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Morocco: 2007 Article IV Consultation—Staff Report; Staff Statement; 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 2007 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on August 3, 2007, with the officials of Country A on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 11, 2007. 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 staff statement of August 3, 2007 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 3, 2007 discussion of the staff report that concluded the Article IV consultation.

- Statement by the Executive Director for Morocco.

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

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INTERNATIONAL MONETARY FUND

MOROCCO

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representative for the 2007 Consultation with Morocco

Approved by Amor Tahari and Matthew Fisher

July 11, 2007

- **Discussions for the 2007 Article IV consultation took place** in Rabat, Morocco, during May 31–June 11 2007. The team comprised Mr. Fanizza (head), Ms. Allain, Messrs. Bougha-Hagbe and Arezki (all MCD). Mr. Daïri, Alternate Executive Director for Morocco, joined the meetings.

- **Discussions were held with Minister Oualalou (Finance and Privatization), Minister Boussaid (Modernization of Public Sectors), Governor Jouahri (Bank Al-Maghrib), and other government officials**. The mission held a press conference at the end of its visit to present its main conclusions.

- **Political setting**: The process of political opening initiated by H.M. Mohammed VI is continuing. The outcome of the September elections is unlikely to affect the authorities' commitment to market-oriented reforms.

- **Focus of the mission**: In light of the broad consensus on economic policies, this year's consultation is streamlined. Discussions focused on: (a) ensuring that the ongoing recovery does not translate into increased inflation; and (b) progress achieved in reforming the financial sector and deepening the integration in the world economy.

- **Past Fund advice**: The Fund and the authorities have generally agreed on broad policy priorities. In the past, the authorities have generally favored a more gradual approach to reform implementation than the Fund, but the pace of reform has recently picked up.

- **Exchange arrangement**: Morocco's currency, the dirham, is pegged to a basket of currencies dominated by the Euro. The authorities are preparing for a possible transition to a flexible exchange rate regime in the medium term.

- **Morocco has accepted the obligations of Article VIII and subscribes to the Fund's Special Data Dissemination Standard**. An FSAP update is scheduled to take place in November 2007.

- **The authorities intend to continue publishing all documents related to the Article IV consultation**.

Contents Page

I. Background and Main Issues

1. **Morocco's economic performance has been strong, with favorable effects on poverty and unemployment**. Reflecting the pickup in growth since the turn of the century, job creation has accelerated, bringing the unemployment rate down to a thirty-year low, and real per capita income is on the rise after a decade-long stagnation. Nevertheless, poverty and unemployment remain major policy concerns, as one out of seven Moroccans lives below the national poverty line and 15 percent of the urban labor force is unemployed.

2. **Higher productivity and increased resilience to shocks are the main drivers of the strong economic performance**. The authorities have liberalized the transport, energy, and telecommunications sectors, strengthened the financial sector, and opened up the trade regime. Average growth has reached 5.4 percent per annum since 2001, 3.4 percentage points higher than in the 1990s. This reflects the ongoing diversification of the nonagricultural sector, and its increased resilience to shocks, both external and weather-related. However, bad crop years still impact the overall economic performance, as evidenced by the growth deceleration in 2007.

3. **In the short term, the main issue is to avoid the buildup of demand pressures, which could jeopardize the sustainability of the recovery**. Although the evidence is mixed, there are signs that the continued vigor of domestic demand, which has been the main engine of growth, may be stoking inflationary pressures. Increased net foreign direct investment could also provide additional stimulus to domestic demand. In the context of Morocco's pegged exchange rate, preserving price stability is key to avoid unwarranted real exchange rate appreciation.

4. **In the medium term, the challenge is to build upon Morocco's recent achievements to further raise growth**. The policy dialogue with the authorities has identified three areas that are key to strengthen the economic performance. First, by shoring up private-sector confidence, further fiscal consolidation will help foster an environment conducive to growth. Second, a more efficient financial sector will improve the mobilization of savings and ensure their efficient allocation, thereby contributing to growth. Third, deeper integration in the world economy would help Morocco harness the full benefits of globalization, allowing the external sector to become the second engine of growth.

5. **Medium-term prospects are good.** Steadfast implementation of macrostructural reforms would improve total factor productivity, and increase the external sector's contribution to growth. As a result, nonagricultural GDP would grow by more than 5 percent on average over the next five years. Tourism and remittance flows, the main drivers of Morocco's current account performance, are projected to remain strong, at about 10 percent and 8 percent of GDP on average during 2008–12, respectively. However, the pickup in economic activity is likely to bring the current account close to balance in the outer years. Despite rising capital outflows resulting from future capital account liberalization, strong

foreign direct investment would help keep official reserves comfortably higher than the stock of external debt. The standard external debt sustainability analysis does not highlight significant external vulnerabilities; the fiscal sustainability analysis indicates that Morocco's public debt is mostly sensitive to output shocks.

Medium-Term Projections 2005–12

(Percentage change from the previous period, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP	2.4	8.0	2.5	5.9	5.7	5.8	5.9	6.1
Real nonagricultural GDP	4.8	5.2	5.5	5.7	6.1	6.2	6.3	6.5
CPI inflation	1.0	3.3	2.5	2.0	2.0	2.0	2.0	2.0
Savings-investment balances 1/								
Private	5.2	2.3	1.1	0.4	-0.1	-0.5	-1.0	-1.5
Public	-2.8	1.1	0.7	1.1	1.5	1.8	2.0	2.2
Current account balance 1/	2.4	3.4	1.8	1.5	1.3	1.3	1.0	0.8
Trade balance 1/	-13.5	-13.8	-15.4	-15.4	-15.5	-15.6	-15.7	-15.9
Exports	19.0	19.4	19.9	20.1	20.6	21.2	21.9	22.7
Imports	-32.5	-33.3	-35.3	-35.5	-36.1	-36.8	-37.7	-38.6
Nonfactor services balance 1/	7.2	8.2	8.3	8.5	8.7	8.9	9.1	9.2
Income and transfers balance 1/	8.6	9.0	8.9	8.4	8.2	7.9	7.7	7.4

Sources: Moroccan authorities; and Fund staff estimates.

1/ In percent of GDP.

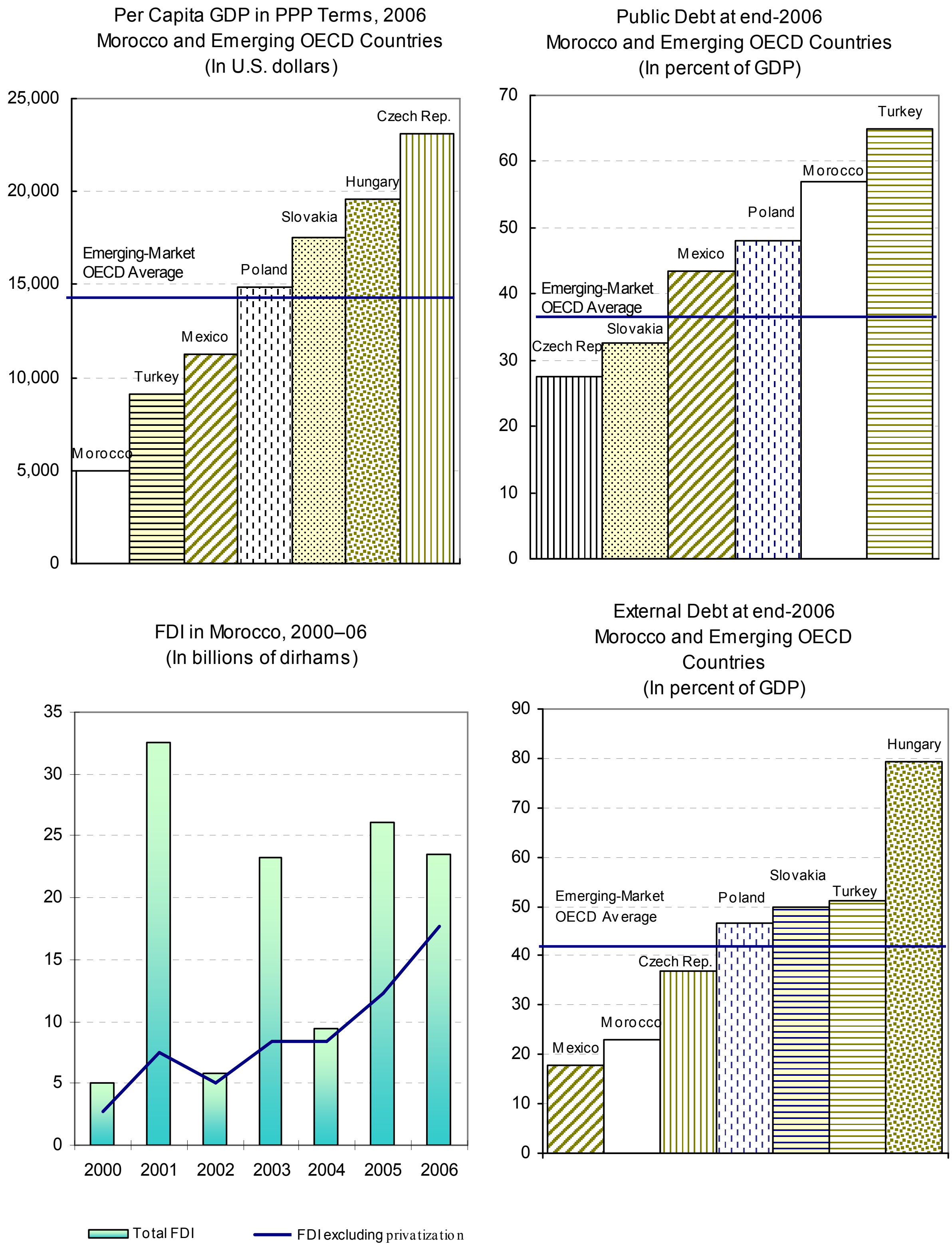
Box 1. Revision of National Accounts

The authorities have prepared new series of national accounts using the 1993 UN system of national accounts, and changing the base year from 1980 to 1998. A preliminary analysis using the new series suggests that:

- In 2006, nominal GDP is 14 percent above its level in the previous series. This change comes mainly from an upward revision of the value added of the tertiary sector.

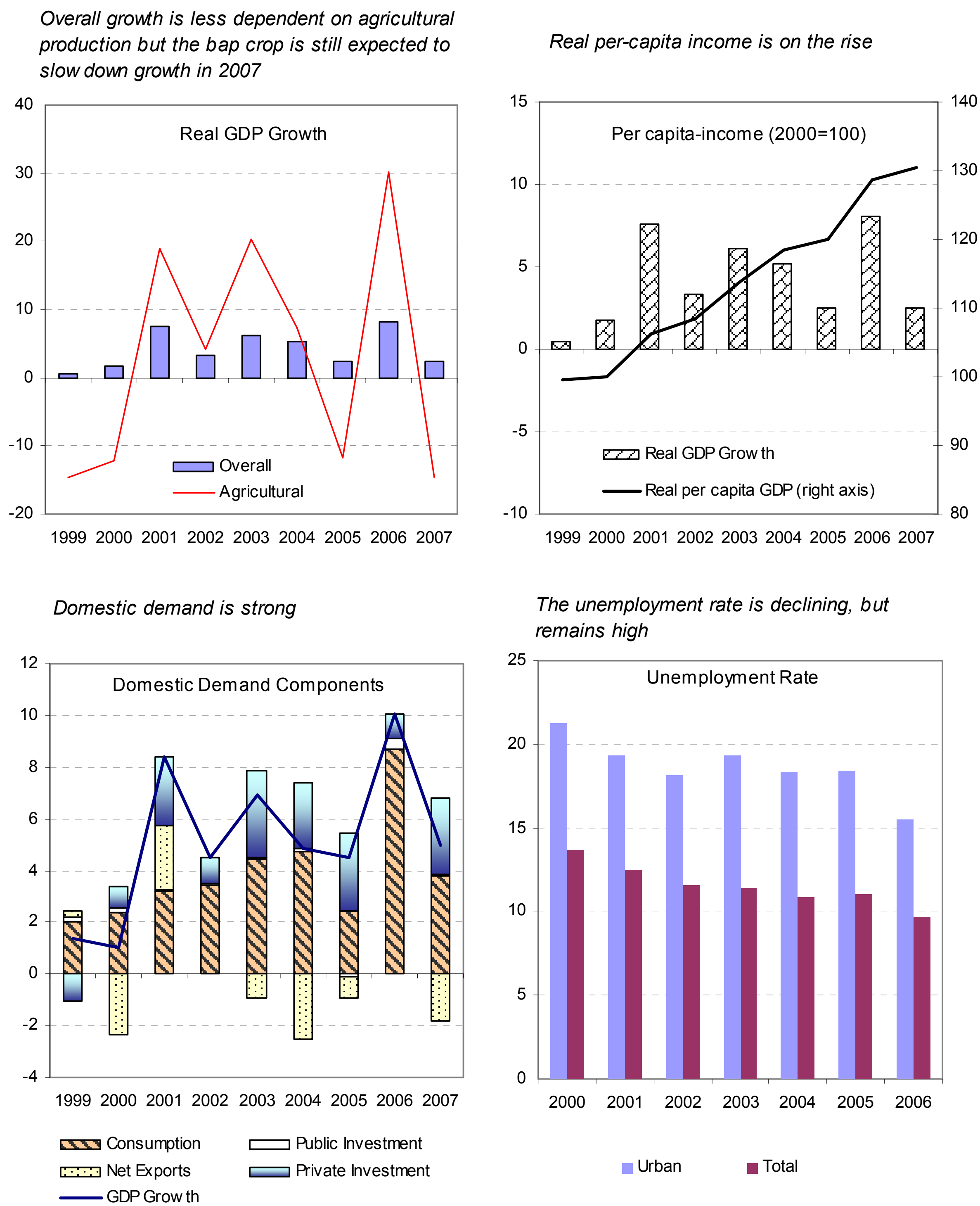
- The share of the primary sector in real GDP is roughly unchanged in 2006 (14 percent of GDP). The 5 percentage point decrease in the share of the secondary sector (25 percent of GDP) has been offset by the equivalent increase in that of the tertiary sector.

Figure 1. FDI, Indebtedness, and Per Capita GDP



Sources: Moroccan Authorities; World Economic Outlook; and IMF staff calculations.

Figure 2. Real Sector Developments 1/



Sources: Moroccan authorities; and IMF staff calculations.

1/ Calculations use the new national accounts. As the new series were revised back to 1998 only, data for 1990–98 were computed by splicing the old and new series, using the growth rates.

II. Report on the Discussions

A. Inflation Outlook and the Role of Monetary Policy

6. **The authorities pointed to the preponderance of one-off factors in the 2006 increase in inflation**. The adjustments in domestic fuel prices following the reinstatement of the price indexation mechanism and the increase in the price of some services, mainly in the transportation and communications sectors, did not seem to have a lasting impact on price dynamics. Bank Al-Maghrib's (BAM) two-stage tightening of the monetary policy stance in 2006[1]—first by using the 7-day deposit auctions instead of the overnight facility in April, then by increasing the rate on these auctions by 25 basis points to 2.75 percent in December—contributed to contain overall inflation. There is little evidence that the strong increase in credit to the private sector and associated fast-paced growth of broad money have fueled inflationary pressures, confirming BAM's assessment that the link between monetary aggregates and inflation may have weakened in recent years.

7. **BAM believes that the balance of inflationary risks for 2007 is tilted to the downside**. The position of the economy in the cycle is difficult to gauge as the ongoing transformation of the Moroccan economy complicates the measurement of the output gap. The important liberalization efforts undertaken during the last decade may have shifted the production frontier outward, imparting a downward bias on trend-based measures of the output gap. BAM's assessment is that output is now below its potential, and that the contraction in agricultural output and ensuing deceleration in overall growth expected in 2007 should further dampen domestic demand. The slowdown in inflation in the first few months of 2007 appears to bear this assessment out. Beyond changes in the international environment, notably in international oil prices, the high level of real balances remains one of the main risks to the inflation forecast. The substantial rise in real estate and financial asset prices and the concomitant fall in treasury bond yields point to the existence of pent-up liquidity. The possible acceleration of net capital inflows, which reflects for a large part the importance of foreign direct investment, could also stoke demand pressures. The authorities stressed that the envisaged gradual easing of remaining restrictions on capital account transactions by residents could significantly contribute to liquidity management.

8. **BAM is committed to maintaining a prudent monetary stance.** In line with the mandate conferred by its new statutes, which granted BAM its autonomy, the central bank's main objective in 2007 is to continue to keep inflation under control. The interbank market rate has increased again in the first half of 2007, and is now close to the central bank's key policy rate of 3.25 percent.

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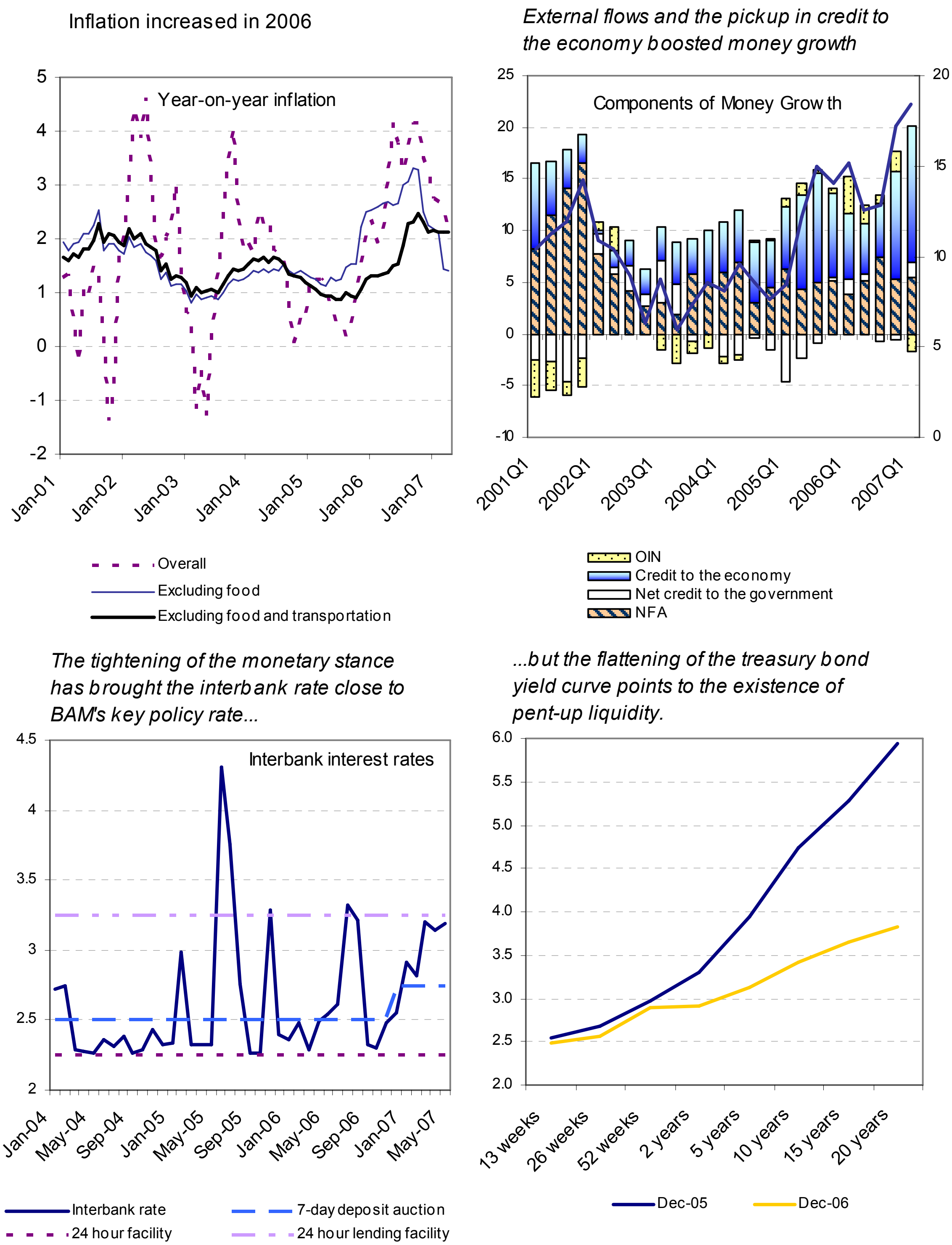
[1] In the context of the pegged exchange rate, the existence of restrictions on capital account transactions by residents leaves some scope for independent monetary policy.

Figure 3. Inflation and Monetary Developments



Sources: Moroccan authorities; and IMF staff calculations.

B. Fiscal Policy

9. **The authorities have kept fiscal policy geared toward medium-term consolidation.** As a result of strong revenue performance and tight expenditure control, they expect the 2007 deficit at 2.5 percent of GDP, broadly unchanged from its underlying 2006 level, excluding the impact of one-off factors.[2] The debt-to-GDP ratio will remain on a downward trend.[3]

10. **The improved public finance position demonstrates that the consolidation strategy is bearing fruit.** On the revenue side, the authorities have started to simplify the tax system and increase its transparency, notably by presenting reports on tax expenditures with the 2006 and 2007 budgets, and by publishing a tax procedure code, as well as a tax assessment and collection manual. In addition, the favorable impact of the recovery, the strengthening of tax administration, and the widening of the tax base—particularly for the VAT—have significantly improved tax revenue performance, and offset the impact of lower external tariffs. On the expenditure side, the success of the 2005 early retirement program has generated substantial savings on the wage bill. The authorities have also taken important steps to reduce the cost of subsidies by returning to the indexation mechanism of retail domestic prices of petroleum products to international oil prices.

11. **To bring the government debt-to-GDP ratio closer to the average for emerging-market OECD countries in the medium term, the authorities intend to**:

- Maintain the public wage bill around 10 percent of GDP by continuing the no-new-net-hiring policy in the civil service and redeploying civil servants in priority sectors;

- Gradually reduce spending for food and energy subsidies, and replace them with direct subsidies targeted to the most vulnerable segments of the Moroccan population;

- Accelerate the simplification of the tax system, particularly through the continuation of VAT reform and the reduction of exemptions; and

- Continue to modernize tax administration, with a particular focus on strengthening the collection function.

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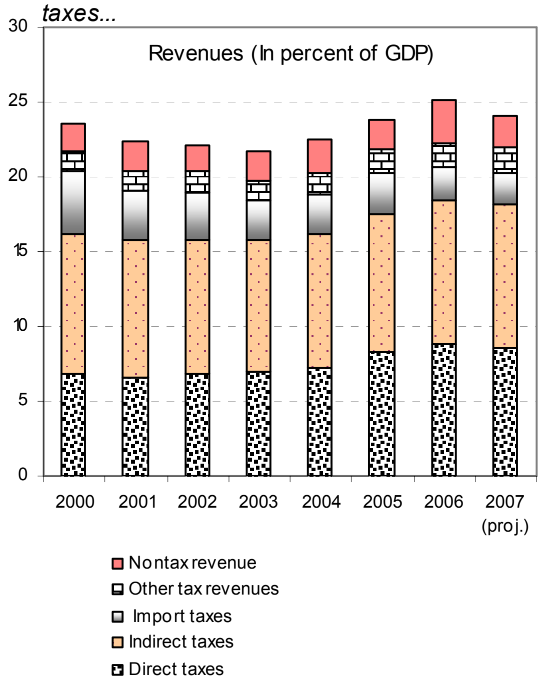
[2] One-off payments (0.4 percent of GDP) boosted nontax revenue in 2006.

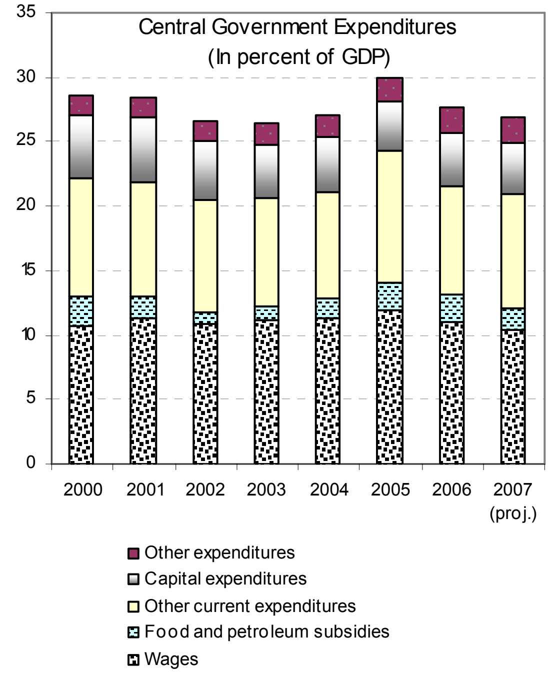
[3] Historical debt series have been revised upward to reflect the inclusion of twenty-year old liabilities to the central bank (1 percent of 2006 GDP).

Figure 4. Fiscal Sector Developments

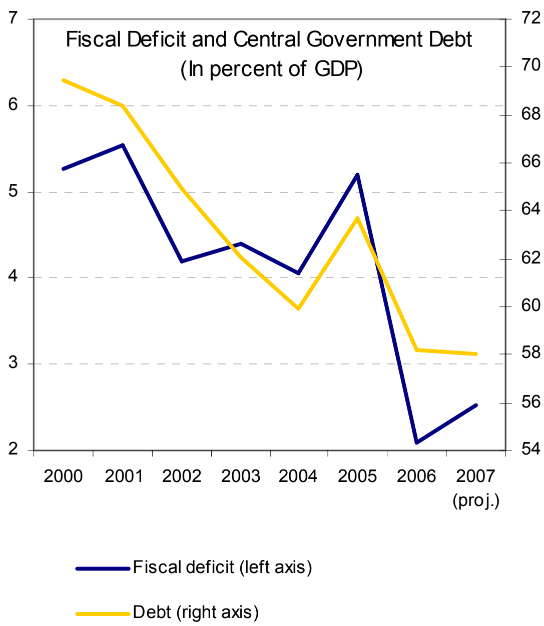
Strong direct and indrect tax collection has more than offset the decrease in import taxes...



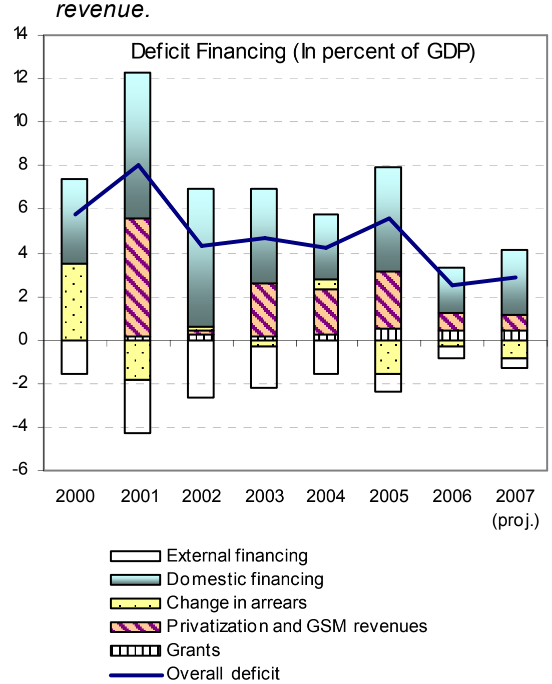
...and the decline in the wage bill has helped contain expenditure



Fiscal deficit and central government debt are on a downward trend...



...and financing of the declining deficit has become less dependent on privatization revenue.

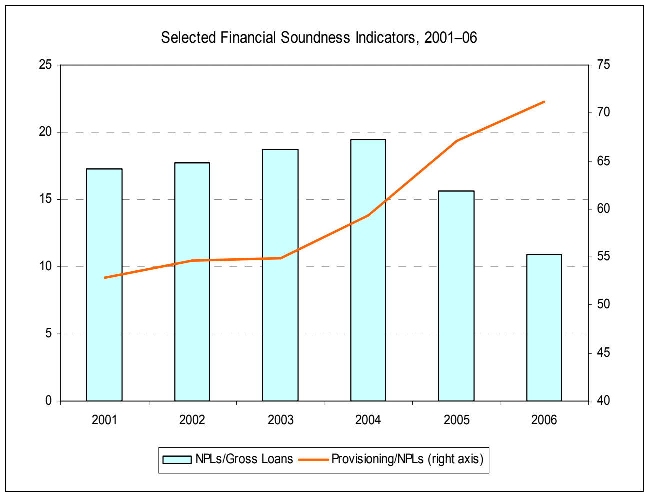


Sources: Moroccan authorities; and IMF staff calculations.

C. Financial Sector Reform

12. **The recent surge in credit to the private sector demonstrates the success of the authorities' policies to deepen financial intermediation**. The implementation of stricter information requirements on credit, on both the demand and the supply sides, has contributed to improving risk assessment and hence to reducing its cost. The new privately managed credit bureau, expected to become operational in the first half of 2008, is also an important step forward and will be the first of its kind in the region.

13. **Concurrently, important progress has been achieved in the area of financial supervision**. Banking supervision reports are now published annually. In view of the fast growth of real estate and consumption credit, specific studies on these developments, as well as on interest rate-related risk, have recently been added to these reports. The preliminary conclusions of these studies indicate that the recent surge in credit has not deteriorated the quality of the banks' portfolio. The implementation of the 2006 banking law has extended BAM's supervisory mandate to previously unsupervised institutions, and the cooperation between entities supervising different segments of the financial system has been strengthened. Starting from June 2007, BAM has required banks to comply with Basel II prudential requirements. More generally, financial sector vulnerabilities have abated, with a drop in nonperforming loans and an increase in provisioning.



14. **The strengthened balance sheet of public sector pension funds will enhance financial sector stability**. The consolidation of the different public sector funds should also increase the availability of long-term resources to finance economic activity. Finally, the ongoing study on the possible unification of the public loan guarantee system should help rationalize it and assess its possible impact of the system on the budget.

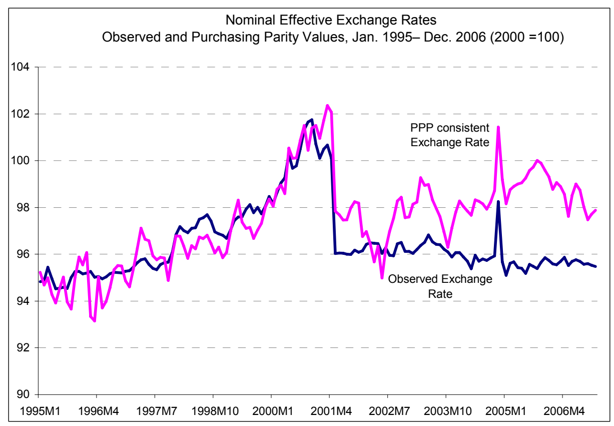
D. Deeper Integration in the World Economy

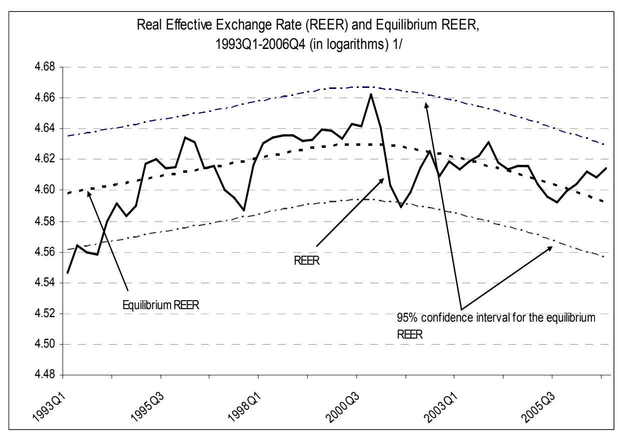
15. **Morocco continues to make progress in the area of trade liberalization.** The gradual elimination of tariffs under the Association Agreement with the European Union (EU) is proceeding according to schedule, and should be complete by 2012. The recent implementation of the Agadir agreement and the coming into effect in 2006 of the free-trade agreement with Turkey should stimulate trade both within the signing parties and with the EU, since it provides for diagonal cumulation of rules of origin. Efforts to deepen regional

trade and financial integration in the Maghreb are also ongoing. The free-trade agreement with the United States (U.S.) has led to a significant increase in textile exports to the U.S. in 2006. Morocco recently cut the maximum MFN import tax rate on industrial products by 5 percentage points to 45 percent, with a view to minimizing trade diversion.

16. **The authorities have taken measures to enhance the economy's ability to adapt to a changing global environment**. The strengthening of public infrastructure, particularly highways and ports, will continue to generate substantial productivity gains and to increase Morocco's attractiveness to investors. The authorities are also implementing a number of sectoral reforms aiming at (a) supporting tourism; (b) modernizing existing industrial sectors such as textile; and (c) facilitating the expansion of new industrial sectors and service activities. The reforms are complemented by a broad range of incentives, including tax incentives and the outfitting of offshore zones. The positive change in export composition toward higher value added sectors indicates that these efforts are starting to bear fruit.

17. **The authorities believe that their policies are consistent with external stability**. Recent analysis suggests that the dirham is not misaligned. The increase in inflation, combined with the strength of the Euro vis-à-vis the U.S. dollar, contributed to a slight appreciation of the real effective exchange rate in 2006. However, the gap between the equilibrium exchange rate, as estimated both by the authorities and staff, and the observed rate remains statistically insignificant. As trade in goods and services continues to result in a deficit, the recent increase in the current account surplus mainly reflects strong remittances flows. Empirical evidence points to the stability of these flows.[4] Further, the current account surplus is bound to dwindle under the impulse of the ongoing recovery, weakening the case for a possible undervaluation of the dirham. In spite of the large reserve accumulation, BAM has intervened during the year to provide banks





1/ The equilibrium exchange rate of the dirham are estimated as the exchange rate consistent with balance of payment equilibrium. For details, see Country Report No 05/418.

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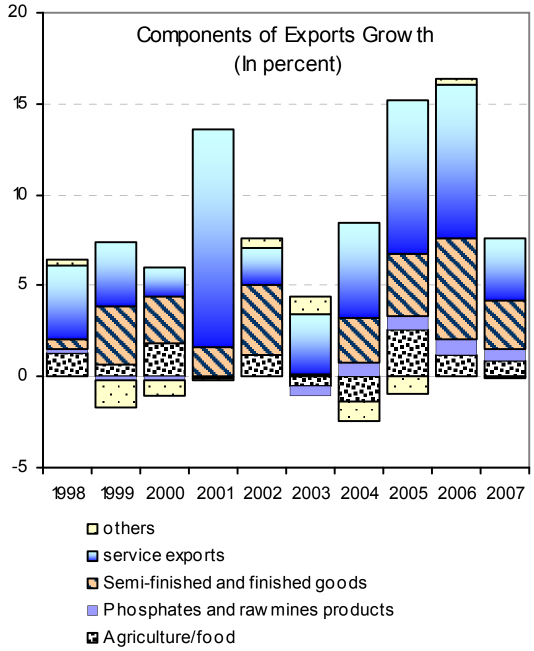
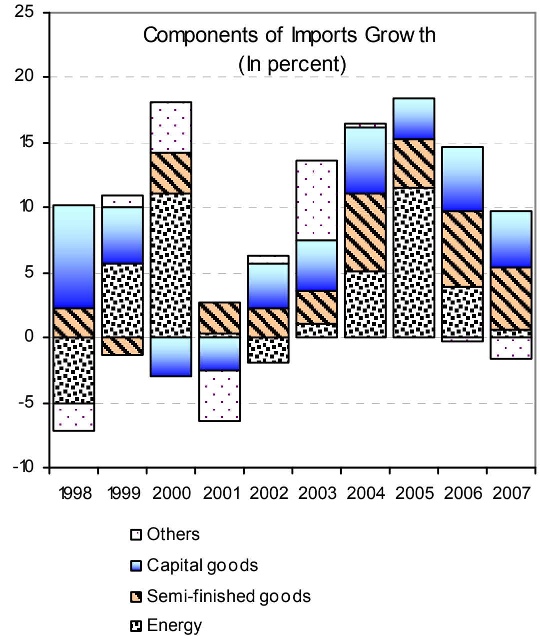
[4] For an analysis of the determinants of remittances in Morocco, see J. Bouhga-Hagbe, *A Theory of Workers' Remittances with an Application to Morocco* (WP/04/194) and *Altruism and Workers' Remittances: Evidence from Selected Countries in the Middle East and Central Asia* (WP/06/130).

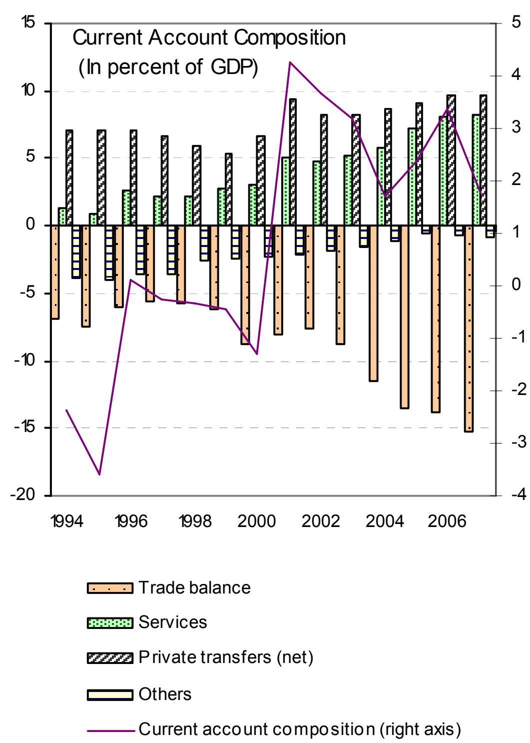
Figure 5. External Sector Developments

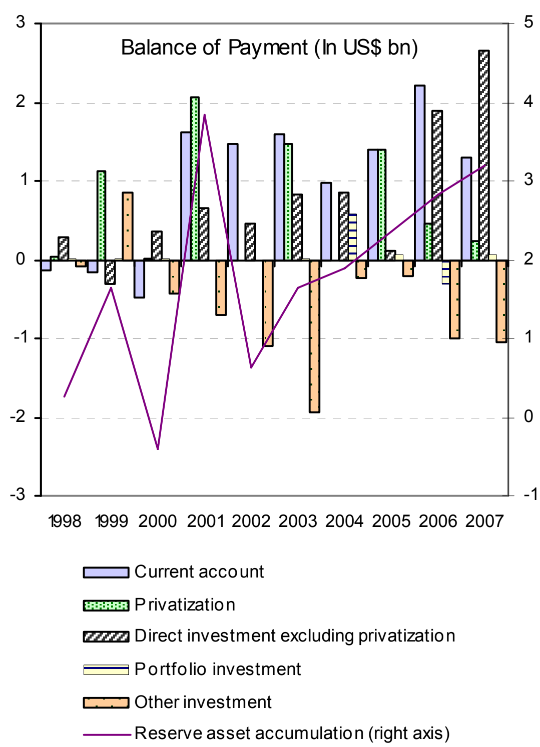
Exports of goods and services are now growing faster than imports thanks to buoyant services...





Strong remittances and tourism receipts keep the current account in surplus, and FDI surge is also boosting reserves





Sources: Moroccan authorities; and IMF staff calculations.

with foreign exchange to the tune of MAD 2 billion (equivalent to $250 million) a month. To a large extent, the reserve accumulation reflects privatization revenue and long-standing regulatory measures, including partial surrender requirements for export proceeds and restrictions on capital outflows for residents.

18. **In this context, the authorities have started to consider options for a gradual opening of the capital account to facilitate liquidity management, and intend to take concrete steps in this direction in the near future**. The progressive elimination of remaining restrictions on operations carried out by residents will also help deepen the foreign exchange market and improve economy wide risk management. The authorities have requested the Fund's assistance in drawing a road map toward global convertibility, including reshaping the roles for monetary and exchange rate policies.

19. **Concurrently, BAM is preparing the transition to a more flexible exchange rate regime and the possible adoption of an inflation-targeting framework**. To this effect, the central bank continues to strengthen its analytical capacity, and has already fleshed out its analytical toolkit, including its understanding of the monetary policy transmission mechanism. The publication of its first two monetary policy reports demonstrates the progress achieved in modernizing BAM's analytical and forecasting framework. The strengthening of its communication strategy has helped increase the transparency of monetary policy and contributed to better anchoring inflation expectations.

III. Staff Appraisal

20. ***Achievements***: Morocco's steady economic progress in recent years demonstrates the benefits of broad-based economic reforms. Per capita income has risen continuously since the beginning of the century; overall growth has become less dependent on climatic vagaries; and the recent employment gains have started to make a dent in the stubbornly high urban unemployment rate. The authorities' broad reform agenda and sound macroeconomic policies have buttressed private sector confidence, and both foreign and private domestic investments have surged.

21. ***Challenges***: Morocco needs to sustain and possibly improve its recent strong economic performance to bring per capita income closer to that of the emerging-market OECD countries, further lessen the economy's dependence on agriculture, and further reduce unemployment and poverty.

22. ***Risks***: In the short term, the pickup in domestic demand could ignite inflationary pressures that could destabilize the recovery. In the medium term, strong and durable growth cannot rely only on the contribution of domestic demand. If the external sector does not emerge as an additional growth engine, the recovery may reveal difficult to sustain.

23. ***Inflation and monetary policy*****:** Monetary policy has so far succeeded in containing inflationary pressures, but new challenges lay forward. The inflation outlook remains mixed.

On the one hand, the decline in both headline and underlying inflation in the first five months of the year, and the likely impact of this year's bad crop on consumption suggest that inflation may remain subdued in 2007. On the other hand, the rapid growth of domestic credit to the private sector, the surge in foreign direct investment, and soaring asset prices heighten the inflation risks. Under these circumstances, the current monetary stance appears appropriate, but a tightening would be warranted in the event that inflation rises.

24. ***Fiscal policy***: The authorities' fiscal consolidation efforts have paid handsome dividends, but need to continue. The recent declines in the government debt-to-GDP ratio, the drop in the wage-bill burden, and the strong revenue performance have no doubt contributed to heighten private sector confidence. Continued fiscal discipline will also help contain inflationary pressures and further improve the investment climate. The likely deficit outcome for 2007 (2.5 percent of GDP) is in line with the objective of bringing down the government debt-to-GDP ratio. Looking forward, the authorities' success will depend crucially on their ability to keep the growth of the wage bill under check, reform the food and energy subsidy systems, and further pursue tax reform.

25. ***Financial sector reform***: The authorities' efforts to increase the transparency of the financial information available to potential lenders have improved the efficiency of financial market intermediation. The resulting increased access to credit for small and medium enterprises is particularly welcome, but requires continued strengthening of financial supervision to ensure that the quality of banks' loan portfolios does not deteriorate. In this sense, the recent drop in the share of nonperforming loans in total banking loans is encouraging. The ongoing reform of various guarantee funds, in addition to facilitate access to credit, should also help identify their fiscal costs.

26. ***Deepening Morocco's integration into the world economy***. Staff welcomes the authorities' decision to gradually liberalize the external capital account. Staff and the authorities agree that, while there are no indications of exchange rate misalignment, opening up the capital account heightens the need to prepare for exiting the current peg of the dirham. In addition to helping the successful integration of Morocco in the global economy, a flexible exchange rate regime would help fight inflationary pressures, preserve a role for monetary policy under full convertibility, and avoid implicit exchange-rate guarantees. In this perspective, BAM has taken important steps toward improving its operational and forecasting capacity with a view to eventually adopt an inflation-targeting framework. Further progress toward MFN-based trade liberalization is needed to maximize the benefits from bilateral and regional liberalization efforts. Staff welcomes Morocco's active participation in the efforts to enhance trade and financial integration in the Maghreb in collaboration with the Fund.

27. Staff welcomes the adoption and the publication of anti-money laundering legislation, and the ongoing efforts to set up a financial intelligence unit.

28. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Selected Economic Indicators, 2002–08 1/

(Quota: SDR 588.20 million)
(Population: 30.4 million; 2006)
(Per capita GDP: $2,165; 2006)
(Poverty rate: 15 percent; 2004)
(Main exports: textiles, phosphates; 2006)

	2002	2003	2004	2005	2006 Prel.	2007 Proj.	2008 Proj.
			(Annual percentage change)				
Output and prices							
Real GDP	3.3	6.1	5.2	2.4	8.0	2.5	5.9
Nonagricultural Real GDP	2.8	4.3	4.7	4.8	5.2	5.5	5.7
Consumer prices (end of period)	1.4	1.8	0.5	2.1	3.2	2.5	2.0
Consumer prices (period average)	2.8	1.2	1.5	1.0	3.3	2.5	2.0
			(In percent of GDP)				
Investment and saving							
Gross capital formation	25.9	27.5	28.7	30.3	28.7	30.3	29.7
Of which: Nongovernment	23.2	24.8	26.1	27.8	26.1	27.7	27.1
Gross national savings	29.6	30.7	30.5	32.6	32.1	32.1	31.3
Of which: Nongovernment	28.0	29.6	28.9	33.0	28.4	28.8	27.5
			(In percent of GDP)				
Public finances							
Revenue	22.4	21.8	22.8	24.4	25.7	24.6	24.2
Of which: Grants	0.3	0.1	0.3	0.5	0.4	0.4	0.3
Expenditure 2/	26.6	26.5	27.0	29.9	27.6	26.9	26.5
Budget balance (commitment basis and excluding grants) 3/	-4.2	-4.4	-4.1	-5.2	-2.1	-2.5	-2.4
Primary balance (including grants) 3/	0.0	-0.7	-0.3	-1.4	1.6	1.1	1.1
Total government debt 4/	64.9	62.0	59.9	63.7	58.2	58.0	55.6
			(Annual percentage change, unless otherwise indicated)				
Monetary sector							
Credit to the private sector	3.8	8.3	7.2	13.1	17.0	12.8	…
Base money	5.0	13.6	12.1	9.2	16.3	12.4	…
Broad money	6.3	8.6	7.7	14.0	17.2	12.4	…
Velocity of broad money (level)	1.3	1.3	1.2	1.1	1.1	1.0	…
Three-month treasury bill rate (period average, in percent)	3.0	3.3	2.5	2.5	2.6	...	…
			(In percent of GDP, unless otherwise indicated)				
External sector							
Exports of goods (in US$, percentage change)	9.8	11.8	13.1	13.0	13.4	13.6	10.5
Imports of goods (in US$, percentage change)	7.2	20.1	25.2	16.7	13.7	17.7	9.7
Merchandise trade balance	-7.6	-8.7	-11.5	-13.5	-13.8	-15.4	-15.4
Current account balance excluding official transfers	3.4	3.0	1.5	2.0	3.0	1.4	1.3
Current account balance including official transfers	3.6	3.2	1.7	2.4	3.4	1.8	1.5
Foreign direct investment	1.1	4.6	1.5	2.6	3.6	4.0	3.9
Total external debt	35.8	30.8	27.3	25.4	23.3	22.0	20.1
Gross reserves (in US$ millions)	10,009	13,716	16,298	16,080	19,977	23,616	26,118
In months of next year imports of goods and services	7.5	8.3	8.5	7.4	7.8	8.4	8.4
In percent of short-term external debt (on remaining maturity basis)	362.5	576.3	800.8	919.8	908.2	1,139.2	1,649.0
Memorandum items:							
Nominal GDP (in US$ billions)	40.5	49.8	56.4	59.0	65.4	72.5	79.1
Unemployment rate (in percent)	11.6	11.4	10.8	11.1	9.7	...	...
Net imports of petroleum products (in US$ millions)	1,167.0	963.2	1,639.5	2,701.3	2,861.9	3,122.4	3,636.6
Local currency per U.S. dollar (period average)	11.0	9.6	8.9	8.9	8.8	...	...
Real effective exchange rate (annual average, percentage change)	-0.3	-1.0	-1.2	-1.8	1.2	...	...

Sources: Moroccan authorities; and Fund staff estimates and projections.

1/ Reflecting revised national account data.

2/ Excluding Fonds Hassan II.

3/ Excluding Fonds Hassan II and including the balance on special treasury accounts.

4/ Excludes the net position with the central bank outside statutory advances. Projections are based on the balance excluding Fonds Hassan II. Historical debt series have been revised upward to reflect the inclusion of twenty-year old liabilities to the central bank (1 percent of 2006 GDP).

Table 2. Balance of Payments, 2003–12

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

				Prel.	Projections					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current account	1,591	965	1,404	2,216	1,301	1,212	1,152	1,169	1,024	835
Trade balance	-4,334	-6,485	-7,937	-9,051	-11,165	-12,144	-13,292	-14,463	-15,923	-17,507
Exports, f.o.b.	8,762	9,912	11,197	12,698	14,424	15,936	17,663	19,713	22,179	25,076
Agriculture	1,825	1,757	2,192	2,445	2,783	3,122	3,498	3,930	4,427	4,996
Phosphates and derived products	1,241	1,564	1,824	2,177	2,521	2,700	2,916	3,174	3,493	3,861
Imports, f.o.b.	-13,095	-16,397	-19,135	-21,749	-25,589	-28,080	-30,954	-34,176	-38,102	-42,583
Petroleum	963	1,639	2,701	2,862	3,122	3,637	3,934	4,166	4,483	4,852
Capital goods	3,131	3,936	4,345	5,136	6,218	7,043	8,013	9,136	10,439	11,935
Food products	1,194	1,534	1,762	1,718	2,459	1,974	1,850	1,761	1,797	1,841
Services	2,617	3,261	4,260	5,357	6,008	6,741	7,451	8,257	9,162	10,164
Tourism receipts	3,225	3,924	4,621	5,968	6,761	7,418	8,117	8,886	9,740	10,665
Income	-790	-676	-308	-417	-619	-790	-835	-907	-1,001	-1,110
Transfers	4,098	4,864	5,390	6,326	7,077	7,405	7,828	8,281	8,786	9,288
Private transfers (net)	4,017	4,727	5,149	6,092	6,758	7,232	7,654	8,106	8,610	9,111
Workers' remittances	3,612	4,218	4,595	5,441	6,028	6,467	6,860	7,283	7,756	8,226
Official grants (net)	81	137	241	234	319	173	174	175	176	177
Capital account	-10	-8	-5	-3	-6	-6	-6	-6	-6	-6
Financial account	374	1,218	1,368	1,033	1,907	1,189	1,433	1,701	2,632	3,037
Direct investment 1/	2,302	864	1,510	2,347	2,891	3,057	3,103	3,360	3,649	3,974
Privatization	1,471	0	1,399	455	240	242	243	245	247	248
Portfolio investment 2/	8	578	65	-308	60	61	85	110	136	161
Other	-1,936	-223	-208	-1,006	-1,044	-1,929	-1,756	-1,768	-1,153	-1,098
Private 3/	-798	875	-117	-1,283	-1,041	-1,871	-2,195	-2,244	-1,590	-1,559
Public medium- and long-term loans (net)	-1,139	-1,098	-91	277	-3	-58	440	476	437	460
Disbursements	1,409	977	1,769	1,902	2,063	1,879	1,886	1,897	1,911	1,926
Amortization	-2,548	-2,076	-1,860	-1,624	-2,066	-1,937	-1,447	-1,421	-1,473	-1,465
Reserve asset accumulation (-increase)	-1,643	-1,893	-2,355	-2,827	-3,202	-2,394	-2,579	-2,864	-3,650	-3,866
Errors and omissions	-312	-282	-412	-418	0	0	0	0	0	0
Memorandum items:										
Exports of goods' volume (percentage change)	-6.9	9.1	-3.7	8.9	9.1	9.6	10.4	10.9	11.4	11.9
Imports of goods' volume (percentage change)	5.9	6.2	13.5	4.5	13.5	8.7	11.0	10.9	10.7	10.8
Trade balance (in percent of GDP)	-8.7	-11.5	-13.5	-13.8	-15.4	-15.4	-15.5	-15.6	-15.7	-15.9
Current account balance (in percent of GDP)	3.2	1.7	2.4	3.4	1.8	1.5	1.3	1.3	1.0	0.8
Excluding official grants (in percent of GDP)	3.0	1.5	2.0	3.0	1.4	1.3	1.1	1.1	0.8	0.6
Terms of trade (percentage change)	5.7	-12.9	13.0	-4.3	0.6	-0.2	1.2	1.2	0.3	0.2
Excluding oil	8.5	-12.5	18.1	-3.0	0.0	0.8	1.3	0.9	0.0	0.0
Impact of US$1 increase in oil prices (US$, mlns)	33	43	50							
Gross official reserves 4/	13,716	16,298	16,080	19,977	23,616	26,118	28,821	31,880	35,790	39,933
(In months of next year's imports of goods and nonfactor services)	8.3	8.5	7.4	7.8	8.4	8.4	8.4	8.4	8.4	...
Debt service as percentage of export of goods, nonfactor services and MRE 5/	18.8	13.6	10.8	8.4	9.1	8.0	6.0	5.4	5.1	4.6
External public and publicly guaranteed debt (US$, blns)	14.4	14.0	12.4	13.7	14.2	14.2	14.7	15.3	15.9	16.4
In percent of GDP	26.5	23.1	22.0	20.4	19.5	17.9	17.1	16.4	15.6	14.9
DHs per US$, period average	9.57	8.87	8.87	8.80	...	...	...	...	...	...
DHs per US$, period end	8.75	8.22	9.25	8.57	...	...	...	...	...	...
Oil price (US$/barrel)	28.9	37.8	53.4	64.3	63.8	68.8	68.5	66.8	66.0	65.5

Sources: Ministry of finance; Office des changes; and Fund staff estimates and projections.

1/ In 2005, a nonresident company (Vivendi) sold part of its shares in Maroc Télécom to a resident company.
2/ The increase in 2004 is due to a sale of government shares of Maroc Télécom in the Casablanca and Paris stock exchange.
3/ Includes the loans that Moroccan banks gave in 2003 and will give in 2005 to the company (Vivendi) that bought part of Maroc Télécom in 2003 and additional shares in 2005.
4/ Excluding the reserve position in the Fund.
5/ Public and publicly guaranteed debt.

Table 3. Central Government Finance, 2003–12

(In billions of dirhams)

	2003	2004	2005	Prel. 2006	Projections 2007	2008	2009	2010	2011	2012
Revenue 1/	103.3	112.6	125.0	145.3	145.9	155.9	167.4	179.9	194.5	209.9
Revenue (excluding Fonds Hassan II) 1/	103.1	112.3	124.5	144.6	145.1	155.1	166.6	179.1	193.7	209.1
Tax revenue 1/	94.5	101.1	114.2	128.0	133.0	144.5	155.8	167.9	182.2	197.2
Direct taxes	33.4	36.4	43.2	50.4	52.0	56.6	61.2	66.3	72.6	78.8
Indirect taxes	41.9	44.3	48.2	55.2	57.9	62.9	68.7	74.7	81.8	89.6
Import taxes	12.6	13.3	14.6	13.4	12.9	14.0	14.0	14.0	14.0	13.9
Other tax revenues	6.6	7.1	8.3	9.0	10.2	11.0	11.9	12.8	13.9	15.0
Nontax revenue (excluding privatization, and Fonds Hassan II)	8.9	11.2	10.4	16.7	12.2	10.6	10.8	11.2	11.5	11.9
Expenditures and net lending (excluding Fonds Hassan II)	126.3	135.1	156.4	158.8	162.4	173.0	184.8	198.2	214.9	231.1
Current expenditures	98.4	105.1	126.7	124.1	126.1	131.2	136.7	142.4	149.4	158.1
Wages	53.2	56.6	62.0	63.3	62.8	65.9	69.7	73.7	77.9	82.5
Food and petroleum subsidies 2/	4.9	7.9	11.3	12.2	10.5	10.5	10.3	10.2	10.1	10.1
Food	...	...	3.9	4.6	4.3	4.3	4.3	4.3	4.3	4.3
Petroleum	...	...	7.4	7.6	6.2	6.2	6.0	5.9	5.8	5.8
Butane gaz	...	...	2.0	4.4	4.4	4.2	4.0	3.8	3.7	3.6
Interest	17.4	17.6	17.3	18.6	19.5	20.9	20.8	20.6	20.3	21.1
Other current spending	22.9	23.1	36.1	30.1	33.4	34.0	36.0	38.0	41.0	44.4
Capital expenditures (budget) 3/	18.6	19.8	18.1	22.0	22.2	26.0	30.8	37.1	44.9	50.4
Road fund	1.2	1.6	1.9	1.4	2.0	2.2	2.3	2.5	2.7	3.0
Transfers to local governments 4/	7.8	8.8	9.8	11.8	12.0	13.6	14.9	16.3	17.9	19.7
Net lending	0.2	-0.2	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	2.2	2.5	4.7	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, excluding Fonds Hassan II)	-21.0	-20.3	-27.2	-12.0	-15.3	-15.9	-16.2	-17.2	-19.2	-20.0
Fonds Hassan II expenditures	1.8	1.2	2.5	2.9	2.9	2.3	2.5	2.7	2.9	3.2
Interest payments to Fonds Hassan II	0.0	0.4	0.5	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Overall balance (commitment basis, including Fonds Hassan II)	-22.5	-21.2	-29.2	-14.3	-17.3	-17.5	-17.9	-19.1	-21.4	-22.4
Grants	0.5	1.3	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0
Privatization and GSM revenues	12.0	10.4	13.8	4.7	4.5	3.0	2.0	2.0	2.0	2.0
Change in arrears	-1.3	2.1	-8.4	-1.6	-5.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, including Fonds Hassan II, grant and privatization)	-11.3	-7.4	-21.3	-8.7	-15.5	-12.5	-13.9	-15.1	-17.4	-18.4
Financing	11.3	7.4	21.3	8.7	15.5	12.5	13.9	15.1	17.4	18.4
Domestic financing	20.5	15.1	25.2	11.7	18.2	16.3	12.6	13.4	16.0	16.8
External financing	-9.2	-7.7	-3.9	-3.0	-2.7	-3.9	1.3	1.7	1.4	1.6
Memorandum items:										
Current balance	4.9	7.5	-1.7	21.2	19.8	24.6	30.7	37.5	45.2	51.8
Primary balance	-5.1	-3.6	-11.8	4.3	2.2	3.4	2.9	1.5	-1.1	-1.3
Primary balance (excluding Fonds Hassan II)	-3.6	-2.7	-9.8	6.5	4.3	5.0	4.6	3.4	1.1	1.1
Primary balance (including grants and excluding Fonds Hassan II)	-3.1	-1.4	-7.4	9.0	6.7	7.0	6.6	5.4	3.1	3.1
Primary balance (including grants and privatization)	7.3	8.1	4.4	11.5	9.2	8.4	6.9	5.5	2.9	2.7
Total central government debt (end period)	295.9	299.8	333.1	334.9	350.6	363.0	376.3	390.4	406.7	423.7
Domestic 5/	217.0	229.4	264.0	270.3	288.7	305.0	316.9	329.5	344.3	359.8
External	78.9	70.4	69.0	64.6	61.9	58.0	59.3	61.0	62.3	63.9
GDP in billions of dirhams	477.0	500.1	522.6	575.3	604.0	652.5	703.7	759.4	820.4	887.5

Sources: Ministry of finance and privatization; and Fund staff estimates.

1/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires)* and revenues of the road fund *(Fonds Routier)*.

2/ Includes food subsidies financed from earmarked tariffs (équivalents tarifaires).

3/ Budgetary capital expenditures excluding Fonds Routier and investment spending by the Fonds Hassan II.

4/ Corresponds to 30 percent of VAT revenue.

5/ Excludes the net position with the central bank outside statutory advances. Projections are based on the balance excluding Fonds Hassan II. Historical debt series have been revised upward to reflect the inclusion of twenty-year old liabilities to the central bank (1 percent of 2006 GDP).

Table 4. Central Government Finance, 2003–12

(In percent of GDP)

	2003	2004	2005	Prel. 2006	Projections 2007	2008	2009	2010	2011	2012
Revenue 1/	21.7	22.5	23.9	25.3	24.2	23.9	23.8	23.7	23.7	23.7
Revenue (excluding Fonds Hassan II) 1/	21.6	22.5	23.8	25.1	24.0	23.8	23.7	23.6	23.6	23.6
Tax revenue 1/	19.8	20.2	21.8	22.2	22.0	22.1	22.1	22.1	22.2	22.2
Direct taxes	7.0	7.3	8.3	8.8	8.6	8.7	8.7	8.7	8.8	8.9
Indirect taxes	8.8	8.8	9.2	9.6	9.6	9.6	9.8	9.8	10.0	10.1
Import taxes	2.6	2.7	2.8	2.3	2.1	2.1	2.0	1.8	1.7	1.6
Other tax revenues	1.4	1.4	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Nontax revenue (excluding privatization, and Fonds Hassan II)	1.9	2.2	2.0	2.9	2.0	1.6	1.5	1.5	1.4	1.3
Expenditures and net lending (excluding Fonds Hassan II)	26.5	27.0	29.9	27.6	26.9	26.5	26.3	26.1	26.2	26.0
Current expenditures	20.6	21.0	24.2	21.6	20.9	20.1	19.4	18.7	18.2	17.8
Wages	11.2	11.3	11.9	11.0	10.4	10.1	9.9	9.7	9.5	9.3
Food and petroleum subsidies 2/	1.0	1.6	2.2	2.1	1.7	1.6	1.5	1.3	1.2	1.1
Food	...	...	0.7	0.8	0.7	0.7	0.6	0.6	0.5	0.5
Petroleum	...	...	1.4	1.3	1.0	0.9	0.9	0.8	0.7	0.7
Butane gaz	...	...	0.4	0.8	0.7	0.6	0.6	0.5	0.5	0.4
Interest	3.6	3.5	3.3	3.2	3.2	3.2	3.0	2.7	2.5	2.4
Other current spending	4.8	4.6	6.9	5.2	5.5	5.2	5.1	5.0	5.0	5.0
Capital expenditures (budget) 3/	3.9	4.0	3.5	3.8	3.7	4.0	4.4	4.9	5.5	5.7
Road fund	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Transfers to local governments 4/	1.6	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.2	2.2
Net lending	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	0.5	0.5	0.9	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Overall balance (commitment basis, excluding Fonds Hassan II)	-4.4	-4.1	-5.2	-2.1	-2.5	-2.4	-2.3	-2.3	-2.3	-2.3
Fonds Hassan II expenditures	0.4	0.2	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Interest payments to Fonds Hassan II	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (commitment basis, including Fonds Hassan II)	-4.7	-4.2	-5.6	-2.5	-2.9	-2.7	-2.5	-2.5	-2.6	-2.5
Grants	0.1	0.3	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Privatization and GSM revenues	2.5	2.1	2.6	0.8	0.7	0.5	0.3	0.3	0.2	0.2
Change in arrears	-0.3	0.4	-1.6	-0.3	-0.9	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, including Fonds Hassan II, grants and privatization)	-2.4	-1.5	-4.1	-1.5	-2.6	-1.9	-2.0	-2.0	-2.1	-2.1
Financing	2.4	1.5	4.1	1.5	2.6	1.9	2.0	2.0	2.1	2.1
Domestic financing	4.3	3.0	4.8	2.0	3.0	2.5	1.8	1.8	1.9	1.9
External financing	-1.9	-1.5	-0.7	-0.5	-0.4	-0.6	0.2	0.2	0.2	0.2
Memorandum items:										
Current balance	1.0	1.5	-0.3	3.7	3.3	3.8	4.4	4.9	5.5	5.8
Primary balance	-1.1	-0.7	-2.3	0.7	0.4	0.5	0.4	0.2	-0.1	-0.1
Primary balance (including grants)	-1.0	-0.5	-1.8	1.2	0.8	0.8	0.7	0.5	0.1	0.1
Primary balance (excluding Fonds Hassan II)	-0.8	-0.5	-1.9	1.1	0.7	0.8	0.6	0.4	0.1	0.1
Primary balance (including grants and excluding Fonds Hassan II)	-0.7	-0.3	-1.4	1.6	1.1	1.1	0.9	0.7	0.4	0.3
Primary balance (including grants and privatization)	1.5	1.6	0.8	2.0	1.5	1.3	1.0	0.7	0.4	0.3
Total central government debt (end period)	62.0	59.9	63.7	58.2	58.0	55.6	53.5	51.4	49.6	47.7
Domestic 5/	45.5	45.9	50.5	47.0	47.8	46.7	45.0	43.4	42.0	40.5
External	16.5	14.1	13.2	11.2	10.2	8.9	8.4	8.0	7.6	7.2

Sources: Ministry of finance and privatization; and Fund staff estimates.

1/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires)* and revenues of the road fund *(Fonds Routier)*.
2/ Includes food subsidies financed from earmarked tariffs (équivalents tarifaires).
3/ Budgetary capital expenditures excluding Fonds Routier and investment spending by the Fonds Hassan II.
4/ Corresponds to 30 percent of VAT revenue.
5/ Excludes the net position with the central bank outside statutory advances. Projections are based on the balance excluding Fonds Hassan II. Historical debt series have been revised upward to reflect the inclusion of twenty-year old liabilities to the central bank (1 percent of 2006 GDP).

Table 5. Monetary Survey, 2002–07

	2002	2003	2004	2005	2006	Proj. 2007
	(In millions of dirhams)					
Net foreign assets	110,460	127,083	144,309	165,509	189,783	214,512
Monetary authorities	104,170	121,973	135,269	149,837	172,377	197,106
Of which:						
Gross reserves	101,760	120,012	133,934	148,730	171,118	195,847
Net Fund position	974	916	899	931	896	896
Deposit money banks	6,290	5,110	9,040	15,672	17,406	17,406
Net domestic assets	237,740	251,061	262,772	298,677	354,298	396,864
Domestic credit	305,944	323,629	334,509	368,513	414,725	459,259
Net credit to the government	89,470	89,098	83,068	84,180	81,946	83,781
Banking system	82,086	81,415	75,358	75,799	73,654	75,489
Bank Al-Maghrib	5,163	4,292	3,325	408	-1,062	-6,727
Of which: Deposits 1/	-11,322	-13,801	-15,207	-13,591	-14,078	-14,243
Deposit money banks	76,923	77,123	72,033	75,391	74,716	82,216
Treasury-IMF	-974	-916	-899	-931	-896	-896
Counterpart to deposits with CCP/treasury	8,358	8,599	8,609	9,312	9,188	9,188
Credit to the economy	216,474	234,531	251,441	284,333	332,779	375,478
Other liabilities, net	68,204	72,568	71,737	69,836	60,427	62,395
Money and quasi money	348,200	378,144	407,081	464,186	544,081	611,375
Money	264,863	290,784	319,340	364,137	426,811	479,601
Currency outside banks	69,556	74,890	79,715	89,305	108,564	121,992
Demand deposits	195,307	215,894	239,625	274,832	318,247	357,610
Quasi money	83,337	87,360	87,741	100,049	117,270	131,774
	(Annual pourcentage change)					
Net foreign assets	8.6	15.0	13.6	14.7	14.7	13.0
Net domestic assets	5.3	5.6	4.7	13.7	18.6	12.0
Domestic credit	4.0	5.8	3.4	10.2	12.5	10.7
Net credit to the government	4.5	-0.4	-6.8	1.3	-2.7	2.2
Credit to the economy	3.8	8.3	7.2	13.1	17.0	12.8
Money and quasi money	6.3	8.6	7.7	14.0	17.2	12.4
	(In percent of broad money)					
Net foreign assets	2.7	4.8	4.6	5.2	5.2	4.5
Domestic credit	3.6	5.1	2.9	8.4	10.0	8.2
Net credit to the government	1.2	-0.1	-1.6	0.3	-0.5	0.3
Credit to the economy	2.4	5.2	4.5	8.1	10.4	7.8
Other assets net	0.1	-1.3	0.2	0.5	2.0	-0.4
Memorandum items:						
Velocity (GDP/M3)	1.28	1.26	1.23	1.13	1.06	0.99
Velocity (nonagricultural GDP/M3)	1.09	1.07	1.05	0.99	0.91	0.86
Credit to economy/GDP (in percent)	48.5	49.2	50.3	54.4	57.8	62.2
Credit to economy/nonagro GDP (in percent)	56.9	58.2	59.0	61.8	67.3	71.2
NPL/Gross loans (in percent)	17.2	18.1	19.4	15.7	10.9	...
Of which: Commercial banks	11.2	12.3	12.4	9.6	7.4	
NPLs net of provisions/Capital (in percent)	57.1	66.5	61.9	40.9	25.8	...
Of which: Commercial banks	18.7	23.3	20.5	15.9	12.2	...
Capital adequacy ratio (in percent)	12.2	9.3	10.2	11.5	12.3	...
Of which : Commercial banks	15.3	13.0	13.5	14.2	13.2	...
Liquid assets to total assets (in percent)	123.1	122.3	120.8	101.3	13.0	...
Domestic nonbank debt/GDP (in percent)	30.0	32.5	35.2	38.4	37.3	38.3
Credit to government/dom debt (in percent)	45.5	41.3	36.6	32.5	30.9	29.6
Lending interest rate (in percent)	8.5	8.1	7.8	...	7.1	...
Deposit interest rate (in percent)	4.5	3.8	3.6	...	3.7	...
Money market rates (in percent)	3.0	3.2	2.4	2.8	2.6	...
DHs per US$, period end	10.17	8.75	8.22	9.25	8.46	...

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

1/ Includes Fonds Hassan II.

Table 6. External Debt Sustainability Framework, 2002–12

(In percent of GDP, unless otherwise indicated)

		Actuals					Projections						Debt-stabilizing noninterest
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	current account 6/
1	**Baseline: external debt**	38.8	33.7	29.5	24.3	23.9	**22.1**	**20.2**	**19.1**	**18.1**	**17.0**	**16.0**	**-7.0**
2	Change in external debt	-3.3	-5.0	-4.3	-5.1	-0.4	-1.8	-2.0	-1.1	-1.0	-1.0	-1.1	
3	Identified external debt-creating flows (4+8+9)	-7.6	-15.1	-7.2	-6.2	-9.4	-6.3	-6.6	-6.0	-7.0	-7.6	-8.0	
4	Current account deficit, excluding interest payments	-5.4	-4.5	-2.8	-3.3	-4.3	-3.0	-2.5	-2.2	-2.0	-1.7	-1.4	
5	Deficit in balance of goods and services	2.8	3.4	5.7	6.2	5.6	7.1	6.8	6.8	6.7	6.7	6.7	
6	Exports	30.1	28.6	29.5	32.8	34.4	35.4	35.9	36.7	37.6	38.6	39.7	
7	Imports	32.9	32.0	35.2	39.0	40.1	42.5	42.8	43.5	44.2	45.3	46.3	
8	Net nondebt creating capital inflows (negative)	-1.1	-4.6	-1.5	-2.6	-3.6	-4.0	-3.9	-3.6	-4.7	-5.6	-6.3	
9	Automatic debt dynamics 1/	-1.0	-6.0	-2.9	-0.4	-1.5	0.6	-0.3	-0.2	-0.2	-0.2	-0.3	
10	Contribution from nominal interest rate	1.8	1.3	1.1	0.9	0.9	1.2	0.9	0.8	0.8	0.7	0.7	
11	Contribution from real GDP growth	-1.3	-1.9	-1.6	-0.7	-1.8	-0.5	-1.2	-1.1	-1.0	-1.0	-0.9	
12	Contribution from price and exchange rate changes 2/	-1.5	-5.4	-2.4	-0.6	-0.6	...	...	...	...	...	...	
13	Residual, including change in gross foreign assets (2–3) 3/	4.3	10.1	2.9	1.1	9.0	4.5	4.6	4.9	6.0	6.5	7.0	
	External debt-to-exports ratio (in percent)	128.7	118.1	100.1	74.3	69.5	62.6	56.2	52.0	48.1	44.2	40.3	
	Gross external financing need (in billions of U.S. dollars) 4/	0.7	1.2	1.4	0.7	-0.4	1.0	0.9	0.5	0.4	0.6	0.8	
	In percent of GDP	1.6	2.3	2.5	1.2	-0.6	1.3	1.2	0.6	0.5	0.6	0.7	
	Scenario with key variables at their historical averages 5/						**22.1**	**20.8**	**19.8**	**20.0**	**21.0**	**22.6**	**-3.2**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	3.3	6.1	5.2	2.4	8.0	2.5	5.9	5.7	5.8	5.9	6.1	
	GDP deflator in U.S. dollars (change in percent)	3.7	16.0	7.6	2.1	2.7	8.1	3.1	2.4	2.6	2.8	2.8	
	Nominal external interest rate (in percent)	4.5	4.1	3.6	3.3	4.1	5.4	4.6	4.5	4.5	4.4	4.4	
	Growth of exports (U.S. dollar terms, in percent)	9.2	16.7	16.7	16.2	16.6	13.7	10.9	10.5	11.1	11.8	12.1	
	Growth of imports (U.S. dollar terms, in percent)	8.4	19.8	24.4	15.8	14.0	17.4	9.9	10.1	10.3	11.3	11.6	
	Current account balance, excluding interest payments	5.4	4.5	2.8	3.3	4.3	3.0	2.5	2.2	2.0	1.7	1.4	
	Net nondebt creating capital inflows	1.1	4.6	1.5	2.6	3.6	4.0	3.9	3.6	4.7	5.6	6.3	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

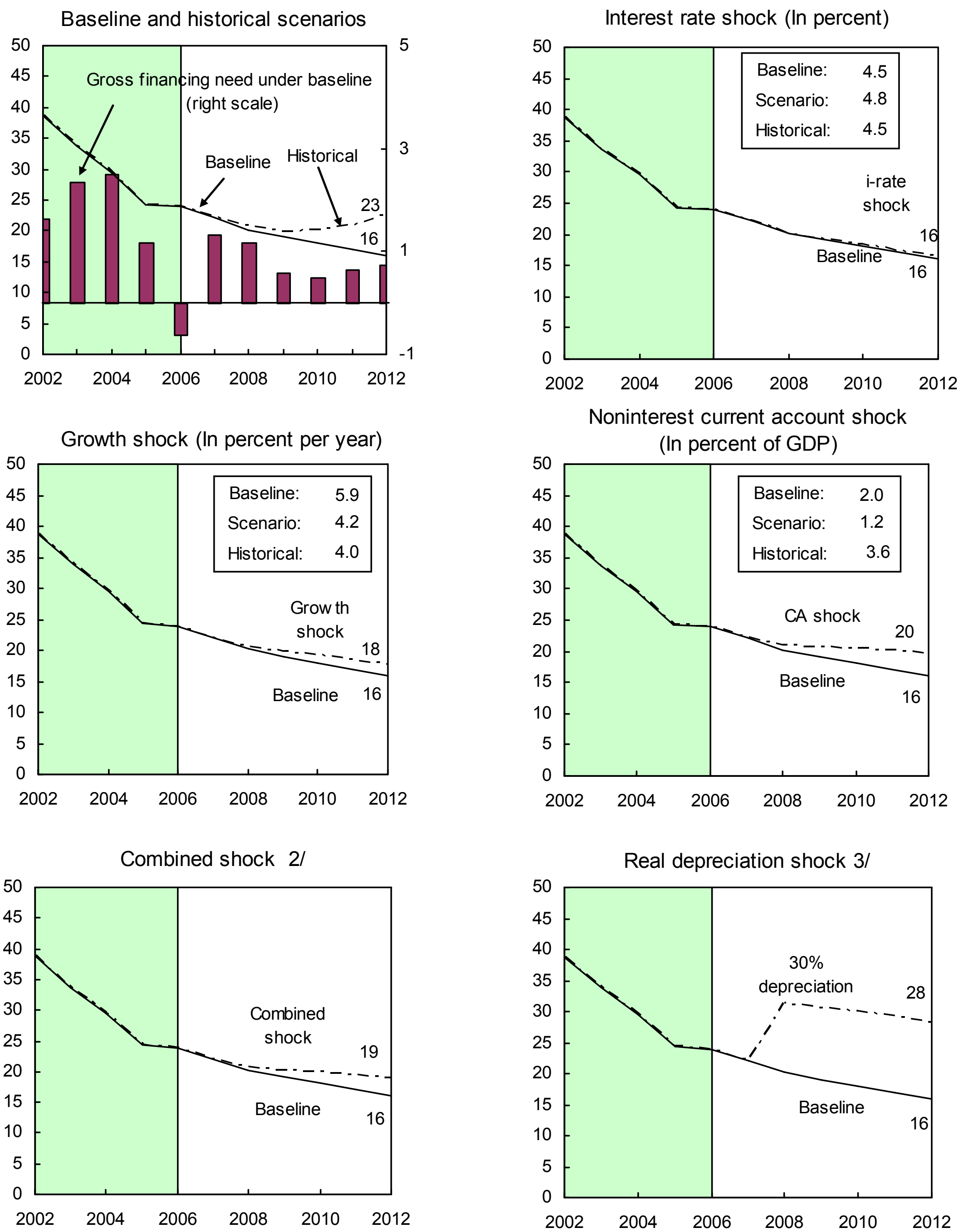
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 6. External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund; Morocco desk data; and staff estimates.

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

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, grow th rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

Table 7. Public Sector Debt Sustainability Framework, 2002–12

(In percent of GDP, unless otherwise indicated)

		Actuals					Projections						Debt-stabilizing primary balance 9/
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
1	**Baseline: Public sector debt 1/**	64.9	62.0	59.9	63.7	58.2	**58.0**	**55.6**	**53.5**	**51.4**	**49.6**	**47.7**	**-1.5**
	Of which: Foreign-currency denominated	20.8	16.5	14.1	13.2	11.2	10.2	8.9	8.4	8.0	7.6	7.2	
2	Change in public sector debt	-3.5	-2.9	-2.1	3.8	-5.5	-0.2	-2.4	-2.2	-2.1	-1.8	-1.8	
3	Identified debt-creating flows (4+7+12)	-2.3	-5.2	-2.1	1.6	-5.1	-1.4	-2.6	-2.3	-2.2	-2.0	-1.8	
4	Primary deficit	0.0	0.7	0.3	1.4	-1.6	-1.1	-1.1	-0.9	-0.7	-0.4	-0.3	
5	Revenue and grants	22.3	21.7	22.7	24.3	25.6	24.4	24.1	24.0	23.8	23.9	23.8	
6	Primary (noninterest) expenditure	22.3	22.4	23.0	25.7	24.0	23.3	23.0	23.0	23.1	23.5	23.4	
7	Automatic debt dynamics 2/	-2.1	-3.4	-0.3	0.7	-2.7	0.5	-1.1	-1.1	-1.2	-1.3	-1.4	
8	Contribution from interest rate/growth differential 3/	1.0	-0.6	0.7	0.7	-2.6	0.5	-1.1	-1.1	-1.2	-1.3	-1.4	
9	*Of which:* Contribution from real interest rate	3.1	3.1	3.7	2.1	2.0	1.8	2.1	1.9	1.7	1.5	1.4	
10	Contribution from real GDP growth	-2.2	-3.7	-3.1	-1.4	-4.6	-1.4	-3.2	-3.0	-2.9	-2.8	-2.8	
11	Contribution from exchange rate depreciation 4/	-3.1	-2.8	-1.0	0.0	-0.1	...	...	...	...	...	...	
12	Other identified debt-creating flows	-0.1	-2.5	-2.1	-0.5	-0.8	-0.7	-0.5	-0.3	-0.3	-0.2	-0.1	
13	Privatization receipts (negative)	-0.1	-2.5	-2.1	-2.6	-0.8	-0.7	-0.5	-0.3	-0.3	-0.2	-0.2	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	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	0.1	
16	Residual, including asset changes (2–3) 5/	-1.2	2.3	0.0	2.2	-0.4	1.2	0.2	0.1	0.1	0.1	0.0	
	Public sector debt-to-revenue ratio 1/	291.1	285.6	263.9	262.3	227.7	237.6	231.1	223.1	215.6	207.8	200.7	
	Gross financing need 6/	20.4	15.8	19.0	15.9	10.3	11.9	11.5	11.2	10.9	10.7	10.3	
	In billions of U.S. dollars	8.3	7.9	10.7	9.4	6.7	8.6	9.1	9.6	10.1	10.8	11.4	
	Scenario with key variables at their historical averages 7/						**58.0**	**57.5**	**57.0**	**56.5**	**56.0**	**55.6**	**-0.2**
	Scenario with no policy change (constant primary balance) in 2007–12						**58.0**	**55.6**	**53.2**	**50.8**	**48.2**	**45.6**	**-1.4**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	3.3	6.1	5.2	2.4	8.0	2.5	5.9	5.7	5.8	5.9	6.1	
	Average nominal interest rate on public debt (in percent) 8/	6.0	6.0	5.9	5.8	5.6	5.8	6.0	5.7	5.5	5.2	5.2	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.8	5.2	6.3	3.7	3.7	3.4	4.0	3.7	3.5	3.2	3.2	
	Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	13.7	16.2	6.5	0.0	0.8	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	1.2	0.8	-0.3	2.1	1.9	2.4	2.0	2.0	2.0	2.0	2.0	
	Growth of real primary spending (deflated by GDP deflator, in percent)	-2.1	6.4	8.1	14.5	0.9	-0.5	4.5	5.8	6.3	7.5	5.9	
	Primary deficit	0.0	0.7	0.3	1.4	-1.6	-1.1	-1.1	-0.9	-0.7	-0.4	-0.3	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

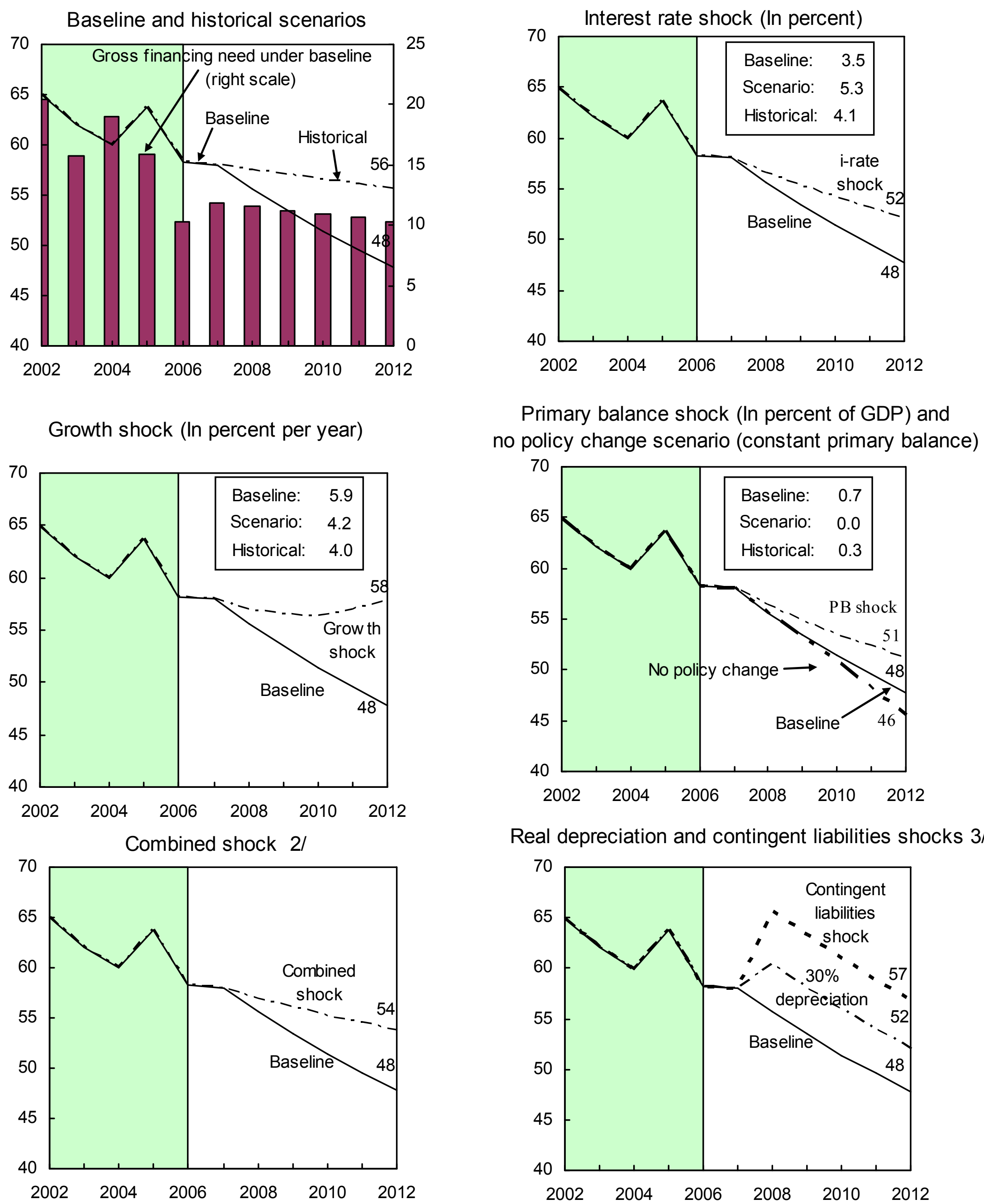
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

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

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

Figure 7. Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Morocco desk data, and Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten year historical average for the variable is also show n.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, grow th rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, w ith real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

ANNEX I. FUND RELATIONS

As of May 31, 2007

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	70.45	11.98
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	85.69	100.00
Holdings	27.59	32.20

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Date of Arrangement	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[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal					
Charges/Interest	1.25	2.48	2.48	2.48	2.48
Total	1.25	2.48	2.48	2.48	2.48

Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies representing Morocco's principal trading partners. In 2001, the authorities changed the basket of currencies by increasing the weight of the euro to better reflect the weight of external trade with EU countries. The basket was adjusted, limiting its composition to the euro and the U.S. dollar, with respective weights of 80 and 20 percent. BAM fixes daily rates for the rated currencies on the basis of variations on the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. As of May 31, 2007, the SDR/dirham exchange rate was SDR 1=DH 12.58.

Article IV Consultation

Morocco is on the 12-month cycle. The last discussions of the Article IV consultation were held in Rabat during June 7–21, 2006, and were concluded by the Executive Board on October 11, 2006.

Technical Assistance

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

February 9–20, 2004: MFD—Monetary Framework

May 17–24, 2004: FAD—Modernizing the tax system and its administration.

June 28–July 7, 2004: FAD—ROSC Fiscal Module.

2004: MFD—Peripatetic visits—internal credit rating system.

Resident representative: None

Annex II. Financial Relations with the World Bank

(As of June 21, 2007)

29. The Country Assistance Strategy (CAS) was approved by the World Bank Board on May 19, 2005. It plans to contribute to the broad goals of accelerating sustainable employment-generating growth and reducing poverty and marginalization. It will focus upon four objectives: (a) improve competitiveness and the investment climate; (b) increase access to basic services by the poor and marginalized groups; (c) improve the efficiency of the education system; and (d) improve water management and access to water services and sanitation.

30. The World Bank's current portfolio in Morocco consists of 15 operations, with a total net commitment of $1,158.4 million and an undisbursed balance of $629.3 million. Bank lending is a mix of investment loans, SWAPs, and development policy loans (DPL). Recent loans include Financial Sector Reform ($200), Public Administration Reform ($120), Rural Roads II ($60), National Initiative of Human Development ($100). Integrated Solar Power ($43.2), Water Sector Reform ($100), and Energy Sector Reform ($100).

31. For FY07, disbursements for DPLs and investment projects amount to $202.7 million and $48.8 million, respectively. The disbursement ratio has improved, and is currently at 15.1 percent. The quality of the portfolio has generally been satisfactory and the percentage of commitments at risk is low (8 percent) compared to the region (16.9 percent) or Bankwide (15.1 percent). Despite recent improvements in the quality of the portfolio, institutional capacity for project implementation still needs to be strengthened.

32. A new Country Economic Memorandum (CEM), done in collaboration with Fund staff, was finalized in March 2006 and has been largely discussed with the government. Its dissemination had wide participation from the private sector, academia and civil society. Ongoing studies include the preparation of (a) a series of policy notes in response to a request from the government to identify the major issues to be faced by the incoming administration, so as to ensure a smooth transition; and (b) a 2007 ICA survey, the mid-term review of the CAS, summarized in a progress report is also being prepared. This is in line to monitor compliance with the CAS objectives to support the government's reforms for a private environment conducive to faster growth and increased employment creation.

33. Prospects for lending are significantly improving and specific requests have been made for budget support and investment projects. Projects under preparation include: Oum Er Rbia Water Resource Conservation ($60 million), Meknes Local Development ($30 million), Electricity Transmission project (ONE), Education reform II and Public Administration Reform III DPL. The Bank and the Moroccan authorities are also discussing a possible follow-up operation to address the trade constraints identified by the CEM.

Other recent analytical and advisory work includes studies on Backbone Services and EU Neighborhood, Trade, Housing, Competitiveness and ICT, Water Sector, Logistics and Transport, and Wheat, Flour Compensation Reform. The Bank is launching work on land tenure as a constraint to private sector development and investment. Current studies include: Employment and Skills Development, Housing PSIA, Urban Transport, Doing Business and ICT, Land Markets and Growth, Moving Out of Poverty, Gender and labor market, Decentralization and EU Neighborhood. The Bank is also providing strong support with participatory approaches (Programmatic Economic and Sector Work-PESW) for Tertiary Education, Public Administration Reform, Poverty, and Water.

Annex III. Statistical Issues

(As of July 2, 2007)

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. Data provision is adequate for surveillance purposes. The results of a data ROSC mission that took place in January 2002 were published in April 2003 (Country Report No. 03/92). Morocco is a SDDS subscriber since December 2005.

Real sector

The Statistical Office rebased national accounts from 1980 to 1998 and brought it in conformity with the *System of National Accounts 1993*. The series of accounts for 1998-2005 were released on October 2006, and the preliminary accounts for 2006, on June 2007. The revision of the consumer price index is also planned to be completed shortly, with updated expenditure weights based on the results of the 2001 household budget survey. A consistent monthly time series for the producer price index (with weights derived from the 1997 annual survey) are available.

Government finance

Central government finance data are generally available with a few months lag. *GFS* data reported for publication in the *GFS Yearbook* are not timely (the most recent data relate to 2005), and their coverage is limited to the budgetary central government, the Moroccan pension fund, and the National Social Security Fund. The reporting of data for the central government on a monthly or quarterly basis for publication in the *International Financial Statistics* (*IFS*) is irregular. A technical assistance STA mission in February 1999 and a follow-up mission in February 2000 advised on 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 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 2002 data ROSC mission recommended some reclassifications (e.g., transfers and 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 to improve the format of dissemination. A 2005 SDDS assessment mission prepared an action plan for the production of data on the consolidated general government operations.

Monetary and financial statistics

Bank Al-Maghrib disseminates monetary and financial and other macroeconomic statistics to the general public primarily through its website (www.bkam.ma). The statistical part of the site includes web-based versions of the Bank's weekly, monthly, quarterly, and annual publications. The degree of detail in the breakdown of financial assets and liabilities by resident institutional sector could be more extensive; at present, this problem is reflected in the lack of precision in some of the monetary aggregates, including credit indicators.

Balance of payments

The 2002 data ROSC mission found that in general the balance of payments data are in line with the concepts and definitions set out in the fifth edition of the *Balance of Payments Manual (BPM5)*. However, further work is 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 exchange liberalization proceeds and as participation of foreign investors in the economy increases. The OC has initiated legislative measures that would give it access to statistical data collected directly from economic operators, to record among other things, private foreign debt, and more generally the international investment position. Furthermore, the data 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, on its 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 zones and offshore banks located in Morocco or in its economic territory.

The latest BOP and IIP information received from Morocco, and published in the IFS, relates to quarterly BOP data for 2005 and annual IIP data for 2005. Furthermore, Morocco reports on a regular basis international liquidity data to STA for publication in the *IFS*.

MOROCCO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF JULY 2, 2007

	Date of latest observation	Date received	Frequency of Data6	Frequency of Reporting[6]	Frequency of publication[6]	Memo items	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	05/31/07	06/07/07	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/30/07	06/29/07	W	W	W		
Reserve/Base Money	04/30/07	06/01/07	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	04/30/07	06/01/07	M	M	M		
Central Bank Balance Sheet	04/30/07	06/01/07	M	M	M		
Consolidated Balance Sheet of the Banking System	04/30/07	06/01/07	M	M	M		
Interest Rates[2]	05/31/07	06/01/07	D	D	D		
Consumer Price Index	05/31/07	06/20/07	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	03/31/05	05/31/05	...	...	...	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	02/28/07	04/10/07	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	02/28/07	04/10/07	A	A	A		
External Current Account Balance	Q1, 2007	06/29/07	M	M	M	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Q1, 2007	06/29/07	M	M	M		
GDP/GNP	Q1, 2007	06/29/07	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q1, 2007	06/29/07	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published on April 4, 2003, and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as Footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies

Statement by the Staff Representative on Morocco

August 3, 2007

1. This statement provides additional information that has become available since the circulation of the staff report. It does not change the thrust of the staff appraisal.

2. **Recent data confirms the slowdown in inflation**. Year-on-year consumer-price inflation stood at 1.9 percent at end-June 2007, down from 3.3 percent at of end-December 2006, reflecting mostly the deceleration in the prices of transportation and communications services.

3. **In June, Morocco issued ten-year Eurobonds in an amount of €500 million**, the first such issuance since 2003. The bonds were issued with a 55 basis point spread, and were more than 3 times oversubscribed. The authorities used the proceeds to repay their outstanding London Club debt ahead of schedule.

4. **On July 18, the Minister of Finance announced a package of capital account liberalization measure**s, in line with staff recommendations. Measures include: (a) a reduction in the surrender requirement on export proceeds; (b) the partial liberalization of trade-related credit and payments; (c) the broadening of the range of transactions that can be covered by currency hedging instruments, and the extension of the maximum maturity allowed; and (d) the partial liberalization of outward portfolio investment by banks, insurance companies and mutual funds, as well as foreign direct investment by firms.

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 07/98
FOR IMMEDIATE RELEASE
August, 3, 2007

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

IMF Executive Board Concludes 2007 Article IV Consultation with Morocco

On August 3, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.[1]

Background

Macroeconomic conditions remain strong. Average growth has reached 5.4 percent per annum since 2001, 3.4 percentage points higher than in the 1990s, reflecting the ongoing diversification of the nonagricultural sector, and its increased resilience to shocks. As a result, real per-capita income is on the rise and the unemployment rate has started to decline. However, bad crop years still impact the overall economic performance, as evidenced by the growth deceleration in 2007.

The current account is expected to record its seventh consecutive surplus in 2007, thanks to strong remittances and tourism receipts. Increased foreign direct investment is also boosting reserves, which reached US$21 billion at end-May 2007, significantly higher than the stock of public external debt. In spite of a good export performance in 2006, trade in goods and services continues to result in a deficit. There are no indications that the exchange rate of the dirham is misaligned.

Inflation increased to 3.3 percent in 2006, reflecting strong domestic demand conditions and robust money growth. It subsequently slowed down during the first months of 2007

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[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.

following the two-stage tightening of the monetary policy stance in 2006, also suggesting that the deceleration in overall growth may be dampening domestic demand pressures. However, money growth remains robust, driven by a pickup in credit to the economy and external inflows, and asset prices have been increasing. In this context, the central bank's prudent monetary stance remains appropriate.

The public finances situation has strengthened. The fiscal deficit reached 2.1 percent of GDP in 2006, and is expected to remain below 3 percent in the medium term. This good performance reflects both the strong collection of all major taxes, thanks to the widening of the tax base and the strengthening of tax administration, and the authorities' efforts to tackle the main sources of fiscal rigidities, including the wage bill.

Financial sector vulnerabilities have abated, with a drop in nonperforming loans and an increase in provisioning. The recent increase in credit to the private sector demonstrates the success of the authorities' efforts to enhance financial intermediation. Important progress has also been achieved in the area of financial supervision. In particular, starting from June 2007, banks are required to comply with Basel II prudential requirements.

The authorities intend to continue publishing all documents relating to the Article IV consultation.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Morocco's remarkable economic progress in recent years, which demonstrates the benefits of broad-based structural reforms. GDP growth has moved onto a higher trajectory, inflation has been contained, foreign direct investment has increased, and poverty and unemployment have been reduced significantly. Looking ahead, Directors considered that Morocco will need to sustain and possibly improve upon its strong performance to bring per capita income closer to that of emerging-market OECD countries and further reduce unemployment and poverty.

Directors viewed Morocco's current policy mix as appropriate, and noted that inflation slowed in the first half of 2007. As the future path of inflation is subject to risks, it calls for continued vigilance on the part of the central bank. In particular, the rapid growth of credit to the private sector, the surge in foreign direct investment, and soaring asset prices could offset the dampening effect of this year's poor harvest on domestic demand and inflation. Resurgence of inflation would warrant a further tightening of monetary policy.

Directors commended the authorities for the recent improvement in the fiscal position, which has played a key role in buttressing private sector confidence. It is important that fiscal policy remains geared toward medium-term fiscal consolidation. Directors encouraged the authorities to press ahead with the implementation of their fiscal strategy, with a few Directors observing that a more ambitious fiscal adjustment could be appropriate in the current favorable environment. Reducing the public sector wage bill, reforming the oil and food subsidy system, and accelerating tax reform will be key to bring the government debt-to-GDP ratio closer to the average for emerging-market OECD countries.

Directors noted with satisfaction that financial sector soundness has improved. They welcomed the central bank's decision to require banks to comply with Basel II prudential requirements since June 2007.

Directors considered that Morocco's exchange rate policy is consistent with external stability, and that there are no indications that the dirham is misaligned. They supported the authorities' strategy of gradually opening the capital account, as well as the recently announced capital account liberalization measures, and they welcomed the authorities' request for Fund technical assistance in this area. Directors commended the central bank's ongoing efforts to improve its operational and forecasting capacity with a view to eventually adopting an inflation targeting framework.

Directors welcomed the progress achieved in the area of bilateral and regional trade liberalization. Further progress toward multilateral trade liberalization will be important to minimize trade diversion.

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

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Table 1. Selected Economic Indicators, 2002–08 1/

(Quota: SDR 588.20 million)
(Population: 30.4 million; 2006)
(Per capita GDP: $2,165; 2006)
(Poverty rate: 15 percent; 2004)
(Main exports: textiles, phosphates; 2006)

	2002	2003	2004	2005	2006 Prel.	2007 Proj.	2008 Proj.
	(Annual percentage change)						
Output and prices							
Real GDP	3.3	6.1	5.2	2.4	8.0	2.5	5.9
Nonagricultural Real GDP	2.8	4.3	4.7	4.8	5.2	5.5	5.7
Consumer prices (end of period)	1.4	1.8	0.5	2.1	3.2	2.5	2.0
Consumer prices (period average)	2.8	1.2	1.5	1.0	3.3	2.5	2.0
	(In percent of GDP)						
Investment and saving							
Gross capital formation	25.9	27.5	28.7	30.3	28.7	30.3	29.7
Of which: Nongovernment	23.2	24.8	26.1	27.8	26.1	27.7	27.1
Gross national savings	29.6	30.7	30.5	32.6	32.1	32.1	31.3
Of which: Nongovernment	28.0	29.6	28.9	33.0	28.4	28.8	27.5
	(In percent of GDP)						
Public finances							
Revenue	22.4	21.8	22.8	24.4	25.7	24.6	24.2
Of which: Grants	0.3	0.1	0.3	0.5	0.4	0.4	0.3
Expenditure 2/	26.6	26.5	27.0	29.9	27.6	26.9	26.5
Budget balance (commitment basis and excluding grants) 3/	-4.2	-4.4	-4.1	-5.2	-2.1	-2.5	-2.4
Primary balance (including grants) 3/	0.0	-0.7	-0.3	-1.4	1.6	1.1	1.1
Total government debt 4/	64.9	62.0	59.9	63.7	58.2	58.0	55.6
	(Annual percentage change, unless otherwise indicated)						
Monetary sector							
Credit to the private sector	3.8	8.3	7.2	13.1	17.0	12.8	…
Base money	5.0	13.6	12.1	9.2	16.3	12.4	…
Broad money	6.3	8.6	7.7	14.0	17.2	12.4	…
Velocity of broad money (level)	1.3	1.3	1.2	1.1	1.1	1.0	…
Three-month treasury bill rate (period average, in percent)	3.0	3.3	2.5	2.5	2.6	...	…
	(In percent of GDP, unless otherwise indicated)						
External sector							
Exports of goods (in US$, percentage change)	9.8	11.8	13.1	13.0	13.4	13.6	10.5
Imports of goods (in US$, percentage change)	7.2	20.1	25.2	16.7	13.7	17.7	9.7
Merchandise trade balance	-7.6	-8.7	-11.5	-13.5	-13.8	-15.4	-15.4
Current account balance excluding official transfers	3.4	3.0	1.5	2.0	3.0	1.4	1.3
Current account balance including official transfers	3.6	3.2	1.7	2.4	3.4	1.8	1.5
Foreign direct investment	1.1	4.6	1.5	2.6	3.6	4.0	3.9
Total external debt	35.8	30.8	27.3	25.4	23.3	22.0	20.1
Gross reserves (in US$ millions)	10,009	13,716	16,298	16,080	19,977	23,616	26,118
In months of next year imports of goods and services	7.5	8.3	8.5	7.4	7.8	8.4	8.4
In percent of short-term external debt (on remaining maturity basis)	362.5	576.3	800.8	919.8	908.2	1,139.2	1,649.0
Memorandum items:							
Nominal GDP (in US$ billions)	40.5	49.8	56.4	59.0	65.4	72.5	79.1
Unemployment rate (in percent)	11.6	11.4	10.8	11.1	9.7	...	...
Net imports of petroleum products (in US$ millions)	1,167.0	963.2	1,639.5	2,701.3	2,861.9	3,122.4	3,636.6
Local currency per U.S. dollar (period average)	11.0	9.6	8.9	8.9	8.8	...	...
Real effective exchange rate (annual average, percentage change)	-0.3	-1.0	-1.2	-1.8	1.2	...	...

Sources: Moroccan authorities; and Fund staff estimates and projections.

1/ Reflecting revised national account data.
2/ Excluding Fonds Hassan II.
3/ Excluding Fonds Hassan II and including the balance on special treasury accounts.
4/ Excludes the net position with the central bank outside statutory advances. Projections are based on the balance excluding Fonds Hassan II. Historical debt series have been revised upward to reflect the inclusion of twenty-year old liabilities to the central bank (1 percent of 2006 GDP).

Statement by Mohammed Daïri
Alternate Executive Director for Morocco
August 3, 2007

As recognized in last year's Article IV consultation report, Morocco is reaping dividends from sustained commitment to prudent macroeconomic policies and structural reform. This year's report confirms that in recent years, the country has entered a new phase of economic performance, with higher growth trajectory, low inflation, strong fiscal and external positions, sound and vibrant financial system, combined with high job creation, further reduction in poverty, and improved confidence. Since 2001, real GDP growth has averaged 5.4 percent, resulting in gains in real GDP per capita of 4 percent annually, unemployment declined to less than 10 percent for the first time in decades, and poverty was reduced from 19 to 14 percent. Importantly, the economy's resilience has been strengthened and its vulnerability to weather conditions, although still significant, has declined. While agricultural GDP declined in 2007 to its lowest level on record, following very unfavorable weather conditions, its effect on overall growth was mitigated by stronger performance in nonagricultural sectors. With the return of agricultural production to its long term average level, real GDP is expected to rebound to close to 7 percent in 2008. Reflecting these favorable developments and outlook, market confidence has improved, with declining interest rates, buoyant stock market, increasing FDI, which is more diversified and less dependent on privatization, and improved standing in the international markets as evinced by the recent award of investment grade by a major rating agency and the success and very favorable terms of the recent benchmark euro issue.

The authorities are encouraged by these achievements but are also aware of the remaining challenges, including the need for achieving higher and sustained growth and further reducing unemployment, in particular among the young and university graduates, as well as poverty and regional and gender disparities. They remain committed to maintain and accelerate the reform momentum and stay the course of prudent fiscal and monetary policies. They will continue to improve the business climate by further streamlining regulations, reducing red tape and combating corruption, improving public service delivery, and strengthening and deepening the financial system in order to unleash the potential for higher private sector investment and productivity gains, while remaining vigilant so as to preserve the hard-won gains in macroeconomic and financial sector stability. In this regard, the policy and institutional framework will be further modernized to make it consistent with the new phase of economic performance and flexible enough to adjust to evolving conditions and structural changes. Continued attention will also be given to upgrading human resources and to developing and modernizing infrastructure in order to tap new sources of growth and seize the new opportunities offered by the globalized economy and regional integration.

Consistent with progress in macroeconomic stability and the strengthened reform momentum, this year's streamlined consultation has appropriately focused on further fiscal consolidation, strengthening of the financial sector, and greater integration into the world economy. The authorities broadly concur with the thrust of staff assessment in these important areas and welcome their recommendations. Moreover, staff and the authorities had a useful exchange of views on potential risks to inflation arising from recent credit expansion, following the ongoing recovery, as well as from increases in asset prices.

The operational independence recently gained by the central bank (BAM), the ongoing modernization of its monetary framework as well as development of its policy instruments and analytical and research capabilities, together with greater transparency, have significantly improved its credibility and effectiveness. This was demonstrated in 2006 when the monetary policy was tightened in response to the slight acceleration of inflationary pressures resulting from the pass through of international oil prices. With tight bank liquidity and average inflation during the first half of 2007 falling to 2.1 percent for headline inflation (1.6 percent for core inflation) over the same period of last year, BAM is confident that recent easing in inflationary pressures will be sustained. Continued vigilance and readiness to tighten the monetary stance if warranted, supported by recent capital account liberalization measures, should help keep inflation in check. BAM is aware of the potential risks that excessive credit growth and asset valuations could pose to inflation and, together with improved monitoring of the CPI, is carefully following credit and asset price developments and has called for greater banks' vigilance. Preparations are underway for a possible move to an inflation targeting framework, and the High Level Regional Seminar on the topic organized last April with Fund support, for which the authorities are grateful to management and staff, was an excellent opportunity to review Morocco's progress in light of other countries' experience.

Fiscal consolidation is ahead of schedule. While staff and the authorities agreed, during last year's consultation, that a medium-term deficit target of 3 percent of GDP, to be achieved in 2009, was consistent with fiscal sustainability, the fiscal deficit, excluding one-off factors, declined to 2.5 percent GDP in 2006, reflecting strong revenue performance and a decline in the wage bill as a result of the voluntary retirement program, and is expected to remain within this limit in 2007. After increasing in 2005 following the settlement of arrears to the government pension fund and the one-off cost of the voluntary retirement program, public debt-to-GDP ratio resumed its downward trend, falling to 58 percent of GDP in 2006. Progress in fiscal consolidation is all the more significant in an election year and attests to the authorities' firm determination to put fiscal policy on a sound footing. It also strengthens their conviction that persistent pursuit of well-prepared structural fiscal reforms have large pay-offs in strengthening the fiscal position, even if these are difficult to evaluate ex-ante and are gained only gradually.

Progress toward fiscal sustainability is also timely since it provides room for monetary policy, under its strengthened framework, to take responsibility for the task of macroeconomic stabilization, allowing the Budget to focus on qualitative fiscal adjustment to create the fiscal space needed to attend to key infrastructure and social needs and to absorb potential shocks. Nevertheless, there is no room for complacency, and efforts will continue toward further reducing the public debt, strengthening the tax system, improving spending efficiency, and increasing budget flexibility. Ongoing efforts at broadening the tax base, including by improving tax and customs administration, enhancing transparency, and reducing exemptions, will continue. Building on the success of the voluntary retirement program, the authorities intend to continue with wage moderation and civil service reform to increase productivity and improve service delivery, including through continued no-new-net-hiring policy, reform and unification of the civil service statutes and paylines, linking compensation and promotion to productivity, and redeploying and retraining to meet urgent staffing needs in priority sectors and regions. Expenditure control system has been overhauled, focusing on improved execution through simplification of procedures and increased efficiency. Results-based budgeting has now been extended to 25 ministries accounting for 75 percent of the Budget. A medium-term expenditure framework has been developed and a pilot program is underway in 6 major ministries. The authorities attach high importance to reforming the subsidy system and adopting an appropriate and well targeted safety net. While unlikely to result in significant net budgetary savings, it would help rationalize consumption, enhance efficiency, and provide for effective allocation of budget support to the poor. The authorities are reviewing available options to address this issue, in close consultation with social partners, consistent with their social strategy priorities as embedded in the National Initiative for Human Development.

A vibrant, competitive, and resilient financial sector is essential for effective resource mobilization and allocation. The stakes are even higher at a time of increased demand for resources resulting from the ongoing recovery, and in the context of greater integration of Morocco into the globalized economy and financial system. The authorities' efforts at strengthening financial sector stability, resilience, and efficiency, enhancing bank regulation and supervision, restructuring public financial institutions, and deepening the financial markets, in line with FSAP recommendations, are bearing fruit. Progress achieved over the last 18 months in particular has been impressive. The new banking law has strengthened BAM's independence and powers in banking supervision, expanded its scope to new sectors, including micro-credit and off-shore banks, and provided for improved coordination with other financial sector supervisors, both domestically and internationally. BAM's supervisory resources were strengthened, and special emphasis was put on improving banks' transparency, governance and internal risk assessment as well as on crisis prevention and resolution. The creation of a credit bureau is a major step forward and should improve risk assessment, strengthen competition, and improve consumer protection. Bank profitability and capital adequacy has improved, and nonperforming loans were reduced to 10.9 percent in 2006, down from 19.4 percent in 2004, while provisioning increased from 59 percent to 71 percent. In response to BAM's efforts, in coordination with the banking association and business representatives, aimed at increasing information disclosure, access to credit by SMEs, one of the main weaknesses hindering their development, as discussed during last year's consultation, has improved significantly and its cost has declined, as confirmed by a recent survey conducted by the central bank. Attention will therefore be refocused on improving nonfinancial services to SMEs in terms of advice and assistance. Restructuring of the two troubled public financial institutions has been virtually completed, their balance sheets and profitability have improved, and the temporary exemption from some prudential regulations has elapsed in June 2007 as scheduled, with the institutions now broadly in compliance. An anti-money laundering law, consistent with best practices, has been adopted, and a Financial Intelligence Unit will soon become operational.

The central bank has adopted a pragmatic and gradual approach for implementing Basel II principles, with due consideration to Morocco's financial sector structure and specific needs. A risk based reporting system is in place starting from June, in conformity with pillar I, and the second pillar will be implemented gradually, starting from June. Preparations are also well advanced for adoption of international accounting standards (IFRS/IAS) in 2008, in close consultation with the banking system, and the necessary regulations have already been adopted. Ongoing work on the establishment of a postal bank system, benefiting from the extensive network of postal offices, will significantly enhance access to banking services in the remote and underprivileged areas. The FSAP update, scheduled for November, will be a valuable opportunity to take stock of recent progress in strengthening the financial sector, including recommendations of the 2002 FSAP, and should help identify avenues for further financial sector reform.

The authorities are also preparing for greater integration into the world economy. BAM, in particular, is actively preparing for the possibility of moving to a more flexible exchange rate system, including by strengthening the monetary policy framework. Moreover, progress is being made toward deepening of the forex market; recent authorization of forex bureaus should contribute to the process. The central bank has also published the composition of the currency basket of the peg, which so far had been kept confidential, which should help improve transparency and exchange rate risk management. With nonresident transactions virtually free from restrictions, recent measures liberalizing capital outflows and other capital account transactions for residents are important additional steps toward capital account convertibility, which should encourage more efficient use of resources and risk diversification., while facilitating the task of liquidity management.

The authorities see bilateral and regional trade agreements as a complement, and not a substitute for multilateral trade liberalization to which they remain fully committed. The dismantling of tariffs with the EU and other partners is proceeding as scheduled and the MFN tariffs are also being reduced to avoid trade diversion. Economic integration within the Maghreb has been revived recently, thanks to the Managing Director's laudable support and personal involvement and staff's helpful contributions. High level conferences organized late 2005 and 2006, in cooperation with the IMF, have adopted important roadmaps for regional trade facilitation and financial sector integration, respectively, drawing on best international practices and experiences in the region, to be followed by a conference on private sector development this fall. The authorities are firmly committed to redouble their efforts aimed at advancing regional integration.

The authorities highly appreciate the excellent cooperation with the IMF. They reiterate their gratitude to staff for their hard work, candid discussions, and useful and well-focused analysis, and to management and Executive Directors for their invaluable advice and support.