May 2003
IMF Country Report No.03/141

Morocco: 2003 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Morocco

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **January 30, 2003**, 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 April 4, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its April 28, 2003 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Morocco.

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

Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

MOROCCO

Staff Report for the 2003 Article IV Consultation

Prepared by Staff Representatives for the 2003 Consultation with Morocco

Approved by Lorenzo L. Perez and Matthew Fisher

April 4, 2003

- The discussions for the 2003 consultation were held in Rabat during January 15–30, 2003.
- The team comprised Messrs. Lazare (head), Fanizza, Le Dem, Sarr, and Mikhael (all MED). Messrs. Durand and Bouscharain (both MAE) also joined the mission to discuss FSAP conclusions with the authorities. Mr. Abed (director, MED) participated in the final policy discussions. Mr. Dairi (Alternate Executive Director for Morocco) also participated in the discussions.
- The mission met with Messrs. Jettou (Prime Minister), Oualalou (Minister of Finance and Privatization), Seqat (Governor of Bank Al-Maghrib), as well as with other ministers and government officials. It also met with the association of the Moroccan employers and with trade unions. A press conference was held at the end of the mission.
- At the conclusion of the last Article IV consultation on July 11, 2001, Executive Directors commended the authorities for maintaining macroeconomic stability, despite adverse weather conditions and terms of trade developments. In this context, they encouraged the authorities to take measures to place fiscal policy on a sustainable path. Directors also encouraged the authorities to step up efforts to foster growth and reduce poverty on a sustained basis.
- The authorities consented in principle to the Fund's publication of the staff report.
- The authorities have completed a ROSC on statistics which they have agreed to publish.
- Morocco accepted the obligations of Article VIII, section 2, 3, and 4 in January 1993.
- The authors of this report are Messrs. Lazare, Fanizza, Le Dem, Sarr, and Mikhael.

Contents

Page

Text Boxes

Figures

Appendices

I. Executive Summary

- Morocco has achieved macroeconomic stability in the 1990s. However, its economic performance has been disappointing over the last decade and economic growth has remained heavily dependent on agriculture, although the non agricultural sector performance has recently improved. Per capita income has stagnated while poverty has increased in the 1990s. Economic reforms progressed slowly during the second half of the 1990s, as the authorities focused essentially on democratization and political reforms.

- Macroeconomic conditions remained stable in 2002 with low inflation, high external reserve coverage, and a significant current account surplus. Economic activity benefited from better agricultural conditions and a recovery in private sector activity in late 2002.

- After deteriorating considerably during 1999–01, Morocco's fiscal position improved in 2002 as a result of savings in the wage bill and interest payments. After a substantial easing reflecting large foreign inflows, monetary conditions tightened at the end of 2002 as a result of an increase in reserve requirements while the pace of implementation of government structural reforms slowed down somewhat.

- Following the September 2002 parliamentary elections, the new government under the leadership of Mr. Driss Jettou, has taken a more business-friendly and reform-oriented approach, which resulted in an improvement in business confidence. The ongoing economic revival could gain momentum leading to a further acceleration in growth in 2003. The external current account surplus is expected to narrow, reflecting higher imports linked to a pickup in private investment. However, the military intervention in Iraq could result in a worsening of short-term prospects and result in a lower growth rate and a decrease in external reserves.

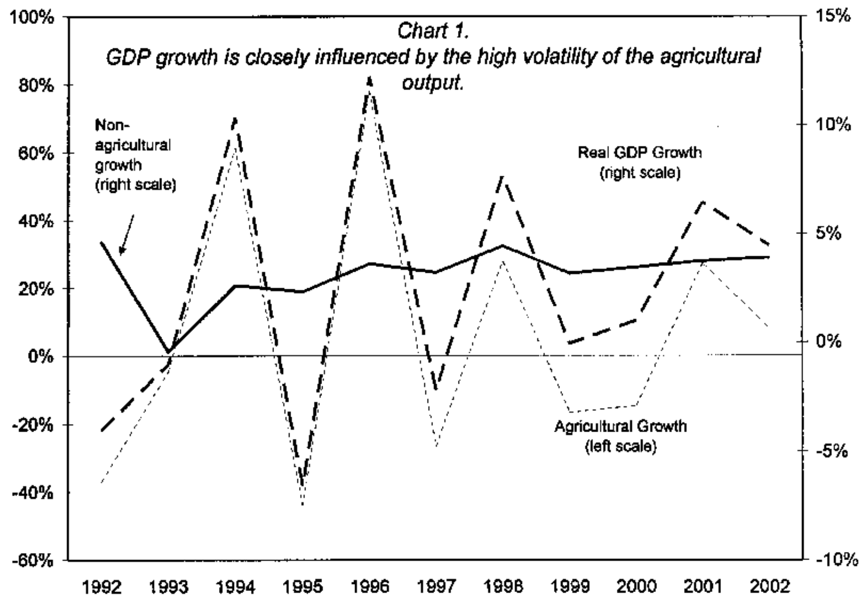
- The main challenge for the new government is to implement the economic reforms forcefully to improve growth and employment prospects. Over the medium term, an objective of 5 to 6 percent growth and a fiscal deficit below 3 percent of GDP, should be reachable if the authorities embark on a strong reform program to remove labor market rigidities, streamline and modernize the civil service, liberalize trade, modernize the financial sector, and tackle the weaknesses identified by the FSSA.

- The authorities need to consolidate the fiscal position in 2003 and the medium term, by taking stronger measures on both the revenue and expenditure sides: reform the VAT to offset the impact of lower external tariffs on customs collections, and phase out tax holidays and special exemptions on direct taxes; eliminate food subsidies; reduce the allocations for contingent spending; and maintain the trend toward reducing the wage bill.

- While there are no signs of a current misalignment of the exchange rate, a reform of the monetary and exchange rate policies with the adoption of a more flexible exchange regime should be considered over the medium term in order to facilitate economic integration and preserve competitiveness. This would require replacing the exchange rate with monetary policy as nominal anchor. For this purpose, a well defined monetary framework needs to be developed.

Background and Recent Developments

Overview and Structural Reform Issues



1. **Morocco's growth has been insufficient to reduce poverty and unemployment.** Economic growth depends heavily on agricultural production and climatic vagaries (Chart 1). The structure of the economy remains dual, with a modern sector but also a large traditional agricultural sector employing about 45 percent of the labor force but accounting for only 16 percent of GDP. Poverty is pervasive and has increased in the 1990s while real per capita income has stagnated. Unemployment in urban areas is close to 20 percent, but reaches 35 percent for 15–24 year olds.

2. **The main policy challenge has, therefore, been to put the economy on a sustainable higher growth path.** Against this background, Fund surveillance focused on the needs to: (a) implement a private-sector-led and export-oriented strategy and improve on external competitiveness; and (b) set fiscal policy on a sustainable basis and avoid relying on privatization proceeds to finance increased government spending.

The coalition government elected in 1996 succeeded in leading Morocco through democratization and political reforms, which culminated with the holding of fair and open general elections in September 2002; however, it only implemented a limited part of its economic reform agenda. The later included enhancing labor market flexibility, rural development, privatization, improving governance, trade liberalization, and increasing competition in the domestic economy. Major achievements encompassed the privatization of Maroc Telecom in 2000–01, the sale of a cellular telephone license in 1999, and a wide ranging modernization of customs; in addition, trade liberalization moved forward according to the schedule under the association agreement with the European Union ratified in 2000 and reference prices for customs valuation were eliminated in 2002. However, pressure groups and vested interests blocked a number of other crucial reforms that the government had started to prepare. These included a new labor legislation, a new competition law, a reform of the public sector, a strengthening of the judicial system, and a lowering and rationalization of the multilateral external tariff.

B. Macroeconomic Policies

4. **From 1999, the fiscal position deteriorated considerably, as the wage bill rose and revenue performance weakened because of external tariff reduction and erosion of the domestic tax base.** By 2001, the overall fiscal deficit was running at about 6 percent of GDP for the second consecutive year, while the government total debt-to-GDP ratio, including unremunerated debt, declined owing to substantial proceeds from privatization. The large budget deficits did not produce adverse effects on macroeconomic stability because they were financed by large privatization revenues and the fixed exchange rate provided a nominal anchor. Domestic demand remained sluggish which contributed to the maintenance of stability.

5. **The fiscal outcome for 2002 indicates a substantial improvement in public finances.** The central government deficit narrowed by about 1 percentage point of GDP compared to the 2001 outcome and to the initial budget for 2002. The debt-GDP ratio declined to 70.6 percent of GDP from 74.7 percent of GDP in 2001 (Box 1). The narrowing of the fiscal deficit in 2002 reflects various factors, some resulting in permanent savings, others being only one off:

- lower interest spending, as a result of both lower debt and interest rates;
- savings in the wage bill;
- a significant surplus of the special treasury accounts assumed balanced in the budget; and
- lower-than-budgeted capital spending from a special investment fund (*Fonds Hassan II*).

Tax revenues continued to decline as a portion of GDP because of the impact of tariff reductions on EU imports and erosion of the tax base (Box 2). Tax collections were, however, higher than projected by the budget law for 2002.

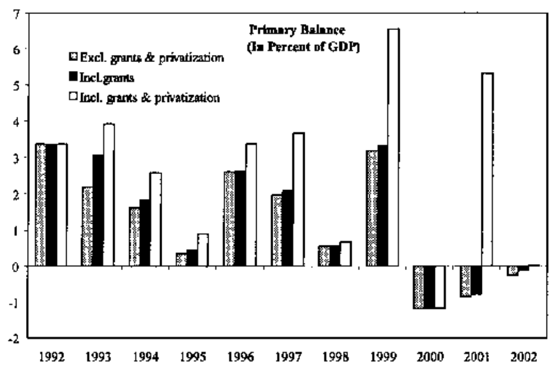
6. **In 2002, budgeted privatization proceeds failed to materialize, but were easily replaced by the issuance of additional government securities.** Demand for fixed rate government securities from the nonbanking sector rose, pushed by abundant liquidity conditions and declining interest rates.

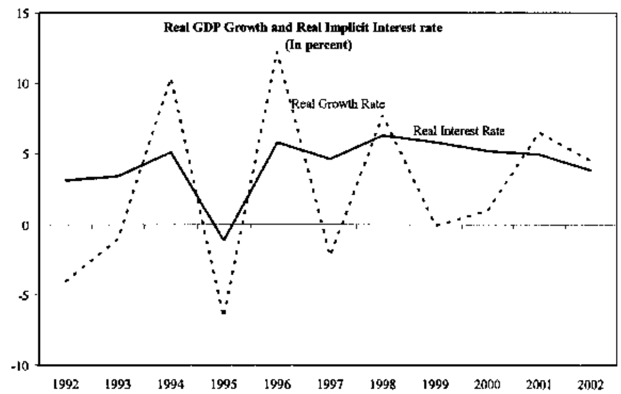
7. **Following the 2001 Article IV consultation discussions, Morocco devalued the dirham by 5 percent in April 2001 after pegging it to a basket of currencies for about a decade, which had resulted in a substantial real effective appreciation.** The currency basket was also modified to raise the weight of the Euro, to reflect higher integration with the EU. The dirham depreciated by 4.8 percent between 2000 and 2002 in real effective terms (Chart 2).

Box 1. Debt Dynamics in Recent Years

Central government debt-to-GDP ratio, including unremunerated debt, declined from 86 percent in 1992 to 70.6 percent in 2002 (Table 3). This decline reflected the impact of surpluses of the primary balance until 2000, when it shifted into deficit. Nevertheless, the debt-to-GDP ratio continued to decline in 2001 and 2002 because of:

- a rebound in overall growth following a severe drought brought the rate of growth of real GDP above the real interest rate, and
- large privatization revenues contributed to deficit financing.





In 2002, a favorable real interest rate/growth differential and a near primary balance contributed to reducing the debt-to-GDP ratio by 0.5 percent of GDP. However, the observed decline in the debt-to-GDP ratio was considerably larger (from 74.7 percent in 2001 to 70.6 percent in 2002) due to the following factors:

- Nonbank financing from public-sector deposits consolidated at the treasury and not accounted for a debt in the Moroccan public accounting system (2.1 percent of GDP)—see below.

- Valuation effects on external debt (1.2 percent of GDP) and debt/equity swaps (0.3 percent of GDP).

The consolidation of public-sector deposits at the treasury (so called *"circuit du trésor"* in francophone countries) allows the treasury to cover its financing needs while guaranteeing the liquidity of public-sector deposits. Establishments with deposits at the treasury generally include the postal system, public agencies, and some public enterprises. This source of financing delinks financing requirements and the recourse to debt generating domestic financing flows (see IMF WP/02/58 for a further details).

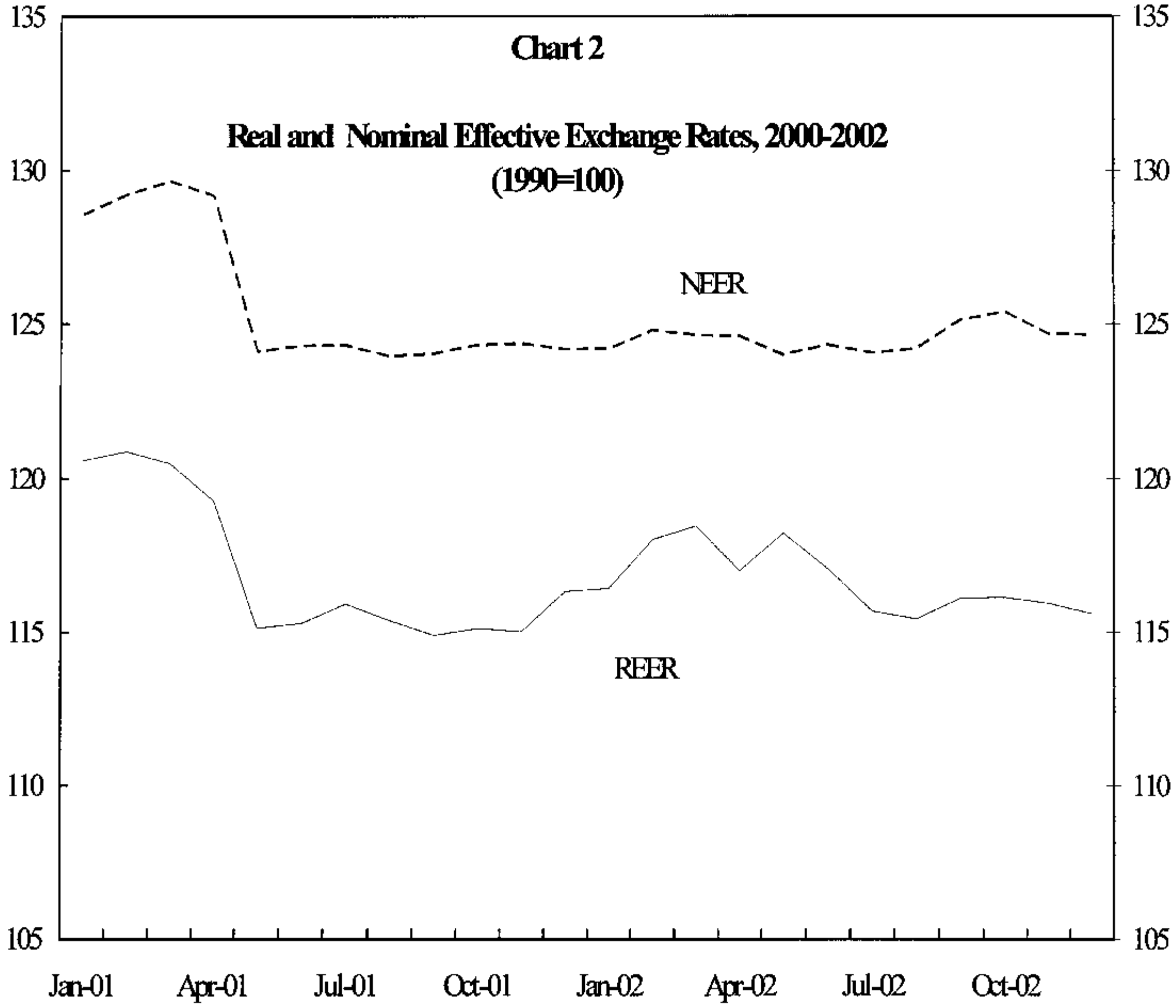
Box 2. Tax Revenues Performance

Tax revenues have declined from 24.1 percent of GDP in 2000 to 22.2 of GDP in 2002 because:

- **Trade taxes fell from 4.7 percent of GDP to 3.5 percent.** This decline reflected both reductions in external tariff rates under the AAEU and the elimination of tariffs that financed subsidies on edible oils. Tariffs on imported inputs for the production of specific products were also lowered to reduce production costs and promote investment and exports. Examples include tariff reductions for capital goods in the construction, health, and information technology sectors, and inputs used in light manufacturing (e.g., tires, cosmetics, chemicals, automobile parts) in 2001 and 2002.

- **Indirect taxes declined from 10.4 percent of GDP to 9.8 percent because of declining VAT collections on imports, while collections on domestic goods stagnated.** VAT revenues declined from 6.1 percent of GDP to 5.8 percent. This development reflected in part the erosion of the tax base on imported goods as trade liberalization proceeded but also increased exemptions on domestic and imported goods. Budget laws for both 2001 and 2002 introduced new VAT exemptions and special treatments for specific sectors. Examples include: (i) the reduction of the VAT rate on catering from 20 to 10 percent (2001); (ii) reduced VAT rate for rental buildings used as hotels (2001); (iii) the elimination of the VAT on health services (2001); (iv) the exemption from the VAT of international transport and related services (2002); (v) the deductibility of the VAT on diesel fuel for public transport companies and enterprises providing their own transport services (2002); and (vi) reduced VAT rates for pharmaceutical products, their production inputs, and their packing materials (2002). Consumption taxes (TIC) accounted for the remainder of the decline in indirect taxes mainly reflecting lower tax revenues on energy products since the authorities reduced the TIC on energy products in 2001 to contain the cost of electricity.

- **Direct taxes have remained at about their 2000 level in percent of nonagricultural GDP, with a small decline from 7.6 percent of GDP to 7.4 percent of GDP.** The yield of the direct tax system is limited by various investment incentives and sector-specific tax exemption which have eroded the tax base. In 2001, Fund technical assistance pointed out the inefficiency of these measures which include, among others, (i) 100 percent exemptions of agricultural income (until 2010); (ii) 20 percent exemption on taxable revenue if reinvested within 3 years; (iii) 100 percent exemption for exporting companies the first five years and 50 percent thereafter; (iv) 100 percent exemption for low-income housing construction companies; and (v) a proliferation of tax exempt economic zones.

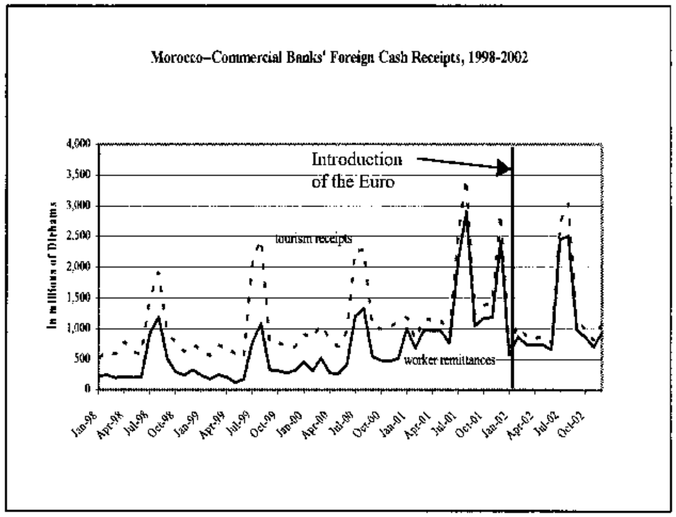


8. **Monetary policy managed to avoid a rise in inflationary pressures despite large external inflows linked to workers' remittances** (Box 3). Flushed with abundant liquidity, commercial banks invested both in the money market and in government securities contributing to a decline in interest rates. Bank Al-Maghrib (BAM) started in May 2002 to absorb liquidity through short-term deposit auctions, and in mid-December, raised reserve requirements substantially.[1] As a result, liquidity conditions tightened substantially, and the money-market interest rate stabilized; money growth returned within BAM's target range of 6.5–7.5 percent (Figure 1).

[1] On December 26, 2002, BAM raised the reserve requirements for commercial bank deposits from 10 percent to 14 percent. BAM also reduced its main intervention rate from 3.75 percent to 3.25 percent and started to remunerate required reserves at a rate of 0.5 percent to mitigate the impact on banks' resource costs.

Box 3. Recent Increase of Private External Transfers

The strengthening of Morocco's official reserves since 2000 is more than half due to the increase in private transfers from abroad. The rise was originally attributed to the one-off impact of the introduction of the euro on January 1, 2002: residents exchanged accumulated cash holdings of national European currencies for dirhams ahead of the introduction date. Indeed, commercial banks received unusually large amounts of foreign banknotes in 2000–01.[1] However, private transfers channeled through banks increased as well, although less so, in 2001. Moreover, private transfers from abroad hardly decreased after the launch of the euro.



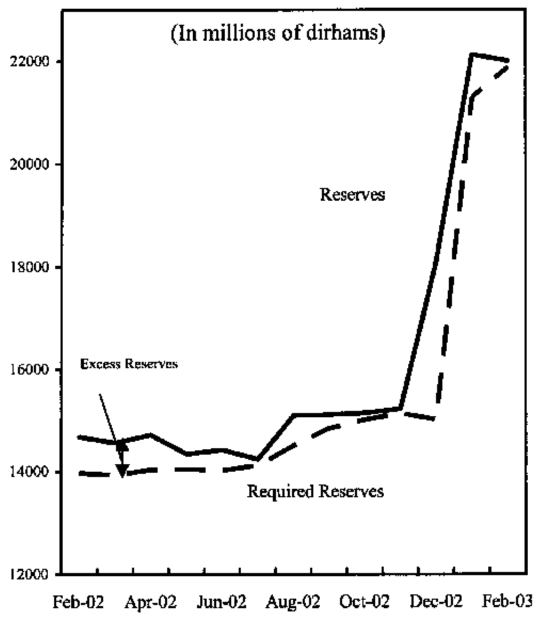
The causes of the recent increase in private transfers are not fully understood. Improved confidence in the Moroccan economy and in the dirham, and larger migration flows may have had a positive impact on remittances but cannot explain such a sudden increase. Another possible factor could be linked to recent methodological changes in the statistical breakdown between private transfers and tourism receipts in cash. More convincing, although difficult to document, is the possibility that higher private transfers could reflect a portfolio reallocation of the Moroccan expatriates away from OECD countries. These capital inflows, which the statistical authorities capture as private transfers, could be triggered by the fallouts of the September 11 events. The tightening of AML/CFT banking regulations and increased fears that assets in western banks could be frozen may have induced capital repatriation. Similar fears, according to anecdotal evidence, could also have reduced illegal capital outflows by Moroccan residents, and thereby opportunities for informal private transfers to Morocco. This would have indirectly increased the amount of private transfers through official channels.

---

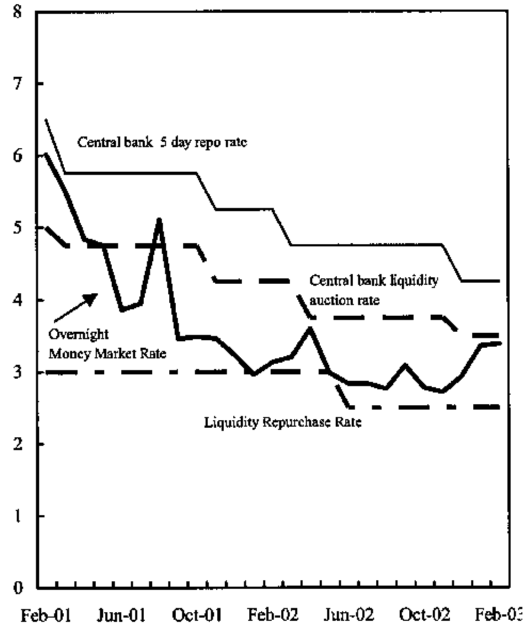
[1]Cash private transfers increased by almost four-fold between 1999 and 2001, whereas during the same period, interbank private transfers increased by 40 percent. The impact of the introduction of the euro could be conservatively estimated at US$1 billion.

Figure 1. Monetary Developments, 2001–2002
(In percent, unless indicated otherwise)

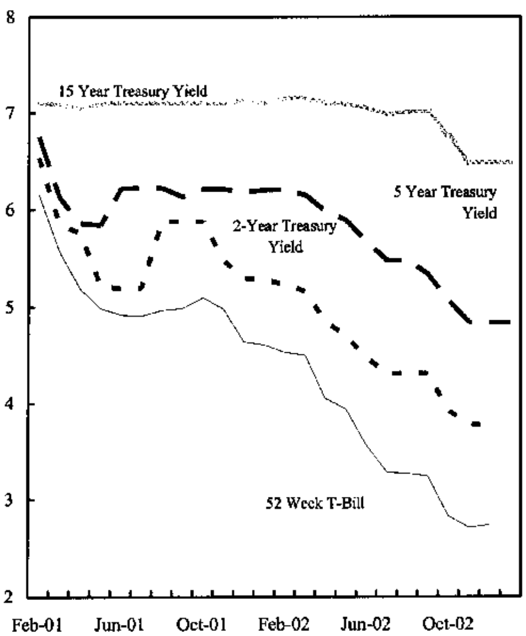
Banks maintained excess reserves until December 2002, when BAM raised the reserve requirment...



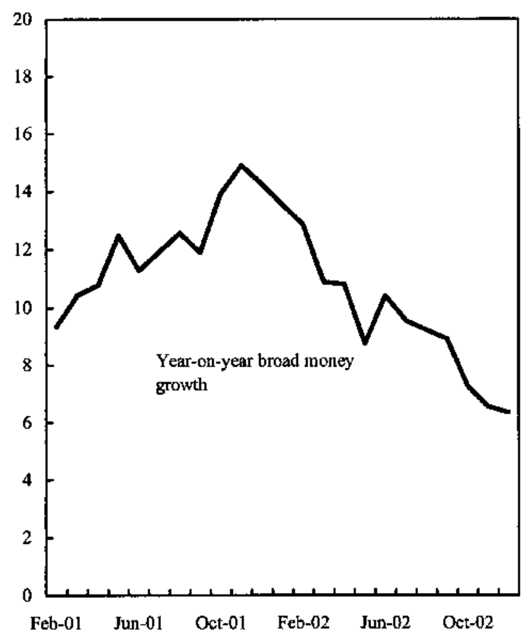
The downward trend in interest rates reversed as a result of an increase in reserve requirements...



Interest rates on government securities declined until December 2002 and then stabilized...



Broad money returned within the BAM target rate by end 2002.



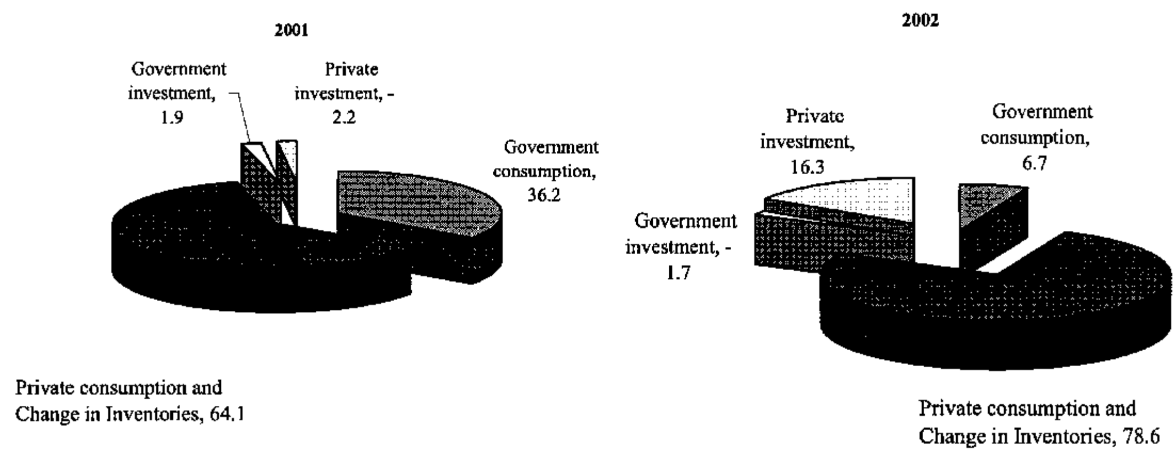
Source: Moroccan authorities, Bank Al-Maghrib.

C. Signs of Economic Recovery in 2002

9. **Economic activity started to improve in 2002.** Investment demand showed signs of revival in 2002, after stagnating in 2001. Private consumption also rebounded somewhat because of increased agricultural income, but overall domestic demand remained weak during the year possibly because of the uncertainties associated with the elections (Chart 3). Excluding agriculture, GDP growth edged up to 3.9 percent from 3.7 percent in 2001 despite a decline in tourism and the slowdown in external demand. Construction and other services led this acceleration. Inflation remained subdued (Chart 4). The external reserve coverage improved to more than nine months of imports. Exports rose despite adverse developments in the phosphate world market as a result of diversification (electronic and electrical products) (Chart 5). Workers' remittances declined only marginally after the peak reached in 2001, and contributed greatly to the maintenance of a current account surplus despite the substantial drop in tourism receipts following the September 11, 2001 events.

Chart 3. Contribution to Domestic Demand Growth
(In percent)

Some signs of recovery in 2002, the contribution of private investment shifts from negative to positive, while the contribution of government consumption and investment becomes lower.



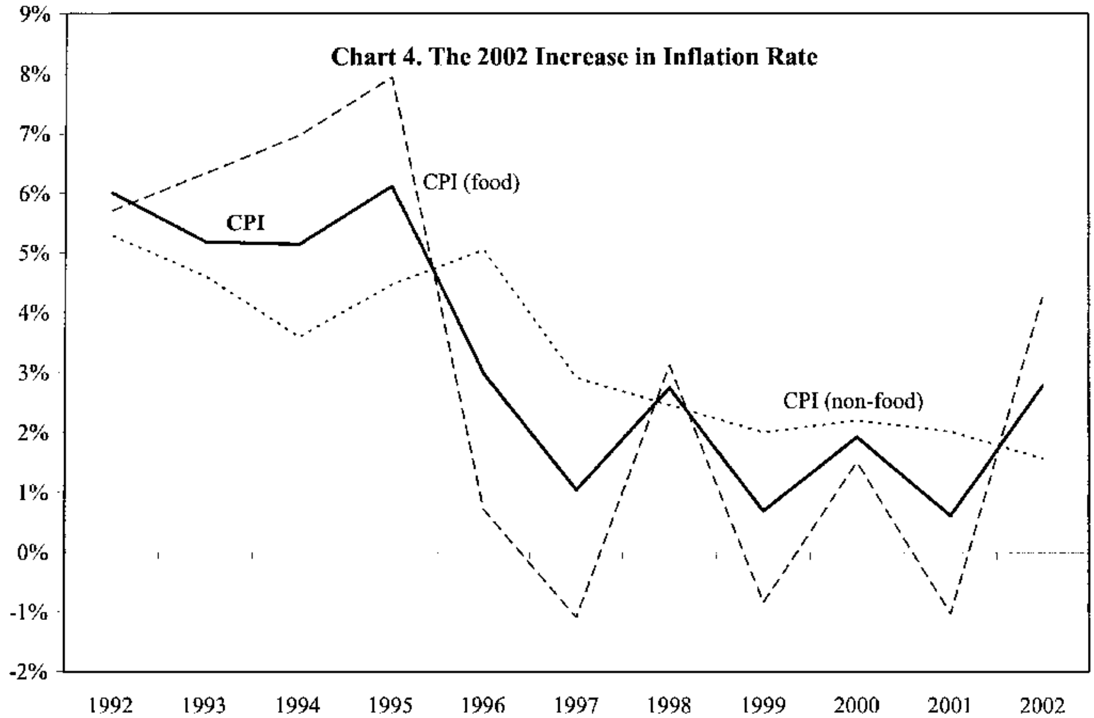


Chart 4. The 2002 Increase in Inflation Rate
CPI (food)
CPI
CPI (non-food)
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002

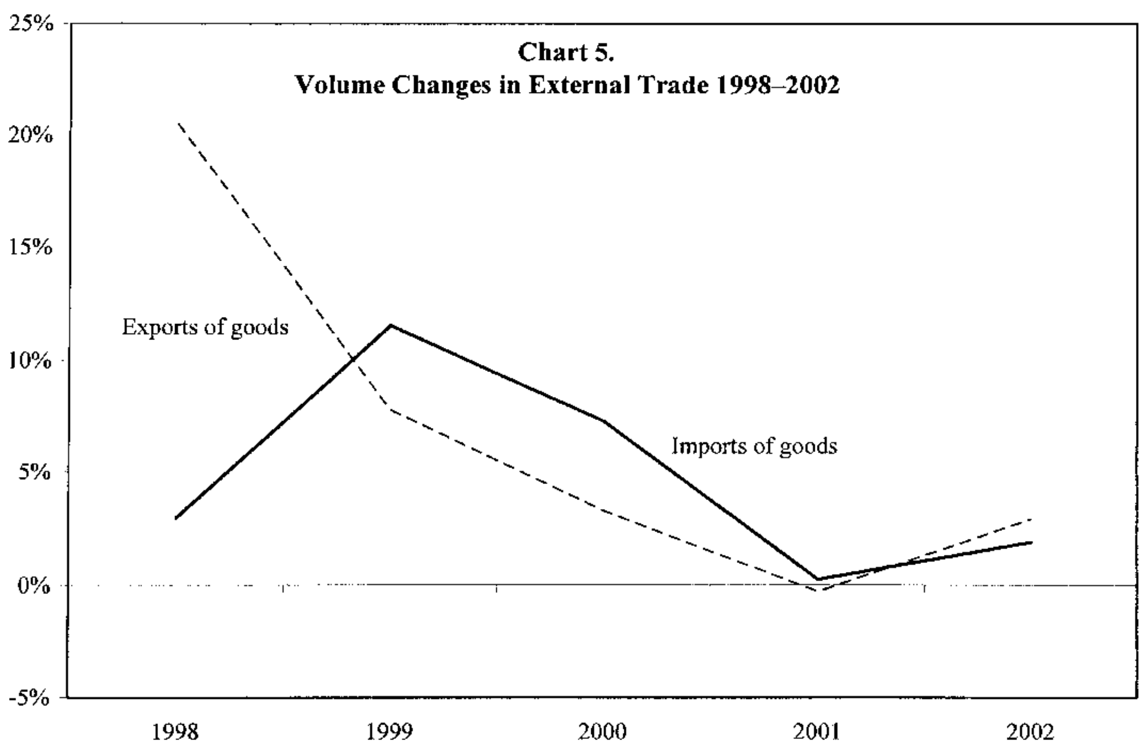


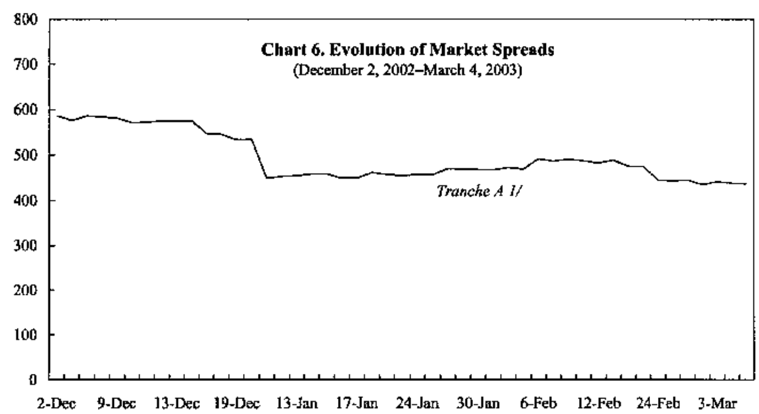
Chart 5.
Volume Changes in External Trade 1998–2002
Exports of goods
Imports of goods
25%
20%
15%
10%
5%
0%
-5%
1998
1999
2000
2001
2002

III. Short-Term Outlook and Risks

10. **Business confidence improved substantially following the September 2002 election.** The socialist party (USFP) and the center-right nationalist party (Istiqlal) are the prominent members of the new coalition. The newly appointed Prime Minister, Mr. Driss Jettou, reportedly enjoys strong support from His Majesty Mohammed VI, who retains the key role in Morocco's political system. The new government has raised expectations for a comprehensive reform effort and the pursuit of fiscal consolidation. During its first months in office, the government has already taken some measures. It has (a) taken steps to change the remuneration and promotion system in the civil service; (b) agreed with the employers' association in the textile and tourism sectors on strategies to improve the sector's competitiveness; (c) implemented the 1999 law liberalizing transportation of goods; and (d) continued the progress made in transferring to public pension funds the retirement schemes created by public enterprises. In February 2003, it initiated the process to privatize the tobacco monopoly (*Régie des Tabacs*), which it expects to conclude by end-June with foreign proceeds which could be close to 2 percent of GDP.

11. **The new approach to economic reform has already started to affect market views on the Moroccan economy**:

- Secondary market spreads on Morocco sovereign debt have narrowed considerably since November 2002 (Chart 6).
- A credit rating agency has modified its outlook on the Moroccan economy from negative to stable in February 2003.



Source: Merril Lynch.
1/ Maturity in 2009, Bench Spread over the 2 year US Treasury Bond.

12. **With the improvement in business confidence and more favorable weather conditions since late 2002, the ongoing economic revival could gain momentum and accelerate growth in 2003 to 5.5 percent**. Workers remittances are expected to remain at levels as high as the ones experienced in 2001–02, but the external current account surplus should narrow somewhat, reflecting higher imports linked to a recovery in private investment. Proceeds from privatization would help external reserves to remain close to nine months of imports. Money growth is prudently projected at 7 percent and inflation is expected to fall to about 2 percent.

13. **Nonetheless, the military intervention in Iraq, together with anemic growth in the EU, could have serious adverse consequences on Morocco's external economic environment and significantly worsen short-term prospects.** In a worst case scenario, the fallout from the military intervention could have a major impact on both Morocco's external

position and growth outlook, but the high level of its external reserves should allow the country to withstand the shock. The military intervention could cause tourism receipts to fall by as much as one percentage point of GDP in 2003 while a slowdown in world economic activity could reduce the country's proceeds from exports. A rise of crude oil prices equivalent to US$10 per barrel above the baseline scenario would narrow the external current account surplus by 2 percentage points of GDP in 2003. Given a likely halt to direct investment flows, this scenario could imply a decline in the country's external reserve coverage to 7 months of imports. The rate of growth could slow by 1.0–1.5 percentage points, while assuming full pass through to consumption of higher import prices, average consumer price inflation might be in the range of 2.5–3.0 percent.

IV. Policy Discussions

14. **Morocco needs to reinvigorate its economic reforms.** A forceful implementation of economic reforms could boost the credibility of the authorities' medium-term strategy and trigger favorable market reactions. This would, in turn, lead to improved growth and employment prospects. Otherwise, recent improvements in private expectations will be reversed, leading to sluggish economic performance and a deterioration in social conditions, which may eventually weaken macroeconomic stability. The policy discussion with the authorities focused on the key elements of their economic reform strategy. The staff stressed, at the outset, the need for a comprehensive policy approach, including not only structural actions to improve productivity and the private investment climate, but also appropriate fiscal, monetary, and exchange rate policies in support of the growth objective.

A. Accelerating Structural Reforms

15. **The authorities and the staff agreed that achieving growth rates in the 5-6 percent range on a sustainable basis was the minimum required to significantly improve per capita income, reduce unemployment, and poverty**. To achieve this objective, policies would need to aim at raising total factor productivity and private investment by removing the major obstacles to an efficient allocation of resources and market functioning. The staff and the authorities agreed that private-sector activity was stifled by the lack of domestic competition, limitations of the judicial and financial systems, and labor-market rigidities. The staff indicated the following priorities:

- **Public sector reform.** The aim is to reduce government intervention and regulation, and improve efficiency in the delivery of basic public services. The authorities pointed out that significant preparatory work had already been done. A recently completed public-expenditure review had helped identify expenditure priorities and made proposals to enhance the effectiveness of health and education spending. Moreover, the ongoing reform of the promotion system for civil servants should help in providing adequate incentives for civil services.

- **Upgrading the overall business environment.** The increasing openness of Morocco's economy calls for efforts to improve competitiveness of domestic firms, which are not equipped to face the challenge. Efforts should focus on creating a level playing field and on removing the obstacles to the creation of new enterprises. The authorities have already taken steps in this direction: (a) the law on domestic competition is to be implemented; (b) one-stop investment windows at the regional level are being established; and (c) a working group comprising representatives of the authorities and of the industrialists are studying measures to improve competitiveness of the economy (*"la mise à niveau"*) and are expected to make concrete proposals in the very near future. The staff stressed the need to avoid ad hoc sectoral measures or special incentives and/or tax privileges, which could distort the allocation of resources, and urged the authorities to move forward with measures to favor industrial restructuring.

- **Reform of the labor market.** Reducing unemployment remains the most challenging objective (Box 4). The authorities and the staff agreed that Morocco's labor-market rigidities, in particular legal obstacles to the dismissal of employees, have a long-term adverse impact on employment. The authorities intend to submit to parliament in spring 2003 a new labor code proposal that would reduce these rigidities.

Box 4. Unemployment Challenge

Morocco suffers from a long-lasting unemployment problem that persisting demographic trends are likely to worsen in the medium term. The working-age population is expected to continue to grow at a relatively high rate, about 2 percent annually. Participation rates are low (only one out of two adults participates in the labor force, of which one out of 4 is a woman) and could increase substantially. Unemployment remains high, notably in the urban areas. A reduction of the unemployment rate seems to reflect a temporary decline in participation rates as result of discouraged job seekers.

The labor market suffers from serious rigidities which contribute to a deep segmentation between a high-pay, low-mobility formal sector and a low-pay, unregulated informal sector. Within the formal sector, public sector employees benefit from substantial wage and non-wage premiums in comparison to the private sector. The urban minimum wage is high (1.6 the 2002 GDP per capita) and well enforced. Non wage labor costs are high: before 2002, social security contributions accounted for 24 percent of the gross wage earned in the private sector on average and the total wedge on labor income is large, also reflecting income taxes, the compulsory workers' accident insurance coverage, and optional but frequent complementary medical and retirement plans partly financed by employers. The raise in social security contribution rates, implemented in April 2002, contributed to increase this wedge. Hiring and firing regulations are severe and tightly enforced; individual layoffs are prohibited, except for disciplinary purposes, and follow long and uncertain judiciary procedures.

The government is keen to change the more restrictive aspects of the existing labor code. Trade unions have long opposed any change in the existing labor code that would ease the dismissal regulations. In a move aimed at circumventing this opposition, the authorities have recently offered a broader negotiation that would also include a possible enhancing of social rights and improvements in the coverage of social security benefits (including severance payments and protection against accidents at work). The government is faced with a difficult balancing act: between offering concessions that would enhance labor flexibility and maintaining social peace while keeping the concessions within reasonable bounds to avoid an excessive cost.

- **External Trade.** To fully reap the benefits of the progress made under the AAEU, unilateral trade liberalization should progress rapidly by reducing the levels and number of rates on multilateral trade. The authorities stressed that they were complementing the efforts under the AAEU with a trade agreement with the United States and that they were pursuing trade liberalization initiatives with a number of MENA countries. Mindful of the risk of trade diversion that the AAEU and other agreements could present, they intended to lower the multilateral tariff over time to limit the preferential rates within a reasonable margin. They also noted that by eliminating reference prices on imports, the Moroccan trade regime had become significantly less restrictive (Box 5).

Box 5. Trade Reforms

The authorities ratified the Euromed Agreement in 2000, when import duties for raw materials, and goods and equipments not produced locally began to be reduced. Import duties on the latter goods declined by 25 percent in 2000, 50 percent in 2001, and another 25 percent in 2002. They are expected to be abolished in 2003. **The first round of 10 percent reduction in custom duties on goods which compete with domestic production kicked off in March 2003.**The objective of the agreement is to reach free trade by 2012 by reducing customs duties by 10 percent per year for non agricultural products. An agreement has not yet been reached on agriculture.

In the second half of 2002, Moroccan authorities started to negotiate a free trade agreement with the United States. Moroccans expect the agreement to include agricultural products.

In 2002, Moroccan authorities eliminated the use of reference prices as recommended by the WTO. As a result, Morocco's rating in the trade restrictiveness index of the IMF changed from 8 to 5. There are 8 multilateral tariff rates which vary from 0 to 50 percent for non agricultural products and can reach 350 percent on some agricultural products. The simple import average rate is 30 percent.

With Fund technical assistance, customs management has been thoroughly modernized. Computerization encompasses movements of goods, processing declarations by importers and customs agents, assessment of tariffs, and payment of obligations. As a result, the time needed for clearing imported goods has shrunk from 2–3 days to a few hours. The authorities expect that the system will be operational at 100 percent of its capacity in 2½ years. The authorities are also creating offices in the different regions for the operators to be able to communicate with the office that is the nearest to their location. Firms will have the right to request that imported merchandise be inspected at the warehouse site. Customs procedures are also streamlined for firms with a good inspection track record.

B. Continuing Fiscal Consolidation

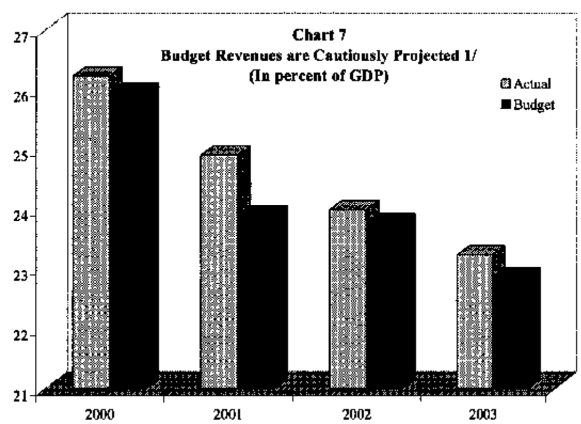
16. **One of the most pressing challenges is ensuring that the fiscal position can continue to improve after the favorable outcome of 2002.** The staff stressed that fiscal consolidation will need to continue in 2003 in order to bolster investors' confidence, regain budgetary flexibility to respond to shocks, and signal that the deterioration in public finances experienced during 1999–01 has been reversed on a permanent basis. For these reasons, the mission proposed that the authorities aim at reducing the deficit as close as possible to 4 percent of GDP in 2003, (i.e., a significant tightening of the fiscal position compared to the 2002 outcome, taking into account the favorable one-off factors in that year).

17. **The authorities viewed the original budgetary deficit target for 2003 (6.5 percent of GDP) as no longer relevant.** Based on the 2002 outcome, they agreed with the staff that in the absence of new expenditure cuts, the fiscal outcome was likely to hover around 5 percent of GDP in 2003; or 0.5 percent of GDP higher than in 2002.

18. **In particular, two key factors had modified the budgetary outlook:**

- **The recent government decision not to increase public employment by limiting new hires to offset attrition in 2003.** The staff welcomed this new policy, which constituted a significant break with past practices.

- **The original budgetary revenue projections appeared excessively conservative in light of the revenue performance in 2002** (Chart 7). There was scope for more ambitious targets than envisaged by the 2003 budget law, since there were no reasons for expecting a decline in tax collection, apart from the scheduled reductions in external tariffs. Thus the staff and the authorities agreed that domestic taxes would need to remain, at least, unchanged as a portion of GDP from 2002.



1/ 2003, projection

19. **Moreover, the staff encouraged the authorities to take further fiscal deficit reduction measures for an amount of at least 0.8 percent of GDP to bring the deficit as close to the above target.** These could include:

- Ending the subsidization of sugar and flour consumption, which could yield saving for as much as 0.5 percent of GDP. The authorities indicated that they were considering actions in this area, but a decision had yet to be taken. These subsidies, not only have a significant budgetary cost but also produce adverse incentives for agricultural production.

- Reducing the allocations for contingency spending, which are close to 1 percent of GDP and appear to be generous, for a saving of about 0.3 percent of GDP.

The authorities agreed that a further decline in the fiscal deficit was desirable and stressed that they would make efforts to achieve a lower deficit in 2003. However, they could not commit to a precise target. They also agreed that there was no scope for loosening the fiscal stance to offset any slowdown in external demand.

20. **They also agreed with the staff that the expected privatization proceeds could be viewed as a financing item,** but objected to the staff consolidating the operations of the special investment fund (*Fonds Hassan II*) with that of the central government. Spending from this fund was fully financed by privatization proceeds, moreover, they noted the fund had acquired status equivalent to that of a public enterprise since the 2002 budget law had placed it outside the central government coverage. The staff, noted that the data ROSC mission recommended to maintain the fund within the central government, it reiterated that spending from the *Fonds Hassan II* needed to be monitored as any other government spending for its demand effects, as well as for its possible implications on fiscal sustainability in the event that revenues from privatization receipts are depleted. However, the staff acknowledged that the assessment of Morocco's current fiscal position was not significantly affected by including or excluding the fund's operations.

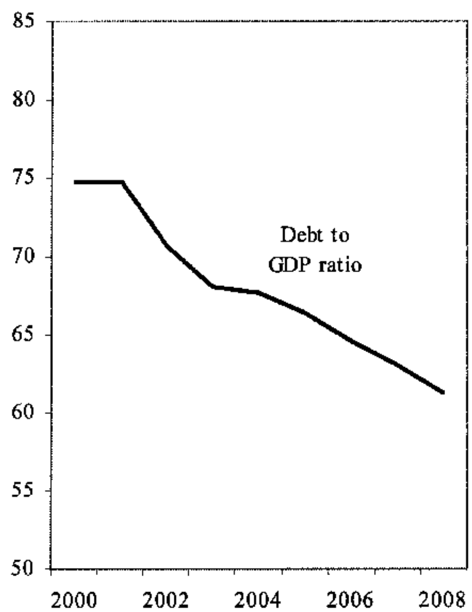
21. **Privatization proceeds were expected to finance a substantial portion of the deficit in 2003.** These proceeds would result from the sale of the tobacco monopoly and part of the remaining government owned portion of the capital of Maroc Telecom. The former appears quite likely to materialize in 2003, but the latter is more uncertain in light of the current downturn in the telecom market. In case of a shortfall, the authorities intend to avoid accumulating budgetary arrears and raise, instead, additional domestic non-bank financing, even if this implies an increase in borrowing costs.

22. **Fiscal deficit reduction should continue well beyond 2003 to lower the debt burden, promote private-sector activity and maintain macroeconomic stability even in the event of adverse shocks.** Fiscal consolidation is a necessary condition for the success of the overall government reform program. The staff discussed a medium-term strategy aimed at bringing the fiscal deficit to 2.9 percent of GDP, and the public debt-to-GDP ratio to about 60 percent, and indicated that a more ambitious fiscal consolidation bringing the debt-to-GDP ratio significantly below 60 percent would be preferable. Achieving results in this direction requires bold policy actions both on the expenditure and revenue fronts (Figure 2).

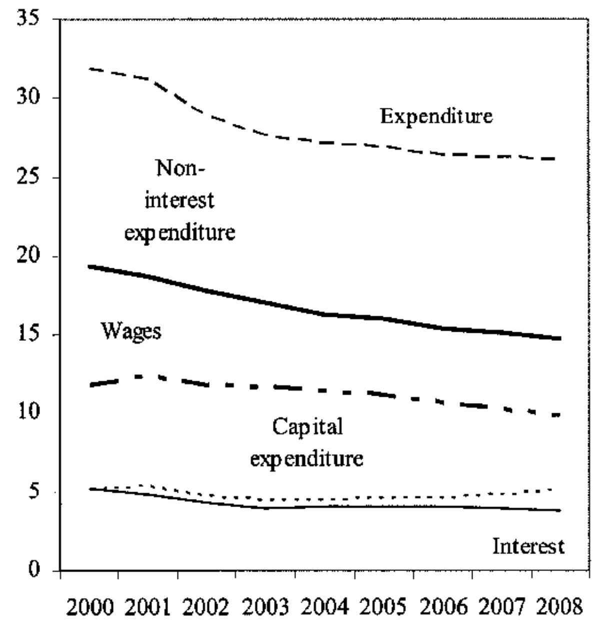
23. **As regards expenditures, the top priority is to ensure that the trend toward reducing the high wage bill as a share of GDP continues beyond 2003.** It is encouraging that the authorities are planning not only to curb public employment expansion but are also modifying promotion and compensation policies with a view to reduce wage drift. Moreover, they intend to introduce an early retirement scheme, which should help reduce wage costs

Figure 2. Fiscal Developments and Medium-Term Projections
(In percent of GDP)

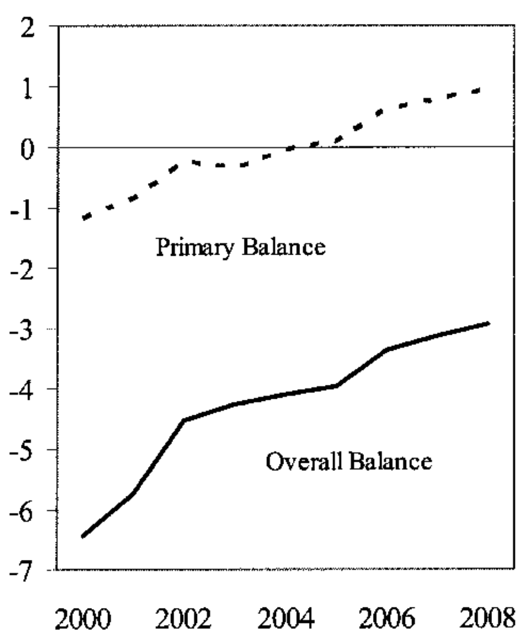
The medium term scenario aims at reducing the debt to GDP ratio...



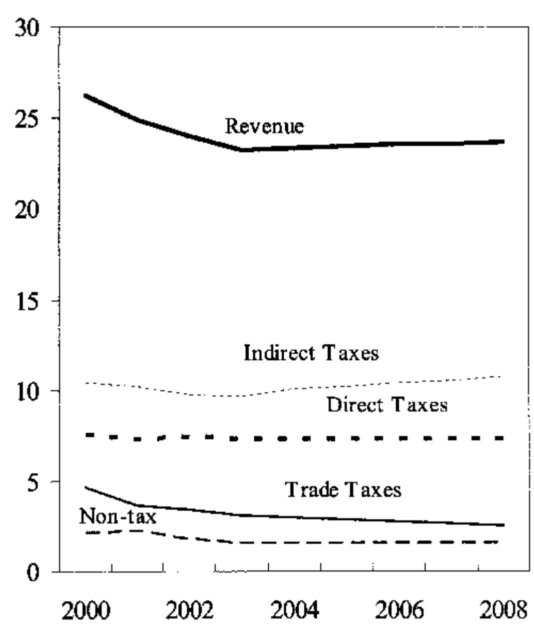
Current expenditures will be reduced in the medium term through civil service reform and containment of non-interest expenditure...



Fiscal balances are projected to improve over the medium term...



Tax reform, in particular of the VAT, will help stabilize revenue as import taxes decline with trade liberalization.



Source: Moroccan Authorities and IMF staff estimates.

over the medium term.[2] The authorities were confident that these actions could lead to a drop of 2 percentage point of GDP in the wage bill burden by 2008.

24. **As regards revenues, staff recommended a stabilization of the tax-to-GDP ratio in the medium term.** In the staff's view, an overhaul of the VAT to partially offset the impact of lower external tariffs on customs collections should be a priority. The authorities agreed with the staff that the existing VAT was overly complex with too many rates, limited coverage, and widespread exemptions. The staff stressed the urgency of transferring the responsibility for VAT collection from the *Trésorerie Générale du Royaume* to the tax department, which would greatly enhance VAT administration with significant results on collection. In addition to these reforms, the staff suggested phasing out tax holidays and special exemptions, which had mushroomed over the years and eroded the corporate income tax base.

C. Reshaping Monetary and Exchange Rate Policies

25. **The authorities' exchange rate policy and prudent approach to monetary policy have ensured macroeconomic stability over the years, a necessary condition for tackling the structural impediments that hold growth performance below potential.** The fixed exchange rate policy has provided a nominal anchor for the Moroccan economy and allowed the easing of monetary conditions without inflationary consequences during 2001–02.

26. **The BAM has already shown its determination to mop up the excess liquidity conditions, which characterized most of 2002.** Had these conditions persisted, they would have sooner or later generated higher inflation. As the BAM is successful in tightening liquidity, recovery and rising investment demand will place upward pressures on interest rates in 2003. This possible increase in interest rates should be accepted as necessary and the BAM should base its monetary policy stance in attaining its money target growth (7.5–8.5 percent), which reflects cautious assumptions on money velocity and is consistent with keeping inflation low.

27. **The staff and the authorities agreed that the significant real effective depreciation during 2001–02, the strong external reserve position, the surplus of the external current account balance, and the improved export performance did not point currently to a misaligned exchange rate.** The 2001 devaluation of the dirham and the adjustment in the composition of the currency basket to which it is pegged has not generated inflationary pressures. Exports have experienced in 2002 signs of growth and further diversification (electronic and electric sectors) while there are indications that the decline in profitability in the textile sector has been partially reversed.

---

[2] This early retirement scheme aims at eliminating 60,000 budgetary positions over 2004–06.

28. **The growing integration of the Moroccan economy into the international financial markets will provide both opportunities and challenges for monetary and exchange rate policies.** Maintaining external competitiveness will be a crucial condition to increase Morocco's potential growth and reduce unemployment. As this integration progresses, in the staff view, the authorities should consider moving to a more flexible exchange rate system because:

- a fixed exchange rate in the context of substantial international financial integration constrains the independence of monetary policy;
- maintaining the peg could become increasingly costly and riskier because foreign investors may unduly rely on implicit exchange rate guarantees;
- a flexible exchange rate policy could facilitate trade integration with the EU by helping competitiveness, since productivity gains would likely materialize only in the medium term. It would also facilitate a reduction of existing capital account restrictions;[3] and
- a flexible exchange rate would help to deal with the high volatility of the Moroccan balance of payment flows, such as tourism, workers' remittances and phosphate exports.

Moving to a flexible exchange rate regime would require changing the role of monetary policy, which would need to become the economy's nominal anchor. In this context monetary policy should adopt price stability as its primary objective.

29. **The authorities were open to considering the opportunity of modifying the exchange rate regime and the role of monetary policy over the medium term.** The staff cautioned that in addition to establishing a strengthened monetary framework, three key conditions needed to be satisfied before abandoning the peg:

- significant progress toward fiscal consolidation;
- strengthening the financial system, in particular by dealing as soon as possible with the problems of two financially troubled banks discussed below; and
- reorganizing bank supervision and preparing it for operating in an environment of growing financial integration as suggested in the FSAP recommendations.

---

[3] Moroccan residents can neither own foreign-denominated or convertible dirham bank accounts nor transfer funds abroad. In 2002, banks were allowed to (a) place their foreign assets with foreign banks abroad, and buy sovereign bonds; and (b) provide local currency loans to non-resident foreign individuals for the financing of real estate operations in Morocco.

D. The Reform of the Financial Sector

30. **The results of the FSAP have shown that the immediate risk of financial crisis appears low, the financial system is unlikely to be a source of macroeconomic risk in the short run, and commercial banks are in a reasonably good condition to withstand adverse shocks to their portfolio.** This situation is due to a protected environment, including the maintenance of capital account restrictions and the government preventing problems from spreading and becoming systemic, as well as the shallowness of financial markets.

31. **However, important weaknesses exist in the financial sector.** Two specialized public banks are insolvent and should be quickly brought to comply with BAM's prudential regulations.[4] Clear procedures to handle problem banks are lacking; nonbank financial institutions (insurance companies, pension funds, and the securities industry) are fragile; key financial system infrastructure (accounting and auditing systems, legal and judicial systems, and payments systems) need upgrading; financial supervision is weak implying that problems may not be detected early enough for adequate corrective action; and the interbank and government securities markets are shallow.

32. **In the medium to long run, a likely increased openness will require a strengthening of the financial system** (Box 6). In particular, existing shortcomings in systemic liquidity arrangements and markets functioning need to be addressed as increased volatility that openess may bring could be dampened by deeper and competitive money and government securities markets. Strengthening financial supervision and enhancing transparency would also be essential. The mission noted with satisfaction that the authorities had already started work to address weaknesses in financial supervision and had obtained Fund technical assistance in this area; they had also drafted new central bank and banking laws.

E. Medium-Term Outlook and Sustainability

33. **The authorities' reform plans and fiscal consolidation, if implemented up front and vigorously, could generate an acceleration in total output growth to an average 5 percent during 2003–08.** These efforts would improve the economy-wide climate for private economic activity, eliminate supply-related obstacles to growth, and translate into higher total-factor productivity. The resulting growth pick-up would in turn lower unemployment and poverty. Investment could also rise to about 26 percent of GDP to sustain the higher growth, while the fiscal deficit would drop to 2.9 percent of GDP and bring the debt-to-GDP ratio to about 60 percent. On the external side, the recovery in domestic

---

[4] These two financial institutions have been exonerated from respecting BAM's prudential regulations and reserve requirements for a five-year period.

demand, and in particular, of private investment would reduce the surplus of the current account, which would eventually shift into a modest deficit; the opening up of the capital account would translate into foreign-investment inflows that would help maintain the external reserve coverage at 9 months of imports.

Box 6. Key Recommendations of the FSAP Report

To maximize the benefits and minimize the risks of increased financial integration and expected opening toward the rest of the world, efforts are needed to strengthen the financial system, and create an appropriate environment to foster the system's development. This will require measures in several areas:

- First, the issue of the two troubled state-owned banks needs to be addressed promptly, choosing between their closure or rehabilitation, and ending the current prudential exemptions as soon as feasible.

- Second, procedures to handle problem banks will need to be reviewed.

- Third, the fragility of certain non bank financial institutions (i.e., retirement funds and insurance companies) will need to be addressed.

- Fourth, the role and future of the remaining state-owned financial institutions will need to be clarified, in order to limit potential conflicts of interest and implement the authorities' intention to disengage from the sector; and

- Fifth, financial supervision will need to be reinforced, by promoting independent oversight bodies, establishing greater coordination or integration among them, and by developing a more risk-based supervisory approach. MAE is already providing technical assistance in this area.

Improvements in the environment for financial activities would support the development and strengthening of the system. To that effect, ongoing efforts in the legal and judicial area, payment systems, and auditing and accounting would have to be extended. Further potentially important improvements include a clear mandate and enhanced transparency in monetary policy, the removal of distortions created by taxes on foreign exchange transactions, the establishment of databases on bad debtors, and information and education initiatives aimed at fostering a stronger financial culture.

34. **Standard external sustainability analysis shows that external vulnerabilities are limited**. Morocco's external debt has been declining as the government replaced it with domestic debt. A substantial part of the external debt is at concessional terms resulting in lower interest rates than the assumed growth rates. Under the baseline, external debt would decline to 23 percent of GDP in 2008 from 44 percent of GDP in 2002.

35. **The decline in the public debt-to-GDP ratio over the medium term would be the result of declining current outlays, while capital spending would remain close to 5 percent of GDP and broader domestic taxes offset the revenue losses deriving from external tariff reductions.** Lower growth or higher interest rates would require substantially higher primary surpluses to achieve the desired debt reduction. Standard fiscal sustainability analysis underscores the need for ambitious fiscal consolidation targets, since sensitivity analysis indicate that real interest rate, two-standard deviations higher than the historical average and real growth one standard deviation lower in 2003–04 could bring the government debt-to-GDP ratio to about 70–80 percent by 2008.

F. Other Issues

36. **The ongoing projects of regional integration, including the Arab Maghreb Union, can contribute to boost Morocco's growth potential through the development of intraregional trade flows as long as trade diversion is limited.** The authorities welcomed staff's involvement in the promotion of regional integration within Maghreb countries, and confirmed their broad agreement with the main recommendations of a recent mission in Maghreb countries to facilitate intraregional trade. The recommendations focused on the needed harmonization of domestic regulations, in particular in the trade, customs, competition, freight, bank, and insurance areas. Several initiatives in these areas under the Euro-Mediterranean partnership are also expected to facilitate regional trade, not only with the European Union, but also with Morocco's trading partners of the Maghreb region.

37. **Morocco provides adequate statistical information for surveillance**. The authorities intend to improve the quality and the dissemination of statistical information along the priorities identified by the recent Report on the Observation of Standards and Codes (ROSC) on statistics. The staff encouraged the authorities to work toward eventually subscribing to the SDDS, and it welcomed the decision of publishing the ROSC.

38. **Governance issues have come to the forefront as a result of the authorities' efforts to disclose two major financial scandals**, one concerned two government-owned banks (CNCA and CIH) and the other the social security institution that covers private sector employees (CNSS). Acting forcefully and in a transparent manner against those involved in these scandals has provided a clear departure from past practices and helped to improve the climate for private-sector activity.

V. Staff Appraisal

39. **During the last two years, against the background of impressive progress toward a more open and democratic society, Morocco has started to consolidate the progress made in macroeconomic stability achieved in the 1990s.** The current account has shifted from modest deficits to surpluses since 2001, official reserves have reached quite comfortable levels, while both the external debt-to-GDP ratio and the debt-service ratio have declined substantially. Inflation is now low, and down to levels comparable to those achieved by Morocco's main trading partners. Three consecutive years of severe drought adversely affected Morocco's agricultural performance, but the real growth rate in non agricultural sectors edged up in 2002 for the fourth year in a row. Some reform progress has been achieved since 1999. In particular, privatization of major public assets (including Maroc Telecom, a cellular telephone license, and other public enterprises) attracted strong interest from domestic and foreign investors, and a few public enterprises were restructured.

40. **Growth performance has, nevertheless, been insufficient to significantly reduce the high unemployment rate, lower poverty incidence, and raise the living standards of the Moroccan population.** In particular, until 2002, private-sector activity remained largely sluggish and insufficient to generate the jobs and income needed. In addition, the relaxation of the fiscal stance in 1999–01 had until recently raised concerns about debt sustainability.

41. **Therefore, shifting the economy to a higher sustainable growth path remains the main challenge toward which both structural and macroeconomic policies need to respond.** This requires first that the authorities embark on a comprehensive and ambitious program of structural reforms aimed at revitalizing private activity. Second, macroeconomic management, in particular, fiscal policy, must remain consistent with the maintenance of stability. Moreover, in the longer run, once prerequisites are met, adopting a more flexible exchange rate regime and a more formal monetary framework where monetary policy would provide the nominal anchor, would help to sustain higher growth.

42. **Against this background, the staff welcomes the business friendly and reform-oriented attitude of the newly appointed government.** The staff and the authorities concur on the need to implement a set of mutually reinforcing structural reforms that will remove the existing distortions and unleash private sector activity and investment.

43. **The government during its first few months has shown early positive results, with no net creation of civil service positions in the budget law** for 2003 and the initiation of a program to privatize the tobacco company *Régie des Tabacs*. Similarly, the resumption of a dialogue with all social partners on a reform of the labor legislation is encouraging.

44. **However, much remains to be done to strengthen private activity.** The staff and the authorities have agreed on (a) the need to show progress in the modernization of the public sector (through a reduction in government intervention, an improvement in the

delivery of public services, and a rationalization of the civil service); (b) concrete measures to underpin the establishment of a business-friendly environment; and (c) the development of enhanced flexibility of the labor-market policies. The staff welcomes the elimination of the reference import prices in 2002 and the government's intention to proceed with a lowering of the external tariff in line with the reduction in preferential rates under the association agreement with the EU. At the same time, it also encourages the authorities to proceed to rationalize the tariff aimed at reducing the number of rates and lowering them.

45. **The financial system stability assessment (FSSA) has found that the immediate risk of a financial crisis is limited and that the financial system is unlikely to be a source of macroeconomic risk in the short run.** However, a significant number of weaknesses exists. The contribution of the financial system to Morocco's development also remains subject to improvements. The authorities have taken early action to deal with some of these weaknesses with the preparation of several draft laws, and requested Fund technical assistance in banking supervision. Looking ahead, the staff urges the authorities to reduce the role of the state, to deepen their financial sector reforms and in particular, to further strengthen banking supervision and restructure the specialized banks, while eliminating their exemption from prudential regulation and reserve requirements. This strengthening of the financial system is essential to allow it to meet the challenges that increased integration of the Moroccan economy would present.

46. **The government needs to make further headway and show concrete results in a number of reform areas so as to definitively establish credibility of its structural reform strategy.** First steps have already been taken to implement the government's structural reform program and macroeconomic strategy. However, the authorities need to move further to implement in the spring of 2002 a scheduled reform of labor legislation and to adopt further measures to streamline and modernize the civil service. These will be early tests of the government's capacity to implement its reform program and to overcome the vested interests that have impeded significant reforms in the recent past.

47. **The government needs to further strengthen the fiscal position.** Acknowledging the risks of placing fiscal policy on an unsustainable path that would lead to a significant increase in the government's debt-to-GDP ratio once privatization had run its course, the government tightened the fiscal stance in 2002, achieving a far stronger fiscal outcome than projected in the budget law despite the election campaign. The halt in the fiscal deterioration is welcome, in particular, the decline in the ratio of the wage bill to GDP and the staff supports the government's intentions to further reduce this ratio over time through civil service reform measures. Without additional expenditure tightening, it is, however, likely that the 2003 fiscal deficit would be higher than in the previous year by about half a percent of GDP taking into account the one off factors that helped improve the fiscal outcome in 2002. The staff believes that a further tightening of the fiscal outcome in 2003 would greatly reinforce credibility of the government's attempt at returning fiscal policy to a sustainable path. Therefore, it urges the authorities to continue further strengthening of the fiscal stance in 2003 by, for instance, adopting measures aimed at reducing food subsidies. Looking ahead,

tax reform measures aimed at enlarging the tax base, and a strengthening of tax administration are needed. The staff recommends, over the medium term, to bring down the fiscal deficit below 3 percent of GDP and the debt to GDP ratio to below 60 percent.

48. **The peg of the Moroccan dirham to a basket of currencies has so far served the economy well and helped ensure macroeconomic stability over the years by providing a useful nominal anchor.** There is no evidence that the exchange rate is misaligned. Looking ahead, the growing integration of the Moroccan economy into the international financial markets and the ongoing liberalization of the external trade will provide opportunities and challenges for the monetary and exchange rate policies. As this integration progresses, the staff recommends that the authorities consider moving to a flexible exchange rate regime. This, in turn, would require changing the role of the monetary policy to become the economy's nominal anchor and operate in a more formal framework. However, the new exchange rate/monetary policy mix requires a few prerequisites to be satisfied, such as further progress toward fiscal consolidation and financial sector reform.

49. **Accelerated structural reforms, fiscal consolidation, and the adoption over time of a flexible exchange rate regime and of a monetary anchor, would significantly improve Morocco's outlook over the medium term and its capacity to grow at the 5–6 percent real growth rate needed to reduce unemployment and poverty and improve the living standards of the population.** The staff is convinced that such a strategy would place Morocco in a good position to take advantage of a more open economy and of closer integration to world financial markets.

50. **The government strategy faces significant short-term risks as the current account is subject to shocks.** In particular, a deterioration of the international environment and the fallout from the military intervention in Iraq could have an important adverse impact on the short-term prospects for growth in Morocco. Morocco's external position could be weakened by a substantial drop in tourism receipts and a rise in oil prices. At this stage, the external reserve positions seems more than sufficient to absorb the shocks and avoid a balance of payments crisis, but the recommended shift toward a more flexible exchange rate regime would certainly increase Morocco's resilience to these shocks.

51. It is recommended that the next Article IV consultation with Morocco be held on the standard 12-month cycle.

Table 1. Morocco: Basic Economic and Financial Indicators, 1998–2003

	1998	1999	2000	2001	2002	Proj 2003
	(Annual percent change; unless otherwise indicated)					
Production and income						
Nominal GDP	8.1	0.5	2.5	8.1	6.9	7.6
Real GDP	7.7	-0.1	1.0	6.5	4.5	5.5
Real non-agricultural GDP	4.4	3.2	3.5	3.7	3.9	4.3
GDP deflator	0.4	0.5	1.5	1.6	2.4	2.0
Consumer price index (CPI), average	2.7	0.7	1.9	0.6	2.8	2.0
	(In billions of U.S. dollars; unless otherwise indicated)					
External sector						
Exports of goods, f.o.b.	7.1	7.5	7.4	7.1	7.7	8.5
Imports of goods, f.o.b.	9.5	10.0	10.7	10.2	10.7	11.8
Net services	-0.2	0.1	0.3	1.1	0.4	0.2
Net transfers	2.3	2.1	2.4	3.5	3.6	3.9
Current account (in percent of GDP)	-0.4	-0.5	-1.4	4.8	2.9	1.8
Overall balance (deficit -)	0.2	1.6	-0.4	3.8	0.6	0.8
	(In percent of GDP)					
Central government						
Revenue, excluding grants and privatization	27.2	26.9	26.2	24.9	24.0	23.2
Total expenditure (including *Fonds Hassan II*)	29.8	31.4	32.4	31.1	29.1	28.0
Overall balance 1/	-2.6	-4.5	-6.4	-5.7	-4.5	-4.3
Privatization and GSM receipts	0.1	3.2	0.0	6.1	0.2	1.6
Overall balance, incl. privatization	-2.5	-1.3	-6.4	0.4	-4.3	-2.7
Official reserves						
Gross official reserves (in billions of US$, end-period)	4.6	5.7	4.8	8.4	10.1	10.8
In months of imports of goods, c.i.f.	4.8	5.7	4.6	8.2	9.4	9.0
Debt (short, medium and long term)						
Total external debt (in billions of US$)	20.6	19.8	18.0	15.9	16.2	15.2
Total external debt (in percent of GDP)	57.5	56.1	53.9	47.0	43.7	36.1
Domestic government debt (in percent of GDP) 2/	38.1	41.3	42.2	45.9	47.9	49.4
Total government debt (in percent of GDP) 2/	74.3	76.9	76.4	74.8	70.7	68.2
Memorandum items:						
GDP at current prices (in billions of Dh)	344.0	345.6	354.1	382.9	409.4	440.5

Sources: Data provided by the Moroccan authorities; includes Fund staff projections.

1/ Includes in 2003, the impact of additional fiscal consolidation measures recommended by the staff.
2/ Remunerated debt only.

Table 2. Morocco: Balance of Payments, 1998–2003

(In millions of U.S. dollars; unless otherwise indicated)

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
Trade balance	-2,323	-2,448	-3,235	-3,022	-2,956	-3,262
Exports, f.o.b.	7,143	7,508	7,419	7,142	7,708	8,497
Phosphates and derived products	1,300	1,361	1,216	1,171	1,198	1,270
Imports, f.o.b.	-9,467	-9,957	-10,653	-10,164	-10,664	-11,759
Energy	922	1,326	2,038	1,945	1,808	1,909
Services balance	-160	124	274	1,079	422	170
Nonfactor services	864	1,112	1,142	1,910	1,122	997
Tourism receipts	1,744	1,949	2,039	2,583	2,152	2,334
Net investment income	-1,023	-988	-867	-831	-700	-827
Private transfers (net)	2,293	2,144	2,382	3,535	3,532	3,764
Official grants (net)	52	10	101	20	83	88
Current account	-138	-170	-478	1,612	1,082	759
Capital account 1/	52	259	1	91	86	-5
Financial account	334	1,549	63	2,144	-567	29
Direct investment	313	831	368	2,727	275	976
Other private (including errors and omissions)	474	1,233	536	533	490	174
Public medium-and long-term loans (net)	-453	-515	-841	-1,117	-1,333	-1,121
Disbursements	1,498	1,501	835	628	635	798
Amortization	-1,951	-2,016	-1,676	-1,745	-1,968	-1,919
Reserve asset accumulation (-increase)	-247	-1639	415	-3848	-600	-784
Memorandum items:						
Trade balance (in percent of GDP)	-6.5	-6.9	-9.7	-8.9	-8.0	-7.8
Current account balance (in percent of GDP)	-0.4	-0.5	-1.4	4.8	2.9	1.8
Excluding official grants (in percent of GDP)	-0.5	-0.5	-1.7	4.7	2.7	1.6
Gross official reserves 2/	4,600	5,701	4,796	8,431	10,108	10,845
(In months of imports of goods and nonfactor services)	4.8	5.7	4.6	8.2	9.4	9.0
Debt service as percentage of export of goods, non-factor services and MRE 3/ 4/	23.9	20.8	20.1	16.2	17.3	15.9
External public and publically guaranteed debt (in percent of GDP)	54.0	49.8	48.2	41.5	37.5	30.2

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

1/ Includes the grant element of debt swap operations with France and Spain.

2/ Excluding the reserve position in the Fund.

3/ Public and publically guaranteed debt.

4/ Excluding early amortization on account of debt swaps.

Table 3. Morocco: Central Government finance, 1999/2000–2003 1/ 2/

	1999/00	Jul/Dec 2000	2000 3/	2001	2002 Budget Law	2002 Est.	2003 Budget Law	2003 Auth. Proj.	2003 Staff
	(In billions of dirhams)								
Revenue 4/	94.2	43.3	92.9	95.4	97.3	98.3	100.7	102.3	102.3
Tax revenue 4/	86.2	40.9	85.5	87.0	88.9	91.0	93.9	95.4	95.4
direct taxes	26.9	12.1	26.8	28.2	28.9	30.4	31.2	32.3	32.3
Indirect taxes	37.0	18.7	36.7	39.0	39.6	40.1	42.3	42.4	42.4
Import taxes	16.9	7.9	16.6	14.0	14.5	14.2	13.9	13.9	13.9
Other tax revenues	5.4	2.2	5.3	5.8	6.0	6.4	6.5	6.9	6.9
Nontax revenue (excluding privatization)	8.0	2.5	7.4	8.4	8.4	7.2	6.8	6.8	6.8
Expenditure and net lending (excluding Fonds Hassan II	109.5	59.1	112.7	119.2	121.8	117.8	125.9	125.5	121.8
Current expenditure	86.5	43.9	87.3	90.4	96.1	90.7	97.2	96.3	92.6
Wages	42.1	21.2	42.0	48.0	51.2	48.6	52.3	51.8	51.8
Food subsidies 5/	8.2	4.3	9.4	5.1	4.3	4.0	4.3	4.3	2.3
Interest	18.9	9.6	18.6	18.8	19.1	17.6	17.8	17.4	17.4
Other current spending	17.3	8.7	17.3	18.5	21.6	20.5	22.7	22.7	21.0
Capital expenditure (budget) 6/	16.3	11.5	18.0	20.4	17.3	19.3	19.5	19.5	19.5
Road fund	0.9	0.5	1.2	0.9	1.3	1.0	1.5	1.5	1.5
Transfers to local governments 7/	6.3	3.3	6.4	6.9	7.0	7.2	7.7	8.1	8.1
Net lending	-0.5	-0.1	-0.3	0.6	0.0	-0.3	0.0	0.0	0.0
Balance of other special treasury accounts	0.8	0.0	-1.0	2.1	0.0	1.8	0.0	2.2	2.2
Overall balance (commitment basis, excluding Fonds Hassan II)	-14.6	-15.0	-20.9	-21.8	-24.5	-17.8	-25.2	-21.0	-17.3
Fonds Hassan II expenditures	0.3	1.7	1.9	0.6	3.5	0.9	3.5	1.5	1.5
Overall balance (commitment basis, including Fonds Hassan II)	-14.8	-16.7	-22.8	-22.4	-28.0	-18.6	-28.7	-22.5	-18.8
Grants	0.5	0.0	0.0	0.3	0.5	0.5	1.1	1.1	1.1
Privatization and cellular phone licence revenues	11.1	0.0	0.0	23.4	12.5	0.6	12.5	12.5	7.0
Change in arrears	1.5	11.9	13.8	-11.0	0.0	-0.2	0.0	-0.5	-0.5
Overall balance (cash basis, including Fonds Hassan II, grants and privatization)	-1.6	-4.8	-9.0	-9.7	-15.0	-17.7	-15.0	-9.3	-11.1
Financing	1.6	4.8	9.0	9.7	15.0	17.7	15.0	9.3	11.1
Domestic financing	9.2	7.0	15.3	19.8	21.1	29.4	25.0	19.4	21.2
External financing	-7.5	-2.2	-6.3	-10.1	-6.1	-11.7	-10.0	-10.0	-10.0
Memorandum items									
Current balance	7.7	-0.5	5.6	5.0	1.2	7.6	3.5	6.0	9.7
Primary balance	4.0	-7.1	-4.2	-3.6	-8.9	-1.0	-10.8	-5.0	-1.3
Primary balance (including grants and privatization)	15.7	-7.0	-4.2	20.0	4.1	0.1	2.8	8.6	6.8
Central Government debt (end period) 8/	...	...	288.5	286.2	301.1	289.0	304.0	298.5	300.1
Domestic	...	...	167.4	175.6	196.7	196.2	221.3	215.7	217.4
External	...	...	121.1	110.6	104.4	92.8	82.8	82.8	82.8
GDP in billions of dirhams	349.8	177.0	354.1	382.9	409.4	409.4	440.5	440.5	440.5

Table 3. Morocco: Central Government Finance, 1999/2000–2003 (concluded) 1/ 2/

	1999/00	Jul/Dec 2000	2000 1/	2001	2002 Budget Law	2002 Est.	2003 Budget Law	2003 Auth. Proj.	2003 Staff
	(In percent of GDP)								
Tax revenue 4/	24.6	23.1	24.1	22.7	21.7	22.2	21.3	21.7	21.7
direct taxes	7.7	6.8	7.6	7.4	7.1	7.4	7.1	7.3	7.3
indirect taxes	10.6	10.6	10.4	10.2	9.7	9.8	9.6	9.6	9.6
import taxes	4.8	4.5	4.7	3.7	3.5	3.5	3.1	3.1	3.1
other tax revenues	1.5	1.2	1.5	1.5	1.5	1.6	1.5	1.6	1.6
Nontax revenue (excluding privatization)	2.3	1.4	2.1	2.2	2.0	1.8	1.6	1.6	1.6
Expenditure and net lending (excluding Fonds Hassan II)	31.3	33.4	31.8	31.1	29.7	28.8	28.6	28.5	27.6
Current expenditure	24.7	24.8	24.7	23.6	23.5	22.2	22.1	21.9	21.0
Wages	12.0	12.0	11.9	12.5	12.5	11.9	11.9	11.8	11.8
Food subsidies 5/	2.3	2.4	2.6	1.3	1.1	1.0	1.0	1.0	0.5
Interest	5.4	5.4	5.3	4.9	4.7	4.3	4.0	4.0	4.0
Other current spending	4.9	4.9	4.9	4.8	5.3	5.0	5.2	5.2	4.8
Capital expenditures (budget) 6/	4.7	6.5	5.1	5.3	4.2	4.7	4.4	4.4	4.4
Road fund	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3
Transfers to local governments 7/	1.8	1.9	1.8	1.8	1.7	1.8	1.7	1.8	1.8
Net lending	-0.1	-0.1	-0.1	0.2	0.0	-0.1	0.0	0.0	0.0
Balance of other special treasury accounts	0.2	0.4	-0.3	0.5	0.0	0.4	0.0	0.5	0.5
Overall balance (commitment basis, excluding Fonds Hassan II)	-4.2	-8.5	-5.9	-5.7	-6.0	-4.3	-5.7	-4.8	-3.9
Fonds Hassan II expenditures	0.1	0.9	0.5	0.2	0.9	0.2	0.8	0.3	0.3
Overall balance (commitment basis, including Fonds Hassan II)	-4.2	-9.4	-6.4	-5.8	-6.8	-4.5	-6.5	-5.1	-4.3
Grants	0.1	0.0	0.0	0.1	0.1	0.1	0.3	0.3	0.3
Privatization and cellular phone licence revenues	3.2	6.7	0.0	6.1	3.1	0.2	2.8	2.8	1.6
Change in arrears	0.4	0.0	3.9	-2.9	0.0	-0.1	0.0	-0.1	-0.1
Overall balance (cash basis, including Fonds Hassan II, grant and privatization)	-0.5	-2.7	-2.5	-2.5	-3.7	-4.3	-3.4	-2.1	-2.5
Financing	0.5	2.7	2.5	2.5	3.7	4.3	3.4	2.1	2.5
Domestic financing	2.6	4.0	4.3	5.2	5.2	7.2	5.7	4.4	4.8
External financing	-2.2	-1.3	-1.8	-2.6	-1.5	-2.9	-2.3	-2.3	-2.3
Memorandum items									
Current balance	2.2	-0.3	1.6	1.3	0.3	1.8	0.8	1.4	2.2
Primary balance	1.2	-4.0	-1.2	-0.9	-2.2	-0.2	-2.5	-1.1	-0.3
Primary balance (including grants and privatization	4.5	-4.0	-1.2	5.2	1.0	0.0	0.6	2.0	1.5
Central Government debt (end period) 8/	...	...	81.5	74.7	73.6	70.6	69.0	67.7	68.1
Domestic	...	...	47.3	45.9	48.0	47.9	50.2	49.0	49.3
External	...	...	34.2	28.9	25.5	22.7	18.8	18.8	18.8

Sources: Data provided by the Moroccan authorities; and Fund staff estimates.

1/ Including Fonds Hassan II

2/ Calendar years starting in 2000, fiscal years otherwise

3/ Sum of realizations for the second half of the 1999/2000 budget and for the second half of 2000.

4/ Includes tariffs earmarked for food subsidies (équivalent tarifaires) and revenues of the road fund (Fonds Routier) but excludes GSM license receipts in 1999/2000.

5/ Includes food subsidies financed from earmarked tariffs (équivalents tarifaires). It also includes, for 1999/00 and July/Dec, petroleum product subsidies, which were financed by arrears accumulation. Their amlunt was estimated on the basis of the difference between domestic and international petroleum prices.

6/ Budgetary capital expenditure excluding Fonds Routier and investment spending by the Hasan II Fund.

7/ Corresponds to 30 percent of VAT revenue.

8/ Renumerated and non renumerated debt.

Table 4. Morocco: Monetary Survey, 1998–2003

	1998	1999	2000	2001	Actual 2002	Proj. 2003
			(In billions of dirhams)			
Net foreign assets	43.4	59.6	55.3	102.6	111.3	122.7
Net domestic assets	196.2	204.7	231.3	224.8	236.9	249.3
Domestic credit	260.0	268.2	293.0	294.3	306.7	319.2
Net credit to the government	91.5	82.2	92.4	85.6	89.5	91.9
Credit to the economy	168.5	185.9	200.6	208.6	217.3	227.3
Money and quasi money	239.6	264.3	286.6	327.4	348.2	372.0
Money	174.5	194.9	210.3	243.1	264.9	289.2
Currency outside banks	50.6	56.7	58.2	66.0	69.6	74.3
Demand deposits	123.8	138.2	152.1	177.1	195.3	214.9
Quasi money	65.1	69.4	76.3	84.3	83.3	82.8
Other liabilities, net	63.8	63.5	61.7	69.5	69.9	69.9
			(12-month percent change)			
Net domestic assets	5.9	4.3	13.0	-2.8	5.4	5.2
Domestic credit	6.0	3.1	9.3	0.4	4.2	4.0
Net credit to the government	-2.0	-10.1	12.4	-7.4	4.5	2.7
Credit to the economy	10.8	10.3	7.9	4.0	4.1	4.6
Money and quasi money	5.8	10.3	8.4	14.2	6.3	6.8
			(In percent of broad money)			
Net foreign assets	1.0	6.8	-1.6	16.5	2.6	3.3
Domestic credit	6.5	3.4	9.4	0.4	3.8	3.6
Net credit to the government	-0.8	-3.9	3.9	-2.4	1.2	0.7
Credit to the economy	7.3	7.3	5.5	2.8	2.6	2.9
Other assets net	-1.6	0.1	0.7	-2.7	-0.1	0.0
Memorandum items:						
Velocity (GDP/M3)	1.44	1.31	1.24	1.17	1.18	1.18
Velocity (non-agri. GDP/M3)	1.18	1.11	1.06	0.98	0.98	0.98
Money multiplier	3.59	3.42	3.60	3.35	3.39	3.39
Credit to economy/GDP	49.0	53.8	56.6	54.5	53.1	51.6
Credit to economy/non-agro GDP	59.2	63.5	65.9	64.7	63.4	62.4

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

Table 5. Morocco: Medium-Term Baseline Scenario

Calendar years	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
						In percent					
Real GDP growth	7.7	-0.1	1.0	6.5	4.5	5.5	3.4	4.7	5.0	5.0	5.0
Real nonagricultural GDP growth	4.4	3.2	3.5	3.7	3.9	4.3	4.6	4.9	5.2	5.3	5.3
Inflation (CPI)	2.7	0.7	1.9	0.6	2.8	2.0	2.0	2.0	2.0	2.0	2.0
Export growth of goods and services in US$	4.8	6.6	-1.6	6.9	-0.6	10.0	8.3	7.8	7.5	7.6	7.3
ICOR 1/	4.6	9.9	6.9	4.6	4.7	4.9	4.4	4.3	4.2	4.1	4.2
Employment growth	3.3	8.2	0.6	0.6	2.8	3.2	3.4	3.7	4.0	4.1	4.0
						In percent					
Gross investment	22.2	23.1	23.6	22.8	24.6	24.6	24.9	25.0	25.2	25.4	25.6
Government	2.7	2.9	3.0	2.9	2.6	2.6	2.7	2.7	2.7	2.8	3.0
Private 2/ 3/	19.4	20.2	20.6	19.9	21.9	22.0	22.1	22.3	22.5	22.5	22.7
National saving	21.8	22.6	22.2	27.6	27.5	26.4	26.9	26.8	26.6	25.9	25.5
Government	1.7	1.7	0.7	0.9	1.8	2.2	2.9	3.4	4.0	4.4	4.9
Private 2/	20.1	20.9	21.5	26.7	25.6	24.2	23.9	23.5	22.6	21.5	20.6
External saving (=current account balance)	-0.4	-0.5	-1.4	4.8	2.9	1.8	2.0	1.8	1.4	0.5	-0.1
Total External debt	57.5	56.1	53.9	47.0	43.7	36.1	32.7	29.6	27.0	24.7	22.9
GDP (in billions of U.S. dollars)	35.8	35.2	33.3	33.9	37.1	42.0	44.3	47.4	50.8	54.5	58.4

Central Government

Calendar/fiscal years	98/99	99/00	2000	2001	2002	2003	2004	2005	2006	2007	2008
						Percent of GDP					
Overall balance 4/	-2.5	-4.2	-6.4	-5.8	-4.5	-4.3	-4.1	-4.0	-3.3	-3.1	-2.9
Primary balance	2.7	1.2	-1.2	-0.9	-0.2	-0.3	0.0	0.1	0.7	0.8	1.0
Borrowing requirement	3.8	0.5	2.5	2.5	4.3	2.5	3.1	3.1	2.7	2.7	2.5
Government debt ratio 5/	74.3	76.9	76.4	74.8	70.7	68.2	67.8	66.5	64.8	63.2	61.5
Privatization receipts	0.1	3.2	0.0	6.1	0.2	1.6	1.1	0.8	0.6	0.4	0.3
Arrears	-1.5	0.4	3.9	-2.9	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0

Sources: Ministry of Finance, Bank Al-Maghrib, and Fund staff estimates and projections.

1/ Ratio of nonagricultural fixed capital formation to change in nonagricultural GDP.
2/ Includes public enterprises.
3/ Includes stockbuilding.
4/ Central government overall balance excluding privatization and GSM revenues but including expenditures by the *Fonds Hassan II*.
5/ Domestic and external remunerated central government debt, end of calendar year.

Table 6. Morocco: Balance of Payments, 2002–2008

(In millions of U.S. dollars; unless otherwise indicated)

	Prel.	Projections					
	2002	2003	2004	2005	2006	2007	2008
Trade balance	-2,956	-3,262	-3,310	-3,590	-3,957	-4,518	-5,080
Exports, f.o.b.	7,708	8,497	9,244	9,965	10,700	11,492	12,300
Phosphates and derived products	1,198	1,270	1,402	1,498	1,591	1,692	1,796
Imports, f.o.b.	-10,664	-11,759	-12,555	-13,555	-14,657	-16,010	-17,380
Energy	1,808	1,909	1,836	1,928	1,984	2,142	2,202
Capital goods	2,290	2,570	2,817	3,093	3,399	3,772	4,183
Services balance	422	170	320	567	758	871	1,080
Nonfactor services	1,122	997	1,076	1,164	1,252	1,335	1,433
Tourism receipts	2,152	2,334	2,488	2,684	2,900	3,143	3,412
Net investment income	-700	-827	-755	-597	-494	-464	-353
Private transfers (net)	3,532	3,764	3,776	3,798	3,816	3,832	3,842
Official grants (net)	83	88	88	88	88	88	88
Current account	1,082	759	874	862	704	273	-70
Capital account 1/	86	-5	-5	-5	-5	-5	-5
Financial account	-567	29	216	352	521	583	846
Direct investment	275	976	896	877	868	868	975
Other private (including errors and omissions)	490	174	-19	-21	-23	-25	-28
Public medium-and long-term loans (net)	-1,333	-1,121	-661	-504	-324	-261	-101
Disbursements	635	798	954	1,051	1,148	1,150	1,150
Amortization	-1,968	-1,919	-1,615	-1,556	-1,472	-1,411	-1,251
Reserve asset accumulation (-increase)	-600	-784	-1,086	-1,209	-1,220	-851	-771
Memorandum items:							
Trade balance (in percent of GDP)	-8.0	-7.8	-7.5	-7.6	-7.8	-8.3	-8.7
Current account balance (in percent of GDP)	2.9	1.8	2.0	1.8	1.4	0.5	-0.1
Excluding official grants (in percent of GDP)	2.7	1.6	1.8	1.6	1.2	0.3	-0.3
Gross official reserves 2/	10,108	10,845	11,946	13,175	14,415	15,276	16,050
(In months of imports of goods and nonfactor services)	9.4	9.0	9.3	9.5	9.6	9.3	9.0
Debt service as percentage of export of goods, non-factor services and MRE 3/ 4/	17.3	15.9	12.8	11.7	10.5	9.6	8.3
External public and publically guaranteed debt (in percent of GDP)	37.5	30.2	27.1	24.3	22.1	20.1	18.6

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

1/ Includes the grant element of debt swap operations with France and Spain.
2/ Excluding the reserve position in the Fund.
3/ Public and publically guaranteed debt.
4/ Excluding early amortization on account of debt swaps.

Table 7. Country: External Debt Sustainability Framework, 1998–2008

(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
						I. Baseline Medium-Term					
External debt	57.5	56.1	53.9	47.0	43.7	36.1	32.7	29.6	27.0	24.7	22.9
Change in external debt	-0.9	-1.4	-2.2	-6.9	-3.3	-7.6	-3.4	-3.2	-2.6	-2.3	-1.8
Identified external debt-creating flows (4+8+11)	-4.5	-1.0	3.6	-13.7	-7.8	-9.2	-5.9	-5.8	-5.1	-3.9	-3.2
Current account deficit, excluding interest payments	-2.6	-2.3	-1.5	-7.3	-4.9	-3.5	-3.5	-3.2	-2.7	-1.7	-1.0
Deficit in balance of goods and services	4.1	3.8	6.3	3.3	4.9	5.4	5.0	5.1	5.3	5.8	6.2
Exports	27.8	30.1	31.4	33.0	29.9	29.1	29.8	30.1	30.1	30.2	30.3
Imports	31.9	33.9	37.7	36.3	34.8	34.5	34.9	35.2	35.5	36.1	36.5
Net non-debt creating capital inflows (negative)	-0.9	-2.4	-1.2	-8.0	-0.7	-2.3	-2.0	-1.8	-1.7	-1.6	-1.7
Net foreign direct investment, equity	0.9	2.4	1.1	8.1	0.7	2.3	2.0	1.8	1.7	1.6	1.7
Net portfolio investment,equity	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Automatic debt dynamics 1/	-0.9	3.7	6.2	1.7	-2.1	-3.4	-0.4	-0.8	-0.7	-0.6	-0.5
Contribution from nominal interest rate	3.0	2.8	3.0	2.6	2.0	1.7	1.5	1.4	1.3	1.2	1.1
Contribution from real GDP growth	-4.2	0.0	-0.6	-3.4	-1.9	-2.1	-1.2	-1.4	-1.4	-1.3	-1.2
Contribution from price and exchange rate changes 2/	0.3	0.9	3.8	2.5	-2.2	-2.9	-0.7	-0.7	-0.6	-0.6	-0.5
Residual, incl. change in gross foreign assets (2-3)	3.6	-0.4	-5.7	6.7	4.5	1.6	2.5	2.6	2.5	1.6	1.4
External debt-to-exports ratio (in percent)	206.5	186.1	171.9	142.5	146.3	124.1	109.7	98.4	89.5	81.7	75.5
Gross external financing need (in billions of US dollars) 3/	2.4	2.8	3.3	1.1	1.8	2.3	2.0	1.9	1.9	2.3	2.5
In percent of GDP	6.7	8.0	9.8	3.2	4.9	5.5	4.5	4.1	3.8	4.2	4.2
Key Macroeconomic and External Assumptions											
Real GDP growth (in percent)	7.7	-0.1	1.0	6.5	4.5	5.5	3.4	4.7	5.0	5.0	5.0
Exchange rate appreciation (US dollar value of local currency, change in percent)	-0.8	-2.0	-7.7	-9.0	2.6	...	...	...	...	...	...
GDP deflator in US dollars (change in percent)	-0.4	-1.5	-6.4	-4.5	5.0	7.2	2.0	2.2	2.1	2.1	2.0
Nominal external interest rate (in percent)	5.5	4.7	5.0	4.9	4.7	4.3	4.4	4.5	4.7	4.8	4.9
Growth of exports of goods and services (US dollar terms, in percent)	4.8	6.6	-1.6	6.9	-0.6	10.0	8.3	7.8	7.5	7.6	7.3
Growth of imports of goods and services (US dollar terms, in percent)	7.6	4.6	4.9	-2.1	5.3	11.9	6.8	7.9	8.1	9.1	8.5

Table 7. Country: External Debt Sustainability Framework, 1998–2008 (concluded)

(In percent of GDP, unless otherwise indicated)

	Projections					
	2003	2004	2005	2006	2007	2008
	II. Stress Tests for External Debt Ratio					
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003–2007	41.3	39.7	38.3	36.6	34.0	31.1
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004	37.1	34.7	31.5	28.8	26.5	24.6
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	43.2	46.4	42.9	40.0	37.4	35.3
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004.	46.1	51.2	47.6	44.6	41.9	39.7
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004.	40.2	40.9	37.6	34.8	32.3	30.3
6. Combination of 2–5 using one standard deviation shocks	50.2	59.2	55.4	52.2	49.3	47.0
7. One time 30 percent nominal depreciation in 2003	56.3	52.7	49.1	46.0	43.3	41.1

Historical Statistics for Key Variables (past 10 years)	Historical Average	Standard Deviation	Average 2003-08
Current account deficit, excluding interest payments	-3.2	1.9	-2.6
Net non-debt creating capital inflows	2.4	2.2	1.8
Nominal external interest rate (in percent)	5.5	0.7	4.6
Real GDP growth (in percent)	3.2	6.0	4.8
GDP deflator in US dollars (change in percent)	-0.2	6.9	3.0

Sources: Data provided by Moroccan authorities; and Fund staff estimates.

1/ Derived as *[r - g - r(1+g) + ea(1+r)]/(1+g+r+gr)* times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as *[-r(1+g) + ea(1+r)]/(1+g+r+gr)* times previous period debt stock. *r* increases with an appreciating domestic currency *(e > 0)* and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

Table 8. Morocco: Public Sector Debt Sustainaibility Framework, 1997–2008

(In percent of GDP, unless otherwise indicated)

	Actual						Projections					
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public sector debt 1/	84.7	80.9	81.3	81.5	74.7	70.6	68.2	67.7	66.5	64.8	63.2	61.5
o/w foreign-currency denominated	39.8	36.2	35.6	34.2	28.9	22.7	18.8	16.4	14.1	12.3	10.7	9.2
Change in public sector debt	2.6	-3.8	0.4	0.2	-6.8	-4.1	-2.4	-0.4	-1.3	-1.7	-1.6	-1.7
Identified debt-creating flows (4+7+12)	6.2	-3.5	1.3	7.3	-4.7	-2.9	-2.4	-0.6	-1.3	-1.7	-1.6	-1.7
Primary deficit	-2.1	-0.6	-3.3	1.2	0.8	0.1	0.1	-0.1	-0.2	-0.8	-0.9	-1.0
Revenue and grants	25.5	25.5	27.7	26.2	25.0	24.1	23.4	23.5	23.5	23.6	23.6	23.7
Primary (noninterest) expenditure	23.4	25.0	24.3	27.4	25.8	24.2	23.5	23.4	23.3	22.8	22.7	22.6
Automatic debt dynamics 2/	9.9	-2.9	7.9	6.1	0.6	-2.9	-0.8	0.5	-0.3	-0.4	-0.4	-0.3
Contribution from interest rate/growth differential 3/	5.7	-1.1	4.7	3.3	-1.2	-0.5	-1.0	0.5	-0.3	-0.4	-0.4	-0.3
Of which contribution from real interest rate	3.8	4.9	4.7	4.1	3.6	2.6	2.5	2.7	2.7	2.7	2.7	2.6
Of which contribution from real GDP growth	1.8	-6.0	0.1	-0.8	-4.9	-3.1	-3.6	-2.2	-3.0	-3.1	-3.0	-3.0
Contribution from exchange rate depreciation 4/	4.2	-1.7	3.2	2.8	1.9	-2.3	0.2	0.0	0.0	0.0	0.0	0.0
Denominator = $1+g+p+gp$	1.0	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	-1.6	-0.1	-3.2	0.0	-6.1	-0.2	-1.6	-1.1	-0.8	-0.6	-0.4	-0.3
Privatization receipts (negative)	-1.6	-0.1	-3.2	0.0	-6.1	-0.2	-1.6	-1.1	-0.8	-0.6	-0.4	-0.3
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	-3.6	-0.3	-0.9	-7.0	-2.1	-1.3	-0.1	0.2	0.0	0.0	0.0	0.0
Public sector debt-to-revenue ratio 1/	332.3	316.6	293.8	310.7	299.2	292.7	290.7	288.8	282.9	274.8	267.7	259.7
Gross financing need 5/	19.5	20.5	18.6	22.6	21.8	20.4	19.7	19.3	19.2	18.4	17.9	17.2
In billions of U.S. dollars	6.5	7.3	6.5	7.5	7.4	7.6	8.3	8.6	9.1	9.3	9.8	10.1
Key Macroeconomic and Fiscal Assumptions												
Real GDP growth (in percent)	-2.2	7.7	-0.1	1.0	6.5	4.5	5.5	3.4	4.7	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) 6/	6.6	6.6	6.3	6.6	6.5	6.2	6.0	6.3	6.4	6.5	6.5	6.6
Nominal depreciation of local currency (LC per dollar)	10.4	-4.7	8.5	7.9	6.1	-9.8	...	...	...	...	...	...
Exchange rate (US dollar per LC)	0.1	0.1	0.1	0.1	0.1	0.1	...	...	...	...	...	...
Nominal appreciation (increase in US dollar value of local currency, in percent)	-9.4	5.0	-7.9	-7.3	-5.8	10.9	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.0	0.4	0.5	1.5	1.6	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.3	15.1	-2.7	13.8	0.1	-1.7	2.3	2.8	4.4	2.6	4.7	4.7

Table 8. Morocco: Public Sector Debt Sustainaibility Framework, 1997–2008 (concluded)

(In percent of GDP, unless otherwise indicated)

	Actual	Projections					
	2002	2003	2004	2005	2006	2007	2008
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003–2008	70.6	68.6	67.2	65.9	64.8	63.9	63.0
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004	70.6	73.1	77.6	78.0	77.8	77.5	76.9
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	70.6	78.8	88.7	87.1	84.8	82.7	80.5
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004	70.6	70.1	71.9	70.6	68.8	67.2	65.5
5. Combination of 2–4 using one standard deviation shocks	70.6	76.1	82.6	77.5	72.1	66.7	61.3
6. One time 30 percent real depreciation in 2003 7/	70.6	77.0	76.6	75.3	73.5	71.9	70.1
7. 10 percent of GDP increase in other debt-creating flows in 2003	70.6	78.2	77.8	76.5	74.7	73.1	71.3

Historical Statistics for Key Variables (past 10 years)	Historical Average	Standard Deviation	Average 2003-08
Primary deficit	-1.2	1.6	-0.5
Real GDP growth (in percent)	3.2	6.0	4.8
Nominal interest rate (in percent) 6/	6.6	0.3	6.4
Real interest rate (in percent)	4.4	2.1	4.4
Inflation rate (GDP deflator, in percent)	2.2	2.2	2.0
Revenue to GDP ratio	25.3	1.4	23.5

Sources: Data provided by Moroccan authorities; and Fund staff estimates.

1/ Central government gross debt

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as $-g$.

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

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

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 9. Morocco: Indicators of External and Banking Sector Vulnerability, 1998–2002

(In percent of GDP; unless otherwise indicated)

	1998	1999	2000	2001	2002
Financial indicators					
Central government debt (remunerated)	74.3	76.9	76.4	74.8	70.7
Broad money (percent change, 12-month basis)	5.8	10.3	8.4	14.2	6.3
Private sector credit (percent change, 12-month basis)	10.8	10.3	7.9	4.0	4.1
52-week T-bill yield (nominal)	7.0	4.8	6.3	5.2	3.6
52-week T-bill yield (deflated by 12-month CPI)	4.2	4.1	4.3	2.8	0.8
Overnight interbank rate (annual average)	6.3	5.6	5.4	4.6	3.0
External indicators					
Export growth of goods (percent change, in U.S. dollars)	1.5	5.1	-1.2	-3.7	7.9
Import growth of goods (percent change, in U.S. dollars)	6.3	5.2	7.0	-4.6	4.9
Terms of trade (percent change)	11.7	-3.4	-11.1	0.4	3.0
Current account balance	-0.4	-0.5	-1.4	4.8	2.9
Capital and financial account balance	1.1	5.1	0.2	6.6	-1.3
Of which: inward foreign direct investment	1.1	3.2	1.4	8.5	1.1
Gross official reserves (in billions of U.S. dollars; end of period)	4.6	5.7	4.8	8.4	10.1
Central bank foreign liabilities (in billions of U.S. dollars)	0.1	0.1	0.1	0.1	0.1
Foreign assets of the banking sector (in billions of U.S. dollars)	0.5	0.5	0.6	0.6	0.8
Foreign liabilities of the banking sector (in billions of U.S. dollars)	0.5	0.5	0.4	0.3	0.3
Official reserves in months of imports GNFS	4.8	5.7	4.6	8.2	9.4
Broad money to reserves (in percent)	592.0	470.0	572.6	383.0	341.0
Total gross external debt/GDP	57.5	56.1	53.9	47.0	43.7
Of which: central government debt/GDP	36.2	35.6	34.2	28.9	22.7
Total gross external debt to exports GNFS (in percent)	199.0	190.6	175.4	145.0	137.7
External gross interest payments to exports GNFS (in percent)	12.4	11.4	11.3	10.8	9.7
External amortization payments to exports GNFS (in percent)	19.6	19.0	16.0	15.6	17.7
Exchange rate (per U.S. dollars, period average)	9.6	9.8	10.6	11.3	11.0
REER appreciation (+) (annual average)	2.4	1.0	2.8	-4.1	-0.7
Banking sector indicators					
Net nonperforming loans/equity capital 1/	44.9	49.3	70.5	55.5	59.8
Share of foreign currency deposits in total deposits (in percent)	0.6	0.7	0.2	0.3	0.2
Financial market indicators					
Stock market index (IGB)	804.0	777.0	658.1	609.4	...
Moody's rating for foreign currency bonds and note	Ba1	Ba1	Ba1	Ba1	Ba1

Sources: Bank Al-Maghrib; Treasury; *Office des changes*; and Fund staff estimates.

1/ September for 2002.

Table 10. Morocco: Basic Social and Demographic Indicators, 1971–2002

	1971	1980	1987	1993	1997	1998	1999	2000	2001	2002
	(In millions, unless otherwise specified)									
Population characteristics										
Total population	15.4	19.3	22.7	25.6	27.3	27.8	28.2	28.7	29.2	29.6
Rural population	10.0	11.4	12.2	12.6	12.8	12.8	12.8	12.9	13.1	13.1
Population under 15 year of age	7.0	9.0	9.6	9.8	9.6	9.3	9.3	9.3	9.2	9.2
Birth rate (per 1,000)	41.0	39.9	31.4	27.3	23.2	22.8	24.5	21.9	21.5	21.0
Death rate (per 1,000)	17.4	10.6	7.4	7.0	6.3	6.2	6.1	5.9	5.8	5.6
Life expectancy	52.4	59.1	65.0	67.3	68.8	69.2	69.5	...	...	...
Population growth	2.8	2.6	2.4	2.0	1.7	1.7	1.7	1.6	1.6	1.5
Urbanization rate	35.1	41.1	46.0	50.4	53.2	53.8	54.5	55.2	55.9	56.6
Number of children per woman	7.4	5.9	4.5	4.1	3.1	3.0	2.9	...	...	...
Health, food, and nutrition										
Infant mortality (per 1,000)	125.2	92.0	82.0	65.6	51.0	...	47.8	...	45.8	...
Persons per physician (in thousands)	13.7	9.5	4.4	3.1	2.8	2.6	2.4	2.4	2.4	...
Education										
Literacy rate (in percent)	14.0	28.9	34.0	45.0	49.0	51.7	48.0	...	50.4	...
Primary enrollment (in percent)	52.5	83.0	71.7	88.3	88.6	...	...	...	...	...
Secondary enrollment (in percent)	12.6	26.0	38.0	44.9	49.9	...	...	...	...	...
Pupils per teacher in primary schools	35	38	27	28	28	28	29	...	29	...
Pupils per teacher in secondary schools	20	21	20	17	19	18	19	...	20	...
	(In percent, unless otherwise specified)									
Urban employment										
Total employment (in percent of urban population)	23.6	...	26.7	27.7	28.5	27.3	26.4	26.4	27.1	27.2
Female employment (in percent of urban population)	...	...	...	6.1	6.9	...	6.2	...	5.7	...
Unemployment rate	2.3	...	14.4	15.9	16.9	19.1	22.4	21.7	19.5	18
Young unemployment rate (15–24 years)	...	...	27.1	30.2	29.9	34.7	37.8	37.6	35.5	33.7
Salary and income										
GDP per capita (1980 dirhams)	3,132	3,833	4,042	4,292	4,548	4,776	4,665	4,701	4,919	5,070
GDP per capita (current U.S. dollars)	275	975	819	1,027	1,224	1,284	1,239	1,159	1,161	1,259
Minimum wage (in 1980 dirhams per hour) 1/	2.17	1.96	2.21	2.72	2.84	2.76	2.74	2.82	2.80	2.73
	(In percent of GDP)									
Social investment										
Government total expenditure on education 2/	...	5.7	4.8	5.9	5.4	5.8	6.0	6.3	6.2	6.3
Government total expenditure on health 2/	...	0.8	0.8	0.9	1.0	1.1	1.4	1.4	1.3	1.3

Sources: Moroccan authorities; World Bank; and IMF staff estimates.

1/ Minimum wage in the nonagricultural sector.
2/ Between 1996 and 1999, fiscal year beginning in July of the indicated year.

MOROCCO—FUND RELATIONS

As of February 28, 2003

I. Membership Status: Joined: April 25, 1958; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	588.20	100.00
Fund holdings of currency	517.76	88.02
Reserve position in Fund	70.44	11.98
Holdings exchange rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	85.69	100.00
Holdings	83.38	97.30

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	Jan 31, 1992	Mar 31, 1993	91.98	18.40
Stand-by	Jul 20, 1990	Mar 31, 1991	100.00	48.00
Stand-by	Aug 30, 1988	Dec 31, 1989	210.00	210.00

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal					
Charges/Interest	*	0.05	0.05	0.05	0.05

*Less than SDR 50,000

VII. Implementation of HIPC Initiative: Not Applicable

Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains restrictions for security reasons against Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to relevant UN Security Council resolutions. The exchange rate is freely determined in the interbank foreign exchange market which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. The central exchange rate of the Moroccan dirham is pegged to a basket of currencies representing Morocco's principal trading partners. During 2001, the authorities changed the basket of currencies by increasing the weight of the Euro. This change will better reflect the weight of external trade with EU countries. BAM fixes daily rates for the rated currencies on the basis of variations in the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. On February 28, 2003, the SDR/dirham exchange rate was SDR 1 = DH 13.533

Article IV consultation

Morocco is on the 12-month cycle. The last consultation discussions took place in Rabat during March 28–April 12, 2001, and were concluded by the Executive Board on July 11, 2001.

Technical assistance

March 7–21, 1996: STA—advising on improving trade statistics

June 30–July 3, 1996: FAD—advising on ways to improve tax administration

October 17–November 2, 1996: FAD—advising the authorities on the implementation of a modernization program for custom and direct taxes administration

February 25–March 13, 1997: FAD—examining the impact of fiscal and tariffs reforms

January 12–23, 1998: FAD—advising the authorities on improving custom procedures and controls

March 19–April 2, 1998: STA—multisector assessment of statistical systems in preparation of an action plan toward SDDS subscription

April 12–24, 1998: FAD—advising on custom computerization

September 9–21, 1998: MAE—advising on domestic debt management

November 9–22, 1998: FAD—reviewing progress in reforming the custom organization and its procedures

December 11–22, 1998: STA—advising on improving national account statistics

February 2–17, 1999: STA—advising on improving general government and monetary statistics

February 16–29, 2000: STA—following up on government finance statistics improvement

November 7–22, 2000: FAD—advising on improving the design of the tax system and its administration

January 16-30, 2002: STA—ROSC Data Module Mission

Resident representative: None

MOROCCO : FINANCIAL RELATIONS WITH THE WORLD BANK

(As of March 26, 2003)

The World Bank's portfolio in Morocco has a total of 16 active operations and 118 closed loans, with cumulative net commitments of US$7.4 billion. Of this total, US$4.3 billion has been repaid. Net commitments for the 16 current investment operations amount to US$428.7 million.

Despite the fact that the quality of the portfolio has improved over the last five years, institutional capacity for project implementation needs to be further strengthened. A participatory Country Portfolio Performance Review (CPPR) took place in June 2002 and a follow-up CPPR in February 2003 to tackle this issue through ongoing participatory monitoring and capacity building activities.

From FY99 to FY01, the Bank has provided extensive technical assistance through its various lending operations for projects, as well as through its sectoral adjustment loans (SAD). Three SAD were approved, amounting to US$416 million, to support the government in establishing a sound macroeconomic framework and in implementing a broad reform program covering public sector reform, private sector development, poverty reduction and human resource development and telecommunications regulatory framework. In addition, investment and learning and innovative loans (LIL) were approved during FY99–03, amounting respectively to US$89 million, US$7.5 million, US$97.6 million, US$5 million, and US$4.1 million. They include assistance to: legal and judicial development (US$5.3 million), Sustainable Coastal Tourism Development project (US$2.2 million), Irrigation Based Community Development (US$32.6 million), Support to Social Development Agency project (US$5 million) and Adult Literacy (US$4.1 million) and are mostly designed with participatory and community driven approaches.

Two projects are scheduled to be negotiated shortly and be presented to the Board of Directors before the end of this FY: a Rainfed Agricultural Development project (tentatively US$25.3 million) and Asset Management Reform project (tentatively US$30 million). The US$65 million single-tranche Information Infrastructure Sector Development Loan (IISDL) approved in FY01 will be declared effective once the revised draft telecom law is approved by the Council of Ministers. Its single tranche will be disbursed by end of June 2003.

As prospects for lending have been reduced, due to large privatization receipts (telecom licence and privatization) and a deterioration of the fiscal stance, our program has increasingly turned toward knowledge transfer through participatory approaches. After a number of policy notes on sectoral issues such as education, administration and the financial sector, and related long-term prospects were prepared, the Bank has provided strong analytical and institutional support to budget and public administration reform to the Moroccan Government. Participatory approaches have been developed in the area of public sector and price policy reforms. Prospects for such approach are also emerging in the area of decentralization.

Bank's support (adjustment lending) has been requested lately by the Moroccans for reform formulation and implementation in the areas of public reform (budget management and civil service reform), financial sector (regulatory framework of commercial banks, role of Central bank and the restructuring of public financial institutions), education (quality aspect of the currently implemented education charter) and agriculture sector (price policy reform, the challenges of the free trade agreements currently negotiated by the EU and the USA, water and the reform of public enterprises in this sector). Any adjustment lending will hinge on meeting the CAS fiscal triggers. An update of the 2001 CAS will be prepared next FY to align our support to the changes in strategic directions and move toward programmatic approaches and instruments.

Morocco: Financial Relations with the World Bank

(As of March 1, 2003)

	Total Net Commitments	Undisbursed Balance
IBRD lending operations	(In millions of U.S. dollars)	
118 loans closed 1/	6,941.4	
16 active loans		
Sewerage & Water Reuse II	40.0	25.7
SPI—Education	46.0	17.2
Coordination/Monitoring of Social Programs	28.0	2.0
Railway Restructuring & Privatization	85.0	65.5
Water Resource Management	16.7	9.0
Fès Medina Rehabilitation	14.0	11.7
Health Management	66.0	55.0
Lakhdar Watershed	4.0	3.3
Pilot Fisheries Development	4.3	3.1
Legal & Judicial Reform	5.3	5.6
Sustainable Coastal Tourism Development	2.2	1.3
GEF—Protected Areas Management	10.5	9.8
Irrigation Based Community Development	32.6	29.3
Information Infrastructure	65.0	65.0
Social Development Agency	5.0	6.2
Adult Literacy	4.1	4.5
Total active loans	428.7	314.2
Repayments 2/	4,291.4	
Debt outstanding 2/	2,605.1	

	1997	1998	1999	2000	2001	2002	2003 2/
Net lending by the World Bank (by fiscal year) 3/							
Commitments	108.0	200.0 4/	440.0	7.5	97.6	5.0	4.1
Disbursements	301.7	270.9	411.4	106.8	115.8	52.7	22.4
Debt service	575.8	520.0	514.6	533.3	425.5	427.5	316.8
Principal	325.7	301.6	298.6	333.3	246.3	270.2	211.0
Interest 5/	250.1	218.4	216.0	200.6	179.2	157.3	105.8
Net transfer 6/	-274.1	-249.1	-103.2	-426.5	-309.7	-374.8	-294.4

1/ Less cancellations, includes adjustment lending, does not include guarantees.
2/ As of March 1, 2003.
3/ Fiscal years start July 1 and end June 30.
4/ Does not include US$184 million for guarantee on Jorf Lasfar electricity project.
5/ Includes charges.
6/ Equal to disbursement minus debt service.

MOROCCO—STATISTICAL ISSUES

Available economic and financial data have been provided to the staff on a regular basis and most of these data are also published or made available on publicly accessible web sites. In 1998, the statistical authorities prepared a medium-term strategy for the development of national statistics. A framework law on statistics, providing for additional budgetary allocations, was also approved but the law has yet to be passed. Following the Fund's multisector statistics mission in March 1998, the authorities started implementing an action plan for upgrading the country's statistical system and have received Fund technical assistance on real sector, monetary, and public finance statistics.

A data ROSC mission, which took place in January 2002, carried out a review of Morocco's data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, CPI, PPI, government finance, monetary, and balance of payments statistics. As the authorities maintain a strong interest in subscribing to the SDDS, the mission also identified areas to be strengthened to meet the SDDS requirements.

Real sector

The Statistical Office is working on rebasing national accounts from 1980 to 1998 and on bringing it in conformity with the *System of National Accounts 1993*. This reform program has made good progress and is scheduled to be finalized by end 2003. The revision of the consumer price index is equally planned for 2003 and will be based on the results of the 2001 household budget survey, originally scheduled for October 1999–September 2000.

Government finance

Central government finance data are generally available to MED with a few months lag. *GFS* data reported by Morocco for publication in the *GFS Yearbook* are not timely (no data have been submitted for the past two years), and their coverage is limited to the budgetary central government, the Moroccan pension fund, and the National Social Security Fund. No data for the central government on a monthly or quarterly basis are reported to STA for publication in *IFS.* A technical assistance STA mission in February 1999 and a follow-up mission in February 2000 advised on further improvements in the compilation of both central and local government statistics and assisted the government in establishing appropriate consolidation procedures for a presentation of general government data. Substantial progress has been made by the Accounting Office for the compilation of local government data and their consolidation with central government budgetary data. The actual use of those new rich source data for general government compilation may require further clarification of responsibilities between various directorates. Regarding the monthly *Treasury's expenditure and revenue table,* the ROSC data module recommended some reclassifications (transfers, privatization), to maintain the *Fonds Hassan II* within the coverage of the table, and, for dissemination purposes, to complement the table with more details and data on financing and improve the format of dissemination. The ROSC mission generally recommended various actions to improve dissemination formats and practices towards meeting the SDDS GFS standards.

Monetary and financial statistics

The revisions introduced in 1998 improved both the quality of monetary statistics and also the dissemination practices in a number of ways. To further improve the dissemination practices, Bank Al-Maghrib launched its internet website in December 2001, on which monetary and financial and other macroeconomic statistics are readily available to the public. However, the timeliness of reporting of central bank data (35–37 days lag) remains slower than that prescribed under the SDDS (two-week lag). The authorities have indicated that the delay is partly attributable to the introduction in January 2000 of a new accounting system for banks, more consistent with international standards. Bank Al-Maghrib also has undertaken a revision of its own chart of accounts. In addition, at the time of the January 2002 ROSC mission, the degree of detail in the breakdown of financial assets and liabilities by resident institutional sector was insufficient, resulting in a lack of precision in several aggregates, including credit indicators.

Balance of payments

The ROSC mission found that, in general, Morocco's balance of payments statistics are in line with the concepts and definitions set out in the fifth edition of the *Balance of Payments Manual (BPM5)*. Further work is, however, needed to implement certain recommendations on scope, classification, and basis for recording. Thus, recent measures to exclude the effects of changes in exchange rates from the valuation of transactions in reserve assets should be continued; and transactions in foreign currency assets and liabilities of intermediary banks at their correspondent banks should be excluded from transactions in reserve assets. Also, the *Office des Changes* (OC) is planning to treat operators in free trade zones as residents. Offshore banks located in Morocco should also be considered residents. The OC lacks a firm legal basis for compiling and disseminating balance of payments statistics, relying for the time being exclusively on customs and exchange control data. These data are gradually to become less available and too limited as liberalization proceeds and as participation of foreign investors in the Moroccan economy increases. The OC has initiated legislative measures that would give it access to statistical data collected directly from economic operators as needed among other things to record private foreign debt, and more generally of the international investment position. The ROSC mission recommended the introduction of quarterly surveys of enterprises and other agencies to improve the scope, classification, and valuation of balance of payments transactions, in particular for goods for processing, transportation services, and financial transactions. Since May 1998, the OC has been publishing, in its new internet site, monthly statistics on trade, tourism, private transfers, and incoming foreign direct investment in accordance with the *BPM5*. The quality of balance of payments statistics will significantly improve with the planned inclusion of free trade zones and offshore banks located in Morocco in its economic territory.

Morocco meets or exceeds the GDDS recommendations in the external sector, expect for the twice a year publication of the external debt service schedule and the quarterly publication of public and publicly-guaranteed external debt statistics. The quarterly publication of balance of payments statistics is in line with the SDSS recommendations, but the time to disseminate them exceeds somewhat three months. To reach the SDSS-based benchmarks, Morocco would also need to publish monthly statistics on international reserves and foreign currency, as well as annual statistics on the international investment position. The template on international reserves and foreign currency liquidity should be used and disseminated.

Morocco: Core Statistical Indicators

(As of March 19, 2003)

	Exchange Rate	International Reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rate	Consumer price index	Exports/ imports	Current account balance	Overall governmen t balance	GDP/ GNP	External public debt
Date of latest observation	02/03/03	01/31/03	01/31/03	01/31/03	01/31/03	02/28/03	12/31/02	12/31/02	12/31/02	12/31/02	2002	Dec. 2002
Date received	03/03/03	02/22/03	02/22/03	02/22/03	02/22/03	03/13/03	02/20/03	02/20/03	03/02/03	01/20/03	03/04/03	Feb. 2003
Frequency of data	D	W	M	M	M	M	M	M	Q	M	A	Semi-annual
Frequency of reporting	W	W	M	M	M	M	M	M	Q	M	A	Semi-annual
Source of data	CB	CB	CB	CB	CB	CB Press	Statistical Office	MoF/ Office des changes	MoF/ Office des changes	MoF/ Direction du trésor	Statistical Office	MoF/ Direction du trésor
Mode of reporting	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet/ Fax/mail	Internet	Internet/ Fax/mail	Internet/ Fax/mail	Fax/mail	Internet	Mission/ official publications	Mission
Confidentiality	U	U	U	U	U	U	U	U	U	U	U	U
Frequency of publication	W	M	M	M	M	M	M	M	Q	M	A	A

D = daily; W = weekly; M = monthly; Q = quarterly; CB = central bank; MoF = ministry of finance; U = unrestricted.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/60
FOR IMMEDIATE RELEASE
May 9, 2003

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

IMF Concludes 2003 Article IV Consultation with Morocco

On April 28, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.[1]

Background

Morocco has achieved macroeconomic stability over the last decade. The fixed exchange rate provided an anchor for the economy, monetary policy was prudent, and fiscal policy was mostly adequate. Since 1999, however, fiscal policy has been expansionary and the authorities have used part of the privatization receipts to finance increased expenditure. Nevertheless, inflation has remained at levels consistent with that of partner countries, the current account has turned into a surplus, while foreign exchange reserves reached eight months of imports at end 2001.

Morocco's growth performance over the last decade has not been strong enough to reduce poverty. Growth has also been volatile because of the impact of recurrent drought conditions on agricultural output. While non-agricultural growth has been relatively steady in recent years and has shown signs of revival, structural rigidities have constrained potential growth. Thus, unemployment has remained high and social indicators still indicate needs for significant improvement.

In recent years, key structural reforms have been implemented including in the areas of privatization and trade liberalization. Two major achievements in privatization included the sale of a significant block of the government shares of Maroc Telecom in 2000–01, together with the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

sale of a cellular telephone license in 1999. Trade liberalization moved forward according to the schedule under the Association Agreement with the European Union and reference prices for import valuation were eliminated in 2002. Customs procedures have also been improved resulting in marked efficiency gains in customs administration. Tax revenues experienced a decline as a percent of GDP because of the impact of the trade liberalization but also because of erosion of the tax base.

Economic conditions improved in 2002 despite a less favorable international environment which was marked by a decline in tourism and external demand. Real GDP growth reached 4.5 percent reflecting a further rise in agricultural output and somewhat higher growth in the nonagricultural sectors. The external position strengthened further with an increase in foreign exchange reserves to the equivalent of 9.4 months of imports, external debt indicators improved markedly while inflation remained subdued. The fiscal deficit (excluding privatization receipts and including Hassan II Fund expenditures) dropped significantly to 4.5 percent of GDP from 5.8 percent of GDP in 2001 and against a budget target of 6.8 percent of GDP. The Government debt-to-GDP ratio continued to decline.

This favorable fiscal outcome together with the advent of a new government following elections in September 2002 vowing to revive economic reforms have improved business confidence and brightened Morocco's economic outlook. Steps have been taken to open the largest public bank, BCP, to private sector investment and to privatize the tobacco company, Régie des Tabacs, in 2003 and many structural reforms are in preparation. Market reactions to the new environment have also been favorable.

With the improvement in business confidence and more favorable weather conditions since late 2002, the ongoing economic revival could gain momentum and speed up growth in 2003 to 5.5 percent in 2003. The external current account surplus should narrow somewhat, reflecting higher imports linked to a recovery in private investment. Proceeds from privatization would help external reserves to remain close to nine months of imports. Money growth is prudently projected at 7 percent and inflation is expected to fall to about 2 percent, while continued fiscal consolidation would result in a 2003 fiscal outcome somewhat better than in 2002. However, the war in Iraq could have negative consequences on Morocco's external economic outlook. With a drop in tourism receipts, and a rise in oil prices, growth could be lower and external reserves could decline somewhat.

Executive Board Assessment

Executive Directors commended the Moroccan authorities for maintaining macroeconomic stability despite adverse weather conditions and a difficult international environment. Inflation was kept well under control, non-agricultural output accelerated, official foreign exchange reserves rose to comfortable levels, and both the fiscal deficit and the debt-to-GDP ratio declined. Progress with structural reforms in recent years includes, among others, the modernization of the customs administration, the privatization of public enterprises, the liberalization of the edible oils sector, telecommunications reform, and trade liberalization in accordance with the Association Agreement with the European Union.

Notwithstanding these achievements, Directors agreed that Morocco's growth performance remains insufficient to generate a significant decline in unemployment and poverty, and that its fiscal position needs to be further strengthened. They therefore welcomed the new government's resolve to accelerate the pace of structural reform and private sector development in a context of continued macroeconomic stability and fiscal consolidation. Directors were encouraged that the reform measures which the government has taken in its first months in office have already resulted in an improvement in business confidence and market perception, and looked forward to further confidence building measures in the period ahead.

Directors urged the authorities to build on recent progress by taking further actions that will signal a durable strengthening of Morocco's fiscal position. They recommended a reduction of the fiscal deficit to about 4 percent of GDP in 2003 and to below 3 percent of GDP over the medium term, consistent with a further substantial decline in the public debt-to-GDP ratio. Directors welcomed the authorities' decision to broadly stabilize the number of civil servants in 2003, and encouraged them to carry on with a comprehensive civil service reform that will allow a further reduction of the wage bill over the medium term. This should include a review of the remuneration and promotion system, and the establishment of an early retirement scheme. To help offset revenue losses resulting from the ongoing trade liberalization, Directors also stressed the need for streamlining VAT and direct tax exemptions, as well as tax incentives, and strengthening the VAT administration.

Directors recommended that the authorities take steps toward further reducing food subsidies, while at the same time ensuring that an adequate safety net is put in place to alleviate the impact on the poor. More broadly, they were of the view that developing a medium-term expenditure strategy would help improve prioritization as well as the quality and effectiveness of key public services, including health and education spending. A few Directors encouraged the authorities to consider the consolidation of the Hassan II fund's operations with the central government budget accounts. A few Directors also suggested that the authorities should channel future privatization proceeds toward debt reduction.

Directors underscored the importance of sustained structural reforms in a wide range of areas, and supported, in this context, the priority given by the new government to public sector and judiciary reform, strengthening governance, improving the business environment, and labor market, trade, and financial sector reforms. They welcomed the actions already taken to liberalize the land transportation sector and to integrate public enterprise pension schemes in the public pension system, as well as the work being undertaken in several other areas. Directors urged the authorities to press ahead with their reform agenda, and, in this context, looked forward to rapid progress on the new labor code. They also encouraged the authorities to maintain their commendable record on trade liberalization, including by lowering and rationalizing the multilateral external tariff.

Directors welcomed the recent steps to improve the business environment, and the close consultation with the private sector on further measures to improve the competitiveness of the economy (mise à niveau). Going forward, it would however be important to avoid special incentives and/or tax privileges that could distort the allocation of resources.

Directors noted that Morocco's financial system is unlikely to be a source of risk in the short term, and that the commercial banks are in a reasonably good position to withstand adverse shocks. The recent Financial Sector Assessment Program has nevertheless revealed vulnerabilities which require the authorities' close attention, especially in light of increasing international integration. Directors welcomed the preparation of a revised legislative framework to help address these weaknesses. They urged the authorities to press ahead with their plans to deepen financial sector reforms, in particular in the area of banking supervision for which the Fund is providing technical assistance. Another priority is the acceleration of the restructuring of the troubled specialized banks, and the elimination of their exemption from prudential regulations and reserve requirements, while, over the medium term, further reducing the role of the state would foster the competitiveness of the financial sector. Directors also encouraged the authorities to press ahead with adequate legislation and provisions to prevent money laundering and the financing of terrorism, in line with international standards.

Directors commended Bank Al-Maghrib's skillful monetary management, which, by mopping up excess liquidity, has been instrumental in keeping inflation at a low level, and looked forward to upcoming legislation that will strengthen the Bank's operational independence. They observed that Morocco's exchange rate policy has so far served the country well by providing a helpful nominal anchor, and that there are no signs of a misalignment of the exchange rate. Directors discussed the medium-term challenges for monetary and exchange rate policy posed by Morocco's increasing trade and financial integration, and were generally of the view that a more flexible exchange rate regime would improve Morocco's resilience to external shocks and growth prospects. They welcomed the authorities' willingness to consider the opportunity of modifying the current exchange rate regime and the role of monetary policy over the medium term, once the prerequisites of a strengthened monetary framework with price stability as the primary objective, further fiscal consolidation, and an enhanced financial sector are achieved, and encouraged careful further analysis of all issues involved.

Directors commended the authorities' efforts to improve transparency and governance in the public sector, and looked forward to further progress in these areas. They also welcomed their intention to further strengthen the statistical system in line with recent Report on the Observance of Standards and Codes recommendations, with the objective to subscribe to the Special Data Dissemination Standard by end-2003.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Morocco: Selected Economic Indicators

	1998	1999	2000	2001	2002 Prel. 1/	2003 Proj.
			(Annual percent change) 2/			
Domestic economy						
Change in real GDP	7.7	-0.1	1.0	6.5	4.5	5.5
Change in real nonagricultural GDP	4.4	3.2	3.5	3.7	3.9	4.3
Urban unemployment rate (in percent of labor force)	19.1	22.0	21.5	19.5	18.0	....
Change in consumer prices	2.7	0.7	1.9	0.6	2.8	2.0
			(In billions of U.S. dollars) 2/			
External sector						
Exports, f.o.b.	7.1	7.5	7.4	7.1	7.7	8.5
Imports, f.o.b.	9.5	10.0	10.7	10.2	10.7	11.8
Tourism receipts	1.7	1.9	2.0	2.6	2.2	2.3
Private transfers (net)	2.3	2.1	2.4	3.5	3.5	3.8
Current account balance	-0.1	-0.2	-0.5	1.6	1.1	0.8
In percent of GDP	-0.4	-0.5	-1.4	4.8	2.9	1.8
Direct investment and other private flows	0.7	2.1	0.9	3.3	0.8	1.2
Public borrowing, net	-0.5	-0.5	-0.8	-1.1	-1.3	-1.1
Overall balance	0.2	1.6	-0.4	3.8	0.6	0.8
Gross official reserves	4.6	5.7	4.8	8.4	10.1	10.8
In months of imports of goods, c.i.f.	4.8	5.7	4.6	8.2	9.4	...
			(In percent of GDP) 2/			
Financial variables						
Central government balance 2/	-2.6	-4.5	-6.4	-5.8	-4.5	-4.3
Central government debt 3/	74.3	76.9	76.4	74.8	70.7	68.2
Of which: external	36.2	35.6	34.2	28.9	22.7	18.8
Debt service ratio (in percent of Exports of goods nonfactor Services and private transfers)	23.9	20.8	20.1	16.2	17.3	15.9
Change in broad money	5.8	10.3	8.4	14.2	6.3	6.8
Interest rate 4/	7.0	4.8	6.3	5.2	3.6	...

Sources: Data provided by the Moroccan authorities; and IMF staff estimates.

1/ Data for 2002 were estimated in January 2003 and are subject to revisions.

2/ Unless otherwise noted

3/ Excluding privatization and GSM receipts and including Fonds Hassan II. From 1998 to 1999, data refer to fiscal year beginning in June. In 2000, data refer to calendar year.

4/ End-year debt over calendar year GDP.

5/ 52-week treasury bills, last available observation in the year

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
April 28, 2003

Over the past five years, Morocco has made important strides in modernizing its political system, continuously liberalizing the economy and increasing its resilience to shocks, and laying the foundations for faster and more sustainable growth, reducing poverty, and improving the living conditions of the population. In the context of a delicate political transition and unfavorable domestic and international economic environment—including three successive years of severe drought, the increase in oil prices, and global economic slowdown—the authorities maintained prudent fiscal and monetary policies and stayed the course of structural reform. As a result, real GDP growth accelerated and its vulnerability to volatile agriculture production declined, inflation was brought down to industrial countries' levels, and the external position strengthened significantly with current account surpluses, improvement in debt indicators, and substantial reserve build-up. Attractiveness to foreign direct investment increased, as evidenced by the successful sale of a cellular phone license and privatization of the national telephone operator. My authorities thank staff for the constructive dialogue during the Article IV discussions. They have agreed to the publication of the staff report for the Article IV consultation.

I. Background

Successful democratic transition has been the overriding priority of the Moroccan authorities during 1998–2002. It was indeed crucial to maintain social cohesion to create the appropriate climate for an open and credible electoral process. Much of the authorities' attention was devoted to reforming the electoral code, strengthening human rights protection, and achieving national reconciliation following past abuses. They demonstrated strong commitment to improving governance, transparency, and accountability. The legislative and executive branches were involved in parallel investigations on high profile mismanagement cases and their conclusions were brought to the judiciary through a transparent process. Last August, and for the first time in Morocco's history, a democratically elected government reported to Parliament on implementation of its political and socio-economic program announced at its investiture, a major breakthrough in accountability.

The general elections held in September 2002 have been universally acknowledged as the fairest and most transparent in Morocco's history. The new government and its program have the support of a wide spectrum of political parties and the business sector, which augurs well for policy implementation. Confidence has strengthened and market perception has improved as evidenced by the narrowing in spreads in the secondary market and improvement in Morocco's outlook rating.

II. Macroeconomic policies and developments during 2001 – 2002

With lower-than-average agriculture performance and continued strengthening of non-agricultural activity, real GDP growth reached 4.5 percent in 2002 following 6.5 percent in 2001, allowing for an increase in real GDP per capita of 4 percent per year on average during 2001–2002. Improved government capacity to respond to droughts has helped attenuate their impact on the economy. The share of agriculture, including fisheries, declined from 15.4 percent of GDP during 1993–1997 to 13.8 percent during 1998–2002. While remaining high, urban unemployment has declined from a peak of 22.4 percent in 1999 to 18 percent in 2002.

Maintaining macroeconomic stability is key for achieving an enabling environment for high, sustainable, and private-sector-led growth. During 2001–2002, fiscal position improved significantly despite a decline in trade taxes following implementation of the FTA with the EU. After its peak of 6.4 percent of GDP in 2000, fiscal deficit, excluding privatization, declined to 5.8 percent in 2001—instead of increasing to 7.1 percent as projected in the 2001 Article IV staff report—and to 4.5 percent in 2002. The 6.1 percent of GDP privatization revenue received in 2001 was not used to increase expenditure, which declined as a share of GDP from 31.8 percent in 2000 to 31.1 percent in 2001 and 28.9 percent in 2002. Out of the DH 23.4 billion received in 2001, DH 8 billion was used to reimburse central bank's statutory advance to the Treasury (which is unremunerated and is not included in public debt) and DH 10.6 billion was transferred to Hassan II Fund and sterilized in a central bank account. In 2002, the current fiscal balance reached close to 2 percent of GDP and the primary deficit was virtually eliminated. Total government debt, as a percent of GDP, declined from 75.7 percent in 2000 to 74.8 percent in 2001 and 69.4 percent in 2002.

The effectiveness of monetary policy in achieving price stability, in an environment of large foreign exchange inflows, has been strengthened. Improved coordination between Bank Al-Maghrib and the Treasury and timely and effective use of policy instruments made it possible to mitigate the effect of privatization revenue and of the large increase in workers' remittances on liquidity. Money market rates remained within the central bank's intervention rates, and money developments were broadly maintained within the target range.

The exchange rate peg has continued to serve the economy well and has helped maintain macroeconomic stability. The depreciation of the dirham in April 2001, together with very low inflation and favorable movements of the euro in respect to the US dollar helped reverse part of the previous real appreciation. The authorities also followed a moderate wage policy. In view of the high level of unemployment and to protect competitiveness, the minimum wage was increased only once, by 10 percent in 2000 since 1996, and has declined in real terms. The decline in interest rates and efficiency gains stemming from structural reforms also contributed to improved profitability and higher employment creation.

The tight macroeconomic stance, large workers' remittances and FDI inflows, improved export performance—including from greater diversification to new, high value-added sectors—and active debt management policy led to significant improvement in the external position, notwithstanding the decline in tourism and global economic slowdown. The current account position turned from a deficit of 1.4 percent of GDP in 2000 to a surplus of 4.8 percent in 2000 and 3.7 percent in 2002. External debt to GDP ratio declined from 48 percent in 2000 to 35 percent in 2002, and debt service ratio declined further to reach 16.6 percent in 2002. Reserve coverage increased to the equivalent of 9 months of imports.

As a consequence, the ratio of external public debt net of official reserves to GDP declined from 71.5 percent in 1990 to 10.2 percent in 2002.

III. Recent progress with structural reforms

The authorities do not agree with the assessment that only a limited part of the government's reform agenda was implemented or that the pace of structural reforms implementation has slowed down. Despite the heavy political agenda and in addition to financial reforms, which will be highlighted in the following section, key reforms were implemented that included:

- Dismantling of tariffs under the Free Trade Agreement with the EU, with the progressive elimination of tariffs protecting local production starting this year;
- Elimination of reference prices and the adoption of customs valuation in accordance with WTO rules, leading to an improvement in Morocco's rating in the Fund trade restrictiveness index from 8 to 5;
- Modernization of customs administration bringing its performance on par to that of the most advanced economies and eliminating one of the most serious impediments to trade;
- Liberalization of the Telecoms sector, with World Bank assistance, allowing its opening to private sector involvement, including the sale of a second cellular phone license and privatization of Maroc Telecoms;
- Liberalization of the edible oil sector with elimination of the high tariffs and of consumer subsidies;
- Elimination of the price control system and enactment of the competition law;
- Enactment of the law liberalizing road transportation, and eliminating the state monopoly;
- Enactment of the law liberalizing the petroleum and gas sectors;
- Liberalization of the tobacco sector, and reform of its taxation consistent with IMF technical assistance recommendation, in order to prepare its privatization, expected to be completed later this year;
- Creation of regional one-stop windows to streamline investment procedures;
- Creation of working groups to identify and address impediments to key sectors development within a contractual framework, with priority given to improving their efficiency and export performance, reducing their costs, and improving access to land;

- Adoption of a charter for small- and medium-sized enterprises and of employment support mechanisms, with particular emphasis on training;

- Reform of rent legislation to improve landlord protection and increase attractiveness of the sector to domestic and foreign investors;

- Revision of the privatization law to extend the list of public enterprises subject to privatization;

- Transfer to public pension funds of unfunded retirement schemes of key public enterprises, including the railway company (ONCF) and the tobacco company (Regie des Tabacs), and mobilization of resources equivalent to 2 percent of GDP for meeting their liabilities, with government support. This transfer will improve these enterprises' finances and transparency and help prepare them for privatization;

- Restructuring of the airline and maritime transportation companies and of a number of other public enterprises, and liquidation of the coal and iron mines companies;

- Adoption of a new law reforming public procurement regulation to enhance transparency and competition;

- Reform of job intermediation system;

- Strengthening of the judiciary with creation of commercial courts and regional courts of accounts and acceleration of execution of court decisions;

- Creation of an Ombudsman position to mediate disputes involving government entities.

IV. Financial sector reform and the FSSA

Significant progress has been made over the past two years in strengthening the financial sector, including through improved regulation and supervision. In addition to the ongoing restructuring of specialized financial institutions, recent reforms include the overhaul of the accounting system to bring it on par with international best practices, the imposition of internal audit, the upgrading of loan classification and provisioning rules, and the imposition of prudential regulations on a consolidated basis. The draft law reforming the central bank's charter to provide it with more operational independence has been revised to include key FSAP mission recommendations. The law will assign price stability as the primary objective of monetary policy, create an independent monetary policy committee, prohibit budget financing under normal circumstances, phase-out central bank's shareholding in any financial institution, submit its accounts to independent external auditors, clarify the roles of the Ministry of Finance and the central bank in exchange rate policy, and open the possibility for the Governor to report to Parliament. The reform of the banking law aims at strengthening Bank Al Maghrib's supervisory role, redefining the roles of the two consultative bodies, and enhancing coordination among financial sector supervisors. The two revised draft laws are to be considered soon by the Government. After transformation of its legal statute, the opening of the capital of the major public commercial bank (BCP) is proceeding according to schedule. Following sale of 21 percent of its capital to private regional banks last year, the floatation of 20 percent of the capital has been announced recently. The new Insurance Code has been approved. This Code increases protection of the ensured and improves the regulatory and prudential framework. As recommended by the FSAP mission, the 50 percent shareholding limit in any insurance company and the joint liability in case of co-insurance have been eliminated.

My authorities thank staffs of the Fund and the World Bank for the exhaustive work carried out under the joint FSAP. While they share many of the assessments of the FSSA and concur with the needed reforms, they consider that the report does not fully and accurately reflect the recent major reforms and those in progress. They also believe that some of the vulnerabilities highlighted in the FSSA are either overstated or based on unrealistic assumptions inconsistent with the recent stance and orientation of macroeconomic policy and financial sector reform. They are of the view that vulnerabilities should be assessed against the present stance of policy and not in relation to what would happen if the capital account was liberalized. Capital movements are already free of restrictions for non-residents, including Moroccan workers abroad. The authorities are also aware of the prerequisites for moving toward full capital account liberalization and exiting from the present exchange rate peg and, in particular, the need for further improvement in the fiscal position, monetary framework and instruments, and strengthening of the financial sector. In this respect, they have requested Fund technical assistance in bank and insurance supervision and pension reform. I will comment on a few areas of "vulnerability" identified by the mission.

1. The specialized banks

Two major factors explain the poor performance of the three specialized banks: the high cost of their long-term borrowing at historically high interest rates at a time when domestic interest rates have declined significantly, and difficulties faced by their borrowers, in particular in the drought-stricken agriculture and in tourism. These difficulties were exacerbated by poor governance which is being addressed forcefully. The restructuring and financial rehabilitation of the three institutions is being conducted in a transparent manner with reliance on the shareholders and direct or indirect government support. Despite the accumulation of reserves in the Deposit Guarantee Fund financed by contributions by the banking sector which could have been used for rehabilitation of the three institutions, these reserves were not used.

The Agricultural Bank (CNCA) received government support amounting to DH 1.2 billion during 1998–2000 (0.4 percent of GDP) and was recapitalized by the Government in 2001 for an amount of DH 1.2 billion. A draft law modernizing its charter to enable private participation and separating the commercial part of its activity from social development objectives is under discussion in Parliament. Under the new law, all non-commercial activities will be undertaken on a contractual basis and will be financed by the Budget. Following severe shortcomings identified by an audit, management of the CNCA has been changed and an improvement in its performance is underway with a significant increase in its deposit base and profitability.

A restructuring plan covering 2000–2006 has been negotiated by the new management of the Housing and Tourism Bank (CIH). This plan calls on shareholders as well as government support for a total of DH 6.6 billion (over 1.5 percent of GDP), together with a program of loan recovery and cost reduction, including early repayment of expensive debt. Implementation of the plan is proceeding satisfactorily, with most of the financial support already disbursed. Two years into implementation, the plan has achieved a 30 percent decline in nonperforming loans, 20 percent increase in deposits, a significant increase in net banking product, and a decline in operational costs. While recognizing that the situation of the CIH is still difficult, the authorities and the CIH management are confident that the plan is working and that the bank will be put on a sound footing even earlier than anticipated under the program. Following its financial rehabilitation, the CIH could be privatized, or merged with another institution.

In addition to its deteriorating financial position, the role of the industrial development bank (BNDE) within the liberalized financial system was put into question. After considering several options, the authorities decided to transfer the BNDE's retail bank activities to the Agricultural Bank (CNCA), which needs to develop its urban branch network, and its investment bank activities to the Caisse de Depots et de Gestions (CDG) which is a public asset management bank and also the second largest shareholder after the Treasury. A contract has been signed between the Government and the CDG giving this institution responsibility for this redeployment, with the final cost being borne by the CDG pro-rata to its shareholding and by the Government for the remainder.

While remaining committed to completing the rehabilitation and restructuring of the three specialized banks, the authorities do not believe that their situation had at any time posed serious risks to the stability of the financial system. The links between these institutions and the private financial sector are not very strong. Public disclosure of these institutions' weaknesses also provided assurance that the necessary restructuring and recapitalization measures would be taken by the authorities. Finally, the cost of recapitalizing the two insolvent institutions, to comply with the minimum capital adequacy ratios, was estimated by the FSAP mission at 1 percent of GDP.

The authorities do not see systemic risks to credibility of bank supervision arising from the exemption from prudential regulations granted to the two specialized banks. These exemptions are transparent and temporary and are accompanied by restructuring plans which are at an advanced stage of implementation. Furthermore, these exemptions do not create unfair competition to private banks in view of their significantly larger interest margins as well as the relatively small size and the sectoral concentration of the specialized banks.

2. Risks related to the macroeconomic stance and public debt

The authorities have demonstrated commitment to macroeconomic stability, and their stance of policies does not pose risks to the financial system. Indeed, the significant decline in government external debt and the increase in foreign reserves have mitigated most of the risks stemming from exchange rate and interest rate shocks. While part of the decline in external debt was replaced by domestic debt, this was achieved in a context of a general decline in domestic interest rates and has been instrumental in developing the financial system. Moreover, overall public debt has declined significantly, and this trend, under current policies, is expected to continue. The share of domestic debt in banks' assets is also relatively small, not exceeding 20 percent, and a significant part of it is held by a public bank. While there were episodes of accumulation of domestic arrears—the most recent being at end-2000 and was due to the delay in receiving the proceeds from the sale of the cellular phone license—there has never been any incidence of accumulation of **domestic debt arrears**. With strengthened fiscal position and expenditure control, enhanced cooperation with the central bank, and improved liquidity and debt management, the authorities are confident that there is no risk of accumulation of debt or non-debt arrears.

3. Workers' remittances

Workers' remittances have increased significantly over the past two years. Past episodes of rapid increases were typically followed by stability of the inflows with no incidence of sharp declines. Deposits held by expatriate Moroccans are maintained for liquidity purposes to face family support needs or for potential investments. Also these deposits are held in dirham, often in unremunerated accounts, whereas expatriate Moroccans have the opportunity of maintaining them in foreign currency, or in convertible dirham accounts. The authorities, therefore, do not see any risk of a sudden decline in these deposits.

4. Interest rate formation

The authorities are of the view that participation of public entities (CDG, BCP) in the Treasury bill market does not create potential conflict of interest. The two institutions have full operational independence and make their investment decisions consistent with their own strategies. Interest rates are dictated by market conditions on an auction basis, and there is no evidence of collusion between the Treasury and these public entities. In the authorities' view, interest rate structure in the Treasury bill market appropriately reflects the preferences and anticipations of market participants and provide a credible benchmark.

V. Social sectors and poverty reduction

With assistance from the World Bank, the EU, and other donors, the authorities are implementing a broad strategy to increase delivery of social services and reduce poverty. This led to improvement in key indicators, including in education, health, access to drinking water and electricity, and significant progress in reducing geographic and gender disparities. Primary school enrollment increased from 65 percent in 1998 to 81 percent in 2001 on average. The gender gap is being closed with the rates of girls to boys increasing over the period from 0.94 percent to 0.99 percent in urban areas and from 0.73 percent to 0.80 percent in rural areas. Between 1997 and 2001, access to drinkable water in rural areas increased from 26 percent to 48 percent and access to electricity from 24.5 percent to 51 percent. An important breakthrough was the adoption of the Education Charter comprising several laws and regulations establishing a tight timetable for achieving universal enrollment, improving the quality of education, and strengthening its link to job market needs. An ambitious private-sector-led program for reducing housing shortages, particularly for the low-income population, is underway. Key social reforms also include the creation of the Social Development Agency with World Bank assistance to address poverty issues, rehabilitation of key social protection agencies, including the Social Security Fund, and generalization of job accident and healthcare protection. The authorities also succeeded in developing a decentralized and efficient system for alleviating the social and economic effects of droughts, thereby strengthening the economy's resilience to weather-related shocks. This system has enabled a timely reallocation of budgetary resources while maintaining fiscal discipline and accountability.

VI. Data ROSC

My authorities express their appreciation to the staff of STA for the comprehensive review of data dissemination and quality and concur with their conclusions and recommendations. The authorities have agreed to the publication of the report which has been already posted on the Fund's web site. This review has helped identify areas where more efforts are needed to enable Morocco to meet the SDDS requirements and to subscribe to the SDDS by end-2003.

VII. Policies for 2003 and the medium term

The government's economic program announced last November aims at further modernizing the economy and enhancing its competitiveness to achieve higher and more balanced growth and job creation. In pursuit of this objective, the Government will rely on macroeconomic stability, structural reforms, human resource development, and strengthened governance and policy predictability to improve the attractiveness of the economy to domestic and foreign investors. Recent strengthening of business confidence and favorable weather developments so far augur well for acceleration of growth to 5.5 percent in 2003, the average for the past two years. With improved outcome for 2002, the traditionally conservative revenue projections, and strong revenue administration and expenditure control, the fiscal deficit could be closer to 4 percent than to the 5 percent projected during the Article IV discussions. Medium-term fiscal consolidation will remain at the core of the authorities' priorities, with the overall deficit, excluding privatization, projected to decline further to reach 3 percent of GDP by 2008. In reaching this target, priority will be given to civil service reform, including a substantial retrenchment program based on early retirement and changing promotion into a merit-based system, liberalizing the sugar and cereal sectors and overhauling the untargeted subsidy system, and reforming the tax system to increase its buoyancy and offset the decline in trade taxes. The social orientation of the budget will also be strengthened to enhance the delivery of key public services.

Closer consultation with social partners augurs well for achieving early consensus on some of the pending issues, including the adoption of a new Labor Code. Broad consultation with the business sector will also help introduce the necessary reforms for raising efficiency and competitiveness to enable the economy to reap the benefits of globalization and of the free trade agreements with the EU and Arab countries. Prospects for improved cooperation among Maghreb countries and of early conclusion of ongoing negotiations for a Free Trade Agreement with the U.S. are also encouraging.

The effect of the war in Iraq has not been as severe as expected. Indeed, oil prices seem to have stabilized and the tourism sector, so far, has been affected less than in other countries in the region. Fiscal and price developments for the first two months have been favorable. Tourism receipts and workers remittances, in particular, have increased, while the trade deficit has widened, with an increase in exports more than offset by a surge in imports, especially for investment goods. However, foreign reserves were maintained at their historically high level of end-2002. While it is too early to assess the extent of the fall-out from the war, the authorities believe that the traditional political stability in Morocco and the safe environment, together with the large reserves cushion, will help maintain investor confidence and strengthen their resolve in the pursuit of their economic and social objectives.

My authorities attach high importance to their close cooperation with the Fund. The extensive exchange with staff during the Article IV, the FSAP, and data ROSC missions has been very useful. The authorities look forward to Board's discussion and advice in articulating and implementing their strategy.