

**FOR
INFORMATION**

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To: Members of the Executive Board
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Morocco—Assessment Letter for the World Bank

November 16, 2021

1. The economy is rebounding from last year's severe recession. Output is projected to grow at around 6 percent in 2021. The better-than-average harvest has boosted agricultural output after two consecutive years of drought. Progress in the vaccination campaign has helped the country overcome the increase in the number of cases experienced over the summer and mobility has returned to pre pandemic levels. This has supported consumption, together with strong remittances and accommodative monetary and fiscal policy stances. Exports of goods are benefiting from the return of external demand and remittances continue to be buoyant, but weak tourism revenues and the rebound of imports are expected to widen the current account deficit to close to 3 percent of GDP this year. Inflation has accelerated reflecting global supply disruptions but has remained relatively low. Central government fiscal deficit is projected to decline only modestly this year to 6.5 percent of GDP, with current spending accelerating so far in 2021. Bank al-Maghrib (BAM) has maintained its policy rates at historically low levels but the appreciation of the dirham towards the lower edge of the exchange rate (ER) band has somewhat tightened monetary conditions.

2. The economic recovery is expected to continue over the next few years, although the pandemic will leave some scars. GDP growth is projected at around 3 percent in 2022, as agriculture output returns to average levels, the tourism sector recovers slowly from the health crisis slump, and private investment is constrained by the debt overhang (and weaker credit growth after the pandemic). Output is expected to return to its pre-pandemic level in the second half of 2022 but to remain below pre-crisis (projected) trends. Headline inflation is projected to increase slightly to 1.5 percent on average in 2022 as cost-push pressures fade. The current account is projected to remain at around 3 percent with the gradual recovery of tourism revenues offsetting the rising goods trade deficit. This outlook remains subject to significant uncertainty, with much of the risks around the baseline depending on the evolution of the pandemic, while a fast and effective implementation of structural reforms could increase growth over the medium to longer term.

3. Bank al-Maghrib has built up its reserve buffers during the pandemic and, while higher, Morocco's debt remains sustainable. Higher official external borrowing, the SDR allocation (USD 1.2 billion), stronger portfolio and net foreign direct investment flows, and BAM purchase of foreign currency after the dirham reached the lower edge of the ER band, have further improved Morocco's official reserves, which are projected at around 105 percent of the ARA metrics in 2021. The central government debt-to-GDP ratio is expected to increase slightly in 2022 and to stabilize at close to 80 percent over the medium term, but to remain sustainable. Moreover, Treasury hasn't had major issues so far covering its higher financing needs, as interest rates and spreads have remained relatively low in both domestic and international bond markets. Still, placing the debt-to-GDP ratio on a downward trend that brings it closer to pre-pandemic levels in the medium term would make Morocco less vulnerable to further negative shocks and free more resources for private sector investment.

4. Implementing the structural reforms proposed in the NMD report has the potential to yield a more developed and inclusive economic model. The report, commissioned by King Mohammed VI, provides a comprehensive blueprint for reforms that aims at doubling Morocco's GDP per capita by 2035, reducing the share of informal jobs from current 70 to 20 percent, doubling women's labor participation rate to 45 percent, and increasing renewable energy from 11 to 40 percent of energy consumption. Many of the reforms suggested in the report are consistent with previous IMF AIV Staff Report recommendation, including to boost private sector development, improve education outcomes, and strengthen social safety nets. While the effective implementation of these reforms might significantly boost Morocco's potential growth, the size and timing of their economic impact are surrounded by significant uncertainty. Structural fiscal measures (including a comprehensive tax reform and a spending review) should be designed to create the fiscal space needed to finance these reforms and safeguard fiscal sustainability.

5. Relations with the Fund: Morocco has benefited from four successive Precautionary and Liquidity Line (PLL) arrangements from 2012-2020. The Executive Board approved the fourth two-year PLL arrangement in December 2018 in the amount of SDR 2.15 billion (or 240 percent of quota). With the full purchase of available PLL resources following the pandemic, the PLL arrangement expired automatically on April 7, 2020. Since then, the authorities have repaid SDR 651 million in January, after tapping international markets.

Table 1. Morocco: Selected Economic Indicators, 2018–22

	2018	2019	2020	Proj.	
				2021	2022
Output and Prices (Annual percentage change)					
Real GDP	3.1	2.6	-6.3	6.0	3.1
Real agriculture GDP	3.7	-5.8	-8.6	18.8	-3.3
Real non-agriculture GDP	3.1	3.7	-6.0	4.4	3.8
Consumer prices (period average)	1.6	0.2	0.7	1.3	1.5
Public Finances (In percent of GDP)					
Government revenue	26.1	25.6	28.4	24.6	26.1
Government expenditure	29.8	29.4	36.0	31.0	32.5
Budget balance	-3.7	-3.8	-7.6	-6.5	-6.3
Primary balance (excluding grants)	-1.7	-1.8	-5.5	-4.2	-4.1
Cyclically-adjusted primary balance (excl. grants)	-1.7	-1.8	-3.7	-3.9	-3.9
Total government debt	65.2	65.1	76.4	76.5	77.5
External Sector (In percent of GDP)					
Current account including official transfers	-5.3	-3.7	-1.5	-2.9	-3.1
Exports of goods and services (in U.S. dollars, percentage change)	11.6	1.9	-15.2	21.5	12.1
Imports of goods and services (in U.S. dollars, percentage change)	12.2	-2.3	-14.8	24.7	10.8
Total external debt	31.8	33.1	43.7	42.0	42.0
Gross reserves (in billions of U.S. dollars)	24.4	26.4	35.3	37.0	39.8
In percent of Fund reserve adequacy metric 1/	85.4	87.7	106.8	104.8	105.6
Memorandum Items:					
Gross capital formation (In percent of GDP)	33.4	31.9	28.4	28.2	28.3
Gross national savings (In percent of GDP)	27.8	27.8	26.7	25.4	25.1
Claims to the economy (percentage change)	3.4	5.6	4.6

Sources: Moroccan authorities; and IMF staff estimates.

1/ Based on revised ARA weights.

Table 2. Morocco: External Gross Financing Requirements and Sources, 2019–22
(billions of USD)

	2019	2020	2021	2022
Gross Financing Requirements	61.0	52.6	63.7	71.5
Imports of Goods and Services	54.1	46.1	57.5	63.7
FDI Payments	2.8	1.6	1.8	2.0
Interest and Dividends Payments	2.0	1.5	1.8	1.9
<i>of which Central Government and SOEs</i>	0.9	0.9	0.9	0.9
<i>of which Private Sector</i>	1.1	0.6	0.9	1.0
Debt Amortization	2.2	3.3	2.6	3.9
<i>of which Central Government and SOEs</i>	2.2	3.3	2.6	3.9
<i>of which Private Sector</i>	-	-	-	-
Total Financing Sources	61.0	52.6	63.8	71.5
Exports of Goods and Services	44.0	37.4	45.4	50.8
<i>of which tourism receipts</i>	8.2	3.8	3.6	5.5
Remittances	6.7	7.2	8.8	9.1
Grants	0.3	0.5	0.4	0.4
FDI Inflows	3.6	2.9	3.5	4.0
Portfolio flows	1.2	2.2	1.1	0.9
<i>of which Treasury bond issuances</i>	1.1	2.8	1.0	0.0
Central Government loans	1.5	2.7	3.5	3.0
SOE borrowing	1.5	2.7	1.4	1.4
Private sector loans	0.2	1.6	0.2	0.2
Trade Credit	1.1	1.0	-1.3	-0.6
Other inflows (net)	3.2	-2.7	1.1	4.6
Change in Reserves (-increase)	-2.3	-5.8	-1.2	-2.3
Net use of Fund resources	0.0	3.0	0.8	0.0
GAP (Needs - Sources)	0.0	0.0	0.0	0.0
Memorandum items:				
Gross Official Reserves	26.4	35.3	37.0	39.8
ARA	30.1	33.1	35.3	31.9
Percent of ARA	87.7	106.8	104.8	105.6