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MOROCCO—PROGRAM NOTE

Current IMF-Supported Program: A 24-month Precautionary and Liquidity Line (PLL) in the amount of SDR 3.2351 billion (about $5 billion, 550 percent of quota) was approved by the Executive Board of the IMF on July 28, 2014. The third and last review was completed on January 27, 2016.

Background

Morocco's overall macroeconomic conditions have continued to improve, but challenges remain. Economic growth rebounded in 2015 at 4.5 percent, helped by a very good agricultural year, while inflation remained low at 1.6 percent. After reaching peaks in 2012, both the fiscal and current account deficits have declined, benefiting from lower oil prices and the strong export performance of newly developed industries. The current account deficit narrowed to 1.4 percent of GDP, and the fiscal deficit was reduced to 4.3 percent of GDP in 2015. While poverty, unemployment, and inequalities have decreased in recent years, much remains to be done. The unemployment rate was 9.5 percent in 2015, and youth unemployment is still high at about 20 percent.

Looking ahead, growth is projected to slow down sharply in 2016, reflecting a bad agricultural season, while non-agricultural growth is only picking up slowly. The fiscal and external deficits should continue to narrow, and inflation to remain low. In the medium term, subject to continued reform implementation, growth is expected to accelerate, but important downside risks relate to geopolitical risks in the Middle East and to activity in the euro area, which could affect exports, tourism, foreign direct investment, and remittances.

Role of the IMF

On January 2016, the Executive Board completed the third and last review of Morocco's performance under a program supported by a two-year Precautionary and Liquidity Line (PLL) arrangement, and reaffirmed Morocco's continued qualification to access PLL resources. This arrangement, which will expire in July 2016, has provided Morocco with insurance against external risks and has supported the authorities' efforts to rebuild fiscal and external buffers and promote higher and more inclusive growth. The Moroccan authorities are treating the arrangement as precautionary, 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 IMF has also been supporting Morocco through technical assistance in several areas, including the macro-prudential framework, the future transition to a new monetary and exchange rate regime, tax administration and public financial management.

The Challenges Ahead

The authorities have implemented strong policy actions to reduce vulnerabilities. These include the elimination of fiscal risks associated with oil price shocks: energy subsidies were removed for most fuel products (diesel, gasoline, and kerosene), while social programs targeting the most vulnerable population groups were expanded. In addition, other economic and financial policy frameworks were strengthened, such as through the adoption of a new organic budget law and a new banking law.

Given external risks, sustained reform implementation will be essential to consolidate macroeconomic stability gains. Despite the progress achieved over the last decade, more needs to be done to foster higher growth, lower unemployment and reduce inequalities, including:

- **Strengthening fiscal buffers and securing medium-term fiscal sustainability**. The authorities are committed to reducing the fiscal deficit to 3 percent of GDP by 2017. To this end, they have successfully pursued fiscal consolidation since 2013, while not compromising growth. Further reduction in subsidies and public wage moderation would help continue on that path while providing space to reorient spending toward investment and social programs. Reforms are also important to improve fairness in taxation, such as through a broadening of the tax base. Finally, implementing the reform of the public sector pension system is needed to ensure its financial viability.

- **Increasing the economy's competitiveness of the economy and boosting growth and employment**. This requires further improvements to the business climate by improving governance, competition and transparency, and reducing red-tape. Advancing with the recently launched National Strategy for Employment is essential to ensure a well functioning labor market conducive to private sector job creation. Continuing with plans to introduce greater exchange rate flexibility would also increase the ability of the economy to absorb shocks and support its diversification.