March 2010
IMF Country Report No. 10/58

Morocco: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Morocco

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

- the staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 13, 2009, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 23, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 25, 2010 discussion of the staff report that concluded the Article IV consultation.

- a 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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MOROCCO

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation with Morocco

Approved by Amor Tahari (MCD) and Thomas Dorsey (SPR)

December 23, 2009

The 2009 Article IV consultation discussions with Morocco took place in Rabat during November 2–13, 2009. The mission met with Minister Mezouar (Economy and Finance), Governor Jouahri (Bank Al-Maghrib), Minister Delegate Baraka (Economic and General Affairs), and other senior officials, as well as with representatives from labor unions, academics, and the financial and private sectors. The staff team comprised Messrs./Mmes. Lewis (head), Sab, and Florea (all MCD) and Funke (FAD). Mr. Daïri, Alternate Executive Director for Morocco, joined the meetings.

The last Article IV consultation was concluded on July 23, 2008.

http://www.imf.org/external/country/mar/index.htm. In recent consultations, the Fund and the authorities have agreed on the broad policy priorities, which have included medium-term fiscal consolidation, reform of the subsidy system, and an eventual move to a more flexible monetary and exchange rate regime. Prior to the crisis, the Fund had encouraged a more rapid pace of fiscal consolidation.

Morocco has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers on current international transactions.

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Overview

The direct impact of the global crisis on Morocco has been limited, primarily affecting Morocco through real channels. Exports, tourism receipts, remittances, and FDI have all declined this year, due primarily to the slowdown in Europe. Nonetheless, with a strong starting position, reflecting in large part the range of macroeconomic and structural reforms introduced over the last decade, Morocco has been well-positioned to weather and respond to the crisis. In particular, Morocco's financial system is sound, with little exposure to international markets.

The authorities have responded appropriately to the worsened outlook. A moderate loosening of fiscal and monetary policies, coupled with vigilant financial sector supervision, has supported confidence and domestic demand, while minimizing risks. As well, the continued implementation of structural reforms has signaled that investment and growth prospects will remain robust. Morocco remains subject to climatic conditions, and in 2009, these brought an exceptional crop year. In this context, real GDP growth in 2009 should be strong.

The challenge for 2010 will be to continue efforts to support economic activity in the face of headwinds from a weak external environment. Risks to growth are weighted to the downside, although if Europe turns around more quickly than envisaged, nonagricultural growth in Morocco could be higher. In this setting, the authorities plan a further temporary widening of the fiscal deficit, with spending increases focused appropriately on capital rather than current spending. Tax policy reforms to further lower income taxes will hopefully encourage more informal sector participation in the formal sector tax net.

The strong credit growth of recent years in the banking system has slowed to a more moderate pace. However, after a sharp fall in recent years, nonperforming loans are likely to pick up moderately given the economic slowdown; thus, the authorities' vigilance in this area is warranted. The authorities' close attention to the capital requirements of the banking system is timely and continuing implementation of Basle II is welcome.

Turning to the medium term, Morocco's long-standing challenges will again come to the fore as the global crisis and the attendant policy response recede. The authorities' objective is to boost growth to improve living standards and address the persistent issue of high youth unemployment, but they face a more subdued outlook. Potential growth of external demand, notably in Europe, has been revised downward. At the same time, competitiveness is a concern, and more broadly, a strategy for growth hinging on domestic demand—as has been the case in Morocco in recent years—may not generate the desired growth rates over the medium and long term.

Maintaining macroeconomic stability through sound fiscal policy, a notable achievement of recent years, will remain critical. The fiscal loosening in the current period is appropriate, but a return to fiscal consolidation—phased in gradually starting in 2011—will be important to stabilize the public debt to GDP ratio, preserve low borrowing costs in the economy, and ease the implementation of monetary policy.

While the current pegged exchange rate regime has served Morocco well, the authorities maintain the medium-term objective of moving to a more flexible monetary and exchange rate regime. Looking forward, the timing for a shift in exchange rate policy may be more opportune. In particular, the prerequisites for a move to inflation targeting are largely in place; the risk of imported inflation is now much less; and balance sheets in the economy have little exposure to exchange rate movements. A more flexible regime would ease the economy's adjustment to shocks, and could be implemented in a manner to minimize any increase in volatility in the economy. Paired with structural reforms, it could help address Morocco's competitiveness challenges, likely boosting growth rates over the medium term.

Reforms in a number of areas will likewise be central to maintaining macroeconomic stability and boosting growth. In the public finance area, expenditure reforms to improve the efficiency and composition of public spending will be critical to strengthening the return on public investment in human and physical capital. The authorities' ongoing efforts to simplify domestic and trade taxes will also help improve tax administration and provide better incentives for the informal sector to join the tax net. On trade liberalization, a further reduction in top rates and greater coherence of the different regional accords will reduce distortions.

Further structural reforms will be critical to improve productivity in the economy and address nagging competitiveness challenges. To this end, the range of ongoing and planned reforms to improve the business environment, strengthen physical infrastructure, and improve the competitiveness of key sectors are welcome. In the social sphere, despite impressive gains in recent years, a number of social indicators are still low. To this end, strengthening education and health services will be essential.

Morocco has made significant progress over the last decade on macroeconomic stability, economic growth, and poverty reduction. Looking ahead, the authorities and staff broadly agreed on the key priorities. In particular, to preserve and build on the gains, in the short term the authorities should pursue fiscal and financial sector policies that maintain domestic demand while limiting vulnerabilities in a fragile external setting. Over the medium term, the familiar challenges of increasing the flexibility of the economy, strengthening competitiveness, and ultimately, raising per capita income and reducing poverty, will require a forceful approach. The authorities have effectively responded to the global crisis, and staff expect that they will likewise succeed in tackling these challenges.

The next Article IV consultation will be conducted on the standard 12-month cycle.

I. Weathering the Global Crisis

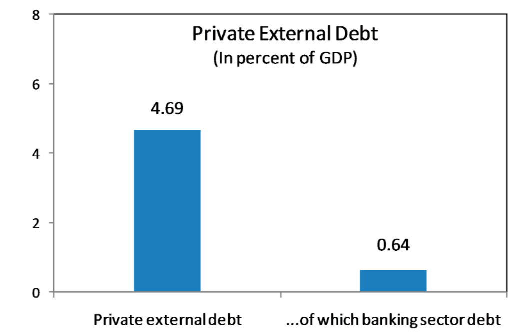
The direct impact of the global crisis on Morocco has been limited. With little financial exposure to international markets, strong public finances, resilient domestic demand—due in part to countercyclical policies—and an exceptional crop year, real GDP growth in 2009 should be around 5 percent.

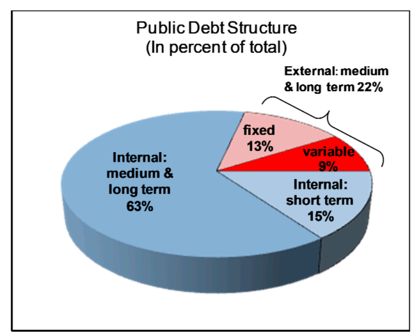
The global crisis has had a limited impact on the financial sector

- Very little or no exposure to toxic assets;
- Low external debt for banks, households, and corporations (FX-loans represent only 2.4 percent of total loans); also, low public external debt, with limited rollover and interest rate risks;
- Sound and well capitalized financial system, with limited linkages to international financial markets, including restrictions on capital outflows;
- Bank funding largely based on deposits and activity dominated by domestic credit;
- Stable equity participation. Foreign participation on the equity market is just over one-quarter of the total, and almost all is strategic. Over 70 percent of individual investors are Moroccan residents abroad;
- While there may be a slowdown in some specific investment projects, the direct impact on Morocco of the recent events linked to Dubai World is expected to be small. Moroccan banks have very limited exposure to Dubai financial institutions and corporate entities.

Morocco: Key Facts

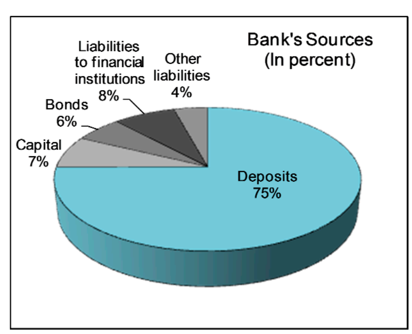
Population (2008)	31.4 million
GDP pc (2008)	US$ 2,827
Poverty rate (2007)	9 percent
Main exports (2008)	Phosphates, Phosphoric acid, textiles
Main trading partner and source of FDI and remittances	EU
Exchange rate	Pegged to a basket (80% Euro, 20% US$)
Agriculture	12-16% of GDP Employs 40% of the labor force





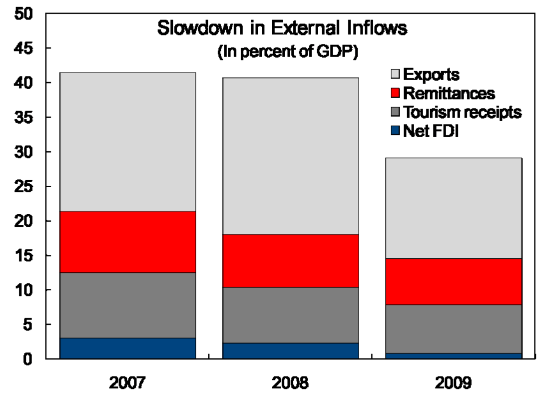
Selected Banking System Indicators

	2006	2007	2008	Jun-09
Capital adequacy ratio (in %)	12.3	10.6	11.2	11.7
Liquidity ratio (in %)	130	125	106	107
Liquid assets (in % of total assets)	27.1	24.4	18.5	17.8
NPLs (in % of total loans)	10.9	7.9	6.0	5.5
Provisions to NPLs (in %)	71.2	75.2	75.3	77.6
Return on assets (ROA) (in %)	1.3	1.5	1.2	1.3
Return on equity (ROE) (in %)	17.4	20.6	16.7	17.0



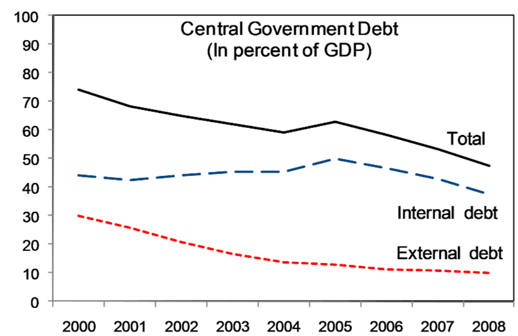
However, the global crisis has affected Morocco through real channels

The impact of the crisis on Morocco has largely been felt via the economic downturn in Europe, its principal trading partner (Box 1). Although most recent data suggest inflows are improving, for the first half of 2009 relative to the same period in 2008, exports were down by 34 percent, tourism receipts and remittances fell by 14 and 12 percent respectively, and FDI was also down by 34 percent.



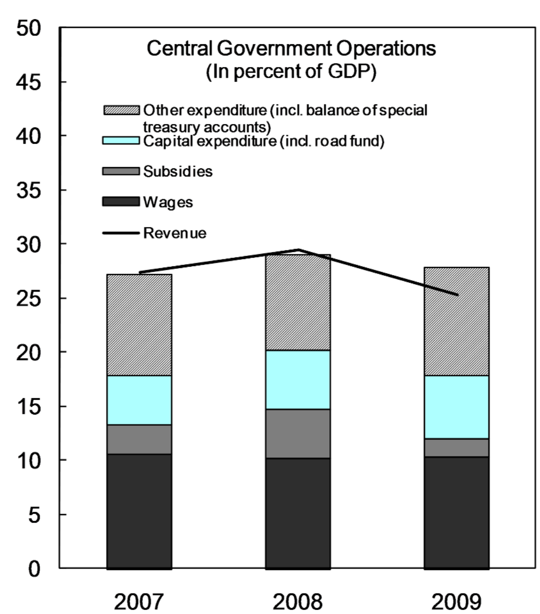
Nonetheless, economic activity in 2009 has been resilient, in part due to strong initial conditions, resulting from the reforms of recent years

Reforms over the last decade have boosted nonagricultural growth and strengthened the economy’s resilience to shocks, enabling Morocco to limit the impact of the crisis. In particular, the macroeconomic gains—marked by low inflation, low fiscal deficits, and a declining public debt ratio—and structural reforms to improve the flexibility of the economy have given Morocco greater room for maneuver in its policy response (Figure 1).



A strong policy response helped Morocco weather the crisis

The authorities responded quickly to the unfolding crisis and have been successful in maintaining confidence and domestic demand. In particular, the fiscal balance will shift from a small surplus in 2008 to a deficit of about 2½ percent of GDP in 2009 as the authorities proceed with already-planned fiscal reforms (tax rate reductions and increases in wages for the lower end of the civil servant salary scale), a boost in public investment, and targeted support to key sectors—for example, publicly-supported



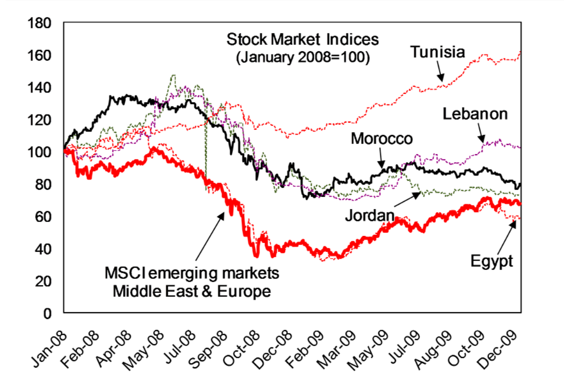
training programs and a temporary reduction in payroll taxes for enterprises in affected sectors. Revenue fell sharply—reflecting the economic downturn, the tax policy changes, and also the absence of certain one-off factors present in 2008—but this was in part offset by a fall in subsidies due to lower world commodity prices. With inflationary pressures low, the central bank—Bank Al-Maghrib (BAM)—likewise lowered its key policy rate by 25 basis points, and to boost liquidity, gradually reduced reserve requirements from 15 to 8 percent in 2009. The stock market remains well below its highs in early-2008, but the fall in 2009 has been moderate. Continued sizable support from Morocco's external partners has also served as a source of resilience.

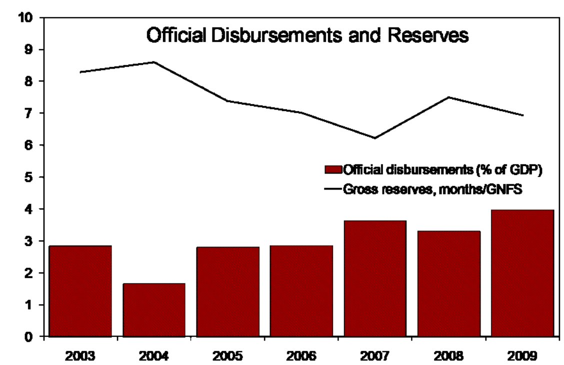
Climatic conditions have also played a role

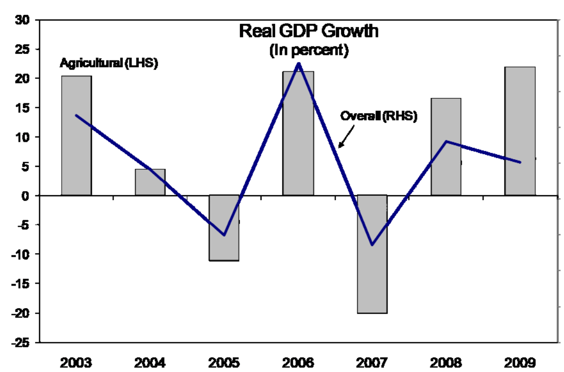
Real nonagricultural GDP growth of about 2½ percent is expected for 2009. However, Morocco is benefitting from an exceptional cereal harvest. As a result, overall GDP growth in 2009 is projected at around 5 percent.

II. Continued Headwinds in the Short Term

Resilient domestic demand will continue to support economic activity in 2010, but Morocco will face headwinds from the external environment, notably the projected slow recovery in Europe. An exit from fiscal easing would be premature, and to this end, the authorities plan a further loosening of fiscal policy. Their close attention to the financial sector is warranted given the rapid credit growth of recent years and uncertainties related to the economic environment.







The slow recovery in Europe and a low share of exports will mute the recovery

Growth in the euro zone, Morocco's main trading partner, is projected to be slightly positive but low in 2010, contributing to a gradual recovery of exports of goods and services and remittances.

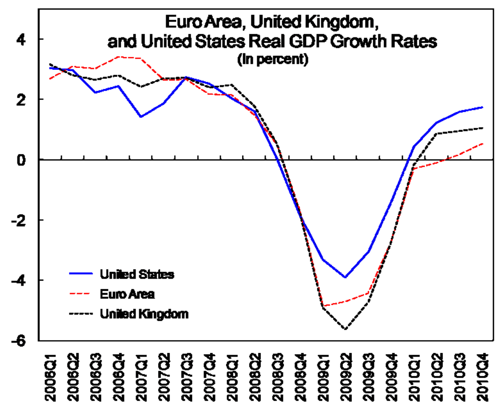
The authorities underlined the continuing importance of domestic demand to economic activity. At the same time, some of the factors that muted the impact of the crisis on Morocco—e.g, the low share of exports, notably manufactures—will likely soften the upturn in 2010 relative to other countries where exports have been a source of growth.

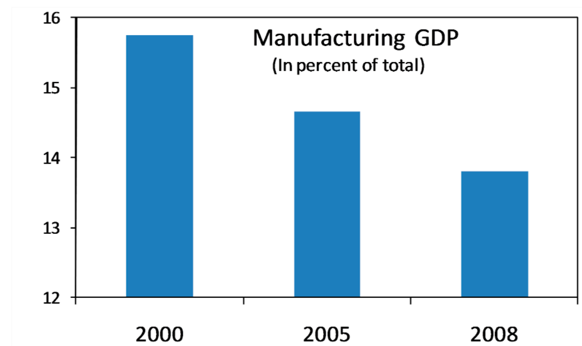
On balance, risks are weighted to the downside

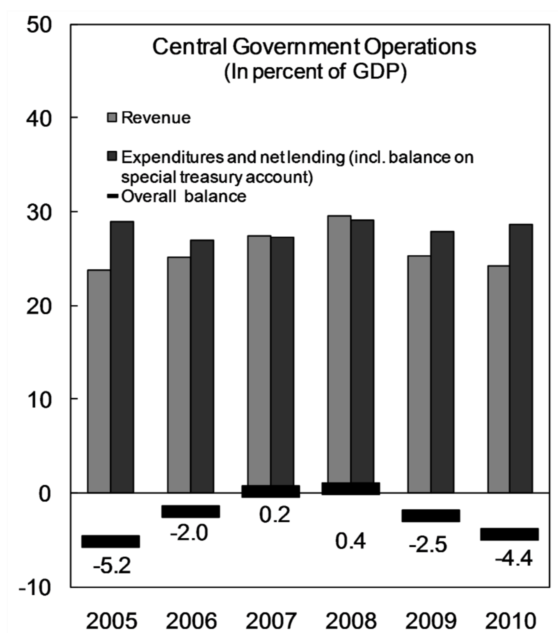
A further deterioration in the terms of trade, resulting from an increase in oil prices or a decline in phosphate prices, could also delay the recovery. Similarly, a slower rebound in tourism and remittances due to a prolonged recovery in the Euro area could negatively affect growth and the current account. Upside risks are also present, notably a more rapid recovery in Europe.

In this setting, the authorities plan a further fiscal loosening, with both higher spending, lower taxes…

The consolidation of public finances in recent years and resulting moderate public debt levels provide room for further counter-cyclical fiscal policy in 2010. To this end, the 2010 budget envisages a budget deficit of 4.4 percent of GDP, thereby providing a significant stimulus to the economy. On the spending side, the stimulus will come primarily from an additional increase







of about ½ a percent of GDP in the already high capital expenditure. In addition, strong investment programs in the public enterprise sector, including in the phosphate sector, will also boost demand (Box 2).

The tax burden will be reduced following the implementation of the second phase of the income tax reform, including an increase in the income threshold of all tax brackets and reduced tax rates. A decrease in tax revenue is also expected from the slowdown in private sector activity in 2009 and 2010.

…and a gradual phase-out of the universal subsidy system, which remains a fiscal risk

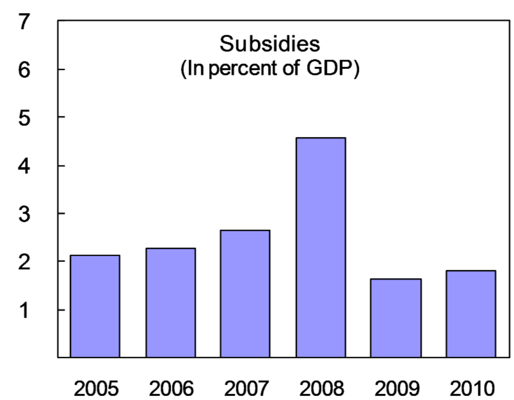
Long a source of volatility and a drain on public finances, the authorities have taken early steps to reform the subsidy system. This should help reduce fiscal risks while better assisting vulnerable populations. The volume of subsidized wheat has been reduced and a pilot program to distribute targeted cash assistance has been launched. Staff welcomed the authorities' intention to develop a global reform program whereby universal subsidies would be gradually eliminated in parallel with the introduction of new targeted assistance to ensure budget neutrality of the reforms. The authorities noted that over the medium term, these programs should total no more than 2 percent of GDP.

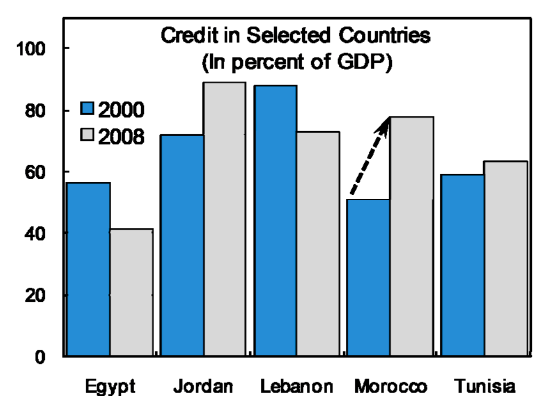
In the financial sector, the economic slowdown is expected to lead to a moderate increase in nonperforming loans (NPLs)

Credit growth has averaged 23 percent per year over the 2006–08 period, slowing to about 12 percent growth in 2009. At the same time, the share of NPLs to total loans has fallen sharply over the last five years, with NPLs in

Fiscal Policy Changes
(In percent of GDP)

	2009	2010
Total change in balance	**-2.9**	**-1.9**
Impact of fiscal reforms	**-1.6**	**-1.2**
Impact of tax reforms	-1.0	-0.6
Personal income tax	-0.6	-0.6
Corporate income tax	-0.3	0.0
Impact of expenditure measures	0.7	0.6
Wage increase	0.3	0.2
Capital expenditure increase	0.4	0.4
Change in balance not related to reforms	**-1.3**	**-0.8**





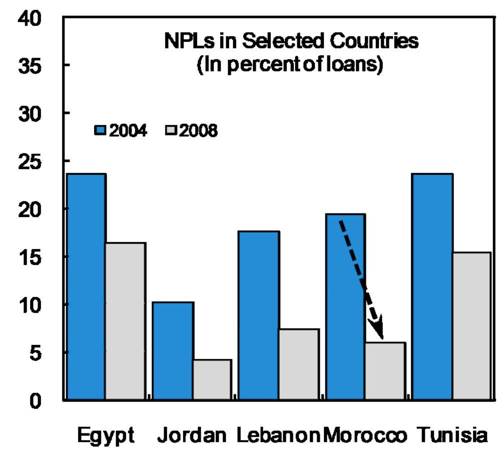
nominal terms having remained broadly level. The low level of NPLs reflects in part a process of cleaning up the balance sheets of banks by writing off old nonperforming loans that are fully provisioned, as well as some restructuring of problem loans, and thus does not reflect only recent credit trends. Looking ahead, the authorities and staff agreed that a moderate upturn in NPLs was to be expected, and that continued vigilance is needed.

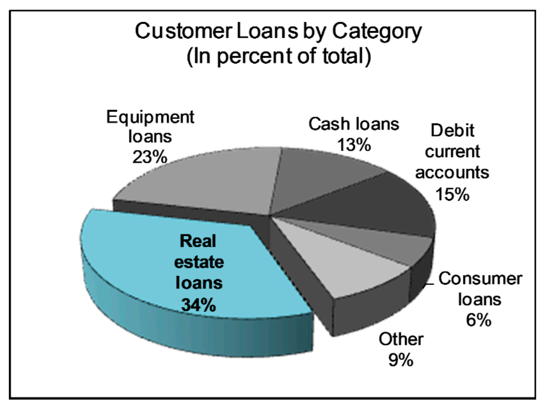
The real estate sector warrants specific attention

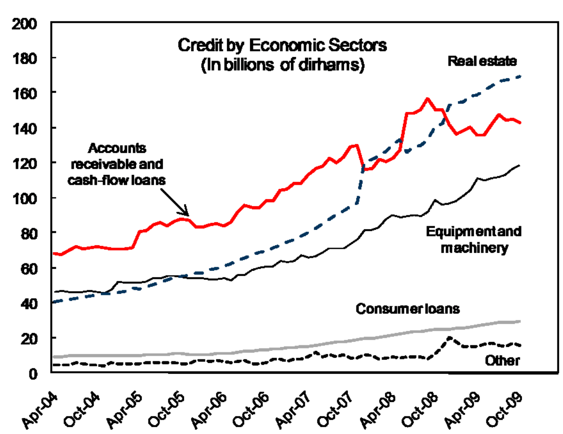
Although NPLs in the sector remain low and provisioning is high, real estate credit, which represents 34 percent of total loans, grew by 20 percent (y-o-y) through October, although growth has slowed in recent months. In the short term, the limited supply of new housing units due to zoning restrictions will continue to sustain prices.

The authorities are taking steps to improve monitoring of the financial sector…

The authorities remain vigilant to credit growth. They have launched several initiatives aimed particularly at enhancing information. The most important measure was establishing a credit bureau with which financing institutions are required to consult. The bureau, managed by a private entity, is now operational and its activities are continually expanding. The authorities are also working on developing a real estate price index and periodic surveys to gain a better understanding of asset price developments.

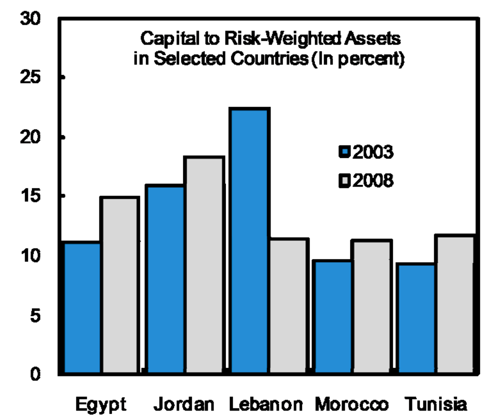






…and they intend to fully implement Basle II recommendations

Measures to improve macro-prudential regulation are moving ahead. Implementation of Basel II continues, with priority given to Pillar 2 concerning supervision. For Pillar 1, the standardized approach was introduced in 2007 and the authorities intend to move to the advanced approach beginning in 2011. The authorities have also continued strengthening their capacity in stress testing and macro-prudential analysis. The capital adequacy ratio (CAR) requirements for banks were raised at end-2008 from 8 to 10 percent of risk-weighted assets. In June 2009, the average CAR for the whole banking system was 11.7 percent, which is above the minimal norm but still relatively low when compared to other emerging countries in the region. The authorities have announced their intention to raise this ratio to 12 percent for certain banking institutions, based on their risk profile, while taking into account the economic situation with the aim of avoiding pro-cyclical effects. Staff noted that credit growth remains brisk, and encouraged the authorities to remain open to further adjustments to the CAR.



Basel II Principles: The Three Pillars

Drawing lessons from the crisis, the Basel Committee introduced several enhancements to the Basel II framework in July 2009 and issued a consultative paper in December 2009 with a view to further complementing the framework.

Pillar 1: Minimum capital requirements. Building on recent reforms to enhance the coverage of risks subject to capital charges, the Committee has proposed strengthening the capital requirements for certain counterparty credit risk exposures, and to introduce a leverage ratio.

Pillar 2: Supervisory review process. Supervisors are expected to use judgment in requiring individual banks to operate with a capital buffer above Pillar 1 requirements, reflecting their assessment of banks' riskiness as well as systemic considerations. Recent reforms raised the standards of the Pillar 2 supervisory review process with respect to banks' firm-wide risk management and capital planning processes. The Committee has proposed a series of new measures to address the pro-cyclicality of banking systems and is currently assessing whether such adjustments should be achieved through the Pillar 1 or Pillar 2 process.

Pillar 3: Market discipline. Banks are expected to disclose enough information so that counterparties, creditors, and investors will compel them to have capital and liquidity commensurate with risk.

III. Looking Ahead: Boosting Growth and Improving Living Standards

Morocco has made significant strides over the last decade to boost growth, improve living standards, and reduce poverty. Nonetheless, as concerns about the global crisis and the related policy response recede, the need for policies to further boost growth and improve living standards will again come squarely into view. Key issues include medium-term fiscal policy, the exchange rate regime, structural reforms, competitiveness issues, and social policies, including youth unemployment.

Fiscal policy should continue to support macroeconomic stability

Consolidation of public finances

Morocco has benefited greatly from the macroeconomic stability and favorable borrowing costs resulting from the fiscal consolidation of recent years. The crisis is a temporary phenomenon, and thus the authorities broadly agreed with staff's view that the public finance framework should be set within a medium-term outlook aimed at bringing the deficit below 3 percent of GDP, in order to stabilize the debt-to-GDP ratio. This would ease the burden on the monetary authorities. It would also mitigate risks identified in the debt sustainability analysis (Figures 3-4), in particular those related to a growth shock or a combined real depreciation and contingent liabilities shocks that could raise public debt by 7-9 percentage points by 2014.

However, fiscal adjustment should be gradual

With the output gap negative (based on nonagricultural GDP), fiscal policy has appropriately become expansionary. A premature withdrawal of the fiscal stimulus could endanger the recovery. Thus, starting in 2011, staff recommended that the authorities reduce the fiscal deficit gradually, returning to a deficit of 3 percent of GDP by 2012–13.

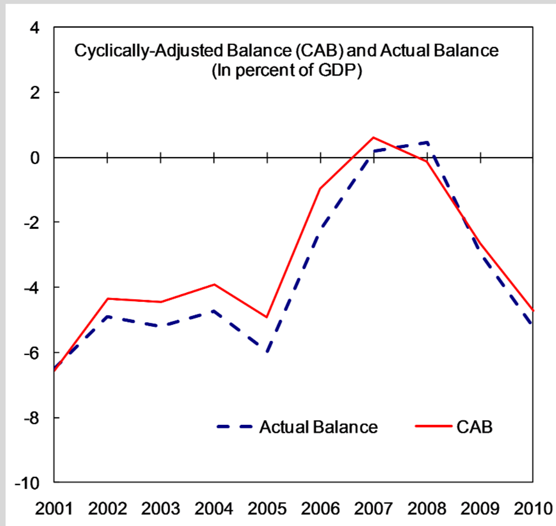
Policies to adjust more quickly to the external environment

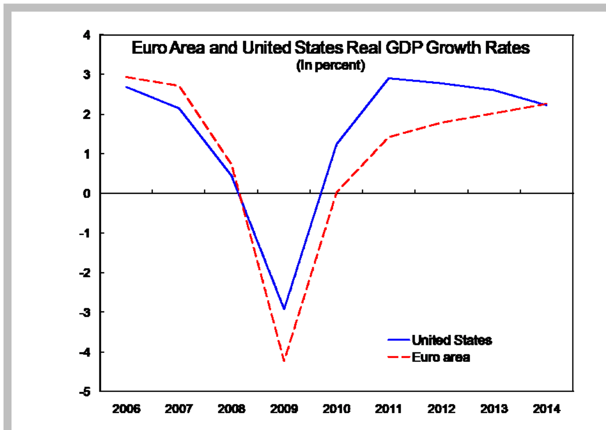
A more subdued outlook presents challenges to growth in Morocco

Over the medium term, global and European growth are expected to resume at more moderate levels, given the loss of potential

Reducing the Deficit will Require Policy Choices

The measure of the cyclically-adjusted fiscal balance mirrors closely the actual balance, suggesting the role of automatic stabilizers is small. Despite the methodological challenges in determining the cyclically-adjusted fiscal balance (e.g., estimating the elasticity of revenue with respect to GDP, which shows sharp short-term fluctuations), the change in the balance appears to be mostly driven by discretionary policy measures, fiscal reforms, and one-off factors such as the surge in capital gains taxes in recent years (followed by a drop-off in 2009). As a result, fiscal adjustment will have to rely on policy changes.



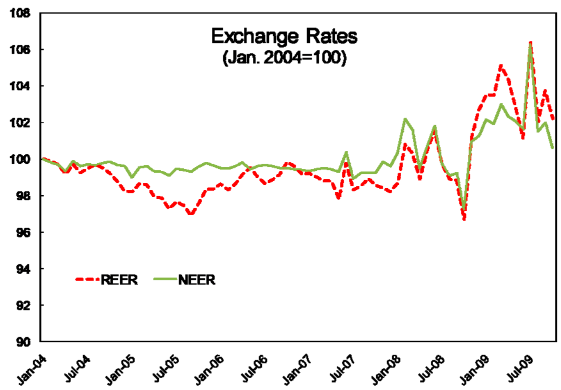


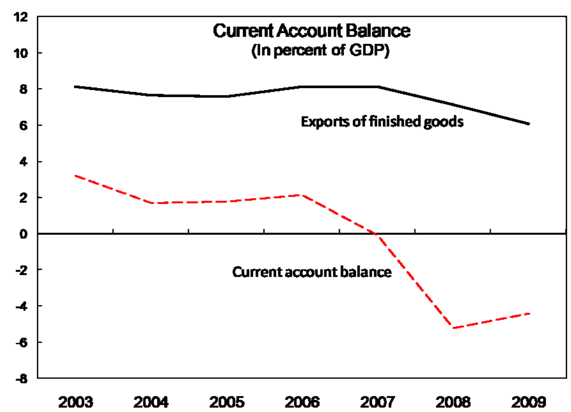
output that generally occurs following financial crises. Moreover, a strategy for growth hinging on domestic demand—as has been the case in recent years in Morocco—may not generate the desired growth rates over the medium and long term. A continued adaptation of policies that allow Morocco to adjust to the external outlook would be warranted.

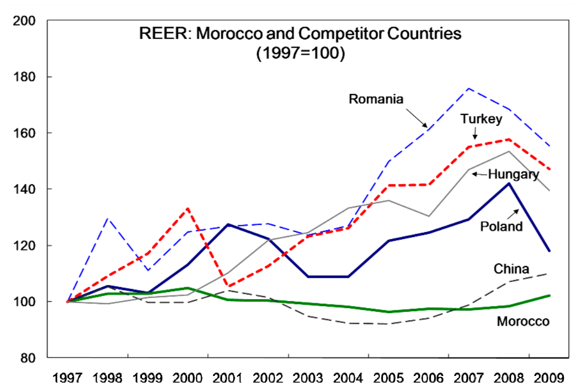
The current exchange rate regime has served Morocco well. More flexibility would allow Morocco to more easily adapt to changes in the external environment

The peg to the basket has contributed to macroeconomic stability, notably low inflation. In the context of prudent financial sector supervision, the peg has not led to a build-up of exchange rate risk in the financial, corporate, or household sectors. Staff analysis based on an average from the CGER methodologies suggests that the exchange rate is broadly in line with its fundamentals. Other indicators, such as current account developments and movements in price-based indicators (Figure 2), point to a mild appreciation of the real exchange rate in 2009.

The authorities' medium-term objective is to move to more flexibility in monetary and exchange rate policies, which could help Morocco better adapt to changes in the international environment. In particular, implementing an explicit inflation targeting framework combined with increased flexibility in the exchange rate could be beneficial, particularly in a context where inflationary pressures are low and the current account deterioration is more pronounced than previously expected. The challenges in the current arrangement are particularly pronounced in light of the tight relationship between the dirham and the euro, which has substantially







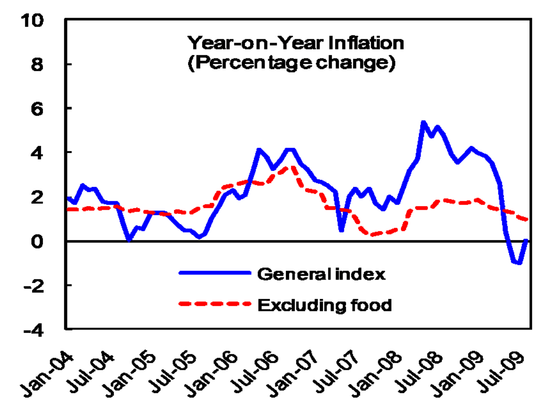
appreciated recently, combined with a depreciation in competitor countries.

Staff noted that the timing for a move to a flexible regime may be opportune in the near term

The central bank broadly meets the prerequisites for adopting an inflation targeting framework, with the operational independence, expertise, and statistical resources, as well as a complete range of instruments that it continues to refine. Medium-term price stability is already the priority objective of BAM, and its analytical and operational framework resembles closely that of central banks that have adopted explicit inflation targets. More broadly, inflation is low, the financial system is relatively robust, and the fiscal situation is under control.

The authorities are concerned about greater volatility of the exchange rate

The authorities recognize the advantages of a more flexible regime, and they are very attentive to the economy's competitiveness challenges. However, they continue to see a more flexible regime as a medium-term objective, expressing reservations about the likely increased volatility from more exchange rate flexibility. They also noted that the broader policy framework for exchange rate policy still needs to be elaborated. Staff noted that many countries have proved successful in managing volatility in their exchange rates. Staff and the authorities also agreed that continued development of the financial system would strengthen the effectiveness of a more flexible monetary framework.



Preconditions for Inflation Targeting

Morocco fulfils most of the four broad categories of preconditions for adopting a monetary policy based on inflation targeting:

Central Bank Infrastructure (fulfilled)

- Data availability (√)
- Systematic forecast process (√)
- Models capable of conditional forecasts (√)

Institutional Independence (fulfilled)

- Central bank independence (√)
- Absence of fiscal obligation (√)
- Operational independence (√)
- Inflation-focused mandate (√)
- Favorable fiscal balance (√)
- Low public debt (√)

Financial Development (partially fulfilled)

- Solid capital adequacy ratio (√)
- Strong stock market capitalization (√)
- Depth of private bond market
- Low currency mismatch faced by domestically owned banks (√)
- Even distribution of bond maturities

Economic Structure (largely fulfilled)

- Low exchange rate pass-through
- Low sensitivity to commodity prices
- Low dollarization (√)
- Trade openness (√)

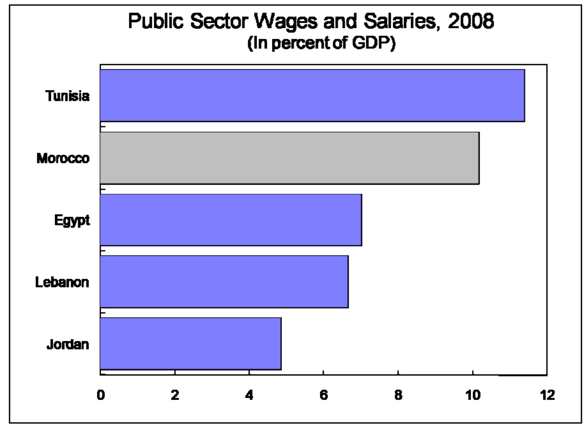
Further structural reforms to boost productivity in the public and private sectors

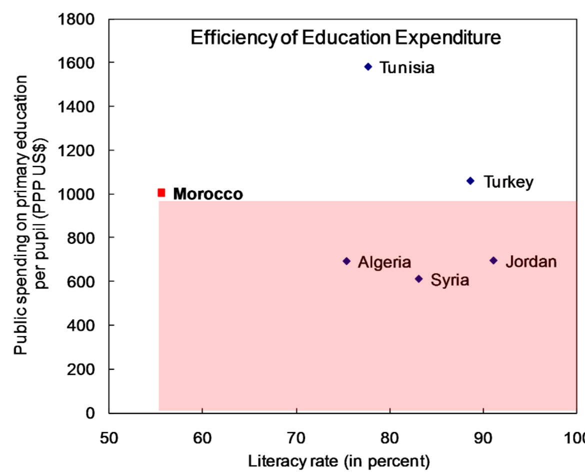
Improving the efficiency and composition of public spending

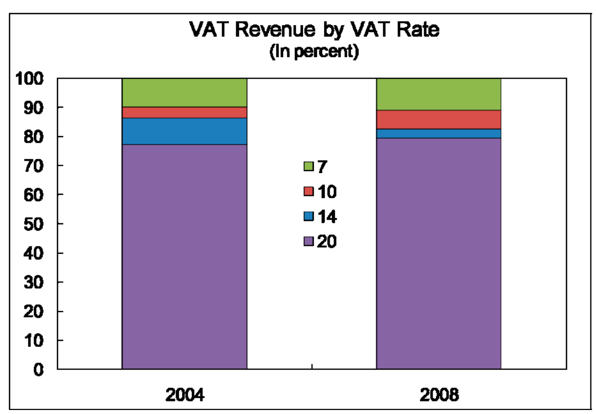
Cross-country evidence suggests that Morocco has some room to improve the efficiency of public spending. Moreover, over the medium term, continued efforts will be needed to tightly manage current spending. This strategy would be reinforced by a medium-term expenditure framework. In particular, the wage bill remains over 10 percent of GDP. The authorities are expecting reduced wage bill pressures over the medium term as the pace of retirements picks up (leading to a drop in the average civil service wage), but also because of a newly implemented regulation whereby all vacant positions are eliminated at the end of each budget year. A more comprehensive civil service reform is under discussion with the World Bank that would both modernize the civil service, and reduce the weight of the wage bill.

Further simplifying the tax regime

Staff encouraged the authorities to continue their tax reform efforts, in particular by further simplifying the tax regime, including reform of the VAT and customs tariffs, by reducing the number of rates and exemptions and extending the scope of reimbursements for VAT credits. The overhaul of VAT rates could also lead to a reduction in the normal rate, with a neutral impact on revenue, which could expand the tax base through formalization of the informal sector. More broadly, as the authorities proceed with reforms of domestic taxation, they should ensure that the reforms of the different taxes create a tax regime with an appropriate level and distribution of the overall burden on taxpayers.







In the same spirit, the progress in further simplifying and liberalizing the trade regime should continue

As measured by the WTO, the average tariff fell to 20 percent in 2008 from 33 percent in 2002, and the average effective tariff (customs revenue divided by total imports) is now at 5 percent. However, Morocco would benefit from a further lowering of top rates and more consolidation of rates to reduce complexity and improve administration. The mission also noted the importance of reducing high MFN import tax rates and of ensuring the coherence of the different regional accords, and stressed that further steps should not create the potential for welfare-reducing trade diversion.

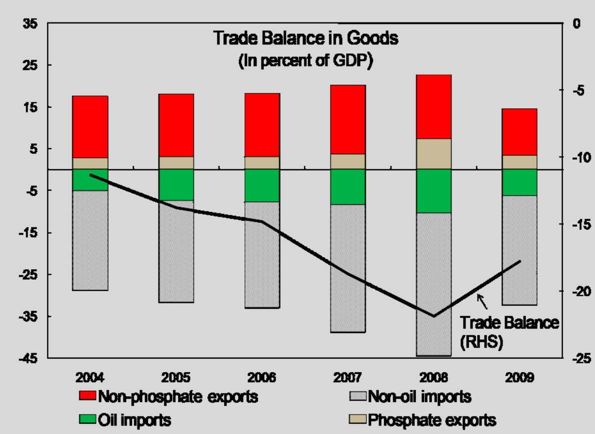
Competitiveness remains a challenge

A number of indicators suggest some erosion of competitiveness, particularly in relation to competitor countries, such as in Eastern Europe (Figure 2).

Also, the deterioration of the current account in recent years points to competitiveness challenges. Morocco's current account was in surplus from 2001–06 but has since deteriorated gradually, and has been in deficit since 2007. Trade in goods have been in deficit but services and transfers—mainly tourism receipts and remittances—fully compensated for the deficits in the trade in goods from 2001–06. More recently, the trade balance reached a record high deficit of 22 percent of GDP in 2008. While the trade deficit is expected to improve in 2009, this will largely be offset by a deterioration in services and transfers.

Recent Developments in the Trade Balance

Morocco's imports have been roughly twice exports in recent years, and thus have driven movements in the trade balance. Price effects—notably for energy products and raw materials—accounted for much of the import growth through 2008, but import volumes also increased rapidly, in particular for capital goods. For some years, exports of goods remained relatively stable in percent of GDP (and in terms of market share), until 2008, when phosphate exports increased sharply due to a price effect. In 2009, in percentage terms, exports have fallen more than imports, but given the much bigger weight of imports, the trade balance is expected to improve moderately.



To this end, the authorities are deepening structural reforms to increase productivity

To build on the productivity gains of the last decade, the authorities plan to reform the justice system, increase infrastructure investment, and strengthen support for industry, tourism, and energy. In addition, the Plan Vert, which aims to increase agriculture yields, is moving ahead, and more recently the government launched a similar effort to expand the country's fishing sector.

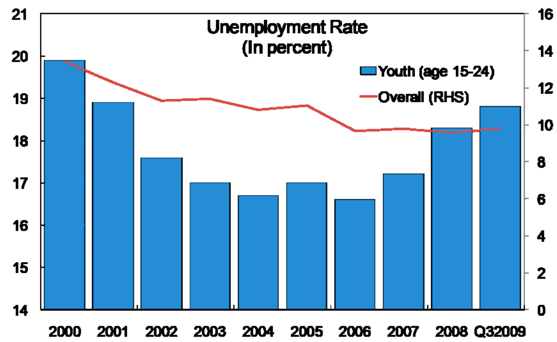
Despite impressive gains, important social challenges remain

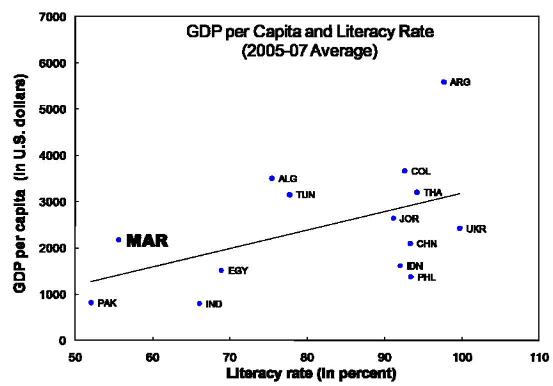
The poverty rate has fallen from 15 percent in 2001 to 9 percent in 2007, and overall unemployment has likewise fallen in recent years. However, youth unemployment has proven more difficult to tackle, and literacy rates and other social indicators remain low relative to other countries of similar income.

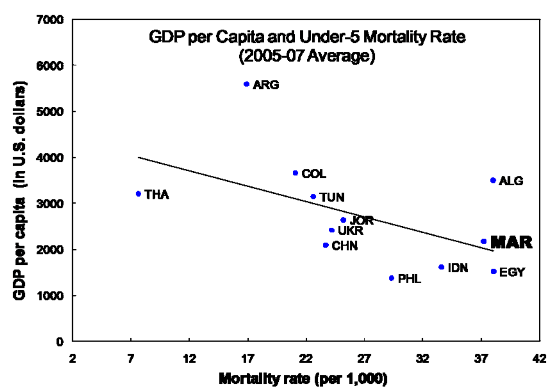
To address these challenges, in 2005, the authorities launched the « Initiative nationale du développement humain », a program of more than $1 billion over 5 years. In this context, the authorities are reforming the education and health sectors, the success of which will be a key element of improving living standards and boosting Morocco's potential growth. For instance, the authorities aim to universalize basic education by 2015 by improving enrollment and completion rates. They also aim to increase graduation and employment rates and expand vocational training. On health, the government intends to reduce infant and maternal mortality rates by developing a universally acceptable care package. In all these areas, the authorities are working closely with development partners, including the World Bank.

Growth Accounting
(In percent)

	1980-89	1990-99	2000-08
Real GDP	3.8	2.6	4.6
Capital	2.6	1.5	1.8
Human capital	2.2	2.2	1.3
TFP	-1.0	-1.1	1.4

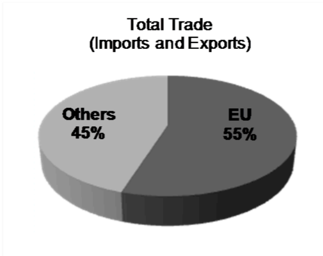


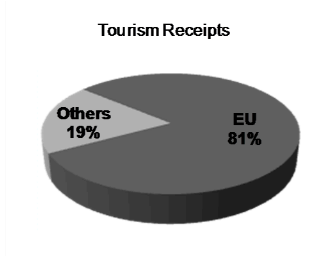


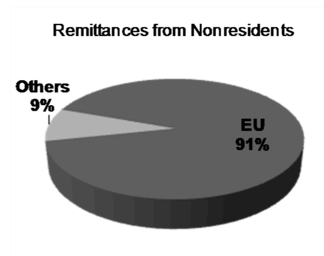


Box 1. Spillovers from Europe to Morocco's Economy

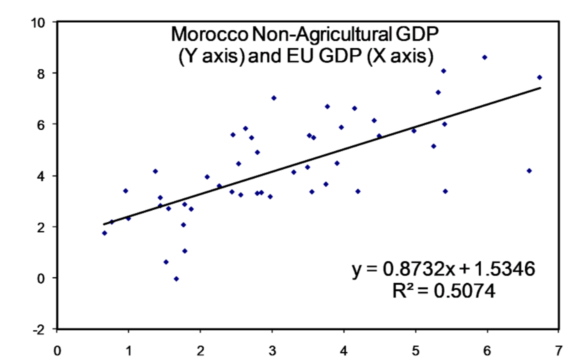
Europe (especially France and Spain), plays an important role on Morocco's economy, given the country's geographical position, historical and cultural ties, as well a significant emigration.

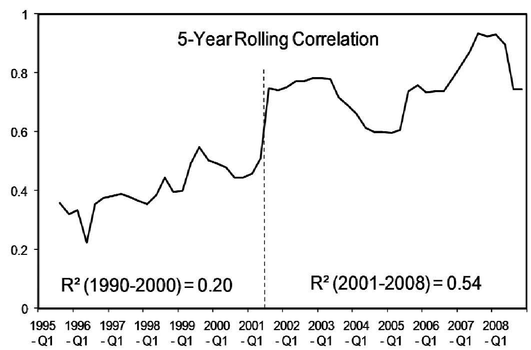






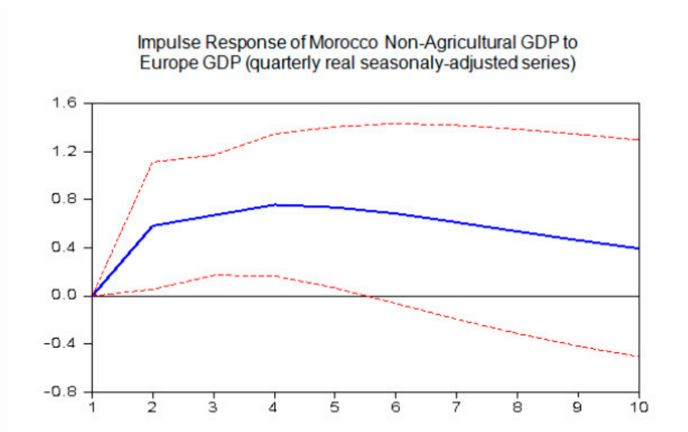
Econometric estimations using series of quarterly GDP data for Morocco and Europe suggest that the correlation between the two economies is significant. This correlation has strengthened since 2000, when the Association Agreement between Morocco and the European Union (EU) entered into force.





Moreover, an impulse response function estimated using a simple auto-regression vector (VAR) suggests that a variation in Europe's GDP growth has a significant impact on Morocco's non-agricultural GDP.

One important question is why, in spite of these links, in the current period, the downturn in Morocco was mild relative to the severe recession in Europe. First, data for one or two years does not necessarily contradict long-term correlations. Second, the correlations, as well as the VAR analysis, indicate the expected variation of Morocco's non-agricultural GDP growth **around its trend** in response to variations in the EU's GDP growth. Estimations from the authorities suggest that Morocco's total GDP growth trend could be close to 5 percent. [1]



[1] The 2010 Budget Law estimates that after 2004 this trend reached 4.8 percent. See: *Rapports accompagnant le projet de la Loi de Finances 2010 / Rapport économique et financier* (page 60) http://www.finances.gov.ma/esp_doc/util/file.jsp?iddoc=3147

Box 2. Contribution of the Public Enterprise Sector to the Economic Stimulus

The public enterprise sector plays a key role in the Moroccan economy. As of 2008, the sector comprised 716 public enterprises, of which 460 were corporations with between 5 and 100 percent public ownership and 256 were public service providers including water, public transport, and electricity. In 2008, (i) they generated about 12 percent of total added value; (ii) their investment expenditure (9.6 percent of GDP) was almost twice the capital expenditure of the central government (5.5 percent of GDP), and (iii) they employed 124.6 thousand person (about 14 percent of total public sector employment) of which 39.5 thousand (about 4 percent of total public sector employment) are employed by public corporations.

Public Enterprise Sector: Key Indicators

	2006	2007	2008
	(In millions of dirhams, unless otherwise indicated)		
Investment 1/	40,898	49,451	66,450
in percent of GDP	*7.1*	*8.0*	*9.6*
Transfers from budget	13,525	15,695	17,230
in percent of GDP	*2.3*	*2.5*	*2.5*
Debt	75,126	94,562	121,094
in percent of GDP	*13.0*	*15.3*	*17.6*
Added value	44,770	54,194	82,189
in percent of GDP	*7.8*	*8.8*	*11.9*
Net profit	8,284	21,702	33,290
Sales	121,404	133,325	175,014
Parafiscal revenues	1,874	2,242	2,319

1/ Investment by public enterprises as reported in the 2010 budget documents. The definition of investment used here might include a wider coverage of expenditure than the definition used for the system of national accounts.

Public enterprises are expected to contribute significantly to the 2010 economic stimulus. In 2009, planned investment by public enterprises increased by over 16 percent and a further increase of 30 percent is foreseen in the 2010 budget allocations. These investment levels presume high execution rates: the public enterprise sector executed 91 percent of the investment budget in 2008. The contribution of the public enterprise sector to the stimulus in 2010 and beyond would thus depend on its capacity to keep up these implementation rates even with the significantly increased investment budget.

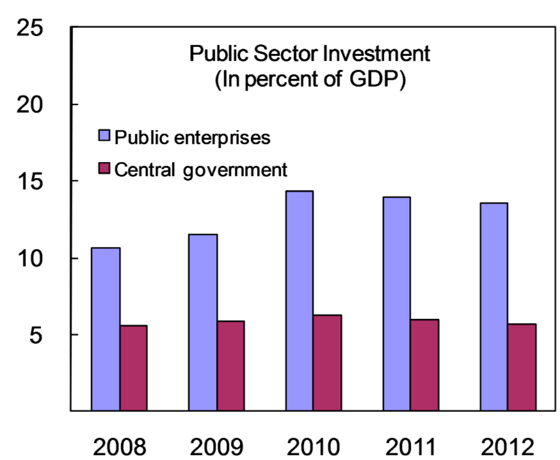
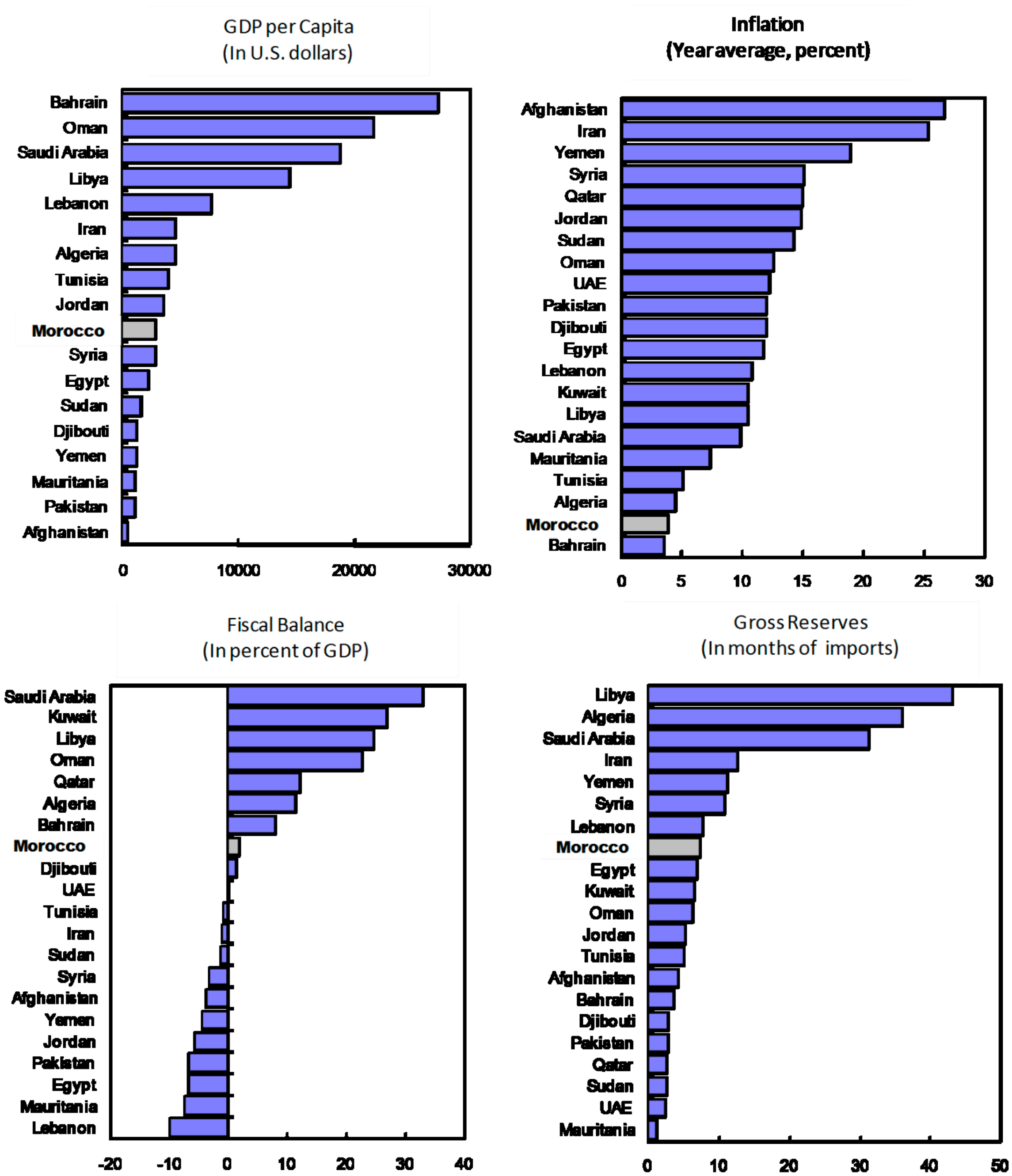
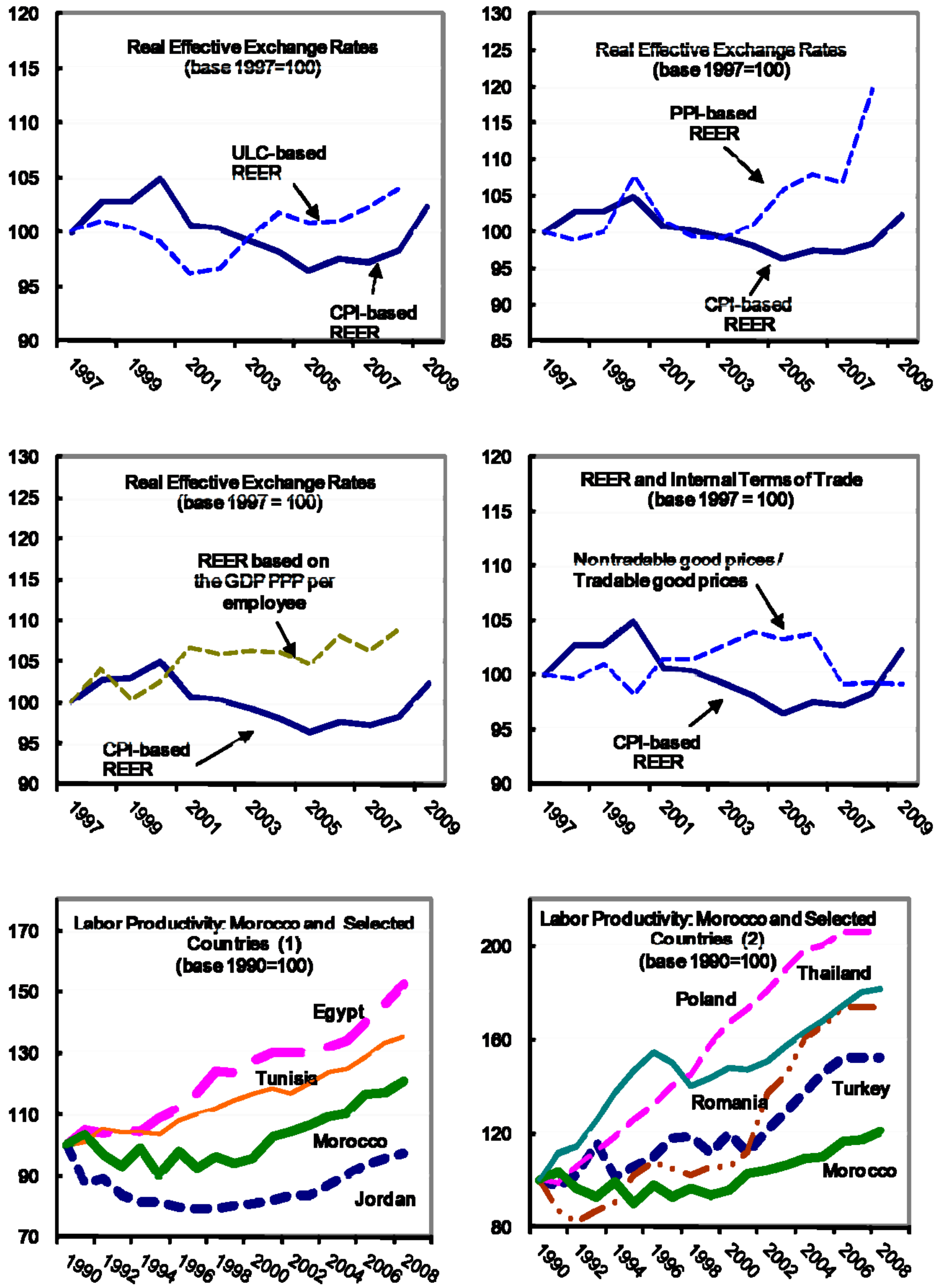


Figure 1. Cross-Country Comparisons: Selected Economic Indicators, 2008



Sources: WEO and REO.

Figure 2. Real Effective Exchange Rate and Competitiveness Developments



Sources: The Conference Board and Groningen Growth and Development Centre, Moroccan authorities, and staff calculations.

Table 1. Morocco: Selected Economic Indicators, 2007–14

	2007	Prel. 2008	Staff Proj. 2009	2010	2011	2012	2013	2014
			(Annual percentage change)					
Output and Prices								
Real GDP (market price)	2.7	5.6	5.0	3.2	4.5	5.0	5.0	5.0
Real nonagricultural GDP (market price)	7.1	4.0	2.3	4.0	4.5	5.1	5.1	5.1
Consumer prices (end of period)	2.0	4.2	1.8	2.2	2.6	2.6	2.6	2.6
Consumer prices (period average)	2.0	3.9	1.8	2.2	2.6	2.6	2.6	2.6
			(In percent of GDP)					
Investment and Saving								
Gross capital formation	32.5	36.3	34.3	35.0	35.1	35.4	36.0	36.6
Of which: Nongovernment	29.2	33.2	30.8	31.2	31.5	32.0	32.6	33.2
Gross national savings	32.4	31.1	29.9	30.5	31.0	31.9	33.0	34.1
Of which: Nongovernment	25.7	24.2	24.8	26.5	26.5	27.2	27.9	28.6
			(In percent of GDP)					
Public Finances								
Revenue (including grants)	27.9	31.0	26.0	24.6	24.7	24.8	25.1	25.1
Expenditure	29.1	31.1	28.9	29.3	28.6	28.3	28.3	28.3
Budget balance (commitment basis, including Hassan II Fund and grants	0.4	1.6	-2.3	-4.4	-3.7	-3.3	-3.0	-3.0
Primary balance (including grants)	3.5	4.2	0.2	-1.8	-1.4	-1.0	-0.7	-0.7
Total government debt	53.5	47.3	47.4	48.0	48.9	49.1	49.0	48.8
			(Annual percentage change; unless otherwise indicated)					
Monetary Sector								
Credit to the private sector 1/	29.1	23.4	12.0	10.0	...	...	...	...
Broad money	16.1	10.9	8.0	8.0	...	...	...	...
Velocity of broad money	1.0	1.0	1.0	1.0	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.6	3.5	...	...	...	...	...	...
			(In percent of GDP; unless otherwise indicated)					
External Sector								
Exports of goods (in U.S. dollars, percentage change)	26.9	32.8	-35.0	7.4	9.3	10.4	10.2	9.8
Imports of goods (in U.S. dollars, percentage change)	34.8	35.5	-26.5	9.1	6.8	6.7	6.8	6.7
Merchandise trade balance	-18.7	-21.9	-17.8	-18.3	-17.9	-17.4	-16.8	-16.4
Current account excluding official transfers	-0.5	-6.5	-4.9	-4.7	-4.4	-3.8	-3.3	-2.7
Current account including official transfers	-0.1	-5.2	-4.4	-4.4	-4.2	-3.6	-3.1	-2.5
Foreign direct investment	2.9	2.3	0.8	2.5	2.3	2.4	2.3	2.2
Total external debt	23.7	20.6	23.0	24.5	25.0	24.7	24.2	23.6
Gross reserves (in billions of U.S. dollars) 2/	24.0	22.0	21.9	22.5	23.0	23.9	25.2	26.5
In months of next year imports of goods and services	6.2	7.5	6.9	6.7	6.4	6.3	6.2	...
In percent of short-term external debt (on remaining maturity basis)	1,310	1,760	1,570	1,618	1,650	1,717	1,806	1,903
Memorandum Items:								
Nominal GDP (in billions of U.S. dollars)	75.2	88.9	89.9	96.8	103.4	110.7	118.4	126.4
Unemployment rate (in percent)	9.8	9.6	...	...	...	...	...	...
Net imports of energy products (in billions of U.S. dollars)	-6.4	-9.2	-5.6	-7.1	-7.7	-8.3	-8.9	-9.6
Local currency per U.S. dollar (period average)	8.2	7.8	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-0.4	1.1	...	...	...	...	...	...

Sources: Moroccan authorities; and Fund staff estimates.

1/ Includes credit to public enterprises.

2/ As of 2009, reserves include the new SDR allocation.

Table 2. Morocco: Central Government Finance, 2007-14
(In billions of dirhams)

		Prel.	Staff Proj.					
	2007	2008	2009	2010	2011	2012	2013	2014
Revenue 1/	169.3	203.7	187.2	188.5	202.9	219.8	239.3	258.7
Revenue (excl. Fonds Hassan II) 1/	168.7	203.0	186.5	187.8	202.2	219.0	238.6	258.0
Revenue (excl. Fonds Hassan II and transfers to local govs.)	153.7	184.7	169.8	169.2	182.2	197.3	214.8	232.2
Tax revenue 1/	153.3	187.5	170.1	174.5	187.9	203.7	222.0	240.1
direct taxes	60.3	81.6	72.9	70.3	76.5	83.3	90.7	97.9
indirect taxes	67.1	80.0	73.8	80.4	86.7	93.7	102.6	111.3
import taxes	14.4	14.3	11.1	11.7	12.6	13.5	14.5	15.7
other tax revenues	11.5	11.7	12.3	12.1	12.2	13.1	14.2	15.3
Nontax revenue (excluding privatization, and Fonds Hassan II)	15.3	15.5	16.3	13.3	14.3	15.4	16.6	17.9
Expenditures and net lending (excl. Fonds Hassan II)	177.0	212.4	209.9	224.3	235.2	250.7	269.2	290.3
Current expenditures	133.9	155.8	150.0	157.2	165.7	177.6	190.2	205.2
Wages	65.7	70.0	76.5	80.5	84.5	90.2	96.2	104.1
Food and petroleum subsidies 2/	16.4	31.5	12.0	14.0	15.0	16.2	17.4	18.7
food	-7.6	5.8	0.9	4.9	5.2	5.6	6.0	6.5
petroleum	24.0	25.7	11.1	9.2	9.8	10.6	11.4	12.3
Other primary current spending	32.6	36.2	43.1	42.8	46.7	50.3	54.2	58.4
Interest	19.3	18.2	18.4	19.8	19.4	20.9	22.4	23.9
Capital expenditures (budget) 3/	26.3	35.9	41.1	46.5	47.5	49.3	53.2	57.3
Road fund	1.9	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Transfers to local governments 4/	14.9	18.4	16.6	18.6	20.0	21.7	23.8	25.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	9.3	12.0	5.0	2.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, excluding Fonds Hassan II)	1.0	2.7	-18.4	-34.4	-31.0	-29.6	-28.6	-30.3
Fonds Hassan II expenditures	2.0	2.0	3.0	3.2	3.4	3.7	4.0	4.3
Fonds Hassan II interest receipts	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Overall balance (commitment basis, including Fonds Hassan II)	-0.3	1.4	-20.7	-36.9	-33.7	-32.6	-31.8	-33.8
Grants	2.8	9.6	4.0	2.9	2.9	2.9	2.9	2.9
Privatization and GSM revenues	6.1	0.0	0.0	8.0	0.0	0.0	0.0	0.0
Change in arrears	0.9	-3.1	-4.5	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, including Fonds Hassan II, grants and privatization)	9.5	7.9	-21.2	-26.0	-30.8	-29.6	-28.9	-30.9
Financing	-9.5	-7.9	21.2	26.0	30.8	29.6	28.9	30.9
Domestic financing	-10.7	-9.9	12.7	15.8	24.3	25.8	25.4	28.5
Of which: change in Balance of Fonds Hassan II	1.7	-1.3	-2.3	1.5	-2.7	-2.9	-3.2	-3.5
External financing	1.2	2.0	8.4	10.2	6.5	3.9	3.5	2.4
Memorandum items:								
Current balance	35.5	47.9	37.2	31.4	37.2	42.2	49.1	53.5
Primary balance	18.9	19.6	-2.3	-17.1	-14.3	-11.7	-9.4	-9.9
Primary balance (excl. Fonds Hassan II)	20.3	20.9	0.0	-14.6	-11.6	-8.7	-6.2	-6.4
Total Central Government debt (end period)	329.8	325.8	349.3	373.1	407.0	440.2	473.2	508.1
domestic 5/	263.8	257.1	272.1	286.4	313.4	342.1	370.7	402.8
external	65.9	68.7	77.1	86.7	93.6	98.1	102.4	105.3
GDP in billions of dirhams	616.3	686.8	736.3	776.8	832.9	897.2	966.6	1,041.3

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.

Table 3. Morocco: Central Government Finance, 2007-14

(In percent of GDP)

		Prel.	Staff Proj.					
	2007	2008	2009	2010	2011	2012	2013	2014
Revenue 1/	27.5	29.6	25.4	24.3	24.4	24.5	24.8	24.8
Revenue (excl. Fonds Hassan II) 1/	27.4	29.5	25.3	24.2	24.3	24.4	24.7	24.8
Revenue (excl. Fonds Hassan II and transfers to local govs.)	24.9	26.8	23.1	21.8	21.9	22.0	22.2	22.3
Tax revenue 1/	24.9	27.2	23.1	22.5	22.6	22.7	23.0	23.1
direct taxes	9.8	11.8	9.9	9.0	9.2	9.3	9.4	9.4
indirect taxes	10.9	11.6	10.0	10.3	10.4	10.4	10.6	10.7
import taxes	2.3	2.1	1.5	1.5	1.5	1.5	1.5	1.5
other tax revenues	1.9	1.7	1.7	1.6	1.5	1.5	1.5	1.5
Nontax revenue (excluding privatization, and Fonds Hassan II)	2.5	2.3	2.2	1.7	1.7	1.7	1.7	1.7
Expenditures and net lending (excl. Fonds Hassan II)	28.7	30.8	28.5	28.9	28.2	27.9	27.9	27.9
Current expenditures	21.7	22.6	20.4	20.2	19.9	19.8	19.7	19.7
Wages	10.7	10.2	10.4	10.4	10.2	10.1	10.0	10.0
Food and petroleum subsidies 2/	2.7	4.6	1.6	1.8	1.8	1.8	1.8	1.8
food	-1.2	0.8	0.1	0.6	0.6	0.6	0.6	0.6
petroleum	3.9	3.7	1.5	1.2	1.2	1.2	1.2	1.2
Other primary current spending	5.3	5.3	5.9	5.5	5.6	5.6	5.6	5.6
Interest	3.1	2.6	2.5	2.6	2.3	2.3	2.3	2.3
Capital expenditures (budget) 3/	4.3	5.2	5.6	6.0	5.7	5.5	5.5	5.5
Road fund	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Transfers to local governments 4/	2.4	2.7	2.3	2.4	2.4	2.4	2.5	2.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	1.5	1.7	0.7	0.3	0.2	0.2	0.2	0.2
Overall balance (commitment basis, excluding Fonds Hassan II)	0.2	0.4	-2.5	-4.4	-3.7	-3.3	-3.0	-2.9
Fonds Hassan II expenditures	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Fonds Hassan II interest receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (commitment basis, including Fonds Hassan II)	-0.1	0.2	-2.8	-4.7	-4.0	-3.6	-3.3	-3.2
Grants	0.5	1.4	0.5	0.4	0.3	0.3	0.3	0.3
Privatization and GSM revenues	1.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Change in arrears	0.2	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, including Fonds Hassan II, grants and privatization)	1.5	1.1	-2.9	-3.3	-3.7	-3.3	-3.0	-3.0
Financing	-1.5	-1.1	2.9	3.3	3.7	3.3	3.0	3.0
Domestic financing	-1.7	-1.4	1.7	2.0	2.9	2.9	2.6	2.7
Of which : change in Balance of Fonds Hassan II	0.3	-0.2	-0.3	0.2	-0.3	-0.3	-0.3	-0.3
External financing	0.2	0.3	1.1	1.3	0.8	0.4	0.4	0.2
Memorandum items:								
Current balance	5.8	7.0	5.1	4.0	4.5	4.7	5.1	5.1
Primary balance	3.1	2.8	-0.3	-2.2	-1.7	-1.3	-1.0	-1.0
Primary balance (excl. Fonds Hassan II)	3.3	3.0	0.0	-1.9	-1.4	-1.0	-0.6	-0.6
Total Central Government debt (end period)	53.5	47.3	47.4	48.0	48.9	49.1	49.0	48.8
domestic 5/	42.8	37.3	37.0	36.9	37.6	38.1	38.4	38.7
external	10.7	10.0	10.5	11.2	11.2	10.9	10.6	10.1
GDP in billions of dirhams	616.3	688.8	736.3	776.8	832.9	897.2	966.6	1,041.3

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.

Table 4. Morocco: Balance of Payments, 2007-14
(In billions of U.S. dollars; unless otherwise indicated)

		Prel.	Staff Proj.					
	2007	2008	2009	2010	2011	2012	2013	2014
Current account	-0.1	-4.6	-4.0	-4.3	-4.3	-4.0	-3.6	-3.1
Trade balance	-14.1	-19.5	-16.0	-17.7	-18.5	-19.2	-20.0	-20.7
Exports, f.o.b.	15.1	20.1	13.1	14.0	15.3	16.9	18.7	20.5
Agriculture	2.9	3.3	2.6	2.9	3.2	3.6	4.0	4.4
Phosphates and derived products	2.7	6.6	3.0	3.0	3.2	3.5	3.9	4.2
Imports, f.o.b.	-29.2	-39.6	-29.1	-31.7	-33.9	-36.1	-38.6	-41.2
Energy	-6.4	-9.2	-5.6	-7.1	-7.7	-8.3	-8.9	-9.6
Capital goods	-6.8	-9.2	-7.9	-8.3	-8.9	-9.6	-10.3	-11.0
Food products	-3.3	-4.6	-3.4	-3.6	-3.7	-3.9	-4.2	-4.4
Services	6.7	6.6	5.5	6.6	7.2	8.0	8.8	9.7
Tourism receipts	7.2	7.2	6.3	6.8	7.3	7.9	8.5	9.1
Income	-0.4	-0.5	-0.6	-0.6	-0.7	-0.9	-1.0	-1.0
Transfers	7.7	8.7	7.1	7.4	7.7	8.1	8.5	8.9
Private transfers (net)	7.4	7.6	6.7	7.1	7.5	7.8	8.2	8.6
Workers' remittances	6.7	6.8	6.0	6.4	6.7	7.1	7.5	7.8
Official grants (net)	0.3	1.2	0.4	0.3	0.3	0.3	0.3	0.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.0	3.6	3.1	4.8	4.9	5.1	5.1	4.7
Direct investment	2.2	2.0	0.7	2.4	2.4	2.6	2.7	2.8
Privatization	0.4	0.4	0.0	1.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.1	-0.1	0.1	0.1	0.2	0.4	0.5	0.5
Other	-0.1	1.7	2.4	2.3	2.2	2.1	1.9	1.4
Private	-0.9	0.5	-0.1	-0.7	-0.1	0.2	0.3	0.0
Public medium-and long-term loans (net)	0.8	1.2	2.4	3.0	2.4	1.8	1.6	1.3
Disbursements	2.7	2.9	3.6	4.2	3.9	3.6	3.6	3.5
Amortization	-1.9	-1.7	-1.1	-1.3	-1.5	-1.8	-1.9	-2.2
Reserve asset accumulation (-increase)	-2.1	1.5	0.9	-0.5	-0.6	-1.1	-1.5	-1.5
Errors and omissions	0.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)				
Current account	-0.1	-5.2	-4.4	-4.4	-4.2	-3.6	-3.1	-2.5
Trade balance	-18.7	-21.9	-17.8	-18.3	-17.9	-17.4	-16.8	-16.4
Services	9.0	7.5	6.2	6.8	7.0	7.2	7.4	7.7
Income	-0.5	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Transfers	10.2	9.8	7.9	7.7	7.5	7.3	7.2	7.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.7	4.0	3.5	5.0	4.7	4.6	4.3	3.7
Direct investment	2.9	2.3	0.8	2.5	2.3	2.4	2.3	2.2
Portfolio investment	-0.1	-0.2	0.1	0.1	0.2	0.3	0.4	0.4
Other	-0.1	1.9	2.6	2.4	2.2	1.9	1.6	1.1
Memorandum items:								
Exports of goods and services (percentage growth)	6.5	-4.1	-13.1	6.0	7.1	8.4	8.2	8.0
Imports of goods and services (percentage growth)	16.0	9.2	-7.9	1.2	4.1	4.8	4.9	4.9
Current account balance excluding official grants (percent of GDP)	-0.5	-6.5	-4.9	-4.7	-4.4	-3.8	-3.3	-2.7
Terms of trade (percentage change)	-0.5	6.6	-0.9	-5.1	-1.1	-0.5	-0.6	-0.5
Gross official reserves 1/	24.0	22.0	21.9	22.5	23.0	23.9	25.2	26.5
In months of prospective imports of GNFS	6.2	7.5	6.9	6.7	6.4	6.3	6.2	...
Debt service (percent of export of GNFS and MRE) 2/	8.0	6.5	6.6	6.4	6.6	7.3	7.4	7.5
External public and publicly guaranteed debt (percent of GDP)	19.8	19.4	20.9	22.8	23.6	23.6	23.3	22.7
DHs per US$, period average	8.2	7.8	...	...	...	...	...	...
GDP ($)	75.2	88.9	89.9	96.8	103.4	110.7	118.4	126.4
Oil price (US$/barrel)	71.1	97.0	61.5	76.5	79.5	81.0	83.0	84.8

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

1/ Excluding the reserve position in the Fund. As of 2009, reserves include the new SDR allocation.

2/ Public and publically guaranteed debt.

Table 5. Morocco: Monetary Survey, 2004–10

					Prel.	Staff Proj.	
	2004	2005	2006	2007	2008	2009	2010
				(In millions of dirhams)			
Net foreign assets	144,309	165,509	189,783	208,336	197,346	190,160	194,173
Monetary authorities	135,269	149,837	172,377	188,144	181,690	174,863	178,675
Of which : Gross reserves	133,934	148,730	171,118	185,207	178,507	177,342	181,154
Of which : Net Fund position	899	931	896	859	879	879	879
Deposit money banks	9,040	15,672	17,406	20,192	15,656	15,297	15,497
Net domestic assets	262,772	298,677	354,298	423,348	503,205	566,436	622,950
Domestic credit	334,509	368,513	414,725	515,197	615,942	685,505	748,113
Net credit to the government	83,068	84,180	81,946	85,732	86,146	92,259	95,450
Banking system	75,358	75,799	73,654	76,889	75,973	82,086	85,276
Bank Al-Maghrib	3,325	408	-1,062	3,399	5,144	4,846	4,591
Of which : deposits 1/	-15,207	-13,591	-14,078	-8,950	-4,329	-4,627	-4,882
Deposit money banks	72,033	75,391	74,716	73,490	70,829	77,241	80,685
Treasury-IMF	-899	-931	-896	-859	-879	-879	-879
Counterpart to deposits with CCP/treasury	8,609	9,312	9,188	9,702	11,052	11,052	11,052
Credit to the economy	251,441	284,333	332,779	429,465	529,796	593,246	652,663
Other liabilities, net	71,737	69,836	60,427	91,849	112,737	119,070	125,163
Money and quasi money	407,081	464,186	544,081	631,684	700,551	756,595	817,123
Money	319,340	364,137	426,811	495,533	549,556	593,521	641,003
Currency outside banks	79,715	89,305	108,564	119,844	127,877	138,107	149,156
Demand deposits	239,625	274,832	318,247	375,689	421,679	455,414	491,847
Quasi money	87,741	100,049	117,270	136,151	150,995	163,074	176,120
				(Annual percentage change)			
Net foreign assets	13.6	14.7	14.7	9.8	-5.3	-3.6	2.1
Net domestic assets	4.7	13.7	18.6	19.5	18.9	12.6	10.0
Domestic credit	3.4	10.2	12.5	24.2	19.6	11.3	9.1
Net credit to the government	-6.8	1.3	-2.7	4.6	0.5	7.1	3.5
Credit to the economy	7.2	13.1	17.0	29.1	23.4	12.0	10.0
Money and quasi money	7.7	14.0	17.2	16.1	10.9	8.0	8.0
				(In percent of broad money)			
Net foreign assets	4.6	5.2	5.2	3.4	-1.7	-1.0	0.5
Domestic credit	2.9	8.4	10.0	18.5	15.9	9.9	8.3
Net credit to the government	-1.6	0.3	-0.5	0.7	0.1	0.9	0.4
Credit to the economy	4.5	8.1	10.4	17.8	15.9	9.1	7.9
Other assets net	0.2	0.5	2.0	-5.8	-3.3	-0.9	-0.8
Memorandum items:							
Velocity (GDP/M3)	1.24	1.14	1.06	0.98	0.98	0.97	0.95
Velocity (non-agr. GDP/M3)	1.06	0.99	0.90	0.86	0.85	0.82	0.81
Credit to economy/GDP (in percent)	49.8	53.9	57.6	69.7	76.9	80.6	84.0
Credit to economy/non-agro GDP (in percent)	58.4	62.1	67.9	79.3	88.6	95.1	98.5

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

1/ Includes Fonds Hassan II.

Table 6. Morocco: External Debt Sustainability Framework, 2004-2014

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**29.1**	**24.2**	**23.9**	**23.7**	**20.6**	**23.0**	**24.5**	**25.0**	**24.7**	**24.2**	**23.6**	**-5.2**
Change in external debt	-4.5	-4.9	-0.4	-0.2	-3.1	2.3	1.5	0.5	-0.2	-0.5	-0.7	
Identified external debt-creating flows (4+8+9)	-7.4	-5.7	-7.5	-5.8	-0.7	2.7	0.3	-1.1	-2.7	-2.9	-3.3	
Current account deficit, excluding interest payments	-2.7	-2.7	-3.0	-0.8	4.3	3.6	3.7	3.4	2.7	2.1	1.6	
Deficit in balance of goods and services	5.7	6.6	6.7	9.8	14.4	11.6	11.5	10.9	10.1	9.4	8.7	
Exports	29.2	31.6	33.1	36.2	37.6	27.6	27.7	28.1	28.7	29.3	30.0	
Imports	34.8	38.2	39.8	46.0	52.1	39.2	39.1	39.0	38.8	38.7	38.7	
Net nondebt creating capital inflows (negative)	-1.5	-2.7	-3.1	-2.9	-2.3	-0.8	-3.5	-4.3	-5.1	-4.8	-4.6	
Automatic debt dynamics 1/	-3.2	-0.3	-1.4	-2.1	-2.8	-0.2	0.1	-0.3	-0.3	-0.2	-0.2	
Contribution from nominal interest rate	1.0	1.0	0.9	0.9	0.9	0.9	0.7	0.8	0.9	0.9	0.9	
Contribution from real GDP growth	-1.4	-0.8	-1.7	-0.6	-1.1	-1.0	-0.7	-1.0	-1.2	-1.2	-1.1	
Contribution from price and exchange rate changes 2/	-2.8	-0.4	-0.6	-2.5	-2.5	---	---	---	---	---	---	
Residual, incl. change in gross foreign assets (2-3) 3/	2.9	0.8	7.1	5.7	-2.4	-0.3	1.2	1.6	2.4	2.4	2.6	
External debt-to-exports ratio (in percent)	99.8	76.7	72.2	65.4	54.9	83.3	88.4	88.9	86.1	82.6	78.7	
Gross external financing need (in billions of U.S. dollars) 4/	1.4	1.1	0.4	2.2	6.5	5.3	5.7	5.9	5.9	5.7	5.5	
in percent of GDP	2.5	1.8	0.6	2.9	7.3	5.9	5.9	5.7	5.3	4.8	4.3	
Scenario with key variables at their historical averages 5/						**23.0**	**19.9**	**16.9**	**14.7**	**12.5**	**10.5**	**-3.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.8	3.0	7.8	2.7	5.6	5.0	3.2	4.5	5.0	5.0	5.0	
GDP deflator in U.S. dollars (change in percent)	9.1	1.5	2.3	11.6	11.9	-3.7	4.3	2.2	2.0	1.9	1.7	
Nominal external interest rate (in percent)	3.5	3.4	4.0	4.4	4.4	4.2	3.5	3.3	3.7	4.0	4.0	
Growth of exports (U.S. dollar terms, in percent)	16.7	13.2	15.4	25.7	22.6	-25.8	8.0	8.5	9.5	9.3	9.0	
Growth of imports (U.S. dollar terms, in percent)	24.4	14.7	14.8	32.5	33.7	-23.8	7.4	6.6	6.5	6.7	6.6	
Current account balance, excluding interest payments	2.7	2.7	3.0	0.8	-4.3	-3.6	-3.7	-3.4	-2.7	-2.1	-1.6	
Net nondebt creating capital inflows	1.5	2.7	3.1	2.9	2.3	0.8	3.5	4.3	5.1	4.8	4.6	

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 deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

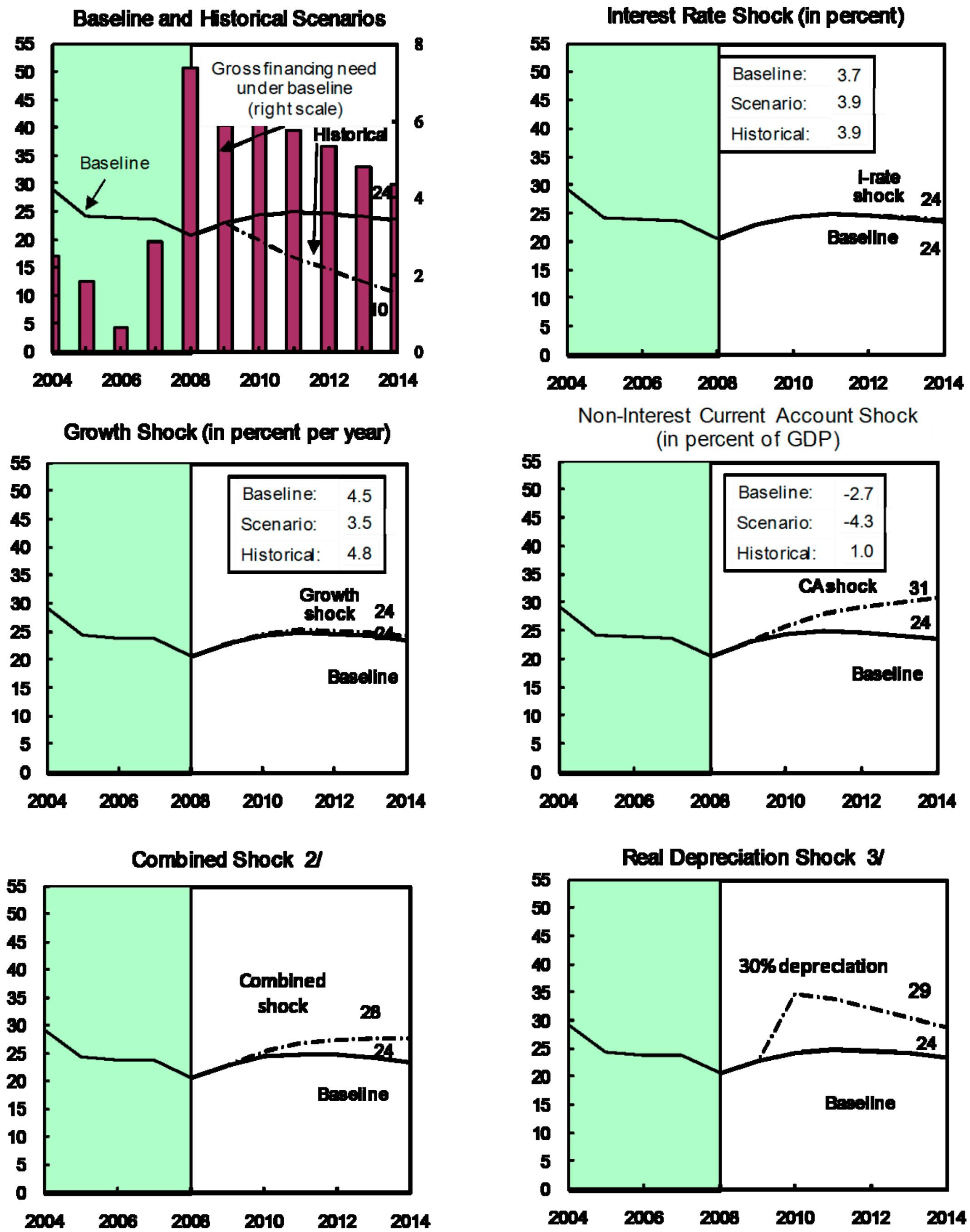
3/ For projection, line includes the impact of price and exchange rate changes.

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 non-interest 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 3. Morocco: External Debt Sustainability: Bound Tests 1/
(External debt, in percent of GDP)



Sources: International Monetary Fund, Country 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 shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Table 7. Morocco: Public Sector Debt Sustainability Framework, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	59.4	63.1	57.7	53.5	47.3	**47.4**	**48.0**	**48.9**	**49.1**	**49.0**	**48.8**	-1.1
Of which: foreign-currency denominated	13.9	13.1	12.0	10.7	10.0	10.5	11.2	11.2	10.9	10.6	10.1	
Change in public sector debt	-2.7	3.8	-5.4	-4.2	-6.2	0.1	0.6	0.8	0.2	-0.1	-0.2	
Identified debt-creating flows (4+7+12)	-3.0	2.9	-5.8	-6.4	-6.5	-0.5	0.6	0.1	-0.5	-0.9	-0.9	
Primary deficit	0.2	1.4	-1.9	-3.7	-4.4	-0.5	1.5	1.0	0.6	0.3	0.3	
Revenue and grants	22.6	24.2	25.6	27.8	30.9	25.9	24.6	24.6	24.7	25.0	25.1	
Primary (noninterest) expenditure	22.8	25.6	23.7	24.1	26.4	25.3	26.1	25.7	25.4	25.3	25.4	
Automatic debt dynamics 2/	-0.9	2.5	-3.3	-1.5	-2.5	-0.6	0.1	-0.9	-1.2	-1.2	-1.2	
Contribution from interest rate/growth differential 3/	0.0	0.8	-2.2	-0.5	-3.0	-0.6	0.1	-0.9	-1.2	-1.2	-1.2	
Of which: contribution from real interest rate	2.9	2.4	2.3	0.9	-0.3	1.7	1.5	1.1	1.1	1.1	1.1	
Of which: contribution from real GDP growth	-2.8	-1.7	-4.5	-1.5	-2.7	-2.2	-1.5	-2.0	-2.3	-2.3	-2.3	
Contribution from exchange rate depreciation 4/	-1.0	1.7	-1.1	-1.0	0.5	...	...	...	...	...	...	
Other identified debt-creating flows	-2.2	-1.0	-0.7	-1.1	0.5	0.6	-1.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-1.8	-2.6	-0.8	-1.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	-0.4	1.6	0.1	-0.2	0.5	0.6	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.3	0.9	0.4	2.3	0.3	0.6	0.0	0.7	0.7	0.8	0.7	
Public sector debt-to-revenue ratio 1/	263.0	260.6	225.7	192.3	153.2	183.4	195.6	198.4	198.3	195.9	194.7	
Gross financing need 6/	19.3	15.6	9.9	9.8	7.7	12.2	12.3	11.6	11.4	11.2	11.3	
in billions of U.S. dollars	11.0	9.3	6.5	7.4	6.8	11.0	11.9	12.0	12.7	13.3	14.2	
Scenario with key variables at their historical averages 7/						**47.4**	**45.4**	**45.0**	**44.7**	**44.4**	**44.1**	**0.0**
Scenario with no policy change (constant primary balance) in 2009-2014						**47.4**	**46.0**	**45.3**	**44.4**	**43.5**	**42.6**	**-1.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.8	3.0	7.8	2.7	5.6	5.0	3.2	4.5	5.0	5.0	5.0	
Average nominal interest rate on public debt (in percent) 8/	5.9	5.8	5.6	5.8	5.5	5.6	5.7	5.2	5.1	5.1	5.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.9	4.4	4.1	1.9	-0.3	3.8	3.5	2.6	2.5	2.5	2.5	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	6.5	-11.2	9.4	9.6	-4.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.0	1.5	1.5	3.9	5.9	1.8	2.2	2.6	2.6	2.6	2.6	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.7	15.9	-0.3	4.3	15.9	0.6	6.2	2.9	3.9	4.8	5.3	
Primary deficit	0.2	1.4	-1.9	-3.7	-4.4	-0.5	1.5	1.0	0.6	0.3	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.

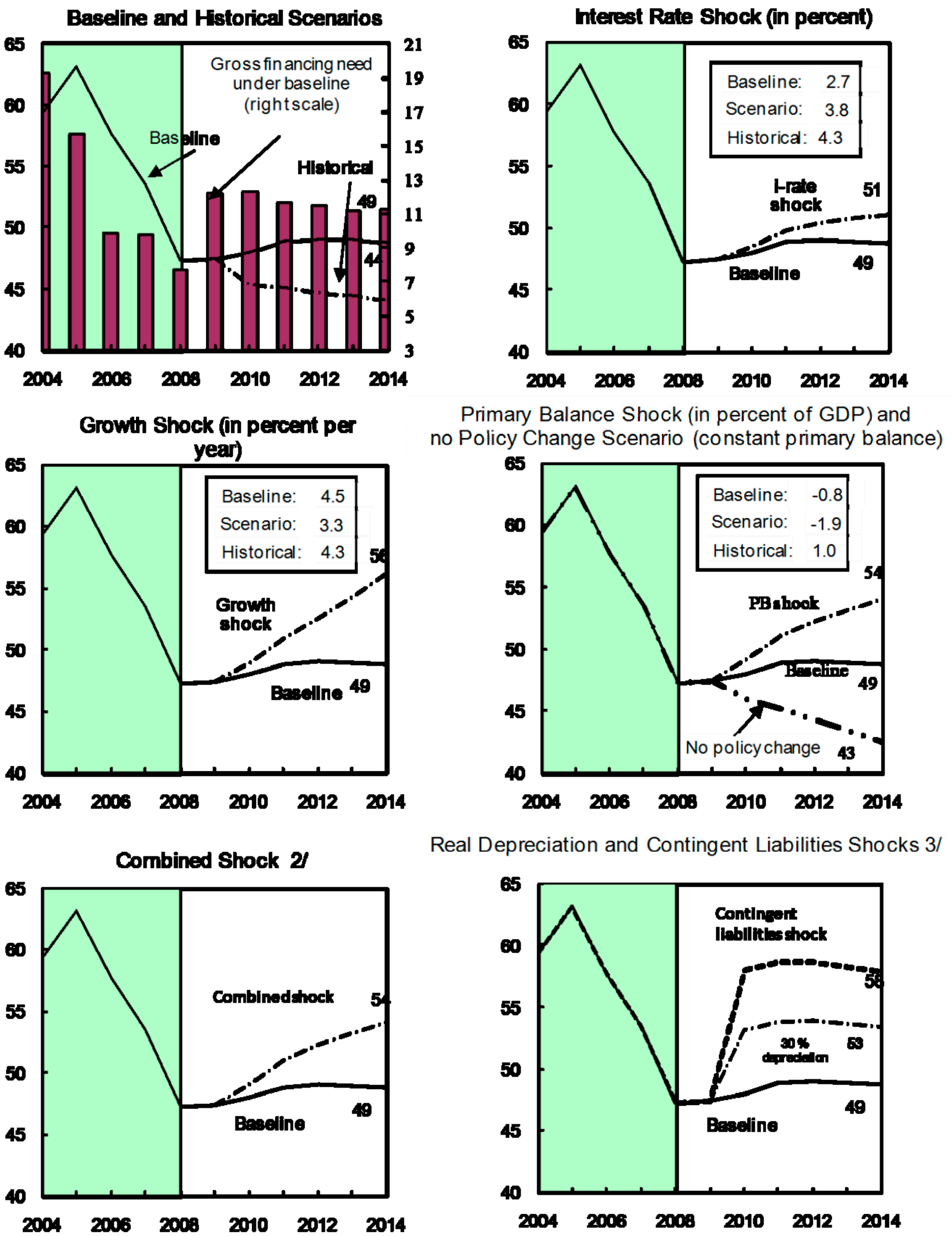
6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

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 4. Morocco: Public Debt Sustainability: Bound Tests 1/
(Public debt, in percent of GDP)



Sources: International Monetary Fund, country 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 shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

MOROCCO

2009 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department

December 23, 2009

CONTENTS PAGE

Annex I. Morocco: Relations with the Fund

As of November 30, 2009

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	561.42	100.00
Holdings	488.06	86.93

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
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2010	2011	2012	2013
Principal				
Charges/Interest	0.22	0.22	0.22	0.22
Total	0.22	0.22	0.22	0.22

VII. Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies comprising the euro and the U.S. dollar, with respective weights of 80 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 December 10, 2009, the SDR/dirham exchange rate was SDR 1=MAD 12.29.

VIII. Article IV Consultation

Morocco is on the 12-month cycle. The last discussions of the Article IV consultation were held in Rabat during May 19–30, 2008, and were concluded by the Executive Board on July 23, 2008.

IX. Technical Assistance

November 2007— World Bank-IMF—Financial System Stability Assessment—Update

December 10-20, 2007: STA—GFSM Pilot Study

June 24-July 7, 2008: STA—Improving Monetary and Finance Statistics, and Implementing the Standardized Reporting Forms.

November 17-28, 2008: STA—Balance of Payments Statistics

2007-09: MCM—Peripatetic visits—Accounting, internal rating and bank supervision.

January 27 to February 2, 2009: MCM—Stress Testing and Macroprudential Analysis

April 19–30, 2009: STA—National Accounts Statistics

September 22-October 5, 2009: FAD—Recent Revenue Developments: Analysis and Implications to Fiscal Policy

X. Resident Representative: None

ANNEX II. MOROCCO: RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY10

As of November 20, 2009

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	a. Country Partnership Strategy b. Public Expenditure Review (PER) on health and education, with the support of a Public Expenditure and Financial Accountability (PEFA), completed, and a Country Governance and Anticorruption Strategy (CGAC), completed. c. Procurement Review d. Sector work on: • Poverty and Social Impact Analysis of subsidy removal • Reviewing Social Protection • Transport, Energy and Electricity Transmission • Gender and social inclusion • Environment and Tourism • Skills Development/Labor Market • Climate change & mitigation Strategy e. Development Policy Lending on: Financial Sector, Public Admin. Reform IV, Education Sector, Energy Development Fund, Rural Roads Additional financing, Oum Er Rbia Irrigation and Oum Er Riba Sanitation. f. Technical assistance on • Port Trade Facilitation–Customs • Public Sector reform • Trade policy tools • Pension Reform Follow-Up • Business Climate	Ongoing activities with multiple missions throughout the year	All are FY10 activities
IMF work program in next 12 months	2009 Article IV Consultation Preparing analytical work on spillovers and efficiency of investment	November 2-13 2009 Ongoing	January 2010

	Staff visit 2010 Article IV consultation Technical assistance missions on: MCM: Continued assistance on Basel II with a focus on market and operational risks STA: Monetary and Financial Statistics	March 2010 November 2010 March/April 2010 March 2010	 January 2011
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on the subsidy reform Sectoral analysis	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Request for assessment letters to DPLs Data sharing	Semiannual (and on ad hoc basis if requested) At least 1 operation predicted Ongoing	Following Article IV and staff visits
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Continuous close coordination on the reform agenda	Ongoing	

ANNEX III. MOROCCO: STATISTICAL ISSUES

As of December 1, 2009

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance, but the development of additional indicators (regarding, for example, the debt of households and corporations) would be desirable.	
II. Data Standards and Quality	
Morocco is a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Table of Common Indicators Required for Surveillance

As of December 1, 2009

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	12/01/09	12/01/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/30/09	12/01/09	M	M	M		
Reserve/Base Money	10/30/09	12/01/09	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	10/30/09	12/01/09	M	M	M		
Central Bank Balance Sheet	10/30/09	12/01/09	M	M	M		
Consolidated Balance Sheet of the Banking System	10/30/09	12/01/09	M	M	M		
Interest Rates[2]	11/30/09	12/01/09	D	D	D		
Consumer Price Index	10/30/09	11/20/09	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2008	06/30/2009	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	10/30/09	12/01/09	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2, 2009	09/30/09	A	A	A		
External Current Account Balance	Q2, 2009	09/30/09	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	10/30/09	12/01/09	M	M	M		
GDP/GNP	Q2, 2009	09/30/09	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2, 2009	09/30/09	Q	Q	Q		
International Investment Position [6]	2008	09/30/09	A	A	A		

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank 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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published on April 4, 2003, and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as Footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/19
FOR IMMEDIATE RELEASE
February 16, 2010

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

IMF Executive Board Concludes 2009 Article IV Consultation with Morocco

On January, 25, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.[1]

Background

Morocco's strong starting position, reflecting macroeconomic and structural reforms introduced over the last decade, has given Morocco greater room for maneuver in its policy response. The direct impact of the global crisis on Morocco has been limited, primarily affecting Morocco through real channels. Exports, tourism receipts, remittances, and foreign direct investment (FDI) have all declined this year, due primarily to the slowdown in Europe, although most recent data suggest that some flows are gradually improving. In particular, Morocco has low public debt and low inflation, and the financial system is sound, with little exposure to international markets. In this setting, domestic demand has been resilient. Moreover, Morocco is benefitting from an exceptional cereal harvest. As a result, overall gross domestic product (GDP) growth in 2009 is projected at around 5 percent.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The authorities responded quickly to the unfolding crisis and have been successful in maintaining confidence. In particular, the fiscal balance will shift from a small surplus in 2008 to a deficit of about 2½ percent of GDP in 2009 as the authorities proceed with already-planned fiscal reforms, a boost in public investment, and targeted support to key sectors. A drop in revenue, partly due to already planned fiscal reforms, was offset to a degree by a fall in subsidies due to lower world commodity prices. With inflationary pressures low, the central bank—Bank Al-Maghrib—likewise lowered its key policy rate by 25 basis points, and, to boost liquidity, gradually reduced reserve requirements from 15 to 8 percent in 2009. The stock market remains well below its highs in early-2008, but the fall in 2009 has been moderate. Continued sizable support from Morocco's external partners has also served as a source of resilience.

In the financial sector, the rapid credit growth in recent years is expected to lead to a moderate increase in nonperforming loans (NPLs) and thus continued vigilance is needed. Credit growth has averaged 23 percent per year over the 2006–08 period, slowing to about 12 percent growth in 2009. At the same time, the share of NPLs to total loans has fallen sharply over the last five years. The real estate sector, which in some cities has seen a correction after a run-up in recent years, is a specific concern, although NPLs in the sector remain low and provisioning is high. The authorities continue to take steps to improve monitoring of the financial sector, including establishing a credit bureau, and planning to fully implement Basel II recommendations and raise the capital adequacy ratio to 12 percent for certain banking institutions, based on their risk profile.

The peg to the basket has served Morocco well. Staff analysis suggests that the exchange rate is broadly in line with its fundamentals. Other indicators, such as current account developments and movements in price-based indicators, point to a mild appreciation of the real exchange rate in 2009.

The authorities are deepening structural reforms to increase productivity, boost growth and improve social indicators, including reducing youth unemployment, which remains high. The authorities continue liberalizing trade and simplifying the tax regime and plan to reform the justice system, increase infrastructure investment, and strengthen support for industry, tourism, and energy. In addition, the *Plan Vert* ("Green Plan"), which aims to increase productivity in the agricultural sector, is moving ahead and more recently the government launched a similar effort to expand the country's fishing sector. A number of reform efforts are underway in the education and health sectors, the success of which will be a key element of improving living standards and boosting Morocco's potential growth while reducing unemployment.

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

Executive Board Assessment

Executive Directors observed that Morocco faced the global crisis from a strong position, reflecting in large part the range of macroeconomic and structural reforms introduced over the last decade, and was well-positioned to respond to and weather the crisis. Directors also noted that Morocco's financial system is sound, with limited exposure to international capital markets. Thus, the direct impact of the global crisis on Morocco has been mild, with the economy being affected mainly through real channels as a result of the slowdown in Europe.

Directors commended the authorities' response to the worsened global outlook. A moderate loosening of fiscal and monetary policies, coupled with vigilant financial sector supervision, has supported confidence and domestic demand, while containing risks. These policies, together with an exceptional cereal crop, contributed to strong real GDP growth in 2009.

Directors stressed that the challenge for 2010 will be to continue efforts to sustain economic activity in the face of a weak external environment. They supported the authorities' plan for a further temporary widening of the fiscal deficit, with spending increases focused appropriately on capital rather than current spending.

Directors stressed that maintaining macroeconomic stability through sound fiscal policy—a notable achievement of recent years—will remain critical. They welcomed the authorities' commitment to return to fiscal consolidation, which will be phased in gradually starting in 2011. This will be important to stabilize the public debt-to-GDP ratio, preserve low borrowing costs in the economy, and facilitate the implementation of monetary policy. Replacing the universal subsidy system gradually with a system targeting vulnerable populations would improve efficiency and reduce fiscal risks.

Directors noted that the strong bank credit growth of recent years has moderated. However, they cautioned that, after a sharp fall in recent years, nonperforming loans are likely to pick up somewhat given the economic slowdown. The authorities should remain vigilant and continue to pay close attention to the capital requirements of the banking system. Directors also welcomed the continuing implementation of Basel II.

Directors agreed that the current pegged exchange rate regime has served Morocco well. Many Directors considered that the authorities' medium-term objective to move to a more flexible monetary and exchange rate regime could help the economy to adapt better to changes in the international environment. They considered that prerequisites for a move to inflation targeting are largely in place; the risk of imported inflation is now much less; and balance sheets in the economy have little exposure to exchange rate movements. However, many other Directors considered that the timing of a move to a more flexible monetary and exchange rate policy should be carefully assessed, and they supported the authorities' caution in this regard.

Directors stressed that continued structural reforms remain critical to boost growth, enhance competitiveness, and help improve Morocco's social indicators. The authorities should push forward with the ongoing and planned reforms, including improving the efficiency and composition of public spending and further simplifying the tax and trade regimes. Directors welcomed the envisaged structural reforms to increase productivity by improving the business environment and raising capital investment. Strengthening social services will be critical to reducing poverty and addressing the persistent problem of youth unemployment.

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.

Morocco: Selected Economic Indicators, 2004–10

	2004	2005	2006	2007	Prel. 2008	Staff Proj. 2009	Staff Proj. 2010
	(Annual percentage change)						
Output and Prices							
Real GDP (market price)	4.8	3.0	7.8	2.7	5.6	5.0	3.2
Real nonagricultural GDP (market price)	4.9	5.8	5.5	7.1	4.0	2.3	4.0
Consumer prices (end of period)	0.5	2.1	3.3	2.0	4.2	1.8	2.2
Consumer prices (period average)	1.5	1.0	3.3	2.0	3.9	1.8	2.2
	(In percent of GDP)						
Investment and Saving							
Gross capital formation	29.1	28.8	29.4	32.5	36.3	34.3	35.0
Of which: Nongovernment	26.4	26.3	26.5	29.2	33.2	30.8	31.2
Gross national savings	30.8	30.6	31.6	32.4	31.1	29.9	30.5
Of which: Nongovernment	29.3	30.8	27.5	25.7	24.2	24.8	26.5
	(In percent of GDP)						
Public Finances							
Revenue (including grants)	22.6	24.3	25.7	27.9	31.0	26.0	24.6
Expenditure	27.0	30.3	28.0	29.1	31.1	28.9	29.3
Budget balance (commitment basis, including Hassan II Fund and grants)	-4.5	-6.0	-1.9	0.4	1.6	-2.3	-4.4
Primary balance (including grants)	-1.0	-2.7	1.4	3.5	4.2	0.2	-1.8
Total government debt	59.4	63.1	58.1	53.5	47.3	47.4	48.0
	(Annual percentage change, unless otherwise indicated)						
Monetary Sector							
Credit to the private sector 1/	7.2	13.1	17.0	29.1	23.4	12.0	10.0
Broad money	7.7	14.0	17.2	16.1	10.9	8.0	8.0
Velocity of broad money	1.2	1.1	1.1	1.0	1.0	1.0	1.0
Three-month treasury bill rate (period average, in percent)	2.4	2.5	2.6	3.6	3.5	...	...
	(In percent of GDP; unless otherwise indicated)						
External Sector							
Exports of goods (in U.S. dollars, percentage change)	13.1	7.9	11.4	26.9	32.8	-35.0	7.4
Imports of goods (in U.S. dollars, percentage change)	25.2	15.3	14.6	34.8	35.5	-26.5	9.1
Merchandise trade balance	-11.4	-13.8	-14.8	-18.7	-21.9	-17.8	-18.3
Current account excluding official transfers	1.5	1.4	1.8	-0.5	-6.5	-4.9	-4.7
Current account including official transfers	1.7	1.8	2.2	-0.1	-5.2	-4.4	-4.4
Foreign direct investment	1.5	2.7	3.1	2.9	2.3	0.8	2.5
Total external debt	29.1	24.2	23.9	23.7	20.6	23.0	24.5
Gross reserves (in billions of U.S. dollars) 2/	16.3	16.1	20.2	24.0	22.0	21.9	22.5
In months of next year imports of goods and services	8.6	7.4	7.0	6.2	7.5	6.9	6.7
In percent of short-term external debt (on remaining maturity basis)	776	912	1,002	1,310	1,760	1,570	1,618
Memorandum Items:							
Nominal GDP (in billions of U.S. dollars)	56.9	59.5	65.6	75.2	88.9	89.9	96.8
Unemployment rate (in percent)	10.8	11.1	9.7	9.8	9.6	...	...
Net imports of energy products (in billions of U.S. dollars)	-3.0	-4.5	-5.1	-6.4	-9.2	-5.6	-7.1
Local currency per U.S. dollar (period average)	8.9	8.9	8.8	8.2	7.8	...	...
Real effective exchange rate (annual average, percentage change)	-1.2	-1.7	1.2	-0.4	1.1	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Includes credit to public enterprises.
2/ As of 2009, reserves include the new SDR allocation.

Statement by Mohammed Daïri
Alternate Executive Director for Morocco
January 25, 2010

At the outset, I wish to convey the Moroccan authorities' appreciation to staff for the fruitful exchange of views, the high quality assessment of recent economic developments and policies, which they broadly share, and the innovative presentation in the excellent staff report. They highly appreciate the close relationship with the Fund, and are grateful to management and the Executive Board for their support and advice.

Impact of the global crisis and policy response

The Moroccan economy has weathered relatively well the impact of the global crisis. Limited integration to the international capital markets, with virtually no exposure to toxic assets and very low level of foreign indebtedness of the financial, corporate, and the household sectors, has significantly reduced the spillovers from the global financial crisis. However, given Morocco's relatively open economy and its close ties to the EU, the deep and prolonged recession in this region was bound to have negative spillover effects on the Moroccan economy, affecting in particular exports, tourism receipts, worker remittances, and FDI.

Despite this exogenous shock, Morocco's economic performance was remarkably strong in 2009, reflecting the economy's strong fundamentals and resilience—including from the buffers built in recent years—an exceptionally good cereal crop, and the authorities' prompt and appropriate policy response. Real GDP growth is estimated at 5 percent, with the nonagricultural sector growing by about 2 ½ percent, down from 4 percent in 2008; inflation fell to 1 percent; the current account deficit has declined; international reserves remained at a comfortable level; and the financial sector was resilient. Recent provisional data indicate that fiscal and external positions in 2009 will be better than estimated at the time of the Article IV discussions.

As outlined by staff and highlighted in previous consultation reports, the Moroccan economy has gained flexibility and resilience to exogenous shocks owing to several years of prudent macroeconomic policies and sustained implementation of structural reforms. Over the past five years, growth was higher on average than in previous periods, more broad-based, and less sensitive to volatile agricultural output. Significant advances in fiscal consolidation, including from strong revenue performance and expenditure restraint, created space to absorb the food and fuel price shocks in 2007-08 and face the global economic slowdown, while channeling increased resources to spending on social sectors and infrastructure. Monetary policy has gained increased credibility in maintaining inflation at very low levels, while helping achieve broad stability of the real exchange rate. Furthermore, Morocco's strong and well-supervised financial system has provided an important element of resiliency and confidence. Key challenges remain, however, including further raising growth performance, addressing the severe youth unemployment, and achieving faster reduction in poverty and improvement in living standards.

The authorities' policy response in dealing with the external shock has been prompt and well calibrated. The 2009 Budget included a number of measures aimed at providing support to the economy through a significant increase in public investment, a limited wage increase, and a reduction in personal income tax rates—as agreed with social partners—and other measures targeted at SMEs and exports. In early 2009, the Government set a high level joint public/private sector committee (*Comité de Veille Stratégique*), tasked with monitoring domestic and international developments, sharing information among participants, and agreeing on the necessary measures to assist sectors and enterprises most affected by the crisis. In this context, a number of enterprises benefited from temporary support to protect employment through job training and reduction in social security contributions, as well as from programs aimed at facilitating consolidation and restructuring. Efforts were also made toward attracting investment by Moroccans residing abroad and helping exporting companies in accessing new markets.

Soon after the onset of the global financial crisis, Bank Al-Maghrib (BAM) moved swiftly to strengthen monitoring of banks' exposure and potential risks. BAM has also provided liquidity to ease tensions in the interbank money market. In response to lower inflation, BAM lowered its key policy rate and reduced the reserve requirements in three steps from 15 to 8 percent to help provide adequate financing to support economic activity. In this regard, even though credit growth moderated as a result of weaker nonagricultural sector activity, it remained at a healthy level. Moreover, the share of nonperforming loans (NPLs) has continued to decline, falling to 5.5 percent at end-2009, partly reflecting write-offs of fully provisioned loans, while the rate of provisioning has continued to increase, reaching 74 percent. BAM remains vigilant to preclude a potential resurgence of NPLs. While the financial sector remained largely insulated from the fallout of the crisis, the authorities strengthened macro-prudential supervision, based on stress tests, to stem potential risks emanating from second-round effects. BAM has also made significant progress in implementing Basle II recommendations. It raised the capital adequacy ratio requirement to 10 percent of risk-weighted assets at end-2008, and is contemplating raising it further for some banks on the basis of their risk profile, while avoiding pro-cyclicality.

Similarly, fiscal policy shifted to provide a measured support to the economy. After recording a surplus in 2008, reflecting strong revenue performance, partly due to one-off measures, the fiscal position is projected to turn to a deficit of about 2 percent of GDP in 2009, including the effect of a small fiscal stimulus estimated at some 1 ½ percent of GDP. Revenues are expected to decline by over 2 percentage points of GDP in response to lower nonagricultural sector activity, and as a result of the scheduled tax rate cuts and the one-off revenue gains achieved in 2008. Government spending has risen following implementation of the wage increase agreed with social partners in 2008, and as a result of higher investment expenditure in support of economic activity. The increase, however, has been partly offset by the decline in food and oil subsidies resulting from lower international prices. The limited loosening of fiscal policy in 2009 has not derailed the fiscal consolidation path, and public debt, which declined by 12 percentage points of GDP during 2005-08, remained unchanged at about 47 percent of GDP.

Near-and medium-term outlook and policies

GDP growth is projected to moderate to 3 ¼ percent in 2010, based on the return of agricultural production to its normal trend, which would more than offset higher nonagricultural sector activity, and to increase to about 5 percent over the medium term. The authorities consider, and staff agrees, that withdrawing the monetary and fiscal stimulus at this stage would not be appropriate. In this context, the 2010 budget includes a further moderate increase in investment spending, together with the implementation of the second phase of the scheduled tax rate cuts. This would bring the fiscal deficit close to 4 ½ percent of GDP. Although the public debt-to-GDP ratio is slated to remain virtually unchanged in 2010, the authorities are firmly committed to resuming fiscal consolidation, starting from 2011, with the objective of stabilizing the fiscal deficit at around 3 percent of GDP and the debt-to-GDP ratio at less than 50 percent over the medium term. In this regard, the authorities intend to continue strengthening the tax system through simplification, broadening of the base, and reducing exemptions; to improve budget control and monitoring; and to reduce budget rigidities and enhance expenditure efficiency, including by replacing the universal subsidy system with a well-targeted safety net and reforming the civil service, with World Bank assistance. The authorities are grateful to Fiscal Affairs Department's staff for the excellent TA report on tax revenue developments and policies.

BAM will continue to monitor closely credit developments and bank liquidity in light of growth and inflation prospects. In its December 22 meeting, BAM's Board decided to maintain its key policy rate unchanged, based on its assessment of declining inflationary risks and an inflation outlook that is consistent with the objective of price stability. BAM will continue to provide support to economic activity in 2010, while standing ready to address potential inflationary concerns.

The authorities attach high importance to maintaining a sustainable external position. They share staff's view that the peg of the dirham to a basket of currencies has served the economy well. It is noteworthy that, unlike other countries with a pegged exchange rate, the system has not led to a build-up of risks in the financial, corporate, or household sectors in Morocco, as staff underscores, possibly reflecting a mitigating effect of remaining capital controls, although not all the possibilities offered by recent liberalization measures are being used. Moreover, the exchange rate is broadly in line with fundamentals. While the authorities see with some concern the recent deterioration in the trade balance and the current account, they consider that part of the deterioration is of a temporary nature, reflecting the weak activity and employment levels worldwide, and in Europe in particular, as well as the large, and potentially reversible, currency depreciations in many competitor countries. This being said, the authorities will continue to monitor external developments closely, and will rely primarily on structural reforms to achieve lasting improvements in competitiveness.

The authorities welcome the staff's favorable assessment of the progress made in preparing for a possible move to greater exchange rate flexibility and adoption of inflation targeting. The strengthening of central bank's independence and of its analytical capabilities and operational framework, and the improvement in the fiscal position and financial sector soundness and supervision are important achievements that would enhance efficiency of monetary policy under any framework. MCM Department's continued assistance to BAM in this and other areas is appreciated. However, the authorities believe that further progress is needed in understanding inflation dynamics, including at the sector level, as well as the transmission mechanism of monetary policy; increasing budget flexibility to enhance the scope for countercyclical policies; and deepening the capital and foreign exchange markets. Potential risks associated with greater exchange rate flexibility should also be reduced through a well-designed intervention strategy and strengthening of banks' and the business sector's capacity to manage exchange rate risks, including through appropriate hedging instruments. Under the circumstances, and pending completion of all prerequisites, including adequate sequencing with prudent capital account liberalization, the authorities view the adoption of inflation targeting and greater exchange rate flexibility as a medium-term objective.

The authorities continue to implement their structural reform agenda aimed at enhancing productivity and competitiveness, improving the business environment, for which a high level monitoring committee has been established with assistance from the World Bank, and diversifying the sources of growth. Key reforms underway relate to education, health, and the judiciary, in addition to several sector strategies elaborated in association with the private sector aimed at increasing investment, production, exports, and employment in areas where Morocco has a comparative advantage. These and other initiatives targeted at the vulnerable and under-privileged income groups, including the "*Initiative Nationale du Développement Humain*", should help Morocco sustain higher levels of growth and employment, improve social indicators, and raise the standards of living of the population.

The authorities are cognizant of the risks to the economy from delayed world recovery. However, they are confident that their objectives in terms of growth, inflation, and the fiscal and external positions are well within reach. They are moving ahead with their ambitious reform program, which should put the economy in a better position to benefit from the post-crisis global environment and lay the foundations for lasting improvement in its medium-term prospects.