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To: Members of the Executive Board

From: The Secretary

Subject: **Morocco—Assessment Letter for the World Bank**

Board Action:	Executive Directors' **information**
Publication:	Not yet decided*
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***If the authorities consent to the publication of this assessment, it may be published by the World Bank.**

Morocco—Assessment Letter for the World Bank

1. The pandemic is severely affecting Morocco's economic activity and external position in 2020 (Table 1). As of April 16, Morocco had reported 1,763 confirmed cases of Covid-19 and 126 deaths. Domestically, both demand and supply disruptions are observed following proactive measures to contain the outbreak in the country. The external shock has already led to sharp declines in export and tourism revenues, remittances, and capital inflows.

2. In response, the authorities have relied on several policy levers. Following immediate containment efforts, an emergency committee chaired by the Minister of Finance was created to monitor the situation and coordinate policy actions. On the fiscal front, a new crisis fund of about 3 percent of GDP, financed by public and private contributions, will cover medical expenses and support businesses and households. On the monetary front, in March Bank al-Maghrib (BAM) reduced the policy rate by 25 bp to 2.0 percent and broadened the dirham's fluctuation band to +/-5 percent (from +/-2.5 percent). The dirham has depreciated by about 6 percent since end-February 2019 (staying within its recently widened fluctuation band) while official reserves have remained stable (BAM has not intervened in the foreign exchange market since March 2018). A range of measures were adopted to meet bank demand for liquidity and to support bank credit to affected sectors and SMEs, including partial and temporary relaxations of liquidity coverage (LCR) and capital conservation buffer requirements – in combination with increased public guarantees.

3. Despite the measures taken, for 2020 staff expects a recession of about 4 percent, a current account deficit of about 8 percent of GDP, and lower-than-expected capital inflows. Domestically, growth will be handicapped by the temporary freeze in economic activity, while low precipitation will adversely impact agricultural output and depress growth further this year. On the external side, both imports and exports will be affected negatively, with tourism and remittances experiencing unprecedented declines. These projections take into account the temporary fiscal, monetary and financial sector policy responses announced to date, and remain subject to considerable uncertainty given the rapidly changing external and domestic circumstances.

4. On April 7, 2020, the Moroccan authorities purchased all available resources under the PLL arrangement (SDR2.15 billion or 240 percent of quota and about 3 percent of GDP) in order to bolster reserves and help preserve economic stability in the context of heightened uncertainties. Staff's view is that drawing on PLL resources in full is commensurate with Morocco's actual balance of payment needs (Table 2) and will contribute to weathering current external pressures. After drawing on the PLL, Morocco would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low.

5. The access to the resources under the PLL arrangement will allow Morocco to maintain a robust reserves buffer, help preserve economic stability, and foster a recovery from the crisis. Following the purchase, Morocco's reserves will increase above 80 percent of the ARA metrics and external debt will remain sustainable. This will facilitate the ongoing policy efforts to contain the impact of the pandemic and will help preserve the gains achieved in recent years in strengthening the economy's resilience and growth potential. Assuming that a global growth recovery starts to materialize gradually in the second half of 2020, especially in key European partner countries, growth in Morocco could rebound to about 5 percent (aided by the agricultural recovery) and the current account deficit could narrow to about 4 percent of GDP in 2021. These projections are also subject to significant uncertainty and downside risks related to the shape and pace of the global economic recovery.

6. Over the medium term, it is important to resume the agenda of reforms to strengthen the economy's resilience to future shocks and achieve stronger and more inclusive growth. Staff expects the current crisis to leave a long-lasting legacy of a lower level of output (relative to the pre-crisis trend) and a higher public debt-to-GDP ratio. Rebuilding buffers and reducing potential vulnerabilities will require continuing with a prudent approach to macro-economic policies. Under the current baseline, staff expects a gradual process of fiscal consolidation to begin next year, that will maintain the debt-to GDP ratio on a downward trend and underpin a slow improvement in the external position. Strengthening medium-term GDP growth will require further reforms in a few key areas, including implementing a comprehensive tax reform; continuing the transition to a flexible exchange rate regime; improving governance and domestic market competition; and raising the quality of the education system.

7. Relations with the Fund: Morocco has benefited from four successive Precautionary and Liquidity Line (PLL) arrangements since 2012. 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, the PLL arrangement expired automatically on April 7. However, a close policy dialogue between the authorities and staff will be maintained.

Table 1. Morocco: Selected Economic Indicators, 2018–21

		Prelim.		Proj.		
		PLL 1/	Rev.	PLL 1/	Rev.	
	2018	2019		2020		2021
Output and Prices (Annual percentage change)						
Real GDP	3.0	2.8	2.2	3.7	-3.7	4.8
Real agriculture GDP	4.0	-2.8	-5.4	3.3	-3.0	7.0
Real non-agriculture GDP	2.9	3.4	3.2	3.7	-3.8	4.5
Consumer prices (period average)	1.9	0.4	0.4	1.2	0.3	1.3
Public Finances (In percent of GDP)						
Budget balance	-3.7	-4.0	-4.1	-3.8	-7.1	-4.5
Primary balance (excluding grants)	-1.7	-1.7	-1.8	-1.6	-4.8	-2.1
Cyclically-adjusted primary balance (excl. grants)	-1.4	-1.4	-1.5	-1.5	-3.4	-1.4
Total government debt	65.3	66.0	65.8	65.7	73.7	72.9
External Sector (In percent of GDP)						
Current account including official transfers	-5.3	-5.1	-4.1	-3.9	-7.8	-4.3
Total external debt	32.1	32.8	33.1	32.7	38.1	37.3
Gross reserves (in billions of U.S. dollars)	24.4	25.5	26.4	25.8	23.0	25.5
In percent of Fund reserve adequacy metric 2/	85.4	86.4	87.7	81.8	80.5	80.4

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the Second Review Under the PLL Arrangement in CR No. 20/14.

2/ Based on revised ARA weights.

Table 2. Morocco: External Financing Requirements and Sources, 2019–2021

Billions of USD (unless otherwise specified)

	2019	2020	2021
	Prelim.	Proj.	Proj.
Gross Financing Requirements	**60.8**	**55.3**	**64.2**
Imports of Goods and Services	54.9	49.6	58.6
FDI Payments	2.9	1.5	2.3
Interest Payments	0.9	0.9	0.9
of which Central Government and SOEs	0.9	0.9	0.9
Debt Amortization	2.2	3.4	2.5
of which Central Government and SOEs	2.2	3.4	2.5
Gross Financing Sources	**60.8**	**55.3**	**64.1**
Exports of Goods and Services	44.0	36.2	47.2
Remittances	6.7	4.7	6.9
FDI Inflows	3.5	0.7	4.3
SOE borrowing	1.4	1.6	1.6
Grants	0.3	0.7	0.2
of which European Union	0.2	0.5	0.2
of which CCG	0.2	0.1	0.0
Private sector borrowing	1.6	1.2	1.5
Central Government borrowing	2.6	3.2	2.8
of which markets	1.1	0.8	0.0
of which loans	1.5	2.4	2.8
Other inflows (net)	2.5	0.6	2.2
Change in Reserves (-increase)	-2.0	3.4	-2.5
IMF Financing	**0.0**	**3.0**	**0.0**
GAP (Needs - Sources)	**0.0**	**0.0**	**0.0**
Memorandum items:			
Gross Official Reserves	26.41	23.01	25.49
Percent of ARA	87.70	80.50	80.40

Source: IMF staff calculations.