INTERNATIONAL MONETARY FUND

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MOROCCO

October 2023

REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; SUPPLEMENT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the 2023 Request for an Arrangement Under the Resilience and Sustainability Facility for Morocco, 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 September 28, following discussions that ended on July 21, 2023, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 15, 2023.
- An **Assessment Letter** prepared by World Bank staff.
- A **Staff Statement**
- 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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PRESS RELEASE

PR23/327

IMF Executive Board Approves US$1.3 Billion Under the Resilience and Sustainability Facility Arrangement for Morocco

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved today a Resilience and Sustainability Facility (RSF) for Morocco in the amount of about US$1.3 billion.*

- *The arrangement will support Morocco' transition to a greener economy and help strengthen its preparedness and resilience against natural disasters, including from climate change.*

Washington, DC – September 28, 2023: The Executive Board of the International Monetary Fund (IMF) approved today an 18-months arrangement for Morocco under the Resilience and Sustainability Facility (RSF) in an amount equivalent to SDR 1 billion (about US$ 1.32 billion, equivalent to 112 percent of quota).

The RSF arrangement will help Morocco address climate vulnerabilities, bolster its resilience against climate change, and seize the opportunities from decarbonization. It would also help the Moroccan authorities strengthen preparedness for natural catastrophes and stimulate financing for sustainable development. The arrangement would coincide with the remaining 18 months under the FCL arrangement approved in April 2023.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, and Acting Chair, issued the following statement:

"Climate change represents a major risk to Morocco's development but also offers opportunities. Drought and water scarcity have become a major source of macroeconomic volatility, with particularly adverse impacts on agriculture, while the fallout from the recent earthquake points to the potential implications of natural disasters, including from climate change. At the same time, thanks to its particularly generous endowment in renewable resources, Morocco is well-placed to reap the benefits of the global decarbonization agenda. Deploying this potential represents an opportunity for Morocco to put economic growth on a stronger and more resilient path."

"The RSF will help Morocco boost investment in renewable energy, increase energy efficiency, strengthen resilience against natural disasters, green its financial sector, and tackle water scarcity. It will also help bolster Morocco's external stability by reducing its dependence on imported energy and helping attract foreign direct investment. By achieving these objectives, and with continued support from other development partners, the RSF is expected to contribute to mobilize the private financing required to implement Morocco's climate adaptation and mitigation efforts."

INTERNATIONAL MONETARY FUND

MOROCCO

September 15, 2023

REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Climate change is both a major threat and a source of opportunities for Morocco's development. On one hand, Morocco is one of the world's most water-stressed countries, and water scarcity is a serious constraint to the country's ambition to transition to a new model of development. The authorities are planning to boost investment in water infrastructure, but this should be complemented by demand management reforms that bring the price of water closer to its actual cost and induce a shift in consumption behavior. On the other hand, Morocco can take advantage of its abundant competitive renewable energy resources to reduce its still high dependence on fossil fuels. Decarbonizing the energy matrix would require significant investments in renewable energy, which should be largely shouldered by the private sector. It would also require deep regulatory reforms, including further efforts to liberalize the electricity sector. Fully exploiting this renewable energy potential could reduce Morocco´s reliance on imported fuels, help Moroccan firms' competitiveness in neighboring markets that are embracing a green energy transition (most notably the European Union), and help create jobs. The strong earthquake that hit Morocco on September 8, exerting a heavy toll in terms of human lives and physical damages, highlights the importance of strengthening the country's preparedness and resilience to natural disasters, including from climate change.

RSF. With the proposed access level set at 112 percent of quota (equivalent to SDR 1 billion), the RSF arrangement will help finance Morocco's climate-resilient infrastructure investments and support its ambitious goal of transitioning to a net-zero emissions economy by 2050. The proposed access level is justified by the strength and breadth of the proposed reforms and Morocco's sound capacity to repay the Fund. The RMs included in the RSF framework are comprehensive, including tackling water scarcity, liberalizing the electricity market, improving energy efficiency, integrating climate change considerations into the tax and transfer system, incorporating climate risk in financial supervision, and greening the financial sector. The RMs are developed in close collaboration with other IFIs and bilateral donors, such as the World Bank, the European Union, the EBRD, and the

Agence française de développement. The RSF is expected to catalyze financing from both other IFIs and the private sector.

Approved By
Taline Koranchelian (MCD) and Bjoern Rother (SPR)

The mission consisted of Roberto Cardarelli (head), Marzie Taheri Sanjani, Nordine Abidi, (all MCD), Hector Perez-Saiz (SPR), Dulani Seneviratne (MCM), and Hussein Bidawi (FAD). Ananta Dua, Abigail Korman, and Tatiana Pecherkina (all MCD) assisted with this report. The mission team met with the Ministry of Economy and Finance, Ministry of Water and Equipment, Ministry of Energy Transition and Sustainable Development, Ministry of Interior, Bank Al Maghrib, as well as *the Autorité Nationale de Régulation de l'Energie* (ANRE), the *Office National de l'Electricité et de l'Eau Potable* (ONEE), and the *Agence Marocaine pour l'Efficacité Energetique* (AMEE). Mr. El Qorchi (OED) participated in most meetings. The mission was conducted during July 17-21, 2023, in Rabat, Morocco.

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CONTEXT

1. **The increased frequency of drought underscores Morocco's vulnerability to climate change.** At the time of the FCL request, Morocco faced elevated downside risks, mainly related to the challenging external environment. While Morocco has continued to enjoy macroeconomic stability so far in 2023 and advance in its ambitious agenda of structural reforms, water scarcity proved to be a more serious impediment to growth than expected at the time of the FCL approval. Despite strong tourism and export dynamics, GDP growth for this year has been revised downward due to lower-than-expected agricultural production. The drought has also affected inflation by contributing to higher food prices. More frequent droughts and increasing scarcity of water resources threaten Morocco's potential output, disproportionately impacting rural vulnerable households.

2. **The earthquake that hit Morocco on September 8, 2023, is yet another shock that highlights the need to strengthen resilience to natural disasters, including from climate change**. While it was felt across the country, the earthquake affected mainly the Marrakech-Safi region of the country, claiming the lives of about 3,000 people, injuring more than 5,000, and resulting in severe damage to buildings and infrastructure, including to the old city of Marrakech. It is too early to assess the economic impact of the earthquake, and the extent to which it will add to the drought and the terms of trade shock from Russia's invasion of Ukraine in slowing Morocco's recovery from the pandemic. To a considerable extent, this will greatly depend on whether tourism inflows will be affected in the coming months (the Marrakech-Safi region accounts for about 8 percent of national GDP).[1]

3. **But climate change is also a source of opportunities for Morocco.** With a particularly generous endowment in renewable energy (RE) sources, Morocco is well-positioned to reap the benefits of the global decarbonization agenda. Fully exploiting this RE potential could i) reduce Morocco´s still high reliance on imported fuels, helping shield the economy from the impact of volatile international fuel prices, ii) give Morocco a critical comparative advantage in neighboring markets that are embracing a green energy transition (most notably the European Union) and iii) bring net job creation on a substantial scale. Seizing these opportunities will require a substantial mobilization of resources, mainly from the private sector.[2]

4. **Against this background, the authorities have requested an arrangement under the Resilience and Sustainability Facility (RSF) to help address climate vulnerabilities and seize the opportunities from decarbonization.** The RSF arrangement would help the authorities bolster resilience against climate change, including to strengthen preparedness for natural catastrophes,

[1] The projections shown in this staff report were prepared before the earthquake and do not reflect its impact on the Moroccan economy.

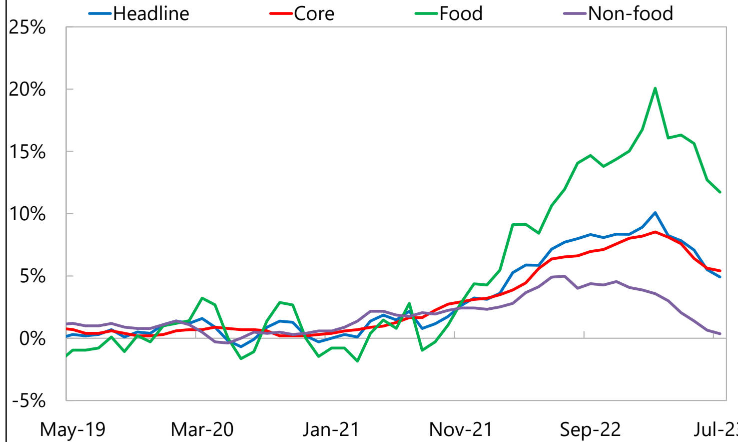
[2] The World Bank 2022 CCDR estimates that the total funding required to support Morocco's climate adaptation and mitigation activities would amount to about $78 billion in net present value terms by 2050, equivalent to about 2 percent of GDP per year.

and stimulate financing for sustainable development. The arrangement would coincide with the remaining 18 months under the FCL arrangement approved in April 2023.

RECENT ECONOMIC DEVELOPMENTS

5. Inflation continues to fall within expectations. After peaking at 10.1 (8.5) percent year-on-year in February, headline (core) inflation has gradually declined to 4.9 (5.4) percent in July. The 2-year-ahead inflation expectation is estimated to be 4.7 percent in Q2. At 11.7 percent in July, food inflation remains the main driver of inflation (non-food inflation was 0.4 percent). Bank Al-Maghrib (BAM) kept its policy rate unchanged at 3 percent in June, following three consecutive 50 bps hikes between September 2022 and March. While the transmission of policy rates to the bank lending rates has been partial so far (about 75 bp), credit growth has slowed somewhat in 2023. Nevertheless, banks remain resilient, well-capitalized, and flushed with liquidity thanks to low-cost sight deposits. The nonperforming loans ratio has remained relatively stable.

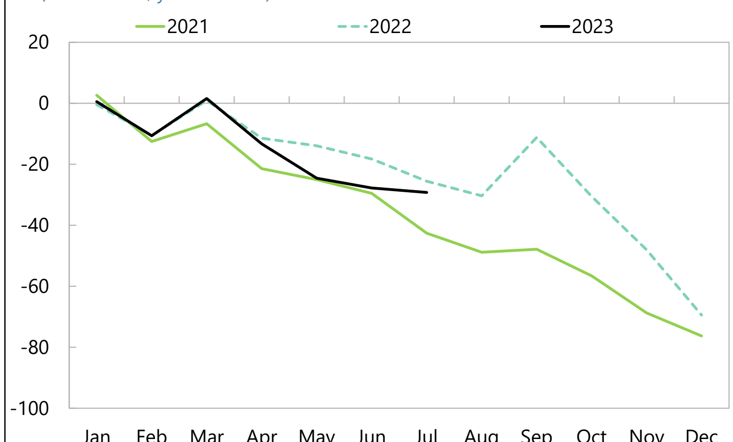
Inflation
(Percent, y-o-y)



Sources: HCP; and Haver.

6. The fiscal deficit is slightly above last year. Tax revenues continued to be strong, and as of July, they were about 4.2 percent above last year's level, owing to higher inflation and the positive effect of the 2023 Budget's tax reform. The better-than-expected evolution of tax revenues and faster-than-expected decline in international commodity and energy prices generated some savings (of about 1 percent of GDP as of the first half of the year). The authorities decided to use this windfall to: i) subsidize the agricultural sector (mainly to lower the cost of fertilizers and seeds and thus mitigate the impact on food prices from higher production costs following the pandemic, drought, and higher commodity prices); ii) tackle water scarcity by accompanying the implementation of the Water Plan; iii) recapitalize the ONEE (the public utility company) and RAM (the publicly owned airline). While higher tax revenues and current spending broadly offset each other, higher

Overall Fiscal Balance
(Bil. Dirhams, year-to-date)



Sources: Moroccan authorities; and IMF staff calculations.

investment spending is causing the overall fiscal deficit for January-July to be slightly higher than last year (by 0.1 percent of GDP).

7. **The current account (CA) deficit is narrowing.** The trade deficit declined by about 7 percent in the first seven months of the year compared to 2022, as international commodity prices declined. The services and income balance registered a record surplus, driven by strong inflows from tourism and remittances. This helps explain the appreciation of the Dirham in 2023, both against the U.S. dollar and the euro, with the currency now back in the middle of its fluctuation band. The REER and NEER appreciated by about 3.9 and 1.4 percent, respectively, as of July 2023, relative to the 2022 average. At about 120 percent of the Fund's adjusted-ARA metric in July, the level of gross reserves increased relative to end-2022. Morocco's external position in 2022 was assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies (see Annex II).

OUTLOOK AND RISKS

8. **Growth is expected to pick up in 2023, with inflation continuing its gradual descent.** After last year's drought, water scarcity means agricultural production will not return to average levels this year. However, strong tourism proceeds, the fading terms-of-trade shock, and a better outlook for external demand are expected to push growth to 2.5 percent in 2023 from 1.3 last year, (indeed growth in the first half of 2023 has accelerated compared to last year). The growth forecast for 2024 has been adjusted upwards from 3.1 percent to 3.5 percent, reflecting the base effect and the assumption of a regular agricultural season. The current account deficit is expected to improve this year as the terms-of-trade shock normalizes, and tourism revenues and remittances remain well above pre-covid levels. Inflation is projected at 3.6 percent y/y by the end of 2023 and to continue to fall to 2.3 percent by the end-2025, despite the impact of the gradual removal of remaining subsidies on gas butane, wheat, and sugar.

9. **The balance of risks remains tilted to the downside (Annex II).** Recurrent droughts could worsen inequalities and create social tensions by lowering growth and boosting food inflation. A prolonged impact of the earthquake on tourism may curb an important source of projected growth. An escalation of geopolitical tension and the war in Ukraine could affect Morocco though a new terms-of-trade shock and weaker external demand. On the upside, an ambitious reconstruction effort after the earthquake, stronger-than-expected remittance receipts, as well as a faster and more efficient implementation of the structural reform agenda, could all increase growth.

MAIN POLICY ISSUES

10. **Monetary policy should remain data dependent.** BAM is committed to lowering inflation and justified pausing its tightening cycle in June with the need to fully assess the impact of the recent hikes and fiscal measures aimed at easing food supply pressures. While real ex-ante policy rate remains below staff estimates of the natural rate (r*) (at around 1-1.5 percent), the uncertainty around this estimate is large. This underscores the need to calibrate the policy response to data and, in particular to the evolution of inflation expectations, with BAM ready to bring the policy rate closer to r* if such expectations were to prove stickier than anticipated.

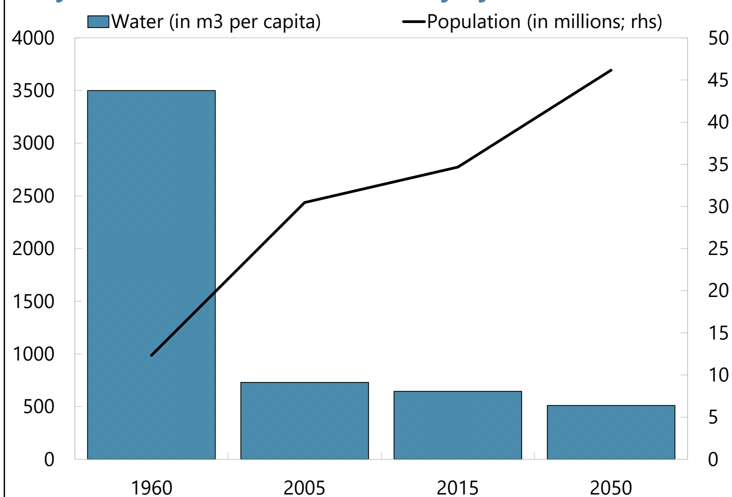
11. Fiscal consolidation should continue albeit the earthquake may slow the projected fiscal consolidation path. While it is too early to assess the fiscal impact of the earthquake, the setup of a special purpose Fund that will gather voluntary donations from Moroccans could be a mitigating factor (similarly to the Covid 19 Fund in 2020). The recourse to private and public catastrophic insurance schemes to provide those affected by the earthquake with an allowance could also help contain the fiscal costs of the tragedy. Financing the reconstruction efforts is a long-term effort that may affect the pace at which public debt is expected to fall. To mitigate this risk, it is even more important to renew efforts to expand the tax base, improve the efficiency of tax administration, and rationalize spending, including though the introduction of the unified social registry and the SOE reform. Future windfall gains from a faster reduction of commodity prices should also be saved, rather than used to finance sectoral subsidies. The announced replacement of existing subsidies with cash transfers and the reform of the VAT regime that harmonizes rates remain important policy measures that should be brought in the next Budget. Morocco is at moderate overall risk of sovereign stress, and debt is sustainable with high probability. Climate-change adaptation and mitigation costs, and demographic risks may pose long-term challenges to public debt (see Annex IV).

MOROCCO'S CLIMATE CHANGE CHALLENGES

A. Adaptation

12. Morocco is one of the world's most water-stressed countries. The country experienced a sharp decrease in water availability, from 2,560 m^3 to about 620 m^3 per person per year between 1960 and 2020, due primarily to population growth and compounded by a reduction in rainfall and an increase in temperature. The water deficit in 2020 was estimated at 1.8 billion cubic meters per year, with demand expected to increase by 15 percent between 2020 and 2050. Water security challenges are compounded by the unequal distribution of water over space and time, with most of the surface water resources concentrated in the northwest of the country. Surface water shortages have led to the over-exploitation of groundwater resources, which are being abstracted faster than being replenished. Current groundwater withdrawals exceed exploitable levels by 28 percent, requiring pumping from deeper levels and increasing energy-related greenhouse gas (GHG) emissions.

Projections: Extreme Water Scarcity by 2050



Source: World Bank.

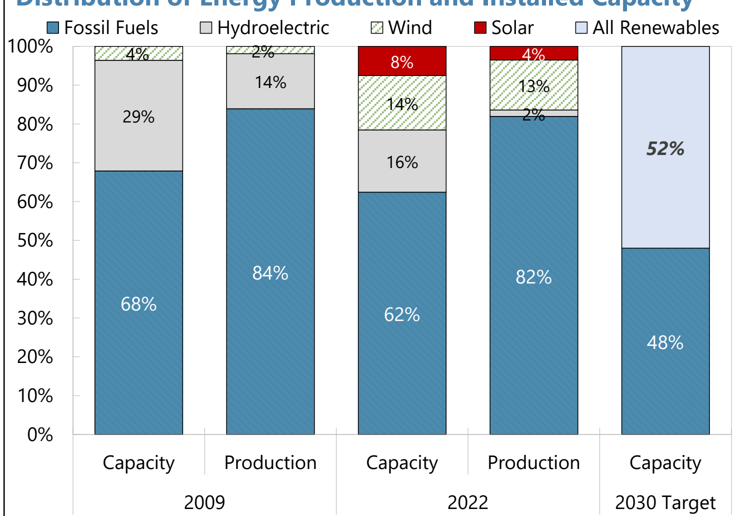
13. The government has prepared a comprehensive large-scale National Water Plan 2020–50 to address Morocco's water challenges). The plan foresees investment in new dams and interconnections across basins, as well as in desalination plants and wastewater use plants. Morocco plans to triple its desalination capacity by 2030, adding nine new plants to the existing 11 and 7 under construction. The plan also includes actions to reduce water losses in transport and distribution and additional efforts to increase water efficiency in the agricultural sector through the continued modernization of irrigation systems. The plan is estimated to require an overall investment of about $40 billion over 2020–50. The authorities intend to use public–private partnership schemes to leverage private-sector financing and technical and managerial skills (particularly in the desalination program).

14. But tackling Morocco's water challenge also requires demand management policies such as revising current water tariffs, particularly for irrigated agriculture. Water tariffs have been kept artificially low and are not aligned either with cost recovery or the scarce value of the resource. Revisiting current water valuation policies would encourage more rational use, increase the private sector's willingness to invest in the water sector (including in maintenance), and generate fiscal savings. The Moroccan authorities are beginning to take steps in this direction, recognizing that underpricing water for irrigated agriculture is no longer sustainable.[3] The World Bank is providing funding and technical assistance to advance these reforms (see Annexes I, VI).

B. Mitigation

15. Morocco's reliance on fossil fuels for power generation remains high. The energy sector accounted for 65.1 percent of total gross greenhouse gas emissions in 2018. The power sector dominates energy-related emissions, with 36.1 percent of the total, followed by the transport sector (29 percent). In this context, mitigation policies have understandably focused on decarbonizing the power-generating sector, with the development of various flagship solar and wind projects that have brought the share of RE to about 35 percent of the power-generation energy mix in 2019. However, three new coal power plants were commissioned in the 2010s, bringing the total coal-fired power-generating capacity above 4 gigawatts (about 40 percent of total power generation in 2021). As a result, the carbon intensity of the power sector has continued to increase, placing Morocco's power sector among the most carbon-intensive in the world. However,

Distribution of Energy Production and Installed Capacity



Source: ONEE, and Ministry of Energy Transition and Sustainable Development.

[3] The New Model of Development report (2021) highlights the need to "*reflect the true value of the water resource and incentivize a more efficient and rationale use and management of the resource*", including through more transparency on the costs all along the water chain (from mobilization to consumption and treatment) and a new governance of the sector (with the creation of a National Water Agency).

Morocco's *Plan d'Equipment Electrique* 2023-2027 contains a commitment to gradually decrease the contribution of coal to the energy mix (including by imposing that new power stations only use natural gas and converting two existing coal-based stations into natural gas stations by 2027, as noted in the MEFP's paragraph 6).

16. Morocco is well placed to reap the benefits of the global decarbonization agenda, thanks to its generous endowment in RE sources. The country has one of the highest rates of solar insolation worldwide, with about 3,000 hours of sunshine per year. The average wind speed is 5.3 meters per second in more than 90 percent of the country's territory. The government aims to achieve a 52 percent share of renewables in installed capacity by 2030, from the current of about 35 percent.[4] Fully exploiting Morocco's large RE potential could have several advantages for the economy. First, decarbonizing the energy mix would reduce Morocco's reliance on imported fuels, helping to shield the economy from the impacts of external shocks. Moreover, developing RE potential could turn Morocco into an exporter of energy. Second, reducing industrial exports' carbon intensity would yield a critical comparative advantage in markets embracing a green transition, most notably the European Union. Third, the energy transition could bring net job creation on a substantial scale. [5]

17. Attracting private sector investment in RE would require further progress in reforming Morocco's electricity market. Until a decade ago, Morocco's state-owned utility company (*Office National de l'Electricité et de l'Eau Potable*, ONEE) had a monopoly on the generation, transmission, and distribution of electricity in Morocco. The authorities have long recognized the need to reform the electricity market. The law No 13-09 (amended by the law No 40-19) opened RE production to the private sector; the law 48-15 gave the Moroccan Energy Authority (*Autorité Nationale de Régulation de l'Energie,* ANRE) the power and resources to regulate the electricity sector; and distribution activities were opened to municipalities and private concessionaires. Still, in addition to keeping the monopoly in transmission, ONEE has remained a key actor in generating and distributing electricity in Morocco. This generates conflicts of interest, making it difficult for private operators to compete and contributing to a lack of investment in RE (CESE, 2020).[6] Unbundling ONEE into separate generation, transmission, and distribution companies would allow for greater competition, boost investment in RE, and eventually leads to lower electricity prices.[7] A preliminary condition for this separation is the unbundling of the *financial accounts* of ONEE's electricity transmission business from those of its other businesses. ONEE has started working on a proposal

[4] Morocco's GHG emissions doubled between 2000 and 2019, from 44.6 to 91.2 million tons CO_2 eq, but remain relatively small (they represent just 0.2 percent of global emissions, and the carbon intensity of the Moroccan economy is 30 percent below the average of MENA region).

[5] Based on simulations contained in the World Bank *Country Climate and Development Report* (CCDR) (World Bank, 2022), the energy transition could yield around 28,000 net jobs across the Moroccan economy per year, up to 2030 (about 9 percent of the 300,000 annual jobs shortfall currently estimated in Morocco)

[6] https://www.cese.ma/docs/accelerer-la-transition-energetique-pour-installer-le-maroc-dans-la-croissance-verte/

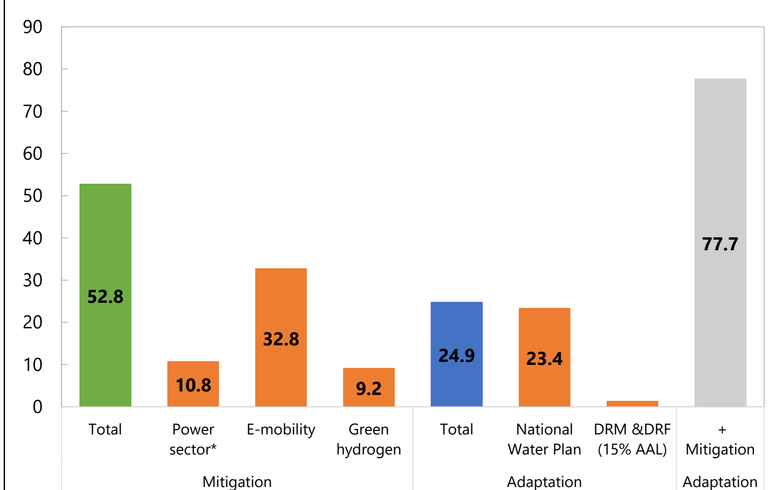
[7] Such unbundling is also made necessary by the recently announced reform that will gradually introduce Regional Multiservice Companies, responsible for distributing electricity and water in each of the twelve Morocco's regions.

for such unbundling and will send it to ANRE for its approval by early 2025.[8] Moreover, despite the few steps taken recently, much remains to be done to allow private operators fair and transparent access to the transmission and distribution networks at regulated tariffs.[9] To a certain extent, progress in this direction will require the approval of implementation decrees of the legislation passed over the last decade.

18. More efforts are also needed to improve energy efficiency across all sectors. The energy efficiency law No. 47-09, set minimum energy performance standards for appliances and electrical equipment, introduced mandatory energy audits for companies, and imposed the assessment of the energy impact of new construction and urban projects. However, partly because of the slow adoption of the law implementation decrees, total primary energy consumption has continued to increase, and Morocco still lags OECD countries regarding energy efficiency.[10] The 2020 National Energy Efficiency Strategy includes a target of a 20 percent reduction of energy consumption by 2030, particularly in transportation, construction, industry, agriculture, and public lighting. Achieving this objective will require more measures to trigger behavioral changes and incentivize energy users to conserve energy.

19. Morocco has set up ambitious decarbonization targets. Ahead of 2021 COP-26, Morocco put forward a revised Nationally Determined Contribution (NDC) that commits the country to reduce its greenhouse gas emissions by 45.5 percent by 2030 (and unconditional target is 18.3 percent compared with a business-as-usual (BAU) scenario). The 2021 Long Term Strategy (LTS) committed to increase the share of renewable energy in the electricity

Total Investments for a Resilient and Low- Carbon Morocco
(USD Billion)



Source: CCDR 2022.
Note: * Represents difference between decarbonization and business as usual (BAU). Includes transmission and distribution.

[8] The proposal will have to clarify i) the perimeters of activities related to the production, transmission, and distribution of electrical energy, ii) the rules for allocating assets and liabilities, as well as income and costs, among these perimeters, and iii) the principles governing the financial relationships between the accounting activities.

[9] These steps include: i) the passing of law 82-21 that allows investors to produce electricity for self-consumption while injecting the surplus in the electricity network, and iii) the publication by the ANRE in 2022 of regulations of the access to the transmission network, and ii) the approval of a decree in 2022 that allows the direct sale of electricity produced via RE to small industrial customers.

[10] The most recent (2022) Regulatory Indicators for Sustainable Energy (RISE) benchmark shows that Morocco ranks relatively high, with an overall score of 74 (out of 100) for access to electricity and 67 for renewable energy, but only 54 for energy efficiency (against an average of 75 for OECD economies).

mix to 52 (80) percent by 2030 (2050) while also exploring scenarios to achieve carbon neutrality over the same horizon (Box 1).

20. Achieving these targets will require substantial investment. Meeting the 2021 NDC's requires an estimated financing of US$78.8 billion for the 2020-2030 period (i.e., an average of around US$7.2 billion per year or about 5.2 percent of 2022 GDP), with more than half targeted toward adaptation measures. The 2022 World Bank CCDR builds a decarbonization scenario based on the deployment of REs and the electrification of key end-use sectors by 2050. The report shows that placing Morocco on this low-carbon path by the 2050s would require a relevant increase in the installed capacity of the power sector, with an estimated investment of about $46 billion in present value terms.

Box 1. Morocco: Nationally Determined Contributions and Long-Term Low-Carbon Strategy

Nationally Determined Contributions. Despite its minor 0.18 percent share in global GHG emissions, Morocco has a clear overall emissions reduction strategy, recently enhanced in the 2021 NDC. The updated NDC strengthens the 2030 target in two ways: i) the unconditional target is now 18.3 percent below the business-as-usual (BAU) scenario (up from 17 percent), and the conditional target is 45.5 percent (up from 42); ii) consequently, 2030 emissions will be 21 percent lower than initially proposed under the unconditional target and 29 percent lower for the conditional one.

NDC Targets of Peers and Climate Vulnerability

Country	Global GHG Emissions Share	Emissions Reduction Target (by 2030)
Egypt	0.71%	33% (electricity), 65% (oil and gas), 7% (transport)
Iraq	0.65%	15% overall
Jordan	0.07%	31% overall
Morocco	0.18%	45.5% overall
Tunisia	0.08%	45% overall

Long-Term Low-Carbon Strategy. These ambitious revisions align with Morocco's goal of 2050 carbon neutrality and are reflected in its high Climate Change Performance Index (CCPI) rank, currently 7th globally. In December 2021, Morocco also submitted its long-term Low Carbon strategy (LTS) to the UNFCCC, committing to an 80 percent RE share by 2050 and exploring net-zero emissions scenarios. The government is targeting to reach carbon neutrality by the end of the century. Morocco's LTS positions the country as a climate action leader, extending its ambition beyond NDC targets and aiming to maximize economic, social, and environmental gains from decarbonized growth. The LTS is structured around seven key strategies, including 1) scaling renewable energy; 2) expanding electrification and exploring green hydrogen; 3) boosting energy and resource efficiency; 4) advancing a circular economy; 5) enhancing sustainable agriculture and forestry as carbon sinks; 6) developing multimodal transport and infrastructure; and 7) promoting digital, low-carbon urban development.

21. A reform of the tax system could help generate resources to fund these needs. Successful reform implementation between 2013 and 2015 eliminated most explicit subsidies on fuels, with the exception of those on gas butane. However, as emphasized in the World Bank CCDR, Morocco still has substantial implicit "brown" subsidies stemming from tax exemptions (mainly VAT-related, see Text Table 1) that generate a non-negligible amount of foregone tax revenue (of about 1 percent of GDP in 2022). A reform of taxation that increases the price of carbon, removes the remaining explicit subsidies on gas butane, and eliminates tax exemptions on fossil fuels, could promote behavioral changes aligned with climate objectives, while also mobilizing fiscal resources that could help reduce public debt and boost investment into adaptation or mitigation strategies.

22. Morocco has developed a sophisticated architecture for disaster risk management (DRM) and disaster risk financing (DRF), but there is room for improvement. With the help of the World Bank, the country has developed a DRM system building on innovative schemes, including the Natural Disasters Resilience Fund (FLCN), initially created to finance post-disaster reconstruction, and then turned into a mechanism that co-finances disaster risk reduction and

Text Table 1. Morocco: Tax Exemptions on Brown Energy Products, 2022

Duty or tax	Type of tax expenditure	Amount (millions of DHM)	Percent of GDP
VAT	Exemption on imports of oil and gas intended for the refueling of ships sailing the high seas and aircraft engaged in cross-border navigation traveling to foreign destinations	0.16	0
	Application of the reduced rate of 10 percent on petroleum gas and other gaseous hydrocarbons	2,609.3	0.2
	Application of the reduced rate of 10 percent on petroleum oils or schists, whether crude or refined	7,677.7	0.58
Import duty	Exemption from import duty applicable to premium-grade gasoline, regular gasoline, kerosene, jet fuel, diesel fuel, fuel-oils, base oils, oil bitumen, and fluxed bitumen (cut-back bitumen)	283.8	0.02
Domestic consumption tax	Exemption on heavy fuel oil (FO No. 2), coal, and petroleum coke, used by the state-owned power utility to generate electric power	195.7	0.01
	Exemption on hydrocarbon fuels (*carburants*), other categories of fuels, and lubricants used by coastal and deep-sea fishing vessels.	46	0
	Exemption on hydrocarbon fuels and other categories of fuels and lubricants for maritime shipping by units of the Royal Moroccan Navy and Royal Moroccan Gendarmerie, Customs, Morocco's national police force, artisanal fishing boats, harbor craft, and units of domestic maritime transportation	8.8	0
	Exemption on hydrocarbon fuels, other categories of fuels, and lubricants, ships' stores, and supplies required for sea and air traffic bound for foreign destinations	0.01	0

Source: Moroccan Authorities.

preparedness investments at the local level. It has also strengthened its financial resilience to natural disasters through the establishment of a dual catastrophic risk insurance regime that combines a contributory scheme for insured households managed through private insurers and a public compensation scheme that provides partial compensation to those who are not covered, via a

Solidarity Fund Against Catastrophic Events (FSEC).[11] There is room however to strengthen the protection offered by these mechanisms, so that it could better cope with extreme events, including from climate change.[12] The legislative framework can also be improved to facilitate to reduce the State's financial exposure to catastrophic risk. Indeed, while both insurance regimes cede the part of the risk exceeding their capacities to international reinsurers, the lack of a precise definition of the catastrophic event in the legislation prevents international reinsurers from fully assessing risks and could reduce their participation in the scheme.[13] This poses fiscal risks as, in the event Moroccan reinsurers are unable to find cover from foreign reinsurers, it is the State that acts as guarantor in their place.

23. Morocco's green transition should also include a comprehensive climate risk management framework for the financial sector and a detailed sustainable finance strategy. The Bank al-Maghrib (BAM) has made climate risk management a key priority and announced a series of ambitious plans for greening the financial sector. In 2016, BAM, the Ministry of Economy and Finances (MoEF), Morocco's Capital Market Authority (AMMC), and other key actors in the financial sector have developed a roadmap for aligning the Moroccan financial sector with sustainable development. In 2019, BAM established an internal unit dedicated to climate risk and green finance within its banking supervision department, and in 2021 it issued a high-level directive on the management of climate and environmental financial risks (see World Bank's CCDR, 2022). With the support of the World Bank Group (IFC in particular), BAM also started a series of workshops to help banks collect and analyze granular climate-related exposure data that will eventually conduce them to perform in-depth climate risk analyses. Both MoEF and AMMC have been actively supporting the development of green finance by exploring incentives favorable to the diffusion of green financing products (like green bonds). Despite these important steps, the authorities have yet to publish a detailed strategy for climate risk management in the financial sector and a fully-fledged sustainable finance strategy that estimates the financing gap to meet the country's climate mitigation and adaptation targets and shows how various sources of finances should be mobilized to close this gap. Going forward, it will also be important to maintain a clear separation between the two objectives (better managing climate-related financial risks in the financial sector and supporting the development of green finance) which require different tools and policies.[14]

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[11] The World Bank CCDR 2022 reports that at least 8.9 million people were insured in 2021, with the FSEC benefiting an estimated 95 percent of those without an insurance contract.

[12] According to the World Bank 2022 CCDR, the combined private and public schemes currently in place can only cover a relatively small fraction of potential catastrophic damages (between 5 and 10 percent of the direct economic damages associated with average catastrophic scenarios, and about 25 percent of losses on covered assets in the case of an extreme scenario).

[13] One area for improvement is to introduce a clause that defines an hourly limit for the aggregation of damage within a single catastrophic event (so that, if a catastrophe lasts longer than the period defined by the clause, it will be considered as a different catastrophic events). This would enable international reinsurers to better assess their exposure to risks.

[14] Please refer to Annex II for a discussion on development partners' involvement in strengthening Morocco's capacity to tackle climate change risks.

THE RSF ARRANGEMENT

24. The authorities have requested an RSF arrangement to bolster Morocco's resilience to climate change. The RSF is expected to reduce Morocco's macro critical risks associated with climate change and mobilize alternative financing sources for its planned green transition, thereby mitigating potential fiscal and balance of payments pressures (especially from oil related terms-of-trade shocks). Achieving this will require effective coordination with development partners (Annex I) and efficient implementation of reform measures. While Morocco does not have a C-PIMA, a CMAP, or a CCPA, the World Bank comprehensive CCDR report published in 2022 provides the analytical underpinning behind most of these measures.

25. The RSF reform matrix comprises five pillars (Table 3):

Pillar 1. Tackling Water Scarcity. The World Bank is helping Morocco improve the governance, efficiency, and sustainability of the water sector with a comprehensive Water Security Operation (see Annex I). This RSF complements this program with a two-pronged measure (**RM1**):

- The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study evaluating the actual cost of water in Morocco. The study will also lay out cost recovery principles, grounded in international benchmarks, which can guide a new tariff-setting framework.
- Additionally, the Ministry of Water and Equipment will adopt two decrees needed to implement the articles of the Water Law (No. 36-15) that introduced new mechanisms for the preservation of groundwater resources, namely those that define i) "protection perimeters" *(perimetres de sauvegarde),* areas in which the authorities can restrict authorizations to build new dwells or use existing ones; ii) "prohibition perimeters" (*perimetres d'interdiction*), areas in which authorities can allow the utilization of water only in case of necessity; and iii) "immediate, close or distant protection perimeters" (*perimetres de protection immediate, rapprochee ou eloignee*), areas containing water for human consumption that can be placed in the public hydraulic domain.

Pillar 2. Reforming the Electricity Market. As noted, further advances in reforming the electricity sector are needed to incentivize the production of RE from the private sector and drive down energy prices for households and firms. This RSF contains a few measures that will help on that direction:

- Under **RM2** ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts from its other activities.[15]
- Under **RM3** and **RM4,** ANRE will provide a transparent framework on grid connection costs, system service charges (costs related to the operation and maintenance of the national electricity transmission network), and details on grid capacity. This is an essential condition for investors to engage in the production of electricity for private customers and distributors. In particular, ANRE will publish: i) the tariffs for the access of RE producers to the medium voltage

[15] The EU *Energie Verte* program also includes this measure, but foresees the approval by ANRE by 2026, that is, one year later.

electricity distribution network, ii) the tariffs for the utilization of the national electricity transmission network, iii) the system service fees, and iv) the annual capacity of the transmission grid to receive electricity from RE sources.

- Under **RM5**, the Ministry of Energy Transition and Sustainable Development (MECTSD) will gradually adopt ministerial decrees needed for implementing the legislation that regulates the electricity sector (laws No. 48-15, 40-19, and 82-21). While the *Energie Verte* program from the European Union (see Annex I) foresees the approval of at least two of these decrees in 2024, the measure in the RSF requires a more ambitious effort over the next 18 months.
- Under **RM6**, ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency to be updated regularly and ii) the code of good conduct for the Transmission System Operator (TSO). These measures will help ensure that, while waiting for the setting of an independent TSO, the national transmission grid will be managed efficiently and equitably, without discriminatory practices.

Pillar 3. Improving Energy Efficiency. RM7 involves a few measures that will implement the legal framework set by the energy efficiency law No. 47-09 and help ensure that energy-efficient products and services are available to all consumers and companies. The measure involves: i) the approval by MECTSD of implementation decrees that specify the labeling and minimum standards on a series of products (refrigerators, air conditioning units, and industrial engines and compressors); ii) the preparation of a similar ministerial decree on lighting products; and iii) the adoption of a ministerial decree on ESCO (Energy Service Companies, specialized companies that finance, implement, and monitor the work necessary to achieve energy savings); and iv) preparing studies and regulatory texts related to lowering the threshold of energy consumption associated with the obligatory audit.[16]

Pillar 4: Integrating Climate into Fiscal Planning and Tax and Transfer System.

- Under **RM8**, the MoEF commits to incorporate climate change into the analysis of debt sustainability contained in its annual "*Document de programmation budgétaire triennale*". This measure will allow raising the public awareness about the impact of climate change on the economy and public finances, and better communicate on the policies needed to tackle climate-related risks. The other measure under this pillar aims at a gradual implementation of an environmental tax reform that would mobilize fiscal resources and promote behavioral changes aligned with Morocco's climate objectives:
- **RM9** mandates the MoEF to draft and initiate the adoption of a design document for introducing a carbon tax. The MoEF will collaborate with MECTSD to ensure that the design document adheres to the guidelines set forth by International Financial Institutions (IFIs).

[16] Currently, firms whose energy consumption is higher than 1,500 ton of oil equivalent (toe) per year in the industry sector and 500 toe per year in the service sector must undergo audits by certified companies to help them establish solutions and targets to save energy. Firms subject to the audit need to transmit to Morocco's authority for energy efficiency AMEE a yearly report on the implementation of their energy efficiency plan.

- Under **RM10**, the MoEF will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure, by increasing the tax rate on polluting fuel products.

- **RM11** mandates the MoEF to issue a ministerial decree that gradually phases out the subsidies on gas butane, starting from 2024.[17] Removing these subsidies would generate an important flow of tax revenues and limit the consumption of energy with a high carbon footprint. However, it could also negatively affect private consumption, particularly of poorer and vulnerable households, and induce households and small farmers to adopt less environmentally friendly sources of energy, like coal. To mitigate these risks, **RM12** envisages the MoFE to i) expand cash transfers to the most vulnerable households under the new Unified Social Registry and ii) help farmers replace gas butane by adopting solar pumps in small fields irrigation and help households replace gas butane with electricity or solar water heaters.

Pillar 5: Strengthening Preparedness to Natural Disasters. The World Bank Climate Operation has a series of measures aiming at enhancing Morocco's resilience to natural disasters, particularly of vulnerable groups (like the rural population) and ecosystems (like oasis and forests) (see Annex I). Complementing the WB operation, **RM13** will require the Minister of Economy and Finance will amend the ministerial decree that clarifies the definition of catastrophic events, in order to improve the underwriting conditions for placing natural disasters risks on the international reinsurance market**.**

Pillar 6: Greening the Financial System.

- **RM14** envisages adopting and publishing a comprehensive National Climate Finance Strategy that will estimate the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and delineate a roadmap for addressing any identified funding gaps. The strategy will also improve climate risk management, promoting a more resilient and sustainable financial system.

- Under **RM15**, the MoEF will mandate an environmental impact assessment for all subsidized lending schemes that exceed a specified threshold, a measure that is expected to incentivize financial institutions to better integrate environmental considerations into their lending decisions.

- Under **RM16,** BAM is expected to issue supervisory guidelines on disclosure and reporting for banks concerning climate risks. These guidelines, based on the guidance issued by the International Sustainability Standards Board, will require banks to disclose and report information on their climate-related risks and exposures. BAM will also issue specific guidance to banks on collecting and reporting large borrowers' exposures to major climate risks.

[17] This is part of the announced reform of Morocco's social protection system, whereby all remaining subsidies (on gas butane, wheat, and sugar) are to be replaced with more targeted cash transfers, using the new Unified Social Registry. In 2022, Morocco's subsidies for butane gas reached $2.1 billion (about 1.5 percent of GDP).

PROGRAM MODALITIES

26. Access, phasing, and reviews of the RSF. Morocco is eligible for RSF financing. The proposed access level is set at 112 percent of the quota, or SDR 1 billion (around USD 1,323 billion), based on the strength of the proposed reform measures. The RSF will be used for direct budget support and provide Morocco with more affordable financing at longer maturities, further improving its capacity to repay. This proposed access level is justified on the strength of the proposed policy actions and adequate capacity to repay the Fund. The RSF will have three reviews and the board dates are scheduled for March 2024 (coincident with the FCL mid-term review), November 2024, and March 2025 (standalone reviews). The phasing of the RSF will consider the implementation of the reform measures, with each measure equivalent to 7 percent of the quota, or SDR 62.5 million (Table 4).

Morocco: Financing Gap and Sources of Financing

(Billions of U.S. dollars, unless otherwise specified)

	2023	2024	2025
Current account balance	**-4.4**	**-4.8**	**-4.8**
(in percent of GDP)	*-3.0%*	*-3.0%*	*-2.9%*
Balance of goods and services	-15.0	-15.2	-15.6
Balance on primary income	-2.5	-2.9	-2.9
Balance on secondary income	13.1	13.4	13.7
Capital account, net	**0.0**	**0.0**	**0.0**
Financial account, net	**6.8**	**5.2**	**6.0**
Direct investment, net	1.7	2.0	2.3
Portfolio investment, net	2.7	1.0	1.7
Other investment, net	2.4	2.2	2.0
Overall balance (1)	**2.4**	**0.4**	**1.2**
Change in gross official reserves (increase: -) (2)	-2.4	-0.4	-1.2
Financing gap (1+2)	**0.0**	**0.0**	**0.0**
(in percent of GDP)	0.0%	0.0%	0.0%
RSF disbursement	0.0	0.7	0.6
Additional change in official reserves (increase: -)	0.0	-0.7	-0.6
Total change in official reserves (increase: -)	**-2.4**	**-1.2**	**-1.8**

Source : IMF staff calculations.

27. Morocco's capacity to repay the Fund remains adequate in the medium to long run. The program is fully financed, and the Fund exposure is moderate. Outstanding Fund credit is projected to peak at 5 percent of GDP or 12 percent of exports (of goods and services) in 2023 under the adverse scenario (Table 10a). Meanwhile, Morocco's current and prospective obligations to the Fund are broadly comparable to that of other GRA debtors (Table 10b), fluctuating around the median in percent of government revenue and exports while below well below the median in percent of public external debt services. The balance of payments is fully financed, and the proposed access of the RSF will reinforce gross reserves.

28. Risks to the RSF arrangement are assessed to be small. Renewed geopolitical tensions and further terms-of-trade shocks may complicate Morocco's planned transition to a more resilient and greener economy. These risks, which are common to all countries, are moderated by Morocco's very strong fundamentals and institutional policy frameworks, sustained track records of implementing very strong policies, and continued commitment to maintaining such policies in the future, which motivated the approval of an FCL arrangement in April 2023. Program implementation risks are assessed to be minimal also as the authorities will establish an inter-ministerial committee that will monitor the implementation of the reform measures under the RSF arrangement by strengthening coordination across the various stakeholders.

29. The RSF arrangement is expected to catalyze further official and private financing. Close collaboration with several international and bilateral donors under the RSF arrangement is leveraging comparative expertise and institutional knowledge. A good implementation of the RSF's RMs would signal Morocco's commitment to advance key reforms to address climate change mitigation and adaptation challenges. Private flows could also be mobilized, particularly in the energy or water sectors, through a more favorable and predictable business environment, attractive pricing frameworks, and efficient incentives to foster investment.

STAFF APPRAISAL

30. Climate change represents a major risk to Morocco's development but also offers opportunities. Drought and water scarcity have become a major source of macroeconomic volatility, with particularly adverse impacts on the agricultural sector, which employs about one-third of the workforce. The fallout from the recent earthquake is another example of the potential implications of natural disasters, including from climate change. However, with a particularly generous endowment in RE sources, Morocco is well-placed to reap the benefits that could come from the global decarbonization agenda. Deploying its large and competitive RE potential represents an opportunity for Morocco to put economic growth on a stronger and more resilient path.

31. The Moroccan government has taken important steps to combat climate change and has set ambitious targets to decarbonize its economy and increase water production. The revised NDC aims to achieve a 45.5 percent reduction of greenhouse gas emissions by 2030 compared to a business-as-usual scenario, and the authorities have initiated the preparation of a long-term low-emission development strategy for 2050. The 2050 National Water Plan (PNE) is an ambitious infrastructure plan designed to increase water mobilization and improve water productivity.

32. Meeting these targets will absorb a large volume of resources. Scaling up private investment in RE is central to the decarbonization agenda, while public investments will likely retain a significant role on the adaptation front. However, the large increase in Morocco's public debt after the pandemic has restricted the space for public intervention, and the private sector will have to play a key role on the adaptation side as well.

33. Staff supports the authorities' request for an RSF arrangement. Risks to the RSF arrangement are assessed to be small. Complementing the climate-related programs put in place by other international institutions, the measures under the RSF will help Morocco boost investment in RE, increase energy efficiency, strengthen resilience to natural disasters, green its financial sector and tax systems, and tackle water scarcity by preparing the ground for a new water tariff framework and better safeguarding groundwater resources. It will also help bolstering prospective BOP stability by reducing dependence on imported energy and help attract FDIs. By achieving these objectives, the RSF is expected to mobilize private financing, thereby mitigating fiscal and balance of payments pressures associated with climate adaptation and mitigation efforts.

Table 1. Morocco: Timeline of the RSF Reviews and Reform Measures Completion

Sep 2023 RSF Approval	FCL Mid-Term Review Board Date: March 2024 RSF 1st Review	Board Date: November 2024 RSF 2nd Review	Board Date: March 2025 RSF 3rd Review
Pillar 1: **Tackling Water Scarcity**			**RM1.** The Ministry of Water and Equipment will : (i) submit to the Inter-Ministerial Water Commission a study that assesses the **actual cost of water** and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. (ii) adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the **protection of groundwater** resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close or distant protection perimeters).
Pillar 2: **Reforming Morocco's Electricity Market**	**RM3.** ANRE will publish the **tariffs** for the utilization of the national **electricity transmission** network and the system service fees (by Oct 2023) and the **capacity of the grid** to **receive** electricity from renewable sources.	**RM5.** The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (**law 48-15, 40-19, and 82-21**) (in addition to the two decrees envisaged under the EU Energy Verte program). **RM6.** ANRE will approve and publish i) **quality indicators** to be met by the national transmission grid in terms of **safety, reliability, and efficiency**, to be updated regularly, and ii) the code of good conduct for the **Transmission System Operator (TSO)**.	**RM2.** ANRE will approve the proposal presented by **ONEE** on the **unbundling** of its **transmission financial accounts**. **RM4.** ANRE will publish the **tariffs** for the **access** of RE producers to the **medium voltage** electricity distribution network.
Pillar 3: **Improving Energy Efficiency**			**RM7.** The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the **labeling and minimum efficiency standards** for a series of products; ii) preparing a similar ministerial decree on **lighting products.** iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); iv) prepare a study and regulatory texts on **lowering the threshold of energy consumption** associated with the obligatory audit.
Pillar 4: **Integrating Climate into Fiscal Planning and Transfer System**	**RM10.** The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing **brown tax expenditure** by increasing the tax rate on polluting fuels products. **RM11.** The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on **gas butane,** starting from 2024. **RM12.** The Ministry of Economy and Finance will **mitigate the impact** on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.		**RM8.** The Ministry of Economy and Finance will publish on a regular basis, starting with the Document de programmation budgétaire triennale accompanying the 2025 Budget Law, an analysis of **debt sustainability** that will include the **impact of climate** change, with technical assistance from the Fund. **RM9.** The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a **carbon tax**, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.
Pillar 5: **Strengthening Preparedness to Natural Disasters**	**RM13.** The Ministry of Economy and Finance will complete the legal framework for the coverage against the **risks of natural disasters** by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.		
Pillar 6: **Greening Morocco's Financial System**		**RM14.** The Ministry of Economy and Finance, BAM and the Capital Market and Insurance regulators will adopt and publish a **National Climate Finance Strategy** that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector. **RM15.** The Ministry of Economy and Finance will advance in **greening the national support** system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	**RM16.** BAM will issue **supervisory guidelines** on disclosure and reporting for **banks** in relation to **climate risks**, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.

Table 2. Morocco: RSF Reform Measures			
RM #	**Reform measures (RM)**	**Availability Dates**	**RSF Review**
1	The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study that assesses the actual cost of water and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Water and Equipment will also adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the protection of groundwater resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close or distant protection perimeters).	February-25	3
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	February-25	3
3	ANRE will publish the tariffs for the utilization of the national electricity transmission network and the system service fees (by Oct 2023) and the capacity of the grid to receive electricity from renewable sources.	February-24	1
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	February-25	3
5	The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (law 48-15, 40-19, and 82-21) (in addition to the two decrees envisaged under the EU *Energy Verte* program).	September-24	2
6	ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the code of good conduct for the Transmission System Operator.	September-24	2
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); and iv) prepare a study and regulatory texts on lowering the threshold of energy consumption associated with the obligatory audit.	February-25	3
8	The Ministry of Economy and Finance will publish on a regular basis, starting with the *Document de programmation budgétaire triennale* accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with technical assistance from the Fund.	February-25	3
9	The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a carbon tax, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	February-25	3
10	The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure by increasing the tax rate on polluting fuels products	February-24	1
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	February-24	1
12	The Ministry of Economy and Finance will mitigate the impact on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.	February-24	1
13	The Ministry of Economy and Finance will complete the legal framework for the coverage against the risks of natural disasters by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.	February-24	1

Table 2. Morocco: RSF Reform Measures (concluded)			
14	The Ministry of Economy and Finance, BAM, and the Capital Market and Insurance regulators will adopt and publish a National Climate Finance Strategy that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector.	September-24	2
15	The Ministry of Economy and Finance will advance in greening the national support system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	September-24	2
16	BAM will issue supervisory guidelines on disclosure and reporting for banks in relation to climate risks, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.	February-25	3

Table 3. Morocco: Proposed Access and Phasing Under the RSF

Review #	Number of RMs implemented	Availability Dates	Quota	SDR (Million)
1	5	February-24	35%	312.5
2	4	September-24	28%	250.0
3	7	February-25	49%	437.5
Total	**16**		**112%**	**1000**

Source: IMF staff calculations.

Note: Morocco's quota in millions of SDRs. 894.4 Morocco and the IMF

Note: All the availability dates are on 15th of each month.

Table 4. Morocco: Proposed Schedule of Disbursements and RMs Availability Dates Under the RSF

RM	Availability Dates	Percent of Quota	SDR (Million)	Conditions for Access
1	February-25	6.99%	62.5	Completion of RSF review of reform measures 1 implementation
2	February-25	6.99%	62.5	Completion of RSF review of reform measures 2 implementation
3	February-24	6.99%	62.5	Completion of RSF review of reform measures 3 implementation
4	February-25	6.99%	62.5	Completion of RSF review of reform measures 4 implementation
5	September-24	6.99%	62.5	Completion of RSF review of reform measures 5 implementation
6	September-24	6.99%	62.5	Completion of RSF review of reform measures 6 implementation
7	February-25	6.99%	62.5	Completion of RSF review of reform measures 7 implementation
8	February-25	6.99%	62.5	Completion of RSF review of reform measures 8 implementation
9	February-25	6.99%	62.5	Completion of RSF review of reform measures 9 implementation
10	February-24	6.99%	62.5	Completion of RSF review of reform measures 10 implementation
11	February-24	6.99%	62.5	Completion of RSF review of reform measures 11 implementation
12	February-24	6.99%	62.5	Completion of RSF review of reform measures 12 implementation
13	February-24	6.99%	62.5	Completion of RSF review of reform measures 13 implementation
14	September-24	6.99%	62.5	Completion of RSF review of reform measures 14 implementation
15	September-24	6.99%	62.5	Completion of RSF review of reform measures 15 implementation
16	February-25	6.99%	62.5	Completion of RSF review of reform measures 16 implementation
	Total	**112%**	**1000**	

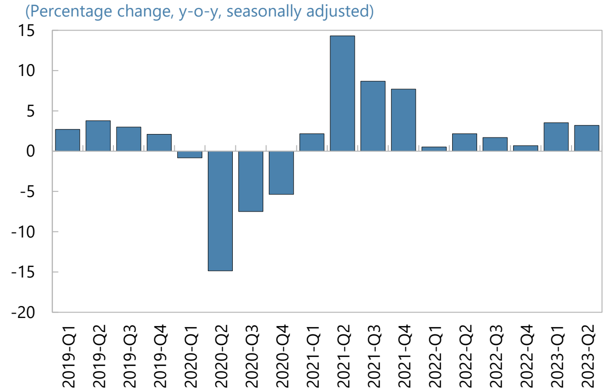
Source: IMF staff calculations.
Note: Morocco's quota in millions of SDRs. 894.4 Morocco and the IMF
Note: All the availability dates are on 15th of each month.

Figure 1. Morocco: Real Sector Developments

Real GDP growth accelerated in the first half of 2023,

Real GDP Growth

(Percentage change, y-o-y, seasonally adjusted)

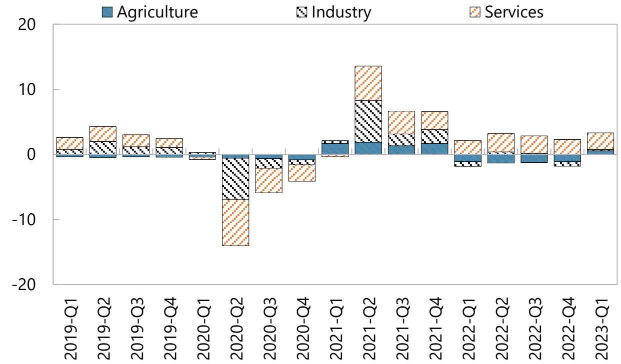


Source: Haver.

... thanks to stronger agriculture production compared to last year

Supply Contribution to Real GDP Growth

(Percentage change, y-o-y, seasonally adjusted)

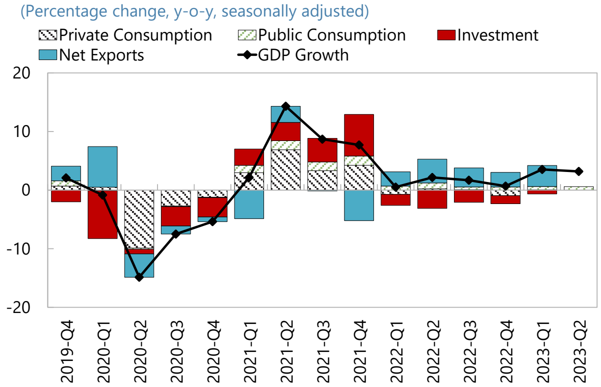


Sources: HCP; and IMF staff calculations.

Net export contribution sustained GDP growth in Q1.

Demand Contribution to Real GDP Growth

(Percentage change, y-o-y, seasonally adjusted)

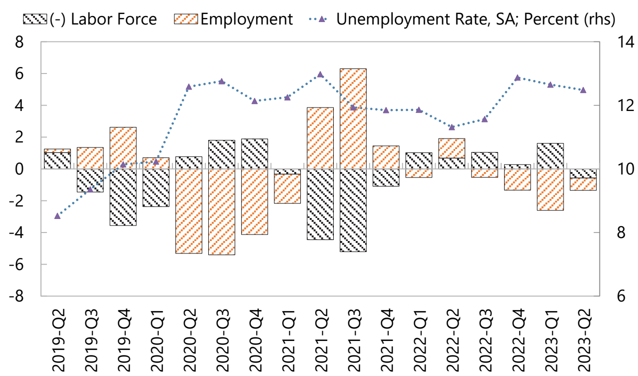


Sources: Haver; and IMF staff calculations.

Unemployment remains higher than before the pandemic, with higher employment ratio offset by higher participation rate in Q2.

Contributions to Employment

(Percentage change, y-o-y)

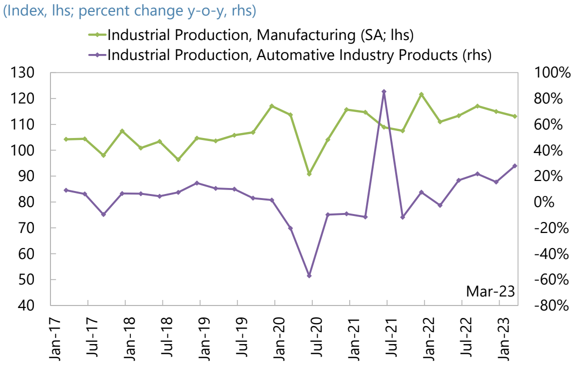


Sources: Haver; and IMF staff calculations.

The manufacturing IP increased by 1.9 percent YoY in Q1, led by robust growth in the automotive industry.

Industrial Production

(Index, lhs; percent change y-o-y, rhs)

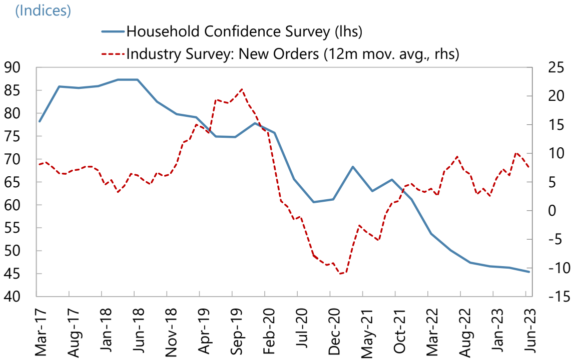


Sources: HCP; and Bank Al-Maghrib.

Business sentiment is improving, while household confidence remains depressed due to elevated inflation.

Household and Industry Confidence Surveys

(Indices)



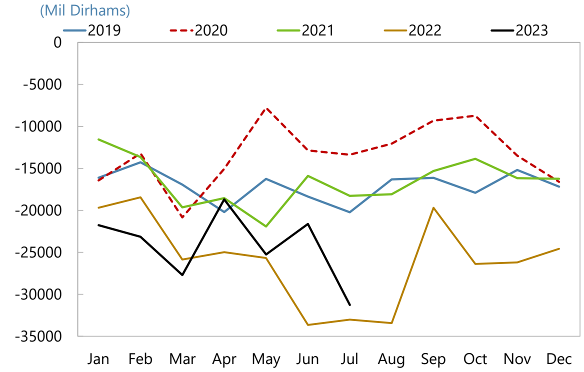
Source: HCP.

Figure 2. Morocco: External Developments

The trade balance has improved in 2023...

Trade Balance (Monthly)

(Mil Dirhams)

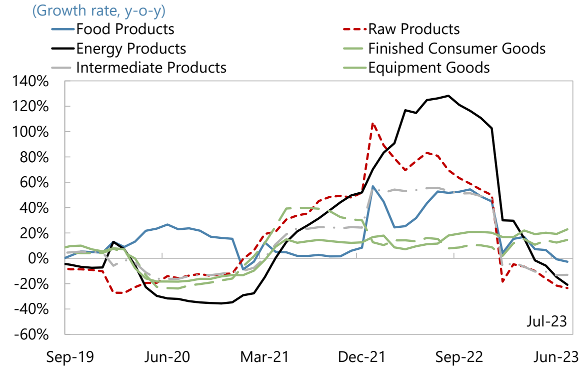


Source: Office des Changes.

...as lower commodity prices reduced import values, particularly of energy, food, and raw products.

Goods Imports

(Growth rate, y-o-y)

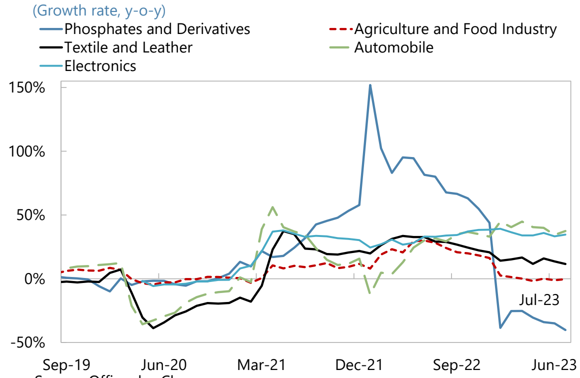


Source: Office des Changes.

Exports growth is supported by the automobile and textile sectors while phosphate exports have declined by about 40 percent in value.

Goods Exports

(Growth rate, y-o-y)

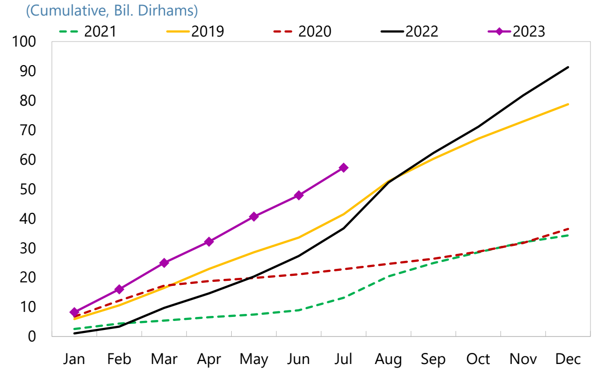


Source: Office des Changes.

Tourism revenues continue performing well and have surpassed pre-pandemic levels...

Tourism Revenues

(Cumulative, Bil. Dirhams)

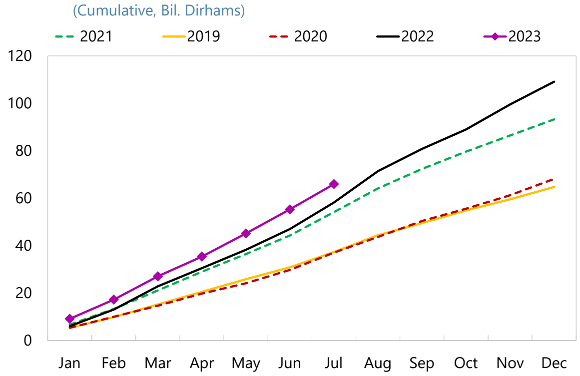


Source: Office des Changes.

... while remittances are also surpassing 2022 levels.

Remittances

(Cumulative, Bil. Dirhams)

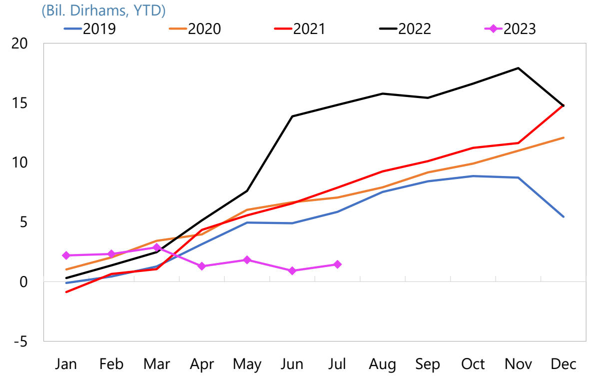


Source: Office des Changes.

Net FDI continues performing poorly compared to previous years.

Net FDI

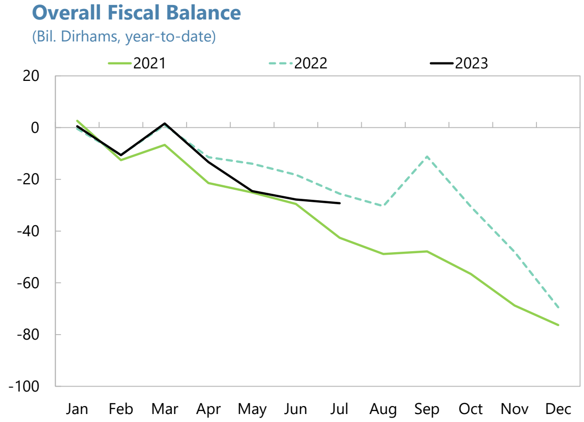
(Bil. Dirhams, YTD)



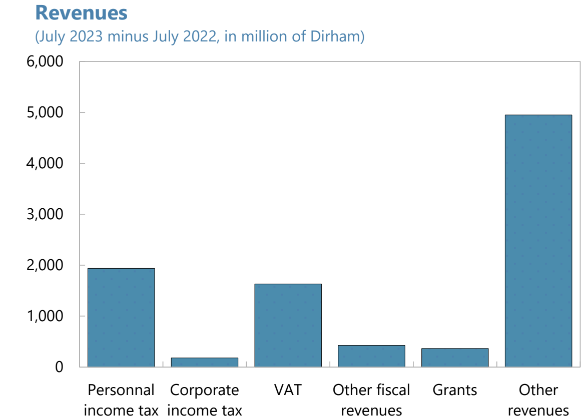
Source: Office des Changes.

Figure 3. Morocco: Fiscal Developments

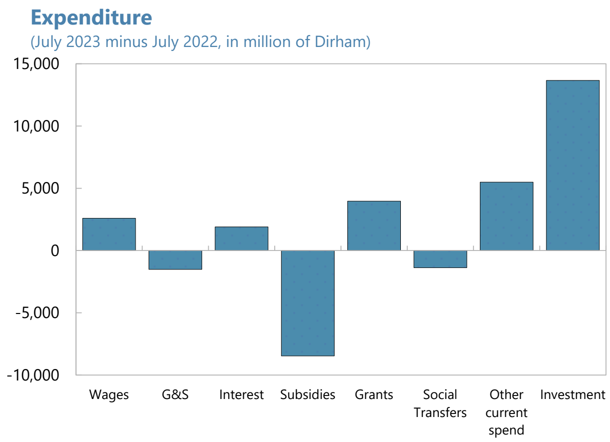
The fiscal deficit in July is slightly higher than what it was in the same period last year…



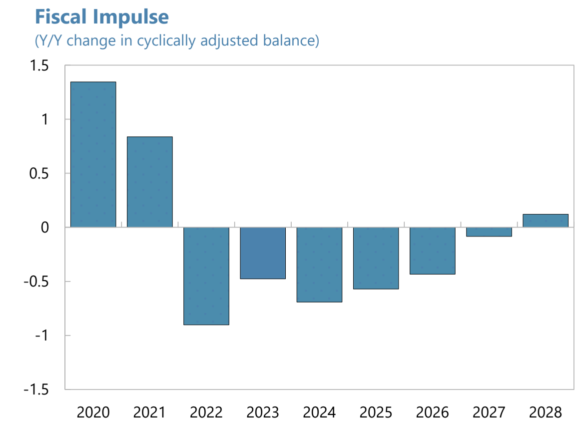
While on the revenue side, PIT and VAT collections significantly increased…



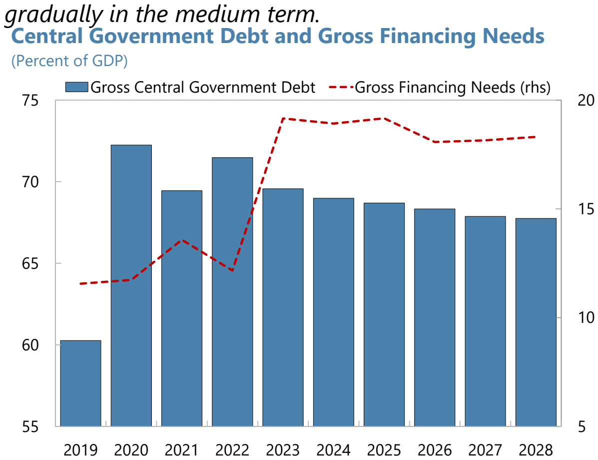
… expenditure was fueled by capital spending



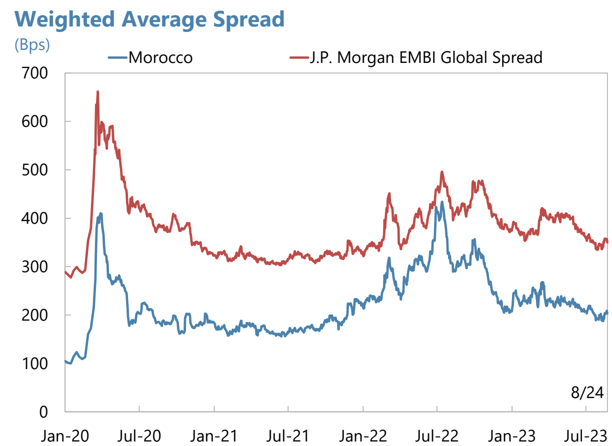
Fiscal consolidation is projected to continue this year.



Government debt is expected to peak this year and fall gradually in the medium term.



Sovereign spreads continue to fall in 2023

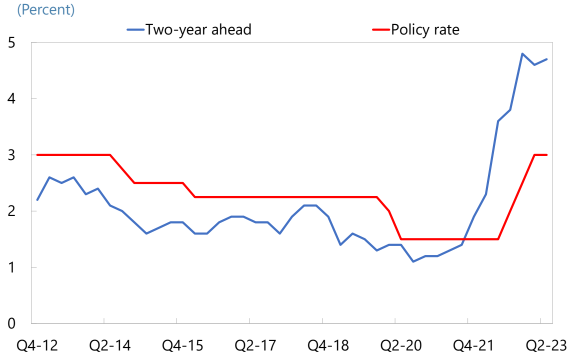


Sources: Moroccan authorities; and IMF staff calculations.

Figure 4. Morocco: Monetary and Financial Developments

BAM kept its policy rate unchanged in June after increasing rates by 150 bps since September 2022

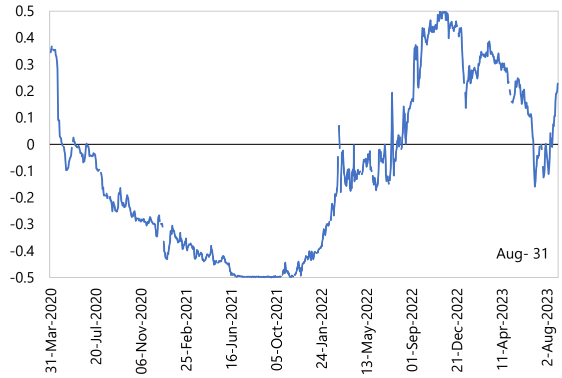
Inflation Expectations and Policy Rate
(Percent)



Sources: Bank Al- Maghrib; and Haver.

The dirham has appreciated so far in 2023 and is closer to the middle of the band

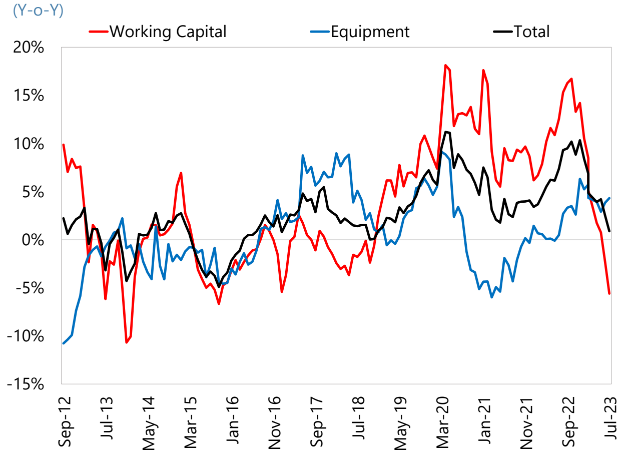
Dirham Band



Source: Haver.

Credit to the private sector slowed in 2023

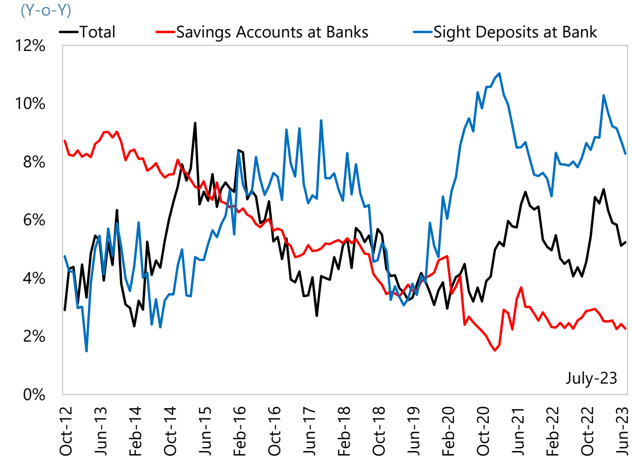
Credit to Non-Financial Private Firms
(Y-o-Y)



Source: Bank Al-Maghrib.

Banks' deposit growth slowed this year but remains healthy.

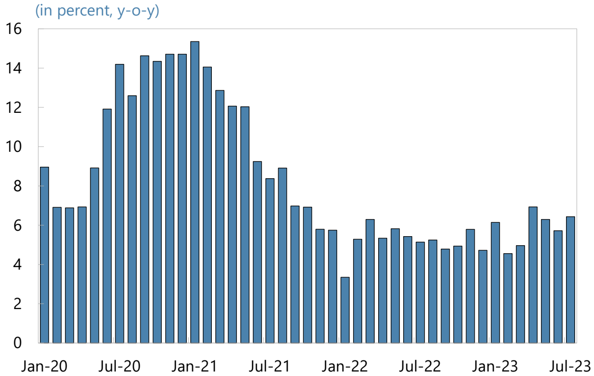
Deposits Growth
(Y-o-Y)



Source: Haver.

NPLs have remained relatively stable so far in 2023

Non-Performing Loans
(in percent, y-o-y)



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

Banks' holdings of government bonds have continued to increase.

Banks: Treasury Bonds As Share of Assets
(Percent)

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

Table 5. Morocco: Selected Economic Indicators, 2018-28

	2018	2019	2020	2021	2022	2023	2023 FCL	2024	2024 FCL	2025	2026	2027	2028
						Proj.							
						(Annual percentage change)							
Output and Prices													
Real GDP	3.1	2.9	-7.2	8.0	1.3	2.5	3.0	3.5	3.1	3.4	3.4	3.4	3.4
Real agriculture GDP	5.6	-5.0	-8.1	17.8	-15.0	2.4	10.1	6.9	3.0	3.0	3.0	3.0	3.0
Real non-agriculture GDP	2.8	3.8	-7.1	7.0	3.1	2.5	2.2	3.1	3.1	3.4	3.4	3.4	3.4
Consumer prices (end of period)	0.2	1.1	-0.3	3.2	8.3	3.6	3.7	3.2	2.5	2.3	2.2	2.2	2.1
Consumer prices (period average)	1.6	0.2	0.7	1.4	6.6	6.2	4.6	3.4	2.8	2.9	2.4	2.4	2.1
Output gap (percentage points of non-agricultural GDP)	0.2	0.2	-6.5	-0.3	-0.7	-0.2	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0
Unemployment rate (end of period)	9.5	9.2	11.9	12.3	11.8	11.0	11.0	10.5	10.5	10.0	9.5	9.5	9.5
						(In percent of GDP)							
Investment and Saving													
Gross capital formation	32.1	30.6	28.8	30.5	30.3	29.6	27.0	30.4	26.6	30.7	31.3	32.0	32.8
Of which: Nongovernment	27.1	26.2	23.0	24.8	26.1	25.8	22.9	26.7	22.6	27.1	27.9	28.7	29.6
Gross national savings	27.8	27.8	26.7	28.0	26.6	26.6	23.6	27.3	23.6	27.8	28.4	29.2	30.0
Of which: Nongovernment	30.4	30.5	34.6	34.0	31.8	31.5	28.6	31.6	28.1	31.6	31.9	32.4	33.1
						(In percent of GDP)							
Public Finances													
Revenue	24.2	23.8	27.0	25.3	27.0	27.8	26.9	27.4	26.7	27.2	27.2	27.2	27.1
Expenditure	27.7	27.4	34.1	31.3	32.2	32.7	31.8	31.7	31.1	31.0	30.6	30.5	30.1
Budget balance	-3.4	-3.6	-7.1	-6.0	-5.2	-4.9	-4.9	-4.3	-4.4	-3.8	-3.5	-3.2	-3.0
Cyclically-adjusted primary balance 1/	-1.6	-1.7	-3.1	-3.9	-3.0	-2.5	-2.6	-1.6	-2.1	-1.0	-0.7	-0.4	-0.2
Central government debt	60.5	60.3	72.2	69.5	71.5	69.7	68.3	69.2	68.4	68.7	68.3	67.7	66.9
						(Annual percentage change; unless otherwise indicated)							
Monetary Sector													
Claims to the economy	3.4	5.6	4.9	3.8	7.1	3.8	3.8	4.0	4.0	4.1	4.1	4.2	4.2
Broad money	4.1	3.8	8.4	5.1	8.0	4.5	4.3	4.5	4.5	4.5	4.6	4.6	4.6
						(In percent of GDP; unless otherwise indicated)							
External Sector													
Exports of goods and services (in U.S. dollars, percentage change)	11.6	1.9	-15.0	26.0	24.4	-2.1	-2.6	5.0	5.0	4.7	4.2	4.4	4.6
Imports of goods and services (in U.S. dollars, percentage change)	12.2	-2.3	-14.5	30.3	22.4	-1.8	-5.3	4.3	4.1	4.2	3.7	3.7	4.0
Merchandise trade balance	-15.9	-15.3	-12.8	-14.1	-20.2	-18.3	-17.2	-17.6	-16.6	-17.1	-16.6	-16.0	-15.5
Current account	-4.9	-3.4	-1.2	-2.3	-3.5	-3.0	-3.7	-3.0	-3.4	-2.9	-2.9	-2.8	-2.8
Foreign direct investment	2.2	0.6	0.8	1.1	1.2	1.2	1.4	1.3	1.3	1.4	1.5	1.5	1.5
Total external debt	40.5	42.5	54.2	45.9	49.5	50.1	42.5	48.4	42.3	47.4	46.9	46.4	45.6
Gross reserves (in billions of U.S. dollars)	24.4	26.4	36.0	35.6	32.3	36.8	32.7	38.0	33.0	39.7	41.8	43.8	45.8
In months of next year imports of goods and services	5.4	6.9	7.2	5.8	5.4	5.8	5.4	5.8	5.3	5.8	5.9	6.0	6.0
In percent of Fund Assessing Reserve Adequacy (ARA)	83.6	86.9	109.3	100.4	90.4	93.5	94.8	92.4	91.0	92.4	92.6	93.0	93.1
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric 2/	110	113	143	133	118	121	123	120	118	120	120	120	121
Memorandum Items:													
Nominal GDP (in billions of U.S. dollars)	127.3	128.9	121.4	141.8	130.9	147.4	142.9	157.1	151.4	166.5	175.6	185.2	195.3
Nominal GDP per capita (in U.S. dollars, percent change)	6.3	0.2	-6.8	15.7	-8.6	11.5	3.8	5.6	5.0	5.0	4.5	4.6	4.6
Population (millions)	35.2	35.6	35.95	36.31	36.67	37.0	37.0	37.4	37.4	37.7	38.1	38.4	38.7
Net imports of energy products (in billions of U.S. dollars)	-8.8	-7.9	-5.3	-8.4	-15.1	-11.6	-12.3	-12.1	-11.6	-11.9	-11.6	-11.3	-11.2
Local currency per U.S. dollar (period average)	9.4	9.6	9.5	9.0	10.2	... ...		... ...		...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	0.8	0.8	0.8	0.7	-3.8	... ...		... ...		...	...	...	...
General Government Debt 3/	51.9	52.8	64.9	62.2	65.0	63.2	61.8	62.7	61.9	62.2	61.8	61.2	60.4
Interest rate (money market rate, end of period, in percent)	2.32	2.26	1.50	1.50	2.50	...	...	...	...	...	...	...	...

1/ Excl. grants
2/ Fund adjusted reserve adequacy metric
3/ IMF estimates based on government data

Table 6a. Morocco: Budgetary Central Government Finance, 2018-28

(Billions of dirhams)

						Proj.							
	2018	2019	2020	2021	2022	2023	2023 FCL	2024	2024 FCL	2025	2026	2027	2028
Revenue	289.8	295.2	311.1	322.4	359.2	401.9	402.2	422.8	423.1	444.1	467.5	494.1	519.0
Taxes	242.5	246.9	230.8	251.0	294.2	307.4	307.6	322.3	322.6	341.7	360.4	380.6	401.5
Taxes on income, profits, and capital gains	95.5	97.8	95.8	93.4	116.3	119.6	119.7	128.8	128.0	137.0	144.8	152.7	161.1
Taxes on property	12.6	11.8	9.9	12.2	14.3	14.5	14.9	15.5	15.9	16.4	17.4	18.4	19.4
Taxes on goods and services	117.6	121.0	110.8	127.9	143.3	152.6	152.8	156.8	158.1	166.1	175.1	184.8	194.9
Taxes on international trade and transactions	10.1	10.2	9.9	12.4	14.5	14.4	14.0	14.6	14.0	15.1	15.7	16.6	17.5
Other taxes	6.7	6.1	4.3	5.2	5.7	6.2	6.2	6.7	6.6	7.1	7.4	8.1	8.6
Grants	4.4	2.8	5.0	1.5	1.5	1.9	1.9	1.0	1.0	1.0	1.0	1.0	1.0
Other revenue	42.9	45.5	75.4	69.9	63.6	92.7	92.7	99.5	99.5	101.4	106.1	112.4	116.5
Expense	272.9	286.9	328.6	327.2	375.3	401.4	403.4	415.4	419.1	429.7	447.2	468.5	487.7
Compensation of employees	124.5	131.4	133.5	140.5	147.8	155.8	155.8	161.3	161.3	166.2	172.2	181.6	191.5
Use of goods and services	29.6	31.2	33.1	45.1	37.8	39.4	39.4	44.0	44.0	47.5	49.2	51.9	54.8
Grants 1/	52.3	61.1	65.3	61.5	74.9	93.7	93.8	99.3	99.5	103.9	104.0	109.7	115.7
Subsidies	17.7	16.1	13.5	21.8	42.1	26.6	26.6	8.9	8.9	0.2	0.2	0.2	0.2
Social benefits	3.0	3.0	23.3	10.8	11.4	12.5	12.5	24.1	24.1	26.3	26.3	26.3	26.3
Interest	26.9	26.3	28.8	27.1	28.6	36.0	34.2	41.9	36.4	46.0	49.4	53.2	54.7
Other expenses 2/	18.8	17.9	31.0	20.4	32.7	37.6	41.3	35.9	44.9	39.6	45.8	45.6	44.5
Net acquisition of nonfinancial assets	57.9	52.3	64.9	71.5	53.4	71.3	71.3	73.0	73.0	76.2	80.2	84.6	89.3
Primary balance	-14.1	-17.7	-53.6	-49.2	-40.9	-34.8	-38.4	-23.6	-32.5	-15.7	-10.5	-5.8	-3.3
Overall balance	-41.0	-44.0	-82.4	-76.3	-69.5	-70.8	-72.6	-65.5	-69.0	-61.8	-59.9	-59.0	-58.0
Cyclical adjusted primary balance 3/	-46.0	-47.5	-64.0	-76.7	-68.3	-71.7	-72.9	-66.5	-69.1	-62.8	-60.8	-59.8	-58.7
Change in net financial worth	-41.0	-44.0	-82.4	-76.3	-69.5	-70.8	-72.6	-65.5	-69.0	-61.8	-59.9	-59.0	-58.0
Net acquisition of financial assets	3.2	-9.8	14.7	-8.7	-11.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Domestic	3.2	-9.8	14.7	-8.7	-11.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Shares and other equity	0.0	-5.3	0.0	-4.0	0.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
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	44.2	34.2	97.1	67.6	58.2	65.8	67.6	60.5	64.0	56.8	54.9	54.0	53.0
Domestic	46.1	16.9	54.1	59.4	52.1	26.6	37.5	42.6	45.5	27.9	30.7	32.8	37.6
Currency and Deposits	8.2	7.7	-6.9	14.5	10.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	40.6	-1.9	73.5	38.4	42.6	25.6	36.5	41.6	44.5	26.9	29.7	31.8	36.6
Other accounts payable	-2.7	11.2	-12.5	6.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	-1.8	17.3	43.1	8.2	6.1	39.2	30.0	17.9	18.4	28.8	24.2	21.2	15.4
Memorandum Item:													
Total investment (including capital transfers)	76.7	70.2	95.9	92.0	86.1	108.8	112.5	108.9	117.9	115.8	126.1	130.2	133.7
Central Government Debt	722.7	747.3	832.6	885.3	950.8	1,006.8	1,019.3	1,066.3	1,082.1	1,122.1	1,176.0	1,229.0	1,281.0
General Government Debt 4/	620.3	655.1	747.7	793.4	864.3	912.9	922.2	966.1	979.2	1,015.9	1,064.1	1,111.0	1,156.5
GDP	1,195.2	1,239.8	1,152.5	1,274.7	1,330.2	1,445.0	1,492.9	1,540.8	1,582.1	1,633.1	1,722.0	1,816.1	1,915.4

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

1/ Includes transfers to other general government units, international organizations, and foreign governments.

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data.

Table 6b. Morocco: Budgetary Central Government Finance, 2018-28

(In percent of GDP)

						Proj.							
	2018	2019	2020	2021	2022	2023	2023 FCL	2024	2024 FCL	2025	2026	2027	2028
Revenue	24.2	23.8	27.0	25.3	27.0	27.8	26.9	27.4	26.7	27.2	27.2	27.2	27.1
Taxes	20.3	19.9	20.0	19.7	22.1	21.3	20.6	20.9	20.4	20.9	20.9	21.0	21.0
Taxes on income, profits, and capital gains	8.0	7.9	8.3	7.3	8.7	8.3	8.0	8.4	8.1	8.4	8.4	8.4	8.4
Taxes on property	1.1	1.0	0.9	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Taxes on goods and services	9.8	9.8	9.6	10.0	10.8	10.6	10.2	10.2	10.0	10.2	10.2	10.2	10.2
Taxes on international trade and transactions	0.8	0.8	0.9	1.0	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.4	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	3.6	3.7	6.5	5.5	4.8	6.4	6.2	6.5	6.3	6.2	6.2	6.2	6.1
Expense	22.8	23.1	28.5	25.7	28.2	27.8	27.0	27.0	26.5	26.3	26.0	25.8	25.5
Compensation of employees	10.4	10.6	11.6	11.0	11.1	10.8	10.4	10.5	10.2	10.2	10.0	10.0	10.0
Use of goods and services	2.5	2.5	2.9	3.5	2.8	2.7	2.6	2.9	2.8	2.9	2.9	2.9	2.9
Grants 1/	4.4	4.9	5.7	4.8	5.6	6.5	6.3	6.4	6.3	6.4	6.0	6.0	6.0
Subsidies	1.5	1.3	1.2	1.7	3.2	1.8	1.8	0.6	0.6	0.0	0.0	0.0	0.0
Social benefits	0.3	0.2	2.0	0.8	0.9	0.9	0.8	1.6	1.5	1.6	1.5	1.4	1.4
Interest	2.3	2.1	2.5	2.1	2.2	2.5	2.3	2.7	2.3	2.8	2.9	2.9	2.9
Other expenses 2/	1.6	1.4	2.7	1.6	2.5	2.6	2.8	2.3	2.8	2.4	2.7	2.5	2.3
Net acquisition of nonfinancial assets	4.8	4.2	5.6	5.6	4.0	4.9	4.8	4.7	4.6	4.7	4.7	4.7	4.7
Primary balance	-1.2	-1.4	-4.6	-3.9	-3.1	-2.4	-2.6	-1.5	-2.1	-1.0	-0.6	-0.3	-0.2
Overall balance	-3.4	-3.6	-7.1	-6.0	-5.2	-4.9	-4.9	-4.3	-4.4	-3.8	-3.5	-3.2	-3.0
Cyclical adjusted primary balance 3/	-1.6	-1.7	-3.1	-3.9	-3.0	-2.5	-2.6	-1.6	-2.1	-1.0	-0.7	-0.4	-0.2
Change in net financial worth	-3.4	-3.6	-7.1	-6.0	-5.2	-4.9	-4.9	-4.3	-4.4	-3.8	-3.5	-3.2	-3.0
Net acquisition of financial assets	0.3	-0.8	1.3	-0.7	-0.8	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Domestic	0.3	-0.8	1.3	-0.7	-0.8	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Shares and other equity	0.0	-0.4	0.0	-0.3	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
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	3.7	2.8	8.4	5.3	4.4	4.6	4.5	3.9	4.0	3.5	3.2	3.0	2.8
Domestic	3.9	1.4	4.7	4.7	3.9	1.8	2.5	2.8	2.9	1.7	1.8	1.8	2.0
Currency and Deposits	0.7	0.6	-0.6	1.1	0.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	3.4	-0.2	6.4	3.0	3.2	1.8	2.4	2.7	2.8	1.6	1.7	1.8	1.9
Other accounts payable	-0.2	0.9	-1.1	0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	-0.2	1.4	3.7	0.6	0.5	2.7	2.0	1.2	1.2	1.8	1.4	1.2	0.8
Memorandum Item:													
Total investment (including capital transfers)	6.4	5.7	8.3	7.2	6.5	7.5	7.5	7.1	7.5	7.1	7.3	7.2	7.0
Central Government Debt	60.5	60.3	72.2	69.5	71.5	69.7	68.3	69.2	68.4	68.7	68.3	67.7	66.9
General Government Debt 4/	51.9	52.8	64.9	62.2	65.0	63.2	61.8	62.7	61.9	62.2	61.8	61.2	60.4
GDP (Billions Dirham)	1,195.2	1,239.8	1,152.5	1,274.7	1,330.2	1,445.0	1,492.9	1,540.8	1,582.1	1,633.1	1,722.0	1,816.1	1,915.4

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

1/ Includes transfers to other general government units, international organizations, and foreign governments

2/ Includes capital transfers to public entities.

3/ Excl. grants.

4/ IMF estimates based on government data

Table 7. Morocco: Balance of Payments, 2018-28

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

	2018	2019	2020	2021	2022	2023	2023 FCL	2024	2024 FCL	2025	2026	2027	2028
						Proj.							
Current account	-6.2	-4.4	-1.4	-3.3	-4.6	-4.4	-5.2	-4.8	-5.1	-4.8	-5.1	-5.2	-5.5
Trade balance	-20.3	-19.8	-15.5	-20.0	-26.5	-27.0	-23.9	-27.7	-24.4	-28.4	-29.1	-29.6	-30.2
Exports, f.o.b.	24.6	24.7	23.6	31.7	36.5	34.5	35.6	36.6	37.5	38.7	40.6	42.8	45.2
Food products	5.7	5.9	6.0	7.0	7.2	7.1	7.5	7.3	7.9	7.6	7.8	8.2	8.5
Phosphates and derived products	5.5	5.1	5.4	8.9	11.4	10.7	10.6	11.0	10.5	11.7	12.3	13.0	13.7
Automobiles	7.7	8.3	7.6	9.3	11.0	11.7	10.5	12.0	11.2	12.4	12.8	13.2	13.6
Imports, f.o.b.	-44.9	-44.5	-39.1	-51.7	-63.0	-61.5	-59.5	-64.3	-61.9	-67.1	-69.8	-72.4	-75.4
Energy	-8.8	-7.9	-5.3	-8.4	-15.1	-11.6	-12.3	-12.1	-11.6	-11.9	-11.6	-11.3	-11.2
Capital goods	-12.8	-13.2	-11.6	-13.8	-14.7	-14.8	-14.3	-15.6	-15.7	-16.5	-17.4	-18.2	-19.0
Food products	-4.9	-5.0	-5.8	-6.7	-8.5	-7.7	-8.4	-7.6	-8.4	-7.8	-8.0	-8.2	-8.4
Services	8.1	9.7	6.7	6.8	11.4	12.0	11.3	12.5	11.8	12.9	13.3	13.7	14.0
Tourism receipts	7.8	8.2	3.8	3.8	9.2	9.9	7.3	10.3	7.7	10.6	10.9	11.2	11.5
Income	-2.1	-2.0	-1.2	-2.0	-1.9	-2.5	-2.2	-2.9	-2.7	-2.9	-3.1	-3.3	-3.5
Transfers	8.0	7.7	8.6	11.8	12.3	13.1	9.7	13.4	10.2	13.7	13.9	14.1	14.2
Private transfers (net)	7.6	7.4	8.1	11.7	12.2	12.9	9.6	13.2	10.0	13.5	13.7	13.8	14.0
Workers' remittances	6.9	6.7	7.1	10.4	10.7	11.2	8.3	11.4	8.9	11.7	11.8	11.9	12.0
Official grants (net)	0.4	0.3	0.5	0.2	0.1	0.2	0.2	0.2	0.2	0.2	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	3.9	5.3	7.0	3.9	2.3	6.8	6.1	5.2	6.7	6.0	7.1	7.3	7.4
Direct investment	2.8	0.8	1.0	1.6	1.5	1.7	2.0	2.0	2.0	2.3	2.6	2.8	3.0
Portfolio investment	-0.8	1.2	2.2	-0.3	-1.1	2.7	2.6	1.0	0.6	1.7	1.2	1.0	0.7
Other	1.9	3.3	3.9	2.6	2.0	2.4	1.5	2.2	4.1	2.0	3.3	3.5	3.7
Private	2.0	2.4	2.1	1.6	0.0	0.9	1.2	1.7	3.0	0.7	1.3	1.3	1.7
Public medium-and long-term loans (net)	-0.1	0.9	1.8	1.0	1.9	1.5	0.3	0.5	0.2	1.3	2.0	2.1	2.0
Amortization	-2.1	-2.1	-2.3	-3.6	-2.3	-2.5	-2.1	-4.6	-2.8	-3.7	-2.4	-2.3	-2.4
Of which : IMF PLL net financing	0.0	0.0	3.0	0.8	0.0	0.0	0.0	-1.3	-1.3	-0.7	0.0	0.0	0.0
Errors and omissions	1.3	1.1	1.7	0.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.0	1.9	7.3	1.5	-0.2	2.4	0.9	0.4	1.6	1.2	2.0	2.1	1.9
Financing	1.0	-1.9	-7.3	-1.5	0.2	-2.4	-0.9	-0.4	-1.6	-1.2	-2.0	-2.1	-1.9
Reserve asset accumulation (-increase)	1.0	-1.9	-7.3	-1.5	0.2	-2.4	-0.9	-0.4	-1.6	-1.2	-2.0	-2.1	-1.9
Financing gap	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
RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.6	0.0	0.0	0.0
Additional reserve asset accumulation (-increase)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	0.0	-0.6	0.0	0.0	0.0
						(Percent of GDP)							
Current account	-4.9	-3.4	-1.2	-2.3	-3.5	-3.0	-3.7	-3.0	-3.4	-2.9	-2.9	-2.8	-2.8
Trade balance	-15.9	-15.3	-12.8	-14.1	-20.2	-18.3	-17.2	-17.6	-16.6	-17.1	-16.6	-16.0	-15.5
Exports, f.o.b.	19.3	19.2	19.4	22.4	27.9	23.4	25.6	23.3	25.5	23.2	23.1	23.1	23.1
Food products	4.4	4.5	4.9	4.9	5.5	4.8	5.4	4.6	5.4	4.5	4.5	4.4	4.4
Phosphates and derived products	4.3	3.9	4.4	6.3	8.7	7.3	7.7	7.0	7.1	7.0	7.0	7.0	7.0
Automobiles	6.1	6.5	6.3	6.6	8.4	7.9	7.5	7.7	7.6	7.4	7.3	7.1	6.9
Imports, f.o.b.	-35.2	-34.5	-32.2	-36.4	-48.1	-41.7	-42.9	-40.9	-42.1	-40.3	-39.7	-39.1	-38.6
Energy	-6.9	-6.2	-4.3	-5.9	-11.5	-7.9	-8.9	-7.7	-7.9	-7.1	-6.6	-6.1	-5.7
Capital goods	-10.1	-10.2	-9.6	-9.7	-11.2	-10.1	-10.3	-10.0	-10.7	-9.9	-9.9	-9.8	-9.7
Food products	-3.8	-3.9	-4.8	-4.7	-6.5	-5.3	-6.1	-4.8	-5.7	-4.7	-4.5	-4.4	-4.3
Services	6.4	7.5	5.5	4.8	8.7	8.1	8.1	8.0	8.0	7.7	7.6	7.4	7.2
Tourism receipts	6.1	6.4	3.2	2.7	7.0	6.7	5.2	6.6	5.2	6.4	6.2	6.0	5.9
Income	-1.6	-1.6	-1.0	-1.4	-1.4	-1.7	-1.6	-1.9	-1.8	-1.7	-1.8	-1.8	-1.8
Transfers	6.3	6.0	7.1	8.3	9.4	8.9	7.0	8.5	6.9	8.2	7.9	7.6	7.3
Private transfers (net)	6.0	5.8	6.7	8.2	9.3	8.7	6.9	8.4	6.8	8.1	7.8	7.5	7.2
Workers' remittances	5.4	5.2	5.9	7.3	8.2	7.6	6.0	7.3	6.1	7.0	6.7	6.4	6.1
Official grants (net)	0.3	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.1	4.1	5.8	2.8	1.8	4.6	4.4	3.3	4.5	3.6	4.1	3.9	3.8
Direct investment	2.2	0.6	0.8	1.1	1.2	1.2	1.4	1.3	1.4	1.4	1.5	1.5	1.5
Portfolio investment	-0.6	0.9	1.8	-0.2	-0.8	1.8	1.9	0.7	0.4	1.0	0.7	0.5	0.3
Other	1.5	2.5	3.2	1.8	1.5	1.7	1.1	1.4	2.8	1.2	1.9	1.9	1.9
Private	1.6	1.9	1.7	1.1	0.0	0.6	0.9	1.1	2.0	0.4	0.7	0.7	0.9
Public medium-and long-term loans (net)	-0.1	0.7	1.5	0.7	1.5	1.0	0.2	0.3	0.1	0.8	1.2	1.2	1.0
Memorandum items:													
Exports of goods and services (in U.S. dollars, percentage change)	11.6	1.9	-15.0	26.0	24.4	-2.1	-2.6	5.0	5.0	4.7	4.2	4.4	4.6
Imports of goods and services (in U.S. dollars, percentage change)	12.2	-2.3	-14.5	30.3	22.4	-1.8	-5.3	4.3	4.1	4.2	3.7	3.7	4.0
Terms of trade (percentage change) 1/	1.9	1.7	-1.9	1.9	-15.1	1.5	-2.2	-1.8	-0.9	0.5	0.7	0.6	0.4
Gross official reserves (including RSF)	24.4	26.4	36.0	35.6	32.3	36.8	32.7	38.0	33.0	39.7	41.8	43.8	45.8
In months of prospective imports of GNFS	5.4	6.9	7.2	5.8	5.4	5.8	5.4	5.8	5.3	5.8	5.9	6.0	6.0
In percent of the Assessing Reserve Adequacy (ARA) metric	83.6	86.9	109.3	100.4	90.4	93.5	94.8	92.4	91.0	92.4	92.6	93.0	93.1
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	110.2	113.4	143.3	132.9	117.8	121.1	123.0	119.7	117.7	119.7	119.9	120.4	120.7
Gross official reserves (excluding RSF)	24.4	26.4	36.0	35.6	32.3	36.8	32.7	37.2	33.0	38.4	40.5	42.5	44.5
Debt service (percent of export of GNFS and remittances) 2/	7.3	7.4	12.1	9.2	7.9	7.0	5.8	12.8	8.8	9.4	9.0	9.0	8.9
External public and publicly guaranteed debt (percent of GDP)	27.3	27.4	32.6	29.7	31.5	31.8	27.9	30.9	27.4	31.0	30.9	30.6	29.9
DHs per US$, period average	9.4	9.6	9.5	9.0	10.2	…	…	…	…	…	…	…	…
Nominal GDP (in billions of U.S. dollars)	127.3	128.9	121.4	141.8	130.9	147.4	142.9	157.1	151.4	166.5	175.6	185.2	195.3
Oil price (US$/barrel; Brent)	68.5	61.4	41.8	69.2	96.4	81.3	81.3	76.8	76.8	72.7	69.6	67.0	64.8

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

1/ Based on WEO data projections.

2/ Public and publicly guaranteed debt.

Table 8. Morocco: Monetary Survey, 2018-2023

	2018	2019	2020	2021	2022	2023
	(Billions of dirhams)					
Net foreign assets	250.2	263.9	316.5	316.9	317.6	340.7
Net domestic assets	1,070.4	1,106.7	1,168.6	1,243.9	1,367.5	1,420.2
Domestic claims	1,225.9	1,292.3	1,371.1	1,448.8	1,572.2	1,636.9
Net claims on the government	203.0	212.4	238.3	272.5	312.7	329.5
Bank Al-Maghrib	0.8	0.6	-4.2	-3.4	18.6	18.1
Of which : deposits	-2.9	-3.3	-7.3	-6.5	-5.5	-6.0
Deposit money banks	202.2	211.9	242.6	275.9	314.6	311.4
Claims to the economy	1,022.9	1,079.9	1,132.7	1,176.3	1,259.5	1,307.4
of which credit to private sector	691.3	730.4	763.1	795.2	835.0	866.7
Other liabilities, net	-155.5	-185.6	-202.5	-204.9	-204.7	-216.7
Broad money	1,320.6	1,370.5	1,485.1	1,560.8	1,685.1	1,760.9
Money	858.7	911.8	1,019.4	1,086.8	1,196.3	1,270.7
Currency outside banks	233.6	250.2	300.6	320.1	354.7	385.4
Demand deposits	625.1	661.6	718.8	766.7	841.6	885.4
Quasi money	424.5	416.6	426.0	432.0	441.1	452.1
Foreign deposits	37.4	42.0	39.8	41.9	47.6	38.0
	(Annual percentage change)					
Net foreign assets	-4.6	5.5	20.0	0.1	0.2	7.3
Net domestic assets	6.3	3.4	5.6	6.4	8.3	5.8
Domestic credit	5.9	5.4	6.1	5.7	8.5	4.1
Net claims on the government	21.0	4.6	12.2	14.3	14.8	5.4
Claims to the economy (excl. central government)	3.4	5.6	4.9	3.8	7.1	3.8
Banking credit (excl. central government)	3.2	5.3	4.7	2.6	7.5	3.3
Broad money	4.1	3.8	8.4	5.1	8.0	4.5
	(Change in percent of broad money)					
Net foreign assets	-1.0	1.0	3.8	0.0	0.0	1.4
Domestic credit	5.4	5.0	5.7	5.2	7.9	3.8
Net claims on the government	2.8	0.7	1.9	2.3	2.6	1.0
Claims to the economy	2.6	4.3	3.9	2.9	5.3	2.8
Memorandum items:						
Velocity (GDP/M3)	0.91	0.90	0.78	0.82	0.79	0.82
Velocity (non-agr. GDP/M3)	0.81	0.81	0.70	0.72	0.71	0.75
Claims to economy/GDP (in percent)	85.6	87.1	98.3	92.3	94.7	90.5
of which credit to private sector	57.8	58.9	66.2	62.4	62.8	60.0
Claims to economy/nonagricultural GDP (in percent)	95.8	97.1	109.4	104.1	105.7	99.1

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

Table 9. Morocco: Financial Soundness Indicators, 2017-2022
(Percent, unless otherwise indicated)

	2017		2018		2019		2020		2021		2022	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Regulatory capital 1/												
Regulatory capital to risk-weighted assets	13.7	13.8	14.0	14.7	15.1	15.6	15.5	15.7	16.0	15.8	15.3	15.6
Tier 1 capital to risk weighted assets	11.0	10.9	10.5	10.9	11.0	11.5	11.4	11.4	11.9	12.0	11.8	12.4
Capital to assets	9.1	9.1	9.1	9.1	9.2	9.5	9.3	9.6	9.5	9.5	9.4	9.5
Asset quality												
Sectoral distribution of loans to total loans												
Industry	17.8	17.1	17.8	16.5	15.5	15.9	16.3	15.5	15.9	15.5	16.9	17.0
Of which : agro-business	3.3	3.3	3.6	3.6	3.3	3.4	3.3	3.4	3.5	3.7	4.0	4.0
Of which : textile	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Of which : gas and electricity	6.2	5.5	5.6	4.9	4.6	4.5	4.7	3.8	3.8	4.1	4.8	5.1
Agriculture	3.6	3.8	3.6	4.1	4.0	4.1	3.9	3.8	3.9	4.0	4.1	3.8
Commerce	6.7	6.7	6.6	6.4	6.6	6.4	6.6	6.4	6.5	6.7	7.1	8.1
Construction	11.2	11.3	11.1	10.5	10.4	10.2	9.5	9.9	8.9	7.9	7.7	7.4
Tourism	1.9	1.8	1.8	1.6	1.6	1.5	1.6	1.8	1.8	2.0	1.9	1.9
Finance	13.0	12.7	11.6	12.5	12.2	12.7	13.1	13.5	13.1	12.7	12.4	12.7
Public administration	4.6	4.9	5.7	8.4	8.2	8.6	8.2	8.3	8.6	8.4	8.1	7.7
Transportation and communication	4.8	4.5	4.7	4.0	4.5	4.2	4.1	4.1	4.0	4.1	3.5	3.7
Households	32.4	32.6	32.8	31.9	31.8	31.6	30.5	30.9	30.8	31.1	30.1	29.9
Other	4.0	4.6	4.2	4.3	5.2	4.8	6.2	5.8	6.6	7.7	8.2	7.7
FX-loans to total loans	2.8	2.3	2.7	2.7	3.1	3.3	3.8	3.0	3.3	3.1	5.1	3.8
Credit to the private sector to total loans	89.9	89.2	88.2	85.9	86.2	86.0	86.4	86.6	86.7	84.4	87.7	87.1
Credit to non financial public enterprises to total loans	5.5	6.2	6.1	6.1	6.0	5.5	5.5	5.2	5.0	4.5	4.2	5.2
Nonperforming Loans (NPLs) to total loans	7.5	7.5	7.5	7.3	7.5	7.5	8.0	8.2	8.3	8.6	8.5	8.4
Specific provisions to NPLs	70.0	71.0	70.0	69.1	69.3	69.3	67.9	68.6	68.6	67.5	66.7	68.4
NPLs, net of provisions, to Tier 1 capital	16.3	15.8	16.4	16.5	16.3	16.0	17.9	17.5	17.7	18.5	18.7	18.4
Large exposures to Tier 1 capital	318.0	284	296.0	288	262.9	240.1	255.0	237.0	249.0	228.8	259.4	274.5
Loans to subsidiaries to total loans	8.8	8.5	8.3	8.3	8.7	8.1	8.4	8.3	8.4	8.3	8.7	8.2
Loans to shareholders to total loans	1.0	0.6	0.8	1.0	0.7	0.5	0.6	0.7	0.6	0.6	0.7	0.5
Specific provisions to total loans	5.3	5.3	5.2	5.0	5.2	5.2	5.4	5.6	5.7	5.8	5.7	5.7
General provisions to total loans	1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.3	1.4	1.3	1.3
Profitability												
Return on assets (ROA)	1.1	0.9	1.1	0.9	1.1	0.9	0.6	0.5	1.2	0.8	1.0	0.7
Return on equity (ROE)	11.2	9.5	11.5	9.5	11.8	9.4	5.6	4.8	12.2	8.2	10.9	6.9
Interest rate average spread (b/w loans and deposits)	3.9	3.9	3.9	3.9	3.7	3.7	3.7	3.8	3.7	3.7	3.8	3.7
Interest return on credit	4.9	4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.6	4.3	4.3	4.3
Cost of risk as a percent of credit	0.9	0.8	0.9	0.9	0.8	0.8	1.4	1.3	0.9	1.9	0.6	0.7
Net interest margin to net banking product (NPB) 2/	71.4	70.1	72.1	71.2	68.6	67.5	68.2	68.2	69.6	69.3	73.5	75.4
Operating expenses to NPB	46.4	50.6	46.7	50.6	46.1	50.2	45.8	50.0	44.6	48.5	46.2	53.0
Operating expenses to total assets	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6
Personnel expenses to noninterest expenses	47.5	47.5	47.0	47.5	47.5	47.6	47.6	47.4	46.8	47.0	47.5	43.5
Trading and other noninterest income to NPB	28.6	29.9	27.9	28.8	31.4	32.5	31.8	31.8	30.4	32.5	26.5	27.7
Liquidity												
Liquid assets to total assets	11.8	13.7	12.9	12.2	12.8	14.0	14.8	16.1	16.5	16.4	16.8	16.1
Liquid assets to short-term liabilities	15.7	17.3	14.4	15.1	16.2	17.9	18.7	20.0	20.4	19.9	19.6	19.2
Deposits to loans	104.2	107.5	104.9	103.8	102.2	102.2	101.1	103.2	103.6	105.9	105.0	106.3
Deposits of state-owned enterprises to total deposits	2.4	2.4	1.9	2.7	2.2	2.2	1.7	1.6	2.2	1.7	2.2	2.7
Sensitivity to market risk												
FX net open position to Tier 1 Capital	5.6	7.0	7.0	6.9	0.0	-1.6	8.0	5.8	-1.2	-2.3	-3.9	0.0

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

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Table 10a. Morocco: Indicators of Fund Credit - Adverse Scenario (GRA and RSF arrangements)

(In millions of SDRs, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Existing and prospective Fund credit (SDR million)																							
Disbursements	3,726	563	438	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRA (PLL)	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	0	563	438	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	5,226	4,826	4,726	4,260	2,397	1,000	1,000	1,000	1,000	1,000	1,000	984	906	806	706	606	506	406	306	206	106	22	0
GRA	5,226	4,264	3,726	3,260	1,397	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	3,726	3,726	3,726	3,260	1,397	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	1,500	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	0	563	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	984	906	806	706	606	506	406	306	206	106	22	0
Obligations	62	1,283	822	748	2,093	1,499	50	50	50	50	50	66	127	144	139	134	129	124	119	114	109	88	22
Principal (repayments/repurchases)	0	962	538	466	1,863	1,397	0	0	0	0	0	16	78	100	100	100	100	100	100	100	100	84	22
GRA	0	962	538	466	1,863	1,397	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCL	0	0	0	466	1,863	1,397	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PLL	0	962	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF	0	0	0	0	0	0	0	0	0	0	0	16	78	100	100	100	100	100	100	100	100	84	22
Charges and interest	62.00	321.06	284.53	282.29	229.97	101.38	50.24	50.26	50.26	50.28	50.24	50.19	48.55	44.02	38.95	33.94	28.93	23.92	18.86	13.84	8.82	3.87	0.48
GRA	62.00	308.94	241.67	232.03	179.71	51.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RSF	0.00	12.12	42.86	50.26	50.26	50.28	50.24	50.26	50.26	50.28	50.24	50.19	48.55	44.02	38.95	33.94	28.93	23.92	18.86	13.84	8.82	3.87	0.48
Fund obligations (repurchases and charges) in percent of:																							
Quota	6.9	143.5	91.9	83.6	234.0	167.6	5.6	5.6	5.6	5.6	5.6	7.4	14.2	16.1	15.5	15.0	14.4	13.9	13.3	12.7	12.2	9.9	2.5
GDP	0.1	1.1	0.7	0.6	1.5	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.1	2.8	1.7	1.5	4.1	2.8	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Gross international reserves	0.2	4.5	2.8	2.4	6.3	4.4	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.0
Government revenue	0.2	4.0	2.4	2.1	5.5	3.8	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
External debt service, public	0.2	2.3	2.0	2.0	5.2	3.3	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.0
Fund credit outstanding in percent of:																							
Quota	584	540	528	476	268	112	112	112	112	112	112	110	101	90	79	68	57	45	34	23	12	2	0
GDP	5	4	4	3	2	1	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Exports of goods and services	12	11	10	9	5	2	2	3	3	2	2	2	2	2	1	1	1	1	0	0	0	0	0
Gross international reserves	19	17	16	14	7	3	3	3	3	3	3	3	2	2	2	1	1	1	1	0	0	0	0
Government revenue	17.0	14.9	13.9	11.9	6.3	2.5	2.4	2.3	2.2	2.1	2.0	1.8	1.6	1.4	1.1	0.9	0.7	0.6	0.4	0.3	0.1	0.0	0.0
External debt, public	1.5	1.3	1.2	1.1	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Memorandum items:																							
Quota (SDR million)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

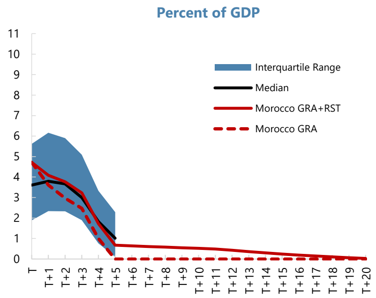
Source: IMF staff calculations.

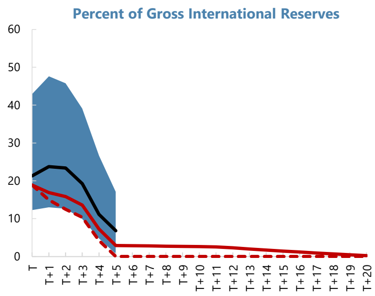
Note: Morocco belongs to the RST interest Group C. Based on a GRA rate of charge of 5.076 and RST rate of interest of 5.026 as of September 14, 2023. An adverse scenario where the FCL is drawn in 2023 is assumed.

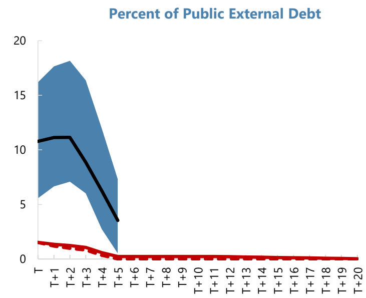
Table 10b. Morocco: Capacity to Repay Indicators Compared to GRA-Only Borrowing Countries, All Programs 1/ 2/ 3/ 4/ 5/ 6/ 7/ 8/

(In percent of the indicated variable)

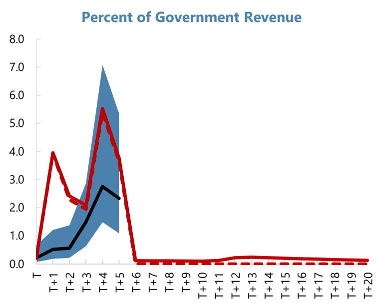
A. Total Fund Credit Outstanding

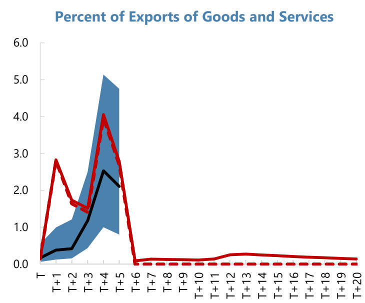


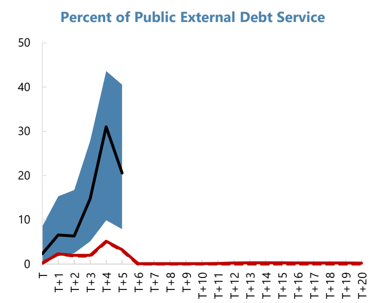




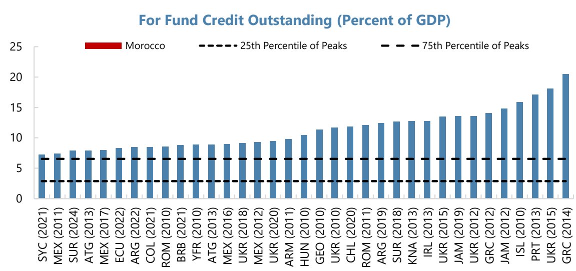
B. Total Debt Service to the Fund

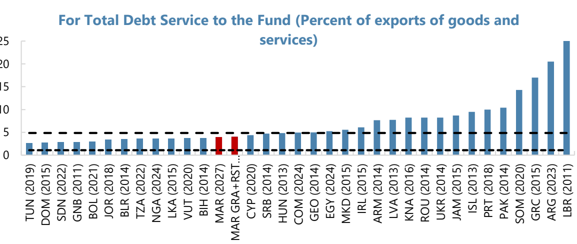






C. Largest Peaks





Sources: IMF Finance Department, World Economic Outlook.

1/ T = date of GRA arrangement approval.
2/ Red lines/bars indicate the CtR indicator for the arrangement of interest.
3/ The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and 2022.
4/ Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
5/ Comparator series is for GRA arrangements only and runs up to T+5.
6/ Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.
7/ All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.
8/ Morocco is eligible for the RST and is classified as group C country.

Annex I. Collaboration with Developing Partners

Morocco has benefited from the financial and technical assistance of several international and bilateral institutions in designing and implementing adaptation and mitigation strategies, as well as strengthening its institutional and policy capacity for mainstreaming climate change into development policies and programs.

1. World Bank

Morocco has been closely collaborating with the World Bank for climate policies in the areas of water, electricity, and sustainable development, with the following active climate programs:

- ***Morocco Climate Operation*[1].** The Climate Operation / Support to NDC Program for Results (USD350 million) focuses on operationalizing some of the key recommendations of the CCDR, notably the "*whole of government*" approach aiming at strengthening coordination mechanisms to address urgent climate and development nexus topics both at national and territorial level. In particular, the Climate operation will mainstream climate considerations into financial sector policies and public finance practices, by using fiscal planning, budgeting, public investment management, and procurement practices as instruments to accelerate the climate transition.[2] It also establishes institutional mechanisms to foster an integrated approach to climate and development at the territorial level, with a focus on enhancing the resilience of vulnerable groups and ecosystems.
- ***Public Finance Review:*** one objective of the ongoing PFR is to assist the Government of Morocco in estimating a) the nature and scale of government spending on water over the past ten years (including CAPEX and O&M), b) the channels through which spending flows and who is involved; and (c) the trends that have occurred in public expenditure programs over the past ten years in selected water sub-sectors.
- ***Morocco Water Security and Resilience Program.*[3]** A US$350 million financing program (**Program-for-Results**) to support the Government of Morocco in implementing its National Program for Potable Water Supply and Irrigation (PNAEPI, 2020-2027) [4]in the context of the 30-year National Water Plan (PNE, 2020-2050). The World Bank Program will contribute to a sub-set of activities included in the PNAEPI through three strategic, mutually reinforcing pillars:

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[1] The World Bank Reinforces its Support to Morocco's climate policies

[2] The Kingdom joined the International Platform on Sustainable Finance in 2019 and the Coalition of Finance Ministers for Climate Change in 2022. The Climate operation will support the Government of Morocco implementing its commitments to the "Helsinki Principles".

[3] New World Bank Program in Morocco Supports Efforts to Boost Water Security and Resilience for all.

[4] Launched in 2020, the PNAEPI is aimed at improving water security by accelerating investments in the water sector and increasing the resilience of drinking water supply and irrigation.

Strengthening Water Sector Governance	Improving Financial Sustainability and Water Use Efficiency	Enabling the Integration of Non-Conventional Water Resources
• National Water Plan Adopted (PNE) • Groundwater management improved • River basin agencies (ABHs), key institutions for water resource management at the basin level performance framework adopted and ABH performance improved • Water Information Systems operationalized and used for water accounting and decision-making • Multiservice Operators' performance information system operationalized	• Financial sustainability framework of the water sector improved • Volume of potable water savings in distribution water supply networks	• Wastewater reuse scaled-up

2. European Union

In October 2022, Morocco’s government signed the EU-Morocco Green Partnership[5] that promotes Morocco's renewable energy potential, especially for its wind and solar energy resources, combined with the EU's clean energy transition and diversification efforts. The objective of this partnership is fourfold:

- Progress towards becoming a low-carbon, climate-resilient, and green economy.
- Strengthen early policy dialogue and coordination on energy, climate change, environmental protection, and the green economy at bilateral, regional, and multilateral levels.
- Foster innovative, sustainable, job-creating, and environmentally friendly projects.
- Develop triangular cooperation with other international actors to encourage a stronger commitment to achieving the goals of the Paris Agreement and collectively advance the global climate agenda.

The EU-Morocco Green Partnership is also one of the Flagships of the European Investment Plan; in October 2022, the European Commission adopted a new program worth €115 million to support the ecological, inclusive, and innovative development of Morocco's agricultural and forestry sectors. The

[5] The EU and Morocco launched the first Green Partnership on energy, climate, and the environment ahead of COP 27 (europa.eu)

program "*Terre Verte*[6]" aims to contribute to the national strategies of Morocco's "Green Generation" and "Moroccan Forests," covering the period 2020-2030 by promoting an ecological transition conducive to the creation of decent work opportunities in Morocco in the agricultural and forestry sector.

Currently, the EU is finalizing a climate (three-year long) program ***Energie Verte**,* which encompasses the following objectives:

- Increase in share of installed renewable electricity capacity from 38 percent in 2022 to 45 percent by 2026.
- Increase in share of renewable energy production fed into the grid, from 18 percent in 2022 to 30 percent by 2026.
- Increase in the number of regulations' implementation, related to the laws 40/19 (RE) and 82/21 (Auto production); currently, no regulatory texts have been published, but in the next three years, at least 2 new applications of the law 40/19 or 82/21 will be published in the Bulletin official annually.
- Progress toward the implementation of the green electricity certification mechanism. The preparatory study is underway, the regulatory text is scheduled for publication by 2025 and by 2026 the system governance will be approved, and management responsibilities will be assigned.
- ONEE to share with ANRE a proposal to separate the accounting of electricity transmission activities from all other ONEE activities, by 2025, and ANRE's approval of such proposal by 2026.
- Increase in the operational level of the MRV system.

3. European Investment Bank

As the EU climate bank, the EIB is strongly committed to climate action, supporting innovative investments to address the challenge of sustainable development. The Bank has, for instance, backed Morocco's renewable energy strategy by financing major solar and wind projects. The EIB has spent a total of €1.4 billion on climate action in Morocco since 2012.

- EIB support for energy infrastructure in Morocco focuses on two aspects: more renewable energy and greater energy efficiency. For instance, the Bank financed the Noor solar energy project in Ouarzazate, one of the world's largest solar power complexes, through a €250 million loan, with further contributions from other international institutions. Thanks to 580 MW of installed capacity, this plant is expected to supply electricity to more than 1 million people in Morocco. The complex should also reduce CO_2 emissions by 760,000 tons per year, the equivalent of 2.5 million tons of imported oil. This power plant plays a key role in

[6] EU-Morocco Green Partnership (europa.eu)

Morocco's ambitious target of increasing the share of renewable energy to 52 percent of installed power by 2030.

- The European investment Bank also supported the Noor Atlas project aims to build seven solar photovoltaic plants in the east and south of Morocco, with total installed capacity of 240 MW. The operation will stabilize the power grids thanks to the solar energy generated in remote areas of Morocco. The EIB's €129 million loan will help improve the quality of life in rural communities and create jobs in a booming sector.

4. African Development Bank (AfDB)

Over the past decade, the AfDB has supported the modernization of Morocco's energy infrastructure, with a total contribution of $1.6 billion. AfDB's involvement in renewable energy includes a $485 million contribution to the initial phase of the Ouarzazate solar complex. AfdB also supported an 850 MW integrated wind project and a 350 MW hydro-pumped energy transfer station in Taroudant. Additionally, the Moroccan private sector receives support from the Fund for African Private Sector Assistance (FAPA) to advance Nationally Determined Contributions (NDC)[7]. AfDB also provided several technical assistance requests, such as gender mainstreaming in climate projects or scoping studies to implement NDC.

5. European Bank for Reconstruction and Development (EBRD)

The EBRD[8] supports the green transition in Morocco through investment (amounting to around 1.7 billion euros) and policy dialogue to build low-carbon and resilient economies. The approach is leveraged and adjusted to support countries amidst the Covid-19 pandemic, highlighting areas of opportunity to support a green recovery. The EBRD invested in a variety of innovative projects, including renewable energy transactions supporting pioneer projects under the private-to-private scheme as well as Africa's first windfarm repowering, sustainable infrastructure projects by participating in Morocco's first infrastructure green bond and Morocco's first municipal bond, paving the way for the launch of a Green City program with Agadir city. The Bank also provided green credit lines to a range of Moroccan banks (for over 400 million euros) such as Morocco Sustainable Energy Efficiency Financing (MorSEEF), the Green Value Chain (GVC) and the Green Energy Financing Facility (GEFF) programs, using funds from EU and Green Climate Fund to provide incentives and technical advice to lenders and borrowers. EBRD has also been supporting water conservation in Morocco through its staged investment program alongside EU and Green Climate Fund, in support of the Saiss and Garet irrigation plan led by the Ministry of Agriculture.

EBRD has also supported the Moroccan authorities and the National Electricity Regulatory Authority (ANRE) in their climate mitigation efforts, notably through (i) the development of Morocco's first electricity grid code to encourage a fair and non-discriminatory access to the network to all

[7] AfDB, 2021, NDC implementation in Morocco through green investments by the private sector - A Scoping Study (afdb.org)

[8] The EBRD's work in Morocco

participants, (ii) assessing the capacity of the electrical grid to absorb additional intermittent renewable electricity.

6. AFD (Agence Française de Développement).

In line with Morocco's national climate change adaptation and mitigation goals, AFD plays a pivotal role in fostering sustainable development across key sectors.

- In the *RE sector*, AFD has made significant contributions, such as co-financing the NOOR thermodynamic solar complexes in Ouarzazate and Midelt and capacity-development efforts via the training institutes for RE and energy efficiency activities (IFMEREE). In the *agriculture sector*, AFD is supporting the World Bank and the European Union an ambitious program supporting the "Génération Green 2020-2030" strategy. As an example, the program targets the adoption by rural communities of climate friendly practices such as agro ecology. Moreover, AFD has also bolstered sustainable forest management, aligned with the Moroccan Forest strategy 2020-2030, supporting the Ghabati, Hayati ("my forest, my life") program. After the submission of its first Long-Term Low greenhouse gas Emission Development Strategy (LT-LEDS) in 2021, the Government of Morocco is refining it by modeling and quantifying development trajectories and current emissions in order to submit to the UNFCCC this second LT-LEDS for COP28 in the United Arab Emirates. This project, supported by AFD in collaboration with "2050 Pathways" and UNEP, project is piloted by a steering committee led by the recent National Commission on Climate Change and Biological Diversity, made up of government authorities, public companies and establishments and representatives of civil society, including the Ministry of Energy Transition and Sustainable Development who provides the presidency, coordination, and secretariat. The modeling, with the support of consultants, is carried out by 7 sectoral decarbonization groups (energy; industry; building; transport; waste; agriculture; forests and biomass)

- To further integrate climate considerations into Morocco's fiscal policy and public financial management practices, AFD has recently initiated a comprehensive program called "*Politique Publique Transition Budgetaire Verte*" (Public Policy for Green Fiscal Transition). This program is structured into six result areas, each with corresponding disbursement indicators to be realized over the next five years. These areas span the establishment of an institutional framework for climate response, the implementation of a climate-labeled budget, the integration of climate considerations in public procurement, the promotion of green bond issues, the development of a taxonomy of green finance, and the fostering of private sector participation in climate-aligned investments. The program also emphasizes the importance of social and environmental responsibility within SOEs. By taking a holistic approach to Morocco's green transition, the AFD aims to ensure that its fiscal policy and public financial management practices align with its climate goals.

7. KfW Development Bank

- The German government development bank is another important partner that supports Morocco in its strategy against the impact of climate change.[9] The primary areas of engagement are:

    - *Renewable Energy*. A Financial Cooperation energy program (with a portfolio of over EUR 2 billion in funds) promotes solar energy development, along with initiatives to expand the power grid and enhance energy efficiency. The collaboration includes the joint funding for the Noor I–IV solar power plants in Ouarzazate (the new NOOR Midelt solar complex will consist of two innovative hybrid power plants in the first phase, combining solar thermal energy and photovoltaics in one power plant complex).
    - *Water sector*: KfW promotes ongoing programs in Morocco's water sector for EUR 700 million.

- *Sustainable Economic Development*: KfW promotes granting loans and equity capital to microbusinesses and small and medium-sized enterprises by providing refinancing funds and supporting banks and microfinance organizations. It helps to establish structures in the financial sector, for example, in innovation and start-up financing, for financing more energy-efficient production processes, or for providing financing in rural areas.

8. Other

In June 2023, Morocco and the government of the Netherlands signed an accord of EUR 300mn for green investment over the next three years. Some 35 percent of the funds will be provided as a grant, with the rest as a loan. The fund will support infrastructure, water, agriculture, renewable energy, and green hydrogen projects.

9. MoEF As the Coordinator

The MoEF is leading the effort to coordinate climate programs among various sectoral ministries and developing partners. Moreover, the MoEF is also working closely with IFIs towards greening the three-year budget framework by adopting the following measures: (i) adequate costing and budgeting of NDCs over the same period (WB), (ii) introduction of green taxation measures, including a carbon tax (IMF, WB, EU) and phasing out of brown tax expenditures and subsidies (IMF), (iii) implementation of green tagging within the budget (WB, AFD, GIZ), (iv) comprehensive analysis of debt sustainability that accounts for the impact of climate change (IMF). Additionally, climate considerations will be systematically embedded into public procurement (WB, AFD), and reforms will increase the participation of public establishments and enterprises in meeting climate targets (WB). These measures will help Morocco reduce greenhouse gas emissions, build resilience to climate change, and achieve its climate goals.

[9] KfW, 2023, Morocco | KfW Development Bank, website accessed on 6/29/2023

Table 1. An Overview of World Bank's Climate Operation[1]

PDO ***Strengthen the institutional capacity to implement the NDC and enhance climate resilience of targeted vulnerable groups and ecosystems in the Program area***

Result Area	Sub-area	Challenges / Constraints	Activities / Intermediate Outcomes	Outcomes	Long-term Outcomes
RA 1: Strengthen policy and institutional capacity in green PFM, green finance and climate data	RA1.1: Green PFM and Financial sector policies	• Climate action mostly at sectoral level with limited coordination to tackle complex issues. • Climate considerations not reflected in PFM and MEF civil servants with limited knowledge on climate • Climate ambition (as set in NDC) not fully aligned with the budget allocation • Limited financing targeted to climate action	• Climate Unit and technical groups help coordinate climate action • NDC 2026-2035 includes detailed costing est. (DLR 1.1) • Guide on "Green Procurement" has been adopted (DLI 2.1) and public purchasers are trained • Framework for green sovereign bonds' issuance adopted (DLR 3.1) • National Green finance taxonomy adopted through a participatory approach (DLI-4)	• **Public financing of Morocco's revised NDC is adequate** (DLI 1.2 & PDO) • Ministries are applying green criteria to their tenders • First sovereign green bonds issued • Financial institutions use the green finance taxonomy • Awareness campaigns strengthen citizen engagement on climate	**Increase in the financing (both public and private) channeled to climate action** **Enhanced government coordination for climate-informed policy making and interventions, both at the national and local levels** **Enhanced resilience of rural economies to climate shocks**
	RA1.2: Climate Data	• Coordination failures in weather/climate data collection constrain the capacity to generate robust climate projection • Limited use of weather /climate data to inform decision making for both public and private stakeholders • No tools to monitor implementation of NDC commitments	• Coordination mechanisms are in place between DGM and other entities to collect/share weather/climate data (DLR 5.1) • Increased volume of weather/climate data concentrated in the DGM-run data center (DLR 5.2) • The MRV platform is operationalized and help track progress on NDC implementation (DLI-6)	• **National Observatory on Climate operational & delivering services to end users** (DLI-5 & PDO) • Increased number of sectoral end users receiving processed weather/climate to inform their decision-making process (DLR 5.3) • Morocco tracks progress on NDC implementation and reports through the Bi-Annual report on Transparency	
RA2: Strengthen coordination to enhance climate-resilience of vulnerable groups and ecosystems	RA2.1: Farmers	• Farmers among the most vulnerable to shocks, including to multi-dimension shocks (climate, economic, health …) • Famers have limited resources to recover from shocks • Rural population are disproportionally vulnerable to climate-induced health issues	• Increase in the number of farmers who are paying their contribution to the AMO-TNS (DLI 7.3) • Number of farmer's households (incl women and children) enrolled in AMO-TNS (PDO indicators	• Increase in the number of famers who are paying their contribution to AMO-TNS (DLI7) • **Farmers and dependents have access to and benefit from health insurance (PDO)**	
	RA2.2: Oasis Ecosystems	• High level of vulnerability (multi-dimensional) of the oasis population • Water resources under acute pressure (quantity/quality) • High risk of out-migration	• Number of palm trees distributed and planted to revitalize targeted traditional oasis (DLR 8.1) • Number of small/traditional infrastructure built to address water scarcity & pollution • Improved living conditions in targeted oasis areas • Increased opportunities for women/youth in palm tree value chain	• **Vulnerable ecosystems converted into climate-resilient land-uses (PDO)** • Urban livability is improved in the face of extreme climate shocks • Reduction in net GHG (Carbon sequestration) in targeted areas (revitalized oasis and forests)	
	RA2.3: Nature Based Solution	• Climate risks, including forest fires, affect livelihoods and ecosystems • Degraded ecosystems in watershed basins, leading to erosion and siltation in downstream large priority dams • Livability in (peri-) urban areas affected by extreme climate events (notably heat waves)	• Number of hectares, with high risk of erosion, reforested in the selected priority watersheds (DLR 10.2) • Number of forest/tree-based solutions for urban/peri-urban forests (DLR 10.3)		

[1]The PDO is to strengthen the institutional capacity to implement the NDC and enhance climate resilience of targeted vulnerable groups and ecosystems in the Program area. The Disbursement-Linked Indicators (DLIs) associated Disbursement-Linked Results (DLRs) have been chosen to track progress on the key dimensions of the Program.

Table 2. World Bank's Water Security and Resilience Program

	Challenges / Constraints	Activities / Outputs	Intermediate Outcomes	Outcomes	PDO	Long Term Outcomes
RA1: Strengthening Water Sector Governance	1. Water scarcity and increasing uncertainty derived from climate change imposes constraints on growth and development; and value of water needs to evolve in response to the development context 2. Lack of surface waters results in groundwater over-abstraction 3. Large investment program to increase sources of water supply, including non-conventional water resources 4. Major reform of the potable water supply sector 5. Data and information systems need to adjust to sector changes	1. The draft PNE to include several climatic scenarios, and institutional, governance and financial principles for the water sector revised 2. Minimum service standards, KPIs, and reporting requirements for multiservice operators defined 3. Hydrological and hydrogeological monitoring networks improved 4. RBAs performance benchmarking framework and action plans developed (including with gender targets) 5. By-laws for aquifer management contracts prepared; aquifer management contracts and related technical studies for 3 aquifers prepared	1. Draft PNE endorsed by the Interministerial Water Commission 2. Multiservice operators report on minimum service standards and KPIs 3. Water data and information management systems enhanced 4. Performance of selected RBAs improved, including on gender dimension 5. Groundwater management improved	PNE endorsed by the Superior Council of Water and Climate and adopted by Decree Performance of multiservice operators monitored Information publicly available through the National Water Information System	To strengthen water sector institutions and increase water availability in selected areas	Morocco's water security and climate resilience strengthened
RA2: Improving Financial Sustainability and Water Use Efficiency	1. Cost structure of the water sector changing with introduction of non-conventional water sources to adapt to increasing climate change impacts 2. Important potable water losses, particularly in areas with desalinated water resources 3. Limited awareness among consumers on the value and cost of water	1. A financial model and sustainability action plan for water sector developed, and financial sustainability strategies for selected regions prepared 2. Loss reduction plans implemented by multiservice operators 3. Communication campaigns designed, included with gender-targeted messages	1. Financial sustainability strategies adopted for selected regions 2. Water loss reduction action plans implemented 3. Targeted communication campaigns rolled-out, with gender targeted messages	Losses in drinking water transmission and distribution networks reduced		
RA3: Enabling Integration of NonConventional Water Resources	1. Limited reuse of treated wastewater 2. Regulatory framework for non-conventional water resources not keeping pace with investments 3. Limited capacity to negotiate complex PPPs, particularly for desalination 4. Quality stands for the use of treated wastewater to be revisited	1. Wastewater re-use agreements signed 2. Bylaw for development and use of desalination prepared 3. Regulations for wastewater disposal and wastewater reuse (including for agriculture) prepared 4. Training and capacity building on desalination and wastewater reuse provided, including for female staff	1. WWTPs upgraded and distribution networks for wastewater reuse built 2. Bylaw for development and use of desalination adopted 3. Regulations for wastewater disposal and wastewater reuse adopted (including for agriculture) 4. Increased capacity of government officials (included women) on desalination and wastewater reuse	Treated wastewater for reuse augmented		

Annex II. External Sector Assessment

Overall Assessment: *Morocco's external position in 2022 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The widening of the CA deficit in 2022 mainly reflected the terms-of-trade shock resulting from Russia's war in Ukraine, only partly offset by continued buoyancy in remittances and the recovery of tourism inflows to pre-pandemic levels. As the shock dissipates and structural reforms and fiscal consolidation continue, the CA deficit is projected to start falling in 2023 and to gradually converge to the estimated medium-term norm. This assessment is subject to the exceptional uncertainty surrounding the impact of the recent earthquake and the evolution of Russia's war in Ukraine and its impacts on both Morocco and its trading partner countries.*

Policy Responses: *In the short term, monetary policy should bring inflation back to lower levels, while the fiscal stance should support monetary tightening. In the medium term, the fiscal deficit should be reduced while increasing investment to tackle climate change and other long-term challenges. Structural policies to increase competitiveness include upgrading climate-related infrastructure; enhancing schooling and training; improve the business environment; and implementing policies to increase labor force participation, especially for women.*

Foreign Asset and Liability Position and Trajectory

Background. Morocco's Net International Investment Position (NIIP) has remained relatively stable at about -61 percent of GDP from 2014-2019. During the pandemic years 2020-21, NIIP slightly increased to about -63 percent of GDP, but it improved to about -59 percent of GDP in 2022, mainly on the back of lower external liabilities. In staff baseline, Morocco's NIIP is projected to remain stable at around -59 percent of GDP through the medium term.

Assessment. Morocco's NIIP financing vulnerabilities appear moderate, as foreign direct investment accounts for a large share of the position. Over the medium term, Morocco should be able to sustain its net debtor position as the CA deficit will converge towards its estimated norm amidst the implementation of structural reforms (that should increase Morocco's attractiveness for FDI) and fiscal consolidation (that should reduce the dependence on external debt).

2022 (% GDP)	NIIP: -59.5	Gross Assets: 40.1	Reserve Assets: 25.4	Gross Liabilities.: 99.6	Gross External Debt: 49.5

Current Account

Background. In 2022, the CA deficit widened to 3.5 percent of GDP, from 2.3 percent in 2021, on the back of higher energy and food prices, and is expected to gradually return to about 2.8 percent of GDP over the medium term as tourism revenues improve, remittances remain resilient, and structural reforms boost private sector competitiveness and savings (with fiscal consolidation also sustaining national savings). In 2023, the CA deficit is expected to decline to 3.0 percent of GDP as trade balance improves and remittances and tourism revenues continue growing.

Assessment. In 2022, the EBA model estimated a cyclically adjusted CA deficit of 2.1 percent of GDP compared with an estimated CA norm of -2.8 percent of GDP, suggesting a CA gap of 1.2 percent of GDP.

2022 (% GDP)	CA: -3.5	Cycl Contributions: -1.4	Cycl. Adjusted CA: -2.1	Cycl. Adjusted CA Norm: -2.8	Total Gap: 0.7

Real Exchange Rate
Background. The REER has been on a modest appreciating trend since 2012 (at the end of 2021 was about 6 percent stronger than in mid-2012), reflecting the nominal appreciation of the dirham (pegged to a basket including the Euro and US Dollar). In 2022, the NEER and REER depreciated by 5.3 and 6.6 percent, respectively. So far in 2023 (as of July) the REER has appreciated by about 6 percent, mainly reflecting a nominal effective appreciation of the dirham. **Assessment.** The estimate of the CA gap of 0.7 percent of GDP implies a REER gap of –1.9 percent (applying an estimated elasticity of 0.37) in 2022.
Capital and Financial Accounts: Flows and Policy Measures
Background. Morocco's CA deficit is mainly financed by net FDI inflows and external borrowing. In 2020, Morocco benefited from a significant increase in external borrowing from international markets, IFI, and bilateral lenders, as well as positive financing from net FDI flows. In 2021, larger net FDI flows compensated for the decline in IFI and bilateral flows, helping preserve the reserve position. In 2022, net FDI and loans to the public sector were the main sources of external financing. **Assessment.** In the medium term, progress in structural reforms, particularly those aimed at developing the private sector, accelerating the transition to renewable energy, and increasing water resources, are all expected to continue supporting FDI inflows and external borrowing. The risks of capital flow reversal are limited by remaining capital account controls on residents and the structure of external debt (85 percent of which has long maturity).
FX Intervention and Reserves Level
Background. Morocco's exchange rate is pegged to a basket including the Euro and the US Dollar, with weights of 60 and 40 percent, respectively. The currency can fluctuate within a band that was widened to ±5 percent at the onset of the pandemic. FX reserves increased by about US$10 billion in 2020-21 relative to before the pandemic, reflecting i) the purchase of US$ 3 billion under the PLL arrangement in April 2020 (about US$ 900 million were reimbursed in January 2021), ii) the issuance of US$ denominated bonds in December 2020 (by about US$3 billion); iii) the 2021 SDR allocation of about US$1.2 billion; and iv) BAM purchase of FX in the market in the second half of 2021, when the dirham appreciated to the lower end of the band (by about US$1 billion). In 2022, the strong depreciation of the euro vs the dollar caused the level of reserves (60 percent of reserves are in euros) to fall to around US$32 billion. The issuance of Eurobonds in March 2023 and the appreciation of the euro against the dollar has implied an increase in reserves to around US$ 35 billion in July 2023. **Assessment.** The level of reserves at around 120 percent of the ARA metric (adjusted for capital controls) in 2022, is assessed to be adequate. Staff projects reserves to remain at adequate levels over the forecast horizon, as the improvement in the CA and external financing associated with the continuation of structural reforms offset the repayment of the PLL in 2024 and 2025. Moving to an IT monetary policy regime with a more flexible ER, would reduce the need for reserve holdings outside a budget that could fund FX interventions in case of excessive market volatility.

Annex III. Risk Assessment Matrix [1]

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Conjunctural Risks			
Commodity price volatility.	**High** A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High** Further increase in commodity prices could push headline inflation higher. Lower household purchasing power, supply disruptions, and higher borrowing costs could further drag down growth.	• If inflation remains elevated, Central bank may need to further increase policy rates to keep inflation expectations from becoming unanchored and limit depreciation pressures. • Fiscal policy will need to protect the most vulnerable with well-targeted, temporary, and budget-neutral cash transfers, making full use of the Unified Social Registry.
Monetary policy miscalibration.	**Medium** Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Small** Given Morocco's relatively limited international financial integration the effect is likely to be limited. While a faster increase in US interest rates could negatively affect Morocco's external borrowing costs, the impact on government funding should be contained, as the share of public debt denominated in FX is relatively low (about 25 percent).	• Monetary policy may need to respond to higher interest rate globally to limit exchange rate pressures.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Abrupt global slowdown or recession.	**Medium** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation causing sudden stops in EMDEs. • U.S.: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction, and "hard landing." • Europe: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. • China: Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	**Medium** Morocco is highly dependent on trade, remittances, tourism, particularly with the euro area. Hence, a significant slowdown/ recession in Europe could dampen economic activity in Morocco. A decline in energy commodity prices will ease pressure on the external accounts and inflation.	• Fiscal policy should implement growth-friendly stimulus measures and targeted support to the sectors and segments of the population that are most affected. • BAM should continue providing the necessary support to credit and liquidity. • Implement structural reforms to mitigate scarring and bolster potential growth.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Deepening geo-economic fragmentation.	**High** Broader and deeper conflict(s) and weakened international cooperation led to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, fracturing international monetary and financial systems, and lower potential growth.	**Medium** Morocco is an open economy, highly dependent on trade (including that associated with key global value chains, like the automotive industry), remittances, tourism, and energy imports. Hence any disruption on each of these areas is bound to deeply affect economic activity. The impact however could be mitigated by Morocco's strong international trade ties due to its favorable geographical position.	• Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinder FDIs. • Accelerate the implementation of structural reforms to support international competitiveness and productivity.
Domestic Risk			
Prolonged impact of the earthquake.	**Small** Despite the lack of serious damages to tourism infrastructure in Marrakech the impact on tourisms flows may persist for some time.	**Medium** Marrakech represents about 30 percent of total hotel nights in the country in recent years. This number however may underestimate its importance on overall tourism revenues, given the importance of the city in attracting tourists to Morocco.	• Fiscal policy should support the vulnerable households and businesses; the authorities should plan reconstruction investment to narrow the urban-rural disparity and support inclusive growth. Morocco should strengthen the institutional frameworks to finance disaster risk reduction activities and enhance financial resilience to natural disasters for targeted populations.
A more severe drought reduces agricultural production.	**High** Extreme climate events driven by rising temperatures, cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. In the case of Morocco, the frequency of droughts has increased significantly recently, with Morocco experiencing yet another drought in 2023, the fourth dry rain season in the last five years.	**High** Morocco is highly dependent on the agricultural sector. Even if it represents about 10 percent of value added and a quarter of goods exports, about one-third of the Moroccan workforce is active in this sector. Morocco's inflation is also highly sensitive to food inflation.	• The authorities should accelerate the implementation of key macro-critical reforms for climate adaptation, including through their infrastructure plan to increase water supply, but also setting the ground for a new tariff framework that better reflect the effective scarcity of water. Targeted and short-term fiscal support could be considered to help those segments of the population that are most vulnerable to droughts, like rural population.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **G-RAM operational guidance is available from the SPR Risk Unit website**.

Annex IV. Sovereign Risk and Debt Sustainability Assessment[1]

While the Covid-19 crisis left a legacy of a higher central government debt-to-GDP ratio, Morocco's debt remains sustainable over the medium term, reflecting the projected gradual process of fiscal consolidation, the large base of domestic institutional investors, the low FX share of Moroccan debt and the long average maturity.

1. Debt coverage and definition (Figure 2). This Sovereign Risk and Debt Sustainability Assessment (SRDSF) covers central government debt and analyses the debt of the Treasury (domestic and external). The authorities have started to produce general government data with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public, non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidating the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 6½ percent of GDP in 2022 (to about 65 percent).

A. Background

2. The central government debt ratio stabilized at around 71 percent of GDP in 2022 after increasing to 72.2 percent of GDP in 2020. The stabilization of the public debt to GDP ratio in 2022 was driven mainly by the lower real GDP growth in 2022 (1.3 percent compared to 8 percent in 2021), partly compensated by the higher end-of-period inflation (8.3 percent compared to 3.2 in 2021), and the reduction in primary deficit (by 0.8 percentage points of GDP). Gross financing needs for the central government decreased to 12.2 percent of GDP in 2022 (1.5 percentage points of GDP lower than in 2021).

B. Baseline Projections

3. Under the staff baseline scenario, public debt is expected to remain below 70 percent in the medium term. In line with the medium-term fiscal framework published as part of the 2023 Budget, the central government debt-to-GDP ratio is expected to decline as fiscal consolidation continues. At the general government level, public debt would hover around 62 percent of GDP until 2025 before falling to 60.4 percent in 2028. The projected fiscal consolidation efforts over the medium term seem realistic relative to the distribution of fiscal adjustment efforts in a group of peer countries (see Figure 6) and previous episodes of fiscal consolidation in Morocco (for example, during 2012-17).

4. Financing needs are projected to increase in 2023 and 2024 before falling in the medium term. Gross financing needs are expected to increase to 19.2 percent in 2023, from 12.2 percent in 2022, and gradually decrease to 15.4 percent by 2028. The projected effective interest

[1] This annex does not incorporate the impact of the recent earthquake and associated reconstruction costs, which could worsen the debt profile at least in the short term.

rate on debt has been revised up relative to the 2022 AIV report, given recent domestic and international rate increases. Still, a few mitigating factors buffer the impact on Moroccan cost of public debt, including i) long average maturities for domestic and external borrowing, ii) continued active debt management from the authorities, with operations that tend to swap old debt with new one at more favorable terms (longer maturities and lower interest rates), and iii) a significant share of external borrowing on a concessional basis. Privatization receipts (projected at about 1½ percent of GDP in 2023-26) should also help reduce financing needs.

5. **As assessed at the time of the FCL approval, Morocco's central government debt is sustainable, and the overall risk of sovereign stress is assessed to be moderate.** The medium-term risk is assessed as moderate based on mechanical signals, and GFN and fan chart tools are firmly in the moderate territory. Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on public debt. A few characteristics of the debt profile continue to limit potential vulnerabilities, in particular (see Figure 3): i) its relatively long maturity (weighted average maturity of about 6 years), ii) the relatively low share denominated in FX (about 25 percent) and iii) the investment base made mostly of local investors, many of whom are long-term investors. Thanks to such features, as well as to its solid track record and favorable ratings, Morocco's government has maintained steady access to international capital markets at favorable terms over the last 10 years and more recently after the health crisis.

6. **Morocco's public debt remains sensitive to several shocks in the medium term.** The debt fan chart index—measuring medium-term solvency risks—has a score equal to 1.8, which is moderate. The baseline debt trajectory and the fan are on a stable or slightly downward trend by the end of the period, and the probability of debt not stabilizing is assessed to be limited. Gross financing needs also resume a downward path or stabilize in the stress scenario. Overall, solvency risks should be contained with continuous fiscal consolidation, fiscal reforms, and a gradual economic recovery. However, this assessment is susceptible to other economic shocks, including droughts, a global economic downturn, and new terms of trade shocks. Contingent liabilities from unfunded public pension schemes,[2] guarantees to commercial SOEs' external debt (about 8 percent of GDP), and subsidized credit schemes under the Covid-19 crisis (about 5 percent of GDP) could represent additional vulnerabilities, although the transmission of the latter to a new financial institution under BAM supervision (which will absorb the first layer of losses from potential activation of guarantees) represents a mitigating factor. These risks highlight the importance of accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms to further reduce the debt-to-GDP ratio below 70 percent of GDP over the medium term. In the longer term, sovereign stress risks are assessed as moderate. Recent reforms have reduced funding gaps in many pension schemes (see recent actuarial studies from the *Autorité de Contrôle des Assurances et de la Prévoyance Sociale* or ACAPS, and the *Cours des Compes*). The authorities are

[2] Part of such liabilities are already recognized in the analysis, as the central government debt includes Treasury bonds that are held by the Social Security Administration (by about 10 percentage points of GDP).

working on a comprehensive overhaul of the pension and healthcare systems to make them financially sustainable. Broad reforms in the water or energy sectors will also be needed to reduce Morocco's increasing vulnerabilities to climate-related risks.

Figure 1. Morocco: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium and long-term horizons. Relevant reforms in the budgetary framework or the pension system are expected in the coming years. Comprehensive reforms will also be needed to reduce climate-related risks.
Near term 1/			
Medium term	Moderate	Moderate	Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on the public debt.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	Moderate	Indicators of the large amortization module show high risks in all three scenarios for all three ratios considered. The climate-change adaptation and mitigation modules suggest substantial long-term risks to the debt trajectory. A recent actuarial study from ACAPS projects a continuous degradation of the active to retired population ratio and predicts that three of the main pension regimes will exhaust financial reserves between years 2028 and 2044. In the health care system, a recent study from the OECD predicts a deficit of the CNSS starting in 2026. An ambitious program of structural reforms is
Sustainability assessment 2/	...	Sustainable with high probability	The projected debt path is expected to decrease in the medium term and GFNs will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed as feasible. Therefore debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Morocco is at moderate overall risk of sovereign stress and debt is sustainable with high probability. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. Debt is expected to continuously decline over the medium term from 2023. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Morocco should continue accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms, to further reduce the debt-to GDP ratio over medium term. This annex does not incorporate the impact of the recent earthquake and associated reconstruction costs, which could worsen the debt profile at least in the short term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Morocco: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	

2. Subsectors included in the chosen coverage in (1) above:

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

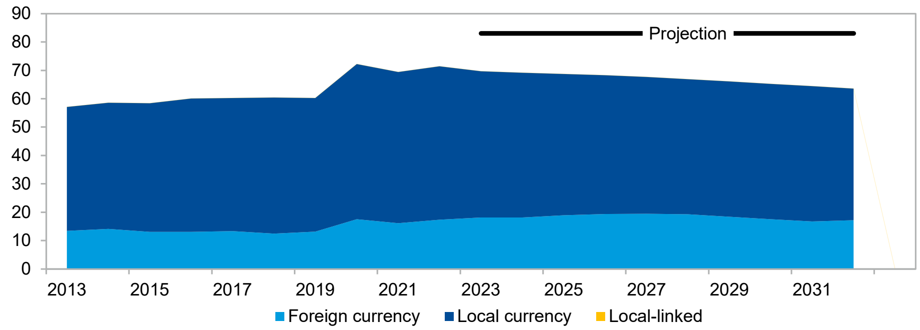
Coverage		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. Consolidation of the debt under the general government perimeter would reduce the debt-to-GDP ratio by about 6½ percent of GDP in 2022 (to about 62 percent). Contingent liabilities linked to subnational governments (debt level estimated at about 2 percent of GDP in 2022), guarantees to commercial SOEs external debt (about 8 percent of GDP), and unconsolidated social security funds, could represent additional vulnerabilities.

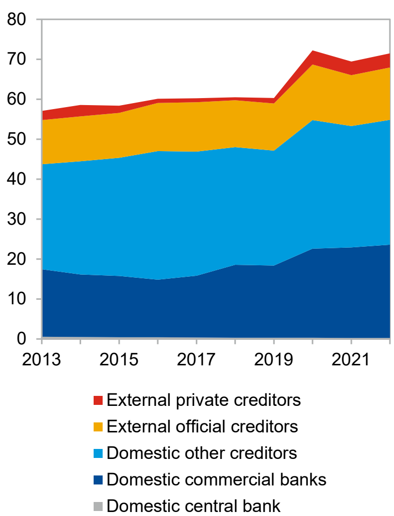
Figure 3. Morocco: Public Debt Structure Indicators

Debt by currency (percent of GDP)



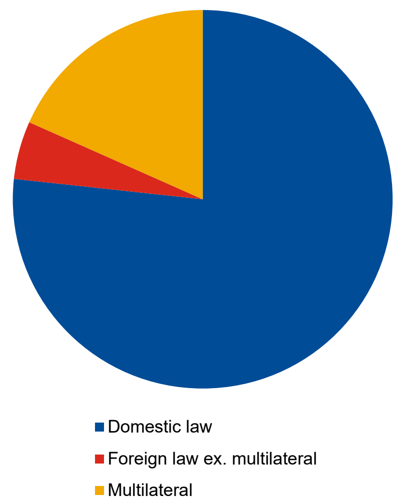
Note: The perimeter shown is central government.

Public debt by holder (percent of GDP)



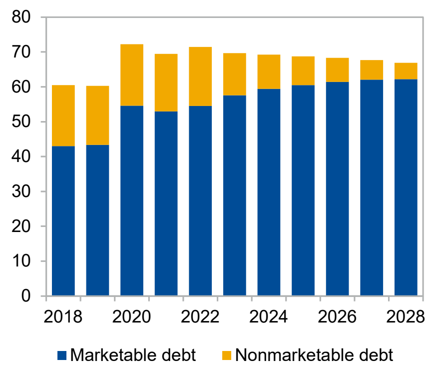
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



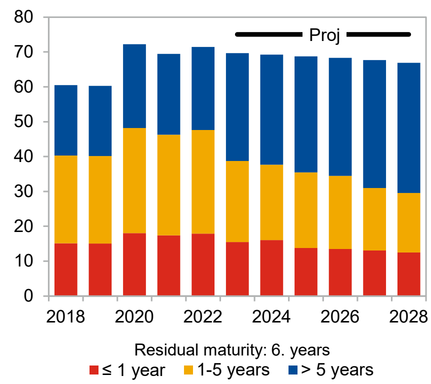
Note: The perimeter shown is central government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is central government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is central government.

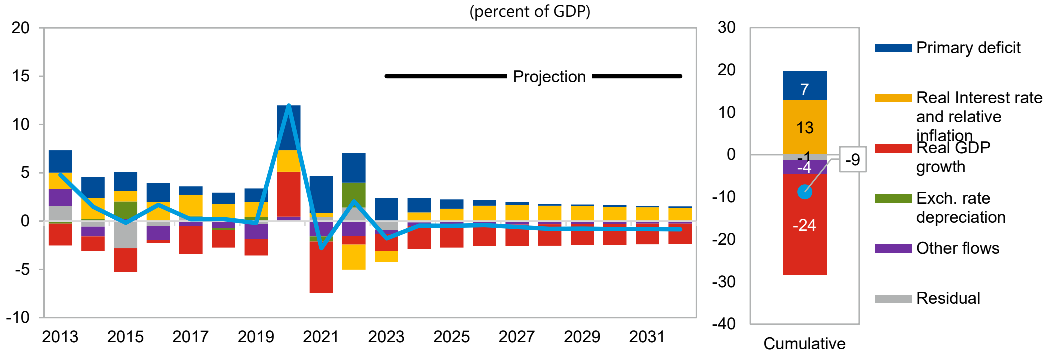
Commentary: A few characteristics of the debt profile continue to limit potential vulnerabilities, in particular, i) its relatively long maturity about 6 years), ii) the relatively low share denominated in FX and iii) the investment base made mostly of local investors, many of whom are long-term investors.

Figure 4. Morocco: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	71.5	69.7	69.2	68.7	68.3	67.7	66.9	66.1	65.3	64.4	63.6
Change in public debt	2.0	-1.8	-0.5	-0.5	-0.4	-0.6	-0.8	-0.8	-0.8	-0.8	-0.9
Contribution of identified flows	0.6	-0.9	-0.3	-0.4	-0.4	-0.6	-0.8	-0.8	-0.8	-0.9	-0.9
Primary deficit	3.1	2.4	1.5	1.0	0.6	0.3	0.2	0.2	0.2	0.1	0.1
Noninterest revenues	27.0	27.8	27.4	27.2	27.2	27.2	27.1	25.7	24.4	23.1	22.0
Noninterest expenditures	30.1	30.2	29.0	28.2	27.8	27.5	27.3	25.9	24.5	23.3	22.1
Automatic debt dynamics	-0.9	-2.9	-1.5	-1.0	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8
Real interest rate and relative inflation	-2.6	-1.1	0.9	1.3	1.6	1.7	1.6	1.5	1.5	1.4	1.4
Real interest rate	-2.0	-1.5	0.8	1.2	1.6	1.6	1.6	1.5	1.4	1.4	1.3
Relative inflation	-0.6	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.9	-1.7	-2.4	-2.3	-2.2	-2.2	-2.2 .	-2.2	-2.2	-2.1	-2.1
Real exchange rate	2.6	…	…	…	…	…	… .	…	…	…	…
Other identified flows	-1.6	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.6	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Contribution of residual	1.4	-0.9	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	12.2	19.2	18.8	18.9	16.6	16.1	15.4	14.9	14.5	13.9	12.0
of which: debt service	9.1	16.8	17.2	18.0	15.9	15.7	15.3	14.7	14.3	13.8	11.9
Local currency	7.3	15.5	14.4	16.2	14.3	13.9	13.1	12.1	11.7	11.3	10.7
Foreign currency	1.8	1.3	2.9	1.7	1.7	1.8	2.1	2.6	2.6	2.5	1.2
Memo:											
Real GDP growth (percent)	1.3	2.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Inflation (GDP deflator; percent)	3.1	6.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	4.3	8.6	6.6	6.0	5.4	5.5	5.5	5.4	5.4	5.4	5.4
Effective interest rate (percent)	0.0	3.8	4.2	4.3	4.4	4.5	4.5	4.4	4.3	4.2	4.2

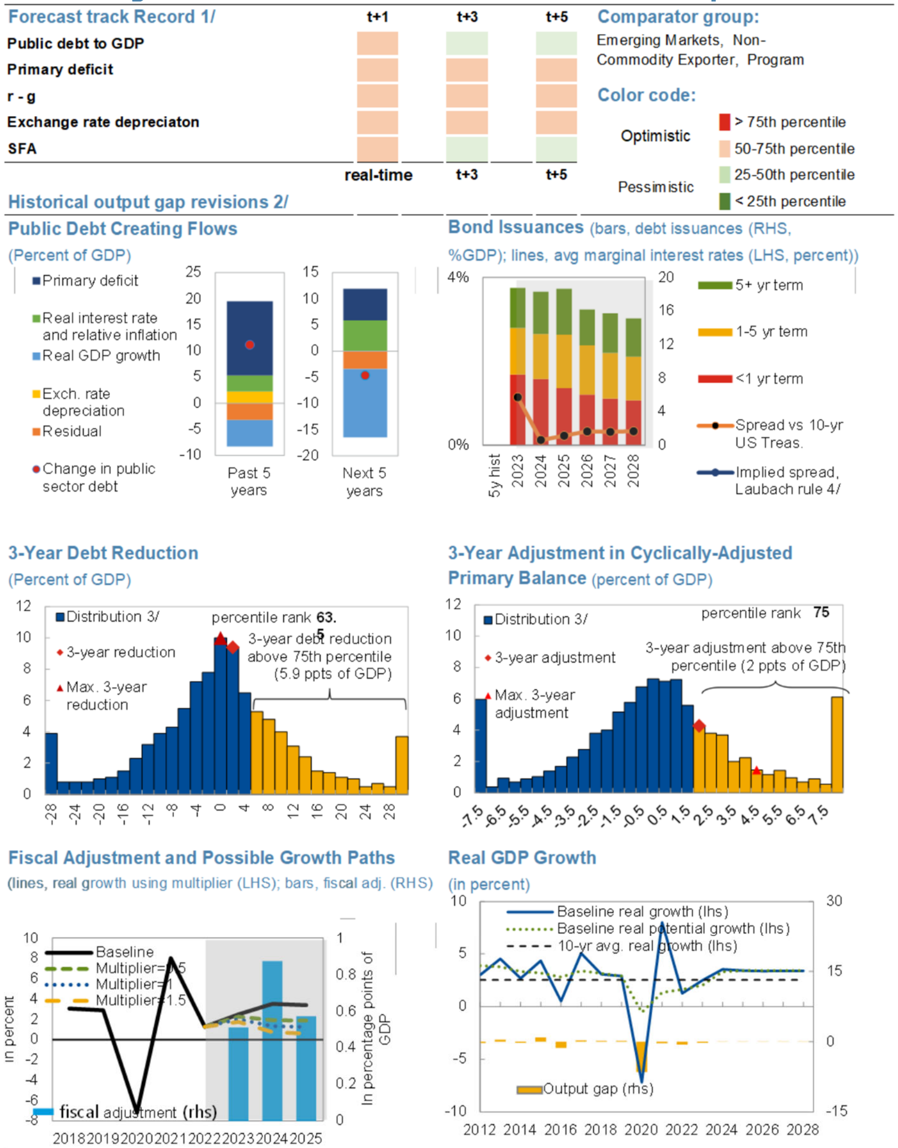
Contribution to change in public debt

(percent of GDP)



Commentary: Public debt will stabilize before start declining in 2026, reflecting expectations of a narrowing of primary deficits and stable economic conditions. Long-term real GDP growth is assumed to be equal to the potential growth estimate. The real GDP growth and primary deficit are the two main contributors to the change in public debt.

Figure 6. Morocco: Realism of Baseline Assumptions



Commentary: The economic recovery from COVID-19 and reduced deficits are stabilizing the debt-to-GDP ratio. Spreads are expected to decline in 2024 as monetary policy starts normalizing. The projected 3-year adjustment in the cyclically-adjusted primary balance is relatively high (in the 75 percentile range). Long-term real GDP growth is assumed to be equal to the potential growth estimate. Realism analysis does not point to any other major concerns.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead e and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

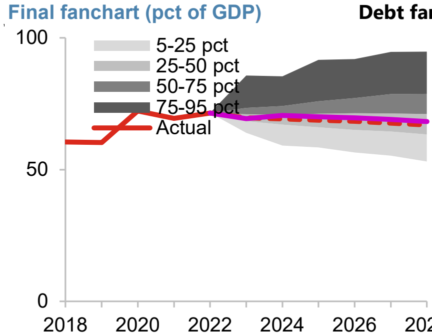
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 7. Medium-Term Risk Analysis

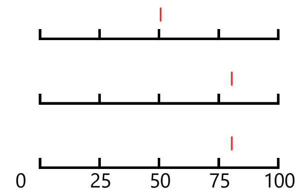
	Value	Contrib [1/]	Percentile in peer group [2/]

Final fanchart (pct of GDP)

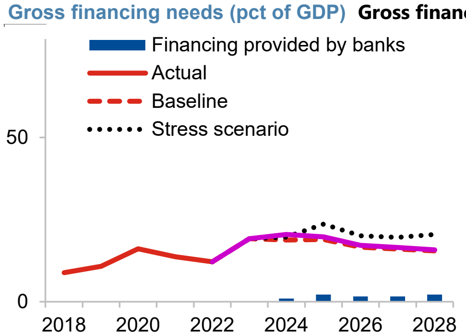


Debt fanchart module

	Value	Contrib	
Fanchart width *(percent of GDP)*	41.7	0.6	
Probability of debt non-stabilizaiton *(percent)*	25.6	0.2	
Terminal debt-to-GDP x institutions index	44.1	1.0	
Debt fanchart index (DFI)		1.8	
Risk signal: [3/]		**Moderate**	

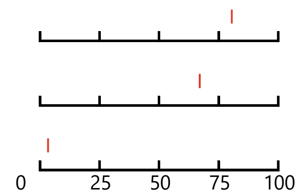


Gross financing needs (pct of GDP)



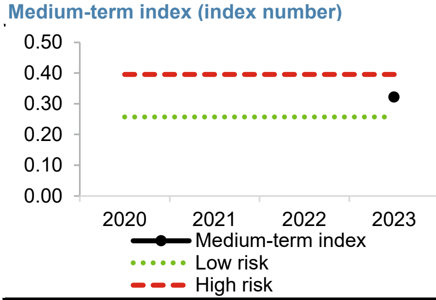
Gross financing needs (GFN) module

	Value	Contrib	
Average baseline GFN *(percent of GDP)*	17.5	6.0	
Banks' claims on the gen govt *(pct bank assets)*	19.0	6.2	
Chg. In banks' claims in stress *(pct banks' assets)*	2.6	0.9	
GFN financeability index (GFI)		13.0	
Risk signal: [4/]		**Moderate**	



Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-term index (index number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	1.78	0.39	0.50	0.20
GFN finaceability index	12.99	0.25	0.50	0.12
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 23.9 pct.

Commentary: Both, the Debt Fanchart Module and the GFN Financeability Module, suggest moderate level of risk. The medium-term index is also above the low risk threshold. The change in bank claims in the stress scenario is relatively low, which is mainly driven by the low marginal interest rate paid by banks, which have high demand for government bonds (perceived as very safe). The contingent liability stress test is triggered as the debt coverage is for a perimeter narrower than the general government. This test shows a path of gross financing needs relatively similar to the baseline. Relevant reforms in the budgetary framework are expected in the coming years, including the reinforcement of the MTFF, the analysis of budget risks, and the implementation of a fiscal rule anchored on the public debt.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

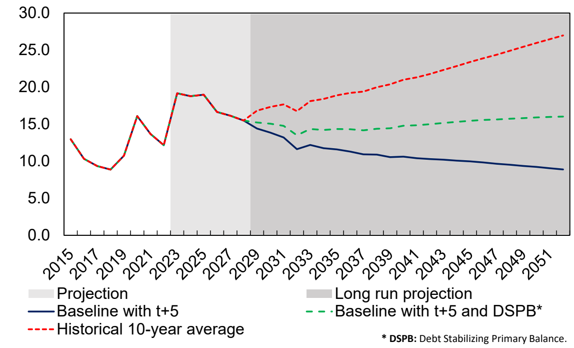
Figure 8. Morocco: Long-Term Risk Analysis

Large Amortization Trigger:

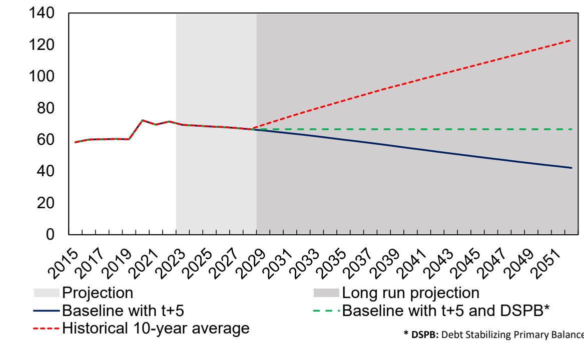
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Large Amortizations:

GFN-to-GDP ratio

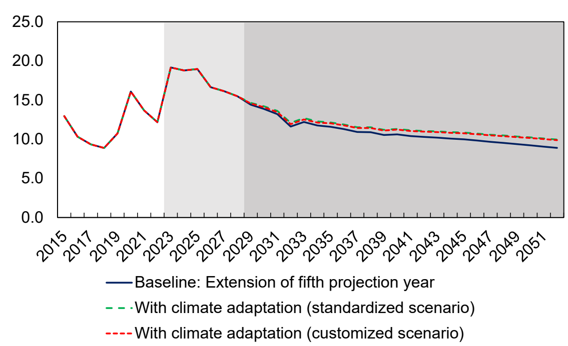


Total public debt-to-GDP ratio

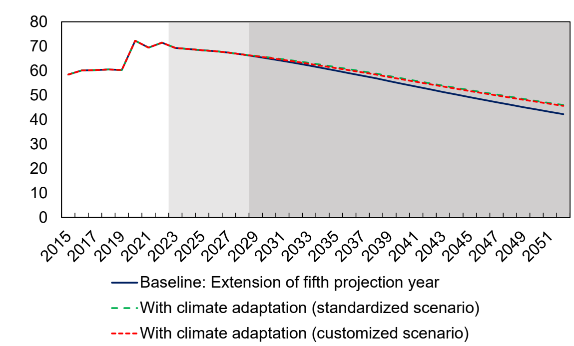


Climate-Change: Adaptation

GFN-to-GDP ratio

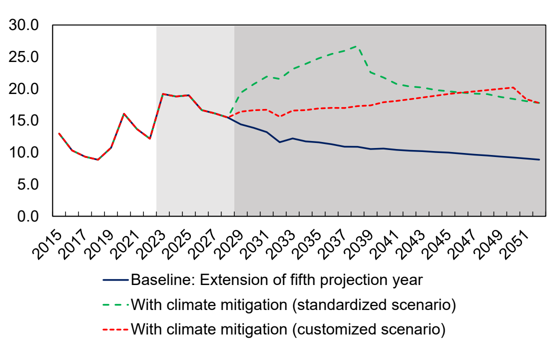


Total public debt-to-GDP ratio



Climate-Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio

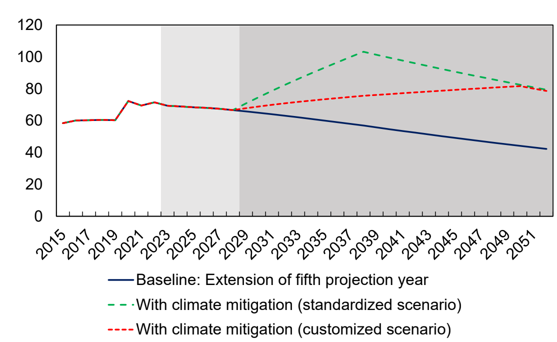


Figure 8. Morocco: Long-Term Risk Analysis (continued)

Commentary: The default large amortization module calculates gross financing needs (GFNs) and debt based on amortization from existing debt under three illustrative scenarios. Indicators show high risks in all three scenarios for all three ratios considered. GFN-to-GDP and public debt-to-GDP ratios show steadily increases in two of the scenarios. The standardized adaptation module adds costs of associated investments of 0.2 percent of GDP per year. The standardized climate-change mitigation module adds costs averaging about 5 percent of GDP per year over the projection period, although these are expected to be frontloaded. The customized climate-change mitigation module assumes costs consistent with the 2022 CCDR estimates (2 percent of GDP per year until 2050). The scenarios suggest that a combination of unanticipated additional climate-change mitigation and adaptation costs pose substantial long-term risks to the debt trajectory. In addition to climate-change, Morocco has significant long-term challenges in the public pension and health care systems. A recent actuarial study from ACAPS also projects a continuous degradation of the active to retired population ratio and predicts that three of the main pension regimes will exhaust financial reserves between years 2028 and 2044. In the health care system, a recent study from the OECD predicts a deficit of the CNSS starting in 2026 (the CNOPS reached a deficit in 2017). The authorities are working on a comprehensive overhaul of the pension and health care systems that would make them financially sustainable.

Annex V. External Debt Sustainability Analysis

After rising to 54.1 percent of GDP during the pandemic in 2020, external debt fell to 49.5 percent in 2022 and is expected to stabilize to about 45 percent, close to pre-pandemic levels, going forward (Table 1). If Morocco experienced a 30 percent exchange rate depreciation—the most extreme shock—the external debt-to-GDP ratio would decrease to 40 percent (Figure 1). Alternatively, with a shock to the current account, the external debt-to-GDP ratio would increase to 47 percent.

Table 1. Morocco: External Debt Sustainability Framework, 2018-2028
(in percent of GDP unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	40.5	42.5	54.2	45.9	49.5			**50.1**	**48.4**	**47.4**	**46.9**	**46.4**	**45.6**	**-4.4**
Change in external debt	6.1	2.0	11.7	-8.3	3.6			0.6	-1.7	-0.9	-0.5	-0.5	-0.8	
Identified external debt-creating flows	-1.2	4.1	3.2	-3.4	-0.3			-0.6	-0.5	-1.1	-0.8	-0.8	-0.6	
Current account deficit, excluding interest payments	5.9	4.4	2.3	3.2	4.5			4.3	4.6	4.5	4.5	4.5	4.4	
Deficit in balance of goods and services	9.5	7.8	7.3	9.2	11.5			10.2	9.7	9.4	9.0	8.6	8.3	
Exports	34.0	34.2	30.8	33.2	44.8			39.0	38.4	37.9	37.5	37.1	36.8	
Imports	43.5	42.0	38.1	42.5	56.3			49.1	48.1	47.3	46.5	45.7	45.1	
Net non-debt creating capital inflows (negative)	-5.2	-3.0	-1.0	-1.1	-1.5			-3.0	-1.9	-2.4	-2.2	-2.1	-1.9	
Automatic debt dynamics 2/	-1.9	2.7	2.0	-5.5	-3.2			-2.0	-3.2	-3.2	-3.2	-3.2	-3.1	
Contribution from nominal interest rate	-0.8	-1.1	-1.1	-1.0	-0.8			-1.1	-1.6	-1.6	-1.6	-1.7	-1.6	
Contribution from real GDP growth	-1.0	-1.3	3.3	-4.0	-0.5			-0.9	-1.7	-1.6	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 3/	-0.1	5.1	-0.2	-0.6	-1.8			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 4/	7.3	-2.1	8.5	-5.0	3.9			1.2	-1.2	0.2	0.3	0.2	-0.2	
External debt-to-exports ratio (in percent)	119.3	124.5	175.8	138.0	110.5			128.6	126.0	125.1	125.2	125.1	124.0	
Gross external financing need (in billions of US dollars) 5/	15.7	14.0	13.8	15.3	17.6			17.0	22.3	20.3	20.3	21.1	21.7	
Percent of GDP	12.3	10.9	11.4	10.8	13.4	10-Year	10-Year	11.6	14.2	12.2	11.6	11.4	11.1	
Scenario with key variables at their historical averages 6/								**48.9**	**49.0**	**50.9**	**52.3**	**53.7**	**53.5**	**-4.6**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Nominal GDP (US dollars)	127.3	128.9	121.4	141.8	130.9	122.6	9.7	147.4	157.1	166.5	175.6	185.2	195.3	
Real GDP growth (percent)	3.1	2.9	-7.2	8.0	1.3	2.5	4.0	2.5	3.5	3.4	3.4	3.4	3.4	
GDP deflator in US dollars (change in percent)	0.4	-11.2	0.5	1.1	4.2	-0.2	5.9	9.8	3.0	2.5	2.0	2.0	2.0	
Nominal external interest rate (percent)	-2.4	-2.5	-2.4	-1.9	-1.9	-2.4	0.3	-3.0	-3.4	-3.6	-3.6	-3.7	-3.7	
Growth of exports (US dollar terms, percent)	11.6	1.9	-15.0	26.0	24.4	6.1	12.9	-2.1	5.0	4.7	4.2	4.4	4.6	
Growth of imports (US dollar terms, percent)	12.2	-2.3	-14.5	30.3	22.4	5.1	14.9	-1.8	4.3	4.2	3.7	3.7	4.0	
Current account balance, excluding interest payments	-5.9	-4.4	-2.3	-3.2	-4.5	-4.6	1.6	-4.3	-4.6	-4.5	-4.5	-4.5	-4.4	
Net non-debt creating capital inflows	5.2	3.0	1.0	1.1	1.5	2.1	1.5	3.0	1.9	2.4	2.2	2.1	1.9	

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.

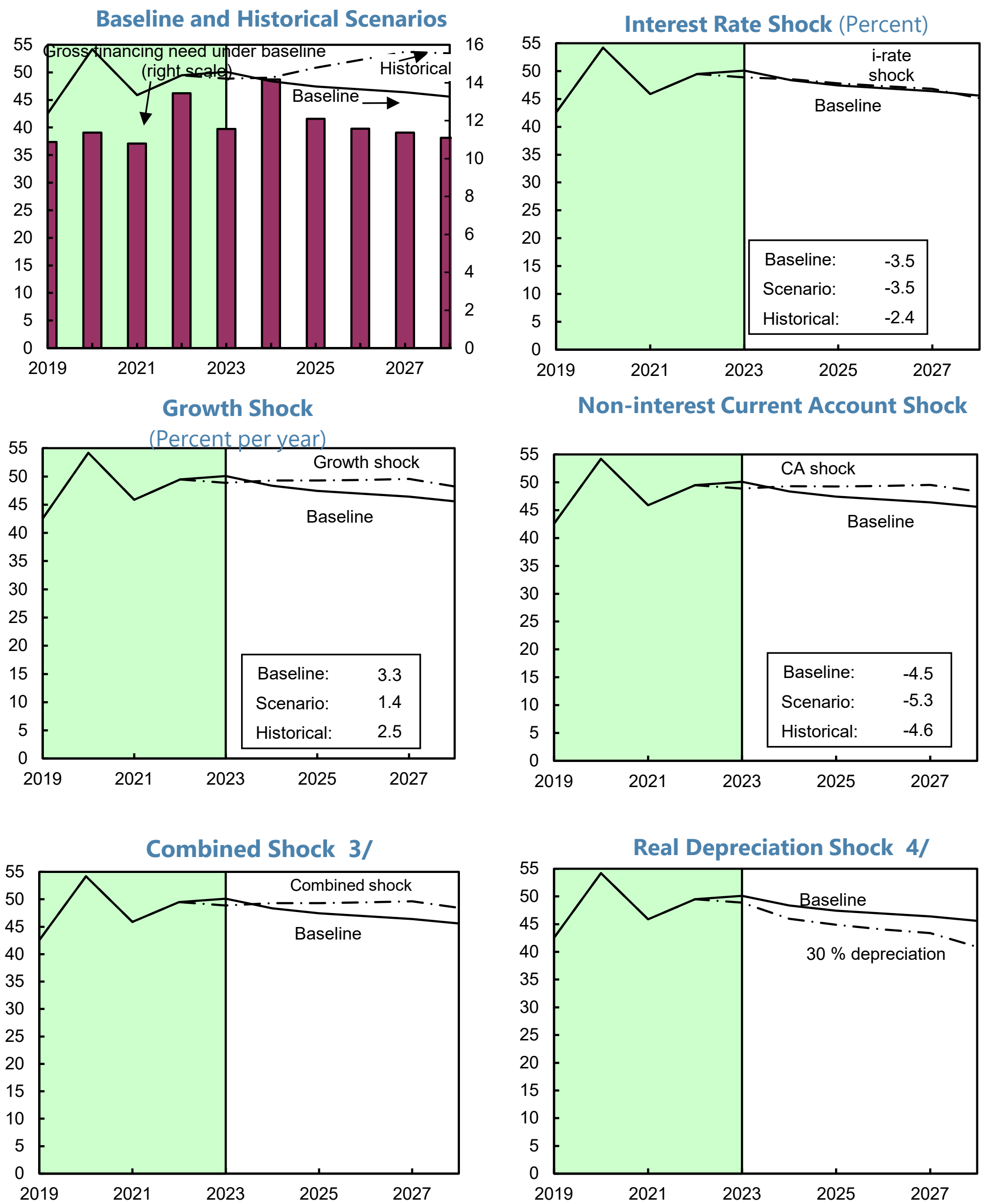
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Morocco: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

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

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

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

Appendix I. Letter of Intent

Rabat, September 15, 2023

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Dear Managing Director,

The Moroccan economy is demonstrating great resilience despite a global context marked by successive crises and geopolitical conflicts, which have led to strong inflationary pressures and widespread monetary tightening. This resilience is the result of ambitious sectoral policies and structural reforms implemented over several years, as well as ongoing efforts to ensure fiscal consolidation and macroeconomic stability.

On the environmental front, Morocco has embarked on a sustainable development journey that respects its natural resources and targets a green, inclusive, and low-carbon economy. Although our country is a low emitter of greenhouse gases (GHGs), it remains highly exposed to the risks associated with climate change, as underscored by recent successive and severe droughts and strong pressures on water resources. These pressures can significantly impact the country's socioeconomic development, given their direct impact on the agriculture sector and indirect impact on other sectors of the economy.

Aware of these risks—and determined to capitalize on its strong renewable energy development potential— Morocco is committed to achieving economic transformation and energy transition and has made combating the effects of climate change a national priority. To this end, the government has adopted a series of sectoral strategies to support a low-carbon economy, energy security, and better management and protection of its water resources. Morocco has implemented legislative, regulatory, and institutional reforms, as well as major structural projects (solar power plants, dams, wind farms, desalination plants, and so on), to meet these goals, and will continue, and accelerate, in the future

In the same vein, Morocco set high ambitions in terms of climate action in its National Determined Contribution (NDC) revised in 2021, with a commitment to reduce its GHGs by 45.5 percent by 2030. At around $78.8 billion, the estimated cost of implementing the adaptation and mitigation measures set out in our NDC is substantial.

Morocco is also exposed to risks linked to natural disasters. In order to cope with, our country has chosen, in recent years, a “natural risks” management policy oriented “natural risks” management policy towards crisis anticipation. As such, we implemented in 2020 a coverage plan against the consequences of catastrophic events for the benefit of both insured people and people without coverage. This scheme will play an important role in compensating victims of the earthquake which hit our country on September 8.

In this context, Morocco is requesting a Resilience and Sustainability Facility (RSF) arrangement in the amount of SDR 1 billion (112 percent of quota) to support its efforts to mitigate and adapt to climate change and to strengthen its prospective balance of payments stability by addressing critical risks posed by climate change. This 18-month arrangement will complement on from the Flexible Credit Line (FCL) arrangement approved by the Fund in April 2023 for an amount equivalent to SDR 3.7262 billion (417 percent of quota) which we treat as a precautionary measure to cope with extreme risks in the event of severe shocks to the balance of payments. The RSF arrangement will enable us to implement our ambitious reform program and catalyze additional climate financing from private sources while complementing funding from other donors.

The reform measures (RM) to be financed by the RSF arrangement, as presented in the attached memorandum of economic and financial policies (MEFP), are mainly aimed at i) preserving our water resources and developing them at the right price, ii) continuing the overhaul of the electricity sector to increase the share of renewable energy in the energy mix and reduce our dependence on fossil fuels, iii) channeling private investment into climate-friendly activities by greening the financial systems and aligning it with sustainable development issues; and iv) strengthening the coverage system against natural disasters.

As part of Morocco's efforts to address risks to its balance of payments stability posed by climate change, Morocco is also committed to integrating climate considerations into public finance management and gradually overhauling its environmental tax system. This overhaul will be accompanied by the introduction of measures to benefit the most vulnerable populations to ensure a fair and equitable energy transition.

During the implementation of the RSF arrangement, we will maintain a close policy dialogue with the IMF and will consult it in advance of any revisions to the reform measures contained in the MEFP, in accordance with the Fund's policies on such consultations. Moreover, we will provide the IMF with information in connection with our progress in implementing these measures and achieving their objectives.

In keeping with our policy of transparency, we authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

We would like to thank the Executive Directors, Morocco team, staff, and management of the IMF for their support to Morocco throughout this process and for their constructive opinions during the discussions. We look forward to continuing our close and fruitful cooperation with the Fund in the coming years.

/s/	/s/
Nadia Fettah Minister of the Economy and Finance	Abdellatif Jouahri Governor, Bank Al-Maghrib

Attachment I. Memorandum of Economic and Financial Policies

1. Morocco is highly exposed to risks associated with climate change, particularly recurrent droughts, water shortages, floods, and earthquakes. Aware of the importance of these issues, over the past 15 years, Morocco has proactively and voluntarily implemented structural projects aimed to adapt to and mitigate environmental constraints and prepare for future climate change and natural disasters. Within this framework, the National Sustainable Development Strategy (SNDD) will ensure the transition to a green and inclusive economy by 2030. This strategy also aims to provide a concrete response to Morocco's international commitments following the ratification and signature of several international protocols and conventions, including the Kyoto Protocol and the Paris Agreement in 2016 and to strengthen Morocco's prospective balance of payments stability. Following its evaluation, Morocco launched a process to overhaul the SNDD in 2021. The aim of this overhaul is to ensure greater convergence toward the Sustainable Development Goals (SDGs) and contribute to achieving the New Development Model (NMD) goals. A draft of the new strategy for 2035 is currently being finalized.

2. The government is committed to achieving its high ambitions for climate action under the National Determined Contribution (NDC) revised in 2021, with a target of reducing greenhouse gas (GHG) emissions by 45.5 percent by 2030. Doing so will require financing estimated at $78.8 billion. The requested RSF arrangement would enable Morocco to implement its energy and climate strategies and meet its commitments under the United Nations Framework Convention on Climate Change (UNFCCC) and complement financing mobilized from other donors, notably the World Bank (WB).

3. Water is a priority issue for Morocco. The draft National Water Plan (PNE) provides for significant investments in this sector over 2020–50 to bridge the gap between supply and demand. The National Program for Drinking Water Supply and Irrigation (PNAEPI) for 2020–27 consolidates efforts to secure water supply at an estimated cost of $14 billion. Morocco will continue to build dams, develop seawater desalination projects using renewable energy (with a target of 1 billion m^3 by 2030), and strengthen and secure the drinking water supply via interconnection projects between hydraulic systems. Morocco is also targeting improved demand management through water conservation and recovery (drinking, industrial, and irrigation) and wastewater reuse and implementing a communication and awareness-building strategy.

4. Through the PNE and PNAEPI, the government is pursuing a multidimensional approach in line with the NMD's recommendations for the introduction of a pricing system that reflects water's real value and encourages rationalization of its use and management of its scarcity. To this end, the Ministry of Water and Equipment (MEE) will draw up and submit to the Interministerial Water Commission a study assessing the actual cost of this resource across all segments (RM1, by February 2025). This study will identify the full cost of water (CAPEX-OPEX) by component and source and analyze current water management and governance as well as future trends in water costs. Based on international experience, concrete proposals will be put forward to improve pricing systems and recover the cost of water, with a view to more efficient, integrated, and sustainable water management from a technical, economic, financial, social, and environmental point of view.

5. The government is also determined to pursuing actions to preserve groundwater resources, notably through the adoption of two important decrees implementing Law 36-15 on water (RM1, February 2025). The first decree sets out the conditions and procedures for delimiting safeguard and prohibition perimeters and for granting authorizations and concessions within these parameters. The second decree sets out the criteria and procedures for delimiting close or remote protection parameters and the installations, works, and acts that may be prohibited or regulated within these parameters.

6. Reforms in the water sector are closely linked to those in the energy sector, particularly when it comes to seawater desalination and the reuse of treated wastewater, which are highly energy intensive. Morocco was one of the first middle-income countries to embark on an ambitious renewable energy development program through its National Energy Strategy 2009–30. This strategy aims to reduce the country's dependence on fossil fuels, including coal, through major investments in the following areas:

- Increasing renewable energy in the energy mix to 52 percent of installed renewable energy capacity by 2030. The government intends to pursue a plan to equip generating facilities and the electricity transmission network, supported by ONEE, MASEN, and the private sector, which will encourage the installation of additional capacity, particularly from renewable sources.

- Increasing the share of natural gas (an energy transition fuel) in the energy mix. The plan is to convert the oil-fired gas turbines at Kenitra and Mohammedia to natural gas by 2027 as part of the 2023–27 Electricity Equipment Plan, with the aim of gradually reducing the share of coal and encourage the production of clean energy. To this end, the Ministry of Energy Transition and Sustainable Development (MTEDD) will submit a gas strategy to enable ONEE to plan its natural gas investments as part of its equipment plan.

- Reinforcing the transmission network to transfer large quantities of wind power from the southern region to the central region (3,000 MW over 1,600 km).

- Developing green hydrogen through the preparation of a “Moroccan offer” covering the entire value chain of the green hydrogen sector in Morocco.

7. To achieve the objectives set by the energy strategy and attract more private investment, the government is committed to continuing the in-depth restructuring of the electricity market, notably by:

- Separating ONEE's generation, transmission, and distribution activities and moving toward the development of the transmission network by creating a national electricity network manager as stipulated by Law 48-15 on electricity sector regulation, with the support of the World Bank and the European Union (EU). As such, the National Electricity Regulatory Authority (ANRE) will start with the review and approval of the proposal presented by ONEE on the unbundling of its transmission financial accounts (RM2, by February 2025). The proposal will clarify i) the perimeters of activities related to the production, transmission, and distribution of electrical energy, ii) the rules for allocating assets and liabilities, as well as income and costs, among these perimeters, and iii) the principles governing the financial relationships between the accounting activities.

- Reforming the distribution business by creating regional multiservice companies (SRM), which will have exclusive rights to distribute electricity, drinking water, and liquid wastewater. The main objectives of this reform are to optimize investment and operating costs through territorial continuity and the pooling of resources and infrastructure, to secure the supply of drinking water and electricity, to save water and energy, and to meet the challenges of climate change and sustainable development. The law governing the creation of these companies (Law 83-21) was passed on July 13, 2023, and the principle of progressive creation was retained to take regional specificities into account.

- Strengthening private sector involvement in electricity generation, the development of which depends on the continuation of the regulatory process for setting service tariffs. Adequate regulation is essential for investors to commit to electricity generation for their private customers and distributors. The National Electricity Regulatory Authority (ANRE), created in 2021, plays an important role in this area under laws 82-21 and 40-19. ANRE will publish: (i) the tariffs for the utilization of the national electricity transmission network as well as (ii) the system service fees and the capacity of the grid to receive electricity from renewable sources (RM4, by February 2024) and the tariff(s) for the access of producers to the medium-voltage distribution network (RM3 by February 2025).

- Fully implementing the legislation governing the electricity sector (Law 48-15, Law 40-19, Law 82-21), notably through the gradual adoption of the regulatory texts provided for in these laws, starting with at least one decree on top of the two decrees planned for 2024 under the program with the EU (RM5, September 2024).

- Effective implementation of the new provisions of Law 48-15, notably through ANRE's approval and publication of i) quality indicators to be respected by the national transmission system in terms of safety, reliability, and efficiency, which should be updated regularly (Art 12 of Law 48-15), and ii) the code of good conduct for the Transmission System Operator (Art 13 of Law 48-15) (RM6, September 2024).

8. Morocco's dynamic development, highlighted by the major projects completed or underway in all economic and social sectors, is reflected in sustained energy demand growth. Against this backdrop, Morocco has prioritized energy efficiency in its national energy strategy, which aims to improve energy efficiency by 20 percent by 2030. The country is committed to continuing efforts in this direction by completing the legislative framework for energy efficiency (Law 47-09) and adopting several ministerial decrees specifying labeling and minimum energy efficiency standards for three energy-intensive products: electric motors, air conditioners, and refrigerators. These products and the related standards were identified based on impact studies and preliminary analyses carried out by MTEDD. A similar decree will be prepared for lighting products, following the same procedure. In the same vein, the draft decree on energy service companies (ESCOs) will be adopted by the end of

February 2025, thereby providing a framework for ESCO activity, and promoting the use of energy performance contracts, which constitute one of the solutions to the difficulties encountered by some companies in mobilizing financing for energy efficiency work. Finally, preliminary studies and regulatory texts relating to the lowering of the threshold of energy consumption associated with the obligatory audit will be prepared with a view in particular to increasing the share of entities subject to it (RM7).

9. In terms of public finances, and as part of its climate risk management, the MEF will publish on a yearly basis, starting with the three-year budget programming document accompanying the 2025 Finance Law, and with the technical assistance of the IMF, a debt sustainability analysis that will integrate the impact of climate change (RM8, February 2025). In addition, climate budget tagging currently being implemented with the support of the World Bank and the French Development Agency (AFD), would make it possible to better identify, assess, and monitor climate-related public programs and expenditure and thus optimize available resources and determine the financing needed to achieve the country's climate objectives.

10. Improving climate resilience also involves integrating the negative externalities of using "brown" energies and products into the economic policy framework, particularly taxation. To this end, the government is committed to developing and progressively adopting a roadmap for introducing a carbon tax (RM9, February 2025). This measure falls under the provisions of Article 7 of Framework Law 69-19 on taxation and should be implemented in consultation with all public and private stakeholders. The first stage will analyze the current situation (inventory and assessment of the effectiveness of existing environmental tax measures) and the second stage will identify the prerequisites for the adoption of a carbon tax, its scope (potentially the five sectors covered by the European CBAM border carbon adjustment mechanism, making it possible to avoid paying taxes to the EU and maintain them at national level), generating event, and level. With technical support from the World Bank, Morocco will base this work on international best practices and macroeconomic and microeconomic impact simulation and modeling exercises.

11. Morocco has adopted several measures to reform its environmental tax system. For example, it has introduced tax incentives for activities considered green, such as exempting electric and hybrid vehicles from the proportional stamp duty on first registration and the special annual vehicle tax (TSAV), the reduced VAT rate (10 percent) for photovoltaic panels and solar water heaters, and the introduction of an ICT tax on energy-consuming equipment. Morocco has also been eliminating fuel subsidies since 2013, except for the butane gas subsidy, which it intends to phase out from early 2024 via the adoption of a decree by the Ministry of Economy and Finance (MEF) (RM11, February 2024). As a complement to these measures, the government will proceed, within the framework of the 2024 Finance Act, to phase out existing brown tax expenditures by increasing the tax rate on polluting petroleum products (RM10, February 2024). Aware that implementing these reform measures could have negative repercussions on certain sectors of the population—especially in the current context characterized by high inflation—mitigating measures will be put in place while facilitating and encouraging the transition to cleaner energies. These measures include extending cash transfers under the new unified social register and supporting farmers to replace butane gas with solar pumps for irrigating small fields (RM12, February 2024). The contours of the subsidies phaseout and cash transfers will be in line with good international practices.

12. To direct consumption toward "green" products, the MEF will draw up and approve a list that better distinguishes climate-friendly from polluting products in the WCO Harmonized System (HS) and introduce climate-sensitive tariff policy changes to the Finance Act based on this product list. In concrete terms, this involves identifying and classifying products according to their environmental impact to adapt tariff policy to environmental objectives, either to promote or to discourage the cross-border circulation of certain products according to their environmental impact. We will ensure WTO-compliance of any tariff adjustments proposed.

13. Regarding the management of natural disasters risks, Morocco set-up in 2020 a coverage regime including two components: an insurance component which covers bodily injury and insured property (residence, business, industry) and a benefit component which guarantees, through the Solidarity Fund against Catastrophic Events (FSEC), to all uninsured individuals present on the national territory a minimum right to compensation for losses in case of a catastrophic event. In order to strengthen the coverage regime against the consequences of natural disasters, the Ministry of the Economy and Finance will complete the legal framework governing this regime, in particular through the amendment of Decree No. 2-18-785 of April 29, 2019, taken for the application of Law No. 110-14 establishing a system of coverage for the consequences of catastrophic events. This measure should make it possible in particular to define a time clause for catastrophic events, which will improve the conditions for transferring risk to the international reinsurance market, which has become increasingly severe with the observed increase in frequency and the severity of natural disasters (MR13, February 2024).

14. Channeling and directing private funding toward climate and environmental priorities remains fundamental, particularly if the Kingdom's ambitious NDC targets are to be met. With this in mind, the MEF, Bank Al-Maghrib (BAM), the Moroccan Capital Market Authority (AMMC), the Insurance and Social Welfare Supervisory Authority (ACAPS), and other players committed to greening the financial system at COP22 in Marrakech in 2016 through the development of a roadmap for climate finance to align the financial sector, in all its components, with the challenges of sustainable development.

15. In this context, BAM has embarked on a process to incorporate climate change into its mission, ensure that the banking sector remains robust in the face of climate risks, promote green finance, and reduce the environmental footprint of its activities. BAM has undertaken a series of initiatives, including the 2021 publication of a directive on managing climate change and environmental-related financial risks. This directive is inspired by international principles and green finance best practices, particularly the recommendations of the Network of Central Banks and Supervisors for the Greening of the Financial Sector (NGFS), of which BAM has been a member since 2018, and the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

16. Similarly, the AMMC has put in place guidelines for developing a framework for green and sustainable bond issuance in Morocco, enabling several green bond issuance operations to be carried out by national players. To strengthen international cooperation, MEF joined the International Platform on Sustainable Finance in 2019 and the Finance Ministers' Climate Change Coalition in 2022 and is working to green the financial sector and promote green investments. To capitalize on these achievements, and to accelerate the mobilization of the private sector in favor of financing the climate transition, Morocco is committed to implementing the following:

- A national climate finance strategy that facilitates the estimation of potential financing to be mobilized by the financial sector to achieve the country's climate change mitigation and adaptation objectives (and the means of mobilizing it) while improving climate risk management in the financial sector (RM14, September 2024). Details on the strategy (including its pillars, financing needs and options) and the timeline of its implementation will be discussed during the first review of the RSF.
- A national green financial taxonomy, which is an essential element in directing private financing toward green assets and projects, in coordination between MEF and financial sector regulators (BAM, AMMC, and ACAPS) as well as other public and private sector stakeholders.
- A framework for the issuance of sovereign green bonds, with the support of the World Bank, which could facilitate the issuance of such bonds on the international financial market in a second phase if the conditions are met.
- The MEF, through the *Société Nationale de Garantie et de Financement de l'Entreprise* (TAMWILCOM), will gradually introduce requirements for assessing the environmental impacts of financed projects benefiting from the guarantee and exceeding a certain threshold. The latter, as well as the technical modalities of this assessment, will be the subject of in-depth discussions between MEF, TAMWILCOM, and possibly other stakeholders to define appropriate criteria for assessing these projects (RM15, September 2024). This reform will generate a significant demonstration effect. It should encourage Moroccan banking establishments to integrate the environmental dimension into their decision-making process and companies to assess the environmental impact of their activities. It will also enable the State to act as a catalyst for the gradual greening of the financial sector and the channeling of financing toward green investments or projects with a favorable impact on the climate/environment.
- BAM will publish, by the end of February 2025, supervisory guidelines on climate risk disclosure and reporting for banks based on the guidelines issued by the International Sustainability Standards Board (ISSB), as well as bank-specific guidelines on the collection and reporting of large borrowers' exposures to key climate risks (RM16). This measure will complement those already in place or being implemented with the support of other donors. For example, a memorandum was signed in 2022 between BAM, Moroccan Bankers Association (GPBM), and the EBRD to facilitate the convergence of Moroccan banks' climate risk management practices with the provisions of the 2021 regulatory directive on climate risks and international best practices. Similarly, in 2022, with the support of the WB, BAM finalized the first climate risk assessment exercise for the Moroccan banking sector.

17. The MEF will establish an inter-ministerial committee to ensure coordination between the various stakeholders and monitor the implementation of the reform measures under the RSF arrangement.

Table 1. Morocco's RSF Reform Measures			
RM#	**Reform Measures (RM)**	**Availability Dates**	**RSF Review**
1	The Ministry of Water and Equipment will submit to the Inter-Ministerial Water Commission a study that assesses the actual cost of water and presents principle of cost recovery that could inform a tariff-setting methodology based on international benchmarks. The Ministry of Water and Equipment will also adopt two ministerial decrees for the implementation of the Water Law (36-15) so as to reinforce the protection of groundwater resources (the decree on the protection and prohibition perimeters; and the decree on immediate, close or distant protection perimeters).	February-25	3
2	ANRE will approve the proposal presented by ONEE on the unbundling of its transmission financial accounts.	February-25	3
3	ANRE will publish the tariffs for the utilization of the national electricity transmission network and the system service fees (by Oct 2023) and the capacity of the grid to receive electricity from renewable sources.	February-24	1
4	ANRE will publish the tariffs for the access of RE producers to the medium voltage electricity distribution network.	February-25	3
5	The Ministry of Energy Transition and Sustainable Development will adopt gradually ministerial decrees for the implementation of legislation that regulates the electricity sector (law 48-15, 40-19, and 82-21) (in addition to the two decrees envisaged under the EU *"Energie Verte"* program).	September-24	2
6	ANRE will approve and publish i) quality indicators to be met by the national transmission grid in terms of safety, reliability, and efficiency, to be updated regularly, and ii) the code of good conduct for the Transmission System Operator.	September-24	2
7	The Ministry of Energy Transition and Sustainable Development will complete the legal framework for energy efficiency by i) adopting ministerial decrees specifying the labeling and minimum efficiency standards for a series of products; ii) preparing a similar ministerial decree on lighting products; iii) adopting the draft ministerial decree on ESCO (Energy Service Companies); and iv) preparing studies and regulatory texts related to lowering the threshold of energy consumption associated with the obligatory audit	February-25	3
8	The Ministry of Economy and Finance will publish on a regular basis, starting with the *Document de programmation budgétaire triennale* accompanying the 2025 Budget Law, an analysis of debt sustainability that will include the impact of climate change, with technical assistance from the Fund.	February-25	3
9	The Ministry of Economy and Finance will produce and start adopting a design document for the introduction of a carbon tax, in line with the recommendations of International Financial Institutions, and in consultation with the Ministry of Energy Transition and Sustainable Development.	February-25	3
10	The Ministry of Economy and Finance will introduce in the 2024 Budget Law a reform that gradually eliminates the existing brown tax expenditure by increasing the tax rate on polluting fuels products	February-24	1
11	The Ministry of Economy and Finance will issue a ministerial decree that gradually eliminates the subsidies on gas butane, starting from 2024.	February-24	1
12	The Ministry of Economy and Finance will mitigate the impact on the population from measure RM11 by expanding cash transfers under the new Unified Social Registry and helping farmers replace gas butane with solar pumps in small fields irrigation.	February-24	1

Table 1. Morocco's RSF Reform Measures (concluded)

13	The Ministry of Economy and Finance will complete the legal framework for the coverage against the risks of natural disasters by amending the decree taken for the application of Law No. 110-14 establishing a regime for coverage of the consequences of catastrophic events.	February-24	1
14	The Ministry of Economy and Finance, BAM, and the Capital Market and Insurance regulators will adopt and publish a National Climate Finance Strategy that estimates the funding potential to be mobilized to meet the country's climate mitigation and adaptation targets and plans to close them, and that improve climate risk management in the financial sector.	September-24	2
15	The Ministry of Economy and Finance will advance in greening the national support system for access to financing by implementing requirements for assessing the environmental impacts of funded projects exceeding a certain threshold.	September-24	2
16	BAM will issue supervisory guidelines on disclosure and reporting for banks in relation to climate risks, based on the guidance issued by the International Sustainability Standards Board (ISSB) and issue specific guidance to banks on collecting and reporting large borrower exposures to major climate risks.	February-25	3

MOROCCO

September 15, 2023

REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCY AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCY AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

Morocco is considered as a "climate hotspot." Average temperatures have increased by almost 1.4°C between the 1970s and the 2010s (0.34°C per decade), exceeding global trends. Nine of the ten warmest years recorded in the country's history have taken place in the 21st Century. Precipitation patterns have followed an overall downward trend with more erratic patterns, increasing the frequency and severity of both droughts and flooding events. Over the past 60 years, overall water inflows have declined by about 30 percent, placing Morocco in a situation of structural water stress, a trend that is expected to intensify in coming decades. This has resulted in the overexploitation of underground water sources, which exceeds sustainable levels by about 30 percent. In addition, given that more than 65 percent of the population and 90 percent of industry are concentrated on the country´s coastline, sea-level rise constitutes another long-term stressor, especially for low-lying areas, which will contribute to exacerbate the risk of floods.

Climate shocks already constitute a major source of macroeconomic volatility in Morocco. As a result of the extreme variability of agricultural production depending on precipitation levels, rainfall shocks explain close to 37 percent of the variance of Morocco´s output over the medium-term.[1] This has become increasingly apparent in recent years, amplifying the large growth fluctuations that have surrounded the multiple shocks undergone by the Moroccan economy since the COVID-19 pandemic. Droughts can also have fiscal and balance of payment impacts, forcing the government to adopt costly emergency measures to support farmers and increasing food imports to

[1] Diaz Cassou,Javier; Iraqi,Amina; Megevand,Carole; Marzo,Federica. 2022. "Morocco Economic Update: The Recovery is Running Dry". Washington, D.C.: World Bank Group

compensate for a shortfall in domestic production. In 2022, this coincided with a global surge in food prices following Russia's invasion of Ukraine, exacerbating the balance of payment impact of that year´s drought. In turn, floods cause average direct losses estimated at around USD450 million per year.

Climate change could result in major GDP losses over coming decades. According to the World Bank's Morocco Country Climate and Development Report (CCDR),[2] if unaddressed, a reduction in water availability to all sectors of the economy consistent with the trends observed in recent decades could reduce GDP by up to 6.5 percent (compared with a baseline scenario). Under all the scenarios considered in the CCDR, the agricultural sector is projected to suffer the most, thus reducing its participation in GDP. However, nonagricultural sectors would also be significantly affected, and most of the overall GDP losses would be explained by the negative impacts in these sectors, given their greater weight in the economy. In addition, the CCDR projects the median impact of floods on output to gradually increase over time, from 0.2 percent of GDP in 2025 to surpass 0.5 percent of GDP by the 2030s and to reach almost 1 percent in 2050.

Vulnerable groups are disproportionally impacted by climate change. About 79 percent of Morocco´s poor live in rural areas and tend to rely on mostly rainfed agriculture as their main source of income and nutrition. This implies that they are disproportionately exposed to the risks posed by droughts, as clearly illustrated by the recent performance of labor markets in urban vs. rural environments: while net job creation amounted to 150 thousand in urban areas, year 2022 witnessed the loss of 170 thousand jobs in rural environments due to the drought. According to the CCDR, the continuation of ongoing trends in water supply could reduce the demand for unskilled agricultural labor by up to 10 percent, forcing up to 1.9 million Moroccans to migrate to cities. In urban areas, the hazard maps produced for various cities evidence that disadvantaged neighborhoods (where climate migrants will be more likely to relocate) tend to also be more prone to floods and are more exposed to the risks posed by sea level rise.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

The Moroccan authorities have reinforced their policies and commitments to cope with climate change over the past decade. Morocco submitted its first Nationally Defined Contribution (NDC) in 2015, and an updated version in 2021. On the adaptation front, the revised NDC strengthens the interventions in the four sectors already covered by the 2015 NDC (agriculture, water, fisheries and aquaculture, and forestry) with enhanced objectives, and includes several additional sectors: meteorology, sensitive environments (coastline, mountains, and oases), urban and rural planning, and health. The adaptation objectives defined in the NDC are further developed in the National Strategic Adaptation Plan (NSAP), which was adopted in January 2022. The NSAP sets a roadmap for 2020-2030, with a concerted and inclusive framework to support adaptation

[2] World Bank. 2022. "Morocco: Country Climate and Development Report." Washington, DC: World Bank. https://www.worldbank.org/en/country/morocco/publication/morocco-country-climate-and-development-report.

planning and priority actions to strengthen the resilience of the population and the territories to climate change.

Coping with water scarcity has long constituted a national priority for Morocco. Infrastructure investment (mostly in dams and in water basin interconnections) has traditionally been the cornerstone of the government´s strategy to cope with water scarcity.[3] This is still the case today, and both the National Program for Potable Water Supply and Irrigation (2020-2027) and the National Water Plan (2020-50) continue to prioritize supply-side solutions, with a growing emphasis on non-conventional water resources, such as desalination and wastewater reuse. Since the adoption of the Plan Maroc Vert in 2008, the government has also supported the adoption of modern irrigation techniques to increase water productivity. However, weak water demand management policies and low tariffs for certain services (in particular for irrigation) have fueled over-consumption, and tariff-setting policies do not yet fully take relative water scarcity into consideration. The country's New Development Model acknowledges this problem, emphasizing the importance of reinforcing water demand management, also through the adoption of tariffs that "*reflect the true value of the water resource*." The authorities are currently undertaking a water costing analysis which would inform a new water tariff-setting framework in Morocco. In addition, Morocco´s water sector needs to set the right governance model to adequately manage competing demands from different sectors, through a strong national entity capable but also reinforced decentralized entities (river basin agencies) capable of incorporating local specificities in the decision-making process. Morocco is already engaged in a reform to strengthen the sector´s governance, and the water law approved in 2016 points towards a decentralized, integrated, and participatory management and planning of water resources, and mandates the establishment of water information systems at national and river basin levels.

Morocco has developed a comparatively strong disaster risk management and financing architecture (DRM and DRF). Since the early 2000s, the government has focused on gaining a better understanding of critical risks and on defining the roles and responsibilities of the various institutions that are involved in disaster risk reduction, response, and recovery. A central element of the country's strategy has been the transition from a post-disaster emergency approach to a preparedness approach that prioritizes investment in both structural and nonstructural disaster risk reduction. The National Flood Protection Plan was updated in 2016, with a programmed investment of US$ 1.5 billion for the period 2016-36. In addition, the Natural Disaster Resilience Fund (FLCN), initially created to finance post-disaster reconstruction, has been turned into an innovative mechanism for co-financing investment in disaster risk reduction and preparedness at the local level. Morocco has also put in place a sophisticated dual catastrophic risk insurance system that: (i) guarantees coverage for privately insured households through additional premiums that covered at least 8.9 million people in 2021; and (ii) provides basic compensation for the uninsured poor and vulnerable population through the Solidarity Fund against Catastrophic Events (FSEC).

[3] Since then and up to 2020, the number of large dams increased from 20 to 146, and the total design storage capacity increased from 2 to 19.1 billion m3.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions.

Despite having increased substantially in recent decades, Morocco's GHG emissions remain comparatively small. The country's total annual GHG emissions doubled between 2000 and 2019 (from 44.6 to 91.2 million tons CO2 eq). However, they still represent just 0.2 percent of global emissions, and the carbon intensity of the Moroccan economy is 9 percent lower than that of the world, and 30 percent below the MENA region. Moreover, since the early 2010s, Morocco has entered a relative decoupling trend in which real GDP is growing faster than GHG emissions, implying that the carbon intensity of GDP has begun to decline.

The power sector is the largest contributor to Morocco's emissions, justifying a decarbonization agenda that has understandably been centered on the development of renewable energy (RE). The energy sector accounted for 65.1 percent of total gross GHG emissions in 2018, followed by agriculture (22.1 percent), industrial processes (6 percent), and waste management (5.4 percent). In terms of energy-related emissions, the power sector dominates with 36.1 percent, followed by the transportation (29 percent). In this context, as in many other countries, Morocco's mitigation policies have so far prioritized the decarbonization of power generation. Indeed, various flagship solar and wind projects have been developed to tap the country's plentiful RE potential.

However, Morocco's efforts to decarbonize through RE have been offset by the growing use of coal for power generation. Despite recent progress, wind, solar, and hydropower represent only 20 percent of the country's electricity generation and 9.8 percent of its total energy use (if we include bio-fuels and waste) in 2019, against 56.5 percent for oil, 29.8 percent for coal and 3.9 percent for natural gas. Along with efforts to tap into the country's vast RE potential, three new coal power plants were commissioned in the 2010s, bringing the total coal-fired power generating capacity above 4GW (39 percent of total power generation in 2021). As a result, the carbon intensity of the power sector has continued to increase, with around 600 tons of CO2 emitted by GWh in 2020, among the highest in the world.

Ahead of COP-26 in Glasgow in November 2021, Morocco submitted a revised Nationally Determined Contribution (NDC) with an enhanced mitigation target. The revised NDC aims to achieve a 45.5 percent reduction of its greenhouse gas emissions by 2030 compared to a business-as-usual scenario. This represents an increase of 3.5 percentage points in the mitigation objective from the 2016 NDC. Most notably, Morocco's updated NDC includes for the first time the cement and phosphates sectors. The inclusion of the latter sector is particularly relevant, given that Morocco is estimated to hold approximately 75 percent of the world's phosphate reserves and has become, globally, the fifth largest exporter of fertilizers. According to the Climate Action Tracker (CAT), Morocco's climate targets and policies are "almost sufficient," and the targets set under its unconditional commitment meet their fair-share contribution to the Paris Agreement.

D. Other Challenges and Opportunities

Decarbonization could constitute a major development opportunity for Morocco. Given its large endowment in RE sources, the country is particularly well placed to reap the economic benefits that could emanate from the global decarbonization push. Its economy is closely integrated with the EU, which is among the regional blocks that have embraced ambitious climate targets. In this regard, decarbonization represents an opportunity for the Moroccan industry to not only maintain but even expand its market share in Europe. It would also increase the country's attractiveness for Foreign Direct Investment (FDI), and position Morocco as a hub for green investment and export, with positive spillovers in terms of economic growth and jobs. Moreover, by reducing Morocco´s reliance on imported fuels, the decarbonization agenda would reduce the economy´s vulnerability to international price shocks, and the successful development of green hydrogen could turn the country into an energy exporter.

But the transition towards a low carbon and resilient (RLC) Morocco would require the mobilization of a large volume of investments. The CCDR estimates total investment needs at USD77.7 billion in net present value terms between 2022 and 2050, the equivalent of 3.5 percent of discounted GDP over such time period. According to the CCDR´s RLC scenario, this effort should initially be concentrated on the adaptation agenda, primarily to mitigate the looming risks that increasing water scarcity poses to the Moroccan economy and society. In turn, mitigation investment would have to increase substantially in the 2030s and 2040s if Morocco is to successfully converge towards net zero emissions.

The bulk of this investment effort could be shouldered by the private sector if key reforms are implemented. According to the CCDR, up to 85 percent of the decarbonization investment needed for the RLC to materialize could be undertaken by the private sector, minimizing pressure on Morocco´s already stretched public finances. However, for this scenario to materialize, the country would need to fundamentally transform its electricity market and institutional arrangements. Among the most urgent reforms are allowing for third-party access to the transmission and distribution networks at regulated tariffs so that private investors in RE can sell directly to eligible customers without discrimination. The public sector is more likely to retain a leading role in adaptation investment. However, there is room to increase the participation of the private sector in the water mobilization effort, for instance through well-designed PPPs in desalination and wastewater reuse, as already envisaged by the authorities. Again, encouraging private sector participation in adaptation will require sound regulatory frameworks.

Greening the financial sector will be instrumental to channel resources toward climate-friendly activities. Morocco has taken decisive steps to establish a broad framework for greening the financial system, but a fully-fledged climate finance strategy has yet to be developed. Morocco is moving towards the preparation of "green taxonomy" to stimulate the flows of private financing towards the green transition.

E. WB Engagement in the Area of Climate Change

The World Bank´s Country Partnership Framework (CPF) prioritizes climate action among its key objectives. The Performance and Learning Review of the CPF, presented to the World Bank's Board of Executive Directors on August 23, 2023, strengthened the CPF's original focus on climate change and introduced a new strategic pillar 'Supporting the Climate Transition' into the strategic framework with objective #8 'Improving Access to Sustainable Water Resources', objective #9 'Strengthen Resilience to Climate Shocks/Change and Mitigation' and objective #10 'Promote a whole-of-Government approach to climate change'.. Currently, the Bank has a strong portfolio of lending and technical assistance operations with a focus on climate. On the analytical front, Morocco's was among the first CCDRs produced by the World Bank, published in November 2022.

Two major operations that operationalize the recommendations of the CCDR have already been approved:

- The Climate Operation / Support to NDC Program for Results (USD350 million) focuses on operationalizing some of the key recommendation of the CCDR, notably the "*whole of government*" approach aiming at strengthening coordination mechanisms to address urgent climate and development nexus topics both at national and territorial level. In particular, the Climate operation will mainstream climate considerations into financial sector policies and public finance practices, by using fiscal planning, budgeting, public investment management and procurement practices as instruments to accelerate the climate transition.[4] It also establishes institutional mechanisms to foster an integrated approach to climate and development at the territorial level, with a focus on enhancing the resilience of vulnerable groups and ecosystems.

- The Water Security and Resilience Program for Results (USD350 million) supports interventions to strengthen the governance of the water sector, with a focus on water planning, strengthening of groundwater management, basin-level capacity to manage water resources, data, and information management systems. It also aims at improving the valuation and financial sustainability of the water sector, and promotes non-conventional water, from the regulatory perspectives and by supporting investment to scale-up wastewater reuse. It includes measures to strengthen incentives to reduce potable water losses in the distribution system.

Other active lending operations have significant climate co-benefits. These include: (i) the **Strengthening Human Capital for a Resilient Morocco Development Policy Financing** series (first operation approved in 2022 for an amount of USD500 million), which includes among its objectives the adaptation of health and social protection services to the risks associated with climate change, and the improvement of climate risk management and resilience against catastrophic events; (ii) the **Resilient and Sustainable Water in Agriculture Investment Project Financing** (USD180 million), which aims at enhancing the governance of water in Agriculture, improving the quality of irrigation services, and increasing access to advisory services and modern on-farm

[4] The Kingdom joined the International Platform on Sustainable Finance in 2019 and the Coalition of Finance Ministers for Climate Change in 2022. The Climate operation will support the Government of Morocco implement its commitments to the "Helsinki Principles".

irrigation technologies; (iii) the **Blue Economy Program for Results** (USD350 million), which aim at developing institutional frameworks, improving integrated management of natural resources, and strengthening selected sectors for a climate-resilient Blue Economy in targeted areas; (iv) the **Morocco Noor Solar Project** (USD463 million IBRD and USD144 million from Clean Technology Fund), with the objective to increase innovative solar power generation in Morocco; (v) the **Morocco Clean and Efficient Energy Project** (USD125 million IBRD and USD24 million CTF), which supports clean power generation and to improve operational efficiency of Morocco's national power utility; (vi) the **Disaster risk management and resilience program** (USD300 million) aiming to improve the institutional framework to finance disaster risk reduction activities and strengthen financial resilience to natural disasters for targeted populations in the Program Area, (vii) the **Green Generation program** (USD250 million) that aims at promoting the environmental sustainability of the agri-food value chains and (viii) the **Urban Transport program** (USD350 million) supporting climate-smart transport solutions.

In addition, the World Bank supports the Moroccan authorities with various analytical and advisory activities. These include: the development of complementary macroeconomic and microeconomic models for the *ex ante* evaluation of the potential impacts that an environmental tax reform (including the introduction of a carbon tax) could have on the Moroccan economy and on households; a Public Finance Review which has included the water sector among its key areas of focus and which aims to inform government policies to ensure the sector's financial sustainability; preparation of a diagnosis and of recommendations to implement green public procurement; support to the adoption of climate budget-tagging; and technical support on water management, agriculture resilience, disaster risk management and financing, bluet economy, among others.

The proposed RSF for Morocco contribute to the operationalization of the CCDR recommendations, along with other WB engagement. The reform measures envisaged under the RSF program have been identified in close coordination with WB staff. They have been identified in the CCDR as critical reforms to pursue a Resilient and Low Carbon development. They build on and complement the extensive WB engagement as described above. WB-led TA on carbon tax, greening the financial sector, reforming the electricity and water sectors, will inform the implementation of the RSF program.

Statement by the Staff Representative on Morocco
Executive Board Meeting
September 28, 2023

1. This statement provides additional information that has become available since the Staff Report for an Arrangement Under the RSF (EBS/23/100) was circulated to the Executive Board on September 15, 2023. The information does not alter the thrust of the staff appraisal.

2. Search and rescue efforts continue while the government announced a comprehensive reconstruction plan after the September 8 earthquake. According to official estimates, at least 2,946 people died and as of September 18, 13,919 people were injured. The Government announced emergency aid of $3,000 paid immediately to all affected households, as well as financial aid for the reconstruction of damaged or destroyed housing (US$ 14,000 for destroyed homes and US$ 8,000 for damaged homes). This would form the first stage of a program covering some 50,000 homes fully or partially collapsed. King Mohammed VI announced that Morocco will spend 120 billion Dirhams ($11.6 billion) over a period of 5 years to repair the areas damaged by the earthquake. While it is early to assess the impact of the plan on the Budget, part of the extra expenditure will be covered by the special Fund that the authorities set up to gather voluntary contributions from Moroccans, and that as of September 21 reached a total of about 9 billion Dirhams ($800 million).

3. After falling for 5 consecutive months from the peak of 10 percent (y/y) in February, CPI headline inflation inched up marginally at 5 percent in August (from 4.9 percent in July). Food inflation continued to slow gradually, reaching 10.4 percent from 11.7 percent last month (and 20 percent in February), while nonfood inflation inched up at 1.3 percent (from about ½ percent in the previous two months). While this could signal some sticky inflationary pressures not immediately related to the supply shocks that have fueled food prices (including the drought, higher prices of inputs such as fertilizers, and lingering effects on livestock from the pandemic), core inflation slowed to 4.9 percent from 5.4 percent in July. Overall, these outcomes suggest that inflation is gradually slowing, as expected by staff, but with some upside risks to staff's projected headline inflation of 3.6 percent at the end of 2023.

Statement by Mr. El Qorchi on Morocco
Executive Board Meeting
September 28, 2023

Introduction

The Moroccan authorities would like to express their appreciation to management and staff for their close and active engagement. They welcome the candid and fruitful discussions in the context of their request for an arrangement under the resilience and Sustainability Facility (RSF).

Morocco has exhibited remarkable resilience to shocks from a severe drought in recent years and a difficult global context. The diversified economic base helped weather the repercussions of the strong external headwinds. Despite the challenging domestic and external environment characterized by elevated food and energy prices risks and rising cost of living, the authorities pressed ahead with its reform agenda.

Morocco has continued to enjoy macroeconomic stability in 2023 and advance in its ambitious agenda of structural reforms, despite climate change challenges compounding the existing difficulties related to the aftermath of COVID and the spillovers effects after the war in Ukraine. The increased frequency of drought underscores Morocco's vulnerability to climate change. Despite strong tourism and export dynamics, GDP growth for 2023 has been revised downward due to lower-than-expected agricultural production. The drought has also affected inflation by contributing to higher food prices. More frequent droughts and increasing water scarcity affect adversely Morocco's potential output and undermine inclusiveness efforts particularly in rural vulnerable areas.

Climate Change Challenges

Morocco is one of the world's most water-stressed countries. Water availability decreased sharply between 1960 and 2020 from 2,560 cubic meters to about 620 cubic meters per person per year during this period, due primarily to population growth and compounded by a reduction in rainfall and an increase in temperature. The water deficit in 2020 was estimated at 1.8 billion cubic meters per year, with demand expected to increase by 15 percent between 2020 and 2050.

Unequal regional distribution of water complicates further water security challenges, with most of the surface water resources concentrated in the northwest of the country. Surface water shortages have led to the over-exploitation of groundwater resources.

The authorities are fully conscious of the risks associated with, and the vulnerability of the country to, climate change consequences. Recognizing the severity of climate-related challenges for the country, the authorities have been making significant efforts in implementing mitigation policies and building climate-resilience infrastructure. Environmental priorities are now integrated in the country's mainstream development policies to ensure economic growth and environmental sustainability.

The authorities also view climate change as a source of opportunities for Morocco's development. With a particularly generous endowment in renewable energy (RE) sources, Morocco is well-positioned to reap the benefits of the global decarbonization agenda as it transitions to a new model of development.

The Role of the RSF Arrangement

The authorities have requested an RSF arrangement to help address climate vulnerabilities and seize the opportunities from decarbonization. The RSF arrangement is expected to weather Morocco's macro critical risks associated with climate change and mobilize alternative financing sources for its planned green transition. It would also help the authorities bolster resilience against climate change, including to strengthen preparedness for natural catastrophes and stimulate financing for sustainable development.

The measures under the RSF will help Morocco boost investment in RE, increase energy efficiency, strengthen resilience to natural disasters, and green its financial sector and tax systems. The RSF will support the authorities' efforts to tackle water scarcity by preparing the ground for a valuation of water at the right price and better safeguarding groundwater resources. It is expected to help pursue BOP stability by reducing dependence on imported energy, help attract FDIs, and pave the way for catalyzing private financing. Incentivizing the private sector to play a greater role in addressing climate challenges, will alleviate the fiscal and balance of payments pressures associated with climate adaptation and mitigation efforts. The RSF arrangement will support Morocco's ambitious goal of transitioning to a net-zero emissions economy by 2050.

Morocco's Efforts in Addressing Climate Change Challenges

Aware of the importance of these challenges, over the past 15 years, Morocco has proactively and voluntarily implemented structural projects aimed to adapt to and mitigate environmental constraints as well as prepare for future climate change and natural disasters. While it has ambitioned to provide a concrete response to Morocco's international commitments following the ratification and signature of several international protocols and conventions, including the Kyoto Protocol and the Paris Agreement in 2016, this strategy aimed to strengthen Morocco's prospective balance of payments stability.

Energy Reforms and Renewable Energy

Morocco takes pride of being one of the first middle-income countries to embark on an ambitious renewable energy development program through its National Energy Strategy 2009–30. It launched more than a decade ago flagship renewable energy projects, mainly wind and solar projects, which have brought the share of RE to about 38 percent of installed power-generation capacity in 2022. Morocco can also take advantage of its abundant competitive renewable energy resources to reduce its still high dependence on fossil fuels, help Moroccan firms' competitiveness in neighboring markets, and shield the economy from the impacts of external shocks. Morocco has one of the highest rates of solar insolation worldwide, with about 3,000 hours of sunshine per year. The average wind speed is 5.3 meters per second in more than 90 percent of the country's territory.

Energy decarbonization would require significant investments in renewable energy, which should be largely shouldered by the private sector. Morocco's aims at increasing renewable energy in the energy mix to 52 percent of total installed power capacity by 2030. Developing RE potential could even turn Morocco into an exporter of energy. Reducing industrial exports' carbon intensity would yield a critical comparative advantage in markets embracing a green transition, most notably the European Union. Energy transition could bring net job creation on a substantial scale. In parallel, Morocco also aims at increasing the share of natural gas (an energy transition fuel) in the energy mix and gradually reducing the share of coal.

Attracting private sector investment in RE would require further progress in reforming Morocco's electricity market. Until a decade ago, Morocco's state-owned utility company (ONEE) had a monopoly on the generation, transmission, and distribution of electricity in Morocco. The authorities have long recognized the need to reform the electricity market. The legislation opened RE production to the private sector and gave the Moroccan Energy Authority (ANRE) the power and resources to regulate the electricity sector. Distribution activities were opened to municipalities and private concessionaires. Currently, the planned unbundling of ONEE into separate generation, transmission, and distribution companies would allow for greater competition, boost investment in RE, and eventually leads to lower electricity prices. This unbundling requires first separating the financial accounts of ONEE's electricity transmission business from the rest of its other businesses.

The authorities are aware that more efforts are also needed to improve energy efficiency across all sectors. The National Sustainable Development Strategy has set an energy efficiency objective of 20 percent by 2030 particularly in transportation, construction, industry, agriculture, and public lighting. One of the goals of the efficiency agency (the Moroccan Agency for Energy Efficiency) is to propose and promote standards and labels for the energy efficiency of appliances and electrical equipment. The Agency is also in charge of monitoring and coordinating at the national level the mandatory energy audits and ensuring the implementation of the recommendations of these audits.

Water Management

The Moroccan authorities accord high priority to addressing water scarcity. Government policies in this area include increasing water supply, using efficiently existing water sources, better safeguarding groundwater resources, but also preparing the ground for a new water tariff framework. Major water projects are already operating. These include diverting water from excess supply regions to those experiencing water shortage—such as the interconnection from the Sebou River, where excess water traditionally lost in the Atlantic Ocean, towards the Bouregreg River to guarantee water supply to nearly 12 million inhabitants of Rabat and Casablanca regions while alleviating the pressure on the Al-Massira Dam. Reforms in the water sector are closely linked to those in the energy sector. Seawater desalination and the reuse of treated wastewater are highly energy intensive. Several desalination and reuse projects are already operating or under construction and are planned to be powered by renewable energy. The authorities plan to continue to boost investment in water infrastructure and complement this effort with demand management reforms that bring the price of water closer to its actual cost and induce a shift in consumption behavior.

For the longer term, the government has prepared a comprehensive large-scale National Water Plan 2020–50 to address Morocco's water challenges. The plan foresees additional investment in new dams and interconnections across basins, desalination plants and wastewater use plants. Morocco plans to triple its desalination capacity by 2030, adding nine new plants to the existing 11 and 7 under construction. The plan also includes actions to reduce water losses in transport and distribution, and additional efforts to increase water efficiency in the agricultural sector through the continued modernization of irrigation systems. The 2020-50 plan’s overall investment is expected be financed by public–private partnership schemes.

Morocco is also targeting improved demand management through water conservation and recovery (drinking, industrial, and irrigation) and wastewater reuse. A communication and awareness-building strategy is also an important component of the authorities' policy.

Public Finance and Financial Sector Policy

The Moroccan authorities are convinced that putting in place policies to counter climate change challenges also requires accompanying measures in the areas of fiscal and financial policies. Successful reform implementation between 2013 and 2015 eliminated most explicit subsidies on fuels, except for those on gas butane. The authorities acknowledge that implicit “brown” subsidies stemming from tax exemptions still remain. A tax reform that increases the price of carbon and removes gradually the remaining “brown” subsidies and tax exemptions could promote behavioral changes aligned with climate objectives.

In parallel, the government will expand cash transfers to the most vulnerable households under the new Unified Social Registry, and help farmers replace gas butane with solar pumps for irrigating small agricultural lands. Morocco has introduced tax incentives for activities considered green to encourage the transition to cleaner energies.

Bank Al Maghrib (BAM) has embarked on a process to incorporate climate change into its mission, ensure that the banking sector remains robust in the face of climate risks, promote green finance, and reduce the environmental footprint of its activities. BAM has undertaken a series of initiatives, including the 2021 publication of a directive on managing climate change and environmental-related financial risks.

Capitalizing on the achievements realized in greening the financial system following COP22 in Marrakech in 2016 and in mobilizing the private sector in favor of financing the climate transition, Morocco is committed to setting up and implementing a national climate finance strategy. Its goal is to estimate the potential financing needed and the way to mobilize the funds by the financial sector to achieve the country's climate change mitigation and adaptation objectives while improving climate risk management in the financial sector.

Morocco has developed a sophisticated architecture for disaster risk management (DRM) and disaster risk financing. With the help of the World Bank, the country has developed a DRM system building on innovative schemes, including the Natural Disasters Resilience Fund, initially created to finance post-disaster reconstruction, and then turned into a mechanism that co-finances disaster risk reduction and preparedness investments at the local level. It has also strengthened its financial resilience to natural disasters through the establishment of a dual catastrophic risk insurance regime that combines a contributory scheme for insured households managed through private insurers and a public compensation scheme that provides partial compensation to those who are not covered, via a Solidarity Fund Against Catastrophic Events.

Conclusion

The government is committed to achieving its high ambitions for climate action under the National Determined Contribution that was revised in 2021, with a target of reducing greenhouse gas (GHG) emissions by 45.5 percent by 2030. The requested RSF arrangement would enable Morocco to implement its energy and climate strategies and meet its commitments under the United Nations Framework Convention on Climate Change and complement financing mobilized from other donors. To achieve the objectives set by the energy strategy and attract more private investment, the government is committed to continuing the in-depth restructuring of the electricity market.