INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/209

MOROCCO

July 2015

SECOND REVIEW UNDER THE PRECAUTIONARY AND LIQUIDITY LINE ARRANGEMENT— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 24, 2015, following discussions that ended on June 5, 2015, 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 9, 2015.
- A **Statement by the Executive Director** for Morocco.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 15/357
FOR IMMEDIATE RELEASE
July 24, 2015

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

IMF Executive Board Completes the Second Review of the Current PLL Arrangement for Morocco and the Ex Post Evaluation of the First PLL

On July 24, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the second review of Morocco's economic performance under a program supported by a two-year Precautionary and Liquidity line (PLL) arrangement and the Ex Post Evaluation of exceptional access (EPE) under the 2012-14 PLL arrangement.

The current PLL arrangement was approved in July 2014. (See Press Release No. 14/368). Access under this arrangement in the second year is equivalent to SDR 3.2351 billion (US$5 billion, or 550 percent of Morocco's quota at the IMF). Morocco's first 24-month PLL arrangement was approved on August 3, 2012, with an access equivalent to 700 percent of the quota.

The PLL arrangement has provided insurance against external risks. The Moroccan authorities are treating the arrangement as precautionary, as they did with the 2012-14 PLL, and do not intend to draw under the arrangement unless Morocco experiences actual balance of payments needs from a significant deterioration of external conditions.

The PLL facility, which was introduced in 2011, provides financing to meet actual or potential balance of payments needs of countries with sound policies, and is intended to serve as insurance or help resolve crises under wide-ranging situations. Fund policy calls for an EPE within one year of the end of an arrangement with exceptional access.

Following the Executive Board discussion on Morocco, Mr. Min Zhu, IMF Deputy Managing Director and Acting Chair of the Board, made the following statement regarding the second review of the current arrangement:

"Morocco's overall economic performance has been strong. Following a slowdown in 2014, growth is expected to pick up in 2015. Policy action has helped reduce fiscal and external vulnerabilities and significant progress has been achieved on reforms. In an environment that remains subject to important downside risks, sustaining the momentum will be important to reduce remaining vulnerabilities and achieve higher and more inclusive growth.

"The arrangement under the Fund's Precautionary and Liquidity Line (PLL), which the authorities continue to treat as precautionary, has provided insurance against external risks. The program remains on track.

"Fiscal developments have been consistent with the authorities' objective to reduce the deficit to 4.3 percent of GDP in 2015. Progress continued on the subsidy reform, while support to the most vulnerable has expanded. The recent adoption of a new organic budget strengthens the fiscal framework. The timely adoption of the pension reform will be key to ensure the viability of the system.

"Progress has also been made in upgrading the financial policy framework, including by moving to Basel III standards and implementing the new banking law. An important further step should be the timely adoption of a new central bank law. Ongoing work toward a more flexible exchange rate regime and a new monetary policy framework, in coordination with other macroeconomic and structural policies, is welcome.

"Morocco's external position has continued to improve owing to strong export performance and lower oil prices. Further progress on structural reforms, including improving the business environment, governance, transparency and the job market will help strengthen competitiveness, growth and employment and enhance the economy's resilience to shocks."

Regarding the ex post evaluation of the first PLL arrangement, Executive Directors considered that the 2012–14 PLL arrangement appropriately provided temporary insurance against exogenous shocks and signaled Morocco's sound economic fundamentals to meet potential balance-of-payments needs at a time of significant external risks. They agreed that the arrangement was consistent with the PLL qualification standards and requirements under the exceptional access policy, while commending the authorities for not drawing on the arrangement in spite of external economic headwinds. Directors concurred that the authorities' policies helped reduce fiscal and external vulnerabilities, with subsidy reform as a major achievement. Directors noted that Morocco still faced a number of medium-term policy challenges at the end of the arrangement given external risks and remaining vulnerabilities. With the benefit of hindsight, Directors also noted some useful lessons learned with regard to program design and implementation.

INTERNATIONAL MONETARY FUND

MOROCCO

July 9, 2015

SECOND REVIEW UNDER THE PRECAUTIONARY AND LIQUIDITY LINE ARRANGEMENT

EXECUTIVE SUMMARY

The economy is recovering and the outlook is favorable but still subject to significant risks. After slowing to below 2½ percent in 2014, growth is expected to be close to 5 percent in 2015, boosted by a strong agricultural output and a gradual acceleration of activity in other sectors. Fiscal policy is on track to achieve the annual deficit objective of 4.3 percent of GDP. The external position has improved rapidly, benefiting from lower oil prices and strong export performance. Inflation remains low. However, more remains to be done to reduce unemployment, especially among the youth. Assuming steadfast implementation of reforms, growth should gradually accelerate over the medium term. However, the outlook remains subject to the risks of a structurally weak growth in key advanced economies, tighter or more volatile global financial conditions, and increased volatility of energy prices.

Important progress has been made on key reforms; sustaining these efforts will be important to foster higher and more inclusive growth. Significant progress was made in reforming the subsidy system, thereby reducing its costs and associated fiscal risks. At the same time, social programs on health and education were expanded. The adoption of the new organic budget law in May 2015 was a crucial step in improving the fiscal framework, while progress has also been made in upgrading the financial policy framework. Timely reform of the pension system is needed to ensure its viability while extending its coverage. Sustaining efforts to improve the business environment, competition, governance and transparency, as well as the functioning of the job market and the quality of education and vocational training, will also be important for increasing competitiveness, growth, and employment.

The program remains on track and Morocco continues to meet the PLL qualification criteria. Both March 2015 quantitative indicative targets were met comfortably. Morocco continues to perform strongly in three out of the five PLL qualification areas, while not substantially underperforming in the fiscal and external areas. Staff recommends the completion of the second review under the arrangement.

Approved By
Adnan Mazarei and Mark Flanagan

The staff team comprised Mr. Dauphin (head), Ms. Garcia Martinez, Mr. Kalonji, and Ms. Fayad (all MCD); and Mr. Ahokpossi (SPR). Mr. Blancher (MCM), future mission chief, participated in part of the mission. Discussions took place in Rabat, May 28-June 5, 2015. Mr. Auclair and Ms. Kebet (both MCD) assisted in the preparation of this report.

The mission met with the Head of Government Benkiran, Governor of the Central Bank Jouahri, Minister of Labor and Social Affairs Seddiki, Minister Delegate of the Budget El Azami Al Idrissi, Minister Delegate of General Affairs and Governance Louafa, and other senior officials. Mr. Daïri (OED) participated in most meetings.

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CONTEXT AND RECENT DEVELOPMENTS

1. **The Executive Board concluded the 2014 Article IV consultation with Morocco and the first PLL review on February 6, 2015.** The Board approved a 24-month PLL arrangement in July 2014 in the amount of SDR 3.2351 billion or 550 percent of quota, of which 500 percent of quota was available in the first year of the arrangement, and an additional 50 percent will be made available upon completion of this second review. The arrangement supports the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. The authorities have treated the arrangement as precautionary.

2. **Growth in 2014 was slower than anticipated, but it is recovering.** Growth in 2014 was 2.4 percent against a projection of 2.9 percent. Agricultural output contracted while a slow recovery in manufacturing and construction hampered non-agricultural growth. Nonetheless, conjunctural indicators point to an acceleration of activity in recent months. The unemployment rate remained broadly stable at 9.9 percent in the first quarter of 2015, remaining particularly high among the youth at 21.3 percent.

3. **Fiscal developments have been broadly positive through May 2015.** The authorities met their March fiscal deficit indicative target by a comfortable margin, as the deficit including grants was 0.9 percent of GDP against a projection of 1.6 percent. Furthermore, the fiscal outturn through May was consistent with the expected annual reduction in the deficit. Relative to the same period last year, the fiscal deficit was about 40 percent lower. Shortfalls in foreign grants and value-added tax (VAT) revenue on imported goods were offset by higher nontax receipts.[1] At the same time, spending was significantly lower than during the same period last year, on account of lower outlays on wages and subsidies.[2]

Recent Fiscal Developments

	Jan.-May 2014	Jan.-May 2015	Change
	(Billions of dirhams)		(Percent)
Revenue	96.8	103.1	6.5
Taxes	82.7	82.8	0.1
Grants	2.6	0.6	-75.2
Other revenue	11.5	19.7	71.7
Expense	134.2	125.7	-6.3
Compensation of employees	49.1	48.4	-1.4
G&S, grants, and other expenses	38.3	38.7	1.2
Interest	11.4	12.6	11.3
Subsidies	16.0	6.6	-58.9
Net acquisition of nonfinancial assets	19.4	19.4	-0.4
Net lending/borrowing (overall balance)	-37.4	-22.5	-39.7
Net lending/borrowing (excl. grants)	-40.0	-23.2	-42.0

Sources: Authorities' data, and IMF staff estimates.

[1] The increase in nontax receipts through May was due notably to some one-off transactions such as the sale of 4G telecom licenses.

[2] The wage bill is being gradually reduced in percent of GDP through wage moderation and measures such as limiting new recruitments in the public administration to the number of retirees, while subsidy spending has benefitted from the significant reform initiated in 2013 and lower energy prices.

4. The current account and reserve position continued to improve.[3] During January-May 2015—and relative to the same period last year—exports of goods and services grew by 5.5 percent in dirham terms, driven by a recovery in phosphate exports and sustained growth in automobile exports. Imports of goods and services contracted by 8.7 percent, reflecting lower imports of fuel (-32.8 percent) as a result of the drop in world prices and lower food imports. Remittances grew by a solid 5.4 percent, but tourism revenue declined by 6.4 percent. These developments, along with sustained capital inflows (strong FDI growth and issuance of a US$1 billion eurobond by the state-owned phosphate company in April 2015) strengthened reserves, which are now approaching six months of imports. At end-March 2015, reserves exceeded their adjusted indicative target by 10 percent.

5. The financial sector has remained well capitalized and profitable. Bank lending decelerated to 2.5 percent in April 2015 from 3.8 percent in the previous month, reflecting weaker demand from the business sector while household demand increased, especially for real estate loans. At end 2014, the overall capital-adequacy ratio remained well above the Basel III requirement. According to preliminary data, the new regulatory capital-to-risk weighted assets ratio slightly increased to 13.8 in December 2014 from 13.5 in June 2014. Bank's profitability remained adequate, despite slow lending activity. Reflecting the weaker economic activity, non-performing loans (NPLs) continued to increase reaching 7.2 percent of total loans in April 2015, but remained adequately provisioned.

6. Inflation has remained low. Headline inflation rose to 2 percent year-on-year in May 2015 from 1.6 percent in December 2014, mostly reflecting higher food price inflation. Excluding food, inflation slightly decreased to 1.2 percent in May from 1.6 percent in December. Bank Al-Maghrib (BAM) has kept its policy rate unchanged at 2.5 percent since December 2014 considering the expected improvement in economic activity and bank lending and the moderate inflation forecast, while noting that the outlook remains subject to uncertainties about oil prices. Liquidity pressures have abated, helped by the March 2014 cut in the reserve requirement ratio and the improved foreign reserves position.

7. Progress continued on structural reforms but pension reform has faced headwinds. The update on the status of key reforms is as follows:

- *Organic budget law* (OBL). A revised OBL, addressing technical comments by the Constitutional Council on a previous version, was adopted by parliament on April 28, 2015, validated by the Constitutional Council on May 18, and subsequently published. Its implementation decree was adopted on July 2. The law remains substantially unchanged from the earlier version and will

[3] The balance of payments (BOP) in Table 4 is now in the format of the IMF's 6th BOP manual (BPM6) instead of the BPM5 format in previous staff reports. The main change relates to temporary imports and re-exports, which are no longer recorded as gross imports and exports respectively. The difference between the two is now recorded as export of services. As a result, exports and imports are lower, and services are higher relative to their values in BPM5. Reserves relative to imports of goods and services are also slightly higher.

significantly strengthen the fiscal framework.[4] It is expected to be implemented gradually over a period of five years starting with the 2016 budget as planned.

- *Subsidies*. The government announced that the prices of liquid petroleum products—for which subsidies were eliminated at the beginning of the year—will be fully liberalized on November 30, 2015.

- *Financial policy framework*. The financial policy framework continued to be upgraded with the gradual implementation of Basel III norms, including the new regulatory capital-to-risk weighted asset ratio definition and the new liquidity coverage ratio, and the implementation of the new banking law. A draft revised central bank law, which appropriately aims to strengthen the central bank's independence and extend its supervisory powers, was published for public consultation.

- *Exchange rate and monetary regimes*. The preparation for a change in exchange rate and monetary regimes is progressing, with Fund technical assistance. On April 13, 2015, the authorities revised the weights of the euro and dollar in the basket against which the dirham is pegged (to 60 percent euro and 40 percent dollar, from 80 percent and 20 percent respectively) to align them with the current structure of external flows. The authorities have publicly stated that this change was a step toward a more flexible exchange rate regime.

- *Pension reform*. The parametric reform of the main public pension system is technically ready. While the objective was to have the reform start being implemented in 2015, it is yet to be adopted. The authorities have reiterated their commitment to adopt it this year and implement it at the latest in early 2016.

- *Business environment and labor market*. Progress has been made to further simplify administrative procedures, including for customs transactions, construction, and enterprise creation. A national strategy for employment—designed in consultation with social partners and business representatives—was adopted by the ad hoc steering committee in February 2015. It aims to enhance human capital by promoting reforms of the education and vocation training systems, improve the governance and functioning of the job markets—including by improving existing employment support programs—and increase the responsiveness of employment to growth.

OUTLOOK AND RISKS

8. Economic growth is expected to accelerate to about 5 percent in 2015, bolstered by a strong agricultural output and a gradual acceleration of activity in other sectors. The overall growth projection for 2015 has been revised up slightly from the first PLL review on account of an agricultural season expected to be particularly good, following favorable rainfall. Owing to improved

[4] See the staff report for the PLL first review (EBS/15/2) for a discussion of the changes introduced by the new OBL.

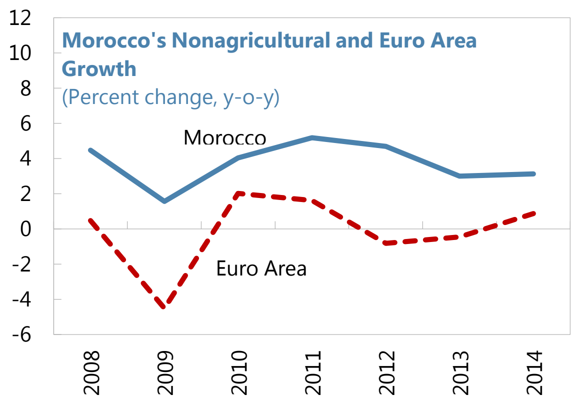
external demand and strengthened domestic confidence, non-agricultural activity is also expected to accelerate, but at a slower pace than projected at the time of the first PLL review. Some manufacturing industries are picking up but the recovery in the construction sector is sluggish and the outcome of the tourist season remains uncertain. Inflation is expected to remain low at about 1.5 percent because of low oil and food prices and a still-negative output gap. Over the medium term, the modernization of the agricultural sector, the continued expansion of Moroccan firms to new markets, the growing importance of newly developed sectors (e.g., automobile), and higher capital investment are expected to gradually lift potential growth above 5 percent, subject to an improvement in external conditions and a steadfast implementation of reforms.

9. The external sector outlook is positive. Oil prices are expected to remain low over the near and medium term, significantly reducing the oil import bill. The performance of newly developed industries is expected to remain strong, while external demand is also projected to continue its recovery. These developments will continue to reduce the current account deficit, which is expected to decline below 3 percent of GDP in 2015. As a consequence, external financing needs will be lower and external debt will stabilize in 2015 and decline over the medium term. Capital inflows are projected to remain strong, as Morocco remains an attractive destination for FDIs. Continued access to international financial markets by the sovereign and the private sectors would also strengthen reserves, which are projected above 6 months of imports.

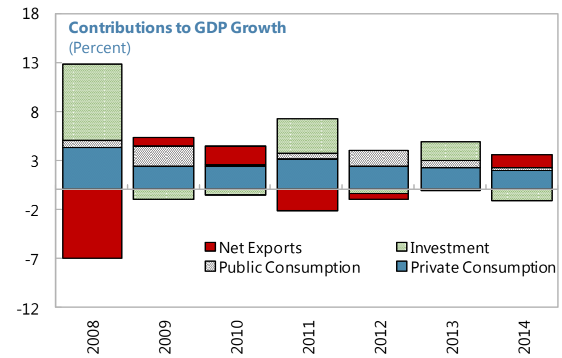
10. However important risks remain. A structurally weak growth in key advanced economies, in particular the Euro area, would lower growth, export, FDI and remittances. Tighter or more volatile global financial conditions would directly, and indirectly, affect the current (via its impact on global growth) and financial accounts. While the risks associated with higher oil prices have fallen since the inception of the PLL, an increased volatility of energy prices would affect the current account. These external risk factors are summarized in the external stress index in Box 1. Domestically, local elections in 2015 and parliamentary elections in 2016 risk delaying reforms in a volatile regional environment. Sustaining the pace of reforms is necessary to avoid the risk that medium-term growth potential and employment outcome would be lower than targeted.

Figure 1. Morocco: Real and External Developments

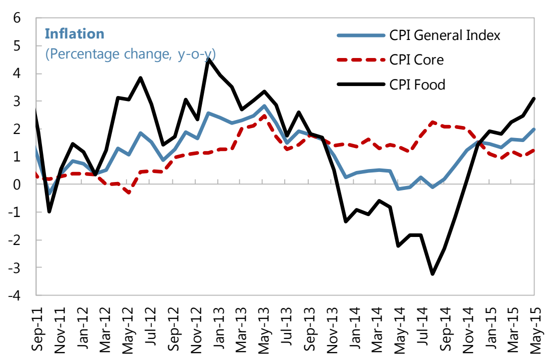
Non-agricultural growth was sluggish in 2014, lagging the euro area recovery…



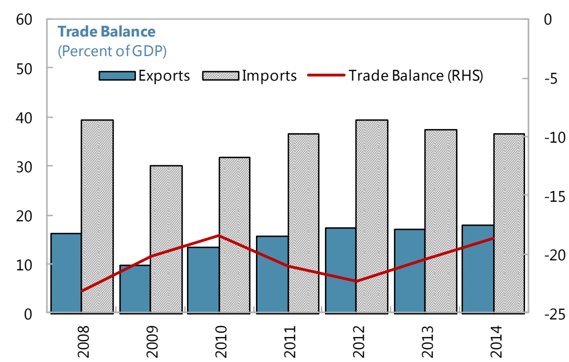
…supported mainly by private consumption and net exports.



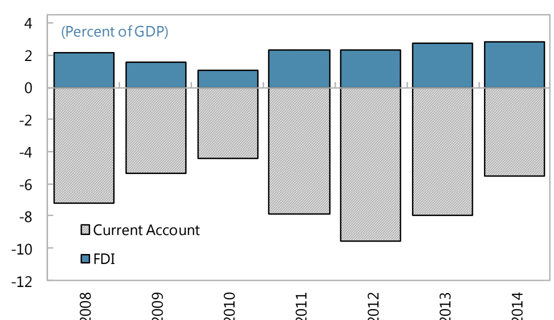
Inflation has remained low.



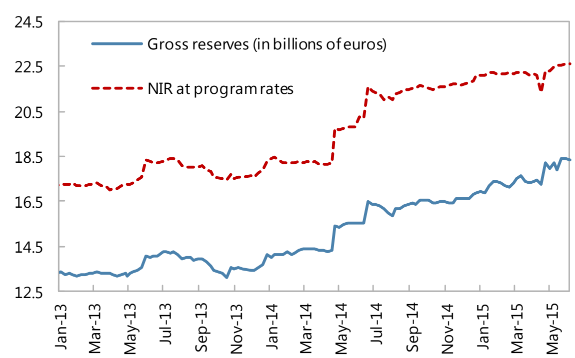
Growth in exports and a contraction in imports improved the trade balance…



…and improved the current account, while FDI inflows remained strong.



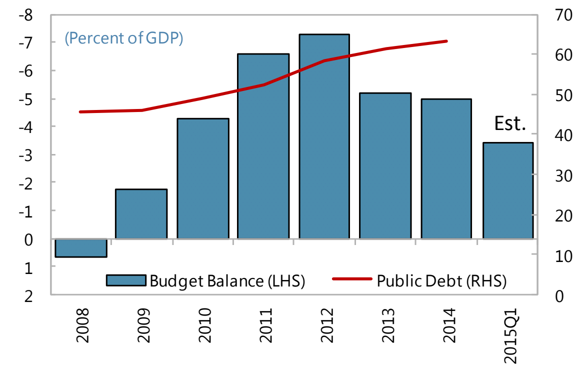
This has helped support reserves buildup.



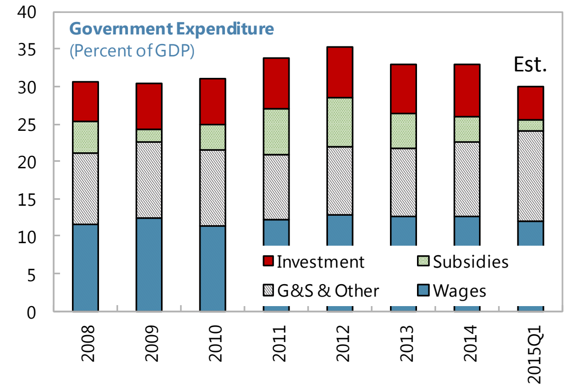
Sources: Moroccan authorities; and IMF staff estimates.
Note: National accounts data rebased to 2007 by Moroccan authorities in May 2015.

Figure 2. Morocco: Fiscal and Financial Market Developments

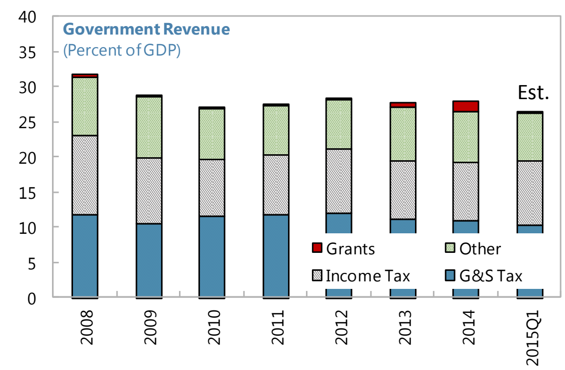
The fiscal deficit continued to decrease…



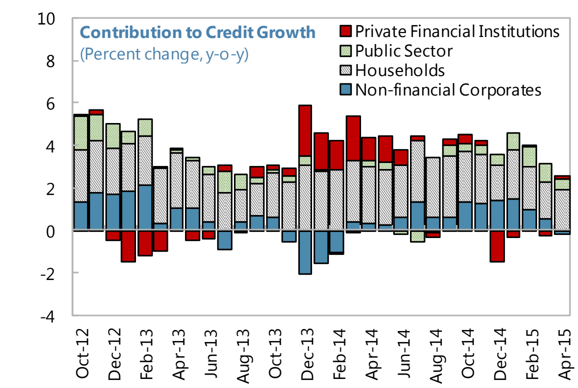
…helped by a reduction in subsidy spending…



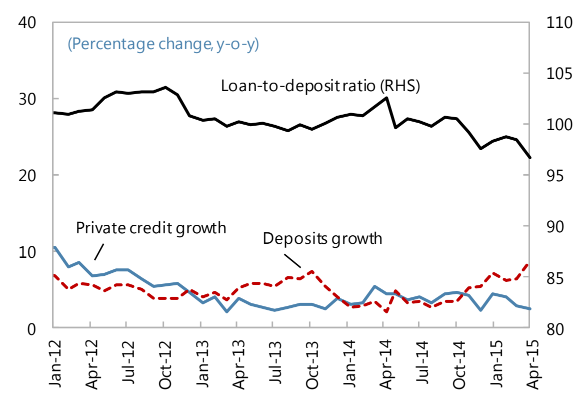
…while revenue remained broadly resilient.



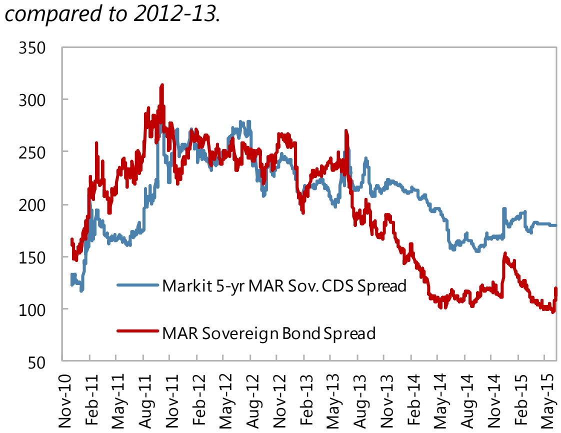
Credit growth has remained low.



The loan-to-deposit ratio remains at a comfortable level.



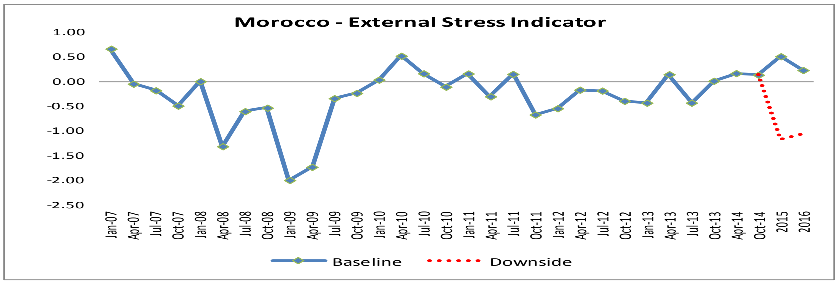
Market confidence is reflected in relatively low spreads compared to 2012-13.



Sources: Moroccan authorities; and IMF staff estimates.

Box 1. Morocco: External Stress Index

Overall assessment. The external stress index for Morocco indicates that the external pressure faced by the country has abated in recent years. However, as shown in the downside scenario, external risks remain substantial for Morocco.



Background. The external stress index is an indicator of the evolution of the external environment faced by a particular country.[1] The index is based on: (i) a consideration of the key external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of the weights to apply to each of these variables.

Risks. The main external risks for Morocco, as explained in detail in the 2014 PLL arrangement request and further updated according to the latest Global Risk Assessment Matrix (G-RAM), are (i) a structurally weak growth in key advanced economies, in particular the Euro area, resulting in lower exports, FDI, tourism and remittances; (ii) an increase in volatility of energy prices due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline; and (iii) tighter or more volatile global financial conditions.[2]

Variables. (i) Lower exports, FDI and remittances from Europe are captured by growth in the Euro area, the main trading partner of Morocco (representing more than 50 percent of trade, FDI and remittances); (ii) higher oil imports are captured by oil prices; and (iii) the impact of global financial volatility on Morocco are proxied by the emerging markets volatility index (VXEEM).

Weights. We used a data-based approach to determine the weight of each variable. Under this method, weights are determined by the economic size of the respective balance of payments items that are vulnerable to respective risks, relative to the overall size of the economy.

External risks	External Proxy Variable	Weights
Lower exports to the Euro area Lower FDI from the Euro area Lower travel from the Euro area Lower remittances from the Euro area	Euro Area growth	0.50
Higher oil import	Change in oil price	-0.40
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.09

Baseline scenario. The baseline projections are based on WEO baseline projections for growth in Europe and oil prices. The VXEEM is assumed unchanged from its level of April 14, 2015.

Downside scenario. The downside scenario is in line with those from the most recent IMF spillover reports. The 2013 spillover report estimates that a slowdown in the euro area could result in the GDP level in the euro area being 4 percent below baseline after four years. The 2014 spillover report estimates that geopolitical crises could result in oil prices being 25 percent above baseline.

[1] See "The Review of The Flexible Credit Line, The Precautionary and Liquidity Line, And the Rapid Financing Instrument" at: http://www.imf.org/external/np/pp/eng/2014/043014.pdf.

[2] 2014 PLL arrangement request: http://www.imf.org/external/pubs/cat/longres.aspx?sk=41818.0

PLL QUALIFICATION AREAS

11. Morocco continues to qualify for a PLL arrangement. Morocco's economic fundamentals and institutional policy framework are sound. The country has a track record of—and is implementing—sound policies. It has been adjusting to shocks and the authorities remain committed to sound policies in the future. Morocco continues to perform strongly in three out of the five PLL qualification areas and does not substantially underperform in the two other areas. The IMF Executive Board's assessment in the context of the 2014 Article IV consultation, which it discussed in February 2015, was positive.

A. General Assessment

12. Supported by appropriate policy action, Morocco's overall economic performance has been strong. Overall macroeconomic conditions have improved since 2012, despite a slowdown in activity in 2014. Policy action has contributed significantly to reducing fiscal and external vulnerabilities. The external and fiscal deficits have narrowed considerably from their 2012 peaks and are projected to continue to decline over the medium term. Substantial progress with subsidy reform has helped achieve a significant reduction in its cost and associated fiscal and external risks. Reserves have increased and are now approaching 6 months of imports. Inflation remains low and the financial sector has been stable. Over the medium term, growth is expected to remain relatively high and sustainable in a context of low inflation. Both public and external debts are considered sustainable.

13. The authorities are committed to maintaining sound policies, including ensuring medium-term fiscal sustainability. The authorities laid out a comprehensive medium-strategy in the written communications for the request of a new PLL arrangement and its first review, confirmed in the attached written communication (W-COM.) dated July 8, 2015.[5] They are targeting a fiscal deficit of 3 percent of GDP by 2017. In addition to ensuring medium-fiscal sustainability, the authorities plan to implement structural reforms to promote higher and more inclusive growth. Their main objectives are to improve competitiveness and productivity, cut the unemployment rate to 8 percent over the medium term, and boost access to education and vocational training, health, and social protection.

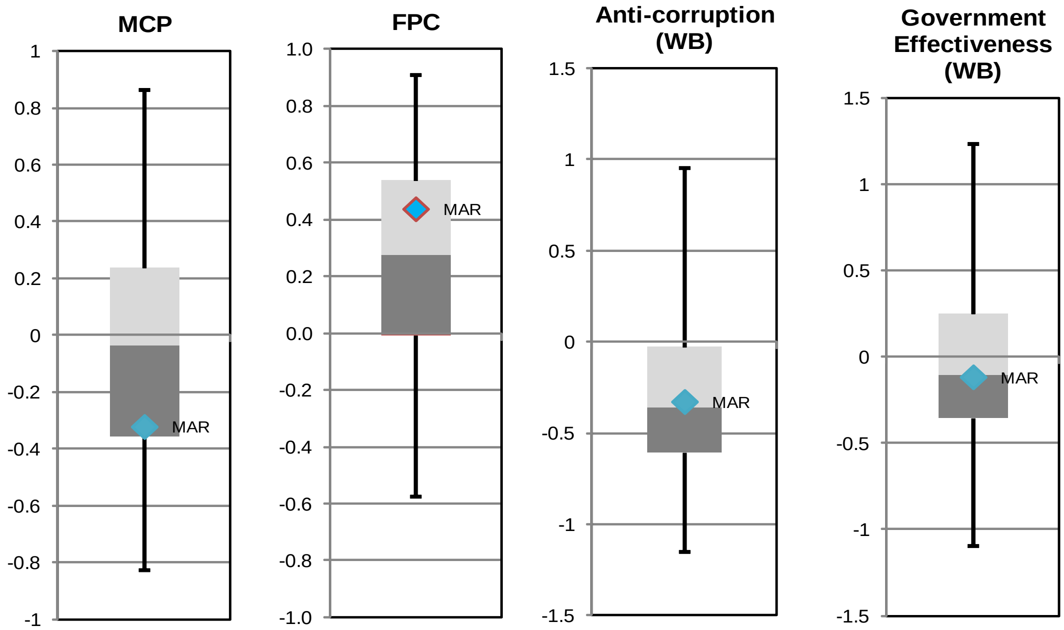
14. The policy and institutional framework is sound and has been responsive to shocks. Morocco's strong and flexible policy and institutional frameworks provided the basis for the authorities to implement difficult reforms in challenging circumstances. The fiscal framework is being strengthened through the implementation of the new OBL, which addresses structural weaknesses in this area. Indicators of the ability to undertake countercyclical policy in the event of

[5] IMF Country Reports 14/241 and 15/44.

shocks show that Morocco performs well in the implementation of fiscal policy.[6] Morocco scores lower in terms of implementation of counter-cyclical monetary policy, but this particular indicator is less relevant in the case of Morocco given the fact that the dirham is pegged to the dollar and the euro.[7] Lastly, Morocco performs within the 25-75 percentile range on anti-corruption and government effectiveness indicators of the World Bank.

Distribution of Institutional Indicators in Emerging Markets

(Based on the average of 2007-12 for each country)



Note: The bars represent the maximum, 75th percentile, median, 25th percentile, and minimum points in the distribution.

Sources: WEO, WB WGI, and IMF Staff Calculations.

B. Assessment of the Specific Areas

15. Morocco continues to perform strongly in three out of the five areas, namely financial sector soundness and supervision, monetary policy, and data adequacy. The country does not substantially underperform in the two other areas, fiscal policy and external position and market access.

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[6] The fiscal policy measure used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the ratio of government spending to GDP.

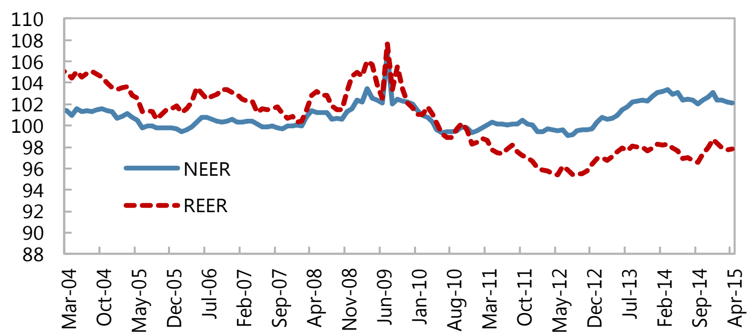
[7] The indicator of monetary policy cyclicality used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the real short-term interest rate.

16. Morocco does not substantially underperform in the external position and market access area, an area of marked improvement in the recent period.

Criterion 1. Sustainable external position.

- The external position has strengthened significantly. The current account deficit narrowed to 5.5 percent of GDP in 2014, down from its peak of 9.5 percent of GDP in 2012. It is expected to continue improving over the medium term, as exports rise, boosted by improving external demand and the expansion of newly developed export sectors, and the growth of imports remain moderated in an environment of low oil prices. Although it appreciated recently, the real effective exchange rate appears in line with fundamentals based on the most recent external balance assessment (EBA).[8] The external debt-to GDP ratio has been rising but remains relatively low at 32.7 percent at end-2014. It is expected to decline to below 30 percent of GDP over the medium term. The debt-sustainability analysis shows the external debt to be sustainable and robust to standard stress tests.

Morocco: Real and Nominal Effective Exchange Rates, 2004-15
(Index, 2010=100)



Source: IMF staff estimates.

Criterion 2. A capital account position dominated by private flows.

- Public flows continue to be sizable, but private flows now constitute the largest share of the capital account. Private flows remain dominated by FDI, which are relatively less volatile. Access to international financial markets by Moroccan nonfinancial corporations remains modest in size compared with other emerging markets, and private external debt is small (about 3 percent of GDP). Sovereign bond issuance and loans from development partners constitute the bulk of public flows.

[8] The EBA assessment consistent with the April 2015 WEO round finds the REER to be valued in the range of 4 percent to -5.9 percent of its equilibrium. The current account method finds a current account gap of -1.2 percent of GDP at end-2014, equivalent to an overvaluation of the REER by 4 percent. The REER indicates an overvaluation of 1 percent. The external sustainability approach finds an undervaluation of -5.9 percent.

Criterion 3. A track record of steady sovereign access to international capital markets at favorable terms.

- Morocco's market access was reconfirmed when it raised EUR 1 billion at favorable terms in June 2014. The National Phosphate Company (OCP) successfully tapped the international market with a US$1.85 billion eurobond in April and May 2014, and an additional US$1 billion in April 2015. The approval of a second PLL arrangement was perceived by investors as a sign of confidence.

Criterion 4. A reserve position that—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.

- Reserves have continued to increase. They are projected to reach 6 months of imports at end-2015. At end-2014, they represented 95 percent of the Fund's metric to assess reserve adequacy (ARA metric) for financial deepening markets and would represent 105.1 percent of the metric at end-2015. Considering existing controls on capital outflows of residents that partially insulate them from capital account vulnerabilities, the ARA metric should be revised to lower the weight of broad money (reflecting lower risk of capital flight by residents).[9] The 2014 and projected 2015 reserves represent 131.8 percent and 146.7 percent, respectively, of the adjusted ARA metric. However, reserves are sensitive to the volatility of oil prices, since oil imports still represent more than 20 percent of total imports. The end-March 2015 indicative target on net international reserves was met by a large margin.

17. Morocco does not substantially underperform in the fiscal area.

Criterion 5. Sound public finance, including a sustainable public debt position.

- Morocco remains committed to a sustainable fiscal path and has a track record of sound public finances. The authorities have taken commendable actions to strengthen Morocco's fiscal position and address the weaknesses identified in their fiscal framework in 2012, thereby reducing vulnerabilities in that area. Consistent with their medium-term target of a fiscal deficit of 3 percent by 2017, the authorities reduced the fiscal deficit to 4.9 percent of GDP in 2014 as envisaged.

- Continuing on the path to the medium-term anchor, the 2015 budget is aiming at a deficit of 4.3 percent of GDP (W-COM.-¶4). Fiscal developments so far this year are on track for the authorities to meet their annual deficit objective. Lower receipts from VAT on oil imports, resulting from lower international energy prices than assumed in the budget, are being offset by savings on butane subsidies and transfers.[10] The cyclically-adjusted primary balance is projected

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[9] See Assessing Reserve Adequacy - Specific Proposals.

[10] The authorities project lower transfers to the electricity company (ONEE) as part as the direct support to compensate for the removal of subsidies on industrial fuel oil used for electricity generation. The lower transfers result from lower international fuel prices and lower consumption.

to improve by ½ percent of GDP in 2015. The end-March 2015 fiscal deficit target was met by a comfortable margin.

- The pace of fiscal reform has picked up since end 2013. Significant progress was made on subsidy reform, as noted, thereby reducing the fiscal costs and risks associated with the subsidy system, while extending social programs to support the poor (W-COM.-¶6). The 2015 budget continues to implement the reform of the tax system introduced in 2013, with a view toward making it more equitable and supportive of competitiveness (W-COM.-¶5). Despite headwinds ahead of union and local elections (in June and early fall 2015, respectively), the authorities remain still committed to adopting the reform of the main public service pension fund in 2015 (W-COM.-¶9).

- The promulgation of a new OBL is a milestone in the efforts to strengthen and modernize the fiscal framework (W-COM.-¶8). The new law significantly improves the previous 1998 organic law. The new provisions of the OBL are expected to be gradually implemented until 2020, starting with the 2016 budget, as scheduled.

- Public sector debt remains sustainable based on a rigorous and systematic debt analysis (Annex II). Public debt is expected to peak at about 64 percent of GDP in 2016, and progressively fall below 60 percent of GDP in the medium term, as a result of the continued fiscal adjustment. The level of debt is generally resilient to various shocks, and vulnerabilities linked to the profile of the debt are either low or moderate. However, there are risks linked to gross financing needs. The debt remains sustainable under a stress test involving the same shock that would generate the potential financing need under the current PLL arrangement.

18. Morocco performs strongly in the area of monetary policy.

Criterion 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.

- Morocco continues to maintain low and stable inflation in the context of the current monetary and exchange rate policy framework. Inflation was 2 percent year-on-year at end-May 2015 and is expected to remain low in the medium term. Inflation expectations, as reflected in BAM's surveys, remain well anchored. BAM maintained the policy rate at 2.5 percent in June 2015, following the two cuts of 25 basis points each in September and December 2014. In staff's view, the current monetary policy stance is appropriate within the existing monetary and pegged exchange rate frameworks.

- The authorities are preparing for a gradual shift in exchange rate and monetary regimes (W-COM.-¶13). The authorities noted that the revision of the dirham's currency basket weights in April was a first step toward a more flexible exchange rate regime. The authorities have received significant Fund technical assistance to prepare for a move toward a more flexible exchange rate regime and for monetary policy to provide a new nominal anchor (inflation targeting). Stress tests conducted in the recent Financial Sector Assessment Program (FSAP) found the financial system to be resilient to exchange rate shocks. Before finalizing their plans on the next steps in the transition, the authorities will take stock in the fall of the preparatory work and the conditions for a change in regime, with the support of the Fund.

19. Morocco performs strongly in the area of financial sector soundness and supervision.

Criterion 7. The financial system remains sound and there is no solvency problem that may threaten systemic stability.

- An FSAP update mission in April 2015 confirmed that Moroccan banks are well capitalized and profitable, with stable funding and low NPLs.[11] Tier 1 capital makes up 83 percent of total capital. Interest rate margins are comfortable, operating costs remain low, and fees and commissions are rising, while bank funding relies mainly on domestic deposits. Liquidity pressures have receded, helped by the March 2014 cut in the reserve requirement ratio and the improved foreign reserves position. At about 7 percent, the NPL ratio is not high by middle-income country standards and provisioning is high. However, NPLs have risen since 2012 due to weak economic activity. Risks could rise with intensifying liquidity difficulties faced by some companies exposed to certain sectors, such as construction and real estate development. While these strains are unlikely to affect financial stability, close-monitoring of risky loans (watch list) is warranted. Comprehensive stress tests conducted in the recent FSAP show that the banking system would be able to withstand severe adverse shocks associated with a prolonged weak growth in advanced economies and greater global financial market volatility.

Criterion 8. Effective financial sector supervision.

- The April 2015 FSAP mission assessed that bank supervision is effective and has been improving. New definitions of prudential capital and short-term liquidity ratio, adopted in 2013, are being implemented (W-COM.-¶12). The new banking law adopted in November 2014 strengthens the regulatory, supervisory, and macroprudential frameworks of the central bank. It introduces a formal crisis resolution framework, defines the regulatory and supervisory frameworks for participatory (Islamic) banks, strengthens banks' governance by aligning the definition of "financial conglomerate" with international standards, improves the management of the deposit insurance system, and introduces a framework governing domestic systemically important financial institutions (SIFIs) in line with Basel standards. Most regulations to implement the new banking law are expected to be in place by end-2015 and those related to financial conglomerates and recovery plans for SIFIs by 2016. A new central bank law is under preparation, which aims to further strengthen BAM's independence and its role in financial stability. The period for public consultation of the revised law has now ended and the draft is being finalized before being tabled for adoption by cabinet and sent to parliament. BAM is monitoring risks linked to the expansion of Moroccan banks in sub-Saharan Africa, and

[11] The mission's main preliminary findings are summarized in Annex I. The Financial System Stability Assessment (FSSA) is expected to be discussed by the Board later this year together with the next Article IV consultation.

reinforcing the coordination and exchange of information with supervisory and regulatory agencies in host countries, including through consolidated supervision of groups and on-site visits. Other recent reforms include the creation of new independent supervision authorities for insurance and pensions, and for capital markets. These new authorities will become operational once their management bodies are nominated.

20. Morocco performs strongly in the area of data transparency and integrity.

Criterion 9. Data transparency and integrity.

- Morocco subscribes to the Special Data Dissemination Standard, and its data are adequate for surveillance and program monitoring. The authorities are committed to further improving data quality and access, notably through participating in the OpenData Platform (ODP).

OTHER PROGRAM ISSUES

21. Morocco continues to meet the four criteria to qualify for exceptional access.

- *Criterion 1.* Morocco does not face actual balance of payment pressures, but could experience such pressures if the risks it currently faces were to materialize. Since the inception of the program, Morocco has faced lower oil prices and a gradual recovery of economic conditions in the euro area, which helped rebuild external buffers. However, the risks of structurally weak growth in key advanced economies including the Euro area, increased volatility of energy prices, and tighter or more volatile global financial conditions, could give rise to exceptional balance of payment pressures should they materialize, even accounting for the use of reserves buffers. Such pressures could result in a need for Fund financing that could not be met within normal access limits.

- *Criterion 2.* A rigorous and systemic analysis indicates that there is a high probability that public debt would remain sustainable over the medium term. Public debt is projected to start declining in 2017 and decrease to below 60 percent of GDP over the medium term. Public debt sustainability analysis shows the debt is resilient to various shocks and vulnerabilities linked to the level and profile of the debt, despite high gross financing needs mainly linked to the rollover of existing debt.

- *Criterion 3.* Staff considers that Morocco could continue to access markets within the time frame when Fund resources would be outstanding, were Morocco to make purchases under the arrangement. Morocco has successfully tapped into international capital markets, most recently by issuing EUR 1 billion in June 2014. Each recent issuance benefited from low spreads and long maturities, reflecting the confidence placed in Morocco by market participants. Staff expects this confidence to remain over the medium term.

- *Criterion 4*. Staff considers the authorities' policy program to have reasonably strong prospects for success, including not only Morocco's adjustment plans but also its institutional and political capacity to deliver that adjustment. Morocco has gradually rebuilt its external and fiscal buffers under the PLL, and the authorities have demonstrated their ability to undertake necessary reforms under difficult circumstances. Solid institutions, including an independent central bank, and the macroeconomic resilience observed in the face of a difficult international environment, give confidence for the continuation of sound policies and economic stability over the longer term.

22. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund while credit and liquidity risks to the Fund would remain low (Table 7).[12] The authorities continue to treat the PLL arrangement as precautionary. However, were Morocco to withdraw the entire amount available, Fund credit would represent a modest share of Morocco's low external debt, and the reserve coverage ratio would be comfortable. External debt service would increase moderately over the medium term but would remain manageable under staff's medium-term macroeconomic projections.[13] In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

23. An update of the 2013 safeguards assessment of BAM—completed in January 2015—found that the safeguards framework remains relatively strong. Governance arrangements are supported by strong internal audit and risk management functions. The Audit Committee oversight has been strengthened by the appointment of a third member with experience in banking. Amendments to BAM's legal framework to sustain good governance practices, and strengthen BAM's autonomy, remain in progress. To strengthen financial reporting practices, BAM has contracted an audit firm to undertake an in-depth analysis on the implications of adopting International Financial Reporting Standards (IFRS).

24. Strong program implementation, as described above, is making the economy more resistant to external shocks and increasing the prospect of an eventual exit from the PLL (W-COM.-¶16). The authorities' firm commitment to maintaining strong policies and fundamentals should facilitate eventual exit from the PLL contingent on the lowering of external risks related to growth in key advanced economies and volatility in global financial conditions and energy prices. The implementation of the authorities' policy package, including the progress made on subsidy reform, is helping improve fiscal and external positions. As discussed in the 2014 Article IV report,

[12] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL request, reserves may be 25 percent lower and exports 6 percent lower, suggesting peak IMF credit ratios of 30.2 percent and 16.7 percent instead of 22.6 percent and 15.7 percent in the table. These considerations suggest caution in interpreting Table 7, but do not materially impact staff's current view of Morocco's capacity to repay.

[13] Under the most extreme shock, the DSA shows that the external debt would remain relatively low and sustainable, pointing to Morocco's capacity to repay the Fund even under an adverse scenario.

the authorities' strong push for diversification of exports is already paying off, as newly developed industry exports (e.g., automobiles and aeronautics) have offset the relative decline in traditional exports (notably textiles and phosphates). Reserves have increased and stood at 131.8 percent of the ARA metric, adjusted for capital account restrictions at end-2014, and would represent 146.7 percent of the metric at end-2015. Furthermore, the economy's ability to absorb shocks is being strengthened through the modernization of the fiscal policy framework (e.g., with the OBL), the move toward a more flexible exchange rate regime and inflation targeting (and the capacity building that is part of the preparation for such moves), and the upgrading of the financial policy framework (Basel III norms, new banking law, forthcoming central bank law, etc.). Further progress on these fronts will further enhance the resilience of the economy and the prospects for PLL exit.

STAFF APPRAISAL

25. **The program remains on track.** Both the March 2015 quantitative indicative targets were met comfortably. Fiscal developments are on track for the authorities to meet their annual deficit objective of 4.3 percent of GDP, as lower receipts from VAT on oil imports, resulting from lower international energy prices than assumed in the budget, will be offset by savings on subsidies and transfers. The authorities are committed to their medium term fiscal objectives of 3.5 percent of GDP in 2016 and 3 percent of GDP in 2017. The external current account deficit continues to narrow and is expected to further decrease below 3 percent in 2015. International reserves have continued to strengthen and remain relatively comfortable. The net international reserves (NIR) indicative target for September 2015 is being revised upward on account of the more favorable outlook than at the time of the first review.

26. **Significant progress has been achieved on key reforms.** The promulgation of a revised organic budget law, addressing comments by the Constitutional Council on a previous version, is an important step in improving the fiscal framework. It is expected to start being implemented with the 2016 budget as planned. Considerable progress has been made in reforming the subsidy system, thereby reducing its costs and associated fiscal risks. Solid progress has also been made in upgrading the financial policy framework, including moving to Basel III norms and implementing the new banking law. Most regulations to implement the new banking law are expected to be in place by end-2015, with the exception of some related to financial conglomerates and recovery plans for domestic SIFIs, which are expected to be implemented by 2016. The preparation for a change in exchange rate and monetary regime is progressing, including with technical assistance from the Fund. Continued progress on reform makes the economy more resistant to external shocks and increases the prospect of an eventual exit from the PLL, subject to the lowering of external risks.

27. **In an environment that remains subject to significant downside risks, sustaining the reform momentum is important.** Building on achievements so far, sustaining the pace of reforms will help further reduce remaining vulnerabilities, and achieve higher and more inclusive growth. In particular, the timely adoption and implementation of public pension reform is needed to ensure the viability of the system. It is also important to continue exploring ways to further reduce remaining subsidies, while adequately protecting the poor and improving the quality of healthcare

and education. Furthermore, now that the period for public comments of the revised central bank law has closed, the authorities are encouraged to finalize the draft as soon as possible for its early adoption by cabinet and submission to parliament, as this is a key building block of their efforts to strengthen the financial policy framework. Sustaining efforts to improve the business environment, competition, governance and transparency—as well as the functioning of the job market and the quality of education and vocational training—will also be important for increasing competitiveness, growth, and employment.

28. Morocco continues to meet the PLL qualification criteria. Morocco's economic fundamentals and institutional framework are sound. The country has a track record of—and is implementing—sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco continues to perform strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy, and data adequacy) while not substantially underperforming in the two other areas (fiscal policy, and external position and market access). Against this background, staff recommends the completion of the second review under the PLL arrangement.

Table 1. Morocco: Selected Economic Indicators, 2012–20

	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
				(Annual percentage change)							
Output and Prices											
Real GDP	3.0	4.7	2.9	2.4	4.4	4.9	3.7	4.8	5.0	5.2	5.4
Real agriculture GDP	-9.1	17.9	-1.3	-2.5	3.9	15.0	-1.8	4.7	5.2	5.5	5.5
Real non-agriculture GDP	4.7	3.0	3.6	3.1	4.4	3.5	4.4	4.8	5.0	5.2	5.4
Consumer prices (end of period)	2.6	0.4	1.6	1.6	1.5	1.6	2.0	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	0.4	1.5	1.5	2.0	2.0	2.0	2.0	2.0
				(In percent of GDP)							
Investment and Saving											
Gross capital formation	35.0	34.7	34.0	33.7	34.3	33.4	34.4	35.2	35.9	36.3	36.6
Of which: Nongovernment	29.6	29.6	28.5	28.3	29.7	28.9	29.4	29.1	29.6	29.8	30.1
Gross national savings	25.5	26.8	28.1	28.2	31.0	30.6	31.8	32.9	33.4	34.0	34.4
Of which: Nongovernment	25.9	25.3	26.0	26.2	29.2	28.9	28.6	28.2	28.1	28.2	28.3
				(In percent of GDP)							
Public Finances											
Revenue	28.0	27.7	28.3	28.0	27.0	25.8	26.5	26.9	26.8	26.9	27.1
Expenditure	35.3	32.9	33.2	33.0	31.4	30.0	30.1	30.0	29.7	29.5	29.4
Budget balance	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.3
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-3.7	-3.1	-3.0	-1.8	-1.2	-0.2	0.1	0.4
Cyclically-adjusted primary balance (excl. grants)	-6.7	-3.8	-3.5	-3.3	-3.0	-2.8	-1.6	-1.1	-0.2	0.1	0.4
Total government debt	58.3	61.5	66.4	63.4	68.0	63.8	64.1	63.3	62.1	60.5	58.6
				(Annual percentage change; unless otherwise indicated)							
Monetary Sector											
Credit to the private sector 3/	4.8	3.8	4.6	2.5	5.1	4.2	4.6	...	...	...	...
Base money	-0.5	9.0	4.8	6.2	5.5	5.8	6.0	...	...	...	...
Broad money	4.5	3.1	4.8	6.2	5.5	5.8	6.0	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.9	0.9	0.9	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	...	2.5	...	...	...	...	...	...	...
				(In percent of GDP; unless otherwise indicated)							
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	0.4	4.0	4.8	7.3	-0.7	-10.8	8.1	9.0	9.1	9.0	9.1
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	0.8	0.6	-7.6	-16.3	5.8	7.4	7.5	7.9	8.6
Merchandise trade balance	-22.3	-20.5	-17.6	-18.6	-14.4	-14.5	-14.6	-14.3	-14.0	-13.8	-13.7
Current account excluding official transfers	-9.8	-8.6	-7.5	-6.9	-4.7	-4.2	-3.6	-3.1	-2.7	-2.3	-2.2
Current account including official transfers	-9.5	-7.9	-5.8	-5.5	-3.3	-2.8	-2.6	-2.2	-2.5	-2.2	-2.1
Foreign direct investment	2.4	2.8	2.9	2.9	2.7	2.5	2.6	2.7	2.8	2.8	2.9
Total external debt	28.5	29.2	32.1	32.7	32.9	32.2	31.9	31.1	30.5	29.9	28.4
Gross reserves (in billions of U.S. dollars)	17.5	19.3	20.4	20.4	23.2	22.1	24.6	26.6	28.9	31.3	34.1
In months of next year imports of goods and services	4.3	4.7	5.3	5.9	5.6	6.0	6.2	6.3	6.3	6.3	6.3
In percent of Fund reserve adequacy metric	88.1	91.0	93.6	95.0	103.9	105.1	110.7	114.3	118.6	118.9	128.5
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	98.3	107.2	109.2	110.0	106.9	103.3	109.9	117.8	126.7	136.7	147.7
Unemployment rate (in percent)	9.0	9.2	...	9.9	...	...	...	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.2	33.5	33.5	33.8	34.2	34.5 i		35.1
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.1	-11.0	-7.4	-7.2	-8.1	-8.8	-9.5	-10.2	-10.8
Local currency per U.S. dollar (period average)	8.6	8.4	...	8.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.1	0.2	...	-1.2	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998 and BOP manual 5.
2/ Revised macro framework, based on national accounts based in 2007 and BOP manual 6.
3/ Includes credit to public enterprises.

Table 2. Morocco: Budgetary Central Government Finance, 2012–20
(Billions of dirhams)

	2012	2013	PLL 1/ 2014	Rev. 2/ 2014	PLL 1/ 2015	Rev. 2/ 2015	Proj. 2016	2017	2018	2019	2020
Revenue	237.7	250.0	259.3	259.3	263.5	257.5	277.9	299.6	317.9	341.3	367.4
Taxes	202.7	200.7	203.8	203.8	212.7	206.7	226.9	246.5	269.4	289.1	311.6
Taxes on income, profits, and capital gains	77.4	75.7	76.3	76.3	80.1	80.1	88.4	96.2	105.5	113.3	122.3
Taxes on property	11.6	11.7	13.9	13.9	12.9	12.9	14.7	15.9	17.5	18.1	19.4
Taxes on goods and services	99.0	100.0	100.7	100.7	106.9	100.9	110.3	120.1	130.9	140.8	151.8
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	7.7	7.7	8.3	9.2	9.2	10.1	10.9
Other taxes	5.4	5.2	4.7	4.7	5.1	5.1	5.3	5.0	6.4	6.8	7.3
Grants	0.5	6.1	13.8	13.8	14.6	14.6	10.2	10.2	2.2	2.2	2.2
Other revenue	34.6	43.2	41.7	41.7	36.2	36.2	40.7	42.9	46.2	50.0	53.6
Expense	253.2	250.8	254.5	255.4	260.9	254.9	262.1	266.2	276.9	291.1	310.2
Compensation of employees	108.9	112.8	117.3	117.3	123.1	123.1	127.2	127.5	129.2	133.2	140.5
Of which: wages and salaries	96.7	99.0	101.6	101.6	105.5	105.5	109.6	109.3	110.6	114.2	121.4
social contributions	12.2	13.7	15.7	15.7	17.6	17.6	17.6	18.1	18.6	19.1	19.1
Use of goods and services and grants	56.6	59.3	65.0	65.0	73.0	71.2	73.6	77.0	81.5	85.8	91.8
Of which: Use of goods and services	20.9	21.5	23.6	23.6	27.8	27.8	29.2	29.9	31.2	32.1	34.4
Grants	35.6	37.8	41.4	41.4	45.2	43.4	44.4	47.2	50.2	53.7	57.4
Interest	20.7	23.3	24.8	25.6	26.9	26.9	29.0	30.9	33.4	35.7	39.0
Subsidies	54.9	41.6	32.6	32.6	22.9	18.7	15.4	11.9	11.5	12.3	13.2
Other expense 3/	12.1	13.9	14.8	14.8	15.0	15.0	16.7	18.9	21.3	24.0	25.7
Net acquisition of nonfinancial assets	46.1	45.7	49.7	49.7	44.8	45.1	53.0	67.2	74.7	82.3	88.1
Net lending / borrowing (overall balance)	-61.5	-46.5	-44.9	-45.7	-42.2	-42.5	-37.2	-33.9	-33.7	-32.1	-30.9
Net lending / borrowing (excluding grants)	-61.9	-52.6	-58.7	-59.5	-56.9	-57.1	-47.4	-44.2	-35.9	-34.3	-33.1
Change in net financial worth	-61.5	-46.5	-44.9	-45.7	-42.2	-42.5	-37.2	-33.9	-33.7	-32.1	-30.9
Net acquisition of financial assets	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	58.2	50.8	42.8	43.7	42.2	42.5	37.2	33.9	33.7	32.1	30.9
Domestic	55.8	42.2	32.9	45.7	25.9	40.7	24.8	27.1	21.1	19.2	28.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	60.6	50.7	44.8	49.6	25.9	48.7	24.8	27.1	21.1	19.2	28.0
Other accounts payable	-4.8	-8.6	-11.9	-3.9	0.0	-8.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	2.4	8.6	9.9	-2.0	16.3	1.8	12.3	6.9	12.7	12.9	3.0
Memorandum Item:											
Total investment (including capital transfers)	58.1	59.6	64.4	64.4	59.8	60.1	69.8	86.1	96.0	106.4	113.9
GDP	847.9	901.4	917.3	924.8	974.7	999.0	1,048.4	1,113.1	1,185.6	1,266.9	1,356.1

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.

2/ Revised macro framework, based on national accounts based in 2007.

3/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2012–20
(Percent of GDP)

	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Revenue	28.0	27.7	28.3	28.0	27.0	25.8	26.5	26.9	26.8	26.9	27.1
Taxes	23.9	22.3	22.2	22.0	21.8	20.7	21.6	22.1	22.7	22.8	23.0
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.3	8.2	8.0	8.4	8.6	8.9	8.9	9.0
Taxes on property	1.4	1.3	1.5	1.5	1.3	1.3	1.4	1.4	1.5	1.4	1.4
Taxes on goods and services	11.7	11.1	11.0	10.9	11.0	10.1	10.5	10.8	11.0	11.1	11.2
Taxes on international trade and transactions	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.1	0.7	1.5	1.5	1.5	1.5	1.0	0.9	0.2	0.2	0.2
Other revenue	4.1	4.8	4.5	4.5	3.7	3.6	3.9	3.9	3.9	4.0	4.0
Expense	29.9	27.8	27.7	27.6	26.8	25.5	25.0	23.9	23.4	23.0	22.9
Compensation of employees	12.8	12.5	12.8	12.7	12.6	12.3	12.1	11.5	10.9	10.5	10.4
Of which : wages and salaries	11.4	11.0	11.1	11.0	10.8	10.6	10.5	9.8	9.3	9.0	9.0
social contributions	1.4	1.5	1.7	1.7	1.8	1.8	1.7	1.6	1.6	1.5	1.4
Use of goods and services and grants	6.7	6.6	7.1	7.0	7.5	7.1	7.0	6.9	6.9	6.8	6.8
Of which : Use of goods and services	2.5	2.4	2.6	2.6	2.9	2.8	2.8	2.7	2.6	2.5	2.5
Grants	4.2	4.2	4.5	4.5	4.6	4.3	4.2	4.2	4.2	4.2	4.2
Interest	2.4	2.6	2.7	2.8	2.8	2.7	2.8	2.8	2.8	2.8	2.9
Subsidies	6.5	4.6	3.6	3.5	2.3	1.9	1.5	1.1	1.0	1.0	1.0
Other expense 3/	1.4	1.5	1.6	1.6	1.5	1.5	1.6	1.7	1.8	1.9	1.9
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.4	4.6	4.5	5.1	6.0	6.3	6.5	6.5
Net lending / borrowing (overall balance)	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.3
Net lending / borrowing (excluding grants)	-7.3	-5.8	-6.4	-6.4	-5.8	-5.7	-4.5	-4.0	-3.0	-2.7	-2.4
Change in net financial worth	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.3
Net acquisition of financial assets	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.9	5.6	4.7	4.7	4.3	4.3	3.5	3.0	2.8	2.5	2.3
Domestic	6.6	4.7	3.6	4.9	2.7	4.1	2.4	2.4	1.8	1.5	2.1
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	7.1	5.6	4.9	5.4	2.7	4.9	2.4	2.4	1.8	1.5	2.1
Other accounts payable	-0.6	-0.9	-1.3	-0.4	0.0	-0.8	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	1.0	1.1	-0.2	1.7	0.2	1.2	0.6	1.1	1.0	0.2
Memorandum items:											
Total investment (including capital transfers)	6.9	6.6	7.0	7.0	6.1	6.0	6.7	7.7	8.1	8.4	8.4

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.

2/ Revised macro framework, based on national accounts based in 2007.

3/ Includes capital transfers to public entities.

Table 4. Morocco: Balance of Payments, 2012–20
(Billions of U.S. dollars, unless otherwise indicated)

			PLL 1/	Rev. 2/	PLL 1/	Rev. 2/			Proj.		
	2012	2013	2014		2015		2016	2017	2018	2019	2020
Current account	-9.3	-8.5	-6.4	-6.0	-3.5	-2.9	-2.9	-2.6	-3.2	-3.0	-3.1
Trade balance	-21.9	-21.9	-19.2	-20.5	-15.4	-15.0	-16.0	-16.9	-17.7	-18.8	-20.2
Exports, f.o.b.	17.0	18.3	23.4	19.9	23.8	18.5	20.3	22.3	24.5	27.0	29.7
Agriculture	3.3	3.9	4.0	4.1	4.1	3.9	4.0	4.3	4.5	4.8	5.0
Phosphates and derived products	5.6	4.4	4.7	4.6	4.7	4.3	4.6	4.9	5.3	5.8	6.3
Imports, f.o.b.	-38.9	-40.2	-42.6	-40.4	-39.2	-33.5	-36.3	-39.1	-42.3	-45.8	-49.9
Energy	-12.4	-12.2	-11.1	-11.0	-7.4	-7.2	-8.1	-8.8	-9.5	-10.2	-10.8
Capital goods	-8.1	-9.1	-8.9	-8.9	-9.3	-8.3	-8.9	-9.5	-10.2	-11.1	-12.0
Food products	-4.7	-4.2	-5.0	-4.9	-4.6	-3.7	-3.8	-4.1	-4.3	-4.4	-4.6
Services	7.1	6.4	5.7	7.1	5.4	5.7	6.8	7.5	8.3	9.1	9.9
Tourism receipts	6.7	6.9	6.9	7.1	6.5	5.8	6.7	7.3	7.9	8.5	9.2
Income	-2.2	-1.6	-2.4	-2.5	-2.4	-2.6	-2.7	-3.0	-3.2	-3.5	-3.8
Transfers	7.7	8.7	9.6	9.9	8.9	9.0	9.0	9.6	9.4	10.1	10.8
Private transfers (net)	7.4	7.9	7.8	8.3	7.4	7.5	7.9	8.5	9.2	9.9	10.6
Workers' remittances	6.7	6.9	6.8	6.9	6.5	6.3	6.7	7.3	7.9	8.5	9.2
Official grants (net)	0.2	0.8	1.8	1.6	1.6	1.5	1.0	1.0	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.2	9.4	9.3	8.7	6.8	5.9	5.1	4.4	5.3	5.1	5.6
Direct investment	2.3	3.0	3.2	3.1	2.9	2.6	2.8	3.2	3.6	3.8	4.3
Portfolio investment	1.6	1.3	0.1	3.2	0.1	1.1	0.1	0.1	0.1	0.1	0.1
Other	2.2	5.1	6.0	2.4	3.8	2.1	2.2	1.0	1.6	1.1	1.2
Private	1.0	2.8	2.5	1.1	1.1	1.1	0.3	-0.3	-0.3	-0.8	0.3
Public medium-and long-term loans (net)	1.3	2.4	3.5	1.3	2.7	1.1	1.9	1.3	1.9	1.9	0.9
Disbursements	2.9	4.1	5.3	3.1	4.4	2.7	3.6	3.7	3.7	3.7	3.8
Amortization	-1.6	-1.8	-1.8	-1.8	-1.7	-1.6	-1.7	-2.4	-1.8	-1.8	-2.9
Reserve asset accumulation (-increase)	3.5	-1.4	-2.9	-3.2	-3.3	-3.0	-2.3	-1.7	-2.1	-2.1	-2.5
Errors and omissions	-0.3	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)						
Current account	-9.5	-7.9	-5.8	-5.5	-3.3	-2.8	-2.6	-2.2	-2.5	-2.2	-2.1
Trade balance	-22.3	-20.5	-17.6	-18.6	-14.4	-14.5	-14.6	-14.3	-14.0	-13.8	-13.7
Exports, f.o.b.	17.3	17.1	21.4	18.1	22.3	17.9	18.4	18.9	19.4	19.7	20.1
Agriculture	3.4	3.6	3.7	3.8	3.9	3.8	3.7	3.6	3.6	3.5	3.4
Phosphates and derived products	5.7	4.1	4.3	4.1	4.4	4.1	4.2	4.2	4.2	4.2	4.3
Imports, f.o.b.	-39.6	-37.5	-39.0	-36.7	-36.7	-32.4	-33.0	-33.2	-33.4	-33.5	-33.8
Petroleum	-12.6	-11.3	-10.2	-10.0	-6.9	-7.0	-7.4	-7.5	-7.5	-7.5	-7.3
Capital goods	-8.2	-8.5	-8.2	-8.0	-8.7	-8.0	-8.1	-8.1	-8.1	-8.1	-8.1
Food products	-4.8	-3.9	-4.6	-4.4	-4.3	-3.6	-3.5	-3.5	-3.4	-3.2	-3.1
Services	7.2	6.0	5.2	6.4	5.1	5.5	6.2	6.4	6.5	6.7	6.7
Tourism receipts	6.8	6.4	6.3	6.4	6.1	5.6	6.1	6.2	6.2	6.2	6.2
Income	-2.3	-1.5	-2.2	-2.3	-2.3	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6
Transfers	7.8	8.1	8.8	9.0	8.3	8.7	8.2	8.1	7.4	7.4	7.3
Private transfers (net)	7.6	7.4	7.1	7.5	6.9	7.2	7.2	7.2	7.2	7.2	7.2
Workers' remittances	6.9	6.4	6.3	6.2	6.1	6.1	6.1	6.2	6.2	6.2	6.2
Official grants (net)	0.2	0.7	1.6	1.5	1.5	1.4	0.9	0.9	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	8.8	8.5	7.9	6.3	5.7	4.7	3.7	4.2	3.7	3.8
Direct investment	2.4	2.8	2.9	2.9	2.7	2.5	2.6	2.7	2.8	2.8	2.9
Portfolio investment	1.6	1.2	0.1	2.9	0.1	1.1	0.1	0.1	0.1	0.1	0.1
Other	2.3	4.8	5.5	2.2	3.5	2.1	2.0	0.9	1.3	0.8	0.8
Private 3/	1.0	2.6	2.3	1.0	1.0	1.0	0.3	-0.2	-0.2	-0.6	0.2
Public medium-and long-term loans (net)	1.3	2.2	3.2	1.2	2.5	1.0	1.7	1.1	1.5	1.4	0.6
Disbursements	2.9	3.9	4.8	2.8	4.1	2.6	3.3	3.1	2.9	2.7	2.6
Amortization	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-2.0	-1.5	-1.3	-2.0
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	0.4	4.0	4.8	7.3	-0.7	-10.8	8.1	9.0	9.1	9.0	9.1
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	0.8	0.6	-7.6	-16.3	5.8	7.4	7.5	7.9	8.6
Current account balance excluding official grants (percent of GDP)	-9.8	-8.6	-7.5	-6.9	-4.7	-4.2	-3.6	-3.1	-2.7	-2.3	-2.2
Terms of trade (percentage change) 3/	-12.2	-2.5	-1.2	-1.2	9.0	8.1	-1.3	-1.0	-0.6	-0.4	-0.3
Gross official reserves 4/	17.5	19.3	20.4	20.4	23.2	22.1	24.6	26.6	28.9	31.3	34.1
In months of prospective imports of GNFS	4.3	4.7	5.3	5.9	5.6	6.0	6.2	6.3	6.3	6.3	6.3
In percent of the Assessing Reserve Adequacy (ARA) metric	88.1	91.0	93.6	95.0	103.9	105.1	110.7	114.3	118.6	118.9	128.5
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	125.1	129.4	...	131.8	...	146.7	155.3	161.9	169.4	169.1	180.5
Debt service (percent of export of GNFS and remittances) 5/	6.2	7.0	6.6	6.7	6.3	7.0	7.1	8.0	6.2	5.7	7.2
External public and publicly guaranteed debt (percent of GDP)	25.1	26.0	28.8	29.6	29.6	29.5	29.5	28.9	28.6	28.2	27.0
DHs per US$, period average	8.6	8.4	...	8.4	...	...	...	...	...	...	...
GDP (US$)	98.3	107.2	109.2	110.0	106.9	103.3	109.9	117.8	126.7	136.7	147.7
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	98.9	52.8	61.5	67.2	70.0	72.5	74.1	75.0

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998 and BOP manual 5.

2/ Revised macro framework, based on national accounts based in 2007 and BOP manual 6.

3/ Based on WEO data for actual and projections.

4/ Excluding the reserve position in the Fund.

5/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–15

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/
			(Billions of dirhams)				
Net foreign assets	173.8	144.7	150.3	173.8	180.8	203.6	204.8
Of which : Gross reserves	177.1	147.9	156.9	180.8	184.5	210.6	211.8
Deposit money banks	1.7	2.7	-1.5	-1.6	0.1	-1.3	0.3
Net domestic assets	775.4	847.4	872.5	896.8	905.4	925.7	944.5
Domestic credit	798.3	855.0	906.5	948.5	919.8	1,008.6	967.9
Net claims on the government	102.1	125.4	149.3	156.8	143.4	176.2	158.9
Banking system	102.1	125.4	149.3	156.8	143.4	176.2	158.9
Bank Al-Maghrib	2.2	0.5	0.8	0.6	-0.4	0.3	-0.8
Of which : deposits	-3.4	-4.5	-4.6	-4.8	-4.6	-5.1	-5.0
Deposit money banks	99.9	124.9	148.5	156.2	143.8	175.9	159.7
Credit to the economy	696.2	729.6	757.2	791.7	776.4	832.4	809.1
Other liabilities, net	24.6	10.2	32.4	51.7	14.4	82.9	23.5
Broad money	949.3	992.2	1,022.8	1,072.3	1,086.2	1,131.3	1,149.2
Money	586.8	612.2	628.9	660.6	660.6	705.0	708.2
Currency outside banks	158.3	163.6	171.4	180.1	179.4	191.4	193.8
Demand deposits	428.5	448.5	457.6	480.4	481.2	513.6	514.4
Quasi money	340.9	354.7	370.8	386.0	390.7	401.4	406.3
Foreign deposits	21.6	25.3	23.1	25.7	35.0	24.9	34.8
			(Annual percentage change)				
Net foreign assets	-10.8	-16.0	0.9	15.9	21.6	17.1	15.9
Net domestic assets	11.6	9.3	3.0	2.9	3.8	3.2	4.3
Domestic credit	11.6	7.1	6.0	4.6	1.5	6.3	5.2
Net claims on the government	25.8	22.8	19.0	5.0	-3.9	12.4	10.8
Credit to the economy	9.8	4.8	3.8	4.6	2.5	5.1	4.2
Banking credit	10.6	3.9	2.2	…	2.2	…	4.1
Broad money	6.4	4.5	3.1	4.8	6.2	5.5	5.8
			(Change in percent of broad money)				
Net foreign assets	-2.4	-3.0	0.1	2.4	3.1	2.8	2.6
Domestic credit	9.3	6.0	5.2	4.1	1.3	5.6	4.4
Net claims on the government	2.3	2.5	2.4	0.7	-0.6	1.8	1.4
Credit to the economy	6.9	3.5	2.8	3.4	1.9	3.8	3.0
Other assets net	-0.5	1.5	-2.2	-1.7	1.8	-2.9	-0.8
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.86	0.85	0.86	0.87
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.74	0.76	0.74	0.75
Credit to economy/GDP (in percent)	84.9	86.0	84.0	86.3	84.0	85.4	81.0
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.1	99.9	94.0	98.8	93.3

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.

2/ Revised macro framework, based on national accounts based in 2007.

Table 6. Morocco: Financial Soundness Indicators, 2008–14
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.8*
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.6*
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.8
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3
Of which : agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.5
Of which : textile	1.7	1.9	1.4	1.3	1.2	1.0	0.9
Of which : gas and electricity	3.3	2.9	3.9	4.5	4.8	4.7	6.1
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	3.9
Commerce	6.5	7	6.7	6.6	6.7	6.2	6.6
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.2
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4
Finance	13.1	12.5	12.1	11.9	11	12.7	11.6
Public administration	3.7	4.3	5	4.8	5	5.0	4.7
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7
Households	26.5	27.6	28.1	27.6	28.9	29.7	31.4
Other	4.4	5.4	5.4	5.5	6.4	5.1	4.2
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9
Credit to the private sector to total loans	93.3	91	91	92	91	91	91
Nonperforming Loans (NPLs) to total loans	6	5.5	4.8	4.8	5	5.9	6.9
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64	65
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.2
Large exposures to Tier 1 capital	314	376	336	354	347	327	341
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	6.8
Loans to shareholders to total loans	2	1	0.8	1.2	1	1.3	1.4
Specific provisions to total loans	4.5	4	3.4	3.5	3.3	3.8	4.5
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8
Profitability							
Return on assets (ROA)	1.2	1.2	1.2	1.1	1	1	0.9
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	10.2
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.1
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74	68.9
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	46.1
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.9
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	47.6
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26	30.8
Liquidity							
Liquid assets to total assets	24.4	17.3	12	11.4	10.5	12.5	13.3
Liquid assets to short-term liabilities	24.7	23	16	16.1	14.7	17.4	17.7
Deposits to loans	113	108	104	99	96.1	96.2	100.8
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	2.5
Sensitivity to market risk							
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	11.3	9.0

Source: Bank Al-Maghrib.

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

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

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

Table 7. Morocco: Capacity to Repay Indicators, 2014–20 1/

		Proj.					
	2014	2015	2016	2017	2018	2019	2020
Exposure and repayments (in SDR million)							
GRA credit to Morocco	0.0	3,235.1	3,235.1	3,235.1	2,830.7	1,213.2	0.0
(In percent of quota)	0.0	550.0	550.0	550.0	481.2	206.2	0.0
Charges due on GRA credit	0.0	9.3	34.0	34.0	33.9	22.98	6.1
Principal due on GRA credit	0.0	0.0	0.0	0.0	404.4	1,617.6	1,213.2
Debt service due on GRA credit	0.0	9.3	34.0	34.0	438.3	1,640.5	1,219.3
Debt and debt service ratios							
In percent of GDP							
Total external debt	29.4	37.3	35.0	34.3	32.6	30.5	28.7
Public external debt	26.2	34.2	32.4	32.1	30.6	28.8	27.2
GRA credit to Morocco	0.0	4.9	4.6	4.3	3.5	0.3	0.0
Total external debt service	2.6	2.8	2.5	2.5	3.4	2.7	3.1
Public external debt service	2.1	2.5	2.5	2.2	2.7	2.6	2.3
Debt service due on GRA credit	0.0	0.0	0.0	0.0	0.5	0.5	0.3
In percent of gross international reserves							
Total external debt	158.3	173.8	156.3	152.3	142.8	133.2	124.3
Public external debt	141.1	159.5	144.9	142.3	134.1	125.8	117.9
GRA credit to Morocco	0.0	22.6	20.4	18.9	15.2	1.5	0.0
In percent of exports of goods and services							
Total external debt	96.9	116.1	114.7	119.5	121.4	124.7	127.1
Public external debt	86.4	106.6	106.3	111.5	113.8	117.8	120.6
GRA credit to Morocco	0.0	15.7	14.4	13.2	10.6	1.0	0.0
In percent of total external debt							
GRA credit to Morocco	0.0	13.5	12.6	11.1	8.7	0.8	0.0
In percent of public external debt							
GRA credit to Morocco	0.0	14.7	13.5	11.8	9.3	0.9	0.0
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	110.0	103.3	109.9	117.8	126.7	136.7	147.7
Gross international reserves (in billions of U.S. dollars)	20.4	22.1	24.6	26.6	28.9	31.3	34.1
Exports of goods and services (in billions of U.S. dollars)	35.8	31.9	34.8	37.9	41.4	45.1	49.3
Quota (in millions of SDRs)	588.2	588.2	588.2	588.2	588.2	588.2	588.2

Source: IMF staff estimates and projections.

1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 550 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Annex I. Morocco: 2015 FSAP Update: Preliminary Findings

A joint IMF-World Bank team visited Rabat and Casablanca during April 16-30, 2015 to conduct an update under the Financial Sector Assessment Program (FSAP).[1] The mission assessed financial sector vulnerabilities, the oversight policy framework (including macroprudential), bank resolution, and financial safety nets. The mission also evaluated financial inclusion and micro-finance. While comments from the authorities on the Aide Memoire are still pending, this note summarizes the main FSAP findings that are relevant for the PLL qualification criteria.

Context. Since the 2007 FSAP Update, the financial system in Morocco has become larger and more complex, with an increased link between the banking and insurance sectors and a significant expansion into sub-Saharan Africa (SSA). A new banking law was introduced in December 2014 and an amended central bank law is under preparation.

Moroccan banks are adequately capitalized and profitable, with stable funding sources. Banking system capital is about 13.8 percent of risk weighted assets, with Tier 1 capital accounting for 83 percent of total. Banks are funded mainly by stable deposits, including deposits of Moroccan residents living aboard. Non-performing loans (NPL) have risen to 7 percent of total loans, due to weak economic activity but they are well provisioned. Weak spots include liquidity difficulties faced by companies exposed to construction and real estate development. While these strains are unlikely to affect financial stability at present, close-monitoring of risky loans should be continued and strengthened.

Comprehensive stress tests show that the banking system is able to withstand the severe adverse shocks associated with prolonged, weak growth in advanced economies and greater global financial market volatility. Under an adverse scenario with a sharp down turn that leads to a cumulative decline in GDP by 10 percentage points (2 standard deviations), only one bank (representing 6 percent of banking system assets) would see its capital ratio fall below the regulatory minimum, with an estimated capital shortfall of 0.3 percent of GDP. Market-price based stress tests (contingent claims approach) also confirm the resilience of the banking system.[2]

Banks are found to be resilient to larger deposit withdrawals, but concentration risk arising from single or group exposures remains significant. Liquidity stress test results suggest that aggregate LCR, using the Basel III methodology, is 164 percent. All banks would pass the 60 percent hurdle rate, and if using 100 percent as a benchmark, one bank would experience a liquidity shortfall amounting to 0.7 percent of its assets (or 0.2 percent of GDP). However, the banking system would be vulnerable to concentration risk: for each of the eight banks included in the stress tests, the default of its three largest corporate exposures could lead to undercapitalization; for all eight banks, the aggregated capital shortfall could reach 3.7 percent of GDP.

[1] The team was led by Jianping Zhou (IMF) and Gabriel Sensenbrenner (World Bank).

[2] The positive results mainly reflect the comfortable initial capital position, strong profitability, and high market income in 2014.

Close monitoring of interconnectedness between large banks and insurers should be continued and further strengthened. Analysis using a network model, based on direct bilateral exposures, found that while Moroccan insurance companies are vulnerable to large bank failures—mainly due to their large holdings of bank equity—contagion risks to banks from large insurers are limited. However, the results based on implied market volatility found stronger interconnectedness between large banks and insurers than suggested by the network model.

The risks of spillovers to Morocco from SSA appear moderate. There is limited direct exposure between the three large Moroccan banks and their SSA networks of subsidiaries in terms of credits or deposits. The stress test results suggest that, on average, the risk that severe distress in SSA subsidiaries would affect Moroccan banks is marginal (about 1 percent of regulatory capital).

Bank supervision is effective and has been improving. Regulations on governance and internal controls, in line with new Basel standards, were issued in 2014. The new banking law grants BAM exceptional powers to resolve banks and extends its regulatory and supervisory power to financial conglomerates, as well as to microfinance and off-shore banks. The law also aims at further improving cross-border supervision and tightening rules for consolidated risk management. BAM has created supervisory colleges with host supervisors for the three systemic banks with significant SSA exposures. Most of the regulations for implementing the new banking law are expected to be in place by end-2015, and those related to financial conglomerates and recovery plans for domestic systemically important financial institutions (SIFIs) by 2016.

Nonetheless, the current framework could be enhanced in some areas. This includes measures to alleviate supervisory capacity constraints, and improve BAM's ability to handle its new responsibilities, such as the oversight of participatory (Islamic) banking, contribution to financial inclusion, and consumer protection. It would be useful to review the national loan classification and provisioning rules on a solo basis for a full implementation of International Financial Reporting Standards. Periodical comprehensive asset quality review of the systemic banks would also be helpful.

The new banking law created a macroprudential policy committee—the Systemic Risk Surveillance and Coordination Committee (CCSRS), in which BAM plays a leading role. The institutional setup of the CCSRS provides a good framework for coordinating macroprudential policy. The mission identified a few areas for improvement, including a clearer definition of the powers entrusted to CCSRS for fulfilling its macroprudential mandate, as well as the committee's decision-making process. The authorities are taking preparatory steps to develop a macroprudential toolkit, with technical assistance from the Fund.

A special bank resolution regime is in place, though it remains untested. The resolution regime provides for various options, such as purchase and assumption, bridge bank, and asset management companies. It could be further improved by strengthening the legal framework to limit operational risks. The forthcoming revised central bank law should also explicitly stipulate that emergency liquidity assistance (ELA) will normally be limited only to solvent institutions and clearly differentiated ELA from government solvency support.

Annex II. Morocco: Public Debt Sustainability Analysis (DSA)

Morocco's public debt remains sustainable. Its gross debt-to-GDP ratio was on a decline between 2000 and 2010. However, since then, external shocks and domestic factors have caused the ratio to rise. Nevertheless, at about 63 percent of GDP, it remains sustainable. The DSA shows it to be resilient to various shocks; vulnerabilities linked to the level and profile of the debt appear, for the most part, moderate. However, gross financing needs have been high (mainly linked to the rollover of existing debt) and have exceeded the benchmark of 15 percent of GDP over the past three years, highlighting some risks despite the relatively moderate level of debt.

This DSA updates the analysis conducted for the first review of the current arrangement under the Precautionary and Liquidity Line (PLL). Compared with the previous analysis, the actual stock of debt at end-2013 is more than 2 percentage points of GDP lower due to the upward revision of the nominal GDP following the publication of new national accounts. In addition, the end-2014 stock of debt was 3 percent of GDP lower than projected. This is mostly explained by a drawdown of assets, while about 0.5 percent of GDP is explained by the revision of nominal GDP.[1]

After declining over the previous decade, Morocco's public debt-to-GDP ratio started rising in 2010 as macroeconomic performance deteriorated. Rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through the cost of higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 63 percent in 2014. About half of this increase occurred in 2012 as the economy was severely impacted by the crisis in Europe (Morocco's main trade partner) and higher oil prices, while the authorities also encountered difficulties in containing the fiscal deficit. However, the authorities' fiscal consolidation efforts are expected to help bring the debt ratio down below 60 percent of GDP in the medium term.

The debt level is generally resilient to shocks but there are risks linked to financing needs and, to a lesser extent, to the debt profile (see heat map below). Baseline projections are realistic when compared with a group of market access countries. Morocco's projected fiscal consolidation efforts—aimed at lowering the overall deficit in the medium term to 3 percent of GDP—do not appear exceptional relative to the distribution of other country cases. The debt level remains below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed. Vulnerabilities linked to the profile of debt are either low or moderate; in some cases, relevant indicators exceed the lower early warning benchmarks but not the upper risk assessment ones (see chart). Gross financing needs exceed the benchmark of 15 percent under the baseline in 2014 (about 17 percent of GDP) but are expected to decline under the benchmark by 2015. This highlights the importance of continuing on the path of fiscal consolidation to reduce debt-financed deficits and to carefully manage the maturity profile of debt instruments.

[1] Including a drawdown of deposits of public entities excluded from the coverage of the debt of the central government, e.g., deposits of local governments in the single treasury account.

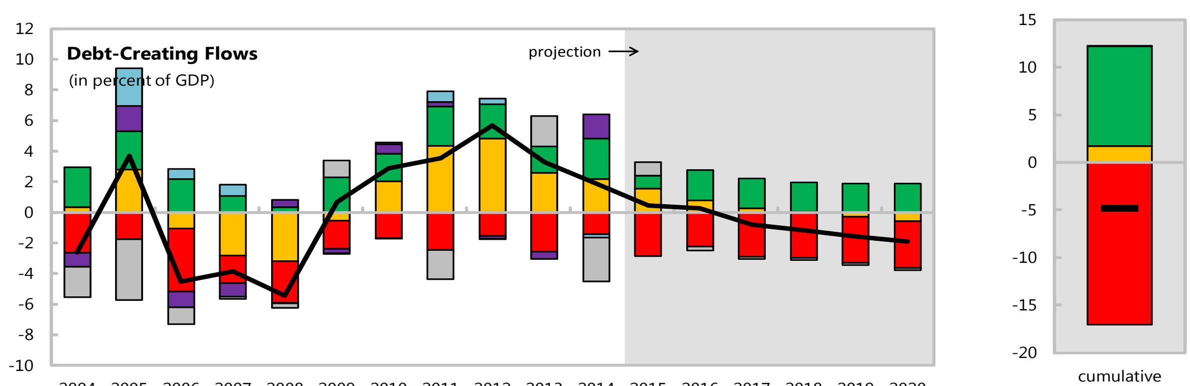
Figure 1. Morocco: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario (in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of December 20, 2014		
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020	Sovereign Spreads		
Nominal gross public debt	52.4	61.5	63.4	63.8	64.1	63.3	62.1	60.5	58.6	Spread (bp) 3/		149
Public gross financing needs	13.3	19.4	16.5	13.3	12.2	12.3	12.0	11.3	10.4	CDS (bp)		184
Real GDP growth (in percent)	4.6	4.7	2.4	4.9	3.7	4.8	5.0	5.2	5.4	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.4	1.5	0.2	3.0	1.2	1.3	1.4	1.5	1.5	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	6.1	6.3	2.6	8.0	4.9	6.2	6.5	6.9	7.0	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	5.4	4.7	4.6	4.6	4.6	4.6	4.7	4.9	5.0	Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.0	3.3	1.9	0.4	0.3	-0.8	-1.2	-1.6	-1.9	-4.8	
Identified debt-creating flows	0.9	1.3	4.7	-0.5	0.5	-0.7	-1.0	-1.5	-1.8	-4.8	
Primary deficit	0.7	2.6	2.2	1.6	0.8	0.3	0.0	-0.3	-0.6	1.8	-1.3
Primary (noninterest) revenue and grants	27.2	27.7	28.0	25.8	26.5	26.9	26.8	26.9	27.1	160.0	
Primary (noninterest) expenditure	27.9	30.3	30.2	27.3	27.3	27.2	26.8	26.7	26.5	161.8	
Automatic debt dynamics [5/]	-0.4	-1.3	2.8	-2.0	-0.2	-1.0	-1.1	-1.2	-1.2	-6.6	
Interest rate/growth differential [6/]	-0.3	-0.9	1.2	-2.0	-0.2	-1.0	-1.1	-1.2	-1.2	-6.6	
Of which: real interest rate	2.0	1.7	2.7	0.8	2.0	1.9	1.9	1.9	1.9	10.5	
Of which: real GDP growth	-2.3	-2.6	-1.4	-2.9	-2.2	-2.9	-3.0	-3.0	-3.1	-17.1	
Exchange rate depreciation [7/]	0.0	-0.4	1.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.5	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CG: Privatization Proceeds (negative)	0.5	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.9	2.0	-2.9	0.9	-0.3	-0.1	-0.1	-0.1	-0.1	0.1	



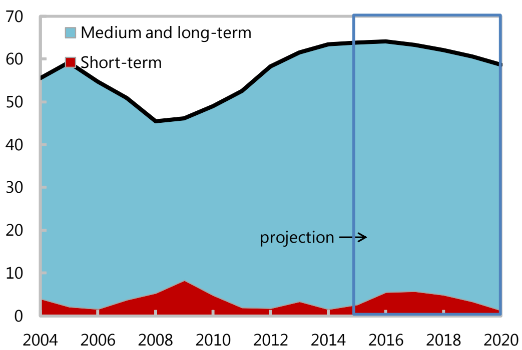
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data. Moody's credit rating is unsolicited.
3/ Bond Spread over U.S. Bonds.
4/ Defined as interest payments divided by debt stock at the end of previous year.
5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
8/ For projections, this line includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

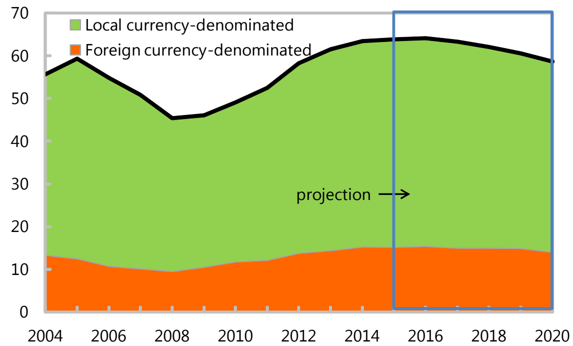
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

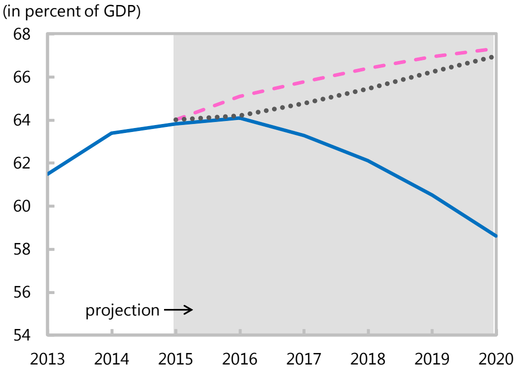


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

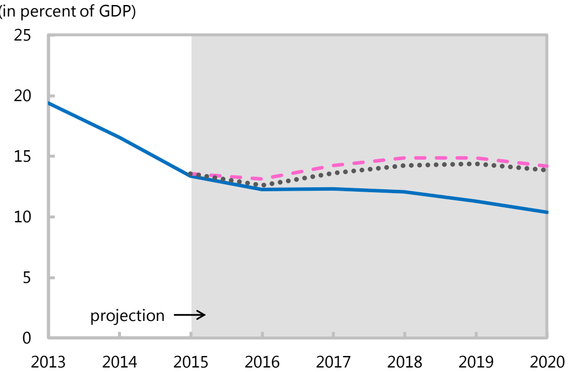
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

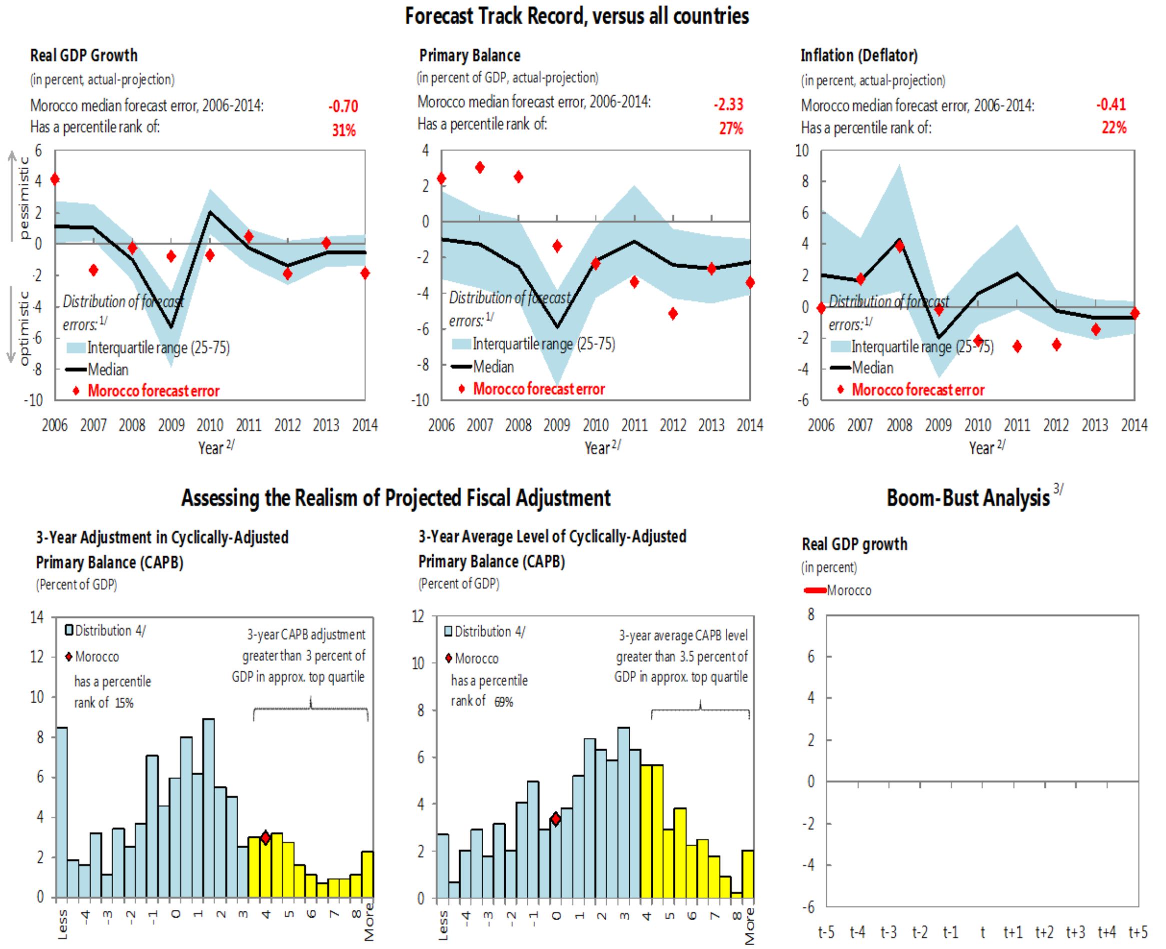
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.9	3.7	4.8	5.0	5.2	5.4
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary Balance	-1.6	-0.8	-0.3	0.0	0.3	0.6
Effective interest rate	4.6	4.6	4.6	4.7	4.9	5.0
Constant Primary Balance Scenario						
Real GDP growth	4.9	3.7	4.8	5.0	5.2	5.4
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary Balance	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	4.6	4.6	5.0	5.2	5.5	5.4

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.9	4.4	4.4	4.4	4.4	4.4
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary Balance	-1.6	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	4.6	4.6	5.1	5.4	5.7	5.7

Source: IMF staff.

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



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

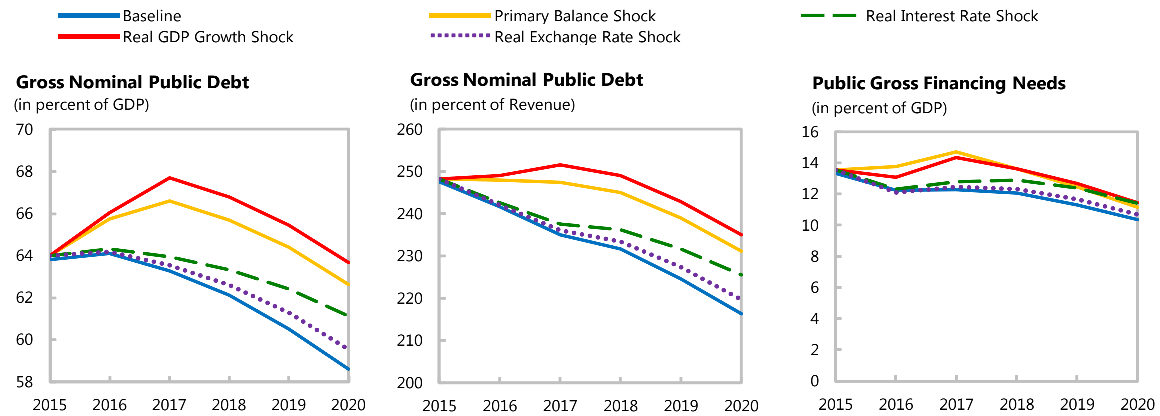
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

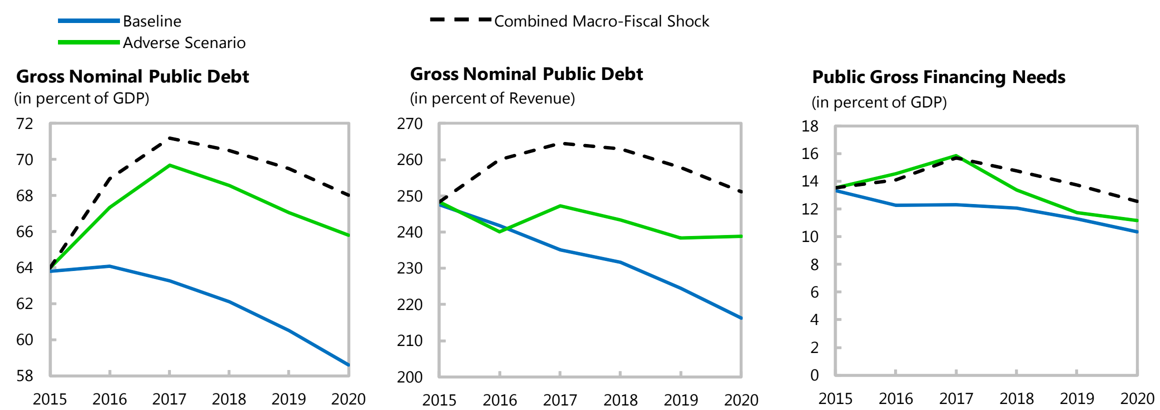
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2015	2016	2017	2018	2019	2020
Primary Balance Shock						
Real GDP growth	4.9	3.7	4.8	5.0	5.2	5.4
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary balance	-1.6	-2.2	-1.7	0.0	0.3	0.6
Effective interest rate	4.6	4.6	5.1	5.3	5.4	5.3
Real Interest Rate Shock						
Real GDP growth	4.9	3.7	4.8	5.0	5.2	5.4
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary balance	-1.6	-0.8	-0.3	0.0	0.3	0.6
Effective interest rate	4.6	4.6	5.4	5.7	6.0	6.1
Combined Shock						
Real GDP growth	4.9	2.1	3.2	5.0	5.2	5.4
Inflation	3.0	0.8	0.9	1.4	1.5	1.5
Primary balance	-1.6	-2.2	-1.7	0.0	0.3	0.6
Effective interest rate	4.6	4.7	5.3	5.7	6.0	6.0
Adverse Scenario						
Real GDP growth	4.9	2.0	3.2	3.4	3.6	3.8
Inflation	3.0	1.2	1.3	1.4	1.5	1.5
Primary balance	-1.6	-2.8	-2.1	1.3	1.5	1.1
Effective interest rate	4.6	4.6	5.2	5.4	5.4	5.3

	2015	2016	2017	2018	2019	2020
Real GDP Growth Shock						
Real GDP growth	4.9	2.1	3.2	5.0	5.2	5.4
Inflation	3.0	0.8	0.9	1.4	1.5	1.5
Primary balance	-1.6	-1.3	-1.3	0.0	0.3	0.6
Effective interest rate	4.6	4.6	5.0	5.2	5.4	5.3
Real Exchange Rate Shock						
Real GDP growth	4.9	3.7	4.8	5.0	5.2	5.4
Inflation	3.0	4.6	1.3	1.4	1.5	1.5
Primary balance	-1.6	-0.8	-0.3	0.0	0.3	0.6
Effective interest rate	4.6	4.7	4.9	5.1	5.4	5.3

Source: IMF staff.

Figure 5. Morocco: Public DSA - Risk Assessment

Heat Map

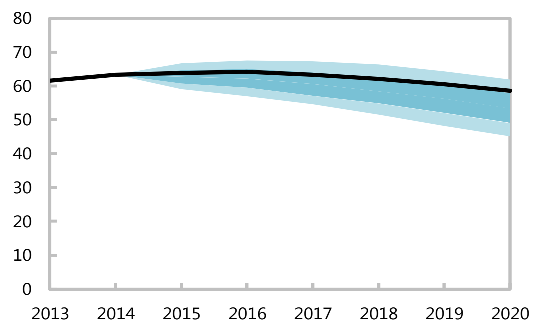
Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception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

Evolution of Predictive Densities of Gross Nominal Public Debt

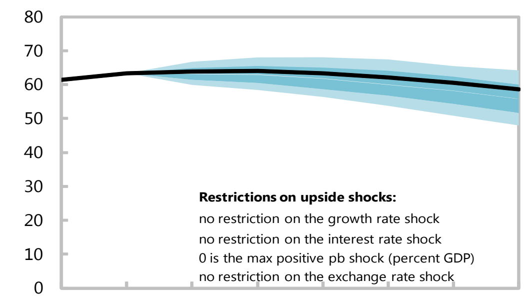
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



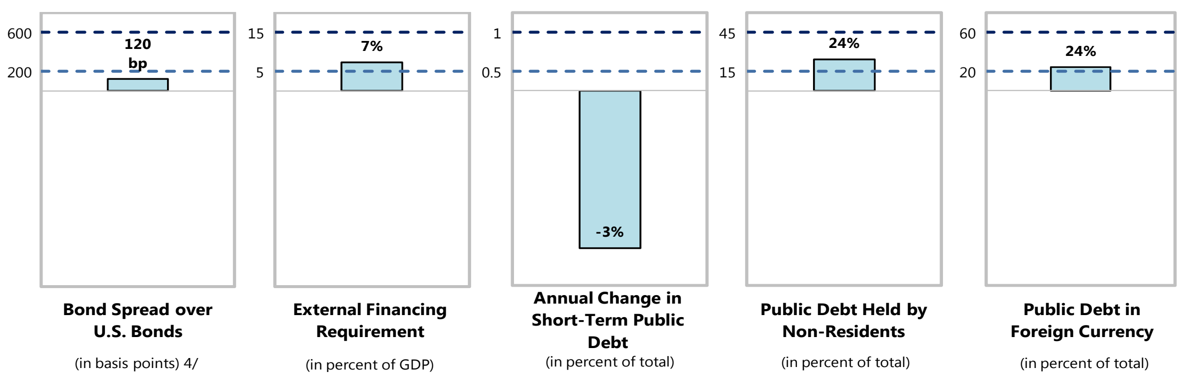
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)

Morocco — Lower early warning — Upper early warning



Source: IMF staff.

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

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

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

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

4/ An average over the last 3 months, 21-Sep-14 through 20-Dec-14.

Appendix I. Written Communication

Rabat, Morocco
July 8, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madame Managing Director:

1. Morocco's economic fundamentals remain strong. The economy is improving and external and fiscal vulnerabilities have declined considerably. We remain committed to continue implementing our economic and financial program supported by the IMF's Precautionary and Liquidity Line (PLL) as described in our communication of July 11, 2014 requesting the approval of the PLL arrangement, and our communication of January 23, 2015 pertaining to its first review.

2. Economic growth should be around 5 percent in 2015, supported by a good agricultural season and a gradual recovery of non-agricultural activity. Inflation is projected to remain moderate in 2015, averaging 1.5 percent. The current account should continue to improve, and international reserves are expected to increase in 2015 to the equivalent of 6 months of imports of goods and services. The strengthening of the fiscal position, the diversification of export products and markets, the gradual recovery of external demand, and the continued high level of FDI are expected to support a continued improvement of the country's external position over the medium term.

3. Although Morocco does not face a balance of payments financing need, the PLL arrangement approved on July 28, 2014 continues to provide useful insurance against external shocks and to support our efforts to strengthen the resilience of the economy. We will continue to treat the PLL arrangement as precautionary and do not intend to draw on it except in the event of unforeseen external shocks or a substantial worsening of the international environment.

4. Fiscal developments have been in line with the government's short and medium term objectives. The fiscal deficit, including grants, was further reduced as planned to 4.9 percent of GDP in 2014. Our fiscal deficit objective for 2015 has remained unchanged at 4.3 percent of GDP, and the government aims at achieving a deficit of 3.5 percent of GDP in 2016 and 3 percent of GDP in 2017. To that end, the government intends to pursue its efforts to control expenditure, while giving priority to investment in infrastructure and human capital as well as to social programs, and strengthening revenue mobilization. The government remains confident that the measures already described in previous communications will be sufficient to achieve our fiscal deficit objective for 2015. The anticipated shortfall in revenue from budget forecasts for the VAT on imports of petroleum products, resulting from the decline in world prices, will be largely offset by the impact of this decline on butane subsidy. The government intends to use any revenue gains or expenditure savings to support the economic activity, notably through measures to accelerate the public expenditure program.

5. On the revenue side, the government is pursuing the reform of the tax system that began last year in order to make it more equitable and more supportive of competitiveness. Above and beyond the measures included in the 2015 budget and described in our previous communication, revenue collection efforts will be enhanced through improvements in the efficiency of tax administration.

6. Major progress was made on the reform of the subsidy system. Subsidies on liquid petroleum products were eliminated as of January 1, 2015, and their prices will be freely set by operators as of November 30, 2015. The subsidy bill, which had reached 6.5 percent of GDP in 2012, was brought down to 3.5 percent of GDP in 2014 and should be further reduced to 1.9 percent of GDP in 2015, primarily reflecting the impact of the reform. At the same time, social protection for the most vulnerable groups will continue to be broadened, particularly though the Social Cohesion Fund in the context of programs such as RAMED (health sector) and TAYSSIR (education sector).

7. The government's medium-term objective remains to gradually reduce the civil service wage bill (including social security contributions) to below 11 percent of GDP, by limiting the budgetary impact of the net creation of new positions and moderating salary increases. Furthermore, the mobility of civil servants is being increased as part of the public sector modernization plan, which will also help better control the wage bill.

8. A new organic budget law (OBL) has been adopted. This law, which addresses comments from the Constitutional Council on an earlier version, was adopted by Parliament on April 28, 2015 and validated by the Constitutional Council on May 18, 2015. The OBL was published in June 2015 and its implementation decree was adopted in July 2015. The new OBL significantly improves the budget framework as described in our previous written communications. It will be implemented gradually through 2020 starting with the 2016 budget. The measures taken in 2013 to limit risks related to the carryover of investment appropriations and to the wage bill will be rolled over until the entry into force of the relevant OBL provisions.

9. The government is determined to adopt the parametric reform of civil service pensions provided by the Moroccan Pension Fund (CMR) in 2015 so that the reform can be implemented starting early 2016 at the latest. This reform provides for a gradual increase in the statutory retirement age, higher employer and employee contribution rates, and changes to the rules for the calculation of pension benefits. It will extend the sustainability of the CMR and will ensure a balance between contributions and benefits immediately upon the start of its implementation. The next steps include a shift to a two-pillar pension system based on two funds, one for the private sector and one for the public sector.

10. Bank Al-Maghrib (BAM) is maintaining its accommodative policy while continuing to closely monitor economic activity, inflation, and reserves. In an effort to support economic activity, BAM reduced its policy rate twice, in September and December 2014, bringing it down to a historically low level of 2.5 percent. Banking liquidity has improved, largely as a result of higher international reserves. BAM will continue to conduct a monetary policy conducive to maintaining price stability and promoting the conditions for adequate financing of the economy to support growth.

11. The April 2015 Financial Sector Assessment Program (FSAP) mission confirmed that banks are well capitalized and profitable, with stable funding, and found that bank supervision is effective. Although NPLs have risen since 2012 due to the slowdown in economic activity, they remain low and well-provisioned. BAM will continue to monitor banks to ensure that liquidity and credit risks remain manageable.

12. BAM continues to strengthen bank regulation and supervision, notably by further progress in implementation of Basel III standards. BAM is planning to finalize during 2015 the implementation of a framework specifically intended to address systemically important banks. The draft law on the Central Bank's charter is designed to increase BAM's independence and broaden its remit, notably by including its contribution to financial stability. The government will make every effort to ensure that the draft law is adopted by cabinet and submitted to parliament at the earliest. The authorities are making progress on the implementation of the new banking law adopted by parliament on November 25, 2014, and are committed to continue to improve the financial policy framework. The regulations pertaining to this law will be adopted for the most part by end-2015, those governing financial conglomerates and recovery plans for SIFIs by 2016. In this respect, we will carefully analyze the recent FSAP's recommendations to inform our consideration of these issues.

13. On April 13, 2015, the authorities revised the weights for the currencies in the basket against which the dirham is pegged (from 80 percent to 60 percent for the euro and from 20 percent to 40 percent for the dollar) to better align them with the current structure of Morocco's external flows. This change constitutes a first step in our transition toward a more flexible exchange rate regime. Preparation for such transition is well under way with IMF technical assistance, including in preparing for a change in the monetary policy regime. We intend to continue this work, in particular to prepare the nonfinancial private sector to operate in an environment potentially characterized by greater and more frequent fluctuations in exchange and interest rates. We plan to review progress in these lines of work by the fall in an effort to identify the next steps to ensure gradual progress in this area.

14. The government continues to implement its ambitious reform agenda to increase competitiveness and potential growth and reduce unemployment to 8 percent by 2020. The government has identified a National Strategy for Employment consisting of a package of measures to promote job creation by improving labor market governance and the effectiveness of employment support and vocational training programs. Measures are also being taken to improve social protection for workers, such as the recent entry into force of the job loss indemnity, as well as to reduce youth unemployment and increase the participation of women in the labor market. In addition, the government remains committed to continue improving the business climate, governance, and transparency, in particular by streamlining administrative procedures and through the other measures described in our earlier written communications.

15. Both indicative targets under the PLL arrangement for end-March 2015 were met with comfortable margins. In line with the requirements of the PLL, we have observed, and we will continue to observe, the standard performance criteria related to trade and exchange restrictions, bilateral payments agreements, multiple currency practices, and the non-accumulation of external debt payment arrears.

16. Strong implementation of our economic and financial program increases the economy's ability to withstand external shocks. Provided external risks significantly abate, the improving fiscal and external positions, including higher reserves, and a stronger economic and financial policy framework are increasing the prospects for an eventual exit from the PLL.

17. We remain confident that the policies described in this communication and the ones dated July 11, 2014, and January 27, 2015 are appropriate to achieve our objectives, on the basis of which we are requesting completion of the second review under the PLL arrangement.

/s/	/s/
Mohammed Boussaïd Minister of Economy and Finance	Abdellatif Jouahri Governor of Bank Al-Maghrib

Morocco: Quantitative Indicative Targets

	3/31/15			9/30/15	
	PLL	Adjusted	Actual	PLL	Revised
Indicative targets					
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/ (end-of-period (eop) stock, in millions of U.S. dollars (US$))	21,071	20,085	22,105	21,602	23,316
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	15,600	18,783	8,581	30,200	30,200
Memorandum item:					
Adjustor on NIR (in millions of U.S. dollars) 2/	1,970	-986	985	3,642	2,738
Adjustor on the fiscal deficit (in millions of dirham) 3/	3,660	-3,183	477	10,700	10,700

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate fixed at the end-March 2014 value (8.1496 MAD/US$ for the end-March 2015 target; and the equivalent value of 8.5287 MAD/US$ for the end-September 2015 target, reflecting the change in the dirham basket on April 13, 2015).

2/ Adjustments are specified in the technical appendix. The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2014.

3/ Adjustments are specified in the technical appendix. The fiscal deficit ceiling will be adjusted upward (downard) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-December 2014.

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
July 24, 2015

Second Review of the Precautionary and Liquidity Line

On behalf of my Moroccan authorities, I thank staff for their hard work and the useful exchange during this second review of the PLL-supported program and for the clear and concise report. The authorities concur with staff assessment and recommendations, which are broadly in line with their own reform agenda and priorities. They also reiterate their deep appreciation for the useful technical assistance provided by the Fund's MCM and RES departments, and thank management and Executive Directors for their support.

Performance under the program continues to be strong, despite weak recovery of the global economy and the Euro area in particular. Growth is projected to increase from a revised 2.4 percent in 2013 to 4.9 percent in 2015, reflecting the impact of more favorable weather conditions and a gradual recovery in non-agricultural GDP. However, it is still well below the pre-global crisis level and is not sufficient to reverse the recent increase in unemployment, which was close to 10 percent in 2014 and particularly high among the youth. Inflation has remained low at 2 percent in May on a year-to-year basis.

External sector developments are better than projected under the first review, despite lower tourism receipts linked to regional security incidents. The current account deficit is estimated to decline from 5.5 percent to 2.8 percent of GDP in 2015, reflecting lower oil and food imports but also continued strong performance of automobile exports and a recovery in exports of phosphates and derived products. With FDI remaining at 2.5 percent of GDP, gross reserves are projected to reach the equivalent of 6 months of imports or 147 percent of the Fund's adjusted ARA metric at end-2015, and external debt-to-GDP ratio should decline to 32 percent of GDP in 2015 and continue falling thereafter. The March 2015 indicative target on reserves was met with a comfortable margin, leading to a significant upward revision of the September 2015 target.

Fiscal developments are also favorable. The overall deficit declined in the first 5 months of 2015 by close to 40 percent compared to last year. Revenue increased, underpinned by strong non-tax revenue, notwithstanding shortfalls in grants and VAT on imports. Expenditure declined, driven by lower subsidies and wage outlays, whereas investment spending remained broadly unchanged from 2014. The indicative fiscal target for end-March was also met with a wide margin. The authorities are confident that the 2015 fiscal deficit objective of 4.3 percent of GDP will be met, and will take additional measures if necessary to achieve it. Moreover, with binding constraints on non-interest recurrent spending, any revenue gains or savings on such spending will be used to support economic activity through accelerated investment execution, as indicated in the Written Communication (¶4).

The authorities are firmly determined to continue with their medium-term fiscal consolidation program and to resist spending pressures during the upcoming elections. They reiterate their intention to reduce the deficit further to 3.5 percent of GDP in 2016, consistent with their objective of 3 percent of GDP in 2017. This will be achieved through further progress under the tax reform to broaden the base and reduce exemptions and distortions, continued wage moderation, and improved public spending prioritization, transparency, and efficiency in line with the modernized budget and public financial management framework under the new OBL.

The authorities have reservations regarding the inclusion of short-term domestic debt at original maturity in gross financing needs (GFNs), which is the main reason for this indicator exceeding the 15 percent of GDP benchmark under the DSA. Indeed, with a large pool of domestic financial resources, mainly in non-banks, and in view of existing capital controls on outflows by residents, rollover risks of short-term domestic debt in Morocco are minimal. The authorities look forward to a review of the DSA framework to take similar circumstances into consideration in computing GFNs, as has been done in the adjusted ARA metric.

Monetary policy continues to aim at maintaining price stability while ensuring adequate financing of the economy to support the recovery. Bank liquidity has improved following the latest cut in the reserve requirement and the increase in foreign assets. The support systems established by BAM in favor of very small, small and medium-sized enterprises have been successful in significantly improving their access to credit. The revised draft central bank charter, which aims at strengthening its independence and broadening its mandate, is being finalized and will soon be presented to the cabinet for approval and submission to parliament.

BAM continues to strengthen its analytical and forecasting capacity to prepare for the transition to a new monetary framework and greater exchange rate flexibility. The authorities increased the weight of the US Dollar in the currency basket to which the Dirham is pegged to better reflect the currency composition of foreign flows. Drawing on Fund technical assistance, they are considering available options for more exchange rate flexibility, and are assessing in particular the degree of preparedness of businesses to operate in an environment characterized by greater interest rate and exchange rate volatility. They expect to be in a position to discuss these options and relevant issues with staff during the Article IV discussions later this year.

Further progress is being made in strengthening financial regulation and supervision, including through implementation of Basel III standards. The preliminary findings of the FSAP mission that visited Morocco late April are that banks are adequately capitalized and profitable, with stable funding sources, and that the banking system is resilient to severe adverse shocks and large deposit withdrawals. Moreover, while NPLs have increased recently, mainly reflecting a slowdown in some sectors, they are well provisioned. The mission also found that the risk from severe distress in Sub-Saharan Africa subsidiaries is marginal. The authorities thank the FSAP team for their high quality work and broadly concur with their conclusions. They look forward to further discussion with the team on some of their findings and recommendations so that the FSSA could be brought before the Board along with the Article IV consultations report.

The authorities are strongly committed to their structural reform agenda to achieve higher and more inclusive growth and reduce unemployment, while strengthening the social safety net to mitigate the impact of the reforms on the poor, and improving the scope and reach of various social support mechanisms to address the needs of the vulnerable population. Continued efforts are being made to improve the business climate, upgrade infrastructure, increase financial inclusion, strengthen competitiveness, and improve employment opportunities and labor productivity, including by reforming education and vocational training, enhancing the effectiveness of employment support mechanisms, and raising female participation in the labor force. The recently-announced National Employment Strategy will guide policies in this crucial area.

Following the successful reform of the subsidy system, the adoption of the new OBL is a milestone in strengthening and modernizing the fiscal framework, enhancing transparency and accountability, and reducing fiscal vulnerabilities. It will permanently address the weaknesses in budget implementation and monitoring which led to the 2012 expenditure overrun. With regard to pension reform, consultations with trade unions on the government’s proposals have taken more time than expected. While seeking to reach a consensus with social partners, the government is cognizant of the importance of this reform, and is firmly determined to move the process forward as soon as possible.

The authorities appreciate the support provided by the PLL. They welcome staff assessment that Morocco continues to meet PLL eligibility and exceptional access criteria. While they remain committed to their ambitious program, they attach high importance to maintaining social peace and cohesion and reducing regional, gender, and income disparities.

Ex Post Evaluation

The authorities welcome the Ex Post Evaluation of Exceptional Access (EPE) under the 2012-14 PLL and thank Mr. Geiregat and his team for the well-written report. As indicated in their response to the draft report, the authorities broadly concur with the conclusions of the EPE, in particular the usefulness of the PLL in providing an insurance against exogenous shocks in a weak and uncertain global environment, and the confirmation that Morocco met the PLL qualification standards and requirements under the exceptional access policy. The fact that despite social pressures and unfavorable external environment, the authorities succeeded in maintaining macroeconomic and financial stability, significantly reducing fiscal and external vulnerabilities, and strengthening policy buffers is a testament to their unwavering commitment to their program.

Important progress was also made on the structural reform agenda. In this regard, the delay in the adoption of the OBL was due to the broad consultation with interested parties and civil society, as well as with the IMF, in the finalization of the draft. It also resulted from the time needed to amend the law adopted in November 2014 in order to address the comments subsequently made by the Constitutional Council. Despite this delay, the 2016 budget will be prepared in accordance with the new OBL, as anticipated.

PLL exit was contingent on a significant improvement in the external environment and reduction in Morocco’s vulnerabilities. Vulnerabilities have declined significantly by mid-2014, in particular as a result of the subsidy reform, the strengthening of external buffers, and the administrative measures taken to prevent recurrence of the 2012 budget overruns pending the adoption of the OBL. However, the external environment deteriorated instead of improving, in particular in view of lower Euro area partners’ growth, which was three percentage points lower than projected by staff over 2012-14, affecting growth, the BOP, and fiscal revenue. Oil prices were also higher than projected, and the impact on the budget was compounded by the appreciation of the US Dollar against the Euro, as the latter accounted for 80 percent of the currency basket to which the Dirham is pegged. The decline in world demand and prices for phosphates and derived products also significantly impacted the BOP, while also affecting fiscal revenue through lower tax and dividend payments.

Notwithstanding these external headwinds, the authorities continued with implementation of their program. They borrowed from international capital markets to further build external buffers, keeping the PLL as an insurance against future risks and a signal to markets. By the end of the arrangement in mid-2014, and in view of the significant downside risks from the international environment and the remaining, albeit reduced vulnerabilities, the authorities decided to request a new PLL arrangement with lower access.

Staff views on the challenges that lie ahead and the way forward as summarized in ¶57 are fully in line with the authorities' program. Ongoing improvement of the business climate, along with sound macroeconomic policies and further strengthening of the fiscal and monetary policy frameworks and the financial system, should help enhance competitiveness and private sector confidence and catalyze FDI, building on Morocco's strong fundamentals and long-standing political and social stability.