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

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

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2015 following discussions that ended on November 17, 2014 with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the PLL. Based on information available at the time of these discussions, the staff report was completed on January 23, 2015
- A **Press Release** including a statement by the Chair of the Executive Board.
- 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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INTERNATIONAL MONETARY FUND

MOROCCO

January 23, 2015

FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

The Executive Board approved in July 2014 a two-year precautionary and liquidity line (PLL) arrangement in the amount of SDR 3.2351 billion (550 percent of quota). In a context of lower but still substantial risks, the arrangement provides insurance against external risks while supporting the authorities' program, which aims at further reducing fiscal and external vulnerabilities and fostering higher and more inclusive growth. The authorities continue to treat the arrangement as precautionary.

The economy is rebalancing, despite a slowdown in activity. After a bumper crop in 2013, agricultural growth contracted in 2014 while weak activity in manufacturing and construction hampered non-agricultural growth in the first half of 2014. The fiscal and external deficits have narrowed from their 2012 peaks, helped by policy action, the emergence of new export sectors, and the recent decline in international oil prices. Inflation remains low, while unemployment inched up close to 10 percent. Growth is expected to recover in 2015, but the outlook remains subject to important downside risks.

Significant progress was made in implementing the reform agenda. In particular, the authorities eliminated the remaining subsidies on diesel and decided to fully liberalize the price-setting mechanism of all liquid petroleum products. A new organic budget law, which will strengthen and modernize the budget framework, was adopted in November 2014, but the Constitutional Council subsequently invalidated some provisions, partly for procedural reasons. The government intends to address the Council's comments in time for the law to start being implemented in 2016 as scheduled. A new banking law was adopted, which broadens the regulatory and supervisory role of Bank Al Maghrib (BAM).

The program remains broadly on track and Morocco continues to meet the qualification criteria for a PLL. The fiscal end-September indicative target was missed by 0.7 percent of GDP, mainly reflecting lower net VAT receipts and a frontloading of transfers to public institutions. Nevertheless, the end-year fiscal deficit objective was met thanks to a pick-up in revenue and higher external grants. The net international reserves (NIR) indicative target at end-September was comfortably met. Morocco continues to perform strongly in three out of the five PLL qualification areas while not substantially underperforming in the fiscal and external areas. Staff recommends the completion of the first review under the PLL arrangement.

Approved By
Adnan Mazarei and Mark Flanagan

The staff team comprised Mr. Dauphin (head), Ms. Garcia Martinez, Mr. Kalonji, and Ms. Fayad (all MCD); and Mr. Ahokpossi (SPR). Discussions, which also covered the 2014 Article IV consultation, took place in Rabat and Casablanca, November 11–17, 2013. Mr. Auclair and Ms. Thompson (all MCD) assisted in the preparation of this report.

The mission met the Minister of Economy and Finance Mr. Boussaïd, the Minister of Labor and Social Affairs Mr. Seddiki, the Minister of Industry, Trade, Investment and e-Economy Mr. Elalamy, the Minister of Agriculture Mr. Akhannouch, the Minister Delegate of the Budget Mr. Azami Al Idrissi, the Minister Delegate of General Affairs and Governance Mr. Louafa, the Minister Delegate of Civil Service and Modernization of Public Administration Mr. Moubdi, Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of the private sector and civil society. Mr. Daïri (OED) participated in most meetings.

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RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **The Executive Board approved in July 2014 a two-year precautionary and liquidity line (PLL) arrangement in the amount of SDR 3.2351 billion (550 percent of quota).**[1] The arrangement provides insurance against external risks while supporting the authorities' program aimed at reducing fiscal and external vulnerabilities and promoting higher and more inclusive growth. Although risks that Morocco faces have declined, they remain substantial. The authorities continue to treat the arrangement as precautionary. At the time of the arrangement approval, Executive Directors commended the authorities for making important strides in rebuilding policy space and addressing medium-term challenges. They highlighted that the PLL arrangement was helpful in supporting the authorities' efforts to strengthen the economy's resilience and foster higher growth.

2. **Despite headwinds, policy action has helped rebalance the economy, but the recovery in growth remains timid.**[2] After a bumper crop in 2013, agricultural production contracted in 2014. Activity in other sectors slowed in the first half of the year, reflecting weak external demand and low domestic confidence, though it recently showed some signs of recovery. Overall, GDP growth is expected to have slowed to about 3 percent, from 4.4 percent in 2013. Inflation remained low at 0.4 percent on average and 1.6 percent year-on-year in 2014. The external current account deficit has narrowed and is expected to have declined to about 5.8 percent of GDP from 7½ percent of GDP in 2013. International reserves have improved. This performance reflects in part the rise in exports from newly developed industries, fiscal consolidation and, more recently, lower international oil prices. The fiscal deficit has also narrowed, and the authorities' fiscal deficit objective of 4.9 percent of GDP in 2014 was met. Unemployment remained high at 9.6 percent in October 2014. In particular, youth unemployment increased from 19.6 at end-December 2013 to 20.6 percent in October 2014.

3. **The authorities have made significant strides in reducing fiscal vulnerabilities**. In particular, the removal of subsidies on all liquid petroleum products, as well as the decision to fully liberalize their price-setting mechanism, is important progress that sharply reduces risks to the budget from the volatility of international oil prices. The adoption by parliament of a new organic budget law (OBL), once comments from the Constitutional Council have been addressed, is expected to reinforce and modernize the budgetary framework when it enters into force. In addition, progress was made on the parametric reform of the main public pension fund.

4. **In an environment that remains risky, sustained implementation of reforms is essential to consolidate gains in macroeconomic stability and foster higher and more inclusive growth.** Growth is expected to accelerate close to 4½ percent in 2015. This projection assumes that agriculture growth returns to its normal trend and that the recovery in the non-agricultural sectors

[1] Equivalent to about US$5 billion at the time of program approval.

[2] See the 2014 Article IV consultation staff report for a fuller discussion of recent developments, outlook and risks.

holds firm. However, the economy still faces important downside risks. Although lower oil prices have reduced risks, there continue to be risks from a protracted period of slow growth in advanced economies; from geopolitical and regional tensions that would trigger a return to higher commodity prices; and from an abrupt surge in volatility in global financial markets.[3] On the domestic front, looming local elections (mid-2015) and parliamentary elections (2016) risk affecting the pace of reforms in a volatile regional environment. Against this backdrop, continued improvement in economic conditions depends on persistent efforts to rebalance the fiscal and external accounts, strengthen competitiveness, ensure stronger and more job-rich growth, and reduce poverty.

PLL QUALIFICATION CRITERIA

5. Morocco continues to qualify for a PLL arrangement. Morocco's economic fundamentals and institutional framework are sound. The country has a track record of, and is implementing, sound policies. It is adjusting to shocks and remains committed to sound policies in the future. Morocco continues to perform strongly in three out of the five qualification areas and does not substantially underperform in the other two.

A. General Assessment

6. Morocco's overall economic performance has been strong. After a difficult 2012, macroeconomic conditions improved in 2013 and 2014, though growth remains affected by weak external demand. The external and fiscal deficits have narrowed considerably from their 2012 peaks. Reserves have increased close to five months of imports or 93.6 percent of Fund's reserve adequacy (ARA) metric for emerging markets. Inflation remains low. The financial sector has been stable. Over the medium term, growth is expected to remain high and sustainable in a context of low inflation. Both public and external debt levels, though on the rise initially, are expected to come down and are assessed to remain sustainable.

7. Morocco has made significant strides toward addressing vulnerabilities and rebuilding policy space. Policy action has significantly contributed to reduce fiscal and external vulnerabilities. In particular, for 2014, the authorities achieved a deficit of 4.9 percent of GDP, as expenditures, especially subsidies, continued to be reined in. Progress with the subsidy reform helped achieve a substantial reduction in subsidy cost and related fiscal risks. External stability has improved and the strategy of diversification of exports is yielding positive results.

8. The authorities are committed to maintaining sound policies, including ensuring medium-term fiscal sustainability. The authorities have laid out a comprehensive medium-term strategy in the written communication of the request for the PLL arrangement, which they confirmed in the attached written communication (W-COM.) signed on January 23, 2015.[4] They are targeting a

[3] See Risk Assessment Matrix in the 2014 Article IV consultation report.

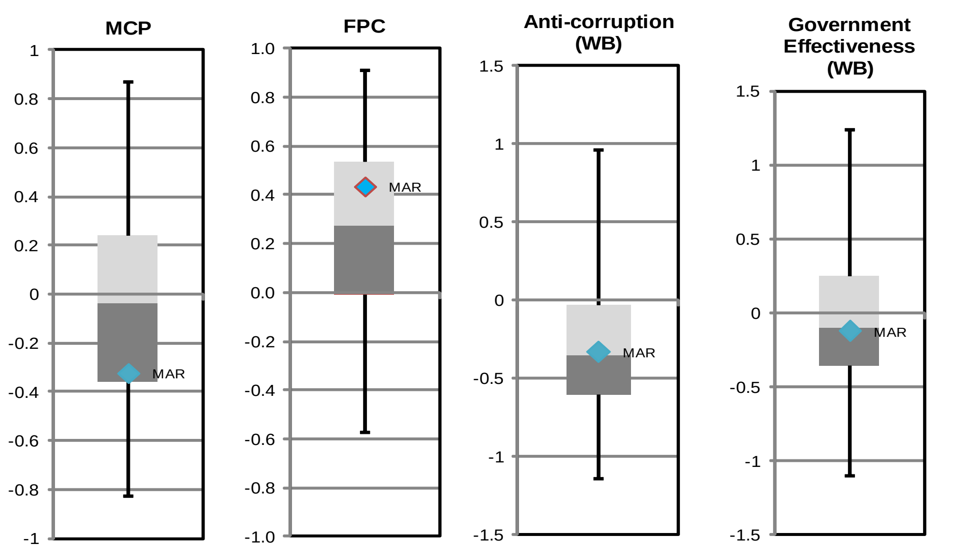
[4] IMF Country Report 14/241.

fiscal deficit of 3 percent of GDP by 2017, consistent with a gradual reduction in public debt. The authorities are also implementing ambitious reforms to promote higher and more inclusive growth. Their main objectives are to improve competitiveness and productivity; reduce the unemployment rate to 8 percent over the medium term; and improve access to education and vocational training, health, and social protection.

9. The policy and institutional framework is sound and has been responsive to shocks. The track record of strong economic performance has been supported by a sound policy framework. In particular, the authorities have also been able to adapt to unforeseen difficulties by taking appropriate remedial actions. The fiscal framework is being strengthened though the adoption of the new OBL, which is expected to address some weaknesses in this area. Other institutional quality indicators also show that Morocco has a sound policy framework. Indicators of the ability to undertake countercyclical policy in the event of shocks show that Morocco performs well in the implementation of fiscal policy.[5] Morocco scores lower on countercyclical monetary policy, a result that is consistent with a pegged exchange rate regime.[6] Morocco performs within the 25th–75th percentile range for the anticorruption and government effectiveness indicators of the World Bank's World Governance Indicators.

Distribution of Institutional Indicators in Emerging Markets

(Based on the average of 2007-12 for each country)



Note: The bars represent the maximum, 75th percentile, median, 25th percentile, and minimum points in the distribution.

Source: WEO, WB WGI and IMF Staff Calculations.

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

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

B. Assessment of Specific PLL Criteria

10. Morocco continues to perform strongly in three out of the five PLL qualification areas, namely financial sector soundness and supervision, monetary policy, and data adequacy. The country does not substantially underperform in the remaining two areas, namely, external position and market access, and fiscal policy.

11. Morocco does not substantially underperform in the external position and market access area.

- *Criterion 1. Sustainable external position.* The external position has strengthened. The current account deficit continued to narrow in 2014. It is expected to have reached about 5.8 percent of GDP, down from its peak of 9.7 percent of GDP in 2012. Preliminary data show that, in dirham, the trade balance improved in January–December by 6 percent relative to the same period in 2013, reflecting a surge in exports (6.1 percent, in nominal dirham) against a slight decline in imports (-0.2 percent). The EBA methodology indicates that the exchange rate is in line with fundamentals. The debt-to GDP ratio has been rising but remains relatively low at 32.1 percent at end-2014. It is expected to stabilize around that level over the medium term. The debt-sustainability analysis shows the external debt to be sustainable and robust to standard stress tests.

- *Criterion 2. A capital account position dominated by private flows.* Notwithstanding lower FDI inflows than in 2013, financial inflows were buoyed by corporate and sovereign bond issuance in the second quarter of 2014, together with the delivery of financial assistance by development partners. Public flows continue to be sizable, but private flows now constitute the largest share of the capital account. However, access to international financial markets by Moroccan nonfinancial corporations remains modest in size compared to other emerging markets, and private external debt is small (about 3 percent of GDP).

- *Criterion 3. A track record of steady sovereign access to capital markets at favorable terms.* Morocco's market access was reconfirmed when it raised €1.0 billion at favorable terms in June 2014. In April 2014, the National Phosphate Company successfully tapped the international market with a US$1.5 billion eurobond. The approval of a second PLL arrangement was perceived by investors as a signal of confidence and as significant leeway to lead the reform process in the presence of hypothetical external shocks. Some market analysts also noted that the reduction of the line to about US$5 billion signaled that the vulnerability of Morocco had gradually reduced.

- *Criterion 4. A reserve position that—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.* Reserves have continued to increase. As a result of buoyant financial inflows, and with the improvement in the current account, they stood at end-December at about 93.6 percent of the ARA metric for emerging markets. Considering existing controls on capital outflows that partially insulate them from capital account vulnerabilities, reserves remain adequate. However, reserves would not be comfortable enough should the country be hit by severe external shocks, but they are expected to gradually increase and exceed 100 percent of the ARA metric over the medium term. The end-September indicative target on net international reserves was met by a large margin.

12. Morocco does not substantially underperform in the fiscal area.

Criterion 5. Sound public finance, including a sustainable public debt position.

- Morocco remains committed to a sustainable fiscal path and has a track record of sound public finances, despite the challenges that emerged in 2012. The authorities have taken commendable actions to strengthen Morocco's fiscal position and address the weaknesses identified in their fiscal framework in 2012, thereby reducing vulnerabilities in that area. In line with their medium-term target of a fiscal deficit of 3 percent by 2017, the authorities have continued their fiscal adjustment in 2014. Although the end-September 2014 deficit indicative target was missed by 0.7 percent of GDP, this mostly reflected a frontloading of transfers to public entities and of reimbursement of VAT credits (W-COM.-¶15) as well as higher spending on investment, and the annual fiscal deficit objective of 4.9 percent of GDP was met. Continuing on the path to the medium-term anchor, the 2015 budget, which is based on relatively conservative assumptions, aims at a deficit of 4.3 percent of GDP. The cyclically-adjusted primary balance is projected to improve by ½ percent of GDP in 2015. The strengthening of public finances is expected to come mainly from a reduction in expenditure, with the subsidy and wage bills set to decrease by 1.3 percent of GDP and 0.2 percent of GDP respectively, as tax revenue is already among the highest in the region.

- The pace of fiscal reform has picked up since end 2013. Significant progress continued to be made on subsidy reform (W-COM.-¶6). Following its gradual reduction, the residual subsidy on diesel, which was the last remaining subsidy on liquid petroleum products, was eliminated starting January 1, 2015. This has considerably reduced risks to the budget from commodity price fluctuations. Furthermore, the authorities have decided to fully liberalize the price-setting mechanism of all liquid petroleum products in 2015. As of early 2015, only butane, sugar, and some wheat flour remain subsidized, and the authorities are exploring options to reduce their cost. The 2014 budget introduced further steps toward a broad tax reform (W-COM.-¶5) while the parametric reform of the main civil public pension system progressed and is expected to be implemented in 2015 (W-COM.-¶9).

- The budget framework is being strengthened through the adoption of the new OBL (W-COM.-¶8). A new OBL was adopted by parliament in November 2014. However, the Constitutional Council ruled on December 23 that some of its provisions were unconstitutional, partly for procedural reasons. These relate to the dates of implementation of the new law as well as a provision that stated that only finance laws could modify tax or custom legislation. The government intends to resubmit a revised draft law to parliament in its Spring session to address the Council's comments, thus allowing the implementation of the law starting 2016 as scheduled. Once definitely adopted, the new OBL is expected to significantly improve and modernize the previous 1998 organic law as it will: (i) introduce multiyear budgeting, program budgeting, performance management; (ii) increase fiscal transparency; (iii) introduce a golden rule, which will limit new net borrowing to the financing of capital spending, and (iv) address previously identified weaknesses by making binding the ceiling on wage expenditure appropriations and limiting the carryover of investment appropriations. Staff noted that some provisions could have been further strengthened to meet best international practices, for example through tighter restrictions on the use of special treasury accounts or adding an escape clause to the golden rule. The new provisions of the OBL are expected to be introduced gradually between 2016 and 2020. In the meantime, the measures taken in 2013 to limit risks related to the carryover of investment appropriations and the wage bill will be rolled over until the entry into force of the relevant OBL provisions. A strong implementation of the new OBL will be important to ensuring that it successfully reduces fiscal risks. The Fund stands ready to provide technical assistance in this area.

- The public sector debt remains sustainable based on a rigorous and systematic debt analysis. Public debt is expected to peak at about 68 percent of GDP in 2015, and progressively fall close to 63 percent of GDP in the medium term, as a result of the continued fiscal adjustment. The level of debt is generally resilient to various shocks, and vulnerabilities linked to the profile of the debt and to a growth shock are moderate. However, there are risks linked to gross financing needs. The debt remains sustainable under a stress test involving the same shock that would generate the potential financing need under the current PLL arrangement.

13. Morocco performs strongly in the monetary policy area.

- *Criterion 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.* Morocco continues to maintain low and stable inflation, in the context of the current monetary and exchange rate policy framework (W-COM.-¶10). Inflation averaged 0.4 percent in 2014 and is expected to remain low at about 2 percent in the medium-term. Inflation expectations remain well anchored. In consideration of weak growth, low inflation pressures, and improving reserves position, BAM appropriately lowered its policy rate by 25 basis points each in September and December 2014, to 2.5 percent. The policy rate had remained unchanged since March 2012, although BAM had already lowered the reserve requirement ratio from 4 percent to 2 percent in March 2014 to improve bank liquidity. In staff's view, the current monetary policy stance is appropriate within the existing monetary and exchange rate framework. As discussed in previous staff reports, the monetary framework will need to evolve in line with the expected move toward a more flexible exchange rate. The Fund is providing technical assistance on options and preparations for a more flexible exchange regime. Once the forthcoming FSAP is completed, which will further assess the preparedness of the financial sector to withstand greater exchange rate fluctuations, the various strands of technical assistance and surveillance work in this area should be pulled together to inform further decisions in this area.

14. Morocco performs strongly in the financial sector area.

- *Criterion 7. The financial system is sound and there is no solvency problem that may threaten systemic stability.* The aggregate capital adequacy ratio remains well above the Basel III requirement (it was 13.5 in June 2014). Liquidity pressures have abated, helped by the March 2014 cut in the reserve requirement ratio as well as by improved foreign reserves. However, nonperforming loans have risen, reaching 6.9 percent in November 2014, mainly reflecting the weaknesses of non-agricultural activity, but BAM has ensured adequate provisioning and continues monitoring developments in this respect. However, more work is needed on cross-border banking resolution.

- *Criterion 8. Effective financial sector supervision*. BAM is further strengthening banking supervision in line with Basel III standards (W-COM.-¶11). New definitions of prudential capital and short-term liquidity ratio were adopted in August 2013 and are in the process of being implemented. A new banking law was adopted by parliament in November 2014. It strengthens the regulatory, supervisory and macroprudential frameworks of the central bank. The new law introduces a legal crisis resolution framework, defines the regulatory and supervisory frameworks for participatory banks (Islamic banks), strengthens banks' governance by aligning the definition of financial conglomerate with international standards, improves the management of the deposit insurance system, and introduces a framework governing systemically important banks at the national level in line with the Basel standards. A new central bank law was submitted to the general secretariat of the government. It aims to strengthen central bank independence, notably by integrating BAM's strengthened role in financial stability. BAM is closely monitoring risks linked to the expansion of Moroccan banks in sub-Saharan Africa, and reinforcing coordination and the exchange of information with supervisory and regulatory agencies in host countries, including through consolidated supervision of groups and on-site visits.[7] Other recent legal financial reforms have introduced the creation of new independent supervision authorities for insurance and pensions, and for capital markets. These new authorities will become operational once their management bodies are nominated.

15. Morocco performs strongly in the area of data transparency and integrity.

- *Criterion 9. Data transparency and integrity.* Morocco subscribes to the Special Data Dissemination Standard, and its data are adequate for surveillance and program monitoring. The authorities are committed to further improving data quality and access, notably through participating in the OpenData Platform (ODP) for which a joint technical assistance mission was conducted by STA and the African Development Bank in January 2014.

[7] See Selected Issues Paper for the 2014 Article IV consultation: "The sub-Saharan Expansion of Moroccan Banks: Challenges and Opportunities."

OTHER PROGRAM ISSUES

16. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund while credit and liquidity risks to the Fund would remain low (Table 8). The authorities continue to treat the PLL arrangement as precautionary. However, in the event that Morocco withdrew the entire amount available, Fund credit would represent a modest share of Morocco's low external debt, and the reserve coverage ratio would be comfortable. External debt service would increase moderately over the medium term but would remain manageable under staff's medium-term macroeconomic projections.[8] In addition, the impact of the PLL arrangement on the Funds' liquidity and potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

17. Morocco continues to meet the four exceptional access criteria.

- *Criterion 1*. In staff's view, the realization of risks of a protracted period of slower growth in advanced economies, commodity price shocks linked to geopolitical tensions, and/or surges in global financial market volatility could give rise to exceptional balance of payment pressures, resulting in a need for Fund financing that could not be met within the normal access limits.

- *Criterion 2*. A rigorous and systemic analysis indicates that there is a high probability that public debt would remain sustainable over the medium term. Public debt sustainability analysis shows that debt is resilient to various shocks and vulnerabilities linked to the level and profile of the debt, despite high gross financing needs mainly linked to the rollover of existing debt.[9]

- *Criterion 3*. Staff considers that Morocco could continue to access markets within the time frame when Fund resources would be outstanding if Morocco were to make purchases under the arrangement. Morocco has successfully tapped into international capital markets. The authorities issued US$1.5 billion in December 2012, US$750 million in May 2013, and €1 billion in June 2014. Each issuance benefited from low spreads and long maturities, reflecting the confidence placed in Morocco by international markets.

- *Criterion 4*. Staff considers that the authorities' policy program has reasonably strong prospects of success, including not only Morocco's adjustment plans but also its institutional and political capacity to deliver that adjustment. The authorities' track record of sound macroeconomic policies, supported by solid institutions including an independent central bank, and the macroeconomic resilience observed in the recent past in the face of a difficult international

[8] Under the most extreme shock, the DSA shows that the external debt would remain relatively low and sustainable, pointing to Morocco's capacity to repay the Fund even under an adverse scenario.

[9] See Annex II. Morocco: Public Debt Sustainability Analysis (DSA) in the 2014 Article IV consultation report.

environment gives confidence in continued sound policies and economic stability over the longer term.

18. An update of the 2013 safeguards assessment of BAM, which is currently under way, noted that the safeguards framework remains solid. The previous assessment found a robust safeguards framework with strong control mechanisms. BAM has made good progress in implementing safeguards recommendations from the previous assessment, including publication of audited annual financial statements, and strengthening oversight on audit mechanisms and internal controls. Outstanding recommendations include amending the central bank law to formally enshrine existing good governance practices and key safeguards, and to further strengthen the autonomy of the central bank. The authorities prepared draft amendments to the central bank law, which were recently submitted to the secretary general of the government prior to its adoption by cabinet.

19. A possible decline in external risks and reforms to improve the resilience of the economy would provide good prospects for Morocco to exit from the PLL. Specific risks facing Morocco (a protracted period of slow growth in advanced economies, geopolitical tensions in the Middle East, and volatility in international financial markets) remain elevated when compared to the period before the global financial crisis. However, the risks have somewhat abated recently, especially those from oil prices (see external stress index box). In addition, the implementation of the authorities' policy package is helping the reduction in the fiscal and current account deficits. Regarding the current account deficit, the authorities' strong push for diversification of exports is already paying off as newly developed industries' exports (e.g., automobiles, aeronautics) have offset the decline in traditional exports (notably textiles and phosphates). Reserves have increased and stood at end-December at about 93.6 percent of the Fund's reserve adequacy metric (ARA) for emerging markets, and they are expected to exceed 100 percent of the ARA metric over the medium term. On the fiscal side, vulnerabilities have been considerably reduced by the elimination of all subsidies on liquid petroleum products. The adoption of the new OBL, once comments from the Constitutional Council have been addressed, is expected to strengthen and modernize the budget framework.

Box 1. Morocco: External Stress Index

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

Risks. The main external risks for Morocco, as explained in detail in the 2014 PLL arrangement request, are (i) a protracted period of slow growth in advanced economies, in particular Europe, resulting in lower exports, FDI, tourism and remittances; (ii) a spike in oil prices stemming from geopolitical tensions in the Middle East and Russia/Ukraine and resulting in higher oil imports; and (iii) a surge in global financial market volatility.[2] The above risks are derived from the IMF's Global Risk Assessment Matrix (G-RAM).

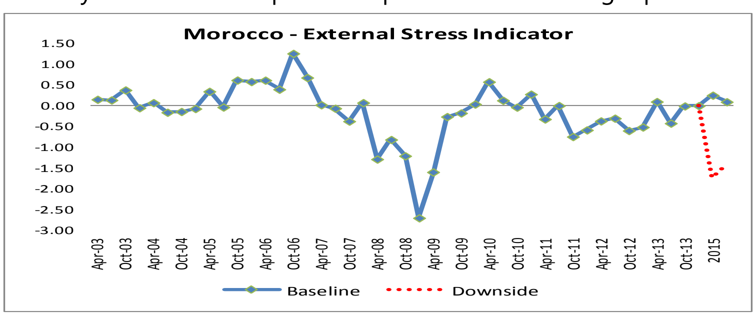
Variables. (i) Lower exports, FDI and remittances from Europe are captured by growth in the euro area, the main trading partner of Morocco (representing more than 50 percent of trade, FDI and remittances); (ii) higher oil imports are captured by oil prices; and (iii) the impact of global financial volatility on Morocco are proxied by the emerging markets volatility index (VXEEM).

Weights. We used a data-based approach to determine the weight of each variable. Under this method, weights are determined by the economic size of the respective balance of payments items that are vulnerable to respective risks, relative to the overall size of the economy.

External risks	External Proxy Variable	Weights
Lower exports to the Euro area Lower FDI from the Euro area Lower travel from the Euro area Lower remittances from the Euro area	Euro Area growth	0.60
Higher oil import	Change in oil price	-0.31
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.09

Baseline scenario. The baseline projections are based on WEO baseline projections for growth in Europe and oil prices. The VXEEM is assumed unchanged from its level of October 14, 2014.

Downside scenario. The downside scenario is in line with those from the most recent Spillover Reports. The 2013 spillover report estimates that a slowdown in the euro area could result in the GDP level in the euro area being 4 percent below baseline after four years. The 2014 spillover report estimates that geopolitical crises could result in oil prices being 25 percent above baseline.



Overall assessment. The external stress index for Morocco indicates that the external pressure faced by the country has abated in recent years, though it remains high relative to the pre-2008 global crisis level. In particular, as shown in the downside scenario, external risks remain substantial for Morocco.

[1]See "The Review of The Flexible Credit Line, The Precautionary and Liquidity Line, And the Rapid Financing Instrument" at: http://www.imf.org/external/np/pp/eng/2014/043014.pdf.

[2] 2014 PLL arrangement request: http://www.imf.org/external/pubs/cat/longres.aspx?sk=41818.0.

STAFF APPRAISAL

20. The program remains broadly on track. Although the fiscal deficit indicative target at end-September was missed, the authorities' end-year objective was met. The NIR indicative target at end-September was met with a comfortable margin. The fiscal and external deficits have continued narrowing. Significant progress was made in implementing reforms, notably through the elimination of all subsidies on liquid petroleum products, the adoption by parliament of a new banking law and progress toward a new OBL and a parametric reform of the main civil pension system. Through these reforms, the authorities have further strengthened the policy framework and considerably reduced fiscal risks.

21. The authorities' 2015 program should continue to reduce fiscal and external vulnerabilities. The 2015 budget appropriately targets a further reduction in the deficit, backed by the impact of the subsidy reform while protecting the most vulnerable. The Constitutional Council's comment on the new OBL should be addressed as quickly as possible to ensure that the law is implemented without further delay. Preparing for its implementation is important to ensuring that the law successfully reduces fiscal risks when it is implemented. The parametric reform of the main civil public pension system should be urgently adopted and implemented in 2015 as expected. Staff welcomes the authorities' continued preparations for introducing a more flexible exchange rate regime while implementing structural measures to improve competitiveness and the business environment. It also welcomes recent steps to strengthen their monetary and financial policy framework, including the adoption of a new banking law, and encourages the authorities to move ahead with the reform of the central bank law.

22. Morocco continues to meet the PLL qualification criteria. Morocco's economic fundamentals and institutional framework are sound. The country has a track of, and is implementing, sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco continues to perform strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy and data adequacy) while not substantially underperforming in the two other areas (fiscal policy, and external position and market access). Subject to the Board's positive assessment in the context of the 2014 Article IV consultation, staff recommends the completion of the first review under the PLL arrangement.

Table 1. Morocco: Selected Economic Indicators, 2011–19

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
	(Annual percentage change)										
Output and Prices											
Real GDP	5.0	2.7	4.4	3.5	2.9	4.7	4.4	5.0	5.3	5.4	5.4
Real agriculture GDP	5.6	-8.9	19.0	-1.3	-1.3	3.5	3.9	4.3	4.7	5.2	5.5
Real non-agriculture GDP	4.9	4.4	2.3	4.3	3.6	4.9	4.4	5.1	5.3	5.4	5.4
Consumer prices (end of period)	0.9	2.6	0.4	2.2	1.6	1.8	1.5	2.0	2.0	2.0	2.0
Consumer prices (period average)	0.9	1.3	1.9	1.1	0.4	2.0	1.5	2.0	2.0	2.0	2.0
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	36.0	35.3	34.2	34.3	34.0	34.8	34.3	34.7	35.2	35.7	35.9
Of which: Nongovernment	30.6	29.7	28.9	29.7	28.5	29.8	29.7	29.6	29.3	29.4	29.4
Gross national savings	27.9	25.5	26.6	27.5	28.1	29.0	31.0	31.6	32.3	32.7	33.1
Of which: Nongovernment	27.5	25.9	25.0	26.2	26.0	25.9	29.2	28.0	27.4	27.2	27.2
	(In percent of GDP)										
Public Finances											
Revenue	27.8	28.7	28.6	27.9	28.3	28.1	27.0	27.5	28.1	27.9	27.9
Expenditure	34.5	36.1	33.9	32.9	33.2	32.4	31.4	31.1	31.1	30.8	30.6
Budget balance	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Primary balance (excluding grants)	-4.6	-5.0	-3.4	-2.9	-3.7	-2.6	-3.1	-1.7	-1.4	-0.6	-0.1
Cyclically-adjusted primary balance (excl. grants)	-4.7	-5.1	-2.9	-3.4	-3.5	-2.6	-3.0	-1.6	-1.3	-0.5	-0.1
Total government debt	53.7	59.7	63.6	65.5	66.4	65.7	68.0	67.3	66.2	64.9	63.4
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Credit to the private sector 3/	9.8	4.8	3.8	4.4	4.6	4.7	5.1	5.9	6.1	6.0	6.3
Base money	5.7	-0.5	9.0	4.5	4.8	5.0	5.5	5.7	5.7	6.0	6.0
Broad money	6.4	4.5	3.1	4.5	4.8	5.0	5.5	5.7	5.7	6.0	6.0
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.4	3.4	3.4	...	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	17.1	-2.6	1.5	8.3	4.8	8.7	-0.7	8.7	8.4	9.2	8.4
Imports of goods and services (in U.S. dollars, percentage change)	23.4	-0.2	1.1	6.3	0.8	5.5	-7.6	7.6	7.3	7.2	7.5
Merchandise trade balance	-19.4	-20.9	-19.6	-18.8	-17.6	-17.7	-14.4	-14.8	-14.7	-14.4	-14.1
Current account excluding official transfers	-8.4	-10.0	-8.3	-8.1	-7.5	-6.8	-4.7	-4.1	-3.8	-3.2	-3.0
Current account including official transfers	-8.0	-9.7	-7.6	-6.8	-5.8	-5.8	-3.3	-3.2	-2.9	-3.0	-2.8
Foreign direct investment	2.4	2.4	2.9	2.5	2.9	2.6	2.7	2.7	2.8	2.9	2.8
Total external debt	26.6	29.2	30.2	32.9	32.1	33.2	32.9	33.0	32.4	32.0	31.6
Gross reserves (in billions of U.S. dollars)	20.6	17.5	19.3	21.1	20.4	22.7	23.2	25.8	28.1	30.9	33.5
In months of next year imports of goods and services	5.0	4.2	4.6	4.5	5.3	4.5	5.6	5.8	5.9	6.0	6.1
In percent of Fund reserve adequacy metric	108.5	86.5	89.5	91.1	93.6	92.3	103.9	110.7	115.6	121.4	124.7
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	99.2	95.9	103.8	112.6	109.2	121.9	106.9	114.7	122.9	131.9	141.7
Unemployment rate (in percent)	8.9	9.0	9.2	...	...	...	...	...	...	...	...
Population (millions)	32.2	32.5	32.9	33.2	33.2	33.5	33.5	33.8	34.2	34.5	34.8
Net imports of energy products (in billions of U.S. dollars)	-11.2	-12.3	-12.1	-12.8	-11.1	-13.3	-7.4	-8.7	-9.6	-10.5	-11.4
Local currency per U.S. dollar (period average)	8.1	8.6	8.4	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	-1.1	0.2	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.
2/ Revised macro framework.
3/ Includes credit to public enterprises.

Table 2. Morocco: Budgetary Central Government Finance, 2011–19
(Billions of dirhams)

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj.			
	2011	2012	2013	2014		2015		2016	2017	2018	2019
Revenue	223.3	237.7	250.0	257.1	259.3	276.2	263.5	286.6	313.5	333.9	359.5
Taxes	189.0	202.7	200.7	208.5	203.8	226.5	212.7	235.9	260.1	285.5	307.7
Taxes on income, profits, and capital gains	69.2	77.4	75.7	76.7	76.3	85.5	80.1	88.7	97.9	107.1	115.0
Taxes on property	9.3	11.6	11.7	14.1	13.9	13.4	12.9	13.8	15.6	16.8	18.0
Taxes on goods and services	94.6	99.0	100.0	105.1	100.7	114.5	106.9	119.7	132.7	144.7	155.5
Taxes on international trade and transactions	10.7	9.4	8.1	8.1	8.1	8.3	7.7	8.3	8.9	10.4	12.1
Other taxes	5.3	5.4	5.2	4.5	4.7	4.8	5.1	5.4	5.0	6.5	7.0
Grants	1.3	0.5	6.1	12.3	13.8	10.5	14.6	10.3	10.3	2.2	2.2
Other revenue	33.0	34.6	43.2	36.3	41.7	39.3	36.2	40.3	43.0	46.2	49.7
Expense	234.2	252.5	250.0	260.4	254.5	268.4	260.9	270.3	281.1	293.4	310.1
Compensation of employees	99.8	108.9	112.8	119.2	117.3	124.5	123.1	126.4	129.2	132.2	135.4
Of which: wages and salaries	89.0	96.7	99.0	103.7	101.6	107.4	105.5	108.8	111.1	113.6	116.3
social contributions	10.9	12.2	13.7	15.5	15.7	17.2	17.6	17.6	18.1	18.6	19.1
Use of goods and services and grants	53.5	56.6	59.3	65.7	65.0	72.0	73.0	72.5	80.7	88.0	93.6
Of which: Use of goods and services	22.3	20.9	21.5	24.4	23.6	26.0	27.8	25.0	29.0	31.2	33.5
Grants	31.2	35.6	37.8	41.4	41.4	46.0	45.2	47.5	51.7	56.8	60.2
Interest	18.2	20.1	22.5	25.7	24.8	26.5	26.9	29.2	28.7	30.3	34.8
Subsidies	48.8	54.9	41.6	35.0	32.6	23.2	22.9	21.9	19.3	18.0	19.5
Of which: transfers to ONEE	...	...	...	2.8	2.6	4.8	4.8	4.8	1.6	0.0	0.0
Other expense 3/	13.8	12.1	13.9	14.8	14.8	22.1	15.0	20.2	23.2	24.9	26.7
Net acquisition of nonfinancial assets	43.0	46.1	45.7	42.1	49.7	49.7	44.8	53.2	66.3	75.5	83.7
Net lending / borrowing (overall balance)	-53.9	-60.9	-45.7	-45.4	-44.9	-41.8	-42.2	-36.9	-34.0	-35.0	-34.3
Net lending / borrowing (excluding grants)	-55.2	-61.3	-51.8	-57.7	-58.7	-52.3	-56.9	-47.3	-44.3	-37.2	-36.5
Change in net financial worth	-53.9	-60.9	-45.7	-45.4	-44.9	-41.8	-42.2	-36.9	-34.0	-35.0	-34.3
Net acquisition of financial assets	-5.7	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.7	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-5.6	-3.3	0.0	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	48.2	57.6	50.0	43.4	42.8	41.8	42.2	36.9	34.0	35.0	34.3
Domestic	40.9	42.3	38.9	27.7	32.9	27.7	25.9	22.5	25.4	21.3	20.2
Currency and Deposits	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	37.4	47.1	47.4	39.6	44.8	27.7	25.9	22.5	25.4	21.3	20.2
Other accounts payable	9.9	-4.8	-8.6	-11.9	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	7.3	15.3	11.1	15.7	9.9	14.2	16.3	14.4	8.6	13.7	14.1
Memorandum Item:											
Total investment (including capital transfers)	56.8	58.1	59.6	56.8	64.4	71.8	59.8	73.4	89.5	100.4	110.4
GDP	802.6	827.5	872.8	919.7	917.3	981.9	974.7	1,041.5	1,116.5	1,198.3	1,287.5

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2011–19
(Percent of GDP)

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj.			
	2011	2012	2013	2014		2015		2016	2017	2018	2019
Revenue	27.8	28.7	28.6	27.9	28.3	28.1	27.0	27.5	28.1	27.9	27.9
Taxes	23.5	24.5	23.0	22.7	22.2	23.1	21.8	22.7	23.3	23.8	23.9
Taxes on income, profits, and capital gains	8.6	9.4	8.7	8.3	8.3	8.7	8.2	8.5	8.8	8.9	8.9
Taxes on property	1.2	1.4	1.3	1.5	1.5	1.4	1.3	1.3	1.4	1.4	1.4
Taxes on goods and services	11.8	12.0	11.5	11.4	11.0	11.7	11.0	11.5	11.9	12.1	12.1
Taxes on international trade and transactions	1.3	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.9
Other taxes	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.2	0.1	0.7	1.3	1.5	1.1	1.5	1.0	0.9	0.2	0.2
Other revenue	4.1	4.2	5.0	3.9	4.5	4.0	3.7	3.9	3.9	3.9	3.9
Expense	29.2	30.5	28.6	28.3	27.7	27.3	26.8	26.0	25.2	24.5	24.1
Compensation of employees	12.4	13.2	12.9	13.0	12.8	12.7	12.6	12.1	11.6	11.0	10.5
Of which: wages and salaries	11.1	11.7	11.3	11.3	11.1	10.9	10.8	10.4	9.9	9.5	9.0
social contributions	1.4	1.5	1.6	1.7	1.7	1.7	1.8	1.7	1.6	1.6	1.5
Use of goods and services and grants	6.7	6.8	6.8	7.1	7.1	7.3	7.5	7.0	7.2	7.3	7.3
Of which: Use of goods and services	2.8	2.5	2.5	2.7	2.6	2.7	2.9	2.4	2.6	2.6	2.6
Grants	3.9	4.3	4.3	4.5	4.5	4.7	4.6	4.6	4.6	4.7	4.7
Interest	2.3	2.4	2.6	2.8	2.7	2.7	2.8	2.8	2.6	2.5	2.7
Subsidies	6.1	6.6	4.8	3.8	3.6	2.4	2.3	2.1	1.7	1.5	1.5
Of which: transfers to ONEE	0.0	0.0	0.0	0.3	0.3	0.5	0.5	0.5	0.1	0.0	0.0
Other expense 3/	1.7	1.5	1.6	1.6	1.6	2.2	1.5	1.9	2.1	2.1	2.1
Net acquisition of nonfinancial assets	5.4	5.6	5.2	4.6	5.4	5.1	4.6	5.1	5.9	6.3	6.5
Net lending / borrowing (overall balance)	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Net lending / borrowing (excluding grants)	-6.9	-7.4	-5.9	-6.3	-6.4	-5.3	-5.8	-4.5	-4.0	-3.1	-2.8
Change in net financial worth	-6.7	-7.4	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.9	-2.7
Net acquisition of financial assets	-0.7	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.7	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.7	-0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.0	7.0	5.7	4.7	4.7	4.3	4.3	3.5	3.0	2.9	2.7
Domestic	5.1	5.1	4.5	3.0	3.6	2.8	2.7	2.2	2.3	1.8	1.6
Currency and Deposits	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.7	5.7	5.4	4.3	4.9	2.8	2.7	2.2	2.3	1.8	1.6
Other accounts payable	1.2	-0.6	-1.0	-1.3	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.9	1.8	1.3	1.7	1.1	1.4	1.7	1.4	0.8	1.1	1.1
Memorandum items:											
Total investment (including capital transfers)	7.1	7.0	6.8	6.2	7.0	7.3	6.1	7.1	8.0	8.4	8.6

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Includes capital transfers to public entities.

Table 4. Morocco: Budgetary Central Government Balance Sheet, 2011–19
(Billions of dirhams)

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Net financial worth	-428.9	-491.7	-552.8	-594.9	-601.6	-638.0	-655.5	-693.3	-731.2	-770.7	-808.5
Financial assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Currency and deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	430.9	493.7	554.8	596.9	603.6	639.9	657.5	695.3	733.2	772.6	810.5
Domestic	331.3	376.8	425.0	451.4	463.9	480.3	501.4	524.8	554.1	579.8	603.6
Securities other than shares 3/	331.3	378.4	425.9	463.7	470.7	491.4	496.6	519.1	544.5	565.8	586.0
Foreign	99.6	116.9	129.8	145.5	139.7	159.7	156.0	170.5	179.1	192.8	206.9
Loans 3/	99.6	114.2	129.8	145.5	139.7	159.7	156.0	170.5	179.1	192.8	206.9
Memorandum Item:											
GDP	802.6	827.5	872.8	919.7	917.3	981.9	974.7	1,041.5	1,116.5	1,198.3	1,287.5

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

3/ Data for the remaining instruments are currently not available.

Table 5. Morocco: Balance of Payments, 2011–19

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

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/		Proj.		
	2011	2012	2013	2014		2015		2016	2017	2018	2019
Current account	-8.0	-9.3	-7.9	-7.7	-6.4	-7.1	-3.5	-3.6	-3.6	-4.0	-4.0
Trade balance	-19.3	-20.1	-20.4	-21.2	-19.2	-21.6	-15.4	-16.9	-18.1	-19.0	-20.0
Exports, f.o.b.	21.6	21.4	22.0	23.8	23.4	25.9	23.8	25.4	27.6	30.1	33.0
Agriculture	3.5	3.5	3.9	4.2	4.0	4.4	4.1	4.3	4.5	4.8	5.1
Phosphates and derived products	6.0	5.5	4.7	4.6	4.7	5.0	4.7	5.0	5.3	5.6	5.9
Imports, f.o.b.	-40.9	-41.5	-42.4	-45.0	-42.6	-47.5	-39.2	-42.4	-45.7	-49.1	-53.0
Energy	-11.2	-12.3	-12.1	-12.8	-11.1	-13.3	-7.4	-8.7	-9.6	-10.5	-11.4
Capital goods	-8.4	-8.4	-9.4	-10.4	-8.9	-10.9	-9.3	-10.0	-10.7	-11.6	-12.6
Food products	-4.8	-4.8	-4.3	-4.7	-5.0	-4.7	-4.6	-4.8	-4.9	-5.1	-5.5
Services	5.3	5.2	5.6	6.3	5.7	7.1	5.4	6.6	7.4	8.4	9.1
Tourism receipts	7.3	6.7	6.9	7.4	6.9	8.0	6.5	7.3	7.8	8.3	8.9
Income	-2.0	-2.2	-1.8	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6	-2.8	-3.0
Transfers	8.0	7.7	8.7	9.5	9.6	9.7	8.9	9.2	9.7	9.4	10.0
Private transfers (net)	7.7	7.4	7.9	8.1	7.8	8.5	7.4	8.1	8.6	9.2	9.8
Workers' remittances	7.1	6.7	6.9	6.9	6.8	7.3	6.5	7.2	7.7	8.3	8.9
Official grants (net)	0.3	0.2	0.8	1.4	1.8	1.2	1.6	1.1	1.1	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.2	8.9	9.4	9.3	8.5	6.8	6.3	5.9	6.9	6.6
Direct investment	2.4	2.3	3.0	2.8	3.2	3.2	2.9	3.1	3.5	3.8	4.0
Privatization	0.7	0.4	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.2	0.2	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Other	3.5	3.7	5.7	6.4	6.0	5.0	3.8	3.1	2.3	2.9	2.5
Private	1.9	1.0	3.2	2.1	2.5	2.2	1.1	0.7	0.6	0.7	0.2
Public medium-and long-term loans (net)	1.7	2.7	2.5	4.3	3.5	2.8	2.7	2.4	1.7	2.2	2.3
Disbursements	3.2	4.3	4.3	6.1	5.3	4.7	4.4	4.0	4.0	4.0	4.0
Amortization	-1.5	-1.6	-1.8	-1.8	-1.8	-1.9	-1.7	-1.6	-2.3	-1.8	-1.7
Reserve asset accumulation (-increase)	2.6	3.5	-1.4	-1.7	-2.9	-1.4	-3.3	-2.7	-2.3	-2.8	-2.6
Errors and omissions	-0.3	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
						(Percent of GDP)					
Current account	-8.0	-9.7	-7.6	-6.8	-5.8	-5.8	-3.3	-3.2	-2.9	-3.0	-2.8
Trade balance	-19.4	-20.9	-19.6	-18.8	-17.6	-17.7	-14.4	-14.8	-14.7	-14.4	-14.1
Exports, f.o.b.	21.8	22.3	21.2	21.1	21.4	21.2	22.3	22.2	22.4	22.8	23.2
Agriculture	3.6	3.7	3.7	3.8	3.7	3.6	3.9	3.7	3.7	3.6	3.6
Phosphates and derived products	6.0	5.7	4.5	4.1	4.3	4.1	4.4	4.4	4.3	4.3	4.2
Imports, f.o.b.	-41.2	-43.3	-40.8	-40.0	-39.0	-38.9	-36.7	-37.0	-37.1	-37.2	-37.4
Petroleum	-11.3	-12.9	-11.7	-11.3	-10.2	-11.0	-6.9	-7.6	-7.8	-8.0	-8.0
Capital goods	-8.5	-8.8	-9.1	-9.2	-8.2	-9.0	-8.7	-8.7	-8.7	-8.8	-8.9
Food products	-4.8	-5.0	-4.1	-4.2	-4.6	-3.9	-4.3	-4.1	-4.0	-3.9	-3.9
Services	5.4	5.5	5.4	5.6	5.2	5.9	5.1	5.7	6.0	6.4	6.4
Tourism receipts	7.3	7.0	6.6	6.6	6.3	6.6	6.1	6.4	6.3	6.3	6.3
Income	-2.1	-2.3	-1.7	-2.0	-2.2	-1.9	-2.3	-2.1	-2.1	-2.1	-2.1
Transfers	8.1	8.0	8.4	8.4	8.8	8.0	8.3	8.0	7.9	7.1	7.0
Private transfers (net)	7.7	7.8	7.7	7.2	7.1	7.0	6.9	7.1	7.0	7.0	6.9
Workers' remittances	7.2	7.0	6.7	6.1	6.3	6.0	6.1	6.3	6.3	6.3	6.3
Official grants (net)	0.3	0.3	0.7	1.2	1.6	1.0	1.5	0.9	0.9	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.7	6.4	8.6	8.4	8.5	6.9	6.3	5.5	4.8	5.2	4.7
Direct investment	2.4	2.4	2.9	2.5	2.9	2.6	2.7	2.7	2.8	2.9	2.8
Privatization	0.7	0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other	3.6	3.9	5.5	5.7	5.5	4.1	3.5	2.7	1.8	2.2	1.8
Private 3/	1.9	1.0	3.1	1.9	2.3	1.8	1.0	0.6	0.5	0.5	0.2
Public medium-and long-term loans (net)	1.7	2.9	2.4	3.8	3.2	2.3	2.5	2.1	1.4	1.7	1.6
Disbursements	3.2	4.5	4.1	5.4	4.8	3.8	4.1	3.5	3.2	3.0	2.8
Amortization	-1.5	-1.7	-1.7	-1.6	-1.6	-1.5	-1.6	-1.4	-1.9	-1.3	-1.2
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	17.1	-2.6	1.5	11.8	4.8	8.5	-0.7	8.7	8.4	9.2	8.4
Imports of goods and services (in U.S. dollars, percentage change)	23.4	-0.2	1.1	7.5	0.8	5.9	-7.6	7.6	7.3	7.2	7.5
Current account balance excluding official grants (percent of GDP)	-8.4	-10.0	-8.3	-8.1	-7.5	-6.8	-4.7	-4.1	-3.8	-3.2	-3.0
Terms of trade (percentage change)	2.3	-11.9	-2.5	-2.9	-1.2	0.1	9.0	-2.1	-1.1	-0.6	-0.4
Gross official reserves 3/	20.6	17.5	19.3	21.1	20.4	22.7	23.2	25.8	28.1	30.9	33.5
In months of prospective imports of GNFS	5.0	4.2	4.6	4.5	5.3	4.5	5.6	5.8	5.9	6.0	6.1
In percent of the Assessing Reserve Adequacy (ARA) metric	108.5	86.5	89.5	91.1	93.6	92.3	103.9	110.7	115.6	121.4	124.7
Debt service (percent of export of GNFS and remittances) 4/	5.3	5.8	6.7	6.6	6.6	6.3	6.3	6.2	7.1	5.5	5.1
External public and publicly guaranteed debt (percent of GDP)	23.6	25.7	26.9	29.3	28.8	29.8	29.6	29.8	29.1	28.9	28.5
DHs per US$, period average	8.1	8.6	8.4	...	...	...	...	...	...	...	...
GDP (US$)	99.2	95.9	103.8	112.6	109.2	121.9	106.9	114.7	122.9	131.9	141.7
Oil price (US$/barrel; Brent)	111.0	112.0	108.8	107.9	98.9	104.0	52.8	61.6	66.9	70.2	72.3

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.
2/ Revised macro framework.
3/ Excluding the reserve position in the Fund.
4/ Public and publicly guaranteed debt.

Table 6. Morocco: Monetary Survey, 2011–15

	2011	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 1/	2015 Rev. 2/
	(Billions of dirhams)						
Net foreign assets	173.8	144.7	150.3	164.5	173.8	175.4	203.6
Monetary authorities	171.9	145.4	153.2	167.3	177.1	178.1	206.9
Of which: Gross reserves	177.1	147.9	156.9	173.6	180.8	184.4	210.6
Deposit money banks	1.7	2.7	-1.8	-2.8	-1.6	-2.7	-1.3
Net domestic assets	775.6	844.1	871.8	901.8	896.8	944.2	925.7
Domestic credit	798.3	855.0	906.5	911.6	948.5	957.6	1,008.6
Net claims on the government	102.1	125.4	149.3	130.8	156.8	140.3	176.2
Banking system	102.1	125.4	149.3	130.8	156.8	140.3	176.2
Bank Al-Maghrib	2.2	0.5	0.8	0.6	0.6	0.2	0.3
Of which: deposits	-3.4	-4.5	-4.6	-4.8	-4.8	-5.2	-5.1
Deposit money banks	99.9	124.9	148.5	130.2	156.2	140.1	175.9
Credit to the economy	696.2	729.6	757.2	780.8	791.7	817.2	832.4
Other liabilities, net	22.7	10.9	34.7	9.8	51.7	13.3	82.9
Broad money	949.3	992.2	1,023.2	1,066.3	1,072.3	1,119.6	1,131.3
Money	586.8	612.2	628.9	657.6	660.6	702.7	705.0
Currency outside banks	158.3	163.6	171.4	180.8	180.1	193.1	191.4
Demand deposits	428.5	448.5	457.6	476.8	480.4	509.7	513.6
Quasi money	340.9	354.7	371.1	386.4	386.0	401.9	401.4
Foreign deposits	21.6	25.3	23.1	22.3	25.7	15.1	24.9
	(Annual percentage change)						
Net foreign assets	-11.8	-14.7	2.2	9.5	15.9	6.6	17.1
Net domestic assets	11.6	8.8	3.3	3.6	2.9	4.7	3.2
Domestic credit	11.6	7.1	6.0	3.9	4.6	5.0	6.3
Net claims on the government	25.8	22.8	19.0	0.6	5.0	7.3	12.4
Credit to the economy	9.8	4.8	3.8	4.4	4.6	4.7	5.1
Broad money	6.4	4.5	3.1	4.5	4.8	5.0	5.5
	(Change in percent of broad money)						
Net foreign assets	-2.6	-2.7	0.3	1.4	2.4	1.0	2.8
Domestic credit	9.3	6.0	5.2	3.3	4.1	4.3	5.6
Net claims on the government	2.3	2.5	2.4	0.1	0.7	0.9	1.8
Credit to the economy	6.9	3.5	2.8	3.3	3.4	3.4	3.8
Other assets net	-0.3	1.2	-2.4	-0.2	-1.7	-0.3	-2.9
Memorandum items:							
Velocity (GDP/M3)	0.85	0.83	0.85	0.86	0.86	0.88	0.86
Velocity (non-agr. GDP/M3)	0.73	0.73	0.73	0.75	0.74	0.76	0.74
Credit to economy/GDP (in percent)	86.7	88.2	86.8	84.9	86.3	83.2	85.4
Credit to economy/nonagricultural GDP (in percent)	100.0	100.6	101.1	98.2	99.9	96.1	98.8

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

1/ Refers to the macro framework for the request for a successor PLL arrangement in EBS/14/91.

2/ Revised macro framework.

Table 7. Morocco: Financial Soundness Indicators, 2008–14
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	June 2014
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.5
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.4
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.7
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.4
Of which: textile	1.7	1.9	1.4	1.3	1.2	1.0	1.0
Of which: gas and electricity	3.3	2.9	3.9	4.5	4.8	4.7	5.7
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	4.1
Commerce	6.5	7	6.7	6.6	6.7	6.2	6.4
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.7
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4
Finance	13.1	12.5	12.1	11.9	11	12.7	11
Public administration	3.7	4.3	5	4.8	5	5.0	4.9
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7
Households	26.5	27.6	28.1	27.6	28.9	29.7	30.4
Other	4.4	5.4	5.4	5.5	6.4	5.1	5.1
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9
Credit to the private sector to total loans	93.3	91	91	92	91	91	91
Nonperforming Loans (NPLs) to total loans	6	5.5	4.8	4.8	5	5.9	6.5
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64	63
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.0
Large exposures to Tier 1 capital	314	376	336	354	347	327	339
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	4.6
Loans to shareholders to total loans	2	1	0.8	1.2	1	1.3	0.7
Specific provisions to total loans	4.5	4	3.4	3.5	3.3	3.8	4.1
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8
Profitability							
Return on assets (ROA)	1.2	1.2	1.2	1.1	1	1	1.1
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	12
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.0
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.1
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74	69.2
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	41.9
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.8
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	48.2
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26	30.8
Liquidity							
Liquid assets to total assets	24.4	17.3	12	11.4	10.5	12.5	11.3
Liquid assets to short-term liabilities	24.7	23	16	16.1	14.7	17.4	17.1
Deposits to loans	113	108	104	99	96.1	96.2	98
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	3.1
Sensitivity to market risk							
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	11.3	2.3

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

Table 8. Morocco: Capacity to Repay Indicators, 2014–20 1/

		Proj.					
	2014	2015	2016	2017	2018	2019	2020
Exposure and repayments (in SDR million)							
GRA credit to Morocco	0.0	3,235.1	3,235.1	3,235.1	2,021.9	404.4	0.0
(In percent of quota)	0.0	550.0	550.0	550.0	343.8	68.8	0.0
Charges due on GRA credit	0.0	64.5	63.4	63.4	61.6	16.5	1.0
Principal due on GRA credit	0.0	0.0	0.0	0.0	1,213.2	1,617.6	404.4
Debt service due on GRA credit	0.0	64.5	63.4	63.4	1,274.7	1,634.0	405.4
Debt and debt service ratios							
In percent of GDP							
Total external debt	29.6	35.7	35.1	34.9	32.5	31.7	26.7
Public external debt	26.4	32.5	32.0	31.8	29.5	28.6	24.0
GRA credit to Morocco	0.0	4.7	4.4	4.1	2.4	0.1	0.0
Total external debt service	2.6	2.8	2.5	2.5	4.2	2.6	1.9
Public external debt service	2.1	2.5	2.4	2.1	3.6	2.4	1.7
Debt service due on GRA credit	0.0	0.1	0.1	0.1	1.5	0.4	0.1
In percent of gross international reserves							
Total external debt	158.6	164.8	155.8	152.5	138.7	134.1	130.6
Public external debt	141.3	150.1	142.2	139.2	125.9	120.8	117.5
GRA credit to Morocco	0.0	21.7	19.4	17.8	10.1	0.5	0.0
In percent of exports of goods and services							
Total external debt	92.1	108.7	114.7	122.2	122.2	128.1	134.8
Public external debt	82.1	99.0	104.7	111.5	111.0	115.3	121.2
GRA credit to Morocco	0.0	14.3	14.3	14.3	8.9	0.4	0.0
In percent of total external debt							
GRA credit to Morocco	0.0	13.1	12.4	11.7	7.3	0.3	0.0
In percent of public external debt							
GRA credit to Morocco	0.0	14.4	13.6	12.8	8.0	0.4	0.0
Memorandum items:							
Nominal GDP (in billions of U.S. dollars)	109.2	106.9	114.7	122.9	131.9	141.7	177.0
Gross international reserves (in billions of U.S. dollars)	20.4	23.2	25.8	28.1	30.9	33.5	36.2
Exports of goods and services (in billions of U.S. dollars)	36.8	36.5	39.7	43.0	47.0	50.9	55.0
Quota (in millions of SDRs)	588.2	588.2	588.2	588.2	588.2	588.2	588.2

Source: IMF staff estimates and projections.

1/ Assumes a new PLL arrangement of 550 percent of quota (500 percent in the first year and an additional 50 percent in the second year). The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Appendix I. Written Communication

Rabat, Morocco
January 23, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Madame Managing Director,

1. Morocco's economic fundamentals are strong, and the authorities continue to pursue sound economic and financial policies and to implement a vast program of structural reforms to achieve higher and more inclusive growth and promote employment, while strengthening the resilience of the economy. Recent indicators are, overall, favorable and consistent with our economic and financial program supported by the IMF's Precautionary and Liquidity Line (PLL). We remain determined to implement the economic and financial policies described in our communication of July 11, 2014 requesting the approval of the PLL arrangement.

2. In 2014, GDP growth was affected by an unfavorable external environment, in particular the weak growth in Europe and tensions in the Middle-East, and by the return of the cereal production to a normal level after an excellent harvest in 2013, as well as by weak activity in construction and some branches of manufacturing. Consequently, the 2014 GDP growth rate was revised downwards to about 3 percent, against a projection of 4.2 percent in the 2014 budget law and 3.5 percent during the discussions on the renewal of the PLL last June. However, economic activity has shown some signs of recovery in recent months. This recovery should continue in 2015 when growth rate should increase to 4.4 percent. Average inflation lowered to 0.4 percent in 2014 and should reach 1.5 percent in 2015. However, unemployment increased to 9.6 percent in the third quarter of 2014 from 9.1 percent to the same quarter of the previous year. The current account deficit should decline from 7.6 percent of GDP to close to 6 percent in 2014 owing, in particular, to the surge in exports from emerging sectors but also to declining oil products and capital goods imports. As a result, with FDI remaining high, foreign exchange reserves have increased, covering more than 5 months of imports of goods and services. In 2015, the current account deficit should further narrow to 3.3 percent of GDP and foreign exchange reserves should continue to strengthen to reach the equivalent of 5.6 months of imports. In addition, the strengthening of public finances proceeds broadly as planned, structural reforms have accelerated, the financial sector remains sound and continues to strengthen, and conditions for access to the international financial markets remain favorable.

3. Although Morocco does not face balance of payments financing needs, the new PLL approved on July 28, 2014 continues to provide useful insurance against external shocks and supports the efforts of the authorities to rebuild policy space and restore the resilience of the economy. Fiscal consolidation, gradual diversification of the export base and markets, reflecting improved competitiveness, and an appropriate monetary policy, will help reduce the current account deficit over the medium term and further strengthen the country's external position. The authorities will continue to treat the PLL arrangement as precautionary and do not anticipate drawing on it except in the event of unforeseen external shocks or a substantial worsening of the international environment.

4. According to available data, the fiscal deficit was reduced as planned to 4.9 percent of GDP in 2014. In an economic environment less favorable than expected, this result is appreciable. It was achieved thanks to a better monitoring of budget execution, the containment of current expenses, in particular through the reduction of the cost of subsidies which was lowered to 3.6 percent of GDP from 4.8 percent of GDP in 2013, and to a larger mobilization of grants while increasing investment spending. The 2015 budget aims to reduce the deficit to 4.3 percent of GDP, in line with the medium-term fiscal objective of reducing the deficit to 3 percent of GDP in 2017. This reduction should be achieved mainly by better control over expenditure while giving priority to investment in infrastructure and human capital as well as to social programs.

5. On the revenue side, the government is pursuing the reform of the tax system started in 2013 to make it more equitable and supportive of competitiveness. The 2015 budget continues to simplify the VAT regime and reduce tax expenditures. It also includes measures to promote investment and employment.

6. Reform of the subsidy system is continuing. Subsidies on petroleum products have been eliminated, with the exception of butane. In this context, the per-unit subsidy on diesel was entirely eliminated starting January 1st, 2015, with a view to liberalizing prices of all liquid petroleum products (industrial fuel, gasoline and diesel) in 2015. As a result, the cost of the subsidy system is expected to decline to 2.3 percent of GDP in 2015, down from 3.6 percent of GDP in 2014 and 6.6 percent of GDP in 2012. At the same time, social protections for the most vulnerable groups will continue to be broadened, particularly though the Social Cohesion Fund in the context of programs such as RAMED (health sector) and TAYSSIR (education sector).

7. The government's objective is to gradually reduce the civil service wage bill in the medium term to below 11 percent of GDP, particularly by limiting the budget impact of the net creation of new positions and moderating salary increases. For this purpose, the 2015 budget law limits new recruitments in the public administration to the number of new retirees, notwithstanding the additional needs for increased security in a difficult regional context and for the implementation of education and health programs. Moreover, the mobility of civil servants will be increased as part of the public sector modernization plan, which will help better control the wage bill.

8. The organic budget law was adopted by parliament on November 25, 2014 and submitted to the Constitutional Council which, on December 23, 2014, ruled that some provisions were not consistent with the constitution. These include provisions introduced in second reading relating to the effectiveness date of the law as well as the provision that stated that only budget laws may introduce or modify tax and customs legislation. The government will adapt the text to account for the ruling of the Council with the aim that the law be adopted during the next parliamentary session and implemented starting 2016. The new law improves the budget framework, notably through the introduction of multiyear budgeting and a fiscal rule limiting net new borrowing to the financing of capital spending, the establishment of program budgeting, and the strengthening of results-based management and fiscal transparency. It also makes binding the ceilings on wage appropriations and reduces the carryover of investment appropriations and the possibility of creating special treasury accounts. Strengthening of the budget framework will continue with the adoption of the OBL implementing regulations.

9. The parametric reform of civil service pensions provided by the Moroccan Pension Fund (CMR) further advanced, including through its evaluation by the Economic, Social and Environmental Council (CESE) in October 2014 and a meeting in December 2014 of the National Commission in charge of the pension reform, with a view to have the parametric reform adopted by the government and implemented in 2015. This reform provides for a gradual increase in the statutory retirement age, higher employer and employee contribution rates, and changes to the rules for the calculation of pension benefits. It should extend the sustainability of the CMR and will ensure a balance between contributions and benefits immediately upon its entry into force. The next steps include a shift toward a two-fund system, one pension fund for the private sector and one for the public sector.

10. Bank Al-Maghrib (BAM) remains committed to maintaining price stability. In a context of low inflation, improving foreign reserves, and continued progress in fiscal consolidation, the Board of BAM cut the policy rate by 25 basis points twice in September and December 2014. It will continue to closely monitor economic developments, reserves, and inflation, and to conduct a monetary policy conducive to maintaining price stability and promoting the conditions for adequate financing of the economy to support growth.

11. BAM continues to strengthen bank regulation and supervision, notably by continuing to implement the Basel III standards. The new banking law adopted by parliament on November 25, 2014 broadens the regulatory and supervisory role of BAM and strengthens the macro-prudential framework, particularly by introducing a framework governing systemically important banks at the national level in line with Basel standards. The new law also introduces a legal framework for crisis resolution, defines the regulatory and supervisory frameworks for participatory banks, strengthens banks' governance by aligning the definition of financial conglomerate with international standards, and improves the management of the deposit insurance system. The central bank law is also under revision, with a view to increasing BAM's independence and broadening its remit, notably by integrating its contribution to financial stability. The new draft law was submitted to the General Secretariat of the government on January 13, 2015. An update of the Financial Sector Assessment Program (FSAP) is scheduled in the spring of 2015. Moreover, BAM is closely monitoring the expansion of Moroccan banks in sub-Saharan Africa and related risks, in cooperation with the supervisory authorities in the host countries. In this regard, it continues to step up the exchange of information with these authorities and conducts joint audit missions. Also, colleges of supervisors for cross-border financial groups are being set up, with one already operational and two others being established.

12. The authorities are aware of the crucial role of financial inclusion in the promotion of economic growth and employment and the reduction of poverty, and continue to work to improve access to financial services. In this context, BAM set up special refinancing mechanisms in favor of very small, small, and medium-sized enterprises in 2012 and 2014. With a three-year program to expand access to banking services, the bank penetration rate has increased from 54 percent in 2012 to 66 percent in 2014.

13. The peg of the dirham to a euro/dollar basket has served the Moroccan economy well by providing an important nominal anchor. However, a more flexible regime and accompanying changes in the monetary policy framework, together with appropriate macroeconomic policies and structural reforms, could facilitate the absorption of external shocks, help strengthen competitiveness, and increase the ongoing diversification of trade and financial flows. We are planning to take stock of the various strands of preparatory work in this area with technical assistance from the Fund, which will be complemented by the FSAP mission, with a view to informing choices in this area.

14. The government is implementing an ambitious reform agenda to increase competitiveness and potential growth and reduce unemployment to 8 percent by 2016. The industrial acceleration strategy announced in 2014 aims to put the country on a higher growth path, particularly by strengthening the geographical and sectoral diversification of exports. The authorities are also implementing a set of measures to promote job creation by improving labor market governance and the effectiveness of employment support and vocational training programs. Measures are also being taken to improve social protection for workers. A seminar was organized in September 2014 with social partners to facilitate the dialogue on the reform of the labor code. In addition, the government is committed to further improving the business climate and governance. A vast program is being implemented to ease the procedures applicable to businesses and citizens. Economic governance should improve with the implementation of the new regulation on public procurement, which was extended to public enterprises in 2014, as well as with the entry into effect of the laws on the Competition Council and price liberalization adopted by parliament in June 2014. The reform under way in the judicial system aims to boost the independence and effectiveness of the judiciary.

15. As regards the indicative targets under the PLL for end-September 2014, net international reserves were well above the target, whereas the fiscal deficit target was exceeded by 0.7 percentage point of GDP, mainly because of acceleration in the refund of VAT credits and of transfers to public agencies and enterprises (EEP). This acceleration aimed at easing the cash flow constraints of enterprises with a VAT credit balance and of the EEPs and, by extension, their private sector suppliers, in a context of slowing growth. In line with the requirements of the PLL, we have observed, and will continue to observe, the standard performance criteria related to trade and exchange restrictions, bilateral payments agreements, multiple currency practices, and the non-accumulation of external debt payment arrears.

16. We remain confident that the policies described in this communication and the one dated July 11, 2014, are appropriate to achieve our objectives, on the basis of which we are requesting completion of the first review under the PLL.

/s/	/s/
Mohamed Boussaïd	Abdellatif Jouahri
Minister of Economy and Finance	Governor of Bank Al-Maghrib

Morocco: Quantitative Indicative Targets

	9/30/14			3/31/15		9/30/15
	PLL	Adjusted	Actual	PLL	Rev.	
Indicative targets						
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/ (end-of-period (eop) stock, in millions of U.S. dollars (US$))	20,310	19,975	21,552	20,492	21,071	21,602
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	32,768	31,107	37,377	10,556	15,600	30,200
Memorandum item:						
Adjustor on NIR (in millions of U.S. dollars) 2/	1,628	-335	1,293	3,513	1,970	3,642
Adjustor on the fiscal deficit (in millions of dirham) 3/	8,200	1,661	9,861	2,619	3,660	10,700

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate for both years 2014 and 2015 (end-March 2014, 8.1496 MAD/US$).

2/ Adjustments are specified in the technical appendix. The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-March 2014 for targets adopted at the time of the PLL approval (9/30/14 and 3/31/15 PLL), and from end-September 2014 for the new 2015 targets (3/31/15 Rev. and 09/30/15).

3/ Adjustments are specified in the technical appendix. The fiscal deficit ceiling will be adjusted upward (downard) in the event of a shortfall (surplus) of budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors for 2014 are cumulative from end-December 2013. The adjustors for 2015 are cumulative from end-December 2014.

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

IMF Executive Board Concludes First Review of the Precautionary and Liquidity Line for Morocco

On February 6, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the first review of Morocco's economic performance under a program supported by a 24-month Precautionary Liquidity Line (PLL) arrangement.

The PLL was approved in July 2014 in an amount equivalent to SDR 3.23 billion (about US$5 billion or 550 percent of Morocco's quota at the IMF). (See Press release No. 14/368). The access under the arrangement in the first year will be equivalent to SDR 2.9 billion (about US$4.5 billion), rising in the second year to a cumulative US$5 billion. Morocco's first 2-year PLL arrangement was approved on August 2, 2012.

The Moroccan authorities have stated that they intend to treat the arrangement as precautionary, as they have done with the 2012 PLL, and do not intend to draw under the arrangement unless Morocco experiences actual balance of payments needs from a significant deterioration of external conditions.

The PLL was introduced in 2011 to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong records of policy implementation but with some remaining vulnerabilities.

Following the Executive Board discussion on Morocco, Mr. Naoyuki Shinohara, IMF Deputy Managing Director and Acting Chair of the Board, made the following statement:

"Despite headwinds from external environment, decisive policy action by the authorities has helped in rebalancing Morocco's economy and in reducing fiscal and external vulnerabilities. Nonetheless, significant external risks remain and sustained implementation of reforms is essential to consolidate gains in macroeconomic stability and foster higher and more inclusive growth. The arrangement under the Fund's Precautionary and Liquidity Line (PLL), which the authorities treat as precautionary, has supported the authorities' efforts by providing an insurance against those risks.

"The fiscal deficit declined in 2014 and reached the authorities' objective of 4.9 percent of GDP. Commendable progress was made in subsidy reform with the removal of subsidies on all liquid petroleum products, while support to the most vulnerable was expanded. The new organic budget law is expected to strengthen the budgetary framework once comments from the constitutional council have been addressed. The parametric reform of the public pension system is urgent to ensure the viability of the system. Continued tax reform is also important to bolster the contribution of the fiscal sector to growth.

"The current account deficit contracted significantly in 2014 while the reserve position strengthened, benefiting mainly from the rise in newly developed export sectors and a positive terms-of-trade shock following the fall in international oil prices. To sustain these gains, structural reforms to enhance competitiveness continue to be a priority. A transition to a more flexible exchange rate regime would also help. The business environment has improved but much remains to be done to enhance transparency and governance. The new banking law is welcome to support the continued soundness of the banking sector. The labor market needs further reform to help reduce unemployment."

Statement by Mohammed Daïri, Alternate Executive Director for Morocco

February 6, 2015

Introduction

In a still unfavorable international environment, notably a weak economy in the euro area, the Moroccan authorities have been successful in maintaining macroeconomic stability and broadly satisfactory growth performance. This performance owes much to the economy's strong fundamentals, the authorities' sound fiscal, monetary and financial policies, and accelerated pace of implementation of their comprehensive structural reform agenda to provide an enabling environment for private sector development, strengthen and diversify the production and export base, further enhance the economy's resilience, and promote stronger and more inclusive growth and higher job creation. While demonstrating unwavering commitment to their economic and financial program, they have also redoubled their efforts at strengthening the social safety net and reducing poverty and exclusion. Building on the gains achieved so far, the authorities are committed to staying the course of sound policies and structural reform. They broadly agree with staff assessment and recommendations and are grateful for the fruitful dialogue during the Article IV consultations. They also thank the Executive Board and management for their support.

Macroeconomic developments and outlook

GDP growth declined to about 3 percent in 2014 from 4.4 percent in 2013, mainly reflecting lower agricultural production compared to the 2013 bumper crop. However, nonagricultural GDP growth strengthened, reflecting a recovery in manufacturing, mining, and services with the exception of tourism which suffered from weak demand in Europe. Average inflation declined to 0.4 percent, notwithstanding the price hikes implemented under the subsidy reform, and should stabilize at 1.5-2.0 percent in 2015 and over the medium term. While growth is projected to reach 4.4 percent in 2015, reflecting continued strengthening in the nonagricultural sector, the recent declines in world oil prices could boost consumption and growth since, with the elimination of subsidies on liquid petroleum products and the indexation of their prices to international prices, these declines will be passed on to the consumer, even though they will be partly offset by the appreciation of the US dollar. Favorable rainfall so far also augurs for improving agricultural production. Therefore, it is likely that growth in 2015 would be stronger than projected.

Morocco's medium-term outlook is favorable, underpinned by political and social stability, a strong institutional framework, and sound economic and financial policies. Growth is currently projected to accelerate over the medium term to 5.5 percent, but the authorities intend to reassess the growth outlook to take into account the impact of the fall in commodity prices. After declining to 5.8 percent of GDP in 2014, down from 7.6 percent of GDP in 2013, the current account deficit is projected to fall further to reach 3.3 percent of GDP in 2015 and stabilize at around 3 percent thereafter, financed in full by FDI. Sustained implementation of structural reforms, together with sizable investment in infrastructure and renewable energy, bodes well for future growth and the economy's capacity to attract higher FDI and generate increased employment opportunities.

Fiscal developments and policies

Fiscal developments through end-December 2014 were in line with the PLL objective and the authorities' medium term fiscal consolidation program of achieving a 3 percent of GDP deficit by 2017. The deficit fell from 5.2 percent of GDP in 2013 to 4.9 percent in 2014. Compared to the original estimate of 5.5 percent of GDP for 2013 in the PLL request report, the decline is larger, amounting to 0.6 percentage points of GDP. Reflecting lower-than-projected GDP growth, revenue increased less than expected (by 3.7 percent), but growth in total expenditure was even lower (2.9 percent), mainly reflecting a sharp decline in fuel subsidies and a decline in the wage/GDP ratio. The composition of spending shifted significantly toward capital expenditures, including capital transfers, which increased by more than 8 percent, compared to a moderate increase of 1.8 percent for current expenditures.

The authorities are confident that their fiscal policy and related structural reforms will help achieve their medium-term objectives of reducing the fiscal deficit to 3 percent of GDP in 2017 and putting the debt-to-GDP ratio on a firm declining trend as of 2016. The increase in the debt-to-GDP ratio has already slowed down significantly, with the ratio stabilizing at less than 64 percent in 2014. The 2015 budget targets a further reduction of the fiscal deficit to 4.3 percent of GDP, mainly reflecting the full effect of the subsidy reform and continued wage moderation.

Table 3 in the staff report indicates a decline in total investment in 2015 compared to 2014. Part of this decline is due to the reclassification of some 0.22 percent of GDP of expenditure from the capital to the current budget, consistent with the new OBL. This reclassification also explains to a large extent the increase in goods and services spending between 2014 and 2015 referred to in ¶14 of the staff report. The reassessment of the impact of the decline in global commodity prices on growth and the budget outlook in 2015, along with efforts to strengthen revenue collection and control on non-priority spending, should help create additional space for investment spending, while achieving the deficit reduction target.

Progress continues to be made on implementation of fiscal structural reforms and strengthening the fiscal policy framework. In this regard, the authorities attach high priority to early adoption and effectiveness of the new Organic Budget Law (OBL). A revised draft, to comply with the Constitutional Council finding that some of the dispositions of the adopted law were unconstitutional, was approved by the Council of Ministers on January 29 and will be submitted to parliament shortly. The authorities are also working closely with social partners to reach agreement on the planned pension system reform.

Monetary, exchange rate, and financial policies

Monetary policy continues to aim at maintaining low inflation while ensuring the conditions for adequate financing of the economy. The new window for financing very small, small, and medium-sized enterprises has been successful in responding to the needs of this crucial segment of the economy. The ongoing reform of the central bank law should enhance its independence and effectiveness of monetary policy. The authorities agree with staff assessment that the exchange rate is in line with fundamentals. They are reassessing their exchange rate regime and options of reform, with Fund technical assistance, in order to help promote greater integration into the world economy, enhance export diversification, and better absorb external shocks. They intend to draw conclusions on available options after the FSAP mission scheduled in April. In the meantime, the central bank is strengthening its analytical and forecasting tools and capabilities to support the transition to a more flexible exchange rate regime and a new monetary framework.

The financial sector remains sound and resilient, and further progress has been made in strengthening the regulatory and supervisory framework, including gradual implementation of Basel III, as indicated in the Written Communication. The new banking law increases the supervisory role of the central bank and creates a framework for Charia-compliant (so-called Islamic) banks, which should increase financial inclusion. The revised central bank law will enhance its role in promoting financial stability. The central bank is closely monitoring the expansion of Moroccan banks in Sub-Saharan Africa, and is strengthening cross-border supervision in close cooperation with host supervisors.

Structural policies

The authorities' bold and comprehensive structural reform agenda to raise potential growth, diversify the economy, and promote competitiveness—including by improving the business climate and the incentive structure for private investment and by developing infrastructure—is paying off, as evidenced by the improved Doing Business rating and the ongoing structural transformation of the economy. New high growth sectors, such as automobile, electronics, and aeronautics have taken over the position of phosphates and derivatives as the largest source of exports, but traditional exports have also recovered recently and are expected to continue to grow over the medium term. The authorities are committed to further improving the business climate, reforming the judiciary, and increasing efficiency of spending on education and vocational training.

The complete elimination of subsidies on liquid petroleum products ahead of schedule constitutes a major leap forward in significantly reducing one of the key vulnerabilities of the economy. It attests to the resolve of the authorities to strengthen macroeconomic stability and enhance the resilience of the economy by taking politically difficult measures even in a pre-election period. This reform is supported by continuous strengthening of resources earmarked for social assistance to the poor and vulnerable population under the conditional cash transfer programs of RAMED and TAYSSIR.

Implementation of the authorities' ambitious program of diversification of energy sources toward renewable resources, in particular windmill and solar power generation, in order to protect the environment and reduce dependence on fossil fuel, is proceeding broadly as scheduled with private sector participation. In this regard, the share of solar and windmill energy in total power generation should increase from 4 percent in 2009 to 17 percent in 2015 and is projected to reach 28 percent in 2020.

PLL Review

Performance under the 2014 PLL was strong. The indicative target for Net International Reserves for September 2014 was met with a wide margin. The indicative target for the fiscal deficit was exceeded by 0.7 percent of GDP, reflecting the authorities' decision to ease private sector liquidity constraints by accelerating VAT refunds and budgeted transfers to some public enterprises, with no impact on end-2014 fiscal deficit, which declined to 4.9 percent of GDP, as targeted. Reserves increased further both in terms of import coverage and in percent of the Fund's reserve adequacy metrics. On the structural reform agenda, subsidy reform was ahead of schedule, the Banking Law was adopted, and significant progress was made on the OBL, the pension reform, and the revised central bank law.

The staff report reaffirms Morocco's eligibility to the PLL. While it continued to perform strongly in the monetary policy, financial sector, and data areas, there was a significant progress in the two areas where vulnerabilities remained. External vulnerabilities declined, reflecting stronger current account and reserves position, as well as the return of the exchange rate to full alignment with fundamentals. Fiscal vulnerabilities also declined following the subsidy reform and the progress made on the OBL. Nevertheless, the exogenous risks faced by Morocco remain substantial, as reflected in the external stress index and, notwithstanding improved reserves position and continued progress in reducing vulnerabilities, the PLL will continue to play an important role in mitigating these risks. The authorities are committed to achieving the objectives of their economic and financial program supported by the PLL, which they will continue to treat as precautionary.