INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/24

MOROCCO

January 2019

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 17, 2018, following discussions that ended on November 14, 2018, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on November 30, 2018.
- 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.

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FOR IMMEDIATE RELEASE
December 17, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$2.97 billion for Morocco Under the Precautionary and Liquidity Line

The Executive Board of the International Monetary Fund (IMF) today approved a two-year arrangement for Morocco under the Precautionary and Liquidity Line (PLL) for SDR 2.1508 billion (about US$ 2.97 billion, or 240 percent of Morocco's quota). The access under the arrangement in the first year will be equivalent to SDR 1.25066 billion (about US$ 1.73 billion or 140 percent of quota).

Despite a sharp pick up in global oil prices, the authorities have reduced fiscal and external vulnerabilities and implemented important reforms with the support of three consecutive 24-month PLL arrangements. The new PLL arrangement will provide insurance against external shocks and support the authorities' efforts to further strengthen the economy's resilience and promote higher and more inclusive growth.

The authorities intend to treat the new arrangement as precautionary, as they have done under the previous three arrangements. Morocco's first PLL arrangement for SDR 4.1 billion (about US$ 6.2 billion at the time of approval) was approved on August 3, 2012 (See Press Release No. 12/287). The second PLL arrangement for SDR 3.2 billion (about US$5 billion at the time of approval) was approved on July 28, 2014 (See Press Release No. 14/368), and Morocco's third arrangement for SDR 2.5 billion (about US$3.5 billion at the time of approval) was approved on July 22, 2016 (See Press Release No. 16/355).

The PLL was introduced in 2011 to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong records of policy implementation but with some remaining vulnerabilities.

Following the Executive Board on Morocco, Mr. Mitsuhiro Furusawa, IMF Deputy Managing Director and Acting Chair of the Board, made the following statement:

“Morocco has made significant strides in reducing domestic vulnerabilities in recent years. Growth remained robust in 2018 and is expected to accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation. External imbalances have declined substantially, fiscal consolidation has progressed, and the policy and institutional frameworks have been strengthened, including through the implementation of the recent Organic Budget Law, stronger financial sector oversight, a more flexible exchange rate regime, and an improved business environment.

“Nevertheless, the outlook remains subject external downside risks, including heightened geopolitical risks, slow growth in Morocco’s main trading partners, and global financial market volatility. In this context, a successor Precautionary and Liquidity Line (PLL) arrangement with the Fund will provide valuable insurance against external risks, and support the authorities’ policies aimed at further reducing fiscal and external vulnerabilities and promoting higher and more inclusive growth.

“Building on progress made under past PLL arrangements, further fiscal consolidation will help lower the public debt to GDP ratio over the medium term while securing priority investment and social spending. These efforts should be based on tax and civil service reforms, sound fiscal decentralization, strengthened oversight of state owned enterprises, and better targeting of social spending. Greater exchange rate flexibility will further enhance the economy’s capacity to absorb shocks and preserve competitiveness. Adopting the central bank law and continuing to implement the 2015 Financial Sector Assessment Program recommendations will help further strengthen the financial sector policy framework. Finally, reforms of education, governance, the labor market, and continued improvement in the business environment will be essential to raise potential growth and reduce high unemployment levels, especially among the youth, and to increase female labor participation.”

INTERNATIONAL MONETARY FUND

MOROCCO

November 30, 2018

REQUEST FOR AN ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

Context. Following the expiration of the third Precautionary and Liquidity Line (PLL) arrangement, in July 2018, the authorities have requested a new PLL arrangement. They did not draw on the last three arrangements and have made further progress in reducing domestic vulnerabilities in recent years, despite a sharp pick up in oil prices. In an external environment that remains subject to important downside risks, a successor arrangement will support the authorities' policies to strengthen the economy's resilience and promote higher and more inclusive growth.

PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board during the 2017 Article IV consultation, staff considers that Morocco continues to meet the PLL qualification criteria and recommends the approval of the authorities' request:

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

- Morocco meets the PLL qualification criteria: it performs strongly in three out of the five PLL qualification areas (monetary, financial, and data), and does not substantially underperform in the areas of fiscal policy, and external position and market access. Morocco does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.

Fund liquidity: The authorities intend to treat the new arrangement of a proposed duration of two years as precautionary. Staff estimates that under a stress scenario, potential financing needs by 2020 could lead to a total access level of 240 percent of quota, amounting to SDR 2.15 billion, or US$3 billion.

Approved By
Taline Koranchelian and Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela, Babacar Sarr (all MCD), and Ermal Hitaj (SPR). The discussions took place in Rabat and Casablanca during November 1–14, 2018. Samira Kalla, Ramzy Al Amine, and Geraldine Cruz (MCD) assisted in the preparation of the report. The mission met with the Head of Government Mr. El Othmani, the President of the Chamber of Representatives Mr. El Malki, the Minister of Economy and Finance Mr. Benchaaboun, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Daïri (OED) participated in most meetings.

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Glossary

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

CONTEXT

1. **Macroeconomic conditions have improved in recent years, but accelerated reforms are needed to achieve higher and more inclusive growth**. Economic activity rebounded in 2017–18, helped by two very good agricultural years, and inflation was low. The authorities reduced the fiscal deficit to 3.6 percent of GDP in 2017. Such progress was achieved despite a pickup in oil prices, which has weighed on external imbalances. Domestic reforms have been slow since the late 2016 elections. While some important reforms have been introduced in 2018, much remains to be done, especially to raise human capital and strengthen the labor market to reduce structural unemployment (in particular among the youth), strengthen social safety nets, and promote higher and more inclusive growth.

Brent Oil Price and Time of PLL Requests

(US$ per barrel)

Source: Bloomberg.

2. **Three successive PLL arrangements have supported the authorities' reform agenda since 2012.** Morocco requested and qualified for the first PLL arrangement in a context of uncertainties in global oil prices and potentially weak growth in its European trading partners. The second PLL arrangement was approved in July 2014 with lower access, reflecting the strengthening of the economy and a lower balance of risks relative to the preceding PLL. Access was reduced further for the third PLL arrangement in July 2016 against the backdrop of lower vulnerabilities and stronger medium-term prospects. The authorities consider that the three PLL arrangements provided insurance against external risks, helped strengthen fiscal and external buffers in a challenging external environment, anchored their reform program, and sent positive signals to market participants.

Morocco: Precautionary Arrangements[1]

Arrangement	Date of approval	Duration	Access
PLL	August 3, 2012	24 months	Total 700 percent of quota (SDR 4.1b), of which: Year 1: up to 400 percent of quota available (SDR 2.35b) Year 2: additional 300 percent of quota available (SDR 1.77b)
PLL	July 28, 2014	24 months	Total 550 percent of quota (SDR 3.235b), of which: Year 1: up to 500 percent of quota available (SDR 2.941b) Year 2: additional 50 percent of quota available (SDR 0.294b)
PLL	July 22, 2016	24 months	Total 280 percent of quota (SDR 2.5b), of which: Year 1: up to 140 percent of quota available (SDR 1.252b) Year 2: additional 140 percent of quota available (SDR 1.252b)

[1] Access for arrangements approved in 2012 and 2014 is relative to Morocco's old quota.

3. Considering the still elevated external risks, the authorities have requested a successor arrangement. As noted, much remains to be done to secure macroeconomic resilience, raise growth potential, and further reduce unemployment and inequalities. Considering the positive experience with PLL arrangements, the authorities believe that a successor arrangement is useful in an external environment with significant downward risks, and will continue to provide important insurance and support to their program to strengthen the economy's resilience and foster higher and more inclusive growth.

RECENT DEVELOPMENTS

4. The government remains committed to implementing sound policies and reforms. Its policy priorities include continued fiscal prudence and progress toward exchange rate flexibility, and reforms of taxation, governance, oversight of state owned enterprises, fiscal decentralization, and the business environment. Greater emphasis is also being put on reducing social and regional inequalities and increasing access to, and the quality of, public services. Reform coordination has been enhanced via a commission placed directly under the authority of the Head of Government.

5. Social tensions have increased since 2017. These tensions, initially in the northern region of the Rif, are due to perceptions of corruption and demands for better access to health services and jobs, and greater public investment. In 2018, social tensions have also reflected domestic gas price increases, and a boycott organized through social media has targeted certain products and prominent politicians with business interests. In response, the authorities took steps to accelerate social programs and investment projects, and renewed efforts to strengthen public accountability.

6. Economic activity is expected to remain robust in 2018. Output grew by 4.1 percent in 2017, reflecting a robust agricultural season and strong phosphate exports, while non-agricultural GDP growth was lower than expected (2.7 percent). Preliminary estimates show that growth should reach 3.1 percent in 2018, supported by another good cereal harvest and strong activity in tourism and commerce. On the demand side, private consumption continues to be the main driver of growth, underpinned by strong remittances and high agricultural income. Unemployment remains high, at 10 percent in the third quarter of 2018, particularly among youth and graduates (27.5 percent and 17.1 percent, respectively).

7. Fiscal consolidation has slowed down in 2018, due in large part to exogenous factors. The fiscal deficit declined to 3.6 percent of GDP in 2017 (against 4.5 percent in 2016), reflecting strong revenue performance and contained spending. For 2018, the latest data indicate that corporate tax revenues have under-performed, and grant revenues (mostly from Gulf countries) have been lower than anticipated (10 percent of budgeted amount at end-October 2018). At the same time, subsidies were significantly higher than projected due to elevated international butane prices (other public expenditures were in line with expectations). Overall, the headline deficit is expected to reach 3.6 percent of GDP in 2018, against the authorities' objective of 3.0 percent. The cyclically-adjusted and primary deficits would decrease by about 0.3 percent of the GDP in 2018.

Public debt remains sustainable and is projected to stabilize around 65.3 percent of GDP in 2018 (against 65.1 percent in 2017).

8. Monetary policy has remained accommodative in a context of moderate inflation and subdued non-agricultural and credit growth. Headline inflation reached 1.1 percent in October (compared to 0.64 percent in October 2017) due to higher food and energy prices and is projected to average 2 percent in 2018. Bank-Al-Maghrib (BAM) has kept its policy rate unchanged at 2.25 percent since its last reduction in March 2016. Lending rates have declined marginally, but credit growth to non-financial private enterprises, at 1.1 percent in September (y-o-y), remains sluggish (including for SMEs). Real estate prices are stable.

9. Following an improvement in 2017, the external position weakened in 2018 due mainly to higher international oil prices. The current account deficit is expected to widen to 4.5 percent in 2018 from 3.6 percent in 2017, due mainly to high energy and capital goods imports, and despite sustained exports of phosphate and industrial products.[1] The EBA analysis updated in July 2018 found a current account gap of 1 percent of GDP, consistent with an exchange rate broadly in line with fundamentals. The authorities started a transition to greater exchange rate flexibility in January 2018, by announcing the widening of the dirham fluctuation band to 2.5 percent (from 0.3 percent) on either side of a reference parity (based on a euro/US dollar basket). To date, exchange rate fluctuations have remained very limited, and the central bank has not intervened in the foreign exchange market since March 2018.

10. Bank capitalization may need to be strengthened following the adoption of the International Financial Reporting Standard (IFRS 9), while non-performing loans (NPL), credit concentration, and international expansion, remain significant risk factors. Banks' regulatory capital ratio declined slightly to 13.3 percent at end-June 2018. The authorities introduced the IFRS 9 in January 2018 which upgraded banks' loan classification and provisioning practices. Its impact will be phased in over the next five years by increasing capital accordingly. NPL ratios remain elevated at 7.7 percent (September 2018), but provisioning levels are comfortable (70 percent). Risks from large credit exposures persist despite strict regulatory limits. The continued expansion of Moroccan banks in Africa (most recently in Egypt) provides diversification and profit opportunities but is also a potential channel of risk transmission.

OUTLOOK AND RISKS

11. Gradually increasing growth, moderate inflation, and stronger fiscal and external buffers are expected over the medium term. These outcomes are predicated on sustained reform implementation, including to improve the business environment, boost productivity, and enhance tax revenues.

[1] Energy prices are projected to be up 32 percent vis-à-vis 2017.

- **Growth** is expected to reach 3.3 percent in 2019 as nonagricultural activity continues to recover, and 4.5 percent over the medium term. This trend assumes that the government's reform commitments are implemented, including improvements to the business environment and the labor market, and further industrial diversification and integration into global value chains.[2]

- **Inflation** is projected to slow to 1.4 percent in 2019 due to lower commodity and food prices, and to stabilize around 2 percent over the medium term.

- The **fiscal deficit** is projected to increase to 3.7 percent of GDP in 2019, with privatization receipts reducing the public financing need to 3.3 percent of GDP. The deficit would then decline and stabilize around 3 percent of GDP by 2020, while expected privatization revenues would contribute to reduce public debt close to 60 percent of GDP over the medium term.

- The **current account deficit** is expected to decline to 4 percent of GDP in 2019 and to 2.8 percent of GDP in the medium term, driven by sustained export growth, tourism receipts and remittances. Foreign direct investment is expected to increase to 2.2 percent of GDP and other private flows (including trade credit and portfolio investment flows) should hover around 1.7 percent of GDP.[3] International reserves are expected to reach 93 percent of the ARA metric in the medium term.

12. The balance of risks remains tilted to the downside. On the domestic front, delays in implementing key fiscal and structural reforms could reduce future fiscal space, contribute to social tensions, and adversely affect the external sector (e.g., through lower tourism receipts) and the expected pickup in potential growth. Externally, oil prices, euro area growth, geopolitical risks and global policy uncertainty are key risks that could affect Morocco's economy through lower exports, tourism, FDI flows, and remittances, worsening fiscal and external imbalances. Increasingly volatile global financial conditions may also increase borrowing costs and weaken investor confidence. On the upside, lower international oil (and butane gas) prices, as observed in recent weeks, could bring about significant improvements to Morocco's macroeconomic imbalances.

POLICIES UNDER THE PLL ARRANGEMENT

13. A new PLL arrangement would provide insurance against external shocks and support the authorities' efforts to improve economic fundamentals and policy frameworks. Building on progress made under past PLL arrangements, the objectives would be to enhance macroeconomic resilience in an adverse international environment, and to help the authorities move towards a new growth model that is more private sector-led, broad-based and inclusive, including through strengthened public governance and reduced corruption and inequalities. Policies and sustained reform implementation will be needed in the following policy areas (see Written Communication (W-COM) attached).

[2] See Morocco, 2016 Article IV staff report, *Raising Morocco's Growth Potential* (Annex III).

[3] The sharp increase in FDI inflows in 2018 reflects the sale of a large insurance company to foreign investors.

A. Macro-Financial Resilience

14. The current combination of accommodative monetary policy and slower fiscal consolidation is appropriate (W-COM ¶19). In a context of contained inflation and subdued non-agricultural activity and credit growth, maintaining an accommodative monetary policy and a slowdown in fiscal consolidation in 2018-19 would be an appropriate response to the temporary impact of higher oil prices. Like for 2018, the public deficit envisaged in the 2019 budget would remain higher-than-expected, at 3.7 percent of GDP (3.2 percent including privatization revenues), due in part to still elevated international butane prices.

15. Over the medium term, fiscal consolidation will remain essential to reduce public debt and preserve fiscal space for social and growth-enhancing spending (W-COM ¶10). Morocco currently has some fiscal space, reflecting moderate gross financing needs, a favorable debt structure, and manageable medium and long-term adjustment needs. Public debt remains sustainable, resilient to various shocks, and below the benchmark of 70 percent of GDP for emerging markets (Annex I). Nevertheless, increased policy space is needed to absorb potential shocks to the economy while addressing social needs and growth constraints. The authorities are committed to gradually reduce public debt to 60 percent of GDP.[4] For this, they intend to continue to reduce the public deficit and to implement a privatization program over the medium term. In addition, to the extent that butane gas prices decline in the period ahead (together with international oil prices), reduced subsidy spending on butane gas could generate some fiscal savings (up to 0.3 percent of GDP) that should help reach faster the authorities' objective of 60 percent of GDP.

16. Several reforms are needed to secure medium-term fiscal sustainability and reduce fiscal risks (W-COM ¶11-12):

- **Tax reform:** A comprehensive reform of the tax system is needed to increase its fairness and reduce distortions, while boosting tax collection by 0.8 percent of GDP by 2020 (and 1.3 percent of GDP over the medium term). This strategy should reflect the need to: align reduced VAT rates on manufacturing goods and services with the standard VAT rate; reduce tax exemptions; better enforce tax payments from the self-employed and liberal professions; lower and simplify corporate tax rates; and, raise property tax. In early 2019, a national conference on taxation will be an opportunity to design a tax reform strategy, and the Fund will be ready to provide technical support.

- **Public wage containment**. The authorities intend to keep the public payroll below 10.5 percent of GDP over the medium term so as not to compromise priority spending. More broadly, given the elevated public wage bill in Morocco, a reform of the civil service is needed to generate durable savings while strengthening the efficiency and quality of public services. The authorities have introduced several measures that need to be implemented further, such as contractual

[4] Based on analyses of the fiscal multiplier, anchoring public debt reduction to 60 percent of GDP over the medium term would be compatible with a pace of fiscal consolidation that does not significantly weaken growth prospects.

employment and personnel mobility. Additional measures, including merit-based career progression and a simplification of the civil service statute, will also be needed.

- **Fiscal decentralization** will be important to improve access to public services. The organic budget law for the regions adopted in 2015 defined the contour of this process and reinforced local governance. A draft law to strengthen the role of Regional Investment Centers (CRIs) and better reflect local needs in investment decisions was submitted to parliament in October 2018. Finally, with increasing transfers of public resources to local entities, mechanisms to ensure sound financial management at all levels are essential: a deconcentration charter, to be implemented in 2019, will help clarify local competences, introduce transparent criteria for intergovernmental transfers, mitigate contingent liability risks, and, in the longer term, enhance local taxation.

- **Public enterprises**. A draft law to strengthen the governance and oversight of SOEs and to improve their performance should be submitted to parliament during the April 2019 session. SOEs are aligning their accounting practices with the International Financial Reporting Standard and the authorities are preparing consolidated SOE balance sheet data. The forthcoming privatization program will also help improve the performance of SOEs, including by refocusing their activities on core missions. Finally, ongoing technical assistance from FAD supports the authorities in their efforts to strengthen operational and strategic frameworks to assess and mitigate SOE-related fiscal risks.

17. Continuing the transition to greater exchange rate flexibility will strengthen external resilience (W-COM ¶22). Staff recommended moving forward without unnecessary delay for preventive purposes, to protect reserve buffers, put the economy in a better position to absorb potential external shocks, and preserve competitiveness. More broadly, this reform will encourage export diversification and SME development, which will support the generation of job opportunities and income for the poor and middle class (90 percent of enterprises are SMEs). The authorities remain committed to continue the exchange rate transition, which would consist in a further broadening of the dirham fluctuation band, when conditions permit and in the context of a well-structured communication strategy.

18. Continued efforts are needed to further enhance financial sector soundness (W-COM ¶21)**.** Risks related to bank asset quality will continue to be monitored closely. The authorities indicated that the gradual introduction of strengthened provisioning requirements under IFRS9 should be absorbed without major impact on the capitalization of Moroccan banks, many of which have already prepared to adjust their capital structure in the period ahead. The supervisory authority is also encouraging greater use of syndicated lending to better distribute risks and reduce concentrated credit exposures. Finally, efforts to deepen supervisory collaboration with host countries in Africa are continuing, especially in the context of money laundering and terrorist financing risks and pressures on correspondent banking relationships.

B. Public Sector Governance

19. A more transparent and accountable public sector will help build confidence and promote a more dynamic private sector. The authorities' recent commitment to clear the large stock of VAT credits due to public and private enterprises (about 4 percent of GDP) is a significant and welcome step in this direction. The authorities are also taking renewed measures to reduce payment delays in the public and private sectors, especially from public to private enterprises (through an electronic platform). Finally, it is expected that the Organic Budget law will continue to be implemented as planned, including measures to strengthen the oversight role of the Parliament and the Cour des Comptes, which will reinforce public accountability.

20. Reporting publicly on the implementation of the national strategy to address governance and corruption vulnerabilities will be important to safeguard public trust. Progress has been made in the context of this strategy, including the introduction of an online platform for public feedback on public service delivery. A draft law to establish illicit enrichment as a criminal offense has also been prepared and should be submitted to parliament in 2019. Staff welcomed the authorities' intention to publish the first progress report of the national strategy, which will help reinforce its impact and credibility.

21. A key priority is to strengthen the efficiency and impact of public spending. As regard public investment, staff encouraged the authorities to implement the recommendations of the 2017 Public Investment Management Assessment (PIMA), including introducing tools to facilitate a centralized management of public investment projects and related risks. The authorities are also increasingly relying on public-private partnerships, also with Fund technical support (above-mentioned FAD technical assistance). As regard social spending, major shortcomings in the targeting and impact of social programs are being addressed (see below). More broadly, as noted above, important reforms such as decentralization and civil service reform should also help better tailor national policies and programs to local needs, and address regional disparities.

C. Growth and Inclusion

22. Raising growth while making it more inclusive will require steadfast reform implementation. Morocco's total factor productivity (TFP) growth has been decelerating over the last decade, mostly due to structural impediments in the education system, the labor market, and the business environment. Addressing these impediments could boost potential growth and job creation and help reduce social and spatial disparities. The authorities intend to increase the pace and coordination of structural reforms on several fronts.

23. The business environment has improved in recent years, but further progress is needed to enhance competition and SME development (W-COM ¶6)**.** Morocco's *Doing Business* ranking rose from 69 in 2018 to 60 in 2019, reflecting ongoing efforts to strengthen the local business environment, effectively making Morocco a prime destination for foreign investment. Recent reforms include the new bankruptcy law, approved in April 2018, and the dematerialization of administrative procedures in areas such as starting a business or transferring property. The authorities are also in the process of developing a new Investment Charter to make the investment regime more attractive while further simplifying administrative procedures for investors. Nonetheless, longstanding weaknesses in competition practices limit opportunities for SME development and middle-class entrepreneurship. The Competition Council, created in 2014, should become operational imminently (following the nomination of its President in November 2018) and will help limit anti-competitive behaviors and monopolies.

24. Deepening financial inclusion is necessary, including for SMEs (W-COM ¶20). At about 33 percent of total credit, credit to SMEs is relatively high by regional standards. However, it has been stagnant in recent years, collateral requirements for small enterprises are high (above 200 percent, a level larger than the global and MENA averages), and firms continue to consider access to finance as the second largest obstacle to doing business in Morocco. Against this background, a national strategy for financial inclusion is expected to be finalized before the end of 2018. It will introduce specific objectives and measures to increase financial penetration and reduce financial disparities among population segments, such as by increasing financial education, expanding mobile payments and credit bureau coverage, and relaxing credit ceilings for microcredit institutions. Finally, the authorities will present soon to parliament a draft law that would extend the array of assets that can be pledged to facilitate access to credit, including moveable assets.

25. Reducing unemployment, particularly among the youth, will require ambitious labor market reforms. In this area, measures have been identified for implementation in 2018–19, including the creation of a labor market observatory to facilitate skills matching, efforts to support education and vocational training, and the strengthening of active labor market policies targeting the youth. While welcoming these initiatives, staff stressed the importance of further steps to unlock job opportunities for the youth, including measures to introduce greater flexibility for contractual employment and in hiring and firing regulations (together with proper unemployment safety nets), which may require revisions to the labor code.

26. Strengthening the targeting and efficiency of social spending remains a high priority. Social programs are numerous but are not properly coordinated and evaluated, resulting in a situation where, despite relatively high levels of social spending in aggregate, the impact on the poorest population groups is unsatisfactory. The planned introduction of a social registry in 2019–20, with World bank support and building on international best practices, will be an important step to improve the targeting of these programs.[5] In addition, broader efforts to raise the quality of public services will be critical, such as, regarding education, better teacher performance evaluation (a key component of the national strategy for education).

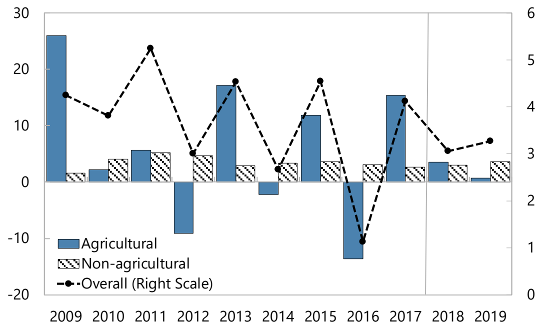
[5] See 2017 Article IV staff report.

Figure 1. Morocco: Real Sector Developments

Non-agricultural growth is expected to pick up in 2018 and 2019

GDP Growth

(Annual percent change)

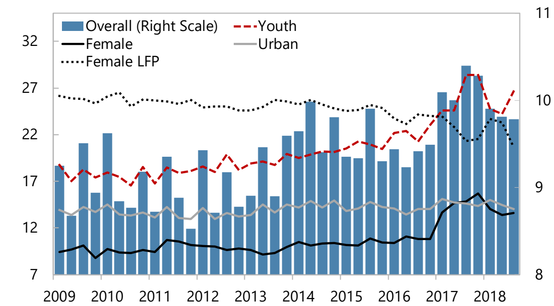


Sources: National authorities; and IMF staff estimates. Note: 2018-19 are projected.

Unemployment has declined slightly since 2017 but remains high for the youth and women

Unemployment

(Percent, seasonally adjusted)

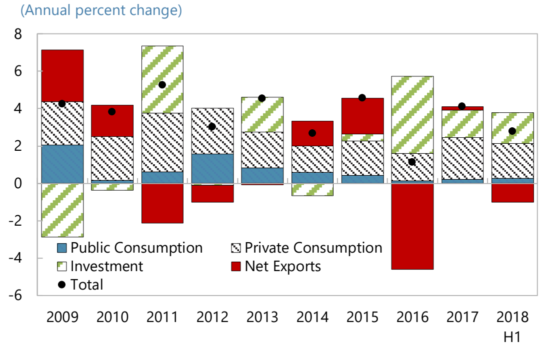


Sources: National authorities; and IMF staff estimates. Note: LFP = Labor Force Partipation.

On the demand side, private consumption continues to be the main growth driver

Contributions to GDP Growth

(Annual percent change)

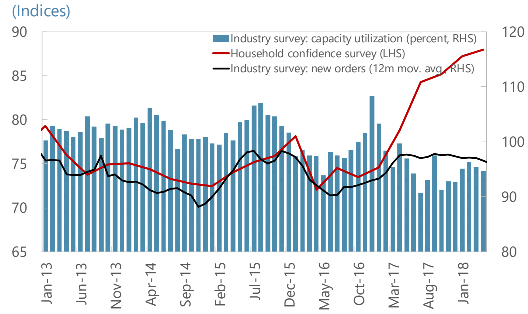


Sources: National authorities; and IMF staff estimates.

Surveys confirm strong household and business confidence in 2018

Household and Industry Confidence Surveys

(Indices)

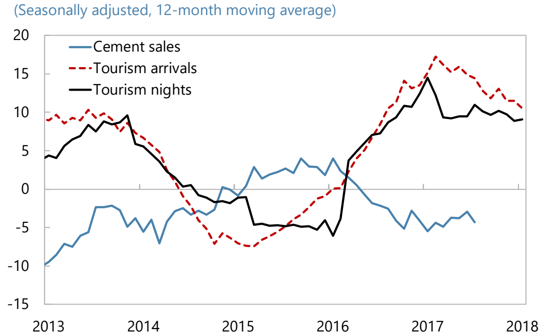


Sources: HCP; and IMF staff estimates.
Note: For the industry survey indices: greater than 100 indicates above average, less than 100 indicates below average.

High-frequency indicators point to a still strong tourism activity and subdued construction activity

Tourism and Cement Sales

(Seasonally adjusted, 12-month moving average)

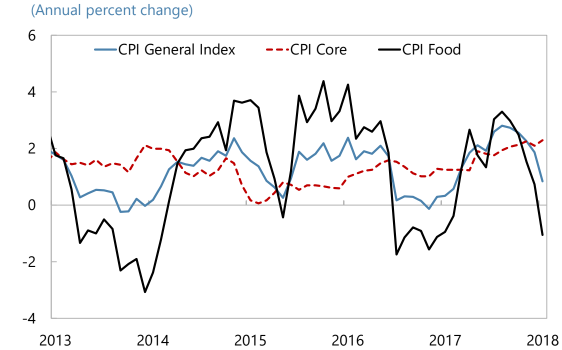


Sources: National authorities and IMF staff estimates; as of Sep. 2018.
Note: May 2018 is the latest data available for cement sales.

Inflation has remained moderate despite increases in food prices earlier this year

Inflation

(Annual percent change)

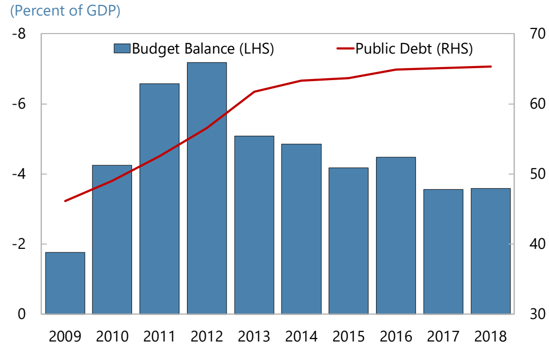


Sources: National authorities and IMF staff estimates; as of Sep. 2018.

Figure 2. Morocco: Fiscal Developments

Fiscal consolidation has slowed down in 2018…

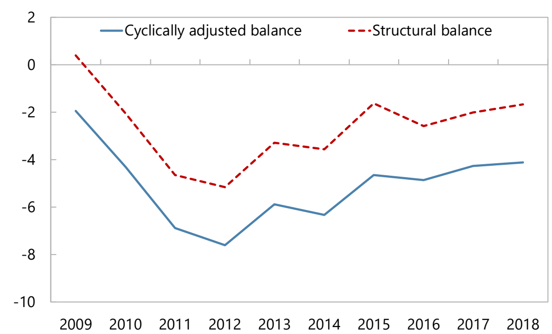
Budget Balance and Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates. Note: 2018 projected.

…but cyclical and structural fiscal balances are expected to continue improving

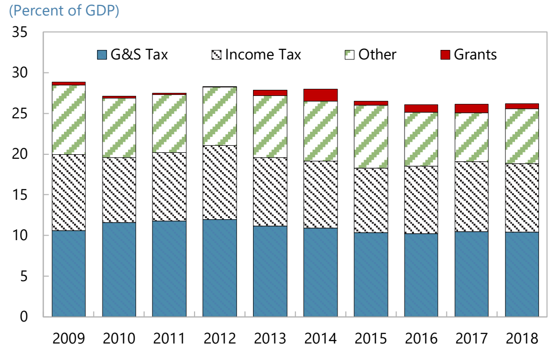
Cyclical and Structural Balance
(Percent of GDP)



Sources: National authorities; and IMF staff estimates. Note: 2018 projected.

Revenues are lower than expected due to subdued tax revenues and grants…

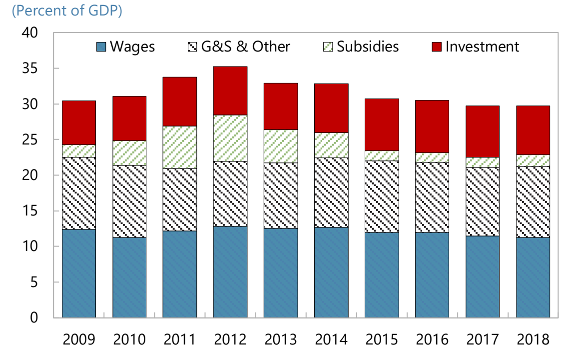
Government Revenue
(Percent of GDP)



Sources: National authorities; and IMF staff estimates. Note: 2018 projected.

…and expenditures are contained

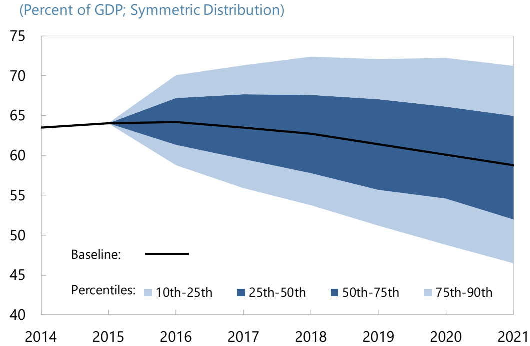
Government Expenditure
(Percent of GDP)



Sources: National authorities; and IMF staff estimates. Note: 2018 projected.

Public debt is sustainable and projected to decline gradually in the medium term

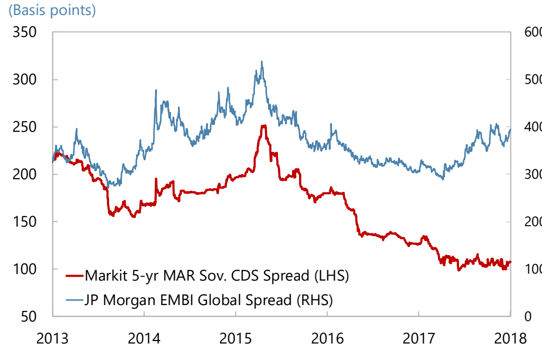
Predictive Densities of Gross Nominal Public Debt
(Percent of GDP; Symmetric Distribution)



Sources: DSA; and IMF staff estimates.

Sovereign spreads have not changed significantly in 2018 despite the increase in EMBI

CDS Spreads
(Basis points)

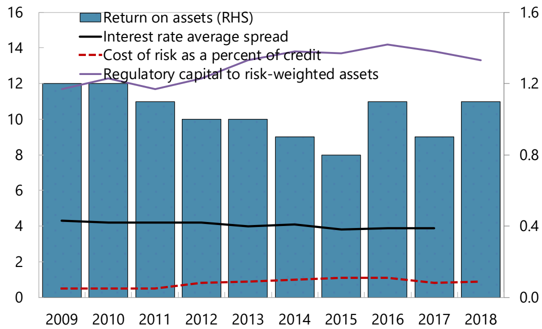


Sources: Bloomberg and Markit; as of Oct. 30th 2018.

Figure 3. Morocco: Financial Developments

Banks continue to be profitable but will need to strengthen their capitalization to absorb the impact of IFRS9

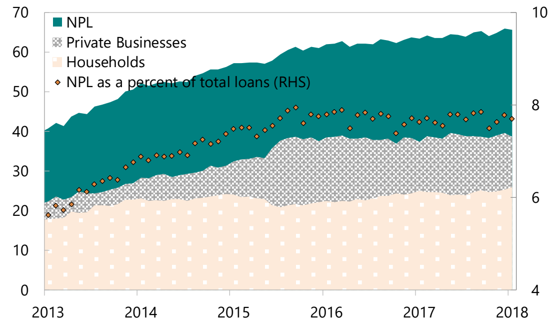
Bank Profitability and Capitalization
(Percent)



Sources: National Authorities; as of June 2018.

NPLs remain relatively high for private businesses and household loans

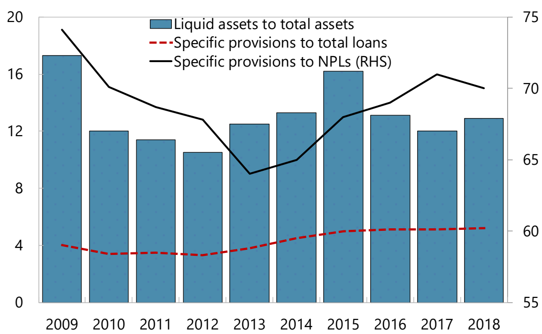
Distribution of Non-Performing Loans
(National currency, Billions)



Sources: National authorities and IMF staff estimates; as of Sep. 2018.
Note: NPL = Non-Performing loans.

Provisioning is relatively high while liquidity conditions have deteriorated

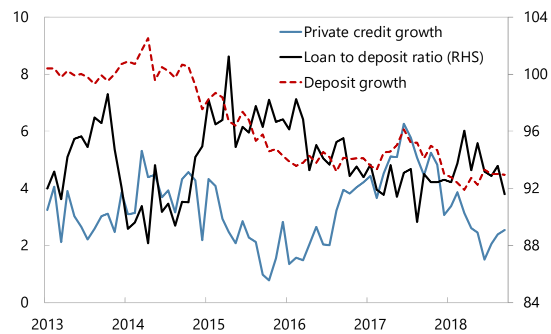
Bank Liquidity
(Percent)



Sources: National Authorities, as of June 2018.

Private credit growth remains anemic as deposit growth and loan-to-deposit ratios decline

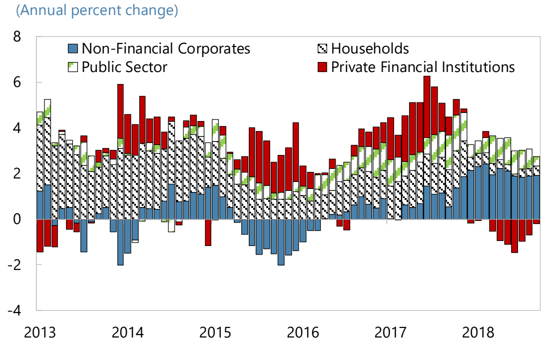
Loans and Deposits
(Annual percent change)



Sources: National authorities and IMF staff estimates; as of Sep. 2018.

Lending to non-financial corporates and public enterprises is supporting credit growth

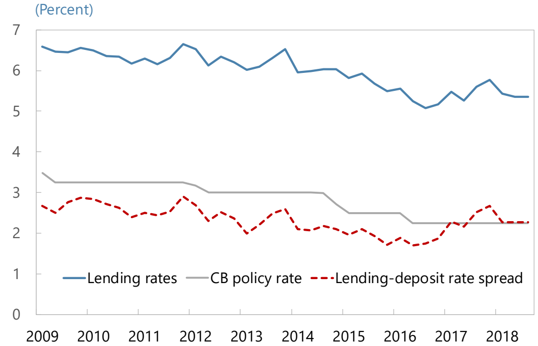
Contribution to Credit Growth
(Annual percent change)



Sources: National Authorities and IMF staff estimates; as of Sep. 2018.

Lending rates have slightly decreased since 2017

Bank Lending Rates and Interest Margin
(Percent)

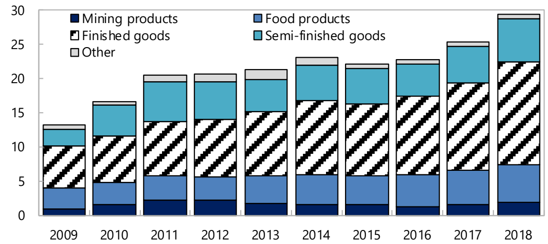


Sources: National authorities and IMF staff estimates; as of Q3 2018.

Figure 4. Morocco: External Developments

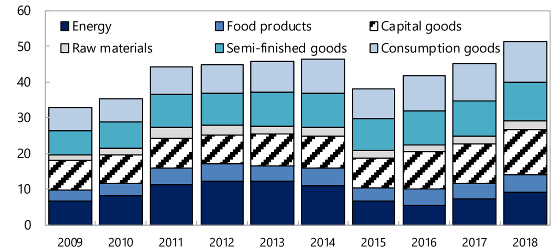
Export growth has been driven by emerging manufacturing sectors…

Exports by Type of Goods
(in US$ billions)



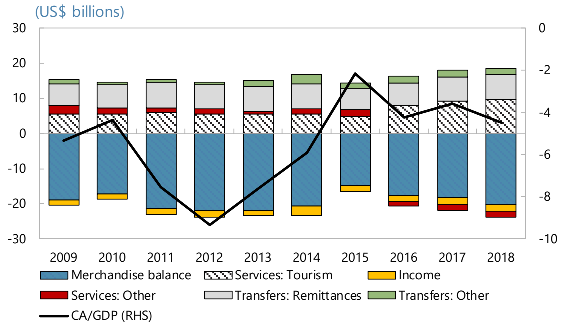
…while imports of energy, capital goods, and raw material have also increased

Imports by Type of Goods
(in US$ billions)



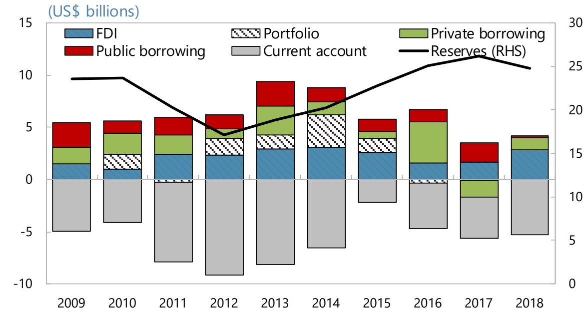
The trade deficit has been increasing since 2016, weakening the current account

Current Account Components
(US$ billions)



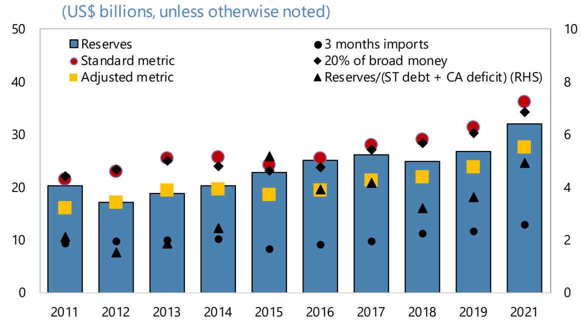
Public borrowing, FDI and private borrowing, play a key role in financing the current account deficit

Current Account Financing
(US$ billions)



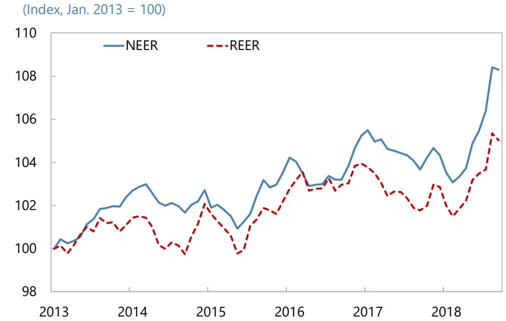
Morocco's reserves coverage is expected to improve in the medium term

Morocco: Reserve Adequacy Metrics
(US$ billions, unless otherwise noted)



The real effective exchange rate has appreciated in 2018

Real and Nominal Effective Exchange Rates
(Index, Jan. 2013 = 100)

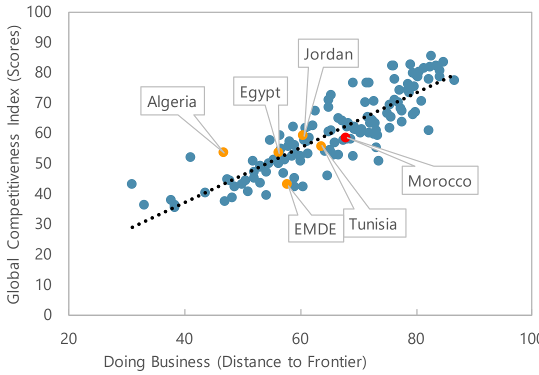


Sources: National authorities; and IMF staff estimates.
Note: 2018 values are projections.

Figure 5. Morocco: Structural Reforms

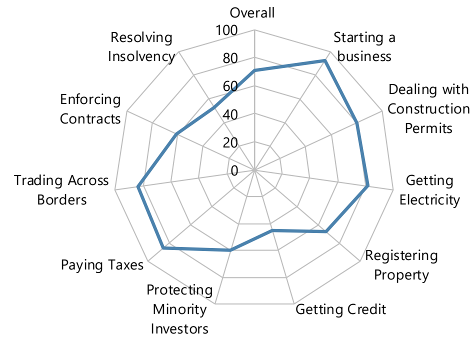
Morocco fares relatively well in terms of overall business climate and competitiveness

Doing Business and Global Competitiveness



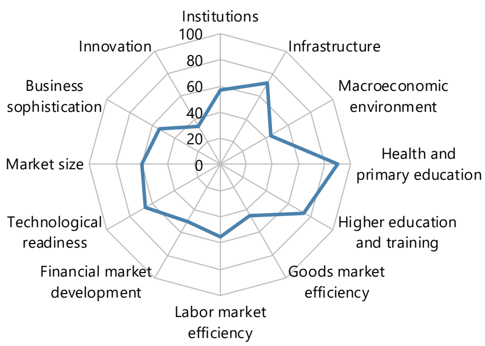
Recent reforms include a new bankruptcy law that improved the insolvency regime, and further streamlining administrative procedures

Doing Business Indicators



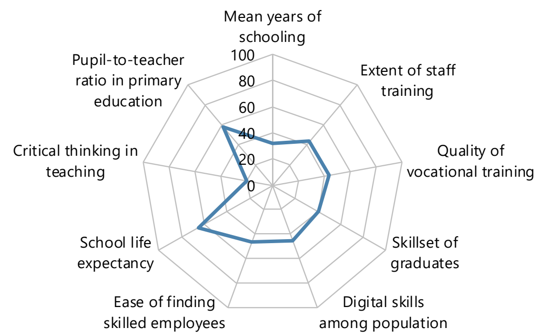
However, limited progress has been made in improving the education system and labor market functioning

Global Competitiveness Indicators



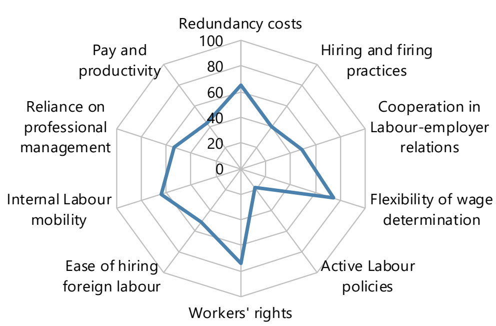
On education, efforts should focus on improving the quality of vocational training, and better evaluating teachers' performance

Education



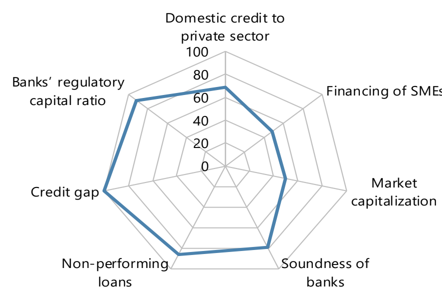
On labor market, efforts are needed to reduce regulatory rigidities and strengthen labor market policies

Labor Market



Facilitating access to finance for SMEs is a priority

Financial Development



Sources: World Bank's 2019 Doing Business Report, World Economic Forum's 2018 Global Competitiveness Report and IMF staff calculations.
The World Economic Forum's Global Competitiveness Index combines both official and survey responses from business executives on several dimensions of competitiveness. Some of the scores rely on perceptions-based data and should be interpreted with caution.
Note: Scores, 0-100, where 100 represents the optimal situation or 'frontier'.

ASSESSMENT OF QUALIFICATION

A. General Assessment

27. Staff assesses that Morocco continues to qualify for a PLL arrangement, in line with the generally positive assessment of Morocco's policies by the Executive Board during the 2017 Article IV consultation.

28. Morocco meets the qualification criteria for a PLL arrangement and performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other two areas (external position and market access, and fiscal policy). International reserves averaged 88 percent of the ARA metric over 2013–17. After improving in 2017, the external position weakened in 2018, and the underlying current account deficit remains relatively high, but it is broadly in line with fundamentals. On the fiscal front, while public debt has increased from 2012 to 2017 (from 56.5 percent to 65.1 percent of GDP), it is assessed to be sustainable with a high probability and resilient to various shocks.

29. Morocco's economic fundamentals and institutional policy frameworks are sound, the country is implementing, and has a track record of implementing, sound policies, and it remains committed to doing so in the future, all of which give confidence that Morocco will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the balance of payments difficulties that it might encounter:

- **Macroeconomic developments are broadly positive** (Box 1)**.** Growth averaged 3½ percent during the period 2012–17 and inflation remained low (less than 2 percent). Fiscal developments were favorable, with contained current expenditures offsetting weaker revenues, although the public deficit increased in 2018 due mostly to exogenous factors. The current account deficit narrowed in 2017 as capital equipment imports (related to specific infrastructure projects) and food imports stabilized, while industrial, phosphate and food exports picked up, and it is expected to widen temporarily in 2018 due to the impact of higher oil prices. Over the medium term, economic growth is projected to increase steadily in a context of moderate inflation. Both public and external debts are sustainable.

- **The authorities have implemented generally sound policies, although reform implementation has been slow.** During the last Article IV consultation, on December 13, 2017, the Executive Board welcomed the authorities' commitment to sound policies and encouraged them to accelerate reform implementation to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

- **The authorities are committed to maintain sound policies.** Although fiscal consolidation slowed down in 2018, due mostly to exogenous factors, the authorities remain committed to secure strong revenue performance, contain spending, and reduce public debt to close to 60 percent of GDP over the medium term. The authorities intend to pursue structural reforms to raise potential growth and promote higher and more inclusive growth, including by improving competitiveness and the business environment, strengthening the fight against corruption, and raising human capital.

- **Flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** On the fiscal front, OBL implementation continues to enhance the policy framework, including by helping to maintain current spending within budgeted levels. Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs well in the fiscal policy area.[6] Morocco scores lower in the monetary policy area, but this criterion is less relevant for Morocco given its pegged exchange rate regime.[7] Bank al-Maghrib (BAM) has a clear mandate to implement monetary and exchange rate policies, and the authorities are in the process of upgrading their monetary policy regime as part of the transition to greater exchange rate flexibility and inflation targeting. Finally, Morocco performs well relative to its peers in the 2017 Worldwide Governance Indicators on control of corruption and government effectiveness.[8]

Box 1. Achievements Under the Third PLL Arrangement

In an external environment subject to significant downward risks, the 2016 PLL arrangement provided insurance and support to the authorities' reform program. Growth was projected to reach 1.8 percent of GDP in 2016 and 4.8 percent in 2017. The fiscal target was set at 3.5 percent of GDP in 2016 and 3 percent of GDP in 2017. The current account deficit was projected to reach 1.2 percent in 2016, and 1.4 percent in 2017. Reserves were expected to increase to 7.6 months of imports in 2017. The macroeconomic scenario was supported by the following external assumptions and domestic reforms:

- Euro zone GDP growth was projected to improve by 0.1 percent of GDP from 2016 to 2017. Oil prices were expected to increase from US$43.1 in 2016 to US$50 in 2017.
- The authorities intended to pursue important reforms, including of the pension and the tax systems, and exchange rate flexibility. The authorities also planned to implement reforms to improve the business environment and competitiveness and raise Morocco's growth potential.

Important reforms were implemented during the third PLL arrangement. A parametric reform of the main public sector pension plan was implemented in 2017 and a pension scheme for self-employed and independent workers was adopted in November 2017. Following the full liberalization of liquid fuel prices in 2015, the authorities have focused on improving the targeting of social programs and prepared the introduction of a social registry. The transition to greater exchange rate flexibility was initiated on January 2018, with a widening of the dirham fluctuation band to +/-2.5 percent around the reference parity.

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

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

[8] Morocco scores -0.1 and -0.2 on control of corruption and government effectiveness, respectively, compared to -0.3 and -0.5 for the average emerging market and developing economy (the indexes range between +/-2.5).

Box 1. Achievements Under the Third PLL Arrangement (concluded)

Economic growth and the fiscal position improved less than expected. Real GDP growth in 2016 and 2017 was below the projections at the onset of the program, partly hampered by a severe drought (2016). The subsidy reform led to improvement in fiscal deficits, but these were still above targets, at 4.1 percent of GDP in 2016 instead of an expected 3.5 percent of GDP, and 3.6 percent of GDP in 2017 instead of 3.0 percent of GDP. This reflected the lower growth environment and grant revenues. As such, public debt was higher than projected in 2017.

Despite continued export diversification and performance, higher oil prices than forecast affected the external position. The current account deficit was above expectations, at 4.2 percent of GDP and 3.6 percent of GDP, respectively in 2016 and 2017, instead of the expected 1.2 percent and 1.4 percent of GDP. This was essentially due to larger food imports in 2016 (due to the drought), and to the higher level of international oil prices since 2017, which implied an even stronger shock than assumed under the adverse PLL scenario. Lower-than-expected net capital inflows also contributed to weaker reserves, which nevertheless remained above five months of imports during 2016-18.

Morocco: 2016 PLL[1/] vs. Current Macro Framework, 2016–18

	2016		2017		2018		Diff.
	PLL 1/	Curr.	PLL 1/	Curr.	PLL 1/	Curr.	(2018)
	(in percent of GDP; unless otherwise indicated)						
Output and Prices							
Real GDP	1.8	1.1	4.8	4.1	4.2	3.1	-1.1
Consumer prices (period average)	1.3	1.6	1.3	0.8	1.4	2.0	0.6
Public Finances							
Revenue	26.9	26.0	27.5	26.1	27.6	26.2	-1.4
Expenditure	30.4	30.5	30.5	29.7	30.4	29.8	-0.6
of which: Wages	12.3	12.0	12.3	11.5	12.3	11.3	-1.0
of which: Subsidies	1.2	1.4	0.9	1.4	0.8	1.6	0.8
Budget balance	-3.5	-4.5	-3.0	-3.6	-2.8	-3.6	-0.8
Primary balance (excluding grants)	-1.9	-2.7	-1.3	-2.1	-0.9	-1.7	-0.8
Cyclically-adjusted primary balance (excl. grants)	0.0	-2.6	0.0	-2.0	0.0	-1.7	-1.7
Total government debt	64.4	64.9	63.8	65.1	63.3	65.3	2.0
External Sector							
Exports of goods and services (in U.S. dollars, percentage change)	4.4	2.9	6.7	12.9	7.0	12.2	5.3
Imports of goods and services (in U.S. dollars, percentage change)	4.5	9.5	6.5	9.4	5.8	12.6	6.8
Merchandise trade balance	-14.3	-17.1	-14.4	-16.5	-14.2	-16.9	-2.7
Current account excluding official transfers	-2.3	-5.1	-2.3	-4.7	-2.1	-5.1	-3.0
Current account including official transfers	-1.2	-4.2	-1.4	-3.6	-1.5	-4.5	-3.0
Exports + remittances + tourism receipts (in billions of USD)	32.2	31.8	34.3	35.7	36.8	39.6	2.8
Imports, excluding petroleum (in billions of USD)	28.6	31.0	30.4	32.4	32.4	35.6	3.2
Petroleum imports (in billions of USD)	5.7	5.6	6.4	7.2	6.7	9.2	2.5
Foreign direct investment	2.5	1.5	2.4	1.5	2.4	2.4	0.0
Total external debt	32.9	34.7	32.1	34.9	31.8	33.9	2.0
Gross reserves (in billions of U.S. dollars)	26.7	25.1	30.2	26.2	34.2	24.8	-9.3
In months of next year imports of goods and services	7.1	6.1	7.6	5.7	8.1	5.2	-2.9
External Environment							
World GDP Growth	3.2	3.3	3.5	3.7	3.6	3.7	0.1
Euro area GDP Growth	1.8	1.9	1.9	2.4	1.9	2.0	0.1
Oil Brent Price ($/barrel)	43.1	44.0	50.0	54.4	52.2	71.9	19.7
Terms of trade (percentage change)	3.0	-3.8	-2.3	-3.2	-0.4	-4.3	-3.8

Sources: Moroccan authorities; and IMF staff estimates.

[1/] Refers to the macro-framework for the 2016 PLL Request.

B. Assessment of Specific Criteria

30. Morocco performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy) and does not substantially underperform in the other two areas (external position and market access, and fiscal policy). The underlying current account remains large, with a substantial trade deficit, and the external position, following an improvement in 2017, weakened in 2018. On the fiscal front, while public debt is assessed to be sustainable with a high probability and remains resilient to various shocks, it has continuously increased from 2012 to 2017, from 56.5 to 65.1 percent of GDP. This qualification has not changed since the third review of the last PLL arrangement.

External position and market access: *Morocco does not substantially underperform in the external position and market access area.*

- ***Criterion 1. Sustainable external position.*** Based on the July 2018 external balance assessment (EBA), Morocco's external position is broadly in line with fundamentals. The current account deficit narrowed in 2017 after widening substantially in 2016 due to infrastructure developments, drought, and weaker-than-expected phosphate prices. The current account improvement was supported by strong export performance in the food, phosphate and derivatives, and emerging sectors (which now account for 33 percent of total exports, against 14 percent in 2000), and strong tourism and remittance receipts. However, the current account deficit has widened in 2018, owing to high energy and capital goods imports, and should reach 4.5 percent of GDP at the end of 2018. The current account is expected to gradually improve over the medium term as exports rise, boosted by increased demand from the euro area and the expansion of higher value-added export sectors—reflecting strong FDI in the aeronautics and automotive sectors, and import growth slows in an environment of moderate commodity prices. Morocco's external debt increased in recent years but remains low, at 33.7 percent of GDP, and is expected to decline to 31 percent of GDP in the medium term.

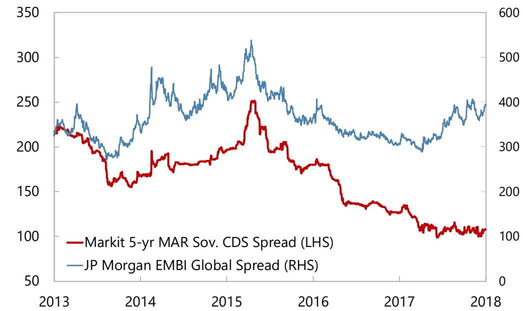
- ***Criterion 2—Capital account position dominated by private flows.*** Private capital flows constitute the largest share of the capital account (about 81 percent on average between 2015 and 2017), and FDI is their largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 10.7 percent of total debt or 3.6 percent of GDP). Loans from bilateral and development partners constitute the bulk of public capital flows.

- ***Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms.*** Morocco has not issued international bonds since 2014.[9] The authorities plan to issue in early 2019. Morocco continues to be rated favorably by major ratings agencies

[9] Morocco's latest sovereign bond issuances include a ten-year EUR1 billion bond at 3.5 percent in 2014, a ten-year US$1.5 billion bond at 4.25 percent in 2013, and a twenty-year EUR0.75 billion bonds at 5.5 percent in 2013.

despite a recent deterioration of their outlook assessment, and interest rate spreads declined further in 2018, suggesting that Morocco could tap international markets on a durable and substantial basis (even though the scale or duration of actual sovereign borrowing fell short of core indicators).[10] The average maturity of public external debt was extended to eight years and six months (against seven years and four months in 2009).

CDS Spreads
(2013–18 basis points)



Sources: Bloomberg and Markit. Note: 2018 data available until Oct. 30

- ***Criterion 4—A reserve position, which—notwithstanding potential balance of payments (BOP) pressures that justify Fund assistance—remains relatively comfortable.*** Morocco's reserves have been below 100 percent of the Assessing Reserve Adequacy (ARA) metric on average over the last three years, at 95 percent. However, they remain adequate according to several other metrics (Figure 1): 5.6 months of imports, ample coverage of short-term debt and broad money, and 110 percent of the ARA adjusted for capital controls at the end of 2017. By 2023, reserves are expected to reach about six months of imports, 93 percent of the standard ARA metric, and 121 percent of the metric adjusted for capital controls.

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

- ***Criterion 5—Sound public finance, including a sustainable public debt position.*** The authorities remain committed to a sustainable fiscal path and a track record of sound public finances. However, a deficit of 3.6 percent of GDP is expected in 2018 due mostly to exogenous factors, and the authorities aim to reduce public debt close to 60 percent of GDP over the medium term (against 65.1 percent of GDP in 2017), which will require bringing the fiscal deficit to about 3 percent of GDP by 2020.[11] Morocco's public debt is sustainable with high probability and resilient to various shocks and vulnerabilities despite high gross financing needs, which should decline due to a lengthening of average maturities (from 6 years and 6 months in 2014 to about 7 years and 3 months in 2017). Future fiscal consolidation will benefit from further tax reforms, including reduced exemptions, stronger VAT revenues, and improved corporate taxation. Civil service reform will be needed to generate long-term savings on the wage bill while strengthening the efficiency of the public sector. A range of institutional mechanisms to control risks from fiscal decentralization will need to be put in place as this reform advances.

[10] Two rating agencies downgraded their outlook for Morocco's sovereign rating in October-November 2018, mainly due to the slower pace of fiscal consolidation expected in 2018-19.

[11] The objective of lowering public debt to 60 percent of GDP may be affected by the forthcoming change in the coverage of public sector statistics. This change will entail incorporating third party deposits at the Treasury and netting out intra-governmental claims in public debt data. The incorporation of Treasury deposits (which amount to 3-5 percent of GDP) will address a statistical shortcoming observed by STA in several members, where public sector statistics are gradually being aligned with international standards. With the netting out of intra-governmental claims (especially public debt held by the social security fund), the authorities estimate that the public debt level after consolidation may decline significantly. The implication for fiscal consolidation will be reassessed once updated figures become available, in early 2019.

Finally, the authorities intend to submit to parliament a draft law to reinforce the governance and oversight of SOEs in April 2019, and to undertake a multi-year privatization plan that will bring about efficiency and performance improvements for SOEs.

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

- ***Criterion 6—Low and stable inflation***. Inflation has been in the single digits over the last five years. It remained low at 1.1 percent y-o-y in September 2018 and is expected to stabilize around 2 percent in the medium term. The monetary policy framework continues to be based on an exchange rate anchor vis-à-vis a composite basket comprising the euro and the U.S. dollar. The transition to greater exchange rate flexibility initiated in January 2018 is expected to lead to inflation targeting in the coming years, allowing the economy to better absorb external shocks. In staff's assessment, this transition is likely to proceed smoothly as pre-conditions are largely in place, and Morocco is moving from a position of strength due to reasonable fiscal and external buffers, a resilient financial sector, and restrictions on capital outflows by residents.

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

- ***Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability***. Banks have adequate capital buffers, even though these will need some further strengthening following the alignment of loan classification and provisioning rules with International Financial Reporting Standards (IFRS 9) in early 2018. Banks benefit from stable funding (mainly non-remunerated deposits). NPLs remain relatively high at 7.7 percent, but provisioning levels are comfortable (70 percent). Risks from large credit exposures persist despite strict regulatory limits. Moroccan banks' expansion into Africa provides diversification and profit opportunities but needs to be contained given the riskier local operating environment and lower regulatory standards in some of the host countries. The 2015 FSAP stress tests showed that the banking system could withstand severe shocks.

- ***Criterion 8—Effective financial sector supervision***. Bank supervision capacity is improving along the lines of the 2015 FSAP recommendations. Together with recent enhancements to the macroprudential policy framework, the oversight of Moroccan banks expanding into Africa has intensified, in close collaboration with supervisory agencies in host countries. To reduce large credit exposures, since 2016, corporate groups are required to prepare consolidated financial statements and risk weights have been raised for large connected exposures. More broadly, bank supervision is moving to a more risk-based and forward-looking approach (including about AML/CFT-related risks).

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

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

31. Morocco has a track record of sound policies. Morocco has met the PLL qualification standard since 2012. Staff's assessment of the relevant core indicators over the five most recent years confirms this assessment.

C. PLL Approval Criteria

32. Morocco does not face any of the circumstances under which the Fund may not approve a PLL arrangement. Specifically: (i) as noted above, Morocco has access to international capital markets; (ii) there is no need to undertake large macroeconomic or structural policy adjustment (neither the planned fiscal adjustment nor the expected external sector adjustment is large in international perspective); (iii) the public debt position is sustainable in the medium term, with a high probability; and, (iv) there are no widespread bank insolvencies.

DURATION AND ACCESS LEVEL

33. In the baseline scenario, because of its sound policies and fundamentals, Morocco does not face a financing gap. Gross external financing requirements are expected to stabilize around US$6.5 billion at end-2020 (Table 6) and should be financed primarily through net FDI inflows (about US$2.8 billion), and medium- and long-term borrowing. Gross international reserves are projected to strengthen to about 93 percent of the ARA metric in the absence of external shocks.

34. Nevertheless, the balance of payments remains vulnerable to external shocks, justifying continued access under a PLL arrangement. The current account deficit remains vulnerable to higher oil prices, while exports, FDI, remittances, and tourism receipts are vulnerable to lower demand in key European trading partners. These risks could weaken the current account and put pressure on reserves. The resulting financing gap abstracts from potential increased financing from other multilateral and bilateral sources, as no additional commitments have been identified in the event of a significant adverse shock. In the case of an adverse shock or if expected financing were to fall durably short, staff encourages the authorities to seek financial assistance from both multilateral and bilateral donors to meet financing needs.

35. Duration of the PLL arrangement. The authorities have expressed interest in a two-year successor arrangement. Staff believes that a two-year precautionary arrangement would indeed be appropriate, given that: (i) geopolitical and security risks, and more broadly volatile global financial conditions, are unlikely to improve markedly in the near term, and (ii) a two-year period is necessary to address remaining vulnerabilities and further strengthen macroeconomic buffers that would allow for a successful exit should external circumstances warrant.

36. Risks. Morocco is facing risks that are similar to the 2016 PLL arrangement and highlighted in the October 2018 WEO and G-RAM (External Stress Index). Specifically, the risks that would most significantly affect the Moroccan economy are:

- *Geopolitical and security risks related to the Middle East and North Africa*. These could trigger rises in oil prices, declines in tourism activity, as well as disruptions in capital flows, which could directly and substantially weaken Morocco's external position.

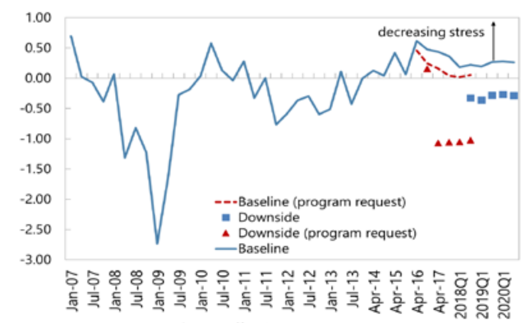
- *A protracted period of slower growth in Morocco's main euro area trading partners*. As set out in the WEO, growth prospects have been further weakened for advanced economies, including through potential spillbacks from global policy uncertainty. The resulting weak external demand would worsen the current account through lower exports and tourism receipts, as well as reduced inward FDI and remittance flows.

- *More volatile global financial conditions, particularly for emerging and frontier economies*. Heightened investor risk aversion and uncertainty, compounded by an appreciating dollar, could trigger a flight to safe assets and a pullback of capital flows from emerging economies. Morocco would face a combination of higher borrowing costs in international markets (although the share of short-term external debt is low), and lower portfolio and FDI flows.

Box 2. External Economic Stress Index

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

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates.

Risks. The main external risks for Morocco based on the October 2018 Global Risk Assessment Matrix (G-RAM), are: (i) a protracted period of slow growth in advanced economies, particularly in Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) heightened geopolitical risks resulting in higher oil prices and dislocations to capital flows and tourism receipts; and (iii) tighter global financial conditions, resulting in higher borrowing costs and disruption to portfolio flows.

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

Weights. A data-based approach was used to determine the weights for each variable. Weights for each proxy variable are estimated using the balance of payments and IIP data as a share of GDP. The weight on

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

Box 2. External Economic Stress Index (concluded)

euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts from Europe, the weights on the VXEEM (0.095) correspond to the stocks of external debt and equity, and the weight on the change in oil price (0.324) corresponds to oil imports. The highest weights fall on euro area growth and the oil price (based on their relative contribution to items on the balance of payments/financing needs). The VXEEM has a smaller weight reflecting the small size of portfolio flows in the financial account.

Baseline scenario. The baseline corresponds to the October 2018 World Economic Outlook (WEO) projections for euro area growth and oil prices, while the VXEEM is consistent with volatility index (VIX) futures as of end-September 2018. The graph suggests that, at the current juncture, external economic stresses have declined relative to the July 2016 request (solid lines). This reflects higher oil price path assumptions being largely offset by stronger EA growth and improved VXEEM index projections.

Downside scenario. The downside scenario is broadly consistent with staff's adverse scenario and assumes euro area growth that is 0.5 percentage point lower than the baseline, a US$10 increase in oil prices relative to the baseline, and an increase in the VXEEM by two standard deviations.[2] The graph suggests that in a downside scenario, external economic stresses are less severe than those at the July 2016 request.

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

[2] The scenario combines a US$15 increase in oil prices and a US$5 drop consistent with lower growth in the euro area.

37. Access level. Staff's assessment of potential balance of payments needs is predicated on a downside scenario of a disruption in capital flows, adverse oil shock, and declining tourism revenues stemming from geopolitical tensions and the related drop in investor confidence, which is consistent with past crises and with recent Flexible Credit Line country cases (Figure 6). Morocco's reserves level would not be comfortable enough to cover the financing need generated under this scenario. Indeed, staff's preliminary assessment is that the financing gap, determined by the shortfall of reserves relative to 80 percent of the Fund's ARA metric, would be consistent with a total access level of 240 percent of new quota (about US$3 billion) by 2020 (Box 3), to be disbursed in two tranches of US$1.7 and US$1.3 billion over 2019 and 2020, respectively. This access level would be lower than in the 2016 PLL arrangement, reflecting the improved balance of external risks. Indeed, some of the downside scenario risks under the previous PLL did materialize – even though the authorities did not draw on PLL resources.

38. Exit strategy. Staff considers that the authorities' policies, as described below, will be instrumental to continue reducing fiscal and external vulnerabilities and strengthening the economy's resilience. Under the baseline scenario, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be put firmly on a downward path. The current account deficit by the end of the arrangement would be close to the norm expected for an emerging market country like Morocco, while reserves would have reached a comfortable level (about 90 percent of the Fund's ARA metric). This should position Morocco well for exiting the PLL when global and regional risks subside, especially those stemming from oil prices, euro area growth prospects, or geopolitical risks. The authorities will need to communicate publicly about their exit strategy.

Box 3. Access Level

The adverse scenario assumes the simultaneous materialization of key downside risks to Morocco's balance of payments. In line with the October 2018 Global Risk Assessment Matrix (G-RAM) and World Economic Outlook (WEO), the adverse scenario entails a growth slowdown in Morocco's euro area trading partners, an upward shock to oil prices, heightened security risks in the Middle East and North Africa that could disrupt capital flows and tourism receipts,[1] and more volatile financial conditions. The shocks are broadly in line with recent FCL country cases.[2] The combined impact of these shocks would result in:

Comparison of Adverse Scenario Assumptions

Assumptions	Current	2016	2014	2012
Oil price increase (net)	US$10/year	US$15/year	US$25/year	US$10 and US$8/year
Decline in euro area growth	0.5 pp/year	1 pp/year	2.5 pp/year	4 pp and 2.5 pp/year
Decline in FDI flows	15%	30%	25%	10%
Increase in borrowing costs	100 bps	100 bps	50 bps	--

- A net increase in the oil price by about US$10. This includes: (1) an increase by US$15 attributable to a negative shock to oil producers related to geopolitical risks and supply bottlenecks; and (2) a decrease by US$5 attributable to the spillover effects on commodity markets of weak euro area growth. This would impact the current account through higher energy imports.
- A decline in euro area trading partners' growth by about 0.5 percentage point, broadly consistent with the October 2018 WEO downside scenario. This would impact the current account through lower exports and remittances (based on estimated elasticities with euro area growth).
- A net decline in tourism receipts by about 15 percent relative to the baseline, driven by a decline in euro area growth (about half of the decline; based on the 2008–13 average historical response of tourism revenues to declines in euro area growth) and heightened geopolitical risks (another half of the decline).
- A decline in FDI inflows by 15 percent and equity portfolio outflows of about 60 percent relative to the baseline. This is driven by both the decline in euro area growth and the increase in geopolitical risks.
- An increase in interest rates by 100 basis points above the baseline, reflecting increased risk aversion, tighter global financial conditions, and geopolitical uncertainty.

The financing gap is defined as the level of financial support needed to bring gross international reserves

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[1] The potential impact of heightened security risks on tourism was reduced vis-à-vis the 2016 PLL request—while these risks did materialize in the Middle East in 2016–18, Morocco's tourism revenues proved resilient.

[2] A tightening of financial conditions and intensification of trade and political tensions were the main possible shocks in the recent FCL requests from Mexico and Colombia.

Box 3. Access Level (concluded)

under the adverse scenario to 80 percent of the Fund's ARA metric. The above adverse scenario results are consistent with a potential financing need of about US$3 billion by the end of 2020 (equivalent to a total access level of 240 percent of the quota).

Size of Shock and PLL Financing, US$ millions

	Year T+1		Year T+2	
Arrangement	**Baseline**	**Adverse**	**Baseline**	**Adverse**
2012 Request				
Gross international reserves	17,932	14,012	18,762	12,552
Size of shocks		3,920		2,290
Total shock				6,210
PLL arrangement				6,200
PLL arrangement as percent of shock				100%
2014 Request				
Gross international reserves	21,082	16,121	22,678	16,929
Size of shocks		4,961		5,749
Total shock				10,710
PLL arrangement				5,000
PLL arrangement as percent of shock				47%
2016 Request				
Gross international reserves	26,738	21,045	30,179	22,565
Size of shocks		5,693		7,614
Total shock				13,307
Proposed PLL arrangement				3,556
PLL arrangement as percent of shock				27%
2018 request				
Gross international reserves	26,846	22,303	29,230	25,415
Size of shocks		4,543		3,814
Total shock				8,358
Proposed PLL arrangement				3,002
PLL arrangement as percent of shock				36%

CAPACITY TO REPAY THE FUND

39. Morocco has no outstanding debt to the Fund. Full drawing under the proposed PLL arrangement—which the authorities intend to treat as precautionary—would bring Morocco's outstanding use of GRA resources to an amount equivalent to SDR 2.15 billion.

40. Were the full amount available under the proposed PLL arrangement in the first and second year to be purchased in 2018 and 2019 (Table 5)**:**[12]

- **Morocco's total external debt would remain moderate**, with Fund credit reaching about 5 percent of total external debt at its peak.

[12] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL request, reserves and exports may be 9 percent and 2.5 percent lower respectively, suggesting peak IMF credit ratios of 12.4 percent and 6.8 percent instead of 11.3 and 6.6 percent in the table. These considerations suggest caution in interpreting Table 5.

- **External debt service would increase over the medium term**. Morocco's projected debt service to the Fund would peak in 2023 at about 1 percent of GDP.

41. The proposed arrangement would represent manageable credit and liquidity risks to the Fund (see Table 7). This assessment is supported by the rigorous ex ante and focused ex post conditionality. In line with the proposed access, the one-year forward commitment capacity (FCC) of the Fund would decrease by about 1.2 percent to about SDR 181.7 billion (Fund finances as of November 23, 2018) upon approval of the proposed PLL arrangement. The proposed access represents a small share of current total GRA commitments (1.5 percent), suggesting that the effect on the Fund's liquidity would remain manageable. Should the authorities fully draw the proposed PLL arrangement, GRA credit to Morocco would be equivalent to about 4 percent of current GRA credit outstanding (as of November 23, 2018). This amount represents about 12.4 percent of the Fund's end-FY2018 precautionary balances. Peak charges would be equivalent to about one-third of the current burden-sharing capacity.

STAFF APPRAISAL

42. Staff assesses that Morocco continues to meet the qualification criteria for access to a new PLL arrangement. Morocco has made significant strides in reducing domestic vulnerabilities in recent years despite the pick-up in oil prices and lower grants. The authorities have a track record of sound policy management and are firmly committed to implementing sound policies and accelerate the pace of reforms that have recently resumed after the slowdown of the last two years.

43. Building on progress made under past PLL arrangements, this new arrangement would help enhance macroeconomic resilience and move towards a new growth model that is more private sector-led, broad-based and inclusive. The authorities' policy priorities include continued fiscal prudence, progress toward exchange rate flexibility, reforms of taxation, governance, oversight of state owned enterprises, and sustained improvement of the business environment. They are putting great emphasis on reducing social and regional inequalities. They also aim to increase access and the quality of public services through the implementation of an ambitious structural reform agenda will aiming to secure macroeconomic resilience, raise growth potential, and further reduce inequality and unemployment, particularly among the youth.

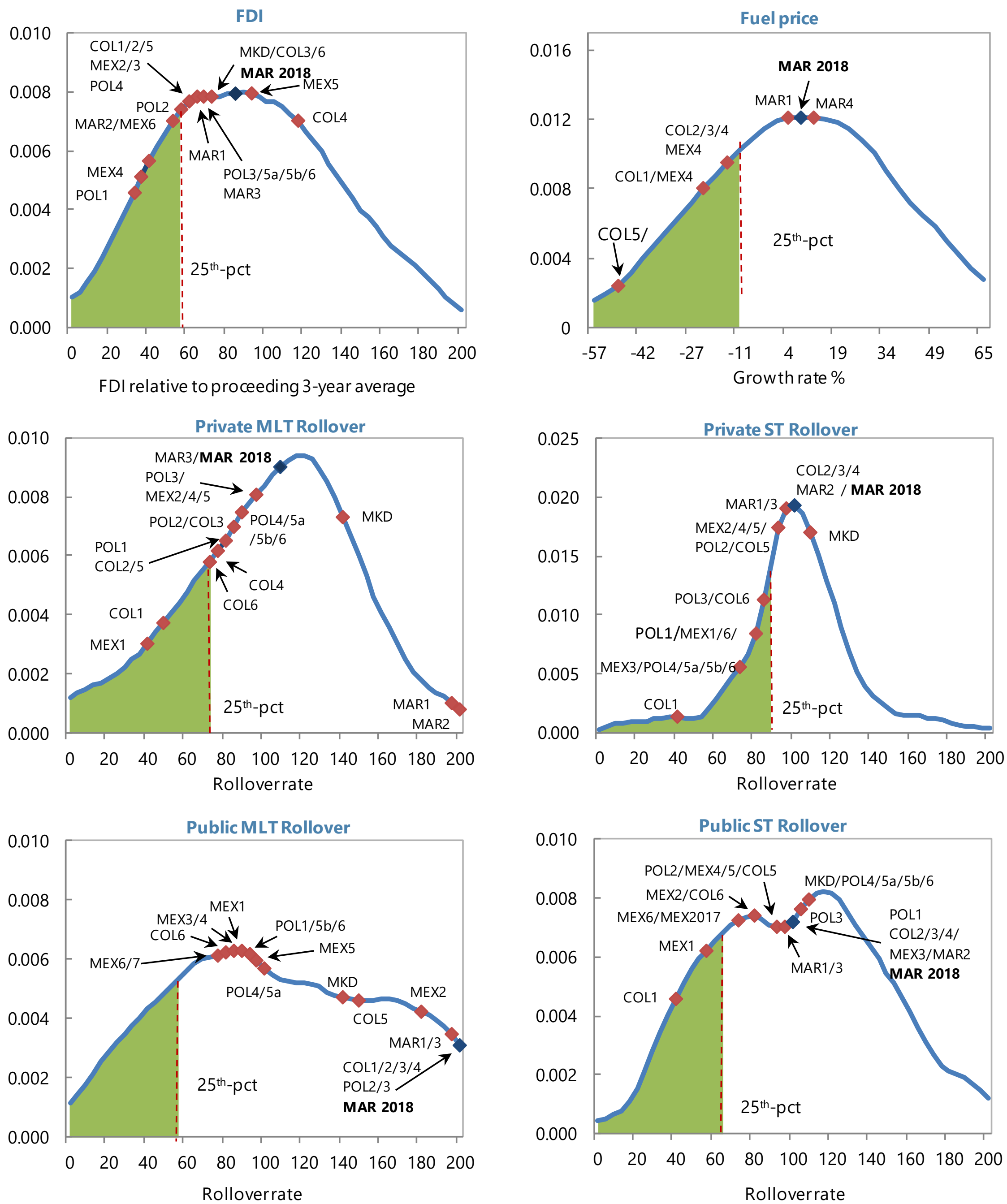
44. The authorities' policy package appropriately addresses short- and medium-term challenges. Staff considers that the program described in the authorities' written communication is appropriate. The fiscal consolidation in 2018-19 would accommodate the temporary impact of higher oil prices and address social and investment spending needs without jeopardizing medium-term sustainability. Their five-year privatization program would also bring about economic efficiency and performance improvements in the SOE sector.

45. Staff recommends the approval of a new two-year PLL arrangement of SDR 2.15 billion (240 percent of quota), of which 140 percent would be available in the first year. This access level is consistent with the size of downside risks as evaluated in staff's adverse scenario. The phasing is appropriate to help insure against the possibility that several independent risks materialize at the same time. The two-year duration is consistent with the nature, and potential persistence, of these external risk factors.

46. Staff considers that the proposed PLL arrangement carries low risks to the Fund. While Morocco intends to treat the PLL as precautionary, GRA credit to Morocco would be low even with a drawing. In addition, risks would be further mitigated by Morocco's relatively low external debt levels and debt service obligations.

Figure 6. Morocco and Selected Countries: Comparing Adverse Scenarios 1/

(Probability Density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX6 is thus the current FCL arrangement.

Table 1. Morocco: Selected Economic Indicators, 2015–23

							Proj.				
			PLL 1/	Rev.	PLL 1/	Rev.					
	2015	2016	2017		2018		2019	2020	2021	2022	2023
					(Annual percentage change)						
Output and Prices											
Real GDP	4.5	1.1	4.4	4.1	3.1	3.1	3.3	3.9	4.2	4.4	4.5
Real agriculture GDP	11.9	-13.7	15.2	15.4	-1.0	3.5	0.7	3.3	3.7	4.0	4.3
Real non-agriculture GDP	3.7	3.1	3.0	2.7	3.6	3.0	3.6	4.0	4.3	4.4	4.5
Consumer prices (end of period)	0.6	1.8	0.9	1.9	1.6	2.0	1.4	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.5	1.6	0.6	0.8	1.3	2.0	1.4	2.0	2.0	2.0	2.0
					(In percent of GDP)						
Investment and Saving											
Gross capital formation	30.8	32.6	33.9	32.6	35.0	36.0	36.9	37.4	37.8	38.2	38.6
Of which: Nongovernment	25.3	26.9	28.5	27.2	29.5	30.4	31.4	31.6	31.8	32.0	32.4
Gross national savings	28.8	28.4	30.2	28.9	31.3	31.5	32.9	34.3	34.8	35.2	35.8
Of which: Nongovernment	25.7	25.5	26.9	25.3	27.4	28.2	29.8	30.4	30.3	30.5	30.9
					(In percent of GDP)						
Public Finances											
Revenue	26.5	26.0	26.1	26.1	26.6	26.2	26.0	26.1	26.3	26.6	26.7
Expenditure	30.7	30.5	29.7	29.7	29.6	29.8	29.7	29.4	29.4	29.6	29.7
Budget balance	-4.2	-4.5	-3.5	-3.6	-3.0	-3.6	-3.7	-3.3	-3.0	-3.0	-3.0
Primary balance (excluding grants)	-1.9	-2.7	-1.9	-2.1	-1.3	-1.7	-1.5	-1.0	-0.8	-0.9	-0.6
Cyclically-adjusted primary balance (excl. grants)	-1.6	-2.6	-1.8	-2.0	-1.2	-1.7	-1.4	-1.0	-1.1	-1.4	-1.5
Total government debt	63.7	64.9	64.4	65.1	64.1	65.3	65.2	64.5	63.3	62.2	61.3
					(Annual percentage change; unless otherwise indicated)						
Monetary Sector											
Claims to the economy	1.6	5.9	4.4	3.3	...	1.3	...	...	...	...	...
Broad money	5.7	4.7	6.0	5.5	...	5.6	...	...	...	...	...
Velocity of broad money	0.9	0.8	0.8	0.8	...	0.8	...	...	...	...	...
					(In percent of GDP; unless otherwise indicated)						
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	2.9	7.2	12.9	7.4	12.2	5.5	7.2	6.0	6.2	6.4
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	5.6	9.4	6.7	12.6	3.4	4.6	5.7	6.1	6.0
Merchandise trade balance	-14.5	-17.1	-16.3	-16.5	-16.1	-16.9	-16.3	-15.3	-15.3	-15.4	-15.4
Current account excluding official transfers	-2.6	-5.1	-4.7	-4.7	-4.4	-5.1	-4.3	-3.3	-3.2	-3.2	-3.0
Current account including official transfers	-2.1	-4.2	-3.8	-3.6	-3.7	-4.5	-4.0	-3.1	-3.0	-3.0	-2.8
Foreign direct investment	2.6	1.5	1.9	1.5	2.4	2.4	1.8	2.1	2.1	2.2	2.2
Total external debt	33.9	34.7	33.7	34.9	34.0	33.9	34.1	34.0	33.2	31.7	31.1
Gross reserves (in billions of U.S. dollars)	22.8	25.1	25.8	26.2	28.3	24.8	26.8	29.2	32.1	34.4	38.2
In months of next year imports of goods and services	6.0	6.1	6.1	5.7	6.3	5.2	5.4	5.5	5.7	5.8	6.2
In percent of Fund reserve adequacy metric 2/	93.6	98.6	92.9	93.4	95.2	85.3	85.4	86.2	88.7	89.3	93.0
In percent of CA deficit and ST debt at rem. mat. basis	517.5	393.5	402.1	420.3	423.2	322.5	364.9	444.1	479.3	506.7	567.9
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	101.2	103.35	109.9	109.7	117.8	118.5	122.9	131.0	139.5	148.9	159.1
Nominal GDP per capita (in U.S. dollars, percent change)	-9.0	1.1	4.9	5.0	6.1	6.8	2.7	5.5	5.4	5.7	5.8
Output gap (percentage points of non-agricultural GDP)	-0.2	-0.8	-0.8	-1.2	-0.2	-0.8	-0.2	0.2	0.0	0.0	0.0
Unemployment rate (in percent)	9.7	9.9	10.2	10.2	...	...	...	...	...	...	...
Population (millions)	34.1	34.5	34.9	34.9	35.2	35.2	35.6	36.0	36.3	36.7	37.0
Population growth (in percent)	1.05	1.06	1.06	1.06	1.06	1.06	1.04	1.03	1.00	0.98	0.96
Net imports of energy products (in billions of U.S. dollars)	-6.8	-5.6	-7.0	-7.2	-7.6	-9.2	-9.4	-9.5	-9.8	-10.2	-10.6
Local currency per U.S. dollar (period average)	9.8	9.8	...	9.7	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	0.4	2.0	...	-0.1	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the Third Review Under PLL Arrangement in Country Report No. 18/58.

2/ Based on revised ARA weights.

Table 2a. Morocco: Budgetary Central Government Finance, 2015–23

(Billions of dirhams)

							Proj.				
			PLL 1/	Rev.	PLL 1/	Rev.					
	2015	2016	2017		2018		2019	2020	2021	2022	2023
Revenue	262.1	264.0	278.3	278.0	294.8	290.1	301.6	320.1	342.7	367.2	391.8
Taxes	208.9	216.9	232.9	231.3	244.2	241.2	259.0	277.2	297.2	319.0	340.7
Taxes on income, profits, and capital gains	78.6	83.7	90.1	92.0	96.8	93.8	101.5	108.6	116.2	124.5	132.9
Taxes on property	14.1	13.6	15.7	13.3	15.2	15.2	19.2	20.3	21.5	24.1	24.4
Taxes on goods and services	102.0	103.9	111.8	111.0	115.1	115.1	122.4	131.7	141.9	151.7	163.5
Taxes on international trade and transactions	8.1	9.5	9.3	9.0	10.0	10.0	9.6	10.0	10.6	11.2	11.9
Other taxes	6.1	6.3	6.0	5.9	7.1	7.1	6.3	6.6	7.0	7.5	7.9
Grants	5.0	9.1	10.2	11.4	8.1	6.4	3.2	1.2	1.2	1.2	1.2
Other revenue	48.3	38.0	35.3	35.4	42.5	42.5	39.4	41.7	44.2	47.0	49.9
Expense	248.5	251.6	258.3	258.5	267.0	267.8	280.8	289.1	304.1	323.5	344.3
Compensation of employees	118.5	121.2	125.2	121.9	127.3	124.9	130.8	133.0	135.2	137.6	142.4
Of which: wages and salaries	103.0	104.9	106.7	104.6	108.9	106.4	112.2	113.9	115.8	117.9	120.8
social contributions	15.5	16.3	18.5	17.3	18.5	18.5	18.6	19.1	19.4	19.8	21.7
Use of goods and services and grants	72.0	72.5	76.1	75.3	84.2	83.2	87.8	95.8	108.6	122.3	131.5
Of which: Use of goods and services	25.4	26.7	26.2	27.4	28.5	27.5	30.2	30.6	34.1	36.2	38.5
Grants	46.6	45.8	49.9	47.9	55.7	55.7	57.6	65.2	74.4	86.0	93.0
Interest	27.3	27.1	27.6	27.1	27.1	27.0	28.7	29.0	29.8	31.2	35.3
Subsidies	14.0	14.1	14.7	15.3	13.7	18.1	18.4	14.1	11.1	10.4	10.1
Other expenses 2/	16.8	16.8	14.8	18.8	14.6	14.6	15.1	17.2	19.5	22.1	25.0
Net acquisition of nonfinancial assets	54.8	57.8	57.8	57.4	61.1	62.0	63.3	71.1	78.0	85.7	91.0
Net lending / borrowing (overall balance)	-41.2	-45.4	-37.7	-37.9	-33.3	-39.8	-42.5	-40.2	-39.5	-42.0	-43.5
Net lending / borrowing (incl. privatization)	-41.2	-43.9	-37.7	-37.9	-33.3	-39.8	-37.5	-35.2	-34.5	-39.0	-40.5
Net lending / borrowing (incl. privatization excl. grants)	-46.2	-53.0	-47.9	-49.2	-41.4	-46.2	-40.7	-36.4	-35.7	-40.2	-41.7
Net lending / borrowing (excluding grants)	-46.2	-54.5	-47.9	-49.2	-41.4	-46.2	-45.7	-41.4	-40.7	-43.2	-44.7
Change in net financial worth	-41.2	-45.4	-37.7	-37.9	-33.3	-39.8	-42.5	-40.2	-39.5	-42.0	-43.5
Net acquisition of financial assets	0.0	-1.5	0.0	0.0	0.0	0.0	-5.0	-5.0	-5.0	-3.0	-3.0
Domestic	0.0	-1.5	0.0	0.0	0.0	0.0	-5.0	-5.0	-5.0	-3.0	-3.0
Shares and other equity	0.0	-1.5	0.0	0.0	0.0	0.0	-5.0	-5.0	-5.0	-3.0	-3.0
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	41.2	43.9	37.7	37.9	33.3	39.8	37.5	35.2	34.5	39.0	40.5
Domestic	40.9	41.1	34.4	28.8	16.1	41.5	18.8	17.9	21.1	36.1	26.9
Currency and Deposits	0.7	5.5	2.0	2.0	1.0	4.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	42.9	27.0	32.4	26.8	15.1	37.5	17.8	16.9	20.1	35.1	25.9
Other accounts payable	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	2.8	3.3	9.0	17.1	-1.7	18.7	17.2	13.4	3.0	13.6
Memorandum Item:											
Total investment (including capital transfers)	71.6	74.6	72.5	76.2	75.7	76.6	78.4	88.3	97.6	107.8	116.0
GDP	988.0	1,013.6	1,064.5	1,063.3	1,108.4	1,108.3	1,159.0	1,226.0	1,300.7	1,381.6	1,468.0

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

1/ Refers to the macro framework for the Third Review Under PLL Arrangement in Country Report No. 18/58.

2/ Includes capital transfers to public entities.

Table 2b. Morocco: Budgetary Central Government Finance, 2015–23

(Percent of GDP)

			PLL 1/	Rev.	PLL 1/	Rev.	Proj.				
	2015	2016	2017		2018		2019	2020	2021	2022	2023
Revenue	25.6	26.0	26.1	26.1	26.6	26.2	26.0	26.1	26.3	26.6	26.7
Taxes	20.5	21.4	21.9	21.8	22.0	21.8	22.3	22.6	22.9	23.1	23.2
Taxes on income, profits, and capital gains	7.7	8.3	8.5	8.7	8.7	8.5	8.8	8.9	8.9	9.0	9.1
Taxes on property	1.4	1.3	1.5	1.3	1.4	1.4	1.7	1.7	1.7	1.7	1.7
Taxes on goods and services	10.2	10.3	10.5	10.4	10.4	10.4	10.6	10.7	10.9	11.0	11.1
Taxes on international trade and transactions	0.8	0.9	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Other taxes	0.4	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.0	0.9	1.0	1.1	0.7	0.6	0.3	0.1	0.1	0.1	0.1
Other revenue	4.1	3.7	3.3	3.3	3.8	3.8	3.4	3.4	3.4	3.4	3.4
Expense	25.2	24.8	24.3	24.3	24.1	24.2	24.2	23.6	23.4	23.4	23.5
Compensation of employees	12.1	12.0	11.8	11.5	11.5	11.3	11.3	10.8	10.4	10.0	9.7
Of which: wages and salaries	10.3	10.3	10.0	9.8	9.8	9.6	9.7	9.3	8.9	8.5	8.2
social contributions	1.8	1.6	1.7	1.6	1.7	1.7	1.6	1.6	1.5	1.4	1.5
Use of goods and services and grants	7.2	7.2	7.1	7.1	7.6	7.5	7.6	7.8	8.3	8.9	9.0
Of which: Use of goods and services	2.8	2.6	2.5	2.6	2.6	2.5	2.6	2.5	2.6	2.6	2.6
Grants	4.4	4.5	4.7	4.5	5.0	5.0	5.0	5.3	5.7	6.2	6.3
Interest	2.8	2.7	2.6	2.5	2.4	2.4	2.5	2.4	2.3	2.3	2.4
Subsidies	1.7	1.4	1.4	1.4	1.2	1.6	1.6	1.2	0.8	0.8	0.7
Other expenses 2/	1.5	1.7	1.4	1.8	1.3	1.3	1.3	1.4	1.5	1.6	1.7
Net acquisition of nonfinancial assets	4.7	5.7	5.4	5.4	5.5	5.6	5.5	5.8	6.0	6.2	6.2
Net lending / borrowing (overall balance)	-4.3	-4.5	-3.5	-3.6	-3.0	-3.6	-3.7	-3.3	-3.0	-3.0	-3.0
Net lending / borrowing (incl. privatization)	-4.3	-4.3	-3.5	-3.6	-3.0	-3.6	-3.2	-2.9	-2.7	-2.8	-2.8
Net lending / borrowing (incl. privatization excl. grants)	-5.3	-5.2	-4.5	-4.6	-3.7	-4.2	-3.5	-3.0	-2.7	-2.9	-2.8
Net lending / borrowing (excluding grants)	-5.3	-5.4	-4.5	-4.6	-3.7	-4.2	-3.9	-3.4	-3.1	-3.1	-3.0
Cyclical adjusted balance	-5.0	-4.9	-4.4	-4.3	-3.7	-4.1	-3.9	-3.4	-3.4	-3.7	-3.9
Change in net financial worth	-4.3	-4.5	-3.5	-3.6	-3.0	-3.6	-3.7	-3.3	-3.0	-3.0	-3.0
Net acquisition of financial assets	0.0	-0.2	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2
Domestic	0.0	-0.2	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	-0.2	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	4.3	4.3	3.5	3.6	3.0	3.6	3.2	2.9	2.7	2.8	2.8
Domestic	4.1	4.1	3.2	2.7	1.5	3.7	1.6	1.5	1.6	2.6	1.8
Currency and Deposits	0.0	0.5	0.2	0.2	0.1	0.4	0.1	0.1	0.1	0.1	0.1
Securities other than shares	4.9	2.7	3.2	2.5	1.5	3.4	1.5	1.4	1.5	2.5	1.8
Other accounts payable	-0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.2	0.3	0.3	0.8	1.5	-0.2	1.6	1.4	1.0	0.2	0.9
Memorandum items:											
Total investment (including capital transfers)	6.2	7.4	6.8	7.2	6.8	6.9	6.8	7.2	7.5	7.8	7.9
Total government debt 3/		64.9	64.4	65.1	64.1	65.3	65.2	64.5	63.3	62.2	61.3
Deposits at the Treasury from third parties		5.5	5.7	5.5	5.8	5.3	5.2	5.0	4.8	4.6	4.4

Sources: Ministry of Economy and Finance; and IMF staff estimates.
1/ Refers to the macro framework for the Third Review Under PLL Arrangement in Country Report No. 18/58.
2/ Includes capital transfers to public entities.
3/ Does not include deposits at the Treasury from third parties (SOEs, private entities and individuals).

Table 3. Morocco: Balance of Payments, 2015–23

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

			Proj.									
			Art. IV	PLL 1/	Rev.	PLL 1/	Rev.					
	2015	2016		2017		2018		2019	2020	2021	2022	2023
Current account	-2.2	-4.4	-4.3	-4.2	-3.9	-4.4	-5.3	-4.9	-4.1	-4.2	-4.5	-4.4
Trade balance	-14.7	-17.7	-18.0	-17.9	-18.1	-19.0	-20.0	-20.0	-20.1	-21.4	-22.9	-24.5
Exports, f.o.b.	18.6	18.9	20.5	20.7	21.5	22.1	24.8	26.5	28.7	30.5	32.4	34.6
Food products	4.2	4.6	5.0	4.9	5.1	5.2	5.5	5.8	6.2	6.6	6.9	7.7
Phosphates and derived products	4.5	4.0	4.3	4.4	4.5	4.8	5.3	5.7	6.3	6.7	7.2	8.0
Automobiles	5.0	5.6	5.9	5.9	6.0	6.3	7.4	8.8	9.6	10.5	11.6	12.6
Imports, f.o.b.	-33.3	-36.6	-38.5	-38.6	-39.6	-41.1	-44.8	-46.4	-48.8	-51.9	-55.4	-59.1
Energy	-6.8	-5.6	-6.9	-7.0	-7.2	-7.6	-9.2	-9.4	-9.5	-9.8	-10.2	-10.6
Capital goods	-8.4	-10.6	-10.7	-10.7	-11.2	-11.3	-12.4	-12.8	-13.5	-14.5	-15.5	-16.5
Food products	-3.6	-4.5	-4.2	-4.4	-4.4	-4.5	-4.9	-5.2	-5.6	-6.0	-6.6	-7.2
Services	6.8	6.8	6.9	6.9	7.4	7.5	7.8	8.3	9.0	9.8	10.7	11.7
Tourism receipts	6.3	6.5	6.9	6.9	7.4	7.5	7.8	8.0	8.4	8.8	9.4	10.1
Income	-1.9	-1.7	-1.9	-1.9	-2.0	-2.1	-2.0	-2.1	-2.3	-2.4	-2.6	-2.7
Transfers	7.7	8.2	8.7	8.7	8.8	9.2	8.9	8.9	9.3	9.8	10.3	11.0
Private transfers (net)	7.2	7.3	7.7	7.7	7.6	8.4	8.2	8.5	9.0	9.5	10.0	10.7
Workers' remittances	6.1	6.4	6.6	6.6	6.8	7.1	7.0	7.3	7.8	8.2	8.7	9.3
Official grants (net)	0.5	1.0	1.0	1.0	1.2	0.8	0.8	0.4	0.2	0.3	0.3	0.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.8	6.3	2.2	3.3	1.8	6.6	4.2	6.7	6.4	7.0	6.6	8.2
Direct investment	2.6	1.6	2.1	2.1	1.7	2.8	2.8	2.2	2.8	2.9	3.2	3.5
Portfolio investment	1.3	-0.3	-0.5	-0.5	-0.1	1.8	0.0	1.6	0.2	1.4	0.3	1.4
Other	1.8	5.1	0.6	1.7	0.2	2.1	1.3	2.9	3.4	2.6	3.1	3.3
Private	0.7	3.9	0.0	1.0	-1.6	1.3	1.1	2.2	2.4	2.4	2.5	2.7
Public medium-and long-term loans (net)	1.2	1.2	0.6	0.6	1.8	0.8	0.2	0.6	1.0	0.2	0.6	0.6
Disbursements	2.8	3.2	3.0	3.0	3.7	2.8	2.3	2.9	3.3	2.7	2.7	2.7
Amortization	-1.6	-2.1	-2.4	-2.4	-1.9	-2.1	-2.1	-2.2	-2.3	-2.5	-2.1	-2.1
Reserve asset accumulation (-increase)	-4.3	-2.8	2.1	0.9	0.9	-2.2	1.1	-1.8	-2.3	-2.7	-2.1	-3.7
Errors and omissions	0.7	0.8	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)							
Current account	-2.1	-4.2	-3.9	-3.8	-3.6	-3.7	-4.5	-4.0	-3.1	-3.0	-3.0	-2.8
Trade balance	-14.5	-17.1	-16.4	-16.3	-16.5	-16.1	-16.9	-16.3	-15.3	-15.3	-15.4	-15.4
Exports, f.o.b.	18.4	18.3	18.6	18.9	19.6	18.8	20.9	21.5	21.9	21.9	21.8	21.8
Food products	4.2	4.5	4.5	4.4	4.6	4.4	4.6	4.7	4.7	4.7	4.7	4.8
Phosphates and derived products	4.5	3.9	3.9	4.1	4.1	4.1	4.5	4.7	4.8	4.8	4.8	5.0
Automobiles	4.9	5.4	5.3	5.4	5.5	5.3	6.2	7.1	7.3	7.5	7.8	7.9
Imports, f.o.b.	-32.9	-35.4	-35.0	-35.2	-36.1	-34.9	-37.8	-37.8	-37.2	-37.2	-37.2	-37.2
Energy	-6.7	-5.4	-6.3	-6.3	-6.5	-6.5	-7.8	-7.7	-7.2	-7.0	-6.8	-6.7
Capital goods	-8.3	-10.2	-9.7	-9.7	-10.2	-9.6	-10.5	-10.4	-10.3	-10.4	-10.4	-10.4
Food products	-3.6	-4.4	-3.8	-4.1	-4.0	-3.8	-4.2	-4.2	-4.2	-4.3	-4.4	-4.5
Services	6.7	6.6	6.3	6.3	6.8	6.4	6.6	6.8	6.9	7.1	7.2	7.4
Tourism receipts	6.2	6.3	6.3	6.3	6.8	6.4	6.6	6.5	6.4	6.3	6.3	6.3
Income	-1.9	-1.6	-1.7	-1.7	-1.8	-1.8	-1.7	-1.7	-1.8	-1.7	-1.7	-1.7
Transfers	7.6	7.9	7.9	7.9	8.0	7.8	7.6	7.3	7.1	7.0	6.9	6.9
Private transfers (net)	7.1	7.0	7.0	7.0	6.9	7.1	6.9	6.9	6.9	6.8	6.7	6.7
Workers' remittances	6.1	6.1	6.0	6.0	6.2	6.0	5.9	6.0	6.0	5.9	5.8	5.8
Official grants (net)	0.5	0.9	0.9	0.9	1.1	0.7	0.7	0.4	0.2	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.1	2.0	3.0	1.7	5.6	3.5	5.4	4.9	5.0	4.4	5.1
Direct investment	2.6	1.5	1.9	1.9	1.5	2.4	2.4	1.8	2.1	2.1	2.2	2.2
Portfolio investment	1.3	-0.3	-0.4	-0.4	-0.1	1.5	0.0	1.3	0.2	1.0	0.2	0.9
Other	1.8	4.9	0.6	1.5	0.2	1.7	1.1	2.3	2.6	1.9	2.1	2.0
Private	0.7	3.8	0.0	0.9	-1.4	1.1	1.0	1.8	1.8	1.7	1.7	1.7
Public medium-and long-term loans (net)	1.2	1.1	0.6	0.6	1.7	0.6	0.2	0.5	0.8	0.1	0.4	0.4
Disbursements	2.8	3.1	2.8	2.8	3.4	2.4	2.0	2.3	2.5	1.9	1.8	1.7
Amortization	-1.6	-2.0	-2.2	-2.2	-1.7	-1.7	-1.8	-1.8	-1.8	-1.8	-1.4	-1.3
Memorandum items:												
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	2.9	6.5	7.2	12.9	7.4	12.2	5.5	7.2	6.0	6.2	6.4
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	5.3	5.6	9.4	6.7	12.6	3.4	4.6	5.7	6.1	6.0
Current account balance excluding official grants (percent of GDP)	-2.6	-5.1	-4.8	-4.7	-4.7	-4.4	-5.1	-4.3	-3.3	-3.2	-3.2	-3.0
Terms of trade (percentage change) 2/	7.5	-3.8	-0.1	-2.5	-3.2	-1.7	-4.3	0.4	0.9	0.8	0.8	0.9
Gross official reserves 3/	22.8	25.1	24.8	25.8	26.2	28.3	24.8	26.8	29.2	32.1	34.4	38.2
In months of prospective imports of GNFS	6.0	6.1	5.9	6.1	5.7	6.3	5.2	5.4	5.5	5.7	5.8	6.2
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	93.6	98.6	90.3	92.9	93.4	95.2	85.3	85.4	86.2	88.7	89.3	93.0
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	122.9	128.7	119.5	122.5	123.2	125.5	112.8	112.6	113.1	116.4	117.3	121.9
Debt service (percent of export of GNFS and remittances) 5/	6.9	7.8	8.3	8.3	6.6	7.0	6.5	6.4	6.3	6.0	5.5	5.2
External public and publicly guaranteed debt (percent of GDP)	30.5	30.8	29.9	29.9	31.0	30.4	30.3	30.8	30.8	30.2	28.8	28.3
DHs per US$, period average	9.8	9.8	…	…	…	…	…	…	…	…	…	…
GDP (US$)	101.2	103.3	110.0	109.9	109.7	117.8	118.5	122.9	131.0	139.5	148.9	159.1
Oil price (US$/barrel; Brent)	52.4	44.0	51.4	54.3	54.4	61.4	71.9	72.3	69.4	66.8	65.0	63.9

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

1/ Refers to the macro framework for the Third Review Under PLL Arrangement in Country Report No. 18/58.

2/ Based on WEO data for actual and projections.

3/ Excluding the reserve position in the Fund.

4/ Based on revised ARA weights.

5/ Public and publicly guaranteed debt.

Table 4. Morocco: Monetary Survey, 2015–18

	2015	2016	2017 PLL 1/	2017 Rev.	2018
			(Billions of dirhams)		
Net International Reserves	222.1	249.2	239.1	240.9	229.2
Of which: Gross reserves	225.4	253.5	245.0	244.3	234.0
Memo item: Deposit money banks	8.3	-1.8	25.1	27.7	30.6
Net domestic assets	926.0	953.2	1,035.5	1,027.4	1,110.1
Domestic claims	1,052.1	1,100.0	998.7	1,158.0	1,188.8
Net claims on the government	148.0	142.4	136.2	168.6	186.6
Banking system	148.0	142.4	136.2	168.6	186.6
Bank Al-Maghrib	-1.2	-0.3	-0.5	0.2	0.0
Of which: deposits	-6.0	-4.9	-5.2	-3.9	-4.0
Deposit money banks	149.2	142.6	136.7	168.4	186.6
Claims to the economy	904.2	957.6	862.5	989.4	1,002.2
Other liabilities, net	-126.2	-146.9	-36.8	-130.6	-160.8
Broad money	1,148.0	1,202.4	1,274.6	1,268.3	1,339.3
Money	707.1	751.9	799.4	810.2	860.3
Currency outside banks	192.6	203.2	212.9	218.8	228.1
Demand deposits	514.4	548.6	586.5	591.4	632.2
Quasi money	401.7	407.3	423.6	417.0	433.7
Foreign deposits	39.3	43.2	51.5	41.1	45.3
			(Annual percentage change)		
Net International Reserves	23.7	12.2	-4.1	-3.3	-4.9
Net domestic assets	2.1	2.9	8.6	7.8	8.1
Domestic credit	1.8	4.6	3.1	5.3	2.7
Net claims on the government	3.0	-3.8	-4.3	18.4	10.7
Claims to the economy	1.6	5.9	4.4	3.3	1.3
Banking credit	2.8	4.2	5.0	3.1	3.0
Broad money	5.7	4.7	6.0	5.5	5.6
			(Change in percent of broad money)		
Net International Reserves	3.9	2.4	-0.7	-0.7	-0.9
Domestic credit	1.7	4.2	2.5	4.8	2.4
Net claims on the government	0.4	-0.5	-0.5	2.2	1.4
Claims to the economy	1.3	4.7	3.0	2.6	1.0
Memorandum items:					
Velocity (GDP/M3)	0.86	0.84	0.84	0.84	0.83
Velocity (non-agr. GDP/M3)	0.76	0.75	0.73	0.74	0.72
Claims to economy/GDP (in percent)	91.5	94.5	81.0	93.0	90.4
Claims to economy/nonagricultural GDP (in percent)	103.6	106.1	92.6	104.9	103.5

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

1/ Refers to the macro framework for the Third Review Under PLL Arrangement in Country Report No. 18/58.

Table 5. Morocco: Capacity to Repay Indicators, 2018–25 1/

	2018	2019	2020	2021	2022	2023	2024	2025
Exposure and repayments (in SDR million)								
GRA credit to Morocco	1,250.7	2,150.8	2,150.8	2,150.8	1,525.5	450.1	0.0	0.0
(In percent of quota)	139.8	279.5	240.5	240.5	170.6	50.3	0.0	0.0
Charges due on GRA credit	6.3	27.2	50.5	54.0	46.8	25.8	7.5	0.5
Principal due on GRA credit	0.0	0.0	0.0	0.0	625.3	1,075.4	450.1	0.0
Debt service due on GRA credit	6.3	27.2	50.5	54.0	672.1	1,101.2	457.6	0.5
Debt and debt service ratios								
In percent of GDP								
Total external debt	35.1	36.9	36.5	35.6	33.3	31.6	30.5	29.9
Public external debt	31.5	33.3	32.9	32.0	30.0	28.3	27.3	26.7
GRA credit to Morocco	1.5	2.5	2.3	2.2	1.4	0.4	0.0	0.0
Total external debt service	2.7	2.7	2.5	2.4	2.8	3.0	2.2	1.7
Public external debt service	1.7	1.7	1.6	1.5	1.9	2.2	1.5	1.0
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.6	1.0	0.4	0.0
In percent of gross international reserves								
Total external debt	167.3	168.9	163.6	154.6	144.5	131.6	126.8	123.8
Public external debt	150.4	152.3	147.4	139.2	129.9	117.8	113.4	110.8
GRA credit to Morocco	7.1	11.3	10.4	9.4	6.3	1.7	0.0	0.0
In percent of exports of goods and services								
Total external debt	123.4	133.5	140.5	145.6	146.4	149.9	155.5	162.5
Public external debt	110.8	120.2	126.3	130.8	131.3	134.2	139.1	145.3
GRA credit to Morocco	4.1	6.6	6.2	5.8	3.9	1.1	0.0	0.0
In percent of total external debt								
GRA credit to Morocco	3.3	5.0	4.4	4.0	2.7	0.7	0.0	0.0
In percent of public external debt								
GRA credit to Morocco	3.7	5.5	4.9	4.5	3.0	0.8	0.0	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	118.5	122.9	131.0	139.5	148.9	159.1	169.9	181.4
Gross international reserves (in billions of U.S. dollars)	24.8	26.8	29.2	32.1	34.4	38.2	40.9	43.7
Exports of goods and services (in billions of U.S. dollars)	43.4	45.8	49.1	52.0	55.2	58.8	62.6	66.6
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.

1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 240 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary, and the table presents the full drawing scenario.

Table 6. Morocco: External Financing Requirements and Sources, 2017–20

(Millions of dollars, unless otherwise specified)

	2017	2018	2019		2020	
		Baseline	Baseline	Adverse 1/	Baseline	Adverse 1/
Gross financing requirements	5,824	7,477	7,149	10,288	6,452	9,725
Current account deficit	3,922	5,295	4,876	8,016	4,097	7,370
Trade deficit	18,137	20,041	19,983	21,677	20,099	21,852
Transfers and other deficits	(14,216)	(14,746)	(15,106)	(13,661)	(16,002)	(14,482)
ST debt amortization	52	59	57	57	56	56
MLT debt amortization	1,850	2,124	2,216	2,216	2,299	2,299
Financing Sources	5,824	7,477	7,149	10,288	6,452	9,725
FDI (net)	1,691	2,849	2,174	1,847	2,754	2,341
Portfolio investment	(126)	-	1,643	657	214	86
of which: bond issuance	1,011	1,047	1,039	416	1,047	419
ST debt disbursement	59	57	56	56	57	57
MLT debt disbursement	3,680	2,327	2,863	2,863	3,298	3,298
Change in gross reserves (- : accumulation)	935	1,113	(1,808)	2,736	(2,260)	1,554
Other 2/	(415)	1,131	2,221	2,129	2,390	2,390
Size of shock to reserves				4,543		3,814
Gross international reserves (GIR)	26,207	24,825	26,846	22,303	29,230	25,415
Reserve adequacy metric	28,070	29,106	31,434	30,491	33,927	32,909
GIR as a percentage of standard ARA metric 3/	93	85	85	73	86	77
Financing gap of GIR relative to 80 percent of standard ARA metric			1,699	(2,090)	2,089	(912)
In percent of quota				166		72

Source: IMF staff calculations.

1/ The adverse scenario assumes: (1) an oil price shock of +$15/bb (2) a decrease in euro area growth by 1 percentage point; (3) a decline FDI and tourism receipts by 30 percent relative to the baseline; (4) a decline in portfolio flows by 60 percent and an increase in borrowing costs by 100

2/ Includes all other net financial flows, capital account balance and net errors and omissions.

3/ The standard reserve adequacy metric is computed as 30 percent of short term debt (at a remaining maturity basis) + 20 percent of portfolio liabilities + 10 percent of broad money + 10 percent of exports.

Table 7. Morocco: Impact on GRA Finances

(In millions of SDR, unless otherwise indicated)

	As of 11/23/2018
Liquidity measures	
FCC including the proposed PLL for Morocco 1/	181,688
Percent reduction	-1.2
Commitment in percent of total GRA commitments 2/	1.5
Prudential measures, assuming full PLL drawing	
Fund GRA commitment to Morocco including credit outstanding	
In percent of total GRA credit outstanding 3/	3.9
In percent of current precautionary balances	12.4
Peak charges to current burden sharing capacity ratio 4/	0.3
Memorandum items	
Forward Commitment Capacity (FCC) before approval	183,838
Total GRA Commitments 2/	142,713
Fund's precautionary balances (FY2018)	17,400

Sources: Finance Department and IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. Currently the FCC does not include resources under the New Arrangements to Borrow for new commitments or resources under 2016 Bilateral Borrowings Agreements.

2/ Total GRA commitments are equal to credit outstanding plus undisbursed balances of current arrangements (excl. Morocco).

3/ Based on current Fund credit oustanding plus full drawings under the proposed PLL.

4/ Includes surcharges. Takes into account the loss in capacity due to nonpayment of burden sharing by members in arrears.

Table 8. Morocco: Financial Soundness Indicators, 2015–18
(Percent, unless otherwise indicated)

		2016				2017				2018	
	2015	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Regulatory capital 1/											
Regulatory capital to risk-weighted assets	13.7		13.7 (*)	na	14.2	na	13.7	na	13.8	na	13,3 (*)
Tier 1 capital to risk weighted assets	11.4		11.1 (*)	na	11.5	na	11.0	na	10.9	na	10 (*)
Capital to assets	9.1	9.2	9.4	9.3	9.1	9.1	9.1	9.1	9.1	9.0	9.1
Asset quality											
Sectoral distribution of loans to total loans											
Industry	18.0	18.9	18.5	18.8	17.8	17.7	17.8	17.8	17.1	17.5	17.8
Of which: agro-business	3.6	3.7	3.3	3.4	3.1	3.3	3.3	3.4	3.3	3.4	3.5
Of which: textile	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Of which: gas and electricity	6.3	6.5	6.3	6.2	6.2	6.2	6.2	6.2	5.5	5.7	5.6
Agriculture	4.0	4.3	4.1	4.2	4.0	3.8	3.6	3.7	3.8	3.7	3.6
Commerce	6.4	6.5	6.7	6.5	6.4	6.3	6.7	6.7	6.7	6.6	6.6
Construction	10.7	11.5	11.4	11.6	11.2	11.2	11.2	11.1	11.3	11.4	11.2
Tourism	1.9	2.2	2.1	2.1	1.9	2.0	1.9	2.0	1.8	1.9	1.8
Finance	13.4	11.1	11.8	11.6	13.1	12.3	13.0	11.6	12.7	11.3	11.6
Public administration	4.5	4.7	4.9	4.5	4.7	4.8	4.6	4.6	4.9	5.6	5.7
Transportation and communication	4.2	4.1	4.6	4.4	4.1	4.1	4.8	4.7	4.5	4.3	4.7
Households	32.3	33.5	32.8	33.3	32.4	33.2	32.4	33.2	32.6	33.3	32.7
Other	4.6	3.2	3.1	3.0	4.4	4.6	4.0	4.6	4.6	4.4	4.3
FX-loans to total loans	2.5	2.8	2.6	2.6	2.7	2.7	2.8	2.4	2.3	2.6	2.7
Credit to the private sector to total loans	91.0	91.0	90.5	90.9	89.5	89.9	89.9	89.5	89.2	88.1	88.3
Nonperforming Loans (NPLs) to total loans	7.4	7.8	7.7	8.0	7.6	7.8	7.5	7.8	7.5	7.7	7.5
Specific provisions to NPLs	68.0	67.0	67.0	68.0	69.0	70.0	70.0	69.0	71.0	70.0	70.0
NPLs, net of provisions, to Tier 1 capital	17.8	18.8	18.4	18.7	17.3	17.5	16.3	17.3	15.8	16.6	16.4
Large exposures to Tier 1 capital	294.0		302.0	na	297.4	na	318.0	na	284	302	296
Loans to subsidiaries to total loans	7.0	7.4	7.2	5.8	7.8	8.1	8.8	8.7	8.5	8.4	8.3
Loans to shareholders to total loans	1.7	1.9	1.4	0.7	1.1	1.3	1.0	0.8	0.6	0.8	0.8
Specific provisions to total loans	5.0	5.3	5.1	5.3	5.3	5.4	5.3	5.4	5.3	5.4	5.2
General provisions to total loans	0.8	0.9	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Profitability											
Return on assets (ROA)	0.8	na	1.1	na	1.1	na	1.1	na	0.9	na	1.1
Return on equity (ROE)	9.1	na	11.7	na	11.4	na	11.2	na	9.5	na	11.6
Interest rate average spread (b/w loans and deposits)	3.8	na	3.8	na	3.9	na	4.0	na	3.9	na	na
Interest return on credit	5.0	na	5.0	na	5.0	na	4.9	na	4.9	na	na
Cost of risk as a percent of credit	1.1	na	1.2	na	1.1	na	0.9	na	0.8	na	0.9
Net interest margin to net banking product (NPB) 2/	72.0	na	67.9	na	70.6	na	71.4	na	70.1	na	72.5
Operating expenses to NPB	49.1	na	43.9	na	46.2	na	46.4	na	50.6	na	46.5
Operating expenses to total assets	1.9	na	1.9	na	1.9	na	1.9	na	1.9	na	1.82
Personnel expenses to noninterest expenses	47.4	na	47.6	na	47.5	na	47.5	na	47.5	na	46.4
Trading and other noninterest income to NPB	28.0	na	32.1	na	29.4	na	28.6	na	29.9	na	27.5
Liquidity											
Liquid assets to total assets	16.1	14.3	13.0	13.1	14.5	13.5	11.8	11.7	13.7	11.9	12.9
Liquid assets to short-term liabilities	21.2	18.7	17.1	16.8	18.6	17.1	15.7	15.2	17.3	15.2	14.4
Deposits to loans	104.3	106.6	105.4	105.0	105.0	105.1	104.2	106.2	107.5	107.7	104.9
Deposits of state-owned enterprises to total deposits	2.9	2.3	1.9	2.0	2.7	2.0	2.4	2.2	2.4	1.9	1.9
Sensitivity to market risk											
FX net open position to Tier 1 Capital	7.4		5.6	na	4.1	na	5.6	na	7.0	na	na

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

Annex I. Public Debt Sustainability Analysis (DSA)

Morocco's public debt remains sustainable. While the gross debt-to-GDP ratio declined between 2000 and 2010, external shocks and domestic factors have caused the ratio to rise again since then. Nevertheless, at about 65.1 percent of GDP at the end of 2017, public debt remains sustainable, and the DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear to be moderate for the most part. Gross financing needs (mainly linked to the rollover of existing debt) have exceeded the benchmark of 15 percent of GDP in 2014, but are now declining, further mitigating rollover risks.

1. **This DSA updates the analysis conducted at the 2017 Article IV Consultation.** The overall analysis is largely unchanged, and public debt remains sustainable. A small revision to real GDP growth projections for 2018–23 has not affected the debt to GDP ratio significantly. However, higher fiscal deficits than envisaged at the 2017 Article IV Consultation, due to exogenous factors in 2018-19 (i.e. elevated international butane prices and lower grant revenue) and increased social spending going forward, had slightly moved public debt path upward. The debt to GDP ratio is, however, expected to reduce over the medium term given that the authorities plan to resume fiscal consolidation in 2020, and finance a small portion of fiscal deficits through privatization.

2. **After declining in the previous decade, Morocco's public debt to GDP ratio started rising in 2010 following a deterioration in its macroeconomic performance.** The increase in public debt to GDP has been mostly driven by the levels of the primary deficit and higher-than-expected real interest rate/growth differential. In early 2010s, rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 65.1 percent in 2017. About half of this increase occurred in 2012, when the economy was most affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices, and the authorities encountered difficulties in containing the fiscal deficit. International butane prices have increased subsidies above projected level in 2018 and contributed to a higher-than-budgeted primary deficit. As a result, public debt is projected to increase moderately to 65.3 percent in 2018, as economic growth is expected to remain robust. The authorities' plan to reduce and stabilize the fiscal deficit around 3 percent of GDP by 2020, and the use of a portion of privatization proceeds to lower government financing needs, would contribute to reduce public debt to GDP ratio close to 60 percent of GDP over the medium term.

3. **Public debt is generally resilient to shocks, but there are residual risks linked to financing needs and, to a lesser extent, the currency composition (heat map).** Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts over the medium term, aimed at lowering and stabilizing the overall deficit to about 3 percent of GDP in 2020-23, do not appear exceptional relative to the distribution of other country cases. The debt level remains well below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance where it slightly approaches the benchmark. Vulnerabilities

linked to the profile of debt are mostly moderate and short-term debt on downward path in recent years represents a very small part of the total debt (about 12.3 percent at end-2017). Relevant indicators (except bond spread over U.S. bonds) exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (chart). Gross financing needs, which exceeded the benchmark of 15 percent in 2014, declined under that benchmark in 2015, and are expected to continue declining over the medium term due to a lengthening of average maturities through improved debt management. Although gross financing needs could increase under the shock scenario, the nature of the investment base (mostly local investors, many of whom are long-term investors) mitigates the associated risks. Nonetheless, these risks highlight the importance of continuing the path of fiscal consolidation to reduce debt-financed deficits, and of carefully managing the maturity profile of public debt.

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

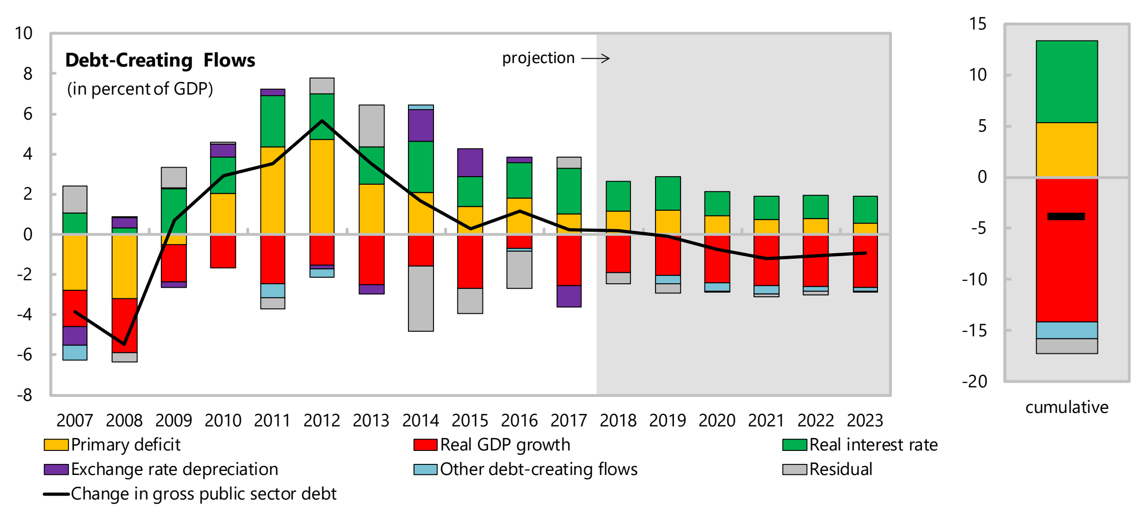
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of October 09, 2018		
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	54.6	64.9	65.1	65.3	65.2	64.5	63.3	62.2	61.3	EMBI (bp) 2/		374
Public gross financing needs	14.2	10.8	7.2	9.5	12.1	12.0	10.9	11.2	10.7	CDS (bp)		109
Real GDP growth (in percent)	4.2	1.1	4.1	3.1	3.3	3.9	4.2	4.4	4.5	Ratings [3/]	Foreign	Local
Inflation (GDP deflator, in percent)	1.4	1.4	0.4	1.5	1.3	1.8	1.8	1.8	1.7	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	5.6	2.6	4.9	4.2	4.6	5.8	6.1	6.2	6.3	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	5.0	4.3	4.1	3.9	4.0	3.8	3.8	3.8	4.1	Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.0	1.2	0.3	0.2	-0.1	-0.8	-1.2	-1.1	-0.9	-3.8	
Identified debt-creating flows	1.0	3.0	-0.3	0.7	0.4	-0.7	-1.1	-0.9	-0.9	-2.4	
Primary deficit	1.2	1.8	1.0	1.2	1.2	0.9	0.7	0.8	0.6	5.3	-1.5
Primary (noninterest) revenue and gra	28.1	26.0	26.1	26.2	26.0	26.1	26.3	26.6	26.7	157.9	
Primary (noninterest) expenditure	29.3	27.9	27.2	27.3	27.2	27.0	27.1	27.4	27.2	163.2	
Automatic debt dynamics [5/]	0.0	1.3	-1.3	-0.4	-0.4	-1.2	-1.4	-1.5	-1.3	-6.1	
Interest rate/growth differential [6/]	-0.3	1.1	-0.3	-0.4	-0.4	-1.2	-1.4	-1.5	-1.3	-6.1	
Of which: real interest rate	1.8	1.8	2.3	1.5	1.7	1.2	1.2	1.1	1.4	8.0	
Of which: real GDP growth	-2.1	-0.7	-2.6	-1.9	-2.0	-2.4	-2.6	-2.6	-2.6	-14.1	
Exchange rate depreciation [7/]	0.3	0.3	-1.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	-1.6	
CG: Privatization Proceeds (negative)	-0.2	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	-1.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.0	-1.8	0.6	-0.5	-0.5	-0.1	-0.1	-0.2	0.0	-1.4	



Source: IMF staff.

1/ Public sector is defined as central government and debt figures do not incorporate deposits at the Treasury from third parties (SOEs, private entities and individuals).

2/ Bond Spread over U.S. Bonds.

3/ Based on available data. Moody's credit rating is unsolicited.

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

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

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

7/ The exchange rate contribution is derived from the numerator in footnote 5/ as ae(1+r).

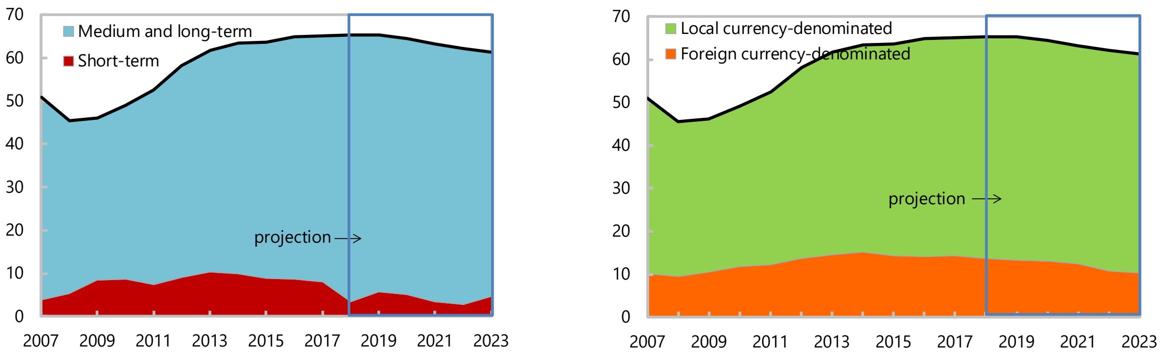
8/ For projections, this line includes exchange rate changes during the projection period.

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

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

Composition of Public Debt

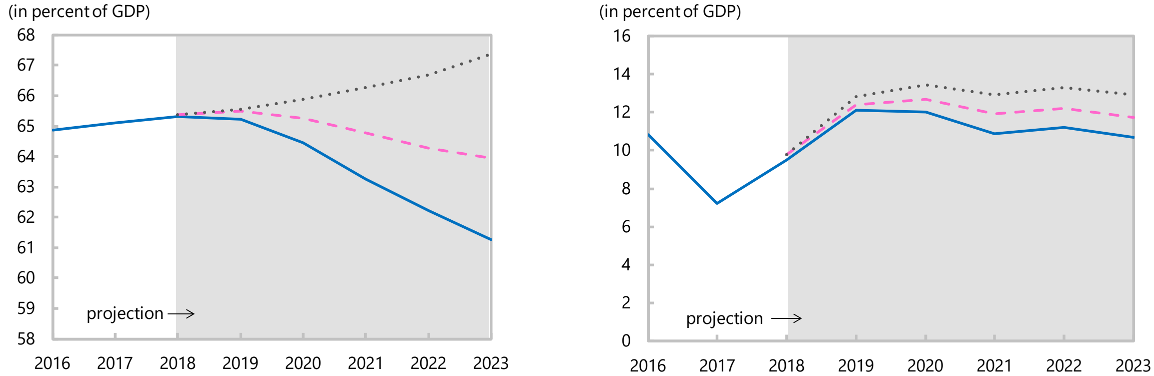
By Maturity (in percent of GDP) | **By Currency** (in percent of GDP)



Alternative Scenarios

Baseline | Historical | Constant Primary Balance

Gross Nominal Public Debt (in percent of GDP) | **Public Gross Financing Needs** (in percent of GDP)



Underlying Assumptions
(in percent)

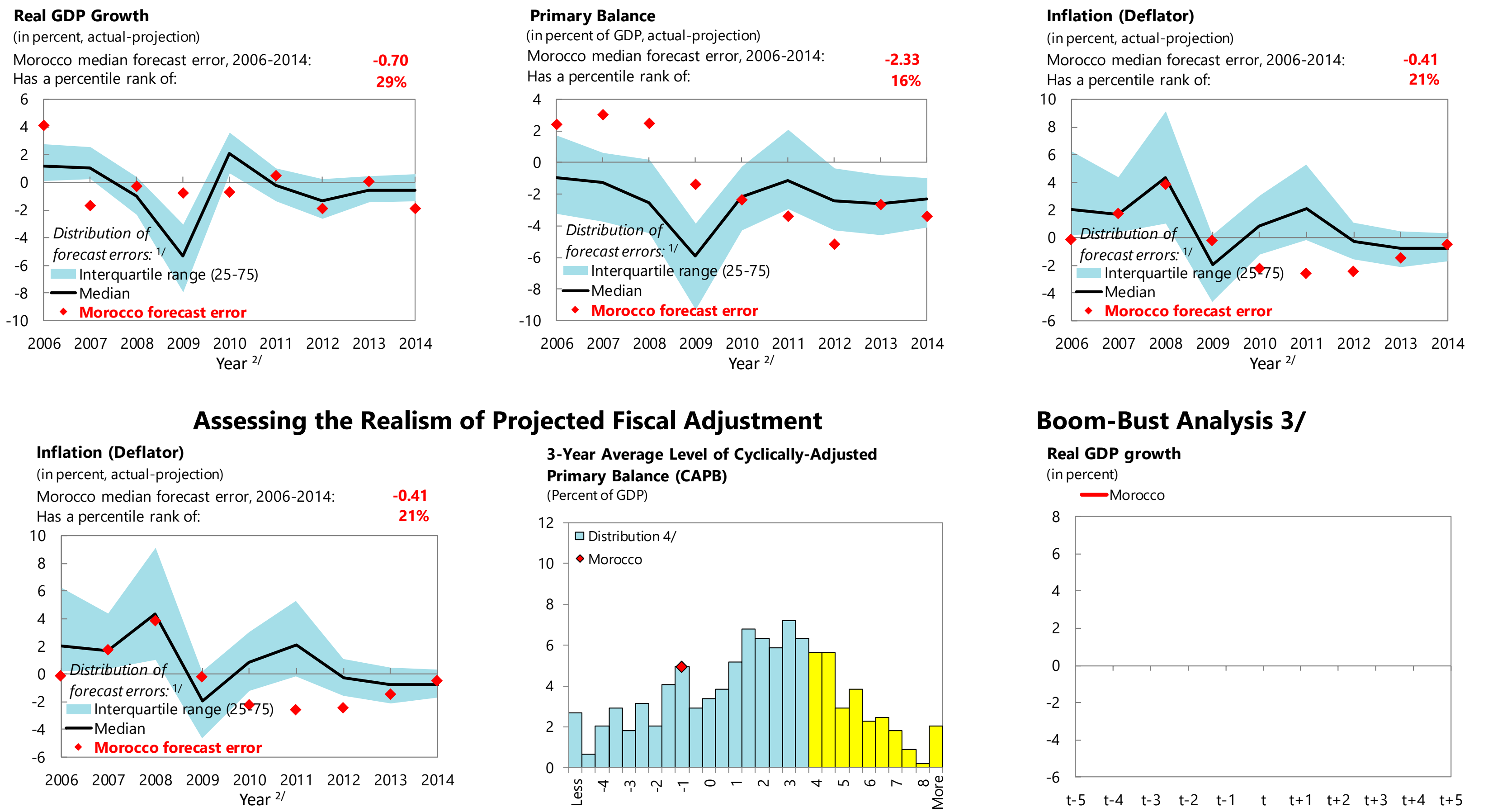
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.1	3.3	3.9	4.2	4.4	4.5
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary Balance	-1.2	-1.2	-0.9	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.0	3.8	3.8	3.8	4.1
Constant Primary Balance Scenario						
Real GDP growth	3.1	3.3	3.9	4.2	4.4	4.5
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary Balance	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	3.9	4.3	4.3	4.3	4.2	4.2

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.1	3.9	3.9	3.9	3.9	3.9
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary Balance	-1.2	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	3.9	4.3	4.5	4.6	4.6	4.6

Source: IMF staff.

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

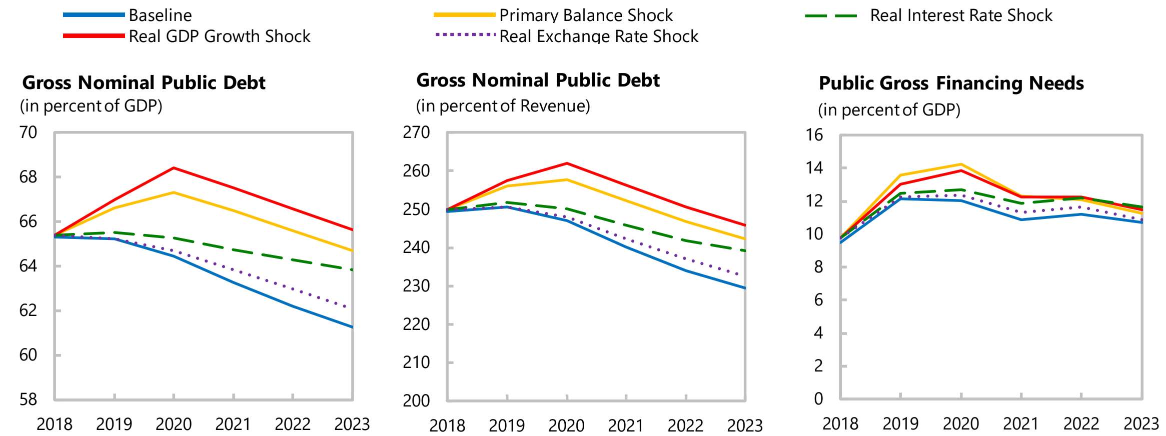
Forecast Track Record, Versus All Countries



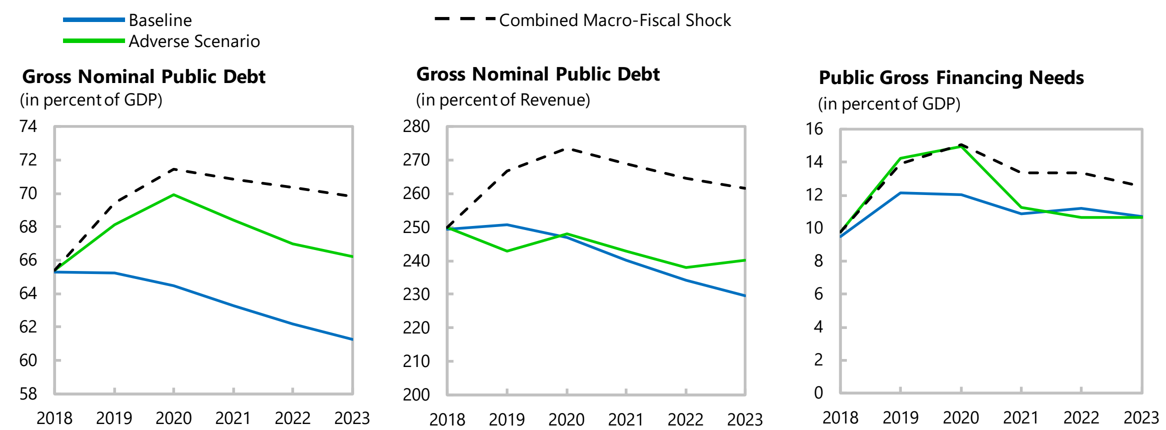
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Morocco.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.1	3.3	3.9	4.2	4.4	4.5
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary balance	-1.2	-2.3	-2.0	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.3	4.3	4.5	4.2	4.2
Real Interest Rate Shock						
Real GDP growth	3.1	3.3	3.9	4.2	4.4	4.5
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary balance	-1.2	-1.2	-0.9	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.3	4.7	4.9	4.8	5.0
Combined Shock						
Real GDP growth	3.1	1.9	2.5	4.2	4.4	4.5
Inflation	1.5	0.9	1.5	1.8	1.8	1.7
Primary balance	-1.2	-2.3	-2.0	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.4	4.7	5.0	4.9	5.1
Adverse Scenario						
Real GDP growth	3.1	1.6	2.3	2.6	2.7	2.9
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary balance	-1.2	-2.8	-2.1	1.1	0.8	0.3
Effective interest rate	3.9	4.3	4.5	4.6	4.2	4.3

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.1	1.9	2.5	4.2	4.4	4.5
Inflation	1.5	0.9	1.5	1.8	1.8	1.7
Primary balance	-1.2	-1.6	-1.7	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.3	4.3	4.4	4.2	4.2
Real Exchange Rate Shock						
Real GDP growth	3.1	3.3	3.9	4.2	4.4	4.5
Inflation	1.5	4.4	1.8	1.8	1.8	1.7
Primary balance	-1.2	-1.2	-0.9	-0.7	-0.8	-0.6
Effective interest rate	3.9	4.4	4.2	4.3	4.1	4.2

Source: IMF staff.

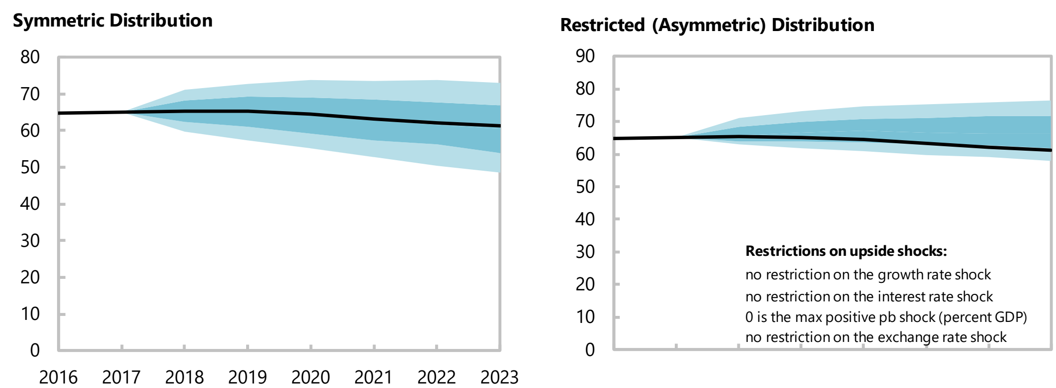
Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

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

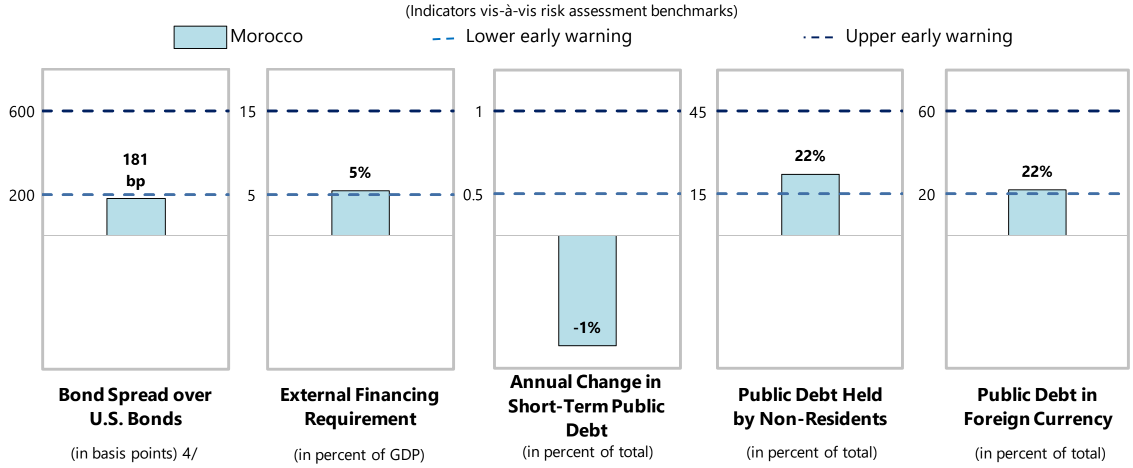
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

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

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

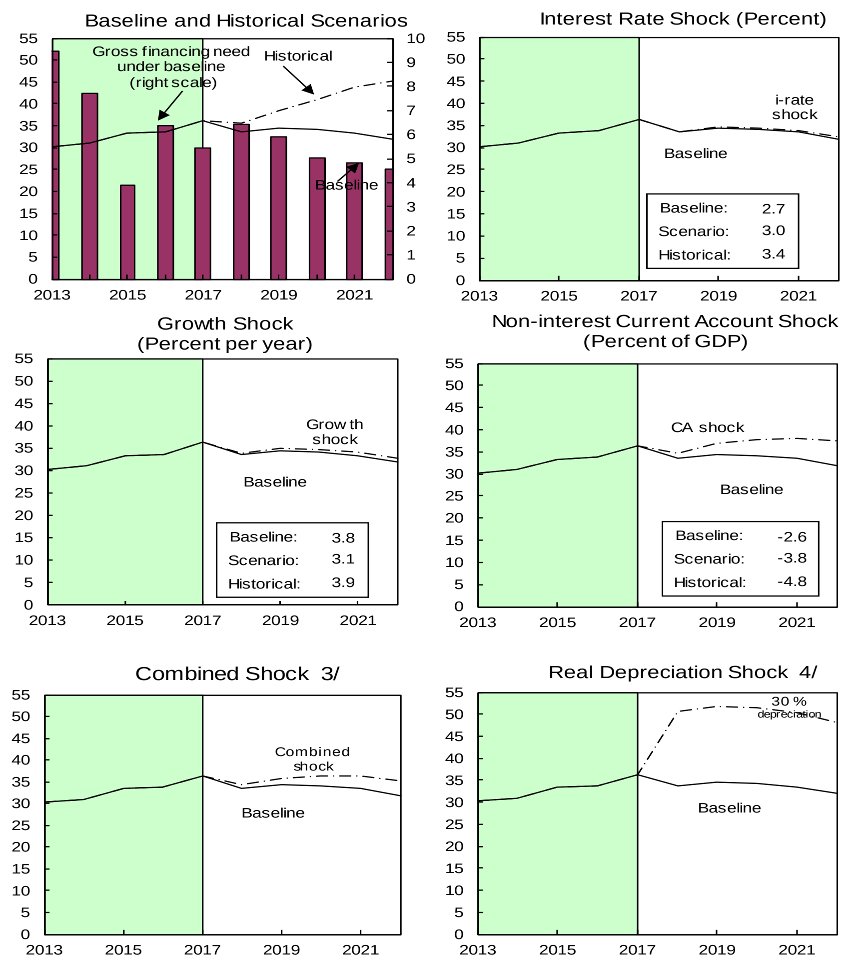
4/ An average over the last 3 months, 11-Jul-18 through 09-Oct-18.

Annex II. External DSA

Morocco's external debt to GDP is expected to remain stable over the medium term, but some vulnerabilities exist. After rising to 36.2 percent of GDP in 2017, external debt would gradually decline to 31.2 percent of GDP in 2023 due to expected improvements in the current account and robust GDP growth (Table 1). However, if Morocco experienced a 30 percent exchange rate depreciation—the most extreme shock—the external debt-to-GDP ratio would increase to 45 percent (Figure 1). Alternatively, with a shock to the current account, the external debt-to-GDP ratio would increase to 35 percent.

Figure 1. Morocco: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: IMF country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

Table 1. Morocco: External Debt Sustainability Framework, 2013–23

(Percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Projections					
Baseline: External debt 1/	30.2	31.0	33.4	33.7	36.2	**33.6**	**34.4**	**34.2**	**33.4**	**31.9**	**31.2**
Change in external debt	1.1	0.7	2.4	0.3	2.5	-2.6	0.9	-0.3	-0.8	-1.5	-0.7
Identified external debt-creating flows	1.3	-0.6	1.0	2.3	0.8	1.0	-0.2	-0.4	-1.5	-0.7	-1.6
Current account deficit, excluding interest payments	6.7	5.0	1.2	3.3	2.7	3.6	3.1	2.2	2.2	2.2	2.0
Deficit in balance of goods and services	14.6	12.3	7.8	10.5	9.8	10.3	9.5	8.4	8.3	8.2	8.0
Exports	31.2	32.5	32.9	33.1	35.3	36.6	37.3	37.5	37.3	37.1	37.0
Imports	45.8	44.8	40.7	43.7	45.0	46.9	46.8	45.9	45.6	45.3	45.0
Net non-debt creating capital inflows (negative)	-4.0	-5.6	-3.9	-1.2	-1.4	-2.4	-3.1	-2.3	-3.1	-2.4	-3.1
Automatic debt dynamics 2/	-1.5	0.0	3.7	0.3	-0.4	-0.1	-0.2	-0.4	-0.5	-0.5	-0.5
Contribution from nominal interest rate	0.9	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8
Contribution from real GDP growth	-1.2	-0.8	-1.5	-0.4	-1.3	-1.0	-1.1	-1.3	-1.4	-1.4	-1.3
Contribution from price and exchange rate changes 3/	-1.1	-0.1	4.3	-0.3	...	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 4/	-0.1	1.3	1.4	-2.0	1.7	-3.7	1.0	0.1	0.7	-0.8	0.9
External debt-to-exports ratio (in percent)	96.9	95.3	101.5	101.6	102.7	91.7	92.4	91.2	89.6	86.0	84.4
Gross external financing need (in billions of US dollars) 5/	10.1	8.5	3.9	6.6	5.9	7.6	7.3	6.6	6.7	6.8	6.7
Percent of GDP	9.4	7.7	3.9	6.4	5.4	6.4	5.9	5.0	4.8	4.6	4.2
Scenario with key variables at their historical averages 6/						**35.7**	**38.3**	**40.8**	**43.7**	**45.1**	**48.3**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	4.5	2.7	4.5	1.1	4.1	3.1	3.3	3.9	4.2	4.4	4.5
GDP deflator in US dollars (change in percent)	4.0	0.4	-12.1	1.0	1.6	5.1	0.5	2.6	2.1	2.3	2.2
Nominal external interest rate (percent)	3.2	3.0	2.9	2.9	2.9	2.6	2.7	2.8	2.7	2.7	2.7
Growth of exports (US dollar terms, percent)	4.5	7.4	-7.0	2.9	12.9	12.2	5.5	7.2	6.0	6.2	6.4
Growth of imports (US dollar terms, percent)	4.3	1.0	-16.5	9.5	9.4	12.6	3.4	4.6	5.7	6.1	6.0
Current account balance, excluding interest payments	-6.7	-5.0	-1.2	-3.3	-2.7	-3.6	-3.1	-2.2	-2.2	-2.2	-2.0
Net non-debt creating capital inflows	4.0	5.6	3.9	1.2	1.4	2.4	3.1	2.3	3.1	2.4	3.1

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

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

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

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

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

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

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

Appendix. Written Communication

Rabat, November 30, 2018

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

Dear Madame Lagarde,

1. In recent years, Morocco has benefited from sound fundamentals and economic policies, as well as significant structural reforms, that have helped preserve its economic resilience and lay the groundwork for growth that is stronger and more inclusive. Three successive PLL arrangements have supported the country's reform agenda and provided useful insurance against external risks. Considerable progress has been made in reducing fiscal and external vulnerabilities, particularly those caused by oil price volatility, in a generally unfavorable international environment. The main reforms of the 2016-18 PLL arrangement focused on the pension schemes, the ongoing implementation of the new Organic Budget Law, the launch of the advanced regionalization project, and the start of the transition toward greater exchange rate flexibility.

2. 2017 saw a significant improvement in macroeconomic performance. Economic activity strengthened, and inflation remained moderate. The current account deficit contracted, and foreign exchange reserves were kept at a comfortable level. The fiscal deficit was also reduced, and public debt stabilized at around 65 percent of GDP and remains sustainable and resilient to shocks. However, unemployment remains high, particularly among young people.

3. Although 2018 growth level was slightly lower than in 2017 (4.1 percent), it is expected to remain robust at between 3-3.5 percent, owing to a modest recovery in nonagricultural growth and a strong performance by the agricultural sector, despite the subdued growth rates of our main partners and higher energy costs. Inflation is expected to remain moderate at 2 percent. The current account deficit is expected to increase to 4.5 percent of GDP owing to a significant increase in oil prices, although foreign exchange reserves should remain at a satisfactory level of more than five months of imports. Budget execution was put under pressure due to the increase in butane gas subsidies, a fall in grant revenues and a shortfall in tax revenues. The fiscal deficit is expected to remain at its 2017 level (3.6 percent of GDP) owing to sustained efforts to boost revenue collection and keep expenditure under control. Consequently, the public debt ratio is also expected to remain at around 65 percent of GDP. Given its confidence in the resilience of the Moroccan economy and its determination to tightly manage the fiscal and external position, the government did not feel necessary to draw upon the PLL despite the scope of the shocks to which the economy has been subjected, which would have justified such a response.

4. Given the persistence of significant external risks, due notably to higher oil prices, heightened geopolitical tensions and increasing protectionism, a growth slowdown in the euro area and in

emerging countries, as well as tighter financing conditions for emerging countries, we are requesting IMF support for our reform efforts in the form of a new 24-month PLL arrangement in the amount of SDR 2.15 billion (240 percent of quota), or approximately US$ 3 billion, of which SDR 1.25 billion (140 percent of quota) shall be available during the first year. Therefore, for the third time since the first PLL arrangement, we are requesting a reduced access level, reflecting the economy's stronger fundamentals and its resilience to external shocks. As with previous arrangements, Morocco intends to treat this facility as precautionary and to draw on it only in the event of severe exogenous shocks.

5. The program objectives for which the IMF support is solicited through a new PLL arrangement would be to speed up the pace of structural reforms to promote a stronger, more inclusive, and pro-job growth, to further strengthen the economy's resilience and fiscal and external buffers, as well as the robustness of the financial system. To this end, and through the various policies and reforms they intend to implement, the authorities aim to trigger a new growth momentum that will generate synergies and boost investor confidence. As a result, it is hoped this will raise growth to a higher level of 4.5-5 percent a year and speed up job creation, reduce social and spatial disparities and bring about a sustainable improvement in living standards. The groundwork for a new development model is currently underway, and discussions with the principal partners should result in tangible proposals in the coming months.

6. Regarding the structural the reform agenda, and following the outstanding progress made in the last few years, including a leap of 9 places up the Doing Business 2019 ranking, the government will continue to improve the business climate, including by strengthening incentives and the legal environment for firms, improving the quality of public services, and streamlining and digitizing administrative procedures. To this end, a draft law recasting the organization and remit of the Regional Investment Centers was submitted to parliament in October 2018. A review of the Investment Charter is also underway with the aim of harmonizing and streamlining the system of investment incentives. Furthermore, following the nomination of the President of the Competition Council, in November 2018, the full operationalization of this council is imminent and will strengthen transparency and equity in the functioning of the economy, including through a better regulation of competition practices. To ease the cash flow of businesses and kick-start investment, the government has launched a vast plan to settle VAT credits and reduce payment delays in the public and private sectors. An observatory body has been set up to monitor the implementation of this reform. The National Strategy against Corruption is currently being implemented and the report on the progress made is due for publication at the beginning of 2019. Significant progress has been made in reforming the legal system to strengthen the independence of the judiciary, digitize its administration and strengthen transparency. As regards preventing and dealing with corporate difficulties, the law on the amendment of Book V of the Commercial Code was enacted in April 2018. This reform, which is based on best international practices in this area, aims to secure insolvency proceedings to guarantee a healthy environment suitable for private investment.

7. As part of the 2015–2030 strategic vision for reform of the education system and the national employment strategy, the government is determined to improve the quality of human resources to strengthen productivity and ensure training is better matched to employment. It also intends to pursue active labor market policies and promote youth and female employment. In addition, it has

launched an ambitious program to boost the number of teaching staff, the last phase of which will be completed in 2019, to reduce overcrowding in classrooms and better serve remote areas. A public preschool cycle was introduced in 2018 and will be rolled out on a gradual basis. A draft framework law on the education system, training and scientific research has been submitted to parliament. A plan to implement the national plan to promote employment for the period 2018-2019 has been adopted in April 2018.

8. A far-reaching reform will be launched to strengthen the role of the agricultural sector in creating employment and promoting investment. This will be achieved by facilitating access to land ownership, with the aim of encouraging the emergence of an agricultural middle class that will provide the impetus for growth in rural areas. In this context, a million hectares of collective lands will be made available for use by small-scale farmers, particularly young people, to ensure a more profitable use is made of these lands, and to create new activities that will generate revenue and create jobs.

9. Alongside the effort to monitor state-owned enterprises (SOE) more closely and improve their efficiency, the government has initiated an overhaul of the SOE business model. This will result in the government withdrawing from sectors and areas of activity that can be covered by the private sector, a refocusing of SOEs on their core areas of activity, a disposal of assets not related to their mission and the outsourcing of related activities to the private sector. As part of this overhaul, the government plans to implement a privatization program expected to contribute the equivalent of approximately 4 percent of GDP to the government budget for the 2019-24 period. Similarly, a draft bill to expand the list of companies that are eligible for privatization was adopted by the Government Council in November 2018. The government will continue to improve public sector governance by promoting transparency and increasing accountability. A draft law to strengthen governance and improve the government's performance and methods of financial control applied to SOEs should be submitted to the parliament during the April 2019 session. Furthermore, efforts are underway, with technical support from the IMF, to introduce an integrated system to monitor and assess SOE-related risks, including fiscal risks.

10. Sound macroeconomic policies and an efficient financial system are essential to support our reform program, reduce fiscal and external vulnerabilities and generate fiscal buffers to bolster growth potential and absorb shocks. In terms of fiscal policy, the government is committed to strengthen fiscal sustainability by maintaining the sustainability of public debt and improving its resilience to shocks. To this end, the fiscal deficit, including privatization revenues, will be reduced to 3.3 percent of GDP in 2019 and to 3 percent of GDP in 2020, ensuring that convergence to a public debt-to-GDP ratio of 60 percent in the medium term is achievable. This will be achieved through stronger tax revenue mobilization and continued efforts to control public spending, while prioritizing pro-growth investment in infrastructure and human capital, and through strengthening social protection.

11. On the revenue side, the government intends to implement large-scale reforms to boost the tax system's efficiency, fairness and its contribution to growth. Priorities include expanding the tax base through reduced tax exemptions, reform of value-added tax (VAT) to mitigate distortionary

effects, and the gradual integration of the informal sector of the economy. A vast plan to reimburse VAT credits over a five to ten years period has been developed. The 2019 draft budget law includes tax measures expected to generate the equivalent of 0.5 percent of GDP and provides for the removal of tax exemptions granted to banks and offshore holding companies. The government is continuing its efforts to modernize the tax administration and improve its effectiveness through its digitization and the streamlining and transparency of procedures. These efforts have brought about a clear improvement in the effectiveness of tax audits. A tax conference is scheduled to be held in May 2019 to consult all stakeholders on the planned overhaul of the system. The recommendations from this conference should result in a draft framework taxation law in 2019 to ensure consistency in the tax system and provide economic operators with greater visibility.

12. On the spending side, the government intends to maintain the public wage bill including social contributions below 10.5 percent of GDP in the medium term and will take the measures required to achieve this objective. Public administration reforms will continue in order to strengthen its efficiency and productivity. This will be achieved through organizational reform and management, modernization of HR management, the promotion of integrity within the civil service, the general roll-out of digital public administration and the streamlining of procedures. As regards the civil service, the focus will be placed on contractual employment, for which the legal framework already exists, on facilitating mobility, and on modernizing the civil service statute, including through a performance-based system of compensation and promotion.

13. The fiscal policy framework continues to be strengthened. The provisions of the Organic Budget Law (OBL) adopted in 2015 were introduced as expected, including in 2017 those limiting personnel appropriations, and in 2018 the carry-forward of investment appropriations and the introduction of a performance-based budget. The remaining OBL provisions will be introduced by 2020 as planned, including those related to three-year budget planning in 2019 and the continued strengthening of the oversight role of the parliament.

14. The strengthening of social protection programs, and their improved consistency, targeting, and effectiveness constitute an essential pillar of the government's program. The national social security conference organized in November 2018 made it possible to identify the constraints faced by the current system and to establish a roadmap to further expand healthcare and pension coverage for the entire population and replace existing generalized subsidies with targeted direct aid through the introduction of a unified social registry that will be finalized in 2019. The third phase of the National Human Development Initiative (INDH) for 2019-23—for a total of 18 billion dirhams (almost 2 percent of GDP), launched in September 2018—focuses on the promotion of human capital and support for the younger generations and the least well-off segments of the population. To mobilize resources to fund social projects, plans have been made for major corporations to make a solidarity contribution from their profits over a two-year period.

15. The pension reform that began in September 2016 will continue, with the objective of creating two main pillars of the system, one for the public sector and one for the private sector. The system's coverage was expanded through the adoption by parliament in November 2017 of a law

creating a pension scheme for self-employed workers and non-salaried workers exercising a professional activity on an independent basis.

16. The level of public investment will be sustained, and its effectiveness will be enhanced through improvements to the system for selecting investment projects, particularly as regards their impact on employment, the reduction of disparities and the improvement of living standards, based on the recommendations of the recent Public Investment Management Assessment (PIMA). The government intends to introduce an integrated system for the centralized management of public investments and to develop public-private partnerships (PPPs) to strengthen the supply and quality of infrastructure while limiting the costs and potential risks to the budget.

17. As part of the implementation of the advanced regionalization project, another priority reform of the government, fiscal decentralization is being introduced with care to preserve fiscal sustainability. Subnational governments have been given a number of responsibilities, and their resources, both local revenues and transfers, are expected to increase gradually. A law to reform local taxation is currently being drafted. The government will ensure that good governance and efficiency are preserved at the local level, including through increased capacity, transparency and accountability. A national charter of administrative deconcentration was adopted by the Government Council in October 2018 and will be introduced in 2019 to ensure consistency in the activities of various ministries at the regional level, clearly define the competences of each government level, and establish transparent criteria for revenue-sharing transfers and the use of the new solidarity and equalization funds.

18. The coverage of government finance statistics will be expanded to incorporate all government agencies. The government plans to produce a consolidated report on government finances, including debt, as of the first quarter of 2019. To this end, the government will receive technical assistance from the IMF.

19. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of moderate inflation, a slow recovery of non-agricultural and credit activity, and a comfortable level of foreign exchange reserves. BAM will continue to promote appropriate financing of the economy by giving priority to micro-enterprises and SMEs. The draft central bank law, adopted by the lower chamber of parliament in July 2018, has been submitted to the upper chamber and should be adopted by the end of 2018. The new law will reinforce BAM's independence and expand its missions with a view to contribute to financial stability and promote financial inclusion.

20. A National Financial Inclusion Strategy aimed at coordinating and supporting public and private initiatives in this area has been finalized. The authorities will pursue and ramp up their efforts to support access to finance for micro-enterprises, SMEs and start-ups. To this end, the government will develop a Small Business Act in 2019 to bring solutions to the constraints being faced by micro-enterprises and SMEs which addresses the issues of financing, the legal framework, market access, taxation, and support and assistance mechanisms.

21. Morocco's banking sector is sound and resilient, and the authorities will continue to strengthen the financial sector policy framework, consistent with the FSAP recommendations. NPLs have increased slightly but remain at a moderate level and are well provisioned. Supervisory capacity will continue to be strengthened, and the regulations for financial conglomerates will be adopted in the first semester of 2019. Loan classification and provisioning rules were aligned with International Financial Reporting Standards (IFRS9) in January 2018, and the requirement to increase bank capitalization as a result will be phased in over five years. BAM will continue to intensify coordination with supervisory authorities in countries where Moroccan banks are established, and to promote strong market risk management practices, particularly in the context of the transition to a more flexible exchange rate regime. The authorities will enhance the macro-prudential and bank resolution frameworks, including through a legal framework for resolution in line with international standards and by designating BAM as the resolution authority. The technical aspects of this framework will be finalized in 2019. They are continuing efforts to create a participatory financing market. In 2018, several participatory banks were created, the legal framework governing sukuk certificates was revised and the first sovereign debt issue took place. Draft amendments to the insurance code complementing the system governing takaful insurance were also submitted to parliament.

22. The authorities initiated the transition to a more flexible exchange rate regime in January 2018, by widening the dirham fluctuation band to +2.5 percent (from +0.3 percent) around its reference parity. This reform is being implemented smoothly, as the dirham remains within its fluctuation band without any central bank intervention since March 2018, bank's foreign assets have strengthened, and the interbank foreign exchange market has deepened. The authorities intend to move to the next phase of this reform for preventative purposes as soon as economic conditions allow them to do so. Such a transition will help the economy better absorb potential external shocks, preserve its competitiveness, and support its diversification.

23. We will provide the IMF with all the information needed to monitor economic and policy developments within the framework of the PLL arrangement, particularly information relating to the indicators listed in Table 1 and in the attachment. In line with the requirements of the PLL, we will also observe the standard criteria on trade and exchange restrictions, bilateral payment agreements, multiple currency practices, and the non-accumulation of payment arrears on the external debt.

24. We believe that the policies and reforms contained in this communication are adequate for achieving the economic goals supported by the PLL, and we are committed to taking any additional measures that may be necessary for this purpose. By continuing to reinforce its economy's resilience, including by further strengthening its fiscal and external buffers and diversifying its economy, Morocco should be well positioned to exit the PLL, once the exogenous risks to which the economy is exposed have significantly declined. Morocco will engage with the Fund, in accordance with relevant Fund procedures, toward the success of its economic policies.

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

Table 1. Morocco : Quantitative Indicative Targets

	3/31/19	9/30/19
	Target	Target
Indicative targets		
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	24,369	25,228
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	9,369	27,908
Memorandum items:		
Adjustor on NIR (in millions of U.S. dollars) 2/	1,733	2,152
Adjustor on the fiscal deficit (in millions of dirham) 3/	500	1,500

Source: IMF staff estimates.

1/ End-of-period (eop) stock, in millions of U.S. dollars, evaluated at the program exchange rate fixed on November 9, 2018 - namely 9.527 MAD/$.

2/ The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2018.

3/ The fiscal deficit ceiling will be adjusted upward (downward) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors for 2019 are cumulative from end-December 2018. The adjustors for 2020 will be cumulative from end-December 2019.

Table 2. Morocco: Schedule and Terms Under the Precautionary and Liquidity Line Arrangement

Review Date	Conditions for access	Indicative targets 1/: Central government fiscal deficit, ceiling, cumulative since beginning of fiscal year (eop in millions of dirham) 2/	Indicative targets 1/: Net international reserves (NIR) of Bank Al-Maghrib (BAM), floor, eop stock, in millions of dollars ($) 3/	Credit Available 4/: Million SDR 5/	Credit Available 4/: Million Dollars 6/	Credit Available 4/: Percent of Quota, cumulative	Credit Available 4/: Percent of Total Access
December 17, 2018	Board approval of the PLL			1,250.66	1,747	140	58
June 16, 2019	First review, based on March 31, 2019 indicative targets	9,369	24,369	1,250.66	1,747	140	58
December 16, 2019	Second review, based on September 30, 2019 indicative targets	27,908	25,228	2,150.8	3,005	240	100
June 16, 2020	Third review, based on March 31, 2020 indicative targets	To be set in the first review	To be set in the first review	2,150.8	3,005	240	100
Total				2,150.8	3,005	240	100

Source: IMF staff estimates.
1/ Evaluated at the program exchange rate (November 9, 2018 - namely 9.527 MAD/$.) for 2019 and 2020.
2/ The adjustors are specified in the Technical Appendix.
3/ The adjustors are specified in the Technical Appendix.
4/ Credit available assuming no purchase.
5/ Full access will be available on December 17, 2019.
6/ SDR/Dollar Exchange rate of $1 = 0.715694 SDR as of October 16, 2018.

Attachment. Technical Appendix

1. Under the first year of the PLL arrangement, quantitative indicative targets as defined in Table 1 of our written communication will be set for end-March 2019 and end-September 2019. They include:

- Floor on the level of net international reserves (NIR) of Bank Al-Maghrib (BAM), as defined in Table 2, calculated as an end-of-period stock. The exchange rate that will be used to monitor NIR during the first year of the program is Moroccan dirham (MAD) 9.527 per U.S. dollar, the rate prevailing on November 9, 2018. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will be valued in U.S. dollars at the exchange rates and gold prices prevailing on November 9, 2018. BAM will report to the IMF the level of NIR and gross international reserves (GIR) no later than one week after the end of each week both at the program exchange rates and at the market exchange rates.

- Ceiling on the level of the fiscal deficit of the central government defined as revenues, including grants, less expenditure less net acquisition of nonfinancial assets as reported in the Government Finances Statistics Manual 2001 format, calculated as a cumulative flow from January 1st of each calendar year. The central government is defined as all budgetary units of the central government. It includes the central government budget, special treasury accounts and autonomously managed government services (SEGMA). The Ministry of Economy and Finance will report to the IMF in monthly and cumulative flows from January 1 of each year the fiscal deficit, including grants, but excluding net acquisition of shares and other equity (privatization receipts) and the relevant budget aggregates (revenues, expenditures, etc.) for each month before the end of the following month.

2. The indicative targets on NIR will be adjusted downward (upward) by the amount below (above) official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The indicative targets on the fiscal deficit will be adjusted upward (downward) by the amount below (above) budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections as indicated in Table 1 of our written communication.

3. Regarding the continuous zero ceiling on the accumulation of new external payment arrears during the duration of the arrangement, the payment arrears are defined as external debt-service obligations (principal and interest) that have not been paid at the time that are due as specified in the contractual agreements, on central government and central government-guaranteed debt. Overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

4. Assuming the approval of this arrangement by the IMF Executive Board on December 17, 2018, the reviews will be completed by no later than June 16, 2019 for the first review, December 16, 2019 for the second review, and June 16, 2020 for the third review.

Definition of GIR and NIR of BAM for the Purpose of Monitoring Indicative Targets

Gross international reserves are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad, and as vault cash that are under the direct and effective control of BAM, readily available for intervention in the foreign exchange market or the direct financing of the balance of payments;
- The reserve position of Morocco in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency assets that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities;
- Foreign currency assets in nonconvertible currencies and precious metals other than gold;
- Foreign currency claims on entities incorporated in Morocco;
- Any other foreign currency claims on residents; and
- Capital subscriptions in international institutions.

NIR is defined as GIR less:

- All outstanding liabilities of Morocco to the IMF, excluding SDR allocation; and
- Foreign currency liabilities in convertible currencies to nonresidents and contingent commitments to sell foreign exchange arising from transactions in derivative assets, including forward contracts, foreign currency swaps, and other futures market contracts.

Statement by Mr. Mohammed Daïri, Alternative Executive Director on Morocco
December 17, 2018

I thank staff for a well-balanced paper on Morocco's request for Board approval of a new PLL arrangement. The extensive Written Communication (WC) of the authorities and the well-drafted staff report describe in detail the recent macroeconomic and financial sector developments and prospects in Morocco as well as the policies being implemented for which the authorities are seeking Fund support under a new PLL arrangement. The authorities broadly share staff analysis and main conclusions and welcome their assessment that Morocco continues to meet the requirements of PLL eligibility. However, as clearly illustrated in the Written Communication, the authorities do not agree with staff that the **reform momentum** has weakened since the end-2016 elections. While reforms were slower in the first few months, since it took time to agree on a new coalition and form a new government, the reform effort subsequently accelerated and has reached a new momentum in recent months.

Policies and Reforms under the PLL

With Morocco's strong fundamentals and track record of sound policy implementation, the authorities see **the PLL as a temporary additional buffer against shocks**, while they continue to reduce vulnerabilities and strengthen resilience. Policies and reforms carried out since 2012 under three PLL arrangements have brought down the fiscal and current account deficits by one half and helped reduce fiscal, external, and financial sector vulnerabilities. They also helped, in an unfavorable global and regional environment, to maintain a relatively satisfactory growth pace even though insufficient to make a significant dent in unemployment, in particular among the youth, and in inequality. While the current growth outcome may be due in part to the delayed response of structural reforms, the momentum of reform will need to be further strengthened to achieve these objectives, and work is underway toward defining a new development model.

While **macroeconomic developments** under the third PLL through end-December 2017 were broadly in line with program targets, notwithstanding **higher oil price**, continued increase in oil prices in 2018 has put pressure on the budget and the external position. Grants are also expected to fall short of projections. The authorities plan to offset most of the additional spending and potential shortfalls in revenue and grants through savings on wages and other current spending, a large part of which have already been realized, **to maintain the 2018 deficit at around its 2017 level of 3 ½ percent of GDP**, while protecting public investment and social spending. While the impact of higher oil prices on the budget is estimated at about 0.4 percent of GDP in 2018, the impact on the external position is much larger at 1.3 percent of GDP, even though the increase in the current account deficit is projected at only 0.9 percent of GDP, mainly due to strong performance of exports of automobiles and phosphates and derivatives.

In the **fiscal area**, the reform of the subsidy system, along with tax policy and administration reform and improved control of the wage bill and other current spending have contributed to a halving of the fiscal deficit since 2012 to 3.6 percent of GDP in 2018. The new Organic Budget Law (OBL) has significantly strengthened the budgetary framework and reduced vulnerabilities. While the **public debt** to GDP increased initially, it has stabilized recently at some 65 percent of GDP and remains sustainable and resilient to various shocks. Continued sound fiscal policy implementation and debt management should help achieve the authorities' objective of lowering the debt-to-GDP ratio further to **60 percent** over the medium term. As indicated in the Written Communication, the focus will be on continued tax policy and administration reform, further reducing the **wage bill to below 10.5 percent** of GDP over the medium term, including through civil service reform, and strengthened spending efficiency, while creating space for infrastructure and social spending.

The draft 2019 budget includes a number of tax measures increasing revenue by some 0.4 percent of GDP, including an increase in the minimum tax for loss making enterprises and in the tax on profits from property sales, and elimination of exemptions for enterprises and banks operating in offshore centers. A new **Tax conference** will be organized in May 2019 to discuss avenues for further reforms to enhance the system's efficiency, equity, and contribution to growth. Spending on **education** is significantly increased, including under the special program for teachers' hiring to reduce overcrowding of classes, better serve remote areas, and improve education quality, as are budget appropriations for health.

A major reform of **social protection** is underway to ensure consistency of the various programs and improve coverage and targeting. Resources for social protection are also being significantly strengthened. Major programs' funding (including the National Initiative for Human Development and the Royal Program against territorial and social disparities) is significantly increased under the draft 2019 budget. The number of school children benefiting from the Tayssir program (cash transfers to encourage school attendance) has been tripled 2019 budget (2.1 million instead of 0.7 million last year). Following implementation of the parametric reform of the public pension system, pension coverage has been extended to new categories, including non-affiliated workers in the private sector and self-employed. Compulsory health coverage is also being expanded, as is a government-financed health insurance program (RAMED) dedicated to the poor. Following the elimination of generalized energy subsidies in December 2015, except for LNG, **reform of the subsidy system will be completed** after the unified social registry is established by end-2019 as expected, with remaining subsidies to be replaced with well-targeted transfers to the poor. The unified social registry and the population registry being established will be used to improve targeting of social programs more generally.

Ongoing implementation of **multiyear budgeting** and strengthening of **parliamentary control** in line with the OBL will further enhance spending efficiency and prioritization, reduce procyclicality, and improve fiscal transparency. Prudent, efficient and transparent budgetary management principles of the OBL have been extended to **territorial authorities** under a new organic law to improve service delivery and efficient use of resources, and implementation of the recently adopted **decentralization Charter** will help achieve further advances in this direction.

The ongoing reform of SOEs to improve oversight and strengthen their governance and performance is being broadened, including through a major overhaul **of their business** to improve resource allocation by better aligning their activities with their core mandate. A new SOE law will be presented to parliament during the April 2019 session. The risk management system will be reformed to improve coverage and promote consistency in assessing and mitigating fiscal risks not only for SOEs but across the whole public sector, drawing on the Fund's recent technical assistance. An ambitious **privatization program** will support greater involvement of the private sector in the economy while contributing to improving productivity, lowering public debt, revitalizing the capital market, and attracting FDI. In this regard, a law expanding the list of SOEs eligible for privatization was adopted by the house of representatives last Tuesday.

Monetary policy has been successful in maintaining inflation at less than 2 percent over the past decade. It remained accommodative in recent years, in view of the more moderate non-agricultural activity, reflecting lower partner countries' growth, while vigilant to signs of inflationary pressures. The monetary policy framework was modernized, with Fund technical assistance, including in preparing for a transition to a more flexible exchange rate regime. The new central bank law strengthening its independence and expanding its role to include financial stability and financial inclusion is expected to be adopted by end-2018. The authorities are comforted by the smooth start of the transition to a **more flexible exchange rate regime** since January, with the exchange rate remaining around the middle of the band without any central bank intervention since March. This bodes well for a gradual strengthening of the role of this instrument as a shock absorber. The authorities welcome staff indication that the exchange rate is broadly in line with fundamentals.

The **financial system** is sound and well-capitalized, and NPLs are moderately elevated but well-provisioned. Financial sector regulation and supervision is being upgraded in line with best international practices to reduce macro-financial stability risks and improve the sector's resilience and contribution to growth, while strengthening financial inclusion. Following the introduction of IFRS 9 in January, banks have already completed the new provisioning requirement and are required to gradually strengthen their capital over a 5-year period as allowed by the Basel Committee. Risks to Moroccan banks operating in other parts of Africa under the subsidiary model are limited, and the authorities are closely monitoring these risks in close coordination with host supervisors. Concentration risks under the tight regulatory limits are also closely monitored. SMEs' access to finance is being strengthened, with collateral requirement lower than MENA average, and a national financial inclusion strategy is being developed.

Macroeconomic and financial policies are supported by a broad range of **structural reforms** aimed at improving the business climate, enhancing productivity, strengthening governance, and reducing labor market rigidities. Morocco continues to make significant progress under the **Doing Business Indicators**, ranking 60 in the 2019 report against 69 in 2018 (and 115 in 2011), and the authorities are on track for meeting their goal announced last year of reaching the 50th rank by 2020. Among the main recent improvements is the easing of insolvency procedures following the amendment of the Commerce Code. Efforts at improving governance and fighting corruption are ongoing, and the first report of the **national anti-corruption committee** is expected to be published early 2019. Following the recent appointment of a new Chair of the **Competition Council**, the other members will be appointed shortly for early activation of the Council, which will go a long way toward strengthening business and consumer confidence. A new agency for investment development and promotion of exports created end-2017 from the merger of 3 agencies along with new regional investment centers to be created under a draft law before parliament will implement the government's strategy in these areas. In addition to improving alignment of education and training to labor demand, the main pillars of the **National Employment Strategy** adopted end 2017 include strengthening of active labor market policies and improvement in the functioning of the labor market. **Industrial policies** aimed at greater economic diversification by developing new high value-added, export-oriented sectors and attracting foreign direct investment have significantly strengthened export potential and the resilience of the economy. Agricultural policies have helped strengthen the sector's performance and develop new activities with a positive impact on the economy and exports and reduced dependence on cereals production and vulnerability to drought. Further major reforms are planned in this sector, aimed at facilitating land ownership for small farmers which will help promote investment by easing access to finance. Ongoing efforts to further improve **public investment project selection and oversight** and developing infrastructure, including through **PPPs**, will improve resource use and competitiveness. A draft law on PPPs, in line with best international practices, is before parliament.

The lengthening of **payment delays** both by the public and the private sector, and the accumulation of **VAT credits** have complicated liquidity management, with the final burden often falling on SMEs. The authorities are addressing resolutely this phenomenon which is endangering the payment culture and undermining business confidence. The government introduced late payment penalties for public institutions and the private sector, and has instructed public agencies to accelerate bill payment. After initial steps to reduce VAT credits, it launched a major initiative this year aimed at repaying the backlog of VAT credits over a 5-10 year period with a view to their eventual elimination, with all new credits to be paid the same year.

PLL Issues

Despite the **materialization of the risks** identified in the 2016 PLL, which turned out to be more severe than under the adverse scenario, the authorities **refrained from drawing** under the facility, consistent with their declared intention to treat it as precautionary. Moreover, no decision was taken on whether to renew the PLL before its expiration in July 2018. Expiration of the PLL and its nonrenewal did not have an adverse market impact, reflecting confidence in the economy's fundamentals, as also confirmed by Morocco's continued favorable ratings and spreads, even during episodes of global market turbulence. With oil prices rallying again, and risks to the global economy increasing, including from trade and geopolitical tensions, tighter financial conditions, and higher uncertainty, the authorities decided in mid-October to request a new PLL as an additional buffer against shocks, in particular since the comfortable reserves buffer up to 2016 declined in 2017-18 due to the oil price increase. However, after initially considering an access level of 280 percent of quota (equivalent to $3.5 billion), as under the third PLL, the authorities decided to reduce their request to 240 percent of quota ($3 billion) in line with their intention to **continue reducing reliance on the PLL instrument and exit the facility as soon as conditions permit.** The authorities intend to continue to **treat the PLL as precautionary**.

Conclusion

The authorities are comforted by the main achievements so far, including maintaining relatively robust growth with low inflation, fiscal and debt sustainability, and broadly adequate external buffers. However, they are cognizant of the key challenge of safeguarding these achievements while also setting the foundations for stronger and more inclusive growth to accelerate job creation and further improve living conditions. They are committed to continue with sound policy implementation and strengthen the reform momentum to achieve their medium-to long-term objectives, in close consultation with the Fund. In the process, they will attach high priority to safeguarding social stability and cohesion and maintaining public support to their policies, including through a broad consultative process with social partners and adequate social protection of the poorest segments of society. They look forward to Board approval of their request.