INTERNATIONAL MONETARY FUND

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MOROCCO

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SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the Second Review Under the Arrangement Under the Resilience and Sustainability Facility, 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 November 11, following discussions that ended on September 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 October 25, 2024.
- An **World Bank Assessment Letter for the Resilience and Sustainability Facility** prepared by World Bank Staff.
- A **Statement by the Executive Director** for Morocco.

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

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PRESS RELEASE

PR24/415

IMF Executive Board Concludes Second Review Under the Arrangement Under the Resilience and Sustainability Facility for Morocco

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved the second review of Morocco's Resilience and Sustainability Facility (RSF) arrangement, allowing for an immediate purchase of SDR 312.5 million (about US$415 million).*
- *The authorities continue to show strong commitment to Morocco's transition to a greener economy.*

Washington, DC – November 11, 2024: The Executive Board of the International Monetary Fund (IMF) completed the second review under the Resilience and Sustainability Facility (RSF) arrangement for Morocco.[1] The completion of the review allows the authorities to draw the equivalent of SDR 312.5 million (about US$415 million), bringing total disbursement under the program to SDR 562.5 million (about USD 747 million).

While agricultural output suffered yet another drought in 2024, non-agricultural output has remained robust, and domestic demand is strengthening. The loss of jobs in the agricultural sector is keeping unemployment at a higher level than before the pandemic. Inflationary pressures have abated, and Bank Al-Maghrib (BAM) has cut the policy rate in June 2024. The fiscal deficit is on track to meet the 2024 budget target, with increased current spending offset by stronger-than-expected revenues. Strong revenues from tourism, exports of goods, and remittances have kept the current account deficit at low levels.

Morocco continues to make progress in bolstering its resilience against climate change and seizing the opportunities from decarbonization, under the RSF arrangement. Significant investments in water infrastructure aim at addressing water scarcity and will need to be complemented by demand management reforms. Continued progress toward liberalizing the electricity markets, a key dimension of the RSF, is needed to boost private sector participation in renewable energies. This will not only help Morocco achieve its Nationally Determined Contributions (NDC) targets

[1] Approved by the IMF Executive Board on September 28, 2023 for an amount of SDR 1 billion (about US$1.3 billion) (see press release No. 23/327)

but would also reduce its reliance on imported fuels, improve firms' competitiveness, and help create jobs.

Following the Executive Board's discussion on Morocco, Mr Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"The Moroccan authorities continue to make steady progress on strengthening Morocco's resilience to climate change, underpinned by very strong fundamentals and policy frameworks and a sustained track record of effective policy implementation. The performance under the Resilience and Sustainability Facility (RSF) arrangement has been strong. The authorities are cognizant of Morrocco's high exposure to risks related to climate change and natural disasters and remain committed to the green transition and further strengthening climate resilience.

The focus on decarbonization, while limiting the impact on the most vulnerable, is welcome. In the current socioeconomic context with still elevated food prices and high unemployment, it appears more socially acceptable to pursue increases in excises on coal and other highly polluting products than a higher value-added tax (VAT) on fossil fuels. The planned replacement measure will provide an important price signal consistent with the authorities' decarbonization objectives. The estimated potential contribution of the new measure to the reduction of GHG emissions is also comparable to that of the old measure, preserving the overall strength of the RSF arrangement.

The timely implementation of remaining measures under the RSF arrangement will be crucial for supporting Morocco's green transition. Efforts should focus on further liberalizing the electricity sector, greening the tax system, addressing the risks that climate change pose to the stability of the fiscal and financial systems, and protecting the country's diminishing groundwater resources. The recently published Climate Finance Development Strategy 2030 has an important role in mobilizing private climate finance."

Morocco: Selected Economic Indicators, 2022–24

Population: 37.0 million; 2023
Quota: SDR 894.4 million
Main exports: automobiles, phosphate and derivatives; 2023
Key export markets: France and Spain (42.8% of total trade); 2023

Per capita GDP: $3,901; 2023
Poverty rate: 4.8 percent; 2013

	2022	2023	2024
			Proj.
Output (annual percent change)			
Real GDP growth	1.5	3.4	2.6
Real nonagricultural GDP growth	3.2	3.6	3.6
Employment (percent)			
Unemployment	11.8	13.0	13.2
Prices			
Inflation (end of period)	8.3	3.4	2.1
Inflation (period average)	6.6	6.1	1.5
Central government finances (percent of GDP) 1/			
Revenue	28.7	28.4	28.7
Expenditure	34.1	32.8	33.0
Fiscal balance	-5.4	-4.4	-4.3
Public debt	71.5	69.5	69.1
Money and credit (annual percent change)			
Broad money	8.0	3.9	5.0
Claims to the economy 2/	7.1	5.2	4.5
Balance of payments			
Current account including official transfers (percent of GDP)	-3.6	-0.6	-1.5
Exports of goods (in U.S. dollars, annual percent change)	15.1	-0.5	6.9
Imports of goods (in U.S. dollars, annual percent change)	21.9	-2.5	6.9
Merchandise trade balance (percent of GDP)	-20.2	-17.4	-17.1
FDI (percent of GDP)	1.2	0.2	0.9
Gross reserves (months of imports)	5.3	5.5	5.5
External Debt (percent of GDP)	50.9	47.1	44.6
Exchange rate			
REER (annual average, percent change)	-3.8	1.4	...
Memorandum Items:			
Nominal GDP (in billions of U.S. dollars)	131.0	144.4	156.8
Net imports of energy products (in billions of U.S. dollars)	-15.1	-12.0	-11.7
Local currency per U.S. dollar (period average)	10.2	10.1	...

Sources: Moroccan authorities; and Fund staff estimates.
1/ Include grants.
2/ Includes credit to public enterprises.

INTERNATIONAL MONETARY FUND

MOROCCO

October 25, 2024

STAFF REPORT FOR THE SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context: While agricultural output suffers from yet another drought, non-agricultural output has remained robust, and domestic demand is strengthening. Nonetheless, unemployment has increased. Inflationary pressures have abated, allowing BAM to cut the policy rate in June 2024. The fiscal deficit is on track to meet the 2024 budget target, with stronger-than-expected revenues offset by increased current spending. Strong revenues from tourism, exports of goods, and remittances have kept the current account deficit to low levels. Morocco continues to make progress in bolstering its resilience against climate change and seizing the opportunities from decarbonization, under the RSF arrangement. Significant investments in water infrastructure aim at addressing water scarcity and will need to be complemented by demand management reforms. Continued progress toward liberalizing the electricity markets, a key dimension of the RSF, is needed to boost private sector participation in renewable energies (RE). This will not only help Morocco achieve its NDC targets but would also reduce its reliance on imported fuels, improve firms' competitiveness, and help create jobs.

Resilience and Sustainability Facility (RSF): All the RSF reform measures targeted for this review have been implemented. The authorities requested replacing RM10 (initially scheduled to the first review and postponed to the third) with a new measure, due to concerns regarding the potential impact of the increase in the VAT on fossil fuels on consumers at a time of still high food prices, weak labor markets, and the ongoing reform of the social protection system. The new proposed measure would raise excise duties on coal and three other highly polluting products. Given the country's still heavy reliance on coal to produce electricity, a higher excise on coal represents an important price signal of Morocco's commitment to meet its NDC targets. Staff simulations based on the IMF-World Bank model CPAT show that the new measure has an impact on greenhouse gases (GHG) emissions that is comparable to that of RM10. This suggests that replacing RM10 with the new measure does not weaken the overall strength of Morocco's RSF arrangement. Therefore, staff supports this proposal.

Approved By

Taline Koranchelian (MCD) and Geremia Palomba (SPR)

The mission consisted of Roberto Cardarelli (head), Kassia Antoine, Nadia Mounir (all MCD), Hyunmin Park (SPR), and Hussein Bidawi (FAD) and was accompanied by Mr. El Qorchi (OED). Marzie Taheri Sanjani (MCD) contributed to this report. Hannah Brown, Vaishnavi Rupavatharam, Helida Graca, and Sofia Cerna (all MCD) provided assistance from Washington DC. The mission team met with the Ministries of Economy and Finance, Infrastructure and Water, Energy Transition and Sustainable Development, Agriculture, and Interior; Bank Al-Maghrib; *Office des Changes; Agence Marocaine pour l'Efficacité Énergétique* (AMEE); *Autorité Nationale de Régulation de l'électricité* (ANRE); *Institut Marocain de Normalisation* (IMANOR); private sector actors; and bilateral partners and the World Bank (WB). The mission was conducted during September 9th–13th, 2024, in Casablanca and Rabat, Morocco.

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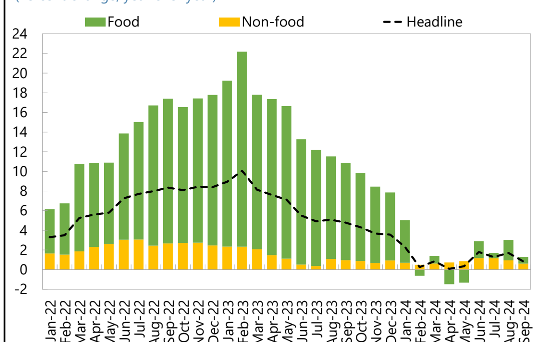
APPENDIX

RECENT ECONOMIC DEVELOPMENTS

1. **Real GDP growth has slowed in 2024, driven by low agricultural production.** Little precipitation and water scarcity imply an expected below-average agricultural harvest for this year (33 million quintals of cereals, compared to a pre-COVID average of 75 million). By contrast, activity in the non-agricultural sector has remained robust, and domestic demand is strengthening with consumption supported by a rebound of disposable income (reflecting lower inflation and fiscal support to households) and investment boosted by the launch of a series of infrastructure projects. Still, continued job losses in the agricultural sector have taken unemployment to 13.1 percent by Q2 up from 12.4 percent a year ago, despite the decline in labor force participation.

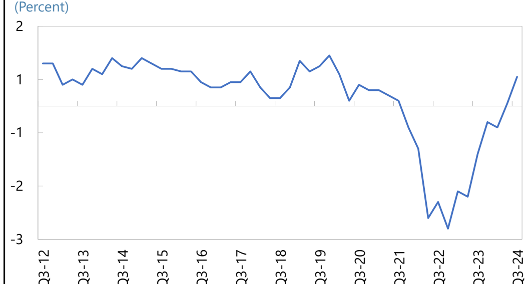
2. **The current account deficit has remained low.** The current account deficit for 2024:H1 stood at about -0.6 percent of GDP (against -0.5 percent in the firth half of the previous year). The goods trade deficit in the first eight months of the year remained relatively stable against the same period last year, with growth in exports slightly outpacing that of imports on the back of the strong performance of aerospace and automotive exports as well as the recovery of exports of phosphates and their derivatives. The service surplus narrowed slightly but has remained strong, thanks to the continued solid performance of the tourism sector, remittances have been resilient, and FDI inflows have rebounded. International reserves were stable at the comfortable level of 124 percent of the adjusted ARA metric (5.4 months of next year's imports) in September 2024. The exchange rate has appreciated in 2024 and was close to the middle of the fluctuation band as of early October. By contrast, the REER has depreciated slightly so far in 2024, reflecting Morocco's fast disinflation process.

Inflation Decomposition
(Percent change, year over year)



Sources: Haver; and IMF staff calculations.

Real Ex-ante Policy Interest Rate
(Percent)



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

3. **Inflation continued to fall, and Bank Al-Maghrib (BAM) cut the policy rate in June, leaving it unchanged in September.** Headline inflation fell to 0.8 percent in September 2024 (y/y), mainly due to the decline in volatile food prices, and core inflation has remained at below 2½ percent on average since March (chart). After cutting the policy rate by 25 bps (to 2.75 percent) in its June meeting, BAM decided to keep it unchanged in September. Given the fall of inflation expectations (to 2.2 percent for the two-year-ahead rate in Q3), the real ex-ante policy rate is close to staff estimates of the neutral rate (chart).[1] Staff believes that such neutral monetary stance is appropriate and agrees with BAM

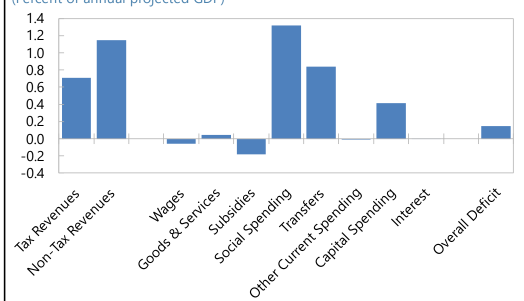
[1] Queyranne, M., Baksa, D., Bazinas, V., & Abdulkarim, A. (2021). Morocco's Monetary Policy Transmission in the Wake of the COVID-19 Pandemic. IMF Working Paper WP/21/249.

that further changes in monetary policy should remain data-dependent, with inflation subject to both upside (from recurring drought and the removal of subsidies on gas butane) and downside (from a weaker-than-projected level of economic activity) risks.

4. The fiscal deficit in the year to August was slightly lower than in the same period last year. Tax revenues in the first eight months of the year were about 12 percent higher than the same period last year (mostly CIT, PIT and VAT, due to the recent reforms). Non-tax revenues have also increased by about half (chart). This windfall (of about 1.8 percent of GDP) has been largely spent, as the government authorized additional spending on public sector wages (0.4 percent of GDP), transfers to the public utility company ONEE (0.25 percent of GDP, to cover for losses from high prices of commodities) and the national airline RAM (0.2 percent of GDP, as part of a multi-year program to double its fleet, in line with the national tourism strategy). The authorities also announced an increase of the threshold for exemption from PIT and a reduction in the top marginal rate from 38 to 37 percent starting from 2025 (with an estimated cost of 0.3 percent of GDP). While the authorities reiterated their commitment to the announced path of fiscal consolidation over the medium term, staff recommended saving future revenue windfalls and adopting new policy measures to secure, and possibly accelerate, the planned reduction of public debt (from 69.5 percent of GDP in 2023 to 66.4 percent in 2027).

Overall Fiscal Deficit: Difference Between August 2024 and August 2023

(Percent of annual projected GDP)



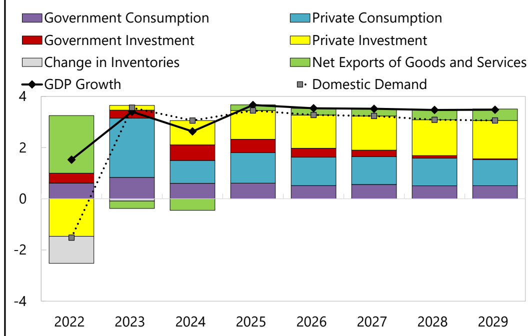
Source: National Authorities.

5. Credit growth for investment purposes accelerated. While overall credit growth to private nonfinancial firms has been slow since mid-2023, on account of lower short-term (working capital) lending, lending for machinery and equipment has accelerated (to 6.6 percent y/y in August 2024 from 4.1 percent in 2023). Banks' profitability remained solid as of December 2023, with return on equity improving to 8 percent from 6.9 percent in the previous year, driven by higher net interest margins. The nonperforming loan ratio has increased somewhat, for both non-financial private firms (to 12.7 percent in August 2024, from 12.2 percent in early 2023, mainly as small companies are facing difficulties in repaying the subsidized loans extended during the pandemic), and for households (to 10.9 percent, from 10 percent in early 2023, as the recent inflation shock weighed on households' disposable income).

OUTLOOK AND RISKS

6. Growth is expected to slow to 2.6 percent this year and increase to 3.7 percent in 2025, before settling at its medium-term rate of 3½ percent. This forecast assumes a return to average harvest conditions in the future, implying a rebound of agricultural production in 2025 after the contraction this year, and a stabilization to around 2.5 percent growth over the medium term. Growth in non-agricultural sector is projected to be around 3½ percent over the coming years. Lower inflation and the generalization of the social protection system should sustain private consumption, whereas the ambitious infrastructure plans (including in water, energy, and transportation sectors), and continued pro-business sector reforms should boost investment (chart). Stronger domestic demand in turn is expected to boost imports and gradually widen the current account deficit towards its estimated norm of around 3 percent of GDP. Headline CPI inflation is projected at 2.1 percent (y/y) by the end of 2025, after considering the impact of the gradual removal of gas butane subsidies.

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



Sources: Haver; and IMF staff calculations.

7. **Risks around GDP growth is broadly balanced (Annex II).** Further episodes of drought and reduced agricultural production remain the biggest downside risk to activity, together with an escalation of geopolitical tensions and its impact on external demand. By contrast, a more successful implementation of the structural reform agenda and a greater multiplier effect from the extensive infrastructure plan could push growth to a faster medium-term trajectory than currently projected.

RSF SECOND REVIEW

8. **All five of the reform measures (RM) scheduled for the second review of the RSF arrangement (Tables 1 and 2) have been implemented.**

Implementing legislation on the electricity market liberalization (RM5)

9. **While several laws aimed at liberalizing the electricity market were approved, their implementation was hindered by the lack of required regulations.** These include *Law 48-15* on the regulation of the electricity sector and the creation of ANRE (*Autorité Nationale de Régulation de l'Energie*); the *Law 40-19* that (in modification of the *Law 13-09*) opened up the production of renewable energy to the private sector; and the *Law 82-21* on the auto-production of electricity. RM5 envisaged the Ministry of Energy Transition and Sustainable Development (MTEDD) to accelerate the adoption of regulatory texts necessary for their implementation.

10. **The Government Council has approved three implementation decrees under RM5.**

- **The decree implementing *article 37 of Law 48-15*, approved in December 2023, sets the contribution threshold to be paid to ANRE by parties who bring a dispute to the Dispute Resolution Committee**. The decree will help ensure ANRE's financial independence, a key requirement for its proper functioning as the regulator of Morocco's electricity market.

- **The decree implementing *article 16 of Law 82-21*, approved in September 2024, establishes procedures for the issuance, management, and monitoring of certificates of origin for the electricity produced from RE sources.** These certificates will allow producers to prove that their electricity comes from renewable sources, thus facilitating investment in the RE sector and compliance with the carbon tax once introduced.

- **The decree implementing *article 18 of Law 82-21*, approved in September 2024, establishes the technical specification of the smart meters for auto-producers connected to the medium voltage (MV) distribution network**. These meters will allow recording all information relating to electrical energy drawn from and injected into the grid, therefore ultimately facilitating the integration of RE into the national electricity grid.

In addition, the authorities made good progress in adopting other important decrees that would implement existing legislation in the electricity market.[2] These include the decree implementing *article 11 of Law 48-15,* that sets the technical terms and conditions for connection and access to the MV electricity distribution network; and the decrees related to articles 4, 6, and 7 of *Law 82-21* that specify the conditions for auto-producers of RE to connect to the electricity grid.

Improving the electricity market regulatory framework (RM6)

11. The liberalization of the electricity sector, and its opening to private actors, will need to maintain the quality of the services provided to households and firms. The need to ensure an efficient, reliable power grid is becoming more acute, especially with the expansion of RE production. For this reason, *Law 48-15* mandates ANRE to approve the quality indicators prepared by the Transmission System Operator (TSO, currently the public utility company ONEE) that the national transmission grid must comply with in terms of safety, reliability, and efficiency. Moreover, *Law 48-15* stipulates that the TSO must prepare a "Code of Good Conduct" for the management of the electricity transmission network.

12. RM6 was implemented with the approval and publication of the quality indicators of the national transmission grid and the code of good conduct of the transport operator.

- **A document with the quality indicators prepared by ONEE was approved in July 2024 and published in September by ANRE.**[3] The document lists the quality indicators, the criteria for their calculation, as well as the methods for recording and collecting the data required for this calculation. ANRE will regularly update and report on compliance with these quality indicators in its annual report, as prescribed by the law.[4]

- **ANRE also approved and published in September the "Code of Good Conduct", which formalizes the principles and management practices that the TSO must follow.**[5] This should

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[2] The approval of these decrees will also be consistent with Morocco meeting a requirement under the EU *Energie Verte* program to approve at least two application texts of laws 40-19 or 82-21 by end of 2024.

[3] https://anre.ma/wp-content/uploads/2024/09/FR-Decision-IQ-1.pdf.

[4] ONEE will communicate its quality targets to ANRE by November 30 of each year and will be notified of their approval by ANRE by January 31 of the following year. ONEE will also report quarterly on the actual values of these indicators and report annually on the previous year's indicators, explaining any discrepancies from targets.

[5] https://anre.ma/wp-content/uploads/2024/09/FR-Decision-CBC-VF.pdf.

facilitate strengthening the TSO's operational independence and establish a fair and transparent treatment of all users of Morocco's electricity network.

Improving energy efficiency (RM7)

13. Progress in completing the legal framework for energy efficiency standards continued with the implementation of RM7. This measure will contribute to achieving the National Energy Efficiency Strategy target of a 20 percent reduction of energy consumption by 2030:

- **The MTEDD, together with the Ministry of Industry and Commerce, has adopted in September three decrees introducing labeling and minimum energy performance standards (MEPS) for refrigerators, air conditioning units, and electric engines, and prepared a similar draft decree on lighting products.** These standards will help phase out energy-inefficient equipment and raise consumers' awareness about energy efficiency and achieve an estimated savings of between 8 and 14 percent of the energy consumed by those products.

- **The decree on ESCOs—*Energy Service Companies* specialized in financing, implementing, and monitoring energy savings projects—was also adopted in September.** The decree determines the conditions and requirements that must be followed to create ESCOs and carry out their activities.

- **Finally, AMEE (*Agence Marocaine pour l'Efficacité Energetique*) has elaborated a study on the revision of the energy consumption threshold above which firms are subject to mandatory audits and prepared a draft decree that envisages a reduction of this threshold.** Based on this decree, firms in the industrial sector that consume more than 800 toe (tons of oil equivalent) energy will be subject to audits (down from 1,500 toe). This will increase the number of firms subject to yearly audits from around 100 to at least 500. The draft decree will also lower the threshold for energy consumption for firms in the service sector (including hospitals, schools, hotels, and commercial buildings) from 500 to 200 toe, increasing the number of targeted firms from around 100 to at least 350.

Greening the Financial System (RM14 and RM15)

14. The authorities published a Climate Finance Development Strategy 2030, in line with RM14.[6] Meeting Morocco's Nationally Determined Contribution (NDC) targets will require substantial investments in mitigation and adaptation. The unconditional (conditional) target is to reduce its greenhouse gas emissions (GHG) by 18.3 percent (45.5 percent) by 2030 compared to the business-as-usual scenario. The Draft Long-Term Low Emissions Development Strategy (LT-LEDS) envisages increasing the share of RE in installed electricity capacity to 52 percent by 2030 (and 96 percent of the electricity generated by 2050) and eliminating coal-fired power generation by

[6] https://www.finances.gov.ma/Publication/dtfe/2024/Rapport%20SDFC%202030_V7_13.09.24.pdf

2040.[7, 8] The strategy, prepared by the Ministry of Economy and Finance, Bank Al-Maghrib, the Moroccan Capital Markets Authority, and the Supervisory Authority of Insurance and Social Security, with the support of the World Bank, provides an initial general assessment of the country's climate mitigation and adaptation targets and the potential to attract private climate finance and lists the potential levers to fund the investment associated with Morocco's green transition (Box 1). Going forward, the authorities should build on this strategy to achieve a comprehensive assessment of financing gaps and drill down on specific actions to fill them (for example, on specific investment priorities across key sectors and how much the authorities are committed to invest out of their own resources in these sectors).

15. The authorities introduced environmental requirements for firms that seek access to subsidized financing of their investment project, as prescribed by RM15. Starting from Q4: 2024 and until Q1:2027, firms demanding access to public financial support for their investment projects under the scheme "*Damane Istitmar*" will need to submit a questionnaire on the environmental impact of the projects.[9, 10] This will apply to investment in a series of business sectors (construction, transport, agriculture, and a few manufacturing sectors) exceeding DH20 million (about USD 2 million). From Q1:2027, the requirement will extend to other sectors and the threshold will be lowered to DH15 million (about USD 1.5 million), while from 2030 onward the requirement will be generalized to all sectors, the threshold will be set at DH10 million (about USD 1 million), and the questionnaire replaced by the submission of a full study of the environmental impact of the investment projects.

[7] At end-August 2024, RE accounted for 44.3 percent of the installed electricity capacity. In 2021, RE accounted for about 21 percent of electricity production.

[8] The World Bank CCDR calculates that for the remaining coal-fired plants to be shut down by 2040 (which would be earlier than their 30-year contracts but in line with Morocco's LT-LEDS), compensation to private investors for the remaining debt and equity would be quite limited at about $330 million in nominal terms (total RSF access is approximately USD 1.4 billion).

[9] This scheme, managed by *Tamwilcom* (the firm responsible for providing state guarantees), envisages financial assistance to Moroccan small and medium firms by providing a guarantee of up to 70 percent to bank loans above DH 1 million (about USD 100k) with a ceiling of DH 30 million (about USD 3 million) for the same company. Under this scheme, firms can also receive equity contributions (up to 30 percent of the investment) and technical assistance by the National Agency for the Promotion of Small and Medium Enterprises (*Maroc PME*). In 2020, under this scheme 229 private investment projects were supported, for a total investment of DH 2.8 billion (about USD 280 million).

[10] The questionnaire asks firms requesting guarantees to provide information on the investment projects along four key dimensions: i) its environmental impact (e.g., the existence of an environmental impact study and measures taken to address climate-related risks); ii) its energy consumption; iii) its water consumption management; and iv) its emissions of GHG. *Tamwilcom* will use the answers to build an index of climate-change related risk of the investment project (high, medium, and low) that will be used to decide whether to extend guarantees.

Box 1. Morocco: Climate Finance Development Strategy 2030 [1/]

The strategy aims to mobilize private climate finance of about USD 4.5 billion per year for the coming five years to achieve Morocco's climate mitigation and adaptation targets. Climate financing flows in Morocco mainly come from the public sector, with only 25-30 percent private sector contribution. A key objective of the strategy is to increase the latter to 50 percent.

A new governance system will implement the strategy. This is composed of i) *a steering committee,* responsible for making decisions, monitoring deadlines and updating the strategy, in addition to overseeing the implementation of all climate finance initiatives, with members from the financial sector regulatory authorities and the Ministry of Economy and Finance; ii) *a sectoral council,* with representatives from the different ministries, that ensures consistency between the implementation of the financing strategy and the sectoral decarbonization plans as well as related policy/regulatory developments; iii) *an advisory board*, encompassing IFIs, academics, and NGOs, that provides expert advice from an external perspective; iv) *a project management task force* that coordinates between the key administrative bodies and all stakeholders involved, while monitoring projects and producing progress reports; and v) *working groups* in charge of actual implementation.

The new strategy is built around three intervention pillars and nine strategic axes. Under each axis, a set of initial measures were identified, together with a provisional implementation timeline:

- ***First pillar:*** *Integrated Market Solutions*. It includes three strategic axes with the objective of i) facilitating the identification of attractive climate projects by assessing their profitability and impact on GHG emissions; ii) enhancing transparency around the supply and demand of climate finance including by setting a platform aggregating the different climate projects seeking private finance; and iii) expanding the range of green financial instruments, including developing a framework for green sovereign bonds.

- ***Second pillar:*** *Key Accelerators*. It includes two strategic axes with the objective of promoting both the demand and supply sides of climate finance. Demand-enhancing measures include developing innovative risk-sharing mechanisms, such as blended finance, to improve the attractiveness of large-scale adaptation projects. On the supply side, measures include the introduction of i) incentives and regulatory measures to reduce administrative and transaction costs associated with green investment instruments; ii) the reporting of green asset ratios by financial sector operators; and iii) green investment targets for public and private players.

- ***Third pillar:*** *Key Fundamentals*. It includes four strategic axes with the objective of i) strengthening climate risk management within the financial sector including by requiring all operators to regularly publish information of climate-related risks in line with international standards such as TCFD or ISSB (in line with RM16); ii) accelerating the adoption of a green financial taxonomy (a high priority measure that is currently underway with the support of the World Bank and the French Development Agency); iii) enhance capacity building among financial sector regulators and private players in the fields of climate finance and climate risk management; and iv) promoting climate-friendly sectoral policies.

1/ Prepared by Nadia Mounir.

OTHER REFORM MEASURES FOR THE THIRD REVIEW

16. **The third and final review scheduled for early next year will conclude Morocco's RSF arrangement with the implementation of a high number of key, long-awaited, measures.** Seven measures are expected to be implemented by mid-February 2025, accounting for about

49 percent of Morocco's quota (Table 3). Some of these measures will provide a significant boost to the reform of Morocco's electricity market, including the publication of tariffs that RE producers will have to pay to access the medium voltage distribution grid, and the unbundling of ONEE's financial production and transmission accounts, a step towards ONEE's evolution into Morocco's Transmission System Operator and the development of a competitive wholesale electricity production market. The other measures will contribute to further green Morocco's tax system, better address fiscal and financial risks from climate change, and strengthen current legislative protection of the country's groundwater resources.

17. The authorities requested replacing RM10 with a new reform measure. They stressed that increasing the VAT on fossil fuels, as envisaged under RM10 due for the third review, would hurt households' disposable income at a time when unemployment is high, food prices are still elevated, and the social protection regime is undergoing a deep structural change. The authorities requested replacing RM10 with a new measure that would increase excise taxes on coal and heavy fuel oil, both heavily used in the production of electricity. The measure would also remove exemptions on the excise duty on coal and heavy fuel oil currently granted to ONEE (the public utility company) and its concessionaries. Finally, the measure would envisage an increase of the excise on two other polluting petroleum products, bitumen (used in construction) and lubricating oils (mainly used for motor vehicles). The increases in excises would be effective from 2025.

18. The new measure is consistent with Morocco's decarbonization strategy although its impact will be limited in the short term. The Moroccan electricity mix continues to rely heavily on coal, which accounts for about 40 percent of power generation capacity, making Morocco's electricity sector among the most carbon intensive in the world (World Bank, 2022). About 80 percent of the coal generated electricity comes from independent providers that have signed long-term contracts with ONEE, expected to expire after 2040. The relatively high rigidity of coal-based electricity production (from both a financial and technical standpoint) makes it difficult to reduce Morocco's dependence on coal in the short term.[11] However, increasing the excise on coal would send an important price signal that Morocco is committed to decarbonize its power sector, and reinforces the incentives to gradually exit from coal.

19. Staff assessed that the new measure's potential contribution to GHG emission reduction is comparable to that of RM10. The IMF-WB CPAT model was calibrated to Morocco to compare the estimated impact of the two measures on emissions (Box 2). Even considering the constraints from existing long-term contracts with private producers of coal-based electricity, higher coal prices would have an impact on emissions given the existence of spare capacity and ONEE's ability to choose from alternative sources of electricity to satisfy the estimated growing demand for electricity in Morocco. As a result, the impact in 2030 would be about 12 percent greater than that

[11] From a financial standpoint, these contracts are *full take or pay*, which means that all coal-based electricity produced by private producers should be purchased by ONEE. From a technical and operational standpoint, the relatively slow start up time and difficulties in increasing and decreasing their output compared to other type of generations means that coal-based power plants are used to satisfy baseloads electricity needs (minimum amount of electricity that needs to be provided at any given time).

of a gradual (over 10 years) increase of the VAT rates on fossil fuels from 10 to 20 percent, as originally envisaged under RM10.

Box 2. Morocco: Comparison of Emissions Reduction Impacts of RM10 and RM17[1]

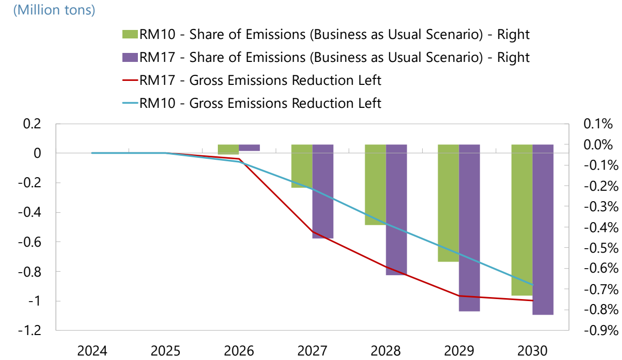
The IMF-WB model CPAT is used to assess the impact of RM10 and the proposed RM17 on GHG emissions in Morocco. CPAT (2023)[2] is a reduced-form, macro-energy model that allows for estimating the impact of climate mitigation policies on energy consumption, prices, GHGs, local air pollution, tax revenues, GDP, and welfare. It uses data from over 200 countries to estimate the income and price elasticities of the demand for energy products consumed by households and firms, key parameters of the model. CPAT is calibrated to Morocco (using household survey data) and used to assess the impact on GHG emissions (compared to a business-as-usual scenario) from a gradual increase in the VAT on fossil fuels (RM10) and from the proposed RM17 that increases the excises on coal and heavy fuel oil (HFO).

A baseline scenario is simulated with a gradual increase in the VAT on fossil fuels. We assume the VAT on fossil fuels would increase gradually from 10 to 20 percent over 10 years, eliminating the bulk of "brown" tax expenditures as envisaged under RM10. The increase in VAT will induce a lower consumption of fossil fuels based on a price elasticity of demand of -0.4 for gasoline and -0.3 for diesel and other oil products. This in turn induces a reduction of GHG emission relative to a business-as-usual scenario of 0.7 percent by 2030.

A scenario is then simulated with higher excises on both coal and heavy fuel oil (HFO). We assume the full elimination of exemptions of excises for coal and HFO and an increase in their rates in 2025. The excise on coal is increased from 64.8 DH per ton in 2025 to 124.8 DH per ton; while the excise on HFO is increased from 182.4 to 242.4 DH per ton. To capture the fact that 80 percent of coal generation is covered by long-term PPAs signed between ONEE and independent private producers, the price elasticity of the demand of coal (-0.3) only applies to the remaining 20 percent of coal generation done directly by ONEE. The existing coal plants are depreciated over time at a rate of 2.5 percent a year (e.g., assuming a 40-year useful life) and no investment in new coal plants is assumed in both baseline and higher excise scenarios. Lastly, we assume no increase in electricity tariffs.

The simulations show that RM10 and RM17 have a comparable impact on GHG emissions by 2030. Given the rigidities associated from the long-term PPAs, the impact of the new measure mainly comes from the lower use of coal by ONEE, which switches its own coal to non-coal capacity to satisfy the growing demand for electricity. As a result, higher excises on coal are estimated to lead to a reduction of GHG emissions in 2030 of 0.9 percent with respect to a business-as-usual scenario (chart).

GHG Emissions Reduction Impact of RM10 and RM17 With Respect to a Business-as-Usual Scenario
(Million tons)

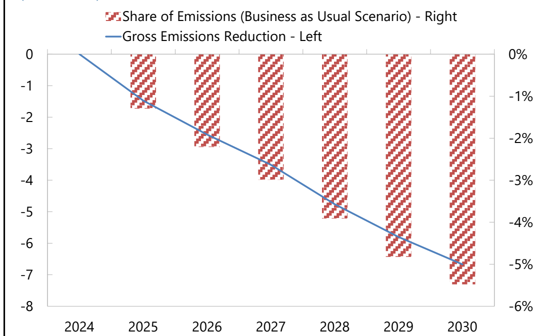


Source: CPAT

1/ Prepared by Hussein Bidawi, with substantial inputs from Nate Vernon and Hannah Brown.
2/ Black, S., Parry, I., Mylonas, V., Vernon, N., & Zhunussova, K. (2023). The IMF-World Bank Climate Policy Assessment Tool (CPAT): A Model to Help Countries Mitigate Climate Change. IMF Working Papers, 2023/128.

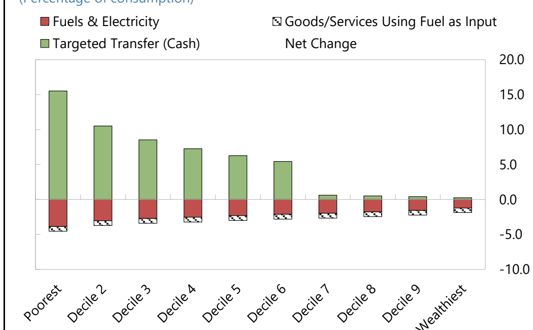
20. The authorities plan to continue increasing gas butane prices in 2025. The price of gas butane was increased by 10 Dirhams (25 percent) in May 2024 and a similar increase is expected next year. The elimination of the subsidy on gas butane envisaged under RM11 is estimated to have a significant impact on GHG emissions, given the heavy consumption of gas butane by Moroccan household and farmers (chart). Simulations run on CPAT show that the elimination of the subsidy would reduce GHG emissions by 5 percent relative to baseline. The simulations also model the impact of higher gas butane price on consumption of Moroccan population, as well as the impact of cash transfers that should mitigate the impact of RM11 on the population (as envisaged under RM12). The distributional impact of RM11 is found to be regressive, since gas butane represents a larger share of the consumption baskets of the poorest households. Targeted and unconditional cash transfers to the 6 poorest deciles of the income distribution associated to the *Aide Social Directe* (in line with RM12) more than compensate the negative impact of the increase in the price of gas butane on the consumption of the targeted population. Thus, the combined effect of RM11 and RM12 is progressive, with the poorest deciles benefiting relatively more (chart).

GHG Emissions Reduction Impact of RM11 With Respect to a Business-as-Usual Scenario
(Million tons)



Source: CPAT

Consumption Incidence of Gas Butane Subsidy Removal – After Transfers
(Percentage of consumption)



Source: CPAT

21. Progress towards implementing a carbon tax continues. The Customs Administration, responsible for import duties and excises, is preparing the design document of a carbon tax (RM9), with technical assistance from the World Bank and the German Agency for International Cooperation (GIZ). Efforts are underway to prepare the ground for the implementation of the design document and the actual introduction of the carbon tax (planned to be included in the 2026 Budget). These efforts include: i) the assessment of the carbon component of the taxes currently in force and of the carbon price associated with these different taxes; ii) the amendment of the law 12-06 to make the *Institut Marocain de Normalisation* (IMANOR) a national reference for issuing carbon content certificates; and iii) the technical training of the personnel at the Customs Administration that will be responsible for the operationalization of the tax.

22. BAM made progress in issuing supervisory guidelines on disclosure and reporting of climate-related risks for banks, in line with RM16. A report recently published by BAM, jointly with the World Bank, the *Agence Française de Développement* (AFD), and the Global Risk Financing

Facility, shows that climate change could cause significant damage to Morocco's banking sector.[12] The World Bank is providing technical assistance to BAM to develop supervisory guidance on climate-related financial disclosures in line with ISSB standards and on the reporting of climate risks (RM16). An initial draft should be ready in October to launch a consultation phase with the banks before reviewing and finalizing the texts in February 2025.

MODALITIES FOR IMPLEMENTATION OF RSF-SUPPORTED REFORMS

23. Morocco's capacity to repay the Fund remains adequate in the medium to long run. The RSF financing will continue to be used for direct budget support. 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, and well below the median in percent of public external debt services. Access to the RSF arrangement will reinforce gross reserves.

24. Risks to the implementation of RSF-supported reforms are assessed to be limited. Risks 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 a Flexible Credit Line (FCL) arrangement in April 2023. Given that the authorities could not implement RM10 (initially scheduled for the first review and postponed to the third review), they have proposed to replace it with an increase in the excise on a few highly polluting products that is estimated to have a similar impact in terms of GHG emission reduction.

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

	2023	2024	2025	2026
Current account balance	**-0.9**	**-2.3**	**-3.2**	**-4.3**
(in percent of GDP)	*-0.6%*	*-1.5%*	*-1.9%*	*-2.4%*
Balance of goods and services	-12.0	-12.8	-14.1	-15.5
Balance on primary income	-2.1	-3.0	-3.0	-3.1
Balance on secondary income	13.2	13.5	13.8	14.2
Capital account, net	**0.0**	**0.0**	**0.0**	**0.0**
Financial account, net (without RSF)	**1.7**	**3.5**	**4.5**	**6.4**
Financial account, net (with RSF)	*1.7*	*4.2*	*5.1*	*6.4*
Direct investment, net	0.3	1.5	1.8	2.1
Portfolio investment, net	2.4	0.4	2.1	1.6
Other investment, net (without RSF)	-0.9	1.6	0.6	2.7
Errors and Omissions	1.3	0.0	0.0	0.0
Overall balance (1)	**2.0**	**1.1**	**1.2**	**2.1**
Change in gross official reserves (increase: -, without RSF) (2)	-2.0	-1.1	-1.2	-2.1
Financing gap (1+2)	**0.0**	**0.0**	**0.0**	**0.0**
(in percent of GDP)	0.0%	0.0%	0.0%	0.0%
RSF disbursement	0.0	0.8	0.6	0.0
Change in official reserves (increase: -, with RSF)	-2.0	-1.9	-1.8	-2.1

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

25. The FCL review in March 2024 showed that Morocco continues to meet the FCL qualification criteria. The Staff Report argued that Morocco continued to display a sustained track record of implementing very strong policies.[13]

[12] *Double Trouble? Assessing Climate Physical and Transition Risks for the Moroccan Banking Sector*, April 2024.

[13] The Board concluded the mid-term review of the FCL in March 2024 (IMF Country Report No. 24/99). The qualification assessment remains valid through the end of the FCL arrangement.

STAFF APPRAISAL

26. The RSF arrangement is on track and its measures are expected to contribute significantly to Morocco's green transition. All measures for this review were implemented. They contribute to the overall objectives of the arrangement, namely, to boost private investment into renewable energy by advancing the liberalization of Morocco's electricity market, improve energy efficiency, and support the greening of the financial system.

27. Considering the authorities' constraints, staff supports replacing measure RM10 with a new one (RM17) that increases excises on coal and other highly polluting products. The authorities noted that the current economic context makes it hard to implement RM10, i.e., increase the VAT on fossil fuels, as this would hurt disposable income at a time where the scars from recent shocks are still tangible. They requested replacing it with a new measure that increases excises on coal and other highly polluting products. Staff notes that reducing the electricity sector's high dependency on coal will take time, as a large share of coal-generated electricity is produced by private companies that have long-term contracts with ONEE. Still, increasing the excise on coal will send a price signal consistent with the authorities' announced plan to exit from coal by 2040. Moreover, staff simulations show that the potential contribution of the new measure to the reduction of GHG emissions is comparable to that of RM10. Hence, the replacement of RM10 with the new measure would preserve the overall strength of the RSF arrangement.

28. Staff supports the authorities' request for completion of the Board consultation under the second review of the RSF arrangement. Staff also supports the disbursement of SDR 312.5 million under the RSF based on the completion of the reform measures 5, 6, 7, 14, and 15.

29. Staff encourages the authorities to continue their efforts to ensure that the remaining measures for the third and final review will be implemented timely. These measures will significantly contribute to the liberalization of Morocco's electricity sector; further green its tax system; address climate-change related risks on its long-term fiscal position and financial sector; and reinforce the protection of the country's dwindling groundwater resources.

Table 1. Morocco: Timeline of the RSF Reviews and Reform Measures Completion

September 2023: RSF Approval

Pillar	RSF 1st Review FCL Mid-Term Review Board Date: March 2024	RSF 2nd Review Board Date: November 2024	RSF 3rd Review Board Date: March 2025
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). **Implemented.** **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)**. **Implemented.**	**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. **Implemented.**	
Pillar 4: **Integrating Climate into Fiscal Planning and Transfer System**	**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.** **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 replaced by RM17 for the third review.**		**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. **RM17.** The Ministry of Economy and Finance will introduce in the 2025 Budget Law a measure that, starting from 1 January 2025, eliminates all existing tax exemptions on the excise duties for coal and heavy fuel oil and increases the excise duties on coal and 3 additional polluting petroleum products (bitumen, heavy fuel oil and lubricating oils) for all producers to the level set in the MEFP. **New RM.**
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. **Implemented.** **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. **Implemented.**	**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 2. Morocco: RSF Reform Measures				
RM #	**Reform measures (RM)**	**Availability Dates**	**Reviews**	**Status**
1	The Ministry of Infrastructure and Water 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 Infrastructure and Water 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 *Energie Verte* program).	24-Sep	2	Implemented
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	Implemented
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	Implemented
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	

Table 2. Morocco: RSF Reform Measures (Concluded)				
RM #	**Reform measures (RM)**	**Availability Dates**	**Reviews**	**Status**
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 and replaced by RM17.
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	Implemented
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	Implemented
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	
17	The Ministry of Economy and Finance will introduce in the 2025 Budget Law a measure that, starting from 1 January 2025, eliminates all existing tax exemptions on the excise duties for coal and heavy fuel oil and increases the excise duties on coal and 3 additional polluting petroleum products (bitumen, heavy fuel oil and lubricating oils) for all producers to the level set in the MEFP.	25-Feb	3	Proposed

Table 3. Morocco: Access and Phasing Under the RSF Arrangement

Review #	Availability Dates[1]	Number of RMs per Review (Program Inception)	Number of RMs per Review (Revised)	Quota[3]	SDR (Million)
1	24-Feb	5	4	28%	250.0[2]
2	24-Sep	5	5	35%	312.5
3	25-Feb	6	7	49%	437.5[2]
Total		**16**	**16**	**112%**	**1000**

Source: IMF staff.

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

2/ The actual disbursement in connection with the 1st review was SDR 250 million since RM10 initially scheduled for the 1st review was not implemented and SDR 62.5 million associated with RM10 was not disbursed. If RM17 replacing RM10 is approved and implemented in the context of the 3rd review, as currently expected, the disbursement of SDR 62.5 million will be made in addition to the disbursement of SDR 375 million scheduled for the 3rd review at Program Inception, bringing the total for the third review to SDR 437.5 million.

3/ Morocco's quota in millions of SDRs: 894.4 Morocco and the IMF.

Table 4. Morocco: Schedule of Disbursements and RMs Availability Dates Under the RSF

1	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 1 implementation
2	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 2 implementation
3	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 3 implementation
4	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 4 implementation
5	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 5 implementation
6	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 6 implementation
7	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 7 implementation
8	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 8 implementation
9	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 9 implementation
~~10~~	~~24-Feb~~	~~6.99%~~	~~62.5~~	~~Not yet implemented~~	~~Completion of RSF review of reform measures 10 implementation~~
11	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 11 implementation
12	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 12 implementation
13	24-Feb	6.99%	62.5	Implemented	Completion of RSF review of reform measures 13 implementation
14	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 14 implementation
15	24-Sep	6.99%	62.5	Implemented	Completion of RSF review of reform measures 15 implementation
16	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 16 implementation
17	25-Feb	6.99%	62.5		Completion of RSF review of reform measures 17 implementation
	Total	**112%**	**1000**		

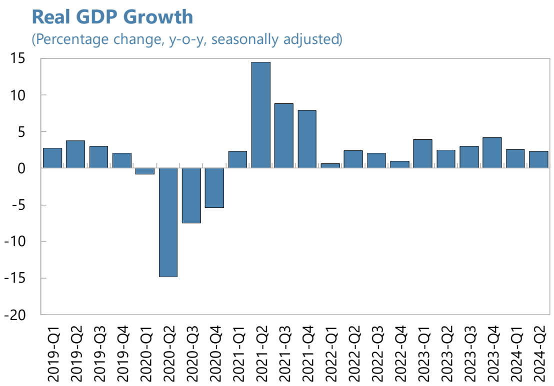
Source: IMF staff estimates.

Morocco's quota in millions of SDRs: 894.4 Morocco and the IMF.

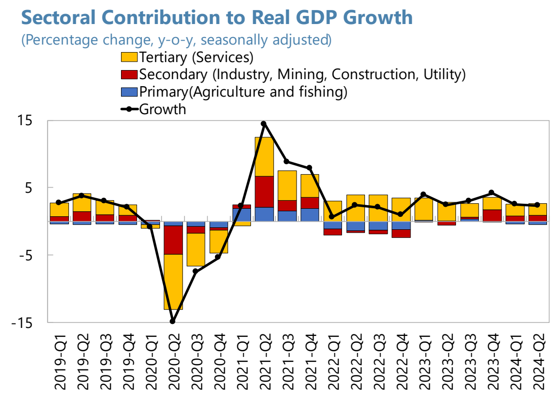
Note: All the availability dates are on 15th of each month.

Figure 1. Morocco: Real Sector Developments

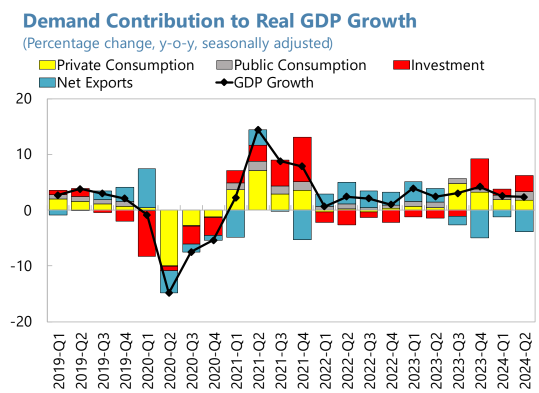
Real GDP grew at 2.4 percent in 2024:H1…



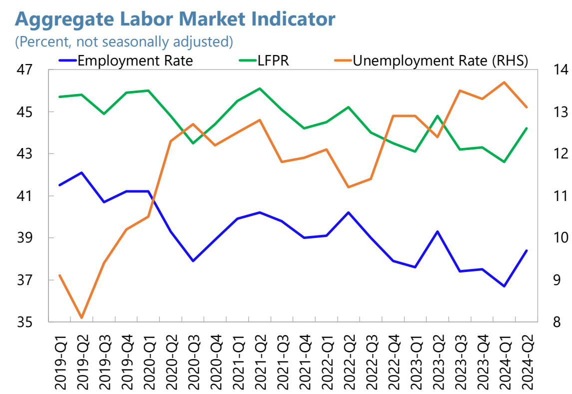
… despite the negative contribution of agriculture.



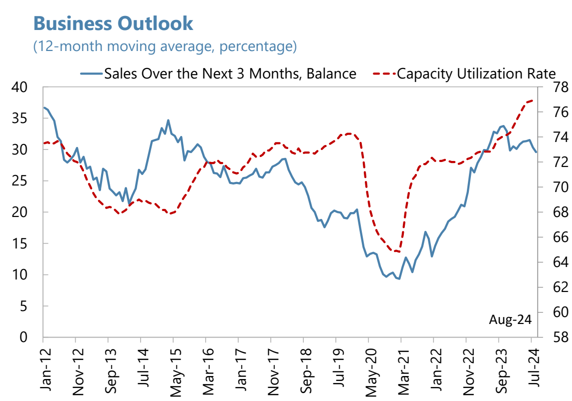
Domestic demand has strengthened, both for consumption and investment.



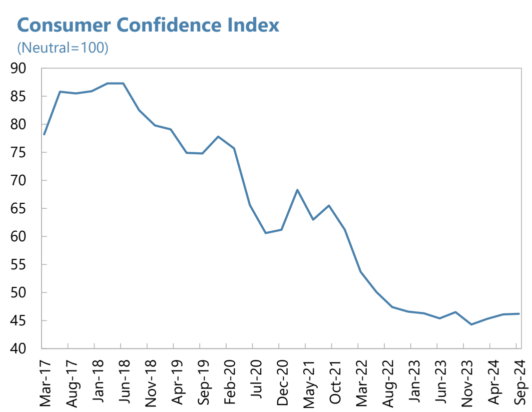
Unemployment remained high in 2024:Q2 at 13.1 percent.



Business sentiment and capacity utilization have rebounded from the pandemic lows…



…while household confidence remains weak.

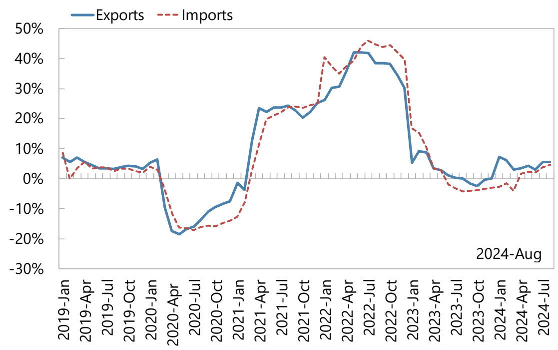


Sources: Haver, HCP, BAM, and IMF staff calculations.

Figure 2. Morocco: External Developments

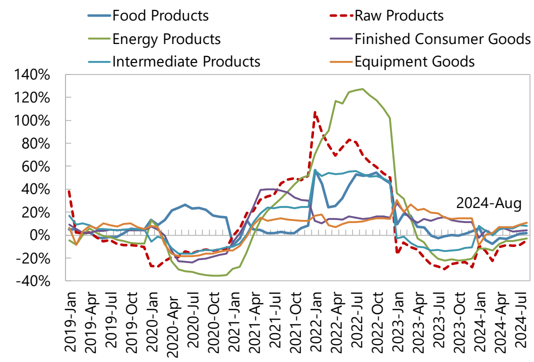
Export growth was stronger than import growth in the first eight months of the year.

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



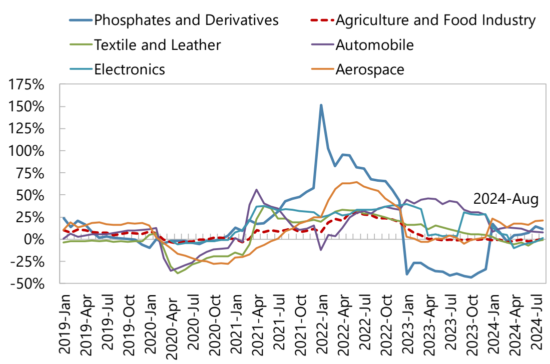
Lower global commodity prices limited the import bill of energy, raw, and food products.

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



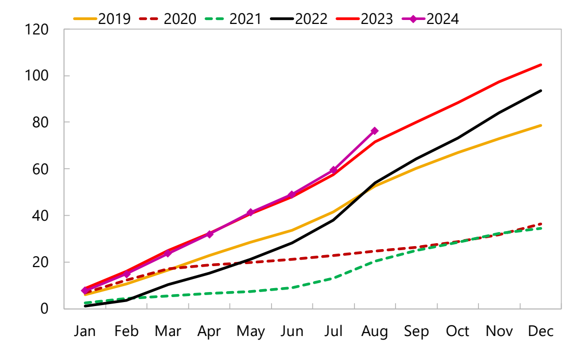
Robust export growth was supported by automobile, aerospace, and phosphates.

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



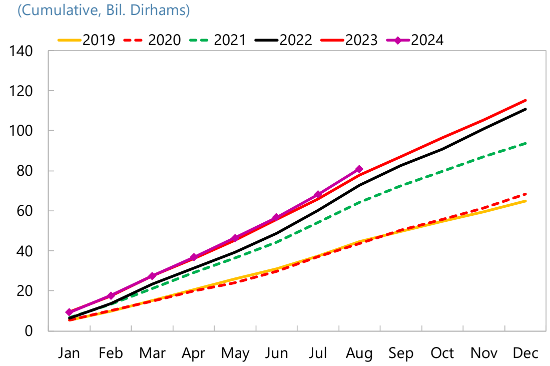
Tourism revenues continued to be strong in 2024...

Tourism Revenues
(Cumulative, Bil. Dirhams)



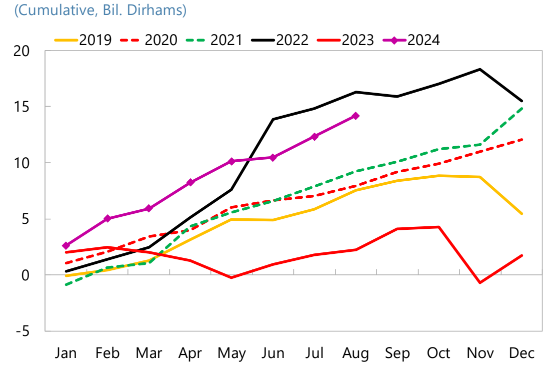
... as well as remittances.

Remittances
(Cumulative, Bil. Dirhams)



Net FDI improved in the first 8 months of the year.

Net FDI
(Cumulative, Bil. Dirhams)

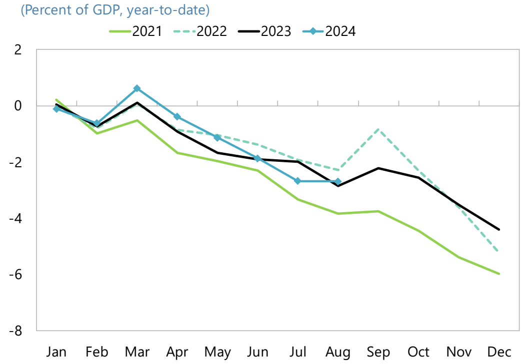


Source: Office des Changes.

Figure 3. Morocco: Fiscal Developments

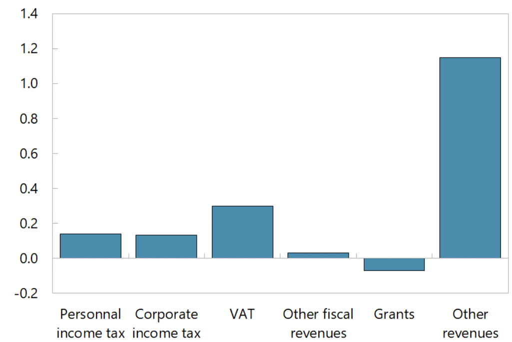
The fiscal deficit in the first 8 months to August was slightly lower than in the same period last year.

Overall Fiscal Balance
(Percent of GDP, year-to-date)



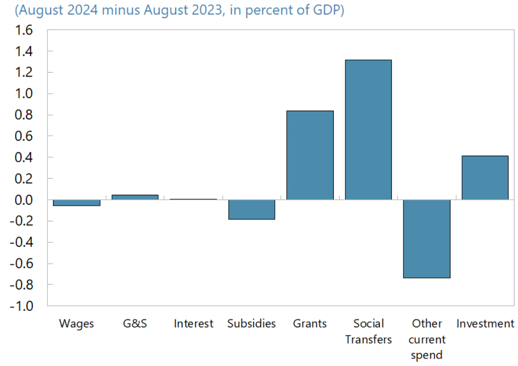
Higher revenues were driven by VAT, CIT, and PIT, as well as non-tax revenues.

Revenues
(August 2024 minus August 2023, in percent of GDP)



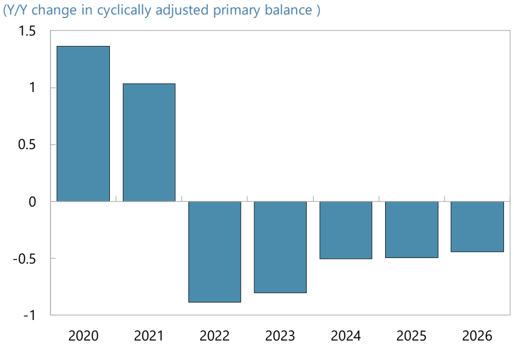
Greater targeted social transfers were only partially offset by lower other current spending.

Expenditure
(August 2024 minus August 2023, in percent of GDP)



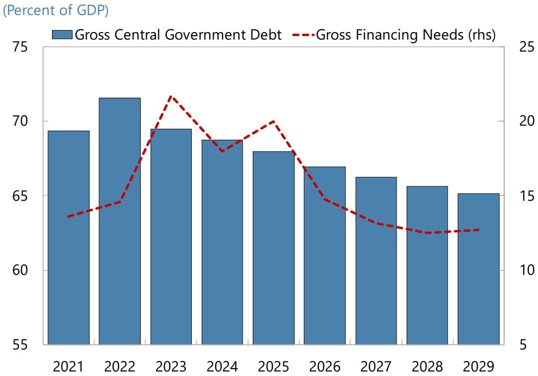
The 2024 Budget envisages a gradual reduction of the fiscal impulse…

Fiscal Impulse
(Y/Y change in cyclically adjusted primary balance)



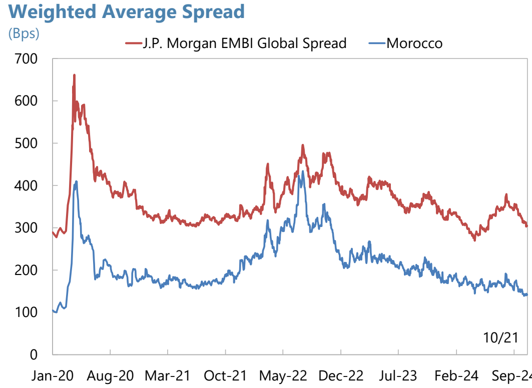
…as well as of the public debt-to-GDP ratio and gross financing needs.

Central Government Debt and Gross Financing Needs
(Percent of GDP)



Sovereign spreads have compressed further in 2024.

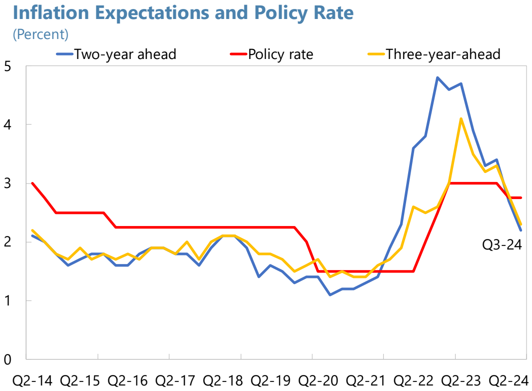
Weighted Average Spread
(Bps)



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

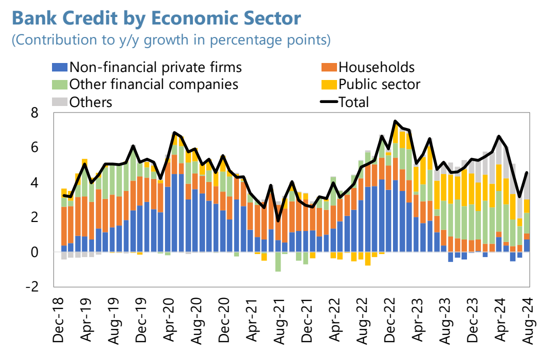
Figure 4. Morocco: Monetary and Financial Developments

BAM stayed put in September, following the 25bps cut in June.

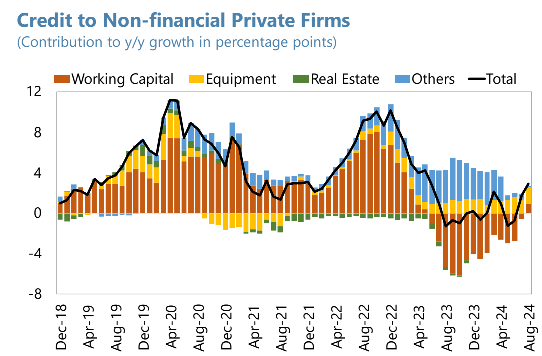


The dirham has appreciated in 2024 and was close to the middle of the band in late October.

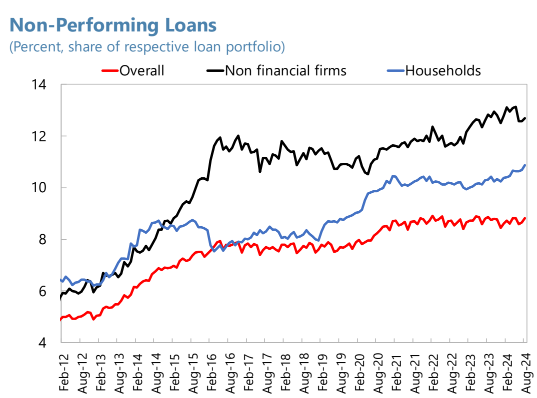
Growth of overall credit has slowed in 2024…



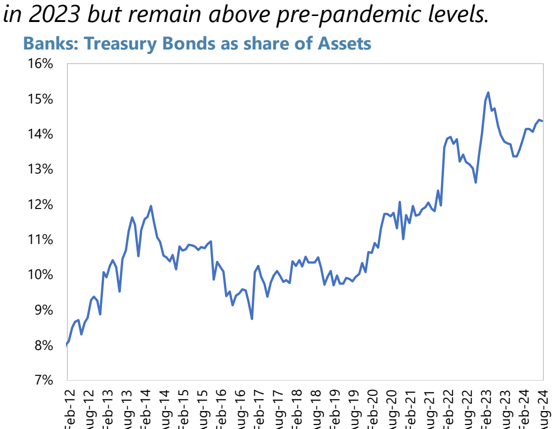
…but lending to non-financial private firms for machinery and equipment has accelerated.



NPLs for non-financial firms and households have increased since end 2022.



Banks' holdings of Treasuries have fallen from the peak in 2023 but remain above pre-pandemic levels.



Sources: Haver, IMF staff calculations, BAM.

Table 5. 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	8.2	1.5	3.4	2.6	3.7	3.5	3.5	3.5	3.5
Real agriculture GDP 4/	-3.9	-7.1	19.0	-11.8	1.6	-5.8	4.7	2.5	2.5	2.5	2.5
Real non-agriculture GDP 5/	3.7	-7.2	7.0	3.2	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Consumer prices (end of period)	1.1	-0.3	3.2	8.3	3.4	2.1	2.1	2.2	2.2	2.1	2.0
Consumer prices (period average)	0.2	0.7	1.4	6.6	6.1	1.5	2.3	2.3	2.2	2.1	2.0
Output gap (percentage points of non-primary sector GDP)	0.2	-5.3	0.5	-0.4	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Unemployment rate (period average)	9.2	11.9	12.3	11.8	13.0	13.2	12.6	12.1	11.6	11.4	11.4
Unemployment rate (end of period)	10.2	12.2	11.9	12.9	13.3	13.0	12.4	11.9	11.5	11.4	11.4
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	30.6	28.8	30.7	30.3	28.8	27.8	27.9	28.1	28.6	29.3	30.0
Of which: Nongovernment	24.9	20.5	23.5	22.4	20.5	20.5	21.3	22.1	22.8	23.5	24.3
Gross national savings	27.8	26.7	28.2	26.6	28.0	26.3	26.0	25.7	26.0	26.5	27.0
Of which: Nongovernment	30.6	34.6	34.1	31.9	32.4	30.6	29.8	29.1	29.1	29.5	29.9
	(In percent of GDP)										
Public Finances											
Revenue	23.8	27.0	25.3	28.7	28.4	28.7	27.9	27.3	27.0	26.8	26.7
Expenditure	27.4	34.1	31.2	34.1	32.8	33.0	31.7	30.6	30.1	29.8	29.6
Budget balance	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.3	-3.1	-2.9	-2.9
Cyclically-adjusted primary balance 1/	-1.7	-3.1	-4.1	-3.2	-2.4	-1.9	-1.4	-1.0	-0.9	-0.8	-0.8
Central government debt	60.3	72.2	69.4	71.5	69.5	69.1	68.3	67.2	66.4	65.6	65.0
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Claims to the economy	5.6	4.9	3.8	7.1	5.2	4.5	4.1	4.1	4.2	4.2	4.2
Broad money	3.8	8.4	5.1	8.0	3.9	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	24.5	5.2	6.6	5.7	5.9	5.9	5.5	5.2
Imports of goods and services (in U.S. dollars, percentage change)	-2.3	-14.5	30.3	22.5	0.0	6.6	6.5	6.5	5.9	5.7	5.4
Merchandise trade balance	-15.3	-12.8	-14.0	-20.2	-17.4	-17.1	-17.3	-17.4	-17.3	-17.4	-17.4
Current account	-3.4	-1.2	-2.3	-3.6	-0.6	-1.5	-1.9	-2.4	-2.6	-2.8	-3.0
Foreign direct investment	0.6	0.8	1.1	1.2	0.2	0.9	1.1	1.2	1.2	1.3	1.3
Total external debt	42.4	50.8	47.3	50.9	47.1	44.6	43.7	43.2	43.7	44.3	46.2
Gross reserves (in billions of U.S. dollars)	26.4	36.0	35.6	32.3	36.3	38.3	40.6	43.2	45.9	48.3	50.4
In months of next year imports of goods and services	6.9	7.2	5.8	5.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5
In percent of Fund Assessing Reserve Adequacy (ARA)	86.9	109.3	100.4	90.4	96.6	97.0	97.5	98.1	97.8	96.8	94.7
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric 2/	113	143	133	118	125	127	127	128	128	126	123
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	128.9	121.4	142.0	131.0	144.4	156.8	168.3	180.5	193.3	206.7	219.1
Nominal GDP per capita (in U.S. dollars, percent change)	0.2	-6.8	15.9	-8.7	9.2	7.5	6.4	6.3	6.2	6.1	5.1
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	-12.0	-11.7	-11.8	-12.0	-12.5	-12.8	-13.2
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	1.4	...	...	...	...	...	...
General Government Debt 3/	60.3	72.2	69.4	71.5	69.5	69.1	68.3	67.2	66.4	65.6	65.0
Interest rate (money market rate, end of period, in percent)	2.26	1.50	1.50	2.50	3.00	...	...	...	...	...	...

Sources: Bank Al-Maghrib; Ministry of Economy and Finance; Office des changes; HCP; and IMF staff estimates.
1/ Excl. revenues from grants.
2/ Fund adjusted reserve adequacy metric.
3/ IMF estimates based on government data.
4/ Refers to primary sector real GDP.
5/ Refers to secondary and tertiary sector real GDP.

Table 6a. Morocco: Budgetary Central Government Finance, 2019–29

(Billions of dirhams)

						Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	295.2	311.1	322.4	381.7	415.0	447.0	460.2	476.8	499.4	524.6	550.7
Taxes	246.9	230.8	251.0	291.3	307.0	331.8	348.5	369.1	389.6	411.5	434.3
Taxes on income, profits, and capital gains	97.8	95.8	93.4	114.5	119.0	126.6	134.3	142.2	150.5	158.9	167.7
Taxes on property	11.8	9.9	12.2	14.2	16.1	16.1	16.4	17.5	18.5	19.6	20.7
Taxes on goods and services	121.0	110.8	127.9	142.2	148.2	166.0	172.9	182.9	192.6	203.4	214.7
Taxes on international trade and transactions	10.2	9.9	12.4	14.5	16.4	16.2	17.4	18.5	19.7	20.9	22.0
Other taxes	6.1	4.3	5.2	5.9	6.6	6.3	7.1	7.3	7.8	8.2	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	108.3	111.5	115.0
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	439.5	450.9	463.9	482.9	504.0	528.6
Compensation of employees	131.4	133.5	140.5	147.8	151.8	168.1	177.5	188.8	199.9	211.1	222.8
Use of goods and services	31.2	33.1	45.1	36.2	35.3	37.1	34.5	34.2	37.0	39.1	41.3
Grants 1/	61.1	65.3	61.5	78.2	95.3	106.9	112.4	118.0	122.1	127.0	134.1
Subsidies	16.1	13.5	21.8	41.8	29.9	17.0	11.5	7.8	7.4	5.9	4.1
Social benefits	3.0	23.3	10.8	15.0	13.5	35.0	36.5	39.0	41.3	43.6	46.0
Interest	26.3	28.8	27.1	28.5	31.2	37.2	40.8	42.1	42.7	43.3	44.5
Other expenses 2/	17.9	31.0	20.4	32.7	36.7	38.3	37.6	34.0	32.6	34.0	35.9
Gross operating balance	8.3	-17.4	-4.8	1.5	21.3	7.5	9.3	12.9	16.5	20.6	22.1
Net operating balance	8.3	-17.4	-4.8	1.5	21.3	7.5	9.3	12.9	16.5	20.6	22.1
Net acquisition of nonfinancial assets	52.3	64.9	71.5	73.1	85.7	75.0	72.2	71.1	74.0	78.2	82.5
Primary balance	-17.7	-53.6	-49.2	-43.1	-33.2	-30.3	-22.1	-16.2	-14.9	-14.3	-15.9
Overall balance	-44.0	-82.4	-76.3	-71.6	-64.4	-67.5	-62.9	-58.2	-57.5	-57.6	-60.4
Net lending / borrowing (incl. privatization)	-38.7	-82.4	-72.3	-71.6	-62.8	-62.5	-57.9	-53.2	-57.5	-57.6	-60.4
Net lending / borrowing (incl. privatization excl. grants)	-41.6	-87.4	-73.8	-73.0	-65.5	-64.3	-59.4	-54.7	-59.0	-59.1	-61.9
Net lending / borrowing (excluding grants)	-46.9	-87.4	-77.8	-73.0	-67.1	-69.3	-64.4	-59.7	-59.0	-59.1	-61.9
Cyclical adjusted primary balance 3/	-21.2	-35.4	-52.4	-42.9	-35.4	-30.1	-23.6	-17.7	-16.4	-15.8	-17.4
Change in net financial worth	-44.0	-82.4	-76.3	-71.6	-64.4	-67.5	-62.9	-58.2	-57.5	-57.6	-60.4
Net acquisition of financial assets	-9.8	14.7	-8.7	-11.2	14.5	-5.0	-5.0	-5.0	0.0	0.0	0.0
Domestic	-9.8	14.7	-8.7	-11.2	14.5	-5.0	-5.0	-5.0	0.0	0.0	0.0
Shares and other equity	-5.3	0.0	-4.0	0.0	-1.6	-5.0	-5.0	-5.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	34.2	97.1	67.6	60.3	78.9	62.5	57.9	53.2	57.5	57.6	60.4
Domestic	16.9	54.1	59.4	54.2	44.0	28.4	22.6	23.6	29.4	34.8	27.6
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	27.4	21.6	22.6	28.4	33.8	26.6
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	34.0	35.3	29.6	28.1	22.8	32.8
Other (after refinancing)	17.3	43.1	8.2	6.1	35.0	26.6	29.6	29.6	28.1	22.8	32.8
RSF disbursement	0.0	0.0	0.0	0.0	0.0	7.4	5.7	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	113.2	109.8	105.1	106.6	112.2	118.4
Central Government Debt	747.3	832.6	885.3	951.8	1,016.6	1,075.3	1,128.2	1,176.2	1,228.2	1,281.5	1,340.0
General Government Debt 4/	747.3	832.6	885.3	951.8	1,016.6	1,075.3	1,128.2	1,176.2	1,228.2	1,281.5	1,340.0
GDP	1,239.8	1,152.5	1,276.6	1,330.6	1,463.4	1,557.1	1,651.5	1,749.5	1,850.5	1,954.4	2,062.9

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 6b. Morocco: Budgetary Central Government Finance, 2019–29
(In percent of GDP)

						Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	23.8	27.0	25.3	28.7	28.4	28.7	27.9	27.3	27.0	26.8	26.7
Taxes	19.9	20.0	19.7	21.9	21.0	21.3	21.1	21.1	21.1	21.1	21.1
Taxes on income, profits, and capital gains	7.9	8.3	7.3	8.6	8.1	8.1	8.1	8.1	8.1	8.1	8.1
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	10.1	10.7	10.5	10.5	10.4	10.4	10.4
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	0.4	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	7.2	7.3	6.7	6.1	5.9	5.7	5.6
Of which: Innovative Financing	0.6	0.0	0.9	1.9	1.7	2.2	2.1	2.0	1.8	1.6	1.5
Expense	23.1	28.5	25.6	28.6	26.9	28.2	27.3	26.5	26.1	25.8	25.6
Compensation of employees	10.6	11.6	11.0	11.1	10.4	10.8	10.7	10.8	10.8	10.8	10.8
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	6.5	6.9	6.8	6.7	6.6	6.5	6.5
Subsidies	1.3	1.2	1.7	3.1	2.0	1.1	0.7	0.4	0.4	0.3	0.2
Social benefits	0.2	2.0	0.8	1.1	0.9	2.2	2.2	2.2	2.2	2.2	2.2
Interest	2.1	2.5	2.1	2.1	2.1	2.4	2.5	2.4	2.3	2.2	2.2
Other expenses 2/	1.4	2.7	1.6	2.5	2.5	2.5	2.3	1.9	1.8	1.7	1.7
Net acquisition of nonfinancial assets	4.2	5.6	5.6	5.5	5.9	4.8	4.4	4.1	4.0	4.0	4.0
Primary balance	-1.4	-4.6	-3.9	-3.2	-2.3	-1.9	-1.3	-0.9	-0.8	-0.7	-0.8
Overall balance	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.3	-3.1	-2.9	-2.9
Net lending / borrowing (incl. privatization)	-3.1	-7.1	-5.7	-5.4	-4.3	-4.0	-3.5	-3.0	-3.1	-2.9	-2.9
Net lending / borrowing (incl. privatization excl. grants)	-3.4	-7.6	-5.8	-5.5	-4.5	-4.1	-3.6	-3.1	-3.2	-3.0	-3.0
Net lending / borrowing (excluding grants)	-3.8	-7.6	-6.1	-5.5	-4.6	-4.5	-3.9	-3.4	-3.2	-3.0	-3.0
Cyclical adjusted primary balance 3/	-1.7	-3.1	-4.1	-3.2	-2.4	-1.9	-1.4	-1.0	-0.9	-0.8	-0.8
Cyclical adjusted balance (net subsidies)	-0.4	-1.9	-2.4	-0.1	-0.4	-0.8	-0.7	-0.6	-0.5	-0.5	-0.6
Change in net financial worth	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.3	-3.1	-2.9	-2.9
Net acquisition of financial assets	-0.8	1.3	-0.7	-0.8	1.0	-0.3	-0.3	-0.3	0.0	0.0	0.0
Domestic	-0.8	1.3	-0.7	-0.8	1.0	-0.3	-0.3	-0.3	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.3	0.0	-0.1	-0.3	-0.3	-0.3	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.8	8.4	5.3	4.5	5.4	4.0	3.5	3.0	3.1	2.9	2.9
Domestic	1.4	4.7	4.6	4.1	3.0	1.8	1.4	1.4	1.6	1.8	1.3
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	1.8	1.3	1.3	1.5	1.7	1.3
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	2.2	2.1	1.7	1.5	1.2	1.6
Other (after refinancing)	1.4	3.7	0.6	0.5	2.4	1.7	1.8	1.7	1.5	1.2	1.6
RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.5	0.3	0.0	0.0	0.0	0.0
Memorandum Item:											
Fonds Hassan II expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fonds Hassan II interest receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services and grants	7.4	8.5	8.4	8.6	8.9	9.2	8.9	8.7	8.6	8.5	8.5
Overall balance excluding RSF spending	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8	-3.3	-3.1	-2.9	-2.9
Financing excluding RSF disbursement	3.6	7.1	6.0	5.4	4.4	4.3	3.8	3.3	3.1	2.9	2.9
Domestic financing without RSF	0.6	6.0	4.0	3.2	4.0	1.5	1.1	1.1	1.6	1.8	1.3
Domestic financing with RSF	0.6	6.0	4.0	3.2	4.0	1.5	1.1	1.1	1.6	1.8	1.3
Total investment (including capital transfers)	5.7	8.3	7.2	7.9	8.4	7.3	6.6	6.0	5.8	5.7	5.7
Social protection spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central Government Debt	60.3	72.2	69.4	71.5	69.5	69.1	68.3	67.2	66.4	65.6	65.0
General Government Debt 4/	60.3	72.2	69.4	71.5	69.5	69.1	68.3	67.2	66.4	65.6	65.0
GDP (Billions Dirham)	1,239.8	1,152.5	1,276.6	1,330.6	1,463.4	1,557.1	1,651.5	1,749.5	1,850.5	1,954.4	2,062.9

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 7. Morocco: Balance of Payments, 2019–29
(In billions of U.S. dollars, unless otherwise indicated)

						Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current account	-4.4	-1.4	-3.3	-4.7	-0.9	-2.3	-3.2	-4.3	-5.0	-5.7	-6.6
Trade balance	-19.8	-15.5	-20.0	-26.5	-25.1	-26.8	-29.2	-31.4	-33.5	-36.0	-38.0
Exports	24.7	23.6	31.7	36.5	36.3	38.8	41.0	43.4	45.9	48.3	50.8
Food products	5.9	6.0	7.0	7.2	7.6	8.0	8.5	8.9	9.3	9.7	10.1
Phosphates and derived products	5.1	5.4	8.9	11.4	7.5	8.3	8.5	9.0	9.5	10.0	10.4
Finished goods	12.7	11.5	14.4	16.4	19.4	20.8	22.4	23.9	25.4	26.8	28.3
Imports	-44.5	-39.1	-51.7	-63.0	-61.4	-65.6	-70.2	-74.8	-79.4	-84.3	-88.8
Energy	-7.9	-5.3	-8.4	-15.1	-12.0	-11.7	-11.8	-12.0	-12.5	-12.8	-13.2
Capital goods	-13.2	-11.6	-13.2	-13.9	-16.0	-17.9	-19.8	-21.7	-23.6	-25.7	-27.3
Food products	-5.0	-5.8	-6.7	-8.5	-8.8	-8.9	-9.1	-9.3	-9.5	-9.8	-10.1
Services	9.7	6.7	6.8	11.4	13.1	14.0	15.1	15.9	17.2	18.6	19.6
Tourism receipts	8.2	3.8	3.8	9.2	10.3	11.3	12.2	13.2	14.3	15.5	16.7
Income	-2.0	-1.2	-2.0	-1.9	-2.1	-3.0	-3.0	-3.1	-3.3	-3.6	-4.0
Transfers	7.7	8.6	11.8	12.4	13.2	13.5	13.8	14.2	14.7	15.3	15.8
Private transfers (net)	7.4	8.1	11.7	12.2	12.9	13.3	13.7	14.1	14.5	15.1	15.6
Workers' remittances (net)	6.7	7.1	10.4	10.9	11.3	11.9	12.3	12.7	13.1	13.6	14.1
Official grants (net)	0.3	0.5	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (without RSF)	5.3	7.0	3.9	2.4	1.7	3.5	4.5	6.4	7.1	7.7	8.6
Financial account (with RSF)	5.3	7.0	3.9	2.4	1.7	4.2	5.1	6.4	7.1	7.7	8.6
Direct investment	0.8	1.0	1.6	1.6	0.3	1.5	1.8	2.1	2.4	2.6	2.8
Portfolio investment	1.2	2.2	-0.3	-1.1	2.4	0.4	2.1	1.6	1.5	1.1	2.4
Other (without RSF)	3.3	3.9	2.6	1.9	-0.9	1.6	0.6	2.7	3.2	4.0	3.4
Private	2.4	2.1	1.6	0.0	-1.7	-1.1	-1.0	0.6	0.8	1.5	1.2
Public medium-and long-term loans (net)	0.9	1.8	1.0	1.9	0.8	3.4	2.2	2.1	2.4	2.5	2.3
Amortization	-2.1	-2.3	-3.6	-2.3	-2.4	-3.3	-3.2	-2.7	-2.5	-2.5	-2.7
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	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	7.3	1.5	-0.1	2.0	1.1	1.2	2.1	2.1	2.0	2.0
Financing	-1.9	-7.3	-1.5	0.1	-2.0	-1.1	-1.2	-2.1	-2.1	-2.0	-2.0
Reserve asset accumulation (-increase, without RSF)	-1.9	-7.3	-1.5	0.1	-2.0	-1.1	-1.2	-2.1	-2.1	-2.0	-2.0
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	0.1	-2.0	-1.9	-1.8	-2.1	-2.1	-2.0	-2.0
				(Percent of GDP)							
Current account	-3.4	-1.2	-2.3	-3.6	-0.6	-1.5	-1.9	-2.4	-2.6	-2.8	-3.0
Trade balance	-15.3	-12.8	-14.0	-20.2	-17.4	-17.1	-17.3	-17.4	-17.3	-17.4	-17.4
Exports	19.2	19.4	22.3	27.9	25.1	24.8	24.4	24.0	23.8	23.4	23.2
Food products	4.5	4.9	4.9	5.5	5.2	5.1	5.0	4.9	4.8	4.7	4.6
Phosphates and derived products	3.9	4.4	6.3	8.7	5.2	5.3	5.0	5.0	4.9	4.8	4.8
Finished goods	9.8	9.4	10.1	12.5	13.4	13.3	13.3	13.2	13.1	12.9	12.9
Imports	-34.5	-32.2	-36.4	-48.1	-42.5	-41.9	-41.7	-41.4	-41.1	-40.8	-40.5
Energy	-6.2	-4.3	-5.9	-11.5	-8.3	-7.5	-7.0	-6.7	-6.4	-6.2	-6.0
Capital goods	-10.2	-9.6	-9.3	-10.6	-11.0	-11.4	-11.8	-12.0	-12.2	-12.4	-12.4
Food products	-3.9	-4.8	-4.7	-6.5	-6.1	-5.7	-5.4	-5.1	-4.9	-4.8	-4.6
Services	7.5	5.5	4.8	8.7	9.1	8.9	8.9	8.8	8.9	9.0	8.9
Tourism receipts	6.4	3.2	2.7	7.1	7.2	7.2	7.3	7.3	7.4	7.5	7.6
Income	-1.6	-1.0	-1.4	-1.5	-1.4	-1.9	-1.8	-1.7	-1.7	-1.7	-1.8
Transfers	6.0	7.1	8.3	9.4	9.1	8.6	8.2	7.9	7.6	7.4	7.2
Private transfers (net)	5.8	6.7	8.2	9.4	9.0	8.5	8.1	7.8	7.5	7.3	7.1
Workers' remittances (net)	5.2	5.9	7.3	8.3	7.8	7.6	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	1.2	2.2	2.7	3.6	3.7	3.7	3.9
Financial account (with RSF)	4.1	5.8	2.8	1.8	1.2	2.7	3.0	3.6	3.7	3.7	3.9
Direct investment	0.6	0.8	1.1	1.2	0.2	0.9	1.1	1.2	1.2	1.3	1.3
Portfolio investment	0.9	1.8	-0.2	-0.8	1.6	0.3	1.2	0.9	0.8	0.5	1.1
Other (without RSF)	2.5	3.2	1.8	1.5	-0.6	1.0	0.4	1.5	1.6	1.9	1.6
Private	1.9	1.7	1.1	0.0	-1.2	-0.7	-0.6	0.3	0.4	0.7	0.5
Public medium-and long-term loans (net)	0.7	1.5	0.7	1.5	0.5	2.2	1.3	1.2	1.2	1.2	1.0
Errors and omissions	0.8	1.4	0.7	1.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.5	6.0	1.1	-0.1	1.4	0.7	0.7	1.2	1.1	1.0	0.9
Financing	-1.5	-6.0	-1.1	0.1	-1.4	-0.7	-0.7	-1.2	-1.1	-1.0	-0.9
Reserve asset accumulation (-increase, without RSF)	-1.5	-6.0	-1.1	0.1	-1.4	-0.7	-0.7	-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	0.3	0.0	0.0	0.0	0.0
Reserve asset accumulation (-increase, with RSF)	-1.5	-6.0	-1.1	0.1	-1.4	-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	24.5	5.2	6.6	5.7	5.9	5.9	5.5	5.2
Imports of goods and services (in U.S. dollars, percentage change)	-2.3	-14.5	30.3	22.5	0.0	6.6	6.5	6.5	5.9	5.7	5.4
Terms of trade (percentage change) 1/	1.2	-2.6	2.6	-5.8	2.3	1.7	-1.2	0.5	0.3	0.1	-0.1
Gross official reserves (with RSF)	26.4	36.0	35.6	32.3	36.3	38.3	40.6	43.2	45.9	48.3	50.4
In months of prospective imports of GNFS	6.9	7.2	5.8	5.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5
In percent of the Assessing Reserve Adequacy (ARA) metric	86.9	109.3	100.4	90.4	96.6	97.0	97.5	98.1	97.8	96.8	94.7
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	113.4	143.3	132.9	117.7	125.4	126.7	127.5	128.2	127.8	126.3	122.9
Gross official reserves (without RSF)	26.4	36.0	35.6	32.3	36.3	37.8	39.8	42.4	45.1	47.5	49.6
Debt service (percent of export of GNFS and remittances) 2/	7.4	12.2	9.3	7.9	6.4	9.4	7.0	6.7	6.5	6.5	6.4
External public and publicly guaranteed debt (percent of GDP)	27.4	32.6	29.6	31.5	29.7	30.1	30.5	30.5	30.4	30.2	30.3
DHs per US$, period average	9.6	9.5	9.0	10.2	10.1	...	...	...	...	...	...
Nominal GDP (in billions of U.S. dollars)	128.9	121.4	142.0	131.0	144.4	156.8	168.3	180.5	193.3	206.7	219.1
Oil price (US$/barrel; Brent)	61.4	41.8	69.2	96.4	80.6	78.6	73.7	70.6	68.7	67.8	67.5

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 8. Morocco: Monetary Survey, 2019–2024

	2019	2020	2021	2022	2023	Proj. 2024
	(Billions of dirhams)					
Net foreign assets	263.9	316.5	316.9	317.6	351.6	370.3
Net domestic assets	1,106.7	1,168.6	1,243.9	1,367.5	1,399.2	1,468.1
Domestic claims	1,292.3	1,371.1	1,448.8	1,573.2	1,678.5	1,762.8
Net claims on the government	212.4	238.3	272.5	313.7	353.2	377.9
Bank Al-Maghrib	0.6	-4.2	-3.4	18.6	10.2	9.4
Of which : deposits	-3.3	-7.3	-6.5	-5.5	-12.2	-13.0
Deposit money banks	211.9	242.6	275.9	314.6	307.3	368.4
Claims to the economy	1,079.9	1,132.7	1,176.3	1,259.5	1,325.3	1,384.9
of which credit to private sector	730.4	763.1	795.2	835.0	880.9	916.1
Other liabilities, net	-185.6	-202.5	-204.9	-205.7	-279.3	-294.7
Broad money	1,370.5	1,485.1	1,560.8	1,685.1	1,750.8	1,838.3
Money	911.8	1,019.4	1,086.8	1,196.3	1,285.9	1,361.0
Currency outside banks	250.2	300.6	320.1	354.7	393.5	418.6
Demand deposits	661.6	718.8	766.7	841.6	892.4	942.4
Quasi money	416.6	426.0	432.0	441.1	423.3	434.7
Foreign deposits	42.0	39.8	41.9	47.6	41.6	42.5
	(Annual percentage change)					
Net foreign assets	5.5	20.0	0.1	0.2	10.7	5.3
Net domestic assets	3.4	5.6	6.4	8.4	6.4	6.1
Domestic credit	5.4	6.1	5.7	8.6	6.7	5.0
Net claims on the government	4.6	12.2	14.3	15.1	12.6	7.0
Claims to the economy (excl. central government)	5.6	4.9	3.8	7.1	5.2	4.5
Banking credit (excl. central government)	5.3	4.7	2.6	7.5	5.3	5.0
Broad money	3.8	8.4	5.1	8.0	3.9	5.0
	(Change in percent of broad money)					
Net foreign assets	1.0	3.8	0.0	0.0	2.0	1.1
Domestic credit	5.0	5.7	5.2	8.0	6.2	4.8
Net claims on the government	0.7	1.9	2.3	2.6	2.3	1.4
Claims to the economy	4.3	3.9	2.9	5.3	3.9	3.4
Memorandum items:						
Velocity (GDP/M3)	0.90	0.78	0.82	0.79	0.84	0.85
Velocity (non-agr. GDP/M3)	0.81	0.70	0.72	0.71	0.76	0.78
Claims to economy/GDP (in percent)	87.1	98.3	92.1	94.7	90.6	88.9
of which credit to private sector	58.9	66.2	62.3	62.8	60.2	58.8
Claims to economy/nonagricultural GDP (in percent)	97.1	109.4	104.0	105.6	100.0	97.0

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

Table 9. 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	15.5
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	12.9
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	85.5
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	6.8
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	8.5
Specific provisions to NPLs	70.0	71.0	70.0	69.1	69.3	69.3	67.9	68.6	68.6	67.5	66.7	68.4	67.7	67.5
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	19.0
Large exposures to Tier 1 capital	318.0	284.0	296.0	288.0	262.9	240.1	255.0	237.0	249.0	228.8	259.4	274.5	271.4	288.1
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	0.7
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	8.0
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	N.A.
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	N.A.
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	N.A.
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	N.A.
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	N.A.
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	N.A.
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	N.A.
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	N.A.
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 10a. Morocco: Indicators of Fund Credit – Adverse Scenario (GRA and RSF Arrangements)

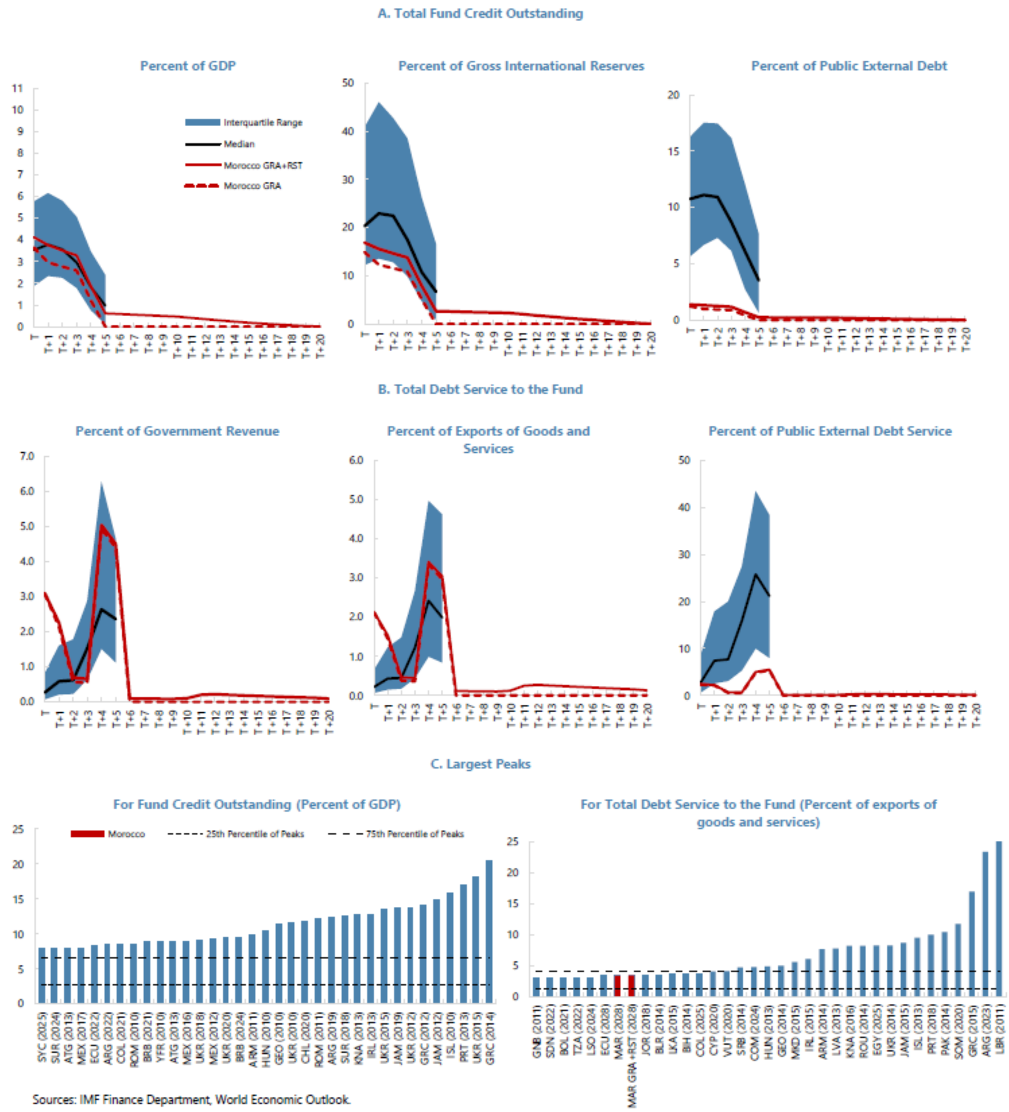
(In millions of SDRs, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
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
GRA	3,726	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
PLL	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
Stock of existing and prospective Fund credit	4,826	4,726	4,726	4,726	2,863	1,000	1,000	1,000	1,000	1,000	988	909	809	709	609	509	409	309	209	109	22	0
GRA	4,264	3,726	3,726	3,726	1,863	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	3,726	3,726	3,726	1,863	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
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
Obligations	1,041	793	255	255	2,088	1,964	45	45	45	45	57	121	139	135	130	126	121	117	112	108	91	22
Principal (repayments/repurchases)	962	538	0	0	1,863	1,863	0	0	0	0	13	78	100	100	100	100	100	100	100	100	88	22
GRA	962	538	0	0	1,863	1,863	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	0	0	0	0	1,863	1,863	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	962	538	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
Charges and interest	79.09	255.37	254.63	254.63	224.85	101.38	45.27	44.81	44.83	44.79	44.76	43.32	39.15	34.64	30.17	25.70	21.23	16.72	12.25	7.77	3.35	0.30
GRA	74.60	214.46	209.82	209.82	180.02	56.59	0.46	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	4.48	40.91	44.81	44.81	44.83	44.79	44.81	44.81	44.83	44.79	44.76	43.32	39.15	34.64	30.17	25.70	21.23	16.72	12.25	7.77	3.35	0.30
Fund obligations (repurchases and charges) in percent of:																						
Quota	116.4	88.7	28.5	28.5	233.4	219.6	5.1	5.0	5.0	5.0	6.4	13.6	15.6	15.1	14.6	14.1	13.6	13.1	12.5	12.0	10.2	2.5
GDP	0.9	0.6	0.2	0.2	1.4	1.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.1	1.5	0.5	0.4	3.4	3.0	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	0.1	0.0
Gross international reserves	3.6	2.6	0.8	0.7	5.8	5.2	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.0
Government revenue	3.1	2.3	0.7	0.7	5.0	4.5	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
External debt service, public	2.3	2.2	0.7	0.7	5.0	5.5	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
Fund credit outstanding in percent of:																						
Quota	540	528	528	528	320	112	112	112	112	112	110	102	90	79	68	57	46	35	23	12	2	0
GDP	4	4	4	3	2	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Exports of goods and services	10	9	9	8	5	2	3	2	2	2	2	2	2	1	1	1	1	0	0	0	0	0
Gross international reserves	17	16	15	14	8	3	3	3	2	2	2	2	2	2	1	1	1	1	0	0	0	0
Government revenue	14.4	13.5	12.9	12.2	6.9	2.3	2.2	2.1	2.0	1.9	1.7	1.5	1.3	1.1	0.9	0.7	0.5	0.4	0.2	0.1	0.0	0.0
External debt, public	1.4	1.3	1.2	1.1	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.1	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

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 10b. 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)



Sources: IMF Finance Department, World Economic Outlook.
Notes:
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 February 23, 2024.
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 run 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 Sector Assessment

Overall Assessment: *Morocco's external position in 2023 was stronger than the level implied by medium-term fundamentals and desirable policies. The narrowing of the CA deficit in 2023 reflected a lower goods trade deficit (due to lower imports, especially of energy, and strong exports of automotive goods), increasing tourism revenues, and resilient remittances. As private demand accelerates, the CA deficit is expected to gradually converge to the estimated medium-term norm of around 3 percent.*

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 higher imports (and greater 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 firms' competitiveness.*

Foreign Asset and Liability Position and Trajectory

Background. After peaking at 63 percent of GDP, Morocco's Net International Investment Position (NIIP) improved by about 10 percentage points of GDP to about 54 percent in 2023 mainly because of the CA deficit compression and is projected to stabilize around that level over the medium term.

Assessment. Morocco's NIIP financing vulnerabilities appear moderate. Over the medium term, Morocco should be able to sustain its net debtor position, amidst the implementation of structural reforms (that should increase Morocco's attractiveness for FDIs) and fiscal consolidation (that should reduce the dependence on external debt).

2023 (% GDP)	NIIP: -54.1	Gross Assets: 38.6	Reserve Assets: 24.6	Gross Liabilities: 92.7	Gross External Debt: 46.8

Current Account

Background. In 2023, the CA deficit narrowed to around 0.6 percent of GDP, from 3.6 percent in 2022, as lower energy prices and relatively weak domestic demand reduced imports, while exports of goods and services (particularly automotive and tourism) and remittances surprised on the upside. The deficit is expected to gradually increase to about 3.0 percent of GDP over the medium term as stronger investment and consumption boost imports, despite continued robust performance of both tourism and remittances.

Assessment. In 2023, the EBA model estimated a cyclically adjusted CA deficit of 0.3 percent of GDP compared with an estimated cyclically adjusted CA norm of -3.2 percent of GDP, with a standard error of 0.5 percent of GDP. The resulting CA gap of 2.9 percent of GDP (with a range of -3.4 to 2.4 percent), includes identified policy gaps of 1.3 percent of GDP and an unexplained residual of 1.6 percent of GDP.

2023 (% GDP)	CA: -0.6	Cycl Contributions: -0.3	Cycl. Adjusted CA: -0.3	Cycl. Adjusted CA Norm: -3.2	Total Gap: 2.9

Real Exchange Rate

Background. The REER has been relatively stable over the last decade. In 2023 it appreciated by about 4 percent relative to 2022, reflecting a nominal appreciation of the Dirham, but as of May 2024 about half of that appreciation has been reversed.

Assessment. Consistent with the estimated CA gap of 2.9 percent of GDP and applying an elasticity of the CA to REER of 0.38, the REER was assessed to be undervalued in 2023 by 7.7 percent (with a range of 6.3 to 8.9 percent).
Capital and Financial Accounts: Flows and Policy Measures
Background. Morocco's CA deficit is mainly financed by net FDI inflows and external borrowing. In 2023, net FDI inflows 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 125 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 II. Risk Assessment Matrix [1]

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s).	**High** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase 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** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green energy transition) 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.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Monetary policy miscalibration.	**Medium** Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, which stifles growth, triggers capital outflows from EMDEs, and weakens EMDE currencies.	**Small** Given Morocco's relatively limited international financial integration the effect is 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.	• Although the existence of capital controls reduces the room for carry trade and other forms of capital outflows, the central bank may need to respond to higher interest rate globally with higher policy interest rates, to limit exchange rate depreciation pressures (while appreciation pressure 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.
Global growth surprises	• **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, or the real estate sector contraction (especially in China), with adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. • **Acceleration.** Positive supply-side surprises, retreat from protectionism and sanctions, monetary policy easing, productivity gains from AI, and/or stronger performance of large EMDEs increase global demand, promote trade, and ease global financing conditions.	**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.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
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 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 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.	• 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.
Domestic Risk			
A more severe drought reduces agricultural production.	**High** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. In the case of Morocco, the frequency of droughts has increased significantly recently, with Morocco experiencing yet another drought in 2024, the fourth dry rain season in the last five years.	**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, about one-third of the Moroccan workforce is active in this sector. 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.

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.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Morocco's debt is assessed to be sustainable with high probability, and its risk of sovereign stress is assessed to be moderate. *Debt-to-GDP is projected to decline gradually in the medium term, to around 65 percent of GDP in 2030, reflecting the announced path of fiscal consolidation. There are ongoing efforts to mitigate medium- and long-term risks, including by further strengthening the medium-term fiscal framework and reforming the pension system.*

1. Debt coverage and definition. This Sovereign Risk and Debt Sustainability Assessment (SRDSA) covers *central government* debt (domestic and external).

2. Background. The central government debt ratio decreased from 71.5 of GDP in 2022 to 69.5 in 2023. This decrease was driven by high nominal GDP growth (10 percent) —as real growth accelerated to 3.4 percent and inflation in GDP deflator reached 6.4 percent—and a lower primary fiscal deficit (to 2.3 percent of GDP). Gross financing needs for the central government increased from 14.6 percent in 2022 to 20.6 percent of GDP in 2023, driven by higher amortization.

3. Baseline Projections. Under the baseline scenario, central government debt is expected to decrease to about 65 percent of GDP in the medium term, in line with the Medium-Term Fiscal Framework published as part of the 2024 Budget. 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. Gross financing needs are expected to decrease to 12 percent of GDP in 2024 and stabilize at around 10 percent in the medium term. Government interest payments are expected to rise moderately, with higher domestic and international rates.

4. Medium-term risks. Medium-term risks are assessed to be moderate based on the debt fanchart module and the gross financing needs (GFN) module. The debt fanchart index—measuring medium-term solvency risks—indicates a moderate risk. The baseline debt trajectory is on a downward trend, the fanchart width is narrower than the median in the peer group, and the probability of debt not stabilizing is limited. Overall, solvency risks should be contained with continuous fiscal consolidation, fiscal reforms, and a gradual economic recovery. GFN financeability index also indicates a moderate risk with GFN stabilizing in the stress scenario. Contingent liabilities from underfunded public pension schemes, guarantees to commercial SOEs' external debt, and subsidized credit schemes under the Covid-19 crisis pose additional risks. Relevant reforms in the budgetary framework, including the reinforcement of the MTFF, the analysis of the budget risks, and the implementation of a fiscal rule anchored on the public debt, will help contain medium-term risks.

5. Long-term risks. Long-term risks are moderate, reflecting risks related to climate change and demographic change. However, there are ongoing comprehensive reforms in water infrastructure, health care, and pension systems to mitigate these risks.

6. Sustainability. Debt is assessed to be sustainable with high probability. The debt to GDP ratio is expected to decrease in the medium term and GFN will remain at manageable levels, conditional on the implementation of the announced fiscal adjustment that is assessed feasible. A few characteristics of the debt profile, such as relatively long maturity and low share of FX debt, continue to limit potential vulnerabilities.

Annex III. 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 terms. Relevant reforms in the budgetary framework and the pension system are expected in the coming years. Ongoing reforms under the RSF and other future comprehensive reforms in the water and energy sectors will also be needed to reduce climate-related risks.
Near term 1/			
Medium term	**Moderate**	**Moderate**	The debt fanchart module and the gross financing needs module suggest moderate levels of risk. The contingent liability stress test shows a path of gross financing needs substantially above the baseline. Medium-term fiscal framework has improved relative to last year and is expected to continue improving.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test	Cont. Liabty.	...	
Long term	...	**Moderate**	Long-term risks are moderate, given risks related to climate change and demographic change. However, there are ongoing comprehensive reforms in water infrastructure, healthcare, and pension systems to mitigate these risks. The long-term amortization module does not trigger an overall risk indication.
Sustainability assessment 2/		Sustainable with high probability	The projected debt path is expected to decrease in the medium term and GFN will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed feasible.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Morocco is at moderate overall risk of sovereign stress, with public debt that is sustainable with high probability. Debt is expected to continuously decline over the medium term to around 65 percent of GDP by 2030. Medium-term risks are moderate, as indicated by debt fanchart module and the gross financing needs module. Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of the budget risks, and the implementation of a fiscal rule anchored on the public debt. Long-term risks are moderate, given risks related to climate and demographic change. However, there are ongoing comprehensive reforms in water infrastructure, healthcare, and pension systems to mitigate these risks.

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 III. Figure 2. Morocco: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	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:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	No	Not applicable
	3	Social security funds (SSFs)	No	
	4	State governments	No	
	5	Local governments	No	
	6	Public nonfinancial corporations	No	
	7	Central bank	No	
	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

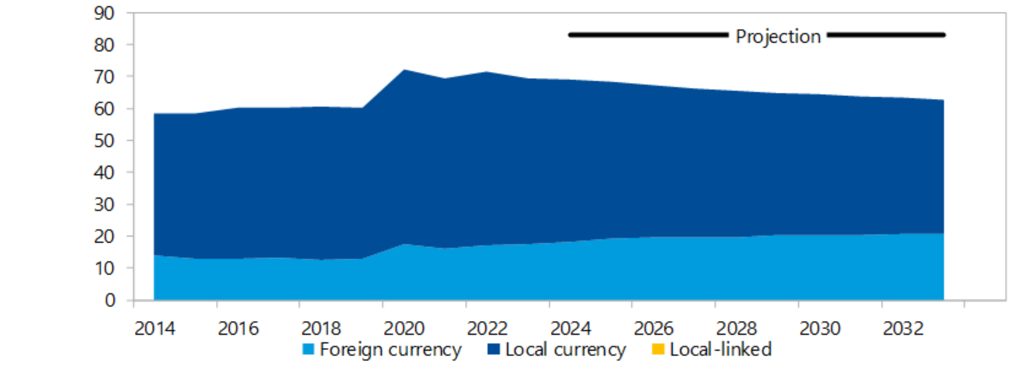
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
	2	Extra-budget. funds									0
	3	Social security funds									0
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

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

Commentary: The authorities have started to produce general government data with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public, non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidating the debt under the general government perimeter reduces the debt-to-GDP ratio by about 3½ percent of GDP in 2023 (from 69.5 to 65.9 percent).

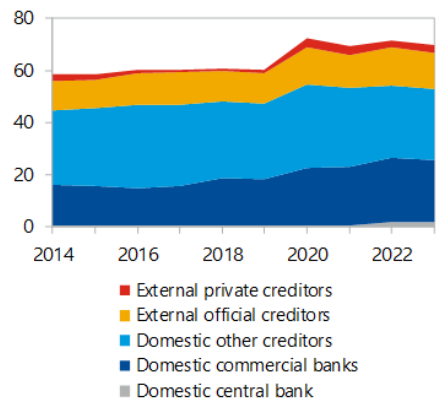
Annex III. Figure 3. Morocco: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



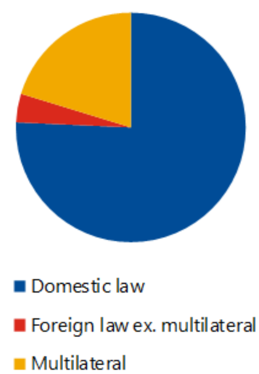
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



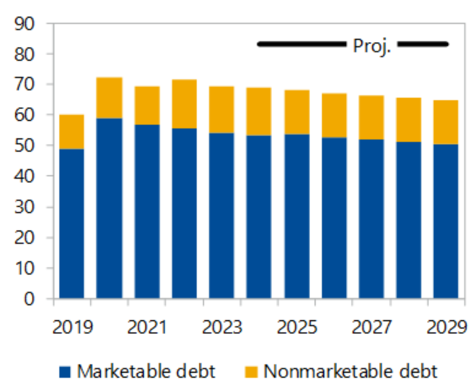
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)



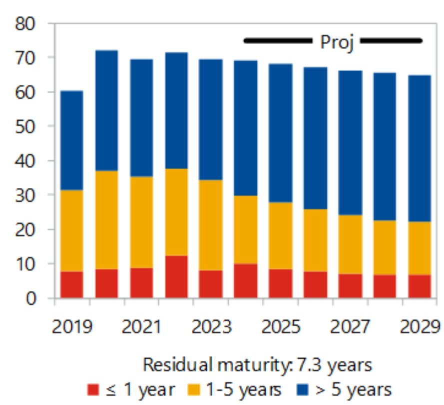
Note: The perimeter shown is central government.

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: The characteristics of the public debt profile, in particular, long maturities and relatively low share of FX-denominated debt, coming from an investment base made mostly of local long-term investors, continue to limit potential vulnerabilities. Average maturity increased from 6 years and 8 month in 2022 to 7 years and 3 months in 2023 through active debt management.

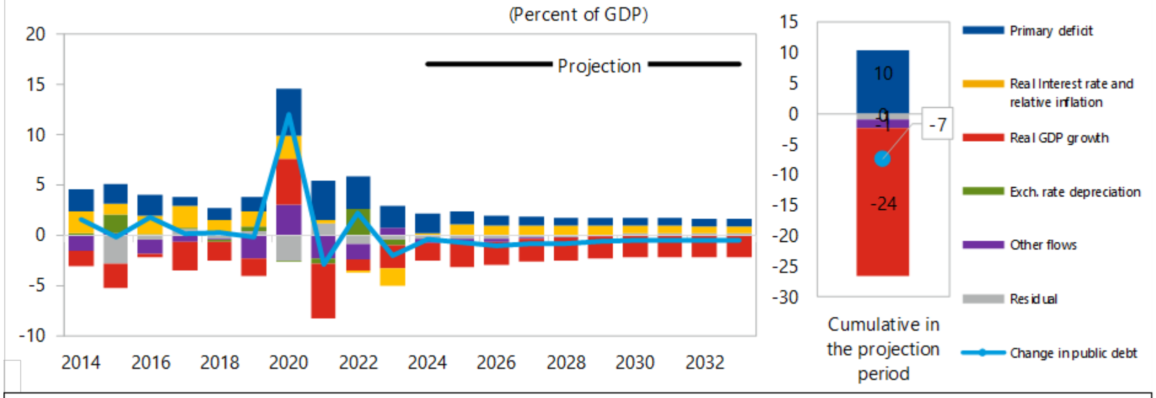
Annex III. Figure 4. Morocco: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	69.5	69.1	68.3	67.2	66.4	65.6	65.0	64.4	63.9	63.3	62.8
Change in public debt	-2.1	-0.4	-0.7	-1.1	-0.9	-0.8	-0.6	-0.5	-0.5	-0.6	-0.6
Contribution of identified flows	-1.5	0.0	-0.4	-0.8	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
Primary deficit	2.3	1.9	1.3	0.9	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Noninterest revenues	28.4	28.7	27.9	27.3	27.0	26.8	26.7	26.7	26.7	26.7	26.7
Noninterest expenditures	30.6	30.6	29.2	28.2	27.8	27.6	27.5	27.5	27.5	27.5	27.5
Automatic debt dynamics	-4.5	-1.6	-1.4	-1.3	-1.3	-1.3	-1.3	-1.4	-1.5	-1.5	-1.5
Real interest rate and relative inflatioı	-1.7	0.2	1.1	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.7
Real interest rate	-2.1	0.0	1.0	0.9	0.9	0.9	0.9	0.7	0.6	0.6	0.6
Relative inflation	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Real growth rate	-2.4	-1.8	-2.4	-2.3	-2.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Real exchange rate	-0.5	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.7	-0.4	-0.4	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
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	0.7	-0.4	-0.4	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.5	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	0.2	0.2	0.2	0.2
Gross financing needs	20.6	11.9	13.2	11.3	10.6	9.8	9.5	9.5	9.3	8.9	8.4
of which: debt service	18.4	10.0	11.9	10.3	9.8	9.1	8.8	8.7	8.5	8.1	7.6
Local currency	17.7	8.0	10.6	8.7	8.1	7.1	7.3	7.0	6.9	6.5	6.0
Foreign currency	0.7	2.0	1.3	1.7	1.7	2.0	1.4	1.8	1.7	1.6	1.6
Memo:											
Real GDP growth (percent)	3.4	2.6	3.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	6.4	3.7	2.3	2.3	2.2	2.1	2.0	2.3	2.3	2.3	2.3
Nominal GDP growth (percent)	10.0	6.4	6.1	5.9	5.8	5.6	5.5	5.5	5.5	5.5	5.5
Effective interest rate (percent)	3.1	3.7	3.8	3.7	3.6	3.5	3.5	3.4	3.4	3.3	3.3

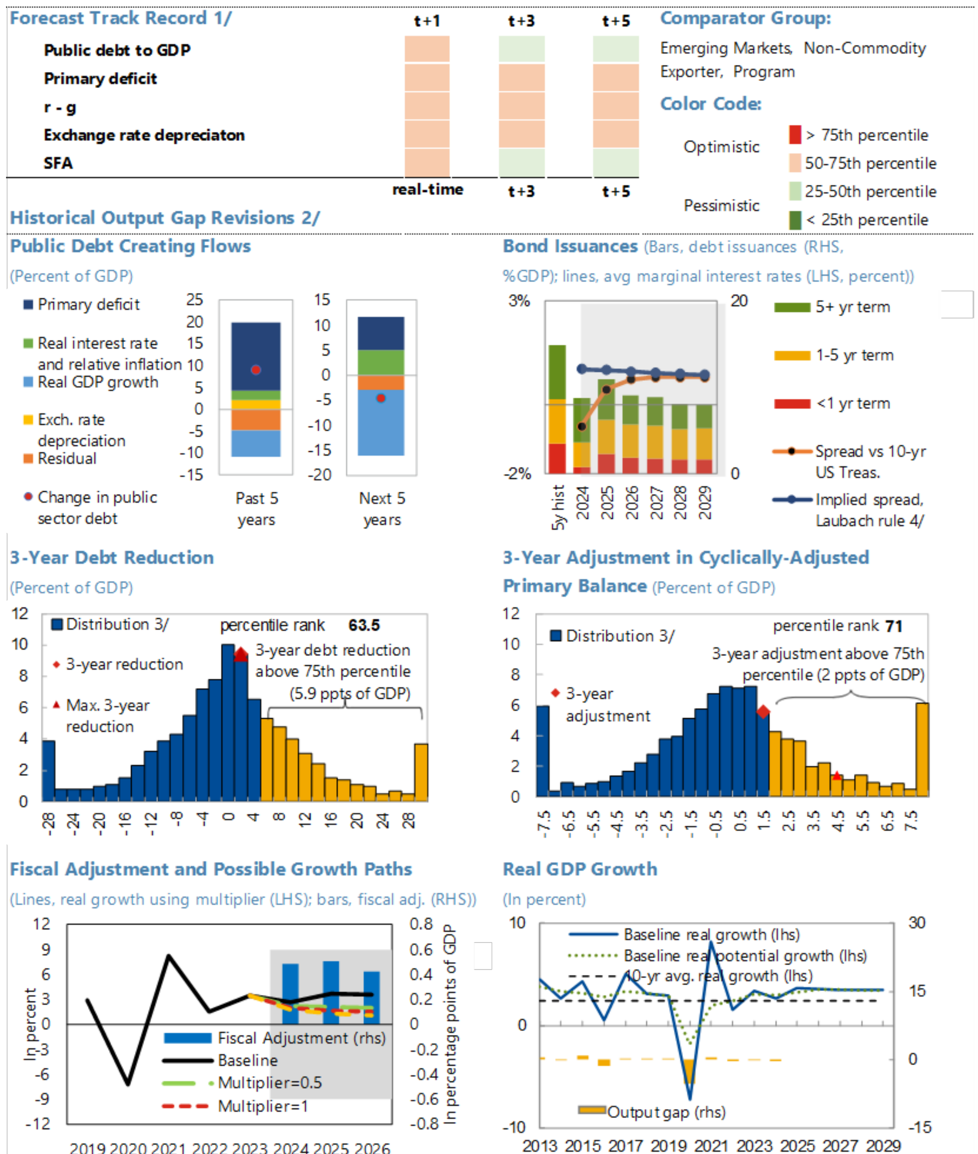
Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Public debt is expected to continuously decline over the medium term to around 65 percent of GDP by 2030, driven by narrowing of primary deficit and stable economic conditions. Long-term real GDP growth is assumed to be equal to the potential growth estimate.

Annex III Figure 5. Morocco: Realism of Baseline Assumptions



Commentary: Realism analysis do not signal over-optimism. Past forecast errors are within 25-75th percentile and do not reveal large systematic biases. A significant decrease in debt is achived through sustained real GDP growth, driven by infrastructure plans and pro-business sector reforms that will boost private investment. The projected debt reduction and fiscal adjustments are below the 75th percentile of cross-country database.

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

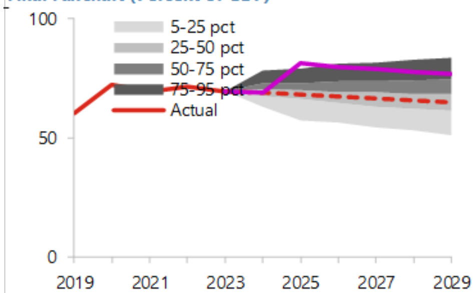
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

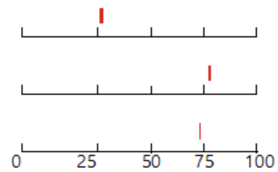
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

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

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width (*percent of GDP*)	32.5	0.5	
Probability of debt non-stabilizaiton (*percent*)	19.8	0.2	
Terminal debt-to-GDP x institutions index	42.7	0.9	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		**Moderate**	

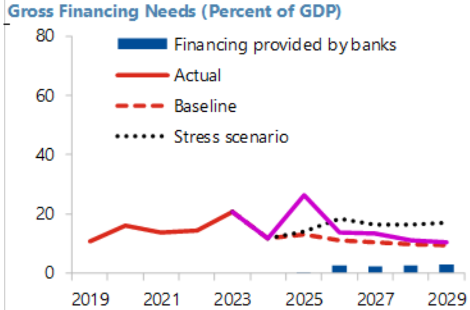
Final Fanchart (Percent of GDP)

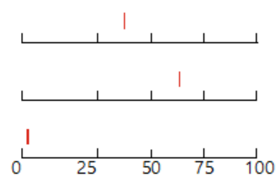




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN (*percent of GDP*)	11.1	3.8	
Initial Banks' claims on the gen. govt (*pct bank assets*)	18.5	6.0	
Chg. In banks' claims in stress (*pct banks' assets*)	2.0	0.7	
GFN financeability index (GFI)		10.5	
Risk signal: 4/		**Moderate**	

Gross Financing Needs (Percent of GDP)

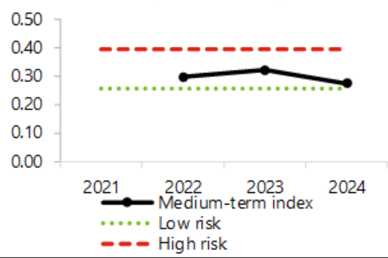




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.3	0.5	0.2
GFN finaceability index	10.5	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 38.6 pct.

Commentary: The debt fanchart module and the gross financing needs module suggest moderate levels of risk. The medium-term index is also between the high and low risk thresholds. The change in bank claims in the stress scenario is relatively low, mainly driven by the low marginal interest rate paid to banks, who have high demand for government bonds (perceived as very safe). The contingent liability stress test is triggered as the debt coverage is narrower than the general government. The 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 the 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 III. Figure 7a. Morocco: Long-Term Risk Analysis

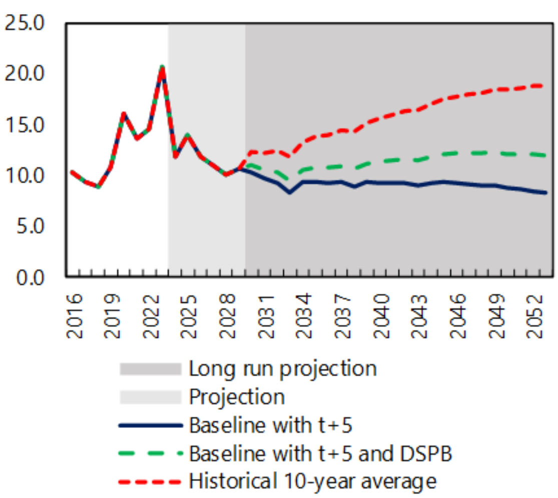
Morocco: Triggered Modules

Large amortizations	**Pensions**	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

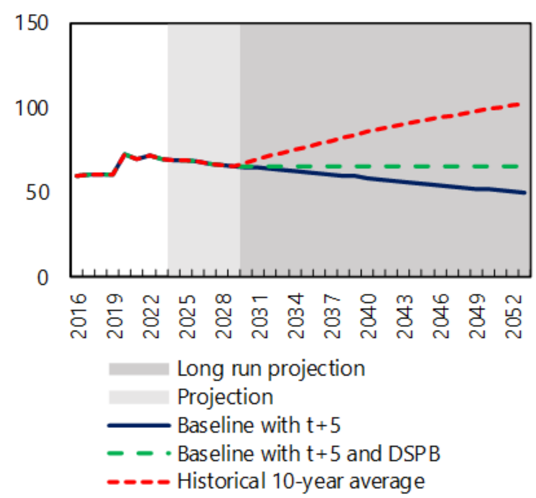
Morocco: Long-Term Risk Assessment Large Amortization

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

GFN-to-GDP Ratio



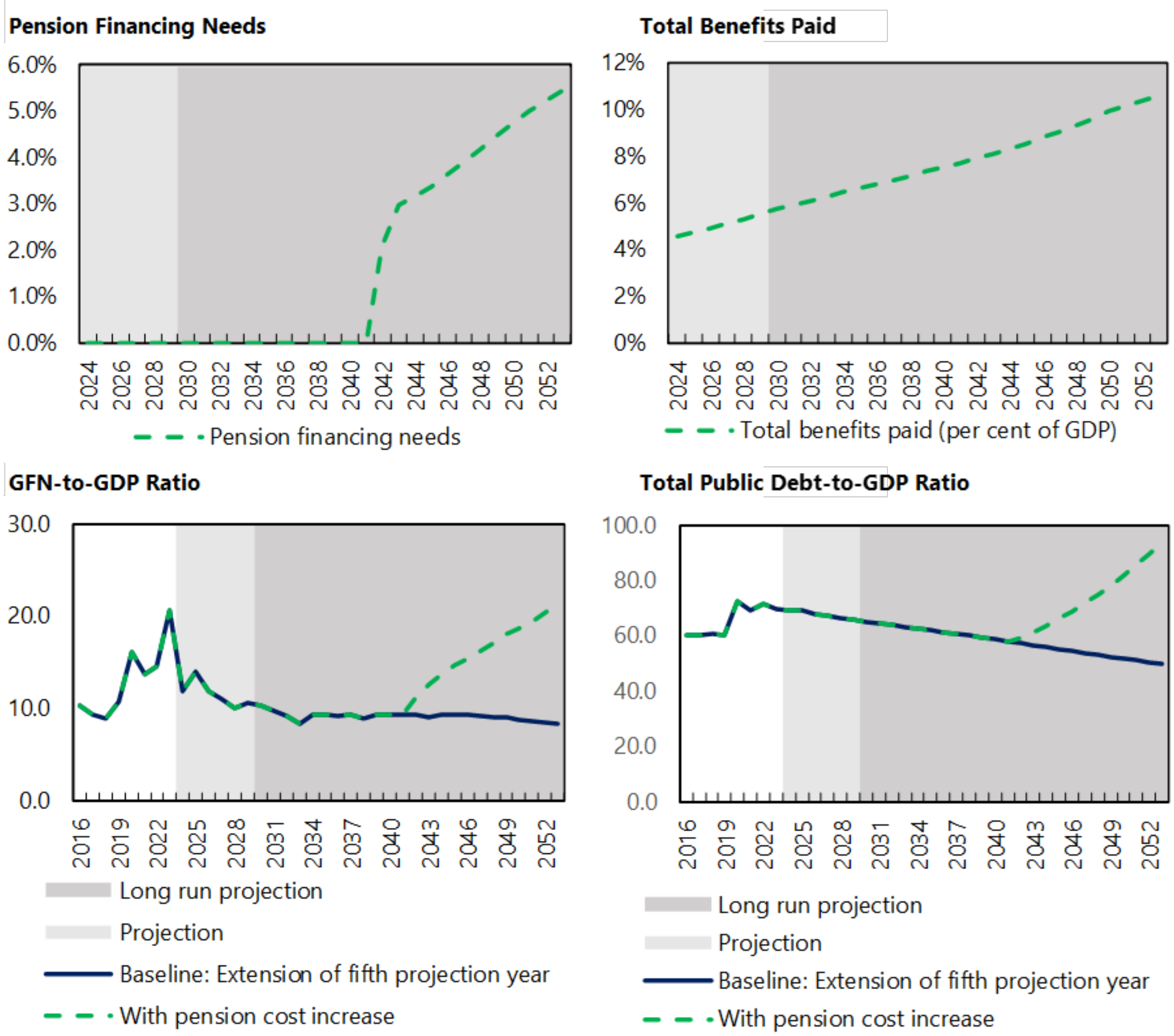
Total Public Debt-to-GDP Ratio



Commentary: The long-term amortization module does not trigger an overall risk indication. GFN-to-GDP and debt-to-GDP projection increase in the scenario using historical 10-year average but decline steadily in the scenario assuming constant t+5 values.

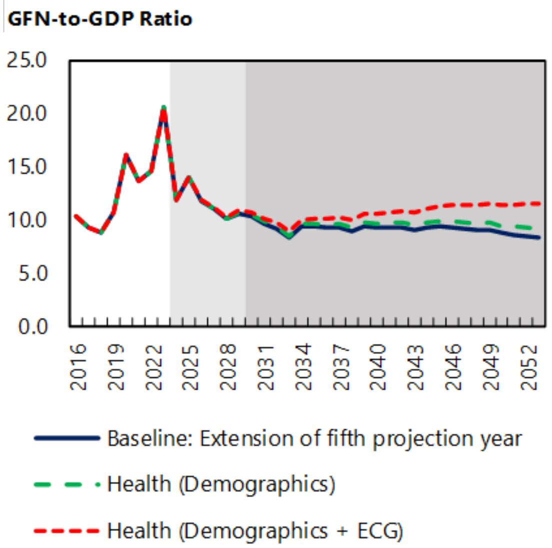
Annex III. Figure 7b. Morocco: Long-Term Risk Analysis: Demographics

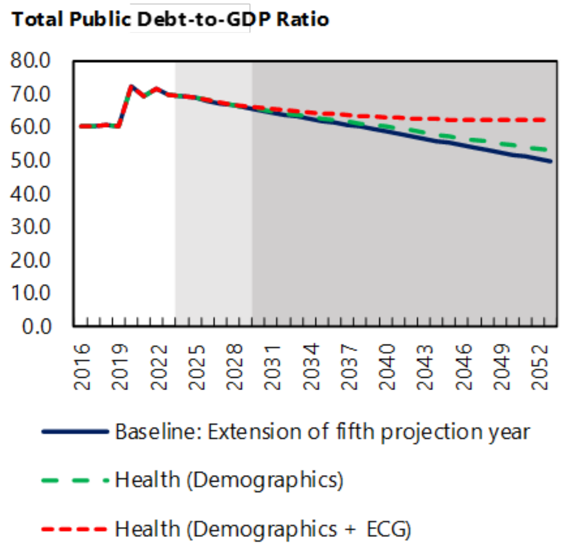
Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	1.7%	4.3%	7.4%



Commentary: A 2021 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 the years 2028 and 2052.

Annex III. Figure 7b. Morocco: Long-Term Risk Analysis: Demographics: Health

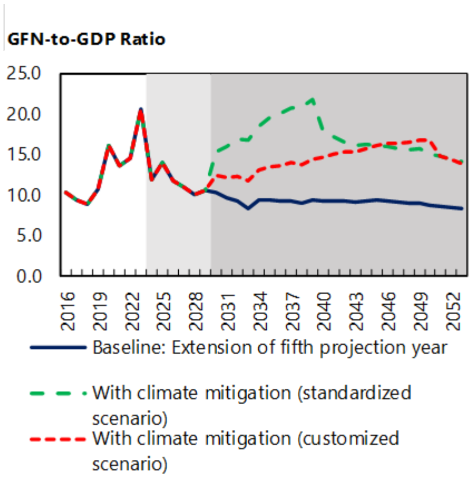


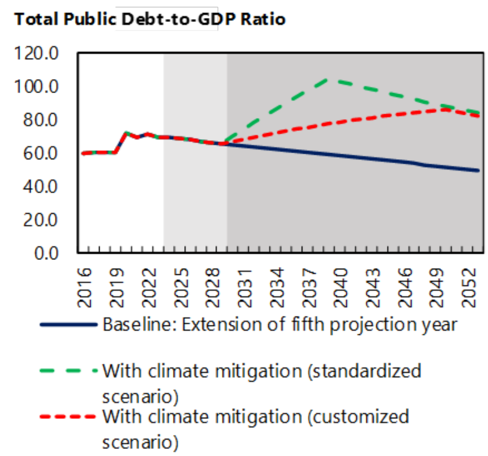


Commentary: The authorities are working on a ambitious reform of the health care system to ensure quality care and financial sustainability.

Annex III. Figure 7c. Morocco: Long-Term Risk Analysis: Climate Change

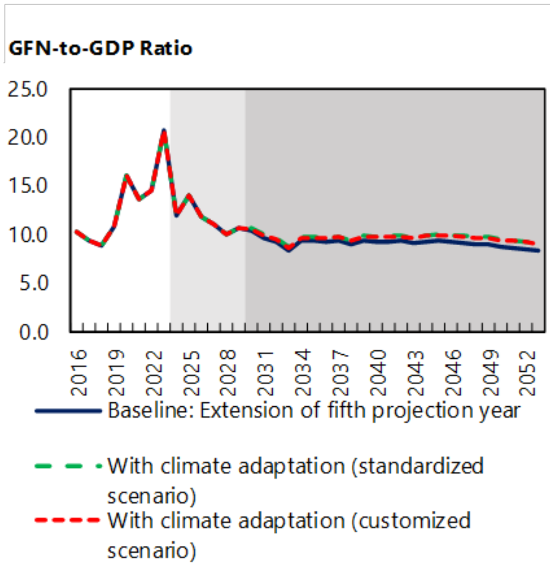
Morocco: Climate Change: Mitigation

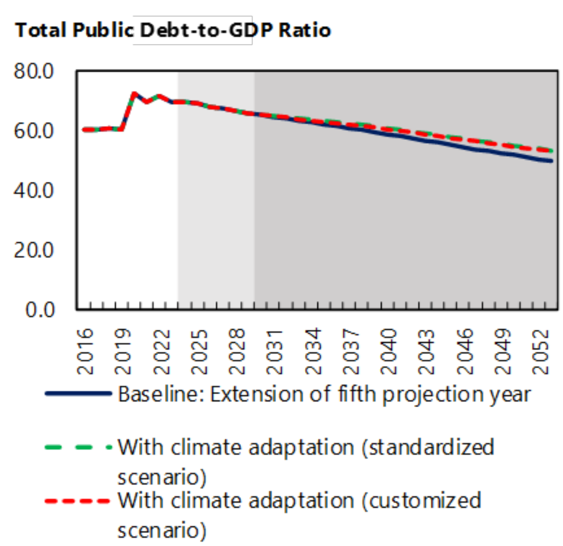




Commentary: The standardized climate-change mitigation module adds costs averaging about 5 percent of GDP per year over the projection period, although these are expected to be frontloaded. The customized climate-change mitigation module assumes costs consistent with the 2022 CCDR estimates (2 percent of GDP per year until 2050). The climate change scenarios suggest that a combination of unanticipated additional climate-change mitigation and adaptation costs pose substantial long-term risks to the debt trajectory.

Morocco: Climate Change: Adaptation





Commentary: The standardized climate change adaptation module adds costs of associated investments of 0.2 percent of GDP per year. Ongoing reforms (as part of the RSF) and other future comprehensive reforms in the water and energy sectors will reduce Morocco's vulnerabilities to climate-related risks.

Appendix I. Letter of Intent

Rabat, October 17, 2024

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

Madam Managing Director:

In recent years, Morocco's external environment has been marked by profound upheavals, exacerbated by persisting geopolitical tensions and the multiplication of conflicts. Internally, apart from the violent earthquake that shook the Al Haouz region, our country is facing severe climate shocks with a succession of years of drought, increasing water stress and, more recently, heavy flooding in many regions of the South and East. Despite this difficult and uncertain context, the Moroccan economy continues to demonstrate considerable resilience, thanks to the pursuit of ambitious sectoral policies and structural reforms. In parallel, the authorities are continuing to provide targeted situational support for the most vulnerable segments of the population and economic sectors, while consolidating the budgetary framework and macroeconomic balances.

Aware of the importance of the sustainability dimension of economic growth, Morocco made an early commitment to the transition to sustainable development. In 2014, our country adopted the Framework Law n°99.12 on the National Charter for the Environment and Sustainable Development, followed in 2017 by the drawing up of the National Strategy for Sustainable Development by the year 2030. Other even more ambitious strategies and programs have been set up since then, while others are underway to respond to current socio-economic and environmental challenges. They aim to accelerate the rollout of renewable energy sources, promote a low-carbon economy, ensure energy security, and improve management and protection of water resources. Numerous legislative, regulatory, and institutional measures and reforms, as well as major structuring projects, have been launched and are expected to accelerate in the future.

Indeed, with a Nationally Determined Contribution (NDC) rated as among the most ambitious in the world, and a proactive Strategy for Low-Carbon Development by the Year 2050, Morocco is experiencing strong momentum in the development of renewable energy sources, in particular with the expansion of solar power plants and wind farms, and the development of gas infrastructures. Our country is likewise putting in place very high voltage lines to facilitate the transmission of the electricity generated from renewable energy sources from the south to the center. New desalination plants are being developed to improve water supply and relieve pressure on conventional water sources. In parallel, "water highways" are being designed and built to optimize the management and transportation of water resources across the country, by improving supply in the water-scarce areas and strengthening resilience to water-related challenges. Furthermore, in March 2024, Morocco launched its "green hydrogen" offer, aimed at attracting private investment and strengthening its position as a key actor in this emerging sector.

In this context, the Resilience and Sustainability Facility (RSF) arrangement acts as an accelerator for rollout of the reforms envisaged by our country, through measures aimed primarily at: i) preserving water resources and valuing them at their fair price; ii) continuing to overhaul the electricity sector in order to increase the share of renewable energy sources within the energy mix and reduce dependence on fossil fuels; iii) channeling private investment towards environmentally-friendly activities by greening the financial system and aligning it with sustainable development goals, as well as improving climate transparency and communication; and iv) strengthening the system of coverage against natural disasters.

Despite constraints, the government has maintained its reform program and is committed to pursuing it. Following the implementation in February 2024 of the first series of reform measures within the framework of the RSF arrangement, those that are the object of this second review have all been implemented within the planned timeframe. These measures focus on strengthening the legal framework for energy efficiency and the electricity sector, its regulation, and its transparency, in particular through the adoption of several key legal texts. They also include the introduction of requirements for assessing the environmental impacts of investment projects benefiting from public guarantees and exceeding a certain threshold, as well as the drafting and publication of the strategy for the development of climate finance by the year 2030. Based on a thorough assessment, this new strategy, implemented by the Ministry of the Economy and Finance (MEF), Bank Al-Maghrib (BAM), and the regulators of the capital market and insurance sectors, estimates the financing gap and defines the levers for accelerating the mobilization of private financing supporting Morocco’s green transition.

Moreover, while remaining firmly committed to achieving Morocco's climate objectives, particularly with regards to reducing greenhouse gas emissions, the government considers that the timeline for implementing reforms, particularly those linked to environmental taxation, is crucial for their success.

In this respect, given the uncertainties linked to geopolitical tensions and the persistence of high food prices at national level, and while the reform of the social protection system is underway, it is proposed to replace the measure related to the increase in VAT on polluting petroleum products (RM10, planned for February 2025), so as to reconcile the protection of the most vulnerable populations, a government priority, with the achievement of the targeted climate objective.

In this regard the proposed new reform measure consists in the introduction by the Ministry of the Economy and Finance in the 2025 budget law of a measure that will eliminate, as of January 1st, 2025, all existing tax exemptions linked to the domestic consumption tax (TIC) on coal and heavy fuel oil and will adjust this tax on coal and on 3 polluting petroleum products (bitumen, heavy fuel oil and lubricating oils), in accordance with the terms and conditions set out in the attached Memorandum of Economic and Financial Policies (MEFP).

Through this important measure, the government is sending a strong signal to energy producers and companies that consume large quantities of polluting products, encouraging them to accelerate their transition to sustainable energy sources, particularly following the adoption of Law 82-21 on self-generation of electricity. This approach also aims to preserve the purchasing power of households, in a context in which the supply of renewable energy does not allow at present the redirecting of consumption towards clean energy sources through the price effect.

During the implementation of the RSF arrangement, we will pursue a close dialogue with the IMF and will consult it prior to any revision of the reform measures contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, we will continue to provide the IMF with information relating to the progress made in implementing these measures and achieving their objectives.

In accordance with our policy of transparency, we also authorize the IMF to publish this letter, its attachments and the evaluation report relating to the RSF arrangement.

Our thanks go to the IMF Board members, management, staff, and the Morocco team for their support provided to our country's reform program and for their constructive comments on the occasion of the discussions under the RSF arrangement. We look forward to continuing our close and fruitful cooperation with the Fund over the coming years.

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

Attachment I. Memorandum of Economic and Financial Policies

30. Morocco is highly exposed to the risks related to climate change and natural disasters, primarily drought, water stress, flooding, and earthquakes. Aware of the importance of these challenges, over the course of the past 15 years our country has implemented structural reforms – in a proactive and assertive manner – aimed at adapting to and mitigating the environmental challenges and coping with climate change and natural disasters. Within this framework, the National Sustainable Development Strategy (SNDD) seeks to ensure the transition to a green and inclusive economy by the year 2030. This strategy also aims to provide a concrete response to Morocco's international commitments following the ratification and signing of several international protocols and agreements, such as the Kyoto Protocol and the Paris Agreement in 2016, and to contribute to the stability of the balance of payments going forward. 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 to contribute to the implementation of the orientations of the New Development Model (NMD). A draft of the new strategy up to 2035 is currently being finalized.

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

2. The water issue is a priority for Morocco. The draft National Water Plan (PNE) envisages major investments in this sector over the period from 2020 to 2050, in order to bridge the gap between supply and demand. In turn, the National Program for Drinking Water Supply and Irrigation for the period 2020-2027 (PNAEPI) aims to consolidate efforts to safeguard water supply, at an estimated cost of US$14 billion. In this regard, Morocco will pursue the construction of dams, the development of seawater desalination projects using renewable energy sources (with a target of 1 billion m^3 by the year 2030) and the reinforcement and securing of drinking water supplies via interconnection projects between waterworks 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 wastewater, while putting in place a communication and awareness-raising strategy.

3. Through the PNE and the PNAEPI, the government is pursuing a multi-dimensional approach, in line with the recommendations of the NDM to introduce prices that reflect the real value of water and encourages rationalization in its use and management of its scarcity. To this end, in November 2023, the Ministry of Infrastructure and Water (MEE) launched a strategic study on the cost of water in Morocco. This study, which will subsequently be submitted to the Interministerial Water Commission, will identify the actual cost of water (CapEx-OpEx), by component and by source, and analyze current water management and governance of water resources, as well as the future trend in their pricing (RM1, February 2025). Based on international experience, it will put forward concrete proposals for improving water tariff and cost recovery systems, with a view to achieve a more efficient, integrated, and sustainable management in technical, economic, financial, social, and environmental terms.

4. The government is also determined to pursue actions aimed at preserving groundwater resources, notably through the adoption of 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 distant protection perimeters, and the installations, construction works, and acts that may be prohibited or regulated within those perimeters.

5. The reforms undertaken in the water sector are closely linked to those in the energy sector, particularly when involving seawater desalination or the reuse of treated wastewater, which are heavily 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 for 2009–2030. This strategy aims, in particular, to reduce the country's dependence on fossil fuels, including coal, through sizeable investments, aimed mainly at:

- the development of renewable energy sources within the electricity mix, to reach 52 percent of installed capacity in renewable energy by the year 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, fostering the installation of additional capacity, particularly from renewable sources. It should be noted that the share of renewable energy sources within the national energy mix has increased to almost 45 percent in October 2024, compared with 38 percent by the end of 2022;

- an increase in the share of natural gas (energy transition fuel) within the energy mix. As part of the 2023–2027 Electricity Infrastructure Plan, the conversion of the oil-fired gas turbines at Kenitra and Mohammedia to natural gas is planned by 2027, with the aim of gradually reducing the shares of coal and fuel oil, in order to encourage the production of clean energies. With this in mind, a memorandum of understanding was signed in March 2024 on the coordination between public authorities for the implementation of a program to develop infrastructure for the importing, storage, regasification, and transportation of liquefied natural gas. It sets out a three-stage roadmap for the short, medium, and long term, focusing on the development of storage and transport infrastructures, from the pipelines to be installed nationwide to the completion of the Nigeria-Morocco Gas Pipeline project;

- the reinforcement of the transmission network, to transmit large quantities of wind power from the southern region to the central region of Morocco (3,000 MW over 1,600 km);

- the development of green hydrogen, through the preparation and operationalization of the "Moroccan offer" in this area, covering the entire value chain. In this regard, the Head of Government issued a circular in March 2024 in respect of implementation of this plan.

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

- the separation of ONEE's generation, transmission and distribution activities, and the move towards the development of the transmission network, with the creation of a national power system operator as stipulated by Law 48.15 on the regulation of the electricity sector, with the support of the WB and of the European Union (EU). To this end, the *Agence Nationale de Régulation de l'Electricité* (ANRE) will begin by examining and approving the proposal presented by ONEE in respect of the unbundling of its transmission-related financial accounts (RM2, February 2025);

- the reform of the activity of distribution, through creation of the Regional Multiservice Companies (SRMs), which will have exclusive rights to the distribution of electricity, drinking water and liquid sanitation. The main objectives of this reform are to optimize investment and operating costs, through regional dimension and the pooling of resources and infrastructure within the regions; 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, setting out the list of regions concerned, and for Article 14, concerning the transfer of assets belonging to ONEE, were adopted by the Government Council on February 1st, 2024. Similarly, the Ministry of the Interior (MI) decree on the standard management contract was published in the Official Bulletin in May 2024. Based on the adopted principle of progressive implementation of the reform, four SRMs were set up in the first phase (those for Casablanca-Settat, Marrakech-Safi, Souss-Massa and Oriental regions) while the creation of those under the second phase (relating to the Tangier-Tétouan-Al Hoceima, Fès-Meknès, Rabat-Salé-Kenitra, and Béni Mellal-Khénifra regions) is underway;

- the strong private-sector involvement in electricity generation, which depends on the continuation of the regulatory process for setting tariffs. The latter are an essential condition for investors to commit to electricity generation for their private customers, as well as for distributors. ANRE (created in 2021) plays a key role in this area by virtue of Laws 82-21 and 40-19. As such, in February 2024, it published the tariff for the utilization of the national electricity transmission network and the tariff for system services, which are set for the period 2024-2026, and published the capacity of the national electricity grid to receive renewable energy for the period 2024–2028 (RM3, February 2024). ANRE will also publish the tariff(s) for access by renewable energy producers to the medium-voltage electricity distribution network (RM4, February 2025);

- the implementation of the legislation governing the electricity sector (Laws 48-15, 40-19, and 82-21), through progressive adoption of the planned regulatory texts. In this respect, the Government Council has approved three draft texts (RM5, September 2024):
    - the decree implementing Article 37 of Law 48-15 (on electricity sector regulation and the creation of ANRE). This text, approved on December 25, 2023, sets the threshold for the contribution of parties who refer disputes to ANRE;
    - the decree in application of Article 18 of Law no. 82-21 (on electricity self-generation). Approved on September 12, 2024, this decree sets out the functionalities provided by smart meters, enabling remote access to all information related to the electrical power drawn from and to that injected into the national electricity grid, for the benefit of the self-generator or the electricity grid operator in question;
    - the decree establishing the conditions for granting a "certificate of origin" for electrical energy from renewable sources, and the competent authority for its issuance. Approved on September 12, 2024, this decree implements the provisions of Article 6(b) of Law 13.09 on renewable energy sources and Article 16 of Law 82.21 on self-generation of electrical power. It should be noted that, as part of the ongoing strengthening of the national regulatory framework aimed at ensuring a sustainable energy transition, other draft decrees have been drawn up and are expected to be approved shortly;
- effective implementation of the new provisions of Law 48-15, notably through ANRE's approval and subsequent publication by ANRE and ONEE of the quality indicators to be respected by the national transmission system, in terms of safety, reliability and efficiency, which should be updated regularly (Article 12 of Law 48.15), as well as the Transmission System Operator's code of conduct (Article 13 of Law 48.15) (RM6, September 2024).

7. Morocco's development dynamic, sustained by major reforms completed or underway in all economic and social sectors, is reflected in the sustained growth in energy demand. 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 the year 2030. The country is continuing its efforts in this direction, by completing the legislative framework relating to energy efficiency (Law 47-09) with the adoption of ministerial decrees specifying labelling and minimum energy efficiency standards for three energy-intensive products: electric motors, air conditioners and refrigerators. These products, and the related standards, were identified on the basis of impact studies and preliminary analyses undertaken by the MTEDD. A similar decree has been prepared for lighting products, following the same procedure. In the same way, the draft decree on energy service companies (ESCOs) was adopted by the Government Council on September 12, 2024, providing a framework for this activity and promoting the use of energy performance contracts, which are one of the solutions to the difficulties encountered by some companies in mobilizing financing for energy efficiency work. In addition, based on a preliminary study, a draft amending decree has been prepared drawn up to lower the energy consumption threshold associated with the mandatory audit, with the aim of increasing the proportion of entities subject to it (RM7, initially scheduled for February 2025 and brought forward to September 2024).

8. In regard to public finances, and as part of its climate risk management, the Ministry of the Economy and Finance (MEF) will regularly publish, on an annual basis starting with the three-year budget programming accompanying the 2025 budget law, and with IMF technical assistance, a debt sustainability analysis that will integrate the impact of climate change (RM8, February 2025). In addition, *climate budget tagging* will enable better identification, assessment, and monitoring of climate-related public programs and expenditure, and thus optimizing the available resources and determining the financing needed to reach the country's climate objectives. In this respect, as part of the Green Budget Transition Program financed by the *Agence Française de Développement* (AFD) with the support of the World Bank, a first "*climate-tagged budget*" should be implemented in 2025.

9. Improving climate resilience also involves integrating the negative externalities associated with the use of "brown"" energy sources and products into the economic policy framework, particularly regarding 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 Framework Law 69-19 on the tax reform and should be implemented in consultation with all stakeholders, public and private. In a first stage, the aim is to analyze the current situation (with an assessment of the effectiveness of the existing environmental tax measures) and, in a second stage, to identify the prerequisites for the adoption of a carbon tax, its scope (which could concern the 5 sectors covered by the European Carbon Border Adjustment Mechanism or CBAM, making it possible to avoid paying taxes to the EU and to keep them at national level), and its level. With technical support from the WB and GIZ, this work will be based on international best practices, as well as on simulations and modeling exercises of the macroeconomic and microeconomic impact of the tax. The progressive adoption of the designed roadmap will initially result in the implementation of three actions that are essential to the successful implementation of the carbon tax in Morocco: 1) the measurement of the current price of carbon, with assistance from GIZ; 2) the approval by the government of the draft amendment to Law 12-06 on the standardization, certification, and accreditation of the *Institut Marocain de Normalisation* (IMANOR), to give it the role of monitoring emissions; 3) the development of a training plan for customs officers who will be responsible for monitoring and implementing the carbon tax.

10. Morocco has already adopted several measures to reform its environmental tax system. For example, it has introduced several tax incentives for activities deemed to be green, such as: the exemption of electric and hybrid motor vehicles from the proportional stamp duty payable at registration and from the special annual vehicle tax (TSAV); the reduced VAT rate (10 percent) for solar panels and solar water heaters; and the introduction of a TIC on energy-intensive equipment. In the same vein, Morocco eliminated fuel subsidies in 2013, with the exception of the butane gas subsidy, which it intends to phase out gradually. Indeed, in February 2024, the MEF amended the decree no. 1242-16 to ratify the increase in butane gas prices over three years, starting in May 2024 (RM11, February 2024). Aware of the negative repercussions of this reform on some segments of the

population, especially in a context marked by high inflation, accompanying measures have been put in place to mitigate its impact. These include the extension of cash transfers under the new Unified Social Register, starting from December 2023, as well as the support to 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). Both the phasing-out of subsidies and cash transfers are in line with international best practice.
Thus, in view of the major reforms already undertaken by the government in a difficult context, as well as the uncertainties related particularly to geopolitical tensions and the persistence of high food prices at national level, and while the reform of the social protection system is underway, it is proposed to replace the measure concerning the increase in VAT on polluting petroleum products (RM10, scheduled for February 2025), in order to reconcile the protection of the most vulnerable populations, a government priority, with the achievement of the targeted climate objective.

11. In this respect, the new reform measure, consists in the introduction by the MEF in the 2025 budget law of a measure that will i) eliminate, as of January 1st, 2025, all existing tax exemptions linked to the domestic consumption tax (TIC) on coal and heavy fuel oil, and ii) adjust this tax on *coal* and 3 polluting petroleum products (*bitumen, heavy fuel oil and lubricating oils),* as follows:

- For coal: from 6.48 to 12.48 MAD/100kg in 2025;
- For heavy fuel oil: from 18.24 to 24.24 MAD/100kg in 2025;
- For bitumen: from 45 to 51 MAD/100kg in 2025;
- For lubricating oils: from 228 to 234 MAD/100kg in 2025.

Through this important measure, the government is sending a strong signal to energy producers and businesses that consume large quantities of polluting products, encouraging them to accelerate their transition to clean energy sources, particularly following the adoption of Law 82-21 on self-generation of electricity. This approach is also aimed at preserving the purchasing power of households, in a context in which the supply of renewable energy does not allow at present a reorientation of consumption towards clean energy sources through the price effect.

12. In addition, the MEF will draw up and approve a list that better distinguishes climate-friendly from polluting products in the World Customs Organization (WCO) Harmonized System (HS) and will introduce climate-sensitive tariff policy changes into the budget law based on this product list. In concrete terms, this involves identifying and classifying products according to their environmental impact, in order to adapt the tariff policy to the country's environmental objectives, by either promoting or discouraging the cross-border movement 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: i) an insurance component, covering bodily injury and damage to insured properties (including in real estate, commerce, and industry sectors), and ii) an allocation component which, through the *Fonds de solidarité contre les événements catastrophiques* (FSEC), guarantees all uninsured individuals within the national territory a minimum right to compensation in the event of the occurrence of a catastrophic event. Looking to strengthen the system for coverage against the consequences of natural disasters, in February 2024 the Government Council approved the draft amendment to decree 2-18-785 of April 29, 2019, for the application of Law 110-14, instituting a system of coverage against the consequences of catastrophic events (RM13, February 2024). This measure has made it possible, in particular, to define a time clause for catastrophic events by type of event in line with international best practice. This is likely to improve the conditions for transferring risks to the international reinsurance market, which has become increasingly concerned with the observed increase in the frequency and severity of natural disasters.

14. The channeling and directing of private financing towards climate and environmental priorities remains a fundamental priority, if the Kingdom's ambitious NDC targets are to be met. It is in this sense that the MEF, Bank Al-Maghrib (BAM), the Moroccan Capital Markets Authority (AMMC), the Insurance and Social Security Supervisory Authority (ACAPS), and other actors, have been involved since 2016 (on the occasion of the COP22 in Marrakech), in a process of greening the financial system, through the development of a climate finance roadmap that aims to align the financial sector, in all its components, with the challenges of sustainable development. In this sense, BAM has embarked on a process aimed at taking climate change into account in its missions, to strengthen the banking sector's resilience to climate risks, promote green finance, and reduce the environmental footprint of its activities. It has therefore undertaken several actions, such as the publication in 2021 of the directive on the management of financial risks related to climate change and the environment. This directive draws on the international principles and best practices issued with regard to green finance, particularly the recommendations of the central banks and financial supervisors' Network for Greening the Financial System (NGFS), which BAM has been a member of since 2018, the principles of the Basel Committee, and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Moreover, the AMMC has put in place guidelines for the development of a framework for green and sustainable bond issuance in Morocco, which has enabled several green bond issuance operations to be conducted by national actors. In addition, to strengthen international cooperation, in 2019 the MEF joined the International Platform on Sustainable Finance and in 2022 the Coalition of Finance Ministers for Climate Change and is working to green the financial sector and promote green investments.

15. Capitalizing on these advances, and in particular on the major progress and achievements in the roadmap adopted on the sidelines of COP22, the MEF, BAM, AMMC, and ACAPS have, with the support of the WB, developed a new shared and concerted vision for accelerating the Moroccan financial sector's green transition. The design of a strategy for the development of climate finance up to the year 2030 was based on a thorough assessment that revealed, among other things, that the flows of climate finance come predominantly from the public sector, with only a 25 to 30 percent contribution from the private sector and is mainly focused on mitigation measures. The new strategy was built around three intervention pillars encompassing nine strategic axis, aimed primarily at identifying the levers that allow to accelerate the mobilization of private green financing, in order to reach the target of 50 percent of overall climate financing, by a better alignment on international best practices and a stronger management of climate risks within the financial sector. Indeed, based in particular on the investment needs expressed in Morocco's various strategies and plans, aimed at GHG reduction up to 2030, the potential attractiveness of financing for the private sector has been estimated at US$4.5 billion per year between 2025 and 2030. An adapted governance framework is envisaged for the operationalization of this strategy, involving stakeholders from both the public and private sectors. The governance bodies will make it possible to respond to the various challenges in the rollout of this evolving strategy, and to monitor in a proactive and concerted manner the progress made on the actions identified (RM14, September 2024).

In the same vein, through the *Société Nationale de Garantie et de Financement de l'Entreprise* (TAMWILCOM), the MEF has introduced new requirements for assessing the environmental impact of investment projects that benefit from public guarantees above a certain threshold (RM15, September 2024). In concrete terms, in September 2024 the MEF ratified a new product description titled *"Damane Istitmar*," with a view to operationalizing the greening mechanism. As part of a gradual approach, starting in 2024, applications for bank loans of more than MAD 20 million, and related to the sectors of construction and public works, agriculture, ground transportation, and the rubber, plastic, and chemical industries, will include a questionnaire to assess the environmental footprint of the projects. Following a predetermined timeframe, the eligibility threshold will be gradually lowered to eventually reach MAD 10 million and the targeted sectors will be broadened to ultimately include all sectors. Moreover, from the second quarter of 2024, the coverage of the guarantee has been increased (from 60 percent to 70 percent) as well as the cap (from MAD 30 million to MAD 40 million) for the "green projects" and "green business models" of "*Damane Istitmar*." Overall, this reform will make it possible to gradually generate a large demonstration effect and should encourage Moroccan banking establishments to integrate the environmental dimension into their decision-making processes, and companies to assess the environmental impact of their activities. It will also enable the State to play the role of catalyst for the gradual greening of the financial sector and the directing of financing towards green investments or projects with a favorable impact on the climate/environment.

In addition to the various measures put in place, Morocco is also making a concrete commitment to:

- the development of a national green financial taxonomy, an essential element for directing private financing towards green assets and projects, with the support of the WB and in coordination between the MEF and the financial sector regulators (BAM, AMMC, and ACAPS), as well as the other stakeholders from the public and private sectors. In this respect, a guideline note for the preparation of the taxonomy was drawn up, defining the milestones in its preparation and implementation. This was followed by a mission in October 2024 to inquire into the progress made in the rollout of the European taxonomy and identify ways of ensuring greater interoperability of the taxonomy now being prepared in Morocco;

- the definition of a framework for sovereign green bond issues, with the support of the WB, which could facilitate their issuance on the international capital market in a second stage, if the conditions are met;

- the publication by BAM, by February 2025, of supervisory guidelines on the disclosure and reporting of information by the banks regarding climate risks, based on the guidelines issued by the International Sustainability Standards Board (ISSB), as well as of the bank-specific directives on the compilation and reporting of large borrowers' exposures to the main climate risks (RM16). With the support of the WB, work has been finalized on defining the benchmarks, making it possible to propose an overall approach as well as the minimum requirements to be introduced. Within this framework, a flexible approach was adopted, allowing a progressive alignment with Basel standards, through the coverage in the first instance of the TCFD underlying S1 and S2 standards, while integrating a few elements from the ISSB deemed to be applicable in the Moroccan context. It should be noted that 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 with the provisions of the 2021 regulatory directive on climate risks and international best practices. Similarly, in 2022, with the support of the WB, BAM carried out the 1er climate risk assessment exercise for the Moroccan banking sector.

16. An Interministerial committee, comprising representatives of all stakeholders was established by the MEF to coordinate and monitor the implementation of the reform measures under the RSF arrangement.

RM#	Morocco's reform measures (RM) under the RSF	Completion date	Reviews	Status
1	The Ministry of Infrastructure and Water will submit to the Interministerial Water Commission a study that assesses the real cost of water and presents the principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Infrastructure and Water 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).	February-25	3	
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	February-25	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.	February-24	1	Implemented
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	February-25	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 *Energie Verte* program).	September-24	2	Implemented
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.	September-24	2	Implemented
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.	September-24	2	Completed (from initial implementation date of February 2025)
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.	February-25	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	February-25	3	
10	The Ministry of the 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.	February-25	3	Not implemented and replaced by RM17.

RM#	Morocco's reform measures (RM) under the RSF	Completion date	Reviews	Status
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	February-24	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.	February-24	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.	February-24	1	Implemented
14	The Ministry of Economy and Finance, Bank Al-Maghrib, 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.	September-24	2	Implemented
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.	September-24	2	Implemented
16	Bank Al-Maghrib 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.	February-25	3	
17	The Ministry of the Economy and Finance will introduce in the 2025 Budget Law a measure that, starting from January 1, 2025, eliminates all existing tax exemptions on the excise duties for coal and heavy fuel oil and increases the excise duties on coal and 3 additional polluting petroleum products (bitumen, heavy fuel oil and lubricating oils) for all producers to the level set in the MEFP.	February-25	3	Proposed

MOROCCO

October 25, 2024

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY— WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the Resilience and Sustainability Facility (RSF) Assessment Letter – Morocco (dated September 15, 2023) highlights relevant changes that have occurred since the issuance of the first Assessment Letter[1].

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. **Adverse climate conditions are resulting in a large contraction of the agricultural sector and job losses.** High temperatures and low precipitation have resulted in a 43 percent contraction of cereal production in the 2023-24 campaign. As a result, the agricultural sector's value added declined by 5 percent during the first quarter of 2024, which contributes to the loss of 141,000 jobs in rural areas (second quarter 2024, YOY).

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

2. **No updates since last assessment letter.**

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce GHG Emissions

3. **Morocco has made progress with the preparation of a Long-Term Low Emission Development Strategy (LT-LEDS).** The strategy, presented at the Conference of the Parties (COP28), explores a pathway for Morocco to reach net zero emissions in 2050. The authorities are working on a macroeconomic modelling exercise to gain a better understanding of the impacts that the implementation of the strategy would have on the economy. The strategy is still pending finalization and has not been officially endorsed by the Moroccan government.

[1] The original Assessment Letter can be found in the second attachment of the October 2023 *Morocco Request for an Arrangement Under the Resilience and Sustainability Facility*.

D. Any other Challenges, Including Inter or Cross-Sectoral, Policy Reversals or Institutional Capacity Issues, to be Addressed to Make Progress in Tackling Climate Risks and any Ownership/Policy Related Issues

4. No updates since last assessment letter.

E. WB Engagement in the Area of Climate Change

5. The Climate-Support to Nationally Determined Contributions (NDC) PforR (P178763) supports the government to maximize public funding for the measures to be included in the updated NDCs (to be submitted to the UNFCCC at COP 30)[2]. This PforR supports the Government of Morocco (GoM)/Ministry of Economy and Finance (MEF) to implement its commitments to the "Helsinki Principles" for using fiscal planning, budgeting, public investment management and procurement practices as instruments to accelerate the climate transition. More specifically, the Climate PforR helps (i) promote a greater alignment between the NDCs and fiscal and economic priorities as outlined in the annual Budget; and (ii) prepare for a future emission of sovereign Green/Sustainable bonds.

6. Rapid Response Option (RRO). During the April 2024 Spring Meetings, Morocco expressed immediate interest for the new Rapid Response Option (RRO), offered as a central feature of the World Bank's new Crisis Preparedness and Response Toolkit. The RRO omnibus amendment was signed in May 2024, which makes Morocco the first country in the Middle East and North Africa (MENA) region to embed RRO in their portfolio. The Bank is now working on identifying whether to prepare a Contingent Emergency Response Project (CERP) and/or Development Policy Financing with a Catastrophe Deferred Drawdown Option (DPF Cat -DDO) to allow the repurposing of up to 10 percent undisbursed balances in Investment Project Financing (IPF) and Program-for-Results (PforR) operations per year for crisis response.

7. Green Finance Strategy. The World Bank provided extensive technical assistance during the preparation of the Green Finance Strategy (cf. action under the RSF). The World Bank also supports the preparation of the green finance taxonomy to be delivered by the end of 2025.

[2] https://projects.worldbank.org/en/projects-operations/project-detail/P178763.

Statement by Mr. Mohammed El Qorchi on Morocco
November 11, 2024

On behalf of the Moroccan authorities, I would like to thank Management and Executive Directors for the Fund's continued engagement with Morocco. The authorities want to express their gratitude to staff for their constructive policy dialogue and insightful analysis. They would like to underscore their appreciation to Mr. Cardarelli and his team for their remarkable work and active engagement to conclude the second review of the Resilience and Sustainability Facility (RSF).

Economic Background and Developments

Despite an external environment marked by geopolitical tensions and multiple conflicts, and a domestic context marred by the impact of the violent 2023 earthquake, a succession of years of severe droughts, increasing water stress, and more recently by heavy flooding in many regions of the country, the economy has shown considerable resilience. The economy continued to grow in 2024, driven by the strong performance of the nonagricultural sector. Inflation continued its downward trend and is expected to decline to 1.3 percent at the end of the year against 6.1 percent in 2023. Headline inflation fell to 0.8 percent in September 2024 and core inflation has remained on average below 2 ½ percent since March. The fiscal deficit was slightly lower in August compared to the previous year owing to an increase in both tax and nontax revenues, and the public debt is pursuing its downward path. The current account deficit has remained low, aided by strong performance of aerospace and automotive exports as well as by the recovery of exports of phosphates and their derivatives. The performance of tourism and remittances remained strong and the FDI rebounded. International reserves remained stable at a comfortable level. Such resilience owes a lot to the pursuit of ambitious sectoral policies and structural reforms. These reforms are being implemented while the authorities strengthen fiscal consolidation and provide targeted support to the most vulnerable.

Environmental Background and Sustainable Development Policies

Cognizant that Morocco is highly exposed to the risks related to climate change and naturel disasters, the authorities have prioritized the sustainability dimension of economic growth and policy actions. As early as 2014, Morocco adopted a framework law on the National Charter for the Environment and Sustainable Development and designed in 2017 a National Strategy for sustained Development (SNDD) to ensure the transition to a green and inclusive economy by 2030. Since then, more ambitious strategies and programs have been put in place to expand the use of renewable energy sources, promote a low-carbon economy, ascertain energy security, and better manage and safeguard water resources. An overhaul of this strategy is being finalized to ensure greater convergence with the Sustainable Development Goals and align it with the orientations of the New Development Model.

The Water Sector

The reforms undertaken in the water and energy sectors are closely intertwined. The projects related to seawater desalination and the reuse of treated wastewater are heavily energy intensive. In addition to the 12 existing desalination plants, Morocco plans to build 8 new desalination plants—using renewable energy sources—to increase water supply and alleviate pressure on conventional water sources. The country aims to produce 1.3 billion cubic meters of fresh water from desalination by 2030 and is pursuing the reuse of treated wastewater and the construction of dams. Moreover, projects were executed to secure drinking water supplies via interconnection projects from water-abundant regions towards those experiencing water shortage. In this regard, Morrocco has built in 2023 a water highway from the water-rich north-western basin to a dam that is supplying both the Rabat and Casablanca regions. Work is currently underway to extend this project further south towards the second largest dam in Morocco (Al Massira) that is supplying water to Casablanca and Marrakesh. Concomitantly, the authorities are also considering policy measures that are aimed at water demand management, including the introduction of prices that reflect the real value of water. A study was launched in end-2023 to identify the actual cost of water, by component and by source, review current management and governance of water resources, and analyze future trends in water pricing.

The Energy Sector

Morocco is among the first Middle-income countries to commit to an ambitious renewable energy development program, which aims at reducing dependence on fossil fuels. The share of renewal energy sources within the national energy mix has increased from 38 percent in 2022 to almost 45 percent in October 2024. The goal is to reach 52 percent of installed capacity in renewable energy by 2030. To this end, Morocco is further expanding the solar power plants and wind farms. Developing gas infrastructure and increasing the share of natural gas (energy transition fuel) within the mix are contemplated. As part of the 2023–2027 Electricity Infrastructure Plan, the conversion of the oil-fired gas turbines in the Center West of the country to natural gas is planned by 2027—with the aim of gradually reducing the shares of coal and fuel oil—to encourage the production of clean energies. High voltage lines are being put in place to facilitate the transmission of electricity generated from renewable energy sources (wind power) from the southern region to the center of the country (3,000 MW over 1,600 km). In parallel, Morocco has also decided to engage into “green hydrogen” production and is promoting private investment in this emerging sector.

Morocco’s over all national energy strategy accords a high priority to energy efficiency, as it ambitions to improve energy efficiency by 20 percent by the year 2030. The country is continuing its efforts in this direction, by completing the legislative framework relating to energy efficiency with the adoption of ministerial decrees specifying labelling and minimum energy efficiency standards for three energy-intensive products: electric motors, air conditioners, and refrigerators.

The Resilience and Sustainability Facility: Implementation and Impact

The RSF arrangement has played a catalytic role in supporting and implementing the reforms envisaged in the following areas: (i) water—the preservation of existing resources and determination of fair price; (ii) electricity—continuing to overhaul the electricity sector with a view to increasing the share of renewable energy sources and reducing dependence on fossil fuels; (iii) private investment—funneling resources towards environment-friendly activities; and (iv) strengthening coverage against natural disasters.

After implementing a first set of reform measures (RM) within the framework of the RSF arrangement in February 2024, the RMs of this second review have all been implemented within the planned timeframe. The RMs are (i) Implementing Legislation on the Electricity Market Liberalization (RM5); (ii) Improving the Electricity Market Regulatory Framework (RM6); (iii) Improving Energy Efficiency (RM7); and (iv) Greening the Financial System (RM14 and RM15). These measures aimed at strengthening the legal framework for energy efficiency and the electricity sector, its regulation, and its transparency. They focused particularly on the adoption of several key legal texts, which are necessary for the operationalization of the approved laws. They also include the introduction of requirements for assessing the environmental impacts of investment projects benefiting from public guarantees and exceeding a certain threshold. The measures also included the drafting and publication of a strategy for the development of climate finance by the year 2030. The new strategy—implemented by the monetary and financial authorities—permits the estimation of the financing gap, and identifies the means for accelerating the mobilization of private financing in support of Morocco's green transition.

The authorities consider that the success of the reform implementation, particularly in the area of environmental taxation, depends on the adoption of an appropriate timeline. Given the uncertainties linked to geopolitical tensions combined with the persistence of high food prices at the national level, while the reform of the social protection system is underway, the authorities proposed to replace the measure related to the increase in VAT on polluting petroleum products (RM10, planned for February 2025) with a new reform measure, as of January 1st, 2025. The new measure will eliminate all existing tax exemptions linked to the domestic consumption tax (TIC) on coal and heavy fuel oil. The new measure will also adjust this tax on coal and on 3 polluting petroleum products (bitumen, heavy fuel oil, and lubricating oils). The proposed measure will reconcile the efforts to protect the most vulnerable population, which is a government priority, with the achievement of the targeted climate objective. The positive impact of the new measure is estimated by staff to be higher than that of RM10 as it will lead to a reduction of GHG emissions in 2030. The proposed measure is also consistent with Morocco's decarbonization strategy.

The new measure would also encourage energy producers and companies that consume large quantities of polluting products to accelerate their transition to sustainable energy sources, particularly following the adoption of the Law on self-generation of electricity. This approach also aims to preserve the purchasing power of households, in a context in which the supply of renewable energy does not allow at present the redirecting of consumption towards clean energy sources through the price effect.

Conclusion

The authorities' commitment to pursuing their reform program in the area of sustainable development is unwavering. They view the RSF as a catalyst for advancing their climate and environmental strategy, and as an appropriate framework to accelerate the implementation of the envisaged reforms. The Moroccan authorities are committed to working closely with the Fund to achieve the goals of the RSF arrangement.