INTERNATIONAL MONETARY FUND

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MOROCCO

March 2014

2013 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, for the Executive Board's consideration on January 31, 2014, following discussions that ended on December 19, 2013, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 24, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 31, 2014 consideration of the staff report that concluded the Article IV consultation with Morocco.
- A **Statement by the Executive Director** for Morocco.

The document listed below has been or will be separately released.

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

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INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

January 24, 2014

KEY ISSUES

Context: Despite an unfavorable external and domestic environment, economic performance improved in 2013 after a difficult 2012. The European crisis led to a deceleration of activity in the nonprimary sector, but GDP growth is expected to reach about 4.5 percent owing to a bumper cereal crop. Inflation remained low. The external current account deficit declined and reserves remained stable at more than four months of imports. The fiscal deficit narrowed as expected, owing to lower international oil prices that reduced the cost of subsidies and as a result of measures taken by the government to control spending. However, unemployment remains high, especially among the youth and, despite progress over the past decade, much remains to be done to reduce poverty.

Outlook and risks: Assuming an average cereal output, growth could reach about 4 percent in 2014, as nonprimary activity is expected to accelerate. However, the economy remains vulnerable to international conditions and a difficult regional environment. In this context, the outlook continues to hinge on the implementation of policies to strengthen the resilience of the economy, ensure stronger and more job-rich growth, and improve social protection, particularly for the most vulnerable.

Policy discussions: Despite progress in 2013, further fiscal consolidation is needed; nevertheless, there should be space for investment and well-targeted social protection. In this context, the reforms of the tax, subsidy, and pension systems are important, as is the gradual reduction in the public wage bill. Reforms are also needed to improve the business climate, transparency, the judiciary, and the labor market to boost private investment, competitiveness, and employment. Greater access to finance is also needed. More flexibility in the exchange rate regime would help support competitiveness, enhance the capacity of the economy to absorb shocks, and support the authorities' strategy for diversifying external flows away from Europe. In this context, the discussions focused on four intertwined themes: (i) conducting a fiscal policy supportive of external adjustment and growth; (ii) fostering a more growth-friendly business environment; (iii) adapting the monetary and exchange rate frameworks; and (iv) enhancing access to finance while further strengthening the resilience of the financial sector.

Approved By
Adnan Mazarei and Mark Flanagan

The staff team comprised Mr. Dauphin (head), Ms. Garcia Martinez, Messrs. Kalonji and Versailles (all MCD); and Mr. Ahokpossi (SPR). Discussions, which also covered the third review under the Precautionary and Liquidity Line, took place in Rabat, December 5–19, 2013).

The mission met the Head of Government Mr. Benkiran, the Minister of Economy and Finance Mr. Boussaid, the Minister of Labor and Social Affairs Mr. Seddiki, the Minister Delegate of the Budget, Mr. Azami Al Idrissi, the Minister Delegate of the Public Service and Modernizing the Administration, Mr. Moubdi, the Minister Delegate of General Affairs and Governance Mr. Louafa, Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of the private sector and civil society. Mr. Dairi (OED) participated in most of the meetings.

Morocco has not introduced or intensified exchange restrictions, and has not introduced or modified multiple currency practices in line with Article VIII.

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BACKGROUND

A. Recent Developments

1. Morocco has a track record of strong performance, but vulnerabilities increased in recent years. The solid macroeconomic performance of the past decade was challenged as the economy was hit by a series of exogenous shocks, including the European recession, a rise in oil prices, and the transition in Arab countries. As a result, the external and fiscal deficits widened significantly in 2012 while growth suffered from low agricultural production. Moreover, despite progress, poverty remains pervasive.[1] The authorities' economic program, which aims at addressing these challenges, has been supported by the Fund since August 2012 by an arrangement under the precautionary and liquidity line (PLL).[2]

2. The formation of a new coalition government ended a period of uncertainty that delayed policymaking. The previous government coalition, headed by the Justice and Development Party (JDP), a moderate Islamist party, ended in the summer 2013 when the junior party Istiqlal withdrew from it. Following protracted negotiations, a new government, now including the center-right National Rally of Independents (NRI), was announced on October 10, 2013. The hope is that efforts to build consensus on difficult reforms (e.g., subsidies, pensions) can now be brought to closure so that faster progress can be made. Still, in the current difficult regional context, the risk remains that social pressures may derail implementation.

3. Growth picked up in 2013, boosted by a strong rebound in the primary sector. On the back of a bumper harvest, the agricultural sector is estimated to have grown by almost 20 percent, pushing overall GDP growth to about 4.5 percent. However, political uncertainty following the end of the previous government coalition, tighter credit conditions, and the weak European economy weighed heavily on other sectors. Nonprimary growth is thus unlikely to have reached more than 2.5 percent, compared to an average of about 4.5 percent in the past 10 years. This slowdown is mainly visible in sectors such as extractive industries (especially phosphates), and construction, which also has important knock-on effects on other sectors. On the demand side, the main support came from private consumption. Inflation remained low, averaging about 2 percent, despite the increase in the prices of some subsidized energy products. Unemployment remained high, especially among young people.

4. The fiscal deficit declined in 2013. The overall fiscal deficit decreased from 7.3 percent of GDP in 2012 to 5.5 percent in 2013. Total revenue fell by 0.8 percent of GDP, dragged down by a decline in tax receipts of nearly 2 percent of GDP, which reflected the slowdown in nonprimary activity and was only partially offset by higher grants and nontax revenue. Expenditures declined

[1] For a medium-term view of social indicators and the link with growth, see "Inclusive Growth in Morocco: Stylized Facts and Policies," Selected Issues (CR/13/110).

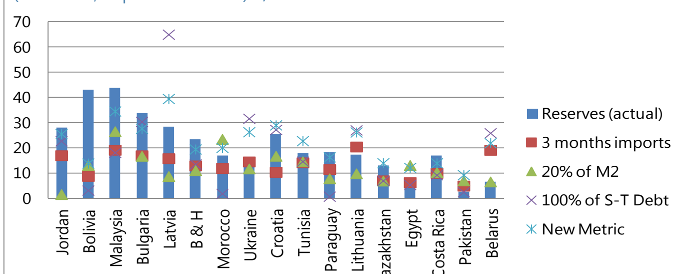
[2] See the accompanying staff report for the third PLL review.

significantly, mainly owing to a reduction in the subsidy bill by nearly 2 percent of GDP. Lower subsidies resulted from lower international oil prices, the full-year impact of the price increases implemented in June 2012, and the introduction in September of a mechanism to partially index the domestic prices of some fuel products to world prices. Spending on wages was also reduced by about ½ percent of GDP. The authorities took several significant measures to contain the deficit in light of the weak revenue performance. In particular, they canceled all 2013 investment appropriations that had not been committed at end-October, in an effort to avoid overshooting their annual investment target.

5. The current account improved. Better domestic food production, lower energy imports, and increased substitution of industrial goods imports by domestic production resulted in a contraction in imports. Exports also declined, as the 19 percent increase in FDI-related exports did not fully offset a 23 percent drop in phosphate exports resulting from a sharp decline in world prices. Overall, the trade deficit is estimated to have fallen to 19 percent of GDP in 2013 from 20.9 percent of GDP in 2012. As a result, the current account deficit, excluding grants, is estimated to have declined to 8 percent of GDP in 2013 from 10 percent in 2012.

6. Reserves have been broadly stable at more than four months of imports, and external debt, though on the rise, remains sustainable. External pressures continue to be a concern, but, considering existing controls on capital outflows that partially insulate them from capital account vulnerabilities, reserves remain broadly adequate at 88 percent of the Fund's reserve metric for emerging markets. The stabilization is partly the result of some improvement in the current account, but mostly of strong FDI inflows, substantial donor assistance, and external sovereign borrowing. Morocco accessed international markets in May 2013 by raising US$750 million at favorable terms, and the country was not significantly affected by the recent sell-off in emerging markets. Although external debt increased fairly rapidly over the last few years, it remains sustainable (Annex).

International Reserves Relative to Adequacy Metrics for Fixed Exchange Rate EMs
(End-2013, in percent of GDP) 1/



Source: IMF staff estimates.
1/ If the bar is above metric indicator, the level of reserves is considered adequate using the metric.

7. The exchange rate assessment continues to show some evidence of moderate overvaluation of the dirham, though less than a year ago. The current account approach of the IMF's External Balance Assessment (EBA) methodology, which is based on current policies and does not factor in the impact of planned policies, points to a current account gap of -2.6 percent of GDP (compared to -4.2 percent for the 2012 assessment). The EBA external sustainability approach, which accounts for planned policies, indicates a smaller current account gap of -0.3 percent of GDP (compared to -0.9 percent of GDP in the 2012 assessment).[3] Overall, both methods indicate that the

[3] Because of the lack of all the required data, the real effective exchange rate regression-based method was not applied.

current account gap has narrowed from last year, but still point to a moderate overvaluation of the dirham (between 1.3 percent and 11.3 percent) and the need for continued policy efforts to reduce imbalances, particularly in the fiscal sector. Other indicators, including the recent scaling up of capacity and FDI in developing manufacturing industries, suggest that Morocco's competitiveness is adequate.

Summary of the Current Account Method's Findings

(Projections for end-2013, percent of GDP)

(1)	Cyclically-adjusted CA	-6.1
(2)	Current account "norm"	-3.5
(3)=(1)-(2)	Current account "gap"	-2.6
	Contribution of identified policy gaps	
(4)	Fiscal policy	-0.4
(5)	Social policy (health expenditure)	-0.3
(6)	Reserve policy	0.1
(7)	Financial policy (credit)	0.2
(8)	Capital controls	1.2
(9)=(4)+(5)+(6)+(7)+(8)	Total	0.7
(10)=(3)-(9)	Residual	-3.3
(11)	Elasticity of CA/REER	0.23
(12)=-(3)/(11)	Corresponding REER "gap"	11.3

Summary of the External Sustainability Method's Findings

(Percent of GDP)

(1)	NFA benchmark (end-2012 NFA)	-57.7
(2)	2018 CA/GDP adjusted for multilateral consistenc	-4.4
(3)	CA/GDP stabilizing NFA at benchmark	-4.1
(4)=(2)-(3)	CA/GDP "gap"	-0.3
(5)	Elasticity of CA/REER	0.23
(6)=-(4)/(5)	Corresponding REER "gap"	1.3

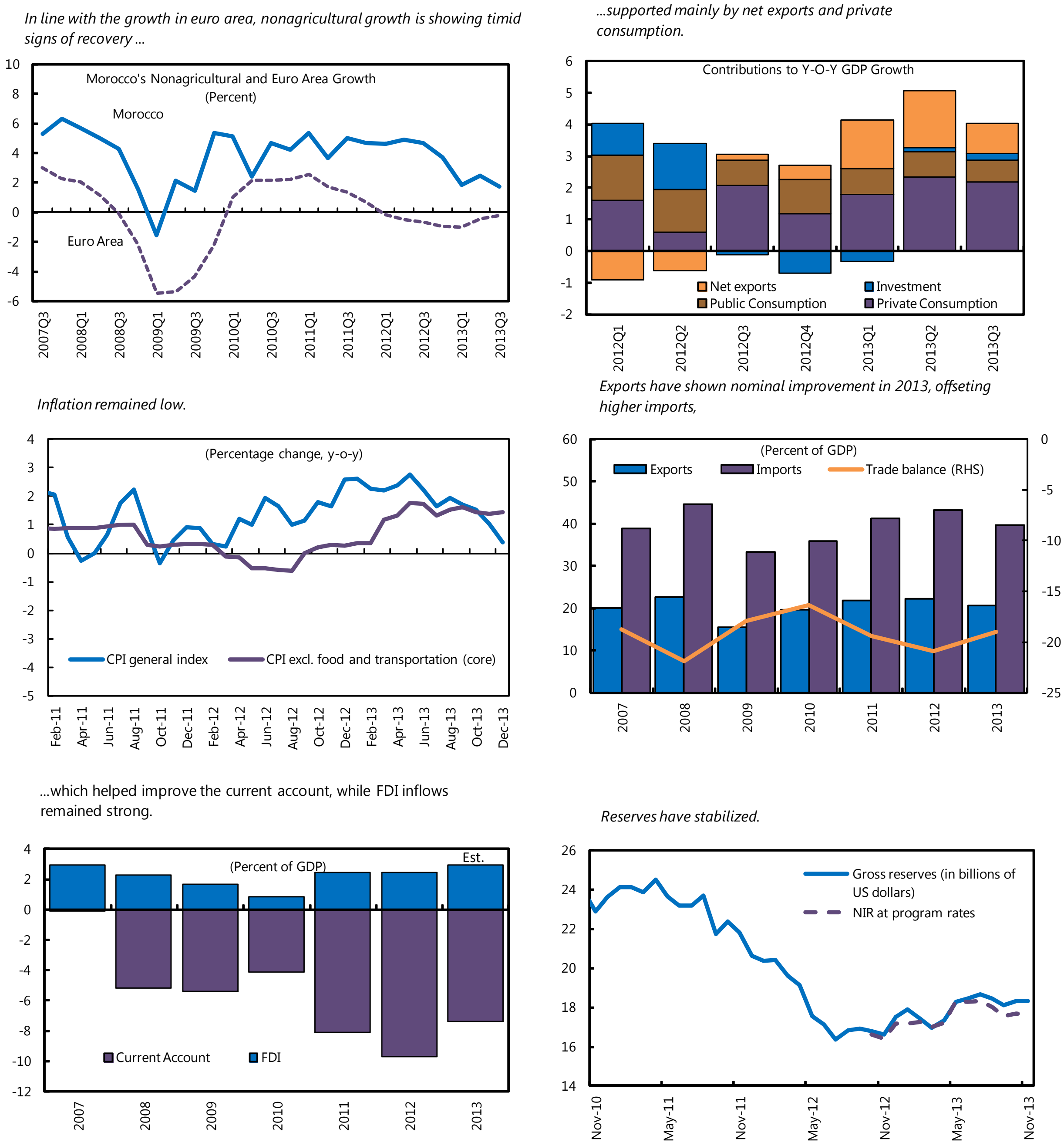
8. Bank-al-Maghrib (BAM) has continued to fill the shortage in bank liquidity, mainly though 7-day advances. In 2012, the loss of foreign assets contributed to a persistent contraction in bank liquidity, to which BAM responded by stepping up its liquidity injection. Despite the relief provided by the broad stabilization of foreign reserves, liquidity conditions remained tight in 2013. BAM increased the average daily amount of its interventions by about 20 percent in the last quarter of 2013 and maintained its three-month refinancing interventions to 20 billion dirham, including 6 billion under the operations lending guaranteed by private assets from small and medium enterprises (SMEs). In its December meeting, BAM left its policy rate unchanged at 3 percent, balancing uncertainties surrounding commodity prices with concerns about the strength of external demand.

9. Tight funding conditions and sluggish demand have continued to constrain credit growth. Loan growth outpaced domestic deposit growth in recent years, and despite a slight increase in 2013, the domestic deposit-to-loan ratio remained at 97.3 percent, well below the 113 percent reached in 2008. This is exacerbated by the narrow domestic debt markets and the limited resort to external funding. In response, banks are enlarging their funding sources by expanding securitization instruments, increasing their financing in foreign currencies, and accessing BAM's facility for newly eligible collateral. Credit conditions were also hardened as risk premia rose in line with uncertainties related to nonprimary growth. In addition, credit demand weakened as businesses adopted a wait-and-see approach in the difficult economic and political environment. However, growth in most categories of credits picked up somewhat in the third quarter, compared to the previous one.

10. Despite increasing nonperforming loans (NPLs), the financial sector remains sound overall. As of June 2013, the Tier 1 capital ratio amounted to 10.6 percent while regulatory capital to risk-weighted assets reached 13.1 percent, both up from December 2012 (when they amounted to 10.2 percent and 12.3 percent respectively). Banks' reliance on lending activities is likely to weigh on their profitability, though so far it has been resilient, supported by their international activities. NPLs have increased from 5.4 percent in June to 5.8 percent of total loans as of November 2013, reflecting the slowdown in activity. Moroccan banks fund themselves mainly through domestic deposits, but have started expanding their sources of funding to include the issuance of international bonds.[4]

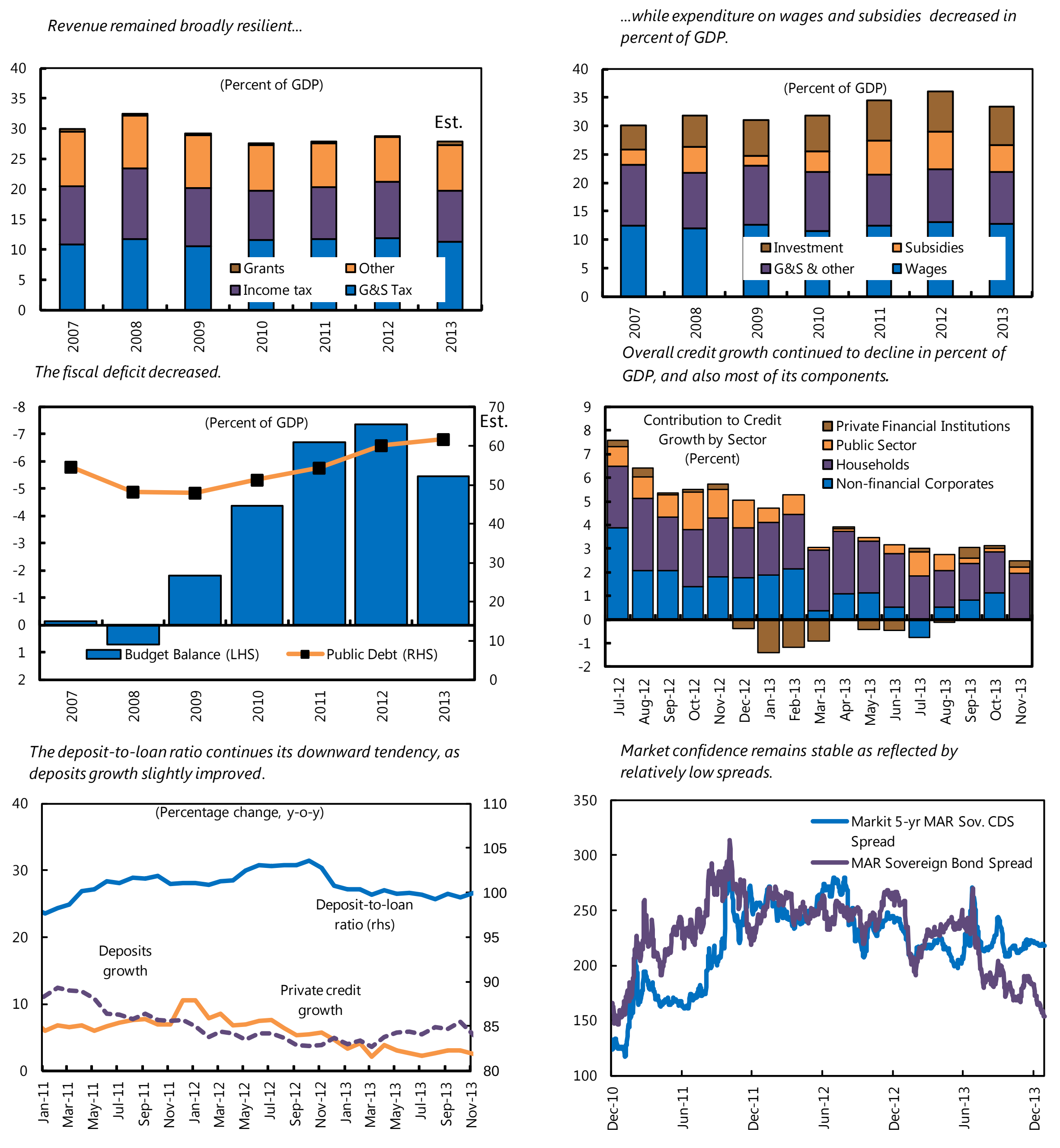
[4] The share of net external debt funding to total loans is currently close to zero and the banks' ratio of deposits to loans is 97.3.

Figure 1. Morocco: Real and External Developments



Sources: Moroccan authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal and Financial Market Developments



Sources: Moroccan authorities; and IMF staff estimates.

B. Outlook and Risks

11. Economic performance in 2014 will depend on the sustainability of the recovery of nonprimary growth and the outcome of the next agricultural season. Consistent with the nascent pick-up in most conjunctural indicators, growth in nonprimary sectors is expected to rebound to 4.8 percent, mostly supported by stronger domestic demand, as uncertainties that weighed on consumption and investment last year recede. Net exports are expected to make a small positive contribution to growth, led by newly developing industries (e.g., automobile, aeronautics) and improving conditions in Europe. The rapid development of these emerging industries has been driven by high FDI inflows. They represent high value added and are critical to the development of higher growth potential in Morocco. In total, assuming a return to normal cereal production, growth could average about 4 percent, although the margin of uncertainty around this projection is fairly large at this stage. Inflation is expected to increase moderately to 2.5 percent, reflecting higher domestic prices of some energy products.

12. The authorities are committed to pursuing fiscal consolidation in 2014 while accelerating the pace of structural fiscal reform. The 2014 budget aims at a fiscal deficit target of 4.9 percent of GDP in 2014. Achieving this target will require the sustained implementation of the reform agenda notably to continue reducing subsidies while controlling wages and investment expenditure. Tax and nontax revenue will continue to be affected by the slowdown in activity in 2013.[5] New measures introduced in the 2014 budget, notably the removal of tax exemptions on large agricultural producers, will only start to yield revenue in 2015.

13. The current account is expected to improve further and reserves to remain stable. The 2013 improvement in the trade deficit should continue through 2014, helped by lower international oil prices, higher demand from Europe, and stronger exports from developing industries (automobiles, aeronautics, etc.)[6] The European recovery is also expected to support tourism, remittances, and other services. The current account deficit is expected to decline further to about 6.5 percent of GDP in 2014. Over the medium term, the current account will continue to be financed by a relatively high level of grants, especially from the Gulf Cooperation Council countries. The capital and financial accounts are expected to remain strong, notably through FDI, as Morocco remains an attractive destination for investors. As a result, reserves would remain stable above four months of imports over the medium term.

14. As risks remain mainly on the downside, the medium-term outlook continues to hinge on the sustained delivery of the reform agenda. On the domestic front, political risks have receded with the recent appointment of a coalition government, but regional socio-political

[5] Corporate taxes are paid in any given year on the basis of the previous year's profits and adjusted the following year. Dividends and transfers from public enterprises are also expected to be affected by the slowdown in activity in 2013.

[6] The recent scaling up of capacity and FDI in the developing industries indicates that Morocco is expected to remain competitive in these industries,

tensions could continue to affect the ability to sustain the delivery of an ambitious reform program. Externally, a protracted period of slowdown in Europe would depress demand for Moroccan exports, slow remittances and FDI inflows, and put pressure on reserves. Protracted economic and financial volatility, triggered by the prospective exit from unconventional monetary policy (UMP) in certain advanced economies, would challenge Morocco's borrowing capacity in international markets. This could result in a cutback of growth-enhancing expenditures and jeopardize growth prospects. In this context, the medium-term scenario that underlies the central analysis in this report depends heavily on the sustained implementation of reforms to strengthen the resilience of the economy and foster higher potential growth.

Risk Assessment Matrix

Source of Risk	Up/Downside	Likelihood	Impact	Policy Response
Slower-than-needed pace of reforms	↓	Low	High	Communicate proactively to build consensus on needed reforms.
Protracted period of slow growth in Europe	↓	High	High	- Allow more flexibility in the exchange rate. - Accelerate structural reforms.
Surge in global financial market volatility (related to UMP exit), leading to economic and financial stress	↓	High	Medium	Rebuild external buffers that would limit the need to access international markets.

POLICY DISCUSSION

15. The Article IV consultation focused on the challenge of continuing to reduce vulnerabilities while fostering higher and more inclusive growth. Reforms should target the most binding constraints on competitiveness, growth and jobs. Surveys comparing related indicators across countries indicate that, in Morocco, these constraints mostly relate to an inefficient bureaucracy and governance issues, a tax system that does not adequately support competitiveness, difficulties in accessing finance, labor force skills that do not match business needs, and labor regulations that are unsupportive of job creation (Figure 3).[7] Exchange arrangements are also recognized as an impediment to development. At the same time, the authorities need to pursue their fiscal and external adjustment to strengthen the economy's resilience, which calls for continued fiscal consolidation. In that context, the Article IV consultation focused on the four following intertwined themes: (i) conducting a fiscal policy supportive of external adjustment and growth; (ii) fostering a business environment conducive to growth and jobs; (iii) adapting the monetary and exchange rate frameworks; and (iv) enhancing access to finance while further strengthening the resilience of the financial sector**.**

A. Conducting a Fiscal Policy Supportive of External Adjustment and Growth

16. The authorities reiterated their commitment to gradually lowering the fiscal deficit to 3 percent of GDP in the medium term. They intend to rebuild both fiscal and external buffers and ensure fiscal sustainability, a fundamental prerequisite for sustained growth. The pace of fiscal consolidation, in structural terms, is projected to average about 0.5 percent of GDP annually over the medium term (1.2 percent of GDP in 2013), which should not be a major drag on growth.[8] The medium-term overall fiscal deficit target of 3 percent of GDP corresponds to a primary deficit that, when cyclically adjusted, would be near 1½ percent of GDP, below the debt-stabilizing primary deficit (consistent with the gradual reduction of debt below 60 percent of GDP). The redesigned public debt sustainability analysis (DSA) (Annex) confirms that Morocco's debt (about 62 percent of GDP at end-2013) remains sustainable, as the debt level is robust to various shocks.[9] Nonetheless, somewhat large public and external financing needs could constitute vulnerabilities under shocks to real output growth and the primary fiscal balance.

[7] See also "Inclusive Growth in Morocco: Stylized Facts and Policies," Selected Issues Paper (CR/13/110).

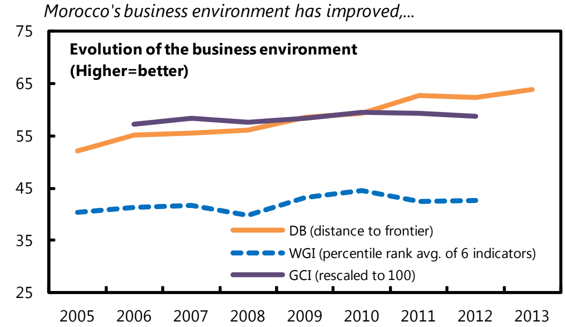
[8] Based on preliminary estimates for Morocco from a forthcoming IMF Middle East Department study on fiscal multipliers in the Middle East region.

[9] See "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis".

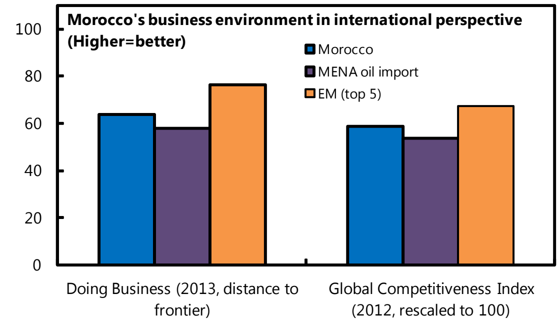
Figure 3. Impediments to Growth and Competitiveness

MOROCCO IN THE WORLD ECONOMY

Morocco's business environment has improved,...

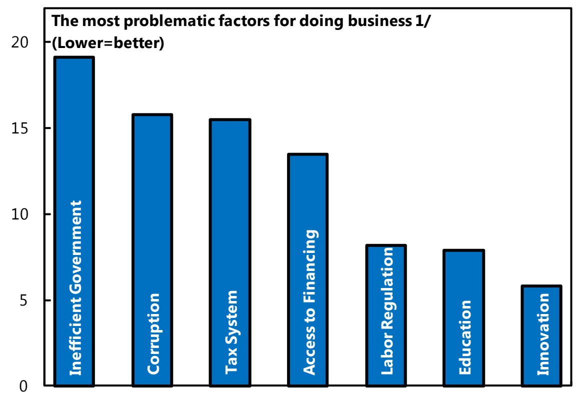


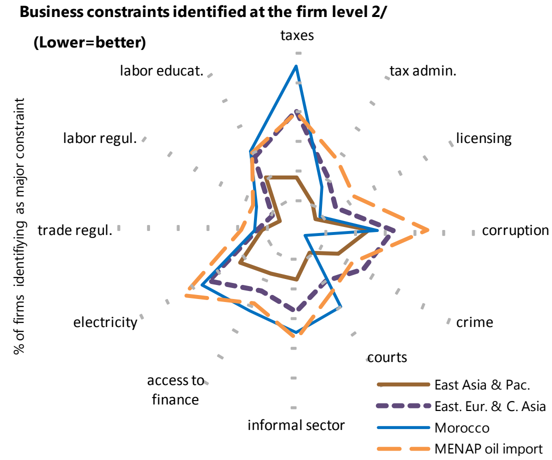
...performing relatively well within the region, but trailing best performers globally.



MAIN CONSTRAINTS TO GROWTH

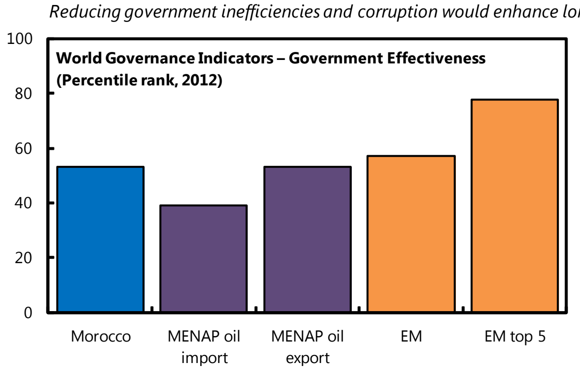
Government effectivness and corruption, the tax system, access to financing, and human capital and labor regulations are the main constraints to growth.

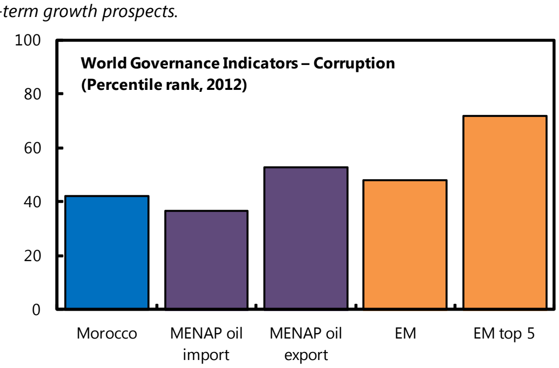




GOVERNMENT EFFECTIVENESS and CORRUPTION

Reducing government inefficiencies and corruption would enhance long-term growth prospects.



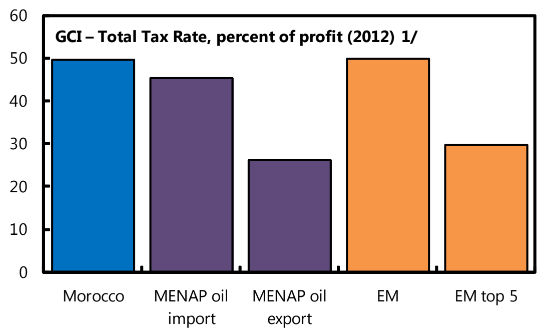


Notes: The EM top five gives the average of the five best performing emerging markets for the respective indicator.
DB = Doing Business (World Bank), GCI = Global Competitiveness Index (World Economic Forum), WGI = World Governance Indicators.
1/ Global Competitiveness Report (2012 data).
2/ World Bank Enterprise Surveys.

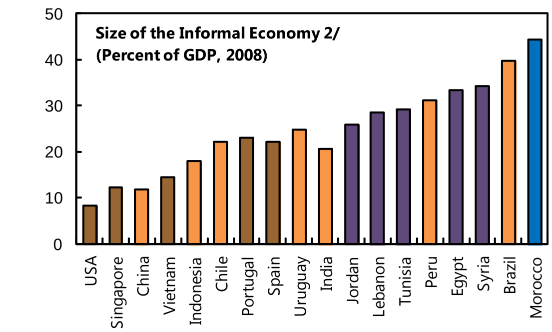
Figure 3. Impediments to Growth and Competitiveness (concluded)

TAX SYSTEM

Tax rates are relatively high..

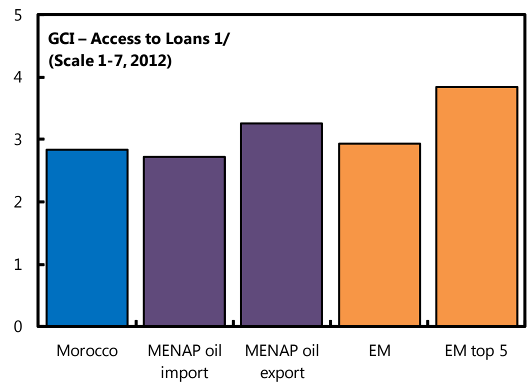


..while the informal sector is large, implying a relatively small tax base.

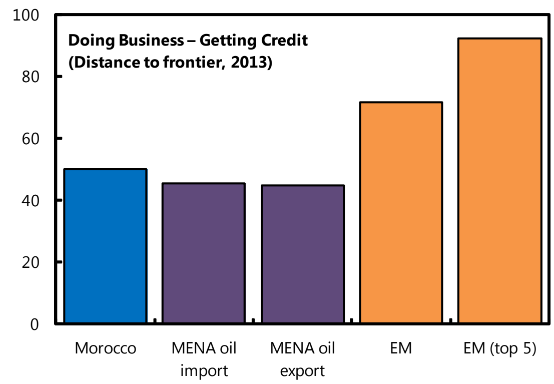


ACCESS TO FINANCE

Obtaining a bank loan is relatively difficult for entrepreneurs...

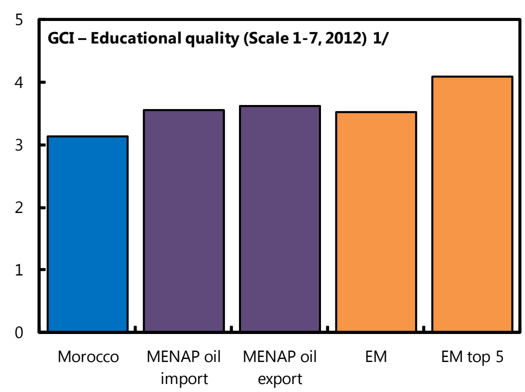


..while Morocco lags EMs in credit facilitation as measured by the extent of credit information sharing and the legal rights of borrowers and lenders.

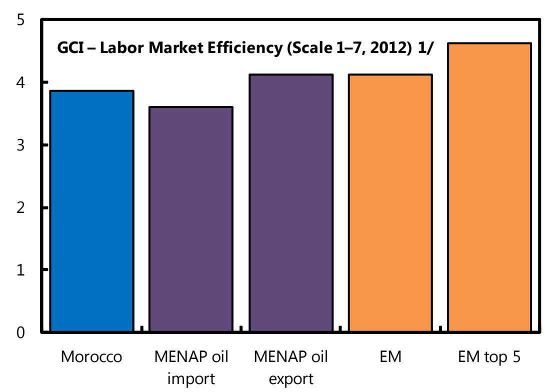


HUMAN CAPITAL AND LABOR MARKET

Education outcomes do not match employers' needs..



..while labor market regulations are seen as hampering employment.



Notes: Higher scores always imply better performance, except for the tax rate and the informal sector indicators. The 'EM top five gives the average of the five best performing emerging markets for the respective indicator.

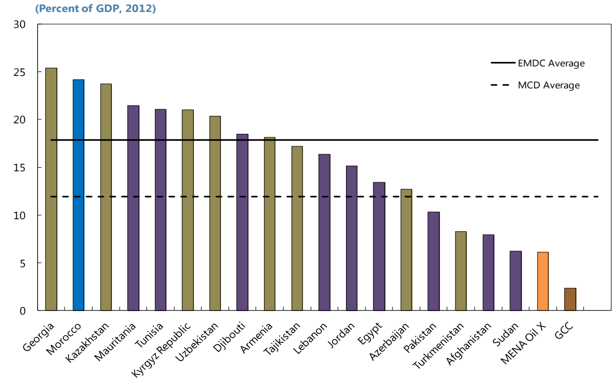
1/ GCI = Global Competitiveness Index.

2/Indirect mesure, see IMF Regional Economic Outlook for the Middle East and Central Asia (2011, p 45).

17. As fiscal consolidation progresses, revenue and spending need to be reoriented to better support growth and inclusiveness. While further fiscal consolidation is needed, the reduction in the fiscal deficit should leave space for investment in infrastructure and human capital and for well-targeted social protection, in order to best support medium-term growth prospects and the authorities' efforts to reduce poverty. In this context, reforms of the tax, subsidy, and pension systems are important, as is the gradual reduction in the public wage bill.

18. Morocco's tax revenue as a share of GDP is among the highest in the region, but the tax system is characterized by a narrow base and relatively high tax expenditures. Tax revenue averaged close to 24 percent of GDP over the past three years, but a large share of the economy is either exempt or evades taxation. According to the tax authorities, about 80 percent of corporate taxes are paid by 2 percent of all enterprises operating in the country. Similarly, more than 70 percent of income tax receipts are paid by wage earners, while self-employed and liberal occupations pay disproportionally low taxes. In addition, entire sectors, such as agriculture, are exempted, and the informal sector is large. Tax expenditures were estimated at about 4 percent of GDP in 2013. Economic agents perceive the narrow tax base associated with high tax rates as one of the most important constraints to growth (Figure 3). Furthermore, the VAT, which represents a large share of total revenue, is not neutral (i.e., businesses cannot always fully recover their VAT credit). This has resulted in a large stock of credits due to enterprises and cash-flow problems for those with limited liquidity.

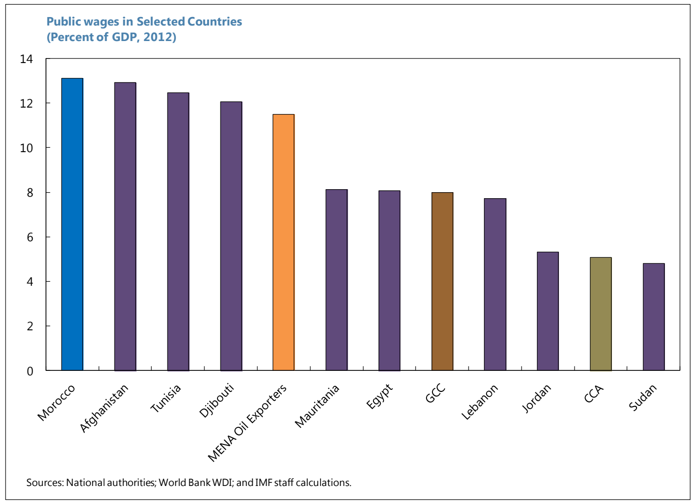
Total Tax Revenue
(Percent of GDP, 2012)



Sources: National authorities; and IMF staff calculations.

19. The 2014 budget initiates a tax reform that aims to widen the tax base, help support competitiveness, and bring more equity. A National Tax Conference in April 2013 helped shape a strategy and action plan for reforming the system. The goal, which staff broadly supports, is not to increase tax revenue, but rather to widen the tax base, review tax incentives and tax rates, and improve tax administration, to make the system more resilient, fairer, and more supportive of competitiveness. The 2014 budget introduces measures to start implementing the strategy, notably by beginning to tax large agriculture firms, as a first step toward the full taxation of the sector, launching the reform of the VAT regime, and introducing measures to better enforce the taxation of the self employed and liberal professions. Staff welcomed those measures, while encouraging the authorities to be bolder in the next phases of the action plan, particularly with respect to the reduction of tax expenditures and with the enforcement of tax obligations of the self-employed and liberal professions. Staff noted, and the authorities agreed, that in implementing a strategy to broaden the tax base and lower tax rates, the gains from the former needed to be firmly established before the latter are implemented, to avoid the risk of permanently lowering revenues.

20. Some progress was made toward reducing the public wage bill, but more is needed to achieve the authorities' medium-term objective of a wage bill below 11 percent of GDP. At close to 13 percent of GDP, Morocco's public wage bill remains the highest in the region. Over the past six years, it increased by 44 percent, mostly as a result of promotions and salary increases. The average public sector compensation is estimated to represent about 3½ times the per-capita GDP compared to an average of about 2½ times in the region and 1½ times globally. The authorities' target is to bring the wage bill to below 11 percent of GDP in the medium term. In 2013, they implemented measures to better control wage spending, and achieved a reduction of the wage bill by 0.4 percent of GDP. Although the 2014 budget significantly reduces the net creation of new posts from previous years, the delayed effect of measures taken as part of the social dialogue in 2011 will only allow a minimal reduction in the wage bill as a share of GDP.[10] The authorities intend to limit the net creation of new positions, salary advances, and promotions to a well-defined budget envelope in order to reach their medium-term wage bill target. Staff stressed that achieving this objective was an important part of fiscal consolidation consistent with making space for pro-growth, pro-equity spending. Staff noted that the main issue did not appear to be the size of the payroll, but the average compensation of the workforce. The authorities concurred with staff that more remained to be done, while noting the difficulty of the task at a time when subsidy and public pensions are also to be reformed.



21. Blanket subsidies of a number of energy and food products have been costly, inefficient, and a source of fiscal vulnerability. Over the years, the subsidy system has become overly expensive, costing over 6½ percent of GDP in 2012—almost the size of the overall fiscal deficit, as much as spending on investment, and more than the spending on health and education combined. The government estimates that only 9 percent of all subsidies benefit the poorest quintile of the population, while 43 percent benefit the richest quintile. The contrast is even starker for diesel and fuel subsidies: 75 percent of payments benefit the richest quintile. Furthermore, the subsidy system is an important source of fiscal risk because it makes the budget hostage to international energy prices.[11]

[10] The draft budget programs the net creation of 3,400 positions, against an average of 12,800 net creations annually over 2008–13.

[11] For an illustration of this vulnerability, see the related stress tests in *Fuel Subsidies in Morocco: International Experience and Possible Ways Forward*, Selected Issues (CR/13/110).

22. The authorities have started to reform the subsidy system, with the objective of reducing its cost to 3 percent of GDP by 2016. Staff and the authorities agreed that the reform needed to advance on three fronts: (i) lowering the total cost of subsidies, by adjusting the prices and quantities of subsidized products; (ii) reducing fiscal risks by introducing measures to shield the budget from world price fluctuations; and (iii) ensuring that, as generalized subsidies are being reduced, the most vulnerable are adequately protected by well-targeted social programs. Staff welcomed the important progress made recently on these three fronts:

- *Reducing costs*. In 2013, the subsidy bill decreased by almost 2 percent of GDP, to 4.7 percent of GDP, as a result of the measures taken in 2012 and 2013 and lower world oil prices. The 2014 budget targets a further reduction by close to 1 percent of GDP, in line with the authorities' medium-term target. To achieve this reduction, the authorities in January 2014 took measures to remove subsidies on gasoline and industrial fuel not used for electricity generation and to reduce the per-unit subsidy on diesel.

- *Reducing fiscal risks*. In September 2013, the authorities introduced a mechanism to index the prices of three subsidized energy products to world prices, a significant step toward reducing fiscal risks. They also implemented a hedging strategy to protect the budget and the population from significant spikes in diesel prices.

- *Expanding targeted social programs*. To mitigate the impact on the poor, the authorities have expanded two existing social programs (providing support to school-age children and helping the poor with medical care). They have also introduced programs to support low-income widows and physically disabled individuals. Furthermore, they are providing support to the public transportation sector to ease the cost of higher fuel prices and limit the fare increases.

The authorities emphasized the need for a gradual approach in reducing subsidies, to manage the macroeconomic implications of the reform and foster greater social acceptance. Staff recognized the difficult socio-political environment for reform and the need to adequately mitigate the potential impact on the poor, and agreed that a gradual, sustained, approach was preferable. Staff stressed the importance of clearly communicating the case for reform, as the authorities have done extensively, and of explaining new measures as they are implemented.

Subsidized Products and Social Safety Nets: Costs and Recent Actions

	Fiscal cost (percent of GDP)			Affects the poorest the most	Recent/ ongoing reforms
	2012	2013	2014		
Subsidized products	**6.6**	**4.7**	**3.5**		
Energy	**5.8**	**4.0**	**3.0**		
Super	0.2	0.1	0.0	…	Domestic prices indexed to world prices, starting September 2013. Subsidy removed starting February 2014.
Diesel	2.7	1.8	1.1	Indirectly, through public transportation	Domestic prices indexed to world prices, starting September 2013. Hedging contract covering Sept-Dec. 2013. Per-unit subsidy reduced gradually in 2014.
Industrial fuel	0.3	0.2	0.0	…	Domestic prices indexed to world prices, starting September 2013. Subsidy removed starting February 2014.
Fuel for electricity generation	0.5	0.4	0.4	…	Electricity company gradually shifting production away from fuel.
Fuel special	0.4	0.2	0.2	…	…
Butane	1.7	1.5	1.4	Yes	…
Food	**0.8**	**0.7**	**0.5**		
Wheat	0.2	0.3	0.2	Yes	Quotas of subsidized wheat reduced by 6 percent in May 2013.
Sugar loaves	0.6	0.4	0.4	Yes	…
Targeted social safety net	**…**	**…**	**0.2**		
Tayssir (education allowances)	…	…	…	Yes	Being extended (460,000 beneficiaries in 2013, 475,000 targeted in 2014)
Ramed (medical insurance)	…	…	…	Yes	Being extended (5.5 million persons covered at end-October 2013)
Support for public transportation	…	…	…	Yes	Being introduced in 2014
Support to low-income widows and physically-disabled individuals	…	…	…	Yes	Being introduced in 2014

23. The financial situation of the pension system remains tenuous.[12] The main public pension fund (*Caisse Marocaine de Retraites*, CMR) is expected to receive less in contributions than it is paying in benefits starting in 2014. Under current projections, it is expected to exhaust its reserves by 2021. The main private pension fund (*Caisse Nationale de Sécurité Sociale*, CNSS) is projected to start accruing flow deficits by 2021 and to exhaust its reserves in 2030. The 2014 budget pledges the introduction of a parametric reform aimed at improving the actuarial situation of the CMR and prolonging its viability by seven to 10 years.[13] This is to be the first step toward broader structural reforms to put the system as a whole (public and private) on a sustainable footing for the long term; these include merging the current four funds into one or two funds, and setting incentives for currently non-covered workers to become part of the formal pension system. Staff viewed this reform as crucial to preserve fiscal sustainability and extend social protection, and welcomed the determination of the authorities to adopt its first step in 2014.

[12] See Box 1 of the Staff Report for 2012 Article IV and First PLL Review (CR/13/96).

[13] The parametric changes that are considered include a gradual increase in the retirement age (from 60 to 65) and the contribution rate (20 percent to 24 percent), combined with a reduction in the accrual rate (from 2.5 percent to 2 percent) and benefits (calculating pension based on the average of the final eight years' salary instead of the final year).

24. The draft Organic Budget Law (OBL) aims at modernizing the fiscal framework and enhancing its efficiency. A draft OBL was adopted by the council of ministers in mid-January. It includes welcome enhancements to the existing 1998 law, such as multiyear budgeting, program budgeting, performance management and fiscal transparency. Ahead of its adoption in 2014, four ministries are scheduled to start operating as pilot cases in program budgeting. The draft OBL also addresses weaknesses in the budgetary framework that came to the fore in 2012 by making wage expenditures appropriations binding ceilings and limiting the carryover of investment appropriations, although with delayed effective dates. Staff welcomed the authorities' efforts to strengthen and modernize their budget framework while encouraging them to incorporate best practices before finalizing the law, to further reduce potential sources of fiscal risks, notably in the areas of fiscal coverage (in particular autonomous agencies and public enterprises), fiscal policy formulation and fiscal discipline (e.g., by ensuring that the cost of any new initiative is always fully reflected in the budget to ensure adequate resources are available). Additional limitations on special accounts were also included in the draft OBL, but tighter restrictions would be more appropriate. The mission also encouraged the authorities to seek early parliamentary debate and adoption of the new OBL with the provisions addressing the issues that came into play in 2012 taking immediate effect. In this way, the 2015 budget can be fully prepared under the new legal framework.

B. Fostering a Business Environment Conducive to Growth and Jobs

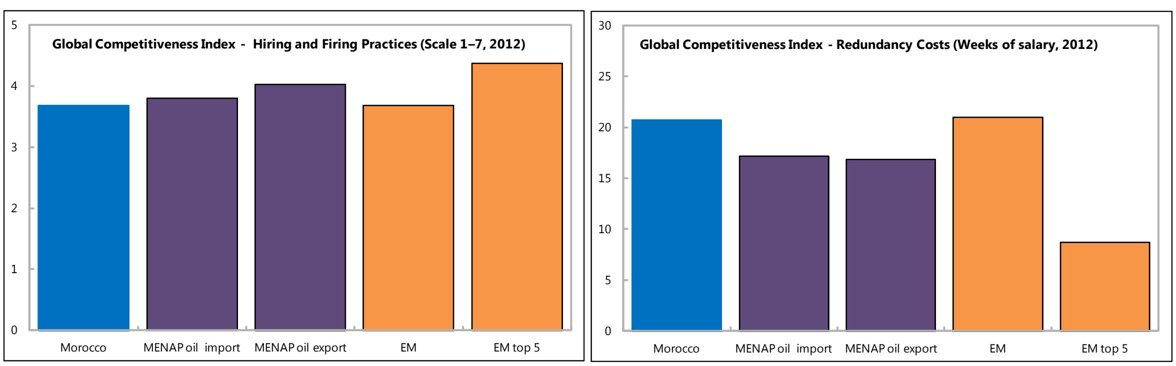
25. Governance and the business environment have improved, but much remains to be done to promote investment and improved external competitiveness. As noted in paragraph 15 and figure 3, an inefficient bureaucracy and governance issues are among the main impediments to doing business in Morocco.[14] Reforms in this area have been driven by a dedicated National Committee chaired by the head of government; these reforms helped Morocco gain 27 places between 2011 and 2014 in the World Bank's Doing Business indicators.[15] Morocco now ranks 87 among 189 countries, owing to progress in the environment for starting a business, registering property, and paying taxes. The authorities intend to continue their efforts in 2014, including the implementation of a new procurement law, the submission to parliament in early 2014 of a law to strengthen the independence of the competition council, which should improve entry and domestic competition, and the full setting up of a national corruption watchdog. A much-needed reform of the judiciary has also been announced; however, in light of the challenges ahead and gains made in other countries, staff stressed that much remains to be done in streamlining government bureaucracy, improving transparency, reforming the judiciary, and improving governance. This reform effort also needs to include effectively implementing the anti-money laundering (AML) framework, for Morocco to keep pace with more competitive emerging markets (see also ¶35).

[14] Growth pay-offs of different categories of structural reforms are potentially large, as discussed in the 2012 Selected Issues Paper "Inclusive Growth in Morocco: Stylized Facts and Policies" (CR/13/110).

[15] These indicators should be interpreted with caution because of the limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

26. The authorities have engaged in active labor market policies, but the difficulty in reducing unemployment suggests that more is needed to address the problem. The unemployment rate has come down from 14 percent in 1999 to 9 percent in 2009; however, there has been no further gain since 2009, despite relatively robust growth, with youth unemployment worsening to 18.6 percent. To support their goal of reducing the unemployment rate to 8 percent by 2016, the authorities are revamping their labor market policies: reviewing existing support programs, setting up an employment observatory, improving access to vocational training, and strengthening labor market intermediation agencies.[16] In addition, in cooperation with social partners, the authorities recently introduced an unemployment insurance scheme (IPE). While staff supports the authorities' multi-pronged approach, it noted that there have been limited effects on unemployment outcomes thus far. Staff observed that existing programs seemed to leave aside core issues identified as crucial impediments to job creation by surveys conducted in Morocco as well as the literature, notably those related to hiring and firing costs (Figure below and Box 1).[17] In this light, staff was encouraged by the authorities' intention to engage in 2014 in a dialogue with social partners on the existing labor code to review how it can best foster growth and employment while providing adequate protection of workers' rights. A number of initiatives aim at reducing the large informal sector, notably through incentives for new entrepreneurs (e.g., lower social security contribution rates) and efforts by the main private social sector pension fund to bring more companies and workers into the formal sector. The VAT reform will also help in this respect.

Labor Market Efficiency



Source: World Economic Forum, "Global Competitiveness Report 2013-14."

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16 Existing active labor market policies include: (i) a wage subsidy program to help unemployed graduates to secure internships (*Idmaj*), (ii) training unemployed graduates to meet specific recruitment needs (*Taehil*), (iii) an entrepreneurship program (*Moukawalati*). Two other new initiatives are in the pipeline: (i) *Moubadara*, which encourages employment in NGO's, and (ii) *Taâtir*, which focuses on the long-term unemployed.

17 See also the above-mentioned "Inclusive Growth in Morocco: Stylized Facts and Policies." The paper finds that if Morocco could achieve the benchmark score, which is an average of the seven best-performing countries for an indicator measuring the restrictiveness of employment protection legislation, potential growth could increase by 0.5 percent.

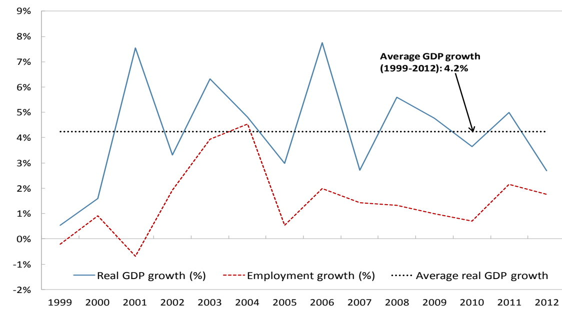
Box 1. Morocco: Growth and Unemployment

Understanding the relation between growth and employment is important when considering how to reduce the high unemployment rate in Morocco (Figure A1). To this end, staff estimated the elasticity of employment to GDP, based on the following equation:

$$\log(E_t) = \alpha + \rho\log(E_{t-1}) + \beta\log(GDP_t) + u_t$$

where *E* stands for employment at time *t*, and *u* is an error term. Our estimates for ρ and β are 0.81 and 0.07 respectively, implying a long-term elasticity of 0.36. This is relatively low: for the MENA region as a whole, the elasticity is estimated to average 0.5.

Figure A1. Growth and Employment



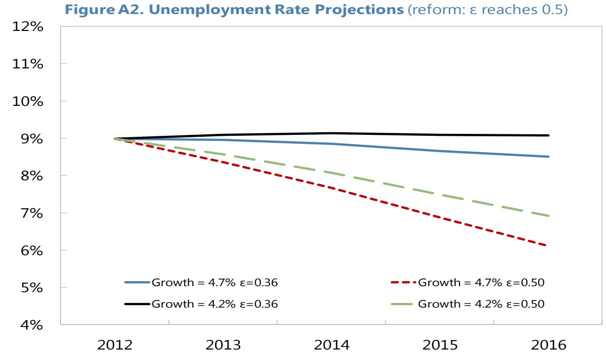
Based on these estimates, staff explored scenarios to identify the conditions in which the authorities' target of lowering unemployment to 8 percent by 2016 could be met (Figure A.2). Under the current growth projections, and absent reform that would help increase the employment-growth elasticity, the unemployment rate would decrease only to about 8.5 percent in 2016 from 9 percent at present. Note that the projected average growth rate of 4.7 percent is higher than the historical average of 4.2 percent. For the authorities' target to be reached, growth would have to average 5.1 percent annually over 2012–16. Alternatively, were reforms to the job market to be implemented, that would raise the employment-growth elasticity to the average of MENA (0.5), the target could be achieved, even with an annual growth of 3.6 percent on average.

Morocco : Medium Term Outlook for Unemployment 2012 - 2016

2012 Labor Force (millions)	11.75
2012 Unemployment Rate (percent)	9.0%
2012 Unemployed (millions)	1.06
2012 Employed (millions)	10.70
2016 Labor Force (millions)	12.50
2012 - 16	
New Entrants to the labor force (millions)	0.74
Total number of currently unemployed and new entrants	1.80
Employment elasticity	0.36
Average real GDP growth rate, 1999 - 2012 (percent)	4.2%
Average real GDP growth forecast, 2013 - 2016	4.7%
Annual % employment growth implied by historical growth & elasticity	1.5%
Annual % employment growth achieved at current growth forecasts & elasticity	1.7%

The policy question is how to increase the elasticity. Recent work by IMF staff shows that structural policies aimed at increasing labor and product market flexibility and reducing government size have a positive impact on employment elasticity.[1] Specifically, they find that reforming hiring and firing regulations and, for product markets, reducing bureaucracy costs and bribery, tend to have the greatest impact in making employment more responsive to growth. For a given elasticity, potential growth would also increase if the labor participation rate, which is particularly low by international standards, were to rise. In this context, increasing the female participation rate is crucial.

Figure A2. Unemployment Rate Projections (reform: ε reaches 0.5)



[1] Crivelli, E., D. Furceri and J. Toujas-Bernate, 2012, "Can Policies Affect Employment Intensity of Growth? A Cross-Country Analysis," IMF Working Paper 12/218.

C. Adapting the Monetary and Exchange Rate Frameworks

27. The fixed exchange rate regime has provided an important nominal anchor for the economy. Over the past decade and until recently, Morocco achieved stable macroeconomic and financial conditions under an exchange rate peg. The peg (to a basket of 80 percent euro/20 percent U.S. dollar) has helped achieve price stability and insulate the economy from nominal shocks. In addition, Morocco's heavy reliance on trade with the euro area favored the maintenance of the peg. However, growth has been relatively volatile. Furthermore, the current account balance has deteriorated almost continuously since 2002, consistent with a gradual loss in competitiveness.

28. Within the existing monetary and exchange rate frameworks, the current monetary policy stance is appropriate. BAM has effectively anchored inflation expectations in the context of the exchange rate peg. Inflation has averaged 1.7 percent over the past 10 years and never went above 4 percent. Although liquidity remains tight, staff considers that the current monetary policy stance is appropriate. The nonprimary output gap is moderately negative and risks to growth are tilted to the downside, but monetary policy should remain cautious about the possible effects on inflation of price increases related to the subsidy reform.

29. Staff has been advocating for a while that Morocco would now be better served by a more flexible exchange rate.[18] As the economy opens up and becomes more vulnerable to real external shocks, a flexible exchange rate would allow it to respond better to shocks and help support competitiveness. In addition, the authorities' plans for increased trade diversification, further financial expansion, and broad-based market-oriented reforms to accelerate growth and create jobs would require an exchange rate framework that provides more flexibility than the current one. However, as discussed in previous staff reports, the monetary framework will also need to evolve in line with a move toward a more flexible exchange rate. The adoption of a nominal anchor for monetary policy, for instance through an inflation-targeting regime, to take over the exchange rate would provide monetary independence and help maintain a more adequate policy mix combined with a more open capital account.

30. Recently, the central bank publicly announced the authorities' intention to transition to a more flexible currency regime over the next three years provided that supportive macroeconomic policies are in place. This announcement was a welcome shift of the debate from the "if/when" to the "how." The Fund is helping build capacity to support this move, including strengthening BAM's forecasting and policy analysis capacity in preparation of a new monetary policy regime, and with planned technical assistance on operational options for a more flexible exchange rate regime. During the discussions, the authorities stressed the need to coordinate the shift in exchange rate regime with other macroeconomic policies, and in particular, the importance of improving the fiscal position ahead of transitioning away from the peg and defining a new nominal anchor for monetary policy.

[18] See the 2012 Article IV report, as well as "Selected Issues, Morocco: Exchange Rate Regime."

D. Enhancing Access to Finance While Further Strengthening the Resilience of the Financial Sector

31. The banking system has remained resilient, but the liquidity pressures and a recent increase in NPLs should continue to be closely monitored. Staff concurred with the authorities that a rather prudent business model and relative insulation from the euro zone debt crisis have helped the financial sector remain systemically sound. Nonetheless, liquidity is still tight, banks are facing an increase in NPLs, and their revenue is suffering from the slowdown in credit activity.

- *Liquidity*. BAM has injected liquidity, primarily through seven-day advances. It has also put in place a program that provides banks with liquidity using loans made to SMEs as collateral. Liquidity provided under this program has been relatively small so far (about 6 billion dirhams). BAM considered that it had sufficient elements in place to guarantee that credit risks are not built up, including the strict eligibility criteria of the loans accepted and the application of a 15 percent haircut from market value to reflect the size of the perceived risk. BAM also noted that the acceptance of loans made to SMEs as collateral does not involve any risk transfer to its balance sheet because the recovery of the debts continues to be under the responsibility of the commercial banks. Staff emphasized that credit risks should continue to be carefully monitored.

- *NPLs*. BAM noted that NPLs are sufficiently provisioned and stressed that, in 2013, it requested additional provisions for the third consecutive year. Besides, BAM noted that there is no particular concentration of NPLs in any particular sector.

- *Regulatory framework*. Overall, BAM is further strengthening banking regulation and supervision in line with new Basel III standards. The capital adequacy ratio was increased in June 2013, and BAM is incorporating the new definition of prudential capital and short-term liquidity in its regulations. A FSAP update is planned for the fall of 2014.

32. Improved access to credit, especially for SMEs, is still needed to foster higher potential growth. Obtaining a bank loan is more difficult in Morocco than in the top emerging-market performers (Figure 3). In addition, SMEs are particularly vulnerable to the current economic difficulties.[19] As noted above, some measures have already been introduced that should help facilitate their access to credit; however, more is needed to help foster private sector development. A recent World Bank survey concluded that sustained expansion of sound SME lending in the MENA region would require strengthening credit information and the creditor rights framework.[20] Despite the setting up of a private credit bureau in 2009, however, Morocco scores poorly compared to other emerging markets on its credit reporting system (Figure 3). There is also room to improve legal rights with respect to debtors' default and insolvency procedures. Providing better access to credit for SMEs would also help their passage to the formal economy.

[19] As noted in BAM's 2012 annual report.

[20] See World Bank, 2011, Financial Access and Stability: A Road Map for the Middle East and North Africa.

33. Fostering financial inclusion to make finance accessible to a larger part of the population is one of the authorities' priorities. The goal is for two-thirds of the population to have financial access by 2014, up from about 57 percent at the end of 2012. Microcredit is one possible avenue to expanding financial services to the part of the population that is excluded from the conventional financial system. The authorities are also taking steps to allow full-fledged Islamic finance institutions to operate, possibly as early as 2014.

34. The international expansion of Moroccan banks targets high-potential but riskier markets and needs to be properly regulated and supervised. Major Moroccan banks have successfully increased their presence in sub-Saharan Africa, and have grown aggressively over the past few years, largely through acquisitions. At end-2012, sub-Saharan African operations represented about 20 percent of the consolidated assets of some Moroccan banks and, in some cases, more than 40 percent of their total revenue. This international expansion has diversified Moroccan banks' assets and revenue sources; however, it is also potentially bringing additional credit and operational risks. The integration of the foreign subsidiaries' information and risk management systems with their parents is essential to the implementation of adequate controls. Staff emphasized that BAM should spare no efforts to continue strengthening supervision in this respect. BAM stressed that it is closely monitoring these activities and reinforcing coordination and exchange of information with supervisory and regulatory agencies in host countries, including on-site supervision missions. In addition, staff also emphasized the need for cross-border resolution agreements with other countries in the region, given the regional expansion of Moroccan banks. BAM also participates in several regular groups of supervisors, including the French-speaking banking supervisors (GSBF), which closely follows the international banking activity of domestic banks through yearly meetings and quarterly conference calls.

35. Morocco has undertaken significant progress in improving its AML/CFT regime. It has established the legal and regulatory framework to meet its commitments in its Action Plan regarding the strategic deficiencies that the Financial Action Task Force (FATF) had identified in February 2010. As a result, Morocco is therefore no longer subject to FATF's monitoring process under its ongoing global AML/CFT compliance process.

STAFF APPRAISAL

36. After a difficult 2012, economic performance improved overall in 2013 despite a persistently weak environment. The European crisis led to a net deceleration of underlying economic activity, but a bumper crop and lower international oil prices helped sustain overall GDP growth and reduce the current account deficit. Lower oil prices and policy action also contributed to reduce the fiscal deficit after its sharp and unanticipated increase in 2012. The exchange rate peg and prudent monetary policy helped keep inflation low. However, unemployment remained high, especially among the youth, and much remains to be done to reduce poverty further.

37. In an international and regional environment that remains risky, the outlook hinges on the sustained delivery of the reform agenda. Growth in 2014 could reach close to 4 percent, as the nonagricultural sectors accelerate and assuming a return to normal cereal production; however, the economy remains vulnerable to global conditions. Although the world outlook is improving, the international economic environment remains fragile and the regional context volatile. In this context, it is important that the authorities continue the reforms undertaken to rebalance the fiscal and external accounts, strengthen competitiveness, ensure stronger and more job-rich growth, and improve social protection, particularly for the most vulnerable segments of the population.

38. As fiscal consolidation progresses, revenue and spending need to be reoriented to better support growth and inclusiveness. Fiscal consolidation remains needed to preserve fiscal sustainability and support the external sector adjustment. The authorities' fiscal deficit targets for 2014 (4.9 percent of GDP) and the medium term (3 percent of GDP by 2017) are appropriate. It will be important to reduce the deficit in a way that leaves space for investment in infrastructure and human capital and for well-targeted social protection, in order to best support medium-term growth prospects and continue to reduce poverty.

39. In this context, structural fiscal policy reforms have a key role to play. The reform of the subsidy system remains a key pillar of a strategy to ensure fiscal sustainability, reduce fiscal risks, and promote more effective and better-targeted social protection. The recently introduced measures in those directions amounted to significant progress, and the authorities' intention to pursue these efforts is commendable. The reform of the pension system is also urgently needed to ensure its viability and preserve fiscal sustainability. We encourage the authorities to adopt the planned parametric reform of the main public pension fund as early as possible in 2014. To make further space for pro-growth spending, it will also be important to gradually reduce the cost of the public wage bill, by bringing the average compensation more in line with international standards. We welcome the government's efforts to begin to reduce tax exemptions, particularly in the agricultural sector, to enforce tax filing and payment by those self-employed and in liberal professions and to reform the VAT system.

40. It is also particularly important to lay the foundation for a truly modern, stronger, fiscal framework. The draft new organic law adopted by the council of ministers represents an improvement over the current framework. It will be particularly important to seize the opportunity of a new organic law to fully incorporate international best practices regarding fiscal coverage, policy formulation and discipline. The law should be adopted and key provisions implemented without delay, to enhance spending control and so that the 2015 budget can be fully prepared under the new framework, per the authorities' objective.

41. Improving competitiveness remains necessary to consolidate Morocco's external position. The efforts made in recent years to diversify export markets and products and attract additional foreign direct investment have already begun to bear fruit. Greater flexibility in the exchange rate regime, in coordination with other macroeconomic policies, would help competitiveness, enhance the capacity of the economy to absorb shocks, and support the globalization and diversification of foreign flows. Recent progress notwithstanding, reforms to improve the business climate, transparency, and the judiciary are still needed, to continue to attract and stimulate private investment. It is also important to implement appropriate policies to increase the job content of growth.

42. Monetary and financial policies have remained appropriate. Bank Al-Maghrib has a track record of achieving low inflation. We support its efforts to strengthen its banking supervision arrangements, including gradual adherence to the Basel III norms, and to ensure adequate provisioning of NPLs, which increased slightly this year. We also welcome its close monitoring of the banking sector's international expansion to high or potential, but high-risk new markets. To increase the potential growth of the economy, it remains necessary to continue to foster financial deepening and increased access to credit, particularly for SMEs.

43. The next Article IV consultation is proposed to take place on the standard 12-month cycle.

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

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
	(Annual percentage change)								
Output and Prices									
Real GDP	5.0	2.7	5.1	4.5	3.9	4.9	5.2	5.4	5.6
Real primary GDP	5.1	-7.2	13.6	17.0	-1.0	4.5	4.5	5.0	5.0
Real non-primary GDP	5.0	4.6	3.7	2.4	4.8	5.0	5.3	5.5	5.7
Consumer prices (end of period)	0.9	2.6	2.3	0.4	2.5	2.5	2.5	2.5	2.5
Consumer prices (period average)	0.9	1.3	2.3	1.9	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP)								
Investment and Saving									
Gross capital formation	36.0	35.3	34.3	34.7	35.3	35.3	35.4	35.5	35.7
Of which: Nongovernment	30.6	29.7	30.0	29.5	30.7	29.9	29.9	30.1	30.2
Gross national savings	27.8	25.6	27.1	27.2	28.8	29.7	30.6	31.3	31.1
Of which: Nongovernment	27.5	25.9	26.8	25.9	27.6	26.8	26.9	27.0	26.9
	(In percent of GDP)								
Public Finances									
Revenue	27.8	28.7	27.5	27.9	27.4	28.1	28.1	28.2	27.6
Expenditure	34.5	36.1	33.0	33.4	32.4	32.4	31.7	31.2	30.7
Budget balance	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Primary balance (excluding grants)	-4.6	-5.0	-4.0	-3.6	-2.8	-2.7	-1.9	-1.4	-0.6
Cyclically-adjusted primary balance (excl. grants)	-4.4	-4.7	...	-3.4	-3.3	-2.6	-1.9	-1.4	-0.6
Total government debt	54.4	60.2	61.8	61.7	62.5	62.4	61.5	60.1	58.6
	(Annual percentage change; unless otherwise indicated)								
Monetary Sector									
Credit to the private sector 3/	9.8	4.8	6.1	3.6	5.6	6.2	6.9	6.9	6.9
Broad money	6.4	4.5	5.5	3.9	4.6	5.5	6.5	6.0	6.0
Velocity of broad money	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.5	3.2	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External Sector									
Exports of goods (in U.S. dollars, percentage change)	21.7	-0.8	3.3	1.8	9.1	7.3	7.0	6.3	7.6
Imports of goods (in U.S. dollars, percentage change)	25.3	1.6	0.7	0.7	6.8	5.2	5.1	5.2	5.9
Merchandise trade balance	-19.4	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6	-15.0
Current account excluding official transfers	-8.4	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2	-4.7
Current account including official transfers	-8.1	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2	-4.5
Foreign direct investment	2.4	2.4	3.2	2.9	2.9	3.0	3.1	3.1	3.2
Total external debt	25.1	29.8	31.3	30.9	31.5	31.6	30.6	29.2	28.2
Gross reserves (in billions of U.S. dollars)	20.6	17.5	18.7	19.3	20.0	21.1	22.4	23.7	25.1
In months of next year imports of goods and services	5.0	4.2	4.3	4.3	4.3	4.3	4.3	4.3	...
In percent of short-term external debt (on remaining maturity basis)	1473.6	1251.8	1332.0	1374.5	1427.1	1508.7	1601.2	1691.2	1794.5
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	99.2	96.1	104.8	105.5	115.1	125.1	136.0	146.7	158.4
Unemployment rate (in percent)	8.9	9.0	8.9	8.9	...	...	...	...	...
Population (millions)	32.2	32.5	32.9	32.9	33.2	33.5	33.8	34.2	34.5
Net imports of energy products (in billions of U.S. dollars)	-11.2	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9	-13.0
Local currency per U.S. dollar (period average)	8.1	8.6	...	8.4	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	-1.0	...	0.1	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.
2/ Revised macro framework.
3/ Includes credit to public enterprises.

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

(Billions of dirhams)

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Revenue	223.3	237.7	244.6	246.9	258.4	283.6	305.4	329.6	349.5
Taxes	189.0	202.7	200.7	199.5	211.3	232.5	252.7	272.4	298.5
Taxes on income, profits, and capital gains	69.2	77.4	74.2	75.1	77.2	87.4	95.6	103.2	112.7
Taxes on property	9.3	11.6	12.5	11.6	14.1	13.6	14.7	15.8	17.1
Taxes on goods and services	94.6	99.0	101.6	99.8	106.9	117.8	127.9	139.0	152.3
Taxes on international trade and transactions	10.7	9.4	8.0	8.0	8.1	8.4	8.7	9.1	9.6
Other taxes	5.3	5.4	4.4	4.9	5.0	5.3	5.7	5.3	6.8
Grants	1.3	0.5	8.7	6.0	10.6	10.7	10.7	12.1	2.2
Other revenue	33.0	34.6	35.2	41.4	36.5	40.4	42.0	45.1	48.8
Expense	234.2	252.5	255.4	249.3	262.0	272.3	284.9	300.9	318.4
Compensation of employees 3/	99.8	108.9	114.0	112.4	118.8	119.6	124.9	130.0	137.8
Use of goods and services and grants	53.5	56.6	65.0	59.0	67.9	73.7	79.2	86.0	92.9
Interest	18.2	20.1	22.4	22.5	24.8	27.0	29.1	31.0	32.7
Subsidies 4/	48.8	54.9	41.4	41.6	35.0	34.3	32.5	32.4	32.2
Other expense 5/	13.8	12.1	12.6	13.9	15.4	17.8	19.2	21.5	22.8
Net acquisition of nonfinancial assets	43.0	46.1	38.1	45.9	43.0	54.6	59.7	64.2	69.5
Net lending / borrowing (overall balance)	-53.9	-60.9	-48.9	-48.3	-46.5	-43.3	-39.2	-35.5	-38.5
Net lending / borrowing (excluding grants)	-55.2	-61.3	-57.6	-54.3	-57.1	-54.1	-49.9	-47.6	-40.7
Change in net financial worth	-53.9	-60.9	-48.9	-48.3	-46.5	-43.3	-39.2	-35.5	-38.5
Net acquisition of financial assets	-5.7	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.7	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-5.6	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	48.2	57.6	48.9	48.3	46.5	43.3	39.2	35.5	38.5
Domestic	40.9	42.3	30.7	37.1	31.1	30.6	31.0	33.0	30.9
Currency and Deposits	-6.3	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	37.4	37.4	49.6	37.1	31.1	30.6	31.0	33.0	30.9
Other accounts payable	9.9	9.9	-4.8	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	7.3	7.3	15.1	11.2	15.4	12.8	8.2	2.5	7.6
Memorandum Item:									
Total investment (including capital transfers)	56.8	58.1	50.7	59.7	58.4	72.4	78.9	85.7	92.3
GDP	802.6	828.2	888.5	883.5	941.5	1,009.2	1,085.9	1,170.8	1,264.5

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework. More disaggregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.

3/ Some expenditure previously included in goods and services was correctly reclassified into the "social contribution" part of wages in the "Rev." column in 2013

4/ In projections, includes social safety nets related to the subsidy reform.

5/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2011–18

(Percent of GDP)

	2011	2012	2013 PLL 1/	2013 Rev. 2/	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Revenue	27.8	28.7	27.5	27.9	27.4	28.1	28.1	28.2	27.6
Taxes	23.5	24.5	22.6	22.6	22.4	23.0	23.3	23.3	23.6
Taxes on income, profits, and capital gains	8.6	9.3	8.4	8.5	8.2	8.7	8.8	8.8	8.9
Taxes on property	1.2	1.4	1.4	1.3	1.5	1.4	1.4	1.4	1.4
Taxes on goods and services	11.8	12.0	11.4	11.3	11.4	11.7	11.8	11.9	12.0
Taxes on international trade and transactions	1.3	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Other taxes	0.7	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Grants	0.2	0.1	1.0	0.7	1.1	1.1	1.0	1.0	0.2
Other revenue	4.1	4.2	4.0	4.7	3.9	4.0	3.9	3.9	3.9
Expense	29.2	30.5	28.7	28.2	27.8	27.0	26.2	25.7	25.2
Compensation of employees 3/	12.4	13.1	12.8	12.7	12.6	11.9	11.5	11.1	10.9
Use of goods and services and grants	6.7	6.8	7.3	6.7	7.2	7.3	7.3	7.3	7.3
Interest	2.3	2.4	2.5	2.5	2.6	2.7	2.7	2.6	2.6
Subsidies 4/	6.1	6.6	4.7	4.7	3.7	3.4	3.0	2.8	2.6
Other expense 5/	1.7	1.5	1.4	1.6	1.6	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	5.4	5.6	4.3	5.2	4.6	5.4	5.5	5.5	5.5
Net lending / borrowing (overall balance)	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Net lending / borrowing (excluding grants)	-6.9	-7.4	-6.5	-6.1	-6.1	-5.4	-4.6	-4.1	-3.2
Change in net financial worth	-6.7	-7.3	-5.5	-5.5	-4.9	-4.3	-3.6	-3.0	-3.0
Net acquisition of financial assets	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.7	-0.4	0.0	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
Net incurrence of liabilities	6.0	7.0	5.5	5.5	4.9	4.3	3.6	3.0	3.0
Domestic	5.1	5.1	3.5	4.2	3.3	3.0	2.9	2.8	2.4
Currency and Deposits	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.7	4.5	5.6	4.2	3.3	3.0	2.9	2.8	2.4
Other accounts payable	1.2	1.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.9	0.9	1.7	1.3	1.6	1.3	0.8	0.2	0.6
Memorandum items:									
Total investment (including capital transfers)	7.1	7.0	5.7	6.8	6.2	7.2	7.3	7.3	7.3

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework. More disaggregated data which were not available at the time of the 1st review have allowed for an enhanced classification of goods and services and grants as per GFSM 2001 guidelines.

3/ Some expenditure previously included in goods and services was correctly reclassified into the "social contribution" part of wages in the "Rev." column in 2013.

4/ In projections, includes social safety nets related to the subsidy reform.

5/ Includes capital transfers to public entities.

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

(Billions of dirhams)

			PLL 1/	Rev. 2/	Proj.				
	2011	2012	2013		2014	2015	2016	2017	2018
Net financial worth	-428.9	-428.9	-481.9	-481.9	-581.9	-622.9	-660.9	-696.9	-734.5
Financial assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Currency and deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	430.9	493.3	544.6	540.4	583.9	624.8	662.8	698.9	736.5
Domestic	331.3	378.4	411.6	414.4	442.5	470.6	500.5	533.9	564.0
Securities other than shares 3/	331.3	378.4	411.6	415.6	446.7	477.2	508.2	541.2	572.1
Foreign	99.6	114.8	133.0	126.0	141.4	154.2	162.4	164.9	172.5
Loans 3/	99.6	114.2	133.0	126.0	141.4	154.2	162.4	164.9	172.5
Memorandum Item:									
GDP	802.6	828.2	888.5	883.5	941.5	1,009.2	1,085.9	1,170.8	1,264.5

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework.

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

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

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

			PLL 1/	Rev. 2/	Proj.				
	2011	2012	2013		2014	2015	2016	2017	2018
Current account	-8.1	-9.4	-7.6	-7.8	-7.4	-7.1	-6.6	-6.2	-7.2
Trade balance	-19.3	-20.1	-19.6	-20.0	-20.9	-21.4	-22.0	-22.9	-23.7
Exports, f.o.b.	21.6	21.5	22.1	21.8	23.8	25.6	27.4	29.1	31.3
Agriculture	3.5	3.5	3.6	3.8	4.0	4.2	4.4	4.6	4.9
Phosphates and derived products	6.0	5.5	5.4	4.7	5.0	5.4	5.9	6.4	6.9
Imports, f.o.b.	-40.9	-41.5	-41.7	-41.9	-44.7	-47.0	-49.4	-52.0	-55.0
Energy	-11.2	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9	-13.0
Capital goods	-8.4	-8.5	-9.3	-9.2	-9.9	-10.5	-11.1	-11.6	-12.4
Food products	-4.8	-4.8	-4.4	-4.2	-4.5	-4.7	-4.9	-5.1	-5.2
Services	5.3	5.3	5.7	5.7	6.4	7.0	7.8	8.5	9.2
Tourism receipts	7.3	6.7	6.9	6.9	7.4	7.8	8.4	8.8	9.3
Income	-2.1	-2.2	-2.1	-1.9	-2.2	-2.3	-2.5	-2.6	-2.6
Transfers	8.0	7.7	8.5	8.4	9.3	9.7	10.2	10.8	10.0
Private transfers (net)	7.7	7.5	7.4	7.8	8.0	8.5	8.9	9.3	9.8
Workers' remittances	7.1	6.7	6.6	6.9	7.1	7.5	7.9	8.3	8.8
Official grants (net)	0.3	0.2	1.0	0.6	1.2	1.2	1.3	1.4	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.2	8.8	9.2	7.8	8.0	7.8	7.5	8.6
Direct investment	2.4	2.3	3.3	3.0	3.4	3.7	4.2	4.6	5.1
Privatization	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Other	3.5	3.7	5.4	5.9	4.3	4.0	3.4	2.5	3.2
Private	1.8	1.0	0.0	3.4	1.4	1.5	1.5	1.5	1.6
Public medium-and long-term loans (net)	1.7	2.8	3.4	2.6	2.9	2.5	1.8	1.0	1.6
Disbursements	3.2	4.4	5.1	4.3	4.8	4.5	3.7	3.6	3.6
Amortization	-1.5	-1.6	-1.7	-1.7	-1.9	-1.9	-1.9	-2.6	-2.0
Reserve asset accumulation (-increase)	2.6	3.4	-1.2	-1.4	-0.4	-0.9	-1.2	-1.3	-1.5
Errors and omissions	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)				
Current account	-8.1	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2	-4.5
Trade balance	-19.4	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6	-15.0
Exports, f.o.b.	21.8	22.3	21.1	20.7	20.7	20.4	20.1	19.8	19.7
Agriculture	3.6	3.7	3.4	3.6	3.5	3.3	3.2	3.1	3.1
Phosphates and derived products	6.0	5.7	5.2	4.4	4.4	4.3	4.3	4.3	4.3
Imports, f.o.b.	-41.2	-43.2	-39.8	-39.7	-38.8	-37.6	-36.3	-35.4	-34.7
Petroleum	-11.3	-12.9	-11.0	-11.5	-11.3	-10.3	-9.5	-8.8	-8.2
Capital goods	-8.5	-8.8	-8.9	-8.7	-8.6	-8.4	-8.2	-7.9	-7.8
Food products	-4.8	-5.0	-4.2	-4.0	-3.9	-3.8	-3.6	-3.5	-3.3
Services	5.3	5.5	5.4	5.4	5.5	5.6	5.8	5.8	5.8
Tourism receipts	7.4	7.0	6.6	6.5	6.4	6.2	6.2	6.0	5.9
Income	-2.1	-2.3	-2.0	-1.8	-1.9	-1.9	-1.9	-1.7	-1.7
Transfers	8.1	8.0	8.1	8.0	8.0	7.8	7.5	7.3	6.3
Private transfers (net)	7.8	7.8	7.1	7.4	7.0	6.8	6.5	6.4	6.2
Workers' remittances	7.2	7.0	6.3	6.6	6.2	6.0	5.8	5.7	5.6
Official grants (net)	0.3	0.2	1.0	0.6	1.1	1.0	0.9	1.0	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.4	8.4	8.7	6.8	6.4	5.7	5.1	5.5
Direct investment	2.4	2.4	3.2	2.9	2.9	3.0	3.1	3.1	3.2
Privatization	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	3.5	3.9	5.1	5.6	3.7	3.2	2.5	1.7	2.0
Private 3/	1.8	1.0	0.0	3.2	1.2	1.2	1.1	1.1	1.0
Public medium-and long-term loans (net)	1.7	2.9	3.2	2.4	2.5	2.0	1.3	0.7	1.0
Disbursements	3.2	4.5	4.9	4.1	4.1	3.6	2.7	2.4	2.3
Amortization	-1.5	-1.7	-1.7	-1.6	-1.6	-1.5	-1.4	-1.8	-1.3
Memorandum items:									
Exports of goods and services (percentage growth)	4.0	-1.4	9.8	5.4	8.4	6.9	6.3	5.2	5.8
Imports of goods and services (percentage growth)	7.6	-1.2	7.4	0.7	7.0	5.9	5.6	5.5	5.4
Current account balance excluding official grants (percent of GDP)	-8.4	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2	-4.7
Terms of trade (percentage change)	2.3	-11.9	0.3	-2.8	0.7	-0.5	0.5	0.5	0.2
Gross official reserves 3/	20.6	17.5	18.7	19.3	20.0	21.1	22.4	23.7	25.1
In months of prospective imports of GNFS	5.0	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Debt service (percent of export of GNFS and remittances) 4/	5.3	5.8	6.6	6.6	6.7	6.7	6.4	7.4	6.0
External public and publicly guaranteed debt (percent of GDP)	23.6	25.7	27.2	26.5	27.4	27.6	27.0	25.7	24.8
DHs per US$, period average	8.1	8.6	8.5	8.4	...	...	...	...	...
GDP (US$)	99.2	96.1	104.8	105.5	115.1	125.1	136.0	146.7	158.4
Oil price (US$/barrel; Brent)	111.0	112.0	104.5	108.9	109.5	103.9	98.4	93.7	90.6

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.
2/ Revised macro framework.
3/ Excluding the reserve position in the Fund.
4/ Public and publicly guaranteed debt.

Table 6. Morocco: Monetary Survey, 2011–14

	2011	2012	PLL 1/ 2013	Rev. 2/ 2013	2014
	(Billions of dirhams)				
Net foreign assets	173.6	148.1	160.8	159.6	162.7
Monetary authorities	171.9	145.4	157.9	156.8	159.9
Of which : Gross reserves	177.1	147.9	157.9	159.3	162.4
Of which : Net Fund position	0.0	0.0	0.0	0.0	0.0
Deposit money banks	1.7	2.7	2.9	2.8	2.8
Net domestic assets	775.6	844.1	886.0	871.2	915.6
Domestic credit	798.3	855.0	899.6	881.3	930.0
Net credit to the government	102.1	115.6	125.5	125.6	131.9
Banking system	102.1	115.6	125.5	125.6	131.9
Bank Al-Maghrib	2.2	0.5	0.1	0.2	-0.2
Of which : deposits	-3.4	-4.5	-4.8	-4.7	-5.1
Deposit money banks	99.9	124.9	125.4	125.4	132.0
Credit to the economy	696.2	729.6	774.1	755.6	798.1
Other liabilities, net	22.7	10.9	13.6	10.0	14.4
Broad money	949.3	992.2	1,046.7	1,030.9	1,078.3
Money	586.8	612.2	658.2	645.5	680.5
Currency outside banks	158.3	163.6	175.6	174.6	186.0
Demand deposits	428.5	448.5	482.6	470.9	494.5
Quasi money	340.9	354.7	368.9	368.9	383.7
Foreign deposits	21.6	25.3	19.7	16.4	14.1
	(Annual percentage change)				
Net foreign assets	-11.8	-14.7	6.8	7.8	1.9
Net domestic assets	11.6	8.8	5.3	3.2	5.1
Domestic credit	11.6	7.1	5.2	3.1	5.5
Net credit to the government	25.8	13.2	7.9	8.7	5.0
Credit to the economy	9.8	4.8	6.1	3.6	5.6
Broad money	6.4	4.5	5.5	3.9	4.6
	(Change in percent of broad money)				
Net foreign assets	-2.6	-2.7	1.0	1.2	0.3
Domestic credit	9.3	6.0	4.5	2.6	4.7
Net credit to the government	2.3	1.4	0.9	1.0	0.6
Credit to the economy	6.9	3.5	4.5	2.6	4.1
Other assets net	-0.3	1.2	0.0	0.1	-0.4
Memorandum items:					
Velocity (GDP/M3)	0.85	0.83	0.85	0.86	0.87
Velocity (non-agr. GDP/M3)	0.72	0.72	0.73	0.73	0.75
Credit to economy/GDP (in percent)	86.7	88.1	87.1	85.5	84.8
Credit to economy/nonagricultural GDP (in percent)	101.2	101.7	101.8	100.5	98.8

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

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework.

Table 7. Morocco: Financial Soundness Indicators, 2008–13

(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	Jun-13
Regulatory capital 1/						
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.1
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	10.6
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.9
Asset quality						
Sectoral distribution of loans to total loans						
Industry	18.7	18.3	18.4	18.4	18.1	18.9
Agriculture	4.1	3.4	4.1	4.1	4.1	4.1
Commerce	6.5	7.0	6.7	6.6	7.0	6.0
Construction	15.9	14.1	13.3	13.9	12.6	12.7
Tourism	2.6	3.2	2.9	2.8	2.9	2.7
Finance	13.1	12.5	12.1	11.9	11.0	11.1
Public administration	3.7	4.3	5.0	4.8	5.0	4.6
Transportation and communication	4.5	4.2	4.0	4.1	4.0	4.0
Households	26.5	27.6	28.1	27.6	28.9	29.9
Other	4.4	5.4	5.4	5.8	6.4	6.0
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.9
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0	91.0
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0	5.4
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	66.0
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	14.5
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	326.0
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	4.1
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.0
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.6
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.8
Profitability						
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0	1.2
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	12.6
Interest rate average spread (b/w loans and deposits)	3.2	3.1	3.3	3.3	3.2	3.5
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	76.5
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	44.6
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	49.1
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.5	23.5
Liquidity						
Liquid assets to total assets	24.4	17.3	12.0	11.7	10.5	11.0
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	14.9
Deposits to loans	113.0	108.0	104.0	99.0	96.1	97.3
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	4.8	4.5	4.6
Sensitivity to market risk						
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	2.1

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.

Annex. Morocco: Debt Sustainability Analysis (DSA)

Public DSA

Morocco's public sector gross debt ratio to GDP declined during 2000–10 before rising again, reflecting a combination of external shocks and domestic vulnerabilities. At about 60 percent of GDP, public debt is considered sustainable. The DSA shows the debt level to be resilient to various shocks, and vulnerabilities linked to the profile of the debt appear moderate. However, under certain shocks, gross financing needs (mainly linked to the rollover of existing debt) would exceed the benchmark of 15 percent of GDP, highlighting some risks despite the relatively moderate level of debt.

1. **The public DSA is based on the recently-revised DSA framework for market access countries.**[1] Although the overall picture hasn't changed significantly from the analysis conducted using the previous framework, the current DSA takes a more in-depth look at risks and vulnerabilities, particularly those linked to the profile of debt financing and gross financing needs. In addition, stress tests have been enhanced to allow some interaction between variables.

2. **After steadily 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. Public debt rose from 48 percent of GDP in 2009 to 60 percent in 2012. 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, and the authorities encountered difficulties in containing the fiscal deficit.

3. **Risks to debt sustainability appear low to moderate (see heat map below).** Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts aimed at lowering the overall deficit to 3 percent of GDP in the medium term 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.[2] Vulnerabilities linked to the profile of debt are moderate; relevant indicators exceed the lower early warning benchmarks but not the upper risk assessment ones (see chart). Gross financing needs would exceed the benchmark of 15 percent in case of a real growth or primary balance shock. This highlights the importance of continuing on the path of fiscal consolidation to reduce debt-financed deficits.

[1] See "Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries."

[2] Under a scenario combining all shocks (real GDP, primary balance, real exchange rate, and real interest rate), the debt level would peak at around 70 percent of GDP.

Morocco: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

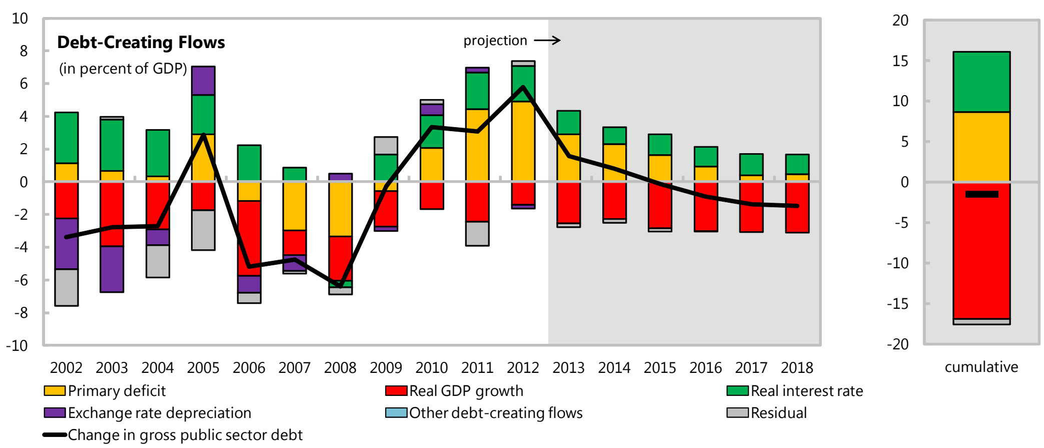
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	57.7	54.4	60.2	61.7	62.5	62.4	61.5	60.1	58.6
Public gross financing needs	11.5	15.3	14.5	12.8	14.6	13.8	12.9	12.7	12.1
Real GDP growth (in percent)	4.7	5.0	2.7	4.5	3.9	4.9	5.2	5.4	5.6
Inflation (GDP deflator, in percent)	2.0	0.1	0.5	2.0	2.5	2.2	2.3	2.3	2.3
Nominal GDP growth (in percent)	6.7	5.0	3.2	6.7	6.6	7.2	7.6	7.8	8.0
Effective interest rate (in percent) [4/]	5.5	4.7	4.6	4.7	4.4	4.5	4.5	4.7	4.6

As of December 30, 2013		
Sovereign Spreads		
Spread (bp) 3/		193
CDS (bp)		218
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.1	3.09	5.77	1.6	0.8	-0.1	-0.9	-1.4	-1.5	-1.5	
Identified debt-creating flows	-1.4	4.57	5.46	1.8	1.1	0.1	-0.9	-1.4	-1.5	-0.8	
Primary deficit	-0.1	4.4	4.9	2.9	2.3	1.6	0.9	0.4	0.5	8.6	-1.9
Primary (noninterest) revenue and grant:	27.1	27.8	28.7	27.9	27.4	28.1	28.1	28.2	27.6	167.4	
Primary (noninterest) expenditure	27.0	32.3	33.6	30.9	29.8	29.7	29.1	28.6	28.1	176.0	
Automatic debt dynamics [5/]	-1.3	0.1	0.5	-1.1	-1.2	-1.6	-1.8	-1.8	-1.9	-9.4	
Interest rate/growth differential [6/]	-0.6	-0.2	0.7	-1.1	-1.2	-1.6	-1.8	-1.8	-1.9	-9.4	
Of which: real interest rate	2.0	2.2	2.2	1.4	1.0	1.3	1.2	1.3	1.2	7.4	
Of which: real GDP growth	-2.6	-2.4	-1.4	-2.6	-2.3	-2.9	-3.0	-3.1	-3.1	-16.9	
Exchange rate depreciation [7/]	-0.7	0.3	-0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
0 (negative)	0.0	0.0	0.0	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/]	-0.7	-1.5	0.3	-0.2	-0.3	-0.2	0.0	0.0	0.0	-0.7	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

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.

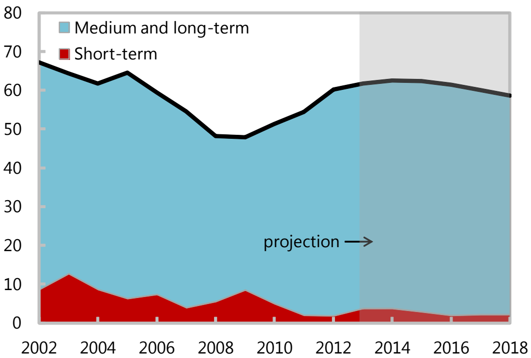
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Morocco: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

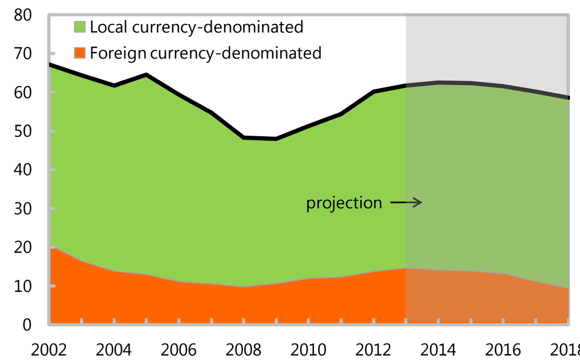
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

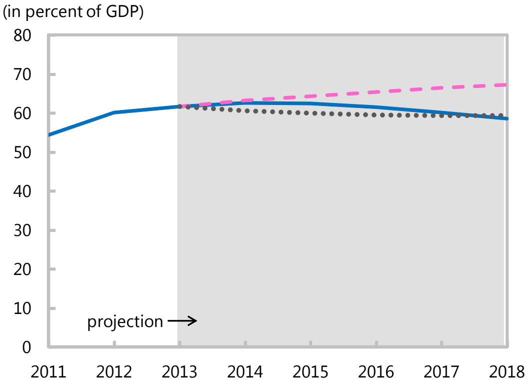


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

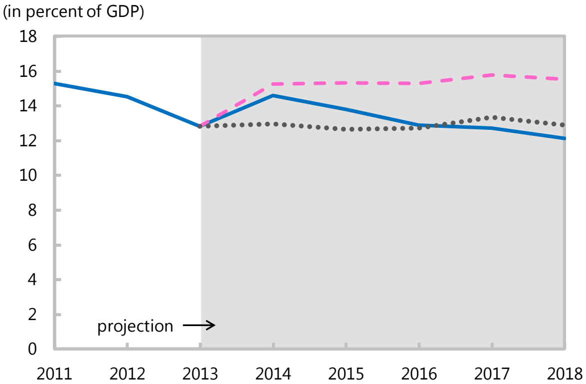
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	4.5	3.9	4.9	5.2	5.4	5.6
Inflation	2.0	2.5	2.2	2.3	2.3	2.3
Primary Balance	-2.9	-2.3	-1.6	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.4	4.5	4.5	4.7	4.6
Constant Primary Balance Scenario						
Real GDP growth	4.5	3.9	4.9	5.2	5.4	5.6
Inflation	2.0	2.5	2.2	2.3	2.3	2.3
Primary Balance	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	4.7	4.5	4.6	4.5	4.7	4.5

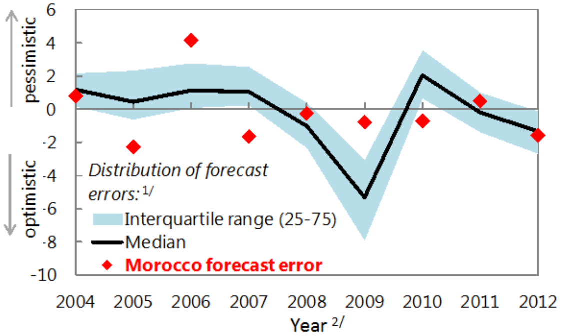
Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	4.5	4.6	4.6	4.6	4.6	4.6
Inflation	2.0	2.5	2.2	2.3	2.3	2.3
Primary Balance	-2.9	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	4.7	4.5	4.9	5.1	5.4	5.5

Source: IMF staff.

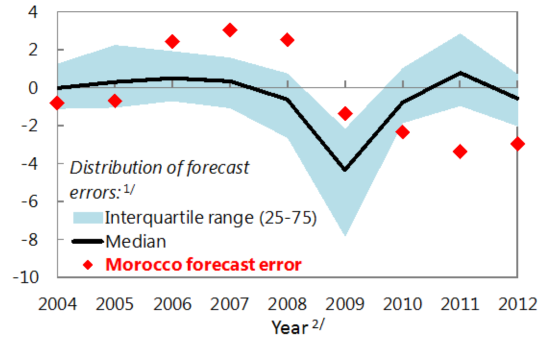
Morocco: Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

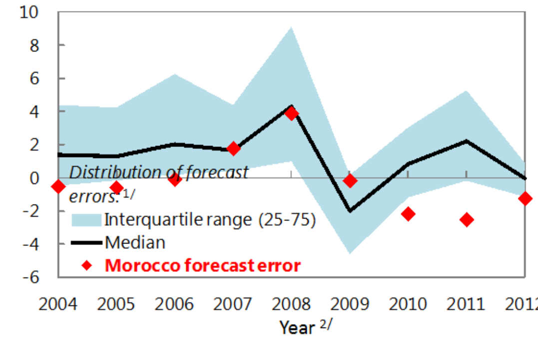
Real GDP Growth
(in percent, actual-projection)
Morocco median forecast error, 2004-2012: -0.70
Has a percentile rank of: 22%



Primary Balance
(in percent of GDP, actual-projection)
Morocco median forecast error, 2004-2012: -0.80
Has a percentile rank of: 30%

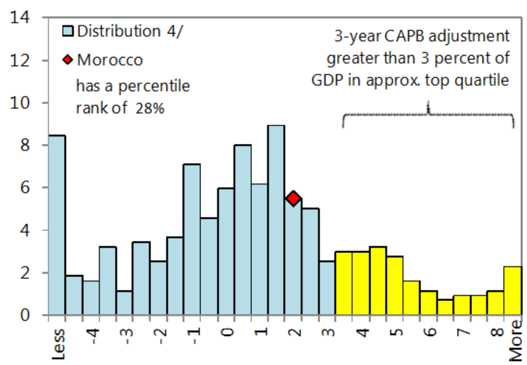


Inflation (Deflator)
(in percent, actual-projection)
Morocco median forecast error, 2004-2012: -0.54
Has a percentile rank of: 11%

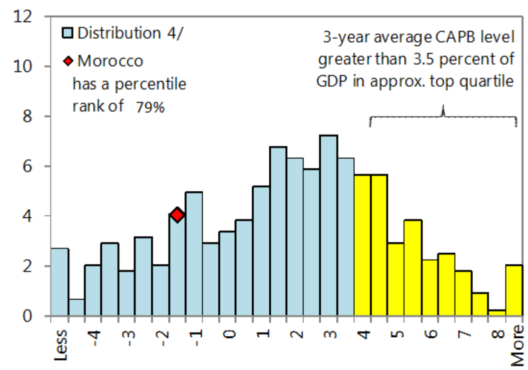


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

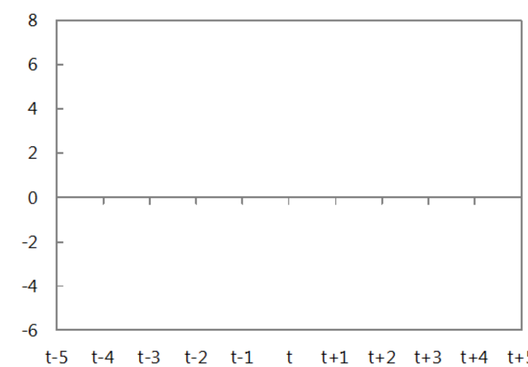


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

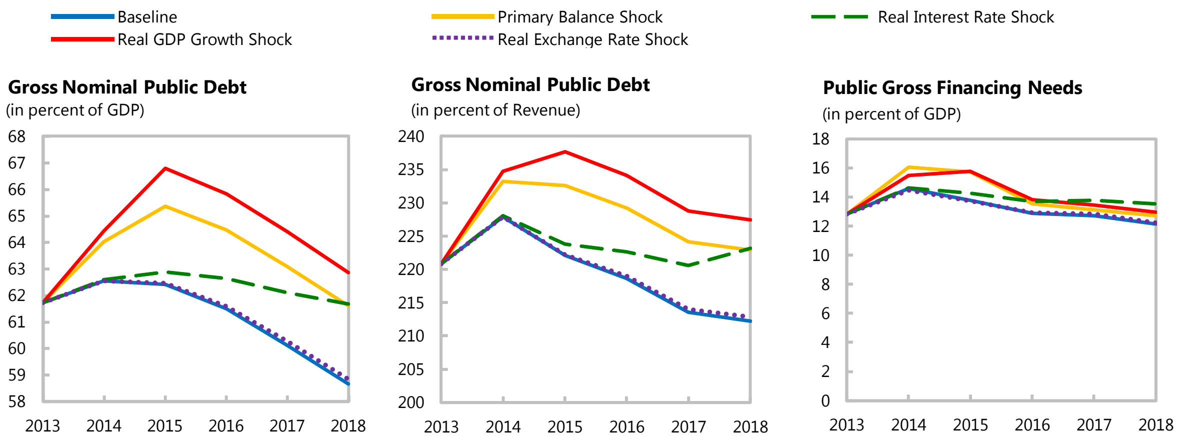
Real GDP growth
(in percent)



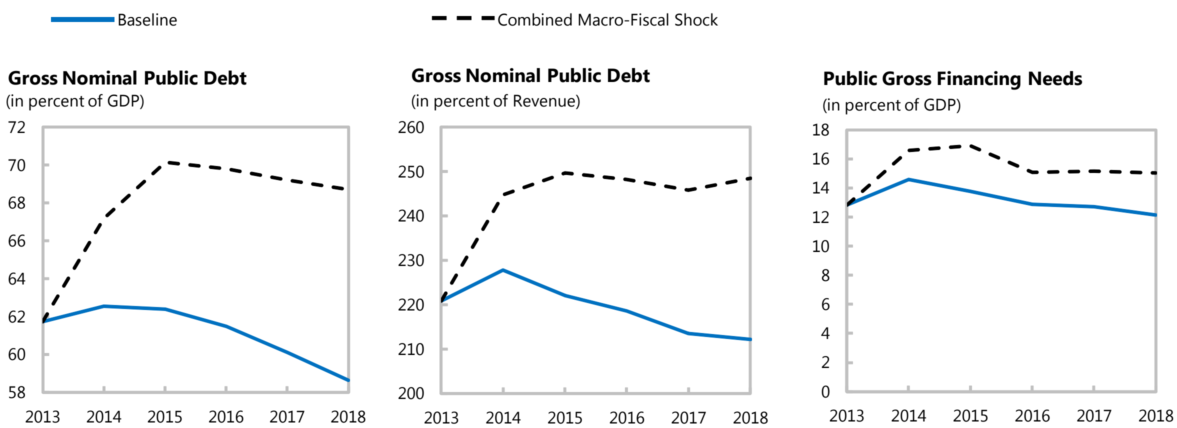
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Morocco.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Morocco: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	4.5	3.9	4.9	5.2	5.4	5.6
Inflation	2.0	2.5	2.2	2.3	2.3	2.3
Primary balance	-2.9	-3.7	-3.1	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.5	4.7	4.7	4.8	4.7
Real Interest Rate Shock						
Real GDP growth	4.5	3.9	4.9	5.2	5.4	5.6
Inflation	2.0	2.5	2.2	2.3	2.3	2.3
Primary balance	-2.9	-2.3	-1.6	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.5	5.3	5.6	6.2	6.5
Combined Shock						
Real GDP growth	4.5	2.2	3.2	5.2	5.4	5.6
Inflation	2.0	2.1	1.8	2.3	2.3	2.3
Primary balance	-2.9	-3.7	-3.1	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.7	5.3	5.7	6.3	6.5

Real GDP Growth Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	4.5	2.2	3.2	5.2	5.4	5.6
Inflation	2.0	2.1	1.8	2.3	2.3	2.3
Primary balance	-2.9	-2.9	-2.8	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.5	4.6	4.6	4.8	4.7
Real Exchange Rate Shock						
Real GDP growth	4.5	3.9	4.9	5.2	5.4	5.6
Inflation	2.0	5.9	2.2	2.3	2.3	2.3
Primary balance	-2.9	-2.3	-1.6	-0.9	-0.4	-0.5
Effective interest rate	4.7	4.7	4.6	4.6	4.8	4.7

Source: IMF staff.

Morocco: Public DSA - Risk Assessment

Heat Map

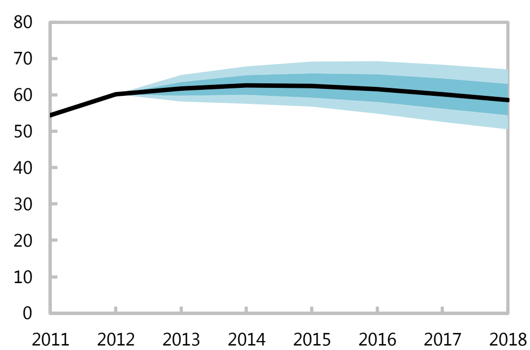
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	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

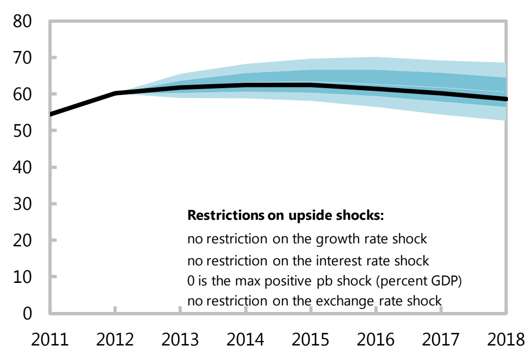
(in percent of GDP)

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

Symmetric Distribution



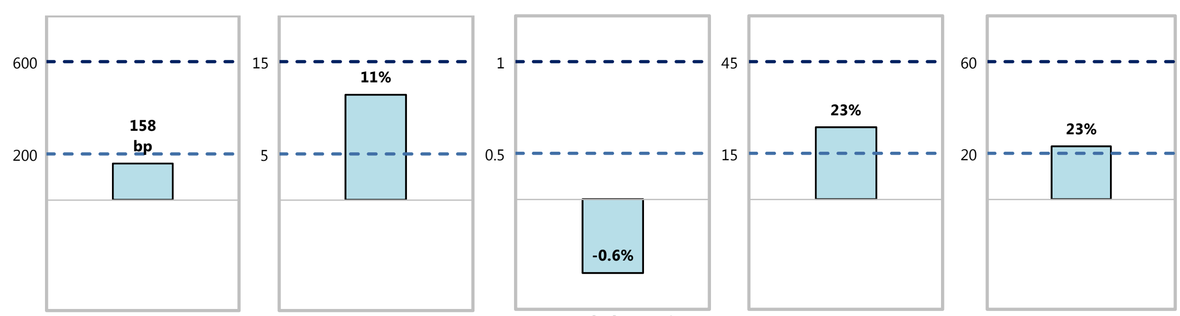
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)

Morocco - - Lower early warning - - - Upper early warning



Bond Spread over U.S. Bonds	**External Financing Requirement**	**Annual Change in Short-Term Public Debt**	**Public Debt Held by Non-Residents**	**Public Debt in Foreign Currency**
(in basis points) 4/	(in percent of GDP)	(in percent of total)	(in percent of total)	(in percent of total)

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:

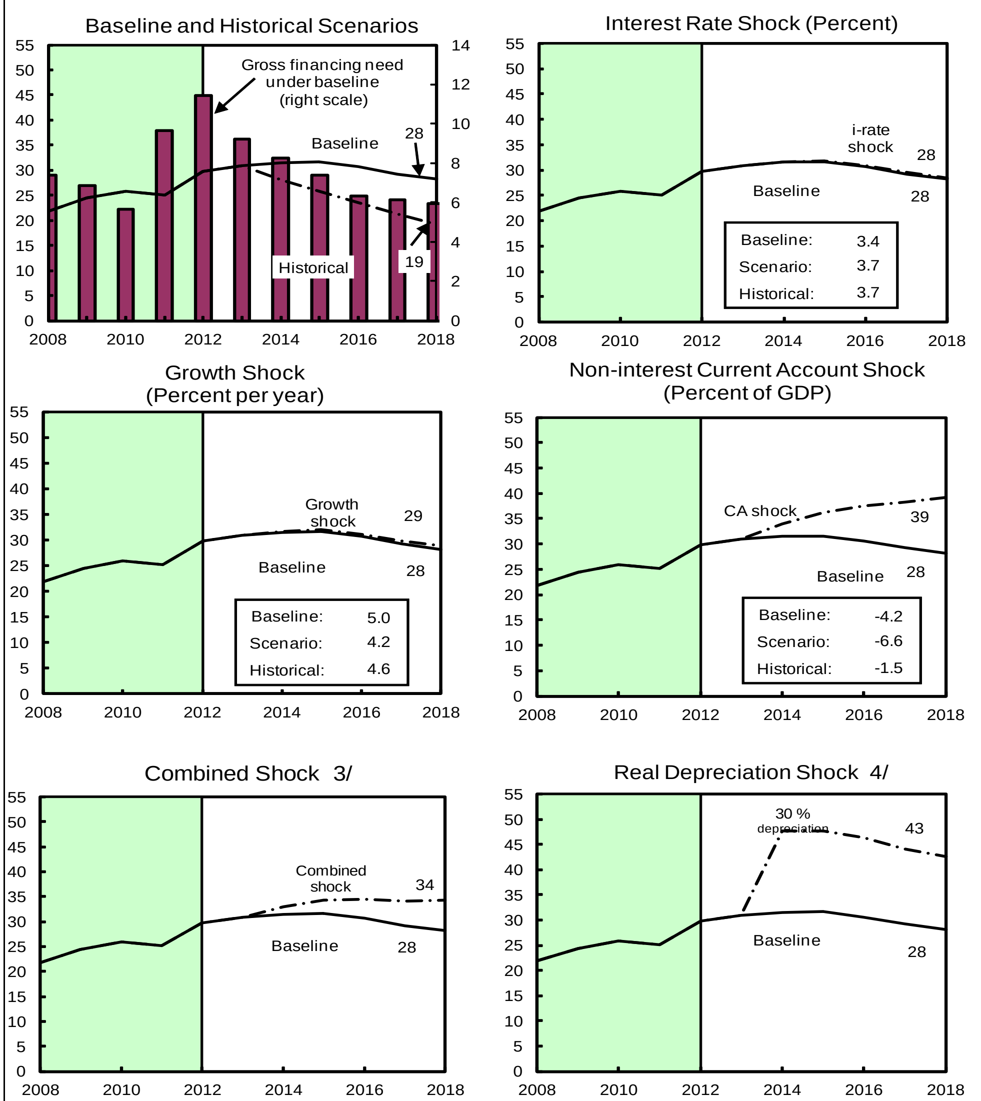
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 01-Oct-13 through 30-Dec-13.

External DSA

Morocco's external debt-to-GDP is expected to remain sustainable over the medium-term, but some vulnerabilities exist. The recent accumulation of external debt would subside and would stabilise around 28 percent of GDP in 2018. However, with a 30 percent exchange rate depreciation—the most extreme shock—the debt-to-GDP ratio would increase to 42 percent. The shock to interest rates would also result in a significant increase of debt to GDP (39 percent), indicating that the country could be vulnerable to volatility in the international bond market.

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



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

Morocco: External Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Baseline: External debt	21.8	24.4	25.8	25.1	29.8	**30.9**	**31.5**	**31.6**	**30.6**	**29.2**	**28.2**
Change in external debt	-3.2	2.6	1.4	-0.7	4.7	1.1	0.6	0.1	-1.0	-1.4	-1.0
Identified external debt-creating flows (4+8+9)	-0.7	3.3	3.2	3.7	8.0	3.1	2.3	1.1	0.1	-0.7	-0.4
Current account deficit, excluding interest payments	4.3	4.6	3.4	7.3	8.9	6.5	5.5	4.7	3.8	3.2	3.6
Deficit in balance of goods and services	14.4	12.0	10.8	14.1	15.4	13.6	12.6	11.6	10.4	9.8	9.2
Exports	37.6	28.9	33.4	35.8	36.0	33.9	33.8	33.3	32.9	32.4	32.2
Imports	52.1	40.9	44.2	49.9	51.5	47.4	46.4	44.9	43.4	42.2	41.4
Net non-debt creating capital inflows (negative)	-2.1	-1.6	-0.9	-2.2	-2.5	-3.1	-3.1	-3.2	-3.3	-3.4	-3.5
Automatic debt dynamics 1/	-3.0	0.3	0.7	-1.4	1.7	-0.3	-0.2	-0.4	-0.5	-0.6	-0.6
Contribution from nominal interest rate	0.9	0.8	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	0.9
Contribution from real GDP growth	-1.2	-1.0	-0.9	-1.2	-0.7	-1.2	-1.1	-1.4	-1.5	-1.5	-1.5
Contribution from price and exchange rate changes 2/	-2.7	0.5	0.9	-1.0	1.5	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 3/	-2.5	-0.7	-1.8	-4.5	-3.4	-2.0	-1.7	-1.0	-1.0	-0.8	-0.6
External debt-to-exports ratio (in percent)	58.0	84.5	77.3	70.1	82.6	91.3	93.2	94.8	93.0	90.1	87.6
Gross external financing need (in billions of US dollars) 4/	6.6	6.2	5.1	9.6	11.0	9.7	9.5	9.2	8.6	9.0	9.4
Percent of GDP	7.4	6.9	5.7	9.6	11.4	9.2	8.2	7.4	6.3	6.1	5.9
Scenario with key variables at their historical averages 5/						**30.9**	**28.1**	**25.8**	**23.5**	**21.2**	**19.2**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	5.6	4.8	3.6	5.0	2.7	4.5	3.9	4.9	5.2	5.4	5.6
GDP deflator in US dollars (change in percent)	11.9	-2.4	-3.7	4.1	-5.6	5.0	5.0	3.6	3.4	2.3	2.3
Nominal external interest rate (percent)	4.2	3.9	2.9	3.4	3.3	3.3	3.3	3.4	3.5	3.4	3.5
Growth of exports (US dollar terms, percent)	22.6	-21.4	15.4	17.2	-2.6	3.2	8.9	7.1	7.4	6.2	7.1
Growth of imports (US dollar terms, percent)	33.7	-19.7	7.8	23.5	-0.1	1.2	6.7	5.1	5.1	5.0	5.7
Current account balance, excluding interest payments	-4.3	-4.6	-3.4	-7.3	-8.9	-6.5	-5.5	-4.7	-3.8	-3.2	-3.6
Net non-debt creating capital inflows	2.1	1.6	0.9	2.2	2.5	3.1	3.1	3.2	3.3	3.4	3.5

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 24, 2014

Prepared By

The Middle East and Central Asia Department
(in Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of January 2014)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	588.20	100.00
Fund holdings of currency	517.75	88.02
Reserve position in Fund	70.45	11.98

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	245.37	43.70

Outstanding Purchases and Loans
None

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
PLL	08/03/2012	08/02/2014	4,117.40	0.00
Stand-by	01/31/1992	03/31/1993	91.98	18.40
Stand-by	07/20/1990	03/31/1991	100.00	48.00
Stand-By	08/30/1988	12/31/1989	210.00	210.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDR):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/interest	0.40	0.41	0.41	0.41	0.41
Total	**0.40**	**0.41**	**0.41**	**0.41**	**0.41**

Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies comprising the euro and the U.S. dollar, with respective weights of 80 percent and 20 percent. BAM fixes daily rates for the rated currencies on the basis of variations on the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. As of January 7, 2014, the SDR/dirham exchange rate was SDR 1=MAD 12.62.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on February, 1, 2013. The discussions for the 2013 consultation were held in Rabat and Casablanca during December 5–19, 2013.

Technical Assistance

MCM	Peripatetic visits—Accounting, internal rating and bank supervision	2007–09
MCM	Stress Testing and Macroprudential Analysis.	January 27–February 2, 2009
STA	National Accounts Statistics	April 19–30, 2009
FAD	Recent Revenue Developments: Analysis and Implications to Fiscal Policy	September 22–October 5, 2009
STA	Monetary and Financial Statistics	March 1–March 11, 2010
MCM	Stress Testing and Macroprudential Analysis	February 9–February 18, 2011
STA	Monetary and Financial Statistics	March 30–April 12, 2011
LEG	Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Diagnostic and Legislative Drafting	January 17–21, 2011 and September 26–30, 2011
LEG	AML/CFT Supervision	May 28–June 6, 2012
MCM	Strengthening Macroprudential Analysis.	June 21–29, 2012
FIN	Safeguards assessment mission	October 16–24, 2012
MCM	Diagnostic assessment of capital markets in Morocco (jointly with the Arab Monetary Fund and G8 Deauville Partnership Initiative for Local Currency Capital Market Development in the MENA region)	March 5–14, 2013

LEG	AML/CFT Supervision	March 3–15, 2013
FAD	Transfer Pricing mission	April 1–12, 2013
MCM	Local government sukuk market	June 2013
FAD	Implementation of budgetary reforms and OBL preparation	July 8–18, 2013
MCM	Macro-economic modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013

FSAP update

The latest update of the Financial Sector Assessment was performed in November 2007. The findings were discussed with the authorities during the May 2008 Article IV mission and discussed by the Board on July 23, 2008. A new FSAP mission is expected to take place in the second half of 2014.

Resident Representative

None

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY13

As of December 16, 2013

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	a. Development Policy Lending on: • Microfinance Development Project • Accountability and Transparency • Inclusive Green Growth • Second Competitiveness • Financial Sector • Second Skills and Employment • Solid Waste Sector 4 b. P4R Lending on: • Urban Transport Project P4R • Integrated Risk Management Project • Health Sector Support c. Investment Lending: • Second Rural Roads Project AF2 • Rural Water Supply		 FY14 FY14 FY14 FY15 FY14 FY14 FY15 FY15 FY15 FY15 FY14 FY14

	• Ouarzazate Concentrated Solar Power Plant Phase II • Clean and Efficient Energy Project d. Sector work • Poverty PESW • Gender Assessment • Public Expenditure Review: Health and Education • MA-Climate Change Adaptation & Mitigation Strategy • improving the governance of provision of social services • MA-Trade and Integration-EU • Country Economic Memorandum • Climate Resilience for Roads • Water/Energy Distribution Restructuring • Morocco Trade and Competitiveness e. Technical assistance • Subsidy Reform and Cash Transfer Program • First study for the establishment of the Moroccan Investment Authority (MIA) • DTF:MA- Support New Governance Framework • DTF: MA-Local Government Support Program • Integrated Risk Management and Strategy • Community-Based Disaster Risk Management • Programmatic Employment • Strategy and Instruments to Establish Reliable Interest Rate Benchmarks • Morocco financial capability survey • Broadband and eGov policy advice • Partnership for Market Readiness • MA - Support to Artisanal Mining • Tourism Development		FY15 FY15 FY14 FY14 FY14 FY14 FY15 FY15 FY15 FY15 FY15 FY15 FY14 FY14 FY14 FY14 FY14 FY14 FY14 FY14 FY14 FY14 FY15 FY15 FY14 FY15 FY15 FY15

IMF work program in next 12 months	TA mission LEG AML/CFT Supervision TA mission STA Open Data Platform for data reporting to STA Staff Visit TA mission MCM Exchange Rate TA mission on macro-economic modeling FSAP mission	January 13-25, 2014 January 23-29, 2014 Spring 2014 Spring 2014 First half 2014 Autumn 2014	
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on subsidies and pension reforms Developments on decentralization	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Request for assessment letters to DPLs Data sharing	Semiannual (and on ad hoc basis if requested) At least 4 operations predicted Ongoing	Following Article IV and staff visits
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Continuous close coordination on the reform agenda	Ongoing	

STATISTICAL ISSUES

As of January 7, 2014

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance

(As of December 31, 2013)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items: Data Quality – Methodological soundness[8]	Memo items: Data Quality – Accuracy and reliability[9]
Exchange Rates	12/31/13	12/31/13	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/21/13	12/28/13	W	W	W		
Reserve/Base Money	11/30/13	12/21/13	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	11/30/13	12/21/13	M	M	M		
Central Bank Balance Sheet	11/30/13	12/21/13	M	M	M		
Consolidated Balance Sheet of the Banking System	11/30/13	12/21/13	M	M	M		
Interest Rates[2]	12/31/13	12/31/13	D	D	D		
Consumer Price Index	11/30/13	12/20/13	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2012	01/30/13	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	11/30/13	12/20/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3, 2013	12/31/13	Q	Q	Q		
External Current Account Balance	Q2, 2013	12/01/13	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	10/30/13	12/01/13	M	M	M		
GDP/GNP	Q3, 2013	1/5/14	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2, 2013	12/31/13	Q	Q	Q		
International Investment Position [6]	2012	06/30/13	A	A	A		

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

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

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

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

[5] Including currency and maturity composition.

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

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

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

[9] Same as Footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Press Release No. 14/37
FOR IMMEDIATE RELEASE
January 31, 2014

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

IMF Executive Board Completes Third Review Under the PLL Arrangement with Morocco and Concludes 2013 Article IV Consultation

On January 31, 2014, the Executive Board of the International Monetary Fund (IMF) completed the third review of Morocco's economic performance under a program supported by a 24-month Precautionary and Liquidity Line (PLL) arrangement and concluded the 2013 Article IV consultation with Morocco.[1]

The PLL arrangement was approved on August 3, 2012 in an amount equivalent to SDR 4.12 billion (about US$6.2 billion or 700 percent of Morocco's quota), (See Press Release No. 12/287). The Executive Board concluded the second review on July 31, 2013. The authorities are treating the arrangement as precautionary..

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

Following the Board discussion of the review, Ms. Nemat Shafik, Deputy Managing Director, and Acting Chair made the following statement:

"Notwithstanding the continued unfavorable external environment and challenging domestic conditions, Morocco's macroeconomic performance improved in 2013, supported by strong policy commitment and implementation, as well as the insurance provided by the PLL. Important measures taken by the authorities helped reduce fiscal and external vulnerabilities and strengthen the economy's resilience. Given significant downside risks and persistently high unemployment, the economic outlook will depend on the sustained delivery of policy

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

and structural reforms designed to continue rebuilding policy buffers and promote higher and more inclusive growth.

"The substantial reduction in energy subsidies achieved in 2013, along with increased social assistance to the most vulnerable, helped strengthen the fiscal accounts and reduce underlying fiscal vulnerabilities. Looking ahead, continued strengthening of public finances will require a reorientation of revenue and spending to better support growth and inclusiveness, along with the passage of a new organic budget law that incorporates best practices with respect to fiscal discipline, coverage and expenditure control.

"Sustaining the recent gains in improving Morocco's external position hinges on measures to support its external competitiveness. Structural reforms in this area are a priority. More flexibility in the exchange rate regime, in close coordination with other macroeconomic policies, would also help and would increase the economy's resilience to external shocks.

"Further reforms are needed to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract foreign direct investment and promote strong job growth. Broader financial inclusion including greater access to credit for small and medium-sized enterprises is also needed to foster higher growth and boost employment."

The Executive Board also concluded the 2013 Article IV consultation with Morocco.

The Moroccan economy has weathered the recent unfavorable regional and global economic context relatively well. GDP growth is expected to have reached about 4.5 percent in 2013 on the back of an exceptional agricultural season. Growth in other sectors has been dragged down by the effects of the European crisis, but is expected to rebound in 2014 for an overall growth rate of around 4 percent. Inflation is well under control, while the financial sector remains sound. The 2013 current account deficit was reduced and international reserves have been stable above four months of imports for more than a year, thanks in part to sustained foreign investment and access to international bond markets at favorable terms. Lower international oil prices and policy actions helped reduce the fiscal deficit from 7.3 percent of GDP in 2012 to 5.4 percent in 2013.

Executive Board Assessment[2]

Executive Directors commended the economy's resilience in the face of significant external shocks and challenging domestic conditions, and welcomed recent measures that successfully

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

helped reduce fiscal and external vulnerabilities. Noting Morocco's high unemployment rate and the downside risks to the outlook, Directors advised sustaining reforms to continue rebuilding policy buffers and promote higher and more inclusive growth.

Directors supported efforts to strengthen the public finances and support both fiscal and external sustainability. They welcomed the reduction of energy subsidies in 2013 while increasing social protection to the most vulnerable, and encouraged the authorities to sustain such efforts. They advised that revenue and spending should be reoriented to better support growth and inclusiveness in 2014 and beyond, through reforms aimed at broadening the tax base, reviewing tax incentives and exemptions, reforming the VAT system, moderating the public wage bill, and reforming the pension system.

Directors welcomed the adoption by the Council of Ministers of the new Organic Budget Law as a step toward the establishment of a modern and improved fiscal framework. They called for strengthening the provisions of the draft law pertaining to fiscal discipline, coverage and expenditure control, in line with international best practice, and looked forward to the law's timely approval ahead of the preparation of the 2015 finance law.

Directors underscored that consolidation of Morocco's external position hinges on improving its external competitiveness. They stressed the critical importance of structural reforms in this area. They noted that a move toward a more flexible exchange rate regime, in coordination with other macroeconomic policies, would also help and would increase the economy's resilience to external shocks. In this regard, Directors welcomed the Fund's provision of technical assistance to the Bank Al-Maghrib (BAM) to help prepare for a smooth transition to more exchange rate flexibility. They recommended further reforms to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract private investment and promote strong job growth.

Directors supported BAM's efforts to strengthen banking supervision and regulatory arrangements, including gradual adherence to the Basel III norms, as well as closer monitoring of the banking sector's international expansion. They underscored the importance of financial deepening and increased access to credit for small and medium-sized enterprises for fostering sustained growth.

Morocco: Selected Economic Indicators, 2012–17

	2012	PLL1/ 2013	Rev.2/ 2013	2014	Proj. 2015	2016	2017
	(Annual percentage change)						
Output and Prices							
Real GDP	2.7	5.1	4.5	3.9	4.9	5.2	5.4
Real primary GDP	-7.2	13.6	17.0	-1.0	4.5	4.5	5.0
Real non-primary GDP	4.6	3.7	2.4	4.8	5.0	5.3	5.5
Consumer prices (end of period)	2.6	2.3	0.4	2.5	2.5	2.5	2.5
Consumer prices (period average)	1.3	2.3	1.9	2.5	2.5	2.5	2.5
	(In percent of GDP)						
Investment and Saving							
Gross capital formation	35.3	34.3	34.7	35.3	35.3	35.4	35.5
Of which: Nongovernment	29.7	30.0	29.5	30.7	29.9	29.9	30.1
Gross national savings	25.6	27.1	27.2	28.8	29.7	30.6	31.3
Of which: Nongovernment	25.9	26.8	25.9	27.6	26.8	26.9	27.0
	(In percent of GDP)						
Public Finances							
Revenue	28.7	27.5	27.9	27.4	28.1	28.1	28.2
Expenditure	36.1	33.0	33.4	32.4	32.4	31.7	31.2
Budget balance	-7.3	-5.5	-5.4	-4.9	-4.3	-3.6	-3.0
Primary balance (excluding grants)	-5.0	-4.0	-3.6	-2.8	-2.7	-1.9	-1.4
Cyclically-adjusted primary balance (excl. grants)	-4.7	...	-3.4	-3.3	-2.6	-1.9	-1.4
Total government debt	60.2	61.8	61.7	62.5	62.4	61.5	60.1
	(Annual percentage change; unless otherwise indicated)						
Monetary Sector							
Credit to the private sector 3/	4.8	6.1	3.6	5.6	6.2	6.9	6.9
Base money	-0.5	11.5	9.8	4.6	5.5	6.5	6.0
Broad money	4.5	5.5	3.9	4.6	5.5	6.5	6.0
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.2	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)						
External Sector							
Exports of goods (in U.S. dollars, percentage change)	-0.8	3.3	1.8	9.1	7.3	7.0	6.3
Imports of goods (in U.S. dollars, percentage change)	1.6	0.7	0.7	6.8	5.2	5.1	5.2
Merchandise trade balance	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2	-15.6
Current account excluding official transfers	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7	-5.2
Current account including official transfers	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8	-4.2
Foreign direct investment	2.4	3.2	2.9	2.9	3.0	3.1	3.1
Total external debt	29.8	31.3	30.9	31.5	31.6	30.6	29.2
Gross reserves (in billions of U.S. dollars)	17.5	18.7	19.3	20.0	21.1	22.4	23.7
In months of next year imports of goods and services	4.2	4.3	4.3	4.3	4.3	4.3	4.3
In percent of short-term external debt (on remaining maturity basis)	1251.8	1332.0	1374.5	1427.1	1508.7	1601.2	1691.2
Memorandum Items:							
Nominal GDP (in billions of U.S. dollars)	96.1	104.8	105.5	115.1	125.1	136.0	146.7
Unemployment rate (in percent)	9.0	8.9	8.9	...	...	...	...
Population (millions)	32.5	32.9	32.9	33.2	33.5	33.8	34.2
Net imports of energy products (in billions of U.S. dollars)	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9	-12.9
Local currency per U.S. dollar (period average)	8.6	...	8.4	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.0	...	0.1	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework.

3/ Includes credit to public enterprises.

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
January 31, 2014

Recent economic developments

In a continued unfavorable external environment, including sluggish growth in Europe, Morocco's main trading partner, and high international fuel prices, the Moroccan authorities succeeded in fully reversing the deterioration in the external and fiscal positions of 2012, making additional inroads toward external and fiscal sustainability, reducing vulnerabilities, and strengthening the economy's resilience and investor confidence. In the process, they have demonstrated unwavering commitment to macroeconomic stability and pro-growth structural reforms, and a high level of program ownership, which remained strong even during the prolonged transition to a new government coalition in mid-2013. The authorities are confident that Morocco's well-grounded political and social stability, strong fundamentals, and good track record of policy implementation remain unblemished, and will continue to underpin the achievement of their goals of high and inclusive growth and strong job creation.

Growth in 2013 is estimated at 4.8 percent, reflecting mainly the impact of good weather conditions on agricultural production, with non-agricultural GDP slowing down significantly since the fourth quarter of 2012, as a delayed impact of the recession in Europe. Inflation remained low at less than 2 percent. The deterioration in the current account deficit in 2012 was more than fully reversed, with the deficit declining from 9.7 percent of GDP to 7.4 percent. The very good performance of high value-added exports of emerging sectors, and broadly stable imports, including energy, along with an increase in tourism and workers' remittances and higher grants, more than offset the decline in phosphates products and other nonagricultural exports. With a significant increase in FDI, the reserve position strengthened further to 4.3 months of imports. Continued commitment to fiscal discipline and to reducing vulnerabilities, and reduced uncertainties after the change in the government coalition have helped strengthen confidence, as evinced by continued favorable market conditions and strong FDI, and recent signs of an economic recovery. The authorities are projecting growth to remain robust at 4 percent in 2014, under the assumption of an average agricultural production and a rebound in nonagricultural growth following stronger confidence and firmer external demand.

Fiscal consolidation

The authorities' commitment to fiscal consolidation has been demonstrated by their success in meeting the 5.5 percent of GDP deficit target for 2013 (the most recent outcome is 5.4 percent), notwithstanding the significant slowdown in nonagricultural GDP (which is crucial for tax revenue) and the 0.3 percent shortfall in grants compared to program projections. This is a remarkable achievement that put the fiscal stance back on track for meeting the authorities' medium-term deficit target of 3 percent of GDP by 2017. This improvement owed much to the measures taken by the authorities in mid 2012 and in 2013 to reduce the subsidy bill, as described in the following section, and to strong expenditure control, including on wages, goods and services, and investment spending. Despite slowing nonagricultural growth, the authorities took the bold decision in April 2013 to reduce the capital budget by 15 billion DH (25 percent of total new appropriations) to protect the deficit target, in view of the shortfall in tax revenue and larger-than-projected carry-over from 2012. However, despite the authorities' efforts to improve nontax revenue, and in view of continued shortfall in tax revenue and lower-than expected grants, they decided to moderate capital spending growth further to achieve the end-year deficit target by cancelling investment appropriations uncommitted by end-October. Nevertheless, total capital spending in 2013 was 1 percent of GDP higher than projected under the PLL-supported program, and declined only marginally compared to 2012, leading to improved budget composition.

The authorities are committed to reducing the fiscal deficit further to 4.9 percent of GDP in 2014. The 2014 budget includes measures aimed at broadening the tax base by gradually lifting tax exemption of large agriculture enterprises and bringing the informal sector into the tax net, reducing distortions in the VAT by addressing the issue of tax credits and gradually moving toward a two-rate VAT, and strengthening resources earmarked for social protection and cohesion. Continued control of current spending will allow for increased appropriations for priority social sectors, which account for 53 percent of the budget, and investment. Timely approval of the budget, despite the late formation of the new government, and the introduction of an adjuster to the capital budget to account for the size of carry-overs would smooth budget execution and reduce uncertainty for the private sector.

Reducing key fiscal vulnerabilities

Structural fiscal reforms, as described below, and the strengthening of budget monitoring and forecasting through greater internal coordination, and improved data availability in response to the 2012 fiscal outcome were instrumental in achieving the 2013 fiscal deficit target and significantly reducing vulnerabilities. The indicative character of wage appropriations and the unrestricted carry-over of capital budget appropriations were addressed by administrative order of the Head of Government for 2013. These measures were renewed for 2014.

The draft Organic Budget Law (OBL) was approved by the Council of Ministers on January 20, 2014, clearing the way for its submission to Parliament. Implementation of the new OBL is expected to be rolled over a 5-year period. The staff papers highlight the significant role that the new OBL will play in modernizing and strengthening the budget framework and reducing vulnerabilities, including those mentioned above. The papers also indicate areas where the draft could be improved to strengthen the framework further. The authorities are grateful to FAD staff for their comments and suggestions in this regard. They intend to take the opportunity of the discussion of the draft in parliament to draw on these comments and suggestions toward aligning the new OBL with best international practices, with due consideration to Morocco's constitutional and other constraints.

The subsidy system is another key vulnerability that the authorities are successfully addressing. As no consensus could be reached on transforming the universal subsidies into a system of cash transfers, they developed a new strategy that appeared more politically and socially acceptable. It combines a reduction of vulnerabilities through partial indexation of some petroleum products; elimination of subsidies on the least socially sensitive ones and gradual reduction for others, with an appropriate safety net to protect the poor and; the extension of existing conditional social support programs focused on education and basic health. In this regard, the authorities wish to underscore that the reduction of subsidies to 4.7 percent of GDP in 2013, down from 6.6 percent in 2012, was not exclusively nor even primarily due to international price declines as indicated in the report, but most notably to the domestic price hikes in 2012-13, combined with the price indexation mechanism, including their impact in moderating consumption, and improved availability of hydroelectric and other non-fuel energy. The ongoing investments in solar and wind energy and the re-adaptation of thermal power plants to coal will help reduce oil dependency. The authorities' policies, including the measures taken this January and those already publicly announced for 2014, will bring the subsidy bill to the budgeted level of 3.7 percent of GDP this year. They remain confident that their medium-term objective of bringing untargeted subsidies down to 3 percent of GDP will be met.

Other structural fiscal reforms

With regard to tax reform, and as indicated above, the authorities have started implementation of the key recommendations of the national conference on taxation (Assises Fiscales) held last April, with the objective of simplifying the system, broadening the tax base, and enhancing equity and competitiveness. In this regard, the gradual introduction of agriculture in the tax net, starting this year, is a milestone, although its revenue implications are likely to be modest in the short term.

The parametric reforms of the main public pension system have been identified, as indicated in the Written Communication. Implementation is to start under the next budget to be followed by a more comprehensive reform of the system. Finally, the authorities' objective of bringing down the wage bill to 11 percent of GDP in the medium term is on track and should be helped by the planned reform of the civil service with World Bank assistance, which should also improve efficiency, governance, and the quality of service delivery.

Monetary and financial policies

The outstanding performance of Bank Al-Maghrib (BAM) in maintaining low inflation over the past three decades, and Morocco's resilience to recent global turbulence, attest to the appropriateness of the current monetary regime under the exchange rate peg. The small overvaluation of the dirham calculated by staff has been reduced further and should not guide policies in view of the high degree of uncertainty in such calculations. Moreover, there is no sign of loss of competitiveness. On the contrary, recent development in FDI-financed, high value-added exports provide evidence of improved competitiveness, as recognized by staff. The authorities are nevertheless considering moving to greater exchange rate flexibility along with the resulting adaptation of the monetary policy framework. They look forward to the upcoming TA mission to discuss options for an exchange rate policy that could better serve Morocco and the modalities for its implementation, along with the other policy requisites for such a move. Over the past several years, BAM has already significantly strengthened its analytical and forecasting capabilities and enhanced transparency of its decision making process, in preparation for an eventual move to a different monetary policy framework. In this regard, BAM is grateful to the Fund for its high quality technical assistance.

In 2013, BAM focused on filling the liquidity shortage created by the 2012 decline in foreign assets, and is extending refinancing facilities to banks to encourage credit to very small, small, and medium-sized enterprises. BAM considers that tighter credit conditions are not the main factor for lower credit growth. This slowdown is due mainly to subdued demand and a wait-and-see attitude resulting from uncertainties in Europe and the transition to a new government, even though banks were more vigilant in extending credit to some sectors faced with excess supply conditions, such as real estate.

The financial sector remains sound, with improved bank capitalization and profitability and reduced high loan exposures and connected lending. The moderate increase in NPLs reflects the slowing economic activity and is expected to be reversed soon. BAM is in the process of implementing Basel III requirements, as indicated in the staff papers. It is also closely monitoring the expansion of Moroccan banks in other countries in Africa in close cooperation with host supervisors.

Promoting high and more inclusive growth

Improving the business climate to achieve higher growth and employment is an overarching objective of the authorities. Their recent efforts in this area have translated into a gain of 27 places in Morocco's ranking under the Doing Business indicators between 2011 and 2014. The authorities are working actively toward further improving this rating, with some measures already included in the 2014 budget, as indicated above. A major reform of education has been prepared to help rationalize the system and upgrade human resources and skills, with implementation under way. The roadmap for a comprehensive reform of the justice system has been approved and its implementation has started. The introduction in 2014 of a limited unemployment benefit financed by businesses and employees, with an initial limited contribution of the budget, should help reach consensus on greater labor market flexibility. Several active labor market policies and training initiatives are being reinforced to help employability and reduce unemployment, in particular among the young, with much of the focus in this area on supporting SMEs. Several initiatives are also being launched to better integrate the informal sector into the modern economy. In this regard, the authorities were surprised by the indication in Figure 3 that the informal sector in 2008 in Morocco was the highest among selected 18 advanced and emerging market countries, reaching some 45 percent. A survey conducted by the independent Planning Commission estimated this share at 14.3 percent in 2007, down from 16.3 percent in 1999.

The authorities do not share staff view in paragraph 15, based on the Global Competitiveness Report, that inefficient bureaucracy and governance issues are the most binding constraints on competitiveness, growth and jobs. The issue of inefficient bureaucracy and its impact on competitiveness has never been raised by staff, during Art IV consultation discussions. On the contrary, on several occasions, staff recognized the high quality and efficiency of Moroccan civil service.

Social inclusion and equity

The authorities consider that reducing poverty and exclusion, and addressing social and regional inequality are crucial for long-term development. Major inroads have been made toward meeting the MDGs, with absolute poverty reduced by more than half in two decades (from 21 percent in 1985 to 8.9 percent in 2007), primary education enrollment rate doubled to almost 100 percent, and significant reduction in illiteracy and improvements in women and child health as well as other indicators. The coverage of RAMED (basic health services for the underprivileged) has already reached 5.5 million people, 2/3 of the targeted population, and the TAYSSIR program provides financial assistance to almost half a million poor families to keep their young children at school. The National Initiative for Human Development plays a crucial role in reducing social and regional disparities by improving access to infrastructure and social services, in particular in rural and remote areas, enhancing capacity, and promoting income generating activities benefiting 2½ million people. The recently established Fonds de Cohesion Sociale is in charge of mobilizing resources to support assistance programs for the poor, and will play a coordinating role for similar programs. Its coverage was extended under the 2014 budget to vulnerable widows and physically challenged persons.

PLL Review

Policy implementation under the PLL-supported program since the second review has significantly strengthened, and the authorities succeeded in meeting the program targets for 2013. The indicative target for NIR for end-October was largely exceeded. The indicative target for the fiscal deficit was exceeded by 0.3 percent of GDP only because the announcement of an upcoming cancellation of capital appropriations unused by end-October led to an unexpected but temporary acceleration of payment orders in the week that preceded the cancellation.

The PLL has been very helpful in providing a valuable insurance against external shocks during a period of international turbulence and in a difficult environment marked by high oil and other commodity prices and weak growth in Europe. It anchored the authorities' program at a time of uncertainty in connection with the change in the government coalition, helped identify and address vulnerabilities, and provided a signal of the strength of policies. It also helped access international financial markets at very favorable terms and, although it was treated by the authorities as precautionary, it catalyzed other foreign assistance.

My authorities are grateful to the Fund staff, management, and Board for their support, and to other international financial institutions and the donor community, in particular the GCC countries, for their assistance. The authorities believe that Morocco continues to meet the PLL qualification and the four exceptional access criteria. They request Board approval of their request for completion of the third and last review under the PLL and confirmation of Morocco's continued qualification for the facility. They are committed to fully implement their program and will continue to treat the PLL as precautionary.

The authorities believe that the PLL still has a very useful role to play for countries like Morocco with sound fundamentals, but faced with some vulnerabilities. In the case of Morocco, uncertainty about the pace and timing of the recovery in Europe and about future oil, food and other commodity prices, and possible renewed financial turbulence will continue to pose risks that the PLL could help to mitigate in support of the authorities adjustment and reform efforts.