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MOROCCO

SECOND REVIEW UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

September 2013

In the context of the Second Review under the Precautionary and Liquidity Line, the following documents have been released and are included in this package:

- The staff report for the Second Review under the Precautionary and Liquidity Line, prepared by a staff team of the IMF for the Executive Board's consideration on July 31, 2013, following discussions that ended on June 10, 2013, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on July 17, 2013.

- A **Statement by the Staff Representative** of July 29, 2013 updating information on recent developments.

- A **Press Release**, including a statement by the Chair of the Executive Board.

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

- A **Written Communication**.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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MOROCCO

SECOND REVIEW UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

July 17, 2013

EXECUTIVE SUMMARY

Macroeconomic conditions deteriorated in 2012. Growth slowed to 2.7 percent from 5 percent in 2011. Both the external and fiscal deficits widened significantly, to 10 percent and 7.6 percent of GDP, respectively. The 2012 fiscal outcome entailed a significant slippage from the authorities' target and exposed vulnerabilities in the budget framework. Core inflation has remained low while the unemployment rate remained about 9 percent.

The short-term outlook is improving. A bumper crop will likely push growth in 2013 above 5 percent, although nonprimary GDP growth is decelerating. Both the fiscal and external positions have been improving so far in 2013, partly reflecting lower international commodity prices. Reserves have been stable at about four months of imports for more than half a year, supported by strong capital inflows. Both indicative targets at end-April (net international reserves (NIR) and fiscal deficit) were met. The current account deficit is expected to continue contracting while the government pursues its fiscal consolidation efforts.

The authorities have taken important measures to reduce fiscal and external vulnerabilities. The authorities took the 2012 fiscal slippage seriously and responded with significant actions to strengthen their fiscal framework and reduce the impact of world commodity price fluctuations on the budget. In particular, they adopted a mechanism to index the prices of most subsidized energy products to international prices, a welcome step toward the much-needed comprehensive subsidy reform. They are committed to achieving a fiscal deficit of 5.5 percent of GDP in 2013.

Staff considers that Morocco continues to qualify for a Precautionary and Liquidity Line (PLL) and that the program is broadly on track. Staff therefore recommends the completion of the second review under the PLL.

Approved By
Adnan Mazarei and Mark Flanagan

The mission team comprised Mr. Dauphin (head); Ms. Garcia-Martinez, Mr. Kalonji, and Mr. Versailles (all MCD); and Mr. Leichter (SPR). Mr. Dairi (OED) participated in key meetings.

The mission took place in Rabat, May 30–June 10, 2013. It met with Head of Government Benkiran; Minister of Economy and Finance Baraka; Minister Delegate to the Minister of Economy and Finance in charge of the Budget El Azami El Idrissi; Delegate Minister of Public Service El Guerrouj; Delegate Minister for General Affairs Boulif; Bank Al-Maghrib Governor Jouahri; and other senior officials.

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INTRODUCTION

1. **The authorities' program, supported by the PLL, seeks to rebuild buffers and address medium-term challenges**. The Board approved in August 2012 a 24-month PLL arrangement in the amount equivalent to SDR 4.1 billion (700 percent of quota, about US$6.2 billion). The PLL provides insurance against external risks while supporting the authorities' economic program for rebuilding fiscal and external buffers and promoting higher and more inclusive growth. The first review was completed on February 1, 2013. The authorities have not drawn on the PLL and intend to continue treating it as precautionary.

2. **A significant fiscal slippage was reported shortly after the completion of the first review.** Following the approval of the first review, information became available exposing a significantly higher fiscal deficit in 2012 than projected based on end-November data (7.6 versus 6.1 percent of GDP). The difference was explained by overruns in December in wages, subsidies, and capital transfers. A staff mission in February 2013 concluded that these overruns mostly stemmed from issues related to budget monitoring and forecasting in the Ministry of Finance (Box 1).

3. **The authorities have taken steps to address weaknesses in budget implementation, and have committed to a revised fiscal deficit target**. They took the 2012 fiscal slippage seriously, and responded to the uncovering of weaknesses in their budgetary framework by implementing measures to strengthen public financial management (PFM). Given the 2012 outturn, staff concurred with the authorities that the 4.7 percent of GDP fiscal deficit target for 2013, as agreed at the time of the first review, had become difficult to achieve and would imply an overly rapid fiscal consolidation. An understanding was reached with staff during the February visit on a revised deficit target of 5.5 percent of GDP for 2013.

4. **Both quantitative indicative targets have been met, but implementation of key structural reforms has been slower than expected.** The end-April indicative floor on NIR was met comfortably, in part owing to strong FDI inflows in the first few months of 2013. The indicative ceiling on the budgetary central government fiscal deficit, which was based on the original PLL annual deficit target of 4.7 percent of GDP, was met by a narrow margin. Progress was made recently on the structural agenda, though the pace of key reforms, such as those of subsidies and pensions, has been slower than hoped for.

5. **Tensions within the governing coalition have intensified recently.** In the context of continued regional tensions and domestic social pressures, and with local elections looming, forging consensus on difficult reforms has proven challenging. In particular, tensions have been rising between the main ruling party, the Party of Justice and Development (PJD), and the first junior party in the coalition, the Istiqlal (Independence) Party, including over the specifics of a comprehensive subsidy reform. On July 9, 2013, five Ministers from Itsiqlal, including the Minister of Finance, submitted their resignation, but remained in office with full powers pending a decision about their resignations. Most commentators expect that, in the event their resignations are accepted, the most

likely outcome will be a new coalition still headed by the PJD, although the possibility of new elections being called cannot be ruled out.

RECENT DEVELOPMENTS

6. **A poor harvest and a weak external environment slowed growth in 2012, while inflation remained subdued**. Growth slowed to 2.7 percent in 2012 from 5 percent in 2011, dragged by a contraction in agriculture production resulting from poor rainfall. Nonprimary growth held up relatively well, at 4.6 percent, on the back of sustained domestic demand, but has been slowing since late 2012, reflecting the lagged impact of weak demand from Europe. Though inflation remains low, it has been increasing since the end of 2012, reaching 2.8 percent at end-May, induced in part by the increase in the price of subsidized fuel products in June 2012. Core inflation (excluding food and transport) has remained lower but picked up recently to 1.7 percent, as the impact of the drop in communication tariffs in early 2012 waned and as increases in tobacco and alcohol excise taxes took effect in January 2013. The unemployment rate has remained at about 9 percent since 2009, but youth unemployment increased from 17.9 percent in 2011 to 18.6 percent in 2012.

7. **In contrast to the authorities' target, the fiscal deficit widened in 2012, largely because of higher wages and subsidy outlays.** Boosted by high personal and corporate income tax receipts, revenue performance was strong despite an acceleration of VAT credit reimbursements. However, increases in the wage and subsidy bills (the former reflecting wage increases decided in 2011 as part of a broad social dialogue, and the latter due to higher international commodity prices) led to a widening of the fiscal deficit to 7.6 percent of GDP, compared to 6.7 percent in 2011 and to the authorities' target of 6.1 percent of GDP (Box 1). Public debt increased to about 60 percent of GDP.

8. **Although revenue was lower than expected, the end-April 2013 fiscal deficit target was met as expenditure was contained**. Lower-than-expected tax revenue (by 0.5 percent of annualized GDP) largely reflected a fall in customs receipts that resulted from lower imports and reduction in tariffs, and lower corporate income tax receipts from some of the large taxpayers, including the phosphate conglomerate *Office Chérifien des Phosphates* (OCP) and *Maroc Telecom,* which posted smaller-than-projected profits in 2012.[1] However, the accelerated payment of dividends and other nontax revenue helped offset some of the decrease in tax receipts and grants. Spending, notably on investment, was lower than expected, so the end-April indicative target for the fiscal deficit was met despite the lower revenue. Furthermore, preliminary and partial data at end-June point to the deficit being broadly in line with the revised annual target.

[1] Tax liabilities are paid in any given year based on projected profits. They are adjusted in the first quarter of the subsequent year based on actual profits.

Box 1. Morocco: 2012 Fiscal Overruns

The Executive Board concluded the 2012 Article IV consultation and first review under the PLL on February 1, 2013. At the time of the discussion, and based on data as of November 2012, it was projected that the fiscal deficit for 2012 would reach about 6 percent of GDP, in line with the authorities' target and below the 6.7 percent of GDP reached in 2011.

However, data that became available shortly after the Board meeting showed that the 2012 fiscal deficit was about 7½ percent of GDP, or 1½ percent of GDP higher than expected.

The large difference between the end-year outturn and projections based on end-November data was the effect of spending overruns, as total revenue was on target. These overruns mostly occurred in three categories: wages (0.3 percent of GDP), subsidies (0.3 percent of GDP) and capital transfers (investment) to public entities and transfers to social programs (0.6 percent of GDP).

About two-thirds of the overrun resulted from an underestimation of expenditure still in the pipeline, reflecting issues related to budget monitoring and forecasting. Specifically, because the fiscal deficit monitored under the PLL is measured on an accrual basis at a late stage of the expenditure process, it does not capture spending that may already be in the pipeline but has not yet reached that later stage in the process. In 2012, this issue became particularly relevant because the budget was adopted late, following a change in government. This resulted in a late start of budget execution and an acceleration toward the end of the year as line ministries tried to catch up with the previous delays. Hence, spending deviated significantly from its typical annual pattern in a way that was not foreseen. Absent an effective early warning system to give the alert that spending was going off the targeted track, the authorities could not exercise the necessary control of expenditure to contain the deficit at the intended level.

	2012		
	PLL 1/	Actual	Difference
	(In percent of GDP)		
Revenue	28.1	28.1	0.0
Taxes on goods and services	12.1	12.0	-0.2
Other taxes	12.4	12.2	-0.1
Grants	0.1	0.1	-0.1
Other revenue	3.5	3.9	0.4
Expense	29.2	30.6	1.3
Compensation of employees	12.8	13.1	0.3
Use of goods and services, grants and int	9.3	9.4	0.1
Subsidies	6.3	6.6	0.3
Other expense 2/	0.8	1.5	0.6
Net acquisition of nonfinancial assets	5.1	5.2	0.1
Overall balance	**-6.2**	**-7.6**	**-1.4**

Sources: Moroccan authorities; and IMF staff estimates.

1/ Using projections in dirhams as presented in the 2012 Article IV and 1st Review under PLL report (CR/13/96, January 18, 2013) and GDP data as available now.

2/ Includes capital transfers to public entities.

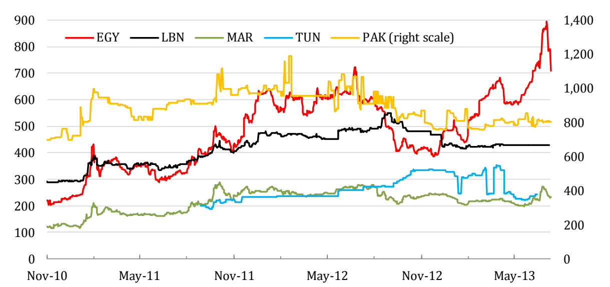
The remaining one-third of the overrun resulted from expenditure decided in December 2012. This related mostly to transfers to restore the liquidity positions of some public entities, which had been excessively affected by measures previously implemented to generate budget savings.

These developments highlighted the importance of addressing vulnerabilities in the budget framework that create additional difficulties in controlling spending. As described in paragraph 19, the authorities took this episode seriously and responded with actions to strengthen their budget framework.

9. After worsening in 2012, the current account has been improving in 2013, while reserves have stabilized at about four months of imports. The current account deficit widened from 8.1 percent of GDP in 2011 to 10 percent of GDP in 2012, mainly as a result of higher fuel and food imports (the latter because of the drought) and lower tourism receipts and remittances from Europe. However, this trend has begun to reverse, with the trade deficit for goods and services contracting by 7.8 percent in dirham terms in the first five months of 2013, compared to the same period last year. Imports of energy products fell as a result of both volume and price effects, driven by weaker nonprimary growth and higher domestic alternative energy production in early 2013, as well as by lower international prices. Higher domestic food production contributed to lower volumes of food imports. The tourism sector showed signs of recovery, with an increase in volume and value, but remittances were flat. After dropping by US$3 billion in the first nine months of 2012, reserves have stabilized since the fourth quarter of 2012, supported by both private and public external borrowing and strong FDI.

10. Morocco has continued to enjoy very favorable market conditions. The five-year market credit default swap spread has remained low relative to other countries in the region. Market confidence was further confirmed when Morocco raised US$750 million in May 2013 by reopening the US$1.5 billion bond it issued last December. However, Morgan Stanley Capital International (MSCI) announced in June that it will reclassify its Morocco Index from Emerging Markets to Frontier Markets, based on its market capitalization and liquidity requirements. This reclassification did not trigger any market reaction. Furthermore, the late-June worldwide market turbulence left Morocco unscathed: while Moroccan sovereign spreads increased in line with others, they quickly reversed to their pre-turbulence level.

Credit Default Swap Spreads: Oil Importers
(Basis points)



Sources: Bloomberg LP; Markit; and Moroccan authorities.

11. Liquidity conditions have remained tight, and credit growth has continued to decelerate, driven by both supply and demand factors. In 2012, the loss in foreign assets contributed to a persistent contraction in bank liquidity, to which the central bank (Bank-al-Maghrib, BAM) responded by, among other measures, cutting its reserve requirements. Despite the relief provided by the stabilization of foreign reserves, liquidity conditions remained tight in the first quarter of 2013. BAM injected liquidity primarily through seven-day advances. Moroccan banks fund themselves mainly through domestic deposits, but they have started expanding their sources of funding and some are considering issuing international bonds.[2] On the demand side, the slowdown in nonprimary growth is likely weighing on investment and the demand for credit. As a result, credit

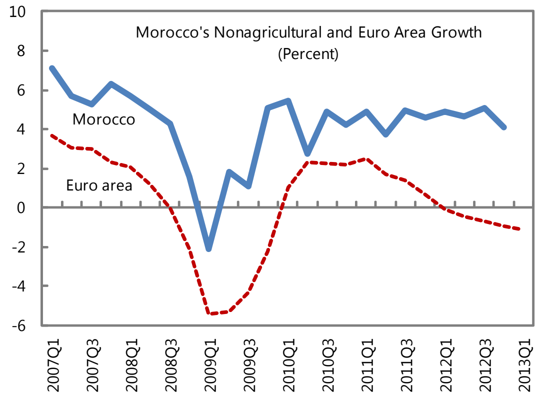
[2] The share of net external debt funding to total loans is currently close to zero and the banks' ratio of deposits to loans is 96.5.

growth decelerated to 3 percent y-o-y in May 2013, mostly driven by the deceleration in credit to investment. BAM has been encouraging bank financing of small and medium-sized enterprises (SMEs) under a two-year program that provides banks with liquidity using loans made to SMEs as collateral. Liquidity provided under this program has been relatively small so far (6 billion dirhams).

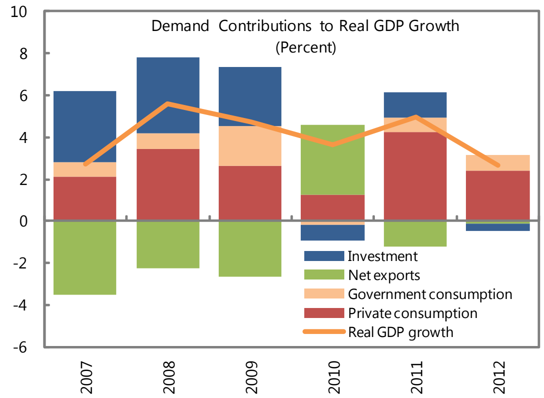
12. The banking sector has remained sound overall. The sector continues to be resilient, thanks to prudent regulation by the central bank. To gradually reach to the norms of Basel III, BAM has already increased the minimum ratio Tier 1 capital to 9 percent and the capital adequacy ratio to 12 percent, effective in June 2013. As of December 2012, these thresholds were already met. Nonperforming loans (NPLs) stabilized at 5.4 percent. Consequently, BAM has asked banks to increase their general provisions to cover risks. Following a broad dialogue with the industry and based on an impact study, regulations for implementing the new definition of capital and the liquidity coverage ratio in line with Basel III standards are being finalized for expected adoption in the summer of 2013. The authorities continue to encourage the domestic and international expansion of the sector while strengthening cooperation with relevant supervisory agencies abroad. New banking legislation to allow fully-fledged Islamic finance institutions to operate in Morocco is being prepared.

Figure 1. Morocco: Real and External Developments

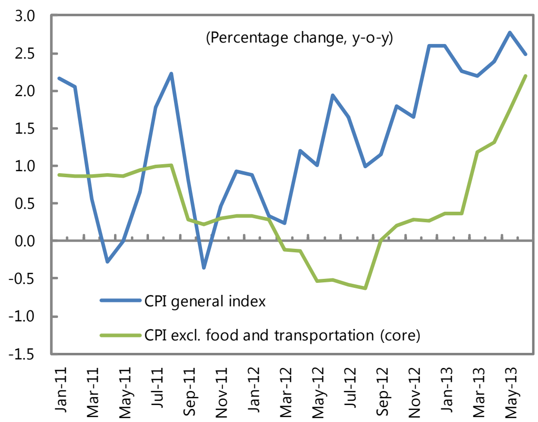
Despite the slowdown in the euro area, activity has remained resilient…



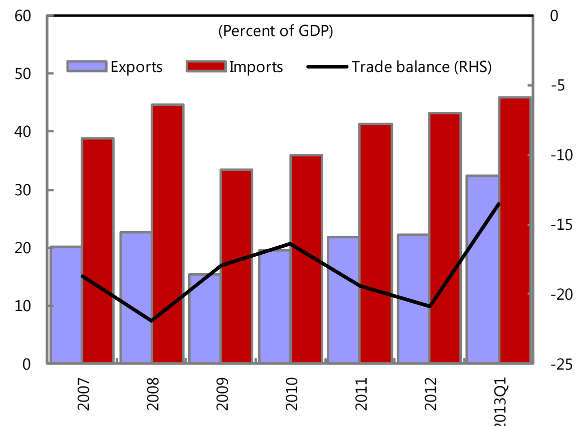
…supported by domestic demand.



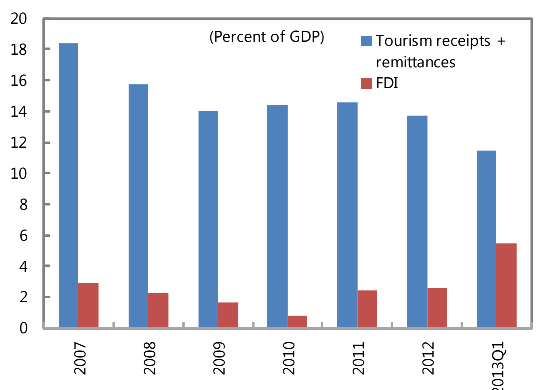
Inflation remains low, but is picking up.



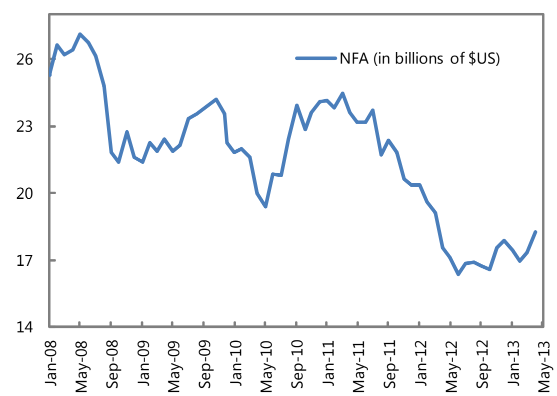
After a decline, the trade balance improved in the first quarter of 2013 due to lower imports…



…complemented by a recent surge in FDI…

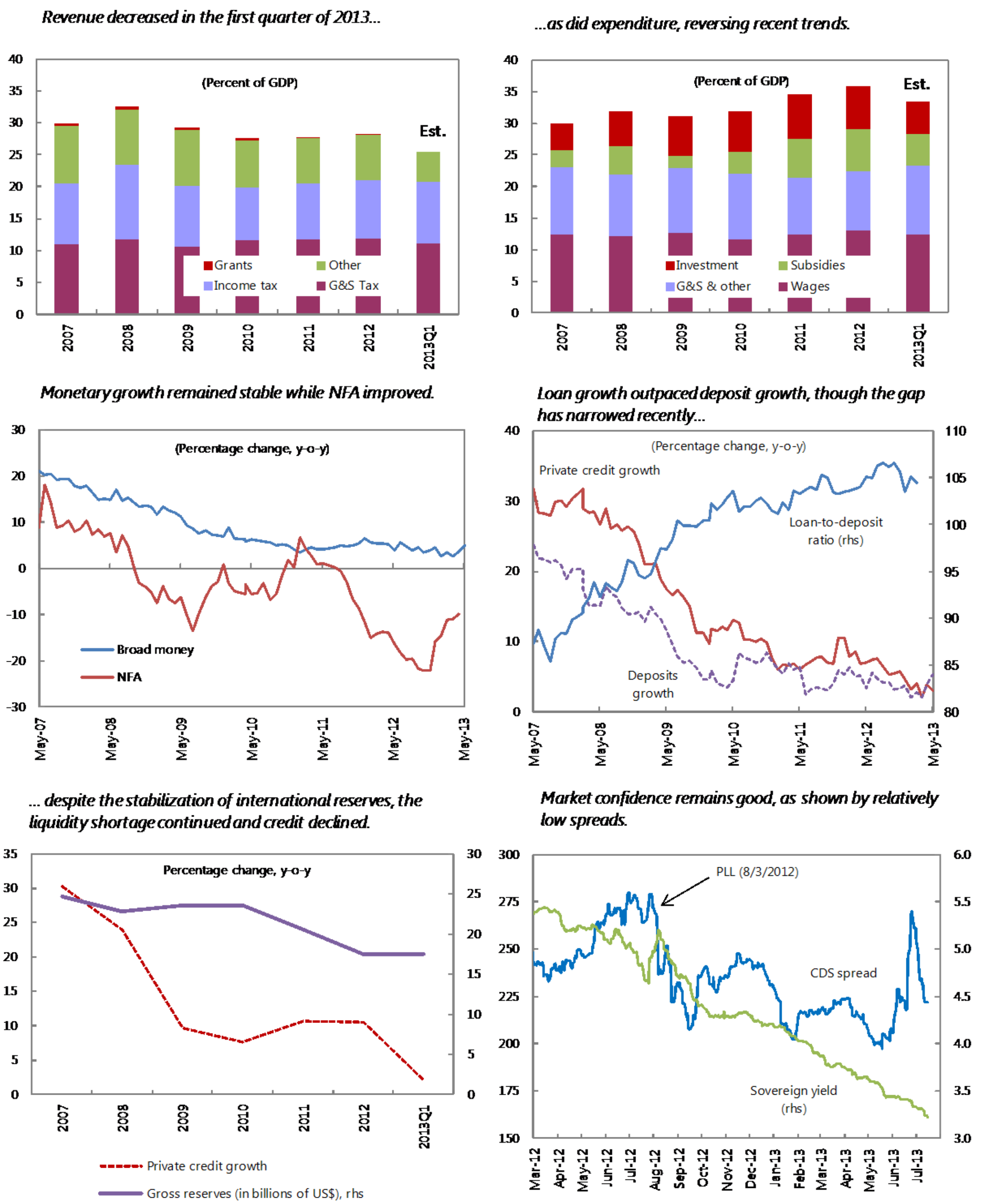


…which contributed to a stabilization of reserves.



Sources: Moroccan authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal and Financial Market Developments



Sources: Moroccan authorities; and IMF staff estimates.

OUTLOOK AND RISKS

13. Although nonprimary activity is slowing, overall growth is expected to accelerate, driven by a strong rebound in agricultural production. Nonprimary GDP growth is likely to slow to less than 4 percent in 2013. However, following a lower-than-average harvest in 2012, the 2013 agriculture season is expected to be exceptionally good. Primary sector growth in 2013 is therefore projected to be at least 13 percent, with risk tilted to the upside. In total, GDP growth is likely to accelerate above 5 percent. Inflation is expected to remain below 2½ percent, notwithstanding further possible increases in the prices of some fuel-related products.

14. The current account deficit is expected to narrow and capital inflows should remain strong, helping support reserves. An improvement in the trade balance, supported by lower commodity prices, the impact of weaker nonprimary activity, lower food imports resulting from higher domestic production, rising exports in newly developed sectors (e.g., automobiles), and higher grants from development partners, should help reduce the current account deficit by about 3 percent of GDP to close to 7 percent of GDP in 2013. Increased FDI and public and private borrowing should allow reserves to remain stable through the remainder of 2013.

15. The medium-term outlook hinges on structural reforms to strengthen competitiveness and promote higher and more inclusive growth. In the context of an external environment that is expected to remain weak, and given the limited space for macroeconomic policy to boost demand in the short term, pressing ahead with growth-enhancing structural reforms will be crucial to reducing unemployment. As discussed in previous staff reports, our baseline scenario assumes that reforms are put in place that help sustain a relatively conservative increase in potential growth to close to 5½ percent in the medium term. Such an assumption remains lower than what a steadfast implementation of ambitious structural reforms could deliver to help make a significant dent in unemployment.[3]

16. Risks to the outlook are mostly, but not entirely, tilted to the downside. The baseline scenario, underpinned by a strong rebound of the agricultural sector and a still-robust performance of the nonprimary sector, remains vulnerable to significant external and domestic downside risks, but also to the upside risk of an even better-than-expected agricultural output. Externally, in the short run, the risks of re-emergence of financial stress in Europe and of higher oil prices could hinder growth, the external sector, and fiscal accounts. Over the medium term, a protracted period of slow growth in Europe would undermine the projected improvement in the current account and lead to further reserve losses and/or heavier reliance on debt-creating external flows before reforms to boost competitiveness can bear fruit. Domestically, in the context of pressing social demands and ongoing tensions in the region, there is a risk that political or social difficulties continue to undermine the pace of needed reforms. While staff expects policy continuity despite recent tensions

[3] See 2012 Article IV report (CR/13/96) and related selected issues paper on *Inclusive Growth in Morocco: Stylized Facts and Policies* (CR/13/110).

between coalition partners, the likely formation of a new coalition government or the possibility of new elections (a lower probability scenario according to most commentators) present an additional source of risk.

Morocco: Risk Assessment Matrix				
Source of Risk	**Up/Down side**	**Likelihood**	**Impact**	**Policy response**
Slower-than-needed pace of reforms	↓	Medium	High	- Communicate proactively to build consensus.
Global oil shock triggered by geopolitical events (driving oil prices to US$140 per barrel)	↓	Low	High	- Adjust domestic oil product prices upwards. - Diversify energy sources. - Implement more-targeted cash transfer schemes.
Protracted period of slower European growth	↓	High	High	- Allow more flexibility in the exchange rate to stabilize reserves. - Accelerate the structural reform agenda.
Higher agricultural output	↑	Medium	Medium	- Save fiscal and external sector benefits.[1]

1/ The agricultural sector is largely tax exempt; therefore the impact on fiscal accounts is expected to be largely muted.

POLICY DISCUSSIONS

A. Fiscal Policy

17. **Despite the 2012 fiscal outturn, the authorities are committed to resuming medium-term fiscal consolidation.** They have reaffirmed their objective of achieving a deficit of 3 percent of GDP in the medium term through a gradual fiscal consolidation that aims to rebuild fiscal and external buffers, provide fiscal space for social spending and growth-enhancing investment, and

ensure fiscal sustainability in the medium term. However, they are now aiming to achieve this target by 2017 instead of 2016 as previously envisaged, on account of the higher 2012 deficit outturn and to avoid excessively sharp annual adjustments in the context of a protractedly weak external environment. Specifically, the authorities are targeting a deficit of 4.8 percent of GDP in 2014. Staff supports the smoothing of the adjustment, but stressed the critical importance of steadfastly moving ahead with the necessary fiscal reforms to support the consolidation. It will therefore be particularly important that the comprehensive subsidy reform be launched as planned before the end of this year, be well communicated and be implemented gradually, to maximize its durability.[4]

18. In line with their medium-term objective, the authorities have committed to a fiscal deficit target of 5.5 percent of GDP in 2013. This target entails a fiscal adjustment of about 1 percent of GDP based on staff's estimate of the structural deficit excluding grants.[5] Consistent with the underperformance observed in the first four months, revenue is projected to be below the 2013 budget target, reflecting the slowdown of nonprimary economic activity and lower imports. This projection is based on relatively conservative assumptions, including those respecting the possible impact of recent measures to improve the collection of tax arrears (see paragraph 6 in the attached written communication from the authorities (W-COM.)) and to the probable partial sale of *Maroc Telecom* by one foreign company to another, which, if it happens, may generate significant tax revenues (capital gains and registration fees). On the expenditure side, the authorities have taken steps to rationalize spending to achieve their 2013 fiscal deficit target (W-COM.-¶7), including moves to limit the subsidy bill (see below) and ensure that public investment outlays remain within the targeted envelope.[6] As a result, total spending is expected to decline by close to 3 percent of GDP, driven by a large cut in the subsidy bill (2 percent of GDP, resulting from policy measures and lower international prices), a reduction in investment (1 percent of GDP) and a lower wage bill (0.3 percent of GDP).

19. To modernize their PFM system and respond to the 2012 fiscal slippage, the authorities are strengthening their budget process and framework (W-COM.-¶8). The 2012 fiscal slippage exposed the need to strengthen monitoring arrangements for budget execution. It also highlighted the importance of addressing weaknesses in the budget framework that can create additional difficulties in containing spending, namely: (i) wage ceilings adopted in budget laws are not binding, and can be amended throughout the year, for instance, following wage negotiations by line ministries; (ii) unspent appropriations for investment can be carried over across budget years; and (iii) unspent balances on special treasury accounts, used to finance specific programs funded from earmarked revenues and some budgetary transfers, can be automatically rolled over across

[4] As recently discussed in *Energy Subsidy Reform: Lessons and Implications*.

[5] The overall deficit is expected to decline by over 2 percentage points of GDP in 2013 (from 7.6 percent to 5.5 percent of GDP). This entails a 1.2 percent structural adjustment (about half of the reduction in the overall deficit is due to higher external grants and the impact of lower food and energy prices on the subsidy bill.)

[6] In light of higher carryover of unspent past appropriations than was estimated at the time of the adoption of the 2013 budget, the government issued in March 2013 a decree cutting new budget appropriations for investment so that actual capital spending remains within the projected envelope.

budget years (although this was not a source of slippage in 2012). The authorities are committed to addressing these vulnerabilities and modernizing their framework:

- ***Organic budget law*** (OBL). The authorities are preparing a new OBL, which is at an advanced stage of drafting and is a core component of a broader modernization plan for the budget framework.[7] Its objectives is to provide the legal instruments needed to formalize introduction of more complex reforms, such as program budgeting and a focus on performance, accountability, and transparency, as well as to strengthen the role of managers and of Parliament in budgetary matters. It will also address the above issues by making wage bill appropriations binding, eliminating the automatic carryover of unspent investment appropriations, and progressively reducing the number of special treasury accounts and closing idle ones. The government's objective is to have a new OBL adopted by Parliament during its next fall session.[8]

- ***Immediate steps.*** Pending the entry into force of a new OBL, the authorities already took measures to address the issues that came into play in 2012. They set up a biweekly committee, chaired by the Minister of Finance and including the Minister of Budget and relevant Directors, to monitor budget execution and, when needed, agree on corrective measures for achieving the desired fiscal balance.[9] They also set up a committee to better align transfers to public entities with their cash-flow needs and the overall fiscal objective. Furthermore, the head of government issued in early July a directive (*circulaire*) that will make the wage bill *de facto* binding and limit the carryover of unspent investment.[10] The Fund is providing PFM TA on finalizing the draft OBL and preparing implementation, through guidance on a range of budget management issues including nomenclature, medium-term budget framework, performance-based budgeting, and wage bill management.

20. Despite delays, progress has been made recently on other structural fiscal reforms. These reforms, including the reforms of the subsidy and the pension systems, seek to support the consolidation and promote more inclusive growth. Staff noted that progress has been slower on that front than envisaged at the time of the approval of the PLL. The authorities emphasized the difficult political and regional context and the importance of building wide consensus on complex reforms. The Fund is also providing technical assistance (TA) in various fiscal areas, as described above.

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[7] The new OBL also responds to new requirements introduced in the 2011 Constitution that included revisions to the provisions on public finances. Its preparation has benefitted from World Bank technical assistance.

[8] The fall session runs from October to February.

[9] Since spending from these special treasury accounts are subject to the same commitment and treasury control procedures as other expenditures, the authorities have appropriate tools at hand to contain the vulnerability that their large unspent balances represent, which they have done effectively in recent years.

[10] The annual capital expenditure envelope for each ministerial department will be determined on the basis of an estimate of the appropriations to be carried forward. If the actual amount of the carryover turns out to be higher than the estimate, the difference will be deducted from any new payment appropriations. As regards the wage bill, the order introduces a measure requiring the deferral to subsequent budget years of the cost of any undertakings arising within the current year with expenditure implications that were not taken into account during the preparation of the 2014 budget law.

- ***Revenue*** (W-COM.-¶6). A national tax conference was held April 29–30, 2013 to build consensus on reforms to modernize the fiscal system and make it more efficient, notably by widening the tax base through a reduction of tax expenditures and tax evasion, while making the tax system more equitable and more supportive of competitiveness.[11, 12] A follow-up task force has been charged with submitting propositions to the government for urgent reforms (to be included in the 2014 budget) and medium-term actions to implement during 2015–17. Immediate measures are expected to include: (i) reducing the number of VAT rates and clearing the backload of VAT credits;[13] (ii) simplifying the flat-rate regime; (iii) reducing tax expenditure (including by starting taxing the currently-exempted agriculture sector); and (iv) simplifying procedures to improve relations with taxpayers. The authorities are considering Fund TA on these issues.

- ***Subsidies*** (W-COM.-¶¶7, 10). In May 2013, the authorities reduced the per-unit subsidy of wheat collected through the cereal board (ONICL). In July, they adopted a mechanism to index the domestic prices of fuel, gasoline, and diesel to world prices.[14] This action is to be combined with a hedging operation for diesel to cap the price increases that might be needed in the first year of implementation. Furthermore, the quota of subsidized wheat was reduced by 6 percent. These actions will help keep the 2013 subsidy bill close to its *budget* target, while significantly reducing the vulnerability of the budget to international commodity price movements. They constitute major steps toward a comprehensive subsidy reform, which should include plans to gradually phase out most subsidies on all subsidized products, and which the authorities intend to adopt by the fall of 2013. Consistent with lessons from international experience, the broad reform is to include cash transfers to vulnerable groups to mitigate the social impact of the reform. Whether such transfers should be conditional (e.g., on school enrolment) or unconditional is a point on which partners in the ruling coalition have yet to agree.

- ***Wages*** (W-COM.-¶9) Staff welcomed the authorities' recent measures to improve the management of the civil service and help contain the wage bill. It urged the authorities to

[11] Fund staff participated in the conference with interventions by the Managing Director (on video) and the Fiscal Affairs Department's Director.

[12] Although the reform aims to widen the tax base, there is no expectation of higher revenue as the tax burden of taxpayers currently heavily taxed would be lowered to make the system more equitable and supportive of competitiveness.

[13] The authorities are exploring options for clearing the stock of verified due VAT credits, which are mostly owed to large taxpayers and are preliminarily estimated to amount to about 1½ percent of GDP, including possibly issuing government paper.

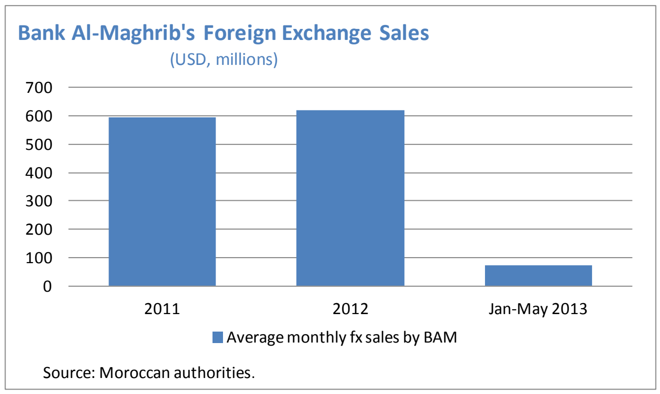
[14] The indexation rule, based on a rolling moving average of the last two months, provides for the automatic adjustment of domestic prices when the difference between implied world prices and actual domestic prices exceeds 2.5 percent. Subsidies on diesel, gasoline, and fuel represent over half of total subsidies in 2012. See the 2012 selected issues paper on *Fuel Subsidies in Morocco: International Experience and Possible Ways Forward* for a presentation of the structure of subsidies in Morocco (CR/13/110).

adhere to their medium-term goal of reducing the wage bill to below 11 percent of GDP. In that respect, it welcomed the measure making wage bill appropriations binding, as described below.

- ***Pensions*** (W-COM.-¶11). The national consultative group of high-level representatives of key stakeholders ("Commission Nationale") has started discussing, under the auspices of the head of government, the conclusions of the technical commission on pension reform. The next steps, and the most urgent, are to decide on and start implementing the parametric reform to restore the actuarial viability of the main public pension fund (*Caisse Marocaine des Retraites*).[15]

B. External Sector

21. Current and capital account developments are expected to continue supporting the stabilization of reserves. After significantly weakening in 2012, the current account has experienced some relief in 2013. The trade balance for goods shrank in dirham terms by 5 percent during January–June 2013 compared with the same period last year. Combined with strong capital inflow, these developments resulted in Morocco comfortably meeting the net international reserves (NIR) target for end-April.[16] As of mid-2013, reserves represented around 87 percent of the Fund's reserve metric for emerging markets.[17] Foreign exchange sales by the central bank are well below the average for the past two years. Financial assistance in the form of grants and loans from development partners, and a possible sovereign international sukuk, will provide additional support to reserves in the second half of 2013. Still, while the current account has benefitted from lower energy-related and food imports and some signs of recovery in the tourism sector, the flat export and remittance growth is evidence that external pressures persist.[18] In this context, there is a risk that reserves could resume their downward trend should downside external risks materialize.



22. External pressures are likely to persist over the medium term, requiring continued policy action. The steady deterioration of the current account balance over the past decade has

[15] For more background, see the 2012 Article IV report (CR/13/96), Box 1.

[16] A greater balance of supply and demand in the interbank market has reduced the need for banks to access foreign exchange through sales of foreign currency by BAM.

[17] This level of reserves is broadly adequate given that capital controls in Morocco partially insulate it from capital account vulnerabilities (see *Assessing Reserve Adequacy*, IMF Policy Paper, February 14, 2011).

[18] While some FDI-related exports have begun to post strong growth, total export growth, excluding phosphates, was slightly positive in the first half of 2013 in dirham terms, with an overall marginal fall in exports due to lower international phosphate prices.

been driven by both temporary and more persistent factors. Europe should eventually recover, but it is unlikely that oil prices will return to levels seen during the period when Morocco enjoyed more favorable current account balances and was rapidly building reserves. Morocco's moderate level of external debt leaves some margin for increased external private and public borrowing, but steadfast implementation of structural reforms to lower the current account deficit is needed to support external stability.[19]

23. As at the time of the 2012 Article IV consultation, there is some evidence of overvaluation of the dirham. While the External Balance Assessment (EBA) current account regression methodology finds evidence of overvaluation of the dirham, the Consultative Group on Exchange Rate Issues (CGER) methodologies show less significant evidence of misalignment.[20] The focus of the EBA on the present level of the current account balance, in contrast to the other methodologies that focus on planned policies and medium-term projections, underscores the importance of steadfast implementation of fiscal consolidation and competitiveness-enhancing reforms in maintaining stability under the current exchange rate regime.

24. An eventual move toward more exchange rate flexibility would benefit Morocco's economy. Structural reforms underpin the baseline path to greater sustainability; however, staff reiterated its position that a move toward greater exchange rate flexibility would complement these efforts by alleviating pressure on reserves and providing a key adjustment channel for external shocks. The authorities continue to express interest in an eventual move to more exchange rate flexibility, but emphasized the need to achieve remaining prerequisites and careful preparation for such a move (W-COM.-¶14) (e.g., with respect to fiscal consolidation, interbank market development, hedging instruments against exchange rate risk, supervisory framework, forex interventions). The Fund will be providing technical assistance to that end.

PLL QUALIFICATION AND PROGRAM MODALITIES

25. The program remains broadly on track. The end-April 2013 indicative targets on the central government deficit ceiling and NIR floor were met, the latter by a large margin. Morocco also observed the standard continuous performance criteria. The proposed revised end-October 2013 quantitative indicative targets for the third (and last) review under the PLL are consistent with the pursued fiscal consolidation and with maintaining reserves at an adequate level (W-COM., Table 1). As discussed elsewhere in this report, progress was made on structural reforms, although at a slower pace than envisaged at the time of the approval of the PLL.

[19] For more background on the structural reforms needed to strengthen competitiveness and growth, see the 2012 Article IV report (CR/13/96).

[20] These include the macro-balance and external sustainability methodologies (CR/13/96).

26. Morocco continues to meet the qualification criteria for a PLL. Despite recent setbacks, Morocco does not substantially underperform in the fiscal and external areas, and strongly performs in the areas of monetary policy, financial sector soundness and supervision, and data adequacy.

- **Recent actions have reduced the fiscal vulnerabilities that had come into play in 2012.** Despite recent challenges, Morocco has a record of sound public finances over a prolonged period, included as demonstrated by the ability to adapt the fiscal framework quickly when problems are identified, as was the case following the 2012 unexpected fiscal slippage. The end-April quantitative indicative fiscal deficit target, which was consistent with a tighter annual deficit than currently pursued (4.7 percent of GDP vs. 5.5 percent), was met and preliminary data at end-June point to the deficit being broadly in line with the revised annual target. Public-sector debt remains on a sustainable path, as illustrated by staff's debt sustainability analysis. Furthermore, the authorities are firmly committed to returning to a trajectory consistent with bringing the deficit to 3 percent of GDP in 2017. Although the significantly larger-than-targeted 2012 fiscal deficit exposed important shortcomings in the budget framework, the authorities have promptly taken significant initiatives to reduce fiscal vulnerabilities and rein in the 2013 deficit, notably by starting to reform the subsidy system and taking actions to strengthen the budget framework, as described above. The authorities' commitment to agreeing on a comprehensive subsidy reform by end-year and adopting a new OBL by Parliament during its upcoming fall session is important to continued containment and, ultimately, reduction of fiscal vulnerabilities. Based on the above, staff's assessment remains that Morocco does not substantially underperform in the fiscal area.

- **Overall, despite the wider current account deficit in 2012, external vulnerabilities remain moderate.** Persistent external pressures and a widening of the fiscal deficit contributed to a larger current account deficit in 2012 (10 percent of GDP). However, the current account has improved so far in 2013, as described above. External debt remains low at about 27 percent of GDP and is clearly sustainable. Reserves have been stable for about half a year and remain broadly adequate, as measured by the Fund's emerging market reserve adequacy metric and other standard measures such as months of imports. The April 2013 NIR target was met comfortably. The successful reopening of the December 2012 international bond in May 2013 at very favorable terms, combined with strong FDI inflows, has helped support external buffers while clearly demonstrating continued market access and a favorable environment for private investment. The authorities' program of sustained fiscal consolidation and structural reforms to boost competitiveness, notably by improving the business climate and vocational training, and fostering access to new markets, combined with large investment in alternative energy, will contribute to a further reduction of the current account deficit to below 5 percent of GDP in the medium term and will underpin external sustainability. Implementation of these policies will help ensure that the exchange rate regime remains appropriate in relation to the fiscal-monetary policy mix.

- **Morocco has a strong record of maintaining low and stable inflation**. Since 2000, inflation has been around 2 percent. BAM has been effective at anchoring inflation expectations by influencing the overnight interest rate while maintaining a fixed exchange rate against a basket composed of the dollar and the euro. More recently, inflation has remained in check, notwithstanding sharp increases in the prices of some subsidized energy products in June 2012. Money creation has continued to slow down, consistent with the deceleration of credit growth. Although liquidity remains tight, staff considers that the current monetary policy stance continues to be appropriate within the existing monetary and exchange rate framework (W-COM.-¶12). The nonprimary output gap is only moderately negative, but monetary policy should remain vigilant against potential second-round effects on inflation of domestic energy price increases related to the subsidy reform. The monetary framework will need to evolve in line with a move toward a more flexible exchange rate. The authorities' request for TA on macro-modeling in support of monetary policy is welcome in this respect.

- **The financial sector has remained resilient, including to the financial turmoil in Europe**. The Moroccan banking system, one of the largest and most concentrated in North Africa, has remained stable. The Tier 1 capital ratio is above 9 percent and the NPL ratio continues to be stable and relatively low. Banks remain well-provisioned overall and have little foreign exposure on either the asset or liability side. In addition, the overall foreign exchange net-open position of the banking system is, and, under banks' modest current borrowing plans, would remain within prudential limits set by BAM and does not represent a vulnerability. Although funding diversification is low, the loan-to-deposit ratio is still adequate. The implementation of Basel III standards is further strengthening the regulatory and supervisory framework (W-COM.-¶13). Staff welcomes the authorities' request for an FSAP update.

- **Morocco meets the PLL requirement on data transparency and integrity.** Morocco subscribes to the Special Data Dissemination Standard, and its data is adequate for surveillance and program monitoring. While the fiscal overruns in 2012 revealed issues related to fiscal projections and monitoring (Box 1)—now being addressed—the reporting of fiscal data has not come into question.

27. Notwithstanding staff's assessment of continued PLL qualification, the program faces risks. The external environment remains unsupportive and is subject to downside risks as noted above. Furthermore, the political landscape could make it difficult to forge the needed consensus on key issues such as the subsidy reform. Staff cautioned that delays to the reform agenda could seriously undermine the reduction in vulnerabilities sought by the program supported by the PLL. The authorities are aware of these risks and have demonstrated their commitment by recently implementing substantive measures despite the difficult political economy of the needed reforms. Staff urges them to continue their consensus-building effort in that direction, particularly so the comprehensive subsidy reform and the new organic budget law could be adopted by end-year.

28. Were Morocco to draw the entire amount available under the PLL, it would be well-positioned to repay the Fund. This positive assessment is based on the following rationales: (i) access would be slightly below the median and significantly below the mean exposure of recent exceptional access cases, and far below the access of recent crisis resolution programs, as discussed in the staff report for the PLL request;[21] (ii) Fund credit would represent a modest share of Morocco's relatively low external debt, and the reserve coverage ratio would be comfortable; and (iii) external debt service would increase moderately over the medium term and would be manageable under staff's baseline medium-term macroeconomic projections—which includes the timely implementation of key structural reforms, as well as adverse scenarios around this baseline, which could result, for instance, from the materialization of risks flagged in the risk assessment matrix (Table 10).[22]

29. Exceptional access criteria. Staff considers that Morocco continues to meet the four exceptional access criteria. First, staff is of the view that the realization of a stress scenario related to risks of increases in oil prices and the crisis in Europe could give rise to financing needs beyond normal access limits (criterion 1). Second, stress tests continue to indicate that under the standard shocks, debt ratios would remain sustainable over the medium term with a high probability (criterion 2). Third, Morocco has reconfirmed market access when it raised US$750 million at very favorable terms in May 2013 by reopening the US$1.5 billion bond it issued in December 2012, and such access is expected to continue within the timeframe when Fund resources would be outstanding if Morocco were to make purchases under the arrangement (criterion 3). Fourth, staff considers that the authorities' program has a reasonably strong prospect of success, including with respect to the institutional and political capacity to deliver on the program. The authorities' track record of sound macroeconomic policies and the government's commitment to the program have been demonstrated by the recent implementation of substantive measures to reduce vulnerabilities, despite a difficult political environment. The explicit endorsement by the Head of Government of the attached written communication provides reassurance of policy continuity in the event of a change in the junior partner of the coalition government (criterion 4).[23]

STAFF APPRAISAL

30. Actions to address known or recently exposed vulnerabilities have helped keep the program broadly on track. Morocco continues to meet the qualification criteria for the PLL. Both of the end-April 2013 quantitative indicative targets were met. After a period of delays, the pace of structural reforms has picked up recently despite a political context and external conditions that continue to be difficult. Following the deterioration in the fiscal and external accounts in 2012, the authorities have taken significant measures to reduce fiscal and external vulnerabilities. In particular, the recent indexation of the domestic prices of fuel, gasoline, and diesel to world prices is an important action that, combined with the planed hedging operation, will lessen the fiscal impact of

[21] *Morocco—Request for an Arrangement under the Precautionary and Liquidity Line* (CR/12/239).

[22] Under the most extreme shocks, the DSA shows that the external debt would remain low and sustainable, reflecting Morocco's capacity to repay the Fund even under an adverse scenario (Figure 4).

[23] A letter from the Head of Government to the Minister of Finance, dated July 15, 2013, confirmed his agreement to the content of the written communication.

international energy price volatility and represents a decisive step toward a comprehensive subsidy reform. In addition, the measures taken to strengthen the budget framework should help improve budget execution, notably by making the wage bill *de facto* binding and limiting the carryover of investment appropriations.

31. While significant domestic and external risks remain, the adjustments undertaken by the authorities help strengthen the economy's resilience. Despite recently exposed vulnerabilities, and a domestic and regional sociopolitical context that remains difficult, the authorities recently took significant steps to reduce vulnerabilities. They have reiterated their commitment to moving along with difficult, but necessary reforms to preserve macroeconomic stability and foster higher and more inclusive growth. Staff urges the authorities to continue their efforts to build consensus on the most crucial reforms so they can be implemented in a timely manner.

32. Staff supports the authorities' revised fiscal deficit target for 2013. The new target remains consistent with their medium-term objective and entails a significant reduction in the deficit. The authorities are on track to meet this target, despite some shortfalls in revenue during the first four months of the year owing to the slowdown in nonprimary activity. Should there be more revenue shortfalls, the authorities should resist cutting investment spending further and instead adjust nonessential current spending downward, as they intend to do (W-COM.-¶7). Staff notes that there are upside risks to revenue collection, as possible one-off tax and nontax receipts may materialize. Staff urged the authorities to save the windfall should that become the case.

33. The medium-term fiscal consolidation path remains adequate. Staff supports the authorities' goal of a fiscal deficit of 3 percent of GDP by 2017. The medium-term anchor is important to maintaining fiscal sustainability and supporting external adjustment. On the revenue side, the authorities' planned tax reform is welcome to promote more equity and support competitiveness while continuing to generate an adequate level of resources. In that respect, staff notes the importance of ensuring the broadening of the tax base before lowering tax rates to avoid the risk of weakening tax collection. On the expenditure side, continued containment of both the wage and subsidy bills is needed to create space for more social and capital spending and to support higher and more inclusive growth. In that respect, moving ahead with the comprehensive subsidy reform by the end of the year will be crucial to further reducing fiscal and external vulnerabilities while better targeting social protection to those most in need. Similarly, the adoption of a new OBL is a crucial initiative for ensuring a strong and modern fiscal framework, thereby also addressing issues that came into play in 2012. Work in that direction should proceed without delay so the new OBL can be adopted by the end of the year.

34. It is important to continue pressing ahead with structural reforms to enhance competitiveness and growth. The current account deficit is expected to continue to narrow as global commodity prices decline and as the domestic bumper crop reduces the need for food imports. In addition, rising exports in newly developed sectors such as automobile manufacturing will help, along with the fiscal consolidation. Reserves should benefit from the lower current account deficit and from sustained private and public capital inflows. Nonetheless, structural reforms to boost competitiveness and fiscal consolidation continue to be needed to further reduce the current account deficit and ensure external stability, because external pressures are likely to persist over the medium term. A more flexible exchange rate would enhance the economy's ability to absorb shocks and preserve competitiveness.

35. BAM has been successful in controlling inflation. The current policy stance is consistent with macro-conditions, but the central bank should remain vigilant, particularly against potential inflationary pressures that may result from possible increases in domestic energy prices. Staff also supports BAM's continued efforts to strengthen regulation and supervision, and encourages BAM to closely monitor risks that could arise from banks borrowing abroad. Staff particularly welcomes the efforts to strengthen coordination with regulatory and supervisory agencies in countries where Moroccan banks are expanding their operations.

36. Staff considers that Morocco continues to qualify for the PLL and supports the completion of the second review. Staff's assessment is that the program is broadly on track and that Morocco continues to meet the PLL qualification criteria. The authorities are committed to implementing policies to further reduce existing vulnerabilities. Staff welcomes the authorities' intention to keep treating the PLL arrangement as precautionary.

Table 1. Morocco: Selected Economic Indicators, 2011–18

	2011	2012 PLL 1/	2012 Rev. 2/	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
	(Annual percentage change)									
Output and Prices										
Real GDP	5.0	2.9	2.7	4.5	5.1	3.8	4.9	5.2	5.3	5.4
Real primary GDP	5.1	-4.0	-7.2	4.9	13.6	-1.2	4.5	4.5	5.0	5.0
Real non-primary GDP	5.0	4.5	4.6	4.5	3.7	4.8	5.0	5.3	5.4	5.5
Consumer prices (end of period)	0.9	2.3	2.6	2.5	2.3	2.5	2.5	2.5	2.5	2.5
Consumer prices (period average)	0.9	1.3	1.3	2.4	2.3	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP)									
Investment and Saving										
Gross capital formation	36.0	36.1	35.3	36.6	34.3	35.0	35.4	35.8	36.0	36.5
Of which: Nongovernment	30.6	31.9	30.1	31.8	30.0	29.9	30.0	30.3	30.5	31.0
Gross national savings	27.8	27.3	25.3	30.4	27.1	28.8	30.2	31.1	31.4	32.0
Of which: Nongovernment	27.5	28.4	26.3	29.4	26.8	26.8	27.1	27.2	27.1	27.5
	(In percent of GDP)									
Public Finances										
Revenue	27.8	27.7	28.1	28.2	27.5	28.3	28.5	28.4	28.3	28.3
Expenditure	34.5	33.8	35.8	32.9	33.0	33.1	32.6	31.9	31.3	31.1
Budget balance	-6.7	-6.1	-7.6	-4.7	-5.5	-4.8	-4.1	-3.5	-3.0	-2.8
Primary balance (excluding grants)	-4.6	-3.8	-5.3	-3.4	-4.0	-2.8	-2.6	-1.8	-1.2	-0.9
Total government debt	54.4	58.2	60.5	59.0	61.8	63.1	62.9	62.0	60.6	59.0
	(Annual percentage change; unless otherwise indicated)									
Monetary Sector										
Credit to the private sector 3/	9.8	7.0	4.8	8.0	6.1	6.9	6.8	7.0	8.3	7.6
Broad money	6.4	3.3	4.5	7.9	5.5	6.0	6.5	7.0	7.0	7.0
Velocity of broad money	0.8	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.5	3.2	3.2	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)									
External Sector										
Exports of goods (in U.S. dollars, percentage change)	21.7	-3.5	-0.9	10.4	3.3	7.5	7.3	6.5	6.9	7.4
Imports of goods (in U.S. dollars, percentage change)	25.3	-1.6	1.3	5.9	0.7	4.4	5.6	5.9	7.0	7.7
Merchandise trade balance	-19.4	-20.0	-20.8	-18.8	-18.7	-17.7	-17.0	-16.5	-16.4	-16.4
Current account excluding official transfers	-8.4	-8.9	-10.2	-7.9	-8.2	-7.4	-6.5	-5.8	-5.5	-5.4
Current account including official transfers	-8.1	-8.8	-10.0	-6.3	-7.2	-6.1	-5.2	-4.7	-4.6	-4.5
Foreign direct investment	2.4	2.2	2.6	2.8	3.2	3.2	3.3	3.4	3.5	3.6
Total external debt	25.1	26.4	29.8	27.5	31.3	31.3	30.8	29.9	28.6	27.7
Gross reserves (in billions of U.S. dollars)	20.6	17.5	17.5	18.4	18.7	18.9	20.2	22.0	23.3	25.5
In months of next year imports of goods and services	5.0	4.1	4.2	4.1	4.3	4.1	4.1	4.2	4.2	...
In percent of short-term external debt (on remaining maturity basis)	1473.6	1037.1	1251.8	1090.8	1332.0	1351.7	1445.6	1572.6	1661.7	1818.9
Memorandum Items:										
Nominal GDP (in billions of U.S. dollars)	99.2	97.5	96.1	104.8	104.8	111.7	120.7	130.9	141.0	151.9
Population (millions)	32.2	32.5	32.5	32.9	32.9	33.2	33.5	33.8	34.2	34.5
Net imports of energy products (in billions of U.S. dollars)	-11.2	-11.8	-12.1	-11.5	-11.6	-11.4	-11.3	-11.4	-11.5	-11.6
Local currency per U.S. dollar (period average)	8.1	...	8.6	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	...	-1.0	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macroframework for 1st review in CR/13/96.
2/ Revised macroframework.
3/ Includes credit to public enterprises.

Table 2. Morocco: Budgetary Central Government Finance, 2011–18

(Billions of dirhams)

		PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj. 3/				
	2011	2012		2013		2014	2015	2016	2017	2018
Revenue	223.3	232.8	232.8	253.8	244.6	266.9	288.2	309.3	331.1	357.5
Taxes	189.0	202.6	200.4	212.5	200.7	216.5	234.3	254.5	274.3	297.6
Taxes on income, profits, and capital gains	69.2	72.6	75.9	76.2	74.2	80.9	89.0	96.3	103.8	113.1
Taxes on property	9.3	10.9	11.3	12.3	12.5	12.9	13.8	14.9	16.0	17.3
Taxes on goods and services	94.6	100.3	99.0	104.5	101.6	109.1	117.1	128.0	138.0	149.6
Taxes on international trade and transactions	10.7	13.9	9.4	14.5	8.0	8.5	8.9	9.3	9.9	10.7
Other taxes	5.3	4.9	4.9	4.9	4.4	5.2	5.6	6.0	6.4	6.9
Grants	1.3	1.2	0.5	11.2	8.7	12.7	13.7	12.7	11.2	11.2
Other revenue	33.0	29.0	31.9	30.2	35.2	37.7	40.3	42.1	45.7	48.7
Expense	234.2	249.0	253.1	252.3	255.4	264.7	275.0	287.1	302.1	322.8
Compensation of employees 4/	99.8	106.2	108.5	110.6	114.0	116.9	119.9	125.1	130.1	137.7
Use of goods and services and grants	53.5	53.4	57.6	62.5	65.0	68.7	73.9	79.4	86.1	92.8
Interest	18.2	20.2	20.0	22.4	22.4	26.3	28.7	30.4	32.0	34.3
Subsidies 5/	48.8	52.3	54.9	40.0	41.4	35.8	34.4	32.6	32.8	35.4
Other expense 6/	13.8	16.9	12.1	16.8	12.6	17.0	18.2	19.6	21.1	22.7
Net acquisition of nonfinancial assets	43.0	35.2	43.0	43.7	38.1	47.9	54.7	59.9	64.5	69.5
Net lending / borrowing (overall balance)	-53.9	-51.3	-63.3	-42.2	-48.9	-45.7	-41.5	-37.7	-35.4	-34.9
Net lending / borrowing (excl. grants)	-55.2	-52.5	-63.8	-53.3	-57.6	-58.3	-55.2	-50.3	-46.6	-46.0
Change in net financial worth	-53.9	-51.3	-63.3	-42.2	-48.9	-45.7	-41.5	-37.7	-35.4	-34.9
Net acquisition of financial assets	-5.7	-3.2	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.7	-3.2	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-5.6	-3.2	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	48.2	48.1	60.0	42.2	48.9	45.7	41.5	37.7	35.4	34.9
Domestic	40.9	33.1	44.8	24.0	30.7	36.9	32.9	29.3	32.8	26.8
Currency and Deposits	-6.3	0.0	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	37.4	38.3	37.4	24.0	49.6	36.9	32.9	29.3	32.8	26.8
Other accounts payable	9.9	-5.3	9.9	0.0	-4.8	0.0	0.0	0.0	0.0	0.0
Foreign Loans	7.3	15.1	7.3	18.2	15.1	8.8	8.6	8.4	2.6	8.1
Memorandum Item:										
Total investment (including capital transfers)	56.8	41.9	55.1	50.4	50.7	64.9	72.9	79.4	85.6	92.2
GDP	802.6	841.6	828.2	900.6	888.5	943.5	1,011.5	1,088.3	1,172.0	1,263.2

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

1/ Refers to the macroframework for 1st review in CR/13/96.
2/ Revised macroframework. More disagregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.
3/ The fiscal deficit projections from 2014 onwards are that of the authorities while some of the revenue and expenditure lines are staff estimates.
4/ Some expenditure previously included in goods and services was correctly reclassified into the "social contribution" part of wages in the "Rev." column in 2013.
5/ In projections, includes cash transfers related to the subsidy reform.
6/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2011–18
(Percent of GDP)

		PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj. 3/				
	2011	2012		2013		2014	2015	2016	2017	2018
Revenue	27.8	27.7	28.1	28.2	27.5	28.3	28.5	28.4	28.3	28.3
Taxes	23.5	24.1	24.2	23.6	22.6	22.9	23.2	23.4	23.4	23.6
Taxes on income, profits, and capital gains	8.6	8.6	9.2	8.5	8.4	8.6	8.8	8.9	8.9	9.0
Taxes on property	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Taxes on goods and services	11.8	11.9	12.0	11.6	11.4	11.6	11.6	11.8	11.8	11.8
Taxes on international trade and transactions	1.3	1.7	1.1	1.6	0.9	0.9	0.9	0.9	0.8	0.8
Other taxes	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.2	0.1	0.1	1.2	1.0	1.3	1.4	1.2	1.0	0.9
Other revenue	4.1	3.4	3.9	3.3	4.0	4.0	4.0	3.9	3.9	3.9
Expense	29.2	29.6	30.6	28.0	28.7	28.1	27.2	26.4	25.8	25.6
Compensation of employees 4/	12.4	12.6	13.1	12.3	12.8	12.4	11.9	11.5	11.1	10.9
Use of goods and services and grants	6.7	6.3	7.0	6.9	7.3	7.3	7.3	7.3	7.3	7.3
Interest	2.3	2.4	2.4	2.5	2.5	2.8	2.8	2.8	2.7	2.7
Subsidies 5/	6.1	6.2	6.6	4.4	4.7	3.8	3.4	3.0	2.8	2.8
Other expense 6/	1.7	2.0	1.5	1.9	1.4	1.8	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	5.4	4.2	5.2	4.8	4.3	5.1	5.4	5.5	5.5	5.5
Net lending / borrowing (overall balance)	-6.7	-6.1	-7.6	-4.7	-5.5	-4.8	-4.1	-3.5	-3.0	-2.8
Net lending / borrowing (excl. grants)	-6.9	-6.2	-7.7	-5.9	-6.5	-6.2	-5.5	-4.6	-4.0	-3.6
Change in net financial worth	-6.7	-6.1	-7.6	-4.7	-5.5	-4.8	-4.1	-3.5	-3.0	-2.8
Net acquisition of financial assets	-0.7	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.7	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.7	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.0	5.7	7.3	4.7	5.5	4.8	4.1	3.5	3.0	2.8
Domestic	5.1	3.9	5.4	2.7	3.5	3.9	3.3	2.7	2.8	2.1
Currency and Deposits	-0.8	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.7	4.6	4.5	2.7	5.6	3.9	3.3	2.7	2.8	2.1
Other accounts payable	1.2	-0.6	1.2	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.9	1.8	0.9	2.0	1.7	0.9	0.8	0.8	0.2	0.6
Memo items:										
Total investment (including capital transfers)	7.1	5.0	6.7	5.6	5.7	6.9	7.2	7.3	7.3	7.3

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

1/ Refers to the macroframework for 1st review in CR/13/96.
2/ Revised macroframework. More disagregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.
3/ The fiscal deficit projections from 2014 onwards are that of the authorities while some of the revenue and expenditure lines are staff estimates.
4/ Some expenditure previously included in goods and services was correctly reclassified into the “social contribution” part of wages in the "Rev." column in 2013.
5/ In projections, includes cash transfers related to the subsidy reform.
6/ Includes capital transfers to public entities.

Table 4. Morocco: Budgetary Central Government Balance Sheet, 2011–18

(Billions of dirhams)

		PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj.				
	2011	2012		2013		2014	2015	2016	2017	2018
Net financial worth	-428.9	-481.9	-428.9	-522.4	-481.9	-588.3	-629.8	-667.5	-702.9	-737.8
Financial assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Currency and deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	430.9	483.9	495.8	524.4	544.6	590.3	631.8	669.4	704.9	739.8
Domestic	331.3	369.7	380.9	416.5	411.6	448.4	481.4	510.6	543.4	570.2
Securities other than shares 3/	331.3	369.7	380.9	416.5	411.6	448.4	481.4	510.6	543.4	570.2
Foreign	99.6	114.2	114.8	107.9	133.0	141.8	150.4	158.8	161.5	169.5
Loans 3/	99.6	114.2	114.2	107.9	133.0	141.8	150.4	158.8	161.5	169.5
Memorandum Item:										
GDP	802.6	841.6	828.2	900.6	888.5	943.5	1,011.5	1,088.3	1,172.0	1,263.2

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macroframework for 1st review in CR/13/96.

2/ Revised macroframework.

3/ Data for the remaining instruments are currently not available.

Table 5. Morocco: Balance of Payments, 2011–18

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

		PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj.				
	2011	2012		2013		2014	2015	2016	2017	2018
Current account	-8.1	-8.6	-9.6	-6.6	-7.6	-6.9	-6.3	-6.2	-6.5	-6.9
Trade balance	-19.3	-19.5	-20.0	-19.7	-19.6	-19.8	-20.5	-21.6	-23.1	-25.0
Exports, f.o.b.	21.6	20.8	21.4	22.9	22.1	23.8	25.5	27.2	29.0	31.2
Agriculture	3.5	3.0	3.3	3.1	3.6	3.7	3.9	4.1	4.3	4.6
Phosphates and derived products	6.0	5.7	5.5	6.0	5.4	5.7	6.0	6.4	6.9	7.4
Imports, f.o.b.	-40.9	-40.3	-41.5	-42.7	-41.7	-43.6	-46.0	-48.8	-52.2	-56.2
Energy	-11.2	-11.8	-12.1	-11.5	-11.6	-11.4	-11.3	-11.4	-11.5	-11.6
Capital goods	-8.4	-8.6	-8.5	-9.5	-9.3	-10.1	-10.8	-11.8	-12.8	-14.2
Food products	-4.8	-4.9	-4.8	-4.5	-4.4	-4.3	-4.5	-4.4	-4.6	-4.7
Services	5.3	5.4	5.3	5.9	5.7	6.4	7.2	8.2	9.2	10.2
Tourism receipts	7.3	6.9	6.7	7.1	6.9	7.3	7.8	8.4	9.0	9.6
Income	-2.1	-2.2	-2.3	-2.5	-2.1	-2.5	-2.6	-2.7	-2.8	-2.8
Transfers	8.0	7.7	7.4	9.7	8.5	9.1	9.6	9.9	10.2	10.7
Private transfers (net)	7.7	7.6	7.2	7.9	7.4	7.7	8.1	8.5	9.0	9.5
Workers' remittances	7.1	6.7	6.5	6.8	6.6	6.7	7.1	7.5	7.9	8.4
Official grants (net)	0.3	0.1	0.2	1.7	1.0	1.4	1.5	1.4	1.3	1.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	5.4	6.3	7.6	8.8	7.0	7.5	8.0	7.8	9.1
Direct investment	2.4	2.2	2.5	2.9	3.3	3.6	4.0	4.5	5.0	5.5
Privatization	0.7	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	-0.2	0.0	0.0	0.1	0.2	0.2	0.3	0.3	0.3
Other	3.5	3.5	3.9	4.6	5.4	3.2	3.2	3.2	2.5	3.3
Private	0.0	1.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Public medium-and long-term loans (net)	1.7	2.4	2.8	3.1	3.4	1.9	1.8	1.7	1.0	1.6
Disbursements	3.2	4.1	4.4	4.8	5.1	3.7	3.8	3.8	3.8	3.8
Amortization	-1.5	-1.6	-1.6	-1.7	-1.7	-1.9	-2.0	-2.1	-2.8	-2.2
Reserve asset accumulation (-increase)	2.6	3.2	3.5	-1.0	-1.2	-0.2	-1.2	-1.8	-1.3	-2.2
Errors and omissions	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Percent of GDP)										
Current account	-8.1	-8.8	-10.0	-6.3	-7.2	-6.1	-5.2	-4.7	-4.6	-4.5
Trade balance	-19.4	-20.0	-20.8	-18.8	-18.7	-17.7	-17.0	-16.5	-16.4	-16.4
Exports, f.o.b.	21.8	21.3	22.3	21.9	21.1	21.3	21.1	20.8	20.6	20.5
Agriculture	3.6	3.1	3.4	3.0	3.4	3.4	3.3	3.1	3.1	3.0
Phosphates and derived products	6.0	5.8	5.7	5.8	5.2	5.1	5.0	4.9	4.9	4.8
Imports, f.o.b.	-41.2	-41.3	-43.1	-40.7	-39.8	-39.0	-38.1	-37.3	-37.0	-37.0
Petroleum	-11.3	-12.0	-12.6	-11.0	-11.0	-10.2	-9.4	-8.7	-8.2	-7.7
Capital goods	-8.5	-8.9	-8.9	-9.1	-8.9	-9.0	-9.0	-9.0	-9.1	-9.3
Food products	-4.8	-5.0	-5.0	-4.3	-4.2	-3.9	-3.7	-3.4	-3.2	-3.1
Services	5.3	5.5	5.6	5.7	5.4	5.7	6.0	6.3	6.5	6.7
Tourism receipts	7.4	7.0	7.0	6.8	6.6	6.5	6.5	6.4	6.4	6.3
Income	-2.1	-2.2	-2.4	-2.4	-2.0	-2.3	-2.2	-2.1	-2.0	-1.9
Transfers	8.1	7.9	7.7	9.2	8.1	8.1	8.0	7.6	7.2	7.0
Private transfers (net)	7.8	7.8	7.5	7.6	7.1	6.9	6.7	6.5	6.4	6.2
Workers' remittances	7.2	6.9	6.7	6.5	6.3	6.0	5.9	5.7	5.6	5.5
Official grants (net)	0.3	0.1	0.2	1.7	1.0	1.3	1.3	1.1	0.9	0.8
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	5.5	6.6	7.2	8.4	6.3	6.2	6.1	5.5	6.0
Direct investment	2.4	2.2	2.6	2.8	3.2	3.2	3.3	3.4	3.5	3.6
Privatization	0.7	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	-0.2	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Other	3.5	3.5	4.0	4.4	5.1	2.9	2.7	2.5	1.8	2.2
Private 3/	0.0	1.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Public medium-and long-term loans (net)	1.7	2.5	2.9	3.0	3.2	1.7	1.5	1.3	0.7	1.0
Disbursements	3.2	4.2	4.5	4.6	4.9	3.3	3.1	2.9	2.7	2.5
Amortization	-1.5	-1.7	-1.7	-1.6	-1.7	-1.7	-1.6	-1.6	-2.0	-1.4
Memorandum items:										
Current account balance excluding official grants (percent of GDP)	-8.4	-8.9	-10.2	-7.9	-8.2	-7.4	-6.5	-5.8	-5.5	-5.4
Terms of trade (percentage change)	2.3	-1.2	-10.8	0.1	0.3	0.0	-0.4	0.4	0.0	-0.1
Gross official reserves 3/	20.6	17.5	17.5	18.4	18.7	18.9	20.2	22.0	23.3	25.5
In months of prospective imports of GNFS	5.0	4.1	4.2	4.1	4.3	4.1	4.1	4.2	4.2	4.2
Debt service (percent of export of GNFS and remittances) 4/	5.3	6.4	5.8	6.4	6.6	6.8	6.8	6.7	7.6	6.1
External public and publicly guaranteed debt (percent of GDP)	23.6	24.8	25.7	26.1	27.2	27.3	26.9	26.3	25.2	24.4
DHs per US$, period average	8.1	8.6	8.6	...	8.5	...	...	...	...	...
GDP ($)	99.2	97.5	96.1	104.8	104.8	111.7	120.7	130.9	141.0	151.9
Oil price (US$/barrel; Brent)	111.0	112.8	112.0	105.7	104.5	99.1	95.5	92.7	90.2	89.0

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

1/ Refers to the macroframework for 1st review in CR/13/96.
2/ Revised macroframework.
3/ Excluding the reserve position in the Fund.
4/ Public and publicly guaranteed debt.

Table 6. Morocco: Monetary Survey, 2011–13

	2011	2012 PLL 1/	2012 Rev. 2/	2013 PLL 1/	2013 Rev. 2/
	(Billions of dirhams)				
Net foreign assets	178.8	137.8	150.6	149.2	160.8
Monetary authorities	177.1	137.5	147.9	148.3	157.9
Of which: Gross reserves	177.1	147.8	147.9	158.6	157.9
Of which: Net Fund position	0.0	0.0	0.0	0.0	0.0
Deposit money banks	1.7	0.3	2.7	0.9	2.9
Net domestic assets	770.5	850.4	841.6	917.1	886.0
Domestic credit	798.3	864.0	855.0	931.0	899.6
Net credit to the government	102.1	118.4	116.3	125.5	125.5
Banking system	102.1	118.4	116.3	125.5	125.5
Bank Al-Maghrib	2.2	2.1	0.5	1.8	0.1
Of which: deposits	-3.4	-3.5	-4.5	-3.8	-4.8
Deposit money banks	99.9	116.3	124.9	123.7	125.4
Credit to the economy	696.2	745.7	729.6	805.5	774.1
Other liabilities, net	27.8	13.6	13.4	14.0	13.6
Broad money	949.3	988.2	992.2	1,066.3	1,046.7
Money	586.8	624.5	612.2	670.9	658.2
Currency outside banks	158.3	166.0	163.6	177.6	175.6
Demand deposits	428.5	458.5	448.5	493.3	482.6
Quasi money	340.9	362.2	354.7	376.7	368.9
Foreign deposits	21.6	15.5	25.3	18.7	19.7
	(Annual percentage change)				
Net foreign assets	-11.6	-18.2	-15.8	8.3	6.8
Net domestic assets	11.7	7.9	9.2	7.8	5.3
Domestic credit	11.6	7.5	7.1	7.8	5.2
Net credit to the government	25.8	10.8	13.9	6.1	7.9
Credit to the economy	9.8	7.0	4.8	8.0	6.1
Broad money	6.4	3.3	4.5	7.9	5.5
	(Change in percent of broad money)				
Net foreign assets	-2.6	-3.2	-3.0	1.2	1.0
Domestic credit	9.3	6.3	6.0	6.8	4.5
Net credit to the government	2.3	1.2	1.5	0.7	0.9
Credit to the economy	6.9	5.1	3.5	6.1	4.5
Other assets net	-0.2	0.2	1.5	0.0	0.0
Memorandum items:					
Velocity (GDP/M3)	0.85	0.85	0.83	0.84	0.85
Velocity (non-agr. GDP/M3)	0.72	0.74	0.72	0.73	0.73
Credit to economy/GDP (in percent)	86.7	88.6	88.1	89.4	87.1
Credit to economy/non-agr GDP (in percent)	101.2	102.2	101.7	103.2	101.8

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

1/ Refers to the macroframework for 1st review in CR/13/96.

2/ Revised macroframework.

Table 7. Morocco: Financial Soundness Indicators, 2008–12
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012
Regulatory capital 1/					
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.1
Capital to assets	6.9	7.2	8.3	8.1	8.5
Asset quality					
Sectoral distribution of loans to total loans					
Industry	15.9	15.8	16.4	16.8	16.7
Agriculture	6.9	6.0	6.1	5.8	5.5
Commerce	6.5	7.0	6.7	6.6	7.0
Construction	15.9	14.1	13.3	13.9	12.6
Tourism	2.6	3.2	2.9	2.8	2.9
Finance	13.1	12.4	12.1	11.3	11.0
Public administration	3.7	4.3	5.0	4.8	5.0
Transportation and communication	4.5	4.2	4.0	4.1	4.0
Households	26.5	27.6	28.1	27.6	28.9
Other	4.4	5.8	5.4	5.7	6.4
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6
Large exposures to Tier 1 capital	314	376	336	354	347
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.0	5.0
Loans to shareholders to total loans	2.0	1.0	1.1	1.0	1.0
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3
General provisions to total loans	1.0	0.5	0.5	0.5	0.7
Profitability					
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.9
Interest rate average spread (b/w loans and deposits)	3.2	3.1	3.3	3.3	3.2
Interest return on credit	5.8	5.8	5.7	5.7	5.6
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.6
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5
Operating expenses to total assets	1.7	1.7	1.8	1.8	1.8
Personnel expenses to non-interest expenses	51.9	49.7	49.1	49.4	49.2
Trading and other non-interest income to NPB	21.9	23.3	23.7	24.2	23.4
Liquidity					
Liquid assets to total assets	24.4	17.3	12.0	11.7	10.5
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7
Deposits to loans	113.0	108.0	104.0	99.0	96.5
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	4.8	4.5
Sensitivity to market risk					
FX net open position to Tier 1 Capital	7.6	15.6	12.1	12.1	8.3

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

Table 8. Morocco: Public Sector Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Baseline: Public sector debt 1/	48.2	48.0	51.3	54.4	60.5	**61.8**	**63.1**	**62.9**	**62.0**	**60.6**	**59.0**
of which: foreign-currency denominated	9.9	10.8	12.1	12.4	13.9	15.0	15.0	14.9	14.6	13.8	13.4
Change in public sector debt	-6.4	-0.3	3.3	3.1	6.1	1.4	1.2	-0.1	-1.0	-1.4	-1.6
Identified debt-creating flows (4+7+12)	-5.6	-0.8	2.2	2.6	5.9	1.4	1.2	-0.1	-1.0	-1.4	-1.6
Primary deficit	-3.4	-0.6	2.1	4.4	5.2	3.0	2.1	1.3	0.7	0.3	0.0
Revenue and grants	32.5	29.3	27.5	27.8	28.1	27.5	28.3	28.5	28.4	28.3	28.3
Primary (noninterest) expenditure	29.2	28.7	29.6	32.3	33.3	30.5	30.3	29.8	29.1	28.5	28.3
Automatic debt dynamics 2/	-2.6	-0.8	1.0	0.1	0.5	-1.6	-0.8	-1.4	-1.6	-1.7	-1.7
Contribution from interest rate/growth differential 3/	-3.1	-0.5	0.3	-0.2	0.7	-1.6	-0.8	-1.4	-1.6	-1.7	-1.7
Of which: contribution from real interest rate	-0.4	1.7	2.0	2.2	2.2	1.3	1.4	1.5	1.4	1.4	1.4
Of which: contribution from real GDP growth	-2.7	-2.2	-1.7	-2.4	-1.4	-2.9	-2.2	-2.9	-3.0	-3.1	-3.0
Contribution from exchange rate depreciation 4/	0.5	-0.3	0.7	0.3	-0.2	...	...	...	...	...	...
Other identified debt-creating flows	0.3	0.6	-0.9	-1.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.3	0.6	-0.9	-1.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3) 5/	-0.8	0.5	1.2	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt-to-revenue ratio 1/	148.3	163.8	186.3	195.5	215.1	224.6	223.0	220.9	218.0	214.4	208.3
Gross financing need 6/	7.7	13.4	15.2	15.3	14.8	15.2	14.7	14.0	13.3	13.1	12.1
Billions of U.S. dollars	6.8	12.2	13.8	15.2	14.2	15.9	16.4	16.9	17.4	18.4	18.4
Scenario with key variables at their historical averages 7/						**61.8**	**61.9**	**62.0**	**62.1**	**62.2**	**62.2**
Scenario with no policy change (constant primary balance) in 2013-2018						**61.8**	**66.0**	**69.7**	**73.1**	**76.4**	**79.5**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline											
Real GDP growth (percent)	5.6	4.8	3.6	5.0	2.7	5.1	3.8	4.9	5.2	5.3	5.4
Average nominal interest rate on public debt (percent) 8/	5.4	5.3	5.0	4.7	4.6	4.5	4.8	4.8	4.8	4.7	4.8
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-0.4	3.8	4.4	4.6	4.1	2.4	2.5	2.6	2.5	2.5	2.6
Nominal appreciation (increase in US dollar value of local currency, percent)	-4.8	3.0	-5.9	-2.6	1.7	...	...	...	...	...	...
Inflation rate (GDP deflator, percent)	5.9	1.5	0.6	0.1	0.5	2.0	2.3	2.2	2.3	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, percent)	14.4	3.0	6.9	14.4	6.1	-3.8	3.3	2.9	2.8	3.4	4.7
Primary deficit	-3.4	-0.6	2.1	4.4	5.2	3.0	2.1	1.3	0.7	0.3	0.0

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

1/ Public sector includes central government only.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

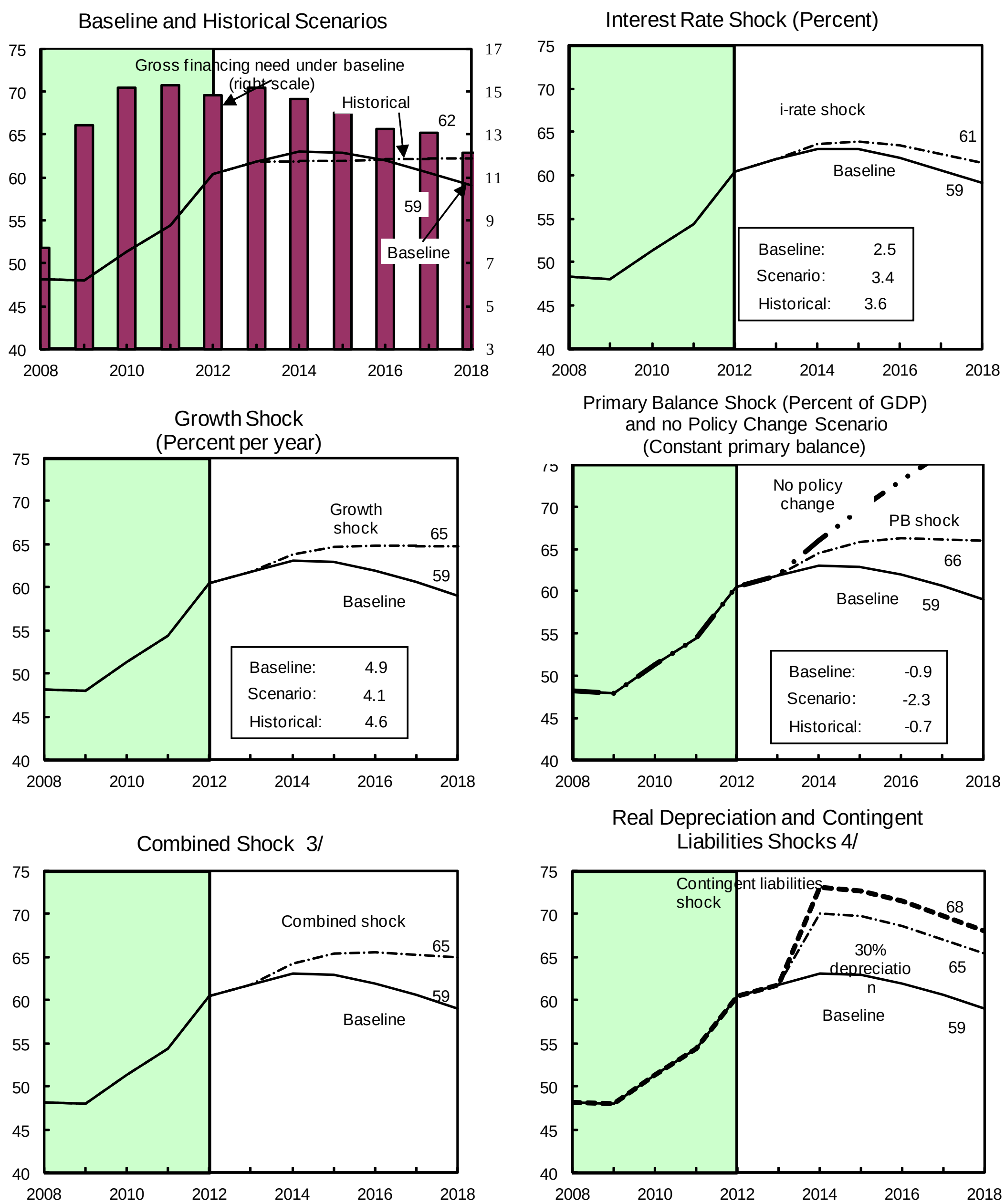
6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

Figure 3. Morocco: Public Debt Sustainability: Bound Tests 1/ 2/

(Public debt in percent of GDP)



Sources: IMFcountry desk data; and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciations of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2014, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 9. Morocco: External Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Baseline: External debt	21.8	24.4	25.8	25.1	29.8	**31.3**	**31.3**	**30.8**	**29.9**	**28.6**	**27.7**
Change in external debt	-3.2	2.6	1.4	-0.7	4.7	1.5	0.0	-0.5	-0.9	-1.4	-0.9
Identified external debt-creating flows (4+8+9)	-0.7	3.3	3.2	3.7	8.2	2.6	1.6	0.3	-0.3	-0.6	-0.7
Current account deficit, excluding interest payments	4.3	4.6	3.4	7.3	9.1	6.3	5.1	4.2	3.7	3.6	3.6
Deficit in balance of goods and services	14.4	12.0	10.8	14.1	15.3	13.3	12.0	11.0	10.2	9.9	9.7
Exports	37.6	28.9	33.4	35.8	36.3	34.9	35.1	35.0	34.6	34.5	34.5
Imports	52.1	40.9	44.2	49.9	51.6	48.2	47.1	46.0	44.9	44.4	44.3
Net non-debt creating capital inflows (negative)	-2.1	-1.6	-0.9	-2.2	-2.6	-3.2	-3.4	-3.5	-3.6	-3.7	-3.8
Automatic debt dynamics 1/	-3.0	0.3	0.7	-1.4	1.7	-0.5	-0.1	-0.4	-0.4	-0.5	-0.5
Contribution from nominal interest rate	0.9	0.8	0.7	0.8	0.8	0.9	1.0	1.0	1.0	1.0	0.9
Contribution from real GDP growth	-1.2	-1.0	-0.9	-1.2	-0.7	-1.4	-1.1	-1.4	-1.5	-1.5	-1.4
Contribution from price and exchange rate changes 2/	-2.7	0.5	0.9	-1.0	1.5	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-2.5	-0.7	-1.8	-4.5	-3.5	-1.1	-1.6	-0.8	-0.5	-0.8	-0.2
External debt-to-exports ratio (in percent)	58.0	84.5	77.3	70.1	82.0	89.7	89.1	88.1	86.5	82.7	80.2
Gross external financing need (in billions of US dollars) 4/	6.6	6.2	5.1	9.6	11.2	9.5	8.9	8.5	8.5	9.6	9.3
Percent of GDP	7.4	6.9	5.7	9.6	11.7	9.1	8.0	7.0	6.5	6.8	6.1
Scenario with key variables at their historical averages 5/						**31.3**	**27.9**	**25.7**	**23.7**	**21.4**	**19.8**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	5.6	4.8	3.6	5.0	2.7	5.1	3.8	4.9	5.2	5.3	5.4
GDP deflator in US dollars (change in percent)	11.9	-2.4	-3.7	4.1	-5.6	3.7	2.7	3.0	3.1	2.3	2.2
Nominal external interest rate (percent)	4.2	3.9	2.9	3.4	3.3	3.5	3.5	3.6	3.6	3.5	3.5
Growth of exports (US dollar terms, percent)	22.6	-21.4	15.4	17.2	-1.7	4.6	7.4	7.7	7.3	7.4	7.7
Growth of imports (US dollar terms, percent)	33.7	-19.7	7.8	23.5	0.2	1.7	4.3	5.5	5.8	6.6	7.3
Current account balance, excluding interest payments	-4.3	-4.6	-3.4	-7.3	-9.1	-6.3	-5.1	-4.2	-3.7	-3.6	-3.6
Net non-debt creating capital inflows	2.1	1.6	0.9	2.2	2.6	3.2	3.4	3.5	3.6	3.7	3.8

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

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

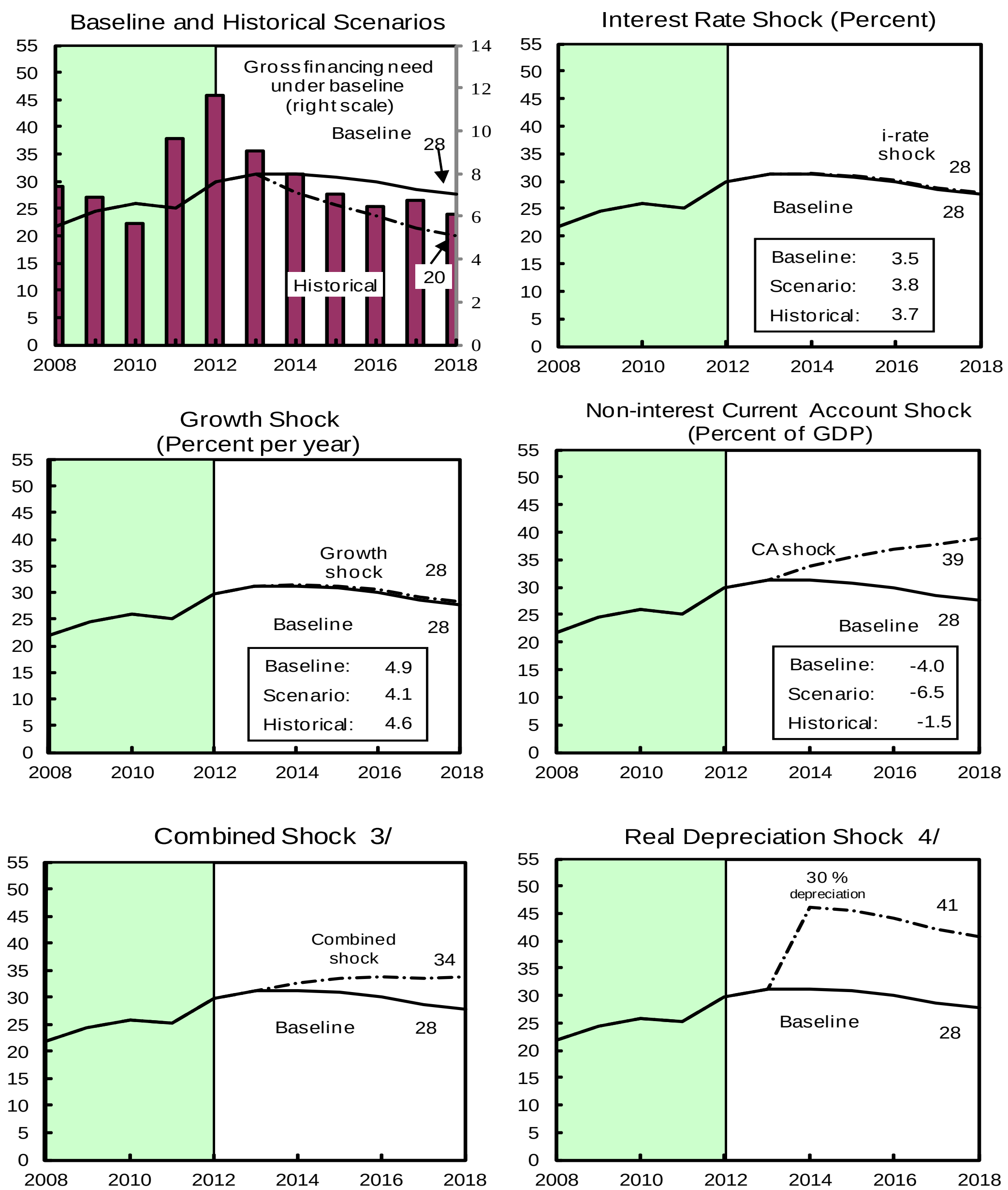
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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

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

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

Figure 4. Morocco: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: IMF country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2014.

Table 10. Morocco: Capacity to Repay Indicators, 2011–18 1/

			Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018
Exposure and repayments (in SDR million)								
GRA credit to Morocco	0.0	0.0	4117.4	4117.4	4117.4	3602.7	1544.0	0.0
(In percent of quota)	0.0	0.0	700.0	700.0	700.0	612.5	262.5	0.0
Charges due on GRA credit	0.0	0.0	43.3	91.8	91.8	97.6	63.1	8.7
Debt service due on GRA credit	0.0	0.0	43.3	91.8	91.8	612.3	2121.8	1552.8
Debt and debt service ratios								
In percent of GDP								
Total external debt	25.1	29.8	37.3	36.9	36.1	34.2	30.3	27.7
Public external debt	22.2	26.3	33.3	33.0	32.3	30.6	26.8	24.4
GRA credit to Morocco	0.0	0.0	6.0	5.7	5.2	4.2	1.7	0.0
Total external debt service	2.3	2.5	2.8	2.9	2.9	3.4	5.4	4.0
Public external debt service	2.2	2.4	2.3	2.5	2.5	3.1	4.6	4.2
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.1	0.7	2.3	1.6
In percent of gross international reserves								
Total external debt	120.8	163.4	209.5	218.1	215.0	203.1	183.3	165.1
Public external debt	106.8	144.1	187.0	195.0	192.6	181.7	162.6	145.5
GRA credit to Morocco	0.0	0.0	33.9	33.4	31.2	25.1	10.2	0.0
In percent of exports of goods and services								
Total external debt	71.4	82.0	111.9	118.2	124.7	128.1	122.1	120.4
Public external debt	63.1	72.3	99.9	105.7	111.6	114.6	108.3	106.1
GRA credit to Morocco	0.0	0.0	18.1	18.1	18.1	15.8	6.8	0.0
In percent of total external debt								
GRA credit to Morocco	0.0	0.0	16.2	15.3	14.5	12.4	5.6	0.0
In percent of public external debt								
GRA credit to Morocco	0.0	0.0	18.1	17.1	16.2	13.8	6.3	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	99.2	96.1	104.8	111.7	120.7	130.9	141.0	151.9
Gross international reserves (in billions of U.S. dollars)	20.6	17.5	18.7	18.9	20.2	22.0	23.3	25.5
Exports of goods and services (in billions of U.S. dollars)	35.6	34.9	36.5	39.2	42.2	45.3	48.7	52.5
Quota (in billions of SDRs)	588.2	588.2	588.2	588.2	588.2	588.2	588.2	588.2

Source: IMF staff estimates and projections.

1/ Assumes full drawings of available financing at the second review under the PLL. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Table 11. Morocco: Schedule and Terms Under the Precautionary and Liquidity Line Arrangement

Review Date	Conditions for access	Indicative targets 1/		Credit Available 4/			
		Central government fiscal deficit, ceiling, cumulative since beginning of fiscal year (eop in millions of dirham) 2/	Net international reserves (NIR) of Bank Al-Maghrib (BAM), floor, eop stock, in millions of U.S. dollars (US$) 3/	Million SDR 5/	Million Dollars 6/	Percent of Quota, cumulative	Percent of Total Access
August 2, 2013	Second review, based on April 30, 2013 indicative targets	-18,830	15,948	4,117.4	6,200.8	700	100
February 2, 2014	Third review, based on October 30, 2013 indicative targets	-41,000	17,100	4,117.4	6,200.8	700	100
Total				4,117.4	6,200.8	700	100

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate (end-April 2012 8.429 MAD/US$) for the years 2012 and 2013.
2/ The adjustors are specified in the Technical Appendix of July 27, 2012.
3/ The adjustors are specified in the Technical Appendix of July 27, 2012.
4/ Credit available assuming no purchase.
5/ Full access will be available on August 3, 2013.
6/ SDR/Dollar Exchange rate of 0.664016 as of July 17, 2012.

Appendix I. Morocco: Written Communication

Rabat, Morocco
July 15, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Managing Director:

1. In the context of a persistently unfavorable international environment, the Moroccan authorities remain committed to implementing sound macroeconomic policies. Following the completion of the first review of the Precautionary and Liquidity Line (PLL) on February 1st, 2013, the higher-than-expected 2012 fiscal deficit highlighted the need to strengthen our budget monitoring process. The government has since taken steps in that direction and has implemented other measures to ensure that program objectives are met and that the fiscal deficit is brought back on a path that is in line with the medium-term objective. The government has been making significant efforts to reach a consensus on the modalities of difficult reforms, but, in some cases, progress is proving to require more time than anticipated. The authorities are determined to continue implementing the economic policies described in this letter as well as in the letters signed on July 27, 2012 and January 17, 2013, with a view to achieving the short- and medium-term macroeconomic objectives of rebuilding fiscal and external buffers and strengthening the foundation for higher and more inclusive growth.

2. Poor rainfall and a weak external environment slowed growth in 2012 to 2.7 percent and weakened the current account balance. Nonetheless, reserves have stabilized since the fourth quarter of 2012 at a relatively comfortable level. Nonagricultural GDP growth held up relatively well on the back of domestic demand, despite slowing down recently. The 2013 agriculture harvest is expected to be exceptionally good and should push GDP growth above 5 percent, while inflation is expected to remain contained at around 2 percent. Foreign reserves are projected to strengthen, owing to the improvement in the current account deficit, which should reach 7.2 percent of GDP, compared to 10 percent in 2012, as a result of fiscal consolidation, lower commodity prices, the expansion of exports from newly developed sectors, lower food imports, and a reduction in volume of energy product imports driven by the significant increase in hydroelectric power generation and the impact of domestic price increases in 2012. The May 2013 reopening, at even more favorable terms, of the government bond launched last year, coupled with financial assistance expected from

development partners and external financing of the private sector, should also contribute to further strengthening reserves.

3. Morocco does not face immediate balance of payments needs, but the risks of external shocks persist. The economic policies and reforms implemented by the authorities should help reduce these vulnerabilities. The fiscal policy objective is to reduce the deficit by over 2 percentage points of GDP, to bring it down to 5.5 percent in 2013 and to below 5 percent in 2014, in line with the objective of medium-term consolidation. The current account deficit is projected to decrease further over the medium term, supported by increased investment in exporting sectors and greater geographical diversification of exports. Higher investment in infrastructure, combined with improvements in training and education and in the business climate, should stimulate competitiveness and private investment. In an external environment that remains uncertain, the PLL serves Morocco's needs well, and Morocco will continue to treat the arrangement as precautionary.

4. On the fiscal front, although the fiscal revenue target programmed under the PLL-supported program for 2012 has been met, the savings on subsidies, investments, and transfers to public enterprises that were announced mid-year were not fully realized, while wage bill expenditure exceeded expectations. This higher-than-projected expenditure is attributable, in part, to the impact of the carryover of appropriations, which increased sharply, and to the fact that wage appropriations are only estimates. As a result, the fiscal deficit reached 7.6 percent of GDP instead of 6.1 percent. In the first quarter of 2013, fiscal revenue dipped below the level recorded in the same period of 2012. However, the public deficit target at end-April under the PLL-supported program was met as expenditure levels for goods and services and investment were kept under control.

5. The government is strongly committed to achieving its 2013 fiscal deficit target of 5.5 percent of GDP and has taken several measures to that end.

6. The 2013 budget law introduced various measures to strengthen revenue, including an exemption from surcharges and penalties for late filing or payment, to encourage delinquent taxpayers to comply with their tax obligations. However, in 2013, fiscal revenue is expected to be adversely affected by the slowdown in nonagricultural activity and the ongoing dismantling of tariffs. Although there is some scope for higher revenues, the government preferred to retain a conservative revenue forecast. The government is committed to implementing tax reform to make the tax system more equitable and more conducive to enhancing competitiveness. The national tax conference held last April provided a forum for wide-ranging discussions on the main directions of the reform. The government plans to introduce the reform measures gradually, starting from the 2014 budget law, with priority actions aimed at reforming the VAT, reducing tax exemptions, and improving the relationship with taxpayers.

7. On the expenditure side, the government has taken the following measures:

- A decree was adopted in April 2013 reducing the appropriations for capital spending authorized under the 2013 budget law to offset the increase in carryover of appropriations;

- As a result of the rise in global prices, and despite the price increases of some petroleum products in June 2012, expenditure on subsidies amounted to 6.6 percent of GDP in 2012. For 2013, the overall bill will be considerably reduced by the fall in world prices, the full-year impact of the increase in domestic prices, forward purchases of sugar, the slowdown in consumption, and the new measures taken in 2013. Consequently, the cost of subsidies is projected at around DH 40 billion, in line with the budget law target. In that context, the unit subsidy on the collection of locally produced soft wheat was reduced by two-thirds in May. In addition, in early July, a Head of Government's order introducing a partial indexation system, of certain petroleum products (gasoline, diesel, and industrial fuel) was adopted. This measure will be accompanied by a hedging contract aimed at lessening the impact on domestic prices, for the rest of the year, of possible large increases in the international price of diesel. Moreover, as part of a program to gradually reduce the quotas of subsidized soft wheat flour, the current quota has been cut by 500,000 quintals, equivalent to a 5.6 percent reduction, effective July 1, 2013. These measures considerably lessen the vulnerability of the budget to world price fluctuations while also generating budgetary savings.

- Regarding the wage bill, a new circular requires authorization by the Head of Government for any hiring to fill posts that have become vacant during the course of the year, as well as for new posts created by the budget law. This measure is aimed at improving the forecasting of personnel expenditure, consistent with the objective of controlling the wage bill.

- To ensure that the deficit target of 5.5 percent of GDP is met, the government stands ready to make expenditure adjustments, while safeguarding both priority investment and priority social programs.

8. To strengthen the budget process and framework, the government has undertaken the following initiatives:

- Setting up a biweekly committee, chaired by the Minister of Finance, to monitor budget execution more closely and, as needed, to propose measures to achieve the fiscal deficit target.

- Creating a committee with responsibility for monitoring transfers to public institutions and enterprises, so as to bring such transfers more in line with these entities' actual cash flow needs, while ensuring conformity with the fiscal deficit target.

- The draft organic budget law (OBL), which is being finalized and is aimed at modernizing and strengthening the budget framework, includes amongst other things, measures designed to reduce or eliminate the abovementioned risk factors related to wage bill appropriations and the carryover of investment appropriations. The government is working toward the adoption of the OBL by Parliament during its upcoming autumn session.

- In the meantime, a Head of Government's directive has already been issued introducing measures aimed at reducing these risk factors related to the wage bill and the carryover of appropriations. Such measures would be rolled over in subsequent budget laws until the new organic law enters into force.

9. The overall strategy aimed at modernizing the public administration is currently being finalized; it includes reform of the civil service statutes with the incorporation of performance-based remuneration, simplification of procedures, devolution, and the opening up of the administration to users, as well as governance improvements and anticorruption measures. Regarding recruitment, more specifically, three decrees have been adopted by the Government Council to facilitate the mobility of civil servants, thus making it possible to redeploy professional staff and reduce the need for new hiring thereby improving the productivity of the public administration and the control of the wage bill.

10. The government remains strongly committed to its goal of gradually reducing universal subsidies and moving progressively toward a social safety net that is more targeted to vulnerable groups of the population. In addition to the measures outlined above that have already been taken, the government intends to define the parameters of the comprehensive reform by autumn 2013, with the aim of launching the implementation phase in 2014.

11. Following validation by the government of the work of the pension commission, the immediate aim is to finalize the parametric reforms quickly with a view to improving the actuarial situation of the *Caisse Marocaine des Retraites*.

12. On the monetary side, Bank Al-Maghrib remains committed to working towards achieving price stability in the medium term. Despite the positive effects of the stabilization of foreign reserves, liquidity needs have remained high in the first quarter of 2013. Bank Al-Maghrib is continuing to pursue its accommodative policy, and will continue to supply the necessary liquidity to ensure appropriate financing of the economy. The Bank will also continue to monitor closely the implementation of refinancing plans adopted by some banks, in order to ensure that credit growth is financed by stable resources.

13. Bank Al-Maghrib continues to strengthen the soundness of the banking sector. Accordingly, in order to progressively align the prudential framework with the new Basel III standards, it has raised the solvency ratio to 12 percent and stipulated a Tier 1 ratio of 9 percent. Bank Al-Maghrib is also currently finalizing the adoption of the new texts, incorporating the new definition of prudential capital and short-term liquidity in accordance with the new Basel III standards; the process expected to be complete in July 2013. The ratio of nonperforming loans to total loans remained stable at about 5.3 percent at end-March 2013. Bank Al-Maghrib will continue to ensure that such loans are sufficiently provisioned. Further, the Bank will continue to strengthen the supervision of banking operations established abroad, in coordination with host country regulators.

14. The existing exchange rate regime has contributed to macroeconomic stability over the past 10 years by providing an important nominal anchor. The Moroccan authorities believe that increased

flexibility in the exchange rate, properly coordinated with other macroeconomic policies, would over time provide greater scope for the economy to respond efficiently to external shocks. The authorities have expressed their interest in IMF technical assistance to assess the current exchange regime and examine possible reform options for introducing greater flexibility.

15. The levels of the central government deficit and net international reserves were in line with the indicative targets at end-April 2013, the latter being met by a large margin. We will continue to ensure that we meet the revised targets for end-October 2013 as specified in the attached Table 1. We have also observed, and will continue to observe, the standard criteria related to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices, and the nonaccumulation of external debt payment arrears, in accordance with requirements under the PLL-supported program.

16. The authorities remain committed to ensuring macroeconomic stability as well as to responding appropriately to any adverse shocks. We remain confident that the policies described in this letter as well as in the letters signed on July 27, 2012 and January 17, 2013 are adequate to achieve the authorities' objectives, in line with the PLL-supported program, on the basis of which we are requesting completion of the second review under the PLL.

/s/	/s/
Nizar Baraka	Abdellatif Jouahri
Minister of Economy and Finance	Governor of Bank Al-Maghrib

Table 1. Morocco: Quantitative Indicative Targets

	4/30 1st Rev.	4/30 Adj.	4/30 Actual	10/31 1st Rev.	Rev.
	2013			2013	
Indicative targets 1/					
Net international reserves (NIR) of Bank Al-Maghrib (BAM) (end-of-period (eop) stock, in millions of U.S. dollars (US$))	16,682	15,948	17,228	16,881	17,100
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	-15,915	-18,830	-18,635	-33,772	-41,000
Memorandum item:					
Adjustor on NIR (in millions of U.S. dollars) 2/	1,238		504	2,292	2,412
Adjustor on the fiscal deficit (in millions of dirham) 3/	3,223		308	6,446	5,474

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate (end-April 2012 8.429 MAD/US$) for the years 2012 and 2013.

2/ The adjustors are specified in the Technical Appendix. Accordingly, the floor on NIR of BAM will be adjusted downward in the event of a shortfall of official grants and budget support loans relative to projections. The adjustors for 2013 are cumulative from end-October 2012.

3/ The adjustors are specified in the Technical Appendix. Accordingly, the fiscal deficit ceiling will be adjusted upward in the event of a shortfall of budget support grants relative to projections. The adjustors for 2013 are cumulative from end-December 2012.

Statement by the Staff Representative on Morocco
Executive Board Meeting
July 31, 2013

1. **This statement provides an update on developments since the issuance of the staff report**. These developments do not alter the thrust of the staff appraisal.

2. **Political situation.** The King accepted on July 22, 2013 the resignation of five Ministers from the junior coalition party Itsiqlal, including the Minister of Finance (staff report ¶5). Consequently, negotiations for a new coalition government with other parties represented in Parliament have officially started while the outgoing Ministers remain in charge of ongoing affairs.

3. **Fiscal performance at end-June**. More recent data than available at the time of issuance of the staff report (but still preliminary) indicate that budget execution remains broadly consistent with achieving the end-year fiscal deficit target of 5.5 percent of GDP (report ¶8). The primary deficit excluding grants was 2 percent of GDP, equivalent to half the annual target. Nonetheless, this was about half a percent of GDP higher than what was expected based on the seasonality observed in recent years. On the positive side, the shortfall of revenue (excluding grants) observed at end-April has shrank from 0.5 percent of GDP to 0.2 percent of GDP. However, expenditure was above projections by 0.3 percent of GDP mainly on account of higher investment spending (0.2 percent of GDP). Close monitoring and firm control of spending will be needed through the rest of the year to ensure that the annual target is met.

4. **Inflation**. Consistent with expectations, inflation in June fell to 2.2 percent(y-o-y) from 2.8 percent in May, reflecting the fact that the direct effect of the increases in the price of several subsidized energy products implemented in June 2012 are no longer captured by the y-o-y inflation rate (report ¶6).

Press Release No. 13/290

FOR IMMEDIATE RELEASE

July 31, 2013

International Monetary Fund

Washington, D.C. 20431 USA

The IMF Executive Board Completes the Second Review Under a PLL Arrangement for Morocco

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Morocco's performance under an economic program supported by a two-year Precautionary Liquidity Line (PLL) arrangement and reaffirmed Morocco's continued qualification to access PLL resources.

The PLL arrangement was approved on August 3, 2012 in an amount equivalent to SDR 4,117.4 million (about US$ 6.2 billion, 700 percent of quota, see Press Release No. 12/287). The access under the arrangement in the first year is equivalent to SDR 2,352.8 million (about US$3.6 billion, or 400 percent of quota), rising in the second year to the equivalent of SDR 4,117.4 million (about US$ 6.2 billion) cumulatively. The Executive Board concluded the first review on February 1, 2013.

The PLL arrangement will continue to support the authorities' home-grown reform agenda aimed at achieving higher and more inclusive economic growth by providing a useful insurance against external shocks. The PLL was introduced to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong record of policy implementation but with some remaining vulnerabilities.

The IMF's Executive Board welcomed the authorities' intention to continue treating the arrangement as precautionary.

Following the Board's discussion, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, issued the following statement:

"The arrangement under the Fund's Precautionary and Liquidity Line (PLL), which the authorities intend to continue to treat as precautionary, has provided Morocco with an insurance against external risks while supporting the authorities' economic strategy.

"Following the deterioration in the fiscal and external accounts in 2012, the authorities have taken significant measures to reduce vulnerabilities, despite an unfavorable external environment and a challenging regional context. Continuing efforts to build consensus and move ahead with difficult but necessary reforms will be key for preserving macroeconomic stability while promoting higher and more inclusive growth.

"The authorities' fiscal deficit target for 2013 of 5.5 percent of GDP remains consistent with their medium-term objective built on maintaining fiscal sustainability and supporting external adjustment. Close monitoring and firm control of spending will be needed through the rest of the year to ensure that this target is met. The planned tax reform should promote more equity and support competitiveness while generating adequate resources. Continued efforts to contain the wage and subsidy bills are important for creating space for better targeted social spending and higher capital expenditure. Recent actions to reduce subsidies are welcome in that regard, while moving ahead with a comprehensive subsidy reform will be crucial to further reducing fiscal and external vulnerabilities. Furthermore, the early adoption of a new organic budget law will be important to ensure a strong, transparent and modern fiscal framework.

"Lower global commodity prices, rising exports in newly developed sectors and lower food imports have helped reduce the current account deficit, and, combined with strong capital inflows, stabilize reserves. Structural reforms to enhance competitiveness continue to be a priority to sustain these gains. Moving toward greater exchange rate flexibility supported by appropriate macroeconomic and structural policies would enhance external competitiveness and the economy's ability to absorb shocks."