INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/146

MOROCCO

June 2017

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

In the context of the First Review Under the Arrangement Under the Precautionary and Liquidity Line, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 12, 2017, following discussions that ended on December 1, 2016, 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 May 1, 2017.
- A **Statement by the Executive Director** for Morocco.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/169
FOR IMMEDIATE RELEASE
May 15, 2017

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

IMF Executive Board Concludes the First Review under the Precautionary and Liquidity Line Arrangement for Morocco

- Improving the business climate and governance, competitiveness, access to finance, and labor market policies will be essential to increase potential growth and reduce persistently high unemployment levels
- The Moroccan authorities stated their intention to continue treating the arrangement as precautionary

On May 12, 2017, the Executive Board of the International Monetary Fund (IMF) completed the first review under the Precautionary and Liquidity Line (PLL) Arrangement and reaffirmed Morocco's continued qualification for the PLL.

The two-year PLL arrangement for Morocco in the amount of SDR 2.504 billion (about US$3.42 billion) was approved by the IMF's Executive Board in July 2016 (see Press Release No. 16/355). The Moroccan authorities stated their intention to continue treating this PLL arrangement as precautionary. It has provided insurance against external risks and supported the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. The arrangement will expire on July 21, 2018.

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

"Morocco's sound economic fundamentals and overall strong record of policy implementation have contributed to a solid macroeconomic performance in recent years. The external position remained strong in 2016, as international reserves further increased despite a higher-than-expected current account deficit. While fiscal developments were less favorable than expected, this was due in part to slower growth and accelerated value-added tax reimbursements. Growth is expected to rebound in 2017 and accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation.

"This outlook remains subject to significant downside risks, including from weak growth in Morocco's main trading partners, geopolitical risks, and global policy uncertainty. In this context, Morocco's PLL Arrangement with the IMF continues to serve as valuable insurance against external risks and supports the authorities' economic policies.

“The authorities are committed to further reducing fiscal and external vulnerabilities while strengthening the foundations for higher and more inclusive growth. Building on progress made in recent years, further fiscal consolidation is needed and should be based on continued expenditure control, a comprehensive approach to enhance revenues, civil service reform, careful implementation of fiscal decentralization, and strengthened oversight of state owned enterprises. Adopting the central bank law and continuing to implement Financial Sector Assessment Program recommendations will help strengthen the financial sector policy framework. Moving toward a more flexible exchange rate regime will help preserve external competitiveness and enhance the economy’s capacity to absorb shocks. Finally, improving the business climate and governance, competitiveness, access to finance, and labor market policies is essential to raise potential growth, reduce persistently high unemployment levels, especially among the youth, and increase female labor participation.”

INTERNATIONAL MONETARY FUND

MOROCCO

FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

May 1, 2017

EXECUTIVE SUMMARY

Context. Macroeconomic vulnerabilities have declined since 2012, but growth remains sluggish and sensitive to volatile agricultural output. External imbalances are contained. The fiscal deficit declined between 2012–15, but the fiscal and external year-end objectives were missed in 2016. Following a protracted political transition, which led to a delay in the completion of this review, the new government has now confirmed its commitment to resume fiscal adjustment and meet key program objectives, including bringing public debt to about 60 percent of GDP by 2020. The outlook is subject to elevated risks, including fragile recovery in the euro area and geopolitical risks in the region. On the domestic side, reducing unemployment rates, and achieving higher and more inclusive growth remain key challenges.

PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board in the context of the 2016 Article IV consultation, and considering the new government's strong commitment to sound policies and reforms agreed under the PLL arrangement, staff considers that Morocco continues to meet the PLL qualification criteria and recommends the completion of this review:

- Morocco's economic fundamentals and policy frameworks are sound, the country is implementing (and has a track record of implementing) sound policies, and remains committed to maintaining such policies in the future.

- Staff assesses that Morocco continues to meet the PLL qualification criteria and performs strongly in four out of the five areas of PLL qualification (external, monetary, financial, and data), does not substantially underperform in the fifth area (fiscal), and does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.

- The September 2016 quantitative indicative targets (IT) were met. The end-March 2017 fiscal deficit IT was met, but the end-March 2017 reserves IT was missed due to the widening current account deficit since July 2016. The authorities have not drawn on the arrangement and continue to treat it as precautionary.

Approved By
Adnan Mazarei and Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean-Frédéric Noah, Anta Ndoye, Gregory Auclair (all MCD), and Sanaa Nadeem (SPR). The discussions took place in Rabat and Casablanca during November 16–December 1, 2016, and in Washington during the 2017 Spring Meetings. Geraldine Cruz (MCD) assisted in the preparation of the report.

The mission met with the Head of Government Mr. Benkirane; the Minister of Economy and Finance Mr. Boussaïd; the Minister of Industry, Trade, Investment, and e-Economy Mr. Elalamy; the Minister Delegate of General Affairs and Governance Mr. Louafa; the Governor of the Central Bank Mr. Jouahri; and other senior officials and representatives of the private sector and civil society. Mr. Daïri (OED) participated in most meetings.

CONTENTS

TABLES

APPENDIX

Glossary

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

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in July 2016** in the amount of SDR 2.504 billion (or 280 percent of quota), equivalent to US$3.556 billion. The arrangement supports the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. The 2016 Article IV consultation with Morocco was concluded on January 23, 2017. Executive Directors welcomed the authorities' strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

2. **Following the October 2016 elections and a protracted transition, a new coalition government was appointed in early April 2017**. On March 17, 2017, the King appointed a new Prime Minister, Saad-Eddine El Othmani, from the Islamist Justice and Development Party (PJD) that won the majority of seats in the October 2016 parliamentary elections. The new cabinet was appointed on April 5, 2017. Policy continuity is expected, as the new coalition consists mostly of the same political parties as in the previous government. The completion of the first review has been delayed beyond end-January due to the absence of a cabinet capable to advance bills in Parliament.

3. **Macroeconomic conditions have improved in recent years, but higher and more inclusive growth is needed, including to reduce unemployment.** The authorities have reduced domestic and external imbalances. Inflation remains low and inflation expectations are well-anchored. Progress has been made in upgrading the fiscal and financial policy frameworks, and structural reforms have helped improve the business environment and access to finance for small and medium-sized enterprises (SMEs). Nevertheless, external risks are still elevated and achieving higher and more inclusive growth will require continued strong policies and reforms.

4. **Growth slowed significantly in 2016.** Growth is estimated to have reached 1.1 percent, against 4.5 percent in 2015, due to a sharp slowdown in agriculture (given a negative base effect following record agricultural production in 2015 and a drought) and subdued non-agricultural activity. The unemployment rate decreased to 9.4 percent in 2016, from 9.7 percent in 2015, while youth unemployment increased to 22.5 percent in 2016 from 20.8 percent in 2015.

5. **The external position remains strong despite a larger current account deficit than expected in 2016 (Box 1).** The current account deficit is estimated to have reached 4.4 percent of GDP in 2016, more than that expected at the PLL request stage. This was due to stronger capital equipment and food imports, and to the impact of lower phosphate prices that offset otherwise robust export growth. Nevertheless, the current account has been strengthening from its level of 9.3 percent of GDP in 2012, due mainly to lower oil prices and strong export growth in emerging sectors, such as automobiles, while steady foreign direct investment (FDI) inflows (averaging 2.5 percent of GDP), international bond issuances, and trade credit supported the capital account. As a result, international reserves exceeded the end-September indicative target, and reached

6.6 months of imports or 99 percent of the standard IMF Assessing Reserve Adequacy (ARA) metric (129 percent when adjusted for capital controls) at the end of 2016.

6. Although the fiscal deficit was higher than projected at the end of 2016, data for the first quarter of 2017 show that fiscal performance is improving. The end-September 2016 indicative target under the PLL arrangement was met (deficit of 2.6 percent of GDP against an indicative target of 2.7 percent). For 2016 the latest estimate is that the deficit was 4.1 percent of GDP, almost the same level as in 2015, but higher than the authorities' objective of 3.5 percent of GDP, and associated with an increase in the structural fiscal deficit. This outcome was primarily due to a revenue shortfall related to lower-than-expected growth and to accelerated VAT reimbursements (to ease SME financing constraints), while increased capital spending (to support growth) was offset by lower current spending. For the first quarter of 2017, preliminary data show strong tax revenue performance (9 percent increase y-o-y, despite much lower grant revenues than expected), at least partially recouping the shortfall observed in 2016, and leading to a fiscal deficit below the end-March program target.

Box 1. Fiscal and External Data Revisions for end-2016

Data for end 2016, made available in late January, differ from estimates at the time of the 2016 Article IV consultation, which were based on end-September 2016 data. The key changes are a fiscal deficit of 4.1 percent of GDP in 2016 (against an estimated 3.5 percent), and a current account deficit of 4.4 percent of GDP (against an estimated 2.9 percent).

Fiscal deficit. The higher-than-expected fiscal deficit at end-2016 was the result of:

- Tax revenue shortfalls, including lower-than-expected income tax revenues (especially after October 2016) and VAT revenues (partially explained by accelerated VAT reimbursements).
- Higher capital spending due to stronger project execution in a low growth environment.
- Higher subsidies, including to public transportation.
- Significantly lower current spending, especially on wages, goods and services, and grants.

Fiscal Developments in 2016
(In percent of GDP)

	Art. IV Projections	Latest data	Change
Revenue	26.7	26.2	-0.5
Taxes	22.0	21.5	-0.5
Grants	0.9	1.0	0.1
Other revenue	3.8	3.8	0.0
Expense	25.1	24.7	-0.4
Compensation of employees	12.1	11.9	-0.2
Use of goods and services and grants	7.4	7.0	-0.4
Interest	2.7	2.7	0.0
Subsidies	1.2	1.4	0.2
Other expenses	1.8	1.7	-0.1
Net acquisition of nonfinancial assets	5.2	5.7	0.5
Overall balance	-3.5	-4.1	-0.6
Overall balance excluding grants	-4.5	-5.1	-0.6

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

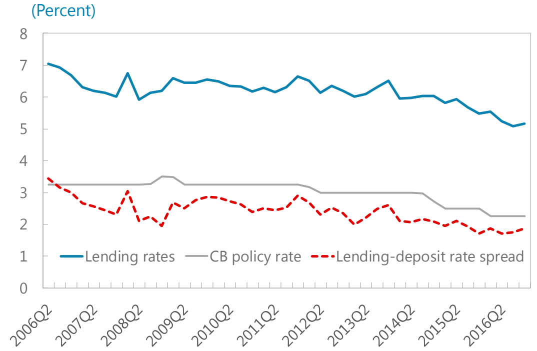
External accounts. The higher-than-expected current account deficit was due to a larger-than-projected trade deficit, mainly caused by factors that are expected to be temporary:

- Imports increased because of higher imports of capital goods (to support infrastructure projects) and food products (due to the drought).
- Export growth slowed, reflecting weaker-than-expected phosphate prices, while non-phosphate exports remained robust.
- Remittances and tourism receipts remained strong.

Overall, reserves continued to increase in 2016, reaching just under 100 percent of the ARA metric, due mostly to higher external borrowing by private sectors.

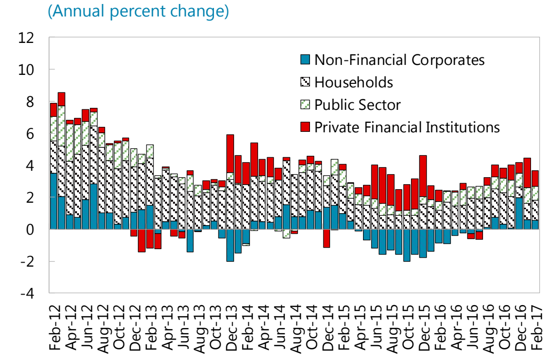
7. Monetary policy remains accommodative. Average inflation was about 1.6 percent in 2016. Since Bank-Al-Maghrib (BAM) reduced its policy rate to 2.25 percent in March 2016, lending rates have declined and credit growth has recovered to 4.2 percent by December 2016 (y-o-y), driven by household (mortgage and consumption) and investment lending. Real estate prices have declined gradually in recent years. Banks are well capitalized, but rising non-performing loans (NPLs), credit concentration risks, and rapid expansion in Sub-Saharan Africa (SSA) are sources of concern. Banks' Tier 1 capital ratio stood at 13.7 percent in 2016. NPL ratios, at 7.5 percent at the end of 2016, are practically unchanged from 2015, and provisioning levels are comfortable. Large exposure risks persist despite stricter limits than Basel III. The expansion of Moroccan banks in SSA opens new channels of risk transmission given the riskier environment, but cross-border supervision continues to be strengthened.

Bank Lending Rates and Interest Margin
(Percent)



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

Contribution to Credit Growth
(Annual percent change)



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

8. Building on recent progress, reforms are expected to focus on the fiscal and financial policy frameworks, the exchange rate regime, and structural improvements to raise potential growth (Table 1):

- **Fiscal policy framework.** Recent progress includes the implementation of the new organic budget law (OBL) and the adoption of the pension reform. Over the medium term, continued efforts are needed to reduce public debt to about 60 percent of GDP by 2020 and to increase fiscal buffers, including: accelerating tax reforms in line with recommendations from the 2013 national tax conference, including measures to boost VAT revenues and reduce tax exemptions (e.g., in the agricultural sector); better enforcing tax payments by the self-employed and liberal professions; ensuring sound public financial management at the local level as part of fiscal decentralization; pursuing comprehensive civil service reform; and enhancing financial oversight of state-owned enterprises (SOE).

- **Financial sector policy framework**. The authorities continue to implement the 2015 FSAP recommendations, including by increasing supervisory capacity. The new central bank law, which will strengthen the central bank's independence and clarify its role for financial stability, is expected to be approved by parliament in 2017.

- **Exchange rate regime**. The authorities have entered the final preparatory phase for the introduction of greater exchange rate flexibility, which is expected to be gradual and to start by mid-2017. Staff is collaborating closely with the authorities on all key operational aspects of the transition.

- **Business environment, access to finance, and labor market**. Progress has continued in these reform areas, including recently on property registration, setting up a business, and limiting payment delays in the public sector. The authorities are also pursuing reforms to improve access to finance, including by strengthening credit information systems and collateral frameworks. However, the authorities still need to appoint the members of the Competition Council. Progress is also needed on implementing the national strategy to fight corruption, and the national strategy for employment adopted in 2015 should now be followed by a specific action plan. Finally, improving the quality of education, adjusting labor market regulations, and increasing female labor force participation remain essential priorities to support job creation, particularly for the youth, and to promote more inclusive growth.

Reform Priorities and Implementation Under Successive PLL Arrangements 1/

	Fiscal Sector	Monetary/Financial Sector	Structural Issues
2012–14 arrangement	• Subsidies reform: indexation of gasoline and fuel products • Social safety nets strengthened	• AML/CFT regime improved	• Adoption of new Competition law • Creation of council to coordinate business environment reforms • Launch of judicial system reforms
2014–16 arrangement	• Adoption of the Organic budget law • Subsidies reform: full elimination of energy subsidies (except butane gas)	• Adoption of the banking law • New macroprudential policy framework introduced • Creation of new supervisory authority for insurance, pensions, and capital markets	• Simplification of range of administrative procedures and improvements to business environment • Adoption of national strategies for employment and against corruption
2016-18 arrangement	• Adoption of pension reform • *Accelerating tax reforms* • *Ensuring sound public financial management in fiscal decentralization* • *Pursuing comprehensive civil service reform* • *Enhancing financial oversight of SOEs*	• *Introduction of greater exchange rate flexibility* • *Adoption of the central bank law* • *Enhancements to crisis management and resolution frameworks*	• *Appointment of Competition Council members* • *Implementation of national strategies for employment and against corruption* • *Framework law to implement strategic vision for education*

1/ The previous two PLL arrangements with Morocco were during 2012–14 and 2014–16.
Note: Ongoing reforms are in italics.

OUTLOOK AND RISKS

9. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term:

- **Growth** is expected to rebound to 4.5 percent in 2017, reflecting a strong pick up in agricultural output (given a positive base effect following the 2016 drought) and a slow recovery of non-agricultural activity. Over the medium term, growth should stabilize at around 4.6 percent, subject to steadfast reform implementation, including agricultural sector modernization, and continued implementation of structural reforms to improve the business climate and boost productivity.

- **Inflation** is expected to remain moderate at 1.1 percent in 2017 due to a decline in domestic food prices (following their sharp increase in 2016), in the context of an appropriately accommodative monetary policy. It is projected to stabilize around 2 percent over the medium term.

- The **current account deficit** should narrow to about 3.3 percent of GDP in 2017, and remain in the 1.5–2 percent of GDP range thereafter. This would reflect: (i) continued export growth, including in the higher value-added emerging sectors and due to recovering phosphate prices; (ii) steady imports, with slowly rising oil prices, and continuing investment-related imports; and (iii) declining grant revenues. FDI inflows are projected to remain robust, helping to raise the reserves position to around 8 months of imports, or 119 percent of the standard ARA metric (157 percent of the adjusted metric) in the medium term.

- The overall **fiscal deficit** is expected to decline to 3.5 percent of GDP in 2017 and to stabilize at 2.1 percent of GDP in the medium term, consistent with the authorities' objective to reduce public debt to about 60 percent of GDP by 2020. The 2017 budget is expected to be approved during the April 2017 parliamentary session. The upward revision of the fiscal deficit in 2017 (0.5 percent of GDP higher) relative to the PLL request reflects a combination of lower revenues (1.4 percent of GDP, due mostly to a projected decline in various non-tax revenues, including interest income on treasury special accounts), lower current spending (1.1 percent), and higher capital spending (0.2 percent). The higher capital spending projection reflects the authorities' intention to reduce public investment spending only gradually from their 2016 level, to protect the slow growth recovery in non-agricultural sectors. These revisions require a small adjustment to the end-September indicative target for the fiscal deficit (see below). Achieving the medium-term deficit objectives will require expeditious measures to enhance tax revenues (as noted above), continued efforts to contain current spending, and identifying contingency measures to cope with a possible grant revenue shortfall.

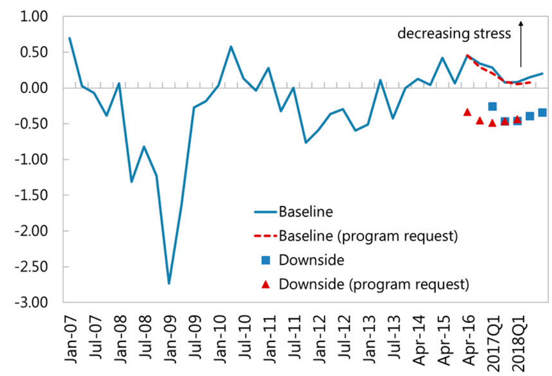
10. The balance of risks remains tilted to the downside. Weak growth in the euro area could slow economic activity through lower exports, tourism, FDI flows, and remittances, worsening fiscal and external imbalances; geopolitical risks could increase oil price volatility and reduce tourism activity and weaken investor confidence; tighter, more volatile financial conditions, global policy uncertainty, and a retreat from cross-border integration could impact global growth, increase borrowing costs, lead to reduced trade and capital flows, and weaken consumer and investor confidence more generally. On the upside, continued lower energy prices would help further narrow external and fiscal imbalances. Also, agricultural sector growth in 2017 may be stronger than expected, which could lead to improvements in fiscal revenues and in the public deficit for 2017.

Box 2. External Stress Index

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

Risks. The main external risks for Morocco based on the July 2016 Global Risk Assessment Matrix (G-RAM), are: (i) a protracted period of slow growth in advanced economies, particularly in Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) heightened geopolitical risks resulting in higher oil prices and dislocations to capital flows and tourism receipts; and (iii) a surge in global financial market volatility, resulting in higher borrowing costs and disruption to portfolio flows.

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates.

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

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

---

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

Box 2. External Stress Index (concluded)

Baseline scenario. The baseline corresponds to the April 2017 World Economic Outlook (WEO) projections for euro area growth and oil prices, while the VXEEM is consistent with volatility index (VIX) futures as of April 21, 2017. The graph suggests that at the current juncture, external economic stresses have marginally declined relative to the July 2016 request (solid lines). This reflects higher oil price path assumptions being largely offset by stronger EA growth and improved VXEEM index projections.

Downside scenario. The downside scenario is broadly consistent with staff's adverse scenario, and assumes euro area growth that is one percentage point lower than the baseline, a US$15 increase in oil prices relative to the baseline, and an increase in the VXEEM by two standard deviations. The graph suggests that in a downside scenario, external economic stresses are broadly comparable to those at the July 2016 request.

Overall assessment. The external economic stress index for Morocco suggests that external pressures under the baseline have abated in recent years. However, the model does not include a proxy for geopolitical risk (given the difficulty in choosing such a variable). At present, this would suggest a relatively more heightened stress index.

REVIEW OF PLL QUALIFICATION

11. Staff's assessment is that Morocco continues to qualify for a PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board during the 2016 Article IV consultation, and although additional information since then indicates that certain indicators for 2016 were not as strong as expected, staff's assessment is that Morocco meets the PLL qualification criteria.

A. General Assessment

12. Morocco's economic fundamentals and institutional policy frameworks are sound, the country is implementing, and has a track record of implementing, sound policies, and it remains committed to doing so in the future.

- **Macroeconomic developments are broadly positive.** While fiscal developments in 2016 were less favorable than expected, this was due to slower growth and accelerated VAT reimbursements, which do not reflect major policy shortcomings. On the external front, reserves have further increased despite a higher than expected current account deficit (due in part to temporary factors). The banking system has remained stable. Over the medium term, economic growth is expected to gradually increase in a context of low inflation. Both public and external debts are sustainable.

- **The authorities have implemented sound policies.** During the 2016 Article IV consultation in January, the Executive Board welcomed the authorities' continued strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

- **The authorities remain committed to maintaining sound policies.**[1] Public finances are expected to improve in 2017. This would reflect stronger economic growth, but also the new government's commitment to maintain the key parameters introduced in the draft budget law (submitted to parliament last October but not yet adopted), and to take the necessary measures to meet the fiscal objectives (W-COM.-¶4). In the medium term, the new government also remains committed to reducing public debt to 60 percent of GDP by 2020, which will require bringing the fiscal deficit to about 2.1 percent of GDP. The authorities intend to pursue further structural reforms to raise potential growth and promote higher and more inclusive growth, including by improving competitiveness and the business environment, and through increased investment in human capital.

- **Increasingly flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** On the fiscal front, the new OBL is enhancing budgetary procedures and practices, and was instrumental in maintaining current spending below budgeted levels in 2016. More broadly, the authorities met their fiscal objectives in recent years by taking swift corrective action in the face of unforeseen grant revenues shortfalls (except in 2016). During the transition to the new government, and pending the approval of the 2017 budget by parliament, public expenditures and revenue collection have been ruled by decrees passed by the Head of Government. Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs well in the fiscal policy area.[2] Morocco scores lower in the monetary policy area, but this indicator is less relevant for Morocco given its pegged exchange rate regime. Furthermore, Bank al-Maghrib (BAM) has a clear mandate for implementing monetary and exchange rate policies, and the authorities now intend to upgrade the monetary policy regime as part of the transition to greater exchange rate flexibility and inflation targeting.[3] Lastly, Morocco is in the mid-range of the World Bank's anti-corruption and government effectiveness ranking.

13. Overall, Morocco continues to meet the qualification criteria for a PLL arrangement and to perform strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other qualification area (fiscal policy). Morocco has sound economic and institutional policy frameworks, is implementing, and has a track record of implementing, sound policies, and remains committed to maintaining such policies in the future (W-COM.-¶1).

---

[1] The new government presented its economic program to parliament in mid-April 2017. Reform priorities remain fully consistent with earlier commitments under the PLL arrangement, and indicate an increased focus in certain key structural areas, such as judicial and education reforms.

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

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

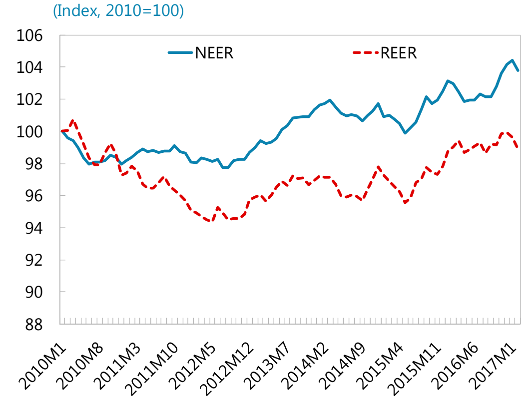
B. Assessment of Specific Criteria

14. Morocco performs strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy) and does not substantially underperform in the other area (fiscal policy).

External position and market access: *Morocco performs strongly in the external position and market access area.*

- ***Criterion 1. Sustainable external position.*** The trade deficit has declined between 2012 and 2015, due to decreasing international oil prices and stronger, more diversified export growth, and the reduction in domestic macroeconomic imbalances. In 2016, the trade deficit widened due primarily to temporary factors related to infrastructure development, the drought, and weaker-than-expected phosphate prices. However, the structure of the current account has strengthened: emerging sectors now account for 33 percent of total exports, relative to 14 percent in 2000, and strong tourism and remittance receipts continue to support improvements in the current account. This pattern is expected to continue over the medium term as (i) exports rise, boosted by increasing external demand and the expansion of newer, higher value-added export sectors, while (ii) import growth remains moderate in an environment of moderate commodity prices and a gradual shift to more renewable energy use, and (iii) tourism receipts strengthen, tapping new markets. The real effective exchange rate is broadly in line with fundamentals based on the recent external balance assessments (EBA).[4] The external debt sustainability analysis provided in the 2016 Article IV report shows that Morocco's external debt has increased but remains relatively low, at about 33 percent of GDP at end-2016. Furthermore, it is expected to decline to about 25 percent of GDP over the medium term, and to remain sustainable and robust to standard stress tests. Finally, the introduction of greater exchange rate flexibility would help enhance the economy's competitiveness and capacity to absorb shocks.

Real and Nominal Effective Exchange Rates, 2009-2017
(Index, 2010=100)



Sources: IMF INS database. Estimates based on relative CPI.

[4] The current account approach suggests a current account gap in 2016 of -3.6 percent of GDP above the norm, equivalent to an REER overvaluation of about 12 percent. However, there is a substantial unexplained residual (-4.2 pp), which coincides with observed one-off factors such as increased food and capital goods imports. Notably, over the last few years, the current account gap has been narrowing, due mainly to smaller fiscal policy gaps. The external sustainability approach suggests an undervaluation of 10 percent, but this estimate is very sensitive to the net foreign assets benchmark used. Finally, the REER approach suggests an undervaluation of 4.6 percent, with the gap nearly entirely driven by the unexplained residual; furthermore, the underlying series on the home bias variable is limited, which affects the robustness of the estimate. Keeping into account the overall trend of exchange rate assessments, one-off factors, and uncertainties associated with each of the methods, staff assesses that, on balance, the dirham is broadly aligned with fundamentals.

- ***Criterion 2—Capital account position dominated by private flows.*** Private capital flows constitute the largest share of the capital account (about 82 percent), and FDI is their largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 11.1 percent of total debt or 3.9 percent of GDP). Loans from bilateral and development partners constitute the bulk of public capital flows.

- ***Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms.*** Morocco has issued international bonds at favorable terms, aided by the global low interest rate environment, and plans to continue tapping into such markets periodically. The government raised EUR 1 billion in June 2014, and the National Phosphate Company (OCP) issued a US$1 billion Eurobond in April 2015. Each issuance benefited from low spreads and long maturities, reflecting the confidence placed in Morocco by market participants: sovereign spreads narrowed between 2011 and 2016, and the average maturity of public external debt has been extended to 8 years and 6 months currently (against 7 years and 4 months in 2009).

- ***Criterion 4—A reserve position, which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.*** Morocco's international reserves are now comfortable by several metrics (Figure 5): nearly 7 months of imports, ample coverage of short-term debt and broad money, 99 percent of the standard ARA metric, and 129 percent of the metric adjusted for capital controls at the end of 2016 (against 95 percent and 124 percent at the end of 2015, respectively). By 2022, reserves are expected to increase further to about 8 months of imports, 118 percent of the standard ARA metric, and 156 percent of the metric adjusted for capital controls.

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

- ***Criterion 5—Sound public finance, including a sustainable public debt position.*** The authorities remain committed to a sustainable fiscal path and a track record of sound public finances. A deficit of 3.5 percent of GDP is projected in 2017 and the authorities aim to reduce public debt to 60 percent of GDP by 2020 (against 65.1 percent of GDP in 2016) (W-COM.-¶4), which will require bringing the fiscal deficit to about 2.1 percent of GDP in the medium term. Public debt is sustainable and resilient to various shocks and vulnerabilities despite high gross financing needs, which should decline due to a lengthening of average maturities (from 6 years and 6 months in 2014 to 7 years and 5 months in 2016). Following reforms to rein in public spending in recent years, future fiscal consolidation needs to rely more on accelerated tax reforms, building on a comprehensive approach to broaden the tax base, reduce exemptions, boost VAT revenues, and improve corporate taxation. Continued civil service reform will also help to generate long-term savings on public wage spending. Fiscal decentralization should ensure sound public financial management at the regional level and preserve fiscal sustainability. To that effect, the authorities have started to implement key institutional mechanisms and checks and balances, while expressing interest in Fund TA support. Finally, the draft law to reinforce the governance and oversight of SOEs should be submitted to parliament in the near-term.

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

- ***Criterion 6—Low and stable inflation.*** Morocco maintains moderate and stable inflation, and this is expected to continue in the medium term, with inflation expectations being well anchored. As part of the transition to greater exchange rate flexibility, the authorities aim to gradually shift to an inflation targeting regime (W-COM.-¶12). This will allow the economy to better absorb external shocks. Staff and the authorities agree that this transition is likely to proceed smoothly given that pre-conditions are largely in place and Morocco will move from a position of strength, including: increased fiscal and external buffers; financial sector resilience; exchange rate alignment with fundamentals; limited FX risk exposures in the economy; and an estimated moderate pass-through of exchange rate movements to consumer prices.

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

- ***Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability.*** Banks have adequate capital buffers and benefit from stable funding (mainly non-remunerated deposits). NPLs have been rising since 2012 but remain moderate, credit concentration risks remain significant despite strict regulatory limits and declining aggregate exposure, and Moroccan banks' expansion into Sub-Saharan Africa opens new channels of risk transmission. However, provisioning levels are high and increasing, and the 2015 FSAP stress tests showed that the banking system could withstand severe shocks associated with prolonged weak growth in advanced economies and greater global financial market volatility.

- ***Criterion 8—Effective financial sector supervision.*** Bank supervision is effective and the 2015 FSAP recommendations to strengthen it further are being implemented. Along with the introduction of stricter capital and provisioning requirements, the authorities are enhancing the macroprudential policy framework. The oversight of Moroccan banks expanding into sub-Saharan Africa has been strengthened considerably, including in close collaboration with supervisory agencies in host countries (W-COM.-¶11).

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

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

OTHER PROGRAM ISSUES

15. The end-September 2016 quantitative indicative targets (IT) for the fiscal deficit and net international reserves (NIR) were met. In addition, the end-March 2017 fiscal deficit IT was met without adjustments, and with a substantial margin once the adjustor for grants is considered. However, the end-March 2017 NIR IT (set at the time of the PLL request) was missed by a margin of US$1.1 billion (or 4 percent of the adjusted target), reflecting the widening current account deficit since July 2016 (by nearly US$3 billion at end-2016).

16. The end-September 2017 IT for the fiscal deficit and NIR have been set. Specifically, the fiscal deficit IT accounts for the higher fiscal deficit expected in 2017 relative to the program request. The end-September 2017 NIR IT reflects a slower increase in reserve accumulation due to the impact of temporary factors in 2016-17 (such as higher capital equipment and food product imports) and to a higher path of oil prices relative to the PLL request stage. However, reserves are still expected to remain at comfortable levels.

17. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 7).[5] Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent only a small share of Morocco's total external debt (a maximum of 8.1 percent over the projection period), debt service (21 percent), gross international reserves (13.4 percent), and exports (9.7 percent). 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.

18. The 2015 assessment found a robust safeguards framework with strong control mechanisms at the central bank. Bank al-Maghrib (BAM) has implemented all but two recommendations from that assessment: strengthening the BAM law in the areas of autonomy and governance, and implementing International Financial Reporting Standards (IFRS). The authorities have drafted a new central bank law which will be submitted to Parliament in mid-2017. Following a feasibility study carried out by BAM with the assistance of an audit firm, BAM decided to maintain the current accounting standards, and instead improve financial statement disclosures to enhance transparency.

19. Given projected improvements in Morocco's fiscal and external positions in the baseline, the authorities will need to define and communicate their exit strategy in due course. Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be on a downward path, while the current account deficit would be close to what would be expected for an emerging market country like Morocco, and reserves would have reached a comfortable level (just under 100 percent of the Fund's standard ARA metric; 129 percent of the adjusted metric). The authorities will need to define

[5] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL request, reserves may be 25 percent lower and exports 6 percent lower, suggesting peak IMF credit ratios of 17.9 percent and 10.3 percent instead of 13.4 percent and 9.7 percent in the table. These considerations suggest caution in interpreting Table 7, but do not materially impact staff's current view of Morocco's capacity to repay.

and communicate their exit strategy, accounting for the continued strengthening in the economy's buffers and policy space, as well as remaining reforms and the exchange rate transition (as articulated in W-COM.-¶15), in conjunction with the evolution of relevant global and regional external risks (for example, improved euro area growth prospects and lower geopolitical risks).

STAFF APPRAISAL

20. The program remains on track. In recent years, external imbalances have been contained and the fiscal deficit has declined. As noted, the end-September 2016 indicative targets were both met. However, fiscal consolidation was paused in 2016, and to meet the authorities' objective of reducing public debt to 60 percent of GDP by 2020, it will be essential to resume fiscal consolidation, and in particular to reach the fiscal deficit targets of 3.5 and 3.0 percent of GDP in 2017 and 2018, respectively.

21. Accelerated reforms are needed to strengthen macroeconomic resilience and reach higher and more inclusive growth. Reforms to strengthen the policy and institutional frameworks are advancing. The authorities intend to transition to a more flexible exchange rate regime this year, which will help preserve competitiveness and improve the resilience of the economy. Further fiscal reforms are needed to provide more space to support growth and social spending for the most vulnerable. This will require: a comprehensive approach to enhance public revenues, including by broadening the tax base and reducing exemptions; civil service reform to generate long-term savings on public wage spending; careful implementation of fiscal decentralization; and, strengthened SOE oversight. Adopting the amended central bank law and implementing the 2015 FSAP recommendations will help strengthen the financial sector policy framework. Finally, continued efforts to improve the business climate are essential, including reducing payment delays, promoting competition, addressing corruption, facilitating SME access to finance, reducing unemployment levels, and increasing women's participation in the labor force.

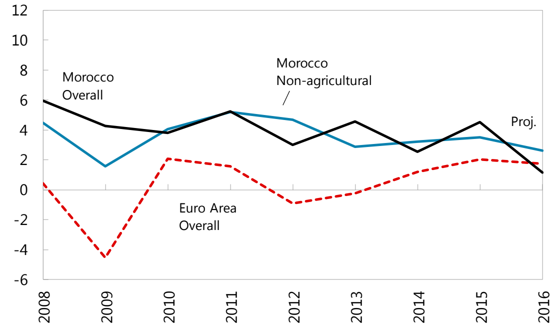
22. Morocco continues to meet the PLL qualification criteria. The IMF Executive Board's assessment in the context of the 2016 Article IV consultation was positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco performs strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other qualification area (fiscal policy). The protracted transition to a new coalition government led to some delays in policy implementation in 2016–17, but it has not affected the authorities' commitments to sound policies under the program and Morocco's continued PLL qualification.

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

Figure 1. Morocco: Real and External Developments

Economic activity slowed significantly in 2016.

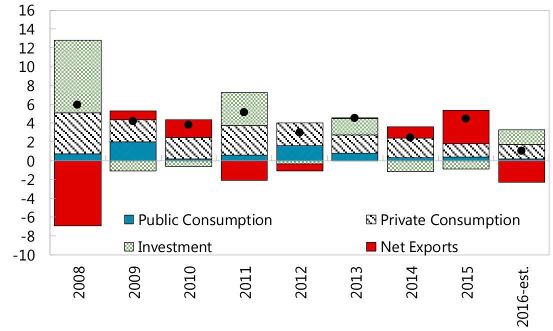
Morocco and Euro Area Growth
(Annual percent change)



Sources: WEO.

Domestic demand was the main driver of growth in 2016.

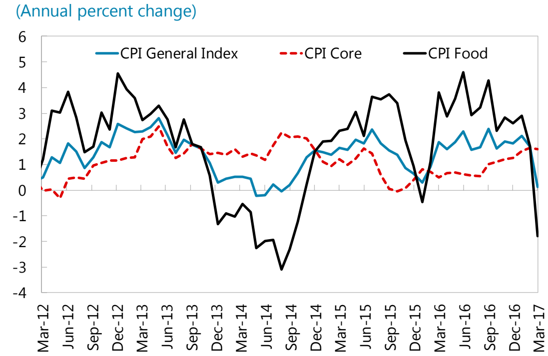
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Core inflation remains moderate and food prices are declining

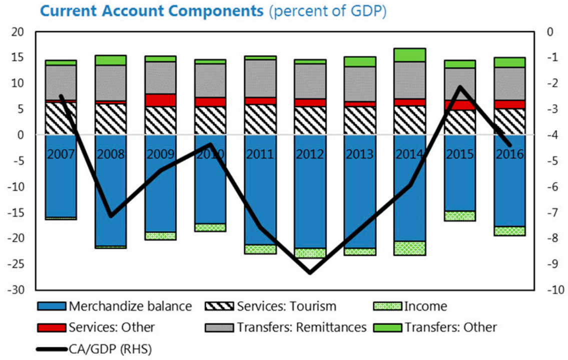
Inflation
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

The trade and current account deficits widened despite stable tourism and remittance receipts.

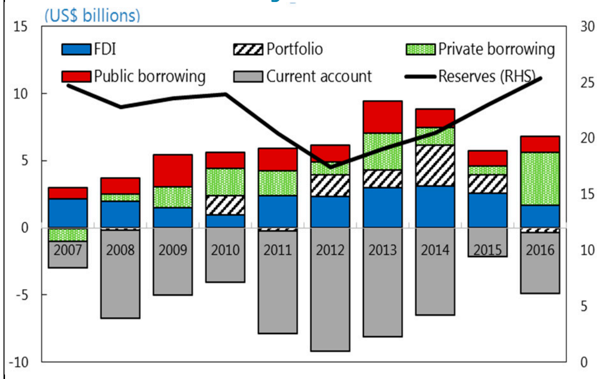
Current Account Components (percent of GDP)



Sources: National authorities; and IMF staff estimates.

As FDI declined, private borrowing comprised a large share in the current account financing mix.

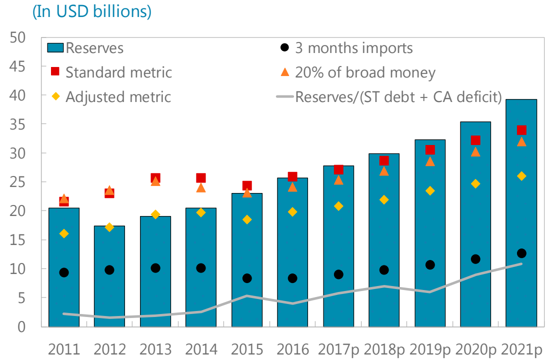
Current Account Financing
(US$ billions)



Sources: National authorities; and IMF staff estimates.

Morocco's reserves coverage has further improved along all reserve adequacy metrics.

Morocco: Reserve Adequacy Metrics
(In USD billions)

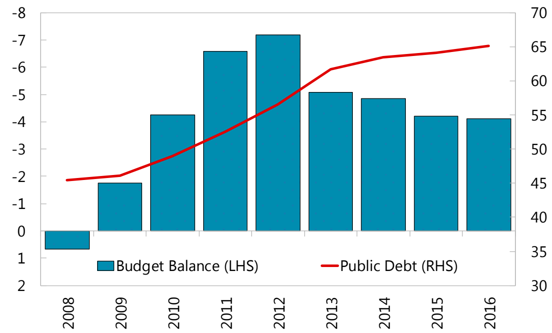


Sources: National authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments

Fiscal consolidation stopped in 2016.

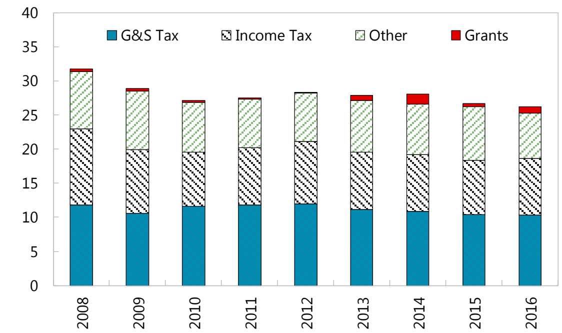
Budget Balance and Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Public revenues have weakened.

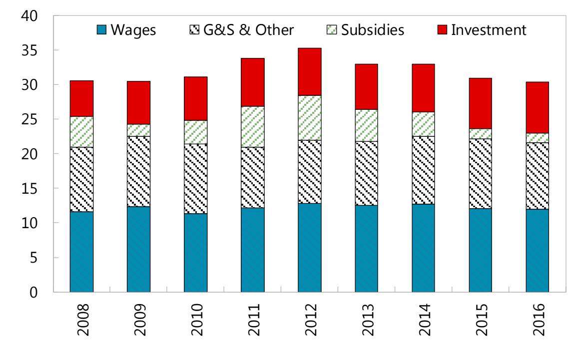
Government Revenue
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Public expenditures are well contained.

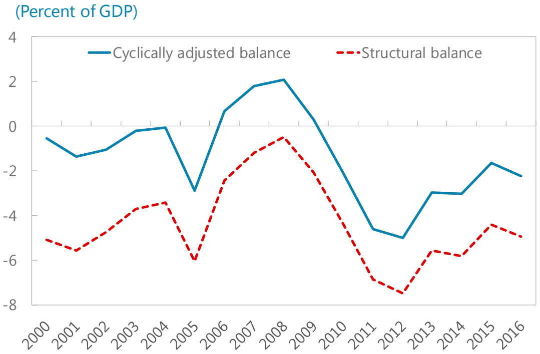
Government Expenditure
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

The cyclical and structural fiscal balances have deteriorated.

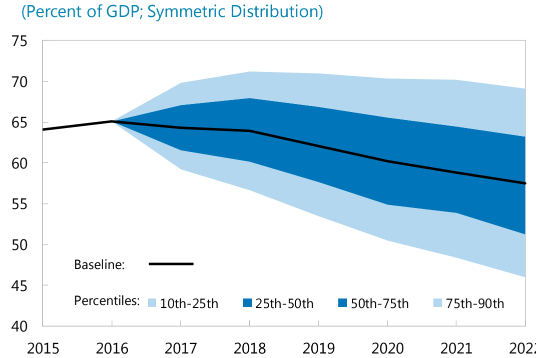
Cyclical and Structural Balance
(Percent of GDP)



Sources: IMF staff estimates.

Public debt is sustainable and projected to decline gradually.

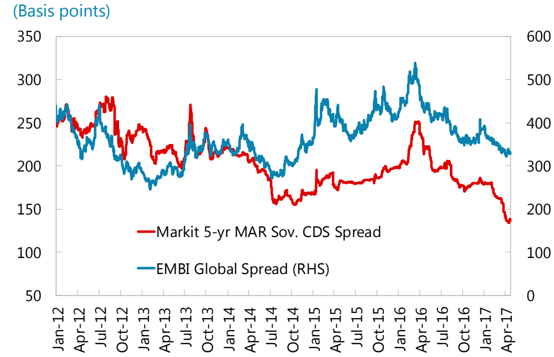
Evolution of Predictive Densities of Gross Nominal Public Debt
(Percent of GDP; Symmetric Distribution)



Sources: DSA; and IMF staff estimates.

Sovereign spreads declined in 2016.

CDS Spreads
(Basis points)



Sources: Bloomberg; and Markit.

Table 1. Morocco: Selected Economic Indicators, 2012–22

	2012	2013	2014	2015	2016 PLL 1/	2016 Art. IV	2016 Rev.	2017 PLL 1/	2017 Art. IV	2017 Rev.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
	(Annual percentage change)														
Output and Prices															
Real GDP	3.0	4.5	2.6	4.5	1.8	1.5	1.1	4.8	4.4	4.5	3.0	4.1	4.2	4.5	4.6
Real agriculture GDP	-9.1	17.2	-2.2	12.8	-10.5	-9.8	-9.8	13.7	10.8	13.9	-0.3	6.6	6.4	6.4	6.8
Real non-agriculture GDP	4.7	2.9	3.2	3.5	3.5	3.0	2.6	3.6	3.5	3.2	3.5	3.7	3.9	4.2	4.3
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.2	1.5	1.8	1.3	1.2	1.1	1.7	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.3	1.6	1.6	1.3	1.2	1.1	1.7	2.0	2.0	2.0	2.0
	(In percent of GDP)														
Investment and Saving															
Gross capital formation	35.0	34.8	32.2	30.2	30.2	31.2	31.3	30.7	32.1	32.3	33.3	34.0	34.5	34.7	35.6
Of which: Nongovernment	29.6	29.8	26.8	24.7	25.2	26.0	25.6	25.7	27.4	27.1	27.7	28.2	28.6	28.6	29.3
Gross national savings	25.7	27.2	26.3	28.1	29.0	28.3	26.9	29.3	29.8	29.0	30.6	31.5	32.5	33.4	34.6
Of which: Nongovernment	26.1	25.8	24.3	25.0	25.8	25.0	23.7	25.0	26.7	25.9	26.1	26.1	26.7	27.1	27.9
	(In percent of GDP)														
Public Finances															
Revenue	28.0	27.8	28.1	26.7	26.9	26.7	26.2	27.5	26.0	26.1	26.9	27.6	27.8	27.9	28.0
Expenditure	35.2	32.9	32.9	30.9	30.4	30.2	30.4	30.5	29.1	29.6	29.9	30.1	29.9	30.1	30.2
Budget balance	-7.2	-5.1	-4.9	-4.2	-3.5	-3.5	-4.1	-3.0	-3.0	-3.5	-3.0	-2.5	-2.1	-2.1	-2.1
Primary balance (excluding grants)	-4.8	-3.2	-3.6	-1.9	-1.9	-1.8	-2.4	-1.3	-1.4	-1.8	-1.4	-0.4	-0.1	-0.4	-0.3
Cyclically-adjusted primary balance (excl. grants)	-5.0	-3.0	-3.0	-1.6	-1.8	-1.6	-2.2	-1.3	-1.3	-1.8	-1.3	-0.3	-0.1	-0.7	-0.9
Total government debt	56.5	61.7	63.5	64.1	64.4	64.3	65.1	63.8	63.8	64.3	63.9	62.1	60.2	58.9	57.5
	(Annual percentage change; unless otherwise indicated)														
Monetary Sector															
Credit to the economy	4.8	3.8	2.5	2.0	4.5	4.8	4.3	...	5.1	6.5	...	...	...	...	...
Base money	-0.5	9.0	6.2	5.7	5.5	6.0	5.0	...	6.0	6.0	...	...	...	...	...
Broad money	4.5	3.1	6.2	5.7	5.5	6.0	5.0	...	6.0	6.0	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	0.8	...	0.8	0.8	...	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	2.5	...	...		...	...	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)														
External Sector															
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	4.4	3.0	2.9	6.7	5.4	5.9	6.6	7.6	7.6	7.7	7.5
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	9.6	6.5	3.9	2.8	4.8	5.0	5.8	6.1	5.9
Merchandise trade balance	-22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-17.2	-14.4	-15.8	-16.7	-16.4	-15.6	-15.2	-14.9	-14.4
Current account excluding official transfers	-9.6	-8.3	-7.7	-2.6	-2.3	-3.8	-5.3	-2.3	-3.3	-4.3	-3.6	-2.7	-2.1	-1.5	-1.0
Current account including official transfers	-9.3	-7.6	-5.9	-2.2	-1.2	-2.9	-4.4	-1.4	-2.3	-3.3	-2.7	-2.5	-1.9	-1.3	-1.0
Foreign direct investment	2.4	2.8	2.8	2.6	2.5	2.0	1.6	2.4	2.1	1.8	2.2	2.3	2.4	2.5	2.5
Total external debt	28.5	29.3	33.4	34.1	32.6	32.8	34.8	32.1	31.9	35.1	34.7	33.9	34.0	33.1	33.2
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	26.7	25.7	25.4	30.2	27.6	26.3	28.1	30.3	33.4	37.5	42.3
In months of next year imports of goods and services	4.3	4.6	6.0	6.1	7.1	6.8	6.6	7.6	6.9	6.5	6.6	6.7	7.0	7.3	8.5
In percent of Fund reserve adequacy metric 2/	75.6	74.3	79.9	94.7	102.8	99.5	99.4	109.6	101.7	97.6	98.7	100.5	104.8	111.1	119.3
In percent of CA deficit and ST debt at rem. mat. basis	156.5	188.7	247.5	523.3	697.6	463.0	388.0	846.7	605.7	468.2	557.0	613.3	761.6	988.8	1249.7
Memorandum Items:															
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	109.9	100.6	104.9	103.6	102.96	111.1	106.6	105.0	109.4	115.6	122.4	129.6	137.3
Output gap (percentage points of non-agricultural GDP)	0.9	-0.8	-0.3	1.0	...	-2.0	-2.0	...	0.8	0.8	-0.9	0.1	0.0	0.0	1.0
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	...	...	...	...	...	...	...	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.8	33.8	33.8	34.2	34.2	34.2	34.5	34.8	35.1	35.4	35.7
Population growth (in percent)	1.04	1.02	0.99	0.98	0.97	0.97	0.97	0.95	0.95	0.95	0.95	0.93	0.92	0.90	0.88
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.0	-6.8	-5.7	-5.7	-5.6	-6.4	-6.4	-6.3	-6.4	-6.5	-6.7	-6.9	-7.0
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3	2.3	...	...	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ Based on revised ARA weights.

Table 2. Morocco: Budgetary Central Government Finance, 2012–22
(Billions of dirhams)

					Proj.										
					PLL 1/	Art. IV	Rev.	PLL 1/	Art. IV	Rev.					
	2012	2013	2014	2015	2016			2017			2018	2019	2020	2021	2022
Revenue	237.7	250.0	259.3	262.1	273.3	270.4	264.9	294.2	275.9	275.9	296.9	320.8	342.5	365.2	389.3
Taxes	202.7	200.7	203.8	208.9	220.5	222.9	217.4	236.0	231.8	231.8	251.8	282.0	301.6	321.9	344.9
Taxes on income, profits, and capital gains	77.4	75.7	76.3	78.6	84.6	85.4	83.6	89.7	89.1	89.1	99.1	113.4	119.5	127.2	135.6
Taxes on property	11.6	11.7	13.9	14.1	15.1	15.1	14.3	16.3	15.7	15.7	18.2	19.1	20.2	21.3	22.5
Taxes on goods and services	99.0	100.0	100.7	102.0	106.9	106.9	104.2	115.1	111.8	111.8	119.7	134.0	145.5	155.9	168.2
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	8.3	9.9	9.5	9.0	9.3	9.3	8.9	9.2	9.8	10.4	11.1
Other taxes	5.4	5.2	4.7	6.1	5.6	5.6	5.9	5.9	5.9	5.9	6.0	6.3	6.7	7.1	7.5
Grants	0.5	6.1	13.8	5.0	11.6	9.3	9.7	10.0	9.8	9.8	9.9	1.5	1.5	1.5	0.0
Other revenue	34.6	43.2	41.7	48.3	41.2	38.2	37.9	48.2	34.3	34.3	35.3	37.3	39.4	41.8	44.4
Expense	252.5	250.0	254.5	248.5	258.3	253.7	249.1	272.9	257.2	257.4	268.0	282.6	295.9	313.1	331.3
Compensation of employees	108.9	112.8	117.3	118.5	125.3	122.2	120.6	131.2	125.2	125.2	130.1	131.8	135.3	138.7	140.7
Of which: wages and salaries	96.7	99.0	101.6	103.0	106.8	104.4	104.3	111.0	106.7	106.7	108.2	109.9	111.8	113.5	115.5
social contributions	12.2	13.7	15.7	15.5	18.6	17.8	16.3	20.2	18.5	18.5	21.8	21.9	23.5	25.2	25.2
Use of goods and services and grants	56.6	59.3	65.0	72.0	74.6	74.6	70.6	79.5	76.1	76.1	81.0	90.3	99.1	109.4	119.0
Of which: Use of goods and services	20.9	21.5	23.6	25.4	26.3	26.3	26.6	28.1	26.2	26.2	28.2	29.8	32.6	33.6	34.3
Grants	35.6	37.8	41.4	46.6	48.3	48.3	43.9	51.4	49.9	49.9	52.9	60.5	66.5	75.8	84.7
Interest	20.7	23.3	25.6	27.3	28.3	27.1	27.1	27.9	27.6	26.9	27.1	26.8	25.7	24.5	25.7
Subsidies	54.9	41.6	32.6	14.0	11.7	11.7	14.1	9.6	14.6	14.6	8.8	9.3	9.9	10.5	11.1
Other expenses 2/	11.5	13.0	13.9	16.8	18.3	18.0	16.8	24.6	13.7	14.7	20.9	24.4	25.9	30.1	34.7
Net acquisition of nonfinancial assets	46.1	45.7	49.7	54.8	51.0	52.5	57.3	53.6	50.8	54.9	61.7	67.5	72.7	79.7	87.5
Net lending / borrowing (overall balance)	-60.9	-45.7	-44.9	-41.2	-36.0	-35.8	-41.5	-32.3	-32.1	-36.5	-32.7	-29.4	-26.1	-27.7	-29.4
Net lending / borrowing (excluding grants)	-61.3	-51.8	-58.7	-46.2	-47.6	-45.1	-51.2	-42.3	-41.9	-46.3	-42.6	-30.9	-27.6	-29.2	-29.4
Change in net financial worth	-60.9	-45.7	-44.9	-41.2	-36.0	-35.8	-41.5	-32.3	-32.1	-36.5	-32.7	-29.4	-26.1	-27.7	-29.4
Net acquisition of financial assets	-3.3	0.0	-2.5	0.0	0.0	1.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	0.0	-2.5	0.0	0.0	1.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.5	0.0	0.0	1.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	57.6	45.7	42.4	41.2	36.0	36.8	40.0	32.3	32.1	36.5	32.7	29.4	26.1	27.7	29.4
Domestic	42.3	30.7	33.1	40.9	33.6	33.6	37.2	35.5	30.0	29.0	31.0	26.8	11.8	24.4	6.5
Currency and Deposits	3.2	-5.9	17.0	0.7	10.0	12.0	5.5	4.0	-8.0	8.0	4.0	4.0	4.0	4.0	4.0
Securities other than shares	45.6	47.7	20.4	42.9	23.6	21.6	23.7	31.5	22.0	21.0	26.9	22.8	7.8	20.4	2.5
Other accounts payable	-6.4	-11.1	-4.2	-2.7	0.0	0.0	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	15.2	15.0	9.3	0.3	2.4	3.2	2.8	-3.2	2.2	7.5	1.8	2.6	14.3	3.2	22.9
Memorandum Item:															
Total investment (including capital transfers)	57.5	58.7	63.6	71.6	69.3	70.5	74.1	78.2	64.5	69.6	82.6	92.0	98.5	109.8	122.2
GDP	847.9	897.9	923.7	982.2	1,017.2	1,012.7	1,009.8	1,071.0	1,060.1	1,055.2	1,101.9	1,164.2	1,231.9	1,306.9	1,388.4

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

1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.

2/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2012–22

(Percent of GDP)

	2012	2013	2014	2015	2016 PLL 1/	2016 Art. IV	2016 Rev.	2017 PLL 1/	2017 Art. IV	2017 Rev.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Revenue	28.0	27.8	28.1	26.7	26.9	26.7	26.2	27.5	26.0	26.1	26.9	27.6	27.8	27.9	28.0
Taxes	23.9	22.3	22.1	21.3	21.7	22.0	21.5	22.0	21.9	22.0	22.9	24.2	24.5	24.6	24.8
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.3	8.4	8.3	8.4	8.4	8.4	9.0	9.7	9.7	9.7	9.8
Taxes on property	1.4	1.3	1.5	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.7	1.6	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.4	10.5	10.6	10.3	10.7	10.5	10.6	10.9	11.5	11.8	11.9	12.1
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.8	1.0	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Other taxes	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.7	1.5	0.5	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.1	0.1	0.1	0.0
Other revenue	4.1	4.8	4.5	4.9	4.0	3.8	3.8	4.5	3.2	3.3	3.2	3.2	3.2	3.2	3.2
Expense	29.8	27.8	27.6	25.3	25.4	25.1	24.7	25.5	24.3	24.4	24.3	24.3	24.0	24.0	23.9
Compensation of employees	12.8	12.6	12.7	12.1	12.3	12.1	11.9	12.3	11.8	11.9	11.8	11.3	11.0	10.6	10.1
Of which: wages and salaries	11.4	11.0	11.0	10.5	10.5	10.3	10.3	10.4	10.1	10.1	9.8	9.4	9.1	8.7	8.3
social contributions	1.4	1.5	1.7	1.6	1.8	1.8	1.6	1.9	1.7	1.8	2.0	1.9	1.9	1.9	1.8
Use of goods and services and grants	6.7	6.6	7.0	7.3	7.3	7.4	7.0	7.4	7.2	7.2	7.4	7.8	8.0	8.4	8.6
Of which: Use of goods and services	2.5	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	2.6	2.6	2.5
Grants	4.2	4.2	4.5	4.7	4.7	4.8	4.4	4.8	4.7	4.7	4.8	5.2	5.4	5.8	6.1
Interest	2.4	2.6	2.8	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.3	2.1	1.9	1.9
Subsidies	6.5	4.6	3.5	1.4	1.2	1.2	1.4	0.9	1.4	1.4	0.8	0.8	0.8	0.8	0.8
Other expenses 2/	1.4	1.5	1.5	1.7	1.8	1.8	1.7	2.3	1.3	1.4	1.9	2.1	2.1	2.3	2.5
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.6	5.0	5.2	5.7	5.0	4.8	5.2	5.6	5.8	5.9	6.1	6.3
Net lending / borrowing (overall balance)	-7.2	-5.1	-4.9	-4.2	-3.5	-3.5	-4.1	-3.0	-3.0	-3.5	-3.0	-2.5	-2.1	-2.1	-2.1
Net lending / borrowing (excluding grants)	-7.2	-5.8	-6.4	-4.7	-4.7	-4.5	-5.1	-3.9	-4.0	-4.4	-3.9	-2.7	-2.2	-2.2	-2.1
Change in net financial worth	-7.2	-5.1	-4.9	-4.2	-3.5	-3.5	-4.1	-3.0	-3.0	-3.5	-3.0	-2.5	-2.1	-2.1	-2.1
Net acquisition of financial assets	-0.4	0.0	-0.3	0.0	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.0	-0.3	0.0	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.3	0.0	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.8	5.1	4.6	4.2	3.5	3.6	4.0	3.0	3.0	3.5	3.0	2.5	2.1	2.1	2.1
Domestic	5.0	3.4	3.6	4.2	3.3	3.3	3.7	3.3	2.8	2.7	2.8	2.3	1.0	1.9	0.5
Currency and Deposits	0.4	-0.7	1.8	0.1	-1.0	-1.2	0.5	0.4	-0.8	0.8	0.4	0.3	0.3	0.3	0.3
Securities other than shares	5.4	5.3	2.2	4.4	2.3	3.3	2.3	3.3	2.8	2.7	2.8	2.3	1.0	1.9	0.5
Other accounts payable	-0.8	-1.2	-0.5	-0.3	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	1.8	1.7	1.0	0.0	0.2	0.3	0.3	-0.3	0.2	0.7	0.2	0.2	1.2	0.2	1.6
Memorandum items:															
Total investment (including capital transfers)	6.8	6.5	6.9	7.3	6.8	7.0	7.3	7.3	6.1	6.6	7.5	7.9	8.0	8.4	8.8

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

1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.

2/ Includes capital transfers to public entities.

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

											Proj.				
					PLL 1/	Art. IV	Rev.	PLL 1/	Art. IV	Rev.					
	2012	2013	2014	2015	2016			2017			2018	2019	2020	2021	2022
Current account	-9.2	-8.1	-6.5	-2.2	-1.3	-3.0	-4.5	-1.5	-2.5	-3.5	-3.0	-2.9	-2.3	-1.7	-1.3
Trade balance	-21.9	-21.9	-20.6	-14.7	-15.0	-16.5	-17.7	-16.0	-16.8	-17.5	-17.9	-18.1	-18.6	-19.2	-19.8
Exports, f.o.b.	17.0	18.3	20.0	18.6	19.4	19.1	18.9	20.8	20.3	20.2	21.7	23.7	25.7	28.0	30.4
Food products	3.5	4.0	4.3	4.2	4.4	4.7	4.6	5.0	5.1	5.1	5.5	5.9	6.3	6.8	7.3
Phosphates and derived products	5.6	4.4	4.6	4.5	3.9	3.7	4.0	4.1	4.1	4.1	4.3	4.7	5.1	5.5	5.8
Automobiles	2.9	3.7	4.8	5.0	5.8	5.6	5.6	6.4	6.0	6.0	6.6	7.3	8.0	8.9	9.6
Imports, f.o.b.	-38.9	-40.2	-40.6	-33.3	-34.4	-35.6	-36.6	-36.8	-37.2	-37.7	-39.6	-41.8	-44.4	-47.2	-50.2
Energy	-12.4	-12.2	-11.0	-6.8	-5.7	-5.7	-5.6	-6.4	-6.4	-6.3	-6.4	-6.5	-6.7	-6.9	-7.0
Capital goods	-8.5	-9.8	-10.1	-9.6	-9.7	-10.6	-12.2	-10.0	-10.8	-11.7	-12.4	-13.2	-14.1	-15.0	-15.7
Food products	-4.8	-4.3	-5.0	-3.6	-4.5	-4.7	-4.5	-4.0	-4.8	-4.3	-4.7	-5.0	-5.3	-5.6	-5.9
Services	6.9	6.4	7.0	6.8	6.7	7.1	6.8	7.2	7.5	7.3	7.9	8.6	9.4	10.1	10.9
Tourism receipts	6.7	6.9	7.1	6.3	6.2	6.6	6.5	6.6	6.8	6.8	7.2	7.7	8.2	8.8	9.4
Income	-1.9	-1.3	-2.7	-1.9	-1.9	-1.9	-1.8	-2.0	-1.9	-1.7	-1.8	-1.8	-1.9	-1.9	-2.0
Transfers	7.7	8.7	9.7	7.7	8.9	8.4	8.2	9.2	8.8	8.4	8.8	8.4	8.9	9.4	9.7
Private transfers (net)	7.4	7.9	7.8	7.2	7.7	7.5	7.3	8.1	7.8	7.4	7.8	8.2	8.7	9.2	9.7
Workers' remittances	6.7	6.8	7.1	6.1	6.6	6.5	6.3	7.0	6.7	6.5	6.8	7.1	7.5	8.0	8.4
Official grants (net)	0.2	0.8	1.9	0.5	1.1	0.9	0.9	1.1	1.0	1.0	1.0	0.2	0.2	0.2	0.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.2	9.4	8.8	5.8	4.4	5.8	6.5	4.9	4.5	4.3	4.8	5.1	5.5	5.8	6.2
Direct investment	2.3	3.0	3.1	2.6	2.6	2.0	1.7	2.7	2.3	1.9	2.4	2.7	2.9	3.2	3.5
Portfolio investment	1.6	1.3	3.0	1.3	0.1	0.0	-0.3	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.2	5.1	2.7	1.8	1.7	3.7	5.1	1.1	2.1	2.3	2.2	2.3	2.5	2.5	2.6
Private	1.0	2.8	1.3	0.7	0.9	3.1	3.9	0.9	1.4	1.4	1.4	1.5	1.5	1.6	1.6
Public medium-and long-term loans (net)	1.3	2.4	1.4	1.2	0.8	0.6	1.2	0.2	0.7	1.0	0.8	0.9	1.0	0.9	0.9
Disbursements	2.9	4.1	3.2	2.8	2.6	2.6	3.2	2.6	2.5	2.8	2.8	2.8	2.8	2.8	2.8
Amortization	-1.6	-1.8	-1.8	-1.6	-1.8	-2.1	-2.1	-2.4	-1.8	-1.8	-1.9	-1.9	-1.8	-1.8	-1.8
Reserve asset accumulation (-increase)	3.3	-1.8	-2.9	-4.3	-3.1	-2.7	-2.8	-3.3	-2.0	-0.9	-1.8	-2.2	-3.1	-4.1	-4.8
Errors and omissions	-0.3	0.5	0.6	0.7	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
							(Percent of GDP)								
Current account	-9.3	-7.6	-5.9	-2.2	-1.2	-2.9	-4.4	-1.4	-2.3	-3.3	-2.7	-2.5	-1.9	-1.3	-1.0
Trade balance	-22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-17.2	-14.4	-15.8	-16.7	-16.4	-15.6	-15.2	-14.9	-14.4
Exports, f.o.b.	17.3	17.1	18.2	18.5	18.4	18.4	18.3	18.7	19.1	19.2	19.9	20.5	21.0	21.6	22.2
Food products	3.6	3.7	3.9	4.2	4.2	4.5	4.5	4.5	4.8	4.8	5.0	5.1	5.2	5.3	5.3
Phosphates and derived products	5.7	4.2	4.1	4.5	3.7	3.6	3.9	3.7	3.9	3.9	4.0	4.1	4.2	4.2	4.3
Automobiles	3.0	3.5	4.4	4.9	5.5	5.4	5.4	5.8	5.7	5.7	6.0	6.3	6.6	6.9	7.0
Imports, f.o.b.	-39.6	-37.7	-36.9	-33.1	-32.8	-34.4	-35.5	-33.1	-34.9	-35.9	-36.2	-36.1	-36.2	-36.5	-36.6
Energy	-12.6	-11.4	-10.0	-6.7	-5.5	-5.5	-5.4	-5.7	-6.0	-6.0	-5.9	-5.6	-5.5	-5.3	-5.1
Capital goods	-8.6	-9.1	-9.2	-9.5	-9.3	-10.3	-11.8	-9.0	-10.1	-11.2	-11.3	-11.4	-11.5	-11.6	-11.5
Food products	-4.9	-4.0	-4.5	-3.6	-4.3	-4.5	-4.4	-3.6	-4.5	-4.1	-4.3	-4.3	-4.3	-4.4	-4.3
Services	7.1	6.0	6.4	6.7	6.4	6.8	6.6	6.5	7.1	7.0	7.2	7.5	7.6	7.8	7.9
Tourism receipts	6.8	6.4	6.4	6.2	5.9	6.3	6.4	5.9	6.4	6.5	6.6	6.7	6.7	6.8	6.8
Income	-1.9	-1.2	-2.4	-1.9	-1.8	-1.9	-1.7	-1.8	-1.8	-1.7	-1.6	-1.6	-1.6	-1.5	-1.5
Transfers	7.8	8.1	8.8	7.6	8.5	8.1	8.0	8.3	8.2	8.0	8.1	7.3	7.3	7.2	7.0
Private transfers (net)	7.6	7.4	7.1	7.1	7.4	7.2	7.0	7.3	7.3	7.1	7.1	7.1	7.1	7.1	7.0
Workers' remittances	6.9	6.4	6.5	6.1	6.3	6.3	6.1	6.3	6.3	6.2	6.2	6.2	6.1	6.1	6.1
Official grants (net)	0.2	0.7	1.7	0.5	1.1	0.8	0.9	1.0	1.0	1.0	0.9	0.2	0.2	0.2	0.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	8.8	8.0	5.8	4.2	5.6	6.3	4.4	4.2	4.1	4.3	4.4	4.5	4.5	4.5
Direct investment	2.4	2.8	2.8	2.6	2.5	2.0	1.6	2.4	2.1	1.8	2.2	2.3	2.4	2.5	2.5
Portfolio investment	1.6	1.3	2.8	1.3	0.1	0.0	-0.3	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.3	4.8	2.4	1.8	1.6	3.6	5.0	1.0	2.0	2.2	2.1	2.0	2.0	1.9	1.9
Private 3/	1.0	2.6	1.2	0.7	0.9	3.0	3.8	0.8	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Public medium-and long-term loans (net)	1.3	2.2	1.2	1.2	0.8	0.5	1.1	0.2	0.6	0.9	0.8	0.8	0.8	0.7	0.7
Disbursements	2.9	3.9	2.9	2.8	2.5	2.5	3.1	2.3	2.4	2.7	2.5	2.4	2.3	2.1	2.0
Amortization	-1.6	-1.7	-1.6	-1.6	-1.7	-2.0	-2.0	-2.2	-1.7	-1.7	-1.8	-1.6	-1.5	-1.4	-1.3
Memorandum items:															
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	4.4	3.0	2.9	6.7	5.4	5.9	6.6	7.6	7.6	7.7	7.5
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	9.6	6.5	3.9	2.8	4.8	5.0	5.8	6.1	5.9
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.7	-2.6	-2.3	-3.8	-5.3	-2.4	-3.3	-4.3	-3.6	-2.7	-2.1	-1.5	-1.0
Terms of trade (percentage change) 2/	-12.4	-5.5	-1.3	10.8	3.0	1.6	1.9	-2.3	-2.7	-3.6	0.1	0.4	0.1	0.0	-0.1
Gross official reserves 3/	17.4	19.0	20.5	23.0	26.7	25.7	25.4	30.2	27.6	26.3	28.1	30.3	33.4	37.5	42.3
In months of prospective imports of GNFS	4.3	4.6	6.0	6.1	7.1	6.8	6.6	7.6	6.9	6.5	6.6	6.7	7.0	7.3	8.5
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	75.6	74.3	79.9	94.7	102.8	99.5	99.4	109.6	101.7	97.6	98.7	100.5	104.8	111.1	119.3
In percent of the adjusted Assessing Reserve Adequacy (ARA) metr	101.6	98.4	104.4	124.3	135.6	130.6	129.7	144.7	133.6	127.8	129.2	131.7	137.3	145.6	156.8
Debt service (percent of export of GNFS and remittances) 5/	6.5	7.0	6.7	6.9	6.8	7.7	7.8	7.9	8.0	6.8	6.5	5.9	5.4	4.9	4.6
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.1	30.6	30.4	30.3	30.9	29.9	29.5	31.0	30.5	29.6	29.6	28.7	29.1
DHs per US$, period average	8.6	8.4	8.4	9.8	...	...	...	...	...	...	...	...	...	...	...
GDP (US$)	98.3	106.8	109.9	100.6	104.9	103.6	103.0	111.1	106.6	105.0	109.4	115.6	122.4	129.6	137.3
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	52.4	43.1	44.0	44.0	50.0	53.5	56.3	55.9	55.0	54.9	55.5	56.6

Sources: Ministry of Finance; *Office des Changes*; and IMF staff estimates and projections.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ Based on WEO data for actual and projections.
3/ Excluding the reserve position in the Fund.
4/ Based on revised ARA weights.
5/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–17

						PLL 1/	Art. IV	Rev.	
	2011	2012	2013	2014	2015		2016		2017
				(Billions of dirhams)					
Net foreign assets	172.2	143.5	148.6	181.9	224.6	246.9	249.6	251.9	257.8
Of which: Gross reserves	175.4	146.7	155.3	185.6	227.9	253.9	254.6	256.1	264.8
Deposit money banks	1.7	2.7	-1.5	0.1	8.3	8.2	8.2	-1.5	-1.5
Net domestic assets	777.1	848.6	874.2	904.3	923.4	964.9	967.9	953.9	1,020.4
Domestic credit	798.3	855.0	906.5	920.1	940.0	976.5	972.2	971.3	1,012.1
Net claims on the government	102.1	125.4	149.3	143.7	148.0	147.5	142.4	145.1	132.6
Banking system	102.1	125.4	149.3	143.7	148.0	147.5	142.4	145.1	132.6
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-1.2	-1.4	-1.4	0.1	-0.1
Of which: deposits	-3.4	-4.5	-4.6	-4.6	-6.0	-6.2	-6.1	-4.9	-5.2
Deposit money banks	99.9	124.9	148.5	143.8	149.2	148.9	143.8	145.0	132.7
Credit to the economy	696.2	729.6	757.2	776.4	792.0	829.0	829.7	826.2	879.5
Other liabilities, net	23.0	9.0	30.7	15.8	24.9	11.5	4.2	15.9	-8.3
Broad money	949.3	992.2	1,022.8	1,086.2	1,148.0	1,211.8	1,217.6	1,205.8	1,278.1
Money	586.8	612.2	628.9	660.6	707.1	750.2	749.3	752.6	799.6
Currency outside banks	158.3	163.6	171.4	179.4	192.6	199.1	198.3	203.7	212.9
Demand deposits	428.5	448.5	457.6	481.2	514.4	551.0	551.0	548.8	586.7
Quasi money	340.9	354.7	370.8	390.7	401.7	417.7	417.7	410.0	426.4
Foreign deposits	21.6	25.3	23.1	35.0	39.3	43.9	50.6	43.2	52.1
				(Annual percentage change)					
Net foreign assets	-12.8	-16.6	3.5	22.4	23.5	13.0	11.5	12.1	3.5
Net domestic assets	12.4	9.2	3.0	3.4	2.1	4.4	4.7	3.3	7.0
Domestic credit	11.6	7.1	6.0	1.5	2.2	4.0	3.6	3.3	4.2
Net claims on the government	25.8	22.8	19.0	-3.7	3.0	0.0	-3.4	-1.9	-8.7
Credit to the economy	9.8	4.8	3.8	2.5	2.0	4.7	4.8	4.3	6.5
Banking credit	10.6	3.9	2.2	2.2	2.8	4.2	4.5	4.2	5.0
Broad money	6.4	4.5	3.1	6.2	5.7	5.5	6.0	5.0	6.0
				(Change in percent of broad money)					
Net foreign assets	-2.8	-3.0	0.5	3.3	3.9	2.6	2.3	2.4	0.7
Domestic credit	9.3	6.0	5.2	1.3	1.8	3.3	2.9	2.7	3.4
Net claims on the government	2.3	2.5	2.4	-0.5	0.4	0.0	-0.4	-0.2	-1.0
Credit to the economy	6.9	3.5	2.8	1.9	1.4	3.3	3.3	3.0	4.4
Other assets net	0.2	1.5	-2.2	1.5	-0.8	1.0	1.6	0.8	2.0
Memorandum items:									
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.86	0.84	0.83	0.84	0.83
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.75	0.74	0.73	0.74	0.72
Credit to economy/GDP (in percent)	84.9	86.0	84.3	84.1	80.6	81.5	81.9	81.8	83.3
Credit to economy/nonagricultural GDP (in percent	96.7	97.2	96.4	94.2	91.4	92.1	92.8	92.7	95.8

Sources: Bank Al-Maghrib; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265

Table 6. Morocco: Financial Soundness Indicators, 2008–16
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 Jun	2016 Dec
Regulatory capital 1/										
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.8	13.7	13.7 (*)	na
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.6	11.4	11.1 (*)	na
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.8	9.1	9.4	9.1
Asset quality										
Sectoral distribution of loans to total loans										
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3	18.5	18.5	17.4
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.5	3.5	3.3	3.3
Of which: textile	1.7	1.9	1.4	1.3	1.2	1.0	0.9	0.9	0.9	0.8
Of which: gas and electricity	3.3	2.9	3.9	4.5	4.8	4.7	6.1	6.3	6.3	6.2
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	3.9	4.4	4.1	3.9
Commerce	6.5	7.0	6.7	6.6	6.7	6.2	6.6	6.1	6.7	6.7
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.2	11.2	11.4	10.4
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4	2.1	2.1	2.0
Finance	13.1	12.5	12.1	11.9	11.0	12.7	11.6	13.4	11.8	12.8
Public administration	3.7	4.3	5.0	4.8	5.0	5.0	4.7	4.5	4.9	4.7
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7	4.2	4.6	4.3
Households	26.5	27.6	28.1	27.6	28.9	29.7	31.4	32.3	32.8	32.4
Other	4.4	5.4	5.4	5.5	6.4	5.1	4.2	3.3	3.1	5.4
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9	2.5	2.6	2.6
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0	91.0	91.0	91.0	90.5	90.0
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0	5.9	6.9	7.4	7.7	7.5
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64.0	65.0	68.0	67.0	69.0
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.2	17.8	18.4	17.6
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	327.0	341.0	294.0	302.0	na
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	6.8	7.0	7.2	5.8
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.3	1.4	1.7	1.4	0.6
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.8	4.5	5.0	5.1	5.2
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8	0.8	0.8	0.9
Profitability										
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0	1.0	0.9	0.8	1.1	na
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	10.2	9.1	11.7	na
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.1	3.8	3.8	na
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5	5.0	5.0	na
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.0	1.1	1.2	na
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74.0	68.9	72.0	67.9	na
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	46.1	49.1	43.9	na
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.9	1.9	1.9	na
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	47.6	47.4	47.6	na
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26.0	30.8	28.0	32.1	na
Liquidity										
Liquid assets to total assets	24.4	17.3	12.0	11.4	10.5	12.5	13.3	16.1	13.0	14.4
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	17.4	17.7	21.2	17.1	18.4
Deposits to loans	113.0	108.0	104.0	99.0	96.1	96.2	100.8	104.3	105.4	104.9
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	2.5	2.9	1.9	2.6
Sensitivity to market risk										
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	11.3	9.0	7.4	5.6	na

Source: Bank Al-Maghrib.
1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.
* Provisional figures calculated according to Basel III definition and transitional provisions.

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

		Proj.					
	2016	2017	2018	2019	2020	2021	2022
Exposure and repayments (in SDR million)							
GRA credit to Morocco	1,252.0	2,504.0	2,504.0	2,504.0	2,034.5	782.5	0.0
(In percent of quota)	140.0	280.0	280.0	280.0	227.5	87.5	0.0
Charges due on GRA credit	0.0	31.4	53.9	53.9	54.5	26.4	5.3
Principal due on GRA credit	0.0	0.0	0.0	0.0	469.5	1,252.0	782.5
Debt service due on GRA credit	0.0	31.4	53.9	53.9	524.0	1,278.4	787.8
Debt and debt service ratios							
In percent of GDP							
Total external debt	35.5	38.4	37.9	37.0	36.3	33.9	33.3
Public external debt	31.8	32.8	31.5	29.8	27.6	24.7	22.5
GRA credit to Morocco	1.7	3.4	3.2	3.1	2.3	0.9	0.0
Total external debt service	3.1	2.8	2.8	2.6	2.9	3.5	2.8
Public external debt service	2.0	1.8	1.9	1.7	2.1	2.8	2.2
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.6	1.4	0.8
In percent of gross international reserves							
Total external debt	144.2	153.3	147.7	141.1	133.0	117.4	108.1
Public external debt	128.9	131.0	122.7	113.8	101.2	85.6	73.2
GRA credit to Morocco	7.0	13.4	12.6	11.7	8.6	2.9	0.0
In percent of exports of goods and services							
Total external debt	109.6	120.1	123.0	126.0	131.1	130.8	137.1
Public external debt	98.0	102.5	101.9	101.3	99.2	95.1	92.8
GRA credit to Morocco	5.2	9.7	9.1	8.5	6.4	2.3	0.0
In percent of total external debt							
GRA credit to Morocco	4.7	8.1	7.4	6.7	4.9	1.7	0.0
In percent of public external debt							
GRA credit to Morocco	5.3	9.5	8.9	8.4	6.5	2.4	0.0
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	103.0	105.0	109.4	115.6	122.4	129.6	137.3
Gross international reserves (in billions of U.S. dollars)	25.4	26.3	28.1	30.3	33.4	37.5	42.3
Exports of goods and services (in billions of U.S. dollars)	34.3	36.3	38.7	41.6	44.8	48.2	51.8
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4

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

Appendix I. Written Communication

Rabat, Morocco
April 28, 2017

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

Dear Madame Lagarde:

1. Morocco has robust economic fundamentals and we continue to implement sound economic and financial policies to further strengthen the resilience of the economy and improve growth while making it more inclusive. We are committed to implementing the economic and financial policies described in our July 7, 2016 written communication in which we requested approval of the PLL arrangement.

2. Economic growth was affected by a particularly poor grain harvest, after a good performance in 2015, while non-agricultural growth remained moderate. Consequently, economic growth in 2016 was revised downward, and should be within the 1–1.5 percent range. The economy is expected to recover in 2017 and growth should increase to 4.5 percent, due primarily to a return of cereal production to a normal level and higher non-agricultural growth. Inflation remained moderate, at 1.6 percent in 2016, and should decrease to 1.1 percent in 2017. However, the unemployment rate in 2016 declined to 9.4 percent from 9.7 percent in 2015. Despite the strong performance of exports in emerging sectors, the current account deficit should increase to 4.4 percent of GDP in 2016 from 2.2 percent of GDP in 2015, due largely to a sharp increase in imports of capital goods and wheat, and lower phosphate exports. The current account deficit should narrow to about 3.3 percent of GDP in 2017, due to a good cereal harvest and the normalization of imports of capital goods. Foreign exchange reserves have continued to strengthen to reach nearly 7 months of imports in 2016 and are expected to increase further in the medium term.

3. Even though Morocco does not face external financing needs, the new PLL arrangement, approved on July 22, 2016, continues to provide useful insurance against external shocks while strengthening investor confidence. The improved fiscal situation and competitiveness, trade diversification and the ongoing accommodative monetary policy, along with a sound financial system, will also contribute to further strengthening the performance of the economy and its resilience. The authorities will continue to consider the PLL arrangement as precautionary and they intend to draw on it only if there are unforeseen exogenous shocks.

4. The final fiscal data for 2015 shows that the deficit was lower than previously announced, i.e., 4.2 percent of GDP instead of 4.4 percent, due to an upward revision of revenues. In 2016, despite less favorable economic conditions and grants that were lower than projections, the deficit was slightly reduced to 4.1 percent of GDP. This result, although above the deficit objective of 3.5 percent of GDP, was achieved mainly by strengthening efforts to collect tax revenues, and better control of current spending, especially the wage bill and subsidies, which also made it possible to increase appreciably investment spending relative to the projected amount. In light of the preliminary fiscal data for 2016, the fiscal deficit target for 2017 has been revised to 3.5 percent of GDP, instead of 3 percent, to avoid a drastic reduction in public investment and to preserve growth. This objective is consistent with the fiscal consolidation objectives announced in the PLL arrangement and with lowering the fiscal deficit in order to reduce the public debt ratio to 60 percent by 2020. The Government will introduce any measures that may be necessary to ensure that it remains in line with the 2017 fiscal deficit target.

5. On the revenue side, the government will continue to implement tax reform, in line with the recommendations from the 2013 national tax conference, aiming to make taxation simpler, more equitable and more favorable to competitiveness. Priorities include continuing to reduce tax exemptions, particularly those granted to large agricultural firms, simplifying the VAT by reducing the number of rates to mitigate distortionary effects, and expanding the tax base, with an emphasis on gradually integrating the informal sector.

6. The government will continue to control spending, while prioritizing investment in infrastructure and human capital in support of growth and social programs. After reducing the civil service wage bill, including social contributions, by almost 1 percentage point of GDP since 2012, the Government is determined to continue its efforts in this area to bring it back to 10.5 percent of GDP in the medium term. This will be achieved by limiting the net creation of positions and the rate of advances and promotions as well as any potential wage increases based on the budget envelope established in the budget law. A civil service reform is being prepared, which aims to strengthen efficiency and return, as well as to alleviate fiscal costs. In this context, the legislative and regulatory texts concerning mobility and contractual employment have already been promulgated. Public investment will be maintained at a high level while ensuring compliance with the objective of fiscal consolidation, increasing its effectiveness and making it better able to support private investment. The government will continue to gradually lower the remaining food subsidies while improving the effectiveness of social spending, mainly by better targeting the most vulnerable groups.

7. Parliament passed the draft laws to reform the pension system run by the Moroccan Pension Fund (CMR) in July 2016. This reform provides for gradually raising the retirement age, increasing the rate of employer and employee contributions, and there are new rules for calculating benefits. It will extend the sustainability of the pension system managed by the CMR and lower the actuarial deficit of this system by 2065 from 73 percent of GDP to 31 percent. Gradual implementation began in September 2016. In the medium term, the institutional structure of the retirement system is expected to shift toward a bipolar (private sector/public sector) system.

8. The organic budget law (OBL) adopted in 2015 took effect in 2016. Most of its provisions were implemented in 2016 and the others will be put in place gradually by 2020. The provision establishing the limiting nature of personnel appropriations to limit the risks of exceeding those appropriations entered into force on January 1, 2017, and the regulatory measure limiting the carry-forward of investment appropriations was renewed, pending the introduction of the relevant OBL provisions on January 1, 2018. A draft law to strengthen the governance and auditing of public enterprises and establishments in order to further improve their performance has been submitted to the General Secretariat of the Government, with a view to finalizing it and submitting it to the Government Council as soon as possible.

9. As part of advanced regionalization, fiscal decentralization has begun and will be implemented carefully to preserve fiscal sustainability. As part of the regions' own functions, the new legislative arrangement has given the regions responsibility for a series of powers at the regional level, including fiscal powers. At the same time, public resources are being transferred to the local level and this process will increase in the future while local governments' own resources are strengthened. The government is working to prepare a comprehensive strategy for fiscal decentralization and will ensure good governance and better performance of these governments, mainly by building their capacities and improving transparency and accounting. A national charter of administrative decentralization is now being prepared to group the activities of the various ministries at the regional level and ensure consistency.

10. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of limited growth in activity and lending, moderate inflation and a comfortable level of foreign exchange reserves. In March 2016, BAM cut its key policy rate to 2.25 percent, its historically lowest level, to further support growth. BAM will continue to promote appropriate financing of the economy, and in particular for SMEs. After it was adjusted to take into account the recommendations of the Financial Sector Assessment Program (FSAP), the draft central bank law will be presented shortly to the Government Council, to prepare for submission to Parliament at its upcoming parliamentary session of April 2017. The new law will further reinforce BAM's independence and will expand its missions with the view to contribute to financial stability and the promotion of financial inclusion.

11. The banking sector is sound and resilient, and we continue to strengthen the prudential framework and surveillance to improve this resilience and the financial sector's contribution to growth, including by implementing the FSAP recommendations. Even though their ratio increased due to a slowdown in activity in some branches, NPLs remain at a moderate level and are well provisioned. However, the banks remain vulnerable to asset concentration risk as well as to risks related to their exposures in sub-Saharan Africa. In this context, coordination with host country supervisory authorities continues to improve. Along with the current strengthening of resources dedicated to banking supervision, BAM will continue to check that these risks are correctly managed by strengthening the regulations for granting and supervising loans to conglomerates and by completing the loan classification rules. In the context of the transition to a more flexible foreign exchange regime, BAM will adapt its system for overseeing exchange rate and liquidity risks. BAM

has adopted regulations introducing counter-cyclical capital buffers (CCB) and will enact before the end of the year those that that should guide the recovery plans for systemically important institutions. Also, the authorities will strengthen the macro-prudential framework and are working towards reinforcing the bank resolution framework.

12. We are determined to gradually introduce a more flexible foreign exchange system and to transition to an inflation targeting regime. Greater exchange rate flexibility, well-coordinated with the other macroeconomic policies and appropriate structural reforms, will make it possible to better absorb exogenous shocks, contribute to preserving the competitiveness of the economy in the long run, and support trade diversification. The requirements for making this transition successful have largely been met, especially with the improvement in fiscal and external buffers, the resilience of the financial sector, the alignment of the exchange rate with fundamentals, and the gradual diversification of the economy. The authorities have finalized a roadmap for a gradual transition.

13. The government intends to accelerate the implementation of structural reforms to strengthen competitiveness, increase growth potential and reduce unemployment, particularly among youth. The government will strengthen the efficiency and return of public spending on education. In this context, and after extensive consultations with all the parties concerned, a strategic vision of the reform of this sector for the period 2015-30 has been validated by the highest authorities of the Kingdom. To implement this reform, a draft law setting out the guidelines and objectives for education, training and scientific research, which in line with this vision, is being finalized. The business environment will continue to be improved, including by establishing the bodies and means that enable the Competition Council to fully exercise its powers in 2017, by strengthening financial inclusion and by continuing to implement the strategy to fight corruption. The implementation of the National Strategy for Employment will be pursued, to reduce unemployment, in particular youth unemployment rate and to increase women's labor force participation by focusing on the effectiveness of active labor market policies and vocational training programs.

14. In terms of the indicative targets and standard performance criteria set in the PLL arrangement for end-September 2016, net international reserves were above the target, and the fiscal deficit target was met. In line with PLL requirements, we have complied and will continue to comply with the standard criteria related to trade and exchange restrictions, bilateral payment arrangements and multiple currency practices and non-accumulation of external debt payment arrears. We will provide the IMF with all information needed to monitor the economic and policy developments within the framework of the PLL arrangement, and in particular information on the indicators listed in Table 1.

15. We are confident that the policies described in this communication and in the July 7, 2016 communication are adequate to achieve the objectives of the economic program supported under the PLL arrangement, and we will take any additional measures that may be deemed necessary for this purpose. The continued strengthening of economic resilience, including a further reduction of the fiscal deficit and strengthening of reserves, along with improved global economic conditions, should enable Morocco to exit the PLL arrangement once the exogenous risks facing the economy

have been considerably reduced. Morocco will engage with the IMF, in accordance with the relevant Fund policies to ensure the success of our economic policies.

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

Table 1. Morocco: Quantitative Indicative Targets

	9/30/16			3/31/17			9/30/17
	Target	Adjusted	Actual	Target	Adjusted	Actual	Proposed
Indicative targets							
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	25,981	25,717	26,302	27,461	26,825	25,719	26,208
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	27,228	30,629	26,973	7,302	9,499	6,747	26,135
Memorandum items:							
Adjustor on NIR (in millions of U.S. dollars) 2/	918	567	351	2,011	636	1,375	2,364
Adjustor on the fiscal deficit (in millions of dirham) 3/	7,045	3,400	3,645	2,410	2,197	213	7,500

Source: IMF staff estimates.

1/ End-of-period (eop) stock, in millions of U.S. dollars, evaluated at the program exchange rate fixed at the end-April 2016, namely 9.5695 MAD/$.

2/ The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2016.

3/ The fiscal deficit ceiling will be adjusted upward (downward) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors for 2016 are cumulative from end-December 2015. The adjustors for 2017 are cumulative from end-December 2016.

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
May 12, 2017

My Moroccan authorities thank staff for their report and broadly agree with their analysis. Morocco continues to strengthen the fundamentals of its economy and enhance its resilience. In a context of still weak global economy, including in Europe, Morocco's main partner, and higher global uncertainty and regional geopolitical risks, GDP growth in Morocco should reach the respectable level of 3.4 percent on average over the period 2012-17. However, this growth rate remains insufficient to make a significant dent in the still relatively high unemployment, particularly among the young and women. Large fluctuations in rainfall have impacted annual growth, but resilience to weather conditions has markedly improved over the last decade, reflecting successful diversification efforts to reduce agricultural sector dependency on rainfall and promote new engines of growth. Sound macroeconomic and financial policies and bold structural reforms under the successive PLLs have also helped bring down fiscal and external current account deficits by about one half, reduce vulnerabilities, and rebuild external reserve buffers.

Recent Developments

Growth is expected to decelerate from 4.5 percent in 2015 to 1-1.5 percent in 2016 (against a budget assumption of 3.5 percent and PLL projection of 1.8 percent), mainly reflecting the weak cereal crop, after the bumper crop of 2015, and lower than expected nonagricultural growth. Inflation was broadly in line with the PLL objective. Based on a conservative estimate of the cereal crop and a recovery in the nonagricultural sector, growth in 2017 is projected to reach 4.5 percent. Unemployment declined slightly from 9.7 percent in 2015 to 9.4 percent in 2016.

The authorities agree with staff that the external position remains strong, notwithstanding the increase in the current account deficit in 2016, which is largely explained by temporary factors. Phosphate products exports increased in early 2017, after a decline in 2016 due to lower prices, food imports will be lower in 2017 due to higher cereals crop, and part of last year's surge in capital goods imports to meet infrastructure needs may be of a one-off nature. Meanwhile, automobile exports are projected to continue to increase, as are tourism receipts and workers' remittances. After reaching 4.4 percent of GDP in 2016, the current account deficit is projected to decline to 3.3 percent of GDP in 2017 and to 1-2 percent over the medium term. Reserves, which strengthened further in 2016, including from continued strong FDI and higher trade financing flows, will remain comfortable and increase further over the medium term.

As explained in Box 1, the 2016 fiscal deficit was higher than estimated in the 2016 Article IV report, mainly reflecting lower revenue, including from higher reimbursement of VAT credits, and faster than anticipated investment budget execution, which were partly offset by lower-than-projected current outlays, including wages and good and services, reflecting maintenance of tight control. As a result, while the deficit was higher than projected, budget composition was much improved. Moreover, while the 2016 deficit declines only slightly from 2015 (from 4.2 to 4.1 percent of GDP), the decline is higher when compared to the original estimate of the 2015 deficit in the PLL request (4.4 percent). A downward revision in the 2016 budget deficit, as has happened on several occasions once final fiscal data is available, is possible.

Macroeconomic Policies for 2017 and the Medium Term

The prolonged transition to a new coalition government after the October 2016 general elections did not impact confidence or the policy stance, which attests to the strength of the well-anchored political stability and the policy framework, as confirmed by rating agencies' maintenance of Morocco's investment grade and stable outlook in early April (well ahead of the announcement of the new government). Consistent with the new government program adopted by parliament, which largely focuses on the same policy priorities and reforms as the previous one, the authorities have reiterated their continued commitment to the PLL-supported program.

The draft 2017 budget, which was prepared by the caretaker government, consistent with the objectives of the PLL-supported program, and submitted to parliament in October 2016, as mandated under the constitution, is being discussed in parliament. On the expectation that the deficit in 2016 would be in line with projections (3.5 percent of GDP), it targeted a further 0.5 percent of GDP reduction in the deficit to 3 percent in 2017. In light of the 2016 outcome, the new government raised its target for 2017 to 3.5 percent, which maintains the programmed annual decline in the deficit and avoids a drastic reduction in investment spending.

The government has indicated its commitment to continue with fiscal consolidation by maintaining the PLL objective of reducing the public debt-to-GDP ratio to 60 percent over the medium term. The authorities will discuss in more detail the macroeconomic framework and underlying policies in June in the context of the second review of the program, once the budget is approved and more data on growth trends in 2017 is available. With a favorable fiscal outcome in the first quarter of 2017, and indication that agricultural production and GDP growth this year may be higher than currently projected, a better fiscal position in 2017 than assumed in the report can be expected.

With limited growth in economic activity and lending, moderate inflation, and a comfortable reserve cushion, Bank Al-Maghrib has maintained its accommodative policy stance. The draft central bank law to enhance its independence and expand its mission to financial stability and inclusion is expected to be submitted to parliament during this session. Financial sector soundness continues to be strengthened, including through implementation of the 2015 FSAP recommendations. Preparatory work for gradual introduction of a more flexible exchange rate regime and adoption of inflation targeting is virtually completed, and the authorities intend to start their move in this direction shortly.

Structural Reforms

The program aims at accelerating structural reforms to improve competitiveness, raise potential growth, and reduce unemployment, while enhancing inclusion and reducing inequality. Priority areas include raising quality and efficiency of education, further improving governance and the business climate, and enhancing effectiveness of active labor market policies. Implementation of structural fiscal reforms will also continue, including in the follow up to the recommendations of the 2013 National Tax Reform Conference, enactment of remaining reforms under the new OBL, roll out of the regionalization program, civil service reform, further subsidy reform, and oversight of state-owned enterprises. These reforms should strengthen revenue mobilization and spending efficiency and help improve service delivery and reduce fiscal risks.

PLL-Specific Issues

The PLL-supported program remains on track. The indicative targets for the budget deficit and reserves for end-September 2016 were met. The indicative target for end-March 2017 for the budget deficit was met with a wide margin, even without adjustment to take account of the higher deficit in 2016 and the revised target for 2017. This adjustment was agreed with staff but not submitted to the Board for endorsement due to the postponement of the First Review. There was a shortfall of about $1.1 billion in the indicative target for reserves for end-March (unadjusted for the lower reserves at end-December).

The authorities welcome staff indication that Morocco continues to meet the PLL qualification criteria, performing strongly in the areas of external sector and market access, financial sector and supervision, monetary policy, and data, without significantly underperforming in the fiscal area. They see the PLL as a useful complement to their own reserves in helping shield the Moroccan economy against unforeseen exogenous shocks, and will continue to treat it as precautionary. They are committed to doing the utmost to achieve their economic and social objectives, including through implementation of the policies laid out in their Written Communication.

The authorities broadly agree with staff assessment of risks to the program. They will continue to monitor external risks closely and to strengthen Morocco's resilience and buffers to face such risks, with the objective of exiting the PLL once these risks have abated and capacity to absorb shocks is enhanced, including from stronger policy framework under a more flexible exchange rate regime. They agree on the importance of a clear communication strategy with regard to exit.

The authorities wish to express their appreciation to staff for the fruitful discussions and useful analysis, and to management and the Board for their continued support and invaluable advice.