INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/43

MOROCCO

February 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2015 following discussions that ended on November 17, 2014 with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its February 6, 2015 consideration of the staff report that concluded the Article IV consultation with Morocco.
- A **Statement by the Executive Director** for Morocco.

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

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

January 23, 2015

KEY ISSUES

Context. The Moroccan authorities have taken strong policy actions to reduce the vulnerabilities of the economy, but important challenges remain to strengthen growth, reduce unemployment, and tackle poverty. Real GDP growth slowed in 2014, hampered by negative agricultural output growth and the impact of weak external demand, but economic activity is showing signs of recovery. Inflation has remained low. The fiscal deficit was reduced as planned; and the external current account deficit is narrowing, leading to a buildup of international reserves. Nevertheless, vulnerabilities remain in the external and fiscal sectors. The financial system remains sound.

Outlook and risks. Subject to steadfast implementation of reforms, and assuming a continued recovery of external demand, real GDP growth is projected to increase, starting in 2015, and to stabilize over the medium term in the 5-5½ percent range. Inflation is expected to remain low at about 2 percent. The external position should continue to improve. While the medium-term outlook is favorable and risks have decreased, they remain substantial, particularly because of Morocco's strong ties to the euro zone, which make it vulnerable to a protracted period of slow growth in that region.

Policy discussions. Morocco has made important strides in maintaining macroeconomic stability in a difficult environment; nonetheless, more efforts are needed to reduce external and fiscal vulnerabilities, achieve higher and more inclusive growth, and further reduce poverty. The period ahead provides an opportunity to consolidate gains in macroeconomic stabilization and "aim higher and try harder" to build a better future; hence, the discussions focused on: (i) the appropriate policy mix to continue rebuilding policy buffers; (ii) the adaptation of the policy framework to strengthen the economy's resilience and adaptability; and (iii) fiscal, business environment, and labor market structural reforms to boost the country's potential beyond the pre-crisis level.

Approved By
Adnan Mazareï and Mark Flanagan

The staff team consisted of Mr. Dauphin (head), Mr. Kalonji, Ms. Garcia Martinez, Ms. Fayad (all MCD) and Mr. Ahokpossi (SPR). The discussions took place in Rabat and Casablanca during November 5–17, 2014. Mr. Auclair and Ms. Thompson (all MCD) assisted in the preparation of the report.

The mission met the Minister of Economy and Finance Mr. Boussaïd, the Minister of Labor and Social Affairs Mr. Seddiki, the Minister of Industry, Trade, Investment and e-Economy Mr. Elalamy, the Minister of Agriculture Mr. Akhannouch, the Minister Delegate of the Budget Mr. Azami Al Idrissi, the Minister Delegate of General Affairs and Governance Mr. Louafa, the Minister Delegate of Civil Service and Modernization of Public Administration Mr. Moubdi, 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.

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

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BACKGROUND

1. The authorities have made progress in reducing vulnerabilities, but important challenges remain to strengthening growth, reducing unemployment, and tackling poverty. After significant negative shocks to external demand and terms-of-trade in 2012, fiscal consolidation and structural reforms (including, the reform of the subsidy system) have been instrumental in reducing fiscal and external vulnerabilities. But much remains to be done to promote higher growth, reduce unemployment, and lower income, gender, and regional inequalities. The IMF is supporting the authorities' program through a two-year precautionary and liquidity line (PLL) arrangement, which provides insurance against external risks.[1]

A. Recent Developments

2. Growth slowed in 2014, but is showing signs of recovery (Figure 1). After a bumper crop in 2013, agricultural growth contracted in 2014. Furthermore, weak demand from Europe and low business and consumer confidence affected nonagricultural output, mainly in the manufacturing and construction sectors in the first half of the year. Nonetheless, there have been recent signs of recovery in activity, and exports from newly developed aeronautics and automotive industries are booming. Overall GDP growth is expected to have decelerated to about 3 percent from 4.4 percent in 2013, with agricultural activity contracting by 1.3 percent and other sectors growing over 3½ percent. Inflation remained low at 0.4 percent on average and 1.6 percent year-on-year in 2014, as a decline in food prices helped offset the direct and indirect impact of the price increases of some formally subsidized petroleum products and of electricity tariffs. Unemployment has remained high at 9.6 percent (October 2014), especially among the youth (20.6 percent, up from 19.6 percent at end 2013).

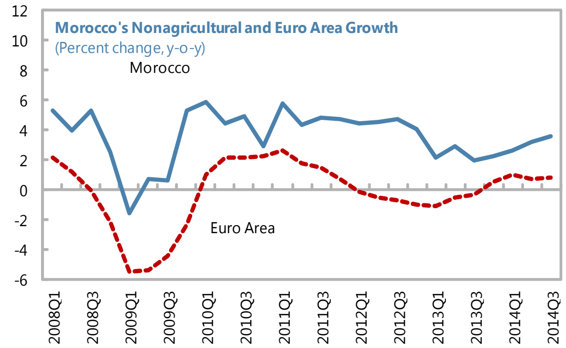
3. In 2014, the overall deficit contracted by 0.3 percent of GDP and reached 4.9 percent of GDP, following a significant adjustment (by 2.2 percent of GDP) in 2013.[2] Weaker economic activity hurt tax revenue, which is estimated to have fallen by 0.8 percent of GDP from 2013, to 22.2 percent of GDP. Nonetheless, higher disbursements of grants from Gulf countries and a significant reduction in energy subsidies contributed to containing the fiscal deficit despite some increase in the use of goods and services and grants. The lower subsidy bill mostly reflected the full year impact of measures taken in 2013 as well as further reductions in 2014 in the per-unit subsidies of some products. Lower international oil prices did not generate significant saving to the budget as, since September 2013, the retail domestic prices of gasoline, diesel and fuel, have been indexed on international prices (Box 2). Public debt is estimated to have risen by close to 3 percent of GDP to 66.4 percent of GDP.

[1] See companion staff report for first review under the PLL.

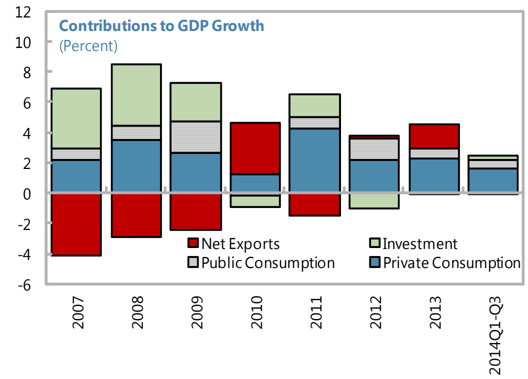
[2] The 2013 fiscal deficit was revised downward from the previous estimate by 0.3 percent of GDP to 5.2 percent of GDP as data related to certain revenue from local government became available with a lag.

Figure 1. Morocco: Real and External Developments

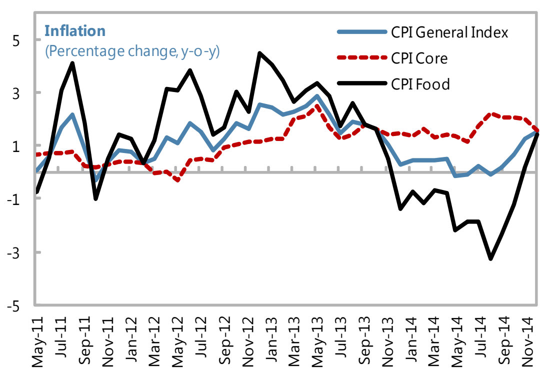
Non-agricultural growth slowed in 2013, but is slowly picking up in line with developments in the euro area...



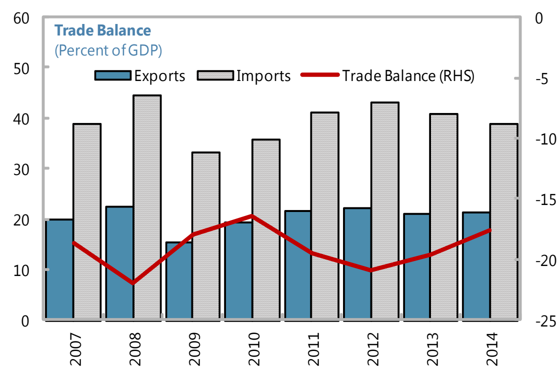
...supported mainly by domestic demand.



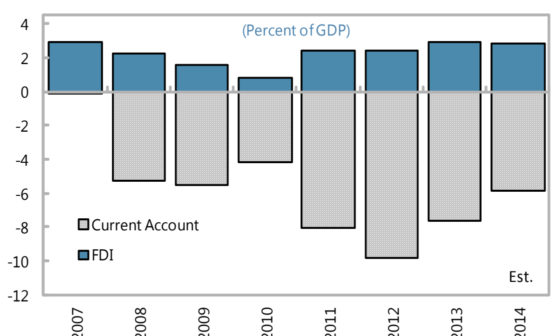
Inflation has remained low.



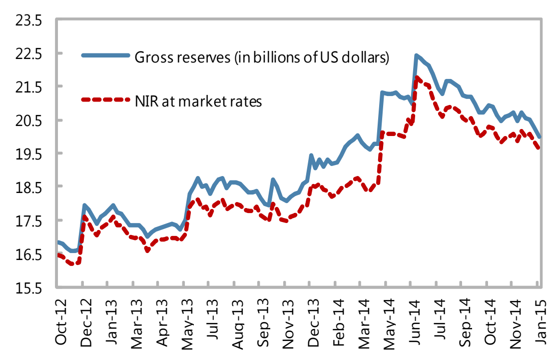
Exports have grown faster than imports, improving the trade balance,



...and the current account, while FDI inflows remained strong.

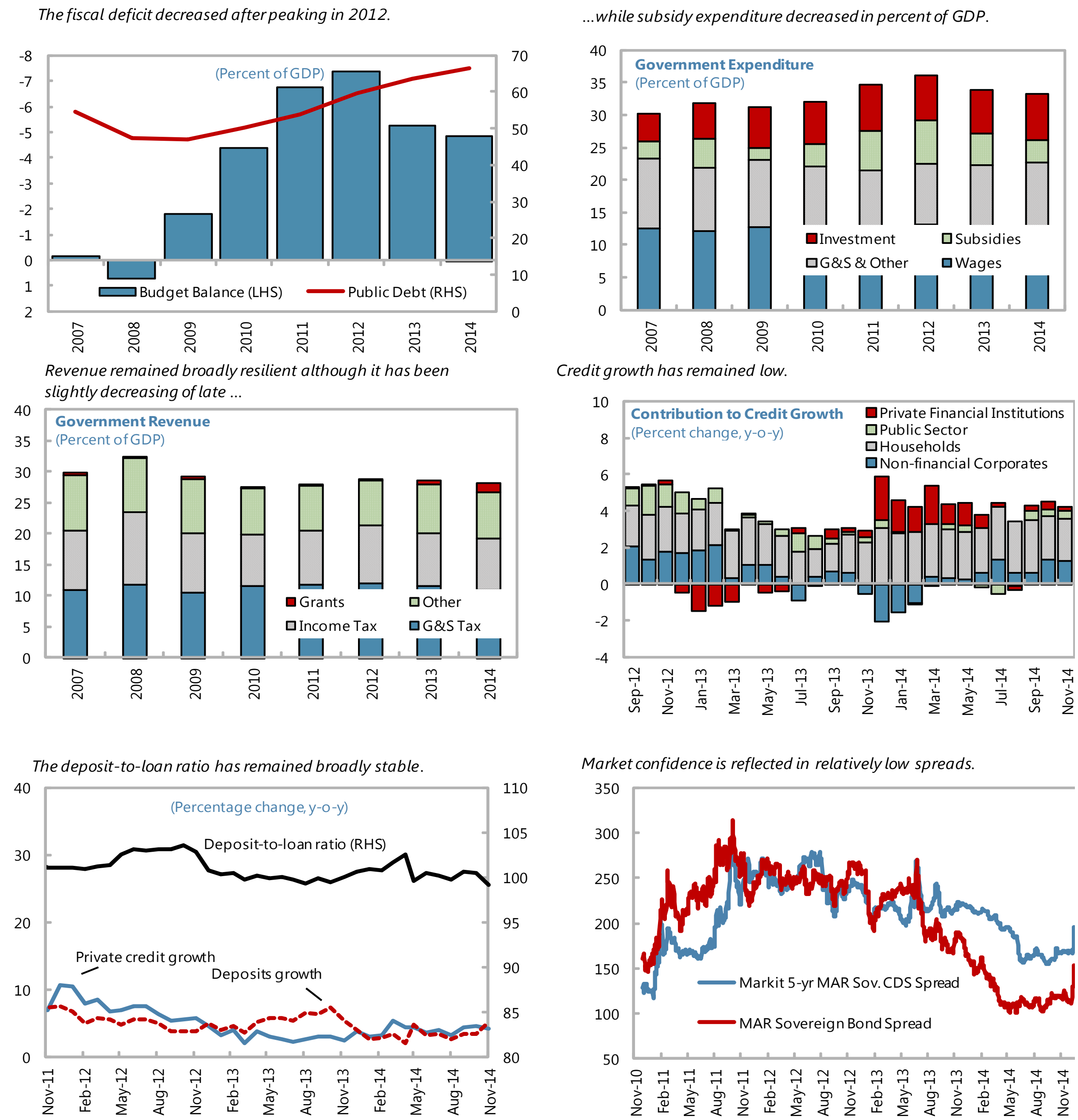


This has helped support reserves recently.



Sources: Moroccan authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal and Financial Market Developments



Sources: Moroccan authorities; and IMF staff estimates.

4. The current account deficit contracted significantly. It decreased from 9.7 percent of GDP in 2012 to 7.6 percent of GDP in 2013 and is estimated to have declined further to about 5.8 percent at end-2014. This result is owed in part to the trade balance, which improved by 6 percent in January–December relative to the same period in 2013, reflecting a surge in exports (6.1 percent, in nominal dirham) against a slight decline in imports (-0.2 percent). Exports of goods were driven by automobile (26.2 percent) and electronics (26 percent). Imports of petroleum products contracted by 10.1 percent owing to the drop in oil prices. For the year as a whole, it is expected that oil imports will have decreased by 1½ percent of GDP, contributing to about ¾ of the reduction of the current account deficit.

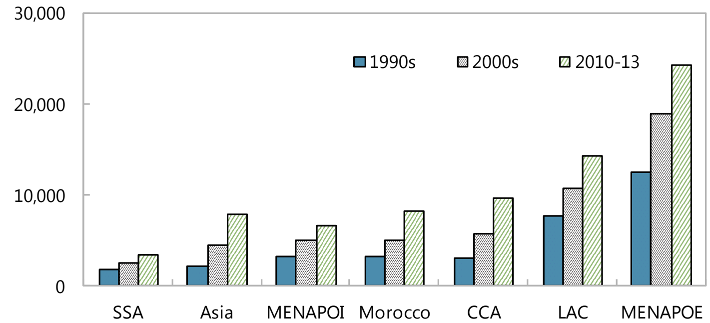
5. External stability has improved, but vulnerabilities remain (Annex I). The diversification of export products achieved over the last decade has mitigated the decline of traditional exports, notably textile and phosphates. Owing to recent improvements in the current account, the external balance assessment (EBA) indicates that the real effective exchange is in line with fundamentals. Financial inflows dominated by FDI and loans, remain broadly stable in percent of GDP. They were buoyed by corporate and sovereign bond issuances in the second quarter of 2014 and the delivery of financial assistance by development partners. External debt, though on the rise, remains relatively low and is sustainable. However, standards shocks (exchange rate depreciation or a shock to non-interest current account) would result in a significant increase in debt-to-GDP ratio. Reserves have increased and now exceed five months of imports or 93.6 percent of the assessment of reserve adequacy (ARA) metric at end-December, an adequate level given existing capital controls. However, such a level would not be comfortable enough to withstand significant external shocks.

6. Bank Al-Maghrib (BAM) recently lowered its policy rate in consideration of weak growth, improving reserves, and low inflationary pressures. BAM lowered its policy rate to 2.5 percent with two cuts of 25 basis points each, in September and December 2014. The policy rate had remained unchanged since March 2012, although BAM had already lowered the reserve requirement ratio from 4 percent to 2 percent in March 2014 in response to tight bank liquidity. As a result of this action, but also reflecting the better international reserves position and the lower fiscal deficit, bank liquidity has improved. BAM's 7–day advances decreased by 45 percent in November 2014 compared to the previous year. By contrast, longer-term interventions (3 months) have increased, in the context of a program to support lending to very small, small, and medium-sized enterprises (VSME). After reaching a decade-long low of 3.8 percent in 2013, credit growth has slightly increased but remained subdued at 4.3 percent in November 2014. Low credit growth resulted from weaker demand in the context of protracted low growth in Europe and low domestic confidence, together with supply-side factors including still relatively tight liquidity conditions, slow deposits growth, and rising nonperforming loans (NPLs).

7. The financial system remains sound overall. At end-June 2014, overall capital-adequacy ratio remained well-above the Basel III requirement. BAM is in the process of implementing the new definition of prudential capital and, according to provisional data, the new regulatory capital-to-risk-weighted assets ratio slightly increased to 13.5 in June 2014. Banks' profitability remained adequate despite slow lending activity. It benefited from the appreciation in the fair value of the T-bills trading portfolio as the market yield dropped and from activities in sub-Saharan Africa, which constituted an important source of revenue for the three major banks. Reflecting the weaker economic activity, NPLs continued to increase reaching 6.9 percent of total loans in November 2014, but they remained adequately provisioned.

8. Poverty has decreased considerably over the past decade but many challenges remain to supporting higher and more inclusive growth (Figure 3). GDP per capita has increased significantly since 1990, more so than the regional average. Broader indicators of poverty and living standards have also improved, as illustrated by improvement in the UNDP's Human Development Index. While higher growth explains a large part of this achievement, policy action also played a key role, as shown, for example, by the increased public spending on health, better access to sanitation, and greater reach of financial services. In these areas, progress has been significant and higher than in other oil-importing countries of the region. Nevertheless, poverty persists, particularly in rural areas, and inequalities have slightly increased. Despite the efforts already made, more is needed to reduce structural unemployment, increase female labor force participation and reduce the gender gap, improve healthcare, and reduce regional inequalities.[3] Shortcomings in the quality of education are also widely recognized as a key impediment to improving social and economic indicators. Improvements in those areas are crucial to achieving more inclusive growth and reaching a higher potential output.

PPP GDP Per Capita
(Average US Dollars)



Source: World Bank, World Development Indicators.

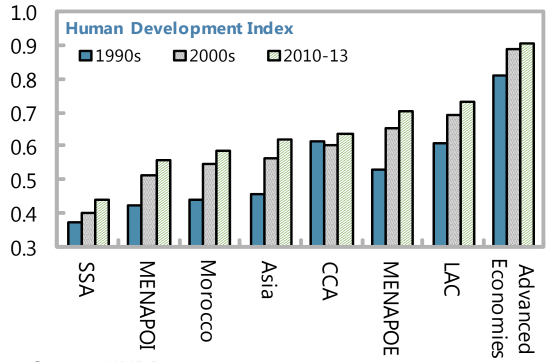
	Gini index		Highest/Lowest Quintiles*	
	1990s	2000s	1990s	2000s
Morocco	39.3	40.8	7.1	7.4
Caucasus and Central Asian Countries (CCA)	39.3	34.9	8.8	5.7
Asia	33.8	37.9	5.4	7.2
Latin American Countries (LAC)	53.8	53.6	20.4	19.7
Middle East Oil Importers, Afghanistan, and Pakistan (MENAPOI)	33.0	32.9	5.1	5.0
Sub-Saharan African Countries (SSA)	44.8	42.7	10.5	9.6
All Regions	37.6	39.9	7.7	8.7

Source: World Bank, World Development Indicators.
*The Income Ratio is estimated from the distribution of national income by quintile.

[3] See also Selected Issues Paper "Inclusive Growth in Morocco: Stylized Facts and Policies," Davide Furceri, January 18, 2013 (SM/13/14).

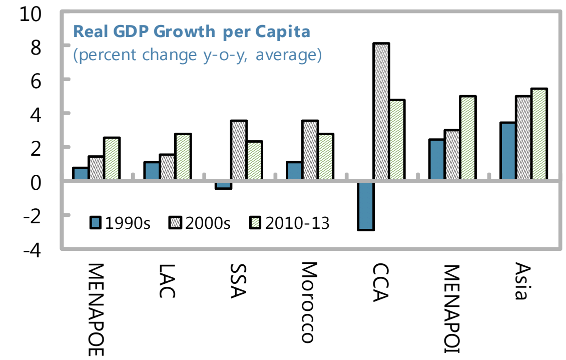
Figure 3. Morocco: Inclusive Growth

Poverty has decreased considerably over the past decade and social indicators improved.



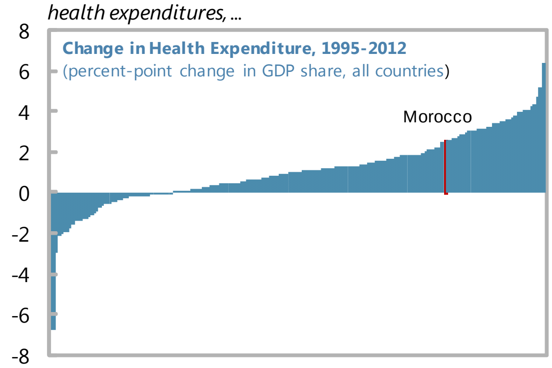
Source: UNDP.

This partly reflects higher growth...



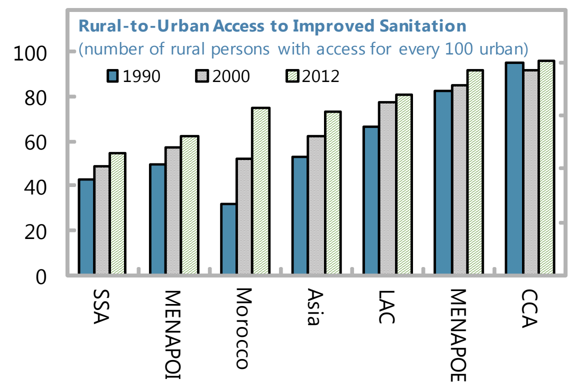
Source: IMF staff estimates.

but also policy action, as illustrated by higher health expenditures, ...



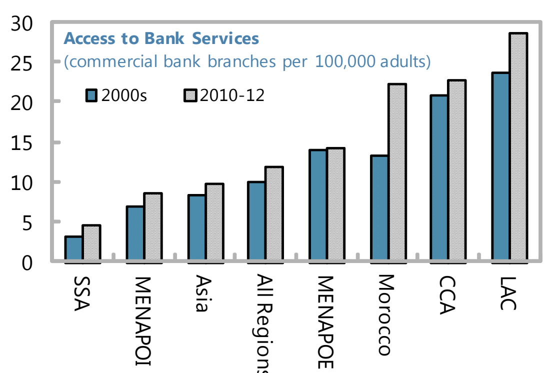
Source: World Bank, World Development Indicators.

... better access to sanitation, ...



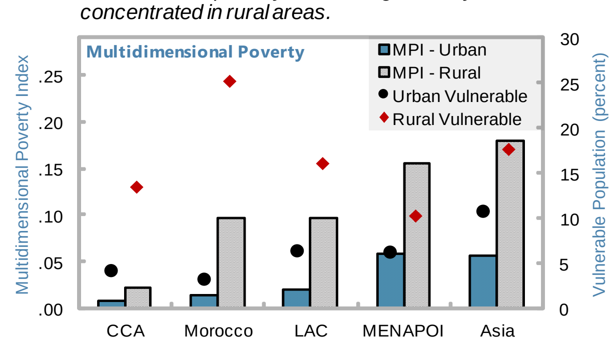
Source: World Bank, World Development Indicators.

... and better access to financial services.



Source: World Bank, World Development Indicators.

Nevertheless, poverty remains high, mostly concentrated in rural areas.

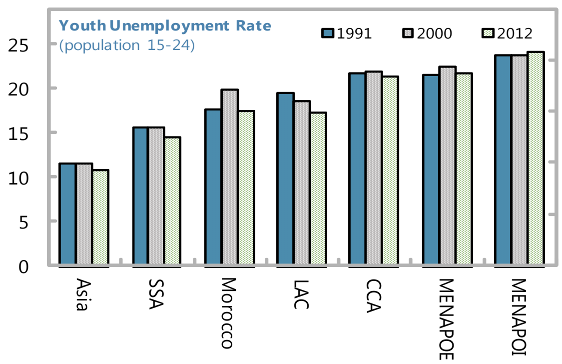


Source: Alkire, Conconi, and Seth *Multidimensional Poverty Index (2014*

Note: All regional averages are weighted by population.
MENAPOE = Middle East Oil Exporters.

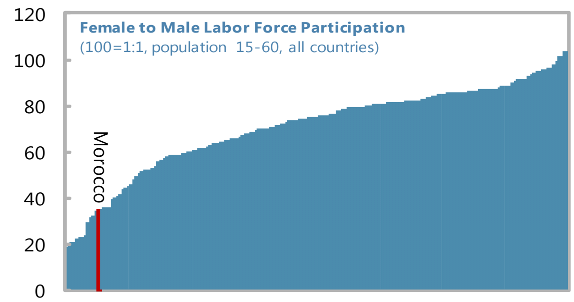
Figure 3. Morocco: Inclusive Growth (concluded)

Youth unemployment remains high…



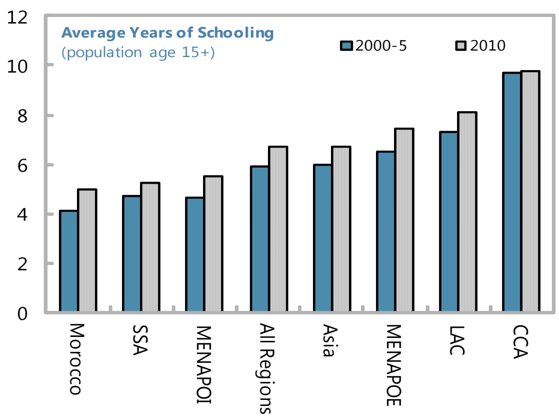
Source: ILO, Key Indicators of the Labor Market.

… and female participation in the labor force is very low.

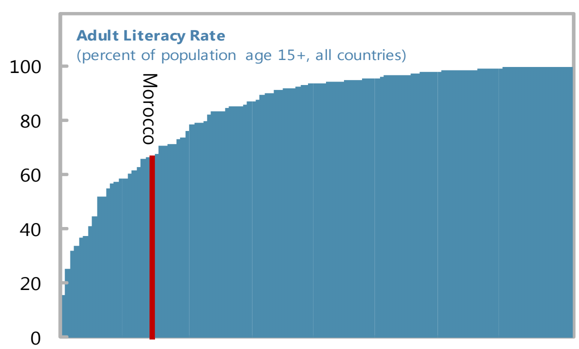


Source: ILO, Key Indicators of the Labor Market.

Better quality of education and higher attainment are needed…

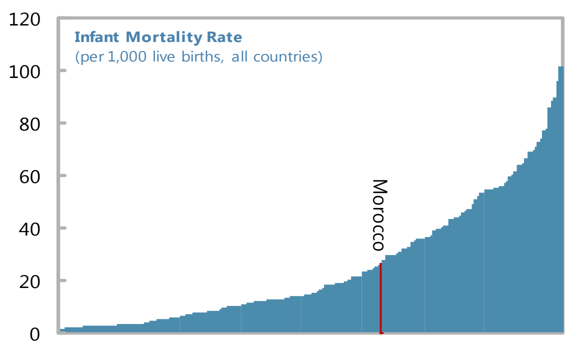


Source: Barro-Lee Dataset.



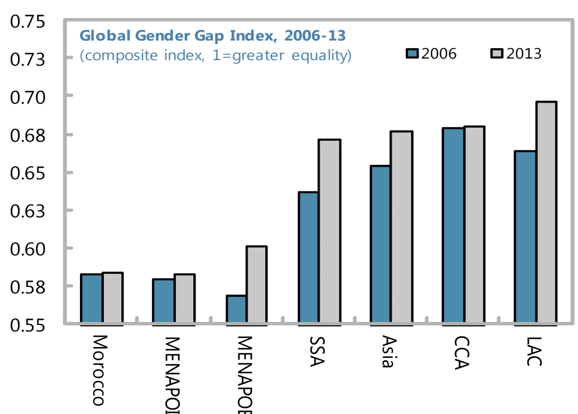
Source: World Bank, World Development Indicators.

… and more is needed to improve health outcomes …



Source: World Bank, World Development Indicators.

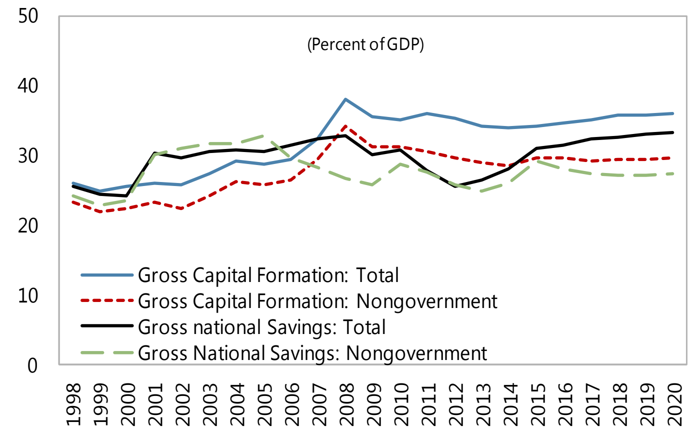
… and reduce the gender gap.



Source: World Economic Forum *Global Gender Gap Report (2013).*

B. Outlook and Risks

9. Growth is expected to rebound in 2015 and remain robust in the medium term. Building on the recovery observed in most recent indicators in 2014, overall growth should accelerate close to 4½ percent in 2015, supported by improved external demand, strengthened domestic confidence, and a return to normal agricultural output. Over the medium term, the ongoing modernization of the agriculture sector, the continued expansion of Moroccan firms to new markets, the growing importance of newly developed sectors, as well as higher investment in infrastructure and human capital are expected to lift growth above 5 percent, assuming continued steadfast implementation of structural reforms. Inflation is expected to stabilize at about 2 percent. The reduction in the fiscal deficit and improvement in international reserves are also expected to continue to improve liquidity conditions which, together with the strengthening the financial policy framework, will help support continued adequate financing of the economy.



10. The external position is expected to improve over the medium term (Annex I). In 2015 and over the medium term, the current account deficit should continue to narrow and the reserve position to strengthen, benefitting from the growth in newly developed export sectors, recovery in the other sectors, stronger external demand and, in the near term, also by a large positive terms-of-trade shock mostly triggered by the fall in international oil prices. The latter will help reduce oil imports by more than 3 percent of GDP in 2015. The capital and financial accounts are expected to remain strong, particularly FDI, as political and social stability and relatively strong economic performance make Morocco an attractive destination. The external debt-to-GDP ratio stood at 32.1 percent at end-2014 and is expected to stabilize at that level over the medium term. However, stress tests show that 30 percent exchange rate depreciation or a shock to non-interest current account would result in a significant increase in debt relative to GDP. The net international investment position (NIIP), which deteriorated significantly following the global financial crisis, is expected to stabilize over the next few years as external buffers strengthen.

11. Risks have declined but remain substantial. A protracted period of slow growth in advanced economies, in particular Europe, would affect the economy through low exports, FDI, and remittances. An increase in world energy prices resulting from geopolitical tensions in the Middle East and Russia/Ukraine could worsen the current account deficit. An abrupt surge in global financial market volatility would increase interest rates and raise the cost of financing and indirectly affect external demand and FDI. On the domestic front, looming local elections (mid-2015) and parliamentary elections (2016) risk affecting the pace of reforms in a volatile regional environment.

Risk Assessment Matrix[1]

Source of Risk	Up/ Downside	Likelihood	Impact	Policy Response
A protracted period of slow growth in advanced economies.	↓	High	High	Allow more flexibility in exchange rate. Accelerate structural reforms.
Heightened risk of fragmentation/state failure in the Middle East, leading to a sharp rise in oil prices, with negative spillover on the global economy.	↓	Medium	High	Diversify the sources of energy to reduce the economy's dependence on oil.
Sustained tensions in Russia/Ukraine that depress business confidence and heighten risk aversion, amid disturbances in global financial, trade, and commodity markets.	↓	Medium	Medium	Continue the subsidy reform to minimize the impact on the budget of higher gas and food prices. Continue the diversification of the economy to reduce exports dependency on commodity prices.
A surge in global financial market volatility, as investors reassess underlying risk.	↓	High	Medium	Continue rebuilding external and fiscal buffers.
Slower-than-needed pace of reforms.	↓	Medium	Medium	Build consensus on the necessity to reduce vulnerabilities and foster higher growth and on the role of reforms in achieving these goals.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in staff's view). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff's views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

POLICY DISCUSSION

12. Morocco has made important strides in rebalancing the economy, but higher and more inclusive growth is needed to reduce poverty. A significant reduction in vulnerabilities was achieved over the past two years (Box 1). The authorities should consolidate gains in stabilization and "aim higher and try harder" to build a better future. Well managed, the current period offers an opportunity to enter a virtuous cycle of growth, confidence, and investment. This requires pursuing an appropriate policy mix, adapting the policy framework to strengthen the economy's resilience and adaptability, and implementing a vigorous program of structural reform to boost Morocco's potential beyond the pre-crisis level. The present Article IV consultation therefore focused on three main themes: (i) the policy mix to sustain the ongoing stabilization; (ii) the policy framework for a more resilient economy; and (iii) structural policies for higher and more inclusive growth.

Box 1. Implementation of Past Fund Advice

Policy implementation has been broadly in line with past Fund advice.

Fiscal policy. The authorities removed subsidies on all liquid petroleum products, thereby eliminating risks to the budget linked to the volatility of oil prices, while they expanded support to the most vulnerable through dedicated social programs. A new organic budget law was adopted by the parliament, which will help strengthen the budgetary framework once comments from the Constitutional Council have been addressed. The parametric reform of the public pension system is expected to be implemented in 2015.

Monetary policy. Inflation remains low and inflation expectations are well-anchored. Given low inflationary pressures, low growth and improving reserve position, BAM lowered its main policy interest rates to 2.5 percent in December 2014. Preparation for a more flexible exchange rate has progressed, including with technical assistance from the Fund.

Financial policies. A new banking law approved by the parliament in November 2014 will help strengthen the regulatory, supervisory and macroprudential frameworks, including with respect to the international activity of Moroccan banks. However, more work is needed on cross-border banking resolution.

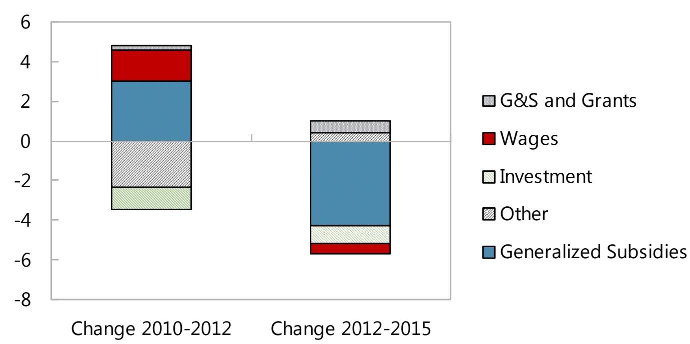
Structural reforms. Morocco made progress in doing business indicators, but much remains to be done to further improve the business climate, as discussed below.

A. Policy Mix: Sustaining the Stabilization

13. Public debt has been on the rise, but remains sustainable (Annex II). As the fiscal deficit widened, public debt rose from 47 percent of GDP in 2009 to an estimated 66.4 percent of GDP in 2014. It is expected to peak at about 68 percent of GDP in 2015—a relatively high level for an emerging market—before decreasing to about 63 percent of GDP by 2019. The debt sustainability analysis (DSA) shows that debt remains sustainable and robust to various shocks and that the primary balance is projected to be higher than its debt-stabilizing level, putting debt firmly on a downward path. However, relatively large public and external financing needs are a source of vulnerability under certain shocks, and debt sustainability is also dependent on growth materializing at the expected level and on continued fiscal consolidation. The authorities agreed with staff's assessment that the debt remains sustainable. They stressed that while financing needs were high, the domestic debt market was liquid and capital controls limited rollover risks, given the lack of alternative options for investors.

14. The authorities have embarked since 2013 on a fiscal consolidation aimed at external adjustment and fiscal sustainability, while seeking not to compromise growth. In response to rising public debt and widening external imbalances, the authorities have aimed to gradually reduce the fiscal deficit to 3 percent of GDP in 2017. After a sharp reduction in the deficit in 2013, the pace of adjustment slowed in 2014 in face of lower growth. The fiscal deficit objective of the 2015 budget (4.3 percent of GDP) is consistent with the authorities' medium-term objective. The cyclically-adjusted primary balance is projected to improve by ½ percent of GDP in 2015 and cumulatively by 2.2 percent of GDP between 2014 and 2017. The strengthening of public finances is expected to come mainly from a reduction in expenditure, as tax revenue as a share of GDP is already among the highest in the region.[4] Staff supported the authorities' planned fiscal path for 2015–17. It considered that this path was consistent with the need to rebuild fiscal buffers, including putting the debt firmly on a downward path and reducing financing needs, while avoiding being a significant drag on growth. It noted the need to sustain efforts to further lower the fiscal deficit beyond 2017 to ensure a continued reduction of the debt-to-GDP level. To promote higher and more inclusive growth, it will also be important to ensure that the fiscal space created by actions to lower the cost of subsidies and efforts to reduce wage bill translates into higher capital and social spending. Staff noted that the 2015 budget misses an opportunity in that respect, as goods and services expenditure are set to increase by 0.3 percent of GDP while investment is to decline by almost one percent of GDP.

Change in Expenditure
(Percent of GDP)



15. As fiscal consolidation is pursued, the central bank has appropriately loosened monetary policy. Although the exchange rate is pegged, the existence of capital controls provides some scope for monetary policy. In a context of low inflation, low growth, slowing credit growth, still-negative output gap, weak domestic and external demand, and improved reserves position, BAM's recent cuts in interest rate were appropriate and are expected to help support credit demand

[4] See also 2013 Article IV report.

by fostering lower lending rates. Other measures put in place by BAM to ease liquidity pressures and foster greater access to credit, including the intervention under the VSME funding program, are expected to help support bank lending to the private sector while remaining consistent with low inflation, as pressures on consumer prices are set to remain subdued. In the context of the current exchange rate peg, the overall policy mix remains consistent with strengthening macro-stability. Further monetary loosening may be considered should the timid recovery stall and reserves continue improving; however, BAM should remain vigilant, in case second-round effects on inflation stemming from the subsidy reform materialize, or external risks worsen.

B. Adapting the Policy Framework to Strengthen the Resilience of the Economy

16. As the economy recovers from the global crisis, adapting the policy framework will help increase its resilience. The current policy framework has served Morocco well, but the recent period of global and domestic economic stress has tested its limits. A stronger fiscal and financial policy framework will help contain existing or potentially new sources of fiscal, external, and financial risks, while adapting the exchange rate and monetary regime would make the economy more nimble. The authorities have embarked on important reforms to this end.

17. A new organic budget law (OBL) is expected to strengthen the budgetary framework. A new law was adopted by parliament in November 2014. However, the Constitutional Council ruled in late December that some provisions were unconstitutional, partly for procedural reasons. These relate to the dates of implementation of the new law as well as a provision that stated that only finance law could modify tax or custom legislation. The government intends to resubmit the law to parliament in its Spring session to address the Council's comments. Once definitely adopted, and as its provisions gradually enter into force over the next few years, the new OBL will introduce multi-year and program budgeting, establish a golden rule to limit new net borrowing to the financing of capital spending, make binding the ceilings on wage appropriations, and restrict the carryover of investment appropriations from one budget to the next. The last two features address budget framework weaknesses observed in 2012. Staff looks forward to the final adoption of the law, once the Constitutional Council's comments have been addressed, as it will modernize the fiscal framework, enhance its efficiency, and increase transparency and financial control. Staff noted that some provisions could have been strengthened to further reduce fiscal risks, for example, tighter restrictions on the creation of new special treasury accounts or adding an escape clause to the golden rule. The new provisions of the OBL are expected to be introduced gradually between 2016 and 2020. The Fund stands ready to provide technical assistance (TA) to support a prompt and successful implementation of the new law.

18. Staff supports the authorities' intention to transition to a more flexible exchange rate, with accompanying changes in the monetary policy framework. Although the peg has provided a useful nominal anchor for the economy in the past, a more flexible regime would better support the ongoing diversification of trade and financial flows, help preserve competitiveness, and facilitate the absorption of external shocks. The Fund is supporting the preparation of this transition by providing TA on options for and operational management of a more flexible exchange rate regime. It has also provided TA to strengthen BAM's macro-modeling capacity in preparation for a new monetary regime, such as inflation targeting. In staff's views, a gradual transition could start with a widening of the band around the peg and a reexamination of the weights in the currency basket to which the dirham is pegged. The improvement in the external and fiscal positions offers an opportunity to transition to a new exchange rate regime under better conditions. Staff and the authorities agreed that once the forthcoming FSAP is completed, which will further assess the preparedness of the financial sector to withstand greater exchange rate fluctuations, the various strands of TA and surveillance work in this area could usefully be pulled together to inform further decisions in this area.

19. The financial supervisory and regulatory framework is being further strengthened. A healthy financial sector is crucial to macro-stability, and supports more inclusive growth by facilitating access to finance. In turn, sustained financial system health depends on the quality of the regulatory and supervisory framework. The authorities are committed to further strengthening financial regulations and supervision. In this connection, they are gradually integrating the norms of Basel III. Furthermore, parliament approved in November 2014 a new banking law, which strengthens BAM's supervisory and regulatory powers, upgrades the macroprudential framework (an area where the Fund is also providing TA), and provides the framework for the development of Islamic finance. A new central bank law was submitted to the general secretariat of the government. It aims to strengthen BAM's independence and extend the scope of its supervisory powers. Staff supports these efforts and encourages a timely completion of the revision of the central bank law. The FSAP update, for which the main mission is scheduled in April 2015, will offer an opportunity to take a comprehensive and in-depth view of financial stability and development and of the evolving policy framework.

20. The evolution of the financial policy framework is also taking into account the challenges posed by the international expansion of Moroccan banks. Three major Moroccan banks have rapidly expanded their operations in sub-Saharan Africa, mostly through acquisitions of local banks. The international activity of the Moroccan banks constitutes about 19 percent of total volume of activity of the sector (17 percent for activity in Africa alone). This expansion brings new opportunities for Morocco and host economies but also comes with challenges and opens new spillover channels. Staff and the authorities concurred on the main steps needed to tackle new supervisory challenges, and staff welcomed progress already made in that area. In particular, a supervisory college for one of the three cross-border banks was already established and plans for setting up the other two are well advanced. In addition, one of the cross-border banks has already started simplifying its structure, which had become increasingly complex as the bank expanded internationally. The authorities also noted that the new banking law and the forthcoming new central bank law will significantly strengthen BAM's supervision and crisis resolution abilities. Looking ahead, it will be important to implement the Basel framework for dealing with domestic systemically important banks through an assessment methodology and higher loss-absorbency capital requirements; to continue encouraging reliance of subsidiary operations on local funding; and to ensure that cross-border banks have strong risk management frameworks including strict controls on their subsidiaries. Progress on cross-border crisis management and resolution mechanisms is also crucial, though, as recognized by staff and the authorities, inherently more difficult given the many actors involved in the home and host countries.[5]

C. Structural Policies in Support of Higher and More Inclusive Growth

21. Staff welcomed the impressive progress in subsidy reform, which is instrumental in reducing fiscal vulnerabilities and creating space for growth-enhancing spending (Box 2). Subsidies on all liquid petroleum products (diesel, gasoline, fuel) have been eliminated since last year, including the earlier-than-planned completion of a gradual reduction in the per-unit subsidy to diesel prices. Furthermore, the authorities have decided to fully liberalize their prices in 2015. These efforts helped significantly reduce the subsidy bill to 3.6 percent of GDP in 2014 and 2.3 percent of GDP expected in 2015 from 6.6 percent of GDP in 2012. They also considerably shield the budget from international price volatility, lowering associated fiscal risks in case oil prices rose again. The authorities are considering ways to gradually reduce subsidies on wheat, sugar, and butane, with care not to hurt the most vulnerable population that depends on these subsidies. Already, the reduction in fuel subsidies has been accompanied by an expansion of social programs in health and education, and the introduction of a number of mitigating programs.

22. Reforming the tax system is important to bolster the contribution of the fiscal sector to growth. Following the recommendations of their national tax conference in April 2013, the authorities have initiated reforms to make the tax system more equitable and better able to support competitiveness. The aim is to widen the tax base, significantly reduce tax expenditures, review income and VAT rates, and improve tax administration. Staff has been supportive of the reform, while cautioning against lowering tax rates before ensuring that the gains from broadening the tax base are solid. Following measures introduced in 2014, including steps to ensure progressive taxation of large agricultural firms, the 2015 budget introduces new, if not bold, steps to reduce the number of VAT rates and includes measures to better enforce tax payments from self-employed and liberal professions. Staff noted the Fund's readiness to provide technical assistance on implementing the fiscal reform.

[5] See accompanying Selected Issues Paper: "The sub-Saharan Expansion of Moroccan Banks: Challenges and Opportunities," as well as "Pan-African Banks: Opportunities and Challenges for Cross-Border Oversight" (FO/DIS/14/198).

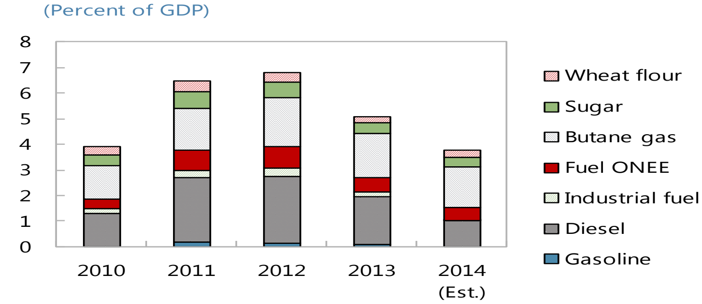
Box 2. Fuel Subsidy Reform

The subsidy system in place since 2000 was a drain on the budget while being largely ineffective in helping the poor.[1] The system mostly focused on petroleum products (gasoline, diesel, industrial fuel oil and fuel oil used for electricity generation) while the prices of wheat flour and sugar have also been subsidized. With global oil prices increasing threefold from 2000 to 2012, the government's subsidy bill almost tripled from less than 2½ percent of GDP to more than 6½ percent of GDP during the period. With it, the fiscal deficit exceeded 7 percent of GDP in 2012.

To address this important source of vulnerability, the authorities have implemented significant reforms leading to an impressive reduction in the cost and fiscal risks related to fuel subsidies. The key milestones in the reform were:

- *Early 2012*: Establishment of three technical commissions to prepare the reform, including government and civil society representatives. The commissions were to evaluate the macroeconomic impact of possible reforms, formulate proposals to revise the price structures of subsidized products, and develop alternative targeted social protection schemes.
- *June 2012*: Increase in the retail price of diesel, gasoline, and fuel oil by 14 percent, 20 percent, and 27 percent respectively, yielding an estimated saving for the budget of 0.7 percent of GDP for the year.
- *September 2013*: Partial indexation of the domestic prices of diesel, gasoline, and industrial fuel oil to world prices effective August 16, 2013, which significantly reduced the vulnerability of the budget to international oil price fluctuation.[2] The indexation was accompanied by a hedging operation for diesel to cap the price increases that might be needed in the first year of the indexation system.
- *February 2014*: Removal of subsidies on the domestic prices of gasoline and industrial fuel oil (excluding fuel used for electricity generation). First reduction of the per-unit subsidy on diesel with a plan to gradually eliminate it by mid-2015. Introduction of measures to alleviate the impact of the reform on the poor; these include expanding existing targeted social programs (providing support to school-age children and helping the poor with medical expenses) and introducing new programs to support low-income widows and physically disabled individuals, as well as support for the public transportation sector, to mitigate the cost of higher fuel prices and limit fare increases.
- *April 2014*: Second reduction of the per-unit subsidy on diesel.
- *June 2014*: Removal of subsidies on industrial fuel oil used for electricity generation. Introduction of program contract with the public electricity company (ONEE) that includes direct transfers during the next four years as well as a revision of electricity tariffs. The annual cost of the transfers will be about 0.5 percent of GDP in 2015-16 and 0.1 percent of GDP in 2017.
- *July 2014*: Third reduction of the per-unit subsidy on diesel.
- *January 2015*: Elimination of the subsidy on diesel.

Components of Subsidy Expenditure
(Percent of GDP)



[1] See Selected Issues Paper on Fuel Subsidies in Morocco: International Experience and Possible Ways Forward, SM/13/14, January 2013 for more details on the subsidy system in Morocco.

[2] The indexation rule, based on a rolling moving average of the last two months, provides for the automatic adjustment of domestic prices when the difference between implied world prices and actual domestic prices exceeds 2.5 percent.

23. The pension system urgently needs reform to ensure its viability and broaden its coverage. The main civil public pension fund (CMR) is already receiving less in contributions than it pays in benefits and, absent reform, could exhaust its reserves by 2021. The government announced in June a parametric reform that includes increases in contributions and in retirement age and lower benefits. It submitted its proposal for review to the Economic, Social and Environmental Council (ESEC), which endorsed the principle of the reform but advised somewhat less ambitious parametric changes.[6] The government's intention is to gradually implement the reform starting in 2015. This first step will pave the way for a broader structural reform that has been prepared to put the entire pension system (public and private) on a long-term sustainable footing while gradually expanding its coverage to workers who currently have no coverage, an important social goal. The parametric reform under the government's proposal would prolong the viability of the regime (that is, push back the deficit) by eight years to 2022 and the depletion of the fund's reserves to 2031 instead of 2022, allowing time for the broader reform to be implemented (by contrast, the CESE's proposal would prolong the viability of the regime by only five years). Staff welcomed the plans to reform the pension system. It underscored the urgency of the reform, given the difficult financial situation of the CMR, and stressed that the more ambitious the parametric changes, the more durably the financial soundness of the fund will be restored. It considered that moving ahead with the broader structural reform was also important to expanding the coverage of the pension system to the large number of workers currently without pension benefit.

24. The business environment has improved but much remains to be done to increase competitiveness and business opportunities. The authorities' efforts to improve the business environment are driven by a national committee chaired by the head of government. Based on an updated methodology, Morocco ranks 71 among 189 countries in the 2015 World Bank Doing Business indicators, against 87 in previous estimates. The World Bank report notes that governance and the business environment improved recently thanks notably to easier procedures for property transfer, construction permits, and trading across borders, the reduction of electricity connection costs, and some streamlining of administrative procedures. However, more efforts are needed to reduce government bureaucracy, further improve transparency, competition, and governance, and address corruption, all of which have been identified as key impediments to doing business in Morocco. The reform of the judiciary—a crucial piece of these efforts—is ongoing. Strengthening the effectiveness of the anti-money laundering AML/CFT framework is also needed for Morocco to keep pace with more competitive emerging markets.

[6] The parametric changes under the government's June 2014 proposal include a gradual increase in the retirement age from 60 to 65 (with an initial increase to 62 in July 2015), a raise in the contribution rate over two years (2015–16) from 20 to 28 percent (split equally between the employee and the state), reductions in the accrual rate (from 2.5 percent to 2 percent) and in benefits (calculating pension benefits based on the average of the final eight years' salary instead of the final year) gradually over four years. The CESE proposal includes a lower increase in retirement age (from 60 to 63).

25. The labor market needs further reform to help reduce unemployment. The unemployment rate declined from 14 percent in 1999 to 9 percent in 2009, but has hovered between 9 percent and 10 percent since then, despite relatively high growth. Youth unemployment exceeds 20 percent (15 percent for graduates). The government aims to reduce the unemployment rate to 8 percent by 2016. The authorities noted that they are completing an overhaul of existing employment support programs and have initiated a dialogue with social partners to examine the labor code. Staff supported these efforts. It noted that high hiring and firing costs have been identified as important impediments to job creation. Also, insufficient access to information hampers the smooth functioning of the job market. The education and vocational training systems need to adapt to reduce the gap between labor force skills and business needs. While the highest value-added industries often provide professional training to fulfill their needs for skilled workers, a broad reform of the education system is needed to improve the quality of education, and to increase school attainment and female enrollment rates.

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26. Policy action has helped maintain macroeconomic stability and rebuild buffers in a persistently difficult environment. However, the economy still faces important challenges as growth has slowed and unemployment remains high. Low business and consumer confidence, coupled with still weak European economic activity, has hampered nonagricultural growth while agriculture has contracted following the bumper crop of 2013. A significant drop in food prices has contributed to a reduction of the already low inflation. The fiscal deficit in percent of GDP was further reduced as subsidy expenditures were reined in and higher external grants offset lower tax receipts. The public debt, though on the rise, remains sustainable. The surge in exports, coupled with a slowdown in import growth aided by lower energy prices, helped improve the external current account markedly and rebuild international reserves.

27. The outlook is positive but risks remain substantial, calling for sustained implementation of reforms. Growth should rebound in 2015 to exceed 4 percent on the back of improved prospects in Europe, a return of domestic confidence, and a positive contribution of agriculture. Assuming continued steadfast implementation of structural reforms, it should continue increasing in the medium-term. The current account is expected to continue to improve as a result of growth in newly developed export sectors, stronger external demand, and lower oil prices. Morocco’s stability makes it a choice destination for FDI. Nevertheless, the economy remains vulnerable to global conditions, notably the risk of a protracted period of slow growth in Europe or an oil price surge resulting from geopolitical tensions. Hence, it is important for the authorities to continue implementing reforms to rebuild external and fiscal buffers, strengthen competitiveness, and increase the resilience of the economy.

28. The authorities’ fiscal and monetary policy mix has been appropriate to sustain the ongoing stabilization of the economy. The current fiscal adjustment path aims to support the external adjustment and ensure fiscal sustainability while preserving growth. As public debt has reached a relatively high level and is accompanied by large financing needs, the planned improvement in the primary balance is important to bring debt back onto a downward path. Efforts to reduce the fiscal deficit should continue beyond 2017, for which the authorities target a deficit of 3 percent of GDP. At the same time, the projected reduction in subsidy and wage bills will free space that should be used to increase growth-enhancing capital spending. Monetary policy has been appropriately loosened in the context of low inflation, slow credit growth, and a negative output gap.

29. Adapting the policy framework is important to strengthen the resilience of the economy. Although stronger provisions in some areas would have been warranted, the new OBL is expected to strengthen and modernize the fiscal framework by enhancing its efficiency, improving financial control, and increasing fiscal transparency. Staff urges the authorities to address the Constitutional Council's comments as quickly as possible to avoid further delay in the implementation of the law. Transitioning to a more flexible exchange rate regime would better support the diversification of trade and financial flows while helping preserve competitiveness, and would better insulate the economy against shocks. Staff supports BAM's efforts to strengthen the financial supervisory and regulatory framework to ensure the continued soundness of the financial sector. In particular, BAM's is appropriately tackling the challenges that come with the international expansion of major Moroccan banks. The upcoming FSAP update will provide an opportunity for an in-depth assessment of the stability and development opportunities of the financial sector.

30. Fiscal reforms have a central role to play in reducing vulnerabilities and promoting higher and more inclusive growth. The authorities are to be commended for the remarkable progress in reforming the subsidy system, a pillar of the efforts to reduce vulnerabilities and create space for growth-enhancing and social spending. Similarly, the reform of the tax system aims to bolster the contribution of the fiscal sector to growth by making the system more equitable and better suited to support competitiveness. The pension reform is urgently needed to ensure the financial viability of the system and extend its coverage to a larger share of the workforce.

31. Steadfast implementation of structural reforms is needed to support higher and more inclusive growth. Improving the business environment is important to strengthen competitiveness and open more business opportunities. Although progress has been made, more efforts are needed to improve transparency, competition, and governance, streamline bureaucracy, and address corruption. The ongoing revamping of programs in support of employment is welcome. Lowering hiring and firing costs and improving the quality of education are also crucial to significantly reducing unemployment.

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

Table 1. Morocco: Selected Economic Indicators, 2011–19

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
				(Annual percentage change)							
Output and Prices											
Real GDP	5.0	2.7	4.4	3.5	2.9	4.7	4.4	5.0	5.3	5.4	5.4
Real agriculture GDP	5.6	-8.9	19.0	-1.3	-1.3	3.5	3.9	4.3	4.7	5.2	5.5
Real non-agriculture GDP	4.9	4.4	2.3	4.3	3.6	4.9	4.4	5.1	5.3	5.4	5.4
Consumer prices (end of period)	0.9	2.6	0.4	2.2	1.6	1.8	1.5	2.0	2.0	2.0	2.0
Consumer prices (period average)	0.9	1.3	1.9	1.1	0.4	2.0	1.5	2.0	2.0	2.0	2.0
				(In percent of GDP)							
Investment and Saving											
Gross capital formation	36.0	35.3	34.2	34.3	34.0	34.8	34.3	34.7	35.2	35.7	35.9
Of which: Nongovernment	30.6	29.7	28.9	29.7	28.5	29.8	29.7	29.6	29.3	29.4	29.4
Gross national savings	27.9	25.5	26.6	27.5	28.1	29.0	31.0	31.6	32.3	32.7	33.1
Of which: Nongovernment	27.5	25.9	25.0	26.2	26.0	25.9	29.2	28.0	27.4	27.2	27.2
				(In percent of GDP)							
Public Finances											
Revenue	27.8	28.7	28.6	27.9	28.3	28.1	27.0	27.5	28.1	27.9	27.9
Expenditure	34.5	36.1	33.9	32.9	33.2	32.4	31.4	31.1	31.1	30.8	30.6
Budget balance	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Primary balance (excluding grants)	-4.6	-5.0	-3.4	-2.9	-3.7	-2.6	-3.1	-1.7	-1.4	-0.6	-0.1
Cyclically-adjusted primary balance (excl. grants)	-4.7	-5.1	-2.9	-3.4	-3.5	-2.6	-3.0	-1.6	-1.3	-0.5	-0.1
Total government debt	53.7	59.7	63.6	65.5	66.4	65.7	68.0	67.3	66.2	64.9	63.4
				(Annual percentage change; unless otherwise indicated)							
Monetary Sector											
Credit to the private sector 3/	9.8	4.8	3.8	4.4	4.6	4.7	5.1	5.9	6.1	6.0	6.3
Base money	5.7	-0.5	9.0	4.5	4.8	5.0	5.5	5.7	5.7	6.0	6.0
Broad money	6.4	4.5	3.1	4.5	4.8	5.0	5.5	5.7	5.7	6.0	6.0
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.4	3.4	3.4	...	...	...	...	...	...	...	...
				(In percent of GDP; unless otherwise indicated)							
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	17.1	-2.6	1.5	8.3	4.8	8.7	-0.7	8.7	8.4	9.2	8.4
Imports of goods and services (in U.S. dollars, percentage change)	23.4	-0.2	1.1	6.3	0.8	5.5	-7.6	7.6	7.3	7.2	7.5
Merchandise trade balance	-19.4	-20.9	-19.6	-18.8	-17.6	-17.7	-14.4	-14.8	-14.7	-14.4	-14.1
Current account excluding official transfers	-8.4	-10.0	-8.3	-8.1	-7.5	-6.8	-4.7	-4.1	-3.8	-3.2	-3.0
Current account including official transfers	-8.0	-9.7	-7.6	-6.8	-5.8	-5.8	-3.3	-3.2	-2.9	-3.0	-2.8
Foreign direct investment	2.4	2.4	2.9	2.5	2.9	2.6	2.7	2.7	2.8	2.9	2.8
Total external debt	26.6	29.2	30.2	32.9	32.1	33.2	32.9	33.0	32.4	32.0	31.6
Gross reserves (in billions of U.S. dollars)	20.6	17.5	19.3	21.1	20.4	22.7	23.2	25.8	28.1	30.9	33.5
In months of next year imports of goods and services	5.0	4.2	4.6	4.5	5.3	4.5	5.6	5.8	5.9	6.0	6.1
In percent of Fund reserve adequacy metric	108.5	86.5	89.5	91.1	93.6	92.3	103.9	110.7	115.6	121.4	124.7
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	99.2	95.9	103.8	112.6	109.2	121.9	106.9	114.7	122.9	131.9	141.7
Unemployment rate (in percent)	8.9	9.0	9.2	...	...	...	...	...	...	...	...
Population (millions)	32.2	32.5	32.9	33.2	33.2	33.5	33.5	33.8	34.2	34.5	34.8
Net imports of energy products (in billions of U.S. dollars)	-11.2	-12.3	-12.1	-12.8	-11.1	-13.3	-7.4	-8.7	-9.6	-10.5	-11.4
Local currency per U.S. dollar (period average)	8.1	8.6	8.4	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	-1.1	0.2	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.
2/ Revised macro framework.
3/ Includes credit to public enterprises.

Table 2. Morocco: Budgetary Central Government Finance, 2011–19

(Billions of dirhams)

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Revenue	223.3	237.7	250.0	257.1	259.3	276.2	263.5	286.6	313.5	333.9	359.5
Taxes	189.0	202.7	200.7	208.5	203.8	226.5	212.7	235.9	260.1	285.5	307.7
Taxes on income, profits, and capital gains	69.2	77.4	75.7	76.7	76.3	85.5	80.1	88.7	97.9	107.1	115.0
Taxes on property	9.3	11.6	11.7	14.1	13.9	13.4	12.9	13.8	15.6	16.8	18.0
Taxes on goods and services	94.6	99.0	100.0	105.1	100.7	114.5	106.9	119.7	132.7	144.7	155.5
Taxes on international trade and transactions	10.7	9.4	8.1	8.1	8.1	8.3	7.7	8.3	8.9	10.4	12.1
Other taxes	5.3	5.4	5.2	4.5	4.7	4.8	5.1	5.4	5.0	6.5	7.0
Grants	1.3	0.5	6.1	12.3	13.8	10.5	14.6	10.3	10.3	2.2	2.2
Other revenue	33.0	34.6	43.2	36.3	41.7	39.3	36.2	40.3	43.0	46.2	49.7
Expense	234.2	252.5	250.0	260.4	254.5	268.4	260.9	270.3	281.1	293.4	310.1
Compensation of employees	99.8	108.9	112.8	119.2	117.3	124.5	123.1	126.4	129.2	132.2	135.4
Of which: wages and salaries	89.0	96.7	99.0	103.7	101.6	107.4	105.5	108.8	111.1	113.6	116.3
social contributions	10.9	12.2	13.7	15.5	15.7	17.2	17.6	17.6	18.1	18.6	19.1
Use of goods and services and grants	53.5	56.6	59.3	65.7	65.0	72.0	73.0	72.5	80.7	88.0	93.6
Of which: Use of goods and services	22.3	20.9	21.5	24.4	23.6	26.0	27.8	25.0	29.0	31.2	33.5
Grants	31.2	35.6	37.8	41.4	41.4	46.0	45.2	47.5	51.7	56.8	60.2
Interest	18.2	20.1	22.5	25.7	24.8	26.5	26.9	29.2	28.7	30.3	34.8
Subsidies	48.8	54.9	41.6	35.0	32.6	23.2	22.9	21.9	19.3	18.0	19.5
Of which: transfers to ONEE	…	…	…	2.8	2.6	4.8	4.8	4.8	1.6	0.0	0.0
Other expense 3/	13.8	12.1	13.9	14.8	14.8	22.1	15.0	20.2	23.2	24.9	26.7
Net acquisition of nonfinancial assets	43.0	46.1	45.7	42.1	49.7	49.7	44.8	53.2	66.3	75.5	83.7
Net lending / borrowing (overall balance)	-53.9	-60.9	-45.7	-45.4	-44.9	-41.8	-42.2	-36.9	-34.0	-35.0	-34.3
Net lending / borrowing (excluding grants)	-55.2	-61.3	-51.8	-57.7	-58.7	-52.3	-56.9	-47.3	-44.3	-37.2	-36.5
Change in net financial worth	-53.9	-60.9	-45.7	-45.4	-44.9	-41.8	-42.2	-36.9	-34.0	-35.0	-34.3
Net acquisition of financial assets	-5.7	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.7	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-5.6	-3.3	0.0	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	48.2	57.6	50.0	43.4	42.8	41.8	42.2	36.9	34.0	35.0	34.3
Domestic	40.9	42.3	38.9	27.7	32.9	27.7	25.9	22.5	25.4	21.3	20.2
Currency and Deposits	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	37.4	47.1	47.4	39.6	44.8	27.7	25.9	22.5	25.4	21.3	20.2
Other accounts payable	9.9	-4.8	-8.6	-11.9	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	7.3	15.3	11.1	15.7	9.9	14.2	16.3	14.4	8.6	13.7	14.1
Memorandum Item:											
Total investment (including capital transfers)	56.8	58.1	59.6	56.8	64.4	71.8	59.8	73.4	89.5	100.4	110.4
GDP	802.6	827.5	872.8	919.7	917.3	981.9	974.7	1,041.5	1,116.5	1,198.3	1,287.5

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2011–19
(Percent of GDP)

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Revenue	27.8	28.7	28.6	27.9	28.3	28.1	27.0	27.5	28.1	27.9	27.9
Taxes	23.5	24.5	23.0	22.7	22.2	23.1	21.8	22.7	23.3	23.8	23.9
Taxes on income, profits, and capital gains	8.6	9.4	8.7	8.3	8.3	8.7	8.2	8.5	8.8	8.9	8.9
Taxes on property	1.2	1.4	1.3	1.5	1.5	1.4	1.3	1.3	1.4	1.4	1.4
Taxes on goods and services	11.8	12.0	11.5	11.4	11.0	11.7	11.0	11.5	11.9	12.1	12.1
Taxes on international trade and transactions	1.3	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.9
Other taxes	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.2	0.1	0.7	1.3	1.5	1.1	1.5	1.0	0.9	0.2	0.2
Other revenue	4.1	4.2	5.0	3.9	4.5	4.0	3.7	3.9	3.9	3.9	3.9
Expense	29.2	30.5	28.6	28.3	27.7	27.3	26.8	26.0	25.2	24.5	24.1
Compensation of employees	12.4	13.2	12.9	13.0	12.8	12.7	12.6	12.1	11.6	11.0	10.5
Of which: wages and salaries	11.1	11.7	11.3	11.3	11.1	10.9	10.8	10.4	9.9	9.5	9.0
social contributions	1.4	1.5	1.6	1.7	1.7	1.7	1.8	1.7	1.6	1.6	1.5
Use of goods and services and grants	6.7	6.8	6.8	7.1	7.1	7.3	7.5	7.0	7.2	7.3	7.3
Of which: Use of goods and services	2.8	2.5	2.5	2.7	2.6	2.7	2.9	2.4	2.6	2.6	2.6
Grants	3.9	4.3	4.3	4.5	4.5	4.7	4.6	4.6	4.6	4.7	4.7
Interest	2.3	2.4	2.6	2.8	2.7	2.7	2.8	2.8	2.6	2.5	2.7
Subsidies	6.1	6.6	4.8	3.8	3.6	2.4	2.3	2.1	1.7	1.5	1.5
Of which: transfers to ONEE	0.0	0.0	0.0	0.3	0.3	0.5	0.5	0.5	0.1	0.0	0.0
Other expense 3/	1.7	1.5	1.6	1.6	1.6	2.2	1.5	1.9	2.1	2.1	2.1
Net acquisition of nonfinancial assets	5.4	5.6	5.2	4.6	5.4	5.1	4.6	5.1	5.9	6.3	6.5
Net lending / borrowing (overall balance)	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Net lending / borrowing (excluding grants)	-6.9	-7.4	-5.9	-6.3	-6.4	-5.3	-5.8	-4.5	-4.0	-3.1	-2.8
Change in net financial worth	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Net acquisition of financial assets	-0.7	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.7	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.7	-0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.0	7.0	5.7	4.7	4.7	4.3	4.3	3.5	3.0	2.9	2.7
Domestic	5.1	5.1	4.5	3.0	3.6	2.8	2.7	2.2	2.3	1.8	1.6
Currency and Deposits	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.7	5.7	5.4	4.3	4.9	2.8	2.7	2.2	2.3	1.8	1.6
Other accounts payable	1.2	-0.6	-1.0	-1.3	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.9	1.8	1.3	1.7	1.1	1.4	1.7	1.4	0.8	1.1	1.1
Memorandum items:											
Total investment (including capital transfers)	7.1	7.0	6.8	6.2	7.0	7.3	6.1	7.1	8.0	8.4	8.6

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Includes capital transfers to public entities.

Table 4. Morocco: Budgetary Central Government Balance Sheet, 2011–19
(Billions of dirhams)

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019
Net financial worth	-428.9	-491.7	-552.8	-594.9	-601.6	-638.0	-655.5	-693.3	-731.2	-770.7	-808.5
Financial assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Currency and deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	430.9	493.7	554.8	596.9	603.6	639.9	657.5	695.3	733.2	772.6	810.5
Domestic	331.3	376.8	425.0	451.4	463.9	480.3	501.4	524.8	554.1	579.8	603.6
Securities other than shares 3/	331.3	378.4	425.9	463.7	470.7	491.4	496.6	519.1	544.5	565.8	586.0
Foreign	99.6	116.9	129.8	145.5	139.7	159.7	156.0	170.5	179.1	192.8	206.9
Loans 3/	99.6	114.2	129.8	145.5	139.7	159.7	156.0	170.5	179.1	192.8	206.9
Memorandum Item:											
GDP	802.6	827.5	872.8	919.7	917.3	981.9	974.7	1,041.5	1,116.5	1,198.3	1,287.5

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Data for the remaining instruments are currently not available.

Table 5. Morocco: Balance of Payments, 2011–19
(In billions of U.S. dollars, unless otherwise indicated)

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Current account	-8.0	-9.3	-7.9	-7.7	-6.4	-7.1	-3.5	-3.6	-3.6	-4.0	-4.0
Trade balance	-19.3	-20.1	-20.4	-21.2	-19.2	-21.6	-15.4	-16.9	-18.1	-19.0	-20.0
Exports, f.o.b.	21.6	21.4	22.0	23.8	23.4	25.9	23.8	25.4	27.6	30.1	33.0
Agriculture	3.5	3.5	3.9	4.2	4.0	4.4	4.1	4.3	4.5	4.8	5.1
Phosphates and derived products	6.0	5.5	4.7	4.6	4.7	5.0	4.7	5.0	5.3	5.6	5.9
Imports, f.o.b.	-40.9	-41.5	-42.4	-45.0	-42.6	-47.5	-39.2	-42.4	-45.7	-49.1	-53.0
Energy	-11.2	-12.3	-12.1	-12.8	-11.1	-13.3	-7.4	-8.7	-9.6	-10.5	-11.4
Capital goods	-8.4	-8.4	-9.4	-10.4	-8.9	-10.9	-9.3	-10.0	-10.7	-11.6	-12.6
Food products	-4.8	-4.8	-4.3	-4.7	-5.0	-4.7	-4.6	-4.8	-4.9	-5.1	-5.5
Services	5.3	5.2	5.6	6.3	5.7	7.1	5.4	6.6	7.4	8.4	9.1
Tourism receipts	7.3	6.7	6.9	7.4	6.9	8.0	6.5	7.3	7.8	8.3	8.9
Income	-2.0	-2.2	-1.8	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6	-2.8	-3.0
Transfers	8.0	7.7	8.7	9.5	9.6	9.7	8.9	9.2	9.7	9.4	10.0
Private transfers (net)	7.7	7.4	7.9	8.1	7.8	8.5	7.4	8.1	8.6	9.2	9.8
Workers' remittances	7.1	6.7	6.9	6.9	6.8	7.3	6.5	7.2	7.7	8.3	8.9
Official grants (net)	0.3	0.2	0.8	1.4	1.8	1.2	1.6	1.1	1.1	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.2	8.9	9.4	9.3	8.5	6.8	6.3	5.9	6.9	6.6
Direct investment	2.4	2.3	3.0	2.8	3.2	3.2	2.9	3.1	3.5	3.8	4.0
Privatization	0.7	0.4	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.2	0.2	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Other	3.5	3.7	5.7	6.4	6.0	5.0	3.8	3.1	2.3	2.9	2.5
Private	1.9	1.0	3.2	2.1	2.5	2.2	1.1	0.7	0.6	0.7	0.2
Public medium-and long-term loans (net)	1.7	2.7	2.5	4.3	3.5	2.8	2.7	2.4	1.7	2.2	2.3
Disbursements	3.2	4.3	4.3	6.1	5.3	4.7	4.4	4.0	4.0	4.0	4.0
Amortization	-1.5	-1.6	-1.8	-1.8	-1.8	-1.9	-1.7	-1.6	-2.3	-1.8	-1.7
Reserve asset accumulation (-increase)	2.6	3.5	-1.4	-1.7	-2.9	-1.4	-3.3	-2.7	-2.3	-2.8	-2.6
Errors and omissions	-0.3	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Percent of GDP)											
Current account	-8.0	-9.7	-7.6	-6.8	-5.8	-5.8	-3.3	-3.2	-2.9	-3.0	-2.8
Trade balance	-19.4	-20.9	-19.6	-18.8	-17.6	-17.7	-14.4	-14.8	-14.7	-14.4	-14.1
Exports, f.o.b.	21.8	22.3	21.2	21.1	21.4	21.2	22.3	22.2	22.4	22.8	23.2
Agriculture	3.6	3.7	3.7	3.8	3.7	3.6	3.9	3.7	3.7	3.6	3.6
Phosphates and derived products	6.0	5.7	4.5	4.1	4.3	4.1	4.4	4.4	4.3	4.3	4.2
Imports, f.o.b.	-41.2	-43.3	-40.8	-40.0	-39.0	-38.9	-36.7	-37.0	-37.1	-37.2	-37.4
Petroleum	-11.3	-12.9	-11.7	-11.3	-10.2	-11.0	-6.9	-7.6	-7.8	-8.0	-8.0
Capital goods	-8.5	-8.8	-9.1	-9.2	-8.2	-9.0	-8.7	-8.7	-8.7	-8.8	-8.9
Food products	-4.8	-5.0	-4.1	-4.2	-4.6	-3.9	-4.3	-4.1	-4.0	-3.9	-3.9
Services	5.4	5.5	5.4	5.6	5.2	5.9	5.1	5.7	6.0	6.4	6.4
Tourism receipts	7.3	7.0	6.6	6.6	6.3	6.6	6.1	6.4	6.3	6.3	6.3
Income	-2.1	-2.3	-1.7	-2.0	-2.2	-1.9	-2.3	-2.1	-2.1	-2.1	-2.1
Transfers	8.1	8.0	8.4	8.4	8.8	8.0	8.3	8.0	7.9	7.1	7.0
Private transfers (net)	7.7	7.8	7.7	7.2	7.1	7.0	6.9	7.1	7.0	7.0	6.9
Workers' remittances	7.2	7.0	6.7	6.1	6.3	6.0	6.1	6.3	6.3	6.3	6.3
Official grants (net)	0.3	0.3	0.7	1.2	1.6	1.0	1.5	0.9	0.9	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.4	8.6	8.4	8.5	6.9	6.3	5.5	4.8	5.2	4.7
Direct investment	2.4	2.4	2.9	2.5	2.9	2.6	2.7	2.7	2.8	2.9	2.8
Privatization	0.7	0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other	3.6	3.9	5.5	5.7	5.5	4.1	3.5	2.7	1.8	2.2	1.8
Private 3/	1.9	1.0	3.1	1.9	2.3	1.8	1.0	0.6	0.5	0.5	0.2
Public medium-and long-term loans (net)	1.7	2.9	2.4	3.8	3.2	2.3	2.5	2.1	1.4	1.7	1.6
Disbursements	3.2	4.5	4.1	5.4	4.8	3.8	4.1	3.5	3.2	3.0	2.8
Amortization	-1.5	-1.7	-1.7	-1.6	-1.6	-1.5	-1.6	-1.4	-1.9	-1.3	-1.2
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	17.1	-2.6	1.5	11.8	4.8	8.5	-0.7	8.7	8.4	9.2	8.4
Imports of goods and services (in U.S. dollars, percentage change)	23.4	-0.2	1.1	7.5	0.8	5.9	-7.6	7.6	7.3	7.2	7.5
Current account balance excluding official grants (percent of GDP)	-8.4	-10.0	-8.3	-8.1	-7.5	-6.8	-4.7	-4.1	-3.8	-3.2	-3.0
Terms of trade (percentage change)	2.3	-11.9	-2.5	-2.9	-1.2	0.1	9.0	-2.1	-1.1	-0.6	-0.4
Gross official reserves 3/	20.6	17.5	19.3	21.1	20.4	22.7	23.2	25.8	28.1	30.9	33.5
In months of prospective imports of GNFS	5.0	4.2	4.6	4.5	5.3	4.5	5.6	5.8	5.9	6.0	6.1
In percent of the Assessing Reserve Adequacy (ARA) metric	108.5	86.5	89.5	91.1	93.6	92.3	103.9	110.7	115.6	121.4	124.7
Debt service (percent of export of GNFS and remittances) 4/	5.3	5.8	6.7	6.6	6.6	6.3	6.3	6.2	7.1	5.5	5.1
External public and publicly guaranteed debt (percent of GDP)	23.6	25.7	26.9	29.3	28.8	29.8	29.6	29.8	29.1	28.9	28.5
DHs per US$, period average	8.1	8.6	8.4	...	...	...	...	...	...	...	...
GDP (US$)	99.2	95.9	103.8	112.6	109.2	121.9	106.9	114.7	122.9	131.9	141.7
Oil price (US$/barrel; Brent)	111.0	112.0	108.8	107.9	98.9	104.0	52.8	61.6	66.9	70.2	72.3

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Excluding the reserve position in the Fund.

Table 6. Morocco: Monetary Survey, 2011–15

	2011	2012	2013	PLL 1/ 2014	Rev. 2/ 2014	PLL 1/ 2015	Rev. 2/ 2015
	(Billions of dirhams)						
Net foreign assets	173.8	144.7	150.3	164.5	173.8	175.4	203.6
Monetary authorities	171.9	145.4	153.2	167.3	177.1	178.1	206.9
Of which: Gross reserves	177.1	147.9	156.9	173.6	180.8	184.4	210.6
Deposit money banks	1.7	2.7	-1.8	-2.8	-1.6	-2.7	-1.3
Net domestic assets	775.6	844.1	871.8	901.8	896.8	944.2	925.7
Domestic credit	798.3	855.0	906.5	911.6	948.5	957.6	1,008.6
Net claims on the government	102.1	125.4	149.3	130.8	156.8	140.3	176.2
Banking system	102.1	125.4	149.3	130.8	156.8	140.3	176.2
Bank Al-Maghrib	2.2	0.5	0.8	0.6	0.6	0.2	0.3
Of which: deposits	-3.4	-4.5	-4.6	-4.8	-4.8	-5.2	-5.1
Deposit money banks	99.9	124.9	148.5	130.2	156.2	140.1	175.9
Credit to the economy	696.2	729.6	757.2	780.8	791.7	817.2	832.4
Other liabilities, net	22.7	10.9	34.7	9.8	51.7	13.3	82.9
Broad money	949.3	992.2	1,023.2	1,066.3	1,072.3	1,119.6	1,131.3
Money	586.8	612.2	628.9	657.6	660.6	702.7	705.0
Currency outside banks	158.3	163.6	171.4	180.8	180.1	193.1	191.4
Demand deposits	428.5	448.5	457.6	476.8	480.4	509.7	513.6
Quasi money	340.9	354.7	371.1	386.4	386.0	401.9	401.4
Foreign deposits	21.6	25.3	23.1	22.3	25.7	15.1	24.9
	(Annual percentage change)						
Net foreign assets	-11.8	-14.7	2.2	9.5	15.9	6.6	17.1
Net domestic assets	11.6	8.8	3.3	3.6	2.9	4.7	3.2
Domestic credit	11.6	7.1	6.0	3.9	4.6	5.0	6.3
Net claims on the government	25.8	22.8	19.0	0.6	5.0	7.3	12.4
Credit to the economy	9.8	4.8	3.8	4.4	4.6	4.7	5.1
Broad money	6.4	4.5	3.1	4.5	4.8	5.0	5.5
	(Change in percent of broad money)						
Net foreign assets	-2.6	-2.7	0.3	1.4	2.4	1.0	2.8
Domestic credit	9.3	6.0	5.2	3.3	4.1	4.3	5.6
Net claims on the government	2.3	2.5	2.4	0.1	0.7	0.9	1.8
Credit to the economy	6.9	3.5	2.8	3.3	3.4	3.4	3.8
Other assets net	-0.3	1.2	-2.4	-0.2	-1.7	-0.3	-2.9
Memorandum items:							
Velocity (GDP/M3)	0.85	0.83	0.85	0.86	0.86	0.88	0.86
Velocity (non-agr. GDP/M3)	0.73	0.73	0.73	0.75	0.74	0.76	0.74
Credit to economy/GDP (in percent)	86.7	88.2	86.8	84.9	86.3	83.2	85.4
Credit to economy/nonagricultural GDP (in percent)	100.0	100.6	101.1	98.2	99.9	96.1	98.8

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

Table 7. Morocco: Financial Soundness Indicators, 2008–14
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	June 2014
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.5
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.4
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.7
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.4
Of which: textile	1.7	1.9	1.4	1.3	1.2	1.0	1.0
Of which: gas and electricity	3.3	2.9	3.9	4.5	4.8	4.7	5.7
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	4.1
Commerce	6.5	7	6.7	6.6	6.7	6.2	6.4
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.7
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4
Finance	13.1	12.5	12.1	11.9	11	12.7	11
Public administration	3.7	4.3	5	4.8	5	5.0	4.9
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7
Households	26.5	27.6	28.1	27.6	28.9	29.7	30.4
Other	4.4	5.4	5.4	5.5	6.4	5.1	5.1
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9
Credit to the private sector to total loans	93.3	91	91	92	91	91	91
Nonperforming Loans (NPLs) to total loans	6	5.5	4.8	4.8	5	5.9	6.5
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64	63
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.0
Large exposures to Tier 1 capital	314	376	336	354	347	327	339
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	4.6
Loans to shareholders to total loans	2	1	0.8	1.2	1	1.3	0.7
Specific provisions to total loans	4.5	4	3.4	3.5	3.3	3.8	4.1
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8
Profitability							
Return on assets (ROA)	1.2	1.2	1.2	1.1	1	1	1.1
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	12
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.0
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.1
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74	69.2
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	41.9
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.8
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	48.2
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26	30.8
Liquidity							
Liquid assets to total assets	24.4	17.3	12	11.4	10.5	12.5	11.3
Liquid assets to short-term liabilities	24.7	23	16	16.1	14.7	17.4	17.1
Deposits to loans	113	108	104	99	96.1	96.2	98
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	3.1
Sensitivity to market risk							
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	11.3	2.3

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.

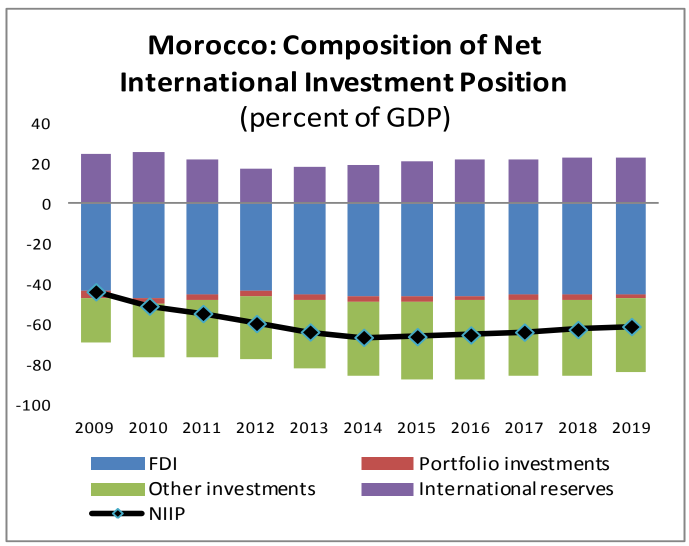
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

Annex I. External Sector Assessment

External sustainability is strengthening

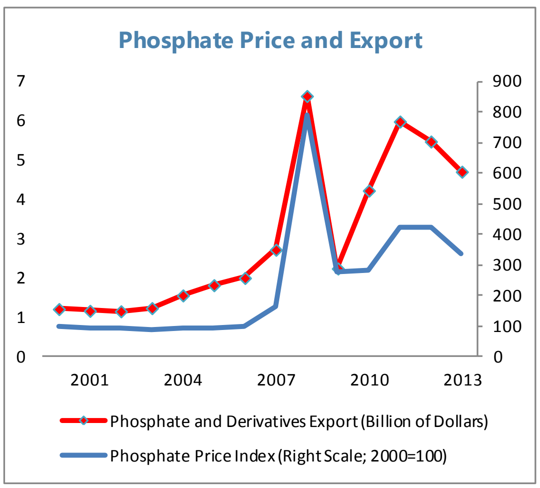
The current account deficit has narrowed considerably since 2012 and is expected to continue improving over the medium term. The current account deficit is estimated to have decreased by almost 4 percentage points of GDP from its 2012 peak to 5.8 percent of GDP in 2014. Fiscal consolidation, the strong export performance of newly developed industries, slower imports reflecting better prices but also a slowdown in domestic investment all contributed to this improvement. As a result, reserves exceeded five months of imports at end 2014 or 93.6 percent of the Fund's reserve adequacy (ARA) metric for emerging markets, up from 86.5 percent at end-2012. In 2015 and over the medium term, the current account deficit is expected to continue narrowing and the reserve position to strengthen while the capital and financial accounts are expected to remain strong, particularly FDI, as Morocco remains an attractive destination owing to domestic stability and sound economic fundamentals.

The external debt remains sustainable. The debt-to-GDP ratio stood at 32.1 percent at end-2014 and is expected to stabilize around that level over the medium term. However, a 30 percent exchange rate depreciation or a shock to non-interest current account would result in a significant increase in debt relative to GDP (Table 3, Figure 1—External DSA). The net international investment position (NIIP), which deteriorated strongly following the global financial crisis, is expected to gradually improve over the next few years as external buffers strengthen.



The External Balance Assessment (EBA) indicates that the real effective exchange rate is in line with fundamentals, reflecting improvements in the current account (Table 2). The current account approach of the IMF's EBA methodology points to a current account gap of -1.7 percent of GDP (compared to -2.6 percent for the 2013 assessment). The equivalent overvaluation of the dirham (5.5 percent) suggests that policy efforts to reduce imbalances should continue, particularly in the fiscal sector. On the positive side, the rebuilding of reserve buffers has contributed to closing the current account gap relative to fundamentals. The external sustainability approach, which assumes the implementation of planned policies over the medium term, points to a current account deficit that is slightly smaller than the norm current account, and thereby an undervaluation of the dirham by 6 percent (as compared to a small overvaluation in previous assessments). Taken together, the two results suggest the exchange rate is in line with fundamentals.

An increasing diversification of export products is also improving the economy's resilience to external shocks (Figure 2). The diversification strategy launched in 2008 (Plan Emergence) is bearing fruit, as testified by the emergence of newly developed industries (automobile, aeronautics, and electronics), which are offsetting the relative decline of traditional exports such as textiles and phosphate. The continued flow of FDI to these new sectors should sustain their expansion over the medium term. The decline of phosphate and related products results from the normalization of their prices from their peak in the late 2000s. From 2000 to 2008, the prices of phosphate and its derivatives increased more than fivefold before declining at end-2013 to about three times the prices of 2000. A further decline is expected over the medium term, making the emergence of new export sectors even more important to sustain the improvement of the external position.

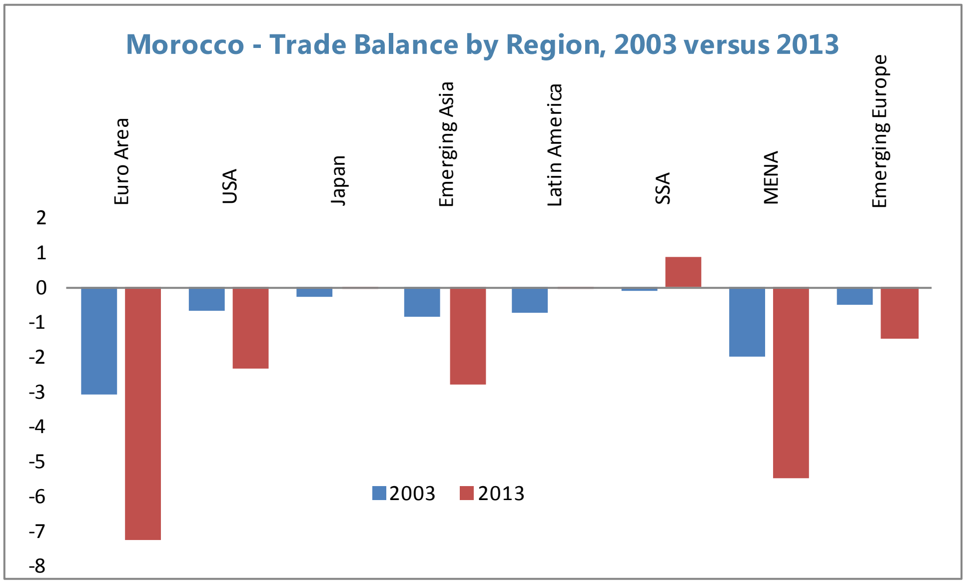


Dynamics of Exports by Sector (share of total exports)

	2010	2011	2012	2013	Oct. 2014
Phosphate and derivatives	24.0	27.7	26.2	20.2	19.4
Agriculture and Agro-industry	19.7	17.9	17.7	19.5	18.0
Textile and leather	20.3	18.4	17.9	17.3	16.7
Automobile	12.3	13.3	13.6	16.9	19.8
Electronics	4.5	4.1	3.8	3.8	4.5
Aeronautics	3.5	3.3	3.6	4.2	3.7
Pharmaceutical Industry	0.4	0.3	0.5	0.5	0.5
Others	15.3	14.9	16.8	17.5	17.5

Trade is slowly diversifying away from the euro area, but Europe remains Morocco's principal external partner (Figure 2). The share of exports to the euro area in total exports declined from 69 percent to 56 percent between 2003 and 2013. Over the same period, exports to Latin America grew from 3 percent to 7 percent of total Moroccan exports. Moroccan imports from the euro area also declined from 53 percent to 44 percent of total Moroccan imports between 2003 and 2013. At the same time, imports from the MENA region (dominated by oil imports), emerging Asia, and the United States as a share of total Moroccan imports grew by 6, 4, and 3 percentage points respectively. As a result, between 2003 and 2013, Morocco's trade balance improved vis-à-vis sub-Saharan Africa (SSA) and Latin America.

As part of its diversification strategy, Morocco has successfully increased its trade with sub-Saharan Africa.[7] Exports to SSA grew more than fivefold in nominal terms during the period 2003–13. They were 2 percent of total exports in 2003 and 6 percent of total exports in 2013. As of 2013, SSA is the only region with which Morocco has a trade surplus. However, in spite of the recent surge of exports to SSA, the market share of Morocco in total SSA imports was only 0.3 percent in 2013. Morocco aims to increase its market share of SSA imports, including through the development of bilateral business ventures and the expansion of its banks in SSA.



Other competitiveness indicators are improving

Morocco's global competitiveness position indicator improved over the past year. Morocco moved up to 72nd position in the 2014–15 Global Competitiveness Report, partially reflecting a recovery from the previous year's drop (77th position in 2013–14, 70th position in 2012–13).[8] The report attributed the better ranking to improved institutions (reflected by social and political stability), economic diversification toward exports of higher-value-added industries, efforts made over recent years to modernize the business environment, the reduction of the budget deficit between 2012 and 2013, and improvements in primary education and innovation. The report also flagged other competitiveness strengths, such as physical security, some positive aspects of goods

[7] See also Selected Issues Paper:" The Sub-Saharan Expansion of Moroccan Banks: Challenges and Opportunities."

[8] The Global Competitiveness Index (GCI) attempts to quantify the impact of a number of key factors that contribute to create the conditions for competitiveness, with a particular focus on the macroeconomic environment, the quality of the country's institutions, and the state of the country's technology and supporting infrastructure.

markets efficiency, and a solid and efficient banking sector. However, it noted that Morocco should continue its effort to address key competiveness challenges, including boosting the quality of education and the ease of access to it (secondary education in particular), as well as reforming its labor market. Boosting the use of information and communication technologies by businesses and individuals would also greatly benefit the country's competitiveness.

The external position remains subject to significant risks.

While recent trends of the external sector are encouraging, the current account deficit remains relatively high and further trade diversification is needed. At 5.8 percent of GDP at end-2014, the current account deficit remains relatively high. Despite the diversification of trade toward other regions achieved in recent years, Europe remains Morocco's dominant external partner, with more than 50 percent of trade, FDI, and remittances (Figure 2). As a result, shocks emanating from Europe continue to have substantial impact on the economy, making the external position vulnerable to a protracted period of slow growth in Europe. The dependence on oil imports, which amounted to about 10.2 percent of GDP in 2014, is another source of vulnerability: a reversal of the current fall in oil prices could significantly and rapidly widen the deficit again. Further diversification of energy sources would mitigate this risk, as would further reforming energy subsidies. The current account deficit is financed with net FDI inflows and debt issuance. Should a shock to these sources of financing occur, for instance stemming from an abrupt surge in global financial market volatility that would increase world interest rates and risk-aversion, pressure on reserves would recur and external buffers could erode again.

Table 1. External Sustainability Assessment

	Morocco	Overall Assessment
Current account	**Background.** The current account (CA) deficit is expected to decrease from 9.7 percent of GDP in 2012 to 5.8 percent of GDP in 2014 (6 percent cyclically adjusted), reflecting strong export growth driven by newly emerging sectors and contained import growth. This trend is expected to continue and the current account is projected to reach about 2.8 percent of GDP over the medium-term, absent a protracted slowdown in Europe and a spike in oil prices. **Assessment.** The EBA CA model estimates that the CA gap (CA relative to its norm) is about 1.7 percent of GDP at end-2014. On the other hand, the ES approach indicates that if planned policies are implemented over the medium term, the CA would be broadly in line with fundamentals over that horizon. These two results suggest that policy efforts to reduce imbalances should continue, including a diversification of export base and destinations.	**Overall Assessment.** *Morocco's external sector position is improving, but vulnerabilities remain.* The current account is in line with fundamentals, reflecting improvements in recent years. The reserve position is adequate for normal time and the PLL arrangement provides an added buffer against unforeseen strong global shocks. **Potential policy responses.** Continued implementation of the government's reform agenda (subsidies, business environment, diversification of exports based and trade partners) is key to further improving the resilience of the economy to external shocks. This is also important to continue attracting foreign investors and maintain access to international financial markets at favorable terms. Greater flexibility in the exchange rate regime would be desirable.
Real effective exchange rate (REER)	**Background.** The dirham is pegged to a basket of euro and dollar in the proportion 80/20. The recent depreciation of the euro relative to the dollar resulted in a similar movement of the dirham relative to the dollar. **Assessment.** The EBA REER regression was not applied to Morocco because of the lack of required data. The other EBA methods indicate that the REER is in line with fundamentals.	
Capital and financial accounts	**Background.** Capital inflows are dominated by FDI and loans. FDI originates mostly from Europe and flows particularly into the industrial sector. Access of the sovereign to the international financial market is well established and corporate access, though modest, is growing. **Assessment.** The risk of sudden capital flow reversal is small. Continued implementation of the government's structural reform agenda, including improvement in the business environment, is key to strengthening Morocco's competitive position and to maintaining Morocco as an attractive destination for FDI. The government's commitment to fiscal consolidation will also help maintain favorable access to international financial markets.	
Reserve position	**Background.** Reserves have been growing, reflecting strong performance of emerging export sectors, contained energy import bill, and stable capital flows. They now represent about five months of imports and 93.7 percent of the Fund's reserve adequacy metric for emerging markets (ARA). **Assessment.** The level of reserves is adequate for normal time, in spite of being less than 100 percent by the ARA metric, because of the capital controls that remain in place in Morocco.	
Foreign assets and liabilities position and trajectory	**Background.** Morocco's NIIP at end-2014 is estimated at about -67 percent of GDP, with assets representing 28 percent of GDP and liabilities 95 percent of GDP. The liabilities are dominated by FDI (48 percent of GDP) and external debt (32.1 percent of GDP). **Assessment.** The NIIP is sustainable, as improvements in the current account balance are expected to stabilize it around 61 percent of GDP over the medium term. Also, portfolio liabilities, which are the most volatile components of liabilities, represent only a small share of total liabilities. In addition, the external debt is sustainable, notwithstanding its sensitivity to some external shocks.	

Table 2. Morocco: Exchange Rate Assessment

Summary of the Current Account Method's Findings

(Projections for end-2014, percent of GDP)

		New
(1)	Cyclically-adjusted CA	-5.2
(2)	Current account "norm"	-3.6
(3)=(1)-(2)	Current account "gap"	-1.7
	Contribution of identified policy gaps	
(4)	Fiscal policy	-0.4
(5)	Social policy (health expenditure)	-0.4
(6)	Reserve policy	0.5
(7)	Financial policy (credit)	0.2
(8)	Capital controls	1.3
(9)=(4)+(5)+(6)+(7)+(8)	Total	1.1
(10)=(3)-(9)	Residual	-2.8
(11)	Elasticity of CA/REER	0.3
(12)=-(3)/(11)	Corresponding REER "gap"	5.5

Summary of the External Sustainability Method's Findings

(Percent of GDP)

(1)	NFA benchmark (end-2013 NFA)	-60.9
(2)	2019 CA/GDP	-2.8
(2)	2019 CA/GDP adjusted for multilateral consistency	-2.6
(3)	CA/GDP stabilizing NFA at benchmark	-4.4
(4)=(2)-(3)	CA/GDP "gap"	1.7
(5)	Elasticity of CA/REER	0.3
(6)=-(4)/(5)	Corresponding REER "gap"	-6.0

Table 3. Morocco: External Debt Sustainability Framework, 2009-19

(Percent of GDP, unless otherwise indicated)

						Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Baseline: External debt 1/	24.4	25.8	25.1	29.8	31.1	**30.4**	**33.0**	**33.0**	**32.4**	**32.0**	**31.6**
Change in external debt	2.6	1.4	-0.7	4.7	1.3	-0.8	2.6	0.0	-0.7	-0.3	-0.4
Identified external debt-creating flows (4+8+9)	3.3	3.2	3.7	8.1	2.2	2.0	-0.9	-1.2	-1.6	-1.5	-1.7
Current account deficit, excluding interest payments	4.6	3.4	7.3	8.9	6.7	5.0	2.4	2.1	1.9	2.1	1.9
Deficit in balance of goods and services	12.0	10.8	14.1	15.4	14.3	12.4	9.3	9.0	8.7	8.0	7.7
Exports	28.9	33.4	35.8	36.1	33.8	33.7	34.2	34.6	35.0	35.6	35.9
Imports	40.9	44.2	49.9	51.5	48.1	46.1	43.5	43.6	43.7	43.6	43.6
Net non-debt creating capital inflows (negative)	-1.6	-0.9	-2.2	-2.5	-3.1	-3.0	-2.8	-2.8	-2.9	-3.0	-2.9
Automatic debt dynamics 2/	0.3	0.7	-1.4	1.7	-1.4	0.0	-0.5	-0.5	-0.6	-0.7	-0.7
Contribution from nominal interest rate	0.8	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0	0.9
Contribution from real GDP growth	-1.0	-0.9	-1.2	-0.7	-1.2	-0.9	-1.4	-1.5	-1.6	-1.6	-1.6
Contribution from price and exchange rate changes 3/	0.5	0.9	-1.0	1.6	-1.1	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 4/	-0.7	-1.8	-4.4	-3.4	-0.9	-2.7	3.5	1.2	1.0	1.2	1.3
External debt-to-exports ratio (in percent)	84.5	77.3	70.2	82.7	92.1	90.2	96.6	95.5	92.4	89.9	88.0
Gross external financing need (in billions of US dollars) 5/	6.2	5.1	9.5	11.0	9.8	8.3	5.3	5.4	6.0	5.9	5.9
Percent of GDP	6.9	5.7	9.6	11.5	9.5	7.6	5.0	4.7	4.9	4.5	4.1
Scenario with key variables at their historical averages 6/						**30.4**	**30.8**	**31.7**	**32.1**	**32.8**	**33.4**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	4.8	3.6	5.0	2.7	4.4	2.9	4.4	5.0	5.3	5.4	5.4
GDP deflator in US dollars (change in percent)	-2.4	-3.7	4.1	-5.8	3.7	2.2	-6.2	2.2	1.8	1.9	1.9
Nominal external interest rate (percent)	3.9	2.9	3.4	3.3	3.2	3.0	2.8	3.4	3.2	3.2	3.1
Growth of exports (US dollar terms, percent)	-21.4	15.4	17.1	-2.6	1.5	4.8	-0.7	8.7	8.4	9.2	8.4
Growth of imports (US dollar terms, percent)	-19.7	7.8	23.4	-0.2	1.1	0.8	-7.6	7.6	7.3	7.2	7.5
Current account balance, excluding interest payments	-4.6	-3.4	-7.3	-8.9	-6.7	-5.0	-2.4	-2.1	-1.9	-2.1	-1.9
Net non-debt creating capital inflows	1.6	0.9	2.2	2.5	3.1	3.0	2.8	2.8	2.9	3.0	2.9

Sources: IMF country desk data; and IMF staff estimates.

1/ This ratio is based on debt and GDP in dollar term.

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

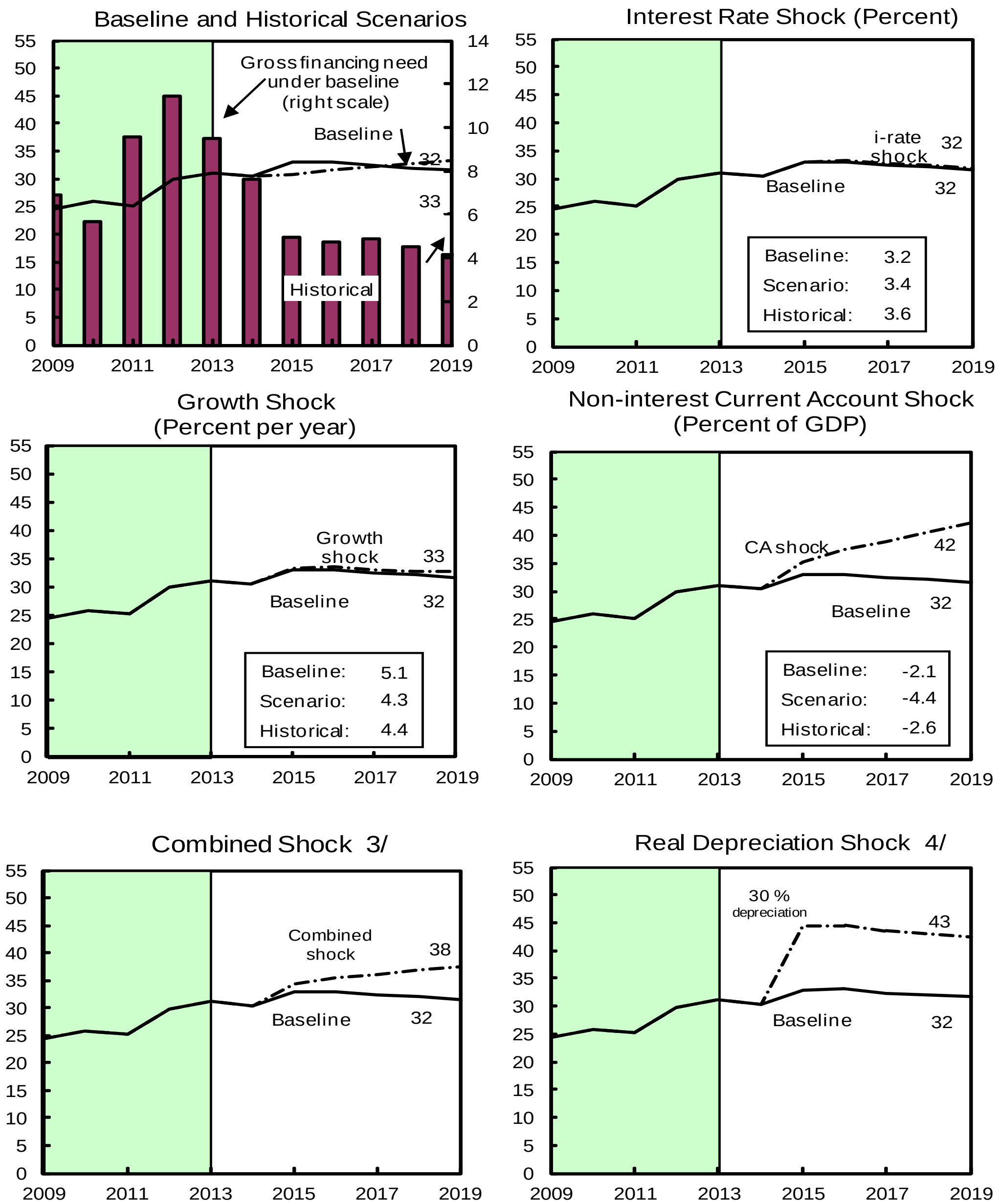
3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes.

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

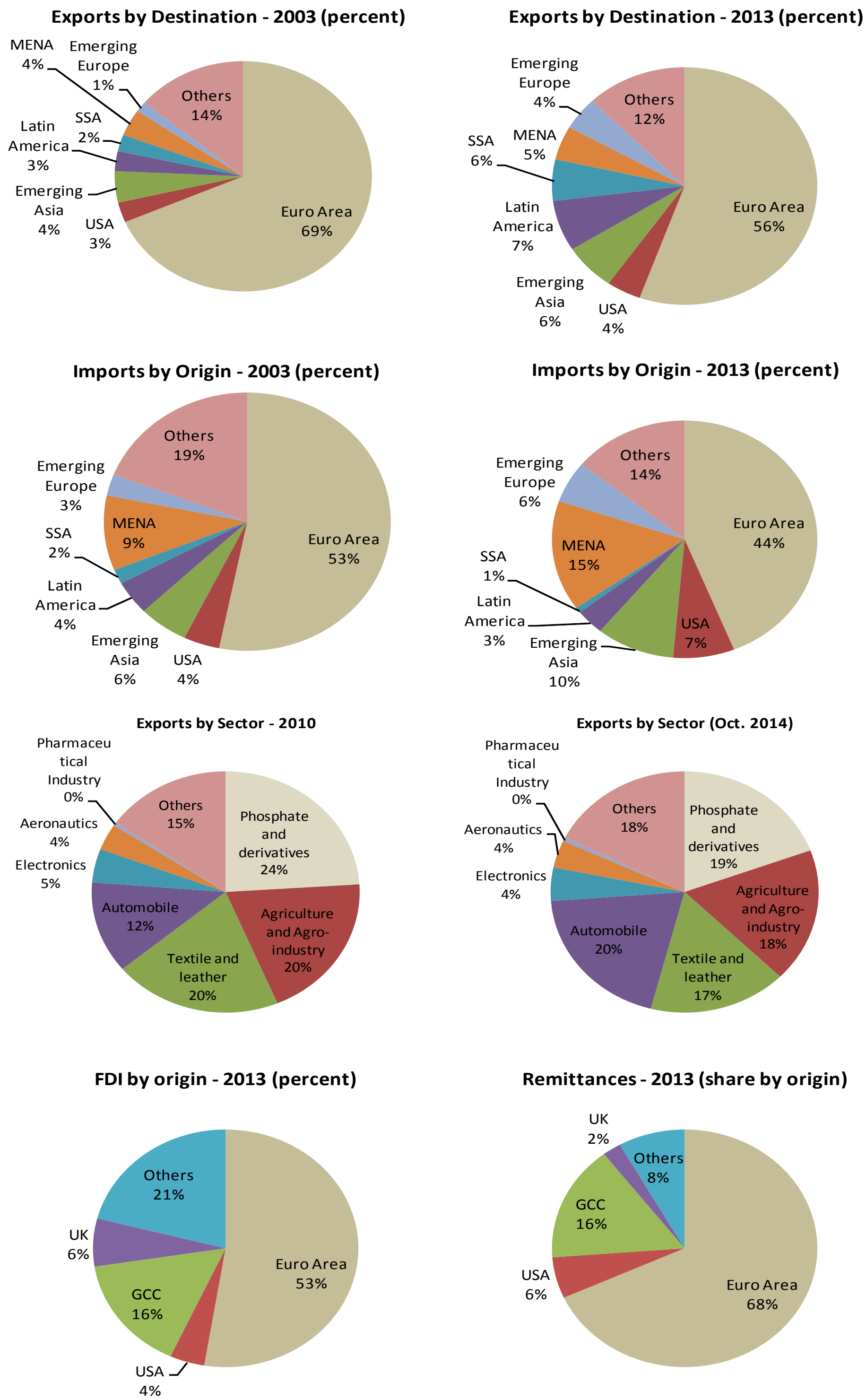
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Figure 1. Morocco : External Debt Sustainability: Bound Tests 1/ 2/
(External Debt in percent of GDP)



Sources: IMF country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2014.

Figure 2. Morocco: Trade by Origin and Destination



Sources: Offices des Changes (Morocco), Direction of Trade database; and staff estimates.

Annex II: Public Debt Sustainability Analysis (DSA)

Morocco's public sector gross debt-to-GDP ratio declined between 2000 and 2010. However, since then, external shocks and domestic factors have caused the ratio to rise. Nevertheless, at about 64 percent of GDP at end-2013, public debt remains sustainable. The DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear moderate, for the most part. However, gross financing needs have been high (mainly linked to the rollover of existing debt) and have exceeded the benchmark of 15 percent of GDP over the past three years, highlighting some risks despite the relatively moderate level of debt.

This DSA updates the analysis conducted for the request for a successor arrangement under the Precautionary and Liquidity Line (PLL). The overall picture has not changed significantly from the previous analysis. A downward revision to real output growth projections has resulted in a slight increase in the debt-to-GDP ratio.

After declining over the previous decade, Morocco's public debt-to-GDP ratio started rising in 2010 as macroeconomic performance deteriorated. Rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through the cost of higher food and fuel subsidies, and public debt rose from 47 percent of GDP in 2009 to about 64 percent in 2013. About half of this increase occurred in 2012 as the economy was severely affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices and the authorities encountered difficulties in containing the fiscal deficit. However, the authorities' fiscal consolidation efforts are expected to help bring the debt ratio down toward 60 percent of GDP in the medium term.

The debt level is generally resilient to shocks, but there are risks linked to financing needs and, to a lesser extent, to shocks to growth and the primary balance (see heat map below). Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts, aimed at lowering the overall deficit to 3 percent of GDP in the medium term, do not appear exceptional relative to the distribution of other country cases. The debt level remains below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance. Vulnerabilities linked to the profile of debt are mostly moderate, except for an exceptional increase in short-term debt in 2013; however, short term debt represents a very small part of total debt (about 5½ percent). Relevant indicators exceed the lower early-warning benchmarks but not the upper risk assessment ones (see chart). Gross financing needs exceed the benchmark of 15 percent under the baseline in 2013 (about 20 percent of GDP) and are not expected to decline under the benchmark until 2017. The limited number of investment alternatives in the local domestic market, coupled with existing capital controls, mitigates risks linked to high financing needs, but this nevertheless highlights the importance of continuing fiscal consolidation to reduce debt-financed deficits and of carefully managing the maturity profile of debt instruments.

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

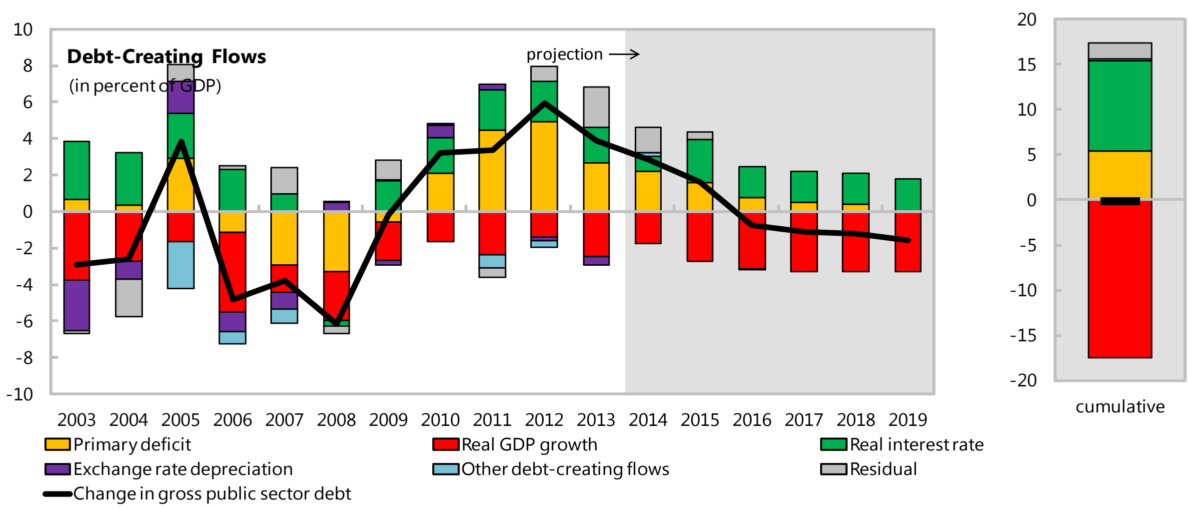
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	54.5	59.7	63.6	66.4	68.0	67.3	66.2	64.9	63.4
Public gross financing needs	13.6	17.7	19.8	16.0	16.6	15.1	14.0	13.8	12.1
Real GDP growth (in percent)	4.8	2.7	4.4	2.9	4.4	5.0	5.3	5.4	5.4
Inflation (GDP deflator, in percent)	1.9	0.4	1.0	2.1	1.8	1.8	1.8	1.9	1.9
Nominal GDP growth (in percent)	6.8	3.1	5.5	5.1	6.2	6.9	7.2	7.3	7.4
Effective interest rate (in percent) [4/]	5.6	4.7	4.6	3.5	5.7	4.6	4.7	4.7	4.9

As of December 20, 2014		
Sovereign Spreads		
Spread (bp) 3/		149
CDS (bp)		184
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.1	5.97	3.89	2.8	1.6	-0.7	-1.1	-1.2	-1.6	-0.2	
Identified debt-creating flows	-1.2	5.13	1.67	1.5	1.2	-0.7	-1.1	-1.2	-1.6	-1.9	
Primary deficit	0.3	4.9	2.7	2.2	1.6	0.7	0.5	0.4	0.0	5.3	-1.5
Primary (noninterest) revenue and gra	27.5	28.7	28.6	28.3	27.0	27.5	28.1	27.9	27.9	166.7	
Primary (noninterest) expenditure	27.8	33.7	31.3	30.5	28.6	28.3	28.6	28.3	27.9	172.0	
Automatic debt dynamics [5/]	-0.9	0.6	-1.0	-0.9	-0.4	-1.4	-1.6	-1.6	-1.5	-7.5	
Interest rate/growth differential [6/]	-0.6	0.8	-0.5	-0.9	-0.4	-1.4	-1.6	-1.6	-1.5	-7.5	
Of which: real interest rate	1.9	2.2	2.0	0.8	2.4	1.7	1.7	1.7	1.8	10.1	
Of which: real GDP growth	-2.5	-1.4	-2.5	-1.8	-2.7	-3.2	-3.3	-3.3	-3.3	-17.5	
Exchange rate depreciation [7/]	-0.3	-0.2	-0.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.5	-0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2	
CG: Privatization Proceeds (negative)	-0.5	-0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.1	0.8	2.2	1.4	0.4	0.0	0.0	0.0	0.0	1.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Bond Spread over U.S. Bonds.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

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

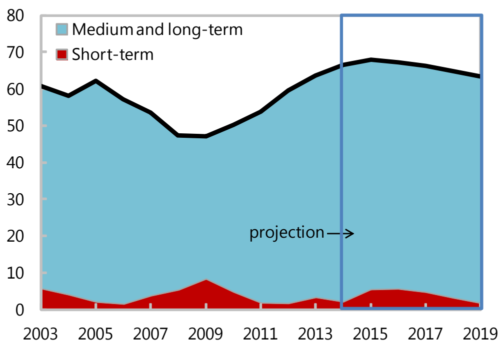
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

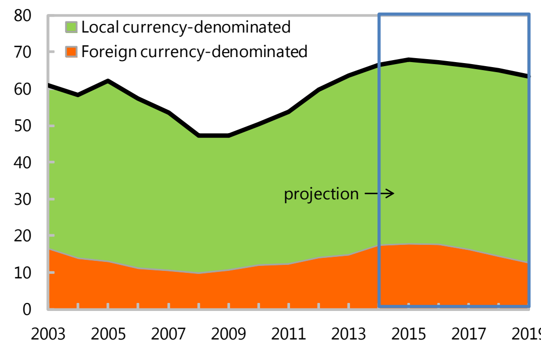
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

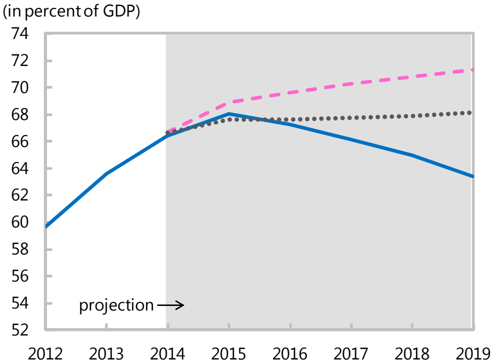


Alternative Scenarios

Baseline Historical Constant Primary Balance

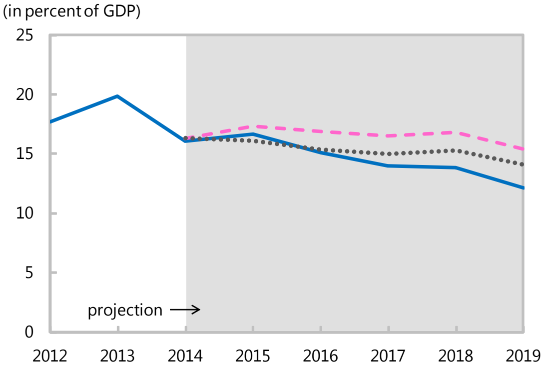
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

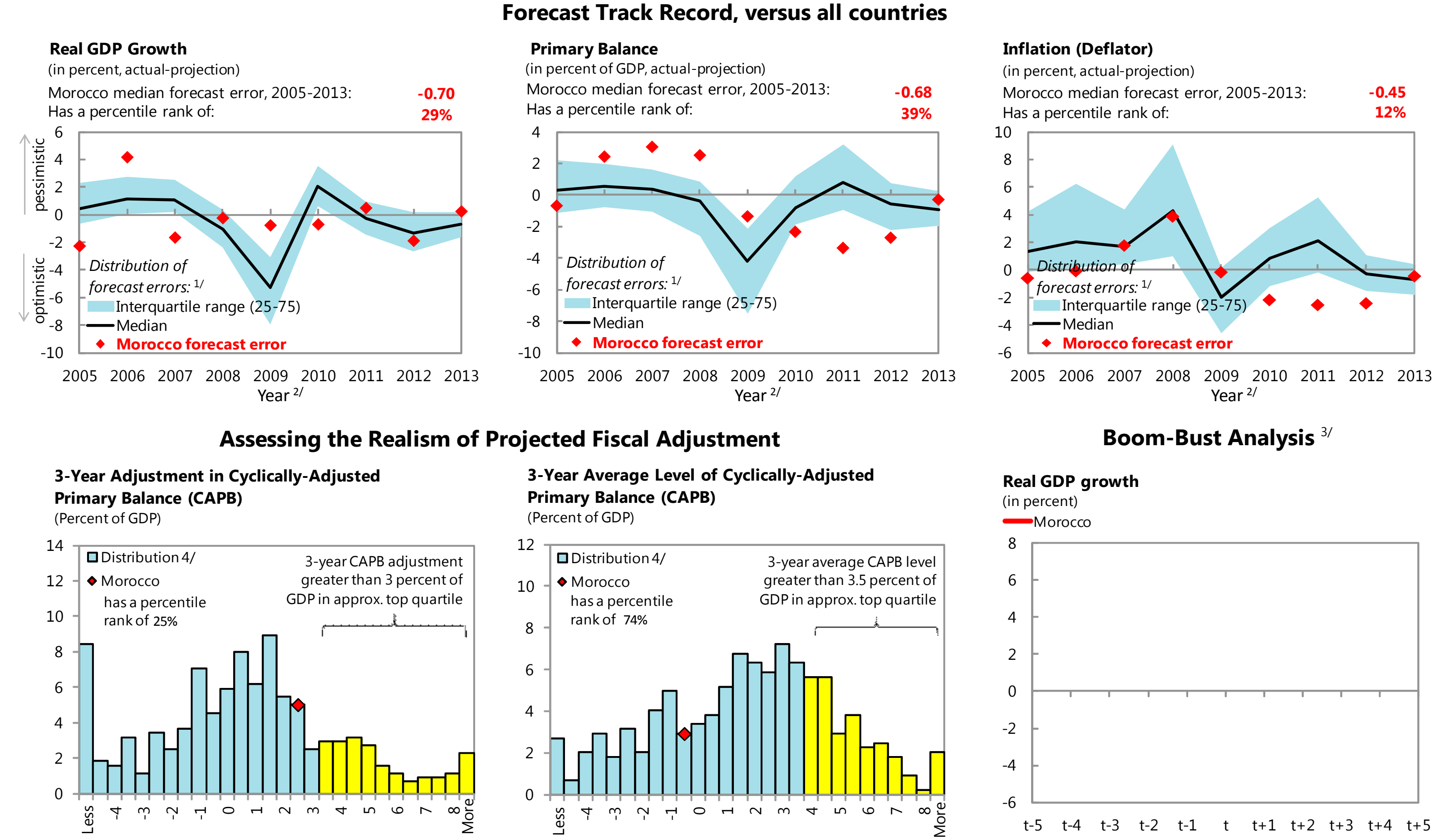
(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.9	4.4	5.0	5.3	5.4	5.4
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary Balance	-2.2	-1.6	-0.7	-0.5	-0.4	0.0
Effective interest rate	3.5	5.7	4.6	4.7	4.7	4.9
Constant Primary Balance Scenario						
Real GDP growth	2.9	4.4	5.0	5.3	5.4	5.4
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary Balance	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	3.5	5.7	4.6	4.8	4.8	4.9

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.9	4.4	4.4	4.4	4.4	4.4
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary Balance	-2.2	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	3.5	5.7	4.8	5.1	5.2	5.4

Source: IMF staff.

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



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

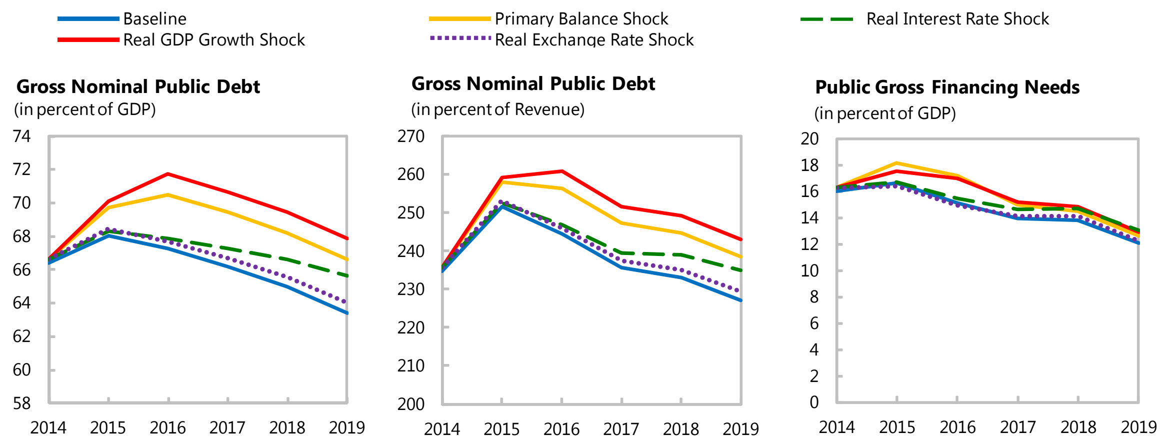
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

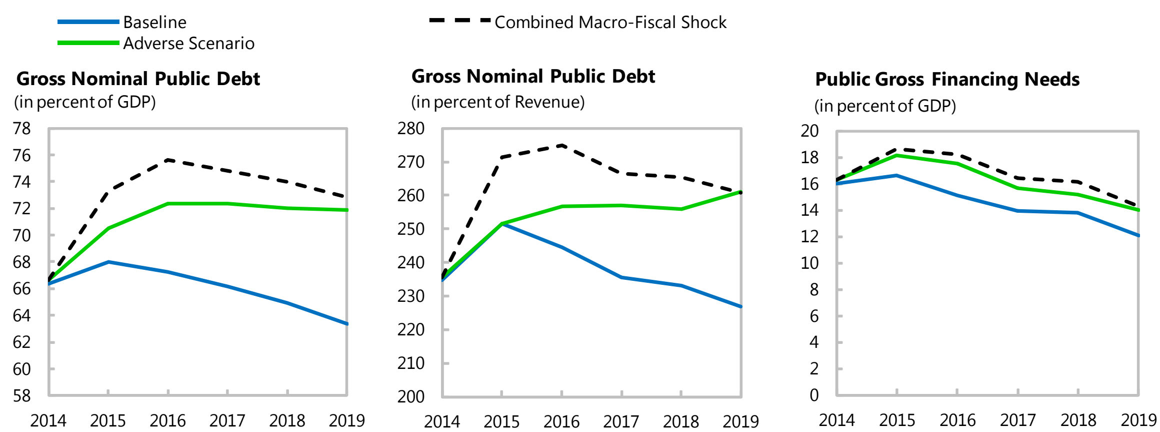
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	2.9	4.4	5.0	5.3	5.4	5.4
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary balance	-2.2	-3.0	-2.2	-0.5	-0.4	0.0
Effective interest rate	3.5	5.7	4.7	4.8	4.9	5.0
Real Interest Rate Shock						
Real GDP growth	2.9	4.4	5.0	5.3	5.4	5.4
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary balance	-2.2	-1.6	-0.7	-0.5	-0.4	0.0
Effective interest rate	3.5	5.7	5.1	5.5	5.6	5.9
Combined Shock						
Real GDP growth	2.9	2.8	3.4	5.3	5.4	5.4
Inflation	2.1	1.4	1.4	1.8	1.9	1.9
Primary balance	-2.2	-3.0	-2.2	-0.5	-0.4	0.0
Effective interest rate	3.5	5.8	5.0	5.4	5.6	5.9
Adverse Scenario						
Real GDP growth	2.9	2.7	3.4	3.6	3.7	3.8
Inflation	2.1	1.8	1.8	1.8	1.9	1.9
Primary balance	-2.2	-2.8	-2.1	-0.4	-0.1	-0.3
Effective interest rate	3.5	5.7	4.8	5.0	5.0	5.1

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	2.9	2.8	3.4	5.3	5.4	5.4
Inflation	2.1	1.4	1.4	1.8	1.9	1.9
Primary balance	-2.2	-2.1	-1.8	-0.5	-0.4	0.0
Effective interest rate	3.5	5.7	4.7	4.8	4.9	5.0
Real Exchange Rate Shock						
Real GDP growth	2.9	4.4	5.0	5.3	5.4	5.4
Inflation	2.1	5.1	1.8	1.8	1.9	1.9
Primary balance	-2.2	-1.6	-0.7	-0.5	-0.4	0.0
Effective interest rate	3.5	5.8	4.6	4.8	4.9	5.1

Source: IMF staff.

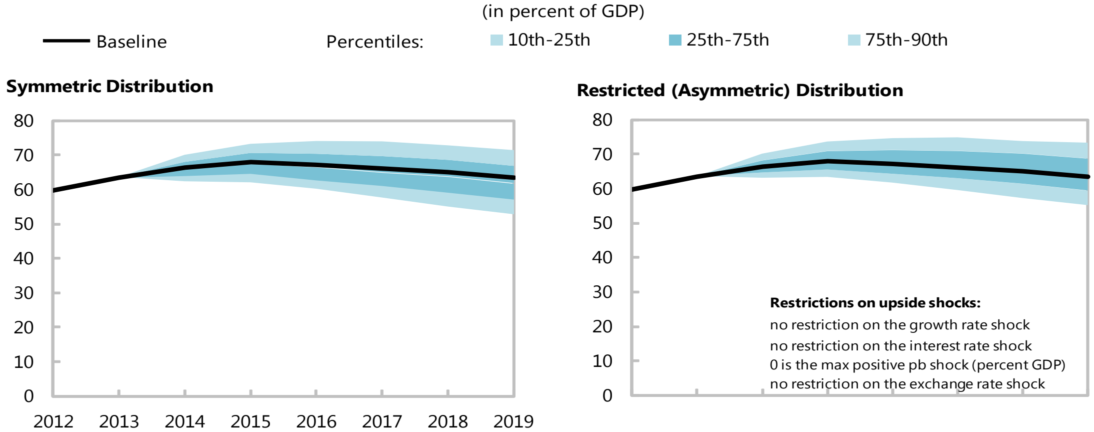
Figure 5. Morocco: Public DSA – Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

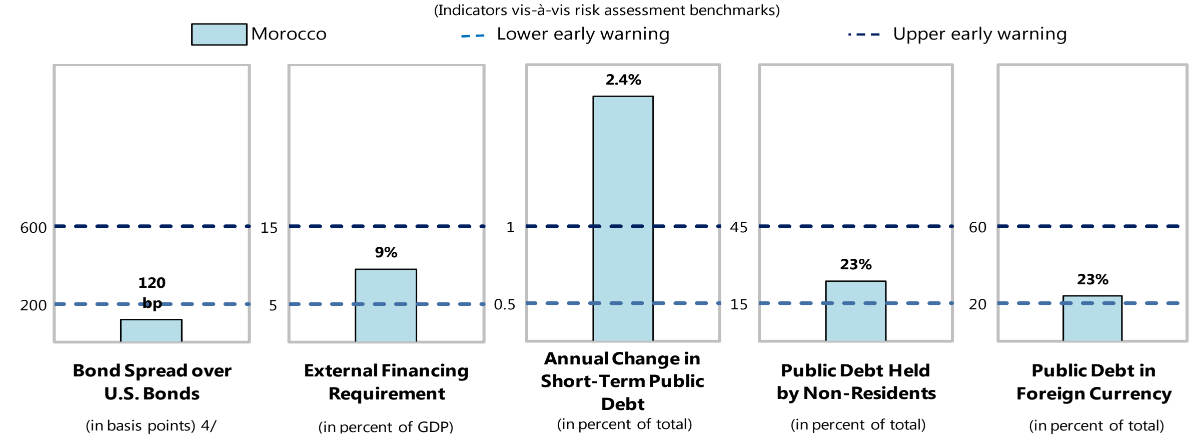
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 21-Sep-14 through 20-Dec-14.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 23, 2015

Prepared By: The Middle East and Central Asia Department (in Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of November 30, 2014)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	588.20	100.00
Fund holdings of currency	517.75	88.02
Reserve position in Fund	70.46	11.98

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	558.41	99.46

Outstanding Purchases and Loans
None

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	07/28/2014	07/27/2016	3,235.10	0.00
Precautionary and Liquidity Line	08/03/2012	07/27/2014	4,117.40	0.00
Stand-By	01/31/1992	03/31/1993	91.98	18.40

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/interest	0.00	0.01	0.01	0.01	0.01
Total	**0.00**	**0.01**	**0.01**	**0.01**	**0.01**

Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies comprising the euro and the U.S. dollar, with respective weights of 80 percent and 20 percent. BAM fixes daily rates for the rated currencies on the basis of variations on the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. As of December 3, 2014, the SDR/dirham exchange rate was SDR 1=MAD 13.02.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 31, 2014. The discussions for the 2014 consultation were held in Rabat and Casablanca during November 5–17, 2014.

Technical Assistance

MCM	Peripatetic visits—Accounting, internal rating and bank supervision	2007–09
MCM	Stress Testing and Macroprudential Analysis.	January 27–February 2, 2009
STA	National Accounts Statistics	April 19–30, 2009
FAD	Recent Revenue Developments: Analysis and Implications to Fiscal Policy	September 22–October 5, 2009
STA	Monetary and Financial Statistics	March 1–March 11, 2010
MCM	Stress Testing and Macroprudential Analysis	February 9–February 18, 2011
STA	Monetary and Financial Statistics	March 30–April 12, 2011
LEG	Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Diagnostic and Legislative Drafting	January 17–21, 2011 and September 26–30, 2011
LEG	AML/CFT Supervision	May 28–June 6, 2012
MCM	Strengthening Macroprudential Analysis.	June 21–29, 2012
MCM	Diagnostic assessment of capital markets in Morocco (jointly with the Arab Monetary Fund and G8 Deauville Partnership Initiative for Local Currency Capital Market Development in the MENA region)	March 5–14, 2013

LEG	AML/CFT Supervision	March 3–15, 2013
FAD	Transfer pricing mission	April 1–12, 2013
MCM	Local government sukuk market	June 2013
FAD	Implementation of budgetary reforms and organic budget law preparation	July 8–18, 2013
MCM	Macro-economic modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the OpenData Platform for data reporting	January 2014
LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving monetary frameworks – inflation targeting	March 27 – April 14, 2014
MCM/MCD	Exchange rate flexibility	May 26-30, 2014
AFR/MCM/MCD	Pan-African cross-border banks exercise	June 2-6, 2014
RES/ICD	Improving monetary frameworks – inflation targeting	June 2014
RES/ICD	Improving monetary frameworks – inflation targeting	July 2014
MCM	Exchange rate flexibility	September 15–19, 2014
RES/ICD	Improving monetary frameworks – inflation targeting	September 22–October 3, 2014
MCM	Development of macro prudential instruments	November 3–14, 2014

FSAP update

The latest update of the Financial Sector Assessment was performed in November 2007. The findings were discussed with the authorities during the May 2008 Article IV mission and discussed by the Board on July 23, 2008. A new FSAP mission is expected to take place in April 2015.

Resident Representative

None

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY15

As of December 3, 2014

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	a. Development Policy Lending on:		
	• MA-Solid Waste Sector DPL4		FY15
	• Morocco Second Competitiveness DPL		FY15
	• MA- Inclusive Green Growth DPL2		FY16
	b. P4R Lending on:		
	• MA-Health Sector Support		FY15
	• Morocco Urban Transport Project		FY15
	• MA-Integrated Risk Management Project		FY16
	• Leveraging Finance for Inclusive Growth		FY16
	c. Investment Lending		
	• Clean and Efficient Energy Project		FY15
	• Seed and Early Stage Equity Financing in Morocco		FY15
	• Large Scale Irrigation Modernization Project		FY15
	• Morocco Integrated Urban Water Management		FY15
	• Investing in Opportunities for Youth in Morocco		FY16
	d. Sector work (ESW)		
	• Road Public and Institutional Review		FY15
	• Gender Assessment		FY15
	• Country Economic Memorandum		FY15
	• Growth, Employment & Poverty PESW		FY15
	• Trade and Competitiveness		FY15
	• FSAP Update		FY16
	• PEFA Diagnostic		FY16

	• Cost of Environmental Degradation e. Technical assistance (TA) • Health Coverage TA • Broadband and ICT Sector Development • Wealth Accounting • Broadband and eGov policy advice • RAS Establish. Mor Inv. Authority • Capital Market Legal • Financial Capability Survey • Subsidy Reform and Cash Transfer Program • Employment TA • Tourism Development • Climate Change Adaptation for Roads • Morocco Performance Based Maintenance • Urban Logistics TA • MSME Development Facility • GAC in Moroccan Health MIS • IUWM Strategic Support		FY16 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY15 FY16 FY16 FY16 FY16
IMF work program in next 12 months	TA mission LEG AML/CFT Supervision TA mission STA Open Data Platform for data reporting to STA Staff Visit TA mission MCM Exchange Rate TA mission on macro-economic modeling FSAP mission	January 13-25, 2014 January 23-29, 2014 Spring 2014 Spring 2014 First half 2014 Autumn 2014	
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on subsidies and pension reforms Developments on decentralization	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Request for assessment letters to DPLs	Semiannual (and on ad hoc basis if requested) At least 4 operations predicted	Following Article IV and staff visits for PLL reviews

	Data sharing	Ongoing	
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Continuous close coordination on the reform agenda	Ongoing	

STATISTICAL ISSUES

As of December 3, 2014

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance
(As of December 31, 2014)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	12/31/14	12/31/14	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/26/14	12/26/14	W	W	W		
Reserve/Base Money	11/30/14	12/30/14	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	11/30/14	12/30/14	M	M	M		
Central Bank Balance Sheet	11/30/14	12/30/14	M	M	M		
Consolidated Balance Sheet of the Banking System	11/30/14	12/30/14	M	M	M		
Interest Rates[2]	12/31/14	12/31/14	D	D	D		
Consumer Price Index	11/30/14	12/23/14	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2013	01/30/14	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	11/30/14	12/30/14	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3, 2014	12/05/14	Q	Q	Q		
External Current Account Balance	Q3, 2014	9/01/15	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	11/30/14	12/15/14	M	M	M		
GDP/GNP	Q3, 2014	1/2/15	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q3, 2014	12/31/14	Q	Q	Q		
International Investment Position [6]	2013	06/30/14	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[8] Reflects the assessment provided in the data ROSC published on April 4, 2003, and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as Footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Press Release No. 15/66
FOR IMMEDIATE RELEASE
February 23, 2015

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

IMF Executive Board Concludes 2014 Article IV Consultation with Morocco

On February 6, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the 2014 Article IV consultation.[1]

Morocco has made important strides in maintaining macroeconomic stability in a difficult environment, but challenges remain to reduce fiscal and external vulnerabilities, strengthen growth, create jobs and tackle poverty. Growth slowed in 2014 as a result of a contraction in agricultural activity following an exceptional 2013 crop and weak demand from Europe.

However, growth is expected to rebound in 2015 to about 4.4 percent and remain robust in the medium term as external demand and domestic confidence strengthen. Inflation has remained low and the financial sector remains sound. The 2014 current account deficit narrowed to an estimated 5.8 percent of GDP due to booming exports from newly developed sectors and lower oil prices. International reserves increased to above 5 months of imports. The 2014 fiscal deficit was also reduced to 4.9 percent of GDP.

Executive Board Assessment[2]

Executive Directors commended the authorities for their strong policy actions which have reduced economic vulnerabilities. Fiscal and current account deficits have declined and international reserves have increased. However, Directors noted that Morocco's economy still faces significant risks given the challenging external environment. They encouraged the authorities to continue with an appropriate policy mix and reforms to consolidate the gains thus

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

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

far, further build external and fiscal buffers, reduce unemployment, and promote higher and more inclusive growth.

Directors welcomed the progress made in fiscal consolidation. They commended the impressive reduction in subsidies, in particular the removal of subsidies on all liquid petroleum products. To further reduce fiscal vulnerabilities and create space for the much needed growth-enhancing investment and social spending, Directors encouraged the authorities to rationalize and better target remaining subsidies to reduce budgetary costs while protecting the most vulnerable.

Directors underscored the need for continued fiscal consolidation to put debt firmly on a downward path and to address vulnerabilities arising from the large public and external financing needs. They commended the progress made in adopting the new organic budget law, which is expected to strengthen and modernize the fiscal framework by enhancing its efficiency, improving financial control and increasing transparency. They called for the timely implementation of this law, once concerns from the Constitutional Council have been addressed. Directors stressed the urgency to reform the pension system. They also highlighted the need to further reform the tax system.

Directors agreed that monetary policy has been appropriate. Noting the improving macroeconomic situation, they supported transitioning to a more flexible exchange rate regime, in coordination with other macroeconomic policies, as it would foster trade and financial flows diversification while helping preserve competitiveness and better insulating the economy against shocks. Directors welcomed Bank Al-Maghrib's (BAM) efforts to strengthen the financial supervisory and regulatory framework to ensure continued financial sector soundness. They commended the BAM's proactive efforts to tackle the supervisory and other challenges linked to the international expansion of Moroccan banks and agreed that the forthcoming central bank law would strengthen the BAM's supervision and crisis resolution abilities. Directors looked forward to the upcoming FSAP update as it would provide an opportunity for a comprehensive assessment of the financial system.

Directors emphasized that structural reforms remain critical for reducing unemployment, diversifying the economy, and promoting higher and more inclusive growth, including by improving the business environment and strengthening competitiveness. Directors called for further action on enhancing transparency and governance, streamlining administrative procedure, and addressing corruption. Continued efforts toward reforming the labor market, increasing the efficiency of spending on education and vocational training, and raising female participation remain important going forward.

Morocco: Selected Economic Indicators, 2012–17

	2012	2013	2014 (Proj.)	2015 (Proj.)	2016 (Proj.)	2017 (Proj.)
	(Annual percentage change)					
Output and Prices						
Real GDP	2.7	4.4	2.9	4.4	5.0	5.3
Real primary GDP	-8.9	19.0	-1.3	3.9	4.3	4.7
Real non-primary GDP	4.4	2.3	3.6	4.4	5.1	5.3
Consumer prices (end of period)	2.6	0.4	1.6	1.5	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	2.0	2.0
	(In percent of GDP)					
Investment and Saving						
Gross capital formation	35.3	34.2	34.0	34.3	34.7	35.2
Of which: Nongovernment	29.7	28.9	28.5	29.7	29.6	29.3
Gross national savings	25.5	26.6	28.1	31.0	31.6	32.3
Of which: Nongovernment	25.9	25.0	26.0	29.2	28.0	27.4
	(In percent of GDP)					
Public Finances						
Revenue	28.7	28.6	28.3	27.0	27.5	28.1
Expenditure	36.1	33.9	33.2	31.4	31.1	31.1
Budget balance	-7.4	-5.2	-4.9	-4.3	-3.5	-3.0
Primary balance (excluding grants)	-5.0	-3.4	-3.7	-3.1	-1.7	-1.4
Cyclically-adjusted primary balance (excl. grants)	-5.1	-2.9	-3.5	-3.0	-1.6	-1.3
Total government debt	59.7	63.6	66.4	68.0	67.3	66.2
	(Annual percentage change; unless otherwise indicated)					
Monetary Sector						
Credit to the private sector 1/	4.8	3.8	4.6	...	...	...
Base money	-0.5	9.0	4.8			
Broad money	4.5	3.1	4.8	...	...	...
Velocity of broad money	0.8	0.9	0.9	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	...	...	...	...
	(In percent of GDP; unless otherwise indicated)					
External Sector						
Exports of goods (in U.S. dollars, percentage change)	-0.9	2.5	6.3	1.9	6.9	8.3
Imports of goods (in U.S. dollars, percentage change)	1.4	2.1	0.6	-8.0	8.1	7.7
Merchandise trade balance	-20.9	-19.6	-17.6	-14.4	-14.8	-14.7
Current account excluding official transfers	-10.0	-8.3	-7.5	-4.7	-4.1	-3.8
Current account including official transfers	-9.7	-7.6	-5.8	-3.3	-3.2	-2.9
Foreign direct investment	2.4	2.9	2.9	2.7	2.7	2.8
Total external debt	29.2	30.2	32.1	32.9	33.0	32.4
Gross reserves (in billions of U.S. dollars)	17.5	19.3	20.4	23.2	25.8	28.1
In months of next year imports of goods and services	4.2	4.6	5.3	5.6	5.8	5.9
In percent of short-term external debt (on remaining maturity basis)	1251.8	1374.6	1454.6	1652.9	1844.9	2007.6
Memorandum Items:						
Nominal GDP (in billions of U.S. dollars)	95.9	103.8	109.2	106.9	114.7	122.9
Unemployment rate (in percent)	9.0	9.2	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.8	34.2
Net imports of energy products (in billions of U.S. dollars)	-12.3	-12.1	-11.1	-7.4	-8.7	-9.6
Local currency per U.S. dollar (period average)	8.6	8.4	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.1	0.2	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Includes credit to public enterprises.

Statement by Mohammed Daïri, Alternate Executive Director for Morocco

February 6, 2015

Introduction

In a still unfavorable international environment, notably a weak economy in the euro area, the Moroccan authorities have been successful in maintaining macroeconomic stability and broadly satisfactory growth performance. This performance owes much to the economy's strong fundamentals, the authorities' sound fiscal, monetary and financial policies, and accelerated pace of implementation of their comprehensive structural reform agenda to provide an enabling environment for private sector development, strengthen and diversify the production and export base, further enhance the economy's resilience, and promote stronger and more inclusive growth and higher job creation. While demonstrating unwavering commitment to their economic and financial program, they have also redoubled their efforts at strengthening the social safety net and reducing poverty and exclusion. Building on the gains achieved so far, the authorities are committed to staying the course of sound policies and structural reform. They broadly agree with staff assessment and recommendations and are grateful for the fruitful dialogue during the Article IV consultations. They also thank the Executive Board and management for their support.

Macroeconomic developments and outlook

GDP growth declined to about 3 percent in 2014 from 4.4 percent in 2013, mainly reflecting lower agricultural production compared to the 2013 bumper crop. However, nonagricultural GDP growth strengthened, reflecting a recovery in manufacturing, mining, and services with the exception of tourism which suffered from weak demand in Europe. Average inflation declined to 0.4 percent, notwithstanding the price hikes implemented under the subsidy reform, and should stabilize at 1.5-2.0 percent in 2015 and over the medium term. While growth is projected to reach 4.4 percent in 2015, reflecting continued strengthening in the nonagricultural sector, the recent declines in world oil prices could boost consumption and growth since, with the elimination of subsidies on liquid petroleum products and the indexation of their prices to international prices, these declines will be passed on to the consumer, even though they will be partly offset by the appreciation of the US dollar. Favorable rainfall so far also augurs for improving agricultural production. Therefore, it is likely that growth in 2015 would be stronger than projected.

Morocco's medium-term outlook is favorable, underpinned by political and social stability, a strong institutional framework, and sound economic and financial policies. Growth is currently projected to accelerate over the medium term to 5.5 percent, but the authorities intend to reassess the growth outlook to take into account the impact of the fall in commodity prices. After declining to 5.8 percent of GDP in 2014, down from 7.6 percent of GDP in 2013, the current account deficit is projected to fall further to reach 3.3 percent of GDP in 2015 and stabilize at around 3 percent thereafter, financed in full by FDI. Sustained implementation of structural reforms, together with sizable investment in infrastructure and renewable energy, bodes well for future growth and the economy's capacity to attract higher FDI and generate increased employment opportunities.

Fiscal developments and policies

Fiscal developments through end-December 2014 were in line with the PLL objective and the authorities' medium term fiscal consolidation program of achieving a 3 percent of GDP deficit by 2017. The deficit fell from 5.2 percent of GDP in 2013 to 4.9 percent in 2014. Compared to the original estimate of 5.5 percent of GDP for 2013 in the PLL request report, the decline is larger, amounting to 0.6 percentage points of GDP. Reflecting lower-than-projected GDP growth, revenue increased less than expected (by 3.7 percent), but growth in total expenditure was even lower (2.9 percent), mainly reflecting a sharp decline in fuel subsidies and a decline in the wage/GDP ratio. The composition of spending shifted significantly toward capital expenditures, including capital transfers, which increased by more than 8 percent, compared to a moderate increase of 1.8 percent for current expenditures.

The authorities are confident that their fiscal policy and related structural reforms will help achieve their medium-term objectives of reducing the fiscal deficit to 3 percent of GDP in 2017 and putting the debt-to-GDP ratio on a firm declining trend as of 2016. The increase in the debt-to-GDP ratio has already slowed down significantly, with the ratio stabilizing at less than 64 percent in 2014. The 2015 budget targets a further reduction of the fiscal deficit to 4.3 percent of GDP, mainly reflecting the full effect of the subsidy reform and continued wage moderation.

Table 3 in the staff report indicates a decline in total investment in 2015 compared to 2014. Part of this decline is due to the reclassification of some 0.22 percent of GDP of expenditure from the capital to the current budget, consistent with the new OBL. This reclassification also explains to a large extent the increase in goods and services spending between 2014 and 2015 referred to in ¶14 of the staff report. The reassessment of the impact of the decline in global commodity prices on growth and the budget outlook in 2015, along with efforts to strengthen revenue collection and control on non-priority spending, should help create additional space for investment spending, while achieving the deficit reduction target.

Progress continues to be made on implementation of fiscal structural reforms and strengthening the fiscal policy framework. In this regard, the authorities attach high priority to early adoption and effectiveness of the new Organic Budget Law (OBL). A revised draft, to comply with the Constitutional Council finding that some of the dispositions of the adopted law were unconstitutional, was approved by the Council of Ministers on January 29 and will be submitted to parliament shortly. The authorities are also working closely with social partners to reach agreement on the planned pension system reform.

Monetary, exchange rate, and financial policies

Monetary policy continues to aim at maintaining low inflation while ensuring the conditions for adequate financing of the economy. The new window for financing very small, small, and medium-sized enterprises has been successful in responding to the needs of this crucial segment of the economy. The ongoing reform of the central bank law should enhance its independence and effectiveness of monetary policy. The authorities agree with staff assessment that the exchange rate is in line with fundamentals. They are reassessing their exchange rate regime and options of reform, with Fund technical assistance, in order to help promote greater integration into the world economy, enhance export diversification, and better absorb external shocks. They intend to draw conclusions on available options after the FSAP mission scheduled in April. In the meantime, the central bank is strengthening its analytical and forecasting tools and capabilities to support the transition to a more flexible exchange rate regime and a new monetary framework.

The financial sector remains sound and resilient, and further progress has been made in strengthening the regulatory and supervisory framework, including gradual implementation of Basel III, as indicated in the Written Communication. The new banking law increases the supervisory role of the central bank and creates a framework for Charia-compliant (so-called Islamic) banks, which should increase financial inclusion. The revised central bank law will enhance its role in promoting financial stability. The central bank is closely monitoring the expansion of Moroccan banks in Sub-Saharan Africa, and is strengthening cross-border supervision in close cooperation with host supervisors.

Structural policies

The authorities' bold and comprehensive structural reform agenda to raise potential growth, diversify the economy, and promote competitiveness—including by improving the business climate and the incentive structure for private investment and by developing infrastructure—is paying off, as evidenced by the improved Doing Business rating and the ongoing structural transformation of the economy. New high growth sectors, such as automobile, electronics, and aeronautics have taken over the position of phosphates and derivatives as the largest source of exports, but traditional exports have also recovered recently and are expected to continue to grow over the medium term. The authorities are committed to further improving the business climate, reforming the judiciary, and increasing efficiency of spending on education and vocational training.

The complete elimination of subsidies on liquid petroleum products ahead of schedule constitutes a major leap forward in significantly reducing one of the key vulnerabilities of the economy. It attests to the resolve of the authorities to strengthen macroeconomic stability and enhance the resilience of the economy by taking politically difficult measures even in a pre-election period. This reform is supported by continuous strengthening of resources earmarked for social assistance to the poor and vulnerable population under the conditional cash transfer programs of RAMED and TAYSSIR.

Implementation of the authorities' ambitious program of diversification of energy sources toward renewable resources, in particular windmill and solar power generation, in order to protect the environment and reduce dependence on fossil fuel, is proceeding broadly as scheduled with private sector participation. In this regard, the share of solar and windmill energy in total power generation should increase from 4 percent in 2009 to 17 percent in 2015 and is projected to reach 28 percent in 2020.

PLL Review

Performance under the 2014 PLL was strong. The indicative target for Net International Reserves for September 2014 was met with a wide margin. The indicative target for the fiscal deficit was exceeded by 0.7 percent of GDP, reflecting the authorities' decision to ease private sector liquidity constraints by accelerating VAT refunds and budgeted transfers to some public enterprises, with no impact on end-2014 fiscal deficit, which declined to 4.9 percent of GDP, as targeted. Reserves increased further both in terms of import coverage and in percent of the Fund's reserve adequacy metrics. On the structural reform agenda, subsidy reform was ahead of schedule, the Banking Law was adopted, and significant progress was made on the OBL, the pension reform, and the revised central bank law.

The staff report reaffirms Morocco's eligibility to the PLL. While it continued to perform strongly in the monetary policy, financial sector, and data areas, there was a significant progress in the two areas where vulnerabilities remained. External vulnerabilities declined, reflecting stronger current account and reserves position, as well as the return of the exchange rate to full alignment with fundamentals. Fiscal vulnerabilities also declined following the subsidy reform and the progress made on the OBL. Nevertheless, the exogenous risks faced by Morocco remain substantial, as reflected in the external stress index and, notwithstanding improved reserves position and continued progress in reducing vulnerabilities, the PLL will continue to play an important role in mitigating these risks. The authorities are committed to achieving the objectives of their economic and financial program supported by the PLL, which they will continue to treat as precautionary.