



# MOROCCO

January 2020

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2019, following discussions that ended on November 7, 2019, 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 December 3, 2019.
- A **Statement by the Executive Director** for Morocco.

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Washington, D. C. 20431 USA

### **IMF Executive Board Completes the Second Review Under the Precautionary and Liquidity Line Arrangement for Morocco**

- The authorities are committed to further reduce fiscal and external vulnerabilities, while strengthening the foundations for higher and more inclusive growth.
- Building on recent progress in improving the business environment, sustained reforms are needed to raise potential growth and reduce high unemployment, especially among the youth, increase female labor participation, and reduce regional disparities.
- Reforms of education, governance, and the labor market should contribute to more private sector-led growth and job creation.

On December 13, 2019, the Executive Board of the International Monetary Fund (IMF) completed the second review under the Precautionary and Liquidity Line (PLL) Arrangement for Morocco. The two-year arrangement supports the authorities' policies to strengthen the economy's resilience and promote higher and more inclusive growth. The Moroccan authorities have not drawn on the arrangement and continue to treat it as precautionary.

The PLL arrangement for Morocco in the amount equivalent to SDR 2.1508 billion (about US\$3 billion) was approved by the IMF's Executive Board on December 17, 2018 (See Press release No. 18/477). It will expire on December 16, 2020.

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

“Morocco has made significant strides in strengthening the resilience of its economy in recent years. In 2019, economic activity has weakened due to a contraction in agricultural output, while inflation remains low. The external position is expected to improve only modestly, and fiscal consolidation has slowed down due in part to weaker-than-expected tax revenues and increased public wage spending.

“Looking ahead, growth is expected to accelerate gradually over the medium term. However, the outlook remains subject to downside risks, including potential delays in reform implementation

and the external environment. In this context, the PLL arrangement continues to provide valuable insurance against external risks and support the authorities' economic policies.

“The authorities are committed to sustaining sound policies. The government's economic program remains in line with key reforms agreed under the PLL arrangement, including to further reduce fiscal and external vulnerabilities, while strengthening the foundations for higher and more inclusive growth.

“In light of the slowdown in fiscal consolidation, stepped up tax reforms and contained wage bill are needed to lower the public debt-to-GDP ratio while securing priority investment and social spending in the medium term. A decisive and comprehensive tax reform should aim to secure adequate revenues while bringing about greater equity and simplicity of the tax system. In addition, further improvements are needed in the efficiency and governance of the public sector, careful implementation of fiscal decentralization, strengthened state-owned enterprise oversight, and better targeting of social spending.

“The transition to greater exchange rate flexibility initiated last year would enhance the economy's capacity to absorb shocks and preserve its external competitiveness. The current favorable economic environment continues to provide a window of opportunity to conduct this reform in a sequenced and well-communicated manner. Following the adoption of the central bank law, addressing weaknesses in the AML/CFT framework, and continuing to make the supervisory framework more risk-based and forward-looking will help further improve financial sector soundness.

“Building on recent progress in improving the business environment, sustained reforms are needed to raise potential growth and reduce high unemployment, especially among the youth, increase female labor participation, and reduce regional disparities. Reforms of education, governance, and the labor market should also contribute to more private sector-led growth and job creation.”



# MOROCCO

December 3, 2019

## SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

### EXECUTIVE SUMMARY

**Context.** Despite a challenging external environment, four successive PLL arrangements since 2012 have supported reforms to strengthen macroeconomic resilience, economic growth and inclusion. Yet, economic growth, below 3 percent, is not robust enough and unemployment remains high, especially among the youth and women. Growth is also subject to elevated risks, including weak economic growth in the euro area, and geopolitical risks. In this environment, Morocco needs to step up reforms to further enhance its macroeconomic resilience, build buffers, and move towards more private sector-led, inclusive and job-rich growth. Priority areas include: taxation; public governance and the fight against corruption; social spending to reduce inequalities; labor market and education reforms; and greater exchange rate flexibility.

**PLL arrangement.** In line with the generally positive assessments of Morocco's policies by the Executive Board during the 2019 Article IV consultation, and despite the recent pause in fiscal consolidation, staff considers that Morocco continues to meet the PLL qualification criteria. In particular, given the authorities' commitment to implement tax reforms and contain the wage bill in the medium term, staff recommends the completion of the second review of the PLL arrangement:

- Morocco's economic fundamentals and policy frameworks are sound: the authorities continue to have a track record of implementing sound policies and remain 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 adequacy), 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.
- The end-September 2019 quantitative indicative targets (IT) for net international reserves (NIR) was met, but that for fiscal deficit was missed, highlighting the importance of accelerating fiscal reforms. The authorities have not drawn on the arrangement and continue to treat it as precautionary.

Approved By  
**Taline Koranchelian**  
 and  
**Vikram Haksar**

The discussions took place in Rabat during October 29–November 7, 2019. The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela (all MCD), Maximilien Queyranne (FAD), and Borislava Mircheva (SPR). Azhin Abdulkarim, Geraldine Cruz, and Malika El Kawkabi (all 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. Benchaâboune, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. El Qorchi (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
EMDE	Emerging Market and Developing Economies
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
IFRS	International Financial Reporting Standard
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PIMA	Public Investment Management Assessment
PLL	Precautionary and Liquidity Line
PPP	Public-Private Partnerships
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SME	Small and Medium Enterprise
(V)SME	Very Small and Medium Enterprise
SOE	State-Owned Enterprise
TA	Technical Assistance
TFP	Total Factor Productivity
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook
WGI	World Global Indicators

## RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in December 2018 in the amount of SDR 2.15 billion (or 240 percent of quota), equivalent to about US\$3 billion.** The arrangement supports the authorities' policies to further strengthen the economy's resilience and promote higher and more inclusive growth. The 2019 Article IV consultation with Morocco was concluded on May 13, 2019 and the first review of the arrangement was completed on June 12, 2019. Executive Directors commended the authorities for implementing sound macroeconomic policies and welcomed the accelerated reforms, which have helped improve the resilience of the Moroccan economy and increase its diversification.
2. **Economic growth is expected to decline to 2.8 percent in 2019,** against 3.0 percent in 2018. This would reflect a contraction in agricultural output (due to low rainfalls), while non-agricultural growth would rise to 3.4 percent, supported mainly by public spending and private consumption (including as a result of public wage increases). Unemployment increased to 9.4 percent in the third quarter of 2019 (against 9.3 percent in Q3-2018), while participation in the labor market declined to 45.8 percent (from 47 percent in Q2-2018). Unemployment remains high among youth and women (26 percent and 14 percent in 2018, respectively).
3. **Fiscal developments have been weaker than expected in 2019.** The end-September indicative target for the fiscal deficit was missed by 0.2 percent of GDP. Relative to the time of the last review, this reflects higher investment spending due to delayed Public-Private Partnership (PPP) arrangements,<sup>1</sup> as well as weaker-than-expected tax revenues and increased public wage expenditures as part of the recent round of social dialogue. For 2019, a deficit of about 4.0 percent of GDP is now expected, against 3.7 percent in 2018.<sup>2</sup> As a result, public debt is expected to rise to 66 percent of GDP in 2019 (against 65.3 percent in 2018). The fiscal stance, measured by the cyclically-adjusted primary deficit (excluding grants), remains neutral. For 2020, due mainly to public wage increases decided for 2020-21,<sup>3</sup> the fiscal deficit is expected to decline only marginally to 3.8 percent of GDP, against 3.3 percent expected at the time of the last review.
4. **Monetary policy remains accommodative in a context of low inflation, subdued economic growth, and slower fiscal consolidation.** Headline inflation declined to 0.3 percent (y-o-y) in September 2019 (compared to 1.1 percent in September 2018) due to a drop in food and oil prices, while core inflation slowed down to 0.4 percent. Bank-Al-Maghrib (BAM) has kept its

<sup>1</sup> The public investment funds that were engaged by the government in early 2019 (contributing to increase the fiscal deficit as of end-September) are expected to be recouped by year-end, as these PPP arrangements are now being put in place, and through the transfer of public assets (e.g., buildings, hospitals) to institutional investors.

<sup>2</sup> The partial state divestment from Maroc Telecom last July should reduce the public financing need to 3.5 percent of GDP in 2019.

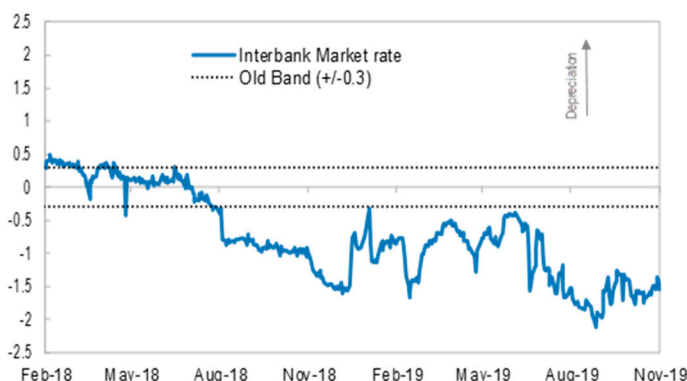
<sup>3</sup> These public wage increases will amount to about 0.6 percent of GDP in 2020, and 0.3 percent of GDP in 2021.



policy rate unchanged at 2.25 percent since its last reduction in March 2016. In September 2019, BAM reduced reserve requirements from 4 to 2 percent to meet increased bank liquidity needs and incentivize banks to lend more. Lending rates have declined marginally and credit growth to non-financial private enterprises, at 4.2 percent in September (y-o-y), has started to recover gradually (including for SMEs). Real estate prices are stable.

**5. The external position is expected to improve only modestly in 2019.** End-September data show increases in exports from the aeronautic and agriculture industries (9.9 and 5.4 percent respectively, y-o-y), but low phosphate-related exports (0.4 percent), and lower-than-expected automobile exports (4.1 percent). At the same time, import growth was sustained due to high capital and consumption goods imports (8.9 and 4.3 percent, respectively), and despite lower energy imports (reflecting lower oil prices). Remittances and tourism receipts decreased by 0.4 percent and increased by 5.8 percent, respectively at end-September (y-o-y). As a result, the current account deficit is now expected to narrow to 5.1 percent of GDP in 2019. With lower-than-expected FDI inflows, net international reserves stood at MAD233 billion (US\$24.45 billion at the program exchange rate) at end-September, slightly above the indicative target. For 2019, they are projected to reach about US\$25.5 billion, equivalent to 5.2 months of imports and 86 percent of the Fund's Assessing Reserve Adequacy (ARA) metric.<sup>4</sup> Exchange rate fluctuations have remained limited since the authorities started the transition to greater exchange rate flexibility in January 2018.<sup>5</sup> Morocco's 2018 external position is assessed to be moderately weaker than implied by fundamentals and desirable policies.

**Interbank Market Rate, 2018–19**



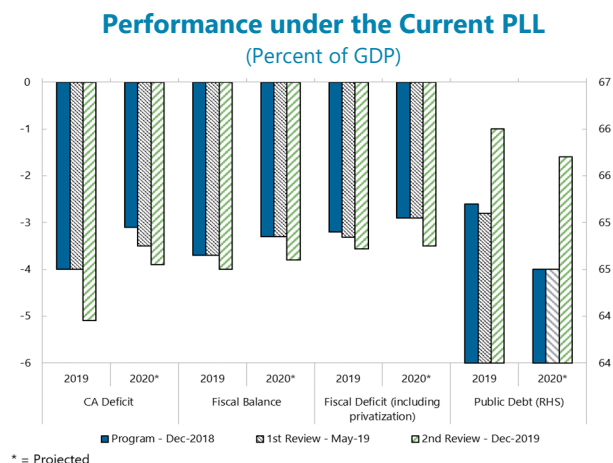
**6. Bank capitalization is adequate, while non-performing loans (NPLs), credit concentration, and expansion in Africa, present risks.** Banks' regulatory capital ratio increased to 15.1 percent in June 2019. The International Financial Reporting Standard (IFRS9) introduced in January 2018 requires banks to upgrade their loan classification and provisioning practices. Over the five-year phase-in period, the authorities estimate that the corresponding capital need for the whole banking system is less than one percentage point of regulatory capital ratio. NPL ratios remain relatively elevated at 7.7 percent in September 2019, but provisioning levels are comfortable (about

<sup>4</sup> The ARA metric is a measure of reserve adequacy developed by the IMF that aims to balance simplicity and completeness while permitting cross-country comparability

<sup>5</sup> In January 2018, the dirham fluctuation band was widened to +/- 2.5 percent (from 0.3 percent previously). The central bank has not intervened in the foreign exchange market since March 2018. On recent development and deepening in the foreign exchange market, see Box 1 in the 2019 Article IV report.

70 percent). Risks from large credit exposures persist despite strict regulatory limits, but these exposures have been declining since their peak in 2007. The continued expansion of Moroccan banks in Africa provides diversification and profit opportunities but is also a potential channel of risk transmission that the authorities are closely monitoring.<sup>6</sup>

**7. Performance in the fiscal and external sectors thus far has been weaker than projected under the program.** Several factors explain such underperformance, including the materialization of external risks (e.g., oil price increases), but also higher-than-expected fiscal deficits, reflecting higher wage and investment spending and lower tax revenues. As a result, public debt has not yet been put on a downward trajectory.



**8. Reforms have focused on the fiscal and financial policy frameworks, the exchange rate regime, and structural improvements to raise potential growth:**

- Fiscal policy framework.** Recent progress includes continued implementation of the Organic Budget Law (including the introduction of a three-year budget framework in 2019), the adoption of a deconcentration charter and transparent criteria for the transfer of public resources to regions. Given stalled fiscal consolidation during 2018–20, including due to public wage increases decided for 2019–21 as part of the recent round of social dialogue, reducing public debt to 60 percent of GDP over the medium term (from 65.3 percent in 2018) will require more ambitious tax reforms, with a focus on broadening the tax base (e.g., through reduced tax exemptions and fight against tax evasion and fiscal fraud, see Box 1), in line with the outcome of the May 2019 national tax conference. Civil service reform is also needed to improve the efficiency and quality of public services. Strengthened financial oversight of state-owned enterprises (SOEs), implementation of the recent Public Investment Management Assessment (PIMA) recommendations (including an effective PPP framework), and sound public financial management at the local level as part of fiscal decentralization, are also expected to improve public sector governance and reduce vulnerabilities to corruption.<sup>7</sup>
- Financial sector policy framework.** Progress is being made to upgrade the financial sector policy framework in line with the 2015 FSAP recommendations. Continued efforts are needed to safeguard banking soundness considering risks exposures and the increasing complexity and

<sup>6</sup> The international exposures of the three largest Moroccan banks, mostly on the African continent, represent about 20–30 percent of their total assets and a third of their profits.

<sup>7</sup> The privatization plan started this year is part of a strategic approach to reduce the role of the state in the economy, including by refocusing SOEs on their core missions. See Box 2 in Morocco staff report for the 2019 Article IV consultation.

cross-border expansion of Morocco's banks, as well as greater exchange rate flexibility. Supervisory capacity is being strengthened, including BAM's stress-testing and macroprudential policy frameworks, with Fund technical assistance. The improved monitoring of consolidated financial statements and incentives to rely more on syndicated lending have helped lower concentrated credit exposures. Key weaknesses in Morocco's AML/CFT framework are being addressed by the authorities.<sup>8</sup> A new BAM Law was enacted in July 2019, which strengthens the autonomy of the central bank and improves its governance arrangements.

- **Exchange rate regime.** Greater exchange rate flexibility will benefit Morocco's economy by helping preserve reserve buffers and competitiveness, as well as by better positioning the economy to absorb external shocks. Current conditions are supportive of a continuation of this reform in a carefully sequenced and communicated manner. The authorities remain committed and are waiting for the opportune moment to move to the next phase. Relaxing remaining restrictions on capital outflows by residents would only be done gradually at a later stage to minimize risks to the transition.
- **Business environment, access to finance, and labor market.** Since 2018, structural reforms have accelerated in several key areas. Regarding the business environment, the Competition Council was reactivated, and efforts are underway to limit payment delays in the public sector and support private sector development. In early 2019, the authorities launched a comprehensive financial inclusion strategy which, together with other reforms (e.g., strengthened legal frameworks for collateralization and microcredit), will help improve (V)SME access to finance. Further efforts are needed to improve the quality of education, and the functioning of the labor market, and to reduce inequalities and middle-class vulnerabilities through better targeted social programs. Forceful implementation of the national strategy against corruption is necessary to reinforce public trust. The recent strengthening of the asset declaration system is welcomed and that of the legal framework to pursue illicit enrichment is expected in 2020. Specific measures under the national strategy for employment adopted in 2015 should also be finalized.

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<sup>8</sup> The Middle East and North Africa Financial Action Task Force (MENAFATF) assessed Morocco's AML/CFT framework in 2018 and identified several weaknesses in the areas of effectiveness and related technical compliance. The authorities should address key deficiencies identified in the report in order to mitigate financial integrity risks to the financial sector.

### Box 1. Medium-term tax reforms – Current assumptions

**Reforms need to accelerate to make Morocco’s tax system more efficient and equitable, as well as less distortive.** Some reforms were implemented following the 2013 national tax conference, to introduce corporate tax progressivity, improve the VAT refund system, and simplify administrative procedures. However, tax revenues declined from almost 24 percent of GDP in 2012 to 21.9 percent in 2018 (still above the average for middle-income economies). The 2019 national tax conference reinforced the consensus on the need to broaden the tax base and to make the tax system more efficient and equitable.

**In the absence of full clarity on the authorities’ future tax reform plans, a few key assumptions underpin tax revenue projections over the medium term.** These assumptions reflect measures that are already announced (e.g., in the context of the 2020 budget) or expected (e.g., expiration of certain tax exemptions), which should raise tax revenues by about 0.8 percent of GDP by 2024. They include: measures to boost VAT revenues based on recommendations from previous TA; better enforcement of tax payments by the self-employed and liberal professions; further corporate tax reform, including to prevent tax avoidance from recently introduced corporate tax brackets; and a broader base for property tax.

#### Current Assumptions for Tax Revenues

	Tax revenue	Taxes on income, profits, and capital gains	Taxes on property	Taxes on goods and services (VAT)
Projected increase in 2020-24 (in percent of GDP)	1.1	0.2	0.3	0.7
Of which:				
Contribution from GDP growth (income tax) or Consumption growth (VAT)	0.3	0.1	0.0	0.2
Expected yield from Tax reforms	0.8	0.1	0.3	0.5
Possible measures		Minimum social contribution, broader tax base (through fight against tax evasion and fiscal fraud)	broad-based tax	Reduced exemptions on real estate and manufactured products, Simplified VAT

**More decisive tax reforms could yield significantly higher payoffs.** While such reforms are yet to be specified, more comprehensive tax reforms could increase government revenue by an additional 0.8–1.2 percent of GDP over the medium term. Such reforms could include: aligning the VAT rate on manufacturing goods and services to the standard VAT rate; a more broad-based reduction in tax exemptions; and higher property taxation. Such a comprehensive approach, consistent with the principles of the 2019 national tax conference, would help broaden the tax base, remove tax distortions, while better mitigating adverse distributional effects from tax reforms if associated with better targeted social programs.

## OUTLOOK AND RISKS

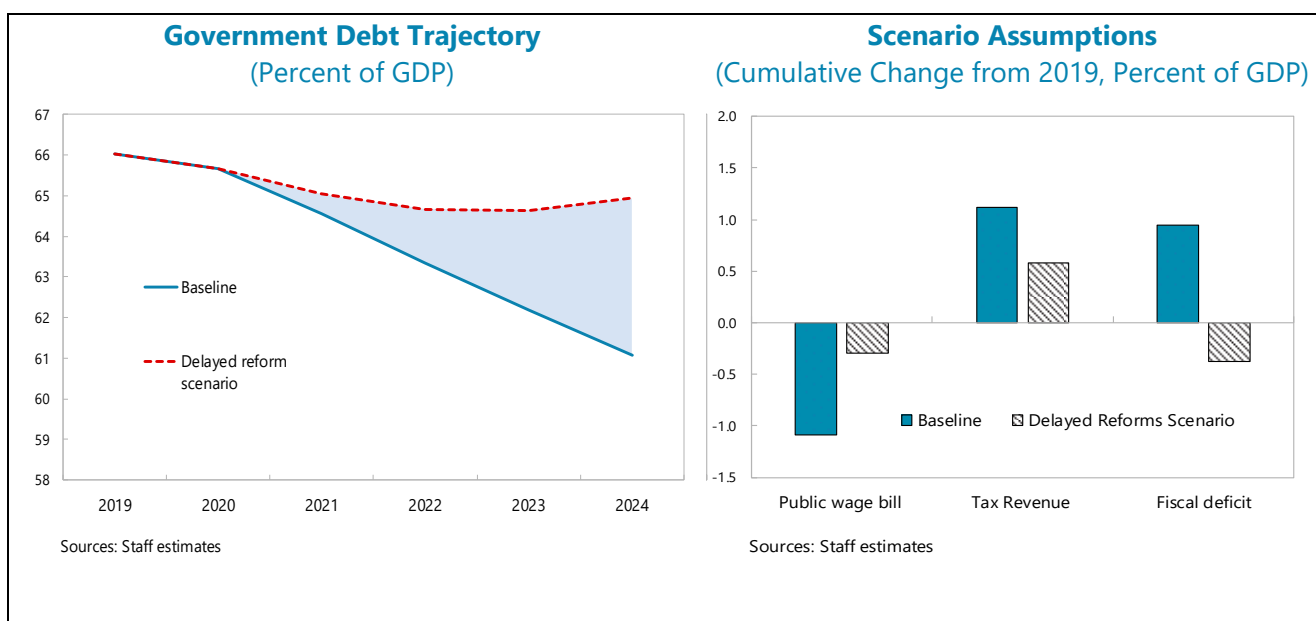
**9. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term.** These projections assume sustained reform implementation in line with the government's commitments, including fiscal prudence, progress toward greater exchange rate flexibility, and reforms of taxation, governance, SOE oversight, fiscal decentralization, the labor market, and the business environment:

- **Growth** is expected to increase to 3.7 percent in 2020, driven by a combination of agricultural recovery, increased domestic demand, and productivity gains (from the recent acceleration in reform implementation).<sup>9</sup> In the baseline, it would reach 4.5 percent over the medium term, contingent upon continued productivity growth.
- **Inflation** is projected to increase to 1.2 percent in 2020, driven by an increase in core inflation, and to stabilize around 2 percent over the medium term.
- **The fiscal deficit** is projected to decline to 3.8 percent of GDP in 2020, with privatization receipts reducing the public financing need to 3.5 percent of GDP. The deficit would then decline and stabilize around 3 percent of GDP after 2021, while expected privatization revenues would contribute to reducing public debt close to about 60 percent of GDP in the medium term.<sup>10</sup>
- **The current account deficit** is projected to narrow to 3.9 percent of GDP in 2020 and further to 2.8 percent of GDP in the medium term. This would reflect in particular increasing automobile exports (with new factories reaching export stage) and subdued energy imports (due to both lower international oil prices and higher domestic electricity production capacity). Foreign direct investment and other private flows (including trade credit and portfolio investment flows) are expected to remain stable and hover around 1.8 and 1.5 percent of GDP, respectively. International reserves are expected to increase slightly to around 85 percent of the ARA metric in the medium term (about 110 percent of the ARA metric adjusted for capital controls).

<sup>9</sup> As noted above, reforms have recently accelerated in some important areas, including further improvements to the business environment, competition, public governance, and financial inclusion.

<sup>10</sup> In addition, increased reliance on the leasing of public assets to the private sector under the new PPP framework is expected to boost public revenues in the medium term ("Other revenues" item in Table 2).

**10. The balance of risks remains tilted to the downside.** On the domestic front, delays in implementing key fiscal (e.g. tax and civil service) and structural reforms, or in containing the (already high) public wage bill, could affect growth prospects, reduce fiscal space, and undermine the authorities' objective of reducing public debt to 60 percent of GDP (charts).<sup>11</sup> They could also contribute to social tensions, which could in turn adversely affect the external sector (e.g., through lower tourism receipts and FDI inflows) as well as the expected pickup in potential growth. The authorities did not view a slowdown in reforms as a plausible risk considering the major reforms already implemented in areas such as subsidies and the pension system, despite an unfavorable international economic context. They confirmed their intention to pursue economic and structural reforms and, specifically, reiterated their determination to implement promptly the fiscal measures included in the 2020 budget law and contain the wage bill to expand fiscal space and reduce the public debt ratio under 60 percent of GDP in the medium term. Externally, higher oil prices, heightened global uncertainty and risks to euro area growth prospects, as well as geopolitical tensions, could slow economic activity through lower exports, tourism, FDI flows, and remittances. Increasingly volatile global financial conditions, and a sharp rise in risk premia, may also increase borrowing costs and weaken investor confidence (Box 2). On the upside, lower international oil (and butane gas) prices could help further enhance the economy's resilience. Increased regional integration in the Maghreb region could be an added source of medium-term growth for Morocco.



<sup>11</sup> Relative to the baseline scenario, the adverse fiscal scenario combines slower tax reforms (tax revenues reaching 22.4 instead of 22.9 percent of GDP in 2024) and a slower reduction in the public wage bill (remaining above 11 percent of GDP over the projection period). A slightly lower growth rate than projected in the adverse scenario (by about 0.2 percentage point) would also lead to a continuous increase in the public debt-to-GDP ratio.

## 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.<sup>1</sup> 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.

**Risks.** The main external risks for Morocco, based on the August 2019 Global Risk Assessment Matrix (G-RAM), are: (i) weaker than expected global growth, particularly in Europe and Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) intensification of security risks in parts of the Middle East, Africa, and Europe, resulting in negative sentiment and dislocations to capital flows and tourism receipts; and (iii) a sharp rise in risk premia, 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 (which more than 50 percent of Morocco's 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).

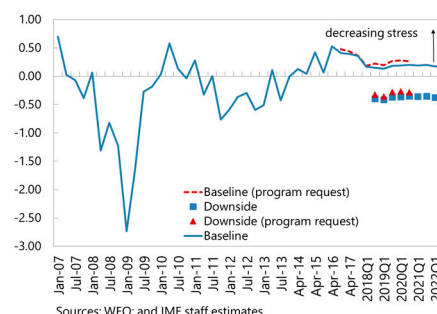
**Weights.** A data-based approach was used to determine the weights for each variable. Weights are estimated using the balance of payments and IIP data as a share of GDP. The weight on euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts from Europe. The weight on the VXEEM (0.095) corresponds to the stocks of external debt and equity, and the weight on the change in oil price (0.324) corresponds to oil imports. The three weights are as set at the PLL request stage in December 2018. The highest weights fall on the euro area growth and 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 2019 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 2019. The graph suggests that, at the current juncture, external economic stress has increased slightly compared to the December 2018 PLL request (solid lines). This is due to lower growth in advanced economies, particularly Europe, which is not completely offset by lower oil price assumptions, 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, based on historical standard deviations, and an increase in the VXEEM by two standard deviations, similar to the assumptions at the time of the PLL request.<sup>2</sup> The graph suggests that in a downside scenario, external economic stress is slightly higher than at the time of the December 2018 PLL request.

**Overall assessment.** The external economic stress index for Morocco suggests that external pressures abated between 2012–16 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 moderately heightened stress index.

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates.

<sup>1</sup> See [“The Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument,” IMF Policy Paper, January 2014.](#)

<sup>2</sup> The scenario combines a US\$15 increase in oil prices and a US\$5 drop consistent with lower growth in the euro area.

## REVIEW OF PLL QUALIFICATION

### A. General Assessment

**11. 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 2019 Article IV consultation, and despite the recent slowdown in fiscal consolidation. 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).

**12. Morocco's economic fundamentals and institutional policy frameworks are sound, the authorities have a track record of implementing sound policies, and they remain committed to doing so in the future, but performance under the program has recently been weaker than expected** (W-COM). Morocco has met the PLL qualification standard since 2012. Staff's review of the relevant core indicators over the last five years confirms this assessment (see below). This strengthens confidence that Morocco will take the policy measures needed to reduce remaining vulnerabilities and will respond appropriately to balance of payments difficulties it might encounter:

- **Macroeconomic developments are broadly positive.** Growth averaged 3.3 percent during 2012–18 and inflation remained below 2 percent. The fiscal deficit increased to 3.7 percent of GDP in 2018 and is expected to reach 4 percent of GDP in 2019, but public debt remains sustainable. On the external front, after a significant deterioration in 2018 to 5.5 percent of GDP due to increased energy imports (higher international oil prices), the current account deficit is expected to narrow modestly to 5.1 percent of GDP in 2019. The banking system remains resilient. Over the medium term, economic growth is projected to increase steadily in the context of moderate inflation, and the fiscal and current account deficits are expected to narrow.
- **While the authorities have implemented generally sound policies and structural reforms have accelerated, performance under the program could be strengthened.** During the last Article IV consultation, concluded on May 13, 2019, the Executive Board commended the authorities for implementing sound macroeconomic policies and welcomed the acceleration in reforms, which have helped improve the resilience of the economy and increase its diversification. Recently, however, progress towards reducing the fiscal deficit has stalled, due in particular to increased public wage spending as part of the recent round of social dialogue. Therefore, more decisive fiscal reforms will be critical to meet the authorities' objectives and preserve fiscal space going forward. The authorities should also take advantage of favorable conditions to further increase exchange rate flexibility.
- **The authorities are committed to maintaining sound policies** (W-COM.-122). Over the medium term, they plan to secure strong revenue performance, contain current spending, and reduce public debt to about 60 percent of GDP. They are advancing tax reforms in line with the



recommendations of the 2019 national tax conference, starting with the 2020 budget, and in the context of a five-year framework law expected to be adopted by end-February 2020. However, in addition to general orientations, specific tax reform plans beyond 2021 are yet to be formulated. Structural reforms to improve public sector efficiency, enhance competition, lower hiring costs, and increase SME financial inclusion are underway and will be key to raise the growth potential and boost job creation, especially for youth and women, while strengthening governance and reducing vulnerabilities to corruption (W-COM.-115, 18-19).

- **Flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** Implementation of the OBL continues to improve the fiscal policy framework, including by maintaining current spending within budgeted levels. Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs relatively well in the fiscal policy area.<sup>12</sup> Morocco scores lower in the monetary policy area, but this criterion is less relevant given the limited exchange rate flexibility.<sup>13</sup> 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 Worldwide Governance Indicators (WGI) on control of corruption and government effectiveness.<sup>14</sup>

## B. Assessment of Specific Criteria

### 13. 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 deficit remains large, with a substantial trade deficit, and the external position weakened in 2018 but is expected to improve in 2019. On the fiscal front, public debt is assessed to be sustainable with a high probability and resilient to various shocks. This qualification assessment has not changed since the request of the PLL arrangement.

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

<sup>12</sup> 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.

<sup>13</sup> The indicator of monetary policy cyclical 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.

<sup>14</sup> Morocco scores -0.1 and -0.1 on control of corruption and government effectiveness, respectively, compared to -0.3 and -0.5 for the average emerging market and developing economy for which WGIs are reported (the indexes range between +/-2.5; and for Morocco, the lower (upper) bound of 90 percent confidence interval is about 35 (57),percent. Use of these indicators should be considered carefully, as they are derived from perceptions-based data. See D. Kaufmann, Worldwide Governance Indicators, Natural Resource Governance Institute and Brookings Institution, and A. Kraay, World Bank, 2017.

- Criterion 1—Sustainable external position.** Based on the 2018 external balance assessment (EBA), Morocco’s external position is moderately weaker than implied by fundamentals and desirable policies. The current account deficit widened substantially in 2018 due to higher imports of energy and capital goods, as well as lower remittances, official grants from the Gulf states, and tourism receipts. It is expected that the current account will improve moderately in 2019 and over the medium term as export growth benefits from 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 lower commodity prices. Preliminary results for the 2019 EBA assessment indicate that Morocco’s external position continues to be moderately weaker than implied by fundamentals and desirable policies. The external debt sustainability analysis provided in the 2019 Article IV report shows that Morocco’s external debt has increased in recent years but remains relatively low, at about 30 percent of GDP in 2018 and is expected to decline to about 25 percent of GDP in the medium term. The authorities agree that current conditions offer a window of opportunity to continue the exchange rate transition, which will help absorb external shocks and preserve external competitiveness, but they are waiting for the opportune moment to move to the next phase.
- Criterion 2—Capital account position dominated by private flows.** Private capital flows constitute the largest share of the capital account (at around 80 percent on average between 2015 and 2018), 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 2 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 issued a 1-billion euro sovereign bond on November 21, 2019.<sup>15</sup> The country continues to be rated favorably by major ratings agencies. Sovereign spreads remain low and it is expected that Morocco can tap international markets on a durable and substantial basis.
- Criterion 4—A reserve position, which—notwithstanding potential balance of payments (BOP) pressures that justify Fund assistance—remains relatively comfortable.** On average, Morocco’s reserves were below 100 percent of the ARA metric in the last three years, but they have not declined below 80 percent of the ARA metric in any of the current and two previous years. At end-2018, reserves were equivalent to 85 percent of the ARA metric and remained adequate according to several metrics (Figure 4): 5.2 months of imports, ample coverage of short-term debt and broad money, and 113 percent of the ARA metric adjusted for capital controls. By 2024, reserves are expected to remain at about 5.2 months of imports, 85 percent of the ARA metric, and 110 percent of the ARA metric adjusted for capital controls.

<sup>15</sup> This new issuance, with a maturity of 12 years and an interest rate of 1.5 percent, was very well received by market participants. Previous issuances included a 10-year EUR1 billion bond at 3.5 percent in 2014, a 10-year US\$1.5 billion bond at 4.25 percent in 2013, and a 30-year US\$0.75 billion bonds at 5.5 percent in 2013.

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

- Criterion 5—Sound public finances, including a sustainable public debt position.** The authorities remain committed to fiscal sustainability and a track record of sound public finances. A deficit of 4 percent of GDP is expected in 2019, and the authorities aim to reduce public debt to 60 percent of GDP over the medium term (against 65.3 percent in 2018), which will require bringing the fiscal deficit to about 3 percent of GDP by 2022 (W-COM.-116). Morocco's public debt is sustainable with high probability and resilient to various shocks and vulnerabilities; gross financing needs are projected to decline over the medium term, including due to longer average maturities achieved in recent years. Future fiscal consolidation will be needed to meet the program's public sustainability objectives. Given that progress towards reducing the fiscal deficit has stalled, this will require more decisive tax reform implementation and greater clarity on specific reforms planned for the coming years, including measures to broaden the tax base through reduced exemptions and fight against tax evasion and fraud, simpler VAT regime and corporate tax rates, and better-enforced tax payments by self-employed and liberal professions. The authorities intend to strictly limit the net creation of new civil servant positions in the medium term, including as a result of attrition, while civil service reform (e.g., simpler and more flexible salary structures and merit-based career progression) will be needed to durably contain the relatively high wage bill and improve the quality of public services (W-COM.-118). Institutional mechanisms to control risks from fiscal decentralization are being put in place. The authorities intend to submit to parliament in 2020 a draft law reinforcing SOE governance and oversight, and the ongoing privatization program will also help enhance SOE performance.

**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 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 last several years and to lead to inflation targeting, allowing the economy to better absorb external shocks (W-COM.-114). In staff's assessment, this transition is likely to proceed smoothly as pre-conditions are in place, and Morocco is moving from a position of strength, with reasonable fiscal and external buffers, a resilient financial sector, and restrictions on capital outflows by residents. While the authorities have not provided a specific timeline, staff views current conditions as favorable and recommends accelerating the move to the next phase of the transition.

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

- Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability.** Banks have adequate capital buffers and benefit from stable funding (mainly non-remunerated deposits). The 2015 FSAP stress tests showed that the banking system could withstand severe shocks. NPLs remain relatively high at 7.7 percent, but provisioning levels are comfortable (70 percent). Risks from large credit exposures have been gradually declining from

their peak in 2007. Moroccan banks' expansion into Africa provides diversification and profit opportunities, but also increases risks given the riskier operating environment and lower regulatory standards in some host countries.

- **Criterion 8—Effective financial sector supervision.** Bank supervision capacity is improving along the lines of the 2015 FSAP recommendations. Together with recent enhancements of 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, corporate groups are required to prepare consolidated financial statements and risk weights have been raised for large connected exposures. More broadly, bank supervision is becoming more risk-based and forward-looking and the authorities are in the process of addressing weaknesses identified in Morocco's AML/CFT framework (W-COM.-113).

***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.

## OTHER PROGRAM ISSUES

**14. The end-September 2019 quantitative indicative targets (IT) for the net international reserves (NIR) was met, but that for the fiscal deficit was missed** by 0.2 percent of GDP (even after adjusting for lower grants) due to delays in PPP implementation during 2019.

**15. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 6).**

Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent only a small share of Morocco's total external debt (a maximum of 5.3 percent over the projection period), gross international reserves (11.6 percent), and exports (6.7 percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

**16. BAM has taken steps to strengthen its safeguards following the 2019 safeguards assessment.** A new BAM Law was enacted in July 2019, which strengthens the autonomy of the central bank, and governance arrangements were improved. The process of publication of BAM's financial statements has also improved, and some key disclosures were enhanced in the 2018 financial statements. In addition, work is underway to address the interim steps identified in the assessment that will facilitate the transition to International Financial Reporting Standards (IFRS).

**17. Given projected improvements in Morocco's economic resilience and growth, the authorities will need to communicate about their exit strategy from the PLL arrangement.**

Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be on a downward path. The current account deficit would be close to what would be expected for an emerging market country like Morocco, and reserves would be at a comfortable level (about 82 percent of the ARA metric, or 107 percent of the adjusted metric). The authorities' communication about their exit strategy should consider changes in external risks facing the economy, the strengthened economic resilience and policy space, as well as reform achievements and commitments, including as regards the exchange rate transition (W-COM.-122). The authorities agreed but also stressed the importance of the PLL arrangement at this juncture, including in supporting public confidence in the implementation of key reforms.

## STAFF APPRAISAL

**18. The PLL arrangement is serving Morocco well and remains on track.** Despite a challenging external environment, macroeconomic vulnerabilities have been reduced in recent years and reform implementation has been sustained. The IMF Executive Board's assessment in the context of the 2019 Article IV consultation was positive. Morocco continues to meet the PLL qualification criteria and its economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies and remains committed to such policies in the future. The end-September 2019 quantitative indicative target (IT) for net international reserves (NIR) was met, but that for fiscal deficit was missed.

**19. Stepped up fiscal and public sector reforms are needed to enhance macroeconomic resilience, as well as the efficiency and quality of public investment and services.** Progress towards reducing the fiscal deficit has recently stalled due in particular to increased public wage spending as part of the recent round of social dialogue. As a result, decisive tax reforms are required to meet the authorities' medium-term objective of reducing public debt to 60 percent of GDP. In addition to general orientations from the 2019 national tax conference, the forthcoming five-year framework law should include specific tax reform commitments beyond 2020. Furthermore, improving the efficiency and quality of public investment and services will require: overhauling public sector governance and continued fight against corruption; accelerated civil service reform; careful implementation of fiscal decentralization; and, increased project implementation and risk management capacity, including in the SOE sector.

**20. Current conditions remain supportive of the transition to a more flexible exchange rate regime, which should continue.** This reform will allow to modernize Morocco's monetary policy regime through the eventual introduction of inflation targeting. Greater exchange rate flexibility will help further strengthen the economy's resilience in an uncertain global environment, preserve its competitiveness, and increase its growth potential.

**21. Sustained structural reform implementation will be essential to achieve higher growth and reduce unemployment.** Key reforms continue to accelerate, including to improve the business environment and financial inclusion, which will help shift to a more private sector-led growth model.

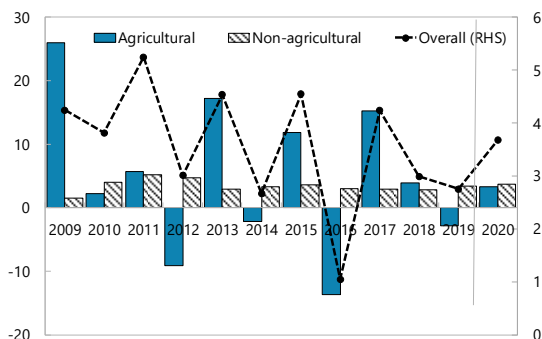
Mutually-reinforcing reforms are also needed to improve the quality of the education system, the functioning of the labor market, and female labor force participation, while ensuring that social programs are better targeted at the most vulnerable groups. Finally, continuing to implement the 2015 FSAP recommendations will help further strengthen the financial sector policy framework.

**22. Against this background, staff recommends the completion of the second review under the PLL arrangement.**

**Figure 1. Morocco: Real Sector Developments, 2009–20**

*Agricultural growth has been driving the decline in overall growth in 2018 and 2019*

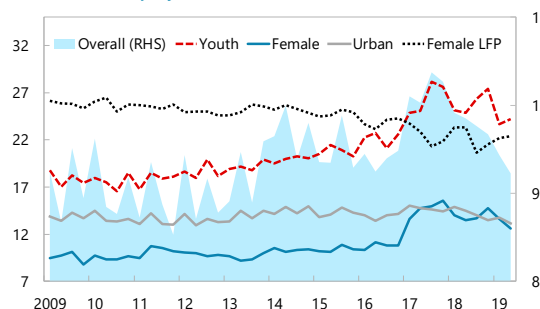
**GDP Growth**  
(Annual percent change)



Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

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

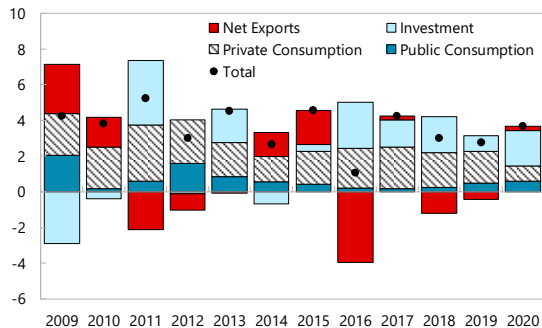
**Unemployment**  
(Percent, seasonally adjusted)



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

*Investment and private consumption remain key growth drivers*

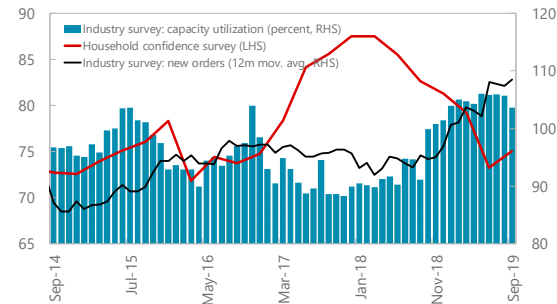
**Contributions to GDP Growth**  
(Annual percent change)



Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

*Surveys point to increasing business confidence and declining household confidence*

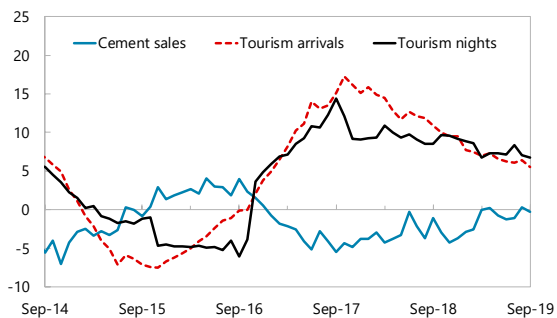
**Household and Industry Confidence Surveys**  
(Indices)



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

*Tourism activity is still strong, and construction activity subdued*

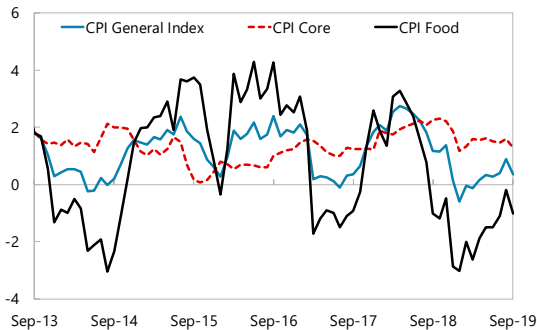
**Tourism and Cement Sales**  
(Seasonally adjusted, 12-month moving average, annual percent change)



Sources: National authorities and IMF staff estimates, as of September 2019.

*Inflation has remained low despite volatile food prices*

**Inflation**  
(Annual percent change)



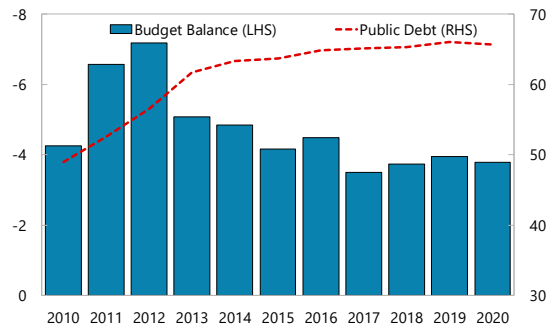
Sources: National authorities and IMF staff estimates, as of September 2019.

**Figure 2. Morocco: Fiscal Developments**

*Fiscal consolidation has stalled in 2018-19 ...*

**Budget Balance and Public Debt**

(Percent of GDP)

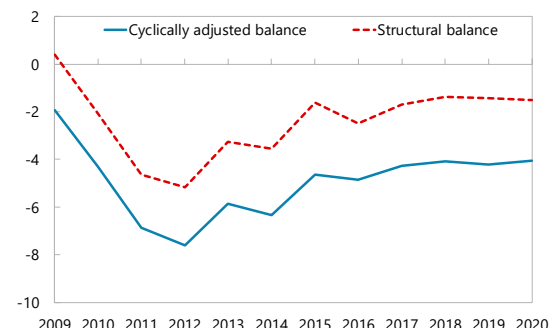


Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

*...but cyclical and structural fiscal balances continued to improve*

**Cyclical and Structural Balance**

(Percent of GDP)

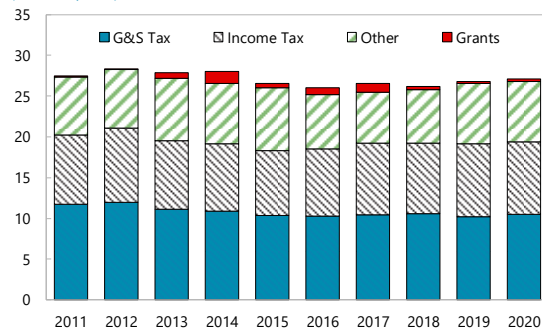


Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

*Revenues have been stable since 2016...*

**Government Revenue**

(Percent of GDP)

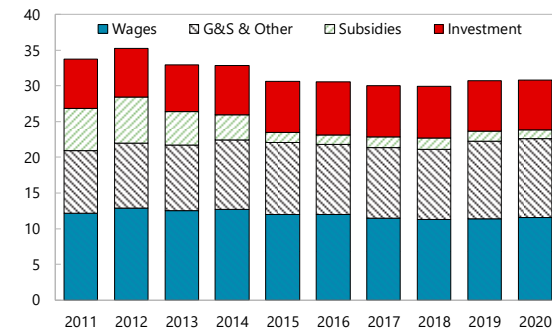


Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

*... while expenditures remain contained*

**Government Expenditure**

(Percent of GDP)

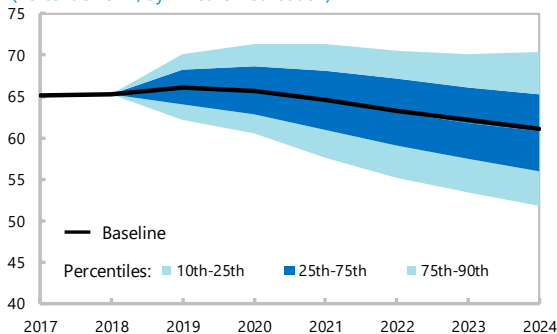


Sources: National authorities; and IMF staff estimates. Note: 2020 projected.

*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)

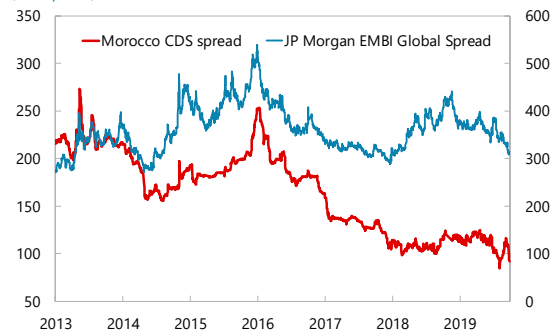


Source: DSA; and IMF staff estimates.

*Sovereign spreads have remained low*

**CDS Spreads**

(Basis points)



Sources: Bloomberg and Markit.

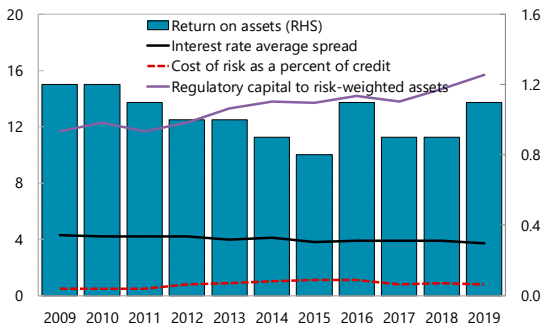


**Figure 3. Morocco: Financial Sector Developments**

*Banks continue to be profitable and are strengthening their capitalization following IFRS9 implementation*

**Bank Profitability and Capitalization**

(Percent)

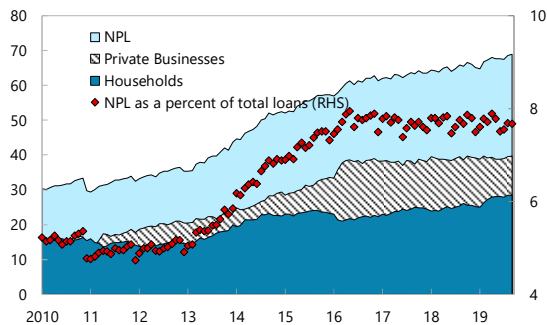


Sources: National Authorities, as of June 2019.

*NPLs remain relatively high for household loans*

**Distribution of Non-Performing Loans**

(National currency, Billions)

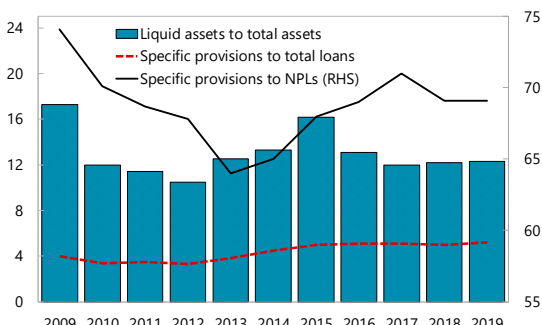


Sources: National authorities and IMF staff estimates, as of September 2019.

*Provisioning is relatively high while liquidity conditions are stable*

**Bank Liquidity**

(Percent)

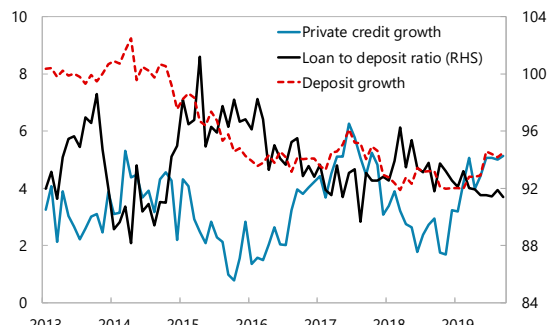


Sources: National Authorities; and IMF Staff Calculations, as of June 2019.

*Private credit growth has been recovering in 2019*

**Loans and deposits**

(Annual percent change)

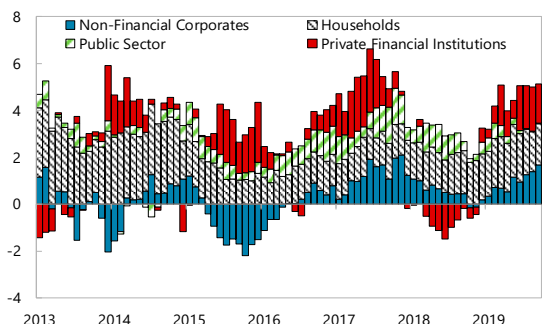


Sources: National authorities and IMF staff calculations, as of September 2019.

*Lending to households, private financial institutions, and non-financial corporates are supporting credit growth*

**Contribution to Credit Growth**

(Annual percent change)

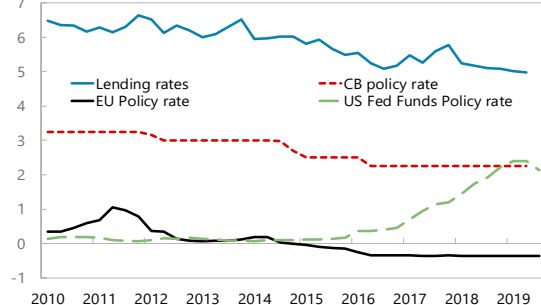


Sources: National Authorities and IMF staff estimates, as of September 2019.

*The policy rate remains unchanged since 2016 while lending rates have marginally decreased since 2018*

**Bank Lending Rates and Interest Margin**

(Percent)

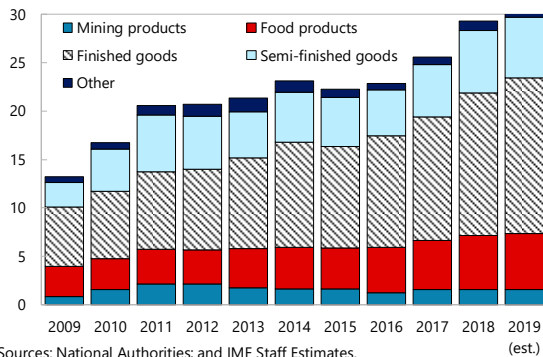


Sources: National authorities and IMF staff estimates; as of Q2 2019.

**Figure 4. Morocco: External Developments**

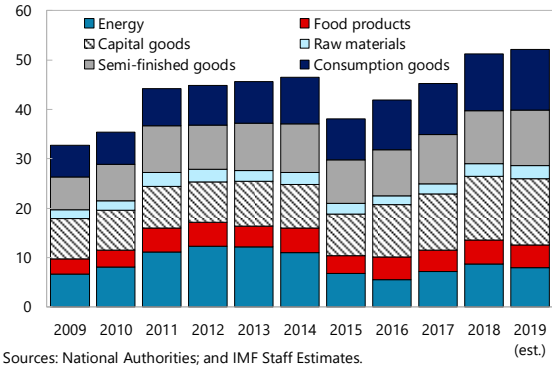
Export growth continues to be driven by emerging manufacturing sectors...

**Exports by Type of Goods**  
(US\$, Billions)



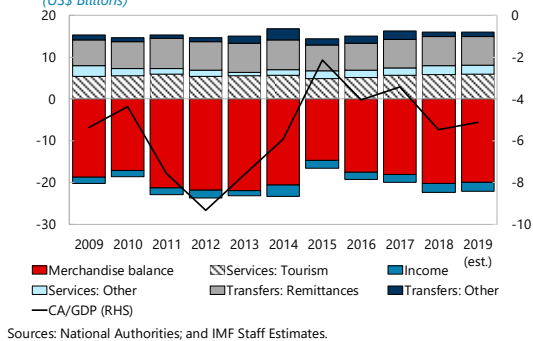
...while imports of capital and semi-finished goods also increased, and those of energy have stabilized

**Imports by Type of Goods**  
(US\$, Billions)



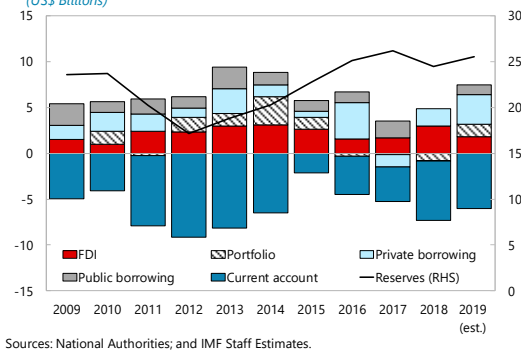
The current account deficit is projected to improve slightly in 2019 after a sharp increase in 2018

**Current Account Components**  
(US\$ Billions)



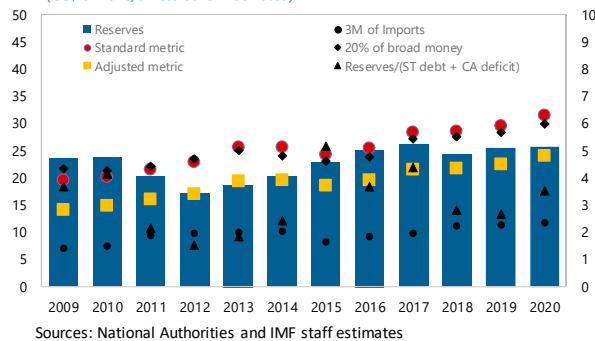
Private borrowing and FDI are playing a key role in financing the current account deficit in 2018 and 2019

**Current Account Financing**  
(US\$ Billions)



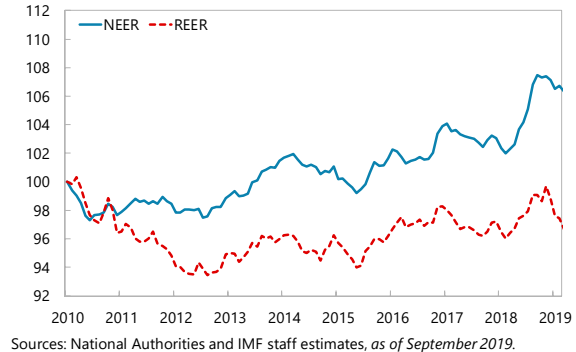
Morocco's reserves level remains adequate

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



The real effective exchange rate has appreciated since 2018

**Real and Nominal Effective Exchange Rates**  
(Index, Jan. 2010 = 100)

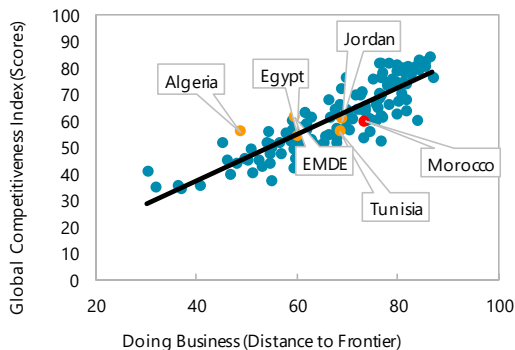


**Figure 5. Morocco: Structural Reforms**

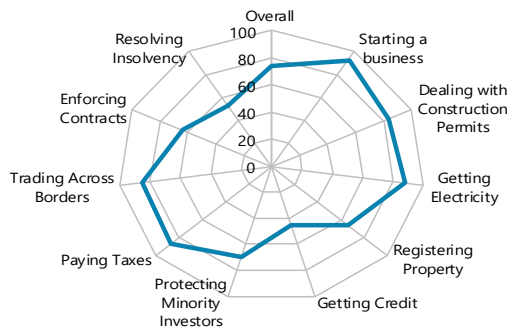
Morocco fares relatively well in terms of overall business climate and competitiveness

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

**Doing Business and Global Competitiveness**



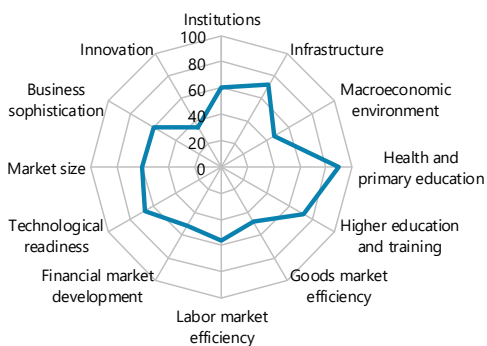
**Doing Business Indicators**



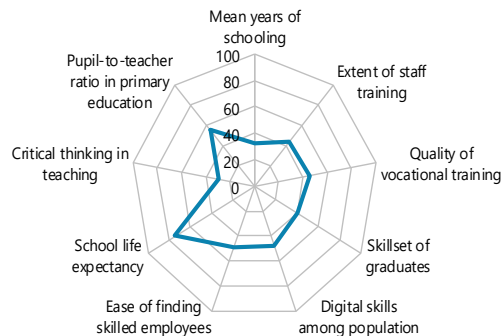
However, limited progress has been made in improving innovation capacity and labor market functioning

On education, efforts should focus on increasing years of schooling, teachers' training, and vocational training

**Global Competitiveness Indicators**



**Education**



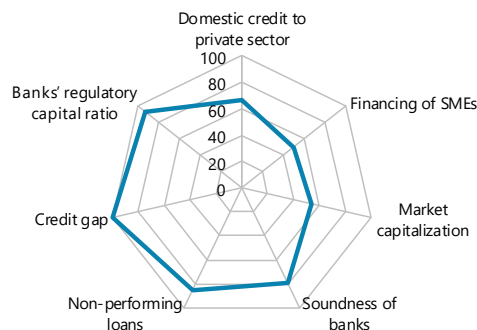
On labor market, efforts are needed to reduce regulatory rigidities and strengthen labor market policies

Facilitating access to finance for SMEs is a priority

**Labor Market**



**Financial Development**



Sources: World Bank's 2020 Doing Business Report, World Economic Forum's 2019 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'.

Table 1. Morocco: Selected Economic Indicators, 2015–24

	2015	2016	2017	2018	Proj.						
					PLL 1/ 2019	Rev. 2020	2021	2022	2023	2024	
(Annual percentage change)											
Output and Prices											
Real GDP	4.5	1.0	4.2	3.0	3.0	2.8	3.7	4.1	4.3	4.4	4.5
Real agriculture GDP	11.9	-13.7	15.2	4.0	0.1	-2.8	3.3	3.7	4.1	4.3	4.4
Real non-agriculture GDP	3.7	3.0	2.9	2.9	3.4	3.4	3.7	4.1	4.3	4.4	4.5
Consumer prices (end of period)	0.6	1.8	1.9	0.1	0.6	0.4	1.2	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.6	1.6	0.7	1.9	0.6	0.4	1.2	2.0	2.0	2.0	2.0
(In percent of GDP)											
Investment and Saving											
Gross capital formation	30.8	32.4	32.6	33.5	34.0	33.1	32.9	32.8	32.8	33.0	33.1
<i>Of which:</i> Nongovernment	25.3	26.7	27.2	28.0	29.0	28.0	28.7	27.9	27.8	28.0	28.0
Gross national savings	28.7	28.3	29.2	28.0	30.0	28.0	29.1	29.7	29.8	30.2	30.3
<i>Of which:</i> Nongovernment	25.6	25.5	25.5	24.6	27.5	25.6	26.7	26.4	25.8	26.0	25.8
(In percent of GDP)											
Public Finances											
Revenue	26.5	26.1	26.6	26.2	26.2	26.0	26.2	26.4	26.7	26.8	26.9
Expenditure	30.7	30.5	30.0	29.9	29.9	30.0	29.9	29.7	29.7	29.8	29.9
Budget balance	-4.2	-4.5	-3.5	-3.7	-3.7	-4.0	-3.8	-3.3	-3.0	-3.0	-3.0
Primary balance (excluding grants)	-1.9	-2.7	-2.0	-1.7	-1.5	-1.7	-1.6	-1.1	-1.0	-0.9	-1.0
Cyclically-adjusted primary balance (excl. grants)	-1.6	-2.5	-1.7	-1.4	-1.3	-1.4	-1.5	-1.1	-1.0	-0.9	-1.0
Total government debt	63.7	64.9	65.1	65.3	65.1	66.0	65.7	64.6	63.3	62.2	61.1
(Annual percentage change; unless otherwise indicated)											
Monetary Sector											
Claims to the economy	1.6	5.9	3.3	3.4	5.2	5.2	...	...	...	...	...
Broad money	5.7	4.7	5.5	4.1	4.0	4.0	...	...	...	...	...
Velocity of broad money	0.9	0.8	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	3.3	12.7	11.2	5.4	4.2	6.9	7.0	6.4	6.7	5.9
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	2.1	2.6	3.3	4.9	6.0	6.1	6.0
Merchandise trade balance	-14.5	-17.1	-16.4	-17.2	-15.8	-16.9	-15.6	-14.8	-14.7	-14.4	-14.3
Current account excluding official transfers	-2.6	-5.0	-4.5	-5.8	-4.4	-5.5	-4.2	-3.3	-3.2	-3.0	-2.9
Current account including official transfers	-2.1	-4.1	-3.4	-5.5	-4.0	-5.1	-3.9	-3.2	-3.0	-2.8	-2.8
Foreign direct investment	2.6	1.5	1.5	2.5	1.8	1.5	1.6	1.7	1.7	1.8	1.8
Total external debt	33.4	33.7	34.5	31.3	32.7	32.8	32.7	32.5	30.4	29.4	26.9
Gross reserves (in billions of U.S. dollars)	22.8	25.1	26.2	24.4	26.0	25.5	25.8	27.8	28.7	31.0	33.1
In months of next year imports of goods and services	6.0	6.1	5.7	5.2	5.2	5.2	5.0	5.1	5.0	5.1	5.2
In percent of Fund reserve adequacy metric 2/	93.6	98.6	92.3	85.4	86.9	86.4	81.8	82.8	81.9	83.7	84.8
In percent of CA deficit and ST debt at rem. mat. basis	517.5	404.8	439.0	279.4	360.3	302.7	359.6	424.7	446.3	489.8	498.9
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	101.2	103.31	109.7	117.9	120.7	118.1	123.6	131.7	140.5	149.9	160.0
Nominal GDP per capita (in U.S. dollars, percent change)	-9.0	1.0	5.1	6.4	0.7	-0.9	3.6	5.5	5.6	5.7	5.8
Output gap (percentage points of non-agricultural GDP)	-0.2	-0.9	-1.0	-1.0	-0.8	-0.9	-0.4	0.0	0.0	0.0	0.0
Unemployment rate (in percent)	9.7	9.9	10.2	9.4	...	9.0	...	...	...	...	...
Population (millions)	34.1	34.5	34.9	35.2	35.6	35.6	36.0	36.3	36.7	37.0	37.4
Population growth (in percent)	1.05	1.06	1.06	1.06	1.04	1.04	1.03	1.00	0.98	0.96	0.94
Net imports of energy products (in billions of U.S. dollars)	-6.8	-5.6	-7.2	-8.8	-7.9	-7.9	-7.7	-7.8	-8.2	-8.7	-9.2
Local currency per U.S. dollar (period average)	9.8	9.8	9.7	9.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	-0.3	2.1	-0.4	0.9	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the First Review Under the PLL Arrangement in CR No. 19/317.

2/ Based on revised ARA weights.

**Table 2a. Morocco: Budgetary Central Government Finance, 2015–24**  
(Billions of dirhams)

	2015	2016	2017	2018	PLL 1/ Rev.		Proj.				
					2019	2020	2021	2022	2023	2024	
Revenue	262.1	264.0	282.4	289.8	302.1	297.2	313.4	334.8	359.4	384.0	409.3
Taxes	208.9	216.9	232.1	242.5	254.3	249.2	263.5	284.1	305.7	327.0	348.8
Taxes on income, profits, and capital gains	78.6	83.7	93.3	95.5	103.7	102.0	106.6	114.3	122.6	129.7	139.5
Taxes on property	14.1	13.6	12.6	12.6	15.6	13.6	13.8	16.9	19.1	21.3	22.7
Taxes on goods and services	102.0	103.9	111.0	117.6	118.3	116.7	125.7	135.3	144.8	155.7	166.0
Taxes on international trade and transactions	8.1	9.5	9.0	10.1	9.8	10.0	10.6	10.8	11.9	12.6	12.4
Other taxes	6.1	6.3	6.0	6.7	7.0	6.9	6.9	6.9	7.3	7.7	8.2
Grants	5.0	9.1	11.4	4.4	3.2	3.2	3.2	1.2	1.2	1.2	1.2
Other revenue	48.3	38.0	39.0	42.9	44.5	44.8	46.7	49.5	52.5	55.8	59.3
Expense	248.5	251.6	261.6	270.3	288.2	284.5	307.7	314.5	332.8	355.2	377.4
Compensation of employees	118.5	121.2	122.2	124.5	133.6	130.2	138.1	142.2	146.4	151.6	156.8
Of which: wages and salaries	103.0	104.9	104.9	106.0	112.2	113.2	119.5	123.1	127.1	131.1	134.1
social contributions	15.5	16.3	17.3	18.5	21.5	17.0	18.6	19.1	19.3	20.5	22.7
Use of goods and services and grants	72.0	72.5	78.2	82.0	93.5	95.5	104.0	108.4	117.9	128.1	139.3
Of which: Use of goods and services	25.4	26.7	27.6	30.5	34.3	36.2	31.0	33.3	35.3	37.5	39.9
Grants	46.6	45.8	50.6	51.5	59.2	59.3	73.0	75.1	82.5	90.6	99.4
Interest	27.3	27.1	27.1	27.3	28.7	29.1	29.0	28.9	28.8	31.3	32.4
Subsidies	14.0	14.1	15.3	17.7	18.4	15.8	14.6	13.3	12.8	12.7	12.5
Other expenses 2/	16.8	16.8	18.8	18.8	14.0	14.0	22.0	21.6	26.9	31.5	36.5
Net acquisition of nonfinancial assets	54.8	57.8	57.9	60.8	57.1	57.9	51.0	62.2	67.4	71.5	77.6
Net lending / borrowing (overall balance)	-41.2	-45.4	-37.1	-41.4	-43.2	-45.1	-45.3	-41.8	-40.8	-42.8	-45.7
Net lending / borrowing (incl. privatization)	-41.2	-43.9	-37.1	-41.4	-38.2	-40.7	-42.3	-36.8	-37.8	-39.8	-43.1
Net lending / borrowing (incl. privatization excl. grants)	-46.2	-53.0	-48.5	-45.7	-41.4	-43.9	-45.5	-38.0	-39.0	-41.0	-44.3
Net lending / borrowing (excluding grants)	-46.2	-54.5	-48.5	-45.7	-46.4	-48.3	-48.5	-43.0	-42.0	-44.0	-46.9
Change in net financial worth	-41.2	-45.4	-37.1	-41.4	-43.2	-45.1	-45.3	-41.8	-40.8	-42.8	-45.7
Net acquisition of financial assets	0.0	-1.5	0.0	0.0	-5.0	-4.4	-3.0	-5.0	-3.0	-3.0	-2.6
Domestic	0.0	-1.5	0.0	0.0	-5.0	-4.4	-3.0	-5.0	-3.0	-3.0	-2.6
Shares and other equity	0.0	-1.5	0.0	0.0	-5.0	-4.4	-3.0	-5.0	-3.0	-3.0	-2.6
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	37.1	41.4	38.2	40.7	42.3	36.8	37.8	39.8	43.1
Domestic	40.9	41.1	28.1	43.2	19.7	21.8	19.6	19.3	32.0	32.5	36.1
Currency and Deposits	0.7	5.5	2.0	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	42.9	27.0	26.1	39.2	18.7	20.8	18.6	18.3	31.0	31.5	35.1
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	9.0	-1.8	18.5	18.9	22.6	17.5	5.8	7.3	7.0
Memorandum Item:											
Total investment (including capital transfers)	71.6	74.6	76.7	79.6	71.1	71.9	73.0	83.8	94.3	103.0	114.1
GDP	988.0	1,013.2	1,063.4	1,106.8	1,155.0	1,142.3	1,197.7	1,269.1	1,347.4	1,430.9	1,520.8

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

1/ Refers to the macro framework for the First Review Under the PLL Arrangement in CR No. 19/317.

2/ Includes capital transfers to public entities.

**Table 2b. Morocco: Budgetary Central Government Finance, 2015–24**  
(Percent of GDP)

	2015	2016	2017	2018	PLL 1/		Proj.				
					2019	Rev.	2020	2021	2022	2023	2024
Revenue	25.6	26.1	26.6	26.2	26.2	26.0	26.2	26.4	26.7	26.8	26.9
Taxes	20.5	21.4	21.8	21.9	22.0	21.8	22.0	22.4	22.7	22.9	22.9
Taxes on income, profits, and capital gains	7.7	8.3	8.8	8.6	9.0	8.9	8.9	9.0	9.1	9.1	9.2
Taxes on property	1.4	1.3	1.2	1.1	1.3	1.2	1.1	1.3	1.4	1.5	1.5
Taxes on goods and services	10.2	10.3	10.4	10.6	10.2	10.2	10.5	10.7	10.7	10.9	10.9
Taxes on international trade and transactions	0.8	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.8
Other taxes	0.4	0.6	0.6	0.6	0.6	0.6	0.6	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	1.1	0.4	0.3	0.3	0.3	0.1	0.1	0.1	0.1
Other revenue	4.1	3.7	3.7	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Expense	25.2	24.8	24.6	24.4	25.0	24.9	25.7	24.8	24.7	24.8	24.8
Compensation of employees	12.1	12.0	11.5	11.3	11.6	11.4	11.5	11.2	10.9	10.6	10.3
<i>Of which: wages and salaries</i>	10.3	10.3	9.9	9.6	9.7	9.9	10.0	9.7	9.4	9.2	8.8
social contributions	1.8	1.6	1.6	1.7	1.9	1.5	1.6	1.5	1.4	1.4	1.5
Use of goods and services and grants	7.2	7.2	7.4	7.4	8.1	8.4	8.7	8.5	8.7	9.0	9.2
<i>Of which: Use of goods and services</i>	2.8	2.6	2.6	2.8	3.0	3.2	2.6	2.6	2.6	2.6	2.6
Grants	4.4	4.5	4.8	4.6	5.1	5.2	6.1	5.9	6.1	6.3	6.5
Interest	2.8	2.7	2.5	2.5	2.5	2.5	2.4	2.3	2.1	2.2	2.1
Subsidies	1.7	1.4	1.4	1.6	1.6	1.4	1.2	1.1	1.0	0.9	0.8
Other expenses 2/	1.5	1.7	1.8	1.7	1.2	1.2	1.8	1.7	2.0	2.2	2.4
Net acquisition of nonfinancial assets	4.7	5.7	5.4	5.5	4.9	5.1	4.3	4.9	5.0	5.0	5.1
Net lending / borrowing (overall balance)	-4.3	-4.5	-3.5	-3.7	-3.7	-4.0	-3.8	-3.3	-3.0	-3.0	-3.0
Net lending / borrowing (incl. privatization)	-4.3	-4.3	-3.5	-3.7	-3.3	-3.6	-3.5	-2.9	-2.8	-2.8	-2.8
Net lending / borrowing (incl. privatization excl. grants)	-5.3	-5.2	-4.6	-4.1	-3.6	-3.8	-3.8	-3.0	-2.9	-2.9	-2.9
Net lending / borrowing (excluding grants)	-5.3	-5.4	-4.6	-4.1	-4.0	-4.2	-4.0	-3.4	-3.1	-3.1	-3.1
Cyclical adjusted balance	-5.0	-4.9	-4.3	-3.8	-4.0	-4.0	-3.9	-3.4	-3.1	-3.1	-3.1
Change in net financial worth	-4.3	-4.5	-3.5	-3.7	-3.7	-4.0	-3.8	-3.3	-3.0	-3.0	-3.0
Net acquisition of financial assets	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.3	-0.4	-0.2	-0.2	-0.2
Domestic	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.3	-0.4	-0.2	-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	-0.4	-0.4	-0.3	-0.4	-0.2	-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	3.7	3.3	3.6	3.5	2.9	2.8	2.8	2.8
Domestic	4.1	4.1	2.6	3.9	1.7	1.9	1.6	1.5	2.4	2.3	2.4
Currency and Deposits	0.0	0.5	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	4.9	2.7	2.5	3.5	1.6	1.8	1.6	1.4	2.3	2.2	2.3
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	0.8	-0.2	1.6	1.7	1.9	1.4	0.4	0.5	0.5
Memorandum items:											
Total investment (including capital transfers)	6.2	7.4	7.2	7.2	6.2	6.3	6.1	6.6	7.0	7.2	7.5
Total government debt 3/		64.9	65.1	65.3	65.1	66.0	65.7	64.6	63.3	62.2	61.1
Deposits at the Treasury from third parties		5.5	5.5	5.3	5.2	5.3	5.1	4.9	4.7	4.5	4.3

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

1/ Refers to the macro framework for the First Review Under the PLL Arrangement in CR No. 19/137.

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, 2015–24**  
(In billions of US dollars, unless otherwise indicated)

	2015	2016	2017	2018	Proj.							
					PLL 1/	Rev.						
					2019	2020	2021	2022	2023	2024		
Current account	-2.2	-4.2	-3.7	-6.5	-4.8	-6.1	-4.8	-4.2	-4.2	-4.1	-4.5	
Trade balance	-14.7	-17.6	-18.0	-20.2	-19.1	-20.0	-19.3	-19.5	-20.7	-21.6	-22.9	
Exports, f.o.b.	18.6	19.1	21.5	24.6	26.2	25.6	27.8	29.9	31.9	34.3	36.5	
Food products	4.2	4.6	5.1	5.6	6.0	5.8	6.0	6.4	6.7	7.2	7.7	
Phosphates and derived products	4.5	4.0	4.6	5.5	6.0	5.4	5.7	6.0	6.4	6.8	7.2	
Automobiles	5.0	5.6	6.1	6.9	7.5	7.1	8.4	9.4	10.1	11.0	11.8	
Imports, f.o.b.	-33.3	-36.7	-39.5	-44.8	-45.3	-45.6	-47.0	-49.5	-52.5	-55.9	-59.5	
Energy	-6.8	-5.6	-7.2	-8.8	-7.9	-7.9	-7.7	-7.8	-8.2	-8.7	-9.2	
Capital goods	-8.4	-10.6	-11.3	-12.8	-12.8	-13.4	-13.7	-14.4	-15.2	-16.1	-17.0	
Food products	-3.6	-4.5	-4.4	-4.9	-4.8	-4.7	-5.0	-5.3	-5.6	-6.0	-6.3	
Services	6.8	6.9	7.5	8.0	8.1	8.1	8.6	9.3	10.1	10.7	11.4	
Tourism receipts	6.3	6.5	7.4	7.8	7.8	8.0	8.2	8.7	9.2	9.6	10.0	
Income	-1.9	-1.6	-1.9	-2.2	-2.1	-2.1	-2.3	-2.3	-2.5	-2.5	-2.6	
Transfers	7.7	8.2	8.8	8.0	8.3	7.9	8.1	8.4	8.8	9.3	9.6	
Private transfers (net)	7.2	7.3	7.6	7.6	7.9	7.5	7.7	8.1	8.6	9.0	9.5	
Workers' remittances	6.1	6.4	6.8	6.9	7.2	6.8	7.0	7.4	7.8	8.2	8.7	
Official grants (net)	0.5	1.0	1.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.1	
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	5.8	6.4	2.0	4.0	6.3	7.4	4.9	6.0	5.1	6.3	6.5	
Direct investment	2.6	1.6	1.7	3.0	2.1	1.8	2.0	2.2	2.4	2.7	2.9	
Portfolio investment	1.3	-0.3	-0.1	-0.8	1.2	1.3	0.2	0.2	0.2	0.2	0.2	
Other	1.8	5.1	0.4	1.9	2.9	4.3	2.7	3.6	2.4	3.4	3.3	
Private	0.7	4.0	-1.4	1.9	1.9	3.2	1.4	1.7	3.0	2.4	2.3	
Public medium-and long-term loans (net)	1.2	1.2	1.8	-0.1	1.1	1.1	1.4	1.9	-0.5	1.0	1.0	
Disbursements	2.8	3.2	3.7	2.1	3.2	3.2	3.6	4.4	1.7	3.1	3.2	
Amortization	-1.6	-2.1	-1.9	-2.1	-2.2	-2.1	-2.3	-2.4	-2.2	-2.1	-2.2	
Reserve asset accumulation (-increase)	-4.3	-2.7	0.9	1.1	-1.4	-1.4	-0.1	-1.9	-0.9	-2.2	-2.0	
Errors and omissions	0.7	0.6	0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
					(Percent of GDP)							
Current account	-2.1	-4.1	-3.4	-5.5	-4.0	-5.1	-3.9	-3.2	-3.0	-2.8	-2.8	
Trade balance	-14.5	-17.1	-16.4	-17.2	-15.8	-16.9	-15.6	-14.8	-14.7	-14.4	-14.3	
Exports, f.o.b.	18.4	18.4	19.6	20.8	21.7	21.7	22.5	22.7	22.7	22.9	22.8	
Food products	4.2	4.5	4.6	4.8	5.0	4.9	4.9	4.8	4.8	4.8	4.8	
Phosphates and derived products	4.5	3.9	4.2	4.7	5.0	4.6	4.6	4.5	4.6	4.5	4.5	
Automobiles	4.9	5.4	5.5	5.9	6.2	6.0	6.8	7.1	7.2	7.3	7.4	
Imports, f.o.b.	-32.9	-35.5	-36.0	-38.0	-37.5	-38.6	-38.1	-37.5	-37.4	-37.3	-37.2	
Energy	-6.7	-5.4	-6.5	-7.4	-6.6	-6.7	-6.2	-5.9	-5.9	-5.8	-5.8	
Capital goods	-8.3	-10.2	-10.3	-10.8	-10.6	-11.3	-11.0	-10.9	-10.8	-10.7	-10.6	
Food products	-3.6	-4.4	-4.0	-4.1	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	
Services	6.7	6.7	6.8	6.8	6.7	6.9	6.9	7.1	7.2	7.2	7.1	
Tourism receipts	6.2	6.3	6.8	6.6	6.5	6.8	6.7	6.6	6.5	6.4	6.3	
Income	-1.9	-1.6	-1.8	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7	-1.6	
Transfers	7.6	7.9	8.0	6.8	6.9	6.7	6.6	6.4	6.3	6.2	6.0	
Private transfers (net)	7.1	7.0	6.9	6.4	6.5	6.4	6.3	6.2	6.1	6.0	5.9	
Workers' remittances	6.1	6.1	6.2	5.8	5.9	5.8	5.7	5.6	5.6	5.5	5.5	
Official grants (net)	0.5	0.9	1.1	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.1	
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	5.7	6.1	1.8	3.4	5.2	6.3	3.9	4.6	3.6	4.2	4.0	
Direct investment	2.6	1.5	1.5	2.5	1.8	1.5	1.6	1.7	1.7	1.8	1.8	
Portfolio investment	1.3	-0.3	-0.1	-0.7	1.0	1.1	0.1	0.2	0.1	0.1	0.1	
Other	1.8	5.0	0.4	1.6	2.4	3.6	2.2	2.8	1.7	2.3	2.1	
Private	0.7	3.8	-1.3	1.6	1.6	2.7	1.1	1.3	2.1	1.6	1.5	
Public medium-and long-term loans (net)	1.2	1.1	1.7	-0.1	0.9	0.9	1.1	1.5	-0.4	0.7	0.6	
Disbursements	2.8	3.1	3.4	1.7	2.7	2.7	2.9	3.3	1.2	2.1	2.0	
Amortization	-1.6	-2.0	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.6	-1.4	-1.4	
Memorandum items:												
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	3.3	12.7	11.2	5.4	4.2	6.9	7.0	6.4	6.7	5.9	
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	2.1	2.6	3.3	4.9	6.0	6.1	6.0	
Current account balance excluding official grants (percent of GDP)	-2.6	-5.0	-4.5	-5.8	-4.4	-5.5	-4.2	-3.3	-3.2	-3.0	-2.9	
Terms of trade (percentage change) 2/	7.5	-3.8	0.5	1.1	2.2	1.1	1.4	1.0	0.6	0.6	0.5	
Gross official reserves 3/	22.8	25.1	26.2	24.4	26.0	25.5	25.8	27.8	28.7	31.0	33.1	
In months of prospective imports of GNFS	6.0	6.1	5.7	5.2	5.2	5.2	5.0	5.1	5.0	5.1	5.2	
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	93.6	98.6	92.3	85.4	86.9	86.4	81.8	82.8	81.9	83.7	84.8	
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	122.9	128.7	121.5	112.6	114.5	113.8	107.3	107.9	106.7	108.7	109.8	
Debt service (percent of export of GNFS and remittances) 5/	6.9	7.8	7.9	6.4	6.1	6.1	8.3	6.1	7.6	4.9	8.1	
External public and publicly guaranteed debt (percent of GDP)	30.5	30.8	31.2	29.9	30.5	30.8	30.5	30.2	28.1	27.1	24.6	
DHs per US\$, period average	9.8	9.8	9.7	9.4	...	...	...	...	...	...	...	
GDP (US\$)	101.2	103.3	109.7	117.9	120.7	118.1	123.6	131.7	140.5	149.9	160.0	
Oil price (US\$/barrel: Brent)	52.4	44.0	54.4	71.1	61.8	64.4	60.5	58.0	57.3	57.3	58.0	

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

1/ Refers to the macro framework for the First Review Under the PLL Arrangement in CR No. 19/317.

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, 2015–19

	2015	2016	2017	2018	2019
	(Billions of dirhams)				
Net International Reserves	222.1	249.2	240.9	230.7	240.0
<i>Of which</i> : Gross reserves	225.4	253.5	244.3	233.7	247.0
<i>Memo item</i> : Deposit money banks	8.3	-1.8	27.7	25.6	25.7
Net domestic assets	924.3	961.0	1,006.8	1,070.4	1,134.6
Domestic claims	1,052.1	1,100.0	1,157.3	1,225.9	1,291.7
Net claims on the government	148.0	142.4	167.8	203.0	215.6
Banking system	148.0	142.4	167.8	203.0	204.5
Bank Al-Maghrib	-1.2	-0.3	0.2	0.8	-0.2
<i>Of which</i> : deposits	-6.0	-4.9	-3.9	-2.9	-3.0
Deposit money banks	149.2	142.6	167.6	202.2	204.7
Claims to the economy	904.2	957.6	989.5	1,022.9	1,076.1
Other liabilities, net	-127.9	-139.0	-150.5	-155.5	-157.1
Broad money	1,148.0	1,202.4	1,269.1	1,320.6	1,373.4
Money	707.1	751.9	811.0	858.7	918.0
Currency outside banks	192.6	203.2	218.8	233.6	249.7
Demand deposits	514.4	548.6	592.2	625.1	668.2
Quasi money	401.7	407.3	417.0	424.5	441.5
Foreign deposits	39.3	43.2	41.1	37.4	44.1
	(Annual percentage change)				
Net International Reserves	23.7	12.2	-3.3	-4.2	3.6
Net domestic assets	1.9	4.0	4.8	6.3	6.0
Domestic credit	1.8	4.6	5.2	5.9	5.4
Net claims on the government	3.0	-3.8	17.8	21.0	6.2
Claims to the economy	1.6	5.9	3.3	3.4	5.2
Banking credit	2.8	4.2	3.1	3.2	4.5
Broad money	5.7	4.7	5.5	4.1	4.0
	(Change in percent of broad money)				
Net International Reserves	3.9	2.4	-0.7	-0.8	0.6
Domestic credit	1.7	4.2	4.8	5.4	5.0
Net claims on the government	0.4	-0.5	2.1	2.8	1.0
Claims to the economy	1.3	4.7	2.7	2.6	4.0
Memorandum items:					
Velocity (GDP/M3)	0.86	0.84	0.84	0.84	0.83
Velocity (non-agr. GDP/M3)	0.76	0.75	0.74	0.74	0.74
Claims to economy/GDP (in percent)	91.5	94.5	93.1	92.4	94.2
Claims to economy/nonagricultural GDP (in percent)	103.6	106.1	104.9	104.1	105.6

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



**Table 5. Morocco: Financial Soundness Indicators, 2015–19**  
(Percent, unless otherwise indicated)

	2015		2016		2017		2018		2019	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Mar	Jun
<b>Regulatory capital 1/</b>										
Regulatory capital to risk-weighted assets	13.7	13.7	14.2	13.7	13.8	14.0	na	na	na	15.1
Tier 1 capital to risk weighted assets	11.4	11.1	11.5	11.0	10.9	10.5	na	na	na	11.0
Capital to assets	9.1	9.4	9.1	9.1	9.1	9.1	9.1	9.1	9.0	9.2
<b>Asset quality</b>										
<b>Sectoral distribution of loans to total loans</b>										
Industry	18.0	18.5	17.8	17.8	17.1	17.8	16.5	15.5	15.5	15.5
<i>Of which</i> : agro-business	3.6	3.3	3.1	3.3	3.3	3.6	3.6	3.5	3.5	3.3
<i>Of which</i> : textile	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7
<i>Of which</i> : gas and electricity	6.3	6.3	6.2	6.2	5.5	5.6	4.9	4.7	4.7	4.6
Agriculture	4.0	4.1	4.0	3.6	3.8	3.6	4.1	3.9	3.9	4.0
Commerce	6.4	6.7	6.4	6.7	6.7	6.6	6.4	6.4	6.4	6.6
Construction	10.7	11.4	11.2	11.2	11.3	11.1	10.5	10.5	10.5	10.4
Tourism	1.9	2.1	1.9	1.9	1.8	1.8	1.6	1.6	1.6	1.6
Finance	13.4	11.8	13.1	13.0	12.7	11.6	12.5	12.4	12.4	12.2
Public administration	4.5	4.9	4.7	4.6	4.9	5.7	8.4	8.4	8.4	8.2
Transportation and communication	4.2	4.6	4.1	4.8	4.5	4.7	4.0	4.2	4.2	4.5
Households	32.3	32.8	32.4	32.4	32.6	32.8	31.9	32.3	32.3	31.8
Other	4.6	3.1	4.4	4.0	4.6	4.2	4.3	4.8	4.8	5.2
FX-loans to total loans	2.5	2.6	2.7	2.8	2.3	2.7	2.7	2.6	2.6	3.1
Credit to the private sector to total loans	91.0	90.5	89.5	89.9	89.2	88.2	85.9	85.8	85.8	86.2
Credit to non financial public enterprises to total loans	4.9	5.2	5.8	5.5	6.2	6.1	6.1	6.1	6.1	6.1
Nonperforming Loans (NPLs) to total loans	7.4	7.7	7.6	7.5	7.5	7.5	7.3	7.5	7.5	7.5
Specific provisions to NPLs	68.0	67.0	69.0	70.0	71.0	70.0	69.1	68.2	68.2	69.1
NPLs, net of provisions, to Tier 1 capital	17.8	18.4	17.3	16.3	15.8	16.4	16.5	17.4	17.4	16.5
Large exposures to Tier 1 capital	294.0	302.0	297.4	318.0	284	296	288	258.7	258.7	262.9
Loans to subsidiaries to total loans	7.0	7.2	7.8	8.8	8.5	8.3	8.3	8.4	8.4	8.7
Loans to shareholders to total loans	1.7	1.4	1.1	1.0	0.6	0.8	1.0	0.9	0.9	0.7
Specific provisions to total loans	5.0	5.1	5.3	5.3	5.3	5.2	5.0	5.1	5.1	5.2
General provisions to total loans	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.1
<b>Profitability</b>										
Return on assets (ROA)	0.8	1.1	1.1	1.1	0.9	1.1	0.9	na	na	1.1
Return on equity (ROE)	9.1	11.7	11.4	11.2	9.5	11.5	9.5	na	na	11.8
Interest rate average spread (b/w loans and deposits)	3.8	3.8	3.9	3.9	3.9	3.9	na	na	na	3.7
Interest return on credit	5.0	5.0	5.0	4.9	4.9	4.8	na	na	na	4.7
Cost of risk as a percent of credit	1.1	1.2	1.1	0.9	0.8	0.9	0.9	na	na	0.8
Net interest margin to net banking product (NPB) 2/	72.0	67.9	70.6	71.4	70.1	72.1	71.2	na	na	68.6
Operating expenses to NPB	49.1	43.9	46.2	46.4	50.6	46.7	50.6	na	na	46.1
Operating expenses to total assets	1.9	1.9	1.9	1.9	1.9	1.8	1.8	na	na	1.8
Personnel expenses to noninterest expenses	47.4	47.6	47.5	47.5	47.5	47.0	47.5	na	na	47.5
Trading and other noninterest income to NPB	28.0	32.1	29.4	28.6	29.9	27.9	28.8	na	na	31.4
<b>Liquidity</b>										
Liquid assets to total assets	16.1	13.0	14.5	11.8	13.7	12.9	12.2	12.0	12.0	12.8
Liquid assets to short-term liabilities	21.2	17.1	18.3	15.7	17.3	14.4	15.1	15.3	15.3	16.2
Deposits to loans	104.3	105.4	105.0	104.2	107.5	104.9	103.8	102.9	102.9	102.2
Deposits of state-owned enterprises to total deposits	2.9	1.9	2.7	2.4	2.4	1.9	2.7	2.8	2.8	2.2
<b>Sensitivity to market risk</b>										
FX net open position to Tier 1 Capital	7.4	5.6	4.1	5.6	7.0	7.0	6.9	na	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.

Table 6. 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	0.0	2,150.8	2,150.8	2,150.8	2,150.8	1,075.4	0.0	0.0
(In percent of quota)	0.0	240.5	240.5	240.5	240.5	120.2	0.0	0.0
Charges due on GRA credit	0.0	10.8	43.6	49.2	49.3	40.17	14.7	0.6
Principal due on GRA credit	0.0	0.0	0.0	0.0	0.0	1,075.4	1,075.4	0.0
Debt service due on GRA credit	0.0	10.8	43.6	49.2	49.3	1,115.6	1,090.1	0.6
Debt and debt service ratios								
In percent of GDP								
Total external debt	31.3	35.4	35.2	34.8	32.5	30.4	26.9	24.6
Public external debt	28.0	31.9	31.7	31.3	29.3	27.3	24.1	22.0
GRA credit to Morocco	0.0	2.6	2.5	2.3	2.2	1.0	0.0	0.0
Total external debt service	2.7	2.8	2.6	2.5	2.3	3.2	2.9	1.9
Public external debt service	1.7	1.7	1.6	1.6	1.4	2.3	2.1	1.1
Debt service due on GRA credit	0.0	0.0	0.0	0.1	0.0	1.0	1.0	0.0
In percent of gross international reserves								
Total external debt	151.0	163.6	168.8	165.0	159.1	147.1	130.3	123.1
Public external debt	135.0	147.7	152.3	148.7	143.4	132.1	116.5	110.0
GRA credit to Morocco	0.0	11.9	11.8	10.9	10.6	4.9	0.0	0.0
In percent of exports of goods and services								
Total external debt	110.6	122.9	127.6	134.2	133.5	134.9	129.2	126.3
Public external debt	99.0	110.7	114.8	120.7	119.9	120.9	115.6	112.9
GRA credit to Morocco	0.0	6.7	6.3	5.9	5.5	2.6	0.0	0.0
In percent of total external debt								
GRA credit to Morocco	0.0	5.5	4.9	4.4	4.2	1.9	0.0	0.0
In percent of public external debt								
GRA credit to Morocco	0.0	6.1	5.5	4.9	4.6	2.2	0.0	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	117.9	118.1	123.6	131.7	140.5	149.9	160.0	170.8
Gross international reserves (in billions of U.S. dollars)	24.4	25.5	25.8	27.8	28.7	31.0	33.1	34.2
Exports of goods and services (in billions of U.S. dollars)	43.1	44.9	48.0	51.3	54.6	58.3	61.8	65.4
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.

## Appendix I. Written Communication

Rabat, November 26, 2019

Madame Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
United States

Dear Madame Georgieva

1. Morocco's economic fundamentals are strong, and the authorities continue to implement sound economic and financial policies while accelerating the wide-ranging structural reforms to further strengthen the resilience of the economy and make growth stronger and more inclusive. As a result, the vulnerabilities in Morocco's economy have been reduced considerably and its medium-term outlook is improving. We remain committed to implementing the economic and financial policy described in our written communication of November 30, 2018.

2. In 2018, despite an unfavorable international context, growth remained robust at around 3 percent, and inflation remained moderate at 1.9 percent. The current account deficit increased to 5.5 percent of GDP, primarily as a result of the significant increase in oil prices, while the budget deficit did not exceed 3.7 percent of GDP owing to better control of operating expenditure. The public debt ratio stabilized at approximately 65 percent of GDP.

3. In 2019, economic growth declined slightly while the unemployment rate remained stable. The first half of the year was characterized by a slight deceleration of growth to 2.6 percent year on year as a result of a decline in the agricultural sector attributable to unfavorable climate conditions, despite accelerated growth to 3.4 percent in the nonagricultural sector. Therefore, growth would be close to 3 percent in 2019 and inflation 0.4 percent. The unemployment rate remained stable at 9.4 percent during the third-quarter of 2019 relative to the same period of 2018. The current account deficit should decline to approximately 5 percent of GDP, as a result of an increase in exports that slightly outstripped import growth. Foreign exchange reserves are expected to remain at a comfortable level, covering just over five months of imports.

4. Although Morocco does not require balance of payments financing, the Precautionary Liquidity Line (PLL) arrangement approved on December 17, 2018 provides useful insurance against external shocks while bolstering investor confidence. The authorities will continue to treat the PLL as precautionary and would draw on it only in the event of unforeseen exogenous shocks.

5. The objectives of the program supported by the PLL are to accelerate the pace of structural reforms in order to promote stronger and more inclusive growth that will create more jobs and to further strengthen economic resilience, fiscal space and external operating scope, and the stability

of the financial system. To this end, the authorities plan to build on a new momentum to mobilize synergies and boost investor confidence to reach a new level of growth of 4.5 to 5 percent per year, accelerate job creation, reduce social and spatial disparities, and durably improve the standard of living of its citizens.

6. The government remains committed to strengthening fiscal soundness by maintaining the sustainability of public debt and improving its resilience to shocks. Accordingly, despite a slight acceleration in public investment, the fiscal deficit excluding privatization proceeds will be contained at close to 4.0 percent of GDP in 2019 (3.6 percent if privatizations are included) and reduced gradually to 3 percent of GDP to ensure convergence towards the target of 60 percent for the public debt/GDP ratio in the medium term. To that end, the government will continue to increase tax revenue mobilization and improve expenditure control and efficiency. The government will also prioritize investment in infrastructure and human capital, adopt a new approach to public asset management, and strengthen social safety nets. The main tax measures introduced in the 2020 draft budget law reflect the gradual implementation of the recommendations from the latest national tax conference, as well as the process of harmonizing Morocco's legal system with international tax standards following its joining the inclusive framework on base erosion and profit sharing (BEPS) of the Organization for Economic Co-operation and Development (OECD) in 2019. These measures involve in particular: (i) reduction of the marginal corporate income tax (IS) rate for industrial companies to 28 percent of local turnover, and increasing the rate applicable to exports to 20 percent; (ii) reform of preferential tax systems applicable to companies having Casablanca Finance City (CFC) status and export free-trade zones to ensure that tax rates converge to a unified rate for domestic and export-oriented activity; (iii) reducing the minimum contribution from 0.75 percent to 0.50 percent; and (iv) eliminating value-added tax (VAT) exemptions for certain food products. In terms of building confidence between taxpayers and the tax administration, the 2020 draft budget law introduced the option of spontaneous regularization of assets and cash resources held abroad and instituted a special legal framework for individuals to voluntarily regularize their tax situation involving professional or agricultural income.

7. The national tax conference held in May 2019 with the participation of the main partners led to outline a wide-ranging reform of the Moroccan tax system to increase its efficiency, equity, and contribution to growth. The recommendations adopted at the conclusion of the conference are aimed primarily at expanding the tax base, streamlining tax incentives, ensuring tax equity, and improving tax compliance. Based on these recommendations, a draft framework law on taxation was prepared and will be submitted to parliament during the current session. This framework law will revitalize the reform process by establishing the main principles that will guide tax reform during the next five years and provide visibility for economic agents. The priorities include expanding the tax base, notably through the continued reduction of exemptions and gradual integration of the informal sector, and VAT simplification by reducing the number of rates to mitigate distortionary effects, strengthening tax administration, and harmonizing and simplifying local taxation.

8. The government's objective is to keep its personnel expenditure, including social welfare contributions, below 10.5 percent of GDP in the medium term and to take the measures needed to

achieve this objective. Accordingly, it intends to limit net job creation to the administration's core requirements and to eliminate positions vacated through retirement. The reform of public administration will be accelerated with a view to improving its efficiency and productivity through reform of the organizational and management structures, modernization of the human resources management system, enhanced public service ethics, and generalization of the digitization and simplification of procedures. For the civil service, in particular, this approach will involve implementing and promoting the gradual introduction of contractual employment, for which the legal framework is already in place, implementing and promoting staff mobility, and modernizing the general civil service statute, particularly by introducing a performance-based remuneration and promotion system.

9. The level of public investment will be maintained and its efficiency enhanced with an improved system for the selection of investment projects, including to ensure that they are selected on the basis of their impact on employment, reduction of disparities, and improvement of the living conditions of the public, based on the recommendations of the recent Public Investment Management Assessment (PIMA). In particular, the government plans to adopt an integrated system for the centralized management of public investments and to introduce public-private partnerships (PPPs) to enhance the supply and quality of infrastructure while limiting their cost and potential risks for the budget. A unified legal framework governing the public investment management system is being prepared for that purpose. In addition, a draft law on PPPs designed specifically to make the PPP procedures more flexible and to expand their scope to local governments was submitted to parliament and should be adopted during the current session.

10. As part of the implementation of advanced regionalization, which is another priority for the government, fiscal decentralization has been introduced prudently to protect fiscal sustainability. Subnational governments have been given a number of responsibilities, and their resources, both own and transferred, are expected to increase gradually. The national administrative decentralization charter was adopted in November 2018 to ensure that the activities of the different ministries are consistent at the regional level, to provide a clear definition of responsibilities at various government levels, and to establish transparent criteria for revenue sharing and the use of new solidarity and cross subsidy funds. A draft law on the reform of local taxation to improve its consistency and yield is being prepared and should benefit from the recommendations from the May 2019 national tax conference. The government will aim to ensure that good governance and efficiency are preserved at the local level, particularly through increased capacity, transparency, and accountability.

11. The first consolidated government finance and debt statistics report for the year 2017 was completed for general government, covering local government units, retirement and social security funds, and most non-commercial public enterprises, in addition to the budgetary central government. The report for the year 2018 should be prepared as soon as the required data have been collected. We will continue the gradual expansion of the coverage of these statistics to include all non-commercial public enterprises. The government is receiving technical assistance from the IMF for that purpose.

12. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy stance in a context of low inflation in 2019, a gradual recovery in nonagricultural and credit activity, and a satisfactory level of foreign exchange reserves. BAM will continue to promote adequate financing of the economy, with special support for VSMEs. The law on reform of the central bank charter was adopted in July 2019. This law strengthens the institutional independence of the bank and gives it exclusive, full authority in monetary policy definition and implementation. This evolution is consistent with the recommendations of the IMF based on the safeguards assessment carried out this year, which highlighted in particular the strength of operational controls in key functions of BAM. It expands the missions to achieve the national objectives in terms of maintaining financial stability and financial inclusion. It provides a broad range of means to carry out these missions more effectively. Emergency liquidity assistance (ELA) was also introduced into the new Charter of the Central Bank.

13. The Moroccan banking sector is sound and resilient, and the authorities will continue to strengthen the financial sector policy framework in line with FSAP recommendations. Although still relatively high, nonperforming loans are declining and are well provisioned. Supervisory capacity will continue to be increased, and a regulation governing financial conglomerates should be finalized before end-June 2020. Accounting rules were further strengthened with adoption of *International Financial Reporting Standards (IFRS 9)* in January 2018. The impact on banks' prudential capital was spread over a period of five years, and the first year of implementation was well absorbed by banks. BAM will continue to intensify its coordination with supervisory authorities in countries where Moroccan banks are established and to promote good risk management practices. As part of their anti-money laundering and terrorism financing activities, the authorities are further strengthening the supervisory framework in accordance with the recommendations of Morocco's AML/CFT assessment report adopted by the April 2019 Plenary Session of the Middle East and North Africa Financial Action Task Force (MENAFATF). The authorities are also strengthening the macroprudential and bank resolution frameworks, including by preparing a legal framework for resolution in line with international standards and designating BAM as the resolution authority. A first draft amendment to the Banking Law is being prepared.

14. The government initiated the transition to a more flexible foreign exchange system in January 2018 by widening the dirham fluctuation band to  $\pm 2.5$  percent (from  $\pm 0.3$  percent) around its reference parity. This reform is progressing successfully, and the dirham has been moving within its fluctuation band without any intervention from the central bank since April 2018. This change was accompanied by a strengthening of banks' foreign assets and a deepening of the interbank foreign exchange market. The authorities plan to move to the next phase of the reform at the opportune time. It is essential to ensure that economic agents, particularly SMEs, are fully aware of the risks related to greater fluctuations of the dirham and are able to use existing hedging instruments. This transition will help the economy absorb more effectively potential external shocks, preserve its competitiveness, and support its diversification and integration into the global economy.

15. Regarding structural reforms, following remarkable progress in recent years and a gain of 7 positions in the last Doing Business ranking, the government will continue to improve the business environment, including by modernizing the system of incentives and the legal environment applicable to businesses, improving the quality of infrastructure and public services, and simplifying and digitizing administrative procedures. To this end, a draft law revising the organization and powers of Regional Investment Centers (CRIs) was adopted in 2019. The revision of the Investment Charter is also under way to harmonize and streamline the system of investment incentives. A new legal framework governing the establishment of moveable collateral has been introduced to facilitate business access to financing and to protect investment financing. To operationalize this important reform, the authorities plan to establish a national electronic register of moveable collateral at the beginning of 2020. The government has also strengthened protection for minority investors by aligning the relevant legal framework with international standards. In addition, a new Competition Council Chair was appointed in November 2018, followed by the appointment of other members of the Council, which will enable it to discharge its duties effectively, with full independence and neutrality, to help enhance economic governance, competition, and the economy's capacity to create value and jobs. To improve firms' cash flow positions, the government has introduced an accelerated program for the settlement of VAT credits and the reduction of payment delays in the public and private sectors.

16. The national anti-corruption strategy is being implemented. A first progress report on the implementation of the strategy covering the period 2016-18 was published in May 2019 and notes significant progress in improving the reception and guidance of citizens, simplifying and standardizing administrative procedures, monitoring and processing of complaints, and electronic data sharing between administrations. Moreover, the appointment in December 2018 of a new Chair of the National Body on Probity and the Prevention and Combating of Corruption will allow this constitutional body to perform its mission of coordinating, supervising, and monitoring policy implementation in this area. Important progress has been made in digitizing the administration, with the promulgation in November 2018 of a law making it mandatory to complete all business creation formalities electronically and the promulgation in January 2019 of a law creating an electronic platform to digitize all legal formalities required to create a business and those arising throughout the life of the enterprise. The government is also continuing to take the necessary steps to enhance transparency and consolidate the rules of good governance. In this context, a draft law on simplification of administrative procedures and improving the administration's responsiveness in delivering public services to citizens is in discussion in Parliament. Similarly, a law on public access to information entered into effect in March 2019. Morocco also improved its Corruption Perception Index ranking by 8 positions in 2019 and in July 2018 became a member of the Open Government Partnership (OGP) initiative that aims to promote transparency in public action, enhance integrity, and fight corruption.

17. As part of the strategic vision for the 2015-30 reform of the education system and the national employment strategy, the government is committed to improving the quality of human resources so as to improve productivity and better match training and jobs, pursuing active labor market policies, and promoting the employment of young people and women. The framework law

on education, training, and scientific research was promulgated on July 22, 2019. Similarly, a new roadmap on vocational training was adopted last April and provides for the creation of professional and skills centers in the 12 regions of the Kingdom offering training adapted to the needs of each region and associating the private sector to the development of the training programs.

18. The national financial inclusion strategy was approved by the National Financial Inclusion Council (CNIF) on April 1, 2019. Specific measures targeting very small, small, and medium-sized enterprises (VSMEs), young people, women, and rural populations are already underway. Steps have been taken to review the existing support instruments for SMEs and to prepare a roadmap covering various levers. The roadmap was submitted to the Strategic Council for approval at its second meeting on November 26, 2019. The government also continued its work in 2019 to introduce a Small Business Act that will address the constraints encountered by VSMEs and cover aspects such as financing, the legal framework, market access, taxation, and support and guidance. The launch of a portal for entrepreneurs will take place on December 20, 2019. A revision of the legal framework for microcredit is also being undertaken by the authorities to improve VSE access to financing. In this context, the maximum authorized amount of microcredit has been increased threefold.

19. The government will continue to improve the efficiency and governance of the public enterprise and establishment (EEP) sector, including by promoting transparency and accountability. A draft law to enhance governance and improve performance and government financial control over EEPs will enter the approval process in 2020. Discussions are under way in this context, with support from the IMF, to establish an integrated system for monitoring and assessing risks, and particularly fiscal risks from the EEP sector. At the same time, the government has launched discussions on the in-depth reform of the EEP economic model. This should result in gradual government divestment from sectors and activities that can be handled by the private sector, focusing EEPs on their core business, the sale of assets not related to their mission, and the outsourcing to the private sector of related activities. In this context, the privatization program planned by the government is expected to contribute the equivalent of approximately 2 percent of GDP to the budget during 2019-24. The list of enterprises that could potentially be privatized has been updated and the members of the assessment body and transfer commission provided by Law 39.89 have been appointed.

20. The enhancement of social welfare programs and improvement of their consistency, targeting, and efficiency are an essential part of the government's program. The national conference on social welfare organized in November 2018 identified the deficiencies of the current system and established a roadmap for expanding basic health and pension coverage to the entire population and replacing the nontargeted subsidies still in place with direct assistance to vulnerable sectors based on a single social registry to be introduced by end-2020. The recommendations from these national consultations focused in particular on the adaptation of the social welfare system to current international standards, the simplification of procedures to obtain severance payments, the enhancement of the legal framework for work-related accidents, the introduction and expansion of unemployment insurance, and the consolidation of the Medical Assistance System (RAMED).

21. In terms of the indicative targets established in the PLL arrangement for end-September 2019, the benchmark established for net international reserves was met, while the benchmark for the



fiscal deficit was exceeded with a margin of 0.2 percent of GDP. We will provide the IMF with any information required to monitor the economic situation and policies implemented in the framework of the PLL arrangement, particularly information relating to the indicative targets listed in Table 1. In accordance with the requirements of the PLL, we will also respect the standard performance criteria on import and foreign exchange restrictions, bilateral payment arrangements, multiple currency practices, and the continuous performance criterion on non-accumulation of payment arrears on external debt.

22. We believe that the policies and reforms described in this communication are adequate to achieve the economic objectives of the program supported by the PLL, and we are committed to taking any additional measures that may be necessary for this purpose. By continuing to strengthen the economy's resilience, particularly by increasing its fiscal space and external operating scope, and further diversifying its economy, Morocco should be well positioned for exiting the PLL when the exogenous risks to which the national economy is exposed have been significantly reduced. Morocco will collaborate with the IMF, in accordance with relevant Fund procedures, to ensure the success of its economic policies.

/s/

Mohamed BENCHAABOUN

Minister of Economy, Finance and

Administrative Reform

/s/

Abdellatif JOUAHRI

Governor, Bank Al-Maghrib

**Table 1. Morocco: Quantitative Indicative Targets**

	3/31/19			9/30/19			3/31/20	
	Target	Adjusted	Actual	Target	Adjusted	Actual	Target	Revised
Indicative targets								
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	24,369	23,539	23,869	24,216	23,855	24,456	25,648	24,856
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	9,369	9,771	1,236	28,608	28,667	31,912	10,293	11,198
Memorandum items:								
Adjustor on NIR (in millions of U.S. dollars) 2/	1,733	830	903	2,373	361	2,012	3,278	3,361
Adjustor on the fiscal deficit (in millions of dirham) 3/	500	402	98	1,500	59	1,441	500	700

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/		Credit Available 4/			
		Central government fiscal deficit, ceiling, cumulative since beginning of fiscal year (eop in millions of dirham) 2/	Net international reserves (NIR) of Bank Al-Maghrib (BAM), floor, eop stock, in millions of dollars (\$) 3/	Million SDR 5/	Million Dollars 6/	Percent of Quota, cumulative	Percent of Total Access
December 17, 2018	Board approval of the PLL			1,250.66	1,747.47	140	58
June 12, 2019	First review, based on March 31, 2019 indicative targets	9,771	23,539	1,250.66	1,747.47	140	58
December 13, 2019	Second review, based on September 30, 2019 indicative targets	28,667	23,855	2,150.80	3,005.19	240	100
June 16, 2020	Third review, based on March 31, 2020 indicative targets	11,198	24,856	2,150.80	3,005.19	240	100
Total				2,150.80	3,005.19	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.

**Statement by Mr. Mohammed El Qorchi, Alternate Executive Director on Morocco  
December 13, 2019**

On behalf of my Moroccan authorities, I thank staff for the constructive discussions and a balanced report, and broadly agree with the thrust of the staff appraisal. I welcome the greater attention given to the authorities' views in the report.

**Overview**

The Board had recently reviewed macroeconomic, financial, and social developments in Morocco as well as the authorities' policies and reforms. The authorities appreciated the Board's positive assessment and agreed on the importance of sustained sound policy implementation to achieve higher and more inclusive growth. In a global environment characterized by sub-par growth and fraught with uncertainty and risks, the Moroccan authorities continue to strengthen the economy's performance and resilience while preserving social stability and cohesion. The PLL continues to play a key role in supporting the authorities' policies.

As highlighted by staff, Morocco's economic fundamentals and policy framework are sound. Growth is projected to accelerate to 3.7 percent in 2020 and to 4 ½ percent by 2024, after a slowdown in 2019 due to a contraction in agricultural output because of low rainfall. Non-agriculture growth would rise to 3.4 percent in 2019 and higher thereafter. Unemployment was at 9.4 percent in the second quarter of 2019 while the participation rate in the labor market declined to 45.8 percent. However, in the third quarter, the urban areas registered important job creation and stronger labor market participation. Headline inflation declined to 0.3 percent in September 2019 but is expected to accelerate moderately over the medium term.

Exports continue to expand in 2019, despite weak growth in Morocco's traditional markets, supported by the continued strong performance of the automotive and aeronautic industries. The current account is expected to narrow to 5.1 percent of GDP in 2019, and to narrow further to 3.9 percent of GDP in 2020, stabilizing at 3 percent or less starting in 2022, with foreign reserves rising gradually over the medium term from the present 5 months of imports. Investor confidence remains strong, as evidenced by favorable spreads, following the recent Moroccan government's one-billion-euro sovereign bond issue at 1.5 percent, and by the steady FDI inflows. The S&P lifted Morocco's outlook in October 2019 from negative to stable on budgetary consolidation efforts.

As highlighted in the staff paper, performance under the PLL has been favorable. The indicative target for NIR for September 2019 was met. The target on fiscal deficit was missed by only 0.2 percent of the GDP as a result of delays in the implementation of PPPs. Morocco continues to meet the PLL qualification criteria, performing strongly in monetary, financial, and data areas, without substantially underperforming in the fiscal policy area. The external sector and market access remain strong.

## **Fiscal Policies and Reforms**

Maintaining fiscal and debt sustainability, while creating fiscal space for infrastructure, human development, and social protection, is a key priority. The authorities remain committed to achieving their medium-term target of 60 percent debt-to-GDP ratio. The uptick in the fiscal deficit to 4 percent (3.6 percent, including privatization receipts) in 2019 was due to lower tax revenues combined with higher investment, primarily reflecting delays in putting PPP arrangements in place, and a larger wage bill. The public assets transfers that were engaged by the government in the context of PPP arrangements are already being recovered from private and institutional investors. The increase in the public wage bill—already taken into account in the 2019 budget law—followed the recent round of social dialogue between the government and the labor unions. In fact, it was the first increase after seven years of wage freeze as the government resisted strong demands for wage increases during a period of particularly high social tensions in the region. The increase is being implemented over three years and favors lower income civil servants.

The 2019 national tax conference, held with participation from all stakeholders, aims at increasing the Moroccan tax system efficiency and equity, and enhance its contribution to growth. The conference recommendations—that will form the basis for a comprehensive reform of the tax system over the five coming years—seek to broaden the tax base through reduced exemptions and fight tax evasion and fraud. The 2020 budget already incorporates some of these recommendations, including a simpler VAT regime and corporate tax rates, eliminating VAT exemptions, and better enforcing payments by self-employed and professions. To operationalize the conference’s recommendations, a framework law is being prepared and should be submitted to Parliament in the current session.

The authorities are confident that continued stronger revenue collection efforts and tighter control of non-priority spending will help reduce the fiscal deficit and the debt ratio further. The privatization receipts from 2019 and from the planned privatization programs will also contribute to reducing financing needs in 2020 and beyond and, combined with other fiscal measures, will help put the debt ratio on a firm downward trend.

The important structural fiscal reforms and steps to reorient spending to priority infrastructure and social spending, and enhancing efficiency and quality of service delivery are being actively pursued. A number of reform initiatives, including a draft reform of civil service, the implementation of PIMA recommendations to enhance investment efficiency, and the decentralization program are at an advanced stage. The authorities are also making good progress towards the consolidation of the fiscal and debt aggregates at the level of the general government, which is expected to better inform policy decisions. They are working closely with the World Bank to streamline social protection programs, using a social registry currently under development. However, while progress is being made in reducing poverty, the authorities are

cognizant of the importance of properly identifying vulnerable groups, which would include lower middle-class citizens at risk of falling into poverty.

### **Monetary, Exchange Rate, and Financial Policies**

Bank Al-Maghrib (BAM) continued strengthening and modernizing the monetary policy framework. In a context of negligible inflation, low credit growth, and satisfactory level of reserves, BAM has maintained an accommodative policy stance, with particular attention to meeting SME needs.

This first phase of the transition to a more flexible exchange rate regime has been successful, with a gradual deepening of the interbank market. The exchange rate has remained well within the band without central bank interventions since March 2018. The authorities will seize the most appropriate timing to move to the second phase, while strengthening communication, particularly with SMEs, to increase awareness of risks from greater exchange rate fluctuations and of available hedging instruments.

A new central bank law enhancing BAM's independence, broadening its role to include financial stability and inclusion, and improving its governance framework was adopted by parliament in July 2019. The law also introduced an emergency liquidity assistance facility.

The financial sector remains resilient. The authorities are keen to maintain a sound and well-supervised financial sector and have continued their efforts to strengthen the regulatory and supervisory framework as well as the macroprudential toolkit, in line with the 2015 FSAP recommendations. IFRS9 was introduced for banks in 2018; regulatory framework for conglomerates is under preparation; and macroprudential and crisis resolution frameworks are being enhanced. Moroccan banks' presence in Africa is consistent with a diversification strategy that is part of promoting South-South economic cooperation. They are being closely monitored in cooperation with host supervisors. The improved monitoring of consolidated financial statements and incentives to rely more on syndicated lending have reduced concentrated credit exposures. The law on secured transactions adopted in April 2019 should promote claims recovery outside the court, reduce NPLs, and encourage bank to lend, in particular to SMEs. The authorities are also in the process of further strengthening the AML/CFT framework in line with MENAFATF recommendations and enhancing supervision. A law published in March 2018 introduced compulsory exchange of information with foreign partners, in line with best international practices.

The national strategy for financial inclusion approved earlier this year aims at addressing the significant gaps in access to financial services, and specific measures are being put in place targeting SMEs, youth, women, and the rural population. The recent increase in the cap on microcredit will, in line with staff recommendation, help develop further microcredit activity. A reform of the law on cooperatives adopted recently should ease procedures for their

establishment to meet the needs of a large segment of the population, while enhancing their governance and oversight.

The safeguards missions conducted in 2019 concluded that BAM safeguards remain strong in the areas of internal and external audit, and internal controls. Even though further improvements were suggested to meet international best practices, the safeguards missions concluded that BAM governance arrangements were improved with the adoption of the new central bank. The transition to IFRS is ongoing with the understanding that it would be implemented in the context of the national accounting system convergence project.

## **Structural Reforms**

The authorities agree that the current pace of economic growth should be accelerated to significantly improve living standards and reduce unemployment, which is still high, in particular among the youth and women in urban areas. They remain strongly committed to promoting higher, private sector-led, job-rich and inclusive growth. The authorities will continue further improving the business climate; strengthening competitiveness, governance, and efficiency in public service delivery; upgrading human resources; reforming the labor market; while strengthening social protection of the vulnerable and reducing social, regional, and gender inequalities.

Morocco gained 7 positions in 2019 in the last World Bank Doing Business Indicators (moving to the 53<sup>th</sup> position out of 190) and a cumulative rise of 62 positions since 2010 when it ranked 115 out of 183. The improvement reflected progress in starting a business, registering property, trading across borders, and resolving insolvency. Recently-adopted revisions to corporate laws are intended to enhance protection of minority shareholders, while the establishment in 2018 of a Mediator's office should promote dispute settlement outside the courts. A reform of the regional investment promotion centers was adopted in February 2019, to be followed by a new investment charter that is under preparation. Moreover, there has been important progress in digitizing the administration. A law adopted in November 2018 requires all legal procedures for creating a business be conducted electronically, and an electronic platform to digitize all legal formalities was introduced in January 2019. With the recent appointment of its chair and board members, the Competition Council has been reactivated.

The public enterprise sector's overall performance is positive, even though it still needs further improvements. While preparing a draft law strengthening SOE governance and oversight, the authorities decided that it was time to reconsider the role and economic model of the SOE sector, better assess the need for public presence, and improve sector's efficiency. They also intend to gradually divest from sectors that could be served by the private sector. The ongoing privatization program will contribute about 2 percent of GDP to the budget during the 2019-24 period. The list of SOEs that could be privatized has been updated. Privatization will also help revitalize the stock market, promote FDI, contribute to focusing SOEs on their core activities.

The authorities are also in the process of establishing a framework for assessing and mitigating fiscal risks in SOEs with Fund assistance.

Cognizant of the need to alleviate liquidity pressures of private and public enterprises, the authorities have accelerated the payment of accumulated tax credits, and taken the necessary measures to avoid their recurrence. Efforts have also been made toward restoring good payment culture and practices in the private sector. A Small Business Act is under preparation to address the constraints facing VSMEs that will, in addition to financing challenges, cover the legal framework, market access, taxation, and various support.

The authorities view the enhancement of social welfare programs as a priority. The national conference on social welfare organized in 2018 put in place a roadmap for expanding basic health and pension coverage to the entire population, and replacing the remaining nontargeted subsidies with direct assistance to the most vulnerable using a single social registry to be introduced in 2020.

The authorities attach high priority to further strengthening governance and fighting corruption to reinforce public trust. Their strategy covers a wide range of reforms, much of which have been implemented recently through appropriate legislation and regulation. The recent strengthening of the asset declaration system is a step forward and the setup of a legal framework to investigate illicit enrichment is scheduled for 2020. The appointment of a new chair in 2018 of the anti-corruption agency (ICPC) will help this constitutional body to achieve its mandate. Morocco improved its Corruption Perception Index ranking by 8 positions in 2019 and became a member of the Open Government Partnership initiative in July 2018.

Improving education outcomes is critical to increase employment opportunities and productivity, in view of the significant gap in quality, despite the relatively high level of public spending on education. A framework law for education, vocational training and scientific research was adopted by parliament in July 2019. Moreover, a new roadmap on vocational training to create regional professional and skill centers in 12 regions was adopted in association with the private sector.

The authorities have initiated discussions with labor unions on reforming the labor market to increase its efficiency, including by enhancing flexibility while improving protection of employees, to boost employment. The discussions will likely take time, as the design and implementation of these sensitive reforms require careful consideration of political economy realities and preserving social cohesion.

## **Conclusion**

The authorities have significantly accelerated the pace of structural reforms over the last few years. They remain firmly committed to maintaining macroeconomic and financial stability and

strengthening the economy's resilience. The authorities are grateful to staff, management, and the Board for their continuous invaluable support. They will continue to treat the PLL as precautionary and will consider exiting the PLL when the exogenous risks facing the economy are significantly reduced.