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May 2024

2024 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY ARRANGEMENT, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the 2024 Article IV Consultations, Review Under the Resilience and Sustainability Arrangement and Rephasing of Access Under the Resilience and Sustainability Facility for Morocco, 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 March 26, 2024, following discussions that ended on February 13, 2024, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 11, 2024.
- An **Informational Annex** 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation, Mid-Term Review under Flexible Credit Line Arrangement, First Review under the Resilience and Sustainability Facility and Rephasing of Access under Resilience and Sustainability Facility with Morocco

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the 2024 Article IV consultation and approved the first review of Morocco's Resilience and Sustainability Facility, and the review of Morocco's qualification under the Flexible Credit Line.
- The Moroccan economy continued to show resilience despite water scarcity, the September 2023 earthquake, and challenging external conditions. Real GDP growth is expected to gradually pick up to 3½ percent over the next few years, boosted by the continued implementation of the structural reform agenda.
- Rebuilding the fiscal buffers while implementing the structural reforms will be key to strengthen further Morocco's resilience and prospects for higher and more inclusive growth.

Washington, DC – May 1, 2024: On March 26, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation,[1] mid-term review under Flexible Credit Line Arrangement, first review under the Resilience and Sustainability Facility and Rephasing of access under Resilience and Sustainability Facility with Morocco.

The Moroccan economy continued to show resilience to negative shocks. Despite water scarcity, the September 2023 earthquake, and challenging external conditions, economic activity picked up to 3 percent in 2023 thanks to strong exports and a rebound of domestic demand. Notwithstanding the pickup in growth, unemployment rose to 13.3 percent at the end of 2023, mainly reflecting the impact of water scarcity on the agricultural sector. GDP growth is expected to gradually pick up to 3½ percent over the next few years, boosted by the continued implementation of the structural reform agenda.

Inflation fell over the course of 2023, mainly as the impact of supply shocks faded. This justified BAM's pausing the interest rate tightening cycle since June last year, after three

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

consecutive increases from September 2022. The dirham continued to move within the fluctuation band of ±5 percent.

The current account deficit narrowed significantly. This reflects both a reduced trade deficit in goods (driven by the lower import prices of energy, raw and intermediate goods, and food items, as well as the robust performance of automotive and electronics exports), buoyant export of services (both tourism and non-tourism related), and the continued expansion of inward remittances.

The central government fiscal deficit improved more than envisaged in the 2023 Budget. The 2023 overall deficit closed at 4.4 percent of GDP, about 0.5 percent of GDP less than projected in the 2023 Budget. This reflects better-than-expected fiscal revenues (with non-tax revenues boosted by the Earthquake Fund) that more than offset higher-than-planned spending.

The implementation of the announced structural reform agenda has continued. The first two pillars of the generalization of the social protection system, i.e., the extension of compulsory basic health insurance and the introduction of cash transfers to poor families, have now been implemented. Further steps were taken to restructuring SOEs, operationalizing the Mohammed VI Investment Fund and new Charter of Investment, and reforming both education and health care systems.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the resilience of the Moroccan economy to recent shocks and commended the authorities' very strong macroeconomic policies and institutional frameworks, which supported the pick-up in growth and decline in inflation. Noting downside risks and high uncertainty surrounding the outlook, Directors emphasized the importance of continued prudent macro-economic policies and steadfast implementation of structural reforms to achieve a stronger, more resilient, and more inclusive growth.

Directors supported Bank Al-Maghrib's (BAM) monetary policy stance and they concurred that further changes in policy rates should remain data-dependent. Resuming the central bank's planned transition to an inflation-targeting framework by preparing for the removal of the peg as inflation continues to fall would also be important.

Directors concurred on the need to advance fiscal consolidation and agreed that the 2024 budget strikes the right balance between rebuilding fiscal buffers and financing structural reforms. They encouraged the authorities to consider further tax and spending measures to

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

secure and possibly accelerate the planned reduction of public debt. Directors encouraged further strengthening the Medium-Term Fiscal Framework, including by reporting the budgetary implications of public private partnerships and the mobilization of government real assets, and to continue working on a new, debt-anchored, fiscal rule.

Directors welcomed Morocco's progress in strengthening its financial supervisory and regulatory framework. They commended the authorities' efforts in introducing capital surcharges, developing a secondary market for NPLs, improving the bank resolution framework, and preparing a green financial strategy. While systemic risks to the financial system appear to be limited, Directors emphasized the need to continue monitoring financial institutions' balance sheet exposures, including to climate-related risks.

Directors commended the authorities' strong commitment to implement structural reforms. The reform of the social protection, health, and education systems would improve fairness and quality of access and sustain human capital in the long run. The reforms of SOEs and the operationalization of the Mohammed VI Fund and the new Charter of Investment would stimulate private investment and create sustainable jobs. Continued efforts to reduce dependence on fossil fuels, address water scarcity, enhance governance, and tackle gender inequality are essential to bolster Morocco's potential growth.

Directors were encouraged by the authorities' progress on meeting the conditions of the RSF arrangement. They welcomed the ongoing work related to the national water program and the plans to achieve zero net emissions by 2050. Directors encouraged the timely implementation of the measure on higher VAT on fossil fuels, while mitigating its social impact. They underscored the importance of close collaboration with development partners.

Directors agreed that Morocco continues to meet the qualifications criteria for the FCL arrangement, given its very strong macroeconomic policies and institutional policy frameworks, and its commitment to continuing reforms.

It is expected that the next Article IV consultation with Morocco will be held on the standard 12-month cycle.

Morocco: Selected Economic Indicators, 2019-29

Population: 36.7 million; 2022	Per capita GDP: $3,570; 2022
Quota: SDR 894.4 million Main exports: automobiles, phosphate and derivatives; 2022 Key export markets: France and Spain (40% of total trade); 2022	Poverty rate: 4.8 percent; 2013

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
								Proj.			
Output (annual percent change)											
Real GDP growth	2.9	-7.2	8.0	1.3	3.0	3.1	3.3	3.4	3.4	3.4	3.4
Real nonagricultural GDP growth	3.7	-7.2	6.8	3.0	2.7	3.0	3.3	3.4	3.4	3.4	3.4
Employment (percent)											
Unemployment	9.2	11.9	12.3	11.8	13.0	12.0	11.5	11.0	10.5	10.5	10.5
Prices											
Inflation (end of period)	1.1	-0.3	3.2	8.3	3.4	2.5	2.2	2.3	2.2	2.1	2.0
Inflation (period average)	0.2	0.7	1.4	6.6	6.1	2.2	2.5	2.4	2.2	2.1	2.0
Central government finances (percent of GDP) 1/											
Revenue	23.8	27.0	25.3	28.7	28.5	28.2	27.5	26.9	26.6	26.5	26.3
Expenditure	27.4	34.1	31.3	34.1	33.0	32.5	31.2	30.1	29.7	29.5	29.3
Fiscal balance	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.2	-3.1	-3.1	-3.0
Public debt	60.3	72.2	69.5	71.6	70.6	70.4	69.4	68.2	67.5	66.8	66.1
Money and credit (annual percent change)											
Broad money	3.8	8.4	5.1	8.0	4.0	5.0	4.5	4.6	4.6	4.6	4.6
Claims to the economy 2/	5.6	4.9	3.8	7.1	5.3	4.5	4.1	4.1	4.2	4.2	4.2
Balance of payments											
Current account including official transfers (percent of GDP)	-3.4	-1.2	-2.3	-3.5	-1.4	-2.5	-2.8	-2.8	-2.9	-3.0	-3.0
Exports of goods (in U.S. dollars, annual percent change)	0.3	-4.4	34.4	15.1	-0.8	3.3	4.6	5.0	4.5	4.0	4.9
Imports of goods (in U.S. dollars, annual percent change)	-0.9	-12.0	32.1	21.9	-2.6	5.8	5.4	4.8	4.4	4.4	3.7
Merchandise trade balance (percent of GDP)	-15.3	-12.8	-14.1	-20.2	-17.5	-18.1	-18.2	-18.0	-17.7	-17.7	-17.1
FDI (percent of GDP)	0.6	0.8	1.1	1.2	0.1	0.9	1.0	1.1	1.2	1.2	1.2
Gross reserves (months of imports)	6.9	7.2	5.8	5.3	5.6	5.6	5.6	5.7	5.7	5.7	6.8
External Debt (percent of GDP)	42.5	54.2	45.5	46.9	50.9	49.2	49.3	50.0	51.1	51.6	54.2
Exchange rate											
REER (annual average, percent change)	0.8	0.7	0.7	0.7	0.7	...	...	...	...	...	...
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	128.9	121.4	141.8	130.9	144.0	152.4	161.4	170.9	180.1	189.7	199.8
Net imports of energy products (in billions of U.S. dollars)	-7.9	-5.3	-8.4	-15.1	-11.8	-11.8	-11.9	-12.0	-12.1	-12.2	-12.5
Local currency per U.S. dollar (period average)	9.6	9.5	9.0	10.2	10.1	...	...	...	...	...	...

Sources: Moroccan authorities; and Fund staff estimates.

1/ Include grants.

2/ Includes credit to public enterprises.

INTERNATIONAL MONETARY FUND

MOROCCO

March 11, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY ARRANGEMENT, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context: The Moroccan economy once again showed resilience to negative shocks in 2023, as economic activity accelerated, inflation slowed, and the current account deficit narrowed despite headwinds from water scarcity (which caused a severe loss of jobs in the agricultural sector), the September 2023 earthquake, and lower growth in the Euro Area. The ambitious infrastructure plan announced by the authorities (including in water and energy sectors) is expected to boost investment and growth in the next few years, with the current account gradually converging towards the medium-term norm. The fiscal deficit in 2023 was below the level projected in the Budget and the authorities reiterated their commitment to a gradual fiscal consolidation over the next three years. Implementation of the structural reform agenda has continued, particularly regarding the overhaul of social protection, health care, and education systems.

Article IV Consultation: The discussions focused on the policies needed to secure the recent decline of inflation and advance with fiscal consolidation while financing the structural reforms needed to ensure that economic growth creates more jobs and becomes more inclusive. Accelerating the implementation of the State-Owned Enterprise (SOE) reform, the Mohammed VI Fund, and the new Charter of Investment is needed to boost private investment and reduce unemployment. The generalization of social protection and the overhaul of health care and education sectors would reduce inequalities, improve access and quality of services, and enhance human capital accumulation in the long run, while revamping active labor market policies can help against high unemployment in the short run. Improving water infrastructure is a priority to mitigate water scarcity, while continuing to liberalize the electricity market is needed to attract investment in renewable energy. Financing these reforms while rebuilding the fiscal space requires further efforts to extend the tax base and rationalize spending. Reporting the budgetary implication of the planned expansion of public-private investment projects and the mobilization of real government assets would reinforce confidence in the authorities' strong commitment to fiscal stability.

Flexible Credit Line (FCL): Staff assesses that Morocco continues to meet the qualification criteria for access to the FCL arrangement. Staff, therefore, recommends completion of the review under the FCL arrangement. The authorities intend to continue treating the FCL arrangement as precautionary and to gradually exit it, depending on the evolution of external risks.

Resilience and Sustainability Facility (RSF): The authorities have implemented four of the five reform measures scheduled for the first review of the RSF arrangement. The planned increase in the VAT on fossil fuels was not implemented and postponed to the third and final review, due to concerns about its impact on the population at a time of still high inflation (particularly of food items), the reform of subsidies on gas butane, and weak labor markets. The authorities also proposed to bring forward to the second review the reform measure on the changes to the legal framework for energy efficiency, given the progress in implementing it. Staff supports these proposals.

Approved By

Taline Koranchelian (MCD) Bjoern Rother (SPR)

The mission consisted of Roberto Cardarelli (head), Marzie Taheri Sanjani, Sahra Sakha (all MCD), Hector Perez-Saiz (SPR), and Hussein Bidawi (FAD). Hannah Brown, Vaishnavi Rupavatharam, Rodrigo Huguet, and Abigail Korman (all MCD) assisted with this report. The mission team met with the Ministries of Economy and Finance, Water and Equipment, Energy Transition and Sustainable Development, Health, Education, Interior; Bank Al-Maghrib; labor unions;, *Agence Marocaine pour l'Efficacité Énergétique* (AMEE), *Autorité Nationale de Régulation de l'électricité* (ANRE), *Caisse Nationale de Sécurité Sociale* (CNSS), *Confédération Générale des Enterprises du Maroc* (CGEM), *Office National de l'Électricité et de l'Eau* (ONEE), and *Instance Nationale de la Probité, de la Prévention et de la Lutte contre la Corruption* (INPPLC); the Policy Center for the New South (PCNS); the European Bank for Reconstruction and Development (EBRD), European Union (EU), International Financial Corporation (IFC), and World Bank (WB). Mr. El Qorchi participated in most meetings. The mission was conducted during January 30th- February 15th , 2024, in Casablanca and Rabat, Morocco.

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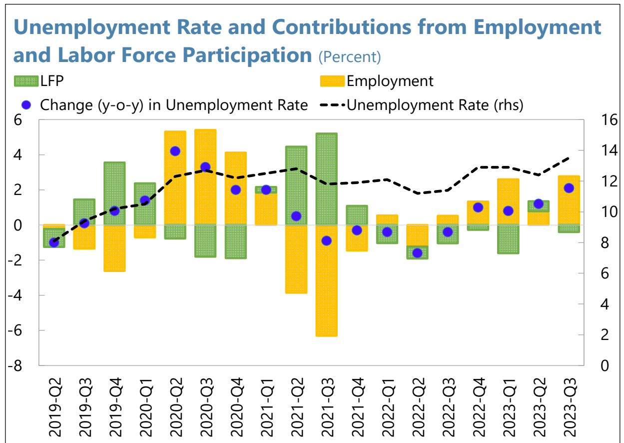
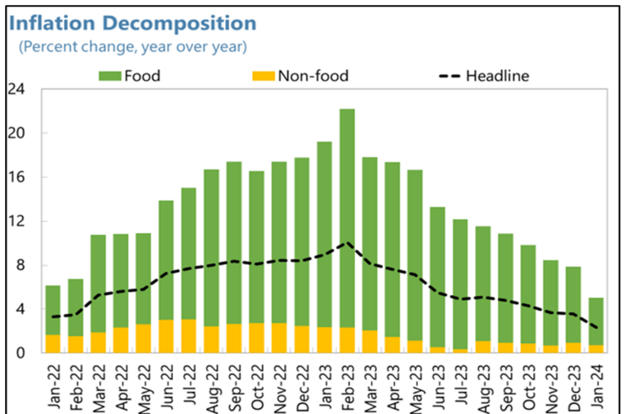
RECENT ECONOMIC DEVELOPMENTS

1. **Output growth accelerated in 2023.** After the severe drought and the terms-of-trade shock compressed GDP growth to 1.3 percent in 2022, economic activity grew at an average of 2.9 percent in the first three quarters of 2023, boosted by strong exports (particularly automotive and tourism), and the rebound of investment. While the September earthquake had devastating human and material consequences, it was localized primarily in the mountains, which account for a small share of the national GDP, and tourism inflows have proved resilient. Even with the pickup in growth, unemployment has risen to 13.3 percent at the end of 2023 (against an average pre-Covid of 9.4 percent), despite a decline in labor force participation and on account of a lower employment rate. The fall in employment, in turn, reflects continued losses of jobs in the agricultural sector, which suffers from the low stock of water available for irrigation purposes (Box 1).



Sources: Haver; and IMF staff calculations.

2. **Inflation fell from its peak in 2023.** The decline of headline inflation from 10.1 percent y/y in February 2023 to 2.3 percent in January this year is mainly due to the fading effect of the commodity price shock (core inflation was 2.9 percent). Food inflation, while falling, remains relatively elevated at 4.2 percent in January (y/y) as the adverse impact of more extreme climatic conditions on agricultural production continues to boost the price of fresh food products (that rose at about 5.2 percent y/y in January down from 32 percent in February 2023).



Sources: Haver; and IMF staff calculations.

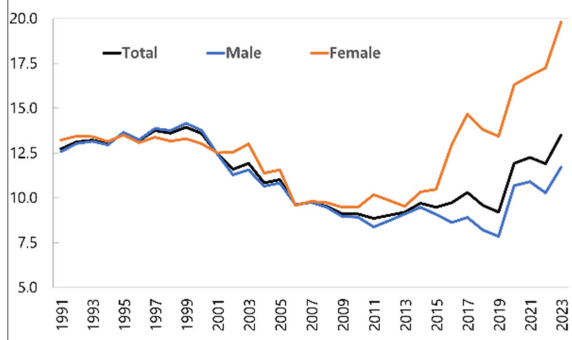
3. **The monetary policy tightening cycle has paused.** After three consecutive policy rate hikes for a cumulative 150 basis points (bps) between September 2022 and March 2023, Bank Al-Maghrib (BAM) kept interest rates unchanged at 3 percent. While two-year ahead inflation expectations fell to 3.3 percent in Q4:2023 (from 3.9 percent in Q3), the ex-ante real policy rate remains slightly negative and below staff's estimates of the neutral level (between 1 and 1.5 percent), implying that the monetary policy stance is still accommodative. Higher policy rates were partially transmitted to market rates, with bank lending rates on average about 120 bps higher in

Box 1. Morocco: Labor Market Developments

The recent increase of the unemployment rate likely reflects structural factors, including the impact of water scarcity on the agricultural sector.

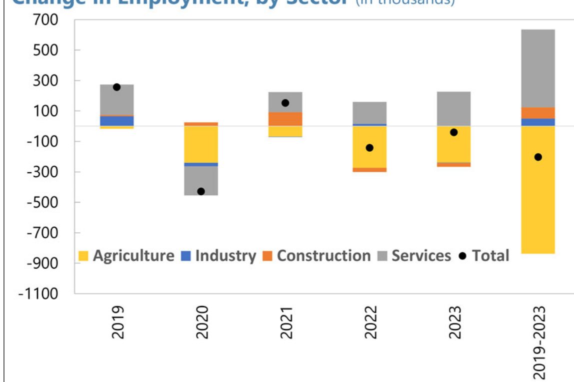
- On average in 2023 the *unemployment rate* rose to 13 percent, a level not seen since the late 1990s. Female unemployment rate reached a three-decade high of about 20 percent.
- The increase in unemployment occurred despite a fall in the overall *labor force participation* rate, which on Q3:2023 was about 2½ pps below 2019. The decline was stronger for female labor force participation, which fell to 18.4 percent in Q3:2023, a decline of 3¼ pps compared to 2019 (vis a vis a decline of 1¾ pps for men).
- The rise in unemployment thus reflects entirely a fall in the *employment rate,* which dropped to the lowest level since Q2:2018. The overall loss of jobs in the first three quarters of 2023 mainly came from the agricultural sector, on account of the severe water stress caused by the recent string of droughts. While service sectors continued to create jobs, this was not sufficient to absorb the losses from the agricultural sector, while industry and construction were not significantly contributing to job creation in line with the last 4 years.
- The large loss of employment in the agricultural sector helps explain the more significant deterioration of labor market indicators for women, given women's disproportionate presence in the agricultural sector. In 2021, about 52 percent of working women were employed in the agricultural sector, compared to 29 percent for men.

Unemployment Rate (in percent)



Sources: ILO and HCP, 2023 is Q3.

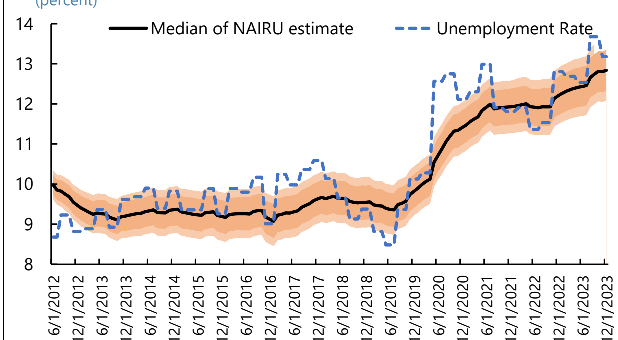
Change in Employment, by Sector (in thousands)



Sources: HCP, 2023 is Q1-Q3.

Estimated non-accelerating inflation rate of unemployment (NAIRU) also points to an increasing trend in structural unemployment. Staff estimated a specification of the Philips curve (PC) model, which allows for both the natural rate of unemployment and the coefficients of the PC to evolve over time[1]. The estimates show an increasing trend of the NAIRU since 2019, which accounts for most of the increase in the actual unemployment rate.

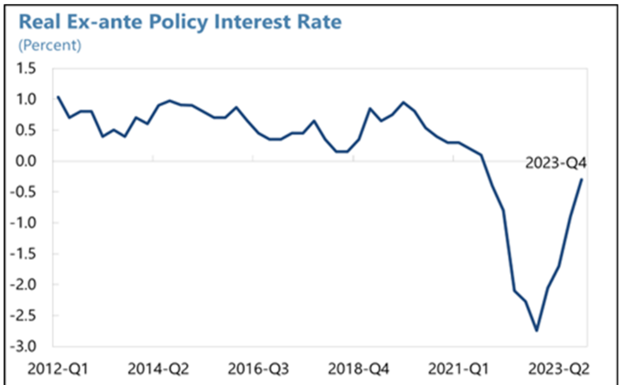
Unemployment Rate and NAIRU (percent)



Sources: HCP, Haver, IMF Staff Calculations.
Note: Fans represent 16 to 84 percent quantile from MCMC Bayesian Estimation.

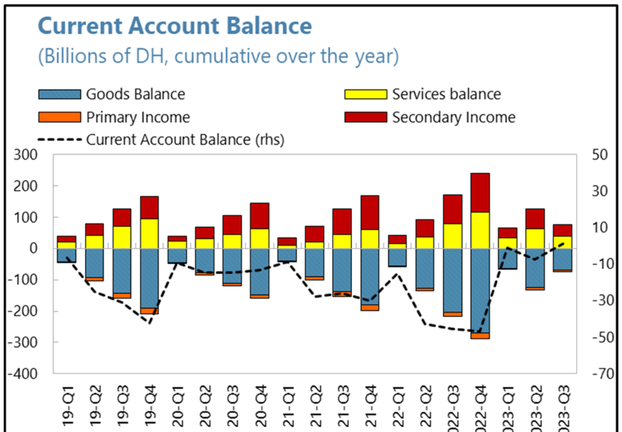
1/ T. Matheson and E. Stavrev, "The Great Recession and the Inflation Puzzle," IMF Working Paper, 2013, and O. Blanchard, E. Cerutti, and L. Summers, "Inflation and Activity", ECB Forum on Central Banking, 2015.

Q4:2023 compared to Q3:2022, and credit growth slowing to about 5.2 percent y/y in December 2023, from about 7 percent in 2022. To a large extent, the slowdown of overall credit growth reflects lower short-term (working capital) lending to companies, reflecting lower inflation and the repayment of the subsidized lending scheme introduced during the pandemic (by contrast, long-term lending for machinery and equipment accelerated in 2023). The dirham continued to move within the fluctuation band, and in 2023 appreciated by about 5⅓ percent against the USD and 2 percent against the Euro.



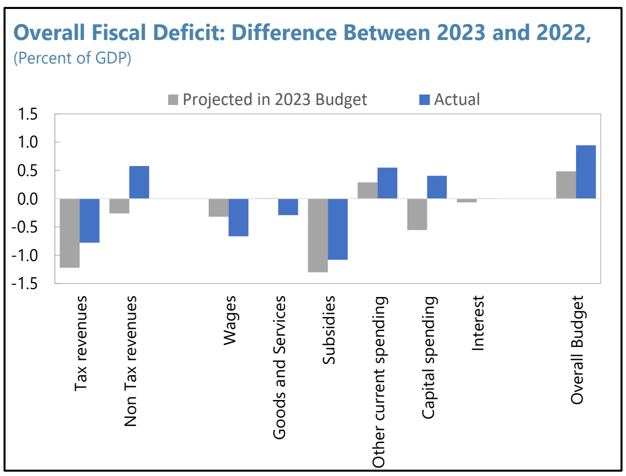
Sources: Haver; and IMF staff calculations.
Note: The rate is calculated as the difference between nominal key policy rate and two-year ahead inflation expectations.

4. The current account (CA) deficit narrowed significantly. This reflects both a reduced trade deficit in goods (driven by the lower import prices of energy, raw and intermediate goods, and food items, as well as the robust performance of automotive and electronics exports), buoyant export of services (both tourism and non-tourism related), and the continued expansion of inward remittances. International reserves increased to about USD 36.3 billion in December, about USD 4 billion above end-2022, supported by the March bond issuance on international markets and valuation effects from the stronger Dirham versus the US dollar. The REER was relatively unchanged on average in 2023 compared to 2022, as lower inflation compared to trading partners offset the nominal appreciation of the Dirham.



Sources: Haver; and IMF staff calculations.

5. The central government fiscal deficit improved more than envisaged in the 2023 Budget. The 2023 overall deficit closed at 4.4 percent of GDP, about ½ percent of GDP less than projected in the 2023 Budget. This reflects better-than-expected revenues. Tax revenues fell less than projected (by 0.4 percent of GDP) after the exceptional performance of 2022, thanks to the positive impact of recent tax reforms (including imposing the payment of some personal and corporate taxes as a withholding tax). Non-tax revenues were



boosted by the Earthquake Fund, which gathered voluntary contributions from Moroccans (about 20 billion dirhams, or about 1½ percent of GDP). These windfalls were partially used to fund higher-than-planned spending (by 0.9 percent of GDP), especially capital spending in water, health, and education sectors. The authorities have announced a 120-billion-dirham (about 8 percent of GDP) reconstruction plan over a 5-year period, which aims at both reconstructing villages and infrastructure and improving the living conditions of the affected communities. About half of the financing is expected to be raised through domestic resources and loans, with the rest expected to be funded via grants from international donors. Central government debt closed 2022 at 70.6 percent of GDP, slightly above the projections contained in the 2023 Budget (69.8 percent), reflecting lower-than-projected nominal GDP growth.

6. Banks' profitability improved in 2023. Higher lending rates and still growing credit, as well as the abundant availability of low-cost current and savings accounts (representing about 77 percent of all deposits and 3.3 percent y/y growth in 2023), boosted net interest income. The return on equity (ROE) improved to 11.8 percent in the first half of 2023 compared to 10.9 percent last year. Higher provisioning for asset-quality risk (at about 69 percent of NPLs in December 2023) prevented an even stronger improvement in profits but helped cover banks against potential risks from the impact of recent shocks. NPLs, in particular for private sector companies, increased slightly in 2023, mainly on the back of emerging difficulties from some companies in repaying the subsidized credit schemes extended under the pandemic.[1]

7. The implementation of the announced structural reform agenda has continued. The first two pillars of the generalization of the social protection system have been introduced (Box 2). As of end-2023, about 3 million households (corresponding to about 10 million people) have registered to the Unified Social Registry (*Registre Social Unifié*-RSU), in line with initial objectives. The registry has already been used to validate the transfer of those previously benefiting from free healthcare to the new mandatory health insurance scheme (AMO Tadamon, Box 2). In December 2023, the authorities announced a reform of the teachers' statute that aims at improving the quality of teaching by linking remuneration to continuous formation and performance. After its operationalization last year, the *Agence Nationale de Gestion Stratégique des Participations de l'État* (ANGSPE), the new agency responsible for the restructuring of SOEs, began elaborating the state shareholder policy, which will provide the strategic orientation of the SOE reform. The Mohammed VI Fund selected seventeen management companies responsible for managing thematic and sectoral funds and signed partnership agreements with a series of international actors (including the IFC, the African Development Bank, and the EIB).

[1] About 60 billion dirhams (equivalent to over 5 percent of GDP) of loans were extended in 2020 under two state-guaranteed loan programs 'Damane Oxygene' and 'Damane Relance'. As of end-2023, about 10 percent of these loans were showing repayment difficulties and were counted among NPLs.

Box 2. The Extension of Social Protection in Morocco [1/]

The social protection reform, which began in 2021, constitutes a milestone in the extension of coverage, adequacy, and comprehensiveness of social protection in Morocco. The Social Security (minimum standards) Convention, 1952 (No.102) ratified by Morocco in 2019, together with other relevant international conventions and documents, guides the reform, which envisages four main pillars:

- The extension of **compulsory basic health insurance** became operational by the end of 2022, with the creation of "*AMO Tadamon*", a subsidized health care regime which absorbed the beneficiaries of the previous medical assistance scheme (*RAMED*), and the establishment of the regime for the self-employed and non-salaried workers (*AMO Travailleurs Non Salariés, TNS*). While access to *AMO Tadamon* is means-tested (with a RSU scoring), the *AMO TNS* scheme has entailed an innovative approach where a contribution base for each socio-professional category has been negotiated and established by decree. To this date more than 30 decrees have been issued. By September 2023, *AMO Tadamon* surpassed 10 million beneficiaries of which 6.7 million dependents of the primary insured. As for *AMO TNS*, it reached nearly 4 million beneficiaries, consisting of about 2 million insured workers and 2 million dependents. On January 2024, a third regime (*AMO Achamil*) was launched for those not engaged in any paid or unpaid activity but exceeding the RSU threshold for benefiting from *AMO Tadamon*. In total, 22 additional million people are expected to be eventually covered with the same basic healthcare services.
- The extension **of family allowances** came into force in December 2023. While salaried workers will remain under the current contributory family allowance scheme, households not covered by this scheme could become eligible to receive means-tested cash transfers (*aide sociale directe)*. Under the new scheme, means-tested flat rate benefits will be paid to households with resources below a certain threshold (as per their RSU scoring), with the cash transfer based on the family composition. A mean tested premium for newborns is also included, for the first two children.
- The extension of the **old-age pension system** coverage by 2025 envisages the launch of a new contributory scheme dedicated to self-employed. The contributions are likely to be based on the same structure set for the *AMO TNS*, and the final pension determined via a point system (whereby individual's contributions are converted each year into retirement pension points, that in turn will be converted into a pension payment at retirement based on a pension-point value). The reform is expected to increase by 5 million the number of subscribers to the regime.
- The final pillar of the reform will be the extension of the current **unemployment benefit scheme** (*Indemnité pour perte d'emploi*), by 2025. The current contributory scheme is reserved to salaried workers only and has an extremely limited coverage, with only 1.4 per cent of unemployed receiving a benefit. This reflects tight eligibility conditions, including the need to comply with a long minimum contributory period and a relative short deadline to provide the required documentation. Under the reform, qualifying conditions should be relaxed, and the scheme should be legally extended to all people in stable employment, including self-employed and non-salaried workers.

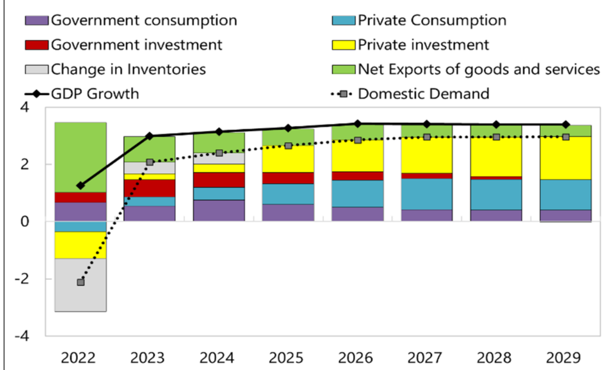
The reform builds a universal social protection coverage based on two complementary financing mechanisms: a contribution-based mechanism, as in existing schemes, covering formal economy workers, and a mechanism based on state-subsidized contributions for people with low incomes. By 2025, the reform is estimated to require a total annual expenditure of around US$5 billion.

1/ Prepared by the ILO social protection team with data from the ILO World Social Protection Database.

OUTLOOK AND RISKS

8. **Growth is expected to remain around 3 percent in 2024 and gradually increase to about 3½ percent over the medium term**. The normalization of agricultural output, lower inflation, and the generalization of the social protection system are expected to sustain private consumption, while the post-earthquake reconstruction plan, the implementation of infrastructure plans (including in water and energy sectors) and continued pro-business sector reforms should gradually boost private investment. Stronger domestic demand is expected to gradually widen the current account deficit towards its estimated medium-term norm of around 3 percent of GDP. Food price inflation is projected to continue to fall, with the overall CPI inflation projected at 2.3 percent (y/y) by the end of 2025 (2.6 percent annual average) after considering the price impact of the gradual removal of subsidies starting this year.

Expenditure-side Contribution to Real GDP Growth
(Percentage change, y-o-y)



Sources: Haver; and IMF staff calculations.

9. **Risks are tilted to the downside (Annex III).** On the external front, an escalation of the conflicts in Gaza and in Ukraine could disrupt external demand and generate another negative terms-of-trade shock, compressing investment prospects and growth, and reigniting inflationary pressures. Domestically, further episodes of droughts and reduced agricultural production remain the biggest risk to both growth. The pick-up of growth and decline of the unemployment rate is predicated on a successful implementation of structural reforms, but the ultimate impact of these reforms on GDP growth will depend on how successful they will be in closing Morocco's existing gaps with higher income economies, with risks both on the downside and on the upside.[2]

Authorities' Views

10. **The authorities expect a more vigorous and dynamic acceleration of economic activity.** The Budget 2024 forecast a somewhat higher real output growth in 2024-2025, at 3.7 and 3.5 percent, respectively. The authorities expect that growth would be driven by a significant increase in domestic demand, with consumption boosted by social transfers and investment fueled by better prospects for the construction sector after the entry into force of the direct housing subsidy scheme. Continuous expansion of the tourism sector and investment in infrastructure, both also spurred by Morocco's hosting the African soccer cup in 2025 and the World Soccer Cup in 2030, as well continued implementation of the structural reforms particularly those aimed at

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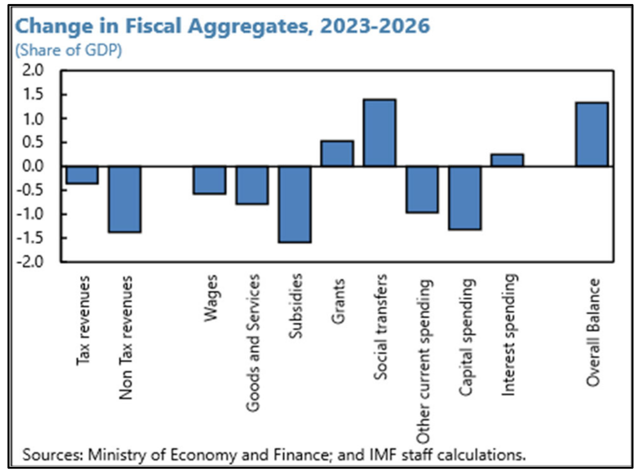
[2] Balima, H, O. Bizimana and A. Dua, "*Assessing the Impact of Structural Reforms on Potential Output: The Case of Morocco*", IMF WB 2023/222.

strengthening human capital, should continue to support growth over the medium term, at rates above those projected by staff.

POLICY DISCUSSIONS

A. Fiscal Policy

11. The 2024 Budget reaffirmed the authorities' commitment to a gradual fiscal consolidation over the medium term. The fiscal deficit is projected to decrease slightly to 4.3 percent of GDP in 2024 and then more rapidly over the following two years, reaching 3.2 percent of GDP in 2026. The fiscal consolidation will be driven by lower current and capital spending, which will more than compensate for the projected decline in non-tax revenues, as the windfall from the Earthquake Fund is reabsorbed. This consolidation, together with the acceleration in nominal GDP growth, are expected to lower the central government debt-to-GDP ratio to about 68½ percent by 2026. The Medium-Term Fiscal Framework also states the authorities' intention to bring the central government debt-to-GDP ratio to 65 percent by 2030.



12. The projected decline in current spending masks an appropriate reallocation of expenditure towards more targeted social protection. The new scheme of cash transfers to vulnerable households (*aide social directe,* Box 2) is estimated to cost about 1¾ percent of GDP annually. To a large extent, this cost will be covered by the reduction of subsidies on gas butane, wheat, and sugar over the next three years, starting from April 2024, and the gradual elimination of various preexisting social programs.[3] Staff welcomed this change, given the regressive nature of existing subsidies and the better targeting of social support potentially associated with the application of the RSU (the new scheme is supposed to cover the poorest 60 percent of Moroccan households).

13. The reform of the VAT contained in the 2024 Budget improves neutrality and should expand the tax base. The reform will reduce the number of VAT rates from the current five (0, 7, 10, 14, and 20 percent) to three (0, 10 and 20 percent) over the next three years. The 2024 Budget also includes a few measures designed to reduce informality, including introducing a withholding and self-declaration option that allows buyers of goods and services to collect and pay the VAT from

[3] Over the next three years (2024-2026), the price of a twelve (three) kilogram gas cylinder will increase by 10 (2.5) dirhams per year, the price of one kilogram of sugar will increase by 1 dirham per year, while the volume of wheat purchased by the state and sold at subsidized prices will be gradually eliminated. These measures are expected to generate a budget saving of 1½ percent of GDP, 80 percent of which is explained by the increase in the price of gas butane.

non-compliant and non-registered suppliers. While the self-declaration measure is cash-neutral for the buyer (who will pay and deduct VAT simultaneously) the authorities believe it should incentivize the seller to formalize and improve tax compliance. This measure has started to yield some impact on VAT collection in the last quarter of 2023 (after the draft Budget was announced) and January 2024, especially in sectors with low compliance rates. If these positive results are confirmed, and as companies become more familiar with the measure, consideration could be given to making it compulsory.

14. Nonetheless, further efforts are needed to secure, and possibly accelerate, the pace of fiscal consolidation. The pace of medium-term fiscal consolidation in the 2024 Budget appears to be striking an appropriate balance between the need to rebuild fiscal margins and the spending pressures from the implementation of structural reforms. Still, a few fiscal measures can be envisaged to ensure, and possibly accelerate, the reduction of the fiscal deficit in the medium term:

- *Completing the VAT reform*: the change in VAT rates is expected to be revenue neutral, mainly reflecting the greater share of goods that were exempted from the tax.[4] Gradually extending the standard rate of 20 percent to a broader range of goods and services (including fossil fuels) would improve VAT neutrality and reduce the estimated VAT tax gap.[5]

- *Further enhancing tax administration*. This would require adopting a medium-term revenue strategy (MTRS) centered around a revenue target linked to the authorities' planned fiscal consolidation. The strategy would consolidate efforts to modernize revenue administration, including continuing to digitalize and simplify tax procedures, adapt the governance of the tax authority to its new digitalized functions, fully operationalize the compliance risk management unit, merging the regional large taxpayer units into a national one, and enhancing information systems and inter-agency collaboration. Given the narrow tax base[6] and significant amount of uncollected taxes,[7] a better use of the information collected (through more developed data analytics) and a greater use of risk-based approaches to collection and compliance could be adopted to prioritize audits and collection efforts based on the probability of recovery.

- *Further rationalizing current spending:* this may require i) the elimination of the remaining subsidies on gas butane, ii) generalization of the RSU to all social programs, iii) continued

[4] Out of the fifteen goods and services previously at the intermediate rates of 7 and 14 percent, nine became exempted from VAT, five are now at the reduced rate of 10 percent, and only one was moved to the standard rate.

[5] While actual VAT revenues were around 8 percent of GDP in 2022, staff estimates Morocco's VAT (annual) potential at close to 12 percent of GDP (the difference due to policy design).

[6] Almost 90 percent of VAT revenues in 2017 came from the top 10 percent taxpayers.

[7] The 2023 report of the *Cour des Comptes* estimates the end-2022 stock of uncollected tax revenues by the *Direction General des Impots* (DGI) at 100 billion dirhams (6.9 percent of GDP), and that by the *Administration des Douanes et des Impots Indirect* (ADII) at 697 billion dirhams (48 percent of GDP), 97 percent of the latter are fines that would need to be reclassified as irrecoverable.

progress in the digitalization of the public administration, and iv) implementation of the SOE reform to reduce the need for both capital and current transfers to SOEs.

15. The authorities should continue reinforcing the medium-term fiscal framework. The authorities have announced a reform of the Organic Budget Law to include the MTFF in the annexes of the annual Budget and to adopt a new fiscal rule based on the introduction of a medium-term debt anchor. This progress is in line with IMF advice and would add more credibility and accountability around fiscal policy. Building on this initial progress, staff advised:

- *Further improving the MTFF*. The 2024 MTFF has already improved relative to last year, by adding i) an evaluation of the performance of the previous year's Budget, ii) a reconciliation exercise of macroeconomic assumptions and projections of main fiscal aggregates, iii) a section on fiscal risks and, iv) a section with the authorities' views on debt sustainability. Going forward, the MTFF would benefit from adding details on what drives the change of the fiscal balance over the next three years, the cost (both in dirham and share of GDP) of all new policy measures, as well as the quantitative assessment of specific fiscal risks related to state guarantees, SOEs and climate-related fiscal risks (a measure under the RSF).

- *Assessing and monitoring the fiscal implications of PPPs.* The authorities are planning to fund the investment cost of structural reforms (mainly in water and energy sectors) by ramping up PPPs. Considering the potential fiscal risks of PPPs, staff recommended reinforcing the institutional capacity to evaluate, monitor and transparently report the budget implications of these projects, including by: (i) strengthening the coordination between relevant departments to improve PPP project selection and inclusion in the budget; (ii) setting up in the budget a global annual envelope for new PPPs, considering all future commitments within a multiannual perspective; (iii) and adding an annex to the annual budget documentation, listing chosen projects, explaining the criteria of selection and updating the stock of existing PPPs, including their costs and potential medium- to long-term fiscal risks.

- *More details on financements innovants.* The mobilization of central government real assets has generated 74.3 billion dirhams of revenues between 2019 and 2023 and is expected to generate 35 billion dirhams of revenues per year over the next three years. Adding more details in the MTFF (for example, on the assets expected to be sold and the terms of the sales) would add credibility to the program and provide assurances about the authorities' capacity to meet the announced fiscal targets.

Authorities' Views

16. The authorities broadly agreed with staff's views. They plan to eliminate progressively gas butane subsidies and to better link budget appropriation to the RSU, starting from the next Budget Law. This would allow them to target all spending to the real needs of the population across the country, improving efficiency and reducing geographical disparities. On tax administration, there is an action plan to recover tax credits based on the modernization of information systems, while legislation is being finalized that allows electronic notifications to taxpayers and automatic sharing of data with third parties. The authorities reiterated their commitment to further strengthen the MTFF, including by introducing a new fiscal rule based on a medium-term fiscal anchor. On the mobilization of real government assets, they estimated that the program could potentially generate significant revenues in the years to come. While the assets sold are currently held in funds (*Organismes de Placement Collectif Immobilier*) owned by large institutional investors like the *Caisse Marocaine des Retraites* (CMR) *and Caisse de Dépôt et de Gestion* (CDG), the authorities are envisaging opening them to private investors, which will help develop the domestic capital market.

B. Monetary Policy

17. The current monetary policy stance appears appropriate and should remain data dependent. BAM's pausing its tightening cycle since March 2023 is justified, given the fall of inflation and inflation expectations since then. While staff expects inflation to gradually return to 2 percent, there are still upside risks from more persistent pressures on food prices associated with water scarcity and the removal of subsidies to the agricultural and transport sectors, as well as the projected rebound of domestic demand.[8] In this context, future policy changes will need to remain dependent on incoming data.

18. As inflation falls, BAM should resume its transition to an inflation targeting regime. Such a regime would cushion the economy from real external shocks while keeping the exchange rate in line with fundamentals, strengthen monetary policy transmission and contribute to Morocco's private sector development.[9] Over the past few years, BAM has made good progress in preparing the ground for a smooth implementation of this important institutional change, including by improving the functioning and liquidity of FX markets, refining macro-forecasting tools and adapting its communication strategies. Building on this progress and taking advantage of the expected fall of inflation, the authorities should get ready to remove the peg and subsequently phase out the remaining limitations to capital outflows on Moroccan residents.

Authorities' Views

19. The authorities shared staff's assessment. They agreed that monetary policy would need to remain data-dependent in the next few months. On the transition to an inflation targeting regime, they noted that the rapid succession of shocks experienced in the last few years calls for a re-tooling of the macro forecasting models at BAM, to ensure that they remain well-equipped to support monetary policy decisions under the new regime.

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[8] To help maintain price stability, preserve household purchasing power, and ensure an adequate and regular supply of essential products, the authorities introduced subsidies to the agricultural sector (mainly to subsidize the purchase of fertilizers and seeds) and to professionals in the transport sector, for about 0.4 percent of GDP in each of 2022 and 2023.

[9] Baksa D. and A. Bulír, "Moving to an Inflation-Targeting Regime, in *Morocco's Quest for Stronger and Inclusive Growth*, R. Cardarelli and T. Koranchelian, eds. 2023, Washington, DC: International Monetary Fund.

C. Financial Policy

20. Staff welcomed BAM's recent initiatives to further enhance the resilience of the financial system. In 2023, BAM continued to work on the implementation of the Supervisory Review and Evaluation Process (SREP), expected to be gradually implemented by 2027 and introduced capital surcharges for the three systemically important banks (their Tier 1 capital ratio is raised from 9 to 11 percent by 2025 at the latest). In 2024, BAM is set to adopt a Net Funding Stable Ratio (NFSR), to ensure that banks have a minimum amount of stable financial resources to meet short-term funding needs, as well as an Internal Liquidity Adequacy Assessment Process (ILAAP) under Basel Pillar 2 (to ensure that banks have a sufficient high-quality liquidity buffer even during prolonged periods of stress). Progress was made to develop a secondary market for NPLs (a draft legislation is expected to be sent to Parliament this year), that could strengthen banks' balance sheets and support the provision of credit to the economy, and to reinforce the banks resolution framework (new legislation is being finalized that reinforces BAM's powers as the bank resolution authority, better distinguishes between recovery and resolution phases and introduces a bail-in option).

21. Efforts to greening the financial sector have been stepped up, in line with the RSF arrangement. BAM continued to work on the guidelines for banks to gather data and report development and risk metrics related to large borrowers' exposures to climate risks (these guidelines are expected to be finalized by the end of 2024). The Ministry of Economy and Finance began developing a comprehensive climate finance strategy, together with BAM and other financial regulators and with technical assistance from the World Bank (a first draft is set to be prepared by mid-2024).

Authorities' Views

22. The authorities stressed that the banking sector remains resilient. While credit risk remains the main source of risk, a deceleration in NPLs is anticipated in the next few years due to the expected rebound in investment. The authorities noted that while concentration risk has increased over the past few years, it remains well below the levels of a decade ago and is mitigated by the limit of 20 percent of equity applied to credit exposures to a single borrower. Moroccan banks' diversification to countries in Sub-Saharan Africa was seen as contributing positively to their profits, with risks mitigated by strong provisioning (linked to changes in the countries' ratings). The authorities said they are working at better integrating climate risks into their stress test modeling framework, in particular to capture the physical risks related to persistent water scarcity.

D. Structural Reforms for a More Inclusive Model of Development

23. Developing the private sector is necessary to boost job creation. While ANGPE has until 2026 to fully implement the reform of the SOE sector, it would be important to accelerate the approval of the state's shareholding policy. This policy should identify the sectors where the state needs to be present to promote economic diversification, enhance productivity, and help build new capabilities in coordination with private companies, while reducing its presence in other sectors where private firms can operate autonomously. The state's shareholder policy will also need to be consistent with the numerous initiatives that are being put in place to boost private investment, such as the new Charter of Investment and the Mohammed VI Fund for investment. To help SMEs benefit from the opportunities to access private equity and senior debt under the Mohammed VI Fund and investment subsidies under the new Charter, more efforts are needed to help them develop their business plans and investment projects (including catering their technology, marketing, and networking needs). While there are many programs and agencies that support entrepreneurship, there is room to consolidate and simplify the framework through a more structured and integrated approach.

24. The development of the private sector also hinges on further efforts to strengthen governance. This mainly requires stepping up the fight against corruption and anti-competitive practices.

- *On anti-competitive practices,* Morocco's Competition Council has stepped up its enforcement activities in both merger control and investigations of anti-competitive practices. Merger notification filings have doubled in the last 3 years, while a higher volume of penalties has been imposed to sanction predatory and anti-competitive practices. In 2023, the competition legislation was modified to simplify the merger regulation framework, clarify the criteria for determining penalties and introduce a new procedure that allows a reduction in the financial penalty for companies that accept settlements. This has led the Council to impose a fine of 1.84 billion dirhams (about USD 200 million) on the largest 9 oil distributor companies. The Council has also published a first of a series of sectoral studies (on data centers) and plans to publish others that will describe the state of competition in those sectors with the objective of facilitating entry (a study on the automotive sector is expected to be released in 2024). Going forward, the Council plans to publish a series of Opinions that assess the presence of anti-competitive practices in key sectors (such as food product distribution and the provisions of private health care, education and financial services) and include recommendations to remove them.

- *On corruption*, the law 46-19 approved in 2021, strengthened the anti-corruption institutional framework by expanding the powers of the National Authority for Probity, Prevention and the Fight Against Corruption (INPPLC). The legislation on public procurement approved in 2023 seeks to strengthen transparency and to tackle corruption and conflicts of interest. The authorities should focus on their anti-corruption efforts as a policy priority and accelerate several longstanding reforms, including i) the reform of the penal code and the penal procedural code to ensure effective law enforcement and appropriate sanctions, ii) the resubmission of a bill on illicit enrichment, iii) the introduction of a whistleblower legislation, iv) the introduction of legislation on the conflict of interest and v) the reinforcement of the asset declaration law currently being amended.

25. While structural reforms may take time to boost job creation, expanding the social safety net and improving active labor market policies (ALMP) could help in the short run. The accelerated transition of jobs out of agriculture highlighted in Box 1 reinforces the need for a reform of the unemployment insurance scheme already announced by the authorities in 2021. While the contours of the reform remain to be detailed, consideration could be given to extend for a limited period the unemployment benefit to all workers (formal and informal) losing a job, with a low enough RSU scoring and conditional to their participation in up/re-skilling programs. This should be complemented by more efficient ALMPs. While multiple active employment programs have been deployed over the past two decades, their impact remains limited. As noted in the New Model of Development Report and in the *Cour des Comptes* 2022 Annual Report, there is a need for a more integrated ALMP strategy that better coordinates the multiplicity of players involved at national and local levels and ensures that their actions are targeted to the specific requirements of Morocco's labor market and its structural transformation.[10]

26. **Boosting women's participation in economic life is a key priority.** Female labor force participation remains extremely low despite the implementation of a series of measures to promote gender equality over the last decade, including the reforming of the constitution and family code, the addition of an annex to the Budget on the gender impact of public policies, and the introduction of a gender quota in the Parliament and boards of directors of listed companies. The new Charter of Investment includes a greater subsidy to private investment that involves female employment, whereas the New Model of Development proposes a range of measures to strengthen women's participation in the labor force, including incentives for childcare facilities within firms, laws on paternity leave and wage parity, and subsidized access for women to transport services (public or private). While these measures could well contribute to mitigating the problem, reducing gender gaps would require strengthening the institutional framework behind Morocco's gender policy, including by establishing an agency that would coordinate all gender-related measures and evaluate and monitor their progress.

27. **The generalization of health care insurance could significantly reduce income inequality and informality if well implemented.** A key objective of the reform is to incentivize the formalization of non-wage (informal) workers, by inducing them to pay a small contribution in exchange for the inclusion into the new healthcare insurance scheme (AMO). Still, only about 13 percent of the non-salaried workers who have been registered to participate to the new scheme has begun to regularly contribute in 2023, with the vast majority of those working in the agriculture and small artisans still excluded. Boosting the take-up rate may require allowing workers with irregular or seasonal employment to contribute only at certain periods of the year, as well as condition the access to all forms of public support to contribution to AMO. Excluding non-salaried workers from free healthcare even if their RSU scoring is below the threshold may disincentive formalization. To avoid this effect, consideration could be given to eventually allow all those with an RSU scoring

[10] Over the past decade, the rate of NEET (not in education, employment, or training) has remained at about 29 percent, among the highest rate in the MENA region (see Molini, Vasco et al, "What Explains Youth Unemployment in Morocco? A Look at Moroccans Not in Education, Employment, or Training", in *Morocco's Quest for Stronger and Inclusive Growth*, R. Cardarelli and T. Koranchelian, eds. 2023, Washington, DC: International Monetary Fund).

below the threshold to access free health care, independently of their work status, and ask those with an RSU scoring above the threshold to contribute according to their scoring.

28. Staff supported the authorities' efforts to improve the quality of health care while ensuring the financial sustainability of the new health care insurance system. To achieve these objectives, the authorities have continued working at an ambitious reform of the health care system that includes i) updating the national reference pricing system, through a new national agreement with health care providers and the pharmaceutical industry, ii) linking remunerations of healthcare professionals to their productivity and allowing them to work in both public and private sectors; iii) integrating health information systems across medical facilities in the country and creating a national identity card for patients that include their medical history, iv) upgrading medical facilities by building three new university hospitals and twelve new medical centers, v) removing legal barriers to investment into health care sector to attract foreign companies, vi) creating new territorial health groups which will develop regional health care plans, vii) setting a new High Health Authority that will need to develop the standards and regulatory tools needed to ensure quality care and the financial sustainability of the whole system.

29. Staff welcomed progress in the education reform, an essential component of Morocco's strategy to improve human capital. In 2023, the enrollment rate in preschool education reached 90 percent (the objective is to reach 100 percent in 2028). More than 600 "pioneer" schools have started operating across the country, utilizing new teaching methods based on the continuous assessment of the students' results and learning needs. The objective is to increase the number of these schools to 2,600 at the start of the next school year, covering 30 percent of students (from 8 percent during the first year). Progress has been made in strengthening teachers' initial formation, with the launch of a new training program for future primary and secondary school teachers. A key factor for the success of the reform remains to set up an efficient national evaluation system, which can regularly monitor and assess the results achieved by the reform and propose the possible adjustments required to improve its chances of success.

Authorities' Views

30. The authorities reiterated their strong commitment to the reforms needed to make growth stronger and more inclusive. They highlighted that the pace of implementation of the reforms reflects their inherent complexities and the need of an inclusive and step-by-step approach. On private sector development, the authorities are working at consolidating all existing programs to help SMEs and improve their efficiency. Following the mid-term review of the national employment strategy 2015-2025, the authorities have started working at an overhaul of their ALMP strategy to consolidate the multiple existing training and hiring programs. On the reform of the AMO, the authorities were confident that more self-employed and non-salaried workers will start contributing regularly over time and said that legislation is being prepared to link all forms of public supports to the payment of contributions and to allow banks to enforce such payment. While considerations can be given to linking more directly contributions to the RSU scorings, the priority for now is to stabilize the new system. On corruption, the authorities noted that the INPPLC has strengthened its capacities by hiring qualified investigative staff (such as magistrates of the Court of Auditors and customs inspectors) and developing a better cooperation framework with other national authorities, to leverage existing synergies in the fight against corruption. On gender gaps, the authorities noted that a new reform of the family code is planned for 2024, which would further reduce legal gender disparities. They also noted that the coordination of gender polices is ensured by a committee (National Committee for Gender Equality and the Advancement of Women) established in June 2022, chaired by the Head of Government, and comprising representatives of ministerial departments, local authorities, the private sector, and civil society. On assessing the education reform, the authorities noted that the results of the "pioneer" schools will be assessed not only by the Ministry of Education, but also by independent institutions like the Superior Council of Education and a private foundation.

E. Responding to Climate Change

31. The authorities stepped up efforts to address water scarcity in 2023. The *Programme National pour l'Approvisionnement en Eau Potable et l'Irrigation* (PNAEPI) has been endowed with an extra budget of 28 billion dirhams, taking the overall envelope to 143 billion. Under this plan, a new roadmap for the construction of desalination plants has been announced for 2023-2027, to provide the country with an additional capacity of over 1 billion cubic meters of desalinated water per year. Also, an emergency program was launched at the end of 2023 that involved the acquisition of 20 desalination mobile stations. This will increase the total availability of drinking water for the population of coastal cities, relieving pressures on water reservoirs (that will be serving inland cities and the irrigation needs of agricultural areas). The authorities have also accelerated the construction of pipelines linking water reservoirs across the country and announced projects for the construction of 6 additional large and mid-size dams. Further investments in water infrastructure are envisaged under the National Water Plan 2020-2050, that is still waiting for approval, for a total envelope of around 383 billion dirhams (about USD 40 billion).

32. In addition to deploying better infrastructure, addressing water scarcity will require updating the water tariff framework. Water tariffs have been kept artificially low and are not aligned either with cost recovery or the value of the resource. Two initiatives that should help prepare the ground for a reform of the water pricing framework are i) the ongoing review of public expenditure in the water sector, with the contribution of the World Bank and ii) the launch of a strategic study on the true cost of water by the Ministry of Water and Equipment, one of the reform measures of the RSF arrangement, expected to be concluded by early 2025.

33. Staff welcomed the authorities' commitment to achieve net-zero GHG emissions by 2050. To achieve this objective a new Long-Term Low Carbon Strategy has been produced in 2023, based on sectoral decarbonization plans and medium- and long-term quantitative targets. The strategy builds on Morocco's 2021 NDC target of reducing GHG emissions by 45.5 percent by 2030 and envisages a substantial reduction in the use of fossil fuels, with 96 percent of electricity generated from carbon-neutral sources by 2050 and the complete elimination of coal-fired power generation by 2040 (it now accounts for about 60 percent of overall electricity generation). The strategy also envisages more investment to improve energy efficiency and efficiency in the use of natural resources in all sectors (notably industry, construction, and transport), with the scope to reduce energy consumption by 35 percent by 2050.[11]

34. Achieving this objective will require strengthening the governance framework of climate related policies. The level of complexity and urgency posed by climate change calls for a "whole of government" approach, that better coordinates across the several levels of jurisdictions involved in climate action and ensures consistency across all national and sectoral climate related actions (World Bank, *Climate Change and Development Report*, 2022). The effective implementation of the Long-Term Low Carbon Strategy would require a new institutional governance framework, to i) ensure that all climate related policies at the national and territorial levels are aligned with the programs and objectives of the Strategy, ii) monitor progress and evaluate results and iii) make the necessary adjustments. The new Strategy envisages an extension of the responsibilities of the National Commission on Climate Change and Biodiversity to enable it to steer and monitor the Strategy. To this end, it is important that this commission be given all the support and tools needed to manage the difficult tradeoffs associated with climate policy choices.

35. The reform of the distribution of electricity and water promises to improve efficiency and reduce geographical inequalities in this sector. Legislation has been approved in 2023 that advances the gradual introduction of regional multiservice companies (*Sociétés Régionales Multiservices,* SRM) for the distribution of electricity and potable water and the collection and treatment of wastewater in each of the 12 administrative regions of Morocco. Currently, these services are provided by a multitude of players across municipalities, including municipal public utilities, private concessionaries, and ONEE. Thanks to their regional dimension, SRMs could capture some of the economies of scale available in the sector, improve the quality of services, and mitigate the significant disparities between urban and rural areas. While the governance of these companies could evolve over time (initially they are expected to be 100 percent public, but with the possibility to include private companies in their capital), it is important that the delegation contracts defining their mandate support a clear indication of minimum service standards and allow self-producers and private producers of renewable energy to access electricity distribution networks.

Authorities' Views

36. The authorities emphasized their commitment to improve water supply and efficiency and to overhaul the electricity sector. On water tariffs, the strategic study on the cost of water has started in November 2023 and will focus on the tariff system and proposals on how to improve it with a view to recovering the cost of water. The introduction of SRMs will make it possible to create economically viable and solvent regional structures, allowing the mobilization of financing to meet the various investment and operating expenses associated to a better management of distribution services. The decision to power all desalination plants with renewable energy should help ensure that costs and thus water tariffs will remain low. Overall, the authorities noted that the coordination

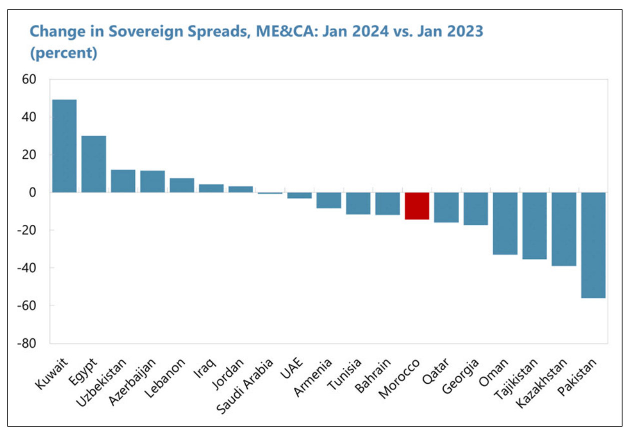
[11] The National Climate Plan 2030, underlying Morocco's current NDC, was aiming to achieve a 52 percent of installed electrical capacity from renewable sources in 2030 and reduce energy consumption by 20 percent by then.

of the national energy strategy is also ensured by the participation of different ministries to the National Commission for Sustainable Development, chaired by the Head of Government.

FCL REVIEW OF QUALIFICATION

37. Morocco continues to meet the FCL qualification criteria. Morocco continues to display a sustained track record of implementing very strong policies, and there are no substantive changes in the nine qualification criteria since the FCL request in April 2023 (Text Table). In particular:

- ***Sustainable external position***. The 2023 External Sector Assessment (ESA) assessed the external position in 2023 to be "moderately stronger" than the level implied by medium-term fundamentals and desirable policies (Annex II). At the end of 2022, the external debt was about 50 percent of GDP, on a slight increasing trend over the last decade, and is projected to stabilize at around that level in the medium term as lower government debt due to fiscal consolidation is replaced by higher private sector debt as the structural reforms take hold (Annex V).
- ***Capital account position dominated by private flows***. Private capital flows are estimated to represent the largest share of the capital account, averaging about 55 percent of total flows between 2020 and 2023. FDIs and loans have been among the largest components of these flows and are expected to pick up in the medium term as Morocco continues to implement its private sector growth-friendly reforms.
- ***Track record of steady sovereign access to international capital markets at favorable terms.*** The sovereign bond spread fell significantly in 2023, more than in many other countries in the region. As shown by the successful USD 2.5 billion issuance on international markets in March 2023, Morocco continues to attract high demand from international investors when it taps foreign savings. The public sector (central government and SOEs) did not lose market access at any point in the last 12 months and raised a total of US$9 billion (more than 7 times Morocco's quota at the Fund) in international markets over the last 5 years (2019-2023).



- ***A relatively comfortable reserve position.*** As of December 2023, international reserves are estimated at 122 percent of the adjusted ARA metric, having averaged about 124 percent over the previous three years (2021-2023).[12] As ratio of both adjusted and unadjusted ARA, international reserves never fell below 80 percent in any of the last three years (2021-2023).

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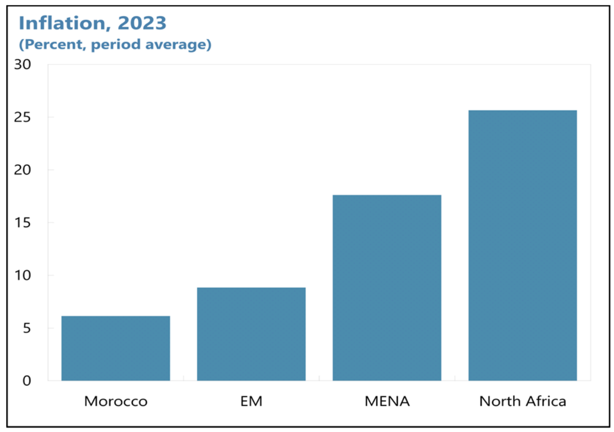
[12] Staff is using the adjusted ARA metric because of capital controls on residents. Other metrics such as the reserves to imports ratios, and coverage of ST debt remain at a very comfortable levels (Table 5) over the past three years. As

(Continued…)

- ***Sound public finances, including a sustainable public debt position***. While the central government debt-to-GDP ratio was still above 70 percent at the end of 2023,[13] staff assesses that public debt is sustainable with high probability (Annex IV). This is due to several key mitigating factors, including i) the relatively small share in foreign-currency denominated debt (about a quarter), ii) the large base of domestic institutional investors (more than three quarters of the public debt is held by domestic banks, mutual funds, life insurance companies and pension funds); iii) the relatively long average maturity (about 6 years and 10 months as of mid-2023, two months higher than at end-2022) and iv) the high share in fixed rates (about 90 percent). The 2024 MTFF, which introduced for the first time a section on debt sustainability, states the authorities' intention to reduce the debt-to-GDP ratio to 68.5 percent in 2026 and to 65 percent by 2030.

- ***Low and stable inflation in the context of a sound monetary and exchange rate policy framework***. Average annual inflation remained in single digits in each of the years between 2018 and 2023 and while it has risen because of global shocks and droughts, it has remained below regional and EMs averages. BAM has appropriately increased policy interest rates between September 2022 and March 2023 to signal its determination to keep high inflation from becoming more entrenched.



- ***Sound financial system and absence of solvency problems that may threaten systemic stability***. Moroccan banks have capital above minimum requirements and high profitability, boosted by stable and low-cost funding. Systemic risks to the financial system seem limited and the concurrent Article IV consultation did not highlight significant solvency risks or recapitalization needs. As of June 2023, aggregate capital adequacy ratios were 15.8 percent for the solvency ratio and 12.9 percent for the Tier 1 capital ratio, exceeding the regulatory minimums of 12 and 9 percent, respectively. Liquidity buffers continue to be above the regulatory requirement. BAM's latest stress tests, conducted in December 2023, showed that the banking system can withstand severe shocks. Even if the expansion of Moroccan banks into Africa exposes them to changing economic conditions in that region, it has so far represented more of an opportunity for diversification and profit generation.

- ***Effective financial sector supervision.*** BAM has made good progress in implementing Basel III requirements, including by adopting new regulations (notably an ICAAP and an IRRBB directive)

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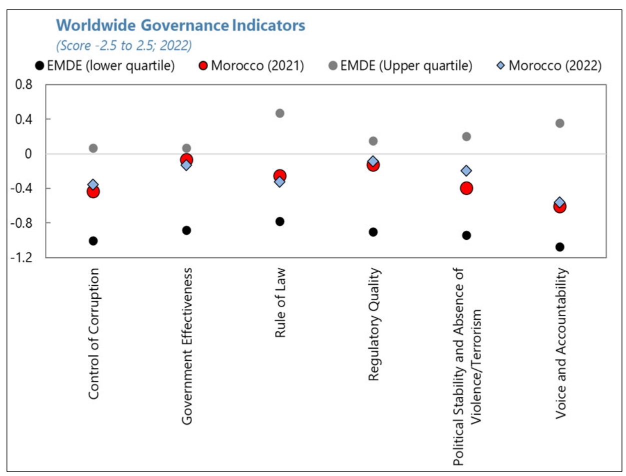
a percent of unadjusted ARA, international reserves were 95 percent on average over 2021-2023 and an estimated 94 percent in 2023.

[13] The *general government* debt ratio was lower at an estimated 65.3 percent of GDP at the end of 2023, mainly as it nets out the Treasury bonds held by Morocco's public pension funds (about 15 percent of GDP).

and by strengthening its supervisory tools (redesigning its risk rating system as part of its gradual transition to a full SREP-like approach). In addition, the concurrent Article IV consultation did not raise substantial concerns regarding the supervisory framework. The oversight of Moroccan banks expanding into Africa has intensified, in close collaboration with host country supervisory agencies. Progress has continued in strengthening the AML/CFT framework after Morocco exited the FAFT grey list in February 2023, particularly with the preparation of a draft law on crypto assets that better defines these assets, increases investors' protection, and regulates their governance and operationalization (including forbidding their use as means of payment) in line with international institution guidelines.

- ***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 the SDDS publication timeliness requirement for labor market data (employment and unemployment), the Consumer Price Index, and merchandise trade.

38. Morocco continues to show very strong macroeconomic policies and institutional policy frameworks. Morocco's commitment to macro stability and its ability to effectively respond to shocks thanks to its very strong institutional policy frameworks have been confirmed over the past year, with the authorities judiciously steering the economy in the face of the earthquake and water stress while continuing to implement the structural reform agenda. The quality of macroeconomic institutions pertinent to FCL qualification is very strong, although reform efforts need to continue, particularly regarding the fight against corruption and anticompetitive practices. Informed by findings in the concurrent AIV consultation, staff concludes that the severity of governance and corruption vulnerabilities do not hamper Morocco's ability to respond to shocks at this stage. World Governance Indicator data for 2022 shows that there has been no significant change in Morocco's institutional strength relative to the time of approval of the FCL arrangement (when staff used 2021 data).



39. The authorities intend to continue treating the FCL arrangement as precautionary and to gradually exit it, depending on the evolution of external risks. Morocco's two-year arrangement under the FCL was approved on April 3, 2023, in the amount of SDR 3.7262 billion

Table 1. Morocco: Summary of Relevant Core Indicators for FCL Qualification Criteria 1/		
Qualification Criteria	**2023 FCL Request**	**2024 FCL Mid-Term review**
1. Sustainable external position *(EBA assessment at least "moderately weaker")*	Broadly in line	Moderately stronger
2. Capital account position dominated by private flows *(share of private flows in total capital flows>50 percent, on average over the last three years)*	52 percent	55 percent
3. Track record of steady sovereign access to international capital markets at favorable terms. *(international bond issuance, cumulative amount during the last 5 years>50 percent of country's quota at the Fund)*	549 percent	765 percent
4. Comfortable reserve position *(reserves>100 percent of ARA metric, on average over three (the current and the two previous) years and not below 80 percent in any of these three years.*	Reserves averaged 133 percent of the adjusted ARA metric for period 2020-2022, never below 80 percent in any of those three years	Reserves averaged 124 percent of the adjusted ARA metric for period 2021-2023, never below 80 percent in any of those three years
5. Sound public finances *(debt sustainable with high probability)*	Debt is sustainable with high probability	Debt is sustainable with high probability
6. Low and stable inflation in the context of a sound monetary and exchange rate policy framework *(inflation in single digits in the last 5 years preceding qualification)*	Average inflation was at single digit for each year between 2018 and 2022	Average inflation was 6.1 percent in 2023
7. Sound financial system and absence of solvency problems that could threaten systemic stability *(the average capital adequacy ratio for the banking sector>regulatory thresholds; no significant solvency risks or recapitalization needs)*	Tier 1 capital ratio stood at 11.8 percent, no significant solvency risks, or recapitalization needs	Tier 1 capital ratio stood at 12.9 percent, no significant solvency risks, or recapitalization needs
8. Effective financial sector supervision *(no substantial concerns regarding the supervisory framework)*	No substantial concern in supervisory framework	No substantial concern in supervisory framework
9. Data transparency and integrity *(an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements)*	SDDS subscriber	SDDS subscriber
1/ Reported indicators are those available at the time of the request and review, respectively.		

(About 417 percent of quota, or US$5 billion). While the tail risks identified at the time of approval did not materialize, the FCL has served as an important precautionary buffer, helping the authorities to pursue very strong macroeconomic policies and ambitious structural reforms amid new adverse shocks. Reflecting the still elevated risks arising from current geopolitical tensions, staff estimates show a level of external stress that remains significant (although lower than at the time of the FCL request) (Annex 1). Also considering the risks associated with the impact of climate change on Morocco's economy, the authorities intend to maintain the current level of access at this review.

THE RSF ARRANGEMENT

40. Four of the five reform measures (RM) scheduled for this review have been implemented:

- RM3: in January 2024, Morocco's Energy regulator (ANRE) published the national electricity system's capacity to receive electricity from renewable sources over the next five years (2024 – 2028). In February 2024, ANRE published the tariffs for the utilization of the national electricity transmission network and the system service fees for the period 2024-2026.[14] This will help establish a more transparent framework on the true costs for accessing the electricity grid and thus boost private sector's production of clean (solar and wind) electricity for private customers and distributors.
- RM11: A ministerial decree was issued in February 2024 with the details on the gradual removal of the current subsidy on gas butane starting from April, in line with the projections contained in the 2024 Budget Law and the 2024-2026 Medium-Term Fiscal Framework.
- RM12: The impact of RM11 on the most vulnerable will be cushioned by the extension of cash transfers to families with income below a certain threshold, which began in December 2023. Moreover, a convention between the Ministry of Economy and Finance and the Ministry of Agriculture was signed in February 2024 that introduced subsidies for farmers who replace gas butane with solar pumps for irrigation purposes.[15]
- RM13. The Government Council approved in February 2024 the draft decree presented by the Ministry of Economy and Finance, which modifies the legislation on insurance against natural disasters by adding a clause on the definition of catastrophic events and introducing an hourly limit for the aggregation of damage within a single catastrophic event (so that, if a catastrophe lasts longer than the period defined by the clause, it will be considered as a different

[14] https://anre.ma/en/actualites/anre-approves-and-publishes-the-national-power-system-hosting-capacity-for-2024-2028/; and https://anre.ma/en/actualites/lanre-fixe-le-tarif-dutilisation-du-reseau-electrique-national-de-transport-turt-et-le-tarif-des-services-systeme-tss-periode-1er-mars-2024-au-28-fevrier-2027

[15] The convention envisages a state subsidy to 30 percent of the cost of purchasing and installing the solar pumping kit, capped at 3,000 dirhams (or about 300 US dollars) per irrigated hectares and 3,000 dirhams per Kilowatt peak installed, with a maximum of 30,000 dirhams (or about 3000 US dollars) per project. The convention has a total budget envelope of 153 million of dirham and targets a total agricultural surface of 51,000 hectares in the country.

catastrophic events).[16] This would enable international reinsurers to better assess their exposure to this type of risks.

41. The authorities postponed RM10 to the third review and proposed to bring forward RM7 to the second review. The planned gradual increase in the VAT on fossil fuels was not implemented, due to concerns about its impact on the population at a time of still high inflation, the reduction of subsidies, and weak labor markets. While understanding the reasons behind the authorities' decision, staff recommended postponing the gradual increase of the VAT on fossil fuels in 2025, when inflation abates and the impact on the most vulnerable of the reduction of subsidies and their replacement with cash transfers will become clearer. Moreover, the authorities proposed to bring forward to the second review the reform measure on the changes to the legal framework for energy efficiency (RM7), given the progress in implementing it. Staff supports this proposal.

PROGRAM MODALITIES

42. Morocco's capacity to repay the Fund remains adequate in the medium to long run. The FCL arrangement is assessed as sufficient to address the financing needs that could arise during the arrangement period, and the Fund exposure is moderate. Outstanding Fund credit is projected to peak at 4 percent of GDP or 10 percent of exports (of goods and services) in 2024 under the adverse scenario (Table 10a). Meanwhile, Morocco's current and prospective obligations to the Fund are broadly comparable to that of other GRA debtors (Table 10b), fluctuating around the median in percent of government revenue and exports while well below the median in percent of public external debt services.

Financing Gap and Sources of Financing
(Billions of U.S. dollars, unless otherwise specified)

	2023	2024	2025
Current account balance	**-2.0**	**-3.8**	**-4.5**
(in percent of GDP)	*-1.4%*	*-2.5%*	*-2.8%*
Balance of goods and services	-11.9	-13.4	-14.1
Balance on primary income	-2.8	-3.2	-3.4
Balance on secondary income	12.8	12.8	13.1
Capital account, net	**0.0**	**0.0**	**0.0**
Financial account, net (without RSF)	**4.6**	**5.6**	**6.3**
Financial account, net (with RSF)	*4.6*	*4.9*	*5.7*
Direct investment, net	0.2	1.3	1.6
Portfolio investment, net	2.6	1.0	2.2
Other investment, net (without RSF)	1.8	3.3	2.4
Overall balance (1)	**2.6**	**1.9**	**1.8**
Change in gross official reserves (increase: -, without RSF) (2)	-2.6	-1.9	-1.8
Financing gap (1+2)	**0.0**	**0.0**	**0.0**
(in percent of GDP)	0.0%	0.0%	0.0%
RSF disbursement	0.0	0.8	0.6
Change in official reserves (increase: -, with RSF)	-2.6	-1.9	-1.8

43. Risks to implementation of the RSF arrangement are still assessed to be small, despite the delay in implementing RM10. Further geopolitical tensions and new terms-of-trade shocks may complicate Morocco's planned transition to a more resilient and greener economy. These risks, which are common to all countries, are moderated by 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, which motivated the approval of an FCL arrangement in April 2023.With the postponement of the implementation of RM10 to the third and final review, the disbursement under the completion of first review falls from SDR 312.5 million (35 percent of quota) to 250 million (28 percent of quota). Also considering the authorities' request to bring forward RM7 to the second review, the disbursement under the second review

[16] Réunion du Conseil du gouvernement du jeudi 15 février 2024 | Chef du Gouvernement - Royaume du Maroc (cg.gov.ma)

would increase from SDR 250 million (28 percent of quota) to SDR 312.5 million (35 percent of quota), while the disbursement under the third review would remain unchanged.

44. Safeguards procedures were completed for the 2023 FCL arrangement with no significant issue identified. Deloitte Morocco, BAM's external auditor, issued an unmodified (clean) audit opinion on BAM's financial statements for 2022, which were published on the central bank's website in a timely manner. Staff reviewed the 2022 audit results and held discussions with the external auditor. No significant issues emerged from the conduct of these procedures.

STAFF APPRAISAL

45. The Moroccan economy continued to show resilience to negative shocks in 2023. Despite water scarcity (that led to severe job losses in the agricultural sector), the September 2023 earthquake, and more challenging external conditions, economic activity picked up to 3 percent in 2023 thanks to strong tourism and automotive exports and a rebound of domestic demand. GDP growth is expected to gradually pick up to 3½ percent over the next few years, assuming a stabilization of agricultural production (aided by the greater investments in water infrastructure) and continued implementation of the structural reform agenda, while the current account deficit is projected to widen toward its estimated norm of 3 percent of GDP. The 2023 ESA assessed the external position in 2023 to be "moderately stronger" than the level implied by medium-term fundamentals and desirable policies. Risks to this outlook are tilted to the downside, as further droughts may continue to undermine the agricultural sector and a worsening of geopolitical tensions may hinder exports and investment prospects. However, a faster implementation of structural reforms poses upside risks.

46. The sharp fall of inflation suggests that the current monetary policy stance is appropriate. Inflation and inflation expectations moderated over the course of 2023, mainly as the impact of supply shocks faded. This justified BAM's pausing the interest rate tightening cycle in June last year, after three consecutive increases from September 2022. Staff expects inflation to keep falling, but upside risks from more persistent pressure on food prices suggests that future changes to monetary policy stance will need to remain data dependent. As the decline of inflation continues, BAM should resume its transition towards an inflation-targeting regime and remove the exchange rate peg.

47. The authorities are continuing to strengthen the financial supervisory and regulatory framework. The introduction of capital surcharges for domestically systemically important banks reinforces the resilience of the banking sector. Good progress was made in developing a secondary market for NPLs and in strengthening the resolution framework. The authorities are continuing their efforts to develop the guidelines for gathering data and indicators on climate change-related risks for banks and to prepare the national green financial strategy that will estimate the funding needs of Morocco's planned green transition.

48. The 2024 Budget effectively balances the need to rebuild fiscal buffers while financing structural reforms. The fiscal deficit should gradually decline to 3.3 percent of GDP in 2026, on the back of a rationalization of spending. This also entails a significant reallocation of expenditure from subsidies to more targeted cash transfers and investments in priority sectors (health, education, water, and energy). Nonetheless, further efforts may be needed to ensure and possibly accelerate the reduction of public debt over the medium term, including completing the VAT reform, further expanding the tax base through better revenue administration, continuing to reduce butane subsidies, and fully linking social programs to the RSU. Given the expected greater reliance on PPPs to satisfy the large investment needs and on the mobilization of government real assets to boost fiscal revenues, reporting their budgetary implications and potential risks in the MTFF would ensure transparency and strengthen markets' confidence in the authorities' commitment to fiscal stability.

49. Staff commends the authorities' commitment to implement a vast program of structural reforms, which are essential to make growth stronger and more inclusive. Reducing unemployment and creating sustainable jobs hinges on the development of a dynamic and robust private sector. This requires accelerating the reform of the SOE sector, the operationalization of the Mohammed VI Fund and new Charter of Investment, and the rationalization of the authorities' policies to support entrepreneurship, as well as continued progress in fighting anticompetitive practices and corruption. The generalization of the social protection system is necessary to improve inclusion and help mitigate the social impact of shocks, while the reform of the health care sector is needed to improve the quality and efficiency of services, while containing costs. Advancing the reform of the education sector is key to improve human capital in the long term, while more efforts are needed to reduce the large and widening gender inequality in labor markets. Reducing water scarcity through the announced infrastructure plan is key, although this effort needs to be followed by improved demand management, including a revision of tariffs. Finally, good progress has been made in preparing the country to tap into its large potential of renewable energy, which requires continuing to liberalize the electricity market.

50. Staff's view is that Morocco continues to meet the qualifications criteria for the FCL arrangement. Morocco has very strong macroeconomic policies and institutional policy frameworks as well as very strong economic fundamentals. The authorities have a very strong track record of policy implementation including prudent policy settings and have reiterated their commitment to maintaining very strong policies. Considering the very positive assessment of the member's policies by the Executive Board in the context of the 2022 Article IV consultation, and staff's very positive assessment in the concurrent Article IV consultation, staff recommends completion of the review under the FCL arrangement.

51. The RSF arrangement is off to a good start, although the implementation of one measure was postponed. Four of the five measures for this review were implemented, that advance the liberalization of the electricity market and facilitate private investors investment into RE, start removing subsidies on gas butane while protecting consumers and helping farmers switch to cleaner forms of energy for irrigation purposes, and reinforce the legislation on catastrophic risks. The authorities decided to postpone the planned increase of VAT on fossil fuels to the third review when inflation (particularly pressures on food prices) is expected to be lower, labor markets stronger, and the impact of the replacement of subsidies with cash transfers clearer. The authorities also proposed to bring forward to the second review the reform measure involving changes to the legal framework for energy efficiency, given the progress in implementing it. Staff supports this proposal.

52. The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.

Table 2. Morocco: Timeline of the RSF Reviews and Reform Measures Completion

	September 2023 RSF Approval	FCL Mid-Term Review Board Date: March 2024 RSF 1st Review	Board Date: November 2024 RSF 2nd Review	Board Date: March 2025 RSF 3rd Review
Pillar 1: **Tackling Water Scarcity**				**RM1.** The Ministry of Water and Equipment will : (i) submit to the Inter-Ministerial Water Commission a study that assesses the **actual cost of water** and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. (ii) adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the **protection of groundwater** resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close or distant protection perimeters).
Pillar 2: **Reforming Morocco's Electricity Market**		**RM3.** ANRE will publish the **tariffs** for the utilization of the national **electricity transmission** network and the system service fees and the **capacity of the grid** to **receive** electricity from renewable sources. **Implemented.**	**RM5.** The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (**law 48-15, 40-19, and 82-21**) (in addition to the two decrees envisaged under the EU Energy Verte program). **RM6.** ANRE will approve and publish i) **quality indicators** to be met by the national transmission grid in terms of **safety, reliability, and efficiency**, to be updated regularly, and ii) the code of good conduct for the **Transmission System Operator (TSO)**.	**RM2.** ANRE will approve the proposal presented by **ONEE** on the **unbundling** of its **transmission financial accounts**. **RM4.** ANRE will publish the **tariffs** for the **access** of RE producers to the **medium voltage** electricity distribution network.
Pillar 3: **Improving Energy Efficiency**			**RM7.** The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the **labeling and minimum efficiency standards** for a series of products; ii) preparing a similar ministerial decree on **lighting products.** iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); iv) prepare a study and regulatory texts on **lowering the threshold of energy consumption** associated with the obligatory audit. **Proposed to be moved to 2nd review from 3rd review**	

Table 2. Morocco: Timeline of the RSF Reviews and Reform Measures Completion (concluded)

Pillar	Measures		
Pillar 4: Integrating Climate into Fiscal Planning and Transfer System	**RM10.** The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing **brown tax expenditure** by increasing the tax rate on polluting fuels products. **Not implemented. Expected to be implemented with delay in the context of the third review.** **RM11.** The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on **gas butane,** starting from 2024. **Implemented.** **RM12.** The Ministry of Economy and Finance will **mitigate the impact** on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation. **Implemented.**		**RM8.** The Ministry of Economy and Finance will publish on a regular basis, starting with the Document de programmation budgétaire triennale accompanying the 2025 Budget Law, an analysis of **debt sustainability** that will include the **impact of climate** change, with technical assistance from the Fund. **RM9.** The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a **carbon tax**, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.
Pillar 5: Strengthening Preparedness to Natural Disasters	**RM13.** The Ministry of Economy and Finance will complete the legal framework for the coverage against the **risks of natural disasters** by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events. **Implemented.**		
Pillar 6: Greening Morocco's Financial System		**RM14.** The Ministry of Economy and Finance, BAM and the Capital Market and Insurance regulators will adopt and publish a **National Climate Finance Strategy** that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector. **RM15.** The Ministry of Economy and Finance will advance in **greening the national support** system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	**RM16.** BAM will issue **supervisory guidelines** on disclosure and reporting for **banks** in relation to **climate risks**, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.

Table 3. Morocco: RSF Reform Measures				
RM #	Reform measures (RM)	Availability Dates	Reviews	Status
1	The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study that assesses the actual cost of water and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Water and Equipment will also adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the protection of groundwater resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close, or distant protection perimeters).	25-Feb	3	
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	25-Feb	3	
3	ANRE will publish the tariffs for the utilization of the national electricity transmission network and the system service fees (by Oct 2023) and the capacity of the grid to receive electricity from renewable sources.	24-Feb	1	Implemented
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	25-Feb	3	
5	The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (law 48-15, 40-19, and 82-21) (in addition to the two decrees envisaged under the EU *Energy Verte* program).	24-Sep	2	
6	ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the code of good conduct for the Transmission System Operator.	24-Sep	2	
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); and iv) prepare a study and regulatory texts on lowering the threshold of energy consumption associated with the obligatory audit.	24-Sep	2	Proposed to be moved to 2nd review from 3rd review
8	The Ministry of Economy and Finance will publish on a regular basis, starting with the *Document de programmation budgétaire triennale* accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with technical assistance from the Fund.	25-Feb	3	
9	The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a carbon tax, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	25-Feb	3	

Table 3. Morocco: RSF Reform Measures (Concluded)				
10	The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure by increasing the tax rate on polluting fuels products.	24-Feb	1	Not implemented. Expected to be implemented with delay in the context of the third review
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	24-Feb	1	Implemented
12	The Ministry of Economy and Finance will mitigate the impact on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.	24-Feb	1	Implemented
13	The Ministry of Economy and Finance will complete the legal framework for the coverage against the risks of natural disasters by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.	24-Feb	1	Implemented
14	The Ministry of Economy and Finance, BAM, and the Capital Market and Insurance regulators will adopt and publish a National Climate Finance Strategy that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector.	24-Sep	2	
15	The Ministry of Economy and Finance will advance in greening the national support system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	24-Sep	2	
16	BAM will issue supervisory guidelines on disclosure and reporting for banks in relation to climate risks, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.	25-Feb	3	

Table 4. Morocco: Access and Phasing Under the RSF Arrangement

		Current			Proposed		
Review #	Availability Dates[3]	Number of RMs per Review	Quota	SDR (Million)[4]	Number of RMs per Review	Quota	SDR (Million)[4]
1	24-Feb	5[1]	35%	312.5	5[1]	35%	312.5
2	24-Sep	4	28%	250	5[2]	35%	312.5
3	25-Feb	7	49%	437.5	6	42%	375
Total		**16**	**112%**	**1000**	**16**	**112%**	**1000**

Source: IMF staff.

1. RM10 was initially scheduled for the 1st review but it is expected to be implemented with delay at the time of the 3rd review, thereby reducing the disbursements for the first RSF review by SDR 62.5 million. If RM10 is implemented in the context of the 3rd review, the disbursement of SDR 62.5 million will be made then.

2. RM7 is proposed to be moved to 2nd review from 3rd review.

3. All the availability dates are on 15th of each month.

4. Morocco's quota in millions of SDRs: 894.4

Table 5. Morocco: Schedule of Disbursements and RMs Availability Dates Under the RSF

RM	Availability Dates[2]	Percent of Quota	SDR (Million)[1]	Status	Conditions for Access
1	February-25	6.99%	62.5		Completion of RSF review of reform measures 1 implementation
2	February-25	6.99%	62.5		Completion of RSF review of reform measures 2 implementation
3	February-24	6.99%	62.5	Implemented	Completion of RSF review of reform measures 3 implementation
4	February-25	6.99%	62.5		Completion of RSF review of reform measures 4 implementation
5	September-24	6.99%	62.5		Completion of RSF review of reform measures 5 implementation
6	September-24	6.99%	62.5		Completion of RSF review of reform measures 6 implementation
7	September-24	6.99%	62.5	Proposed to be moved to 2nd review from 3rd review	Completion of RSF review of reform measures 7 implementation
8	February-25	6.99%	62.5		Completion of RSF review of reform measures 8 implementation
9	February-25	6.99%	62.5		Completion of RSF review of reform measures 9 implementation
10	February-24	6.99%	62.5	Not Implemented. Delayed	Completion of RSF review of reform measures 10 implementation
11	February-24	6.99%	62.5	Implemented	Completion of RSF review of reform measures 11 implementation
12	February-24	6.99%	62.5	Implemented	Completion of RSF review of reform measures 12 implementation
13	February-24	6.99%	62.5	Implemented	Completion of RSF review of reform measures 13 implementation
14	September-24	6.99%	62.5		Completion of RSF review of reform measures 14 implementation
15	September-24	6.99%	62.5		Completion of RSF review of reform measures 15 implementation
16	February-25	6.99%	62.5		Completion of RSF review of reform measures 16 implementation
	Total	**112%**	**1000**		

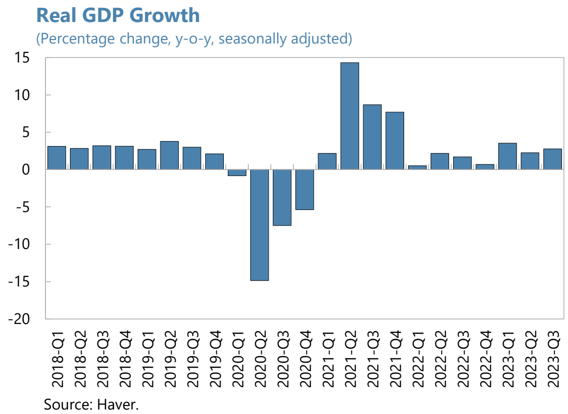
Source: IMF staff estimates

1. Morocco's quota in millions of SDRs 894.4 [Morocco and the IMF]

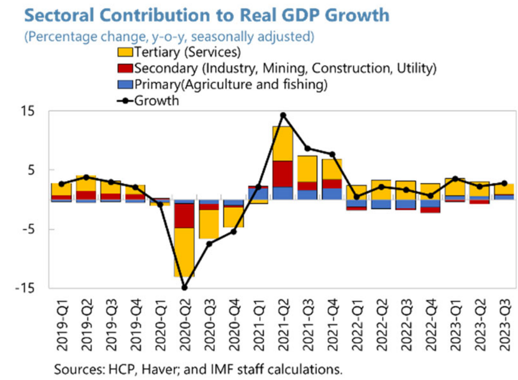
2. All the availability dates are on 15th of each month.

Figure 1. Morocco: Real Sector Developments

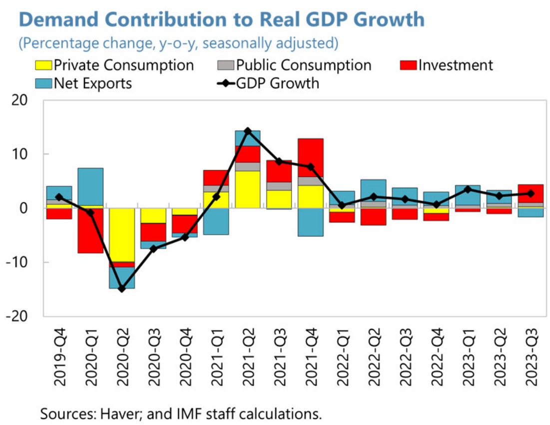
Real GDP growth has accelerated to about 3 percent in 2023…



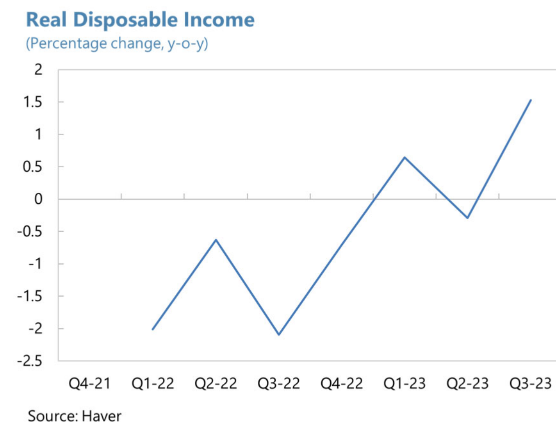
… thanks to solid growth in services sector and a modest rebound of agricultural sector from 2022.



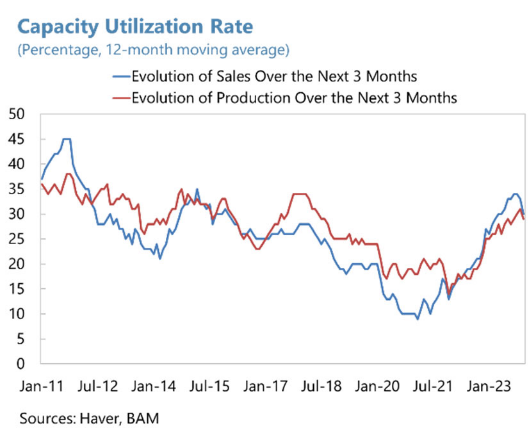
GDP growth in 2023 was driven by a rebound in domestic demand, particularly investment.



Real disposable income has increased in 2023 thanks to lower inflation and fiscal support.



Business sentiment has improved since the pandemic lows…



…while household confidence remains weak.

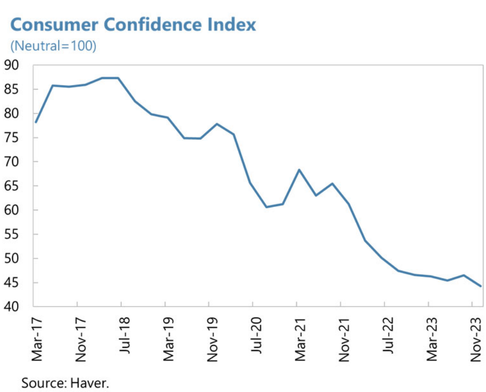
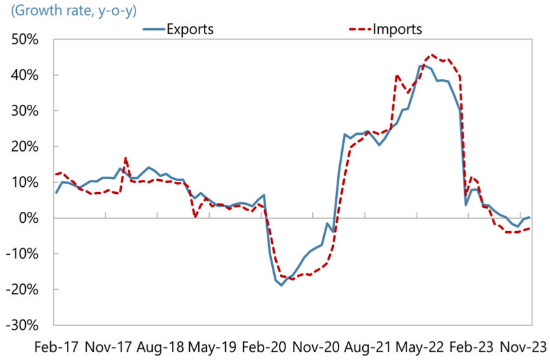


Figure 2. Morocco: External Developments

The trade balance has improved in 2023 as import growth fell more than export growth.

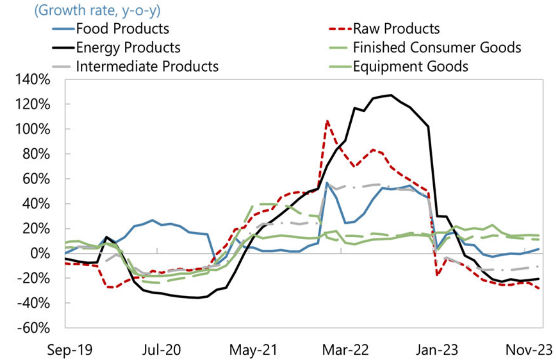
Goods Trade
(Growth rate, y-o-y)



Source: Office des Changes.

Lower commodity prices reduced imports of energy, raw, food, and intermediate products.

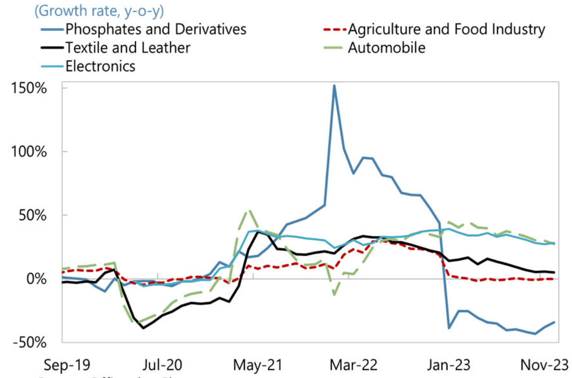
Goods Imports
(Growth rate, y-o-y)



Source: Office des Changes.

Export growth was strong for automobiles and electronics, while phosphate exports have declined.

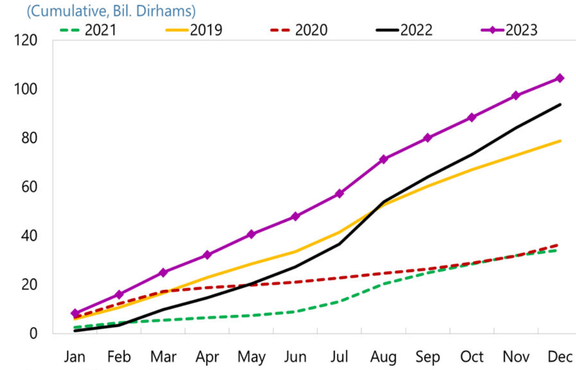
Goods Exports
(Growth rate, y-o-y)



Source: Office des Changes.

Tourism revenues were much stronger than last year and unaffected by the earthquake…

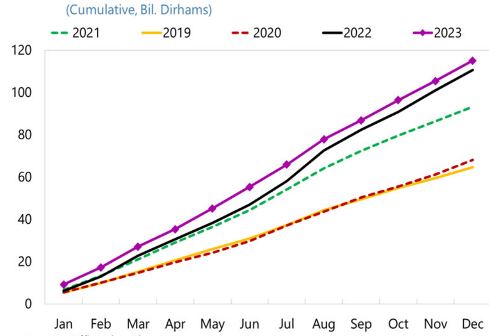
Tourism Revenues
(Cumulative, Bil. Dirhams)



Source: Office des Changes.

… while remittances have continued to increase.

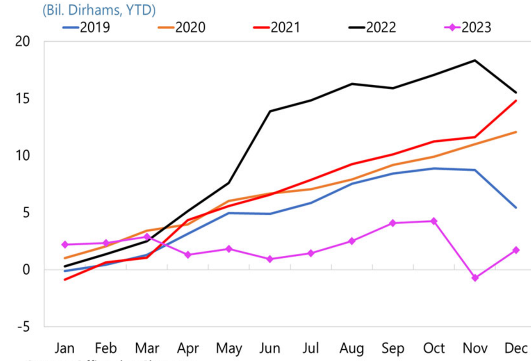
Remittances
(Cumulative, Bil. Dirhams)



Source: Office des Changes.

Net FDI was weak in 2023.

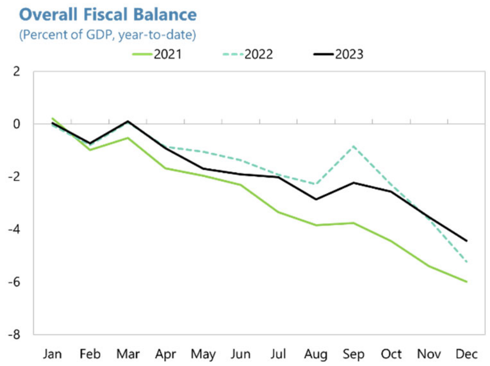
Net FDI
(Bil. Dirhams, YTD)



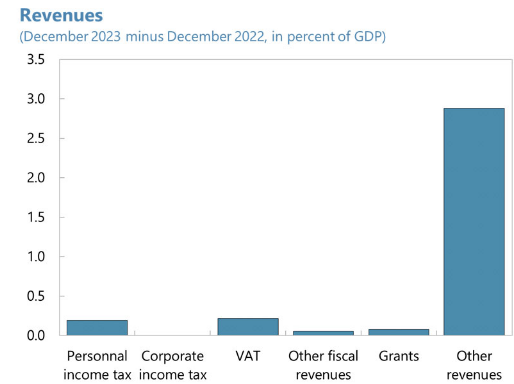
Source: Office des Changes.

Figure 3. Morocco: Fiscal Developments

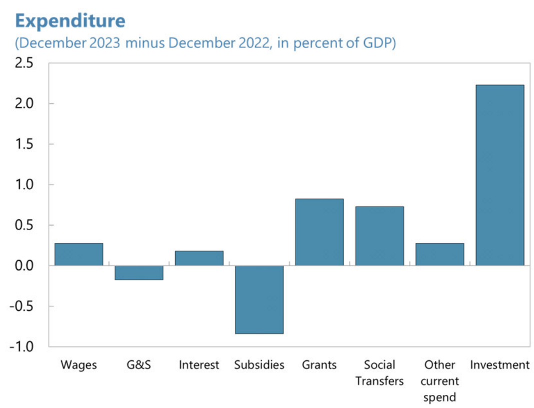
The fiscal deficit in December closed at 4.4 percent of GDP, better than projected in the 2023 budget.



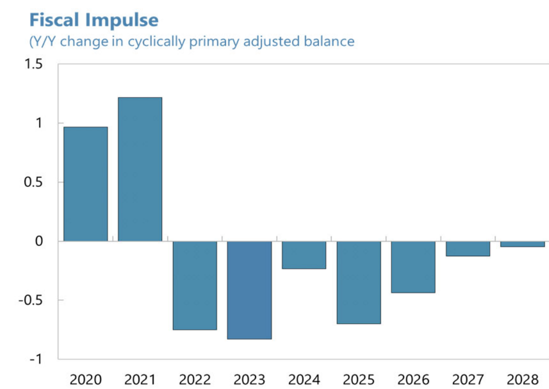
On the revenue side, "other non-fiscal revenues" soared, due to the earthquake fund.



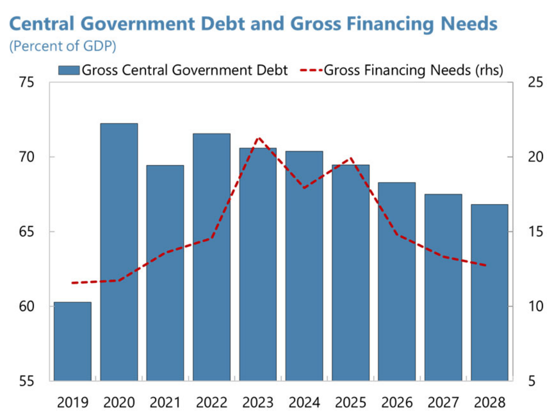
Subsidies were less expensive than in 2022, while capital spending accelerated (also due to weak levels last year).



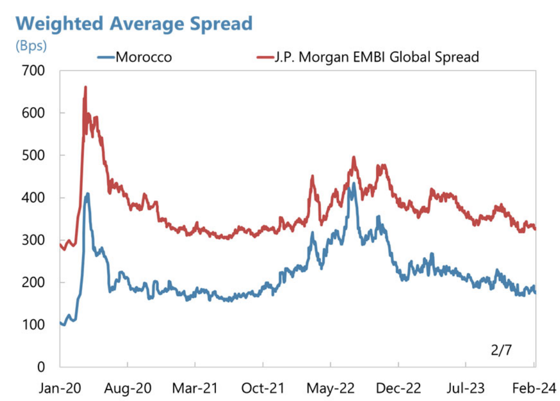
The authorities continued to remove the fiscal stimulus injected in 2020-2021.



Government debt is expected to fall very gradually.



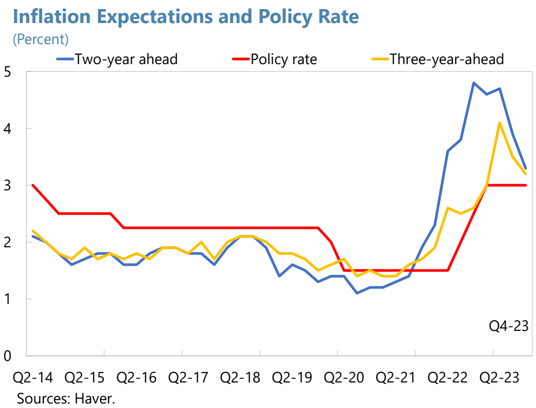
Sovereign spreads compressed in 2023 and continued to fall in 2024.



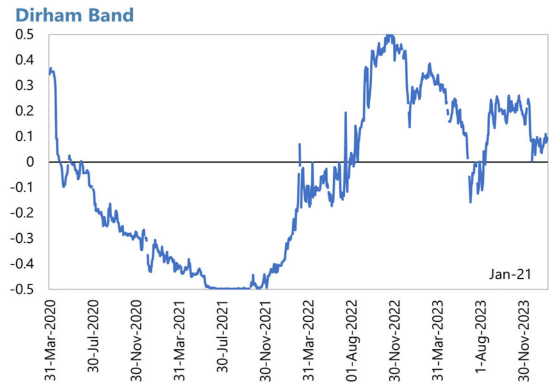
Source: Haver, National Authorities; Bloomberg L.P.; IMF Sovereign Debt Monitor; and IMF staff calculations.

Figure 4. Morocco: Monetary and Financial Developments

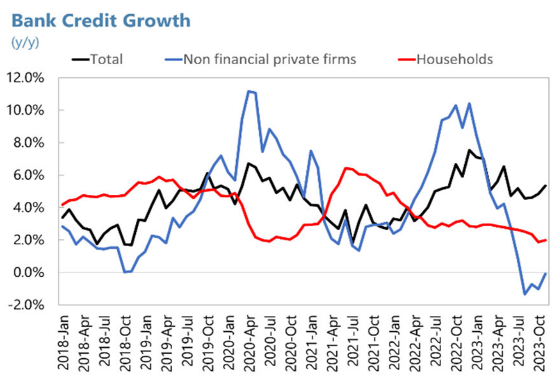
BAM kept its policy rate unchanged since March 2023.



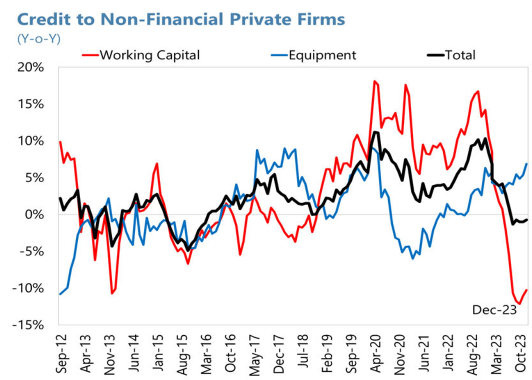
The dirham has appreciated towards the middle of the band in 2023.



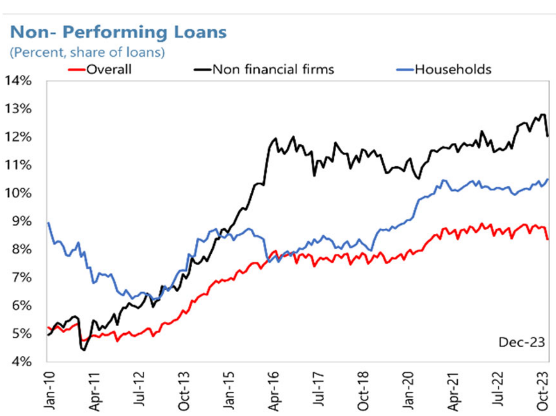
Growth of credit to the private sector slowed in 2023…



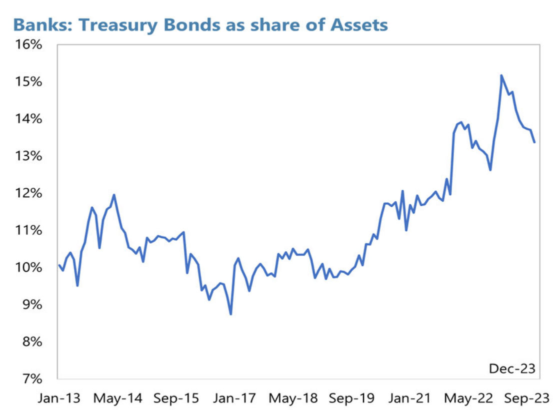
… mainly due to the sharp fall of short-term (working capital) lending to private non-financial firms.



NPLs for non-financial firms increased slightly in 2023.



Banks' holdings of Treasuries have fallen as share of assets in 2023 but remain above pre-pandemic levels.



Source: Haver, IMF staff calculations, BAM

Table 6. Morocco: Selected Economic Indicators, 2019-29

					Proj.						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(Annual percentage change)										
Output and Prices											
Real GDP	2.9	-7.2	8.0	1.3	3.0	3.1	3.3	3.4	3.4	3.4	3.4
Real agriculture GDP	-3.9	-7.1	19.0	-12.7	5.5	4.0	3.5	3.0	3.0	3.0	3.0
Real non-agriculture GDP	3.7	-7.2	6.8	3.0	2.7	3.0	3.3	3.4	3.4	3.4	3.4
Consumer prices (end of period)	1.1	-0.3	3.2	8.3	3.4	2.5	2.2	2.3	2.2	2.1	2.0
Consumer prices (period average)	0.2	0.7	1.4	6.6	6.1	2.2	2.5	2.4	2.2	2.1	2.0
Output gap (percentage points of non-agricultural GDP)	0.2	-6.5	-0.3	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment rate (end of period)	9.2	11.9	12.3	11.8	13.0	12.0	11.5	11.0	10.5	10.5	10.5
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	30.6	28.8	30.5	30.3	29.4	30.0	30.6	31.2	31.7	32.4	32.9
Of which: Nongovernment	24.9	20.5	23.3	22.4	21.0	22.9	24.0	25.1	25.9	26.5	27.0
Gross national savings	27.8	26.7	28.0	26.6	28.1	27.5	27.8	28.4	28.8	29.4	29.9
Of which: Nongovernment	30.5	34.6	34.0	32.0	32.5	31.8	31.6	31.6	31.9	32.4	32.9
	(In percent of GDP)										
Public Finances											
Revenue	23.8	27.0	25.3	28.7	28.5	28.2	27.5	26.9	26.6	26.5	26.3
Expenditure	27.4	34.1	31.3	34.1	33.0	32.5	31.2	30.1	29.7	29.5	29.3
Budget balance	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.2	-3.1	-3.1	-3.0
Cyclically-adjusted primary balance 1/	-1.7	-2.7	-3.9	-3.1	-2.3	-2.0	-1.3	-0.9	-0.7	-0.6	-0.5
Central government debt	60.3	72.2	69.5	71.6	70.6	70.4	69.4	68.2	67.5	66.8	66.1
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	5.6	4.9	3.8	7.1	5.3	4.5	4.1	4.1	4.2	4.2	4.2
Broad money	3.8	8.4	5.1	8.0	4.0	5.0	4.5	4.6	4.6	4.6	4.6
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	1.9	-15.0	26.0	24.4	5.6	3.9	4.8	5.1	4.4	3.9	4.5
Imports of goods and services (in U.S. dollars, percentage change)	-2.3	-14.5	30.3	22.4	0.1	5.3	4.9	4.6	4.3	3.8	3.9
Merchandise trade balance	-15.3	-12.8	-14.1	-20.2	-17.5	-18.1	-18.2	-18.0	-17.7	-17.7	-17.1
Current account	-3.4	-1.2	-2.3	-3.5	-1.4	-2.5	-2.8	-2.8	-2.9	-3.0	-3.0
Foreign direct investment	0.6	0.8	1.1	1.2	0.1	0.9	1.0	1.1	1.2	1.2	1.2
Total external debt	42.5	54.2	45.9	49.5	49.1	47.5	47.5	48.0	49.0	49.5	49.5
Gross reserves (in billions of U.S. dollars)	26.4	36.0	35.6	32.3	36.3	38.2	40.0	42.0	44.0	45.9	47.8
In months of next year imports of goods and services	6.9	7.2	5.8	5.3	5.6	5.6	5.6	5.7	5.7	5.7	6.8
In percent of Fund Assessing Reserve Adequacy (ARA)	86.9	109.3	100.4	90.4	94.5	95.3	94.5	93.8	93.1	92.5	92.2
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric 2/	113	143	133	118	122	123	122	121	119	119	118
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	128.9	121.4	141.8	130.9	144.0	152.4	161.4	170.9	180.1	189.7	199.8
Nominal GDP per capita (in U.S. dollars, percent change)	0.2	-6.8	15.7	-8.6	8.9	4.9	5.0	4.9	4.5	4.4	4.5
Population (millions)	35.6	35.95	36.31	36.67	37.0	37.4	37.7	38.1	38.4	38.7	39.0
Net imports of energy products (in billions of U.S. dollars)	-7.9	-5.3	-8.4	-15.1	-11.8	-11.8	-11.9	-12.0	-12.1	-12.2	-12.5
Local currency per U.S. dollar (period average)	9.6	9.5	9.0	10.2	10.1	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	0.8	0.8	0.7	-3.8	1.0	...	...	...	...	...	...
General Government Debt 3/	52.8	64.9	62.7	66.2	65.3	65.1	64.1	62.9	62.2	61.5	60.8
Interest rate (money market rate, end of period, in percent)	2.26	1.50	1.50	2.50	3.00	...	...	...	...	...	...

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

Table 7a. Morocco: Budgetary Central Government Finance, 2019-29

(Billions of dirhams)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Revenue	295.2	311.1	322.4	381.7	415.0	434.1	447.9	464.5	484.6	507.3	531.2
Taxes	246.9	230.8	251.0	291.3	307.0	318.9	336.3	356.8	375.1	394.8	415.4
Taxes on income, profits, and capital gains	97.8	95.8	93.4	114.5	119.0	119.0	127.7	135.2	142.5	150.0	158.0
Taxes on property	11.8	9.9	12.2	14.2	16.1	16.1	16.4	17.5	18.5	19.4	20.5
Taxes on goods and services	121.0	110.8	127.9	142.2	148.2	160.9	166.7	177.4	186.1	196.0	206.5
Taxes on international trade and transactions	10.2	9.9	12.4	14.5	16.4	16.0	17.8	18.8	19.7	20.5	21.3
Other taxes	6.1	4.3	5.2	5.9	6.6	6.3	7.1	7.3	7.7	8.1	8.6
Grants	2.8	5.0	1.5	1.5	2.6	1.9	1.5	1.5	1.5	1.5	1.5
Other revenue	45.5	75.4	69.9	88.9	105.5	113.4	110.2	106.2	108.0	111.0	114.2
Of which: Innovative Financing	7.2	0.3	11.9	25.1	25.4	35.0	35.0	35.0	33.0	32.0	31.0
Expense	286.9	328.6	327.2	380.2	393.8	425.1	437.4	448.6	467.8	489.3	511.0
Compensation of employees	131.4	133.5	140.5	147.8	151.8	161.6	167.6	173.1	181.9	191.6	201.8
Use of goods and services	31.2	33.1	45.1	36.2	35.3	37.1	34.5	34.2	36.4	38.3	40.4
Grants 1/	61.1	65.3	61.5	78.2	95.3	103.4	110.0	118.0	121.9	126.5	131.2
Subsidies	16.1	13.5	21.8	41.8	29.9	17.0	11.5	7.8	7.3	5.7	4.0
Social benefits	3.0	23.3	10.8	15.0	13.5	35.0	36.5	39.0	41.1	43.3	45.2
Interest	26.3	28.8	27.1	28.5	31.2	36.8	41.7	41.9	45.5	48.4	51.1
Other expenses 2/	17.9	31.0	20.4	32.7	36.7	34.3	35.6	34.6	33.7	35.4	37.3
Net acquisition of nonfinancial assets	52.3	64.9	71.5	73.1	85.7	75.0	72.2	71.1	72.8	76.6	80.7
Primary balance	-17.7	-53.6	-49.2	-43.1	-33.2	-29.2	-20.0	-13.3	-10.4	-10.2	-9.5
Overall balance	-44.0	-82.4	-76.3	-71.6	-64.4	-66.0	-61.7	-55.2	-56.0	-58.6	-60.5
Cyclical adjusted primary balance 3/	-21.2	-30.8	-49.6	-41.8	-33.6	-31.1	-21.5	-14.8	-11.9	-11.7	-11.0
Change in net financial worth	-44.0	-82.4	-76.3	-71.6	-64.4	-66.0	-61.7	-55.2	-56.0	-58.6	-60.5
Net acquisition of financial assets	-9.8	14.7	-8.7	-11.2	14.5	-8.1	-11.5	-8.5	-5.0	-5.0	-5.0
Domestic	-9.8	14.7	-8.7	-11.2	14.5	-8.1	-11.5	-8.5	-5.0	-5.0	-5.0
Shares and other equity	-5.3	0.0	-4.0	0.0	-1.6	-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	34.2	97.1	67.6	60.3	78.9	57.9	50.2	46.7	51.0	53.6	55.5
Domestic	16.9	54.1	59.4	54.2	43.9	42.5	21.4	16.9	25.6	34.5	46.4
Currency and Deposits	7.7	-6.9	14.5	10.3	13.7	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	-1.9	73.5	38.4	44.7	39.6	41.5	20.4	15.9	24.6	33.5	45.4
Other accounts payable	11.2	-12.5	6.4	-0.8	-9.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	17.3	43.1	8.2	6.1	35.0	15.5	28.7	29.8	25.4	19.1	9.1
Other (after refinancing)	17.3	43.1	8.2	6.1	35.0	7.9	22.8	29.8	25.4	19.1	9.1
RSF disbursement	0.0	0.0	0.0	0.0	0.0	7.6	5.9	0.0	0.0	0.0	0.0
Memorandum Item:											
Total investment (including capital transfers)	70.2	95.9	92.0	105.8	122.4	109.3	107.9	105.7	106.4	112.1	118.1
Central Government Debt	747.3	832.6	885.3	951.8	1,026.6	1,083.5	1,132.5	1,178.0	1,227.8	1,280.3	1,334.8
General Government Debt 4/	655.1	747.7	799.3	880.2	949.6	1,001.9	1,046.0	1,086.5	1,131.4	1,178.7	1,227.8
GDP	1,239.8	1,152.5	1,274.7	1,330.2	1,454.4	1,539.4	1,630.9	1,726.1	1,819.4	1,916.2	2,018.2

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. revenues from grants.

4/ IMF estimates based on government data.

Table 7b. Morocco: Budgetary Central Government Finance, 2019-29
(In percent of GDP)

	2019	2020	2021	2022	2023	Proj. 2024	2025	2026	2027	2028	2029
Revenue	23.8	27.0	25.3	28.7	28.5	28.2	27.5	26.9	26.6	26.5	26.3
Taxes	19.9	20.0	19.7	21.9	21.1	20.7	20.6	20.7	20.6	20.6	20.6
Taxes on income, profits, and capital gains	7.9	8.3	7.3	8.6	8.2	7.7	7.8	7.8	7.8	7.8	7.8
Taxes on property	1.0	0.9	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Taxes on goods and services	9.8	9.6	10.0	10.7	10.2	10.5	10.2	10.3	10.2	10.2	10.2
Taxes on international trade and transactions	0.8	0.9	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Other taxes	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.2	0.4	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	3.7	6.5	5.5	6.7	7.3	7.4	6.8	6.2	5.9	5.8	5.7
Of which: Innovative Financing	0.6	0.0	0.9	1.9	1.7	2.3	2.1	2.0	1.8	1.7	1.5
Expense	23.1	28.5	25.7	28.6	27.1	27.6	26.8	26.0	25.7	25.5	25.3
Compensation of employees	10.6	11.6	11.0	11.1	10.4	10.5	10.3	10.0	10.0	10.0	10.0
Use of goods and services	2.5	2.9	3.5	2.7	2.4	2.4	2.1	2.0	2.0	2.0	2.0
Grants 1/	4.9	5.7	4.8	5.9	6.6	6.7	6.7	6.8	6.7	6.6	6.5
Subsidies	1.3	1.2	1.7	3.1	2.1	1.1	0.7	0.5	0.4	0.3	0.2
Social benefits	0.2	2.0	0.8	1.1	0.9	2.3	2.2	2.3	2.3	2.3	2.2
Interest	2.1	2.5	2.1	2.1	2.1	2.4	2.6	2.4	2.5	2.5	2.5
Other expenses 2/	1.4	2.7	1.6	2.5	2.5	2.2	2.2	2.0	1.9	1.8	1.8
Net acquisition of nonfinancial assets	4.2	5.6	5.6	5.5	5.9	4.9	4.4	4.1	4.0	4.0	4.0
Primary balance	-1.4	-4.6	-3.9	-3.2	-2.3	-1.9	-1.2	-0.8	-0.6	-0.5	-0.5
Overall balance	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.2	-3.1	-3.1	-3.0
Cyclical adjusted primary balance 3/	-1.7	-2.7	-3.9	-3.1	-2.3	-2.0	-1.3	-0.9	-0.7	-0.6	-0.5
Change in net financial worth	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.2	-3.1	-3.1	-3.0
Net acquisition of financial assets	-0.8	1.3	-0.7	-0.8	1.0	-0.5	-0.7	-0.5	-0.3	-0.3	-0.2
Domestic	-0.8	1.3	-0.7	-0.8	1.0	-0.5	-0.7	-0.5	-0.3	-0.3	-0.2
Shares and other equity	-0.4	0.0	-0.3	0.0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
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	2.8	8.4	5.3	4.5	5.4	3.8	3.1	2.7	2.8	2.8	2.8
Domestic	1.4	4.7	4.7	4.1	3.0	2.8	1.3	1.0	1.4	1.8	2.3
Currency and Deposits	0.6	-0.6	1.1	0.8	0.9	0.1	0.1	0.1	0.1	0.1	0.0
Securities other than shares	-0.2	6.4	3.0	3.4	2.7	2.7	1.3	0.9	1.4	1.7	2.3
Other accounts payable	0.9	-1.1	0.5	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.4	3.7	0.6	0.5	2.4	1.0	1.8	1.7	1.4	1.0	0.5
Other (after refinancing)	1.4	3.7	0.6	0.5	2.4	0.5	1.4	1.7	1.4	1.0	0.5
RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.0	0.0	0.0
Memorandum Item:											
Total investment (including capital transfers)	5.7	8.3	7.2	8.0	8.4	7.1	6.6	6.1	5.9	5.8	5.8
Central Government Debt	60.3	72.2	69.5	71.6	70.6	70.4	69.4	68.2	67.5	66.8	66.1
General Government Debt 4/	52.8	64.9	62.7	66.2	65.3	65.1	64.1	62.9	62.2	61.5	60.8
GDP (Billions Dirham)	1,239.8	1,152.5	1,274.7	1,330.2	1,454.4	1,539.4	1,630.9	1,726.1	1,819.4	1,916.2	2,018.2

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. revenues from grants.

4/ IMF estimates based on government data.

Table 8. Morocco: Balance of Payments, 2019-29
(In billions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.				
Current account	-4.4	-1.4	-3.3	-4.6	-2.0	-3.8	-4.5	-4.8	-5.2	-5.7	-6.0
Trade balance	-19.8	-15.5	-20.0	-26.5	-25.2	-27.5	-29.3	-30.7	-32.0	-33.5	-34.2
Exports	24.7	23.6	31.7	36.5	36.2	37.4	39.1	41.1	43.0	44.7	46.9
Food products	5.9	6.0	7.0	7.2	7.9	8.2	8.4	8.6	8.9	9.1	9.6
Phosphates and derived products	5.1	5.4	8.9	11.4	7.5	7.6	7.8	8.2	8.6	9.0	9.3
Finished goods	12.7	11.5	14.4	16.5	16.5	17.8	18.9	20.0	21.2	22.5	23.9
Imports	-44.5	-39.1	-51.7	-63.0	-61.4	-65.0	-68.5	-71.8	-74.9	-78.2	-81.1
Energy	-7.9	-5.3	-8.4	-15.1	-11.8	-11.8	-11.9	-12.0	-12.1	-12.2	-12.5
Capital goods	-13.0	-11.4	-13.2	-13.9	-16.0	-17.5	-18.7	-20.1	-21.2	-22.3	-23.1
Food products	-5.0	-5.8	-6.7	-8.5	-8.7	-8.1	-8.5	-8.7	-8.9	-9.2	-9.4
Services	9.7	6.7	6.8	11.4	13.3	14.1	15.2	16.2	17.0	18.0	18.6
Tourism receipts	8.2	3.8	3.8	9.2	10.3	11.2	12.0	13.0	13.8	14.5	15.2
Income	-2.0	-1.2	-2.0	-1.9	-2.8	-3.2	-3.4	-3.6	-3.9	-4.2	-4.6
Transfers	7.7	8.6	11.8	12.3	12.8	12.8	13.1	13.3	13.7	13.9	14.2
Private transfers (net)	7.4	8.1	11.7	12.2	12.5	12.6	12.9	13.2	13.5	13.8	14.0
Workers' remittances	6.8	7.2	10.4	10.9	11.4	11.5	11.7	12.0	12.2	12.4	12.7
Official grants (net)	0.3	0.5	0.2	0.1	0.3	0.2	0.1	0.1	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 (without RSF)	5.3	7.0	3.9	2.3	4.6	5.6	6.3	6.8	7.2	7.6	7.9
Financial account (with RSF)	5.3	7.0	3.9	2.3	4.6	4.9	5.7	6.8	7.2	7.6	7.9
Direct investment	0.8	1.0	1.6	1.5	0.2	1.3	1.6	1.8	2.1	2.3	2.4
Portfolio investment	1.2	2.2	-0.3	-1.1	2.6	1.0	2.2	1.8	1.6	1.2	1.5
Other (without RSF)	3.3	3.9	2.6	2.0	1.8	3.3	2.4	3.2	3.5	4.1	4.0
Private	2.4	2.1	1.6	0.0	1.0	2.4	1.2	1.3	1.7	2.3	3.5
Public medium-and long-term loans (net)	0.9	1.8	1.0	1.9	0.8	0.9	1.3	1.8	1.8	1.8	0.5
Amortization	-2.1	-2.3	-3.6	-2.3	-2.4	-4.6	-3.8	-2.7	-2.5	-2.5	-2.5
Of which : IMF PLL net financing	0.0	3.0	0.8	0.0	0.0	-1.3	-0.7	0.0	0.0	0.0	-1.3
Errors and omissions	1.1	1.7	0.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	7.3	1.5	-0.2	2.6	1.9	1.8	2.0	2.0	1.9	1.9
Financing	-1.9	-7.3	-1.5	0.2	-2.6	-1.9	-1.8	-2.0	-2.0	-1.9	-1.9
Reserve asset accumulation (-increase, without RSF)	-1.9	-7.3	-1.5	0.2	-2.6	-1.9	-1.8	-2.0	-2.0	-1.9	-1.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.8	0.6	0.0	0.0	0.0	0.0
Reserve asset accumulation (-increase, with RSF)	-1.9	-7.3	-1.5	0.2	-2.6	-1.9	-1.8	-2.0	-2.0	-1.9	-1.9
				(Percent of GDP)							
Current account	-3.4	-1.2	-2.3	-3.5	-1.4	-2.5	-2.8	-2.8	-2.9	-3.0	-3.0
Trade balance	-15.3	-12.8	-14.1	-20.2	-17.5	-18.1	-18.2	-18.0	-17.7	-17.7	-17.1
Exports	19.2	19.4	22.4	27.9	25.2	24.6	24.2	24.1	23.9	23.6	23.5
Food products	4.5	4.9	4.9	5.5	5.5	5.4	5.2	5.0	4.9	4.8	4.8
Phosphates and derived products	3.9	4.4	6.3	8.7	5.2	5.0	4.9	4.8	4.8	4.7	4.7
Finished goods	9.8	9.4	10.1	12.6	11.5	11.7	11.7	11.7	11.8	11.9	12.0
Imports	-34.5	-32.2	-36.4	-48.1	-42.6	-42.6	-42.4	-42.0	-41.6	-41.2	-40.6
Energy	-6.2	-4.3	-5.9	-11.5	-8.2	-7.8	-7.3	-7.0	-6.7	-6.5	-6.3
Capital goods	-10.1	-9.4	-9.3	-10.6	-11.1	-11.5	-11.6	-11.7	-11.8	-11.7	-11.6
Food products	-3.9	-4.8	-4.7	-6.5	-6.0	-5.3	-5.3	-5.1	-5.0	-4.8	-4.7
Services	7.5	5.5	4.8	8.7	9.2	9.3	9.4	9.5	9.4	9.5	9.3
Tourism receipts	6.4	3.2	2.7	7.0	7.2	7.3	7.5	7.6	7.7	7.6	7.6
Income	-1.6	-1.0	-1.4	-1.4	-2.0	-2.1	-2.1	-2.1	-2.2	-2.2	-2.3
Transfers	6.0	7.1	8.3	9.4	8.9	8.4	8.1	7.8	7.6	7.4	7.1
Private transfers (net)	5.8	6.7	8.2	9.3	8.7	8.3	8.0	7.7	7.5	7.2	7.0
Workers' remittances	5.3	5.9	7.3	8.3	7.9	7.5	7.3	7.0	6.8	6.6	6.4
Official grants (net)	0.2	0.4	0.1	0.1	0.2	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 (without RSF)	4.1	5.8	2.8	1.8	3.2	3.7	3.9	4.0	4.0	4.0	4.0
Financial account (with RSF)	4.1	5.8	2.8	1.8	3.2	3.2	3.5	4.0	4.0	4.0	4.0
Direct investment	0.6	0.8	1.1	1.2	0.1	0.9	1.0	1.1	1.2	1.2	1.2
Portfolio investment	0.9	1.8	-0.2	-0.8	1.8	0.7	1.4	1.0	0.9	0.6	0.8
Other (without RSF)	2.5	3.2	1.8	1.5	1.3	2.2	1.5	1.9	1.9	2.2	2.0
Private	1.9	1.7	1.1	0.0	0.7	1.6	0.7	0.8	1.0	1.2	1.8
Public medium-and long-term loans (net)	0.7	1.5	0.7	1.5	0.5	0.6	0.8	1.1	1.0	0.9	0.2
Errors and omissions	0.8	1.4	0.7	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.5	6.0	1.1	-0.1	1.8	1.2	1.1	1.2	1.1	1.0	0.9
Financing	-1.5	-6.0	-1.1	0.1	-1.8	-1.2	-1.1	-1.2	-1.1	-1.0	-0.9
Reserve asset accumulation (-increase, without RSF)	-1.5	-6.0	-1.1	0.1	-1.8	-1.2	-1.1	-1.2	-1.1	-1.0	-0.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.0	0.0	0.0
Reserve asset accumulation (-increase, with RSF)	-1.5	-6.0	-1.1	0.1	-1.8	-1.2	-1.1	-1.2	-1.1	-1.0	-0.9
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	1.9	-15.0	26.0	24.4	5.6	3.9	4.8	5.1	4.4	3.9	4.5
Imports of goods and services (in U.S. dollars, percentage change)	-2.3	-14.5	30.3	22.4	0.1	5.3	4.9	4.6	4.3	3.8	3.9
Terms of trade (percentage change) 1/	1.7	-1.9	1.9	-15.1	2.2	0.2	0.1	0.5	0.3	0.1	-0.1
Gross official reserves (with RSF)	26.4	36.0	35.6	32.3	36.3	38.2	40.0	42.0	44.0	45.9	47.8
In months of prospective imports of GNFS	6.9	7.2	5.8	5.3	5.6	5.6	5.6	5.7	5.7	5.7	5.7
In percent of the Assessing Reserve Adequacy (ARA) metric	86.9	109.3	100.4	90.4	94.5	95.3	94.5	93.8	93.1	92.5	92.2
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	113.4	143.3	132.9	117.8	122.1	123.3	121.9	120.6	119.4	118.5	118.1
Gross official reserves (without RSF)	26.4	36.0	35.6	32.3	36.3	38.2	40.0	42.0	44.0	45.9	47.8
Debt service (percent of export of GNFS and remittances) 2/	7.4	12.1	9.2	7.9	6.4	11.5	8.5	8.3	8.2	8.4	8.6
External public and publicly guaranteed debt (percent of GDP)	27.4	32.6	29.7	31.5	31.1	30.4	30.5	30.5	30.5	30.1	29.2
DHs per US$, period average	9.6	9.5	9.0	10.2	10.1	...	...	...	...	...	...
Nominal GDP (in billions of U.S. dollars)	128.9	121.4	141.8	130.9	144.0	152.4	161.4	170.9	180.1	189.7	199.8
Oil price (US$/barrel; Brent)	61.4	41.8	69.2	96.4	80.6	77.7	73.8	70.9	69.0	67.9	67.4

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 9. Morocco: Monetary Survey, 2018-2024

	2018	2019	2020	2021	2022	2023	2024
	(Billions of dirhams)						
Net foreign assets	250.2	263.9	316.5	316.9	317.6	351.6	370.3
Net domestic assets	1,070.4	1,106.7	1,168.6	1,243.9	1,367.5	1,400.3	1,469.2
Domestic claims	1,225.9	1,292.3	1,371.1	1,448.8	1,573.2	1,679.6	1,782.4
Net claims on the government	203.0	212.4	238.3	272.5	313.7	353.6	396.8
Bank Al-Maghrib	0.8	0.6	-4.2	-3.4	18.6	11.0	10.3
Of which : deposits	-2.9	-3.3	-7.3	-6.5	-5.5	-12.2	-12.8
Deposit money banks	202.2	211.9	242.6	275.9	314.6	310.7	386.4
Claims to the economy	1,022.9	1,079.9	1,132.7	1,176.3	1,259.5	1,326.0	1,385.6
of which credit to private sector	691.3	730.4	763.1	795.2	835.0	880.9	916.1
Other liabilities, net	-155.5	-185.6	-202.5	-204.9	-205.8	-279.3	-313.2
Broad money	1,320.6	1,370.5	1,485.1	1,560.8	1,685.1	1,751.9	1,839.5
Money	858.7	911.8	1,019.4	1,086.8	1,196.3	1,285.7	1,356.8
Currency outside banks	233.6	250.2	300.6	320.1	354.7	393.5	414.6
Demand deposits	625.1	661.6	718.8	766.7	841.6	892.3	942.3
Quasi money	424.5	416.6	426.0	432.0	441.1	424.0	435.5
Foreign deposits	37.4	42.0	39.8	41.9	47.6	42.2	47.2
	(Annual percentage change)						
Net foreign assets	-4.6	5.5	20.0	0.1	0.2	10.7	5.3
Net domestic assets	6.3	3.4	5.6	6.4	8.4	6.2	7.2
Domestic credit	5.9	5.4	6.1	5.7	8.6	6.8	6.1
Net claims on the government	21.0	4.6	12.2	14.3	15.1	12.7	12.2
Claims to the economy (excl. central government)	3.4	5.6	4.9	3.8	7.1	5.3	4.5
Banking credit (excl. central government)	3.2	5.3	4.7	2.6	7.5	-2.4	5.3
Broad money	4.1	3.8	8.4	5.1	8.0	4.0	5.0
	(Change in percent of broad money)						
Net foreign assets	-1.0	1.0	3.8	0.0	0.0	2.0	1.1
Domestic credit	5.4	5.0	5.7	5.2	8.0	6.3	5.9
Net claims on the government	2.8	0.7	1.9	2.3	2.6	2.4	2.5
Claims to the economy	2.6	4.3	3.9	2.9	5.3	3.9	3.4
Memorandum items:							
Velocity (GDP/M3)	0.91	0.90	0.78	0.82	0.79	0.83	0.84
Velocity (non-agr. GDP/M3)	0.81	0.81	0.70	0.72	0.71	0.75	0.76
Claims to economy/GDP (in percent)	85.6	87.1	98.3	92.3	94.7	91.2	90.0
of which credit to private sector	57.8	58.9	66.2	62.4	62.8	60.6	59.5
Claims to economy/nonagricultural GDP (in percent)	95.8	97.1	109.4	104.1	105.7	101.0	99.5

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

Table 10. Morocco: Financial Soundness Indicators, 2017-2023

(Percent, unless otherwise indicated)

	2017		2018		2019		2020		2021		2022		2023	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
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	15.6	15.8	NA
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	12.4	12.9	NA
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	9.5	9.2	9.2
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	17.0	17.9	18.3
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	4.0	3.7	3.5
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	0.8	0.7	0.7
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	5.1	5.3	6.1
Agriculture	3.6	3.8	3.6	4.1	4.0	4.1	3.9	3.8	3.9	4.0	4.1	3.8	3.8	3.8
Commerce	6.7	6.7	6.6	6.4	6.6	6.4	6.6	6.4	6.5	6.7	7.1	8.1	7.4	7.2
Construction	11.2	11.3	11.1	10.5	10.4	10.2	9.5	9.9	8.9	7.9	7.7	7.4	7.6	7.6
Tourism	1.9	1.8	1.8	1.6	1.6	1.5	1.6	1.8	1.8	2.0	1.9	1.9	1.8	1.7
Finance	13.0	12.7	11.6	12.5	12.2	12.7	13.1	13.5	13.1	12.7	12.4	12.7	12.5	14.1
Public administration	4.6	4.9	5.7	8.4	8.2	8.6	8.2	8.3	8.6	8.4	8.1	7.7	7.9	8.0
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	3.7	3.8	3.6
Households	32.4	32.6	32.8	31.9	31.8	31.6	30.5	30.9	30.8	31.1	30.1	29.9	29.7	28.9
Other	4.0	4.6	4.2	4.3	5.2	4.8	6.2	5.8	6.6	7.7	8.2	7.7	7.5	6.9
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	3.8	3.1	2.5
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	87.1	86.5	85.6
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	5.2	5.6	6.7
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	8.4	8.6	8.4
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	68.4	67.7	68.9
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	19.0	17.9	18.6	17.9
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	274.5	271.4	NA
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	8.9	7.8	7.7
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	0.8	0.7	0.8
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	5.7	5.8	5.8
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	1.3	1.2	1.2
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	0.7	1.1	NA
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	6.9	11.8	NA
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	3.7	3.8	NA
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	4.3	4.4	NA
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	0.7	0.7	NA
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	75.4	72.3	NA
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	53.0	43.7	NA
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	1.6	1.6	NA
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	46.7	46.4	NA
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	24.7	37.5	NA
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	16.1	15.0	14.6
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	19.2	18.4	17.7
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	106.3	106.4	104.8
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	2.7	2.3	1.9
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	0.0	-2.7	0.0

Source: Bank Al-Maghrib.

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

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

* Provisional figures calculated according to Basel III definition and transitional provisions.

Table 11a. Morocco: Indicators of Fund Credit – Adverse Scenario (GRA and RSF Arrangements)

(In millions of SDRs, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Existing and prospective Fund credit (SDR million)																							
Disbursements	4,289	438	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRA (PLL)	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	563	438	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	4,826	4,726	4,726	3,329	1,466	1,000	1,000	1,000	1,000	1,000	988	909	809	709	609	509	409	309	209	109	22	0	0
GRA	4,264	3,726	3,726	2,329	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	3,726	3,726	2,329	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	563	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	988	909	809	709	609	509	409	309	209	109	22	0	0
Obligations	1,026	827	282	1,674	2,022	529	51	51	51	51	63	127	144	139	134	129	124	119	114	109	91	22	0
Principal (repayments/repurchases)	807	538	0	1,397	1,863	466	0	0	0	0	13	78	100	100	100	100	100	100	100	100	88	22	0
GRA	807	538	0	1,397	1,863	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	0	0	0	1,397	1,863	466	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	807	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	0	0	0	0	0	0	0	0	0	0	13	78	100	100	100	100	100	100	100	100	88	22	0
Charges and interest	219.23	289.45	282.08	277.15	159.26	63.63	50.62	50.62	50.64	50.60	50.56	48.70	43.99	38.87	33.83	28.78	23.73	18.64	13.59	8.51	3.53	0.32	0.00
GRA	206.78	243.08	231.46	226.53	108.62	13.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RSF	12.45	46.37	50.62	50.62	50.64	50.60	50.62	50.62	50.64	50.60	50.56	48.70	43.99	38.87	33.83	28.78	23.73	18.64	13.59	8.51	3.53	0.32	0.00
Fund obligations (repurchases and charges) in percent of:																							
Quota	114.7	92.5	31.5	187.2	226.1	59.2	5.7	5.7	5.7	5.7	7.1	14.2	16.1	15.5	15.0	14.4	13.8	13.3	12.7	12.1	10.2	2.5	0.0
GDP	0.9	0.7	0.2	1.2	1.4	0.4	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.1	1.6	0.5	3.0	3.5	0.9	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0
Gross international reserves	3.6	2.8	0.9	5.1	5.9	1.5	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.0	0.0
Government revenue	3.2	2.5	0.8	4.6	5.4	1.3	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
External debt service, public	1.9	2.0	0.7	4.2	4.5	1.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0
Fund credit outstanding in percent of:																							
Quota	540	528	528	372	164	112	112	112	112	112	110	102	90	79	68	57	46	35	23	12	2	0	0
GDP	4	4	4	2	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Exports of goods and services	10	9	9	6	3	2	3	3	3	2	2	2	2	1	1	1	1	1	0	0	0	0	0
Gross international reserves	17	16	15	10	4	3	3	3	3	2	2	2	2	2	1	1	1	1	0	0	0	0	0
Government revenue	14.9	14.2	13.7	9.2	3.9	2.5	2.4	2.3	2.2	2.1	2.0	1.7	1.5	1.2	1.0	0.8	0.6	0.5	0.3	0.1	0.0	0.0	0.0
External debt, public	1.4	1.3	1.2	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:																							
Quota (SDR million)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

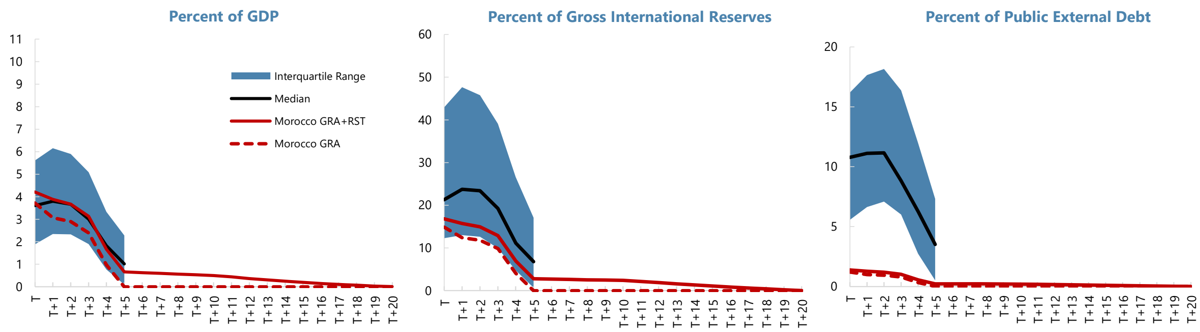
Source: IMF staff calculations.

Note: Morocco belongs to the RST interest Group C. Based on the RST rate of interest of 5.062 percent as of February 22, 2024. An adverse scenario where the FCL is drawn in 2024 is assumed.

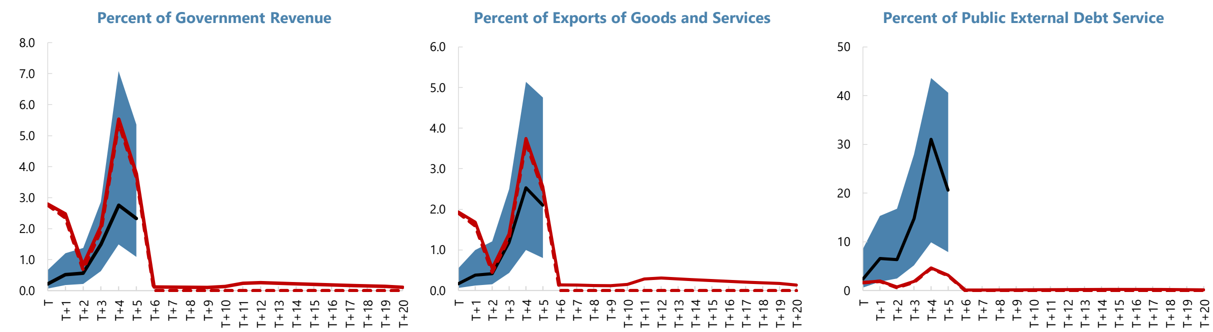
Table 11b. Morocco: Capacity to Repay Indicators Compared to GRA-Only Borrowing Countries, All Programs 1/ 2/ 3/ 4/ 5/ 6/ 7/

(In percent of the indicated variable)

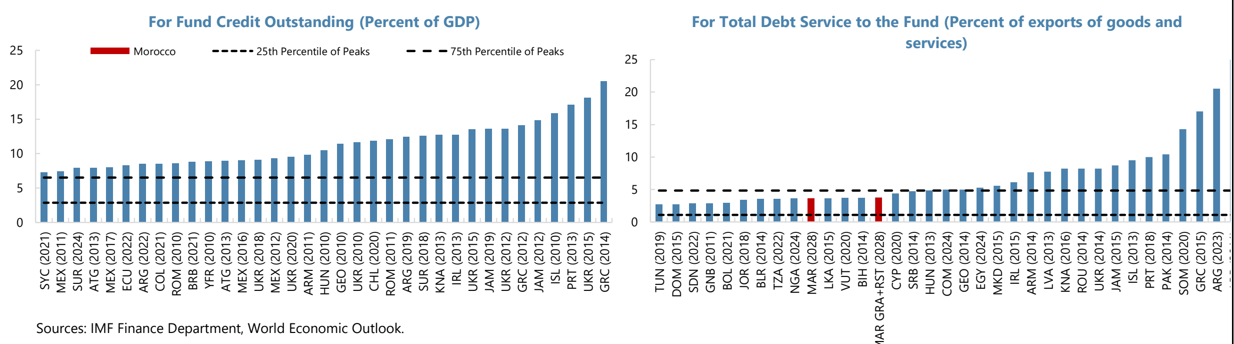
A. Total Fund Credit Outstanding



B. Total Debt Service to the Fund



C. Largest Peaks



Sources: IMF Finance Department, World Economic Outlook.

1) T = date of GRA arrangement approval.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and 2022.
4) Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
5) Comparator series is for GRA arrangements only and runs up to T+5.
6) Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.
7) All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.

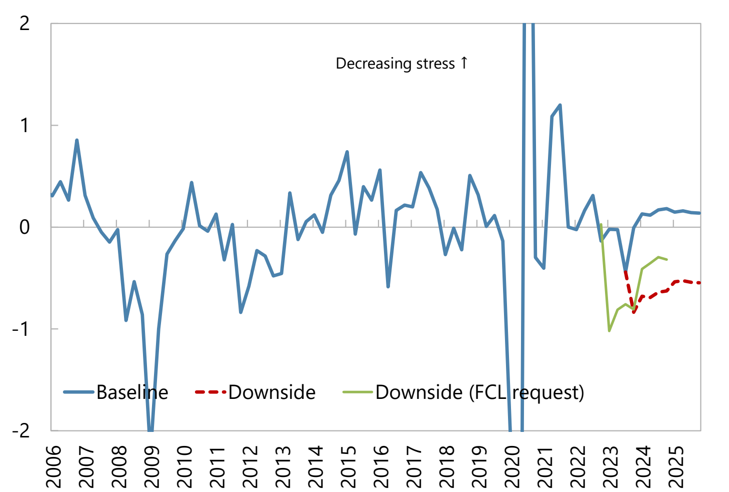
Annex I. External Economic Stress Index

1. Background. The External Economic Stress Index (EESI), a composite indicator of vulnerability related to external shocks, is based on the identification of: (i) key external risks facing Morocco, (ii) proxy variables capturing these risks, and (iii) the choice of weights to apply to each of these variables.

2. Risks. The main external risks for Morocco are based on the October 2023 World Economic Outlook (WEO) adverse scenario and 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 cost of external financing.

3. Proxy variables. 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), the rise in commodity imports is captured by an increase in global oil prices, and the impact of tighter external financing conditions is captured by the change in the US 10-year Treasury yield.

External Economic Stress Index



Sources: WEO and IMF staff estimates.

4. Weights. The index is calculated as the weighted sum of standardized deviations of each of these three variables from their means.[17] 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, estimated using the IMF's Flexible System of Global Models (FSGM).

5. Baseline scenario. The baseline is based on the October 2023 World Economic Outlook (WEO) projections for Eurozone growth and oil prices, while the change in the US 10-year Treasury yield is consistent with the GAS assumptions, as of February 10, 2024. The EESI suggests that external economic stress would decrease slightly over 2024-2025 compared to last year (chart). This reflects projections of a slightly better euro area growth outlook and lower oil prices in this period.

6. Downside scenario. The downside scenario assumes a tail risk with a decline in GDP growth in advanced economies (a proxy for the euro area) based on the WEO October 2023 risk scenario plus one

[17] For the methodology, see Flexible Credit Line—Operational Guidance Note, IMF Policy Paper, August 2018

percentage point deviation (implying a decline of about 1.4 and 1.8 percentage points below the baseline in 2024 and 2025, respectively). Oil prices are assumed to be 10 percent and 5 percent higher than the baseline in 2024 and 2025, respectively. The US 10-year Treasury yield is assumed to increase by two standard deviations above the baseline, to reflect heightened global uncertainty.

7. Overall assessment. Under the downside scenario, external stress would increase in Morocco to a similar scale as experienced during the Eurozone sovereign debt crisis in 2012. While the index would rise less than experienced during the global financial crisis in 2009, external pressures would persist for a much more extended period than after that episode. The higher end of the stress over the projection period would exceed by about twofold the levels observed at the approval of Morocco's first PLL arrangement in August 2012. Overall, the EESI indicates a level of stress which, although lower than at the time of the FCL request, remains significant.

Annex II. External Sector Assessment

Overall Assessment: Based on staff's projections, *Morocco's external position in 2023 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The narrowing of the CA deficit in 2023 mainly reflected the compression of the goods trade deficit (reflecting lower imports, especially of energy, and strong exports of automotive goods), continued buoyancy in tourism revenues, and still strong remittances. As private demand continues recovering, the CA deficit is projected to slightly increase in 2024 and to gradually converge to the estimated medium-term norm of around 3 percent of GDP.

Potential Policy Responses: The planned gradual fiscal consolidation should help contain the increase of the CA deficit from the low level in 2023. Structural reforms may imply greater import (and external financing needs) as they boost private sector investment but are also expected to attract FDIs and support exports of goods and services by improving Moroccan's firms' competitiveness.

Foreign Asset and Liability Position and Trajectory

Background. Morocco's Net International Investment Position (NIIP) has remained relatively stable at about -60 percent of GDP since 2014. In staff baseline, Morocco's NIIP is projected to have improved in 2023 because of the CA deficit compression, and to stabilize over the medium term.

Assessment. Morocco's NIIP financing vulnerabilities appear moderate, as foreign direct investment accounts for a large share of the position. Over the medium term, Morocco should be able to sustain its net debtor position, as the CA deficit will converge towards its estimated norm amidst the implementation of structural reforms (that should increase Morocco's attractiveness for FDI) and fiscal consolidation (that should reduce the dependence on external debt).

2023 (% GDP)	NIIP: -55.8	Gross Assets: 39.2	Reserve Assets: 25.0	Gross Liabilities: 95.0	Gross External Debt: 49.1

Current Account

Background. In 2023, the CA deficit is expected to have narrowed to around 1.4 percent of GDP, from 3.5 percent in 2022, as lower commodity prices reduced import values while exports (particularly automotive and tourism) and remittances surprised on the upside. The deficit is expected to gradually increase to about 3 percent of GDP over the medium term as stronger private investment and consumption boost imports, and despite continued robust performance of both tourism revenues and remittances.

Assessment. In 2023, the EBA model estimated a cyclically adjusted CA deficit of 1.1 percent of GDP compared with an estimated cyclically adjusted staff CA norm of -3 percent of GDP, with a standard error of 0.5 percent of GDP. The resulting staff CA gap of 1.9 percent of GDP (with a range of 1.4 to 2.4 percent), includes identified policy gaps of 1.3 percent of GDP and an unexplained residual of 0.6 percent of GDP.

2023 (% GDP)	CA: -1.4	Cycl. Contributions: -0.3	Cycl. Adjusted CA: -1.1	Staff Cycl. Adjusted CA Norm: -3.0	Total Gap: 1.9

Real Exchange Rate
Background. The REER has been on a modest appreciating trend since 2012, reflecting the nominal appreciation of the dirham that has offset Morocco's lower inflation relative to main trading partners. In 2023 (as of December) the REER was essentially unchanged relative to the average of 2022, reflecting a lower inflation relative to trading partners that has been almost entirely offset by the nominal appreciation of the Dirham. **Assessment.** Consistent with the estimated CA gap of 1.9 percent of GDP and applying an elasticity of the CA to REER of 0.37, the REER was assessed to be undervalued in 2023 by 5.1 percent (with a range of 3.8 to 6.5 percent).
Capital and Financial Accounts
Background. Morocco's CA deficit is mainly financed by net FDI inflows and external borrowing. After benefiting from a significant increase in external borrowing in 2020, a rebound in net FDI flows helped finance the external position in 2021 and 2022. In 2023, net FDI inflows were projected to have slowed due to unfavorable external conditions, while external borrowing has benefited from the March bond issuance on international markets. **Assessment.** In the medium term, progress in structural reforms, particularly those aimed at developing the private sector, accelerating the transition to renewable energy, and increasing water resources, are all expected to support FDI inflows. Greater private investment will likely require continued reliance on external borrowing, although there will be less crowding-out from the government, due to the gradual process of fiscal consolidation. The risks of capital flow reversal are limited by remaining capital account controls on residents and the structure of external debt (85 percent of which has long maturity).
FX Intervention and Reserves Level
Background. Morocco's exchange rate is pegged to a basket including the Euro and the US Dollar (60 and 40 percent weights respectively) and can fluctuate within ±5 percent band around this central parity. FX reserves are about US$10 billion above the pre-pandemic level, reflecting the purchase under the PLL arrangement in April 2020, the issuance of US$ denominated bonds in 2020 and 2023 (by about US$3 billion), the 2021 SDR allocation, and BAM purchase of FX in the market in 2021 (when the dirham appreciated to the lower end of the band). **Assessment.** At around an estimated 120 percent of the ARA metric (adjusted for capital controls) the level of reserves at US$36.3 billion in 2023 is assessed to be adequate. Staff projects reserves to stabilize around this ratio over the forecast horizon, as greater FDI and external borrowing will finance the gradual increase of the CA deficit and repayment of the PLL in 2024 and 2025. Moving to an IT monetary policy regime with a more flexible ER would reduce the need for reserve holdings outside a budget that could fund FX interventions in case of excessive market volatility.

Annex III. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
		Conjunctural Risks	
Intensification of regional conflict(s).	**High** Escalation of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chains components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**Small** Disruptions in trade (including tourism) and FDI will have a negative impact on Morocco's economic activity, although greater opportunities for diversification could help soften the spillovers in the medium term.	• Fiscal policy will need to protect the most vulnerable segments of the Moroccan economy and society with well-targeted, temporary, and budget-neutral cash transfers, making full use of the Unified Social Registry. • The central bank should stand ready to respond to these shocks by easing monetary and credit conditions, while ensuring that inflation pressures remain contained.
Commodity price volatility.	**High** A succession of supply disruptions (e.g., due to conflicts, export restrictions and OPEC+ decisions) and demand fluctuations cause recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High** A further increase in commodity prices could push headline inflation higher. Lower household purchasing power, supply disruptions, and higher borrowing costs could further drag down growth.	• The Central bank may need to further increase policy rates to keep inflation expectations from becoming unanchored and limit potential ER depreciation pressures towards the upper side of the band. Consideration can be given to further extending the band or letting the dirham float more freely under an IT monetary policy regime. • Fiscal policy will need to protect those most vulnerable to higher inflation with well-targeted, temporary, and budget-neutral cash transfers, making full use of the Unified Social Registry. The recourse to subsidies and other forms of government financial support to particular sectors of the economy (like the agriculture sector) should be limited to cases where their positive immediate impact is evident, and in any case removed over time.
Monetary policy miscalibration.	**Medium** Amid high economic uncertainty, major central banks loosen their monetary policy stance prematurely, hindering disinflation,	**Small** Given Morocco's relatively limited international financial integration the effect is	• Despite remaining capital controls limit the scope for capital outflows, higher interest rate globally may imply depreciation pressures on the dirham and induce BAM to also raise policy rates if the weaker dirham were to fuel

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
	or keep it tight for longer than warranted, causing abrupt adjustments in financial markets, and weakening the credibility of central banks.	likely to be limited. While a faster increase in US interest rates could negatively affect Morocco's external borrowing costs, the impact on government funding should be contained, as the share of public debt denominated in FX is relatively low.	inflation. Appreciation pressure from lower global rates can be temporarily accommodated with FX purchases, as done in 2021. Consideration can be given to further extending the band or letting the dirham float more freely under an IT monetary policy regime.
Abrupt global slowdown.	**Medium** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation triggering sudden stops in EMDEs. • **China:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops. • **Europe:** Intensifying fallout from the Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn. • **U.S.:** Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.	**Medium** Morocco is highly dependent on trade, remittances, tourism, particularly from the Euro area. Hence, a significant slowdown/ recession in Europe could dampen economic activity in Morocco. At the same time, a decline in energy commodity prices will ease pressure on the external accounts and inflation.	• Fiscal policy should implement growth-friendly stimulus measures and target temporary support to the sectors and segments of the population that are most affected. • BAM should continue providing the necessary support to credit and liquidity. • Accelerate implementation of those structural reforms that promise to bolster potential growth.
Deepening geo-economic fragmentation.	**High** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of the international monetary system, and lower growth.	**Medium** Morocco is an open economy, highly dependent on trade (including that associated with key global value chains, like the automotive industry), remittances, tourism, and energy imports. Hence any disruption in each of these areas is bound to deeply affect economic activity. The impact	• Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinder FDIs. • Accelerate the implementation of structural reforms to support international competitiveness and productivity.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
		however could be mitigated by Morocco's favorable geographical position that could offer opportunities for further economic diversification and integration with both Africa and Europe.	
		Domestic Risk	
Extreme climate events.	**Medium** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**High** Morocco is highly dependent on the agricultural sector. Even if it represents about 10 percent of value added and a quarter of goods exports, it accounts for about one-third of the Moroccan workforce. Morocco's inflation is also extremely sensitive to changes in food prices (representing about 40 percent of the CPI basket).	• The authorities should accelerate the implementation of key macro-critical reforms for climate adaptation, including through their infrastructure plan to increase water supply, but also setting the ground for a new tariff framework that better reflect the effective scarcity of water. Targeted and short-term fiscal support could be considered to help those segments of the population that are most vulnerable to droughts, like rural population.

Annex IV. Sovereign Risk and Debt Sustainability Assessment

Morocco's debt is assessed as sustainable with high probability, reflecting the projected gradual process of fiscal consolidation, the large base of domestic institutional investors, the low share of FX-denominated debt, and its long average maturity. That said, a few risks remain that point to the need to rebuild the fiscal space by bringing the debt to GDP ratio back to pre-2020 levels. Fiscal reforms to reinforce the budget and an acceleration of structural reforms are crucial to reduce vulnerabilities in the medium and longer term.

1. Debt coverage and definition (Figure 2). While the Sovereign Risk and Debt Sustainability Assessment (SRDSF) covers central government debt, the authorities also regularly produce general government (GG) data with technical assistance from the Fund. Under the GG perimeter, public debt would also include the extrabudgetary central government (e.g., public, non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidating the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 5½ percent of GDP in 2023 (to about 65 percent).

A. Background

2. The central government debt ratio has stabilized at around 70 percent of GDP since 2021 after the large increase to 72.2 percent of GDP in 2020 due to the COVID crisis. The stabilization of the public debt to GDP ratio has been driven by progressive reduction in the primary fiscal deficit and high real GDP growth, with inflation also helping stabilize the ratio in 2022). Gross financing needs for the central government increased to about 21 percent of GDP in 2023 after stabilizing to about 14 percent after the COVID crisis.

B. Baseline Projections

3. Under the staff baseline scenario, public debt is expected to decline 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 decline as fiscal consolidation continues. At the general government level, public debt would hover around 65 percent of GDP until 2025 before falling to 61 percent in 2029. 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 temporarily increased in 2023 and are expected to fall in the medium term. Gross financing needs increased to 21.3 percent in 2023 as Treasury temporarily resorted to short-term domestic financing to strengthen its buffers during the high uncertainty period early in the year. In 2023, more than 80 percent of debt issued was domestic, and about forty percent of the external debt was issued to bilateral and multilateral creditors. The projected effective interest rate on debt has been revised up relative to the 2022 AIV report, given higher domestic and international rates, and the interest rate burden is now expected to increase by ¼ percent of GDP in 2025 but it is expected to gradually decrease over the longer term. A few mitigating factors continue to buffer the impact on the cost of public debt, including i) long average maturities for domestic and external borrowing (in 2023 the average maturity of debt has increased by 2 months compared to last year and it is now at 6.8 years), ii) continued active debt management from the authorities, with operations that tend to swap old debt with new 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 0.3 percent of GDP in 2024-26) should also help reduce financing needs.

5. The central government debt continues to be sustainable with high probability, and the overall risk of sovereign stress is assessed to be moderate. The medium-term risk is assessed as moderate based on mechanical signals, and GFN and fan chart tools are firmly in moderate territory. Relevant reforms in the budgetary framework are expected in the coming years, including reinforcing the MTFF, analyzing budget risks, strengthening the analysis of the sustainability of the debt, and implementing a fiscal rule anchored on 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 7 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, the government has maintained steady access to international capital markets at favorable terms over the last 10 years and more recently after the COVID crisis.

6. Morocco's public debt remains sensitive to several shocks in the medium and long 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 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 to strengthen the budget, and a gradual economic recovery. However, this assessment is susceptible to other economic shocks, including droughts that are becoming much more frequent, a global economic downturn, and new negative terms-of-trade shocks. Contingent liabilities from unfunded public pension schemes,[1] guarantees to commercial SOEs' external debt (about 8 percent of GDP), and subsidized credit schemes under the Covid-19 crisis (about 3 percent of GDP) could represent additional vulnerabilities, although the transmission of the latter to a financial institution under BAM supervision (which will absorb the first layer of losses from potential activation of guarantees) represents a mitigating factor. In the longer term, while sovereign stress risks are assessed as moderate, Morocco has increasing vulnerabilities related to climate change and the sustainability of the public pension and health care systems in the context of an accelerated demographic transition. These risks highlight the importance of accelerating the path of fiscal consolidation, reinforcing the budgetary framework and boosting the implementation of crucial structural reforms to further reduce the debt-to-GDP ratio over the medium and longer term.

[1] 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 11 percentage points of GDP).

Annex IV. 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	Indicators of the large amortization module show high risks in all three scenarios for all three ratios considered. The climate-change adaptation and mitigation modules suggest substantial long-term risks to the debt trajectory. A recent actuarial study from ACAPS projects a continuous degradation of the active to retired population ratio and predicts that three of the main pension regimes will exhaust financial reserves between years 2028 and 2044. In the health care system, a recent study from the OECD predicts a deficit of the CNSS starting in 2026. An ambitious program of structural reforms is being implemented to mitigate these risks. The authorities are working on a comprehensive overhaul of the pension and health care systems that would make them financially sustainable. Ongoing and future comprehensive reforms in the water or energy sectors will 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 continuously decline over the medium term from 2023. 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.

Annex IV. 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:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	No	Not applicable
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/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	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

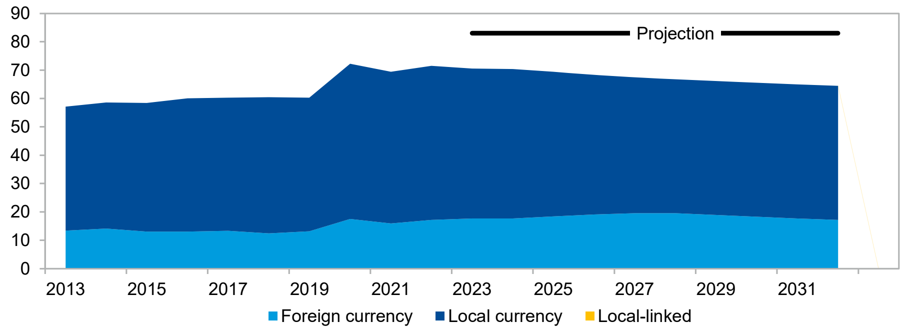
Reporting on Intra-Government Debt Holdings

				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
CPS	NFPS	GG: expected	CG	1 Budget. central govt									0
CPS	NFPS	GG: expected	CG	2 Extra-budget. funds									0
CPS	NFPS	GG: expected	CG	3 Social security funds									0
CPS	NFPS	GG: expected		4 State govt.									0
CPS	NFPS	GG: expected		5 Local govt.									0
CPS	NFPS			6 Nonfin pub. corp.									0
CPS				7 Central bank									0
CPS				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.

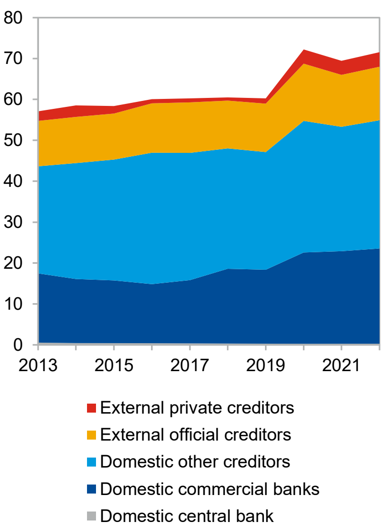
Commentary: The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidation of the debt under the general government perimeter reduced the debt-to-GDP ratio by about 5½ percent of GDP in 2022 (to about 66 percent). Contingent liabilities linked to subnational governments (debt level estimated at about 2 percent of GDP in 2022), guarantees to commercial SOEs external debt (about 8 percent of GDP), and unconsolidated social security funds, could represent additional vulnerabilities.

Annex IV. Figure 3. Morocco: Public Debt Structure Indicators



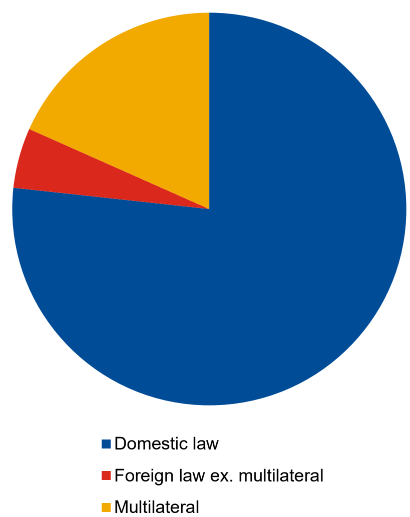
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



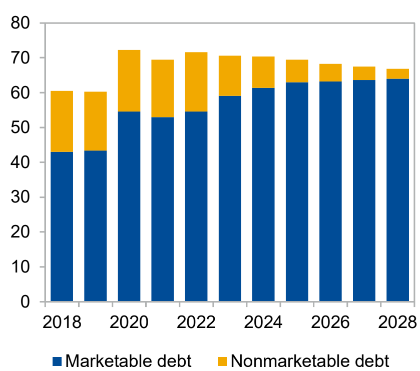
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



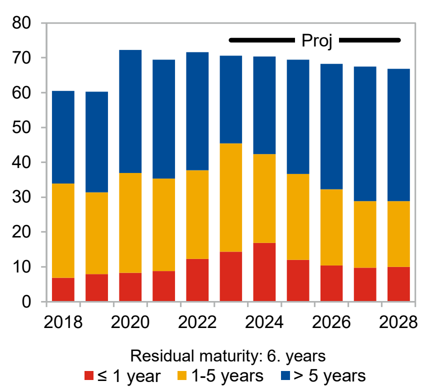
Note: The perimeter shown is central government.

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 7 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.

Annex IV. Figure 4. Morocco: Baseline Scenario

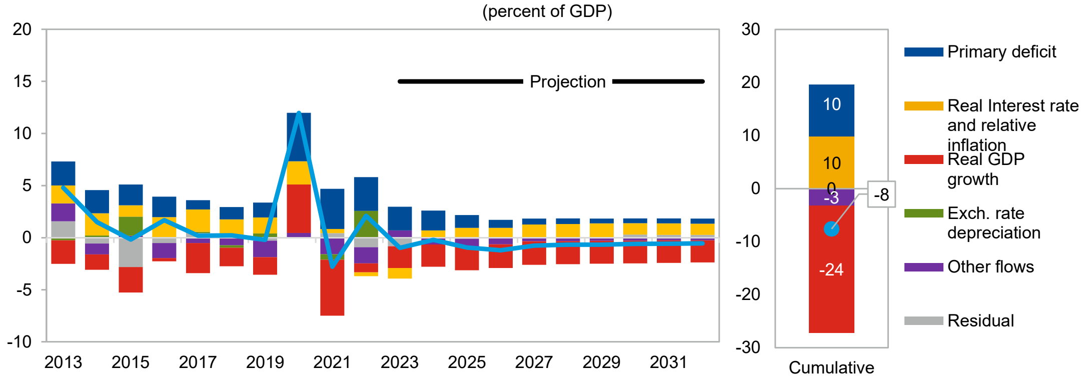
(Percent of GDP unless indicated otherwise)

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	71.6	70.6	70.4	69.4	68.2	67.5	66.8	66.1	65.5	65.0	64.4
Change in public debt	2.1	-1.0	-0.2	-0.9	-1.2	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5
Contribution of identified flows	3.0	-0.1	-0.1	-0.8	-1.1	-0.7	-0.7	-0.7	-0.9	-0.9	-0.8
Primary deficit	3.2	2.3	1.9	1.2	0.8	0.6	0.5	0.5	0.5	0.5	0.5
Noninterest revenues	28.7	28.5	28.2	27.5	26.9	26.6	26.5	26.3	26.3	26.3	26.3
Noninterest expenditures	31.9	30.8	30.1	28.7	27.7	27.2	27.0	26.8	26.8	26.8	26.8
Automatic debt dynamics	1.3	-3.1	-1.5	-1.3	-1.3	-1.0	-0.9	-0.9	-1.1	-1.1	-1.1
Real interest rate and relative inflation	-0.4	-1.0	0.7	0.9	0.9	1.3	1.3	1.3	1.1	1.1	1.1
Real interest rate	0.2	-1.4	0.6	0.9	0.9	1.2	1.3	1.4	1.0	1.0	1.0
Relative inflation	-0.6	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Real growth rate	-0.9	-2.1	-2.2	-2.2	-2.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.1
Real exchange rate	2.6	…	…	…	…	…	…	…	…	…	…
Other identified flows	-1.6	0.7	-0.6	-0.8	-0.5	-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
(minus) Interest Revenues	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	0.7	-0.6	-0.8	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Contribution of residual	-0.9	-0.8	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.3	0.3	0.3
Gross financing needs	14.6	21.3	17.8	19.7	14.5	13.0	12.4	12.6	11.5	10.4	9.8
of which: debt service	11.3	19.1	15.9	18.5	13.8	12.4	11.8	12.1	11.0	9.9	9.3
Local currency	9.2	17.8	13.1	16.7	12.0	10.5	9.6	9.9	8.9	7.9	7.4
Foreign currency	2.1	1.3	2.9	1.8	1.7	1.9	2.2	2.2	2.1	2.0	2.0
Memo:											
Real GDP growth (percent)	1.3	3.0	3.1	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Inflation (GDP deflator; percent)	3.1	6.1	2.6	2.6	2.4	1.9	1.9	1.9	2.4	2.4	2.4
Nominal GDP growth (percent)	4.3	9.3	5.8	5.9	5.8	5.4	5.3	5.3	5.3	5.3	5.3
Effective interest rate (percent)	3.3	4.0	3.6	3.8	3.7	3.9	3.9	4.0	4.0	4.0	4.0

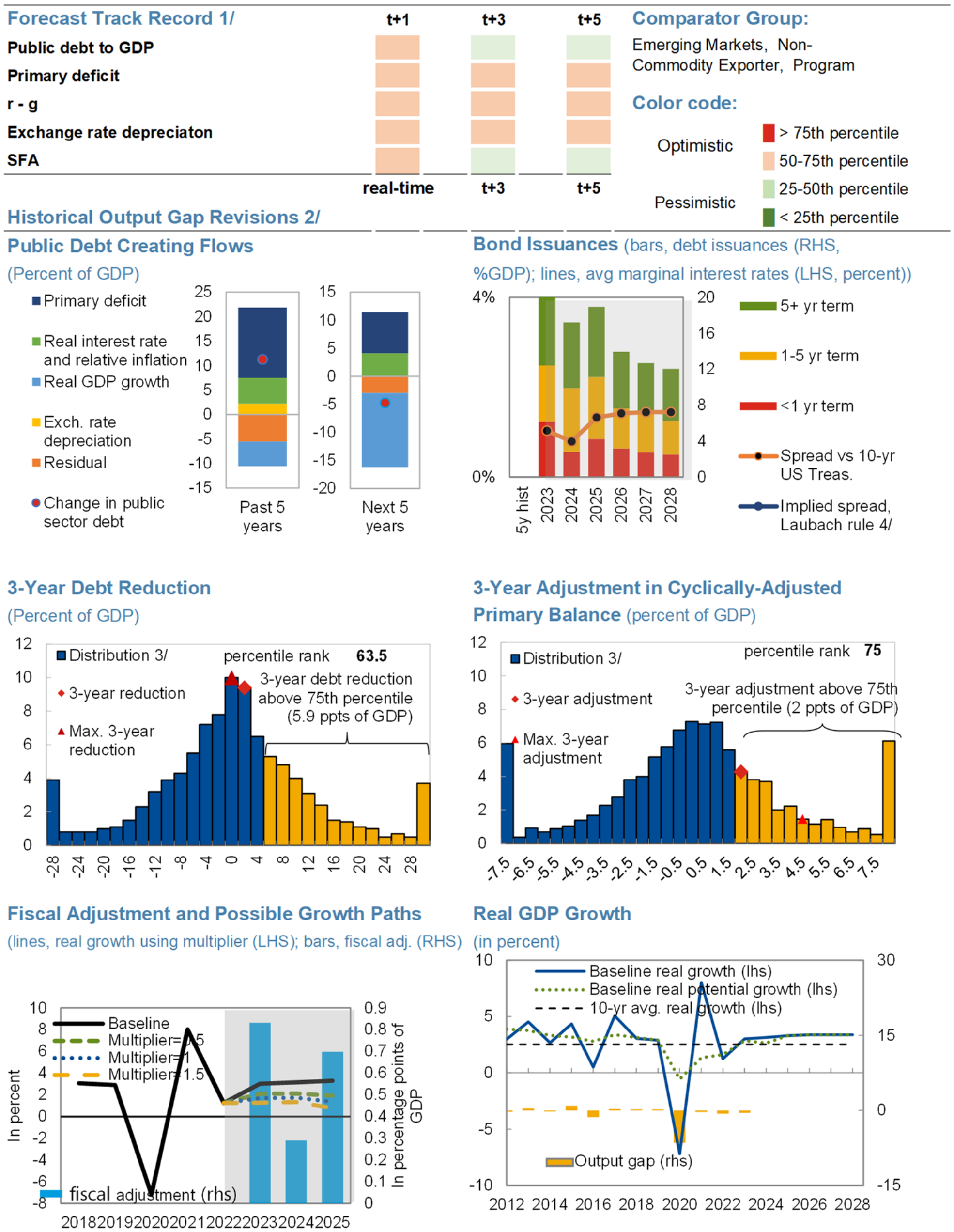
Contribution to Change in Public Debt

(percent of GDP)



Commentary: Public debt will stabilize before start declining in 2025, reflecting expectations of a narrowing of primary deficits and stable economic conditions. Long-term real GDP growth is assumed to be equal to the potential growth estimate. The real GDP growth and primary deficit are the two main contributors to the change in public debt.

Annex IV. Figure 5. Morocco: Realism of Baseline Assumptions



Commentary: The economic recovery from COVID-19 and reduced deficits are stabilizing the debt-to-GDP ratio. Spreads started declining in 2023 as financial conditions eased. The projected 3-year adjustment in the cyclically-adjusted primary balance is relatively high (in the 75 percentile range). Long-term real GDP growth is assumed to be equal to the potential growth estimate. Realism analysis does not point to any other major concerns.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

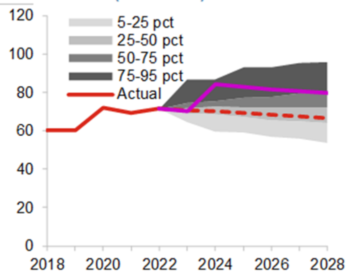
3/ Data cover annual obervations from 1990 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 6. Morocco: Medium-Term Risk Analysis

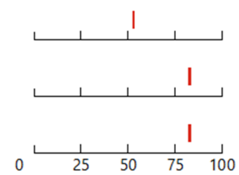
	Value	Contrib [1/]	Percentile in peer group [2/]

Final Fanchart (Pct of GDP)

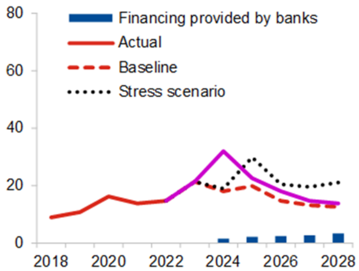


Debt fanchart module

	Value	Contrib [1/]
Fanchart width *(percent of GDP)*	41.8	0.6
Probability of debt non-stabilizaiton *(percent)*	28.7	0.2
Terminal debt-to-GDP x institutions index	44.8	1.0
Debt fanchart index (DFI)		1.8
Risk signal: [3/]		**Moderate**

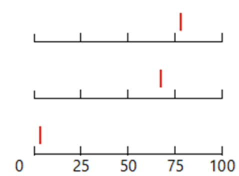


Gross Financing Needs (Pct of GDP)



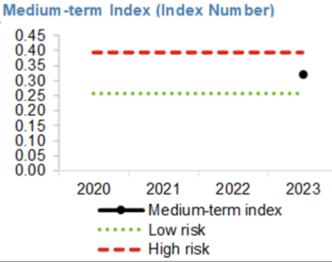
Gross financing needs (GFN) module

	Value	Contrib [1/]
Average baseline GFN *(percent of GDP)*	16.5	5.6
Banks' claims on the gen govt *(pct bank assets)*	19.0	6.2
Chg. In banks' claims in stress *(pct banks' assets)*	1.4	0.5
GFN financeability index (GFI)		12.2
Risk signal: [4/]		**Moderate**



Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-term Index (Index Number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	1.82	0.40	0.50	0.20
GFN finaceability index	12.23	0.24	0.50	0.12
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment		**Moderate**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.

Prob. of false alarms, 2023-2028, if stress predicted: 25.0 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. The change in bank claims in the stress scenario is relatively low, which is mainly driven by the low marginal interest rate paid by banks, which have high demand for government bonds (perceived as very safe). The contingent liability stress test is triggered as the debt coverage is for a perimeter narrower than the general government. This test shows a path of gross financing needs substantially above the baseline for the medium term. 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.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

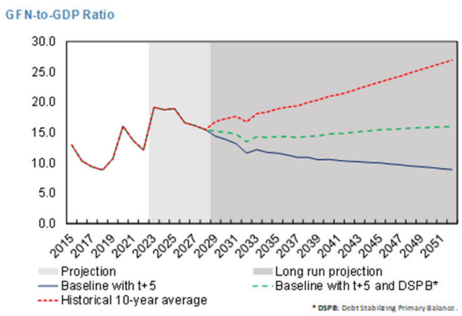
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

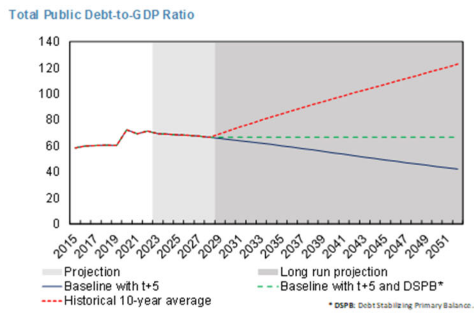
Annex IV. Figure 7. Morocco: Long-Term Risk Analysis

Large Amortization Trigger:

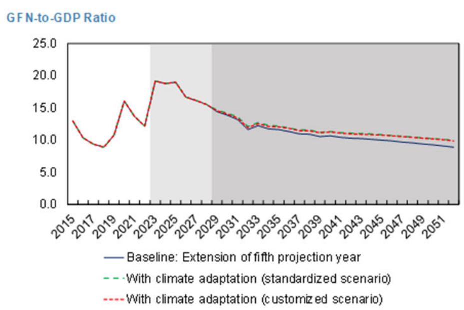
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

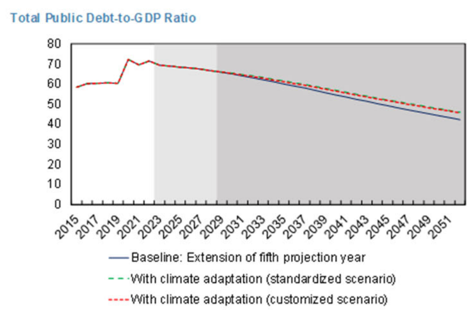
Large Amortizations:





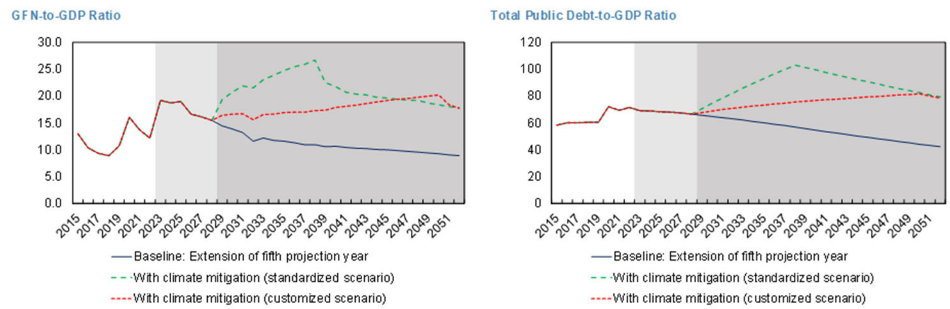
Climate Change: Adaptation





Annex IV. Figure 8. Morocco: Long-Term Risk Analysis (concluded)

Climate Change: Mitigation



Commentary: The default large amortization module calculates gross financing needs (GFNs) and debt based on amortization from existing debt under three illustrative scenarios. Indicators show high risks in all three scenarios for all three ratios considered. GFN-to-GDP and public debt-to-GDP ratios show steadily increases in two of the scenarios. The standardized climate change adaptation module adds costs of associated investments of 0.2 percent of GDP per year. The standardized climate-change mitigation module adds costs averaging about 5 percent of GDP per year over the projection period, although these are expected to be frontloaded. The customized climate-change mitigation module assumes costs consistent with the 2022 CCDR estimates (2 percent of GDP per year until 2050). The scenarios suggest that a combination of unanticipated additional climate-change mitigation and adaptation costs pose substantial long-term risks to the debt trajectory. Ongoing reforms (as part of the RSF) and other future comprehensive reforms in the water or energy sectors will reduce Morocco's increasing vulnerabilities to climate-related risks. In addition to climate-change, Morocco has significant long-term challenges in the public pension and health care systems. A recent actuarial study from ACAPS also projects a continuous degradation of the active to retired population ratio and predicts that three of the main pension regimes will exhaust financial reserves between the years 2028 and 2044. In the health care system, a recent study from the OECD predicts a deficit of the CNSS starting in 2026 (the CNOPS reached a deficit in 2017). The authorities are working on a comprehensive overhaul of the pension and health care systems that would make them financially sustainable.

Annex V. External Debt Sustainability Analysis

After rising to 54 percent of GDP in 2020, external debt fell to 49.5 percent in 2022. Going forward, it is expected to stabilize at slightly below 50 percent of GDP, as lower government debt from the announced fiscal consolidation will be replaced by greater private sector debt as structural reforms take hold (Table 1). If Morocco experienced a 30 percent exchange rate depreciation—the most extreme shock—the external debt-to-GDP ratio would decrease to about 47 percent (Figure 1). Alternatively, with a shock to the current account, the external debt-to-GDP ratio would increase to about 52 percent.

Annex V. Table 1. Morocco: External Debt Sustainability Framework, 2018-2028

(In percent of GDP unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt 1/	40.5	42.5	54.2	45.9	49.5			**49.1**	**47.5**	**47.5**	**48.0**	**49.0**	**49.5**	**-4.6**
Change in external debt	6.1	2.0	11.7	-8.3	3.6			-0.4	-1.6	-0.1	0.5	1.0	0.5	
Identified external debt-creating flows	-1.2	3.6	3.2	-3.4	-0.3			-1.5	-0.5	-1.1	-0.8	-0.7	-0.4	
Current account deficit, excluding interest payments	5.9	4.4	2.3	3.2	4.5			2.7	3.9	4.3	4.3	4.4	4.6	
Deficit in balance of goods and services	9.5	7.8	7.3	9.2	11.5			8.3	8.8	8.8	8.5	8.3	8.2	
Exports	34.0	34.2	30.8	33.2	44.8			43.0	42.2	41.8	41.5	41.1	40.5	
Imports	43.5	42.0	38.1	42.5	56.3			51.3	51.0	50.5	49.9	49.4	48.7	
Net non-debt creating capital inflows (negative)	-5.2	-3.5	-1.0	-1.1	-1.5			-1.9	-1.5	-2.4	-2.1	-2.1	-1.8	
Automatic debt dynamics 2/	-1.9	2.7	2.0	-5.5	-3.2			-2.2	-2.9	-3.0	-3.0	-3.1	-3.2	
Contribution from nominal interest rate	-0.8	-1.1	-1.1	-1.0	-0.8			-1.1	-1.5	-1.5	-1.5	-1.5	-1.6	
Contribution from real GDP growth	-1.0	-1.3	3.3	-4.0	-0.5			-1.1	-1.5	-1.5	-1.5	-1.5	-1.6	
Contribution from price and exchange rate changes 3/	-0.1	5.1	-0.2	-0.6	-1.8			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 4/	7.3	-1.6	8.5	-5.0	3.9			1.1	-1.1	1.0	1.3	1.8	0.9	
External debt-to-exports ratio (in percent)	119.3	124.5	175.8	138.0	110.5			114.2	112.5	113.6	115.6	119.2	122.2	
Gross external financing need (in billions of US dollars) 5/	15.7	14.0	13.8	15.3	17.6			14.4	19.5	18.3	19.4	19.7	20.0	
Percent of GDP	12.3	10.9	11.4	10.8	13.4	10-Year	10-Year	10.0	12.8	11.3	11.3	11.0	10.6	
Scenario with key variables at their historical averages 6/								**48.1**	**48.2**	**50.9**	**53.6**	**56.7**	**57.5**	**-4.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Nominal GDP (US dollars)	127.3	128.9	121.4	141.8	130.9	122.6	9.7	144.0	152.4	161.4	170.9	180.1	189.7	
Real GDP growth (percent)	3.1	2.9	-7.2	8.0	1.3	2.5	4.0	3.0	3.1	3.3	3.4	3.4	3.4	
GDP deflator in US dollars (change in percent)	0.4	-11.2	0.5	1.1	4.2	-0.2	5.9	6.7	2.6	2.6	2.4	1.9	1.9	
Nominal external interest rate (percent)	-2.4	-2.5	-2.4	-1.9	-1.9	-2.4	0.3	-2.9	-3.2	-3.3	-3.3	-3.4	-3.4	
Growth of exports (US dollar terms, percent)	11.6	1.9	-15.0	26.0	24.4	6.1	12.9	5.6	3.9	4.8	5.1	4.4	3.9	
Growth of imports (US dollar terms, percent)	12.2	-2.3	-14.5	30.3	22.4	5.1	14.9	0.1	5.3	4.9	4.6	4.3	3.8	
Current account balance, excluding interest payments	-5.9	-4.4	-2.3	-3.2	-4.5	-4.6	1.6	-2.7	-3.9	-4.3	-4.3	-4.4	-4.6	
Net non-debt creating capital inflows	5.2	3.5	1.0	1.1	1.5	2.2	1.6	1.9	1.5	2.4	2.1	2.1	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.

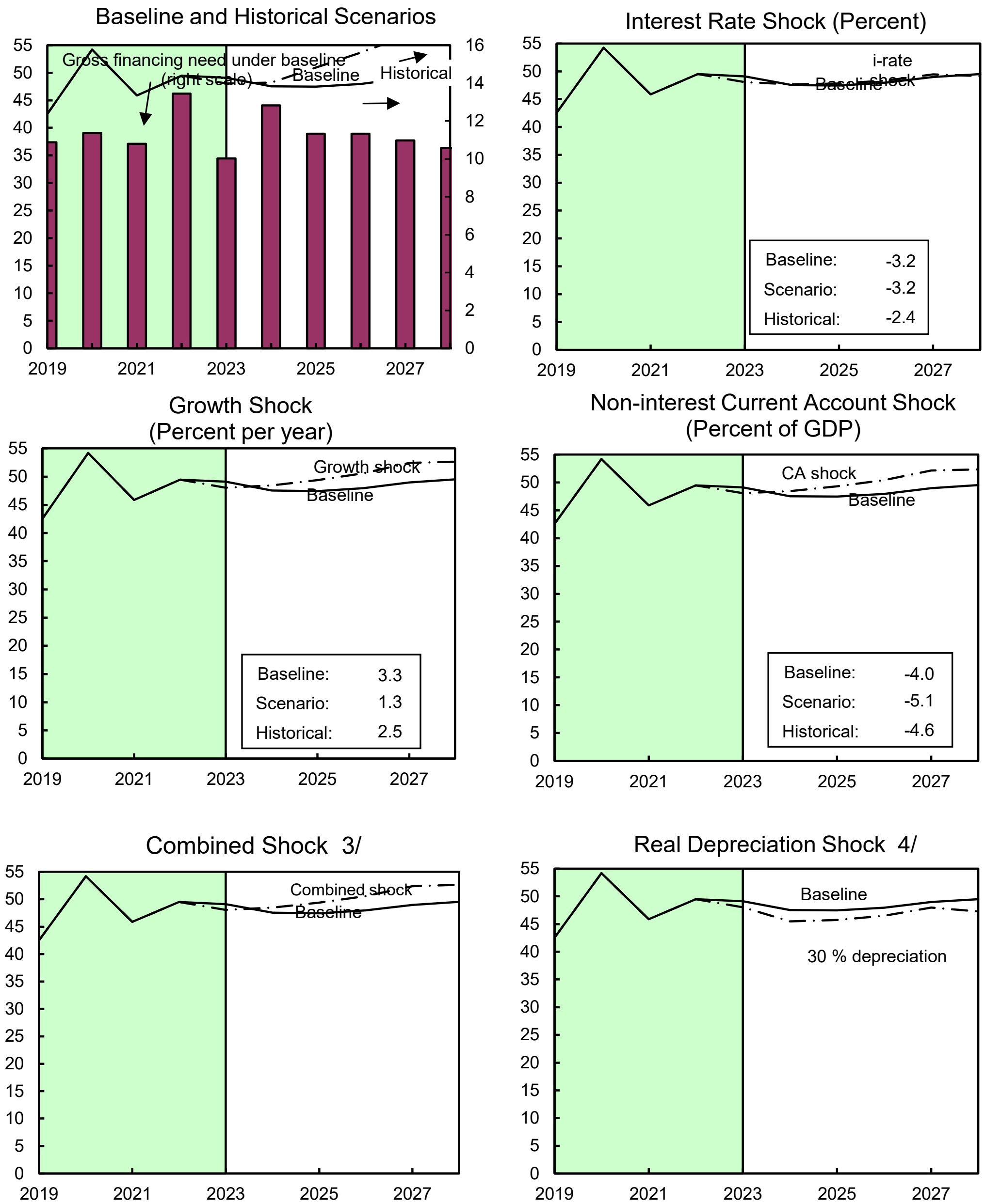
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Annex V. 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

Appendix I. Letter of Intent

Rabat, March 11, 2024

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Madam Managing Director,

Despite the challenges arising from the succession and simultaneity of shocks, the Moroccan economy continues to demonstrate a proven capacity for resilience, the fruit of a robust process of structural and sectoral reforms to lay the foundations for strong, inclusive, and sustainable growth. This process has been accompanied by a targeted deployment of support measures to mitigate the socio-economic repercussions of persistent international geopolitical tensions and the effects of climate change.

Building on this momentum, Morocco has succeeded in curbing inflationary pressures and achieving a rebound in economic growth in 2023 to about 3 percent, after the slowdown to 1.3 percent recorded in 2022, despite persistent drought. This improvement reflects both a relative recovery in agricultural value added and the favorable trend in tertiary activities, notably tourism and transport. After peaking at 10.1 percent in February 2023, inflation gradually eased back to 3.4 percent in December. It thus ended 2023 with an average of 6.1 percent, instead of 6.6 percent in 2022, and decelerated to 2.3 percent in January 2024. Similarly, inflation expectations have been on a downward trend since the third quarter of 2023. In these conditions, and after raising its key rate by 150 basis points between September 2022 and March 2023, Bank Al-Maghrib (BAM) decided at subsequent Board meetings to keep the rate unchanged at 3 percent. Future policy changes will remain data-dependent, and BAM remains committed to taking the necessary decisions to ensure a rapid return of inflation to levels compatible with the objective of price stability.

The external sector performed remarkably well, despite the slowdown in global demand, thanks to sustained growth in exports from Morocco's global businesses, particularly the automotive sector, as well as buoyant revenues from tourism and remittances from Moroccans living abroad. The current account deficit is expected not to have exceeded 1.5 percent of GDP in 2023, compared with 3.5 percent in 2022. As for foreign exchange reserves, they have strengthened in 2023 to reach a comfortable level of over 5.5 months of imports, exceeding 120 percent of the adjusted ARA metric.

The reform of the exchange rate regime, initiated in 2018, is continuing under good conditions, with a marked deepening of the foreign exchange market. The dirham rate continues to move within the fluctuation band without BAM intervention, and assessments conducted by both the authorities and IMF staff confirm that the value of the dirham remains in line with economic fundamentals. The authorities intend to tackle the next stages of the reform at the appropriate time. At the same time, BAM continues to finalize the inflation-targeting framework that will be put in place at an advanced stage of the reform.

The gradual decline in inflation offers some visibility, but the economic outlook, especially internationally, remains surrounded by an elevated level of uncertainty linked in particular to geopolitical tensions and the repercussions of climate change.

The Moroccan banking system is well-capitalized, profitable, and resilient, supported by a risk-based supervisory framework in line with international standards. BAM regularly stress-tests the sector's fundamentals and is stepping up its efforts to integrate the effects of climate change as part of the comprehensive climate finance strategy currently being drawn up by the authorities. To further strengthen the resilience of the financial system, progress has been made in strengthening the bank resolution framework. In addition, BAM is continuing to implement the supervisory review and assessment process, which will be rolled out progressively until 2027, and has introduced capital supplements for the three systemically important banks. In 2024, BAM is expected to adopt a net stable funding ratio, as well as an internal liquidity adequacy assessment process.

The process of consolidating public finances is continuing. The budget deficit has been reduced to 4.4 percent of GDP in 2023, an improvement of 1 point of GDP compared with 2022, and the Treasury debt ratio has been brought down to 70.9 percent of GDP at the end of 2023, compared with 71.6 percent in 2022. This control of the deficit was achieved thanks to the good performance of both tax and non-tax revenues, which made it possible to i) maintain the investment effort in certain structuring projects, ii) cover exceptional expenditure relating to measures taken to support household purchasing power and economic activity, and iii) take care of those affected by the Al-Haouz earthquake.

To reinforce the credibility and transparency of fiscal policy, the government has adopted a three-year fiscal framework, which for the last two years has accompanied the Budget Law. Through this framework, the government reaffirms its determination to continue reducing the budget deficit to 4 percent of GDP in 2024 and 3 percent in 2026, which will further reduce the Treasury's debt-to-GDP ratio. This budgetary framework will be reinforced by the introduction of a rule anchored on a medium-term debt target in the draft amendment to the Organic Law related to the Finance Law, currently being finalized, aimed at strengthening the governance of public finances.

Consolidating public finances and rebuilding fiscal margins to ensure the viability and sustainability of the structural reform program will also require continued optimization of public spending, implementation of the framework law on taxation, and recourse to non-debt-generating financing mechanisms involving increased private sector’s participation.

Morocco gives high priority to the social sectors. Following the extension of the coverage of the compulsory health insurance scheme, a direct social assistance program was launched in December 2023, based on the Unified Social Register (RSU) set up to ensure better targeting of beneficiaries. Priority is also given to continuing the overhaul of the national healthcare system, the implementation of the education reform, and the reform of housing assistance and employment support schemes. To extend the use of the RSU, in order to optimize public spending, an integrated information system will be implemented to ensure better steering and targeting of social programs and budgetary decisions.

The government is pursuing the structural transformation and the strengthening of the resilience of the national economy. Achieving this objective would require, among other things, continuing to restructure the State-Owned Enterprise sector and boosting private investment, by continuing to roll out the new Investment Charter and making the Mohammed VI Fund for Investment operational.

To consolidate the principles of transparency, a new decree on public procurement came into force in September 2023, aimed at improving public procurement management and promoting investment. In the same vein, the Competition Council stepped up its activities to prevent and combat anti-competitive practices, economic concentration, and monopoly operations. The year 2023 was marked by an acceleration in the number of cases overseen and sanctions. In order to further anchor the values of probity and integrity, the operationalization of the *Instance Nationale de la Probité, de la Prévention et de la Lutte contre la Corruption*, whose prerogatives have been strengthened, continues through the reinforcement of both its human capital and the framework of cooperation with the various stakeholders. In addition, particular attention is being paid to modernizing the judicial system, with a focus on the digital transformation of administrative procedures, with the aim of improving access to the law and to transparent, citizen-centric, justice.

On the environmental front, Morocco is committed to pursuing its economic transformation and energy transition, and to combating the effects of climate change. To do so, the government has adopted a series of sectoral strategies aimed at a low-carbon economy, energy security, and better management and protection of water resources. Several legislative, regulatory, and institutional reforms have been launched, as well as major investment projects (solar power plants, wind farms, high-voltage power transmission lines, dams and interconnections of water basins, desalination plants, etc.), which are set to accelerate in the future.

Under the Resilience and Sustainability Facility (RSF) arrangement, Morocco has set itself major ambitions for climate action. The reform measures (RM) under the RSF arrangement, as presented in the attached Memorandum of Economic and Financial Policies (MFEP), are mainly aimed at i) preserving water resources and developing them at the right price; ii) continuing the overhaul of the electricity sector in order to increase the share of renewable energies in the energy mix and reduce dependence on fossil fuels; iii) channeling or directing private investment towards climate-friendly activities, by greening the financial system and aligning it with sustainable development objectives; and iv) strengthening the system of coverage against natural disasters.

The first series of reform measures, aimed at consolidating regulation and transparency in the electricity sector, supporting vulnerable people, and strengthening the system of coverage against natural disasters, was completed by mid-February 2024, with the exception of the measure (RM10) relating to the increase in taxation of polluting petroleum products, that was postponed to next year given its impact on the population in the current context of high inflation and reduced subsidies. We also propose to bring forward to the second review the reform measure on the changes to the legal framework for energy efficiency (RM7), given the progress in implementing it.

Given the continuing uncertainty of the international economy, we believe the Flexible Credit Line (FCL) is well suited to supporting countries such as the Kingdom of Morocco. Indeed, despite very strong policy frameworks and fundamentals, the Moroccan economy remains exposed to exogenous shocks. In this sense, we will continue to treat the FCL arrangement as a precautionary device to cope with extreme risks in the event of severe shocks to the balance of payments, and to respond appropriately to any shocks that may arise in the future. By continuing to strengthen its economic resilience, notably by improving its fiscal and external buffers and further diversifying its economy, Morocco should be able to exit the FCL agreement once the exogenous risks to which the national economy is exposed have declined significantly.

We will continue our close dialogue with the IMF within the framework of the RSF arrangement and will consult with the Fund prior to any revision of the reform measures contained in the MEFP, in accordance with Fund's policies. In addition, we will continue to provide the IMF with information relating to our progress in implementing the agreed reform measures and achieving their objectives.

In keeping with our policy of transparency, we authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

We would like to thank the Executive Directors, staff, and management of the IMF for their support of Morocco's reform program and for their constructive opinions during the Article IV discussions and the FCL and RSF reviews. We look forward to continuing our close and fruitful cooperation with the Fund in the period ahead.

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

Attachment I. Memorandum of Economic and Financial Policies

1. Morocco is highly exposed to the risks associated with climate change and natural disasters, mainly drought, water stress, floods, and earthquakes. Aware of the importance of these issues, over the past 15 years, our country has proactively and voluntarily implemented structural reforms aimed at adapting and mitigating environmental constraints and coping with climate change and natural disasters. Within this framework, the National Sustainable Development Strategy (SNDD) aims to ensure the transition to a green and inclusive economy by 2030. This strategy also aims to provide a concrete response to Morocco's international commitments following the ratification and signature of several international protocols and conventions, such as the Kyoto Protocol and the Paris Agreement in 2016, and to contribute to the stability of the balance of payments. In 2021, a process to overhaul the SNDD was launched following its evaluation. The aim is to ensure greater convergence towards the Sustainable Development Goals (SDGs) and contribute to the implementation of the New Development Model (NMD). A draft of the new strategy for 2035 is currently being finalized.

2. The government has set high ambitions for climate action in the revised National Determined Contribution (NDC) in 2021, with a target of reducing greenhouse gas (GHG) emissions by 45.5 percent by 2030. This will require substantial financing, estimated at USD 78.8 billion. The RSF arrangement would enable Morocco to implement its energy and climate change strategies and meet its commitments under the United Nations Framework Convention on Climate Change (UNFCCC), by complementing the financing mobilized from other donors, notably the World Bank (WB).

3. The water issue is a priority for Morocco. The draft National Water Plan (PNE) envisages major investments in this sector over the period 2020-2050, in order to bridge the gap between supply and demand. The National Program for Drinking Water Supply and Irrigation for the period 2020-2027 (PNAEPI) aims at consolidating efforts to secure water supply, at an estimated cost of USD14 billion. To this end, Morocco will pursue the construction of dams, the development of seawater desalination projects using renewable energies (with a target of 1 billion m^3 by 2030), and the reinforcement and securing of drinking water supplies via interconnection projects between hydraulic systems. Morocco is also targeting improved demand management by saving and reusing water (for drinking, industrial, and irrigation purposes), boosting drinking water supplies in rural areas, and reusing treated wastewater, while implementing a communication and awareness-raising strategy.

4. Through the PNE and PNAEPI, the government is pursuing a multi-dimensional approach, in line with the NMD's recommendations to introduce pricing that reflects the true value of water and encourages rationalization of its use and management of its scarcity. To this end, in November 2023, the Ministry of Equipment and Water (MEE) launched a strategic study on the cost of water in Morocco. This study, which will subsequently be submitted to the inter-ministerial Water Commission, will identify the true cost of water (CAPEX-OPEX) by component and by source, and analyze current water management and governance and future trends in its cost (RM1, February 2025). Based on international experience, it will put forward concrete proposals for improving water pricing and cost recovery systems, with a view to more efficient, integrated, and sustainable management from a technical, economic, financial, social, and environmental standpoint.

5. The government is also determined to pursue actions aimed at preserving groundwater resources, notably by adopting two important decrees implementing Law 36-15 on water (RM1, February 2025). The first decree sets out the conditions and procedures for delimiting safeguard and prohibition perimeters, and for granting authorizations and concessions within these perimeters. The second decree sets out the criteria and procedures for delimiting close or remote protection perimeters, and the installations, works, and acts that may be prohibited or regulated within these perimeters.

6. Reforms in the water sector are closely linked to those in the energy sector, particularly when it comes to seawater desalination and the reuse of treated wastewater, which are highly energy-intensive. Morocco was one of the first middle-income countries to commit to an ambitious renewable energy development program through its National Energy Strategy 2009-2030. This strategy aims, in particular, at reducing the country's dependence on fossil fuels, including coal, through substantial investments aimed mainly at:

- The development of renewable energies in the electricity mix, to reach 52 percent of installed renewable energy capacity by 2030. The government intends to achieve this objective by continuing its efforts to strengthen generation capacity and the electricity transmission network, supported by the *Office National de l'Electricité et de l'Eau Potable* (ONEE), MASEN, and the private sector, which is promoting the installation of additional capacity, particularly from renewable sources.
- An increase in the share of natural gas (an energy transition fuel) in the energy mix. As part of the 2023-2027 Electricity Equipment Plan, it is planned to convert the oil-fired gas turbines at Kenitra and Mohammedia to natural gas by 2027, to gradually reduce the share of coal to encourage the production of clean energy. To this end, the Ministry of Energy Transition and Sustainable Development (MTEDD) will submit a gas strategy to enable ONEE to plan its investments in natural gas as part of its Equipment Plan.
- The reinforcement of the transmission network to bring large quantities of wind power from the southern region to the central region of the country (3,000 MW over 1,600 km).
- The development of green hydrogen through the preparation of a "Moroccan offer" covering the entire value chain of the green hydrogen industry.

7. To achieve the objectives set by the energy strategy and attract more private investment, the government is committed to continue the in-depth restructuring of the electricity market, notably through:

- The separation of ONEE's generation, transmission, and distribution activities and the strengthening of the transmission network, with the creation of a national Transmission System Operator, as stipulated by Law 48.15 on electricity sector regulation, with the support of the WB and the European Union (EU). To this end, the *Agence Nationale de Régulation de l'Electricité* (ANRE) will begin by examining and approving the proposal put forward by ONEE for the separation of its transmission-related financial accounts (RM2, February 2025).

- The reform of the distribution sector, through the creation of *Sociétés Régionales Multiservices* (SRM), which will have exclusive rights to distribute electricity, drinking water, and liquid sanitation. The main objectives of this reform are to optimize investment and reduce operating costs, thanks to territorial continuity and the pooling of resources and infrastructure; to secure the supply of drinking water and electricity; to save water and energy; and to meet the challenges of climate change and sustainable development. Law 83.21 on the creation of these companies was adopted on July 13, 2023, and the implementing decrees for Article 2 of this law, which sets out the list of regions concerned, and Article 14, which concerns the transfer of assets belonging to ONEE, were adopted by the Government Council on February 1, 2024. In line with the principle of progressive implementation of this reform, four SRMs relating to the Casablanca-Settat, Marrakech-Safi, Souss-Massa, and Oriental regions are to be set up in 2024.
- The strong involvement of the private sector in electricity generation, particularly through the continuation of the regulatory process for setting service tariffs. The latter is an essential condition for investors to commit to electricity generation for their private customers, and even for distributors. The ANRE, created in 2021, plays an important role in this area by virtue of Laws no. 82-21 and no. 40-19. As such, in February 2024, it published the tariff for the use of the national electricity transmission network and the tariff for system services, which are set for the period 2024-2026, as well as the national electricity system's renewable energy hosting capacity for the period 2024-2028 (RM3, February 2024). ANRE will also publish the tariff(s) for access to the medium-voltage electricity distribution network by renewable energy producers (RM4, February 2025).
- The implementation of the legislation on the electricity sector (Laws 48-15, 40-19, and 82-21), notably through the gradual adoption of the regulatory texts provided for by these laws, with at least one decree in addition to the two planned for 2024 under the program with the EU (RM5, February 2025).
- The effective implementation of the new provisions set out in Law 48-15, notably through ANRE's approval and publication of the quality indicators to be respected by the national transmission system, in terms of safety, reliability, and efficiency, which should be updated regularly (Art 12 of Law 48.15), and of the Transmission System Operator's code of conduct (Art 13 of Law 48.15) (RM6, September 2024).

8. The development of Morocco’s economy, highlighted by the major reforms completed or underway in all economic and social sectors, has brought about a sustained growth of the demand for energy. Against this backdrop, Morocco has made energy efficiency a priority in its national energy strategy, with the ambition of improving energy efficiency by 20 percent by 2030. The country is committed to continuing its efforts in this direction by completing the legislative framework relating to energy efficiency (Law 47-09), with the adoption of several ministerial decrees specifying labeling and minimum energy efficiency standards for three energy-intensive products: electric motors, air conditioners, and refrigerators. These products and the related standards were identified based on impact studies and preliminary analyses carried out by MTEDD. A similar order will be prepared for lighting products, following the same procedure. In the same vein, the draft decree on energy service companies (ESCOs) will be adopted, providing a framework for this activity and promoting the use of energy performance contracts, which constitute one of the solutions to the difficulties encountered by some companies in mobilizing financing for energy efficiency investment. In addition, preliminary studies and legal texts relating to lowering the energy consumption threshold associated with the mandatory audit are currently being drawn up, to increase the proportion of entities subject to this requirement (RM7, February 2025). Given the good progress made so far on this reform measure, it is proposed to bring forward its expected completion date from February 2025 to September 2024.

9. In terms of public finance, and as part of its climate risk management, the Ministry of Economy and Finance (MEF) will regularly publish, on an annual basis, starting with the three-year budget programming document accompanying the 2025 Budget Law and with the technical assistance of the International Monetary Fund (IMF), a debt sustainability analysis that will integrate the impact of climate change (RM8, February 2025). In addition, Climate Budget Tagging, currently being set up with the support of the WB and the *Agence Française de Développement* (AFD), will make it possible to better identify, assess, and monitor climate-related public programs and expenditures, and thus optimize available resources and determine the financing required to achieve the country's climate objectives.

10. Improving climate resilience also involves integrating the negative externalities associated with the use of "brown" energies and products into the framework of economic policies, particularly taxation. To this end, the government is committed to developing and progressively adopting a roadmap for the introduction of a carbon tax (RM9, February 2025). This measure is part of the implementation of the provisions of Article 7 of the framework Law no. 69-19 on tax reform and should be implemented in consultation with all public and private stakeholders. In the first stage, the aim is to analyze the current situation (inventory and assessment of the effectiveness of existing environmental tax measures) and, in the second stage, to identify the prerequisites for the adoption of a carbon tax, its scope (it could concern the 5 sectors covered by the European Carbon Border Adjustment Mechanism, CBAM, making it possible to avoid paying taxes to the EU and maintain them at national level), its generating event, and its level. With technical support from the WB, this work will be based on international best practices, as well as on simulations and modeling exercises of macroeconomic and microeconomic impacts.

11. Morocco has already adopted several measures to reform its environmental tax system. For example, it has introduced several tax incentives for activities considered green, including i) the exemption for electric and hybrid vehicles from the proportional stamp duty on first registration and the special annual vehicle tax (TSAV), ii) the reduced VAT rate (10 percent) for photovoltaic panels and solar water heaters, and iii) the introduction of a consumption tax on energy-consuming equipment. In the same vein, Morocco began eliminating fuel subsidies in 2013, except for the subsidy to gas butane, which it plans to phase out gradually. To this end, in February 2024, the MEF amended decree no. 1242-16 that sets the gas butane take-back and sales prices, to ratify the increase in butane gas prices over the next three years, starting in May 2024 (RM11, February 2024). Given the major reforms undertaken by the government (like the reduction in subsidies) and the difficult economic context (marked by the elevated overall inflation amidst high food and energy prices) the measure envisages a gradual increase of the VAT rate on petroleum products (RM10, scheduled for February 2024) has been postponed to the next Budget Law (2025), with the prospect of more favorable economic and social conditions. Aware that these reforms could have negative repercussions on certain sections of the population, especially in the current context, accompanying measures have been put in place to mitigate their impact. These include the extension of cash transfers under the new Unified Social Register, an action which began in December 2023, as well as new support for farmers to enable them to replace butane gas with solar pumps in the irrigation of small fields, through the conclusion, in February 2024, of an agreement between the MEF and the Ministry of Agriculture (RM12, February 2024). The phasing-out of subsidies and cash transfers is in line with international best practice.

12. To direct consumption towards "green" products, MEF will draw up and approve a list that better distinguishes climate-friendly products from polluting ones in the World Customs Organization (WCO) Harmonized System (HS) and introduce climate-sensitive tariff policy changes into the Finance Act based on this product list. In concrete terms, this involves identifying and classifying products according to their environmental impact, in order to adapt tariff policy to environmental objectives, either to promote or to discourage the cross-border circulation of certain products according to their environmental impact. In this respect, the government will ensure that the proposed tariff adjustments comply with World Trade Organization (WTO) rules.

13. With regard to the management of risks linked to natural disasters, in 2020, Morocco set up a two-pronged coverage scheme: an insurance component covering bodily injury and insured property (residence, commerce, industry, etc.), and an allocation component which, through the *Fonds de solidarité contre les événements catastrophiques* (FSEC), guarantees all uninsured individuals present on the national territory a minimum right to compensation in the event of the occurrence of a catastrophic event. In February 2024, in order to strengthen the system of coverage against the consequences of natural disasters, the Government Council approved the draft amendment to decree no. 2-18-785 of April 29, 2019, for the application of Law no. 110-14 instituting a system of coverage against the consequences of catastrophic events, presented by the MEF (RM13, February 2024). This measure has made it possible, in particular, to define a time clause for catastrophic events by type of catastrophic event in line with international best practice in the field, which is likely to improve the conditions for transferring risk to the international reinsurance market, which has become increasingly severe with the observed increase in the frequency and severity of natural disasters.

14. Channeling and directing private finance towards climate and environmental priorities remains fundamental, particularly if the Kingdom's ambitious NDC targets are to be met. With this in mind, on the occasion of the organization of COP22 in Marrakech in 2016, MEF, Bank Al-Maghrib (BAM), the Moroccan Capital Market Authority (AMMC), the Insurance and Social Security Supervisory Authority (ACAPS), and other players agreed to start a process of greening the financial system, through the development of a roadmap for climate finance aimed at aligning the financial sector, in all its components, with the challenges of sustainable development.

15. With this in mind, BAM has embarked on a process aimed at including climate change in its missions, to ensure that the banking sector remains robust in the face of climate risks, promote green finance, and reduce the environmental footprint of its activities. To this end, it has undertaken several initiatives, such as the publication, in 2021, of a directive on the management of financial risks linked to climate change and the environment. This directive draws on international principles and best practices enacted in green finance, particularly the recommendations of the Network of Central Banks and Supervisors for the Greening of the Financial Sector (NGFS), of which BAM has been a member since 2018, and the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Similarly, the AMMC has put in place guidelines for developing a framework for green and sustainable bond issuances in Morocco, which has enabled several green bond issuance operations to be carried out by domestic players. In addition, to strengthen international cooperation, MEF joined the International Platform on Sustainable Finance in 2019 and the Finance Ministers' Coalition on Climate Change in 2022 and is working to green the financial sector and promote green investments. Capitalizing on these achievements, and accelerating the mobilization of the private sector for the financing of the green transition, Morocco is committed to implement a set of concrete measures, namely:

- The introduction of a National Climate Finance Strategy, which allows to estimate the potential financing to be mobilized by the financial sector, to achieve the country's climate change mitigation and adaptation objectives, and the means of mobilizing it, while improving climate risk management in the financial sector (RM14, September 2024). To this end, a scoping workshop was organized in January 2024 with the participation of MEF, BAM, AMMC, and ACAPS in collaboration with the WB, which led to the establishment of a steering committee for the elaboration of the strategy as well as the definition of the process for its preparation, its scope, the themes to be addressed, and the timetable for completion. Similarly, a roundtable bringing together the various players involved in climate financing in Morocco will be organized, in collaboration with the IMF, to explore new options for attracting private financing for climate programs.
- The introduction of a national green financial taxonomy, an essential element in directing private financing towards green assets and projects, with the support of the WB, and in coordination between the MEF and financial sector regulators (BAM, AMMC, and ACAPS) as well as other public and private sector stakeholders. In this respect, a framework note for the preparation of the taxonomy has been drawn up, defining the milestones for its preparation and implementation.
- The definition of a framework for sovereign green bond issuances, with the support of the WB, which could facilitate the realization of these issuances on the international financial market in a second stage, if the conditions are met.
- The gradual introduction by MEF, through the *Société Nationale de Garantie et de Financement de l'Entreprise* (TAMWILCOM), of requirements for assessing the environmental impacts of investment projects benefiting from State credit guarantees and exceeding a certain threshold. The technical modalities of this assessment will be the subject of in-depth discussions between MEF, TAMWILCOM, and possibly, other stakeholders, with a view to defining appropriate criteria for assessing these projects (RM15, September 2024). This reform will generate a significant demonstration effect and should encourage Moroccan banks to integrate the environmental dimension into their decision-making process, and companies to assess the environmental impact of their activities. It will also enable the State to act as a catalyst for the gradual greening

of the financial sector and the channeling of financing towards green investments or projects with a favorable impact on the climate/environment.

- The publication by BAM, by the end of February 2025, of supervisory guidelines on climate risk disclosure and reporting for banks, based on the guidelines issued by the International Sustainability Standards Board (ISSB), as well as bank-specific guidelines on the collection and reporting of large borrowers' exposures to key climate risks (RM16). This measure will complement those already in place or being implemented with the support of other donors. For example, a memorandum was signed in 2022 between BAM, the *Groupement Professionnel des Banques du Maroc* (GPBM), and the European Bank for Reconstruction and Development (EBRD) to facilitate the convergence of Moroccan banks' climate risk management practices to the 2021 regulatory directives on climate risks and international best practices. Similarly, in 2022, with the support of the WB, BAM finalized the first climate risk assessment exercise for the Moroccan banking sector.

16. An inter-ministerial committee, comprising representatives of all stakeholders, has been set up by MEF to coordinate and monitor the implementation of the reform measures under the RSF arrangement.

Attachment I. Table 1. Morocco: Reform Measures Under the RSF Arrangement				
RM number	**Reform Measures (RM)**	**Availability Dates**	**Reviews**	**Implementation Status**
1	The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study that assesses the actual cost of water and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Water and Equipment will also adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the protection of groundwater resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close, or distant protection perimeters).	25-Feb	3	
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	25-Feb	3	
3	ANRE will publish the tariffs for the utilization of the national electricity transmission network and the system service fees (by Oct 2023) and the capacity of the grid to receive electricity from renewable sources.	24-Feb	1	Implemented
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	25-Feb	3	
5	The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (laws 48-15, 40-19, and 82-21) (in addition to the two decrees envisaged under the EU *Energy Verte* program).	24-Sep	2	
6	ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the code of good conduct for the Transmission System Operator.	24-Sep	2	
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); and iv) prepare a study and regulatory texts on lowering the threshold of energy consumption associated with the obligatory audit.	24-Sep	2	Proposed to be moved to 2nd review from 3rd review

Attachment I. Table 1. Morocco: Reform Measures Under the RSF Arrangement (continued)				
8	The Ministry of Economy and Finance will publish on a regular basis, starting with the *Document de programmation budgétaire triennale* accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with technical assistance from the Fund.	25-Feb	3	
9	The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a carbon tax, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	25-Feb	3	
10	The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure by increasing the tax rate on polluting fuels products.	24-Feb	1	Not implemented. Expected to be implemented with delay in the context of the third review.
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	24-Feb	1	Implemented
12	The Ministry of Economy and Finance will mitigate the impact on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.	24-Feb	1	Implemented
13	The Ministry of Economy and Finance will complete the legal framework for the coverage against the risks of natural disasters by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.	24-Feb	1	Implemented
14	The Ministry of Economy and Finance, BAM, and the Capital Market and Insurance regulators will adopt and publish a National Climate Finance Strategy that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector.	24-Sep	2	
15	The Ministry of Economy and Finance will advance in greening the national support system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	24-Sep	2	

Attachment I. Table 1. Morocco: Reform Measures Under the RSF Arrangement (concluded)				
16	BAM will issue supervisory guidelines on disclosure and reporting for banks in relation to climate risks, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.	25-Feb	3	

INTERNATIONAL MONETARY FUND

MOROCCO

March 11, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY ARRANGEMENT, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND[1]

Membership Status: Joined: April 25, 1958; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	894.40	100.00
IMF's Holdings of Currency (Holdings Rate)	2,244.99	251.01
Reserve Tranche Position	150.08	16.78

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	1,418.66	100.00
Holdings	1,465.32	103.29

Outstanding Purchases and Loans:	SDR Million	%Quota
Precautionary and Liquidity Line	1,499.80	167.69

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	Apr 03, 2023	Apr 02, 2025	3,726.20	0.00
RSF	Sep 28, 2023	Apr 02, 2025	1,000.00	0.00
PLL	Dec 17, 2018	Apr 07, 2020	2,150.80	2,150.80

Overdue Obligations and Projected Payments to Fund 1/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	962.10	537.70			
Charges/Interest	56.85	8.43	0.02	0.02	0.02
Total	1,018.95	546.13	0.02	0.02	0.02

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

[1] Financial Position in the Fund for Morocco as of December 31, 2023 (imf.org)

Exchange Rate Arrangement

Morocco's de jure and de facto exchange rate system is a pegged exchange rate within horizontal bands. As part of a gradual and orderly transition to a more flexible exchange rate regime, the authorities further broadened the dirham's fluctuation band to ±5 percent on March 6, 2020 (from ±2.5 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent.

BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Morocco has accepted obligations under Article VIII, Sections 2(a), 3, and 4, of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for restrictions that Morocco maintains solely for the preservation of national or international security and have been notified to the Fund pursuant to Executive Board Decision 144 (52/51). Capital controls are currently in place in Morocco, but are in the process of being loosened (e.g. lower surrender requirements for exports and higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of February 1, 2024, the USD/dirham exchange rate was USD 1=DH 10.006.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 17, 2023. The discussions for the 2024 consultation were held during January 30–February 13, 2024.

Technical Assistance

Table 1. Morocco: Technical Assistance			
Dept.	**TA**	**Start Date**	**End Date**
METAC	Morocco Jan FY24 Fundamental Review of the Trading Book (FRTB)-Developing Regulation	15 January 2024	19 January 2024
MCMPI	Morocco FY24 June Central Bank Digital Currency Follow-Up	01 June 2023	31 December 2023
MCMPI	Morocco FY24 June Central Bank Digital Currency Follow-Up	01 June 2023	31 December 2023
MCMPI	Morocco FY24 June Central Bank Digital Currency Follow-Up	01 June 2023	31 December 2023
STA	STAGO Government Finance SGF-FY24-1	01 February 2023	01 April 2026
FAD	Developing a Compliance Improvement Plan for the Large Taxpayer's Segment	12 January 2023	20 January 2023
METAC	Morocco Nov FY23 SREP Guidelines review and training: Hybrid-in-person	14 November 2022	17 November 2022
METAC	Morocco Nov FY23 SREP Guidelines Review and training: Hybrid-virtual	09 November 2022	11 November 2022
MCM	Developing Trading Platform	07 September 2022	20 September 2022
FAD	Internal Control and Audit	20 June 2022	08 July 2022
MCM	Financial Supervision and Regulation	20 June 2022	24 June 2022
MCMFR	Morocco June FY23 SREP Methodology Review	20 June 2022	24 June 2022
FAD	FAD-MTFF and Fiscal Rule	01 June 2022	01 November 2025
MCM	MCMCO - Central Bank Operations- FXM-FY23-1	01 June 2022	01 April 2024
FAD	Revenue Administration	18 April 2022	05 May 2022
MCM	MCMCO - Central Bank Operations	01 April 2022	01 June 2024
MCM	Central Bank Digital Currency	30 March 2022	30 March 2022
FAD	Improving Compliance Risk Management	14 March 2022	25 March 2022
STA	(Remote TA) Morocco - TA - FSI	01 March 2022	
ICD	Financial Development and Financial Inclusion	07 February 2022	18 February 2022
MCMPI	Morocco Oct 22 Central Bank Digital Currency	15 December 2021	31 March 2022
METAC	Internal Control framework (virtual	11 October 2021	22 October 2021
ICD	Review of Forecasting and Policy Analysis System (FPAS) and Communications (Virtual)	23 August 2021	10 August 2021
METAC	Supervisory Review and Evaluation Process (virtual)	23 August 2021	10 September 2021
FAD	FADEP Energy Subsidy Reform Paper	01 August 2021	01 March 2022
MCM	Central Bank Digital Currency Issuance	01 August 2021	01 April 2025
MCMFR	FY 22 TA SREP development	25 June 2021	27 July 2021
MCMFR	FY 22 TA SREP development	25 June 2021	27 July 2021
FAD	FAD-PFM Internal Control Framework	01 April 2021	01 April 2025
METAC	Implementation of Basel II and III Standards (virtual)	01 April 2021	
METAC	Fiscal Risks from SOEs (virtual)	08 March 2021	19 March 2021
METAC	Risk Management Unit and Tax Governance (virtual)	01 March 2021	15 March 2021
FAD	"Mise en Place d'une Unité de Gestion des Risques et Gouvernance, Setting up a Risk Management and Governance Unit	01 March 2021	15 March 2021
STA	Government Finance	01 February 2021	01 February 2021
METAC	VIRTUAL (COVID): METAC: Implementation of Basel II & III	30 January 2021	06 February 2021
FAD	PFM Cash Management	01 January 2021	01 April 2023
MCM	Financial Supervision and Regulation	01 January 2021	01 April 2024
STA	Real Sector - National Accounts	01 January 2021	01 April 2025

FSAP Update

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

Safeguard Assessment

The 2019 assessment found strong safeguards at the central bank. Steps taken by BAM to enhance financial reporting transparency have laid the groundwork for the transition to International Financial Reporting Standards (IFRS), which is planned in accordance with the timelines of the national convergence project in Morocco. This project, which faced some COVID-19 related delays, is nonetheless ongoing with TA from the World Bank and the national accounting body in Morocco is expected to issue a draft code which will lay the foundation for the legal amendments to the national accounting law. This draft is still under discussion with concerned parties. A recently completed safeguards procedures for the Morocco FCL arrangement was approved by the Board on April 3, 2023, and indicate no significant issues.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of February, 2024

Projects (worldbank.org)

STATISTICAL ISSUES

As of February, 2024

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance. Morocco compiles annual and quarterly GDP. The base year used to derive constant price estimates is 2014. The HCP is currently developing a price index for services. Plans are in place to develop a construction cost index, and a producer price indexes for agricultural products. The CPI weight reference period is 2017.	
Government finance statistics: Fiscal data are adequate for surveillance. Recent expansion of the coverage to consolidated general government is an important progress, but the continuous provision of individual subsectors (central government, social security schemes and local governments) is relevant for analysis and surveillance. Future enhancements could include the provision to the Fund of debt data at both face and nominal value and initiating the compilation of other accounts payable and nonfinancial corporations debt data.	
Balance of payments statistics: External sector data are adequate for surveillance. The Office des Changes of Morocco submits timely balance of payments and international investment position statistics and participates regularly in the annual Coordinated Direct Investment Survey.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department (STA) using the standardized report forms. Bank Al-Maghrib reports some key indicators of the Financial Access Survey (FAS), including the two indicators adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals. **Financial Sector Surveillance.** Morocco does not report financial soundness indicators (FSIs). A technical assistance mission conducted in October 2018 assisted Bank Al-Maghrib in compiling a set of FSIs for deposit takers based on internationally accepted standards as set out in the IMF's *FSI Compilation Guide but* regular reporting of FSIs has not started yet.	
II. Data Standards and Quality	
Morocco has been an SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Table 2. Morocco: Common Indicators Required for Surveillance

(As of February 22, 2023)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items: Data Quality – Methodological soundness[8]	Memo items: Data Quality – Accuracy and reliability
Exchange Rates	Jan. 2024	01/31/2024	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2023	11/07/2023	M	M	M		
Reserve/Base Money	Jan. 2024	02/07/2024	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Dec. 2023	01/30/2024	M	M	M		
Central Bank Balance Sheet	Dec. 2023	01/30/2024	M	M	M		
Consolidated Balance Sheet of the Banking System	Dec. 2023	01/30/2024	M	M	M		
Interest Rates[2]	Jan. 2024	01/31/2024	M	M	M		
Consumer Price Index	Jan. 2024	02/22/2024	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]			A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	Jan. 2024	02/12/2024	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2022	05/23/2023	Q	Q	Q		
External Current Account Balance	Q3/2023	12/29/2023	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Dec. 2023	02/02/2024	Q	Q	Q		
GDP/GNP	Q3/2023	1/04/2024	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2023	9/27/2023	Q	Q	Q		
International Investment Position [6]	Q3/2023	12/29/2023	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[8] Reflects the assessment provided in the data ROSC published on April 4, 2003 and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

Statement by Mr. El Qorchi Alternate Executive Director for Morocco
March 26, 2024

I. Article IV Consultation

Global Economic Situation

Thanks to continued structural reforms, the Moroccan economy demonstrated remarkable resilience in 2023 in a global context dominated by geostrategic conflicts and slow growth in its economic partners. Furthermore, Morocco faced headwinds from a fourth drought in the past five years, exacerbating already concerning water scarcity, and from the consequences of a devastating earthquake.

Macroeconomic Developments and Policies

Growth in 2023 rebounded to 3 percent, from 1.3 percent in 2022, driven by strong exports and domestic demand. It reflected a relative recovery in the agricultural sector and a good performance in the tertiary sector. Nonetheless, unemployment has risen to 13 percent—compared with an average pre-COVID of 9.4 percent—reflecting continued jobs losses in the agricultural sector due to persistent drought. Growth is expected to accelerate in 2024 to 3.7 percent owing to the impact of investment and the generalization of social protection.

Inflation has continued its downward trend from a peak of 10.1 percent in February 2023, falling to 3.4 percent in December and 2.3 percent in January 2024. Inflation expectations have followed a similar trend since the third quarter of 2023. Bank Al-Maghrib (BAM) conducted a data-dependent monetary policy which led to three consecutive hikes of its policy interest for a cumulative 150 bps between September 2022 and March 2023. In a context of abating inflation, BAM has decided to maintain its rate at 3 percent since then.

The Moroccan banking system is resilient, profitable, and well-capitalized. Its soundness is underpinned by a risk-based supervisory framework anchored on best international standards. BAM conducts stress tests regularly and is stepping up efforts to integrate the effects of climate change in its comprehensive climate finance strategy. It is also strengthening its bank resolution framework to further strengthen the financial system's resilience. It has introduced capital surcharges for the systemically important banks, raising their Tier 1 capital ratio from 9 to 11 percent before 2025.

The external sector performance was remarkable in 2023 despite the slowdown in global demand. The current account deficit improved significantly owing to a reduced trade deficit, stronger exports services mainly from tourism and sustained remittances. International reserves exceeded 5.5 months of goods and services imports and represented more than 120 percent of the adjusted ARA metric. The dirham continued to move within the fluctuation band without BAM intervention and its value remains in line with economic fundamentals.

The overall fiscal deficit decreased in 2023 by about 1 percent from 2022 to reach 4.4 percent of GDP and the central government's debt was reduced to 70.9 percent of GDP from 71.6 percent in 2022. The General government debt was at 65 percent of GDP in 2023. The central government's debt is assessed as sustainable with high probability and the overall risk of sovereign stress is assessed to be moderate.

The fiscal performance was achieved thanks to the improvement in fiscal revenues. Concomitantly, the government pursued its investment programs while sustaining exceptional expenditures to foster economic activity, support household purchasing power, and address the urgent needs of earthquake victims. In the aftermath of the earthquake, the authorities have announced a reconstruction plan, amounting to about 8 percent of GDP, over a 5-year period for rebuilding villages and infrastructure as well as improving the living conditions in the affected regions. About half of the financing is expected to be raised through domestic resources.

Reinforcing the credibility and transparency of fiscal policy is deemed a priority. In this regard, the government has adopted a three-year fiscal framework, which for the last two years has accompanied the Budget Law, to provide information on its fiscal policies and priorities. This framework underpins the government's determination to bring the fiscal deficit to 4 percent of GDP in 2024 and 3 percent in 2026, which would reduce the central government debt-to-GDP ratio.

Structural Challenges

The authorities have pursued their ambitious structural reforms and are committed to implementing far-reaching economic transformation. Their approach to reforms embodies strengthening social safety net and improving living conditions of the population. The generalization of the social protection system, which represents a milestone in the social protection reform, has started in 2021. The extension of mandatory basic health insurance (AMO) became operational by the end of 2022. At the end of 2023, about 10 million people were registered in the Unified Social Registry (RSU), which allows better targeting and channeling direct assistance to eligible beneficiaries.

In the context of the overhaul of the national healthcare system, the registry has been used to validate the transfer of those previously benefiting from free healthcare to the new mandatory health insurance. The generalization of healthcare insurance will play a key role in reducing income inequality and informality. In addition to the 10 million people already included in the compulsory basic health insurance, it is expected that 22 additional million people will eventually be covered with the same healthcare services.

The reform of social protection also includes the extension of family allowance, which started in December 2023, the extension of the pension system, and the extension of the existing unemployment benefit scheme, envisaged by 2025. By offering an integrated information system, the RSU will be instrumental in optimizing public spending and better steering social programs and budgetary decisions. Moreover, the reform of the education sector is ongoing and a new phase has started by the announce of a new teachers' statute linking remuneration to continuous formation and performance.

Reforming SOEs and boosting private investment are key for enabling the structural economic transformation and further consolidating the resilience of the economy. The new agency responsible for the restructuring of SOEs began the elaboration of the state shareholder policy. Considering the primacy given to the role of the private sector, bolstering private investment will benefit from the implementation of the New Investment Charter and operationalization of the Mohammed VI Fund for investment.

Further enhancing the business environment is also an important goal of the government. To consolidate transparency, a new decree on public procurement was enacted in September 2023 with a view to improving management of public procurement and promoting investment. Moreover, tangible measures are taken by the Competition Council to prevent and combat anti-competitive practices, economic concentration, and monopolistic behavior as demonstrated by the increase in the number of cases reviewed and sanctions imposed. To enforce a culture of probity and integrity, the National Authority for Probity, Prevention, and the Fight Against Corruption is strengthening its capacities by hiring qualified investigative staff and enhancing its cooperation framework with various stakeholders. Particular attention is being paid to the modernization of the Judiciary system with a focus on the digital transformation of administrative procedures.

II. Review of Fund Arrangements

Morocco continues to benefit from close cooperation with the Fund. Fund arrangements are instrumental in ensuring that policies maintain economic and financial stability and supporting the pace of the wide-ranging structural reforms.

As regards the FCL, Morocco continues to demonstrate a sustained track record of implementing very strong policies and meet the nine qualification criteria. The policies put in place and the ongoing far-reaching reforms, in a context marred with multiple exogenous shocks, denote that Morocco has very strong macroeconomic policies and institutional frameworks. The FCL has served as an important precautionary buffer helping the authorities pursue very strong macroeconomic policies and ambitious reforms in a context marked by still elevated risks. Morocco will continue to treat the FCL arrangement as a precautionary instrument to cope with extreme risks and respond appropriately to shocks that may arise in the future. Morocco should be able to exit the FCL agreement once the exogenous risks have subsided significantly.

Regarding the environmental challenges, the authorities are committed to achieving net-zero GHG emission by 2050 and have implemented adaptation and mitigation reforms to confront environment constraints. Being highly exposed to risks related to climate change and natural disasters, particularly drought, they are pursuing determined policies towards energy transition and combating the effects of climate change. To this end, legislative, regulatory, and institutional reforms have been launched to lower carbon economy, enhance energy security, and improve management and protection of water resources. The strategy also aims at ensuring the transition to a greener and more inclusive economy by reducing GHG emissions by 45.5 percent by 2030 and envisages a gradual reduction in the use of fossil fuels.

Given the criticality of the water issue for Morocco, several important investment projects encompassing the construction of new dams as well as water basins interconnection projects, and desalination plants are either completed or being finalized to secure water supply. Simultaneously, Morocco is also targeting improved demand management for saving and reusing water.

A major reform of the electricity sector to increase the share of renewable energies and reduce dependence on fossil fuels is being implemented. These reforms are being conducted while mobilizing the necessary private investment and channeling them towards climate-friendly activities.

With respect to the first review of the RSF, the authorities implemented 4 out 5 reform measures and proposed to postpone the fifth measure to the third review. In counterpart, they also propose to bring forward one measure to the second review given the progress made in its implementation. The postponement of reform measure 10, which implies increasing VAT on fossil fuels, is predicated on the concern about its adverse impact on the most vulnerable population at a juncture where the cost of living has significantly increased, and subsidies are being reduced.

Several measures are being implemented in various economic sectors—agriculture, industries, services, but also in administration and fiscal operations—to align policy actions with climate change requirements as well as the objectives of pursuing green growth and promoting a climate-friendly economy. In the financial sector, the authorities have stepped up efforts towards greening the sector and developing a comprehensive climate finance strategy. BAM is preparing guidelines for banks to gather data and report development and risks metrics about large borrowers' exposers to climate risks.

Concluding Remarks

The Moroccan authorities are determined to accelerate and deepen their economic and structural reform agenda while maintaining macro and financial stability. Pursuing stronger, more inclusive, and greener growth is in conformity with the authorities' policy priorities to address high unemployment, boost female participation in economic life, and maintain social cohesion. The generalization of social protection will undoubtedly improve income equality and reduce informality. The Moroccan authorities look forward to continued engagements and fruitful cooperation with the Fund.