INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/36

MOROCCO

February 2017

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MOROCCO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 23, 2017 consideration of the staff report that concluded the Article IV consultation with Morocco.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 23, 2017, following discussions that ended on December 1, 2016, with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 28, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Morocco.

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

Selected Issues

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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January 27, 2017

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Morocco

On January 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Morocco.[1]

Morocco's macroeconomic conditions have improved since 2012, but growth has remained sluggish. In 2016, growth slowed due to a sharp contraction in agricultural output and subdued non-agricultural activity. The unemployment rate decreased to 9.6 percent in Q3 2016 while youth unemployment remains high at 21.8 percent. Headline inflation (year-on-year) reached 1.6 percent, reflecting higher food and energy prices.

External imbalances have fallen substantially since 2012, even though the current account deficit increased to 2.9 percent of GDP in 2016, against 2.2 percent in 2015. Strong manufacturing and agriculture exports, and a rebound in tourism and remittances, have more than offset the impact of increased equipment and food imports and low phosphate prices. As a result, and with continued robust foreign direct investment (FDI), international reserves strengthened to about seven months of imports.

Fiscal consolidation has continued with a deficit down from 4.4 percent in 2015 to about 4 percent of GDP against the objective of 3.5 percent of GDP for 2016. This reflects resilient tax

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

revenues and well contained current expenditures, which offset the grant shortfall of about 0.3 percent of GDP and allowed for an increase in investment spending.

Banks are well capitalized and have stable funding, but nonperforming loans are rising and credit concentration risks, while declining, are still elevated. The expansion of Moroccan banks into Sub-Saharan Africa opens new channels of risk transmission, but cooperation with host country supervisors is intensifying and supervisory requirements for cross-border activities are being upgraded.

Morocco's medium-term prospects are favorable, with growth expected to rebound to 4.4 percent in 2017 and reach 4.5 percent by 2021. However, risks remain substantial, and relate mainly to growth in advanced and emerging countries, geopolitical tensions in the region, world energy prices, and global financial market volatility. Stronger medium-term growth will hinge on continued implementation of comprehensive reforms with regard to labor participation and labor market efficiency, access to finance, quality education, public spending efficiency, and further improvements to the business environment. Continued poverty reduction, and lower regional and gender disparities, will also be crucial to achieve higher, sustainable and more inclusive growth.

Executive Board Assessment[2]

Executive Directors commended the authorities for their sound macroeconomic policies and reforms, which have helped reduce domestic and external vulnerabilities, enhance the fiscal and financial policy frameworks, and increase economic diversification. Directors noted that, while the medium-term outlook is favorable, risks remain elevated. Against this backdrop, they welcomed the authorities' continued strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/m/qualifiers.htm.

Directors commended the continued progress made in fiscal consolidation, particularly the recent containment of current spending, the energy subsidy reform, and the reform of the public pension system. Going forward, they encouraged the authorities to gradually reduce the level of public debt over the medium term while preserving pro-growth and social spending. Directors agreed that efforts should focus on accelerating tax reforms to broaden the tax base and on careful and well-planned implementation of the fiscal decentralization to mitigate any related fiscal risks. Directors also encouraged the authorities to reform the civil service to help contain the public wage bill.

Directors endorsed the currently accommodative monetary policy stance in the context of moderate inflation and the nascent credit growth recovery. They supported the authorities' intention to move gradually to a more flexible exchange rate regime and a new monetary policy framework, which will help preserve competitiveness and better insulate the economy against shocks. In this regard, Directors concurred that the conditions for a successful transition in 2017 are in place. Directors also encouraged the authorities to submit to parliament the draft central bank law, which will strengthen Bank Al-Maghrib's (BAM) independence and expand its roles in the promotion of financial stability and inclusion.

Directors welcomed that the banking sector remains sound and well capitalized, and stressed that rising non-performing loans, credit concentration risks, and the expansion into Sub-Saharan Africa require continued monitoring. They also welcomed BAM's continued efforts to strengthen the financial regulatory and supervisory framework in line with 2015 Financial Sector Assessment Program recommendations, including ongoing advances on cross-border bank oversight, more risk-based and forward looking supervision, a stronger macroprudential policy framework, and efforts to strengthen supervisory resources in view of expanding responsibilities.

Directors emphasized the importance of sustained implementation of structural reforms to promote higher and more inclusive growth. They recommended continued efforts to improve the business climate, particularly for small and medium-sized enterprises, including by enhancing their access to financing. Directors also called for improved labor market regulations as well as increased efficiency of public spending on education and vocational training that better addresses skill mismatches, which will be critical to bolster growth, reduce unemployment—especially among the youth—, lower gender gaps, and strengthen competitiveness. Directors welcomed ongoing efforts to reinforce the governance and oversight of public enterprises, and looked forward to further progress in implementing the national strategy to fight corruption.

Morocco: Selected Economic Indicators, 2012–17

					Projection			
					PLL 1/	Rev.	PLL 1/	Rev
	2012	2013	2014	2015	2016		2017	
				(Annual percentage change)				
Output and Prices								
Real GDP	3.0	4.5	2.6	4.5	1.8	1.5	4.8	4.4
Real agriculture GDP	-9.1	17.2	-2.2	12.8	-10.5	-9.8	13.7	10.8
Real non-agriculture GDP	4.7	2.9	3.2	3.5	3.5	3.0	3.6	3.5
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.2	1.5	1.3	1.2
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.3	1.6	1.3	1.2
				(In percent of GDP)				
Investment and Saving								
Gross capital formation	35.0	34.8	32.2	30.2	30.2	31.2	30.7	32.1
Of which: Nongovernment	29.6	29.8	26.8	24.7	25.2	26.0	25.7	27.4
Gross national savings	25.7	27.2	26.6	28.1	29.0	28.3	29.3	29.8
Of which: Nongovernment	26.1	25.8	24.5	25.2	25.8	25.0	25.0	26.7
				(In percent of GDP)				
Public Finances								
Revenue	28.0	27.8	28.1	26.5	26.9	26.7	27.5	26.0
Expenditure	35.3	33.0	33.0	30.9	30.4	30.2	30.5	29.1
Budget balance 2/	-7.3	-5.2	-4.9	-4.4	-3.5	-3.5	-3.0	-3.0
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-2.1	-1.9	-1.8	-1.3	-1.4
Cyclically-adjusted primary balance (excl. grants)	-5.0	-3.0	-3.1	-1.8	-1.8	-1.6	-1.3	-1.3
Total government debt	58.3	61.7	63.5	64.1	64.4	64.3	63.8	63.8
				(Annual percentage change; unless otherwise indicated)				
Monetary Sector								
Credit to the private sector 3/	4.8	3.8	2.5	1.9	4.5	4.8	...	5.1
Base money	-0.5	9.0	6.2	5.7	5.5	6.0	...	6.0
Broad money	4.5	3.1	6.2	5.7	5.5	6.0	...	6.0
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	...	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	-7.0	4.4	3.0	6.7	5.4
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	6.5	3.9
Merchandise trade balance	22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-14.4	-15.8
Current account excluding official transfers	-9.6	-8.3	-7.4	-2.6	-2.3	-3.8	-2.3	-3.3
Current account including official transfers	-9.3	-7.6	-5.7	-2.2	-1.2	-2.9	-1.4	-2.3
Foreign direct investment	2.4	2.8	2.8	2.6	2.5	2.0	2.4	2.1
Total external debt	28.5	29.3	33.2	33.4	32.6	32.8	32.1	31.9
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	26.7	25.7	30.2	27.6
In months of next year imports of goods and services	4.3	4.6	6.0	6.3	7.1	6.8	7.6	6.9
In percent of Fund reserve adequacy metric 4/	75.6	74.3	80.0	94.6	102.8	99.5	109.6	101.7
In percent of CA deficit and ST debt at rem. mat. basis	156	189	257	527	698	463	847	606
Memorandum Items:								
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	109.9	100.6	104.9	103.6	111.1	106.6
Output gap (percentage points of GDP)	0.9	-0.8	-0.3	1.0	...	-2.0	...	0.8
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.8	33.8	34.2	34.2
Population growth (in percent)	1.04	1.02	0.99	0.98	0.97	0.97	0.95	0.95
Net imports of energy products (in billions of U.S. dollars)	12.4	-12.2	-11.0	-6.8	-5.7	-5.7	-6.4	-6.4
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3				

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ The fiscal deficit for end-2016 does not reflect the latest estimates.
3/ Includes credit to public enterprises.
4/ Based on revised ARA weights.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

December 28, 2016

KEY ISSUES

Context. Macroeconomic conditions have improved since 2012 despite sluggish growth. In 2016, growth slowed due to a sharp contraction in agricultural output and subdued non-agricultural activity; the fiscal deficit is estimated to have declined to 3.5 percent of GDP; the current account deficit widened slightly to 2.9 percent of GDP; and international reserves strengthened to about seven months of imports. Reforms are advancing, including of the public pension system and the transition to a new exchange rate and monetary regime. Banks are adequately capitalized, but non-performing loans (NPLs) are increasing and credit concentration risks need to be reduced.

Outlook and risks. Growth is expected to rebound to 4.4 percent in 2017 and reach 4.5 percent over the medium term. Headline inflation is projected to be 1.2 percent in 2017 and stabilize at about 2 percent thereafter, while the external position would continue to improve. Medium-term prospects are favorable, but risks remain substantial, and relate mainly to growth in advanced and emerging countries, geopolitical tensions in the region, world energy prices, and global financial market volatility.

Policy discussions. Prudent macroeconomic policies and continued reforms, as well as declining international oil prices, have helped to reduce domestic and external vulnerabilities in recent years. However, the reform momentum needs to be maintained in order to reach higher, sustainable, and inclusive growth so as to reduce youth unemployment. The 2016 Article IV discussions focused on: (i) strengthening domestic stability, including fiscal and macro-financial sustainability; (ii) safeguarding external resilience with the transition to a new exchange rate and monetary regime; and (iii) raising growth potential and job creation while promoting inclusion.

Approved By
Adnan Mazarei and Vitaliy Kramarenko

The team consisted of Nicolas Blancher (head), Lorraine Ocampos, Jean-Frédéric Noah, Anta Ndoye, Gregory Auclair (all MCD), and Sanaa Nadeem (SPR). The discussions took place in Rabat and Casablanca during November 16–December 1, 2016.
Ms. Geraldine Cruz (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 Industry, Trade, Investment and e-Economy Mr. Elalamy, the Minister Delegate of General Affairs and Governance Mr. Louafa, 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.

Morocco has not introduced or intensified exchange restrictions, and has not introduced or modified multiple currency practices in line with Article VIII.

CONTENTS

FIGURES

TABLES

ANNEXES

Glossary

ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
EA	Euro Area
EBA	External Balance Assessment
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 and Liquidity Line
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
TA	Technical Assistance
VAT	Value-Added Tax
VIX	Volatility Index S&P 500
WEO	World Economic Outlook

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

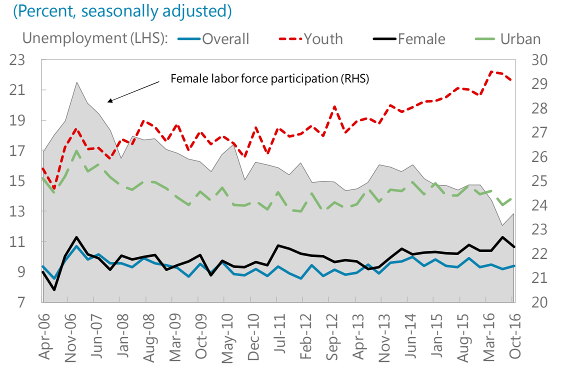
1. Decisive policies and reforms have helped improve macroeconomic conditions in recent years, but important challenges remain in raising growth and employment. The authorities have successfully reduced domestic and external vulnerabilities, enhanced the fiscal and financial policy frameworks, and supported economic diversification (see Annex I). As a result, fiscal and current account deficits have declined, and the medium-term outlook is favorable. Yet, external risks remain elevated, and continued efforts are needed to further reduce vulnerabilities and promote stronger and more inclusive growth. The IMF supports the authorities' program through the successor two-year precautionary and liquidity line (PLL) arrangement approved in July 2016. This arrangement provides insurance against external risks and supports efforts to strengthen fiscal sustainability, transition toward greater exchange rate flexibility, and promote higher growth so as to reduce unemployment.

A. Recent Developments

2. Following the parliamentary elections held on October 7, 2016, policy continuity is expected. The incumbent Justice and Development Party (PJD) won the highest number of seats. Therefore, the current Head of Government will lead the future government. Discussions on a new coalition government are still underway, but it is likely to involve the same political parties as in the current government, and staff believes that current policy and reform commitments will be maintained.

3. Growth has slowed in 2016, while youth unemployment remains high. Growth has been sluggish since the global financial crisis, as non-agricultural activity remained subdued. In 2016, a sharp contraction in agricultural output and lower non-agricultural activity than projected at the time of the PLL request should reduce growth to 1.5 percent. However, economic indicators point to stronger non-agricultural activity in the second half of 2016. The unemployment rate decreased to 9.6 percent in Q3-2016 from 10.1 percent in the same period of last year, while youth unemployment increased to 21.8 percent from 21.4 percent in the same period of last year.

Unemployment and Activity Rates, 2006Q1-2016Q3
(Percent, seasonally adjusted)



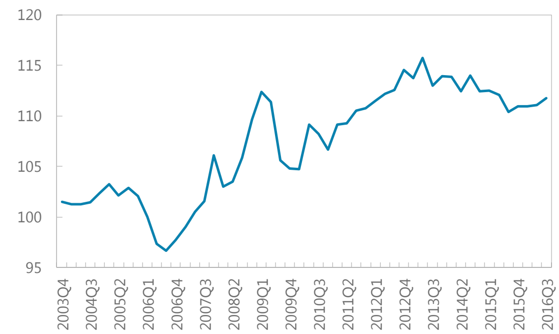
Sources: Authorities' data; and IMF staff estimates.

4. The fiscal deficit is expected to be further reduced in 2016, to 3.5 percent of GDP, and public debt is sustainable. After culminating at 7.3 percent of GDP in 2012, the deficit was reduced to 4.5 percent in 2015 through strong policies, including energy subsidy reforms, resilient public revenues, and well contained public expenditures. In 2016, tax revenues performed better than projected, but grant revenues (mostly from Gulf countries) were lower than anticipated (39 percent of expected amount at end-October). Public spending on wages, interest payments and subsidies were below expectations, while capital expenditures continued to increase (76 percent of budget at end-October). Public debt is sustainable and expected to peak at 64.3 percent of GDP in 2016.

5. **Monetary policy remains accommodative**. After declining to 0.3 percent in January 2016 (y-o-y), headline inflation reached 1.6 percent in October due to increasing food and energy prices, while core inflation increased to 1.1 percent. Average inflation is projected to remain at around 1.6 percent in 2016. Bank-Al-Maghrib (BAM) lowered its policy rate to 2.25 percent in March 2016, the first reduction since end-2014.

6. **Credit growth has recently started to recover as economic activity is picking up.** Following a credit boom in the mid-2000s, the credit to GDP ratio grew below trend, particularly after 2012 (Box 1).[1] Credit growth picked up only recently, reaching 4 percent in September (y-o-y). These trends have reflected a combination of corporate deleveraging and increasing household indebtedness in recent years, the latter becoming relatively large by emerging market (EM) standards (based on ratios to GDP and household income). With stronger economic activity in the second half of the year, investment lending has been a key driver of credit growth more recently. Mortgage lending remains moderate (about 5 percent y-o-y) and there is no indication of a housing price bubble.

Real Estate Index, 2003Q4-2016Q3
(2006Q1 = 100)



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

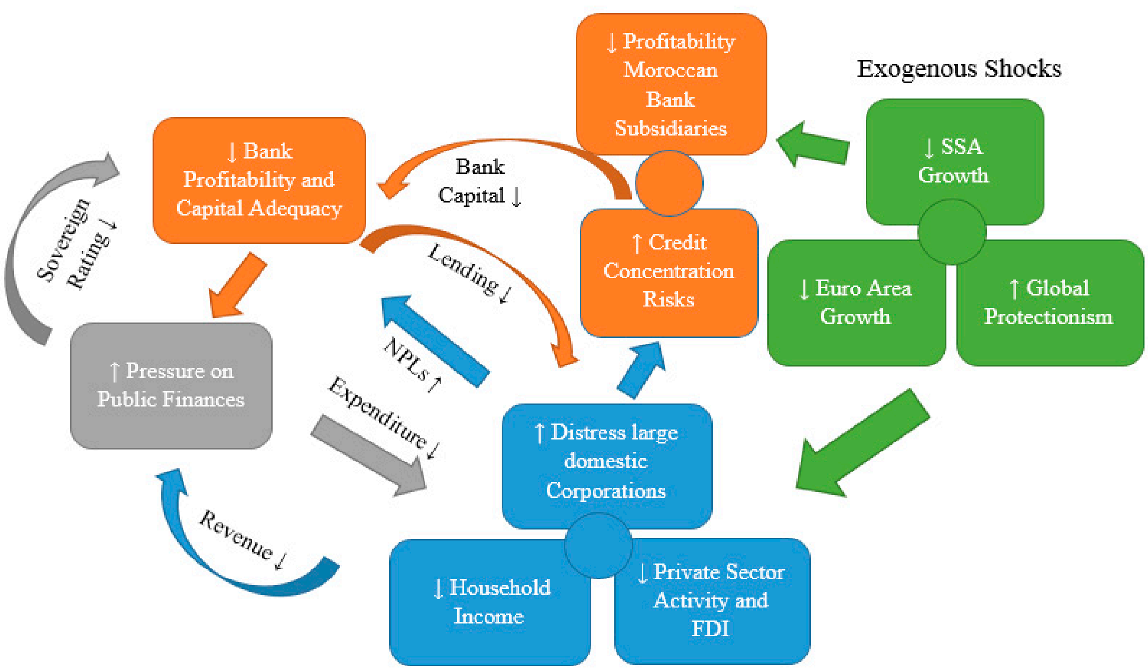
7. **Banks are well capitalized, but rising non-performing loans, credit concentration risks, and expansion into Sub-Saharan Africa (SSA) are sources of concern (see flow chart).** Banks' regulatory capital ratio stood at 13.7 percent in 2015. Profitability declined during 2010–15 but recovered in 2016. While provisioning levels are high, NPLs have been rising since 2012, reaching 8 percent in September 2016 (against 7.4 percent in 2015), driven by weak economic activity and strains in parts of the corporate sector, including in construction. The banking system also remains vulnerable to credit concentration risks: despite strict regulatory limits and declining aggregate exposure (302 percent of T1 capital against 341 in 2014), stress test results suggest that the failure of the top three largest corporate exposures (mostly SOEs) may lead to the under-capitalization of several banks. Finally, the expansion of Moroccan banks into SSA provides diversification and profit opportunities, but also opens new channels of risk transmission, as such riskier cross-border exposures now account for about 20 percent of their assets, and some banks are systemically important in certain host countries.

8. **The current account deficit has widened in 2016, but reserves continue to strengthen.** The current account deficit is expected to reach 2.9 percent of GDP in 2016 against 2.2 percent in 2015. This reflects increased machinery and food imports, and weaker export growth, as the impact

[1] See also Selected Issues Paper on "Morocco—Credit Growth: Demand or Supply Driven?"

of low phosphate prices offset stronger automobile, agriculture and textile exports. Tourism and remittances revenues have rebounded in 2016, offsetting lower-than-expected official grants from GCC countries, while FDI inflows remain sizeable. Reserves strengthened further and should reach 100 percent of the Assessing Reserve Adequacy (ARA) metric by the end of 2016 (or 131 percent the adjusted ARA metric). The net international investment position (NIIP) is expected to decline slightly to -62½ percent of GDP, while external debt, amounting to 32.4 percent of GDP, should remain moderate and sustainable. The real effective exchange rate has appreciated marginally since mid-2015, increasing 3.7 percent (y-o-y) at end-November 2016 due to the strengthening of the US dollar. The IMF's External Balance Assessment (EBA) indicates that the external position is broadly aligned with macroeconomic fundamentals and policies (Annex II).[2]

Morocco. Key Macro-Financial Linkages



[2] The IMF's EBA methodology includes three approaches to evaluating the external position relative to fundamentals and desirable policies: (i) the current account approach suggests a current account gap of -0.9 percent of GDP relative to the norm, equivalent to an REER overvaluation of 3.1 percent (compared to 7 percent in Spring 2016); (ii) the external sustainability approach suggests an REER undervaluation of 9.7 percent; however this estimate tends to be very sensitive to the underlying benchmark on net foreign assets; (iii) the REER approach suggests an undervaluation of 6.4 percent, but data limitations affect the robustness of this estimate. Given measurement issues in the latter two approaches, staff's preferred approach is the current account approach, which suggests that on balance, the dirham is broadly aligned with fundamentals.

B. Outlook and Risks

9. Growth is expected to increase gradually and the external position to remain strong in the medium term:

- In 2017, growth should rebound to 4.4 percent due mainly to the base effect on agricultural activity. In the medium term, it is expected to reach 4.5 percent, with potential output increasing by an estimated one percentage point relative to 2016, driven by higher capital accumulation and a pickup in productivity (Annex III). This latter trend assumes that the current government's reform commitments are implemented, including improvements to the business environment, agricultural modernization and industrial diversification, and further integration into global value chains. Inflation is expected to remain low at 1.2 percent in 2017 and to increase to about 2 percent over the medium term. Consistent with the envisaged investment and GDP growth path, credit growth should pick-up over the medium-term to an average of 5 percent.

- In 2017, the current account deficit is expected to decline to 2.3 percent of GDP. In the medium term, it is projected to remain in the range of 1.5–2 percent of GDP. Export growth would be driven by emerging sectors and stronger external demand, and a gradual recovery of phosphate prices. Imports would grow steadily, with low (but rising) oil prices. Tourism receipts would accelerate while remittances would remain robust. Sustained FDI inflows, in line with the dynamism of new industrial sectors, would also contribute to bring reserves over 115 percent of the ARA metric (151 percent of the adjusted metric) by 2021.

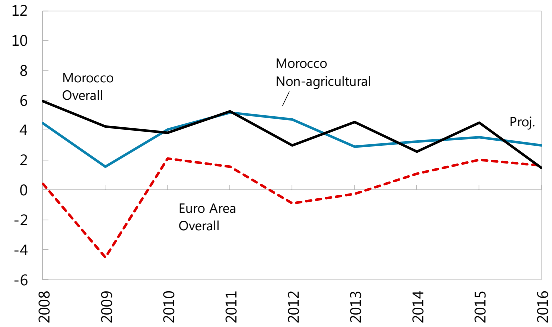
10. Risks to the outlook remain tilted to the downside (see Table 1). Despite increased economic diversification, growth will remain susceptible to agricultural output volatility. Weaker growth in the euro area, or in other emerging and frontier economies, could affect external demand. Adverse geopolitical developments in the Middle East and Europe, and their impact on tourism, also remain significant risks. Finally, more volatile financial conditions, together with protracted uncertainty about global trade policies, could affect investor confidence and banks' correspondent relationships, with potential impact on financial intermediation, notably for trade credit and remittances. In terms of outward spillovers, the subsidiaries of Moroccan banks in SSA are systemically important in some host countries. On the domestic front, the new coalition government may make changes to some policies.

11. The authorities broadly agreed with the outlook and characterization of risks in the RAM and the external sector assessment (Annex II), but viewed the impact of some of these risks as less severe, including risks of rising nationalism in large economies, fragmentation and security dislocation, and slower than expected pace of reforms. They also noted that there is upside growth potential as economic activity in Europe strengthens and current structural reforms bear fruit and help increasing diversification and moving up the value chain. They agreed that a higher growth path would require significant gains in productivity.

Figure 1. Morocco: Real Sector Developments

Economic activity is expected to slow significantly in 2016…

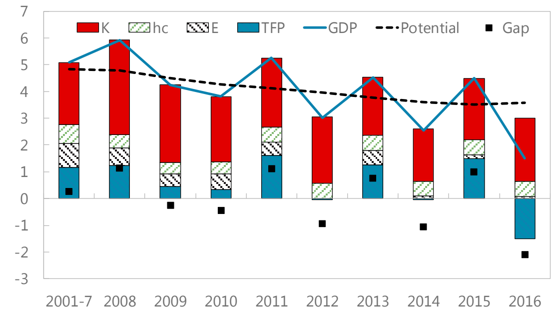
Morocco and Euro Area Growth
(Annual percent change)



Source: WEO.

…and output is well below potential.

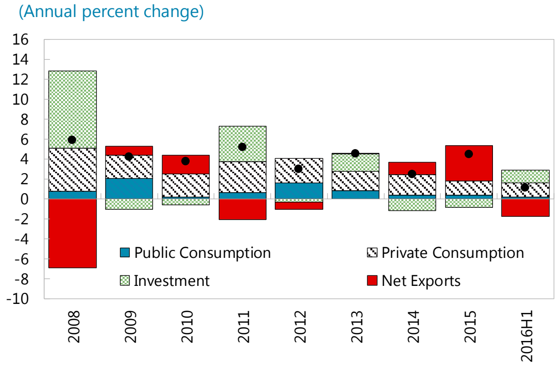
Morocco: Potential GDP, Actual GDP, and GDP Components, 2000-16
(Annual percent change)



Sources: Penn World Tables; WEO; and IMF staff estimates.
Note: K = capital; hc = human capital; E = employed labor force; TFP = productivity.

Domestic demand was a key growth driver in the first half of 2016.

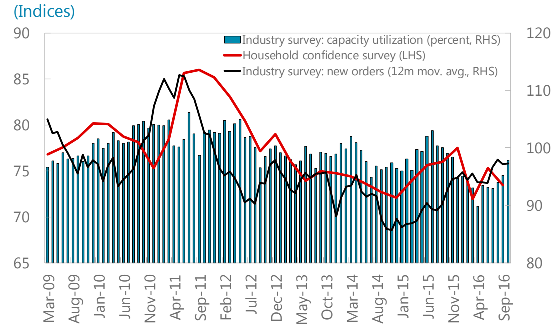
Contributions to GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

Household and business industrial surveys point to stronger activity in the second half of 2016.

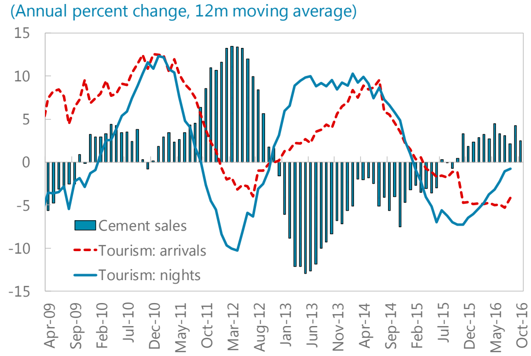
Household and Industry Confidence Surveys
(Indices)



Sources: HCP; and IMF staff estimates.
Note: For the industry survey indices: greater than 100 indicates above average, less than 100 indicates below average.

Other high frequency indicators point to stronger activity in the real estate and tourism sectors.

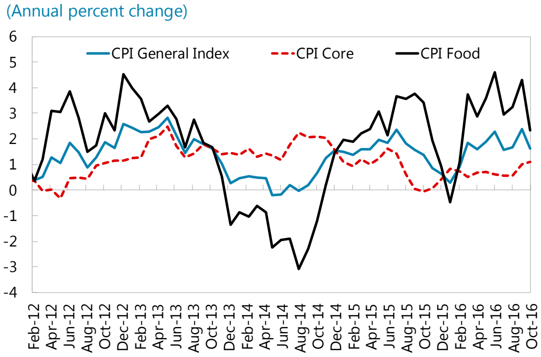
Tourism and Cement Sales
(Annual percent change, 12m moving average)



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

Food prices have surged, but core inflation remains low.

Inflation
(Annual percent change)

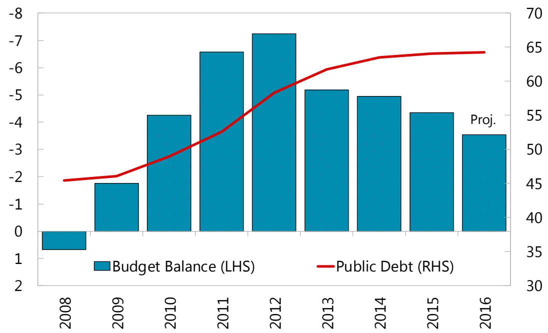


Sources: National authorities; and IMF staff estimates.

Figure 2. Morocco: Fiscal Developments

Fiscal consolidation continues as planned.

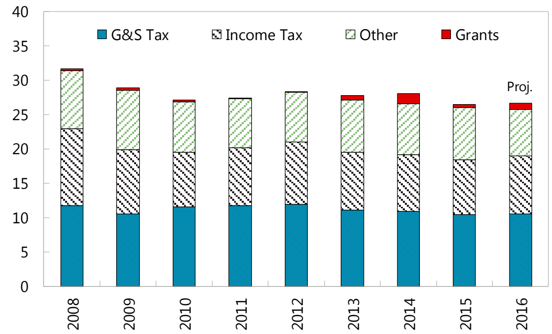
Budget Balance and Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Public revenues remain resilient.

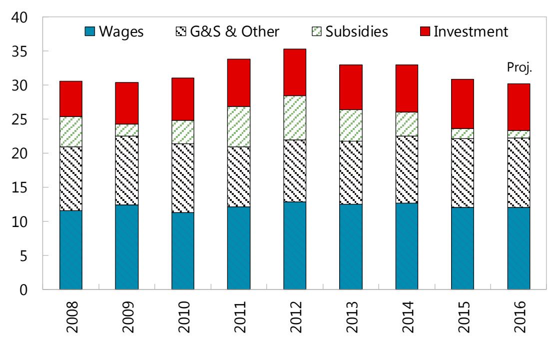
Government Revenue
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Public expendures are well contained.

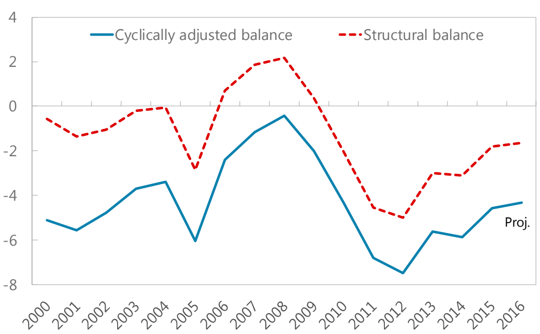
Government Expenditure
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Cyclical and structural fiscal balances have improved.

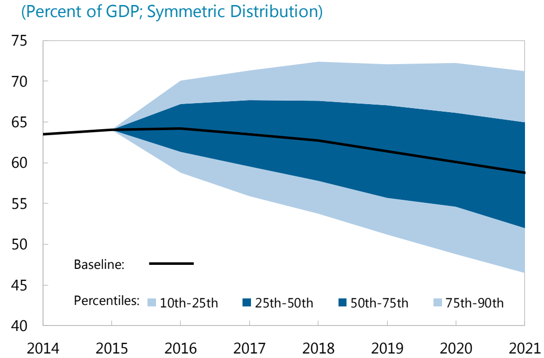
Cyclical and Structural Balance
(Percent of GDP)



Sources: IMF staff estimates.

Public debt is sustainable and projected to decline gradually.

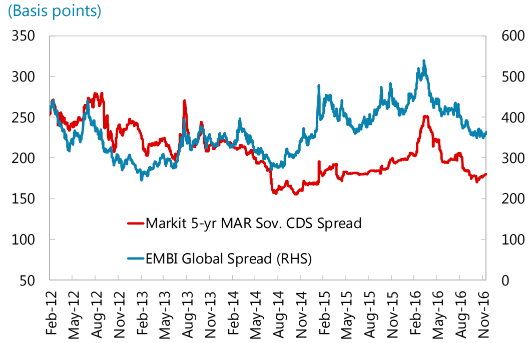
Evolution of Predictive Densities of Gross Nominal Public Debt
(Percent of GDP; Symmetric Distribution)



Sources: DSA; and IMF staff estimates.

Sovereign spreads have declined in 2016.

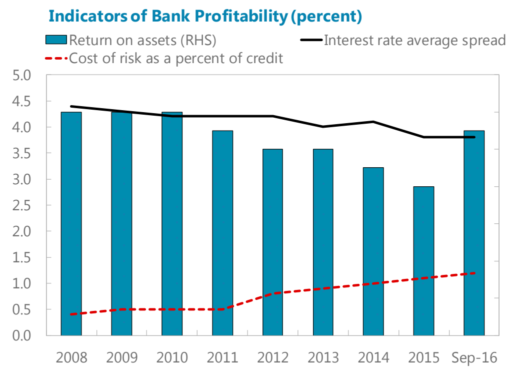
CDS Spreads
(Basis points)



Sources: Bloomberg; and Markit.

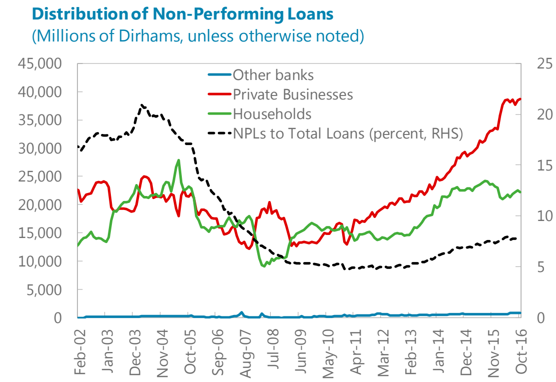
Figure 3. Morocco: Financial Sector Developments

Banks have adequate capital buffers despite a decline in profitability until recently.



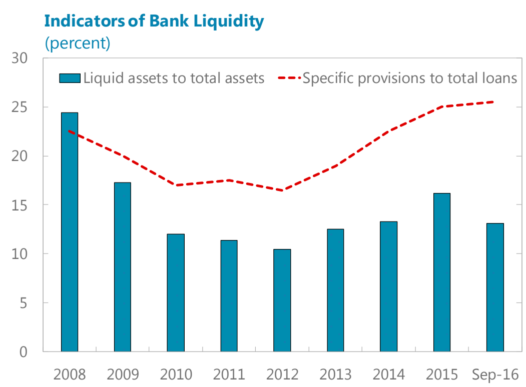
Source: Bank Al-Maghrib

NPLs have continued to increase, driven by the non-financial corporate sector.



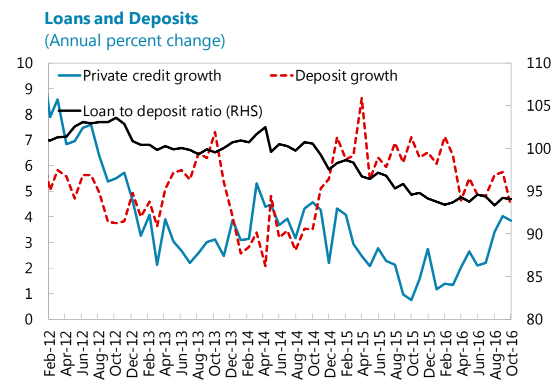
Source: Bank Al-Maghrib.

Provisioning is rising while liquidity conditions are adequate …



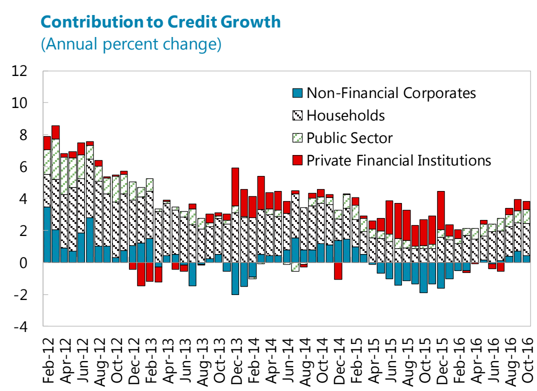
Source: Bank Al-Maghrib

… and loan to deposits ratios continue to improve



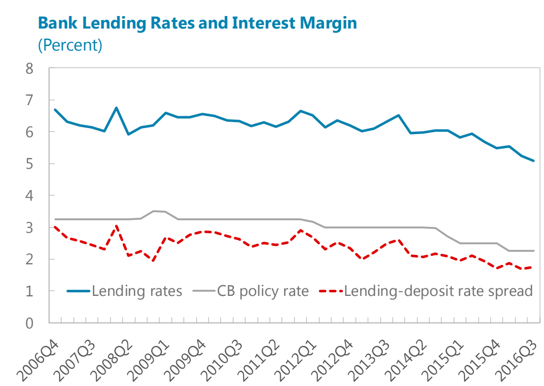
Sources: Bank Al-Maghrib; and IMF staff estimates.

Household lending has supported credit growth.



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

Lending rates have declined in line with the monetary policy rate.

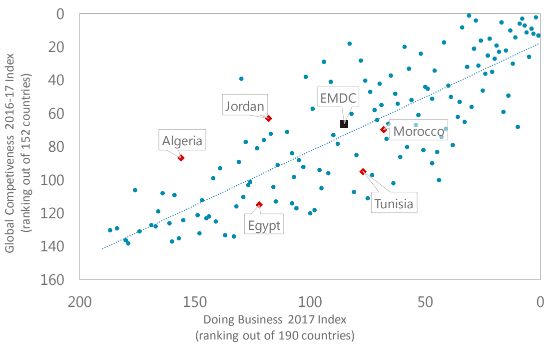


Sources: Bank Al-Maghrib; and IMF staff estimates.

Figure 4. Morocco: Structural Reforms

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

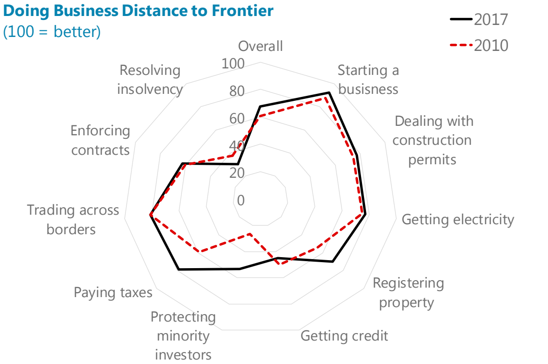
Doing Business vs. Global Competiveness Indices, 2017



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

…but there is room to further improve business regulations.

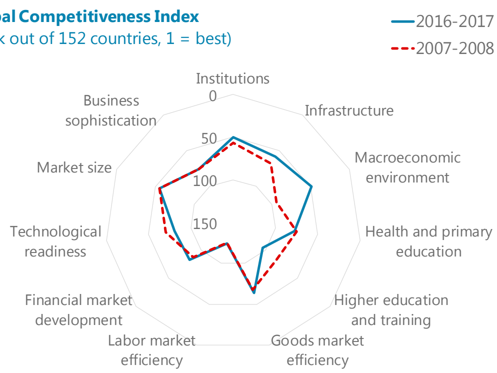
Doing Business Distance to Frontier
(100 = better)



Source: World Bank Doing Business 2017.

Further progress is also needed on education, the functioning of the labor market and financial market development.

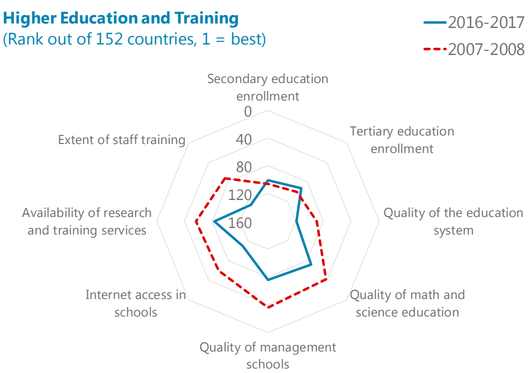
Global Competitiveness Index
(Rank out of 152 countries, 1 = best)



Sources: WEF Global Competitiveness Index.

On education, efforts should focus on teacher training, secondary education enrollment and the quality of the educational system.

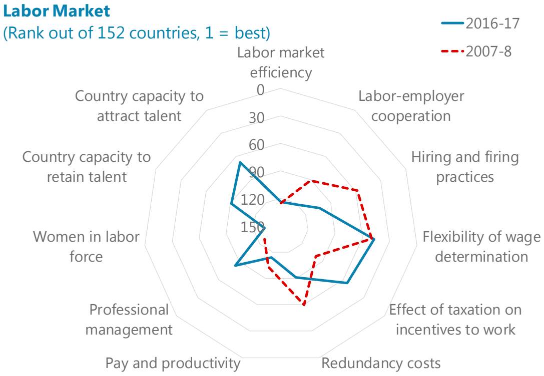
Higher Education and Training
(Rank out of 152 countries, 1 = best)



Sources: WEF Global Competitiveness Index.

On labor market, progress is needed to increase women's labor force participation and to reduce regulatory rigidities

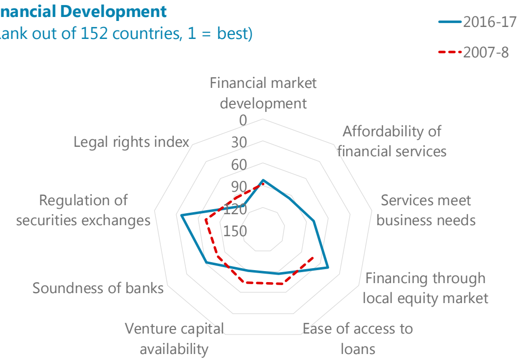
Labor Market
(Rank out of 152 countries, 1 = best)



Sources: WEF Global Competitiveness Index.

Progress is also needed to facilitate access to finance.

Financial Development
(Rank out of 152 countries, 1 = best)

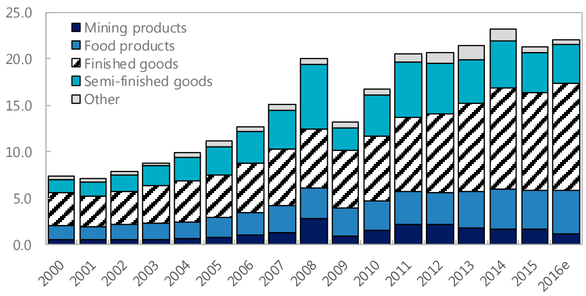


Sources: WEF Global Competitiveness Index.

Figure 5. Morocco: External Sector Developments

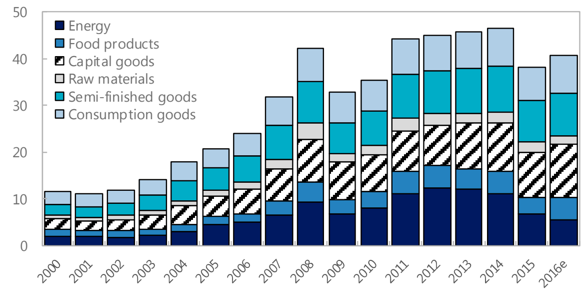
Export growth has been driven by emerging manufacturing sectors…

Exports by Type of Good
(in US$ billions)



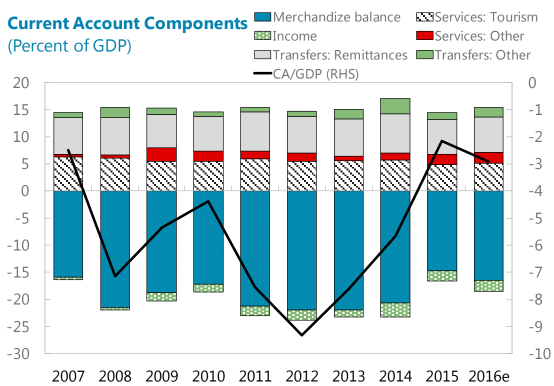
…while imports have declined due mainly to low oil prices

Imports by Type of Good
(in US$ billions)



The declining trade deficit, and sustained tourism and remittance receipts, helped improve the current account.

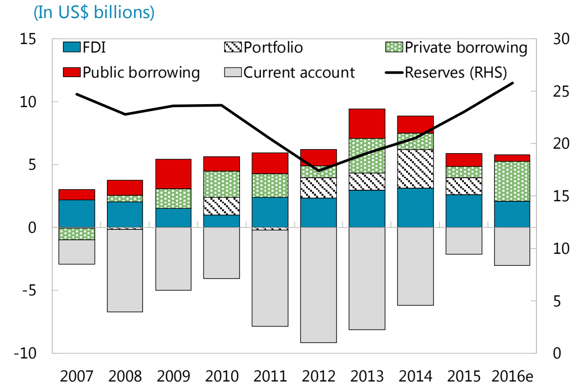
Current Account Components
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

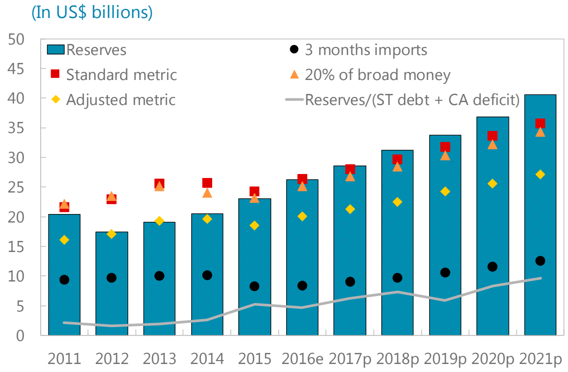
FDI plays a key role in financing the current account.

Current Account Financing
(In US$ billions)



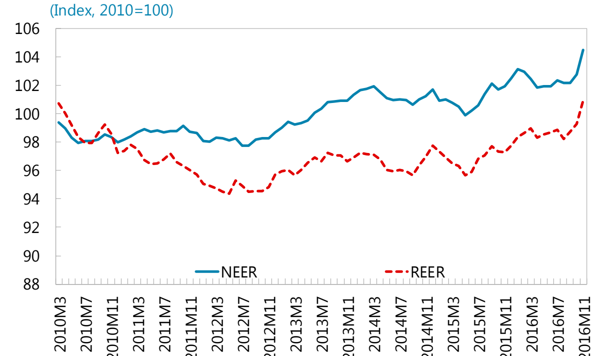
Morocco's reserves coverage has further improved along several reserve adequacy metrics.

Morocco: Reserve Adequacy Metrics
(In US$ billions)



The real exchange rate has appreciated recently, due to the strengthening of the US dollar.

Real and Nominal Effective Exchange Rates, 2009-2016
(Index, 2010=100)



Sources: National authorities; and IMF staff estimates.

POLICY DISCUSSIONS

12. Building on recent fiscal and external improvements, the reform momentum needs to be maintained to secure longer-term stability and raise growth and employment (Appendix I). This will require:

- Strengthening domestic stability;
- Safeguarding external resilience; and,
- Raising potential growth and job creation while promoting inclusion.

A. Strengthening Domestic Stability

13. The authorities continue to implement gradual fiscal consolidation despite recent shortfalls in grant revenues. The fiscal deficit objective of 3.5 percent of GDP for 2016 is estimated to have been met, including due to spending cuts (such as in wages and subsidies) to offset the grants shortfall observed again in 2016 (about 0.4 percent of GDP). In 2017, the deficit is expected to decline further to 3 percent of GDP, in line with projections at the time of PLL request. This would reflect: (i) reduced spending (in percent of GDP), primarily through contained spending on public wages and goods and services; and (ii) stable tax revenues, due mostly to weaker growth in 2016 and increased VAT refunds.[3] Staff supported these objectives, which will allow to reduce public debt while preserving growth-friendly expenditures, and encouraged the authorities to identify short-term measures for 2017 to compensate for any grants shortfall.

14. While sustainable, public debt should be placed firmly on a downward path. The debt sustainability analysis (DSA) shows that public debt, which rose from 47 percent in 2009 to 64.3 percent in 2016, remains sustainable and resilient to various shocks (Annex IV), and below the debt burden benchmark of 70 percent of GDP for emerging markets. Still, there are significant fiscal risks, including potential delays in reforms to raise potential growth in the years ahead. Staff and the authorities agreed to maintain the objective of reducing public debt to 60 percent of GDP by 2020, in order to increase fiscal space gradually, without affecting growth.

15. Reducing public debt will require fiscal reforms to bring the fiscal deficit to about 2.4 percent of GDP by 2020. Following important reforms to rein in public spending in recent years, including through energy subsidy reforms (and associated stronger social safety nets), the new organic budget law, and public pension reform, fiscal consolidation efforts going forward should focus on a few key reform areas:

- **Taxation.** The authorities are implementing tax reforms in line with recommendations from the 2013 national tax conference (Box 2). Staff welcomed recent efforts, such as regarding the

[3] Projections of taxes on income, profits, and capital gains are based on last year's revenues. The authorities project an increased VAT refund from 5.2 billion dirhams in 2016 to 7 billion dirhams in 2017.

taxation of self-employed and liberal professions. Staff recommended that tax reforms, which could yield about 1.5–2 percent of additional public revenues over the medium term, be accelerated. A key priority is to broaden the tax base, including through fight against fiscal fraud, and reduced VAT and other tax exemptions (especially for large agricultural firms). In general, better communication on tax reforms, providing context for specific changes to the taxation regime, would also help make such reforms better accepted and more impactful. The authorities agreed that there is room to broaden the tax base and are committed to this reform.

- **Fiscal decentralization**. The authorities are shifting increasing amounts of public resources to the regional level as part of their regionalization initiative. They are aware that there are important fiscal risks associated with fiscal decentralization, and that proper administrative capacity and checks and balances have to be in place to ensure sound public financial management at all levels. Indeed, they have taken action to strengthen local operational structures for regional development planning and project management, and to reinforce budgetary and financial procedures and controls for regions (Box 3). Staff supported these efforts, and welcomed the authorities' interest in receiving Fund TA support on local taxation, capacity development, and fiscal management.

- **Civil service.** The authorities intend to keep the public payroll below 10.5 percent of GDP over the medium term so as not to compromise priority spending. Several reforms have been pursued to achieve this objective, such as the recent introduction of contractual employment and increased personnel mobility across ministries. Staff welcomed these efforts and stressed the need for a comprehensive reform of the civil service in order to generate savings on public wage spending while increasing the efficiency of public services. Staff highlighted some options for this reform, including changes to civil service statutes aiming for more merit-based career progression, as well as changes to public wage structures. The authorities agreed that a comprehensive reform is needed.

- **Public enterprises**. The authorities have taken steps to address potential state owned enterprise (SOE)-related fiscal risks for which specific provisions are missing from the Organic Budget Law. A draft law to reinforce the governance and oversight of public enterprises has been submitted to the cabinet for approval. The authorities also work on a consolidated SOEs balance sheet. Staff welcomed these plans while stressing the need to advance them expeditiously.

16. The accommodative monetary policy stance remains adequate. The policy rate cut in March 2016 was instrumental in supporting the nascent credit recovery, suggesting that monetary transmission is effective. Staff noted that in the baseline scenario, the current monetary policy stance would remain appropriate as long as inflation expectations remain well anchored. This is the case in particular for 2017, when inflation is expected to remain moderate reflecting a weather-related decline in food prices while economic activity is above potential. Since SME credit could be hampered by demand or supply constraints, staff supported continued initiatives by the authorities to provide SME credit guarantees and to address potential obstacles to SME credit access. The authorities noted that BAM's main objective is inflation, and that credit growth has started to pick up while liquidity conditions are adequate.

17. The financial system is resilient but key risk exposures require continued vigilance and reforms:

- **NPLs.** The authorities intend to move forward in the first half of 2017 with several reforms consistent with FSAP recommendations, including: aligning loan classification and provisioning rules with International Financial Reporting Standards (IFRS), and formalizing and harmonizing the criteria for inclusion in supervisory "watch lists" (and implementing related tighter provisioning requirements). In addition, the future legal framework for collateral execution should help increase recovery rates.

- **Concentrated credit exposures**. The authorities agree that large credit exposures continue to pose a risk and are taking action to reduce them. They issued a new directive in June 2016 requiring corporate groups to prepare consolidated financial statements including all existing debt, and specifying future borrowing plans. In addition, they are considering a further tightening of risk weights for large connected exposures.

18. More broadly, continued improvements to the financial sector policy framework are underway. Changes in the financial system, including its increasing complexity, the cross border expansion of Morocco's banks, and the forthcoming exchange rate flexibility, require increased supervisory resources and a continuous shift to more risk-based and forward-looking supervision:

- **Supervisory capacity and resources**. Efforts to increase supervisory resources and capacity are progressing, in line with FSAP recommendations. In addition to new recruitment, organizational changes were made in 2016, including the creation of specialized units dedicated to the oversight of systemic banks, cross-country exposures, and bank recovery plans. In preparation for the exchange rate transition, the authorities requested Fund TA support in assessing banks' readiness to manage currency risks.

- **Macro prudential policy.** This policy framework has been enhanced with the creation of a dedicated department at BAM, inter-agency discussions of financial stability issues at the level of the Systemic Risk Surveillance and Coordination Committee (CCSRS), and the introduction of the legal power to impose countercyclical capital buffers. Going forward, priorities include filling key data gaps for macro-prudential surveillance, such as sectoral data on loan-to-value ratios and debt-service-to-income ratios, and designing capital surcharges for systemic banks.

- **Crisis management and bank resolution**. The authorities will start upgrading the legal framework for bank resolution, while ensuring its compatibility with broader Moroccan law. This effort will introduce key changes consistent with recent FSAP and Fund TA recommendations (including the "least-cost" principle, changes to the deposit guarantee scheme, and bail-in powers), but it is likely to take several months. As a result, BAM's designation as the resolution authority will not be introduced in the central bank law to be approved in the next parliament session in 2017—but the new emergency liquidity assistance (ELA) framework will.

- **Cooperation with host country supervisors.** Such cooperation, aiming to supervise the cross border activities and exposures of Moroccan banks, has intensified. Formal arrangements have been established with bilateral and regional supervisory bodies (such as at the BCEAO and CEMAC) and supervisory colleges for all main banks are in place. The authorities also upgraded supervisory requirements for cross border activities, including in terms of country and sovereign risk management.

19. AML/CFT framework. The authorities are preparing for the evaluation of AML/CFT-related risks by the Middle East and North Africa Financial Action Task Force (MENAFATF) in 2017. They are currently reviewing the potential need to adjust current legal frameworks in various parts of the financial system, in line with the latest changes introduced by the FATF. In particular, the authorities should continue to strengthen risk-based AML/CFT supervision, improve the availability of beneficial ownership information and enhance monitoring tools to mitigate cross-border AML/CFT risks, especially in the context of the banking sector's expansion to the SSA region.

B. Safeguarding External Resilience

20. The authorities have entered the final preparatory phase for the introduction of greater exchange rate flexibility in 2017. Greater exchange rate flexibility will increase the shock absorption capacity of the economy, particularly given current constraints on fiscal space. It will also help preserve competitiveness and better incentivize the reallocation of productive resources between the tradable and non-tradable sectors within the economy (Box 4).

21. The authorities and staff agreed that the current conditions in Morocco offer a unique window of opportunity for such a transition. While not without risks in a global context of volatile financial conditions, key pre-conditions are in place to ensure that Morocco can move from a position of strength, including: strong macroeconomic buffers and comfortable reserves; recently enhanced fiscal, monetary and financial policy frameworks; alignment of the exchange rate with fundamentals, which reduces the risk of large exchange rate adjustments; limited currency risk exposures in the economy, including low level of foreign currency-denominated public debt; relatively low estimated pass-through of exchange rate movements to consumer prices; and a pre-existing exchange rate market that already helps operators to manage the dirham's volatility vis-a-vis individual currencies.

22. In preparation for the transition, the authorities have benefited from extensive Fund technical assistance, and they are now ready operationally. Technical assistance has helped the authorities prepare for the implementation of key technical and operational aspects of the transition, including: macro-economic modelling; forecasting and policy analysis; communication strategy; legal, institutional and regulatory structures; and foreign exchange market development.

23. Staff supports the authorities' gradual approach, consisting in introducing an adjustable horizontal band, which will progressively dis-anchor the dirham from the current currency basket, foster the deepening of the foreign exchange market, and allow for monetary policy decisions to be increasingly based on inflation forecasts. Staff highlighted the importance of timely communication to manage economic agents' expectations regarding the sequence and modalities of the transition. The authorities noted that their roadmap incorporates these aspects, including through regular meetings and outreach to banks, corporations and the general public.

24. Staff agreed with the authorities that the adoption of fully-fledged inflation targeting should be envisaged in the later stage of the exchange rate transition. In the meantime, maintaining the current monetary policy regime will help avoid any major conflict between the adoption of a formal inflation target and the existence of a still narrow exchange rate band. There was also agreement that restrictions on capital outflows by residents should not be eliminated in the short run, in order to minimize risks during at least the initial phases of the transition.

C. Raising Potential Growth and Job Creation while Promoting Inclusion

25. Addressing key constraints to growth can significantly raise Morocco's growth potential (see Annex III). Staff's analysis shows that the main obstacles to higher growth in Morocco are the quality of education, skills mismatches, governance and the business environment, and the functioning of the labor market. Their impact has been reflected in Morocco's declining productivity and lower human capital levels, employment and labor force growth, compared to emerging market peers. Staff's baseline scenario assumes that the ongoing reforms to improve the business environment and access to finance would increase potential output by about 1 percentage point in the medium term. However, it is estimated that more ambitious structural reforms to address all of the above constraints could increase potential growth by about 2 percentage points.

26. The business environment has improved but further progress is needed. Efforts have been made recently to simplify administrative procedures (such as for customs transactions, property rights, and enterprise creation), and to reduce payment delays from the public to the private sector. Morocco's 2017 Doing Business ranking improved to 68 (against 75 in 2016). However, key reforms are still needed. Staff highlighted the importance of making the Competition Council operational by appointing all its members and of fighting corruption through a determined implementation of the recently-adopted national strategy. The authorities reiterated their commitment to business climate improvements and pointed to plans to further simplify administrative procedures, including by developing an e-regulation platform.

27. High youth unemployment, inadequate education outcomes and gender gaps are barriers to higher and more inclusive growth. Unemployment is high, especially among the youth (Box 5). Female labor force participation is very low, at 24.8 percent, and has declined in the past decade. These outcomes partly reflect poor education and skills mismatches, highlighting the importance of speeding up education and labor market reforms. In this context, staff reiterated the need to increase the efficiency of public spending on education and to enhance teachers' training, recruitment, and evaluation, and also noted the need to foster public–private partnerships for curriculum design and apprenticeships, which could help align worker skills with private sector needs. The authorities shared staff's assessment and highlighted their recent efforts to facilitate the deployment of teachers, as well as the recently-adopted strategy on vocational training, which is focused on private sector needs.[4] The authorities and staff also agreed on the need to improve labor market regulations to facilitate job creation. In this regard, staff encouraged the authorities to consider relaxing restrictions on fixed-term contracts and layoffs in order to better integrate young workers in the labor market. Finally, staff stressed the need to strengthen policies to reduce gender gaps in education and labor force participation, including by investing in women's education, child care facilities, safe transportation and removing gender discriminatory tax practices.[5]

28. SME access to finance is improving but challenges remain. The latest World Bank Enterprise Survey shows that firms with a line of credit have increased to 52 percent in 2013. Large enterprises have better access (72 percent) than SMEs (50 percent), but both ratios in Morocco are higher than the world and Middle East averages. Nonetheless, collateral requirements continue to be a constraint particularly for small enterprises. In addition to public mechanisms to support SME credit, staff welcomed the launch of a second credit bureau expected in January 2017. The authorities indicated that the draft law on collateral is ready for discussion and would play a key role in facilitating collateral enforcement through extra-judiciary procedures and thus further improving credit access for SMEs. Staff also encouraged the authorities to continue with efforts to bring Morocco's insolvency regime in line with international best practices.

STAFF APPRAISAL

29. Morocco's sound macroeconomic policies and ongoing reforms have helped reduce vulnerabilities and increase the economy's resilience. External and fiscal imbalances have decreased significantly in recent years, and international reserves are now comfortable. Key reforms have been implemented in the areas of public subsidies, fiscal management, financial oversight, and economic diversification. Most recently, the preparations for the transition to a new exchange rate and monetary regime have been finalized. Yet, growth remains sluggish and subject to agricultural volatility, but it is expected to rebound in 2017 and to strengthen gradually in the medium term.

30. In an environment still subject to elevated downside risks, and given domestic challenges, sustained reform implementation will be crucial. The economy remains vulnerable to global conditions, notably the risk of weaker growth in the euro area and emerging economies, adverse geopolitical developments in the Middle East and protectionist trade policies in large economies. In several areas, accelerating the pace of reforms will also be key to increase Morocco's growth potential, achieving higher and more inclusive growth, and reducing persistent high unemployment levels, especially among the youth, while improving women's participation in the labor force. Priority reform areas include further improvements to the business climate (particularly for SMEs), education, and labor market functioning.

31. The current macroeconomic policy mix consisting of fiscal consolidation and accommodative monetary policy continues to be appropriate. The fiscal deficit is expected to

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[4] 2015 Selected Issues Paper on "Efficiency of Public Spending on Education in Morocco."

[5] 2016 Selected Issue Paper on "Morocco: Implications of Gender Inequality for Growth."

decrease in 2016, buttressed by short-term measures to offset lower-than-expected grants. It will further consolidate in 2017 with stable tax revenues and contained current spending. Since inflation expectations remain well-anchored, the current monetary policy stance would remain adequate and support a gradual pick-up in credit growth.

32. Over the medium term, further fiscal consolidation will be required to put public debt firmly on a downward path. Even if sustainable, public debt is relatively high, and reducing it to 60 percent of GDP by 2020 will be key to create fiscal space for social and growth-enhancing expenditures. Building on progress in reining in public spending in recent years, including energy subsidy reforms, efforts should focus on accelerating tax reforms by broadening the tax base and promoting greater tax efficiency, equity, and simplicity; gradually implementing fiscal decentralization in order to introduce all needed safeguards; enhancing the governance and financial oversight of public enterprises; and pursuing civil service reforms aiming to generate savings on the public wage bill while increasing the efficiency of public spending.

33. The conditions for a successful transition to greater exchange rate flexibility in 2017 are in place. Such flexibility will increase the shock absorption capacity of the economy, particularly given current constraints on fiscal space, and help preserve competitiveness. Staff is of the view that Morocco's current position of strength offers a unique window of opportunity for such a transition. Staff supports the authorities' preference for a gradual approach to dis-anchor the dirham from the current currency basket and to allow for monetary policy decisions to be increasingly based on inflation forecasts.

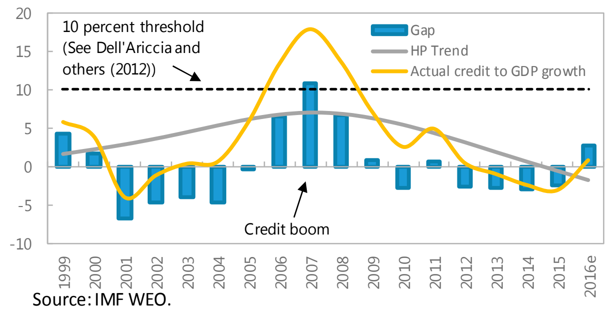
34. Ongoing advances in financial oversight will further enhance the financial system's resilience including in the context of the cross border expansion of Moroccan banks and the forthcoming introduction of greater exchange rate flexibility. Increased supervisory resources, the shift toward more proactive, risk-based and forward looking supervision, and the authorities' continued efforts to tighten provisioning requirements and to strengthen the macro-prudential policy framework, in line with 2015 FSAP recommendations, are welcome.

35. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Morocco—Low Credit Growth: Supply or Demand Driven?

Credit growth has slowed since the end of the 2006-8 credit (boom and bust) cycle. Economic conditions were affected by the international financial crisis and ensuing macroeconomic uncertainties, while the credit downturn was driven by the legacy of a credit boom and overhang mainly in the real estate sector, like in many countries. Credit and business cycles have been aligned, but fluctuations in credit have been much larger than those of GDP suggesting that demand and supply factors have played a role (mostly related with increasing risks). On the demand side, corporate sector deleveraging, particularly in the real estate sector, could have reduced firms' willingness to borrow. On the supply side, increasing NPLs and provisioning requirements may have led banks to reallocate credit away from most affected sectors.

Deviation from Trend in Credit-to-GDP Growth
(Annual percent change, actual minus trend)

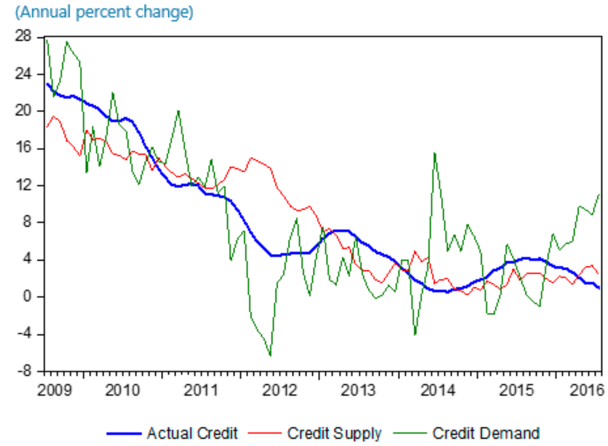


Source: IMF WEO.
Note: Trend is calculated using 100 λ HP filter.

Both credit demand and supply diminished rapidly after the 2008 financial crisis. The results of the estimations of a generalized method of moments with separate sets of exogenous variables indicate that both have been significant drivers of credit (with expected signs). The supply curve is estimated from the loan-deposit spread and NPLs, and the demand curve from GDP and real estate prices. In particular, the estimations show that banks supply more loans when systemic liquidity increases and demand increases with lower interest rates and higher real estate prices**.** Empirical evidence suggests that credit demand has been affected by slow growth in real estate prices in the post-financial crisis period, while supply has been affected by lower profitability for banks via interest rates and also a moderate rise in NPLs. More recently, since 2013, the supply curve has remained low and predicted demand has been somewhat higher, but supply cannot be identified as a major constraint for credit growth.

Going forward, credit is expected to grow around 5 percent annually over the medium term. Based on projected inflation and GDP growth, credit growth should be between 2.5 and 7 percent. A cross-country comparison of credit growth for emerging market countries with similar macro-indicators shows this projection is around the median expectation of 4.5 percent. Appropriate policies to boost credit activity, such as continuing with an accommodative monetary policy, government guarantee programs for boosting credit supply to SMEs, unlocking payment delays to revert liquidity constraints, and restructuring corporate debt that are negatively affecting bank balance sheets could play an important role to support this development.

Predicted Credit Supply and Demand, July 2009–July 2016
(Annual percent change)



Source: IMF staff estimates.

Box 2. Morocco: Advancing Tax Reforms

Morocco has undertaken a number of reforms to implement the consensus from the National Conference on Taxation in 2013. Key measures implemented since then include: the introduction of corporate tax brackets in the 2016 budget (departing from a unique 30 percent corporate income tax rate), the introduction of VAT deductions in some agro-industrial inputs, and improvements to the VAT refund system. The core VAT regime remains unchanged with a regular rate of 20 percent, and several reduced rates. Revisions were also introduced on excise tax rates, and the social contribution for the public sector increased on September 2016 with the implementation of the new pension law. Measures to better enforce tax payments by self-employed and liberal professions have also been put in place, and the government has taken actions to simplify various administrative procedures related to compliance and settlement of tax disputes.

Corporate Income Bracket since January, Non-financial Institutions (in dirhams)	Tax rate	Personal Income Bracket (in dirhams)	Tax rate
		0–30,000	0%
		30,001–50,000	10%
0–300,000	10%	50,001–60,000	20%
300,001–1,000,000	20%	60,001–80,000	30%
1,000,001–5,000,000	30%	80,001–180,000	34%
Over 5,000,000	31%	Over 180,000	38%

Cross country experience suggests that successful tax reforms generally require a comprehensive approach. While average VAT statutory tax rates are very close among developing and advanced economies (14.7 percent versus 16.2 percent), income tax rates can vary significantly, but they have declined in the past ten years, and some convergence of corporate tax rates has been observed. There is a large variation in the contribution of different taxes to government revenues, and cross country experience also shows that multiple VAT rates could introduce economic distortions, complicate administration, and cause revenue loss.[1] In the absence of comprehensive strategy, the risk is that isolated reforms of specific taxes may either introduce inconsistencies or distortions, or be perceived as unfair, and in the end counter-productive from the perspective of improving the quality, efficiency and acceptance of the tax system.

While achievements have been made, there is a need for greater clarity and communication on the overall reform strategy. There is agreement that the priority is to broaden the tax base and make the system more efficient and equitable (including in light of widespread exemptions and tax evasion). However, faster implementation of the agreed consensus reached in 2013 requires a more strategic and pedagogic approach, including the coordination, sequence, and timeframe of reforms, which could yield about 1.5–2 percent of additional public revenues over the medium term. These could include:

- Short term measures to boost VAT revenues based on recommendations from previous TA, specifically the application of 7 percent rate to some exempted products, including inputs to agriculture, and a gradual convergence to a dual VAT rate system;
- Consolidation of the corporate tax reform, including to prevent tax avoidance from recently introduced corporate tax brackets, which are expected to yield an additional 0.7 percent of GDP of corporate tax revenues in 2017. At some point, a full assessment of the benefits and risks from implementing this tiered system, which is atypical from a cross country perspective, would help guide about future corporate tax reforms;
- Accelerated reduction of exemptions for large agricultural firms, and better enforcement of tax payments by the self-employed and liberal professions.

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[1] On average, OECD countries collected 33.7 percent of their tax revenues through taxes on income (personal and corporate) and profits, fast-growing consumption taxes generate 20 percent of total tax revenue.

Box 3. Morocco: Fiscal Decentralization

The process of regionalization in Morocco has been revitalized with the adoption of the 2011 constitution. It intends to promote sustainable development, modernize state's structures, and strengthen the participation of citizens to economic development. Significant economic, social, cultural, and environmental competencies are gradually transferred to regions and local communities.

Decentralization is now also leading to an increased sharing of public resources between the central government and local entities. The organic budget law for the regions, adopted in June 2015, defines the contours of this process and transposes the principles of the OBL at the local level, including by modernizing the institutional framework and reinforcing governance at the local level. On the revenue side, an increased share of revenues from personal income tax, corporate tax, housing tax, VAT, and various licenses and fees are assigned to regions. For instance, the 2016 budget increased the share of income tax revenues allocated to regions from 1 to 2 percent, and the authorities plan to increase this share gradually in the years ahead up to 5 percent by 2020. To ensure that all regions meet their assigned expenditure responsibilities, additional transfers from the central government are also possible.

International experience shows that fiscal decentralization entails significant risks that Morocco will need to manage. Successful fiscal decentralizations requires clear revenue and spending responsibilities, sound public financial management, adequate revenue sharing arrangements, mechanisms to limit borrowing (including based on market discipline), and administrative controls.[1] Morocco's regional system is still characterized by significant fragmentation and administrative structures and the devolution of certain responsibilities to the local level may be too partial and, combined with limited implementation capacity, may lead to inconsistent development strategies (e.g., with regions deciding to open schools but without control on infrastructures or teacher hiring). Furthermore, own resources of regions (less than 10 percent of central government resources) may be insufficient and render the system increasingly dependent on complex tax revenue sharing mechanisms, equalization of grants, central government subsidies, and potentially excessive borrowing, with little incentive to mobilize revenues locally.[2]

The authorities are putting in place key elements of a strategy for fiscal decentralization, including safeguards at the central and local levels. Building on the framework provided by the organic budget law for the regions, these elements provide greater clarity on the sequence of reforms and public resources transfers, and on mechanisms to ensure sound public financial management at local and regional levels. They include:

- Strengthened operational structure for regions, including for project management, and under high-level administrative oversight;
- Reinforced regional legal, budgetary, and financial frameworks, including controls and checks and balances that replicate those in place for central government (e.g., as regards public procurement, performance requirements, and strict limits on indebtedness);
- Pre-approved regional development plans, established through broad consultation, and aiming to align the amounts of dedicated public resources with the quality of expected public services;
- An ongoing reflection on how to streamline and harmonize tax regimes at the local levels (regions, municipalities).

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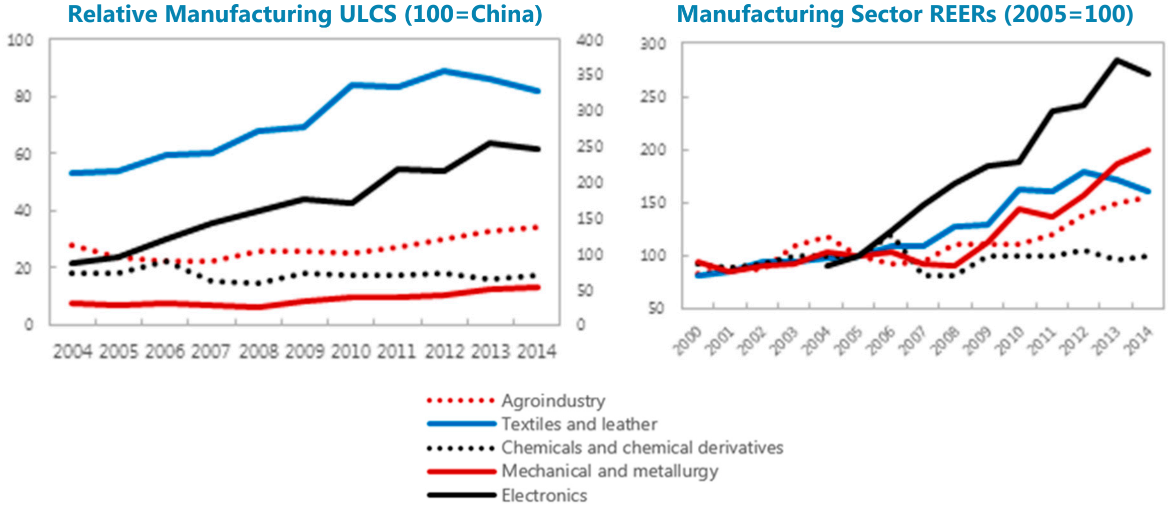
[1] See "Macro Policy Lessons for a Sound Design of Fiscal Decentralization", IMF 2009.
[2] See « Rapport du CESE sur les Exigences de la Régionalisation et Défis de l'Intégration des Politiques Sectorielles », mars 2016.

Box 4. Unit Labor Costs and External Competitiveness

Low relative unit labor costs (ULCs) are an important source of competitive advantage for Morocco. Sectors with high relative ULCs, notably the textile and leather sector, have lost global market share, compared to emerging sectors, such as mechanical and metallurgic manufacturing, chemicals, and electronics, which have much lower relative ULCs. The gap between ULCs in some emerging sectors relative to competitors has somewhat narrowed more recently, despite gains in labor productivity (electronics, chemicals). Low relative ULCs should translate to a depreciation in the ULC-based real effective exchange rate (REER), a measure of external competitiveness; however, the extent of this depreciation has been limited by nominal exchange rate movements vis-à-vis competitors.

Relative Manufacturing ULCS (100=China) | **Manufacturing Sector REERs (2005=100)**



Sources: Ministère de l'Industrie, du Commerce, de l'Investissement et de l'Economie Numérique; UNIDO; and IMF staff calculations.
Note: Competitors include China, India, Poland, Spain, Thailand, and Turkey.

Morocco's exports remain sensitive to the real effective exchange rate (REER). Regression analysis suggests that a 1pp depreciation in the real exchange rate leads to a 0.2-0.4 pp increase in merchandise exports (see Selected Issues Paper). This elasticity has weakened slightly since the global financial crisis. Looking ahead, as exports move up global value chains, this elasticity is likely to weaken to some extent;[1] Morocco's exports are currently only moderately integrated in global value chains.

Continued productivity growth and greater exchange rate flexibility will be key in maintaining external competitiveness. Whereas high relative nominal wages in competitor countries may give Morocco a competitive advantage at the current juncture, in the long run, productivity growth matching or exceeding nominal wage growth will be central to maintaining low ULCs. At the same time, greater exchange rate flexibility would allow REERs to adjust in response to nominal shocks, playing an important role in preserving competitiveness.

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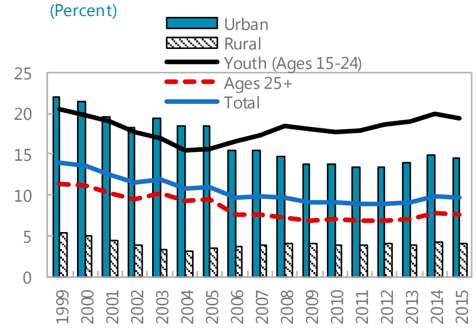
[1] IMF 2015, "Global Value Chains and the Exchange Rate Elasticity of Exports."

Box 5. Employment Trends in Morocco

Unemployment has hovered about 10 percent and labor force participation is low, especially among women. Unemployment is largely structural as 65 percent of unemployed have been without a job for at least one year. It is much higher than the national rate for first-time job seekers, educated, urban, and young. 27.9 percent of the youth is neither employed nor in education or training (NEET). Female labor participation is very low at 24.8 percent and declining.

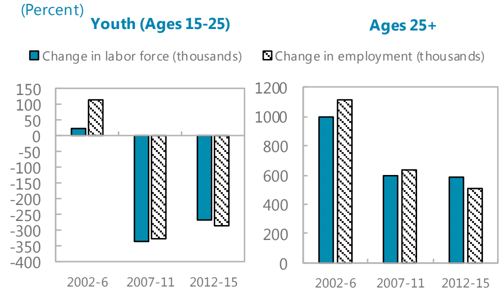
Unemployment Rate by Age and Location
(Percent)



Sources: Haut Commissariat au Plan; and ILO.

Job creation has been weak in the past five years. Morocco has only created 55,000 jobs per year over the last five years, which is below the number of market entrants. Job creation is happening only in the construction and service sectors. Indeed, it has been negative in agriculture and in low value-added industries such as textiles, which employ a large share of the manufacturing workforce (higher value-added sectors only represent a small share of manufacturing employment). Finally, while unpaid work has declined to 22.5 percent in 2014 (against 33.9 percent in 2000), jobs are still precarious as only 20.5 percent of workers receive medical coverage and only 12 percent of employed youth had a formal job contract in 2015.

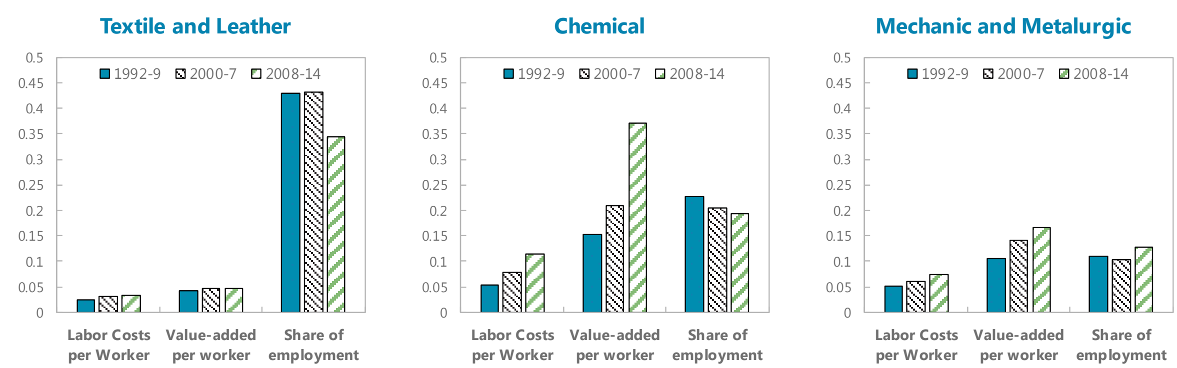
Change in Employment Levels by Age
(Percent)



Sources: Haut Commissariat au Plan; and IMF staff estimates.

Skill mismatches, high labor costs and rigid regulations remain important constraints on job creation and formalization, especially for women and youth. Score of Moroccan students at international tests are low, dropout rates are high, and 72 percent of students leave the education system without qualification. Literacy rates in rural areas are particularly low, especially among women. The majority of Moroccan students follow studies in social sciences at the expense of technical careers, which leads to skills mismatches. Labor market regulations are inflexible for hiring and layoffs. Lastly, compared to neighboring countries, Morocco has one of the highest ratio of minimum to average wages,[1] which has an adverse impact on employment and job formalization for women and youth.[2]

Labor Costs, Value-Added, and Employment in Manufacturing Sub-Sectors



Sources: Ministry of Industry, Trade, Investment, and the Digital Economy; and IMF staff estimates.
Note: Share of employment is calculated from total employment in the manufacturing sector.

[1] Angel-Urdinola et al., May 2015, "Social Protection and Labor Brief."
[2] Angel-Urdinola et al., Aug. 2016, "Are Minimum Wages and Payroll Taxes a Constraint to the Creation of Formal Jobs in Morocco?" shows that Morocco could reduce unemployment rates for youth and women by 5–20 percent and informal workers by 20–75 percent, through the implementation of a 10–25 percent decrease in minimum wages and 5–15 percent decrease in payroll taxes.

Table 1. Morocco: Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Structurally weak growth in key advanced and emerging economies.	High/ Medium	Medium Term	**High.** Weak external demand for Morocco's exports, particularly from the euro area, could weaken growth and the external position.	Diversify export composition and markets, implement structural reforms to boost competitiveness. Greater exchange rate flexibility can help absorb external shocks.
Significant slowdown in other large EMs/frontier economies.	Medium	Short Term	**Low.** Whereas direct links to large EMs are limited, low growth in EMs could spill back to Morocco's advanced economy trading partners. Low growth in frontier markets where Moroccan banks are present could pose a risk, for instance through elevated NPLs.	
Rise in populism and nationalism in large economies—especially those with near-term elections—could slow down or even reverse policy coordination and collaboration; international trade liberalization; financial, and labor flows; and lead to unsustainable policies, weighing on global growth and exacerbating financial market volatility.	High	Medium to Short Term	**High.** An increase in protectionism could impact FDI in emerging sectors, impacting exports; reduced activity could lower growth.	
Heightened risk of fragmentation/security dislocation in parts of the Middle East, Africa, and Europe.	High	Short Term	**High**. Negative sentiment could reduce Morocco's tourism receipts, and impair investor confidence, reducing FDI inflows. Disruptions in oil supply could increase oil prices, raising oil import costs.	
Tighter, more volatile global financial conditions, including a sharp rise in risk premia with a flight to safety.	Medium	Short Term	**Low**. External debt is only about 30 percent of GDP, with long maturities, and foreign portfolio investments are moderate. The effect of surges in the US dollar on the dirham could be countered with the expected decline in the Euro. Foreign exchange exposures in the corporate and banking sectors are limited.	Increase policy responsiveness by further reducing vulnerabilities and building fiscal and external buffers. Greater exchange rate flexibility can help absorb external shocks.
Reduced financial services by global/regional banks ("de-risking")	High	Medium Term	**Low**. A decline in correspondent banking services could curtail cross-border payments, trade finance, FDI, and remittances, especially vis-à-vis domestic banks. However, most cross-border transactions are denominated in euro, while de-risking is mainly in US$.	Continue to strengthen bank supervision and resolution frameworks; build external and fiscal buffers to increase policy space.
Persistently lower energy prices, triggered by supply factors reversing more gradually than expected.	Low	Medium Term	**High**. A reduced oil import bill would improve Morocco's external position; lower domestic fuel prices would boost consumption.	Preserve gains from lower oil prices; reduce long term reliance on energy imports.
Slower than expected pace of reforms.	Low	Medium Term	**Medium**. Increase in fiscal vulnerabilities, low potential growth, and potential drop in domestic and foreign investor confidence.	Build consensus on reforms needed to reduce vulnerabilities and foster higher and more inclusive growth (such as improved governance).

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is staff's subjective assessment of the risks surrounding the baseline ("low is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Table 2. Morocco: Selected Economic Indicators 2012–21

							Proj.					
					PLL 1/	Rev.	PLL 1/	Rev.				
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021
					(Annual percentage change)							
Output and Prices												
Real GDP	3.0	4.5	2.6	4.5	1.8	1.5	4.8	4.4	3.9	4.1	4.4	4.5
Real agriculture GDP	-9.1	17.2	-2.2	12.8	-10.5	-9.8	13.7	10.8	5.7	5.6	5.4	5.4
Real non-agriculture GDP	4.7	2.9	3.2	3.5	3.5	3.0	3.6	3.5	3.7	3.9	4.2	4.3
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.2	1.5	1.3	1.2	1.5	2.0	2.0	2.0
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.3	1.6	1.3	1.2	1.5	2.0	2.0	2.0
					(In percent of GDP)							
Investment and Saving												
Gross capital formation	35.0	34.8	32.2	30.2	30.2	31.2	30.7	32.1	33.0	33.6	34.0	34.3
Of which: Nongovernment	29.6	29.8	26.8	24.7	25.2	26.0	25.7	27.4	27.9	28.3	28.5	28.7
Gross national savings	25.7	27.2	26.6	28.1	29.0	28.3	29.3	29.8	31.1	31.6	32.3	32.9
Of which: Nongovernment	26.1	25.8	24.5	25.2	25.8	25.0	25.0	26.7	26.6	26.3	26.5	26.7
					(In percent of GDP)							
Public Finances												
Revenue	28.0	27.8	28.1	26.5	26.9	26.7	27.5	26.0	26.9	27.6	27.9	28.0
Expenditure	35.3	33.0	33.0	30.9	30.4	30.2	30.5	29.1	29.5	30.0	30.3	30.4
Budget balance	-7.3	-5.2	-4.9	-4.4	-3.5	-3.5	-3.0	-3.0	-2.6	-2.5	-2.4	-2.4
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-2.1	-1.9	-1.8	-1.3	-1.4	-1.0	-0.3	-0.4	-0.3
Cyclically-adjusted primary balance (excl. grants)	-5.0	-3.0	-3.1	-1.8	-1.8	-1.6	-1.3	-1.3	-1.0	-0.3	-0.4	-0.6
Total government debt	58.3	61.7	63.5	64.1	64.4	64.3	63.8	63.8	62.9	61.5	60.0	58.7
					(Annual percentage change; unless otherwise indicated)							
Monetary Sector												
Credit to the private sector 2/	4.8	3.8	2.5	1.9	4.5	4.8	...	5.1	...	...	...	...
Base money	-0.5	9.0	6.2	5.7	5.5	6.0	...	6.0	...	...	...	...
Broad money	4.5	3.1	6.2	5.7	5.5	6.0	...	6.0	...	...	...	...
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	...	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	-7.0	4.4	3.0	6.7	5.4	7.0	7.5	7.7	7.8
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	6.5	3.9	5.3	5.6	6.6	6.5
Merchandise trade balance	-22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-14.4	-15.8	-15.5	-15.0	-14.9	-14.6
Current account excluding official transfers	-9.6	-8.3	-7.4	-2.6	-2.3	-3.8	-2.3	-3.3	-2.8	-2.2	-1.9	-1.6
Current account including official transfers	-9.3	-7.6	-5.7	-2.2	-1.2	-2.9	-1.4	-2.3	-1.8	-2.0	-1.8	-1.4
Foreign direct investment	2.4	2.8	2.8	2.6	2.5	2.0	2.4	2.1	2.1	2.2	2.2	2.3
Total external debt	28.5	29.3	33.2	33.4	32.6	32.8	32.1	31.9	30.8	29.5	28.3	27.2
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	26.7	25.7	30.2	27.6	30.0	32.5	35.5	39.1
In months of next year imports of goods and services	4.3	4.6	6.0	6.3	7.1	6.8	7.6	6.9	7.1	7.2	7.4	7.7
In percent of Fund reserve adequacy metric 3/	75.6	74.3	80.0	94.6	102.8	99.5	109.6	101.7	104.8	106.1	109.8	114.5
In percent of CA deficit and ST debt at rem. mat. basis	156	189	257	527	698	463	847	606	735	596	850	1,021
Memorandum Items:												
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	109.9	100.6	104.9	103.6	111.1	106.6	111.8	118.4	125.7	133.3
Output gap (percentage points of GDP)	0.9	-0.8	-0.3	1.0	...	-2.0	...	0.8	-0.1	0.1	0.0	0.0
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	...	...	...	...	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.8	33.8	34.2	34.2	34.5	34.8	35.1	35.4
Population growth (in percent)	1.04	1.02	0.99	0.98	0.97	0.97	0.95	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	-6.8	-5.7	-5.7	-6.4	-6.4	-6.6	-6.8	-7.1	-7.3
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	...	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3	...	...	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ Includes credit to public enterprises.
3/ Based on revised ARA weights.

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

(Billions of dirhams)

					PLL 1/	Rev.	PLL 1/	Rev.	Proj.			
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021
Revenue	237.7	250.0	259.3	260.4	273.3	270.4	294.2	275.9	299.9	324.7	347.9	371.3
Taxes	202.7	200.7	203.8	209.6	220.5	222.9	236.0	231.8	254.4	285.6	306.4	327.4
Taxes on income, profits, and capital gains	77.4	75.7	76.3	79.0	84.6	85.4	89.7	89.1	99.8	114.4	121.0	129.0
Taxes on property	11.6	11.7	13.9	14.7	15.1	15.1	16.3	15.7	18.3	19.3	20.4	21.6
Taxes on goods and services	99.0	100.0	100.7	102.7	106.9	106.9	115.1	111.8	121.3	136.1	148.2	158.9
Taxes on international trade and transactions	9.4	8.1	8.1	8.1	8.3	9.9	9.0	9.3	9.0	9.4	10.1	10.8
Other taxes	5.4	5.2	4.7	5.2	5.6	5.6	5.9	5.9	6.0	6.4	6.7	7.1
Grants	0.5	6.1	13.8	5.0	11.6	9.3	10.0	9.8	9.9	1.5	1.5	1.5
Other revenue	34.6	43.2	41.7	45.9	41.2	38.2	48.2	34.3	35.6	37.7	39.9	42.3
Expense	253.2	250.8	255.4	248.6	258.3	253.7	272.9	257.2	271.6	291.3	308.8	327.8
Compensation of employees	108.9	112.8	117.3	118.2	125.3	122.2	131.2	125.2	130.1	131.8	135.3	138.7
Of which: wages and salaries	96.7	99.0	101.6	102.7	106.8	104.4	111.0	106.7	108.2	109.9	111.8	113.5
social contributions	12.2	13.7	15.7	15.5	18.6	17.8	20.2	18.5	21.8	21.9	23.5	25.2
Use of goods and services and grants	56.6	59.3	65.0	72.4	74.6	74.6	79.5	76.1	83.0	93.7	102.9	112.1
Of which: Use of goods and services	20.9	21.5	23.6	25.1	26.3	26.3	28.1	26.2	28.4	30.1	33.0	34.0
Grants	35.6	37.8	41.4	47.3	48.3	48.3	51.4	49.9	54.5	63.6	69.9	78.1
Interest	20.7	23.3	25.6	27.3	28.3	27.1	27.9	27.6	27.4	27.0	26.9	28.1
Subsidies	54.9	41.6	32.6	14.0	11.7	11.7	9.6	14.6	8.9	9.4	10.0	10.6
Other expenses 2/	12.1	13.9	14.8	16.8	18.3	18.0	24.6	13.7	22.3	29.4	33.7	38.4
Net acquisition of nonfinancial assets	46.1	45.7	49.7	54.5	51.0	52.5	53.6	50.8	56.8	62.4	68.6	74.1
Net lending / borrowing (overall balance)	-61.5	-46.5	-45.7	-42.7	-36.0	-35.8	-32.3	-32.1	-28.5	-28.9	-29.6	-30.7
Net lending / borrowing (excluding grants)	-61.9	-52.6	-59.6	-47.7	-47.6	-45.1	-42.3	-41.9	-38.4	-30.4	-31.1	-32.2
Change in net financial worth	-61.5	-46.5	-45.7	-42.7	-36.0	-35.8	-32.3	-32.1	-28.5	-28.9	-29.6	-30.7
Net acquisition of financial assets	-3.3	4.3	-2.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.3	4.3	-2.0	0.0	0.0	1.0	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	1.0	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	42.7	36.0	36.8	32.3	32.1	28.5	28.9	29.6	30.7
Domestic	55.8	42.2	45.5	42.4	33.6	33.6	35.5	30.0	26.8	26.3	25.9	27.4
Currency and Deposits	0.0	0.0	0.0	0.0	-10.0	-12.0	-4.0	-8.0	-4.0	-4.0	-4.0	-4.0
Securities other than shares	60.6	50.7	49.4	50.5	23.6	21.6	31.5	22.0	22.8	22.3	21.9	23.4
Other accounts payable	-4.8	-8.6	-3.9	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	2.4	8.6	-1.9	0.3	2.4	3.2	-3.2	2.2	1.8	2.6	3.6	3.2
Memorandum Item:												
Total investment (including capital transfers)	58.1	59.6	64.4	71.3	69.3	70.5	78.2	64.5	79.0	91.8	102.3	112.5
GDP	847.9	897.9	923.7	982.2	1,017.2	1,012.7	1,071.0	1,060.1	1,113.1	1,177.1	1,247.5	1,323.2

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

1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.

2/ Includes capital transfers to public entities.

Table 4. Morocco: Budgetary Central Government Finance, 2012–21
(Percent of GDP)

							Proj.					
					PLL 1/	Rev.	PLL 1/	Rev.				
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021
Revenue	28.0	27.8	28.1	26.5	26.9	26.7	27.5	26.0	26.9	27.6	27.9	28.1
Taxes	23.9	22.3	22.1	21.3	21.7	22.0	22.0	21.9	22.9	24.3	24.6	24.7
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.3	8.4	8.4	8.4	9.0	9.7	9.7	9.8
Taxes on property	1.4	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Taxes on goods and services	11.7	11.1	10.9	10.5	10.5	10.6	10.7	10.5	10.9	11.6	11.9	12.0
Taxes on international trade and transactions	1.1	0.9	0.9	0.8	0.8	1.0	0.8	0.9	0.8	0.8	0.8	0.8
Other taxes	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.6	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	0.5	1.1	0.9	0.9	0.9	0.9	0.1	0.1	0.1
Other revenue	4.1	4.8	4.5	4.7	4.0	3.8	4.5	3.2	3.2	3.2	3.2	3.2
Expense	29.9	27.9	27.6	25.3	25.4	25.1	25.5	24.3	24.4	24.7	24.8	24.8
Compensation of employees	12.8	12.6	12.7	12.0	12.3	12.1	12.3	11.8	11.7	11.2	10.8	10.5
Of which: wages and salaries	11.4	11.0	11.0	10.5	10.5	10.3	10.4	10.1	9.7	9.3	9.0	8.6
social contributions	1.4	1.5	1.7	1.6	1.8	1.8	1.9	1.7	2.0	1.9	1.9	1.9
Use of goods and services and grants	6.7	6.6	7.0	7.4	7.3	7.4	7.4	7.2	7.5	8.0	8.2	8.5
Of which: Use of goods and services	2.5	2.4	2.6	2.6	2.6	2.6	2.6	2.5	2.6	2.6	2.6	2.6
Grants	4.2	4.2	4.5	4.8	4.7	4.8	4.8	4.7	4.9	5.4	5.6	5.9
Interest	2.4	2.6	2.8	2.8	2.8	2.7	2.6	2.6	2.5	2.3	2.2	2.1
Subsidies	6.5	4.6	3.5	1.4	1.2	1.2	0.9	1.4	0.8	0.8	0.8	0.8
Other expenses 2/	1.4	1.5	1.6	1.7	1.8	1.8	2.3	1.3	2.0	2.5	2.7	2.9
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.5	5.0	5.2	5.0	4.8	5.1	5.3	5.5	5.6
Net lending / borrowing (overall balance)	-7.3	-5.2	-4.9	-4.4	-3.5	-3.5	-3.0	-3.0	-2.6	-2.5	-2.4	-2.3
Net lending / borrowing (excluding grants)	-7.3	-5.9	-6.4	-4.9	-4.7	-4.5	-3.9	-4.0	-3.4	-2.6	-2.5	-2.4
Change in net financial worth	-7.3	-5.2	-4.9	-4.4	-3.5	-3.5	-3.0	-3.0	-2.6	-2.5	-2.4	-2.3
Net acquisition of financial assets	-0.4	0.5	-0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	0.5	-0.2	0.0	0.0	0.1	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	0.1	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	4.4	3.5	3.6	3.0	3.0	2.6	2.5	2.4	2.3
Domestic	6.6	4.7	4.9	4.3	3.3	3.3	3.3	2.8	2.4	2.2	2.1	2.1
Currency and Deposits	0.0	0.0	0.0	0.0	-1.0	-1.2	-0.4	-0.8	-0.4	-0.3	-0.3	-0.3
Securities other than shares	7.1	5.6	5.4	5.1	2.3	3.3	3.3	2.8	2.4	2.2	2.1	2.1
Other accounts payable	-0.6	-1.0	-0.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	1.0	-0.2	0.0	0.2	0.3	-0.3	0.2	0.2	0.2	0.3	0.2
Memorandum items:												
Total investment (including capital transfers)	6.9	6.6	7.0	7.3	6.8	7.0	7.3	6.1	7.1	7.8	8.2	8.5

Sources: Ministry of Economy and Finance; and IMF staff estimates.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ Includes capital transfers to public entities.

Table 5. Morocco: Balance of Payments, 2012–22
(In billions of US dollars, unless otherwise indicated)

					Proj.								
					PLL 1/	Rev.	PLL 1/	Rev.					
	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021	2022
Current account	-9.2	-8.1	-6.2	-2.2	-1.3	-3.0	-1.5	-2.5	-2.1	-2.4	-2.2	-1.9	-1.7
Trade balance	-21.9	-21.9	-20.6	-14.7	-15.0	-16.5	-16.0	-16.8	-17.3	-17.8	-18.7	-19.4	-20.1
Exports, f.o.b.	17.0	18.3	20.0	18.6	19.4	19.1	20.8	20.3	22.0	23.9	25.9	28.3	30.8
Food products	3.5	4.0	4.3	4.2	4.4	4.7	5.0	5.1	5.6	6.1	6.5	7.0	7.5
Phosphates and derived products	5.6	4.4	4.6	4.5	3.9	3.7	4.1	4.1	4.4	4.8	5.2	5.6	5.9
Automobiles	2.9	3.7	4.8	5.0	5.8	5.6	6.4	6.0	6.7	7.4	8.2	9.0	9.9
Imports, f.o.b.	-38.9	-40.2	-40.6	-33.3	-34.4	-35.6	-36.8	-37.2	-39.3	-41.7	-44.6	-47.7	-50.9
Energy	-12.4	-12.2	-11.0	-6.8	-5.7	-5.7	-6.4	-6.4	-6.6	-6.8	-7.1	-7.3	-7.5
Capital goods	-8.5	-9.8	-10.1	-9.6	-9.7	-10.6	-10.0	-10.8	-11.5	-12.3	-13.2	-14.0	-14.8
Food products	-4.8	-4.3	-5.0	-3.6	-4.5	-4.7	-4.0	-4.8	-5.1	-5.5	-5.8	-6.2	-6.5
Services	6.9	6.4	7.0	6.8	6.7	7.1	7.2	7.5	8.1	8.8	9.5	10.2	11.0
Tourism receipts	6.7	6.9	7.1	6.3	6.2	6.6	6.6	6.8	7.3	7.8	8.4	8.9	9.6
Income	-1.9	-1.3	-2.7	-1.9	-1.9	-1.9	-2.0	-1.9	-2.0	-2.2	-2.3	-2.4	-2.5
Transfers	7.7	8.7	10.0	7.7	8.9	8.4	9.2	8.8	9.2	8.8	9.2	9.7	10.0
Private transfers (net)	7.4	7.9	8.1	7.2	7.7	7.5	8.1	7.8	8.1	8.6	9.0	9.5	10.0
Workers' remittances	6.7	6.8	7.1	6.3	6.6	6.5	7.0	6.7	7.1	7.4	7.8	8.2	8.6
Official grants (net)	0.2	0.8	1.9	0.5	1.1	0.9	1.1	1.0	1.0	0.2	0.2	0.2	0.0
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	0.0
Financial account	6.2	9.4	8.8	5.8	4.4	5.8	4.9	4.5	4.5	4.8	5.2	5.5	5.6
Direct investment	2.3	3.0	3.1	2.6	2.6	2.0	2.7	2.3	2.4	2.6	2.8	3.1	3.4
Portfolio investment	1.6	1.3	3.0	1.3	0.1	0.0	1.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.2	5.1	2.7	1.8	1.7	3.7	1.1	2.1	2.0	2.1	2.3	2.3	2.1
Private	1.0	2.8	1.3	0.9	0.9	3.1	0.9	1.4	1.5	1.6	1.6	1.7	1.7
Public medium-and long-term loans (net)	1.3	2.4	1.4	1.1	0.8	0.6	0.2	0.7	0.5	0.6	0.7	0.6	0.4
Disbursements	2.9	4.1	3.2	2.7	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	3.5
Amortization	-1.6	-1.8	-1.8	-1.6	-1.8	-2.1	-2.4	-1.8	-2.0	-1.9	-1.8	-1.9	-3.1
Reserve asset accumulation (-increase)	3.3	-1.8	-3.2	-4.3	-3.1	-2.7	-3.3	-2.0	-2.4	-2.4	-3.0	-3.6	-4.0
Errors and omissions	-0.3	0.5	0.6	0.7	0.0	0.0	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	-2.2	-1.2	-2.9	-1.4	-2.3	-1.8	-2.0	-1.8	-1.4	-1.2
Trade balance	-22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-14.4	-15.8	-15.5	-15.0	-14.9	-14.6	-14.2
Exports, f.o.b.	17.3	17.1	18.2	18.5	18.4	18.4	18.7	19.1	19.7	20.2	20.6	21.2	21.7
Food products	3.6	3.7	3.9	4.2	4.2	4.5	4.5	4.8	5.0	5.2	5.2	5.3	5.3
Phosphates and derived products	5.7	4.2	4.1	4.5	3.7	3.6	3.7	3.9	4.0	4.0	4.1	4.2	4.2
Automobiles	3.0	3.5	4.4	4.9	5.5	5.4	5.8	5.7	6.0	6.2	6.5	6.8	7.0
Imports, f.o.b.	-39.6	-37.7	-36.9	-33.1	-32.8	-34.4	-33.1	-34.9	-35.2	-35.2	-35.5	-35.8	-36.0
Energy	-12.6	-11.4	-10.0	-6.7	-5.5	-5.5	-5.7	-6.0	-5.9	-5.8	-5.6	-5.5	-5.3
Capital goods	-8.6	-9.1	-9.2	-9.5	-9.3	-10.3	-9.0	-10.1	-10.3	-10.4	-10.5	-10.5	-10.5
Food products	-4.9	-4.0	-4.5	-3.6	-4.3	-4.5	-3.6	-4.5	-4.6	-4.6	-4.6	-4.6	-4.6
Services	7.1	6.0	6.4	6.7	6.4	6.8	6.5	7.1	7.2	7.4	7.5	7.7	7.8
Tourism receipts	6.8	6.4	6.4	6.2	5.9	6.3	5.9	6.4	6.5	6.6	6.7	6.7	6.8
Income	-1.9	-1.2	-2.4	-1.9	-1.8	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Transfers	7.8	8.1	9.1	7.6	8.5	8.1	8.3	8.2	8.2	7.4	7.4	7.3	7.1
Private transfers (net)	7.6	7.4	7.4	7.1	7.4	7.2	7.3	7.3	7.3	7.2	7.2	7.1	7.1
Workers' remittances	6.9	6.4	6.5	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.2	6.2	6.1
Official grants (net)	0.2	0.7	1.7	0.5	1.1	0.8	1.0	1.0	0.9	0.2	0.2	0.2	0.0
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	0.0
Financial account	6.3	8.8	8.0	5.7	4.2	5.6	4.4	4.2	4.0	4.1	4.1	4.1	4.0
Direct investment	2.4	2.8	2.8	2.6	2.5	2.0	2.4	2.1	2.1	2.2	2.2	2.3	2.4
Portfolio investment	1.6	1.3	2.8	1.3	0.1	0.0	1.0	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.3	4.8	2.4	1.8	1.6	3.6	1.0	2.0	1.8	1.8	1.8	1.7	1.5
Private 3/	1.0	2.6	1.2	0.9	0.9	3.0	0.8	1.3	1.3	1.3	1.3	1.2	1.2
Public medium-and long-term loans (net)	1.3	2.2	1.2	1.0	0.8	0.5	0.2	0.6	0.5	0.5	0.5	0.5	0.3
Disbursements	2.9	3.9	2.9	2.7	2.5	2.5	2.3	2.4	2.2	2.1	2.0	1.9	2.5
Amortization	-1.6	-1.7	-1.6	-1.6	-1.7	-2.0	-2.2	-1.7	-1.8	-1.6	-1.5	-1.4	-2.2
Memorandum items:													
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	4.4	3.0	6.7	5.4	7.0	7.5	7.7	7.8	7.8
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	6.5	3.9	5.3	5.6	6.6	6.5	6.5
Current account balance excluding official grants (percent of GDP)	-9.6	-8.3	-7.4	-2.6	-2.3	-3.8	-2.4	-3.3	-2.8	-2.2	-1.9	-1.6	-1.2
Terms of trade (percentage change) 2/	-12.4	-5.7	-1.2	10.9	3.0	1.6	-2.3	-2.7	-0.6	-0.2	-0.4	-0.2	-0.3
Gross official reserves 3/	17.4	19.0	20.5	23.0	26.7	25.7	30.2	27.6	30.0	32.5	35.5	39.1	43.1
In months of prospective imports of GNFS	4.3	4.6	6.0	6.3	7.1	6.8	7.6	6.9	7.1	7.2	7.4	7.6	8.7
In percent of the Assessing Reserve Adequacy (ARA) metric 4/	75.6	74.3	80.0	94.6	102.8	99.5	109.6	101.7	104.8	106.1	109.8	114.5	119.6
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	101.6	98.4	104.4	124.3	135.6	130.6	144.7	133.6	138.0	139.3	144.4	150.7	157.6
Debt service (percent of export of GNFS and remittances) 5/	6.5	7.0	6.7	6.8	6.8	7.7	7.9	8.0	6.6	6.1	7.7	5.3	6.8
External public and publicly guaranteed debt (percent of GDP)	25.1	26.1	30.1	30.6	30.4	30.3	29.9	29.5	28.6	27.6	26.6	25.5	25.1
DHs per US$, period average	8.6	8.4	8.4	9.8	...	...	...	...	...	...	...	...	...
GDP (US$)	98.3	106.8	109.9	100.6	104.9	103.6	111.1	106.6	111.8	118.4	125.7	133.3	141.5
Oil price (US$/barrel; Brent)	112.0	108.8	98.9	52.4	43.1	44.0	50.0	53.5	55.1	55.5	56.7	58.0	59.2

Sources: Ministry of Finance; *Office des Changes*; and IMF staff estimates and projections.
1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.
2/ Based on WEO data for actual and projections.
3/ Excluding the reserve position in the Fund.
4/ Based on revised ARA weights.
5/ Public and publicly guaranteed debt.

Table 6. Morocco: Monetary Survey, 2011–16

	2011	2012	2013	2014	2015	PLL 1/ 2016	Rev. 2016
	(Billions of dirhams)						
Net foreign assets	172.2	143.5	148.6	181.9	224.6	246.9	249.0
Of which: Gross reserves	175.4	146.7	155.3	185.6	227.9	253.9	254.0
Deposit money banks	1.7	2.7	-1.5	0.1	8.2	8.2	8.2
Net domestic assets	777.1	848.6	874.2	904.3	924.1	964.9	968.6
Domestic credit	798.3	855.0	906.5	920.1	938.8	976.5	972.8
Net claims on the government	102.1	125.4	149.3	143.7	147.4	147.5	142.4
Banking system	102.1	125.4	149.3	143.7	147.4	147.5	142.4
Bank Al-Maghrib	2.2	0.5	0.8	-0.1	-1.2	-1.4	-1.4
Of which: deposits	-3.4	-4.5	-4.6	-4.6	-6.0	-6.2	-6.1
Deposit money banks	99.9	124.9	148.5	143.8	148.6	148.9	143.8
Credit to the economy	696.2	729.6	757.2	776.4	791.4	829.0	830.4
Other liabilities, net	23.0	9.0	30.7	15.8	23.0	11.5	4.2
Broad money	949.3	992.2	1,022.8	1,086.2	1,148.7	1,211.8	1,217.6
Money	586.8	612.2	628.9	660.6	707.7	750.2	749.3
Currency outside banks	158.3	163.6	171.4	179.4	192.3	199.1	198.3
Demand deposits	428.5	448.5	457.6	481.2	515.4	551.0	551.0
Quasi money	340.9	354.7	370.8	390.7	401.7	417.7	417.7
Foreign deposits	21.6	25.3	23.1	35.0	39.3	43.9	50.6
	(Annual percentage change)						
Net foreign assets	-11.7	-15.9	0.6	23.7	28.0	13.0	11.2
Net domestic assets	11.8	9.2	3.0	3.4	2.2	4.4	4.8
Domestic credit	11.6	7.1	6.0	1.5	2.0	4.0	3.6
Net claims on the government	25.8	22.8	19.0	-3.7	2.6	0.0	-3.4
Credit to the economy	9.8	4.8	3.8	2.5	1.9	4.7	4.9
Banking credit	10.6	3.9	2.2	2.2	2.8	4.2	4.5
Broad money	6.4	4.5	3.1	6.2	5.7	5.5	6.0
	(Change in percent of broad money)						
Net foreign assets	-2.6	-2.9	0.1	3.4	4.7	2.6	2.3
Domestic credit	9.3	6.0	5.2	1.3	1.7	3.3	3.0
Net claims on the government	2.3	2.5	2.4	-0.5	0.3	0.0	-0.4
Credit to the economy	6.9	3.5	2.8	1.9	1.4	3.3	3.4
Other assets net	-0.3	1.5	-2.2	1.5	-0.7	1.0	1.6
Memorandum items:							
Velocity (GDP/M3)	0.86	0.85	0.88	0.85	0.86	0.84	0.83
Velocity (non-agr. GDP/M3)	0.76	0.76	0.77	0.76	0.75	0.74	0.73
Credit to economy/GDP (in percent)	84.9	86.0	84.3	84.1	80.6	81.5	82.0
Credit to economy/nonagricultural GDP (in percent)	96.7	97.2	96.4	94.2	91.3	92.1	92.9

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

1/Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.

Table 7. Morocco: Financial Soundness Indicators, 2008–16
(Percent, unless otherwise indicated)

									2016	
	2008	2009	2010	2011	2012	2013	2014	2015	Jun	Sep
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	13.7 (*)	na
Tier 1 capital to risk weighted assets	9.6	9.2	9.7	9.6	10.2	11.1	11.6	11.4	11.1 (*)	na
Capital to assets	6.9	7.2	8.3	8.1	8.5	8.6	8.8	9.1	9.4	9.3
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	18.5	na
Of which: agro-business	3.3	3.6	3.8	3.4	3.2	3.6	3.5	3.5	3.3	3.4
Of which: textile	1.7	1.9	1.4	1.3	1.2	1.0	0.9	0.9	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	6.3	6.2
Agriculture	4.1	3.4	4.1	4.2	4.1	4.1	3.9	4.4	4.1	4.2
Commerce	6.5	7.0	6.7	6.6	6.7	6.2	6.6	6.1	6.7	6.5
Construction	15.9	14.1	13.3	13.9	12.6	12.4	12.2	11.2	11.4	11.6
Tourism	2.6	3.2	2.9	2.8	2.9	2.4	2.4	2.1	2.1	2.1
Finance	13.1	12.5	12.1	11.9	11.0	12.7	11.6	13.4	11.8	11.6
Public administration	3.7	4.3	5.0	4.8	5.0	5.0	4.7	4.5	4.9	4.5
Transportation and communication	4.5	4.2	4.0	4.1	4.0	3.8	3.7	4.2	4.6	4.4
Households	26.5	27.6	28.1	27.6	28.9	29.7	31.4	32.3	32.8	33.3
Other	4.4	5.4	5.4	5.5	6.4	5.1	4.2	3.3	3.1	3.0
FX-loans to total loans	2.4	2.5	2.5	3.5	2.9	2.7	3.9	2.5	2.6	2.6
Credit to the private sector to total loans	93.3	91.0	91.0	92.0	91.0	91.0	91.0	91.0	90.5	90.9
Nonperforming Loans (NPLs) to total loans	6.0	5.5	4.8	4.8	5.0	5.9	6.9	7.4	7.7	8.0
Specific provisions to NPLs	75.3	74.1	70.1	68.7	67.8	64.0	65.0	68.0	67.0	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	18.4	18.7
Large exposures to Tier 1 capital	314.0	376.0	336.0	354.0	347.0	327.0	341.0	294.0	302	na
Loans to subsidiaries to total loans	6.4	6.7	6.1	6.3	5.4	7.2	6.8	7.0	7.2	5.8
Loans to shareholders to total loans	2.0	1.0	0.8	1.2	1.0	1.3	1.4	1.7	1.4	0.7
Specific provisions to total loans	4.5	4.0	3.4	3.5	3.3	3.8	4.5	5.0	5.1	5.3
General provisions to total loans	0.2	0.1	0.2	0.3	0.7	0.7	0.8	0.8	0.8	0.9
Profitability										
Return on assets (ROA)	1.2	1.2	1.2	1.1	1.0	1.0	0.9	0.8	1.1	na
Return on equity (ROE)	16.7	15.2	14.2	13.4	11.8	10.6	10.2	9.1	11.7	na
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	3.8	na
Interest return on credit	5.8	5.8	5.7	5.7	5.6	5.5	5.5	5.0	5.0	na
Cost of risk as a percent of credit	0.4	0.5	0.5	0.5	0.8	0.9	1.0	1.1	1.2	na
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	67.9	na
Operating expenses to NPB	47.8	47.5	46.4	47.9	47.5	47.7	46.1	49.1	43.9	na
Operating expenses to total assets	1.7	1.7	1.8	1.9	1.8	1.8	1.9	1.9	1.9	na
Personnel expenses to noninterest expenses	51.9	49.7	49.1	49.4	49.2	48.4	47.6	47.4	47.6	na
Trading and other noninterest income to NPB	21.9	23.3	23.7	24.2	23.4	26.0	30.8	28.0	32.1	na
Liquidity										
Liquid assets to total assets	24.4	17.3	12.0	11.4	10.5	12.5	13.3	16.2	13.0	13.1
Liquid assets to short-term liabilities	24.7	23.0	16.0	16.1	14.7	17.4	17.7		17.1	16.8
Deposits to loans	113.0	108.0	104.0	99.0	96.1	96.2	100.8	104.3	105.4	105.0
Deposits of state-owned enterprises to total deposits	5.1	4.8	5.2	2.9	3.4	2.0	2.5	2.9	1.9	2.0
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	…	5.6	na

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 8. 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	2,504.0	1,878.0	626.0
(In percent of quota)	140.0	280.0	280.0	280.0	210.0	70.0
Charges due on GRA credit	0.0	15.1	28.6	28.6	27.0	15.6
Principal due on GRA credit	0.0	0.0	0.0	0.0	626.0	1,252.0
Debt service due on GRA credit	0.0	15.1	28.6	28.6	653.0	1,267.6
Debt and debt service ratios						
In percent of GDP						
Total external debt	33.2	36.1	35.3	33.6	32.0	31.1
Public external debt	30.6	33.7	33.2	31.8	30.4	29.6
GRA credit to Morocco	1.9	3.6	3.5	0.8	0.6	0.1
Total external debt service	2.6	2.6	3.1	2.5	3.4	2.6
Public external debt service	2.6	2.4	2.3	2.4	2.4	3.2
Debt service due on GRA credit	0.0	0.0	0.0	0.0	0.2	0.3
In percent of gross international reserves						
Total external debt	134.2	142.2	136.5	129.4	122.0	115.8
Public external debt	123.5	132.7	128.2	122.4	115.9	110.4
GRA credit to Morocco	7.6	14.4	13.4	3.1	2.2	0.5
In percent of exports of goods and services						
Total external debt	103.1	114.2	116.6	118.8	120.1	124.0
Public external debt	94.9	106.5	109.4	112.3	114.0	118.2
GRA credit to Morocco	5.6	10.6	9.8	2.2	1.5	0.3
In percent of total external debt						
GRA credit to Morocco	5.5	9.2	8.4	1.9	1.3	0.3
In percent of public external debt						
GRA credit to Morocco	5.9	9.9	9.0	2.0	1.4	0.3
Memorandum items:						
Nominal GDP (in billions of U.S. dollars)	103.6	106.6	111.8	118.4	125.7	133.3
Gross international reserves (in billions of U.S. dollars)	25.7	27.0	28.9	30.8	33.0	35.7
Exports of goods and services (in billions of U.S. dollars)	34.4	36.8	39.4	42.6	45.8	49.4
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 9. Morocco: FSAP Key Recommendations—Status as of November 2016		
Recommendations	**Priority** [1/]	**Implementation Status**
Banking Regulation and Oversight		
Address banking supervisor's capacity constraints; strengthen on-site supervision capacity.	I	In progress. Internal reorganization implemented. Four net new hirings for on-site supervision since December 2015 (current total staff: 54)
Review loan classification and provisioning rules on a solo basis; conduct an impact study for implementing the relevant IFRS in coordination with tax authorities.	NT	In progress. Impact study underway. Circular to be finalized by first semester 2017, and currently in consultation phase with industry.
Advance recovery & resolution plans; more frequent comprehensive assessments for SIFIs	I/NT	In progress. Circular on R&R currently in consultation phase with industry, and expected to be issued by year end. New units dedicated to oversee individual SIFIs.
Macro prudential Oversight		
Clarify the powers, instruments and voting arrangements of the CCSRS.	I	In progress. New decree in preparation that will clarify the CCSRS's role in issuing recommendations and following up on implementation ("complain & explain" approach), and its voting arrangements.
Amend laws governing regulators for capital markets, and insurance and pensions to include financial stability objective.	I/NT	In progress at the level of each regulatory body.
Implementation countercyclical buffer; expand data coverage for the risk map; include more targeted sectoral instruments.	NT	Countercyclical buffers introduced in June 2016. Data coverage being expanded, including as regards real estate risks, household sector data, and payment delays for enterprises.
Emergency Liquidity Assistance (ELA)		
Separate BAM's ELA function clearly from government solvency support.	I	In progress. Amendment included in the draft central bank law to be approved in 2017.
Strengthen BAM's recapitalization process; review its profit distribution mechanism.	NT	In progress.
Early Intervention/Bank Resolution Framework		
Define the objectives of banking resolution; incorporate "the least-cost principle"	I	In progress. Comprehensive overhaul of legal framework for resolution has been initiated with TA support and with help from legal firm (in process of hiring). Estimated time frame for completion: up to three years.
Formalize the hierarchy of creditors' claims; introduce bail-in powers	I/NT	
Designate an explicit bank resolution authority; limit its legal liabilities in this mandate	I/NT	
Deposit Insurance		
Remove any type of open bank assistance via the deposit guarantee fund (DGF).	NT	In progress. Part of above overhaul of legal framework for resolution.
Grant DGF a priority over uninsured depositors and general creditors.	NT	
Financial Market Infrastructures		
Implement guarantee scheme and default handling procedures for securities transactions	I	In progress. A new legal body is being introduced, which will provide more flexibility in the use of collateral and reduce costs.
Strengthen BAM's oversight of the payment systems	NT	In progress.
Publish all policies applicable to FMIs and the disclosure framework of the SRBM	NT	

Table 9. Morocco: FSAP Key Recommendations—Status as of November 2016 (concluded)

Securities Market Regulation and Oversight		
Apply consistent regulations and supervision to all participants in securities markets	NT	In progress, as part of the ongoing revision of the legal framework for capital markets.
Strengthen enforcement in sanctions and fines imposed on individuals	NT	
Improve valuation of government securities and review valuation rules of mutual funds	NT	
Financial Inclusion		
Establish a well-resourced governance and a robust monitoring and evaluation framework	I	In progress, with GTZ and World Bank assistance.
Improve credit bureau data quality; expand data providers to non-financial institutions	I/NT	In progress. Second credit bureau to start operating in January 2017. New services introduced, including enterprise scoring and portfolio surveillance.
Review blanket ceiling on lending rates	NT	Partially done. Micro-credit institutions allowed higher-than-ceiling rates according to risk level.

[1/] "I-Immediate" is within one year; "NT-near-term" is one to three years; "MT-medium-term" is three to five years.

Annex I. Morocco: Implementation of Past Fund Advice

Policy implementation has been broadly in line with past Fund advice, but there is a need to speed up the implementation of key structural reforms.

1. Fiscal policy. The authorities continued fiscal consolidation, met the 2015 fiscal deficit target (4.5 percent of GDP), and remain committed to reducing public debt to 60 percent of GDP by 2020. Most of the new organic budget law provisions entered into force in January 2016, and the authorities plan to gradually implement the remaining provisions (including triennial budget and programming, making ceiling on wage appropriations binding, limiting the carryover of investment appropriations) by 2020. The parliament approved in July 2016 the parametric reform of the main public pension plan, which has started to be implemented. The authorities plan to gradually reduce certain remaining food subsidies (for wheat and sugar). Tax reforms continued with the removal of some exemptions and the introduction of corporate tax brackets, and the authorities prefer to assess the impact of these latest changes before revisiting them.

2. Monetary policy. Inflation remains low and inflation expectations are well-anchored. BAM reduced its main policy interest rate to 2.25 percent in March 2016. The authorities have decided to introduce greater exchange rate flexibility and inflation targeting starting in 2017.

3. Financial policies. Solid progress has been made in upgrading the financial policy framework, including implementing Basel III and FSAP recommendations. Most regulations to implement the new banking law have been introduced, with the exception of the crisis management and bank resolution frameworks. The authorities plan to submit the new central bank law for parliament approval in 2017.

4. Structural reforms. Morocco has made continued progress in the Doing Business ranking and in improving access to finance, but much remains to be done on the structural front, including to improve the business environment, competition and governance. Reforms are also needed to strengthen further the functioning of the job market and the quality of education outcomes and vocational training.

Annex II. External Sector Assessment

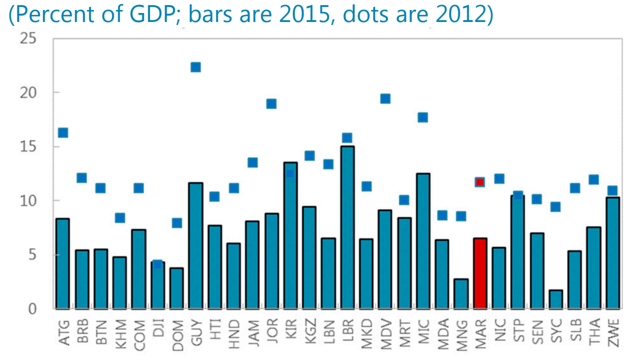
Morocco's external position is assessed as broadly consistent with fundamentals and desired policies. It has strengthened markedly since 2012, as narrowing current account deficits (due mainly to positive terms of trade movements) together with continued fiscal reform implementation reduced imbalances and strengthened reserves. Looking ahead, continued policy action to resolve remaining fiscal imbalances, increased exchange rate flexibility, and structural reform to improve the business climate and boost competitiveness would further bolster buffers and support the economy's resilience.

Current account and exchange rate

1. The trade deficit has improved markedly due to favorable oil prices and growth in emerging export sectors. Morocco's current account has been characterized by large trade deficits, a tourism-driven surplus in services, and strong remittances. The trade deficit in turn is highly sensitive to external demand, particularly from the Eurozone (2/3 of export market), and the price of oil, of which Morocco is one of the largest net importers. Since 2012, the sharp decline in oil prices has helped shrink the share of oil imports from 28 percent in 2012 to 18 percent in 2015. At the same time, the composition of exports has shifted toward higher value-added sectors, with automobile exports overtaking the traditional export engines, phosphate and textiles, in 2015. Tourism receipts, at about 6½ percent–7 percent of GDP, have remained robust despite low euro area growth, as markets have become more diversified. In the medium term, further growth in emerging export sectors, a diversification of markets, and structural reform implementation should support a slight narrowing of the trade deficit and improvement in the current account.

Net Oil Imports 2012 vs. 2015

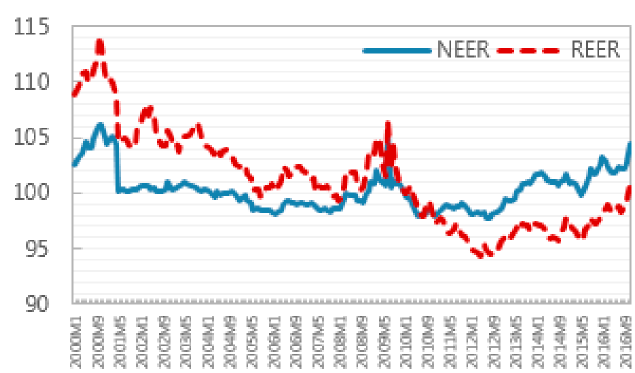
(Percent of GDP; bars are 2015, dots are 2012)



Source: National authorities; and IMF staff estimates.

Real and Nominal Effective Exchange Rates, 2000–16M11

(2010=100)



Source: National authorities; and IMF staff estimates.

2. The REER has been on an appreciating trend since mid-2012. The Moroccan dirham, which is pegged to the euro (60 percent of the basket) and US dollar (40 percent), depreciated since mid-2009, by nearly 5½ percent by late 2012. More recently, however, the REER has appreciated, driven primarily by inflation differentials with euro area trading partners. As of November 2016, the pace of appreciation had picked up at 3.7 percent y-o-y due to the strengthening of the US dollar and higher domestic food prices due to the year's drought.

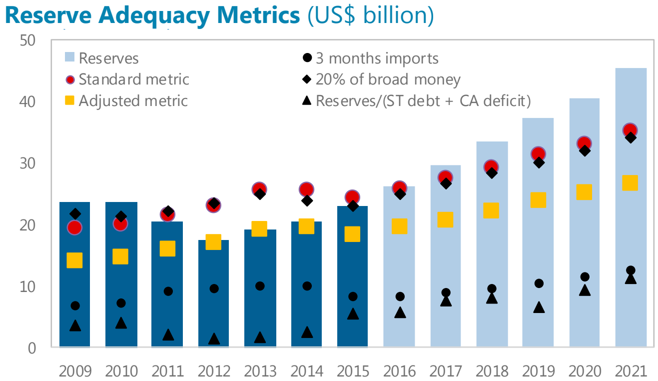
3. Morocco's external position is broadly consistent with that implied by fundamentals and desired policies. Based on the IMF's External Balance Assessment (EBA) Methodology, the *current account* (CA) method suggests a current account gap of -0.9 percent of GDP, down from 1.7 percent in April 2016, which corresponds to an over-valuation of the REER of 3.1 percent. This gap consists of a policy gap of 0.9 percent of GDP, comprising mainly a fiscal policy gap of -0.5 percent of GDP, a health spending gap of -0.3 percent of GDP, a credit gap of 0.3 percent of GDP, and a reserves gap of 0.6 percent of GDP; there is a sizeable residual of -1.9 percent of GDP. Over the medium term, planned fiscal consolidation, a recovery in credit growth, and the move to exchange rate flexibility should help close the current account gap. The *REER method* suggests an under-valuation of 6.4 percent; however, the underlying series on the home bias variable is limited for Morocco, which affects the robustness of the estimate.

CA Model		REER model	
Actual CA	-2.9%	ln(REER)	4.60
Cyclically adjusted CA	-3.4%	ln(REER)-Norm	4.66
CA Norm	-2.5%	**REER-Gap**	**-6.4**
CA Gap	**-0.9%**	ln(REER)-Fitted	4.66
o/w Policy gap	0.9	Residual	-0.06
Fiscal	*-0.5*	Policy gap	-0.01
Health	*-0.3*		
Reserves	*0.6*		
Credit	*0.3*		
Capital controls	*0.9*		
Residual	-1.9		
Elasticity	0.29		
REER gap	**3.1%**		
Source: IMF Staff calculations		Source: EBA-lite methodology; staff calculations	

Capital and financial accounts

4. FDI has been an integral part of the current account financing mix. At about 2.5 percent of GDP, FDI has been directed mainly toward the emerging industrial sectors (30 percent of all FDI in 2013–15) and real estate (25 percent). In the medium term, FDI is expected to further increase, due especially to expected investments in the aeronautics, chemicals, and automobile sectors. In terms of other financing, both the government and corporates have recently been able to issue bonds in international markets at favorable rates supported by an accommodative global financing environment. External debt is contained at about 30 percent of GDP and its structure poses limited risks at present (see Figure 6, External Debt Sustainability Assessment).

Reserve Adequacy Metrics (US$ billion)



Source: Office des Changes du Maroc; and IMF staff calculations.

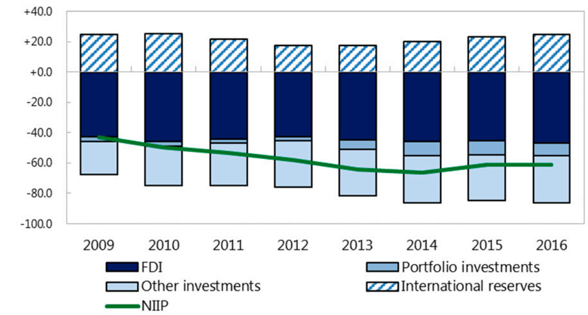
Reserves

5. Morocco's reserves are assessed as adequate based on a range of metrics. Reserve coverage has improved significantly as current account deficits have narrowed, currently amounting to a comfortable seven months of imports. Looking ahead, reserve coverage should improve to nearly 115 percent of the standard reserve adequacy metric (151 percent of the adjusted metric) in the medium term.

External balance sheet

6. Declining current account deficits have lifted Morocco's net international investment position (NIIP). The NIIP position weakened from -51 percent of GDP in 2011 to about -64 percent of GDP in 2013 (due mainly to increased portfolio and other investments); since then, the NIIP has strengthened to 62½ percent of GDP on the back of the strengthening reserves position (which has offset the continued increase in FDI). Looking ahead, Morocco's NIIP position should strengthen over the medium term to about -55 percent of GDP, as trade deficits narrow notwithstanding FDI growth.

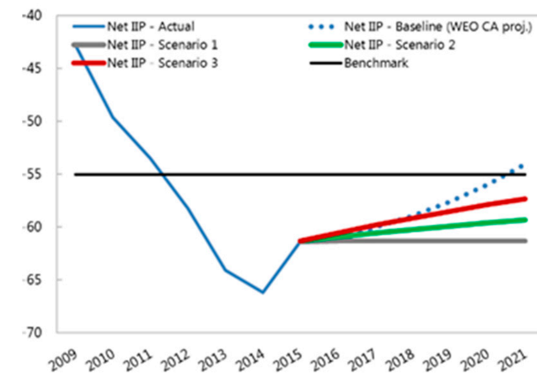
Composition of Net International Investment Position
(percent of GDP)



Sources: National authorities; and IMF staff calculations.

7. On balance, the dirham is broadly aligned with fundamentals. The EBA's external sustainability approach suggests that the current account is stronger than the level required to stabilize the IIP, suggesting an REER undervaluation of 9.7 (from 11.7 percent in April 2016). A current account deficit of 4.2 percent of GDP, weaker than projected in the baseline, would stabilize the IIP at its 2015 level of -61.3 percent of GDP (Scenario 1 below). To maintain the IIP at its ten-year average of about -55 percent of GDP (Scenario 2), a CA deficit of 3.8 percent is required; to reach this level in ten years, the CA deficit would need to strengthen to 3.4 percent of GDP (Scenario 3). Each of these scenarios implies varying degrees of real undervaluation. However, these estimates remain sensitive to the choice of base year and IIP targets.

Net IIP: Actual and Projected
(in percent of GDP)



Sources: Lane and Milesi-Ferretti's External Wealth of Nations Dataset; and IMF WEO.

				CA norm (% of GDP)	Underlying CA (% of GDP)	CA Gap	**REER Gap**
Scenario 1: Stabilizing net IIP at	-61.3	% of GDP		-4.2	-1.4	2.8	**-9.7**
Scenario 2: Stabilizing net IIP at	-55.0	% of GDP		-3.8	-1.4	2.4	**-8.3**
Scenario 3: Reaching net IIP at	-55.0	% of GDP	In 2026	-3.4	-1.4	2.0	**-7.0**

External competitiveness

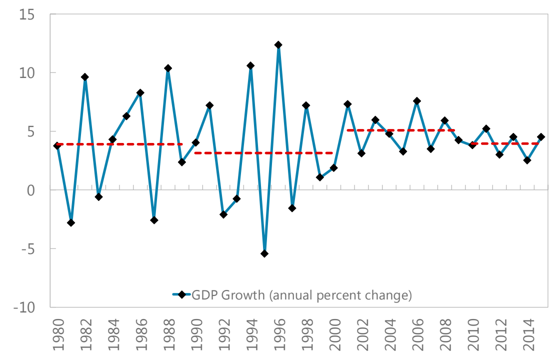
8. Morocco's external competitiveness has improved since 2000 despite a recent appreciation of the nominal ER. The unit labor cost (ULC)-based REER has been on a depreciating trend since 2000 due to relatively low unit labor costs, suggesting gains in Morocco's external competitiveness, but recent movements in nominal exchange rates relative to competitors have led the ULC-based REER to appreciate (Selected Issues Paper). Although its unit labor costs are lower than its main trading partners in the Eurozone and most competitors, structural measures to increase labor productivity and improve labor market efficiency would help preserve external competitiveness outside of movements in the nominal exchange rate. Currently, Morocco ranks 70 out of 138 countries in the 2016-2017 World Economic Forum's Global Competitiveness Index, with low scores in higher education and training, innovation, and labor market efficiency. On the 2017 World Bank Ease of Doing Business Indicators, Morocco now ranks 68th (up from 75th in the 2016 rankings).

Annex III. Raising Morocco's Growth Potential

Morocco's growth performance has weakened since 2011. In addition to the adverse external environment, this reflects declining productivity, human capital and employment levels compared to emerging market peers. Our analyses show that growth prospects could improve significantly if key constraints were addressed, especially as regards: governance and the business environment, human capital, the labor market and in particular female labor force participation.

1. Morocco's growth performance has been uneven over the last decades (Figure 1). In the 2000s, the economy grew rapidly at an average of 5.1 percent, and output was less volatile, thanks to strong domestic demand, favorable external conditions and the implementation of adequate macroeconomic and structural reforms. Since 2011, Morocco's economy has slowed (partly reflecting less favorable external conditions) reverting back to a lower average growth rate of 3.9 percent. PPP-adjusted GDP per capita growth has been lower relative to the average emerging market countries.

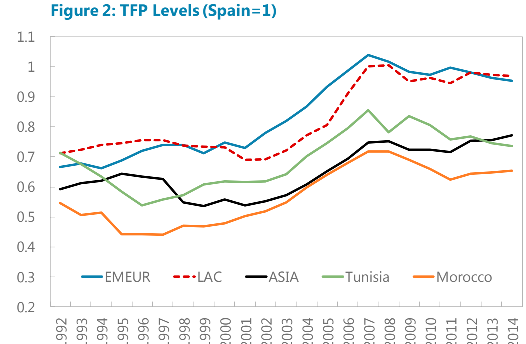
Figure 1: Morocco: GDP Growth, 1980-2015



Source: IMF WEO.

2. Productivity is low relative to other emerging market peers and will be key to improve potential growth for Morocco. TFP estimates show that Morocco has improved, but remains below many of its peers (Figure 2). A closer look at episodes of growth take-off in emerging markets shows that those episodes are generally associated with a strong pick-up in productivity growth (Dabla-Norris et al., 2013).

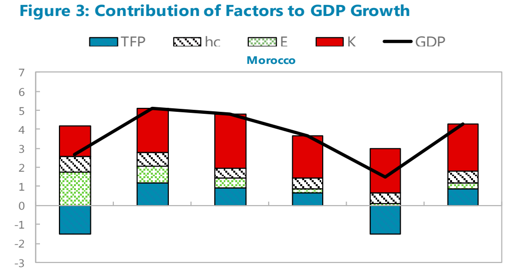
Figure 2: TFP Levels (Spain=1)



Sources: Penn World Tables (9.1).

3. The contribution of employment to growth has declined since 2008, despite an increase in the working-age share of the population (Figure 3). Morocco currently lags behind benchmark countries on labor force and employment growth (Figure 4). This deterioration reflects lower employment rates than in the past and further declines in the labor force participation rate.

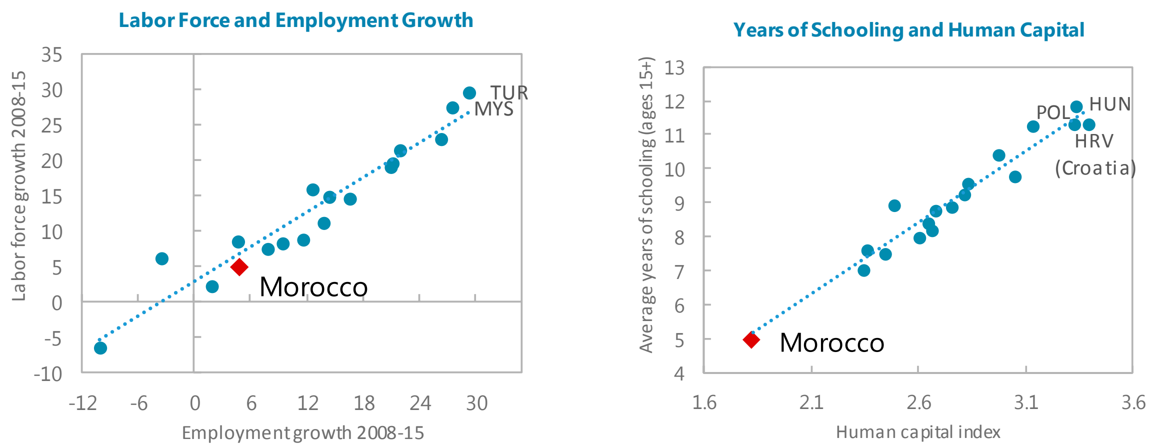
Figure 3: Contribution of Factors to GDP Growth



Sources: Penn World Tables; WEO; and IMF staff estimates.
Note: K = capital; hc = human capital; E = employed labor force; TFP = productivity.

4. Human capital gaps are large relative to emerging market peers. While average years of schooling have been rising, Morocco displays a sizeable gap compared to other benchmark countries (Figure 4). Using data by Barro and Lee (2013) on the number of schooling years and following (Psacharopoulos, 1994) methodology, we derive Morocco's human capital stock and show that it is significantly lower than in other benchmark countries (Figure 4).

Figure 4: Cross-Country Comparison of Factor Levels



Sources: IMF WEO (labor force); Barro-Lee (2013); and Penn World Tables (9.1).

Note: Comparator countries are MENAPOI: Egypt, Jordan, and Tunisia; EM Europe: Bulgaria, Croatia, Hungary, Poland, and Turkey; LAC: Chile, Costa Rica, Dominican Republic, Panama, and Peru; Asia: Indonesia, Malaysia, and Philippines.

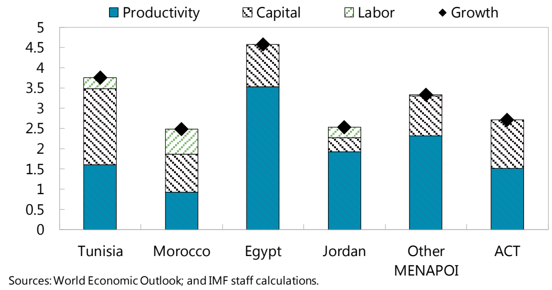
5. **Continued economic diversification also offers opportunities for increased productivity and faster economic growth.** In 2008, the government launched a diversification strategy, "Plan Emergence," to widen the production and export bases. Consequently, the economy benefited from significant structural changes in recent years, as newly developed industries (automobile, aeronautics, and electronics) have represented an increasing share of exports. The economy's resilience to shocks has also improved, with the impact of climatic shocks to the aggregate output relatively dampened, as is presently the case. Yet, economic diversification in Morocco is lower than the MENA oil importers average, and Morocco's economy is less complex than many emerging market economies. Going forward, policies and strategies to stimulate new tradable sectors will involve fostering horizontal and vertical diversification, and further integrating into global value chains.

6. **Our baseline scenario assumes that potential growth would increase by about 1 percentage point in 2021 compared to 2016.** It assumes that the authorities' ongoing structural reform agenda to improve the business environment and access to finance, and sectoral plans to diversify and increase the resilience of the economy, will lead to a pick-up in productivity and higher capital accumulation. This should increase potential output by 1 percentage point over the medium-term.

7. **Structural reforms could boost potential growth by more than 2 percentage points**. Mitra and others (2016) found that the following key reforms would have the largest impact on

boosting productivity, capital and employment growth in Morocco and would lead to an overall 2.5 percentage gains in potential growth (Figure 5): (i) a more competitive business environment, including by streamlining business regulations, tax codes, and bureaucratic red tape, promoting competition and discouraging corruption; (ii) improving workers' skills; (iii) raising financial market development; and (iv) greater labor market flexibility—including improved hiring and firing practices—and increased female labor force participation.

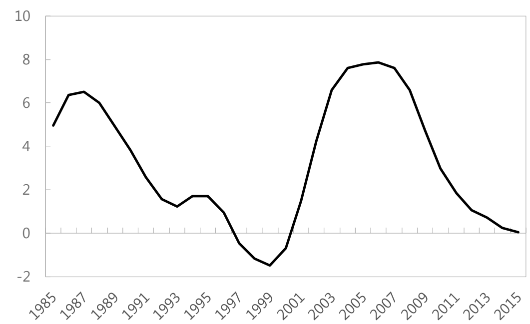
Figure 5: Additional Growth above Baseline If Underlying Structural Variables Reach EMDC Levels[1]



Sources: World Economic Outlook; and IMF staff calculations.
[1]Potential growth derived if each of the factors underlying potential productivity (e.g. worker talent, modern production methods), capital (e.g.business environment, financial development), and labor (e.g., labor market efficiency , work environment) are increased to average EMDC levels.

8. Increasing Morocco's growth potential would allow the country to catch up faster with higher income countries. Morocco's living standards have consistently increased and a high degree of macroeconomic stability has been attained. However, income levels are still substantially below those in developed or high-income economies. Indeed, while Morocco grew rapidly before the global financial crisis and in particular during the years 2001–07, economic growth slowed, and the speed of income convergence has consequently been modest (Figure 6). Our analysis shows that fully implementing the structural reforms mentioned above would allow a much rapid convergence with high-income countries.[1]

Figure 6: Convergence with OECD GDP per Capita
(Percent of the convergence gap closed each year)



Source: WEO.

[1] The convergence half-life is the log of 2 divided by the difference in average per capita income growth between Morocco and OECD counties over the 2016-21 period. Under the IMF baseline growth scenario, Morocco's convergence half-life is around 50 years. Under a scenario with 1 percent higher growth than in the baseline, Morocco's half-life to OECD per capita income is reduced to around 33 years.

Annex IV. 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 at the request for an arrangement under the Precautionary and Liquidity Line.** The overall analysis is largely unchanged, and public debt remains sustainable. A slight downward revision to the real output growth projections for 2016–21 has not affected the debt to GDP ratio significantly given that the authorities maintain their deficit target for 2016-17 unchanged (3.5 percent and 3 percent of GDP respectively), plan to finance a portion of those deficits through deposits and privatization proceeds (for 2016), and intend to 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 to 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 2.4 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.

External Debt Sustainability

4. Risks to external debt sustainability are contained. Morocco's external debt to GDP is expected to decline slightly to 32.4 percent of GDP in 2016, and decline to 27.2 percent of GDP in the medium term due mainly to steady GDP growth, as well as strong FDI inflows reducing the need for external borrowing. The structure of external debt entails limited vulnerabilities: 75 percent is owed to official bilateral and multilateral creditors with long maturities, and about 75 percent carries fixed-rate terms. The external debt position remains resilient to a range of shocks (Figure 6); in the event of a large depreciation, external debt is projected to increase from 27 to 40 percent of GDP by 2021.

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

(In percent of GDP, unless otherwise indicated)

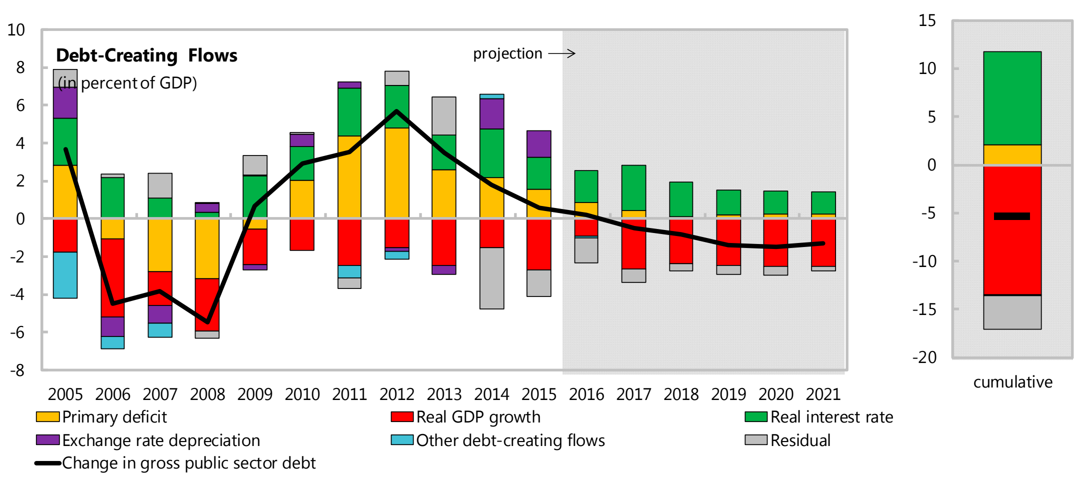
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	53.1	63.5	64.1	64.3	63.8	62.9	61.5	60.0	58.7
Public gross financing needs	13.6	16.6	13.6	9.9	11.0	10.2	8.8	7.4	6.1
Real GDP growth (in percent)	4.6	2.6	4.5	1.5	4.4	3.9	4.1	4.4	4.5
Inflation (GDP deflator, in percent)	1.4	0.3	1.7	1.6	0.3	1.0	1.5	1.5	1.5
Nominal GDP growth (in percent)	6.1	2.9	6.3	3.1	4.7	5.0	5.7	6.0	6.1
Effective interest rate (in percent) [4/]	5.3	4.6	4.7	4.3	4.2	4.1	3.9	3.7	3.8

As of November 07, 2016		
Sovereign Spreads		
Spread (bp) 3/		138
CDS (bp)		181
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
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	0.2	-0.5	-0.8	-1.4	-1.5	-1.3	-5.3	
Identified debt-creating flows	0.1	5.0	2.0	1.5	0.2	-0.4	-0.9	-1.1	-1.1	-1.9	
Primary deficit	1.0	2.2	1.6	0.9	0.4	0.1	0.2	0.2	0.2	2.1	-1.3
Primary (noninterest) revenue and gra	27.7	28.1	26.5	26.7	26.0	26.9	27.6	27.9	28.0	163.1	
Primary (noninterest) expenditure	28.7	30.3	28.1	27.6	26.4	27.0	27.8	28.1	28.3	165.1	
Automatic debt dynamics [5/]	-0.4	2.6	0.4	0.8	-0.3	-0.6	-1.1	-1.3	-1.3	-3.8	
Interest rate/growth differential [6/]	-0.4	1.1	-1.0	0.8	-0.3	-0.6	-1.1	-1.3	-1.3	-3.8	
Of which: real interest rate	1.9	2.6	1.7	1.7	2.4	1.8	1.3	1.2	1.2	9.7	
Of which: real GDP growth	-2.3	-1.5	-2.7	-0.9	-2.7	-2.4	-2.5	-2.5	-2.5	-13.5	
Exchange rate depreciation [7/]	0.0	1.6	1.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.5	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
CG: Privatization Proceeds (negative)	-0.5	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
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	-1.3	-0.7	-0.4	-0.5	-0.4	-0.2	-3.5	



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.

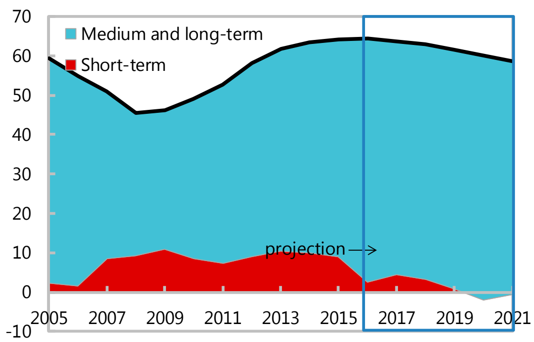
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

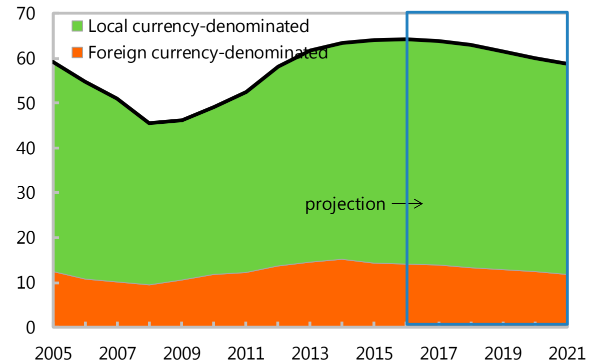
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

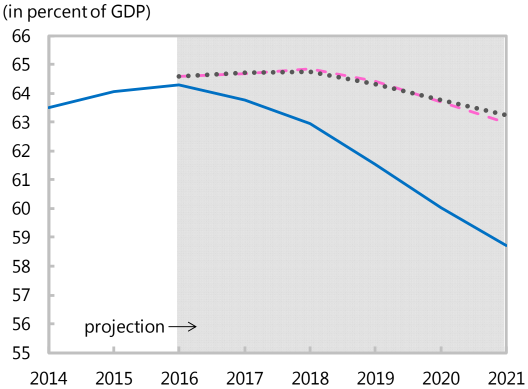


Alternative Scenarios

Baseline　　Historical　　Constant Primary Balance

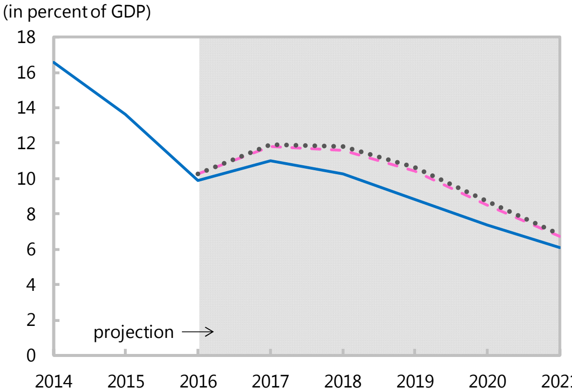
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

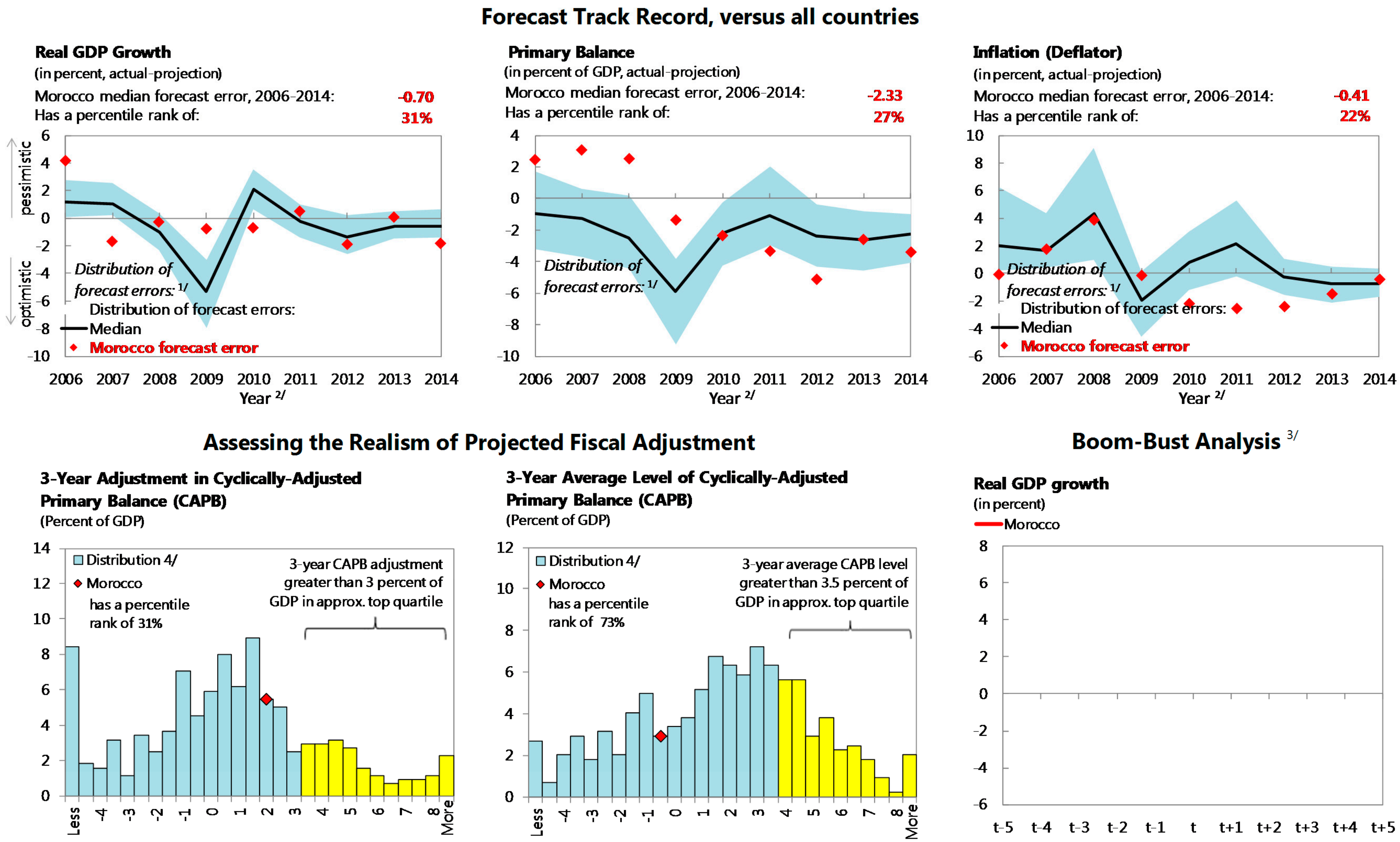
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.2	4.1	3.9	3.7	3.8
Constant Primary Balance Scenario						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	4.3	4.7	4.6	4.5	4.2	3.9

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.5	4.5	4.5	4.5	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	4.3	4.7	4.7	4.7	4.4	4.0

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.

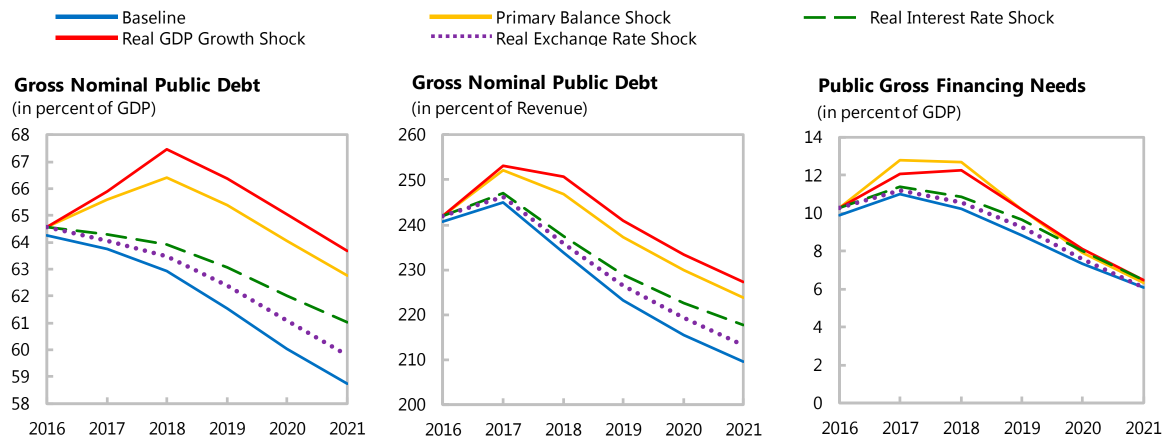
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

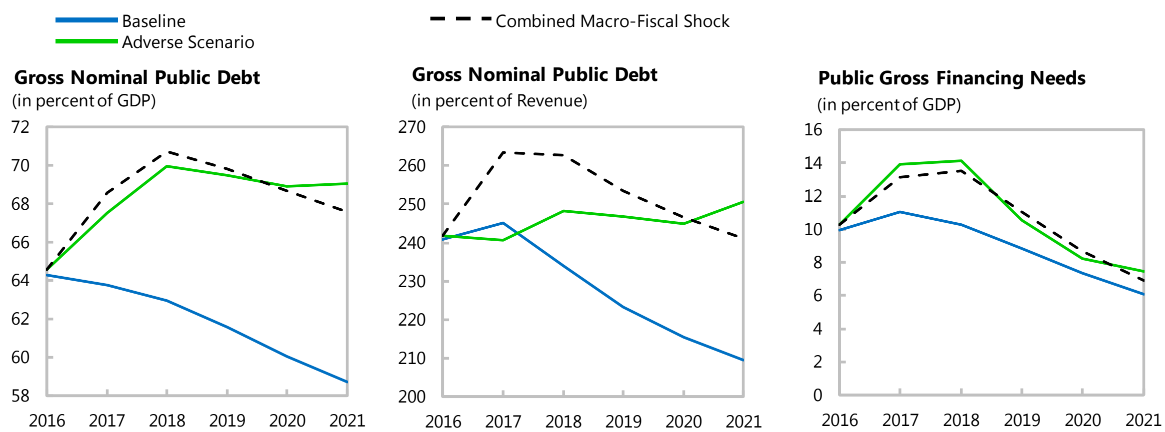
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-1.8	-1.5	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.6	4.6	4.2	3.9
Real Interest Rate Shock						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.8	4.9	4.6	4.4
Combined Shock						
Real GDP growth	1.5	2.9	2.5	4.1	4.4	4.5
Inflation	1.6	-0.1	0.7	1.5	1.5	1.5
Primary balance	-0.9	-1.8	-1.5	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.8	5.0	4.6	4.4
Adverse Scenario						
Real GDP growth	1.5	2.7	2.3	2.5	2.8	2.8
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-2.8	-2.1	0.4	0.0	-0.7
Effective interest rate	4.3	4.7	4.7	4.8	4.3	4.0

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	2.9	2.5	4.1	4.4	4.5
Inflation	1.6	-0.1	0.7	1.5	1.5	1.5
Primary balance	-0.9	-0.9	-1.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.6	4.6	4.2	3.9
Real Exchange Rate Shock						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	3.5	1.0	1.5	1.5	1.5
Primary balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.5	4.4	4.1	3.8

Source: IMF staff.

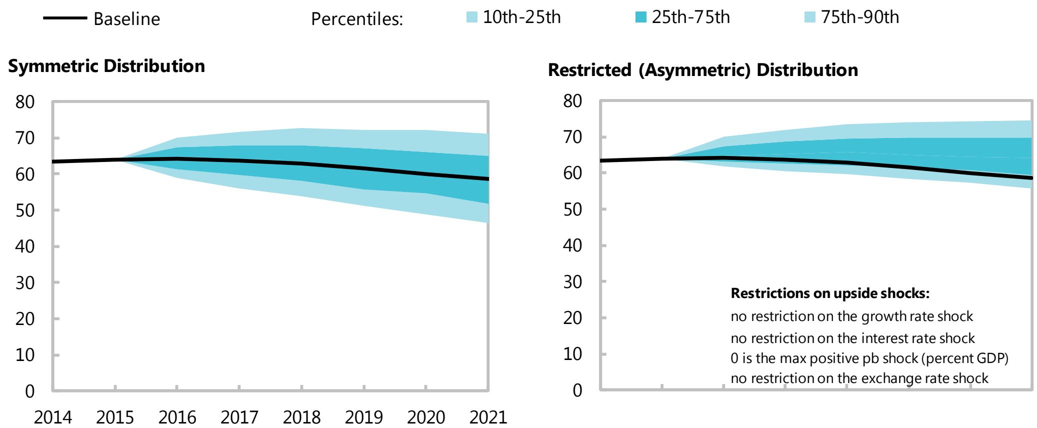
Figure 5. Morocco: Public DSA—Risk Assessment

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

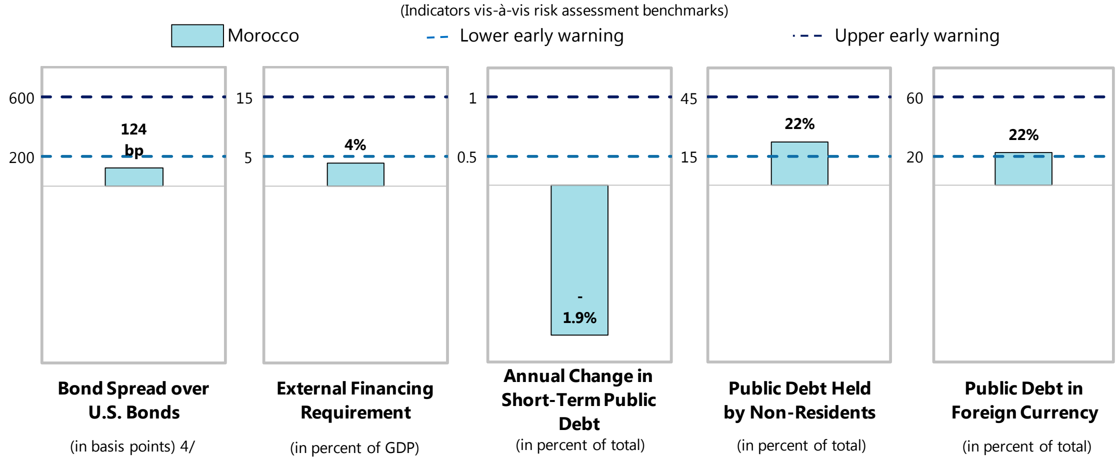
Evolution of Predictive Densities of Gross Nominal Public Debt

(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.

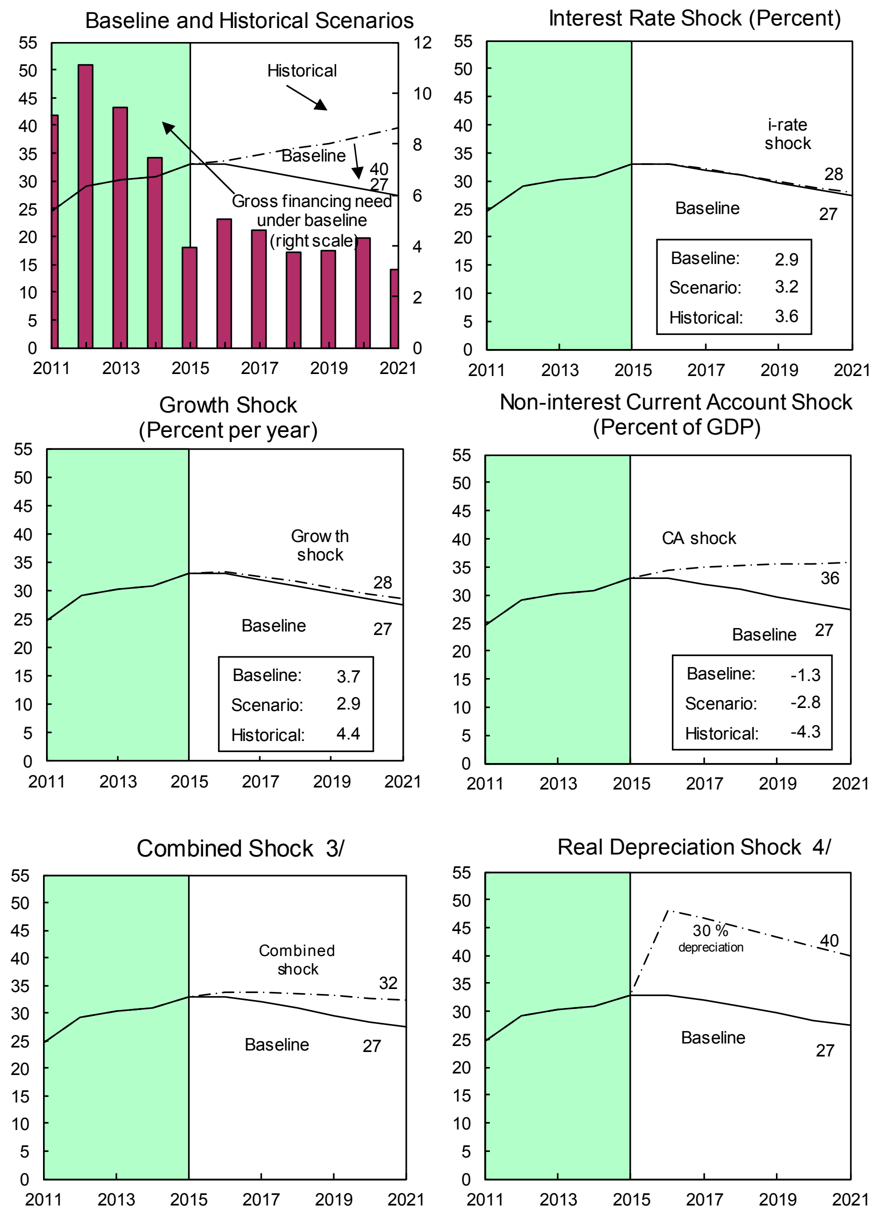
2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

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, 09-Aug-16 through 07-Nov-16.

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.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 28, 2016

Prepared By

The Middle East and Central Asia Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of December 15, 2016)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	899.40	100.00
Fund holdings of currency	747.40	83.56
Reserve position in Fund	147.01	16.44

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	548.43	97.69

Outstanding Purchases and Loans
None

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	07/22/2016	07/21/2018	2,504.00	0.00
Precautionary and Liquidity Line	07/28/2014	07/21/2016	3,235.10	0.00
Precautionary and Liquidity Line	08/03/2012	07/27/2014	4,117.40	0.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDR):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/interest	0.00	0.05	0.05	0.05	0.05
Total	**0.00**	**0.05**	**0.05**	**0.05**	**0.05**

Exchange Rate Arrangement and Exchange System

Morocco maintains an exchange system that is free of restrictions on the making of payments and transfers on current international transactions. However, Morocco maintains certain restrictions relating to Iraq and the Federal Republic of Yugoslavia (Serbia and Montenegro), pursuant to UN Security Council Resolutions. These are subject to notification to the Fund in accordance with Decision 144 (52/51). The exchange rate is freely determined in the interbank foreign exchange market, which was created in 1996. Bank Al-Maghrib (BAM) intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Morocco has a conventional peg arrangement. The current exchange rate of the Moroccan dirham is pegged to a basket of currencies comprising the euro and the U.S. dollar, with respective weights of 60 percent and 40 percent. BAM fixes daily rates for the rated currencies on the basis of variations on the value of the basket. Rates for most currencies quoted in Morocco are established on the basis of the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. As of December 15, 2016, the SDR/dirham exchange rate was SDR 1=MAD 13.6.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 27, 2016. The discussions for the 2016 consultation were held in Rabat and Casablanca during November 16–December 1, 2016.

Technical Assistance

STA	Monetary and Financial Statistics	March 1–March 11, 2010
MCM	Stress Testing and Macroprudential Analysis	February 9–February 18, 2011
STA	Monetary and Financial Statistics	March 30–April 12, 2011
LEG	Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Diagnostic and Legislative Drafting	January 17–21, 2011 and September 26–30, 2011
LEG	AML/CFT Supervision	May 28–June 6, 2012
MCM	Strengthening Macroprudential Analysis.	June 21–29, 2012
MCM	Diagnostic assessment of capital markets in Morocco (jointly with the Arab Monetary Fund and G8 Deauville Partnership Initiative for Local Currency Capital Market Development in the MENA region)	March 5–14, 2013
LEG	AML/CFT Supervision	March 3–15, 2013
FAD	Transfer pricing mission	April 1–12, 2013
MCM	Local government sukuk market	June 2013
FAD	Implementation of budgetary reforms and organic budget law preparation	July 8–18, 2013
MCM	Macro-economic modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the OpenData Platform for data reporting	January 2014

LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving monetary frameworks – inflation targeting	March 27–April 14, 2014
MCM/MCD	Exchange rate flexibility	May 26–30, 2014
RES	Quarterly Prediction Model (4 short visits)	May through December 2014
AFR/MCM/MCD	Pan-African cross-border banks exercise	June 2–6, 2014
RES/ICD	Improving monetary frameworks – inflation targeting	June 2014
RES/ICD	Improving monetary frameworks – inflation targeting	July 2014
RES	Quarterly Prediction Model (6 short visits)	February. through Nov.2015
MCM	Exchange rate flexibility	September 15–19, 2014
RES/ICD	Improving monetary frameworks – inflation targeting	September 22–October 3, 2014
MCM	Development of macro prudential instruments	November 3–14, 2014
RES/ICD	Improving monetary frameworks – inflation targeting	May, 2015
RES/ICD	Improving monetary frameworks – inflation targeting	September, 2015
RES	Forecasting and policy analysis system (FPAS)	Nov.30–Dec.3, 2015
RES	MAPMOD framework for Macroprudential	January 12–15, 2016
MCM	Crisis Management and Banking Resolution	February 8–12, 2016
STA	National Accounts Assessment	April 25–29, 2016
STA	Government Financial Statistics	April 20–29,2016
MCM	Take stock ER Flexibility	May 26–27, 2016
RES	FPAS under ER flexibility	May 26–June 2, 2016
RES	Macro-Prudential Policy	September 26–30, 2016
MCM	Exchange rate flexibility	October 17–27,2016
RES	Building Capacity for Macroeconomic Modeling	October 31–November 8,2016

FSAP update

The latest update of the Financial Sector Assessment was performed in April 2015. The findings were discussed with the authorities during the October/November 2015 Article IV mission and discussed by the Board on December 14, 2015.

Safeguard assessment

An update of the 2013 safeguards assessment of the BAM, completed in January 2015, found that the safeguards framework at the BAM remains relatively strong. The Board continues to be engaged and governance arrangements are supported by strong internal audit and risk management functions. A new law on BAM statutes that would lead to sustained good governance practices and autonomy is expected to be approved in 2017. Regarding staff's recommendation to implement IFRS, the BAM carried out a feasibility study with the assistance of an audit firm and decided to maintain the current accounting standards. Instead financial statement disclosures were improved to enhance transparency.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY17

As of December 15, 2016

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	a. Development Policy Lending on: • MA - Inclusive Green Growth DPL2 • MA: Transparency and Accountability DPL2 (approved 10/22/2015) • MA - Second Capital Market Development and SME Finance DPL b. P4R Lending on: • Morocco Urban Transport Project • MA - Integrated Risk Management Project • MA - Municipal Support Program • Improving Social Protection Delivery c. Investment Lending • Seed and Early Stage Equity Financing in Morocco • Large Scale Irrigation Modernization Project (approved 7/8/2015) • Investing in Opportunities for Youth in Morocco • Education support d. Sector work (ESW) • Programmatic Agriculture Sector Dialogue • Strategic Country Diagnostic • MA: Cost of Environmental Degradation e. Technical assistance (TA) • Casablanca Urbanization Review • MA SP Systems TA • Support the Preparation of COP 22		FY16 FY16 FY17 FY16 FY16 FY17 FY17 FY17 FY16 FY17 FY17 FY17 FY17 FY17 FY17 FY17 FY17

	• IUWM in MA—A review of options • Morocco City Energy Efficiency • Public Investment Management • Poverty Monitoring • MA: Int. Urban Water Mgmt. Strategic Sup.		FY17 FY17 FY17 FY16 FY16
IMF work program in next 12 months	• Bank Regulation and Supervision • Financial Soundness Indicators • National Accounts Statistics • Public Financial Management • Revenue Administration • Government Finance Statistics • Second Review of the PLL • Article IV Consultation	FY17 April 2017 Jan./Feb. 2017 FY17 FY17 Jan./Feb. 2017 May-June 2017 Fall 2017	

B. Requests for Work Program Inputs			
Fund request to Bank	Developments on labor market, education reforms Developments on decentralization	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Data sharing	Semiannual (and on ad hoc basis if requested) Ongoing	Following Article IV and staff visits for PLL reviews
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Collaboration on the SCD. Continuous close coordination on the reform agenda	Ongoing	

STATISTICAL ISSUES

As of December 15, 2016

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance.	
Government finance statistics: Fiscal data are adequate for surveillance.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance
(As of December 15, 2016)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items: Data Quality – Methodological soundness[8]	Memo items: Data Quality – Accuracy and reliability[9]
Exchange Rates	11/9/15	11/9/15	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/30/2016	10/28/2016	W	W	W		
Reserve/Base Money	09/30/2016	10/28/2016	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	09/30/2016	10/28/2016	M	M	M		
Central Bank Balance Sheet	09/30/2016	10/28/2016	M	M	M		
Consolidated Balance Sheet of the Banking System	09/30/2016	10/28/2016	M	M	M		
Interest Rates[2]	09/30/2016	10/28/2016	D	D	D		
Consumer Price Index	09/30/2016	10/28/2016	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2014	01/30/15	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	07/31/2016	08/24/2016	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3, 2015	10/30/15	Q	Q	Q		
External Current Account Balance	Q2, 2016	10/05/2016	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Q2, 2016	10/05/2016	Q	Q	Q		
GDP/GNP	Q2, 2015	9/30/15	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q3, 2015	10/30/15	Q	Q	Q		
International Investment Position [6]	Q2, 2016	09/30/2016	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published on April 4, 2003, and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

Statement by Mohammed Daïri, Alternate Executive Director for Morocco
January 23, 2017

My Moroccan authorities wish to express their gratitude to staff for fruitful discussions during these consultations and a balanced report as well as for the interesting Selected Issues paper. They broadly share staff analysis and conclusions.

Morocco continues to adjust to the generally weak and uncertain external environment by further strengthening its macroeconomic fundamentals and resilience and rebuilding buffers, while continuing to lay the foundations for stronger and more inclusive growth. In 2016, growth is estimated to have slowed to 1½–2 percent, from 4½ percent in 2015, mainly due to a poor cereal crop after the all-time record achieved the previous year, leading to a decline of agriculture output by about 10 percent, while non-agriculture growth remained positive at 3–3½ percent. Inflation remained well under control, at about 1½ percent. Unemployment declined slightly but remained high, in particular for the young and women. Early signs of a recovery in late 2016 bode well for non-agricultural GDP growth in 2017, which is expected, along with a projected recovery in agriculture, based on improved weather conditions from last year, to lead to total GDP growth of 4½–5 percent this year.

The impact of the decline in cereals production in 2016 on overall GDP growth was much more muted than in the past, when such large though rare declines brought overall GDP growth well into negative territory. This reduction in GDP growth volatility attests to the success of agriculture diversification and productivity-enhancing reforms. It also reflects the dynamism of new, high value-added and export-oriented sectors in response to well-structured industrial policies and improved business climate.

The current account deficit edged up slightly to about 3 percent of GDP. Exports of automobiles, electronics, and aeronautics continued to be strong. However, lower prices affected exports of phosphates and derivatives. Moreover, imports of machinery, food and other consumer goods increased markedly, more than offsetting lower fuel import prices. As a result of continuing strong FDI inflows and higher other private capital inflows, the external reserve position strengthened further to reach close to 7 months of imports, or about 130 percent of the Fund adjusted-ARA metric (100 percent of the standard metric).

Implementation of the medium-term fiscal consolidation plan has helped significantly reduce the deficit and stabilize public debt. The fiscal deficit target of 3½ percent of GDP in 2016, down from 7.3 percent in 2012, is within reach, with lower grants expected to be offset mainly through stronger tax revenue and savings on current spending, including wages. In the context of a larger than projected slowdown in growth and in the run up to last October elections, this is no small achievement that attests to the authorities' strong commitment to sound fiscal policy.

In view of the relatively moderate growth along with low and stable inflation and comfortable reserves, the current policy mix of further fiscal consolidation along with monetary policy accommodation is appropriate. The draft 2017 Budget presented to parliament in early October aims at further reducing the deficit to 3 percent of GDP as planned, including through continued implementation of the recommendations of the 2013 national tax conference and tight control of current spending. Discussion of this draft budget has not started since negotiations for a new government have not yet been completed. It is very unlikely that the final Budget would deviate from the current consolidation path, in view of the authorities' well-established track record of fiscal prudence, and since preserving fiscal balances has been enshrined in the new constitution as a joint responsibility of the government and parliament.

Public debt is sustainable and resilient to shocks, with favorable maturity, interest rate and currency structure. It has stabilized as a ratio to GDP at 64 percent since 2015 and should start declining this year to achieve the authorities' objective of 60 percent by 2020. Active debt management operations within strengthened debt management strategy have contributed to improving the structure of the debt and reducing costs and risks.

Significant progress has been made in implementation of the ambitious structural fiscal reform agenda aimed at further strengthening institutions and the policy framework. Implementation of the 2015 Organic Budget Law (OBL) is proceeding according to schedule. The new OBL and the landmark reform subsidy, along with the entry into effect of the bold parametric pension reform, which has reduced the actuarial deficit of the public pension fund by close to 60 percent, have significantly reduced budget vulnerabilities and risks. While agreement on the pension reform took longer than expected, its enactment and start of implementation immediately before the general elections attest to the government strong commitment to the reform. Implementation of the tax reform is advancing, with the objective of simplifying the system and enhancing its equity, while making it more business-friendly. Progress is being made on fiscal decentralization under the ambitious Advanced Regionalization program, with gradual roll-over of financial and human resources to allow territorial entities to support growth at the local level and enhance efficiency within sound budget management practices.

With inflation well under control, continued moderate credit growth, along with comfortable reserves and prudent fiscal policy, monetary policy will continue to aim at supporting the recovery by promoting adequate financing of the economy, including SMEs, while maintaining its core focus on keeping inflation low. BAM reduced the policy rate by 25 bp in March 2016, the third such reduction since September 2014. The current accommodative monetary policy has led to a significant decline in lending rates by a total of 99 bp over the last 2 years, reflecting effective monetary transmission, which has helped reinvigorate credit.

The financial system is well-capitalized, with adequate liquidity and profitability. While NPLs have increased somewhat, they are confined mainly in a few sectors, including those affected by the global economic slowdown, and are well provisioned. The authorities continue to closely monitor credit concentration risks, which have declined recently and where limits set by the regulator are tighter that the standard practice and effectively enforced. They have strengthened supervisory resources, including for oversight of Moroccan banks' subsidiaries in Africa, and have maintained close cooperation with host countries to identify and mitigate potential risks. They continue to strengthen financial sector regulation and their pro-active and risk-based supervision, including in implementing FSAP recommendations.

Preparation for gradually moving to a flexible exchange rate regime has been virtually completed, with extensive technical support from MCM and RES departments, for which the authorities are grateful. A roadmap of the reform has been prepared and discussed with staff. The authorities have requested Fund TA to help assess preparedness of the banking sector to manage currency risks and to adapt public debt management to the new exchange rate regime. They are finalizing their communication strategy, and are confident that they will be in a position to announce the policy change and start implementation in the second half of this year. Later in the transition, when the fluctuation band will be large enough, BAM will abandon the nominal exchange rate as an anchor and shift to an inflation targeting regime.

To improve the business climate, raise productivity and growth potential, and accelerate job creation, the authorities continue to strengthen the financial sector, including by further deepening markets, easing access to credit, and enhancing financial inclusion. They are also strengthening support to SMEs to enhance their contribution to growth and reduce informality. Important efforts are also being made in streamlining regulations and upgrading infrastructure, with positive effects on productivity and access to services. As a result of these reforms, Morocco gained 7 notches in the Doing Business ranking to 68 between 2016 and 2017, with significant advances in registering property, getting credit, protecting minority investors, and trading across borders. Implementation of the recently-adopted National Strategy for Employment and the Strategic Vision for Education will help boost productivity and alleviate constraints to employment, including by improving education and vocational training and enhancing effectiveness of labor market policies. The large renewable energy program, in particular in solar energy, is advancing as planned, and should help meet the authorities' ambitious climate mitigation undertakings while reducing Morocco's dependency on fuel imports.

The authorities are confident that their current policy and reforms will be continued and consolidated going forward. The reappointment of the current Head of Government to form a new coalition government provides further assurance in this regard in view of his strong commitment to sound policy implementation. The authorities look forward to continued close cooperation with the Fund.