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THIRD REVIEW UNDER THE TWO-YEAR PRECAUTIONARY AND LIQUIDITY LINE—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the third review under the two-year Precautionary and Liquidity Line, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF, for the Executive Board's consideration on January 31, 2014, following discussions that ended on December 19, 2013, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on January 24, 2014.

- **A Press Release** including a statement by the Chair of the Executive Board.

- A **Statement by the Executive Director** for Morocco.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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January 24, 2014

THIRD REVIEW UNDER THE TWO-YEAR PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

The Executive Board approved in August 2012 a two-year precautionary and liquidity line (PLL) arrangement in the amount of SDR 4.1 billion (700 percent of quota). The PLL provides insurance against external risks while supporting the authorities' program aimed at reducing fiscal and external vulnerabilities and fostering higher and more inclusive growth. The second review was completed on July 31, 2013. The authorities have treated the PLL as precautionary.

Overall, macroeconomic performance improved in 2013, but the outlook hinges on the sustained delivery of reforms. After a difficult 2012, a return to a more favorable environment and policy action helped reduce fiscal and external imbalances in 2013, while growth picked up, boosted by a strong rebound in the primary sector. Growth in 2014 could reach about 4 percent, but the economy remains vulnerable to a fragile international environment. Continued improvement in economic conditions depends on the sustained implementation of reforms to further reduce vulnerabilities, strengthen competitiveness, and foster stronger and more inclusive growth.

The program remains broadly on track, and Morocco continues to meet the PLL qualification criteria. Both the fiscal and external deficits were reduced from their 2012 highs. Although the fiscal deficit indicative target at end-October was missed, the authorities' end-year objective was met. The NIR indicative target at end-October was met with a comfortable margin. Morocco continues to perform strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy, and data adequacy) while not substantially underperforming in the two other areas (fiscal policy, and external position and market access). Staff therefore recommends the completion of the third review under the PLL.

Approved By
Adnan Mazarei and Mark Flanagan

The staff team comprised Mr. Dauphin (head), Ms. Garcia Martinez, Messrs. Kalonji and Versailles (all MCD); and Mr. Ahokpossi (SPR). Discussions, which also covered the 2013 Article IV consultation, took place in Rabat and Casablanca, December 5–19, 2013.

The mission met the Head of Government Mr. Benkiran, the Minister of Economy and Finance Mr. Boussaid, the Minister of Labor and Social Affairs Mr. Seddiki, the Minister Delegate of the Budget, Mr. Azami Al Idrissi, the Minister Delegate of the Public Service and Modernizing the Administration, Mr. Moubdi, the Minister Delegate of General Affairs and Governance Mr. Louafa, Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of the private sector and civil society. Mr. Dairi (OED) participated in most of the meetings.

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RECENT DEVELOPMENTS

1. The Executive Board approved in August 2012 a two-year PLL arrangement in the amount of SDR 4.1 billion (700 percent of quota, about US$6.2 billion). The PLL provides insurance against external risks while supporting the authorities' program. The authorities continue to treat it as precautionary. The second review was completed on July 31, 2013. Directors commended the significant measures taken in a difficult context to reduce external and fiscal vulnerabilities, and encouraged the authorities to use the space provided by the PLL to move forward with important structural reforms, to continue reducing vulnerabilities, and to promote stronger and more inclusive growth.

2. After a difficult 2012, macroeconomic performance improved overall in 2013. Morocco has a track record of strong performance, but vulnerabilities in recent years increased as the economy was hit by a series of exogenous shocks, including the European recession, a rise in oil prices, and the transition in Arab countries. As a result, the external and fiscal deficits widened significantly to 10 percent of GDP (excluding grants) and 7.3 percent of GDP, respectively in 2012 while growth suffered from low agricultural production. A return to a more favorable environment, higher grants from partner countries, and policy action helped reduce imbalances in 2013 to an estimated current account deficit excluding grants of 8 percent of GDP and a fiscal deficit of 5.5 percent of GDP. Growth also picked up, boosted by a strong rebound in the primary sector.[1]

3. The authorities have taken steps to reduce vulnerabilities in a difficult sociopolitical context; however, some reforms have progressed more slowly than expected. While some reforms, such as the adoption of a new organic budget law, and the design of a broader subsidy reform, did not progress at the expected pace, vulnerabilities were reduced overall. In response to the 2012 fiscal slippage, the authorities implemented a series of measures to reduce the deficit, lower fiscal risks, and strengthen public financial management (PFM). In particular, the measures taken in September 2013 and January 2014 to partially index the price of some subsidized petroleum products to international prices and reduce or eliminate subsidies on a number of products were significant steps in those directions.

4. The formation of a new coalition government ended a period of uncertainty that delayed policymaking. The previous government coalition, headed by the Justice and Development Party (JDP), a moderate Islamist party, ended in the summer of 2013 when the junior party Istiqlal withdrew from it. Following protracted negotiations, a new coalition government, now including the National Rally of Independents (NRI), a center-right party, was announced on October 10, 2013. The hope is that efforts to build consensus on difficult reforms (e.g., subsidies, pensions) can be brought to closure so that faster progress can be made. In the current difficult regional context, the risk remains that social pressures may undermine implementation, nonetheless

[1] See the staff report for the 2013 Article IV consultation for a fuller discussion of recent developments, outlook, risks and recent policy action.

adequate communication on the reforms, and appropriate measures to protect the most vulnerable would help mitigate these risks.

5. In an environment that remains risky, the outlook continues to hinge on sustained delivery of the reforms. Growth in 2014 could reach about 4 percent, as activity in the nonagricultural sectors accelerate and assuming a return to normal cereal production, however, the economy remains vulnerable to international conditions. Although the global outlook is improving, the international economic environment remains uncertain and the regional context volatile.[2] In this context, continued improvement in economic conditions depends heavily on the sustained implementation of reforms to rebalance the fiscal and external accounts, strengthen competitiveness, ensure stronger and more job-rich growth, and improve social protection, particularly for the most vulnerable segments of the population.

PLL QUALIFICATION CRITERIA

6. The program remains broadly on track and Morocco continues to meet the PLL qualification criteria. Both the fiscal and external deficits were reduced from their 2012 highs. The NIR indicative target at end-October was met with a comfortable margin. However, the fiscal deficit indicative target at end-October was missed, mostly because of higher-than-programmed investment spending. All standard performance criteria were met. Morocco continues to perform strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy, and data adequacy) while not substantially underperforming in the two other areas (fiscal policy, and external position and market access), as further explained below.

7. Morocco remains committed to a sustainable fiscal path, and has a record of sound public finances, despite the challenges of 2012. The authorities have taken commendable actions to strengthen Morocco's fiscal position and reduce vulnerabilities in this area. Staff's assessment remains that Morocco does not substantially underperform in the fiscal area, based on the following considerations.

- The authorities achieved their fiscal deficit objective in 2013. The deficit, including grants, was reduced by almost 2 percent of GDP to 5.5 percent of GDP as programmed at the time of the second PLL review. This reduction was achieved, as expected, in part due to higher external grants (although the amount received was less than programmed, implying a stronger structural adjustment) and lower global oil prices, but also thanks to policy action to limit the subsidy bill and wage expenditures and to rationalize capital spending. Indeed, the authorities overcame the missed end-October 2013 fiscal deficit target, which was due to investment overruns, via measures to control public investment expenditures during the last quarter of the year (notably the cancelation of all appropriations that had not been committed by October 31).

[2] See risk assessment matrix in the 2013 Article IV consultation report.

- The 2014 budget targets a continued prudent reduction in the deficit through structural fiscal reforms. The further reduction to 4.9 percent of GDP is to be achieved mainly through a continued reduction in the cost of energy subsidies. Further important steps were taken in that direction in January 2014 with the elimination of subsidies on super and industrial fuel and the reduction in the per-unit subsidy of diesel (see attached written communication (W-COM. -¶¶7, 8). The reduction in the diesel subsidy will be implemented through quarterly adjustments, starting February 2014. The introduction in September 2013 of a mechanism to index the price of some subsidized petroleum products to international prices was a significant step toward reducing fiscal vulnerabilities. The 2014 budget also includes a reduction by 0.2 percent of GDP of food subsidies. Social protection for the most vulnerable is being expanded through dedicated programs (W-COM.-¶9). Furthermore, the 2014 budget introduces welcome steps toward a broad tax reform (W-COM.-¶6) and pledges for this year a much-needed parametric reform of the main public pension fund (W-COM.-¶12).

- The budget framework is being strengthened. The council of ministers adopted in mid-January a new draft organic budget law (OBL). The draft OBL includes welcome enhancements to the existing 1998 law, such as multiyear budgeting, program budgeting, performance management, and fiscal transparency. Ahead of its adoption in 2014, four ministries are scheduled to start operating as pilot cases in program budgeting. The draft OBL also addresses weaknesses in the budgetary framework that came to the fore in 2012 by making wage expenditures appropriations binding ceilings and limiting the carryover of investment appropriations, although the related provisions would only be effective before 2016 and 2017 respectively. Staff welcomed the authorities' efforts to strengthen and modernize their budget framework, but urged them to incorporate best practices into the final version as recommended by a recent IMF technical assistance mission, in particular to reduce potential sources of fiscal risks, notably in the areas of fiscal coverage (by covering autonomous agencies and public enterprises), fiscal policy formulation and fiscal discipline (e.g., ensuring that the cost of any new initiative is always fully reflected in the budget, and by adopting an escape clause supportive of the new golden rule). Additional limitations on special accounts were also included in the draft OBL, but tighter restrictions would be more appropriate. Although the initial intention was to have the OBL adopted by Parliament in its fall session (which ends in February 2014), the goal is now to have it adopted as early as possible in the spring of 2014 so the 2015 budget law can be prepared under the new framework. The mission underscored that the provisions addressing the issues that came into play in 2012 needed to become effective upon adoption of the law. In the meantime, technical measures to better control the wage bill and investment spending, including limiting the carryover of unspent investment appropriations across fiscal years should remain in place. These measures were reconfirmed in the 2014 budget.

- The public sector debt remains sustainable.[3] The public debt is slightly over 60 percent of GDP and is resilient to shocks to real GDP, the primary fiscal balance, the real exchange rate, and the

[3] See the debt sustainability analysis (DSA) in the 2013 Article IV consultation.

real interest rate. After peaking at 63 percent of GDP in 2014, it is projected to progressively fall below 60 percent in the medium term as a result of fiscal adjustment. There are moderate risks linked to gross financing needs under a real growth shock or a shock to the primary balance.

8. Morocco's moderate underperformance on the external position is reflected in a large, but decreasing, current account deficit, while other indicators lend reassurance.

- The current account, excluding grants, improved by an estimated 2 percent of GDP in 2013 to about 8 percent of GDP. The exchange rate assessment continues to show some evidence of moderate overvaluation of the dirham, though less than a year ago.[4]

- Although external pressures and uncertainties continue to be a concern, reserves have been broadly stable for more than a year. Considering existing controls on capital outflows that partially insulate them from capital account vulnerabilities, they remain adequate at 88 percent of the Fund's reserve metric for emerging markets. The NIR indicative target for end-October 2013 was met with a comfortable margin. The stabilization of reserves owed in part to the improvement in the current account deficit, but mostly to strong FDI inflows, substantial development partners' assistance, and external sovereign borrowing. Reserves are expected to remain stable above four months of imports over the medium term.

- Morocco's market access was reconfirmed when it raised US$750 million at favorable terms in May. Morocco was not significantly affected by the recent emerging markets sell-off. Although the external debt increased over the past few years because of a combination of increasing financing needs and low spreads of international bonds, it remains sustainable.[5]

- The authorities' intention to gradually allowing more flexibility to the exchange rate, combined with progress on fiscal adjustment and structural reforms to remove impediments to growth and boost competitiveness, are expected to help underpin external sustainability.

9. Morocco has a strong record of maintaining low and stable inflation. Bank-al-Maghrib (BAM) has effectively anchored inflation expectations in the context of the exchange rate peg. Inflation has averaged 1.7 percent over the past 10 years and never exceeded 4 percent. Although liquidity remains tight, staff considers that the current monetary policy stance is appropriate within the existing monetary and exchange rate framework. The nonprimary output gap is moderately negative and risks to growth are tilted to the downside, but monetary policy should remain cautious about the possible effects on inflation of price increases related to the subsidy reform. BAM has solid policy analysis capacity, which is currently being strengthened through technical assistance from the IMF in preparation for an eventual move towards the adoption of a nominal anchor for

[4] See the 2013 Article IV consultation.

[5] See DSA annex in the 2013 Article IV report. External debt rose from 25.1 percent of GDP in 2011 to 30.9 percent of GDP in 2013, and is expected to peak at 31.6 percent of GDP in 2015 before declining to 28.2 percent of GDP in 2018.

monetary policy. As discussed in previous staff reports, the monetary framework will need to evolve in line with a move toward a more flexible exchange rate.

10. The financial sector has remained sound overall. As of June 2013, the Tier 1 capital ratio amounted to 10.6 percent, while regulatory capital to risk-weighted assets reached 13.1 percent, both up from December 2012 (when they amounted to 10.2 percent and 12.3 percent respectively). Banks' reliance on lending activities is likely to weigh on their profitability, although so far it has been resilient, supported by their international activities. Nonperforming loans (NPLs) have increased to 5.8 percent of total loans as of November 2013, reflecting the slowdown in activity. BAM is further strengthening banking supervision in line with new Basel III standards. The capital adequacy ratio was increased in June 2013, and BAM is incorporating the new definition of prudential capital and short-term liquidity in its regulations. A Financial Sector Assessment (FSAP) update is planned for the fall of 2014. Moroccan banks fund themselves mainly through domestic deposits, but have started expanding their sources of funding to include the issuance of international bonds. BAM is closely monitoring these activities and reinforcing coordination and exchange of information with supervisory and regulatory agencies in host countries, including on-site visits.

11. Morocco meets the PLL requirement on data transparency and integrity. Morocco subscribes to the Special Data Dissemination Standard and its data are adequate for surveillance and program monitoring. As noted in previous reports, the fiscal overruns in 2012 revealed issues related to fiscal projections and monitoring, now being addressed, but the reporting of fiscal data has not come into question.[6]

OTHER PROGRAM ISSUES

12. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund (Table 8). The authorities intend to continue to treat the PLL as precautionary; however, were they to withdraw the entire amount, the Fund credit would represent a modest share of Morocco's low external debt, and the reserve coverage ratio would be comfortable. External debt service would increase moderately over the medium term but would be manageable under staff's medium-term macroeconomic projections.[7] In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally, as discussed in the staff report for the PLL request.[8]

[6] See the staff report for the Second Review under the PLL (CR/13/96) paragraph 19 for a discussion of measures taken to strengthen the budget framework in addition to the new OBL.

[7] Under the most extreme shocks, the DSA shows that the external debt would remain low and sustainable, reflecting Morocco's capacity to repay the Fund even under an adverse scenario.

[8] Morocco—Request for an Arrangement under the Precautionary and Liquidity Line (CR/12/239).

13. Morocco continues to meet the four exceptional access criteria. First, staff is of the view that the realization of a stress scenario related to risks of increases in oil prices and to the crisis in Europe could give rise to financing needs beyond normal access limits (criterion 1). Second, debt ratios would remain sustainable over the medium term with a high probability under the standard stress shocks (criterion 2). Third, Morocco has reconfirmed market access when it raised US$750 million at very favorable terms in May 2013, and such access is expected to continue within the timeframe when Fund resources would be outstanding if Morocco were to make purchases under the arrangement (criterion 3). Fourth, staff considers that the authorities' program has a reasonably strong prospect of success, including with respect to the institutional and political capacity to deliver on the program. The new government has reiterated its commitment to the program, and adequate communication on the reforms and appropriate measures to protect the most vulnerable should help contain the risk that social pressures would undermine program implementation (criterion 4).

14. The safeguards assessment of BAM, completed in February 2013, found a robust safeguards framework with strong control mechanisms. BAM has made good progress in implementing safeguards recommendations from the assessment, including publication of audited annual financial statements. Existing good governance practices and key safeguards will need to be formally enshrined in the central bank law. The authorities are in the process of drafting amendments to the central bank law to address these aspects and to strengthen the autonomy of the central bank. The preparation of a new central bank law offers an opportunity to incorporate features that reflect current best international practices and assure central bank independence.

STAFF APPRAISAL

15. The program remains broadly on track. Although the fiscal deficit indicative target at end-October was missed, the authorities' end-year objective was met. The NIR indicative target at end-October was met with a comfortable margin. Overall, both the fiscal and external deficits have been reduced from their 2012 highs. The authorities took significant measures to strengthen their fiscal policy framework, including through measures to reduce the costs and fiscal risks associated with the subsidy system.

16. The authorities' 2014 program should continue to reduce external and fiscal vulnerabilities. The budget appropriately targets a further reduction in the deficit, backed by a continued reduction in subsidies with increased protections for the most vulnerable. The new organic budget law, which is critical to preserving strong fiscal institutions, is planned to come into effect in time to govern the preparation of the 2015 budget. Staff underscores the need to strengthen the draft law to address issues of fiscal discipline, coverage and expenditure control, and to make key provisions effective upon approval of the law. Staff welcomes the authorities' intention to continue their preparations towards introducing a more flexible exchange rate regime, while implementing structural measures to improve competitiveness and the business environment.

17. Morocco continues to meet the PLL qualification criteria. Morocco continues to perform strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy, and data adequacy) while not substantially underperforming in the two other areas (fiscal policy, and external position and market access). Staff therefore recommends the completion of the third review under the PLL.

Table 1. Morocco: Selected Economic Indicators, 2011–18

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
	(Annual percentage change)								
Output and Prices									
Real GDP	5.0	2.7	5.1	4.5	3.9	4.9	5.2	5.4	5.6
Real primary GDP	5.1	-7.2	13.6	17.0	-1.0	4.5	4.5	5.0	5.0
Real non-primary GDP	5.0	4.6	3.7	2.4	4.8	5.0	5.3	5.5	5.7
Consumer prices (end of period)	0.9	2.6	2.3	0.4	2.5	2.5	2.5	2.5	2.5
Consumer prices (period average)	0.9	1.3	2.3	1.9	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP)								
Investment and Saving									
Gross capital formation	36.0	35.3	34.3	34.7	35.3	35.3	35.4	35.5	35.7
Of which: Nongovernment	30.6	29.7	30.0	29.5	30.7	29.9	29.9	30.1	30.2
Gross national savings	27.8	25.6	27.1	27.2	28.8	29.7	30.6	31.3	31.1
Of which: Nongovernment	27.5	25.9	26.8	25.9	27.6	26.8	26.9	27.0	26.9
	(In percent of GDP)								
Public Finances									
Revenue	27.8	28.7	27.5	27.9	27.4	28.1	28.1	28.2	27.6
Expenditure	34.5	36.1	33.0	33.4	32.4	32.4	31.7	31.2	30.7
Budget balance	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Primary balance (excluding grants)	-4.6	-5.0	-4.0	-3.6	-2.8	-2.7	-1.9	-1.4	-0.6
Cyclically-adjusted primary balance (excl. grants)	-4.4	-4.7	...	-3.4	-3.3	-2.6	-1.9	-1.4	-0.6
Total government debt	54.4	60.2	61.8	61.7	62.5	62.4	61.5	60.1	58.6
	(Annual percentage change; unless otherwise indicated)								
Monetary Sector									
Credit to the private sector 3/	9.8	4.8	6.1	3.6	5.6	6.2	6.9	6.9	6.9
Broad money	6.4	4.5	5.5	3.9	4.6	5.5	6.5	6.0	6.0
Velocity of broad money	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.5	3.2	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External Sector									
Exports of goods (in U.S. dollars, percentage change)	21.7	-0.8	3.3	1.8	9.1	7.3	7.0	6.3	7.6
Imports of goods (in U.S. dollars, percentage change)	25.3	1.6	0.7	0.7	6.8	5.2	5.1	5.2	5.9
Merchandise trade balance	-19.4	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6	-15.0
Current account excluding official transfers	-8.4	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2	-4.7
Current account including official transfers	-8.1	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2	-4.5
Foreign direct investment	2.4	2.4	3.2	2.9	2.9	3.0	3.1	3.1	3.2
Total external debt	25.1	29.8	31.3	30.9	31.5	31.6	30.6	29.2	28.2
Gross reserves (in billions of U.S. dollars)	20.6	17.5	18.7	19.3	20.0	21.1	22.4	23.7	25.1
In months of next year imports of goods and services	5.0	4.2	4.3	4.3	4.3	4.3	4.3	4.3	...
In percent of short-term external debt (on remaining maturity basis)	1473.6	1251.8	1332.0	1374.5	1427.1	1508.7	1601.2	1691.2	1794.5
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	99.2	96.1	104.8	105.5	115.1	125.1	136.0	146.7	158.4
Unemployment rate (in percent)	8.9	9.0	8.9	8.9	...	...	...	...	...
Population (millions)	32.2	32.5	32.9	32.9	33.2	33.5	33.8	34.2	34.5
Net imports of energy products (in billions of U.S. dollars)	-11.2	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9	-13.0
Local currency per U.S. dollar (period average)	8.1	8.6	...	8.4	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	-1.0	...	0.1	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.
2/ Revised macro framework.
3/ Includes credit to public enterprises.

Table 2. Morocco: Budgetary Central Government Finance, 2011–18

(Billions of dirhams)

			PLL 1/	Rev. 2/	Proj.				
	2011	2012	2013		2014	2015	2016	2017	2018
Revenue	223.3	237.7	244.6	246.9	258.4	283.6	305.4	329.6	349.5
Taxes	189.0	202.7	200.7	199.5	211.3	232.5	252.7	272.4	298.5
Taxes on income, profits, and capital gains	69.2	77.4	74.2	75.1	77.2	87.4	95.6	103.2	112.7
Taxes on property	9.3	11.6	12.5	11.6	14.1	13.6	14.7	15.8	17.1
Taxes on goods and services	94.6	99.0	101.6	99.8	106.9	117.8	127.9	139.0	152.3
Taxes on international trade and transactions	10.7	9.4	8.0	8.0	8.1	8.4	8.7	9.1	9.6
Other taxes	5.3	5.4	4.4	4.9	5.0	5.3	5.7	5.3	6.8
Grants	1.3	0.5	8.7	6.0	10.6	10.7	10.7	12.1	2.2
Other revenue	33.0	34.6	35.2	41.4	36.5	40.4	42.0	45.1	48.8
Expense	234.2	252.5	255.4	249.3	262.0	272.3	284.9	300.9	318.4
Compensation of employees 3/	99.8	108.9	114.0	112.4	118.8	119.6	124.9	130.0	137.8
Use of goods and services and grants	53.5	56.6	65.0	59.0	67.9	73.7	79.2	86.0	92.9
Interest	18.2	20.1	22.4	22.5	24.8	27.0	29.1	31.0	32.7
Subsidies 4/	48.8	54.9	41.4	41.6	35.0	34.3	32.5	32.4	32.2
Other expense 5/	13.8	12.1	12.6	13.9	15.4	17.8	19.2	21.5	22.8
Net acquisition of nonfinancial assets	43.0	46.1	38.1	45.9	43.0	54.6	59.7	64.2	69.5
Net lending / borrowing (overall balance)	-53.9	-60.9	-48.9	-48.3	-46.5	-43.3	-39.2	-35.5	-38.5
Net lending / borrowing (excluding grants)	-55.2	-61.3	-57.6	-54.3	-57.1	-54.1	-49.9	-47.6	-40.7
Change in net financial worth	-53.9	-60.9	-48.9	-48.3	-46.5	-43.3	-39.2	-35.5	-38.5
Net acquisition of financial assets	-5.7	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.7	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-5.6	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	48.2	57.6	48.9	48.3	46.5	43.3	39.2	35.5	38.5
Domestic	40.9	42.3	30.7	37.1	31.1	30.6	31.0	33.0	30.9
Currency and Deposits	-6.3	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	37.4	37.4	49.6	37.1	31.1	30.6	31.0	33.0	30.9
Other accounts payable	9.9	9.9	-4.8	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	7.3	7.3	15.1	11.2	15.4	12.8	8.2	2.5	7.6
Memorandum Item:									
Total investment (including capital transfers)	56.8	58.1	50.7	59.7	58.4	72.4	78.9	85.7	92.3
GDP	802.6	828.2	888.5	883.5	941.5	1,009.2	1,085.9	1,170.8	1,264.5

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework. More disaggregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.

3/ Some expenditure previously included in goods and services was correctly reclassified into the “social contribution“ part of wages in the "Rev." column in 2013

4/ In projections, includes social safety nets related to the subsidy reform.

5/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2011–18

(Percent of GDP)

			PLL 1/	Rev. 2/	Proj.				
	2011	2012	2013		2014	2015	2016	2017	2018
Revenue	27.8	28.7	27.5	27.9	27.4	28.1	28.1	28.2	27.6
Taxes	23.5	24.5	22.6	22.6	22.4	23.0	23.3	23.3	23.6
Taxes on income, profits, and capital gains	8.6	9.3	8.4	8.5	8.2	8.7	8.8	8.8	8.9
Taxes on property	1.2	1.4	1.4	1.3	1.5	1.4	1.4	1.4	1.4
Taxes on goods and services	11.8	12.0	11.4	11.3	11.4	11.7	11.8	11.9	12.0
Taxes on international trade and transactions	1.3	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Other taxes	0.7	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Grants	0.2	0.1	1.0	0.7	1.1	1.1	1.0	1.0	0.2
Other revenue	4.1	4.2	4.0	4.7	3.9	4.0	3.9	3.9	3.9
Expense	29.2	30.5	28.7	28.2	27.8	27.0	26.2	25.7	25.2
Compensation of employees 3/	12.4	13.1	12.8	12.7	12.6	11.9	11.5	11.1	10.9
Use of goods and services and grants	6.7	6.8	7.3	6.7	7.2	7.3	7.3	7.3	7.3
Interest	2.3	2.4	2.5	2.5	2.6	2.7	2.7	2.6	2.6
Subsidies 4/	6.1	6.6	4.7	4.7	3.7	3.4	3.0	2.8	2.6
Other expense 5/	1.7	1.5	1.4	1.6	1.6	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	5.4	5.6	4.3	5.2	4.6	5.4	5.5	5.5	5.5
Net lending / borrowing (overall balance)	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Net lending / borrowing (excluding grants)	-6.9	-7.4	-6.5	-6.1	-6.1	-5.4	-4.6	-4.1	-3.2
Change in net financial worth	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Net acquisition of financial assets	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.0	7.0	5.5	5.5	4.9	4.3	3.6	3.0	3.0
Domestic	5.1	5.1	3.5	4.2	3.3	3.0	2.9	2.8	2.4
Currency and Deposits	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.7	4.5	5.6	4.2	3.3	3.0	2.9	2.8	2.4
Other accounts payable	1.2	1.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.9	0.9	1.7	1.3	1.6	1.3	0.8	0.2	0.6
Memorandum items:									
Total investment (including capital transfers)	7.1	7.0	5.7	6.8	6.2	7.2	7.3	7.3	7.3

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework. More disaggregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.

3/ Some expenditure previously included in goods and services was correctly reclassified into the "social contribution" part of wages in the "Rev." column in 2013.

4/ In projections, includes social safety nets related to the subsidy reform.

5/ Includes capital transfers to public entities.

Table 4. Morocco: Budgetary Central Government Balance Sheet, 2011–18

(Billions of dirhams)

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Net financial worth	-428.9	-428.9	-481.9	-481.9	-581.9	-622.9	-660.9	-696.9	-734.5
Financial assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Currency and deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	430.9	493.3	544.6	540.4	583.9	624.8	662.8	698.9	736.5
Domestic	331.3	378.4	411.6	414.4	442.5	470.6	500.5	533.9	564.0
Securities other than shares 3/	331.3	378.4	411.6	415.6	446.7	477.2	508.2	541.2	572.1
Foreign	99.6	114.8	133.0	126.0	141.4	154.2	162.4	164.9	172.5
Loans 3/	99.6	114.2	133.0	126.0	141.4	154.2	162.4	164.9	172.5
Memorandum Item:									
GDP	802.6	828.2	888.5	883.5	941.5	1,009.2	1,085.9	1,170.8	1,264.5

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.
2/ Revised macro framework.
3/ Data for the remaining instruments are currently not available.

Table 5. Morocco: Balance of Payments, 2011–18

(In billions of U.S. dollars, unless otherwise indicated)

			PLL 1/	Rev. 2/	Proj.				
	2011	2012	2013		2014	2015	2016	2017	2018
Current account	-8.1	-9.4	-7.6	-7.8	-7.4	-7.1	-6.6	-6.2	-7.2
Trade balance	-19.3	-20.1	-19.6	-20.0	-20.9	-21.4	-22.0	-22.9	-23.7
Exports, f.o.b.	21.6	21.5	22.1	21.8	23.8	25.6	27.4	29.1	31.3
Agriculture	3.5	3.5	3.6	3.8	4.0	4.2	4.4	4.6	4.9
Phosphates and derived products	6.0	5.5	5.4	4.7	5.0	5.4	5.9	6.4	6.9
Imports, f.o.b.	-40.9	-41.5	-41.7	-41.9	-44.7	-47.0	-49.4	-52.0	-55.0
Energy	-11.2	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9	-13.0
Capital goods	-8.4	-8.5	-9.3	-9.2	-9.9	-10.5	-11.1	-11.6	-12.4
Food products	-4.8	-4.8	-4.4	-4.2	-4.5	-4.7	-4.9	-5.1	-5.2
Services	5.3	5.3	5.7	5.7	6.4	7.0	7.8	8.5	9.2
Tourism receipts	7.3	6.7	6.9	6.9	7.4	7.8	8.4	8.8	9.3
Income	-2.1	-2.2	-2.1	-1.9	-2.2	-2.3	-2.5	-2.6	-2.6
Transfers	8.0	7.7	8.5	8.4	9.3	9.7	10.2	10.8	10.0
Private transfers (net)	7.7	7.5	7.4	7.8	8.0	8.5	8.9	9.3	9.8
Workers' remittances	7.1	6.7	6.6	6.9	7.1	7.5	7.9	8.3	8.8
Official grants (net)	0.3	0.2	1.0	0.6	1.2	1.2	1.3	1.4	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.2	8.8	9.2	7.8	8.0	7.8	7.5	8.6
Direct investment	2.4	2.3	3.3	3.0	3.4	3.7	4.2	4.6	5.1
Privatization	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Other	3.5	3.7	5.4	5.9	4.3	4.0	3.4	2.5	3.2
Private	1.8	1.0	0.0	3.4	1.4	1.5	1.5	1.5	1.6
Public medium-and long-term loans (net)	1.7	2.8	3.4	2.6	2.9	2.5	1.8	1.0	1.6
Disbursements	3.2	4.4	5.1	4.3	4.8	4.5	3.7	3.6	3.6
Amortization	-1.5	-1.6	-1.7	-1.7	-1.9	-1.9	-1.9	-2.6	-2.0
Reserve asset accumulation (-increase)	2.6	3.4	-1.2	-1.4	-0.4	-0.9	-1.2	-1.3	-1.5
Errors and omissions	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)				
Current account	-8.1	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2	-4.5
Trade balance	-19.4	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6	-15.0
Exports, f.o.b.	21.8	22.3	21.1	20.7	20.7	20.4	20.1	19.8	19.7
Agriculture	3.6	3.7	3.4	3.6	3.5	3.3	3.2	3.1	3.1
Phosphates and derived products	6.0	5.7	5.2	4.4	4.4	4.3	4.3	4.3	4.3
Imports, f.o.b.	-41.2	-43.2	-39.8	-39.7	-38.8	-37.6	-36.3	-35.4	-34.7
Petroleum	-11.3	-12.9	-11.0	-11.5	-11.3	-10.3	-9.5	-8.8	-8.2
Capital goods	-8.5	-8.8	-8.9	-8.7	-8.6	-8.4	-8.2	-7.9	-7.8
Food products	-4.8	-5.0	-4.2	-4.0	-3.9	-3.8	-3.6	-3.5	-3.3
Services	5.3	5.5	5.4	5.4	5.5	5.6	5.8	5.8	5.8
Tourism receipts	7.4	7.0	6.6	6.5	6.4	6.2	6.2	6.0	5.9
Income	-2.1	-2.3	-2.0	-1.8	-1.9	-1.9	-1.9	-1.7	-1.7
Transfers	8.1	8.0	8.1	8.0	8.0	7.8	7.5	7.3	6.3
Private transfers (net)	7.8	7.8	7.1	7.4	7.0	6.8	6.5	6.4	6.2
Workers' remittances	7.2	7.0	6.3	6.6	6.2	6.0	5.8	5.7	5.6
Official grants (net)	0.3	0.2	1.0	0.6	1.1	1.0	0.9	1.0	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.4	8.4	8.7	6.8	6.4	5.7	5.1	5.5
Direct investment	2.4	2.4	3.2	2.9	2.9	3.0	3.1	3.1	3.2
Privatization	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	3.5	3.9	5.1	5.6	3.7	3.2	2.5	1.7	2.0
Private 3/	1.8	1.0	0.0	3.2	1.2	1.2	1.1	1.1	1.0
Public medium-and long-term loans (net)	1.7	2.9	3.2	2.4	2.5	2.0	1.3	0.7	1.0
Disbursements	3.2	4.5	4.9	4.1	4.1	3.6	2.7	2.4	2.3
Amortization	-1.5	-1.7	-1.7	-1.6	-1.6	-1.5	-1.4	-1.8	-1.3
Memorandum items:									
Current account balance excluding official grants (percent of GDP)	-8.4	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2	-4.7
Terms of trade (percentage change)	2.3	-11.9	0.3	-2.8	0.7	-0.5	0.5	0.5	0.2
Gross official reserves 3/	20.6	17.5	18.7	19.3	20.0	21.1	22.4	23.7	25.1
In months of prospective imports of GNFS	5.0	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Debt service (percent of export of GNFS and remittances) 4/	5.3	5.8	6.6	6.6	6.7	6.7	6.4	7.4	6.0
External public and publicly guaranteed debt (percent of GDP)	23.6	25.7	27.2	26.5	27.4	27.6	27.0	25.7	24.8
DHs per US$, period average	8.1	8.6	8.5	8.4	...	...	...	...	...
GDP (US$)	99.2	96.1	104.8	105.5	115.1	125.1	136.0	146.7	158.4
Oil price (US$/barrel; Brent)	111.0	112.0	104.5	108.9	109.5	103.9	98.4	93.7	90.6

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.
2/ Revised macro framework.
3/ Excluding the reserve position in the Fund.
4/ Public and publicly guaranteed debt.

Table 6. Morocco: Monetary Survey, 2011–14

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014
	(Billions of dirhams)				
Net foreign assets	173.6	148.1	160.8	159.6	162.7
Monetary authorities	171.9	145.4	157.9	156.8	159.9
Of which: Gross reserves	177.1	147.9	157.9	159.3	162.4
Of which: Net Fund position	0.0	0.0	0.0	0.0	0.0
Deposit money banks	1.7	2.7	2.9	2.8	2.8
Net domestic assets	775.6	844.1	886.0	871.2	915.6
Domestic credit	798.3	855.0	899.6	881.3	930.0
Net credit to the government	102.1	115.6	125.5	125.6	131.9
Banking system	102.1	115.6	125.5	125.6	131.9
Bank Al-Maghrib	2.2	0.5	0.1	0.2	-0.2
Of which: deposits	-3.4	-4.5	-4.8	-4.7	-5.1
Deposit money banks	99.9	124.9	125.4	125.4	132.0
Credit to the economy	696.2	729.6	774.1	755.6	798.1
Other liabilities, net	22.7	10.9	13.6	10.0	14.4
Broad money	949.3	992.2	1,046.7	1,030.9	1,078.3
Money	586.8	612.2	658.2	645.5	680.5
Currency outside banks	158.3	163.6	175.6	174.6	186.0
Demand deposits	428.5	448.5	482.6	470.9	494.5
Quasi money	340.9	354.7	368.9	368.9	383.7
Foreign deposits	21.6	25.3	19.7	16.4	14.1
	(Annual percentage change)				
Net foreign assets	-11.8	-14.7	6.8	7.8	1.9
Net domestic assets	11.6	8.8	5.3	3.2	5.1
Domestic credit	11.6	7.1	5.2	3.1	5.5
Net credit to the government	25.8	13.2	7.9	8.7	5.0
Credit to the economy	9.8	4.8	6.1	3.6	5.6
Broad money	6.4	4.5	5.5	3.9	4.6
	(Change in percent of broad money)				
Net foreign assets	-2.6	-2.7	1.0	1.2	0.3
Domestic credit	9.3	6.0	4.5	2.6	4.7
Net credit to the government	2.3	1.4	0.9	1.0	0.6
Credit to the economy	6.9	3.5	4.5	2.6	4.1
Other assets net	-0.3	1.2	0.0	0.1	-0.4
Memorandum items:					
Velocity (GDP/M3)	0.85	0.83	0.85	0.86	0.87
Velocity (non-agr. GDP/M3)	0.72	0.72	0.73	0.73	0.75
Credit to economy/GDP (in percent)	86.7	88.1	87.1	85.5	84.8
Credit to economy/nonagricultural GDP (in percent)	101.2	101.7	101.8	100.5	98.8

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework.

Table 7. Morocco: Financial Soundness Indicators, 2008–13

(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	Jun-13
Regulatory capital 1/						
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.1
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	10.6
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.9
Asset quality						
Sectoral distribution of loans to total loans						
Industry	18.7	18.3	18.4	18.4	18.1	18.9
Agriculture	4.1	3.4	4.1	4.1	4.1	4.1
Commerce	6.5	7.0	6.7	6.6	7.0	6.0
Construction	15.9	14.1	13.3	13.9	12.6	12.7
Tourism	2.6	3.2	2.9	2.8	2.9	2.7
Finance	13.1	12.5	12.1	11.9	11.0	11.1
Public administration	3.7	4.3	5.0	4.8	5.0	4.6
Transportation and communication	4.5	4.2	4.0	4.1	4.0	4.0
Households	26.5	27.6	28.1	27.6	28.9	29.9
Other	4.4	5.4	5.4	5.8	6.4	6.0
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.9
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0	91.0
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0	5.4
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	66.0
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	14.5
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	326.0
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	4.1
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.0
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.6
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.8
Profitability						
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0	1.2
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	12.6
Interest rate average spread (b/w loans and deposits)	3.2	3.1	3.3	3.3	3.2	3.5
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	76.5
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	44.6
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	49.1
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.5	23.5
Liquidity						
Liquid assets to total assets	24.4	17.3	12.0	11.7	10.5	11.0
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	14.9
Deposits to loans	113.0	108.0	104.0	99.0	96.1	97.3
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	4.8	4.5	4.6
Sensitivity to market risk						
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	2.1

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

Table 8. Morocco: Capacity to Repay Indicators, 2011–18 1/

			Proj.				
	2012	2013	2014	2015	2016	2017	2018
Exposure and repayments (in SDR million)							
GRA credit to Morocco	0.0	0.0	4117.4	4117.4	4117.4	2573.4	514.7
(In percent of quota)	0.0	0.0	700.0	700.0	700.0	437.5	87.5
Charges due on GRA credit	0.0	0.0	46.1	46.1	41.7	20.1	1.4
Debt service due on GRA credit	0.0	0.0	46.1	46.1	41.7	1564.1	2060.1
Debt and debt service ratios							
In percent of GDP							
Total external debt	25.9	27.1	33.8	34.1	33.7	31.1	27.5
Public external debt	22.9	23.9	30.1	30.5	30.2	27.7	24.3
GRA credit to Morocco	0.0	0.0	5.5	5.1	4.6	2.7	0.5
Total external debt service	2.3	2.3	2.5	2.5	2.5	4.0	4.6
Public external debt service	2.3	2.2	2.1	2.1	2.1	3.7	4.0
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.0	1.6	2.0
In percent of gross international reserves							
Total external debt	142.2	148.7	194.9	201.6	204.4	192.6	173.6
Public external debt	125.7	131.1	173.3	180.3	183.2	171.7	153.2
GRA credit to Morocco	0.0	0.0	31.6	29.9	28.2	16.7	3.1
In percent of exports of goods and services							
Total external debt	69.7	80.1	108.9	119.2	128.2	127.6	122.0
Public external debt	61.7	70.6	96.9	106.5	114.9	113.7	107.7
GRA credit to Morocco	0.0	0.0	17.7	17.7	17.7	11.0	2.2
In percent of total external debt							
GRA credit to Morocco	0.0	0.0	16.2	14.8	13.8	8.7	1.8
In percent of public external debt							
GRA credit to Morocco	0.0	0.0	18.2	16.6	15.4	9.7	2.1
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	96.1	105.5	115.1	125.1	136.0	146.7	158.4
Gross international reserves (in billions of U.S. dollars)	17.5	19.3	20.0	21.1	22.4	23.7	25.1
Exports of goods and services (in billions of U.S. dollars)	34.6	35.8	38.9	41.7	44.8	47.6	50.9
Quota (in billions of SDRs)	588.2	588.2	588.2	588.2	588.2	588.2	588.2

Source: IMF staff estimates and projections.

1/ Assumes full drawings of available financing at the third review under the PLL. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Appendix. Written Communication

Rabat, Morocco
January 23, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Managing Director:

1. In a persistently unfavorable and uncertain international environment, the Moroccan economy performed creditably in 2013, after a difficult year in 2012. This performance reflects the economy's strong fundamentals and its resilience to exogenous shocks, resulting from the continued implementation of sound macroeconomic policies and the significant progress in implementing structural reforms. We remain determined to continue implementing the economic policies described in this letter and in our previous communications, with a view to attaining our short- and medium-term macroeconomic objectives.

2. The government's economic strategy is aimed at strengthening growth and employment in a stable macroeconomic framework, while reducing vulnerabilities and restoring fiscal and external buffers. However, the persistence of a difficult and uncertain external environment is likely to continue to exert pressure on our external accounts. In this context, the PLL continues to serve our country's needs well, even though there is no immediate balance of payments need that requires using the resources of the PLL, which we will continue to treat as precautionary.

3. The objective of our PLL-supported program is to continue reducing the fiscal deficit and contain the current account deficit to ensure fiscal and external sustainability. Active labor market and emerging sector development policies, improving the education and training system, and continuing efforts to improve the business environment will help support competitiveness and job creation. The ongoing geographic and sectoral diversification of exports, especially in the agro-business, automobile, aeronautics, and electronics sectors, attest to the success of those efforts.

4. Morocco's economic growth is expected to reach about 4.8 percent in 2013 as a result of a bumper cereal harvest, even if some sectors have slowed mainly because of the lagged effect of the recession in the euro area. The current account should improve by more than two percentage points of GDP, to settle at about 7.5 percent as a result of a decline in imports and positive trends in exports related to the emerging sectors, tourism revenue, and remittances from Moroccans residing abroad. The sharp increase in FDI inflows, grants, and sovereign borrowing contributed to stabilizing reserves above four months of imports throughout 2013. Assuming an average cereal harvest in

2014, overall growth should remain robust at about 4 percent, given the expected acceleration of nonagricultural growth, whereas inflation will remain low at about 2.5 percent.

5. The fiscal deficit narrowed considerably in 2013, down to 5.4 percent of GDP compared with 7.3 percent of GDP in 2012, consistent with our medium-term target of 3 percent of GDP. The stagnation of tax revenue, related particularly to the slowdown of some nonagricultural activities, was offset by the upturn in nontax revenue. On the expenditure side, wages, subsidies, other goods and services, and transfers were well contained, which helped maintain capital expenditures at their 2012 level.

6. The 2014 finance law targets to narrow the fiscal deficit further, to 4.9 percent of GDP. The law initiates the implementation of some of the recommendations of the 2013 National Tax Conference (*Assises fiscales*) so as to make the tax system more equitable and improve the competitiveness of enterprises. The new measures concern, in particular, reducing tax expenditures through the gradual taxation of the agricultural sector, and the VAT reform, aimed at simplifying the regime, avoiding the accumulation of credits, and reducing distortions. On the expenditure side, the government has taken important measures to control nonpriority spending to the benefit of social and pro-growth sectors. The government is committed to implement the necessary measures to ensure that the envisaged in the above-mentioned deficit 2014 budget is met.

7. In this context, the government has sharply reduced the vulnerabilities related to the subsidy system by introducing, last September, a mechanism for the partial indexation of gasoline, diesel, and industrial fuel prices. This mechanism has been accompanied by a hedging system for diesel. The annual subsidy bill was thus cut by almost 2 percent of GDP in 2013 (from 6.6 percent of GDP to 4.7 percent of GDP), reflecting, notably, the full year impact of the June 2012 increases, the fall in the consumption of some oil products and in world energy prices, and the entry into force of the indexation mechanism.

8. In accordance with the objective of reducing untargeted subsidies to 3 percent of GDP by 2016, the 2014 budget seeks to reduce this budgetary envelope to 3.7 percent of GDP, through the full-year impact of the price indexation system and the new measures introduced at the beginning of the year. In this context, the gasoline and industrial fuel subsidies have been eliminated. Furthermore, a ministerial order was published on January 16, 2014, establishing the timetable for adjusting diesel prices with a view to reducing the per-unit subsidy to the level provided in the 2014 budget law.

9. The government is gradually strengthening the social safety net and its targeting to vulnerable groups. Along with the continuous improvement of actions taken in the context of the National Initiative for Human Development to reduce poverty and social exclusion, the coverage of the TAYSSIR education program and of the RAMED health insurance program has been expanded under the 2014 finance law, while the resources of the social cohesion fund were increased, in particular to finance a program of assistance for widows in precarious situations and handicapped persons. Also, measures were taken in support of public transport, to ease the impact of fuel price hikes.

10. Regarding the wage bill, the 2014 finance law significantly reduces the net creation of new posts compared with previous years. The envisaged increased mobility of civil servants, which will be part of the public sector modernization plan, will help control the wage bill in the medium term. In addition, the government has decided to postpone to 2015 the implementation of decisions related to any revision of civil servant statutes passed during the year, apart from what was programmed in the finance law; and to no longer allow the use of budgeted positions that became vacant during the year for new recruitments.

11. The strengthening of the budget management framework represents a major priority for the government. Measures aimed at limiting the carryover of appropriations related to capital spending and at controlling the wage bill (set out in our letter of July 17, 2013) have helped to reduce considerably the vulnerabilities related to such spending in 2013, and will be carried forward until the entry into force of the new organic budget law (OBL). The draft OBL was approved by the Council of Ministers on January 20, 2014 and will be submitted to Parliament with a view to its adoption and implementation from the 2015 finance law onwards. Four ministries are already experimenting with the principles of the new organic law in 2014.

12. As part of the implementation of the pension system reform, a parametric reform of the *Caisse marocaine des retraites* will be launched in 2014 and should enter into force in 2015. This parametric reform will involve the retirement age, the contribution rates and the way accrued benefits are calculated. It will help lengthen the viability of the system and balance contributions and accrued benefits from the effective start date of the reform. In a second stage, a change in the institutional structure of the pension system toward a two-pillar system (private/public sector) will be implemented.

13. Bank Al-Maghrib (BAM) remains strongly committed to preserving price stability. It will continue to provide the banking sector with the liquidity necessary for the adequate financing of the economy. It places particular importance on facilitating the financing of very small, small, and medium-sized enterprises, and has all the means of control necessary for effective management of the potential risks associated with refinancing operations backed by claims on these enterprises.

14. The banking sector as a whole remains sound. The central bank continues to strengthen banking supervision through gradual introduction of the Basel III standards. The capital adequacy ratio was raised in June 2013, and BAM has adopted the regulations concerning the new definitions of prudential capital and short-term liquidity in its macroprudential framework and is ensuring gradual implementation by the banks. Nonperforming loans have increased slightly to 5.8 percent as of November 2013 (compared with 5 percent at end-2012); BAM is vigilant to ensure their adequate provisioning. In addition, the increased presence of Moroccan banks in sub-Saharan Africa and the potential related risks are closely monitored by BAM in cooperation with host-country regulators, including through joint supervision missions. An updated Financial Sector Assessment Program is planned for fall 2014.

15. The fixed exchange rate regime of the dirham against a euro/dollar basket has served Morocco well by providing an important nominal anchor. We believe, however, that increased

flexibility in the exchange rate regime, well coordinated with other macroeconomic policies and the appropriate structural reforms, would give the economy greater scope for dealing with external shocks, strengthen competitiveness, promote trade diversification, and facilitate integration into the world economy. We are currently examining the options for introducing greater exchange rate flexibility while defining a new nominal monetary policy anchor. BAM is also building its analytical capacity as regards inflation forecasting, which is a crucial element for the setting up of a new monetary regime. The technical assistance from the IMF in this area is appreciated.

16. The government is engaged in a process of ambitious structural reforms to improve the competitiveness of the economy and its potential growth. Recent reforms include a revision of the law on public procurement a strengthening of the independence of the Competition Council, and a broadening of the mandate of the Economic, Social and Environmental Council. Furthermore, a full assessment of the Judiciary was conducted, and an in-depth reform of the system has been launched. In addition, several initiatives are under way to expand sector-specific policies and enhance their synergy, promote self-entrepreneurship and reduce the level of informality in the economy, while operationalizing the national strategy for small- and medium-size enterprises.

17. As regards the indicative targets under the PLL at end-October 2013, net international reserves were well above target, whereas the central government deficit target was slightly exceeded mainly because of the acceleration of capital spending during the last days of the month. We have observed, and will continue to observe, the standard criteria related to trade and exchange restrictions, bilateral payments arrangements, multiple exchange rates, and the nonaccumulation of external debt payment arrears, in accordance with PLL requirements.

18. We are committed to preserving macroeconomic stability and to reconstituting buffers for dealing with potential exogenous shocks. We remain confident that the policies described in this communication and in those of July 27, 2012, January 17, 2013, and July 15, 2013 are appropriate to achieve our objectives, in accordance with the PLL-supported program, on the basis of which we are requesting completion of the third review.

/s/	/s/
Mohamed Boussaïd Minister of Economy and Finance	Abdellatif Jouahri Governor of Bank Al-Maghrib

Morocco: Quantitative Indicative Targets

	10/31/13		
	Target	Adj.	Act. (Prel.)
Indicative targets 1/			
Net international reserves (NIR) of Bank Al-Maghrib (BAM) (end-of-period (eop) stock, in millions of U.S. dollars (US$))	17,100	16,255	17,500
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	-41,000	-44,195	-46,793
Memorandum item:			
Adjustor on NIR (in millions of U.S. dollars) 2/	2,412	-845	1,567
Adjustor on the fiscal deficit (in millions of dirham) 3/	5,474	-3,195	2,279

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate (end-April 2012 8.429 MAD/US$).

2/ The adjustors are specified in the Technical Appendix. Accordingly, the floor on NIR of BAM will be adjusted downward in the event of a shortfall of official grants and budget support loans relative to projections. The adjustors for 2013 are cumulative from end-October 2012.

3/ The adjustors are specified in the Technical Appendix. Accordingly, the fiscal deficit ceiling will be adjusted upward in the event of a shortfall of budget support grants relative to projections. The adjustors for 2013 are cumulative from end-December 2012.

Press Release No. 14/37
FOR IMMEDIATE RELEASE
January 31, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the PLL Arrangement with Morocco and Concludes 2013 Article IV Consultation

On January 31, 2014, the Executive Board of the International Monetary Fund (IMF) completed the third review of Morocco's economic performance under a program supported by a 24-month Precautionary and Liquidity Line (PLL) arrangement and concluded the 2013 Article IV consultation with Morocco.[1]

The PLL arrangement was approved on August 3, 2012 in an amount equivalent to SDR 4.12 billion (about US$6.2 billion or 700 percent of Morocco's quota), (See Press Release No. 12/287). The Executive Board concluded the second review on July 31, 2013. The authorities are treating the arrangement as precautionary.

The PLL arrangement continues to support the authorities' home-grown reform agenda aimed at achieving higher and more inclusive economic growth by providing an insurance against external shocks. The PLL was introduced to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong record of policy implementation but with some remaining vulnerabilities.

Following the Board discussion of the review, Ms. Nemat Shafik, Deputy Managing Director, and Acting Chair made the following statement:

"Notwithstanding the continued unfavorable external environment and challenging domestic conditions, Morocco's macroeconomic performance improved in 2013, supported by strong policy commitment and implementation, as well as the insurance provided by the PLL. Important measures taken by the authorities helped reduce fiscal and external vulnerabilities and strengthen the economy's resilience. Given significant downside risks and persistently high unemployment, the economic outlook will depend on the sustained delivery of policy

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

and structural reforms designed to continue rebuilding policy buffers and promote higher and more inclusive growth.

“The substantial reduction in energy subsidies achieved in 2013, along with increased social assistance to the most vulnerable, helped strengthen the fiscal accounts and reduce underlying fiscal vulnerabilities. Looking ahead, continued strengthening of public finances will require a reorientation of revenue and spending to better support growth and inclusiveness, along with the passage of a new organic budget law that incorporates best practices with respect to fiscal discipline, coverage and expenditure control.

“Sustaining the recent gains in improving Morocco’s external position hinges on measures to support its external competitiveness. Structural reforms in this area are a priority. More flexibility in the exchange rate regime, in close coordination with other macroeconomic policies, would also help and would increase the economy’s resilience to external shocks.

“Further reforms are needed to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract foreign direct investment and promote strong job growth. Broader financial inclusion including greater access to credit for small and medium-sized enterprises is also needed to foster higher growth and boost employment.”

The Executive Board also concluded the 2013 Article IV consultation with Morocco.

The Moroccan economy has weathered the recent unfavorable regional and global economic context relatively well. GDP growth is expected to have reached about 4.5 percent in 2013 on the back of an exceptional agricultural season. Growth in other sectors has been dragged down by the effects of the European crisis, but is expected to rebound in 2014 for an overall growth rate of around 4 percent. Inflation is well under control, while the financial sector remains sound. The 2013 current account deficit was reduced and international reserves have been stable above four months of imports for more than a year, thanks in part to sustained foreign investment and access to international bond markets at favorable terms. Lower international oil prices and policy actions helped reduce the fiscal deficit from 7.3 percent of GDP in 2012 to 5.4 percent in 2013.

Executive Board Assessment[2]

Executive Directors commended the economy’s resilience in the face of significant external shocks and challenging domestic conditions, and welcomed recent measures that successfully

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

helped reduce fiscal and external vulnerabilities. Noting Morocco's high unemployment rate and the downside risks to the outlook, Directors advised sustaining reforms to continue rebuilding policy buffers and promote higher and more inclusive growth.

Directors supported efforts to strengthen the public finances and support both fiscal and external sustainability. They welcomed the reduction of energy subsidies in 2013 while increasing social protection to the most vulnerable, and encouraged the authorities to sustain such efforts. They advised that revenue and spending should be reoriented to better support growth and inclusiveness in 2014 and beyond, through reforms aimed at broadening the tax base, reviewing tax incentives and exemptions, reforming the VAT system, moderating the public wage bill, and reforming the pension system.

Directors welcomed the adoption by the Council of Ministers of the new Organic Budget Law as a step toward the establishment of a modern and improved fiscal framework. They called for strengthening the provisions of the draft law pertaining to fiscal discipline, coverage and expenditure control, in line with international best practice, and looked forward to the law's timely approval ahead of the preparation of the 2015 finance law.

Directors underscored that consolidation of Morocco's external position hinges on improving its external competitiveness. They stressed the critical importance of structural reforms in this area. They noted that a move toward a more flexible exchange rate regime, in coordination with other macroeconomic policies, would also help and would increase the economy's resilience to external shocks. In this regard, Directors welcomed the Fund's provision of technical assistance to the Bank Al-Maghrib (BAM) to help prepare for a smooth transition to more exchange rate flexibility. They recommended further reforms to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract private investment and promote strong job growth.

Directors supported BAM's efforts to strengthen banking supervision and regulatory arrangements, including gradual adherence to the Basel III norms, as well as closer monitoring of the banking sector's international expansion. They underscored the importance of financial deepening and increased access to credit for small and medium-sized enterprises for fostering sustained growth.

Morocco: Selected Economic Indicators, 2012–17

		PLL1/	Rev.2/		Proj.		
	2012	2013		2014	2015	2016	2017
	(Annual percentage change)						
Output and Prices							
Real GDP	2.7	5.1	4.5	3.9	4.9	5.2	5.4
Real primary GDP	-7.2	13.6	17.0	-1.0	4.5	4.5	5.0
Real non-primary GDP	4.6	3.7	2.4	4.8	5.0	5.3	5.5
Consumer prices (end of period)	2.6	2.3	0.4	2.5	2.5	2.5	2.5
Consumer prices (period average)	1.3	2.3	1.9	2.5	2.5	2.5	2.5
	(In percent of GDP)						
Investment and Saving							
Gross capital formation	35.3	34.3	34.7	35.3	35.3	35.4	35.5
Of which: Nongovernment	29.7	30.0	29.5	30.7	29.9	29.9	30.1
Gross national savings	25.6	27.1	27.2	28.8	29.7	30.6	31.3
Of which: Nongovernment	25.9	26.8	25.9	27.6	26.8	26.9	27.0
	(In percent of GDP)						
Public Finances							
Revenue	28.7	27.5	27.9	27.4	28.1	28.1	28.2
Expenditure	36.1	33.0	33.4	32.4	32.4	31.7	31.2
Budget balance	-7.3	-5.5	-5.4	-4.9	-4.3	-3.6	-3.0
Primary balance (excluding grants)	-5.0	-4.0	-3.6	-2.8	-2.7	-1.9	-1.4
Cyclically-adjusted primary balance (excl. grants)	-4.7	...	-3.4	-3.3	-2.6	-1.9	-1.4
Total government debt	60.2	61.8	61.7	62.5	62.4	61.5	60.1
	(Annual percentage change; unless otherwise indicated)						
Monetary Sector							
Credit to the private sector 3/	4.8	6.1	3.6	5.6	6.2	6.9	6.9
Base money	-0.5	11.5	9.8	4.6	5.5	6.5	6.0
Broad money	4.5	5.5	3.9	4.6	5.5	6.5	6.0
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.2	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)						
External Sector							
Exports of goods (in U.S. dollars, percentage change)	-0.8	3.3	1.8	9.1	7.3	7.0	6.3
Imports of goods (in U.S. dollars, percentage change)	1.6	0.7	0.7	6.8	5.2	5.1	5.2
Merchandise trade balance	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6
Current account excluding official transfers	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2
Current account including official transfers	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2
Foreign direct investment	2.4	3.2	2.9	2.9	3.0	3.1	3.1
Total external debt	29.8	31.3	30.9	31.5	31.6	30.6	29.2
Gross reserves (in billions of U.S. dollars)	17.5	18.7	19.3	20.0	21.1	22.4	23.7
In months of next year imports of goods and services	4.2	4.3	4.3	4.3	4.3	4.3	4.3
In percent of short-term external debt (on remaining maturity basis)	1251.8	1332.0	1374.5	1427.1	1508.7	1601.2	1691.2
Memorandum Items:							
Nominal GDP (in billions of U.S. dollars)	96.1	104.8	105.5	115.1	125.1	136.0	146.7
Unemployment rate (in percent)	9.0	8.9	8.9	...	...	...	...
Population (millions)	32.5	32.9	32.9	33.2	33.5	33.8	34.2
Net imports of energy products (in billions of U.S. dollars)	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9
Local currency per U.S. dollar (period average)	8.6	...	8.4	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.0	...	0.1	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in EBS/13/96.

2/ Revised macro framework.

3/ Includes credit to public enterprises.

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
January 31, 2014

Recent economic developments

In a continued unfavorable external environment, including sluggish growth in Europe, Morocco's main trading partner, and high international fuel prices, the Moroccan authorities succeeded in fully reversing the deterioration in the external and fiscal positions of 2012, making additional inroads toward external and fiscal sustainability, reducing vulnerabilities, and strengthening the economy's resilience and investor confidence. In the process, they have demonstrated unwavering commitment to macroeconomic stability and pro-growth structural reforms, and a high level of program ownership, which remained strong even during the prolonged transition to a new government coalition in mid-2013. The authorities are confident that Morocco's well-grounded political and social stability, strong fundamentals, and good track record of policy implementation remain unblemished, and will continue to underpin the achievement of their goals of high and inclusive growth and strong job creation.

Growth in 2013 is estimated at 4.8 percent, reflecting mainly the impact of good weather conditions on agricultural production, with non-agricultural GDP slowing down significantly since the fourth quarter of 2012, as a delayed impact of the recession in Europe. Inflation remained low at less than 2 percent. The deterioration in the current account deficit in 2012 was more than fully reversed, with the deficit declining from 9.7 percent of GDP to 7.4 percent. The very good performance of high value-added exports of emerging sectors, and broadly stable imports, including energy, along with an increase in tourism and workers' remittances and higher grants, more than offset the decline in phosphates products and other nonagricultural exports. With a significant increase in FDI, the reserve position strengthened further to 4.3 months of imports. Continued commitment to fiscal discipline and to reducing vulnerabilities, and reduced uncertainties after the change in the government coalition have helped strengthen confidence, as evinced by continued favorable market conditions and strong FDI, and recent signs of an economic recovery. The authorities are projecting growth to remain robust at 4 percent in 2014, under the assumption of an average agricultural production and a rebound in nonagricultural growth following stronger confidence and firmer external demand.

Fiscal consolidation

The authorities' commitment to fiscal consolidation has been demonstrated by their success in meeting the 5.5 percent of GDP deficit target for 2013 (the most recent outcome is 5.4 percent), notwithstanding the significant slowdown in nonagricultural GDP (which is crucial for tax revenue) and the 0.3 percent shortfall in grants compared to program projections. This is a remarkable achievement that put the fiscal stance back on track for meeting the authorities' medium-term deficit target of 3 percent of GDP by 2017. This improvement owed much to the measures taken by the authorities in mid 2012 and in 2013 to reduce the subsidy bill, as described in the following section, and to strong expenditure control, including on wages, goods and services, and investment spending. Despite slowing nonagricultural growth, the authorities took the bold decision in April 2013 to reduce the capital budget by 15 billion DH (25 percent of total new appropriations) to protect the deficit target, in view of the shortfall in tax revenue and larger-than-projected carry-over from 2012. However, despite the authorities' efforts to improve nontax revenue, and in view of continued shortfall in tax revenue and lower-than expected grants, they decided to moderate capital spending growth further to achieve the end-year deficit target by cancelling investment appropriations uncommitted by end-October. Nevertheless, total capital spending in 2013 was 1 percent of GDP higher than projected under the PLL-supported program, and declined only marginally compared to 2012, leading to improved budget composition.

The authorities are committed to reducing the fiscal deficit further to 4.9 percent of GDP in 2014. The 2014 budget includes measures aimed at broadening the tax base by gradually lifting tax exemption of large agriculture enterprises and bringing the informal sector into the tax net, reducing distortions in the VAT by addressing the issue of tax credits and gradually moving toward a two-rate VAT, and strengthening resources earmarked for social protection and cohesion. Continued control of current spending will allow for increased appropriations for priority social sectors, which account for 53 percent of the budget, and investment. Timely approval of the budget, despite the late formation of the new government, and the introduction of an adjuster to the capital budget to account for the size of carry-overs would smooth budget execution and reduce uncertainty for the private sector.

Reducing key fiscal vulnerabilities

Structural fiscal reforms, as described below, and the strengthening of budget monitoring and forecasting through greater internal coordination, and improved data availability in response to the 2012 fiscal outcome were instrumental in achieving the 2013 fiscal deficit target and significantly reducing vulnerabilities. The indicative character of wage appropriations and the unrestricted carry-over of capital budget appropriations were addressed by administrative order of the Head of Government for 2013. These measures were renewed for 2014.

The draft Organic Budget Law (OBL) was approved by the Council of Ministers on January 20, 2014, clearing the way for its submission to Parliament. Implementation of the new OBL is expected to be rolled over a 5-year period. The staff papers highlight the significant role that the new OBL will play in modernizing and strengthening the budget framework and reducing vulnerabilities, including those mentioned above. The papers also indicate areas where the draft could be improved to strengthen the framework further. The authorities are grateful to FAD staff for their comments and suggestions in this regard. They intend to take the opportunity of the discussion of the draft in parliament to draw on these comments and suggestions toward aligning the new OBL with best international practices, with due consideration to Morocco's constitutional and other constraints.

The subsidy system is another key vulnerability that the authorities are successfully addressing. As no consensus could be reached on transforming the universal subsidies into a system of cash transfers, they developed a new strategy that appeared more politically and socially acceptable. It combines a reduction of vulnerabilities through partial indexation of some petroleum products; elimination of subsidies on the least socially sensitive ones and gradual reduction for others, with an appropriate safety net to protect the poor and; the extension of existing conditional social support programs focused on education and basic health. In this regard, the authorities wish to underscore that the reduction of subsidies to 4.7 percent of GDP in 2013, down from 6.6 percent in 2012, was not exclusively nor even primarily due to international price declines as indicated in the report, but most notably to the domestic price hikes in 2012-13, combined with the price indexation mechanism, including their impact in moderating consumption, and improved availability of hydroelectric and other non-fuel energy. The ongoing investments in solar and wind energy and the re-adaptation of thermal power plants to coal will help reduce oil dependency. The authorities' policies, including the measures taken this January and those already publicly announced for 2014, will bring the subsidy bill to the budgeted level of 3.7 percent of GDP this year. They remain confident that their medium-term objective of bringing untargeted subsidies down to 3 percent of GDP will be met.

Other structural fiscal reforms

With regard to tax reform, and as indicated above, the authorities have started implementation of the key recommendations of the national conference on taxation (Assises Fiscales) held last April, with the objective of simplifying the system, broadening the tax base, and enhancing equity and competitiveness. In this regard, the gradual introduction of agriculture in the tax net, starting this year, is a milestone, although its revenue implications are likely to be modest in the short term.

The parametric reforms of the main public pension system have been identified, as indicated in the Written Communication. Implementation is to start under the next budget to be followed by a more comprehensive reform of the system. Finally, the authorities' objective of bringing down the wage bill to 11 percent of GDP in the medium term is on track and should be helped by the planned reform of the civil service with World Bank assistance, which should also improve efficiency, governance, and the quality of service delivery.

Monetary and financial policies

The outstanding performance of Bank Al-Maghrib (BAM) in maintaining low inflation over the past three decades, and Morocco's resilience to recent global turbulence, attest to the appropriateness of the current monetary regime under the exchange rate peg. The small overvaluation of the dirham calculated by staff has been reduced further and should not guide policies in view of the high degree of uncertainty in such calculations. Moreover, there is no sign of loss of competitiveness. On the contrary, recent development in FDI-financed, high value-added exports provide evidence of improved competitiveness, as recognized by staff. The authorities are nevertheless considering moving to greater exchange rate flexibility along with the resulting adaptation of the monetary policy framework. They look forward to the upcoming TA mission to discuss options for an exchange rate policy that could better serve Morocco and the modalities for its implementation, along with the other policy requisites for such a move. Over the past several years, BAM has already significantly strengthened its analytical and forecasting capabilities and enhanced transparency of its decision making process, in preparation for an eventual move to a different monetary policy framework. In this regard, BAM is grateful to the Fund for its high quality technical assistance.

In 2013, BAM focused on filling the liquidity shortage created by the 2012 decline in foreign assets, and is extending refinancing facilities to banks to encourage credit to very small, small, and medium-sized enterprises. BAM considers that tighter credit conditions are not the main factor for lower credit growth. This slowdown is due mainly to subdued demand and a wait-and-see attitude resulting from uncertainties in Europe and the transition to a new government, even though banks were more vigilant in extending credit to some sectors faced with excess supply conditions, such as real estate.

The financial sector remains sound, with improved bank capitalization and profitability and reduced high loan exposures and connected lending. The moderate increase in NPLs reflects the slowing economic activity and is expected to be reversed soon. BAM is in the process of implementing Basel III requirements, as indicated in the staff papers. It is also closely monitoring the expansion of Moroccan banks in other countries in Africa in close cooperation with host supervisors.

Promoting high and more inclusive growth

Improving the business climate to achieve higher growth and employment is an overarching objective of the authorities. Their recent efforts in this area have translated into a gain of 27 places in Morocco's ranking under the Doing Business indicators between 2011 and 2014. The authorities are working actively toward further improving this rating, with some measures already included in the 2014 budget, as indicated above. A major reform of education has been prepared to help rationalize the system and upgrade human resources and skills, with implementation under way. The roadmap for a comprehensive reform of the justice system has been approved and its implementation has started. The introduction in 2014 of a limited unemployment benefit financed by businesses and employees, with an initial limited contribution of the budget, should help reach consensus on greater labor market flexibility. Several active labor market policies and training initiatives are being reinforced to help employability and reduce unemployment, in particular among the young, with much of the focus in this area on supporting SMEs. Several initiatives are also being launched to better integrate the informal sector into the modern economy. In this regard, the authorities were surprised by the indication in Figure 3 that the informal sector in 2008 in Morocco was the highest among selected 18 advanced and emerging market countries, reaching some 45 percent. A survey conducted by the independent Planning Commission estimated this share at 14.3 percent in 2007, down from 16.3 percent in 1999.

The authorities do not share staff view in paragraph 15, based on the Global Competitiveness Report, that inefficient bureaucracy and governance issues are the most binding constraints on competitiveness, growth and jobs. The issue of inefficient bureaucracy and its impact on competitiveness has never been raised by staff, during Art IV consultation discussions. On the contrary, on several occasions, staff recognized the high quality and efficiency of Moroccan civil service.

Social inclusion and equity

The authorities consider that reducing poverty and exclusion, and addressing social and regional inequality are crucial for long-term development. Major inroads have been made toward meeting the MDGs, with absolute poverty reduced by more than half in two decades (from 21 percent in 1985 to 8.9 percent in 2007), primary education enrollment rate doubled to almost 100 percent, and significant reduction in illiteracy and improvements in women and child health as well as other indicators. The coverage of RAMED (basic health services for the underprivileged) has already reached 5.5 million people, 2/3 of the targeted population, and the TAYSSIR program provides financial assistance to almost half a million poor families to keep their young children at school. The National Initiative for Human Development plays a crucial role in reducing social and regional disparities by improving access to infrastructure and social services, in particular in rural and remote areas, enhancing capacity, and promoting income generating activities benefiting 2½ million people. The recently established Fonds de Cohesion Sociale is in charge of mobilizing resources to support assistance programs for the poor, and will play a coordinating role for similar programs. Its coverage was extended under the 2014 budget to vulnerable widows and physically challenged persons.

PLL Review

Policy implementation under the PLL-supported program since the second review has significantly strengthened, and the authorities succeeded in meeting the program targets for 2013. The indicative target for NIR for end-October was largely exceeded. The indicative target for the fiscal deficit was exceeded by 0.3 percent of GDP only because the announcement of an upcoming cancellation of capital appropriations unused by end-October led to an unexpected but temporary acceleration of payment orders in the week that preceded the cancellation.

The PLL has been very helpful in providing a valuable insurance against external shocks during a period of international turbulence and in a difficult environment marked by high oil and other commodity prices and weak growth in Europe. It anchored the authorities' program at a time of uncertainty in connection with the change in the government coalition, helped identify and address vulnerabilities, and provided a signal of the strength of policies. It also helped access international financial markets at very favorable terms and, although it was treated by the authorities as precautionary, it catalyzed other foreign assistance.

My authorities are grateful to the Fund staff, management, and Board for their support, and to other international financial institutions and the donor community, in particular the GCC countries, for their assistance. The authorities believe that Morocco continues to meet the PLL qualification and the four exceptional access criteria. They request Board approval of their request for completion of the third and last review under the PLL and confirmation of Morocco's continued qualification for the facility. They are committed to fully implement their program and will continue to treat the PLL as precautionary.

The authorities believe that the PLL still has a very useful role to play for countries like Morocco with sound fundamentals, but faced with some vulnerabilities. In the case of Morocco, uncertainty about the pace and timing of the recovery in Europe and about future oil, food and other commodity prices, and possible renewed financial turbulence will continue to pose risks that the PLL could help to mitigate in support of the authorities adjustment and reform efforts.