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MOROCCO

February 2016

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

In the context of the Third Review under the Arrangement under the Precautionary and Liquidity Line, 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 January 27, 2016, following discussions that ended on November 4, 2015, 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 January 12, 2016.
- A **Statement by the Executive Director** for Morocco.

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

Written Communication sent to the IMF by the authorities of Morocco*
*Also included in Staff Report

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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COMMUNICATIONS DEPARTMENT

Press Release No. 16/26
FOR IMMEDIATE RELEASE
January 28, 2016

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IMF Executive Board Completes the Third Review of the Precautionary and Liquidity Line for Morocco

On January 27, 2016, the Executive Board of the International Monetary Fund (IMF) completed the third and last review of Morocco's economic performance under a program supported by a two-year Precautionary and Liquidity Line (PLL) arrangement, and reaffirmed Morocco's continued qualification to access PLL resources.

The current two-year PLL arrangement in an amount equivalent to SDR 3.2351 billion (about US$5 billion at the time of approval or 550 percent of Morocco's quota at the IMF) was approved by the IMF's Executive Board in July 2014. (See Press Release No. 14/368). The arrangement supports the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. It will expire in July 2016. Morocco's first 24-month PLL arrangement was approved on August 3, 2012, with an access equivalent to 700 percent of the quota, and expired in July 2014.

The PLL arrangement has provided insurance against external risks. The Moroccan authorities are treating the arrangement as precautionary, as they did with the 2012–14 PLL arrangement, and do not intend to draw under the arrangement unless Morocco experiences actual balance of payments needs from a significant deterioration of external conditions.

The PLL, which was introduced in 2011, provides financing to meet actual or potential balance of payments needs of countries with sound policies, and is intended to serve as insurance or help resolve crises under wide-ranging situations.

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

"Morocco's overall economic performance has continued to improve in 2015. Strong policy implementation has helped reduce fiscal and external vulnerabilities and significant progress has been achieved on reforms. In an environment that remains vulnerable to important downside risks, continued efforts to move ahead with difficult but necessary reforms will be key for reducing the remaining vulnerabilities while promoting higher and more inclusive growth.

"Fiscal developments have been positive and consistent with the authorities' objective to reduce the deficit to 4.3 percent of GDP in 2015. Substantial progress has been achieved on the subsidy reform, while support to the most vulnerable has expanded. Now that the draft legislation on the public sector pension reform has been approved by the government, its timely adoption by parliament and implementation will be key.

"Progress has also been made in upgrading the financial policy framework, including implementing recent Financial Sector Assessment Program recommendations, in addition to implementing Basel III norms and the new banking law. An important further step should be to finalize the new central bank law in order to enhance its independence and extend its supervisory and resolution powers. Preparations for a more flexible exchange rate regime, which will help preserve competitiveness and the economy's ability to absorb economic shocks, are progressing well.

"Morocco's external position has improved considerably, owing mainly to strong policies, rising exports in newly developed sectors, lower oil prices, and robust FDI, with reserves reaching a comfortable level. Structural reforms to improve the business climate and enhance competitiveness continue to be a priority in order to build on those gains. The implementation of the National Strategy for Employment will help address constraints in the labor market and reduce unemployment, especially among the youth.

"The arrangement under the Fund's Precautionary and Liquidity Line (PLL) remains on track. The PLL, which the authorities continue to treat as precautionary, has provided Morocco with insurance against external risks while supporting the authorities' economic strategy."

INTERNATIONAL MONETARY FUND

MOROCCO

January 12, 2016

THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

Overall macroeconomic conditions have continued to improve, but challenges remain. Economic activity rebounded in 2015, helped by a very good agricultural year. Fiscal and external imbalances have declined and reserve buffers are building up. While poverty, unemployment rates, and inequality have decreased in recent years, much remains to be done, including to reduce unemployment among the youth and to increase female labor participation. The outlook remains subject to domestic and external risks, related in particular to reform implementation, weak growth in key trading partners, and a potentially volatile international environment.

Continued reform implementation will be essential to strengthen macroeconomic buffers and promote higher and more inclusive growth. In concluding the 2015 Article IV consultation with Morocco, on December 14, 2015, Executive Directors welcomed the authorities' continued strong commitment to fiscal consolidation and to gradually reducing public debt over the medium term, while maintaining a prudent monetary policy in a context of low and stable inflation. Sustained implementation of structural reforms, especially to improve the business climate and support competitiveness, address labor market inefficiencies, and increase human capital, will be critical to boost potential growth in the medium term.

The program remains on track. Both September 2015 quantitative indicative targets were met comfortably and Morocco continues to meet the PLL qualification criteria. Morocco performs strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy), and does not substantially underperform in the other two (external position and market access, and fiscal policy). The authorities intend to continue to treat the current arrangement as precautionary, and are still assessing possible options regarding Morocco's exit strategy and the potential need for a successor arrangement.

Approved By
Adnan Mazarei and Sanjaya Panth

The staff team comprises Nicolas Blancher (head), Pilar Garcia-Martinez, Jean-Frédéric Noah, Dominique Fayad, and Lorraine Ocampos (all MCD), and Calixte Ahokpossi and Sanaa Nadeem (SPR). Jianping Zhou (head of FSAP team, MCM) joined the mission for the concluding meetings. The discussions took place in Rabat and Casablanca between October 21 and November 4, 2015. 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, the Minister of Education Mr. Rachid Belmokhtar Benabdellah, the Minister of Interior Mr. Mohamed Hassad, the Minister of Industry, Trade, Investment and e-Economy Mr. Elalamy, the Minister Delegate of General Affairs and Governance Mr. Louafa, the Minister Delegate of Civil Service and Modernization of Public Administration Mr. Moubdi, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of the private sector and civil society. Mr. Daïri (OED) participated in most meetings.

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RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The Executive Board approved a two-year precautionary and liquidity line (PLL) arrangement in July 2014** in the amount of SDR 3.2351 billion (or 550 percent of quota), equivalent to US$5 billion. The arrangement supports the authorities' program to rebuild fiscal and external buffers and promote higher and more inclusive growth. The authorities continue to treat the arrangement as precautionary and upon completion of the second review, on July 24, 2015, the full amount was made available. The 2015 Article IV consultation with Morocco was concluded on December 14, 2015. Executive directors welcomed the authorities' continued strong commitment to sound policies and encouraged them to move forward with reforms to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

2. **Economic activity rebounded in 2015.** Growth is expected to have reached 4.7 percent, against 2.4 percent in 2014. This reflects a very good agricultural season, while non-agricultural activity remained sluggish (3.3 percent), including tourism (affected by rising geopolitical risks) and traditional manufacturing (such as textile). The unemployment rate picked up slightly to 10.1 percent on Q3-2015, from 9.6 percent in the same period of last year, while youth unemployment remained high at 21.4 percent.

3. **External imbalances declined substantially.** The current account deficit is expected to narrow to about 1.4 percent of GDP in 2015, from its peak of 9.5 percent of GDP in 2012. Furthermore, steady FDI growth and international bond issuance have strengthened the capital account. As a result, international reserves have increased further to 6.9 months of imports, and 111 percent of the standard Assessment Reserve Adequacy (ARA) metric (154 percent, adjusted for capital controls) at end-2015.

4. **Fiscal developments were positive in 2015.** At end-September, the overall deficit (including grants) was 2.7 percent of GDP, compared with an indicative target of 3 percent under the PLL arrangement. For the year as a whole, the authorities were on track to meet the objective of 4.3 percent of GDP, and the cyclically-adjusted primary deficit (excluding grants) is estimated to have decreased compared to 2014 by about 1.5 percent of GDP. Despite lower than expected grant revenues, this reflects continued efforts to contain or reduce spending on wages, goods and services, and energy subsidies, and to step up revenue collection.

5. **Monetary policy continued to be prudent in a context of low inflation and subdued credit growth.** Due to mixed economic developments and a still uncertain outlook, Bank-Al-Maghrib (BAM) maintained its policy rate at 2.5 percent in 2015, following two cuts of 25 basis points each in September and December 2014. Liquidity pressures receded, helped by improved foreign reserves position, but bank lending remained stagnant, growing at a modest 0.7 percent in October 2015 (y-o-y), due to slow non-agricultural growth and lower imports. Headline inflation was low at 1.4 percent in October (y-o-y).

6. The financial sector is well capitalized and profitable, but rising NPLs and credit concentration risks need to be monitored.[1] At end-June 2015, capital adequacy ratios stood at 13.8 percent for the banking system, well above Basel III requirement. Bank profitability has been stable despite low credit growth. NPL ratios increased to 7.5 percent in August 2015 due to weak non-agricultural activity, but provisioning levels are high. Concentrated bank exposures to large corporates constitute a significant source of risk identified in the FSAP.

7. Reforms have progressed further, with the implementation of the new organic budget law and reduced energy subsidies, but there have been delays in some areas, such as pension reform or the adoption of the new central bank law. Specifically:

- **Organic budget law** (OBL). The new OBL adopted in 2015 will strengthen Morocco's fiscal framework considerably. Most of its provisions enter into force in January 2016 and are reflected in the 2016 budget, including as regards fiscal performance management and transparency. The remaining provisions will be gradually implemented by 2020.
- **Subsidies and social safety nets**. The full liberalization of fuel product prices (diesel, gasoline and kerosene) took place at end-November 2015 as expected. Food subsidies will be gradually reduced in 2016, and a reform of butane subsidies is not envisaged at this point. In parallel, the authorities continue to expand social programs targeting the most vulnerable groups.
- **Financial sector policy framework**. In addition to Basel III and the new banking law, the authorities are taking steps to implement recent FSAP recommendations, such as increasing resources for bank supervision. Regarding the new central bank law, which will strengthen the central bank's independence, clarify its objectives, and enhance its supervisory and resolution powers, the authorities are still in the process of adjusting the draft, including by incorporating recent FSAP recommendations.
- **Exchange rate and monetary regime**. Following intense preparatory work in recent years, the authorities agree that Morocco has a unique window of opportunity to introduce exchange rate flexibility. Staff will continue to collaborate with the authorities on next steps in the transition.
- **Pension reform**. A parametric reform is essential to secure the financial viability of the public sector pension system and to eliminate the current gap between contributions and benefit payments. The civil service pension reform was adopted by the government on January 7, 2016 and will be soon submitted to Parliament, but its implementation has been postponed to early 2017.
- **Business environment and labor market**. Progress has continued in these areas, including recently on customs procedures, property registration, setting up a business, and limiting payment delays in the public sector. The authorities are also pursuing new reforms, including the

[1] The 2015 Financial System Stability Assessment for Morocco was discussed by the Executive Board together with the 2015 Article IV staff report, on December 14, 2015.

National Strategy for Employment, introduced in 2015, and the formulation of a national strategy to fight corruption.

OUTLOOK AND RISKS

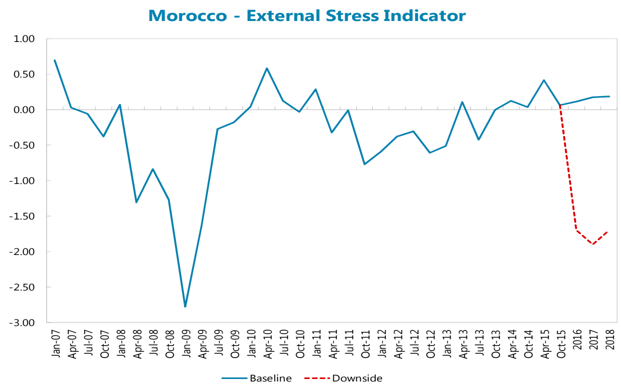
8. Gradually increasing growth, low inflation, and stronger external and fiscal buffers are expected over the medium term:

- **Growth** is expected to slow in 2016, reflecting a return to normal of agricultural activity while non-agricultural growth should gradually increase. The recent pick up in the tertiary sector should continue and a recovery in manufacturing activities should be supported by improved prospects in Europe, low oil prices, and stronger domestic confidence. Over the medium term, subject to improved external conditions and steadfast reform implementation, agricultural sector modernization, continued expansion of Moroccan firms into new markets and sectors (such as automobile and aeronautic), and higher capital investment, are expected to improve Morocco's positioning in global value chains and lift potential growth.
- **Inflation** is expected to remain low at 1.3 percent in 2016, due to declining commodity prices, stable domestic food production, and a prudent monetary policy stance. It is projected to stabilize around 2 percent over the medium term.
- **The current account deficit** should decrease further to 0.5 and 0.9 percent of GDP in 2016 and 2017, respectively. Over the medium term, given projections of low oil prices, stronger external demand, and declining grant revenues, the current account deficit is expected to stabilize at about 1.6 percent. FDI inflows are projected to remain strong, helping to raise the reserves position to above 8 months of imports, or 151 percent of the standard ARA metric, by 2020.
- **Fiscal consolidation.** The overall fiscal deficit is expected to decline to 3.5 percent of GDP in 2016, in line with projections at the time of the second review of the PLL arrangement. This would reflect stronger tax revenues (due in particular to the introduction of new corporate tax brackets), and moderate spending growth (with further reductions in subsidies and sustained public investment and social spending). The authorities are determined to continue on the path of fiscal consolidation over the medium term, aiming for a fiscal deficit of about 2 percent of GDP by 2020, consistent with their objective to gradually reduce public debt to about 60 percent of GDP by 2020.

9. Risks to the outlook remain tilted to the downside, but have decreased somewhat. On the domestic front, the general elections in 2016 could delay reform implementation, particularly in key areas related to fiscal consolidation, such as pension, subsidy, and tax reforms. On the external front, lower than expected growth in the euro area would slow economic activity through lower exports, tourism, FDI flows and remittances, and exacerbate fiscal and external imbalances; volatility in global financial markets could impact global growth and increase borrowing costs; and geopolitical risks could increase oil price volatility and reduce tourism activity, potentially reversing some of the recent current account improvements. On the upside, continued low level of commodity prices would help further narrow those imbalances.

Box 1. Morocco: External Stress Index

Overall assessment. The external stress index indicates that external pressures faced by Morocco have abated in recent years. However, as shown in the downside scenario, external risks remain substantial for Morocco.



Background. The external stress index is an indicator of the evolution of the external environment faced by a particular country.[1] The index is based on: (i) a consideration of the key external risks facing Morocco; (ii) the selection of proxy variables capturing these risks; and (iii) the choice of the weights to apply to each of these variables.

Risks. The main external risks for Morocco, as explained in detail in the 2014 PLL arrangement request and further updated according to the latest Global Risk Assessment Matrix (G-RAM), are: (i) a structurally weak growth in key advanced economies, in particular the Euro area, resulting in lower exports, FDI, tourism and remittances; (ii) an increase in volatility of energy prices due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline; and (iii) tighter or more volatile global financial conditions.[2]

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

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

External risks	External Proxy Variable	Weights
Lower exports to the Euro area Lower FDI from the Euro area Lower tourism from the Euro area Lower remittances from the Euro area	Euro Area growth	0.59
Higher oil import	Change in oil price	-0.31
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.09

Baseline scenario. The baseline projections are based on WEO baseline projections for growth in Europe and oil prices. The VXEEM is assumed unchanged from its level of December 14, 2015.

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

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

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

REVIEW OF QUALIFICATION

A. General Assessment

10. Morocco's economic performance has improved further, supported by sound economic policies. Economic growth has recovered in 2015 and policy action has contributed to significantly reduce macroeconomic imbalances and vulnerabilities. The IMF Executive Board's assessment in the context of the 2015 Article IV consultation, discussed in December 2015, was positive. The program is on track, with end-September 2015 indicative targets on the central government fiscal deficit and NIR met with comfortable margins.

11. Going forward, the authorities are committed to maintaining sound policies, including regarding medium-term fiscal sustainability. The comprehensive medium-term strategy included in the authorities' written communication (W-COM) for the request of the PLL arrangement and for the last two reviews, has been confirmed in the attached W-COM dated January 11, 2016. The authorities are committed to reduce public debt to 60 percent of GDP by 2020, which will require bringing the fiscal deficit to about 2 percent of GDP. This will reflect stronger tax revenues, lower subsidies and contained wage expenditures. In addition, the authorities will pursue further structural reforms to increase 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.

12. Flexible policy and institutional frameworks allow the authorities to implement needed reforms in the face of shocks. The fiscal policy framework is being strengthened through the implementation of the new OBL, which enhances 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,[2] and scores lower in the monetary policy area—but this latter indicator is less relevant for Morocco given its pegged exchange rate regime.[3] Lastly, Morocco ranks within the 25-75 percentile range on anti-corruption and government effectiveness indicators of the World Bank.

13. Overall, Morocco continues to meet the qualification criteria for a PLL arrangement, and to perform strongly in three out of the five PLL qualification areas (financial sector and supervision, monetary policy, and data adequacy). It does not substantially underperform in the other two qualification areas (external position and market access, and 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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[2] 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.

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

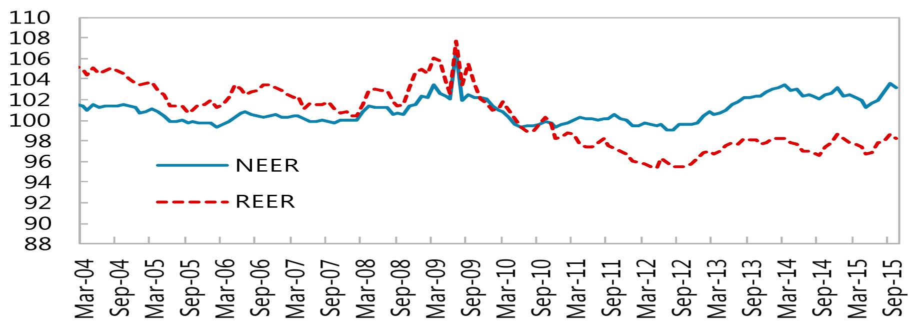
B. Assessment of Specific PLL Criteria

14. Morocco performs strongly in three out of the five PLL qualification areas:

External position and market access

- ***Criterion 1. Sustainable external position***. Morocco's current account deficit narrowed substantially in 2015, to 1.4 percent of GDP from 5.7 percent of GDP in 2014, mostly due to the sharp decline in international oil prices. 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 export sectors, while import growth remains moderate in an environment of low commodity prices. The real effective exchange rate is in line with fundamentals based on the most recent external balance assessment (EBA).[4] The updated external debt sustainability analysis provided in the 2015 Article IV report shows that Morocco's external debt has been rising but remains relatively low, at about 32 percent of GDP; it is expected to decline to around 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.

Morocco: Real and Nominal Effective Exchange Rates, 2004-15
(Index, 2010=100)



- ***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), and FDI is the largest component. Access to international financial markets by non-financial corporations remains modest in size compared to other emerging markets, and private external debt is small (about 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 been able to steadily issue international bonds at favorable

[4] The EBA assessment, consistent with the fall 2015 WEO, finds the real effective exchange rate (REER) to be valued in the range of -11.7 percent to 9.1 percent of its equilibrium. The current account method finds a current account gap of 0.6 percent of GDP at end-2015, equivalent to an undervaluation of the REER gap of 2 percent. The REER approach shows an overvaluation of 9.1 percent, while the external sustainability approach finds an undervaluation of -11.7 percent.

terms, aided by the global low-rate environment. Such access was confirmed when the government raised EUR 1 billion in June 2014, and the National Phosphate Company (OCP) successfully issued a US$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 have narrowed between 2011 and 2015, and the average maturity of public external debt is currently close to 8 years and 9 months (against 7 years and 4 months in 2009).

- ***Criterion 4—A reserve position, which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.*** As noted, Morocco's international reserves have reached a comfortable level equivalent to 111 percent of the standard ARA metric at end-2015 (against 94.7 percent at end-2014). Furthermore, considering existing controls on capital outflows for residents, the ARA metric should be adjusted to lower the weight of broad money (reflecting lower risk of capital flight).[5] Accordingly, Morocco's international reserves amounted to 154 percent of the adjusted ARA metric. Over the medium term, reserves are expected to increase further and exceed 151 percent of the ARA metric (220 percent of the adjusted metric) by 2020.

Fiscal policy

- ***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 (W-COM-¶5). Consistent with their medium-term objectives to reduce public debt to 60 percent of GDP (against 64 percent of GDP at present) by 2020, which will require bringing the fiscal deficit to about 2 percent of GDP, the pace of fiscal adjustment and reform has picked up since end-2013. A deficit of 4.3 percent of GDP is likely to have been achieved in 2015, thanks to declining subsidy spending and wage bill containment, and a deficit of 3.5 percent of GDP is projected in 2016. Nevertheless, staff continues to assess that Morocco is not performing strongly in the fiscal area. The updated debt sustainability analysis shows that public sector debt is 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. Still, public debt remains relatively high, and is expected to increase further in 2016. Furthermore, a less ambitious decline in the public wage bill than at the time of the second review is now projected over the medium term (11.5 vs 11.0 percent of GDP), due in part to a revised assessment of the impact of public pension sector reform (W-COM-¶7,9). The delay in implementing the pension reform should not affect the fiscal deficit and debt trajectory as the authorities plan to offset its impact on the public wage bill through expenditure and revenue measures.

[5] See Assessing Reserve Adequacy—Specific Proposals at http://www.imf.org/external/pp/longres.aspx?id=4947.

Monetary policy

- ***Criterion 6—Low and stable inflation***. Morocco continues to maintain low and stable inflation. Inflation was 1.4 percent (y-o-y) at end-October 2015 and is expected to remain low in the medium term. Inflation expectations remain well anchored, as reflected in BAM's surveys. The authorities plan to gradually introduce greater exchange rate flexibility (W-COM-¶13).

Financial sector soundness and supervision

- ***Criterion 7—Sound financial system and absence of solvency problems that may threaten systemic stability***. Banks are well capitalized and profitable, benefiting from comfortable interest rate margins, low operating costs, rising fee and commission income, and stable funding (mainly domestic deposits). NPLs have been rising and concentration risks are significant, but FSAP stress tests show that 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 new 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 expected to be fully in place by end 2016. Supervision of Moroccan banks in sub-Saharan Africa is improving through strengthened coordination and exchange of information with supervisory agencies in host countries (W-COM-¶12).

Data adequacy

- ***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.

OTHER PROGRAM ISSUES

15. Morocco continues to meet the four criteria to qualify for exceptional access:

- ***Criterion 1.*** Morocco does not face actual balance of payment pressures, but could experience such pressures if risks were to materialize. Since the inception of the program, Morocco has benefited from low oil prices and a gradual economic recovery in the euro area, which helped rebuild external buffers. However, the risks of structurally weak growth in key advanced economies (particularly the Euro area), increased energy price volatility, and tighter or more volatile global financial conditions, could give rise to exceptional balance of payment pressures that could result in a need for Fund financing that could not be met within normal access limits.

- ***Criterion 2.*** A rigorous and systematic analysis indicates that there is a high probability that Morocco's public debt will remain sustainable over the medium term, that it is resilient to various shocks and vulnerabilities linked to its level and profile, and that it will start declining in 2017.

- ***Criterion 3.*** Staff considers that Morocco could continue to access capital markets while Fund resources would be outstanding, were Morocco to make purchases under the arrangement. Indeed, the PLL facility provides not only a stopgap necessary to address immediate balance of payments needs, but also, given its underlying ex ante conditionalities, guidance on key policy commitments shoring up investors' confidence. Staff expects that such confidence will continue to strengthen over the medium term.

- ***Criterion 4.*** Staff considers the authorities' policy program to have reasonably strong prospects for success, including not only Morocco's adjustment plans but also its institutional and political capacity to implement the reform agenda.

16. Should Morocco draw on the entire amount available, it would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 7).[6] Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent only a small share of Morocco's total external debt (a maximum of 13.4 percent over the projection period), debt service (18 percent), gross international reserves (18 percent), and exports (15 percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure continues to be moderate. The commitment to Morocco is modest and the PLL arrangement reduces the Fund's forward commitment capacity only marginally.

17. An update of the 2013 safeguards assessment of BAM—completed in January 2015—found that the safeguards framework remains relatively strong. Governance arrangements are supported by strong internal audit and risk management functions. The Audit Committee oversight has been strengthened by the appointment of a third member with experience in banking. Amendments to BAM's legal framework to sustain good governance practices, and strengthen BAM's autonomy, remain in progress, particularly with the expected approval of a new central bank law in 2016. The recommendation to implement International Financial Reporting Standards (IFRS) has not yet been implemented. To this end, BAM contracted an audit firm to conduct an in-depth feasibility study of adopting IFRS, completed in July 2015, and decided to maintain the current accounting standards while improving the quality of disclosures on risks and main differences with IFRS.

[6] 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 25 percent lower and exports 6 percent lower, suggesting peak IMF credit ratios of 30.2 percent and 16.7 percent instead of 22.6 percent and 15.7 percent in the table. These considerations suggest caution in interpreting Table 7, but do not materially impact staff's current view of Morocco's capacity to repay.

18. Prospects for an eventual exit from the PLL have increased as a result of strong program implementation, which has made the economy more resilient to external shocks (W-COM.-¶.6). The authorities noted that the current PLL has been successful in supporting the implementation of policies aimed at strengthening Morocco's economic fundamentals and buffers. Looking ahead, there remain important external risks related to growth in key advanced economies and volatility in global financial conditions and commodity prices, which could affect emerging market economies and Morocco. Such risks, together with strong domestic policy implementation, will need to be fully taken into account in deciding on an orderly exit strategy from the current PLL arrangement. The authorities' firm commitment to maintain strong policies should eventually facilitate such an exit, contingent on the lowering of these external risks.

19. In the near term, any successor arrangement would likely be associated with a reduced access level. Given the recent progress in strengthening macroeconomic policies and buffers, especially in the external sector, and absent a large increase in external risks by the time the current PLL arrangement ends, access under a successor arrangement would be expected to decline. At this point, the authorities are still considering whether they may request such a successor arrangement. In this regard, staff reiterated the importance for the authorities of defining a preferred strategy and communicating accordingly in order to manage market expectations.

STAFF APPRAISAL

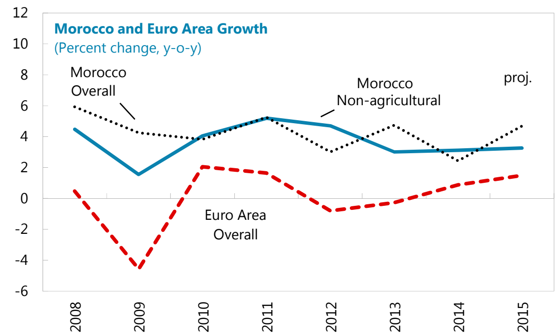
20. The program remains on track. Macroeconomic conditions have improved, with external imbalances declining substantially and fiscal consolidation advancing. The September 2015 indicative targets were met comfortably. Progress in strengthening the policy and institutional frameworks includes the implementation of the new OBL in the 2016 budget, and ongoing improvements to financial sector regulation and supervision. The authorities also intend to transition to a more flexible exchange rate regime, which will help improve competitiveness and macroeconomic resilience. However, implementation of the pension reform has been delayed.

21. In an environment that remains 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. Further fiscal consolidation will require continued efforts to replace the remaining subsidies with better targeted social safety nets, and to contain public wage spending. Adopting the central bank law and implementing recent FSAP recommendations will help strengthen the financial sector policy framework. The authorities should also continue their efforts to improve the business climate by simplifying bureaucratic procedures and addressing corruption, while decisive progress is needed to reduce still high unemployment levels and increase women participation in the labor force.

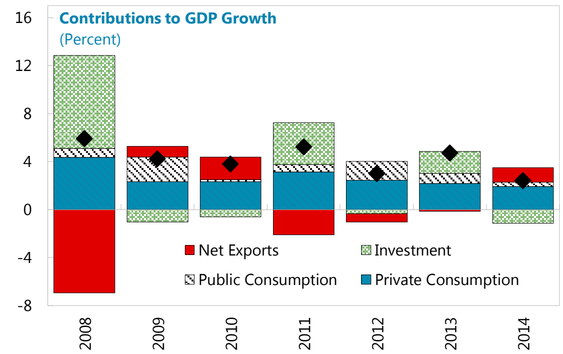
22. Morocco continues to meet the PLL qualification criteria. The IMF Executive Board's assessment in the context of the 2015 Article IV consultation was positive. Morocco's economic fundamentals and institutional frameworks are sound. The country has a track record of—and is implementing—sound policies and adjusting to shocks, and remains committed to such policies in the future. Morocco performs strongly in three out of the five areas in which PLL qualification is assessed (financial sector and supervision, monetary policy, and data adequacy), and is not substantially underperforming in the other two (external position and market access, and fiscal policy). Against this background, staff recommends the completion of the third review under the PLL arrangement.

Figure 1. Morocco: Real and External Developments

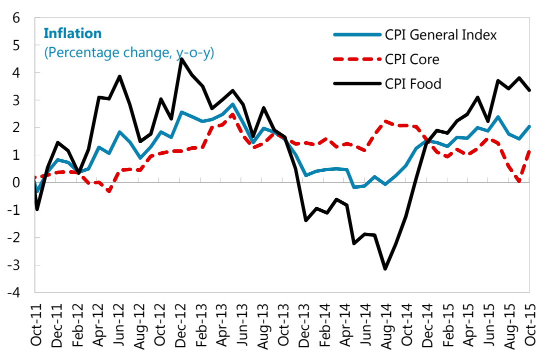
Non-agricultural growth has been sluggish in 2015, while the euro area recovery remains uncertain.



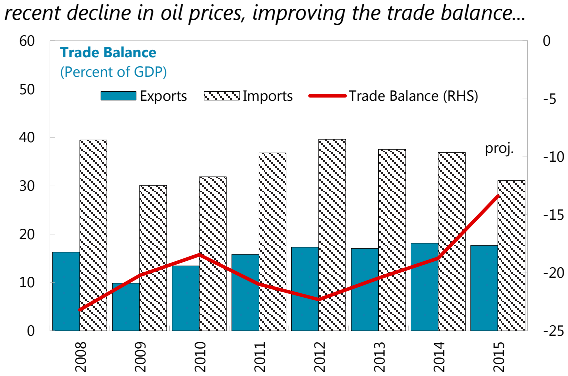
Domestic demand and net exports have contributed positively while investment remains subdued.



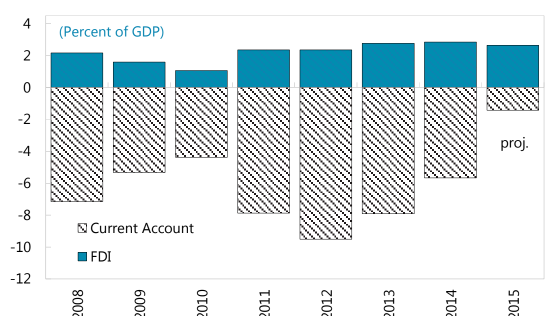
Inflation has remained low despite increases in food prices.



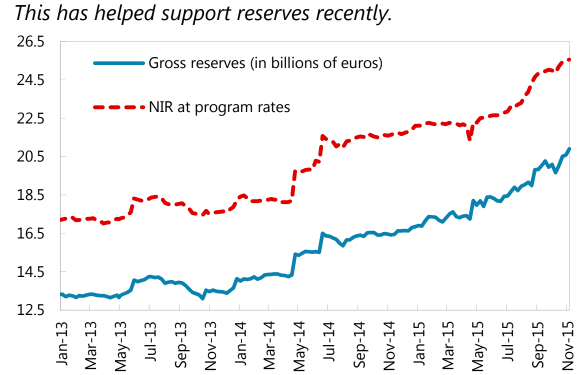
Exports have grown faster than imports, in part due to the recent decline in oil prices, improving the trade balance…



…and the current account, while FDI inflows remained strong.



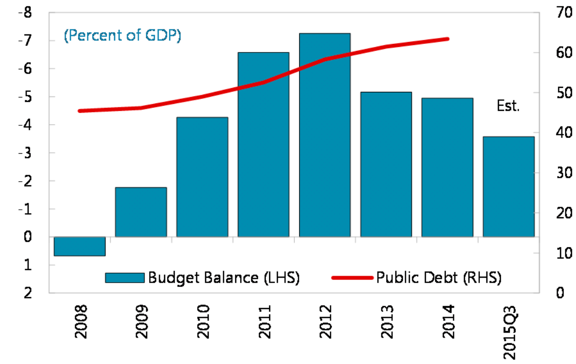
This has helped support reserves recently.



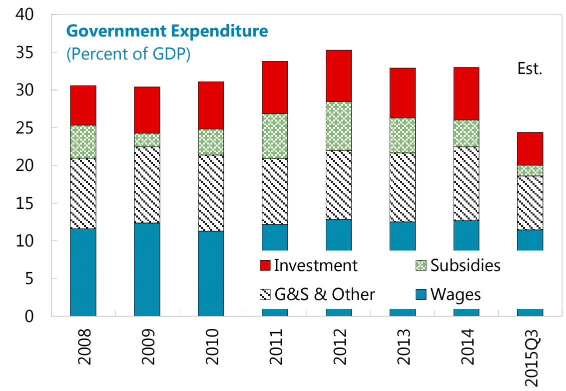
Sources: Moroccan authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal and Financial Market Developments

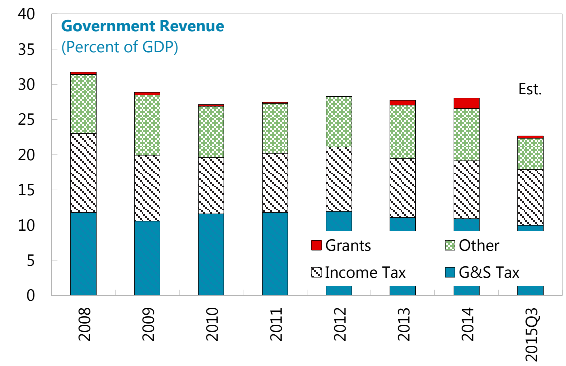
Fiscal consolidation continues as planned…



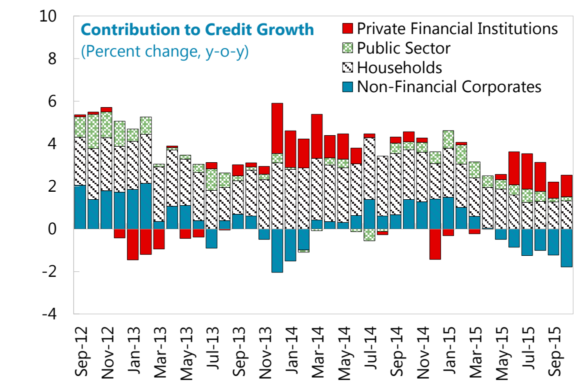
…and subsidy expenditure decreased in percent of GDP.



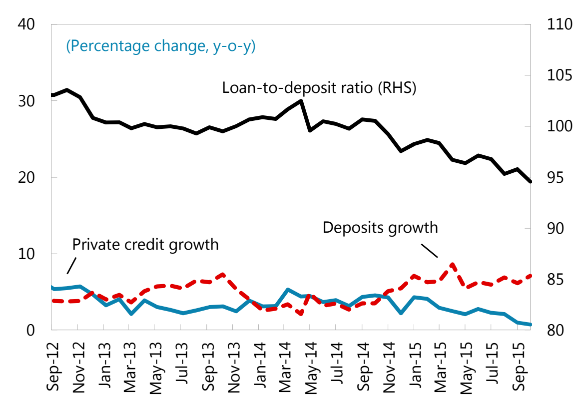
Revenue remained broadly resilient although it has been slightly decreasing.



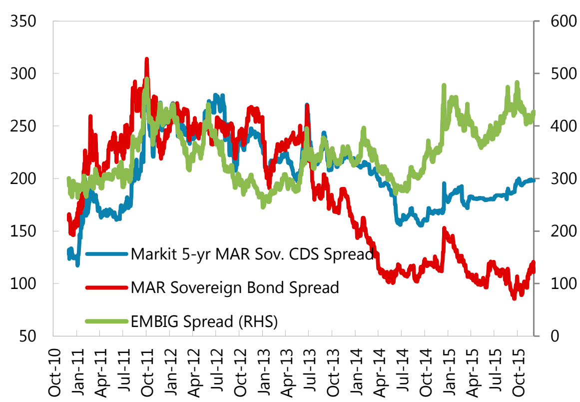
Credit growth has remained low.



The loan-to-deposit ratio has moderately declined.



Spreads remain relatively low.



Sources: Moroccan authorities; and IMF staff estimates.

Table 1. Morocco: Selected Economic Indicators, 2012–20

			PLL 1/	Rev. 2/	PLL 2/	Rev. 2/	Proj.				
	2012	2013	2014		2015		2016	2017	2018	2019	2020
	(Annual percentage change)										
Output and Prices											
Real GDP	3.0	4.7	2.9	2.4	4.9	4.7	3.1	4.2	4.4	4.6	4.7
Real agriculture GDP	-9.1	17.9	-1.3	-2.5	15.0	15.2	-1.8	4.7	5.2	5.4	5.4
Real non-agriculture GDP	4.7	3.0	3.6	3.1	3.5	3.3	3.8	4.1	4.3	4.5	4.7
Consumer prices (end of period)	2.6	0.4	1.6	1.6	1.6	1.6	1.3	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	0.4	1.5	1.6	1.5	2.0	2.0	2.0	2.0
	(In percent of GDP)										
Investment and Saving											
Gross capital formation	35.0	34.7	34.0	33.7	33.4	33.3	34.4	35.5	36.5	37.1	37.6
Of which: Nongovernment	29.6	29.6	28.5	28.3	28.9	28.6	29.4	30.1	30.6	30.9	31.2
Gross national savings	25.5	26.8	28.1	28.0	30.6	31.9	33.9	34.6	35.1	35.4	36.0
Of which: Nongovernment	25.9	25.3	26.0	26.0	28.9	30.0	30.8	30.4	30.2	30.0	30.2
	(In percent of GDP)										
Public Finances											
Revenue	28.0	27.7	28.3	28.0	25.8	25.6	26.4	26.6	27.1	27.6	28.0
Expenditure	35.3	32.9	33.2	33.0	30.0	29.8	29.9	29.7	29.9	30.1	30.1
Budget balance	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.1
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-3.7	-3.0	-2.5	-2.2	-1.5	-0.4	-0.1	0.7
Cyclically-adjusted primary balance (excl. grants)	-5.0	-2.8	-3.5	-3.7	-2.8	-2.2	-2.0	-1.4	-0.4	-0.1	0.7
Total government debt	58.3	61.5	66.4	63.4	63.8	63.6	64.4	64.0	63.2	61.9	60.0
	(Annual percentage change; unless otherwise indicated)										
Monetary Sector											
Credit to the private sector 3/	4.8	3.8	4.6	2.5	4.2	3.7	...	...	...	...	...
Base money	-0.5	9.0	4.8	6.2	5.8	5.5	...	...	...	...	...
Broad money	4.5	3.1	4.8	6.2	5.8	5.5	...	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.9	0.9	...	...	...	...	...
Three-month treasury bill rate (period average, in percent)	3.4	3.4	...	2.5	...	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)										
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	0.4	4.0	4.8	7.4	-10.8	-11.4	4.2	8.6	8.4	8.3	8.9
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	0.8	1.0	-16.3	-19.8	2.4	8.2	7.2	8.4	8.6
Merchandise trade balance	-22.3	-20.5	-17.6	-18.7	-14.5	-13.4	-13.2	-13.5	-13.4	-13.6	-13.7
Current account excluding official transfers	-9.8	-8.6	-7.5	-7.4	-4.2	-2.3	-1.8	-1.8	-1.6	-1.8	-1.7
Current account including official transfers	-9.5	-7.9	-5.8	-5.7	-2.8	-1.4	-0.5	-0.9	-1.4	-1.6	-1.6
Foreign direct investment	2.4	2.8	2.9	2.8	2.5	2.6	2.7	2.8	2.8	2.7	2.8
Total external debt	28.5	29.2	32.1	32.7	32.2	31.9	32.6	31.9	31.4	30.8	29.3
Gross reserves (in billions of U.S. dollars)	17.5	19.3	20.4	20.5	22.1	23.2	28.2	31.4	34.6	37.2	40.1
In months of next year imports of goods and services	4.3	4.7	5.3	6.2	6.0	6.9	7.7	8.0	8.1	8.1	8.1
In percent of Fund reserve adequacy metric	88.1	91.0	93.6	94.7	105.1	111.0	129.1	138.0	145.7	147.7	150.6
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	98.3	107.2	109.2	110.0	103.3	103.2	105.6	111.6	118.0	125.8	134.6
Unemployment rate (in percent)	9.0	9.2	...	9.9	...	...	...	...	...	...	...
Population (millions)	32.5	32.9	33.3	33.2	33.7	33.5	33.8	34.2	34.5	34.8	35.1
Population growth (in percent)	1.0	1.0	1.4	1.0	1.4	1.0	1.0	1.0	0.9	0.9	0.9
Net imports of energy products (in billions of U.S. dollars)	-12.4	-12.2	-11.1	-11.0	-7.2	-6.5	-6.2	-7.0	-7.5	-8.1	-8.4
Local currency per U.S. dollar (period average)	8.6	8.4	...	8.4	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change) 4/	-2.0	1.8	...	0.1	...	0.0	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998 and BOP manual 5.
2/ Revised macro framework, based on national accounts based in 2007 and BOP manual 6.
3/ Includes credit to public enterprises.
4/ For 2015, actual value as of August 2015

Table 2. Morocco: Budgetary Central Government Finance, 2012–20

(Billions of dirhams)

			PLL 1/	Rev. 2/	PLL 2/	Rev. 2/	Proj.				
	2012	2013	2014		2015		2016	2017	2018	2019	2020
Revenue	237.7	250.0	259.3	259.3	257.5	256.4	276.7	294.0	316.7	342.2	369.2
Taxes	202.7	200.7	203.8	203.8	206.7	205.9	222.5	243.8	268.9	291.0	314.9
Taxes on income, profits, and capital gains	77.4	75.7	76.3	76.3	80.1	77.5	87.3	94.3	105.6	117.4	128.1
Taxes on property	11.6	11.7	13.9	13.9	12.9	13.9	15.1	16.7	19.2	20.4	21.6
Taxes on goods and services	99.0	100.0	100.7	100.7	100.9	102.0	106.8	119.2	128.8	136.6	147.3
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	7.7	8.0	7.9	9.2	9.0	10.0	10.8
Other taxes	5.4	5.2	4.7	4.7	5.1	4.5	5.4	4.4	6.3	6.7	7.1
Grants	0.5	6.1	13.8	13.8	14.6	9.6	14.3	10.0	2.2	2.2	2.2
Other revenue	34.6	43.2	41.7	41.7	36.2	40.8	39.9	40.2	45.5	49.0	52.1
Expense	253.2	250.8	254.5	255.4	254.9	252.7	260.4	267.8	280.7	296.2	313.0
Compensation of employees	108.9	112.8	117.3	117.3	123.1	121.0	125.8	131.0	139.0	146.2	151.9
Of which: wages and salaries	96.7	99.0	101.6	101.6	105.5	103.4	106.8	110.8	117.2	123.1	127.7
social contributions	12.2	13.7	15.7	15.7	17.6	17.6	19.0	20.2	21.8	23.1	24.2
Use of goods and services and grants	56.6	59.3	65.0	65.0	71.2	72.1	73.9	79.7	81.4	87.7	90.7
Of which: Use of goods and services	20.9	21.5	23.6	23.6	27.8	28.3	28.3	29.0	30.0	31.9	32.6
Grants	35.6	37.8	41.4	41.4	43.4	43.8	45.6	50.8	51.4	55.8	58.0
Interest	20.7	23.3	24.8	25.6	26.9	27.7	28.3	27.0	30.0	31.6	39.3
Subsidies	54.9	41.6	32.6	32.6	18.7	16.9	15.6	9.8	9.2	9.7	10.3
Other expense 3/	12.1	13.9	14.8	14.8	15.0	15.0	16.8	20.4	21.1	21.0	20.8
Net acquisition of nonfinancial assets	46.1	45.7	49.7	49.7	45.1	46.8	53.0	59.6	68.9	76.9	84.4
Net lending / borrowing (overall balance)	-61.5	-46.5	-44.9	-45.7	-42.5	-43.0	-36.7	-33.5	-32.9	-30.9	-28.2
Net lending / borrowing (excluding grants)	-61.9	-52.6	-58.7	-59.5	-57.1	-52.7	-51.0	-43.5	-35.1	-33.1	-30.4
Change in net financial worth	-61.5	-46.5	-44.9	-45.7	-42.5	-43.0	-36.7	-33.5	-32.9	-30.9	-28.2
Net acquisition of financial assets	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	4.3	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-3.3	0.0	-2.0	-2.0	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
Net incurrence of liabilities	58.2	50.8	42.8	43.7	42.5	43.0	36.7	33.5	32.9	30.9	28.2
Domestic	55.8	42.2	32.9	45.7	40.7	41.4	18.7	27.5	21.2	19.0	26.1
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
Securities other than shares	60.6	50.7	44.8	49.6	48.7	49.4	18.7	27.5	21.2	19.0	26.1
Other accounts payable	-4.8	-8.6	-11.9	-3.9	-8.0	-8.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	2.4	8.6	9.9	-2.0	1.8	1.7	18.0	6.0	11.7	11.9	2.0
Memorandum Item:											
Total investment (including capital transfers)	58.1	59.6	64.4	64.4	60.1	61.8	69.8	80.0	90.0	97.9	105.2
GDP	847.9	901.4	917.3	924.8	999.0	1,003.3	1,048.3	1,103.8	1,167.5	1,240.2	1,319.0

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.

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, 2012–20

(Percent of GDP)

	2012	2013	2014 PLL 1/	2014 Rev. 2/	2015 PLL 2/	2015 Rev. 2/	2016	2017	2018 Proj.	2019 Proj.	2020 Proj.
Revenue	28.0	27.7	28.3	28.0	25.8	25.6	26.4	26.6	27.1	27.6	28.0
Taxes	23.9	22.3	22.2	22.0	20.7	20.5	21.2	22.1	23.0	23.5	23.9
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.3	8.0	7.7	8.3	8.5	9.0	9.5	9.7
Taxes on payroll and workforce	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	1.4	1.3	1.5	1.5	1.3	1.4	1.4	1.5	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	11.0	10.9	10.1	10.2	10.2	10.8	11.0	11.0	11.2
Taxes on international trade and transactions	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.6	0.6	0.5	0.5	0.5	0.4	0.5	0.4	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
Grants	0.1	0.7	1.5	1.5	1.5	1.0	1.4	0.9	0.2	0.2	0.2
Other revenue	4.1	4.8	4.5	4.5	3.6	4.1	3.8	3.6	3.9	4.0	4.0
Expense	29.9	27.8	27.7	27.6	25.5	25.2	24.8	24.3	24.0	23.9	23.7
Compensation of employees	12.8	12.5	12.8	12.7	12.3	12.1	12.0	11.9	11.9	11.8	11.5
Of which: wages and salaries	11.4	11.0	11.1	11.0	10.6	10.3	10.2	10.0	10.0	9.9	9.7
social contributions	1.4	1.5	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.9	1.8
Consumption of fixed capital (if available)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services and grants	6.7	6.6	7.1	7.0	7.1	7.2	7.1	7.2	7.0	7.1	6.9
Of which: Use of goods and services	2.5	2.4	2.6	2.6	2.8	2.8	2.7	2.6	2.6	2.6	2.5
Grants	4.2	4.2	4.5	4.5	4.3	4.4	4.4	4.6	4.4	4.5	4.4
Interest	2.4	2.6	2.7	2.8	2.7	2.8	2.7	2.4	2.6	2.5	3.0
Subsidies	6.5	4.6	3.6	3.5	1.9	1.7	1.5	0.9	0.8	0.8	0.8
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expense 3/	1.4	1.5	1.6	1.6	1.5	1.5	1.6	1.9	1.8	1.7	1.6
Gross operating balance	-1.8	-0.1	0.5	0.4	0.3	0.4	1.6	2.4	3.1	3.7	4.3
Net operating balance	-1.8	-0.1	0.5	0.4	0.3	0.4	1.6	2.4	3.1	3.7	4.3
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.4	4.5	4.7	5.1	5.4	5.9	6.2	6.4
Net lending / borrowing (overall balance)	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.1
Net lending / borrowing (excluding grants)	-7.3	-5.8	-6.4	-6.4	-5.7	-5.3	-4.9	-3.9	-3.0	-2.7	-2.3
Change in net financial worth	-7.3	-5.2	-4.9	-4.9	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5	-2.1
Net acquisition of financial assets	-0.4	0.5	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.5	-0.2	-0.2	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
Loans	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	-0.2	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
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.9	5.6	4.7	4.7	4.3	4.3	3.5	3.0	2.8	2.5	2.1
Domestic	6.6	4.7	3.6	4.9	4.1	4.1	1.8	2.5	1.8	1.5	2.0
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
Securities other than shares	7.1	5.6	4.9	5.4	4.9	4.9	1.8	2.5	1.8	1.5	2.0
Other accounts payable	-0.6	-0.9	-1.3	-0.4	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	1.0	1.1	-0.2	0.2	0.2	1.7	0.5	1.0	1.0	0.2
Memorandum items:											
Total investment (including capital transfers)	6.9	6.6	7.0	7.0	6.0	6.2	6.7	7.3	7.7	7.9	8.0

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.
2/ Revised macro framework, based on national accounts based in 2007.
3/ Includes capital transfers to public entities.

Table 4. Morocco: Balance of Payments, 2012–20

(Billions of U.S. dollars, unless otherwise indicated)

			PLL 1/	Rev. 2/	PLL 2/	Rev. 2/	Proj.				
	2012	2013	2014		2015		2016	2017	2018	2019	2020
Current account	-9.3	-8.5	-6.4	-6.2	-2.9	-1.5	-0.5	-1.0	-1.7	-2.0	-2.1
Trade balance	-21.9	-21.9	-19.2	-20.6	-15.0	-13.8	-14.0	-15.1	-15.8	-17.2	-18.5
Exports, f.o.b.	17.0	18.3	23.4	20.0	18.5	18.3	19.4	21.3	23.4	25.5	28.1
Agriculture	3.3	3.9	4.0	4.1	3.9	3.9	4.2	4.4	4.6	4.9	5.2
Phosphates and derived products	5.6	4.4	4.7	4.6	4.3	4.3	4.5	4.8	5.2	5.6	6.2
Imports, f.o.b.	-38.9	-40.2	-42.6	-40.6	-33.5	-32.1	-33.4	-36.3	-39.2	-42.7	-46.6
Energy	-12.4	-12.2	-11.1	-11.0	-7.2	-6.5	-6.2	-7.0	-7.5	-8.1	-8.4
Capital goods	-8.1	-9.1	-8.9	-8.9	-8.3	-8.1	-8.5	-9.1	-9.7	-10.4	-11.1
Food products	-4.7	-4.2	-5.0	-4.9	-3.7	-3.8	-3.9	-4.2	-4.4	-4.7	-4.9
Services	7.1	6.4	5.7	7.0	5.7	6.0	6.5	7.1	7.7	8.4	9.1
Tourism receipts	6.7	6.9	6.9	7.1	5.8	6.0	6.1	6.5	6.9	7.4	7.9
Income	-2.2	-1.6	-2.4	-2.7	-2.6	-1.8	-1.8	-2.0	-2.3	-2.6	-2.9
Transfers	7.7	8.7	9.6	10.0	9.0	8.2	8.8	9.0	8.7	9.3	10.2
Private transfers (net)	7.4	7.9	7.8	8.1	7.5	7.3	7.4	8.0	8.6	9.2	10.0
Workers' remittances	6.7	6.9	6.8	6.9	6.3	6.2	6.3	6.7	7.2	7.8	8.6
Official grants (net)	0.2	0.8	1.8	1.9	1.5	0.9	1.4	1.0	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
Financial account	6.2	9.4	9.3	8.7	5.9	5.9	5.7	4.1	4.8	4.6	5.0
Direct investment	2.3	3.0	3.2	3.1	2.6	2.7	2.9	3.1	3.3	3.4	3.8
Portfolio investment	1.6	1.3	0.1	3.0	1.1	1.1	0.1	0.1	0.1	0.1	0.1
Other	2.2	5.1	6.0	2.5	2.1	2.1	2.7	0.9	1.4	1.0	1.1
Private	1.0	2.8	2.5	1.2	1.1	1.1	0.3	-0.2	-0.2	-0.7	0.4
Public medium-and long-term loans (net)	1.3	2.4	3.5	1.3	1.1	0.9	2.4	1.1	1.6	1.7	0.7
Disbursements	2.9	4.1	5.3	3.1	2.7	2.6	4.1	3.5	3.5	3.5	3.5
Amortization	-1.6	-1.8	-1.8	-1.8	-1.6	-1.6	-1.7	-2.3	-1.8	-1.8	-2.8
Reserve asset accumulation (-increase)	3.5	-1.4	-2.9	-3.2	-3.0	-4.4	-5.2	-3.1	-3.1	-2.5	-2.8
Errors and omissions	-0.3	0.5	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)						
Current account	-9.5	-7.9	-5.8	-5.7	-2.8	-1.4	-0.5	-0.9	-1.4	-1.6	-1.6
Trade balance	-22.3	-20.5	-17.6	-18.7	-14.5	-13.4	-13.2	-13.5	-13.4	-13.6	-13.7
Exports, f.o.b.	17.3	17.1	21.4	18.2	17.9	17.7	18.4	19.1	19.8	20.3	20.9
Agriculture	3.4	3.6	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9
Phosphates and derived products	5.7	4.1	4.3	4.1	4.1	4.1	4.3	4.3	4.4	4.5	4.6
Imports, f.o.b.	-39.6	-37.5	-39.0	-36.9	-32.4	-31.1	-31.6	-32.6	-33.2	-33.9	-34.6
Petroleum	-12.6	-11.3	-10.2	-10.0	-7.0	-6.3	-5.8	-6.3	-6.3	-6.4	-6.3
Capital goods	-8.2	-8.5	-8.2	-8.0	-8.0	-7.9	-8.1	-8.2	-8.2	-8.2	-8.3
Food products	-4.8	-3.9	-4.6	-4.4	-3.6	-3.6	-3.7	-3.8	-3.8	-3.7	-3.6
Services	7.2	6.0	5.2	6.4	5.5	5.8	6.2	6.4	6.5	6.6	6.7
Tourism receipts	6.8	6.4	6.3	6.4	5.6	5.9	5.8	5.9	5.9	5.9	5.8
Income	-2.3	-1.5	-2.2	-2.4	-2.5	-1.8	-1.7	-1.8	-1.9	-2.0	-2.1
Transfers	7.8	8.1	8.8	9.1	8.7	8.0	8.3	8.0	7.4	7.4	7.6
Private transfers (net)	7.6	7.4	7.1	7.4	7.2	7.0	7.0	7.2	7.3	7.3	7.4
Workers' remittances	6.9	6.4	6.3	6.3	6.1	6.0	5.9	6.0	6.1	6.2	6.4
Official grants (net)	0.2	0.7	1.6	1.7	1.4	0.9	1.3	0.9	0.2	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	8.8	8.5	7.9	5.7	5.7	5.4	3.7	4.1	3.6	3.7
Direct investment	2.4	2.8	2.9	2.8	2.5	2.6	2.7	2.8	2.8	2.7	2.8
Portfolio investment	1.6	1.2	0.1	2.8	1.1	1.1	0.1	0.1	0.1	0.1	0.1
Other	2.3	4.8	5.5	2.3	2.1	2.0	2.6	0.8	1.2	0.8	0.8
Private 3/	1.0	2.6	2.3	1.1	1.0	1.1	0.3	-0.2	-0.2	-0.5	0.3
Public medium-and long-term loans (net)	1.3	2.2	3.2	1.2	1.0	0.9	2.3	1.0	1.4	1.3	0.5
Disbursements	2.9	3.9	4.8	2.8	2.6	2.5	3.9	3.1	2.9	2.8	2.6
Amortization	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-2.1	-1.6	-1.4	-2.1
Memorandum items:											
Exports of goods and services (in U.S. dollars, percentage change)	0.4	4.0	4.8	7.4	-10.8	-11.4	4.2	8.6	8.4	8.3	8.9
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	0.8	1.0	-16.3	-19.8	2.4	8.2	7.2	8.4	8.6
Current account balance excluding official grants (percent of GDP)	-9.8	-8.6	-7.5	-7.4	-4.2	-2.3	-1.8	-1.8	-1.6	-1.8	-1.7
Terms of trade (percentage change) 3/	-12.2	-2.5	-1.2	-1.2	8.1	10.6	0.7	-2.1	-1.0	-0.9	-0.5
Gross official reserves 4/	17.5	19.3	20.4	20.5	22.1	23.2	28.2	31.4	34.6	37.2	40.1
In months of prospective imports of GNFS	4.3	4.7	5.3	6.2	6.0	6.9	7.7	8.0	8.1	8.1	8.1
In percent of the Assessing Reserve Adequacy (ARA) metric	88.1	91.0	93.6	94.7	105.1	111.0	129.1	138.0	145.7	147.7	150.6
In percent of the adjusted Assessing Reserve Adequacy (ARA) metri	125.1	129.4	…	131.0	146.7	153.9	179.9	193.8	206.2	209.2	213.6
Debt service (percent of export of GNFS and remittances) 5/	6.2	7.0	6.6	6.7	7.0	7.0	6.9	7.9	6.3	5.9	7.4
External public and publicly guaranteed debt (percent of GDP)	25.1	26.0	28.8	29.6	29.5	29.2	30.2	29.7	29.5	29.1	27.8
DHs per US$, period average	8.6	8.4	…	8.4	…	…	…	…	…	…	…
GDP (US$)	98.3	107.2	109.2	110.0	103.3	103.2	105.6	111.6	118.0	125.8	134.6
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	98.9	61.5	52.8	48.7	54.5	57.7	60.2	61.5

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998 and BOP manual 5.

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/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2011–15

	2011	2012	2013	PLL 1/ 2014	Rev. 2/ 2014	PLL 2/ 2015	Rev. 2/ 2015
				(Billions of dirhams)			
Net foreign assets	173.8	144.7	150.3	173.8	181.9	204.8	219.0
Of which: Gross reserves	177.1	147.9	156.9	180.8	185.6	211.8	226.0
Deposit money banks	1.7	2.7	-1.5	-1.6	0.1	0.3	0.5
Net domestic assets	775.4	847.4	872.5	896.8	904.3	944.5	926.9
Domestic credit	798.3	855.0	906.5	948.5	920.1	967.9	964.4
Net claims on the government	102.1	125.4	149.3	156.8	143.7	158.9	159.1
Banking system	102.1	125.4	149.3	156.8	143.7	158.9	159.1
Bank Al-Maghrib	2.2	0.5	0.8	0.6	-0.1	-0.8	-0.5
Of which: deposits	-3.4	-4.5	-4.6	-4.8	-4.6	-5.0	-5.0
Deposit money banks	99.9	124.9	148.5	156.2	143.8	159.7	159.6
Credit to the economy	696.2	729.6	757.2	791.7	776.4	809.1	805.3
Other liabilities, net	24.6	10.2	32.4	51.7	15.8	23.5	37.4
Broad money	949.3	992.2	1,022.8	1,072.3	1,086.2	1,149.2	1,146.0
Money	586.8	612.2	628.9	660.6	660.6	708.2	709.0
Currency outside banks	158.3	163.6	171.4	180.1	179.4	193.8	194.7
Demand deposits	428.5	448.5	457.6	480.4	481.2	514.4	514.4
Quasi money	340.9	354.7	370.8	386.0	390.7	406.3	406.3
Foreign deposits	21.6	25.3	23.1	25.7	35.0	34.8	30.7
				(Annual percentage change)			
Net foreign assets	-10.8	-16.0	0.9	15.9	22.3	15.9	23.7
Net domestic assets	11.6	9.3	3.0	2.9	3.6	4.3	2.5
Domestic credit	11.6	7.1	6.0	4.6	1.5	5.2	4.8
Net claims on the government	25.8	22.8	19.0	5.0	-3.7	10.8	10.7
Credit to the economy	9.8	4.8	3.8	4.6	2.5	4.2	3.7
Banking credit	10.6	3.9	2.2	…	2.2	4.1	3.1
Broad money	6.4	4.5	3.1	4.8	6.2	5.8	5.5
				(Change in percent of broad money)			
Net foreign assets	-2.4	-3.0	0.1	2.4	3.2	2.6	4.0
Domestic credit	9.3	6.0	5.2	4.1	1.3	4.4	4.1
Net claims on the government	2.3	2.5	2.4	0.7	-0.5	1.4	1.4
Credit to the economy	6.9	3.5	2.8	3.4	1.9	3.0	2.7
Other assets net	-0.5	1.5	-2.2	-1.7	1.6	-0.8	-2.0
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.86	0.85	0.87	0.88
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.74	0.76	0.75	0.76
Credit to economy/GDP (in percent)	84.9	86.0	84.0	86.3	84.0	81.0	80.3
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.1	99.9	94.0	93.3	92.4

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

1/ Refers to the macro framework for the 1st review of the PLL arrangement in CR/15/44, based on national accounts based in 1998.

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

Table 6. Morocco: Financial Soundness Indicators, 2008–June 2015
(Percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	June 2015
Regulatory capital 1/								
Regulatory capital to risk-weighted assets	11.2	11.7	12.3	11.7	12.3	13.3	13.8	...
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.6	...
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.8	9.0
Asset quality								
Sectoral distribution of loans to total loans								
Industry	18.7	18.3	18.4	18.6	18.4	18.6	19.3	19.0
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.5	3.7
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	4.1
Commerce	6.5	7.0	6.7	6.6	6.7	6.2	6.6	6.4
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.2	11.8
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4	2.2
Finance	13.1	12.5	12.1	11.9	11.0	12.7	11.6	11.8
Public administration	3.7	4.3	5.0	4.8	5.0	5.0	4.7	4.4
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7	4.3
Households	26.5	27.6	28.1	27.6	28.9	29.7	31.4	32.0
Other	4.4	5.4	5.4	5.5	6.4	5.1	4.2	4.0
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9	2.9
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	7.2
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64.0	65.0	66.0
NPLs, net of provisions, to Tier 1 capital	13.9	12.7	12.2	12.9	13.6	16.8	19.2	18.6
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	327.0	341.0	304.0
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	6.8	6.2
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.3	1.4	1.3
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.8	4.5	4.8
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	1.0
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	10.2	10.6
Interest rate average spread (b/w loans and deposits)	4.4	4.3	4.2	4.2	4.2	4.0	4.1	...
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5	...
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.0	1.4
Net interest margin to net banking product (NPB) 2/	78.1	76.7	76.3	75.8	76.5	74.0	68.9	73.1
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	46.1	44.5
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	...
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26.0	30.8	26.9
Liquidity								
Liquid assets to total assets	24.4	17.3	12.0	11.4	10.5	12.5	13.3	14.4
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	17.4	17.7	14.0
Deposits to loans	113.0	108.0	104.0	99.0	96.1	96.2	100.8	102.5
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	2.5	2.7
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	9.8

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, 2015–20 1/

		Proj.				
	2015	2016	2017	2018	2019	2020
Exposure and repayments (in SDR million)						
GRA credit to Morocco	3,235.1	3,235.1	3,235.1	3,235.1	2,021.9	404.4
(In percent of quota)	550.0	550.0	550.0	550.0	343.8	68.8
Charges due on GRA credit	0.0	64.5	63.4	63.4	61.39	16.48
Principal due on GRA credit	0.0	0.0	0.0	0.0	1,213.2	1,617.6
Debt service due on GRA credit	0.0	64.5	63.4	63.4	1,274.6	1,634.0
Debt and debt service ratios						
In percent of GDP						
Total external debt	37.3	35.5	35.4	34.4	31.5	29.5
Public external debt	34.2	33.0	33.2	32.4	29.8	28.0
GRA credit to Morocco	4.9	4.7	4.5	4.2	0.6	0.1
Total external debt service	2.8	2.6	2.5	3.0	2.7	3.5
Public external debt service	2.5	2.6	2.3	2.3	2.6	2.6
Debt service due on GRA credit	0.0	0.1	0.1	0.1	0.4	0.5
In percent of gross international reserves						
Total external debt	166.0	133.1	126.2	117.5	106.5	98.8
Public external debt	152.4	123.4	118.0	110.5	100.7	93.8
GRA credit to Morocco	21.6	17.8	16.0	14.5	2.1	0.4
In percent of exports of goods and services						
Total external debt	116.2	112.7	117.6	119.7	118.4	118.8
Public external debt	106.7	104.5	109.9	112.4	111.9	112.8
GRA credit to Morocco	15.8	15.2	14.0	12.9	1.8	0.3
In percent of total external debt						
GRA credit to Morocco	13.6	13.5	11.9	10.8	1.5	0.3
In percent of public external debt						
GRA credit to Morocco	14.8	14.5	12.7	11.4	1.6	0.3
Memorandum items:						
Nominal GDP (in billions of U.S. dollars)	103.2	105.6	111.6	118.0	125.8	134.6
Gross international reserves (in billions of U.S. dollars)	23.2	28.2	31.4	34.6	37.2	40.1
Exports of goods and services (in billions of U.S. dollars)	31.7	33.1	35.9	38.9	42.2	46.0
Quota (in millions of SDRs)	588.2	588.2	588.2	588.2	588.2	588.2

Source: IMF staff estimates and projections.

1/ Upon approval of the second review of the PLL arrangement Morocco can draw up to 550 percent of quota. The Moroccan authorities have expressed their intention to treat the arrangement as precautionary.

Appendix I. Written Communication

Rabat, Morocco
January 11, 2016

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

Madame Managing Director,

1. Morocco's economic fundamentals are still sound. The economy continues to improve and external and fiscal vulnerabilities have abated further. We are committed to continue implementing our economic and financial program with the support of the IMF Precautionary and Liquidity Line (PLL), as described in our communication of July 11, 2014, in which we requested approval of the PLL arrangement, and our communication of July 8, 2015 pertaining to the second review.

2. Economic growth picked up in 2015 and should be close to 5 percent, supported by a very good grain harvest, while inflation would remain low at an average of 1.6 percent. The current account deficit should shrink further below 2 percent of GDP, with falling energy and food costs, surging exports from emerging sectors, and strong inflows of remittances from Moroccans resident abroad. Given these circumstances, and the continuing high level of foreign direct investment, international reserves have increased substantially in 2015 and are equivalent to almost 7 months of goods and services imports.

3. Even though Morocco does not need balance of payments financing, the arrangement under the PLL approved on July 28, 2014 still provides helpful insurance against external shocks and supports our efforts to make our economy more resilient and increase its growth potential. We will continue to treat the arrangement as precautionary and do not foresee drawing upon it, except in the event of unexpected external shocks or substantial worsening of the international environment.

4. Fiscal consolidation is continuing. The fiscal deficit at the end of September stood at MAD 26.9 billion, well below the indicative target of MAD38.8 billion. Better control of spending on goods and services and on public wages, and reduced subsidies expenditures, offset the drop in current revenue of 0.7 percent of GDP observed at end-September resulting from weaker activity in non-agricultural sectors and lower grant revenues than expected. These efforts continued and tax revenue collection was stepped up so as to keep the fiscal deficit for 2015 at 4.3 percent of GDP, as stipulated in the budget.

5. The 2016 Budget calls for a reduction of the fiscal deficit to 3.5 percent of GDP, in line with the government's medium-term objective of greater fiscal consolidation, thereby lowering the government debt ratio progressively to 60 percent of GDP. This gradual consolidation should primarily result from improved tax revenue collection, along with continued efforts to control current spending and reduce subsidies. These efforts will make it possible to maintain the priority on investment in infrastructure and human capital to support growth, and on social programs targeting the most vulnerable segments of the population. Additional resources will also be allocated to regional development programs as part of the implementation of the advanced decentralization project.

6. On the revenue side, the government has continued implementing the reform of the tax system that started in 2014 with the aim of making the system simpler, more equitable and more supportive of competitiveness. Specifically, the 2016 budget calls for further simplification of the VAT and revised tax brackets for corporate income tax. The budget also includes measures that are part of ongoing efforts to reduce tax exemptions.

7. On the spending side, efforts will continue on several fronts. The government's wage bill, including social contributions, will be reduced to 11.5 percent of GDP in the medium term. This will be achieved by continuing to curb pay increases and limiting the creation of new civil service jobs, which will be dedicated in priority to improving security, health and education. The level of government investment will be maintained with an emphasis on making it more efficient. At the same time, social protection for the most vulnerable segments of the population will benefit from increased social spending under the RAMED health program and the TAYSSIR education program, along with support programs for widows, as reflected in the 2016 budget.

8. The implementation decree for the new Organic Budget Law was adopted in July 2015. As we indicated in our previous written communications, this law substantially improves the budget framework. Most of the provisions entered into force on January 1, 2016, except for those under Article 69, which will be implemented in stages up until 2020. The measures taken since 2013 to limit risks related to the carryover of investment appropriations and to the wage bill are being rolled over until the entry into force of the relevant provisions in the new Organic Budget Law.

9. The civil service pension reform bill on the Moroccan Pension Fund (CMR) was adopted by the government on January 7, 2016 and will soon be submitted to Parliament, and is expected to enter into force on January 1, 2017. This reform calls for a gradual increase in the statutory retirement age, higher employer and employee contribution rates, and new rules for calculating pension benefits. It will extend the sustainability of the pension fund and balance contributions against benefits as soon as it is implemented. The next pension reform steps include switching to a two-pillar system, with a private-sector fund and a public-sector fund.

10. Bank Al-Maghrib (BAM) has maintained its accommodative policy, while continuing to closely monitor economic developments and the levels of inflation and international reserves. Bank liquidity has improved recently, due in particular to increased international reserves. BAM will

continue to promote appropriate financing terms for the economy in order to support growth and maintain price stability.

11. The recent Financial Sector Assessment Program mission found that Moroccan banks are adequately capitalized and profitable, with stable funding sources, and that banking supervision is effective. Non-performing loans have increased since 2012 as economic activity weakened in certain sectors, but they are still at a moderate level and well provisioned. BAM will continue to ensure that banks' risks, particularly related to credit concentration and liquidity risks, are properly managed.

12. The authorities are committed to improving the financial policy framework and welcome the Financial Sector Assessment Program mission's recommendations. In 2015, BAM continued improving bank regulation and supervision, with the implementation of the Basel III standards and preparations for a specific framework for systemically important banks. The authorities have also implemented the banking law adopted in 2014, and most regulations pertaining to this law are about to be adopted. The regulations dealing with financial conglomerates and recovery plans for systemically important institutions are planned for 2016. The draft central bank law aims to increase its independence and broaden its remit to include contributing to financial stability. The government will submit the bill to Parliament at the earliest.

13. Preparations for a potential move towards a more flexible exchange rate regime have progressed substantially with technical assistance from the IMF. On April 13, 2015, authorities revised the basket of currencies against which the dirham is pegged, lowering the euro's weight from 80 percent to 60 percent, and raising the dollar's weight from 20 percent to 40 percent, in order to align it more closely with the current structure of Morocco's foreign trade. We now consider that Morocco's macroeconomic and structural situation is favorable enough to start a gradual transition towards a more flexible exchange rate regime.

14. The government continues to implement an ambitious reform program to enhance the competitiveness and growth potential of Morocco's economy. This program aims in particular to reduce the unemployment rate to 8 percent by 2020, with a focus on youth unemployment, and to raise the labor force participation rate of women. The National Strategy for Employment will contribute by improving labor market governance and the effectiveness of employment support and vocational training programs. The authorities are also committed to improving the effectiveness of the already high level of government spending on education to facilitate young people's entry into the labor market. Discussions with social partners are under way to reform the labor code and improve the social security system for workers. A great deal of progress has been achieved with regard to the business climate by streamlining procedures for businesses and individuals. A national strategy to fight corruption was adopted by the government in December 2015.

15. Both indicative targets under the PLL arrangement for the end of September 2015 were met with comfortable margins. In line with PLL requirements, we have complied with, and will continue to comply with the standard performance criteria on trade and exchange restrictions, bilateral payment agreements, multiple exchange rate practices and non-accumulation of external debt arrears.

16. Resolute implementation of our economic and financial program is bound to enhance the economy's resilience to external shocks. Provided there is a substantial reduction in external risks, improved fiscal and external positions, including increased reserves, along with a stronger economic and financial policy framework, will lead to better prospects for an exit from the PLL.

17. We are confident that the policies described in this communication, and those described in the July 11, 2014, January 27, 2015 and July 8, 2015 communications, are the right ones for achieving our objectives. On this basis, we are requesting completion of the third review under the PLL arrangement.

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

Morocco: Quantitative Indicative Targets

	3/31/15			9/30/15		
	PLL	Adjusted	Actual	PLL	Adjusted	Actual
Indicative targets						
Net international reserves (NIR) of Bank Al-Maghrib (BAM) 1/ (end-of-period (eop) stock, in millions of U.S. dollars (US$))	21,071	20,085	22,105	23,316	22,200	24,875
Fiscal deficit (cumulative since beginning of fiscal year, eop in millions of dirham)	15,600	18,783	8,581	30,200	38,772	26,861
Memorandum item:						
Adjustor on NIR (in millions of U.S. dollars) 2/	1,970	-986	985	2,738	-1,117	1,621
Adjustor on the fiscal deficit (in millions of dirham) 3/	3,660	-3,183	477	10,700	-8,572	2,128

Source: IMF staff estimates.

1/ Evaluated at the program exchange rate fixed at the end-March 2014 value (8.1496 MAD/US$ for the end-March 2015 target; and the equivalent value of 8.5287 MAD/US$ for the end-September 2015 target, reflecting the change in the dirham basket on April 13, 2015).

2/ Adjustments are specified in the technical appendix. The floor on NIR of BAM will be adjusted downward (upward) in the event of a shortfall (surplus) of official grants and loans received by the central government from bilateral and multilateral agencies relative to program projections. The adjustors are cumulative from end-September 2014.

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

Statement by Mr. Mohammed Daïri, Alternate Executive Director for Morocco
Executive Board Meeting
January 27, 2016

In the context of low growth in the euro area affecting economic activity, exports, tourism, and remittances, and heightened global uncertainty, Morocco continues to strengthen its fundamentals and buffers and to reduce vulnerabilities, while maintaining a broadly satisfactory growth performance. This owes much to the authorities' sound macroeconomic and financial sector policies, supported by strong structural reform implementation. In this context, the PLL has provided a useful insurance against exogenous shocks, and the authorities have continued to treat it as precautionary. We thank staff for their concise report for this third PLL review, and share their assessment that the program remains on track, and that Morocco continues to meet the eligibility criteria for the PLL and for exceptional access. The authorities believe, however, that staff did not go far enough in recognizing the major leap forward in strengthening the external and fiscal positions since the first PLL was approved in July 2012, and even more decisively since approval of the second PLL in July 2014.

Performance under the PLL and Outlook

Performance under the 2014 PLL was satisfactory. The end-September indicative targets for the fiscal deficit and net international reserves were met with a wide margin. As indicated during the combined Article IV-Third review mission last November, the authorities' strengthened revenue collection efforts, and continued tight control over wages and other recurrent expenditures have helped offset the shortfall in grants estimated at 0.6 percent of GDP and achieve the end-December deficit target of 4.3 percent of GDP. Excluding grants, fiscal adjustment in 2015 amounted to 1.7 percent of GDP, much higher than the 1.1 percent envisaged under the program.

As projected during the second review, growth in 2015 is estimated at around 4¾ percent, and inflation at 1½ percent. Partly reflecting lower oil prices, the current account deficit is estimated at about 1½ percent of GDP, which is half the projected level, notwithstanding lower grants. The end-December 2015 gross official reserves are higher than projected at close to 7 months of imports. Monetary policy continues to strike the right balance between low inflation and credit demand growth on the one hand, and heightened global uncertainty on the other, and Bank Al-Maghrib continues to closely monitor domestic and external developments, while ensuring adequate financing of the economy. Moreover, significant progress is being made to further strengthen financial soundness and resilience and improve access to finance, in particular for SMEs.

The near-to medium-term outlook is favorable. Growth is projected to be lower in 2016 than in 2015, with the return of agricultural output to trend after the exceptional cereal crop last year, and to accelerate thereafter to close to 5 percent over the medium-term. Inflation should remain low, and the current account deficit should decline to 0.5 percent of GDP in 2016 before stabilizing at around 1½ of GDP over the medium-term, with continued strong performance of FDI contributing to further reserve build up. Official reserves are projected to reach close to 8 months of imports in 2016, equivalent to 129 percent of the standard ARA metric or 180 percent of the adjusted metric. The fiscal position should continue to improve, anchored by a deficit target of 3 percent of GDP in 2017 and a public debt-to-GDP target of 60 percent by 2020. Fiscal policy in 2016 is consistent with these objectives, and the programmed deficit of 3.5 percent of GDP is well within reach. Downside risks remain, mainly from exogenous shocks, but the comfortable external buffers, supported by continued strong policy implementation and PLL resources, if needed, should mitigate these risks.

Review of Qualification

The authorities welcome staff assessment that Morocco continues to perform strongly in monetary policy, financial sector soundness and supervision, and data adequacy. However, they consider that Morocco also performs strongly under the external position and market access criterion with no sign of even limited underperformance, and that the limited underperformance in the fiscal position has declined markedly.

External Position and Market Access

It is the authorities' view that Morocco performs strongly under the four relevant criteria:

Criterion 1: The external position is sustainable: The current account deficit declined from 9.5 percent of GDP in 2012 to 5.7 percent in 2014 and is estimated at 1.4 percent in 2015. Not all this decline was due to lower international oil and other commodities prices, the subsidy reform and fiscal consolidation more generally also played an important role. Exports other than phosphates and derived products and agricultural products also increased from 8.2 percent of GDP to 10 percent during this period, reflecting successful diversification efforts and the correction of the earlier small appreciation of the dirham, with the exchange rate now fully in line with fundamentals. External debt remains low, sustainable, and resilient to shocks, as shown in Figure 1 of the Article IV report. This is true not only in the future, as inferred in ¶14 of the PLL review report, but has been the case for several years. Ongoing preparations for a more flexible exchange rate policy bode well for further strengthening of the external position going forward.

Criterion 2: Morocco's capital account position is dominated by private flows, even though with declining current account and budget deficits, the need for market financing, in particular for the sovereign, is relatively limited. Moreover, FDI remains robust, as indicated in the report.

Criterion 3: Morocco has a strong track record of steady sovereign access to international capital markets at low spreads and long maturities, as illustrated in the staff paper.

Criterion 4: Morocco's reserve position is strong. Not only are reserves estimated at 111 percent of the standard ARA metric, but they amount to 154 percent of the metric adjusted for capital controls.

In sum, the authorities are disappointed that despite the significant improvement since 2012, Morocco's external position has not been assessed as strong.

Fiscal Position

The fiscal position is much stronger than in 2012. Public debt continues to be sustainable, despite some increase since 2012, and has stabilized at around 63-64 percent of GDP since 2014, and should resume its previous declining trend in 2017. More importantly, the complete phasing out of all energy subsidies, with the exception of the very sensitive butane segment, and the liberalization of their prices eliminate a major source of vulnerability and significantly and durably improve the budget position. The approval of the new organic budget law is also a major achievement toward strengthening the budget process and improving transparency, accountability, and efficiency. It introduces a fiscal rule and multi-year and results-based budgeting, while eliminating key vulnerabilities, including those related to the non-binding character of wage bill appropriations and the carry-over of the capital budget.

Structural Reforms

While recognizing that reforms have progressed further, staff points to delays in pension reform and adoption of the new central bank law. The authorities wish to indicate that their resolve to reform the major civil service pension system has been unwavering, as evidenced by the inclusion of the cost of higher employer contributions under the envisaged reform in the 2015 budget and again in the 2016 budget. However, despite several public debates on the issue and many rounds of discussion with social partners, trade unions have maintained strong opposition to the reform, unless major concessions are made to shift more of the cost of the reform to the budget. The government has maintained a firm position on the issue to protect fiscal sustainability, and has finally decided to move ahead with the reform by adopting the draft legislation earlier this month for its submission to the parliament. In view of the high sensitivity of the issue, discussion in the parliament is expected to take time, which is why implementation has been set for January 1, 2017. The government is firmly determined to do the utmost to ensure effectiveness of the reform and restore balance of the civil service pension system, as projected, without creating additional pressures on the budget. Moreover, as part of the broader pension reform system, a draft law was also approved by the cabinet extending the coverage of the pension system to the self-employed and other non wage earners. The ultimate goal of the reform is to ensure long-term viability of all the pension system and consolidate the numerous funds into two poles, one for the public sector, and one for the private sector.

On the central bank law, after reaching consensus on the draft between Bank Al-Maghrib and the Ministry of Economy and Finance, its finalization by the Secretariat General of the Government (SGG), which is responsible for legal review of all legislation and related regulations before their submission to the cabinet, took longer than expected because of the heavy legislative agenda, in view of the 2016 deadline for adoption of a number of organic laws and other key pieces of legislation required under the new constitution. The Ministry of Economy and Finance will continue to work closely with the SGG toward early presentation of the draft to government for adoption and transmission to parliament.

Further Engagement with the Fund and Exit

The authorities intend to continue to strengthen external and fiscal buffers and their policy framework to enhance the economy's resilience. However, while risks from lower growth in the euro area, increase in oil prices, and monetary policy normalization in the US may have receded, uncertainty and financial market volatility have increased. The authorities will continue to treat the PLL as precautionary, and intend to assess in the coming months whether further recourse to an insurance-type mechanism will be needed at the expiration of this facility in July as well as the level of related access. In this regard, and depending on external conditions and risks, staff assessment that such access, if still needed, may be lower than under the current arrangement seems reasonable. The authorities reiterate their deep appreciation to staff, management, and Executive Directors for their support and advice.