INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/230

MOROCCO

July 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 13, 2019 consideration of the staff report that concluded the Article IV consultation with Morocco.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 13, 2019, following discussions that ended on April 4, 2019, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 29, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Morocco.

The documents listed below have been or will be separately released.

Selected Issues

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

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FOR IMMEDIATE RELEASE
July 16, 2019

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

IMF Executive Board Concludes 2019 Article IV Consultation with Morocco

On May 13, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.[1]

Economic activity weakened in 2018, reaching 3 percent, due to lower growth in the agricultural and tertiary sectors. The unemployment rate remains close to 10 percent and particularly high among the youth. Headline inflation reached 1.9 percent in 2018 in part due to higher food prices.

Fiscal consolidation slowed in 2018, with the fiscal deficit stabilizing at 3.7 percent of GDP, due to strong VAT revenues and wage bill containment, which partially offset lower corporate taxes and grants, and higher butane subsidies.

Despite strong export performance in the automobile and phosphate sectors, the current account deficit widened to 5.4 percent of GDP due to higher imports of energy and capital goods, as well as lower remittances, official grants, and tourism receipts. At the same time, net FDI increased substantially to 2.5 percent of GDP. International reserves dropped to US$24.4 billion but remain comfortable, at about 5.2 months of imports.

Bank capitalization is adequate, and the risks to financial stability are limited. Nonperforming loans remain relatively high, but they are well provisioned. Regulatory limits to reduce credit concentration and cross-border supervisory collaboration to contain risks related to Moroccan banks' expansion in Africa are being strengthened.

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

Morocco's medium-term prospects remain favorable, with growth expected to reach 4.5 percent by 2024. However, this outlook remains subject to significant domestic and external risks, including delays in reform implementation, lower growth in key partner countries (particularly the euro area), higher oil prices, geopolitical risks, and volatile financial conditions. On the upside, lower international oil prices could help further strengthen the economy's resilience and increased regional integration in the Maghreb region could become an added source of medium-term growth for Morocco.

Executive Board Assessment[2]

Executive Directors commended the authorities for implementing sound macroeconomic policies and welcomed the acceleration in reforms that has helped improve the resilience of the Moroccan economy and increase its diversification. Nevertheless, Directors noted the potential impact of global uncertainty and risks on the Moroccan economy and called for continued commitment to sustain sound policies in order to reach higher and more inclusive growth.

Directors encouraged the authorities to continue fiscal consolidation to preserve debt sustainability, while safeguarding priority investment and social spending in the medium term. They welcomed the ongoing control of public wage spending and the outcome of the May 2019 national tax conference, which will inform a comprehensive tax reform targeted at achieving greater equity and simplicity in the tax system. Directors supported further improvements in the efficiency and governance of the public sector through civil service reform, careful implementation of fiscal decentralization, strengthened state-owned enterprise oversight, and better targeting of social spending.

Directors noted that accommodative monetary policy remains appropriate in a context of moderate inflation and subdued economic and credit growth. They welcomed the beginning of the transition to greater exchange rate flexibility last year which will help the economy absorb potential external shocks and remain competitive. They encouraged the authorities to use the current window of opportunity to continue this reform in a carefully sequenced and well-communicated manner.

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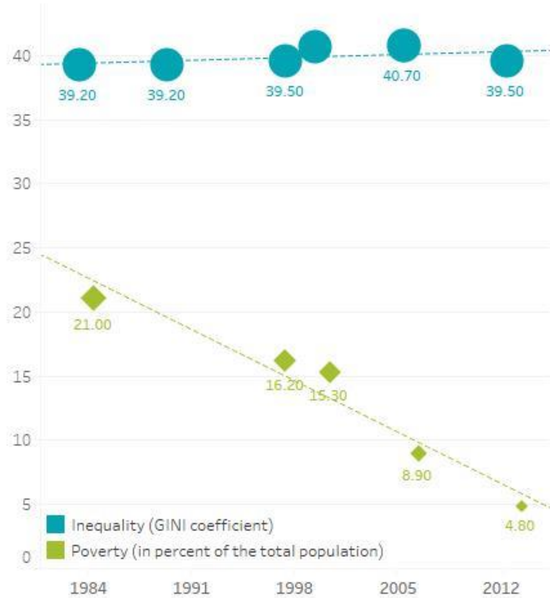
[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors noted that the banking sector system is sound and resilient, while stressing the need to remain vigilant given its increasing complexity and cross-border expansion. They also called for continued efforts to address weaknesses in the AML/CFT framework. Directors noted that adopting the central bank law and continuing to make the supervisory framework more risk-based and forward-looking will help further improve financial sector soundness. They welcomed the recent adoption of a comprehensive financial inclusion strategy, which will ensure that the financing needs of underserved groups and small and medium-sized enterprises are better addressed.

Directors stressed the importance of sustaining the pace of structural reforms to move toward a more private-sector-led and inclusive growth model while reducing inequalities and protecting the most vulnerable. Directors emphasized the need to revamp labor market policies and implement education reforms to help create job opportunities, especially for women and youth. While they welcomed the ongoing improvements to the business environment, Directors encouraged continued efforts to strengthen governance and fight corruption.

Poverty and Inequality (Index)

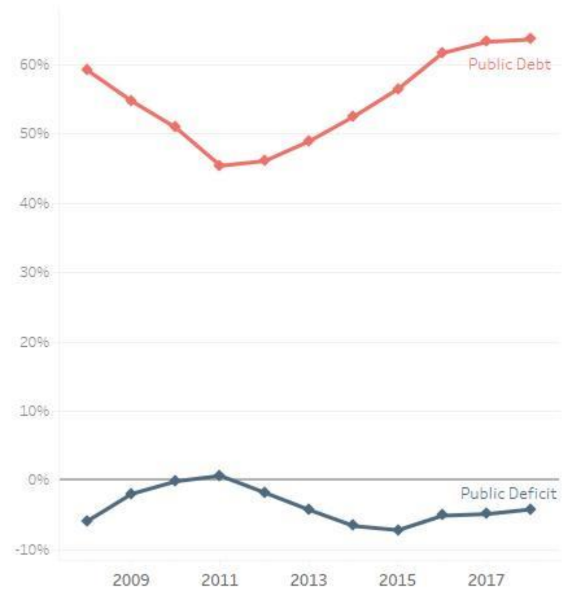
While poverty has decreased significantly, more efforts are needed to reduce inequality.



Sources: Moroccan authorities; and The World Bank

Debt and Deficit (Percent of GDP)

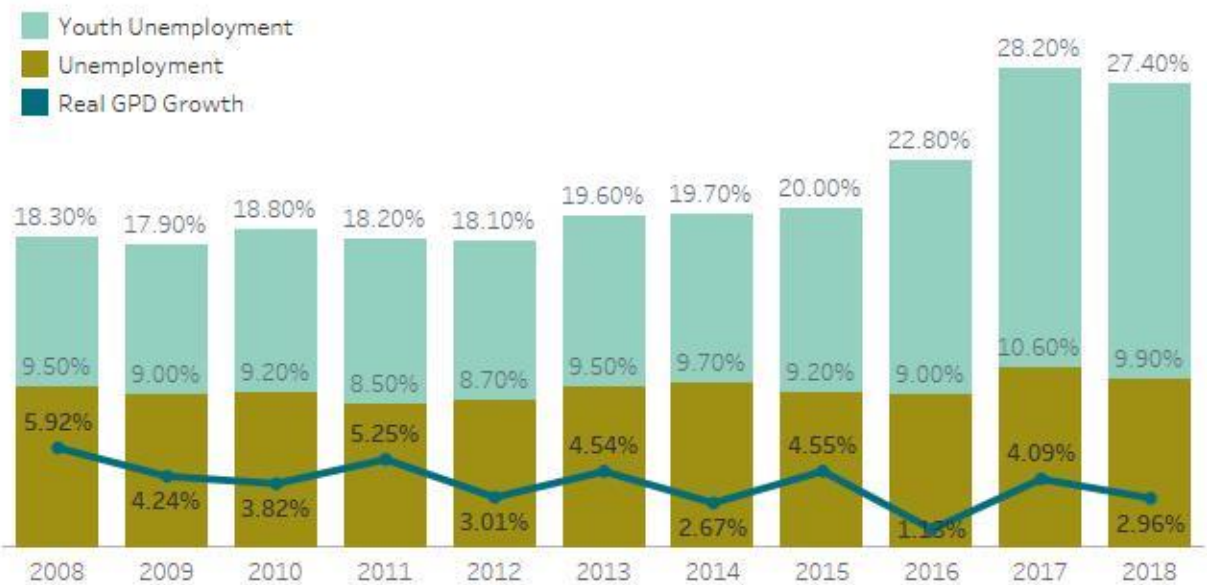
The IMF supports Morocco's efforts that led to the reduction of public deficit and containing debt



Sources: IMF, World Economic Outlook (April 2019)

Unemployment, Youth Unemployment, and Growth (Percent change, 2012 base year)

Growth is not high not inclusive enough to reduce youth unemployment



Sources:Morocan authorities; and IMF, World Economic Outlook (April 2019)

Morocco: Selected Economic Indicators, 2013–19

	2013	2014	2015	2016	2017	Prel. 2018	Est. 2019
			(annual percentage change)				
Output and Prices							
Real GDP	4.5	2.7	4.5	1.1	4.1	3.0	3.0
Real primary GDP	17.2	-2.2	11.9	-13.7	15.4	3.9	0.1
Real non-primary GDP	2.9	3.4	3.7	3.1	2.7	2.8	3.4
Consumer prices, end of period	0.4	1.6	0.6	1.8	1.9	0.1	0.6
Consumer prices, period average	1.9	0.4	1.5	1.6	0.7	1.9	0.6
			(in percent of GDP)				
Investment and Saving							
Gross capital formation	34.7	32.5	30.8	32.6	32.6	33.2	34.0
Of which: Nongovernment	29.6	27.2	25.3	26.9	27.1	27.8	29.0
Gross national savings	27.0	26.5	28.8	28.4	28.9	27.8	30.0
Of which: Nongovernment	25.5	24.5	25.7	25.5	25.1	24.3	27.5
			(in percent of GDP)				
Public Finances							
Revenue	27.8	28.0	26.5	26.0	26.6	26.0	26.2
Expenditure	32.9	32.9	30.7	30.5	30.0	29.8	29.9
Budget balance	-5.1	-4.8	-4.2	-4.5	-3.5	-3.7	-3.7
Primary balance, excluding grants	-3.2	-3.6	-1.9	-2.7	-2.0	-1.7	-1.5
Cyclically-adjusted primary balance, excl. grants	-3.3	-3.6	-1.6	-2.5	-1.7	-1.4	-1.3
Total government debt	61.7	63.3	63.7	64.9	65.1	64.9	65.1
			(Annual percentage change; unless otherwise indicated)				
Monetary Sector							
Claims to the economy	3.4	3.7	1.6	5.9	3.3	3.4	5.2
Broad money	3.1	6.2	5.7	4.7	5.5	4.1	4.0
Velocity of broad money	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, in U.S. dollars, percentage change	7.4	9.2	-6.8	2.4	12.8	14.3	6.6
Imports of goods, in U.S. dollars, percentage change	3.3	0.9	-17.9	10.1	7.8	13.3	1.1
Merchandise trade balance	-20.5	-18.7	-14.5	-17.1	-16.4	-17.1	-15.8
Current account excluding official transfers	-8.3	-7.6	-2.6	-5.0	-4.5	-5.8	-4.4
Current account including official transfers	-7.6	-5.9	-2.1	-4.0	-3.4	-5.4	-4.0
Foreign direct investment	2.8	2.8	2.6	1.5	1.5	2.5	1.8
Total external debt	30.2	31.0	33.4	33.7	34.5	31.1	32.7
Gross reserves, in billions of U.S. dollars	18.8	20.3	22.8	25.1	26.2	24.4	26.0
In months of next year imports of goods and services	4.6	5.9	6.0	6.1	5.7	5.2	5.2
In percent of short-term external debt, on remaining maturity basis	959.2	1144.9	1019.7	1244.1	1182.1	1068.8	1093.9
Memorandum Items:							
Nominal GDP, in billions of U.S. dollars	106.8	110.1	101.2	103.3	109.7	118.6	120.7
Unemployment rate, in percent	9.2	9.9	9.7	9.9	10.2	9.8	...
Population, millions	33.4	33.8	34.1	34.5	34.9	35.2	...
Net imports of energy products, in billions of U.S. dollars	-12.2	-11.0	-6.8	-5.6	-7.2	-8.8	-7.9
Local currency per U.S. dollar, period average	8.4	8.4	9.8	9.8	9.7	9.4	...
Real effective exchange rate, annual average, percentage change	1.7	0.1	-0.3	2.1	-0.4	0.9	...

Sources: Moroccan authorities; and IMF staff estimates.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 29, 2019

KEY ISSUES

Context. Improved fiscal management and economic diversification have strengthened the resilience of Morocco's economy in recent years. Yet, economic growth, at 3 percent in 2018, has not been robust enough and unemployment remains high, especially among the youth. This reinforces the need for sustaining the recent momentum in reforms toward higher and more inclusive growth, buttressed by the private sector. Key priorities include improving the quality of the education system, the functioning of the labor market, female labor force participation, and the business environment. Since 2012, the Fund has been actively engaged with Morocco through four two-year Precautionary Liquidity Line (PLL) arrangements, the last one approved in December 2018.

Outlook and risks. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term, benefiting from sustained reform implementation. This outlook remains subject to significant domestic and external risks: delays in implementing reforms, lower growth in key partner countries (particularly in the euro area), higher oil prices, geopolitical risks, and volatile financial conditions could weaken Morocco's resilience and economic prospects. On the upside, lower international oil prices could help further strengthen the economy's resilience and increased regional integration in the Maghreb region could become an added source of medium-term growth for Morocco.

Policy discussions. Building on progress achieved in recent years, further fiscal and structural reforms are needed to consolidate gains in macroeconomic resilience and achieve higher and more inclusive growth. The discussions focused on: (i) strengthening the resilience of the economy through continued fiscal reforms, greater exchange rate flexibility, and strengthened financial sector soundness; and, (ii) pushing ahead with mutually-reinforcing and properly-sequenced reforms to raise growth and inclusion, including by improving public sector governance, promoting private sector development, and reducing inequalities.

Approved By
Taline Koranchelian and Vitaly Kramarenko

The discussions took place in Rabat and Casablanca during March 19–April 4, 2019. The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah Ndela, Vassili Bazinas (all MCD), and Borislava Mircheva (SPR). Taline Koranchelian participated in the concluding meetings. Babacar Sarr (FAD) contributed to the preparatory work of the mission. Ramzy Al Amine, Nataliya Bondar, and Geraldine Cruz (MCD) assisted in the preparation of the report.

The mission met with the Head of Government Mr. El Othmani, the President of the Chamber of Representatives Mr. El Malki, the Minister of Economy and Finance Mr. Benchaâboune, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Daïri (OED) participated in most meetings.

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

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FIGURES

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Glossary

ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
EBA	External Balance Assessment
EMDE	Emerging Market and Developing Economies
ESI	External Stress Index
FDI	Foreign Direct Investment
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GRA	General Resources Account
G-RAM	Global Risk Assessment Matrix
IFRS	International Financial Reporting Standard
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
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
TFP	Total Factor Productivity
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook

A MORE RESILIENT ECONOMY FACING SIGNIFICANT RISKS

1. **Macroeconomic vulnerabilities have been reduced in recent years, and sustained reform implementation is needed to promote higher and more inclusive growth.** The authorities have strengthened macro-economic resilience and implemented difficult reforms especially regarding the pension system, energy subsidies, fiscal framework, business environment, and financial sector. The transition to greater exchange rate flexibility was initiated in January 2018. Key structural reforms need to be pursued to raise economic growth and reduce unemployment, especially for the young. The IMF has been actively engaged with Morocco with four successive two-year Precautionary Liquidity Line (PLL) arrangements since 2012. The last arrangement was approved in December 2018.

A. Recent Developments

2. **Economic activity weakened in 2018, while unemployment declined slightly.** Weaker growth reflected lower agricultural growth, despite a second consecutive year of good cereal harvest, while non-agricultural growth continued at a modest pace due to slow growth in the tertiary sector. On the demand side, private consumption continued to be the main driver of growth, underpinned by strong farm income, while private investment recovered gradually following its decline in recent years (from 30.7 percent in 2008 to 22.8 percent of GDP in 2015). Unemployment declined slightly to 9.8 percent in 2018 (from 10.2 percent in 2017) but remains particularly high among youth and graduates (26 percent and 17.1 percent, respectively).

3. **Social tensions have waned.** Tensions originated in the northern region of the Rif in 2017, due to perceptions of corruption and demands for better access to health services and jobs, and greater public investment. In early 2018, tensions also reflected domestic gas price increases, and a boycott organized through social media targeted certain products and prominent politicians with business interests. In response, the authorities took steps to accelerate social programs and investment projects, and renewed efforts to strengthen public accountability. Protests have now abated, but addressing the sources of social discontent is likely to take time.

4. **Fiscal consolidation slowed in 2018, due in large part to exogenous factors.** The deficit stabilized around 3.7 percent of GDP, reflecting strong VAT revenues and wage bill containment, which partially offset lower-than-expected corporate tax revenues and grants (54 percent of budgeted grants for 2018), and higher-than-projected subsidies (due to elevated international butane prices). The cyclically-adjusted and primary deficits decreased by about 0.3 percent of the GDP in 2018. Public debt remains sustainable and declined to 64.9 percent of GDP in 2018 (from 65.1 percent in 2017).

5. **Monetary policy has remained accommodative in a context of moderate inflation and subdued economic and credit growth.** Headline inflation reached 1.9 percent in 2018 (compared to 0.7 percent in 2017) in part due to higher food prices, while core inflation was 1.1 percent. Bank-Al-Maghrib (BAM) has kept its policy rate unchanged at 2.25 percent since its last reduction in March 2016. Lending rates declined marginally, and bank credit growth increased slightly to

4.2 percent (y-o-y) in February 2019 after remaining sluggish throughout 2018 (including for SMEs). Real estate prices are stable.

6. The external position deteriorated in 2018. Despite continued strong export performance in the automobile and phosphate sectors, the current account deficit widened to 5.4 percent of GDP (against 3.4 percent in 2017) due to higher imports of energy (reflecting higher oil prices) and capital goods, as well as lower remittances, official grants from Gulf states, and tourism receipts. At the same time, net FDI increased substantially to 2.5 percent of GDP. International reserves dropped by US$1.8 billion to US$24.4 billion, equivalent to 5.2 months of imports and 87.1 percent of the Fund's Assessing Reserve Adequacy (ARA) metric.[1] Exchange rate fluctuations have remained very limited since January 2018, when the authorities announced the widening of the dirham fluctuation band to +/-2.5 percent (from 0.3 percent) on either side of a reference parity (based on a euro/US dollar basket). The central bank has not intervened in the foreign exchange market since March 2018.

7. Bank capitalization is adequate, while non-performing loans (NPL), credit concentration, and expansion in Africa, present risks. Banks' regulatory capital ratio was 14 percent as of June-2018. The International Financial Reporting Standard (IFRS9) was introduced in January 2018 and its impact will be phased in over five years, requiring banks to upgrade their loan classification and provisioning practices and to increase capital accordingly. NPL ratios remain relatively elevated at 7.7 percent, but provisioning levels are comfortable (about 70 percent). Risks from large credit exposures persist despite strict regulatory limits. The continued expansion of Moroccan banks in Africa provides diversification and profit opportunities but is also a potential channel of risk transmission.[2]

8. Most indicators of inclusive growth have improved, but progress is needed in some key areas (Table 8). Significant achievements have been made in strengthening the business environment and governance, while poverty was reduced substantially in recent years. Nonetheless, Morocco lags behind EMDE peers on the quality of education, efficiency of the labor market (especially with respect to job creation for the youth), and gender equality, with a low and declining rate of female participation in the labor force.

B. Outlook and Risks

9. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term. These projections assume sustained reform implementation reflecting the government's commitments, including continued fiscal prudence and progress toward greater exchange rate flexibility as well as reforms of taxation, governance, oversight of state-owned enterprises (SOEs), fiscal decentralization, the labor market, and the business environment. Greater emphasis is also being put on reducing social and regional inequalities and increasing access to quality public services.

[1] 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.

[2] The international exposures of the three largest Moroccan banks, mostly in the African continent, represent about 20-30 percent of their total assets and a third of their profits.

- **Growth** is expected to remain at 3 percent in 2019 due to weaker-than-expected economic activity in the euro area and a normalization of agricultural output following two years of strong production. Subject to continued reform implementation, growth is expected to reach 4.5 percent over the medium term.

- **Inflation** is projected to slow to 0.6 percent in 2019 due to lower commodity and food prices, and to stabilize around 2 percent over the medium term.

- The **fiscal deficit** is projected to remain at 3.7 percent of GDP in 2019, with privatization receipts reducing the public financing needs to 3.3 percent of GDP. Staff and the authorities agreed that the deficit would decline and stabilize around 3 percent of GDP after 2020, while expected privatization revenues would contribute to reducing public debt to 60 percent of GDP over the medium term.

- The **current account deficit** is expected to decline to 4 percent of GDP in 2019, and to 2.8 percent of GDP over the medium term, driven by sustained growth in exports, tourism receipts, and remittances as well as lower imports, particularly of energy products. Foreign direct investment is expected to remain stable at about 2 percent of GDP, and other private flows (including trade credit) should hover around 2 percent of GDP as well. International reserves are expected to reach nearly 100 percent of the ARA metric in the medium term (about 128 percent of the ARA metric adjusted for capital controls).

10. 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 and contribute to social tensions, and adversely affect the external sector (e.g., through lower tourism receipts and FDI inflows) as well as the expected pickup in potential growth. Externally, higher oil prices, weaker growth in the euro area, and geopolitical risks could slow economic activity through lower exports, tourism, FDI flows, and remittances. Increasingly volatile global financial conditions may also increase borrowing costs and weaken investor confidence. On the upside, lower international oil (and butane gas) prices could help further enhance the economy's resilience and increased regional integration in the Maghreb region could become an added source of medium-term growth for Morocco.[3]

Authorities' Views

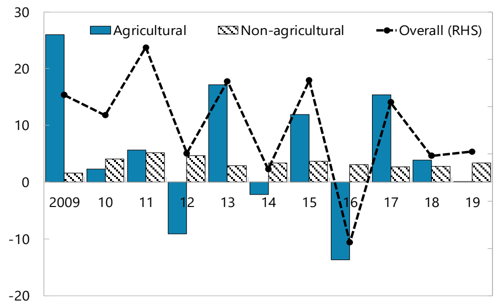
11. The authorities broadly agreed with the outlook and characterization of risks in the RAM but expected higher growth in the medium term and viewed the impact of some of these risks as less severe. Specifically, the authorities assessed that the potential impact of rising protectionism and retreat from multilateralism is not high in view of the structure of Morocco's trade and ongoing diversification efforts, and that the intensification of security risks would only have a low or medium impact on the economy, as observed in recent years. They also noted that growth of the nonagricultural sector, at 3 to 3.5 percent in the current unfavorable global environment, is not a bad performance. Moreover, there is an upside growth potential, as ongoing and future structural reforms bear fruit and lead to higher productivity gains.

[3] See International Monetary Fund (IMF). 2018. "Economic Integration in the Maghreb: An Untapped Source of Growth." IMF Departmental Paper 19/01, Washington, DC.

Figure 1. Morocco: Real Sector Developments, 2009-19

The pick-up in non-agricultural growth in 2018 is expected to continue in 2019.

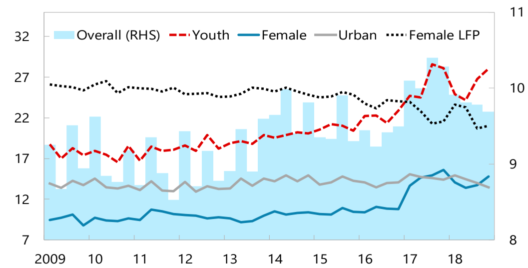
Gross Domestic Product
(Annual percent change)



Sources: National authorities; and IMF staff estimates. *Note: 2019 projected.*

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

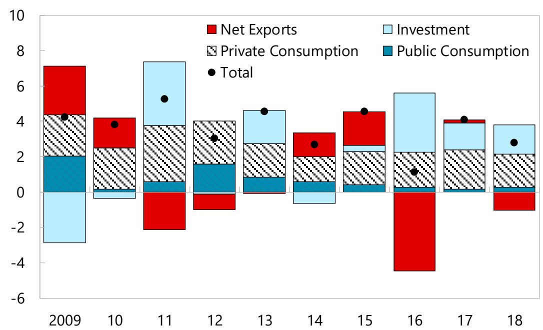
Unemployment
(Percent, seasonally adjusted)



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

On the demand side, private consumption and investment remain the main growth drivers.

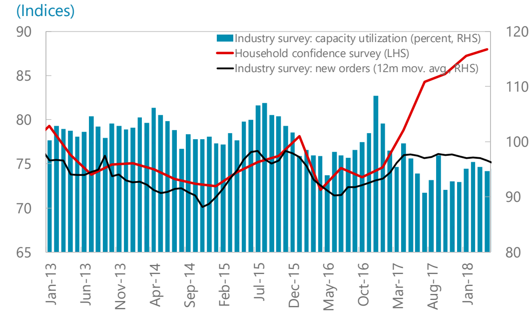
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Surveys confirm strong household confidence while business confidence remains stable since 2017.

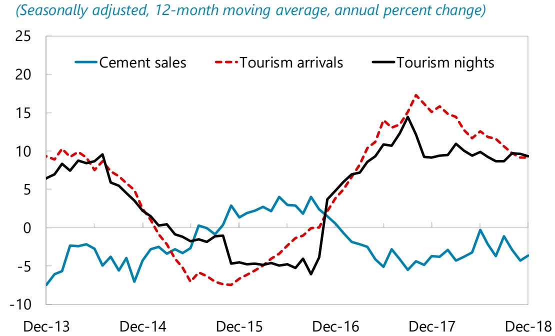
Household and Industry Confidence Surveys
(Indices)



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

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

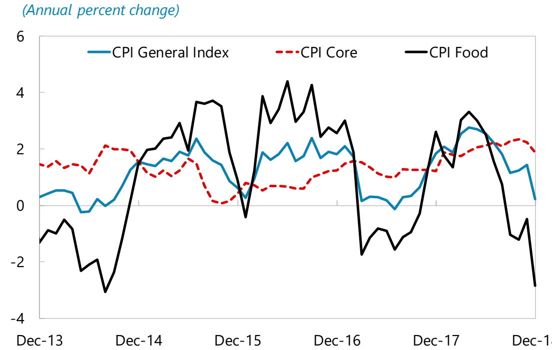
Tourism and Cement Sales
(Seasonally adjusted, 12-month moving average, annual percent change)



Sources: National authorities and IMF staff estimates.

Inflation has remained moderate despite volatile food prices.

Consumer Price Index
(Annual percent change)



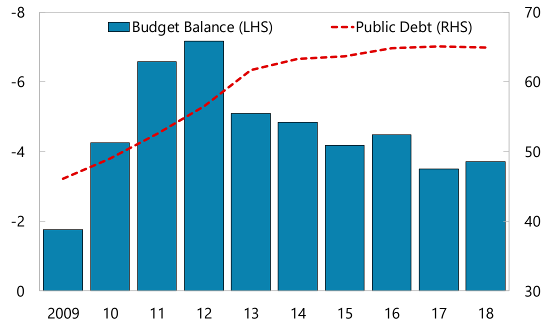
Sources: National authorities and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments, 2009–19

Fiscal consolidation slowed in 2018...

Budget Balance and Public Debt

(Percent of GDP)

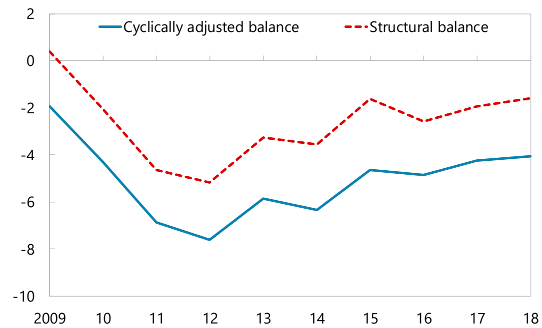


Sources: National authorities; and IMF staff estimates.

...but cyclical and structural fiscal balances have slowly been improving.

Cyclical and Structural Balance

(Percent of GDP)

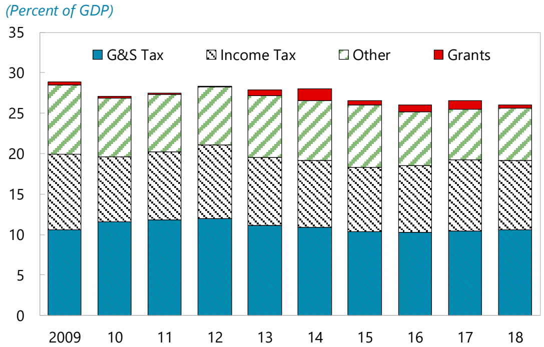


Sources: National authorities; and IMF staff estimates.

Revenues were lower than expected in 2018 due to subdued corporate tax revenues and grants...

Government Revenue

(Percent of GDP)

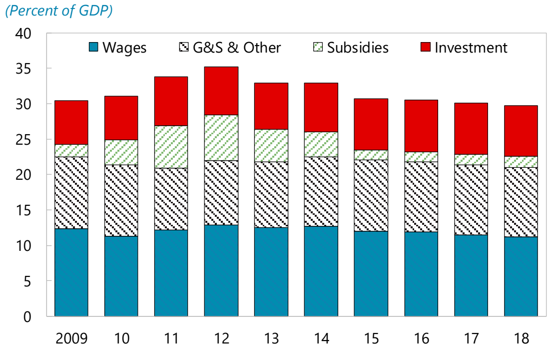


Sources: National authorities; and IMF staff estimates.

...and expenditures remain contained.

Government Expenditure

(Percent of GDP)

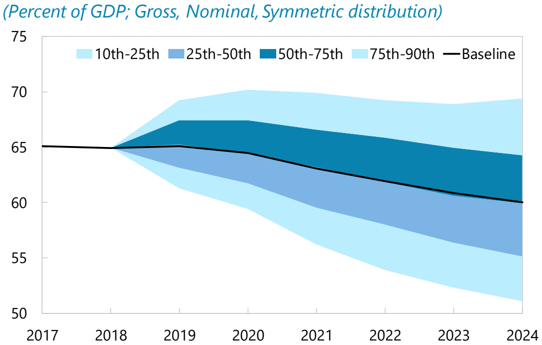


Sources: National authorities; and IMF staff estimates.

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

Predictive Densities of Public Debt

(Percent of GDP; Gross, Nominal, Symmetric distribution)

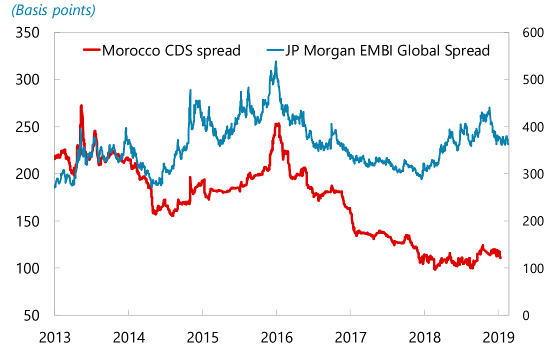


Sources: National authorities; and IMF staff estimates.

Sovereign spreads have remained low and stable despite the increase in the EMBI.

CDS Spreads

(Basis points)

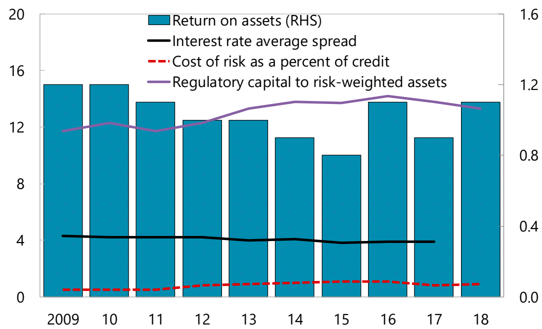


Sources: Bloomberg and Markit.

Figure 3. Morocco: Financial Sector Developments, 2009–19

Banks continue to be profitable, but capitalization levels declined slightly.

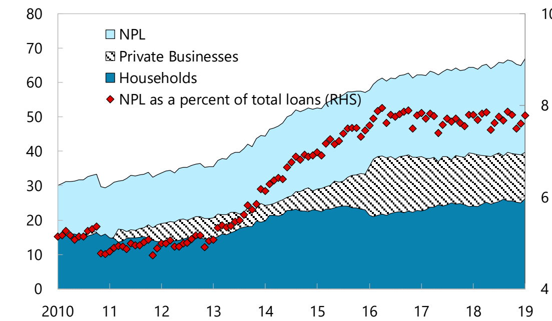
Bank Profitability and Capitalization
(Percent)



Sources: National Authorities; as of Dec. 2018.

NPLs remain relatively high for private businesses and household loans.

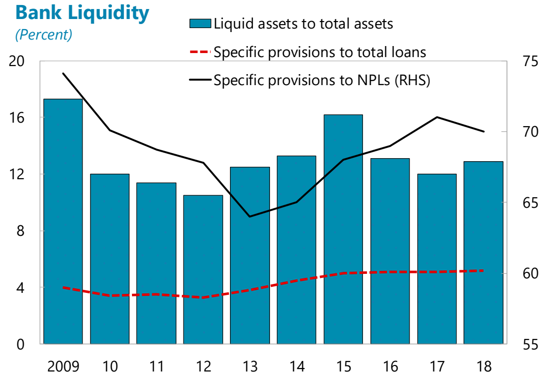
Distribution of Non-Performing Loans
(National currency, Billions)



Sources: National authorities and IMF staff estimates.

Provisioning is relatively high while liquidity conditions remain favorable.

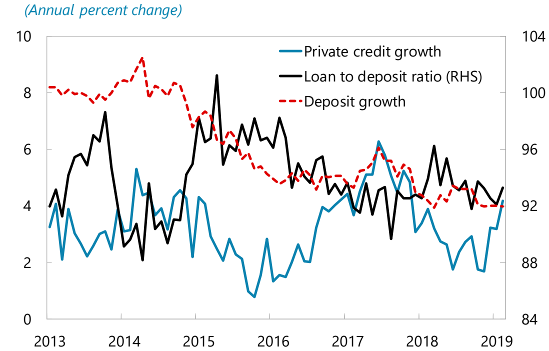
Bank Liquidity
(Percent)



Sources: National Authorities; and IMF Staff Calculations.

Private credit growth has slightly increased in 2019 after the lackluster performance of 2018.

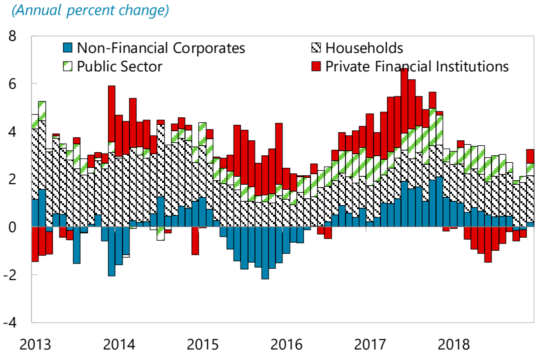
Loans and deposits
(Annual percent change)



Sources: National authorities and IMF staff calcuations.

Household lending is driving credit growth.

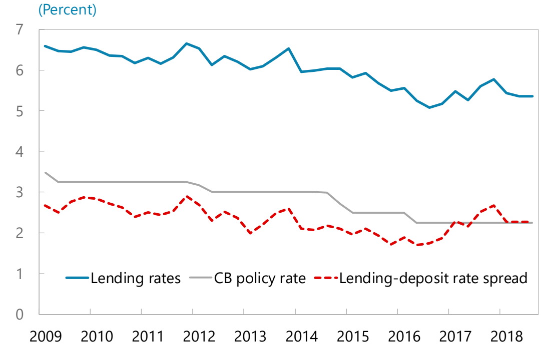
Contribution to Credit Growth
(Annual percent change)



Sources: National Authorities and IMF staff estimates.

Lending rates have decreased slightly since 2018.

Bank Lending Rates and Interest Margin
(Percent)



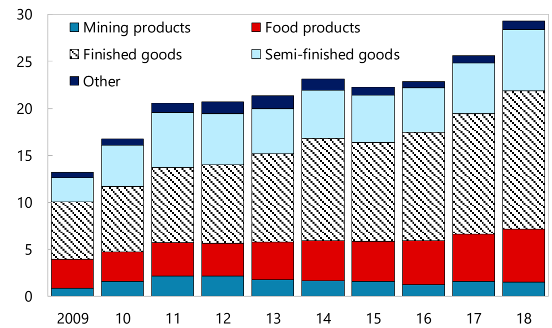
Sources: National authorities and IMF staff estimates; as of Q3 2018.

Figure 4. Morocco: External Developments, 2009–19

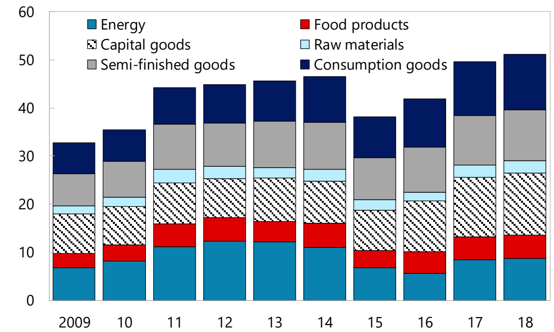
Export growth has been driven by emerging manufacturing sectors…

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

Exports by Type of Goods
(US$, Billions)



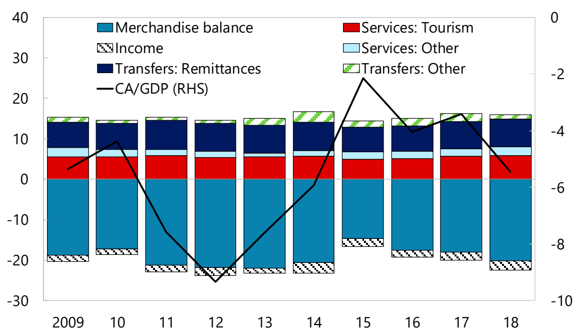
Imports by Type of Goods
(US$, Billions)



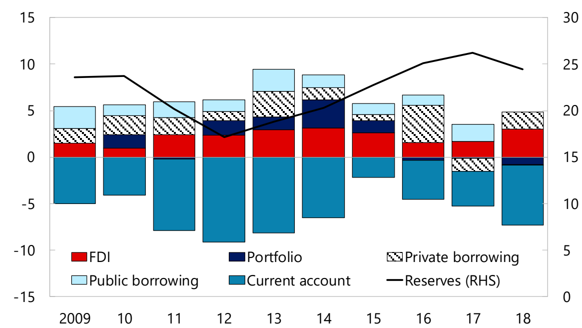
The trade deficit has been increasing since 2016, weakening the current account.

FDI and private borrowing played a key role in financing the current account deficit in 2018.

Current Account Components
(US$ Billions)



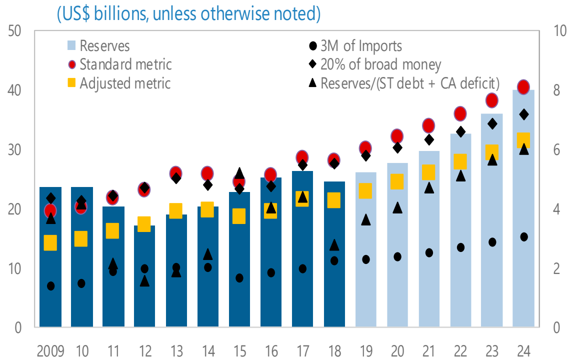
Current Account Financing
(US$ Billions)



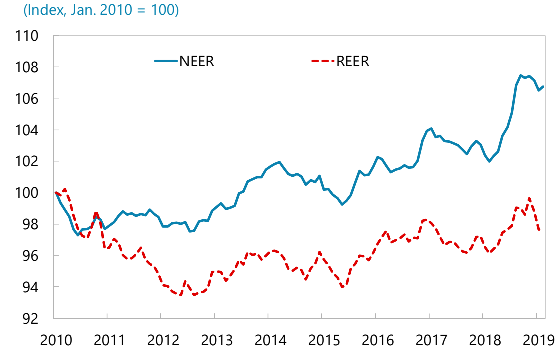
Morocco's reserves coverage is expected to improve in the medium term.

The real effective exchange rate has appreciated in 2018.

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



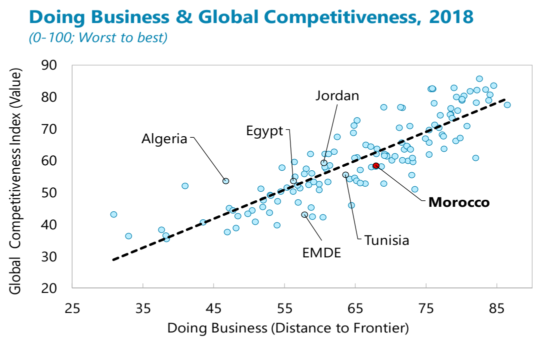
Real and Nominal Effective Exchange Rates
(Index, Jan. 2010 = 100)



Sources: National authorities; and IMF staff estimates.

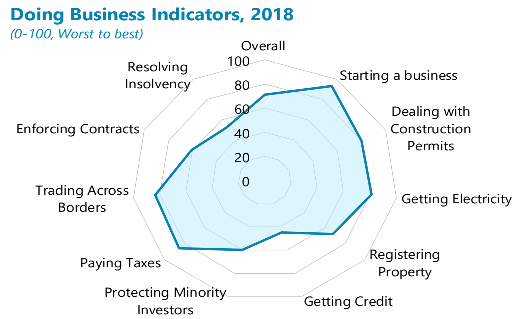
Figure 5. Morocco: Structural Reforms

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



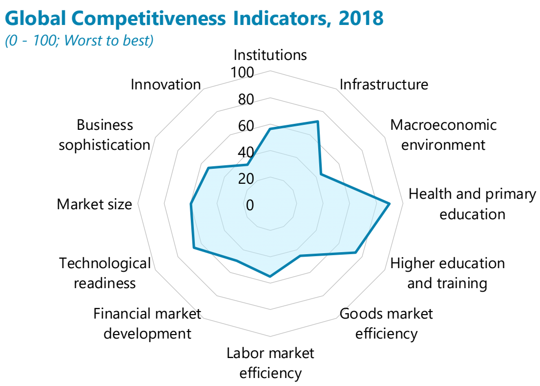
Sources: World Bank's 2019 Doing Business Report, World Economic Forum's 2018 Global Competitiveness Report.

Recent reforms include a new bankruptcy law and further streamlining of administrative procedures.



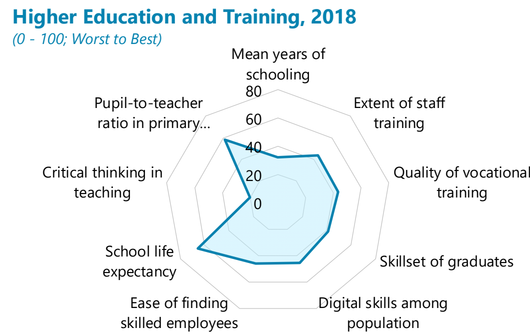
Sources: World Bank's 2019 Doing Business Report.

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



Sources: World Economic Forum's 2018 Global Competitiveness Report.

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

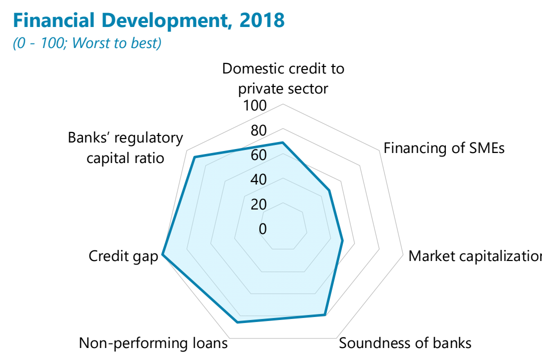


Sources: World Economic Forum's 2018 Global Competitiveness Report.

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

Sources: World Economic Forum's 2018 Global Competitiveness Report.

Facilitating SME access to finance is a priority.



Sources: World Economic Forum's 2018 Global Competitiveness Report.

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

SAFEGUARDING MACRO STABILITY

12. The current combination of accommodative monetary policy and slower fiscal consolidation continues to be appropriate. In a context of moderate inflation, subdued economic and credit growth, and uncertainties about output slack (including because of weaker-than-expected growth in the euro area), the current combination of accommodative monetary policy (in part offset by real exchange rate appreciation) and slower fiscal consolidation remains appropriate. In this context, greater exchange rate flexibility would help absorb potential external shocks and preserve external competitiveness.

A. Fiscal Policy

13. In 2019, the fiscal deficit should remain at 3.7 percent of GDP, with privatization receipts reducing the public financing need to 3.3 percent of GDP. This deficit level would reflect: (i) stronger tax revenues, including due to measures to compensate for revenue losses from the introduction of progressive corporate taxation; (ii) continued efforts to contain public spending below budgeted levels; and, (iii) contingency measures to cope with potential grant revenue shortfalls (e.g., using potential savings from reduced subsidy spending). Staff also projects a modest reduction in public investment (6.2 percent of GDP, against 7.2 percent in 2018), as the authorities increase the reliance on public-private partnerships (PPPs) for new projects.[4] The fiscal stance, as measured by the cyclically-adjusted primary deficit, would remain neutral.

14. The authorities remain committed to the objective of reducing public debt to 60 percent of GDP in the medium term. Morocco has some fiscal space, reflecting moderate gross financing needs, a balanced debt structure, and manageable medium and long-term adjustment needs. The debt sustainability analysis (DSA) shows that public debt, which rose from 47 percent of GDP in 2009 to 64.9 percent of GDP in 2018, remains sustainable, resilient to various shocks, and below the benchmark of 70 percent of GDP for emerging markets (Annex II). Gradually reducing public debt to 60 percent of GDP by 2024 would be achieved mostly through improved growth dynamics, together with a reduced fiscal deficit by 2020, allowing to increase policy space to address growth constraints.[5,6]

15. Accelerated tax reforms are needed to bring the fiscal deficit to about 3 percent of GDP to meet the medium-term debt-to-GDP objective. Building on recent progress, including well-contained public spending, reducing public debt while preserving fiscal space for social and growth-enhancing spending requires a comprehensive reform to increase the efficiency and fairness of the tax

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[4] Through an innovative financing mechanism, which is akin to a PPP, the government will entrust institutional investors for the financing of infrastructure projects worth about 1 percent of GDP in 2019.

[5] Based on analyses of the fiscal multiplier (2015 Article IV staff report), anchoring public debt reduction to 60 percent of GDP over the medium term would be compatible with a pace of fiscal consolidation that does not significantly weaken growth prospects.

[6] 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, which will be consolidated at the general (not just central) government level. This will better align public sector statistics with international standards. The authorities estimate that the public debt level after consolidation may decline significantly. The implication for fiscal consolidation will be reassessed once updated figures become available, in June 2019.

system and reduce distortions. This would imply, as staff's projections suggest, an increase in tax revenues of about 0.7 percent of GDP by 2020, and about 1.6 percent of GDP over the medium term. Key priorities are to: (i) broaden the tax base, including through reduced tax exemptions and fight against fiscal fraud; (ii) simplify the VAT regime and corporate tax rates; (iii) better enforce tax payments from the self-employed and liberal professions; and, (iv) raise property tax. Staff welcomed the organization of a national conference on taxation in May 2019, for which the IMF has offered its support. This conference will be an opportunity to take a comprehensive approach to tax reforms and establish broad buy-in within the public. The authorities intend to develop an organic tax law based on its outcome.

16. **Continued management of fiscal risks will also be important**. Further progress towards fiscal consolidation will help absorb the potential impact of fiscal risks. As noted, higher-than-expected fiscal deficits could result from slower growth (e.g., if reforms to raise potential growth are not implemented as expected in the years ahead) or from exogenous factors. In addition, potential public liabilities may arise from SOEs, PPPs, or fiscal decentralization. However, given their magnitude at this point, such liabilities do not pose a major risk to the fiscal position, and actions are underway to address them (see below).

Authorities' Views

17. **For 2019, the authorities were confident that the deficit objective could be met and noted that there is a potential for fiscal savings if international butane prices remain below the budget assumption.** They also indicated that tight control over current spending, as envisaged, could lead to underutilization of budget appropriations, as happened in recent years. Regarding the medium term, they highlighted that greater reliance on PPPs will help enhance the efficiency of public investment, while limiting gross financing needs, and that a key objective of the May 2019 national conference on taxation is to anchor future tax reforms within a multiyear framework law.

B. Exchange Rate Policy

18. **Greater exchange rate flexibility will benefit Morocco's economy**. It will help preserve reserve buffers and competitiveness, as the economy will be better positioned to absorb external shocks, and allow BAM to conduct a more domestically-oriented monetary policy and to move toward a fully-fledged inflation targeting regime. It will also help improve the allocation of productive resources between tradable and non-tradable sectors, as well as encourage further export diversification and SME development.

19. **Staff recommended using the current window of opportunity to continue with the transition to a flexible exchange rate regime,** including in light of the comfortable external and fiscal buffers, financial sector resilience, limited currency risk exposures (including a low external debt level of about 30 percent of GDP), and a relatively low estimated pass-through of exchange rate movements to consumer prices. The 2018 external balance assessment (EBA), suggests that the external position is moderately weaker than implied by fundamentals and desirable policies, an improved assessment compared to the 2017 Article IV consultation. As noted, the first phase of the transition has not led to

any significant realignment of the dirham, while the foreign exchange market is gradually deepening (Box 1).[7]

Authorities' Views

20. The authorities concurred that preparations for the reform have essentially been completed and that conditions remain supportive of a gradual and orderly exchange rate regime transition. While remaining committed to pursue the transition, they will wait for the opportune moment to move, in the context of a well-structured communication strategy to ensure that economic agents, in particular SMEs, are fully aware of the potential foreign exchange risks and able to manage them. Ongoing outreach, training, and information efforts will help in this regard. The authorities acknowledged the EBA results, but also noted that a high degree of uncertainty is associated with this assessment, particularly considering the large unexplained residual and the conflicting results between the current account method, and REER and external sustainability approaches, which suggest a stronger external position. Staff and the authorities agreed that relaxing the remaining restrictions on capital outflows by residents should only be done gradually and at a later stage, to minimize risks to the transition.

C. Financial Sector Policy

21. The financial system is resilient and continued progress is being made to upgrade the financial sector policy framework, in line with the 2015 FSAP recommendations (Table 9). Changes in the financial sector, including its increasing complexity, the cross-border expansion of Morocco's banks, and the forthcoming exchange rate flexibility, require further efforts to maintain its soundness:

- **Risk factors.** Moroccan banks are well capitalized and their liquidity position is favorable. The impact of strengthened provisioning requirements under IFRS9 introduced in 2018 is expected to be absorbed over a period of five years, without major impact on bank capitalization. The new legal frameworks for bankruptcy and collateral regime are welcome steps that will help reduce the relatively high NPL levels. The monitoring of consolidated financial statements and incentives to rely more on syndicated lending should contribute to lower concentrated credit exposures.

- **Policy framework.** Staff supports the continued move toward a risk-based and forward-looking supervisory framework, including in preparation for increased exchange rate volatility. Improvements to BAM's stress-testing and macroprudential policy framework are ongoing with Fund technical assistance. In this context, staff encouraged the authorities to further enhance the collection of granular data on household income and on exposures of Moroccan bank subsidiaries abroad.

[7] After the widening of the exchange rate fluctuation band to 2.5 percent on either side of the central parity (reference rate), on January 15, 2018, interbank or retail market transactions could have happened at a rate that differed from the governmental transaction rate (for which the reference rate plus a margin is used) by more than 2 percent. This exchange market arrangement gave rise to an MCP until October 22, 2018, when a new mechanism was introduced that prevented such a potential spread and eliminated the MCP. Since this MCP temporarily caused the breach of the continuous performance criterion against introducing or modifying MCP, a waiver for non-observance of the PC would have been required to complete the third review under the previous PLL arrangement. However, there are no misreporting implications since Morocco made no purchases under the arrangement.

- **Cooperation with host-country authorities** is ongoing in the context of Moroccan banks' expansion in Africa, which is a source of substantial diversification and profitability benefits, but also of risk transmission. Continued efforts are needed to enhance banks' consolidated risk management for cross-border activities and to introduce effective cross-border crisis management frameworks.

- **Central bank governance**. A January 2019 safeguards assessment mission found that BAM has maintained strong operational controls and that its audit committee (comprising non-executive Board members) is active in its oversight of internal and external audit mechanisms, which are aligned with international standards. A draft BAM law incorporating some past safeguards recommendations is currently being considered in parliament. The latest assessment recommends further amendments to the BAM law for consideration later in the year, on aspects related to autonomy and governance, and that BAM transitions to IFRS, which is consistent with national plans to converge the Moroccan accounting standards.

22. Morocco's AML/CFT framework needs to be strengthened. Morocco was assessed by Middle East and North Africa Financial Action Task Force (MENAFATF) in 2018 and the report will be discussed during the MENAFATF Plenary in April 2019. Staff encouraged the authorities to address the weaknesses identified in the report expeditiously to avoid a categorization of Morocco as a country with strategic AML/CFT deficiencies by the FATF. Stronger AML/CFT supervision and effective implementation of targeted financial sanctions can improve the mitigation of cross-border risks resulting from Moroccan banks expansion in Africa.

Authorities' Views

23. The authorities highlighted the progress made in enhancing banks' consolidated risk management for cross-border activities through data exchange, the role of supervisory colleges, and discussions to strengthen cross-border crisis management frameworks, in collaboration with host countries. As to the recent safeguards assessment, the authorities will consider the latest staff recommendations after the approval of the BAM draft law by parliament, with due regard to Morocco's circumstances. They stressed that the BAM draft law, which is at a late stage of discussion in parliament, is already in line with international best practices on key aspects of autonomy and governance, and that it requires the government to make cash contributions to fill any shortfalls in BAM's capital. As to the implementation of IFRS standards, the authorities highlighted that this action will be considered within a national project of convergence towards these standards. Finally, the authorities emphasized that they are taking action to address the weaknesses identified in Morocco's AML/CFT framework.

RAISING GROWTH AND INCLUSION

24. Morocco's economy will need higher and more private sector-led growth and job creation to reduce unemployment decisively. Weaknesses in the business and competition environment have limited opportunities for SME development and middle-class entrepreneurship. However, the authorities have recently accelerated reform implementation, aiming to improve public sector governance and efficiency, enhance competition, lower hiring costs, and increase SME financial inclusion, while reducing inequalities. These reforms can be mutually-reinforcing, and their sustained implementation will be key to boost job-rich growth.

A. Public Sector Governance and Efficiency

Governance, Transparency and Anti-Corruption

25. Ongoing efforts will help make the public sector more transparent and accountable, and supportive of a more dynamic private sector. Building on progress in recent years to simplify administrative procedures, efforts are underway to promote e-government and increase transparency as well as reduce vulnerabilities to corruption. A new information access law was adopted in February 2019 and digital platforms have been introduced to facilitate public feedback. The Organic Budget law is implemented as planned, including measures that will strengthen the oversight role of parliament and the *Cour des Comptes*, thereby reinforcing public accountability.

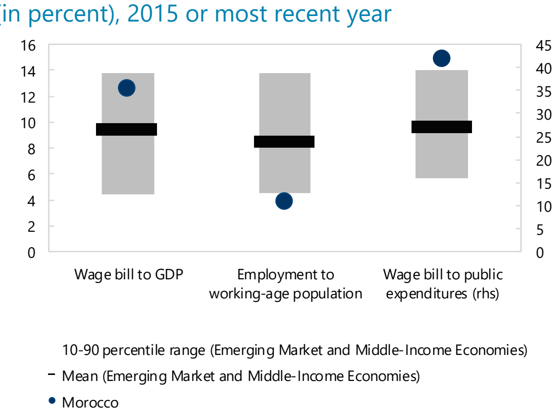
26. Increased communication on the implementation of the National Strategy Against Corruption would reinforce public trust. Progress has been made in the context of this strategy, for example by broadening the use of electronic systems for payments and judicial services, by strengthening the legal framework to pursue corruption and money-laundering, and by developing additional indicators to assess impact in real time. The first implementation report for the national strategy is expected to be published in 2019, and staff highlighted the importance of using this opportunity to improve public understanding and ownership of the strategy, including through the role of the recently activated anti-corruption agency. Finally, following up on recent measures to strengthen the asset declaration system, a draft law on illicit enrichment is in preparation and could be adopted in 2019. This revised law will support the role of the *Cour des Comptes* in identifying and pursing cases of illicit enrichment, including based on new digitalized procedures.

Public Sector Efficiency

27. Given the elevated cost of the civil service and longstanding shortcomings in the efficiency and quality of public investment and services, reforms need to be pursued in the following areas:

- **Civil service reform.** Morocco's public wage bill is comparatively high despite low staff levels. The authorities intend to maintain the public wage bill (including social contributions) below 10.5 percent of GDP in the medium term and have introduced measures to support contractualization and mobility. Staff recommended accelerated and additional reforms to secure durable public savings while strengthening the efficiency and quality of public services, including simpler and more flexible statutes and salary structures, and merit-based career progression (in line with recommendations from the *Cour des Comptes* in 2017).

Benchmarking for Wage Bill and Employment
(in percent), 2015 or most recent year



Source: IMF staff estimates using Expenditure Assessment Tool.

- **Fiscal decentralization.** Staff welcomed the strengthened role of Regional Investment Centers (CRIs) and the implementation of a deconcentration charter in late 2018, as well as the adoption of transparent criteria for the transfer of public resources to regions. With such transfers becoming increasingly large, it will be essential to continue reinforcing sound financial management at all levels, help clarify local competences, mitigate contingent liability risks, and, in the longer term, enhance local taxation.

- **Public enterprises.** The authorities are revising the draft law to strengthen SOE governance and oversight and plan to submit it to parliament in 2019. More broadly, the privatization plan starting this year will be part of a strategic approach to the role of the state in the economy, including by refocusing SOEs on their core missions (Box 2). Staff welcomed these reforms, and ongoing IMF technical assistance supports the authorities' efforts to strengthen the assessment and mitigation of SOE-related fiscal risks.

- **Public investment management.** A 2017 IMF/World Bank Public Investment Management Assessment (PIMA) recommended raising the efficiency of public investment, including through better coordination in project planning and execution, legal enhancements to operationalize public-private partnerships, and stronger project implementation and risk management capacity. Staff welcomed the authorities' comprehensive strategy to implement these recommendations and to further develop PPPs.

Authorities' Views

28. With respect to governance, the authorities expect that the recently-activated anti-corruption agency (ICPC) will support reforms cutting across departments. They also noted that their efforts to digitize public services were already yielding results and improving governance and administrative efficiency. The authorities explained that civil service reform is a priority and that significant progress has been made toward the design of a comprehensive reform strategy. Regarding fiscal decentralization, the authorities are committed to continue reinforcing sound financial management at all levels to enhance spending efficiency and mitigate fiscal risks. In addition, local taxation will be reformed and better aligned with the principles governing the national tax system within a unified tax code, including regarding base assessment.

B. Private Sector and SME Development

29. Increased reform coordination and prioritization will help achieve higher and more inclusive growth (Box 3).[8] Staff's analysis of various reform scenarios, especially related to the labor market and business environment, suggests that a comprehensive and properly-sequenced reform package is needed to maximize impact. For example, coordinated reforms aiming to reduce hiring costs and barriers to entry, especially for SMEs, could lead to a 2.5 percent increase in output and a 2.2 percent reduction in unemployment over the medium term, and would have stronger impact than uncoordinated or isolated reforms over both the short and medium term.

[8] See Selected Issues Paper.

Labor Market

30. Stepping up labor market and education reforms would help improve labor force participation and reduce unemployment, particularly among the youth:

- **Labor market.** More efforts are needed to reduce youth unemployment and more generally to facilitate the movement of labor toward high-productivity sectors. Specific measures under the 2015-30 National Employment Strategy are still being finalized. Staff welcomed recent initiatives such as the creation of a labor market observatory to facilitate skills matching, increased support to vocational training, and the strengthening of active labor market policies. The mission encouraged the authorities to enhance the monitoring and evaluation of these measures, and to consider relaxing firing and hiring regulations, together with appropriate unemployment safety nets.[9]

- **Female participation**. Despite women's improved access to education and public services, female participation in the labor force is low and declining. The authorities continue to implement plans to increase women's access to credit and to reduce gender inequality more generally. Staff emphasized the need for further efforts to improve female schooling and increase access to affordable childcare.

- **Public education**. Spending on education is high but educational achievements remain disappointing. Efforts made in recent years to improve the accessibility and quality of education are starting to bear fruit, including in the context of the national strategy for education and a related framework law that was submitted to parliament in September 2018.[10] Staff emphasized the need to focus on performance-based criteria to further improve the efficiency of public spending in this area.

Business Environment

31. The business environment has improved in recent years, and further reforms are underway. Morocco's *Doing Business* ranking rose from 128 in 2010 to 60 in 2019. Recent reforms include the new bankruptcy law approved in April 2018, and the dematerialization of administrative procedures in areas such as starting a business, transferring property, and customs transactions. The Competition Council became operational in November 2018 and should play a key role in addressing anti-competitive behaviors and opening opportunities for private sector development and entrepreneurship. The authorities are now developing a new Small Business Act and an Investment charter to further simplify administrative procedures and support investors. They are also in the process of clearing the stock of value added tax (VAT) repayments owed to public and private enterprises (about 4 percent of GDP), and more broadly to reduce payment delays in the economy. Staff welcomes these reforms, many of which should help unlock opportunities for SMEs and middle-class entrepreneurs.

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[9] This may also help reduce the size of the informal economy, which employs 40 percent of workers in the non-agricultural sector.

[10] Primary and secondary school attendance have recovered to the 2014 levels, while test performances (TIMMS, PRLS) have also been improving in recent years.

SME Financial Inclusion

32. A comprehensive financial inclusion strategy was launched in early 2019. Bank lending to SMEs (about 17 percent of GDP) is relatively high by regional standards, but it has been stagnant in recent years, while collateral requirements can be very high for smaller enterprises, and firms still consider access to finance as a major constraint for doing business in Morocco. Staff welcomed the new financial inclusion strategy approved in March 2019. By increasing financial education, expanding electronic payment infrastructures and credit bureau coverage, and relaxing constraints on microcredit activities, it will address key priorities to support greater financial access for SMEs and underserved population segments (e.g., women, youth, and rural populations). Staff also welcomed the recent adoption in parliament of a new law that extends the array of assets that can be used as collateral, including moveable assets, which will facilitate SME access to finance (Annex V).

Authorities' Views

33. The authorities emphasized the role of the National Plan on Employment for 2017–2021 in addressing youth unemployment, female participation, and regional disparities. They also highlighted the Plan on Equality for 2017-2021, which prioritizes the financial autonomy of women and supports businesses run by women. The authorities were confident about the positive impact of the recently-adopted National Strategy for Financial Inclusion and ongoing education reforms over the long term. In this regard, the draft framework law on the education system, training and scientific research is being debated in Parliament.

C. Reducing Inequalities

34. Poverty rates have declined substantially in the last decade, but further efforts are needed to reduce inequalities. Large regional and social discrepancies remain, including as regards access to public services. Policies focusing on the poor and middle class, including fair taxation and public spending efficiency, and better targeting of social programs, will be key to reduce inequalities:

- **Social program targeting.** Social programs are numerous but highly fragmented and poorly coordinated.[11] As a result, despite relatively high levels of social spending in aggregate, their distributional impact is unsatisfactory and, in some cases, regressive.[12] The authorities will introduce a social registry in 2019-20, which is expected to help enhance the coordination and targeting of social programs. Ongoing decentralization should also allow to better coordinate social spending at the local level.

- **Addressing middle class vulnerabilities.** The middle class has been confronted with the impact of reduced subsidies, higher property costs, and expensive alternatives to public services (education, transportation, and poor public health coverage). The lower middle-class segment is particularly

[11] Current programs focus in particular on: education, through conditional cash transfers (*Tayssir*); health (*Ramed*); vulnerable groups (e.g., widows, orphans, and disabled persons); and, the development of local infrastructure and revenue-generating activities (*National Initiative for Human Development*).

[12] In 2014, the top quintile of households received over 6 times the level of public transfers as the bottom quintile. See *Morocco—Systematic Country Diagnostic* (SCD), June 2018, World Bank.

vulnerable, and staff noted that this reinforces the need to strengthen the business environment and opportunities for entrepreneurs and SMEs, while also considering this population segment in the design of future reforms aimed at increasing the equity and fairness of Morocco's tax and transfer policies.

Authorities' Views

35. The authorities noted that based on expenditure data, inequalities have been reduced and concurred that priority should be put on reforms that reduce regional disparities, including in access to public services. Regarding the middle class, they noted that better data are being developed, particularly through household income surveys, to assess and help alleviate the challenges and vulnerabilities facing this income group.

STAFF APPRAISAL

36. Morocco benefits from sound economic fundamentals and institutional policy frameworks, and policy and reform implementation has been generally positive. Despite a challenging external environment, macroeconomic vulnerabilities have been reduced in recent years. Several reforms in the fiscal, financial sector, and business environment areas have been successfully implemented, while the transition to greater exchange flexibility has been initiated. Nonetheless, continued efforts to enhance macroeconomic resilience and move towards more private sector-led, broad-based and job-rich growth are needed to achieve higher, sustainable, and more inclusive growth.

37. The policy mix of accommodative monetary policy and slower fiscal consolidation remains adequate, and further exchange rate flexibility would benefit the economy. In a context of subdued economic and credit growth and low inflation, the combination of slower fiscal consolidation and accommodative monetary policy is appropriate. The initial phase of the transition to further exchange rate flexibility has been successful, and current conditions remain favorable for a continuation of this reform for preventive purposes, as it will help the economy absorb potential external shocks and preserve its external competitiveness.

38. Fiscal and public sector reforms should continue to secure policy space and enhance the efficiency and impact of social and growth-enhancing spending. In a context of well contained public expenditures, fiscal sustainability will benefit from a comprehensive tax reform to boost revenues while increasing fairness, based on the outcome of the May 2019 national tax conference. In addition, the efficiency and quality of public investment and services need to improve. This will require overhauling public sector governance and modernizing the civil service, moving forward with careful implementation of fiscal decentralization, and increasing project implementation and risk management capacity, including in the SOE sector.

39. The financial system is resilient, and its increasing complexity requires continued efforts to upgrade the financial sector policy framework. The cross-border expansion of Morocco's banks and further exchange rate flexibility introduce new benefits but also additional risk factors. Key policy priorities are to implement tighter provisioning requirements under the newly introduced IFRS9, the transition toward a risk-based and forward-looking supervision (including on AML/CFT), and further coordination with host-country authorities in Africa.

40. The authorities are advancing structural reforms, and more is needed to raise human capital and job opportunities and reduce inequalities. Recent reforms, such as of the business environment and financial inclusion, illustrate the authorities' commitment to move toward more private sector-led growth and job creation. Mutually-reinforcing reforms are also needed to improve the quality of the education system, the functioning of the labor market, and female labor force participation, while ensuring that social programs are better targeted at the most vulnerable groups.

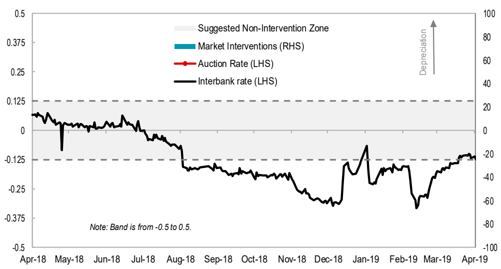
41. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Exchange Rate Transition and Foreign Exchange Market Deepening

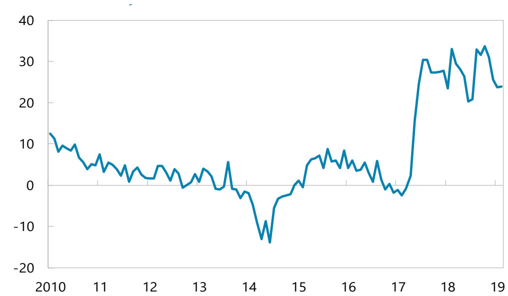
On January 15, 2018, Bank Al-Maghrib widened the dirham fluctuation band to ±2.5 percent around the reference parity (against ±0.3 percent previously). Since then, the dirham has been stable and moved well within the ± 2.5 percent fluctuation band.

International reserves declined slightly in 2018 as BAM stopped intervening in the foreign exchange market. The decline was driven by the execution of Treasury transactions, mainly servicing external public debt. Since mid-2017, banks have maintained large long positions in foreign currency, which, together with strong export and FDI revenues, allowed them to comfortably serve the foreign exchange demand of their clients in 2018.

Central Bank Daily Rate, 2018–19
Fluctuation band normalized to 1,
Currency basket = 0



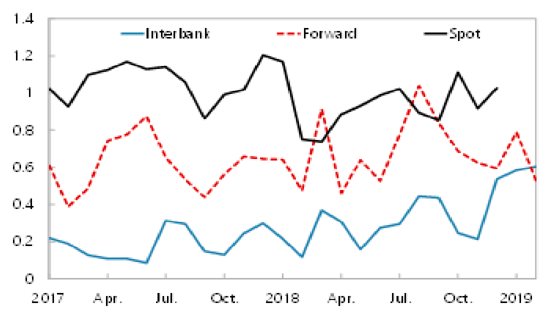
Banks' Net Foreign Assets, 2010–19
(National currency, billions)



Source: National authorities.

The deepening of foreign exchange markets is underway. Following BAM's withdrawal (non-intervention), the functioning of the interbank market has been effective, and turnover is increasing. At the same time, better enforcement of existing foreign exchange regulations (e.g., required documentation for hedging operations), as well as banks' long foreign exchange positions, have tended to limit foreign exchange demand and the deepening of the market in the short run, especially in futures market segments. Going forward, further regulatory adjustments, such as lower surrender requirements for exports or higher limits to purchase foreign currency by Moroccan residents, and more generally, future progress towards capital account liberalization, should lead to deeper and more diverse foreign exchange market activity.

FX Market Transactions, 2017–19
(Daily average, billions of national currency)



Source: National authorities.

Box 2. Morocco's Privatization Program

Morocco has a well-established legal and regulatory framework to support privatizations. The 1989 privatization law sets a tripartite structure including the Ministry of Economy and Finance, a Commission of high government officials, and a price-setting board to conduct privatization of public assets, in a sound and transparent manner. The law lists state-owned assets that can be privatized. Prerequisites to list a public asset include its non-strategic nature, financial soundness, and potential for development and innovation. The tripartite structure relies on standard financial procedures to sell equity, including audit and evaluation of firms, minimum transfer price, stock market listings or tenders. Since 2013, public divestments in the industrial, financial or telecommunications sectors have yielded a significant revenue stream, most of which was allocated to the Hassan II Fund for Economic and Social Development.

The current privatization program will be carried out in several stages. The authorities announced in late October 2018 a multi-year privatization program starting in 2019. The program is expected to last five years and to yield about 4 percent of GDP. Parliament recently approved a change in the distribution of privatization proceeds, half of which will now be allocated to the Hassan II Fund, and the other half to finance government operations. Therefore, the government's financing needs would be reduced by 0.4 percent of GDP per year during 2019-21, and 0.2 percent of GDP per year during 2022-24. The list of public enterprises that can be divested was also amended in late 2018, with the addition of enterprises in the tourism, hotel, and energy sectors.

Morocco: Example of State Shareholding

Public Entreprises	State shareholding (in percent)		
	Direct shareholding	Indirect Shareholding	
Maroc Telecom	30		
Marsa Maroc	60		
BIOPHARMA	100		
SONACOS	90	10 by various public investors	
La Mamounia		100	ONCF: 62
			Municipality of Marrakech: 26
			CDG: 12
Electric Power Company TAHADDART		48	ONEE: 48
			ENDESA: 32
			SIEMENS: 20

Source: Moroccan authorities.

The privatization program will contribute to improve the performance of SOEs and refocus them on core activities. As part of a more strategic and proactive approach to the role of the public sector, a comprehensive assessment is underway to identify specific SOE assets, subsidiaries or services, including non-strategic minority holdings, which can be transferred to the private sector. This strategy will converge with ongoing reforms to strengthen SOE governance and performance, and to improve the quality of public investment and services more generally.

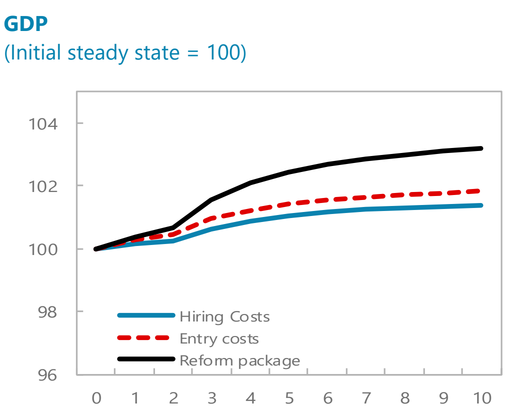
Box 3. Promoting Job-Rich Growth Through Well-Sequenced Structural Reforms [1]

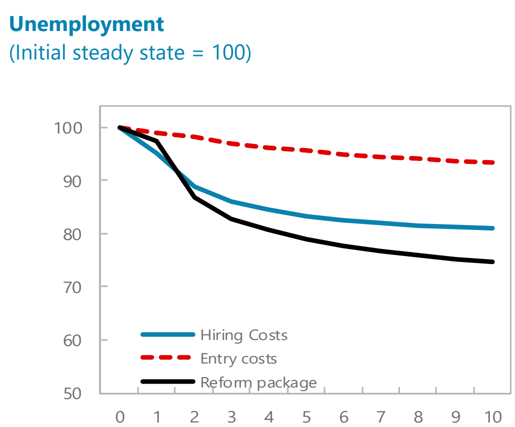
Background. Despite reforms undertaken over the last two decades, promoting job-rich growth has been challenging. Growth has remained volatile and insufficient to significantly reduce unemployment. This is partly due to relatively low total factor productivity (TFP) growth, which has slowed since the global financial crisis. In this context, following the analysis of the main growth constraints in Morocco during the 2016 Article IV consultation, staff focused this year on the impact of different paces and sequences of structural reform implementation.

Methodology. A small open-economy dynamic general equilibrium model with informal product and labor markets was calibrated for Morocco based on quarterly data between 2000 and 2017. The analysis focused on two broad reform categories emphasized in the literature as having significant potential for promoting growth and employment in emerging markets: (i) reduction of firm's barriers to entry, and (ii) improvement in labor market policies and human capital. The benefits and costs of different reform scenarios (isolated, sequenced, or coordinated) were assessed by quantifying their short- and medium-term effects on output and unemployment.

Main findings. The analysis suggests that a coordinated set of reforms aimed at reducing hiring costs (e.g., more flexible contracts, minimum wage aligned with labor productivity, better training to reduce skill mismatches) and entry barriers for firms (e.g., simplifying administrative procedures, curbing corruption, enhancing SME access to finance) is more effective in boosting growth and job creation than isolated reforms in the labor or product markets (Text Figure 1). A combined reduction by 10 percent of hiring and entry costs would increase output by 2.5 percent while the unemployment rate would decrease by 2.2 percentage points 5 years after the reforms. Additionally, if reforms need to be sequenced (e.g., due to capacity or political constraints), a policy choice will need to be made in the short run as starting with labor market reforms is more effective in reducing unemployment, while starting with product market reforms would boost output faster (Text Figure 2).

Text Figure 1. Reaction of Output and Employment to Single/Joint Labor and Product Market Reforms
(10 percent decrease in entry costs and/or hiring costs)



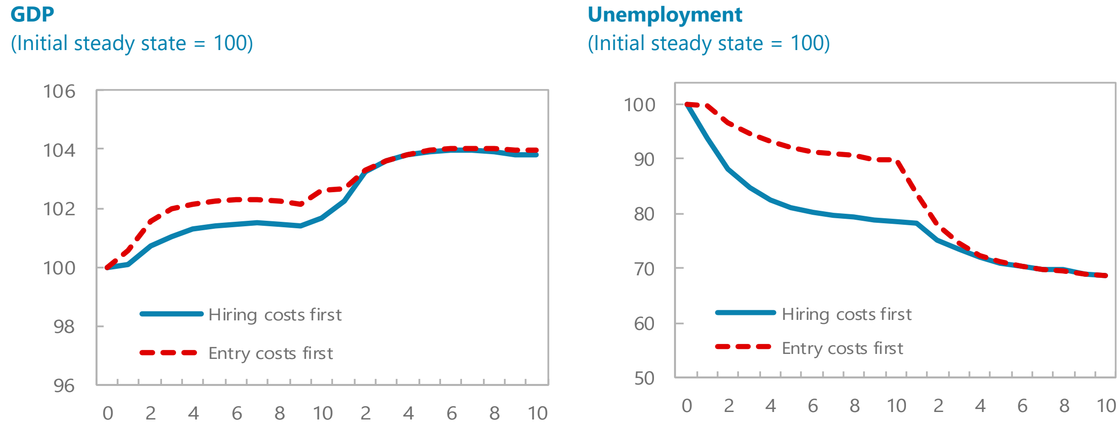


Source: IMF staff estimates.

[1] See B. Sarr, M. Benlamine, and Z. Munkacsi, 2019: "Promoting Job-Rich Growth in Morocco Through Well-Sequenced Structural Reforms." IMF, Selected Issues Paper.

Box 3. Promoting Job-Rich Growth Through Well-Sequenced Structural Reforms (concluded)

Text Figure 2. Reaction of Output and Employment to Labor and Product Market Reform Sequencing
(10 percent decrease in entry costs first/hiring costs first)



Source: IMF staff estimates.

Table 1. Morocco: Risk Assessment Matrix[1/]

Source of Risk	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Weaker than expected global growth, including in Europe.	High	Medium Term	High. Weak external demand for Morocco's exports, particularly from the euro area, could weaken growth and the external position.	Diversify export composition and markets, implement structural reforms to boost competitiveness. Greater exchange rate flexibility can help absorb external shocks.
Intensification of security risks in parts of the Middle East, Africa, and Europe.	High	Short and Medium Term	High. Negative sentiment could reduce Morocco's tourism receipts, and impair investor confidence, reducing FDI and other capital inflows. Disruptions in oil production may create upside risks for oil prices.	
Rising protectionism and retreat from multilateralism.	High	Short and Medium Term	High. The policy shifts could reduce the cross-border flows of trade, labor, and remittances, with adverse effect on external sector sustainability, longer-term growth and poverty reduction.	
Sharp tightening of global financial conditions, sustained rise in risk premium.	Medium	Short Term	Low. External debt is about 30 percent of GDP, with long maturities, and foreign portfolio investments are moderate. The effect of surges in the US interest rate and a stronger dollar could harm competitiveness. Foreign exchange exposures in the corporate and banking sectors are limited.	Increase policy responsiveness by building fiscal and external buffers. Greater exchange rate flexibility can help absorb external shocks.
Large swings energy prices.	Medium	Short and Medium Term	High. A reduced oil import bill would improve Morocco's external position; lower domestic fuel prices would boost consumption. On the other hand, an increase in the oil bill would worsen Morocco's external position.	Continue to preserve gains from lower oil prices; reduce long term reliance on energy imports.
Slower than expected pace of reforms.	Low	Medium Term	Medium. Increase in fiscal vulnerabilities, low potential growth, and potential drop in domestic and foreign investor confidence.	Build consensus on reforms needed to reduce vulnerabilities and foster higher and more inclusive growth.

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Table 2. Morocco: Selected Economic Indicators, 2015–24

	2015	2016	2017	2018	2019 PLL 1/	2019 Rev.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
					(Annual percentage change)						
Output and Prices											
Real GDP	4.5	1.1	4.1	3.0	3.3	3.0	3.8	4.1	4.3	4.4	4.5
Real agriculture GDP	11.9	-13.7	15.4	3.9	0.7	0.1	3.3	3.7	4.0	4.3	4.5
Real non-agriculture GDP	3.7	3.1	2.7	2.8	3.6	3.4	3.9	4.2	4.3	4.4	4.5
Consumer prices (end of period)	0.6	1.8	1.9	0.1	1.4	0.6	1.1	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.5	1.6	0.7	1.9	1.4	0.6	1.1	2.0	2.0	2.0	2.0
					(In percent of GDP)						
Investment and Saving											
Gross capital formation	30.8	32.6	32.6	33.2	36.9	34.0	34.4	34.8	35.2	35.6	35.9
Of which: Nongovernment	25.3	26.9	27.1	27.8	31.4	29.0	28.9	29.1	29.0	29.3	29.4
Gross national savings	28.8	28.4	28.9	27.8	32.9	30.0	30.9	31.8	32.2	32.8	33.1
Of which: Nongovernment	25.7	25.5	25.1	24.3	29.8	27.5	27.4	27.6	27.4	27.8	27.8
					(In percent of GDP)						
Public Finances											
Revenue	26.5	26.0	26.6	26.0	26.0	26.2	26.2	26.3	26.5	26.7	26.9
Expenditure	30.7	30.5	30.0	29.8	29.7	29.9	29.6	29.3	29.5	29.7	29.9
Budget balance	-4.2	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Primary balance (excluding grants)	-1.9	-2.7	-2.0	-1.7	-1.5	-1.5	-1.2	-0.9	-1.0	-1.0	-1.1
Cyclically-adjusted primary balance (excl. grants)	-1.6	-2.5	-1.7	-1.4	-1.4	-1.3	-1.1	-0.9	-1.0	-1.0	-1.1
Total government debt	63.7	64.9	65.1	64.9	65.2	65.1	64.5	63.1	62.0	60.9	60.0
					(Annual percentage change; unless otherwise indicated)						
Monetary Sector											
Claims to the economy	1.6	5.9	3.3	3.4	...	5.2	...	...	...	...	...
Broad money	5.7	4.7	5.5	4.1	...	4.0	...	...	...	...	...
Velocity of broad money	0.9	0.8	0.8	0.8	...	0.8	...	...	...	...	...
					(In percent of GDP; unless otherwise indicated)						
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	3.3	12.7	11.2	5.5	5.4	7.1	7.0	6.7	6.7	6.0
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	3.4	2.1	5.4	5.4	6.3	6.2	5.8
Merchandise trade balance	-14.5	-17.1	-16.4	-17.1	-16.3	-15.8	-15.3	-14.8	-14.7	-14.6	-14.3
Current account excluding official transfers	-2.6	-5.0	-4.5	-5.8	-4.3	-4.4	-3.8	-3.2	-3.1	-3.0	-2.9
Current account including official transfers	-2.1	-4.0	-3.4	-5.4	-4.0	-4.0	-3.5	-3.0	-2.9	-2.8	-2.8
Foreign direct investment	2.6	1.5	1.5	2.5	1.8	1.8	1.9	1.9	2.0	2.1	2.2
Total external debt	33.4	33.7	34.5	31.1	34.1	32.7	31.9	30.8	30.0	29.1	28.2
Gross reserves (in billions of U.S. dollars)	22.8	25.1	26.2	24.4	26.8	26.0	27.4	29.6	32.5	35.9	39.9
In months of next year imports of goods and services	6.0	6.1	5.7	5.2	5.4	5.2	5.2	5.3	5.5	5.7	6.2
In percent of Fund reserve adequacy metric 2/	93.6	98.5	92.3	87.1	85.4	86.9	85.8	87.4	90.7	94.5	99.2
In percent of CA deficit and ST debt at rem. mat. basis	517.5	404.8	439.0	279.4	364.9	360.3	400.5	454.5	504.0	552.0	595.1
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	101.2	103.35	109.7	118.6	122.9	120.7	127.3	135.4	144.3	153.8	164.0
Nominal GDP per capita (in U.S. dollars, percent change)	-9.0	1.1	5.0	6.9	2.7	0.7	4.5	5.3	5.5	5.6	5.7
Output gap (percentage points of non-agricultural GDP)	-0.2	-0.8	-1.1	-1.0	-0.2	-0.8	-0.2	0.0	0.0	0.0	0.0
Unemployment rate (in percent)	9.7	9.9	10.2	9.8	...	...	...	...	...	...	...
Population (millions)	34.1	34.5	34.9	35.2	35.6	35.6	36.0	36.3	36.7	37.0	37.4
Population growth (in percent)	1.05	1.06	1.06	1.06	1.04	1.04	1.03	1.00	0.98	0.96	0.94
Net imports of energy products (in billions of U.S. dollars)	-6.8	-5.6	-7.2	-8.8	-9.4	-7.9	-8.3	-8.7	-9.1	-9.6	-10.0
Local currency per U.S. dollar (period average)	9.8	9.8	9.7	9.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-0.3	2.1	-0.4	0.9	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Based on revised ARA weights.

Table 3a. Morocco: Budgetary Central Government Finance, 2015–24

(Billions of dirhams)

					Proj.						
					PLL 1/	Rev.					
	2015	2016	2017	2018	2019		2020	2021	2022	2023	2024
Revenue	262.1	264.0	282.4	289.8	301.6	302.1	317.7	337.0	361.2	385.4	413.1
Taxes	208.9	216.9	232.1	242.5	259.0	254.3	273.5	292.2	313.6	335.1	359.7
Taxes on income, profits, and capital gains	78.6	83.7	93.3	95.5	101.5	103.7	107.1	114.6	122.9	130.7	140.6
Taxes on property	14.1	13.6	12.6	12.6	19.2	15.6	20.0	21.2	23.7	24.0	25.6
Taxes on goods and services	102.0	103.9	111.0	117.6	122.4	118.3	129.9	138.9	148.6	160.7	172.7
Taxes on international trade and transactions	8.1	9.5	9.0	10.1	9.6	9.8	10.0	10.5	11.1	11.8	12.5
Other taxes	6.1	6.3	6.0	6.7	6.3	7.0	6.5	6.9	7.4	7.8	8.3
Grants	5.0	9.1	11.4	4.4	3.2	3.2	3.0	1.2	1.2	1.2	1.2
Other revenue	48.3	38.0	39.0	42.9	39.4	44.5	41.2	43.6	46.3	49.2	52.3
Expense	248.5	251.6	261.6	270.3	280.8	288.2	291.7	302.5	317.4	338.2	359.6
Compensation of employees	118.5	121.2	122.2	124.5	130.8	133.6	138.1	141.8	144.2	146.7	149.2
Of which: wages and salaries	103.0	104.9	104.9	106.0	112.2	112.2	116.1	119.3	121.2	123.1	125.1
social contributions	15.5	16.3	17.3	18.5	18.6	21.5	22.0	22.5	23.0	23.5	24.0
Use of goods and services and grants	72.0	72.5	78.2	82.0	87.8	93.5	93.4	102.0	112.4	126.6	139.2
Of which: Use of goods and services	25.4	26.7	27.6	30.5	30.2	34.3	30.3	33.7	35.7	37.9	40.3
Grants	46.6	45.8	50.6	51.5	57.6	59.2	63.2	68.3	76.6	88.7	98.9
Interest	27.3	27.1	27.1	27.3	28.7	28.7	29.3	28.5	28.8	30.4	31.4
Subsidies	14.0	14.1	15.3	17.7	18.4	18.4	13.9	10.9	10.2	10.0	10.6
Other expenses 2/	16.8	16.8	18.8	18.8	15.1	14.0	17.0	19.3	21.8	24.6	29.2
Net acquisition of nonfinancial assets	54.8	57.8	57.9	60.8	63.3	57.1	66.4	73.2	84.5	91.1	99.9
Net lending / borrowing (overall balance)	-41.2	-45.4	-37.1	-41.4	-42.5	-43.2	-40.4	-38.7	-40.7	-43.9	-46.4
Net lending / borrowing (incl. privatization)	-41.2	-43.9	-37.1	-41.4	-37.5	-38.2	-35.4	-33.7	-37.7	-40.9	-46.4
Net lending / borrowing (incl. privatization excl. grants)	-46.2	-53.0	-48.5	-45.7	-40.7	-41.4	-38.4	-34.9	-38.9	-42.1	-47.6
Net lending / borrowing (excluding grants)	-46.2	-54.5	-48.5	-45.7	-45.7	-46.4	-43.4	-39.9	-41.9	-45.1	-47.6
Change in net financial worth	-41.2	-45.4	-37.1	-41.4	-42.5	-43.2	-40.4	-38.7	-40.7	-43.9	-46.4
Net acquisition of financial assets	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	0.0
Domestic	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	0.0
Shares and other equity	0.0	-1.5	0.0	0.0	-5.0	-5.0	-5.0	-5.0	-3.0	-3.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	41.2	43.9	37.1	41.4	37.5	38.2	35.4	33.7	37.7	40.9	46.4
Domestic	40.9	41.1	28.1	43.2	18.8	19.7	17.8	28.4	16.3	33.5	38.9
Currency and Deposits	0.7	5.5	2.0	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	42.9	27.0	26.1	39.2	17.8	18.7	16.8	27.4	15.3	32.5	37.9
Other accounts payable	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	2.8	9.0	-1.9	18.7	18.5	17.6	5.2	21.4	7.4	7.5
Memorandum Item:											
Total investment (including capital transfers)	71.6	74.6	76.7	79.6	78.4	71.1	83.4	92.4	106.2	115.7	129.1
GDP	988.0	1,013.6	1,063.3	1,112.8	1,159.0	1,155.0	1,211.1	1,283.6	1,362.1	1,446.1	1,536.8

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Includes capital transfers to public entities.

Table 3b. Morocco: Budgetary Central Government Finance, 2015–24

(Percent of GDP)

	2015	2016	2017	2018	2019 PLL 1/	2019 Rev.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Revenue	25.6	26.0	26.6	26.0	26.0	26.2	26.2	26.3	26.5	26.7	26.9
Taxes	20.5	21.4	21.8	21.8	22.3	22.0	22.6	22.8	23.0	23.2	23.4
Taxes on income, profits, and capital gains	7.7	8.3	8.8	8.6	8.8	9.0	8.8	8.9	9.0	9.0	9.1
Taxes on property	1.4	1.3	1.2	1.1	1.7	1.3	1.7	1.7	1.7	1.7	1.7
Taxes on goods and services	10.2	10.3	10.4	10.6	10.6	10.2	10.7	10.8	10.9	11.1	11.2
Taxes on international trade and transactions	0.8	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.4	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.0	0.9	1.1	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Other revenue	4.1	3.7	3.7	3.9	3.4	3.9	3.4	3.4	3.4	3.4	3.4
Expense	25.2	24.8	24.6	24.3	24.2	25.0	24.1	23.6	23.3	23.4	23.4
Compensation of employees	12.1	12.0	11.5	11.2	11.3	11.6	11.4	11.0	10.6	10.1	9.7
Of which: wages and salaries	10.3	10.3	9.9	9.5	9.7	9.7	9.6	9.3	8.9	8.5	8.1
social contributions	1.8	1.6	1.6	1.7	1.6	1.9	1.8	1.8	1.7	1.6	1.6
Use of goods and services and grants	7.2	7.2	7.4	7.4	7.6	8.1	7.7	7.9	8.2	8.8	9.1
Of which: Use of goods and services	2.8	2.6	2.6	2.7	2.6	3.0	2.5	2.6	2.6	2.6	2.6
Grants	4.4	4.5	4.8	4.6	5.0	5.1	5.2	5.3	5.6	6.1	6.4
Interest	2.8	2.7	2.5	2.5	2.5	2.5	2.4	2.2	2.1	2.1	2.0
Subsidies	1.7	1.4	1.4	1.6	1.6	1.6	1.2	0.8	0.8	0.7	0.7
Other expenses 2/	1.5	1.7	1.8	1.7	1.3	1.2	1.4	1.5	1.6	1.7	1.9
Net acquisition of nonfinancial assets	4.7	5.7	5.4	5.5	5.5	4.9	5.5	5.7	6.2	6.3	6.5
Net lending / borrowing (overall balance)	-4.3	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Net lending / borrowing (incl. privatization)	-4.3	-4.3	-3.5	-3.7	-3.2	-3.3	-2.9	-2.6	-2.8	-2.8	-3.0
Net lending / borrowing (incl. privatization excl. grants)	-5.3	-5.2	-4.6	-4.1	-3.5	-3.6	-3.2	-2.7	-2.9	-2.9	-3.1
Net lending / borrowing (excluding grants)	-5.3	-5.4	-4.6	-4.1	-3.9	-4.0	-3.6	-3.1	-3.1	-3.1	-3.1
Cyclical adjusted balance	-5.0	-4.9	-4.3	-4.1	-3.9	-4.0	-3.6	-3.4	-3.6	-4.0	-4.2
Change in net financial worth	-4.3	-4.5	-3.5	-3.7	-3.7	-3.7	-3.3	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	0.0
Domestic	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	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
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	-0.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	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
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.3	4.3	3.5	3.7	3.2	3.3	2.9	2.6	2.8	2.8	3.0
Domestic	4.1	4.1	2.6	3.9	1.6	1.7	1.5	2.2	1.2	2.3	2.5
Currency and Deposits	0.0	0.5	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	4.9	2.7	2.5	3.5	1.5	1.6	1.4	2.1	1.1	2.2	2.5
Other accounts payable	-0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.2	0.3	0.8	-0.2	1.6	1.6	1.5	0.4	1.6	0.5	0.5
Memorandum items:											
Total investment (including capital transfers)	6.2	7.4	7.2	7.2	6.8	6.2	6.9	7.2	7.8	8.0	8.4
Total government debt 3/		64.9	65.1	64.9	65.2	65.1	64.5	63.1	62.0	60.9	60.0
Deposits at the Treasury from third parties		5.5	5.5	5.3	5.2	5.2	5.1	4.8	4.6	4.4	4.2

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.

2/ Includes capital transfers to public entities.

3/ Does not include deposits at the Treasury from third parties (SOEs, private entities and individuals).

Table 4. Morocco: Balance of Payments, 2015–24
(In billions of US dollars, unless otherwise indicated)

					Proj.						
					PLL 1/	Rev.					
	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
Current account	-2.2	-4.2	-3.7	-6.5	-4.9	-4.8	-4.5	-4.1	-4.2	-4.3	-4.6
Trade balance	-14.7	-17.6	-18.0	-20.2	-20.0	-19.1	-19.5	-20.0	-21.2	-22.4	-23.5
Exports, f.o.b.	18.6	19.1	21.5	24.6	26.5	26.2	28.3	30.5	32.6	35.0	37.4
Food products	4.2	4.6	5.1	5.6	5.8	6.0	6.5	7.0	7.5	8.0	8.5
Phosphates and derived products	4.5	4.0	4.6	5.5	5.7	6.0	6.4	7.0	7.4	7.9	8.5
Automobiles	5.0	5.6	6.1	6.9	8.8	7.5	8.2	9.0	9.6	10.4	11.2
Imports, f.o.b.	-33.3	-36.7	-39.5	-44.8	-46.4	-45.3	-47.8	-50.5	-53.8	-57.4	-60.9
Energy	-6.8	-5.6	-7.2	-8.8	-9.4	-7.9	-8.3	-8.7	-9.1	-9.6	-10.0
Capital goods	-8.4	-10.6	-11.3	-12.8	-12.8	-12.8	-13.4	-14.1	-15.0	-16.0	-16.8
Food products	-3.6	-4.5	-4.4	-4.9	-5.2	-4.8	-5.1	-5.4	-5.7	-5.9	-6.2
Services	6.8	6.9	7.5	8.0	8.3	8.1	8.6	9.3	10.1	10.8	11.4
Tourism receipts	6.3	6.5	7.4	7.8	8.0	7.8	8.2	8.7	9.1	9.6	10.0
Income	-1.9	-1.6	-1.9	-2.2	-2.1	-2.1	-2.3	-2.4	-2.6	-2.7	-2.8
Transfers	7.7	8.2	8.8	8.0	8.9	8.3	8.8	9.0	9.5	10.0	10.3
Private transfers (net)	7.2	7.3	7.6	7.6	8.5	7.9	8.3	8.8	9.2	9.7	10.2
Workers' remittances	6.1	6.4	6.8	6.9	7.3	7.2	7.6	8.0	8.4	8.9	9.4
Official grants (net)	0.5	1.0	1.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.8	6.4	2.0	4.0	6.7	6.3	5.8	6.1	7.1	7.6	8.5
Direct investment	2.6	1.6	1.7	3.0	2.2	2.1	2.4	2.6	2.9	3.2	3.6
Portfolio investment	1.3	-0.3	-0.1	-0.8	1.6	1.2	0.2	0.2	0.3	0.2	0.2
Other	1.8	5.1	0.4	1.9	2.9	2.9	3.2	3.3	3.9	4.2	4.7
Private	0.7	4.0	-1.4	1.9	2.2	1.9	2.3	2.6	2.8	3.0	3.6
Public medium-and long-term loans (net)	1.2	1.2	1.8	-0.1	0.6	1.1	0.9	0.7	1.1	1.1	1.1
Disbursements	2.8	3.2	3.7	2.1	2.9	3.2	3.2	3.2	3.2	3.2	3.2
Amortization	-1.6	-2.1	-1.9	-2.1	-2.2	-2.2	-2.3	-2.4	-2.1	-2.1	-2.1
Reserve asset accumulation (-increase)	-4.3	-2.7	0.9	1.1	-1.8	-1.4	-1.3	-2.0	-2.9	-3.3	-3.9
Errors and omissions	0.7	0.6	0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)							
Current account	-2.1	-4.0	-3.4	-5.4	-4.0	-4.0	-3.5	-3.0	-2.9	-2.8	-2.8
Trade balance	-14.5	-17.1	-16.4	-17.1	-16.3	-15.8	-15.3	-14.8	-14.7	-14.6	-14.3
Exports, f.o.b.	18.4	18.4	19.6	20.7	21.5	21.7	22.2	22.5	22.6	22.8	22.8
Food products	4.2	4.5	4.6	4.7	4.7	5.0	5.1	5.2	5.2	5.2	5.2
Phosphates and derived products	4.5	3.9	4.2	4.7	4.7	5.0	5.1	5.1	5.2	5.2	5.2
Automobiles	4.9	5.4	5.5	5.8	7.1	6.2	6.4	6.6	6.7	6.8	6.8
Imports, f.o.b.	-32.9	-35.5	-36.0	-37.8	-37.8	-37.5	-37.5	-37.3	-37.3	-37.3	-37.1
Energy	-6.7	-5.4	-6.5	-7.4	-7.7	-6.6	-6.5	-6.4	-6.3	-6.2	-6.1
Capital goods	-8.3	-10.2	-10.3	-10.8	-10.4	-10.6	-10.5	-10.4	-10.4	-10.4	-10.3
Food products	-3.6	-4.4	-4.0	-4.1	-4.2	-4.0	-4.0	-4.0	-3.9	-3.8	-3.8
Services	6.7	6.7	6.8	6.7	6.8	6.7	6.8	6.9	7.0	7.0	6.9
Tourism receipts	6.2	6.3	6.8	6.6	6.5	6.5	6.5	6.4	6.3	6.3	6.1
Income	-1.9	-1.6	-1.8	-1.9	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7
Transfers	7.6	7.9	8.0	6.7	7.3	6.9	6.9	6.7	6.6	6.5	6.3
Private transfers (net)	7.1	7.0	6.9	6.4	6.9	6.5	6.5	6.5	6.4	6.3	6.2
Workers' remittances	6.1	6.1	6.2	5.8	6.0	5.9	5.9	5.9	5.8	5.8	5.7
Official grants (net)	0.5	0.9	1.1	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.1	1.8	3.4	5.4	5.2	4.6	4.5	4.9	4.9	5.2
Direct investment	2.6	1.5	1.5	2.5	1.8	1.8	1.9	1.9	2.0	2.1	2.2
Portfolio investment	1.3	-0.3	-0.1	-0.7	1.3	1.0	0.2	0.2	0.2	0.1	0.1
Other	1.8	5.0	0.4	1.6	2.3	2.4	2.5	2.4	2.7	2.7	2.9
Private	0.7	3.8	-1.3	1.6	1.8	1.6	1.8	1.9	2.0	2.0	2.2
Public medium-and long-term loans (net)	1.2	1.1	1.7	-0.1	0.5	0.9	0.7	0.5	0.7	0.7	0.7
Disbursements	2.8	3.1	3.4	1.7	2.3	2.7	2.5	2.3	2.2	2.1	2.0
Amortization	-1.6	-2.0	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.5	-1.4	-1.3
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	-7.0	3.3	12.7	11.2	5.5	5.4	7.1	7.0	6.7	6.7	6.0
Imports of goods and services (in U.S. dollars, percentage change)	-16.5	9.5	9.3	12.2	3.4	2.1	5.4	5.4	6.3	6.2	5.8
Current account balance excluding official grants (percent of GDP)	-2.6	-5.0	-4.5	-5.8	-4.3	-4.4	-3.8	-3.2	-3.1	-3.0	-2.9
Terms of trade (percentage change) 2/	7.5	-3.8	0.5	1.1	0.4	2.2	0.5	0.4	0.5	0.6	0.4
Gross official reserves 3/	22.8	25.1	26.2	24.4	26.8	26.0	27.4	29.6	32.5	35.9	39.9
In months of prospective imports of GNFS	6.0	6.1	5.7	5.2	5.4	5.2	5.2	5.3	5.5	6.2	6.2
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	93.6	98.5	92.3	87.1	85.4	86.9	85.8	87.4	90.7	94.5	99.2
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	122.9	128.6	121.5	115.5	112.6	114.5	112.2	113.9	117.7	122.1	127.5
Debt service (percent of export of GNFS and remittances) 5/	6.9	7.8	6.5	6.4	6.4	6.1	6.1	5.7	5.2	4.9	4.7
External public and publicly guaranteed debt (percent of GDP)	30.5	30.8	31.2	29.7	30.8	30.5	29.8	28.7	27.8	26.9	26.0
DHs per US$, period average	9.8	9.8	...	...	...	...	...	...	...	...	...
GDP (US$)	101.2	103.3	109.7	118.6	122.9	120.7	127.3	135.4	144.3	153.8	164.0
Oil price (US$/barrel; Brent)	52.4	44.0	54.4	71.1	72.3	61.8	61.5	60.8	60.4	60.6	61.0

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

1/ Refers to the macro framework for the Request for an Arrangement Under the PLL in Country Report No. 19/24.
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 5. Morocco: Monetary Survey, 2015–19

	2015	2016	2017	2018	2019
	(Billions of dirhams)				
Net International Reserves	222.1	249.2	240.9	230.7	241.2
Of which: Gross reserves	225.4	253.5	244.3	233.7	247.2
Memo item: Deposit money banks	8.3	-1.8	27.7	25.6	25.7
Net domestic assets	924.3	961.0	1,006.8	1,070.4	1,134.1
Domestic Claims	1,052.1	1,100.0	1,157.3	1,225.9	1,289.6
Net claims on the government	148.0	142.4	167.8	203.0	213.5
Banking system	148.0	142.4	167.8	203.0	213.5
Bank Al-Maghrib	-1.2	-0.3	0.2	0.8	0.7
Of which: deposits	-6.0	-4.9	-3.9	-2.9	-3.0
Deposit money banks	149.2	142.6	167.6	202.2	212.8
Claims to the economy	904.2	957.6	989.5	1,005.7	1,076.1
Other liabilities, net	-127.9	-139.0	-150.5	-155.5	-155.4
Broad money	1,148.0	1,202.4	1,269.1	1,320.6	1,373.4
Money	707.1	751.9	811.0	858.7	910.7
Currency outside banks	192.6	203.2	218.8	233.6	242.5
Demand deposits	514.4	548.6	592.2	625.1	668.2
Quasi money	401.7	407.3	417.0	424.5	441.5
Foreign deposits	39.3	43.2	41.1	37.4	21.3
	(Annual percentage change)				
Net International Reserves	23.7	12.2	-3.3	-4.2	4.6
Net domestic assets	1.9	4.0	4.8	6.3	6.0
Domestic credit	1.8	4.6	5.2	5.9	5.2
Net claims on the government	3.0	-3.8	17.8	21.0	5.2
Claims to the economy	1.6	5.9	3.3	3.4	5.2
Banking credit	2.8	4.2	3.1	3.2	4.5
Broad money	5.7	4.7	5.5	4.1	4.0
	(Change in percent of broad money)				
Net International Reserves	3.9	2.4	-0.7	-0.8	0.8
Domestic credit	1.7	4.2	4.8	5.4	4.8
Net claims on the government	0.4	-0.5	2.1	2.8	0.8
Claims to the economy	1.3	4.7	2.7	2.6	4.0
Memorandum items:					
Velocity (GDP/M3)	0.86	0.84	0.84	0.84	0.84
Velocity (non-agr. GDP/M3)	0.76	0.75	0.74	0.75	0.74
Claims to economy/GDP (in percent)	91.5	94.5	93.1	91.9	93.2
Claims to economy/non-agr GDP (in percent)	103.6	106.1	104.9	103.7	106.4

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

Table 6. Morocco: Financial Soundness Indicators, 2015–18

(Percent, unless otherwise indicated)

	2015	2016		2017		2018	
		Jun	Dec	Jun	Dec	Jun	Dec
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	13.7	13.7	14.2	13.7	13.8	14.0	na
Tier 1 capital to risk weighted assets	11.4	11.1	11.5	11.0	10.9	10.5	na
Capital to assets	9.7	9.7	9.8	9.3	9.6	9.3	9.8
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.0	18.5	17.8	17.8	17.1	17.8	16.5
Of which: agro-business	3.6	3.3	3.1	3.3	3.3	3.6	3.6
Of which: textile	0.8	0.9	0.8	0.8	0.7	0.7	0.6
Of which: gas and electricity	6.3	6.3	6.2	6.2	5.5	5.6	4.9
Agriculture	4.0	4.1	4.0	3.6	3.8	3.6	4.1
Commerce	6.4	6.7	6.4	6.7	6.7	6.6	6.2
Construction	10.7	11.4	11.2	11.2	11.3	11.1	10.5
Tourism	1.9	2.1	1.9	1.9	1.8	1.8	1.6
Finance	13.4	11.8	13.1	13.0	12.7	11.6	12.6
Public administration	4.5	4.9	4.7	4.6	4.9	5.7	8.4
Transportation and communication	4.2	4.6	4.1	4.8	4.5	4.7	4.0
Households	32.3	32.8	32.4	32.4	32.6	32.8	31.9
Other	4.6	3.1	4.4	4.0	4.6	4.2	4.3
FX-loans to total loans	7.1	6.9	7.1	8.8	7.8	7.3	7.4
Credit to the private sector to total loans	91.0	90.5	89.5	89.9	89.2	88.2	85.9
Credit to non financial public enterprises to total loans	4.9	5.2	5.8	5.5	6.2	6.1	6.1
Nonperforming Loans (NPLs) to total loans	6.8	7.2	7.1	7.0	7.0	7.1	6.8
Specific provisions to NPLs	68.0	67.0	69.0	70.0	71.0	70.0	69.1
NPLs, net of provisions, to Tier 1 capital	16.5	17.7	16.0	15.9	15.0	15.8	14.8
Large exposures to Tier 1 capital	294.0	302.0	297.4	318.0	284	296	288
Loans to subsidiaries to total loans	7.0	7.2	7.8	8.8	8.5	8.3	8.3
Loans to shareholders to total loans	1.7	1.4	1.1	1.0	0.6	0.8	1.0
Specific provisions to total loans	5.0	5.1	5.3	5.3	5.3	5.2	5.0
General provisions to total loans	0.8	0.8	0.9	1.0	1.0	1.0	1.0
Profitability							
Return on assets (ROA)	0.8	1.1	1.1	1.1	0.9	1.1	0.9
Return on equity (ROE)	9.1	11.7	11.4	11.2	9.5	11.5	9.5
Interest rate average spread (b/w loans and deposits)	3.8	3.8	3.9	3.9	3.9	3.9	na
Interest return on credit	5.0	5.0	5.0	4.9	4.9	4.8	na
Cost of risk as a percent of credit	1.1	1.2	1.1	0.9	0.8	0.9	0.9
Net interest margin to net banking product (NPB) 2/	72.0	67.9	70.6	71.4	70.1	72.1	71.2
Operating expenses to NPB	49.1	43.9	46.2	46.4	50.6	46.7	50.6
Operating expenses to total assets	1.9	1.9	1.9	1.9	1.9	1.8	1.8
Personnel expenses to noninterest expenses	47.4	47.6	47.5	47.5	47.5	47.0	47.5
Trading and other noninterest income to NPB	28.0	32.1	29.4	28.6	29.9	27.9	28.8
Liquidity							
Liquid assets to total assets	16.1	13.0	14.3	11.5	13.6	12.1	12.0
Liquid assets to short-term liabilities	21.2	17.1	18.3	15.3	16.7	14.6	14.9
Deposits to loans	104.3	105.4	98.1	97.2	100.1	93.6	96.9
Deposits of state-owned enterprises to total deposits	2.9	1.9	2.7	2.4	2.4	1.9	2.7
Sensitivity to market risk							
FX net open position to Tier 1 Capital	17.6	15.0	13.9	44.6	38.7	35.6	40.4

Source: Bank Al-Maghrib.

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

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

Table 7. Morocco: Capacity to Repay Indicators, 2018–25 1/

	2018	2019	2020	2021	2022	2023	2024	2025
Exposure and repayments (in SDR million)								
GRA credit to Morocco	0.0	2,150.8	2,150.8	2,150.8	1,838.1	762.7	0.0	0.0
(In percent of quota)	0.0	240.5	240.5	240.5	205.5	85.3	0.0	0.0
Charges due on GRA credit	0.0	20.8	51.8	55.3	54.5	35.02	10.8	0.3
Principal due on GRA credit	0.0	0.0	0.0	0.0	312.7	1,075.4	762.7	0.0
Debt service due on GRA credit	0.0	20.8	51.8	55.3	367.1	1,110.0	773.5	0.3
Debt and debt service ratios								
In percent of GDP								
Total external debt	31.1	35.2	34.3	33.1	31.8	29.8	28.2	27.3
Public external debt	27.8	31.8	31.0	29.8	28.6	26.7	25.2	24.5
GRA credit to Morocco	0.0	2.5	2.4	2.2	1.8	0.7	0.0	0.0
Total external debt service	2.7	2.7	2.6	2.5	2.6	3.1	2.6	1.8
Public external debt service	1.7	1.7	1.6	1.5	1.7	2.2	1.8	1.1
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.4	1.0	0.7	0.0
In percent of gross international reserves								
Total external debt	151.0	163.3	159.2	151.5	140.9	127.6	115.9	109.0
Public external debt	135.0	147.4	143.6	136.6	126.9	114.4	103.7	97.5
GRA credit to Morocco	0.0	11.7	11.0	10.3	8.0	3.0	0.0	0.0
In percent of exports of goods and services								
Total external debt	110.7	124.9	128.2	131.1	134.4	136.0	138.8	143.5
Public external debt	99.0	112.5	115.4	117.9	120.7	121.8	124.1	128.4
GRA credit to Morocco	0.0	6.7	6.2	5.8	4.7	1.8	0.0	0.0
In percent of total external debt								
GRA credit to Morocco	0.0	5.3	4.9	4.4	3.5	1.3	0.0	0.0
In percent of public external debt								
GRA credit to Morocco	0.0	5.9	5.4	4.9	3.9	1.5	0.0	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	118.6	120.7	127.3	135.4	144.3	153.8	164.0	175.0
Gross international reserves (in billions of U.S. dollars)	24.4	26.0	27.4	29.6	32.5	35.9	39.9	43.9
Exports of goods and services (in billions of U.S. dollars)	43.1	45.5	48.7	52.1	55.6	59.3	62.8	66.6
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

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

Table 8. Morocco: Inclusive Growth Indicators

Population (million of people, 2018): 35.2

Per capita GDP: $3,559; 2018

	Morocco 5Y Trend	Morocco Indicator	EMDE Average
Growth			
GDP per capita growth (percent; 2011 PPP, 2015-18 average)	↘	2.1	3.3
Gross fixed capital formation (percent of GDP; 2015-18 average)		29.8	24.1
Poverty and Inequality			
Poverty headcount ratio at $3.20/day (percent of population; 2011 PPP)	↘	7.7	32.9
Multidimensional poverty (percent of population)		n.a.	31.2
Prevalence of stunting (% of children under 5, 2011)	↗	14.9	22.7
GINI Index (2014)	↘	39.5	39.6
Child mortality (per 1,000, 2016)	↘	27.1	39.6
Growth in mean consumption (growth, %, bottom 40th percentile)		n.a.	2.4
Human Development and Access to Services			
Human Development Index (2017)	↗	0.6	0.6
Life expectancy at birth (years, 2016)	↗	75.8	69.5
Access to electricity (% of population, 2016)	↗	100.0	78.4
Net school enrollment, secondary, total (% population, 2012)	↗	56.7	63.1
Individuals using internet (% population, 2016)	↗	58.3	40.8
Literacy rate (% population, 2012)	↗	69.4	79.1
Access to basic water sources (% of population)	↗	83.0	82.8
Government			
Commitment to reducing inequality index (2017)		0.32	0.35
Government spending on social safety net programs (percent of GDP, 2018)		1.1	1.6
Coverage of social safety net programs in poorest quintile (% population,	↗	50.1	42.3
Government expenditure on education, total (% GDP, 2009)	↗	5.3	4.6
Health expenditure, domestic general government (% of GDP, 2015)	↗	2.4	2.9
Access to Finance			
Account at a financial institution (% age 15+, 2017)	↗	28.4	43.0
Domestic credit to private sector (% GDP, 2017)	↘	63.2	39.8
Loans to SMEs (% of GDP, 2017)	↘	13.5	7.8
Financial Inclusion Index (IMF, 2017)		0.7	0.3

	Morocco 5Y Trend	Morocco Indicator	EMDE Average
Labor Markets			
Unemployment rate (% of total labor force, 2018)	↗	9.0	8.7
Female (% of female labor force, 2018)	↗	10.4	11.4
Youth (% of total labor force ages 15-24, 2018)	↘	21.9	20.4
Labor force participation (% of total population ages 15+, 2018)	↘	45.4	59.7
Female (% of female population ages 15+, 2018)	↘	21.4	45.0
Youth (% of population ages 15-24, 2018)	↘	26.6	39.2
Business Environment 1/			
Ease of Doing Business (DTF, 2019)	↗	71.0	56.2
Starting a Business (DTF, 2019)	↗	93.0	81.5
Registering Property (DTF, 2019)	↗	67.9	57.4
Enforcing Contracts (DTF, 2019)	↗	60.9	52.4
Paying Taxes (DTF, 2019)	↗	85.7	63.8
Resolving Insolvency (DTF, 2019)	↗	52.8	36.3
Trading Across Borders (DTF, 2019)	↗	83.6	62.8
Global Competitiveness Index, Overall (2018)		56.6	54.5
Governance 1/			
Open Budget Survey Index (2017)	↗	45.3	37.5
Government Effectiveness (WGI, 2017)	↗	-0.1	-0.5
Regulatory Quality (WGI, 2017)	↗	-0.2	-0.4
Rule of Law (WGI, 2017)	↗	-0.2	-0.4
Control of Corruption (WGI, 2017)	↗	-0.1	-0.3
Corruption Perceptions Index (2017)	↗	40.0	36.2
Criminal Justice (WJP, 2017-18)		0.37	0.44
Bribery Index (2017-18)		-0.48	-0.25
Gender			
Account at a financial institution (male vs. female, % points, 2017)		24.5	8.07
Female employment to population ratio (%, 2017)		22.5	46.8
Literacy rate (female vs male, %, 2014)	↗	73.6	86.1
Net school enrollment, secondary (female vs male, %, 2011)	↗	85.4	97.3
Female seats in Parliament (share of total seats)	↗	20.5	19.5
Wage Equality for Similar Work (survey, WEF, 2018)		0.61	0.65
Global Gender Gap Score (WEF, 2018)		0.6	0.7

Better than EMDE Average (green) **Worse than EMDE Average** (pink)

Sources: IMF World Economic Outlook, World Bank, World Economic Forum, International Labour Organization, Transparency International, UNDP, Oxfam International, World Governance Indicators, World Justice Project.

1 / Indicators use official sources and surveys to summarize perceptions of the quality of governance and business environments.

Table 9. Morocco: FSAP Key Recommendations—Status as of March 2019

Recommendations	Priority [1/]	Implementation Status
Banking Regulation and Oversight		
Address banking supervisor's capacity constraints; strengthen on-site supervision capacity.	I	In progress. Internal reorganization implemented and increase of effectives to respond to on site supervision.
Review loan classification and provisioning rules on a solo basis; conduct an impact study for implementing the relevant IFRS9 in coordination with tax authorities.	NT	On a solo basis, the loans classification and provisioning rules have been finalized. The transitional arrangement is currently being developed in consultation with the banks and external auditors. The accounting treatment of the first-time application impact is planned to be consulted with the national council of accountancy On a consolidated basis, IFRS 9 was adopted by Moroccan banks on January 1, 2018. Bank Al-Maghrib (BAM) conducted the impact studies of this standard before implementation and adopted, on this basis, a transitional arrangement for the prudential impact on regulatory capital in line with Basel Committee provisions.
Advance recovery & resolution plans; more frequent comprehensive assessments for SIFIs	I/NT	The R&R circular was examined by the CEC in July 2017 and communicated to banks for their implementation. New units dedicated to overseeing individual SIFIs since January 2016. Following the adoption of BAM circular in Q3 2017. The three systemic banks submitted to BAM during Q4 2018 their first recovery plans.
Macro Prudential Oversight		
Clarify the powers, instruments and voting arrangements of the CCSRS.	I	Finalized. The draft decree, considering the recommendations of the 2015 FSAP (clarifying the CCSRS's role in issuing recommendations and following up on implementation ("complain & explain" approach), and its voting arrangements), was adopted by the Government Council in September 2017.
Amend laws governing regulators for capital markets, and insurance and pensions to include financial stability objective.	I/NT	In progress. Legal framework addressing overlap among various regulatory bodies being designed. The opportunity to integrate the amendment of capital market and insurance laws within a more comprehensive reform is being assessed. Work in progress and expected to be finalized by 2022.
Implementation of countercyclical capital buffer (CCB); expand data coverage for the risk map; include more targeted sectoral instruments (cont.) Implementation of Countercyclical Capital Buffers (CCB)	NT	Introduced by the circular 1/W/16 (June 2016) on Credit Institutions Equity, published in the official bulletin on April 2018. Procedure for setting the level of CCB published in the Financial Stability Report 2016. Given the evolution of the financial cycle and the methodology adopted, the level of the CCB is set so far at 0%. It is calibrated regularly, and the results are presented to the financial stability committees.

[1/] "I-Immediate" is within one year; "NT-near-term" is one to three years; "MT-medium-term" is three to five years.

<table>
<tr><th colspan="4">Table 9. Morocco: FSAP Key Recommendations—Status as of March 2019 (continued)</th></tr>
<tr><th colspan="2">Recommendations</th><th>Priority</th><th>Implementation Status</th></tr>
<tr><td rowspan="2">Implementation of countercyclical capital buffer (CCB); expand data coverage for the risk map; include more targeted sectoral instruments.</td><td>Expand data coverage for the risk map</td><td rowspan="2">NT</td><td>Risk mapping reviewed in first semester 2017 and consist on six risk pillars. A new pillar dedicated to payment systems and market infrastructures was introduced. Work is underway to introduce the emerging risks related to the FinTech, cyber risk, and green finance.

The data coverage has been extended in many ways : (i) sample to monitor non-financial firms indebtedness has been improved, in terms of quality and representativeness of the Moroccan economy, from 1684 to 72100 public and private non-financial enterprises; (ii) data for real estate risks: data to calculate LTV (loan-to-value) has been collected from Property registry Agency; (iii) Sample to monitor Household sector has been improved, in terms of quality and representativeness, from 182471 to 265084 borrowers. The ongoing work aims to set a dedicated survey to this matter.

Financial soundness indicators: The development of financial soundness indicators for macroprudential analysis, in accordance with international standards, has been reviewed with recent IMF technical assistance.</td></tr>
<tr><td>Implementation of new specific macroprudential instruments</td><td>Capital overload for systemically important banks: The methodology for the identification of Domestic Systemically Important Banks (D-SIB) as well as the calibration approach of the capital surcharge applicable to them were put in place and approved by the financial stability committee in December 2017. The results were presented, for consultation and advice, during the October / November 2016 IMF assistance mission.

LTV Cap: requirements are being introduced, namely data required to calculate LTV have been collected. IMF technical assistance took place in late April 2019.</td></tr>
<tr><td colspan="2">Emergency Liquidity Assistance (ELA)</td><td></td><td></td></tr>
<tr><td colspan="2">Separate BAM's ELA function clearly from government solvency support.</td><td>I</td><td>In progress. Amendment included in the Bank Al-Maghrib's draft law expected to be approved in the April 2019 parliamentary session.</td></tr>
<tr><td colspan="2">Strengthen BAM's recapitalization process; review its profit distribution mechanism.</td><td>NT</td><td>Agreed that BAM's balance sheet needs to be strengthened. The alternative chosen has been to include a state guaranty scheme in case of solvency problem, which is already included in the draft BAM law.</td></tr>
<tr><td colspan="2">Early Intervention/Bank Resolution Framework</td><td></td><td></td></tr>
<tr><td colspan="2">Define the objectives of banking resolution; incorporate "the least-cost principle"</td><td>I</td><td rowspan="3">In progress. Comprehensive overhaul of legal framework for banking resolution has been initiated with TA support and with help from legal firm that has been hired in April 2017. Estimated time frame for completing the technical work will take up to three years, approximately by end 2020.</td></tr>
<tr><td colspan="2">Formalize the hierarchy of creditors' claims; introduce bail-in powers</td><td>I/NT</td></tr>
<tr><td colspan="2">Designate an explicit bank resolution authority; limit its legal liabilities in this mandate</td><td>I/NT</td></tr>
</table>

Table 9. Morocco: FSAP Key Recommendations—Status as of March 2019 (concluded)

Recommendations	Priority	Implementation Status
Deposit Insurance		
Remove any type of open bank assistance via the deposit guarantee fund (DGF).	NT	The deposit guarantee fund is introduced in the Banking law.
Grant DGF a priority over uninsured depositors and general creditors.	NT	The draft law on immovable assets was adopted by the government council on March 14, 2019. This version does not include a priority to the DGF. The only privilege granted is on the funds transferred to banks. Art 139 of the banking law mentions that in case of liquidation, the DGF has a priority of recovering the amounts given to banks through the Treasury.
Financial Market Infrastructures		
Implement guarantee scheme and default handling procedures for securities transactions	I	In progress. A new legal framework (Loi sur le Marche a Terme) that provides more flexibility and lower costs in the use of collateral has been transmitted to the Government's General Secretariat in 2018 for discussion in the Government's Council. It is part of the part of the market supervision reform that will create the compensation chamber and extend its scope.
Strengthen BAM's oversight of the payment systems	NT	In progress. Mobile solution launched in November 2018. Payment system supervision covered in draft BAM law submitted to parliament.
Publish all policies applicable to FMIs and the disclosure framework of the SRBM	NT	
Securities Market Regulation and Oversight		
Apply consistent regulations and supervision to all participants in securities markets	NT	In progress, as part of the ongoing revision of the legal framework for capital markets. The Security Exchange Law (2017) includes the provisions that now need to be regulated.
Strengthen enforcement in sanctions and fines imposed on individuals	NT	The regulation on enforcement on sanctions and fines has been finalized in 2018.
Improve valuation of government securities and review valuation rules of mutual funds	NT	On valuation of government securities, the yield curve is being revised. The valuation rules going to be introduced in a more comprehensive reform of mutual funds which is being finalized.
Financial Inclusion		
Establish a well-resourced governance and a robust monitoring and evaluation framework	I	The National Strategy for Financial Inclusion finalized by BAM and MoF was launched in April 2019 with the creation of the National Council for Financial Inclusion, headed by the Minister of Finance.
Improve credit bureau data quality; expand data providers to non-financial institutions	I/NT	In progress. Second credit bureau started operating in November 2017. New services have been introduced, including enterprise scoring and portfolio surveillance, and use of alternative data such as utility bill payment information.
Review blanket ceiling on lending rates	NT	Partially done. Micro-credit institutions have already higher interest rate ceilings than the banking system (average interest rates are 18% while for banks are 15%), but they have still to better reflect level of risks and costs. At the end of 2018, the micro-credit law has been modified to increase the ceiling for credits to micro-enterprises from DH 50,000 a DH 150,000.

Annex I. Implementation of Past Fund Advice

1. **Fiscal policy**. The deficit in 2018 (3.7 percent of the GDP) was almost at the same level as in 2017 (3.5 percent of the GDP), but higher than the budget objective of 3 percent of the GDP due largely to exogenous factors (higher international butane price and grant shortfall). The authorities remain committed to reducing public debt to 60 percent of GDP over the medium term. The organic budget law provisions on limiting the carryover of investment appropriations entered into force in January 2018, and the authorities plan to gradually implement the remaining provisions (including the triennial budget and programming, and the auditing of fiscal accounts) by 2020. A comprehensive strategy to implement the recommendations from the 2017 IMF/World Bank Public Investment Management Assessment (PIMA) has been put in place. The deconcentration charter has been adopted, as well as transparent criteria for the transfer of public resources to regions.

2. **Monetary and exchange rate policy**. Inflation remains low and inflation expectations are well-anchored. BAM has kept its main policy interest rate unchanged at 2.25 percent since March 2016. The authorities started the transition to greater exchange rate flexibility in January 2018, by widening of the dirham fluctuation band to +/-2.5 percent (from 0.3 percent) on either side of a reference parity (based on a euro/US dollar basket). The central bank has not intervened in the foreign exchange market since March 2018, including because banks' foreign exchange positions remain long. Exchange rate fluctuations have remained very limited so far.

3. **Financial sector policies**. Solid progress has been made in upgrading the financial policy framework, including implementing Basel III and FSAP recommendations. Most regulations to implement the new banking law have been introduced, except for the crisis management and bank resolution frameworks. Banks' loan classification and provisioning practices have been upgraded with the adoption of the International Financial Reporting Standard (IFRS 9) in January 2018. Its impact will be phased in over the next five years. Bank supervision continues to be strengthened, including in the context of the expansion of Moroccan banks in Africa, through close cooperation with host-country and regional supervisory bodies. The new central bank law is expected to be approved during the April 2019 parliamentary session.

4. **Structural reforms**. Morocco has made continued progress to improve the business climate and access to finance, but much remains to be done to significantly raise productivity and potential GDP. Reaching the medium-term government's objectives will require sustained reforms to facilitate job creation and to improve the quality of education outcomes and vocational training, while reducing inequalities.

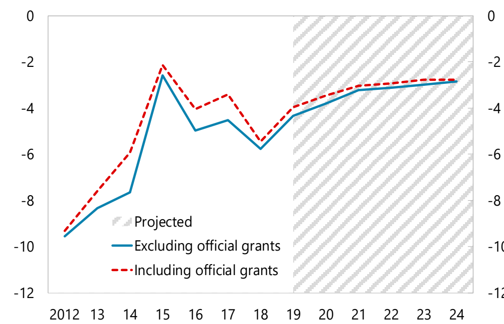
Annex II. External Sector Assessment[1]

Morocco's external position in 2018 is assessed to be moderately weaker than implied by fundamentals and desirable policies. Looking ahead, continued policy action to resolve remaining fiscal imbalances, increased exchange rate flexibility, and structural reforms to improve the business climate and boost competitiveness would further bolster buffers and support the economy's resilience.

Current Account and Exchange Rate

1. The current account deficit widened in 2018 after improving moderately in 2017. The worsening of the current account in 2016 was initially expected to be temporary, mainly due to higher imports of capital goods and lower export growth, because of negative terms of trade changes. The current account improvement in 2017 was mostly due to the stabilization of imports as well as the strong performance of tourism and remittances. In 2018, the current account widened significantly as the trade balance deteriorated, due to higher oil prices and imports, which could not be offset by the strong export performance of the automobile and phosphate industries. Tourism receipts as well as remittances underperformed as well. Looking forward, the current account is expected to gradually improve, driven by strong export growth in phosphates as well as the aeronautics and automotive sectors, a moderate import growth, and sustained tourism receipts and remittances. These trends would also offset the reduction in official grants expected in 2019–24. Overall, the current account deficit is expected to decrease to 2.8 percent in the medium term.

Current Account, 2012–24
(In percent of GDP)



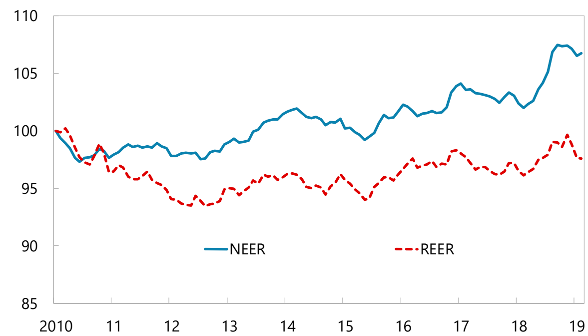
Sources: National authorities; and IMF staff estimates.

2. Morocco's current account is characterized by large trade deficits, a tourism-driven surplus in services, and strong remittances. The trade deficit is highly sensitive to external demand, particularly from the Eurozone (2/3 of export market), and the price of oil, of which Morocco is one of the largest net importers. Since 2012, the sharp decline in oil prices has helped shrink the share of oil imports as percent of GDP from 12.6 in 2012 to 5.4 in 2016. However, with higher oil prices, the share of oil imports recovered to 7.4 percent of GDP in 2018. At the same time, the composition of exports has gradually shifted toward higher value-added sectors, with automobile exports overtaking the traditional export engines: phosphate and textiles. Tourism receipts, at about 6½ percent of GDP, have remained robust despite the low euro.

[1] Prepared by Borislava Mircheva.

3. **Starting in 2012, the REER has been appreciating moderately.** The Moroccan dirham, which is pegged to the euro (60 percent of the basket) and US dollar (40 percent), has been appreciating moderately through 2018.

Real and Nominal Effective Exchange Rates, 2010–19
(Index, Jan. 2010 = 100)



Sources: National authorities; and IMF staff estimates.

4. **Morocco's external position is moderately weaker than implied by fundamentals and desirable policies.** Based on the IMF's External Balance Assessment (EBA), the current account (CA) methodology suggests a current account gap of -1.8 percent of GDP, corresponding to an over-valuation of the REER of 6 percent. This gap consists of a policy gap of 1.5 percent of GDP, comprising a fiscal gap of 0.6 percent of GDP, a health spending gap of -0.3 percent of GDP, a credit gap of 0.8 percent of GDP, a reserve gap of -0.4 percent of GDP, and a capital control gap of 0.8 percent of GDP. The unexplained residual is -3.4 percent of GDP and the complementary structural tool suggests that worker-employer relations, which are correlated with lower employment protection and higher spending on active labor market policies, help to explain it.[2] Therefore, labor market rigidities, if addressed, would improve competitiveness and consequently the current account deficit. In addition, over the medium term, planned fiscal consolidation and the move to exchange rate flexibility should help build buffers and close the current account gap. The REER method suggests an undervaluation of 5.2 percent. However, it should be considered that the underlying series on the home bias variable is limited for Morocco, which affects the robustness of the estimates. Also, since the current account is a less volatile variable than the REER, it is often preferable to base the overall assessment on the EBA current account model, especially when the current account and REER models provide conflicting signals.

CA Model		REER Model	
Actual CA (2018)	-5.4%	ln(REER)	4.61
Cyclically adjusted CA	-5.7%	ln(REER)-Norm	4.66
CA Norm	-3.9%	**REER-Gap**	**-5.2%**
CA Gap	**-1.8%**	ln(REER)-Fitted	4.67
o/w Policy gap	1.5	Residual	-0.06
Fiscal	*0.6*	Policy gap	1.0
Health	*-0.3*		
Reserves	*-0.4*		
Credit	*0.8*		
Capital controls	*0.8*		
Residual	-3.4		
Elasticity	0.31		
REER gap	**6.0%**		
Source: IMF staff calculations		Source: EBA-lite methodology; IMF staff calculations	

Capital and Financial Accounts

5. **An uptick in net FDI and private capital inflows strengthened the financial account in 2018.** At 1.5 percent of GDP in 2016 and 2017, net FDI has declined significantly from the average of 2.6 percent experienced during 2011–15. Net FDI is estimated to have strengthened to 2.5 percent of GDP in 2018 and is expected to hover around 2 percent of GDP in the medium term, driven by ongoing and expected investments in the aeronautics, chemicals, and automobile sectors. In terms

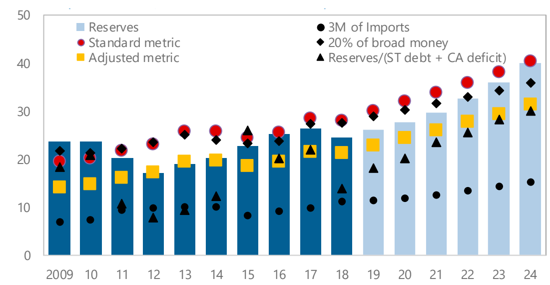
[2] See IMF Working Paper, WP/19/65.

of other financing, both the government and corporates have been able to issue bonds in international markets at favorable rates supported by an accommodative global financing environment. The government expects three large sovereign bond issuances between 2019 and 2022 while private portfolio investment and other inflows should continue to contribute to the financing of the current account deficit. External debt is contained at about 30 percent of GDP in the medium term and its structure poses limited risks (see External Debt Sustainability Assessment).

Reserves

6. Morocco's reserves are assessed as adequate based on a range of metrics. Reserves are estimated to have decreased slightly in 2018 but account for a comfortable 5.2 months of imports or 87.2 percent of the standard reserve adequacy metric (compared to 92.3 percent in 2017). Looking ahead, as the current account deficit narrows, and the financial account improves, reserve coverage is expected to remain at about 87 percent of the standard reserve adequacy metric in 2019 and reach 100 percent (128 percent of the adjusted metric) by 2024.

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

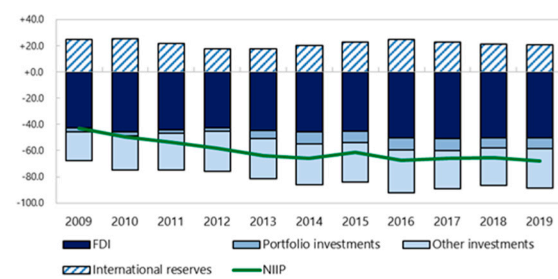


Sources: National authorities; and IMF staff estimates.

External Balance Sheet

7. Larger current account deficits have worsened Morocco's net international investment position (NIIP). After an improvement in 2015, the NIIP position started to weaken again in 2016 following the same path seen since 2009. The NIIP moved from about -61 percent of GDP in 2015 to -66.1 in 2017, and -65.4 percent of GDP in 2018, due mainly to FDI and other investment.[3] The projected path of the NIIP does not imply external sustainability risks. The EBA external sustainability approach suggests that the projected current account is stronger than the level required to stabilize the IIP, suggesting an REER undervaluation of 4.5 percent. A current account deficit of 4.2 percent of GDP, would stabilize the NIIP at -65.4 percent of GDP. To maintain the NIIP at its 10-year average of about -50 percent of GDP, a current account deficit of 3.2 percent of GDP is required, suggesting an REER undervaluation of 1.3 percent. However, it should be considered that while the ES approach provides useful insights, it does not provide information on specific policy gaps that shed light on how the actual current account or REER can be brought closer to its normative value.

Morocco: Composition of Net International Investment Position (Percent of GDP)



Sources: National authorities; and IMF staff estimates.

[3] This data and the ES approach results are as of April 3, 2019.

External Competitiveness

8. Morocco's external competitiveness could improve further. For example, labor rigidities in Morocco are associated with a low degree of cooperation between employers and employees. Such frictions can be seen as raising labor costs, for a given level of wages, thus lowering competitiveness. In addition, Morocco ranks 71st out of 137 countries in the 2017–18 World Economic Forum's Global Competitiveness Index, with low scores in labor market efficiency, higher education and training, and innovation. On the 2019 World Bank's Ease of Doing Business Indicators, Morocco now ranks 60th. Even though this is an improvement from the previous year (up from 69 in the 2018 ranking), Morocco does not score favorably on topics such as getting credit, resolving insolvency, enforcing contracts, and registering property.

Annex III. Public Debt Sustainability Analysis (DSA)

Morocco's public debt remains sustainable. While the gross debt-to-GDP ratio declined between 2000 and 2010, external shocks and domestic factors have caused the ratio to rise again since then. Nevertheless, at about 64.9 percent of GDP at the end of 2018, public debt remains sustainable, and the DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear to be moderate for the most part. Gross financing needs (mainly linked to the rollover of existing debt) have exceeded the benchmark of 15 percent of GDP in 2014, but are now declining, further mitigating rollover risks.

1. This DSA updates the analysis conducted at the time of the approval of the fourth Precautionary Liquidity Line (PLL) arrangement. The overall analysis is unchanged, and public debt remains sustainable. A small revision to real GDP growth projections for 2018–24 has not affected the debt to GDP ratio significantly. However, higher fiscal deficits than envisaged at the time of the 2017 Article IV Consultation, due to exogenous factors in 2018-19 (i.e., elevated international butane prices and lower grant revenues) and increased social spending going forward, have slightly moved the public debt path upward.

2. After declining in the previous decade, Morocco's public debt to GDP ratio started rising in 2010, following a deteriorating macroeconomic performance. The increase in public debt to GDP has been mostly driven by the levels of the primary deficit and higher-than-expected real interest rate/growth differential. In early 2010s, rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 65.1 percent in 2017. About half of this increase occurred in 2012, when the economy was most affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices, and the authorities encountered difficulties in containing the fiscal deficit. Higher international butane prices resulted in increased subsidies above projected level in 2018 and contributed to a higher-than-budgeted primary deficit. However, public debt declined slightly to 64.9 percent in 2018, as economic growth remained robust. The authorities' plan to reduce and stabilize the fiscal deficit around 3 percent of GDP after 2020. While a portion of privatization proceeds would be used to lower government financing needs, the reduction of public debt to 60 percent of GDP over the medium term would be achieved mostly through improved growth dynamics.

3. Public debt is generally resilient to shocks, but there are residual risks linked to financing needs and, to a lesser extent, to the currency composition (heat map). Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts over the medium term, aimed at lowering and stabilizing the overall deficit to about 3 percent of GDP after 2020, do not appear exceptional relative to the distribution of other country cases. The debt level remains well below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance where it slightly approaches the benchmark. Vulnerabilities linked to the profile of debt are mostly moderate and short-term debt on downward path in recent years represents a very small part of the total debt (about 12.3 percent at end-2017). Relevant indicators (except bond spread over U.S. bonds) exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (chart). Gross financing needs, which exceeded the benchmark of 15 percent in 2014, declined under that benchmark in 2015, and are expected to continue declining over the medium term due to a lengthening of average maturities through improved debt management. Although gross financing needs could increase under the shock scenario, the nature of the investment base (mostly local investors, many of whom are long-term investors) mitigates the associated risks. Nonetheless, these risks highlight the importance of continuing the path of fiscal consolidation to reduce debt-financed deficits, and of carefully managing the maturity profile of public debt.

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

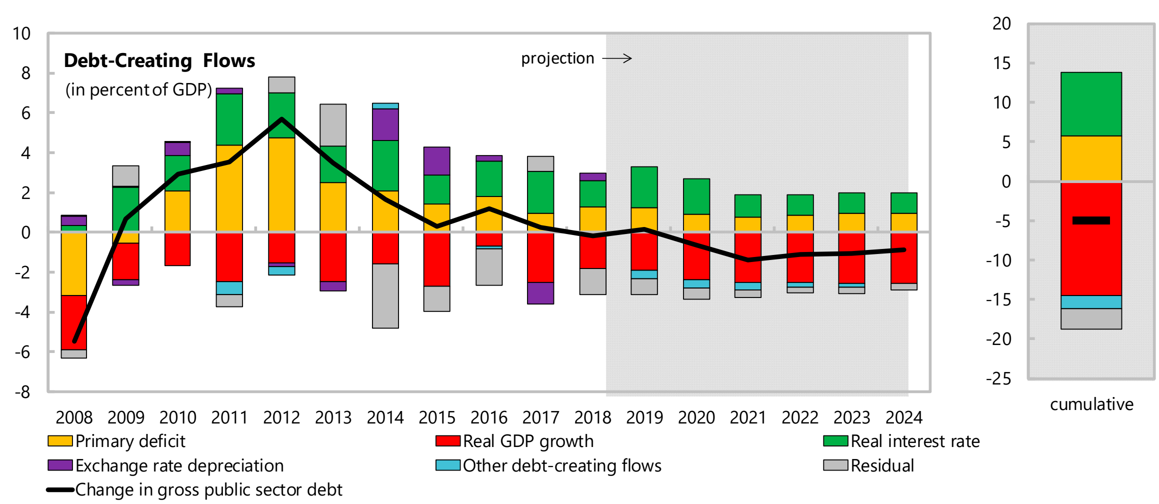
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of April 08, 2019		
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	Sovereign Spreads		
Nominal gross public debt	56.1	65.1	64.9	65.1	64.5	63.1	62.0	60.9	60.0	EMBI (bp) 2/		374
Public gross financing needs	14.4	7.2	12.1	9.4	10.7	10.2	9.0	8.2	7.6	CDS (bp)		109
Real GDP growth (in percent)	3.9	4.1	3.0	3.0	3.8	4.1	4.3	4.4	4.5	Ratings [3/]	Foreign	Local
Inflation (GDP deflator, in percent)	1.2	0.7	1.8	0.7	1.0	1.8	1.8	1.7	1.7	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	5.1	4.9	4.7	3.8	4.9	6.0	6.1	6.2	6.3	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	4.9	4.1	3.9	4.0	3.9	3.7	3.6	3.6	3.6	Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.5	0.3	-0.2	0.2	-0.6	-1.4	-1.1	-1.1	-0.9	-4.9	-1.6
Identified debt-creating flows	1.9	-0.5	1.1	0.9	-0.1	-1.0	-0.9	-0.8	-0.6	-2.4	
Primary deficit	1.7	0.9	1.3	1.3	0.9	0.8	0.9	0.9	1.0	5.7	
Primary (noninterest) revenue and grants	27.8	26.6	26.0	26.2	26.2	26.3	26.5	26.7	26.9	158.7	
Primary (noninterest) expenditure	29.5	27.5	27.3	27.4	27.2	27.0	27.4	27.6	27.9	164.4	
Automatic debt dynamics [5/]	0.3	-1.5	-0.2	0.1	-0.6	-1.4	-1.5	-1.5	-1.5	-6.5	
Interest rate/growth differential [6/]	-0.1	-0.4	-0.5	0.1	-0.6	-1.4	-1.5	-1.5	-1.5	-6.5	
Of which: real interest rate	1.9	2.1	1.3	2.0	1.8	1.1	1.0	1.1	1.0	8.0	
Of which: real GDP growth	-2.0	-2.5	-1.8	-1.9	-2.4	-2.5	-2.5	-2.6	-2.6	-14.5	
Exchange rate depreciation [7/]	0.4	-1.0	0.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	0.0	-1.7	
CG: Privatization Proceeds (negative)	-0.1	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	0.0	-1.7	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.4	0.8	-1.3	-0.8	-0.6	-0.4	-0.3	-0.3	-0.3	-2.6	



Source: IMF staff.

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

2/ Bond Spread over U.S. Bonds.

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

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

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

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

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

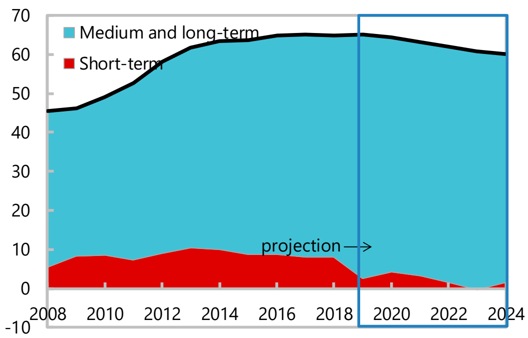
8/ For projections, this line includes exchange rate changes during the projection period.

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

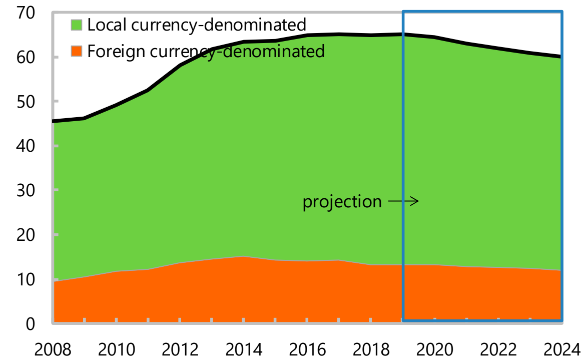
Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



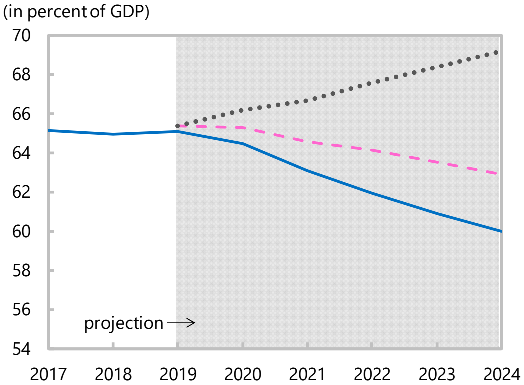
By Currency
(in percent of GDP)



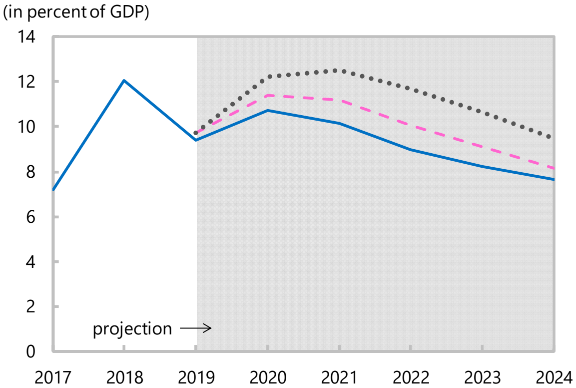
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.0	3.8	4.1	4.3	4.4	4.5
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary Balance	-1.3	-0.9	-0.8	-0.9	-0.9	-1.0
Effective interest rate	4.0	3.9	3.7	3.6	3.6	3.6
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.8	4.1	4.3	4.4	4.5
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	4.0	4.3	4.1	4.1	4.0	3.7

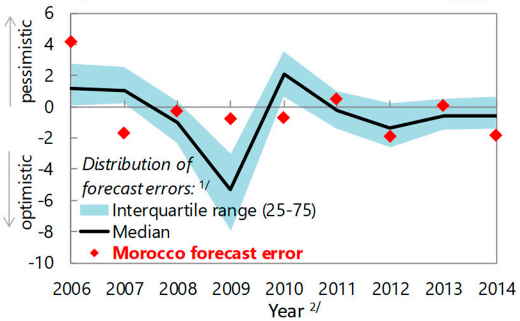
Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.0	3.6	3.6	3.6	3.6	3.6
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary Balance	-1.3	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	4.0	4.3	4.3	4.5	4.4	4.0

Source: IMF staff.

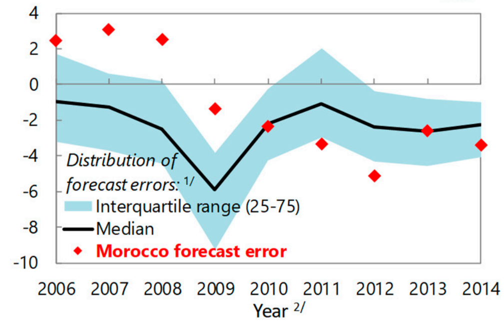
Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries

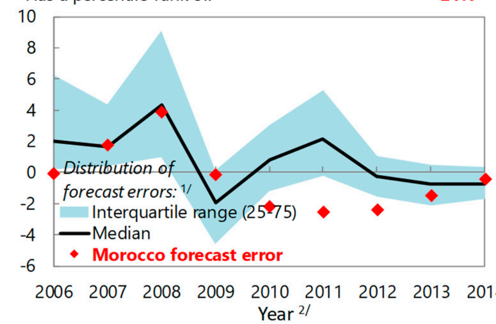
Real GDP Growth
(in percent, actual-projection)
Morocco median forecast error, 2006-2014: -0.70
Has a percentile rank of: 29%



Primary Balance
(in percent of GDP, actual-projection)
Morocco median forecast error, 2006-2014: -2.33
Has a percentile rank of: 16%

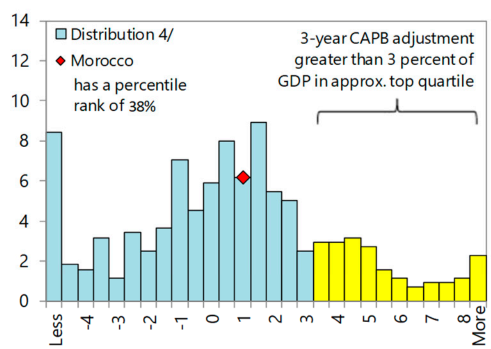


Inflation (Deflator)
(in percent, actual-projection)
Morocco median forecast error, 2006-2014: -0.41
Has a percentile rank of: 21%

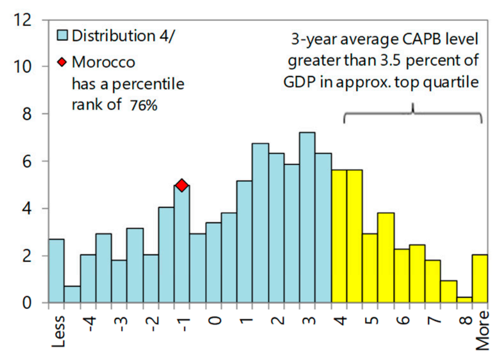


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

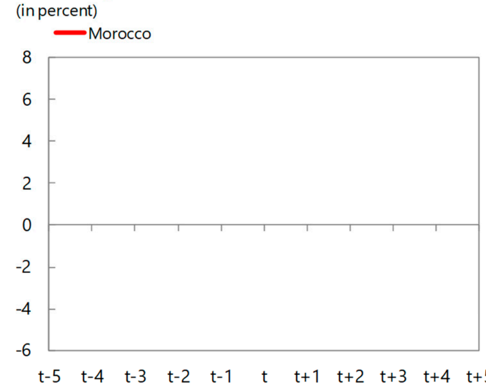


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

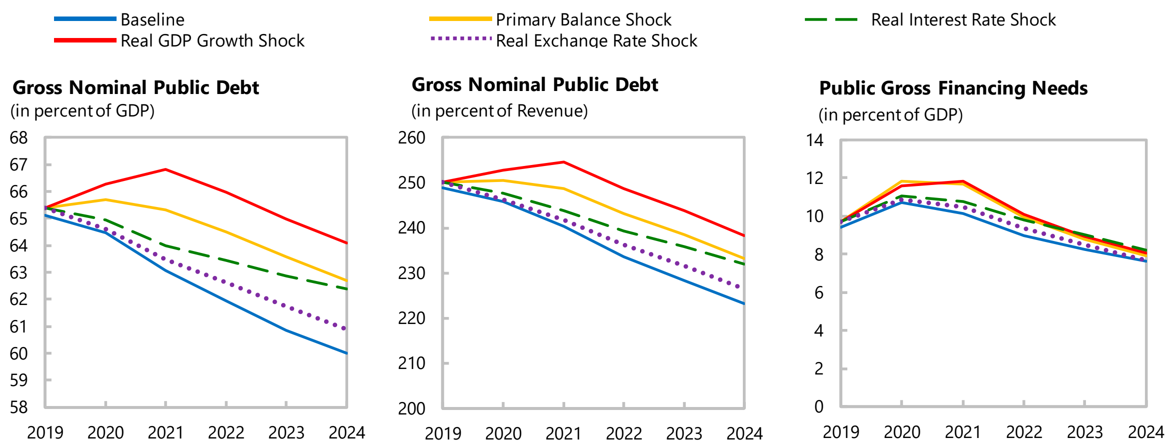
Real GDP growth
(in percent)



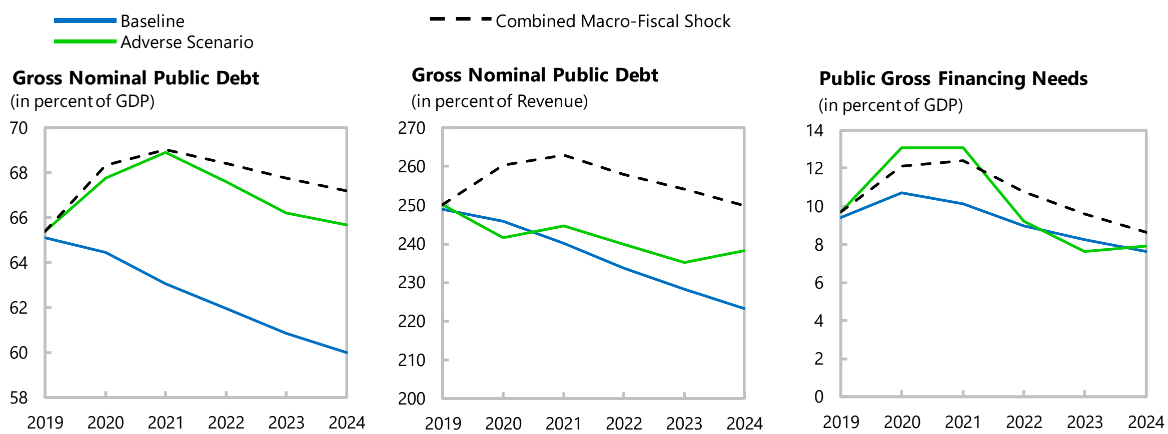
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Morocco.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with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

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	3.0	3.8	4.1	4.3	4.4	4.5
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary balance	-1.3	-1.7	-1.6	-0.9	-0.9	-1.0
Effective interest rate	4.0	4.3	4.1	4.2	4.0	3.7
Real Interest Rate Shock						
Real GDP growth	3.0	3.8	4.1	4.3	4.4	4.5
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary balance	-1.3	-0.9	-0.8	-0.9	-0.9	-1.0
Effective interest rate	4.0	4.3	4.4	4.6	4.5	4.4
Combined Shock						
Real GDP growth	3.0	2.6	2.9	4.3	4.4	4.5
Inflation	0.7	0.7	1.5	1.8	1.7	1.7
Primary balance	-1.3	-1.7	-1.6	-0.9	-0.9	-1.0
Effective interest rate	4.0	4.3	4.4	4.6	4.6	4.4
Adverse Scenario						
Real GDP growth	3.0	2.2	2.5	2.6	2.8	2.9
Inflation	0.7	1.0	1.8	1.8	1.7	1.7
Primary balance	-1.3	-2.8	-2.1	0.8	0.6	-0.3
Effective interest rate	4.0	4.3	4.3	4.4	4.0	3.8

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	3.0	2.6	2.9	4.3	4.4	4.5
Inflation	0.7	0.7	1.5	1.8	1.7	1.7
Primary balance	-1.3	-1.3	-1.6	-0.9	-0.9	-1.0
Effective interest rate	4.0	4.3	4.1	4.2	4.0	3.7
Real Exchange Rate Shock						
Real GDP growth	3.0	3.8	4.1	4.3	4.4	4.5
Inflation	0.7	4.2	1.8	1.8	1.7	1.7
Primary balance	-1.3	-0.9	-0.8	-0.9	-0.9	-1.0
Effective interest rate	4.0	4.3	4.1	4.1	4.0	3.6

Source: IMF staff.

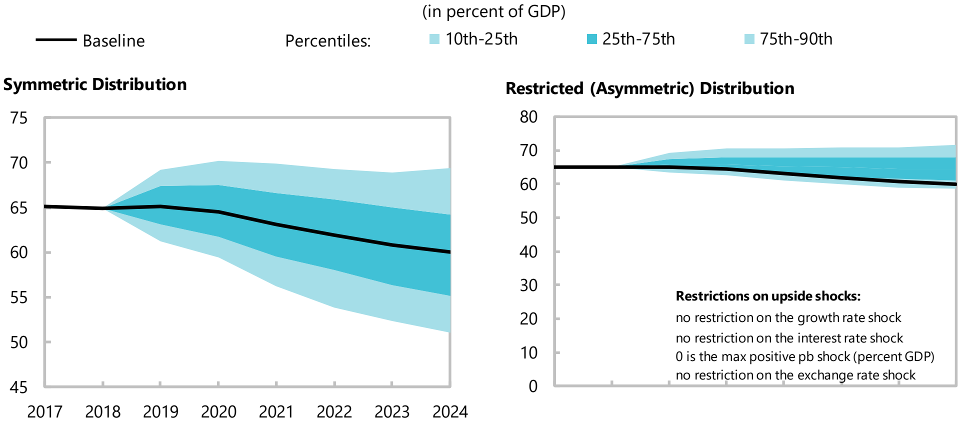
Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

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

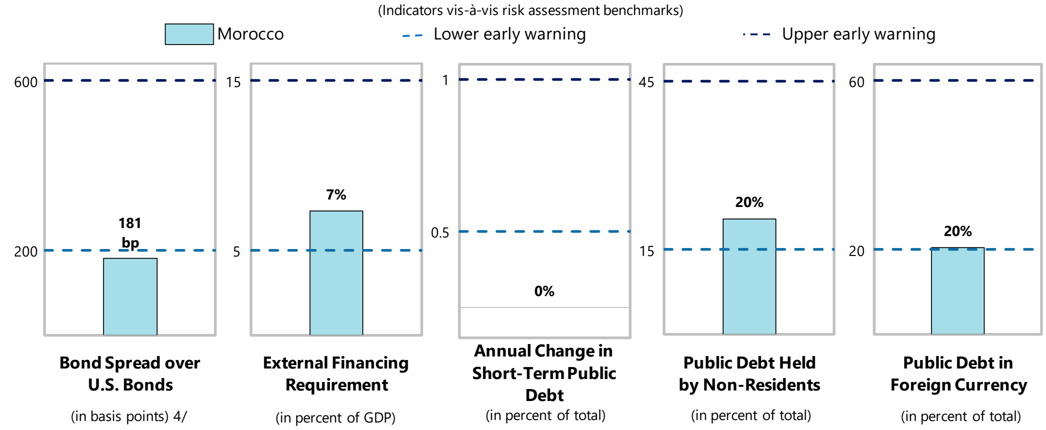
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

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

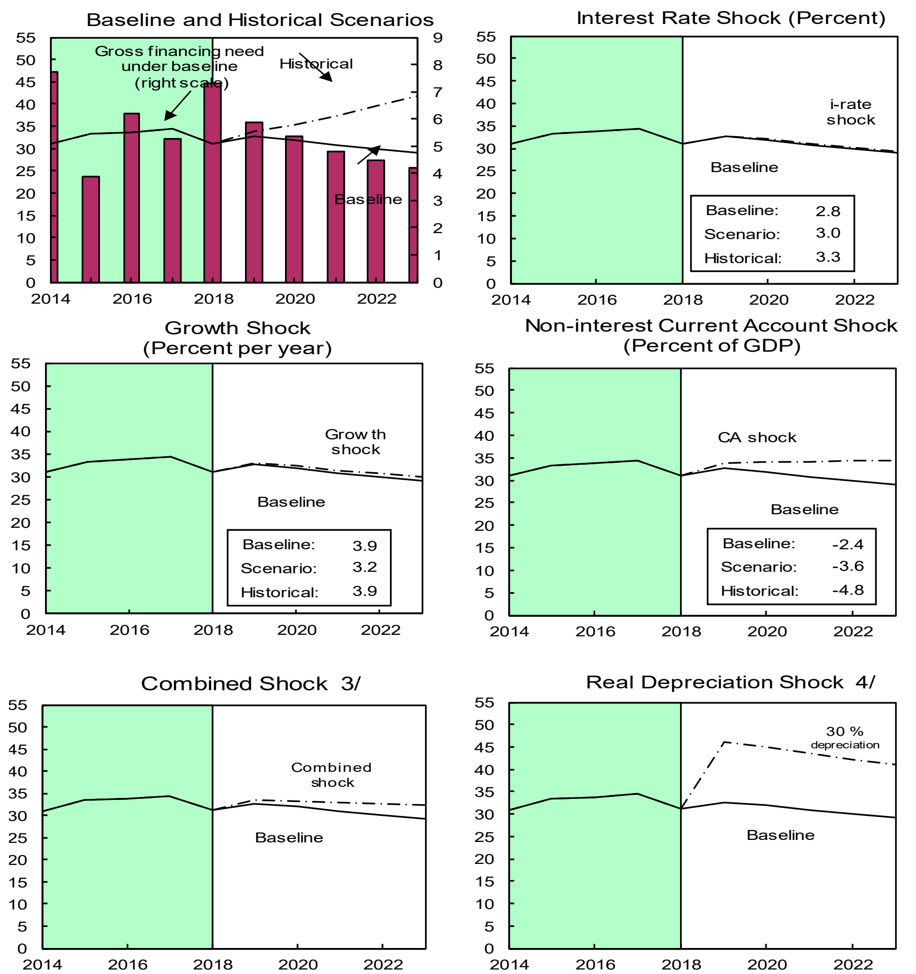
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 10-Nov-18 through 08-Feb-19.

Annex IV. External Debt Sustainability Analysis (DSA)

Morocco's external debt to GDP is expected to remain stable over the medium term, and risks to external debt sustainability are contained. After rising to 34.5 percent of GDP in 2017, external debt would gradually decline to about 28 percent of GDP in 2024 due to expected improvements in the current account and robust GDP growth (Table 1). However, if Morocco experienced a 30 percent exchange rate depreciation—the most extreme shock—the external debt-to-GDP ratio would increase to about 45 percent (Figure 1). Alternatively, with a shock to the current account, the external debt-to-GDP ratio would increase to about 35 percent.

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



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

Table 1. Morocco: External Debt Sustainability Framework, 2014–24

(Percent of GDP, unless otherwise indicated)

							Projections					
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	**Baseline: External debt 1/**	31.0	33.4	33.7	34.5	31.1	**32.7**	**31.9**	**30.8**	**30.0**	**29.1**	**28.2**
2	Change in external debt	0.7	2.4	0.3	0.8	-3.4	1.6	-0.7	-1.1	-0.9	-0.9	-0.9
3	Identified external debt-creating flows	-0.6	1.0	2.1	0.2	2.7	0.3	0.2	-0.3	-0.6	-0.7	-0.8
4	Current account deficit, excluding interest payments	5.0	1.2	3.1	2.5	4.6	3.2	2.6	2.2	2.1	2.0	2.0
5	Deficit in balance of goods and services	12.3	7.8	10.4	9.6	10.3	9.1	8.5	7.9	7.7	7.5	7.4
6	Exports	32.5	32.9	33.3	35.3	36.4	37.7	38.2	38.5	38.5	38.6	38.3
7	Imports	44.8	40.7	43.7	45.0	46.7	46.8	46.7	46.3	46.2	46.1	45.7
8	Net non-debt creating capital inflows (negative)	-5.6	-3.9	-1.2	-1.4	-1.8	-2.7	-2.1	-2.1	-2.2	-2.2	-2.3
9	Automatic debt dynamics 2/	0.0	3.7	0.3	-0.9	-0.1	-0.1	-0.3	-0.4	-0.4	-0.4	-0.5
10	Contribution from nominal interest rate	0.9	1.0	1.0	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.7
11	Contribution from real GDP growth	-0.8	-1.5	-0.4	-1.3	-0.9	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2
12	Contribution from price and exchange rate changes 3/	-0.1	4.3	-0.3	-0.5	...	...	...	...	...	...	...
13	Residual, including change in gross foreign assets (2-3) 4/	1.3	1.4	-1.8	0.6	-6.0	1.3	-1.0	-0.8	-0.3	-0.2	-0.1
	External debt-to-exports ratio (in percent)	95.3	101.5	101.2	97.6	85.6	86.7	83.5	80.2	77.8	75.4	73.6
	Gross external financing need (in billions of US dollars) 5/	8.5	3.9	6.4	5.8	8.7	7.1	6.8	6.5	6.4	6.5	6.8
	Percent of GDP	7.7	3.9	6.2	5.3	7.3	5.9	5.3	4.8	4.4	4.2	4.1
	Scenario with key variables at their historical averages 6/						**33.9**	**35.4**	**37.1**	**39.4**	**41.8**	**44.3**
	Key Macroeconomic Assumptions Underlying Baseline											
	Real GDP growth (percent)	2.7	4.5	1.1	4.1	3.0	3.0	3.8	4.1	4.3	4.4	4.5
	GDP deflator in US dollars (change in percent)	0.4	-12.1	1.0	1.6	5.4	-1.2	1.6	2.1	2.2	2.1	2.1
	Nominal external interest rate (percent)	3.0	2.9	2.9	2.9	2.6	2.7	2.8	2.7	2.8	2.8	2.7
	Growth of exports (US dollar terms, percent)	7.4	-7.0	3.3	12.7	11.2	5.4	7.1	7.0	6.7	6.7	6.0
	Growth of imports (US dollar terms, percent)	1.0	-16.5	9.5	9.3	12.2	2.0	5.4	5.4	6.3	6.2	5.8
	Current account balance, excluding interest payments	-5.0	-1.2	-3.1	-2.5	-4.6	-3.2	-2.6	-2.2	-2.1	-2.0	-2.0
	Net non-debt creating capital inflows	5.6	3.9	1.2	1.4	1.8	2.7	2.1	2.1	2.2	2.2	2.3

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

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

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

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

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

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

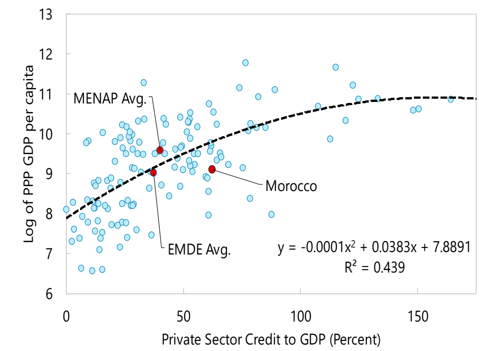
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Annex V. Financial Development and Inclusion in Morocco[1]

Morocco has a high level of financial development with a sophisticated banking system which has been rapidly expanding domestically and in the African continent. Nonetheless, several indicators point to low levels of domestic financial inclusion. The authorities have just adopted a national financial inclusion strategy that aims to close these gaps, including through greater reliance on new technologies.

1. Morocco's financial system is comparatively deep. Measured by the Financial Development index, Morocco's level is close to the emerging market average.[2] Morocco has a relatively well capitalized and sophisticated banking system, with several large banks expanding across SSA. Credit to GDP, at 61 percent of GDP, is ahead the MENAP and EMDE averages, but below the levels of upper middle-income economies (116 percent).

Private Sector Credit and GDP, 2018
(National currency)

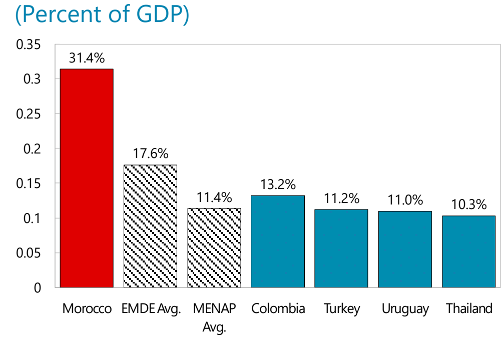


Sources: National authorities; and IMF staff.

2. The share of bank lending to SMEs is relatively high but other indicators point to a low level of financial inclusion in Morocco, especially for households and small enterprises:

- The share of bank lending to SMEs is about 17 percent, which is relatively high, and an increasing share of Moroccan firms have a line of credit.[3] [4] However, firms still consider access to finance as the major constraint for doing business.[5] Only 6 percent of micro-enterprises have access to bank financing, and micro-credit represents only 0.6 percent of GDP. The estimated finance gap for Micro, Small and Medium Enterprises (MSME) is larger than in peer economies[6]. This suggests a

MSME Financing Gap, 2017
(Percent of GDP)



Source: International Finance Corporation, MSME Financing Gap Report 2017.

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[1] Prepared by Lorraine Ocampos

[2] Sahay, R. and others, 2015: "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", IMF Staff Discussion Note, SDN/15/08, International Monetary Fund, Washington DC.

[3] 52 percent in 2013 against 33 percent in 2007 (World Bank's Enterprise Survey, 2013).

[4] International Monetary Fund (IMF), 2019: "Financial Inclusion of SMEs in the MENAP and CCA." IMF Departmental Paper 19/02, Washington DC.

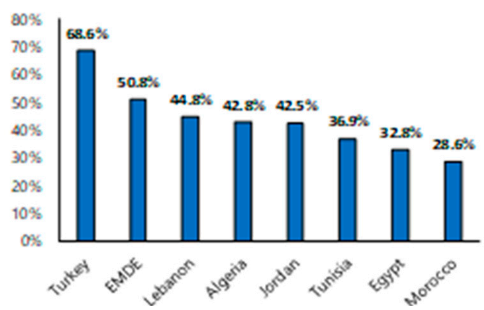
[5] World Bank. 2019. "Doing Business. Training for Reform." Washington, DC.

[6] International Finance Corporation (IFC), 2017: "MSME Finance Gap. Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets," Washington, DC.

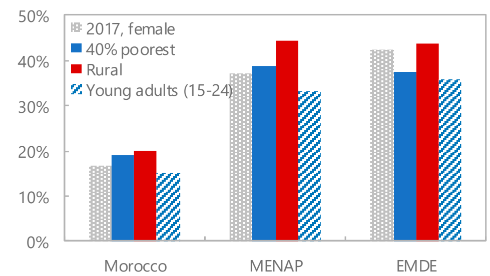
relatively high degree of credit concentration towards large and medium enterprises, including SOEs.

- Regarding household financial inclusion, large segments of the population have very low access to financial services, mostly female, the poor in rural areas, micro enterprises, and young adults.[7] Morocco has a very low share of adults (aged 15+) with accounts in financial institutions (29 percent, against 51 percent in peer countries) , and 17 percent of women have a bank account against 41 percent of men, which shows a larger gender gap than in peer countries (61 percent versus 70 percent). Finally, 20 percent of the rural population has a bank account compared to 29 percent for the whole country.

Account Ownership



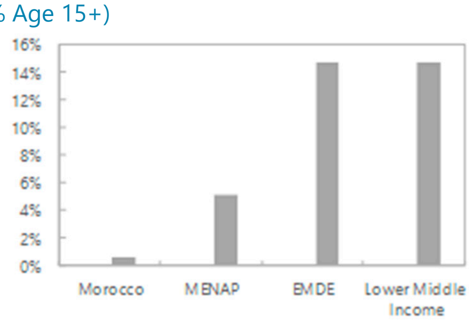
Morocco: Financial Account Breakdown
(% Age 15 + 2017 data)



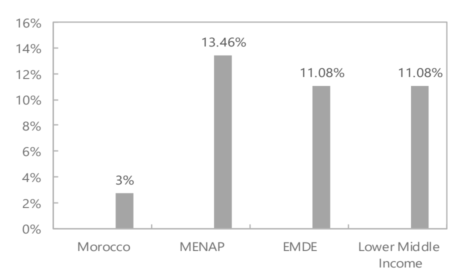
Source: World Bank, Global Findex Database 2017.

3. New technologies need to be developed further to support greater financial inclusion. Digitalization in Morocco remains low compared to peer economies. Only 1 percent of adults have a mobile money account compared to 5 percent in MENAP and 14 percent in EMDEs. Ninety percent of payments are in cash compared to 40 percent worldwide. Morocco is one of the few developing economies where utility bills are mostly paid in cash, and about one third of remittances is received or payed in cash, while in many peer economies, most remittances are transferred through the banking system).

Morocco: Mobile Money Account, 2017
(% Age 15+)



Morocco: Used Internet to Pay Bills in the Past Year (2017) (% age 15+)



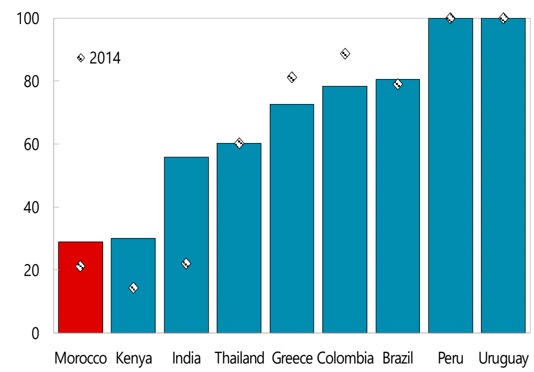
Source: World Bank, Global Findex Database 2017

[7] World Bank Group. 2018. "The Global Findex Database, 2017. Measuring Financial Inclusion and the FinTech Revolution." Washington DC.

4. Both supply and demand factors explain the low level of financial inclusion. On the demand side, insufficient funds are mentioned as the main reason for not having an account (52 percent of survey respondents). Other factors include the large informal economy (11 percent of GDP and around 2 million units) and the lack of proper accounting systems and credit information. On the supply side, despite the rapid expansion of the banking system along with credit bureaus and credit guarantee schemes, bank density in rural areas remains low with 65 percent of rural population without close access points.[8]

5. Several government initiatives have being implemented in recent years to increase credit to SMEs. Public guarantees have been extended for bank loans to MSMEs (of up to USD100,000) through the Caisse Centrale de Guarantee. The central bank has also offered since 2013 a refinancing facility for banks' lending to MSMEs. Two credit bureaus were introduced, but their coverage is much lower than in similar economies. The recent increase of the micro-loan ceiling from USD5,000 to USD15,000 is aimed to support this type of credit. On the regulatory front, the recently-approved law extending the array of assets that can be pledged as collateral, including moveable assets, should increase SME lending. Similarly, the bankruptcy law approved in April 2018 will play a positive role.

Credit Bureau Coverage, 2018
(% of Adults)



Source: World Bank—Doing Business 2018.

6. In early 2019, Morocco launched a National Strategy for Financial Inclusion (SNIF). The strategy will build on efforts made in recent years and seek to expand financial services to SMEs and excluded populations, by: (i) expanding mobile payments; (ii) boosting micro finance through increased credit ceilings and relaxed interest rate caps; (iii) encouraging bank penetration, including through postal agencies and more flexible regulatory requirements for underserved segments (e.g., in rural areas); (iv) supporting the development of new credit scoring systems (e.g., big data analytics based on utility bill payments); (v) accelerating digital payment systems; and (vi) promoting financial literacy.

7. The SNIF is a welcome initiative that should help reduce Morocco's financial inclusion gap vis-à-vis peer countries. The strategy is appropriately comprehensive, builds on international best practice, and is associated with clear objectives and specific action plans. In particular, its fintech component will benefit from an effective payments infrastructure to increase competition and diversify financing sources in the economy. Given the importance of informality in the economy, its financial literacy component will also be particularly important.

[8] Bank Al-Maghrib, Ministère de l'Economie et des Finances. 2018. « Stratégie Nationale d'Inclusion Financière (SNIF)». Note de Synthèse.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 29, 2019

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

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2019)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	894.40	100.00
Fund holdings of currency	747.13	83.53
Reserve position in Fund	147.35	16.47

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	541.83	96.51

Outstanding Purchases and Loans
None

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	12/17/2018	12/16/2020	2,150.80	0.00
Precautionary and Liquidity Line	07/22/2016	07/21/2018	2,504.00	0.00
Precautionary and Liquidity Line	07/28/2014	07/21/2016	3,235.10	0.00

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal					
Charges/interest	0.18	0.23	0.23	0.23	0.23
Total	**0.18**	**0.23**	**0.23**	**0.23**	**0.23**

Exchange Rate Arrangement and Exchange System

Morocco has a pegged exchange rate within horizontal bands. In January 15, 2018, Bank Al-Maghrib (BAM) announced the widening of the dirham fluctuation band to ±2.5 percent (from ±0.3 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent. BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Restrictions for the use of foreign currency for current payments and transfers are in the process of being loosened (e.g. lower surrender requirements for exports, higher limits to purchase foreign currency by Moroccan residents for tourism abroad). In addition, capital control operations are gradually relaxing (e.g. higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of April 23, 2019, the SDR/dirham exchange rate was SDR 1=MAD 13.2996.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 23, 2017. The discussions for the 2019 consultation were held in Rabat and Casablanca during March 18–April 4, 2019.

Technical Assistance

MCM	Macro-Economic Modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the OpenData Platform for Data Reporting	January 2014
LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	March 27–April 14, 2014
MCM/MCD	Exchange Rate Flexibility	May 26–30, 2014
RES	Quarterly Prediction Model (4 short visits)	May through December 2014
AFR/MCM/MCD	Pan-African Cross-Border Banks Exercise	June 2–6, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	June 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	July 2014
RES	Quarterly Prediction Model (6 short visits)	February. through Nov.2015
MCM	Exchange Rate Flexibility	September 15–19, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 22–October 3, 2014
MCM	Development of Macro Prudential Instruments	November 3–14, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	May 2015
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 2015
RES	Forecasting and Policy Analysis system (FPAS)	Nov.30–Dec.3, 2015
RES	MAPMOD Framework for Macroprudential	January 12–15, 2016
MCM	Crisis Management and Banking Resolution	February 8–12, 2016
STA	National Accounts Assessment	April 25–29, 2016
STA	Government Financial Statistics	April 20–29,2016
MCM	Take Stock ER Flexibility	May 26–27, 2016

RES	FPAS Under ER Flexibility	May 26–June 2, 2016
RES	Macro-Prudential Policy	September 26–30, 2016
MCM	Exchange Rate Flexibility	October 17–27,2016
RES	Building Capacity for Macroeconomic Modeling	October 31–November 8,2016
MCM	Management of Foreign Currency Liabilities,	April 5–14, 2017
MCM	Monetary and Financial Statistics	July 17–28, 2017
METAC	ER Flexibilization: Enhancing Risk-Based and Forward-Looking Banking Supervision	September 4-8, 2017
FAD	Public Investment Management Assessment	September 5–21, 2017
STA	Government Finance Statistics Capacity Development	September 11–22, 2017
MCM	Control and Audit Frameworks of Macroeconomic Models	October 16-20, 2017
FAD	Revenue Administration Gap Analysis Program	September 17–22, 2018
STA	Public Finance Statistics	September 24-October 5, 2018
STA	Financial Sector Indicators	October 15-26, 2018
FAD	Public Corporations Fiscal Risks Management	October 22–November 5, 2018
MCM	Systemic Risk Monitoring – Stress Testing	February 21–March 1, 2019
MCM	Macroprudential Policy	April 23–May 2, 2019

FSAP Update

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

Safeguard Assessment

The January 2019 safeguard assessment mission found that BAM has maintained strong operational controls and that its audit committee (comprising non-executive Board members) is active in its oversight of internal and external audit mechanisms, which are aligned with international standards. A draft BAM law incorporating some past safeguards recommendations is currently being considered in parliament. The 2019 assessment recommends further amendments to the BAM law for consideration later in the year on aspects related to autonomy and governance, and that BAM transition to IFRS, consistent with national plans to converge Moroccan accounting standards.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of April 22, 2019

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program	a. Development Policy Lending on:		
	• Inclusive Green Growth DPL2		FY16
	• Transparency and Accountability DPL2		FY16
	• Capital Market Development and SME Finance DPL2		FY17
	• Financial Inclusion and Digital Economy		FY19
	• Disaster risk financing CAT DDO		FY19
	• Maximizing finance for development		FY20
	b. P4R Lending on:		
	• Integrated Risk Management Project		FY16
	• Casablanca Municipal Support Program		FY19
	• Education support		FY19
	• Urban Transport Project		FY20
	• Agribusiness Program		FY19
	• Digital government		FY20
	c. Investment Lending		
	• Seed and Early Stage Equity Financing		FY17
	• Youth economic inclusion		FY19
	• Improving Social Protection Delivery		FY17
	d. Economic and Sector Work (ESW)		
	• Programmatic Agriculture Sector Dialogue		FY17
	• Systematic Country Diagnostic		FY16
	• Cost of Environmental Degradation		FY19
	• Morocco Infra Diagnostic		FY18
	• Water Sector Policy		FY17
	• Transport and Jobs		FY19
	e. Technical assistance (TA)		
	• Morocco Urbanization Review		FY18
	• Social Protection Systems		FY17
	• Morocco City Energy Efficiency		FY17

Title	Products	Provisional timing of missions	Expected delivery date
	• Public Investment Management • Poverty Monitoring • Int. Urban Water Mgmt. Strategic Sup. • Urbanization Financing • City Resilience • Public Investment Management • Procurement reform • Market contestability • Bank resolution • Digital payments • Capital market development • Climate entrepreneurship		FY17 FY17 FY17 FY19 FY19 FY17 FY19 FY20 FY19 FY19 FY20 FY20
IMF work program	• Bank Regulation and Supervision • Financial Soundness Indicators • National Accounts Statistics • Public Financial Management • Revenue Administration • Second Review of the PLL • Public Investment Management • Government Finance Statistics • Article IV Consultation • Third Review of the PLL	FY17 April 2017 Jan./Feb. 2017 FY17 FY17 June-July 2017 September 2017 September 2017 December 2017 January 2018	
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on labor market, education reforms, financial inclusion, governance, social protection Developments on decentralization	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Data sharing	Semiannual (and on ad hoc basis if requested) Ongoing	Following Article IV and staff visits for PLL reviews
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Collaboration on the SCD. Continuous close coordination on the reform agenda	Ongoing	

STATISTICAL ISSUES

As of April 22, 2019

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department (STA) using the standardized report forms. Bank Al Maghrib reports data on some key series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals. **Financial Sector Surveillance.** Morocco does not report financial soundness indicators (FSIs) to STA. A technical assistance mission conducted in October 2018 assisted Bank Al Maghrib in compiling a set of FSIs for deposit takers based on internationally-accepted standards as set out in the IMF's *FSI Compilation Guide*. Regular reporting of FSIs is expected to begin in 2020.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

I. Assessment of Data Adequacy for Surveillance	
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Financial Sector Surveillance. Morocco does not report financial soundness indicators (FSIs) to STA. A technical assistance mission on FSIs would be helpful to assist the central bank staff in their efforts to compile FSIs based on internationally-accepted standards as set out in the IMF's *FSI Compilation Guide*.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance
(As of April 23, 2019)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability
Exchange Rates	Feb, 2019	3/29/2019	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep.2017	10/31/2017	W	W	W		
Reserve/Base Money	Feb, 2019	3/29/2019	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Feb, 2019	4/2/2019	M	M	M		
Central Bank Balance Sheet	Feb,2019	3/29/2019	M	M	M		
Consolidated Balance Sheet of the Banking System	Sep.2017	10/31/2017	M	M	M		
Interest Rates[2]	Sep. 2017	10/31/2017	D	D	D		
Consumer Price Index	Jan. 2019	03/04/2019	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2015	11/14/2017	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	May, 2018	6/26/18	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2017	11/14/2017	Q	Q	Q		
External Current Account Balance	Q4/2018	4/22/2019	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Q4/2018	4/22/2019	Q	Q	Q		
GDP/GNP	Q4/2017	11/19/2018	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2017	11/14/2017	Q	Q	Q		
International Investment Position [6]	Q4/2018	4/1/2019	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published on April 4, 2003 and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

Statement by Mr. Mohammed Daïri, Alternative Executive Director on Morocco
May 13, 2019

We thank staff for their balanced report and broadly agree with their main conclusions and recommendations. We welcome the greater attention given this year to authorities' views by reporting them at the end of relevant sections of the report, a practice that should become the standard.

Overview

In a global environment characterized by sub-par growth and fraught with uncertainty and risks, the Moroccan authorities continue to strengthen the economy's performance and resilience while preserving social stability and cohesion. Growth is projected in the staff report to stabilize at about 3 percent in 2018-19, and to accelerate to 3.8 percent in 2020 and 4 ½ percent by 2024, and inflation should remain subdued. Exports continued to grow strongly in 2018 but the current account deficit increased, reflecting higher energy prices and investment goods imports and lower grants, while reserves remain adequate at more than 5 months of imports, reflecting strong FDI and private borrowing. The deficit is projected to decline to 4 percent of GDP in 2019 and to stabilize at 3 percent or less starting in 2021, with reserves strengthening gradually over the medium term.

The authorities broadly agree with staff outlook and characterization of risks facing the economy. They agree that the current policy mix of accommodative monetary policy and slower fiscal consolidation is appropriate, given subdued inflationary pressures and current level of output gap. They are confident that past and ongoing structural reforms will lead to higher growth over the medium term. They see the impact on Morocco of tighter global financial conditions and security tensions in the region as moderate, as observed in the recent past, and the impact of protectionism and retreat from multilateralism as medium or low, given the structure of Morocco's trade and the authorities' diversification efforts.

Fiscal Policies and Reforms

Maintaining fiscal and debt sustainability while creating fiscal space for infrastructure, human development, and social protection of vulnerable groups is a key priority. The authorities remain committed to achieving their medium-term target of 60 percent debt-to-GDP ratio, helped by the announced privatization program. The increase in the fiscal deficit in 2018 was due to exogenous factors, as explained in the report. The 2019 Budget targets the same deficit as in 2018, but projected privatization revenue would reduce financing needs and help maintain the debt ratio at about the current level. The authorities are confident that stronger revenue collection efforts and tighter control of non-priority spending will help reduce the fiscal deficit and the debt ratio further. To mitigate the impact on growth, the decline in investment spending, compared to 2018, will be offset by the recourse to institutional and private investors which have indicated their interest in implementing and financing some projects originally in the budget pipeline and subsequently excluded from fiscal projections, without any impact on public or publicly-guaranteed debt. The recent decisions under the social dialogue are already covered by budget contingent funds.

The authorities intend to launch a comprehensive tax reform focused on broadening the tax base by reducing exemptions and distortions, reducing informality, improving compliance, and rendering the system simpler, more equitable, and more growth-friendly. The National Tax Conference (Assises Fiscales) held early this month, with participation from all stakeholders, issued a number of recommendations which will be the basis for drafting a framework law to guide tax reform over the next 5 years. The reform will also include local and parafiscal taxes, with the ultimate objective of a unified tax code. It is expected that half the revenue from broadening the tax base will be allocated to increase social spending and the other half to reduce tax rates.

Important structural fiscal reforms and initiatives are underway to reorient spending to priority infrastructure and social spending and enhance efficiency and quality service delivery. A draft reform of civil service is being finalized, work is ongoing on implementation of PIMA recommendations to enhance investment efficiency, and the decentralization program is advancing. The authorities are also making good progress toward consolidation of the fiscal and debt aggregates at the level of the general government, which is expected to better inform fiscal policy making. The authorities are working with World Bank assistance toward improving coordination, efficiency, and targeting of social protection programs, using a social registry under preparation. However, while poverty has significantly declined, it is crucial to properly identify vulnerable groups, which should not be limited to low income groups but also include many middle-class citizens at risk of falling into poverty.

Monetary, Exchange Rate, and Financial Policies

In a context of moderate inflation, slow, although gradually improving economic activity and credit growth, and satisfactory level of reserves, Bank Al-Maghrib (BAM) has maintained an accommodative policy stance, with a particular attention to meeting SME needs. The draft central bank law enhancing its independence and broadening its role to include financial stability and financial inclusion, which was subsequently enriched by the introduction of the emergency liquidity assistance, is at the final phase of adoption by parliament.

The safeguards mission conducted last January concluded that BAM safeguards remain strong in the areas of internal and external audit and internal controls. While BAM governance compares favorably with many peers, the mission suggested further improvements to align it with best international practice. The authorities agreed with the mission that these would be considered after adoption of the revised central bank law expected during this parliamentary session. The mission and BAM also agreed that the transition to IFRS standards would be implemented in the context of the national accounting system convergence project underway.

This first phase of the transition to flexible exchange rate regime was successful, with a gradual deepening of the interbank market and the exchange rate remaining well within the band without central bank interventions since March 2018. The authorities will seize the most appropriate opportunity to move to the second phase, while strengthening communication, in particular with SMEs, to increase awareness of the risks from greater exchange rate fluctuations and available hedging instruments. The authorities take note of staff assessment that the external position is moderately weaker than implied by fundamentals and desirable policies, an improvement over the previous assessment. However, they note that the current account model preferred by staff pointing to a moderate overvaluation results in a large residual of -3.6 percent (from -1.6 percent in the 2017

Article IV report), which cannot be explained only by worker-employer relations, while the two other models lead to opposite findings. They would therefore have preferred a more nuanced assessment.

The authorities continue to strengthen the supervisory and regulatory framework in line with FSAP recommendations. Supervisory capacity continues to be improved; IFRS9 was introduced for banks in 2018; a regulatory framework for conglomerates is under preparation; the macroprudential and crisis resolution frameworks are being enhanced; and Moroccan banks' presence abroad is being closely monitored in cooperation with host supervisors. The law on secured transactions adopted last month would promote off-court claims recovery, reduce NPLs, and increase bank willingness to lend, in particular for SMEs. The authorities are committed to further strengthening the AML/CFT framework in line with MENAFATF recommendations and to enhance supervision. A law published in March 2018 introduced compulsory exchange of information with foreign partners, in line with best international practice.

The National strategy for financial inclusion approved last month aims at addressing the significant gaps in access to financial services, and specific measures have already been adopted targeting SMEs, the youth, women, and the rural population. The recent increase in the cap on microcredit, in line with staff advice, will help develop the system further. A reform of the law on cooperatives adopted last November aims at easing procedures for their creation to meet the needs of a large segment of the population, while enhancing their governance and oversight. A Small Business Act is under preparation to address the constraints facing SMEs. The credit guarantee scheme will be revamped to simplify the system by reducing the number of windows from 12 to 2, expanding its coverage to all SMEs, and incentivizing good governance.

Structural Reforms

The authorities agree that the current pace of economic growth is not fast enough to significantly improve living conditions and reduce unemployment which is still high, in particular among the youth and women. They remain strongly committed to promoting higher, private sector-led, job-rich and inclusive growth by further improving the business climate, strengthening competitiveness, governance, and efficiency in public service delivery, upgrading human resources, and reforming the labor market while strengthening social protection of the vulnerable and reducing social, regional and gender inequalities.

Morocco gained 9 ranks in the 2019 Doing Business Indicators (60th out of 190) and a cumulative 55 ranks since 2011 when it ranked 115 out of 183. The main progress was in starting a business, registering property, trading across borders, and resolving insolvency. Recently-adopted revisions to corporate laws are intended to enhance protection of minority shareholders, while the establishment in 2018 of a Mediator's office should promote off-court dispute settlement. A reform of the regional investment promotion centers was adopted in February 2019, to be followed by a new investment charter under preparation. Moreover, as per a law adopted in November 2018, all legal procedures for starting a business should be accomplished electronically, and an electronic platform for this purpose was established by law last January. With the recent appointment of its Chair and Board of Directors, the Competition Council has become operational.

The public enterprise sector's overall performance is positive, although with pockets of vulnerability. While preparing a draft law strengthening SOE governance, the authorities decided that it was time to reconsider the role of the SOE sector to better assess where public presence is needed and efficient, focus public enterprises on their core mandate, and sell nonstrategic assets to reduce public debt and finance priority infrastructure and social spending. In this context, a privatization program with an estimated yield of some $4 billion will be carried out during 2019-23 (half of the proceeds recurring to the budget and half to an investment fund). The program would also help revitalize the stock market and promote FDI. The list of SOEs or their assets open to privatization was amended last January to include those slated for privatization this year, and members of the transfer and evaluation committees have been appointed, with the first privatization expected to be completed in the summer. The authorities are also in the process of establishing a framework for assessing and mitigating fiscal risks in SOEs with the benefit of a recent TA mission.

Cognizant of the need to alleviate liquidity pressures of private and public enterprises, the authorities have accelerated the payment of accumulated tax credits. They have also taken the necessary regulatory and budgetary measures to preclude their recurrence. Efforts have also been made toward restoring good payment culture and practices in the private sector.

The authorities attach high priority to further strengthening public governance and fighting corruption. Their strategy covers a wide range of reforms, much of which have been implemented recently through appropriate legislation and regulation and others are under active preparation. The newly established anti-corruption agency (ICPC) will monitor implementation of and reporting on the program.

Improving education is critical to increase employment opportunities and productivity, in view of the significant gap in quality, despite the relatively high level of public spending in this area. A draft framework law for education, vocational training and scientific research submitted to parliament in September was tabled for discussion during a special parliamentary session last month but no agreement on the draft could be reached. The Government intends to seek parliamentary approval of the draft during this spring session after consultation with social partners.

The authorities are cognizant of the importance of reforming the labor market to increase its efficiency, including by enhancing flexibility while improving protection of employees to boost employment, in particular for the youth and women. The protracted discussions with partners under the social dialogue were not conducive to reaching agreement on labor market reform. Now that the social dialogue has been concluded, discussions on this important reform may resume soon. While the authorities appreciate staff analysis and recommendations on the sequencing of structural reforms, the pace and sequence of sensitive reforms need to be assessed with due consideration to political economy realities so as to preserve social cohesion.

Conclusion

The authorities have significantly accelerated the pace of structural reform over the last two years. They remain firmly committed to maintaining macroeconomic and financial stability and strengthening resilience. They look forward to continued support from their partners, including in the context of Fund valuable advice and technical assistance and the PLL arrangement, and are grateful for their support.