

**FOR  
AGENDA**

SM/08/213

July 2, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Morocco—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Morocco, which is tentatively scheduled for discussion on **Wednesday, July 23, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Morocco indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Lewis (ext. 38027), Ms. Allain (ext. 36349), and Ms. Sab (ext. 37125) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, July 11, 2008; and to the African Development Bank, the Arab Monetary Fund, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MOROCCO

**Staff Report for the 2008 Article IV Consultation**

Prepared by the Staff Representatives for the 2008 Consultation with Morocco

Approved by Amor Tahari and Matthew Fisher

July 1, 2008

- **The 2008 Article IV consultation discussions with Morocco took place in Rabat during May 19–30, 2008.** The mission met with the Minister of Finance Salaheddine Mezouar, the Governor of the Central Bank Abdellatif Jouahri, and other senior officials, as well as representatives from labor unions, the parliament, and the financial and private sectors. The staff team comprised Messrs./Mmes. Lewis (head), Allain, Diouf, Sab, and Sensenbrenner (all MCD).
- **The last Article IV consultation was concluded on August 3, 2007.**  
<http://www.imf.org/external/np/sec/pn/2007/pn0798.htm>
- **Morocco participated in an update of the Financial Sector Assessment Program**, conducted jointly by IMF and World Bank staff. The Financial System Stability Assessment (FSSA) is presented with this staff report.
- **Morocco's currency, the dirham, is pegged to a basket of currencies comprising the Euro and the U.S. dollar.** Morocco has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers on current international transactions.
- **Morocco's statistical base is adequate to conduct effective surveillance.**

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## EXECUTIVE SUMMARY

### Background

**Morocco's recent economic performance has been favorable.** With a more diversified economy, stronger public finances, and a sound financial sector, Morocco is well-poised to continue its progress despite the current difficult global economic and financial climate. The outlook is encouraging, with growth projected to remain strong and the external position sound. Risks to the outlook are generally tilted to the downside. Inflation could well be higher than projected, due largely to the impact of imported inflation.

### Key Issues and Policy Discussions

**Public finances have strengthened significantly in recent years, but the cost of fuel and food subsidies presents a major challenge.** The very strong revenue performance of recent years allows the authorities to absorb the costs of the subsidies in the short term without undermining macroeconomic stability. The specific measures the authorities intend to introduce, and their commitment to the 2008 deficit target, are welcome.

**Over the medium term, a better targeting of subsidies will be crucial.** Gradually unwinding subsidies will allow for greater spending on investment and education, and a continued reduction in debt ratios. Morocco would be well served by more ambitious fiscal consolidation, which would assure macroeconomic stability and reduce fiscal risks.

**The financial sector is sound.** The sector is resilient to shocks, and little affected by ongoing turmoil in international credit markets. Ongoing efforts to strengthen banking supervision should be maintained. The authorities' continued close attention to the rapid credit growth is warranted, notably concerning the real estate sector. The authorities' intention to raise the capital adequacy ratio to 12 percent by end-2009 is also welcome.

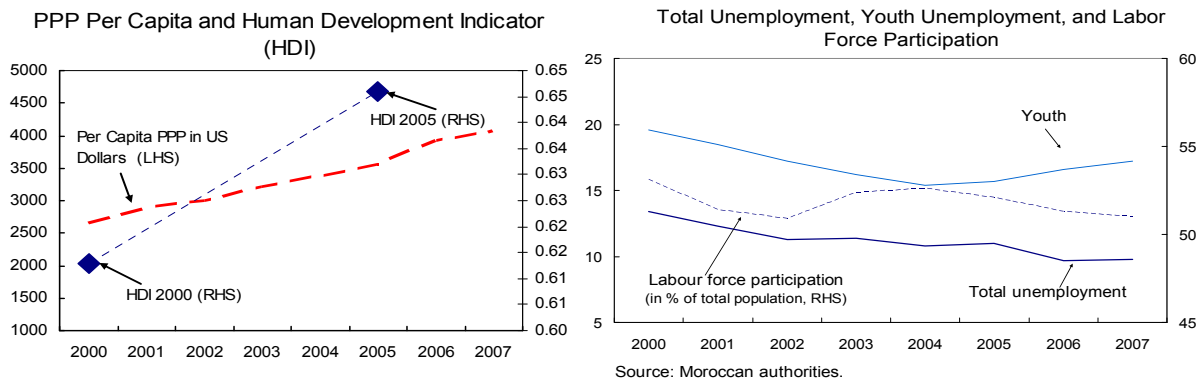
**The central bank's monetary policy stance is appropriate.** Inflationary pressures thus far are primarily imported, and there is no evidence of excess domestic demand. Looking ahead, the authorities should remain vigilant to second round effects on inflation.

**The exchange rate peg has served as an anchor of macroeconomic stability, and appears in line with its fundamentals.** The authorities should continue their preparations for an eventual move to a more open monetary policy and exchange rate regime, including by deepening the foreign exchange market.

**The authorities are deepening structural reforms to boost medium-term growth prospects.** Key reform areas include agriculture, infrastructure, and energy, and a particular attention to education. Morocco is encouraged to continue its trade liberalization efforts.

## I. BACKGROUND

1. **Morocco has made major progress in recent years to increase economic growth and strengthen the economy's resilience to shocks, although important challenges remain.** The gains reflect sound macroeconomic policies, sustained structural reforms, and taking advantage of opportunities provided by globalization. The result has been a gradual improvement in living standards and per capita income. At the same time, overall economic growth is still vulnerable to agricultural volatility, and despite the improvements in social indicators, unemployment—notably among the youth—remains a challenge.



2. **Morocco is well-positioned to weather today's more difficult global economic and financial climate.** With a more diversified economy, stronger public finances, and a sound financial sector, Morocco can largely avoid negative effects from the current period of turbulence, and continue its strong macroeconomic performance, provided policy making remains proactive. Morocco's political stability continues to serve the country well as it modernizes and reforms the economy.

3. **The Article IV consultation discussions focused on the appropriate policies to navigate the more difficult environment and achieve greater prosperity, in particular:**

- Maintaining sound public finances and addressing fiscal risks;
- Pursuing appropriate monetary and financial sector policies; and
- Strengthening Morocco's integration into the world economy.

## II. RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

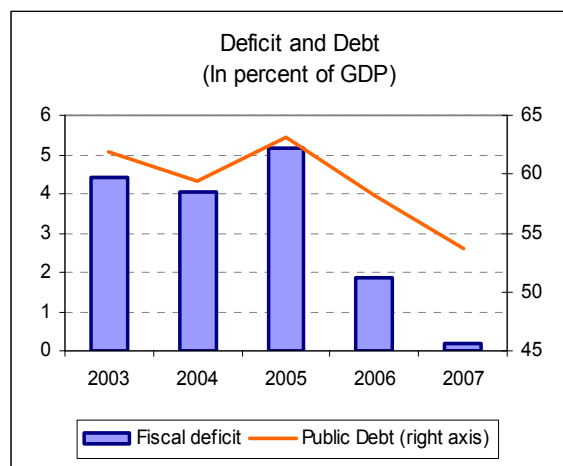
4. **Morocco's recent economic performance has been favorable.** Nonagricultural GDP growth reached 6.6 percent in 2007, although overall real GDP slowed to 2.7 percent due to a sharp fall in cereal production (Figure 1). Thus far in 2008, growth has been strong, driven by a rebound in agriculture, continued strong private investment, and vibrant activity in construction and services.

5. **Consumer price inflation remains low, in part because administered prices have not been adjusted since the beginning of 2007.** Year-on-year consumer price inflation was 2 percent in 2007 (Figure 2), down from about 3 percent in 2006, although full pass-through of oil and wheat prices would have pushed inflation higher (administered prices account for about 20 percent of the consumer price index). Inflation has picked up in 2008, reaching 3.7 percent in April 2008, driven mainly by sharply rising food prices.

6. **Morocco's external position is sound.** Exports have performed well, although imports have been rising even faster, with robust demand for capital and consumer goods, greater food imports to offset the drop in cereal production, and the rise in the world prices of petroleum and food products. Robust tourism receipts and remittances have mostly offset the negative trade balance, and with strong capital flows, external reserves rose from \$22 billion at end-2006 to \$26.5 billion at end-May 2008, equivalent to 6.4 months of 2009 imports.

7. **Public finances further strengthened in 2007, continuing the trend of fiscal consolidation observed over the last five years, due largely to robust revenue (Box 1).<sup>1</sup>**

The overall fiscal deficit improved from 2 percent of GDP in 2006 to close to balance in 2007 reflecting higher revenue, which was only partly offset by increased capital expenditure and a pick-up in outlays for the authorities' open-ended subsidy system (Figure 3). Total government debt was 54 percent of GDP at end 2007, down from 58 percent in 2006 (external public and publicly guaranteed debt remained at about 20 percent of GDP). Tax revenue has continued to surge during the first quarter of 2008.



8. **Monetary policy remained geared toward maintaining low and stable inflation, in the context of the exchange rate peg.** The central bank left its key policy rate unchanged at 3.25 percent since early 2007, and lowered reserve requirements from 16.5 percent to 15 percent in December 2007 because of reduced bank liquidity.<sup>2</sup> Monetary aggregates continued their strong rise, with broad money up by 15 percent (y-o-y) at end-April 2008, and private credit rising by 28 percent (Figure 4). The current level of the dirham's exchange rate is broadly in line with economic fundamentals (Box 2).

<sup>1</sup> As a result, perceptions of Morocco's creditworthiness improved, leading two of the major rating agencies to grant an investment grade rating to Morocco's latest sovereign bond issue in 2007.

<sup>2</sup> Bank liquidity fell because two former specialized state-owned banks started complying with reserve requirements in August 2007; bank liquidity also dropped due to the strong growth in lending activity.

### Box 1. Morocco's Strong Revenue Performance

The recent improvement in Morocco's revenue performance has been remarkable, with total tax intake increasing by 26 percent on average each year since 2005. Tax buoyancy—defined as the responsiveness of revenue to changes in nonagricultural GDP<sup>1</sup>—is now one of the highest in the world.

Key factors that have contributed to the revenue surge include:

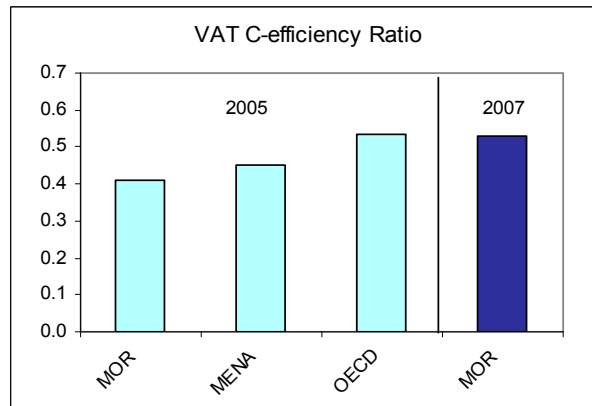
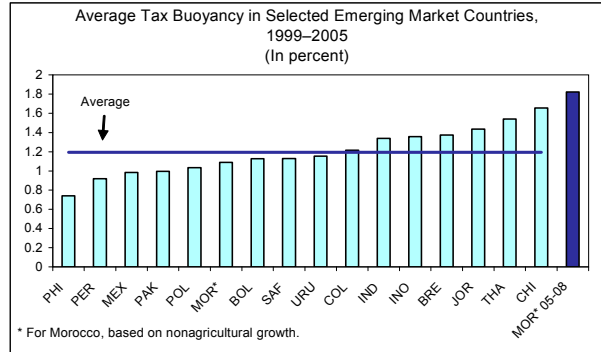
**Ongoing tax policy reform**, particularly of the three main taxes—VAT, and corporate and income taxes—through the reduction in the number of special regimes and the closing of loopholes. Key measures include the gradual phasing out of some region and sector-specific tax incentives. In line with staff advice, the reform of the VAT has been at the center of this effort. In particular, the number of products benefiting from a reduced VAT rate has been decreased, and the efficiency of the VAT credit reimbursement mechanism has improved. By 2007, the most commonly used indicator of VAT performance—the c-efficiency ratio<sup>2</sup>—had been brought broadly in line with international norms.

**Strengthening of tax administration and broader improvements in tax compliance.** The number of firms liable for corporate income tax has increased by 25 percent in the last two years, suggesting a widening of the tax base beyond the well-established formal sector firms. During the same period, the number of private sector and self-employed workers filing for income tax increased by more than 20 percent.

**High tax buoyancy in the fastest-growing sectors.**

In 2007, two of these sectors—financial intermediation and telecommunications—contributed 45 percent of the total corporate income tax intake (equivalent to 2.3 percent of GDP).

**Increased efficiency of tax controls and of the tax dispute settlement mechanism.** In 2007, tax payments following the settlement of tax disputes reached 0.5 percent of GDP.



1/ Agricultural activity, which accounts for about less than 15 percent of Morocco's GDP, is volatile, and contributes only marginally to the overall tax effort.

2/ The c-efficiency ratio is defined as the ratio of VAT revenues to consumption divided by the standard rate, expressed in percentage points.

## Box 2. Assessment of the Real Exchange Rate

**An assessment of the real exchange rate using the CGER methodologies suggests that overall, the level of the exchange rate is consistent with current fundamentals.** Using data from the April 2008 WEO, the CGER approaches for macroeconomic balance, external sustainability, and equilibrium real exchange rate—evaluated by stripping out temporary factors from the 2007 current account and correcting for the lagged impact of REER changes—show an average percentage deviation from the estimated equilibrium of the real exchange rate of -4.5 percent.

### Real Exchange Rate (RER) Assessment Evaluated at 2007 Fundamentals

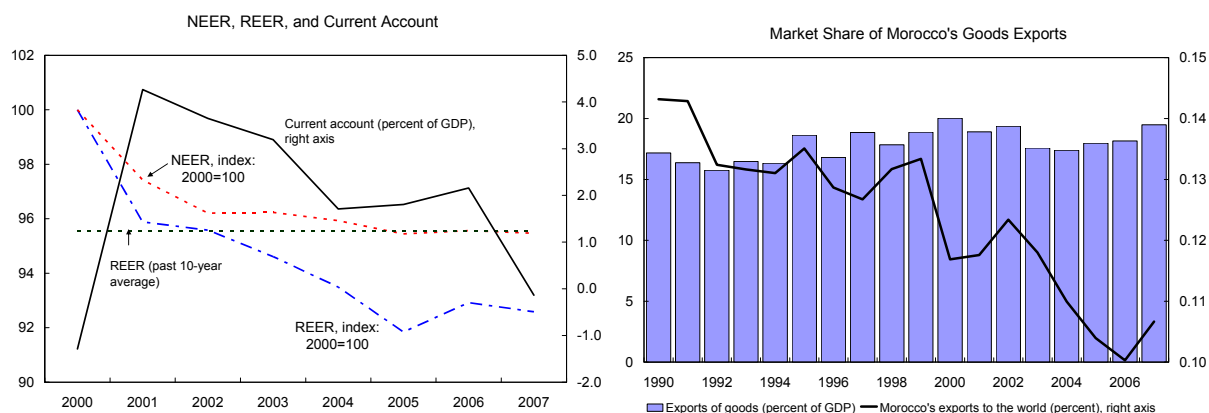
	Percentage Deviation from the Estimated Equilibrium of the RER 1/	Benchmark Current Account (In percent of GDP)
I. Macroeconomic balance	-1.7	0.3
II. External sustainability	-8.4	-1.2
III. Equilibrium real exchange rate	-3.4	...
Average deviation from the estimated equilibrium of the RER	-4.5	...
Memorandum item:		
Underlying current account (in percent of GDP) 2/	0.6	...

1/ Overvaluation (+), undervaluation (-).

2/ The underlying current account for 2007 is estimated by removing the transient factors (increase in food imports due to the drought) and correcting for the lagged impact of REER changes.

**Traditional indicators based on prices and current account flows provide more mixed results on Morocco's external competitiveness.** The CPI-based real effective exchange rate (REER) has depreciated by 7 percent relative to its peak in 2000, and by end-2007 was below its 10-year average. Regarding external sector indicators, the current account had been in balance since 2001, but in 2007 it posted a minor deficit partly owing to poor domestic agricultural output and soaring international commodity prices. Exports of goods have remained relatively stable in percent of GDP while market shares have declined since 1990, despite a small upturn in 2007.

**A chapter in the selected issues paper supplements this analysis with other indicators, including a number of price-based and current account flow indicators as well as export performance.** Some of these indicators suggest competitiveness challenges at the sectoral level, but nonetheless the real exchange rate is in line with fundamentals.



### III. MEDIUM-TERM OUTLOOK AND RISKS

9. **Morocco is now presented with a more difficult external environment compared to 2007.** While spillovers from turmoil in global credit markets have had no discernible impact (Box 3), external risks have been transmitted primarily through real sector channels:

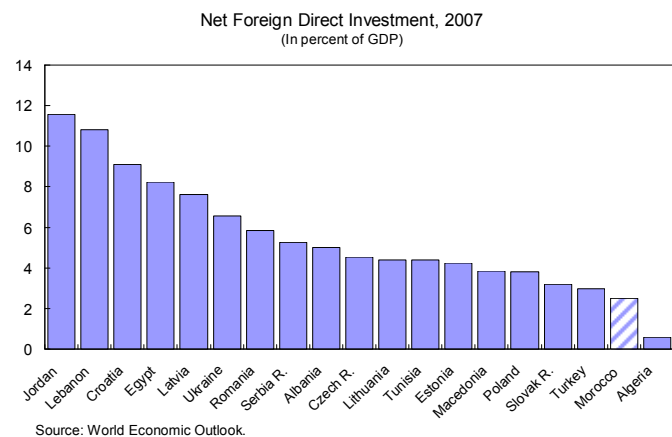
- The increase in world fuel and food prices has degraded the trade balance, and because of subsidies, brought sizeable fiscal costs.
- The mild growth slowdown in Europe, Morocco's principal trade partner, is likely to present some headwinds to growth in exports and perhaps tourism receipts. Remittances flows, which for Morocco are not very sensitive to economic cycles, are projected to be broadly stable.

10. **At the same time, Morocco is becoming increasingly attractive for foreign direct investment (FDI).** By emerging market standards, net FDI flows into Morocco are low, but gross flows from the Gulf states have picked up noticeably and FDI from Europe has remained dependable. The more volatile portfolio inflows remain limited in size.

11. **The outlook for Morocco is encouraging.** Over the medium term, growth is projected to remain strong and the external position should remain sound. Real GDP growth is projected to reach 6½ in 2008, reflecting in part a rebound in agriculture, before falling

back a bit in 2009 as the agriculture sector returns to trend and some limited effects from the slowdown in Europe take hold. Inflation is projected to be around 3 percent in 2008 and 2009, and between 2½–3 percent over the medium term—higher than projected at the time of the 2007 Article IV consultation—reflecting imported inflation and a gradual narrowing of the gap between world and domestic prices for subsidized goods. The external current account balance is projected to remain slightly negative over the medium term, although with inflows of FDI expected to continue, foreign reserves should strengthen further. Reducing unemployment, notably among the youth, will be a key challenge for the authorities over the medium term.

12. **The risks are generally tilted to the downside.** The authorities consider that the pace of FDI, in particular from the Gulf states, could accelerate, potentially boosting growth. At the same time, sustaining the current high investment rates and activity in construction and services may be difficult, and the slowdown in Europe could have a greater impact than



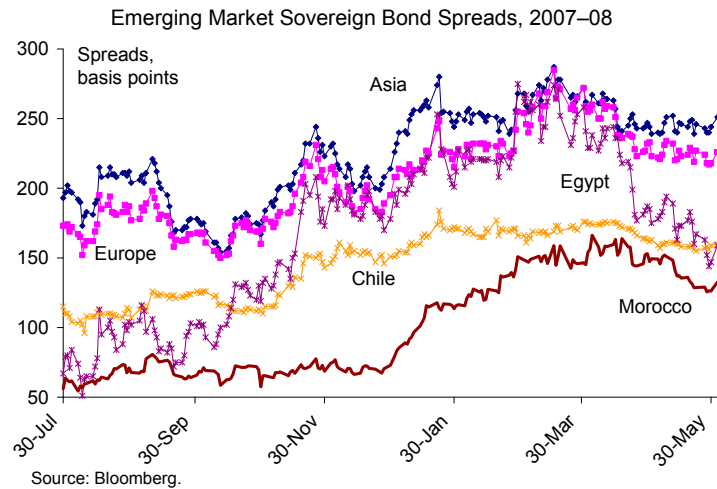
### Box 3. Financial Spillovers from Global Credit Turmoil

*Purely financial spillovers from the global credit turmoil have so far been very limited because Morocco's external debt is low and its duration long, and because of strengthened macroeconomic policies.*

**The global credit turmoil has so far had little impact on Morocco.** Financial market indicators show no noticeable deterioration of Morocco's risk perception relative to other emerging markets. Gross official reserves currently cover 1,100 percent of short-term external debt, more than three times the average for peer countries, partly reflecting prudent debt management and steady FDI and remittance flows.

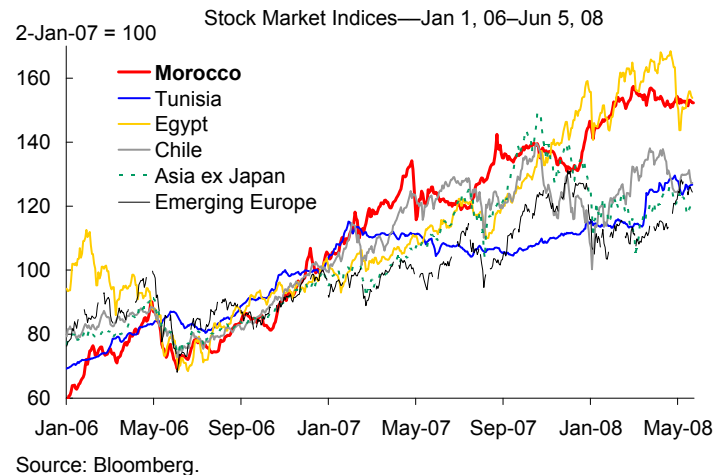
**Morocco's fundamentals have improved relative to peer countries.**

This was achieved mainly by switching government financing from external to domestic debt. Global investors have increasingly differentiated among emerging markets based on such fundamentals, and this is reflected in the small increase in Morocco's risk perception as expressed in global capital markets. Morocco's major remaining vulnerability is its still high public sector debt.



**The government, corporates, and banks have minimal financing—and therefore, rollover risk—from external debt markets.** Only one sovereign bond remains outstanding, worth about 1 percent of GDP and maturing in 2017. The remainder of central government external debt (10 percent of GDP) and government-guaranteed debt (a further 10 percent of GDP) is mostly owed to official creditors, with just 2 percent of GDP due to foreign banks. External debt of the private sector represents 4 percent of GDP. Strains could materialize if foreign banks called in loans to Moroccan corporates. However, official reserves of 32 percent of GDP well exceed foreign corporate debt.

**Moroccan stock prices have not noticeably softened since the onset of the global turmoil.** This may change if recessionary tendencies elsewhere were to affect remittances, exports, or tourism. However, a downturn would not have much impact on domestic demand given that shares are not widely held by the population.



anticipated. While not affecting average growth, volatility in the agriculture sector will continue to impact total output. The balance of payments risk of higher import prices is partly mitigated by upside risks for prices of phosphates (a key export). However, commodity prices pose important fiscal risks in the medium term in the absence of measures to address subsidies, notably if world prices for commodities move higher. Inflation could well be higher than projected, largely due to imported inflation, although the authorities intend to resist inflationary pressures and expect structural reforms to help lower domestic costs.

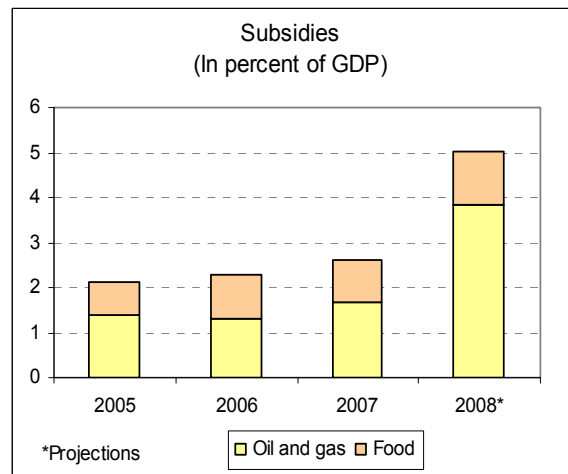
#### IV. POLICY DISCUSSIONS

##### A. Ensuring Sound Medium-Term Public Finances

13. **The authorities are committed to preserving the fiscal consolidation gains of recent years.** They reaffirmed their commitment to the 2008 budget deficit target of 3.5 percent of GDP and a medium-term objective of a deficit of no more than 3 percent of GDP. Their fiscal outlook is predicated on sound expenditure controls and reorientation of spending to investment and education; further strengthening tax administration and simplifying the tax regime, with some lowering of rates; and prudent debt and treasury management.

14. **However, the decision to not pass on increases in world commodity prices to domestic prices poses a major challenge.**

For 2008, subsidies are projected to rise from 2½ percent to 5 percent of GDP as consumer prices for most key products will remain unchanged.<sup>3</sup> In addition, to further address a common perception in Morocco that purchasing power has eroded, the authorities agreed on a two-step wage increase for the lower end of the public sector salary scale (5 percent in July 2008, and another 5 percent in July 2009), with a total annual cost of 1 percent of GDP.



15. **The authorities recognize that the fiscal outlook hinges on effectively managing the subsidy issue, and they intend to reform the system in two broad steps:**

<sup>3</sup> The subsidy system is open-ended (i.e., not targeted), with the key subsidized products being bread, sugar, petroleum products, and cooking gas.

- **In the short term, they intend to use the fiscal space to absorb the higher cost of the subsidies.** Given their concern for social and political sensitivities, consumer confidence, and the fact that a fundamental reform of the subsidy system will take time, the authorities have decided to adopt only a limited set of short-term measures (with an impact of about ½ a percentage point of GDP). The authorities indicated that these measures, which they intend to introduce shortly, would keep the deficit in line with the 2008 budget target of 3.5 percent of GDP, and include raising the price of products mostly consumed by higher income households and trimming nonessential current spending.<sup>4</sup>
- **Over the medium term,** the authorities intend to better target subsidies toward the poorest segments of the population, and thus gradually unwind the universal subsidies. These reforms would be introduced starting in 2009.

16. **Attaining the medium-term fiscal objective will also depend on curbing the growth of other current spending and ensuring solid revenue.** On the wage bill—another major source of fiscal rigidity in the past—the authorities emphasized that increases for the lower end of the public salary scale would be paired with tax reductions for higher paid civil servants, consistent with their objective of keeping the wage bill under 10 percent of GDP in the medium term. Revenue is projected to decline slightly as a share of GDP from 2010, reflecting the expiration of some exceptional factors in 2008, and planned rate reductions in coming years.<sup>5</sup> The authorities were open to staff’s suggestion that a more ambitious fiscal target, such as a small primary surplus, would lower fiscal risks, bring Morocco’s public debt ratios closer to those of its emerging market peers, and continue to reinforce Morocco’s attractiveness to investors.<sup>6</sup>

## **B. Minimizing Risks through a Stronger Financial System**

17. **Overall, the financial sector is sound and resilient to shocks.** Banks are generally well-provisioned and have little foreign exposure on either the asset or liability side, minimizing the transmission of risks from global financial markets to the real economy. Moreover, the authorities continue to improve supervision with a view to monitoring risks more closely as the economy opens up (Box 4).

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<sup>4</sup> Under the current system, diesel and gasoline subsidies disproportionately benefit higher income households. According to the World Bank, households in the top quintile of the income distribution receive more than three-quarters of these subsidies, while the poorest quintile receives less than one percent.

<sup>5</sup> The aim is to unify progressively VAT rates and lower tax rates on personal income and business profits.

<sup>6</sup> See Selected Issues chapter on “Medium Term Fiscal Policy: A Scenario Analysis”.

#### **Box 4. FSAP Update: Overview and Main Recommendations**

Major structural reforms have been achieved since the 2002 FSAP, and the financial sector is sound. Asset quality in the banking sector has improved, reflecting in large part the near-completion of the restructuring of the former specialized state-owned banks. The authorities' strategy of further economic and financial openness—notably through the liberalization of capital flows and increased exchange rate flexibility—presents opportunities and challenges for regulators and supervisors, and financial institutions and markets. In this context, the main recommendations of the report were:

- Continue strengthening banking soundness and supervision, including by reducing concentration risk in some banks, issuing a new regulation pertaining to country and transfer risk as well as ensuring appropriate risk management in banks, continuing training of supervisors to match the growing sophistication of the regulatory and operational environment.
- Continue to monitor closely NPL levels in former public banks; these have declined substantially, but remain higher than in the sector as a whole.
- Build up the preparedness of financial institutions to a more open economic and financial system, in particular their ability to manage risks associated with potentially greater exchange and interest rate volatility; and carry out more regular and more extreme stress tests.
- Maintain effective communication on capital account liberalization, reforms of the monetary and exchange rate regime and their sequencing, to help financial institutions prepare for change.
- Ensure the prerequisites for further economic and financial sector liberalization, including the preconditions for inflation targeting, are in place to be able to respond effectively to external shocks.
- Continue developing the insurance and capital markets, and payments and settlement infrastructures to deepen financial intermediation to levels compatible with a modern and growing economy.
- Continue implementation of recommendations of the Middle East and North Africa FATF (MENAFATF) made in 2007 to strengthen anti-money laundering and combat the financing of terrorism (AML/CFT). These include updating the legal framework and making operational the financial intelligence unit.

18. **The authorities are paying close attention to the recent brisk credit growth.** Credit grew 60 percent during April 2006–April 2008, and default rates could rise in the coming years. However, some catch-up is at work, as financial intermediation continues to deepen. Moreover, credit growth is broad-based, including long-term investment credit, which bodes well for lifting potential output. Also, BAM's latest loan officer survey suggests tighter credit conditions for large corporates, in part to rein in concentration risk.

19. **Credit has grown fastest in real estate,** reflecting pent-up housing demand in urban areas, falling mortgage rates (to 5 percent on average in Q4 2007), and zoning restrictions that limit land for development. But higher loan-to-value (LTV) ratios and greater use of floating rate mortgages also suggest the surge in real estate credit has been accompanied by somewhat looser lending standards. Although the authorities noted that floating rate mortgages help banks contain interest rate risk, transferring too much interest rate risk to households could produce credit risk, if reference rates increase from their current low levels.

20. **The authorities stressed that a three-pronged policy response is underway:** (a) enhanced surveillance of real estate lending through specific, now half-yearly surveys;<sup>7</sup> (b) targeted on-site inspections; and (c) adoption of a code of good practice on mortgages, with fuller disclosure of risks to prospective borrowers. Although not explicitly directed at real estate lending, the authorities' intention to increase the minimum capital adequacy ratio from 8 percent to 12 percent by end-2009 would strengthen the system and be in line with best practices in emerging markets. Finally, a credit bureau is expected to be operational in the coming months.

### **C. Progress Toward a More Flexible Monetary and Exchange Rate Regime**

21. **The monetary policy stance has been appropriate, and BAM is fully aware that the road ahead may be more challenging.** BAM's decision to leave its key interest rate unchanged reflects both its willingness to accept temporarily higher inflation from higher import prices, and its view that the strong credit growth has not contributed to higher inflation. Going forward, BAM and staff concurred on three upside risks to the inflation outlook: (a) second-round effects from higher import prices; (b) potential adjustments to fuel and food prices; and (c) the possibility that a somewhat looser fiscal stance, rapid credit growth, and increases in disposable income via higher wages/lower tax bills could fuel demand. BAM declared itself ready to increase policy rates to fulfill its statutory mandate of price stability.

22. **Over the medium term, the authorities intend to move to a more flexible exchange rate and monetary regime,** which would advance Morocco's integration into the global economy. Important groundwork is taking place toward inflation targeting, with BAM strengthening its analysis of the inflation process and the monetary transmission mechanism. BAM's communication of monetary policy has gained depth and sophistication, particularly its dialogue with market participants. Ongoing deepening of foreign exchange and money markets will help economic agents to manage a broader array of risks related to the economy's opening.

23. **The authorities are considering measures to deepen the money and foreign exchange markets.** BAM uses its 7-day main refinancing operations to implement changes in policy rates, with the reserve requirement setting the system's short liquidity position. Staff and the authorities agreed that the development of the money market beyond weekly maturities would establish timely short-term reference rates, which in turn would help deepen the foreign exchange market.

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<sup>7</sup> In addition, BAM is working on producing reliable house price indices.

24. **The authorities underscored that the pace of capital account liberalization will continue to mirror the pace at which the exchange rate gains flexibility.** They noted that the capital account liberalization measures of August 2007 have had little impact so far, but expect they will have a greater impact when financial intermediaries develop new products and practices. The authorities are considering next steps on exchange rate flexibility, including potentially a gradual widening of the fluctuation band of the dirham.

#### **D. Additional Policies to Boost Growth and Strengthen Economic Management**

25. **The authorities continue to move ahead on the various regional integration initiatives and trade liberalization efforts.** A key focus will be to reduce high MFN import tax rates. The staff noted the importance of ensuring the coherence of the different regional accords, and stressed that further steps should not create the potential for welfare-reducing trade diversion.

26. **The authorities are deepening structural reforms to increase productivity, boost growth, and improve the economy's resilience to shocks.** In the agricultural sector, the "Plan Maroc Vert" was initiated this year. This program aims to raise output, productivity, and value added, while diversifying the choice of crops and targeting those which are less water intensive; it also aims to use more fertile and easily accessible lands and reduce impediments to internal trade in agricultural products. In the education sector, reforms are ongoing to ensure a better match of skilled labor to the needs of the market. In addition, the effort to upgrade the country's transport infrastructure is well underway, and the authorities plan significant investments to boost the production of electricity, including from renewable sources.

27. **The authorities are continuing their efforts to strengthen the statistics base.** These efforts include increasing the frequency of surveys to allow the monitoring of consumption, investment, and employment, and moving ahead on introducing a new updated consumer price index. These efforts should allow the authorities to monitor economic developments in real time and adjust policies as necessary.

#### **V. STAFF APPRAISAL**

28. **Morocco's recent economic performance has been favorable, and the outlook remains encouraging.** The continued strong nonagricultural growth demonstrates that Morocco has transitioned to a higher growth path, and the economy is now more resistant to shocks. The country is well-placed to avoid knock-on effects from the more difficult international environment, but there are some risks to the outlook, including that inflation could well emerge as a more pressing challenge. Policies have been consistent with external stability.

29. **The immediate policy dilemma facing the authorities is the system of universal subsidies.** The strong revenue performance of recent years, reflecting the authorities' effort to improve the integrity of the tax system, has provided fiscal space. Thus, in the short term, the budget can absorb the impact of higher world prices for subsidized products without undermining macroeconomic stability. The authorities' commitment to the 2008 deficit target is welcome. The planned measures should enable them to meet the target, assuming world prices do not move much higher, and should be implemented as soon as feasible.

30. **Over the medium term, a better targeting of subsidies will be crucial.** At current world prices, the subsidies have a tremendous opportunity cost in terms of foregone public investment and education spending, undermining medium-term growth prospects. Moreover, not reforming the system would stall the lowering of debt ratios, with implications for risk premia and borrowing costs in the economy, and could pose major fiscal risks and undermine macroeconomic stability should world commodity prices move higher. Also, the gains from past efforts to bring the wage bill under control should be preserved. Morocco would be well served by more ambitious fiscal consolidation, which would provide greater assurances of macroeconomic stability. Robust public finances would provide a stronger basis for moving ahead with full convertibility and an inflation targeting framework.

31. **Morocco has made substantial progress on financial sector reform, and the sector is sound and supervision strong.** The financial sector is resilient to shocks, and little affected by ongoing turmoil in international credit markets. Efforts to strengthen banking supervision should continue, including reducing concentration risk and strengthening the risk management capabilities of Moroccan financial institutions in preparation for a more open economic and financial system.

32. **Close surveillance of rapid credit growth should continue, notably concerning the real estate sector.** Although recent credit growth represents a welcome catch-up, softer lending standards have emerged, particularly in real estate credit. The policy response thus far is broadly appropriate, and continued vigilance is warranted. The authorities' intention to raise the capital adequacy ratio to 12 percent by end-2009 is welcome, and in line with best practices in emerging markets.

33. **In this context, the central bank's monetary stance remains appropriate.** Inflationary pressures thus far are primarily imported, and there is little evidence of excess domestic demand. However, the authorities should remain vigilant to second round effects, notably as wage increases take effect and administered prices are eventually adjusted. In such a scenario, the authorities will need to follow through on their intention to adjust rates as needed to prevent a cementing of inflationary expectations.

34. **The exchange rate peg has served as an anchor of macroeconomic stability, and its level appears broadly in line with fundamentals.** The authorities should continue preparing for an eventual move to a more flexible monetary and exchange rate regime. Their

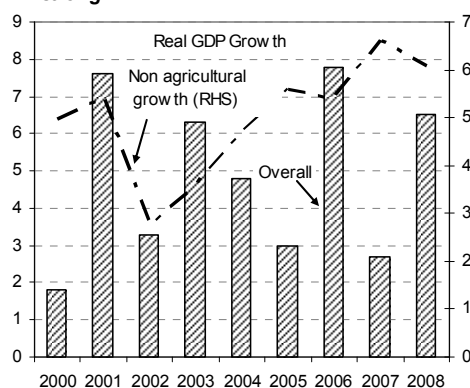
groundwork in preparing for inflation targeting and the steps taken to improve central bank communications are noteworthy. The authorities are advised to continue deepening the money and foreign exchange markets. Major steps to further liberalize the capital account should go hand in hand with progress on the flexibility of the exchange rate.

35. **Continued structural reforms will be crucial to medium-term growth prospects and to reduce unemployment.** Agriculture investment and reforms will be important to buffer Morocco from international prices, and ensure that the sector serves as a source of economic growth. Likewise, education reforms are needed to boost productivity and living standards, and infrastructure investment will help reduce costs. Morocco is encouraged to advance on trade liberalization, in particular on lowering its general tariffs.

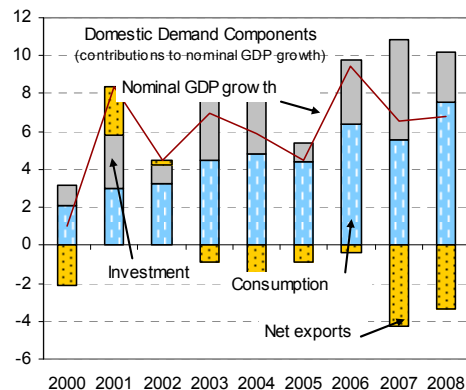
36. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Morocco: Real and External Sector Developments

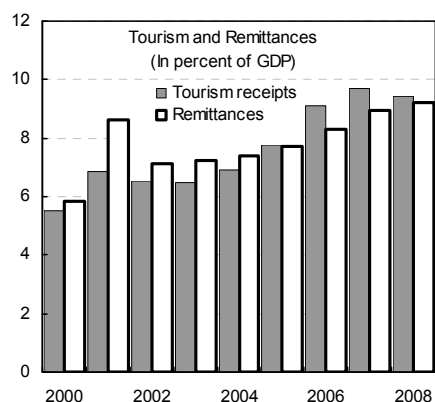
*Despite fluctuations in agriculture, nonagricultural growth has remained strong...*



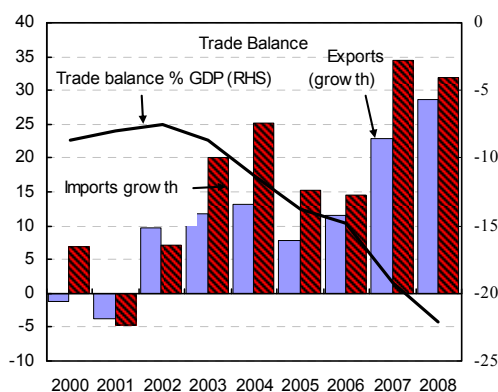
*...underpinned by robust domestic demand, and...*



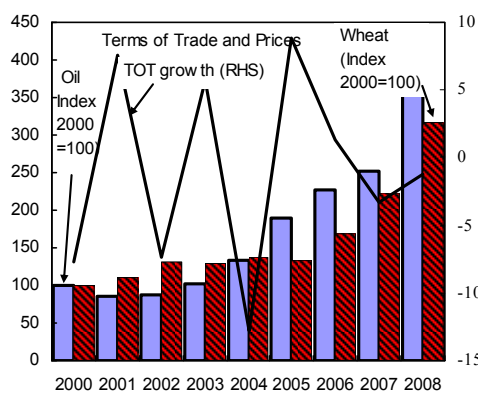
*...fueled by strong and rising remittances and a buoyant tourism sector.*



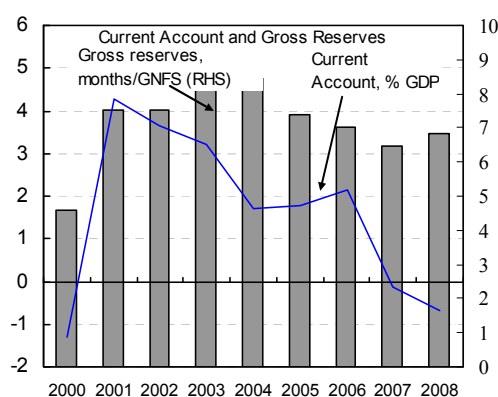
*The trade balance deteriorated as imports increased dramatically...*



*...due in part to the fall in the terms of trade...*



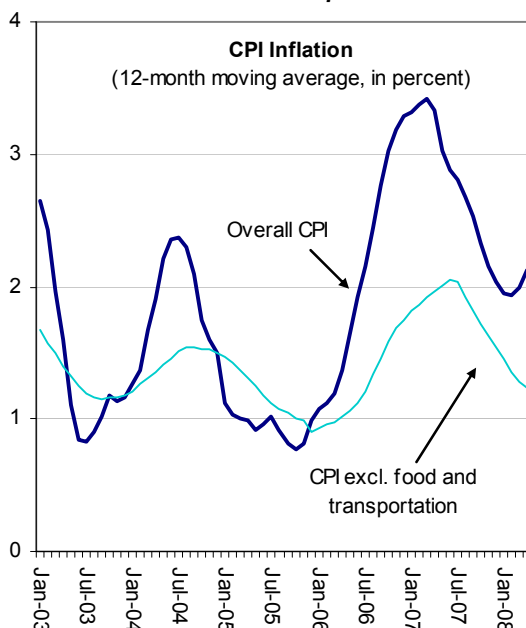
*...but with robust capital flows, gross reserves continued to rise.*



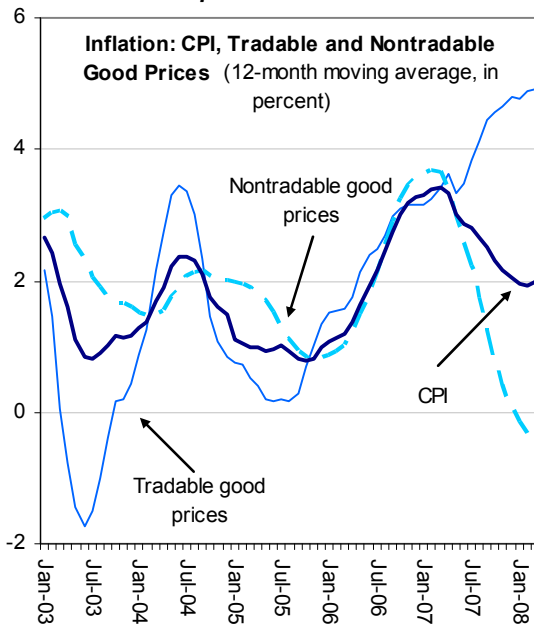
Sources: Moroccan authorities; and Fund staff calculations.

Figure 2. Morocco: Price Developments

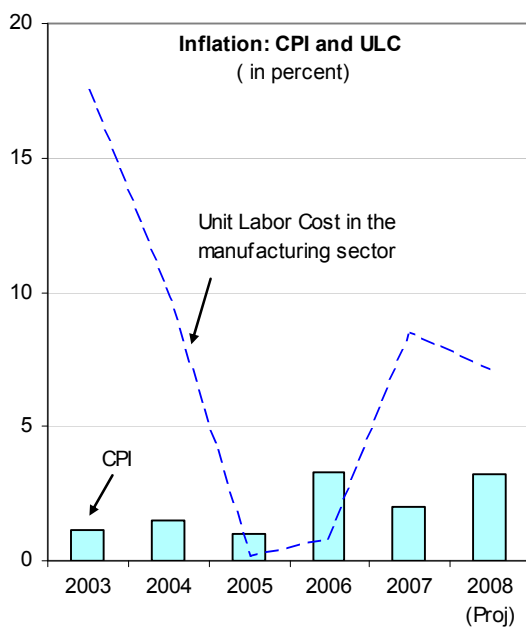
**Inflation remains in check, reflecting subdued inflation in nonfood and transportation items.**



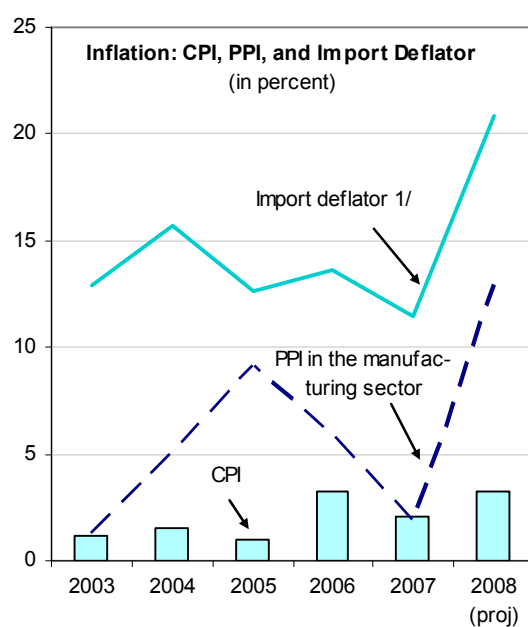
**Higher inflation since 2005 in tradable goods has had little impact on overall inflation.**



**Likewise, inflation does not seem linked to wage developments in the manufacturing sector.**



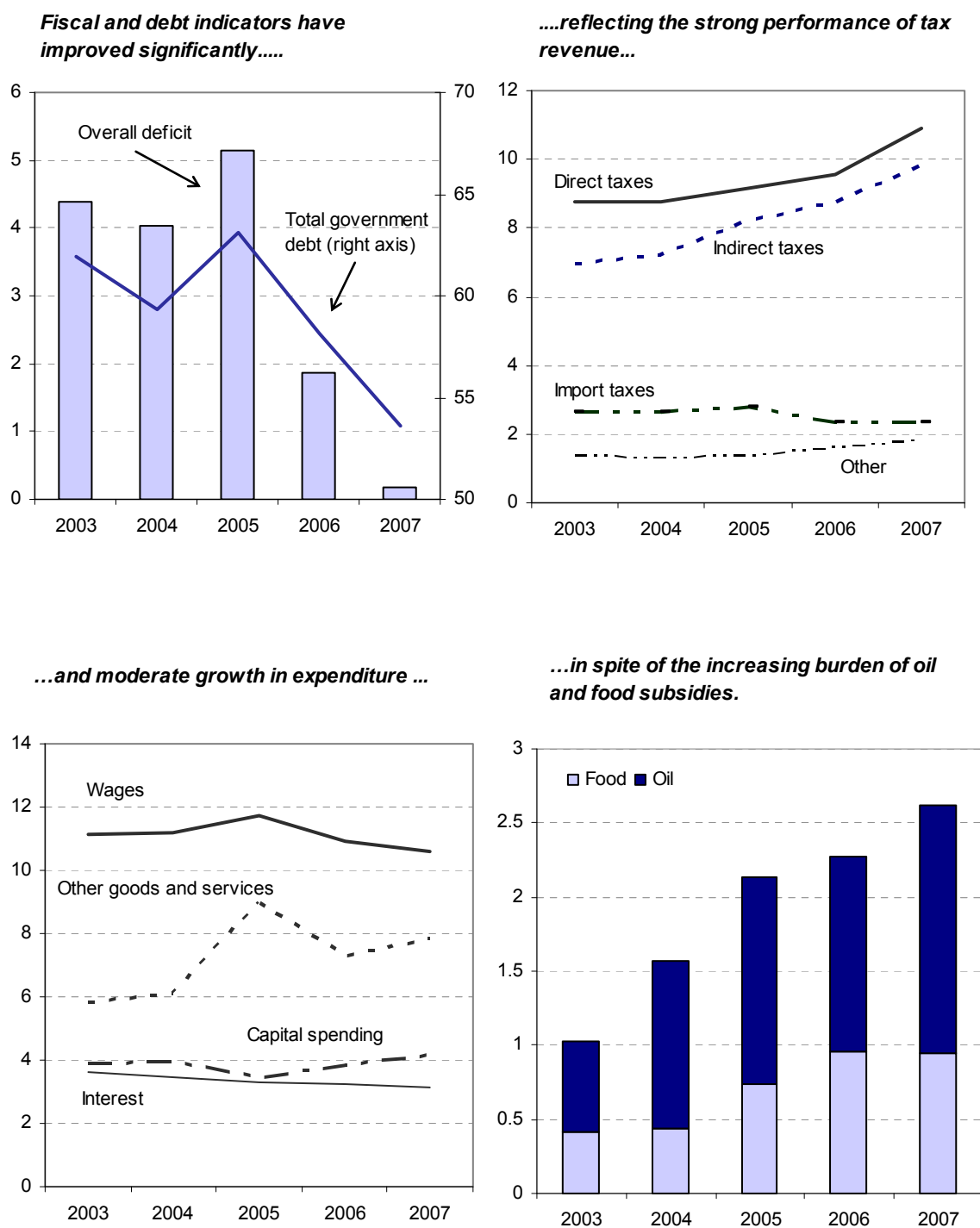
**However, manufacturing is now facing significantly higher input price inflation.**



Sources: Bank Al-Maghrib, WEO, the authorities, and Fund staff calculations.

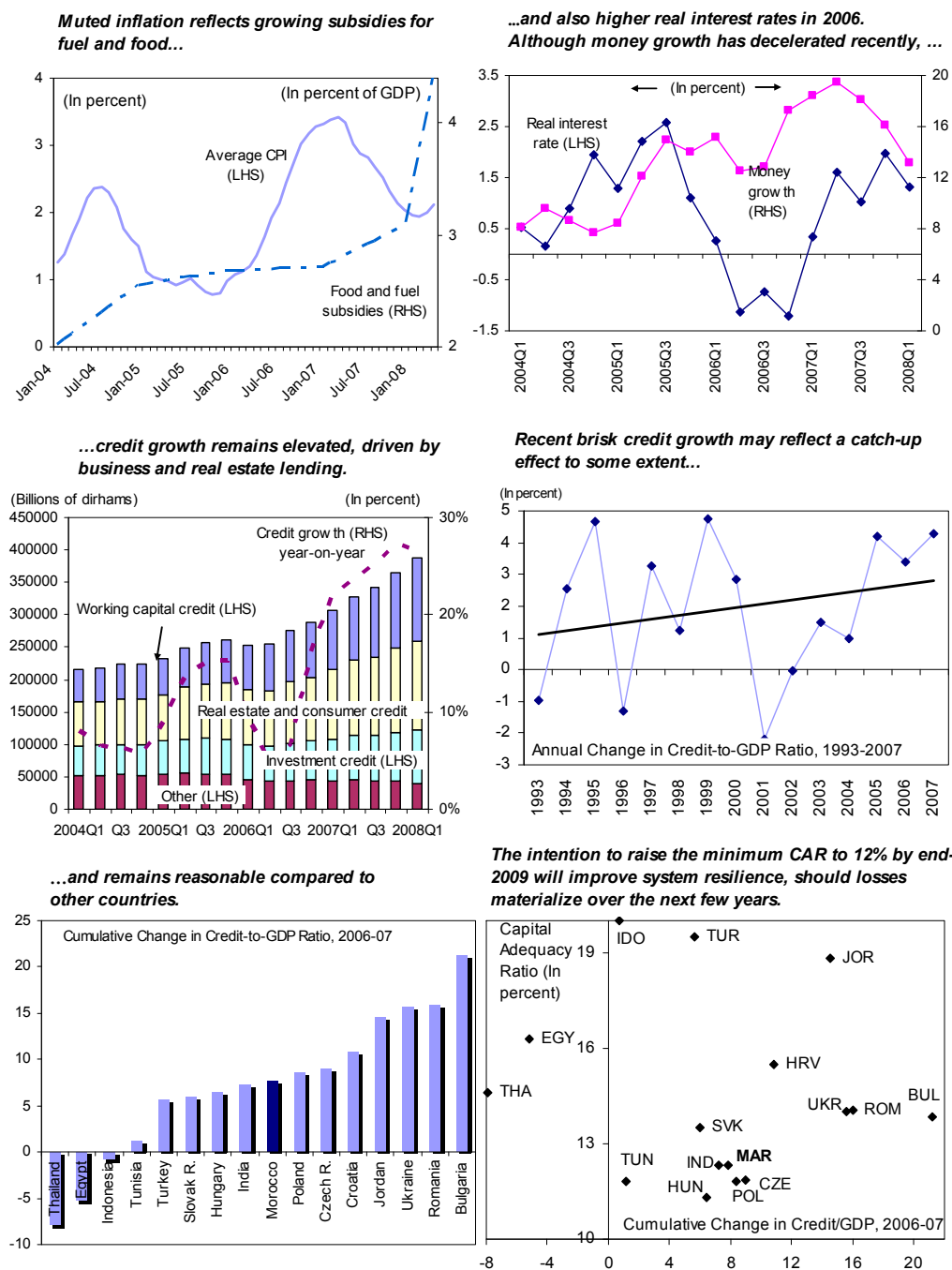
1/ The import deflator is a weighted average of nonfuel commodity import prices and the petroleum price (APSP).

Figure 3. Morocco: Fiscal Indicators  
(In percent of GDP)



Source: Moroccan authorities.

Figure 4. Morocco: Monetary and Financial Indicators



Sources: Moroccan Authorities; and Fund staff calculations.

Table 1. Morocco: Selected Economic Indicators, 2003–10

(Quota: SDR 588 million)

(Population: 31.0 million; 2007)

(Per capita GDP: \$2,423; 2007)

(Poverty rate: 9 percent; 2007)

(Main export: textiles, phosphates; 2007)

	2003	2004	2005	2006	2007	Projections		
						2008	2009	2010
(Annual percentage change)								
Output and prices								
Real GDP (market price)	6.3	4.8	3.0	7.8	2.7	6.5	5.7	5.8
Real non agricultural GDP (market price)	3.6	4.7	5.6	5.4	6.6	6.1	5.9	6.0
Consumer prices (end of period)	1.8	0.5	2.1	3.3	2.0	3.2	2.9	2.8
Consumer prices (period average)	1.2	1.5	1.0	3.3	2.0	3.2	2.9	2.8
(In percent of GDP)								
Investment and saving								
Gross capital formation	27.4	29.1	28.8	29.4	32.5	32.9	33.0	33.1
Of which: Nongovernment	24.7	26.4	26.4	26.8	29.7	29.7	30.0	30.0
Gross national savings	30.5	30.8	30.6	31.6	32.4	32.2	31.1	32.2
Of which: Nongovernment	29.5	29.3	30.9	27.9	26.5	28.5	27.0	27.3
(In percent of GDP)								
Public finances								
Revenue (including grants)	21.8	22.6	24.2	25.6	27.8	29.1	28.0	28.0
Expenditure	26.8	27.0	30.1	28.0	28.9	31.7	31.3	30.9
Primary balance (including grants)	-1.0	-0.5	-1.8	1.4	3.0	0.7	-0.7	0.0
Total government debt	61.9	59.4	63.1	58.1	53.6	51.9	51.8	50.1
(Annual percentage change; unless otherwise indicated)								
Monetary sector								
Broad money	8.6	7.7	14.0	17.2	16.1	15.2	13.0	...
Velocity of broad money	1.3	1.2	1.1	1.1	1.0	0.9	0.9	...
Three-month treasury bill rate (period average, in percent)	3.3	2.5	2.5	2.6	3.6	...	...	...
(In percent of GDP; unless otherwise indicated)								
External sector								
Exports of goods (in U.S. dollars, percentage change)	11.8	13.1	7.9	11.4	22.8	28.7	10.8	8.8
Imports of goods (in U.S. dollars, percentage change)	20.1	25.2	15.3	14.6	34.3	32.0	11.5	8.5
Merchandise trade balance	-8.7	-11.4	-13.8	-14.8	-19.2	-22.1	-22.5	-22.2
Current account excluding official transfers	3.0	1.5	1.4	1.8	-0.5	-2.1	-2.2	-1.3
Current account including official transfers	3.2	1.7	1.8	2.2	-0.1	-0.7	-1.8	-1.0
Foreign direct investment	4.6	1.5	2.7	3.1	2.6	3.8	3.3	3.3
Total external debt	33.6	29.1	24.2	23.9	23.8	21.1	20.1	19.2
Gross reserves (in billions of U.S. dollars)	13.7	16.3	16.1	20.2	24.0	28.2	29.8	32.5
In months of next year imports of goods and services	8.3	8.6	7.4	7.0	6.5	6.8	6.7	6.6
In percent of short-term external debt (on remaining maturity basis)	577	776	912	1012	1166	1968	2097	2282
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	49.8	56.9	59.5	65.6	75.1	88.3	97.3	106.9
Unemployment rate (in percent)	11.4	10.8	11.1	9.7	9.8	...	...	...
Net imports of energy products (in billions of U.S. dollars)	-2.2	-3.0	-4.5	-5.1	-6.3	-11.1	-13.2	-14.4
Local currency per U.S. dollar (period average)	9.6	8.9	8.9	8.8	8.2	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.0	-1.2	-1.8	1.2	-0.4	...	...	...
Stock market index	3,944	4,522	5,539	9,480	12,695	...	...	...

Sources: Moroccan authorities; and Fund staff estimates.

Table 2. Morocco: Balance of Payments, 2003–13  
(In billions of U.S. dollars; unless otherwise indicated)

	2003	2004	2005	2006	2007	Projections					
						2008	2009	2010	2011	2012	2013
Current account	1.6	1.0	1.1	1.4	-0.1	-0.6	-1.8	-1.0	-0.9	-0.6	-0.5
Trade balance	-4.3	-6.5	-8.2	-9.7	-14.5	-19.6	-21.9	-23.7	-25.8	-28.1	-30.6
Exports, f.o.b.	8.8	9.9	10.7	11.9	14.6	18.9	20.9	22.7	24.9	27.4	30.1
Agriculture	1.8	1.8	2.2	2.4	2.7	3.2	3.5	3.6	3.8	3.9	4.1
Phosphates and derived products	1.2	1.6	1.8	2.0	2.7	4.0	4.4	4.7	5.1	5.6	6.0
Imports, f.o.b.	-13.1	-16.4	-18.9	-21.7	-29.1	-38.4	-42.8	-46.4	-50.7	-55.5	-60.7
Energy	-2.2	-3.0	-4.5	-5.1	-6.3	-11.1	-13.2	-14.4	-15.8	-17.4	-19.2
Capital goods	-3.1	-3.9	-4.3	-5.3	-6.9	-8.1	-9.0	-9.9	-11.0	-12.3	-13.6
Food products	-1.2	-1.5	-1.8	-1.8	-3.2	-3.4	-3.7	-3.8	-3.9	-4.0	-4.1
Services	2.6	3.3	4.3	5.3	7.0	9.0	10.3	11.9	13.4	15.0	16.8
Tourism receipts	3.2	3.9	4.6	6.0	7.3	8.3	9.1	10.3	11.6	13.0	14.6
Income	-0.8	-0.7	-0.4	-0.5	-0.4	-0.4	-0.5	-0.6	-0.7	-0.7	-0.7
Transfers	4.1	4.9	5.4	6.3	7.7	10.4	10.4	11.4	12.3	13.2	14.0
Private transfers (net)	4.0	4.7	5.1	6.0	7.5	9.1	10.0	11.1	11.9	12.8	13.8
Workers' remittances	3.6	4.2	4.6	5.4	6.7	8.2	9.1	10.1	10.9	11.8	12.7
Official grants (net)	0.1	0.1	0.2	0.3	0.3	1.3	0.4	0.4	0.4	0.4	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.4	1.2	1.7	1.8	2.2	3.4	3.2	3.4	3.7	4.0	4.5
Direct investment 1/	2.3	0.9	1.6	2.0	1.9	3.4	3.2	3.5	3.9	4.3	4.7
Privatization	1.5	0.0	1.4	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Portfolio investment 2/	0.0	0.6	0.1	-0.3	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.4
Other	-1.9	-0.2	0.1	0.1	0.4	0.1	0.2	0.1	0.1	0.1	0.2
Private 3/	-0.8	0.9	0.3	-0.1	-0.5	0.0	-0.6	-0.8	-0.8	-0.8	-0.9
Public medium-and long-term loans (net)	-1.1	-1.1	-0.3	0.2	0.9	0.2	0.8	0.9	0.9	1.0	1.1
Disbursements	1.4	0.9	1.7	1.9	2.7	2.1	2.1	2.1	2.2	2.2	2.2
Amortization	-2.5	-2.1	-1.9	-1.6	-1.9	-1.9	-1.3	-1.3	-1.2	-1.2	-1.1
Reserve asset accumulation (-increase)	-1.6	-1.9	-2.4	-2.7	-2.2	-2.8	-1.4	-2.3	-2.8	-3.4	-4.0
Errors and omissions	-0.3	-0.3	-0.4	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)											
Current account	3.2	1.7	1.8	2.2	-0.1	-0.7	-1.8	-1.0	-0.7	-0.5	-0.3
Trade balance	-8.7	-11.4	-13.8	-14.8	-19.2	-22.1	-22.5	-22.2	-22.0	-21.8	-21.5
Services	5.3	5.7	7.2	8.1	9.4	10.2	10.6	11.1	11.4	11.6	11.8
Income	-1.6	-1.2	-0.6	-0.7	-0.5	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5
Transfers	8.2	8.5	9.1	9.6	10.3	11.7	10.7	10.7	10.5	10.2	9.9
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.7	2.1	2.9	2.7	2.9	3.8	3.3	3.1	3.1	3.1	3.2
Direct investment 1/	4.6	1.5	2.7	3.1	2.6	3.8	3.3	3.3	3.3	3.3	3.3
Portfolio investment 2/	0.0	1.0	0.1	-0.5	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Other	-3.9	-0.4	0.1	0.1	0.5	0.1	0.2	0.1	0.1	0.1	0.1
Memorandum items:											
Exports of goods and services (percentage growth)	-3.2	10.7	5.7	7.1	5.3	6.2	8.7	8.6	8.4	8.4	8.3
Imports of goods and services (percentage growth)	4.8	5.8	12.3	6.0	13.6	4.4	7.7	7.4	7.6	7.7	7.7
Current account balance excluding official grants (percent of GDP)	3.0	1.5	1.4	1.8	-0.5	-2.1	-2.2	-1.3	-1.0	-0.8	-0.5
Terms of trade (percentage change)	5.7	-12.9	8.9	1.3	-3.3	-1.2	-0.5	0.1	0.1	0.2	0.3
Gross official reserves 4/	13.7	16.3	16.1	20.2	24.0	28.2	29.8	32.5	35.7	39.5	44.0
In months of prospective imports of GNFS	8.3	8.6	7.4	7.0	6.5	6.8	6.7	6.6	6.7	6.7	...
Debt service (percent of export of GNFS and MRE) 5/	18.8	13.6	11.3	8.6	7.9	6.8	4.7	4.3	4.0	3.7	3.3
External public and publicly guaranteed debt (percent of GDP)	26.3	22.8	22.0	20.1	19.9	18.8	18.1	17.5	16.9	16.3	15.7
DHs per US\$, period average	9.6	8.9	8.9	8.8	8.2	...	...	...	...	...	...
GDP (\$)	49.8	56.9	59.5	65.6	75.1	88.3	97.3	106.9	117.4	129.1	142.0
Oil price (US\$/barrel)	28.9	37.8	53.4	64.3	71.1	116.5	125.0	123.5	123.5	123.5	123.8

Sources: Ministry of Economy and Finance; Office des Changes; and Fund staff estimates and projections.

1/ In 2005, a nonresident company (Vivendi) sold part of its shares in Maroc Télécom to a resident company.

2/ The increase in 2004 is due to a sale of government shares of Maroc Télécom in the Casablanca and Paris stock exchange.

3/ Includes the loans that Moroccan banks gave in 2003 and in 2005 to Vivendi that bought part of Maroc Télécom in 2003 and additional shares in 2005.

4/ Excluding the reserve position in the Fund.

5/ Public and publically guaranteed debt.

Table 3. Morocco: Central Government Finance, 2003–10  
(In billions of Dirhams)

	2003	2004	2005	2006	2007	Budget 2008	Proj. 2008	2009	2010
Revenue 1/	103.3	112.6	125.0	145.4	168.7	161.9	181.4	197.4	214.7
Revenue (excluding Hassan II Fund) 1/	103.1	112.3	124.5	144.7	167.9	161.1	180.6	196.6	214.0
Tax revenue 1/	94.5	101.1	114.2	128.2	153.1	149.2	167.6	185.9	202.4
Direct taxes	33.4	36.4	43.2	50.6	60.5	59.0	72.8	78.9	86.4
Indirect taxes	41.9	44.3	48.2	55.1	67.1	67.1	71.1	79.0	86.1
Import taxes	12.6	13.3	14.6	13.4	14.4	12.2	11.8	16.1	16.8
Other tax revenues	6.4	6.6	7.1	9.1	11.1	11.1	11.9	12.0	13.1
Nontax revenue (excluding privatization, and Hassan II Fund)	8.6	11.2	10.4	16.5	14.8	11.9	13.0	10.7	11.7
Expenditures and net lending (excluding Hassan II Fund)	126.3	135.1	156.4	159.0	175.1	186.0	205.3	221.9	238.5
Current expenditures	98.4	105.1	126.7	123.9	132.6	138.9	157.2	167.8	176.7
Wages	53.2	56.6	62.0	63.2	65.2	67.0	69.3	75.7	81.3
Food and petroleum subsidies 2/	4.9	7.9	11.3	13.1	16.2	15.4	33.1	30.2	25.1
Food	2.0	2.2	3.9	5.5	5.8	6.7	8.0	7.3	6.4
Petroleum	2.9	5.7	7.4	7.6	10.4	8.7	25.1	22.9	18.7
Other primary current spending	22.9	23.1	36.1	29.0	32.0	37.3	35.3	43.7	47.8
Interest	17.4	17.6	17.3	18.7	19.2	19.2	19.4	18.2	22.6
Capital expenditures (budget) 3/	18.6	19.8	18.1	22.2	25.7	30.2	30.2	33.5	39.2
Road fund	1.2	1.6	1.9	1.7	1.8	2.0	2.0	2.3	2.5
Transfers to local governments 4/	7.8	8.8	9.8	11.7	14.9	15.0	16.0	18.3	20.0
Net lending	0.2	-0.2	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	2.2	2.5	4.7	3.5	6.2	2.0	2.0	0.0	0.0
Overall balance (commitment basis, excluding Hassan II Fund)	-21.0	-20.3	-27.2	-10.8	-1.1	-23.0	-22.7	-25.3	-24.4
Fonds Hassan II expenditures	1.8	1.2	2.5	2.9	2.9	2.3	2.8	1.5	1.7
Interest payments to Fonds Hassan II	0.2	0.4	0.5	0.7	0.8	0.8	0.8	0.7	0.7
Overall balance (commitment basis, including Hassan II Fund)	-22.5	-21.2	-29.2	-13.0	-3.1	-24.5	-24.7	-26.1	-25.4
Grants	0.5	1.3	2.5	2.5	2.4	2.5	10.0	3.1	3.1
Privatization and GSM revenues	12.0	10.4	13.8	4.8	6.1	3.0	2.0	2.0	2.0
Change in arrears	-1.3	2.1	-8.4	-0.7	0.2	-6.9	2.4	-9.5	0.0
Overall balance (cash basis, including Hassan II Fund, grants and privatization)	-11.3	-7.4	-21.3	-6.5	5.6	-25.9	-10.3	-30.5	-20.3
Financing	11.3	7.4	21.3	6.5	-5.6	28.1	10.3	30.5	20.3
Domestic financing	20.5	15.1	22.7	6.7	-8.8	29.8	11.9	27.3	17.1
External financing	-9.2	-7.7	-1.4	-0.2	3.2	-1.6	-1.6	3.2	3.2
Memorandum Items:									
Current balance	4.9	7.5	-1.7	21.5	36.1	23.0	24.2	29.6	38.0
Primary balance	-5.1	-3.6	-11.8	5.6	16.1	-5.3	-5.3	-7.8	-2.8
Primary balance (excluding Hassan II Fund)	-3.6	-2.7	-9.8	7.8	18.2	-3.8	-3.3	-7.0	-1.8
Total Central Government debt (end period)	295.3	299.8	333.1	335.6	330.1		341.2	370.2	389.0
Domestic 5/	217.0	229.4	264.0	270.6	264.1		276.0	303.3	320.4
External	78.3	70.4	69.0	65.1	66.0		65.2	66.9	68.7
GDP in billions of dirhams	477.0	505.0	527.7	577.3	615.4	657.2	657.2	714.6	777.0

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

1/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires*) and revenues of the road fund (*Fonds Routier*).

2/ Includes food subsidies financed from earmarked tariffs (*équivalents tarifaires*).

3/ Budgetary capital expenditures excluding Fonds Routier and investment spending by the Hassan II Fund.

4/ Corresponds to 30 percent of VAT revenue.

5/ Excludes the net position with the Central Bank outside statutory advances. Projections are based on the balance excluding Hassan II Fund.

Table 4. Morocco: Central Government Finance, 2003–10  
(In percent of GDP)

	2003	2004	2005	2006	2007	Budget 2008	Projections		
							2008	2009	2010
Revenue 1/	21.7	22.3	23.7	25.2	27.4	24.6	27.6	27.6	27.6
Revenue (excluding Hassan II Fund) 1/	21.6	22.2	23.6	25.1	27.3	24.5	27.5	27.5	27.5
Tax revenue 1/	19.8	20.0	21.6	22.2	24.9	22.7	25.5	26.0	26.0
Direct taxes	7.0	7.2	8.2	8.8	9.8	9.0	11.1	11.0	11.1
Indirect taxes	8.8	8.8	9.1	9.5	10.9	10.2	10.8	11.0	11.1
Import taxes	2.6	2.6	2.8	2.3	2.3	1.9	1.8	2.2	2.2
Other tax revenues	1.3	1.3	1.3	1.6	1.8	1.7	1.8	1.7	1.7
Nontax revenue (excluding privatization, and Hassan II Fund)	1.8	2.2	2.0	2.9	2.4	1.8	2.0	1.5	1.5
Expenditures and net lending (excluding Hassan II Fund)	26.5	26.8	29.6	27.5	28.5	28.3	31.2	31.1	30.7
Current expenditures	20.6	20.8	24.0	21.5	21.6	21.1	23.9	23.5	22.7
Wages	11.2	11.2	11.8	10.9	10.6	10.2	10.6	10.6	10.5
Food and petroleum subsidies 2/	1.0	1.6	2.1	2.3	2.6	2.3	5.0	4.2	3.2
Food	0.4	0.4	0.7	1.0	0.9	1.0	1.2	1.0	0.8
Petroleum	0.6	1.1	1.4	1.3	1.7	1.3	3.8	3.2	2.4
Other primary current spending	4.8	4.6	6.8	5.0	5.2	5.7	5.4	6.1	6.2
Interest	3.6	3.5	3.3	3.2	3.1	2.9	3.0	2.6	2.9
Capital expenditures (budget) 3/	3.9	3.9	3.4	3.8	4.2	4.6	4.6	4.7	5.0
Road fund	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Transfers to local governments 4/	1.6	1.7	1.9	2.0	2.4	2.3	2.4	2.6	2.6
Net lending	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Balance of other special treasury accounts	0.5	0.5	0.9	0.6	1.0	0.3	0.3	0.0	0.0
Overall balance (commitment basis, excluding Hassan II Fund)	-4.4	-4.0	-5.1	-1.9	-0.2	-3.5	-3.5	-3.5	-3.1
Fonds Hassan II expenditures	0.4	0.2	0.5	0.5	0.5	0.4	0.4	0.2	0.2
Interest payments to Fonds Hassan II	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (commitment basis, including Hassan II Fund)	-4.7	-4.2	-5.5	-2.3	-0.5	-3.7	-3.8	-3.7	-3.3
Grants	0.1	0.3	0.5	0.4	0.4	0.4	1.5	0.4	0.4
Privatization and GSM revenues	2.5	2.1	2.6	0.8	1.0	0.5	0.3	0.3	0.3
Change in arrears	-0.3	0.4	-1.6	-0.1	0.0	-1.0	0.4	-1.3	0.0
Overall balance (cash basis, including Hassan II Fund, grants and privatization)	-2.4	-1.5	-4.0	-1.1	0.9	-3.9	-1.6	-4.3	-2.6
Financing	2.4	1.5	4.0	1.1	-0.9	4.3	1.6	4.3	2.6
Domestic financing	4.3	3.0	4.3	1.2	-1.4	4.5	1.8	3.8	2.2
External financing	-1.9	-1.5	-0.3	0.0	0.5	-0.2	-0.2	0.5	0.4
Memorandum Items:									
Current balance	1.0	1.5	-0.3	3.7	5.9	3.5	3.7	4.1	4.9
Primary balance	-1.1	-0.7	-2.2	1.0	2.6	-0.8	-0.8	-1.1	-0.4
Primary balance (excluding Hassan II Fund)	-0.8	-0.5	-1.9	1.4	3.0	-0.6	-0.5	-1.0	-0.2
Total Central Government debt (end period)	61.9	59.4	63.1	58.1	53.6	...	51.9	51.8	50.1
Domestic 5/	45.5	45.4	50.0	46.9	42.9	...	42.0	42.4	41.2
External	16.4	13.9	13.1	11.3	10.7	...	9.9	9.4	8.8

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

1/ Includes tariffs earmarked for food subsidies (*équivalents tarifaires*) and revenues of the road fund (*Fonds Routier*).

2/ Includes food subsidies financed from earmarked tariffs (*équivalents tarifaires*).

3/ Budgetary capital expenditures excluding Fonds Routier and investment spending by the Hassan II Fund.

4/ Corresponds to 30 percent of VAT revenue.

5/ Excludes the net position with the central bank outside statutory advances. Projections are based on the balance excluding Hassan II Fund.

Table 5. Morocco: Monetary Survey, 2003–09

	2003	2004	2005	2006	2007	Projections	
						2008	2009
(In millions of dirhams)							
Net foreign assets	127,083	144,309	165,509	189,783	208,284	219,079	228,785
Monetary authorities	121,973	135,269	149,837	172,377	188,073	201,868	211,574
Of which:							
Gross reserves	120,012	133,934	148,730	171,118	185,136	201,932	211,637
Net Fund position	916	899	931	896	859	859	859
Deposit money banks	5,110	9,040	15,672	17,406	20,211	17,211	17,211
Net domestic assets	251,061	262,772	298,677	354,298	423,589	508,837	593,606
Domestic credit	323,629	334,509	368,513	414,725	516,322	599,051	684,468
Net credit to the government	89,098	83,068	84,180	81,946	86,212	89,790	98,028
Banking system	81,415	75,358	75,799	73,654	77,175	80,753	88,991
Bank Al-Maghrib	4,292	3,325	408	-1,062	3,685	6,505	8,034
Of which: deposits 1/	-13,801	-15,207	-13,591	-14,078	-8,672	-5,852	-4,323
Deposit money banks	77,123	72,033	75,391	74,716	73,490	74,248	80,957
Treasury-IMF	-916	-899	-931	-896	-859	-859	-859
Counterpart to deposits with CCP/treasury	8,599	8,609	9,312	9,188	9,896	9,896	9,896
Credit to the economy	234,531	251,441	284,333	332,779	430,110	509,262	586,440
Other liabilities, net	72,568	71,737	69,836	60,427	92,733	90,215	90,862
Money and quasi money	378,144	407,081	464,186	544,081	631,873	727,916	822,391
Money	290,784	319,340	364,137	426,811	495,681	571,023	645,135
Currency outside banks	74,890	79,715	89,305	108,564	119,839	138,054	155,972
Demand deposits	215,894	239,625	274,832	318,247	375,842	432,969	489,163
Quasi money	87,360	87,741	100,049	117,270	136,192	156,893	177,256
(Annual percentage change)							
Net foreign assets	15.0	13.6	14.7	14.7	9.7	5.2	4.4
Net domestic assets	5.6	4.7	13.7	18.6	19.6	20.1	16.7
Domestic credit	5.8	3.4	10.2	12.5	24.5	16.0	14.3
Net credit to the government	-0.4	-6.8	1.3	-2.7	5.2	4.1	9.2
Credit to the economy	8.3	7.2	13.1	17.0	29.2	18.4	15.2
Money and quasi money	8.6	7.7	14.0	17.2	16.1	15.2	13.0
(In percent of broad money)							
Net foreign assets	4.8	4.6	5.2	5.2	3.4	1.7	1.3
Domestic credit	5.1	2.9	8.4	10.0	18.7	13.1	11.7
Net credit to the government	-0.1	-1.6	0.3	-0.5	0.8	0.6	1.1
Credit to the economy	5.2	4.5	8.1	10.4	17.9	12.5	10.6
Other assets net	-1.3	0.2	0.5	2.0	-5.9	0.4	-0.1
Memorandum items:							
Velocity (GDP/M3)	1.26	1.24	1.14	1.06	0.97	0.90	0.87
Velocity (nonagricultural GDP/M3)	1.07	1.06	0.99	0.90	0.86	0.80	0.77
Credit to economy/GDP (in percent)	49.2	49.8	53.9	57.6	69.9	77.5	82.1
Credit to economy/nonagricultural GDP (in percent)	58.2	58.4	62.1	67.9	79.6	87.6	92.5

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

1/ Includes Hassan II Fund.

Table 6. Morocco: Financial Soundness Indicators of the Banking Sector, 2003–07  
(In percent, unless indicated otherwise)

	2003	2004	2005	2006	2007
<b>Regulatory Capital 1/</b>					
Regulatory capital to risk-weighted assets 2/	9.6	10.5	11.5	12.3	10.6
Tier 1 capital to risk weighted assets	11.1	11.5	10.0	11.0	9.2
Capital to assets	7.6	7.6	7.7	7.4	6.9
<b>Asset Quality</b>					
<b>Sectoral distribution of loans to total loans</b>					
Industry	21.1	19.8	21.9	19.9	19.6
<i>Of which: agro-business</i>	5.8	5.3	6.6	5.9	4.9
<i>Of which: textile</i>	4.0	3.5	2.7	2.0	2.3
<i>Of which: gas and electricity</i>	2.0	2.1	3.0	3.3	3.7
Agriculture	9.0	8.2	5.4	4.8	4.8
Commerce	8.3	7.7	7.5	6.7	6.4
Construction	6.9	7.0	6.2	7.4	10.1
Tourism	4.8	3.7	2.9	2.3	2.5
Finance	8.3	10.7	10.2	11.4	14.0
Public administration	3.5	3.9	3.4	3.1	2.8
Transportation and communication	3.2	3.3	5.4	5.9	5.2
Households	24.9	26.7	26.0	28.6	28.4
Other	10.0	9.0	11.1	9.9	6.2
FX-loans to total loans	1.5	2.4	1.9	2.7	2.3
Credit to the private sector to total loans	95.6	95.4	92.7	93.1	94.0
Non Performing Loans (NPLs) to total loans	18.7	19.4	15.7	10.9	7.9
Specific provisions to NPLs	54.9	59.3	67.1	71.2	75.2
NPLs, net of provisions, to Tier 1 capital	81.8	75.3	57.2	30.3	20.1
Large exposures to Tier 1 capital	...	...	388.0	381.0	363.0
Loans to subsidiaries to total loans	...	...	...	6.5	...
Loans to shareholders to total loans	...	...	...	1.3	...
Interest rate average spread (b/w loans and deposits)	5.4	5.0	4.8	4.7	4.4
Specific provisions to total loans	10.3	11.5	10.5	7.8	5.9
General provisions to total loans	1.7	1.4	1.2	0.9	0.9
<b>Profitability</b>					
Return on Assets (ROA)	-0.2	0.8	0.5	1.3	1.5
Return on Equity (ROE)	-2.0	10.9	6.3	17.4	20.6
Net interest margin to net banking product (PNB) 3/	82.4	79.8	80.1	75.8	75.9
Operating expenses to PNB	53.4	94.7	50.0	48.4	46.5
Operating expenses to total assets	2.4	2.4	2.3	2.2	2.0
Personnel expenses to non-interest expenses	53.7	52.5	53.1	50.7	52.3
Trading and other non-interest income to PNB	18.2	20.8	19.6	23.9	24.1
<b>Liquidity</b>					
Liquid assets to total assets	28.1	29.6	29.0	27.0	23.6
Liquid assets to short-term liabilities	42.6	42.4	40.2	36.8	30.7
Deposits to loans	138.5	142.9	144.9	146.0	135.2
Deposits of state-owned enterprises to total deposits	2.6	2.2	3.7	4.6	3.9
<b>Sensitivity to market risk</b>					
FX net open position to Tier 1 Capital	...	...	18.1	8.0	...

Source: Bank Al-Maghrib.

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

2/ For 2007, the ratio is computed following Basel II standards. According to Basel I, it would have been 12%.

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

Table 7. Morocco: External Debt Sustainability Framework, 2003–13  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing noninterest current account 6/ -6.3
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013		
<b>Baseline: External debt</b>	33.6	29.1	24.2	23.9	23.8	21.1	20.1	19.2	18.3	17.5	16.6		
Change in external debt	-5.2	-4.5	-4.9	-0.4	-0.1	-2.6	-1.0	-0.9	-0.8	-0.8	-0.9		
Identified external debt-creating flows (4+8+9)	-15.1	-7.4	-5.7	-7.5	-5.4	-4.4	-2.5	-4.3	-5.3	-6.1	-6.1		
Current account deficit, excluding interest payments	-4.5	-2.7	-2.7	-3.1	-0.8	-0.2	1.0	0.2	0.0	-0.2	-0.4		
Deficit in balance of goods and services	3.4	5.7	6.6	6.7	9.9	12.0	12.0	11.1	10.6	10.2	9.7		
Exports	28.6	29.2	31.6	33.1	36.0	38.3	38.9	39.2	39.4	39.6	39.8		
Imports	32.0	34.8	38.2	39.8	45.9	50.3	50.8	50.3	50.0	49.8	49.5		
Net nondebt creating capital inflows (negative)	-4.6	-1.5	-2.7	-3.1	-2.6	-3.8	-3.3	-4.2	-5.0	-5.6	-5.4		
Automatic debt dynamics 1/	-6.0	-3.2	-0.4	-1.3	-2.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3		
Contribution from nominal interest rate	1.3	1.1	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7		
Contribution from real GDP growth	-2.0	-1.4	-0.8	-1.7	-0.6	-1.3	-1.1	-1.1	-1.0	-1.0	-0.9		
Contribution from price and exchange rate changes 2/	-5.3	-2.8	-0.4	-0.5	-2.4	...	...	...	...	...	...		
Residual, including change in gross foreign assets (2-3) 3/	9.9	2.9	0.8	7.1	5.3	1.8	1.5	3.4	4.4	5.3	5.2		
External debt-to-exports ratio (in percent)	117.7	99.8	76.7	72.2	65.9	55.1	51.7	48.9	46.5	44.1	41.7		
<b>Gross external financing need (in billions of US dollars) 4/</b>	1.2	1.4	1.1	0.4	2.2	2.7	3.3	2.5	2.3	2.0	1.8		
In percent of GDP	2.3	2.5	1.8	0.6	2.9	3.1	3.3	2.4	2.0	1.6	1.3		
<b>Scenario with key variables at their historical averages 5/</b>						21.1	16.9	14.6	13.5	13.4	13.2	-3.2	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>													
Real GDP growth (in percent)	6.3	4.8	3.0	7.8	2.7	6.5	5.7	5.8	5.9	5.9	6.0		
GDP deflator in U.S. dollars (change in percent)	15.8	9.1	1.5	2.3	11.4	10.4	4.4	3.8	3.8	3.8	3.8		
Nominal external interest rate (in percent)	4.1	3.6	3.2	4.1	4.4	4.6	4.1	4.2	4.4	4.3	4.3		
Growth of exports (U.S. dollar terms, in percent)	16.7	16.7	13.2	15.4	24.8	25.1	11.8	10.7	10.4	10.6	10.6		
Growth of imports (U.S. dollar terms, in percent)	19.8	24.4	14.7	14.8	32.1	28.7	11.4	8.5	9.3	9.5	9.4		
Current account balance, excluding interest payments	4.5	2.7	2.7	3.1	0.8	0.2	-1.0	-0.2	0.0	0.2	0.4		
Net nondebt creating capital inflows	4.6	1.5	2.7	3.1	2.6	3.8	3.3	4.2	5.0	5.6	5.4		

Sources: International Monetary Fund, Morocco desk data, and Fund staff estimates.

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

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

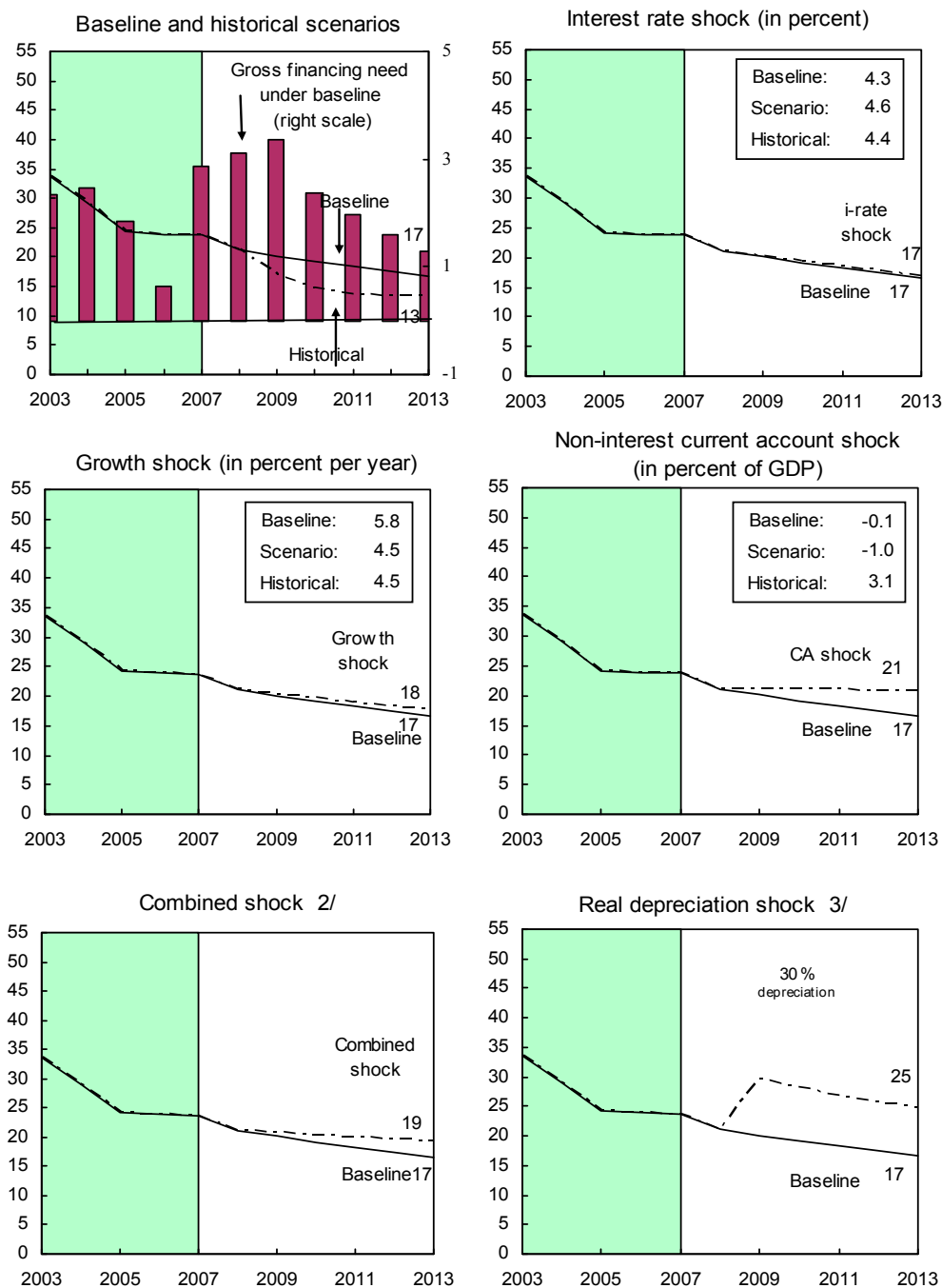
3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ The key variables include real GDP growth, nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.

6/ Long run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 5. Morocco: External Debt Sustainability: Bound Tests 1/  
(External debt in percent of GDP)



Sources: International Monetary Fund, Morocco desk data, and Fund 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2009.

Table 8. Morocco: Public Sector Debt Sustainability Framework, 2003–13  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					Debt-stabilizing primary balance 9/
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Baseline: Public sector debt 1/</b>											
Of which: foreign-currency denominated	61.9	59.4	63.1	58.1	53.6	51.9	51.8	50.1	48.0	46.0	44.3
Change in public sector debt	16.4	13.9	13.1	11.3	10.7	9.9	9.4	8.8	8.4	7.9	7.5
Identified debt-creating flows (4+7+12)	-3.7	-2.5	3.8	-5.0	-4.5	-1.7	-0.1	-1.7	-2.1	-2.0	-1.7
Primary deficit	-5.1	-3.1	2.8	-5.8	-5.8	-2.2	0.0	-1.7	-2.0	-1.9	-1.6
Revenue and grants	0.7	0.3	1.4	-1.8	-3.3	-1.0	0.6	-0.2	-0.5	-0.4	-0.2
Primary (noninterest) expenditure	21.7	22.5	24.1	25.5	27.7	29.0	27.9	27.9	27.8	27.6	27.6
Automatic debt dynamics 2/	22.4	22.8	25.5	23.7	24.3	28.0	28.5	27.8	27.3	27.2	27.4
Contribution from interest rate/growth differential 3/	-3.5	-0.9	2.5	-3.3	-1.4	-0.5	-1.6	-1.3	-1.3	-1.3	-1.2
Contribution from real interest rate	-0.6	0.1	0.7	-2.2	-0.5	-0.5	-1.6	-1.3	-1.3	-1.3	-1.2
Of which: contribution from real GDP growth	3.2	2.9	2.4	2.3	1.0	2.8	1.1	1.5	1.4	1.3	1.3
Contribution from exchange rate depreciation 4/	-3.9	-2.8	-1.7	-4.5	-1.5	-3.3	-2.7	-2.8	-2.7	-2.6	-2.5
Other identified debt-creating flows	-2.9	-1.0	1.7	-1.1	-1.0	...	...	...	...	...	...
Privatization receipts (negative)	-2.2	-2.5	-1.0	-0.7	-1.0	-0.7	1.0	-0.3	-0.2	-0.2	-0.2
Recognition of implicit or contingent liabilities	-2.5	-2.1	-2.6	-0.8	-1.0	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3) 5/	0.3	-0.4	1.6	0.1	0.0	-0.4	1.3	0.0	0.0	0.0	0.0
Public sector debt-to-revenue ratio 1/	1.4	0.6	0.9	0.8	1.3	0.4	-0.1	-0.1	-0.1	0.0	0.0
285.0	263.9	262.3	228.0	193.8	179.0	185.4	179.2	172.7	166.4	160.8	160.8
<b>Gross financing need 6/</b>	21.7	16.1	15.7	9.9	10.3	12.0	12.1	11.8	10.9	10.5	10.2
in billions of U.S. dollars	10.8	9.2	9.3	6.5	7.7	10.6	11.8	12.6	12.8	13.5	14.5
<b>Scenario with key variables at their historical averages 7/</b>											
<b>Scenario with no policy change (constant primary balance) in 2008–13</b>											
51.9	51.9	51.9	51.9	51.9	51.9	51.9	51.9	50.7	49.4	48.2	47.0
51.9	51.9	51.9	51.9	51.9	51.9	51.9	51.9	47.7	45.1	42.6	40.2
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>											
Real GDP growth (in percent)	6.3	4.8	3.0	7.8	2.7	6.5	5.7	5.8	5.9	5.9	6.0
Average nominal interest rate on public debt (in percent) 8/	5.9	6.0	5.8	5.6	5.7	5.9	5.3	6.1	5.7	5.8	5.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.3	4.9	4.3	4.1	1.9	5.6	2.4	3.3	3.1	3.2	3.2
Nominal appreciation (increase in US dollar value of local currency, in percent)	16.2	6.5	-11.2	9.4	9.6	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.6	1.0	1.4	1.5	3.8	0.3	2.9	2.8	2.6	2.6	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	6.6	6.7	15.2	0.4	5.4	22.5	7.6	3.1	4.1	5.6	6.5
Primary deficit	0.7	0.3	1.4	-1.8	-3.3	-1.0	0.6	-0.2	-0.5	-0.4	-0.2

Sources: International Monetary Fund, Morocco desk data, and Fund staff estimates.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as  $[(r - \pi(1+g) - g + \alpha\pi(1+\pi)) / (1+g+\pi+\pi)]$  times previous period debt ratio, with  $r$  = interest rate,  $\pi$  = growth rate of GDP deflator,  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\varepsilon$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\pi(1+\pi)$ .

5/ For projections, this line includes exchange rate changes.

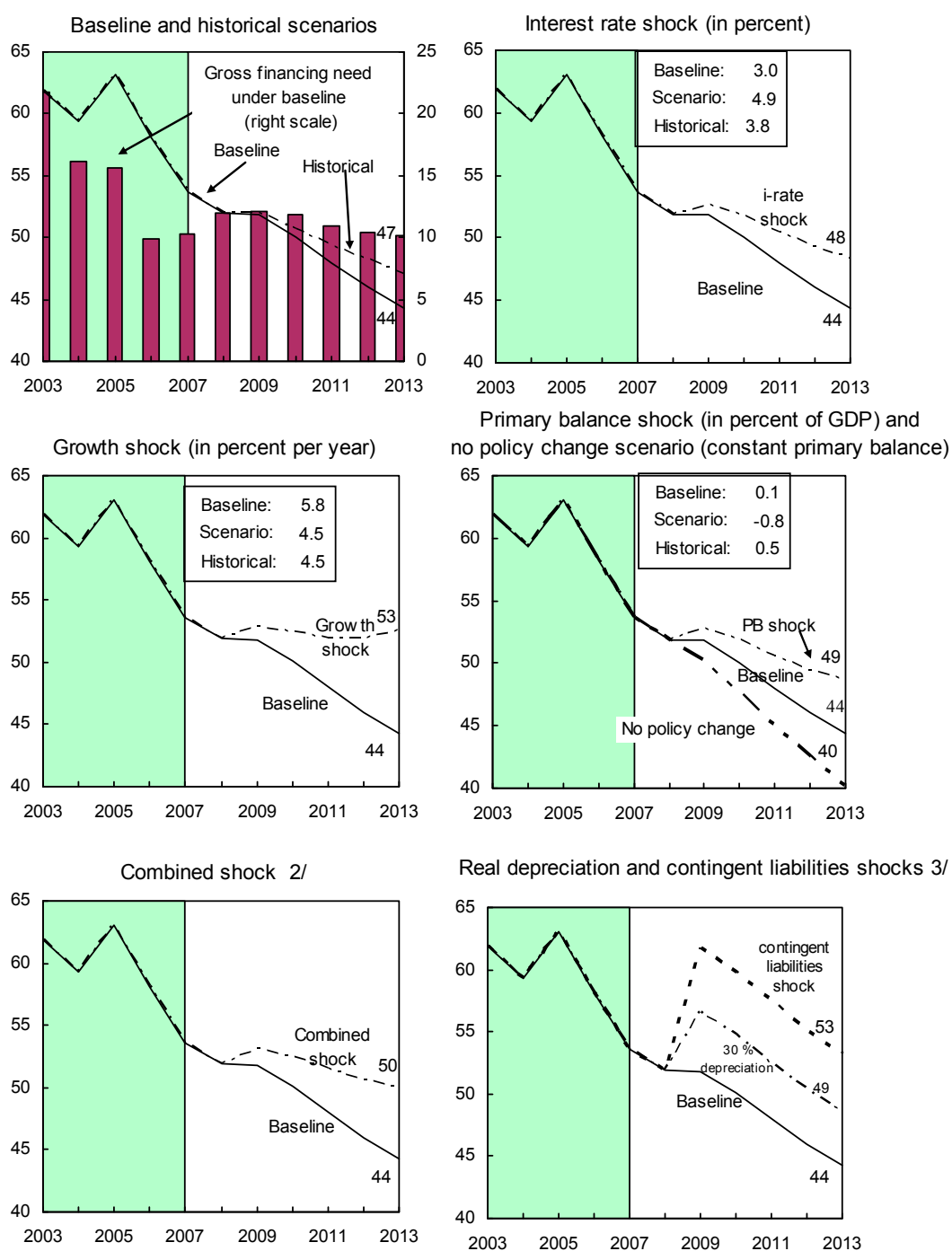
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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 6. Morocco: Public Debt Sustainability: Bound Tests 1/  
(Public debt in percent of GDP)



Sources: International Monetary Fund, Morocco desk data, and Fund 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.



# INTERNATIONAL MONETARY FUND

## *Public Information Notice*

EXTERNAL  
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Draft Public Information Notice (PIN) No. 08/xx  
FOR IMMEDIATE RELEASE  
July 23, 2008

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

### **IMF Executive Board Concludes 2008 Article IV Consultation with Morocco**

On July 23, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Morocco.<sup>1</sup>

#### **Background**

Morocco's recent economic performance has been favorable. Nonagricultural GDP growth reached 6.6 percent in 2007, although overall real GDP slowed to 2.7 percent due to a sharp fall in cereal production. Thus far in 2008, growth has been strong, driven by a rebound in agriculture, continued strong private investment, and vibrant activity in construction and services. Sound macroeconomic policies combined with sustained structural reforms and the opportunities provided by globalization have resulted in a gradual improvement in living standards and per capita income. However, unemployment, notably among the youth, remains a challenge.

Consumer price inflation remains low, in part because administered prices have not been adjusted since the beginning of 2007. Year-on-year consumer price inflation was 2 percent in 2007, down from about 3 percent in 2006, and would have been higher if there had been full pass-through of world oil and commodity prices on administered prices. Inflation has picked up in 2008, reaching 3.7 percent in April 2008, driven mainly by sharply rising food prices.

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<sup>1</sup> 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. 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.

Morocco's external position is sound. Exports have performed well, although imports have been rising even faster, with robust demand for capital and consumer goods, greater food imports to offset the drop in cereal production, and the sharp rise in the world prices of petroleum and food products. Robust tourism receipts and remittance flows have mostly offset the negative trade balance, and with strong capital flows, external reserves rose from \$22 billion at end-2006 to \$26.5 billion at end-May 2008, equivalent to 6.4 months of 2009 imports.

Public finances further strengthened in 2007 due largely to robust revenue. The overall fiscal deficit improved from 2 percent of GDP in 2006 to close to balance in 2007 reflecting higher revenue, which was only partly offset by increased capital expenditure and a pick-up in outlays for the authorities' open-ended subsidy system. Total government debt was 54 percent of GDP at end 2007, down from 58 percent in 2006. Tax revenue has continued to surge during the first quarter of 2008 but the cost of subsidies is expected to rise considerably in 2008.

Monetary policy remained geared toward maintaining low and stable inflation, in the context of the exchange rate peg. The central bank has left its key policy rate unchanged at 3.25 percent since early 2007, and lowered reserve requirements from 16.5 percent to 15 percent in December 2007 because of reduced bank liquidity. Monetary aggregates continued their strong rise, with broad money up by 15 percent (y-o-y) at end-April 2008, and private credit rising by 28 percent. The current level of the dirham's exchange rate is broadly in line with economic fundamentals.

Overall, the financial sector is sound and resilient to shocks. Banks are generally well-provisioned and have little foreign exposure on either the asset or liability side, minimizing the transmission of risks from global financial markets to the real economy. Moreover, the authorities continue to improve supervision with a view to monitoring risks more closely as the economy opens up.

The authorities are deepening structural reforms to increase productivity, boost growth, and improve the economy's resilience to shocks. These include reforms in the agricultural sector and education, and boosting investment in infrastructure and energy. The authorities continue to move ahead on various regional integration initiatives and trade liberalization efforts.

The authorities intend to continue publishing all documents relating to the Article IV consultation.

### **Executive Board Assessment**

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**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

## Selected Economic Indicators, 2003–08

	2003	2004	2005	2006	2007	Proj. 2008
(Annual percentage change)						
Output and prices						
Real GDP (market price)	6.3	4.8	3.0	7.8	2.7	6.5
Real non agricultural GDP (market price)	3.6	4.7	5.6	5.4	6.6	6.1
Consumer prices (end of period)	1.8	0.5	2.1	3.3	2.0	3.2
Consumer prices (period average)	1.2	1.5	1.0	3.3	2.0	3.2
(In percent of GDP)						
Investment and saving						
Gross capital formation	27.4	29.1	28.8	29.4	32.5	32.9
Of which: Nongovernment	24.7	26.4	26.4	26.8	29.7	29.7
Gross national savings	30.5	30.8	30.6	31.6	32.4	32.2
Of which: Nongovernment	29.5	29.3	30.9	27.9	26.5	28.5
(In percent of GDP)						
Public finances						
Revenue (including grants)	21.8	22.6	24.2	25.6	27.8	29.1
Expenditure	26.8	27.0	30.1	28.0	28.9	31.7
Primary balance (including grants)	-1.0	-0.5	-1.8	1.4	3.0	0.7
Total government debt	61.9	59.4	63.1	58.1	53.6	51.9
(Annual percentage change; unless otherwise indicated)						
Monetary sector						
Broad money	8.6	7.7	14.0	17.2	16.1	15.2
Velocity of broad money	1.3	1.2	1.1	1.1	1.0	0.9
Three-month treasury bill rate (period average, in percent)	3.3	2.5	2.5	2.6	3.6	...
(In percent of GDP; unless otherwise indicated)						
External sector						
Exports of goods (in U.S. dollars, percentage change)	11.8	13.1	7.9	11.4	22.8	28.7
Imports of goods (in U.S. dollars, percentage change)	20.1	25.2	15.3	14.6	34.3	32.0
Merchandise trade balance	-8.7	-11.4	-13.8	-14.8	-19.2	-22.1
Current account excluding official transfers	3.0	1.5	1.4	1.8	-0.5	-2.1
Current account including official transfers	3.2	1.7	1.8	2.2	-0.1	-0.7
Foreign direct investment	4.6	1.5	2.7	3.1	2.6	3.8
Total external debt	33.6	29.1	24.2	23.9	23.8	21.1
Gross reserves (in billions of U.S. dollars)	13.7	16.3	16.1	20.2	24.0	28.2
In months of next year imports of goods and services	8.3	8.6	7.4	7.0	6.5	6.8
In percent of short-term external debt (on remaining maturity basis)	577	776	912	1012	1166	1968
Memorandum items:						
Nominal GDP (in billions of U.S. dollars)	49.8	56.9	59.5	65.6	75.1	88.3
Unemployment rate (in percent)	11.4	10.8	11.1	9.7	9.8	...
Net imports of energy products (in billions of U.S. dollars)	-2.2	-3.0	-4.5	-5.1	-6.3	-11.1
Local currency per U.S. dollar (period average)	9.6	8.9	8.9	8.8	8.2	...
Real effective exchange rate (annual average, percentage change)	-1.0	-1.2	-1.8	1.2	-0.4	...
Stock market index	3,944	4,522	5,539	9,480	12,695	...

Sources: Moroccan authorities; and Fund staff estimates.