this impact. The tourism sector has shown strong resilience to the current security-related uncertainties, as evidenced by its performance despite the Casablanca bombings. The current reforms that are being implemented by the authorities, such as the liberalization of air transportation and efforts to develop tourism in key regions and to improve the quality of tourism services, could further stimulate the sector. As a result, tourism receipts are projected to increase steadily over the medium term.

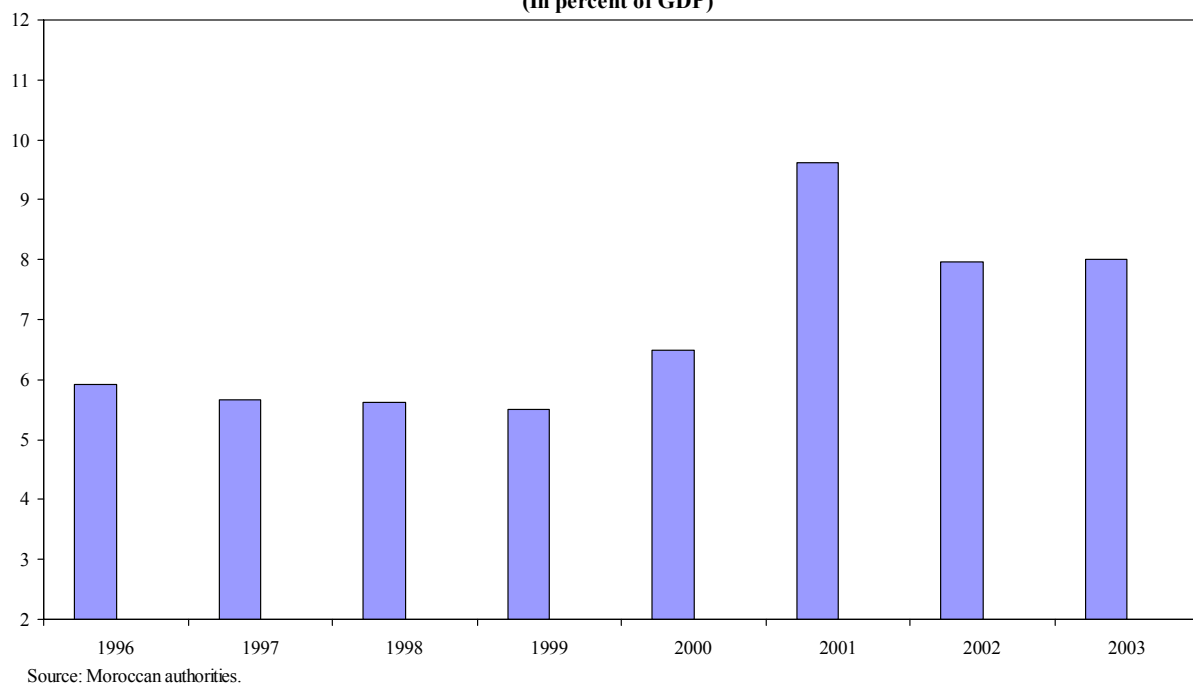
27. **Vulnerabilities from external debt are low** (Tables 10 and 11). Morocco's external debt has been declining and was close to 33 percent of GDP at end-2003. Under the medium-term scenario developed with the authorities, external debt would gradually decline to 22 percent of GDP by end-2009 and debt service payments would decline by half to 7 percent of exports of goods and services and workers' remittances at end-2009. The authorities intend to continue to limit external borrowing and to repay the remaining expensive debt.

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<sup>17</sup> For further discussion, see "On the Long-Term Determinants of Workers' Remittances in Morocco" (forthcoming).



Chart 10. Workers' Remittances  
(In percent of GDP)



#### IV. OTHER ISSUES

28. **Morocco is making progress in improving the quality and dissemination of statistical data.** Recently, the authorities started publishing their international investment position. Although Morocco's database is sufficient for conducting surveillance, there are still areas for improvements as identified by the ROSC mission. These areas include the international reserves template and general government operations. Morocco is well positioned to meet the SDDS specifications, as it already meets the periodicity prescriptions and, with a slight improvement, would also meet those of timeliness.

29. **In the aftermath of the Casablanca bombings, a law against terrorism was approved in May 2003.** The authorities indicated that this law also covers the financing of terrorism. A draft law on money laundering is being prepared by an inter ministerial committee. The central bank has issued anti-money laundering regulations consistent with international standards.

#### V. STAFF APPRAISAL

30. **Morocco's structural reform efforts gained momentum starting in 2002 and macroeconomic conditions remained strong.** Economic growth picked up in 2003 mostly because of a rebound in agriculture, but a recovery in private economic activity also appears underway driven by investment. Inflation remained low, the external current account continued to register a surplus, and foreign exchange reserves increased further. However, fiscal performance was disappointing and the deficit widened. Nevertheless, with privatization receipts, public debt continued to decline.

31. **The key challenge for the Moroccan authorities is to achieve sustainable high rates of growth to reduce poverty and unemployment.** Such growth rates will be pursued in the context of increasing integration of Morocco into the world economy, which will change the economic and financial environment. To take better advantage of the opportunities in the new environment while minimizing the associated risks, macroeconomic policies would need to be supportive and the structural reforms be implemented at an accelerated pace with a view to improving the productivity and the competitiveness of the Moroccan economy, including by promoting private sector activity.

32. **Fiscal consolidation is essential in the medium-term high-growth strategy.** The authorities are well aware of this and intend to reduce the deficit gradually to 3 percent of GDP by 2009. While a multiyear adjustment appears appropriate, an emphasis should be given to early implementation to provide room to absorb adverse shocks along the way. Furthermore, a tangible progress in fiscal consolidation and debt reduction early on would help assuage fears of future tax and interest rate increases and promote the much needed private sector investment. Such a path would also be supportive of a somewhat more ambitious reduction of the debt-to-GDP ratio, which the staff recommends. In this connection, the authorities are urged to keep the fiscal deficit in 2004 below that of 2003 by ensuring the timely adoption of the fiscal measures on which the projected 2004 fiscal outcome is based and by stepping up tax collections and controlling expenditures.

33. **Sustained reduction in the fiscal deficit will require reforms on the revenue and expenditure sides.** Privatization should not delay reforms. Reforms to broaden the tax base, simplify the system, and strengthen its administration would be needed to at least offset the decline in customs revenue resulting from the liberalization of foreign trade. To this end, the staff welcomes the authorities' intention to develop an action plan with the assistance from FAD and encourages the authorities to implement it expeditiously. On the expenditure side, a civil service reform (with World Bank assistance) and an overhaul of the food subsidy system would be required for durable cuts. The reform of the subsidy system should generate savings, albeit these savings would be reduced by the need to strengthen the social safety net.

34. **The pegging of the dirham to a basket of currencies has served the Moroccan economy well.** Low inflation together with the depreciation of the dirham in nominal effective terms have translated into a slight depreciation of the dirham in real effective terms and the current level of the exchange rate does not appear misaligned. However, over the medium-term, a flexible exchange rate policy would improve Morocco's resilience to shocks and enhance growth prospects as trade and financial integration progresses. Furthermore, a move to a flexible exchange rate policy would need to precede any substantial steps toward capital account liberalization to avoid implicit exchange rate guarantees. The staff welcomes the intention of the authorities to examine the role of a flexible exchange rate.

35. **A move to a flexible exchange rate policy would require the establishment of a monetary policy framework that would provide a nominal anchor in place of the exchange rate, as well as durable reductions in the fiscal deficit and continued**

**strengthening of the financial system.** In preparation for an effective functioning of such a framework, there would be a need to further improve BAM's monetary policy instruments and develop money and exchange markets.

36. **The staff welcomes the authorities' intention to continue with the recently accelerated pace of structural reforms.** While important progress has been made in structural areas, continued efforts are needed to increase productivity and promote private sector activity as well as to facilitate Morocco's integration with the rest of the world.

37. **In the financial sector, the authorities are encouraged to press ahead with the implementation of the FSAP recommendations.** The upcoming promulgation of the new central bank and credit institution laws should make it possible to pursue the modernization of the financial system and monetary policy framework. Efforts to rehabilitate specialized public institutions are encouraged, but it is imperative that these institutions comply with prudential regulations as soon as possible. Furthermore, the finalization of the draft law on money laundering should proceed in a timely manner.

38. **Morocco's efforts to liberalize trade on bilateral and multilateral bases are commendable.** Nevertheless, the external trade regime remains restrictive and complex. Thus, the staff encourages the authorities to continue their efforts to liberalize trade and to avoid proliferation of tariff schedules that raise the complexity of the trade regime. Furthermore, liberalization and integration among Maghreb countries would help establish a large regional market and attract foreign direct investment.

39. **Broader public sector reforms remain important to improve the business environment and enhance productivity.** In this context, the authorities' efforts to improve the financial control of public enterprises and the financial position of the pension funds are welcomed. Improvement of the business environment through better governance and transparency is essential and the planned fiscal ROSC should help the authorities further enhance the clarity of fiscal policy. The withdrawal of the state from sectors that are in the private sector domain should continue. In this regard, the authorities' privatization program is most encouraging. Furthermore, in view of the implicit liabilities of pension funds and implications for public debt, the intended overall reform of this sector would need to proceed expeditiously.

40. **Morocco's economic data base is sufficient for conducting effective surveillance.** Nevertheless, there are areas for improvement as identified by the statistical ROSC mission. The staff welcomes the recent publication of the international investment position and encourages the authorities to accelerate their efforts to subscribe to the SDDS.

41. It is recommended that the next Article IV consultation be conducted on the standard 12-month cycle.

Table 1. Morocco: Selected Economic and Financial Indicators, 1999–2004

	1999	2000	2001	2002	Est 2003	Proj 2004
(Annual percent change; unless otherwise indicated)						
Production and income						
Nominal GDP	0.5	2.5	8.2	3.8	7.0	4.5
Real GDP	-0.1	1.0	6.3	3.2	5.5	3.0
Real non-agricultural GDP	3.2	3.6	3.6	2.8	3.1	3.8
GDP deflator	0.5	1.5	1.8	0.6	1.4	1.5
Consumer price index (CPI), average	0.7	1.9	0.6	2.8	1.2	2.0
(In billions of U.S. dollars; unless otherwise indicated)						
External sector						
Exports of goods, f.o.b.	7.5	7.4	7.1	7.8	8.7	10.2
Imports of goods, f.o.b.	10.0	10.7	10.2	10.9	13.1	15.4
Net services	0.1	0.3	1.1	1.2	1.7	1.9
Net transfers	2.1	2.4	3.5	3.2	4.0	4.4
Current account (in percent of GDP)	-0.5	-1.4	4.8	4.1	3.1	2.3
Overall balance (deficit -)	1.6	-0.4	3.8	0.6	1.8	1.3
(In percent of GDP)						
Central government						
Revenue, excluding grants and privatization	26.9	26.2	24.9	24.7	24.1	24.0
Total expenditure (including <i>Fonds Hassan II</i> )	31.4	32.4	31.1	29.9	30.1	29.7
Overall balance 1/	-4.5	-6.4	-5.8	-4.7	-5.5	-5.4
Privatization and GSM receipts	3.2	0.0	6.1	0.2	2.8	2.7
Overall balance, incl. privatization	-1.3	-6.4	0.3	-4.5	-2.7	-2.7
(Annual percent change; unless otherwise indicated)						
Money and credit						
Broad money	10.3	8.4	14.2	6.3	8.6	8.3
Interest rate (Avg, money market rate, in percent)	5.6	5.4	4.6	3.0	2.5	...
Official reserves						
Gross official reserves (in billions of US\$, end-period)	5.7	4.8	8.4	10.1	13.6	15.2
In months of imports of goods and services, c.i.f.	5.7	4.6	8.2	9.1	10.3	9.8
Debt (short, medium and long term)						
Total external debt (in billions of US\$)	19.8	18.0	15.9	15.8	16.4	16.2
Total external debt (in percent of GDP)	56.1	53.9	46.9	43.7	36.2	31.7
Domestic government debt (in percent of GDP)	45.6	47.3	45.9	48.2	49.7	51.4
Total government debt (in percent of GDP)	81.3	81.5	74.8	71.5	68.2	67.6
Memorandum items:						
GDP at current prices (in billions of Dh)	345.6	354.2	383.2	397.8	425.6	444.9
Exchange rate: dirham/US\$ (average period)	9.80	10.63	11.30	11.02	9.54	...
Real effective exchange rate (appreciation +)	1.0	2.8	-4.1	-1.1	-1.0	...
Terms of trade (deterioration -)	-3.4	-11.1	-1.6	4.9	-0.2	...

Sources: Data provided by the Moroccan authorities; includes Fund staff projections.

1/ On a commitment basis including *Fonds Hassan II*.

Table 2. Morocco: Basic Social and Demographic Indicators, 1971–2003

	1971	1980	1987	1993	1997	1998	1999	2000	2001	2002	2003
(In millions, unless otherwise specified)											
Population characteristics											
Total population	15.4	19.3	22.7	25.6	27.3	27.8	28.2	28.7	29.2	29.6	30.1
Rural population	10.0	11.4	12.2	12.6	12.8	12.8	12.8	12.9	12.9	12.9	12.8
Population under 15 year of age	7.0	9.0	9.6	9.8	9.6	9.3	9.3	9.3	9.2	9.2	9.1
Birth rate (per 1,000)	41.0	39.9	31.4	27.3	23.2	22.8	24.5	21.9	21.5	21.0	...
Death rate (per 1,000)	17.4	10.6	7.4	7.0	6.3	6.2	6.1	5.9	5.8	5.6	...
Life expectancy	52.4	59.1	65.0	67.3	68.8	69.2	69.5	69.7	70.0	...	...
Population growth	2.8	2.6	2.4	2.0	1.7	1.7	1.7	1.7	1.6	1.5	1.5
Urbanization rate	35.1	41.1	46.0	50.4	53.2	53.8	54.5	55.2	55.9	56.6	57.3
Number of children per woman	7.4	5.9	4.5	4.1	3.1	3.0	2.9	2.8	2.8	...	...
Health, food, and nutrition											
Infant mortality (per 1,000)	125.2	92.0	82.0	65.6	72.0	70.0	53.0	46.0	44	...	...
Persons per physician (in thousands)	13.7	11.0	5.4	3.1	2.8	2.6	2.4	2.3	2.3	2.1	...
Education											
Literacy rate (in percent)	25.0	28.9	34.0	45.0	49.0	51.7	...	...	...	...	...
Primary enrollment (in percent)	...	...	...	61.6	68.6	73.7	79.1	84.6	90	92.1	...
Female enrollment (in percent)	...	...	...	51.8	61.8	68.0	74.2	80.6	86.6	89.1	...
Secondary enrollment (in percent)	...	...	...	45.8	53.7	55.1	58.1	60.3	63.1	66.3	...
Female enrollment (in percent)	...	...	...	37.1	45.0	46.7	49.9	52.7	56.2	59.8	...
Pupils per teacher in primary schools	35	38	27	28	28	28	29	29	29	...	...
Pupils per teacher in secondary schools	20	21	20	17	19	18	19	19	20	...	...
(In percent, unless otherwise specified)											
Unemployment rate											
Unemployment rate	...	...	8.4	...	...	...	13.9	13.6	12.5	11.6	...
Young unemployment rate (15–24 years)	...	...	...	...	...	...	20.5	19.9	18.9	17.6	...
Population between 25–44 years	...	...	...	...	...	...	15.1	14.9	13.7	12.8	...
Urban employment											
Total employment (in percent of urban population)	23.6	...	26.7	27.7	28.5	27.3	26.4	26.4	27.1	27.2	...
Female employment (in percent of urban population)	...	...	...	6.1	6.9	...	6.2	5.8	5.7	5.7	...
Unemployment rate	2.3	9.8	14.7	15.9	16.9	19.1	22.0	21.7	19.5	18.3	...
Young unemployment rate (15–24 years)	...	...	28.4	30.2	29.9	34.7	37.8	37.6	35.5	34.2	...
Population between 25–44 years	...	...	11.9	14.4	16.4	18.2	21.7	21.5	19.7	18.6	...
Salary and income											
GDP per capita (1980 dirhams)	3,132	3,833	4,042	4,292	4,548	4,815	4,772	4,700	4,927	4,984	5214
GDP per capita (current U.S. dollars)	275	975	819	1,027	1,224	1,284	1,239	1,159	1,161	1,259	1482.7
Minimum wage (in 1980 dirhams per hour) 1/	2.17	1.96	2.21	2.72	2.84	2.76	2.74	2.82	2.80	2.73	3.22
(In percent of GDP)											
Social investment											
Government total expenditure on education 2/	...	5.7	4.8	5.9	5.4	5.8	6.0	6.3	6.5	6.5	6.4
Government total expenditure on health 2/	...	0.8	0.8	0.9	1.0	1.1	1.4	1.4	1.3	1.3	1.2

Sources: Moroccan authorities; World Bank; and IMF staff estimates.

1/ Minimum wage in the nonagricultural sector.

2/ Between 1996 and 1999, fiscal year beginning in July of the indicated year.

Table 3. Morocco: Balance of Payments, 1999–2004  
(In millions of U.S. dollars; unless otherwise indicated)

	1999	2000	2001	2002	Est. 2003	Proj. 2004
Current account	-170	-478	1,611	1,477	1,366	1,154
Trade balance	-2,448	-3,235	-3,022	-3,061	-4,394	-5,226
Exports, f.o.b.	7,509	7,419	7,142	7,839	8,699	10,205
Phosphates and derived products	1,361	1,216	1,171	1,160	1,346	1,545
Imports, f.o.b.	-9,957	-10,653	-10,164	-10,900	-13,094	-15,431
Energy	1,326	2,038	1,945	1,831	2,206	2,514
Services	1,112	1,142	1,910	1,946	2,414	2,796
Tourism receipts	1,949	2,039	2,583	2,646	3,074	3,550
Income	-988	-867	-832	-738	-721	-912
Transfers	2,154	2,483	3,555	3,330	4,067	4,495
Private transfers (net)	2,144	2,382	3,535	3,223	3,989	4,410
Official grants (net)	10	101	20	107	78	85
Capital account 1/	259	1	91	84	-5	-6
Financial account	1,549	63	2,145	-924	399	159
Direct investment	831	368	2,727	452	2,126	1,893
Portfolio investment	6	18	-7	-8	-538	-803
Other	712	-323	-575	-1,368	-1,188	-932
Private flows (net)	1,226	518	545	-6	30	0
Public medium-and long-term loans (net)	-515	-841	-1,121	-1,362	-1,219	-932
Disbursements	1,501	835	628	661	1,379	1,122
Amortization	-2,016	-1,676	-1,749	-2,024	-2,598	-2,054
Reserve asset accumulation (-increase)	-1639	415	-3848	-638	-1760	-1308
Errors and omissions	-139	111	257	-200	5	0
Memorandum items:						
Trade balance (in percent of GDP)	-6.9	-9.7	-8.9	-8.5	-9.9	-10.2
Terms of trade ( % change)	-3.4	-11.1	-1.6	4.9	-0.2	0.9
Current account balance (in percent of GDP)	-0.5	-1.4	4.8	4.1	3.1	2.3
Excluding official grants (in percent of GDP)	-0.5	-1.7	4.7	3.8	2.9	2.1
Gross official reserves 2/	5,701	4,796	8,431	10,107	13,557	15,195
(In months of imports of goods and services	5.7	4.6	8.2	9.1	10.3	9.8
Debt service as percentage of export of goods,						
services and MRE 3/ 4/	20.8	20.1	16.2	16.5	14.2	10.5
External public and publically guaranteed						
debt (in percent of GDP)	49.8	48.1	41.5	38.6	30.7	28.1

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

1/ Includes the grant element of debt swap operations with France and Spain.

2/ Excluding the reserve position in the Fund.

3/ Public and publically guaranteed debt.

4/ Excluding early amortization on account of debt swaps.

Table 4. Morocco: Medium-Term Scenario, 1999–2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(Percent change)										
Real GDP growth	-0.1	1.0	6.3	3.2	5.5	3.0	4.0	4.4	4.8	5.1	5.5
Real nonagricultural GDP growth	3.2	3.6	3.6	2.8	3.1	3.8	4.1	4.6	5.0	5.4	5.9
Inflation (CPI)	0.7	1.9	0.6	2.8	1.2	2.0	2.0	2.0	2.0	2.0	2.0
Export growth in US\$	6.6	-1.6	6.9	9.2	13.7	17.1	7.1	7.0	8.0	8.2	8.3
ICOR 1/	9.9	6.5	4.4	8.6	7.0	5.5	4.9	4.5	4.3	4.1	3.8
Employment growth	8.2	0.6	0.6	2.8	3.2	2.7	2.9	3.4	3.7	4.0	4.4
	(Percent of GDP)										
Gross investment	23.1	23.7	22.9	22.7	23.2	24.4	24.6	24.7	24.9	25.0	25.2
Government	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Private 2/ 3/	20.2	20.7	20.0	20.0	20.6	21.7	21.9	22.0	22.2	22.3	22.5
National saving	22.6	22.3	27.6	26.8	26.2	26.7	26.1	25.7	25.5	25.2	24.9
Government	1.7	0.7	0.9	2.0	0.9	1.5	2.0	2.5	3.1	3.5	4.0
Private 2/	20.9	21.6	26.7	24.8	25.3	25.2	24.2	23.3	22.4	21.7	20.9
External saving (=current account balance)	-0.5	-1.4	4.8	4.1	3.1	2.3	1.6	1.0	0.6	0.1	-0.3
Total External debt 4/	56.1	53.9	46.9	43.7	36.2	31.7	29.4	27.3	25.3	23.7	22.0
GDP (in billions of U.S. dollars)	35.2	33.3	33.9	36.1	44.6	51.0	54.2	57.8	61.8	66.2	71.3
Fiscal balance 5/	-4.2	-6.4	-5.8	-4.6	-5.5	-5.4	-5.0	-4.5	-4.2	-3.8	-3.3
Primary balance	1.2	-1.2	-0.9	-0.3	-1.4	-1.5	-1.2	-0.6	-0.2	0.2	0.7
Borrowing requirement	0.5	2.5	2.5	4.5	3.0	2.4	4.2	3.9	3.8	3.4	2.9
Government debt ratio 6/	81.3	81.5	74.8	71.5	68.2	67.6	67.8	67.5	66.9	66.8	64.1
Privatization receipts	3.2	0.0	6.1	0.2	2.8	2.7	0.8	0.6	0.4	0.3	0.3
Arrears	0.4	3.9	-2.9	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance, Bank Al-Maghrib, and Fund staff estimates and projections.

1/ Ratio of nonagricultural fixed capital formation to change in nonagricultural GDP.

2/ Includes public enterprises.

3/ Includes stockbuilding.

4/ Including private debt.

5/ Overall balance, excluding privatization and GSM revenues but including expenditures by the *Fonds Hassan II*.

6/ Domestic and external central government debt, end of calendar year.

Table 5. Morocco: Central Government Finance, 2000–04 1/

	2000	2001	2002	Budget 2003	Est 2003	Budget 2004	Proj. 2004
(In billions of dirhams)							
Revenue 2/	92.9	95.6	98.3	99.1	102.5	103.4	106.9
Tax revenue 2/	85.5	87.2	91.0	91.9	94.0	95.3	98.8
direct taxes	26.8	28.2	30.4	31.2	33.2	33.2	36.0
indirect taxes	36.7	39.2	40.1	41.1	41.6	42.6	43.2
import taxes	16.6	14.0	14.2	13.1	12.5	12.1	12.1
other tax revenues	5.3	5.8	6.4	6.5	6.6	7.4	7.6
Nontax revenue (excl. privatization)	7.4	8.4	7.2	7.2	8.5	8.1	8.1
Expenditures and net lending (excl. <i>Fonds Hassan II</i> )	112.7	119.3	117.8	124.9	126.3	129.1	128.7
Current expenditures	87.3	90.4	90.7	97.2	98.4	100.6	100.2
Wages	42.0	48.0	48.6	52.3	53.9	53.6	55.3
Food subsidies 3/	9.4	5.1	4.0	4.3	4.9	3.4	3.4
Interest	18.6	18.8	17.6	17.9	17.4	17.8	17.4
Other current spending	17.3	18.5	20.5	22.7	22.3	25.9	24.2
Capital expenditures (budget) 4/	18.0	20.4	19.3	18.6	18.9	18.2	18.2
Road fund	1.2	0.9	1.0	1.5	1.1	2.1	2.1
Transfers to local governments 5/	6.4	7.0	7.2	7.7	7.8	8.2	8.2
Net lending	-0.3	0.6	-0.3	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	-1.0	2.2	1.8	0.0	2.3	0.0	1.1
Overall balance (commitment basis, excl. <i>Fonds Hassan II</i> )	-20.9	-21.6	-17.8	-25.8	-21.5	-25.6	-20.6
<i>Fonds Hassan II</i> expenditures	1.9	0.6	0.9	3.5	1.8	4.4	3.3
Overall balance (commitment basis, incl. <i>Fonds Hassan II</i> )	-22.8	-22.2	-18.6	-29.3	-23.3	-30.0	-23.9
Grants	0.0	0.3	0.5	1.1	0.5	1.4	1.4
Privatization and GSM revenues	0.0	23.4	0.6	12.5	12.0	12.0	12.0
Change in arrears	13.8	-11.0	-0.2	0.0	-2.1	0.0	0.0
Overall balance (cash basis, incl. <i>Fonds Hassan II</i> , grants & privatization)	-9.0	-9.6	-17.7	-15.6	-13.0	-16.6	-10.5
Financing	9.0	9.6	17.7	15.6	13.0	16.6	10.5
Domestic financing	15.3	19.6	29.4	25.6	22.2	23.1	16.9
External financing 5/	-6.3	-10.1	-11.7	-10.0	-9.3	-6.4	-6.4
Memorandum items							
Current balance	5.6	5.2	7.6	1.9	4.0	2.8	6.7
Primary balance	-4.2	-3.4	-1.0	-11.4	-6.0	-12.3	-6.5
Primary balance (incl. grants and privatization)	-4.2	20.2	0.1	2.2	6.5	1.2	6.9
Total Central Government debt (end period)	288.5	286.5	284.3	300.0	290.4	307.0	300.8
Domestic	167.4	175.9	191.5	217.2	211.6	234.7	...
External	121.1	110.6	92.8	82.8	78.8	72.4	...
GDP in billions of dirhams	354.2	383.2	397.8	425.6	425.6	444.9	444.9

1/ Including *Fonds Hassan II*.

2/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires*) and revenues of the road fund (*Fonds Routier*)

3/ Includes food subsidies financed from earmarked tariffs (*équivalents tarifaires*).

4/ Budgetary capital expenditures excluding *Fonds Routier* and investment spending by the *Fonds Hassan II*

5/ Corresponds to 30 percent of VAT revenue.



Table 5. Morocco: Central Government Finance, 2000–04 (concluded) 1/

	2000	2001	2002	Budget 2003	Est 2003	Budget 2004	Proj. 2004
	(in percent of GDP)						
Revenue 2/	26.2	24.9	24.7	23.3	24.1	23.2	24.0
Tax revenue 2/	24.1	22.7	22.9	21.6	22.1	21.4	22.2
direct taxes	7.6	7.3	7.6	7.3	7.8	7.5	8.1
indirect taxes	10.3	10.2	10.1	9.6	9.8	9.6	9.7
import taxes	4.7	3.7	3.6	3.1	2.9	2.7	2.7
other tax revenues	1.5	1.5	1.6	1.5	1.6	1.7	1.7
Nontax revenue (excl. privatization)	2.1	2.2	1.8	1.7	2.0	1.8	1.8
Expenditures and net lending (excl. <i>Fonds Hassan II</i> )	31.8	31.1	29.6	29.3	29.7	29.0	28.9
Current expenditures	24.6	23.6	22.8	22.8	23.1	22.6	22.5
Wages	11.8	12.5	12.2	12.3	12.7	12.0	12.4
Food subsidies 3/	2.6	1.3	1.0	1.0	1.1	0.8	0.8
Interest	5.3	4.9	4.4	4.2	4.1	4.0	3.9
Other current spending	4.9	4.8	5.1	5.3	5.2	5.8	5.4
Capital expenditures (budget) 4/	5.1	5.3	4.8	4.4	4.4	4.1	4.1
Road fund	0.3	0.2	0.2	0.4	0.3	0.5	0.5
Transfers to local governments 5/	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Net lending	-0.1	0.2	-0.1	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	-0.3	0.6	0.5	0.0	0.5	0.0	0.3
Overall balance (commitment basis, excl. <i>Fonds Hassan II</i> )	-5.9	-5.6	-4.5	-6.1	-5.1	-5.8	-4.6
Fonds Hassan II expenditures	0.5	0.2	0.2	0.8	0.4	1.0	0.7
Overall balance (commitment basis, incl. <i>Fonds Hassan II</i> )	-6.4	-5.8	-4.7	-6.9	-5.5	-6.8	-5.4
Grants	0.0	0.1	0.1	0.3	0.1	0.3	0.3
Privatization and GSM revenues	0.0	6.1	0.2	2.9	2.8	2.7	2.7
Change in arrears	3.9	-2.9	-0.1	0.0	-0.5	0.0	0.0
Overall balance (cash basis, incl. <i>Fonds Hassan II</i> , grants & privatization)	-2.5	-2.5	-4.5	-3.7	-3.0	-3.7	-2.4
Financing	2.5	2.5	4.5	3.7	3.0	3.7	2.4
Domestic financing	4.3	5.1	7.4	6.0	5.2	5.2	3.8
External financing	-1.8	-2.6	-2.9	-2.4	-2.2	-1.4	-1.4
Memorandum items							
Current balance	1.6	1.3	1.9	0.5	0.9	0.6	1.5
Primary balance	-1.2	-0.9	-0.3	-2.7	-1.4	-2.8	-1.5
Primary balance (incl. grants & privatization)	-1.2	5.3	0.0	0.5	1.5	0.3	1.6
Total Central Government debt (end period)	81.5	74.8	71.5	70.5	68.2	69.0	67.6
domestic	47.3	45.9	48.2	51.0	49.7	52.7	...
external	34.2	28.9	23.3	19.5	18.5	16.3	...

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

1/ Including *Fonds Hassan II*.

2/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires*) and revenues of the road fund (*Fonds Routier*)

3/ Includes food subsidies financed from earmarked tariffs (*équivalents tarifaires*).

4/ Budgetary capital expenditures excluding *Fonds Routier* and investment spending by the *Fonds Hassan II*.

5/ Corresponds to 30 percent of VAT revenue.



Table 7. Morocco: Financial Soundness Indicators , 1997–2003  
(In percent, unless otherwise indicated)

	December						
	1997	1998	1999	2000	2001	2002	2003
Deposit Taking Institutions	7	7	7	7	7	6	6
<i>Capital Adequacy</i>							
Regulatory capital to risk-weighted assets*	11.2	12.6	12.1	12.8	12.6	12.2	10.1
Commercial banks 1/	12.7	13.1	13.0	14.7	15.3	15.3	13.2
Regulatory Tier I capital to risk-weighted assets*	11.2	12.6	12.1	12.8	12.6	12.2	10.1
Capital (net worth) to assets	10.0	10.3	10.0	9.8	8.7	8.5	8.2
<i>Asset composition and quality</i>							
Sectoral distribution of loans to total loans*							
Agriculture	15.5	13.4	12.7	11.7	10.7	9.9	9.5
Housing and Public Works	19.1	19.3	19.5	19.2	18.9	20.1	20.4
Industry	17.7	17.6	15.5	15.6	15.8	17.7	17.9
Public administration	3.9	4.9	4.3	3.8	3.5	4.1	3.2
Commerce	9.3	9.6	9.9	9.9	9.4	8.4	9.1
Tourism	4.1	3.5	3.2	2.8	3.6	4.5	4.4
Other	30.4	31.7	34.9	37.0	38.1	35.4	35.6
Geographical distribution of loans to total loans							
Casablanca	63.2	62.9	64.8	56.7	56.7	56.3	54.1
Marrakech	3.6	3.5	3.2	3.9	3.6	3.9	4.3
Rabat	10.1	9.9	8.9	16.0	15.9	15.8	15.9
NPLs to gross loans*							
Commercial banks 1/	8.5	8.9	9.1	9.1	10.7	11.2	12.3
NPLs net of provisions to capital*	37.6	44.9	49.3	70.5	55.5	57.1	66.5
Provisioning ratio	72.6	61.6	51.9	47.8	52.9	54.7	55.0
Large exposures to capital*	...	159.0	196.0	212.0	194.0	149.4	175.3
<i>Earnings and Profitability</i>							
ROA*	1.0	0.9	0.7	0.7	0.9	0.3	0.6
ROE*	11.0	9.5	8.2	8.1	10.2	1.9	6.7
Interest margin to gross income*	77.2	15.0	73.4	80.0	77.8	82.0	82.4
Noninterest expenses to gross income*	47.3	46.8	47.4	49.1	46.2	53.4	50.9
Personnel expenses to noninterest expenses	29.6	29.0	27.5	26.0	26.8	22.5	23.9
Trading and fee income to total income	15.6	13.6	14.5	18.1	20.6	17.7	17.4
Spread between reference loan and deposit rates	5.3	5.5	5.3	5.1	4.8	4.5	4.4
<i>Liquidity</i>							
Liquid assets to total assets*	66.0	62.7	58.5	...	...	123.1	122.3
Liquid assets to total short-term liabilities*	25.4	24.1	22.9	20.4	22.7	26.9	30.5
Customer deposits to total (non-interbank) loans	114.6	113.5	112.0	113.4	120.3	125.9	127.8
Average bid-ask spread in the securities market							
	3.8	3.8	6.0	4.6	6.6	...	...
Average daily turnover ratio in the securities market							
	6.7	6.8	5.6	5.4	4.8	...	...
<i>Sensitivity to market risk</i>							
Net open positions in FX to capital*	...	...	...	...	...	...	...

Source: Moroccan authorities

\* Included in the "core set" of Financial Soundness Indicators

1/ Excludes specialized government banks.

Table 8. Morocco: Monetary Survey, 1999–2004

	1999	2000	2001	2002	Actual 2003	Proj. 2004
(In millions of dirhams)						
Net foreign assets	59,598	55,259	102,605	111,269	128,361	138,340
Monetary authorities	59,391	53,225	99,920	104,979	123,156	133,135
<i>Of which</i>						
Gross reserves	56,181	50,010	96,640	101,760	120,012	130,878
Net Fund position	975	975	1,023	974	916	1,023
Deposit money banks	207	2,034	2,685	6,290	5,205	5,205
Net domestic assets	204,667	231,317	224,806	236,931	249,740	271,101
Domestic credit	268,155	292,981	294,257	305,944	323,602	344,963
Net credit to the government	82,250	92,430	85,610	89,470	89,105	90,225
Banking system	75,514	85,233	78,348	82,086	81,422	82,422
Bank Al-Maghrib	20,597	23,504	5,187	5,163	4,292	5,292
Deposit money banks	54,917	61,729	73,161	76,923	77,130	77,130
Treasury-IMF	-975	-975	-1,023	-974	-916	-916
Counterpart to deposits with CCP/treasury	7,711	8,172	8,285	8,358	8,599	8,718
Credit to the economy	185,905	200,551	208,647	216,474	234,497	254,738
Money and quasi money	264,265	286,576	327,411	348,200	378,101	409,441
Money	194,876	210,295	243,117	264,863	290,763	317,910
Currency outside banks	56,713	58,169	66,025	69,556	74,893	81,101
Demand deposits	138,163	152,126	177,092	195,307	215,870	236,809
Quasi money	69,389	76,281	84,294	83,337	87,338	91,531
Other liabilities, net	63,488	61,664	69,451	69,013	73,862	73,862
(Annual percentage change)						
Net domestic assets	4.3	13.0	-2.8	5.4	5.4	8.6
Domestic credit	3.1	9.3	0.4	4.0	5.8	6.6
Net credit to the government	-10.1	12.4	-7.4	4.5	-0.4	1.3
'Credit to the economy	10.3	7.9	4.0	3.8	8.3	8.6
Money and quasi money	10.3	8.4	14.2	6.3	8.6	8.3
(In percent of broad money)						
Net foreign assets	6.8	-1.6	16.5	2.6	4.9	2.6
Domestic credit	3.4	9.4	0.4	3.6	5.1	5.6
Net credit to the government	-3.9	3.9	-2.4	1.2	-0.1	0.3
Credit to the economy	7.3	5.5	2.8	2.4	5.2	5.4
Other assets net	0.1	0.7	-2.7	0.1	-1.4	0.0
Memorandum items:						
Velocity (non-agr. GDP/M3)	1.11	1.07	0.99	0.96	0.92	0.89
Money multiplier	3.42	3.60	3.35	3.39	3.24	3.24
Currency-deposit ratio	0.27	0.25	0.25	0.25	0.25	0.25
Reserve-deposit ratio	0.08	0.09	0.11	0.11	0.14	0.13
Credit to economy/GDP (in percent)	53.8	56.6	54.5	54.4	55.1	57.3

Sources: Bank Al-Maghrib and staff estimates.

Table 9. Morocco: Balance of Payments, 2002–09

(In millions of U.S. dollars; unless otherwise indicated)

	Projections							
	2002	2003	2004	2005	2006	2007	2008	2009
Trade balance	-3,061	-4,394	-5,226	-5,849	-6,497	-7,104	-7,692	-8,292
Exports, f.o.b.	7,839	8,699	10,205	10,923	11,664	12,598	13,637	14,774
Phosphates and derived products	1,160	1,346	1,545	1,635	1,720	1,821	1,945	2,074
Imports, f.o.b.	-10,900	-13,094	-15,431	-16,772	-18,162	-19,702	-21,329	-23,065
Energy	1,831	2,206	2,514	2,536	2,626	2,823	3,053	3,322
Capital goods	2,378	3,136	3,772	4,363	4,930	5,430	5,914	6,401
Services balance	1,208	1,693	1,885	2,176	2,561	2,899	3,199	3,486
Nonfactor services	1,946	2,414	2,796	2,960	3,150	3,392	3,679	3,990
Tourism receipts	2,646	3,074	3,550	3,808	4,101	4,431	4,803	5,205
Net investment income	-738	-721	-912	-784	-589	-493	-479	-504
Private transfers (net)	3,223	3,989	4,410	4,436	4,457	4,474	4,489	4,501
Official grants (net)	107	78	85	85	86	86	86	86
Current account	1,477	1,366	1,154	850	606	355	81	-219
Capital account 1/	84	-5	-6	-6	-6	-6	-6	-6
Financial account	-924	399	159	759	850	906	1,188	1,329
Direct investment	452	2,126	1,893	1,062	1,044	1,038	1,163	1,305
Other private (including errors and omissions)	-14	-508	-803	-12	-13	-14	-16	-17
Public medium-and long-term loans (net)	-1,362	-1,219	-932	-291	-181	-119	41	41
Disbursements	661	1,379	1,122	1,264	1,380	1,381	1,381	1,381
Amortization	-2,024	-2,598	-2,054	-1,556	-1,561	-1,500	-1,340	-1,340
Reserve asset accumulation (-increase)	-638	-1,760	-1,308	-1,603	-1,451	-1,255	-1,264	-1,104
Memorandum items:								
Exports of goods and services (percentage growth )	3.9	-2.0	7.4	5.4	5.7	6.4	6.6	6.9
Of which goods	4.7	-2.8	8.6	5.7	6.0	6.7	6.9	7.2
Imports of goods and services (percentage growth)	7.3	2.7	9.1	9.0	8.6	7.1	6.9	6.8
Of which goods	7.3	4.9	10.1	9.8	9.4	7.6	7.3	7.2
Trade balance (in percent of GDP)	-8.5	-9.9	-10.2	-10.8	-11.2	-11.5	-11.6	-11.6
Current account balance (in percent of GDP)	4.1	3.1	2.3	1.6	1.0	0.6	0.1	-0.3
Excluding official grants (in percent of GDP)	3.8	2.9	2.1	1.4	0.9	0.4	0.0	-0.4
Gross official reserves 2/	10,107	13,557	15,195	16,823	18,283	19,542	20,806	20,808
(In months of imports of goods and nonfactor services)	9.1	10.3	9.8	10.0	10.0	9.8	9.7	9.0
Debt service as percentage of export of goods, non-factor services and MRE 3/ 4/	16.5	14.2	10.5	9.7	9.3	8.5	7.4	7.0
External public and publically guaranteed debt (in percent of GDP)	38.6	30.7	28.1	25.9	24.0	22.3	20.9	19.4

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

1/ Includes the grant element of debt swap operations with France and Spain.

2/ Excluding the reserve position in the Fund.

3/ Public and publically guaranteed debt.

4/ Excluding early amortization on account of debt swaps.

Table 10. Morocco: Indicators of External and Banking Sector Vulnerability, 1998–2003

(In percent of GDP; unless otherwise indicated)

	1998	1999	2000	2001	2002	2003
<b>Financial indicators</b>						
Central government debt (remunerated)	80.9	81.3	81.5	74.8	71.5	68.2
Broad money (percent change, 12-month basis)	5.8	10.3	8.4	14.2	6.3	8.6
Private sector credit (percent change, 12-month basis)	10.8	10.3	7.9	4.0	3.8	8.3
52-week T-bill yield (nominal)	7.0	4.8	6.3	5.2	3.6	3.0
52-week T-bill yield (deflated by 12-month CPI)	4.2	4.1	4.3	2.8	0.8	3.0
Overnight interbank rate (annual average)	6.3	5.6	5.4	4.6	3.0	3.2
<b>External indicators</b>						
Export growth of goods (percent change, in U.S. dollars)	1.5	5.1	-1.2	-3.7	9.8	11.0
Import growth of goods (percent change, in U.S. dollars)	6.3	5.2	7.0	-4.6	7.2	20.1
Terms of trade (percent change)	11.7	-3.4	-11.1	-1.6	4.9	-0.2
Current account balance	-0.4	-0.5	-1.4	4.8	4.1	3.1
Capital and financial account balance	1.1	5.1	0.2	6.6	-2.3	0.9
<i>Of which:</i> inward foreign direct investment	1.1	3.2	1.4	8.5	1.5	...
Gross official reserves (in billions of U.S. dollars; end of period)	4.8	5.9	5.0	8.6	10.3	13.8
Central bank foreign liabilities (in billions of U.S. dollars)	0.1	0.1	0.1	0.1	0.1	0.1
Foreign assets of the banking sector (in billions of U.S. dollars)	0.5	0.5	0.6	0.6	0.9	1.0
Foreign liabilities of the banking sector (in billions of U.S. dollars)	0.5	0.5	0.4	0.3	0.3	0.4
Official reserves in months of imports of GNFS	4.8	5.7	4.6	8.2	9.1	10.3
Broad money to reserves (in percent)	519.7	458.2	538.6	335.1	325.2	300.8
Total gross external debt/GDP	57.5	56.1	53.9	46.9	43.7	36.2
<i>Of which:</i> central government debt/GDP	36.2	35.6	34.2	28.9	23.3	18.5
Total gross external debt to exports GNFS (in percent)	199.0	190.6	175.4	145.0	121.8	111.5
External gross interest payments to exports GNFS (in percent)	12.4	11.4	11.3	10.8	9.7	8.8
External amortization payments to exports GNFS (in percent)	19.6	19.0	16.0	15.7	16.6	18.7
Exchange rate (per U.S. dollars, period average)	9.6	9.8	10.6	11.3	11.0	9.5
REER appreciation (+) (annual average)	2.4	1.0	2.8	-4.1	-1.1	-1.0
<b>Banking sector indicators</b>						
Net nonperforming loans/equity capital	44.9	49.3	70.5	55.5	57.1	66.5
Share of foreign currency deposits in total deposits (in percent)	0.6	0.7	0.2	0.3	0.2	0.3
<b>Financial market indicators</b>						
Stock market index (IGB) 1/	804.0	777.0	658.1	609.4	2,980.4	3,943.5
Moody's rating for foreign currency bonds and note	Ba1	Ba1	Ba1	Ba1	Ba1	Ba1

Sources: Bank Al-Maghrib; Treasury; *Office des changes*; and Fund staff estimates.

1/ New index (Morocco All Shares Index—MASI) starting January 2002.

Table 11. Morocco: External Debt Sustainability Framework, 1999–2009  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					Debt-stabilizing non-interest current account 6/	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		2009
1 External debt	56.1	53.9	46.9	43.7	36.2	31.7	29.4	27.3	25.3	23.7	22.0	-2.5
2 Change in external debt	-1.4	-2.2	-7.0	-3.2	-7.5	-4.5	-2.4	-2.1	-1.9	-1.6	-1.7	
3 Identified external debt-creating flows (4+8+9)	-0.9	3.5	-13.7	-8.2	-16.2	-10.5	-5.4	-4.7	-4.0	-3.6	-3.2	
4 Current account deficit, excluding interest payments	-2.3	-1.5	-7.3	-6.2	-4.6	-3.5	-2.7	-2.2	-1.6	-1.1	-0.7	
5 Deficit in balance of goods and services	3.8	6.3	3.3	3.1	4.4	4.8	5.3	5.8	6.0	6.1	6.0	
6 Exports	30.1	31.4	32.9	33.8	31.1	31.8	32.1	32.2	32.5	32.8	33.1	
7 Imports	33.9	37.6	36.2	36.9	35.5	36.6	37.4	38.0	38.5	38.9	39.1	
8 Net non-debt creating capital inflows (negative)	-2.4	-1.1	-8.0	-1.3	-4.8	-3.7	-2.0	-1.8	-1.7	-1.8	-1.8	
9 Automatic debt dynamics 1/	3.7	6.1	1.7	-0.8	-6.8	-3.3	-0.7	-0.7	-0.7	-0.7	-0.7	
10 Contribution from nominal interest rate	2.8	2.9	2.6	2.1	1.5	1.2	1.2	1.1	1.1	1.0	1.0	
11 Contribution from real GDP growth	0.0	-0.6	-3.3	-1.4	-1.9	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2	
12 Contribution from price and exchange rate changes 2/	0.9	3.8	2.4	-1.4	-6.4	-3.6	-0.7	-0.6	-0.5	-0.5	-0.5	
13 Residual, incl. change in gross foreign assets (2-3)	-0.4	-5.7	6.7	5.0	8.7	6.0	3.0	2.6	2.1	1.9	1.5	
External debt-to-exports ratio (in percent)	186.1	171.9	142.5	129.3	116.6	99.8	91.6	84.7	77.8	72.1	66.6	
Gross external financing need (in billions of US dollars) 3/	2.8	3.3	1.1	1.4	1.5	1.4	1.6	1.7	1.9	2.0	2.3	
in percent of GDP	8.0	9.8	3.2	3.9	3.3	2.7	3.0	2.9	3.1	3.0	3.2	
Key Macroeconomic Assumptions												
Real GDP growth (in percent)	-0.1	1.0	6.3	3.2	5.5	3.0	4.0	4.4	4.8	5.1	5.5	4.5
GDP deflator in US dollars (change in percent)	-1.5	-6.3	-4.3	3.2	17.2	1.9	2.2	2.1	2.0	2.0	2.0	3.6
Nominal external interest rate (in percent)	4.7	4.9	4.9	4.7	4.3	3.9	3.9	4.1	4.2	4.3	4.4	4.1
Growth of exports (US dollar terms, in percent)	6.6	-1.6	6.9	9.2	13.7	7.1	7.1	7.0	8.0	8.2	8.3	9.3
Growth of imports (US dollar terms, in percent)	4.6	4.9	-2.1	8.4	19.1	17.8	8.6	8.3	8.4	8.2	8.1	9.9
Current account balance, excluding interest payments	2.3	1.5	7.3	6.2	4.6	3.5	2.7	2.2	1.6	1.1	0.7	2.0
Net non-debt creating capital inflows	2.4	1.1	8.0	1.3	4.8	3.7	2.0	1.8	1.7	1.8	1.8	2.1
A. Alternative Scenarios												
A1. Key variables are at their historical averages in 2005-2009 4/												
B. Bound Tests												
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006												
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006												
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006												
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006												
B5. Combination of 2-5 using one standard deviation shocks												
B6. One time 30 percent nominal depreciation in 2005												

1/ Derived as  $[r - g - \rho(1+g) + \epsilon \sigma(1+rr)] / (1+g+p+g)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $\rho$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $\epsilon$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $-p(1+g) + \epsilon \sigma(1+rr) / (1+g+p+g)$  times previous period debt stock.  $p$  increases with an appreciating domestic currency ( $\epsilon > 0$ ) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP.

5/ This scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

II. Stress Tests for External Debt Ratio

31.7 28.7 25.3 21.4 17.3 12.9

31.7 30.3 28.9 26.9 25.2 23.5

31.7 33.5 33.9 33.9 32.0 30.0

31.7 35.9 41.1 39.0 37.0 34.8

31.7 32.8 33.6 31.5 29.7 27.8

31.7 36.7 42.3 39.5 37.1 34.7

31.7 43.2 41.1 39.0 37.1 34.8

Debt-stabilizing non-interest current account 6/

-1.9

-2.5

-3.2

-3.7

-2.7

-3.5

-3.7

10-Year Historical Average

10-Year Standard Deviation

3.7 5.8

1.9 8.5

5.3 0.7

7.1 5.9

6.6 8.2

3.4 2.1

2.5 2.3

Projected Average

4.5

3.6

4.1

9.3

8.2

8.1

2.0

1.1

1.8

2.1

Debt-stabilizing non-interest current account 6/

-1.9

-2.5

-3.2

-3.7

-2.7

-3.5

-3.7

**MOROCCO—FUND RELATIONS**

(As of February 29, 2004)

**I. Membership Status:** Joined: April 25, 1958; Article VIII

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	588.20	100.00
Fund holdings of currency	517.76	88.02
Reserve position in Fund	70.44	11.98
Holdings exchange rate		

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	85.69	100.00
Holdings	75.75	88.40

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	Jan 31, 1992	Mar 31, 1993	91.98	18.40
Stand-by	Jul 20, 1990	Mar 31, 1991	100.00	48.00
Stand-by	Aug 30, 1988	Dec 31, 1989	210.00	210.00

**VI. Projected Payments to Fund**  
(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal					
Charges/Interest	<u>0.13</u>	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>

**VII. Implementation of HIPC Initiative:** Not Applicable



## **Exchange System**

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. Certain indicative limits apply for invisible transactions and current transfers (i.e., payments for travel and personal payments), but additional amounts are granted on proof of need. The exchange rate is freely determined in the interbank foreign exchange market which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. The central exchange rate of the Moroccan dirham is pegged to a basket of currencies representing Morocco's principal trading partners. During 2001, the authorities changed the basket of currencies by increasing the weight of the Euro to better reflect the weight of external trade with EU countries. BAM fixes daily exchange rates on the basis of variations of the currencies in the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. In February 2004, the SDR/dirham exchange rate was SDR 1 = DH 13.54.

## **Article IV consultation**

Morocco is on the 12-month cycle. The last consultation discussions took place in Rabat during January 15–30, 2003, and were concluded by the Executive Board on April 28, 2003.

## **Technical assistance**

March 7–21, 1996: STA—advising on improving trade statistics

June 30–July 3, 1996: FAD—advising on ways to improve tax administration

October 17–November 2, 1996: FAD—advising the authorities on the implementation of a modernization program for custom and direct taxes administration

February 25–March 13, 1997: FAD—examining the impact of fiscal and tariffs reforms

January 12–23, 1998: FAD—advising the authorities on improving custom procedures and controls

March 19–April 2, 1998: STA—multisector assessment of statistical systems in preparation of an action plan toward SDDS subscription

April 12–24, 1998: FAD—advising on custom computerization

September 9–21, 1998: MAE—advising on domestic debt management

November 9–22, 1998: FAD—reviewing progress in reforming the custom organization and its procedures

December 11–22, 1998: STA—advising on improving national account statistics

February 2–17, 1999: STA—advising on improving general government and monetary statistics

February 16–29, 2000: STA—following up on government finance statistics improvement

November 7–22, 2000: FAD—advising on improving the design of the tax system and its administration

January 16–30, 2002: STA—ROSC Data Module Mission

January 29–February 13 and May 8–22, 2002: IMF-World Bank FSAP missions

February 9–20, 2004: MFD—Monetary Framework

**Resident representative:** None

## **MOROCCO : FINANCIAL RELATIONS WITH THE WORLD BANK**

(As of March 31, 2004)

The World Bank's portfolio in Morocco has a total of 14 active operations and 122 closed loans, with cumulative net commitments of US\$7.4 billion. Of this total, US\$4.6 billion has been repaid. Net commitments for the 14 current investment operations amount to US\$319.5 million.

Despite the fact that the quality of the portfolio has improved over the last five years, institutional capacity for project implementation needs to be further strengthened. A participatory Country Portfolio Performance Review (CPPR) took place in June 2002 and a follow-up CPPR in February 2003 to tackle this issue through ongoing participatory monitoring and capacity building activities. A quarterly portfolio review was carried out in December 2003 to reassess the situation of the portfolio and progress made on key actions agreed upon to improve project and portfolio management.

From FY99 to FY01, the Bank has provided extensive technical assistance through its various lending operations for projects, as well as through its sectoral adjustment loans (SAD). Three SAD were approved, amounting to \$416 million, to support the Government in establishing a sound macroeconomic framework and in implementing a broad reform program covering public sector reform, private sector development, poverty reduction and human resource development and telecommunications regulatory framework.

In addition, investment and learning and innovative loans (LIL) were approved during FY99-03, amounting respectively to US\$89 million, US\$7.5 million, US\$97.6 million, US\$5 million and US\$30.9 million. They include assistance to: legal and judicial development (US\$5.3 million), Sustainable Coastal Tourism Development project (US\$2.2 million), Irrigation Based Community Development (US\$32.6 million), Support to Social Development Agency project (US\$5 million), Adult Literacy (US\$4.1 million) and Rainfed Agriculture Development (US\$26.8 million) and are mostly designed with participatory and community driven approaches.

Also, to move the reform agenda forward in areas where agreement was reached with Government, the Bank developed intermediary products such as narrowly targeted, small budget support operations. To that extent, the Board approved last June an operation to improve Government's management of real assets held by social sector ministries (Asset Reform Management Loan, US\$ 30 million).

As prospects for lending have been reduced, due to large privatization receipts (telecom licence and privatization) and a deterioration of the fiscal stance, the Bank program has increasingly turned toward knowledge transfer through participatory approaches. After a number of policy notes on sectoral issues such as education, administration and the financial sector, and related long-term prospects were prepared, the Bank has provided strong

analytical and institutional support to budget and public administration reform to the Moroccan Government. Participatory approaches (Programmatic Economic and Sector Work-PESW) have been developed in the area of public sector and price policy reforms. Continued support through PESW is foreseen in the budgetary and public administration reform, agriculture reform, tertiary education and decentralization and municipal development areas.

Due to improved economic performance in 2002 and 2003, and plans to reduce the fiscal deficit to 3 percent by 2009, the Bank believes that the country economic management appears to be on a fiscally sustainable path. As a result of this, Morocco is now in a position to engage in structural reform loans, as envisioned in the enhanced base case scenario of the CAS. Such Bank support (adjustment lending) has been requested by the Moroccan authorities for reform formulation and implementation in the areas of public administration reform, financial and housing sectors.

The Bank is also developing in partnership with the Moroccan authorities a Sector-Wide Approach operation (SWAP) to support the education reform agenda.

Two projects are scheduled to be negotiated shortly and be presented to the Board of Directors before the end of this FY: a Rural Roads project (tentatively US\$38 million) and a Public Administration Reform loan (tentatively US\$100 million).

## Morocco: Financial Relations with the World Bank

(As of March 31, 2004)

	Total Net Commitments	Undisbursed Balance					
			(In millions of U.S. dollars)				
IBRD lending operations							
122 loans closed <sup>1/</sup>	7,067.2						
14 active loans							
-Sewerage & Water Reuse II	28	12.0					
-Railway Restructuring & Privatization	85	44.7					
-Water Resource Mgmt. -Fès Medina Rehabilitation	16.7	8.3					
-Health Management	9.6	7.7					
-Lakhdar Watershed	45.7	45.7					
-Legal & Judicial Reform	3	1.8					
-Sustainable Coastal Tourism Devt.	5.3	3.0					
-GEF- Protected Areas Mgmt.	2.2	0.8					
-Irrigation Based Community Devt.	10.5	10.0					
-Social Devt. Agency	32.6	31.4					
-Adult Literacy	5	6.9					
-Asset Management	4.1	4.7					
-Rainfed Agriculture Dvt.	45	26.6					
-Rainfed Agriculture Dvt.	26.8	28.5					
Total active loans	319.5	232.1					
Repayments <sup>2/</sup>	4,598.4						
Debt outstanding <sup>2/</sup>	2,714.1						
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> <sup>2/</sup>
Net lending by the World Bank (by fiscal year) <sup>3/</sup>							
Commitments	200 <sup>4/</sup>	440	7.5	97.6	5	4.1	0
Disbursements	270.9	411.4	106.8	115.8	52.7	58.7	101.3
Debt service	520	514.6	533.3	425.5	427.5	420.5	337.0
Principal	301.6	298.6	333.3	246.3	270.2	283.9	245.7
Interest <sup>5/</sup>	218.4	216	200.6	179.2	157.3	136.6	91.3
Net transfer <sup>6/</sup>	-249.1	-103.2	-426.5	-309.7	-374.8	-361.8	-235.7

1/ Less cancellations, includes adjustment lending, does not include guarantees.

2/ As of February 29, 2004 for first table and as of March 31, 2004 for second table.

3/ Fiscal years start July 1 and end June 30.

4/ Does not include US\$184 million for guarantee on Jorf Lasfar electricity project

5/ Includes charges.

6/ Equal to disbursement minus debt service.

## MOROCCO—STATISTICAL ISSUES

Available economic and financial data have been provided to the staff on a regular basis and most of these data are also published or made available on publicly accessible web sites. In 1998, the statistical authorities prepared a medium-term strategy for the development of national statistics. A framework law on statistics, providing for additional budgetary allocations, was also approved but the law has yet to be passed. Following the Fund's multisector statistics mission in March 1998, the authorities started implementing an action plan for upgrading the country's statistical system and have received Fund technical assistance on real sector, monetary, and public finance statistics.

A data ROSC mission, which took place in January 2002, carried out a review of Morocco's data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, CPI, PPI, government finance, monetary, and balance of payments statistics. As the authorities maintain a strong interest in subscribing to the SDDS, the mission also identified areas to be strengthened to meet the SDDS requirements.

### **Real sector**

The Statistical Office is working on rebasing national accounts from 1980 to 1998 and on bringing it in conformity with the *System of National Accounts 1993*. This reform program has made good progress and is scheduled to be finalized by end 2004. The revision of the consumer price index is equally planned for 2004 and will be based on the results of the 2001 household budget survey.

### **Government finance**

Central government finance data are generally available to MCD with a few months lag. *GFS* data reported by Morocco for publication in the *GFS Yearbook* are not timely (no data have been submitted for the past three years), and their coverage is limited to the budgetary central government, the Moroccan pension fund, and the National Social Security Fund. No data for the central government on a monthly or quarterly basis are reported to STA for publication in *IFS*. A technical assistance STA mission in February 1999 and a follow-up mission in February 2000 advised on further improvements in the compilation of both central and local government statistics and assisted the government in establishing appropriate consolidation procedures for a presentation of general government data. Substantial progress has been made by the Accounting Office for the compilation of local government data and their consolidation with central government budgetary data. The actual use of those new rich source data for general government compilation may require further clarification of responsibilities between various directorates. Regarding the monthly *Treasury's expenditure and revenue table*, the ROSC data module recommended some reclassifications (transfers, privatization), to maintain the *Fonds Hassan II* within the coverage of the table, and, for dissemination purposes, to complement the table with more details and data on financing and improve the format of dissemination. The ROSC mission generally recommended various actions to improve dissemination formats and practices towards meeting the SDDS *GFS* standards.

### **Monetary and financial statistics**

The revisions introduced in 1998 improved the quality of monetary statistics, in a number of ways. To further improve the dissemination practices, Bank Al-Maghrib launched its internet website in December 2001, on which monetary and financial and other macroeconomic statistics are readily available to the public. However, the timeliness of reporting of central bank data (35–37 days lag) remains slower than that prescribed under the SDDS (two-week lag). The authorities have indicated that the delay is partly attributable to the introduction in January 2000 of a new accounting system for banks, more consistent with international standards. Bank Al-Maghrib also has undertaken a revision of its own chart of accounts. In addition, at the time of the January 2002 ROSC mission, the degree of detail in the breakdown of financial assets and liabilities by resident institutional sector was insufficient, resulting in a lack of precision in several aggregates, including credit indicators.

### **Balance of payments**

The ROSC mission found that Morocco's balance of payments statistics are generally in line with the concepts and definitions set out in the fifth edition of the *Balance of Payments Manual (BPM5)*. Further work is needed to implement certain recommendations on scope, classification, and basis for recording. Also, the ROSC mission recommended the introduction of quarterly surveys of enterprises and other agencies to improve the scope, classification, and valuation of balance of payments transactions, in particular for goods for processing, transportation services, and financial transactions, where notable gaps exist. The coverage of balance of payments statistics would significantly improve with the planned inclusion of data on the transactions in the free trade zones and by offshore banks located in Morocco. However, the *Office des Changes* (OC) lacks a firm legal basis for compiling and disseminating balance of payments statistics, relying for the time being exclusively on customs and exchange control data. These data are gradually becoming less available and too limited as liberalization proceeds and foreign investors increasingly participate in the Moroccan economy. The OC has initiated legislative measures that would permit the OC to collect data directly from economic operators in order to compile, inter alia, private foreign debt, and the international investment position. Recent measures to exclude the effects of changes in exchange rates from the valuation of transactions in reserve assets should be continued, and transactions in foreign currency assets and liabilities of intermediary banks at their correspondent banks should be excluded from transactions in reserve assets.

Morocco meets or exceeds the GDDS recommendations in the external sector, except for the twice-a-year publication of the external debt service schedule and the quarterly publication of public and publicly-guaranteed external debt statistics. The quarterly publication of balance of payments statistics is in line with the SDDS recommendations, but the time to disseminate them exceeds somewhat three months. To reach the SDDS-based benchmarks, Morocco would also need to publish monthly statistics on international reserves and foreign currency., The template on international reserves and foreign currency liquidity should be used and disseminated.

**Morocco: Core Statistical Indicators**

(As of March 25, 2004)

	Exchange Rate	International Reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rate	Consumer price index	Exports/ imports	Current account balance	Overall government balance	GDP/ GNP	External public debt
Date of latest observation	02/29/04	12/31/03	01/31/04	01/31/04	01/31/04	02/29/04	11/30/03	10/30/03	10/30/03	11/30/03	2003	09/30/03
Date received	03/03/04	01/02/04	03/03/04	03/03/04	03/03/04	03/03/04	01/15/04	01/15/04	01/15/04	01/15/04	03/23/04	10/20/03
Frequency of data	M	W	M	M	M	M	M	M	Q	M	A	Semi-annual
Frequency of reporting	M	W	M	M	M	M	M	M	Q	M	A	Semi-annual
Source of data	CB	CB	CB	CB	CB	CB Press	Statistical Office	MoF/ Office des changes	MoF/ Office des changes	MoF/ Direction du trésor	Statistical Office	MoF/ Direction du trésor
Mode of reporting	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet	Internet/ Fax/mail	Internet/ Fax/mail	Fax/mail	Internet	Mission/ official publications	Mission
Confidentiality	U	U	U	U	U	U	U	U	U	U	U	U
Frequency of publication	W	M	M	M	M	M	M	M	Q	M	A	A

D = daily; W = weekly; M = monthly; Q = quarterly; CB = central bank; MoF = ministry of finance; U = unrestricted.





INTERNATIONAL MONETARY FUND

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International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2004 Article IV Consultation with Morocco**

On May 5, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.<sup>1</sup>

### **Background**

Morocco has maintained macroeconomic stability during the past decade. In the context of the exchange rate peg and prudent monetary management, inflation has remained low. The external current account has shifted into surplus since 2001, and external reserves increased further. Fiscal performance has however deteriorated in recent years mainly because of revenue losses and wage expenditures. Nevertheless, the government debt to GDP ratio has declined significantly because of large privatization receipts.

Growth has been insufficient to reduce poverty and unemployment. Furthermore, growth remains volatile because of the dependency of agriculture to rainfalls, and recurrent droughts contributed to increasing poverty in rural areas. Although nonagricultural growth has become less vulnerable to developments in the agricultural sector and has shown signs of revival, it has remained too low to reduce unemployment.

Structural reforms have gained momentum in recent years and efforts are being made to improve social conditions. Large state-owned enterprises have been privatized and remaining public enterprises are being restructured or prepared for privatization. Trade liberalization has

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

proceeded in line with the schedule of the Association Agreement with the European Union, Morocco's main trading partner, and new trade agreements have been signed with the United States, Tunisia, Egypt, and Jordan. MFN tariffs have also been reduced to avoid trade diversion. A new labor code has been approved and is expected to improve labor relations and foster investment. Significant steps have also been taken to reform the financial system. Efforts being made to fight poverty and improve social conditions include the development of rural infrastructure, the construction of affordable housing for the low income population, and the passage of a family code that enhances the rights of the female population. The impact of these reforms should be observed in the medium term.

Macroeconomic conditions remained strong in 2003. Growth increased to 5.5 percent because of an exceptionally good cereal production, while non-agricultural growth showed signs of revival. Inflation was below 2 percent and the external position strengthened further. External reserves reached the equivalent of 10 months of imports of goods and services and covered the totality of external public and publicly guaranteed debt. However, after improving in 2002, the fiscal deficit (excluding privatization and including Fonds Hassan II expenditures) increased from 4.7 percent of GDP to 5.5 percent in 2003. This deterioration resulted from a higher wage bill due to salary increases and promotions for the education personnel, increased security-related spending after the Casablanca bombings in May 2003, and weaker revenue performance on account of ongoing trade liberalization and tariff reductions on selected imports. Nevertheless, because of large foreign exchange inflows related to the privatization of the tobacco monopoly in 2003, the public debt to GDP ratio declined significantly.

Macroeconomic conditions are projected to remain broadly unchanged in 2004. Under assumptions of normal agricultural production, overall GDP growth would drop to 3 percent. The external position is likely to remain strong with external reserves projected at the equivalent of 10 months of imports and the current account surplus at 2.3 percent of GDP. Inflation should remain subdued. The fiscal deficit is projected at 5.4 percent of GDP, broadly unchanged from 2003 but significantly lower than projected by the budget law (6.8 percent of GDP). Because of expected proceeds from privatization, mainly the sale of additional government shares in Maroc Telecom, the debt to GDP ratio should decline further in 2004.

### **Executive Board Assessment**

The Executive Directors commended the Moroccan authorities for maintaining macroeconomic stability and accelerating structural reforms in 2003. Inflation remained low, nonagricultural output accelerated, and foreign exchange reserves fully covered the outstanding public and publicly guaranteed external debt. Despite a higher fiscal deficit, the debt-to-GDP ratio continued to decline and structural reforms progressed on several fronts. These developments contributed to improved market confidence in the Moroccan economy.

Directors emphasized that the key challenge facing Morocco is to achieve sustainable high rates of economic growth to reduce unemployment and poverty. They observed that higher growth in nonagricultural output will be essential to reduce the volatility of overall growth. To achieve higher growth in the context of Morocco's increasing integration into the world

economy, Directors stressed the importance of supportive macroeconomic policies and accelerated structural reforms with a view to promoting private investment and increasing the productivity of the economy. They congratulated the authorities for measures being taken to assist the low-income population, noting that efforts to maintain social cohesion are an integral part of the sustainability of structural reforms.

Directors considered fiscal consolidation an essential element of the medium-term high-growth strategy, and welcomed the authorities' intention to reduce the deficit over the medium term. Several Directors favored an early start to fiscal adjustment in order to provide room to absorb possible shocks along the way and to prevent expectations of higher taxes and interest rates that could constrain growth. Such a strategy would also enable a somewhat more ambitious reduction in the debt-to-GDP ratio. Other Directors, however, felt that front-loading the consolidation may not be necessary, provided that there is a clear and well-communicated commitment to adjustment. In this context, Directors welcomed the authorities' intention to begin to strengthen the fiscal position in 2004. They noted that the increase in the fiscal deficit in 2003 stemmed in part from lower import tariff revenues as well as an increase in the wage bill and security-related spending. Therefore, they welcomed the continued freeze on net new hiring and the provision in the 2004 budget for an early retirement program to reduce the size of the civil service. Directors urged the authorities to step up tax collection and to move ahead in 2004 with the planned reform of the food subsidy system, while ensuring that an appropriate social safety net is in place.

Directors emphasized the importance of fiscal reforms for sustained reduction in the fiscal deficit and the debt-to-GDP ratio over the medium term. In particular, they urged the authorities to push ahead with their public administration and civil service reform plans in order to reduce the wage bill on a lasting basis, and to streamline expenditure in the context of their ongoing efforts to strengthen accountability in public management. A number of Directors supported the staff's inclusion of the Fonds Hassan II spending, which is excluded from the government budget, in the overall fiscal balance in view of its direct impact on economic activity and its implications for central government investment spending. Directors also welcomed the authorities' plans to work on a broad-based tax policy and tax administration reform that will increase the efficiency of the tax system, reduce exemptions, and offset revenue losses stemming from the ongoing trade liberalization. Directors considered the authorities' request for a fiscal Report on the Observance of Standards and Codes to be a very positive step.

Directors agreed that the current monetary framework has served Morocco well. They noted that the nominal anchor provided by the peg of the dirham to a currency basket has contributed to keeping inflation low, and that there are no signs of an exchange rate misalignment. Nevertheless, they generally welcomed the authorities' intention to review the desirability and operational modalities of alternative exchange rate regimes before further opening of the capital account. In this regard, several Directors emphasized that strengthening the fiscal position and the financial sector are a higher priority at the moment and, in any case, are pre-conditions for any eventual move to greater exchange rate flexibility as the economy becomes more integrated with international capital and goods and services markets.

Directors agreed with the structural reform priorities outlined by the authorities, which will complement fiscal reforms in promoting private sector activity and enhancing the productivity and competitiveness of the economy. Directors commended the authorities' decision to lower import tariffs on a multilateral basis so as to minimize trade diversion and urged continued liberalization and simplification of the trade regime. They noted that the trade agreements with regional partners, the European Union, and the United States represent significant steps towards increased integration to the world economy that would help attract foreign investment and achieve improved efficiency and competitiveness.

Directors welcomed the importance given by the government to strengthening the financial sector and the progress made in implementing the recommendations of the Financial Sector Assessment Program. In particular, they supported the authorities' intention to restructure troubled state-owned banks and strengthen non-bank financial institutions. They also welcomed plans to introduce new central bank and banking legislation in 2004 that would make it possible to further modernize the financial system and the monetary policy framework, and to strengthen the independence of the central bank. They welcomed the anti-terrorism legislation and the central bank's directives on anti-money laundering. They recommended that the draft legislation on anti-money laundering, consistent with international standards, be finalized expeditiously.

To promote private sector activity, Directors underscored the need to improve the business environment—in particular, to streamline administrative procedures, strengthen the judicial system, and implement the provisions of the new labor code. They also called for further improvements in governance and transparency, and a further withdrawal of the state from sectors that are in the private sector domain. They were encouraged by the efforts to improve the financial viability of the public enterprises, which would facilitate the ongoing privatization program. Directors welcomed recent actions taken to improve the financial position of the pension funds, and urged elaboration of a comprehensive plan to put the pension system on a sound footing.

Directors commended the authorities' efforts to improve the statistical system. They encouraged the authorities to accelerate progress toward early subscription to the Special Data Dissemination Standard.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Morocco: Selected Economic and Financial Indicators, 1999–2004

	1999	2000	2001	2002	Est 2003	Proj 2004
	(Annual percent change; unless otherwise indicated)					
Production and income						
Nominal GDP	0.5	2.5	8.2	3.8	7.0	4.5
Real GDP	-0.1	1.0	6.3	3.2	5.5	3.0
Real non-agricultural GDP	3.2	3.6	3.6	2.8	3.1	3.8
GDP deflator	0.5	1.5	1.8	0.6	1.4	1.5
Consumer price index (CPI), average	0.7	1.9	0.6	2.8	1.2	2.0
	(In billions of U.S. dollars; unless otherwise indicated)					
External sector						
Exports of goods, f.o.b.	7.5	7.4	7.1	7.8	8.7	10.2
Imports of goods, f.o.b.	10.0	10.7	10.2	10.9	13.1	15.4
Net services	0.1	0.3	1.1	1.2	1.7	1.9
Net transfers	2.1	2.4	3.5	3.2	4.0	4.4
Current account (in percent of GDP)	-0.5	-1.4	4.8	4.1	3.1	2.3
Overall balance (deficit -)	1.6	-0.4	3.8	0.6	1.8	1.3
	(In percent of GDP)					
Central government						
Revenue, excluding grants and privatization	26.9	26.2	24.9	24.7	24.1	24.0
Total expenditure (including <i>Fonds Hassan II</i> )	31.4	32.4	31.1	29.9	30.1	29.7
Overall balance 1/	-4.5	-6.4	-5.8	-4.7	-5.5	-5.4
Privatization and GSM receipts	3.2	0.0	6.1	0.2	2.8	2.7
Overall balance, incl. privatization	-1.3	-6.4	0.3	-4.5	-2.7	-2.7
	(Annual percentage change; unless otherwise indicated)					
Money and credit						
Broad money	10.3	8.4	14.2	6.3	8.6	8.3
Interest rate (Avg, money market rate, in percent)	5.6	5.4	4.6	3.0	2.5	...
Official reserves						
Gross official reserves (in billions of US\$, end-period)	5.7	4.8	8.4	10.1	13.6	15.2
In months of imports of goods and services, c.i.f.	5.7	4.6	8.2	9.1	10.3	9.8
Debt (short, medium and long term)						
Total external debt (in billions of US\$)	19.8	18.0	15.9	15.8	16.4	16.2
Total external debt (in percent of GDP)	56.1	53.9	46.9	43.7	36.2	31.7
Domestic government debt (in percent of GDP)	45.6	47.3	45.9	48.2	49.7	51.4
Total government debt (in percent of GDP)	81.3	81.5	74.8	71.5	68.2	67.6
Memorandum items:						
GDP at current prices (in billions of Dh)	345.6	354.2	383.2	397.8	425.6	444.9
Exchange rate: dirham/US\$ (average period)	9.80	10.63	11.30	11.02	9.54	...
Real effective exchange rate (appreciation +)	1.0	2.8	-4.1	-1.1	-1.0	...
Terms of trade (deterioration -)	-3.4	-11.1	-1.6	4.9	-0.2	...

Sources: Data provided by the Moroccan authorities; includes IMF staff projections.

1/ On a commitment basis including *Fonds Hassan II*.

**Statement by Mohammed Daïri, Alternate Executive Director for Morocco  
May 5, 2004**

**Introduction**

Morocco continues to make significant progress in modernizing its political and social systems and strengthening the foundations for faster, private-sector-led growth. The coalition government, appointed in November 2002 following the general elections, has demonstrated strong commitment to macroeconomic stability and has strengthened the momentum of reforms despite difficult circumstances. The terrorist attacks of May 2003 led to enhanced awareness of the challenges and risks, stronger political consensus for social and political reform and poverty reduction, and strengthened resolve of the authorities to press ahead with their stabilization and structural reform agenda.

The local elections, held in September 2003, were characterized as fair and transparent by independent observers and have led to a strengthening of the government coalition. The fundamental reform of the personal status code to give equal rights to men and women and strengthen child protection was unanimously approved, and new institutions were created to strengthen human rights protection and the rule of law. An anti-terrorism law was also unanimously adopted by Parliament. State monopoly on the audiovisual sector was dismantled. The adoption of a new labor code, after years of negotiations between social partners, should increase labor market flexibility and help further strengthen investors' confidence and protection of workers' rights. Indeed, in 2003, the number of industrial disputes declined dramatically. The low-cost housing program was also strengthened, in order to rehabilitate the shanty dwelling areas where extreme poverty is pervasive. The February 2004 earthquake that hit the city of Al-Huceïma focused the authorities' attention on the issue of strengthened building standards, proper supervision of construction sites, and on the need for social and physical infrastructure in remote and impoverished areas.

Given the long-standing political stability and policy credibility in Morocco, the terrorist attacks did not affect investors' confidence. The privatization of the tobacco monopoly was finalized as scheduled in July 2003, with the sale price far exceeding expectations. Tourism activity and receipts did not decline. A € 400 million euro-bond issue was successfully completed, with a low initial spread of 215 bp, which subsequently declined to 160 bp, and was used to retire expensive public debt. Morocco's sovereign rating also improved, bringing it very close to investment grade. After several years of decline, the stock market made a strong recovery, with the index and market capitalization increasing by one-third, and the transactions volume by more than 100 percent.

**Macroeconomic developments and policies**

Economic developments in 2003 were encouraging. GDP growth reached 5.5 percent, with above average cereals crop, combined with continued expansion in manufacturing, construction and public works, and services. The increased resilience of economic activity to weather conditions has been confirmed. Chart I of the staff report indicates a declining trend

in agricultural GDP growth volatility in the last 5 years and a sharper decline in overall GDP growth volatility. Inflation declined from 2.8 percent to 1.2 percent, and the current account surplus remained above 3 percent of GDP, with continued high levels of tourism receipts and a further increase in workers' remittances. Official reserves increased to the equivalent of over ten months of imports, covering the entire external public debt.

Initial estimates point to moderation of growth to 3 percent in 2004 based on the return of cereal crop to a more normal level and stronger nonagricultural GDP growth. While weather conditions, so far, have been more favorable than anticipated, the authorities have not revised their growth projection. Inflation should remain at or below 2 percent, the current account in a sizeable surplus, and the reserve position is expected to strengthen further.

The implementation of the 2003 budget was tighter than expected in view of the need to reallocate spending in favor of security and key social spending and the carry-over of the budgetary implications of staff promotions from 2002 to 2003. In addition, revenue shortfalls from tariff reductions, including under the Association Agreement with the EU (AAEU) and from MFN tariff reductions to limit trade diversion, were higher than anticipated. As a consequence, while the overall deficit was 1 percentage point lower than budgeted, excluding privatization revenue and Fonds Hassan II expenditures, it increased by 0.5 percentage point over 2002. However, with privatization revenue representing 2.8 percent of GDP and notwithstanding negative external financing, domestic financing declined by 2.2 percentage points of GDP. Public debt further declined from 71.5 percent of GDP to 68.2 percent.

The budget deficit in 2004, excluding privatization revenue and Fond Hassan II expenditures, is expected to decline by 0.5 percentage point of GDP, mainly as a result of lower spending on wages and subsidies. Tax revenue should increase despite further reduction in tariffs under the AAEU. The 2004 Budget includes the full year effect of last year's security expenditures as well as the cost of the increase in employer contribution to the public pension fund and of the 2004 census with total impact of 0.3 percent of GDP. Including Fonds Hassan II expenditures, the deficit would decline only marginally from 5.5 percent to 5.4 percent of GDP. The authorities are of the view that Fonds Hassan II expenditures, which finance social and infrastructure projects and provide seed money for private investment, should not be counted in the overall fiscal balance. They will, however, do their utmost to further strengthen revenue performance and expenditure control so as to improve budget outcome as has been the case in recent years.

Monetary policy was appropriately calibrated to maintaining low inflation in a context of high domestic liquidity arising from large privatization revenue and high level of workers' remittances. The surge in liquidity following the sale of the Regie des Tabacs was addressed by Bank Al Maghrib (BAM) through raising the reserve requirement while, at the same time, increasing its remuneration. Additional liquidity mopping-up was carried, including through the newly created foreign exchange swap instrument. The prudent policy stance, including the sterilization of half the privatization revenue, was instrumental in reducing inflation to 1.2 percent. In order to further strengthen the monetary framework and to add flexibility to monetary policy, BAM created in early-2004 a permanent 24-hour deposit facility as well as a weekly deposit auction system with a seven-day duration at a variable rate. The new central

bank law being discussed in Parliament will significantly strengthen available monetary policy instruments by allowing BAM to issue its own paper.

The exchange rate peg to a basket of currencies has served the Moroccan economy well by providing a nominal anchor for macroeconomic stability. The authorities are pleased with the outcome of the restructuring of the currency basket in 2001. Following this action, and as a result of the appreciation of the euro against the US dollar and the low inflation performance, much of the earlier appreciation of the dirham in real effective terms has been reversed. Consequently, and as pointed out in staff paper, there is no indication of misalignment of the exchange rate.

The authorities are attentive to the appropriateness of the exchange rate regime for the achievement of their growth objectives. They believe that all options should be carefully examined, and their effects and prerequisites assessed, with due consideration to the structure and characteristics of the Moroccan economy. Consistency between the exchange rate regime and macroeconomic policies and instruments, the level of financial sector development and degree of openness should be ensured. The authorities look forward to a staff paper on the various options and issues involved.

### **Debt sustainability and medium-term fiscal challenges**

Prudent policy stance and strengthened debt management have placed the public debt firmly on a declining trend. Despite severe shocks, such as the “drought of the century” in 1995, the declining debt to GDP ratio was only temporarily and moderately reversed. Total central government debt declined by a cumulative 13.3 percent of GDP between 2000 and 2003, of which 9.1 percent of GDP was accounted for by privatization revenue. Including the elimination of domestic arrears accumulated at end-2000 following late receipt of the proceeds from the partial sale of Maroc Telecoms, the decline in the broader government debt over the three-year period amounted to over 16 percent of GDP, almost twice the level of privatization revenue. The authorities are confident that their medium-term scenario implying a further decline in the debt ratio is within reach. They will, however, seize the opportunity of improvement in GDP performance in order to further lower this ratio and improve debt dynamics.

The public sector debt sustainability framework indicates that Morocco’s public debt compares favorably with those of emerging countries and is comparable to those of industrial countries. Comparison with emerging countries is even more favorable in terms of external debt sustainability, largely on account of prudent borrowing policy and active debt management. The public debt remains within the sustainability range under various stress tests, except when using two standard deviations for GDP growth in 2005–06 leading to a decline in GDP of 7 percent per year over two years. The standard deviation is high (5.8 percent), mainly due to volatility of agricultural production, itself a function of the vagaries of the weather. However, from past experience, it is extremely unlikely that such a sharp decline in GDP growth occurs two years in a row. From Chart 1, it is also clear that real GDP volatility has significantly declined over the past five years. In addition, since this volatility is mainly related to agricultural production, which is tax exempt, a decline in GDP



from lower agricultural production should increase the ratio of revenue to total GDP instead of remaining flat, or even declining, as shown in Table 6 of SM/04/121.

This being said, placing the budget on a sound footing is a prerequisite for achieving higher growth and employment creation and for strengthening social services and infrastructure delivery. The authorities are cognizant of the large burden of wages and the ensuing budget rigidity. Recent increases in the wage bill were part of the social dialogue negotiated in 1996, which was instrumental in ensuring social peace during the political transition process and creating the necessary environment for agreement on key issues, including the adoption of the labor code and the consensus for social security and pension reform. It is the authorities' firm intention to reduce the wage bill in the context of a comprehensive reform program supported by the World Bank. Initial steps have been taken in stabilizing the number of civil servants, starting an early retirement system—which will affect some 60,000 employees—greater selectivity in hiring, and promoting staff mobility.

Improving the efficiency of the tax system will also be key to improving the budget position in the medium term. The proliferation of tax exemptions has reduced the tax base and has precluded much needed reductions in tax rates. Tariff dismantling, in particular under the AAEU, is also expected to make a more significant dent in tax revenues going forward with the reductions affecting highly protected products at a time when privatization revenues are expected to taper off. However, trade liberalization could also help revenue performance through higher growth and trade opportunities and, if supported by strengthening of tax administration, could bring more of the informal sector into the tax net. Improved tax administration and policy, and rationalization of and reduction in exemptions could play a major role in addressing these challenges, and the authorities are looking forward to the upcoming FAD technical assistance in this area.

Ensuring long-term equilibrium of the pension system is a major challenge for fiscal sustainability and financial sector development. An assessment of pension regimes has been carried out with World Bank assistance and options for their rehabilitation are being considered. In the meantime, following the doubling of employer contribution to the pension system of the military from 7 percent to 14 percent in 2003, the recent decision to increase contributions from employers and employees to the main public pension system (CMR) by a total of 6 percentage points over three years is a significant step. Internal pension regimes in key public enterprises have been audited and their assets and liabilities, including the necessary resources for their full funding, have been externalized. Measures have also been taken to improve the financial position of a privately managed pension system, the Caisse Interprofessionnelle Marocaine des Retraites (CIMR).

### **Structural reforms**

In the financial sector, most of the recommendations of the FSSA and the FSA reports, which were published, have been implemented as indicated in paragraph 19 and Box 3 of the staff report. The key reforms of the central bank and banking laws consistent with these recommendations are being discussed by Parliament. Several reforms of the capital market were approved, including new legislation regarding public offerings on the stock market and

the regulation of repos, and amendments to the laws regarding the stock market, the central depository, mutual funds, as well as the strengthening of independence and supervisory authority of the capital market oversight body (CDVM). The restructuring of the public financial sector will continue aimed at its financial rehabilitation, clarifying its role, improving its efficiency, and strengthening its supervision.

The authorities are strengthening the legal and regulatory framework for fighting money laundering and the financing of terrorism. An anti-terrorism law which addresses also the issues of terrorism financing was adopted by end-May 2003. Work is underway on the money laundering issues which will be covered by a separate law. Meanwhile, drawing on FATF recommendations, Bank Al Maghrib has already issued regulations to all credit institutions under its supervision establishing the minimum requirements in terms of customer due diligence, record-keeping, early identification of unusual or suspicious transactions, and monitoring of financial transactions by selected businesses.

Progress in trade liberalization has proceeded at the multilateral, regional, and bilateral levels. In addition to fulfillment of commitments under the WTO, the authorities have concluded an agreement with the EU on agricultural trade. They have also made progress toward a free trade agreement with the Mediterranean countries that have signed association agreements with the EU (Tunisia, Egypt, Jordan). Moreover, a free trade agreement has also been signed with Turkey, a further step toward an integrated Mediterranean area. A further significant development is the signing of a free trade agreement with the USA, which will improve market access to key Moroccan exports, while creating increased competition and opportunities for investment and efficiency gains in several sectors of the Moroccan economy. The authorities hope that improved political relations between Maghreb countries would help unleash the potential for trade and economic cooperation between the five member countries (Algeria, Libya, Mauritania, Morocco, and Tunisia). In this regard, they call on the Fund to launch new initiatives to identify opportunities for cooperation and regional integration. While hopeful that the Doha Round will be concluded soon to the benefit of developing countries, the authorities see these regional and bilateral agreements as building blocks toward multilateral liberalization.

The Selected Issues paper on Morocco's trade pattern indicates both a trade creation effect from the AAEU and the absence of trade diversion on the import side. However, this paper is based on a gravity model, it is not based on actual data. Actual data show, in fact, that there has been very large increase in imports from the EU in those sectors that have benefited from the dismantling of tariffs, whereas imports of the same products from other areas have stagnated or have even declined, indicating trade diversion. I expect that staff, as they have stated, will look more into the data to reconcile the model findings with actual data. This being said, the authorities have started reducing MFN tariffs to avoid trade diversion.

Improving transparency, governance, and the rule of law is viewed by the authorities as key to accelerating policy credibility and enhancing investment opportunities. Key on-going reforms include modernization of the judiciary, streamlining of investment procedures, rationalization of budget preparation and execution, performance-based oversight of the public enterprise sector, and increased market liberalization. The authorities' request for a

fiscal ROSC is a further demonstration of their commitment to transparency. Private investment is also being promoted through support of SMEs, acceleration of infrastructure development and vocational training, and improved access to land. Together with further steps in liberalizing the transport sector, these measures have significantly increased attractiveness of Morocco to domestic and foreign investors.

The authorities also find the Selected Issues paper useful in analyzing the trends and factors underlying workers remittances in Morocco. The findings that these remittances are explained by altruism and attachment to the home country confirms the authorities' long-standing view on the sustainability of these remittances and the very low risk for their decline or reversal. These findings do not support the assertion in the FSSA that these remittances pose risks to the sustainability of the external position. The authorities agree with staff that Moroccan expatriates could play a useful role in investment, especially in development of SMEs and transfer of capital, technology, and management expertise.

The authorities attach high importance to improving data quality and dissemination. They have recently started publishing the international investment position and are reviewing remaining steps to enable full participation in the SDDS. The 2004 census as well as a consumption and expenditure survey will identify the demographic and socio-economical characteristics of the population and inform social and economic policies. This will, in particular, provide a snapshot of human development and a poverty map and enable a rebasing of the consumer price index.

The authorities remain fully committed to sound macroeconomic policies and structural reforms to increase growth and employment generation. They are confident that perseverance with prudent policies and acceleration of structural reform will help unleash the large potential of the Moroccan economy. They highly value the advice and technical assistance provided by the Fund.