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MOROCCO

April 2023

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 3, 2023, following discussions that ended on February 11, 2023, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on March 16, 2023.
- A **Supplemental Assessment** prepared by the staff of the IMF.
- A **Staff Statement** prepared by the IMF staff.
- A **Statement by the Executive Director** for Morocco.

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

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PRESS RELEASE

PR23/104

IMF Executive Board Approves Two-Year US$5.0 Billion Flexible Credit Line Arrangement for Morocco

FOR IMMEDIATE RELEASE

- The IMF approved today a two-year arrangement for Morocco under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$5.0 billion.
- Morocco qualifies for the FCL by virtue of its very strong policies, institutional policy frameworks, and economic fundamentals and continued commitment to maintaining such policies in the future.
- The arrangement will enhance Morocco's external buffers and provide insurance against plausible tail risks on a temporary basis. The authorities stated their intention to treat the arrangement as precautionary.

Washington, DC – April 3, 2023: The Executive Board of the International Monetary Fund (IMF) approved today a two-year arrangement for Morocco under the Flexible Credit Line (FCL) in an amount equivalent to SDR 3.7262 billion (about US$ 5.0 billion, equivalent to 417 percent of quota).

Since 2012, Morocco had benefited from four successive Precautionary and Liquidity Line (PLL) arrangements, amounting each to about US$ 3 billion. The first PLL was approved on August 3, 2012, and three additional approved on July 28, 2014, July 22, 2016, and December 17, 2018. The fourth PLL expired on April 7, 2020, when the authorities purchased all available resources under the PLL to limit the social and economic impact of the COVID-19 pandemic and allow Morocco to maintain an adequate level of official reserves to mitigate pressures on the balance of payments.

While the PLL arrangements have served the country well in the past, Morocco's very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and continued commitment to maintaining such policies in the future all justify the transition to an FCL arrangement. An FCL arrangement would help Morocco face the challenge of rebuilding the policy space, while accelerating the implementation of its structural reform agenda in an increasingly risky external environment.

Following the Executive Board's discussion on Morocco, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

“Morocco’s very strong macroeconomic policies and institutional framework have allowed its economy to remain resilient to the multiple negative shocks that have occurred over the past three years, including the pandemic, two droughts, and the spillovers from Russia’s war in Ukraine. Going forward, the Moroccan authorities remain committed to rebuilding policy margins, delivering a comprehensive policy response to new shocks, and continuing to implement the comprehensive structural reforms needed to make economic growth stronger, more resilient, and more inclusive.

Despite this resilience, the Moroccan economy remains vulnerable to a worsening of the global economic and financial environment, higher commodity price volatility, and recurrent droughts. Against this background, the FCL arrangement will enhance Morocco’s external buffers and provide the country further insurance against tail risks.

The authorities intend to treat the FCL arrangement as precautionary, and to exit the arrangement as soon as the 24-month period is completed, contingent on the evolution of risks.”

INTERNATIONAL MONETARY FUND

MOROCCO

March 16, 2023

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE

EXECUTIVE SUMMARY

Context: After a robust post-pandemic recovery in 2021, another severe drought and spillovers from Russia's invasion of Ukraine slowed growth and raised inflation in 2022. The authorities' policy response has been very strong, with fiscal, monetary, and financial policies appropriately calibrated to preserve macroeconomic stability while protecting the most vulnerable from the impact of the shocks. In addition, the authorities have accelerated the implementation of the vast program of structural reforms needed to make growth stronger, more resilient, and more inclusive. and made progress in further strengthening their institutional policy frameworks.

Risks: Downside risks to the economic outlook remain elevated and stem primarily from the external environment and the impact of climate change. A greater-than-expected fallout from Russia's war in Ukraine would lower external demand, increase commodity price volatility, and tighten external financial conditions. The pass-through of higher commodity prices could exacerbate inflationary pressures and hurt domestic demand, including via higher interest rates, which would also reduce further the fiscal space. Morocco's economy is also vulnerable to recurrent droughts, as a large part of the labor force is employed in agriculture. Despite the authorities' sustained track record of very strong policies, the materialization of these risks may slow implementation of structural reforms and hinder the planned transition to a new model of development.

Flexible Credit Line (FCL): Given the challenging external environment and elevated downside risks, the authorities intend to bolster their precautionary buffers. They requested a two-year FCL arrangement in the amount of SDR 3.7262 billion (about 417 percent of quota, or US$5 billion) that will be used as precautionary to address plausible tail risks. In staff's assessment, Morocco meets the qualification criteria for access under the FCL arrangement, and staff supports the authorities' request. The authorities are committed to an exit strategy at the end of the period, the evolution of risks permitting.

Fund liquidity: The proposed commitment would have a manageable impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible FCL arrangement for Morocco was held on March 6, 2023.

Approved By
Taline Koranchelian (MCD) and Natalia Tamirisa (SPR)

The report was prepared by a team comprised of Roberto Cardarelli (head), Hippolyte Balima, Olivier Bizimana and Nordine Abidi (all MCD), David Bartolini (FAD) and Hector Perez-Saiz (SPR), with support from Ananta Dua, Abigail Korman and Tatiana Pecherkina (all MCD).

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CONTEXT

1. **Morocco's economy has proved resilient to the series of negative shocks experienced since 2020.** Over the last three years, Morocco was hit not only by the global shocks of the pandemic and the economic fallout from Russia's invasion of Ukraine, but also by two severe droughts, in 2020 and 2022. While these shocks have taken a toll on economic activity, the authorities managed to preserve macroeconomic stability thanks to a vast array of countercyclical fiscal, monetary, and financial policies. In addition, they accelerated the implementation of bold structural reforms that were designed to change Morocco's model of development and make economic growth stronger, more resilient to new shocks (including from changing climate conditions), and more inclusive for all Moroccan citizens.

2. **Despite this resilience, the consecutive shocks have reduced Morocco capacity to face new ones, while the economy continues to face significant risks.** Following the adverse shocks in the last 3 years, Morocco has more limited policy space to mitigate the economic and social impact of a new abrupt global economic slowdown and a further spike in commodity prices. At the same time, climate change is making the risk of droughts more concrete, against the background of increasing water scarcity and the still large weight of the agricultural sector in Morocco's economy.

3. **Against this background, the Moroccan authorities have requested a two-year Flexible Credit Line (FCL) arrangement**. Such a precautionary arrangement would strengthen Morocco reserve buffers and provide insurance against plausible tail risks, as done by the PLL arrangements between 2012 and April 2020. Morocco's access to the resources under the PLL arrangement in April 2020 has helped ease external financing pressures at the onset of the pandemic and maintain official reserves at an adequate level. As external conditions normalized, Morocco successfully returned to international markets in late 2020, and repurchased early one third of purchases made under the PLL arrangement in early 2021.[1] While the PLL arrangement has served Morocco well in the past, the country has progressed to the point where its very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and continued commitment to maintaining such policies in the future justify a transition to an FCL arrangement. The authorities consider an FCL arrangement as the most appropriate to help Morocco face the challenge of rebuilding the policy space while accelerating the implementation of its structural reform agenda in an increasingly risky external environment.

RECENT DEVELOPMENTS

4. **After the strong rebound in 2021, real GDP increased at a mere 1.1 percent in 2022.** The combined effect of another drought and the economic fallout from Russia's war in Ukraine, have reduced disposable income, boosted inflationary pressures, and curbed external demand. The

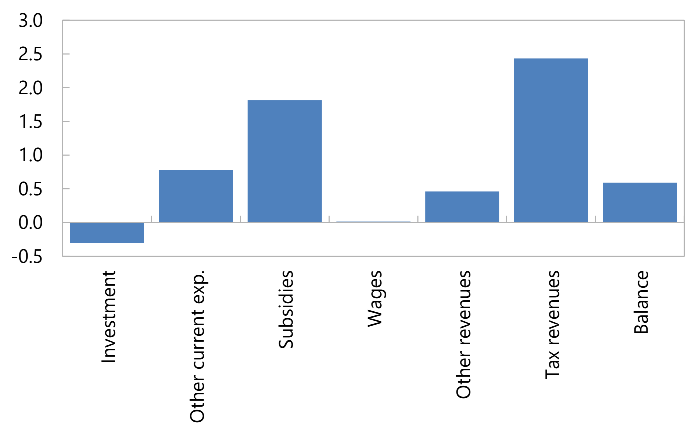
[1] In late 2022, Morocco's Treasury used the remaining part of the funds withdrawn under the PLL arrangement (about US$ 2 billion) to fund its financing needs in dirham.

unemployment rate has increased somewhat in the last quarter of 2022, reflecting the impact of the drought on Morocco's labor market.

5. The central bank tightened the monetary policy stance to contain inflationary pressures. Headline inflation accelerated to 8.9 percent (y/y) in January 2023 (with core inflation at 8.2 percent), driven by a strong increase in food prices. While initially limited to tradable items, inflation pressures became increasingly more broad-based across the whole CPI basket during 2022, and 2-year-ahead inflation expectations moved up. Bank Al-Maghrib (BAM) responded by increasing its policy rate by 50 bps twice, in September and December 2022. Bank lending rates have increased somewhat in the last quarter of last year, and Treasury bond yields rose quite sharply in January, inducing BAM to purchase US$ 1.6 billion (about 1½ percent of GDP) of Treasury bonds in the secondary market.[2] After depreciating to close to the upper limit (5 percent) of the fluctuation band in late 2022, since the beginning of the year, the dirham has appreciated against both the dollar and the euro and returned to close to the middle of the band.

6. The fiscal deficit in 2022 was lower than budgeted. The overall deficit declined from 5.9 percent of the GDP in 2021 to 5.1 percent in 2022, against the 5.7 percent projected in the 2022 Budget (and 5.9 percent in 2021). This reflected the stronger-than expected increase in tax revenues mainly from the corporate income tax (a lag effect of the robust economic rebound in 2021) and VAT and custom revenues (boosted by higher inflation). Non-tax revenues were also lifted by higher dividends from SOEs.[3] The higher revenue more than offset the higher current spending (by 2.9 percent of GDP), which resulted from more expensive gas and wheat subsidies (by 1.4 percent of GDP), cash transfers to the transportation sectors (0.4 percent of GDP), and transfers to the national power utility to help it sustain the cost of stable electricity tariffs (by 0.3 percent of GDP).

Difference Between Fiscal Outcomes and Budget, 2022
(Percent of GDP)



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

7. The current account deficit widened in 2022. The trade deficit in goods increased to about 20 percent of GDP in 2022 (from around 14 percent last year), owing to soaring import values, particularly of energy and food products, which were partially offset by stronger export values. However, the rebound in tourism receipts (which returned to 2019 levels) and strong remittances have softened the negative impact on the current account (net export of services were up 3½ pps of GDP relative to 2021). Robust net FDI inflows contributed to financing the higher external financing

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[2] The impact on liquidity was mitigated by a broadly equivalent reduction of other forms of liquidity injections, including repos and other refinancing facilities.

[3] Mainly from the OCP (*Office Chérifien des Phosphates*), one of the world's largest producers of phosphate and phosphate-based products, which benefited from higher phosphate prices in 2022.

needs, whereas international reserves expressed in US dollars have declined somewhat in 2022, mainly reflecting the depreciation of the euro against the US dollar (as 60 percent of the reserves are held in euros). However, they have increased over the past few months following the euro appreciation vis a vis the US dollar and remain at a comfortable level (124 percent of adjusted ARA metric in February 2023).

8. So far, banks have weathered the adverse shocks relatively well. Private credit growth accelerated in 2022, driven by loans to non-financial private firms, but this mainly reflects their greater working capital needs after the increase in production costs (particularly in the energy and agricultural sectors). The forbearance measures implemented during the crisis (and that have been phased out) have not led to significant deterioration in credit quality.[4] Meanwhile, the cost of risks (the ratio of provisions and loans) has improved, reflecting stable nonperforming loans (NPLs) at 8.5 percent of total loans in September 2022 and healthy provisioning (with NPL coverage ratio at around 67 percent as of mid-2022). Banks' capitalization remains adequate, with Tier 1 capital ratio of around 11.8 percent, whereas risks from large credit exposures are relatively low compared to pre-crisis levels (2.5 times regulatory capital relative to 2.8 before the crisis).

POLICIES

9. Tackling high inflation will require higher interest rates. While the future course of monetary policy in the near term will depend on incoming data, in staff views taking inflation back to around 2½ percent by end 2024 will require further increases in the policy rate, bringing the real ex-ante policy rate (currently at negative values) closer to the neutral real interest rate (estimated at between 1 and 2 percent). Protecting FX reserves should be a priority, given the exceptional uncertainty and Morocco's pegged exchange rate regime with a horizontal exchange rate band. While FX reserves are at a comfortable level, also given existing capital controls, it is important to preserve them so they can provide a buffer against the materialization of the downside risks described above. Once inflation and uncertainty on global and domestic outlook are lower, BAM should move forward with the final stages of the transition to an inflation-targeting framework and allow the dirham to float freely, which would strengthen Morocco's resilience to future shocks.

10. Continued fiscal consolidation is needed to rebuild the fiscal space utilized in response to the pandemic. The 2023 Budget forecasts a gradual decline of the fiscal deficit over the next three years, with the overall deficit returning to pre pandemic level in 2025. Such pace of fiscal consolidation aims at balancing the needs to reduce the deficit, mitigate the impact of recent shocks, and fund structural reforms. While the central government debt-to-GDP ratio is expected to stabilize at around 68 percent, further changes in the tax and spending systems are needed to ensure a faster debt reduction. On the revenues side, as discussed in Morocco 2022 Article IV consultation staff report, measures that could generate additional resources include i) the announced reform of the VAT regime, ii) streamlining tax expenditures, iii) a gradual introduction of

[4] As of end 2022, 9.8 percent of the loans subject to moratoria (about 10 percent of total loans) were nonperforming. As for the loans granted under the subsidized schemes introduced as a response to the Covid crisis ("*Damane Oxygene*" and "*Damane Relance*"), about 4.5 percent were nonperforming.

a carbon tax, and iv) further measures to expand the tax base, improve tax administration, and reduce informality. On the spending side, a broad-based civil service reform that places more weight on productivity over seniority could help reduce the wage bill in the medium term, while the reform of state-owned enterprises (SOEs) could reduce capital and current transfers. Staff estimates that these reforms could generate at least 2 percent of GDP per year and allow a faster reduction of the debt-to-GDP ratio than projected in the baseline, to between 60 and 65 percent by 2027.

11. While systemic risks to the financial system appear to be limited, efforts should continue to strengthen the resilience of Morocco's financial system. These efforts include i)rebuilding macroprudential buffers, including by implementing a positive neutral countercyclical capital buffer rate; ii) further supporting the development of a secondary market for NPLs, by defining the regulatory framework (in particular the legal and tax aspects for banks and investors); iii) improving the bank resolution framework, which should provide BAM with additional tools to deal with failures or insolvency of credit institutions; and iv) strengthening the regulation and supervision to ensure that banks adequately assess, measure, mitigate and control climate-related risks, given the vulnerability of the country and the region to climate change.

OUTLOOK AND RISKS

12. Economic activity is expected to accelerate in the near term, while inflation and the current account deficit are projected to fall. GDP growth is expected to accelerate to 3 percent in 2023, mainly driven by the rebound in agricultural output and its positive spillovers to the rest of the economy. After peaking at 6.6 percent in 2022, average headline inflation is projected to gradually decline to about 4½ percent in 2023 and 2¾ percent by 2024, as the commodity price shock gradually dissipates, and the monetary stance becomes less accommodative. Decreasing inflation, continued robust remittances and tourism flows, and a few measures from the 2023 Budget, are all expected to sustain private consumption. Over the medium term, GDP growth is projected to stabilize at around 3½ percent, reflecting the initial positive effects of the structural reforms. After widening to around 4 percent of GDP in 2022, the current account deficit should narrow towards its norm of around 3 percent in the medium term, boosted by structural reforms and continued fiscal consolidation. FX reserve coverage would slightly decline over the next few years (also on account of the repayment of the PLL) albeit remaining well above 100 percent of the adjusted ARA metric.[5]

13. Risks to the outlook are skewed to the downside A worsening of geopolitical tensions and a greater economic fallout from Russia's war in Ukraine could affect Morocco through lower external demand (especially from the euro area), continued pass-through of higher energy and food price to domestic inflation, and tighter financial conditions. Lower growth and higher inflation could worsen inequalities and create social tensions. Monetary policy would need to accelerate the pace of tightening, at the time where the fiscal space is scarce, and some structural reforms may be delayed. Morocco's External Economic Stress index (Box 1) suggests that, in an adverse scenario, external

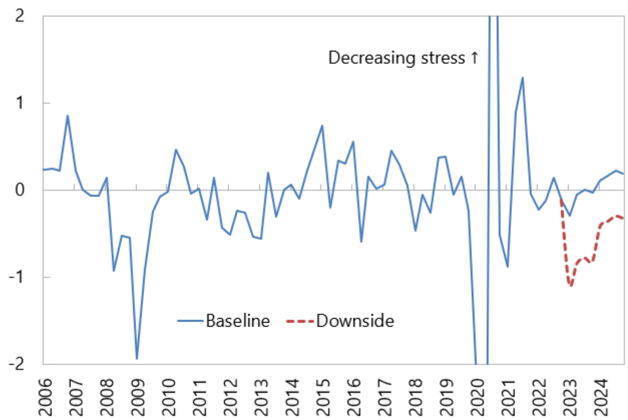
[5] The use of adjusted ARA metric for Morocco takes into consideration the presence of longstanding capital flows measures on Moroccan residents.

pressures would increase well above the levels observed around the Euro area debt crisis, which coincided with Morocco's first PLL arrangement in August 2012. On the domestic front, climate change implies a hightened risk of droughts, which would impact economic growth and inflation.

Box 1. External Economic Stress Index

Background. The External Economic Stress Index (EESI) is a composite indicator of changes in the external environment facing a country. The index is based on: (i) a consideration of the main external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of weights to apply to each of these variables. The index is calculated as a weighted sum of the standardized deviations of the external proxies from their means. 1/

External Economic Stress Index



Sources: WEO and IMF staff estimates.

Risks. The main external risks for Morocco based on the October 2022 World Economic Outlook (WEO) adverse scenario include: (i) an economic downturn in advanced economies, particularly Morocco's main trading partners (i.e., euro area countries), leading to a decline in exports, FDIs, tourism, and remittances; (ii) rising commodity prices, particularly of food and energy, fueling inflation and deteriorating domestic demand and the trade balance; and (iii) a tightening of global financial conditions that would negatively affect the volume and the cost of external financing available for Morocco.

Proxy variables. (i) The decline in exports, remittances, FDIs, and tourism receipts from Europe is captured by the decline of GDP growth in the euro area (Morocco's main trading partner, accounting for more than 50 percent of trade, FDIs, and remittances); (ii) the rise in commodity prices is captured by an increase in global oil prices; and (iii) the impact of tighter external financing conditions is captured by the change in the US 10-year Treasury yield.

Weights. A model-based approach was used to determine the weights for each variable. The weights for each proxy variable are estimated using the IMF's FSGM and WEO data. The standardized weights for euro area growth (0.69), the change in global oil prices (0.23), and the change in the US 10-year Treasury yield (0.08) correspond to the impact of shocks on each of the three variables on the Moroccan economy. The index is then calculated as the weighted sum of standardized deviations of each of the three variables from their means.

Baseline scenario. The baseline is consistent with the October 2022 WEO projections for Eurozone growth, oil prices, and the US 10-year Treasury yield. The EESI suggests that external economic stresses would increase slightly in 2023, compared to last year. This mainly reflects a weak euro area growth outlook, due to the impact of the war in Ukraine and somewhat tighter external financing conditions.

Downside scenario. The downside scenario is based on the tail risk for global growth as presented in the October 2022 WEO (the 15th percentile of the distribution of global growth around the baseline projection). In such a scenario, euro area GDP growth is assumed to be 2.7 and 1.3 percentage points lower than baseline (implying an annual growth of about -2.2 and 0.5 percent) in 2023 and 2024, respectively. Oil prices are assumed to be 40 and 20 percent higher than the baseline in 2023 and 2024, respectively (implying that the price per oil barrel will peak at US$ 113 in 2023). The US 10-year Treasury yield is assumed to increase by two standard deviations above baseline, to reflect heightened global uncertainty. This scenario is more severe than those assumed in previous PLL arrangements for Morocco, reflecting the more elevated uncertainty associated with

Box 1. External Economic Stress Index (concluded)

the recent geopolitical tensions, increased vulnerability to climate change, and lingering effects from the pandemic, including a more limited room for both fiscal and monetary policy expansions. 2/

Comparisons of Adverse Scenario Assumptions: Current FCL Request vs. Previous PLL

	Morocco	Morocco PLL			
Assumptions	Current FCL request (1st and 2nd year)	2012	2014	2016	2018
Decline in euro area growt	2.7 pp and 1.3 pp	4 pp and 2.5 pp	2.5 pp/year	1 pp/year	0.5 pp/year
Oil price increase	US$34 and US$16	US$10 and US$8	US$25	US$15	US$10
Global financial volatility	2 sd	na	na	2 sd	2 sd

1/ The EESI shown in this Box is different than the one used in past PLLs as i) it relies on model-based weights (estimated using the IMF's Flexible System of Global Models, FSGM), rather than BoP data, as the former better reflect the importance of the variables in affecting Morocco's external position and 2) it uses the change in the US 10-year Treasury yield rather than the emerging market implied volatility (VXEEM), as the former seems to better proxy the impact of tighter external financing conditions.

2/ While the different estimation of ESI prevents a full comparison with previous PLLs, the difference between adverse and baseline scenarios is generally greater than the one estimated in the past.

ASSESSMENT OF FCL QUALIFICATION

14. Staff's assessment is that Morocco meets all the qualification criteria for an FCL arrangement.

- ***Sustainable external position***. The 2022 External Balance Assessment (EBA) concludes that Morocco's external position was broadly in line with what implied by fundamentals and desirable policies. The EBA model estimates negligible CA and REER gaps (0.1 percent of GDP and 0.3 percent, respectively). The external debt remains relatively low, largely (85 percent) of long-term maturity, and is projected to stabilize at around 43 percent of GDP going forward (Annex I).

- ***Capital account position dominated by private flows***. Private capital flows constitute the largest share of Morocco's capital account, averaging about 52 percent of total flows between 2019 and 2022. FDIs are among the largest component of these flows, and are expected to pick up in the medium term as Morocco continues the implementation of its private sector growth friendly reforms

- ***Track record of steady sovereign access to international capital markets at favorable terms.*** The Moroccan public sector (central government and SOEs) has tapped the international markets in four of the last 5 years (2019-2023), on favorable terms and for a cumulative amount of US$ 9 billion (more than 7 times Morocco's quota). On March 1, 2023, Morocco issued two USD denominated bonds, with 5- and 10-year maturity, each for US$ 1.25 billion, with favorable spreads reflecting high demand from international investors. In addition, Morocco did not lose market access at any point in the last 12 months. The reasons why Morocco has not tapped international markets more often are its low dependence on external financing and abundant availability of domestic savings. When it did decide to issue in international markets, Morocco did so at favorable market conditions.[6]

- ***A relatively comfortable reserve position.*** Morocco has significantly strengthened its official reserves position since the pandemic, accumulating about US$ 6.5 billion of reserves since end 2019. As of end 2022, the reserve position was equivalent to about 25 percent of GDP and about 5.5 months of imports. When expressed as a ratio to the adjusted ARA metric, Morocco's reserves have averaged about 133 percent over the last three years (2020-2022).[7]

- ***Sound public finances, including a sustainable public debt position***. Morocco's public debt is assessed to be sustainable with a high probability (Annex II). As for many other countries in the world, Morocco's fiscal position deteriorated after the pandemic recession, with the central government debt projected at about 69 percent of GDP in 2022, compared to about 60 percent in 2019. Nonetheless, fiscal consolidation resumed in 2021 and continued last year despite the significant economic fallout from the war in Ukraine, the drought, and the funding of health care and education reforms. Several key mitigating factors help Morocco sustain its debt, including i) the relatively small share in foreign currency denominated debt (about a quarter), ii) the large base of domestic institutional investors (Morocco's national savings have averaged about 27½ percent of GDP over the past 5 years, compared to 19½ on average for other FCL countries, and more than three quarters of Moroccan debt is held by domestic banks, mutual funds, life insurance companies and pension funds); iii) the relatively long average maturity of the debt (about 6.5 years).[8] While the public debt remains sustainable with high probability, the latest (2022) Article IV Staff Report argues for accelerating its reduction towards pre-pandemic levels to rebuild the fiscal space against possible new shocks in the future.

- ***Low and stable inflation in the context of a sound monetary and exchange rate policy framework.*** Morocco has maintained low and stable inflation over the last 15 years, with annual inflation averaging about 1.5 percent and never exceeding 2 percent between 1996 and 2021. Following the rise in global commodity prices, average yearly inflation in Morocco increased in 2022 to about 6½ percent, but it remains lower than regional and EMs averages, and BAM is committed to raise interest rates as necessary to prevent inflation expectations to rise further and become de-anchored. Assuming lower global commodity prices (as in the April 2023 WEO projections), past and prospective policy rate increases as needed, and limited inertial forces, staff projects that average inflation will fall this year to about 4½ percent and return to levels

[6] In December 2020 (still during the pandemic and right after Morocco's sovereign rating were downgraded to a notch below investment grade) Morocco raised USD 3 billion in USD denominated bonds (offers were above $US 13 billion). The favorable terms of the issuance were considered as an important factor in the authorities' decision to repay the IMF about US$ 1 billion of the US$3 billion purchased under the PLL arrangement in April 2020.

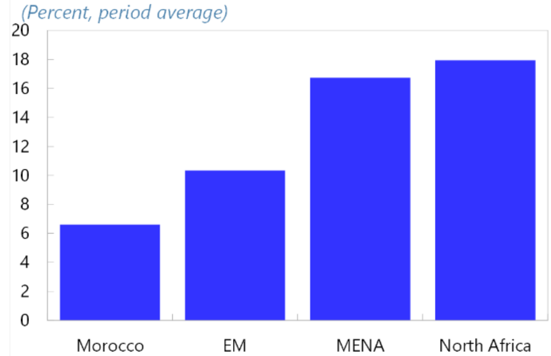
[7] International reserves were 101 percent of unadjusted ARA on average over the three years 2020-2022. Both as ratio of adjusted and unadjusted ARA, international reserves never fell below 80 percent in any of the last 5 years (2018-2022).

[8] At about 62½ percent of GDP in 2022, Morocco's general government debt-to-GDP ratio is lower than central government debt mainly as it nets out the Treasury bonds held by Morocco's public pension funds (about 15 percent of GDP).

near 2¾ percent by the end of 2024 (after incorporating the inflationary impact of the removal of subsidies on wheat, gas butane and sugar).

Inflation, 2022

(Percent, period average)



Sources: IMF, *World Economic Outlook*, and IMF staff calculations.
Note: Income groups are ppp-weighted.

- ***Sound financial system and absence of solvency problems that could threaten systemic stability.*** Banks have capital above minimum requirements and stable funding (primarily demand deposits, at 105.5 percent of loans in 2022). The average capital adequacy ratio is above regulatory thresholds (with Tier 1 capital ratio of 11.8 percent in mid-2022 broadly in line with the average over the past three years). NPLs are relatively high at about 8 percent of total loans in January 2023, but provisioning levels are comfortable (67.5 percent of NPLs). The central bank has strengthened supervision requirements for large bank exposures, which have declined from 288 percent of Tier 1 capital in 2018 to 264.4 percent in September 2022. Banks increased their liquidity buffers over the same period, with the Liquidity Coverage Ratio (LCR) rising from 135 percent at the end of 2018 to 163 percent in September 2022. With the Fund's technical assistance, the central bank regularly conducts and publishes stress tests, which show that the banking system can withstand severe shocks. The latest BAM stress-test, published in July 2022, shows that banks' solvency is resilient to a severe adverse macro-economic scenario. Systemic risks to the financial system appear to be limited, and even if the expansion of Moroccan banks into Africa expose them to changing economic conditions in that region, it has so far represented more an opportunity for diversification and profit generation.

- ***Effective financial sector supervision.*** The Bank Al-Maghrib's supervisory capacity has improved in line with the 2015 FSAP recommendations. BAM has made progress in implementing Basel III requirements, including by adopting new regulations (notably an ICAAP and, more recently, an IRRBB directive), and by strengthening its supervisory tools (redesigning its risk rating system as part of a transition to a full SREP-like approach). The oversight of Moroccan banks expanding into Africa has intensified, in close collaboration with host country supervisory agencies. After Morocco's grey listing by the FATF in February 2021 and amendment of the AML/CFT Law in June 2021, the authorities intensified their efforts to address identified weaknesses in the AML/CFT framework and, after completing their Action Plan with FATF, Morocco exited the FAFT grey list on February 24, 2023.

- ***Data transparency and integrity.*** Morocco subscribes to the Special Data Dissemination Standard. Overall, data continue to be adequate to conduct effective surveillance and program monitoring. According to the most recently published Annual Observance Report on Morocco's SDDS commitments, Morocco exceeds SDDS publication timeliness requirement for labor market data (employment and unemployment), the Consumer Price Index and merchandise trade.

15. Morocco has a sustained track record of implementing very strong policies. Morocco meets the qualification criteria on almost all indicators in each of the last 5 years (2018-2022). However, its AML/CFT framework has had strategic deficiencies during this period, as reflected in the 2021 grey-listing by the FATF. These shortcomings have however been sufficiently mitigated by the recent strengthening of the AML/CFT framework and FATF's decision to remove Morocco from the grey list in February 2023.

16. Morocco has a very strong institutional policy framework that has continued to improve in recent years, contributing to its resilience to multiple recent negative shocks.

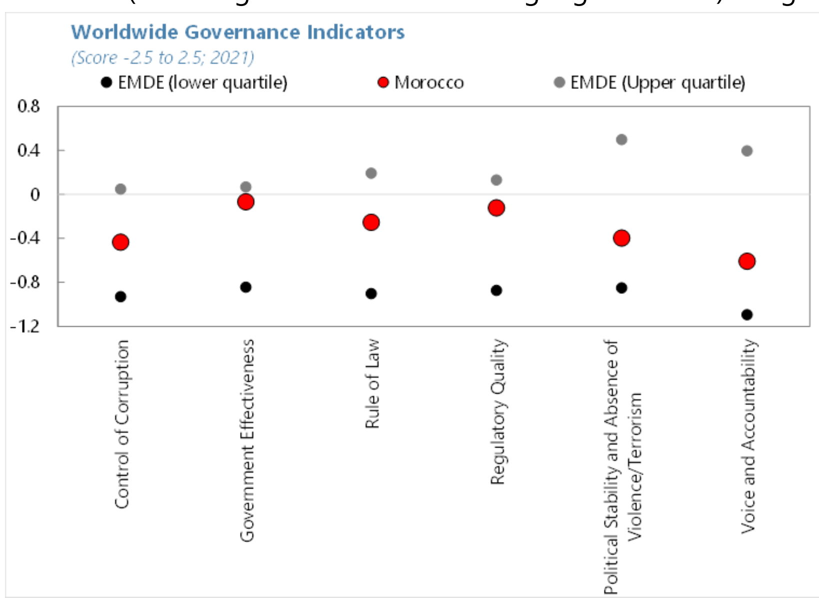
- *Fiscal policy*: The fiscal policy framework was strengthened with the approval of the Organic Budget Law in 2015, which, among other things i) includes measures to increase the oversight role of parliament and the Court of Accounts, reinforcing public accountability, ii) envisages the presentation to the parliament of the authorities' medium term (three-year) fiscal plans; and iii) requires the publication of an annex to the Budget that assesses the gender dimension of fiscal policies. In line with the Organic Budget law's multiyear budgetary framework, the 2023 Budget included for the first time a document with the authorities' medium-term fiscal framework (MTFF). This document has been published on the Ministry of Finance website and contains projections of the deficit and debt levels for the next three years, together with main projected spending and revenue items. The Annex also sets out the macroeconomic assumptions and key policy measures underlying these projections. An IMF technical assistance mission has taken place in early February 2023 to discuss the features and start the calibration of a new (debt-anchored) fiscal rule in Morocco as well as further strengthening of the MTFF. The authorities confirmed their strong commitment to bring a new fiscal rule in their Organic Budget Law as early as 2023, and to improve the MTFF in the context of the 2024 Budget exercise, based on FAD recommendations.[9]
- *Monetary policy*. Morocco's central bank is an independent, well-managed, and highly regarded institution. The new Central Bank's charter approved in 2019 provides for many important and key provisions related to BAM's governance structure and operational independence as well as ensuring adequate accountability and transparency provisions. BAM's Board has decision-making powers over monetary policy and cannot take instructions from the government. The Charter has made price stability the primary objective of the central bank's monetary policy. Over the last few years, and with the support of IMF technical assistance, BAM has made significant progress in the planned transition to an inflation targeting regime, including by extending the band around the peg to ±5 percent in March 2020, lifting some limitations to capital flows, developing and upgrading tools to produce macroeconomic forecasts and policy simulations, streamlining the monetary policy decision

[9] The planned improvements include: i) better distinguishing between baseline projections and the impact of new discretionary measures, showing the latter separately; ii) discussing the previous and current year budget execution, including reconciliation between the budget forecasts and actuals; and iii) including an analysis of debt sustainability and fiscal risks.

making process, and improving communication instruments and practices. Once inflation and uncertainty on global and domestic outlook are lower, BAM should move forward with the final stages of the transition to an inflation-targeting framework and allow the dirham to float freely.

- *Financial policy*. Significant progress has been made in strengthening financial sector oversight with the adoption of the Banking Law, as well as the creation of a new supervisory authority and a macroprudential policy framework.[10] Morocco also created new supervisory authorities for insurance, pensions, and capital markets, and enhanced its crisis management and resolution frameworks. BAM plays a leading role in ensuring financial stability by coordinating the supervision and regulation of financial institutions, assessing systemic risks, and coordinating crisis resolution measures. The stress-testing framework was strengthened following the 2015 FSAP and with TA from MCM.

- *Governance indicators*. Third-party governance indicators for Morocco generally show comparable scores to other current FCL countries. Overall, the Worldwide Governance Indicators suggest that Morocco's institutions are broadly comparable, in quality and efficiency, to those of other EMs (chart: higher scores mean stronger governance). Progress in improving public sector transparency and accountability include the adoption of a National Strategy Against Corruption (2015-2025), the operationalization in 2022 of an Anti-Corruption Agency, and progress in digitalization of public administration services (including through the passing of the Information Access Law in 2019 and the introduction of a unified internet portal for Moroccan citizens, who can use it to access information and manage transactions with the public administration, and centralizes data from different registries, such as population, justice, land and property). As emphasized in the 2022 Article IV Staff Report, Morocco's legal framework would greatly benefit from continued reform efforts in a few areas, including i) strengthening the penal procedural code, ii) resubmitting a bill on illicit enrichment, iii) reinforcing whistleblower legislation, and iv) improving the



Source: Worldwide Governance Indicators.

[10] Still, there is room for further clarifying the mandate of the Financial Stability Committee vis-à-vis other public institutions.

implementation of preventive measures regarding the asset declaration of public officials and politically exposed persons.

17. This institutional and policy framework have enabled Morocco to respond effectively to the shocks experienced in recent years. The authorities' prompt policy responses have helped contain the social and economic damage from the pandemic and the terms of trade shock from Russia's war in Ukraine. Fiscal policy has appropriately supported household income and firms' liquidity in the wake of the pandemic (including through cash transfers to employees and informal workers, the deferral of tax and debt payments, and sovereign guarantees on new loans). The monetary policy stance was eased significantly in 2020, as BAM lowered the policy rate and the reserve requirement ratio, widened the band around the exchange rate peg, and expanded liquidity. Despite the lower space available, a few fiscal measures helped mitigate the impact on purchasing power from higher commodity prices and generalized inflationary pressures in 2022, while BAM began tightening the monetary policy stance in Q4 last year. During the last Article IV consultation on January 17, 2023, the Executive Board provided a very positive assessment of the authorities' policy response and their ambitious reform plans.[11]

18. The rapid acceleration of the reform agenda after the pandemic confirms Morocco's strong commitment to maintain very strong policies in the future. The ultimate objective of the reform agenda is to catalyze a new model of development, consistently with the indication contained in the 2021 Royal Commission report on the *New Model of Development*. In recent years, several reforms have been achieved or initiated, including:

- *A reform of the social protection system*: this includes: i) extending health care insurance to about 11 million Moroccans without any health care coverage, starting from 2023; ii) gradually replacing the remaining energy and food subsidies with more targeted family allowances (using the new Social Registry), starting from 2024; iii) relaxing the conditions for accessing unemployment insurance, from 2025, and iv) reforming the pension system to increase the coverage of non-wage workers (by 2025).
- *Reform of SOEs*: Morocco passed legislation that provides the broad guidelines of a comprehensive reform of Morocco's SOEs. The legislation i) allows to eliminate SOEs whose mission is deemed no longer essential and to merge those operating in the same sector to exploit potential synergies, ii) transforms all SOEs with commercial activities into corporates, and iii) introduces a National Agency responsible for the valuation and strategic management of SOEs and the ongoing monitoring of their performance. These reforms are expected to foster a more efficient public sector, improve the governance of SOEs, reduce their dependence on the budget, and level the playing field for all market participants. The appointment in July 2022 of the CEO of the National Agency responsible for consolidating and optimizing Morocco's SOEs portfolio is an important step toward the operationalization of the reform, which is expected to be completed by 2025.

[11] Executive Directors commended the authorities "*for the very strong policy response that has mitigated the social and economic impact of the recent negative shocks*".

- *Tax reforms*: in July 2021, a framework law was approved with the main principles and guidelines for a comprehensive reform of the tax system over the next 5 years. Some reforms have already been introduced in the last three Budgets, including i) an overhaul in 2023 of the corporate tax system (to be phased in over 4 years) that replaced the current plethora of tax rates (depending on profits, sector of activity, and location) with a standard rate of 20 percent, ii) the introduction in 2022 of a single tax for low-income self-employed (replacing all other taxes), and iii) the adoption in 2023 of a PIT withholding tax for a series of transactions involving self-employed (professionals). These measures should simplify the current regime for corporate taxation, improve the progressivity and equity of the PIT tax, and help reduce informality.
- *Pension reform*: after the parametric reforms initiated in 2016, changes to improve the sustainability and efficiency of Morocco's pension system continued in 2021, with the change in the pension indexation formula for the pensions of retired workers of SOEs (from 100 percent to 75 percent of the wage increase, in line with other pension schemes) and in 2022, with a modification of the criteria for accessing a pension for self-employed (with a significant reduction of the minimum number of years of contribution needed to start receiving a pension, a measure that should encourage formalization).
- *Business friendly and product market reforms*: These include: i) the activation in 2019 of the Competition Council, that began applying legislation on merger control and anti-competitive practices; ii) a new Bankruptcy Law adopted in 2018; iii) the gradual simplification of administrative procedures for setting up a business or transferring ownership; iv) the establishment in 2021 of the *Mohamed VI Fund*, which is expected to catalyze private investment into key sectors of the Moroccan economy by providing equity or quasi-equity to local firms operating in these sectors; and vi) the approval last year in Parliament of a new *Charter of Investment* framework law that intends to improve the business environment and stimulate private investment, particularly for very small, small, and medium-sized enterprises.
- *A reform of the education system.* Based on the road map presented in 2022, the reform aims to achieve a few major objectives: i) reaching a 100 percent enrollment at the preschool level; ii) reducing the drop-out rate in compulsory education by one third; iii) doubling the number of students with basic skills at the end of primary school; and iv) doubling the number of students who benefit from extracurricular activities. To achieve these objectives, the reform envisages more investment in school infrastructure and an overhaul of the recruiting, training, and payment of teachers.
- *Measures to adapt to challenges from climate change* include:
    - *Efforts to accelerate the transition to renewable energy (RE)*, including i) the approval in 2022 of a decree that allows the direct sale of electricity produced via RE to small industrial customers; ii) a draft law is being discussed in Parliament that allows investors to produce electricity for their own consumption while injecting the surplus into the network (the draft law has been approved) ; iii) the publication in 2022 by the new Electricity Regulator (ANRE) of new regulations for access to the transmission network. Progress has been made in redefining the role of the national power utility (ONEE), away

from the distribution and production of RE, so that it can eventually focus on the strategic task of managing the transmission system.

- *A strategy to tackle the increasing scarcity of water resources.* Morocco's National Water Plan set up in 2020 aims of closing the projected gap between demand and supply of water by 2050. This will require large investment in infrastructures (such as new desalination plants, new stations for the treatment of wastewater, new dams, and more pipelines to transfer water across reservoirs), as well as measures to improve efficiency in water consumption (including a new tariffication policy that better reflects the cost of water mobilization).

ACCESS CONSIDERATIONS UNDER ADVERSE SCENARIO

19. The authorities' request. The authorities intend to treat the FCL arrangement as precautionary, with the requested level of access providing insurance against a wide range of adverse external and domestic shocks and supporting the authorities' macroeconomic policy and structural reform agenda. If external risks faded, the authorities would consider exiting the arrangement, in line with their strategy of viewing the use of the instrument as temporary.

20. Staff's view is that an access level of about 417 percent of quota could provide sufficient insurance against a plausible adverse tail-risk scenario (Box 2). The adverse scenario assumes a worsening of global economic conditions as described in Box 1, and a new drought in 2024. If this scenario were to materialize, weaker trading partners growth and higher commodity prices would slow economic activity and worsen Morocco's external position over the next two years (Box 2). Morocco would experience weak GDP growth (of about ½ percent) in 2023 and 2024, and its current account deficit would widen from about 4¼ percent of GDP in 2022 to about 8½ percent of GDP in 2023 and 2024, reflecting mainly a contraction in the exports of goods and non-tourism services, while the negative terms-of-trade shock and greater import of food items in 2024 would offset the compression of import volumes from weaker domestic demand. Lower net capital inflows (especially FDIs and external borrowing) would add to Morocco's external financing needs under the adverse scenario. In this context, covering the external financing gap while ensuring that international reserves remain at 100 percent of the adjusted ARA metric will require accessing the proposed FCL arrangement of SDR 3.7262 billion (about 417 percent of Morocco's quota, or US$ 5 billion).

Box 2. Illustrative Adverse Scenario

An illustrative adverse scenario shows that access of SDR 3.7262 billion (416.6 percent of quota, or US$ 5 billion) would provide sufficient insurance against plausible tail risks. In this scenario. weaker demand in advanced economies, higher oil and food prices, and tighter financing conditions would impact Morocco's economic activity, significantly widen its current account deficit, and curb capital inflows. The adverse scenario also assumes the occurrence of another drought in 2024, which would boost imports of food items.

Current account. Due to the weaker global demand (mainly from Europe), the volume of goods exports would contract by about 10 percent in both 2023 and 2024, compared to the baseline scenario. Despite the increase in the price of phosphate, the overall value of goods exports would fall by around US$ 7 billion cumulatively over the two years. Export of services would fall by about 15 percent in both years, although tourism receipts would stay well above the trough experienced during the pandemic, while remittances are projected to decline by 10 percent in both years relative to baseline, but to remain above pre pandemic levels. The fall of exports in this scenario places Morocco near the 25th percentile of previous precautionary arrangement scenarios (chart). Import volumes fall by about 7 percent in both years relative to the baseline, reflecting import compression from lower demand (despite the boost on food imports from the drought in 2024), but the new terms-of-trade shock would cause the overall value of good imports to remain broadly unchanged, relative to baseline.

Assumption Underlying the Illustrative Adverse Scenario

in percent change vis-à-vis baseline, unless otherwise indicated

Assumptions	2023	2024
Euro Area GDP Growth (ppt)	-2.7	-1.3
Morocco Real GDP Growth (ppt)	-2.6	-2.6
Cereal Production (volume)	0.0	-12.0
Oil Price (US$/barrel; Brent)	34	16
Commodity Food Price Index	16	8
Phosphate Price Index	26	13
Current Account/GDP (ppt)	-5.0	-4.8
Trade Balance		
Real Imports Growth	-7.8	-6.7
Real Exports Growth	-15.2	-11.8

Source: IMF Staff calculations

Foreign Direct Investment. Lower growth in the euro area would discourage FDI inflows. Overall, net direct investments would fall by around 35 percent and 30 percent in 2023 and 2024 relative to the baseline, respectively, averaging 0.8 percent of GDP in the two years (compared to 1.2 percent on average over the 2017-2021). This places Morocco slightly outside the bottom 25th percentile of previous precautionary arrangements, in line with previous PLLs for the country (chart).

Portfolio flows. Access to international markets would become more challenging, with greater uncertainty and higher global funding costs. In this context, the public sector will be able to rollover about 150 percent of the bonds maturing over 2023-2024 (compared to 280 percent in the baseline). Private portfolio flows would dry out in net terms, but the presence of CFMs reduces the risk of large capital flight by residents.

Other investments. Public sector's gross external loans are projected to experience a rollover rate of about 90 percent over 2023-2024, compared to 130 percent in the baseline.1/ The worse economic outlook and tighter global financial conditions are assumed to restrict the space for private sector borrowing. The scenario assumes rollover rates of 80 percent for amortization of private sector debt (trade credit and loans) in 2023 (chart), and slightly higher rates for 2024. As a result, net private sector borrowing would remain flat as share of GDP in 2023-24, compared to 0.4 percent in the baseline. Other net inflows remain at levels close to the average over the last 3 years (about ¼ percent of GDP).

Use of reserves. Part of the external financing gap from the worse current and financial accounts is covered by a drawdown of international reserves of US$5.9 and 6.6 billion in 2023 and 2024, respectively. Such

Box 2. Illustrative Adverse Scenario (continued)

decline would bring international reserves just above 100 percent of the IMF's adjusted-ARA (slightly below 80 percent of the unadjusted ARA metric, consistently with the drawdown in reserves assumed under previous Morocco's PLL arrangements). Despite the reserve decumulation, a financing gap of US$ 5 billion would nonetheless remain—consistent with the requested level of access.

External Financing Requirements and Sources, 2019-2024

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

				Projections						
	2019	2020	2021	2022	2023			2024		
					Baseline	Adverse	Contribution to gap 1/	Baseline	Adverse	Contribution to gap 1/
External financing requirements	21.8	16.7	21.9	29.0	26.2	30.7	4.6	27.1	30.3	3.2
Trade deficit	19.8	15.5	19.9	27.0	23.9	28.5	4.6	24.4	27.7	3.2
Interest Payments	2.0	1.2	2.0	2.0	2.2	2.2		2.7	2.7	
External financing sources	21.8	16.8	21.9	29.1	26.2	25.7	-0.5	27.1	25.3	-1.8
Services Revenues	9.7	6.7	6.9	11.9	11.3	9.2	-2.1	11.8	9.2	-2.7
of which Tourism	8.2	3.8	3.8	7.9	7.3	6.6		7.7	7.0	
Remittances	7.4	8.1	11.6	10.9	9.6	9.0	-0.6	10.0	8.9	-1.1
Grants	0.3	0.5	0.2	0.2	0.2	0.2		0.2	0.2	
FDI (net)	0.8	1.0	1.6	2.0	2.0	1.3	-0.7	2.0	1.4	-0.6
Public Sector Financing (net)	2.0	7.5	0.2	1.0	2.8	1.0	-1.8	1.6	-0.6	-2.2
Private sector loans (net)	0.3	0.3	-0.7	-0.8	0.1	-0.2	-0.3	0.6	0.0	-0.6
Trade Credit (net)	1.1	1.1	0.6	4.2	0.4	-0.1	-0.5	1.3	0.4	-0.9
Other portfolio inflows (net)	0.1	-0.5	-0.8	0.1	0.1	-0.5	-0.6	0.1	-0.1	-0.2
Other Inflows (net)	1.1	-2.3	2.9	0.6	0.7	0.0	-0.7	1.1	0.5	-0.6
Net use of Fund resources (- : increase) /2					0.0	0.0		-1.3	-1.3	
Errors and Omissions	1.1	1.7	0.9	0.0	0.0	0.0		0.0	0.0	
Change in Gross Official Reserves (- : increase	-1.9	-7.3	-1.5	-1.1	-0.9	5.9	6.8	-0.3	6.6	7.0
Financing Gap (USD Billion) /3						5.0	5.0		5.0	5.0
SDR (0.745208 USD/SDR, February 08, 2023)							3.7			3.7
Percent of quota							416.6			416.6
Gross international reserves	26.4	36.0	35.6	31.8	32.7	25.1		33.0	25.5	
Percentage of adjusted ARA metric	113	143	133	122	123	100		118	100	
Percentage of unadjusted ARA metric	87	109	101	93	95	78		91	77	
Months of imports of GNFS	6.9	7.2	5.8	5.5	5.4	4.5		5.3	4.7	

Source: IMF staff calculations.

Note: Under a two-year FCL arrangement requested on a precautionary basis, the adverse scenario table should demonstrate, in each of the years of the arrangement, the same BoP gap commensurate with the requested level of total access under the arrangement. This is to illustrate that the entire amount would be made available at approval, allowing the member to draw at any time during the arrangement whenever the actual BoP need materializes, subject to the completion of the mid-term review

/1 Calculated as deviation from baseline scenario

/2 This includes the residual PLL repayment obligation, of US$ 1.3 billion in 2023

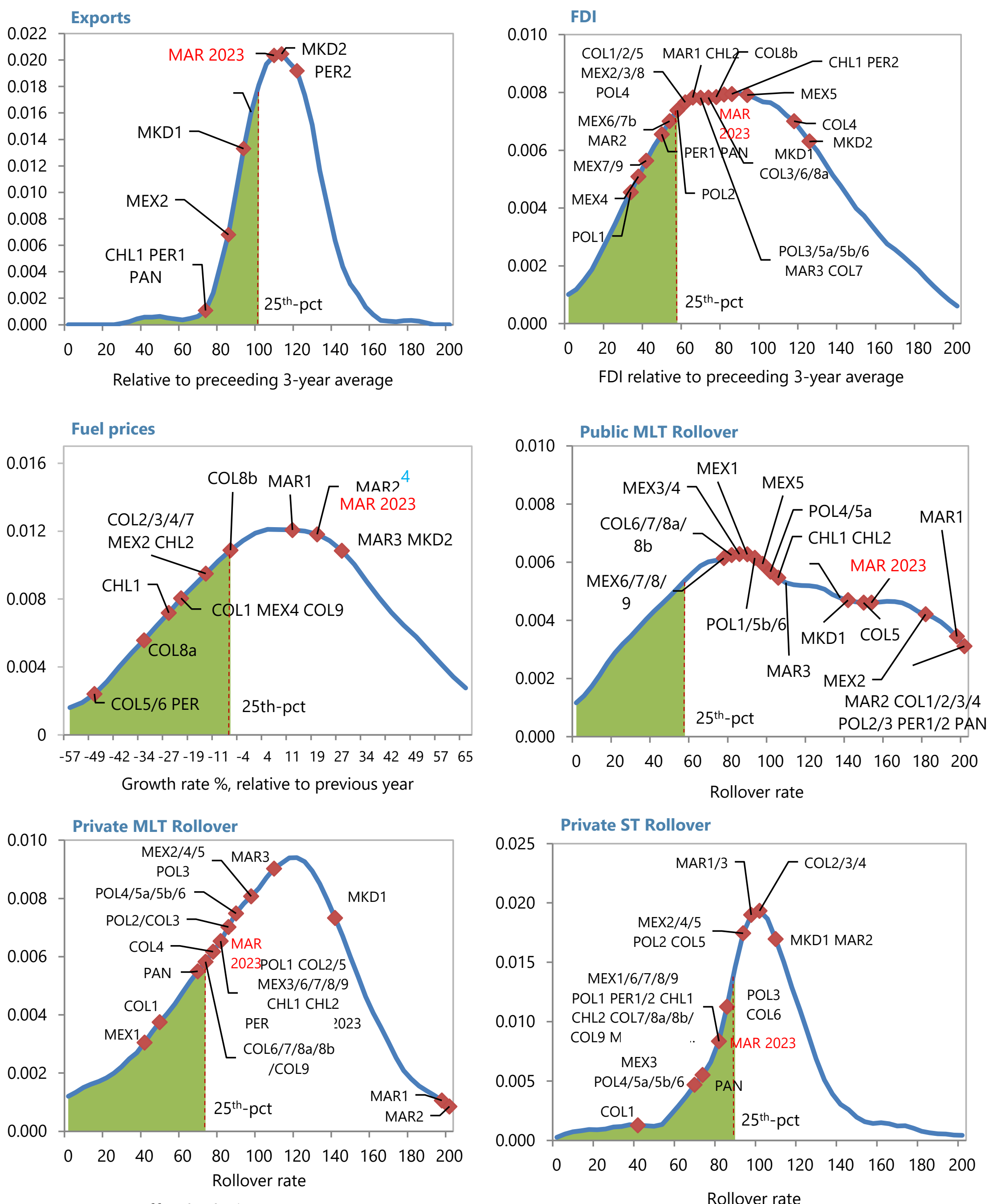
/3 Defined as the amount of external financing needed to keep the stock of reserves at 100 percent of the adjusted ARA

1/ This correspond to a rollover rate for medium and long-term public sector debt (both bonds and loans) of about 130 and 85 percent in 2023 and 2024, respectively. This places Morocco outside the bottom 25th percent of the distribution of previous PLL and FCL arrangements (see chart), reflecting the large share of official financing for Morocco's public sector which is unlikely to dry out completely.

Box 2. Illustrative Adverse Scenario (concluded)

Morocco: Illustrative Adverse Scenario[1]

(Probability density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MAR2023, marked in red, is the current FCL arrangement (effect for the first year of crisis). The latest PLL arrangement for Morocco is marked in blue. Note that since Morocco is a fuel importer, a greater price growth shock implies greater risk for the country.

FUND FINANCES AND SAFEGUARDS

21. The proposed arrangement for Morocco under the FCL (SDR 3.7262 billion, about 417 percent of quota) would have a manageable impact on the Fund's liquidity. The Fund's Forward Commitment Capacity (FCC) would decline by 2.3 percent of its current level and remain at some SDR 156.8 billion (Table 6). More detailed analysis of the impact of the requested FCL arrangement on the Fund's finances and liquidity position is provided in a staff report supplement.

22. The potential GRA credit exposure to Morocco would amount to a moderate share of the Fund's outstanding credit. In a downside scenario in which the resources available under the FCL arrangement are fully drawn, Fund credit to Morocco would represent 3.8 percent of total GRA credit outstanding as of 02/20/2023 and 16.8 percent of the Fund's current precautionary balances, while the capacity to repay to the Fund would remain adequate (Table 7). In such a scenario, Morocco's external debt would rise to 43.7 percent of GDP and public external debt would reach 29.5 percent of GDP this year and stay slightly below these levels over the medium term (reflecting lower access to external savings). Morocco's outstanding use of GRA resources would account for 11.4 percent of total external debt, and 16.9 percent of public external debt. Fund credit would initially account for 5 percent of GDP and 28.1 percent of Morocco's gross international reserves. External debt service would increase to about 4¼ percent of GDP by 2024 but gradually decline over the medium term. Morocco's projected debt service to the Fund would peak in 2027 at about 1.5 percent of GDP.

23. Safeguards procedures will be conducted. BAM was subject to a safeguards assessment in connection with the 2018 PLL arrangement and the implementation of the remaining recommendation to transition to International Financial Reporting Standards is in progress. Safeguard procedures for the FCL will be conducted based on a review of the most recent external audit results and discussions with BAM's external auditors. Once completed, the results will be included in the next staff report for Morocco.

STAFF APPRAISAL

24. Staff assesses that Morocco meets the qualification criteria for an arrangement under the FCL and supports the authorities' request. Morocco has very strong policies, institutional policy frameworks and economic fundamentals that have enabled the country to remain resilient in the face of multiple economic shocks, including the pandemic, recurrent droughts, and spillovers from Russia's war in Ukraine. The authorities remain committed to maintaining such policies in the future, giving confidence that Morocco will respond appropriately to potential balance of payment difficulties. During the last Article IV consultation on January 17, 2023, the IMF Executive Board provided a very positive assessment of the authorities' policy response and their steadfast commitment to implement structural reforms.

25. Staff considers that the proposed access of about 417 percent of quota is appropriate given the elevated downside external risks that have intensified over the past three years. Morocco remains vulnerable to a worsening of the global economic environment, greater fallout from Russia's war in Ukraine, higher commodity price volatility, tighter financial conditions, and recurrent droughts. Against the backdrop of heightened uncertainty about the global outlook, an FCL arrangement will enhance Morocco's external buffers and provide insurance against plausible tail risks on a temporary basis. The authorities intend to exit the FCL at the end of the 24-month period, conditional on the evolution of risks.

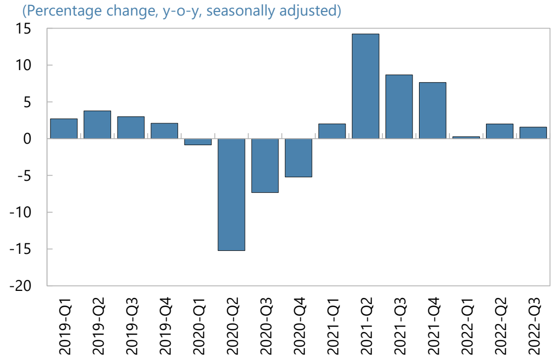
26. Staff considers that the proposed FCL arrangement carries moderate risks to the Fund. If fully drawn, GRA credit exposure to Morocco would remain manageable. The authorities are fully committed to maintaining prudent macro-economic policies and implement the range of structural reforms needed to make growth stronger, more resilient, and more inclusive. They intend to treat this FCL arrangement as precautionary.

Figure 1. Morocco: Real Sector Developments

Real GDP growth slowed in the first three quarters of 2022…

Real GDP Growth

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

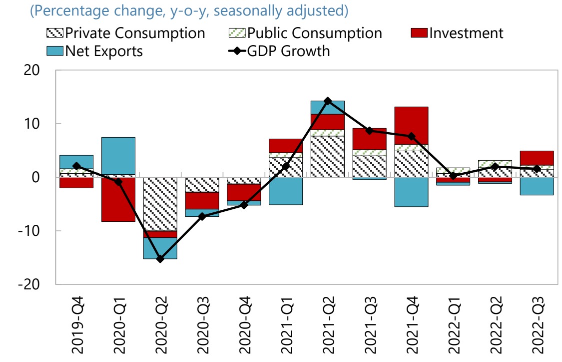


Source: Haver.

… mainly driven by lower domestic demand.

Demand Contribution to Real GDP Growth

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

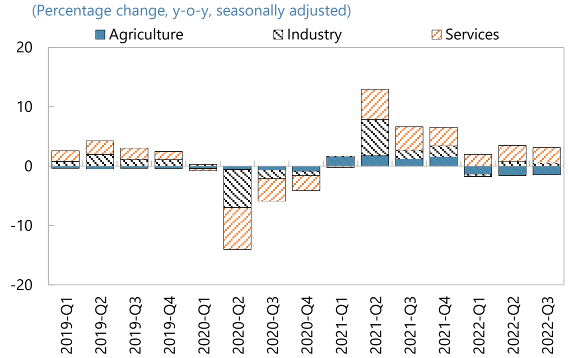


Sources: Haver; and IMF staff calculations.

The agriculture and industry sectors were affected by the drought and the war in Ukraine, …

Supply Contribution to Real GDP Growth

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

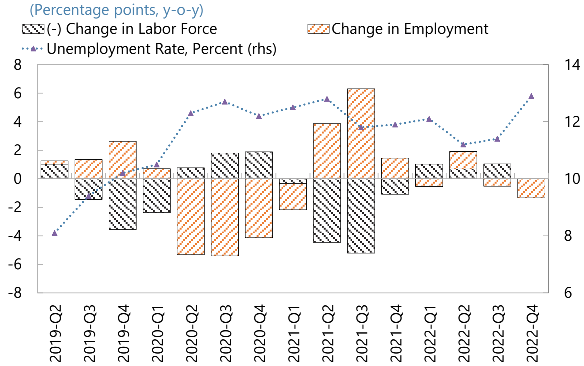


Sources: HCP; Haver; and IMF staff calculations.

… while the unemployment remains higher than pre-pandemic levels.

Contributions to Employment

(Percentage points, y-o-y)

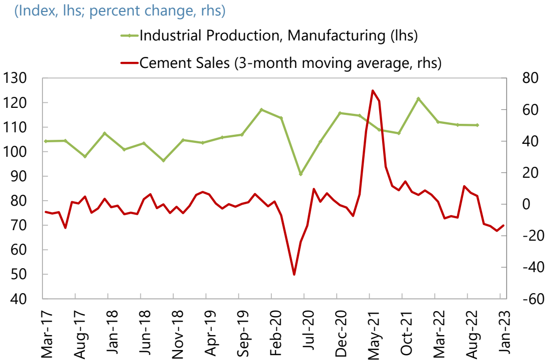


Sources: Haver; and IMF staff calculations.

Manufacturing and cement sales seem to have weakened since mid-2022…

Industrial Production and Cement Sales

(Index, lhs; percent change, rhs)

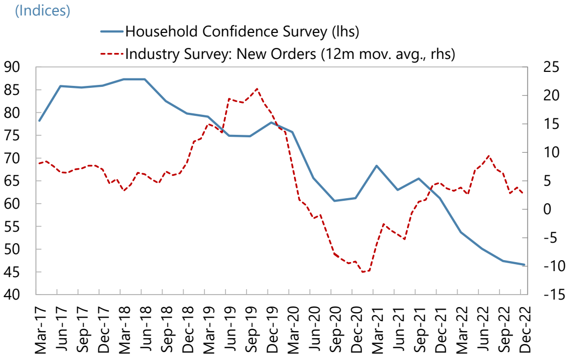


Sources: HCP; and Bank Al-Maghrib.

… together with household and business confidence.

Household and Industry Confidence Surveys

(Indices)



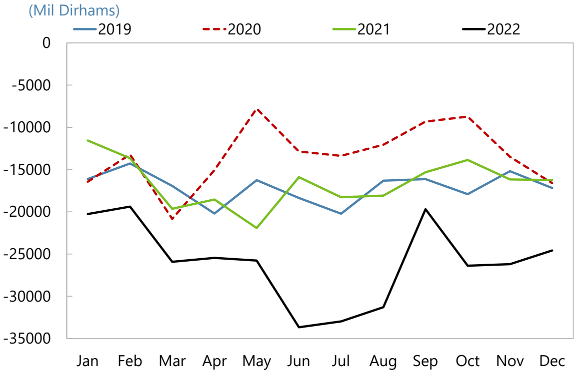
Source: HCP.

Figure 2. Morocco: External Developments

The trade deficit widened in 2022…

Trade Balance (Monthly)

(Mil Dirhams)

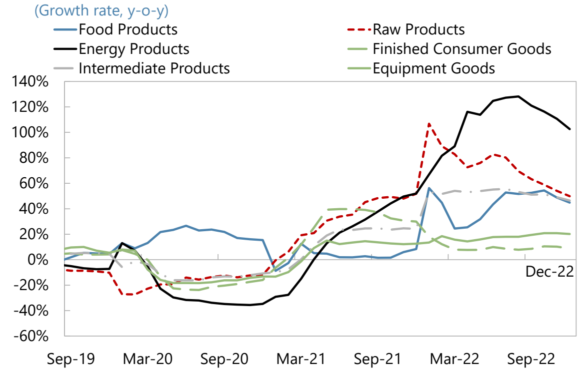


Source: Office des Changes.

…as higher commodity prices and the drought boosted import of energy, food products, and raw products.

Goods Imports

(Growth rate, y-o-y)

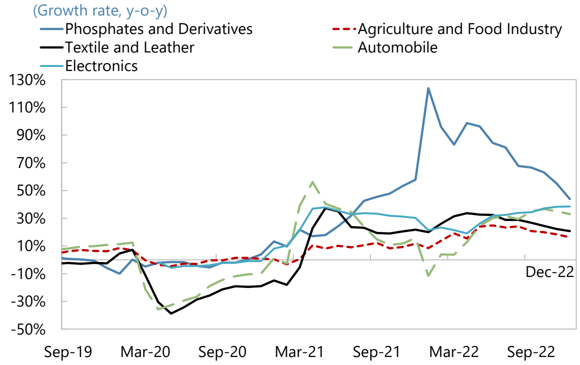


Source: Office des Changes.

Export growth was supported by the strong expansion in phosphate, but also automotive and textile products.

Goods Exports

(Growth rate, y-o-y)

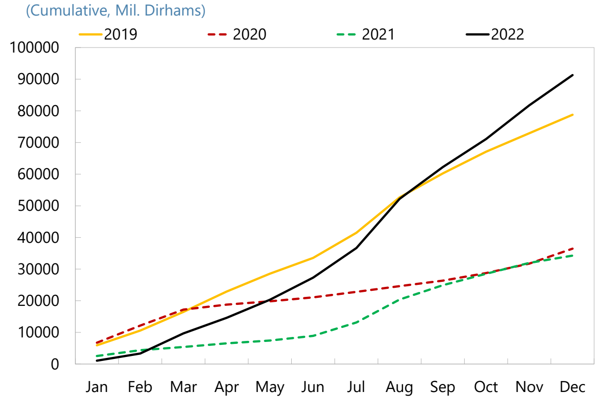


Source: Office des Changes.

Tourism revenues returned to pre pandemic levels in 2022.

Tourism Revenues

(Cumulative, Mil. Dirhams)

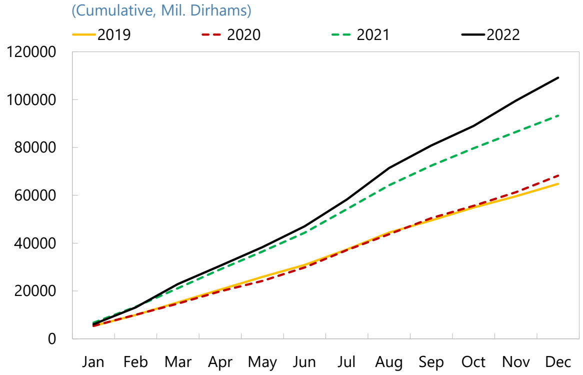


Source: Office des Changes.

In 2022, remittances have surpassed the elevated levels of last year.

Remittances

(Cumulative, Mil. Dirhams)

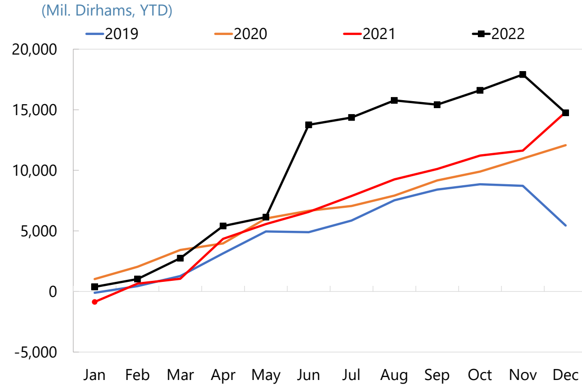


Source: Office des Changes.

Net FDI increased in 2022, reflecting higher both higher inward FDIs and lower Morocco's investment abroad.

Net FDI

(Mil. Dirhams, YTD)



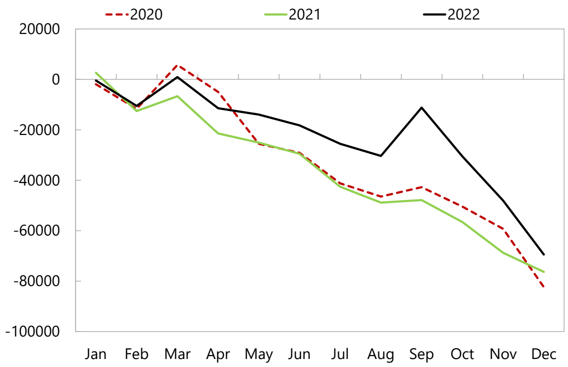
Source: Office des Changes.

Figure 3. Morocco: Fiscal Developments

The overall fiscal deficit in 2022 was lower than last year…

Overall Fiscal Balance

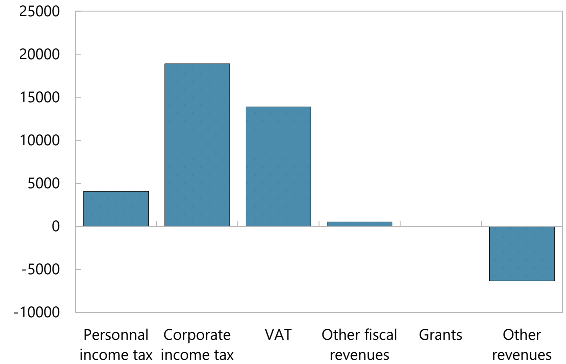
(Mil. Dirhams, year-to-date)



…as tax revenues (especially corporate income tax, VAT) significantly increased, …

Revenues

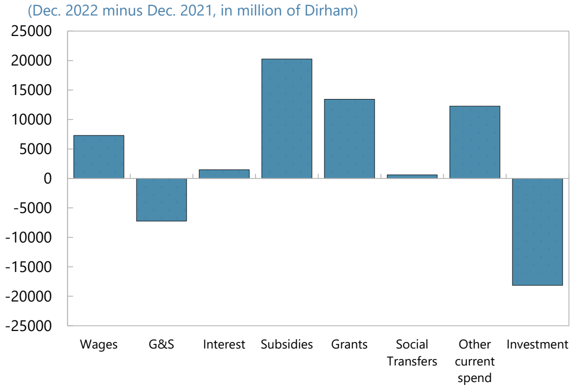
(Dec. 2022 minus Dec. 2021, in million of Dirham)



…to offset the increase in current spending (driven by subsidies and transfers).

Expenditure

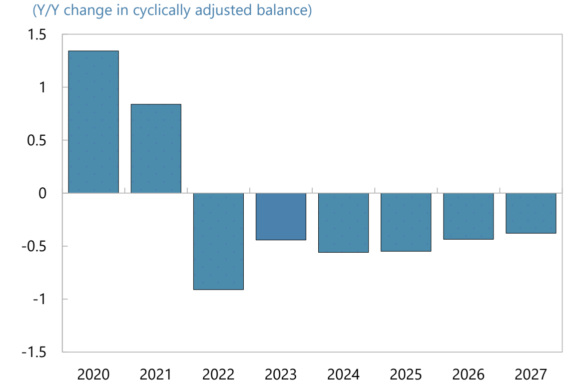
(Dec. 2022 minus Dec. 2021, in million of Dirham)



The fiscal stimulus injected in 2020-21 is expected to be phased out gradually over the medium term.

Fiscal Impulse

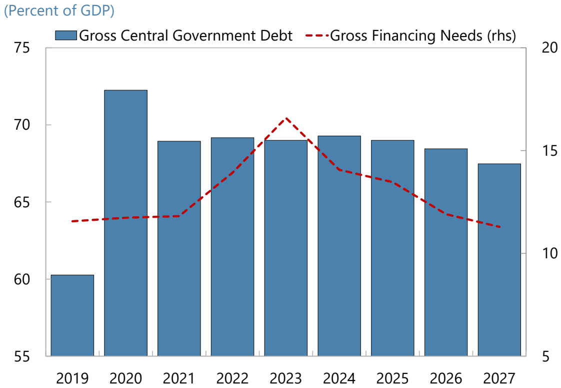
(Y/Y change in cyclically adjusted balance)



The public debt-to-GDP ratio is expected to fall in the medium term, together with gross financing needs.

Central Government Debt and Gross Financing Needs

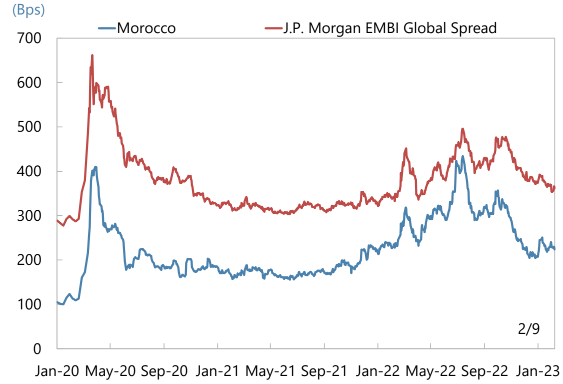
(Percent of GDP)



Sovereign spreads increased in 2022 as in other EMs but have fallen since their peak in July last year.

Weighted Average Spread

(Bps)



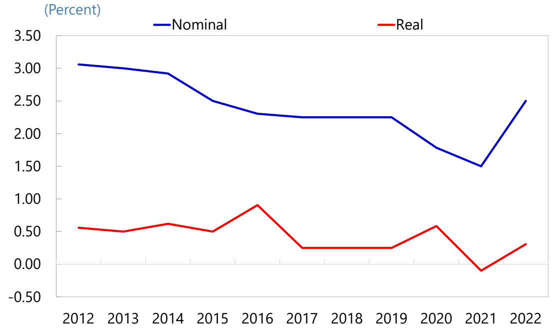
Sources: National authorities; and IMF staff estimates.

Figure 4. Morocco: Monetary and Financial Developments

BAM increased interest rates by 100 bps since September 2022

Monetary Policy Rates

(Percent)

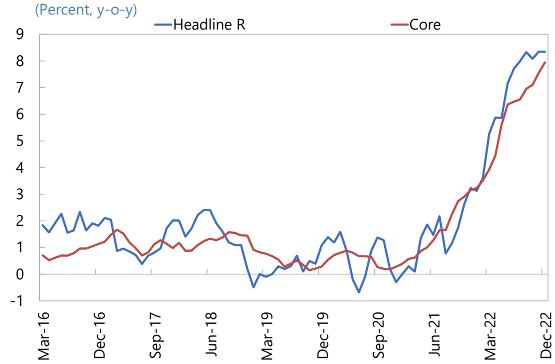


Sources: IMF, *World Economic Outlook;* Haver; and IMF staff calculations.
Note: Real policy rate is calculated as nominal policy rate minus two-year-ahead inflation projection.

...as inflation pressures accelerated in 2022

Inflation

(Percent, y-o-y)

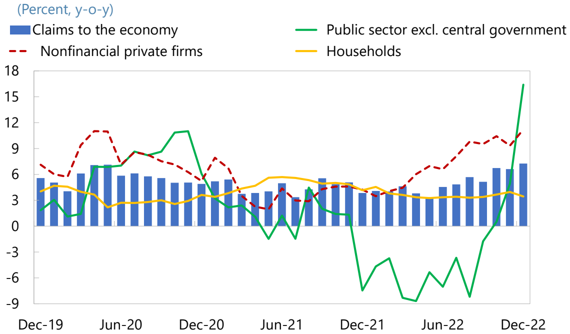


Sources: HCP; and Haver.

Credit growth in 2022 was driven by the financing of working capital of non-financial private sector firms

Banking Credit Growth

(Percent, y-o-y)

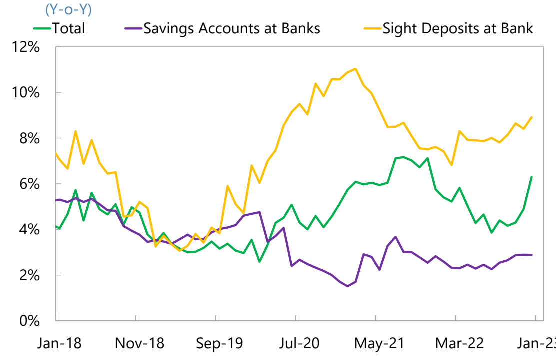


Sources: Bank Al-Maghrib; and IMF staff calculations.

Banks deposit growth has slowed since the peak of the pandemic but remains healthy.

Deposits Growth

(Y-o-Y)

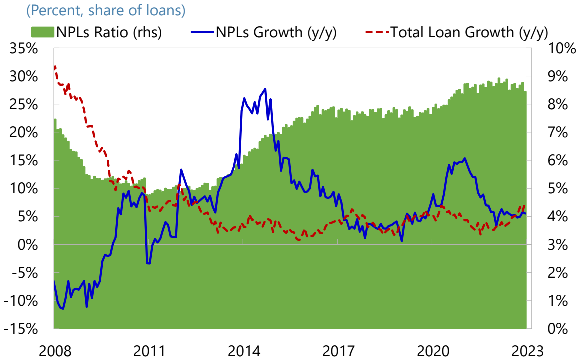


Sources: Bank Al-Maghrib; and IMF staff calculations.

NPLs have stabilized in 2022.

Non Performing Loans

(Percent, share of loans)



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

Banks's holding of Treasury bonds have increased since the pandemic but are still lower than historical highs.

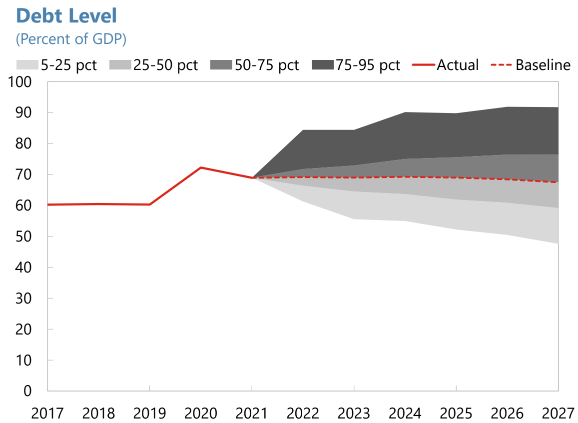
Banks: Treasury Bonds As Share of Assets

(Percent)

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

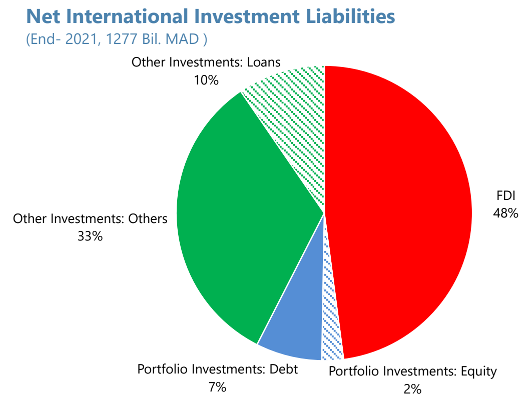
Figure 5. Morocco: FCL Qualification Criteria

Central government debt-to-GDP ratio



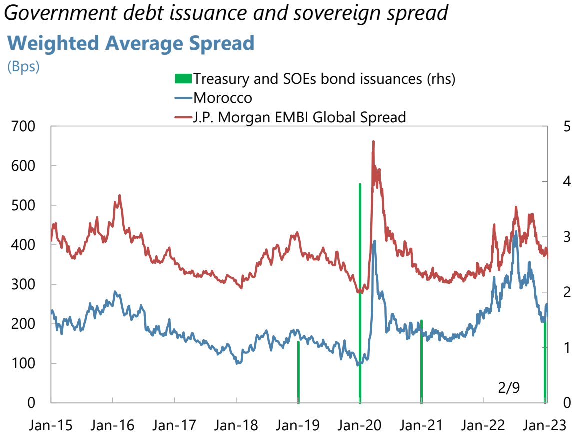
Sources: National Authorities; and IMF staff calculations.

International investment liabilities in 2021



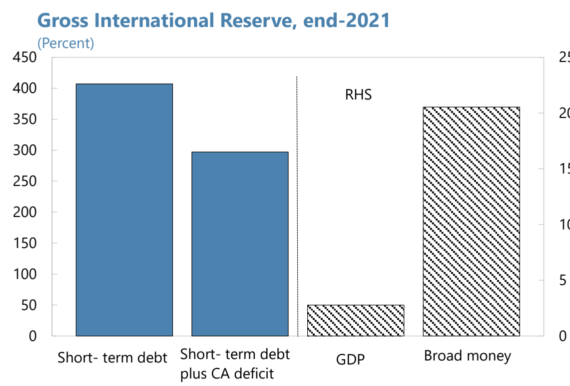
Sources: Haver; and IMF staff calculations.

Government debt issuance and sovereign spread

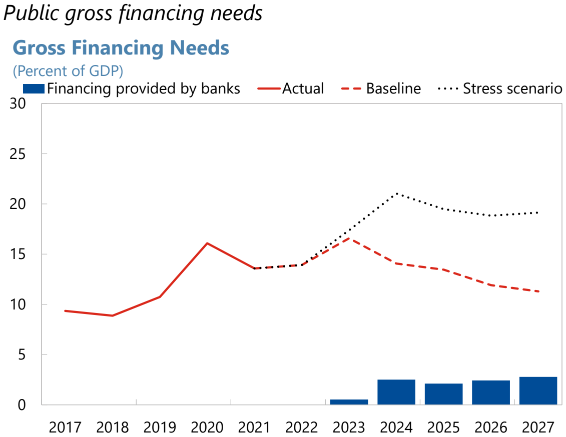


Sources: Bloomberg; and IMF staff calculations.

Gross international reserves in 2021.

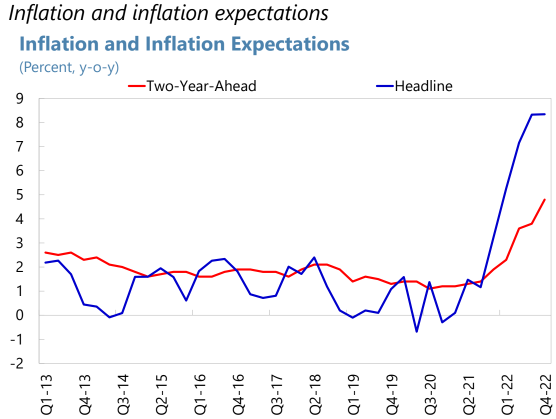


Public gross financing needs



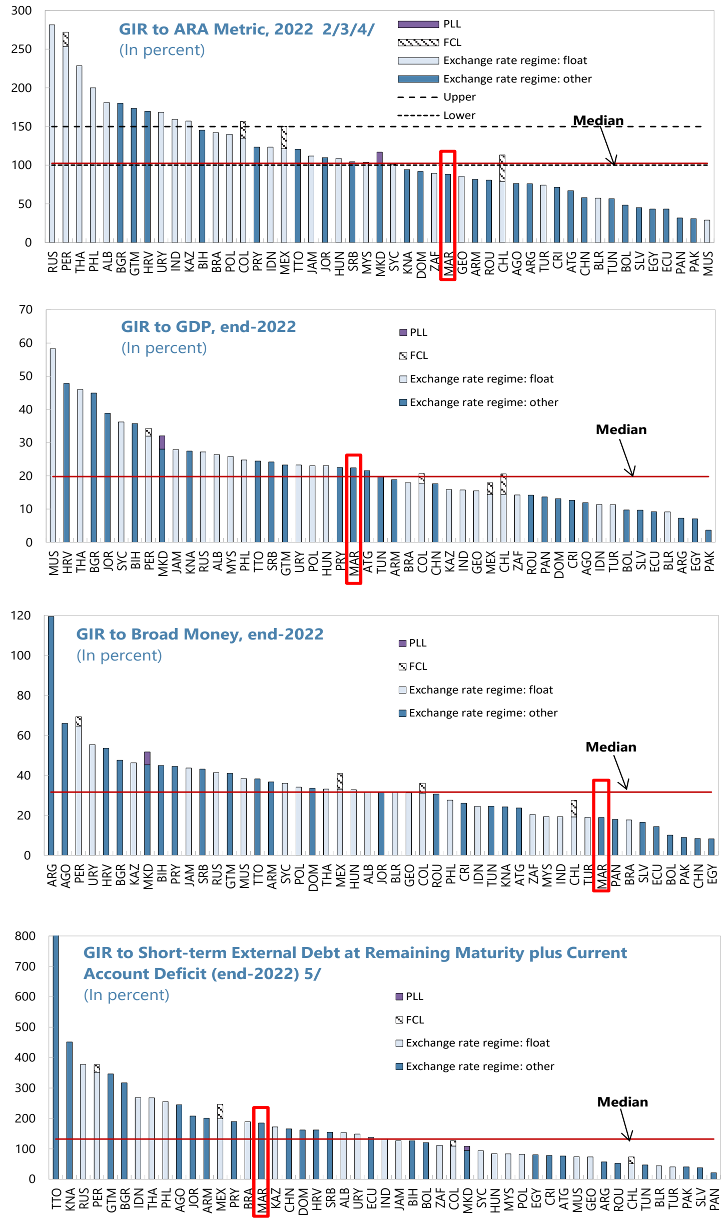
Sources: National Authorities; and IMF staff calculations.

Inflation and inflation expectations



Sources: Bank Al-Maghrib; and Haver.

Figure 6. Morocco: Reserve Coverage and FCLs in an International Perspective 1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.

1/ The sample of countries included in these charts includes all EMEs for which data is available.

2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.

3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016.

4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.

5/ The current account balance is set to zero if it is in surplus.

Table 1. Morocco: Selected Economic Indicators, 2018–28

					Est.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Annual percentage change)										
Output and Prices											
Real GDP	3.1	2.9	-7.2	7.9	1.1	3.0	3.1	3.1	3.2	3.4	3.4
Real agriculture GDP	5.6	-5.0	-8.1	17.8	-14.0	10.1	3.0	3.0	3.0	3.0	3.0
Real non-agriculture GDP	2.8	3.8	-7.1	6.9	2.9	2.2	3.1	3.1	3.3	3.4	3.4
Consumer prices (end of period)	0.1	1.0	-0.9	3.2	8.3	3.7	2.5	2.4	2.0	2.0	2.0
Consumer prices (period average)	1.6	0.2	0.7	1.4	6.6	4.6	2.8	2.4	2.0	2.0	2.0
Output gap (percentage points of non-agricultural GDP)	0.2	0.2	-6.5	-0.4	-0.9	-0.3	-0.2	-0.1	0.0	0.0	0.0
Unemployment rate (end of period)	9.4	10.2	12.2	11.9	12.9	11.0	10.5	10.0	9.6	9.5	9.4
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	31.9	30.4	28.6	30.9	26.9	27.0	26.6	26.8	26.6	26.4	26.4
Of which: Nongovernment	27.1	26.2	23.0	25.3	23.2	22.9	22.6	22.4	22.8	22.9	22.9
Gross national savings	27.8	27.8	26.7	28.6	21.9	23.6	23.6	23.8	24.0	24.0	24.2
Of which: Nongovernment	30.5	30.6	34.6	34.6	27.1	28.6	28.1	27.7	27.3	27.2	27.3
	(In percent of GDP)										
Public Finances											
Revenue	24.2	23.8	27.0	25.1	25.9	26.9	26.7	26.5	26.5	26.6	26.5
Expenditure	27.7	27.4	34.1	31.0	31.0	31.8	31.1	30.2	29.8	29.7	29.5
Budget balance	-3.4	-3.6	-7.1	-5.9	-5.1	-4.9	-4.4	-3.8	-3.3	-3.1	-3.1
Cyclically-adjusted primary balance 1/	-1.6	-1.7	-3.0	-3.8	-2.9	-2.6	-2.1	-1.5	-1.0	-0.8	-0.9
Central government debt	60.5	60.3	72.2	68.9	68.8	68.3	68.4	68.1	67.6	66.9	66.2
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	3.4	5.6	4.9	3.8	7.3	3.8	4.0	4.1	4.1	4.2	4.2
Broad money	4.1	3.8	8.4	5.1	8.0	4.3	4.5	4.5	4.5	4.6	4.6
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	11.6	1.9	-15.0	25.9	23.5	-2.6	5.0	4.5	5.3	5.3	5.2
Imports of goods and services (in U.S. dollars, percentage change)	12.2	-2.3	-14.5	29.9	21.9	-5.3	4.1	4.0	4.9	5.2	5.1
Merchandise trade balance	-15.9	-15.3	-12.8	-13.9	-19.6	-17.2	-16.6	-16.2	-16.0	-15.8	-15.7
Current account	-4.9	-3.4	-1.2	-2.3	-4.3	-3.7	-3.4	-3.2	-3.1	-3.1	-3.0
Foreign direct investment	2.2	0.6	0.8	1.2	1.5	1.4	1.3	1.3	1.4	1.4	1.4
Total external debt	40.5	42.5	54.1	45.4	40.7	42.5	42.3	42.8	42.9	42.9	42.9
Gross reserves (in billions of U.S. dollars)	24.4	26.4	36.0	35.6	31.8	32.7	33.0	35.3	37.7	39.6	41.6
In months of next year imports of goods and services	5.4	6.9	7.2	5.8	5.5	5.4	5.3	5.4	5.5	5.5	5.4
In percent of Fund Assessing Reserve Adequacy (ARA)	83.6	86.9	109.3	100.6	92.6	94.8	91.0	92.0	93.4	93.5	93.8
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric 2/	110	113	143	133	121	123	118	119	120	120	121
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	127.3	128.9	121.3	142.9	136.3	142.9	151.4	159.9	168.5	177.7	187.4
Nominal GDP per capita (in U.S. dollars, percent change)	6.3	0.2	-6.8	16.6	-5.5	3.8	5.0	4.7	4.4	4.6	4.6
Population (millions)	35.2	35.6	35.95	36.31	36.67	37.0	37.4	37.7	38.1	38.4	38.7
Net imports of energy products (in billions of U.S. dollars)	-8.8	-7.9	-5.3	-8.4	-14.0	-12.3	-11.6	-11.2	-11.1	-11.1	-11.6
Local currency per U.S. dollar (period average)	9.4	9.6	9.5	9.0	10.2	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	0.8	0.8	0.7	0.7	-4.0	...	...	...	...	...	...
General Government Debt 3/	51.9	52.8	64.9	62.2	62.3	61.8	61.9	61.6	61.1	60.4	59.7
Interest rate (money market rate, end of period, in percent)	2.32	2.26	1.50	1.50	2.50	...	...	...	...	...	...

1/ Excl. grants
2/ Fund adjusted reserve adequacy metric
3/ IMF estimates based on government data

Table 2a. Morocco: Budgetary Central Government Finance, 2018–28
(Billions of dirhams)

	2018	2019	2020	2021	2022	Proj. 2023	2024	2025	2026	2027	2028
Revenue	289.8	295.2	311.1	322.4	359.2	402.2	423.1	442.7	466.3	493.3	518.4
Taxes	242.5	246.9	230.8	251.0	294.2	307.6	322.6	340.3	358.5	379.1	400.1
Taxes on income, profits, and capital gains	95.5	97.8	95.8	93.4	116.3	119.7	128.0	135.4	142.8	150.8	159.4
Taxes on property	12.6	11.8	9.9	12.2	14.3	14.9	15.9	16.8	17.7	18.7	19.8
Taxes on goods and services	117.6	121.0	110.8	127.9	143.3	152.8	158.1	166.6	175.4	185.2	195.3
Taxes on international trade and transactions	10.1	10.2	9.9	12.4	14.5	14.0	14.0	14.5	15.2	16.3	17.2
Other taxes	6.7	6.1	4.3	5.2	5.7	6.2	6.6	6.9	7.3	8.0	8.4
Grants	4.4	2.8	5.0	1.5	1.5	1.9	1.0	1.0	1.0	1.0	1.0
Other revenue	42.9	45.5	75.4	69.9	63.6	92.7	99.5	101.4	106.8	113.2	117.2
Expense	272.9	286.9	328.6	327.2	376.7	403.4	419.1	429.3	442.1	463.9	487.0
Compensation of employees	124.5	131.4	133.5	140.5	147.8	155.8	161.3	166.2	176.0	185.6	195.8
Use of goods and services	29.6	31.2	33.1	45.1	37.8	39.4	44.0	47.5	50.3	53.1	56.0
Grants 1/	52.3	61.1	65.3	61.5	74.9	93.8	99.5	103.8	106.3	112.1	118.2
Subsidies	17.7	16.1	13.5	21.8	42.1	26.6	8.9	0.2	0.2	0.2	0.2
Social benefits	3.0	3.0	23.3	10.8	11.4	12.5	24.1	26.3	26.3	26.3	26.3
Interest	26.9	26.3	28.8	27.1	28.6	34.2	36.4	38.3	40.7	42.7	42.6
Other expenses 2/	18.8	17.9	31.0	20.4	34.1	41.3	44.9	47.0	42.3	43.9	47.9
Net acquisition of nonfinancial assets	57.9	52.3	64.9	71.5	53.4	71.3	73.0	76.2	82.0	86.5	91.2
Primary balance	-14.1	-17.7	-53.6	-49.2	-42.2	-38.4	-32.5	-24.4	-17.1	-14.4	-17.3
Overall balance	-41.0	-44.0	-82.4	-76.3	-70.8	-72.6	-69.0	-62.8	-57.8	-57.1	-59.9
Cyclical adjusted primary balance 3/	-46.0	-47.5	-63.9	-76.4	-68.9	-72.9	-69.1	-63.3	-58.9	-58.1	-60.8
Change in net financial worth	-41.0	-44.0	-82.4	-76.3	-70.8	-72.6	-69.0	-62.8	-57.8	-57.1	-59.9
Net acquisition of financial assets	3.2	-9.8	14.7	-8.7	-11.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Domestic	3.2	-9.8	14.7	-8.7	-11.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Shares and other equity	0.0	-5.3	0.0	-4.0	0.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
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	44.2	34.2	97.1	67.6	59.6	67.6	64.0	57.8	52.8	52.1	54.9
Domestic	46.1	16.9	54.1	59.4	48.9	37.5	45.5	28.7	29.4	32.4	35.2
Currency and Deposits	8.2	7.7	-6.9	14.5	10.3	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	40.6	-1.9	73.5	38.4	39.4	36.5	44.5	27.7	28.4	31.4	34.2
Other accounts payable	-2.7	11.2	-12.5	6.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	-1.8	17.3	43.1	8.2	10.7	30.0	18.4	29.1	23.4	19.7	19.7
Memorandum Item:											
Total investment (including capital transfers)	76.7	70.2	95.9	92.0	87.5	112.5	117.9	123.2	124.3	130.4	139.2
Central Government Debt	722.7	747.3	832.6	885.3	952.9	1,019.3	1,082.1	1,138.8	1,190.6	1,241.7	1,295.2
General Government Debt 4/	620.3	655.1	747.7	799.3	862.8	922.2	979.2	1,030.2	1,076.2	1,121.1	1,168.0
GDP	1,195.2	1,239.8	1,152.4	1,284.2	1,385.2	1,492.9	1,582.1	1,671.1	1,760.0	1,856.2	1,957.6

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

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

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data.

Table 2b. Morocco: Budgetary Central Government Finance, 2018–28
(Percent of GDP)

	2018	2019	2020	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Revenue	24.2	23.8	27.0	25.1	25.9	26.9	26.7	26.5	26.5	26.6	26.5
Taxes	20.3	19.9	20.0	19.5	21.2	20.6	20.4	20.4	20.4	20.4	20.4
Taxes on income, profits, and capital gains	8.0	7.9	8.3	7.3	8.4	8.0	8.1	8.1	8.1	8.1	8.1
Taxes on property	1.1	1.0	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Taxes on goods and services	9.8	9.8	9.6	10.0	10.3	10.2	10.0	10.0	10.0	10.0	10.0
Taxes on international trade and transactions	0.8	0.8	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.4	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	3.6	3.7	6.5	5.4	4.6	6.2	6.3	6.1	6.1	6.1	6.0
Expense	22.8	23.1	28.5	25.5	27.2	27.0	26.5	25.7	25.1	25.0	24.9
Compensation of employees	10.4	10.6	11.6	10.9	10.7	10.4	10.2	9.9	10.0	10.0	10.0
Use of goods and services	2.5	2.5	2.9	3.5	2.7	2.6	2.8	2.8	2.9	2.9	2.9
Grants 1/	4.4	4.9	5.7	4.8	5.4	6.3	6.3	6.2	6.0	6.0	6.0
Subsidies	1.5	1.3	1.2	1.7	3.0	1.8	0.6	0.0	0.0	0.0	0.0
Social benefits	0.3	0.2	2.0	0.8	0.8	0.8	1.5	1.6	1.5	1.4	1.3
Interest	2.3	2.1	2.5	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.2
Other expenses 2/	1.6	1.4	2.7	1.6	2.5	2.8	2.8	2.8	2.4	2.4	2.4
Net acquisition of nonfinancial assets	4.8	4.2	5.6	5.6	3.9	4.8	4.6	4.6	4.7	4.7	4.7
Primary balance	-1.2	-1.4	-4.6	-3.8	-3.0	-2.6	-2.1	-1.5	-1.0	-0.8	-0.9
Overall balance	-3.4	-3.6	-7.1	-5.9	-5.1	-4.9	-4.4	-3.8	-3.3	-3.1	-3.1
Cyclical adjusted primary balance 3/	-1.6	-1.7	-3.0	-3.8	-2.9	-2.6	-2.1	-1.5	-1.0	-0.8	-0.9
Change in net financial worth	-3.4	-3.6	-7.1	-5.9	-5.1	-4.9	-4.4	-3.8	-3.3	-3.1	-3.1
Net acquisition of financial assets	0.3	-0.8	1.3	-0.7	-0.8	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Domestic	0.3	-0.8	1.3	-0.7	-0.8	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Shares and other equity	0.0	-0.4	0.0	-0.3	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
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	3.7	2.8	8.4	5.3	4.3	4.5	4.0	3.5	3.0	2.8	2.8
Domestic	3.9	1.4	4.7	4.6	3.5	2.5	2.9	1.7	1.7	1.7	1.8
Currency and Deposits	0.7	0.6	-0.6	1.1	0.7	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	3.4	-0.2	6.4	3.0	2.8	2.4	2.8	1.7	1.6	1.7	1.7
Other accounts payable	-0.2	0.9	-1.1	0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	-0.2	1.4	3.7	0.6	0.8	2.0	1.2	1.7	1.3	1.1	1.0
Memorandum Item:											
Total investment (including capital transfers)	6.4	5.7	8.3	7.2	6.3	7.5	7.5	7.4	7.1	7.0	7.1
Central Government Debt	60.5	60.3	72.2	68.9	68.8	68.3	68.4	68.1	67.6	66.9	66.2
General Government Debt 4/	51.9	52.8	64.9	62.2	62.3	61.8	61.9	61.6	61.1	60.4	59.7
GDP (Billions Dirham)	1,195.2	1,239.8	1,152.4	1,284.2	1,385.2	1,492.9	1,582.1	1,671.1	1,760.0	1,856.2	1,957.6

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

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

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data

Table 3. Morocco: Balance of Payments, 2018–28
(In billions of U.S. dollars, unless otherwise indicated)

					Proj.						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account	-6.2	-4.4	-1.4	-3.2	-6.0	-5.2	-5.1	-5.0	-5.1	-5.3	-5.5
Trade balance	-20.3	-19.8	-15.5	-19.9	-27.0	-23.9	-24.4	-25.2	-26.1	-27.3	-28.6
Exports, f.o.b.	24.6	24.7	23.6	31.7	36.0	35.6	37.5	39.2	41.4	43.7	46.0
Food products	5.7	5.9	6.0	6.8	7.5	7.5	7.9	8.3	8.8	9.3	9.7
Phosphates and derived products	5.5	5.1	5.3	8.9	11.6	10.6	10.5	10.3	10.2	10.2	10.6
Automobiles	7.7	8.3	7.6	9.3	10.2	10.5	11.2	11.9	12.6	13.3	14.1
Imports, f.o.b.	-44.9	-44.5	-39.1	-51.5	-63.0	-59.5	-61.9	-64.4	-67.5	-71.0	-74.6
Energy	-8.8	-7.9	-5.3	-8.4	-14.0	-12.3	-11.6	-11.2	-11.1	-11.1	-11.6
Capital goods	-12.8	-13.2	-11.6	-13.8	-14.4	-14.3	-15.7	-16.9	-18.2	-19.5	-20.7
Food products	-4.9	-5.0	-5.8	-6.7	-8.8	-8.4	-8.4	-8.3	-8.5	-8.8	-9.0
Services	8.1	9.7	6.7	6.9	11.9	11.3	11.8	12.3	12.9	13.5	14.0
Tourism receipts	7.8	8.2	3.8	3.8	7.9	7.3	7.7	8.2	8.7	9.2	9.7
Income	-2.1	-2.0	-1.2	-2.0	-2.0	-2.2	-2.7	-2.9	-3.2	-3.4	-3.6
Transfers	8.0	7.7	8.6	11.7	11.1	9.7	10.2	10.8	11.4	12.0	12.7
Private transfers (net)	7.6	7.4	8.1	11.6	10.9	9.6	10.0	10.6	11.2	11.9	12.5
Workers' remittances	6.9	6.7	7.1	10.3	9.7	8.3	8.9	9.5	10.0	10.6	11.3
Official grants (net)	0.4	0.3	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.9	5.3	7.0	3.8	7.1	6.1	6.7	8.0	7.5	7.1	7.5
Direct investment	2.8	0.8	1.0	1.6	2.0	2.0	2.0	2.1	2.3	2.4	2.6
Portfolio investment	-0.8	1.2	2.2	-0.3	-1.2	2.6	0.6	1.6	1.1	0.8	0.8
Other	1.9	3.3	3.9	2.5	6.3	1.5	4.1	4.3	4.1	4.0	4.1
Private	2.0	2.4	2.1	1.5	4.0	1.2	3.0	3.2	2.9	2.7	2.9
Public medium-and long-term loans (net)	-0.1	0.9	1.8	1.0	2.4	0.3	0.2	0.1	0.1	0.2	0.2
Reserve asset accumulation (-increase)	1.0	-1.9	-7.3	-1.5	-1.1	-0.9	-1.6	-3.0	-2.4	-1.9	-2.0
IMF financing			3.0	0.8	0.0	0.0	-1.3	-0.7	0.0	0.0	0.0
Errors and omissions	1.3	1.1	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)						
Current account	-4.9	-3.4	-1.2	-2.3	-4.3	-3.7	-3.4	-3.2	-3.1	-3.1	-3.0
Trade balance	-15.9	-15.3	-12.8	-13.9	-19.6	-17.2	-16.6	-16.2	-16.0	-15.8	-15.7
Exports, f.o.b.	19.3	19.2	19.4	22.2	26.1	25.6	25.5	25.2	25.3	25.3	25.3
Food products	4.4	4.5	4.9	4.8	5.4	5.4	5.4	5.3	5.4	5.4	5.3
Phosphates and derived products	4.3	3.9	4.4	6.2	8.4	7.7	7.1	6.7	6.3	5.9	5.8
Automobiles	6.1	6.5	6.3	6.5	7.4	7.5	7.6	7.6	7.7	7.7	7.8
Imports, f.o.b.	-35.2	-34.5	-32.2	-36.1	-45.6	-42.9	-42.1	-41.4	-41.2	-41.1	-41.0
Energy	-6.9	-6.2	-4.3	-5.9	-10.1	-8.9	-7.9	-7.2	-6.8	-6.4	-6.3
Capital goods	-10.1	-10.2	-9.6	-9.6	-10.4	-10.3	-10.7	-10.9	-11.1	-11.3	-11.4
Food products	-3.8	-3.9	-4.8	-4.7	-6.3	-6.1	-5.7	-5.3	-5.2	-5.1	-5.0
Services	6.4	7.5	5.5	4.9	8.6	8.1	8.0	7.9	7.9	7.8	7.7
Tourism receipts	6.1	6.4	3.2	2.7	5.7	5.2	5.2	5.3	5.3	5.3	5.3
Income	-1.6	-1.6	-1.0	-1.4	-1.5	-1.6	-1.8	-1.9	-2.0	-2.0	-2.0
Transfers	6.3	6.0	7.1	8.2	8.1	7.0	6.9	6.9	7.0	7.0	7.0
Private transfers (net)	6.0	5.8	6.7	8.1	7.9	6.9	6.8	6.8	6.8	6.9	6.9
Workers' remittances	5.4	5.2	5.9	7.2	7.0	6.0	6.1	6.1	6.1	6.2	6.2
Official grants (net)	0.3	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.1	4.1	5.8	2.7	5.1	4.4	4.5	5.1	4.6	4.1	4.1
Direct investment	2.2	0.6	0.8	1.2	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Portfolio investment	-0.6	0.9	1.8	-0.2	-0.9	1.9	0.4	1.0	0.7	0.5	0.5
Other	1.5	2.5	3.2	1.7	4.6	1.1	2.8	2.8	2.5	2.3	2.2
Private	1.6	1.9	1.7	1.1	2.9	0.9	2.0	2.0	1.8	1.6	1.6
Public medium-and long-term loans (net)	-0.1	0.7	1.5	0.7	1.7	0.2	0.1	0.1	0.1	0.1	0.1
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	11.6	1.9	-15.0	25.9	23.5	-2.6	5.0	4.5	5.3	5.3	5.2
Imports of goods and services (in U.S. dollars, percentage change)	12.2	-2.3	-14.5	29.9	21.9	-5.3	4.1	4.0	4.9	5.2	5.1
Terms of trade (percentage change) 1/	0.4	-0.5	2.4	2.4	-2.4	-2.2	-0.9	-1.0	-1.6	-1.7	-1.0
IMF financing			2.5	0.6	0.0	0.0	-0.9	-0.5	0.0	0.0	0.0
Gross official reserves	24.4	26.4	36.0	35.6	31.8	32.7	33.0	35.3	37.7	39.6	41.6
In months of prospective imports of GNFS	5.4	6.9	7.2	5.8	5.5	5.4	5.3	5.4	5.5	5.5	5.4
In percent of the Assessing Reserve Adequacy (ARA) metric	83.6	86.9	109.3	100.6	92.6	94.8	91.0	92.0	93.4	93.5	93.8
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	110.2	113.4	143.3	133.2	121.2	123.0	117.7	118.7	120.3	120.4	120.7
Debt service (percent of export of GNFS and remittances) 2/	7.2	7.4	12.1	9.2	7.9	5.8	8.8	6.7	6.6	6.5	6.3
External public and publicly guaranteed debt (percent of GDP)	27.3	27.4	32.5	29.3	27.9	27.9	27.4	27.7	27.7	27.4	27.1
DHs per US$, period average	9.4	9.6	9.5	9.0	10.2	...	...	...	...	...	...
GDP (US$)	127.3	128.9	121.3	142.9	136.3	142.9	151.4	159.9	168.5	177.7	187.4
Oil price (US$/barrel; Brent)	66.2	61.2	41.8	69.2	96.4	81.3	76.8	72.7	69.6	67.0	64.8

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

1/ Based on WEO data projections.

2/ Public and publicly guaranteed debt.

Table 4. Morocco: Monetary Survey, 2018–22

	2018	2019	2020	2021	2022
	(Billions of dirhams)				
Net foreign assets	250.2	263.9	316.5	316.9	318.1
Net domestic assets	1,070.4	1,106.7	1,168.6	1,243.9	1,366.7
Domestic claims	1,225.9	1,292.3	1,371.1	1,448.8	1,592.0
Net claims on the government	203.0	212.4	238.3	272.5	330.3
Bank Al-Maghrib	0.8	0.6	-4.2	-3.4	18.6
Of which : deposits	-2.9	-3.3	-7.3	-6.5	-5.5
Deposit money banks	202.2	211.9	242.6	275.9	313.3
Claims to the economy	1,022.9	1,079.9	1,132.7	1,176.3	1,261.7
of which credit to private sector	691.3	730.4	763.1	795.2	835.0
Other liabilities, net	-155.5	-185.6	-202.5	-204.9	-225.3
Broad money	1,320.6	1,370.5	1,485.1	1,560.8	1,686.4
Money	858.7	911.8	1,019.4	1,086.8	1,196.9
Currency outside banks	233.6	250.2	300.6	320.1	354.8
Demand deposits	625.1	661.6	718.8	766.7	842.1
Quasi money	424.5	416.6	426.0	432.0	441.8
Foreign deposits	37.4	42.0	39.8	41.9	47.7
	(Annual percentage change)				
Net foreign assets	-4.6	5.5	20.0	0.1	0.4
Net domestic assets	6.3	3.4	5.6	6.4	9.9
Domestic credit	5.9	5.4	6.1	5.7	9.9
Net claims on the government	21.0	4.6	12.2	14.3	21.2
Claims to the economy (excl. central government)	3.4	5.6	4.9	3.8	7.3
Banking credit (excl. central government)	3.2	5.3	4.7	2.6	7.6
Broad money	4.1	3.8	8.4	5.1	8.0
	(Change in percent of broad money)				
Net foreign assets	-1.0	1.0	3.8	0.0	0.1
Domestic credit	5.4	5.0	5.7	5.2	9.2
Net claims on the government	2.8	0.7	1.9	2.3	3.7
Claims to the economy	2.6	4.3	3.9	2.9	5.5
Memorandum items:					
Velocity (GDP/M3)	0.91	0.90	0.78	0.82	0.82
Velocity (non-agr. GDP/M3)	0.81	0.81	0.70	0.73	0.75
Claims to economy/GDP (in percent)	85.6	87.1	98.3	91.6	91.1
of which credit to private sector	57.8	58.9	66.2	61.9	60.3
Claims to economy/nonagricultural GDP (in percent)	95.8	97.1	109.4	103.3	100.2

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

Table 5. Morocco: Financial Soundness Indicators, 2017–22
(Percent, unless otherwise indicated)

	2017		2018		2019		2020		2021		2022
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Regulatory capital 1/											
Regulatory capital to risk-weighted assets	13.7	13.8	14.0	14.7	15.1	15.6	15.5	15.7	16.0	15.8	15.3
Tier 1 capital to risk weighted assets	11.0	10.9	10.5	10.9	11.0	11.5	11.4	11.4	11.9	12.0	11.8
Capital to assets	9.1	9.1	9.1	9.1	9.2	9.5	9.3	9.6	9.5	9.5	9.4
Asset quality											
Sectoral distribution of loans to total loans											
Industry	17.8	17.1	17.8	16.5	15.5	15.9	16.3	15.5	15.9	15.5	16.9
Of which : agro-business	3.3	3.3	3.6	3.6	3.3	3.4	3.3	3.4	3.5	3.7	4.0
Of which : textile	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Of which : gas and electricity	6.2	5.5	5.6	4.9	4.6	4.5	4.7	3.8	3.8	4.1	4.8
Agriculture	3.6	3.8	3.6	4.1	4.0	4.1	3.9	3.8	3.9	4.0	4.1
Commerce	6.7	6.7	6.6	6.4	6.6	6.4	6.6	6.4	6.5	6.7	7.1
Construction	11.2	11.3	11.1	10.5	10.4	10.2	9.5	9.9	8.9	7.9	7.7
Tourism	1.9	1.8	1.8	1.6	1.6	1.5	1.6	1.8	1.8	2.0	1.9
Finance	13.0	12.7	11.6	12.5	12.2	12.7	13.1	13.5	13.1	12.7	12.4
Public administration	4.6	4.9	5.7	8.4	8.2	8.6	8.2	8.3	8.6	8.4	8.1
Transportation and communication	4.8	4.5	4.7	4.0	4.5	4.2	4.1	4.1	4.0	4.1	3.5
Households	32.4	32.6	32.8	31.9	31.8	31.6	30.5	30.9	30.8	31.1	30.1
Other	4.0	4.6	4.2	4.3	5.2	4.8	6.2	5.8	6.6	7.7	8.2
FX-loans to total loans	2.8	2.3	2.7	2.7	3.1	3.3	3.8	3.0	3.3	3.1	5.1
Credit to the private sector to total loans	89.9	89.2	88.2	85.9	86.2	86.0	86.4	86.6	86.7	84.4	87.7
Credit to non financial public enterprises to total loans	5.5	6.2	6.1	6.1	6.0	5.5	5.5	5.2	5.0	4.5	4.2
Nonperforming Loans (NPLs) to total loans	7.5	7.5	7.5	7.3	7.5	7.5	8.0	8.2	8.3	8.6	8.5
Specific provisions to NPLs	70.0	71.0	70.0	69.1	69.3	69.3	67.9	68.6	68.6	67.5	66.7
NPLs, net of provisions, to Tier 1 capital	16.3	15.8	16.4	16.5	16.3	16.0	17.9	17.5	17.7	18.5	18.7
Large exposures to Tier 1 capital	318.0	284	296.0	288	262.9	240.1	255.0	237.0	249.0	228.8	259.4
Loans to subsidiaries to total loans	8.8	8.5	8.3	8.3	8.7	8.1	8.4	8.3	8.4	8.3	8.7
Loans to shareholders to total loans	1.0	0.6	0.8	1.0	0.7	0.5	0.6	0.7	0.6	0.6	0.7
Specific provisions to total loans	5.3	5.3	5.2	5.0	5.2	5.2	5.4	5.6	5.7	5.8	5.7
General provisions to total loans	1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.3	1.4	1.3
Profitability											
Return on assets (ROA)	1.1	0.9	1.1	0.9	1.1	0.9	0.6	0.5	1.2	0.8	1.0
Return on equity (ROE)	11.2	9.5	11.5	9.5	11.8	9.4	5.6	4.8	12.2	8.2	10.9
Interest rate average spread (b/w loans and deposits)	3.9	3.9	3.9	3.9	3.7	3.7	3.7	3.8	3.7	3.7	3.8
Interest return on credit	4.9	4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.6	4.3	4.3
Cost of risk as a percent of credit	0.9	0.8	0.9	0.9	0.8	0.8	1.4	1.3	0.9	1.9	0.6
Net interest margin to net banking product (NPB) 2/	71.4	70.1	72.1	71.2	68.6	67.5	68.2	68.2	69.6	69.3	73.5
Operating expenses to NPB	46.4	50.6	46.7	50.6	46.1	50.2	45.8	50.0	44.6	48.5	46.2
Operating expenses to total assets	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6
Personnel expenses to noninterest expenses	47.5	47.5	47.0	47.5	47.5	47.6	47.6	47.4	46.8	47.0	47.5
Trading and other noninterest income to NPB	28.6	29.9	27.9	28.8	31.4	32.5	31.8	31.8	30.4	32.5	26.5
Liquidity											
Liquid assets to total assets	11.8	13.7	12.9	12.2	12.8	14.0	14.8	16.1	16.5	16.4	16.8
Liquid assets to short-term liabilities	15.7	17.3	14.4	15.1	16.2	17.9	18.7	20.0	20.4	19.9	19.6
Deposits to loans	104.2	107.5	104.9	103.8	102.2	102.2	101.1	103.2	103.6	105.9	105.0
Deposits of state-owned enterprises to total deposits	2.4	2.4	1.9	2.7	2.2	2.2	1.7	1.6	2.2	1.7	2.2
Sensitivity to market risk											
FX net open position to Tier 1 Capital	5.6	7.0	7.0	6.9	0.0	-1.6	8.0	5.8	-1.2	-2.3	-3.9

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 6. Morocco: FCL Arrangement—Impact on GRA Finances

(In SDR millions, unless otherwise indicated)

	As of 2/20/23
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	160,555
FCC on approval 2/	156,829
Change in percent	-2.3
Prudential measures, assuming full FCL drawing	
Fund credit to Morocco	
In percent of total GRA credit outstanding 3/	3.8
In percent of current precautionary balances	16.8
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	68.3
In percent of total GRA credit outstanding including Morocco's assumed full drawing 3/	65.8
Memorandum items	
Current precautionary balances (January 31st, 2023)	22,184
Total FCL commitments, including proposed FCL arrangement	64,490
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.

2/ Current FCC minus access under the proposed arrangement.

3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL arrangement.

Table 7. Morocco: Capacity to Repay Indicators 1/

	2023	2024	2025	2026	2027	2028
Exposure and Repayments (In SDR millions)						
GRA credit to Morocco	5,226.0	4,263.9	3,726.2	2,794.7	931.6	0.0
(In percent of quota)	584.3	476.7	416.6	312.5	104.2	0.0
Charges due on GRA credit 2/	186.2	278.0	216.8	208.0	108.3	15.9
Debt service due on GRA credit 2/	186.2	1,240.1	754.5	1,139.6	1,971.4	947.4
Debt and Debt Service Ratios 3/						
In percent of GDP						
Total external debt	43.7	42.0	42.5	42.7	42.8	42.8
Public external debt	29.5	28.2	28.4	28.4	28.1	27.7
GRA credit to Morocco	5.0	4.0	3.3	2.3	0.7	0.0
Total external debt service	2.7	4.2	3.1	3.1	3.0	2.8
Public external debt service	2.2	3.4	2.5	2.4	2.4	2.2
Debt service due on GRA credit	0.2	1.2	0.7	0.9	1.5	0.7
In percent of Gross International Reserves						
Total external debt	182.4	177.4	174.6	170.3	170.1	174.8
Public external debt	165.7	160.9	157.3	152.2	149.4	150.8
GRA credit to Morocco	28.1	22.6	18.1	12.4	3.9	0.0
In percent of Exports of Goods and Services						
Total external debt service	7.3	11.8	8.9	8.7	8.5	8.0
Public external debt service	6.0	9.7	7.0	6.9	6.6	6.2
Debt service due on GRA credit	0.5	3.3	1.9	2.7	4.3	2.0
In percent of Total External Debt						
GRA credit to Morocco	11.4	9.4	7.7	5.4	1.7	0.0
In percent of Public External Debt						
GRA credit to Morocco	16.9	14.0	11.5	8.2	2.6	0.0
Memo Items:						
Oil Price (WEO APSP, US$ per barrel)	113.8	92.2	72.7	69.6	67.0	64.8

Sources: Moroccan authorities, Finance Department, World Economic Outlook, and IMF staff estimates.
1/ Assumes full drawing of 416.6 percent of quota under the new access.
2/ Based on the GRA rate of charge of 4.437 percent (as of March 2, 2023).
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

Annex I. External Debt Sustainability Analysis

After rising to 54.1 percent of GDP during the pandemic in 2020, external debt fell to 45.4 percent in 2021 and is expected to stabilize to about 43 percent, close to pre-pandemic levels, going forward (Table 1). If Morocco experienced a 30 percent exchange rate depreciation—the most extreme shock—the external debt-to-GDP ratio would decrease to 40 percent (Figure 1). Alternatively, with a shock to the current account, the external debt-to-GDP ratio would increase to 47 percent.

Table 1. Morocco: External Debt Sustainability Framework, 2017-2027
(in percent of GDP unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	44.2	40.5	42.5	54.1	45.4			**40.7**	**42.5**	**42.3**	**42.8**	**42.9**	**42.9**	**-4.3**
Change in external debt	12.2	-3.7	2.0	11.6	-8.7			-4.7	1.8	-0.3	0.5	0.1	0.1	
Identified external debt-creating flows	-2.0	-1.8	4.0	3.2	-3.4			3.3	-0.8	0.4	-0.4	-0.3	-0.2	
Current account deficit, excluding interest payments	4.2	5.8	4.4	2.2	3.1			5.2	4.7	4.6	4.4	4.4	4.3	
Deficit in balance of goods and services	8.9	9.5	7.8	7.3	9.1			10.9	9.1	8.6	8.3	8.1	8.0	
Exports	32.7	34.0	34.2	30.8	33.0			42.2	40.8	40.5	40.0	40.0	40.0	
Imports	41.6	43.5	42.0	38.1	42.1			53.1	49.9	49.0	48.3	48.1	48.0	
Net non-debt creating capital inflows (negative)	-2.7	-5.2	-3.0	-1.0	-1.1			-0.6	-3.3	-1.8	-2.4	-2.0	-1.8	
Automatic debt dynamics 2/	-3.5	-2.5	2.7	2.0	-5.5			-1.4	-2.2	-2.4	-2.5	-2.6	-2.6	
Contribution from nominal interest rate	-0.8	-1.0	-1.1	-1.1	-0.9			-0.8	-1.0	-1.2	-1.2	-1.3	-1.3	
Contribution from real GDP growth	-1.5	-1.3	-1.3	3.3	-3.9			-0.5	-1.2	-1.2	-1.3	-1.3	-1.4	
Contribution from price and exchange rate changes 3/	-1.2	-0.2	5.0	-0.2	-0.6			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 4/	14.2	-1.9	-2.0	8.5	-5.3			-8.0	2.6	-0.7	0.9	0.4	0.2	
External debt-to-exports ratio (in percent)	135.1	119.2	124.3	175.5	137.7			96.6	104.2	104.4	106.9	107.1	107.4	
Gross external financing need (in billions of US dollars) 5/	15.0	15.7	14.0	13.8	15.2			19.0	14.5	16.5	16.0	17.3	18.6	
Percent of GDP	12.6	12.3	10.9	11.4	10.6	10-Year	10-Year	13.7	10.5	11.2	10.3	10.5	10.8	
Scenario with key variables at their historical averages 6/								**40.7**	**43.1**	**44.1**	**46.8**	**48.5**	**49.0**	**-4.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Nominal GDP (US dollars)	118.5	127.3	128.9	121.3	142.9	120.2	10.7	138.1	138.9	147.2	155.5	163.7	172.7	
Real GDP growth (percent)	5.1	3.1	2.9	-7.2	7.9	2.7	4.0	1.1	3.0	3.1	3.1	3.2	3.4	
GDP deflator in US dollars (change in percent)	4.0	0.4	-11.2	0.5	1.1	0.2	5.6	-4.5	-2.4	2.8	2.4	2.0	2.0	
Nominal external interest rate (percent)	-2.6	-2.3	-2.4	-2.4	-1.9	-2.5	0.3	-1.8	-2.4	-2.9	-3.1	-3.1	-3.1	
Growth of exports (US dollar terms, percent)	12.7	11.6	1.9	-15.0	25.9	3.4	11.4	23.5	-2.6	5.0	4.5	5.3	5.3	
Growth of imports (US dollar terms, percent)	9.3	12.2	-2.3	-14.5	29.9	2.8	13.6	21.9	-5.3	4.1	4.0	4.9	5.2	
Current account balance, excluding interest payments	-4.2	-5.8	-4.4	-2.2	-3.1	-5.1	2.3	-5.2	-4.7	-4.6	-4.4	-4.4	-4.3	
Net non-debt creating capital inflows	2.7	5.2	3.0	1.0	1.1	2.3	1.4	0.6	3.3	1.8	2.4	2.0	1.8	

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).

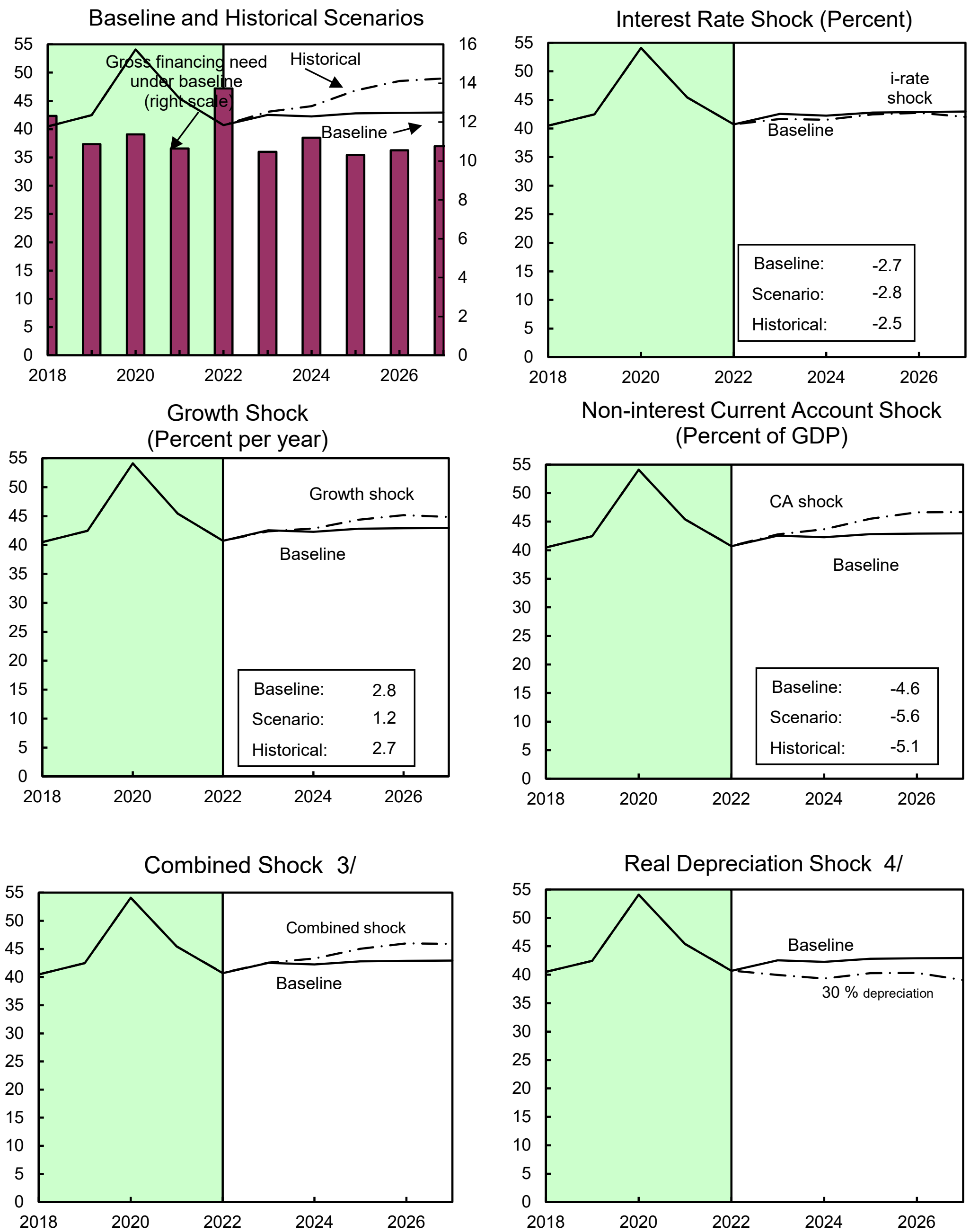
4/ For projection, line includes the impact of price and exchange rate changes.

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.

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

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 2023

Annex II. Sovereign Risk and Debt Sustainability Assessment

While the Covid-19 crisis left a legacy of a higher central government debt-to-GDP ratio, Morocco's debt remains sustainable over the medium term, reflecting the projected gradual process of fiscal consolidation, the large base of domestic institutional investors, the low FX share of Moroccan debt and the long average maturity.

1. Debt coverage and definition (Figure 2). This Sovereign Risk and Debt Sustainability Assessment (SRDSF) covers central government debt, and so analyses the debt of the Treasury (both domestic and external). The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidation of the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 6½ percent of GDP in 2021 (to about 62 percent).

Background

2. After increasing to 72.2 percent of GDP in 2020, the central government debt ratio fell to 68.9 percent of GDP in 2021.[1] The decline in public debt in 2021 was mostly driven by the rebound in GDP growth (7.9 percent compared to -7.2 percent in 2020) and the reduction in primary deficit (by 0.8 percentage points of GDP). Gross financing needs for the central government decreased to 11.8 percent of GDP in 2021 (4.7 percentage points of GDP lower than in 2020).

Baseline Projections

3. Under staff baseline scenario, public debt is expected to remain below 70 percent in the medium term. In line with the medium-term fiscal framework published as part of the 2023 Budget, the central government debt-to-GDP ratio is expected to remain relatively stable over 2022-2025, with staff projecting a modest decline thereafter as the process of fiscal consolidation continues. At the general government level, public debt would hover around 62 percent of GDP until 2025, before falling to 60.4 percent in 2027. The projected fiscal consolidation efforts over the medium term seem realistic relative to the distribution of fiscal adjustment efforts in a group of peer countries (see Figure 6) and previous episodes of fiscal consolidation in Morocco (for example during 2012-17).

4. Financing needs are projected to increase in 2022 and 2023, before falling in the medium term. Gross financing needs are expected to increase to 16.4 percent in 2023, from 13.8 percent in 2022, and gradually decrease to 11.3 percent by 2027. The projected effective interest rate on debt has been revised up relative to the 2021 AIV report, given recent domestic and international rate increases. Still, a few mitigating factors buffer the impact on Moroccan cost of public debt, including: i) long average maturities for domestic and external borrowing, ii) continued active debt management from the authorities, with operations that tend to swap old debt with new

[1] Relative to the 2021 Article IV, the debt-to-GDP ratio is 8.5 percentage points lower in 2022, due to the update of the National Accounts in 2022 that raised the level of GDP.

one at more favorable terms (longer maturities and lower interest rates), and iii) a significant share of external borrowing on a concessional basis. Privatization receipts (projected at about 1½ percent of GDP in 2022-25) should also help reduce financing needs.

5. Morocco’s central government debt remains sustainable, and the overall risk of sovereign stress is assessed to be moderate. Medium-term risk is assessed as moderate on the basis of mechanical signals, and GFN and fan chart tools firmly in moderate territory. Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on the public debt. A few characteristics of the debt profile continue to limit potential vulnerabilities, in particular (see Figure 3): i) its relatively long maturity (weighted average maturity of about 6 years), ii) the relatively low share denominated in FX (about 25 percent) and iii) the investment base made mostly of local investors, many of whom are long-term investors. Thanks to such features, as well as to its solid track record and favorable ratings, Morocco’s government has maintained steady access to international capital markets at favorable terms over the last 10 years, and more recently after the health crisis.

6. Morocco’s public debt remains sensitive to several shocks in the medium term. The debt fan chart index—measuring medium-term solvency risks—has a score equal to 1.7, which is moderate. The baseline debt trajectory and the fan are on a stable or a slightly downward trend by the end of the period, and the probability of debt not stabilizing is assessed to be limited. Gross financing needs also resume a downward path or stabilize in the stress scenario. Overall, solvency risks should be contained with continuous fiscal consolidation, fiscal reforms and a gradual economic recovery. However, this assessment is susceptible to other economic shocks, including droughts, a global economic downturn, and new terms of trade shocks. Contingent liabilities from unfunded public pension schemes,[2] guarantees to commercial SOEs external debt (about 8 percent of GDP), and subsidized credit schemes under the Covid-19 crisis (about 5 percent of GDP) could represent additional vulnerabilities, although the transmission of the latter to a new financial institution under BAM supervision (which will absorb the first layer of losses from potential activation of guarantees) represents a mitigating factor. These risks highlight the importance of accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms, to further reduce the debt-to GDP ratio below the level of 70 percent of GDP over the medium term. In the longer term, sovereign stress risks are assessed as moderate. Recent reforms have reduced funding gaps of many pension schemes (see recent actuarial studies from ACAPS or *Cour des Comptes*). The authorities are working on a comprehensive overhaul of the pension system that would make it financially sustainable. Broad reforms in the water or energy sectors will also be needed to reduce Morocco's increasing vulnerabilities to climate-related risks.

[2] Part of such liabilities are already recognized in the analysis, as the central government debt includes Treasury bonds that are held by the social security administration (by about 10 percentage points of GDP).

Figure 1. Morocco: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium and long-term horizons. Relevant reforms in the budgetary framework or the pension system are expected in the coming years. Comprehensive reforms will also be needed to reduce climate-related risks.
Near term 1/			
Medium term	Moderate	Moderate	Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on the public debt.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	…	…	
Long term	…	Moderate	Recent reforms have reduced funding gaps of many pension schemes (see recent actuarial studies from ACAPS or Cour des Comptes). The authorities are working on a comprehensive overhaul of the pension system that would make it financially sustainable. Comprehensive reforms in the water or energy sectors will be needed to reduce Morocco's increasing vulnerabilities to climate-related risks.
Sustainability assessment 2/	…	Sustainable with high probability	The projected debt path is expected to decrease in the medium term and GFNs will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed as feasible. Therefore debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Morocco is at moderate overall risk of sovereign stress and debt is sustainable with high probability. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. Debt is expected to stabilize for several years before start decreasing in 2026. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Morocco should continue accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms, to further reduce the debt-to GDP ratio over medium term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Morocco: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	

2. Subsectors included in the chosen coverage in (1) above:

CPS	NFPS	GG: expected	CG	#	Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	No
CPS	NFPS	GG: expected	CG	3	Social security funds (SSFs)	No
CPS	NFPS	GG: expected		4	State governments	No
CPS	NFPS	GG: expected		5	Local governments	No
CPS	NFPS			6	Public nonfinancial corporations	No
CPS				7	Central bank	No
CPS				8	Other public financial corporations	No

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

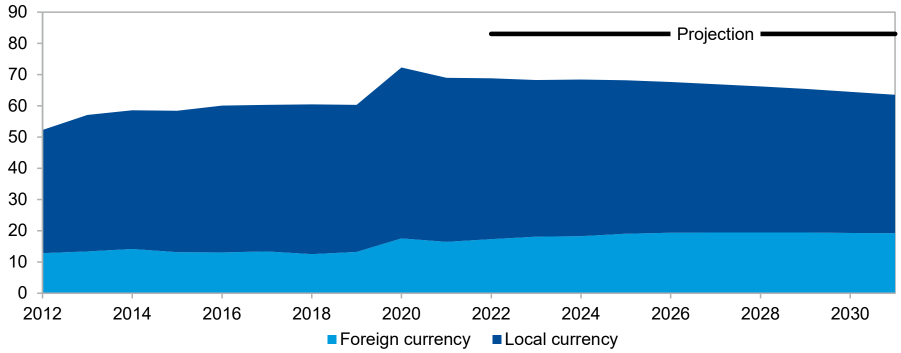
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidation of the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 6½ percent of GDP in 2021 (to about 62 percent). Contingent liabilities linked to subnational governments (debt level estimated at about 2 percent of GDP in 2021), guarantees to commercial SOEs external debt (about 8 percent of GDP), and unconsolidated social security funds, could represent additional vulnerabilities.

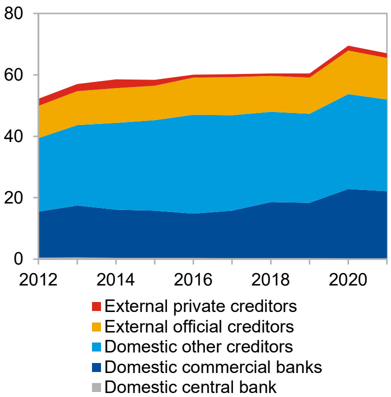
Figure 3. Morocco: Public Debt Structure Indicators

Debt by currency (percent of GDP)



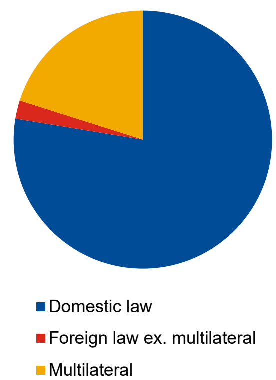
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



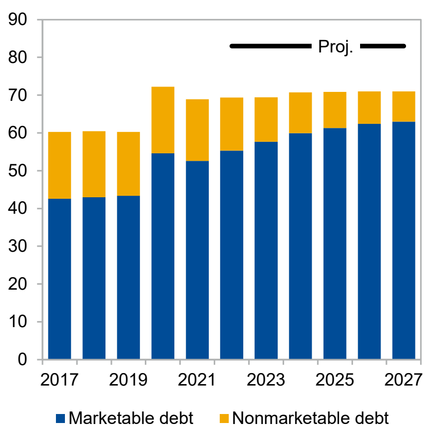
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2021 (percent)



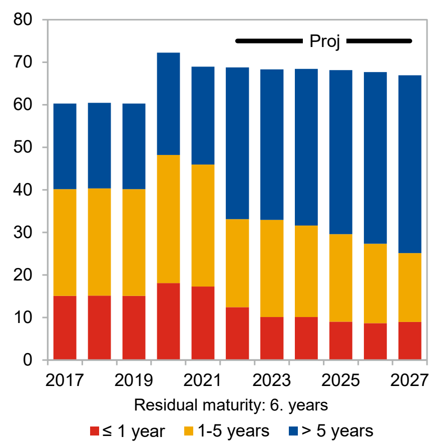
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



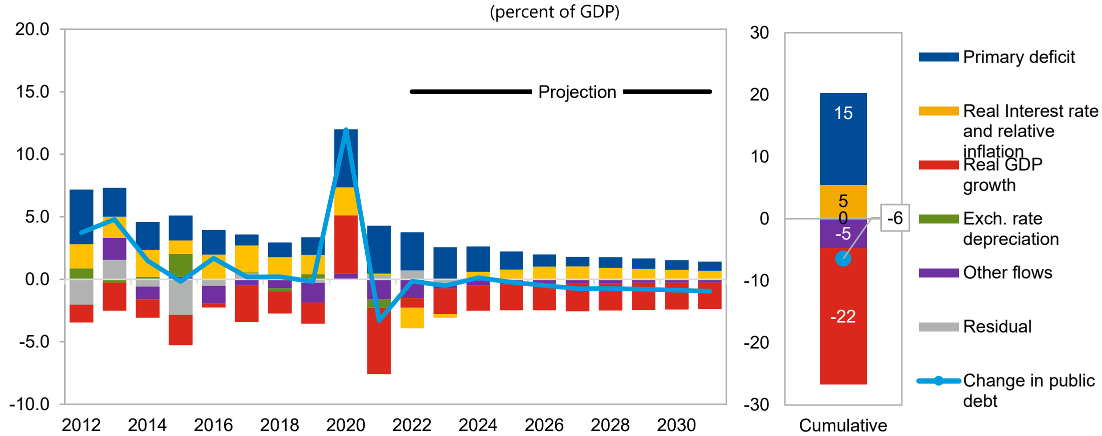
Note: The perimeter shown is central government.

Commentary: A few characteristics of the debt profile continue to limit potential vulnerabilities, in particular, i) its relatively long maturity about 6 years), ii) the relatively low share denominated in FX and iii) the investment base made mostly of local investors, many of whom are long-term investors.

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

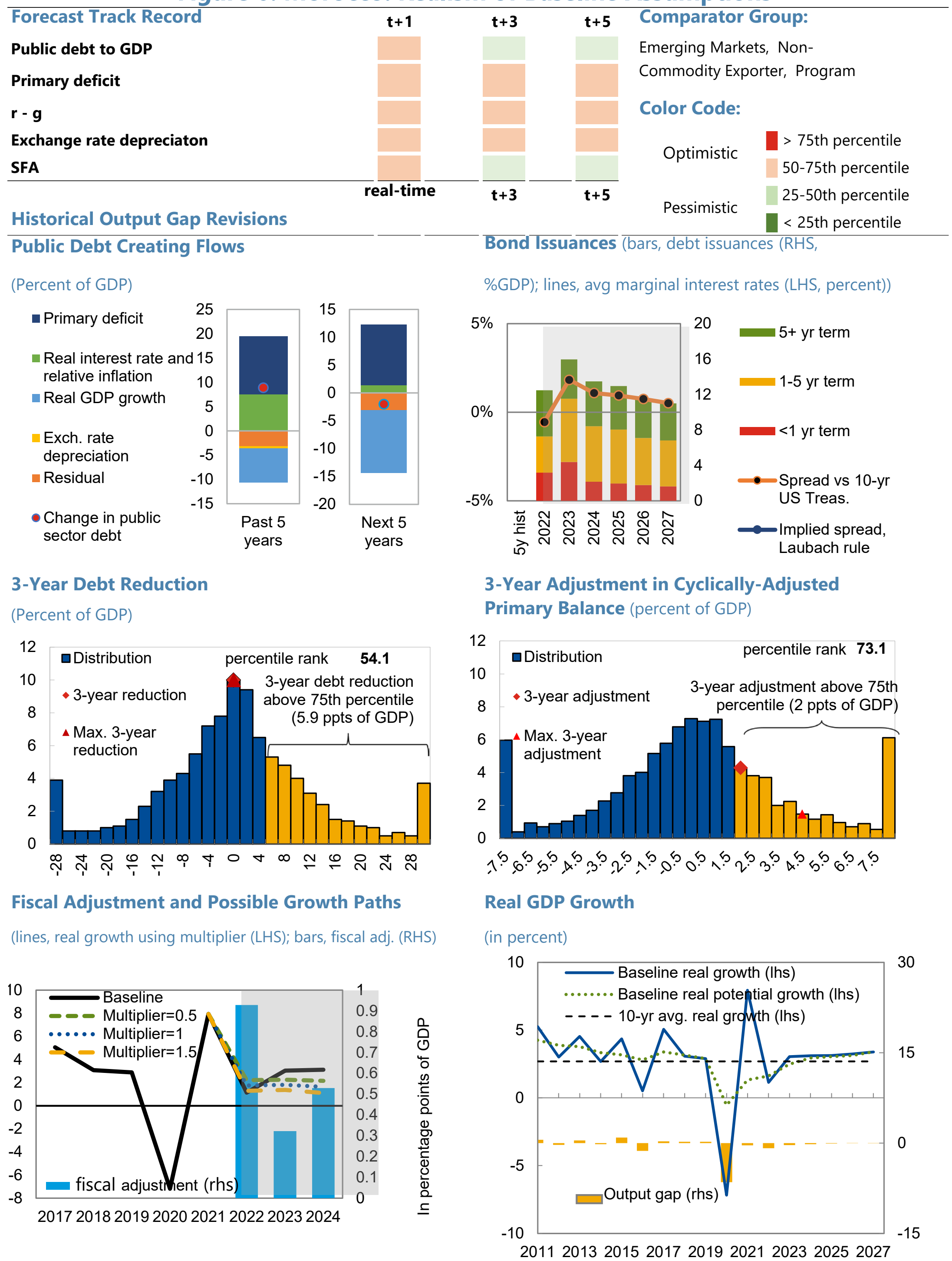
	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	68.9	68.8	68.3	68.4	68.1	67.6	66.9	66.2	65.4	64.5	63.5
Change in public debt	-3.3	-0.2	-0.5	0.1	-0.2	-0.5	-0.8	-0.7	-0.8	-0.9	-1.0
Contribution of identified flows	-3.7	-0.9	-0.2	0.2	-0.2	-0.5	-0.7	-0.7	-0.8	-0.9	-1.0
Primary deficit	3.8	3.0	2.6	2.0	1.5	1.0	0.8	0.9	0.8	0.8	0.7
Noninterest revenues	25.1	25.9	26.9	26.7	26.5	26.5	26.6	26.5	25.1	23.8	22.6
Noninterest expenditures	28.9	29.0	29.5	28.8	28.0	27.5	27.4	27.4	26.0	24.6	23.4
Automatic debt dynamics	-5.9	-2.4	-2.3	-1.5	-1.3	-1.1	-1.2	-1.3	-1.3	-1.4	-1.5
Real interest rate and relative inflation	0.1	-1.6	-0.3	0.6	0.8	1.0	1.0	0.9	0.8	0.7	0.7
Real interest rate	0.1	-2.2	-0.6	0.5	0.7	1.0	1.0	0.9	0.8	0.7	0.6
Relative inflation	-0.1	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-5.3	-0.8	-2.0	-2.1	-2.1	-2.1	-2.2	-2.2	-2.2	-2.1	-2.1
Real exchange rate	-0.7	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.6	-1.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.6	-1.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Contribution of residual	0.4	0.7	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	13.6	13.8	16.4	13.9	13.3	11.8	11.3	11.6	10.7	10.0	9.0
of which: debt service	9.7	10.8	13.8	11.8	11.9	10.8	10.6	10.8	9.9	9.2	8.3
Local currency	8.6	8.7	12.8	10.1	10.9	9.5	9.1	9.4	8.5	8.0	7.1
Foreign currency	1.1	2.0	1.0	1.7	1.0	1.4	1.5	1.4	1.3	1.3	1.2
Memo:											
Real GDP growth (percent)	7.9	1.1	3.0	3.1	3.1	3.2	3.4	3.4	3.4	3.4	3.4
Inflation (GDP deflator; percent)	3.2	6.7	4.6	2.8	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	11.4	7.9	7.8	6.0	5.6	5.3	5.5	5.5	5.4	5.4	5.4
Effective interest rate (percent)	3.5	3.2	3.6	3.6	3.5	3.6	3.6	3.4	3.3	3.2	3.1

Contribution to change in public debt
(percent of GDP)



Commentary: Public debt will stabilize before start declining in 2026, reflecting expectations of a narrowing of primary deficits and stable economic conditions. The real GDP growth and primary deficit are the two main contributors to the change in public debt.

Figure 6. Morocco: Realism of Baseline Assumptions



Commentary: The economic recovery from COVID-19 and reduced deficits are stabilizing the debt-to-GDP ratio. The projected 3-year adjustment in the cyclically-adjusted primary balance is relatively high (in the 73.1 percentile range). Realism analysis does not point to any other major concerns.

Figure 7. Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

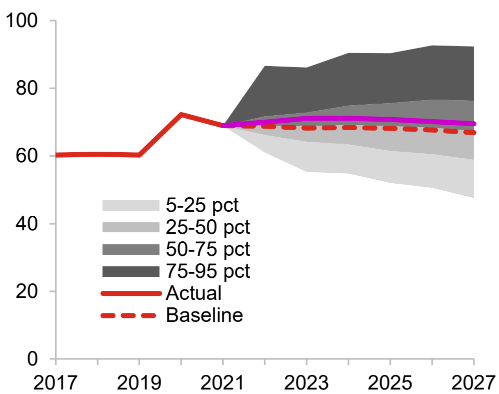
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	44.9	0.7	...
	Probability of debt not stabilizing (pct)	15.3	0.1	...
	Terminal debt level x institutions index	41.8	0.9	...
	Debt fanchart index	**...**	**1.7**	**Moderate**
GFN finance-ability module	Average GFN in baseline	13.4	4.6	...
	Bank claims on government (pct bank assets)	18.2	5.9	...
	Chg. in claims on govt. in stress (pct bank assets)	2.5	0.8	...
	GFN financeability index	**...**	**11.3**	**Moderate**

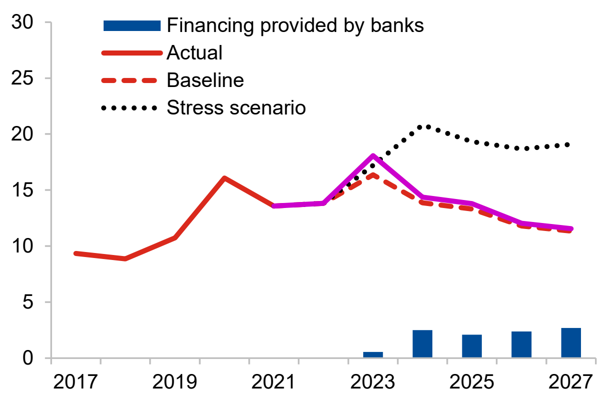
Adv. Econ., Non-Com. Exp, Program: 0 25 50 75 100

Legend: Interquartile range Morocco

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

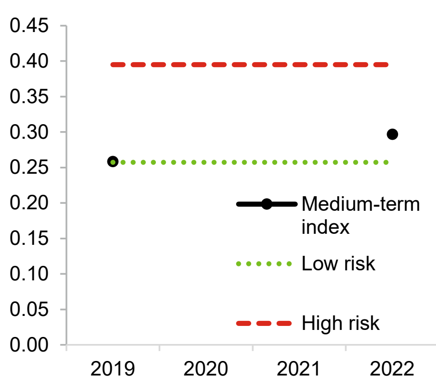


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.38
GFN finaceability index	7.6	17.9	0.5	0.22
Medium-term index (MTI)	0.257	0.395	...	0.297, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 18.2 pct.

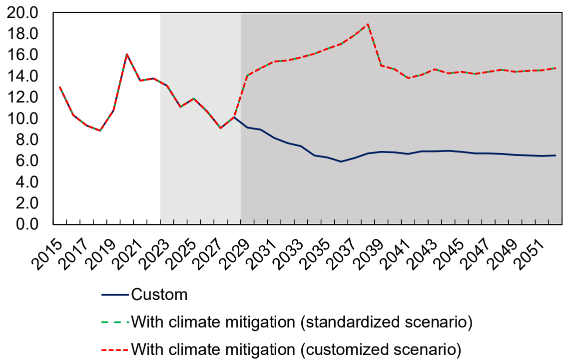
Prob. of false alarm, 2022-2027 (if stress predicted): 30.7 pct.

Commentary: Both, the Debt Fanchart Module and the GFN Financeability Module, suggest moderate level of risk. The medium-term index is also above the low risk threshold. Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on the public debt.

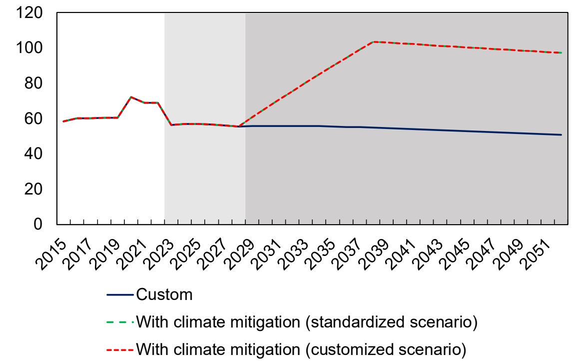
Figure 8. Morocco: Climate Mitigation

Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Appendix I. Written Communication

Rabat, 16 March, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Managing Director

The protracted conflict in Ukraine and its economic fallout, including rising inflationary pressures, rapid and synchronized monetary tightening, as well as tighter financing conditions in international markets, continue to weigh on the global economic outlook.

Faced with these external shocks, the Moroccan economy has shown remarkable resilience, the result of policy efforts made over several years to strengthen the macroeconomic framework and the steadfast implementation of structural reforms. This helped to mitigate the socio-economic repercussions of the negative shocks and strengthen Morocco's macroeconomic fundamentals, while laying the foundations for strong, inclusive, and sustainable growth.

After a rebound of 7.9 percent in 2021, economic growth is expected to slow in 2022 to nearly 1.5 percent, suffering, in addition to the unfavorable international context, from a particularly severe drought. The country has not been spared either by the phenomenon of higher inflation, induced by the increase in the cost of energy and food products on international markets. These pressures have gradually spread to non-tradable goods and the year ended with an average inflation rate of 6.6 percent compared to 1.4 percent in 2021. Despite this increase, long-term inflation expectations remain well anchored. Bank Al-Maghrib (BAM) increased the policy rate in September and December 2022, by a total of 100 basis points, bringing it to 2.5 percent, with the aim of preventing de-anchoring of inflation expectations.

The external sector recorded strong performances, thanks to the sustained dynamic of Morocco's exports (such as phosphates derivatives, automobiles, aeronautics, electronics, textiles), a rapid recovery in tourism thanks to the effective management of the health crisis, and the remarkable resilience of remittances from Moroccans residing abroad. These performances made it possible to mitigate the negative fallout from the surge in energy and food prices, thus limiting the current account deficit to around 4.3 percent of GDP in 2022 after 2.3 percent in 2021. Thanks to these factors and the country's attractiveness in terms of FDI, foreign exchange reserves remain at a comfortable level, equivalent to nearly 5.5 months of imports and exceeding 120 percent of the adjusted ARA metric.

Even under this challenging context, the implementation of the reform of the exchange rate regime, initiated in January 2018, has continued. After showing notable resilience in the face of the pandemic, the value of the dirham fluctuated within the variation band. The authorities' quarterly assessments and the last (2022) Article IV Staff Report both indicate that the value of the dirham remains aligned with the fundamentals of the economy. At the same time, the interbank foreign exchange market is deepening, and the use of hedging instruments has increased.

To consolidate financial stability, BAM continued to strengthen prudential regulatory and supervisory frameworks. It has lifted the exceptional easing measures put in place during the pandemic crisis and kept a close monitoring of bank balance sheets. The banking system is well capitalized, liquid, profitable, and resilient, supported by a risk-based supervisory framework increasingly aligned with international standards. BAM regularly conducts stress tests and is already considering the effects of climate change on the Moroccan financial system. It has also taken significant steps to improve financial transparency and has implemented broad and comprehensive transparency practices, as highlighted by the IMF's BAM Transparency Code mission in December 2022. Moreover, Morocco has made considerable progress on its AML/CFT framework, as evidenced by its recent exit from the FATF grey list.

The consolidation of public finances continues, despite the counter-cyclical budgetary efforts of the public authorities to contain the impact of higher inflation on the purchasing power of households. The overall fiscal deficit continued its downward trend, which began as soon as the health crisis ended, standing at 5.1 percent of GDP in 2022 against 5.9 percent in 2021 and 7.1 percent in 2020. The reduction of the overall fiscal deficit was possible thanks to the improvement in revenues, in particular tax revenues, that more than offset the increase in expenditures. As a result, the central government debt to GDP ratio has fallen from 72.2 percent in 2020 to about 69½ percent in 2022.

To strengthen the credibility and transparency of fiscal policy and give more visibility to the medium-term fiscal plans, the government published for the first time, as part of the 2023 Budget, a three-year medium-term fiscal framework. This framework shows government’s intention to continue the gradual consolidation of the fiscal deficit to 4.9 percent of GDP in 2023, with a view to bringing it back to its pre-crisis level in the medium term, which should help stabilize the debt to GDP ratio, or even reduce it by 2025.

In the same vein, and to strengthen the fiscal framework to better help preserve fiscal discipline and debt sustainability, the government plans to introduce a new, debt-anchored, fiscal rule, with the assistance of the IMF, based on international best practices.

By capitalizing on its capacity to manage exogenous shocks, Morocco has turned recent crises into opportunities, launching a new generation of far-reaching reforms to stimulate growth and further strengthen resilience.

Among its priorities, the Moroccan government has placed the restoration of the fiscal space, through the optimization of public expenditure, the implementation of the framework law on the tax reform, and the use of innovative mechanisms of financing (non-debt generating and involving the private sector), alongside the strengthening of fiscal governance. All this should also help ensure the viability and sustainability of the structural reform agenda.

The deployment of the reform of the SOE sector, in particular through the creation of the *National Agency for the Strategic Management of State Participations*, the overhaul of the national guarantee system, the operationalization of the Mohammed VI Fund for the investment, as well as the implementation of the new Investment Charter and the continued improvement of the business environment, should contribute to developing a more dynamic private sector and stimulating private investment, both domestic and foreign.

The government is also giving priority to social reforms, starting with the generalization of social protection, in parallel with the reform of the subsidy system and the implementation of the unified social register (RSU) for better targeting of social assistance. Priority is also given to the overhaul of the national health system and the deployment of a roadmap for the reform of the education system, in addition to the urgency to tackle the problem of water scarcity.

Concomitantly, Morocco has put in place a panoply of sectoral strategies, focusing on innovation, sustainability, and competitiveness. In this respect, tangible progress has been made in liberalizing the electricity sector, which should develop a more competitive electricity market and accelerate the transition to renewable energies. Morocco also continued the implementation of its national anti-corruption strategy by strengthening the legal framework of the National Authority for Probity, Prevention, and the Fight Against Corruption. Moreover, further progress has been made in the competition and consumer protection legislative framework, by giving more power to the Competition Council to sanction anticompetitive practices.

Given the still uncertain international environment, the Moroccan authorities would like to strengthen their access to precautionary liquidity in the event of extreme shock scenarios. We consider that the Flexible Credit Line (FCL) is well suited to support countries like Morocco which, despite very strong policy frameworks and economic fundamentals, remain exposed to these shocks.

In this context, Morocco is requesting an arrangement under the FCL for an amount equivalent to 3.7262 billion SDRs (about 417 percent of quota or about 5 billion USD) and for a period of 2 years. An arrangement under the FCL would support our economic strategy, boosting the confidence of partners and investors and contributing to macroeconomic stability, by ensuring the availability of financial resources in the event of external and domestic shocks that would put pressure on the balance of payments.

We intend to treat this arrangement as precautionary to address tail risks and draw on this line only in the event of severe exogenous shocks, including from the worsening of the international context.

Morocco remains committed to macroeconomic and financial stability and to economic and social reforms. Maintaining fiscal discipline is a priority, as is mobilizing the resources needed to support long-term growth. In addition, BAM remains committed to taking the necessary measures based on the available data to ensure a rapid return of inflation to levels consistent with the objective of price stability.

The authorities will continue to implement the reform of the exchange rate regime and the development of an inflation targeting framework. The transition to the next stage of the reform remains dependent on the easing of inflationary pressures and the dissipation of uncertainties over the economic outlook.

Timely and appropriate economic policies enabled Morocco to respond to the deterioration of the global economic situation and to strengthen investor confidence, as evidenced by the international markets enthusiasm following Morocco's international Eurobond issuance earlier this month, and we will continue to react appropriately to any shocks that may arise in the future. If new adverse shocks were to materialize, the authorities would not hesitate to use the available policy space and adopt a mix of policy instruments as done in the past, including by judiciously calibrating monetary policy conditions and pursuing a responsible countercyclical fiscal response.

We would like to thank the Executive Directors, staff, and management for their support to Morocco during this process and for their constructive feedback during the Article IV discussions as well as the Informal Meeting. We look forward to continuing close and fruitful cooperation with the Fund in the period ahead.

/ s /	/ s /
Nadia Fettah	Abdellatif Jouahri
Minister of Economy and Finance	Governor of Bank Al-Maghrib

MOROCCO

March 16, 2023

ASSESSMENT OF THE IMPACT OF THE PROPOSED ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE ON THE FUND'S FINANCES AND LIQUIDITY POSITION

Approved By
Andreas Bauer (FIN) and Natalia Tamirisa (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments.

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INTRODUCTION

1. This note assesses the impact of the proposed arrangement under the Flexible Credit Line (FCL) for Morocco on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.[1] The proposed two-year FCL arrangement, which the authorities intend to treat as precautionary, would be in the amount of SDR 3.7262 billion (416.6 percent of quota). The proposed FCL arrangement would be the first for Morocco.

2. Access under the proposed arrangement would be consistent with the authorities' strategy of bolstering their precautionary buffers in the face of the challenging external and domestic environment and elevated downside risks. The full amount of access would be available throughout the arrangement period, in one or multiple purchases.[2] Staff's baseline projection envisages no purchase, in line with the authorities' intention to treat the proposed arrangement as precautionary. This note analyzes the impact of Morocco's requested FCL access on the Fund's finances and liquidity position against the backdrop of heightened risks triggered by Russia's ongoing war in Ukraine, including in a downside scenario where FCL access would be fully drawn.

BACKGROUND

3. Morocco has had four successive Precautionary and Liquidity Line (PLL) arrangements since 2012 (Annex I). All four arrangements were treated as precautionary at the time of approval. The Moroccan authorities did not draw on the first three arrangements. A two-year PLL arrangement in the amount of SDR 4.1174 billion (700 percent of quota prevailing at that time) was approved on August 3, 2012.[3] It was followed by two successor two-year PLL arrangements: one with access of SDR 3.2351 billion (550 percent of quota prevailing at that time) approved on July 28, 2014; and another with access of SDR 2.504 billion (280 percent of quota) approved on July 22, 2016.[4] A fourth two-year PLL arrangement was approved in December 2018 in the amount of SDR 2.15 billion (or 240 percent of quota). The authorities originally intended to treat it as precautionary, similarly to the previous three PLL arrangements. However, in 2020, the COVID-19 pandemic severely affected Morocco's economic activity and external position. On April 7, 2020, the Moroccan authorities purchased all available resources under the PLL arrangement (equivalent to about 3 percent of GDP) in order to help maintain official reserves at an adequate level. This was the first time Morocco had drawn resources under a Fund arrangement since 1992. In January 2021, the authorities made an early repurchase of about SDR 650 million after the country managed to issue US dollar-denominated bonds on favorable terms in late 2020. As a result, out of the drawn amount, SDR 1.4998 billion (167.7 percent of quota) remain outstanding as of January 31, 2023.

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[1] See GRA Lending Toolkit and Conditionality—Reform Proposals (3/13/09) and Flexible Credit Line (FCL) Arrangements, Decision No.14283-(09/29), adopted March 24, 2009, as amended.

[2] If the full amount is not drawn in the first year of the arrangement, subsequent purchases are subject to the mid-term review of Morocco's continued qualification for the FCL arrangement.

[3] This amount is equivalent to 460 percent of Morocco's current quota.

[4] The amount of access under the 2014 PLL arrangement is equivalent to 362 percent of Morocco's current quota.

4. **Morocco's economy has proved resilient to a series of negative shocks experienced since 2020.** Timely policy responses have allowed the authorities to successfully adjust to important shocks, including the COVID-19 pandemic, the fallout from Russia's invasion of Ukraine, and two severe droughts. At the same time, the authorities accelerated the implementation of structural reforms and took steps to further strengthen their already strong policy frameworks. Successive PLL arrangements have provided an important liquidity backstop and the drawing of available PLL access in 2020 was instrumental to help preserve adequate reserve buffers in a context of heightened global uncertainty.[5]

5. **The requested two-year FCL arrangement is intended to provide renewed insurance against tail risks.** The FCL arrangement will increase liquidity buffers while the authorities rebuild the policy space used in their response to recent external shocks and continue implementing their ambitious structural reform agenda in an increasingly risky external environment. While PLL arrangements have served Morocco well in the past, the country has progressed to the point where its very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and continued commitment to maintaining such policies in the future justify a transition to an FCL arrangement.

PROPOSED FLEXIBLE CREDIT LINE ARRANGEMENT—RISKS AND IMPACT ON FUND FINANCES

6. **Under staff's baseline scenario, Morocco does not have actual balance-of-payments needs and its external debt is sustainable.** The absence of such financing needs is consistent with the authorities' intention to treat the FCL arrangement as precautionary. Morocco's external debt-to-GDP ratio is expected to increase slightly this year and remain stable over the medium term under the baseline. After peaking at 54.1 percent of GDP in 2020, driven by the negative impact of the pandemic on GDP and the surge in public sector borrowing, Morocco's external debt is expected to decline to 40.7 percent of GDP by 2022, as Morocco's government did not tap international markets in 2021 and 2022, allowing for amortization of maturing exposures, and GDP rebounded strongly (Table 1). The external debt-to-GDP ratio is projected to increase to 42.5 percent of GDP this year, also reflecting the Moroccan government's return to international markets, and to hover in the range of 42¼–43 percent, close to the pre-pandemic level, from 2024 onwards (Table 2). External public debt is moderate and expected to remain broadly constant at around 27-28 percent of GDP in the medium term under the baseline. Morocco's external debt would remain sustainable under standard Debt Sustainability Analysis's (DSA) stress scenarios.[6] Furthermore, Morocco has an excellent track-record of meeting its financial obligations, and its refinancing risks are mitigated by the small share of FX denominated debt, large base of domestic institutional investors, and the favorable maturity structure of public debt. Morocco's central government debt is assessed to be

[5] In late 2022, Morocco's Treasury used the remaining outstanding purchase under the PLL arrangement (about US$ 2 billion) to fund its financing needs in dirham.

[6] If a real exchange rate depreciation of 30 percent were to materialize in 2023, Morocco's external debt would peak at 61 percent of GDP in 2023 but remain on a sustainable medium-term path afterward.

sustainable with a high probability under the standard Sovereign Risk and Debt Sustainability Framework.

Table 1. Morocco: Total External Debt, 2016-23

	2016	2017	2018	2019	2020	2021	2022 Prel.	2023 Proj. 1/
				(In millions of US Dollars)				
Total External Debt	47,408	52,362	51,563	54,749	65,658	62,866	52,458	59,075
Private	16,513	16,770	17,463	19,392	23,575	22,255	16,448	20,294
Public	30,895	35,592	34,100	35,357	42,083	40,611	36,010	38,781
				(In percent of GDP)				
Total External Debt	42.5	44.2	40.5	42.5	54.1	45.4	40.7	42.5
Private	14.0	15.3	13.2	15.1	21.6	16.1	12.8	14.6
Public	28.5	28.9	27.3	27.4	32.5	29.3	27.9	27.9

Sources: Moroccan authorities and IMF staff estimates.
1/ Baseline scenario.

7. **Risks and impact on Fund finances from the proposed FCL arrangement for Morocco are assessed in the context of an adverse scenario.** Downside risks to the economic outlook of Morocco remain elevated. A greater-than-expected fallout from Russia's war in Ukraine would lower external demand and lower exports, increase commodity price volatility, reduce FDI, and tighten external financing conditions. The pass-through of higher commodity prices could exacerbate inflationary pressures and hurt domestic demand, including through higher interest rates, which would also reduce fiscal space. Morocco's economy is also vulnerable to recurrent droughts as a large part of the labor force is employed in agriculture. A materialization of these risks would lead to a notable worsening of macroeconomic conditions vis-à-vis the baseline projections and purchases under the proposed FCL arrangement could be expected in such a scenario.

8. **The adverse scenario considers shocks to global economic conditions and a new drought in 2024, as described in Box 2 in the staff report accompanying the request of an arrangement under the FCL.**[7] If this scenario were to materialize, weaker trading partner growth, higher commodity prices, and tighter financial conditions would slow economic activity and worsen Morocco's external position over the next two years (Table 2). A drought, assumed for 2024, would exacerbate these conditions. Morocco would experience much lower GDP growth in 2023 and 2024 compared with the baseline (2.6 percentage points lower each year than the baseline), while its current account deficit would widen from about 4¼ percent of GDP in 2022 to about 8½ percent of GDP in 2023 and 2024, reflecting mainly a contraction in the exports of goods and non-tourism services, while the negative terms-of-trade shock (due to higher oil prices) and greater import of food items in 2024 would offset the compression of import volumes from weaker domestic demand. Lower net capital inflows due to the significant worsening of external financing conditions (especially FDI and public sector external borrowing) would add to Morocco's external financing

[7] Staff's adverse drawing scenario, used also for the Capacity to Repay indicators, differs from the baseline DSA stress tests in terms of size of the shocks to key macroeconomic assumptions.

needs under the adverse scenario. In this context, covering the external financing gap while ensuring that international reserves remain at 100 percent of the adjusted ARA metric would require drawing the proposed FCL arrangement.

Table 2. Morocco: Comparison of Key Assumptions Under Baseline and Adverse Scenarios 1/

(in billions of US dollars, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028
Baseline scenario								
Real GDP growth (percent)	7.9	1.1	3.0	3.1	3.1	3.2	3.4	3.4
Nominal GDP (billions of Dirham)	1,284	1,385	1,493	1,582	1,671	1,760	1,856	1,958
Current account balance (in percent of GDP)	-2.3	-4.3	-3.7	-3.4	-3.2	-3.1	-3.1	-3.0
Gross international reserves	35.6	31.8	32.7	33.0	35.3	37.7	39.6	41.6
in months of next year's imports of goods and service	5.8	5.5	5.4	5.3	5.4	5.5	5.5	5.4
Exports of goods and services	47.1	58.2	56.7	59.5	62.3	65.6	69.0	72.6
Total external debt (in percent of GDP)	45.4	40.7	42.5	42.3	42.8	42.9	42.9	42.9
of which: public external debt (in percent of GDP)	29.3	27.9	27.9	27.4	27.7	27.7	27.4	27.1
Financial account balance	3.8	7.1	6.1	6.7	8.0	7.5	7.1	7.5
Oil Price (WEO APSP, US$ per barrel)	69.2	96.4	81.3	76.8	72.7	69.6	67.0	64.8
Adverse scenario								
Real GDP growth (percent)	7.9	1.1	0.4	0.5	3.1	3.2	3.4	3.4
Nominal GDP (billions of Dirham)	1,284	1,385	1,512	1,562	1,650	1,738	1,832	1,933
Current account balance (in percent of GDP)	-2.3	-4.3	-8.7	-8.2	-3.2	-3.1	-3.1	-3.0
Gross international reserves	35.6	31.8	25.1	25.5	27.8	30.2	32.1	34.0
in months of next year's imports of goods and service	5.8	5.7	4.5	4.7	4.9	5.0	5.0	5.0
Exports of goods and services	47.1	58.2	51.3	51.2	54.0	57.3	60.7	64.3
Total external debt (in percent of GDP)	45.4	40.7	43.7	42.0	42.5	42.7	42.8	42.8
of which: public external debt (in percent of GDP)	29.3	28.0	29.5	28.2	28.4	28.4	28.1	27.7
Financial account balance	3.8	7.1	1.5	1.7	8.0	7.5	7.2	7.5
Oil Price (WEO APSP, US$ per barrel)	69.4	98.2	113.8	92.2	72.7	69.6	67.0	64.8

Sources: Moroccan authorities and IMF staff projections.

1/ Since a full drawing of the FCL is assumed under the adverse scenario, external debt under this scenerio includes the liability generated from such drawing.

9. If the full amount available under the proposed FCL arrangement were purchased in a downside scenario, Morocco's capacity to repay would remain adequate:

- Morocco's external debt would reach 43.7 percent of GDP and public external debt would rise to 29.5 percent of GDP this year under the adverse scenario, and these ratios would decline slightly over the medium term (Table 2).[8] Morocco's projected debt service to the Fund would peak in 2027 at 1.5 percent of GDP (Table 3). The overall external debt-to-GDP ratio and public external debt-to-GDP ratio at time of approval would be at the median of previously approved exceptional access cases and FCL arrangements (Figure 1). At its peak in 2023, Morocco's outstanding GRA credit would amount to 5 percent of GDP, 28.1 percent of gross international reserves, and 11.4 percent of total external debt (Table 3). Peak Fund exposure relative to GDP and gross international reserves would be below the median of recent exceptional access and

[8] Total external debt from 2024 onwards is marginally lower under the adverse scenario than under the baseline because the adverse scenario assumes that the rollover rates of both the public and private sectors in 2024 will continue to be significantly lower than in the baseline: international markets would be more challenging to access with greater uncertainty and higher global funding cost under the adverse scenario.

FCL arrangements (Figure 2). Peak Fund exposure relative to total external debt would be at around the median. Projected outstanding Fund credit in percent of quota around the peak would be close to the median of recent exceptional access cases and FCL arrangements in the event of full drawdown (Figure 3).

- External debt service including obligations to the Fund would increase until 2024 but edge down over the medium term to relatively low levels (Table 3, Figure 2). Morocco's projected debt service to the Fund would peak in 2027 at about SDR 2 billion, or 1.5 percent of GDP and 4.3 percent of exports of goods and services, before quickly falling to more moderate levels by 2028.[9] If the amount available under the FCL arrangement were to be fully drawn in 2023, Morocco's peak debt service to the Fund as a share of exports of goods and services would be significantly lower than the median of recent exceptional access cases (Figure 2). Although Morocco's debt service to the Fund as a share of total external debt service would be higher than the median, this reflects the country's relatively small size of total external debt and long maturity of external debt.

10. The approval of the proposed FCL arrangement would have a manageable impact on the Fund's liquidity as measured by the forward commitment capacity (FCC). Other things equal, access under the proposed FCL arrangement would reduce the Fund's FCC by 2.3 percent from its current level and remain at some SDR 156.8 billion (Table 4) as of February 20, 2023.

11. Fund exposure to Morocco would increase but remain moderate even in the event of full drawing. If the entire amount available under the proposed FCL arrangement were drawn, credit to Morocco would represent about 3.8 percent of total GRA credit outstanding as of February 20, 2023 (Table 4). This would make Morocco the sixth largest GRA borrower among current arrangements. The concentration of Fund credit toward the top five users of Fund resources would decline modestly, from 68.3 percent to about 65.8 percent of total GRA credit outstanding. Potential GRA exposure to Morocco would amount to 16.8 percent of the Fund's current precautionary balances. Income risk would also be manageable, with projected annual GRA charges and surcharges on Morocco during 2023–28 amounting to about 14 percent of the Fund's residual burden-sharing capacity of SDR 1,175 million as of end-February 2023.[10]

12. The proposed FCL arrangement would slightly reduce the concentration of the Fund's lending portfolio (credit and undrawn balances) in terms of regions but marginally increase the concentration among Fund financing instruments:

[9] The figures on debt service used in this report are calculated assuming that purchase of 416.6 percent of quota would be made in May 2023 shortly after an approval and that all repurchases are made as scheduled. Morocco's repurchases would reach about 104 percent and about 208 percent of quota in 2026 and 2027, respectively, before falling to about 104 percent in 2028 and 0 in 2029. Its payments of GRA charges would be 31.1 percent of quota, 24.2 percent of quota, 23.3 percent of quota, and 12.1 percent of quota in 2024, 2025, 2026, and 2027, respectively.

[10] The burden-sharing capacity is calculated based on the floor of remuneration which, under current policies, is 85 percent of the SDR interest rate. The residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges. Since there are currently no deferred charges, no adjustment is needed to determine the residual burden sharing capacity.

- **Regional concentration to Latin America would decline slightly.** Currently, the Western Hemisphere accounts for about 68 percent of GRA credit and undrawn balances, including for arrangements treated as precautionary (Figure 4). With the proposed FCL arrangement for Morocco, this share would edge down to about 66 percent.

- **Among the Fund's different facilities, the share of FCL commitments would rise moderately.** Commitments under FCL arrangements, which represent the bulk of precautionary arrangements, stood at around SDR 60.8 billion as of February 20, 2023, or about 55 percent of total GRA commitments (Figure 4). With the proposed FCL for Morocco, the share of commitments from FCL arrangements in total would rise to about 57 percent.

Table 3. Morocco: Capacity to Repay Indicators Under the Adverse Scenario[1/]
(in SDR millions, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028
Exposure and Repayments (In SDR millions)						
GRA credit to Morocco	5,226.0	4,263.9	3,726.2	2,794.7	931.6	0.0
(In percent of quota)	584.3	476.7	416.6	312.5	104.2	0.0
Charges due on GRA credit 2/	186.2	278.0	216.8	208.0	108.3	15.9
Debt service due on GRA credit 2/	186.2	1,240.1	754.5	1,139.6	1,971.4	947.4
Debt and Debt Service Ratios 3/						
In percent of GDP						
Total external debt	43.7	42.0	42.5	42.7	42.8	42.8
Public external debt	29.5	28.2	28.4	28.4	28.1	27.7
GRA credit to Morocco	5.0	4.0	3.3	2.3	0.7	0.0
Total external debt service	2.7	4.2	3.1	3.1	3.0	2.8
Public external debt service	2.2	3.4	2.5	2.4	2.4	2.2
Debt service due on GRA credit	0.2	1.2	0.7	0.9	1.5	0.7
In percent of Gross International Reserves						
Total external debt	182.4	177.4	174.6	170.3	170.1	174.8
Public external debt	165.7	160.9	157.3	152.2	149.4	150.8
GRA credit to Morocco	28.1	22.6	18.1	12.4	3.9	0.0
In percent of Exports of Goods and Services						
Total external debt service	7.3	11.8	8.9	8.7	8.5	8.0
Public external debt service	6.0	9.7	7.0	6.9	6.6	6.2
Debt service due on GRA credit	0.5	3.3	1.9	2.7	4.3	2.0
In percent of Total External Debt						
GRA credit to Morocco	11.4	9.4	7.7	5.4	1.7	0.0
In percent of Public External Debt						
GRA credit to Morocco	16.9	14.0	11.5	8.2	2.6	0.0
Memo Items:						
Oil Price (WEO APSP, US$ per barrel)	113.8	92.2	72.7	69.6	67.0	64.8

Sources: Moroccan authorities, Finance department, World Economic Outlook, and IMF staff estimates.
[1/] Assumes drawing of 416.6 percent of quota upon approval of the new FCL arrangement and materialization of an adverse scenario.
[2/] Based on the rate of charge as of March 2, 2023. Includes surcharges under the system currently in force and service charges.
[3/] Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

Table 4. Morocco: FCL Arrangement—Impact on GRA Finances
(in SDR millions, unless otherwise indicated)

	As of 2/20/23
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	160,555
FCC on approval 2/	156,829
Change in percent	-2.3
Prudential measures, assuming full FCL drawing	
Fund credit to Morocco	
In percent of total GRA credit outstanding 3/	3.8
In percent of current precautionary balances	16.8
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	68.3
In percent of total GRA credit outstanding including Morocco's assumed full drawing 3/	65.8
Memorandum items	
Current precautionary balances (January 31st, 2023)	22,184
Total FCL commitments, including proposed FCL arrangement	64,490
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance department.
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources from currently unactivated lines of credit, including the New Arrangements to Borrw of bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed FCL plus the remaining access under the current FCL.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL arrangement.

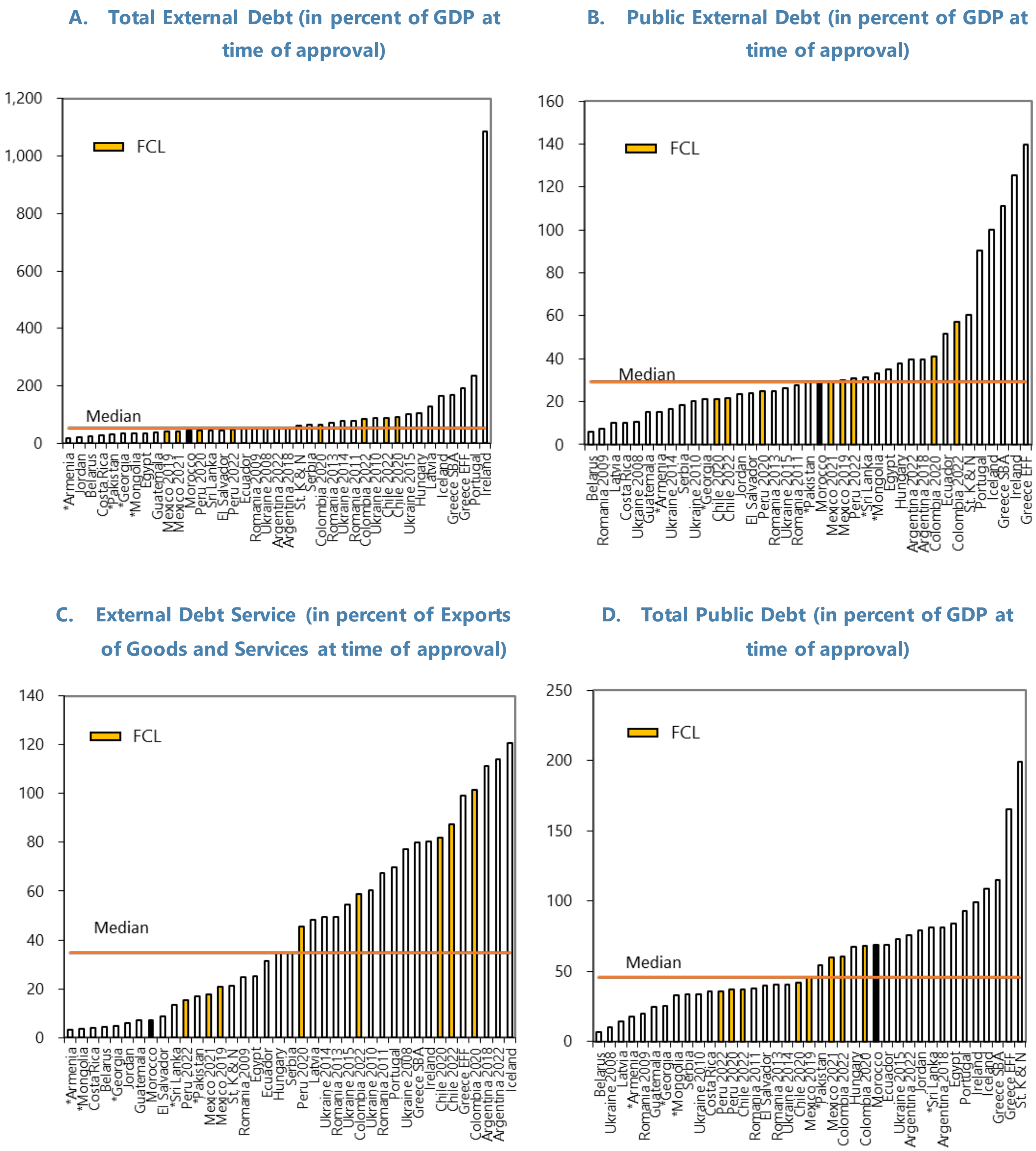
ASSESSMENT

13. **The proposed FCL arrangement will have a manageable impact on the Fund's overall liquidity position, reducing it marginally.** The approval of an FCL arrangement in the amount of SDR 3.7262 billion, which the authorities intend for precautionary use, will decrease the Forward Commitment Capacity by 2.3 percent (Table 4). While the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement, close monitoring remains warranted in view of the elevated risks to global growth and financial stability, including possible spillovers from the war in Ukraine that could result in higher demand for Fund resources.

14. Staff considers that the proposed FCL arrangement carries moderate credit risks to the Fund. If fully drawn, the arrangement would account for 3.8 percent of total GRA credit outstanding. This would make Morocco the sixth largest GRA borrower among current arrangements and this credit exposure would account for 16.8 percent of the existing level of precautionary balances. These financial risks are mitigated by several factors. Morocco intends to treat the FCL arrangement as precautionary. Even if Morocco were to draw all the resources available under the proposed FCL arrangement, in an adverse scenario, its capacity to repay to the Fund would remain adequate (Table 3). Moreover, Morocco has very strong policy frameworks and a sustained track record of implementing very strong policies, including during the pandemic and during the food and energy price crisis that unfolded upon the onset of Russia's war on Ukraine. The authorities remain committed to maintaining such policies in the future and closely cooperate with the Fund, and they plan to implement several additional reforms that would strengthen their policy frameworks even further. Delivering on these commitments will be important to help mitigate financial risks to the Fund. A review to confirm continued qualification for the FCL instrument will be conducted 12 months after the approval of the arrangement.

Figure 1. Debt Ratios of Recent Exceptional Access Cases [1/] [2/]

(EA and FCL cases since September 2008)



Sources: Finance Department and IMF staff estimates.

[1/] Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019 and 2021), Peru (2020), Chile (2020), Colombia (2020, 2022) and Morocco (2023).

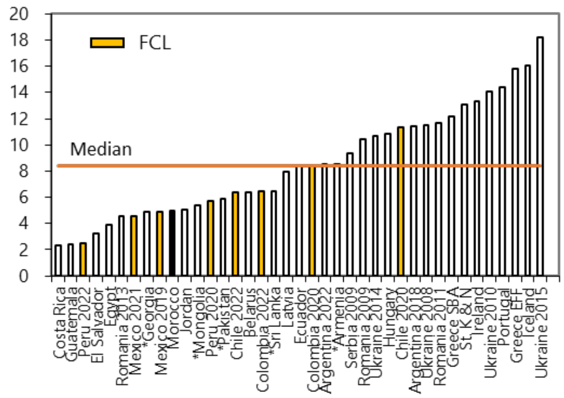
[2/] Asterisks indicate PRGT-eligible countries at the time of the program.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases[1/ 2/]

(EA and FCL cases since September 2008)

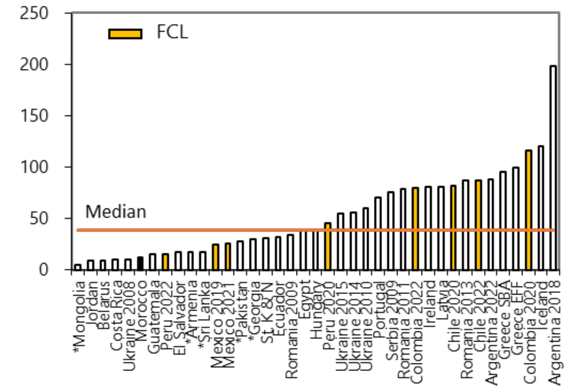
Peak Fund Exposure Ratios

A. Fund Exposure (in percent of GDP)

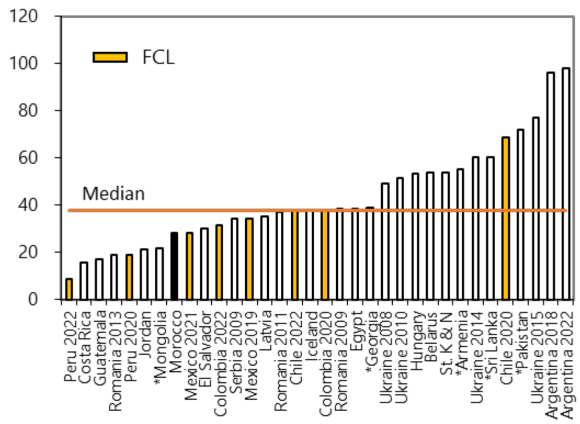


Peak Debt Service Ratios

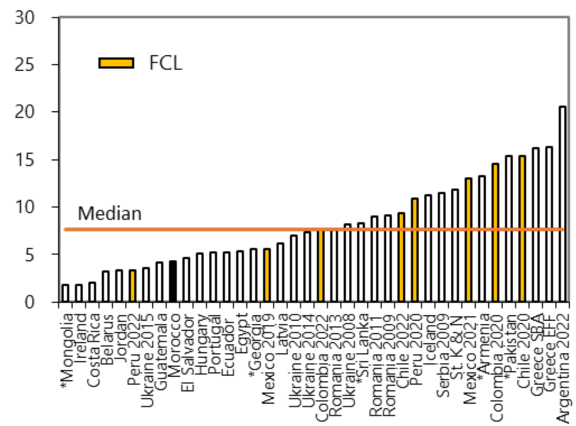
B. Total External Debt Service (in percent of Exports of Goods and Services)



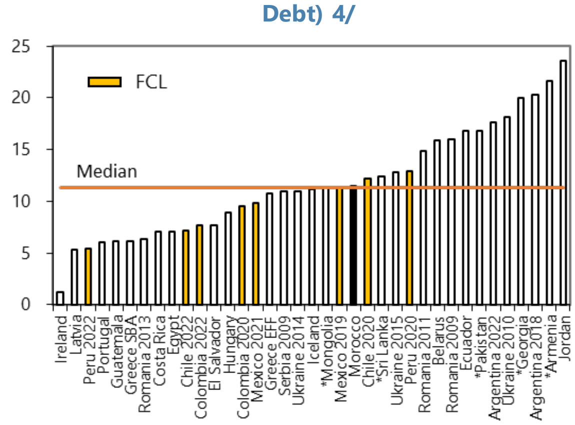
C. Fund Exposure (in percent of Gross International Reserves) 3/



D. Debt Service to the Fund (in percent of Exports of Goods and Services) 4/



E. Fund Exposure (in percent of Total External Debt) 4/



F. Debt Service to the Fund (in percent of Total External Debt Service) 4/

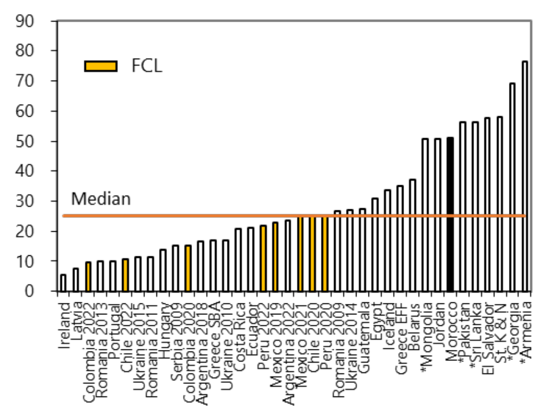


Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases (Concluded)

Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019, 2021), Peru (2020), Chile (2020), Colombia (2020, 2022), and Morocco (2023).

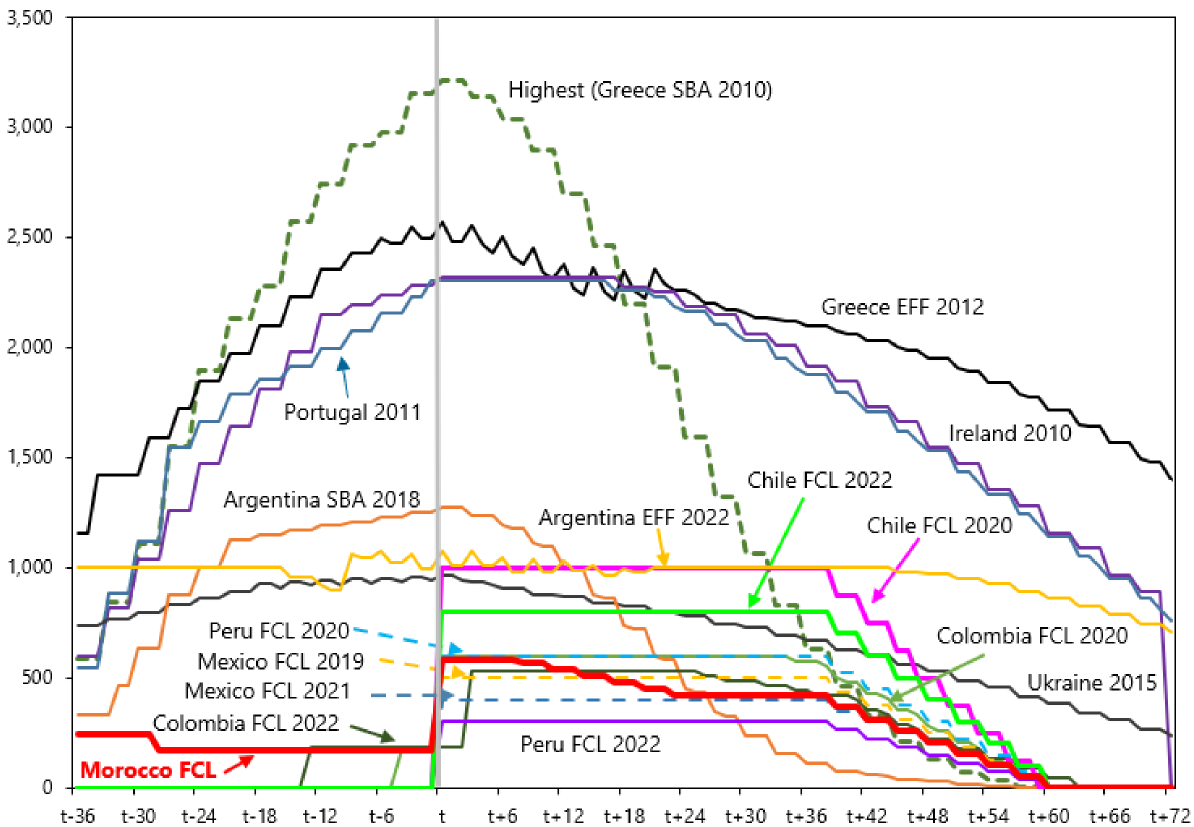
2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

Figure 3. Projected Fund Credit Outstanding in the GRA Around Peak Borrowing[1/2/]

(in percent of quota)



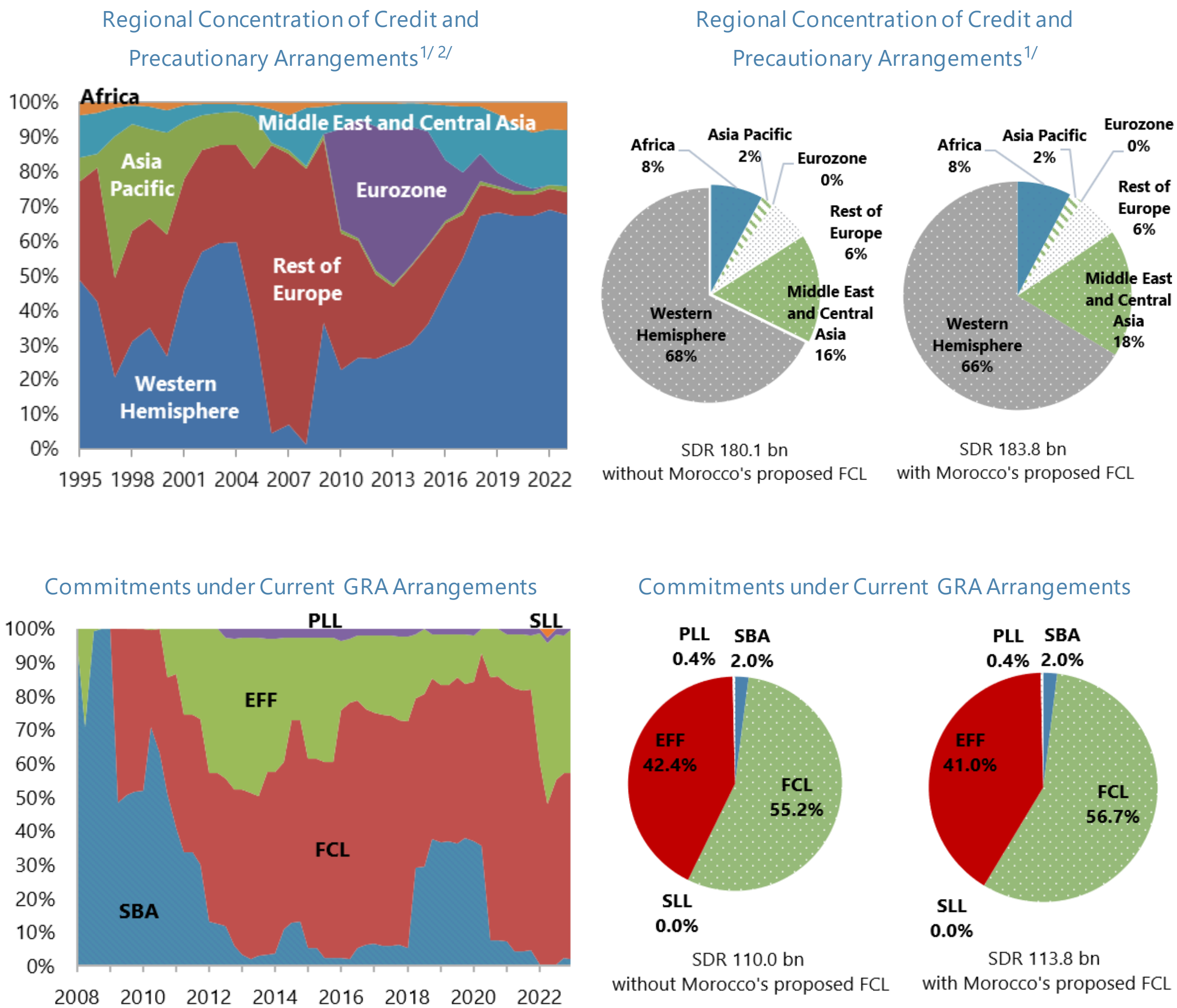
Sources: Finance Department and IMF staff estimates.

1/ t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months.

2/ GRA credit outstanding of Peru 2020 FCL overlaps with that of Colombia 2020 FCL, after the latter's augmentation, at 600 percent of quota for the majority of the period.

Figure 4. IMF Lending Concentration-By Region and By Lending Instrument

(in percent, as of February 21, 2023)



Source: Finance Department.

1/ GRA credit outstanding plus undrawn balances, by region, as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.

2/ Morocco FCL is included in the credit and precautionary arrangements within the region of Middle East and Central Asia in the charts on the left-hand side.

Annex I. History of IMF Arrangements with Morocco

1. The proposed FCL arrangement would be the first for Morocco. Morocco had four consecutive Precautionary and Liquidity Line (PLL) arrangements with the Fund since 2012, all treated as precautionary at inception, with one being drawn in 2020 (Table I.1). A two-year arrangement in the amount of SDR 4.1174 billion (700 percent of quota) was approved on August 3, 2012. It was followed by three successor two-year PLL arrangements: one in the amount of SDR 3.2351 billion (550 percent of quota) approved on July 28, 2014; one for SDR 2.504 billion (280 percent of quota) approved on July 22, 2016; and one for SDR 2.1508 billion (240 percent of quota) approved on December 17, 2018. All arrangements were intended to facilitate the authorities' efforts to pursue growth-oriented reforms by insuring against external shocks. On April 7, 2020, the Moroccan authorities purchased all the resources available under the fourth PLL arrangement. Out of this purchased amount, SDR 1.4998 billion is still outstanding as of January 31, 2023.

2. Prior to the PLL arrangements approved in 2012-2018, Morocco had had a series of Stand-by Arrangements (SBAs) from the late 1950s to the mid-1970s. By the late 1970s, Morocco faced external pressures, which convinced the authorities that the economy needed structural reforms in addition to the financial program. To supplement the reform package, an arrangement under the Extended Fund Facility (EFF) was approved in 1980. The following year, it became apparent that the reform measures and drawings made under the existing EFF arrangement had proven insufficient amidst intensifying external pressures. As a result, the program was canceled and replaced with an enhanced EFF arrangement in 1981. However, further balance of payment pressures made the Moroccan authorities request cancellation of the EFF arrangement and adopt a transitional stabilization program for 1982, supported by a one-year SBA. Morocco had several SBAs after 1982 until the mid-1990s. Morocco consistently drew resources under every arrangement approved between 1967 and 1992, entirely or partially. It made its last purchases under an SBA approved in 1992 and fully settled its remaining outstanding obligations to the Fund in 1997. Since then, Morocco had no Fund arrangements until the first PLL arrangement in 2012.

Table AI.1. Morocco: IMF Financial Arrangements, 1999-2023
(in millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement			Amount Drawn	Purchases	Repurchases	Amount Outstanding 2/
				SDR millions	% of quota 1/	% of current quota				
1990	SBA	20-Jul-90	31-Mar-91	100	33	11	48	48	48	0
1992	SBA	31-Jan-92	31-Mar-93	92	30	10	18	18	18	0
2012	PLL	3-Aug-12	27-Jul-14	4,117	700	460	0	0	0	0
2014	PLL	28-Jul-14	21-Jul-16	3,235	550	362	0	0	0	0
2016	PLL	22-Jul-16	21-Jul-18	2,504	280	280	0	0	0	0
2018	PLL	17-Dec-18	7-Apr-20	2,151	240	240	2,151	2,151	651	1,500

Source: Finance Department.
1/ Percent of quota prevailing at the time of the approval of the arrangement.
2/ As of 31 January, 2023.

MOROCCO

March 28, 2023

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE—SUPPLEMENTARY INFORMATION

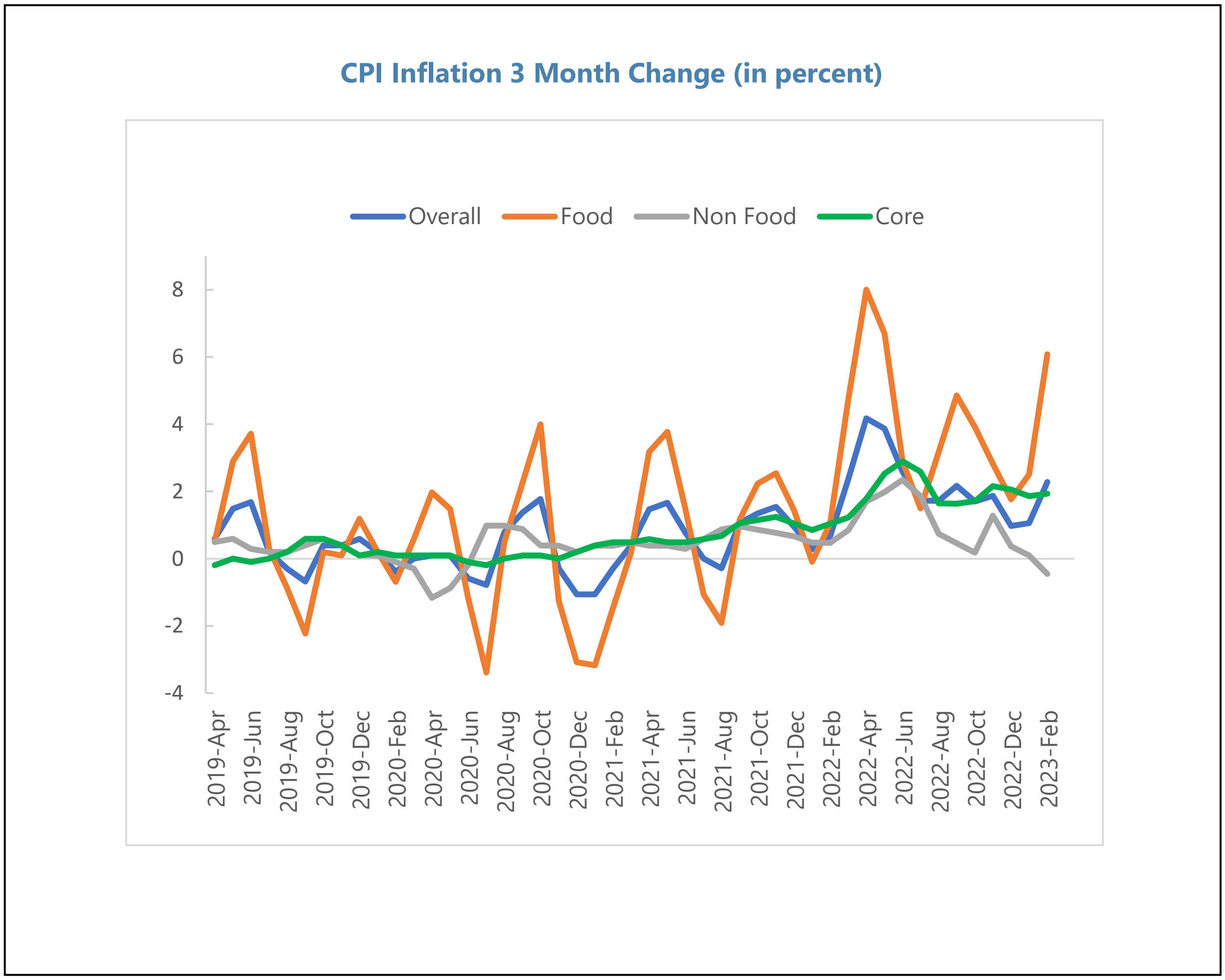
Prepared By

The report was prepared by a team comprised of Roberto Cardarelli (head), Hippolyte Balima, Olivier Bizimana and Nordine Abidi (all MCD), David Bartolini (FAD) and Hector Perez-Saiz (SPR), with support from Ananta Dua, Abigail Korman and Tatiana Pecherkina (all MCD).

1. This statement provides additional information that has become available since the Staff Report for Request for an Arrangement Under the FCL (EBS/23/23) was circulated to the Executive Board on March 17, 2023. The information does not alter the thrust of the staff appraisal.

2. CPI headline inflation accelerated further to 10.1 percent (y/y) in February (from 8.9 in January), mainly driven by food prices, which jumped by 20.1 percent and contributed to about 80 percent of the rise in the overall CPI. Nonfood inflation actually decelerated to 3.6 percent (y/y) in February (from 3.9 percent the previous month) and on a 3-month basis was actually negative in February (see chart). Core inflation continued to accelerate, reaching 8.5 percent in February (from 8.2 percent the previous month). These outcomes point to some upside risks to staff's projected headline inflation of 4.6 percent on average for 2023.

3. On March 21, 2023, Bank Al-Maghrib (BAM) increased its policy rate by 50 bps to 3.0 percent, after raising it twice by 50bps in September and December 2022. The Bank cited the need to tighten monetary conditions to prevent inflation expectations from becoming de-anchored and bring inflation in line with price stability. Indeed, measures of inflation expectations remain at high levels. While 2-year-ahead inflation expectations ticked down by 0.2 percentage point to 4.6 percent, 3-year-ahead inflation expectations rose relative to December, to 3.0 percent (from 2.6 percent). BAM also revised upward its inflation forecasts for 2023 but downward in 2024 to 5.5 percent (vs 3.9 before) and 3.9 percent (vs 4.2 before), respectively. At 3.9 percent, the average inflation projected for 2024 remains higher than staff's (2.8 percent) due to BAM's greater estimated inflationary impact of the removal of gas, wheat, and sugar subsides. Given the higher-than-expected inflation outturn in February, bringing inflation back to around 2 percent by end 2024 (as currently projected in staff baseline) is likely to warrant a more rapid increase in interest rates than the one incorporated in staff baseline.


CPI Inflation 3 Month Change (in percent)
Overall
Food
Non Food
Core
8
6
4
2
0
-2
-4
2019-Apr
2019-Jun
2019-Aug
2019-Oct
2019-Dec
2020-Feb
2020-Apr
2020-Jun
2020-Aug
2020-Oct
2020-Dec
2021-Feb
2021-Apr
2021-Jun
2021-Aug
2021-Oct
2021-Dec
2022-Feb
2022-Apr
2022-Jun
2022-Aug
2022-Oct
2022-Dec
2023-Feb

Statement by Mr. El Qorchi, Alternate Executive Director for Morocco

On behalf of my Moroccan authorities, I thank staff for the comprehensive report on the Flexible Credit Line (FCL) arrangement and welcome the assessment of Morocco's qualification criteria for the FCL. An FCL arrangement would support Morocco's commitment to maintaining a very strong macroeconomic policy and institutional framework. Given the downside risks and a more uncertain global economic outlook due to tighter financial conditions and inflationary supply shocks emanating from the war in Ukraine, an FCL would augment precautionary reserve buffers and provide a valuable backstop against tail risks.

The global economy is marked by persistent inflation globally, the tightening of global financial markets conditions, the protracted war in Ukraine, and the slowdown of the Chinese economy, which continue to tilt the balance of external risks to the downside for Morocco. These international developments combined with recurrent droughts have affected the performance of the Moroccan economy. As a consequence, real GDP slowed down to about 1.5 percent in 2022, inflationary pressures intensified, and the current account deficit widened.

Amid the deterioration of the global outlook, the Moroccan authorities have continued to calibrate their policies to mitigate risks, maintain macroeconomic stability, and support the most vulnerable population. Nonetheless, the impact of global developments on Morocco's inflation has been significant, which have added to domestic pressures related to recurrent droughts. In response to rising inflation, BAM increased its policy rate by 150 bps since September 2022 to 3 percent to prevent the triggering of inflationary spirals and anchor inflation expectations. Bank lending rates have increased somewhat in the last quarter of last year, and Treasury bond yields rose quite sharply in January 2023. After a strong rebound in 2022, credit to nonfinancial private sector is expected to decelerate in 2023 and 2024.

The exchange rate has flexibly adjusted to changes in terms of trade and market conditions without BAM intervention. After depreciating to close to the upper limit (5 percent) of the fluctuation band in late 2022, the dirham has appreciated against both the dollar and the euro and returned to close to the middle of the band. The effective real exchange rate depreciated by about 4 percent in 2022 and is expected to appreciate by 1.6 percent and 1.9 percent in 2023 and 2024, respectively.

BAM has lifted the exceptional easing measures put in place during the pandemic crisis and monitored closely bank balance sheets. In the wake of the pandemic crisis, the Moroccan banking sector has shown resilience and maintains an adequate solvency and liquidity position. The banking system is well capitalized and profitable, supported by a risk-based supervisory framework increasingly aligned with international standards. In 2022, banks' adequacy ratio has stood above 15 percent, nonperforming loans trended down to 8.2 percent at the end of the year with a healthy provisioning at 68.2 percent.

The consolidation of public finances continues, despite the counter-cyclical budgetary efforts of the authorities to contain the impact of higher inflation on the purchasing power of households. The extraordinary support programs implemented during the pandemic have been wound down while targeted support to the most vulnerable continued within the budget envelop. Indeed, the fiscal performance was better than budgeted as the fiscal deficit in 2022 was lower than projected. The overall deficit declined from 5.9 percent of the GDP in 2021 to 5.1 percent in 2022, against the 5.9 percent projected in the 2022 Budget. Furthermore, the government has embarked on a multiyear fiscal consolidation program to improve the fiscal position and reduce public debt-to-GDP ratio. Thus, the budget deficit is projected to pursue its downward trend mainly on account of the expected improvements in tax and nontax revenues and further spending rationalization. It is projected to further decline to 4.9 percent in 2023 and 4.4 percent in 2024. As a result, the central government debt-to-GDP ratio has fallen from 72.2 percent in 2020 to about 69 percent in 2022 et is expected to stabilize at this level in 2023 and 2024 and decline starting from 2025. As stated by staff in the report, Morocco's public debt is assessed to be sustainable with high probability.

On the external sector, the surge in international commodity prices has widened the current account deficit in 2022. The strong momentum of trade led to an increase of the trade deficit in goods to about 20 percent of GDP in 2022 (from around 14 percent in 2021). This upswing is mainly due to soaring import values, particularly of energy and food products, which were partially offset by stronger export values. However, the strong remittances and rebound in tourism receipts have helped limit the current account deficit to 3.9 percent in 2022 and is projected to decline further in 2023 and 2024. Robust net FDI inflows contributed to financing external financing needs. About 45 percent of FDI inflows were channeled to the manufacturing sector against an average of 25 percent between 2014 and 2019. In the future, FDI flows are projected to hover around3 percent of GDP. International reserves remain at a comfortable level (124 percent of adjusted ARA metric in February 2023). The dirham remains aligned with the fundamentals of the economy. At the same time, the interbank foreign exchange market is deepening, and the use of hedging instruments has increased.

Morocco’s strong institutions ensure preparedness to withstand adverse shocks and reaffirm a commitment to maintaining very strong policies going forward. It has benefited from its long and excellent track record of very strong macroeconomic performance, based on sound and prudent policies. Such policies include a sound monetary policy framework carried out by an accountable and independent central bank, responsible fiscal policy, and a solid, well-regulated, and well-supervised financial system. The Moroccan economy has remained resilient on the face of large external and domestic shocks, including the COVID-19 pandemic.

The authorities will continue to implement the reform of the exchange rate regime and the development of an inflation targeting framework. The transition to the next stage of the reform remains dependent on the easing of inflationary pressures and the dissipation of uncertainties over the economic outlook.

To consolidate financial stability, BAM continued to strengthen prudential regulatory and supervisory frameworks. BAM regularly conducts stress tests and is already considering the effects of climate change on the Moroccan financial system. It has also taken significant steps to improve financial transparency and has implemented broad and comprehensive transparency practices, as highlighted by the IMF's BAM Transparency Code mission in December 2022. Moreover, Morocco has made considerable progress in its AML-CFT framework, as evidenced by its recent exit from the FATF gray list.

To strengthen the credibility and transparency of fiscal policy and give more visibility to the medium-term fiscal plans, the government published for the first time, as part of the 2023 Budget, a three-year medium-term fiscal framework. This framework shows the authorities’ intention to continue the gradual consolidation of the fiscal deficit with a view to bringing it back to its pre-crisis level in the medium term, which should help stabilize the debt to GDP ratio and even reduce it by 2025. Furthermore, to strengthen the fiscal framework to better help preserve fiscal discipline and debt sustainability, the government plans to introduce a new, debt-anchored, fiscal rule, with the assistance of the IMF, based on international best practices.

The Moroccan authorities place the restoration of the fiscal space at the heart of its policy agenda alongside the strengthening of fiscal governance. Restoring the fiscal space will be predicated on the optimization of public expenditure, implementation of the framework law on the tax reform, and use of innovative mechanisms of financing (non-debt generating and involving the private sector).

The deployment of the reform of the SOE sector, in particular through the creation of the National Agency for the Strategic Management of State Participations, the overhaul of the national guarantee system, the operationalization of the Mohammed VI Fund for investment, as well as the implementation of the new Investment Charter and the continued improvement of the business environment, should contribute to developing a more dynamic private sector and stimulating private investment, both domestic and foreign.

High priority is given to social reforms, starting with the generalization of social protection. This major initiative is being conducted concomitantly with the reform of the subsidy system and the implementation of the unified social register (RSU) for better targeting of social assistance. Other far-reaching reforms are already launched following the finalization of the report on a New Development Model for Morocco. The overhaul of the national health system and the deployment of a roadmap for the reform of the education system, in addition to the urgency to tackle the problem of water scarcity, are an integral part of the reform agenda. Moreover, tangible progress has been made in liberalizing the electricity sector, which should develop a more competitive electricity market and accelerate the transition to renewable energies.

To strengthen women's position and participation in the economy, the authorities have adopted in March 2023 phase III 2023-26 of the strategic framework for gender equality. Phase III plan aims at i) economically empowering women and reinforcing their leadership, ii) preventing and protecting women against all forms of violence, and iii) strengthening values against stereotypes, promoting women rights, and fighting against all forms of discrimination.

Considering the still uncertain international environment with exceptionally high external risks, the Moroccan authorities would like to strengthen their access to precautionary liquidity in the event of extreme shock scenarios. An FCL is deemed well-suited to support countries like Morocco which, despite sound policy frameworks and economic fundamentals, remain exposed to these shocks.

In this context, Morocco is requesting an arrangement under the FCL for an amount equivalent to 417 percent of the quota for a period of 2 years. An arrangement under the FCL would support Morocco's economic strategy by boosting the confidence of partners and investors, while contributing to macroeconomic stability by ensuring the availability of financial resources in the event of external and domestic shocks that would put pressure on the balance of payments. Morocco intends to treat this agreement as precautionary to address tail risks and draw on this line only in the event of severe exogenous shocks, including from the worsening of the international context.

Timely and appropriate economic policies enabled Morocco to respond to the deterioration of the global economic situation and to strengthen investor confidence, as evidenced by the international markets enthusiasm following Morocco's international Eurobond issuance in early March. The authorities are committed to macroeconomic and financial stability and to economic and social reforms. Pursuing very strong policies in the future and maintaining fiscal discipline is a priority as is mobilizing the resources needed to support long-term growth. The authorities affirmed their intention to continue to react appropriately to any shocks that may arise in the future. Against this backdrop, BAM remains committed to taking the necessary measures based on the available data to ensure a rapid return of inflation to levels consistent with the objective of price stability.