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MOROCCO

September 2017

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 1, 2017, following discussions that ended on July 10, 2017, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on July 19, 2017.
- A **Statement by the Executive Director** for Morocco.

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

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August 1, 2017

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IMF Executive Board Concludes the Second Review under the Precautionary and Liquidity Line Arrangement for Morocco

- The Moroccan authorities have not drawn on the arrangement and continue to treat it as precautionary.
- The new government's economic program is in line with key reforms agreed under the IMF arrangement, such as reducing fiscal and external vulnerabilities while strengthening the foundations for higher and more inclusive growth.

On August 1, 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review under the Precautionary and Liquidity Line (PLL) Arrangement and reaffirmed Morocco's continued qualification for the PLL.

The two-year PLL arrangement for Morocco in the amount of SDR 2.504 billion (about US$3.42 billion) was approved by the IMF's Executive Board in July 2016 (see Press Release No. 16/355) and the first review of the arrangement was completed on May 15, 2017 (see Press Release No. 17/169). The Moroccan authorities have not drawn on the arrangement and continue to treat it as precautionary. The arrangement will expire on July 21, 2018.

Following the Executive Board's discussion, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

"Morocco's sound economic fundamentals and overall strong track record of policy implementation have contributed to a solid macroeconomic performance in recent years. External imbalances are projected to narrow in 2017 and international reserves to remain at a comfortable level. Fiscal developments are positive, with the budget deficit projected to narrow further in 2017 due to strong revenue performance and contained spending. Growth is expected to rebound in 2017 and accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation. But this outlook remains subject to domestic and external downside risks. In this context, Morocco's Precautionary and Liquidity Line (PLL) arrangement with the Fund continues to serve as useful insurance against external risks and supports the authorities' economic policies.

“The authorities are committed to sustaining sound policies. The new government’s economic program is in line with key reforms agreed under the PLL arrangement, such as reducing fiscal and external vulnerabilities while strengthening the foundations for higher and more inclusive growth.

“Building on progress made in recent years, further fiscal consolidation is needed and should be based on accelerated tax reforms, sound public financial management at the local level as part of fiscal decentralization, comprehensive civil service reform, enhanced financial oversight of state owned enterprises, and increased efficiency of social programs and public investment projects.

“Adopting the central bank law and continuing to implement the 2015 Financial Sector Assessment Program recommendations will help strengthen the financial sector policy framework. Moving toward a more flexible exchange rate regime, underpinned by a well communicated strategy, will help preserve external competitiveness and enhance the economy’s capacity to absorb shocks.

“Finally, raising potential growth and making growth more inclusive, by reducing persistently high unemployment levels, especially among the youth, and increasing female labor participation, will require further measures to improve the business climate, governance, competitiveness, access to finance, the labor market, and regional disparities.”

INTERNATIONAL MONETARY FUND

MOROCCO

July 19, 2017

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE (PLL)

EXECUTIVE SUMMARY

Context. Growth prospects for 2017 have improved, but nonagricultural growth is subdued. Inflation is low. The current account deficit is projected to decline and international reserves are at a comfortable level. The outlook is still subject to significant domestic and external risks, including weak growth in the euro area and geopolitical risks in the region.

Key policies and reforms. The new government is committed to pursue fiscal adjustment and key program objectives, including bringing public debt to about 60 percent of GDP by 2021, from 64.7 percent at end-2016, as well as a gradual transition to a more flexible exchange rate regime. Achieving these objectives, reaching higher, job-rich and inclusive growth, and addressing social tensions requires accelerating key reforms in the areas of tax policy, labor market, education, and the business environment, while strengthening social safety nets.

PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board in the 2016 Article IV consultation, and despite a recent slowdown in reform implementation, staff considers that Morocco continues to meet the PLL qualification criteria and on this basis, staff recommends the completion of the second review of the PLL arrangement:

- Morocco's economic fundamentals and policy frameworks are sound, the country is implementing (and has a track record of implementing) generally sound policies, and remains committed to maintaining such policies in the future.

- Staff assesses that Morocco continues to meet the PLL qualification criteria and performs strongly in four out of the five areas of PLL qualification (external, monetary, financial, and data), does not substantially underperform in the fifth area (fiscal), and does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.

- The end-March 2017 fiscal deficit indicative target (IT) was met, but the end-March 2017 reserves IT was missed due to the widening current account deficit, due in part to temporary factors, since July 2016. The authorities have not drawn on the arrangement and continue to treat it as precautionary.

Approved By
Adnan Mazarei and Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean Frédéric Noah, Anta Ndoye (all MCD), and Sanaa Nadeem (SPR). The discussions took place in Rabat from June 29 to July 10, 2017. Geraldine Cruz and Gregory Auclair (MCD) assisted in the preparation of the report.

The mission met with the Head of Government Mr. El Othmani, the Minister of Economy and Finance Mr. Boussaïd, the Minister Delegate of General Affairs and Governance Mr. Daoudi, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. Daïri (OED) participated in most meetings.

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ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
ESI	External Stress Index
FDI	Foreign Direct Investment
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GRA	General Resources Account
G-RAM	Global Risk Assessment Matrix
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PLL	Precautionary and Liquidity Line
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
TA	Technical Assistance
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

A. Recent Developments

1. **The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in July 2016 in the amount of SDR 2.504 billion (or 280 percent of quota), equivalent to US$3.556 billion.** The arrangement supports the authorities' program to rebuild fiscal and external buffers, and promote higher and more inclusive growth. The first review was completed on May 12, 2017. The 2016 Article IV consultation with Morocco was concluded on January 23, 2017. Executive Directors welcomed the authorities' strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

2. **The new coalition government appointed in early April 2017 has committed to sustain sound policies.** On March 17, 2017, the King appointed a new Head of Government, Saad-Eddine El Othmani, from the Islamist Justice and Development Party (PJD) that won most seats in the October 2016 parliamentary elections. Policy continuity has been affirmed as the new government's economic program is in line with that of the previous government, especially on key reforms agreed under the PLL arrangement, such as: fiscal consolidation, greater exchange rate flexibility, tax reforms (in line with recommendations from the 2013 national tax conference), civil service reform, strengthened governance and oversight of state owned enterprises, fiscal decentralization, and improvements to the business environment.

3. **There have been social tensions since October 2016.** Mostly localized in the northern region of the Rif, they increased in June following the arrest of leaders of a popular movement that demanded better access to health services, jobs, greater public investment, and more broadly, increased voice and accountability in government. The government has announced steps to accelerate the implementation of local social programs and investment projects.

4. **Following a sharp slowdown in 2016, growth is expected to pick up in 2017, mainly driven by a strong rebound in agricultural output.** Growth is estimated to have reached 1.2 percent in 2016 due to a sharp slowdown in agriculture and subdued nonagricultural activity. Preliminary data for 2017 indicate that the economy grew at 3.8 and 4.8 percent (y-o-y) in the first and second quarters (respectively), driven by a strong pick-up in agricultural activity. Job creation increased to 109,000 in the first quarter of 2017, against job losses of 13,000 in the first quarter of 2016. However, the unemployment rate increased slightly from 10.4 percent in the first quarter of 2016 to 10.7 percent in the first quarter of 2017, reflecting a sharper increase for the young (from 24.9 to 25.5 percent) and women (from 13.8 to 14.7 percent), as well as in urban areas (from 15 to 15.7 percent).

Box 1. The New Government's Program

The new government presented its economic program to parliament in mid-April 2017. Its main priorities fall under the following broad categories:

- Supporting democratic choice and the rule of law, and advancing regionalization;
- Enhancing integrity, reforming the administration, and establishing good governance;
- Developing an economic model that promotes employment and sustainable development;
- Promoting human development and social cohesion;
- Strengthening Morocco's international influence to serve just causes in the world.

The government's program intends to achieve the following specific objectives by 2021:

- Reach economic growth between 4.5 and 5.5 percent and keep inflation below 2 percent;
- Keep the budget deficit below 3 percent of GDP and reduce public debt to 60 percent;
- Reduce unemployment to 8.5 percent;
- Increase secondary education enrollment to 97 percent (from 88 percent today), and reduce illiteracy from 20 percent (from 30 percent today);
- Increase access to basic health services to 100 percent (against 60 percent today), and reduce infant mortality to 20 deaths per 1,000 births (from 27 today);
- Increase access to roads in rural areas from 79 to 90 percent;
- Reduce the housing deficit from 400,000 to 200,000 units.

5. **The current account deficit should narrow in 2017.** Data as of May 2017 show a widening trade balance: exports registered a 5.3 percent pickup (y-o-y), driven by a recovery in phosphate exports, while imports strengthened by 9 percent, due mainly to higher energy prices, while food and capital goods imports slowed. Tourism and remittance flows remain steady. At the same time, capital inflows have weakened somewhat, due to stronger FDI outflows related to outward investment in the region (particularly in the banking sector) notwithstanding higher FDI inflows, and lower net public and private borrowing. Overall, the current account deficit should narrow to 4 percent of GDP, from 4.4 percent in 2016, supported by strengthening exports and steady imports.

6. **Foreign exchange market pressures in May-June led to a rapid decline in reserves, which are expected to partly recover by end-2017**. As discussed in the last review of the PLL arrangement, reserves fell short of the end-March indicative target (IT) by about 4 percent (US$1.1 billion). In addition, reserves declined in May-June due to foreign exchange interventions by Bank Al-Maghrib (BAM) to counter devaluation anticipations by market participants in the run-up to the (expected) introduction of greater exchange rate flexibility (as well as higher energy imports, and accelerated FDI outflows and loan repayments). These pressures, which contributed to a decline in reserves to US$20.6 billion by end-June (from US$25.4 billion at end-2016), have subsided since the government announced in early July that the exchange rate regime transition would not start immediately, and that the width of the dirham's fluctuation band in the first phase of the transition would be only five percent. Assuming market pressures do not resume, reserves losses related to

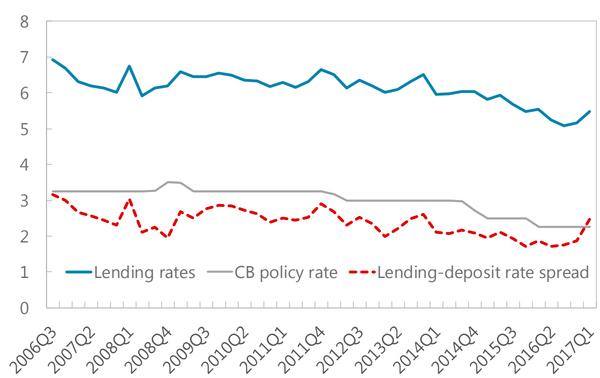
BAM's interventions in May-June are expected to be recouped at least in part in the coming months. Overall, reserves are projected to reach US$24.2 billion by end-2017, which is equivalent to a still comfortable six months of imports, or 90 percent of the Assessing Reserve Adequacy (ARA) metric (119 percent of the ARA adjusted for capital controls).

7. Fiscal developments through May 2017 have been positive. Despite lower-than-expected grants, the authorities met the end-March 2017 IT (deficit of 0.7 percent of GDP against an indicative target of 0.73 percent). This outcome was primarily due to a strong revenue performance and continued efforts to contain current spending, while capital spending decelerated. Preliminary data suggest that the fiscal deficit at end-May 2017 was lower relative to the same period last year (1 percent of GDP against 2.6 percent). The cyclically-adjusted primary deficit (excluding grants) also decreased relative to the same period last year (by about 1.9 percent of GDP). Public debt stood at 64.7 percent of GDP at end 2016 and is sustainable.

8. Inflation remains low and credit growth is continuing to recover, albeit moderately. Average inflation for the first five months of 2017 was about 1 percent, reflecting declining food prices. Since BAM reduced its policy rate to 2.25 percent in March 2016, lending rates have declined. Credit growth had recovered to 5.1 percent by May 2017 (y-o-y), driven by household borrowing (mortgage and consumption) and investment lending, although credit to non-financial private enterprises remains sluggish at 2.1 percent (y-o-y). Real estate prices have declined gradually in recent years.

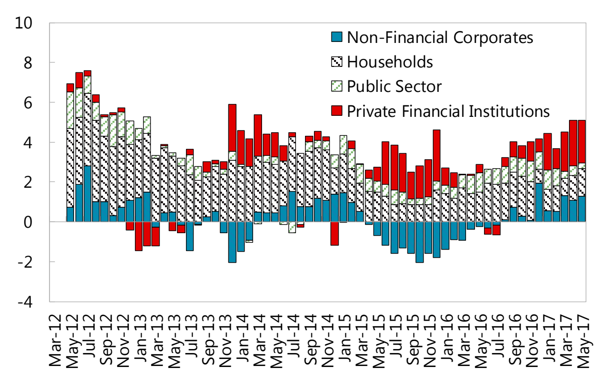
9. Banks are well capitalized, but relatively high non-performing loans (NPLs), credit concentration risks, and rapid expansion in Africa require continued monitoring. Banks' capital ratios stood at 14.2 percent at end-2016, NPL ratios were at 7.8 percent in May 2017 (almost unchanged from 2016), and provisioning levels are comfortable. Risks from large credit exposures persist despite stricter limits than Basel III. The continued expansion of Moroccan banks in Africa (most recently in Egypt) provides diversification and profit opportunities, but is also a channel of risk transmission given the riskier local operating environment (including risks from money laundering and terrorist financing activities) and lower regulatory standards in some host countries.

Bank Lending Rates and Interest Margin
(In percent)



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

Contributions to Credit Growth
(Annual percent change)



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

B. Policy Implementation

10. Building on progress made in recent years, sustained fiscal and structural reforms are needed to achieve higher and more inclusive growth, and reduce unemployment. As regards macroeconomic policies, gradual fiscal consolidation and accommodative monetary policy should continue. On the structural front, sound policy and reform implementation has improved the resilience of the Moroccan economy and its growth prospects in recent years. However, reform implementation has slowed in key areas such as education, governance, and the labor market, and needs to be stepped up to reach the new government's medium-term objectives. Greater clarity in this regard is expected in the context of the 2018 budget discussions this summer.

11. Further fiscal consolidation will require accelerated tax reforms in the coming years, while minimizing their social impact. Recent progress includes the implementation of the new organic budget law (OBL) and the adoption of the pension reform. The new government has committed to reduce public debt to 60 percent of GDP by 2021, instead of 2020 as initially agreed under the program, in order to secure more gradual fiscal consolidation. Key reforms will be to: accelerate tax reforms in line with recommendations from the 2013 national tax conference, including measures to boost VAT revenues and reduce tax exemptions (e.g., in the agricultural sector); consolidate the corporate tax regime (including to prevent tax avoidance); better enforce tax payments by the self-employed and liberal professions; ensure sound public financial management at the local level as part of fiscal decentralization; pursue comprehensive civil service reform; and enhance financial oversight of state-owned enterprises (SOE) (W-COM.-¶5-9). Accelerating tax reforms is essential considering that: weak revenue performance contributed to the worse-than-expected fiscal outcome in 2016; no new tax reforms were implemented in 2017; and grant revenues are expected to decline from 2018 on. More broadly, a comprehensive approach, greater clarity and communication on the reform strategy, and careful consideration of its social impact will be key (see below).[1]

12. Improved social safety nets, through more efficient and targeted allocation of public resources, will be essential. The overall level of public social expenditures is relatively high in Morocco, and poverty has been reduced significantly in recent decades. Nevertheless, strong inequalities remain, such as across regions, and social safety nets still need to be improved through better coordination of numerous programs and better targeting of the most vulnerable groups, and more generally by promoting stronger governance, transparency, and efficiency in the allocation of public resources, including at the local level. This would also help to minimize the social impact of tax reforms. The new government is determined to make progress in these areas, and has already started to take action, including by developing a social registry (based on a means-tested approach) with World Bank assistance.

13. Improvements to the financial sector and monetary and exchange rate policy frameworks are underway. The authorities continue to implement the 2015 FSAP

[1] See box on "Advancing Tax Reforms in Morocco," 2016 Article IV report (Country Report No. 17/36).

recommendations, including by increasing supervisory capacity. The new central bank law, which will strengthen the central bank's independence and clarify its role for financial stability, was recently approved by the government council and is expected to be approved by parliament by 2018. The authorities are well prepared to introduce greater exchange rate flexibility, and this transition is expected to be gradual. As noted, the announcement of the future width of the band in the initial phase (five percent) helped restore market confidence in recent days. However, there remains uncertainty as to the date for the introduction of such flexibility. Starting the gradual transition as soon as possible would help reduce this uncertainty and ensure that Morocco moves forward from a position of strength. Staff continues to collaborate closely with the authorities on all key operational aspects of the transition, including by providing technical assistance.

14. Finally, structural reform implementation needs to accelerate to boost medium-term growth prospects and reduce unemployment, especially in the following areas:

- **Business environment.** The authorities intend to continue reforms in this area, including by further simplifying and modernizing administrative procedures (W-COM.-¶14), with the goal of positioning Morocco in the top 50 countries in the *Doing Business* ranking by 2021 (against 68 in 2017). Regarding SME access to finance, important improvements to the insolvency and collateral frameworks will be introduced in 2018, and the recently-adopted limit on payment delays (60 days) is welcome. However, some key reforms have recently been further delayed: more concrete progress is needed in implementing the national strategy against corruption adopted in 2015; also, the members of the Competition Council need to be appointed to exercise the powers given in 2014 to promote domestic competition (W-COM.-¶14).

- **Education and labor market.** The new government has outlined specific objectives in these areas (Box 1). To achieve these objectives, progress is needed in implementing the 2015–30 education strategy, including by promptly adopting the draft framework law, and developing a concrete action plan under the national employment strategy adopted in 2015, including measures to boost job creation and raise female labor force participation. The framework law and the action plan are now expected to be finalized in 2018 (W-COM.-¶14). Labor market reforms should focus on hiring and firing costs, in particular by relaxing restrictions on fixed-term contracts and layoffs to better integrate young workers in the labor market, while establishing adequate safety nets for the unemployed. On education, the authorities plan to increase investment in school infrastructure, continue to facilitate the deployment of additional teachers, and expand cash transfer programs in rural areas, which will help improve educational outcomes, notably for girls.

OUTLOOK AND RISKS

15. Gradually increasing growth, moderate inflation, and stronger external and fiscal buffers are expected over the medium term:

- **Growth** is expected to rebound to 4.8 percent in 2017, reflecting a strong pickup in agricultural output (given a positive base effect following the 2016 drought) and a slow recovery of nonagricultural activity. In 2018, assuming a return to normal agricultural production, growth would slow to 3.0 percent despite the steady pick-up in nonagricultural growth. Over the medium term, growth should reach 4.6 percent, subject to continued reforms to improve the business climate and boost productivity (and assuming an average agricultural production level). Additional reforms in the areas of education, labor market and competition will be needed to achieve the government's economic program objective of 5.5 percent by 2021.

- **Inflation** is expected to remain low at 0.9 percent in 2017 due to a decline in domestic food prices (following their sharp increase in 2016 and the bumper crop of 2017), in the context of an appropriately accommodative monetary policy. It is projected to stabilize around 2 percent over the medium term.

- The **current account deficit** should narrow to about 4.0 percent of GDP in 2017, and remain around 2–3 percent of GDP thereafter. This would reflect: (i) continued export growth, including in the higher value-added manufacturing sectors and due to recovering phosphate exports; (ii) steady imports, with slowly rising oil prices, and continued investment-related imports; and (iii) declining grant revenues. FDI inflows are projected to remain robust, helping to raise the reserves position to around seven months of imports, or 103 percent of the standard Assessing Reserve Adequacy (ARA) metric (136 percent of the adjusted metric) in the medium term.

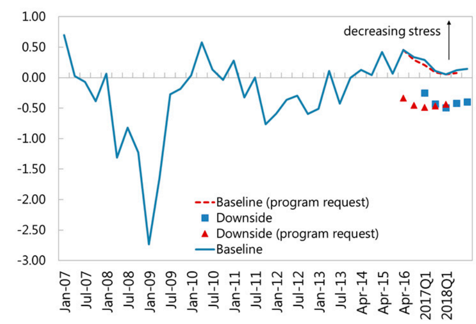
- The overall **fiscal deficit** is expected to decline to 3.5 percent of GDP in 2017 and to stabilize around 2.1 percent of GDP in the medium term, consistent with the authorities' objective to reduce public debt to 60 percent of GDP by 2021. Achieving these objectives will require expeditious measures to enhance tax revenues, continued efforts to contain current spending, and identifying contingency measures to cope with potential grant revenue shortfalls. Projected tax revenue increases have been revised downward relatively to the PLL request (by 1 percentage point of GDP in 2021), reflecting lower expected payoffs of tax reforms, including because of recent delays in reform implementation. This was offset by a parallel reduction in capital transfers to SOEs (whose financial situation is expected to improve), current spending by local entities, and public investment.

16. The balance of risks remains tilted to the downside. On the domestic front, delays in implementing key reforms and policy uncertainty, including fiscal and structural reforms, could reduce future fiscal space and contribute to social tensions, and adversely impact the external sector (e.g., through lower tourism receipts, remittances, or grants), and the expected pickup in potential growth. Also, renewed uncertainty regarding the exchange rate transition could lead to market pressures, potentially weakening the current account (e.g., through lower remittances) and reserves levels. Externally, weak growth in the euro area could slow economic activity through lower exports, tourism, FDI flows, and remittances, worsening fiscal and external imbalances; geopolitical risks could increase oil price volatility and reduce tourism activity and weaken investor confidence; tighter, more volatile financial conditions, global policy uncertainty, and a retreat from cross-border integration could affect global growth, increase borrowing costs, lead to reduced trade and capital flows, and weaken consumer and investor confidence more generally. On the upside, continued lower energy prices would help further narrow external and fiscal imbalances.

Box 2. External Stress Index

Background. The external sector index is an indicator of the evolution of the external environment faced by a country. Its use was mandated by the IMF Executive Board for Flexible Credit Line (FCL) and PLL countries at the time of the review of these instruments in June 2014.[1] The index is based on: (i) a consideration of the key external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of the weights to apply to each of these variables. The model was first used at the time of the first review of the 2014 PLL Arrangement

Morocco: External Stress Index



Sources: WEO; and IMF staff estimates

Risks. The main external risks for Morocco based on the January 2017 Global Risk Assessment Matrix (G-RAM), are: (i) a protracted period of slow growth in advanced economies, particularly in Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (ii) heightened geopolitical risks resulting in higher oil prices and dislocations to capital flows and tourism receipts; and (iii) a surge in global financial market volatility, resulting in higher borrowing costs and disruption to portfolio flows.

Proxy variables. (i) Lower exports, remittances, FDI, and tourism receipts from Europe are captured by growth in the euro area, Morocco's main trading partner (representing more than 50 percent of trade, FDI, and remittances); (ii) higher oil imports are captured by oil prices; and (iii) the impact of global financial volatility on portfolio flows and borrowing costs are captured by the emerging markets volatility index (VXEEM).

Weights. A data-based approach was used to determine the weights for each variable. Weights for each proxy variable are estimated using the balance of payments and IIP data as a share of GDP. The weight on euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts from Europe, the weights on the VXEEM (0.095) correspond to the stocks of external debt and equity, and the weight on the change in oil price (0.324) corresponds to oil imports; the weights are as of the PLL request stage. The highest weights fall on euro area growth and the oil price (based on their relative contribution to items on the balance of payments/financing needs). The VXEEM has a smaller weight reflecting the small size of portfolio flows in the financial account.

Baseline scenario. The baseline corresponds to the July 2017 World Economic Outlook (WEO) projections for euro area growth and oil prices, while the VXEEM is consistent with volatility index (VIX) futures as of July 7, 2017. The graph suggests that at the current juncture, external economic stresses have marginally declined relative to the July 2016 request (solid lines). This reflects higher oil price path assumptions being largely offset by stronger EA growth and improved VXEEM index projections.

Downside scenario. The downside scenario is broadly consistent with staff's adverse scenario, and assumes euro area growth that is one percentage point lower than the baseline, a US$15 increase in oil prices relative to the baseline, and an increase in the VXEEM by two standard deviations. The graph suggests that in a downside scenario, external economic stresses are broadly comparable to those at the July 2016 request.

Overall assessment. The external economic stress index for Morocco suggests that external pressures under the baseline have abated in recent years. However, the model does not include a proxy for geopolitical risk (given the difficulty in choosing such a variable). At present, this would suggest a relatively more heightened stress index.

[1] See "The Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument," IMF Policy Paper, January 2014.

REVIEW OF PLL QUALIFICATION

17. Staff's assessment is that Morocco continues to qualify for a PLL arrangement. In line with the generally positive assessment of Morocco's policies by the Executive Board during the 2016 Article IV consultation and the first review under PLL arrangement, staff's assessment is that Morocco meets the PLL qualification criteria.

A. General Assessment

18. Morocco's economic fundamentals and institutional policy frameworks remain sound, the country is implementing, and has a track record of implementing, sound policies, and it is committed to doing so in the future.

- **Macroeconomic developments are broadly positive.** Fiscal developments until May 2017 were favorable, with strong revenue performance partially recouping the shortfall in December 2016, which was largely due to slower growth and accelerated VAT reimbursements. The current account deficit is expected to narrow in 2017, although less than previously expected, as food and capital equipment imports (related to specific infrastructure projects) slow, and phosphate exports pick up. Over the medium term, economic growth is expected to gradually increase in a context of low inflation. Both public and external debts are sustainable.

- **The authorities have implemented generally sound policies, although reform implementation has slowed.** During the last Article IV consultation in January 2017, the Executive Board welcomed the authorities' continued strong commitment to sound policies, and encouraged them to sustain reforms to further reduce vulnerabilities and promote stronger job creation and more inclusive growth. During the completion of the first review of the PLL arrangement, on May 12, 2017, Directors agreed that sound policies and reforms had improved the prospects and resilience of the Moroccan economy.

- **The authorities have committed to maintaining sound policies.**[2] Public finances are expected to improve in 2017. This would reflect stronger economic growth and the government's commitment to maintain a strong revenue performance, to contain spending at budgeted levels, and to take the necessary measures to meet the fiscal objectives (W-COM.-¶4). Such a commitment will also need to be reflected in clear and specific measures in the 2018 budget, especially about tax reforms. In the medium term, the government intends to reduce public debt to 60 percent of GDP by 2021, instead of 2020 as initially agreed under the program, which will require bringing the fiscal deficit to about 2.1 percent of GDP. The authorities also intend to pursue further structural reforms to raise potential growth and promote higher and more inclusive growth, including by improving competitiveness and the business environment,

[2] The new government presented its economic program to parliament in mid-April 2017. Reform priorities remain consistent with earlier commitments under the PLL arrangement, and indicate an increased focus in certain key structural areas, such as judicial and education reforms.

strengthening the fight against corruption, and increasing investment in human capital. However, following their recent slowdown, these reforms need to be accelerated to meet the government's objectives.

- **Increasingly flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** On the fiscal front, the new OBL is enhancing budgetary procedures and practices, and was instrumental in maintaining current spending below budgeted levels in 2016. More broadly, the authorities met their fiscal objectives in recent years by taking swift corrective action in the face of unforeseen grant revenues shortfalls (except in 2016). Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs well in the fiscal policy area.[3] Morocco scores lower in the monetary policy area, but this indicator is less relevant for Morocco given its pegged exchange rate regime. Furthermore, Bank al-Maghrib (BAM) has a clear mandate for implementing monetary and exchange rate policies, and the authorities now intend to upgrade the monetary policy regime as part of the transition to greater exchange rate flexibility and inflation targeting.[4] Lastly, Morocco is in the mid-range of the World Bank's anti-corruption and government effectiveness ranking.

19. Overall, Morocco continues to meet the qualification criteria for a PLL arrangement and to perform strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other qualification area (fiscal policy). Morocco has generally sound economic and institutional policy frameworks, is implementing, and has a track record of implementing, sound policies, and remains committed to maintaining such policies in the future (W-COM.-¶1).

B. Assessment of Specific Criteria

20. Morocco performs strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy) and does not substantially underperform in the other area (fiscal policy).

External position and market access: *Morocco performs strongly in the external position and market access area.*

- ***Criterion 1. Sustainable external position***. The trade deficit declined between 2012–15, widened in 2016 (due to infrastructure development, the drought, and weaker-than-expected phosphate prices), and should narrow in 2017. Improvements in the current account are supported by emerging sector exports (which now account for 33 percent of total exports,

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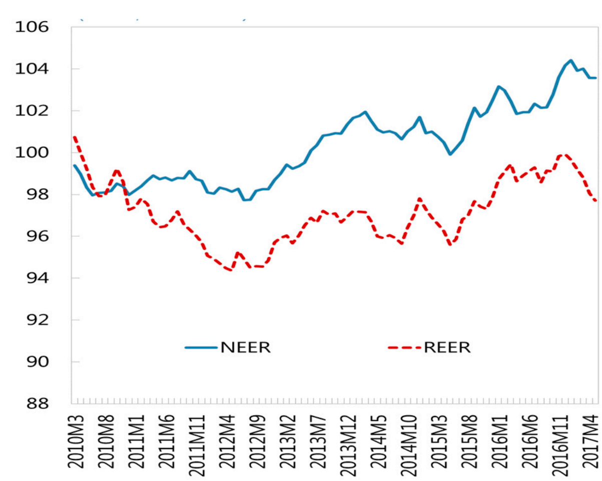
[3] The fiscal policy measure used here is the 10-year backward correlation between the cyclical component of real GDP and the cyclical component of the ratio of government spending to GDP.

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

against 14 percent in 2000), and strong tourism and remittance receipts. This pattern is expected to continue over the medium term as: (i) exports rise, boosted by increasing external demand and the expansion of higher value-added export sectors, while (ii) import growth remains moderate due to slowly rising commodity prices and infrastructure needs, and (iii) tourism receipts strengthen, as new markets are tapped. Based on the 2016 external balance assessment (EBA), Morocco's external position is moderately weaker than that suggested by fundamentals and desirable policies.[5] However, since 2012, the current account gap has been narrowing due mainly to smaller fiscal policy gaps. Looking ahead, Morocco's external competitiveness faces challenges from low productivity growth and nominal appreciation relative to competitor economies.[6] This, together with the recent weakness in the trade balance, further underscores the need to introduce greater exchange rate flexibility in order to preserve Morocco's external competitiveness in the future. The external debt sustainability analysis provided in the 2016 Article IV report shows that Morocco's external debt remains relatively low (34.6 percent of GDP at end-2016) and is expected to decline to about 28 percent of GDP over the medium term.

Real and Nominal Effective Exchange Rates, 2010-2017M5

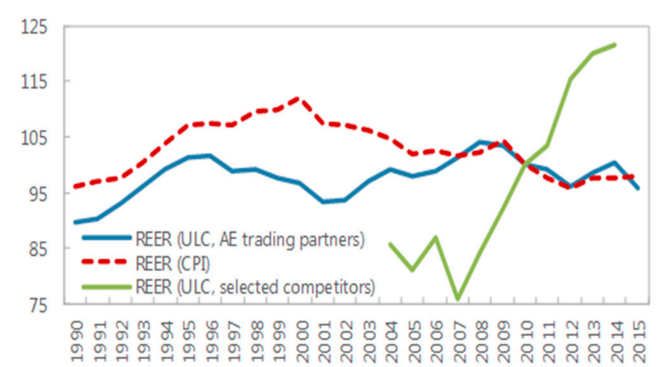
(Index, 2010=100)



Sources: WEO; and IMF staff estimates

ULC and CPI-based REERs

(Index, 2010=100)



Sources: IMF Information Notice System; WEO; UNIDO; and IMF staff calculations.

Note: Exchange rates are expressed as foreign currency units per local currency units; an increase in the REER index implies a loss of competitiveness. Selected competitors include: China, India, Poland, Spain, Thailand, and Turkey.

[5] The current account approach suggests a current account gap in 2016 of -3.6 percent of GDP above the norm, equivalent to a real effective exchange rate (REER) overvaluation of about 12 percent of GDP. Adjusting for temporary factors (food and capital imports, about 1.6 percent of GDP), the current account gap is -1.9 percent of GDP above the norm, equivalent to an REER overvaluation of about 6.7 percent. This suggests the external position is moderately weaker than implied by fundamentals and desirable policies. Other methods suggest an undervaluation, but are less reliable for Morocco: the external sustainability approach suggests an undervaluation of 10 percent, but this estimate is very sensitive to the net foreign assets benchmark used; the REER approach suggests an undervaluation of 4.6 percent (4.7 percent adjusted), however, there is a large unexplained residual and limitations in the underlying series on the home bias affects the robustness of the estimate.

[6] See "Morocco: Selected Issues,"(Country Report No. 17/65).

- ***Criterion 2—Capital account position dominated by private flows.*** Private capital flows constitute the largest share of the capital account (about 82 percent), and FDI is their largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 11.1 percent of total debt or 3.9 percent of GDP). Loans from bilateral and development partners constitute the bulk of public capital flows.

- ***Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms.*** Sovereign spreads narrowed between 2011-16, and Morocco continues to be rated favorably by major ratings agencies. Morocco has issued international bonds at favorable terms (most recently in 2014),[7] aided by the global low interest rate environment, and plans to continue tapping into such markets periodically. The average maturity of public external debt has been extended to eight years and six months currently (against seven years and four months in 2009).

- ***Criterion 4—A reserve position, which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.*** Morocco's international reserves are expected to remain comfortable by several metrics despite a decline in the first half of 2017 (Figure 5): about six months of imports, ample coverage of short-term debt and broad money, 90 percent of the standard ARA metric, and 119 percent of the metric adjusted for capital controls at the end of 2017 (against 99 percent and 129 percent at the end of 2016, respectively). By 2022, reserves are expected to strengthen to seven months of imports, 103 percent of the standard ARA metric, and 136 percent of the metric adjusted for capital controls.

Fiscal policy: *Morocco does not substantially underperform in the fiscal area.*

- ***Criterion 5—Sound public finance, including a sustainable public debt position.*** The authorities remain committed to a sustainable fiscal path and a track record of sound public finances. They continue to control the civil service wage bill by limiting the net creation of positions and the rate of career promotions, while prioritizing investment in infrastructure and human capital in support of growth and social programs (W-COM.-¶6). The authorities aim to reduce public debt to 60 percent of GDP by 2021 (against 64.7 percent of GDP in 2016) (W-COM.-¶4), which will require bringing the fiscal deficit to about 2.1 percent of GDP in the medium term. Public debt is sustainable and resilient to various shocks despite high gross financing needs, which should decline due to a lengthening of average maturities (from six years and six months in 2014 to seven years and five months in 2016). Following reforms to rein in public spending in recent years, future fiscal consolidation needs to rely more on accelerated tax reforms, building on a comprehensive approach to broaden the tax base, reduce exemptions, boost VAT revenues, and improve corporate taxation to secure fiscal space for pro-growth

[7] Morocco's latest sovereign bond issuances include a ten-year EUR1 billion bond at 3.5 percent in mid-2014, a ten-year US$1.5 billion bond at 4.25 percent in 2013, and a twenty-year EUR0.75 billion bond at 5.5 percent in 2013.

expenditure and enhanced social safety nets. Further civil service reform will also help to generate long-term savings on public wage spending. Fiscal decentralization should ensure sound public financial management at the regional level and preserve fiscal sustainability. To that effect, the authorities have started to implement key institutional mechanisms and checks and balances, while expressing interest in Fund TA support. Finally, the draft law to reinforce the governance and oversight of state-owned enterprises (SOEs) should be submitted to parliament in the near-term.

Monetary policy: *Morocco performs strongly in the monetary policy area.*

- ***Criterion 6—Low and stable inflation.*** Morocco maintains moderate and stable inflation, and this is expected to continue in the medium term, with inflation expectations being well anchored. As part of the transition to greater exchange rate flexibility, the authorities aim to gradually shift to an inflation targeting regime (W-COM.-¶12). This will allow the economy to better absorb external shocks. The transition is likely to proceed smoothly given that pre-conditions are largely in place and Morocco will move from a position of strength, including: comfortable fiscal and external buffers; financial sector resilience; exchange rate alignment with fundamentals; limited FX risk exposures in the economy; and an estimated moderate pass-through of exchange rate movements to consumer prices. The authorities have recently announced the width of the band for the first phase of the transition, but have not yet communicated a date for the start of the transition.

Financial sector soundness and supervision: *Morocco performs strongly in the financial sector area.*

- ***Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability.*** Banks have adequate capital buffers and benefit from stable funding (mainly non-remunerated deposits). NPL ratios, at 7.8 percent at end-May 2017, remain relatively high. Credit concentration risks are significant despite strict and strengthened regulatory limits and a declining aggregate exposure. Moroccan banks' expansion into Africa creates new channels of risk transmission. However, provisioning levels are high and increasing, and the 2015 FSAP stress tests showed that the banking system could withstand severe shocks associated with prolonged weak growth in advanced economies and greater global financial market volatility.

- ***Criterion 8—Effective financial sector supervision.*** Bank supervision is effective and the 2015 FSAP recommendations to strengthen it further are being implemented. Along with the introduction of stricter capital and provisioning requirements, the authorities are enhancing the macroprudential policy framework. The oversight of Moroccan banks expanding across Africa has been strengthened considerably, including in close collaboration with supervisory agencies in host countries (W-COM.-¶11).

Data adequacy: *Data provision and quality are fully adequate.*

- ***Criterion 9—Data transparency and integrity.*** Overall data quality continues to be strong and adequate to conduct effective surveillance and program monitoring. Morocco subscribes to the Special Data Dissemination Standard. The authorities are committed to improving data quality and access.

OTHER PROGRAM ISSUES

21. The end-March 2017 IT for the fiscal deficit was met, while the IT for net international reserves was missed. The end-March 2017 fiscal deficit IT was met without adjustments, and with a substantial margin once the adjustor for grants is considered. However, the end-March 2017 NIR IT (set at the time of the PLL arrangement request) was missed by a margin of US$1.1 billion (or 4 percent of the adjusted target), reflecting the widening current account deficit since July 2016 (by nearly US$3 billion at end-2016), due in part to subdued phosphate exports and increased capital equipment and food imports, and higher energy imports in early 2017. Given that a moderate decline in reserves is now expected in 2017, the NIR target for September 2017 has been adjusted downward relative to the first PLL review.

22. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, and credit and liquidity risks to the Fund would remain low (Table 7).[8] Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent a small share of Morocco's total external debt (a maximum of 8.2 percent over the projection period), debt service (36.4 percent), gross international reserves (14.6 percent), and exports (9.8 percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure remains moderate. The commitment to Morocco is modest, and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

23. The 2015 assessment found a robust safeguards framework with strong control mechanisms at the central bank. The one remaining recommendation relates to strengthening the BAM law in the areas of autonomy and governance. The authorities have drafted a new central bank law which will be submitted to Parliament in mid-2017.

24. The authorities' exit strategy should take into account the strengthening of the economy's buffers and policy space in conjunction with the evolution of relevant global and regional external risks. It should reflect strong policy and reform implementation (as articulated in W-COM.-¶15), and clear post-program anchors, including increased fiscal space, lower public debt,

[8] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL arrangement request, reserves may be 25 percent lower and exports 6 percent lower, suggesting peak IMF credit ratios of 19.5 percent and 10.4 percent instead of 14.6 percent and 9.8 percent in the table. These considerations suggest caution in interpreting Table 7, but do not materially impact staff's current view of Morocco's capacity to repay.

strong and credible monetary and (flexible) exchange rate regimes, and stronger business environment and labor market outcomes. Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be on a downward path, while the current account deficit would be close to what would be expected for an emerging market country like Morocco. Reserves would have reached a comfortable level (90 percent of the Fund's standard ARA metric; 119 percent of the adjusted metric).

STAFF APPRAISAL

25. The program remains on track. The end-March 2017 fiscal deficit IT was met without adjustments, the NIR IT was missed due to a widening current account deficit driven by imports related to the drought and infrastructure projects. More broadly, the macroeconomic situation is improving in 2017, with growth expected to accelerate, the public deficit expected to decline, and external imbalances projected to narrow.

26. Building on progress made in recent years, sustained fiscal and structural reforms are needed to achieve higher and more inclusive growth, and reduce unemployment, in line with the new government's priorities. While sound policy implementation and reforms have improved the resilience of the Moroccan economy and its growth prospects in recent years, the pace of reform implementation has slowed and needs to accelerate to reach the new government's medium-term objectives.

27. Fiscal adjustment should continue while preserving fiscal space for critical social and investment spending. This will require: efforts to enhance public revenues, including by broadening the tax base and reducing exemptions; civil service reform to generate long-term savings on public wage spending; careful implementation of fiscal decentralization; and, strengthened state-owned enterprise (SOE) oversight.

28. On the external front, notwithstanding the recent temporary increase in the current account deficit and the related decline in reserves, the external position is sustainable and reserves remain at a comfortable level. However, continued reforms are needed to increase productivity and boost competitiveness, and a gradual transition to a more flexible exchange rate regime would help the economy to better absorb external shocks and remain competitive. Further, this gradual transition should start as soon as possible, given the economy's current position of strength.

29. On the structural front, achieving higher and more inclusive growth and reducing unemployment will require accelerated reforms. These should help strengthen the business climate, including through better governance and reduced corruption, and improve education, job creation and women's participation in the labor force. Adopting the amended central bank law and continuing to implement the 2015 FSAP recommendations will help strengthen the financial sector policy framework.

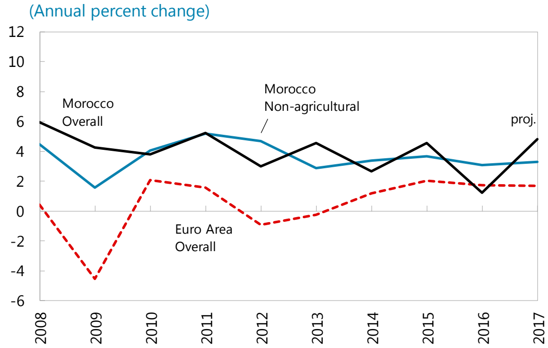
30. Morocco continues to meet the PLL qualification criteria. The IMF Executive Board's assessment in the context of both the 2016 Article IV consultation and the first review under PLL was positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco performs strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other qualification area (fiscal policy).

31. Against this background, staff recommends the completion of the second review under the PLL arrangement.

Figure 1. Morocco: Real and External Developments

Growth slowed in 2016 but it is expected to rebound significantly in 2017.

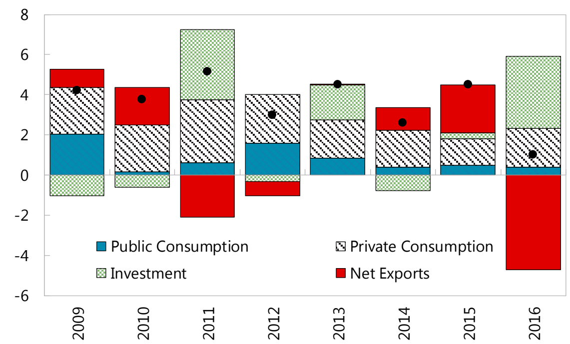
Morocco and Euro Area Growth
(Annual percent change)



Sources: WEO.

Domestic demand was the main driver of growth in 2016, as investment picked up significantly.

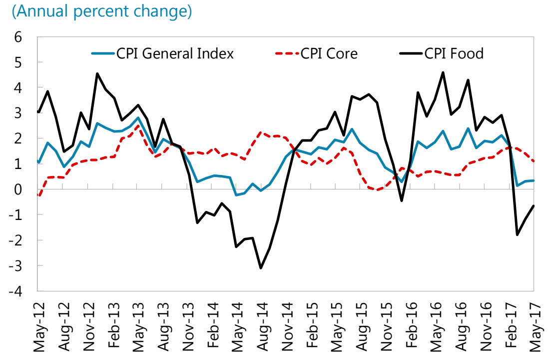
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Core inflation remains moderate and food prices are declining.

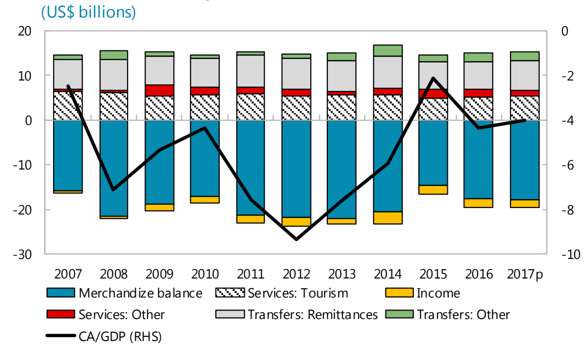
Inflation
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

The trade deficit widened in 2016 while tourism and remittance receipts were stable.

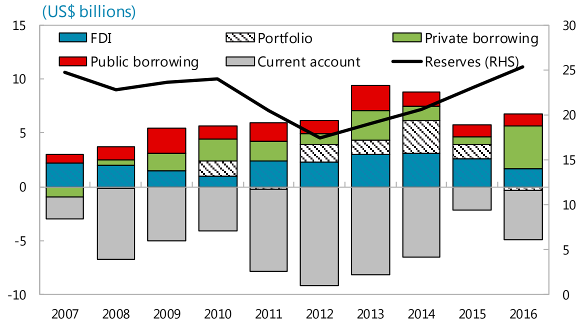
Current Account Components
(US$ billions)



Sources: National authorities; and IMF staff estimates.

Lower borrowing and higher outward FDI should lower capital account flows for 2017.

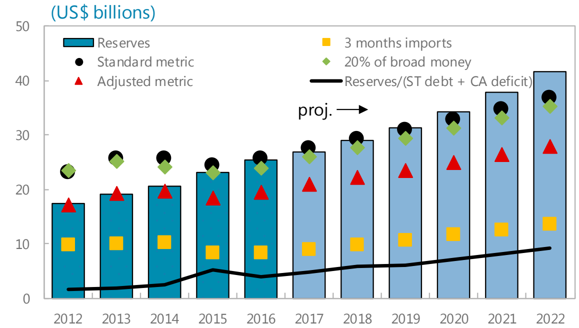
Current Account Financing
(US$ billions)



Sources: National authorities; and IMF staff estimates.

Reserves coverage remains ample by several reserve adequacy metrics.

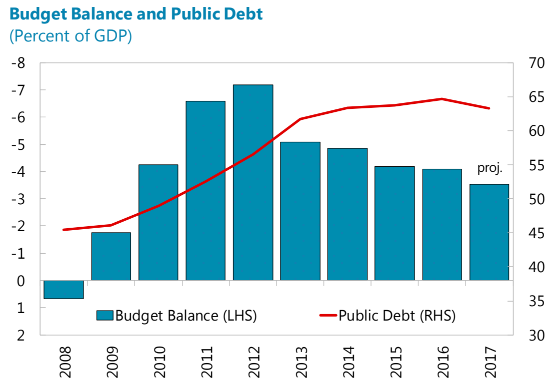
Morocco: Reserve Adequacy Metrics
(US$ billions)



Sources: National authorities; and IMF staff estimates.

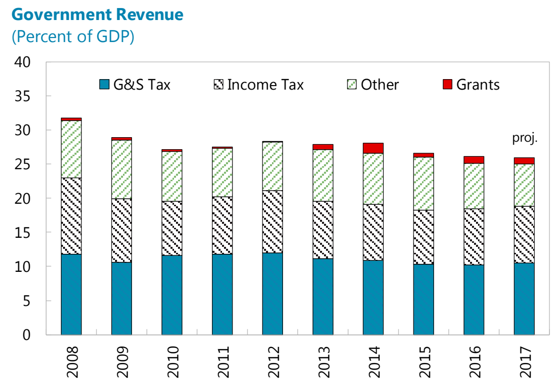
Figure 2. Morocco: Fiscal Developments

Fiscal consolidation stopped in 2016 but it is expected to resume in 2017.



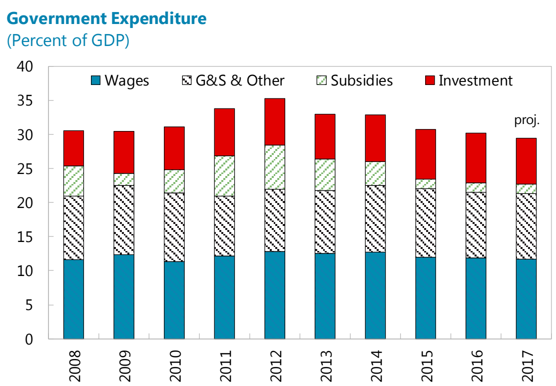
Sources: National authorities; and IMF staff estimates.

Public revenues weakened in 2016.



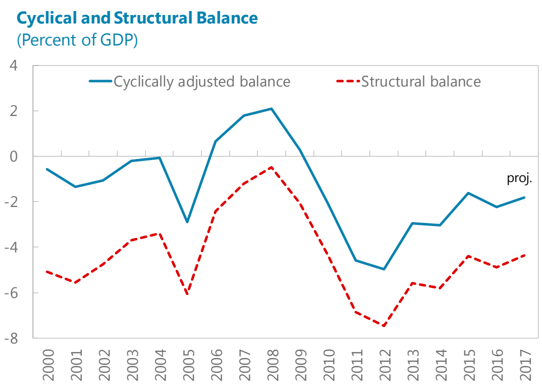
Sources: National authorities; and IMF staff estimates.

Public expenditures are well contained.



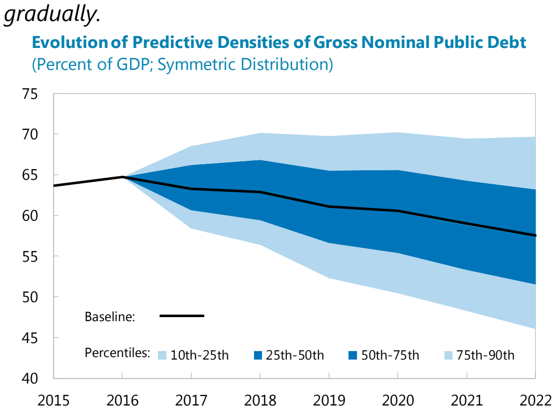
Sources: National authorities; and IMF staff estimates.

The cyclical and structural fiscal balances deteriorated in 2016.



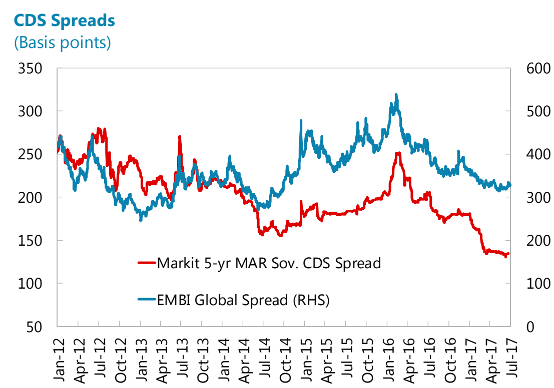
Sources: IMF staff estimates.

Public debt is sustainable and projected to decline gradually.



Sources: DSA and IMF staff estimates.

Sovereign spreads declined in 2016.



Sources: Bloomberg; Markit.

Table 1. Morocco: Selected Economic Indicators, 2012–22

	2012	2013	2014	2015	2016	Art. IV 2017	PLL 1/ 2017	Rev. 2017	Proj. 2018	2019	2020	2021	2022
	(Annual percentage change)												
Output and Prices													
Real GDP	3.0	4.5	2.7	4.5	1.2	4.4	4.5	4.8	3.0	4.0	4.2	4.5	4.6
Real agriculture GDP	-9.1	17.2	-2.2	11.9	-12.8	10.8	13.9	16.6	-1.3	6.6	6.4	6.4	6.8
Real non-agriculture GDP	4.7	2.9	3.4	3.7	3.1	3.5	3.2	3.3	3.6	3.7	3.9	4.2	4.3
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.8	1.2	1.1	1.1	1.6	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.6	1.2	1.1	0.9	1.6	2.0	2.0	2.0	2.0
	(In percent of GDP)												
Investment and Saving													
Gross capital formation	35.0	34.7	32.5	30.8	32.6	32.1	32.3	33.2	34.2	34.7	35.1	35.3	36.0
Of which: Nongovernment	29.6	29.6	27.2	25.3	26.9	27.4	27.1	27.8	28.8	29.3	29.5	29.6	30.0
Gross national savings	25.7	27.1	26.6	28.7	28.2	29.8	29.0	29.2	31.0	31.8	32.7	33.4	34.7
Of which: Nongovernment	26.1	25.6	24.6	25.6	25.0	26.7	25.9	26.0	27.2	27.6	28.1	28.2	29.2
	(In percent of GDP)												
Public Finances													
Revenue	28.0	27.8	28.0	26.5	26.1	26.0	26.1	25.9	25.9	25.8	26.0	26.2	26.3
Expenditure	35.2	32.9	32.9	30.7	30.2	29.1	29.6	29.4	28.9	28.5	28.5	28.3	28.4
Budget balance	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.7	-2.4	-2.1	-2.1
Primary balance (excluding grants)	-4.8	-3.2	-3.6	-1.9	-2.4	-1.4	-1.8	-1.9	-1.2	-0.7	-0.4	-0.2	-0.1
Cyclically-adjusted primary balance (excl. grants)	-5.0	-3.0	-3.0	-1.6	-2.2	-1.3	-1.8	-1.8	-1.2	-0.7	-0.4	-0.5	-0.7
Total government debt	56.5	61.7	63.3	63.7	64.7	63.8	64.3	63.2	62.9	61.1	60.5	59.1	57.6
	(Annual percentage change; unless otherwise indicated)												
Monetary Sector													
Credit to the economy	4.8	3.8	2.5	2.0	4.3	5.1	6.5	5.5	...	...	...	...	...
Base money	-0.5	9.0	6.2	5.7	5.0	6.0	6.0	6.0	...	...	...	...	...
Broad money	4.5	3.1	6.2	5.7	5.0	6.0	6.0	6.0	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	...	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	2.5	...	...	...	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)												
External Sector													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.4	5.9	5.1	7.5	6.9	7.2	7.0	6.7
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	3.9	2.8	4.4	4.2	5.1	5.1	5.5	5.4
Merchandise trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-15.8	-16.7	-16.4	-15.7	-15.1	-14.4	-14.0	-13.6
Current account excluding official transfers	-9.6	-8.3	-7.6	-2.6	-5.3	-3.3	-4.3	-4.9	-3.9	-3.4	-2.6	-2.0	-1.5
Current account including official transfers	-9.3	-7.6	-5.9	-2.1	-4.4	-2.3	-3.3	-4.0	-3.2	-3.0	-2.4	-1.9	-1.4
Foreign direct investment	2.4	2.8	2.8	2.6	1.6	2.1	1.8	1.6	2.0	2.0	2.1	2.1	2.2
Total external debt	28.5	29.3	33.3	33.9	34.6	31.9	35.1	33.5	32.6	31.3	30.1	28.8	27.7
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	25.4	27.6	26.3	24.2	25.5	27.2	29.7	32.9	37.2
In months of next year imports of goods and services	4.3	4.6	6.0	6.1	6.4	6.9	6.5	5.9	5.9	6.0	6.2	6.5	7.5
In percent of Fund reserve adequacy metric 2/	75.6	74.3	79.9	94.7	99.2	101.7	97.6	90.1	90.0	90.5	92.0	96.2	102.9
In percent of CA deficit and ST debt at rem. mat. basis	156.5	188.7	247.5	523.3	358.6	605.7	468.2	374.5	443.3	483.2	572.1	708.1	944.5
Memorandum Items:													
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	110.1	101.2	103.61	106.6	105.0	108.6	114.2	121.1	128.4	136.2	144.5
Output gap (percentage points of GDP)	0.9	-0.8	-0.3	1.0	-2.0	0.8	0.8	0.8	-1.0	0.0	0.0	0.0	0.0
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	...	...	...	...	...	...	...	...	...
Population (millions)	33.0	33.4	33.8	34.1	34.5	34.2	34.2	34.9	35.2	35.6	36.0	36.3	36.7
Population growth (in percent)	1.22	1.21	1.17	1.05	1.06	0.95	0.95	1.06	1.06	1.04	1.03	1.00	0.98
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.0	-6.8	-5.5	-6.4	-6.3	-6.8	-7.0	-7.1	-7.3	-7.5	-7.6
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3	2.3	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 1st review under PLL arrangement in EBS/17/36.
2/ Based on revised ARA weights.

Table 2. Morocco: Budgetary Central Government Finance, 2012–22
(Billions of dirhams)

						Proj.							
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022
Revenue	237.7	250.0	259.3	262.1	264.9	275.9	275.9	278.0	290.1	306.4	327.8	350.5	374.9
Taxes	202.7	200.7	203.8	208.9	217.4	231.8	231.8	232.9	246.7	264.2	283.5	303.5	325.0
Taxes on income, profits, and capital gains	77.4	75.7	76.3	78.6	83.6	89.1	89.1	89.1	96.6	102.9	110.9	118.5	126.7
Taxes on property	11.6	11.7	13.9	14.1	14.3	15.7	15.7	15.7	18.6	19.6	20.8	22.0	23.2
Taxes on goods and services	99.0	100.0	100.7	102.0	104.2	111.8	111.8	112.8	116.8	126.3	135.6	145.8	156.9
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	9.5	9.3	9.3	9.3	8.7	9.0	9.4	10.0	10.6
Other taxes	5.4	5.2	4.7	6.1	5.9	5.9	5.9	6.0	6.1	6.4	6.8	7.2	7.7
Grants	0.5	6.1	13.8	5.0	9.7	9.8	9.8	9.8	7.5	4.2	1.5	1.5	1.5
Other revenue	34.6	43.2	41.7	48.3	37.9	34.3	34.3	35.3	35.9	38.0	42.8	45.5	48.4
Expense	252.5	250.0	254.5	248.5	249.1	257.2	257.4	258.2	263.2	274.0	288.1	302.8	319.3
Compensation of employees	108.9	112.8	117.3	118.5	120.6	125.2	125.2	125.2	131.0	133.7	137.9	142.3	144.3
Of which: wages and salaries	96.7	99.0	101.6	103.0	104.3	106.7	106.7	106.7	109.2	111.8	114.4	117.1	119.1
social contributions	12.2	13.7	15.7	15.5	16.3	18.5	18.5	18.5	21.8	21.9	23.5	25.2	25.2
Use of goods and services and grants	56.6	59.3	65.0	72.0	70.6	76.1	76.1	76.1	79.7	86.7	94.4	100.6	111.4
Of which: Use of goods and services	20.9	21.5	23.6	25.4	26.6	26.2	26.2	26.2	27.0	28.6	30.2	31.1	33.1
Grants	35.6	37.8	41.4	46.6	43.9	49.9	49.9	49.9	52.7	58.2	64.2	69.6	78.3
Interest	20.7	23.3	25.6	27.3	27.1	27.6	26.9	27.5	27.6	27.5	26.9	27.8	29.5
Subsidies	54.9	41.6	32.6	14.0	14.1	14.6	14.6	14.7	9.0	9.5	10.1	10.7	11.4
Other expenses 2/	11.5	13.0	13.9	16.8	16.8	13.7	14.7	14.7	16.0	16.6	18.9	21.4	22.8
Net acquisition of nonfinancial assets	46.1	45.7	49.7	54.8	57.3	50.8	54.9	57.8	60.6	64.1	70.5	76.2	85.4
Net lending / borrowing (overall balance)	-60.9	-45.7	-44.9	-41.2	-41.5	-32.1	-36.5	-38.0	-33.7	-31.7	-30.8	-28.6	-29.8
Net lending / borrowing (excluding grants)	-61.3	-51.8	-58.7	-46.2	-51.2	-41.9	-46.3	-47.8	-41.2	-35.9	-32.3	-30.1	-31.3
Change in net financial worth	-60.9	-45.7	-44.9	-41.2	-41.5	-32.1	-36.5	-38.0	-33.7	-31.7	-30.8	-28.6	-29.8
Net acquisition of financial assets	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	57.6	45.7	42.4	41.2	40.0	32.1	36.5	38.0	33.7	31.7	30.8	28.6	29.8
Domestic	42.3	30.7	33.1	40.9	37.2	30.0	29.0	34.4	31.2	29.1	27.1	25.4	26.6
Currency and Deposits	3.2	-5.9	17.0	0.7	5.5	-8.0	8.0	5.0	4.0	4.0	1.0	1.0	1.0
Securities other than shares	45.6	47.7	20.4	42.9	23.7	22.0	21.0	29.4	27.2	25.1	26.1	24.4	25.6
Other accounts payable	-6.4	-11.1	-4.2	-2.7	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	15.2	15.0	9.3	0.3	2.8	2.2	7.5	3.6	2.4	2.6	3.7	3.2	3.2
Memorandum Item:													
Total investment (including capital transfers)	57.5	58.7	63.6	71.6	74.1	64.5	69.6	72.5	76.5	80.7	89.4	97.6	108.2
GDP	847.9	897.9	925.4	988.0	1,016.1	1,060.1	1,055.2	1,073.4	1,121.5	1,187.2	1,258.5	1,337.6	1,423.4

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

1/ Refers to the macro framework for the 1st review under PLL arrangement in EBS/17/36.

2/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2012–22

(Percent of GDP)

						Art. IV	PLL 1/	Rev.	Proj.				
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Revenue	28.0	27.8	28.0	26.5	26.1	26.0	26.1	25.9	25.9	25.8	26.0	26.2	26.3
Taxes	23.9	22.3	22.0	21.1	21.4	21.9	22.0	21.7	22.0	22.3	22.5	22.7	22.8
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.2	8.4	8.4	8.3	8.6	8.7	8.8	8.9	8.9
Taxes on property	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.5	1.7	1.7	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.3	10.3	10.5	10.6	10.5	10.4	10.6	10.8	10.9	11.0
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.7
Other taxes	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.7	1.5	0.5	1.0	0.9	0.9	0.9	0.7	0.4	0.1	0.1	0.1
Other revenue	4.1	4.8	4.5	4.9	3.7	3.2	3.3	3.3	3.2	3.2	3.4	3.4	3.4
Expense	29.8	27.8	27.5	25.2	24.5	24.3	24.4	24.1	23.5	23.1	22.9	22.6	22.4
Compensation of employees	12.8	12.6	12.7	12.0	11.9	11.8	11.9	11.7	11.7	11.3	11.0	10.6	10.1
Of which: wages and salaries	11.4	11.0	11.0	10.4	10.3	10.1	10.1	9.9	9.7	9.4	9.1	8.8	8.4
social contributions	1.4	1.5	1.7	1.6	1.6	1.7	1.8	1.7	1.9	1.8	1.9	1.9	1.8
Use of goods and services and grants	6.7	6.6	7.0	7.3	6.9	7.2	7.2	7.1	7.1	7.3	7.5	7.5	7.8
Of which: Use of goods and services	2.5	2.4	2.6	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.3
Grants	4.2	4.2	4.5	4.7	4.3	4.7	4.7	4.6	4.7	4.9	5.1	5.2	5.5
Interest	2.4	2.6	2.8	2.8	2.7	2.6	2.5	2.6	2.5	2.3	2.1	2.1	2.1
Subsidies	6.5	4.6	3.5	1.4	1.4	1.4	1.4	1.4	0.8	0.8	0.8	0.8	0.8
Other expenses 2/	1.4	1.5	1.5	1.7	1.6	1.3	1.4	1.4	1.4	1.4	1.5	1.6	1.6
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.5	5.6	4.8	5.2	5.4	5.4	5.4	5.6	5.7	6.0
Net lending / borrowing (overall balance)	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.7	-2.4	-2.1	-2.1
Net lending / borrowing (excluding grants)	-7.2	-5.8	-6.3	-4.7	-5.0	-4.0	-4.4	-4.5	-3.7	-3.0	-2.6	-2.2	-2.2
Change in net financial worth	-7.2	-5.1	-4.8	-4.2	-4.1	-3.0	-3.5	-3.5	-3.0	-2.7	-2.4	-2.1	-2.1
Net acquisition of financial assets	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.8	5.1	4.6	4.2	3.9	3.0	3.5	3.5	3.0	2.7	2.4	2.1	2.1
Domestic	5.0	3.4	3.6	4.1	3.7	2.8	2.7	3.2	2.8	2.4	2.2	1.9	1.9
Currency and Deposits	0.4	-0.7	1.8	0.1	0.5	-0.8	0.8	0.5	0.4	0.3	0.1	0.1	0.1
Securities other than shares	5.4	5.3	2.2	4.3	2.3	2.8	2.7	3.2	2.8	2.4	2.2	1.9	1.9
Other accounts payable	-0.8	-1.2	-0.5	-0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	1.8	1.7	1.0	0.0	0.3	0.2	0.7	0.3	0.2	0.2	0.3	0.2	0.2
Memorandum items:													
Total investment (including capital transfers)	6.8	6.5	6.9	7.2	7.3	6.1	6.6	6.8	6.8	6.8	7.1	7.3	7.6

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

1/ Refers to the macro framework for the 1st review under PLL arrangement in EBS/17/36.

2/ Includes capital transfers to public entities.

Table 4. Morocco: Balance of Payments, 2012–22
(In billions of U.S. dollars, unless otherwise indicated)

						Proj.							
						Art. IV	PLL 1/	Rev.					
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Current account	-9.2	-8.1	-6.5	-2.2	-4.5	-2.5	-3.5	-4.4	-3.6	-3.6	-3.1	-2.5	-2.0
Trade balance	-21.9	-21.9	-20.6	-14.7	-17.7	-16.8	-17.5	-17.8	-17.9	-18.2	-18.5	-19.1	-19.6
Exports, f.o.b.	17.0	18.3	20.0	18.6	18.9	20.3	20.2	20.3	21.7	23.5	25.4	27.4	29.4
Food products	3.5	4.0	4.3	4.2	4.5	5.1	5.1	4.9	5.3	5.7	6.2	6.8	7.2
Phosphates and derived products	5.6	4.4	4.6	4.5	4.0	4.1	4.1	4.3	4.6	5.0	5.3	5.7	6.0
Automobiles	2.9	3.7	4.8	5.0	5.6	6.0	6.0	5.9	6.4	7.2	7.9	8.6	9.2
Imports, f.o.b.	-38.9	-40.2	-40.6	-33.3	-36.6	-37.2	-37.7	-38.1	-39.7	-41.7	-43.9	-46.4	-49.0
Energy	-12.4	-12.2	-11.0	-6.8	-5.5	-6.4	-6.3	-6.8	-7.0	-7.1	-7.3	-7.5	-7.6
Capital goods	-8.5	-9.8	-10.1	-9.6	-12.2	-10.8	-11.7	-12.5	-13.0	-13.9	-14.9	-15.9	-16.9
Food products	-4.8	-4.3	-5.0	-3.6	-4.5	-4.8	-4.3	-4.0	-4.1	-4.2	-4.3	-4.4	-4.4
Services	6.9	6.4	7.0	6.8	6.8	7.5	7.3	6.7	7.5	7.9	8.6	9.3	9.9
Tourism receipts	6.7	6.9	7.1	6.3	6.5	6.8	6.8	6.8	7.3	7.8	8.3	8.9	9.5
Income	-1.9	-1.3	-2.7	-1.9	-1.8	-1.9	-1.7	-1.7	-2.0	-2.1	-2.2	-2.3	-2.4
Transfers	7.7	8.7	9.7	7.7	8.2	8.8	8.4	8.6	8.8	8.8	9.0	9.6	10.1
Private transfers (net)	7.4	7.9	7.8	7.2	7.3	7.8	7.4	7.6	8.0	8.3	8.8	9.3	9.8
Workers' remittances	6.7	6.8	7.1	6.1	6.3	6.7	6.5	6.6	6.9	7.2	7.6	8.1	8.6
Official grants (net)	0.2	0.8	1.9	0.5	0.9	1.0	1.0	1.0	0.9	0.5	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.2	9.4	8.8	5.8	6.5	4.5	4.3	2.5	4.9	5.2	5.5	5.6	6.2
Direct investment	2.3	3.0	3.1	2.6	1.7	2.3	1.9	1.7	2.2	2.4	2.7	2.9	3.2
Portfolio investment	1.6	1.3	3.0	1.3	-0.3	0.1	0.1	-0.4	0.6	0.5	0.4	0.2	0.2
Other	2.2	5.1	2.7	1.8	5.1	2.1	2.3	1.3	2.1	2.3	2.4	2.5	2.8
Private	1.0	2.8	1.3	0.7	3.9	1.4	1.4	0.4	1.5	1.7	1.8	1.9	2.0
Public medium-and long-term loans (net)	1.3	2.4	1.4	1.2	1.2	0.7	1.0	0.9	0.6	0.6	0.7	0.6	0.7
Disbursements	2.9	4.1	3.2	2.8	3.3	2.5	2.8	3.2	2.5	2.5	2.5	2.5	2.5
Amortization	-1.6	-1.8	-1.8	-1.6	-2.1	-1.8	-1.8	-2.3	-1.9	-2.0	-1.9	-1.9	-1.8
Reserve asset accumulation (-increase)	3.3	-1.8	-2.9	-4.3	-2.8	-2.0	-0.9	1.8	-1.3	-1.7	-2.4	-3.1	-4.2
Errors and omissions	-0.3	0.5	0.6	0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
							(Percent of GDP)						
Current account	-9.3	-7.6	-5.9	-2.1	-4.4	-2.3	-3.3	-4.0	-3.2	-3.0	-2.4	-1.9	-1.4
Trade balance	-22.3	-20.5	-18.7	-14.5	-17.1	-15.8	-16.7	-16.4	-15.7	-15.1	-14.4	-14.0	-13.6
Exports, f.o.b.	17.3	17.1	18.1	18.4	18.2	19.1	19.2	18.6	19.0	19.4	19.8	20.1	20.3
Food products	3.6	3.7	3.9	4.2	4.3	4.8	4.8	4.5	4.6	4.7	4.8	5.0	5.0
Phosphates and derived products	5.7	4.2	4.1	4.5	3.8	3.9	3.9	3.9	4.0	4.1	4.1	4.2	4.1
Automobiles	3.0	3.5	4.4	4.9	5.4	5.7	5.7	5.4	5.6	6.0	6.2	6.3	6.3
Imports, f.o.b.	-39.6	-37.7	-36.9	-32.9	-35.3	-34.9	-35.9	-35.1	-34.7	-34.5	-34.2	-34.1	-33.9
Energy	-12.6	-11.4	-10.0	-6.7	-5.4	-6.0	-6.0	-6.2	-6.1	-5.9	-5.7	-5.5	-5.3
Capital goods	-8.6	-9.1	-9.2	-9.5	-11.8	-10.1	-11.2	-11.5	-11.4	-11.5	-11.6	-11.7	-11.7
Food products	-4.9	-4.0	-4.5	-3.6	-4.4	-4.5	-4.1	-3.7	-3.6	-3.5	-3.3	-3.2	-3.1
Services	7.1	6.0	6.4	6.7	6.5	7.1	7.0	6.1	6.5	6.6	6.7	6.8	6.9
Tourism receipts	6.8	6.4	6.4	6.2	6.3	6.4	6.5	6.3	6.4	6.4	6.5	6.5	6.6
Income	-1.9	-1.2	-2.4	-1.9	-1.7	-1.8	-1.7	-1.6	-1.7	-1.7	-1.7	-1.7	-1.6
Transfers	7.8	8.1	8.8	7.6	7.9	8.2	8.0	7.9	7.7	7.3	7.0	7.0	7.0
Private transfers (net)	7.6	7.4	7.1	7.1	7.0	7.3	7.1	7.0	7.0	6.9	6.9	6.8	6.8
Workers' remittances	6.9	6.4	6.5	6.1	6.1	6.3	6.2	6.1	6.1	6.0	6.0	5.9	5.9
Official grants (net)	0.2	0.7	1.7	0.5	0.9	1.0	1.0	0.9	0.7	0.4	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	8.8	8.0	5.7	6.2	4.2	4.1	2.3	4.3	4.3	4.3	4.1	4.3
Direct investment	2.4	2.8	2.8	2.6	1.6	2.1	1.8	1.6	2.0	2.0	2.1	2.1	2.2
Portfolio investment	1.6	1.3	2.8	1.3	-0.3	0.1	0.1	-0.4	0.5	0.4	0.3	0.2	0.2
Other	2.3	4.8	2.4	1.8	4.9	2.0	2.2	1.2	1.8	1.9	1.9	1.8	1.9
Private 3/	1.0	2.6	1.2	0.7	3.8	1.3	1.3	0.4	1.3	1.4	1.4	1.4	1.4
Public medium-and long-term loans (net)	1.3	2.2	1.2	1.2	1.1	0.6	0.9	0.8	0.5	0.5	0.5	0.4	0.5
Disbursements	2.9	3.9	2.9	2.8	3.1	2.4	2.7	3.0	2.2	2.1	2.0	1.9	1.8
Amortization	-1.6	-1.7	-1.6	-1.6	-2.0	-1.7	-1.7	-2.2	-1.7	-1.6	-1.5	-1.4	-1.3
Memorandum items:													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	2.9	5.4	5.9	5.1	7.5	6.9	7.2	7.0	6.7
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	9.6	3.9	2.8	4.4	4.2	5.1	5.1	5.5	5.4
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.6	-2.6	-5.3	-3.3	-4.3	-4.9	-3.9	-3.4	-2.6	-2.0	-1.5
Terms of trade (percentage change) 2/	-12.4	-12.4	0.0	7.8	-2.0	-2.7	-3.6	-0.5	0.1	0.1	-0.1	-0.1	-0.1
Gross official reserves 3/	17.4	19.0	20.5	23.0	25.4	27.6	26.3	24.2	25.5	27.2	29.7	32.9	37.2
In months of prospective imports of GNFS	4.3	4.6	6.0	6.1	6.4	6.9	6.5	5.9	5.9	6.0	6.2	6.5	7.5
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	75.6	74.3	79.9	94.7	99.2	101.7	97.6	90.1	90.0	90.5	92.0	96.2	102.9
In percent of the adjusted Assessing Reserve Adequacy (ARA) metr	101.6	98.4	104.4	124.3	129.4	133.6	127.8	118.8	119.0	119.6	121.3	126.9	136.1
Debt service (percent of export of GNFS and remittances) 5/	6.5	7.0	6.7	6.9	7.8	8.0	6.8	7.9	6.8	6.4	5.9	5.7	5.1
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.0	30.5	30.7	29.5	31.0	29.9	29.2	28.0	26.9	25.8	24.7
DHs per US$, period average	8.6	8.4	8.4	9.8	9.8	...	...	...	...	...	...	...	...
GDP (US$)	98.3	106.8	110.1	101.2	103.6	106.6	105.0	108.6	114.2	121.1	128.4	136.2	144.5
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	52.4	44.0	53.5	56.3	52.9	53.1	52.8	53.0	53.8	55.0

Sources: Ministry of Finance; *Office des Changes*; and IMF staff estimates and projections.
1/ Refers to the macro framework for the 1st review under PLL arrangement in EBS/17/36.
2/ Based on WEO data for actual and projections.
3/ Excluding the reserve position in the Fund.
4/ Based on revised ARA weights.
5/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–17

	2011	2012	2013	2014	2015	2016	2017
			(Billions of dirhams)				
Net foreign assets	172.2	143.5	148.6	181.9	224.6	251.9	230.9
Of which: Gross reserves	175.4	146.7	155.3	185.6	227.9	256.1	237.9
Deposit money banks	1.7	2.7	-1.5	0.1	8.3	-1.5	-1.5
Net domestic assets	777.1	848.6	874.2	904.3	923.4	953.9	1,047.2
Domestic credit	798.3	855.0	906.5	920.1	940.0	971.3	1,003.5
Net claims on the government	102.1	125.4	149.3	143.7	148.0	145.1	131.9
Banking system	102.1	125.4	149.3	143.7	148.0	145.1	131.9
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-1.2	0.1	-0.1
Of which: deposits	-3.4	-4.5	-4.6	-4.6	-6.0	-4.9	-5.2
Deposit money banks	99.9	124.9	148.5	143.8	149.2	145.0	132.0
Credit to the economy	696.2	729.6	757.2	776.4	792.0	826.2	871.6
Other liabilities, net	23.0	9.0	30.7	15.8	24.9	15.9	-43.7
Broad money	949.3	992.2	1,022.8	1,086.2	1,148.0	1,205.8	1,278.1
Money	586.8	612.2	628.9	660.6	707.1	752.6	801.9
Currency outside banks	158.3	163.6	171.4	179.4	192.6	203.7	215.2
Demand deposits	428.5	448.5	457.6	481.2	514.4	548.8	586.7
Quasi money	340.9	354.7	370.8	390.7	401.7	410.0	426.4
Foreign deposits	21.6	25.3	23.1	35.0	39.3	43.2	49.8
			(Annual percentage change)				
Net foreign assets	-12.8	-16.6	3.5	22.4	23.5	12.1	-8.3
Net domestic assets	12.4	9.2	3.0	3.4	2.1	3.3	9.8
Domestic credit	11.6	7.1	6.0	1.5	2.2	3.3	3.3
Net claims on the government	25.8	22.8	19.0	-3.7	3.0	-1.9	-9.1
Credit to the economy	9.8	4.8	3.8	2.5	2.0	4.3	5.5
Banking credit	10.6	3.9	2.2	2.2	2.8	4.2	5.0
Broad money	6.4	4.5	3.1	6.2	5.7	5.0	6.0
			(Change in percent of broad money)				
Net foreign assets	-2.8	-3.0	0.5	3.3	3.9	2.4	-1.5
Domestic credit	9.3	6.0	5.2	1.3	1.8	2.7	2.7
Net claims on the government	2.3	2.5	2.4	-0.5	0.4	-0.2	-1.1
Credit to the economy	6.9	3.5	2.8	1.9	1.4	3.0	3.8
Other assets net	0.2	1.5	-2.2	1.5	-0.8	0.8	4.9
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.86	0.84	0.84
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.76	0.75	0.73
Credit to economy/GDP (in percent)	84.9	86.0	84.3	83.9	80.2	81.3	81.2
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.4	94.0	90.7	91.3	92.9

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

Table 6. Morocco: Financial Soundness Indicators, 2010–17
(Percent, unless otherwise indicated)

							2016				2017
	2010	2011	2012	2013	2014	2015	Mar	Jun	Sep	Dec	Mar
Regulatory capital 1/											
Regulatory capital to risk-weighted assets	12.3	11.7	12.3	13.3	13.8	13.7		13.7 (*)	na	14.2	na
Tier 1 capital to risk weighted assets	9.7	9.6	10.2	11.1	11.6	11.4		11.1 (*)	na	11.5	na
Capital to assets	8.3	8.1	8.5	8.6	8.8	9.1	9.2	9.4	9.3	9.1	9.1
Asset quality											
Sectoral distribution of loans to total loans											
Industry	18.4	18.6	18.4	18.6	19.3	18.0	18.9	18.5	18.8	17.8	17.7
Of which: agro-business	3.8	3.4	3.2	3.6	3.5	3.6	3.7	3.3	3.4	3.1	3.3
Of which: textile	1.4	1.3	1.2	1.0	0.9	0.8	0.9	0.9	0.9	0.8	0.8
Of which: gas and electricity	3.9	4.5	4.8	4.7	6.1	6.3	6.5	6.3	6.2	6.2	6.2
Agriculture	4.1	4.2	4.1	4.1	3.9	4.0	4.3	4.1	4.2	4.0	3.8
Commerce	6.7	6.6	6.7	6.2	6.6	6.4	6.5	6.7	6.5	6.4	6.3
Construction	13.3	13.9	12.6	12.4	12.2	10.7	11.5	11.4	11.6	11.2	11.2
Tourism	2.9	2.8	2.9	2.4	2.4	1.9	2.2	2.1	2.1	1.9	2.0
Finance	12.1	11.9	11.0	12.7	11.6	13.4	11.1	11.8	11.6	13.1	12.3
Public administration	5.0	4.8	5.0	5.0	4.7	4.5	4.7	4.9	4.5	4.7	4.8
Transportation and communication	4.0	4.1	4.0	3.8	3.7	4.2	4.1	4.6	4.4	4.1	4.1
Households	28.1	27.6	28.9	29.7	31.4	32.3	33.5	32.8	33.3	32.4	33.2
Other	5.4	5.5	6.4	5.1	4.2	4.6	3.2	3.1	3.0	4.4	4.6
FX-loans to total loans	2.5	3.5	2.9	2.7	3.9	2.5	2.8	2.6	2.6	2.7	2.7
Credit to the private sector to total loans	91.0	92.0	91.0	91.0	91.0	91.0	91.0	90.5	90.9	89.5	89.9
Nonperforming Loans (NPLs) to total loans	4.8	4.8	5.0	5.9	6.9	7.4	7.8	7.7	8.0	7.6	7.8
Specific provisions to NPLs	70.1	68.7	67.8	64.0	65.0	68.0	67.0	67.0	68.0	69.0	70.0
NPLs, net of provisions, to Tier 1 capital	12.2	12.9	13.6	16.8	19.2	17.8	18.8	18.4	18.7	17.3	17.5
Large exposures to Tier 1 capital	336.0	354.0	347.0	327.0	341.0	294.0		302.0	na	297.4	na
Loans to subsidiaries to total loans	6.1	6.3	5.4	7.2	6.8	7.0	7.4	7.2	5.8	7.8	8.1
Loans to shareholders to total loans	0.8	1.2	1.0	1.3	1.4	1.7	1.9	1.4	0.7	1.1	1.3
Specific provisions to total loans	3.4	3.5	3.3	3.8	4.5	5.0	5.3	5.1	5.3	5.3	5.4
General provisions to total loans	0.2	0.3	0.7	0.7	0.8	0.8	0.9	0.8	0.9	0.9	0.9
Profitability											
Return on assets (ROA)	1.2	1.1	1.0	1.0	0.9	0.8		1.1	na	1.1	na
Return on equity (ROE)	14.2	13.4	11.8	10.6	10.2	9.1		11.7	na	11.4	na
Interest rate average spread (b/w loans and deposits)	4.2	4.2	4.2	4.0	4.1	3.8		3.8	na	3.9	na
Interest return on credit	5.7	5.7	5.6	5.5	5.5	5.0		5.0	na	5.0	na
Cost of risk as a percent of credit	0.5	0.5	0.8	0.9	1.0	1.1		1.2	na	1.1	na
Net interest margin to net banking product (NPB) 2/	76.3	75.8	76.5	74.0	68.9	72.0		67.9	na	70.6	na
Operating expenses to NPB	46.4	47.9	47.5	47.7	46.1	49.1		43.9	na	46.2	na
Operating expenses to total assets	1.8	1.9	1.8	1.8	1.9	1.9		1.9	na	1.9	na
Personnel expenses to noninterest expenses	49.1	49.4	49.2	48.4	47.6	47.4		47.6	na	47.5	na
Trading and other noninterest income to NPB	23.7	24.2	23.4	26.0	30.8	28.0		32.1	na	29.4	na
Liquidity											
Liquid assets to total assets	12.0	11.4	10.5	12.5	13.3	16.1	14.3	13.0	13.1	14.5	13.5
Liquid assets to short-term liabilities	16.0	16.1	14.7	17.4	17.7	21.2	18.7	17.1	16.8	18.6	17.1
Deposits to loans	104.0	99.0	96.1	96.2	100.8	104.3	106.6	105.4	105.0	105.0	105.1
Deposits of state-owned enterprises to total deposits	5.2	2.9	3.4	2.0	2.5	2.9	2.3	1.9	2.0	2.7	2.0
Sensitivity to market risk											
FX net open position to Tier 1 Capital	10.3	7.3	7.4	11.3	9.0	7.4		5.6	na	4.1	na

Source: Bank Al-Maghrib.
1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.
* Provisional figures calculated according to Basel III definition and transitional provisions.

Table 7. Morocco: Capacity to Repay Indicators, 2016–22 1/

			Proj.				
	2016	2017	2018	2019	2020	2021	2022
Exposure and repayments (in SDR million)							
GRA credit to Morocco	1,252.0	2,504.0	2,504.0	2,504.0	2,191.0	939.0	0.0
(In percent of quota)	140.0	280.0	280.0	280.0	245.0	105.0	0.0
Charges due on GRA credit	0.0	28.4	56.4	56.4	58.3	31.7	7.0
Principal due on GRA credit	0.0	0.0	0.0	0.0	313.0	1,252.0	939.0
Debt service due on GRA credit	0.0	28.4	56.4	56.4	371.3	1,283.7	946.0
Debt and debt service ratios							
In percent of GDP							
Total external debt	35.3	36.9	35.7	34.3	32.7	30.1	28.1
Public external debt	31.6	33.3	32.3	31.0	29.5	27.0	25.1
GRA credit to Morocco	1.7	3.2	3.1	2.9	2.4	1.0	0.0
Total external debt service	3.1	3.1	2.8	2.7	2.8	3.7	3.0
Public external debt service	2.0	2.2	1.8	1.7	1.9	2.8	2.2
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.4	1.3	0.9
In percent of gross international reserves							
Total external debt	144.1	165.6	159.9	152.4	141.1	124.5	109.0
Public external debt	128.9	149.5	144.5	137.8	127.3	111.8	97.5
GRA credit to Morocco	7.0	14.6	13.8	13.0	10.4	4.0	0.0
In percent of exports of goods and services							
Total external debt	109.5	119.4	120.9	122.5	123.4	121.6	121.7
Public external debt	98.0	107.7	109.1	110.5	111.2	109.1	108.8
GRA credit to Morocco	5.2	9.8	9.1	8.5	7.0	2.8	0.0
In percent of total external debt							
GRA credit to Morocco	4.7	8.2	7.5	7.0	5.6	2.3	0.0
In percent of public external debt							
GRA credit to Morocco	5.3	9.1	8.4	7.7	6.3	2.6	0.0
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	103.6	108.6	114.2	121.1	128.4	136.2	144.5
Gross international reserves (in billions of U.S. dollars)	25.4	24.2	25.5	27.2	29.7	32.9	37.2
Exports of goods and services (in billions of U.S. dollars)	34.3	36.0	38.7	41.4	44.4	47.5	50.7
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.

1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 280 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Table 8. Morocco: External Financing Requirements and Sources 2016–22
(In millions of U.S. dollars, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022
Gross financing requirements	**6,653**	**6,743**	**5,612**	**5,590**	**5,036**	**4,531**	**3,834**
Current account deficit	4,537	4,352	3,622	3,573	3,083	2,534	1,967
Trade deficit	17,706	17,838	17,928	18,249	18,522	19,062	19,636
Transfers and other deficits	(13,169)	(13,486)	(14,306)	(14,676)	(15,439)	(16,528)	(17,668)
ST debt amortization	46	52	53	53	54	56	57
MLT debt amortization	2,069	2,338	1,937	1,964	1,899	1,941	1,810
Financing Sources	**6,653**	**6,743**	**5,612**	**5,590**	**5,036**	**4,531**	**3,834**
FDI (net)	1,683	1,684	2,234	2,448	2,679	2,910	3,158
Portfolio investment	(331)	(442)	560	510	357	208	223
ST debt disbursement	52	53	53	54	56	57	58
MLT debt disbursement	3,252	3,205	3,227	2,549	2,550	2,545	2,538
Change in gross reserves (- : accumulation)	(2,764)	1,838	(1,257)	(1,657)	(2,388)	(3,071)	(4,189)
Other 1/	4,761	405	794	1,686	1,782	1,882	2,046
Gross international reserves (GIR)	**25,366**	**24,187**	**25,509**	**27,238**	**29,710**	**32,889**	**37,227**
As a percentage of standard ARA metric	99	90	90	90	92	96	103
As a percentage of adjusted ARA metric	129	119	119	120	121	127	136
In months of imports of GNFS	6.7	6.1	6.2	6.3	6.6	6.9	7.3
As percentage of ST debt (rem. mat. basis) and CA deficit	359	375	443	483	572	730	972

Source: IMF staff calculations.

1/ Includes all other net financial flows, capital account balance, and net errors and omissions.

Figure 3. Morocco: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

Debt, Economic and Market Indicators [1/]

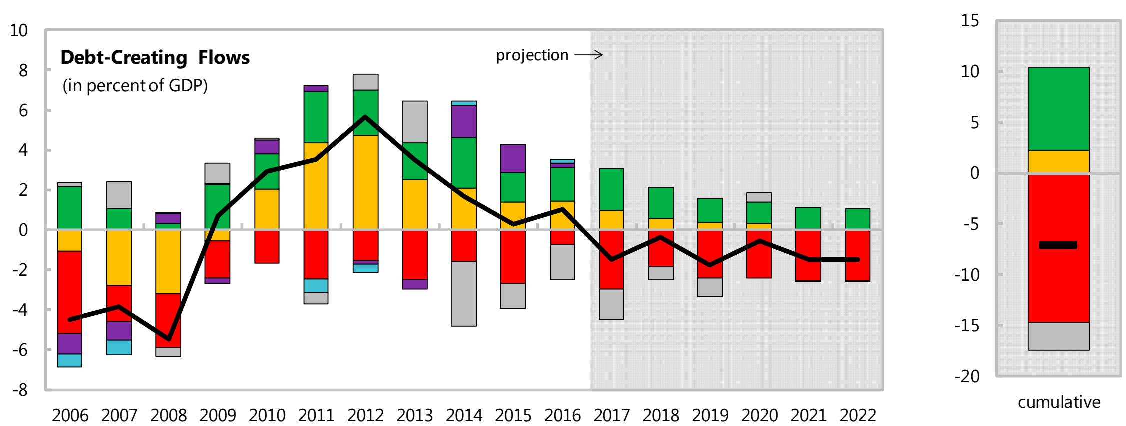
	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	53.6	63.7	64.7	63.2	62.9	61.1	60.5	59.1	57.6
Public gross financing needs	13.7	13.4	10.4	10.1	10.8	10.2	8.3	7.7	6.7
Real GDP growth (in percent)	4.5	4.5	1.2	4.8	3.0	4.0	4.2	4.5	4.6
Inflation (GDP deflator, in percent)	1.4	2.1	1.6	0.8	1.4	1.8	1.7	1.8	1.7
Nominal GDP growth (in percent)	5.9	6.8	2.8	5.6	4.5	5.9	6.0	6.3	6.4
Effective interest rate (in percent) [4/]	5.2	4.7	4.3	4.2	4.1	3.9	3.7	3.6	3.7

As of July 19, 2017

Sovereign Spreads		
Spread (bp) 3/		179
CDS (bp)		138
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.5	0.3	1.0	-1.5	-0.4	-1.8	-0.6	-1.5	-1.5	-7.1	
Identified debt-creating flows	0.3	1.6	2.8	0.1	0.3	-0.8	-1.0	-1.4	-1.5	-4.4	
Primary deficit	0.9	1.4	1.4	1.0	0.5	0.4	0.3	0.1	0.0	2.3	-1.5
Primary (noninterest) revenue and gra	28.0	26.5	26.1	25.9	25.9	25.8	26.0	26.2	26.3	156.2	
Primary (noninterest) expenditure	28.9	27.9	27.5	26.9	26.4	26.2	26.4	26.3	26.4	158.4	
Automatic debt dynamics [5/]	-0.4	0.1	1.2	-0.9	-0.3	-1.2	-1.3	-1.5	-1.5	-6.6	
Interest rate/growth differential [6/]	-0.4	-1.3	0.9	-0.9	-0.3	-1.2	-1.3	-1.5	-1.5	-6.6	
Of which: real interest rate	1.9	1.4	1.7	2.1	1.6	1.2	1.1	1.0	1.1	8.1	
Of which: real GDP growth	-2.2	-2.7	-0.8	-3.0	-1.8	-2.4	-2.4	-2.5	-2.5	-14.7	
Exchange rate depreciation [7/]	0.0	1.4	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CG: Privatization Proceeds (negative)	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.2	-1.3	-1.7	-1.6	-0.7	-1.0	0.4	0.0	0.0	-2.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data. Moody's credit rating is unsolicited.

3/ Bond Spread over U.S. Bonds.

4/ Defined as interest payments divided by debt stock at the end of previous year.

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

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

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

8/ For projections, this line includes exchange rate changes during the projection period.

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

Table 9. Morocco: External Debt Sustainability Framework, 2012–22
(Percent of GDP, unless otherwise indicated)

							Projections				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baseline: External debt 1/	29.1	30.2	31.0	33.4	33.6	**33.6**	**32.6**	**31.4**	**30.3**	**29.1**	**28.1**
Change in external debt	4.5	1.1	0.7	2.4	0.2	0.0	-1.0	-1.2	-1.1	-1.2	-1.0
Identified external debt-creating flows	6.1	1.3	-0.6	-3.3	2.7	1.3	-0.2	-0.7	-1.2	-1.7	-2.2
Current account deficit, excluding interest payments	8.5	6.7	5.0	1.2	3.4	3.2	2.3	2.1	1.5	1.0	0.6
Deficit in balance of goods and services	15.2	14.6	12.3	7.8	10.6	10.3	9.2	8.5	7.7	7.2	6.7
Exports	32.5	31.2	32.5	32.9	33.1	33.2	33.9	34.2	34.6	34.9	35.1
Imports	47.7	45.8	44.8	40.7	43.6	43.5	43.0	42.7	42.3	42.1	41.8
Net non-debt creating capital inflows (negative)	-4.0	-4.0	-5.6	-3.9	-1.3	-1.1	-2.4	-2.4	-2.4	-2.3	-2.3
Automatic debt dynamics 2/	1.6	-1.5	0.0	-0.6	0.6	-0.7	-0.1	-0.4	-0.4	-0.4	-0.5
Contribution from nominal interest rate	0.8	0.9	0.9	1.0	1.0	0.8	0.9	0.9	0.9	0.8	0.8
Contribution from real GDP growth	-0.8	-1.2	-0.8	-1.5	-0.4	-1.5	-1.0	-1.2	-1.2	-1.3	-1.3
Contribution from price and exchange rate changes 3/	1.5	-1.1	-0.1	...	...	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 4/	-1.6	-0.1	1.3	5.7	-2.5	-1.3	-0.8	-0.5	0.1	0.5	1.2
External debt-to-exports ratio (in percent)	89.7	96.9	95.3	101.5	101.6	101.4	96.2	91.8	87.5	83.4	80.0
Gross external financing need (in billions of US dollars) 5/	10.9	10.1	8.5	3.9	6.8	6.9	5.7	5.7	5.1	4.6	3.9
Percent of GDP	11.1	9.4	7.7	3.9	6.5	6.3	5.0	4.7	4.0	3.4	2.7
Scenario with key variables at their historical averages 6/						**31.1**	**31.5**	**32.1**	**33.1**	**34.5**	**36.4**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	3.0	4.5	2.7	4.5	1.2	4.8	3.0	4.0	4.2	4.5	4.6
GDP deflator in US dollars (change in percent)	-5.9	4.0	0.4	-12.1	1.2	0.0	2.1	1.9	1.8	1.6	1.5
Nominal external interest rate (percent)	3.3	3.2	3.0	2.9	2.9	2.6	2.8	2.9	2.9	2.9	2.9
Growth of exports (US dollar terms, percent)	-0.1	4.5	7.4	-7.0	2.9	5.1	7.5	6.9	7.2	7.0	6.7
Growth of imports (US dollar terms, percent)	2.2	4.3	1.0	-16.5	9.6	4.4	4.2	5.1	5.1	5.5	5.4
Current account balance, excluding interest payments	-8.5	-6.7	-5.0	-1.2	-3.4	-3.2	-2.3	-2.1	-1.5	-1.0	-0.6
Net non-debt creating capital inflows	4.0	4.0	5.6	3.9	1.3	1.1	2.4	2.4	2.4	2.3	2.3

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

1/ This ratio is based on debt and GDP in dollar term.

2/ 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.

3/ 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).

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

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

6/ 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.

Appendix I. Written Communication

Rabat, Morocco
July 18, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Madame Lagarde:

1. Morocco has robust economic fundamentals and we continue to implement sound economic and financial policies to bolster the economy's resilience and foster more inclusive growth. We are committed to implementing the economic and financial policies described in our April 28, 2017 written communication for the first review.

2. After GDP growth was limited to 1.2 percent in 2016, due to a particularly poor cereal harvest, the economy is expected to rebound vigorously in 2017, with an expected growth rate of 4.8 percent, thanks to a good cereal harvest and a slight uptick in nonagricultural production. Inflation should decrease to 0.9 percent in 2017. Unemployment rose slightly to 10.7 percent in the first quarter of 2017 from 10.4 percent in the first quarter of last year, despite a net increase in job creation. The current account deficit should decrease from 4.4 percent in 2016 to 4 percent of GDP in 2017 because of the strong performance of exports, the decline in cereal imports, and the reduction in imports of capital goods compared to the high levels observed in 2016. However, energy imports should increase given the rise in international prices. Foreign exchange reserves should amount to 6 months of imports in 2017 and should strengthen in the medium term.

3. Even though Morocco does not face external financing needs, the new PLL arrangement, approved on July 22, 2016, continues to provide useful insurance against external shocks while strengthening investor confidence. The improved fiscal situation and competitiveness, trade diversification and the ongoing accommodative monetary policy, along with a sound financial system, will also contribute to further strengthening the performance of the economy and its resilience. The authorities will continue to consider the PLL arrangement as precautionary and they intend to draw on it only if there are unforeseen exogenous shocks.

4. Fiscal consolidation continues. After a reduction of the fiscal deficit to 4.1 percent of GDP in 2016, and given the better growth prospects in 2017, the objective of reducing the fiscal deficit target to 3.5 percent of GDP in 2017 should be achieved through increased tax revenues and better control of current expenditures, notably with regards to the wage bill and subsidies. This objective is consistent with the fiscal consolidation objectives announced in the government's program and with lowering the fiscal deficit to reduce the public debt ratio to 60 percent by 2021.

5. On the revenue side, the implementation of the tax reform will be continued, in line with the recommendations from the 2013 national tax conference (*Assises nationales sur la fiscalité*) to make taxation simpler, more equitable and more favorable to competitiveness. Priorities include continuing to reduce exemptions, particularly those granted to large agricultural firms, simplifying the VAT by reducing the number of rates to mitigate distortionary effects, and expanding the tax base, in particular by modernizing the tax administration and gradually incorporating the informal sector. Measures to that end have been introduced in the 2017 budget and others should be incorporated in the 2018 budget.

6. The government will continue to control spending, while prioritizing investment in infrastructure and human capital in support of growth and social programs. The government is determined to continue its efforts to reduce the civil service wage bill, including social contributions, to bring it back to 10.5 percent of GDP in the medium term. This will be achieved by limiting the net creation of positions and the rate of advances and promotions as well as any potential wage increases based on the budget envelope established in the budget law.

7. A comprehensive civil service reform, which aims to strengthen efficiency and return, as well as to alleviate fiscal costs, is being developed. In this context, the legislative and regulatory texts concerning mobility and contractual employment have already been promulgated. Public investment will be maintained at a high level while ensuring compliance with the objective of fiscal consolidation, increasing its effectiveness and making it better able to support private investment. To that end, the government is committed to implementing an integrated system for the management and assessment of public investments, and developing public-private partnerships (PPPs) as a tool for strengthening the supply and quality of infrastructure, while limiting potential budgetary expense and risk. Gradual implementation of the pension reform began in September 2016. In the medium term, the institutional structure of the retirement system is expected to shift toward a bipolar (private sector/public sector) system.

8. Most of the provisions of the OBL were implemented in 2016 and the others will be put in place gradually by 2020. The provision establishing the limiting nature of personnel appropriations to limit the risks of exceeding those appropriations entered into force on January 1, 2017, and the regulatory measure limiting the carry-forward of investment appropriations will enter into effect on January 1, 2018. A draft law to strengthen the governance and auditing of public enterprises and establishments in order to further improve their performance is being examined by the General Secretariat of the Government.

9. As part of advanced regionalization, fiscal decentralization has begun and will be implemented carefully to preserve fiscal sustainability. The government is working to finalize a comprehensive strategy for fiscal decentralization in 2017 and will ensure good governance and better performance of these regional authorities, mainly by building their capacities and improving transparency and accounting. A set of laws and regulations on the management and governance of local authorities were adopted in June and regional project execution agencies are being set up. A national charter of administrative decentralization is now being prepared to group the activities of the various ministries at the regional level and ensure consistency.

10. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of limited growth in non-agricultural activity and lending, moderate inflation and a comfortable level of foreign exchange reserves. BAM will continue to promote appropriate financing of the economy, and in particular for SMEs. The draft central bank law was approved by the Government Council on July 13, 2017, and will be submitted to Parliament shortly for approval. The new law will further reinforce BAM's independence and will expand its missions with the view to contribute to financial stability and the promotion of financial inclusion.

11. The banking sector is sound and resilient, and we continue to strengthen the prudential framework and surveillance to improve this resilience and the financial sector's contribution to growth, including by implementing the FSAP recommendations. The NPLs ratio has not increased, despite a slowdown in activity in some branches, and NPLs remain at a moderate level and are well provisioned. However, the banks remain exposed to credit concentration risks as well as to risks related to their exposures in Africa. Along with the current strengthening of resources dedicated to banking supervision, BAM has raised the criteria for granting and supervising loans to large groups. It will continue to ensure that these risks are properly managed by completing the rules of loan classification and provisioning and through closer coordination with the supervisory authorities in the host countries. In the context of the transition to a more flexible foreign exchange regime, BAM is adapting its system for overseeing exchange rate and liquidity risks. BAM has adopted regulations introducing counter-cyclical capital buffers (CCB) and finalized, at the end-2016 those that that should guide the recovery plans for systemically important institutions. Also, the authorities will strengthen the macro-prudential framework and will strengthen the framework for handling problem banks by introducing legal resolution compatible with the international standards of the Financial Stability Board.

12. We are determined to gradually introduce a more flexible foreign exchange system and to transition to an inflation targeting regime. Greater exchange rate flexibility, well-coordinated with the other macroeconomic policies and appropriate structural reforms, will make it possible to better absorb exogenous shocks, contribute to preserving the competitiveness of the economy in the long run, and support trade diversification. The requirements for making this transition successful have largely been met, especially with the improvement in fiscal and external buffers, the resilience of the financial sector, the alignment of the exchange rate with fundamentals, and the gradual diversification of the economy. The government will announce in due course the start of the implementation of this reform.

13. The government intends to accelerate structural reforms to strengthen competitiveness, increase growth potential and reduce unemployment, particularly among youth. A draft law setting out the guidelines and objectives for education, training and scientific research, which in line with this vision, will be finalized in early 2018. The business environment will continue to be improved, including by continuing to implement the national strategy to fight corruption, improving the quality of public services, the dematerialization of administrative procedures, and the implementation of the bodies and means that enable the Competition Council to fully exercise its powers in 2017. The action plan of the National Strategy for Employment will be finalized in early

2018, and will include measures to boost youth employment rate, to increase labor force participation, in particular by women. These measures will include steps to improve notably the effectiveness of active labor market policies and vocational training programs.

14. In terms of the indicative targets and standard performance criteria set in the PLL arrangement for end- March 2017, the fiscal deficit indicative target was met, while net international reserves were below the target. In line with PLL requirements, we have complied and will continue to comply with the standard criteria related to trade and exchange restrictions, bilateral payment arrangements and multiple currency practices and non-accumulation of external debt payment arrears. We will provide the IMF with all information needed to monitor the economic and policy developments within the framework of the PLL arrangement, and in particular information on the indicators listed in Table 1.

15. We are confident that the policies described in this communication and in the April 28, 2017 communication are adequate to achieve the objectives of the economic program supported under the PLL arrangement, and we will take any additional measures that may be deemed necessary for this purpose. The continued strengthening of economic resilience, including a further reduction of the fiscal deficit and strengthening of reserves, along with improved global economic conditions, should enable Morocco to exit the PLL arrangement once the exogenous risks facing the economy have been considerably reduced. Morocco will engage with the IMF, in accordance with the relevant Fund policies to ensure the success of our economic policies.

/s/

Mohammed Boussaïd
Minister of Economy and Finance

/s/

Abdellatif Jouahri
Governor, Bank Al-Maghrib

Table 1. Morocco: Quantitative Indicative Targets

	9/30/16			3/31/17			9/30/17
	Target	Adjusted	Actual	Target	Adjusted	Actual	Proposed
Indicative targets							
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	25,981	25,717	26,302	27,461	26,825	25,719	23,199
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	27,228	30,629	26,973	7,302	9,499	6,747	26,135
Memorandum items:							
Adjustor on NIR (in millions of U.S. dollars) 2/	918	567	351	2,011	636	1,375	2,819
Adjustor on the fiscal deficit (in millions of dirham) 3/	7,045	3,400	3,645	2,410	2,197	213	7,500

Source: IMF staff estimates.

1/ End-of-period (eop) stock, in millions of U.S. dollars, evaluated at the program exchange rate fixed at the end-April 2016, namely 9.5695 MAD/$.

2/ The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2016.

3/ The fiscal deficit ceiling will be adjusted upward (downward) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors for 2016 are cumulative from end-December 2015. The adjustors for 2017 are cumulative from end-December 2016.

Statement by Mr. Mohammed Daïri, Alternative Executive Director on Morocco
August 1, 2017

My Moroccan authorities are grateful to staff for the interesting discussions and the concise reports for the second Precautionary and Liquidity Line (PLL) review and the ex-post evaluation (EPE) of exceptional access under the 2014–16 PLL.

Precautionary and Liquidity Line Review

Macroeconomic indicators are improving significantly in 2017. After a disappointing cereal crop in 2016, more favorable weather conditions in 2017 have led to as strong recovery in agriculture GDP, while non-agriculture GDP is recovering from its slowdown last year, raising projected total growth in 2017 to 4.8 percent, its highest level since 2011 (up from 1.2 percent in 2016). Credit to the economy is recovering, supported by accommodative monetary policy and effective transmission, while the financial system remains sound and well supervised. Inflation should decline to less than 1 percent, and the current account deficit to 4 percent of GDP, notwithstanding higher oil import prices. Continued strong FDI should help maintain reserves at a comfortable level despite large Moroccan investments abroad. These favorable developments have led to improved market sentiment, with Morocco's sovereign spreads much lower and declining much faster than EMBI average.

The new government, which took office in early April 2017, confirmed its commitment to continue with the policies and reforms under the program. The authorities take positive note of staff indication that the program remains on track and that Morocco continues to meet the PLL qualification criteria, performing strongly in four out of the five qualification areas (external position and market access, financial sector and supervision, monetary policy, and data quality), while not substantially underperforming in the fiscal policy area. In view of the short time elapsed since the first review, this statement will be brief and will only address a few issues.

Fiscal Performance and Policies

The new government's fiscal policy is in line with the objectives announced under the PLL as revised during the first review. The fiscal deficit is projected to decline, as agreed, to 3.5 percent of GDP in 2017 from 4.1 percent last year, and to fall further to the PLL target of 2.1 percent of GDP in 2021. The public debt to GDP ratio is expected to decline from 64.7 percent in 2016 to 63.2 percent in 2017 (against 64.3 percent projected under the PLL), putting it on a firm declining trend to reach the medium-term target of under 60 percent of GDP by 2021. In this regard, the deviation from the target for 2020 set in the PLL is minimal (0.5 percent of GDP) and does not indicate a weakening of fiscal consolidation.

The authorities are confident that their fiscal targets for 2017 and beyond will be achieved. After meeting the adjusted March 2017 indicative target with a wide margin, fiscal developments through June are also much more favorable than projected, with significant overperformance in tax collection and current spending control, including on wages, which should continue over the near to medium term and bodes well for achieving fiscal targets. In this regard, continued efforts at modernizing tax administration and simplifying procedures (including e-filing), have been instrumental in improving tax collection. Moreover, tax revenue for 2018-21 does not include the impact of new measures, and it is expected that new tax measures, which will be identified and discussed by the cabinet in time for the mandatory presentation of the draft 2018 budget to parliament by October 20, will provide additional room for maneuver for achieving the authorities' fiscal objectives for 2018 onward, while creating more space for priority spending.

Structural Reforms

Structural fiscal reforms continue to be at the heart of the authorities' program, with focus on the priority areas identified in the PLL, including continued implementation of the Organic Budget Law as per the agreed schedule; further progress in tax reform in line with the recommendations of the 2013 National Conference; additional steps in subsidy reform to improve targeting and reduce costs; implementation of responsible decentralization; improving management and assessment of public investment as well as oversight and performance of public enterprises; and reform of the civil service. The Written Communication (¶7-9) highlights recent progress in these areas since the government took office, including the adoption of a series of decrees on governance and oversight of subnational entities, as well as the finalization of the draft law on public enterprise oversight and its submission to the Secretary General of the Government.

The authorities are committed to accelerating structural reforms to strengthen competitiveness, increase growth potential, and reduce unemployment. As elaborated in the Written Communication (¶14) and in Box 1, key priorities include further improving the business environment, reforming education and public administration, establishing good governance, and promoting human development and inclusiveness. The recent adoption by the government of the revised central bank charter should enhance its independence and effectiveness in monetary policy and its role in financial stability. A draft law is under preparation to translate the recently adopted Vision for education reform into specific guidelines and objectives.

All in all, while recognizing that the pace of implementation could have been faster absent the delay in the change of government, the authorities' commitment to reform remains strong. They broadly agree with the main reform priorities identified in the report, which are in line with the government program. The next Article IV consultation and third review of the PLL mission in October will provide the opportunity for more in-depth discussion on the new government's reform agenda.

Transition to Exchange Rate Flexibility

After completion of the preparatory work on transition to more exchange rate flexibility, including an intensive communication strategy, supported by valuable Fund technical assistance, the authorities planned to start the transition by end-June 2017. However, demand for hedging from some market participants soared to an unexpected level, notwithstanding repeated assurances that the current level of the exchange rate is in line with Morocco's solid fundamentals and that there is no risk of currency depreciation at the current juncture. This increased hedging has led to a significant decline in official reserves, with concomitant increase in commercial banks' foreign assets. The postponement by the government of the start of the transition and the indication that the initial widening of the band will be limited have helped alleviate these pressures. Official reserves have stabilized and should start to recover, helped by the favorable seasonal pattern of tourism and workers' remittances, and as options bought by market participants expire. The authorities remain committed to moving to a more flexible exchange rate regime, and will announce the start of the transition at the appropriate time.

Ex Post Evaluation of Exceptional Access

The authorities share the conclusions of the EPE, including the significant improvement in Morocco's fundamentals and reduction in vulnerabilities under the 2014–2016 PLL. As highlighted in Annex I, they are of the view that while growth turned out to be lower than expected, it is difficult to link this shortfall to over-optimism in growth projections. More analysis will be needed in particular to assess the extent to which the impact of fiscal consolidation on growth may have been underestimated. Discussion of the impact of structural reforms on growth is also important, but is fraught with uncertainty regarding the time needed for these reforms to deliver their full effect. Finally, while they take note of the report's indication of the considerable improvement in external balances over 2012–15, they do not share staff indication that gains in competitiveness were modest, pointing to the significant diversification of exports to new sectors and new regions, despite the sharp slowdown in world trade volume.

Conclusion

The authorities are grateful for the Fund's support, advice, and technical assistance. They are firmly committed to staying the course of sound policies and reforms to unlock the economy's potential and achieve higher and more inclusive and job-rich growth. They will continue to reduce the economy's vulnerabilities and strengthen its resilience. In this regard, they are committed to achieving the objectives of the PLL which has proven to be a useful instrument and which they will continue to treat as precautionary. They will assess the need for continued close engagement with the Fund under precautionary arrangements at the expiration of the current PLL, and will carefully consider available options in this area.