INTERNATIONAL MONETARY FUND

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MOROCCO

August 2016

REQUEST FOR AN ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

In the context of the Request for an Arrangement Under the Precautionary and Liquidity Line and Cancellation of the Current Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 22, 2016, following discussions that ended on June 8, 2016, with the officials of Morocco on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on July 8, 2016.
- A **Statement by the Executive Director** for Morocco.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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FOR IMMEDIATE RELEASE
July 22, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$3.47 billion for Morocco Under the Precautionary and Liquidity Line

The Executive Board of the International Monetary Fund (IMF) today approved a two-year arrangement for Morocco under the Precautionary and Liquidity Line (PLL) for SDR 2.504 billion (about US$3.47 billion, or 280 percent of Morocco's quota). The access under the arrangement in the first year will be equivalent to SDR 1.252 billion (about US$1.73 billion, or 140 percent of quota).

In recent years, the authorities have successfully reduced fiscal and external vulnerabilities and implemented key reforms with the support of two successive 24-month PLL arrangements. The new PLL arrangement will provide Morocco with useful insurance against external shocks as the authorities pursue their reform agenda aimed at further strengthening the economy's resilience and fostering higher and more inclusive economic growth.

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

Morocco's first PLL arrangement for SDR 4,117.4 million (about US$6.21 billion at the time of approval) was approved on August 3, 2012 (see Press Release No. 12/287). Morocco's second 24-month PLL arrangement for SDR 3.2351 billion (about US$5 billion at the time of approval) was approved on July 28, 2014 (see Press Release No. 14/368).

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 on Morocco, Mr. Mitsuhiro Furusawa, IMF Deputy Managing Director and Acting Chair of the Board, made the following statement:

"Despite the difficult global and regional environments, Morocco has made significant strides in reducing fiscal and external vulnerabilities and addressing medium-term challenges, supported by the two successive Precautionary and Liquidity Line (PLL) arrangements. External imbalances have declined substantially and fiscal consolidation has progressed, while policy and institutional frameworks have been strengthened, including through the implementation of the new Organic Budget Law, the adoption of the civil service pension reform, and ongoing improvements to financial sector oversight.

"Nevertheless, the economy faces significant downside risks. In particular, heightened geopolitical and security risks, a protracted period of slower growth in Morocco's main trading partners, or more volatile global financial conditions could significantly affect the economy through higher oil prices, disruptions to export and tourism revenues and remittance and capital inflows, or higher borrowing costs. In this context, a successor PLL arrangement would serve as a valuable insurance against external risks and support the authorities' economic policies.

"The authorities are committed to further reducing fiscal and external vulnerabilities while strengthening the foundations for higher and more inclusive growth. Building on the achievements made in recent years, further fiscal consolidation should be based on both continued expenditure control and further tax reforms. Timely implementation of the civil service pension reform and careful fiscal decentralization will help preserve fiscal sustainability. Adopting the revised central bank law and continuing to implement FSAP recommendations will further strengthen the financial sector policy framework. The authorities should push forward with their plan to transition to an inflation-targeting regime and greater exchange flexibility, which will help preserve competitiveness and enhance the economy's capacity to absorb shocks.

"Continued reforms to improve the business climate, competitiveness, and labor market policies will be essential to increase potential growth, reduce persistently high unemployment levels, especially among the youth, and increase the participation of women in the labor force. "

INTERNATIONAL MONETARY FUND

MOROCCO

July 8, 2016

REQUEST FOR AN ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context. As the current Precautionary and Liquidity Line (PLL) arrangement comes to an end in July 2016, the authorities have requested a successor arrangement. They have not drawn on the past two arrangements and have successfully reduced fiscal and external vulnerabilities in recent years. In an external environment that remains vulnerable to important downside risks, a successor arrangement would continue to insure against external risks and support the authorities' policies to further strengthen the economy's resilience and promote higher and more inclusive growth.

PLL arrangement. In line with the positive assessment of Morocco's policies by the Executive Board in the context of the 2015 Article IV consultation and of the last PLL review, staff considers that Morocco continues to meet the PLL qualification criteria and recommends the approval of the authorities' request:

- Morocco's economic fundamentals and policy frameworks are sound, the country is implementing (and has a track record of implementing) sound policies, and remains committed to maintaining such policies in the future. During the last PLL review, in January 2016, the Executive Board welcomed Morocco's strong policy implementation, which helped reduce fiscal and external vulnerabilities, and the progress achieved on reforms despite external headwinds.

- Staff assesses that Morocco performs strongly in four out of the five areas of PLL qualification (external, monetary, financial, and data), does not substantially underperform in the fiscal area, and does not face any of the circumstances under which the Fund might no longer approve a PLL arrangement.

Fund liquidity: The authorities intend to treat the new arrangement, of a proposed duration of two years, as precautionary. Staff estimates that under a stress scenario, potential financing needs by 2018 could lead to a total access level of 280 percent of quota, amounting to SDR 2.504 billion or $3.556 billion.

Approved By
Adnan Mazarei and Vitaliy Kramarenko

The staff team consisted of Mr. Nicolas Blancher (head), Ms. Lorraine Ocampos, Mr. Jean Frederic Noah Ndela, Ms. Anta Ndoye (all MCD), and Ms. Sanaa Nadeem (SPR). The discussions took place in Rabat between May 31 and June 8, 2016. Mr. Auclair, Ms. Cruz, and Ms. Kebet (all MCD) assisted in the preparation of the report.

The mission met with the Head of Government Mr. Benkirane, the Minister of Economy and Finance Mr. Boussaïd, Minister Delegate in Charge of the Budget Mr. El Azami El Idrissi, 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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Acronyms

ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
ESI	External Stress Index
FDI	Foreign Direct Investment
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GRA	General Resources Account
G-RAM	Global Risk Assessment Matrix
IIP	International Investment Position
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PLL	Precautionary Liquidity Line
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
TA	Technical Assistance
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
W-COM	Written Communication
WEO	World Economic Outlook

CONTEXT

1. **Macroeconomic conditions have continued to improve in recent years**. Economic activity has been robust despite adverse external conditions, while inflation has remained low. The authorities have reduced domestic and external vulnerabilities through a gradual decline in fiscal and current account deficits and continued domestic reforms, including to raise potential growth, strengthen social safety nets, and reduce unemployment.

2. **The authorities have successfully implemented key reforms with the support of two successive 24-month PLL arrangements.** Morocco qualified for the first PLL arrangement in August 2012 in a context of uncertainty surrounding global oil prices and potentially weak growth in its European trading partners. The second PLL arrangement, due to expire at the end of July 2016, was approved in July 2014 with lower access, reflecting the strengthening of the economy and a lower balance of risks relative to the preceding PLL request. The authorities consider that the two arrangements have provided useful insurance against external risks, helped create policy space in a challenging external environment, anchored their reform program, and sent positive signals to market participants.

Morocco: Precautionary Arrangements

Arrangement	Date of approval	Duration	Access 1/
PLL	August 3, 2012	24 months	Total 700 percent of quota (SDR 4.1 billion), of which: - Year 1: up to 400 percent of quota available (SDR 2.35 billion) - Year 2: additional 300 percent of quota available (SDR 1.77 billion)
PLL	July 28, 2014	24 months	Total 550 percent of quota (SDR 3.235 billion), of which: - Year 1: up to 500 percent of quota available (SDR 2.941 billion) - Year 2: additional 50 percent of quota available (SDR 0.294 billion)

1/ Relative to Morocco’s old quota.

3. **In light of the significant challenges and risks that remain, the authorities have requested a successor arrangement.** Despite recent progress, much remains to be done to secure longer-term stability, raise growth potential, and further reduce poverty, unemployment, and inequality. In light of the success of the PLL arrangements since 2012, and in an external environment that remains subject to significant downward risks, they consider that a successor arrangement would continue to provide important insurance and support to their program to strengthen the economy’s resilience and foster higher and more inclusive growth.

RECENT DEVELOPMENTS AND OUTLOOK

4. **The coalition led by the Justice and Development Party (PJD) strengthened its position in 2015.** Regional and local elections took place in September 2015, the first since the 2011 constitution was adopted. The Islamist PJD won the most seats in regional councils and control of major cities. Its main rival, the Party of Authenticity and Modernity (PAM), won just over 19 percent of the seats. Parliamentary elections are scheduled for October 2016. Social tensions have increased recently, including in reaction to the pension reform proposal submitted to parliament.

5. **Economic activity rebounded in 2015 but is expected to slow in 2016** (Figure 1)**.** Growth reached 4.5 percent in 2015, benefiting from a very good agricultural season, while non-agricultural activity remained modest (3.5 percent), including in tourism and the traditional manufacturing sectors. Preliminary data for the first quarter of 2016 suggest that the non-agricultural sector grew at a rate of 2.5 percent (y-o-y), while agricultural activity contracted by 9.2 percent due to a severe drought, leading to overall growth of only 1.7 percent. The unemployment rate increased slightly from 9.9 percent in the first quarter of 2015 to 10 percent in the first quarter of 2016, while youth unemployment remains high at about 23 percent (Figure 3).

6. **Fiscal developments through April 2016 have been positive** (Figure 2)**.** Despite lower-than-expected grants and lower tax collection, the authorities met their objective of an overall deficit of 4.4 percent of GDP in 2015 (against 4.9 percent in 2014), thanks to continued efforts to contain or reduce spending on wages, goods and services, and energy subsidies. The cyclically-adjusted primary deficit (excluding grants) also decreased compared to 2014 by about 1.9 percent of GDP. Preliminary data suggest that the fiscal deficit at the end of April 2016 was lower relative to the same period last year (2 against 2.5 percent) due to strong revenue performance, wage bill containment, and savings on subsidies, and despite higher expenditures on goods and services and accelerated capital spending.

7. **Monetary policy has been accommodative in a context of low inflation and sluggish credit growth.** After declining to 0.3 percent in January 2016 (y-o-y), headline inflation increased to 1.6 percent in April 2016 due to higher food prices following the drought. However, core inflation remained unchanged at 0.5 percent. Bank al-Maghrib (BAM) cut its key policy rate in March by 25 basis points to 2.25 percent, the first policy rate reduction since end-2014. Liquidity pressures have declined, benefiting from the improved foreign reserves position, and as reflected in decreased liquidity support from BAM between December 2015 and March 2016 and in gradual improvements in bank liquidity ratios. Nonetheless, bank lending grew only by 2.7 percent in April 2016 (y-o-y), due in particular to modest non-agricultural growth and lower imports.

8. **Banks are well capitalized and profitable, but continued efforts to reduce nonperforming loans (NPL) and credit concentration risks are needed.** At the end of 2015, banks' capital adequacy ratios stood at 13.8 percent, well above Basel III requirements. Bank profitability has been stable despite low credit growth. The average NPL ratio continued to increase

in March 2016, to 7.6 percent, due to weak non-agricultural activity, but provisioning levels are high. Large and concentrated bank exposures remain a significant source of risk identified in the 2015 Financial Sector Assessment Program (FSAP), although their size relative to bank Tier 1 capital decreased from 341 to 294 percent between 2014 and 2015.[1]

9. The external position has continued to improve, benefiting from low energy prices and reduced domestic imbalances. The current account deficit fell to 1.9 percent of GDP in 2015 (from 5.7 percent in 2014), driven by lower energy and food imports, and stronger automobile, phosphate and agriculture exports, which offset weaker tourism receipts. Foreign direct investment (FDI) remained steady. Reserves increased to $23 billion, equivalent to 6.5 months of imports, 93.5 percent of the Fund's standard assessing reserve adequacy (ARA) metric, and 122 percent of the metric adjusted for capital controls. As a result, Morocco's net international investment position (NIIP) improved by almost 11 percentage points in 2015, to about -60 percent of GDP.

10. Gradually increasing growth, low inflation, and stronger fiscal and external buffers are expected over the medium term:

- **Growth** is expected to accelerate gradually to 4.9 percent in the medium term, subject to improved external conditions and steadfast reform implementation, further agricultural sector modernization, continued expansion of Moroccan firms into new markets and sectors (such as automobiles and aeronautics), improved access to credit, and higher capital investment, which are expected to improve Morocco's position in global value chains.
- **Inflation** should remain low at about 1.3 percent in 2016, against 1.6 percent in 2015, due to low commodity prices and slowing domestic demand. It is projected to stabilize around 2 percent over the medium term.
- **Fiscal consolidation.** The overall fiscal deficit is expected to decline to 3.5 percent of GDP in 2016 and 3 percent of GDP in 2017, in line with projections at the time of the third review of the current PLL arrangement, and reflecting stronger tax revenues and moderate spending growth. Over the medium term, the authorities are determined to continue on the path of fiscal consolidation, aiming for a public debt to GDP ratio of about 60 percent by 2020, consistent with a fiscal deficit of about 2 percent.
- The **current account deficit** is projected to contract further to 1.2 percent of GDP in 2016, due in particular to strong manufacturing exports and improved tourism receipts, remittances, and official transfers. Over the medium term, the trade balance should strengthen as higher value-added exports increase and energy prices remain moderate; with declining grant revenues, the current account deficit should stabilize at around 1.5 percent of GDP. FDI inflows are projected to remain robust at about 2.5 percent of GDP, helping to raise the reserves position to about

[1] In addition, BAM's definition of concentrated exposures is stricter than Basel III requirements, and exposures above the regulatory limit are deducted from banks' own funds.

9 months of imports, 132 percent of the standard ARA metric, and 174 percent of the adjusted ARA metric by 2021.

11. Risks to the outlook remain elevated. On the domestic front, the general elections in 2016 could delay the implementation of reforms, particularly in key areas related to fiscal policy, such as pension and tax reforms. On the external front, geopolitical risks could increase oil price volatility and reduce tourism activity, potentially reversing some of the recent current account improvements; lower-than-expected growth in the euro area, stemming in particular from Brexit-related uncertainties, would slow economic activity through lower exports, tourism, FDI flows, and remittances, and exacerbate fiscal and external imbalances; and volatility in global financial markets could impact global growth and increase borrowing costs. On the upside, continued low commodity prices would help further narrow external imbalances.

ECONOMIC POLICIES

12. A new PLL arrangement would support the continuation of the authorities' economic program, which aims to further reduce fiscal and external vulnerabilities, boost employment and growth, and make growth more inclusive. Addressing remaining vulnerabilities will entail a further reduction in the fiscal deficit and public debt, a build-up in reserves, strengthening of the fiscal framework, sound monetary and financial policies, and structural reforms to boost competitiveness, growth, and employment (see W-COM. attached).

A. Securing Fiscal Sustainability

13. The current fiscal policy stance is consistent with reducing the debt burden to 60 percent of GDP by 2020 without undermining growth (W-COM.-¶ 4). Continued consolidation is essential to ensure that even with shocks to the economy, public debt will remain sustainable, fiscal policy can play some counter-cyclical role, and pro-growth expenditures are preserved. While this year's elections may lead to pressures for increased public spending, staff noted that it will be critical to meet the 2016 deficit objective of 3.5 percent of GDP, which assumes both strong revenue performance and expenditure control. The authorities confirmed their determination to reach this objective and to abide by the provisions of the new Organic Budget Law (OBL) in order to contain wage and current spending to budgeted levels.

14. Several reforms are needed to reduce the public deficit gradually to about 2 percent of GDP in the medium term (W-COM.-¶5-7)**.** Determined policies and reforms to rein in public spending have been implemented in recent years, some of which will need to be pursued further, while consolidation will also have to rely on:

- **Tax reform.** In line with recommendations from the 2013 national tax conference, the authorities are implementing reforms to make the tax system more equitable and better able to support competitiveness, including by further removing exemptions on large agricultural firms, simplifying the VAT, and better enforcing tax payments from self-employed and liberal professions. The authorities and staff agreed that expeditious implementation of these reforms (which could yield about 1.5–2 percent of GDP of additional revenues over the medium term) would help to absorb the expected decline in grant revenues starting in 2018. Staff noted that the recently-introduced corporate tax brackets could be distortive and should be replaced by a unified rate, but the authorities prefer to assess the impact of this reform before revisiting it.

- **Pension reform.** The parametric reform of the main public pension fund would include an increased retirement age, higher contributions, and reduced benefits, and is critical for strengthening its sustainability.[2] In January, the government sent to parliament a draft bill that has not yet been approved. Staff stressed the urgency of this reform, which has been delayed for some time, and is now expected to be effective in early 2017. Staff also encouraged the authorities to limit the potential fiscal cost of any accompanying measures (such as possible increases in the minimum pension). The authorities noted that the government is determined to adopt this reform this year despite opposition from labor unions.

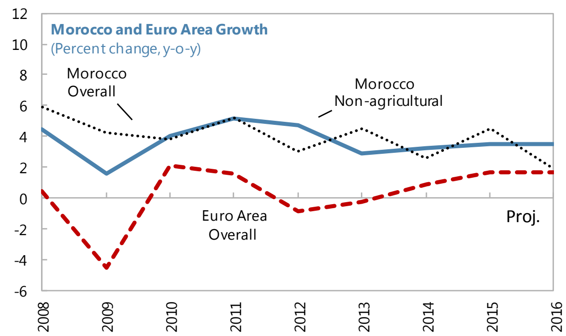
- **Public wage containment.** The authorities intend to keep the public payroll below 11.5 percent of GDP in the medium term, including by limiting the net creation of new positions and payment advances to a well-defined budget envelope (W-COM.-¶17). Staff supported this objective and also emphasized that a more comprehensive reform of the civil service would also help strengthen fiscal sustainability. The authorities noted that while some elements of such a broader reform have been considered, including the introduction of contractual employment, merit-based career progression, and greater personnel mobility, a fully-fledged medium-term reform strategy is not yet in place.

- **Subsidy reforms and social safety net.** Fuel subsidies, which represented 5.5 percent of GDP in 2012, were drastically reduced to 1.2 percent of GDP in 2015, helped by the slump in oil prices. The full liberalization of fuel prices took place in 2015, and the authorities now plan to gradually reduce certain food subsidies (for wheat and sugar). Staff supported the authorities' intention to secure social programs that better target the most vulnerable population groups.

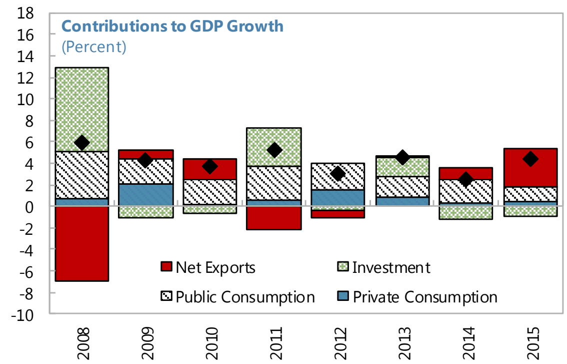
[2] For a full discussion of this reform, see staff reports for the 2012 and 2014 Article IV consultations.

Figure 1. Morocco: Real and External Developments

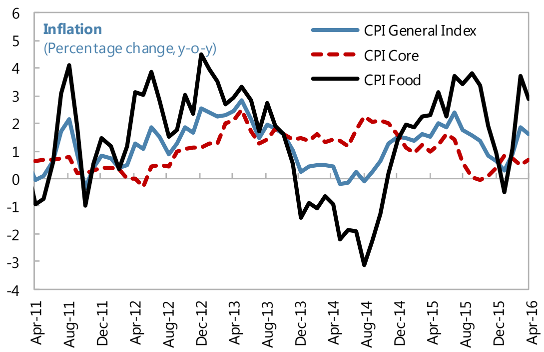
Economic activity rebounded in 2015 but is expected to slow in 2016.



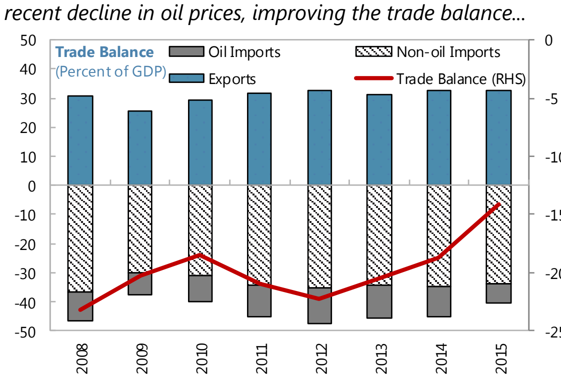
Net exports have been the main driver of growth while domestic demand has been subdued.



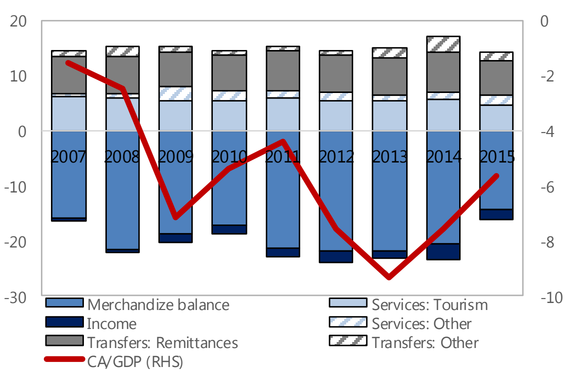
Inflation has remained low despite recent increases in food prices.



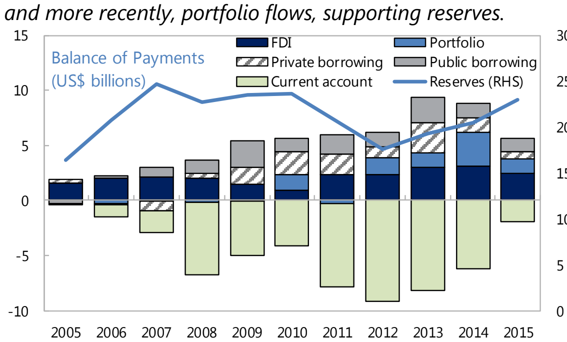
Exports have grown faster than imports, in part due to the recent decline in oil prices, improving the trade balance…



…which has strengthened the current account, supported by tourism and remittance inflows.

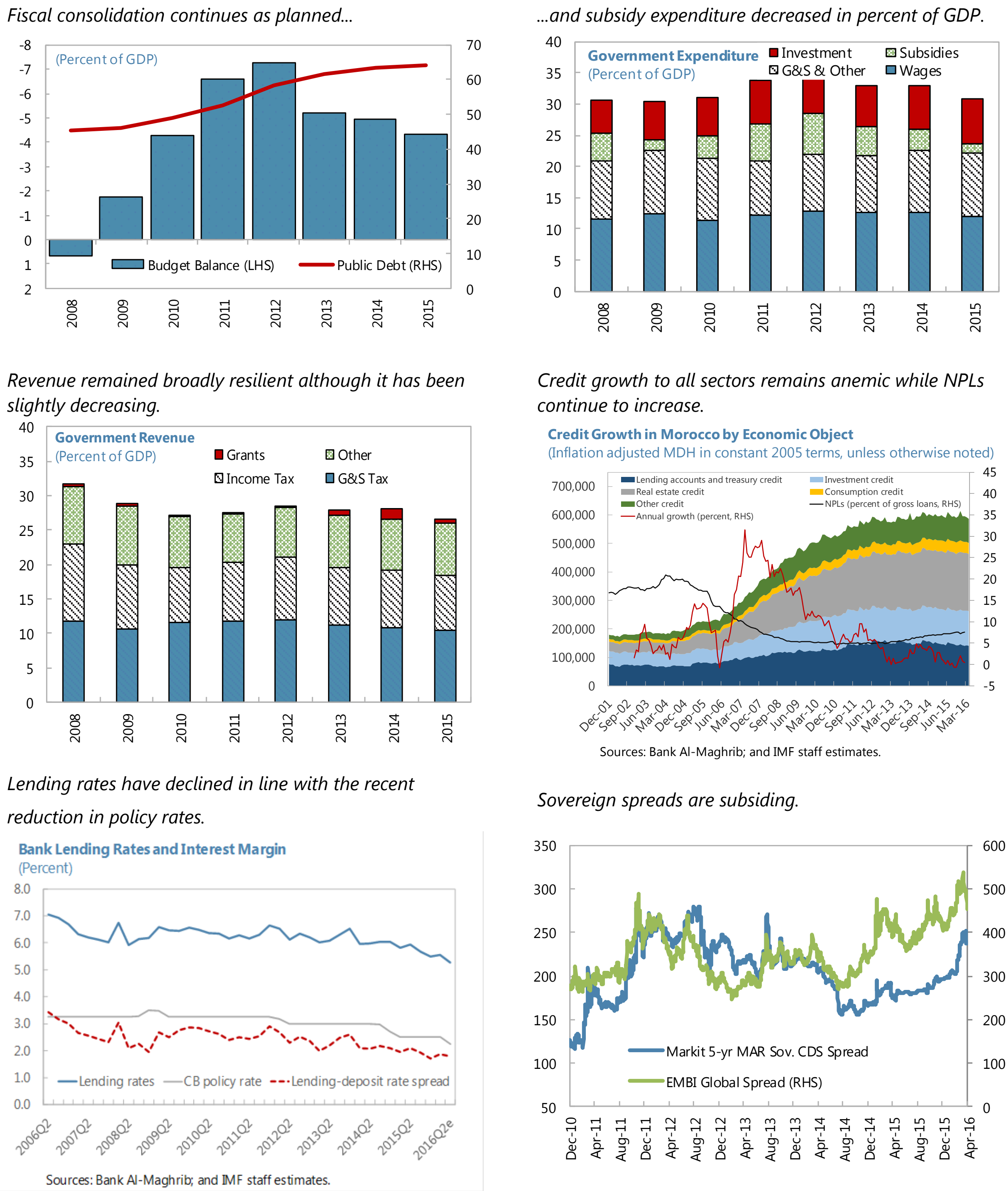


The current account has been financed by steady FDI inflows and more recently, portfolio flows, supporting reserves.



Sources: Moroccan authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal and Financial Market Developments

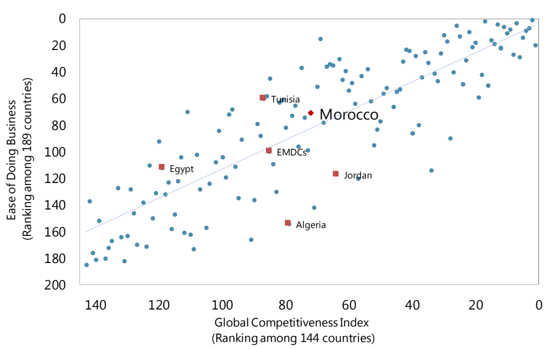


Sources: Moroccan authorities; Bloomberg; and IMF staff estimates.

Figure 3. Morocco: Structural Reforms

Morocco fares relatively well at the regional level in terms of overall business climate and competitiveness…

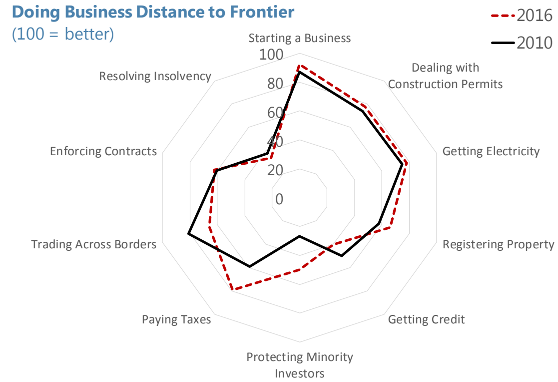
Doing Business vs. Global Competitiveness Index, 2015



Sources: World Bank Doing Business; and World Economic Forum.

… as illustrated by improvements in its Doing Business ranking…

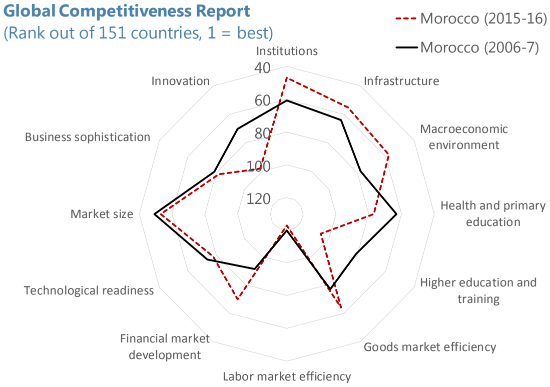
Doing Business Distance to Frontier
(100 = better)



Source: World Bank Doing Business 2016.

…and Global Competitiveness ranking, although further progress is needed on education and innovation.

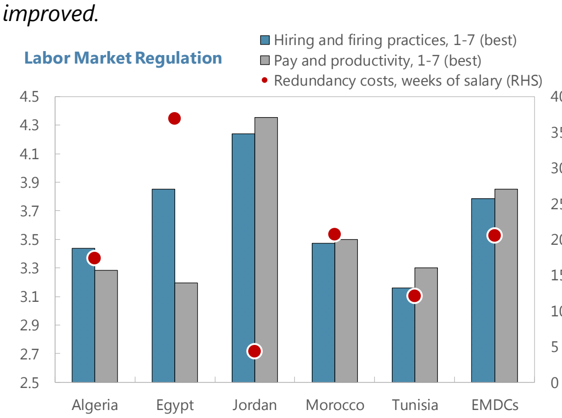
Global Competitiveness Report
(Rank out of 151 countries, 1 = best)



Source: World Economic Forum, 2015-16 Global Competitiveness Report.

The functioning of the labor market could also be improved.

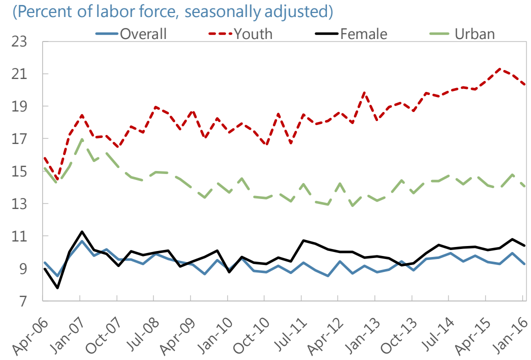
Labor Market Regulation



Source: World Economic Forum 2015-16 Global Competitiveness Report.

Youth and urban unemployment remain high…

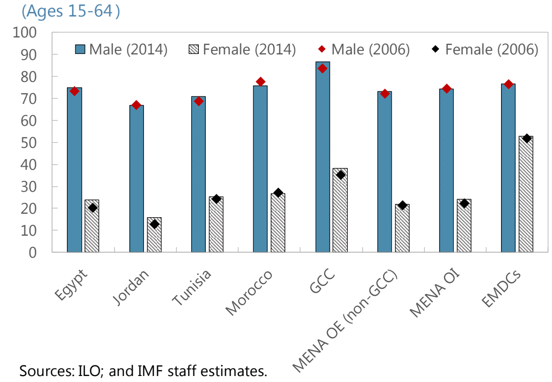
Unemployment Rates
(Percent of labor force, seasonally adjusted)



Sources: Authorities' data; and IMF staff estimates.

…and female labor force participation is low and stagnant

Total Labor Force Participation Rate, 2006 vs. 2014
(Ages 15-64)



Sources: ILO; and IMF staff estimates.

15. Continued improvements to the fiscal policy framework will also be important to secure strong fiscal outcomes and increase the efficiency of public spending (W-COM.-¶8-9):

- **Organic Budget Law.** The OBL adopted in 2015 is strengthening Morocco's fiscal framework considerably. Most of its provisions entered into force in January 2016, including those pertaining to fiscal performance management and transparency, and parliamentary oversight and approval. The remaining provisions, including for triennial budget and programming, making ceilings on wage expenditure appropriations binding, and limiting the carryover of investment appropriations will be gradually introduced by 2020. Staff enquired about measures to address potential risks related to public enterprises (for which specific provisions are missing from the OBL), and the authorities indicated that the government would introduce a bill to reinforce the governance and oversight of public enterprises.

- **Fiscal decentralization.** The authorities are shifting a range of political and administrative competencies, and increasingly public resources, to the regional level. The fraction of income tax revenues transferred to the regions increased from 1 to 2 percent in the 2016 budget, and will continue to increase progressively to reach 5 percent by 2020. In parallel, the responsibilities of the regions to allocate public resources will expand in a range of areas, such as education, health, housing, transport, and economic development. The organic law for the regions transposes the principles of the OBL at the local level, including by modernizing the institutional framework and reinforcing governance at the local level. Staff stressed that decentralization entails significant fiscal risks, including in light of limited implementation capacity at the local level, and requires establishing proper budgetary checks and balances at both the central and local levels. At this early stage in the implementation process, staff asked the authorities to provide by the end of 2016 detailed medium-term plans regarding the sequence of fiscal decentralization and specific measures to ensure sound public financial management, including those concerning local spending responsibilities, revenue arrangements, and debt controls, and, more broadly, the implementation of the organic law at the regional level. The authorities welcomed the possibility to receive Fund technical assistance (TA) in this area.

B. Transitioning to New Exchange Rate and Monetary Regimes

16. The authorities have decided to start moving toward a more flexible exchange rate and an inflation-targeting regime during the period of the requested arrangement (W-COM.-¶12). While not without risks in a global context of volatile financial conditions, staff and the authorities agree that the current situation is appropriate for a move. As noted during the 2015 Article IV consultation, the key preconditions for a successful move to more exchange rate flexibility are in place, thanks to the stronger fiscal and external buffers, alignment of the exchange rate with fundamentals, and resilience of the financial sector. The Fund is providing TA for the final preparations, and staff will now support the authorities with a consolidated roadmap including all TA recommendations on various operational aspects of the transition. This will help the authorities decide on key steps going forward, such as regarding the exchange rate band, foreign exchange intervention strategy, and inflation target.

17. The recent reduction in the monetary policy rate was appropriate, and securing effective monetary transmission will be increasingly important (W-COM.-¶10). Given low inflation, slow credit growth, and below-potential economic activity, lower policy rates should support credit and the economic recovery. However, several factors may limit the effectiveness of policy transmission and credit growth, including high credit concentration and constraints on the ability of small and medium enterprises (SMEs) to access credit. Staff noted that, if warranted by further declines in core inflation, an additional reduction of the policy rate may be needed, while efforts to address potential obstacles to credit growth that may hinder economy activity, particularly by promoting credit to SMEs, should continue.

C. Enhancing Financial Sector Stability

18. While NPL and credit concentration levels need to decrease, risks to financial stability are limited and the financial sector policy framework is being enhanced (W-COM.-¶11). Banks are well capitalized and profitable, and benefit from relatively stable deposit funding. However, NPLs are still increasing (albeit at a slower pace), and banks are exposed to higher-risk sub-Saharan African countries and remain vulnerable to large credit concentration risks. The authorities are taking a number of steps, consistent with recent FSAP recommendations:

- The impact study on aligning loan classification and provisioning rules with the International Financial Reporting Standards (IFRS) is expected to be finalized soon.
- Industrial and commercial groups are to prepare consolidated financial statements, which will help better manage banks' concentration risks.
- In light of the expanded BAM responsibilities and evolving bank risk profiles, BAM's supervisory resources will be increased substantially between 2016 and 2017 (about 30 new expert staff), while cooperation and exchange of information with host authorities is intensifying.
- The macroprudential policy framework is being strengthened, including with the forthcoming introduction of countercyclical capital buffers.
- The preparation of recovery plans for domestic systemically-important banks (D-SIBs) is advancing, with new draft regulations and the creation of a new supervisory unit to conduct off-site D-SIB supervision.
- The crisis management and bank resolution frameworks will improve, including through additional changes to the draft central bank law, which will strengthen the central bank's independence, clarify its objectives, and enhance its supervisory and resolution powers.

D. Growth-Friendly and Inclusive Environment

19. The authorities are implementing reforms to improve the business environment and competitiveness, and raise Morocco's growth potential (W-COM.-¶13). In recent years, the *Doing*

Business and *Global Competitiveness Report* rankings have highlighted Morocco's ongoing progress, but they have also flagged areas for improvement: corruption, an inefficient bureaucracy, an inadequately educated workforce, tax regulations, and restrictive labor regulations. Recent reforms have included the introduction of simpler and more transparent administrative procedures (in such areas as customs, property registration, and setting up a business); the adoption of a law that gives a Competition Council substantial powers to investigate and sanction non-competitive practices; and the launch in 2015 of a national strategy to fight corruption. Staff stressed the importance of appointing the Competition Council's new members and taking action to reduce payment delays from the public to the private sector, which affect primarily SMEs.

20. High unemployment and low female labor force participation reflect in part poor education outcomes and labor market constraints (W-COM.-¶13). Improving the performance of Morocco's education system and reducing skill mismatches on the labor market are key priorities. They require more efficient public spending and more consistent policies for teacher training, recruitment, deployment, and evaluation. The recently-introduced National Strategy for Employment should lead to specific reforms of labor regulation, taxation and minimum wage policy, which are significant constraints on job creation, especially for women and young people. According to a recent World Bank study, Morocco has restrictive fixed-term contract laws and firing regulations, a high minimum wage level relative to average worker's productivity by international standards, and relatively high payroll tax levels.[3]

ASSESSMENT OF QUALIFICATION

21. Staff's assessment is that Morocco continues to qualify for a PLL arrangement. In line with the positive assessment of Morocco's policies by the Executive Board during the 2015 Article IV consultation and the last PLL review, staff's assessment is that Morocco meets the PLL qualification criteria.

A. General Assessment

22. Staff's assessment is that Morocco's economic fundamentals and institutional policy frameworks are sound, that the country is implementing, and has a track record of implementing, sound policies, and that it remains committed to doing so in the future.

- **Morocco's economic performance has been strong** (Box 1)**.** Growth averaged 3.5 percent and inflation remained low (less than 2 percent) in 2012–15. In 2015, the fiscal and current account deficits declined to 4.4 and 1.9 percent of GDP, respectively. The banking system has remained stable. Over the medium term, economic growth is expected to increase steadily in a context of low inflation. Both public and external debts are sustainable.

[3] *Morocco: Mind the Gap-Empowering Women for a More Open, Inclusive, and Prosperous Society*, March 2016, World Bank, WP 103907.

- **The authorities have implemented sound policies.** During the last PLL review, in January 2016, the Executive Board welcomed Morocco's strong policy implementation, which helped reduce fiscal and external vulnerabilities, and the progress achieved on reforms despite external headwinds. Directors also highlighted progress in the two areas where Morocco did not significantly underperform during the last PLL arrangement: its external position was deemed to have improved considerably, with reserves reaching a comfortable level, owing to strong policies, rising exports in newly-developed sectors, and robust FDI, in addition to falling oil prices. On the fiscal side, the decline in the public deficit since 2012 was noted, together with the substantial progress achieved on subsidy reform and the strengthening of the social safety net.

- **The authorities remain committed to maintaining sound policies**, including to reducing public debt to 60 percent of GDP by 2020, which will require bringing the fiscal deficit to about 2 percent of GDP. They also intend to pursue further structural reforms to raise potential growth and promote higher and more inclusive growth, including by improving competitiveness and the business environment, labor market reform, and investment in human capital.

- **Increasingly flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks.** On the fiscal front, the authorities took corrective action in the face of unforeseen declines in grant revenues in 2015, by quickly rationalizing expenditures. The implementation of the new OBL is enhancing budgetary procedures and practices. Indicators of a country's ability to undertake countercyclical policy in the event of shocks show that Morocco performs well in the fiscal policy area.[4] Morocco scores lower in the monetary policy area, but this indicator is less relevant for Morocco given its pegged exchange rate regime. Furthermore, BAM has a clear mandate for implementing monetary and exchange rate policies, and the authorities now intend to upgrade the monetary policy regime as part of a transition to greater exchange rate flexibility and inflation targeting.[5] Lastly, Morocco is in the mid-range of the World Bank's anti-corruption and government effectiveness ranking.

- **Overall, Morocco continues to meet the qualification criteria for a PLL arrangement, and staff is of the view that it now performs strongly in four out of the five PLL qualification areas** (external position and market access, financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other qualification area (fiscal policy). Morocco has sound economic and institutional policy frameworks, is implementing, and has a track record of implementing, sound policies, and remains committed to maintaining such policies in the future.

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[4] 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.

[5] 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.

Box 1. Morocco: Achievements under the Second PLL Arrangement

Morocco has made significant progress under the current PLL arrangement, with strong policy implementation and reform achievements. *Vulnerabilities were reduced, especially on the external and fiscal side, although continued efforts to move ahead with difficult but necessary reforms will be key for further strengthening fiscal and external buffers and reducing remaining vulnerabilities.*

The program was expected to strengthen macroeconomic stability and promote stronger and more job-rich growth, notably by reducing the fiscal and current account deficits and implementing domestic reforms. Growth was projected to reach 3.5 percent of GDP in 2014 and 4.7 percent in 2015. The fiscal target was set at 4.9 percent of GDP in 2014 and 4.3 percent of GDP in 2015, in line with the authorities' objective of a budget deficit of 3 percent of GDP in the medium term. The current account deficit was projected to decrease to 6.8 percent in 2014 and 5.8 percent in 2015. Reserves were expected to increase to 4.5 months of imports in 2015. The macroeconomic scenario was supported by the following external assumptions and domestic reforms:

Morocco: 2014 PLL vs. Current Macro Framework

	2014 PLL 1/	2014 Act.	2015 PLL 1/	2015 Act.	2016 PLL 1/	2016 Act.	*Diff.*
Output and Prices							
Real GDP growth	3.5	2.6	4.7	4.5	5.0	1.8	*-3.2*
Consumer price growth (period average)	1.1	0.4	2.0	1.5	2.3	1.3	*-1.0*
Public Finances (percent of GDP)							
Budget balance	-4.9	-4.9	-4.3	-4.4	-3.5	-3.5	*-0.1*
Primary balance (excluding grants)	-2.9	-3.7	-2.6	-2.1	-1.8	-1.9	*-0.1*
Revenue	27.9	28.1	28.1	26.5	28.2	26.9	*-1.3*
Expenditure	32.9	33.0	32.4	30.9	31.6	30.4	*-1.2*
Of which: Wages	13.0	12.7	12.7	12.0	12.1	12.3	*0.2*
Subsidies	3.5	3.5	2.4	1.4	1.7	1.2	*-0.5*
Total government debt	65.5	63.5	65.7	64.1	65.0	64.4	*-0.6*
External Sector (percent of GDP, unless otherwise noted)							
Current account including official transfers	-6.8	-5.7	-5.8	-1.9	-5.1	-1.3	*3.9*
Current account excluding official transfers	-8.1	-7.4	-6.8	-2.4	-6.0	-2.3	*3.7*
Exports + remittances + tourism receipts (in billions of USD)	38.2	34.2	41.4	30.8	45.0	32.3	*-12.7*
Imports, excluding petroleum (in billions of USD)	-32.2	-29.6	-34.1	-26.7	-36.8	-28.8	*8.1*
Petroleums imports (in billions of USD)	-12.8	-11.0	-13.3	-6.0	-13.9	-5.7	*8.2*
Total external debt	32.9	30.9	33.2	32.9	33.0	33.0	*0.0*
Gross reserves (in billions of U.S. dollars)	21.1	20.5	22.7	23.0	24.7	26.7	*2.0*
In months of G&S imports	4.5	6.1	4.5	6.5	4.6	7.0	*2.5*
External Environment							
World GDP growth	3.7	3.4	3.9	3.1	4.0	3.2	*-0.8*
Euro area GDP growth	1.0	0.9	1.4	1.6	1.5	1.5	*0.0*
Oil prices (brent, $/barrel)	107.9	98.9	104.0	52.4	99.8	45.3	*-54.5*
Phosphate prices ($/metric ton)	110.0	110.0	105.0	117.0	103.4	120.0	*16.6*
Terms of trade (percent change)	-4.6	-1.2	2.0	10.7	0.7	5.5	*4.8*

Sources: Moroccan authorities; and IMF staff estimates.

1/ 2014 PLL framework.

- Euro zone GDP growth was projected to improve by 0.4 percent of GDP from 2014 to 2015. Oil prices were expected to fall from 107.9 in 2014 to 104.0 in 2015.
- The authorities intended to advance major domestic reforms, including those of subsidies, pensions, and the tax system. The subsidy reform was expected to reach its medium-term target in 2015, as all subsidies would be eliminated, except for butane, sugar, and a limited volume of flour, with a combined cost of remaining subsidies at less than 3 percent of GDP. The authorities also intended to bring the public payroll below 11.5 percent of GDP in the medium term (from a projected 13 percent of GDP in 2014), including by limiting the net creation of new positions, salary advances, and promotions to a well-defined budget envelope. The authorities planned to increase potential growth, to improve competitiveness and boost employment creation by implementing structural reforms, including further improvement of the business climate and economic governance, adapting their active employment policies, and an industrial acceleration strategy to diversify exports.

Box 1. Morocco: Achievements under the Second PLL Arrangement (concluded)

External and fiscal balances improved during the second PLL, owing to strong policies and export diversification and performance, falling oil prices, and domestic reform implementation. In 2014 and 2015, oil prices were $9 and $51.6 per barrel lower than forecast, respectively. This, together with sound policies and the implementation of subsidy reforms, led to improved current and fiscal deficits. The current account deficit decreased to 5.7 percent of GDP and 1.9 of GDP respectively in 2014 and 2015, instead of the expected 6.8 and 5.8 percent of GDP. Reserves remained resilient at 6.5 months of import at the end of 2015, two months higher than projected at the onset of the program. The fiscal deficit was consistent with targets at the time of the request of the PLL, decreasing to 4.4 percent of GDP in 2015 from 5.2 percent in 2013, as subsidy spending was further reduced and the wage bill was contained. A new Organic Budget Law was adopted in July 2015 to improve the budget framework.

However, public debt remains relatively high, growth was more modest than projected, and pension reform has yet to be implemented. While public debt was about 2 percent of GDP lower at the end of 2015 than projected at the onset of the program, it is still relatively high at 64.1 percent of GDP. It is, however, expected to decline to 60 percent in 2020. Real GDP growth in 2014 and 2015 was also below initial projections, partly due to a slowdown in tourism activity and a modest recovery in Europe. Pension reform, which is important to support medium-term fiscal consolidation and extend the sustainability of the pension system, has been delayed and is now scheduled to be implemented in early 2017. Finally, raising Morocco's growth potential and reducing unemployment will require further progress on structural reforms.

B. Assessment of Specific Criteria

23. Morocco now performs strongly in four out of the five PLL qualification areas (external position and market access, financial sector and supervision, monetary policy, and data adequacy) and does not substantially underperform in the other area (fiscal policy). This marks an improvement since the third review of the current PLL arrangement, when Morocco was not assessed as performing strongly in the area of external position and market access. Indeed, staff's assessment is that sharp improvements in Morocco's current account position are not just the result of lower international oil prices, but also reflect a strong underlying current account position resulting from: (1) strong export diversification and performance in recent years (despite adverse conditions in its main trading partners); (2) the substantial reduction in domestic macroeconomic imbalances (such as on the fiscal front); and (3) the fact that international oil prices are now projected to remain at relatively low levels over the medium term.

External position and market access: *Morocco performs strongly in the external position and market access area.*

- ***Criterion 1. Sustainable external position.*** The substantial decline in the current account deficit was due not only to the decline in international oil prices, but also to strong, more diversified export growth (despite adverse conditions in Morocco's main trading partners), and to a substantial reduction in domestic macroeconomic imbalances.[6] The non-oil trade deficit

[6] The rise of higher value-added manufacturing sectors (e.g., automobiles, electronics, aeronautics) has helped diversify Morocco's export base. Finished manufacturing products accounted for 41 percent of total exports in 2010 and 50 percent in 2015. The UNCTAD export concentration index for Morocco declined from 0.175 in 2000 to 0.157 in 2014 (an index value closer to 1 indicating that exports are highly concentrated on a few products).

improved from 10.6 percent of GDP in 2012 to 7.6 percent in 2015. This favorable performance is expected to continue over the medium term as exports rise, boosted by increasing external demand and the expansion of newly developed, higher value-added export sectors, while import growth remains moderate in an environment of moderate commodity prices and a gradual shift to more renewable energy use. Together, these factors should make the current account more resilient to oil price shocks going forward. The real effective exchange rate is broadly in line with fundamentals based on the most recent external balance assessment (EBA).[7] The external debt sustainability analysis provided by the 2015 Article IV shows that Morocco's external debt has been rising but remains relatively low, at about 32.7 percent of GDP at the end of 2015. Furthermore, it is expected to decline to under 30 percent of GDP over the medium term, and to remain sustainable and robust to standard stress tests. Finally, the introduction of greater exchange rate flexibility would help enhance the economy's competitiveness and capacity to absorb shocks.

- ***Criterion 2—Capital account position dominated by private flows***. Private capital flows constitute the largest share of the capital account (about 82 percent of total capital flows), of which FDI is the largest component. Access to international financial markets by nonfinancial corporations remains modest compared to other emerging markets, and private external debt is small (about 8.2 percent of total debt or 2.7 percent of GDP). Sovereign bond issuance and loans from development partners constitute the bulk of public capital flows.

- ***Criterion 3—Track record of steady sovereign access to international capital markets at favorable terms.*** Morocco has recently been able to issue international bonds at favorable terms, aided by the global low interest rate environment. The government raised EUR 1 billion in June 2014, and the National Phosphate Company (OCP) issued a $1 billion Eurobond in April 2015. Each issuance benefited from low spreads and long maturities, reflecting the confidence placed in Morocco by market participants: sovereign spreads narrowed between 2011 and 2015, and the average maturity of public external debt has been extended to 8 years and 6 months currently (against 7 years and 4 months in 2009).

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[7] The current account approach suggests a current account gap of 1.9 percent of GDP above the norm, equivalent to an REER undervaluation of 7 percent (compared to 2 percent in the fall of 2015). The recent increase in the current account gap is mainly explained by favorable terms of trade stemming from the lower oil prices affecting both the observed current account and its norm (through higher reserve accumulation in the latter case). The external sustainability approach suggests an undervaluation of 11.7 percent, but this estimate is very sensitive to the net foreign assets benchmark used. Finally, the REER approach suggests an overvaluation of 9.1 percent, but the underlying series on the home bias variable is limited, which affects the robustness of the estimate. With the above-mentioned biases and usual uncertainties taken into account, staff assesses that, on balance, the dirham is broadly aligned with fundamentals.

- ***Criterion 4—A reserve position, which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.*** Morocco's strengthening international reserves are now comfortable by several metrics (Figure 5): 6.5 months of imports, ample coverage of short-term debt and broad money, 93.5 percent of the standard ARA metric, and 122 percent of the metric adjusted for capital controls at the end of 2015 (against 80 percent and 104 percent at the end of 2014, respectively).[8] By 2021, reserves are expected to increase further to more than 9 months of imports, 132 percent of the standard ARA metric, and 174 percent of the metric adjusted for capital controls.

Fiscal policy: *Morocco does not substantially underperform in the fiscal area.*

- ***Criterion 5—Sound public finance, including a sustainable public debt position***. The authorities remain committed to a sustainable fiscal path and a track record of sound public finances. Consistent with their medium-term objectives to reduce public debt to 60 percent of GDP by 2020 (against 64.4 percent of GDP at present), which will require bringing the fiscal deficit to about 2 percent of GDP, the pace of fiscal adjustment and reform has picked up since the end of 2013. A deficit of 3.5 percent of GDP is projected in 2016. Following strong policy actions and reforms to rein in public spending in recent years, consolidation will need to be more reliant on structural tax measures, including because grant revenues are expected to decline after 2017. As part of the authorities' plan to advance regionalization, fiscal decentralization has started and will need to be implemented carefully in order to preserve fiscal sustainability. Even though this should not raise risks in the short term, a clear medium term implementation plan should be established by the end of 2016 regarding the sequence of fiscal decentralization and measures to ensure sound public financial management at the regional level. This should include local spending responsibilities, revenue arrangements, and debt controls, and, more broadly, the implementation of the organic law for the regions. A draft law to reinforce the governance and oversight of public enterprises should also be introduced in the near term. The updated debt sustainability analysis shows public sector debt, which increased over the past three years due mainly to the levels of the primary deficit and higher-than-expected real interest rate/growth differential, to be sustainable and generally resilient to various shocks and vulnerabilities despite high gross financing needs, which are expected to decline due to a lengthening of average maturities.

Monetary policy: *Morocco performs strongly in the monetary policy area.*

- ***Criterion 6—Low and stable inflation***. Morocco continues to maintain low and stable inflation. Despite the March 2016 pickup in inflation to 1.8 percent (y-o-y) due mainly to higher food prices, inflation continues to be low and is expected to remain low in the medium term. Inflation expectations are well anchored, as reflected in BAM's surveys. The authorities have decided to gradually introduce greater exchange rate flexibility and shift to inflation targeting during the period of the requested arrangement, which will allow the economy to better absorb external

[8] The adjusted metric places a lower weight on broad money, reflecting a lower risk of capital flight. See Assessing Reserve Adequacy—Specific Proposals, IMF Policy Paper, December 2014.

shocks. In staff's assessment, this transition is likely to proceed smoothly given that pre-conditions are largely in place and Morocco will move from a position of strength (due to the stronger fiscal and external buffers, resilience of the financial sector, and alignment of the exchange rate with fundamentals, as well as the absence of financial dollarization and current restrictions on capital outflows by residents).

Financial sector soundness and supervision: *Morocco performs strongly in the financial sector area.*

- ***Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability***. Banks are well capitalized and profitable, benefiting from low operating costs, rising fee and commission income, and stable funding (mainly domestic deposits). NPLs are relatively high and continue to rise albeit at a slower pace, and concentration risks are significant, but banks are well provisioned and FSAP stress tests show the banking system could withstand severe adverse shocks associated with prolonged weak growth in advanced economies and greater global financial market volatility.

- ***Criterion 8—Effective financial sector supervision***. The 2015 FSAP concluded that bank supervision is effective and has improved, benefiting from increasing resources. The banking law adopted in November 2014 expands BAM's regulatory and supervisory powers, and aims to improve cross-border supervision and tighten rules for consolidated risk management. The regulations to make it operational are advancing particularly in the area of banking regulation and oversight. Along with the implementation of stricter capital requirements, Morocco continues to strengthen banking supervision and is introducing macroprudential regulations. Supervision of Moroccan banks in sub-Saharan Africa is improving through strengthened coordination and exchange of information with supervisory agencies in host countries.

Data adequacy: *Data provision and quality are fully adequate.*

- ***Criterion 9—Data transparency and integrity***. Overall data quality continues to be adequate to conduct effective surveillance and program monitoring. Morocco subscribes to the Special Data Dissemination Standard. The authorities are committed to improving data quality and access.

C. PLL Approval Criteria

24. Morocco does not face any of the circumstances under which the Fund may not approve a PLL arrangement. Specifically: (1) as noted above, Morocco has access to international capital markets; (2) there is no need to undertake large macroeconomic or structural policy adjustment (neither the planned fiscal adjustment nor the expected external sector adjustment are large from an international perspective); (3) the public debt position is sustainable in the medium term; and (4) there are no widespread bank insolvencies.

PLL ARRANGEMENT DESIGN

A. External Risks

25. In the baseline scenario, as a result of sound policies and fundamentals, Morocco does not face a financing gap. Gross external financing requirements are expected to amount to about $4.0 billion at the end of 2017 (Table 8), which should be financed primarily through net FDI inflows (about $2.6 billion) and medium- and long-term borrowing ($3.6 billion). Gross international reserves are projected to strengthen to about 110 percent of the ARA metric in the absence of external shocks by the end of 2017.

26. Nevertheless, the balance of payments position remains vulnerable to external shocks, justifying continued access under a PLL arrangement. Relative to the 2014 PLL arrangement, the nature of external risks that most significantly affect Morocco has shifted, as reflected in the April 2016 Global Risk Assessment Matrix (G-RAM) and the External Stress Index (Box 2). Whereas downside risks to oil prices have abated somewhat, the prospects of low euro area growth and heightened geopolitical and security risks have increased, and the materialization of these risks could reverse recent improvements and result in an external financing gap:

- *Geopolitical and security risks related to the Middle East and North Africa*. These could trigger substantial rises in oil prices due to supply shocks, as well as declines in tourism activity and capital inflow disruptions, which could weaken Morocco's current account position.

- *A protracted period of slower growth in Morocco's euro area trading partners*. As set out in the 2016 WEO, growth prospects have further weakened in advanced economies, including through potential spillbacks from a China slowdown. The impact would be through lower exports and tourism receipts, as well as reduced FDI and remittance inflows.

- *More volatile global financial conditions, particularly for emerging and frontier economies*. Heightened investor risk aversion and uncertainty, compounded by an appreciating dollar, could trigger a flight to safe assets and a pullback of capital flows from emerging economies. Morocco would face a combination of higher borrowing costs in international markets (although the share of short-term external debt is low), and lower portfolio and other flows.

Box 2. Morocco: External Stress Index

Background. 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 Executive Board for Flexible Credit Line (FCL) and PLL countries at the time of the review of these instruments in June 2014.[1/] The index is based on: (1) a consideration of the key external risks facing Morocco; (2) the selection of proxy variables capturing these risks; and (3) the choice of the weights to apply to each of these variables. The model was first developed at the time of the 2012 PLL request.

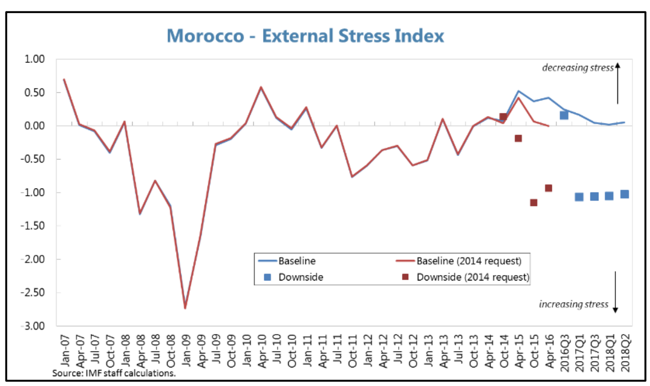
Risks. The main external risks for Morocco based on the April 2016 Global Risk Assessment Matrix (G-RAM), are: (1) a protracted period of slow growth in advanced economies, particularly in Morocco's main trading partners, resulting in lower exports, FDI, tourism, and remittances; (2) heightened geopolitical risks resulting in higher oil prices and dislocations to capital flows and tourism receipts; and (3) a surge in global financial market volatility, resulting in higher borrowing costs and disruption to portfolio flows.

Proxy variables. (1) Lower exports, remittances, FDI, and tourism receipts from Europe are captured by growth in the euro area, Morocco's main trading partner (representing more than 50 percent of trade, FDI, and remittances); (2) higher oil imports are captured by oil prices; and (3) the impact of global financial volatility on portfolio flows and borrowing costs are captured by the emerging markets volatility index (VXEEM).

Weights. A data-based approach was used to determine the weights for each variable. Weights for each proxy variable are estimated using the balance of payments and IIP data as a share of GDP. The weight on euro area growth (0.580) corresponds to the sum of exports, FDI, remittances, and tourism receipts from Europe, the weights on the VXEEM (0.095) correspond to the stocks of external debt and equity, and the weight on the change in oil price (0.324) corresponds to oil imports. The highest weights fall on euro area growth and the oil price (based on their relative contribution to items on the balance of payments/financing needs). The VXEEM has a much smaller weight reflecting the small size of portfolio flows in the financial account.

Baseline scenario. The baseline corresponds to the WEO projections for euro area growth and oil prices, while the VXEEM is consistent with VIX futures as of May 1, 2016. The graph suggests that at the current juncture, external economic stresses have declined relative to the 2014 request (solid lines). This is mainly driven by the decrease in the oil price path and the more favorable outlook for euro area growth.

Downside scenario. The downside scenario is broadly consistent with staff's adverse scenario, and assumes euro area growth that is one percentage point lower than the baseline, a $15 increase in oil prices relative to the baseline, and an increase in the VXEEM by two standard deviations. The graph suggests that in a downside scenario, external economic stresses are more elevated than at the time of the last request (dotted lines).



Overall assessment. The external economic stress index for Morocco suggests that external pressures under the baseline have abated in recent years. However, the model does not include a proxy for geopolitical risk (given the difficulty in choosing such a variable). At present, this would suggest heightened stress.

1/ See "The Review of The Flexible Credit Line, The Precautionary and Liquidity Line, And the Rapid Financing Instrument," IMF Policy Paper, January 2014

B. Scenario Calibration and PLL Access

27. Staff's assessment of potential balance of payments needs is based on an adverse scenario involving the realization of the key external risks discussed above, which is consistent with past crises and with recent Flexible Credit Line country cases (Figure 4). This scenario would entail significant impacts on the current account, including the trade balance (through exports and oil import costs, by about 5 percent of GDP), tourism receipts (3.6 percent of GDP), and remittances (0.6 percent of GDP), as well as on external financing flows, particularly FDI (1.5 percent of GDP) and portfolio flows (1.7 percent of GDP). The detailed calibration of this scenario is discussed in Box 3.

28. The resulting financing gap would justify a total access level of 280 percent of new quota (about $3.556 billion) by 2018 (text table). As noted, Morocco's reserves have strengthened considerably in recent years (by $3.8 billion from the end of 2013). The impact of the adverse scenario would be absorbed through both: (1) a drawdown in reserves of about $10 billion, down to 90 percent of the Fund's standard ARA metric, the same benchmark as under the current arrangement (equivalent to 120 percent of the adjusted ARA metric or 6.4 months of imports); and (2) supplementary PLL access of 280 percent of the new quota (about $3.556 billion), which is a lower access level than in the 2014 and 2012 PLL arrangements.

Size of Shocks and PLL Access
(Millions of dollars)

	2012 PLL	2014 PLL	Proposed PLL
Total size of shock to reserves (T+1, T+2)	6,210	10,710	13,308
Drawdown in reserves	528	5,761	9,824
PLL access	6,200	5,000	3,529
as % of shock	**100**	**47**	**27**

C. Conditionality

29. The proposed successor arrangement would retain the conditionality structure of the current arrangement, namely quantitative indicative targets (ceilings) on the overall budget balance (including grants) and floors on net international reserves. Indicative targets would be adjusted based on the excess or shortfall in grants. In light of the authorities' record in implementing appropriate actions in a timely manner, and in line with the current PLL arrangement, staff does not propose to set structural conditionality. All standard performance criteria (such as non-accumulation of external payment arrears) will apply.

Box 3. Morocco: Adverse Scenario Calibration

The adverse scenario assumes the concurrent materialization of key downside risks to Morocco's balance of payments. In line with the April 2016 Global Risk Assessment Matrix (G-RAM) and World Economic Outlook (WEO), the adverse scenario entails heightened security risks in the Middle East and North Africa that could disrupt capital flows and tourism receipts and generate an upward shock to oil prices, a growth slowdown in Morocco's euro area trading partners, and tighter, more volatile financial conditions. The calibration of these shocks is in line with recent FCL country cases (Figure 4). The combined impact of these shocks would result in:

- *A net increase in the oil price* by about $15. This includes: (1) an increase by $20 attributable to a negative shock to oil producers related to geopolitical risks; and (2) a decrease by $5 attributable to the spillover effects on commodity markets of weak euro area growth. This is broadly in line with the spring 2016 WEO medium-likelihood scenarios for Brent prices (relative to a baseline projection of $45.4 and $52.6 in 2016 and 2017, respectively). This would impact the current account through higher energy imports.
- *A decline in euro area trading partners' growth by 1 percentage point*, broadly consistent with the WEO downside scenario and a 1-standard deviation shock to 2005–14 growth. This would impact the current account through lower exports and remittances (based on estimated elasticities with euro area growth).
- *A net decline in tourism receipts* by about 30 percent relative to the baseline, driven by a further decline in euro area growth (about one-quarter of the decline; based on the 2008–13 average historical response of tourism revenues to declines in euro area growth) and heightened geopolitical risks (three-quarters of the decline; consistent with empirical studies on the impact of security-related risks on tourism inflows).
- *A decline in FDI inflows* by 30 percent and equity portfolio outflows of about 60 percent relative to the baseline. This is driven by both the decline in euro area growth and the increase in geopolitical risks.
- *An increase in interest rates* by 100 basis points above the baseline, resulting from increased risk aversion given tighter global financial conditions and uncertainty stemming from geopolitical risks.

Comparison of Adverse Scenario Assumptions

Assumptions	Current	2014	2012
Oil price increase (net)	$15/year	$25	$10 and $8
Decline in euro area growth	1 pp /year	2.5 pp	4 pp and 2.5 pp
Decline in FDI flows	30%	25%	10%
Increase in borrowing costs	100 bps	50 bps	--
Rollover rates (%)			
ST debt	94	106	96
MLT debt	107	250	196

Impact of Shocks (Millions of dollars)

			2016	2017	Cumulative
	Total		**5,693**	**7,615**	**13,308**
1	**Increase in oil price by $15**		**1,077**	**2,108**	**3,185**
2	**Decrease in exports**		**968**	**1,084**	**2,052**
	Due to:	Euro area slowdown	968	1,084	2,052
3	**Decline in FDI inflows**		**773**	**802**	**1,575**
	Due to:	Heightened geopolitical risk	580	601	1,181
		Euro area slowdown	193	200	394
4	**Decline in tourism**		**1,866**	**1,970**	**3,836**
	Due to:	Heightened geopolitical risk	1,399	1,478	2,877
		Euro area slowdown	466	493	959
5	**Decline in remittances**		**331**	**348**	**679**
	Due to:	Euro area slowdown	331	348	679
6	**Increased uncertainty in global financial conditions**		**678**	**1,303**	**1,981**
	Effect on:	Portfolio outflows	603	1,224	1,827
		Borrowing cost increase	75	78	154

The financing gap is defined as the level of financial support needed to bring gross international reserves under the adverse scenario to 90 percent of the Fund's ARA metric, about the level projected in the 2015 baseline. The above adverse scenario results are consistent with a potential financing need of about $3.556 billion by the end of 2017 (equivalent to a total access level of 280 percent of the new quota, or 426 percent of the old quota).

D. Duration and Exit

30. The authorities have requested a two-year successor arrangement covering the period July 22, 2016-July 21, 2018. Accordingly, the current arrangement, which would expire on July 27, 2016, would be canceled upon approval of the requested arrangement. Staff believes that a two-year precautionary arrangement would indeed be appropriate, given that: (1) geopolitical and security risks, and, more broadly, volatile global financial conditions, are unlikely to improve markedly in the near term; and (2) a two-year period is necessary to address the remaining vulnerabilities and further strengthen macroeconomic buffers that would allow for a successful exit should external circumstances warrant it.

31. The projected improvements in Morocco's external position and the declining PLL access relative to previous PLL arrangements signal strong prospects of an exit. Staff considers that the authorities' policy package, as described below, will be instrumental in further reducing fiscal and external vulnerabilities and strengthening the economy's resilience. Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, and public debt would be put firmly on a downward path, while the current account deficit would be close to what would be expected for an emerging market country like Morocco, and reserves would have reached a comfortable level (about 117 percent of the Fund's ARA metric). Prospects for an exit have therefore improved, and the authorities should communicate their exit strategy, in line with their expectation (W-COM.-¶15) that continued strengthening of the economy's resilience should position Morocco well for exiting the PLL, if relevant global and regional external risks (for example, improved euro area growth prospects and lower geopolitical risks) subside.

CAPACITY TO REPAY THE FUND

32. Morocco has no outstanding debt to the Fund. Full drawing under the proposed PLL arrangement—which the authorities intend to treat as precautionary—would bring Morocco's outstanding use of General Resources Account (GRA) resources to an amount equivalent to SDR 2.504 billion.

33. Were the full amount available under the proposed PLL arrangement in the first year to be purchased in 2016:

- **Morocco's total external debt would remain moderate**, with Fund credit reaching about one-eighth of total external debt at its peak.
- **External debt service would increase over the medium term**. Morocco's projected debt service to the Fund would peak in 2018 at about 1.5 percent of GDP.

34. The proposed arrangement would represent manageable credit and liquidity risks to the Fund (see Table 10). This assessment is supported by the reduced access, which underscores the authorities' intention to exit as external risks subside, and rigorous ex ante and focused ex post conditionality. In line with lower access, the one-year forward commitment capacity (FCC) of the Fund would decrease by about 0.8 percent to about SDR 223.3 billion (Fund finances as of June 16, 2016) upon expiration of the current PLL arrangement, and approval of its successor. The proposed access represents a small share of current total GRA commitments (1.7 percent), suggesting that the effect on the Fund's liquidity would remain manageable. Should the authorities fully draw the proposed PLL arrangement, GRA credit to Morocco would be equivalent to about 5.3 percent of current GRA credit outstanding (as of June 16, 2016). This amount represents about 17.6 percent of the Fund's precautionary balances for the end of the 2015 financial year. Peak charges would be equivalent to 15.8 times the current burden-sharing capacity given the low SDR interest rate environment and reliance on borrowed resources that do not contribute to burden-sharing capacity.[9]

35. Safeguards Assessment. The 2015 safeguards policy review introduced, inter alia, a streamlining measure that no update assessment would be necessary if a safeguards assessment was completed 18 months prior to approval of a successor arrangement. The last assessment of the BAM was completed in January 2015, and therefore an update safeguards assessment is not required. However, monitoring of safeguards developments at the BAM will continue. The 2015 assessment found a robust safeguards framework with strong control mechanisms at the central bank. The BAM has implemented all but two recommendations from the last assessment: amending the BAM Law to strengthen the autonomy and governance arrangements and implementing International Financial Reporting Standards (IFRS). As noted, the authorities have indicated that a new central bank law will be drafted and submitted to parliament by the end of 2016. Following a feasibility study carried out by the BAM, with the assistance of an external consultant, the central bank maintained the current accounting standards, and instead increased the quality of financial statement disclosures to enhance transparency.

STAFF APPRAISAL

36. The authorities have made significant strides in reducing fiscal and external vulnerabilities in recent years. Macroeconomic conditions have improved, with external imbalances declining substantially and fiscal consolidation advancing. The current program remains on track. Progress has been made in strengthening the policy and institutional frameworks, including the implementation of the new OBL, and ongoing improvements to financial sector regulation and supervision. The authorities are also moving decisively toward a more flexible exchange rate regime, which will help improve competitiveness and macroeconomic resilience.

[9] Since drawing would typically occur after a shock, the macroeconomic variables in the table would likely be worse than under the baseline presented in the table; for example, based on the illustrative scenario used to determine access at the time of the PLL request, reserves may be 20 percent lower and exports 3.5 percent lower, suggesting peak IMF credit ratios of 17.2 percent and 11.0 percent instead of 12.7 and 10.5 percent in Table 7. These considerations suggest caution in interpreting Table 7.

37. Nevertheless, in an environment still subject to significant downside risks, sustaining the reform momentum will be essential. Building on recent achievements, sustaining the pace of reforms will help further reduce remaining vulnerabilities, and achieve higher and more inclusive growth. Following strong policy actions and reforms to rein in public spending in recent years, consolidation going forward would have to rely more on structural tax measures, including because grant revenues are expected to decline after 2017. Pension reform, which has been delayed for some time, is urgent and needs to be effective as expected in early 2017. Fiscal decentralization will need to be implemented carefully in order to preserve fiscal sustainability. Adopting the central bank law and continuing to implement FSAP recommendations will help strengthen the financial sector policy framework. The authorities should also build on recent efforts to improve the business climate, competitiveness and access to finance in order to increase potential growth, while decisive progress is needed to reduce persistently high unemployment levels, especially among the youth, and to increase the participation of women in the labor force.

38. Morocco continues to meet the PLL qualification criteria. The IMF Executive Board's assessment during the 2015 Article IV consultation and the last PLL review was positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco performs strongly in four out of five areas of PLL qualification (external, monetary, financial, and data), and does not substantially underperform in the fiscal area.

39. The authorities' policy package appropriately addresses short- and medium-term challenges. Staff considers that the program described in the authorities' written communication is appropriate to continue reducing fiscal and external vulnerabilities, including by putting public and external debts on downward paths and by increasing reserves to a more comfortable level, while strengthening the foundation for higher and more inclusive growth.

40. Staff recommends the approval of a new two-year PLL arrangement of SDR 2.504 billion (280 percent of the quota, of which 140 percent would be available in the first year). Such access is consistent with the size of downside risks as evaluated in staff's adverse scenario. It is less than that prescribed in the second arrangement, reflecting the strengthened resilience of the economy. Nonetheless, the phasing is appropriate to help insure against the possibility that several independent risks materialize at the same time despite a reduction in the insurance coverage from the existing level. The duration of two years is consistent with the possible persistence of external risks. The current arrangement will be cancelled upon approval of the new one.

41. Staff believes that the proposed successor PLL arrangement carries low risks to the Fund. The requested arrangement will have minimal impact on the Fund's liquidity and, even though Morocco intends to treat the PLL as precautionary, GRA credit to Morocco would be low in the event of a full drawing by Morocco of available resources. In addition, risks would be further mitigated by Morocco's relatively low external debt levels and debt service obligations.

Table 1. Morocco: Selected Economic Indicators, 2012–21

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/			Proj.		
	2012	2013	2014	2015		2016		2017	2018	2019	2020	2021
(Annual percentage change)												
Output and Prices												
Real GDP	3.0	4.5	2.6	4.7	4.5	3.1	1.8	4.8	4.2	4.5	4.7	4.9
Real agriculture GDP	-9.1	17.2	-2.2	15.2	12.8	-1.8	-10.5	13.7	5.7	5.6	5.4	5.4
Real non-agriculture GDP	4.7	2.9	3.2	3.3	3.5	3.8	3.5	3.6	4.0	4.4	4.6	4.8
Consumer prices (end of period)	2.6	0.4	1.6	1.6	0.6	1.3	1.2	1.3	1.4	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.6	1.5	1.5	1.3	1.3	1.4	2.0	2.0	2.0
(In percent of GDP)												
Investment and Saving												
Gross capital formation	35.0	34.8	32.2	33.3	30.2	34.4	30.2	30.7	31.4	32.0	32.5	32.7
Of which: Nongovernment	29.6	29.8	26.8	28.6	24.7	29.4	25.2	25.7	26.4	26.9	27.4	27.5
Gross national savings	25.7	27.2	26.6	31.9	28.3	33.9	29.0	29.3	29.9	30.3	31.0	31.5
Of which: Nongovernment	26.1	25.8	24.5	30.0	25.4	30.8	25.8	25.0	25.3	25.4	25.5	25.8
(In percent of GDP)												
Public Finances												
Revenue	28.0	27.8	28.1	25.6	26.5	26.4	26.9	27.5	27.6	27.8	28.0	28.2
Expenditure	35.3	33.0	33.0	29.8	30.9	29.9	30.4	30.5	30.4	30.3	30.1	30.2
Budget balance	-7.3	-5.2	-4.9	-4.3	-4.4	-3.5	-3.5	-3.0	-2.8	-2.5	-2.1	-2.0
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-2.5	-2.1	-2.2	-1.9	-1.3	-0.9	-0.2	0.2	0.2
Cyclically-adjusted primary balance (excl. grants)	-5.0	-2.8	-3.7	-2.2	-1.8	-2.0	-1.8	-1.3	-0.8	-0.2	0.2	0.0
Total government debt	58.3	61.7	63.5	63.6	64.1	64.4	64.4	63.8	63.3	61.9	60.0	58.7
(Annual percentage change; unless otherwise indicated)												
Monetary Sector												
Credit to the private sector 3/	4.8	3.8	2.5	3.7	1.9	...	4.5	...	...	...	...	...
Base money	-0.5	9.0	6.2	5.5	5.7	...	5.5	...	...	...	...	...
Broad money	4.5	3.1	6.2	5.5	5.7	...	5.5	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.9	...	0.8	...	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	2.5	...	...	...	...	...	...	...	...	...
(In percent of GDP; unless otherwise indicated)												
External Sector												
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-11.4	-8.5	4.2	4.4	6.7	7.0	7.5	7.6	7.3
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-19.8	-17.6	2.4	4.5	6.5	5.8	6.2	6.4	6.1
Merchandise trade balance	-22.3	-20.5	-18.8	-13.4	-14.2	-13.2	-14.3	-14.4	-14.2	-13.8	-13.6	-13.3
Current account excluding official transfers	-9.6	-8.3	-7.4	-2.3	-2.4	-1.8	-2.3	-2.3	-2.1	-1.8	-1.6	-1.4
Current account including official transfers	-9.3	-7.6	-5.7	-1.4	-1.9	-0.5	-1.2	-1.4	-1.5	-1.7	-1.5	-1.2
Foreign direct investment	2.4	2.8	2.8	2.6	2.5	2.7	2.5	2.4	2.4	2.4	2.5	2.5
Total external debt	28.5	29.3	33.2	31.9	33.4	32.6	32.9	32.1	31.8	31.3	29.8	29.2
Gross reserves (in billions of U.S. dollars)	17.5	19.3	20.5	23.2	23.0	28.2	26.7	30.2	34.2	38.0	41.2	46.0
In months of next year imports of goods and services	4.3	4.7	6.1	6.9	6.5	7.7	7.1	7.6	8.1	8.4	8.6	9.0
In percent of Fund reserve adequacy metric 4/	76.3	75.1	80.0	103.8	93.5	109.3	102.8	109.6	116.6	121.2	125.0	131.5
In percent of CA deficit and ST debt at rem. mat. basis	158	191	257	803	605	1,460	698	847	913	730	1,059	2,434
Memorandum Items:												
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	109.9	103.2	100.6	105.6	104.9	111.1	117.0	124.6	133.0	141.5
Unemployment rate (in percent)	9.0	9.2	9.9	...	9.7	...	...	...	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.5	33.8	33.8	34.2	34.5	34.8	35.1	35.4
Population growth (in percent)	1.04	1.02	0.99	0.98	0.98	0.97	0.97	0.95	0.95	0.93	0.92	0.90
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.0	-6.5	-6.8	-6.2	-5.7	-6.4	-6.7	-6.9	-7.2	-7.4
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	...	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.1	0.0	0.2	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd review of the PLL arrangement in CR/16/38.
2/ Revised macro framework, based on national accounts based in 2007 and BOP manual 6.
3/ Includes credit to public enterprises.
4/ Based on revised ARA weights.

Table 2. Morocco: Budgetary Central Government Finance, 2012–21
(Billions of dirhams)

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/	Proj.				
	2012	2013	2014	2015		2016		2017	2018	2019	2020	2021
Revenue	237.7	250.0	259.3	256.4	260.4	276.7	273.3	294.2	311.0	332.2	355.9	381.7
Taxes	202.7	200.7	203.8	205.9	209.6	222.5	220.5	236.0	254.3	276.8	297.2	317.9
Taxes on income, profits, and capital gains	77.4	75.7	76.3	77.5	79.0	87.3	84.6	89.7	100.9	114.2	122.3	129.8
Taxes on property	11.6	11.7	13.9	13.9	14.7	15.1	15.1	16.3	18.5	19.6	20.8	22.1
Taxes on goods and services	99.0	100.0	100.7	102.0	102.7	106.8	106.9	115.1	120.7	127.9	137.9	148.7
Taxes on international trade and transactions	9.4	8.1	8.1	8.0	8.1	7.9	8.3	9.0	8.0	8.7	9.3	9.9
Other taxes	5.4	5.2	4.7	4.5	5.2	5.4	5.6	5.9	6.1	6.5	6.9	7.3
Grants	0.5	6.1	13.8	9.6	5.0	14.3	11.6	10.0	7.1	1.5	1.5	1.5
Other revenue	34.6	43.2	41.7	40.8	45.9	39.9	41.2	48.2	49.6	53.8	57.2	62.3
Expense	253.2	250.8	255.4	252.7	248.6	260.4	258.3	272.9	285.9	301.7	317.4	338.1
Compensation of employees	108.9	112.8	117.3	121.0	118.2	125.8	125.3	131.2	138.7	143.7	151.8	159.1
Of which: wages and salaries	96.7	99.0	101.6	103.4	102.7	106.8	106.8	111.0	116.9	121.8	128.3	133.9
social contributions	12.2	13.7	15.7	17.6	15.5	19.0	18.6	20.2	21.8	21.9	23.5	25.2
Use of goods and services and grants	56.6	59.3	65.0	72.1	72.4	73.9	74.6	79.5	82.9	90.4	94.7	103.1
Of which: Use of goods and services	20.9	21.5	23.6	28.3	25.1	28.3	26.3	28.1	28.8	30.6	31.2	32.1
Grants	35.6	37.8	41.4	43.8	47.3	45.6	48.3	51.4	54.1	59.8	63.6	71.0
Interest	20.7	23.3	25.6	27.7	27.3	28.3	28.3	27.9	28.2	29.2	30.1	31.2
Subsidies	54.9	41.6	32.6	16.9	14.0	15.6	11.7	9.6	9.0	9.6	10.2	10.8
Other expenses 3/	12.1	13.9	14.8	15.0	16.8	16.8	18.3	24.6	27.0	28.7	30.5	33.9
Net acquisition of nonfinancial assets	46.1	45.7	49.7	46.8	54.5	53.0	51.0	53.6	56.3	61.0	64.9	70.4
Net lending / borrowing (overall balance)	-61.5	-46.5	-45.7	-43.0	-42.7	-36.7	-36.0	-32.3	-31.3	-30.5	-26.3	-26.8
Net lending / borrowing (excluding grants)	-61.9	-52.6	-59.6	-52.7	-47.7	-51.0	-47.6	-42.3	-38.4	-32.0	-27.8	-28.3
Change in net financial worth	-61.5	-46.5	-45.7	-43.0	-42.7	-36.7	-36.0	-32.3	-31.3	-30.5	-26.3	-26.8
Net acquisition of financial assets	-3.3	4.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	4.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.0	0.0	0.0	0.0	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	0.0
Net incurrence of liabilities	58.2	50.8	43.7	43.0	42.7	36.7	36.0	32.3	31.3	30.5	26.3	26.8
Domestic	55.8	42.2	45.5	41.4	42.4	18.7	33.6	35.5	28.9	27.8	33.4	23.2
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	-10.0	-4.0	-1.0	-4.0	-3.0	5.0
Securities other than shares	60.6	50.7	49.4	49.4	50.5	18.7	23.6	31.5	27.9	23.8	30.4	18.2
Other accounts payable	-4.8	-8.6	-3.9	-8.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	2.4	8.6	-1.9	1.7	0.3	18.0	2.4	-3.2	2.4	2.7	-7.1	3.6
Memorandum Item:												
Total investment (including capital transfers)	58.1	59.6	64.4	61.8	71.3	69.8	69.3	78.2	83.4	89.7	95.4	104.3
GDP	847.9	897.9	923.7	1,003.3	982.2	1,048.3	1,017.2	1,071.0	1,126.9	1,196.3	1,271.8	1,354.4

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

1/ Refers to the macro framework for the 3rd review of the PLL arrangement in CR/16/38.

2/ Revised macro framework, based on national accounts based in 2007.

3/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2012–21

(Percent of GDP)

	2012	2013	2014	2015 PLL 1/	2015 Rev. 2/	2016 PLL 1/	2016 Rev. 2/	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Revenue	28.0	27.8	28.1	25.6	26.5	26.4	26.9	27.5	27.6	27.8	28.0	28.2
Taxes	23.9	22.3	22.1	20.5	21.3	21.2	21.7	22.0	22.6	23.1	23.4	23.5
Taxes on income, profits, and capital gains	9.1	8.4	8.3	7.7	8.0	8.3	8.3	8.4	9.0	9.5	9.6	9.6
Taxes on property	1.4	1.3	1.5	1.4	1.5	1.4	1.5	1.5	1.6	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.2	10.5	10.2	10.5	10.7	10.7	10.7	10.8	11.0
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Other taxes	0.6	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.7	1.5	1.0	0.5	1.4	1.1	0.9	0.6	0.1	0.1	0.1
Other revenue	4.1	4.8	4.5	4.1	4.7	3.8	4.0	4.5	4.4	4.5	4.5	4.6
Expense	29.9	27.9	27.6	25.2	25.3	24.8	25.4	25.5	25.4	25.2	25.0	25.0
Compensation of employees	12.8	12.6	12.7	12.1	12.0	12.0	12.3	12.3	12.3	12.0	11.9	11.7
Of which : wages and salaries	11.4	11.0	11.0	10.3	10.5	10.2	10.5	10.4	10.4	10.2	10.1	9.9
social contributions	1.4	1.5	1.7	1.8	1.6	1.8	1.8	1.9	1.9	1.8	1.9	1.9
Use of goods and services and grants	6.7	6.6	7.0	7.2	7.4	7.1	7.3	7.4	7.4	7.6	7.4	7.6
Of which : Use of goods and services	2.5	2.4	2.6	2.8	2.6	2.7	2.6	2.6	2.6	2.6	2.4	2.4
Grants	4.2	4.2	4.5	4.4	4.8	4.4	4.7	4.8	4.8	5.0	5.0	5.2
Interest	2.4	2.6	2.8	2.8	2.8	2.7	2.8	2.6	2.5	2.4	2.4	2.3
Subsidies	6.5	4.6	3.5	1.7	1.4	1.5	1.2	0.9	0.8	0.8	0.8	0.8
Other expenses 3/	1.4	1.5	1.6	1.5	1.7	1.6	1.8	2.3	2.4	2.4	2.4	2.5
Net acquisition of nonfinancial assets	5.4	5.1	5.4	4.7	5.5	5.1	5.0	5.0	5.0	5.1	5.1	5.2
Net lending / borrowing (overall balance)	-7.3	-5.2	-4.9	-4.3	-4.4	-3.5	-3.5	-3.0	-2.8	-2.5	-2.1	-2.0
Net lending / borrowing (excluding grants)	-7.3	-5.9	-6.4	-5.3	-4.9	-4.9	-4.7	-3.9	-3.4	-2.7	-2.2	-2.1
Change in net financial worth	-7.3	-5.2	-4.9	-4.3	-4.4	-3.5	-3.5	-3.0	-2.8	-2.5	-2.1	-2.0
Net acquisition of financial assets	-0.4	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.4	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.5	0.0	0.0	0.0	0.0	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	0.0
Net incurrence of liabilities	6.9	5.7	4.7	4.3	4.4	3.5	3.5	3.0	2.8	2.5	2.1	2.0
Domestic	6.6	4.7	4.9	4.1	4.3	1.8	3.3	3.3	2.6	2.3	2.6	1.7
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	-0.4	-0.1	-0.3	-0.2	0.4
Securities other than shares	7.1	5.6	5.4	4.9	5.1	1.8	2.3	2.9	2.5	2.0	2.4	1.3
Other accounts payable	-0.6	-1.0	-0.4	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	1.0	-0.2	0.2	0.0	1.7	0.2	-0.3	0.2	0.2	-0.6	0.3
Memorandum items:												
Total investment (including capital transfers)	6.9	6.6	7.0	6.2	7.3	6.7	6.8	7.3	7.4	7.5	7.5	7.7

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

1/ Refers to the macro framework for the 3rd review of the PLL arrangement in CR/16/38.

2/ Revised macro framework, based on national accounts based in 2007.

3/ Includes capital transfers to public entities.

Table 4. Morocco: Balance of Payments, 2012–21

(In billions of dollars, unless otherwise indicated)

				PLL 1/	Rev. 2/	PLL 1/	Rev. 2/			Proj.		
	2012	2013	2014	2015		2016		2017	2018	2019	2020	2021
Current account	-9.2	-8.1	-6.2	-1.5	-1.9	-0.5	-1.3	-1.5	-1.7	-2.2	-2.0	-1.8
Trade balance	-21.9	-21.9	-20.6	-13.8	-14.3	-14.0	-15.0	-16.0	-16.6	-17.3	-18.1	-18.8
Exports, f.o.b.	17.0	18.3	20.0	18.3	18.5	19.4	19.4	20.8	22.5	24.4	26.4	28.5
Agriculture	3.5	4.0	4.3	3.9	4.0	4.2	4.4	5.0	5.4	5.8	6.3	6.7
Phosphates and derived products	5.6	4.4	4.6	4.3	4.5	4.5	3.9	4.1	4.4	4.7	5.1	5.4
Automobiles	2.9	3.7	4.8	...	5.0	...	5.8	6.4	7.0	7.7	8.5	9.3
Imports, f.o.b.	-38.9	-40.2	-40.6	-32.1	-32.7	-33.4	-34.4	-36.8	-39.0	-41.6	-44.4	-47.3
Energy	-12.4	-12.2	-11.0	-6.5	-6.8	-6.2	-5.7	-6.4	-6.7	-6.9	-7.2	-7.4
Capital goods	-8.5	-9.8	-9.8	-8.1	-8.9	-8.5	-9.7	-10.0	-10.6	-11.4	-12.1	-12.8
Food products	-4.8	-4.3	-5.0	-3.8	-3.7	-3.9	-4.5	-4.0	-4.2	-4.4	-4.6	-4.7
Services	6.9	6.4	7.0	6.0	6.4	6.5	6.7	7.2	7.7	8.4	9.1	9.8
Tourism receipts	6.7	6.9	7.1	6.0	6.0	6.1	6.2	6.6	7.0	7.5	8.2	8.8
Income	-1.9	-1.3	-2.7	-1.8	-1.9	-1.8	-1.9	-2.0	-2.1	-2.2	-2.4	-2.5
Transfers	7.7	8.7	10.0	8.2	7.9	8.8	8.9	9.2	9.2	9.0	9.4	9.7
Private transfers (net)	7.4	7.9	8.1	7.3	7.4	7.4	7.7	8.1	8.4	8.8	9.2	9.6
Workers' remittances	6.7	6.8	7.1	6.2	6.3	6.3	6.6	7.0	7.3	7.7	8.1	8.5
Official grants (net)	0.2	0.8	1.9	0.9	0.5	1.4	1.1	1.1	0.8	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.2	9.4	8.8	5.9	5.6	5.7	4.4	4.9	5.6	5.9	5.1	6.5
Direct investment	2.3	3.0	3.1	2.7	2.5	2.9	2.6	2.7	2.8	3.0	3.3	3.5
Portfolio investment	1.6	1.3	3.0	1.1	1.3	0.1	0.1	1.1	1.1	1.1	1.1	1.1
Other	2.2	5.1	2.7	2.1	1.8	2.7	1.7	1.1	1.7	1.7	0.7	1.9
Private	1.0	2.8	1.3	1.1	0.7	0.3	0.9	0.9	1.0	1.1	1.1	1.1
Public medium-and long-term loans (net)	1.3	2.4	1.4	0.9	1.2	2.4	0.8	0.2	0.7	0.7	-0.4	0.8
Disbursements	2.9	4.1	3.2	2.6	2.8	4.1	2.6	2.6	2.6	2.6	2.6	2.6
Amortization	-1.6	-1.8	-1.8	-1.6	-1.6	-1.7	-1.8	-2.4	-1.9	-1.9	-3.0	-1.8
Reserve asset accumulation (-increase)	3.3	-1.8	-3.2	-4.4	-4.3	-5.2	-3.1	-3.3	-3.9	-3.7	-3.1	-4.7
Errors and omissions	-0.3	0.5	0.6	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)							
Current account	-9.3	-7.6	-5.7	-1.4	-1.9	-0.5	-1.2	-1.4	-1.5	-1.7	-1.5	-1.3
Trade balance	-22.3	-20.5	-18.8	-13.4	-14.2	-13.2	-14.3	-14.4	-14.2	-13.8	-13.6	-13.3
Exports, f.o.b.	17.3	17.1	18.2	17.7	18.4	18.4	18.4	18.7	19.2	19.5	19.8	20.1
Agriculture	3.6	3.7	3.9	3.8	4.0	3.9	4.2	4.5	4.6	4.7	4.7	4.8
Phosphates and derived products	5.7	4.2	4.1	4.1	4.5	4.3	3.7	3.7	3.8	3.8	3.8	3.8
Automobiles	3.0	3.5	4.4	...	4.9	...	5.5	5.8	6.0	6.2	6.4	6.6
Imports, f.o.b.	-39.6	-37.7	-36.9	-31.1	-32.5	-31.6	-32.8	-33.1	-33.4	-33.4	-33.4	-33.4
Energy	-12.6	-11.4	-10.0	-6.3	-6.8	-5.8	-5.5	-5.7	-5.7	-5.5	-5.4	-5.3
Capital goods	-8.6	-9.1	-8.9	-7.9	-8.9	-8.1	-9.3	-9.0	-9.1	-9.1	-9.1	-9.0
Food products	-4.9	-4.0	-4.5	-3.6	-3.6	-3.7	-4.3	-3.6	-3.6	-3.5	-3.4	-3.3
Services	7.1	6.0	6.4	5.8	6.3	6.2	6.4	6.5	6.6	6.7	6.8	6.9
Tourism receipts	6.8	6.4	6.4	5.9	6.0	5.8	5.9	5.9	6.0	6.1	6.2	6.2
Income	-1.9	-1.2	-2.4	-1.8	-1.9	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Transfers	7.8	8.1	9.1	8.0	7.8	8.3	8.5	8.3	7.9	7.2	7.0	6.9
Private transfers (net)	7.6	7.4	7.4	7.0	7.4	7.0	7.4	7.3	7.2	7.1	6.9	6.8
Workers' remittances	6.9	6.4	6.5	6.0	6.3	5.9	6.3	6.3	6.3	6.2	6.1	6.0
Official grants (net)	0.2	0.7	1.7	0.9	0.5	1.3	1.1	1.0	0.7	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	8.8	8.0	5.7	5.6	5.4	4.2	4.4	4.8	4.7	3.8	4.6
Direct investment	2.4	2.8	2.8	2.6	2.5	2.7	2.5	2.4	2.4	2.4	2.5	2.5
Portfolio investment	1.6	1.3	2.8	1.1	1.3	0.1	0.1	1.0	1.0	0.9	0.8	0.8
Other	2.3	4.8	2.4	2.0	1.8	2.6	1.6	1.0	1.4	1.4	0.5	1.3
Private 3/	1.0	2.6	1.2	1.1	0.7	0.3	0.9	0.8	0.9	0.9	0.8	0.8
Public medium-and long-term loans (net)	1.3	2.2	1.2	0.9	1.2	2.3	0.8	0.2	0.6	0.5	-0.3	0.5
Disbursements	2.9	3.9	2.9	2.5	2.8	3.9	2.5	2.3	2.2	2.1	2.0	1.8
Amortization	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.7	-2.2	-1.6	-1.5	-2.2	-1.3
Memorandum items:												
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-11.4	-8.5	4.2	4.4	6.7	7.0	7.5	7.6	7.3
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-19.8	-17.6	2.4	4.5	6.5	5.8	6.2	6.4	6.1
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.4	-2.3	-2.4	-1.8	-2.3	-2.4	-2.1	-1.9	-1.6	-1.4
Terms of trade (percentage change) 3/	-12.2	-2.5	-1.2	10.6	10.7	0.7	3.0	-2.3	-0.4	-0.2	-0.4	0.0
Gross official reserves 4/	17.5	19.3	20.5	23.2	23.0	28.2	26.7	30.2	34.2	38.0	41.2	46.0
In months of prospective imports of GNFS	4.3	4.7	6.1	6.9	6.5	7.7	7.1	7.6	8.1	8.4	8.6	9.0
In percent of the Assessing Reserve Adequacy (ARA) metric 5/	76.3	75.1	80.0	103.8	93.5	109.3	102.8	109.6	116.6	121.2	125.0	131.5
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	102.5	99.5	104.4	153.9	122.3	179.9	135.6	144.7	153.8	159.6	165.2	173.8
Debt service (percent of export of GNFS and remittances) 6/	6.5	7.0	6.7	7.0	6.9	6.9	6.8	7.9	6.2	5.8	7.4	9.7
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.1	29.2	30.6	30.2	30.4	29.9	29.9	29.5	28.3	27.9
DHs per US$, period average	8.6	8.4	8.4	...	9.8	...	...	...	...	...	...	...
GDP (US$)	98.3	106.8	109.9	103.2	100.6	105.6	104.9	111.1	117.0	124.6	133.0	141.5
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	52.8	52.4	48.7	43.1	50.0	52.2	53.5	55.3	56.7

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

1/ Refers to the macro framework for the 3rd review of the PLL arrangement in CR/16/38.

2/ Revised macro framework, based on national accounts based in 2007 and BOP manual 6.

3/ Based on WEO data for actual and projections.

4/ Excluding the reserve position in the Fund.

5/ Based on revised ARA weights.

6/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–16

	2011	2012	2013	2014	2015 PLL 1/	2015 Rev. 2/	2016
	(Billions of dirhams)						
Net foreign assets	172.2	143.5	148.6	181.9	219.0	224.6	246.9
Of which: Gross reserves	175.4	146.7	155.3	185.6	226.0	227.9	253.9
Deposit money banks	1.7	2.7	-1.5	0.1	0.5	8.2	8.2
Net domestic assets	777.1	848.6	874.2	904.3	926.9	924.1	964.9
Domestic credit	798.3	855.0	906.5	920.1	964.4	938.8	976.5
Net claims on the government	102.1	125.4	149.3	143.7	159.1	147.4	147.5
Banking system	102.1	125.4	149.3	143.7	159.1	147.4	147.5
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-0.5	-1.2	-1.4
Of which: deposits	-3.4	-4.5	-4.6	-4.6	-5.0	-6.0	-6.2
Deposit money banks	99.9	124.9	148.5	143.8	159.6	148.6	148.9
Credit to the economy	696.2	729.6	757.2	776.4	805.3	791.4	829.0
Other liabilities, net	23.0	9.0	30.7	15.8	37.4	23.0	11.5
Broad money	949.3	992.2	1,022.8	1,086.2	1,146.0	1,148.7	1,211.8
Money	586.8	612.2	628.9	660.6	709.0	707.7	750.2
Currency outside banks	158.3	163.6	171.4	179.4	194.7	192.3	199.1
Demand deposits	428.5	448.5	457.6	481.2	514.4	515.4	551.0
Quasi money	340.9	354.7	370.8	390.7	406.3	401.7	417.7
Foreign deposits	21.6	25.3	23.1	35.0	30.7	39.3	43.9
	(Annual percentage change)						
Net foreign assets	-11.7	-15.9	0.6	23.7	23.7	28.0	13.0
Net domestic assets	11.8	9.2	3.0	3.4	2.5	2.2	4.4
Domestic credit	11.6	7.1	6.0	1.5	4.8	2.0	4.0
Net claims on the government	25.8	22.8	19.0	-3.7	10.7	2.6	0.0
Credit to the economy	9.8	4.8	3.8	2.5	3.7	1.9	4.7
Banking credit	10.6	3.9	2.2	2.2	3.1	2.8	4.2
Broad money	6.4	4.5	3.1	6.2	5.5	5.7	5.5
	(Change in percent of broad money)						
Net foreign assets	-2.6	-2.9	0.1	3.4	4.0	4.7	2.6
Domestic credit	9.3	6.0	5.2	1.3	4.1	1.7	3.3
Net claims on the government	2.3	2.5	2.4	-0.5	1.4	0.3	0.0
Credit to the economy	6.9	3.5	2.8	1.9	2.7	1.4	3.3
Other assets net	-0.3	1.5	-2.2	1.5	-2.0	-0.7	1.0
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.88	0.86	0.84
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.76	0.75	0.74
Credit to economy/GDP (in percent)	84.9	86.0	84.3	84.1	80.3	80.6	81.5
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.4	94.2	92.4	91.3	92.1

Sources: Bank Al-Maghrib; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd review of the PLL arrangement in CR/16/38.
2/ Revised macro framework, based on national accounts based in 2007.

Table 6. Morocco: Financial Soundness Indicators, 2008–15

(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015
Regulatory capital 1/								
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.8	13.7 (*)
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.6	11.4 (*)
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.8	9.1
Asset quality								
Sectoral distribution of loans to total loans								
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3	18.5
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.5	3.5
Of which: textile	1.7	1.9	1.4	1.3	1.2	1.0	0.9	0.9
Of which: gas and electricity	3.3	2.9	3.9	4.5	4.8	4.7	6.1	6.3
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	3.9	4.4
Commerce	6.5	7.0	6.7	6.6	6.7	6.2	6.6	6.1
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.2	11.2
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4	2.1
Finance	13.1	12.5	12.1	11.9	11.0	12.7	11.6	13.4
Public administration	3.7	4.3	5.0	4.8	5.0	5.0	4.7	4.5
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7	4.2
Households	26.5	27.6	28.1	27.6	28.9	29.7	31.4	32.3
Other	4.4	5.4	5.4	5.5	6.4	5.1	4.2	3.3
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9	2.5
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0	91.0	91.0	91.0
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0	5.9	6.9	7.4
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64.0	65.0	68.0
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.2	17.8
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	327.0	341.0	294.0
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	6.8	7.0
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.3	1.4	1.7
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.8	4.5	5.0
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8	0.8
Profitability								
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0	1.0	0.9	0.8
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	10.2	9.1
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.1	3.8
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5	5.0
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.0	1.1
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74.0	68.9	72.0
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	46.1	49.1
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.9	1.9
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	47.6	47.4
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26.0	30.8	28.0
Liquidity								
Liquid assets to total assets	24.4	17.3	12.0	11.4	10.5	12.5	13.3	16.2
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	17.4	17.7	
Deposits to loans	113.0	108.0	104.0	99.0	96.1	96.2	100.8	104.3
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	2.5	2.9
Sensitivity to market risk								
FX net open position to Tier 1 Capital	6.5	13.5	10.3	7.3	7.4	11.3	9.0	…

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.

2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.

* Provisional figures calculated according to Basel III definition and transitional provisions

Table 7. Morocco: Capacity to Repay Indicators, 2016–21 1/

			Proj.			
	2016	2017	2018	2019	2020	2021
Exposure and repayments (in SDR million)						
GRA credit to Morocco	1,252.0	2,504.0	2,504.0	2,347.5	1,565.0	469.5
(In percent of quota)	140.0	280.0	280.0	262.5	175.0	52.5
Charges due on GRA credit	9.9	27.8	42.9	42.73	30.85	11.18
Principal due on GRA credit	0.0	0.0	0.0	156.5	782.5	1,095.5
Debt service due on GRA credit	9.9	27.8	42.9	199.2	813.4	1,106.7
Debt and debt service ratios						
In percent of GDP						
Total external debt	32.8	34.6	33.7	31.9	30.2	29.2
Public external debt	30.2	32.3	31.7	30.2	28.6	27.9
GRA credit to Morocco	1.8	3.5	3.3	0.7	0.4	0.1
Total external debt service	2.6	2.5	3.0	2.4	3.3	2.4
Public external debt service	2.6	2.3	2.3	2.3	2.3	3.0
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.2	0.2
In percent of gross international reserves						
Total external debt	128.8	127.3	115.6	104.7	97.4	89.9
Public external debt	118.6	118.8	108.6	99.0	92.5	85.7
GRA credit to Morocco	7.3	12.9	11.4	2.3	1.4	0.3
In percent of exports of goods and services						
Total external debt	103.2	114.3	116.7	118.7	119.8	123.9
Public external debt	95.0	106.6	109.5	112.2	113.8	118.2
GRA credit to Morocco	5.7	10.6	9.9	2.1	1.3	0.3
In percent of total external debt						
GRA credit to Morocco	5.5	9.3	8.5	1.8	1.1	0.2
In percent of public external debt						
GRA credit to Morocco	6.0	10.0	9.1	1.9	1.2	0.2
Memorandum items:						
Nominal GDP (in billions of U.S. dollars)	104.9	111.1	117.0	124.6	133.0	141.5
Gross international reserves (in billions of U.S. dollars)	26.7	30.2	34.2	38.0	41.2	46.0
Exports of goods and services (in billions of U.S. dollars)	34.2	36.5	39.0	41.9	45.1	48.4
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.
1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 280 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Table 8. Morocco: External Financing Requirements, 2015–17

(Millions of dollars, unless otherwise specified)

	2015	2016		2017	
		Baseline	Adverse 1/	Baseline	Adverse 1/
Gross financing requirements	**3,607**	**3,073**	**7,391**	**4,004**	**9,592**
Current account deficit	1,928	1,276	5,593	1,542	7,131
Trade deficit	14,259	15,003	17,047	15,996	19,188
Transfers and other deficits	(12,331)	(13,727)	(11,454)	(14,453)	(12,057)
ST debt amortization	43	37	37	36	36
MLT debt amortization	1,636	1,760	1,760	2,426	2,426
Financing Sources	**3,607**	**3,073**	**7,391**	**4,004**	**9,592**
FDI (net)	2,480	2,576	1,804	2,672	1,871
Portfolio investment	1,321	103	41	1,120	452
of w hich: bond issuance	-	-	-	1,016	407
ST debt disbursement	37	36	36	34	34
MLT debt disbursement	2,808	2,578	2,578	2,593	2,593
Change in gross reserves (- : accumulation)	(4,340)	(3,124)	2,570	(3,350)	4,265
Other 2/	1,302	903	362	934	378
Size of shock to reserves			5,693		7,615
Gross international reserves (GIR)	**23,008**	**26,738**	**21,045**	**30,179**	**22,565**
As a percentage of standard ARA metric 3/	93	103	83	110	83
As a percentage of adjusted ARA metric 4/	122	136	108	145	110
In months of imports of GNFS	6.8	7.6	5.9	8.0	6.0
As percentage of ST debt (rem. mat. basis) and CA deficit	605	698	376	847	316
Level of reserves at floor (90 percent of standard ARA metric)		**23,400**	**22,768**	**24,771**	**24,325**
In months of imports of goods and services			6.4		6.5
Financing gap of GIR relative to 90 percent of standard ARA metric		**3,338**	**(1,724)**	**5,408**	**(1,761)**
In percent of quota		**---**	**137**	**---**	**140**
Proposed access (in percent of quota, cumulative)			**140**		**280**
Proposed access (in $ billions)			**1.778**		**3.556**

Source: IMF staff calculations.

1/ The adverse scenario assumes: (1) an oil price shock of +$15/bb (2) a decrease in euro area grow th by 1 percentage point; (3) a decline FDI and tourism receipts by 30 percent relative to the baseline; (4) a decline in portfolio flow s by 60 percent and an increase in borrow ing costs by 100 bps.

2/ Includes all other net financial flow s, capital account balance and net errors and omissions.

3/ The standard reserve adequacy metric is computed as 30 percent of short term debt (at a remaining maturity basis) + 20 percent of portfolio liabilities + 10 percent of broad money + 10 percent of exports.

4/ The reserve adequacy metric adjusted for capital controls uses a 5 percent w eight on broad money.

Table 9. Morocco: Proposed Access

	Proposed Arrangement PLL	Proposed Arrangement (Percentile)	High-Access Cases 1/ 20th	65th Percentile (Ratio)	80th	Median
Access						
In millions of SDRs	2,504	30	1,449	11,354	15,500	6,901
Average annual access (percent of quota)	140	10	177	401	649	275
Access during the first year (percent of quota)						
Average annual access (percent of total) 2/	140	10	307	800	1,052	579
Total access in percent of: 3/						
Actual quota	280	8	374	801	1,072	600
Gross domestic product	3	21	2.9	7.3	9.6	5.9
Gross international reserves	13	2	25	54	86	47
Exports of goods and nonfactor services 4/	11	18	11.1	28.6	37.8	22
Imports of goods and nonfactor services	9	12	10.3	23.0	33.9	18
Total debt stock 5/						
Of which: Public	6	11	8	15	28	12
External	11	44	7	15	21	12
Short-term 6/	141	87	20	50	103	36
M2	3	3	6	15	24	12

Source: Executive Board documents, MONA database, and IMF staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ Correspond to quotas after the 2008 Reform.

3/ The data used to calculate ratios is the actual value for the year prior to approval for public, external, and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables (projections for 2012 were used).

4/ Includes net private transfers.

5/ Refers to net debt.

6/ Refers to residual maturity.

Table 10. Morocco: Impact on GRA Finances
(In millions of SDR unless otherwise indicated)

Liquidity measures	
FCC including the proposed PLL for Morocco 1/ 2/	223,304
Percent reduction	-0.8
Commitment in percent of total GRA commitments 3/	1.7
Prudential measures, assuming full PLL drawing	
Fund GRA commitment to Morocco including credit outstanding	
In percent of total GRA credit outstanding 4/	5.3
In percent of current precautionary balances	17.6
Peak charges to current burden sharing capacity ratio 5/	15.8
Memorandum items	
Forward Commitment Capacity (FCC) before approval	225,000
GRA Commitments 3/	144,586
Fund's precautionary balances (FY2015)	14,200

Sources: Finance Department and IMF staff estimates.

1/ The FCC measures the Fund's capacity to make new GRA commitments. It includes the liquidity effects of resources made available under borrowing and note purchase agreements.

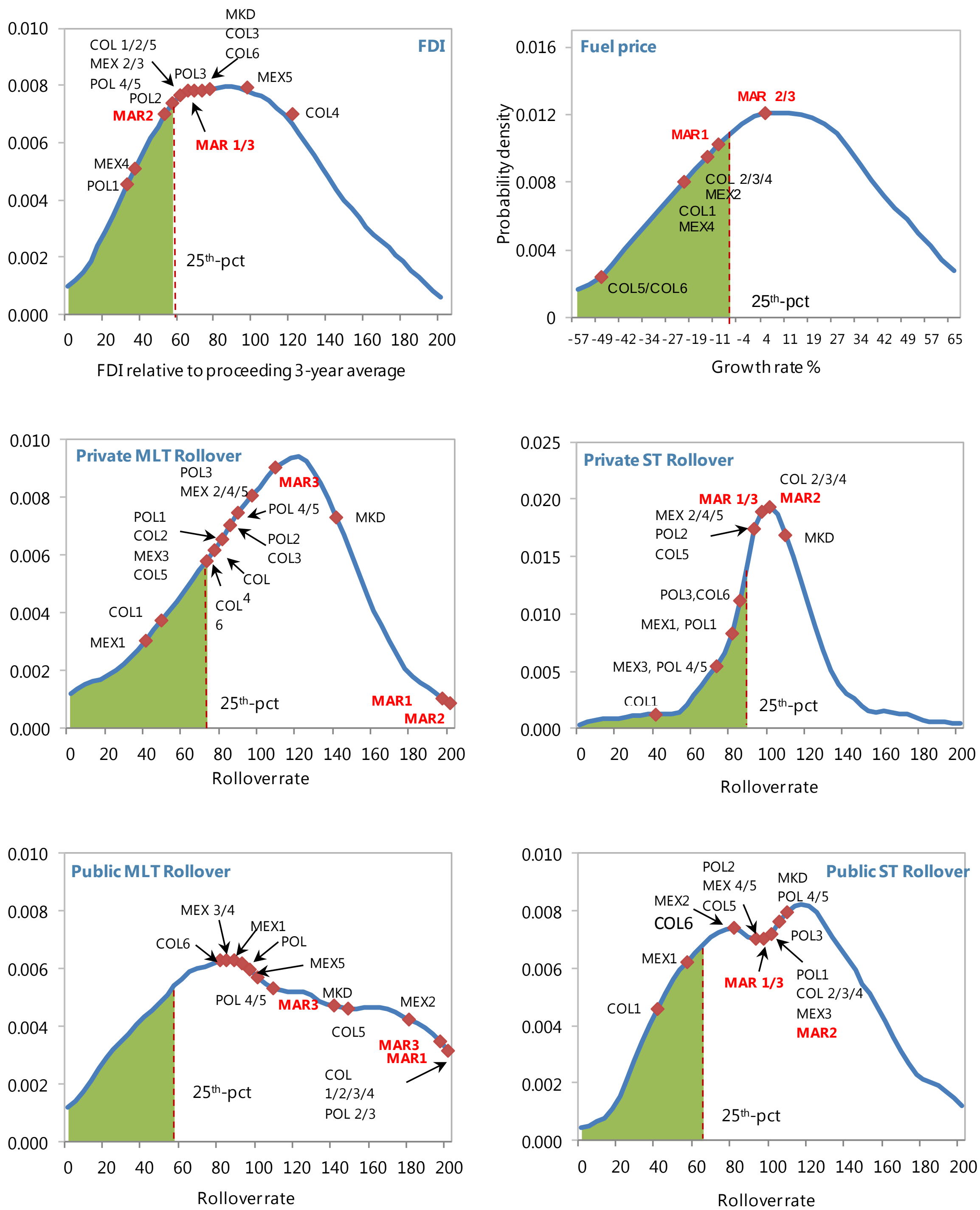
2/ Current FCC minus new access plus access under the expiring program adjusted for the NAB financed portion of the expiring commitment (about SDR 2,426 million) which is not available to finance new commitments.

3/ Total GRA commitments are equal to credit outstanding plus undisbursed balances of current arrangements (excl. Morocco).

4/ Based on current Fund credit oustanding plus full drawings under the proposed PLL.

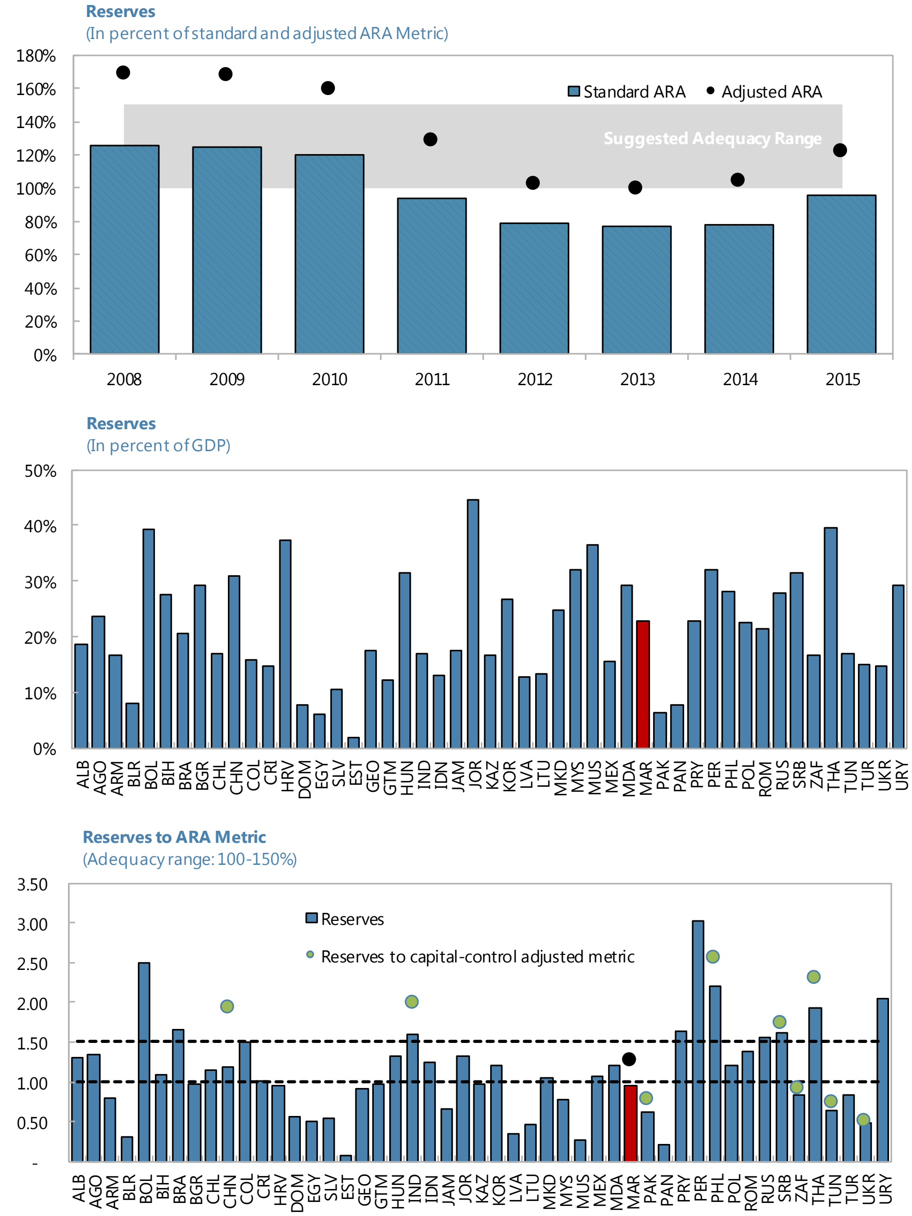
5/ Includes surcharges. Takes into account the loss in capacity due to nonpayment of burden sharing by members in arrears.

Figure 4. Morocco and Selected Countries: Comparing Adverse Scenarios
(Probability density)



Source: Fund staff calculations.

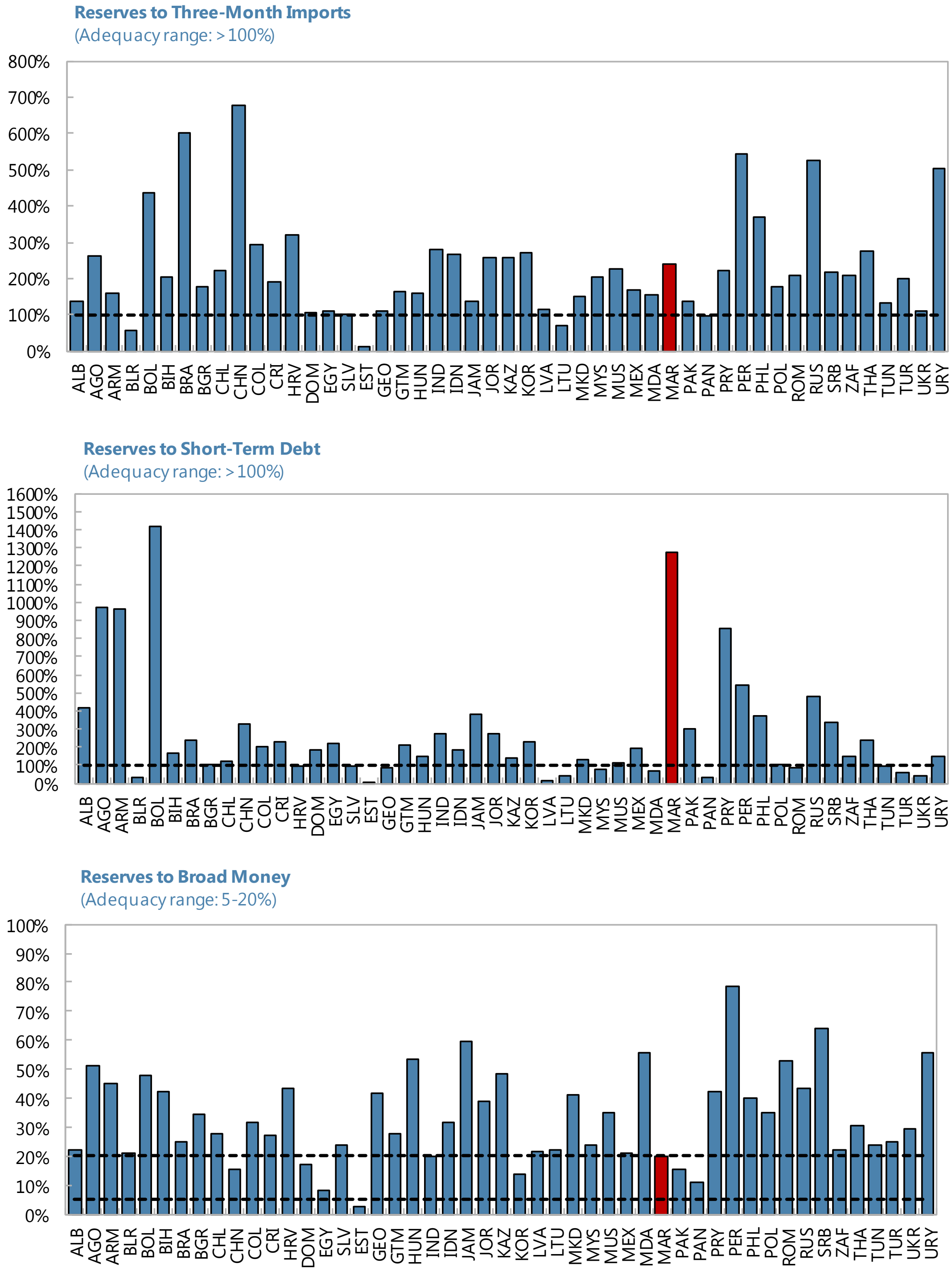
Figure 5. Morocco: Reserve Coverage in an International Perspective, 2015 1/



Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff estimates.

1/ The assessing reserve adequacy (ARA) metric for emerging markets comprises four components reflecting potential balance of payment drains: (i) export income, (ii) broad money, (iii) short-term debt, and (iv) other liabilities. The weight for each component is based on the 10th percentile of observed outflows from emerging markets during exchange market pressure episodes, distinguishing between fixed and flexible exchange rate regimes.

Figure 5. Morocco: Reserve Coverage in an International Perspective, 2015 (concluded)



Sources: World Economic Outlook, and IMF staff estimates.

Annex I. Public Debt Sustainability Analysis (DSA)

Morocco's public debt remains sustainable. While the gross debt-to-GDP ratio declined between 2000 and 2010, external shocks and domestic factors have caused the ratio to rise again since then. Nevertheless, at about 64.1 percent of GDP at the end of 2015, public debt remains sustainable, and the DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear to be moderate for the most part. Gross financing needs (mainly linked to the rollover of existing debt) have exceeded the benchmark of 15 percent of GDP in 2014, but are now declining, further mitigating rollover risks.

1. This DSA updates the analysis conducted for the 2015 Article IV consultation. The overall analysis is largely unchanged, and public debt remains sustainable. A slight downward revision to the real output growth projections for 2016 has not affected the debt to GDP ratio significantly given that the authorities have left their deficit target unchanged for 2016–17, and intend to reduce the debt burden and put the debt to GDP ratio on a downward path over the medium term.

2. After declining in the previous decade, Morocco's public debt to GDP ratio started rising in 2010 following a deterioration in its macroeconomic performance. Rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 64.1 percent in 2015. About half of this increase occurred in 2012, when the economy was most affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices, and the authorities encountered difficulties in containing the fiscal deficit. The increase in public debt to GDP over the past three years has been mostly driven by the levels of the primary deficit and higher than-expected real interest rate/growth differential. However, the authorities' ongoing fiscal consolidation efforts are expected to help bring the debt ratio down toward 60 percent of GDP by 2020.

3. Public debt is generally resilient to shocks, but there are residual risks linked to financing needs and, to a lesser extent, to shocks to growth and the primary balance (heat map). Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts, aimed at lowering the overall deficit to about 2 percent of GDP in the medium term, do not appear exceptional relative to the distribution of other country cases. The debt level remains well below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance where it slightly approaches the benchmark. Vulnerabilities linked to the profile of debt are mostly moderate and short-term debt still represents a very small part of the total debt (about 5 percent). Relevant indicators exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (chart). Gross financing needs, which exceeded the benchmark of 15 percent in 2014, declined under that benchmark in 2015, and are expected to continue declining over the medium term due to a lengthening of average maturities through improved debt management. Although gross financing needs could increase under the shock scenario, the nature of the investment base (mostly local investors, many of whom are long-term investors) mitigates the associated risks. Nonetheless, these risks highlight the importance of continuing on the path of fiscal consolidation to reduce debt-financed deficits, and of carefully managing the maturity profile of public debt. Under the adverse scenario used to determine the level of PLL access (which differs from the DSA adverse scenario), public debt to GDP ratio would slightly increase in 2016–17 due to lower growth but would remain sustainable.

Figure 1. Morocco: Public Sector Debt Sustainability (DSA)—Baseline Scenario

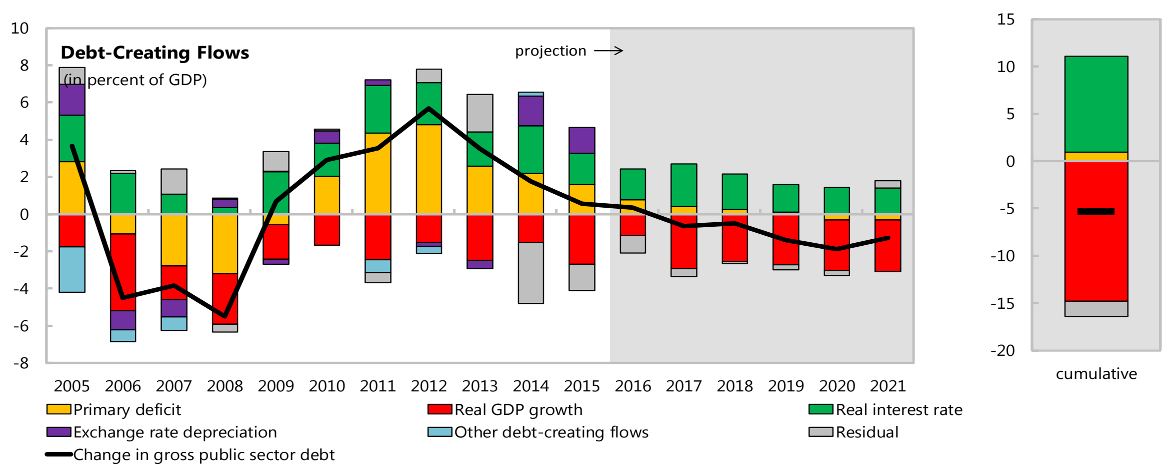
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of May 11, 2016		
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	53.1	63.5	64.1	64.4	63.8	63.3	61.9	60.0	58.7	Spread (bp) 3/		24
Public gross financing needs	13.6	16.6	13.6	9.8	12.2	11.9	10.7	9.8	8.2	CDS (bp)		195
Real GDP growth (in percent)	4.6	2.6	4.5	1.8	4.8	4.2	4.5	4.7	4.9	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.4	0.3	1.7	1.7	0.5	1.0	1.5	1.5	1.5	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	6.1	2.9	6.3	3.6	5.3	5.2	6.2	6.3	6.5	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	5.3	4.6	4.7	4.4	4.3	4.1	4.1	4.1	4.1	Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.7	1.8	0.6	0.4	-0.6	-0.5	-1.4	-1.9	-1.3	-5.3	
Identified debt-creating flows	0.1	5.0	2.0	1.3	-0.2	-0.4	-1.1	-1.6	-1.7	-3.7	
Primary deficit	1.0	2.2	1.6	0.8	0.4	0.3	0.1	-0.3	-0.3	0.9	-1.4
Primary (noninterest) revenue and grants	27.7	28.1	26.5	26.9	27.5	27.6	27.8	28.0	28.2	165.9	
Primary (noninterest) expenditure	28.7	30.3	28.1	27.6	27.9	27.9	27.9	27.7	27.9	166.8	
Automatic debt dynamics [5/]	-0.4	2.6	0.4	0.5	-0.6	-0.7	-1.2	-1.3	-1.4	-4.6	
Interest rate/growth differential [6/]	-0.4	1.1	-1.0	0.5	-0.6	-0.7	-1.2	-1.3	-1.4	-4.6	
Of which: real interest rate	1.9	2.6	1.7	1.7	2.3	1.9	1.5	1.4	1.4	10.2	
Of which: real GDP growth	-2.3	-1.5	-2.7	-1.1	-2.9	-2.5	-2.7	-2.7	-2.7	-14.8	
Exchange rate depreciation [7/]	0.0	1.6	1.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CG: Privatization Proceeds (negative)	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.6	-3.3	-1.4	-0.9	-0.4	-0.1	-0.3	-0.3	0.4	-1.6	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data. Moody's credit rating is unsolicited.

3/ Bond Spread over U.S. Bonds.

4/ Defined as interest payments divided by debt stock at the end of previous year.

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

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

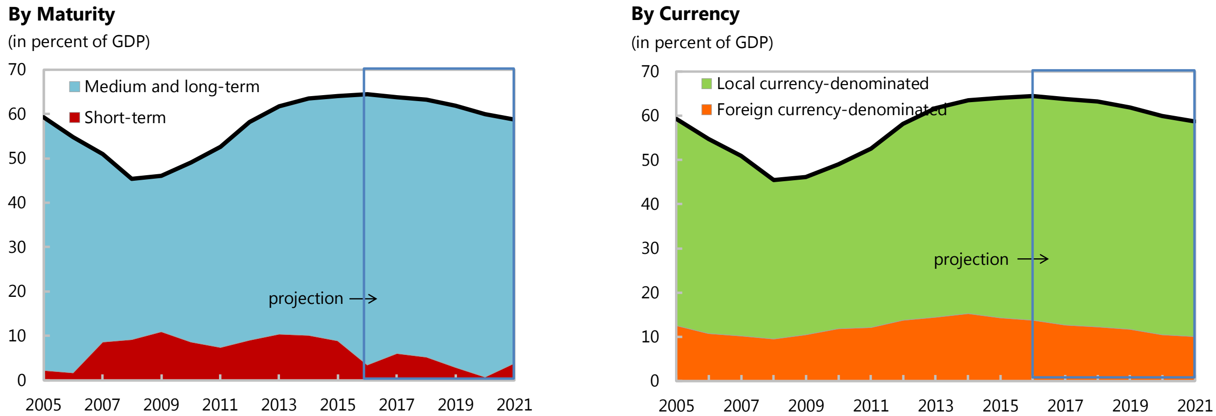
7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

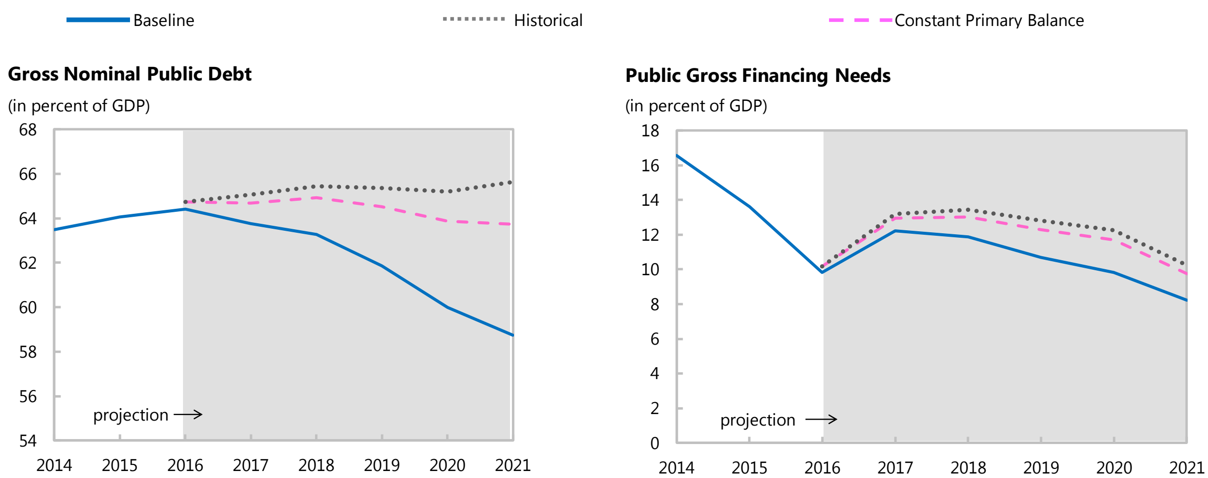
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

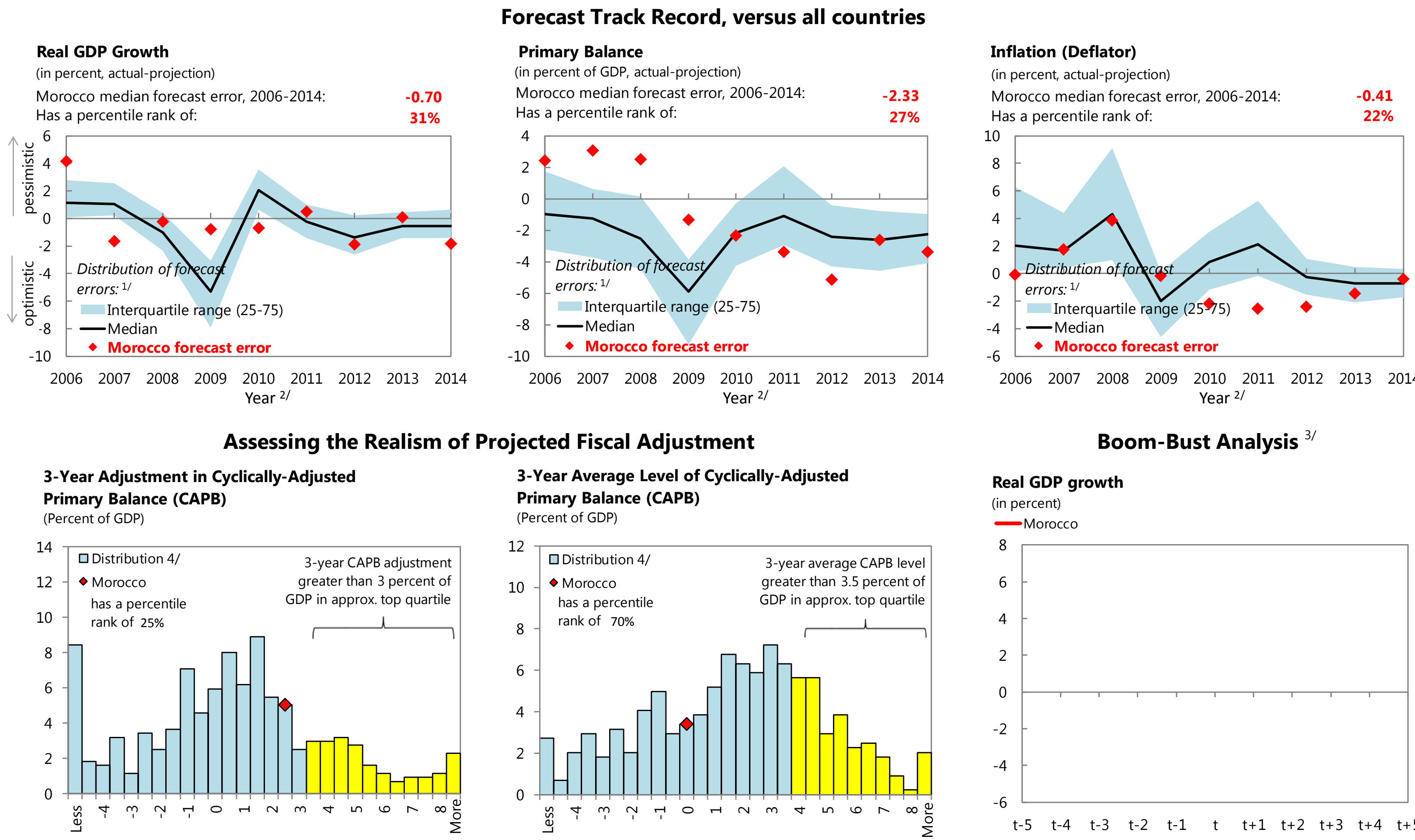
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.8	4.8	4.2	4.5	4.7	4.9
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary Balance	-0.8	-0.4	-0.3	-0.1	0.3	0.3
Effective interest rate	4.4	4.3	4.1	4.1	4.1	4.1
Constant Primary Balance Scenario						
Real GDP growth	1.8	4.8	4.2	4.5	4.7	4.9
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary Balance	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	4.4	4.7	4.6	4.7	4.5	4.2

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.8	4.5	4.5	4.5	4.5	4.5
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary Balance	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	4.4	4.7	4.7	4.9	4.7	4.4

Source: IMF staff.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

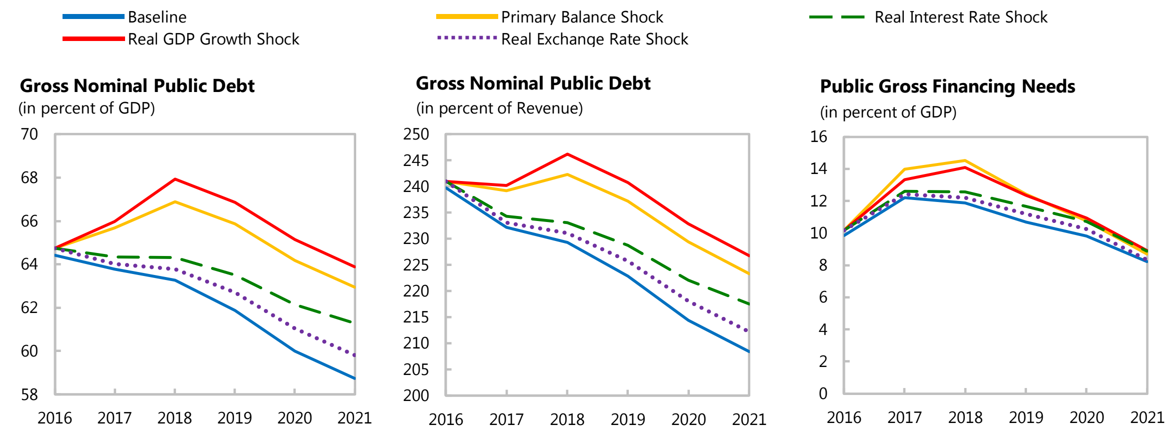
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

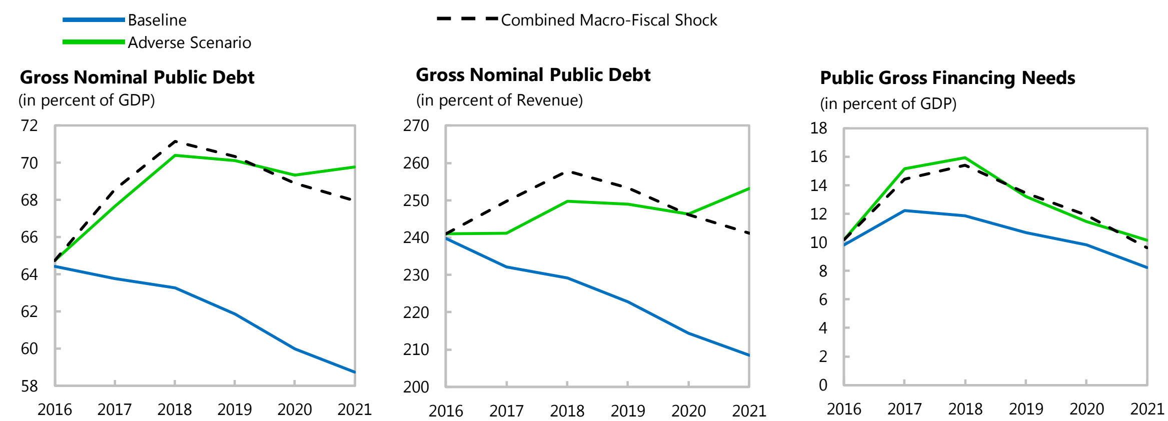
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.8	4.8	4.2	4.5	4.7	4.9
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary balance	-0.8	-1.8	-1.7	-0.1	0.3	0.3
Effective interest rate	4.4	4.7	4.7	4.9	4.6	4.2
Real Interest Rate Shock						
Real GDP growth	1.8	4.8	4.2	4.5	4.7	4.9
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary balance	-0.8	-0.4	-0.3	-0.1	0.3	0.3
Effective interest rate	4.4	4.7	5.0	5.2	5.0	4.8
Combined Shock						
Real GDP growth	1.8	3.3	2.7	4.5	4.7	4.9
Inflation	1.7	0.1	0.6	1.5	1.5	1.5
Primary balance	-0.8	-1.8	-1.7	-0.1	0.3	0.3
Effective interest rate	4.4	4.7	5.0	5.3	5.1	4.8
Adverse Scenario						
Real GDP growth	1.8	3.2	2.6	2.9	3.1	3.3
Inflation	1.7	0.5	1.0	1.5	1.5	1.5
Primary balance	-0.8	-2.8	-2.1	0.3	0.5	-0.3
Effective interest rate	4.4	4.7	4.8	5.1	4.6	4.3

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	1.8	3.3	2.7	4.5	4.7	4.9
Inflation	1.7	0.1	0.6	1.5	1.5	1.5
Primary balance	-0.8	-0.9	-1.3	-0.1	0.3	0.3
Effective interest rate	4.4	4.7	4.6	4.8	4.5	4.2
Real Exchange Rate Shock						
Real GDP growth	1.8	4.8	4.2	4.5	4.7	4.9
Inflation	1.7	3.7	1.0	1.5	1.5	1.5
Primary balance	-0.8	-0.4	-0.3	-0.1	0.3	0.3
Effective interest rate	4.4	4.7	4.6	4.7	4.5	4.2

Source: IMF staff.

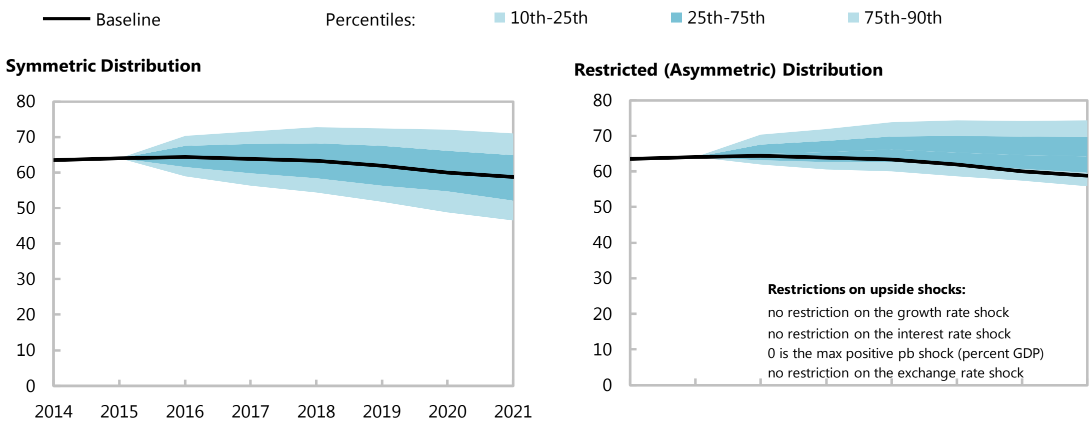
Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

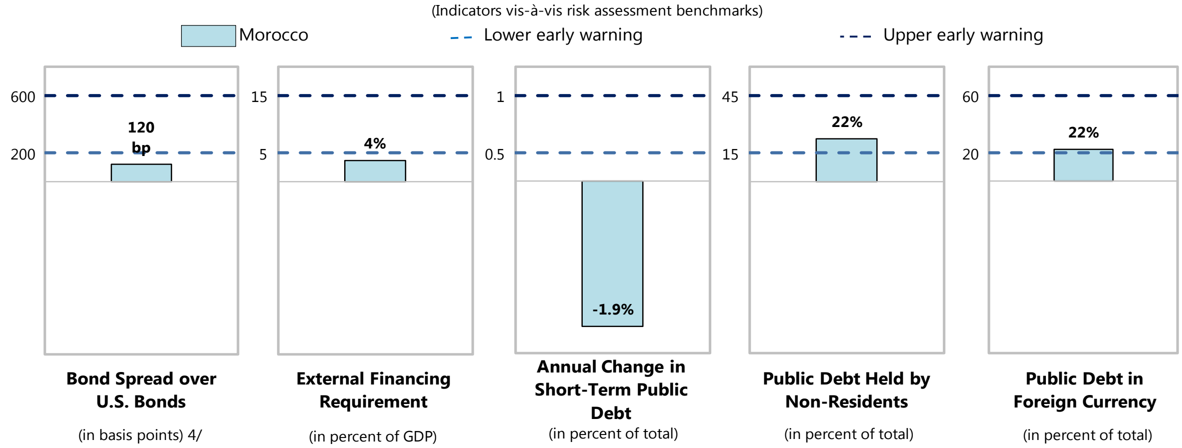
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

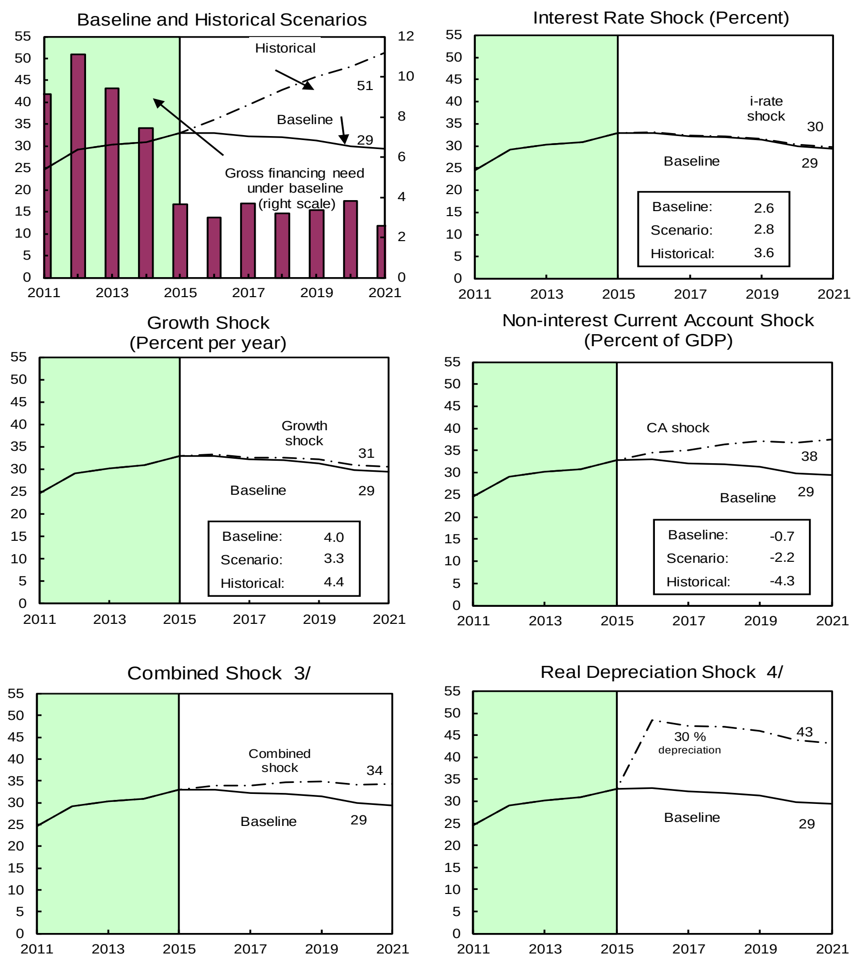
4/ An average over the last 3 months, 11-Feb-16 through 11-May-16.

Annex II. External DSA

Morocco's external debt to GDP is expected to remain stable over the medium term, but some vulnerabilities exist. After rising rapidly between 2010 and 2012, external debt would gradually decline to around 29 percent of GDP in 2021 given the improvements in the current account and robust GDP growth. However, with a 30 percent exchange rate depreciation—the most extreme shock—the debt to GDP ratio would increase to 43 percent. Additionally, with a shock to the current account the debt to GDP ratio would increase to 38 percent.

Figure 6. Morocco: External Debt Sustainability—Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: IMF country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2016.

Morocco: External Debt Sustainability Framework, 2011–21

(Percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projections					
Baseline: External debt 1/	24.6	29.1	30.2	30.9	32.9	**33.0**	**32.2**	**32.0**	**31.4**	**29.9**	**29.4**
Change in external debt	-0.6	4.5	1.1	0.6	2.0	0.1	-0.8	-0.2	-0.6	-1.5	-0.5
Identified external debt-creating flows	3.4	6.1	1.3	-0.8	-3.4	-1.9	-3.5	-3.2	-2.9	-3.2	-3.4
Current account deficit, excluding interest payments	6.8	8.5	6.7	4.8	0.9	0.3	0.6	0.7	1.0	0.8	0.6
Deficit in balance of goods and services	13.8	15.2	14.6	12.3	7.9	7.9	7.9	7.6	7.1	6.7	6.4
Exports	31.5	32.5	31.2	32.6	32.6	32.6	32.8	33.4	33.7	33.9	34.2
Imports	45.2	47.7	45.8	44.9	40.4	40.5	40.7	40.9	40.8	40.7	40.6
Net non-debt creating capital inflows (negative)	-2.1	-4.0	-4.0	-5.6	-3.8	-2.6	-3.4	-3.4	-3.3	-3.3	-3.3
Automatic debt dynamics 2/	-1.2	1.6	-1.5	0.0	-0.6	0.3	-0.7	-0.5	-0.6	-0.7	-0.7
Contribution from nominal interest rate	0.8	0.8	0.9	0.9	1.0	0.9	0.8	0.8	0.7	0.7	0.6
Contribution from real GDP growth	-1.2	-0.8	-1.2	-0.8	-1.5	-0.6	-1.5	-1.3	-1.4	-1.4	-1.4
Contribution from price and exchange rate changes 3/	-0.8	1.5	-1.1	-0.1	...	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 4/	-4.0	-1.6	-0.1	1.4	5.4	2.0	2.7	3.0	2.4	1.7	2.9
External debt-to-exports ratio (in percent)	78.1	89.7	96.9	94.8	101.0	101.2	97.9	95.8	93.2	88.0	85.9
Gross external financing need (in billions of US dollars) 5/	9.3	10.9	10.1	8.2	3.7	3.2	4.1	3.8	4.2	5.1	3.7
Percent of GDP	9.1	11.1	9.4	7.4	3.7	3.0	3.7	3.2	3.3	3.8	2.6
Scenario with key variables at their historical averages 6/						**36.0**	**39.3**	**42.8**	**45.8**	**48.0**	**51.3**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (percent)	5.2	3.0	4.5	2.6	4.5	1.8	4.8	4.2	4.5	4.7	4.9
GDP deflator in US dollars (change in percent)	3.3	-5.9	4.0	0.3	-12.4	2.4	1.1	1.1	1.8	2.0	1.4
Nominal external interest rate (percent)	3.4	3.3	3.2	3.0	2.9	2.8	2.6	2.5	2.4	2.4	2.3
Growth of exports (US dollar terms, percent)	17.0	-0.1	4.5	7.4	-8.5	4.4	6.7	7.0	7.5	7.6	7.3
Growth of imports (US dollar terms, percent)	23.4	2.2	4.3	1.0	-17.6	4.5	6.5	5.8	6.2	6.4	6.1
Current account balance, excluding interest payments	-6.8	-8.5	-6.7	-4.8	-0.9	-0.3	-0.6	-0.7	-1.0	-0.8	-0.6
Net non-debt creating capital inflows	2.1	4.0	4.0	5.6	3.8	2.6	3.4	3.4	3.3	3.3	3.3

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

1/ This ratio is based on debt and GDP in dollar term.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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

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

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Appendix. Written Communication

Rabat, Morocco
July 7, 2016

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States

Dear Madame Lagarde:

1. Morocco's economic performance under the second PLL arrangement has been strong. Over the past two years, economic growth averaged 3.6 percent; the current account deficit fell considerably to about 2 percent of GDP in 2015; inflation has remained moderate, at about 1.5 percent in 2015; program targets for the budget deficit were met in both 2014 and 2015; and foreign exchange reserves reached a comfortable level of 6.5 months of imports at the end of 2015. Furthermore, Morocco's financial system has remained sound, as noted in the recent Financial Sector Assessment Program. However, while the unemployment rate is down slightly to 9.7 percent in 2015, the youth unemployment rate remains particularly high at almost 21 percent. In 2016, economic growth is projected to be close to 2 percent, due largely to the poor cereal harvest. However, economic activity should accelerate in 2017 and strengthen further in the medium term, owing in particular to the consolidation of the recovery in the euro area and the positive impact of the government's structural reforms and sectoral strategies.

2. The second PLL has supported our economic strategy by providing insurance against external risks and strengthening investor confidence. However, external risks remain high, and relate in particular to geopolitical and security events in some countries in the region, economic growth in our European trading partners, an acceleration of the increase in oil prices, and financial market volatility. Accordingly, we are requesting IMF support in the form of a new 24-month PLL arrangement in the amount of SDR 2.504 billion (280 percent of quota), of which SDR 1.252 billion (140 percent of quota) would be available during the first year. We also wish to cancel the current arrangement, approved on July 28, 2014, effective upon approval of the new PLL arrangement. Morocco intends to continue to treat the new arrangement as precautionary and to draw on it only in the event of unforeseen exogenous shocks. The reduction in the level of access compared with the second PLL arrangement, from some SDR 3.2351 billion to about SDR 2.504 billion, is testimony to the strengthening of Morocco's economic fundamentals and the level of the foreign exchange reserves over the past two years.

3. The objectives of the program that would be supported by the new arrangement are to further strengthen macroeconomic stability and the resilience of the economy, particularly by reducing fiscal vulnerabilities and introducing a more flexible exchange arrangement, and to promote stronger and more inclusive growth.

4. In terms of fiscal policy, the government is committed to further reducing the deficit to 3.5 percent of GDP in 2016 and to 3 percent of GDP in 2017, in accordance with the target set in the program supported by the second PLL, with a view to reducing the public debt to GDP ratio to 60 percent by 2020. This will be achieved mainly through stronger revenues and moderate spending growth, while prioritizing pro-growth expenditures on investment in infrastructure and human capital, and social programs.

5. On the revenue side, the government has continued to implement tax reforms in line with the recommendations from the 2013 national tax conference, aiming to make taxation simpler, more equitable and more favorable to competitiveness. Priorities include continuing to reduce tax exemptions, particularly those granted to large agricultural firms, simplifying the VAT by reducing the number of rates to mitigate distortionary effects, and expanding the tax base, with an emphasis on gradually integrating the informal sector.

6. On the spending side, a significant effort has been made in recent years to control and streamline public spending and this will continue. The government is committed to reducing the civil service wage bill and social contributions below 11.5 percent of GDP in the medium term. This will be achieved by limiting the net creation of positions and the rate of advances and promotions as well as any potential wage increases based on the budget envelope established in the budget law. The level of public investment will be maintained with an emphasis on making public investment more efficient and better able to support private investment. Following the elimination of gasoline and fuel subsidies in February 2014 and diesel subsidies in January 2015, the full liberalization of these fuel products took place in December 2015 as planned. The government will continue to gradually reduce the remaining food subsidies, while improving the effectiveness of social spending by better targeting the most vulnerable groups.

7. The reform of the civil service pension system managed by the Moroccan Pension Fund (CMR) was adopted by the second chamber of parliament on June 28, 2016 and transmitted to the first chamber, and its final adoption is expected during the current parliamentary session. This reform calls for a gradual increase in the retirement age, higher employer and employee contribution rates, and new rules for calculating benefits. It will extend the sustainability of the CMR. The government will take the necessary steps for its implementation in January 2017. Over the medium term, the institutional structure is expected to shift toward a bi-polar system (private sector/public sector).

8. The organic budget law (OBL) adopted in 2015 came into effect in January 2016. Most of its provisions will be implemented in 2016 with the remainder to be introduced gradually by 2020. The regulatory measures to confront the risks entailed by personnel expenditures and the carry-forward of investment appropriations will be extended pending the relevant OBL provisions coming into effect. The government plans to introduce a draft law in 2017 to strengthen the governance and auditing of public enterprises and establishments in order to improve their performance.

9. Fiscal decentralization is being introduced in the context of the Advanced Regionalization Program and will be implemented carefully in order to preserve fiscal sustainability. The new legislative framework has shifted a range of competencies to the regions in line with their missions, including fiscal competencies. In parallel, public resources are being, and will increasingly be, transferred to the local level, at the same time as the own resources of local communities are increased. The government will ensure good governance and improved performance at the local level, including through a strengthening of local capacities, and increased transparency and budget accountability. A national charter of administrative decentralization is being developed with the aims of consolidating the actions of the various ministries at the regional level and ensuring consistency.

10. Bank Al-Maghrib (BAM) has maintained an accommodative monetary policy in a context of limited economic and credit growth, moderate inflation, and comfortable foreign exchange reserve levels. In March 2016, BAM cut its key policy rate by 25 basis points to 2.25 percent, a historical low. Liquidity has further improved, owing in particular to the increase in the foreign exchange reserves. BAM will continue to promote appropriate financing of the economy, especially SMEs. After amendments to take into account the recommendations of the Financial Sector Assessment Program (FSAP), a draft of the new central bank law is expected to be adopted by the Council of Government and submitted to parliament by the end of 2016. The new law will further strengthen BAM's independence and extend its powers in the area of financial stability, in line with international best practices.

11. Morocco's banking sector remains sound and resilient. The recent FSAP mission concluded that Moroccan banks are adequately capitalized and profitable, that they benefit from stable funding sources, and that bank supervision is effective. The authorities will continue to reinforce the resilience of the financial sector, and its contribution to economic growth, including through the implementation of the FSAP recommendations. Although the nonperforming loan (NPL) ratio has risen somewhat with the slowdown in some industries, NPL levels remain moderate and provisioning levels are high. However, banks remain vulnerable to concentration risks and are increasingly exposed to risks related to their presence in sub-Saharan Africa. In this context, coordination with the host country authorities has improved. In parallel with reinforcing the resources dedicated to bank supervision, BAM will continue to ensure that these risks are properly managed by strengthening the standards for lending to large groups and the review of such loans, and by re-examining loan classification rules. Moreover, the authorities will continue to strengthen macroprudential and crisis management mechanisms. In particular, BAM will also adopt regulations introducing the countercyclical capital buffer and recovery plans for systemically important institutions in 2016. The authorities will also endeavor to strengthen the bank resolution framework.

12. The authorities have decided to move toward a more flexible exchange rate and inflation targeting regime. Greater exchange rate flexibility that is well coordinated with other macroeconomic policies and appropriate structural reforms will allow Morocco to better absorb exogenous shocks, preserve the long-term competitiveness of the economy, and support trade diversification. The main requirements for a successful transition are in place, including the stronger fiscal and external buffers, the resilience of the financial sector, and the alignment of the exchange rate with fundamentals. The authorities are finalizing a road map for the transition to this new regime.

13. The government continues to implement an ambitious reform program to improve competitiveness, increase growth potential and reduce the unemployment rate, particularly among the young. The National Strategy for Employment will support these objectives, by improving the effectiveness of employment support and vocational training programs and the functioning of the labor market, while aiming to achieve a much greater participation of women in the labor market. The government will enhance the effectiveness and performance of government spending on education. Improvements will continue to be made to the business climate, including by establishing the bodies and means to enable the Competition Council to fully exercise its powers, by reducing payment delays in the public and private sectors, by implementing the national strategy to fight corruption and by improving financial inclusion.

14. We will provide the IMF with all the information needed to monitor economic and policy developments within the framework of the PLL arrangement, particularly information relating to the indicators listed in Table 1 and in the attachment. In line with the requirements of the PLL, we will also observe the standard criteria on trade and exchange restrictions, bilateral payment agreements, multiple currency practices, and the non-accumulation of payment arrears on the external debt.

15. We believe that the policies contained in this communication are adequate for achieving the economic goals supported by the PLL, and we are committed to taking any additional measures that may be necessary for this purpose. The continued strengthening of the economy's resilience, particularly by further reducing the fiscal deficit and strengthening the reserve position, should position Morocco well for exiting the PLL, once the exogenous risks to which the economy is exposed have significantly declined. Morocco will engage with the Fund, in accordance with relevant Fund policies, toward the success of our economic policies."

/s/

Mohammed Boussaïd
Minister of Economy and Finance

/s/

Abdellatif Jouahri
Governor of Bank Al-Maghrib

Table 1. Morocco: Quantitative Indicative Targets

	9/30/16	3/31/17
	Target	Target
Indicative targets		
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/	25,981	27,461
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	27,228	7,302
Memorandum item:		
Adjustor on NIR (in millions of U.S. dollars) 2/	918	2,011
Adjustor on the fiscal deficit (in millions of dirham) 3/	7,045	2,410

Source: IMF staff estimates.

1/ End-of-period (eop) stock, in millions of U.S. dollars, evaluated at the program exchange rate fixed at the end-April 2016, namely 9.5695 MAD/$.

2/ 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 2016.

3/ The fiscal deficit ceiling will be adjusted upward (downward) 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 2016 are cumulative from end-December 2015. The adjustors for 2017 are cumulative from end-December 2016.

Table 2. Morocco: Schedule and Terms under the Precautionary and Liquidity Line Arrangement

Review Date	Conditions for access	Indicative targets 1/ Central government fiscal deficit, ceiling, cumulative since beginning of fiscal year (eop in millions of dirham) 2/	Indicative targets 1/ Net international reserves (NIR) of Bank Al-Maghrib (BAM), floor, eop stock, in millions of dollars ($) 3/	Credit Available 4/ Million SDR 5/	Credit Available 4/ Million Dollars 6/	Credit Available 4/ Percent of Quota, cumulative	Credit Available 4/ Percent of Total Access
July 22, 2016	Board approval of the PLL			1,252	1,778	140	50
January 21, 2017	First review, based on September 30, 2016 indicative targets	27,228	25,981	1,252	1,778	140	50
July 21, 2017	Second review, based on March 31, 2017 indicative targets	7,302	27,461	2,504	3,556	280	100
January 21, 2018	Third review, based on September 30, 2017 indicative targets	to be set in the first review	to be set in the first review	2,504	3,556	280	100
Total				2,504	3,556	280	100

Source: IMF staff estimates.
1/ Evaluated at the program exchange rate (end-April 2016 9.5695 MAD/$) for 2016 and 2017.
2/ The adjustors are specified in the Technical Appendix.
3/ The adjustors are specified in the Technical Appendix.
4/ Credit available assuming no purchase.
5/ Full access will be available on July 22, 2017.
6/ SDR/Dollar Exchange rate of $1 = 0.704263 SDR as of May 4, 2016.

Attachment. Technical Appendix

1. Under the first year of the PLL arrangement, quantitative indicative targets as defined in Table 1 of our written communication will be set for end-September 2016 and end-March 2017. They include:

- Floor on the level of net international reserves (NIR) of Bank Al-Maghrib (BAM), as defined in Table 2, calculated as an end-of-period stock. The exchange rate that will be used to monitor NIR during the first year of the program is Moroccan dirham (MAD) 9.5695 per U.S. dollar, the rate prevailing at end-April 2016. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will be valued in U.S. dollars at the exchange rates and gold prices prevailing at end April, 2016. BAM will report to the IMF the level of NIR and gross international reserves (GIR) no later than one week after the end of each week both at the program exchange rates and at the market exchange rates.

- Ceiling on the level of the fiscal deficit of the central government defined as revenues, including grants, less expenditure less net acquisition of nonfinancial assets as reported in the Government Finances Statistics Manual 2001 format, calculated as a cumulative flow from January 1st of each calendar year. The central government is defined as all budgetary units of the central government. It includes the central government budget, special treasury accounts and autonomously managed government services (SEGMA). The Ministry of Economy and Finance will report to the IMF in monthly and cumulative flows from January 1 of each year the fiscal deficit, including grants, but excluding net acquisition of shares and other equity (privatization receipts) and the relevant budget aggregates (revenues, expenditures, etc.) for each month before the end of the following month.

2. The indicative targets on NIR will be adjusted downward (upward) by the amount below (above) official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The indicative targets on the fiscal deficit will be adjusted upward (downward) by the amount below (above) budgetary grants received by the central government from bilateral and multilateral agencies relative to program projections as indicated in Table 1 of our written communication.

3. Regarding the continuous zero ceiling on the accumulation of new external payment arrears during the duration of the arrangement, the payment arrears are defined as external debt-service obligations (principal and interest) that have not been paid at the time that are due as specified in the contractual agreements, on central government and central government-guaranteed debt. Overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

4. Assuming the approval of this arrangement by the IMF Executive Board on July 22, 2016, the reviews will be completed by no later than January 21, 2017 for the first review, July 21, 2017 for the second review, and January 21, 2018 for the third review.

Definition of GIR and NIR of BAM for the Purpose of Monitoring Indicative Targets

Gross international reserves are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad, and as vault cash that are under the direct and effective control of BAM, readily available for intervention in the foreign exchange market or the direct financing of the balance of payments;
- The reserve position of Morocco in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency assets that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities;
- Foreign currency assets in nonconvertible currencies and precious metals other than gold;
- Foreign currency claims on entities incorporated in Morocco;
- Any other foreign currency claims on residents; and
- Capital subscriptions in international institutions.

NIR is defined as GIR less:

- All outstanding liabilities of Morocco to the IMF, excluding SDR allocation; and
- Foreign currency liabilities in convertible currencies to nonresidents and contingent commitments to sell foreign exchange arising from transactions in derivative assets, including forward contracts, foreign currency swaps, and other futures market contracts.

**Statement by Mr. Mohammed Daïri, Alternate Executive Director for Morocco
July 22, 2016**

I thank staff for their hard work and concise and well-balanced report. Morocco has made good use of the PLL instrument, consistent with the stated objectives of the facility. The two successive PLL arrangements since 2012 have provided insurance against exogenous risks, while the authorities continued to strengthen macroeconomic and financial stability, reduce or eliminate key vulnerabilities, and enhance resilience to shocks, including by strengthening the policy framework and increasing reserve buffers. Progress continued also to be made on structural reforms to strengthen the foundations for higher and more inclusive growth. The authorities treated the two PLL arrangements as precautionary and, as demonstrated in their request for the second arrangement in 2014, they saw PLL use as temporary, and were committed to gradually reducing access and exiting the facility as the main risk factors dissipate and external buffers are increased.

The staff paper indicates that program implementation under the 2014 PLL was satisfactory, with key macroeconomic indicators broadly in line with targets, even though growth in 2016 is projected to be lower, mainly reflecting the larger than expected decline in cereals production after the bumper 2015 crop. Notwithstanding still weak external environment, nonagricultural GDP growth should remain unchanged at 3.5 percent in 2016, with total GDP growth at about 2 percent. With the return of cereals crop to a normal level, continued strengthening of confidence, and improved outlook for the euro area, growth should recover in 2017 and strengthen over the medium-term to reach close to 5 percent. Inflation is projected to decline slightly to 1.3 percent from 1.5 percent in 2015, and to stabilize at 2 percent over the medium-term. Strong export performance, mainly in automobiles, along with low oil prices and continued resilience of tourism and workers' remittances should contribute to a further decline in the current account deficit to 1.3 percent of GDP in 2016 and over the medium-term. With robust FDI flows, this should lead to a further build-up of reserves to reach 7 months of imports in 2016 and 9 months in 2021.

Notwithstanding this positive outlook, the Moroccan economy faces significant global and regional risks, including from geopolitical events affecting oil prices and tourism, slow euro area growth affecting trade, remittances and FDI, and more volatile global financial conditions. A new two-year PLL, at the expiration of the current arrangement this month, would help maintain an adequate level of reserves under severe exogenous shocks and preserve confidence.

Policies under the Program

As indicated by staff, the PLL arrangement will support continuation of current policies. The program for 2016-18 will focus on achieving the macroeconomic objectives set under the two previous programs and completing ongoing structural reforms in key areas. Building on positive developments so far, the authorities are confident that their fiscal deficit target of 3.5 percent of GDP in 2016 will be met, notwithstanding any shortfall in grants, and will take all necessary measures to this end, including by strengthening revenue mobilization and expenditure control. The 2017 budget will target a further reduction of the deficit to 3 percent of GDP. The authorities' medium-term target of reducing public debt to 60 percent of GDP will anchor fiscal policy going forward.

The accommodative monetary policy stance will be maintained in view of the limited demand and credit growth, moderate inflation, and comfortable reserves. After the cut in the policy rate by 0.25 percent to 2.25 percent in March 2016, the third such reduction since 2014, BAM will continue to monitor developments closely and stand ready to further ease its monetary policy stance if needed. The ongoing revision to the central bank law will further strengthen central bank independence as well as its financial stability role. The draft law has just been amended in response to FSAP recommendations and will be tabled soon for cabinet approval before its submission to parliament.

The authorities continue the preparatory work for moving to greater exchange rate flexibility and adopting inflation targeting, with extensive technical assistance from the IMF, for which they are grateful. They have decided to start moving in this direction in view of the strong external position, the recent realignment of the exchange rate with fundamentals, and continued progress in fiscal consolidation. A roadmap for the reform will be finalized soon by the authorities with Fund technical assistance.

The authorities are comforted by the positive assessment of the financial sector by the recent FSAP mission and will continue to strengthen the resilience of the financial system and its contribution to growth, including through implementation of FSAP recommendations. Bank Al-Maghrib is cognizant of the risks to the financial system from loan concentration and increasing cross-border activity in Sub-Saharan Africa, and is taking steps to mitigate these risks, as indicated in the Written Communication, including by further strengthening regulation and supervision and enhancing coordination with host country supervisors. The recent increase in resources for supervision will be helpful in this regard.

Progress will continue to be made on the structural fiscal reform front. After most of the provisions of the new organic budget law (OBL) became effective on January 1st 2016, as planned, the remaining provisions will be implemented according to schedule. Moreover, after strong opposition by trade unions, the draft legislation on pension reform was adopted last month by the House of Counsellors. The second and last vote by the House of Representatives, in which the governing coalition has a majority, should take place shortly, with the expectation that the law would be effective on January 1st 2017, as indicated by the authorities during the third review of the current PLL. The recommendations of the 2013 *Assises Fiscales* on tax reform will continue to be implemented in line with the objectives of broadening the tax base, reducing distortions, simplifying the system, and promoting efficiency. Wage expenditures will be further contained to bring them down to 11.5 percent of GDP over the medium term, and the subsidy reform will continue, with further declines in the volume of subsidized flour. The decentralization process is gaining momentum following the September 2015 regional and local elections, the first to be held under the new constitution and the new organic laws. Along with increased devolution of spending, local government resources will continue to be increased through additional transfer of central government tax revenue and improved mobilization of their own resources within a transparent and fiscally responsible framework.

Efforts will continue to strengthen competitiveness, further diversify the economy, and enhance growth potential, building on recent success in this area, including through well-designed sectoral strategies. Ongoing efforts aimed at increased diversification and enhanced productivity in agriculture have improved the economy's resilience to adverse weather conditions, with overall GDP growth remaining positive despite a sharp fall in cereals crop, as observed in 2016, in contrast to past episodes in the 1990s when similar shocks led to a significant decline in real GDP. Continued enhancement of the business climate will further improve Doing Business and Competitiveness Indicators, while the operationalization of the Competition Council will help ensure a level playing field for business. To address excessive payment delays in the public sector, a decree was adopted on July 5 limiting such delays to 60 days and introducing penalties for nonobservance which, along with accelerated VAT refunds, would further improve the business climate by alleviating liquidity pressures, in particular for SMEs. The recently-adopted National Employment Strategy has outlined a number of reforms aimed at reducing unemployment, in particular among the youth and the educated, including through well-articulated active labor market policies and by improving education and training to address skill mismatches, while increasing female participation in the labor force to unleash growth potential.

PLL Qualification

As explained in the staff paper, Morocco continues to meet the criteria for PLL qualification. Following the strong performance under the external sector and market access criterion in 2015, Morocco now performs strongly in four out of the five qualification areas. The moderate underperformance in the fiscal area is mainly related to the relatively high public debt. In this regard, public debt remains sustainable and resilient to a number of shocks, as recognized by staff, reflecting recent fiscal consolidation, favorable currency and maturity structure, and sound debt management. The debt-to-GDP ratio has stabilized at around 64 percent of GDP in 2016, which is below the 70 percent of GDP benchmark for emerging market countries, and should start declining in 2017 to reach 60 percent of GDP by 2020. Moreover, after reaching 16.5 percent of GDP in 2014, gross financing needs declined to 13.5 percent in 2015 and should continue to fall to reach 8 percent in 2021. The subsidy reform, including the automatic price adjustment mechanism, and the OBL have also significantly strengthened the fiscal framework and reduced vulnerabilities.

Access and Duration

The adverse scenario applied for Morocco results in a financing need amounting to US$ 13.1 billion over the two-year period. In the absence of PLL resources and other new financing, this would reduce gross international reserves (GIR) as a ratio of the standard ARA metrics to 83 percent. The requested access equivalent to US$ 3.5 billion should help maintain GIR at 90 percent of standard ARA metrics or 136 percent of ARA metrics adjusted for existing capital controls on residents.

The authorities consider that while severe, the shocks applied to the economy are not unrealistic. Geopolitical risks could well lead to an increase in oil prices of the magnitude assumed by staff (US$ 15/b, net of US$ 5/b decline from lower growth in the euro area). Price developments since January indicate that an increase of a broadly similar magnitude can be observed over a short period. Moreover, the authorities agree with the assessed impact of lower growth in the euro area and of geopolitical factors, which may be exacerbated by uncertainty from the outcome of Brexit vote as well as recent terrorist attacks, respectively. In sum, the authorities are of the view that the requested access is well justified, particularly since the decision to move to a more flexible exchange rate policy may require a sufficiently large reserve cushion to maintain confidence and smooth excessive exchange rate volatility during the first phase of the transition. Since global and regional risks are unlikely to dissipate soon, the authorities consider that the two-year PLL provides the right time horizon to observe a durable reduction in risks.

Exit Strategy

By further reducing access under this third request, the authorities provide strong evidence of their continued commitment to gradually exit the facility, based on their assessment of external risks facing the economy, and progress in reducing vulnerabilities and increasing buffers. Access would continue to decline under the proposed arrangement, both in absolute terms (US$ 3.5 billion as against 5 billion in the 2nd PLL and 6.2 billion in the 1st) and in percent of pre-2010 reform quota (426 percent instead of 550 percent and 700 percent, respectively).

While the size of the shock under the adverse scenario for this request is assessed to be much higher than under the two first PLLs, the improvement in the reserves position has allowed a gradual and significant decline in PLL contribution to financing of the shock from 100 percent under the 1st PLL to 47 percent under the 2nd and 27 percent under this request. The authorities remain committed to continue with their gradual exit to allow full exit from PLL support at an early stage.

Conclusion

The authorities are grateful to management and the Board for their continued support and valuable advice. They are firmly committed to preserving recent gains in macroeconomic and financial stability, including during this pre-election period, and to continue strengthening the economy's performance and resilience. With macroeconomic stability established as a joint responsibility of the government and parliament as mandated under the constitution, the authorities are confident that the government which will be formed after the general elections in October 2016 will stay the course of sound policy implementation. They intend to continue treating the PLL as precautionary, and look forward to Board approval of their request for a new two-year PLL and cancellation of the current arrangement.