



MOROCCO

February 2018

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

In the context of the Third Review Under the Arrangement Under the Precautionary and Liquidity Line (PLL), 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 January 19, 2018, following discussions that ended on November 7, 2017, 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 January 8, 2018.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Morocco.

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

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IMF Executive Board Completes the Third and Final Review Under the Precautionary and Liquidity Line Arrangement for Morocco

- Raising potential growth and making it more inclusive and reducing regional disparities will require sustained reforms.
- Growth rebounded in 2017 and is expected to accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation.
- Building on recent progress, continued fiscal consolidation will help lower the public-to-GDP debt ratio while securing priority investment and social spending in the medium term.

On January 19, the Executive Board of the International Monetary Fund (IMF) completed the third and final review under the Precautionary and Liquidity Line (PLL) Arrangement for Morocco. The arrangement supports the authorities' economic reform program to rebuild fiscal and external buffers and promote higher and inclusive growth.

The two-year PLL arrangement for Morocco in the amount equivalent to SDR 2.504 billion (about US\$3.61 billion) was approved by the IMF's Executive Board in July 2016 (See Press Release No. 16/355). The Moroccan authorities have not drawn on the arrangement and continued to treat it as precautionary. The arrangement will expire on July 21, 2018.

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

“Morocco's sound macroeconomic policies and reform implementation have helped improve the resilience of the economy. External imbalances narrowed in 2017 and international reserves remain at a comfortable level. Fiscal developments were also positive, with the budget deficit declining due to strong revenue performance and contained spending. Growth rebounded in 2017 and is expected to accelerate gradually over the medium term, contingent on improved external conditions and steadfast reform implementation. However, the outlook remains subject to downside risks. In this context, Morocco's Precautionary and Liquidity Line (PLL) arrangement with the Fund has been a useful insurance against external risks and has been supporting the authorities' economic policies.

“The authorities are committed to sustaining sound policies. The new government's economic program is in line with key reforms announced under the PLL-supported program,

such as further reducing fiscal and external vulnerabilities, while strengthening the foundations for higher and more inclusive growth.

“Building on progress made in recent years, continued fiscal consolidation will help lower the public debt-to-GDP ratio while securing priority investment and social spending in the medium term. Looking ahead, Morocco would benefit from a comprehensive approach to tax reforms, sound public financial management at the local level as part of fiscal decentralization, comprehensive civil service reform, strengthened state-owned enterprise (SOE) oversight, and better targeting of social spending.

“The recent introduction of greater exchange rate flexibility will help further improve Morocco’s external position, enhance the economy’s capacity to absorb shocks, and preserve its external competitiveness. Adopting the central bank law and continuing efforts to increase supervisory capacity in line with 2015 Financial Sector Assessment Program recommendations will help strengthen the financial sector policy framework.

“Finally, raising potential growth and making it more inclusive, by reducing persistently high unemployment levels, especially among the youth, increasing female labor participation, and reducing regional disparities will require further measures to advance education, governance, and labor market reforms, as well as to improve the business environment and support more private sector-led growth.”



MOROCCO

January 8, 2018

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE (PLL)

EXECUTIVE SUMMARY

Context. Macroeconomic vulnerabilities have declined since 2012, but growth remains subdued and sensitive to volatile agricultural output. External imbalances are contained and fiscal consolidation resumed in 2017 after a pause in 2016. Job creation has improved but unemployment remains high, particularly among the youth. Social tensions increased in 2017, and in response, the authorities took steps to accelerate local social programs and investment projects. The government appointed in April 2017 remains committed to implementing sound policies and reforms have resumed. However, the outlook is subject to significant risks, including geopolitical risks in the region, weaker-than-expected growth in the euro area and delays in implementing key reforms. To achieve higher, sustainable, and more inclusive growth, reform implementation needs to accelerate, particularly in the areas of governance, the business environment, education, and the labor market.

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

- Morocco's economic fundamentals and policy frameworks are sound, the country is implementing (and has a track record of implementing) generally sound policies, and remains committed to maintaining such policies in the future.
- Morocco meets the PLL qualification criteria, performs strongly in three out of the five PLL qualification areas (monetary, financial, and data), and does not substantially underperform in the fiscal policy, and external position and market access areas. The assessment of performance in the external sector was revised downward for this review to reflect a weaker-than-expected external position. Morocco does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.
- End-September 2017 quantitative indicative targets on the fiscal deficit and international reserves were met. The authorities have not drawn on the arrangement and continue to treat it as precautionary

Approved By
Adnan Mazarei and
Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela, Babacar Sarr (all MCD), Andrea Presbitero (SPR), and Virginia Alonso-Albarran (FAD). The discussions took place in Rabat and Casablanca from October 25 to November 7, 2017. Jihad Azour (MCD) joined the team for the concluding meetings. Gregory Auclair, Geraldine Cruz, and Ravaka Prevost (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. Boussaïd, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Minister of Labor and Professional Integration Mr. Yatim, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Dairi (OED) participated in most meetings.

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Glossary

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

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

A. Recent Developments

- 1. The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in July 2016 in the amount of SDR 2.5 billion (280 percent of quota), equivalent to US\$3.6 billion.** The arrangement supports the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. The second review of the arrangement was completed on August 1, 2017. During the 2017 Article IV consultation with Morocco, concluded on December 13, 2017, Executive Directors welcomed the authorities' commitment to sound fiscal and monetary policies, and encouraged them to step up structural reform efforts, supported by measures to strengthen the social safety net.
- 2. The government appointed in April 2017 is committed to implement sound policies, and reforms have resumed.** The government's economic program is in line with that of the previous government, especially regarding policy priorities such as fiscal consolidation, exchange rate flexibility, tax reforms, civil service reform, governance, oversight of state owned enterprises, fiscal decentralization, and improvements to the business environment. Increased priority is also put on reducing inequality and increasing access to public services. Following a long pause after the October 2016 elections, reforms have resumed, and their strategic coordination is enhanced through a new commission placed directly under the authority of the Head of Government.
- 3. Social tensions increased in 2017.** These tensions, mostly in the northern region of the Rif, are due to perceptions of corruption and demands for better access to health services, jobs, and greater public investment. In response, the government took steps to accelerate local social programs and investment projects. Also, in October 2017, several high-level officials were dismissed, in a signal that accountability in public service delivery will be enforced going forward. Protests have abated recently, but addressing the sources of social discontent is likely to take time.
- 4. Growth rebounded in 2017 and is estimated to have reached 4.4 percent, but unemployment remains high.** After a sharp slowdown in 2016, growth picked up in 2017, mostly driven by a significant rebound in agriculture, while non-agricultural activity remained subdued. On the demand side, growth has been mainly supported by private consumption, while private investment is recovering gradually following a decline in recent years (from 35.4 to 27.4 percent of GDP between 2008 and 2016). Unemployment increased to 10.6 percent in the third quarter of 2017, from 10.4 percent in the same period last year, and remains high among the youth (29.3 percent), particularly in urban areas (45.2 percent).

5. Fiscal developments were positive in 2017. The fiscal deficit is estimated to have declined to 3.5 percent of GDP (against 4.1 percent in 2016), in line with the authorities' objective. The end-September 2017 indicative target (IT) under the PLL arrangement was met (deficit of 2.1 percent of GDP against an indicative target of 2.5 percent), despite lower-than-expected grant revenues. This was primarily due to strong revenue performance and continued efforts to contain current spending, while capital spending decelerated. The cyclically-adjusted fiscal deficit is estimated to have declined to 1.8 percent of GDP in 2017 (against 2.2 percent in 2016). Public debt is sustainable and estimated at 64.4 percent of GDP at end 2017.¹

6. The current policy mix of gradual fiscal consolidation and accommodative monetary policy is appropriate. Inflation declined further and is estimated at 0.6 percent in 2017, reflecting falling food prices, while core inflation was 1.2 percent (y-o-y). Since Bank-Al-Maghrib (BAM) reduced its policy rate to 2.25 percent in March 2016, lending rates have declined and credit growth has recovered to about 4.8 percent in November 2017 (y-o-y), driven by investment lending to public enterprises and household borrowing (mortgage and consumption). Real estate prices have declined gradually in recent years.

7. The current account improved moderately in 2017. The current account deficit is estimated to have declined to 3.8 percent of GDP (against 4.4 percent in 2016), better than expected at the time of the 2017 Article IV Consultation. The improvement was driven by strong export growth (7.2 percent) – mostly due to the good performance of food products and phosphate and derivative exports, and to the strong recovery in Europe. Imports are estimated to have increased by 5.6 percent, mainly because of higher raw material imports and higher energy prices. Tourism receipts and remittances remained strong, and net FDI flows increased moderately to 1.9 percent of GDP. The real effective exchange rate remained broadly stable in 2017.

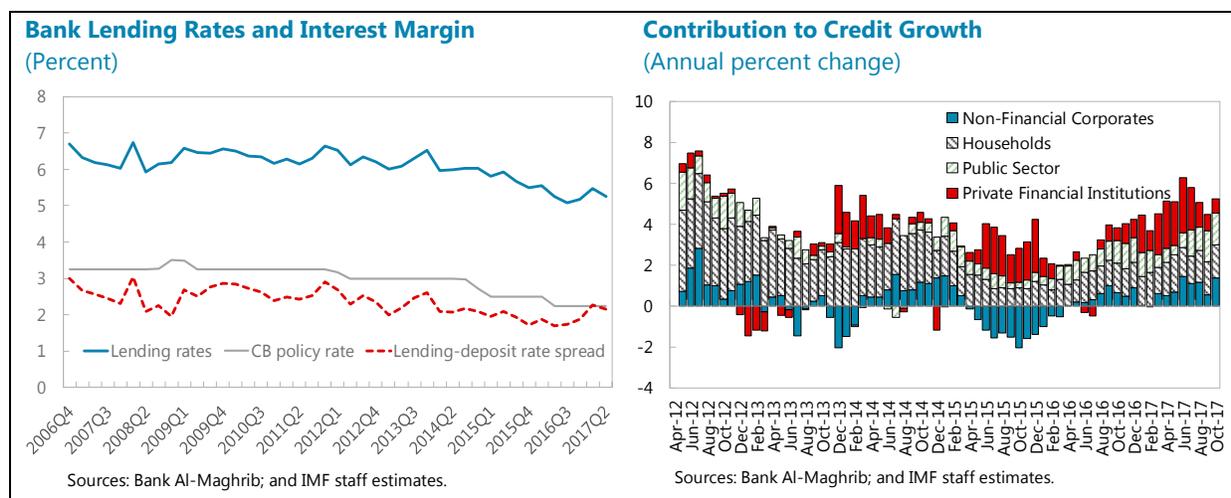
8. The losses in international reserves incurred in May-June 2017 were in part recouped. Pressures in the foreign exchange market led to a decline in reserves of about US\$ 3.8 billion, to US\$ 21.6 billion at end-June, the lowest level in nearly two years. Market confidence was restored in early July, and at end-September, reserves were at US\$ 23.4 billion, meeting the IT target. They are estimated to reach US\$ 25.8 billion by end-2017, slightly higher than at end-2016, and equivalent to a comfortable six months of imports, or 93 percent of the Assessing Reserve Adequacy (ARA) metric (123 percent of the ARA adjusted for capital controls).²

9. Banks are adequately capitalized, but non-performing loans (NPL), credit concentration, and expansion in Africa remain significant risks. Banks' regulatory capital ratio was at 13.7 percent at end-June 2017. NPL ratio remains relatively high at 7.7 percent (October

¹ The authorities will increase the coverage of public finance statistics from central to general government, and intend to produce new fiscal and public debt data in 2018. This will entail incorporating third party deposits at the Treasury and netting out intra-governmental claims in public debt data. The incorporation of Treasury deposits (which amount to 3-5 percent of GDP) will address a statistical shortcoming observed in several members, where public sector statistics are gradually being aligned with international standards.

² 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.

2017), but provisioning levels are comfortable (70 percent) and increasing. Risks from large credit exposures persist and increased slightly in 2017, despite strict regulatory limits. The continued expansion of Moroccan banks in Africa (most recently in Egypt) provides diversification and profit opportunities, but is also a channel of risk transmission.



B. Policy Implementation

10. Building on the progress in recent years, additional reforms are needed to cement macro stability and promote higher and inclusive growth and employment, particularly in areas such as tax reform, exchange rate flexibility, the business environment, education and the labor market.

11. Further fiscal reforms will be key to lower public debt and secure space for priority spending in the medium term. The implementation of the organic budget law (OBL) and the recent pension reform, together with contained public wage expenditures, have helped strengthen the fiscal framework and reduce fiscal imbalances. However, bringing public debt to 60 percent of GDP by 2021 while preserving policy space for priority spending will require further efforts. These include: a comprehensive tax reform to promote fairness, simplification, and revenue mobilization (including measures to align reduced VAT rates on manufacturing goods and services with the standard VAT rate, reduce tax exemptions, lower corporate tax rates, and better enforce tax payments by the self-employed and liberal professions); civil service reform; improved public investment management; sound public financial management at the local level as part of fiscal decentralization; and enhanced financial oversight of state-owned enterprises (SOEs).

12. Starting the transition to greater exchange rate flexibility as soon as possible, from a position of strength, would reduce uncertainty. This reform, to which the authorities remain committed, will help the economy to absorb external shocks and preserve price competitiveness. Current conditions remain favorable, as reserves are adequate based on a range of metrics, external debt is relatively low, and other important policy and operational pre-conditions remain in place

(e.g., financial sector resilience and limited currency risk exposures). A protracted postponement of this announced reform may introduce uncertainty and put in doubt the strength of the authorities' commitment.

13. Improvements to the financial sector policy framework have been made and should continue. The authorities have implemented the 2015 Financial Sector Assessment Program (FSAP) recommendations in key areas such as the strengthening of supervisory resources and capacity, and introduced a new macro-prudential policy framework. However, continued efforts are needed to safeguard financial soundness considering the remaining risk exposures in the system, its increasing complexity, and the forthcoming introduction of greater exchange rate flexibility. The new central bank law is now expected to be approved by parliament in early 2018.

14. On the structural front, reforms need to be accelerated to raise the growth potential and reduce unemployment, in line with the government's objectives:

- **Business environment and governance.** Reforms in this area helped improve Morocco's position in the Doing Business ranking from 75th in 2016 to 68th in 2017. Further efforts are needed to reduce chronic payment delays and facilitate access to finance for small and medium-sized enterprises (SMEs). The operationalization of the competition council created in 2014 is long overdue, and the implementation of the national strategy against corruption adopted in 2015 is another key priority (W-COM.-¶15).³
- **Education and labor market.** The government has put a high priority on education, including improving school infrastructure, deploying more teachers in remote areas, and enhancing educational outcomes in rural areas, notably for girls. The authorities are now finalizing the action plan for the 2015–30 national employment strategy, including measures to boost job creation and raise female labor force participation (W-COM.-¶15). Key reforms should include the relaxation of restrictions on fixed-term contract to better integrate young workers in the labor market, while establishing adequate safety nets for the unemployed.

15. It is also important to accelerate improvements to the targeting of social spending. Social programs are large but highly fragmented, and the existing system is ineffective in targeting the most vulnerable and the unemployed. The authorities are working with international partners to address these shortcomings, including through the development of a social registry for identifying the less well-off segments of the population and improve the allocation of social spending.

OUTLOOK AND RISKS

16. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term. These favorable outcomes are predicated on the

³ Annotations in the form of "W-COM.-¶" refer to paragraph numbers in the authorities' Written Communication (Appendix).

sustained implementation of key reforms, including to improve the business environment and boost productivity, and to enhance tax revenues.

- **Growth** is expected to slow in 2018 due a negative base effect following a particularly good agricultural season in 2017, and to reach 4.6 percent over the medium term.
- **Inflation** is projected to increase to 1.3 percent in 2018 (as domestic food prices rise) and to stabilize around 2 percent over the medium term.
- The overall **fiscal deficit** is expected to decline to 3 percent of GDP in 2018 and to stabilize around 2.2 percent of GDP in the medium term, consistent with the authorities' objective to reduce public debt to 60 percent of GDP by 2021.
- The **current account deficit** is expected to decline to 3.7 percent of GDP in 2018 and to reach about 2.5 percent of GDP in the medium term, driven by sustained export growth, tourism receipts and remittances which will offset increasing energy imports. With continued economic growth and diversification, foreign direct investment is expected to increase to 2.7 percent of GDP in the medium term. International reserves are projected to increase steadily and reach 101 percent of the ARA metric by 2022 (about 133 percent of the ARA metric adjusted for capital controls).

17. The balance of risks remains tilted to the downside. On the domestic front, delays in implementing key fiscal and structural reforms could reduce future fiscal space, contribute to social tensions, and adversely affect the external sector (e.g., through lower tourism receipts or remittances), and the expected pickup in potential growth. Also, renewed uncertainty on the transition to greater exchange rate flexibility could lead to market pressures, potentially weakening the external accounts. Externally, weak growth in the euro area could slow economic activity through lower exports, tourism, FDI flows, and remittances, worsening fiscal and external imbalances; geopolitical risks could raise oil prices, reduce tourism activity, and weaken investor confidence; tighter, more volatile financial conditions, global policy uncertainty, and a retreat from cross-border integration could affect global growth, increase borrowing costs, lead to reduced trade and capital flows, and weaken investor confidence more generally. On the upside, lower energy prices would help narrow external and fiscal imbalances more rapidly.

Box 1. External Stress Index

Background. The external sector index is an indicator of the evolution of the external environment faced by a country. Its use was mandated by the IMF Executive Board for Flexible Credit Line (FCL) and PLL countries at the time of the review of these instruments in June 2014.¹ The index is based on: (i) a consideration of the key external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of the weights to apply to each of these variables. The model was first developed at the time of the 2012 PLL request.

Risks. The main external risks for Morocco based on the July 2017 Global Risk Assessment Matrix (G-RAM), are: (i) a protracted period of slow growth in advanced economies, particularly in Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) heightened geopolitical risks resulting in higher oil prices and dislocations to capital flows and tourism receipts; and (iii) tighter global financial conditions, resulting in higher borrowing costs and disruption to portfolio flows.

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

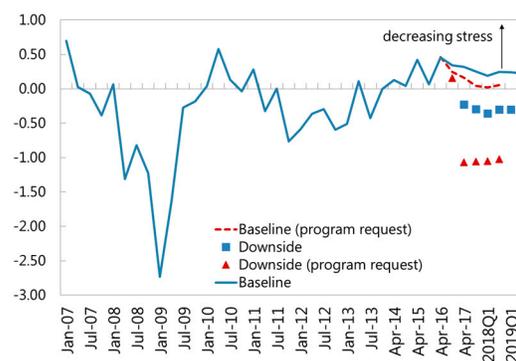
Weights. A data-based approach was used to determine the weights for each variable. Weights for each proxy variable are estimated using the balance of payments and IIP data as a share of GDP. The weight on euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts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

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

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

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

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates.

Sources: WEO; and IMF staff estimates

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

REVIEW OF PLL QUALIFICATION

18. Staff's assessment is that Morocco continues to qualify for a PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board during the 2017 Article IV consultation and the second review under PLL arrangement, staff's assessment is that Morocco meets the PLL qualification criteria.

A. General Assessment

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

- **Macroeconomic developments are broadly positive.** Fiscal developments in 2017 were favorable, with strong revenue performance and well contained current and capital expenditures. After a significant weakening in 2016, the current account deficit is estimated to have narrowed in 2017, as capital equipment imports (related to specific infrastructure projects) and food imports stabilized, and phosphate and food exports picked up. Over the medium term, economic growth is expected to gradually increase in a context of low inflation. Both public and external debts are sustainable.
- **The authorities have implemented generally sound policies, although reform implementation was delayed in the past year.** During the last Article IV consultation, on December 13, 2017, the Executive Board welcomed the authorities' commitment to sound policies, and encouraged them to accelerate reform implementation to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.
- **The authorities are committed to maintain sound policies.** Public finances are improving, reflecting both the growth recovery and the authorities' commitments to secure strong revenue performance, contain spending at budgeted levels, and take necessary measures to meet their objectives (W-COM.-14). The government is also committed to reduce public debt to 60 percent of GDP by 2021, which will require stabilizing the fiscal deficit around 2.2 percent of GDP in the medium term. The authorities intend to pursue structural reforms to raise potential growth and promote higher and more inclusive growth, including by improving competitiveness and the business environment, strengthening the fight against corruption, and raising human capital.
- **Flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** On the fiscal front, budgetary procedures and practices are being enhanced, and are instrumental in maintaining current spending below budgeted levels. More broadly, the authorities met their fiscal objectives in recent years by taking corrective actions in the face of unforeseen grant revenues shortfalls (except in 2016). Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco

performs well in the fiscal policy area.⁴ Morocco scores lower in the monetary policy area, but this indicator is less relevant for Morocco given its pegged exchange rate regime.⁵ Bank al-Maghrib (BAM) has a clear mandate to implement monetary and exchange rate policies, and the authorities are in the process of upgrading their monetary policy regime as part of the transition to greater exchange rate flexibility and inflation targeting. As noted above, this transition should start as soon as possible, since undue delays may raise uncertainty regarding the authorities' reform commitment and credibility. Lastly, Morocco is in the mid-range of the World Bank's anti-corruption and government effectiveness ranking.

20. Overall, 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). This change from the previous PLL review reflects a worse-than-expected performance in the external sector (see below). Morocco has generally sound economic and institutional policy frameworks, is implementing, and has a track record of implementing sound policies, and remains committed to maintaining such policies in the future (W-COM.-11).

B. Assessment of Specific Criteria and Track Record

21. 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). This marks a deterioration since the second review of the current PLL arrangement, when Morocco was assessed as performing strongly in the external position and market access area. Indeed, staff's assessment is that the increase in the current account deficit since the time of the PLL request can no longer be attributed to temporary factors; considering updated data and WEO assumptions, and despite the strong export dynamics observed in recent years and the further reduction in fiscal imbalances, the current deficit is now expected to remain at about 3.7 percent of GDP during 2018–19, which signals a worse underlying current account position than initially expected.

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

- **Criterion 1. Sustainable external position.** Based on the 2017 external balance assessment (EBA), Morocco's external position is currently weaker than implied by fundamentals. Morocco's current account deficit narrowed moderately in 2017, after widening substantially in 2016 due to infrastructure developments and factors related to the drought and weaker-than-expected

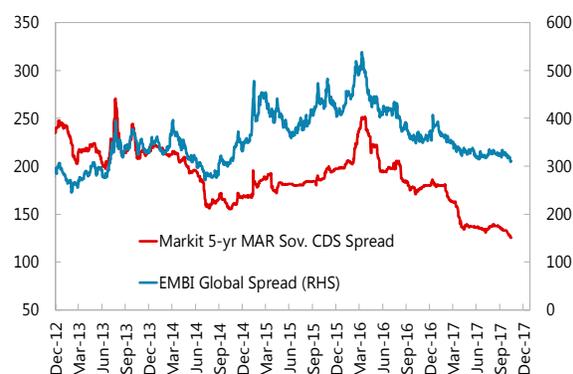
⁴ The fiscal policy measure used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the ratio of government spending to GDP.

⁵ The indicator of monetary policy cyclicity 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.

phosphate prices. The moderate current account improvement is supported by good performance of food and phosphate and derivatives exports, as well as exports from emerging sectors (which now account for 33 percent of total exports, relative to 14 percent in 2000), but also to strong tourism and remittance receipts. The current account is expected to gradually improve over the medium term as: (i) exports rise, boosted by increasing external demand particularly due to the stronger recovery in Europe and the expansion of newer, higher value-added export sectors, growth—reflecting strong FDI in the aeronautics and automotive sectors, (ii) import growth slows down starting in 2019 in an environment of moderate commodity prices, and (iii) tourism receipts strengthen, tapping new markets. The external debt sustainability analysis provided in the 2017 Article IV report shows that Morocco’s external debt has increased in recent years but remains relatively low, at 33.7 percent of GDP at end-2017, and is expected to decline below 30 percent of GDP in the medium term. The recent weakness in the trade balance further supports the prompt introduction of greater exchange rate flexibility. The authorities agree that current conditions continue to offer a window of opportunity to implement the transition in a gradual and orderly manner, and that preparations for the reform have essentially been completed.⁶

- Criterion 2—Capital account position dominated by private flows.** Private capital flows constitute the largest share of the capital account (about 81 percent on average between 2015 and 2017), and FDI is their largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 10.7 percent of total debt or 3.6 percent of GDP). Loans from bilateral and development partners constitute the bulk of public capital flows.
- Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms.** Morocco has not issued international bonds since 2014,⁷ but considering the still favorable global interest rate environment, the authorities plan to issue in 2018. Morocco continues to be rated favorably by major ratings agencies and interest rate spreads further declined in 2017, which suggests that Morocco could have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public sector

CDS Spreads
(2012–17 basis points)



Sources: Bloomberg; and Markit.

⁶ The Fund has provided extensive technical assistance in this area in recent years, including on: macro-economic modelling; forecasting and policy analysis; communication strategy; legal, institutional and regulatory structures; and foreign exchange market development.

⁷ Morocco’s latest sovereign bond issuances include a ten-year EUR 1 billion bond at 3.5 percent in 2014, a ten-year US\$ 1.5 billion bond at 4.25 percent in 2013, and a twenty-year EUR 0.75 billion bond at 5.5 percent in 2013.

borrowing fell short of the specified thresholds. The average maturity of public external debt was extended to eight years and six months (against seven years and four months in 2009).

- **Criterion 4—A reserve position, which—withstanding potential balance of payments (BOP) pressures that justify Fund assistance—remains relatively comfortable.** Morocco's reserves have been below 100 percent of the ARA metric on average over the last three years, at 95 percent. However, they remain adequate according to several metrics (Figure 1): six months of imports, ample coverage of short-term debt and broad money, and 123 percent of the ARA adjusted for capital controls at end 2017. By 2022, reserves are expected to reach about eight months of imports, 101 percent of the standard ARA metric, and 133 percent of the metric adjusted for capital controls.

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

- **Criterion 5—Sound public finance, including a sustainable public debt position.** The authorities remain committed to a sustainable fiscal path and a track record of sound public finances. A deficit of 3 percent of GDP is expected in 2018 and the authorities aim to reduce public debt to 60 percent of GDP by 2021 (against 64.7 percent of GDP in 2016) (W-COM.-14), which will require bringing the fiscal deficit to about 2.2 percent of GDP in the medium term.⁸ Staff assesses Morocco's public debt to be sustainable with high probability and resilient to various shocks and vulnerabilities despite high gross financing needs, which should decline due to a lengthening of average maturities (from 6 years and 6 months in 2014 to about 7 years and 3 months in 2017). Future fiscal consolidation will benefit from accelerated tax reforms and a comprehensive approach to broaden the tax base, reduce exemptions, boost VAT revenues, and improve corporate taxation. Civil service reform will be needed to generate long-term savings on the wage bill while strengthening the efficiency of the public sector. Fiscal decentralization should ensure sound public financial management at the regional level and preserve fiscal sustainability. To that effect, a range of institutional mechanisms to control risks from fiscal decentralization will need to be put in place as the process advances. Finally, the authorities intend to submit to parliament the draft law to reinforce the governance and oversight of SOEs in early 2018.

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

- **Criterion 6—Low and stable inflation.** Morocco has maintained low and stable inflation in the past five years, and this is expected to continue in the medium term, with inflation expectations being well anchored. The policy rate has not changed since March 2016 and supported a nascent credit recovery in 2017, suggesting that monetary transmission is relatively effective. As part of the transition to greater exchange rate flexibility, the authorities remain committed to gradually introduce an inflation targeting regime, but they are still assessing the right moment

⁸ The objective of lowering public debt to 60 percent of GDP may be affected by the forthcoming change in the coverage of public sector statistics. Together with the implication for fiscal consolidation, this will be reassessed once updated figures become available, in 2018.

to start the transition (W-COM.-114). Further exchange rate flexibility will help to absorb external shocks and preserve price competitiveness, and the transition is likely to proceed smoothly.

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

- **Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability.** Banks have adequate capital buffers and benefit from stable funding (mainly non-remunerated deposits). NPLs remain relatively high at 7.7 percent, but provisioning levels are comfortable (70 percent) and increasing. Risks from large credit exposures persist and increased slightly in 2017 despite strict regulatory limits. Moroccan banks' expansion into Africa provides diversification and profit opportunities, but is also a channel of risk transmission. The 2015 FSAP stress tests showed that the banking system could withstand severe shocks.
- **Criterion 8—Effective financial sector supervision.** Bank supervision capacity is improving along the lines of the 2015 FSAP recommendations. Together with recent enhancements to the macroprudential policy framework, the oversight of Moroccan banks expanding into Africa has intensified, in close collaboration with supervisory agencies in host countries (W-COM.-113). More broadly, bank supervision is moving to a more risk-based and forward-looking approach (including about AML/CFT-related risks).

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

- **Criterion 9—Data transparency and integrity.** Morocco subscribes to the Special Data Dissemination Standard. Overall, data quality continues to be adequate to conduct effective surveillance and program monitoring despite shortcomings in the provision of certain data, such as household survey data (timeliness), or the exclusion of third-party deposits at Treasury from public debt data (as is the case in several members). The authorities are determined to increase the coverage of public finance statistics from central to general government (with Fund TA support), and to produce new fiscal and public debt data by the second semester of 2018 and align public sector statistics with international standards.

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

OTHER PROGRAM ISSUES AND POST-PLL STRATEGY

23. The end-September 2017 IT for the fiscal deficit and for net international reserves were met. The end-September 2017 fiscal deficit IT was met without adjustments, and with a substantial margin once the adjustor for grants is considered. The end-September 2017 NIR IT was met, reflecting the moderate narrowing of the current account deficit since July 2017, due in part to strong export performance and the stabilization of import of capital equipment.

24. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, and credit and liquidity risks to the Fund would remain low (Table 6).⁹

Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent a small share of Morocco's total external debt (a maximum of 7.1 percent over the projection period), gross international reserves (13.1 percent), and exports (nine percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure remains moderate. The commitment to Morocco is modest, and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

25. The 2015 assessment found a robust safeguards framework with strong control mechanisms at the central bank. The only remaining recommendation relates to strengthening the BAM law in the areas of autonomy and governance. The draft new central bank law is expected to be approved by Parliament in early 2018.

26. The authorities' exit strategy should reflect the strength of macroeconomic buffers and increased policy space, together with the evolution of external risks. The authorities noted that the current PLL has been successful in supporting the implementation of policies aimed at strengthening Morocco's economic fundamentals and buffers. Under the baseline scenario, by the end of the arrangement, public debt would be on a downward path; despite the recent deterioration of the external position, the current account deficit would still be close to what would be expected for an emerging market country like Morocco; and, reserves would be at a comfortable level. Looking ahead, important external risks, related to euro area growth, geopolitical tensions in the region, and tighter and more volatile global financial conditions, may affect Morocco. Such risks, together with strong domestic policy implementation, will need to be fully taken into account in deciding on an orderly exit strategy from the current PLL arrangement. The authorities' firm commitment to maintain strong policy and reform implementation (as articulated in W-COM.-117) will play an important role in anchoring confidence in post-program resilience and performance, contingent on the lowering of external risks.

STAFF APPRAISAL

27. The PLL arrangement has served Morocco well and remains on track. Since 2012, macroeconomic vulnerabilities have declined, and the end-September 2017 indicative targets were both met. More broadly, the macroeconomic situation improved in 2017, with higher growth and a

⁹ Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL arrangement request, reserves may be 25 percent lower and exports 6 percent lower, suggesting peak IMF credit ratios of 17.5 percent and 9.7 percent instead of 12.8 percent and 9 percent in the table. These considerations suggest caution in interpreting Table 7, but do not materially impact staff's current view of Morocco's capacity to repay.

lower public deficit. However, Morocco's economy remains confronted with important challenges in the period ahead, including elevated external risks.

28. Reforms that were delayed over the past year have now resumed, and will need to accelerate. In 2016–17, reform implementation slowed in key areas, such as fiscal reforms, the transition to further exchange rate flexibility, governance, education and the labor market. They need to accelerate to strengthen macroeconomic resilience and reach higher, sustainable, and inclusive growth, address unemployment, particularly among the youth, and reduce inequalities. In this context, the authorities' recent efforts to strengthen the strategic coordination and execution of reforms are welcome.

29. Further fiscal reforms should provide additional policy space to preserve growth and priority spending in social areas. Future fiscal consolidation would benefit from a strategic and comprehensive approach to accelerate tax reforms, including to broaden the tax base by reducing exemptions and simplifying VAT and corporate taxation; civil service reform to generate long-term saving on public wage expenditures; careful implementation of fiscal decentralization; and strengthened SOE's oversight.

30. The transition to exchange rate flexibility should start as soon as possible. This reform will help the economy to better absorb shocks and preserve its price competitiveness. Initiating the transition soon would help ensure that a move is made from a position of strength and remove any uncertainty as to the authorities' reform commitment.

31. Efforts to improve the business environment and support more private sector-led growth need to intensify. Reform priorities include reducing chronic payment delays, making the competition council operational, and advancing education, governance, and labor market reforms. Improvements in these areas will encourage job creation and women's labor force participation. In parallel, adopting the new central bank law and continuing to implement the 2015 FSAP recommendations will help further strengthen the financial sector policy framework.

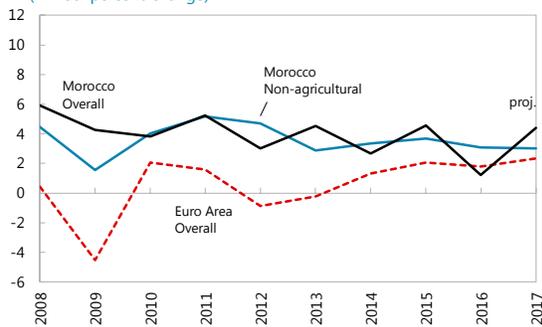
32. Morocco continues to meet the PLL qualification criteria. The assessment of Morocco's policies by the Executive Board in the 2017 Article IV consultation was generally positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of, and is implementing, sound policies, and remains committed to such policies in the future. 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).

33. Against this background, staff recommends the completion of the third review under the PLL arrangement.

Figure 1. Morocco: Real and External Developments

Economic activity rebounded significantly in 2017.

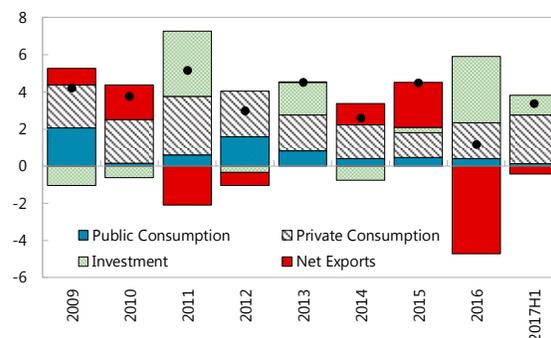
Morocco and Euro Area Growth
(Annual percent change)



Sources: WEO.

Private consumption was the main driver of growth in the first half of 2017.

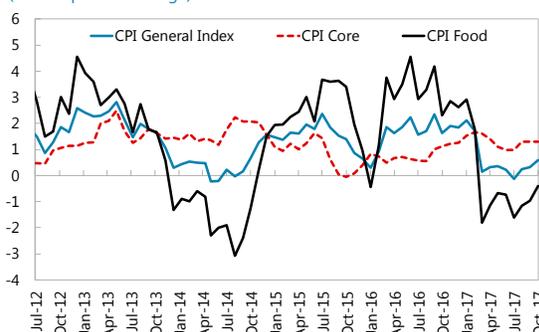
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Inflation remains low following the sharp decline in food prices.

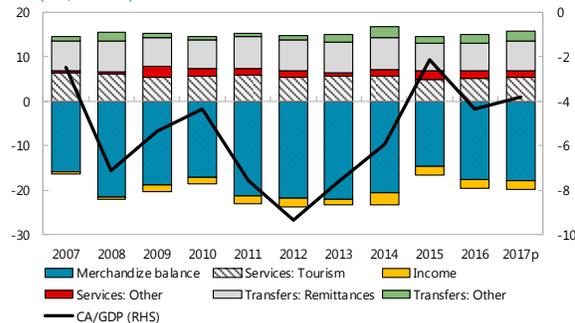
Inflation
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

The trade deficit widened in 2016–17, weakening the current account, despite stable tourism and remittances.

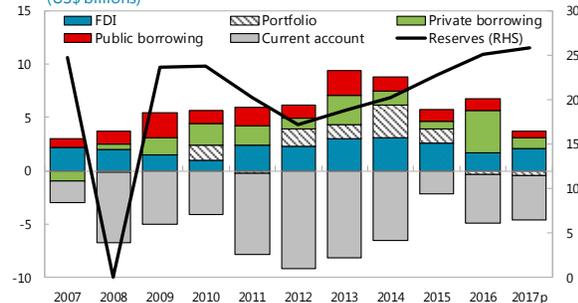
Current Account Components
(US\$ billions)



Sources: National authorities; and IMF staff estimates.

FDI played a key role in financing the current account deficit.

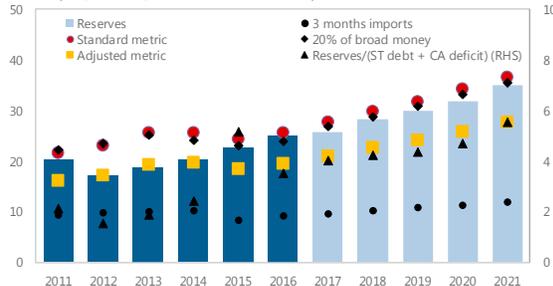
Current Account Financing
(US\$ billions)



Sources: National authorities; and IMF staff estimates.

Reserves coverage is at comfortable levels, despite the temporary fall of international reserves in May-June 2017.

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

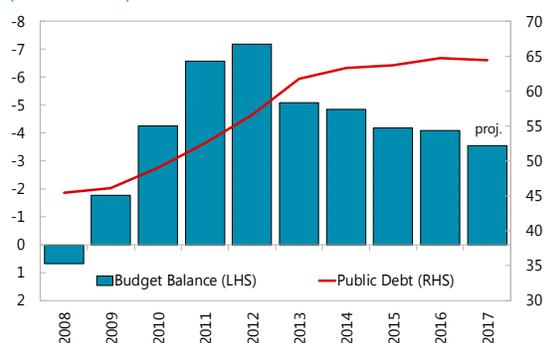


Sources: National authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments

Fiscal consolidation resumed in 2017 ...

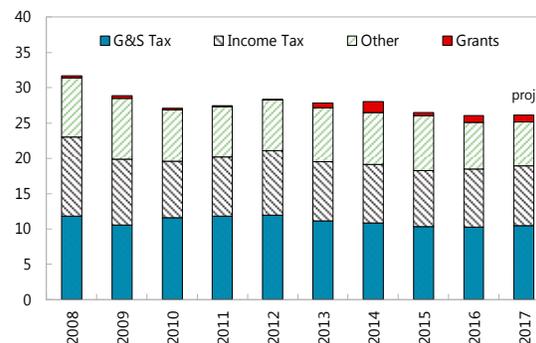
Budget Balance and Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

... due to stable tax revenues ...

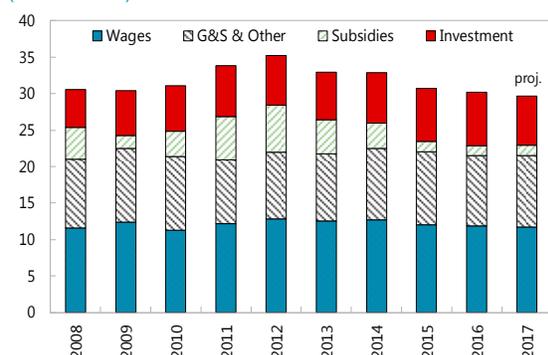
Government Revenue
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

... and contained public expenditures.

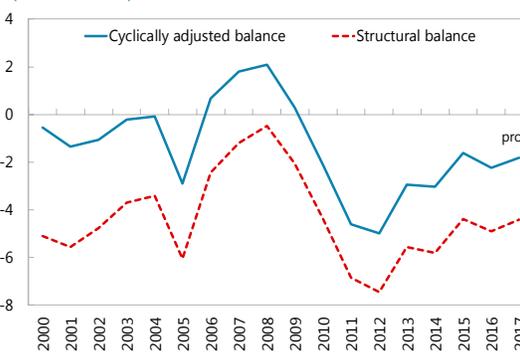
Government Expenditure
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

The cyclical and structural fiscal balances improved in 2017.

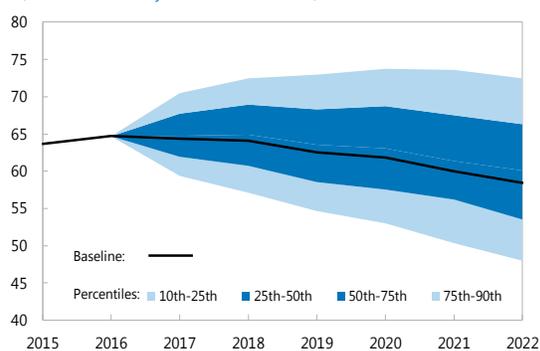
Cyclical and Structural Balance
(Percent of GDP)



Sources: IMF staff estimates.

Public debt is sustainable and projected to decline gradually.

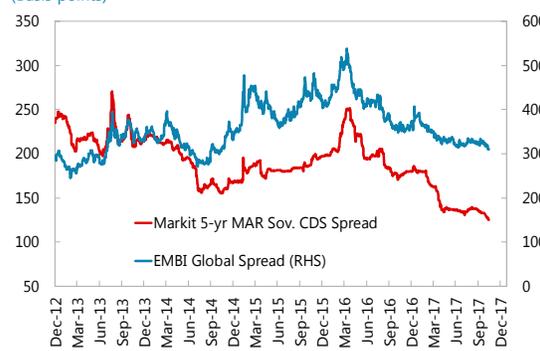
Evolution of Predictive Densities of Gross Public Debt
(Percent of GDP; Symmetric Distribution)



Sources: DSA and IMF staff estimates.

Sovereign spreads have further declined in 2017.

CDS Spreads
(Basis points)



Sources: Bloomberg; Markit.

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

	2012	2013	2014	2015	2016	Proj.							
						PLL 1/	Art. IV	Rev.					
						2017	2018	2019	2020	2021	2022		
(Annual percentage change)													
Output and Prices													
Real GDP	3.0	4.5	2.7	4.5	1.2	4.8	4.4	4.4	3.1	4.0	4.2	4.5	4.6
Real agriculture GDP	-9.1	17.2	-2.2	11.9	-12.8	16.6	15.2	15.2	-1.0	6.6	6.4	6.4	6.8
Real non-agriculture GDP	4.7	2.9	3.4	3.7	3.1	3.3	3.0	3.0	3.6	3.7	3.9	4.2	4.3
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.8	1.1	0.9	0.9	1.6	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.6	0.9	0.6	0.6	1.3	2.0	2.0	2.0	2.0
(In percent of GDP)													
Investment and Saving													
Gross capital formation	35.0	34.7	32.5	30.8	33.1	33.2	33.4	33.9	35.0	35.5	35.9	36.0	36.4
Of which: Nongovernment	29.6	29.6	27.2	25.3	27.4	27.8	28.0	28.5	29.5	30.0	30.2	30.1	30.3
Gross national savings	25.5	27.0	26.5	28.8	28.8	29.2	29.5	30.2	31.3	31.8	32.5	33.1	33.9
Of which: Nongovernment	25.9	25.5	24.5	25.7	25.6	26.0	26.3	26.9	27.4	27.8	28.1	28.1	28.5
(In percent of GDP)													
Public Finances													
Revenue	28.0	27.8	28.0	26.5	26.1	25.9	26.1	26.1	26.6	26.0	26.0	26.2	26.3
Expenditure	35.2	32.9	32.9	30.7	30.2	29.4	29.6	29.7	29.6	28.8	28.7	28.6	28.5
Budget balance	-7.2	-5.1	-4.8	-4.2	-4.1	-3.5	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Primary balance (excluding grants)	-4.8	-3.2	-3.6	-1.9	-2.4	-1.9	-1.9	-1.9	-1.3	-0.7	-0.5	-0.3	0.0
Cyclically-adjusted primary balance (excl. grants)	-5.0	-2.9	-3.0	-1.6	-2.2	-1.8	-1.8	-1.8	-1.2	-0.7	-0.5	-0.5	-0.6
Total government debt	56.5	61.7	63.3	63.7	64.7	63.2	64.3	64.4	64.1	62.5	61.9	60.0	58.4
(Annual percentage change; unless otherwise indicated)													
Monetary Sector													
Credit to the economy	4.8	3.8	2.5	2.0	4.4	5.5	5.7	4.4	...	...	...	...	...
Base money	-0.5	9.0	6.2	5.7	4.7	6.0	6.0	6.0	...	...	...	...	...
Broad money	4.5	3.1	6.2	5.7	4.7	6.0	6.0	6.0	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	...	...	...	...	...
(In percent of GDP; unless otherwise indicated)													
External Sector													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.1	6.5	7.2	7.4	6.7	6.5	6.6	6.1
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	4.4	5.3	5.6	6.7	5.3	5.2	5.4	5.0
Merchandise trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-16.4	-16.4	-16.3	-16.1	-15.6	-15.1	-14.7	-14.3
Current account excluding official transfers	-9.6	-8.3	-7.6	-2.6	-5.3	-4.9	-4.8	-4.7	-4.4	-4.0	-3.5	-3.0	-2.5
Current account including official transfers	-9.3	-7.6	-5.9	-2.1	-4.4	-4.0	-3.9	-3.8	-3.7	-3.7	-3.4	-2.9	-2.5
Foreign direct investment	2.4	2.8	2.8	2.6	1.6	1.6	1.9	1.9	2.4	2.6	2.7	2.7	2.7
Total external debt	28.5	29.3	33.3	33.9	34.6	33.5	33.5	33.7	34.0	32.4	30.8	29.3	27.9
Gross reserves (in billions of U.S. dollars)	17.1	18.8	20.3	22.8	25.1	24.2	24.8	25.8	28.3	29.9	31.9	35.0	39.2
In months of next year imports of goods and services	4.2	4.6	5.9	6.0	6.3	5.9	5.9	6.1	6.3	6.4	6.4	6.7	7.9
In percent of Fund reserve adequacy metric 2/	74.5	73.3	79.0	93.6	98.4	90.1	90.3	92.9	95.2	94.2	93.2	95.8	100.5
In percent of CA deficit and ST debt at rem. mat. basis	154.2	186.2	244.5	517.5	351.3	374.5	379.1	402.1	423.2	436.0	467.8	544.2	666.2
Memorandum Items:													
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	110.1	101.2	103.61	108.6	110.0	109.9	117.8	125.1	132.9	141.0	149.6
Nominal GDP per capita (in U.S. dollars, percent change)	-4.2	7.4	1.9	-9.0	1.3	3.7	5.0	4.9	6.1	5.1	5.1	5.1	5.1
Output gap (percentage points of non-agricultural GDP)	0.7	-1.1	-0.6	-0.2	-0.8	...	-0.8	-0.8	-0.2	-0.1	0.1	0.0	0.0
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	9.4	...	9.3	9.3	...	...	...	...	...
Population (millions)	33.0	33.4	33.8	34.1	34.5	34.9	34.9	34.9	35.2	35.6	36.0	36.3	36.7
Population growth (in percent)	1.22	1.21	1.17	1.05	1.06	1.06	1.06	1.06	1.06	1.04	1.03	1.00	0.98
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.0	-6.8	-5.5	-6.4	-6.9	-7.0	-7.6	-7.7	-7.8	-8.0	-8.1
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3	2.3	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the Second Review Under PLL Arrangement in Country Report No. 17/264.

2/ Based on revised ARA weights.

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

	2012	2013	2014	2015	2016	2017			Proj.				
						PLL 1/	Art. IV	Rev.	2018	2019	2020	2021	2022
Revenue	237.7	250.0	259.3	262.1	264.9	278.0	278.3	278.3	294.8	304.9	323.9	346.4	370.6
Taxes	202.7	200.7	203.8	208.9	217.4	232.9	232.9	232.9	244.2	261.2	280.3	300.2	321.5
Taxes on income, profits, and capital gains	77.4	75.7	76.3	78.6	83.6	89.1	90.1	90.1	96.8	101.7	109.7	117.2	125.3
Taxes on property	11.6	11.7	13.9	14.1	14.3	15.7	15.7	15.7	15.2	19.4	20.5	21.7	23.0
Taxes on goods and services	99.0	100.0	100.7	102.0	104.2	112.8	111.8	111.8	115.1	124.8	134.1	144.2	155.2
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	9.5	9.3	9.3	9.3	10.0	8.9	9.3	9.9	10.4
Other taxes	5.4	5.2	4.7	6.1	5.9	6.0	6.0	6.0	7.1	6.3	6.7	7.1	7.6
Grants	0.5	6.1	13.8	5.0	9.7	9.8	10.2	10.2	8.1	3.8	1.2	1.2	1.2
Other revenue	34.6	43.2	41.7	48.3	37.9	35.3	35.3	35.3	42.5	39.9	42.3	45.0	47.9
Expense	252.5	250.0	254.5	248.5	249.1	258.2	258.3	258.3	267.0	273.6	286.7	300.7	315.6
Compensation of employees	108.9	112.8	117.3	118.5	120.6	125.2	125.2	125.2	127.3	129.7	132.3	135.0	137.6
<i>Of which: wages and salaries</i>	96.7	99.0	101.6	103.0	104.3	106.7	106.7	106.7	108.9	111.0	113.3	115.6	117.9
social contributions	12.2	13.7	15.7	15.5	16.3	18.5	18.5	18.5	18.5	18.6	19.1	19.4	19.8
Use of goods and services and grants	56.6	59.3	65.0	72.0	70.6	76.1	76.1	76.1	84.2	87.1	97.3	105.2	114.8
<i>Of which: Use of goods and services</i>	20.9	21.5	23.6	25.4	26.6	26.2	26.2	26.2	28.5	30.6	32.4	34.7	36.9
Grants	35.6	37.8	41.4	46.6	43.9	49.9	49.9	49.9	55.7	56.5	65.0	70.5	77.9
Interest	20.7	23.3	25.6	27.3	27.1	27.5	27.6	27.6	27.1	28.7	28.8	30.1	31.7
Subsidies	54.9	41.6	32.6	14.0	14.1	14.7	14.7	14.7	13.7	11.7	10.8	10.6	10.3
Other expenses 2/	11.5	13.0	13.9	16.8	16.8	14.7	14.8	14.8	14.6	16.4	17.4	19.9	21.1
Net acquisition of nonfinancial assets	46.1	45.7	49.7	54.8	57.3	57.8	57.8	57.8	61.1	64.6	71.0	78.1	85.9
Net lending / borrowing (overall balance)	-60.9	-45.7	-44.9	-41.2	-41.5	-38.0	-37.7	-37.7	-33.3	-33.3	-33.8	-32.3	-30.9
Net lending / borrowing (excluding grants)	-61.3	-51.8	-58.7	-46.2	-51.2	-47.8	-47.9	-47.9	-41.4	-37.1	-35.0	-33.5	-32.1
Change in net financial worth	-60.9	-45.7	-44.9	-41.2	-41.5	-38.0	-37.7	-37.7	-33.3	-33.3	-33.8	-32.3	-30.9
Net acquisition of financial assets	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	57.6	45.7	42.4	41.2	40.0	38.0	37.7	37.7	33.3	33.3	33.8	32.3	30.9
Domestic	42.3	30.7	33.1	40.9	37.2	34.4	34.4	34.4	16.1	31.2	22.0	29.6	17.2
Currency and Deposits	3.2	-5.9	17.0	0.7	5.5	5.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	45.6	47.7	20.4	42.9	23.7	29.4	32.4	32.4	15.1	30.2	21.0	28.6	16.2
Other accounts payable	-6.4	-11.1	-4.2	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	15.2	15.0	9.3	0.3	2.8	3.6	3.3	3.3	17.1	2.0	11.8	2.8	13.7
Memorandum Item:													
Total investment (including capital transfers)	57.5	58.7	63.6	71.6	74.1	72.5	72.5	72.5	75.7	81.0	88.4	97.9	107.1
GDP	847.9	897.9	925.4	988.0	1,016.1	1,073.4	1,066.3	1,064.5	1,108.4	1,173.8	1,244.8	1,323.4	1,408.6

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

1/ Refers to the macro framework for the Second Review Under the PLL Arrangement in Country Report No. 17/264.

2/ Includes capital transfers to public entities.

Table 2b. Morocco: Budgetary Central Government Finance, 2012–22
(Percent of GDP)

	2012	2013	2014	2015	2016	Proj.							
						PLL 1/ 2017	Art. IV	Rev.	2018	2019	2020	2021	2022
Revenue	28.0	27.8	28.0	26.5	26.1	25.9	26.1	26.1	26.6	26.0	26.0	26.2	26.3
Taxes	23.9	22.3	22.0	21.1	21.4	21.7	21.8	21.9	22.0	22.3	22.5	22.7	22.8
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.2	8.3	8.4	8.5	8.7	8.7	8.8	8.9	8.9
Taxes on property	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.5	1.4	1.7	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.3	10.3	10.5	10.5	10.5	10.4	10.6	10.8	10.9	11.0
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.7	0.7
Other taxes	0.6	0.6	0.5	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	0.0	0.0
Grants	0.1	0.7	1.5	0.5	1.0	0.9	1.0	1.0	0.7	0.3	0.1	0.1	0.1
Other revenue	4.1	4.8	4.5	4.9	3.7	3.3	3.3	3.3	3.8	3.4	3.4	3.4	3.4
Expense	29.8	27.8	27.5	25.2	24.5	24.1	24.2	24.3	24.1	23.3	23.0	22.7	22.4
Compensation of employees	12.8	12.6	12.7	12.0	11.9	11.7	11.7	11.8	11.5	11.0	10.6	10.2	9.8
<i>Of which: wages and salaries</i>	11.4	11.0	11.0	10.4	10.3	9.9	10.0	10.0	9.8	9.5	9.1	8.7	8.4
social contributions	1.4	1.5	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.4
Use of goods and services and grants	6.7	6.6	7.0	7.3	6.9	7.1	7.1	7.1	7.6	7.4	7.8	7.9	8.2
<i>Of which: Use of goods and services</i>	2.5	2.4	2.6	2.6	2.6	2.4	2.5	2.5	2.6	2.6	2.6	2.6	2.6
Grants	4.2	4.2	4.5	4.7	4.3	4.6	4.7	4.7	5.0	4.8	5.2	5.3	5.5
Interest	2.4	2.6	2.8	2.8	2.7	2.6	2.6	2.6	2.4	2.4	2.3	2.3	2.3
Subsidies	6.5	4.6	3.5	1.4	1.4	1.4	1.4	1.4	1.2	1.0	0.9	0.8	0.7
Other expenses 2/	1.4	1.5	1.5	1.7	1.6	1.4	1.4	1.4	1.3	1.4	1.4	1.5	1.5
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.5	5.6	5.4	5.4	5.4	5.5	5.5	5.7	5.9	6.1
Net lending / borrowing (overall balance)	-7.2	-5.1	-4.8	-4.2	-4.1	-3.5	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Net lending / borrowing (excluding grants)	-7.2	-5.8	-6.3	-4.7	-5.0	-4.5	-4.5	-4.5	-3.7	-3.2	-2.8	-2.5	-2.3
Change in net financial worth	-7.2	-5.1	-4.8	-4.2	-4.1	-3.5	-3.5	-3.5	-3.0	-2.8	-2.7	-2.4	-2.2
Net acquisition of financial assets	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.8	5.1	4.6	4.2	3.9	3.5	3.5	3.5	3.0	2.8	2.7	2.4	2.2
Domestic	5.0	3.4	3.6	4.1	3.7	3.2	3.2	3.2	1.5	2.7	1.8	2.2	1.2
Currency and Deposits	0.4	-0.7	1.8	0.1	0.5	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Securities other than shares	5.4	5.3	2.2	4.3	2.3	3.2	3.2	3.2	1.5	2.7	1.8	2.2	1.2
Other accounts payable	-0.8	-1.2	-0.5	-0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	1.8	1.7	1.0	0.0	0.3	0.3	0.3	0.3	1.5	0.2	0.9	0.2	1.0
Memorandum items:													
Total investment (including capital transfers)	6.8	6.5	6.9	7.2	7.3	6.8	6.8	6.8	6.8	6.9	7.1	7.4	7.6
Total government debt 3/	56.5	61.7	63.3	63.7	64.7	63.2	64.3	64.4	64.1	62.5	61.9	60.0	58.4
Deposits at the Treasury from third parties	5.1	4.9	5.0	5.1	5.5	5.7	5.7	5.7	5.8	5.9	5.6	5.4	5.1

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

1/ Refers to the macro framework for the Second Review Under the PLL Arrangement in Country Report No. 17/264.

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, 2012–22
(In billions of U.S. dollars, unless otherwise indicated)

	2012	2013	2014	2015	2016	Proj.								
						PLL 1/	Art. IV	Rev.						
						2017			2018	2019	2020	2021	2022	
Current account	-9.2	-8.1	-6.5	-2.2	-4.5	-4.4	-4.3	-4.2	-4.4	-4.6	-4.5	-4.2	-3.7	
Trade balance	-21.9	-21.9	-20.6	-14.7	-17.7	-17.8	-18.0	-17.9	-19.0	-19.5	-20.1	-20.8	-21.4	
Exports, f.o.b.	17.0	18.3	20.0	18.6	18.9	20.3	20.5	20.7	22.1	23.7	25.4	27.3	29.1	
Food products	3.5	4.0	4.3	4.2	4.5	4.9	5.0	4.9	5.2	5.6	5.9	6.3	6.7	
Phosphates and derived products	5.6	4.4	4.6	4.5	4.0	4.3	4.3	4.4	4.8	5.1	5.5	5.9	6.2	
Automobiles	2.9	3.7	4.8	5.0	5.6	5.9	5.9	5.9	6.3	7.3	7.9	8.6	9.5	
Imports, f.o.b.	-38.9	-40.2	-40.6	-33.3	-36.6	-38.1	-38.5	-38.6	-41.1	-43.2	-45.5	-48.1	-50.5	
Energy	-12.4	-12.2	-11.0	-6.8	-5.5	-6.8	-6.9	-7.0	-7.6	-7.7	-7.8	-8.0	-8.1	
Capital goods	-8.1	-9.1	-8.8	-8.4	-10.6	-12.5	-10.7	-10.7	-11.3	-12.0	-12.8	-13.6	-14.4	
Food products	-4.8	-4.3	-5.0	-3.6	-4.5	-4.0	-4.2	-4.4	-4.5	-4.7	-4.8	-5.0	-5.1	
Services	6.9	6.4	7.0	6.8	6.8	6.7	6.9	6.9	7.5	7.9	8.4	9.1	9.7	
Tourism receipts	6.7	6.9	7.1	6.3	6.5	6.8	6.9	6.9	7.5	8.0	8.5	9.0	9.6	
Income	-1.9	-1.3	-2.7	-1.9	-1.8	-1.7	-1.9	-1.9	-2.1	-2.3	-2.4	-2.5	-2.5	
Transfers	7.7	8.7	9.7	7.7	8.2	8.6	8.7	8.7	9.2	9.2	9.5	10.0	10.5	
Private transfers (net)	7.4	7.9	7.8	7.2	7.3	7.6	7.7	7.7	8.4	8.8	9.4	9.9	10.5	
Workers' remittances	6.7	6.8	7.1	6.1	6.3	6.6	6.6	6.6	7.1	7.5	8.0	8.5	8.9	
Official grants (net)	0.2	0.8	1.9	0.5	0.9	1.0	1.0	1.0	0.8	0.4	0.1	0.1	0.1	
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	6.2	9.4	8.8	5.8	6.5	2.5	2.2	3.3	6.6	5.9	6.1	6.9	7.4	
Direct investment	2.3	3.0	3.1	2.6	1.7	1.7	2.1	2.1	2.8	3.3	3.5	3.8	4.0	
Portfolio investment	1.6	1.3	3.0	1.3	-0.3	-0.4	-0.5	-0.5	1.8	0.6	0.6	0.7	0.7	
Other	2.2	5.1	2.7	1.8	5.1	1.3	0.6	1.7	2.1	2.0	2.0	2.4	2.7	
Private	1.0	2.8	1.3	0.7	3.9	0.4	0.0	1.0	1.3	1.7	1.8	2.1	2.4	
Public medium-and long-term loans (net)	1.3	2.4	1.4	1.2	1.2	0.9	0.6	0.6	0.8	0.3	0.2	0.4	0.3	
Disbursements	2.9	4.1	3.2	2.8	3.3	3.2	3.0	3.0	2.8	2.5	2.2	2.5	2.2	
Amortization	-1.6	-1.8	-1.8	-1.6	-2.1	-2.3	-2.4	-2.4	-2.1	-2.1	-2.1	-2.1	-2.0	
Reserve asset accumulation (-increase)	3.3	-1.8	-2.9	-4.3	-2.8	1.8	2.1	0.9	-2.2	-1.3	-1.6	-2.7	-3.7	
Errors and omissions	-0.3	0.5	0.6	0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
						(Percent of GDP)								
Current account	-9.3	-7.6	-5.9	-2.1	-4.4	-4.0	-3.9	-3.8	-3.7	-3.7	-3.4	-2.9	-2.5	
Trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-16.4	-16.4	-16.3	-16.1	-15.6	-15.1	-14.7	-14.3	
Exports, f.o.b.	17.3	17.1	18.1	18.4	18.2	18.6	18.6	18.9	18.8	19.0	19.1	19.4	19.5	
Food products	3.6	3.7	3.9	4.2	4.3	4.5	4.5	4.4	4.4	4.5	4.5	4.5	4.5	
Phosphates and derived products	5.7	4.2	4.1	4.5	3.8	3.9	3.9	4.1	4.1	4.1	4.2	4.2	4.2	
Automobiles	3.0	3.5	4.4	4.9	5.4	5.4	5.3	5.4	5.3	5.8	6.0	6.1	6.3	
Imports, f.o.b.	-39.6	-37.7	-36.9	-32.9	-35.3	-35.1	-35.0	-35.2	-34.9	-34.6	-34.2	-34.1	-33.8	
Energy	-12.6	-11.4	-10.0	-6.7	-5.4	-6.2	-6.3	-6.3	-6.5	-6.2	-5.9	-5.7	-5.4	
Capital goods	-8.2	-8.5	-8.0	-8.3	-10.2	-11.5	-9.7	-9.7	-9.6	-9.6	-9.6	-9.7	-9.6	
Food products	-4.9	-4.0	-4.5	-3.6	-4.4	-3.7	-3.8	-4.1	-3.8	-3.8	-3.6	-3.5	-3.4	
Services	7.1	6.0	6.4	6.7	6.5	6.1	6.3	6.3	6.4	6.4	6.4	6.5	6.5	
Tourism receipts	6.8	6.4	6.4	6.2	6.3	6.3	6.3	6.3	6.4	6.4	6.4	6.4	6.4	
Income	-1.9	-1.2	-2.4	-1.9	-1.7	-1.6	-1.7	-1.7	-1.8	-1.8	-1.8	-1.7	-1.7	
Transfers	7.8	8.1	8.8	7.6	7.9	7.9	7.9	7.9	7.8	7.3	7.1	7.1	7.1	
Private transfers (net)	7.6	7.4	7.1	7.1	7.0	7.0	7.0	7.0	7.1	7.1	7.1	7.0	7.0	
Workers' remittances	6.9	6.4	6.5	6.1	6.1	6.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0	
Official grants (net)	0.2	0.7	1.7	0.5	0.9	0.9	0.9	0.9	0.7	0.3	0.1	0.1	0.1	
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	6.3	8.8	8.0	5.7	6.2	2.3	2.0	3.0	5.6	4.7	4.6	4.9	5.0	
Direct investment	2.4	2.8	2.8	2.6	1.6	1.6	1.9	1.9	2.4	2.6	2.7	2.7	2.7	
Portfolio investment	1.6	1.3	2.8	1.3	-0.3	-0.4	-0.4	-0.4	1.5	0.5	0.4	0.5	0.5	
Other	2.3	4.8	2.4	1.8	4.9	1.2	0.6	1.5	1.7	1.6	1.5	1.7	1.8	
Private	1.0	2.6	1.2	0.7	3.8	0.4	0.0	0.9	1.1	1.4	1.4	1.5	1.6	
Public medium-and long-term loans (net)	1.3	2.2	1.2	1.2	1.1	0.8	0.6	0.6	0.6	0.3	0.1	0.3	0.2	
Disbursements	2.9	3.9	2.9	2.8	3.1	3.0	2.8	2.8	2.4	2.0	1.7	1.7	1.5	
Amortization	-1.6	-1.7	-1.6	-1.6	-2.0	-2.2	-2.2	-2.2	-1.7	-1.7	-1.6	-1.5	-1.3	
Memorandum items:														
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.1	6.5	7.2	7.4	6.7	6.5	6.6	6.1	
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	4.4	5.3	5.6	6.7	5.3	5.2	5.4	5.0	
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.6	-2.6	-5.3	-4.9	-4.8	-4.7	-4.4	-4.0	-3.5	-3.0	-2.5	
Terms of trade (percentage change) 2/	-12.5	-12.6	-0.1	7.5	-2.5	-0.5	-0.1	-2.5	-1.7	0.8	0.6	0.4	0.4	
Gross official reserves 3/	17.1	18.8	20.3	22.8	25.1	24.2	24.8	25.8	28.3	29.9	31.9	35.0	39.2	
In months of prospective imports of GNFS	4.2	4.6	5.9	6.0	6.3	5.9	5.9	6.1	6.3	6.4	6.4	6.7	7.9	
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	74.5	73.3	79.0	93.6	98.4	90.1	90.3	92.9	95.2	94.2	93.2	95.8	100.5	
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	100.1	97.1	103.1	122.9	128.3	118.8	119.5	122.5	125.5	124.4	122.9	126.6	132.8	
Debt service (percent of export of GNFS and remittances) 5/	6.5	7.0	6.7	6.9	7.8	7.9	8.3	8.3	7.0	6.9	6.4	6.1	5.6	
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.0	30.5	30.7	29.9	29.9	29.9	30.4	29.0	27.4	26.1	24.7	
DHS per US\$, period average	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...
GDP (US\$)	98.3	106.8	110.1	101.2	103.6	108.6	110.0	109.9	117.8	125.1	132.9	141.0	149.6	
Oil price (US\$/barrel; Brent)	112.0	108.8	98.9	52.4	44.0	52.9	51.4	54.3	61.4	58.9	57.4	56.8	56.6	

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

1/ Refers to the macro framework for the Second Review Under the PLL Arrangement in Country Report No. 17/264.

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, 2011–17

	2011	2012	2013	2014	2015	2016	2017	
							Art. IV	Rev.
(Billions of dirhams)								
Net International Reserves	170.0	141.4	146.5	179.6	222.1	249.2	230.4	239.1
<i>Of which</i> : Gross reserves	173.2	144.5	153.2	183.3	225.4	253.5	236.3	245.0
Deposit money banks	1.7	2.7	-1.5	0.1	8.3	-1.8	25.1	25.1
Net domestic assets	779.2	850.8	876.3	906.7	926.0	953.2	1,047.8	1,035.5
Domestic credit	798.3	855.0	906.5	920.1	940.0	968.9	1,012.6	998.7
Net claims on the government	102.1	125.4	149.3	143.7	148.0	142.4	139.5	136.2
Banking system	102.1	125.4	149.3	143.7	148.0	142.4	139.5	136.2
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-1.2	-0.3	-0.1	-0.5
<i>Of which</i> : deposits	-3.4	-4.5	-4.6	-4.6	-6.0	-4.9	-5.2	-5.2
Deposit money banks	99.9	124.9	148.5	143.8	149.2	142.6	139.6	136.7
Credit to the economy	696.2	729.6	757.2	776.4	792.0	826.5	873.2	862.5
Other liabilities, net	20.8	6.9	28.7	13.5	22.3	13.9	-35.1	-36.8
Broad money	949.3	992.2	1,022.8	1,086.2	1,148.0	1,202.4	1,278.1	1,274.6
Money	586.8	612.2	628.9	660.6	707.1	751.9	800.5	799.4
Currency outside banks	158.3	163.6	171.4	179.4	192.6	203.2	213.8	212.9
Demand deposits	428.5	448.5	457.6	481.2	514.4	548.6	586.7	586.5
Quasi money	340.9	354.7	370.8	390.7	401.7	407.3	426.4	423.6
Foreign deposits	21.6	25.3	23.1	35.0	39.3	43.2	51.2	51.5
(Annual percentage change)								
Net International Reserves	-13.0	-16.8	3.6	22.6	23.7	12.2	-8.5	-4.1
Net domestic assets	12.4	9.2	3.0	3.5	2.1	2.9	9.8	8.6
Domestic credit	11.6	7.1	6.0	1.5	2.2	3.1	4.3	3.1
Net claims on the government	25.8	22.8	19.0	-3.7	3.0	-3.8	-3.9	-4.3
Credit to the economy	9.8	4.8	3.8	2.5	2.0	4.4	5.7	4.4
Banking credit	10.6	3.9	2.2	2.2	2.8	4.2	5.0	5.0
Broad money	6.4	4.5	3.1	6.2	5.7	4.7	6.0	6.0
(Change in percent of broad money)								
Net International Reserves	-2.8	-3.0	0.5	3.2	3.9	2.4	-1.7	-0.7
Domestic credit	9.3	6.0	5.2	1.3	1.8	2.5	3.4	2.5
Net claims on the government	2.3	2.5	2.4	-0.5	0.4	-0.5	-0.5	-0.5
Credit to the economy	6.9	3.5	2.8	1.9	1.4	3.0	3.9	3.0
Other assets net	0.2	1.5	-2.2	1.5	-0.8	0.7	4.2	4.2
Memorandum items:								
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.86	0.85	0.83	0.84
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.76	0.75	0.73	0.73
Credit to economy/GDP (in percent)	84.9	86.0	84.3	83.9	80.2	81.3	81.9	81.0
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.4	94.0	90.7	91.3	93.6	92.6

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

Table 5. Morocco: Financial Soundness Indicators, 2010–17
(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016				2017	
							Mar	Jun	Sep	Dec	Mar	Jun
Regulatory capital 1/												
Regulatory capital to risk-weighted assets	12.3	11.7	12.3	13.3	13.8	13.7	13.7 (*)	na	14.2	na	13.7	
Tier 1 capital to risk weighted assets	9.7	9.6	10.2	11.1	11.6	11.4	11.1 (*)	na	11.5	na	11.0	
Capital to assets	8.3	8.1	8.5	8.6	8.8	9.1	9.2	9.4	9.3	9.1	9.1	
Asset quality												
Sectoral distribution of loans to total loans												
Industry	18.4	18.6	18.4	18.6	19.3	18.0	18.9	18.5	18.8	17.8	17.7	17.8
<i>Of which: agro-business</i>	3.8	3.4	3.2	3.6	3.5	3.6	3.7	3.3	3.4	3.1	3.3	3.3
<i>Of which: textile</i>	1.4	1.3	1.2	1.0	0.9	0.8	0.9	0.9	0.9	0.8	0.8	0.8
<i>Of which: gas and electricity</i>	3.9	4.5	4.8	4.7	6.1	6.3	6.5	6.3	6.2	6.2	6.2	6.2
Agriculture	4.1	4.2	4.1	4.1	3.9	4.0	4.3	4.1	4.2	4.0	3.8	3.6
Commerce	6.7	6.6	6.7	6.2	6.6	6.4	6.5	6.7	6.5	6.4	6.3	6.7
Construction	13.3	13.9	12.6	12.4	12.2	10.7	11.5	11.4	11.6	11.2	11.2	11.2
Tourism	2.9	2.8	2.9	2.4	2.4	1.9	2.2	2.1	2.1	1.9	2.0	1.9
Finance	12.1	11.9	11.0	12.7	11.6	13.4	11.1	11.8	11.6	13.1	12.3	13.0
Public administration	5.0	4.8	5.0	5.0	4.7	4.5	4.7	4.9	4.5	4.7	4.8	4.6
Transportation and communication	4.0	4.1	4.0	3.8	3.7	4.2	4.1	4.6	4.4	4.1	4.1	4.8
Households	28.1	27.6	28.9	29.7	31.4	32.3	33.5	32.8	33.3	32.4	33.2	32.4
Other	5.4	5.5	6.4	5.1	4.2	4.6	3.2	3.1	3.0	4.4	4.6	4.0
FX-loans to total loans	2.5	3.5	2.9	2.7	3.9	2.5	2.8	2.6	2.6	2.7	2.7	2.9
Credit to the private sector to total loans	91.0	92.0	91.0	91.0	91.0	91.0	91.0	90.5	90.9	89.5	89.9	89.9
Nonperforming Loans (NPLs) to total loans	4.8	4.8	5.0	5.9	6.9	7.4	7.8	7.7	8.0	7.6	7.8	7.5
Specific provisions to NPLs	70.1	68.7	67.8	64.0	65.0	68.0	67.0	67.0	68.0	69.0	70.0	70.0
NPLs, net of provisions, to Tier 1 capital	12.2	12.9	13.6	16.8	19.2	17.8	18.8	18.4	18.7	17.3	17.5	16.4
Large exposures to Tier 1 capital	336.0	354.0	347.0	327.0	341.0	294.0		302.0	na	297.4	na	318.0
Loans to subsidiaries to total loans	6.1	6.3	5.4	7.2	6.8	7.0	7.4	7.2	5.8	7.8	8.1	8.8
Loans to shareholders to total loans	0.8	1.2	1.0	1.3	1.4	1.7	1.9	1.4	0.7	1.1	1.3	1.0
Specific provisions to total loans	3.4	3.5	3.3	3.8	4.5	5.0	5.3	5.1	5.3	5.3	5.4	5.3
General provisions to total loans	0.2	0.3	0.7	0.7	0.8	0.8	0.9	0.8	0.9	0.9	0.9	0.9
Profitability												
Return on assets (ROA)	1.2	1.1	1.0	1.0	0.9	0.8		1.1	na	1.1	na	1.1
Return on equity (ROE)	14.2	13.4	11.8	10.6	10.2	9.1		11.7	na	11.4	na	11.2
Interest rate average spread (b/w loans and deposits)	4.2	4.2	4.2	4.0	4.1	3.8		3.8	na	3.9	na	na
Interest return on credit	5.7	5.7	5.6	5.5	5.5	5.0		5.0	na	5.0	na	na
Cost of risk as a percent of credit	0.5	0.5	0.8	0.9	1.0	1.1		1.2	na	1.1	na	0.9
Net interest margin to net banking product (NPB) 2/	76.3	75.8	76.5	74.0	68.9	72.0		67.9	na	70.6	na	70.7
Operating expenses to NPB	46.4	47.9	47.5	47.7	46.1	49.1		43.9	na	46.2	na	46.3
Operating expenses to total assets	1.8	1.9	1.8	1.8	1.9	1.9		1.9	na	1.9	na	1.9
Personnel expenses to noninterest expenses	49.1	49.4	49.2	48.4	47.6	47.4		47.6	na	47.5	na	47.3
Trading and other noninterest income to NPB	23.7	24.2	23.4	26.0	30.8	28.0		32.1	na	29.4	na	29.3
Liquidity												
Liquid assets to total assets	12.0	11.4	10.5	12.5	13.3	16.1	14.3	13.0	13.1	14.5	13.5	12.0
Liquid assets to short-term liabilities	16.0	16.1	14.7	17.4	17.7	21.2	18.7	17.1	16.8	18.6	17.1	16.2
Deposits to loans	104.0	99.0	96.1	96.2	100.8	104.3	106.6	105.4	105.0	105.0	105.1	104.2
Deposits of state-owned enterprises to total deposits	5.2	2.9	3.4	2.0	2.5	2.9	2.3	1.9	2.0	2.7	2.0	2.3
Sensitivity to market risk												
FX net open position to Tier 1 Capital	10.3	7.3	7.4	11.3	9.0	7.4		5.6	na	4.1	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, 2016–22 1/

	Proj.						
	2016	2017	2018	2019	2020	2021	2022
Exposure and repayments (in SDR million)							
GRA credit to Morocco	0.0	0.0	2,504.0	2,504.0	2,504.0	1,565.0	313.0
(In percent of quota)	0.0	0.0	280.0	280.0	280.0	175.0	35.0
Charges due on GRA credit	0.0	0.0	59.5	60.5	60.5	54.6	18.7
Principal due on GRA credit	0.0	0.0	0.0	0.0	0.0	939.0	1,252.0
Debt service due on GRA credit	0.0	0.0	59.5	60.5	60.5	993.6	1,270.7
Debt and debt service ratios							
In percent of GDP							
Total external debt	33.6	34.4	37.1	35.6	34.1	31.9	29.5
Public external debt	29.9	30.7	33.5	32.2	30.8	28.7	26.5
GRA credit to Morocco	0.0	0.0	3.0	2.8	2.7	1.6	0.3
Total external debt service	3.1	3.1	2.8	2.7	2.5	3.3	3.3
Public external debt service	2.0	2.2	1.8	1.7	1.6	2.4	2.5
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.1	1.0	1.2
In percent of gross international reserves							
Total external debt	138.6	146.3	154.4	149.0	142.2	128.6	112.7
Public external debt	123.2	130.7	139.4	134.6	128.4	115.7	100.9
GRA credit to Morocco	0.0	0.0	12.5	11.8	11.1	6.3	1.1
In percent of exports of goods and services							
Total external debt	104.4	113.2	129.5	131.5	133.2	132.9	132.2
Public external debt	92.8	101.2	116.8	118.6	120.0	119.4	118.3
GRA credit to Morocco	0.0	0.0	8.9	8.4	7.9	4.6	0.9
In percent of total external debt							
GRA credit to Morocco	0.0	0.0	6.9	6.4	5.9	3.5	0.7
In percent of public external debt							
GRA credit to Morocco	0.0	0.0	7.7	7.1	6.6	3.9	0.7
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	103.6	109.9	117.8	125.1	132.9	141.0	149.6
Gross international reserves (in billions of U.S. dollars)	25.1	25.8	28.3	29.9	31.9	35.0	39.2
Exports of goods and services (in billions of U.S. dollars)	34.3	36.7	39.4	42.1	44.8	47.8	50.7
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.

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

Appendix I. Written Communication

Rabat, Morocco
November 30, 2017

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

Dear Madame Lagarde:

1. Morocco has robust economic fundamentals and we continue to implement sound economic and financial policies to further strengthen the resilience of the economy and improve growth while making it more inclusive. We are committed to implementing the economic and financial policies described in our July 7, 2016 and in our July 18, 2017 written communications for the approval of the PLL arrangement and for the second review.
2. Economic growth should reach about 4.5 percent, supported by a particularly good agricultural season, and inflation should decrease to 0.6 percent due to the decline of some food prices. The unemployment rate increased slightly to 10.6 percent in the third quarter of 2017 despite a net amelioration in job creation. The current account deficit should narrow to about 4 percent of GDP in 2017 from 4.4 percent in 2016, due to strong exports, and despite a higher energy bill and the stabilization of good imports at a high level. Foreign exchange reserves should reach nearly 6 months of imports at end-2017 and are expected to strengthen in the medium term.
3. Even though Morocco does not face external financing needs, the PLL arrangement approved on July 22, 2016, continues to provide useful insurance against external shocks while strengthening investor confidence. The improved fiscal situation and competitiveness, trade diversification and the ongoing accommodative monetary policy, along with a sound financial system, will also contribute to further strengthening the performance of the economy and its resilience. The authorities will continue to consider the PLL arrangement as precautionary and they intend to draw on it only if there are unforeseen exogenous shocks.
4. Fiscal consolidation continues. After a decline to 4.1 percent of GDP in 2016, the objective of reducing the fiscal deficit to 3.5 percent of GDP in 2017 should be met due to the recovery in economic activity, the increase in tax revenues and better control of current expenditures, notably with regards to the wage bill. For 2018, the government targets a deficit of 3 percent of GDP consistent with the fiscal consolidation objectives announced in the government's program aiming at reducing the public debt ratio to 60 percent by 2021.

5. On the revenue side, the government is pursuing the implementation of the tax reform, using a comprehensive and strategic approach, and in line with the recommendations from the 2013 national tax conference which aim to make taxation simpler, more equitable and more favorable to competitiveness. Priorities include continuing to reduce tax exemptions, particularly those granted to large agricultural firms, simplifying the value-added tax (VAT) by reducing the number of rates to mitigate distortionary effects, improving tax collection and expanding the tax base, with an emphasis on modernizing tax administration and gradually integrating the informal sector. The 2018 draft budget includes some measures in these directions.
6. The government will continue to control spending, while prioritizing investment in infrastructure and human capital to support growth and strengthen social programs and their targeting toward the most vulnerable populations. The government is determined to continue its efforts and take all necessary measures to reduce the civil service wage bill, including social contributions, and to bring it back to 10.5 percent of GDP in the medium term.
7. The coverage of public finance statistics will be extended beyond the central government to include the entire general government. We intend to complete this consolidation and produce the new statistical data, including those of the public debt, by the end of the second half of 2018. To this end, we wish to receive technical assistance from the specialized services of the IMF.
8. A comprehensive civil service reform is being developed, with the objectives of strengthening its efficiency and productivity, and alleviating its fiscal costs. In this context, the legislative and regulatory texts concerning mobility and contractual employment have already been promulgated and are being enforced. Public investment will be maintained at a high level while ensuring compliance with the objective of fiscal consolidation, increasing its effectiveness and making it better able to support private investment. To that end, the government is committed to implementing an integrated system for the management of public investments, and developing public-private partnerships (PPPs) as a tool for strengthening the supply and quality of infrastructure, while limiting the costs and potential risks to the budget. A national committee has been created under the supervision of the Head of Government to coordinate and evaluate public policy implementation and to improve their effectiveness.
9. Gradual implementation of the pension reform began in September 2016 and should continue with the extension of the coverage and the shift toward a bipolar (private sector/public sector) system. In that regard, a law creating a pension scheme for self-employed workers and non-salaried workers exercising a free professional activity has been adopted by the Parliament on November 13, 2017.
10. The provisions of the Organic Budget Law (OBL) were implemented in 2016 and 2017. The others will be put in place gradually by 2020 in conformity with the OBL. The provision establishing the limiting nature of personnel appropriations to limit the risks of exceeding those appropriations entered in force on January 1, 2017, and those limiting the carry-forward of investment appropriations are in effect since January 1, 2018. A draft law to strengthen the governance and

auditing of public enterprises and establishments to further improve their performance is being examined by the government, and should be submitted to Parliament during the April 2018 session.

11. As part of advanced regionalization, fiscal decentralization is being implemented carefully to preserve fiscal sustainability. The new legislative arrangement has given the subnational governments a number of responsibilities at the local level, including fiscal ones. At the same time, public resources are being transferred to the regional level and will be increasing gradually, while subnational governments' own resources are expected to be strengthened. The government is working on finalizing in 2017 a comprehensive strategy for fiscal decentralization and will ensure good governance and better performance of these entities, mainly by building their capacity and improving transparency and accountability. A national charter of administrative deconcentration is being prepared to group the activities of the various ministries at the regional level and ensure consistency.

12. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of limited growth in non-agricultural activity and lending, moderate inflation and a comfortable level of foreign exchange reserves. BAM will continue to promote appropriate financing of the economy, and in particular for SMEs. The draft central bank law has been submitted to the Parliament in July 2017, and should be adopted by early 2018. The new law will further reinforce BAM's independence and will expand its missions with the view to contribute to financial stability and promote financial inclusion.

13. The banking sector is sound and resilient, and we continue to strengthen the prudential framework and surveillance to improve this resilience and the financial sector's contribution to growth, including by implementing the FSAP recommendations. NPLs remain at a moderate level and are well provisioned. Along with the current strengthening of resources dedicated to banking supervision, BAM has strengthened the regulations for granting and supervising loans to conglomerates. BAM will continue to complete the loan classification and provisioning rules, and will intensify coordination with supervisory authorities in African countries where Moroccan banks are established. In the context of the transition to a more flexible foreign exchange regime, BAM is adapting its system for overseeing risks, in particular market risks. BAM has adopted regulations introducing counter-cyclical capital buffers and has enacted in the third quarter of 2017 those that should guide the recovery plans for systemically important institutions. Also, the authorities will strengthen the macro-prudential framework and reinforce the bank resolution framework by putting in place a legal framework for resolution in line with the international standards of the Financial Stability Board, including by designating BAM as the resolution authority.

14. We are determined to introduce gradually more flexibility in the exchange rate regime, and to transition the monetary policy framework toward an inflation targeting regime. A more flexible exchange rate system, well-coordinated with the other macroeconomic policies and appropriate structural reforms, will make it possible to better absorb exogenous shocks, contribute to preserving the competitiveness of the economy over time, and support trade diversification. The requirements for making this transition successful have largely been met, especially with the improvement in fiscal and external buffers, the resilience of the financial sector, the alignment of the exchange rate with

fundamentals, and the gradual diversification of the economy. The government will announce at the appropriate time the beginning of this reform.

15. The government intends to accelerate structural reforms to strengthen competitiveness, increase growth potential and reduce unemployment, particularly among the youth. A draft law setting out the guidelines and objectives for education, training and scientific research, in line with the 2015-2030 Vision, will be finalized in early 2018. The business environment will continue to be improved, including by implementing the national strategy to fight corruption, improving the quality of public services, continuing to dematerialize administrative procedures, and giving the adequate means to the Competition council to exercise its powers. In the context of the implementation of the National Strategy for Employment finalized in 2015, an action plan for the period 2017-2021 to promote job creation has been adopted in September 2017 and working groups have been created to propose operational measures that will be presented to the government by early 2018. These measures seek to boost youth employment and to increase labor force participation in particular of women, including by strengthening active labor market policies and vocational training.

16. The indicative targets for the fiscal deficit and international reserves set in the PLL arrangement for end-September 2017 were comfortably met. In line with PLL requirements, we have complied and will continue to comply with the standard criteria related to trade and exchange restrictions, bilateral payment arrangements and multiple currency practices and non-accumulation of external debt payment arrears. We will provide the IMF with all information needed to monitor the economic and policy developments within the framework of the PLL arrangement, and in particular information on the indicators listed in Table 1.

17. We are confident that the policies described in this communication and in the July 7, 2016 and July 18, 2017 communications are adequate to achieve the objectives of the economic program supported under the PLL arrangement, and we will take any additional measures that may be deemed necessary for this purpose. The continued strengthening of economic resilience, including by further controlling the fiscal deficit and strengthening of reserves, along with improved global economic conditions, should enable Morocco to exit the PLL arrangement once the exogenous risks facing the economy have been considerably reduced. Morocco will engage with the IMF, in accordance with the relevant Fund policies to ensure the success of our economic policies.

/s/

Mohammed Boussaïd
Minister of Economy and Finance

/s/

Abdellatif Jouahri
Governor, Bank Al-Maghrib

Table 1. Morocco: Quantitative Indicative Targets

	9/30/16			3/31/17			9/30/17		
	Target	Adjusted	Actual	Target	Adjusted	Actual	Target	Adjusted	Actual
Indicative targets									
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	25,981	25,717	26,302	27,461	26,825	25,719	23,199	22,424	23,354
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	27,228	30,629	26,973	7,302	9,499	6,747	26,135	30,402	22,818
Memorandum items:									
Adjustor on NIR (in millions of U.S. dollars) 2/	918	567	351	2,011	636	1,375	2,819	775	2,044
Adjustor on the fiscal deficit (in millions of dirham) 3/	7,045	3,400	3,645	2,410	2,197	213	7,500	4,267	3,233

Source: IMF staff estimates.

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

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

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

Statement by the Staff Representative on Morocco
January 19, 2018

1. This statement provides information that has become available since the issuance of the staff report on January 8, 2017. This information does not change the main thrust of the staff appraisal.
2. **On January 12, 2018, the authorities announced that greater exchange rate flexibility would be introduced on January 15, 2018.** They indicated that, as of January 15, the dirham fluctuation band would be widened to +/-2.5 percent (from the previous 0.3 percent) around a reference parity still determined by the central bank based on a basket comprising the euro and US dollar (with weights of 60 and 40 percent, respectively). This change is in line with the announcement by the Head of Government in July 2017. The authorities noted that it was initiated under favorable conditions and would be supported by continued structural reform implementation going forward.
3. **Currency markets were calm in Morocco on January 15 and 16.** Market activity was limited. The dirham remained close to the central parity, well within its new range. To date, news reports indicate that analysts neither observe nor foresee large reactions by market participants to the regime change.
4. **The transition to a more flexible exchange rate arrangement will benefit Morocco's economy, as highlighted in the staff appraisal.** This reform will allow the economy to better absorb shocks and preserve its competitiveness. It also illustrates the strength of the authorities' reform commitment, and will bring about a further improvement to Morocco's monetary policy framework. Finally, it is a positive signal for investors, as it confirms the prospect of Morocco maintaining a strong and sustainable external position by the end of the current PLL arrangement and over the medium term.

**Statement by Mr. Mohammed Daïri, Alternative Executive Director on Morocco
January 18, 2018**

I welcome this discussion of the Third and last review of the 2016 PLL, and thank staff for a succinct report. The authorities broadly share staff assessment, but have some diverging views on the exchange rate and the strength of the external position, in particular (see below). The Board meeting on the Article IV consultation highlighted Morocco's sound macroeconomic policies and fundamentals, and its strong track record of policy implementation. The authorities have also demonstrated strong commitment to reforms, in line with their undertakings under the PLL-supported program, even though the long transition to a new government after the September 2016 elections delayed some reforms. The strong performance of the economy has been duly recognized by the markets, with Morocco's continued favorable ratings and low sovereign debt spreads compared to the EMBI average.

The authorities are determined to further strengthen the fundamentals of the economy, enhance its resilience, and put in place the conditions for higher and more inclusive growth and faster job creation. The new development model, which is under active preparation, will seek to respond to the legitimate needs of the population for jobs and decent living conditions, in particular for the youth, women, and the underprivileged, thereby strengthening social cohesion. This strategy should, among others, help to ensure consistency among different paths of reform and strengthen policy coordination and effectiveness. The stronger emphasis placed recently on effectiveness of policies and diligence in implementation has helped alleviate social tensions observed in the first half of 2017. The new high level committee chaired by the Head of Government and tasked with monitoring effectiveness of policies will play an important role in the implementation of this strategy.

It is in line with their unwavering commitment to reform and with full confidence in the alignment of the exchange rate with fundamentals, assessment also shared by the mission during the discussions last November, that the authorities have moved forward with implementation of a flexible exchange rate regime starting on Monday, January 15. This historic step has been well received by market participants, with no sign of exchange rate pressures during the first day of the new regime. Indeed, while the new band was set at +/- 2.5 percent, the exchange rate fluctuated within the old band of +/- 0.3 percent, and central bank sales of foreign currency under the new auction system were minimal (\$3.5 million purchased against \$20 million offered). Market conditions were broadly the same during the second day of the transition, and similar trends were observed in the offshore market. The authorities will monitor developments in the forex market closely and will take all needed measures to ensure its smooth functioning. They will assess progress in the initial phase of the transition in order to prepare for the next phases and the introduction of inflation targeting. However, they are of the view that any doubt cast

on the alignment of the exchange rate with fundamentals or the strength of the external position at this stage could have a destabilizing effect on the market and hinder successful transition to the new regime.

This brings me to the issue of staff assessment of Morocco's external position, as discussed in the Article IV consultation. My authorities have expressed their reservations about this assessment, as highlighted last month in my Buff statement. They remain confident that more recent data and a new run of the EBA exercise would vindicate their own views in this regard. Already, the level of reserves for end-2017 projected in this report is \$1 billion higher than in the November 2017 Article IV report, and actual reserves were even higher by another \$0.4 billion. Eventually, the decline in official reserves in mid-2017, resulting from sales to domestic banks for hedging transactions prior to what was announced as the start of the transition, was fully recouped, with the level of reserves increasing by \$0.8 billion compared to 2016. Improved external current account balance from the projections under the second PLL review in July, notwithstanding higher oil prices, has contributed significantly to this outcome.

My authorities also consider that risks to the outlook indicated in the report should be better balanced. They are of the view that ongoing efforts to increase regional and product diversification, and stronger global growth, including in Europe, could lead to improved growth and external position in Morocco compared to current projections. Moreover, recent improvement in weather conditions from earlier projections could boost growth in 2018.

The authorities continue to value the role played by the PLL in anchoring policies and providing insurance to help shield the economy against exogenous shocks, and are grateful to the Executive Board, management, and staff for their support. They highly value the technical assistance provided by the Fund. They also welcome the indication that Morocco continues to meet the PLL eligibility criteria. However, they are of the view that Morocco continues to perform strongly under the external position and market access criterion.

The authorities will continue to treat the PLL as precautionary. They will assess the need for further recourse to Fund financial support under the PLL or other arrangement as well as the size of access prior to the expiration of this arrangement next July. This assessment will be conducted in close consultation with the Fund, in light of developments in the exogenous risks facing Morocco and progress in further strengthening the country's resilience.