



MOROCCO

April 2025

2025 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the Staff Report for the 2025 Article IV Consultation, Third Review Under the Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 17, following discussions that ended on February 7, 2025 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 February 28.
- An **Informational Annex** prepared by the IMF Staff.
- An **Assessment Letter** prepared by World Bank Staff.
- A **Statement by the Executive Director** for Morocco.

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

Copies of this report are available to the public from

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

International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2025 Article IV Consultation, Third Review under the Resilience and Sustainability Facility with Morocco

FOR IMMEDIATE RELEASE

- *The IMF Executive Board concluded the 2025 Article IV Consultation and approved the Third Review under the Resilience and Sustainability Facility (RSF) arrangement with Morocco, allowing for the immediate disbursement of SDR 375 million (about US\$ 496 million).*
- *The Moroccan economy continued to show resilience despite another year of drought, with real GDP growth projected to slow modestly to 3.2 percent in 2024 amid strong domestic demand. Growth is expected to accelerate over the medium term, driven by stronger investment and the continued structural reforms.*
- *Saving part of the revenue windfall from tax reforms would help strengthen fiscal buffers and protect against future shocks; while a new strategy to sustainably boost jobs and improve market competition would help address the increased unemployment linked to job displacement in the agricultural sector.*

Washington, DC – March 18, 2025: The Executive Board of the International Monetary Fund (IMF) concluded on March 17 the 2025 Article IV consultation¹ with Morocco and completed the Third Review under the Resilience and Sustainability Facility (RSF) arrangement, which was approved in September 2023 (see [PR 23/327](#)). The completion of the Third Review allows the authorities to draw SDR 375 million (about US\$ 496 million), bringing total disbursement under the RSF arrangement to SDR 937.5 million (about US\$ 1.24 billion).

In 2024, the Moroccan economy was resilient to yet another year of drought. Robust domestic demand helped offset weak agricultural output and economic activity is expected to have slowed only modestly to 3.2 percent in 2024. The current account deficit widened somewhat, whereas unemployment remained elevated at about 13 percent, mainly reflecting the impact of job losses in the agricultural sector. GDP growth is expected to accelerate to about 3.7 percent over the next few years, supported by a new

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.

series of infrastructure projects and the continued implementation of the structural reform agenda.

Inflation decelerated further in 2024, mainly as the impact of supply shocks faded.

This prompted Bank Al-Maghrib (BAM) to lower the policy rate twice in June and December. The dirham continued to move within the fluctuation band of ± 5 percent.

The central government fiscal deficit improved more than envisaged in the 2024 Budget.

The 2024 overall deficit closed at 4.1 percent of GDP, about 0.2 percent of GDP less than projected in the 2024 Budget. This reflects better-than-expected tax revenues that more than offset higher spending. The reform of the Organic Budget Law envisages the introduction of a new fiscal rule based on a medium-term debt anchor.

The implementation of the announced structural reform agenda has continued.

Further steps were taken to restructure SOEs, operationalize the Mohammed VI Investment Fund, and implement the new Charter of Investment.

Morocco continued to make progress in bolstering its resilience to climate change under the RSF arrangement.

Measures implemented under the third and final review of the RSF arrangement aim to better protect underground water resources, prepare the ground for a change in tariffication of water, improve the regulatory setting of the electricity market to encourage private sector's production of renewable energy, and reinforce fiscal and financial systems' resilience to climate change-related risks.

Following the Executive Board's discussion on Morocco, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"The Moroccan economy continued to show resilience to negative shocks, a testament to the country's very strong economic policies and frameworks. Despite renewed drought conditions, economic activity slowed only modestly to an estimated 3.2 percent in 2024, down from 3.4 percent in 2023, thanks to robust domestic demand. GDP growth is expected to accelerate to about 3.7 percent over the next few years, driven by a new cycle of infrastructure projects and the continued implementation of the structural reform agenda. These reforms are essential to making growth stronger, more resilient, job-rich, and more inclusive.

The RSF arrangement concluded with the implementation of six of the seven measures scheduled for the third and final review. These measures will help improve the management of scarce water resources, further liberalize the electricity sector, and address the climate risks on the stability of the fiscal position and the financial system. The gradual introduction of the carbon tax was not implemented as the authorities needed to undertake further analysis of its impact and deeper consultations with public and private stakeholders."

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the resilience of the Moroccan economy to challenging domestic and external conditions, supported by very strong policies and policy frameworks and continued progress on structural reforms. While the economic outlook remains highly uncertain, continued prudent macroeconomic policies and further implementation of structural reforms are expected to support economic activity going forward.

Directors welcomed the authorities' commitment to fiscal consolidation and the improvements in the fiscal framework. Noting the impressive revenue overperformance generated by past reforms, they encouraged the authorities to save at least part of the revenue windfall and implement additional structural measures to increase revenue and rationalize spending. This would support a faster rebuilding of fiscal buffers and ensure a stronger protection against risks. Directors commended the authorities' intention to support the expansion of private sector investment through the new Investment Charter and to rely more on public private partnerships to meet the country's large investment needs. They advised the authorities to report the budgetary implications and risks from these strategies in the Medium-Term Fiscal Framework. Directors also welcomed the authorities' commitment to introduce a medium-term debt anchored fiscal rule to further reinforce the fiscal framework.

Directors supported Bank Al-Maghrib's monetary policy stance and agreed on the need for a cautious data dependent approach. They broadly concurred that the central bank should take advantage of the expected stabilization of inflationary pressures to resume its planned transition to an inflation targeting framework and carefully remove the peg as conditions allow.

Directors welcomed Morocco's progress in aligning its financial supervisory and regulatory framework with international standards. Noting rising risks from NPLs and bank concentration they suggested the introduction of a secondary market for NPLs and welcomed the authorities' request for an FSAP update.

Directors commended the authorities' commitment to the structural reform agenda to support job rich, private sector led growth. This would require further improving the business environment, enhancing market competition, including by reforming state owned enterprises and reducing their presence outside of strategic sectors, and

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 summing up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

continuing the fight against corruption.

Directors welcomed the authorities' strong performance under the RSF arrangement, which included important reforms in the water and energy sectors. Noting that significant actions have already been taken to introduce a carbon tax, Directors acknowledged the authorities' decision to postpone its initial implementation to allow for additional impact analysis and consultations. They also underscored the need for further progress in defining the regulatory framework for renewable energy production and improving the grid's capacity to secure private sector participation.

Morocco: Selected Economic Indicators, 2020–30

Population: 36.8 million; 2024

Per capita GDP: \$3,817; 2023

Quota: SDR 894.4 million

Poverty rate: 4.8 percent; 2013

Main exports: automobiles, phosphate and derivatives; 2023

Key export markets: France and Spain (42% of total trade); 2023

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Proj.										
Output (annual percent change)											
Real GDP growth	-7.2	8.2	1.5	3.4	3.2	3.9	3.7	3.6	3.6	3.6	3.6
Real nonagricultural GDP growth	-7.2	7.0	3.2	3.6	4.1	3.7	3.7	3.7	3.7	3.7	3.7
Employment (percent)											
Unemployment	11.9	12.3	11.8	13.0	13.3	13.2	12.9	12.4	12.1	11.9	11.8
Prices											
Inflation (end of period)	-0.3	3.2	8.3	3.4	0.7	2.1	2.2	2.2	2.1	2.0	2.0
Inflation (period average)	0.7	1.4	6.6	6.1	0.9	2.2	2.3	2.2	2.1	2.0	2.0
Central government finances (percent of GDP) 1/											
Revenue	27.0	25.1	28.4	27.9	30.1	30.4	29.4	28.1	28.1	28.1	28.1
Expenditure	34.1	31.0	33.8	32.3	34.2	34.3	32.8	31.4	31.3	31.2	31.2
Fiscal balance	-7.1	-5.9	-5.4	-4.5	-4.1	-3.9	-3.4	-3.3	-3.2	-3.1	-3.1
Public debt	72.2	69.4	71.5	69.5	70.0	68.9	67.7	66.8	66.2	65.6	65.1
Money and credit (annual percent change)											
Broad money	8.4	5.1	8.0	4.0	7.9	4.6	4.6	4.6	4.6	4.6	4.6
Claims to the economy 2/	4.9	3.8	7.1	5.3	6.9	4.5	4.1	4.2	4.2	4.2	4.2
Balance of payments											
Current account (percent of GDP)	-1.2	-2.3	-3.5	-0.6	-1.5	-2.0	-2.2	-2.6	-2.9	-3.1	-3.3
Exports of goods (in U.S. dollars, annual percent change)	-4.4	34.4	15.1	-0.5	8.6	6.6	7.3	6.9	6.8	6.7	6.7
Imports of goods (in U.S. dollars, annual percent change)	-12.0	32.1	21.9	-2.6	8.0	8.1	7.5	7.4	7.3	6.4	6.2
Merchandise trade balance (percent of GDP)	-12.8	-14.0	-20.2	-17.3	-17.3	-17.8	-18.0	-18.3	-18.6	-18.6	-18.5
FDI (percent of GDP)	0.8	1.1	1.2	0.2	0.7	1.4	1.5	1.6	1.6	1.7	1.7
Gross reserves (months of imports)	7.2	5.8	5.3	5.4	5.2	5.2	5.2	5.2	5.1	5.1	5.2
External Debt (percent of GDP)	54.2	45.5	46.9	50.2	47.8	49.2	50.0	50.9	50.2	54.0	57.3
Exchange rate											
REER (annual average, percent change)	1.4	1.6	-3.2	0.9	...	...	...	...	...	...	...
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	121	142	131	144	155	166	177	188	199	212	225
Net imports of energy products (in billions of U.S. dollars)	-5.3	-8.4	-15.1	-12.0	-11.5	-12.1	-12.3	-12.8	-13.2	-13.7	-14.1
Local currency per U.S. dollar (period average)	9.5	9.0	10.2	10.1	9.9	...	...	...	...	...	...

Sources: Moroccan authorities; and Fund staff estimates.

1/ Include grants.

2/ Includes credit to public enterprises.



MOROCCO

February 28, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context: After accelerating in 2023, GDP growth slowed to 3.2 percent in 2024, as another drought curtailed agricultural production. Domestic demand remained robust in the first three quarters of the year, with consumption boosted by lower inflation and fiscal support, and investment benefiting from the start of an infrastructure building cycle. Labor market conditions remained weak, due to significant job losses in the agricultural sector and low labor force participation. The effect of stronger demand on the current account deficit has been muted by continued positive trends in tourism, remittances, and manufacturing exports. The gradual fiscal consolidation continued as expected, and the 2025 Budget reiterated the authorities' commitment to reduce the government debt ratio over the medium term. The authorities have continued with their structural reform agenda and have announced a new strategy to boost employment.

Article IV Consultation: The discussions focused on the pace and quality of fiscal consolidation. Despite higher spending reflecting measures to sustain disposable income and the financing of structural reforms, the fiscal deficit was lower than expected for the second consecutive year, thanks to tax reforms that have widened the tax base. Going forward, saving at least part of the revenue windfall would help quickly rebuild the fiscal buffers that were used during the pandemic. The medium-term fiscal framework was strengthened but would need to include more details on the cost of new policy measures, including from a faster-than-projected implementation of the investment projects under the new Investment Charter and fiscal risks from new PPPs. Higher unemployment linked to job displacement in the agricultural sector calls for a new strategy to sustainably boost jobs, including reforms to promote the private sector and facilitate the growth of SMEs. This, in turn, requires providing more targeted financial and technical assistance to SMEs, including in the context of the new Investment Charter, the reform of Regional Investment Centers, and the operationalization of the Mohammed VI Fund. Changing climate conditions are a serious risk to the economic outlook but also provide an opportunity to develop competitive advantages in the water and renewable energy sectors. In addition to continuing to improve infrastructure and the regulatory framework, a change in tariff systems is a priority to mitigate water scarcity and encourage investment in renewable energy.

Resilience and Sustainability Facility (RSF): Of the seven measures scheduled for the third and final review, six were met. These measures supported Morocco's efforts to address water scarcity, reform the electricity sector and boost renewable energy production, better integrate climate risks into the Budget, and further greening the financial system. The measure that was not met was RM9, on producing and start enacting a design document to introduce a carbon tax. The authorities decided to postpone the implementation of this measure to undertake a more accurate analysis of the design and potential impact of a carbon tax, and to conduct further consultations with stakeholders.

Approved By

Taline Koranchelian
(MCD) **Geremia**
Palomba (SPR)

The mission consisted of Roberto Cardarelli (head), Nadia Mounir, Kassia Antoine (all MCD), Hyunmin Park (SPR), and Hussein Bidawi (FAD). Hannah Brown and Helida Graca (all MCD) assisted with this report. The mission team met with the Ministries of Economy and Finance, Equipment and Water, and Energy Transition and Sustainable Development; Bank Al-Maghrib; labor unions; *Haut-Commissariat au Plan* (HCP); *Autorité Nationale de Régulation de l'électricité* (ANRE); *Agence Nationale du Soutien Social* (ANSS); *Confédération Générale des Entreprises du Maroc* (CGEM); *Agence Nationale de Gestion Stratégique des Participations de l'État* (ANGSPE); *Autorité de Contrôle des Assurances et de la Prévoyance Sociale* (ACAPS); *Office National de l'Électricité et de l'Eau* (ONEE); Conseil de la concurrence; *Commission Nationale des Partenariats Public-Privé* (CNPPP); *Agence Marocaine de Développement des Investissements et des Exportations* (AMDIE); and *Instance Nationale de la Probité, de la Prévention et de la Lutte contre la Corruption* (INPPLC); the Policy Center for the New South (PCNS); and the World Bank (WB). Mr. El Qorchi participated in most meetings. The mission was conducted during January 27th–February 7th, 2025, in Casablanca and Rabat, Morocco.

CONTENTS

RECENT ECONOMIC DEVELOPMENTS	5
OUTLOOK AND RISKS	8
POLICY DISCUSSIONS	10
A. Fiscal Policy	10
B. Monetary Policy	14
C. Financial Policy	15
D. Structural Reforms for a More Inclusive Model of Development	17
THE RSF ARRANGEMENT	22
MODALITIES FOR IMPLEMENTATION OF RSF-SUPPORTED REFORMS	25
STAFF APPRAISAL	27
BOXES	
1. Personal Income Tax Reform	13
2. Job Displacement in the Agricultural Sector	18
3. Decarbonization: the RSF as a Catalyst to Achieving the NDCs	26

FIGURES

1. Real Sector Developments	34
2. 2024/2025 Agricultural Season	35
3. External Developments	36
4. Fiscal Developments	37
5. Monetary and Financial Developments	38

TABLES

1. Timeline of the RSF Reviews and Reform Measures Completion	30
2. RSF Reform Measures	31
3. Access and Phasing Under the RSF Arrangement	33
4. Schedule of Disbursements and RMs Availability Dates Under the RSF	33
5. Selected Economic Indicators, 2020–30	39
6a. Budgetary Central Government Finance, 2020–30 (Billions of dirhams)	40
6b. Budgetary Central Government Finance, 2020–30 (In percent of GDP)	41
7. Balance of Payments, 2020–30	42
8. Monetary Survey, 2020–2025	43
9. Financial Soundness Indicators, 2019–2024	44
10. Indicators of Fund Credit – Adverse Scenario (GRA and RSF arrangements)	45

ANNEXES

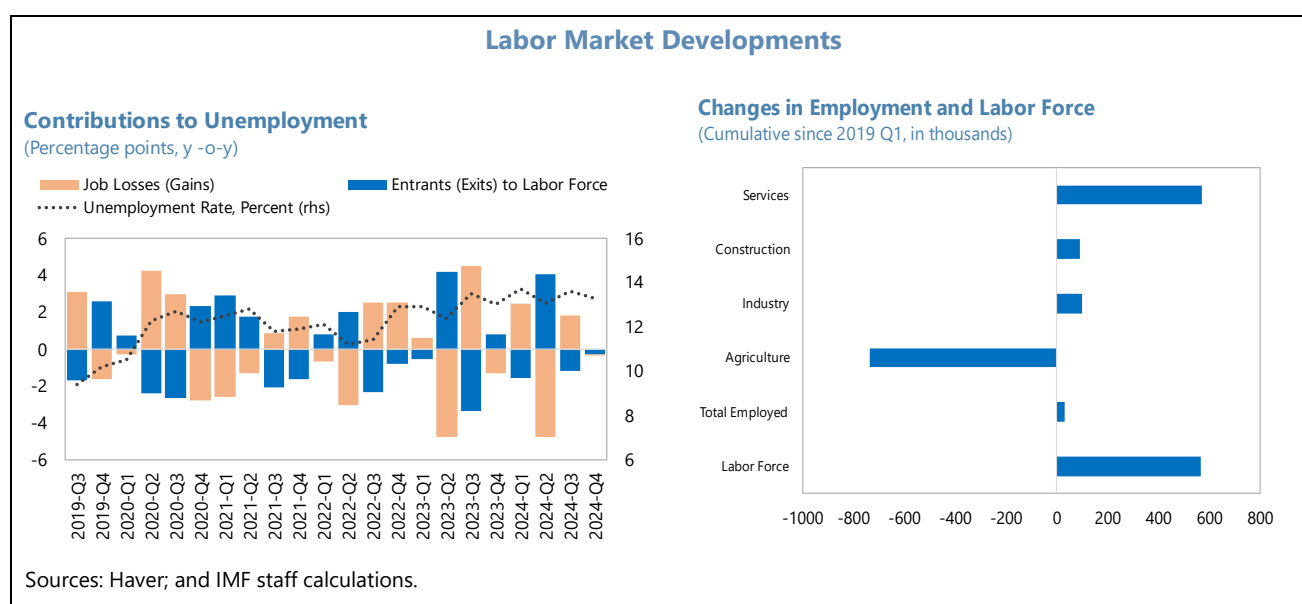
I. External Sector Assessment	46
II. Risk Assessment Matrix	48
III. Sovereign Risk and Debt Sustainability Assessment	52
IV. External Debt Sustainability Analysis	64
V. Data Issues	66
VI. Implementation of the 2024 Article IV Main Recommendations	68

APPENDIX

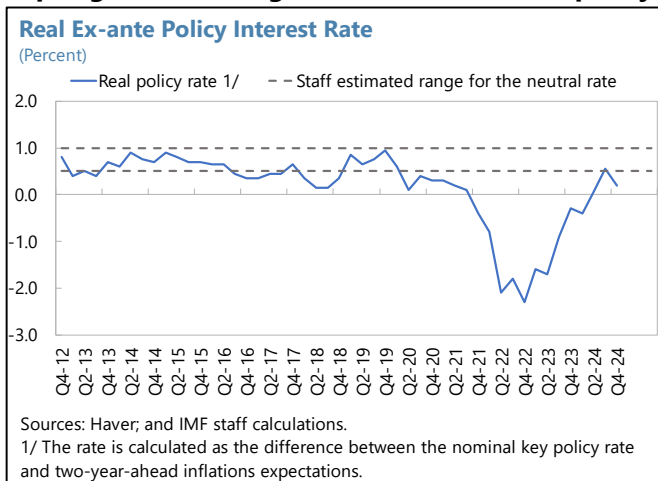
I. Letter of Intent	69
Attachment I. Memorandum of Economic and Financial Policies	72

RECENT ECONOMIC DEVELOPMENTS

1. Real GDP growth slowed in 2024, as another drought weighed on agricultural output. After accelerating by 3.4 percent in 2023, economic activity grew at an average of 3.1 percent in the first three quarters of 2024. The fifth drought in six years significantly reduced cereal production to historic lows (31 million quintals, compared to a long-term average of 70 million). In contrast, nonagricultural output remained resilient, supported by a strong rebound in investment driven by a series of infrastructure projects, and robust consumption on account of lower inflation and fiscal support to households. However, job losses in the agricultural sector have kept unemployment elevated at 13.3 percent in Q4 2024, up from 13.0 percent a year ago, and significantly higher than the pre-COVID average of 9 percent.

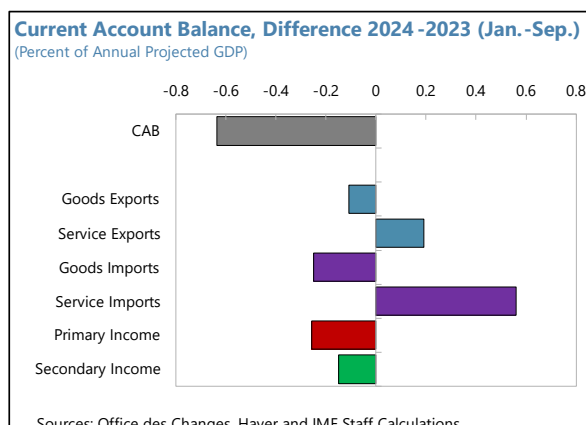


2. Inflation decelerated further in 2024, prompting Bank Al-Maghrib (BAM) to cut the policy rate in June and December. Headline inflation fell to 0.7 percent (y/y) in December, helped by the decline in volatile food prices, while core inflation remained below 2½ percent on average since March. BAM lowered the policy rate by 25 bps twice in its June and December meetings, bringing it to 2½ percent. With two-year-ahead inflation expectations at 2.3 percent in Q4:2024, the real ex-ante policy rate has returned to positive territory but remains slightly below staff estimates of the neutral rate.¹

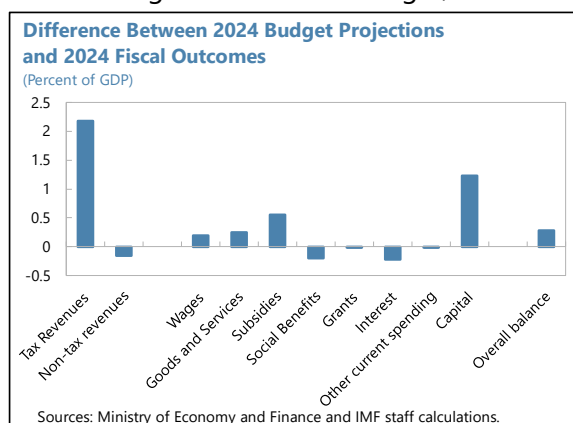


¹ Queyranne, M., Baksa, D., Bazinas, V., & Abdulkarim, A. (2021). Morocco's Monetary Policy Transmission in the Wake of the COVID-19 Pandemic. IMF Working Paper WP/21/249.

3. The current account deficit widened somewhat in 2024. For the first three quarters of 2024, the current account deficit increased to 1.1 percent of the estimated GDP for the year (from 0.5 percent in 2023). This deterioration mainly reflects a smaller service surplus (with higher imports of services offsetting buoyant tourism receipts) and a higher primary income deficit (reflecting greater payment of interest and dividends), while the merchandise trade balance remained approximately unchanged as a share of GDP.² Net FDI flows rose from last year's low levels, and international reserves reached USD 37.2 billion in December (120 percent of the estimated adjusted ARA metric for 2024). The exchange rate appreciated in 2024, ending the year around the middle of the fluctuation band and about 2.6 percent above end-2023 levels in real effective terms.



4. The fiscal deficit in 2024 was lower than in the Budget, thanks to greater-than-expected tax revenues. Tax revenues were 2.2 percent of GDP higher than in the Budget, thanks to recent reforms of the tax system initiated, which have simplified the tax system, increased the cost of evasion, and boosted compliance beyond the initial expectations.³ This greater-than-expected revenue was largely offset by higher current spending (0.6 percent of GDP, mainly subsidies on gas butane and wages following the social dialogue with employers and unions), as well as greater capital spending (1.2 percent of GDP, reflecting investment in structural projects including in water, health, and education sectors). As a result, the 2024 fiscal deficit was 4.1 percent of GDP, 0.2 percent of GDP below the target. The 2025 Budget confirmed a gradual reduction of the fiscal deficit over 2025–2027 and introduced a reform of the personal income tax (PIT) system, which raises the exemption threshold, lowers the marginal tax rate on the highest



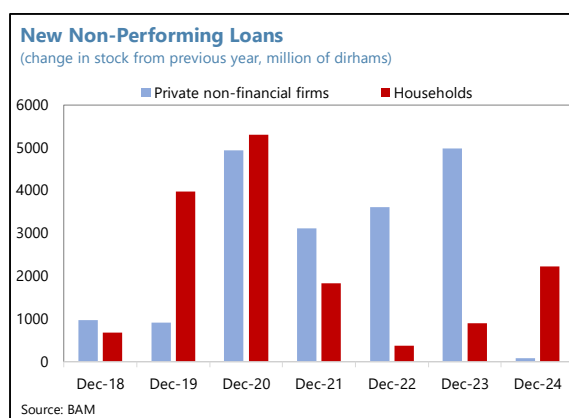
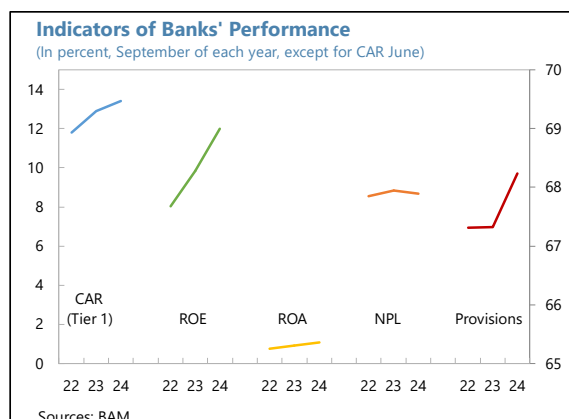
² Stronger imports of intermediate and capital goods, consistent with the pickup in investment, were largely offset by lower energy imports. Goods exports, particularly aerospace, automotive, and phosphates and derivatives, continued to perform well.

³ These reforms include the harmonization of CIT and VAT rates, the reduction of CIT exemptions, as well as a series of changes in revenue administrations aimed at encouraging formalization, such as the introduction of VAT withholding and self-declaration, and the extension of PIT withholding to self-employed and different forms of non-wage income (for example, capital gains from real estate income). While the impact of these reforms has been prudently not incorporated into budget projections, their yield has been genuinely stronger than anticipated by the authorities and staff. Data for the month of January 2025 continued to show the strong dynamism of tax revenues, with a 25 percent increase in the month relative to January 2024.

bracket (from 38 percent to 37 percent), revises tax brackets to reduce the effective tax rate, and exempts basic pensions (by 50 percent in 2025 and fully in 2026).

5. Credit to nonfinancial private companies slowed in 2024, while banks' profitability

increased. The slowdown in lending was mainly driven by weaker working capital needs, reflecting lower production costs, which overshadowed the robust acceleration in loans for machinery and equipment. Household loans picked up somewhat in the second half of 2024, following a period of stagnation that coincided with higher interest rates and tighter lending standards. Banks' return on equity (ROE) improved to 12 percent in September 2024 (compared to 9.8 percent in the previous year), as growing credit and abundant availability of low-cost current and savings account deposits (representing about 80 percent of all deposits) supported net interest income. Higher provisioning prevented an even stronger increase in profits but helped cover against higher nonperforming loans (NPLs). NPLs increased by 2.5 percent y/y in December 2024, mainly driven by the household sector, as the recent inflation shock weighed on disposable income (households' NPL ratio increased to 10.8 percent in December, from around 10 percent in early 2023). The NPL ratio for nonfinancial private firms rose to 12.5 percent in December (from around 12 percent in early 2023), mainly reflecting small and medium-sized companies' difficulties in repaying the subsidized loans extended during the pandemic crisis.⁴



6. The implementation of the announced structural reform agenda has continued. A few advances were made to boost private sector investment:

- *Investment Charter.* The authorities have continued implementing the new Investment Charter, approved in December 2022. The National Investment Commission, chaired by the Head of the Government, met seven times since May 2023 to approve public support (direct subsidies and

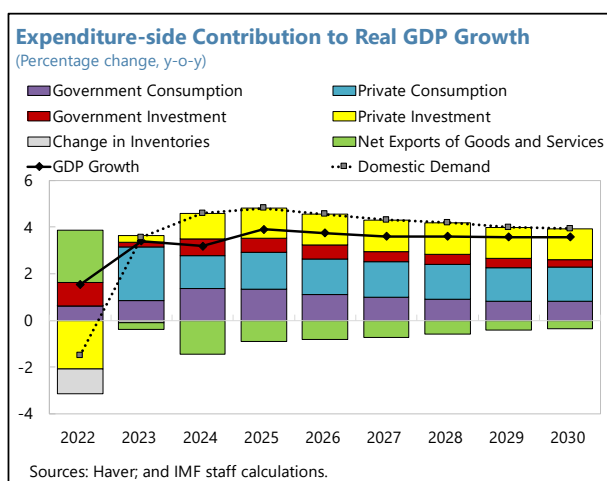
⁴ About 60 billion dirhams (equivalent to about 5 percent of 2019 GDP) of loans were extended in 2020 under three state-guaranteed credit programs 'Damane Oxygene', 'Damane Relance', and 'Intelaka'. As of November 2024, about 14 percent of these loans were showing repayment difficulties (6 percent had unpaid debt and 8 percent were overdue). These have added about 4.7 billion dirhams to NPLs, which accounts for about 1 percentage point of the NPL ratio for nonfinancial private firms (most of the increase since 2019).

tax exemptions) to private sector investment projects.⁵ The legislation on the Regional Investment Centers (CRIs) has been amended to allow them to directly approve financial support for smaller investment projects (between MAD 50 and 250 million).

- *Mohammed VI Investment Fund (MVI Fund)*. The MVI Fund has finalized the setup of 14 thematic investment funds, covering different sectors including industry, agriculture, tourism, and transport. The funds will provide equity to Moroccan firms over the next 5 to 10 years for a total of MAD 18.5 billion (US\$ 1.9 billion or 1¼ of GDP), of which two thirds (MAD 14 billion) is provided by private investors and the rest by the MVI Fund.
- *Reform of State-Owned Enterprises (SOEs)*. In June 2024, the Council of Ministers approved the strategic directions of the reform, identifying the key roles and objectives of the state's presence in the economy. Based on these directions, the *Agence Nationale de Gestion Stratégique des Participations de l'État* (ANGSPE) prepared a state shareholding policy and an action plan for its implementation. This plan was first submitted to and approved by the interministerial committee overseeing the reform, and then by the government council.

OUTLOOK AND RISKS

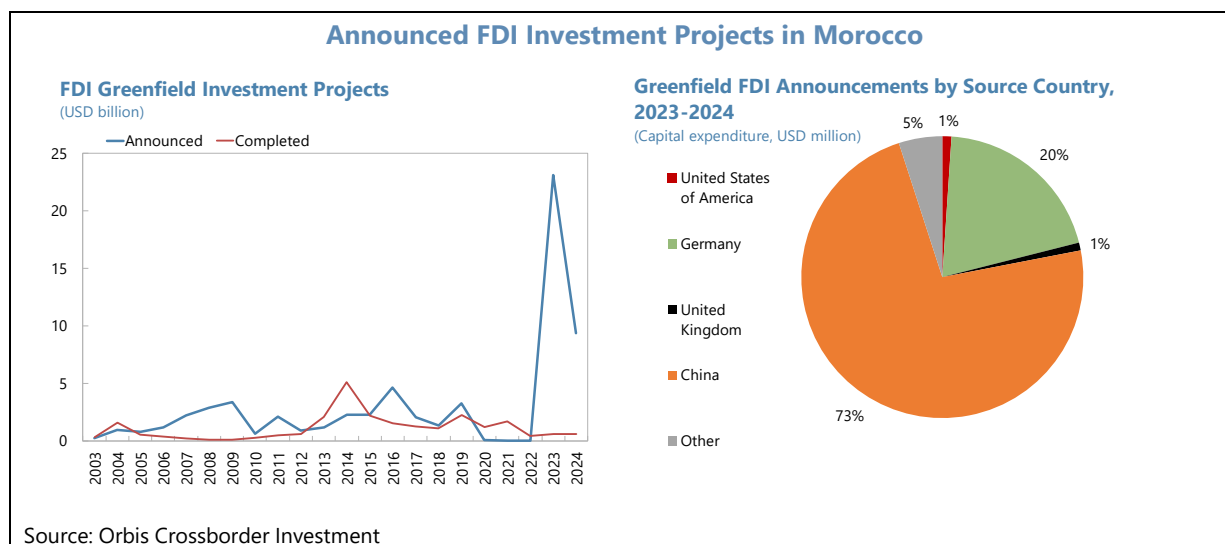
7. Growth is expected to accelerate in 2025. Real GDP is expected to have grown by 3.2 percent in 2024 and is projected to accelerate to 3.9 percent in 2025, as agricultural output rebounds somewhat after the recent droughts and the nonagricultural sector continues to expand at a robust pace. Headline CPI inflation is projected at 2.1 percent (y/y) by the end of 2025, as volatile food prices normalize, and the gradual removal of gas butane subsidies continues. Over the medium term, assuming a normalization of agricultural production, GDP is projected to grow at the staff's estimated potential pace of 3½ percent. Investment is projected to become a major contributor to growth, reflecting the infrastructure plans in water, energy, and transport sectors (mainly based on public-private partnerships, PPP), and increased private (including SOEs) investments amid pro-business structural reforms, the implementation of the new Investment Charter, and the full operationalization of the Mohammed VI Fund.⁶ Given the high import content of investment, the trade balance is expected to deteriorate, and the current account deficit to return



⁵ Overall, the Commission approved public support for 191 private investment projects, 70 percent of which are from Moroccan firms, with a projected total value of MAD 323 billion (US\$ 32 billion or 20 percent of GDP).

⁶ Staff's baseline scenario assumes a more modest acceleration of private sector investment than implied under the Investment Charter, as it is still too soon to assess how many of the investment projects approved for public support since May 2023 will fully materialize and over what time horizon.

to the estimated norm of 3 percent of GDP over the medium term. This wider deficit will be financed in part by higher FDIs, in line with the sharp increase in new greenfield FDI projects announced by international companies, largely from China and concentrated (about 73 percent) in industrial, electronic, and electronic machinery sectors.



8. Risks to the growth outlook are broadly balanced (Annex II). Domestically, further episodes of drought and reduced agricultural production pose significant downside risks to economic activity, despite the authorities' efforts to increase the availability of water for irrigation. A faster-than-expected acceleration of private investment could push growth above potential over the short term, worsening the current account deficit as well as fueling inflationary pressures and government spending. On the external front, increased geopolitical tensions and a compression of global trade, related to an escalation of tariffs and other trade barriers, could reduce external demand, increase commodity price volatility, and weigh on Morocco's exports. However, over the medium to longer term, the country's geographical location as a bridge between Europe and Sub-Saharan Africa may allow Morocco to benefit from a diversion of trade flows and a reshuffling of global supply chains. This is especially likely if structural reforms continue to improve the country's capacity to attract FDI and enhance its overall competitiveness.⁷

Authorities' Views

9. The authorities broadly shared staff's views on risks to the outlook but were more optimistic about growth prospects. They forecasted higher GDP growth this year and over the medium term, at 4.6 percent and about 4.1 percent in the outer years, respectively. They expected growth to be driven by a significant increase in domestic demand, with consumption boosted by social transfers and continued strong remittances, and investment fueled by major projects in the water, transport, and health sectors, which will raise potential growth to about 4 percent over the

⁷ Apostolou A, F. Gori, T. Kroen, S. Nechi, and S. Velkumar, "Unlocking MENA and CCA Trade in a Fragmented World", IMF Working Papers, Forthcoming; IMF (2024).

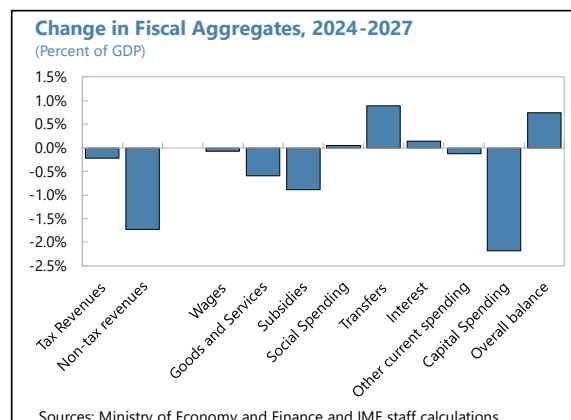
forecast horizon. They also stressed that Morocco's hosting of the African Soccer Cup in 2025 and the World Soccer Cup in 2030 should lead to a strong performance of both construction and tourism sectors, boosting job creation and reducing the unemployment rate. Additionally, they consider that agricultural output for 2025 is not yet compromised thanks to the exceptional rainfall in the southeastern regions during early Q4:2024 and the latest quite regular rainfall since January. The authorities noted that the low inflation in 2024 is likely temporary, driven by volatile food items, and expect it to normalize to about 2 percent in 2025–2026.

POLICY DISCUSSIONS

While the pace of fiscal consolidation gradually reduces the debt-to-GDP ratio over the medium term, accelerating it would strengthen Morocco's fiscal buffers and help return to the pre-COVID ratio over the medium term. This could be achieved by partially saving the revenue windfall from the recent comprehensive tax reforms and by adopting structural measures to increase tax revenues and rationalize spending. The current neutral stance of monetary policy is appropriate and should be maintained. The sharp deterioration in labor market conditions necessitates a comprehensive strategy to boost job creation, which will need to prioritize efforts to promote private sector development and the growth of small and medium-sized firms.

A. Fiscal Policy

10. The 2025 Budget confirms a gradual pace of fiscal consolidation. The fiscal deficit is projected to decrease from 4.1 percent in 2024 to 3.3 percent in 2027, in line with the previous year's Medium-Term Fiscal Framework (MTFF) (*Programmation Budgétaire Triennale*, PBT). This improvement reflects a reduction in spending driven by lower subsidies on gas butane (about 1 percent of GDP), in line with the commitment under the RSF arrangement; and lower capital spending (about 2.25 percent of GDP) in line with the New Model of Development's objective to reduce the public sector share of national investment from two-thirds to one-third. These cuts more than compensate for the increase in transfers (about 1 percent of GDP), primarily from higher transfers of tax revenues to municipalities and current transfers to SOEs and other public agencies, and for the significant decline in non-tax revenues (about 1.7 percent of GDP) due to lower SOEs dividends and reduced revenues from the sales of central government's real estate assets (*financements innovants*).

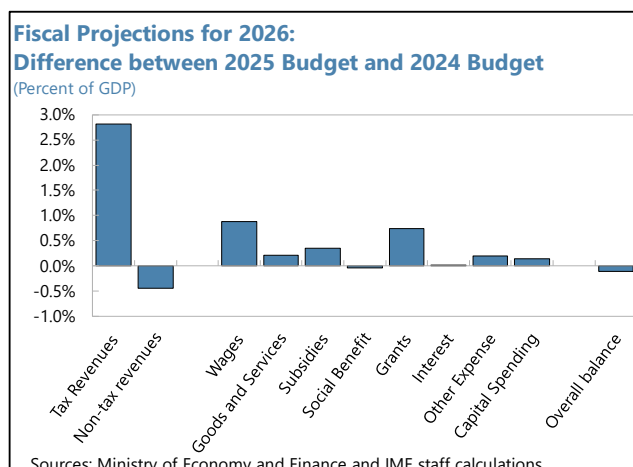


11. This pace of fiscal adjustment allows the debt ratio to gradually decline over the medium term. The central government debt is expected to have closed 2024 at 70 percent of GDP, slightly lower than the 70.3 percent envisaged in the last Budget. A lower deficit and stronger growth in the baseline will allow the debt ratio to gradually decline to about 67 percent in 2027, and then to

about 65 percent by 2030, in line with the 2025 PBT. This pace of fiscal consolidation, together with continued prudent debt management, would ensure that the central government debt remains sustainable with high probability, and that the risk of sovereign stress remains moderate (Annex III).⁸

12. Still, as in the past, staff advise accelerating the fiscal consolidation to rebuild fiscal buffers and reduce the debt ratio to pre-COVID levels over the medium term. This would ensure stronger protection against the risks associated with the uncertain outlook and other shocks, particularly in the context of higher-than-expected tax revenue windfall. A greater reduction of the debt is possible through three channels:

- Saving at least part of the tax windfall from past reforms. The successful implementation of the tax reform would generate greater-than-expected revenues of about 3 percent of GDP by 2026, compared to the 2024 Budget. Still, the fiscal deficit trajectory has not changed, reflecting an increase in spending on public wages (1 percent of GDP), subsidies (½ percent of GDP, due to higher gas butane prices), and transfers (1 percent of GDP, as more taxes are redistributed to local authorities but also due to larger transfers to public enterprises), as well as lower nontax revenues (of around ½ percent of GDP). Staff encouraged saving at least part of any further revenue windfall from past reforms.
- Implementing structural measures to increase revenues. Revenue-increasing measures include further compression of tax expenditure (about 2 percent of GDP, including about ½ percent from raising VAT on fossil fuels), an economy-wide carbon tax, and enhanced tax collection, including through continued digitalization of the revenue administration and adopting a risk-based compliance approach. In general, efforts to reduce informality remain key to expanding the tax base and increasing revenues, while also ensuring a more equitable tax burden distribution. Accelerating the privatization program would also provide below-the-line financing needed for faster debt reduction.
- Structural measures to rationalize spending. Current spending could be reduced by accelerating the phasing out of subsidies on gas butane, further rationalizing social programs through a broader application of the Unified Social Registry (RSU), further strengthening public finance management (including through continued reduction of Special Treasury Accounts) and



⁸ Morocco has some fiscal space, with low sovereign spreads and a moderate level of medium-term risk of sovereign stress.

implementing a broad-based civil service reform that places more weight on productivity over seniority.

13. There is a need to rationalize transfers to SOEs and public institutions. Transfers to SOEs have substantially increased after the pandemic, from 1.1 percent of GDP in 2020 to 3.4 percent in 2024. This mainly reflected higher transfers to commercial SOEs, mostly to the national electricity and water company (ONEE), the national rail company (ONCF), and the national airline (RAM). While some of these transfers support SOE investments, current transfers represent about half of the total. Two ongoing reforms should help reduce the weight of SOEs on the Budget. First, the ongoing reform of the Organic Budget Law will bring some noncommercial SOEs (*Etablissements Publics*, each with their own budgetary autonomy) within the perimeter of the Budget Law, introducing binding ceilings on their expenditures and increasing parliamentary oversight on their revenues and expenditures. Second, the SOE reform offers the opportunity to restructure the SOEs that have been suffering from limited profitability and to accelerate the privatization of nonstrategic entities.

14. Staff welcomed the progress in advancing the regulatory framework on PPPs. The amendment of the PPP law passed in 2020 introduces a National Commission that will approve a pipeline of projects that could be financed using PPPs, in line with the criteria set in the national strategy on PPPs. Considering the potential fiscal risks of PPPs, staff recommended reinforcing the institutional capacity to evaluate, monitor, and transparently report the budget implications of these projects. This could include adding to the PBT a list of projects approved by the Commission, updating the stock of existing PPPs, estimating their costs and potential fiscal risks, and including these in the PBT.

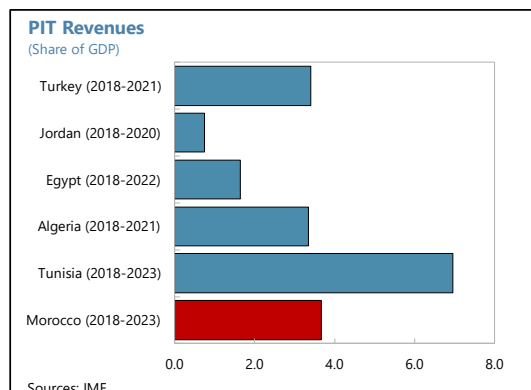
15. The PIT reform would slightly reduce revenues (Box 1). The reform increases the share of taxpayers exempt from PIT from 70 to 80 percent and reduces the effective tax rate for all remaining taxpayers. Higher exemptions and larger brackets will imply lower revenue by 0.3 percent of GDP in 2025. By benefiting higher-income taxpayers more than lower-income ones, the reform does not seem to reduce income inequality. However, the reform reduces the tax burden on formal workers, who currently bear the brunt of it, and could encourage formalization. Given the recent significant changes in the tax and transfer system, staff recommended a thorough assessment of recent reforms (the gradual reduction of subsidies on gas butane, the generalization of healthcare insurance, the introduction of conditional cash transfers *Aide Sociale Directe*, and the changes in PIT) on progressivity and formalization incentives.

16. Staff welcomed the progress in strengthening the fiscal framework. The authorities improved the PBT by adding an assessment of fiscal risks from climate change to the baseline, in line with the RSF arrangement. Further improvements are needed, including adding the cost of new policy measures and a more comprehensive and quantitative assessment of fiscal costs and fiscal risks from PPPs, credit guarantees, and unfunded pension liabilities. Given the uncertainty on the size and timing of the investment projects benefiting from public financial support, it will be important to transparently report in the PBT on the actual and projected budgetary impact of the new Investment Charter. The ongoing reform of the Organic Budget Law should make the PBT a more integral part of the Budget process (by adding it to the list of Annexes of the annual Budget) and introduce a new

fiscal rule based on a medium-term debt anchor. It would be important that the parameters of the fiscal rule (the level of the debt target, the size of the buffers around the target including the

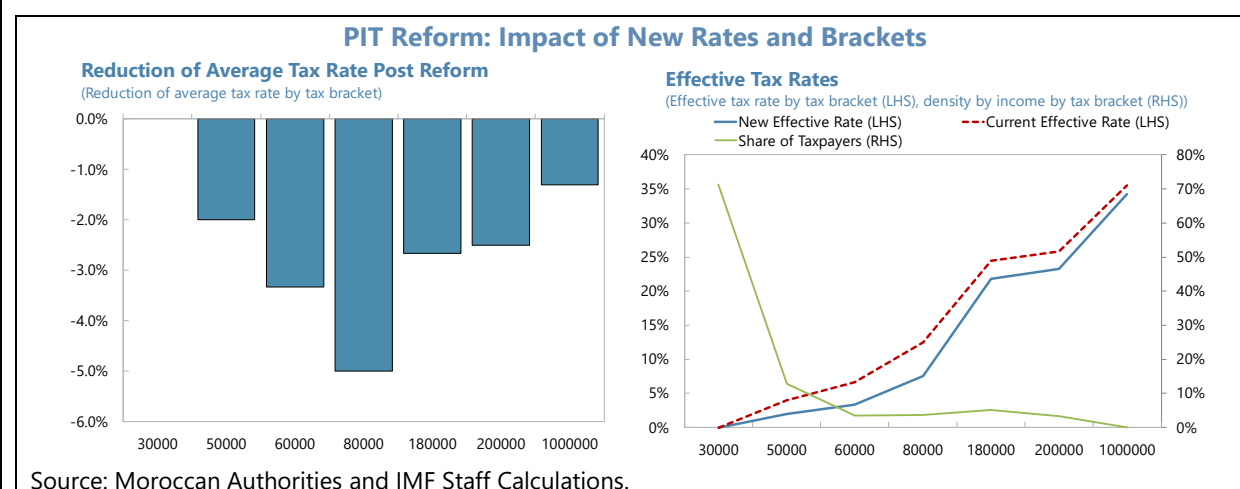
Box 1. Morocco: Personal Income Tax Reform¹

The PIT in Morocco. The Personal Income Tax (PIT) in Morocco is applied to aggregated worldwide income from all sources, with a few exceptions. Its base includes income from salaries, personal business (including liberal professions), agriculture, rental, property, and capital. The rate structure is progressive, with six rates ranging from 0 to 38 percent. During 2018–2023, PIT revenue in Morocco reached 3.7 percent of GDP on average, similar to other countries in the region (chart). PIT revenue is skewed toward higher income groups, as 70 percent of private sector workers fall into the first zero-rate bracket.



The reform. Based on the guidelines of the 2019 law on tax reform, the 2025 Budget aims to improve equity through: (i) higher PIT brackets, (ii) lower top rate (37 percent), (iii) new income deductions for salaries, and (iv) higher tax credits for dependents, from 360 to 500 MAD.²

Impact. The changes increase the number of individuals entirely exempt from PIT (80 percent) and decrease the average effective tax rate across all incomes by 2 percent (mainly through the lower zero-rate bracket threshold and additional income deductions for salaries). Overall, the reform is estimated to decrease PIT revenue by 5.2 billion MAD (0.3 percent of GDP), about 10 percent of PIT revenue.



While assessing the distributional implications of the reform is challenging, staff analysis shows that the reform ensures a very modest reduction of income inequality, as the post-tax income Gini coefficient falls by less than 1 percent.³ While the tax burden falls for all taxpayers, the largest decrease is among those in the middle to upper brackets (between 80,000 and 100,000 MAD per year, and above). The analysis shows that achieving a greater reduction of income inequality may require a greater participation in the PIT system, for example by lowering the zero-rate threshold and streamlining deductions, with an emphasis on reducing regressive ones.

^{1/} Prepared by Patrick Petit and Hussein Bidawi.

^{2/} These simulations do not include the effect of gradually eliminating PIT on basic pensions.

^{3/} Staff uses data from the 2012 Household Survey to calibrate two different scenarios of income distribution to match overall household income (and approach its quartile distribution), and hence taxable income and taxes paid. For both distributions, the impact of the rate change turns out to be similar.

maximum level of debt, the duration of the horizons to achieve the fiscal targets, and the escape clauses and correction mechanisms, a monitoring and compliance mechanism, and conditions for modifying the numerical limits of the rule) should not be included in the annual Budget, as this could weaken the credibility of the rule and prevent it from anchoring expectations around future policies.

Authorities' Views

17. The authorities broadly agreed with staff's views. They stressed that the decision to spend the windfall revenues reflected the need to buffer the impact of recent shocks on the population (particularly the spike in inflation and the weaker labor market conditions due to the droughts). They observed that, with the conclusion of the *"Dialogue Social"* in 2024 (an income policy agreement necessary to maintain social stability), there will be fewer spending needs going forward. Higher spending also reflected the acceleration in several structural projects, including the reforms of the education and health sectors and investment in water, energy, and transportation infrastructure. The authorities reiterated their commitment to implement measures that would increase revenues, rationalize current expenditures and improve the efficiency of investment. They noted that Morocco has already started to reform the remuneration system of the public administration by linking salaries to job and skills benchmarks, ensuring advancements and promotions based on merit and performance, limiting the creation of budgetary positions to effective needs, and encouraging mobility and redeployment. In addition, the reform of the SOE sector is likely to increase its efficiency, through the rationalization of budgetary transfers and the improvement of its contribution to the State budget. They agreed with the suggestions to improve the MTFF going forward. While the authorities are determined to continue rebuilding fiscal buffers, the use of potential additional revenues will reflect the trade-off between fiscal consolidation and the need to support growth in the medium and long term.

B. Monetary Policy

18. The careful pace of monetary policy rate cuts has been appropriate, and future policy rate changes should remain data dependent. BAM's decisions to cut rates in June and December 2024 are justified, given the recent stabilization of underlying inflationary pressures and increased uncertainty surrounding the economic outlook. While the real ex-ante policy rate (0.2 percent) is modestly below the staff's range of estimates for the natural rate (between 0.5 and 1 percent), there is significant uncertainty around these estimates. This underscores the need for a cautious approach to future policy decisions, calibrating new rate adjustments to further changes in actual inflation and inflation expectations. As the estimated output gap is projected to be close to zero and inflation to remain around 2 percent over the next two years, a broadly neutral monetary policy stance remains appropriate.

19. As inflation stabilizes at low levels, BAM should continue its transition to an inflation targeting (IT) regime. Such a regime would cushion the economy from real external shocks while keeping the exchange rate in line with fundamentals, strengthen monetary policy transmission and

contribute to Morocco's private sector development.⁹ Over the past few years, BAM has made good progress in preparing the ground for a smooth implementation of this important institutional change, including by improving the functioning and liquidity of foreign exchange (FX) markets, refining macro-forecasting tools, and adapting its communication strategies. Building on this progress and taking advantage of the expected stabilization of inflation at low levels (around 2 percent), the authorities should get ready to remove the peg around the dirham and allow greater exchange rate flexibility. Staff assesses REER to be currently undervalued, in line with Morocco's external position in 2024 being moderately stronger than the level implied by medium-term fundamentals and desirable policies (Annex I).

Authorities' Views

20. The authorities shared the staff's assessment of the monetary policy stance. They agreed that monetary policy would need to remain data-dependent in the coming months. Regarding the transition towards an IT regime, they stressed that the removal of the peg could lead to increased exchange rate volatility, making it crucial for economic agents, particularly SMEs, to be well prepared for this transition and to have effective hedging strategies in place to manage potential risks. Hence, they emphasized the need to continue working towards deepening FX and interest rate hedging markets, including through the adoption of the draft law that would enable close-out netting and mitigate credit exposure, and by setting an appropriate tax framework for hedging instruments.

C. Financial Policy

21. Staff welcomed BAM's progress in aligning its regulatory and supervisory framework with international standards. In 2024, BAM completed the deployment of the Supervisory Review and Evaluation Process (SREP) and presented the results of the first SREP exercise to a broader panel of evaluated banks. The new process is expected to come into effect by 2027. Additionally, as part of the completion of the Basel III alignment, BAM adopted regulatory texts in December 2024 concerning the Net Stable Funding Ratio (NSFR) and the Liquidity Adequacy Assessment Process (ILAAP) to ensure that banks maintain adequate and high-quality liquidity buffers, even during prolonged periods of stress. A technical note on the operational aspects is being prepared and will be communicated to the banks. An IMF technical assistance mission is currently underway to assist BAM in finalizing the ILAAP report review guide and training supervisors accordingly, with implementation expected to start by early 2026.

22. While systemic risks are limited, efforts should continue to strengthen the resilience of Morocco's financial system in the face of emerging risks.

- **A successful introduction of a secondary market for NPLs could materially improve banks' asset quality and free up liquidity.** The adoption of the draft law to introduce this market

⁹ Baksa D. and A. Bulir, "Moving to an Inflation-Targeting Regime, in *Morocco's Quest for Stronger and Inclusive Growth*, R. Cardarelli and T. Koranchelian, eds. 2023, Washington, DC: International Monetary Fund.

should be fast-tracked for approval, as it is only the first step towards an effective NPL market. Several initiatives can be considered to reinforce its effectiveness, including facilitating pre-judicial asset recovery, by enhancing out-of-court collection procedures, and the judicial recovery by speeding up the processing of legal cases. Additionally, developing a digitized market can promote transparency and fluidity in transactions. These measures would guarantee a stable legal framework for investors as well as increase efficiency, making the NPL market more attractive.

- **Staff welcomed BAM's stepped-up efforts to curb further increases in NPLs.** BAM's plan to broaden the definition of NPLs through the draft revision of circular 19/G, which expands the definition to include a new classification called sensitive claims, aligns the definition of restructured claims with international standards and introduces more stringent provisioning rules for them, are all welcome steps towards better risk management. A phased implementation of these changes, in line with the development of the NPL secondary market, would ensure a smooth transition to the new system. In this regard, staff welcomed BAM's plan to conduct an impact assessment study before deciding on a timeline for implementation.
- **Measures to mitigate concentration risk should be considered until the full adoption of the SREP.** As of June 2024, lending to the largest borrowers was about 3 times Tier 1 regulatory capital, indicating a relatively high level of concentration¹⁰. This mainly reflects the structure of the economy, and the greater reliance of its largest firms on bank credit. While waiting for SREP to come into effect, stress tests based on concentration risk scenarios could identify potential vulnerabilities and help formulate appropriate risk management strategies. With the full deployment of the SREP, a Pillar 2 capital surcharge could be required from banks that are not sufficiently hedging against concentration risk. Finally, staff welcomed BAM's efforts to encourage a greater use of syndicated loans as this could help diversify banks' asset portfolios (a regulatory text is currently under preparation).

23. Staff welcomed the authorities' request for a Financial Sector Assessment (FSAP) to update the 2015 financial sector recommendations. The assessment should provide a comprehensive analysis of Morocco's financial system, highlighting strengths and potential vulnerabilities and offering policy recommendations to strengthen financial stability. It is expected to coincide with the upcoming Article IV mission in the first quarter of 2026.

Authorities' Views

24. The authorities stressed that the banking sector remains resilient. On NPLs, they believe the implementation of the revised circular 19/G will help better identify risks and maximize the chances of loan recovery. BAM is assessing the impact of its implementation on banks, and this assessment will inform the timing of its introduction. Good progress has been made in the

¹⁰ BAM defines as "large", the exposure of a bank to a single counterparty or to a group of connected counterparties that is equal to or above 5 percent of its Tier 1 capital. This is a more conservative definition than in the Basel framework (of 10 percent).

development of a new secondary market for NPL with issues remaining on the tax treatment of provisioning and the modalities for writing off overdue receivables. The draft law was finalized and integrated in the process of adoption. The authorities also noted that, under the guidance of BAM, Moroccan banks have adopted in 2008 a code of ethics that commits them to maintain Loan-to-Value (LTV) ratios on lending below 100 percent. While concentration risk is relatively high, reflecting the structure of Moroccan economy (with large firms mainly relying on bank loans), it remains well below the levels of a decade ago. This risk is mitigated by the limit of 20 percent of equity applied to credit exposures to a single borrower, which is more stringent than international standards (of 25 percent limit). They also stressed that concentration risk is addressed within the ICAAP framework and that with the deployment of SREP, a Pillar 2 capital surcharge could be introduced.

D. Structural Reforms for a More Inclusive Model of Development

25. Weak labor market conditions require a new approach to active labor market policies.

Over the last five years, the agricultural sector has lost about 700,000 jobs, which have only been partially absorbed by the service sector (Box 2). Improving active labor market policies (ALMP) could help absorb labor displaced from the agricultural sector in the short run. Currently, there are many small active employment programs, which mainly focus on first-time young job seekers with diplomas. A more integrated approach is needed to better coordinate the players involved at both national and local levels, ensure that policies are targeted to the specific requirements of the labor market at regional levels, and place more emphasis on retraining and upskilling programs dedicated to youth without diplomas in rural areas. The forthcoming reform of the unemployment scheme could consider extending unemployment benefits to all workers (formal and informal) losing a job (for a limited period, conditional to income being below a certain RSU scoring, and linked to participation in up-/re-skilling programs).

26. A more meaningful job creation would ultimately require additional efforts to boost the private sector, with a focus on SMEs. The expected acceleration of investment in the coming years is largely related to big investment projects in key sectors (water, electricity, automotive, and transport infrastructure like ports, trains, and airports). Many of these projects involve public-private partnerships, with SOE participation, and are supported by the new Investment Charter. The M6 Fund is also now operational, creating opportunities for firms to benefit from access to private equity and senior debt. While these investments are expected to support employment over the next few years, the sustainable creation of high-quality, formal jobs will require a greater contribution from private SMEs. Despite past reforms, these firms still struggle to grow and compete with larger firms, hindering sufficient formal job creation.¹¹ Measures that may encourage the development of a more buoyant private sector and facilitate SME growth include:

¹¹ A 2024 study from the World Bank and Morocco's SME Observatory indicated that firms with fewer than 10 employees account for 86 percent of employment in Morocco (compared to 35 percent on average for OECD countries). These firms tend to remain small even as they mature (firms with a life of over 10 years have 26 employees on average).

Box 2. Morocco: Job Displacement in the Agricultural Sector ¹

Morocco has experienced five droughts in the past six years, which have severely impacted the agricultural sector. The frequency and intensity of droughts are expected to intensify further in line with global trends. With over 75 percent of Morocco's cultivated land dedicated to cereal production and heavily reliant on rainfall, the recent droughts have led to production shortfalls of about 40 percent over the last six years compared to historical averages.

The significant proportion of the labor force employed in agriculture heightens the risk of job displacement.

While agriculture's share in GDP has been declining with the economy's diversification, the sector still employs about 30 percent of the labor force. About 20 percent of households (about 1.4 million) rely entirely on agriculture for their income. The agricultural employment rate has declined by about 4.4 percentage points since 2019, resulting in about 720,000 net job losses.

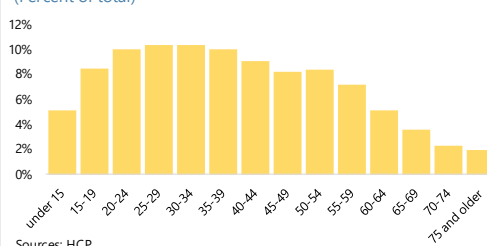
A few characteristics of workers in the agricultural sector reveal significant challenges to their employability:

- Over 80 percent have only a primary education or no formal education at all (chart).
- 50 percent are over 40 years old, with 20 percent nearing retirement age (over 55 years) (chart).
- 90 percent live in rural areas, with limited access to jobs.
- Females represent about 45 percent of agricultural workers, but only 30 percent receive remuneration for their work (chart). Family ties often make it challenging for them to seek paid employment far from their homes (chart).

Most employment programs currently target candidates with upper-level education or relevant skills for job placement. A notable exception is the AWRACH program, which offers retraining and upskilling workshops to non-degree holders in rural areas to increase their employability and reintegrate them into the workforce. By the end of 2022, the program had registered about 100,000 beneficiaries, with about 50 percent from rural areas and 30 percent women.

Agricultural Workers by Age

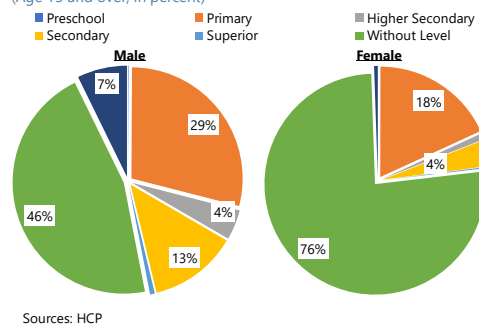
(Percent of total)



Sources: HCP

Agricultural Workers by Education: By Gender

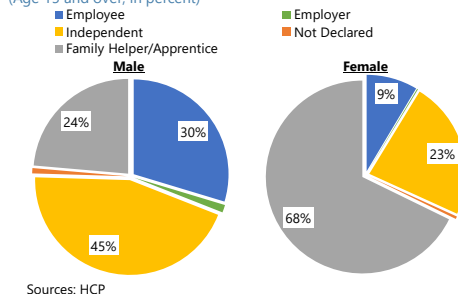
(Age 15 and over, in percent)



Sources: HCP

Agricultural Workers by Employment Situation: By Gender

(Age 15 and over, in percent)



Sources: HCP

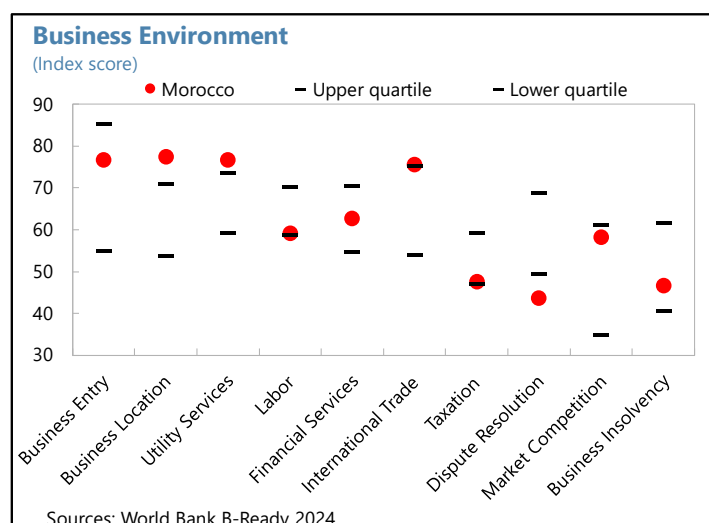
^{1/} Prepared by Nadia Mounir and Hannah Brown.

- **Strengthening support for SMEs under the new Investment Charter.** This will require approving the regulatory texts that define the scheme dedicated to micro and SMEs (with projects of less than MAD 50 million or \$5 million). Staff welcomed the reform of the regional investment centers (CRIs) that allows them to directly approve financial support for smaller investment projects (below MAD 250 million or \$25 million). Financing SMEs' investment projects should be complemented with technical assistance in developing and executing these projects.

The CRIs could play a more active role in helping SMEs structure their investment plans, which would also create a strong pipeline for the thematic funds under the M6 Fund. More efforts could also be devoted to creating ecosystems of local SMEs that serve as suppliers to large firms (including SOEs).

- **Ensuring that the SOE reform will effectively pursue market neutrality between public and private sector firms.** This will require breaking SOEs' monopolistic positions in key sectors, eliminating their special tax and regulatory regimes, and limiting state participation to strategic cases where a cost-benefit analysis justifies the use of public resources. Staff supported the reform of the privatization law prepared by ANGSPÉ, which allows the Agency and the Ministries to propose (in addition to the Minister of Finance) the sale of public assets currently restricted to the list presented by the government to Parliament with the annual Budget Law. It is also important that the law facilitates the privatization process, especially for those state participations that are not defined as strategically important under the new law.

- **Further improving the business environment.** Notable progress has been made in improving the business environment, including simplifying and digitalizing procedures. In the 2024 World Bank *Business Ready* Report, Morocco is assessed favorably in terms of business entry, business location, international trade, and financial services. However, more remains to be done to improve employers' flexibility in managing their



workforce (by making the labor code more adequate for the new realities of the labor market), reduce the cost and time of resolving commercial disputes, and strengthen the operational efficiency of insolvency proceedings. In addition, a thorough review of all the aspects of the tax system, the labor code, and the regulatory framework that could incentivize firms to remain small or keep (at least part of) their activities informal is warranted.

27. The development of Morocco's private sector also hinges on further efforts to strengthen governance. This mainly requires continuing to address anti-competitive practices and stepping up the fight against corruption:

- On corruption, the *Instance Nationale de la Probité, de la Prévention et de la Lutte contre la Corruption* has worked on a new anti-corruption strategy, building on the Anti-Corruption

Authority's evaluation and diagnostic of corruption in Morocco.¹² The strategy aims to identify a well-defined roadmap, with concrete objectives in many areas, including the relations between public administration and citizens, sanctions and repression, education and sensitization, transparency in business practices, and digitalization.¹³ The submission to parliament of the penal procedure code in January 2025 is expected to be followed by legislation on a new penal code later in the year. But significant progress in the fight against corruption continues to hinge on further improving the legislative framework, particularly by introducing new legislation on i) illicit enrichment, ii) conflicts of interest, iii) protection of whistleblowers, and iv) asset declaration for public officials.

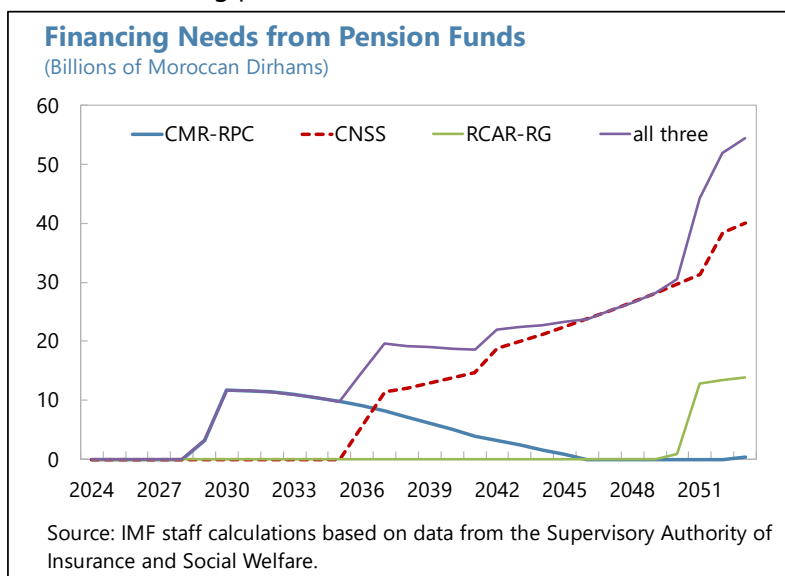
- On anti-competitive practices, Morocco's Competition Council has issued 16 decisions on cases of economic concentrations in 2024, including to impose more competition in electronic payment and energy distribution. The council has published three Opinions that have investigated competition in key markets, like the electricity and fruits and vegetables markets. On the latter, the study emphasizes the need to modify the legislation to shorten the distribution chain between production and consumption, as the current law unnecessarily adds steps that favor the creation of rents and lead to distortions in price fixation. Updating the law to liberalize the wholesale and retail distribution would be an important contribution to address the increase in food price levels after recent shocks.

28. The important reform of the social protection system requires fine tuning. The reform of Morocco's health insurance scheme (AMO) has extended coverage to about 3½ million Moroccans previously excluded. However, two years after the launch of the reforms, about one quarter of Moroccans do not have access to AMO, either because they are not registered or because they have not started paying contributions. The low take-up rate among non-salaried workers may reflect a host of causes, including the significant seasonal volatility of their income (particularly farmers, which represent more than one third of informal workers), the scarcity of health care facilities in rural areas, and the high out-of-pocket expenditure requested to access private health care. Moreover, linking the qualification for free health care to employment status (only inactive Moroccans with income below a certain threshold can access free health care) can have distortive effects on incentives to work (or to declare it). Staff welcomes the establishment of the new *Agence Nationale de Soutien Sociale*, that will assess and monitor the implementation of the *Aide Sociale Directe* at a regional level, allowing to evaluate the existence of inclusion and exclusion biases in the program. A thorough assessment of the long-term financial viability of the reform is also warranted.

¹² The "National Study on Corruption" published by the Authority in 2024 showed that corruption is one of the main concerns for the Moroccan population (at 5th place in 2022 against 6th place in 2014). However, it also indicates that a smaller share of Moroccans has been exposed to corruption in 2022 (26 percent of Moroccan residents, compared to 42 percent in 2014).

¹³ The strategy and its planned implementation should be finalized in consultation with the various authorities, public institutions, private sector and civil society (see *Lettre de la Probité* N.6, <https://www.inpplc.ma/fr/toutes-les-publications>).

29. A comprehensive reform of the pension system is needed. The three largest civilian public pension funds are projected to deplete their reserves between 2030 and 2051, with unfunded liabilities estimated at 131.6 percent of GDP. The authorities are working on a reform of the pension systems for salaried workers that consolidate existing pension funds around two schemes, one for the public and one for the private sector, both with a first pillar (defined-benefit pension, linked to the minimum wage) and a second pillar (where the contributions are converted into a pension based on a point system). Non-salaried workers would be required to pay contributions (based on the same structure under the new AMO), that will also be converted to a final pension via a point system. The difficulties in generalizing health care to



informal workers (with its low take-up rate so far), however, raises doubts on whether a large fraction of non-salaried workers (about 5 million) will opt into the new pension system. If the objective is to ensure that all elderly Moroccans have a pension, it may be preferable to introduce a basic, noncontributory, pension for those in retirement age with income below a certain RSU threshold.

30. Addressing water scarcity is a priority. In 2024 the authorities stepped up their response to address water scarcity through the implementation of the *Programme National pour l'Approvisionnement en Eau Potable et l'Irrigation* (PNAEPI) 2020–2027. Under the PNAEPI, priority is given to the construction of dams in high rainfall areas to enhance storage capacity, the completion of major water transfer projects between hydraulic basins, and the commissioning of desalination plants, leveraging renewable energy potential for desalination. The PNAEPI also focuses on strengthening water management, through savings in the industrial and tourism sectors and improving efficiency in water distribution, as well as the conversion to localized irrigation systems. Effective water management will also require updating the water tariff structure to align it to the actual cost of water. The study submitted to the Water Interministerial Commission, part of the RSF arrangement, has revealed large differences in the cost of water across the country, especially for irrigation purposes, pointing to the need to revisit tariffs for water used in the agricultural sector, mainly from reservoirs and groundwater resources. The forthcoming legislation on the “*contract de nappe*” begins to address this issue, by introducing different fees for usage of groundwater resources above a predetermined quota.

31. Good progress has been made in reforming the electricity market, but more is needed to secure private sector participation in renewable energy. The share of renewable energy (RE) in total installed capacity has increased at a faster-than-planned pace to 45.3 percent in 2024 (suggesting that the objective of 52 percent will be reached before 2030). The introduction of the

Sociétés Régionales Multi-Services (SRMs) as regional utility distributors, the unbundling of ONEE's financial accounts (under the RSF programs), and the transfers of RE production assets from ONEE to MASEN (envisaged in the legislation and expected to be completed in 2025) should all contribute to redesign the role of ONEE as Morocco's independent Transmission System Operator (TSO) while opening the production sector to free competition among private RE operators. This will also require further clarifying the regulatory framework, including by approving all the implementation decrees of the existing legislation that liberalizes the electricity market, as well as strengthening the reliability and flexibility of the electricity grid, notably through investments in transportation, interconnections, and storage capacity.

Authorities' Views

32. The authorities reiterated their strong commitment to the reform agenda. They are reviewing sectoral policies and their potential contribution to job creation, and preparing a roadmap to boost employment, with concrete and targeted measures. They agreed that there is a need to improve the effectiveness of employment programs, focusing on rural employment, programs for non-graduates, and apprenticeship training. Labor scarcity in some sectors highlights the need to better link education and training to the actual needs of the labor market. While the reforms of the social protection system have expanded coverage and ensured better targeting of the most vulnerable, it is now time to assess their implementation, improve efficiency and seek better integration with other reforms (including those of the pension system). On the generalization of the AMO, a study is underway to ensure the attractiveness and financial viability of this scheme. On corruption, the authorities stressed the need to continue building consensus and raising awareness, noting that all sectoral policies now include a specific dimension of the fight against corruption, with particular emphasis on the digitalization of public services (which helps reduce the risks of corruption by limiting direct interactions). Finally, the authorities confirmed their intention to work on the tariffication of water now that they have a clearer picture of the costs involved.

THE RSF ARRANGEMENT

33. All but one of the reform measures (RM) scheduled for this review have been implemented:

- **RM1: The study that assesses the actual cost of water and presents options for cost recovery that could inform a new methodology for water tariffication was submitted to the Water Interministerial Commission.**¹⁴ The two decrees of the Water Law No. 36-15 were adopted by the Government Council on February 6, 2025, and will support the preservation of groundwater resources.¹⁵ The first decree sets the conditions and methods for determining conservation perimeters (areas where the use of groundwater will be limited) and prohibition perimeters (where the use of groundwater will be banned). The second decree sets the criteria

¹⁴ <https://www.equipement.gov.ma/Actualites/Pages/Actualites.aspx?IdNews=4032>.

¹⁵ <https://www.cg.gov.ma/fr/node/12171>.

and methods for determining protection perimeters around groundwater resources utilized for supplying potable water, as well as regulating activities within these perimeters.

- **RM2: ANRE approved the proposal submitted by ONEE on the separation of the financial accounts for the activities of production, transmission, and distribution.**¹⁶ Consistent with Article 53 of the Law 48-15 on the regulation of the electricity sector, ANRE approved ONEE's proposal on how to separate the financial accounts (assets, liabilities, expenses, and income) related to its production, transport, and distribution of electrical energy. In the short term, this separation will increase transparency on the costs of each activity, facilitating the process of setting tariffs and fees, and the overall regulation of the sector. Over the longer term, this step will allow separating ONEE into different legal entities and transforming it into an independent Transport System Operator (TSO), to ensure fairer and more transparent access to the electricity network and boost competition in the electricity market.
- **RM4: ANRE published the tariffs that private RE producers will need to pay to use the medium voltage distribution network.**¹⁷ The tariffs, set at the same level across the whole country, aim at guaranteeing cost recovery for the newly created SRMs (that manage the regional distribution networks) while ensuring competitive prices for private producers. Both transport tariffs (published in February 2024 under RM3) and the newly published distribution tariffs will be valid until February 2027.¹⁸ At that time, they will be subject to revision, which will probably differentiate distribution tariffs by region to better align them with the needs of the SRMs.
- **RM8:** The Ministry of Economy and Finance started to produce an analysis of debt sustainability that includes the impact of climate change in the PBT 2025–2027, accompanying the 2025 Budget Law.¹⁹ The analysis included an assessment of the impact of different climate scenarios outlined by the Intergovernmental Panel on Climate Change (IPCC) on Morocco's economy, fiscal balance, and public debt. Under the most extreme temperature scenario, higher temperatures would reduce productivity and fiscal revenues, causing the fiscal balance to fall by 0.3 pps of GDP (and the debt-to-GDP ratio to increase by 2.1 pps) by 2050, compared to the baseline.
- **RM16:** In January 2025, BAM issued two directives regarding climate-related financial risks, following an assessment of best practices done with the assistance of the World Bank and a consultation period with credit institutions. The first directive sets out the standards for the disclosure and reporting of climate-related financial risks, in accordance with guidance issued by

¹⁶ https://anre.ma/espace_media/lanre-approuve-la-separation-comptable-des-activites-de-lonee/.

¹⁷ https://anre.ma/espace_media/lanre-fixe-le-tarif-dutilisation-des-reseaux-electriques-de-moyenne-tension-de-la-distribution/.

¹⁸ The transport, service system and distribution tariffs will be adjusted for inflation on March 1, 2026. The enacted increase on the transport and service system tariffs for 2025 was 4.5 percent.

¹⁹ <https://www.finances.gov.ma/Publication/db/2024/Document%20PBT%2025-27%20Version%20Fr%20Finale.pdf>.

the International Sustainability Standards Board (ISSB).²⁰ The second directive establishes the requirements for the collection and reporting of data on the exposure of large borrowers to physical and transition risks.²¹ Banks will use these data to assess large borrowers' measures against climate-related risks, in terms of governance, strategy, risk management, monitoring, communication, and reporting. Finally, banks must periodically report to BAM on the exposure of large borrowers to financial risks linked to climate change. Compliance with this directive is required within 24 months (48 months for the foreign subsidiaries).

- **RM17:** The 2025 Budget Law approved by parliament included changes to the excise duties on coal and three additional polluting petroleum products (bitumen, heavy fuel oil, and base oils) for all producers to the level set in the MEFP for the 2nd Review of the RSF and eliminated all exemptions, which became effective starting from January 1, 2025.²² Following the initial implementation of the measures, the authorities estimate its fiscal impact for 2025 at around MAD 1.4 billion (US\$ 140 million).

34. The authorities have begun moving towards introducing a carbon tax but were not ready to fully develop a design plan (as envisaged under RM9), as further analysis and consultations with public and private stakeholders were needed. The introduction of a carbon tax is part of the overall reform of Morocco's tax system as envisaged under Law No. 69-19. To this end, the authorities have started taking a series of steps, namely: i) the preparation of a study on the effectiveness of existing environmental tax measures, with technical support from the German Development Agency (GIZ); ii) the issuance in February 2025 of a decree that makes the *Institut Marocain de Normalisation* (IMANOR) the agency designated to issue carbon content certificates; and iii) the development of training programs for the personnel at the Customs Administration who will be responsible for the operationalization of the carbon tax. However, the authorities decided that the finalization of the design document on the introduction of the tax will need to be postponed, to allow for further analysis of its parameters and impact on the economy and proper consultations with all public and private stakeholders. Hence, the measure RM9 is not met.

35. Despite the delay in introducing important tax reforms, the implementation of the RSF arrangement will help Morocco achieve its NDC targets. Morocco's 2023 Long-Term Low Carbon Strategy builds on the country's 2021 NDC target of reducing GHG emissions by 45.5 percent by 2030 and envisages a substantial reduction in the use of fossil fuels, with 96 percent of electricity generated from carbon-neutral sources by 2050 and the complete elimination of coal-fired power generation by 2040. Staff estimates suggest that some of the measures contained in the RSF arrangement will contribute to achieving those targets (Box 3), even if some of the reforms initially considered (the increase in VAT on fossil fuels and the introduction of a carbon tax) have not been implemented. The simulations show that the introduction of a carbon tax would reinforce the decarbonization process while ensuring a small increase in GDP growth thanks to its allocative

²⁰ <https://www.bkam.ma/content/download/819118/8969317/DSB-Directive%20n%C2%B0%202.pdf>.

²¹ <https://www.bkam.ma/content/download/819117/8969315/DSB-Directive%20n%C2%B0%201.pdf>.

²² See IMF (2024), Morocco: Second Review Under the Arrangement Under the Resilience and Sustainability Facility.

efficiency implications and redistribution of its revenues to households. The change in the energy mix towards renewable energy will lessen Morocco's reliance on imported fossil fuels and contribute to reducing medium-term balance of payment needs.

MODALITIES FOR IMPLEMENTATION OF RSF-SUPPORTED REFORMS

36. Morocco's capacity to repay the Fund remains adequate in the medium to long run.

Morocco's capacity to repay the Fund remains adequate in the medium to long run. Outstanding Fund credit is projected to peak at 4 percent of GDP or 9 percent of exports (of goods and services) in 2025 under the adverse scenario where the current FCL is fully drawn in 2025 (Table 10). Fund obligations are projected to peak at 1.2 percent of GDP in 2029. The RSF financing will continue to be used for direct budget support. Access to the RSF arrangement will reinforce gross reserves (text table).

Morocco: Financing Gap and Sources of Financing					
(Billions of U.S. dollars, unless otherwise specified)					
	2023	2024	2025	2026	2027
Current account balance	-0.9	-2.3	-3.2	-4.0	-4.9
<i>(in percent of GDP)</i>	<i>-0.6%</i>	<i>-1.4%</i>	<i>-2.0%</i>	<i>-2.2%</i>	<i>-2.6%</i>
Balance of goods and services	-12.0	-13.4	-15.0	-16.4	-17.9
Balance on primary income	-2.1	-2.7	-2.8	-2.9	-3.1
Balance on secondary income	13.2	13.8	14.5	15.4	16.1
Capital account, net	0.0	0.0	0.0	0.0	0.0
Financial account, net (without RSF)	1.7	3.2	5.2	6.4	7.2
<i>Financial account, net (with RSF)</i>	<i>1.7</i>	<i>3.9</i>	<i>5.7</i>	<i>6.4</i>	<i>7.2</i>
Direct investment, net	0.3	1.1	2.2	2.6	2.9
Portfolio investment, net	2.4	-0.4	1.9	2.5	2.3
Other investment, net (without RSF)	-0.9	3.3	1.5	1.3	1.9
Errors and Omissions	1.3	0.0	0.0	0.0	0.0
Overall balance (1)	2.0	0.9	1.9	2.4	2.2
Change in gross official reserves (increase: -, without RSF) (2)	-2.0	-0.9	-1.9	-2.4	-2.2
Financing gap (1+2)	0.0	0.0	0.0	0.0	0.0
<i>(in percent of GDP)</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
RSF disbursement	0.0	0.7	0.5	0.0	0.0
Change in official reserves (increase: -, with RSF)	-2.0	-1.7	-2.4	-2.4	-2.2

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

37. Future Engagement. The authorities remain strongly interested in continuing close engagement with the Fund through surveillance and capacity development. Continued implementation of climate mitigation and adaptation reforms will be monitored in the context of surveillance.

38. The FCL review in March 2024 showed that Morocco continues to meet the FCL qualification criteria. The Staff Report argued that Morocco continued to display a sustained track record of implementing very strong policies.²³

²³ The Board concluded the mid-term review of the FCL in March 2024 (IMF Country Report No. 24/99). The qualification assessment remains valid through the end of the FCL arrangement.

Box 3. Morocco: Decarbonization: the RSF as a Catalyst to Achieving the NDCs^{1,2}

A macro-climate model was used to assess the potential contribution of the RSF to Morocco's decarbonization. Staff uses a multi-region, multi-sector, computable general equilibrium model of global trade and energy (CGE-MOD).³ In this model, sectors have different production functions, and firms decide which type of energy to use based on prices and technology. Households and the government consume energy produced by fossil fuels and clean energy based on market prices. The results of the model largely depend on elasticities of substitution in production and consumption functions. The model has 15 overall geographical regions and countries (including Morocco), each with 14 sectors, including non-electric energy (like coal) and electric energy (both from fossil and non-fossil fuels) sectors.

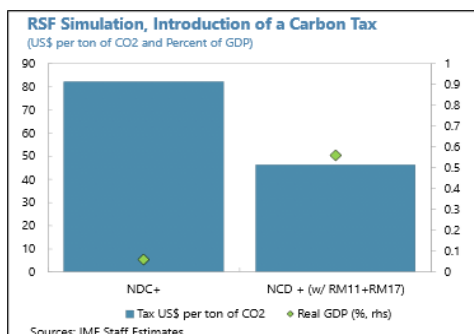
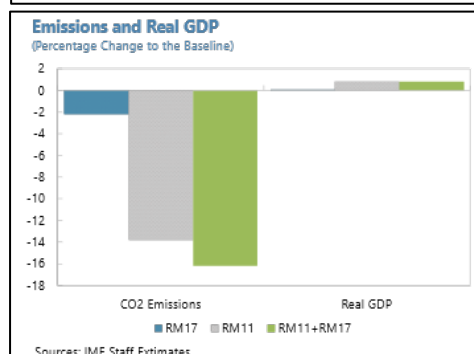
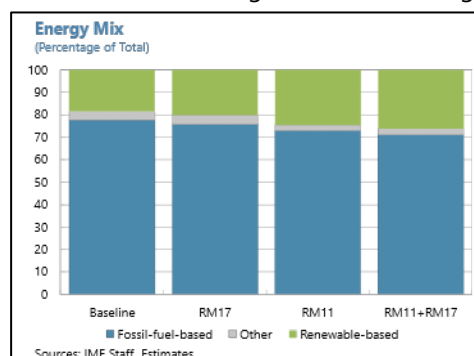
The results suggest that RSF measures could have a significant impact on emission reduction. The removal of subsidies on gas butane (RM11) and the increase in excise taxes on coal and heavy fuel oil (RM17) would increase the share of renewable-based energy in the energy mix by 6.1 pps and reduce Morocco's emissions by about 16 percent compared to the baseline by 2030. GDP would be about 0.8 percent above the baseline in 2030, thanks to a more efficient allocation of resources (labor and capital move to more productive, less subsidized sectors) and the redistribution of fiscal revenues to households.

The simulations show that a carbon tax would significantly help decarbonization with a positive impact on output.

The model estimates that, taken in isolation, the carbon tax needed to fulfill Morocco's conditional NDC objective would be about \$82/tCO₂, with a small negative impact of 0.05 percent on GDP. However, the other decarbonization RMs implemented under the RSF would reduce the required tax rate to \$36/tCO₂. Taken together, the measures could increase GDP by about 0.5 percent above the baseline, thanks to allocative efficiency gains and reflecting the redistribution of its revenues as lump sums to households. These results highlight the potential of the introduction of a carbon tax in Morocco in supporting greener and sustainable growth.

Joining the EU Emission Trading System (ETS) would benefit both Morocco and the Euro area. In a joint Morocco-EU ETS, the carbon price would be set at the level needed to achieve the joint total emission reduction objective. Given that the marginal abatement cost is estimated to be lower in Morocco than in Europe (reflecting Morocco's relatively heavier reliance on fossil fuels and greater potential for further emission reductions), EU firms could save by buying credits from Moroccan firms. The model finds

that Morocco could receive ETS payments of around \$8 billion for a joint carbon price of about \$180/tCO₂. This could increase Morocco's GDP by more than 3 percent relative to the baseline by 2030.



^{1/} Prepared by Mohammad Khabbazan, Kassia Antoine, Marzie Taheri Sanjani, and Hannah Brown.

^{2/} The Box is adapted from Mohammad Khabbazan and Kassia Antoine. (forthcoming), "Evaluating the Resilience and Sustainability Facility Policies in Morocco: A Pathway to Paris Agreement Goals", IMF Working Paper.

^{3/} Khabbazan, Mohammad M., and Christian Von Hirschhausen. 2021, "The Implication of the Paris Targets for the Middle East through Different Cooperation Options", Energy Economics, n.104.

STAFF APPRAISAL

39. **Economic activity is set to accelerate in 2025, driven by strong domestic demand.**

Investment will be boosted by the announced plan for new infrastructure in the water, energy, and transportation sectors, while consumption will benefit from higher disposable income thanks to lower inflation and the reform of the tax and social protection system. Stronger growth will boost imports and widen the current account deficit, despite continued strength in the exports of goods, tourism, and remittances. These projections are subject to high uncertainty given the risk of new droughts and increased geopolitical tension. A faster-than-expected implementation of investment projects under the new Investment Charter and new PPPs framework is an upside risk to growth, but it could also push the current account deficit and inflation above baseline before increasing potential output, as well as add to government spending pressures.

40. The fiscal consolidation process continued in 2024, and for the second consecutive year, the fiscal deficit was lower than announced in the Budget. Amid stronger-than-expected revenues (as improvements in tax administration expanded the tax base) and despite higher-than-expected spending, the fiscal deficit was 4.1 percent of GDP compared to the expected 4.3 percent. The 2025 Budget confirms the gradual pace of fiscal consolidation, which should lower the debt ratio in the medium term.

41. A faster reduction of the debt would ensure stronger protection against the risks associated with the uncertain outlook. Saving at least part of the tax windfall from past reforms (estimated at 3 percent of GDP by 2026) would help rebuild the fiscal buffers to pre-pandemic levels. In addition, there is scope to increase revenues further through structural measures (including a further compression of tax expenditure, an economy-wide carbon tax, and more efforts to reduce informality) and rationalize spending (by accelerating the phasing out of subsidies, broadening the application of the Unified Social Registry, reforming the public wage system, and reducing the transfers to SOEs).

42. Staff welcomes the progress in strengthening the fiscal framework, which should include the adoption of a new fiscal rule. The MTFF has begun covering the risks from climate change, a measure under the RSF arrangement. Further improvements could include quantifying the cost of new policy measures and providing a more comprehensive and quantitative assessment of fiscal risks. Transparently reporting the projected implementation of private sector investment projects under the new Investment Charter and of PPPs investment projects in the PBT is also critical to contain potential fiscal risks' impact on the Budget that would need to be monitored and reported timely. The ongoing reform of the Organic Budget Law makes the MTFF a more integral part of the budget process and introduces a new fiscal rule based on a medium-term debt anchor. It is important that the parameters of the new rule be defined outside of the annual budget to reinforce the credibility of the framework and better anchor expectations around future fiscal policies.

43. The current monetary policy stance is appropriate. The real ex-ante policy rate is estimated to be close to the natural rate. An estimated output gap close to zero and inflation

expectations anchored at around 2 percent justify a neutral stance, but the elevated uncertainty surrounding these estimates, and the economic outlook underscores the need for a cautious, data dependent approach to future policy decisions. As inflation stabilizes, BAM should proceed with its transition to an IT regime by removing the peg around the dirham and allowing greater exchange rate flexibility. This would cushion the economy from real external shocks, keep the exchange rate in line with fundamentals, strengthen monetary policy transmission, and contribute to Morocco's private sector development.

44. Staff welcomes BAM's progress in aligning its regulatory and supervisory framework with international standards. Efforts should continue to strengthen the resilience of Morocco's financial system against emerging risks. The successful introduction of a secondary market for NPLs could materially improve banks' asset quality and free up liquidity. Broadening over time the definition of NPLs to cover new classification criteria for sensitive claims and introducing more stringent provisioning rules would enhance risk management. Finally, measures to mitigate concentration risk should be considered until the full adoption of the SREP.

45. Boosting job creation requires a multifaceted strategy. The increase in unemployment relative to the pre-COVID years mainly reflects the loss of jobs in the agricultural sector, which have only been partially absorbed by the services sector. Against this background, active labor market policies (ALMP) should be redirected to meet the specific requirements of Morocco's labor market at regional levels and place more emphasis on youth without diplomas in rural areas. But more meaningful job creation would ultimately require continued efforts to boost the private sector, with a special focus on SMEs. This could require, among other things, extending to SMEs the incentives of the new Investment Charter, better targeting financial and technical assistance to SMEs at the local level by CRIs, further efforts to build networks of local suppliers to large firms (including SOEs), removing regulatory and legislative distortions that hinder firms' growth and job creation, and reducing the State's presence in non-strategic sectors of the Moroccan economy.

46. The development of the private sector would also benefit from continued progress in fighting corruption and improving market competition. The Competition Council has continued to sanction anticompetitive practices and has published studies on key sectors such as electricity and food distribution. Implementing its recommended changes to existing legislation would improve competition and remove distortions in market practices in these sectors. The Anti-Corruption Authority is working on a new strategy to fight corruption and on building consensus around it, but more progress is needed to improve the legislative framework, particularly by introducing new legislation on i) illicit enrichment, ii) conflicts of interest, iii) protections for whistleblowers, and iv) asset declaration for public officials.

47. Staff welcomes the important steps taken to address water scarcity and develop the RE sector. The authorities have begun implementing an ambitious plan to produce and redistribute water across the country, to alleviate the agricultural sector's water needs and avoid rationing potable water. The study on the cost of water, a reform measure under the RSF arrangement, should lay the groundwork for changing tariff structures to better reflect the actual costs of mobilizing, transporting, and distributing water. The reform of the electricity sector has continued, with the

creation of regional companies responsible for distributing electricity and water and the implementation of the measures under the RSF. The transition to a production sector open to competition among private RE producers will require further progress in defining the regulatory framework and improving the grid's capacity to absorb the production of RE-based electricity.

48. Six of the seven remaining measures under the RSF arrangement were met, while the authorities decided to postpone the design and initial implementation of a carbon tax. The completion of these six reform measures implies the disbursement of SDR 375 million under the RSF arrangement. Staff encourages the authorities to continue to work on the design and implementation of the carbon tax.

49. Morocco has a good track record of following IMF policy advice. Many of the recommendations made during past AIV consultations were put in place by the authorities, also as they were generally in line with their comprehensive agenda of structural reforms as envisaged in the *New Model of Development* report, and with Morocco's commitment under the RSF arrangement (Annex VI).

50. The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.

Table 1. Morocco: Timeline of the RSF Reviews and Reform Measures Completion

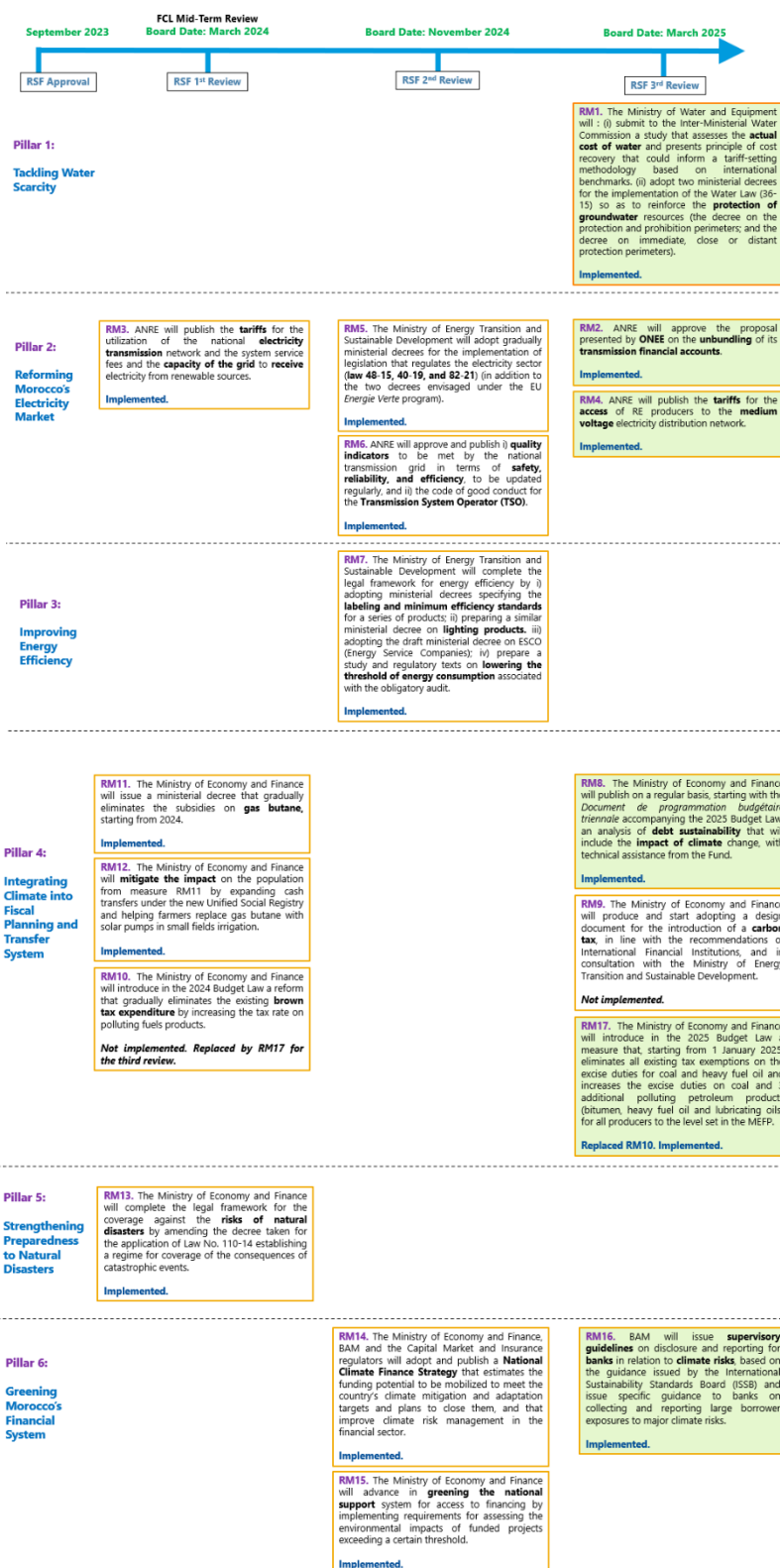


Table 2. Morocco: RSF Reform Measures

RM #	Reform measures (RM)	Availability Dates	Reviews	Status
1	The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study that assesses the actual cost of water and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Water and Equipment will also adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the protection of groundwater resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close, or distant protection perimeters).	25-Feb	3	Implemented
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	25-Feb	3	Implemented
3	ANRE will publish the tariffs for the utilization of the national electricity transmission network and the system service fees (by Oct 2023) and the capacity of the grid to receive electricity from renewable sources.	24-Feb	1	Implemented
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	25-Feb	3	Implemented
5	The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (law 48-15, 40-19, and 82-21) (in addition to the two decrees envisaged under the EU <i>Energie Verte</i> program).	24-Sep	2	Implemented
6	ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the code of good conduct for the Transmission System Operator.	24-Sep	2	Implemented
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); and iv) prepare a study and regulatory texts on lowering the threshold of energy consumption associated with the obligatory audit.	24-Sep	2	Implemented
8	The Ministry of Economy and Finance will publish on a regular basis, starting with the <i>Document de programmation budgétaire triennale</i> accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with technical assistance from the Fund.	25-Feb	3	Implemented

Table 2. Morocco: RSF Reform Measures (Concluded)

RM #	Reform measures (RM)	Availability Dates	Reviews	Status
9	The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a carbon tax, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	25-Feb	3	Not implemented
10	The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure by increasing the tax rate on polluting fuels products.	24-Feb	1	Not implemented and replaced by RM17
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	24-Feb	1	Implemented
12	The Ministry of Economy and Finance will mitigate the impact on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.	24-Feb	1	Implemented
13	The Ministry of Economy and Finance will complete the legal framework for the coverage against the risks of natural disasters by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.	24-Feb	1	Implemented
14	The Ministry of Economy and Finance, BAM, and the Capital Market and Insurance regulators will adopt and publish a National Climate Finance Strategy that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector.	24-Sep	2	Implemented
15	The Ministry of Economy and Finance will advance in greening the national support system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	24-Sep	2	Implemented
16	BAM will issue supervisory guidelines on disclosure and reporting for banks in relation to climate risks, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.	25-Feb	3	Implemented
17	The Ministry of Economy and Finance will introduce in the 2025 Budget Law a measure that, starting from 1 January 2025, eliminates all existing tax exemptions on the excise duties for coal and heavy fuel oil and increases the excise duties on coal and 3 additional polluting petroleum products (bitumen, heavy fuel oil and base oils) for all producers to the level set in the MEFP.	25-Feb	3	Implemented

Table 3. Morocco: Access and Phasing Under the RSF Arrangement

Review #	Availability Dates ¹	Number of RMs per Review (Program Inception)	Number of RMs per Review (Revised)	Quota ³	SDR (Million)
1	24-Feb	5	4	28%	250.0 ²
2	24-Sep	5	5	35%	312.5
3	25-Feb	6	7	49%	437.5 ²
Total		16	16	112%	1000

Source: IMF staff.

^{1/} All the availability dates are on 15th of each month.

^{2/} The actual disbursement for the 1st review was SDR 250 million since RM10 initially scheduled for the 1st review was not implemented and the associated SDR 62.5 million was not disbursed. With RM17 replacing RM10 and its implementation in the context of the 3rd review, the disbursement of SDR 62.5 million will be in addition to the disbursement of SDR 375 million scheduled for the 3rd review at Program Inception, bringing the total access for the third review to SDR 437.5 million. Non implemented RMs would reduce actual disbursements in the third review by SDR 62.5 million.

^{3/} Morocco's quota in millions of SDRs: 894.4 [Morocco and the IMF](#).

Table 4. Morocco: Schedule of Disbursements and RMs Availability Dates Under the RSF

1	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 1 implementation
2	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 2 implementation
3	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 3 implementation
4	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 4 implementation
5	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 5 implementation
6	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 6 implementation
7	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 7 implementation
8	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 8 implementation
9	25-Feb	6.99%	62.5	Not implemented	Completion of RSF review of reform measures 9 implementation
10	24-Feb	6.99%	62.5	Not yet implemented	Completion of RSF review of reform measures 10 implementation
11	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 11 implementation
12	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 12 implementation
13	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 13 implementation
14	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 14 implementation
15	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 15 implementation
16	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 16 implementation
17	25-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 17 implementation
Total		105%	937.5		

Source: IMF staff estimates.

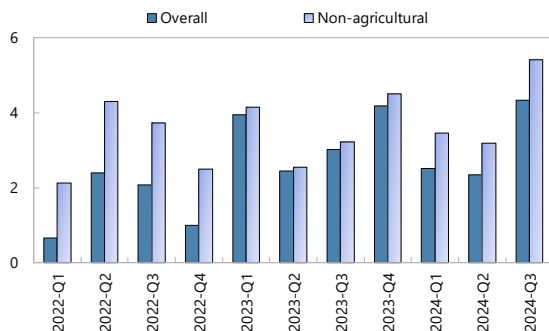
Morocco's quota in millions of SDRs: 894.4 [Morocco and the IMF](#).

Figure 1. Morocco: Real Sector Developments

Real GDP grew at 3.1 percent on average in the first three quarters of 2024...

Real GDP Growth

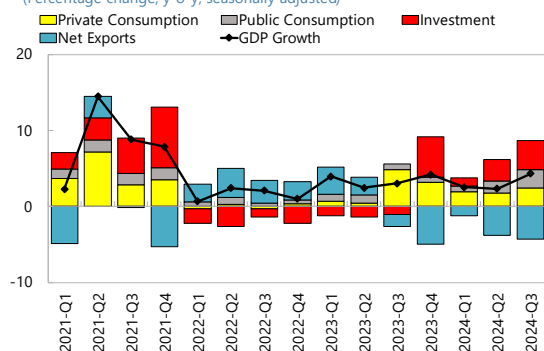
(Percentage change, y-o-y, seasonally adjusted)



Domestic demand has strengthened, both for consumption and investment.

Demand Contribution to Real GDP Growth

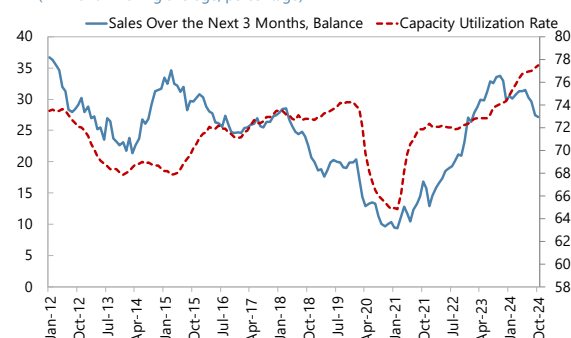
(Percentage change, y-o-y, seasonally adjusted)



Business sentiment and capacity utilization have rebounded from the pandemic lows...

Business Outlook

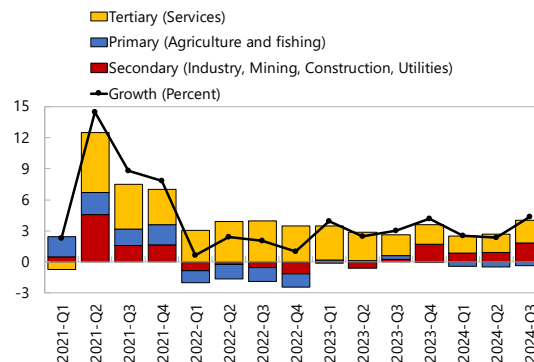
(12-month moving average, percentage)



... despite the negative contribution of the agricultural sector.

Sectoral Contribution to Real GDP Growth

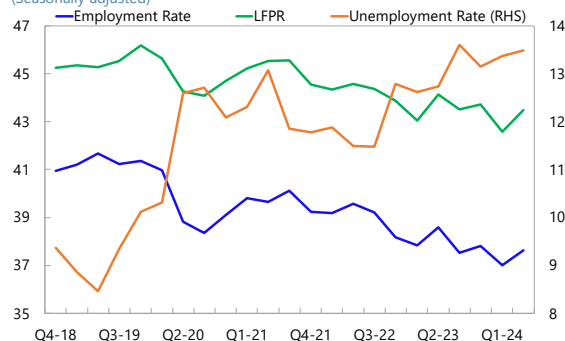
(Percentage points, y-o-y)



Unemployment remained high in 2024: Q4 at 13.3 percent.

Aggregate Labor Market Indicator

(Seasonally adjusted)



...while household confidence remains weak.

Consumer Confidence Index

(Neutral=100)



Sources: Haver, HCP, BAM, and IMF staff calculations.

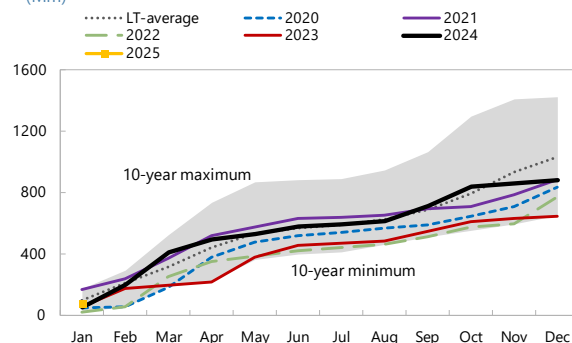
Figure 2. Morocco: 2024/2025 Agricultural Season

The 2024/2025 agricultural season has been uneven, with average rainfall in some central regions like Fez-Meknes...

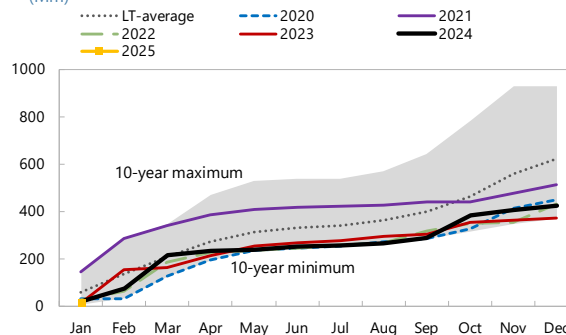
... and clear deficits in others, notably in the south, including Marrakech-Safi.

Cumulative Precipitation: Fez-Meknes

(Mm)

**Cumulative Precipitation: Marrakech-Safi**

(Mm)

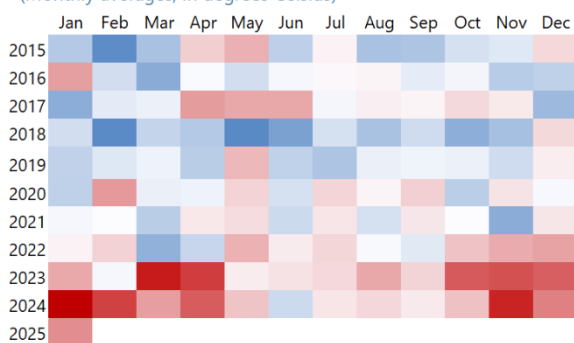


Average temperatures across the country have been unseasonably elevated...

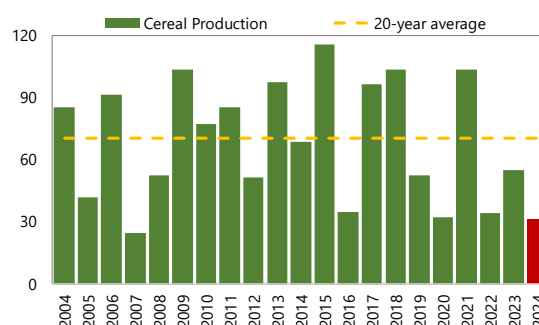
...raising concerns that cereal production may not recover from its historic lows of 2023/2024 harvest.

Temperature Deviations from Long-Term Averages

(Monthly averages, in degrees Celsius)

**Cereal Production**

(Million quintals)

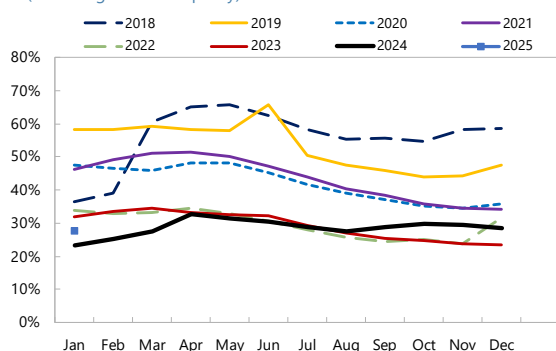


The average dams filling-rate is at 30 percent, a relatively low rate.

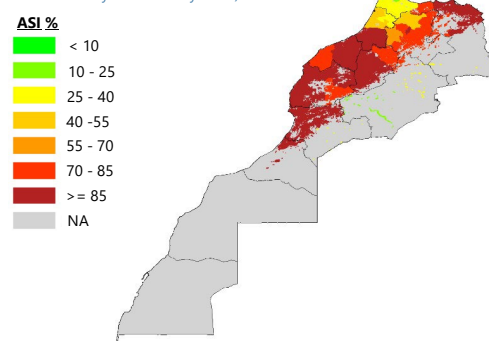
More rainfall is needed to ease dry conditions in several regions where agriculture is mostly rainfed.

Water Stock in Dams

(Percentage of total capacity)

**Agricultural Stress Index**

(Percentage of cropland affected by severe drought from start of season, second 10 days of February 2025)



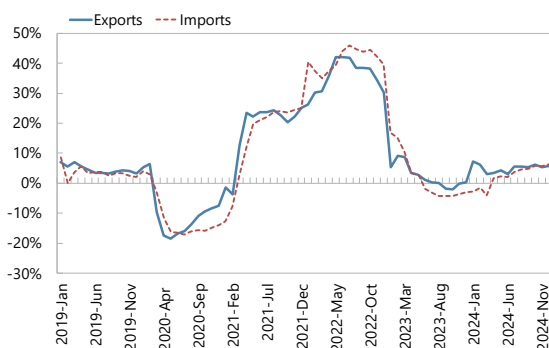
Sources: ERA5, Département de l'Eau, FAO, ONICL, and IMF staff calculations.

Figure 3. Morocco: External Developments

Exports and imports have grown at a similar pace in the first eleven months of the year.

Goods Trade

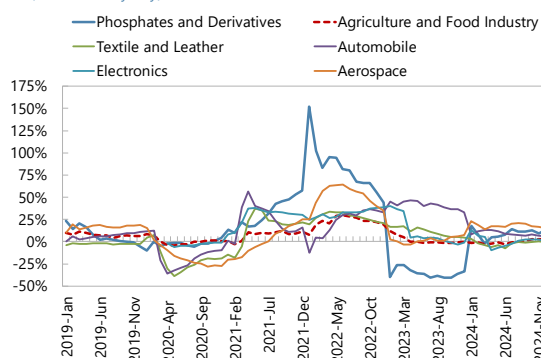
(Growth rate, y-o-y)



...while export growth was supported by automobile, aerospace, and phosphates and its derivatives.

Goods Exports

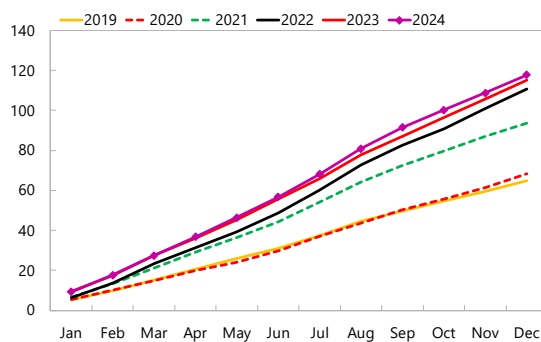
(Growth rate, y-o-y)



... as well as remittances.

Remittances

(Cumulative, Bil. Dirhams)

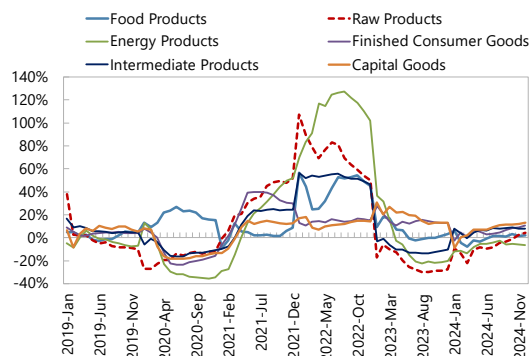


Source: Office des Changes.

Imports of capital, intermediate and consumer goods picked up, compensating for decline in energy...

Goods Imports

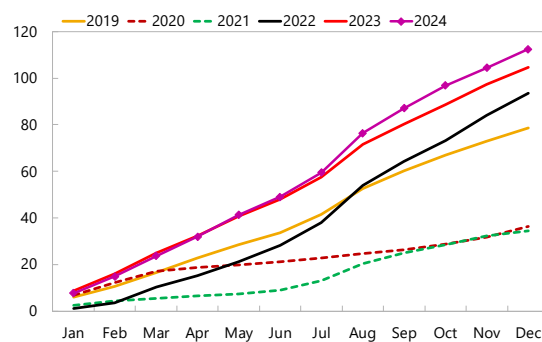
(Growth rate, y-o-y)



Tourism revenues continued to increase...

Tourism Revenues

(Cumulative, Bil. Dirhams)



Net FDIs increased in 2024.

Net FDI

(Cumulative, Bil. Dirhams)

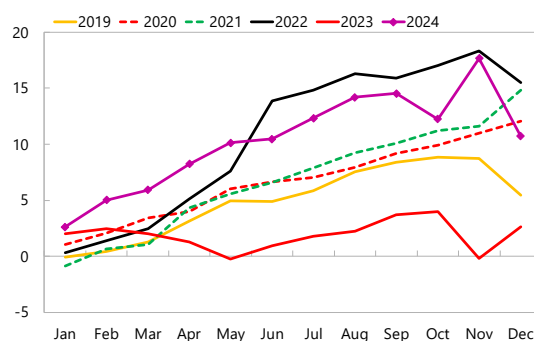
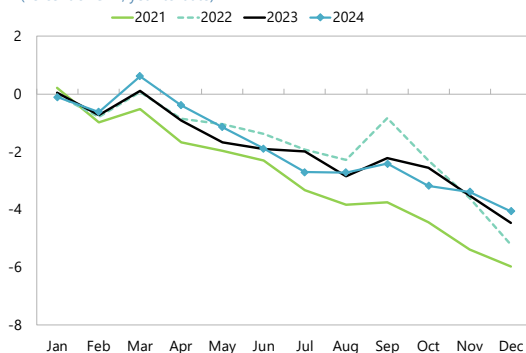


Figure 4. Morocco: Fiscal Developments

The overall fiscal deficit in 2024 was lower than it was in the last year...

Overall Fiscal Balance

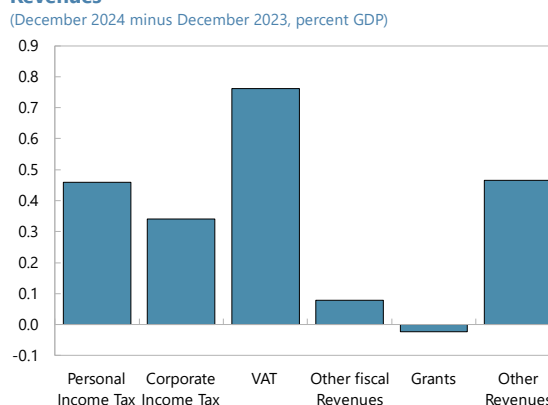
(Percent of GDP, year-to-date)



... driven by very strong revenue performance...

Revenues

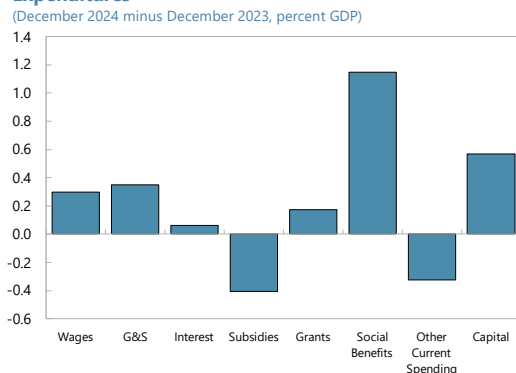
(December 2024 minus December 2023, percent GDP)



... that were almost entirely spent, mostly on social benefits and capital spending.

Expenditures

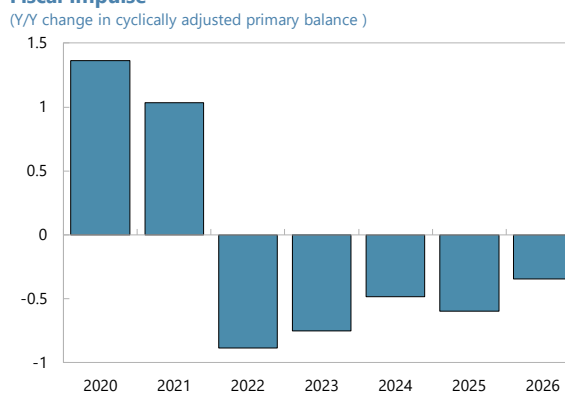
(December 2024 minus December 2023, percent GDP)



The authorities continued removing the fiscal stimulus injected for the pandemic, albeit at a slower pace.

Fiscal Impulse

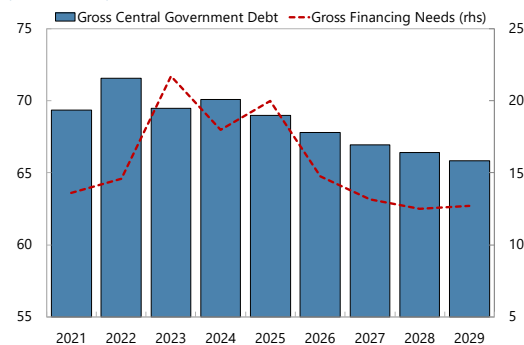
(Y/Y change in cyclically adjusted primary balance)



Government debt has peaked in 2022 and is expected to fall gradually in the medium term.

Central Government Debt and Gross Financing Needs

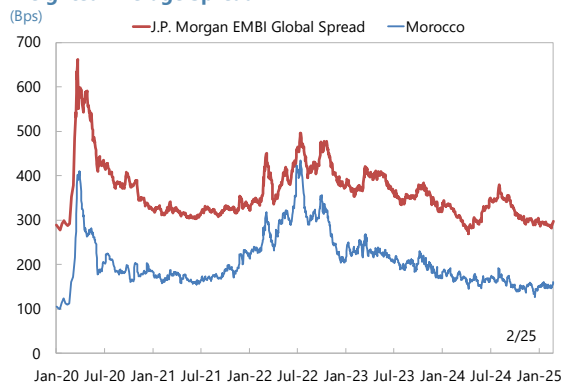
(Percent of GDP)



Sovereign spreads continued to fall in 2024 and early 2025.

Weighted Average Spread

(Bps)

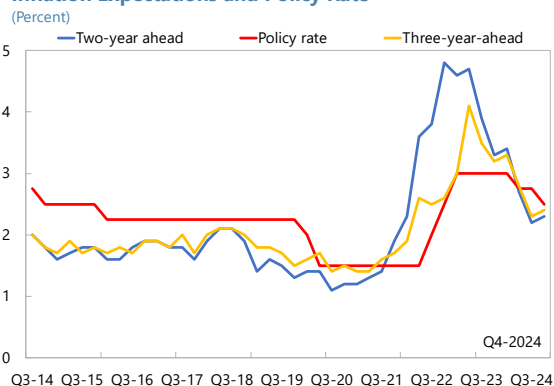


Sources: Haver, National Authorities; Bloomberg L.P.; IMF Sovereign Debt Monitor; and IMF staff calculations.

Figure 5. Morocco: Monetary and Financial Developments

BAM cut the policy rate by 25 bps in June and December 2024.

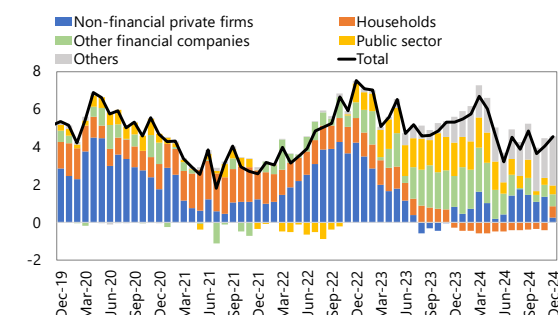
Inflation Expectations and Policy Rate



Growth of overall credit slowed in 2024...

Bank Credit by Economic Sector

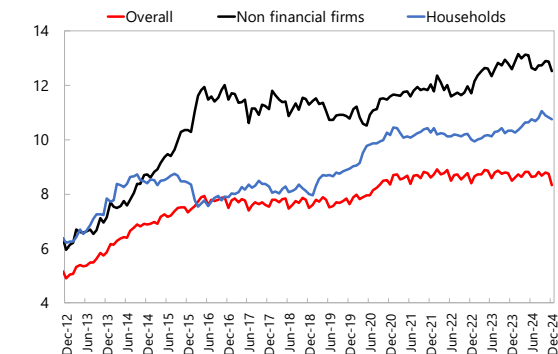
(Contribution to y/y growth in percentage points)



NPL ratios for nonfinancial firms and households have increased since end 2022.

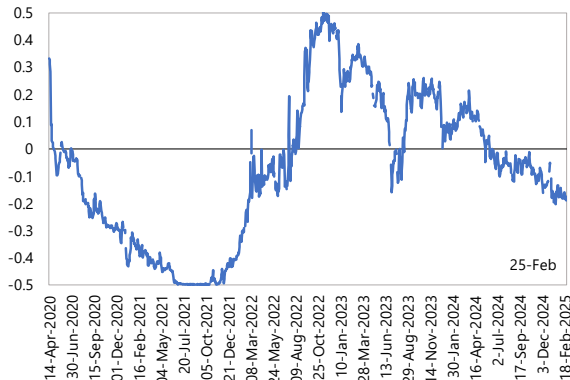
Non-Performing Loans

(Percent, share of respective loan portfolio)



The dirham appreciated in 2024 and into early 2025, falling slightly below the middle of the band.

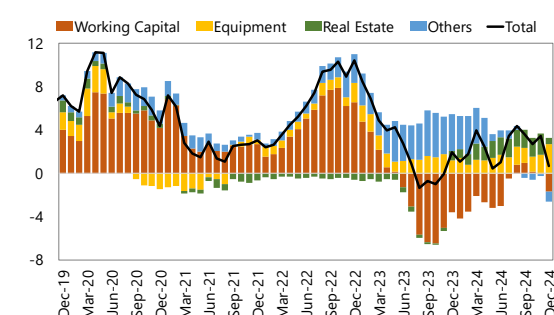
Dirham Band



...but lending to nonfinancial private firms for machinery and equipment accelerated.

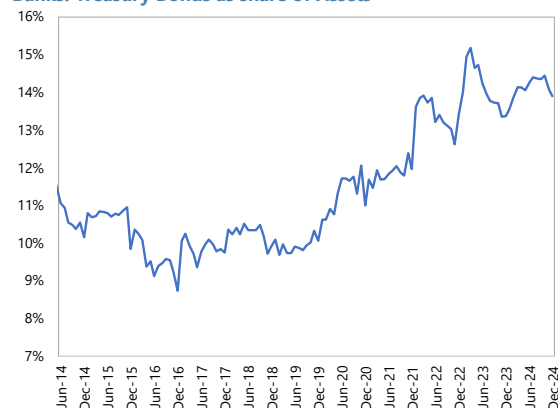
Credit to Non-financial Private Firms

(Contribution to y/y growth in percentage points)



Banks' holdings of Treasuries have fallen from the peak in 2023.

Banks: Treasury Bonds as share of Assets



Sources: Haver; IMF staff calculations; and BAM.

Table 5. Morocco: Selected Economic Indicators, 2020–30

	2020	2021	2022	2023	Proj.						
					2024	2025	2026	2027	2028	2029	2030
	(Annual percentage change)										
Output and Prices											
Real GDP	-7.2	8.2	1.5	3.4	3.2	3.9	3.7	3.6	3.6	3.6	3.6
Real agriculture GDP	-7.1	19.0	-11.8	1.6	-4.6	6.2	4.6	2.5	2.5	2.5	2.5
Real non-agriculture GDP	-7.2	7.0	3.2	3.6	4.1	3.7	3.7	3.7	3.7	3.7	3.7
Consumer prices (end of period)	-0.3	3.2	8.3	3.4	0.7	2.1	2.2	2.2	2.1	2.0	2.0
Consumer prices (period average)	0.7	1.4	6.6	6.1	0.9	2.2	2.3	2.2	2.1	2.0	2.0
Output gap (percentage points of non-primary sector GDP)	-5.3	0.5	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment rate (period average)	11.9	12.3	11.8	13.0	13.3	13.2	12.9	12.4	12.1	11.9	11.8
Unemployment rate (end of period)	12.2	11.9	12.9	13.0	13.3	13.1	12.8	12.5	12.1	11.8	11.8
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	28.8	30.7	30.3	28.8	29.0	28.5	28.3	28.3	28.7	29.1	29.7
Of which: Nongovernment	20.5	24.3	22.6	20.8	20.5	20.9	21.6	22.4	22.9	23.3	23.9
Gross national savings	26.7	28.2	26.6	28.0	27.3	26.1	25.8	25.7	25.9	26.1	26.6
Of which: Nongovernment	34.6	34.1	31.9	32.5	31.3	30.0	29.2	29.0	29.0	29.2	29.6
	(In percent of GDP)										
Public Finances											
Revenue	27.0	25.1	28.4	27.9	30.1	30.4	29.4	28.1	28.1	28.1	28.1
Expenditure	34.1	31.0	33.8	32.3	34.2	34.3	32.8	31.4	31.3	31.2	31.2
Budget balance	-7.1	-5.9	-5.4	-4.5	-4.1	-3.9	-3.4	-3.3	-3.2	-3.1	-3.1
Cyclically-adjusted primary balance	-3.1	-4.1	-3.2	-2.5	-2.0	-1.4	-1.0	-1.1	-1.0	-0.9	-0.9
Central government debt	72.2	69.4	71.5	69.5	70.0	68.9	67.7	66.8	66.2	65.6	65.1
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	4.9	3.8	7.1	5.3	6.9	4.5	4.1	4.2	4.2	4.2	4.2
Broad money	8.4	5.1	8.0	4.0	7.9	4.6	4.6	4.6	4.6	4.6	4.6
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	-15.0	26.0	24.5	5.2	8.7	6.6	6.6	6.4	6.3	6.2	6.1
Imports of goods and services (in U.S. dollars, percentage change)	-14.5	30.3	22.5	0.0	9.1	7.5	7.1	6.8	6.5	6.3	5.9
Merchandise trade balance	-12.8	-14.0	-20.2	-17.4	-17.3	-17.8	-18.0	-18.3	-18.6	-18.6	-18.5
Current account	-1.2	-2.3	-3.6	-0.6	-1.5	-2.1	-2.4	-2.7	-2.9	-3.1	-3.2
Foreign direct investment	0.8	1.1	1.2	0.2	0.7	1.4	1.5	1.6	1.6	1.7	1.7
Total external debt	50.8	47.3	50.9	47.1	46.1	46.0	46.2	46.7	45.8	46.4	46.6
Gross reserves (in billions of U.S. dollars)	36.0	35.6	32.3	36.3	37.2	40.5	43.1	45.6	47.6	50.7	53.3
In months of next year imports of goods and services	7.2	5.8	5.3	5.4	5.2	5.2	5.2	5.2	5.1	5.1	5.2
In percent of Fund Assessing Reserve Adequacy (ARA)	109.3	100.4	90.4	96.5	91.9	93.7	93.9	93.5	92.7	92.9	92.3
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	143	133	118	125	120	122	122	121	120	120	119
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	121.4	142.0	131.0	144.4	155.4	165.8	176.6	187.7	199.4	211.6	224.5
Nominal GDP per capita (in U.S. dollars, percent change)	-6.8	15.9	-8.7	9.2	6.6	5.8	5.5	5.4	5.3	5.3	5.3
Population (millions)	35.95	36.31	36.67	37.0	37.4	37.7	38.1	38.4	38.7	39.0	39.3
Net imports of energy products (in billions of U.S. dollars)	-5.3	-8.4	-15.1	-12.0	-11.5	-12.1	-12.3	-12.8	-13.2	-13.7	-14.1
Local currency per U.S. dollar (period average)	9.5	9.0	10.2	10.1	9.9	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	1.4	1.6	-3.2	0.9	...	...	...	...	...	...	...
Interest rate (money market rate, end of period, in percent)	1.50	1.50	2.50	3.00	2.50	...	...	...	...	...	...

Sources: Bank Al-Maghrib; Ministry of Economy and Finance; Office des Changes; HCP; and IMF staff estimates.

Table 6a. Morocco: Budgetary Central Government Finance, 2020–30
(Billions of dirhams)

	2020	2021	2022	2023	Proj.						
					2024	2025	2026	2027	2028	2029	2030
Revenue	311.1	320.3	378.1	407.8	465.0	498.7	512.5	517.5	547.7	579.0	611.8
Taxes	230.8	259.4	302.1	318.7	364.2	395.9	410.7	430.4	455.6	481.7	509.0
Taxes on income, profits, and capital gains	95.8	97.8	121.2	125.6	144.8	148.8	148.2	155.6	164.6	173.9	183.7
Taxes on property	9.9	12.2	14.2	16.1	17.5	18.5	19.8	21.0	22.2	23.5	24.8
Taxes on goods and services	110.8	127.6	142.2	147.7	169.3	189.8	202.2	213.0	225.3	238.1	251.5
Taxes on international trade and transactions	9.9	12.4	14.5	16.4	17.8	21.6	22.3	22.6	24.3	25.8	27.4
Other taxes	4.3	9.5	10.0	12.1	14.0	16.8	17.5	17.5	18.5	19.6	20.7
Grants	5.0	1.5	1.5	2.6	2.4	1.5	1.5	1.5	1.6	1.7	1.8
Other revenue	75.4	59.5	74.5	86.5	98.4	101.3	100.2	85.6	90.5	95.7	101.1
Of which: Innovative Financing 1/	0.3	11.9	25.1	25.4	35.0	35.0	35.0	25.0	25.0	25.0	25.0
Expense	328.6	334.3	379.3	392.3	433.7	486.2	496.9	506.5	533.1	562.8	593.6
Compensation of employees	133.5	140.5	147.8	151.8	164.6	180.3	191.2	195.0	206.3	218.0	230.3
Use of goods and services	33.1	42.0	35.3	33.8	41.0	40.0	38.5	37.9	40.1	42.3	44.7
Grants 2/	65.3	66.3	78.2	95.3	103.1	125.9	132.9	139.5	147.6	155.9	164.7
Subsidies	13.5	21.8	41.8	30.1	25.5	17.1	14.1	14.2	15.0	15.8	16.7
Social benefits	23.3	16.3	15.0	13.5	32.0	36.1	39.0	39.0	40.3	42.6	45.0
Interest	28.8	27.1	28.5	31.2	33.9	42.6	42.9	43.0	44.5	46.5	48.1
Other expenses 3/	31.0	20.4	32.7	36.7	33.7	44.2	38.4	38.0	39.4	41.6	44.0
Net acquisition of nonfinancial assets	64.9	61.6	70.3	80.8	93.9	76.4	74.8	71.9	76.1	80.4	84.9
Primary balance	-53.6	-48.5	-43.1	-34.0	-28.7	-21.3	-16.4	-18.0	-16.9	-17.7	-18.6
Overall balance	-82.4	-75.6	-71.6	-65.2	-62.6	-63.9	-59.2	-61.0	-61.5	-64.2	-66.7
Cyclical adjusted primary balance	-35.4	-51.7	-42.9	-36.2	-30.6	-22.8	-17.9	-19.5	-18.5	-19.4	-20.4
Change in net financial worth	-82.4	-75.6	-71.6	-65.2	-62.6	-63.9	-59.2	-61.0	-61.5	-64.2	-66.7
Net acquisition of financial assets	14.7	-8.7	-11.2	13.8	16.6	-6.0	-6.0	-6.0	0.0	0.0	0.0
Domestic	14.7	-8.7	-11.2	13.8	16.6	-6.0	-6.0	-6.0	0.0	0.0	0.0
Shares and other equity	0.0	-4.0	0.0	-1.6	-1.7	-6.0	-6.0	-6.0	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	97.1	66.9	60.3	79.0	79.3	57.9	53.2	55.0	61.5	64.2	66.7
Domestic	25.6	45.3	54.2	44.1	53.2	18.8	13.9	18.7	32.0	22.4	31.5
Currency and Deposits	-6.9	14.5	10.3	13.7	4.9	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	45.0	24.4	44.7	39.7	43.1	17.8	12.9	17.7	31.0	21.4	30.5
Other accounts payable	-12.5	6.4	-0.8	-9.3	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	71.5	21.5	6.1	35.0	26.0	39.1	39.3	36.3	29.5	41.8	35.3
Other (after refinancing)	71.5	21.5	6.1	35.0	18.6	34.3	39.3	36.3	29.5	41.8	35.3
RSF disbursement	0.0	0.0	0.0	0.0	7.4	4.8	0.0	0.0	0.0	0.0	0.0
Memorandum Item:											
Total investment (including capital transfers)	95.9	82.0	103.0	117.4	127.6	120.6	113.1	109.9	115.5	122.0	128.9
Central Government Debt	832.6	885.3	951.8	1,016.7	1,081.6	1,131.8	1,178.5	1,230.8	1,289.7	1,351.1	1,416.3
GDP	1,152.5	1,276.6	1,330.6	1,463.4	1,544.5	1,641.8	1,740.8	1,842.0	1,948.6	2,059.2	2,175.4

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

1/ Sale of real estate assets would normally be classified under GFSM 2014 as a decrease in net acquisition of nonfinancial assets. For ease of economic interpretation, this table uses the GFSM 1986 definition and includes sale of real estate assets (innovative financing) under other revenue.

2/Includes transfers to other general government units, international organizations, and foreign governments.

3/ Includes capital transfers to public entities.

Table 6b. Morocco: Budgetary Central Government Finance, 2020–30
(In percent of GDP)

	2020	2021	2022	2023	Proj.						
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	27.0	25.1	28.4	27.9	30.1	30.4	29.4	28.1	28.1	28.1	28.1
Taxes	20.0	20.3	22.7	21.8	23.6	24.1	23.6	23.4	23.4	23.4	23.4
Taxes on income, profits, and capital gains	8.3	7.7	9.1	8.6	9.4	9.1	8.5	8.4	8.4	8.4	8.4
Taxes on property	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	9.6	10.0	10.7	10.1	11.0	11.6	11.6	11.6	11.6	11.6	11.6
Taxes on international trade and transactions	0.9	1.0	1.1	1.1	1.2	1.3	1.3	1.2	1.2	1.3	1.3
Other taxes	0.4	0.7	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Grants	0.4	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	6.5	4.7	5.6	5.9	6.4	6.2	5.8	4.6	4.6	4.6	4.6
Of which: Innovative Financing 1/	0.0	0.9	1.9	1.7	2.3	2.1	2.0	1.4	1.3	1.2	1.1
Expense	28.5	26.2	28.5	26.8	28.1	29.6	28.5	27.5	27.4	27.3	27.3
Compensation of employees	11.6	11.0	11.1	10.4	10.7	11.0	11.0	10.6	10.6	10.6	10.6
Use of goods and services	2.9	3.3	2.7	2.3	2.7	2.4	2.2	2.1	2.1	2.1	2.1
Grants 2/	5.7	5.2	5.9	6.5	6.7	7.7	7.6	7.6	7.6	7.6	7.6
Subsidies	1.2	1.7	3.1	2.1	1.6	1.0	0.8	0.8	0.8	0.8	0.8
Social benefits	2.0	1.3	1.1	0.9	2.1	2.2	2.2	2.1	2.1	2.1	2.1
Interest	2.5	2.1	2.1	2.1	2.2	2.6	2.5	2.3	2.3	2.3	2.2
Other expenses 3/	2.7	1.6	2.5	2.5	2.2	2.7	2.2	2.1	2.0	2.0	2.0
Net acquisition of nonfinancial assets	5.6	4.8	5.3	5.5	6.1	4.7	4.3	3.9	3.9	3.9	3.9
Primary balance	-4.6	-3.8	-3.2	-2.3	-1.9	-1.3	-0.9	-1.0	-0.9	-0.9	-0.9
Overall balance	-7.1	-5.9	-5.4	-4.5	-4.1	-3.9	-3.4	-3.3	-3.2	-3.1	-3.1
Cyclical adjusted primary balance	-3.1	-4.1	-3.2	-2.5	-2.0	-1.4	-1.0	-1.1	-1.0	-0.9	-0.9
Change in net financial worth	-7.1	-5.9	-5.4	-4.5	-4.1	-3.9	-3.4	-3.3	-3.2	-3.1	-3.1
Net acquisition of financial assets	1.3	-0.7	-0.8	0.9	1.1	-0.4	-0.3	-0.3	0.0	0.0	0.0
Domestic	1.3	-0.7	-0.8	0.9	1.1	-0.4	-0.3	-0.3	0.0	0.0	0.0
Shares and other equity	0.0	-0.3	0.0	-0.1	-0.1	-0.4	-0.3	-0.3	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	8.4	5.2	4.5	5.4	5.1	3.5	3.1	3.0	3.2	3.1	3.1
Domestic	2.2	3.6	4.1	3.0	3.4	1.1	0.8	1.0	1.6	1.1	1.4
Currency and Deposits	-0.6	1.1	0.8	0.9	0.3	0.1	0.1	0.1	0.1	0.0	0.0
Securities other than shares	3.9	1.9	3.4	2.7	2.8	1.1	0.7	1.0	1.6	1.0	1.4
Other accounts payable	-1.1	0.5	-0.1	-0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	6.2	1.7	0.5	2.4	1.7	2.4	2.3	2.0	1.5	2.0	1.6
Other (after refinancing)	6.2	1.7	0.5	2.4	1.2	2.1	2.3	2.0	1.5	2.0	2
RSF disbursement	0.0	0.0	0.0	0.0	0.5	0.3	0.0	0.0	0.0	0.0	0.0
Memorandum Item:											
Total investment (including capital transfers)	8.3	6.4	7.7	8.0	8.3	7.3	6.5	6.0	5.9	5.9	5.9
Central Government Debt	72.2	69.4	71.5	69.5	70.0	68.9	67.7	66.8	66.2	65.6	65.1
GDP (Billions Dirham)	1,152.5	1,276.6	1,330.6	1,463.4	1,544.5	1,641.8	1,740.8	1,842.0	1,948.6	2,059.2	2,175.4

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

1/ Sale of real estate assets would normally be classified under GFSM 2014 as a decrease in net acquisition of nonfinancial assets. For ease of economic interpretation, this table uses the GFSM 1986 definition and includes sale of real estate assets (innovative financing) under other revenue.

2/ Includes transfers to other general government units, international organizations, and foreign governments

3/ Includes capital transfers to public entities.

Table 7. Morocco: Balance of Payments, 2020–30

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

	2020	2021	2022	2023	Proj.						
					2024	2025	2026	2027	2028	2029	2030
Current account	-1.4	-3.3	-4.6	-0.8	-2.3	-3.2	-4.0	-4.9	-5.8	-6.6	-7.3
Trade balance	-15.5	-19.9	-26.5	-25.0	-26.8	-29.6	-31.9	-34.4	-37.1	-39.4	-41.5
Exports	23.6	31.7	36.5	36.3	39.4	42.0	45.1	48.2	51.5	55.0	58.7
Food products	6.0	7.0	7.4	7.6	8.1	8.6	9.1	9.5	9.9	10.4	10.9
Phosphates and derived products	5.4	8.9	11.4	7.6	8.7	9.4	10.1	10.9	11.6	12.4	13.2
Finished goods	11.5	14.4	16.4	19.4	20.8	22.2	23.9	25.8	27.9	29.9	32.2
Imports	-39.1	-51.6	-63.0	-61.4	-66.2	-71.6	-77.0	-82.7	-88.7	-94.3	-100.2
Energy	-5.3	-8.4	-15.1	-12.0	-11.5	-12.1	-12.3	-12.8	-13.2	-13.7	-14.1
Capital goods	-11.4	-13.2	-13.7	-15.8	-18.1	-20.4	-22.9	-25.0	-27.4	-29.5	-31.7
Food products	-5.8	-6.7	-8.5	-8.8	-9.2	-9.2	-9.4	-9.7	-10.0	-10.3	-10.6
Services	6.7	6.8	11.4	13.1	13.4	14.6	15.4	16.5	17.8	18.8	19.8
Tourism receipts	3.8	3.8	9.2	10.3	11.3	12.2	13.2	14.2	15.3	16.4	17.5
Income	-1.2	-2.0	-1.9	-2.1	-2.7	-2.8	-2.9	-3.1	-3.4	-3.6	-4.0
Transfers	8.6	11.8	12.4	13.2	13.8	14.5	15.4	16.1	16.8	17.6	18.3
Workers' remittances (net)	7.1	10.6	10.9	11.3	11.8	12.5	13.4	14.1	14.8	15.6	16.3
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	7.0	3.9	2.4	1.7	3.9	5.7	6.4	7.2	7.7	9.5	9.9
Direct investment	1.0	1.6	1.6	0.3	1.1	2.2	2.6	2.9	3.1	3.6	3.8
Portfolio investment	2.2	-0.3	-1.1	2.4	-0.4	1.9	2.5	2.3	1.6	3.0	2.5
Other	3.9	2.6	1.9	-0.9	3.3	1.5	1.3	1.9	2.9	2.9	3.6
Reserve asset accumulation (-increase)	-7.3	-1.5	0.1	-2.1	-1.7	-2.4	-2.4	-2.2	-1.8	-2.9	-2.6
Of which: IMF net financing	3.0	-0.9	0.0	0.0	-0.5	0.5	0.5	0.0	0.0	0.0	0.0
Reserve asset accumulation (-increase, without RSF)	-7.3	-1.5	0.1	-2.1	-0.9	-1.9	-2.4	-2.2	-1.8	-2.9	-2.6
Errors and omissions	1.7	0.9	2.1	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Percent of GDP)											
Current account	-1.2	-2.3	-3.5	-0.6	-1.5	-2.0	-2.2	-2.6	-2.9	-3.1	-3.3
Trade balance	-12.8	-14.0	-20.2	-17.3	-17.3	-17.8	-18.0	-18.3	-18.6	-18.6	-18.5
Exports	19.4	22.3	27.9	25.1	25.4	25.4	25.5	25.7	25.9	26.0	26.1
Food products	4.9	4.9	5.7	5.3	5.2	5.2	5.1	5.1	5.0	4.9	4.8
Phosphates and derived products	4.4	6.3	8.7	5.2	5.6	5.7	5.7	5.8	5.8	5.8	5.9
Finished goods	9.4	10.1	12.5	13.4	13.4	13.4	13.6	13.8	14.0	14.2	14.3
Imports	-32.2	-36.4	-48.1	-42.5	-42.6	-43.2	-43.6	-44.0	-44.5	-44.6	-44.6
Energy	-4.3	-5.9	-11.5	-8.3	-7.4	-7.3	-7.0	-6.8	-6.6	-6.5	-6.3
Capital goods	-9.4	-9.3	-10.4	-10.9	-11.7	-12.3	-13.0	-13.7	-13.7	-13.9	-14.1
Food products	-4.8	-4.7	-6.5	-6.1	-5.9	-5.6	-5.3	-5.2	-5.0	-4.8	-4.7
Services	5.5	4.8	8.7	9.1	8.7	8.8	8.7	8.8	9.0	8.9	8.8
Tourism receipts	3.2	2.7	7.1	7.2	7.3	7.4	7.5	7.6	7.7	7.8	7.8
Income	-1.0	-1.4	-1.5	-1.4	-1.7	-1.7	-1.6	-1.7	-1.7	-1.7	-1.8
Transfers	7.1	8.3	9.4	9.1	8.9	8.8	8.7	8.6	8.4	8.3	8.2
Private transfers (net)	6.7	8.2	9.4	9.0	8.7	8.6	8.6	8.5	8.3	8.2	8.1
Workers' remittances (net)	5.9	7.5	8.3	7.9	7.6	7.6	7.6	7.5	7.4	7.4	7.2
Official grants (net)	0.4	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	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	5.8	2.8	1.8	1.2	2.5	3.4	3.6	3.8	3.9	4.5	4.4
Direct investment	0.8	1.1	1.2	0.2	0.7	1.4	1.5	1.6	1.6	1.7	1.7
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	1.8	-0.2	-0.8	1.6	-0.2	1.2	1.4	1.2	0.8	1.4	1.1
Other	3.2	1.8	1.5	-0.6	2.1	0.9	0.7	1.0	1.5	1.4	1.6
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	-15.0	26.0	24.5	5.2	8.7	6.6	6.6	6.4	6.3	6.2	6.1
Imports of goods and services (in U.S. dollars, percentage change)	-14.5	30.2	22.5	-0.1	9.2	7.5	7.1	6.8	6.5	6.3	5.9
Terms of trade (percentage change) 1/	-2.0	2.6	-5.8	2.3	1.7	-1.0	1.0	0.5	0.2	-0.1	-0.1
Gross official reserves	36.0	35.6	32.3	36.3	37.2	40.5	43.1	45.6	47.6	50.7	53.3
In months of prospective imports of GNFS	7.2	5.8	5.3	5.4	5.2	5.2	5.2	5.2	5.1	5.1	5.2
In percent of the Assessing Reserve Adequacy (ARA) metric	109.3	100.4	90.4	96.5	91.9	93.7	94.0	93.6	92.8	93.0	92.4
In percent of the adjusted Assessing Reserve Adequacy (ARA) me	143.3	132.9	117.7	125.3	120.0	121.9	121.9	121.0	119.8	119.7	118.7
Debt service (percent of export of GNFS and remittances) 2/	12.5	9.4	8.6	6.0	11.6	8.3	7.7	7.4	7.2	6.8	6.7
Public guaranteed external debt (percent of GDP) 2/	28.4	28.0	31.3	28.4	30.2	30.2	30.7	29.7	30.3	30.3	30.5
DHs per US\$, period average	9.5	9.0	10.2	10.1	—	—	—	—	—	—	—
Nominal GDP (in billions of U.S. dollars)	121.4	142.0	131.0	144.4	155.4	165.8	176.6	187.7	199.4	211.6	224.5
Oil price (US\$/barrel; Brent)	41.8	69.2	96.4	80.6	79.2	76.6	71.5	69.6	68.6	68.0	67.6

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

1/ Based on WEO data projections.

2/ Public and publicly guaranteed debt.

Table 8. Morocco: Monetary Survey, 2020–2025

	2020	2021	2022	2023	2024	Proj. 2025
(Billions of dirhams)						
Net foreign assets	317	317	318	352	405	429
Net domestic assets	1,169	1,244	1,367	1,400	1,485	1,548
Domestic claims	1,371	1,449	1,593	1,643	1,762	1,821
Net claims on the government	238	272	333	317	344	340
Bank Al-Maghrib	-4	-3	19	10	4	3
<i>Of which : deposits</i>	-7	-7	-5	-12	-9	-9
Deposit money banks	243	276	315	307	340	336
Claims on the economy	1,133	1,176	1,260	1,326	1,418	1,482
<i>of which credit to private sector</i>	762	790	849	854	876	911
Other liabilities, net	-202	-205	-225	-243	-277	-274
Broad money	1,485	1,561	1,685	1,752	1,890	1,977
Money	1,019	1,087	1,196	1,287	1,400	1,482
Currency outside banks	301	320	355	394	414	440
Demand deposits	719	767	842	893	986	1,041
Quasi money	426	432	441	424	444	457
Foreign deposits	40	42	48	42	45	38
(Annual percentage change)						
Net foreign assets	20.0	0.1	0.2	10.8	15.1	5.9
Net domestic assets	5.6	6.4	9.9	2.4	6.0	4.7
Domestic credit	6.1	5.7	9.9	3.2	7.2	3.4
Net claims on the government	12.2	14.3	22.3	-4.7	8.4	-1.2
Claims on the economy (excl. central government)	4.9	3.8	7.1	5.3	6.9	4.5
Banking credit (excl. central government)	4.7	2.6	7.5	5.3	4.6	4.0
Broad money	8.4	5.1	8.0	4.0	7.9	4.6
(Change in percent of broad money)						
Net foreign assets	3.8	0.0	0.0	2.0	3.0	1.3
Domestic credit	5.7	5.2	9.2	3.0	6.8	3.2
Net claims on the government	1.9	2.3	3.9	-0.9	1.5	-0.2
Claims on the economy	3.9	2.9	5.3	3.9	5.2	3.4
Memorandum items:						
Velocity (GDP/M3)	0.78	0.82	0.79	0.84	0.82	0.83
Velocity (non-agr. GDP/M3)	0.70	0.72	0.71	0.76	0.75	0.76
Claims on economy/GDP (in percent)	98.3	92.1	94.7	90.6	91.8	90.2
<i>of which credit to private sector</i>	66.1	61.9	63.8	58.4	56.7	55.5
Claims on economy/nonagricultural GDP (in percent)	109.4	104.0	105.6	100.0	100.3	98.6

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

Table 9. Morocco: Financial Soundness Indicators, 2019–2024
(Percent, unless otherwise indicated)

	2019		2020		2021		2022		2023			2024	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Sep	Dec	Jun	Sep
Regulatory capital 1/													
Regulatory capital to risk-weighted assets	15.1	15.6	15.5	15.7	16.0	15.8	15.3	15.6	15.8	N.A.	15.5	16.0	N.A.
Tier 1 capital to risk weighted assets	11.0	11.5	11.4	11.4	11.9	12.0	11.8	12.4	12.9	N.A.	12.9	13.4	N.A.
Capital to assets	9.2	9.5	9.3	9.6	9.5	9.5	9.4	9.5	9.2	9.4	9.2	9.2	8.9
Asset quality													
Sectoral distribution of loans to total loans													
Industry	15.5	15.9	16.3	15.5	15.9	15.5	16.9	17.0	17.9	18.2	18.3	17.6	18.3
Of which : agro-business	3.3	3.4	3.3	3.4	3.5	3.7	4.0	4.0	3.7	3.7	3.5	3.4	3.5
Of which : textile	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6
Of which : gas and electricity	4.6	4.5	4.7	3.8	3.8	4.1	4.8	5.1	5.3	5.7	6.1	5.8	6.0
Agriculture	4.0	4.1	3.9	3.8	3.9	4.0	4.1	3.8	3.8	3.8	3.8	3.6	3.6
Commerce	6.6	6.4	6.6	6.4	6.5	6.7	7.1	8.1	7.4	7.3	7.2	6.7	6.5
Construction	10.4	10.2	9.5	9.9	8.9	7.9	7.7	7.4	7.6	7.3	7.6	8.6	8.4
Tourism	1.6	1.5	1.6	1.8	1.8	2.0	1.9	1.9	1.8	1.8	1.7	1.6	1.5
Finance	12.2	12.7	13.1	13.5	13.1	12.7	12.4	12.7	12.5	13.1	14.1	14.6	14.9
Public administration	8.2	8.6	8.2	8.3	8.6	8.4	8.1	7.7	7.9	7.9	8.0	8.4	8.2
Transportation and communication	4.5	4.2	4.1	4.1	4.0	4.1	3.5	3.7	3.8	3.8	3.6	3.2	3.9
Households	31.8	31.6	30.5	30.9	30.8	31.1	30.1	29.9	29.7	29.7	28.9	28.9	28.4
Other	5.2	4.8	6.2	5.8	6.6	7.7	8.2	7.7	7.5	7.2	6.9	6.7	6.4
FX-loans to total loans	3.1	3.3	3.8	3.0	3.3	3.1	5.1	3.8	3.1	2.7	2.5	2.3	2.1
Credit to the private sector to total loans	86.2	86.0	86.4	86.6	86.7	84.4	87.7	87.1	86.5	86.1	85.5	85.3	85.2
Credit to non financial public enterprises to total	6.0	5.5	5.5	5.2	5.0	4.5	4.2	5.2	5.6	6.0	6.8	6.3	6.7
Nonperforming Loans (NPLs) to total loans	7.5	7.5	8.0	8.2	8.3	8.6	8.5	8.4	8.6	8.8	8.5	8.6	8.7
Specific provisions to NPLs	69.3	69.3	67.9	68.6	68.6	67.5	66.7	68.4	67.7	67.3	67.5	67.8	68.2
NPLs, net of provisions, to Tier 1 capital	16.3	16.0	17.9	17.5	17.7	18.5	19.0	17.9	18.6	19.4	19.0	18.6	18.8
Large exposures to Tier 1 capital	262.9	240.1	255.0	237.0	249.0	228.8	259.4	274.5	271.4	268.0	288.1	279.0	282.0
Loans to subsidiaries to total loans	8.7	8.1	8.4	8.3	8.4	8.3	8.7	8.9	7.8	8.3	7.7	8.8	8.5
Loans to shareholders to total loans	0.7	0.5	0.6	0.7	0.6	0.6	0.7	0.8	0.7	1.0	0.8	1.1	1.0
Specific provisions to total loans	5.2	5.2	5.4	5.6	5.7	5.8	5.7	5.7	5.8	5.9	5.8	5.8	5.9
General provisions to total loans	1.1	1.2	1.3	1.4	1.3	1.4	1.3	1.3	1.2	1.2	1.2	1.3	1.4
Profitability													
Return on assets (ROA)	1.1	0.9	0.6	0.5	1.2	0.8	1.0	0.7	1.1	0.9	0.7	1.2	1.1
Return on equity (ROE)	11.8	9.4	5.6	4.8	12.2	8.2	10.9	6.9	11.8	9.8	8.0	13.3	12.0
Interest rate average spread (b/w loans and deposits)	3.7	3.7	3.7	3.8	3.7	3.7	3.8	3.7	3.8	3.8	3.8	3.9	3.9
Interest return on credit	4.7	4.6	4.5	4.5	4.6	4.3	4.3	4.3	4.4	4.5	4.5	4.6	4.6
Cost of risk as a percent of credit	0.8	0.8	1.4	1.3	0.9	1.9	0.6	0.7	0.7	0.8	0.9	0.9	1.0
Net interest margin to net banking product (NPB) 2/	68.6	67.5	68.2	68.2	69.6	69.3	73.5	75.4	72.3	69.3	66.9	63.9	56.9
Operating expenses to NPB	46.1	50.2	45.8	50.0	44.6	48.5	46.2	53.0	43.7	45.1	46.6	39.1	39.6
Operating expenses to total assets	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.2	1.6	0.8	1.1
Personnel expenses to noninterest expenses	47.5	47.6	47.6	47.4	46.8	47.0	47.5	46.7	46.4	46.4	46.1	46.1	46.1
Trading and other noninterest income to NPB	31.4	32.5	31.8	31.8	30.4	32.5	26.5	24.7	37.5	30.7	33.1	36.1	38.2
Liquidity													
Liquid assets to total assets	12.8	14.0	14.8	16.1	16.5	16.4	16.8	16.1	15.0	14.9	14.6	16.5	15.8
Liquid assets to short-term liabilities	16.2	17.9	18.7	20.0	20.4	19.9	19.6	19.2	18.4	17.9	17.7	19.6	19.0
Deposits to loans	102.2	102.2	101.1	103.2	103.6	105.9	105.0	106.3	106.4	106.0	104.8	107.3	107.9
Deposits of state-owned enterprises to total deposits	2.2	2.2	1.7	1.6	2.2	1.7	2.2	2.7	2.3	2.0	1.9	2.0	1.6
Sensitivity to market risk													
FX net open position to Tier 1 Capital	0.0	-1.6	8.0	5.8	-1.2	-2.3	-3.9	0.0	-2.7	2.8	0.0	-2.2	2.2

Source: Bank Al-Maghrib.

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

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

Table 10. Morocco: Indicators of Fund Credit – Adverse Scenario (GRA and RSF arrangements)
(In millions of SDRs, unless otherwise indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Existing and prospective Fund credit (SDR million)																					
Disbursements	4,101	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRA	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	375	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	4,664	4,664	4,664	3,266	1,403	938	938	938	938	925	850	756	663	569	475	381	288	194	100	19	0
GRA	3,726	3,726	3,726	2,329	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	3,726	3,726	2,329	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	938	938	938	938	938	938	938	938	938	925	850	756	663	569	475	381	288	194	100	19	0
Obligations	686	199	199	1,588	1,974	514	38	39	38	51	112	127	124	120	116	112	108	104	101	84	19
Principal (repayments/repurchases)	538	0	0	1,397	1,863	466	0	0	0	13	75	94	94	94	94	94	94	94	94	81	19
GRA	538	0	0	1,397	1,863	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	0	0	0	1,397	1,863	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	0	0	0	0	0	0	0	0	0	13	75	94	94	94	94	94	94	94	94	81	19
Charges and interest	148.6	199.3	199.3	191.0	111.2	48.5	38.5	38.5	38.5	38.4	37.2	33.7	29.8	26.0	22.1	18.3	14.4	10.6	6.8	3.0	0.3
GRA	119.8	160.8	160.8	152.5	72.7	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	28.8	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.5	38.4	37.2	33.7	29.8	26.0	22.1	18.3	14.4	10.6	6.7	2.9	0.3
Fund obligations (repurchases and charges) in percent of:																					
Quota	76.7	22.3	22.3	177.6	220.7	57.5	4.3	4.3	4.3	5.7	12.5	14.3	13.8	13.4	13.0	12.5	12.1	11.7	11.2	9.4	2.1
GDP	0.5	0.1	0.1	1.0	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	1.3	0.3	0.3	2.4	2.8	0.7	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Gross international reserves	2.2	0.6	0.6	4.4	5.1	1.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Government revenue	1.8	0.5	0.5	3.7	4.4	1.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
External debt service, public	16.1	5.1	4.8	35.1	52.7	11.8	0.9	0.9	0.8	1.0	2.1	2.3	2.1	1.9	1.8	1.6	1.5	1.4	1.3	1.0	0.2
Fund credit outstanding in percent of:																					
Quota	521	521	521	365	157	105	105	105	105	103	95	85	74	64	53	43	32	22	11	2	0
GDP	4	3	3	2	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exports of goods and services	9	8	8	5	2	1	1	1	1	1	1	1	1	1	0	0	0	0	0	0	0
Gross international reserves	15	14	13	9	4	2	2	2	2	2	2	1	1	1	1	0	0	0	0	0	0
Government revenue	12.1	11.8	11.6	7.6	3.1	1.9	1.8	1.7	1.7	1.5	1.3	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0
External debt, public	12.5	11.5	10.6	7.2	2.9	1.8	1.7	1.6	1.5	1.4	1.2	1.0	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0
Memorandum items:																					
Quota (SDR million)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff calculations.

Note: Morocco belongs to the RST interest Group C. Based on the RST rate of interest of 4.105 percent as of February 20th, 2025. An adverse scenario where the FCL is drawn in 2025 is assumed.

Annex I. External Sector Assessment

Overall Assessment: Morocco's external position in 2024 was estimated to be moderately stronger than the level implied by medium-term fundamentals and desirable policies based on IMF's EBA current account (CA) model. The current account deficit is estimated to have widened somewhat in 2024 but remained small on the back of strong goods exports, tourism revenue, and remittances. The CA deficit is expected to widen gradually and converge to around 3 percent of GDP in the medium term.

Potential Policy Responses: Structural reforms to boost private sector investment should boost imports but also increase FDI inflows and external competitiveness. Continued fiscal discipline would be important for containing the increase of the current account deficit. The planned transition to an inflation targeting framework and a more flexible exchange rate regime should enhance protection against external shocks.

Foreign Asset and Liability Position and Trajectory

Background. Morocco's Net International Investment Position (NIIP) was estimated to have improved from -54.1 percent of GDP in 2023 to -52.7 percent in 2024. Foreign assets (38.5 percent of GDP) were estimated to be mostly international reserves (24.4 percent of GDP) and other investment (6.8 percent of GDP). Foreign liabilities (91.2 percent of GDP) were estimated to be mostly direct investment (46.1 percent of GDP) and other investment (35.1 percent of GDP). NIIP is projected to stabilize over the medium term to around -50 percent of GDP.

Assessment. Morocco's NIIP is sustainable, as planned structural reforms to boost private sector investment are expected to not only increase financing needs but also improve FDI inflows, exports, and output growth. Financing vulnerabilities appear moderate, as foreign direct investment accounts for about half of the liabilities.

2024 (% GDP)	NIIP: -52.7	Gross Assets: 38.5	Reserve Assets: 24.4	Gross Liabilities: 91.2	Gross External Debt: 46.1
--------------	-------------	-----------------------	-------------------------	----------------------------	---------------------------------

Current Account

Background. In 2024, the CA deficit is estimated to have widened to 1.5 percent of GDP, from 0.6 percent in 2023. The deficit is expected to gradually increase to about 3 percent of GDP over the medium term as stronger private sector investment and consumption boost imports, despite continued robust performance of both tourism revenues and remittances. In 2025, the CA deficit is expected to increase to about 2 percent of GDP as trade balance worsens.

Assessment. In 2024, the EBA model estimated a cyclically adjusted CA deficit of 1.3 percent of GDP compared with an estimated cyclically adjusted CA norm of -3.3 percent of GDP, with a standard error of 0.5 percent of GDP. The resulting staff CA gap of 2 percent of GDP (with a range of 1.5 to 2.5 percent), includes identified policy gaps of 0.8 percent of GDP and an unexplained residual of 1.2 percent of GDP.

2024 (% GDP)	CA: -1.5	Cycl Contributions: -0.2	Cycl. Adjusted CA: -1.3	Cycl. Adjusted CA Norm: -3.3	Total Gap: 2
--------------	----------	--------------------------------	----------------------------	---------------------------------	-----------------

Real Exchange Rate

Background. In December 2024, the REER was 2.6 percent higher than December 2023, reflecting the appreciation of the NEER (4.9 percent) that has not been entirely offset by the lower inflation relative to trading partners.

Assessment. Consistent with the estimated CA gap of 2 percent of GDP and applying an elasticity of the CA to REER of 0.37, the REER was assessed to be undervalued in 2024 by 5.4 percent (with a range of 4.1 to 6.8 percent).

Capital and Financial Accounts: Flows and Policy Measures

Background. Morocco's CA deficit is mainly financed by net FDI inflows and external borrowing. In 2024, net FDI inflows rebounded partially after a dip in 2023, while external borrowing has benefited from the state-owned enterprise OCP's bond issuance in international markets.

Assessment. In the medium term, progress in structural reforms, particularly those aimed at developing the private sector, accelerating the transition to renewable energy, and increasing water resources, are all expected to support FDI inflows. Greater private investment will likely require continued reliance on external borrowing, although there will be limited crowding-out from the government, due to fiscal consolidation. The risks of capital flow reversal are limited by remaining capital account controls on residents and the structure of external public debt (including central government and public enterprises) whose average remaining repayment term was 8 years and 7 months in 2023.

FX Intervention and Reserves Level

Background. Morocco's exchange rate is pegged to a basket including the Euro and the US Dollar (60 and 40 percent weights, respectively) and can fluctuate within ± 5 percent band around this central parity. FX reserves in 2024 was US\$37.2 billion (as of December 27), a slight increase from US\$36.3 billion in 2023, as the central government repaid some of the PLL but didn't issue bonds in international markets in 2024.

Assessment. Estimated at 120 percent of the ARA metric (adjusted for capital controls), the level of reserves in 2024 is assessed to be adequate. Staff projects reserves to remain around 120 percent of the adjusted ARA metric over the medium term, as greater FDI and external borrowing will continue to finance the gradual increase of the CA deficit and repayment of the PLL in 2025. Moving to an IT monetary policy regime with a more flexible exchange rate regime would reduce the need for reserve holdings outside a budget that could fund FX interventions in case of excessive market volatility.

Annex II. Risk Assessment Matrix¹

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Conjunctural Risks			
Regional conflicts.	Medium Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Small Disruptions in trade (including tourism) and FDI will have a negative impact on Morocco's economic activity, although greater opportunities for diversification could help soften the spillovers in the medium term.	<ul style="list-style-type: none"> Fiscal policy will need to protect the most vulnerable segments of the Moroccan economy and society with well-targeted, temporary, and budget-neutral cash transfers, making full use of the Unified Social Registry The central bank should stand ready to respond to these shocks by easing monetary and credit conditions, while ensuring that inflation pressures remain contained.
Commodity price volatility.	Medium Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	High An increase in commodity prices could push headline inflation higher. Lower household purchasing power, supply disruptions, and higher borrowing costs could drag down growth.	<ul style="list-style-type: none"> The central bank may need to increase policy rates to keep inflation expectations from becoming unanchored and limit potential ER depreciation pressures towards the upper side of the band. Consideration can be given to further extending the band or letting the dirham float more freely under an IT monetary policy regime. Fiscal policy will need to protect those most vulnerable to higher inflation with well-targeted, temporary, and budget-neutral cash transfers,

¹ 1 The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood 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 between 30 and 50 percent). The RAM reflects staff 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
			making full use of the Unified Social Registry. The recourse to subsidies and other forms of government financial support to particular sectors of the economy (like the agriculture sector) should be limited to cases where their positive immediate impact is evident, and in any case removed over time.
Tighter financial conditions.	Medium Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFIs, distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	Small Given Morocco's relatively limited international financial integration the effect is likely to be limited. While a higher-for-longer US interest rates could negatively affect Morocco's external borrowing costs, the impact on government funding should be contained, as the share of public debt denominated in FX is relatively low.	<ul style="list-style-type: none"> Although the existence of capital controls reduces the room for carry trade and other forms of capital outflows, the central bank may need to respond to high interest rates globally with higher policy interest rates, to limit exchange rate depreciation pressures (while appreciation pressure can be temporarily accommodated with FX purchases, as done in 2021). Consideration can be given to further extending the band or letting the dirham float more freely under an IT monetary policy regime.
Trade policy and investment shocks.	High Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial	Medium Morocco is an open economy, highly dependent on trade (including that associated with key global value chains, like the automotive industry), remittances, tourism, and energy imports. Hence any	<ul style="list-style-type: none"> Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinder FDIs. Accelerate the implementation of structural reforms to support international

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
	conditions, and higher inflation.	disruption in each of these areas is bound to deeply affect economic activity. The impact however could be mitigated by Morocco's favorable geographical position that could offer opportunities for further economic diversification and integration with both Africa and Europe.	competitiveness and productivity.
Structural Risks			
Deepening geo-economic fragmentation.	High Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	Medium Morocco is an open economy, highly dependent on trade (including that associated with key global value chains, like the automotive industry), remittances, tourism, and energy imports. Hence any disruption in each of these areas is bound to deeply affect economic activity. The impact however could be mitigated by Morocco's favorable geographical position that could offer opportunities for further economic diversification and integration with both Africa and Europe.	<ul style="list-style-type: none"> • Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinder FDIs. • Accelerate the implementation of structural reforms to support international competitiveness and productivity.
Domestic Risks			
A more severe drought	High	High	<ul style="list-style-type: none"> • The authorities should accelerate the implementation

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
reduces agricultural production.	Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. In the case of Morocco, the frequency of droughts has increased significantly recently, with Morocco experiencing yet another drought in 2024, the fourth dry rain season in the last five years.	Morocco is highly dependent on the agricultural sector. Even if it represents about 10 percent of value added and a quarter of goods exports, about one-third of the Moroccan workforce is active in this sector. Morocco's inflation is also extremely sensitive to changes in food prices (representing about 40 percent of the CPI basket) which may have become more responsive to the recurring droughts.	<p>of key macro-critical reforms for climate adaptation, including through their infrastructure plan to increase water supply, but also setting the ground for a new tariff framework that better reflect the effective scarcity of water.</p> <ul style="list-style-type: none"> Targeted and short-term fiscal support could be considered to help those segments of the population that are most vulnerable to droughts, like rural population.
A faster than projected implementation of the announced investment projects.	Low A full materialization in the next five years of the investment projects for which public support has been approved so far under the new Investment Charter (estimated at 20 percent of GDP) and faster (than assumed in the baseline) implementation of structural investment projects under the new PPPs framework.	High Real GDP growth will be higher than projected. Potential growth would also be higher but the rapid acceleration of investment in the short term would overheat the economy with stronger inflationary pressures, a wider current account deficit and greater budgetary spending (including from potential contingent liabilities associated to PPPs).	<ul style="list-style-type: none"> Monetary Policy should respond with higher policy rates to anchor inflation expectations and contain inflationary pressures. Fiscal policy should maintain the current pace of fiscal consolidation and absorb the higher spending pressures with further efforts to rationalize spending and increase revenues (net of the possible increase due to higher growth).

Annex III. Sovereign Risk and Debt Sustainability Assessment

Morocco's debt is assessed to be sustainable with high probability, and risk of sovereign stress is assessed to be moderate. Debt-to-GDP is projected to decline gradually in the medium term, to 65.1 percent of GDP in 2030, reflecting the announced path of fiscal consolidation. There are ongoing efforts to mitigate medium- and long-term risks, including by further strengthening the medium-term fiscal framework and reforming the pension system.

1. Debt coverage and definition. This Sovereign Risk and Debt Sustainability Assessment (SRDSA) covers *central government* debt (domestic and external).

2. Background. The central government debt ratio is expected to have increased slightly from 69.5 percent in 2023 to 70 in 2024. This increase is driven by low nominal GDP growth (5.5 percent)—as real growth is expected to have decelerated slightly from 3.4 to 3.2 percent and inflation in GDP deflator is expected to have decelerated sharply from 6.4 to 2.3 percent—despite a lower primary fiscal deficit (1.9 percent of GDP compared to 2.3 percent in 2023). Gross financing needs for the central government decreased from 19.8 percent in 2023 to 13.2 percent of GDP in 2024, driven by lower amortization needs.

3. Baseline Projections. Under the baseline scenario, central government debt is expected to decrease gradually to 65.1 percent of GDP by 2030, in line with the Medium-Term Fiscal Framework published as part of the 2025 Budget. The projected fiscal consolidation efforts over the medium term seem realistic relative to the distribution of fiscal adjustment efforts in a group of peer countries. Gross financing needs are expected to stay around 11 percent of GDP in 2025 and stabilize at around 10 percent in the medium term. Government interest payments are expected to be stable in the medium term.

4. Medium-term risks. Medium-term risks are assessed to be moderate, based on the debt fanchart module and the gross financing needs (GFN) module. The debt fanchart index—measuring medium-term solvency risks—indicates a moderate risk. The baseline debt trajectory is on a downward trend, the fanchart width is narrower than the median in the peer group, and the probability of debt not stabilizing is limited. Overall, solvency risks should be contained with continuous fiscal consolidation, fiscal reforms, and a gradual economic recovery. GFN financeability index also indicates a moderate risk, with GFN stabilizing in the stress scenario. The contingent liability stress test indicates a path of gross financing needs substantially above the baseline for the medium term when contingent liabilities from local government debt and domestic and external debt guaranteed by the central government (about 13 percent of GDP) materialize. Relevant reforms in the budgetary framework, including the continued reinforcement of the MTFF, the strengthening of its fiscal risk analysis, and the implementation of a fiscal rule anchored on the public debt, will help contain medium-term risks. A faster reduction of the debt would ensure stronger protection against the risks.

5. Long-term risks. Long-term risks are moderate, reflecting risks related to climate change and the sustainability of the public pension and health care systems in the context of

demographic change. These risks highlight the importance of ongoing comprehensive reforms in water infrastructure, health care, and pension systems.

6. Sustainability. Debt is assessed to be sustainable with high probability. The debt to GDP ratio is expected to decrease in the medium-term and GFN will remain at manageable levels, conditional on the implementation of the announced fiscal adjustment that is assessed feasible. A few characteristics of the debt profile, such as relatively long maturity and low share of FX denominated debt, continue to limit potential vulnerabilities.

Annex III. Figure 1. Morocco: Risk of Sovereign Stress

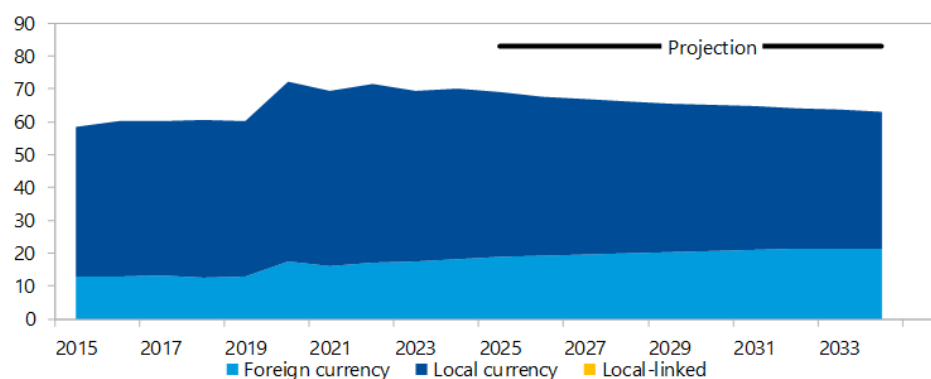
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium and long terms. Relevant reforms in the budgetary framework and the pension system are expected in the coming years. Reforms under the RSF and other future comprehensive reforms in the water and energy sectors will also be needed to reduce climate-related risks.
Near term 1/			
Medium term	Moderate	Moderate	The debt fanchart module and the gross financing needs module suggest moderate levels of risk. The contingent liability stress test shows a path of gross financing needs substantially above the baseline. Medium term fiscal framework is expected to continue improving.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Cont. Liabty.	...	
Long term	...	Moderate	Long term risks are moderate, given risks related to climate change and demographic change. However, there are ongoing comprehensive reforms in water infrastructure, healthcare, and pension systems to mitigate these risks. The long-term amortization module does not trigger an overall risk indication.
Sustainability assessment 2/		Sustainable with high probability	The projected debt path is expected to decrease in the medium term and GFN will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed feasible.
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
<p>Commentary: Morocco is at moderate overall risk of sovereign stress, with public debt that is sustainable with high probability. Debt is expected to continuously decline over the medium term to around 65 percent of GDP by 2030. Medium term risks are moderate, as indicated by debt fanchart module and the gross financing needs module. Medium term fiscal framework is expected to continue improving. Long term risks are moderate, given risks related to climate and demographic change. However, there are ongoing comprehensive reforms in water infrastructure, healthcare, and pension systems to mitigate these risks.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Annex III. Figure 2. Morocco: Debt Coverage and Disclosures

Annex III. Figure 2. Morocco: Debt Coverage and Disclosures										Comments							
1. Debt coverage in the DSA: 1/																	
			CG	GG	NFPS	CPS	Other										
1a. If central government, are non-central government entities insignificant?										No							
2. Subsectors included in the chosen coverage in (1) above:																	
Subsectors captured in the baseline										Inclusion							
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes				Not applicable							
				2	Extra budgetary funds (EBFs)	No											
				3	Social security funds (SSFs)	No											
				4	State governments	No											
				5	Local governments	No											
				6	Public nonfinancial corporations	No											
				7	Central bank	No											
				8	Other public financial corporations	No											
3. Instrument coverage:																	
			Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/										
4. Accounting principles:																	
Basis of recording										Valuation of debt stock							
				Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/									
5. Debt consolidation across sectors:																	
					Consolidated	Non-consolidated											
Color code: chosen coverage Missing from recommended coverage Not applicable																	
Reporting on Intra-Government Debt Holdings																	
Holder																	
				Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total					
CPS	NFPS	GG: expected	CG	1	Budget. central govt							0					
				2	Extra-budget. funds							0					
				3	Social security funds							0					
				4	State govt.							0					
				5	Local govt.							0					
				6	Nonfin pub. corp.							0					
				7	Central bank							0					
				8	Oth. pub. fin. corp							0					
Total										0	0	0	0	0	0	0	0
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.																	
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.																	
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.																	
4/ Includes accrual recording, commitment basis, due for payment, etc.																	
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).																	
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.																	
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.																	
Commentary: The authorities have started to produce general government data with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidating the debt under the general government perimeter reduces the debt-to-GDP ratio by about 3.6 percent of GDP in 2023 (from 69.5 to 65.9 percent), as non-profit public establishments and retirement and social security organizations hold some of the central government debt.																	

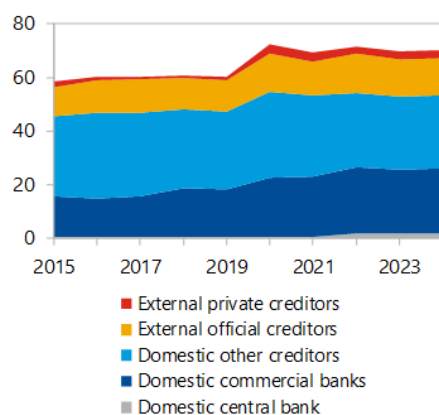
Annex III. Figure 3. Morocco: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



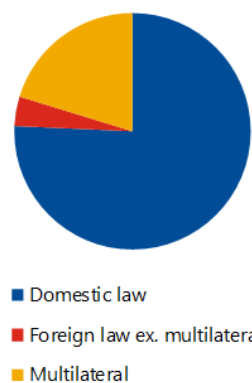
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



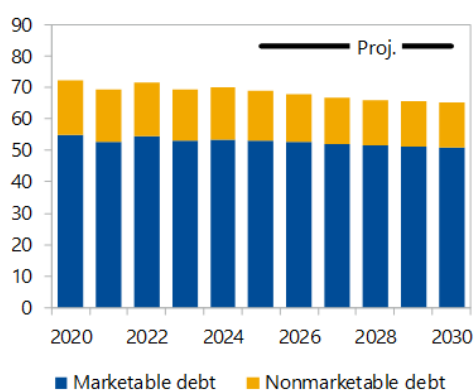
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (percent)



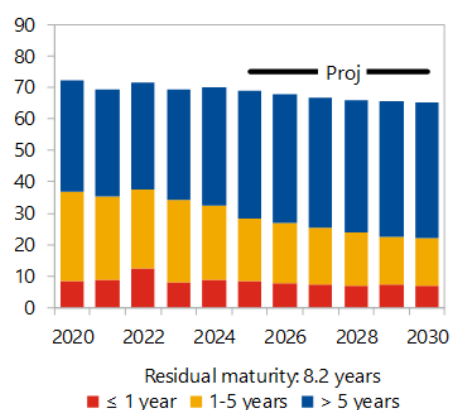
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



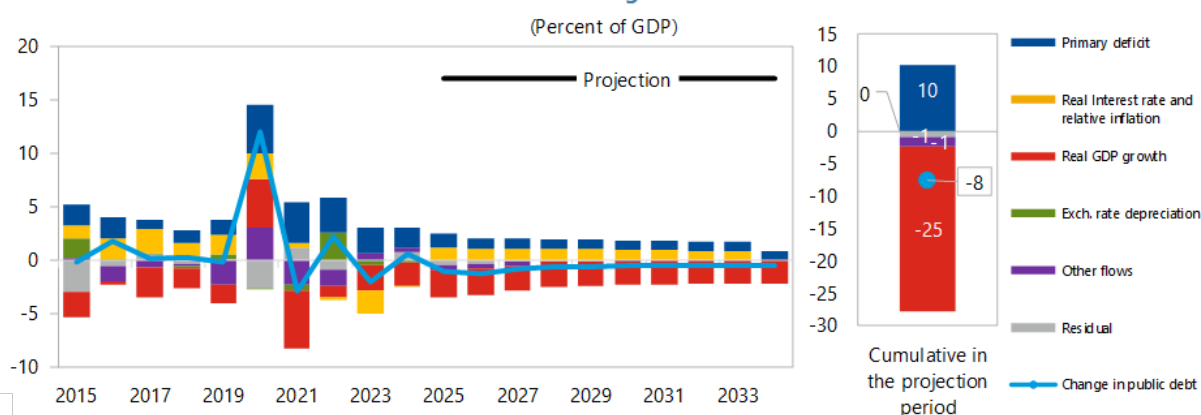
Note: The perimeter shown is central government.

Commentary: The characteristics of the public debt profile, in particular, long maturities and relatively low share of FX-denominated debt, coming from an investment base made mostly of local long-term investors, continue to limit potential vulnerabilities. Average maturity increased from 7 years and 3 months in 2023 to 8 years and 2 months in 2024 through active debt management.

Annex III. Figure 4. Morocco: Baseline Scenario
(Percent of GDP unless indicated otherwise)

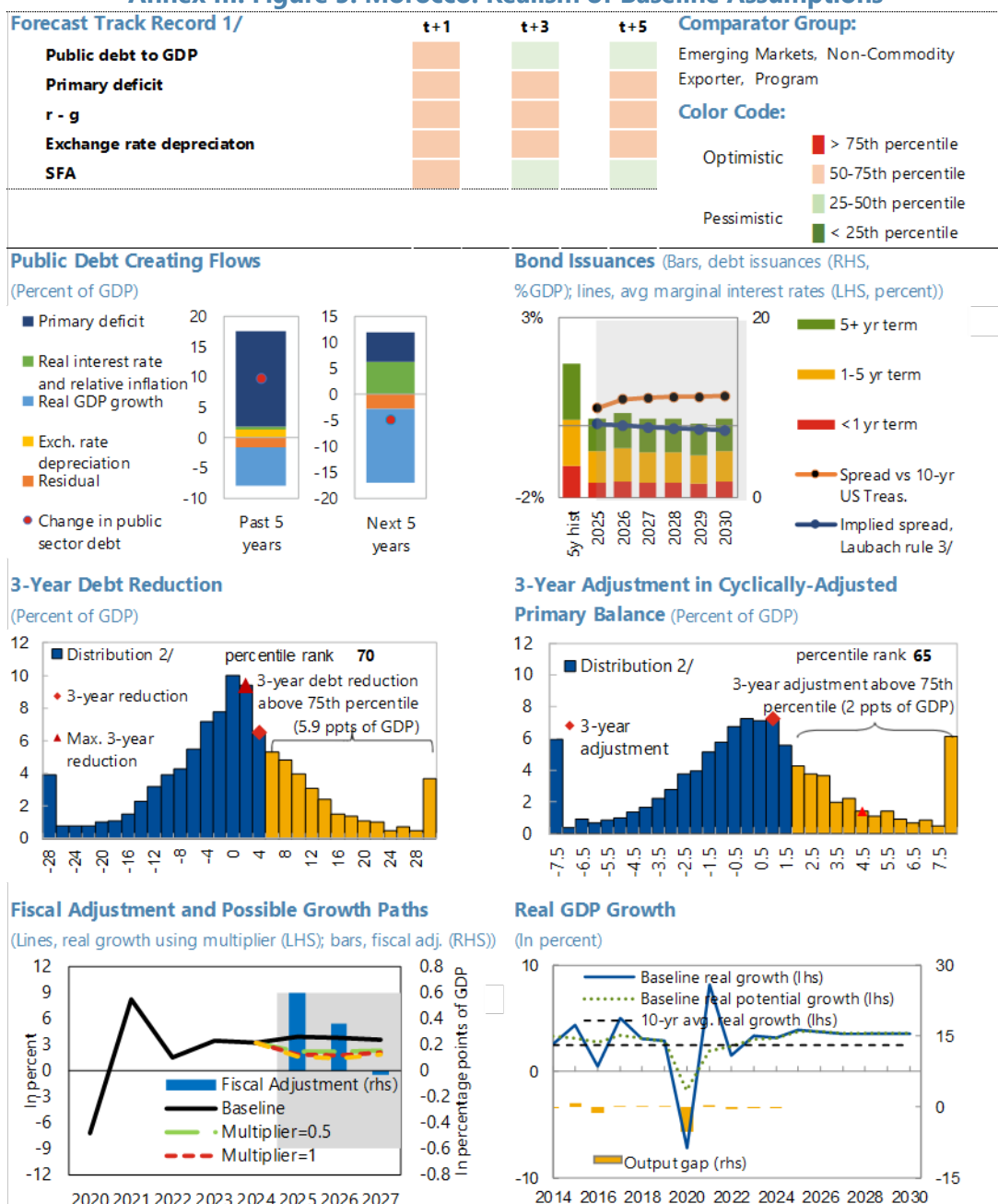
(Percent of GDP unless indicated otherwise)											
	Estimate	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	70.0	68.9	67.7	66.8	66.2	65.6	65.1	64.6	64.1	63.6	63.1
Change in public debt	0.6	-1.1	-1.2	-0.9	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Contribution of identified flows	-0.2	-0.6	-0.9	-0.7	-0.5	-0.5	-0.5	-0.6	-0.6	-0.7	n.a.
Primary deficit	1.9	1.3	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Noninterest revenues	30.1	30.4	29.4	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1
Noninterest expenditures	32.0	31.7	30.4	29.1	29.0	29.0	29.0	29.0	29.0	29.0	29.0
Automatic debt dynamics	-2.4	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.5	-1.5	-1.5	n.a.
Real interest rate and relative inflation	0.0	1.2	1.1	1.0	1.0	1.0	1.0	0.8	0.7	0.7	n.a.
Real interest rate	0.0	1.1	1.0	1.0	1.0	1.0	1.0	0.7	0.7	0.6	0.6
Relative inflation	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	n.a.
Real growth rate	-2.1	-2.6	-2.5	-2.4	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2
Real exchange rate	-0.3	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.4	-0.4	-0.4	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.4	-0.4	-0.4	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.7	-0.5	-0.4	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.1	n.a.
Gross financing needs	13.2	11.3	11.5	10.7	10.2	9.7	10.1	9.7	9.3	8.9	8.4
of which: debt service	11.3	10.0	10.6	9.7	9.3	8.8	9.3	8.8	8.4	8.0	7.5
Local currency	9.1	8.3	8.9	7.9	7.3	7.4	7.6	7.3	6.9	6.5	6.1
Foreign currency	2.2	1.8	1.7	1.8	2.0	1.4	1.6	1.6	1.5	1.5	1.5
Memo:											
Real GDP growth (percent)	3.2	3.9	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Inflation (GDP deflator; percent)	2.3	2.3	2.2	2.1	2.1	2.0	2.0	2.2	2.2	2.2	2.2
Nominal GDP growth (percent)	5.5	6.3	6.0	5.8	5.8	5.7	5.6	5.6	5.6	5.6	5.6
Effective interest rate (percent)	2.3	3.9	3.8	3.6	3.6	3.6	3.5	3.4	3.3	3.2	3.2

Contribution to Change in Public Debt



Commentary: Public debt is expected to continuously decline over the medium term to around 65 percent of GDP by 2030, driven by narrowing of primary deficit, sales of financial assets, and stable economic conditions. Long-term real GDP growth is assumed to be equal to the potential growth estimate.

Annex III. Figure 5. Morocco: Realism of Baseline Assumptions



Commentary: Realism analysis do not signal over-optimism. Past forecast errors are within 25-75th percentile and do not reveal large systematic biases. A significant decrease in debt is achieved through sustained real GDP growth, driven by infrastructure plans and pro-business sector reforms that will boost private investment. The projected debt reduction and fiscal adjustments are below the 75th percentile of cross-country database.

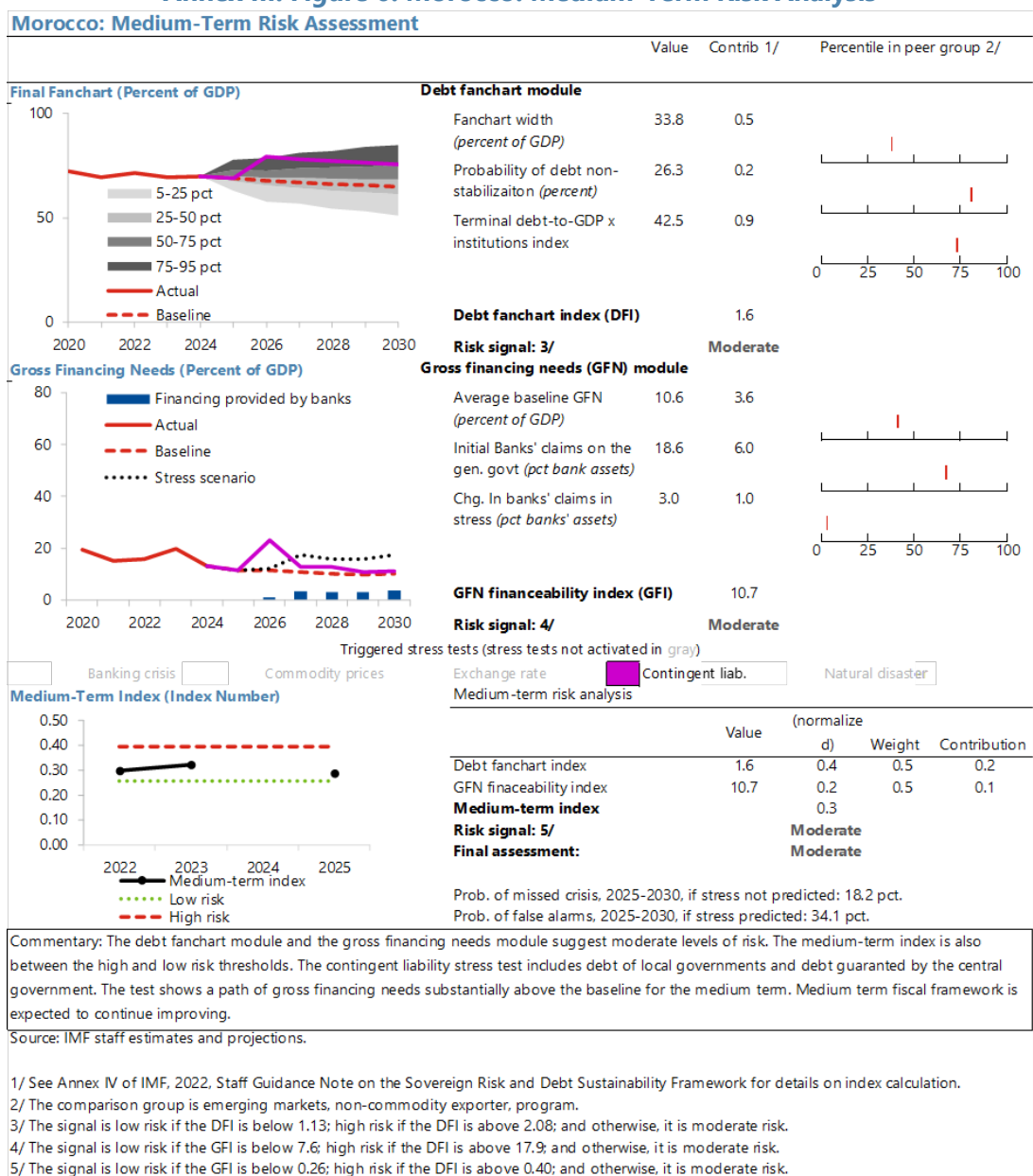
Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

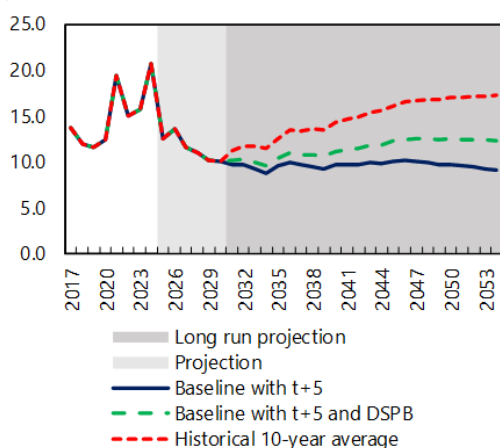
Annex III. Figure 6. Morocco: Medium-Term Risk Analysis



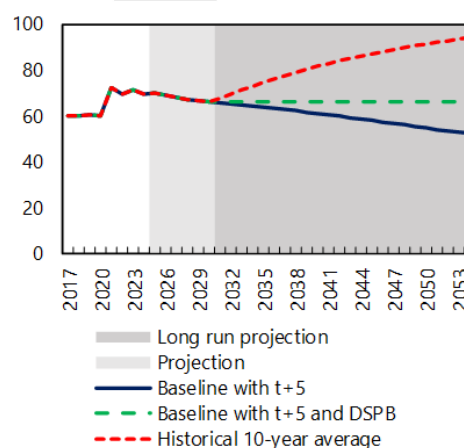
Annex III. Figure 7. Morocco: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Overall Risk Indication		Green

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The long-term amortization module does not trigger an overall risk indication. GFN-to-GDP and debt-to-GDP projection increase in the scenario using historical 10-year average but decline steadily in the scenario assuming constant t+5 values.

Annex III. Figure 8. Morocco: Demographics: Pensions

Permanent adjustment needed in
the pension system to keep
pension assets positive for:

30 years

50 years

Until 2100

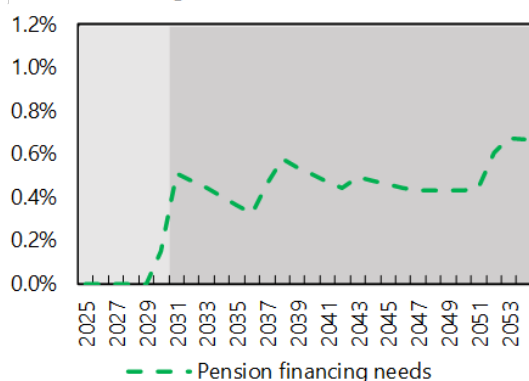
(pp of GDP per year)

0.4%

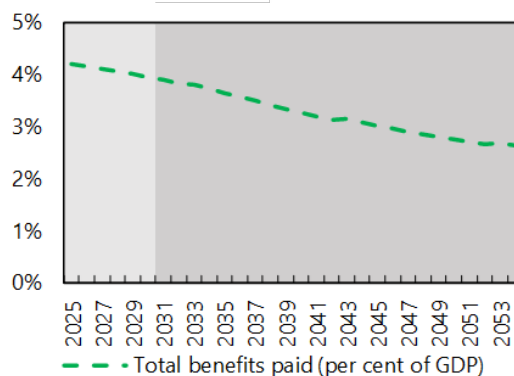
0.6%

0.8%

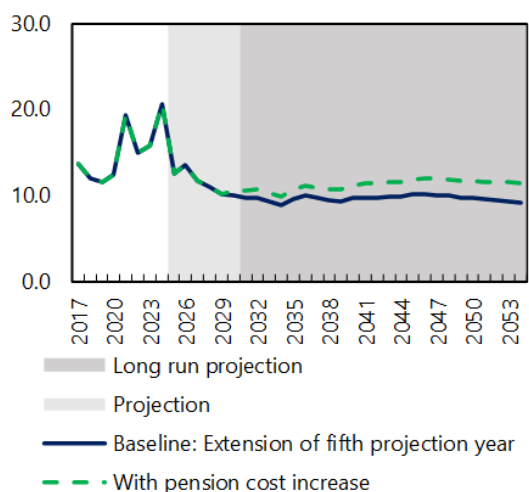
Pension Financing Needs



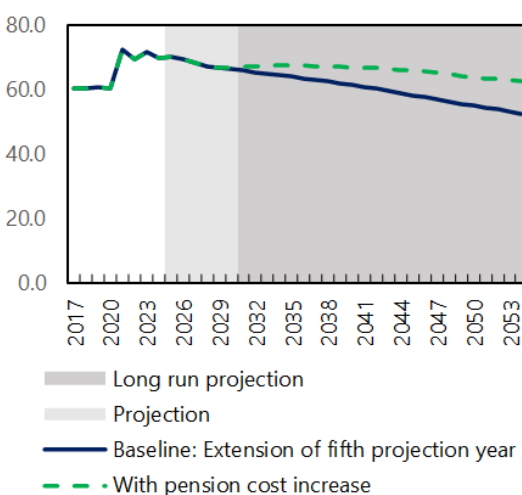
Total Benefits Paid



GFN-to-GDP Ratio

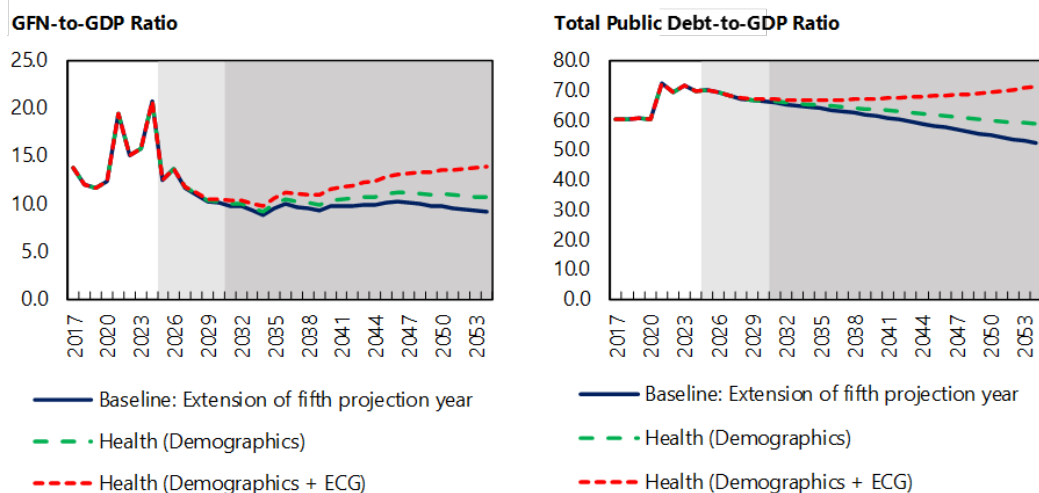


Total Public Debt-to-GDP Ratio



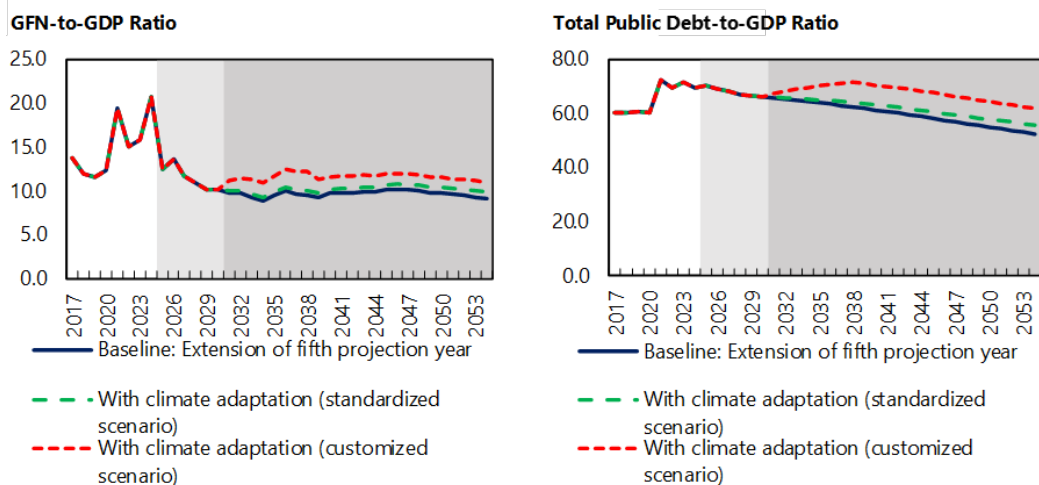
Commentary: The pension module is customized to use benefits, contributions, technical balance, overall balance, and reserve projections for three major pension funds (CMR-RPC, CNSS, RCAR-RG) from the Supervisory Authority of Insurance and Social Welfare. Once each fund runs out of reserves, its overall deficit is added to the central government's financing needs.

Annex III. Figure 9. Morocco: Demographics: Health



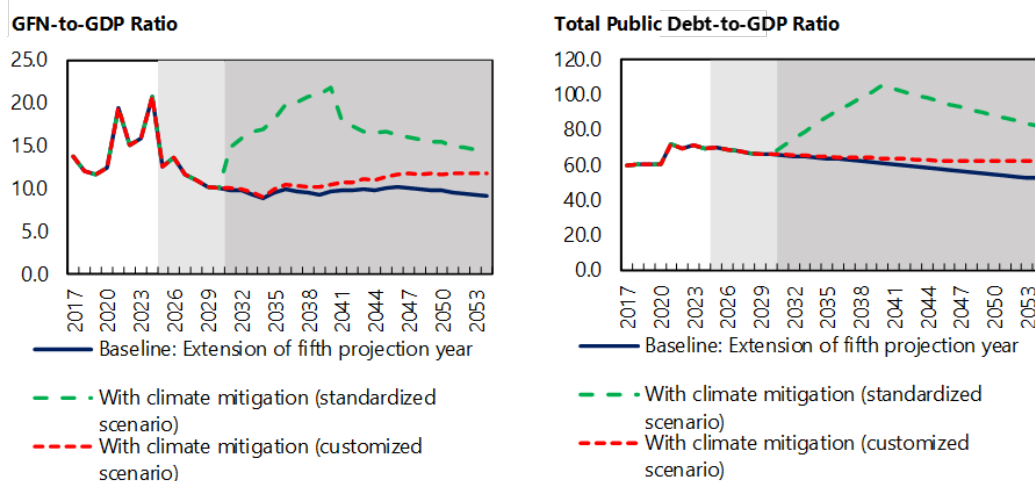
Commentary: The healthcare sub-module provides projections for the future financing needs driven by demographic changes and excess cost growth (ECG) in the healthcare sector. The authorities are working on an ambitious reform of the health care system to ensure quality care and financial sustainability.

Annex III. Figure 10. Morocco: Climate Change: Adaptation



Commentary: The customized scenario uses the adaptation costs estimated in 2022 World Bank Country Climate and Development Report. Ongoing reforms (as part of the RSF) and other future comprehensive reforms in the water and energy sectors will reduce Morocco's vulnerabilities to climate-related risks.

Annex III. Figure 11. Morocco: Climate Change: Mitigation



Commentary: The customized scenario assumes that the government bears 15% of the mitigation costs estimated in 2022 World Bank Country Climate and Development Report. The private sector is assumed to cover the other 85% of mitigation costs. Reforms in the regulatory framework of the energy sector (as part of the RSF) will help attract private investment for clean energy.

Annex IV. External Debt Sustainability Analysis

External debt is expected to have fallen from 48.2 percent of GDP in 2023 to 45.3 percent in 2024, as the current account deficit remained low, and the central government paid back some of the PLL. It is expected to stabilize to around 46 percent in the medium term. In the shock scenarios for growth, current account, and combined shocks, external debt increases to about 50 percent of GDP in the medium term. In the unlikely scenario of a 30 percent currency depreciation, external debt increases to about 70 percent.

Annex IV. Table 1. Morocco: External Debt Sustainability Framework, 2020–2030
(In percent of GDP unless otherwise indicated)

	Actual			Estimate		Projections						Debt-stabilizing non-interest current account 6/ -4.0
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Baseline: External debt	54.2	45.8	49.5	48.2	45.3	46.1	46.3	46.8	45.9	46.5	46.5	
Change in external debt	11.7	-8.4	3.7	-1.2	-2.9	0.8	0.2	0.5	-0.9	0.6	0.0	
Identified external debt-creating flows (4+8+9)	1.2	-6.5	7.0	-5.8	-2.4	-2.1	-2.2	-1.7	-1.1	-1.5	-1.2	
Current account deficit, excluding interest payments	0.1	1.4	2.6	-0.7	-0.1	0.6	0.9	1.3	1.5	1.6	1.8	
Deficit in balance of goods and services	7.3	9.2	11.5	8.3	8.6	9.0	9.3	9.5	9.7	9.7	9.6	
Exports	30.8	33.2	44.8	42.8	43.2	43.1	43.2	43.2	43.2	43.3	43.2	
Imports	38.1	42.4	56.3	51.1	51.8	52.2	52.5	52.8	52.9	53.0	52.9	
Net non-debt creating capital inflows (negative)	-2.6	-0.9	-0.4	-1.8	-0.4	-2.5	-2.9	-2.8	-2.4	-3.1	-2.8	
Automatic debt dynamics 1/	3.8	-7.0	4.8	-3.3	-1.8	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	
Contribution from nominal interest rate	1.1	0.9	1.0	1.3	1.6	1.5	1.4	1.4	1.4	1.4	1.5	
Contribution from real GDP growth	3.2	-3.8	-0.8	-1.5	-1.4	-1.7	-1.6	-1.6	-1.6	-1.5	-1.6	
Contribution from price and exchange rate changes 2/	-0.6	-4.1	4.6	-3.1	-2.0	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	10.5	-1.9	-3.3	4.6	-0.6	2.9	2.4	2.1	0.1	2.1	1.2	
External debt-to-exports ratio (in percent)	175.8	138.0	110.4	112.8	104.8	106.9	107.3	108.3	106.1	107.4	107.5	
Gross external financing need (in billions of US dollars) 4/	13.9	15.4	18.1	13.1	18.9	17.6	19.0	20.6	22.1	23.4	25.1	
in percent of GDP	11.5	10.8	13.8	9.1	12.2	10.6	10.8	11.0	11.1	11.1	11.2	
Scenario with key variables at their historical averages 5/						46.1	49.6	52.8	54.0	57.4	59.8	-1.8
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation					
Real GDP growth (in percent)	-7.2	8.2	1.5	3.4	3.2	2.5	4.0	3.9	3.7	3.6	3.6	3.6
GDP deflator in US dollars (change in percent)	1.4	8.2	-9.2	6.7	4.2	0.4	6.3	2.7	2.6	2.6	2.5	2.4
Nominal external interest rate (in percent)	2.4	2.0	1.9	2.8	3.5	2.5	0.4	3.6	3.3	3.3	3.3	3.4
Growth of exports (US dollar terms, in percent)	-15.0	26.0	24.5	5.2	8.7	7.1	12.8	6.6	6.6	6.4	6.3	6.1
Growth of imports (US dollar terms, in percent)	-14.5	30.3	22.5	0.0	9.1	5.9	14.9	7.5	7.1	6.8	6.5	5.9
Current account balance, excluding interest payments	-0.1	-1.4	-2.6	0.7	0.1	-1.5	1.5	-0.6	-0.9	-1.3	-1.5	-1.6
Net non-debt creating capital inflows	2.6	0.9	0.4	1.8	0.4	1.6	1.1	2.5	2.9	2.8	2.4	2.8

1/ 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.

2/ 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. increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

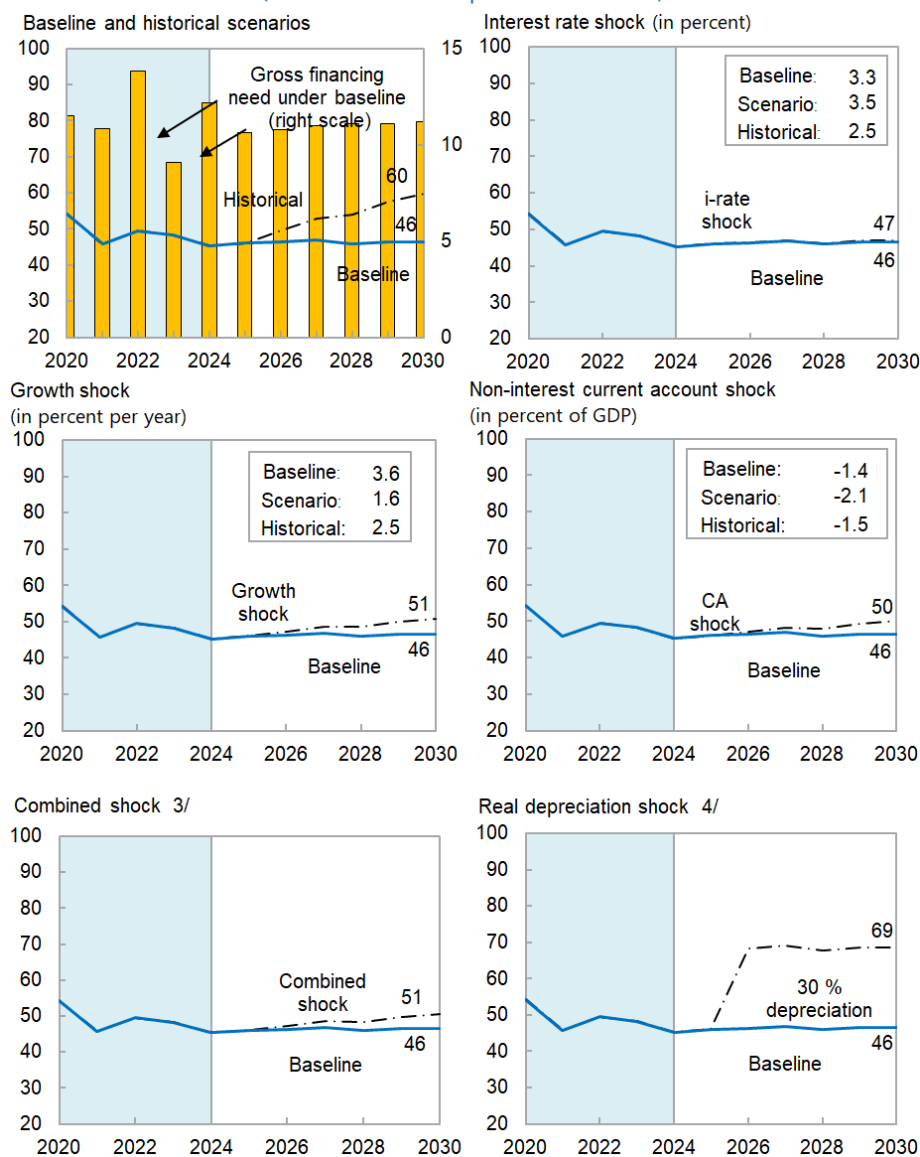
3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ 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.

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

Annex IV. Figure 1. Morocco: External Debt Sustainability: Bound Tests ^{1,2}
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and 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 2024.

Annex V. Data Issues

Annex V. Table 1. Morocco: External Debt Sustainability Framework, 2020–2030

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data provided to the Fund is adequate for surveillance. Although there are areas where data could be strengthened, including the coverage of government operations, these have not impeded staff's surveillance efforts and data remains adequate for surveillance. Several initiatives are currently underway to improve statistics, including expanding the coverage of fiscal data to the general government with technical assistance support from STA, scheduled for FY 2026.</p>							
<p>Changes since the last Article IV consultation. Publication of the 2024 General Census of Population and Housing and making disaggregated CPI data more timely available (at the 4-digit level).</p>							
<p>Corrective actions and capacity development priorities. The National Statistics Office (HCP) is undertaking several initiatives to enhance the quality and availability of statistics, these include: (i) redesigning the national employment survey to incorporate the latest recommendations of the International Conference of Labor Statisticians, including a revision of the conceptual framework and sampling methodology. The overhaul is underway with implementation scheduled for 2026; (ii) enriching the national accounts data by updating the base year to 2022, distinguishing between private and public investment and incorporating latest estimation of the informal sector.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.</p>							
<p>Other data gaps. Not applicable.</p>							

Annex V. Table 2. Morocco: Data Standards Initiatives

Morocco subscribes to the Special Data Dissemination Standard (SDDS) since December 2005 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex V. Table 3. Morocco: Table of Common Indicators Required for Surveillance (As of February 14, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Morocco ⁸	Expected Timeliness ^{6,7}	Morocco ⁸
Exchange Rates	02/11/25	02/11/25	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan. 2025	02/07/25	M	M	M	M	1W	1M
Reserve/Base Money	Jan. 2025	01/24/25	M	M	M	M	2W	15D
Broad Money	Dec. 2024	01/31/25	M	M	M	M	1M	30D
Central Bank Balance Sheet	Dec. 2024	01/31/25	M	M	M	M	2W	15D
Consolidated Balance Sheet of the Banking System	Dec. 2024	01/31/25	M	M	M	M	1M	30D
Interest Rates ²	02/12/25	02/13/25	D	D	D	D	...	D
Consumer Price Index	Dec. 2024	01/22/25	M	M	M	M	1M	3W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴			A	A	A	A	2Q	9M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Dec. 2024	01/28/25	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q3/2024	01/28/25	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Q3/2024	12/29/24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec. 2024	01/31/25	M	M	M	M	8W	1M
GDP/GNP	Q3/2024	01/02/25	Q	Q	Q	Q	1Q	3M
Gross External Debt	Q2/2024	09/27/24	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q3/2024	12/29/24	Q	Q	Q	Q	1Q	3M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

³ Foreign, domestic bank, and domestic nonbank financing.

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 Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VI. Implementation of the 2024 Article IV Main Recommendations

Recommendation	Status
Fiscal consolidation over the medium term can be secured, and possibly accelerated, by completing the VAT reform, further enhancing tax administration and further rationalizing current spending.	Fiscal consolidation continued at a more gradual pace than advised by staff. Several tax reforms were implemented (extending tax withholding to VAT and PIT and reducing CIT exemptions) and resulted in greater-than-expected tax revenues. There is still room to rationalize current spending, however, and accelerate fiscal consolidation.
Continue to reinforce the medium-term fiscal framework (further improving the MTFF; assessing and monitoring fiscal implications of PPPs; and providing more details on <i>financements innovants</i>).	The MTFF was strengthened by adding an assessment of fiscal risks from climate change, but further improvements are needed. These include adding the cost of new policy measures and quantitative assessment of fiscal risks from PPPs.
Introduce a new fiscal rule based on a medium-term debt anchor.	The authorities are introducing a new fiscal rule in the context of the new <i>Loi Organique de Finance</i> .
Maintain current monetary policy stance until upside inflation risks subside.	As headline inflation continued to fall and risks subsided, the central bank cut rates twice in 2024, bringing the monetary policy stance to broadly neutral.
Resume transition to an inflation targeting regime and liberalize the exchange rate.	In preparation for the transition to IT and to deepen the foreign exchange and interest rate hedging markets, the central bank introduced in February 2025 a term interbank market for foreign exchange swaps and overnight index swaps.
Accelerate the approval of the state's shareholding policy to advance the SOE's reform.	The state's shareholding policy has been approved, as well as an action plan for its implementation.
Prioritize anti-corruption efforts and accelerate the reform of the penal code, the bill on illicit enrichment, the introduction of the whistleblower legislation and the legislation on conflict of interest, and reinforcement of the asset declaration law.	Legislation on a new penal code is expected later this year following the submission of the penal procedure code to parliament in January 2025. The whistleblower protection legislation is in draft law stage to be submitted to parliament, and the conflict of interest is in drafting stage. Progress on the new bill on illicit enrichment and reinforcement of asset declaration law is still pending.
Harmonize and consolidate active labor market policies, making them more targeted to actual labor market needs.	The authorities have announced a new roadmap to boost employment that includes a consolidation and better targeting of Active Labor Market programs.
Updating the water tariff framework to address water scarcity.	A study that assesses the actual cost of water and presents options for cost recovery was submitted to the Water Interministerial Commission in early 2025, in line with RSF requirement. It could inform a new methodology for water tariffication.

Appendix I. Letter of Intent

Rabat, February 27, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Madam Managing Director,

In a global context weakened by a succession of crises, high geopolitical tensions, growing economic fragmentation, and increasingly pressing environmental challenges, Morocco continues to demonstrate exceptional resilience. This performance is the result of the ambitious economic and social reforms which, despite successive droughts, have allowed the country to maintain sustained growth, rein in inflation, and preserve its macroeconomic stability.

The Moroccan government remains resolutely committed to pursuing the fiscal consolidation process set out in the three-year Medium Term Fiscal Framework (PBT), in order to restore room for maneuver against future shocks, while ensuring the implementation of structural reforms and major projects, both ongoing and planned, particularly in the context of hosting international sporting events. The main priorities include pursuing the generalization of social protection, reforming the education system and the health sector, and boosting private investment and job creation, including through the deployment of the new investment charter.

Morocco's strategic vision is based on a subtle balance between economic development, social progress, and environmental preservation. It is expressed through several initiatives aimed at transforming the country's key sectors, while coherently integrating the imperatives of sustainability, social inclusion, and innovation. Examples of such initiatives include the "*Stratégie Nationale de Développement Durable*" (National Sustainable Development Strategy) which is currently undergoing review, the new "*Stratégie Nationale Bas Carbone à l'horizon 2050*" (National Low Carbon Strategy to 2050), the "*Programme National pour l'Approvisionnement en Eau Potable et l'Irrigation 2020–2027*" (National Program for Drinking Water Supply and Irrigation 2020–2027), and the "*Génération Green 2020–2030*" (Green Generation 2020–2030) program.

Together with Morocco's Nationally Determined Contribution (NDC), these strategies and programs set ambitious environmental targets, such as achieving i) over 52 percent renewable energy in the national energy mix by 2030, ii) carbon neutrality by 2050, iii) sustainable water management in the face of water stress, and iv) the development of a modern, sustainable, and resilient agricultural sector. In this context, several structural projects have been completed, such as the construction of

desalination plants and "water highways" (infrastructure for transporting water between basins), while others are underway, notably the construction of an "electricity highway" between the South, Centre, and North of the country, as well as investment projects linked to the development of gas infrastructure and green hydrogen.

In this respect, the IMF's Resilience and Sustainability Facility (RSF) arrangement has played a leverage role and contributed to accelerate several important reforms in strategic areas such as water, energy, agriculture, and taxation. Together with other international financial institutions, notably the World Bank (WB), it has also helped to strengthen climate risk analysis and management in public finance as well as the banking sector, and to catalyze private investment in green projects, including through the new 2030 Climate Finance Development Strategy.

Morocco has completed fifteen of the sixteen planned reform measures (RMs) on schedule, after replacing the original measure RM10 with RM17. Indeed, following the implementation of the first series of RMs in February and the second in September 2024, six RMs scheduled under the third and final review of the RSF were implemented in February 2025. These include the abolition (in the 2025 Budget Law) of the exemption from the domestic consumption tax, as well as the increase in this tax, for several polluting products, such as coal.

In the energy sector, the *Autorité Nationale de Régulation de l'Électricité* (ANRE) published tariffs for the use of medium-voltage distribution networks and approved the proposal by the *Office National de l'Électricité et de l'Eau Potable* (ONEE) to separate its production, transmission, and distribution financial accounts, two important steps in the ongoing reform of the electricity sector. Similarly, a strategic study evaluating, for the first time, the true cost of all water uses by component and sources was carried out and presented to the National Water Commission, while two important decrees implementing the water law (36-15), aimed at preserving groundwater resources, were approved by the Government Council.

For its part, Bank Al-Maghrib has continued its efforts to strengthen the banking sector's communication and transparency on climate risks, by publishing two new guidelines in line with current international standards. In addition, with the technical support of the IMF, an analysis of the long-term fiscal risks linked to global warming has been incorporated into the PBT 2025–2027.

Considering the relevant economic and social implications of the introduction of the carbon tax and attaching great importance to the success of this reform, the Government has decided to devote more time to finalizing the design document planned under RM9. This decision will be fully consistent with its commitment to ensure the effective and efficient implementation of a carbon tax, in compliance with international standards. The objective is to continue consultations with stakeholders and to ensure that all the necessary conditions for the success of this project are fully met. As a result, it was agreed at the third and last RSF review to implement six of the seven measures initially planned, while actively pursuing the work already underway under RM9.

It should be emphasized that significant actions have already been taken in this regard. Indeed, an impact analysis of the introduction of a carbon tax, based on several scenarios, has been prepared with the technical assistance of German Cooperation (GIZ). In addition, a training plan for customs

officers has been put in place, and the responsibility for monitoring greenhouse gas (GHG) emissions has been entrusted to the *Institut Marocain de Normalisation* (IMANOR), as part of the draft amendment to the law on standardization, certification, and accreditation, approved by the Government Council in February 2025.

All the reform measures implemented within the framework of the RSF arrangement, as well as those in progress, illustrate our country's determination to consolidate its economic, social and, more particularly, environmental achievements. Morocco is thus pursuing its path towards a more resilient and sustainable future, while reinforcing its position as a model in the region.

In accordance with our policy of transparency, we authorize the IMF to publish this letter, its attachments, and the report on the third review under the RSF arrangement.

We would like to thank the IMF's Executive Directors, management, staff, and Morocco team for their support of our country's reform program and for their constructive views during discussions under the RSF arrangement.

We look forward to continuing our close and fruitful cooperation with the Fund over the coming years.

/s/

Nadia Fettah

Minister of Economy and Finance

/s/

Abdellatif Jouahri

Governor of Bank Al-Maghrib

Attachment I. Memorandum of Economic and Financial Policies

1. Morocco is highly exposed to the risks associated with climate change and natural disasters, mainly drought, water stress, floods, and earthquakes. Aware of the importance of these risks, over the past 15 years our country has proactively and voluntarily implemented structural projects aimed at adapting and mitigating environmental constraints, while coping with climate change and natural disasters. Within this framework, the National Sustainable Development Strategy (SNDD) aims to ensure the transition to a greener and more inclusive economy by 2030. This strategy also aims to provide a concrete response to Morocco's international commitments following the ratification and signature of several international protocols and conventions, such as Kyoto Protocol in 1998 and the Paris Agreement in 2016, while contributing to the prospective stability of the balance of payments. In 2021, a process to overhaul the SNDD was launched following its evaluation. The aim is to ensure greater convergence towards the Sustainable Development Goals (SDGs) and contribute to the implementation of the orientations of the New Development Model (NMD). The draft of the new strategy for 2035 was prepared using a participatory approach, involving all stakeholders, with a view to ensuring its validation by the National Commission for Sustainable Development (CNDD), prior to its official launch.

2. The government has set high ambitions for climate action in the revised National Determined Contribution (NDC) in 2021, with a target of reducing greenhouse gas (GHG) emissions by 45.5 percent by 2030.¹

3. Achieving this target would require substantial financing, estimated at 78.8 billion USD. The RSF agreement would help Morocco implement its energy and climate strategies and meet its commitments under the United Nations Framework Convention on Climate Change (UNFCCC), complementing the financing mobilized from other donors, notably the World Bank (WB).

4. Addressing water scarcity is a priority for Morocco. The draft National Water Plan (PNE) envisages major investments in this sector over the period 2020–2050, in order to bridge the gap between supply and demand. For its part, the National Program for Drinking Water Supply and Irrigation for the period 2020–2027 (PNAEPI) aims to consolidate efforts to secure water supply, at an estimated cost of 14 billion USD. In this regard, Morocco will pursue the construction of dams, the development of seawater desalination projects using renewable energies (with a target of 1 billion m³ by 2030), and strengthening and securing drinking water supplies, by reinforcing the interconnection between different hydraulic systems. Morocco is also targeting better demand management by saving and reusing water (for drinking, industrial and irrigation purposes), boosting drinking water supplies in rural areas, and reusing wastewater, while implementing a communication and awareness-raising strategy aimed at rationalizing the demand for water.

5. Through the PNE and PNAEPI, the government is pursuing a multidimensional approach, in line with the NMD's recommendations for the introduction of a pricing system that better reflects

¹ Currently under review.

the real value of water and encourages a more rational use as well as a more efficient management of its scarcity. To this end, in February 2025, the Ministry of Equipment and Water (MEE) carried out a strategic study on the cost of water in Morocco (RM1), which was submitted to the National Water Commission, that included the Head of Government, and all the ministerial departments concerned. The study was divided into three parts: 1) an inventory and diagnosis of the cost of water and the pricing system; 2) a discussion of trends in the cost of water; and 3) proposals for improving the pricing system and water cost recovery. The study assessed the actual cost of water (CAPEX-OPEX), by component and source, and analyzed current water management and governance. It highlighted the existence of regional cost disparities and the failure of the current cost recovery system to take into account i) the full cost of mobilizing water resources, ii) the impact of drought on the cost of water for irrigation, and iii) the competitiveness of desalination costs in Morocco, confirmed by an international benchmark. Based on international experience, the study also put forward proposals for improving water pricing and cost recovery systems, with a view to adopting more efficient, integrated, and sustainable management from a technical, economic, financial, social, and environmental standpoint.

6. The government is determined to pursue actions aimed at preserving groundwater resources, notably through the adoption by the Government Council, in February 2025, of two important decrees implementing Law 36-15 on water (RM1). These regulatory texts were drawn up by the MEE in consultation with all stakeholders, in particular the ministerial departments responsible for the Interior, Agriculture, Health, and Sustainable Development. The objective of the first decree is to set out the conditions and procedures for delimiting safeguard and prohibition perimeters and for granting authorizations and concessions within these perimeters. The second decree sets out the criteria and procedures for delimiting close or remote protection perimeters, and the installations, works, and actions that may be prohibited or regulated within these perimeters.

7. Reforms in the water sector are closely linked to those in the energy sector, given that seawater desalination and the reuse of treated wastewater are both highly energy intensive. Morocco was one of the first middle-income countries to commit to an ambitious renewable energy development program, through its National Energy Strategy 2009–2030. This strategy aims to reduce the country's dependence on fossil fuels, including coal, through substantial investments, aimed mainly at:

- **The development of renewable energies in the electricity mix, to reach 52 percent of installed renewable energy capacity by 2030.** The government is aiming to achieve this target well ahead of schedule, by continuing its efforts to strengthen the electricity transmission network and production facilities, supported by the Office National de l'Electricité et de l'Eau Potable (ONEE), the Moroccan Agency for Sustainable Energy (MASEN), and the private sector, which will encourage the installation of additional capacity, particularly from renewable sources. It should be noted that the share of renewable energies in the national energy mix has been increased to over 45 percent by the end of 2024, compared with 38 percent in 2022.
- **Increasing the share of natural gas (transition fuel) in the energy mix.** As part of the 2023–2027 Electricity Equipment Plan, it is planned to convert the oil-fired gas turbines at Kenitra and

Mohammed VI to natural gas by 2027. The aim is to gradually reduce the share of coal and fuel oil, in order to encourage the production of clean energies. To this end, a memorandum of understanding was signed in March 2024 on the coordination between public authorities to implement a program to develop infrastructure for importing, storing, re-gasifying, and transporting liquefied natural gas. This protocol sets out a three-phase roadmap (over the short, medium, and long term) to develop storage and transport infrastructures, including pipelines to be installed at national level and the realization of the Nigeria-Morocco Gas Pipeline project.

- **Reinforcing the transmission network** to transport large quantities of wind power from the southern region to the central region of the country (3,000 MW over 1,600 Km). In addition, a master plan for electricity transmission, covering the development, strengthening, rehabilitation, and maintenance of the electricity transmission network, as well as its regional integration, has been drawn up for the period 2024–2029, with a total estimated investment of 27.5 billion dirhams (i.e. an annual average of around 4.58 billion dirhams, compared with less than 1 billion dirhams annually during the period 2009–2022);
- **The development of green hydrogen** through the operationalization of "Morocco's offer" covering the entire value chain. In March 2024, the Head of Government issued a circular concerning the implementation of this offer.

8. To achieve the objectives set by the energy strategy and attract more private investment, the government is committed to continuing the in-depth restructuring of the electricity market, notably through:

- **The separation of ONEE's generation, transmission, and distribution activities** is intended, among other things, to ensure more transparency in the costs of these activities and help open the national electricity market to competition, ultimately leading to the creation of a national electricity transmission system operator (TSO) as provided for by the Law 48.15 on the regulation of the sector, with the support of the WB and the European Union (EU). In February 2025, the National Electricity Regulatory Authority (ANRE) approved ONEE's proposal for the separation of its transmission-related financial accounts (MR2). The principles of accounting separation adopted impose strict accounting separation between the activities currently carried out by ONEE under its Electricity Division, in order to prevent any cross-subsidization within ONEE between regulated activities and those open to competition, and thus ensure a transparent framework while eliminating any discrimination between the operators concerned. It is important to emphasize that this measure falls within the scope of article 53 of the aforementioned Law 48-15, which stipulates that ONEE shall draw up and submit to ANRE for approval: 1) the respective perimeters of activities linked to the generation, transmission and distribution of electrical energy and, where applicable, to other ONEE activities; 2) the rules governing the allocation of these perimeters; and 3) the principles determining the financial relations between activities that are separated for accounting purposes.

- **The reform of the distribution sector through the creation of *Sociétés Régionales Multiservices (SRM)***, which will have exclusive rights to distribute electricity, drinking water, and liquid sanitation within a region. The main objectives of this reform are i) to optimize investment and minimize operating costs, thanks to the regional dimension and the pooling of resources and infrastructure; ii) to secure the supply of drinking water and electricity; iii) to save water and energy; and iv) to meet the challenges of climate change and sustainable development. Law 83.21 on the creation of these companies was passed on July 13, 2023, and the decrees for Article 2 of this law, which sets out the list of regions concerned, and for Article 14 on the transfer of assets belonging to ONEE, were approved by the Government Council in February 2024. Similarly, the Ministry of the Interior's decree on the model management contract was published in May 2024. As the principle of progressive implementation has been adopted, four SRMs (covering the regions of Casablanca-Settat, Marrakech-Safi, Souss-Massa and Oriental) have been set up in a first phase, while those covering the regions of Tangier-Tétouan-Al Hoceima, Fès-Meknès, Rabat-Salé-Kenitra and Béni Mellal-Khénifra, are currently being created under a second phase.
- **Measures to ensure strong private-sector involvement in electricity generation**, including through the continuation of the regulatory process for setting service tariffs. Service tariffs are an essential condition for investors to commit to electricity generation for their private customers, and even for distributors. ANRE plays an important role in this area, by virtue of Laws No. 82-21 and No. 40-19. In February 2024, it published the tariffs for using the national electricity transmission network and the tariff for system services, for the period 2024–2026, as well as the capacity of the national electricity system to accommodate renewable energies for the period 2024–2028 (RM3, February 2024). In February 2025, in accordance with the provisions of Article 16 of Law 48-15 as amended and supplemented, ANRE also set and published the tariff for using the medium-voltage distribution networks, for the period 2025–2027 (RM4, February 2025). This important measure will help guarantee a fair and transparent access to electricity networks and make the sector more attractive to private investment.
- **The implementation of legislation governing the electricity sector** (laws 48-15, 40-19 and 82-21), through the gradual adoption of the planned regulatory texts. In this respect, the Government Council has approved, until September 2024, three new draft texts (RM5):

 - the decree implementing Article 37 of Law 48-15 on electricity sector regulation and the creation of ANRE. This text, approved in December 2023, sets the threshold for the contribution of parties who refer disputes to ANRE.
 - the smart meter decree, in application of Article 18 of Law 82-21 on electricity self-generation. Approved in September 2024, this decree sets out the functionalities provided by the smart meter, enabling remote access to all information relating to electrical energy taken from and injected into the national electricity grid, for the benefit of the self-generator or the electricity grid operator concerned.
 - the decree establishing the conditions for granting a "certificate of origin" for electrical

energy from renewable sources, and the authority responsible for issuing it. Approved in September 2024, this decree implements the provisions of Article 6 bis of Law 13.09 on renewable energies and Article 16 of Law No. 82.21 on self-generation of electrical energy.

It should be noted that, as part of the ongoing reinforcement of the national regulatory framework aimed at ensuring a sustainable energy transition, other draft decrees have been prepared and should be approved shortly. These include draft decrees on the technical requirements for connection and access to medium-voltage electricity networks (Law 48-15), on access to the distribution electricity network (Law 40-19), and the draft decree about the application of Articles 3, 4, 5, and 6 of Law 82-21.

- **The effective implementation of the new provisions set out in Law 48-15**, notably through ANRE's approval and subsequent publication by ANRE and ONEE of the quality indicators to be respected by the national transmission system, in terms of safety, reliability and efficiency, which will be updated regularly (Art 12 of Law 48.15), as well as the Transmission System Operator's code of conduct (Art 13 of Law 48.15) (RM6, September 2024).

9. Morocco's development dynamic, highlighted by the major projects completed or underway in all economic and social sectors, is reflected in sustained growth in energy demand. Against this backdrop, Morocco has made energy efficiency a priority in its national energy strategy, with the ambition of improving energy efficiency by 20 percent by 2030. The country is continuing its efforts in this direction, by completing the legislative framework relating to energy efficiency (Law 47-09) with the adoption of ministerial decrees specifying labelling and minimum energy efficiency standards for three energy-intensive products: electric motors, air conditioners, and refrigerators. These products, and the related standards, were identified based on impact studies and preliminary analyses carried out by MTEDD. A similar decree has been prepared for lighting products, following the same procedure. In the same vein, the decree on energy service companies (ESCOs) was adopted in September 2024 by the Government Council, thereby providing a framework for this activity and promoting the use of energy performance contracts, which are one of the solutions to the difficulties encountered by some companies in mobilizing financing for energy efficiency work. In addition, based on a preliminary study, a draft amending decree has been prepared to lower the energy consumption threshold associated with the mandatory audit, with the aim of increasing the proportion of entities subject to it (RM7, initially scheduled for February 2025 and brought forward to September 2024).

10. In terms of public finance, and as part of its climate risk management, the Ministry of Economy and Finance (MEF) has, for the first time, included a section on the long-term risks associated with global warming, including the impact on debt, in the three-year budget programming document accompanying the draft Finance law (PLF) 2025, drawing on the Q-Craft tool² and IMF technical assistance in this area. The document has also been enriched by an analysis

² Quantitative Climate Change Risk Assessment Fiscal Tool.

of the impact of climate shocks on debt sustainability (RM8, February 2025). In addition, as part of the Green Budget Transition Program financed by the *Agence Française de Développement* (AFD) with the support of the WB, Morocco plans to carry out Climate Budget Tagging in 2025 which will help better identify, assess and monitor climate-related public spending and programs, and thus optimize available resources and determine the financing needed to achieve the country's climate objectives.

11. Improving climate resilience also involves integrating the negative externalities associated with the use of "brown" energies and products into economic policies, particularly fiscal policies. In this regard, Morocco plans, under article 7 of the Framework Law No. 69-19 on tax reform, to introduce a carbon tax aimed at achieving the objectives set out in the country's various environmental strategies, particularly in terms of reducing greenhouse gas (GHG) emissions. Furthermore, aware of the economic and social implications of the introduction of a carbon tax and attaching great importance to the success of this reform, the government has taken the decision to devote more time to finalizing the design document planned as part of RM9. The objective is to continue consultations with stakeholders and ensure that all the necessary conditions for the success of this project are fully met in order to guarantee its effective and efficient implementation, in compliance with international standards. It should be emphasized that some important steps have already been taken. In particular, the analysis of the status quo (stock taking of existing environmental tax measures), the identification of the prerequisites for the adoption of the carbon tax, and the carrying out of simulation and modeling exercises of the impact of this tax on the Moroccan economy, with the technical support and assistance of GIZ and the WB. In addition, a training plan for customs officers has been put in place, while the responsibility for monitoring greenhouse gas (GHG) emissions has been entrusted to the *Institut Marocain de Normalisation* (IMANOR), as part of the project to amend the law on standardization, certification, and accreditation, approved by the Government Council in February 2025.

12. It is important to note that Morocco has already adopted several measures to reform its environmental tax system. For example, it has introduced tax incentives for activities considered to be green, such as the exemption of electric and hybrid vehicles from the proportional stamp duty on first registration and the annual special vehicle tax (TSAV), the reduced VAT rate (10 percent) for photovoltaic panels and solar water heaters, and the introduction of a domestic consumption tax (TIC) on energy-intensive equipment. In the same vein, Morocco eliminated fuel subsidies in 2013, with the exception of the butane gas subsidy, which it intends to phase out gradually. Indeed, in February 2024, MEF amended decree no. 1242-16 on the setting of butane gas take-back and sales prices in order to formalize the price increase for butane gas over three years, starting in May 2024 (RM11, February 2024). Aware of the negative repercussions of these reforms on certain categories of the population, especially in a context marked by high inflation, accompanying measures were put in place to mitigate the impact. These include the extension of cash transfers under the new unified social register, which began in December 2023, as well as support for farmers to enable them to replace butane gas with solar pumps in the irrigation of small fields, through the conclusion, in February 2024, of an agreement between the MEF and the Ministry of Agriculture (RM12, February

2024). The phasing-out of subsidies and extension of cash transfers are in line with international best practices.

13. Thus, in view of the major reforms already undertaken by the government in a difficult context, and considering the uncertainties linked in particular to geopolitical tensions and the persistence of high food prices at national level, while the reform of the social protection system is underway, the measure relating to the increase in the VAT of polluting petroleum products (RM10, scheduled for February 2025) has been replaced in 2024, so as to reconcile the protection of the most vulnerable populations, a government priority, and the achievement of the targeted climate objective. In this regard, the 2025 Budget Law introduced a new measure that eliminated, as of January 1, 2025, all existing tax exemptions related to the domestic consumption tax (TIC) on coal and heavy fuel oil, and adjusted this tax on coal and 3 polluting petroleum products (bitumen, heavy fuel oil and lubricating oils), as follows:

- *For coal: from 6.48 to 12.48 dhss/100kg in;*
- *For heavy fuel oil: from 18.24 to 24.24 dhss/100kg in 2025;*
- *For bitumen: from 45 to 51 dhs/100kg in 2025;*
- *For lubricating oils: from 228 to 234 dhs/100kg in 2025.*

14. Through this important measure, the government is sending a strong signal to energy producers and companies that consume large quantities of polluting products, encouraging them to speed up their transition to clean energy sources, particularly following the adoption of Law 82-21 on self-generation of electricity. This approach is also aimed at preserving the purchasing power of households, in a context where the supply of renewable energy does not currently allow, via the price effect, a reorientation of their consumption towards clean energies.

15. In addition, MEF intends to draw up and approve a list that better distinguishes climate-friendly from polluting products in the Harmonized System (HS) of the World Customs Organization (WCO) and will introduce climate-sensitive tariff policy changes into the Finance Act based on this product list. Concretely, this involves identifying and classifying products according to their environmental impact, in order to adapt tariff policy to environmental objectives, either to promote or to discourage the cross-border circulation of certain products according to their environmental impact. In this respect, the government will ensure that the proposed tariff adjustments comply with World Trade Organization (WTO) rules.

16. With regard to the management of risks linked to natural disasters, in 2020, Morocco put in place a two-pronged coverage scheme: an insurance component covering bodily injury and insured property (residence, commerce, industry, etc.), and an allocation component guaranteeing, through the *Fonds de solidarité contre les événements catastrophiques* (FSEC), all uninsured individuals present on national territory a minimum right to compensation for losses in the event of the occurrence of a catastrophic event. In February 2024, in order to strengthen the system of coverage against the consequences of natural disasters, the Government Council approved the draft amendment to Decree 2-18-785 of April 29, 2019, for the application of Law 110-14 instituting a system of

coverage against the consequences of catastrophic events, presented by the MEF (RM13, February 2024). This measure has made it possible, in particular, to define a time clause for catastrophic events by type, in line with international best practices in the field, which is likely to improve the conditions for transferring risk to the international reinsurance market, which has become increasingly severe with the observed increase in the frequency and severity of natural disasters.

17. Channeling and directing private finance towards climate and environmental priorities remain fundamental, particularly if the Kingdom's ambitious NDC targets are to be met. With this in mind, MEF, Bank Al-Maghrib (BAM), the Moroccan Capital Market Authority (AMMC), the Insurance and Social Security Supervisory Authority (ACAPS), and other players, agreed as early as 2016 (on the occasion of the organization of COP22 in Marrakech) to a process of greening the financial system, through the development of a climate finance roadmap. The latter aims to align the financial sector, in all its components, with the challenges of sustainable development. Consistently, BAM has embarked on a process aimed at taking climate change into account in its missions, in order to strengthen the resilience and stability of the banking sector in the face of climate risks, promote green finance, and reduce the environmental footprint of its activities. To this end, it has undertaken a number of actions, such as the publication in 2021 of the directive on the management of financial risks linked to climate change and the environment. This directive draws on international principles and best practices enacted in green finance, particularly the recommendations of the Network of Central Banks and Supervisors for the Greening of the Financial Sector (NGFS), of which BAM has been a member since 2018, the principles of the Basel Committee, and the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Similarly, the AMMC has put in place guidelines for the development of a framework for green and sustainable bond issuance in Morocco, which has enabled several green bond issuance operations to be carried out by national players. In addition, to strengthen international cooperation, MEF joined the International Platform on Sustainable Finance in 2019 and the Coalition of Finance Ministers for Climate Change in 2022 and is working to green the financial sector and promote green investments.

18. Capitalizing on these achievements, and in particular the major advances and achievements of the roadmap adopted on the sidelines of COP22, MEF, BAM, AMMC and ACAPS have developed, with the support of the WB, a new joint and concerted vision to accelerate the green transition of the Moroccan financial sector, that led to the 2030 Climate Finance Development Strategy (RM14, September 2024). The development of this strategy was based on an in-depth diagnosis which revealed, among other things, that climate finance flows mainly come from the public sector, with only 25 percent to 30 percent from the private sector and a preponderance of mitigation measures. The new strategy has been built around 3 pillars of intervention comprising 9 strategic areas, primarily aimed at identifying the levers to accelerate the mobilization of private climate financing and reach the target of 50 percent of climate financing, by aligning it with international best practices and strengthening climate risk management within the financial sector. Indeed, based on the investment needs expressed in Morocco's various GHG reduction strategies up to 2030, the needed financing potential for the private sector has been estimated at \$4.5 billion per year between 2025 and 2030. For the operationalization of this strategy, appropriate governance arrangements are planned, involving both public and private sector stakeholders. The governance

bodies will make it possible to respond to the various challenges involved in deploying the strategy, and to monitor the progress of the identified actions in a proactive and concerted manner. Since the launch of the strategy, a set of draft rules of procedure has been drawn up for the steering committee. This committee, made up of MEF, BAM, AMMC, and ACAPS, has been extended to include MTEDD, the *Groupeement professionnel des banques du Maroc* (GPBM), the *Association marocaine des investisseurs en capital* (AMIC), and the *Fédération Marocaine des Assurances*. A Project Management Office (PMO) taskforce, whose members will be appointed by the steering committee, is also being set up. It will ensure effective implementation of the strategy's governance, monitor project progress, coordinate actions and prepare reports. A roadmap detailing the key steps for the strategy implementation has also been finalized, and workshops for discussion and awareness of its challenges and objectives have already been launched and should continue, notably by financial sector regulators.

19. In the same vein, MEF, through the *Société Nationale de Garantie et de Financement de l'Entreprise* (TAMWILCOM), has introduced requirements for assessing the environmental impact of financed projects that benefit from public guarantees above a certain threshold (RM15, September 2024). In September 2024, the MEF validated the new "*Damane Istitmar*" product sheet with a view to operationalizing the greening mechanism. As part of a gradual approach, starting in 2024, applications for bank loans of over 20 million dirhams (MDH) in construction and public works, agriculture, land transport, rubber and plastics and chemical industries sectors will be required to include a questionnaire to assess the environmental footprint of projects. In addition, according to a predetermined timetable, the eligibility threshold will be gradually lowered to eventually reach 10 MDH, and the targeted sectors will be broadened to eventually include all sectors. In the same vein, starting in the second quarter of 2024, the guaranteed quota (from 60 percent to 70 percent) and ceilings (from 30 MDH to 40 MDH) for "green projects" and "green business models" of *Damane Istitmar* has been increased. Overall, this reform will ultimately generate a significant demonstration effect and should encourage Moroccan banks to integrate the environmental dimension into their decision-making processes, while incentivizing companies to assess the environmental impact of their activities. It will also enable the State to act as a catalyst for the gradual greening of the financial sector and the channeling of financing towards green investments.

20. For its part, and with the support of the WB, BAM issued, in January 2025, two guidelines for banks (RM16, February 2025), in line with international best practices. The first guideline, on the communication of financial risks linked to climate change, is based on the guidelines issued by the International Sustainability Standards Board (ISSB). It comes into force 24 months after signature for scopes 1 and 2 (direct GHG emissions from combustible energy sources owned or controlled by the bank, and indirect GHG emissions from energy sources purchased or acquired and consumed by the bank). Scope 3, which covers indirect GHG emissions from the 15 sectoral categories defined in the Greenhouse Protocol Corporate Value Chain (scope 3) Accounting and Reporting Standard, will come into force in 36 months (48 months for subsidiaries). The second guideline concerns the collection and reporting of information on the exposure of major borrowers to financial climate risks. A roll-out plan will have to be put in place by banks from the date of signature, against a planned entry into force 24 months later (48 months for subsidiaries). It is important to recall that a

memorandum was concluded in 2022 between BAM, the GPBM and the European Bank for Reconstruction and Development (EBRD), to facilitate the convergence of Moroccan banks' climate risk management practices with the provisions of the 2021 regulatory directive on climate risks, and international best practices. Similarly, in 2022, with the support of the WB, BAM finalized the first climate risk assessment exercise for the Moroccan banking sector.

21. In addition to the various measures put in place, Morocco is also making a concrete commitment to:

- the development of a **national green financial taxonomy**, an essential element in directing private financing towards green assets and projects, with technical assistance from the WB, and in coordination between MEF and financial sector regulators (BAM, AMMC and ACAPS), as well as other public and private sector stakeholders. In this respect, a scoping note for the preparation of the taxonomy was prepared, defining the milestones for its development and implementation. This was followed, in October 2024, by a mission to enquire about the state of deployment of the European Taxonomy and identify ways of ensuring greater interoperability of the taxonomy being prepared in Morocco.
- the definition of a framework for **sovereign green bond** issuances, with the support of the WB, which could facilitate the realization of such issuances on the international financial market in a second stage, if the conditions are met. Within this framework, an inter-ministerial committee was set up in November 2024, and its work was launched in February 2025.

22. An inter-ministerial committee, comprising representatives of all stakeholders, has been set up by the MEF to coordinate and monitor the implementation of reform measures under the RSF agreement.

Attachment I. Table 1. Morocco: Reform Measures (RM) Under the RSF

RM #	Morocco's reform measures (RM) under the RSF	Completion date	Reviews	Status
1	The Ministry of Equipment and Water will submit to the Interministerial Water Commission a study assessing the real cost of water and presenting the principle of cost recovery, which could inform a pricing methodology based on international references. The Ministry of Equipment and Water will also adopt two decrees implementing the Water Act (36-15) to reinforce the protection of groundwater resources (decree on protection and prohibition perimeters and decree on immediate, close or remote protection perimeters).	February-25	3	Implemented
2	The Agence Nationale de Régulation de l'Electricité will approve the proposal submitted by the Office National de l'Electricité et de l'Eau Potable to unbundle its transmission financial accounts.	February-25	3	Implemented
3	The National Electricity Regulatory Agency will publish tariffs for use of the national electricity transmission network and system service charges (by October 2023), as well as the network's capacity to receive electricity from renewable sources.	February-24	1	Implemented
4	The Agence Nationale de Régulation de l'Electricité will publish tariffs for access by renewable energy producers to the medium-voltage electricity distribution network.	February-25	3	Implemented
5	The Ministry of Energy Transition and Sustainable Development will progressively adopt the legal texts needed to fully implement the legislation governing the electricity sector (Laws 48-15, 40-19 and 82-21) (in addition to the two decrees planned as part of the EU's "Green Energy" program).	September-24	2	Implemented
6	The Agence Nationale de Régulation de l'Electricité will approve and publish i) the quality indicators to be met by the national transmission system in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the transmission system operator's code of conduct.	September-24	2	Implemented
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft decree on ESCOs (Energy Service Companies), and iv) drawing up the preliminary study and legal text for lowering the energy consumption threshold associated with the mandatory audit.	September-24	2	Completed (from initial implementation date of February 2025)
8	The Ministry of Economy and Finance will regularly publish, starting with the three-year budget programming document accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with the technical assistance of the IMF.	February-25	3	Implemented
9	The Ministry of Economy and Finance will produce and begin adopting a concept paper for the introduction of a carbon tax, in line with the recommendations of international financial institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	February-25	3	Not implemented

Attachment I. Table 1. Morocco: Reform Measures (RM) Under the RSF (Concluded)

RM #	Morocco's reform measures (RM) under the RSF	Completion date	Reviews	Status
10	The Ministry of Economy and Finance will introduce a reform in the 2024 Budget Law that will phase out existing brown tax expenditures by increasing the tax rate on polluting petroleum products.	February-25	3	Not implemented and replaced by RM17
11	The Ministry of Economy and Finance will issue a ministerial decree phasing out subsidies on butane gas, starting in 2024.	February-24	1	Implemented
12	The Ministry of Economy and Finance will mitigate the impact of RM10 on the population by extending cash transfers under the new unified social register and helping farmers to replace butane gas with solar pumps for irrigating small fields.	February-24	1	Implemented
13	The Ministry of Economy and Finance will complete the legal framework for coverage against the risks of natural disasters by amending the decree issued for the application of Law 110-14 instituting a system of coverage for the consequences of catastrophic events.	February-24	1	Implemented
14	The Ministry of Economy and Finance, Bank Al-Maghrib and the capital market and insurance regulators will adopt and publish a national climate finance strategy that estimates the financing potential to be mobilized to meet the country's climate mitigation and adaptation objectives and the means of mobilizing it and improves climate risk management in the financial sector.	September-24	2	Implemented
15	The Ministry of Economy will make further progress in greening the national system of support for access to finance, by introducing requirements for environmental impact assessments for projects financed above a certain threshold.	September-24	2	Implemented
16	Bank Al-Maghrib will issue supervisory guidelines on the disclosure and reporting of climate risks to banks, based on the guidance issued by the International Sustainability Standards Board (ISSB), and specific guidance to banks on the collection and reporting of large borrowers' exposures to major climate risks.	February-25	3	Implemented
17	The Ministry of Economy and Finance will introduce a measure in the 2025 Budget Law that will eliminate , as of January 1st 2025, all existing tax exemptions linked to the domestic consumption tax (TIC) on coal and heavy fuel oil, and adjust this tax on coal and on 3 polluting petroleum products (bitumen, heavy fuel oil and lubricating oils), according to level set in the Memorandum of Economic and Financial Policies (MPEF).	February-25	3	Implemented in replacement of RM10



MOROCCO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY— INFORMATIONAL ANNEX

February 28, 2025

Prepared By

The Middle East and Central Asia Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND _____ 2

RELATIONS WITH THE WORLD BANK GROUP _____ 6

RELATIONS WITH THE FUND¹

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

General Resources Account:	SDR Million	%Quota
<u>Quota</u>	894.40	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	1,013.64	113.33
<u>Reserve Tranche Position</u>	150.08	16.78

SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u>	1,418.66	100.00
<u>Holdings</u>	1,430.15	100.81

Outstanding Purchases and Loans:	SDR Million	%Quota
Precautionary and Liquidity Line	268.85	30.06
RSF Arrangements	562.50	62.89

Latest Financial Commitments:

Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
FCL	Apr 03, 2023	Apr 02, 2025	3,726.20	0.00
RSF	Sep 28, 2023	Apr 02, 2025	1,000.00	562.50
PLL	Dec 17, 2018	Apr 07, 2020	2,150.80	2,150.80

Overdue Obligations and Projected Payments to Fund ^{1/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Principal	268.85				
Charges/Interest	<u>29.49</u>	<u>23.45</u>	<u>23.45</u>	<u>23.46</u>	<u>23.44</u>
Total	<u>298.34</u>	<u>23.45</u>	<u>23.45</u>	<u>23.46</u>	<u>23.44</u>

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

¹ [Financial Position in the Fund for Morocco as of January 31, 2025 \(imf.org\)](https://www.imf.org/en/Publications/Financial-Position-in-the-Fund-for-Morocco-as-of-January-31-2025)

Exchange Rate Arrangement

Morocco's de jure and de facto exchange rate system is a pegged exchange rate within horizontal bands. As part of a gradual and orderly transition to a more flexible exchange rate regime, the authorities further broadened the dirham's fluctuation band to ± 5 percent on March 6, 2020 (from ± 2.5 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent.

BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Morocco has accepted obligations under Article VIII, Sections 2(a), 3, and 4, of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for restrictions that Morocco maintains solely for the preservation of national or international security and have been notified to the Fund pursuant to Executive Board Decision 144 (52/51). Capital controls are currently in place in Morocco, but are in the process of being loosened (e.g. lower surrender requirements for exports and higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of January 31, 2025, the USD/dirham exchange rate was USD 1=DH 10.0377.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on March 26, 2024. The discussions for the 2025 consultation were held during January 27–February 7, 2025.

Technical Assistance

Table 1. Morocco: Technical Assistance

Dept.	TA	Start Date	End Date
METAC	Regional Workshop: Regulatory and Supervisory Frameworks for Fintech and Cyber Resilience: Balancing Innovation and Security	17 February 2025	21 February 2025
METAC	Monetary Operations and Liquidity Forecasting	27 January 2025	6 February 2025
METAC	Regional Workshop: Bridging Gaps through Evidence-Based Policies: A Deep Dive into Gender Inequality and Macroeconomic Outcomes	27 January 2025	29 January 2025
METAC	Developing Supervisory Guidelines for ILAAP Review	20 January 2025	7 February 2025
METAC	Regional Workshop: Public Debt Management	04 December 2024	04 December 2024
METAC	Regional Workshop: Strengthening Tax Policy in the MENA Region	04 December 2024	04 December 2024
METAC	Government Finance Statistics Workshop at the Middle East Center for Economics and Finance	16 December 2024	20 December 2024
METAC	Webinar: Experiences in Gender Budgeting: A Cross Country Perspective	06 November 2024	06 November 2024
MCM	MCMCO-Monetary Policy Implementation-MRI-FY25-1	05 November 2024	30 April 2027
METAC	Developing Supervisory Guidelines for ILAAP Review	21 October 2024	25 October 2024
METAC	Regional Workshop: The Experience with Macroeconomic Forecasting and Policy Analysis in Middle Eastern and North African Central Banks	14 October 2024	15 October 2024
METAC	FX Hedging Markets and FX Market Operations	14 October 2024	18 October 2024
METAC	FX Operations	16 September 2024	18 October 2024
METAC	Report: Analyse de l'impact du changement climatique sur les finances publiques	01 August 2024	01 August 2024
MCM	MCMFR-Financial Supervision and Regulation-Cyber Workshop - CRS-FY25-1	29 July 2024	30 July 2027
METAC	Optimisation de la sélectivité dynamique des déclarations unique des marchandises grâce à l'intelligence artificielle	08 July 2024	25 July 2024
METAC	Regional Workshop: Budget Institutions for Effective Climate Change Action and Gender Equality in the Middle East and North Africa	09 June 2024	12 June 2024
STA	Real Sector - National Accounts	01 May 2024	30 April 2025
METAC	Developing Regulation Fundamental Review of the Trading Book (FRTB)	09 April 2024	19 April 2024
METAC	Webinar: Feeling the Heat: Adapting to Climate Change in the Middle East and Central Asia	27 February 2024	27 February 2024
METAC	Morocco Jan FY24 Fundamental Review of the Trading Book (FRTB)-Developing Regulation	15 January 2024	19 January 2024
FAD	PFM-Fiscal Risks	01 May 2023	15 December 2026
STA	STAGO-Government Finance-SGF-FY24-1	01 May 2023	25 September 2026
MCM	MCMCO-Central Bank Operations-FXM-FY23-1	02 May 2022	30 April 2026
FAD	FAD-MTFF and Fiscal Rule	02 May 2022	10 March 2026
METAC	Morocco Nov FY23 SREP Guidelines review and training: Hybrid-in-person	14 November 2022	17 November 2022
METAC	Morocco Nov FY23 SREP Guidelines Review and training: Hybrid-virtual	09 November 2022	11 November 2022
MCM	Central Bank Digital Currency Issuance	31 August 2021	30 April 2025
METAC	Supervisory Review and Evaluation Process (virtual)	23 August 2021	10 September 2021
STA	Financial Institutions	04 August 2021	27 December 2024
METAC	Internal Control framework (virtual)	11 October 2021	22 October 2021
FAD	FAD-PFM-Internal Control framework	20 May 2021	30 April 2025
METAC	Implementation of Basel II and III Standards (virtual)	01 April 2021	
METAC	Fiscal Risks from SOEs (virtual)	08 March 2021	19 March 2021

Table 1. Morocco: Technical Assistance (Concluded)

METAC	Risk Management Unit and Tax Governance (virtual)	01 March 2021	15 March 2021
METAC	VIRTUAL (COVID): METAC: Implementation of Basel II & III	30 January 2021	06 February 2021
MCM	Financial Supervision and Regulation	11 January 2021	30 April 2026
STA	Balance of Payments	30 October 2020	17 January 2025
ICD	Macroeconomic Frameworks TA — Bank Al-Maghrib	08 October 2020	07 June 2024
FAD	FAD - Revenue Administration	04 August 2020	07 April 2028

FSAP Update

The latest update of the Financial Sector Assessment Program was performed in April 2015. The findings were discussed with the authorities during the October/November 2015 Article IV mission and discussed by the Board on December 14, 2015. Continued progress is being made to upgrade the financial sector policy framework in line the 2015 FSAP recommendations.

Safeguard Assessment

The 2019 assessment found strong safeguards at the central bank. Steps taken by BAM to enhance financial reporting transparency have laid the groundwork for the transition to International Financial Reporting Standards (IFRS), which is planned in accordance with the timelines of the national convergence project in Morocco. This project, which faced some COVID-19 related delays, is nonetheless ongoing with TA from the World Bank and the national accounting body in Morocco is expected to issue a draft code which will lay the foundation for the legal amendments to the national accounting law. This draft is still under discussion with concerned parties. A recently completed safeguards procedures for the Morocco FCL arrangement was approved by the Board on April 3, 2023, and indicate no significant issues.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of February 2025

Projects (worldbank.org)



MOROCCO

February 28, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the Resilience and Sustainability Facility (RSF) Assessment Letters – Morocco highlights relevant changes that have occurred since the issuance of the original Assessment Letter (dated September 15, 2023) and of the update that was produced for the first review of the RSF (dated October 25, 2024).

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. Morocco continues to face an extended drought, impacting rural labor markets. The share of Morocco's territory under dry conditions, according to the Standard Precipitations Index (SPI), has decreased from 96 percent in December 2023 to 60 percent in December 2024.¹ However, this remains significantly above the historical average of approximately 30 percent between 1981 and 2019, suggesting that climatic conditions are still far from normalizing and/or that the country may be converging towards a new, much drier normal in the context of climate change. Filling rates in dams have increased from 23 to 27.8 percent over the past year, but remain low, forcing the authorities to prioritize water for human consumption, thus impacting irrigated production. As a result, there is a growing divide in the agricultural sector, where rainfed and irrigated crops dependent on surface water allocations struggle with climate change, while higher value-added irrigated crops using groundwater and/or unconventional water resources (desalination) continue to benefit from Morocco's advantageous access to key export markets. This is having adverse net impacts on agricultural employment, with 137 thousand job losses in 2024.

2. Various episodes of torrential rains have had heavy human and economic costs in recent months. Despite the overall dry context, Morocco has undergone various localized floods over the past semester, causing at least 22 casualties.

¹ 6-months SPI index calculated with satellite data from National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center (CPC).

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. The Government formally launched the revision of the Nationally Determined Contribution (NDC 3.0) on December 10, 2024. The revision is led by the Ministry of Energy Transition and Sustainable Development (MTEDD) and, unlike the previous version, the Ministry of Economy and Finance (MEF) will have a significant contribution to ensure an alignment between climate commitment and budget programming. The Long-Term Low Emission Development Strategy (LT-LEDS) has been finalized.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce GHG Emissions

4. Same as above.

D. Any other Challenges, Including Inter or Cross-Sectoral, Policy Reversals or Institutional Capacity Issues, to be Addressed to Make Progress in Tackling Climate Risks and any Ownership/Policy Related Issues

5. The Government of Morocco is operationalizing the “whole of government” approach. In line with one of the recommendations of the 2022 Country Climate and Development Report (CCDR), this approach envisages a stronger coordination between MTEDD and MEF, which is also catalyzing the engagement of other line ministries.

E. WB Engagement in the Area of Climate Change

6. Morocco’s Country Partnership Framework (CPF) with the World Bank has been adjusted to support the country’s climate transition in line with the recommendations of the CCDR. Following the recommendation of the Performance and Learning Review (PLR), the third pillar of the Morocco CPF is now articulated around three objectives: (i) improving access to sustainable water resources; (ii) strengthening resilience to Climate shocks and Mitigation; (iii) promoting a “whole of government” approach to climate change. Various WB operations and technical assistance programs (active and under preparations) are directly contributing to these objectives.

7. The Climate Support to Nationally Determined Contribution (NDC) Program-for-Results (PforR) is implementing satisfactorily (P178763). The program has been 18 months in implementation and already delivers results on the ground, in terms of enhancing the resilience of vulnerable ecosystems and people but also fostering a better coordination on climate agenda, in line with the “whole of government” approach. MEF is now fully involved in the revision of the NDC (which will ensure that prioritized measures -unconditional- will be appropriately funded for the 3 first years of the NDC) and is also working on the alignment of the upcoming NDC to medium-term budgeting. In parallel, the Morocco Public Sector Performance program (ENNAJAA) PforR is

accompanying the MEF in putting in place climate budget tagging (P181679). A new interministerial committee has been created to prepare for the emission of Sovereign Green Bonds.

8. Support to the alignment of budget policies with the preparation of the new NDC.

Through its various involvements at operational level, the World Bank has developed a holistic approach to public financial management and climate change in Morocco. Key to this endeavor is the set-up of the Climate Unit within the MEF. The deployment of Climate Budget Tagging (CBT) and the alignment with the NDC are two of the first critical activities pursued. A draft methodology for CBT has been drafted and an interministerial committee (that includes 5 departments which will pilot it) has been set-up. The methodology will be first tested out in February/March 2025 and subsequently adjusted for a circular to be issued in April, paving the way for piloting. Regarding the former, technical assistance from the World Bank has begun in January 2025 to set the basis for NDC alignment.

9. The World Bank approved a new US\$250 million PforR in December 2024 to support the transformation of agri-food systems, in part aimed at increasing resilience to climate change and strengthening food safety and quality (P181587).

The program includes the support to: (i) the reform of the agricultural insurance system to make it sustainable in the face of increasingly recurrent droughts (ii) support for the conservation agriculture program, which aims to adapt the cereal sector to climate change but also to mitigate it. This program is accompanied by new reforms, notably in terms of the production of resilient seeds and new subsidies for the use of selected seeds and machinery, as well as extension services and training programs.

10. The US\$ 350 million Water Security and Resilience in Morocco PforR, approved in July 2023, supports the government's emergency program for Potable Water Supply and Irrigation (PNAEPI), which aims to address climate change impacts on securing drinking water and irrigation (P179192).

The program strengthens the institutional framework for managing water resources under increasing uncertainty due to climate change through the preparation and adoption of the National Water Plan (PNE). The PforR also aims to enhance the performance of the River Basin Agencies, which play a crucial role in regional integrated water resources management. The program improves data and knowledge for robust investment planning and decision-support systems, including contingency preparedness for extreme hydroclimatic events, and improves the understanding and management of strategic groundwater resources. Additionally, the Program supports Morocco's emissions reduction targets in the NDC through investments in rehabilitation of wastewater treatment for reuse and energy efficiency gains from reducing water loss in distribution networks.

11. The World Bank provided technical assistance to Bank Al-Maghrib's Banking Supervision Directorate for the issuance of two directives on (i) climate disclosures ([link](#)), and (ii) reporting for large exposures to climate risks ([link](#)). Both directives were adopted on January 24, 2025, and are to be reviewed by the IMF in the context of the RSF (Reform Measure 16) to confirm the corresponding disbursement.

Statement by Mr. Mohammed El Qorchi on Morocco
March 17, 2025

On behalf of the Moroccan authorities, I would like to convey my appreciation to the mission team for the constructive exchange of views with the authorities and the comprehensive staff report on the Article IV Consultation, as well as the last review under the RSF. My authorities value the engagements and policy discussions with the Fund. They broadly agree with the overall thrust of the staff's appraisal and assessment of policy priorities.

Morocco is highly exposed to risks associated to climate change and natural disasters, mainly drought and water stress, and floods. Nonetheless, ambitious structural reforms and increased agility in public policy management have enabled Morocco to preserve its macroeconomic stability and strengthen the resilience of its economy, while promoting strong, inclusive, and sustainable growth.

I. Article IV Consultation

Despite significant uncertainties, particularly related to the direction of economic policy in some major economies, geopolitical tensions, and risks induced by climate change, Morocco managed to pursue its economic growth. Growth reached 3.3 percent in 2024 notwithstanding water stress and an unprecedented succession of years of drought that negatively impacted agricultural production and employment. Continued structural reforms and far-reaching investment projects are expected to push GDP growth to exceed 4 percent from 2025, driven by the strong momentum of non-agricultural sectors.

Over the past two years, thanks to monetary tightening and the various measures taken by the government to support the purchasing power of the population and certain economic activities, inflationary pressures have eased significantly. Inflation decreased to 0.9 percent in 2024 from 6.6 percent in 2022 and two-year-ahead inflation expectations were estimated at 2.3 percent in the fourth quarter of 2024. Bank Al Maghrib (BAM) lowered the policy rate twice by 25 bps in June and December 2024.

The Moroccan banking system remains solid, well capitalized, liquid, and profitable, supported by a regulatory and prudential framework in line with international standards. BAM regularly strengthens its surveillance through the annual stress test exercise conducted by banks based on macroeconomic scenarios provided by BAM. The results of the stress tests have demonstrated the resilience of banking institutions. BAM completed the deployment of the Supervisory Review and Evaluation Process and presented the results to the evaluated banks. Furthermore, as part of the

completion of Basel III alignment, BAM adopted in end-December 2024 regulatory texts related to the Net Stable Funding Ratio and the Liquidity Adequacy Assessment Process. It also plans to expand the definition of NPLs to include a new classification category called sensitive claims and introduce more stringent provisioning rules for these claims.

The external sector in 2024 was strong and displayed very favorable results, driven by dynamic export activities (fertilizers, automobiles, aeronautics, etc.), resilient remittances, and buoyant tourism receipts. This performance made it possible to limit the current account deficit to 1.5 percent of GDP in 2024 following 0.6 percent in 2023, notwithstanding an acceleration in imports related to the economic recovery and the completion of numerous major infrastructure projects. The rise in net FDI and the comfortable level of international reserves, covering more than 5 months of imports and reaching 120 percent of the adjusted ARA metric denote the strength and sustainability of the Moroccan external sector.

The fiscal deficit has continued its downward trajectory and was in 2024 lower than targeted in the budget. It stood at 3.9 percent of GDP in 2024, compared to 4.4 percent in 2023 and 7.1 percent in 2020. The continued decline of the deficit was made possible by the remarkable improvement in revenues, particularly tax revenues, which increased by 2.2 percent in 2024 thanks to recent reforms of the tax system. This greater-than-expected revenue allowed the government to offset higher current spending related to the social dialogue with employers and unions, as well as investment spending in structural projects in water, health, and education sectors. The 2025 budget confirms a gradual reduction of the fiscal deficit over the period 2025-27. Preserving budgetary discipline and continuing to consolidate its public finances are a priority as evidenced by the recently strengthened three-year budgetary framework (PTB) of the 2025 budget that targets a fiscal deficit of 3.5 percent of GDP in 2025 and 3 percent from 2026. Central government debt remained at nearly 70 percent of GDP lower than the 70.3 percent envisaged in the 2024 budget and down from 72.2 percent of GDP in 2020. The pace of fiscal adjustment will allow the debt ratio to gradually decline over the medium term. The debt ratio is expected to gradually decline to about 67 percent in 2027 and to about 65 percent by 2030.

The authorities are committed to strengthening the medium-term fiscal framework. The ongoing reform of the organic budget law provides for the introduction of a new fiscal rule based on a medium-term debt anchor and the broadening of its scope to non-profit state-owned institutions and enterprises. These efforts aim to rebuild fiscal buffers and ensure the viability and sustainability of the structural reform program.

Significant progress has been made in implementing Morocco's new development model based on the principles of social and territorial cohesion, economic efficiency, and social inclusion. Among the authorities' priorities is the continued generalization of social protection by relying on the

unified social register to ensure better targeting of beneficiaries, as well as ambitious reforms in the health and education sectors. Enhancing the role of the private sector and creating jobs are associated with the continued deployment of the new investment charter, the strategic roadmap for improving the business environment 2023-26, expanding the role of Mohammed VI Investment Fund, and reforming of SOEs.

To create jobs and adapt skills to market needs, Morocco is also deploying a roadmap focused on rural employment, economic integration of women, restructuring of active employment programs, and supporting micro and SMEs. The ongoing construction of projects in the railway, airport, tourism, and urban transport sectors will boost growth and create job opportunities. Morocco is also reinforcing its resilience to water, food, and energy security challenges through the national water supply program, seawater desalination, and the Generation Green strategy for agriculture. The acceleration of renewable energy, electrical interconnection, and the development of green hydrogen projects are also part of this reform momentum. Parallel efforts are also aimed at accelerating Morocco's digital transformation in the era of technological change, through the new Digital 2030 strategy.

A new climate finance development strategy for 2030, aimed at accelerating the green transition of the financial sector, has been adopted. Aware of the decisive role of good governance in the success of these reform projects, Morocco is continuing the implementation of the justice reform, the improvement of the business climate and the modernization of public administration, mainly through digitalization. To further anchor the values of probity and integrity, the National Authority for Probity, Prevention, and the Fight against Corruption has conducted surveys on the status of corruption in Morocco, as well as evaluations of public policies as part of the implementation of a new generation strategy to fight corruption. To further consolidate the principles of transparency, the Competition Council has published opinions on the state of competition in strategic sectors and has intensified its activities to prevent and combat anti-competitive practices, economic concentration, as well as monopoly operations.

II. Climate change and Implementation of Measures under the RSF

Aware of the importance of these risks, Morocco has, over the past 15 years, proactively and voluntarily implemented structural projects aimed at adapting and mitigating environmental constraints, while coping with climate change and natural disasters. The National Sustainable Development Strategy was adopted to ensure the transition to a greener and more inclusive economy by 2030.

The authorities have set high ambitions for climate action; They made tangible progress in reforming the electricity market and managing water scarcity. The share of renewable energy in total installed capacity has increased at a faster-than-planned pace to 45.3 percent in 2024,

rendering the objective of 52 percent before 2030 achievable. The introduction of the regional multiservice companies as regional utility distributors, the unbundling of the financial accounts of the national water and electricity company (ONEE) and the planned transfer in 2025 of renewable energy production assets from ONEE to the Moroccan Agency of Sustainable Energy are significant reforms that will transform the electricity sector and strengthen competition. Similarly, considerable progress has been accomplished in addressing water scarcity and in bridging the gap between supply and demand. Plans involving the construction of dams, development of seawater desalination projects using renewable energies, and reinforcement and securing of drinking water supplies, by reinforcing the interconnection of hydraulic systems between different regions have been implemented. Morocco is also targeting better demand management by saving and reusing water (for drinking, industrial, and irrigation purposes), boosting drinking water supplies in rural areas, and reusing wastewater. A communication and awareness-raising strategy aimed at rationalizing the demand for water was carried out. To this end, the Ministry of Equipment and Water finalized, as part of the RSF, a strategic study on the cost of water in Morocco that (i) conducted an inventory and diagnosis of the cost of water and the pricing system; (ii) discussed the trends in the cost of water; and (iii) proposed ways to improve the pricing system and water cost recovery.

Against this background, the Resilience and Sustainability Facility (RSF) arrangement has played a key role in accelerating several important reforms in strategic areas, such as water, energy, agriculture, and taxation. It has helped to strengthen climate risk analysis and management in public finance as well as the banking sector. It has helped to catalyze private investment in green projects, including through the new 2030 Climate Finance Development Strategy.

Morocco has completed fifteen of the sixteen planned reform measures (RMs) on schedule. Indeed, following the implementation of the first series of RMs in February and the second series in September 2024, six additional RMs scheduled under the third and final review of the RSF were implemented in February 2025. These include the abolition (in the 2025 Budget Law) of the exemption from the domestic consumption tax, as well as the increase in this tax, for several polluting products, such as coal.

In the energy sector, two important steps in the ongoing reform of the electricity sector have been accomplished: (i) the National Electricity Regulation Authority (ANRE) published tariffs for the use of medium-voltage distribution networks, and (ii) it approved the proposal by ONEE to separate its production, transmission, and distribution financial accounts. Similarly, a strategic study evaluating for the first time the true cost of mobilization, production, and transport of water was carried out and presented to the National Water Commission, while two important decrees implementing the water law (36-15), aimed at preserving underground water resources, were approved by the Government Council.

For its part, BAM has continued its efforts to strengthen the banking sector's communication and transparency on climate risks, by publishing two new guidelines in line with current international standards. In addition, with the technical support of the IMF, an analysis of the long-term fiscal risks linked to global warming has been incorporated into the PBT 2025-27.

Considering the relevant economic and social implications of the introduction of a carbon tax and the great importance attached to the success of this reform, the Government has decided to devote more time to finalizing the design document planned under RM9. The objective is to pursue consultations with stakeholders and ensure that all the necessary conditions for a successful implementation of this measure are in place.

It is worth underscoring that significant actions have already been taken to introduce a carbon tax in Morocco. These include the analysis of the current state of environmental taxation, the identification of the prerequisites for the adoption of a carbon tax, and the carrying out of simulation and modelling exercises of the impact of this tax on the Moroccan economy. Moreover, a training plan for customs officers has been conducted and the responsibility for monitoring greenhouse gas (GHG) emissions has been entrusted to the Moroccan *Institute for Normalization* (IMANOR), as part of the amendment to the law on standardization, certification, and accreditation approved by the Government Council in February 2025. These actions are fully consistent with the authorities' determination to guarantee an effective and efficient implementation of the carbon tax, while meeting high standards and ensuring a rigorous preparation process.

All the reform measures implemented within the framework of the RSF arrangement, as well as those that are underway, illustrate Morocco's determination to pursue and consolidate its economic, social, and above all environmental achievements.