EXECUTIVE BOARD MEETING

EBS/20/182

December 4, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Morocco—Staff Report for the 2020 Article IV Consultation and Proposal for Post-Program Monitoring**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Friday, December 18, 2020**
Proposed Decision:	Page 22
Publication:	Yes*
Questions:	Mr. Cardarelli, MCD (ext. 38059) Mr. Balima, MCD (ext. 37379) Mr. Noah Ndela Ntsama, MCD (ext. 39772) Ms. Ocampos, MCD (ext. 37972) Mr. Queyranne, MCD (ext. 36297) Mr. Some, SPR (ext. 38797)
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***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**

INTERNATIONAL MONETARY FUND

MOROCCO

December 3, 2020

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION AND PROPOSAL FOR POST-PROGRAM MONITORING

KEY ISSUES

COVID-19 impact. As in many other countries in the world, the pandemic has exerted a heavy toll on Morocco's population. Its economy has also been hit by a severe drought that affected agriculture output. The authorities' prompt response has helped contain the social and economic damage from the shocks but could not avoid a severe contraction of GDP. The loss of tax revenues deteriorated the fiscal position, while the fall in tourism receipts widened the current account deficit. However, greater access to external borrowing, including the full drawing of the IMF Precautionary and Liquidity Line (PLL) arrangement, has helped maintain international reserves at adequate levels so far in 2020. A gradual economic recovery is expected to begin in 2021, assuming the impact of the drought and the health crisis wane next year. The recent rise in COVID-19 cases, both in Morocco and its main trading partners, suggests that this outlook remains subject to significant downside risks.

Policy challenges. A delicate balancing act is needed between sustaining the still fragile economic recovery and rebuilding the policy buffers used in response to the crisis. Pursuing these dual objectives will require keeping the fiscal stimulus in the short run and placing the debt-to-GDP ratio on a downward path as soon as the economic recovery is well entrenched. Publishing a medium-term fiscal framework with a clear and transparent path to a lower public debt-to-GDP ratio would help safeguard fiscal space in the short term, while implementing a tax reform and rationalizing current spending will do so over the medium term. The accommodative monetary policy conditions should continue until inflationary pressures resurface. The ample output gap, low inflation, and downside risks to the recovery point to the need to finalize the planned transition to an inflation targeting (IT) framework with a more flexible exchange rate.

A Post-COVID19 reform agenda. Continued structural reforms are essential to sustain the recovery and achieve higher, more resilient, and more inclusive growth. The authorities have adequately given priority to a comprehensive reform of the social protection system that would increase access to health care and strengthen social safety nets, and to the reform of State-Owned Enterprises (SOEs) that should lead to a more efficient use of public resources. Both reforms will require careful design and implementation, considering their complexity, and adequate funding, given the limited fiscal space. Continued efforts at implementing the education reform are essential to develop human capital over the longer run, while measures to increase domestic competition, improve the digitalization of public administration, and implement the anti-corruption strategy would enhance the business environment and boost productivity and growth.

Post-Program Monitoring (PPM). Four successive PLL arrangements since 2012 have supported reforms that strengthened Morocco's macroeconomic resilience and built the buffers that have been utilized in response to the pandemic crisis. Fiscal and current account deficits narrowed over the 2012-2019 period (by about 2½ and 5½ percentage points of GDP, respectively), with significant progress in removing regressive fiscal subsidies and increasing exchange rate flexibility. Following the purchase of all available resources on April 7, 2020, the PLL arrangement has expired. In the absence of a successor Fund arrangement and with Morocco's outstanding credit to the IMF expected to remain above the SDR 1.5 billion threshold until early 2024, in line with IMF policy the Managing Director recommends the initiation of PPM.

Approved By
Taline Koranchelian
Chad Steinberg

The discussions took place remotely during October 19–November 2, 2020. The team consisted of Roberto Cardarelli (head), Maximilien Queyranne, Lorraine Ocampos, Jean Frédéric Noah Ndela, and Hippolyte Balima (all MCD), Modeste Some (SPR), Daniel Baksa (ICD), and Arz Murr (LEG). Azhin Abdulkarim, Geraldine Cruz, and Lily Calaycay (all MCD) assisted in the preparation of the report. The mission met with the Head of Government Mr. El Othmani, the President of the Chamber of Representatives Mr. El Malki, the Minister of Economy, Finance, and Administration Reform Mr. Benchaâboune, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. El Qorchi (OED) participated in most meetings.

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ANNEXES

APPENDIX

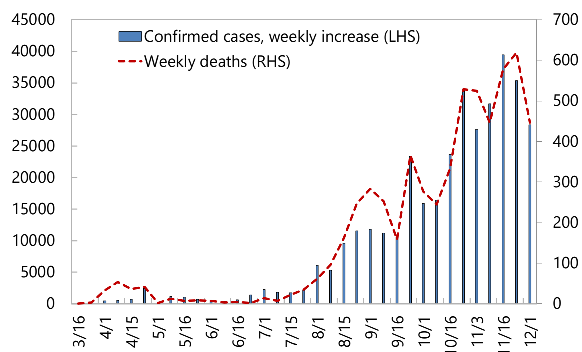
Glossary

AMO	Mandatory Health Insurance (Assurance Maladie Obligatoire)
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APP	Asset Purchase Program
ARA	Assessing Reserve Adequacy
BAM	Bank al-Maghrib
CA	Current Account
DH	Dirham
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
ER	Exchange Rate
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
GDP	Gross Domestic Product
GRA	General Resources Account
G-RAM	Global Risk Assessment Matrix
HCP	National Statistics Office (Haut-Commissariat au Plan)
IFRS	International Financial Reporting Standard
IFI	International Financial Institution
INPPLC	Agency for the prevention and fight against corruption
IT	Inflation Targeting
NIIP	Net International Investment Position
NPL	Nonperforming Loan
OBL	Organic Budget Law
PLL	Precautionary and Liquidity Line
PPP	Public-Private Partnerships
REER	Real Effective Exchange Rate
Q	Quarter
RAMED	Noncontributory Health Care program (Regime d'Assistance Medicale)
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
STEM	Science, Technology, Engineering and Mathematics
TA	Technical Assistance
VAT	Value-Added Tax

ECONOMY HARD HIT DESPITE A SWIFT POLICY RESPONSE

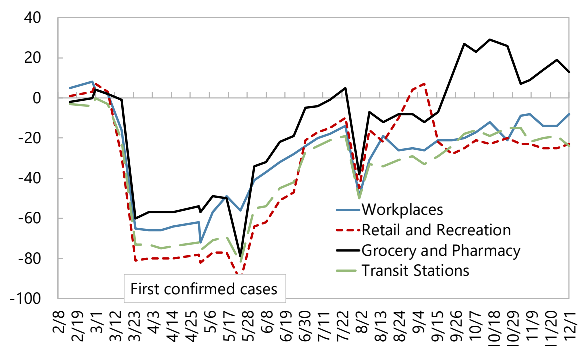
1. Morocco managed to contain the pandemic in the first months of the outbreak but has experienced a resurgence of new infections since the summer. In March, the authorities declared a state of health emergency and adopted stringent confinement measures. Partial reopening started in mid-June, with most businesses authorized to resume, domestic travel restrictions lifted, and international borders partially reopened. Since mid-July, however, the number of confirmed cases and deaths has increased significantly, mainly in large urban areas.[1] In response, the authorities reintroduced restrictions in a few large cities, and extended the state of health emergency till December 2020.

COVID-19 Confirmed Cases and Deaths
(Number of persons)



Source: Hale et al. (2020).

Google Mobility Trends
(Percentage change from baseline)



Source: COVID-19 Community Mobility Reports.

2. Despite strong policy actions, the Moroccan economy has been heavily affected by the combined effects of the drought and the pandemic (Figure 1). The authorities acted swiftly to mitigate the economic and social impact of the pandemic (Table 1). Still, the lack of rain affected agricultural output (the production of cereals fell by 40 percent relative to last year), while the fall of external demand and the effect of domestic lockdown measures led to a significant contraction in non-agricultural output in Q2 (with sectors tied to tourism being the most affected). Economic slack caused a fall in inflation and the unemployment rate rose to 12.7 percent in Q3 from 9.4 percent last year, mostly driven by lower employment and despite a fall of the participation rate (of about 1½ percentage points). The pandemic is expected to impact disproportionately the most vulnerable, especially in high contact sectors (such as tourism and transportation), which also have a high degree of informality. The poverty rate is expected to increase to 6.6 percent in 2020 (from 4.8 percent in 2014), and vulnerability to poverty to 19.9 percent (from 17.1 percent last year).[2]

[1] As of December 2, Morocco has experienced 364,190 confirmed cases of COVID-19, with 5,985 deaths.

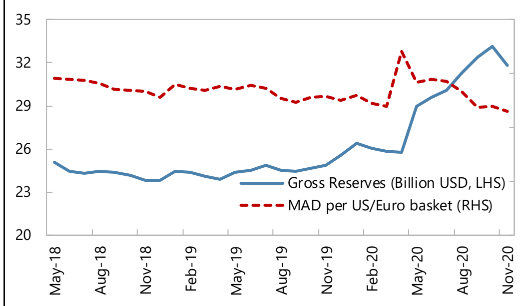
[2] HPC, UN, World Bank, "Impact social & économique de la crise du Covid-19 au Maroc, " July 2020.

Text Table 1. Measures Against COVID-19	
Crisis Management	The government created an emergency committee chaired by the Minister of Finance in charge of monitoring the situation and established a special fund, which covers the costs of upgrading medical facilities and support businesses and households impacted by the pandemic.
Support to firms and employees in the formal sector	Employees who became temporarily unemployed received cash transfers between April and June, covering on average 40 percent of their net monthly wages. They were also allowed to put off debt payments until June and postpone income tax payments until September. The government cancelled capitalized interests on mortgages (up to DH 3000 per month) and consumer loans (up to DH 1500 per month) accrued from March to June for all households experiencing income losses. Firms were authorized to defer social contribution payments until June and exempted from taxes on additional compensation paid to employees, up to a limit. These measures have been extended to December for those working in affected sectors, like tourism.
Support to households in the informal sector	Households in the informal sector received cash support of US$ 80-120 until July, by registering online or using their membership to the RAMED medical insurance program and using a mobile payments technology. As of June, about 85 percent of eligible households in the informal sector (about 5 million people) were covered.
Financial support to firms	A credit program was launched in April (Damane Oxygene) that provided loans worth about 1.6 percent of GDP to some 50 thousand SMEs at subsidized interest rates and with sovereign guarantee. In June, the government launched a post-crisis facility (Damane Relance) to finance working capital needs at subsidized interest rate, with sovereign guarantees to strengthen risk sharing. The sovereign guarantee covers 95 percent of the loans to SMEs versus 80-90 percent for larger firms, up to a limit. Firms will have 7 years to repay with a 2-year grace period. Banks have provided loans worth 2.5 percent of GDP under this facility, to 25 thousand firms. Another credit line also grants interest-free loan to self-employed up to DH 15 thousand with a repayment period of three years and a grace period of one year. Total government guarantees granted under these various schemes amount to 3.7 percent of GDP at end-October 2020.
Accommodative monetary policy stance.	The central bank cut the policy rate by 75 bps since March, to 1.5 percent; increased its liquidity provision to the banking sector by more than 50 percent by i) expanding the range of collateral accepted for repos, to include public and private debt instruments, ii) lengthening refinancing operations, and ii) providing FX swaps to domestic banks; and fully eliminated reserve requirements for banks. As a result, BAM's balance sheet has grown by almost 27 percent since February 2020, reaching 39 percent of GDP (Figure 3). In addition, the authorities broadened the dirham's fluctuation band to +/- 5 percent (from +/- 2.5 percent) in March, which allowed the exchange rate (ER) to depreciate in the first weeks of the pandemic (see Figure 2).
Macro prudential measures	Banks have been authorized to go below the 100 percent liquidity coverage ratio; provisioning requirements were suspended for loans benefiting from a temporary payment moratorium; and the capital conservation buffer has been reduced by 50 bps for one year. In addition, BAM has called on banks to suspend dividend payments. To reduce non-bank financial risks, the Moroccan insurance supervisor also relaxed some provisioning requirements.

3. **The crisis has hit Morocco's external position** (Figure 2). Weak foreign demand, particularly among trading partners in the euro area, led to a strong contraction in goods exports in the first 10 months of 2020, mainly in automobile, aeronautic, and textiles (although the decline has bottomed out in Q3). The sharp fall of imports (except food) and the resilience of remittances have softened the impact on the current account deficit, which has widened on account of the unprecedented decline of tourism receipts (about -60 percent in the first 10 months of the year relative to same period in 2019). As of early December, the increase in external borrowing (including the purchase of US$ 3 billion under the IMF PLL arrangement, loans from bilateral and multilateral

international financial institutions—IFIs, and the issuance of Eurobonds for a total of €1 billion) and relatively resilient net FDI have prevented a decline in international reserves. The contraction of the trade deficit as well as the pegging of the dirham to a basket have contributed to a small appreciation of the dirham so far in 2020 (of about 2½ in real terms as of September).

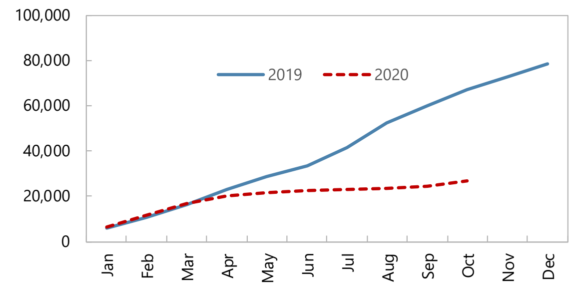
Gross Reserves and the Exchange Rate



Sources: National authorities; and IMF staff estimates.

Revenue from Tourism

(millions of dirhams, year-to-date)

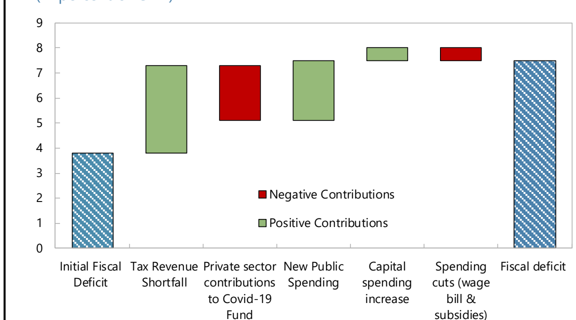


Sources: National authorities; and IMF staff estimates.

4. The loss of tax revenues has worsened the fiscal position. As of October, tax revenues were about 8 percent below the same period last year (particularly value-added tax, VAT) (Figure 3). Based on the 2020 Supplementary Budget, tax revenues in 2020 are expected to be 3½ percent of GDP lower relative to the initial budget, while the increase in spending is expected to be largely offset by private sector contribution to the COVID-19 Fund and some savings in other current spending (including in subsidies due to lower energy prices). Accordingly, the overall fiscal deficit for 2020 is expected to reach -7¾ percent of GDP (versus 3¾ percent of GDP in the initial budget), with the debt-to GDP-ratio increasing by about 11 percentage points of GDP at end-2020.

Contributions to the 2020 Revised Budget Fiscal Deficit

(in percent of GDP)

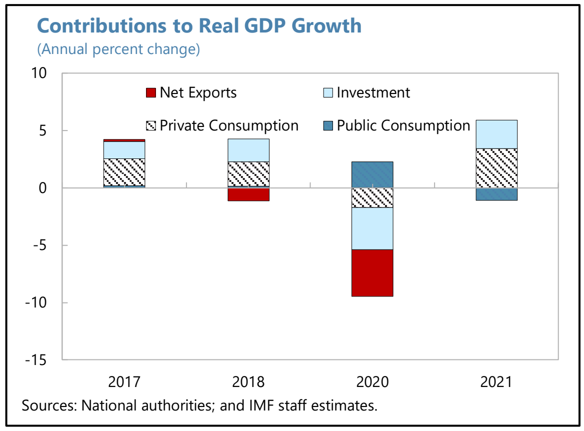


Sources: Ministry of Economy and Finance; and IMF staff estimates

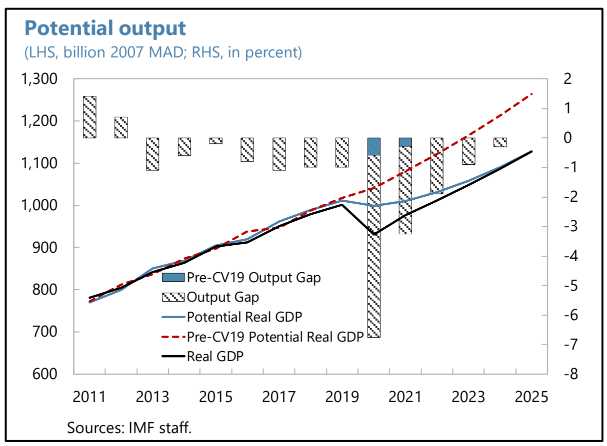
5. The financial system has so far weathered the crisis relatively well, helped by the strong response by BAM (Figure 4). Liquidity provision to the banking sector almost doubled in response to the pandemic. Short-term market interest rates have declined to around 1.5 percent, in line with recent policy rate cuts, and average lending rates fell to 4.3 percent on average in 2020 Q3 from 5.1 percent a year ago. This has helped sustain banking credit, which has continued to grow in 2020, although this mainly reflects the impulse from subsidized credit to firms (while consumer and real estate loans have fallen). Bank deposits have also grown since the start of the crisis, with a shift from term to demand deposits, reflecting increased preference for liquidity. Nonperforming loans (NPLs) have increased to 8½ percent of total loans as of October, but the largest banks have substantially raised their provisioning levels.

OUTLOOK: GROWTH RECOVERY NEXT YEAR BUT WITH DOWNSIDE RISKS

6. **Staff projects a deep recession in 2020, followed by a recovery in 2021 supported by an accommodative policy mix.** Growth is expected to contract by 7.2 percent in 2020, with agricultural and non-agricultural output falling by 5 percent and 7½ percent, respectively. Economic activity would accelerate to 4½ percent in 2021, assuming i) average weather conditions for the next harvest, ii) the resolution of the health crisis in the second half of next year, and iii) continued support from monetary and fiscal policy. As domestic and foreign demand recovers, inflation would increase to 0.8 percent in 2021. The current account deficit is projected to widen to 6 percent of GDP in 2020, driven by the fall in exports and tourism revenues, partly offset by resilient remittances and lower imports (particularly of capital goods and intermediate inputs).



7. **The pandemic is expected to have persistent effects on output.** GDP is expected to return to pre-crisis levels by 2022, but to remain below pre-crisis trend over the medium term. The pandemic is also expected to affect potential growth. Public investment will be constrained by fiscal consolidation needs, and private investment limited by the crowding out effect of higher public sector financing. Higher unemployment and more participation in informal activities could have a negative impact on human capital accumulation as skills may be lost. Nonetheless, continued implementation of structural reforms (including efforts at boosting Public-Private Partnerships—PPPs, strengthening the governance and efficiency of SOEs, improving the business environment for private sector, and improving the social protection system) will be needed to ease some of these frictions, and help potential growth reach around 3½ percent by 2025. The recovery of tourism and exports receipts is expected to lead a gradual improvement of the current account deficit towards its estimated norm of 3¾ percent of GDP by 2025 (see Annex I—External Sector Assessment).

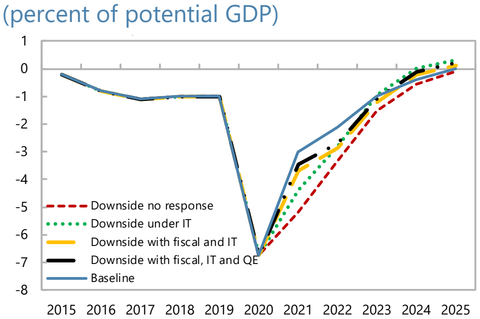


8. **Risks remain tilted to the downside (Annex II-Risk Assessment Matrix).** The recent resurgence of the pandemics suggests that a more subdued external and domestic demand, is now a possibility. A slower fiscal consolidation or the materialization of contingent liabilities from the sovereign credit guarantees extended during or before the crisis (particularly to SOEs) could lead to rising concerns about debt sustainability. Higher NPLs may constrain banks' ability to provide credit,

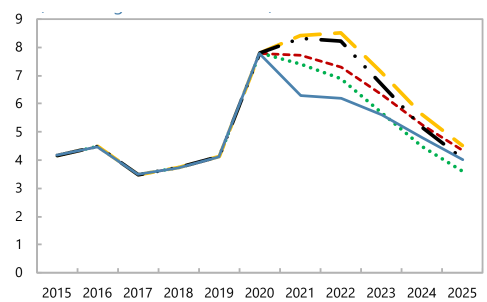
further aggravating the decline in investment and raising concerns about the funding of government financing needs. A slower than expected pace in the implementation of structural reforms and the emergence of pandemic-driven social discontent could exacerbate those risks.

9. Further stimulus may be needed in case the downside risks on growth were to materialize. Staff simulated a downside scenario, in which a more prolonged duration of the health crisis would subtract about 3 percentage points to GDP growth next year (from 4½ percent in the baseline to 1½ percent). In such scenario, additional fiscal stimulus of about 1 percent of GDP would limit the additional damage to Morocco's economy and minimize the impact on the most vulnerable. The compression of non-essential current spending and measures to raise fiscal revenues would help limit the increase of public debt (which would peak at about 82 percent of GDP). Further cuts of the policy rate, a more depreciated Dirham under an inflation targeting (IT) monetary policy framework, and BAM purchases of Treasury bonds in secondary markets could also contribute to mitigating the impact of the shock on both the output gap and inflation. In staff's model, the combined fiscal and monetary policy responses would offset about half of the impact of the negative shock on GDP growth, allow a faster closure of the output gap and contribute to a quicker convergence of inflation to a long-term target of 2 percent.

Output Gap
(percent of potential GDP)



Overall Deficit
(percentage of nominal GDP)



Source: IMF staff.

Authorities' Views

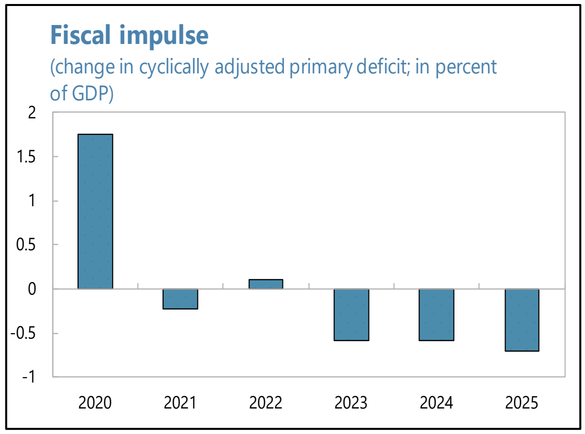
10. The authorities emphasized the uncertainty around the forecasts. They viewed staff's baseline scenario as excessively pessimistic, given the signs that several important sectors of the Moroccan economy have begun to rebound starting in June. They expect growth to be close to 6 percent in 2020, 4.8 percent in 2021 and above 4 percent thereafter, with a faster return to pre-crisis output levels thanks to the sizable recovery plan, the boost to investment, and a new generation of sectoral strategies (focusing on manufacturing and agriculture).

POLICY DISCUSSIONS: REBUILDING BUFFERS WHILE SUSTAINING THE RECOVERY

A. Fiscal Policy

11. The fiscal response to the crisis has been appropriate. For 2020, the authorities have let automatic stabilizers work on the revenue side and used the private sector contributions to the COVID-19 Fund to finance the increase in discretionary spending. While budget neutral, these spending measures have had a significant redistribution effect and are estimated to have contributed to growth by about 0.6 percent. Nonetheless, with the overall fiscal deficit at 7.7 percent of GDP and the debt-to-GDP ratio about 76.5 percent, staff sees Morocco's fiscal space to be at risk.

12. The 2021 Budget envisages a gradual reduction of the fiscal deficit. The overall fiscal deficit is expected to fall to 6.3 percent of GDP in 2021, maintaining the fiscal stimulus injected this year. The composition of the stimulus will shift to investment, both directly (through the Mohammed VI Investment Fund that will seek partnerships with the private sector to invest in infrastructure and small and medium enterprises—SME—development) and indirectly (though the large program of subsidized and state guaranteed credit).[3] Spending is also expected to increase (by about 0.5 percent of GDP) because of the extension of the public medical insurance scheme to self-employed and low-income people. Over the medium term, the overall fiscal deficit is expected to fall gradually to 4.8 percent of GDP by 2024, due to a significant increase in non-tax revenues (from the mobilization of the government real estate assets of about 4½ percent of GDP between 2021 and 2024), and gradual compression of the wage bill. Privatization receipts of about 1⅓ percent of GDP will reduce financing needs.[4] As a result, the debt-to-GDP ratio is expected to remain at around 77 percent, and gross financing needs at around 17 percent of GDP, over the next four years.



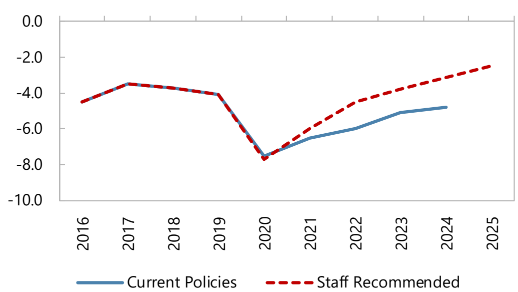
13. Staff agrees that fiscal consolidation should be gradual and recommends starting it as soon as the recovery is established. In the short run, the priority is to sustain the fragile recovery and address the shortcomings in the social protection system exacerbated by the crisis. Over the medium and longer term the priority is to rebuild fiscal buffers and safeguard debt sustainability.

[3] The Mohammed VI Investment Fund, created in the 2020 supplementary budget, has been endowed with DH 15 billion (about 1.5 percent of GDP). The Fund is expected to develop into a private company, responsible for attracting private funding (with a target of DH 30 billion) and invest in infrastructure and the development of small private firms, including through participation in private equity funds.

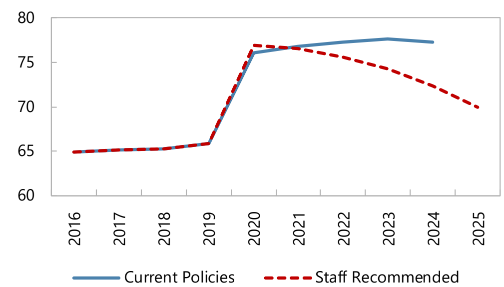
[4] The authorities announced in late October 2018 a multi-year privatization program that started in 2019. After pausing this year, the program is expected to resume in 2021.

Given the low interest rates, the long maturity of public debt, and the ample availability of domestic savings, a temporary higher level of debt and financing needs should not jeopardize Morocco's public debt sustainability (see Annex III-Debt Sustainability Analysis, DSA). Still, persistent high government financing needs could crowd out private investment while the high public debt ratio remains a source of vulnerability to further negative shocks. Staff thus recommends starting fiscal consolidation in 2022, when the recovery begins in earnest, to bring public debt in 2025 to about 70 percent of GDP (the indicative debt threshold for emerging markets in the DSA framework). Nevertheless, a slower-than-expected recovery would call for a slower adjustment. Over the longer term, the authorities should aim at returning to their debt anchor of 60 percent of GDP.

Overall Fiscal Deficit
(share of GDP, in percent)



Central Government Debt
(share of GDP, in percent)



Source: IMF staff.

14. A credible medium-term fiscal framework is needed to safeguard the fiscal space in the short run. Such a framework, to be published in Budget documents, should show a clear and transparent path to a lower public debt-to-GDP ratio over the next five years, together with a list of key revenue and spending measures. In this context, more details should be provided on the plan to raise revenues through the mobilization of the government's real estate portfolio and the privatization program. The publication of a medium-term fiscal framework would assure markets about the authorities' commitment (and capability) to fiscal discipline, and thus reduce risks of market access in the presence of higher debt and financing needs.

15. Further advances in improving the tax system and rationalizing spending would help rebuild the fiscal buffers and fund the extension of the social protection system. Decisive medium-term reforms are needed to rebalance Morocco's fiscal position. The introduction of a unified tax and social contribution regime for small artisans and retailers is a step forward in the implementation of the recommendations of the 2019 National Tax conference. Further steps are needed to make the current tax system more efficient and equitable. Staff estimates that a comprehensive tax reform aims at extending the tax base and increasing the progressivity of the tax system could increase tax revenues by between 1½ and 2 percent of GDP over the medium term.[5] Improvements in tax administration and the introduction of a carbon tax and a succession tax above

[5] The reform package would align the reduced VAT rate on manufacturing goods and services to the standard VAT rate (keeping reduced rates for necessity goods and services); reduce tax exemptions; raise the property tax; and strengthen enforcement of tax payments from self-employed and liberal professions. See, Jean Frédéric Noah Ndela Ntsama, Hamed Ghiaie and Gregory Auclair, "*Distributional Effects of Tax Reforms in Morocco*", IMF Selected Issue Paper, 2018.

certain thresholds would also help mobilize revenues, while a gradual reform of the civil service, the digitalization of public services, and the introduction of a unified social registry would help rationalize public spending.[6]

16. The growing size of sovereign credit guarantees requires close monitoring. The authorities are changing the management framework of sovereign guarantees. Those extended in response to the crisis will be transferred to a new financial institution under BAM supervision,[7] which will absorb the first layer of losses from potential activation of guarantees. The stock of sovereign guarantees extended to SOEs before the crisis would be managed by a new special budgetary fund, and any triggering of such guarantees would directly impact the budget.[8] While SOEs are supervised by the Directorate of Public Corporations and Privatization (DEPP) that implements a set of good practices, including the publication of a comprehensive report on SOEs as an appendix to the Budget, fiscal risks related to SOEs remain to be identified and assessed on a more systematic basis.[9] The approval of a well-designed draft law on governance and financial control of SOEs could strengthen the Ministry of Finance's role in overseeing and monitoring SOEs.

17. A stronger framework to assess and report the fiscal costs and risks of PPPs is also needed. The authorities are considering scaling up PPPs, given the limited fiscal space and need for public infrastructure investment. The PPP law adopted this year aims at making Morocco's legal PPP framework more flexible, including by exonerating projects below a certain threshold from an ex-ante assessment of their benefits and projects signed by SOEs from government approval. The new law also simplifies negotiations for unsolicited proposals and direct awarding and sets up a PPP commission responsible for identifying a pipeline of PPP projects. Given these changes, staff recommends strengthening the institutional capacity to evaluate, monitor and transparently report the implications of PPPs for the budget.[10]

18. Reducing the number of special budgetary funds would enhance the transparency and effectiveness of fiscal policy. These funds (*Comptes Speciaux du Trésor*) are earmarked to achieve specific objectives and their endowment is insulated from the yearly budget allocation process. The

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[6] The civil service reform would include simpler and more flexible statutes and salary structures, and greater reliance on merit-based career progression.

[7] The credit guaranteed schemes launched by the government in response to the crisis imply new contingent liabilities of up to about 6.5 percent of GDP.

[8] The debt of commercial SOEs was high at about 25 percent of GDP at end-2019, of which about 11 percent of GDP explicitly guaranteed by the sovereign (mainly external debt). Debt and guarantees are concentrated on a few large SOEs, including the national electricity and water company (ONEE), the national railway company (ONCF), and the national highway company (ADM).

[9] Areas for improvements include i) the set-up of a unit within DEPP with the task of monitoring and analyzing fiscal risks (at least for the largest SOEs), assessing the probability of the materialization of contingent liabilities and preparing mitigation measures; and ii) the publication of a regular statement that fully disclose all forms of guarantees and contingent support to SOEs as well as related fiscal risks.

[10] This could require (i) strengthening coordination between relevant departments to improve PPP project selection and inclusion in the budget; (ii) setting up in the budget a global annual envelope for new PPPs, considering all future commitments within a multiannual perspective; (iii) and adding an annex to the annual budget documentation, listing chosen projects, explaining the criteria of selection, and updating the stock of existing PPPs, including their costs.

decision to use them as the vehicle to finance investment projects, manage SOE guarantees, and fund the extension of social protection and the education reform, aims at ensuring continuity and predictability to the funding of these key missions. However, these funds could also fragment policymaking and implementation, cloud the general public understanding of fiscal operations, and dilute accountability. Integrating these funds within a unified and comprehensive pluriannual budget process could also ensure greater consistency with the government's broader macro, fiscal, and social objectives.

Authorities' Views

19. The authorities noted that the stabilization of the public debt-to-GDP ratio until 2024 responds to the need to support the recovery. They agreed that a medium-term fiscal framework would help increase the fiscal space and stressed that the Organic Budget Law (OBL) already introduced pluriannual budgeting. They noted that the fiscal risks from the activation of the sovereign guarantees to SOEs debt are very limited, given that servicing this debt is a high priority for SOEs (as confirmed by the fact that no guarantee has been activated since the 1980s). The authorities noted that they plan to start publishing data on public debt at a general government level, and that doing so would lower public debt to 56.4 percent of GDP in 2019. They noted that the special budgetary funds are an integral part of the Budget process, with their operations obeying budgetary rules, and that the OBL imposes stringent conditions for their creation and foresees their suppression after 3 years of inactivity.

B. Monetary Policy

20. Monetary policy conditions are appropriately accommodative and should remain so until inflationary pressures resurface. The real policy rate is slightly below staff's estimated range for the neutral interest rate (1.5–2.5 percent). Nonetheless, both staff and BAM anticipate that inflation will remain below 2 percent for the next few years. Together with the estimated large output gap and downside risks, this suggests that there is room for easing further monetary policy in the near term. This would complement measures to provide liquidity to the banking sector and boost domestic credit, including through BAM funding-for-lending schemes targeting SMEs. To increase the impact of these schemes, the authorities could consider relaxing or removing some restrictions on eligible borrowers and on the volume of loans, as well as providing the funding to banks ex-ante.

21. The pandemic shock confirmed the benefits of finalizing the transition to an inflation targeting framework with a more flexible exchange rate (ER). The relatively stable financial conditions and BAM's high international reserves provide an excellent window of opportunity to accelerate the transition to a more flexible ER regime. By strengthening the ER channel of monetary policy transmission, an IT framework would leave BAM better prepared to counter the deflationary pressures from a weaker-than-expected recovery, while providing an explicit commitment to maintaining inflation anchored around a long-term target. The persistence of capital controls and the adoption of a foreign exchange market intervention rule would both provide safeguards against the risks of excessive exchange rate volatility.

22. A transition to an IT regime would also allow BAM to expand its policy toolbox to unconventional measures, if need be. If BAM were to reach the effective lower bound for its policy rate, stimulating the economy and bringing inflation closer to the medium-term goal of 2 percent may require adopting unconventional monetary policy measures, including a government assets purchase program (APP). Such program, that would be effective only in an IT regime with more flexible exchange rates, could help lower the long end of the yield curve, thus sustaining investment and indirectly reducing borrowing costs for the government. The commitment to keep long-term inflation expectations well-anchored under an IT regime could mitigate the concern that an APP would lead to inflationary pressures once the recovery strengthens.[11]

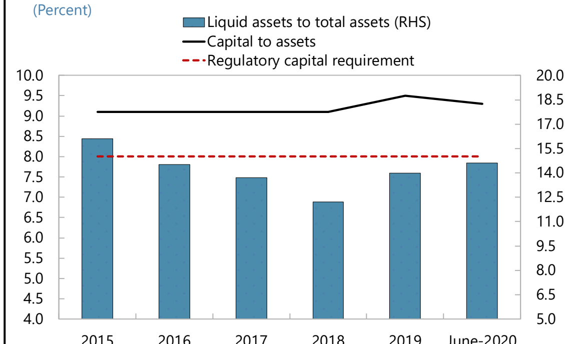
Authorities' Views

23. The authorities stressed that BAM has taken decisive actions to mitigate the impact of the pandemic on the real economy and the financial sector. It eased significantly its monetary policy stance and intends to keep it accommodative to further support economic activity. BAM continues to monitor the transmission of monetary policy and more time is needed to fully assess its impact on the real economy. Given the low level of policy rates, decisions on further cuts should also consider the need to maintain the space to respond to future negative shocks. Regarding the rules behind BAM funding-for-lending schemes, the authorities noted that currently BAM satisfies all demand from banks, and there is no rationing. The authorities noted that preparations for adopting an IT framework are well on track, and that they remained committed to complete the transition at the opportune time. Moreover, they observed that the gains from more flexible exchange rates could be limited at this juncture, as the pandemic has also affected Morocco's main trading partners.

C. Financial Stability

24. Continued close monitoring of the impact of the crisis and forbearance measures on bank balance sheets is warranted. Banks have been relatively resilient amid the pandemic, helped by relatively sound initial capital and liquidity positions and the strong response by BAM (including regulatory forbearance and liquidity support). Still, the ongoing recession and the lagged effect of the expiration of the moratoria on credit repayment could result in a more visible deterioration of the bank credit portfolio over the near future.[12] To build buffers against this risk, BAM has requested banks to increase their provisioning levels and suspend the distribution of dividends this year. In addition,

Bank Capitalization and Liquidity
(Percent)



Sources: Bank Al-Maghrib

[11] For a discussion on the pros and cons associated to the adoption of unconventional monetary policy measures in emerging markets see "*Unconventional Monetary Policy in Emerging Market and Developing Economies*", IMF, Special Series on COVID-19.

[12] The moratoria expired in June and involved about 10 percent of bank credit, of which 25 percent are currently experiencing some delay in repayment but are not still qualified as NPLs.

performing frequent stress tests and recalibrating current credit risks models would help better capture emerging vulnerabilities. BAM has a range of measures at his disposal if stress were to emerge (including further relaxation of countercyclical buffers, a new request to retain dividends, and bank-specific measures that could include recapitalization and liquidation of non-viable and risky assets).

25. Building on recent progress, a few aspects of the supervisory and regulatory frameworks could be strengthened further. Progress to upgrade the financial sector policy framework—in line with the 2015 FSAP recommendations—has continued (Table 8). Further steps should include finalizing the bank resolution framework, by designating a resolution authority, defining clear triggers for resolution, and expanding the range of resolution tools. Continued efforts are also needed to assess the risks from concentrated credit exposure and improve the oversight of Moroccan banks that are expanding abroad (particularly in Africa). This would require an effective cross-border crisis management framework, in close collaboration with the authorities of host countries, as well as an effective risk-based AML/CFT supervision and preventive measures that ensure the stability of correspondent banking relationships. Authorities are encouraged to step up efforts to address weaknesses of the AML/CFT framework to prevent the listing of Morocco as a country with strategic AML/CFT deficiencies by the Financial Action Task Force in February 2021.

Authorities' Views

26. The authorities stressed that they are closely monitoring the evolution of bank balance sheets to assess the consequences of the crisis and the end of forbearance measures. They are updating their macro stress test exercise, based on more recent macroeconomic forecasts and more extreme adverse scenarios. The authorities emphasized that they are taking action to address the weaknesses identified in Morocco's AML/CFT framework. In particular, the Parliament is considering a draft amendment of the AML/CFT law that should regulate the adoption of financial sanctions. BAM stressed that it continues to monitor correspondent banking relationships.

A POST COVID-19 STRUCTURAL REFORM AGENDA

Reforming the Social Protection System

27. The pandemic crisis has highlighted the need to strengthen the Moroccan health care system. The government's efforts over the past decades have led to sharp declines in mortality rates, eradication of communicable diseases, and steady increases in life expectancy. Notwithstanding these achievements, Morocco's health care system remains highly fragmented, with disparities in access to services across income groups and geographically.[13]

[13] Employees are covered by mandatory health care insurance (AMO, financed by contributions paid by both employees and employers), the poorest segment of the population is allowed to access public health care at zero or low costs (though the RAMED program), and the rest of the population is left with private health care insurance, or no coverage at all. A large part of the poorest population is also excluded from health coverage.

28. The extension of the mandatory medical insurance to all Moroccans is expected to strengthen equity in access to health care. Starting from 2021, the authorities are planning to include mandatory insurance (AMO) to those covered under the RAMED and the self-employed. All Moroccans would thus be able to access the same standard health care services. Self-employed would start paying contributions to the scheme, while those under RAMED would be given the option of using both public and private health care facilities and be reimbursed for the care provided. While this reform promises to deliver a more equitable access to higher quality service, it would be important to ensure that is financially sustainable. With the cost of the reform in 2021 is partly offset by a one-off solidarity contribution (of 0.4 percent of GDP) from firms and individuals with income above a certain threshold, more permanent sources of funding will need to be identified. At the same time, there is an urgent need to improve the efficiency of current health care spending, including through the digitalization of medical records.

29. The crisis has also highlighted the need to overhaul Morocco's social safety net. With more than 100 social programs, the current system is highly fragmented. In addition, an important part of social assistance takes place through universal subsidies (to gas, sugar and flour, for about 1¼ percent of GDP) that are quite regressive. This year's successful experience with cash transfers to households in the informal sector points to the potential for a deep restructuring of the current system. The decision to harmonize all current social assistance programs into a single family-allowance scheme starting from 2023 is a step in the right direction. The transfers will be targeted based on the unified social registry (which is expected to become operational in 2022) and funded through the reallocation of current transfers and the gradual elimination of the gas subsidy (about 1 percent of GDP).

30. The impact of the pandemic on employment and labor force participation calls for new measures to improve labor market efficiency. Persistent higher unemployment may lead to a loss of skills and reduce Morocco's potential output, while permanent changes in both demand and supply from the pandemic would require reallocating workers across sectors. The authorities plan to relax the criteria for receiving unemployment insurance starting from 2023. Additional measures could target hard-hit sectors and groups (like women and young people), including expanding active labor market policies (job search assistance, career guidance, training, and entrepreneurship). The overhaul of Morocco's vocational system launched in 2019 should strengthen initial and continued education and training, through a fine-tuning of the programs on a regional basis and greater involvement of the private sector.

31. Reforming the country's education system is key to continue developing human capital. While previous reforms have contributed to closing gaps in Morocco's education system, remaining challenges include low net preschool enrollment rates, elevated high school dropout rates, low quality of learning, and unequal opportunities and outcomes across income groups and regions (with a significant urban-rural divide). The Education Act passed in 2019 is a comprehensive effort at addressing these issues.[14] To strengthen its implementation, it will be important to regularly

[14] Its main objectives are to i) universalize pre-primary education by 2025, ii) enhance teachers' formation and assessment, iii) redesign curricula at all levels by aligning them with international best standards (by prioritizing STEM

(continued)

monitor progress in the performance-based indicators that the authorities have included as part of the reform.

Reforms of SOEs and Private Sector Development

32. The announced reform of SOEs could be catalyst for a more efficient use of public resources. SOEs have been crucial in the implementation of public policies over the past decades, but their marginal contribution to growth and employment has been falling. Many SOEs lack a clearly defined core mission, have expanded in activities not related to their initial mandate, and have seen their economic performance and financial position weakening over time. The authorities intend to restructure the SOEs through two drafts laws. The first law aims at refocusing SOE business model, by i) eliminating those whose mission is deemed no longer essential, ii) merging those that operate in the same sector to exploit potential synergies, and iii) corporatizing all SOEs with commercial activities, in order to strengthen their governance. The second law will introduce a National Agency responsible for the valorization and strategic management of SOEs, as well as the continuous monitoring of their performance. These reforms are necessary to foster a more efficient public sector, improve SOE governance, and reduce their dependence on the budget.

33. The SOE reform also provides the opportunity to level the playing field for all market participants. Many SOEs have built a dominant market position, benefiting from the lack of a clear distinction between their commercial and non-commercial activities and from privileged access to credit, procurement, and land.[15] Applying the same set of rules and providing the same incentives to SOEs' commercial activities as those offered to private firms would help strengthen equity and boost private sector development. The operationalization of the Competition Council has been in important step in addressing anti-competitive behaviors. As highlighted in the Council's first Annual Report (published in July 2020), there is a need to tackle the dominant positions of incumbent operators (mostly SOEs) in network industries and oligopolistic positions in a few key sectors of the Moroccan economy.

Improving Governance and Fighting Corruption

34. The implementation of the national anti-corruption strategy should continue. Authorities consider anti-corruption efforts a policy priority and given their estimate of the economic costs of corruption (of up to 5-7 percent of GDP). A first annual report of the National Agency for the prevention and fight against corruption (INPPLC) was published in 2019, highlighting its role in coordinating national efforts to combat corruption, despite limited resources and still developing operational framework. It is important to ensure that the bill on illicit enrichment, being discussed by the Parliament, is in line with international standards and conventions. Making information on beneficial ownership of legal entities that were awarded procurement contracts publicly available would increase transparency, including with respect to emergency spending.

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and early reading at primary levels), and iv) diversify and improve the supply of education to reduce regional disparities.

[15] See *"Creating Markets in Morocco"*, World Bank Group, 2109.

Finally, greater investigative powers to the INPPLC and cooperation between authorities would ensure more effective confiscation of corruption proceeds and dissuasive sanctions for offenders.

35. Reforming the public administration would also contribute to improving governance. In response to the challenges posed by the pandemic, the government is accelerating the implementation of the National Plan for the reform of public administration. The law on the simplification of administrative procedures (adopted in February and awaiting implementation) should improve delivery of public services to citizens. A bill on the digitalization of public administration, approved by Parliament, introduces a unified internet portal for Moroccan citizens (who can use it to access information and manage transactions with the public administration) and centralizes data from different registries (population, justice, land and property). Finally, a draft bill under discussion in Parliament sets the rules of good governance for public administrations and introduces a National Observatory responsible for monitoring the efficiency and quality of public services. The approval and effective implementation of these bills would better tailor the delivery of public services to citizens' needs, improve transparency, and facilitate efficiency gains at all levels of the public administration.

Authorities' Views

36. The authorities highlighted Morocco's strong track record in reforms implementation and were confident that the ongoing and new reforms will contribute to a stronger and more inclusive growth. The royal commission for the new model of development would also give new impetus to the reform agenda (its final report is expected to be released at the beginning of 2021). They noted that the reform of the social protection system would take place over five years, which gives plenty of time to assess its progress and impact on the budget, and to fine tune its design and implementation as needed. On the SOE reform, they confirmed that one objective would be to divest from sectors and activities that can be handled by the private sector. The resumption of the privatization program would also help boost private sector development. On the education reform, they noted that the 2019 Act differs from previous national strategies as it introduces specific contract programs (with intermediate targets and performance criteria) signed by all parties involved (including ministries and local authorities). They also noted the continued progress in fighting corruption.

STAFF APPRAISAL

37. As many other economies in the world, the pandemic is expected to exert a toll on the Moroccan economy. GDP is expected to fall by about 7 percent in 2020, and both fiscal and current account deficits are projected to widen, on the back of lower tax revenues and tourism receipts, respectively. Still, Morocco's international reserves remain above last year's level, thanks to the greater recourse to external financing and the purchase of the IMF PLL arrangement in April. Staff expects GDP growth to rebound next year to 4½ percent as the effects of the drought and pandemic dissipate, but there are considerable downside risks around this baseline. The pandemic is likely to have persistent effects on output, but the continued implementation of the structural reform agenda is expected to boost potential growth in the medium and long term.

38. While the fiscal stance has been eased appropriately, fiscal consolidation should start once the recovery is well established and a medium-term fiscal framework should be adopted. Staff welcomes the authorities' plan to support the recovery in 2021, mainly through investment and the reform of the social protection and education systems. Fiscal consolidation should resume in 2022, when the recovery will start in earnest under baseline projections. Nonetheless, a slower-than-expected economic recovery would call for delaying fiscal adjustment. Publishing a medium-term fiscal framework with a clear and transparent path to a lower public debt ratio is needed to provide credibility about the authorities' commitment to fiscal stability while safeguarding space in the short run. Decisive medium-term reforms are required to rebuild the fiscal buffers while financing the announced extension of the social protection system and education reform. These include additional measures to extend the tax base and increase the progressivity of the tax system, further efforts to rationalize spending, and a resumption of the authorities' privatization program

39. Monetary conditions are accommodative and there is room for further easing. BAM has already taken exceptional measures this year to mitigate the impact of the pandemic on the real economy and maintain the smooth functioning of financial markets. Monetary conditions should remain accommodative until there are signs that inflation has begun to increase, and BAM should be ready to use all policy tools available if downside risks were to materialize. Finalizing the transition to an IT framework with greater exchange rate flexibility would help the Moroccan economy to better absorb the effects of further external shocks. While Morocco's financial sector has weathered the crisis well, continued active surveillance is needed given the uncertainty about the effect of the crisis on asset quality.

40. Staff supports the extension of the social protection system and encourages continued implementation of the education reform. A comprehensive reform of the social protection system has become more urgent after the pandemic. The extension of health care insurance to all Moroccans would eliminate fragmentation and inequality in access. The harmonization of all current social assistance programs into a single family-allowance under the unified social registry would improve efficiency and targeting. Continued implementation of the education reform is essential to address the remaining shortcomings in Morocco's education system and improve its human capital. All these reforms will require careful design and implementation and appropriate financing, considering their complexity, remaining uncertainties on their scope and effects, and the limited fiscal space.

41. Reforming SOEs could be catalyst for a more efficient use of public resources and private sector development. There is a clear need to refocus SOEs on their core mandate, by liquidating those whose mission is no longer essential or that operate without an economic or social return. The introduction of a national agency with clear objectives and powers, and professional and experienced management, should allow a more coordinated and strategic approach to the role of SOEs, while continuing to assess and monitor the fiscal implications arising from state participation to the economy. The reform effort should also promote transformative changes in the corporate governance and management of individual SOEs. The reform should be accompanied by measures that address SOEs dominant position in a few key sectors of the Moroccan economy and level the playing field for all market participants.

42. Continued efforts are also needed to improve governance. These efforts span across a number of inter connected areas, including i) better assessing, monitoring and reporting the fiscal costs and risks associated with sovereign credit guarantees and PPPs, ii) implementing the public administration reform through its digitalization, simplification of procedures, and a more systematic monitoring of the performances and quality of services, and iii) continuing to implement the national strategy against corruption. The combined effects of all these measures would be to improve efficiency and productivity of public administration, strengthen the citizens' trust in government, and enhance the business environment for the private sector.

43. The Managing Director recommends the initiation of post-program monitoring. The first PPM Board discussion is envisaged by mid-2021. The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.

Proposed Decision

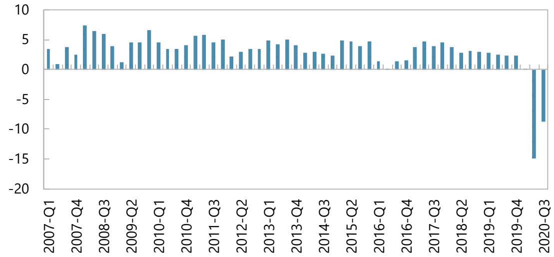
The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

Morocco is expected to engage in post-program monitoring with the Fund, in accordance with Decision No. 13454-(05/26), as amended.

Figure 1. Morocco: Real Sector Developments

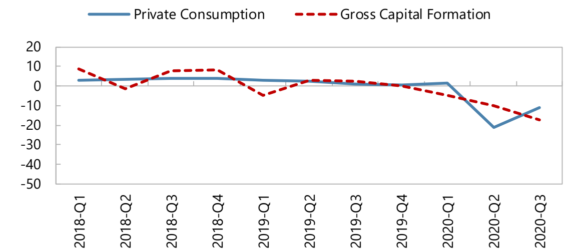
Economic activity fell sharply in Q2 and Q3 ...

GDP growth, Seasonally Adjusted
(percent change, y-o-y)



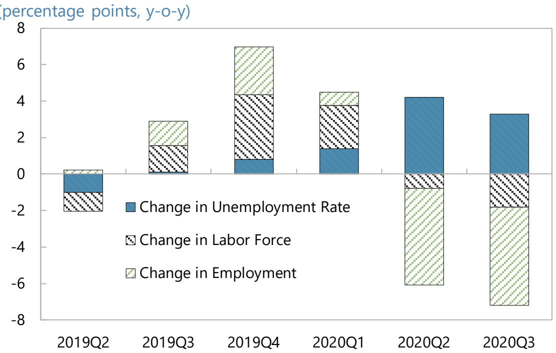
... driven by a decline in investment and private consumption (which bottomed out in Q2).

Real Private Consumption and Investment
(percent change, y-o-y)



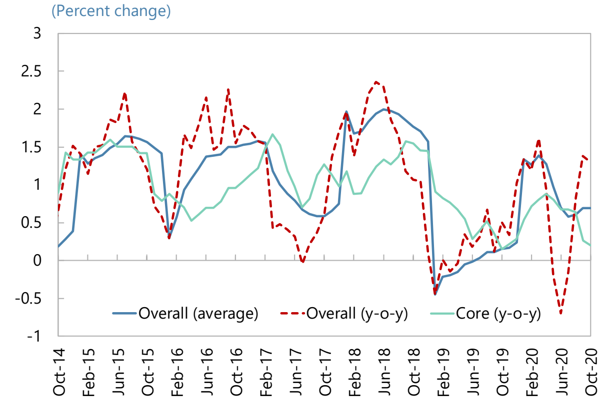
This recession is raising unemployment—driven by lower employment and despite a lower participation rate...

Change in Unemployment Rate and Contributions from Employment and Participation
(percentage points, y-o-y)



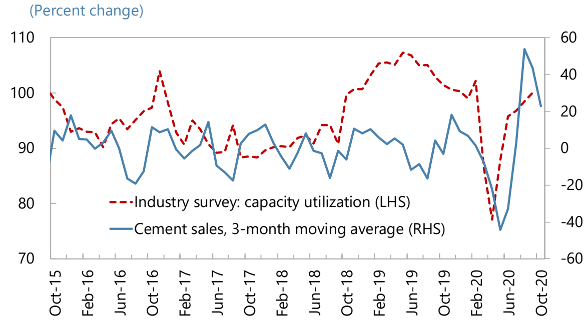
... and keeping inflation contained, although with some pressure from food prices since August.

Inflation
(Percent change)



Capacity utilization and cement sales are rebounding...

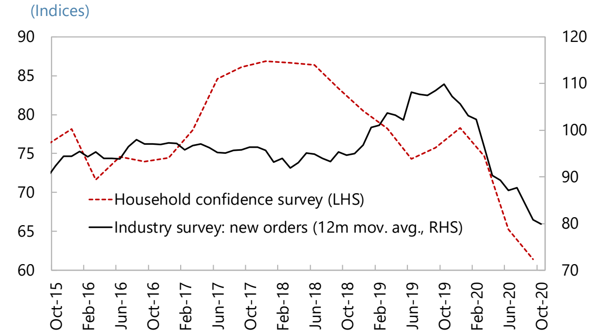
Capacity Utilization and Cement Sales
(Percent change)



Note: For the industry survey: greater than 100 indicates above average, less than 100 indicates below average.

...but weaker household confidence and industry new orders expectations suggest the recovery will be gradual.

Household and Industry Confidence Surveys
(Indices)



Note: For the industry survey: greater than 100 indicates above average, less than 100 indicates below average.

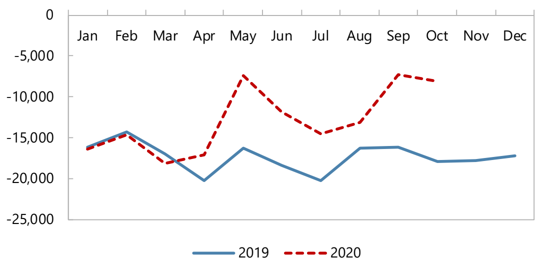
Sources: National authorities; and IMF staff estimates.

Figure 2. Morocco: External Developments

As both good exports and imports fell, the trade balance has improved so far in 2020 compared to last year.

Trade Balance

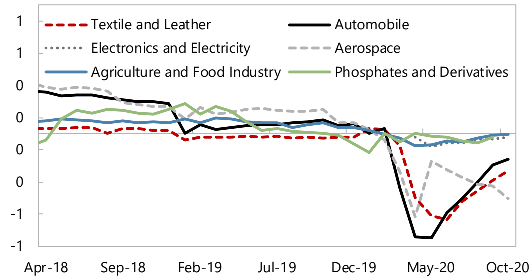
(mil Dirhams)



Exports fell but are now showing signs of a recovery, particularly for automotive and textile sectors.

Goods Exports

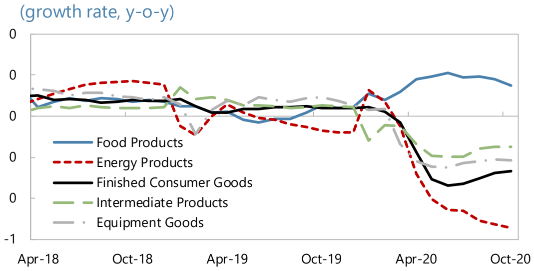
(growth rate, y-o-y)



Imports fell across the board, except for food (also reflecting the loss in domestic agricultural production).

Goods Imports

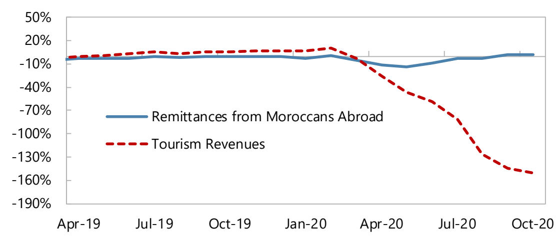
(growth rate, y-o-y)



While tourism revenues have collapsed, remittances have been resilient.

Tourism Revenues and Remittances

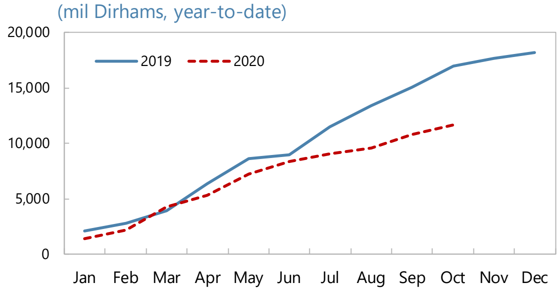
(growth rate, y-o-y)



Net FDI have been resilient, as the decline of Moroccan investment abroad more than offset lower inward FDIs.

Net FDI

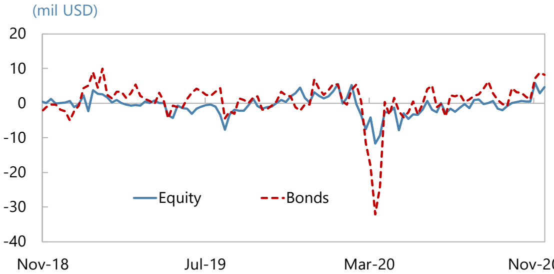
(mil Dirhams, year-to-date)



Portfolio flows experienced a sharp decline at the onset of the pandemic but recovered recently (particularly bonds).

Morocco: ETFs/Mutual Funds, Flows

(mil USD)

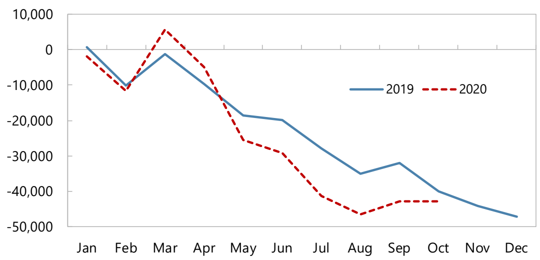


Sources: National authorities; and IMF staff estimates.

Figure 3. Morocco: Fiscal Developments

The overall fiscal deficit was about DH 10 billion larger in the first 10 month of 2020 compared to last year.

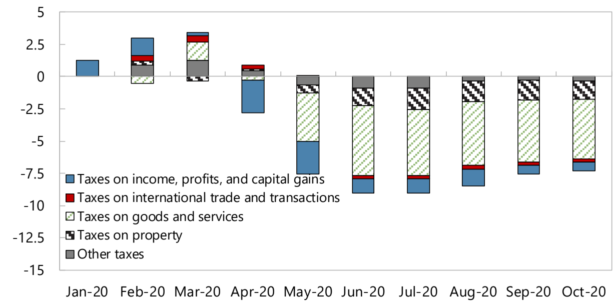
Overall Fiscal Balance
(mil Dirhams, year-to-date)



Sources: National authorities; and IMF staff estimates.

The deep recession has affected tax revenues, in particular from VAT.

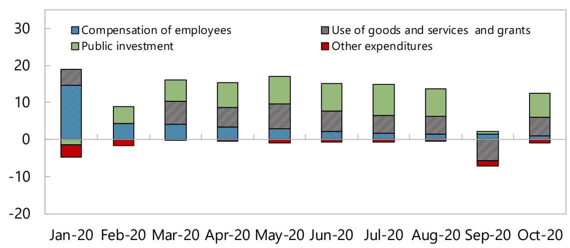
Tax Revenue
(percent change, y-o-y)



Sources: National authorities; and IMF staff estimates.

Public expenditure increased in 2020 reflecting higher health spending and transfers to stabilize the economy.

Public Expenditure
(percent change, y-o-y)

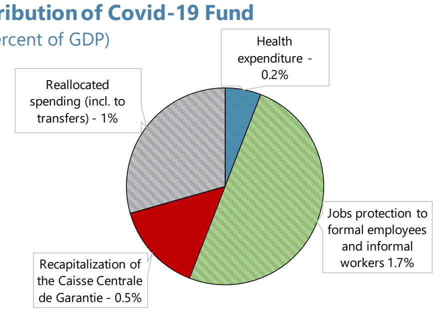


Note: Other expenditures includes = Interest + Subsidies + Other expense

Sources: National authorities; and IMF staff estimates.

This increase in discretionary spending was financed by private and public sector contributions to the COVID-19 fund.

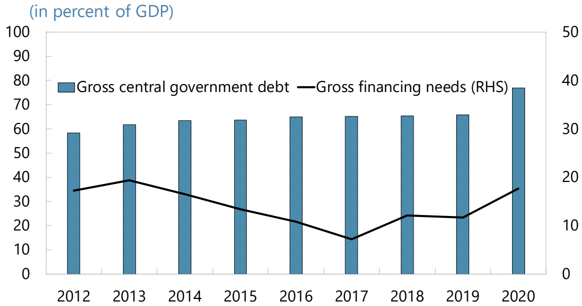
Distribution of Covid-19 Fund
(in percent of GDP)



Sources: National authorities; and IMF staff estimates.

Public debt and gross financing needs are expected to increase notably in 2020.

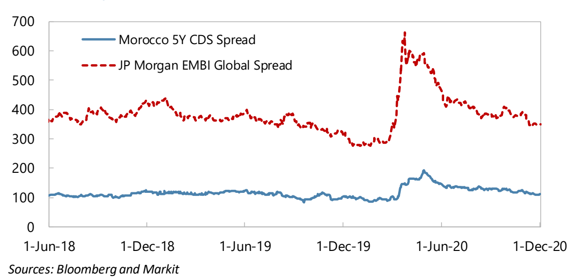
Central government debt and gross financing needs
(in percent of GDP)



Sources: National authorities; and IMF staff estimates.

After increasing in March 2020, sovereign spreads have fallen to close to historical averages in November.

CDS Spreads
(in basis points)



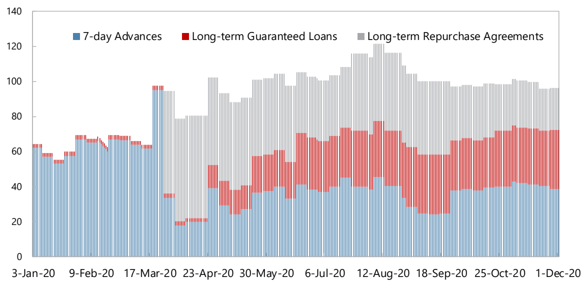
Sources: Bloomberg; and Markit.

Figure 4. Morocco: Monetary and Financial Sector Developments

BAM accommodated the greater demand of liquidity by expanding its liquidity provisions…

BAM's Monetary Interventions

(In Billions, DH)

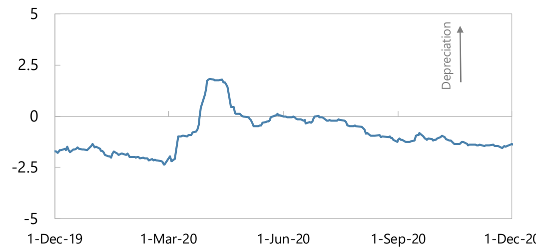


Source: Bank Al-Maghrib

…widened the DH band to ±5 percent in March, allowing a notable depreciation at the onset of the pandemic

Foreign exchange interbank rate

(Fluctuation band is at +/-5, Currency basket = 0)

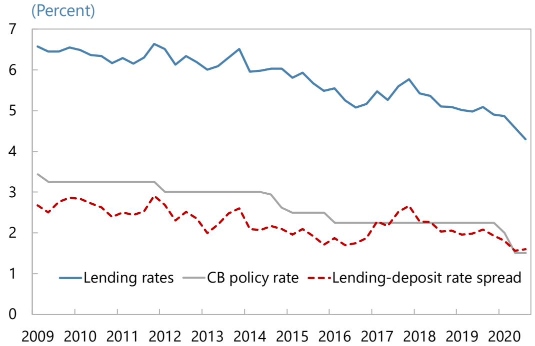


Source: Bank Al-Maghrib

… and cut policy rates, which were passed through lending rates and, to a smaller extent, deposit rates.

Bank Lending Rates and Interest Margin

(Percent)

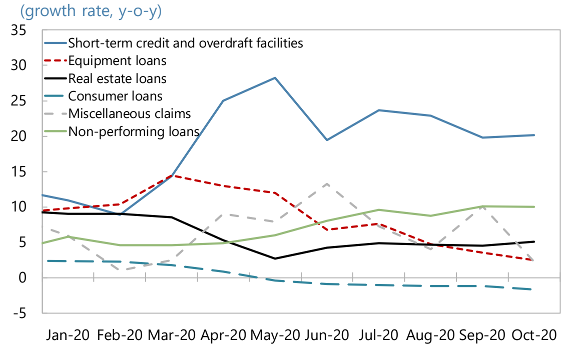


Sources: National authorities and IMF staff estimates; *as of Q3 2020.*

These actions, together with government credit guarantee schemes, helped sustain credit, mainly for working capital.

Banking Credit Growth

(growth rate, y-o-y)

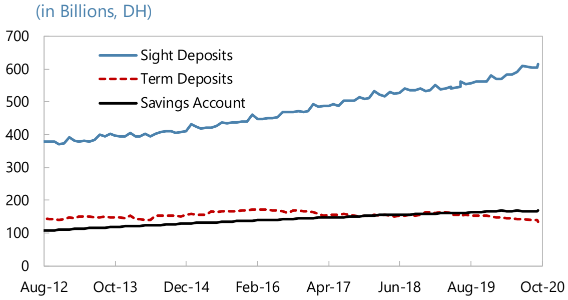


Sources: National Authorities and IMF staff estimates, *as of October 2020.*

Deposits have kept growing but with a significant shift from term and saving accounts to sight deposits.

Bank Deposits

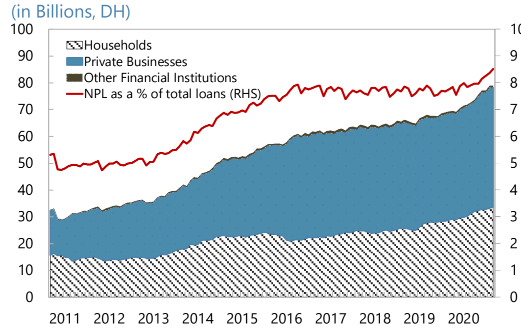
(in Billions, DH)



NPLs have increased by 1 percent of total loans as of October, for both households (1.1) and private non-financial firms (0.7).

Distribution of Non-Performing Loans

(in Billions, DH)



Sources: National authorities and IMF staff estimates, *as of October 2020.*

Source: Bank Al-Maghrib.

Table 1. Morocco: Selected Economic Indicators, 2016–25

	2016	2017	2018	2019	*Pre-COVID 2020*	2020	2021	2022	2023	2024	2025
							Proj.				
					(Annual percentage change)						
Output and Prices											
Real GDP	1.0	4.2	3.1	2.5	*3.7*	-7.2	4.5	3.9	3.6	3.7	3.7
Real agriculture GDP	-13.7	15.2	3.7	-5.8	*3.3*	-5.0	7.0	3.9	4.0	4.1	4.2
Real non-agriculture GDP	3.0	3.1	3.1	3.7	*3.7*	-7.5	4.2	3.9	3.6	3.6	3.7
Consumer prices (end of period)	1.7	1.7	0.1	1.0	*1.2*	0.2	0.8	1.2	1.6	1.8	2.0
Consumer prices (period average)	1.5	0.7	1.6	0.2	*1.2*	0.2	0.8	1.2	1.6	1.8	2.0
Output gap (percentage points of non-agricultural GDP)	-0.8	-1.1	-1.0	-1.0	*-0.4*	-7.0	-3.0	-2.1	-1.0	-0.4	0.0
Unemployment rate (in percent)	9.4	10.2	9.8	9.2	...	...	...	...	...	...	...
					(In percent of GDP)						
Investment and Saving											
Gross capital formation	32.4	32.6	33.4	32.2	*32.9*	28.1	28.5	28.9	29.4	29.5	29.6
Of which: Nongovernment	26.7	27.2	28.2	27.6	*28.7*	23.1	23.7	23.7	23.9	24.0	24.1
Gross national savings	28.3	29.2	28.1	28.1	*29.1*	22.0	23.1	24.1	25.1	25.1	25.9
Of which: Nongovernment	32.8	32.7	31.9	32.2	*26.7*	29.7	29.4	30.4	30.7	30.0	29.1
					(In percent of GDP)						
Public Finances											
Revenue	26.1	26.6	26.1	25.6	*26.2*	26.9	26.2	26.4	26.6	26.8	27.2
Expenditure	30.5	30.1	29.9	29.7	*29.9*	34.6	32.6	32.7	32.2	31.7	31.3
Budget balance	-4.5	-3.5	-3.7	-4.1	*-3.8*	-7.7	-6.3	-6.2	-5.6	-4.8	-4.0
Primary balance (excluding grants)	-2.7	-2.0	-1.7	-1.8	*-1.6*	-5.5	-3.9	-3.7	-2.8	-2.1	-1.2
Cyclically-adjusted primary balance (excl. grants)	-2.5	-1.7	-1.4	-1.5	*-1.5*	-3.2	-3.0	-3.1	-2.5	-1.9	-1.2
Total government debt	64.9	65.1	65.2	65.2	*65.7*	76.5	76.9	77.3	77.7	77.3	76.6
					(Annual percentage change; unless otherwise indicated)						
Monetary Sector											
Claims to the economy	5.9	3.3	3.4	5.4		...	...	...	...	...	...
Broad money	4.7	5.5	4.1	3.7		...	...	...	...	...	...
Velocity of broad money	0.8	0.8	0.8	0.8		...	...	...	...	...	...
					(In percent of GDP; unless otherwise indicated)						
External Sector											
Exports of goods and services (in U.S. dollars, percentage change)	3.3	12.7	11.6	1.8	*6.9*	-23.8	18.1	9.4	7.3	6.1	7.4
Imports of goods and services (in U.S. dollars, percentage change)	9.5	9.3	12.2	-1.0	*3.3*	-15.2	13.3	6.9	5.5	5.7	5.9
Merchandise trade balance	-17.1	-16.5	-17.2	-16.7	*-15.6*	-14.6	-15.1	-14.8	-14.6	-14.6	-14.6
Current account excluding official transfers	-5.0	-4.5	-5.6	-4.3	*-4.2*	-6.7	-5.8	-5.1	-4.6	-4.5	-3.8
Current account including official transfers	-4.1	-3.4	-5.3	-4.1	*-3.9*	-6.0	-5.4	-4.8	-4.3	-4.4	-3.7
Foreign direct investment	1.5	1.5	2.4	0.5	*1.6*	1.2	1.1	1.3	1.4	1.4	1.5
Total external debt	33.7	35.0	32.0	32.8	*32.7*	39.7	39.3	39.3	39.9	39.0	39.1
Gross reserves (in billions of U.S. dollars)	25.1	26.2	24.4	26.4	*25.8*	32.0	32.3	33.1	33.8	35.2	38.8
In months of next year imports of goods and services	6.1	5.7	5.3	6.8	*5.0*	7.3	6.9	6.7	6.5	6.3	6.9
In percent of Fund reserve adequacy metric 1/	98.6	92.3	85.4	87.7	*81.8*	99.5	92.7	90.3	86.7	85.7	88.9
In percent of CA deficit and ST debt at rem. mat. basis	404.8	439.0	287.3	361.9	*359.6*	346.7	353.6	388.9	412.7	412.2	494.8
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	103.31	109.7	118.1	119.7	*123.6*	113.0	124.2	131.1	138.2	145.7	153.8
Nominal GDP per capita (in U.S. dollars, percent change)	1.0	5.1	6.5	0.3	*3.6*	-6.5	8.8	4.6	4.4	4.4	4.6
Population (millions)	34.5	34.9	35.2	35.6	*36.0*	36.0	36.3	36.7	37.0	37.4	37.7
Population growth (in percent)	1.06	1.06	1.06	1.04	*1.03*	1.03	1.00	0.98	0.96	0.94	0.92
Net imports of energy products (in billions of U.S. dollars)	-5.6	-7.2	-8.8	-7.9	*-7.7*	-3.9	-5.0	-5.1	-5.2	-5.6	-5.9
Local currency per U.S. dollar (period average)	9.8	9.7	9.4	9.6	...	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	2.1	-0.4	0.9	0.5	...	...	...	...	...	...	...
Interest rate (money market rate, end of period, in percent)	2.30	2.32	2.32	2.26	...	...	...	...	...	...	...

Sources: Ministry of Economy and Finance; and IMF staff estimates.
1/ Based on revised ARA weights.

Table 2. Morocco: Budgetary Central Government Finance, 2016–25

(Billions of dirhams)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Proj.					
Revenue	264.0	282.4	289.8	295.2	288.8	296.2	313.0	331.7	351.9	377.1
Taxes	216.9	232.1	242.5	246.9	216.1	235.3	252.1	267.8	284.7	306.2
Taxes on income, profits, and capital gains	83.7	93.3	95.5	97.8	90.2	88.0	90.8	96.5	102.6	111.2
Taxes on property	13.6	12.6	12.6	11.8	9.6	11.5	16.5	17.3	18.3	19.3
Taxes on goods and services	103.9	111.0	117.6	121.0	102.9	119.3	127.6	135.6	144.1	153.6
Taxes on international trade and transactions	9.5	9.0	10.1	10.2	8.8	11.1	10.8	11.7	12.6	13.3
Other taxes	6.3	6.0	6.7	6.1	4.5	5.3	6.4	6.7	7.1	8.9
Grants	9.1	11.4	4.4	2.8	3.6	1.5	1.6	1.6	1.6	1.6
Other revenue	38.0	39.0	42.9	45.5	69.1	59.4	59.3	62.3	65.6	69.2
Of which: innovative financing	0.0	0.0	0.0	9.4	14.0	14.0	14.0	14.0	14.0	0.0
Expense	251.6	261.6	273.2	290.0	318.4	313.3	325.4	333.1	343.2	356.5
Compensation of employees	121.2	122.2	124.5	131.4	134.0	139.9	148.7	146.1	147.6	149.7
Of which: wages and salaries	104.9	104.9	106.0	111.5	115.5	121.2	128.9	126.6	127.9	129.8
social contributions	16.3	17.3	18.5	19.9	18.6	18.7	19.8	19.5	19.7	19.9
Use of goods and services and grants	72.5	78.2	84.9	95.3	95.5	100.6	102.2	106.6	113.8	123.0
Of which: Use of goods and services	26.7	27.6	29.6	31.2	27.7	27.7	32.3	33.9	35.7	39.1
Grants 1/	45.8	50.6	55.3	64.1	67.8	72.9	69.9	72.7	78.1	83.9
Subsidies	14.1	15.3	17.7	16.1	14.1	13.6	4.3	2.3	1.8	1.4
Of which: Energy subsidies	10.5	12.2	12.6	10.7	10.0	9.4	1.7	0.4	0.5	0.5
Food subsidies	2.6	2.1	3.6	3.7	3.1	3.1	2.7	1.9	1.3	0.9
Transfers to households 2/	1.0	1.0	1.4	1.7	1.0	1.0	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.0	0.0	25.0	8.5	16.5	20.3	21.7	20.9
Of which: Cash transfers	0.0	0.0	0.0	0.0	25.0	0.0	7.9	10.6	11.9	12.0
Health care assistance	0.0	0.0	0.0	0.0	0.0	8.5	8.6	9.7	9.8	8.9
Interest	27.1	27.1	27.3	29.4	27.8	28.7	31.5	36.3	38.1	40.0
Other expenses 3/	16.8	18.8	18.8	17.9	22.0	22.0	22.2	21.4	20.3	21.5
Net acquisition of nonfinancial assets	57.8	57.9	57.9	52.3	53.1	54.3	61.6	68.5	72.1	76.1
Primary balance	-18.3	-10.1	-14.1	-17.7	-54.9	-42.7	-42.5	-33.6	-25.4	-15.5
Overall balance	-45.4	-37.1	-41.4	-47.1	-82.7	-71.4	-74.0	-69.9	-63.4	-55.5
Cyclical adjusted balance	-49.2	-45.2	-43.8	-46.6	-62.7	-62.8	-68.5	-67.8	-63.6	-57.2
Change in net financial worth	-45.4	-37.1	-41.4	-47.1	-82.7	-71.4	-74.0	-69.9	-63.4	-55.5
Net acquisition of financial assets	-1.5	0.0	0.0	-5.3	0.0	-4.0	-4.0	-4.0	-4.0	0.0
Domestic	-1.5	0.0	0.0	-5.3	0.0	-4.0	-4.0	-4.0	-4.0	0.0
Shares and other equity	-1.5	0.0	0.0	-5.3	0.0	-4.0	-4.0	-4.0	-4.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	43.9	37.1	41.4	41.8	82.7	67.4	70.0	65.9	59.4	55.5
Domestic	41.1	28.1	43.2	24.5	39.9	37.1	39.7	39.6	21.8	17.1
Currency and Deposits	5.5	2.0	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	27.0	26.1	39.2	23.5	38.9	36.1	38.7	38.6	20.8	16.1
Other accounts payable	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	2.8	9.0	-1.8	17.2	42.8	30.4	30.2	26.3	37.7	38.4
Memorandum Item:										
Total investment (including capital transfers)	74.6	76.7	76.7	70.2	75.1	76.3	83.8	89.9	92.4	97.6
GDP	1,013.2	1,063.0	1,108.5	1,151.2	1,073.4	1,128.6	1,185.1	1,245.3	1,311.3	1,383.9

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

1/ Includes transfers to other general government units, international organizations, and foreign governments

2/ Includes supports to households as cash transfers, bus tickets, transportation, etc.

3/ Includes capital transfers to public entities.

Table 3. Morocco: Budgetary Central Government Finance, 2016–25
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Revenue	26.1	26.6	26.1	25.6	26.9	26.2	26.4	26.6	26.8	27.2
Taxes	21.4	21.8	21.9	21.4	20.1	20.8	21.3	21.5	21.7	22.1
Taxes on income, profits, and capital gains	8.3	8.8	8.6	8.5	8.4	7.8	7.7	7.7	7.8	8.0
Taxes on property	1.3	1.2	1.1	1.0	0.9	1.0	1.4	1.4	1.4	1.4
Taxes on goods and services	10.3	10.4	10.6	10.5	9.6	10.6	10.8	10.9	11.0	11.1
Taxes on international trade and transactions	0.9	0.8	0.9	0.9	0.8	1.0	0.9	0.9	1.0	1.0
Other taxes	0.6	0.6	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.6
Grants	0.9	1.1	0.4	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Other revenue	3.7	3.7	3.9	3.9	6.4	5.3	5.0	5.0	5.0	5.0
Of which: innovative financing	0.0	0.0	0.0	0.8	1.3	1.2	1.2	1.1	1.1	0.0
Expense	24.8	24.6	24.6	25.2	29.7	27.8	27.5	26.7	26.2	25.8
Compensation of employees	12.0	11.5	11.2	11.4	12.5	12.4	12.5	11.7	11.3	10.8
Of which: wages and salaries	10.3	9.9	9.6	9.7	10.8	10.7	10.9	10.2	9.8	9.4
social contributions	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4
Use of goods and services and grants	7.2	7.4	7.7	8.3	8.9	8.9	8.6	8.6	8.7	8.9
Of which: Use of goods and services	2.6	2.6	2.7	2.7	2.6	2.5	2.7	2.7	2.7	2.8
Grants 1/	4.5	4.8	5.0	5.6	6.3	6.5	5.9	5.8	6.0	6.1
Subsidies	1.4	1.4	1.6	1.4	1.3	1.2	0.4	0.2	0.1	0.1
Of which: Energy subsidies	1.0	1.1	1.1	0.9	0.9	0.8	0.1	0.0	0.0	0.0
Food subsidies	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Transfers to households 2/	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.0	0.0	2.3	0.8	1.4	1.6	1.7	1.5
Of which: Cash transfers	0.0	0.0	0.0	0.0	2.3	0.0	0.7	0.9	0.9	0.9
Health care assistance	0.0	0.0	0.0	0.0	0.0	0.8	0.7	0.8	0.7	0.6
Interest	2.7	2.5	2.5	2.6	2.6	2.5	2.7	2.9	2.9	2.9
Other expenses 3/	1.7	1.8	1.7	1.6	2.1	1.9	1.9	1.7	1.5	1.6
Net acquisition of nonfinancial assets	5.7	5.5	5.2	4.5	4.9	4.8	5.2	5.5	5.5	5.5
Primary balance	-1.8	-0.9	-1.3	-1.5	-5.1	-3.8	-3.6	-2.7	-1.9	-1.1
Overall balance	-4.5	-3.5	-3.7	-4.1	-7.7	-6.3	-6.2	-5.6	-4.8	-4.0
Cyclical adjusted balance	-4.9	-4.3	-4.0	-4.1	-5.8	-5.6	-5.8	-5.4	-4.8	-4.1
Change in net financial worth	-4.5	-3.5	-3.7	-4.1	-7.7	-6.3	-6.2	-5.6	-4.8	-4.0
Net acquisition of financial assets	-0.2	0.0	0.0	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	0.0
Domestic	-0.2	0.0	0.0	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	0.0
Currency and Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.2	0.0	0.0	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.3	3.5	3.7	3.6	7.7	6.0	5.9	5.3	4.5	4.0
Domestic	4.1	2.6	3.9	2.1	3.7	3.3	3.4	3.2	1.7	1.2
Currency and Deposits	0.5	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	2.7	2.5	3.5	2.0	3.6	3.2	3.3	3.1	1.6	1.2
Other accounts payable	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	0.8	-0.2	1.5	4.0	2.7	2.6	2.1	2.9	2.8
Memorandum items:										
Total investment (including capital transfers)	7.4	7.2	6.9	6.1	7.0	6.8	7.1	7.2	7.0	7.1
Total government debt 4/	64.9	65.1	65.2	65.2	76.5	76.9	77.3	77.7	77.3	76.6
Public gross financing needs	10.9	7.2	12.1	11.6	17.5	17.0	17.8	17.0	16.0	14.2
Deposits at the Treasury from third parties	5.5	5.5	5.3	5.2	5.7	5.5	5.3	5.2	5.0	4.8

Sources: Ministry of Economy and Finance; and IMF staff estimates.
1/ Includes transfers to other general government units, international organizations, and foreign governments
2/ Includes supports to households as cash transfers, bus tickets, transportation, etc.
3/ Includes capital transfers to public entities.
4/ Does not include deposits at the Treasury from third parties (SOEs, private entities and individuals).

Table 4. Morocco: Balance of Payments, 2016–25

(In billions of US dollars, unless otherwise indicated)

					Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account	-4.2	-3.7	-6.2	-4.9	-6.8	-6.8	-6.3	-6.0	-6.4	-5.7
Trade balance	-17.6	-18.0	-20.3	-20.0	-16.5	-18.7	-19.5	-20.2	-21.3	-22.5
Exports, f.o.b.	19.1	21.5	24.6	24.7	20.1	23.2	25.5	27.5	29.3	31.3
Food products	4.6	5.1	5.7	5.7	5.4	5.9	6.3	6.6	7.0	7.5
Phosphates and derived products	4.0	4.6	5.5	5.1	4.8	5.1	5.5	5.8	6.1	6.5
Automobiles	5.6	6.1	6.9	8.0	6.5	8.5	9.8	10.8	11.9	12.6
Imports, f.o.b.	-36.7	-39.5	-44.9	-44.7	-36.6	-41.9	-45.0	-47.7	-50.6	-53.8
Energy	-5.6	-7.2	-8.8	-7.9	-3.9	-5.0	-5.1	-5.2	-5.6	-5.9
Capital goods	-10.6	-11.3	-12.8	-13.2	-10.7	-12.3	-13.1	-14.1	-14.9	-15.8
Food products	-4.5	-4.4	-4.9	-5.0	-6.3	-7.1	-7.6	-8.0	-8.5	-9.0
Services	6.9	7.5	8.1	9.2	3.5	5.6	6.4	7.2	7.8	9.0
Tourism receipts	6.5	7.4	7.8	8.2	2.6	4.4	4.8	5.3	5.6	6.4
Income	-1.6	-1.9	-2.1	-1.9	-1.8	-1.9	-2.0	-2.2	-2.2	-2.1
Transfers	8.2	8.8	8.0	7.8	8.0	8.2	8.8	9.1	9.4	10.0
Private transfers (net)	7.3	7.6	7.6	7.6	7.2	7.8	8.4	8.8	9.2	9.8
Workers' remittances	6.4	6.8	6.9	6.7	6.6	7.1	7.6	7.9	8.3	8.9
Official grants (net)	1.0	1.2	0.4	0.3	0.7	0.4	0.3	0.4	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.4	2.0	3.9	5.4	7.9	6.6	7.0	7.4	9.3	10.1
Direct investment	1.6	1.7	2.8	0.6	1.3	1.4	1.7	2.0	2.1	2.2
Portfolio investment	-0.3	-0.1	-0.8	1.2	1.3	1.4	1.6	1.6	1.7	1.9
Other	5.1	0.4	1.9	3.7	5.2	3.9	3.6	3.8	5.5	6.0
Private	4.0	-1.4	1.9	2.9	1.9	1.9	2.1	2.1	2.5	2.7
Public medium-and long-term loans (net)	1.2	1.8	-0.1	0.8	3.3	2.0	1.5	1.7	1.9	1.6
Reserve asset accumulation (-increase)	-2.7	0.9	1.1	-2.0	-1.1	0.1	-0.7	-1.4	-2.8	-4.4
IMF financing					3.0	0.0	0.0	-0.8	-1.6	-0.8
Errors and omissions	0.6	0.8	1.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)					
Current account	-4.1	-3.4	-5.3	-4.1	-6.0	-5.4	-4.8	-4.3	-4.4	-3.7
Trade balance	-17.1	-16.5	-17.2	-16.7	-14.6	-15.1	-14.8	-14.6	-14.6	-14.6
Exports, f.o.b.	18.4	19.6	20.8	20.6	17.8	18.7	19.5	19.9	20.1	20.3
Food products	4.5	4.6	4.8	4.8	4.7	4.8	4.8	4.8	4.8	4.9
Phosphates and derived products	3.9	4.2	4.7	4.3	4.2	4.1	4.2	4.2	4.2	4.2
Automobiles	5.4	5.5	5.9	6.7	5.7	6.8	7.5	7.8	8.2	8.2
Imports, f.o.b.	-35.5	-36.1	-38.0	-37.3	-32.4	-33.7	-34.3	-34.5	-34.7	-35.0
Energy	-5.4	-6.5	-7.4	-6.6	-3.5	-4.0	-3.9	-3.8	-3.8	-3.8
Capital goods	-10.2	-10.3	-10.8	-11.0	-9.5	-9.9	-10.0	-10.2	-10.3	-10.3
Food products	-4.4	-4.0	-4.1	-4.2	-5.6	-5.7	-5.8	-5.8	-5.9	-5.9
Services	6.7	6.8	6.9	7.7	3.1	4.5	4.9	5.2	5.3	5.8
Tourism receipts	6.3	6.8	6.6	6.8	2.3	3.6	3.7	3.8	3.8	4.2
Income	-1.6	-1.8	-1.8	-1.6	-1.6	-1.5	-1.5	-1.6	-1.5	-1.4
Transfers	7.9	8.0	6.8	6.5	7.0	6.6	6.7	6.6	6.4	6.5
Private transfers (net)	7.0	6.9	6.4	6.3	6.4	6.3	6.4	6.3	6.3	6.4
Workers' remittances	6.1	6.2	5.8	5.6	5.8	5.7	5.8	5.7	5.7	5.8
Official grants (net)	0.9	1.1	0.3	0.2	0.6	0.3	0.3	0.3	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.1	1.8	3.3	4.5	7.0	5.4	5.3	5.4	6.4	6.6
Direct investment	1.5	1.5	2.4	0.5	1.2	1.1	1.3	1.4	1.4	1.5
Portfolio investment	-0.3	-0.1	-0.7	1.0	1.2	1.1	1.2	1.2	1.2	1.2
Other	5.0	0.4	1.6	3.1	4.6	3.1	2.8	2.8	3.8	3.9
Private	3.8	-1.3	1.6	2.4	1.7	1.5	1.6	1.6	1.7	1.8
Public medium-and long-term loans (net)	1.1	1.7	-0.1	0.7	2.9	1.6	1.1	1.2	1.3	1.0
Memorandum items:										
Exports of goods and services (in U.S. dollars, percentage change)	3.3	12.7	11.6	1.8	-23.8	18.1	9.4	7.3	6.1	7.4
Imports of goods and services (in U.S. dollars, percentage change)	9.5	9.3	12.2	-1.0	-15.2	13.3	6.9	5.5	5.7	5.9
Current account balance excluding official grants (percent of GDP)	-5.0	-4.5	-5.6	-4.3	-6.7	-5.8	-5.1	-4.6	-4.5	-3.8
Terms of trade (percentage change) 1/	-3.8	0.5	2.7	2.2	6.1	-0.7	0.1	0.1	0.0	0.0
IMF financing					2.7	0.0	0.0	-0.6	-1.1	-0.5
Gross official reserves	25.1	26.2	24.4	26.4	32.0	32.3	33.1	33.8	35.2	38.8
In months of prospective imports of GNFS	6.1	5.7	5.3	6.8	7.3	6.9	6.7	6.5	6.3	6.9
In percent of the Assessing Reserve Adequacy (ARA) metric 2/	98.6	92.3	85.4	87.7	99.5	92.7	90.3	86.7	85.7	88.9
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	128.7	121.5	112.5	114.9	131.8	121.6	118.1	112.6	111.1	114.6
Debt service (percent of export of GNFS and remittances) 3/	7.8	7.9	6.4	6.4	11.9	8.4	10.0	6.8	11.0	7.3
External public and publicly guaranteed debt (percent of GDP)	30.8	31.2	29.9	30.4	35.5	36.3	36.1	36.4	35.9	36.1
DHs per US$, period average	9.8	9.7	9.4	9.6	…	…	…	…	…	…
GDP (US$)	103.3	109.7	118.1	119.7	113.0	124.2	131.1	138.2	145.7	153.8
Oil price (US$/barrel; Brent)	42.8	52.8	68.3	61.4	41.7	46.7	48.1	49.2	50.2	51.2

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

1/ Based on WEO data for actual and projections.

2/ Based on revised ARA weights.

3/ Public and publicly guaranteed debt.

Table 5. Morocco: Monetary Survey, 2016–20

	2016	2017	2018	2019	2020-proj.
	(Billions of dirhams)				
Net foreign assets	247.4	268.6	256.3	265.0	275.0
Net domestic assets	961.0	1,006.8	1,070.4	1,124.2	1,208.5
Domestic claims	1,100.0	1,157.3	1,225.9	1,292.7	1,369.0
Net claims on the government	142.4	167.8	203.0	214.4	254.0
Bank Al-Maghrib	-0.3	0.2	0.8	0.6	0.8
Of which: deposits	-4.9	-3.9	-2.9	-3.3	-3.1
Deposit money banks	142.6	167.6	202.2	213.9	253.2
Claims to the economy	957.6	989.5	1,022.9	1,078.3	1,115.0
Other liabilities, net	-139.0	-150.5	-155.5	-168.5	-160.5
Broad money	1,202.4	1,269.1	1,320.6	1,369.8	1,439.6
Money	751.9	811.0	858.7	911.8	1,000.8
Currency outside banks	203.2	218.8	233.6	250.9	303.6
Demand deposits	548.6	592.2	625.1	660.9	697.2
Quasi money	407.3	417.0	424.5	416.0	395.2
Foreign deposits	43.2	41.1	37.4	42.0	43.7
	(Annual percentage change)				
Net foreign assets	1.0	8.5	-4.6	3.4	3.8
Net domestic assets	4.0	4.8	6.3	5.0	7.5
Domestic credit	4.6	5.2	5.9	5.5	5.9
Net claims on the government	-3.8	17.8	21.0	5.6	18.4
Claims to the economy	5.9	3.3	3.4	5.4	3.4
Banking credit	4.2	3.1	3.2	5.3	3.4
Broad money	4.7	5.5	4.1	3.7	5.1
	(Change in percent of broad money)				
Net foreign assets	1.5	1.8	-1.0	0.7	0.7
Domestic credit	4.2	4.8	5.4	5.1	5.6
Net claims on the government	-0.5	2.1	2.8	0.9	2.9
Claims to the economy	4.7	2.7	2.6	4.2	2.7
Memorandum items:					
Velocity (GDP/M3)	0.84	0.84	0.84	0.84	0.75
Velocity (non-agr. GDP/M3)	0.75	0.74	0.75	0.75	0.66
Claims to economy/GDP (in percent)	94.5	93.1	92.3	93.7	103.9
Claims to economy/nonagricultural GDP (in percent)	106.1	104.9	103.9	105.5	117.5

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

Table 6. Morocco: Financial Soundness Indicators, 2016–20

(Percent, unless otherwise indicated)

		2016		2017		2018		2019		2020
	Jun	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Regulatory capital 1/										
Regulatory capital to risk-weighted assets	13.7	13.7	14.2	13.7	13.8	14.0	14.7	15.1	15.6	na
Tier 1 capital to risk weighted assets	11.1	11.1	11.5	11.0	10.9	10.5	10.9	11.0	11.5	na
Capital to assets	9.4	9.4	9.1	9.1	9.1	9.1	9.1	9.2	9.5	9.3
Asset quality										
Sectoral distribution of loans to total loans										
Industry	18.5	18.5	17.8	17.8	17.1	17.8	16.5	15.5	15.9	16.3
Of which : agro-business	3.3	3.3	3.1	3.3	3.3	3.6	3.6	3.3	3.4	3.3
Of which : textile	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7
Of which : gas and electricity	6.3	6.3	6.2	6.2	5.5	5.6	4.9	4.6	4.5	4.7
Agriculture	4.1	4.1	4.0	3.6	3.8	3.6	4.1	4.0	4.1	3.9
Commerce	6.7	6.7	6.4	6.7	6.7	6.6	6.4	6.6	6.4	6.6
Construction	11.4	11.4	11.2	11.2	11.3	11.1	10.5	10.4	10.2	9.6
Tourism	2.1	2.1	1.9	1.9	1.8	1.8	1.6	1.6	1.5	1.6
Finance	11.8	11.8	13.1	13.0	12.7	11.6	12.5	12.2	12.7	13.0
Public administration	4.9	4.9	4.7	4.6	4.9	5.7	8.4	8.2	8.6	8.2
Transportation and communication	4.6	4.6	4.1	4.8	4.5	4.7	4.0	4.5	4.2	4.1
Households	32.8	32.8	32.4	32.4	32.6	32.8	31.9	31.8	31.6	30.5
Other	3.1	3.1	4.4	4.0	4.6	4.2	4.3	5.2	4.8	6.2
FX-loans to total loans	2.6	2.6	2.7	2.8	2.3	2.7	2.7	3.1	3.3	3.8
Credit to the private sector to total loans	90.5	90.5	89.5	89.9	89.2	88.2	85.9	86.2	86.0	86.4
Credit to non financial public enterprises to total loans	5.2	5.2	5.8	5.5	6.2	6.1	6.1	6.0	5.5	5.5
Nonperforming Loans (NPLs) to total loans	7.7	7.7	7.6	7.5	7.5	7.5	7.3	7.5	7.5	7.9
Specific provisions to NPLs	67.0	67.0	69.0	70.0	71.0	70.0	69.1	69.3	69.3	67.6
NPLs, net of provisions, to Tier 1 capital	18.4	18.4	17.3	16.3	15.8	16.4	16.5	16.3	16.0	17.8
Large exposures to Tier 1 capital	302.0	302.0	297.4	318.0	284	296.0	288	262.9	240.1	
Loans to subsidiaries to total loans	7.2	7.2	7.8	8.8	8.5	8.3	8.3	8.7	8.1	8.2
Loans to shareholders to total loans	1.4	1.4	1.1	1.0	0.6	0.8	1.0	0.7	0.5	0.6
Specific provisions to total loans	5.1	5.1	5.3	5.3	5.3	5.2	5.0	5.2	5.2	5.3
General provisions to total loans	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.1	1.2	1.2
Profitability										
Return on assets (ROA)	1.1	1.1	1.1	1.1	0.9	1.1	0.9	1.1	0.9	na
Return on equity (ROE)	11.7	11.7	11.4	11.2	9.5	11.5	9.5	11.8	9.4	na
Interest rate average spread (b/w loans and deposits)	3.8	3.8	3.9	3.9	3.9	3.9	na	3.7	3.7	na
Interest return on credit	5.0	5.0	5.0	4.9	4.9	4.8	na	4.7	4.6	na
Cost of risk as a percent of credit	1.2	1.2	1.1	0.9	0.8	0.9	0.9	0.8	0.8	na
Net interest margin to net banking product (NPB) 2/	67.9	67.9	70.6	71.4	70.1	72.1	71.2	68.6	67.5	na
Operating expenses to NPB	43.9	43.9	46.2	46.4	50.6	46.7	50.6	46.1	50.2	na
Operating expenses to total assets	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	na
Personnel expenses to noninterest expenses	47.6	47.6	47.5	47.5	47.5	47.0	47.5	47.5	47.6	na
Trading and other noninterest income to NPB	32.1	32.1	29.4	28.6	29.9	27.9	28.8	31.4	32.5	na
Liquidity										
Liquid assets to total assets	13.0	13.0	14.5	11.8	13.7	12.9	12.2	12.8	14.0	14.6
Liquid assets to short-term liabilities	17.1	17.1	18.3	15.7	17.3	14.4	15.1	16.2	17.9	18.4
Deposits to loans	105.4	105.4	105.0	104.2	107.5	104.9	103.8	102.2	102.2	100.9
Deposits of state-owned enterprises to total deposits	1.9	1.9	2.7	2.4	2.4	1.9	2.7	2.2	2.2	1.7
Sensitivity to market risk										
FX net open position to Tier 1 Capital	5.6	5.6	4.1	5.6	7.0	7.0	6.9	0.0	3.1	8.0

Source: Bank Al-Maghrib.

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

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

* Provisional figures calculated according to Basel III definition and transitional provisions.

Table 7. Morocco: Capacity to Repay Indicators, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
Exposure and repayments (in SDR million)								
GRA credit oustanding	0.0	0.0	2,150.8	2,150.8	2,150.8	1,613.1	537.7	0.0
(In percent of quota)	0.0	0.0	240.5	240.5	240.5	180.4	60.1	0.0
Charges due on GRA credit	0.0	0.0	0.0	23.9	23.9	22.7	12.6	1.8
Surcharges due on GRA credit			0.0	9.5	9.5	9.2	0.0	0.0
Principal due on GRA credit	0.0	0.0	0.0	0.0	0.0	537.7	1,075.4	537.7
Debt service due on GRA credit	0.0	0.0	0.0	33.3	33.4	569.6	1,088.0	539.5
Debt and debt service ratios								
In percent of GDP								
Total external debt	32.0	32.8	42.4	41.7	41.6	41.5	39.5	39.1
Public external debt	28.6	29.3	38.2	37.6	37.5	37.3	35.4	35.0
GRA credit to Morocco	0.0	0.0	2.7	2.4	2.3	1.6	0.5	0.0
Total external debt service	2.7	2.7	2.8	2.7	2.5	2.9	3.2	2.6
Public external debt service	1.7	1.7	1.7	1.7	1.5	1.9	2.3	1.7
Debt service due on GRA credit	0.0	0.0	0.0	0.0	0.0	0.6	1.1	0.5
In percent of gross international reserves								
Total external debt	154.8	148.6	149.8	160.3	164.8	169.7	163.8	166.8
Public external debt	138.4	133.0	135.1	144.4	148.4	152.4	146.7	149.2
GRA credit to Morocco	0.0	0.0	9.5	9.4	9.1	6.7	2.2	0.0
In percent of exports of goods and services								
Total external debt	113.4	117.7	143.6	154.0	161.7	170.3	172.1	180.4
Public external debt	101.5	105.4	129.4	138.5	145.4	152.8	154.1	161.3
GRA credit to Morocco	0.0	0.0	9.0	7.7	7.0	4.9	1.5	0.0
In percent of total external debt								
GRA credit to Morocco	0.0	0.0	6.3	5.0	4.3	2.9	0.9	0.0
In percent of public external debt								
GRA credit to Morocco	0.0	0.0	7.0	5.5	4.8	3.2	1.0	0.0
Memorandum items:								
Nominal GDP (in billions of U.S. dollars)	118.1	119.7	113.0	124.2	131.1	138.2	145.7	153.8
Gross international reserves (in billions of U.S. dollars)	24.4	26.4	32.0	32.3	33.1	33.8	35.2	36.1
Exports of goods and services (in billions of U.S. dollars)	43.2	44.0	33.5	39.6	43.3	46.5	49.3	53.0
Quota (in millions of SDRs)	894.4	894.4	894.4	894.4	894.4	894.4	894.4	894.4

Source: IMF staff estimates and projections.

<table>
<tr><th colspan="4">Table 8. Morocco: FSAP Key Recommendations—Status as of October 2020</th></tr>
<tr><th colspan="2">Recommendations</th><th>Priority [1/]</th><th>Implementation Status</th></tr>
<tr><td colspan="4">Banking Regulation and Oversight</td></tr>
<tr><td colspan="2">Address banking supervisor’s capacity constraints; strengthen on-site supervision capacity.</td><td>I</td><td>In progress. Internal reorganization implemented and increase of effectives to respond to on site supervision.</td></tr>
<tr><td colspan="2">Review loan classification and provisioning rules on a solo basis; conduct an impact study for implementing the relevant IFRS9 in coordination with tax authorities.</td><td>NT</td><td>On a consolidated basis, IFRS 9 was adopted by Moroccan banks on January 1, 2018. Bank Al-Maghrib (BAM) conducted the impact studies of this standard before implementation and adopted, on this basis, a transitional arrangement for the prudential impact on regulatory capital in line with Basel Committee provisions.

On a solo basis, the loans classification and provisioning rules have been finalized and should be published after the validation of the National Council of Accountancy.</td></tr>
<tr><td colspan="2">Advance recovery & resolution plans; more frequent comprehensive assessments for SIFIs</td><td>I/NT</td><td>The R&R circular was examined by the CEC in July 2017 and communicated to banks for their implementation. Following the adoption of BAM circular in Q3 2017, three systemic banks submitted to BAM during Q4 2018 their first recovery plans.
The remaining banks have submitted their first recovery plans in 2020.</td></tr>
<tr><td colspan="4">Macro Prudential Oversight</td></tr>
<tr><td colspan="2">Amend laws governing regulators for capital markets, and insurance and pensions to include financial stability objective.</td><td>I/NT</td><td>In progress. Legal framework addressing overlap among various regulatory bodies being designed. The opportunity to integrate the amendment of capital market and insurance laws within a more comprehensive reform is being assessed. Work in progress and expected to finalize by 2022.</td></tr>
<tr><td rowspan="2">Implementation of countercyclical capital buffer (CCB); expand data coverage for the risk map; include more targeted sectoral instruments.</td><td>Expand data coverage for the risk map</td><td rowspan="2">NT</td><td>Risk mapping reviewed in first semester 2017 and consist of six risk pillars. A new pillar dedicated to payment systems and market infrastructures was introduced. Work is underway to introduce the emerging risks related to FinTech, cyber risk, and green finance.

The data coverage has been extended in many ways but still work to be done : (i) sample to monitor non-financial firms indebtedness has been improved, in terms of quality and representativeness of the Moroccan economy, from 1684 to 72100 public and private non-financial enterprises; (ii) data for real estate risks (to calculate LTV (loan-to-value) has been collected from Property registry Agency; (iii) Sample to monitor Household sector has been improved, in terms of quality and representativeness, from 182471 to 265084 borrowers. The ongoing work aims to set a dedicated survey to this matter.</td></tr>
<tr><td>Implementation of new specific macroprudentia l instruments</td><td>Capital overload for systemically important banks: The methodology for the identification of Domestic Systemically Important Banks (D-SIB) as well as the calibration approach of the capital surcharge applicable to them were put in place and approved by the financial stability committee in December 2017. Already identified the three largest systemic banks. Calibration still in process for identifying the systemic largest conglomerates. LTV Cap: data requirements are being introduced to collect data for calculating LTV. IMF technical assistance took place in late April 2019.</td></tr>
<tr><td colspan="4">[1/] “I-Immediate” is within one year; “NT-near-term” is one to three years; “MT-medium-term” is three to five years.</td></tr>
</table>

Table 8. Morocco: FSAP Key Recommendations—Status as of October 2020 (continued)

Recommendations	Priority[1/]	Implementation Status
Emergency Liquidity Assistance (ELA)		
Strengthen BAM's recapitalization process; review its profit distribution mechanism.	NT	The alternative chosen has been to include a state guaranty scheme in case of solvency problem, which was included in the new BAM law. Therefore, the framework governing the provision of emergency liquidity by Bank Al-Maghrib was legally established by the provisions introduced in the new central bank law enacted by Dahir n° 1-19-82 on June 21, 2019 published in the Official Gazette of November 21, 2019. This framework stipulates explicitly that emergency liquidity assistance will be limited to solvent institutions facing liquidity problems. Should these liquidity problems degenerate into solvency problems, and under exceptional circumstances, BAM would have the discretion to extend liquidity but would, in this case, be covered by the State guarantee.
Early Intervention/Bank Resolution Framework		
Define the objectives of banking resolution; incorporate "the least-cost principle"	I	In progress. The technical work has been finalized in 2019, particularly on the aspects to be changed in legal framework (Banking and BAM laws, as well as in other laws such as the one on collateral of movable assets). This draft amendment should be introduced in the adoption process.
Formalize the hierarchy of creditors' claims; introduce bail-in powers	I/NT	
Designate an explicit bank resolution authority; limit its legal liabilities in this mandate	I/NT	
Deposit Insurance		
Grant DGF a priority over uninsured depositors and general creditors.	NT	The new law on movable assets does not include a priority to the DGF. The only privilege granted is on the funds transferred to banks.
Financial Market Infrastructures		
Implement guarantee scheme and default handling procedures for securities transactions	I	In progress. A new legal framework (*Loi sur le Marche à Terme*) which provides more flexibility and lower costs in the use of collateral was transmitted to the Government's General Secretariat in 2018 and will be discussed in the Government's Council in 2020. It is part of the market supervision reform that will create the compensation chamber and extend its scope.
Strengthen BAM's oversight of the payment systems	NT	In progress. Mobile solution launched in November 2018. There is a draft law on payment systems in which its supervision will be at BAM, but it will be needed to expand to the new type of payment systems, particularly the mobile ones operated by telecoms.
Publish all policies applicable to FMIs and the disclosure framework of the SRBM	NT	
Securities Market Regulation and Oversight		
Apply consistent regulations and supervision to all participants in securities markets.	NT	In progress, as part of the ongoing revision of the legal framework for capital markets. The Security Exchange Law (2017) includes the provisions that is now being regulated.
Improve valuation of government securities and review valuation rules of mutual funds	NT	In progress. On valuation of government securities, the yield curve is being revised with TA assistance. The valuation rules going to be introduced in a more comprehensive reform of mutual funds which is being finalized.

Table 8. Morocco: FSAP Key Recommendations—Status as of October 2020 (concluded)

Recommendations	Priority [1/]	Implementation Status
Financial Inclusion		
Improve credit bureau data quality; expand data providers to non-financial institutions	I/NT	In progress. Second credit bureau since November 2017. New services have been introduced, including enterprise scoring and portfolio surveillance, and use of alternative data such as utility bill payment information. Data quality is still work in progress, particularly non-financial data. BAM is creating the national register on movable assets for making the new law operational.
Review blanket ceiling on lending rates	NT	Partially done. Micro-credit institutions do not have a ceiling on interest rates and their average rates are higher than banks whose ceilings are revised annually (average interest rates in banks are 13% vs. 18% in micro credit institutions). Nonetheless, interest rate ceilings for micro-credit in banks need to better reflect levels of risks and costs. At the end of 2018, the micro-credit law has been modified to increase the ceiling for credits to micro-enterprises from DH 50,000 a DH 150,000.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Morocco in 2019 was assessed to be broadly in line with the level implied by fundamentals and desirable policies. While the pandemic shock has worsened the CA deficit in 2020, the recovery from the health crisis, gradual process of fiscal consolidation, and implementation of structural reforms are expected to improve Morocco's external position in the medium term. The risks that the pandemic will have greater and longer lasting effects on trade trends and policies, both in Morocco and its trading partners, adds uncertainty to such assessment.*

Foreign Assets and Liabilities: Position and Trajectory

1. Background. After deteriorating sharply between 2005 and 2012 (by around 30 percentage points of GDP, on the back of an increased in foreign liabilities, mainly FDIs), Morocco's Net International Investment Position (NIIP) has remained relatively stable at about -65 percent of GDP over 2013–19. Staff projects this position to deteriorate to about -75 percent of GDP in 2020, on the back of the worsening of the CA deficit. In particular, the pandemic is expected to have worsened the "other investment" (mainly external debt) and "portfolio" net positions. In staff baseline, Morocco's NIIP is projected to decline to around -79 percent of GDP through the medium term, reflecting continued (though lower) current account deficits.

2. Assessment. Morocco should be able to sustain the worse net debtor position after the pandemic, assuming the CA deficit will narrow as the effects of the pandemic wanes, structural reforms continue to be implemented (increasing Morocco's attractiveness for FDI) and the fiscal position improves (reducing the dependence on external debt).

	NIIP	Gross Assets	Res. Assets	Gross Liab.	Debt Liab.
2019 (% GDP)	-67.1	35.5	22.2	102.6	46.6

Current Account

3. Background. After improving by 7 pps of GDP between 2012-2015, on the back of sustained automobile industry exports and favorable terms of trade shocks, Morocco's CA weakened somewhat, reaching -4.1 percent of GDP in 2019 driven by higher imports of capital goods and weaker export growth. The pandemic is expected to widen the CA deficit in 2020 to - 6.0 percent of GDP, mainly reflecting the fall of tourism revenues. Over the medium term, the CA is expected to gradually return to about -3¾ percent of GDP, thanks to the recovery of tourism and automotive sectors, and the positive impact of structural reforms on private sector competitiveness and savings (with fiscal consolidation also sustaining national savings).

4. Assessment. Based on 2019 data, the EBA model estimates a cyclically adjusted CA of –4½ percent of GDP, and a cyclically adjusted CA "norm" of -3¾ percent of GDP. This implies a CA gap of -0.8 percent, with policy gaps contributing for 2.1 percent of GDP (mainly because of looser fiscal policy and stricter capital control policies than the rest of the world) and with an unexplained residual of -2.9 percent of GDP (that may reflect structural factors not included in the model, such as labor market rigidities and barriers to entry for firms, that constrain productivity and competitiveness).

Real Effective Exchange Rate (REER)

5. Background. The REER has been on a modest appreciating trend since 2012 (at the end of 2019 was about 5 percent stronger than in mid-2012), reflecting the nominal appreciation of the Dirham (pegged to a basket including the Euro and US Dollar). So far in 2020, the REER has appreciated by about 2½ percent.

6. Assessment. Based on the EBA current account assessment, the REER was slightly overvalued (by about 3 percent) in 2019. The external sustainability (ES) approach for 2019 also suggests that a somewhat stronger REER (by about 2 percent) would be consistent with a NIIP-stabilizing current account balance.

Capital and Financial Accounts: Flows and Policy Measures

7. Background. Morocco's CA deficit tends to be financed mainly by external borrowing (including trade credit) and net FDI inflows. In 2019, net FDI flow decelerated (mainly as direct investment abroad continued their recent upward trend) but remained positive at USD 0.6 billion, while other net investment and portfolio flows accelerated to USD 3.7 billion and USD 1.2 billion respectively. The pandemic has resulted in a sharp contraction of FDIs into Morocco, but resident direct investment abroad has fallen at an even greater pace, so that net FDIs have remained relative stable so far in the year. In the medium term, inward FDIs are expected to increase as manufacturing, tourism, and real estate sectors recover from the pandemic and benefit from pro-private sector reforms. Net portfolio flows are expected to pick up also, reflecting a greater recourse to international bond markets from both public and private sectors.

8. Assessment. The process of fiscal consolidation and continued structural reforms that increase the attractiveness of key tradable sectors of the Moroccan economy should limit vulnerabilities. Risks are also limited by the remaining capital account controls and the favorable structure of external debt (particularly its long maturity).

FX Intervention and Reserves Level

9. Background. Morocco's exchange rate is pegged to a basket including the Euro and the US dollar, with weights of 60 percent and 40 percent, respectively. The currency can fluctuate within a band that was widened to +-5 percent at the onset of the pandemic. After Morocco purchased the whole amount available under the IMF PLL arrangement in April, reserves increased to US$ 26.4 billion and reached about US$ 32 billion in November. Staff expects reserves to increase gradually over the medium term, as the external position improves. Reserve coverage is expected to remain above 80 percent of the standard reserve adequacy metric over the whole forecasting horizon.

10. Assessment. Morocco's reserves are adequate. The decision to widen the band around the peg in March allowed the currency to depreciate at the peak of external financing tensions in March and April and helped safeguard the level of reserves. Moving to an IT monetary policy framework with a more flexible exchange rate would reduce the need for reserve holdings over the medium term, outside a budget that would fund FX interventions in case of excessive market volatility.

Annex II. Morocco: Risk Assessment Matrix 1/

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
		Global Risks	
Prolonged Covid-19 pandemic	**High** The pandemic proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts. Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks. Pandemic-prompted protectionist actions (e.g., export controls) reemerge.	**High** Further containment efforts would negatively affect Morocco's economic activity directly through supply and demand shocks and through persistent behavioral changes. With limited policy space, markets' reassessing of risks could lead to assets repricing, unmask debt-related vulnerabilities, and weaken domestic financial institutions' health. Protectionist measures could disrupt trade and Morocco's integration into the global value chains.	Fiscal policy should allow automatic stabilizers to operate and extend support to affected firms and workers (including cash transfers, tax deferments and credit facilities), while reducing less essential government spending and/or raising further revenues (through voluntary contributions or progressive forms of taxation) to avoid an excessive increase in debt and financing needs. They should adopt a clear and transparent medium-term fiscal framework to support investors' confidence in a gradual return to lower level of public debt. There is some space to cut policy rates but once reached the effective lower bound BAM could explore QE measures, including scaling up its funding-for-lending schemes and (within an IT framework) buying Treasury bonds in secondary markets to reduce long-term interest rates. BAM may need to intervene promptly to address weaknesses in financial sectors, by reinforcing emergency liquidity provisions, further relaxing capital buffers, and providing viable banks with longer timeframes for restoring minimum solvency. The authorities should also stand ready to provide additional guarantees on bank liabilities, and to create the fiscal space to provide capital to systemically important banks.
A faster resolution of the Covid-19 pandemic	**Low** The discovery of an effective and widely available vaccine and/or a faster than expected behavioral adjustment makes the recovery from the pandemic faster than expected.	**High/ Medium** Faster-than-expected recovery would boost confidence and economic activity.	Cautiously accelerate the phasing out of the pandemic's rescue measures to rebuild policy buffers.

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

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Intensified geopolitical tensions and security risks	**High** Geopolitical competition and fraying consensus about the benefits of globalization could lead to more protectionism and business relocation, reducing cross-border flows of trade and labor (including remittances). Security risks also reduce trade, labor, and capital flows and confidence. Disruptions in oil production may create upside risks for oil prices.	**High** Morocco is a very open economy, highly dependent on trade (including that associated with key global value chains, like the automotive one), remittances, tourism, and energy imports. Hence any disruption on each of these areas is bound to deeply affect economic activity.	• Accelerate the transition to an inflation targeting framework with a flexible exchange rate regime to smooth further external shocks. • Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinders FDIs • Implement structural reforms to support international competitiveness and productivity.
Oversupply and volatility in the oil market	**Medium** Oil supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	**Medium** As Morocco is a net oil importer, lower oil prices are an upside risk for the country, but increased volatility in energy prices could increase uncertainty and affect cash constrained firms and households.	• Accelerate effort to reduce Morocco's dependence on imported energy, boosting the supply of renewable sources.
		Domestic Risks	
Fiscal slippages or greater than expected fiscal contingent liabilities	**Medium** The authorities could find difficulties in reducing the fiscal deficit or there could be greater concerns about the government contingent liabilities from the subsidized and guaranteed credit programs (including to SOEs) and/or the worsening of financial conditions of public pensions funds	**High** With the fiscal space at risk, fiscal slippages and/or the realization of contingent liabilities (including from pensions) could weaken confidence and raise concerns on the sustainability of public debt, triggering an adverse market reaction	• Increase transparency on public sector contingent liabilities. • Implement a more decisive and comprehensive tax reform. • Increase efforts to contain current spending and improve efficiency. • Adopt a credible medium-term fiscal framework. • Rationalization of SOEs. • Changes to the pension system that reinforce its financial sustainability.
Slower than expected pace of structural reforms.	**Medium** Slower than expected implementation of structural reforms than assumed in baseline.	**Medium** Lack of structural reforms could increase fiscal vulnerabilities and social tensions, lower potential growth, and negatively affect investor confidence and the absorption of external imbalances.	• Advance toward a new model of economic development that promotes sustainable and inclusive growth. • Build strong consensus on reforms needed to support social welfare, reduce vulnerabilities, and foster a more inclusive growth.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Widespread social discontent	**High** Social tensions erupt as the pandemic and inadequate policy responses cause economic hardship (including unemployment and higher incidence of poverty).	**High** Social tensions could exacerbate preexisting socioeconomic inequities, disrupt domestic economic activity, and negatively impact Morocco's external and fiscal positions.	• Reintroduce or extend the measures taken under the pandemic this year (including wage subsidies, cash transfers to informal households, tax and contributions exemptions and postponements). Accelerate structural reforms to improve inclusive growth. Gradually strengthen the social protection system as from the reforms recently announced, improve quality of education, boost active labor market policies.

Annex III. Public Debt Sustainability Analysis (DSA)

The Covid-19 crisis is expected to have significantly increased the central government debt-to-GDP ratio and gross financing needs in 2020. This notwithstanding, staff assessment is that Morocco's public sector debt remains sustainable. This assessment is based on the baseline assumptions of a recovery of economic activity in 2021, a gradual process of fiscal consolidation over the medium term, continued low interest rates, and the implementation of structural reforms that boost growth potential. The worse starting position, however, points to increased vulnerabilities to the various shocks considered under the DSA. High gross financing needs and sizeable contingent liabilities from both sovereign guaranteed credit to SOEs and unfunded pension schemes reinforce the importance of a cautious approach to fiscal policy and a steadfast commitment to reforms.

1. This DSA covers central government debt. Specifically, it analyses the debt of the Treasury (both domestic and external) excluding sovereign guarantees (mainly of external debt to SOEs). The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g. public non-profit enterprises), local entities, pension funds, and social welfare organizations. The authorities are planning to start publishing these statistics soon.

2. The overall conclusion of this post Covid-19 DSA is that Morocco's central government debt remains sustainable. While the central government debt-to GDP ratio is expected to have increased in 2020 by about 11.3 pps relative to last year, a few characteristics of the debt profile continue to limit potential vulnerabilities, in particular (see Figure 2): i) its relatively long maturity (weighted average maturity of about 7.5 year), ii) the relatively low share denominated in FX (about 25 percent) and iii) the investment base made mostly of local investors, many of whom are long-term investors. Thanks to such features, as well as to its solid track record and favorable ratings, Morocco's government has maintained steady access to international capital markets at favorable terms over the last 10 years, and more recently after the health crisis (Table). After increasing to 400 bps in March, the EMBG spread has since fallen and in November was close to the last 10-year average of 220 bps. A gradual process of fiscal adjustment, and continued implementation of structural reforms, should help the debt-to GDP ratio return on a downward trajectory over the medium term.

3. The COVID-19 crisis is expected to have raised Morocco's central government debt-to-GDP ratio to 76.5 percent of GDP in 2020. This increase in public debt to GDP (11.3 percent in 2020) is mostly driven by the greater primary deficit (5.1 percent) and the worse real interest rate/growth differential (7.3 percent) for the year. Gross financing needs for the central government are now projected to be about 17.5 percent of GDP in 2020, from 13 percent of GDP in the original budget. Debt level and gross financing needs are thus just above the empirically determined risk benchmarks (70 and 15 percent of GDP, respectively) as shown by the heatmap.

	2010	2012	2013	2014	2019	2020 (September)
Maturity (years)	10	10	30	10	12	5–10
Amount (bln Euro)	2.3	1	0.5	0.750	1	0.5–0.5
Coupon (in %)	4.5	4.25	5.5	4.22	1.5	1.375–2
Spread (in bps)	200	275	290	220	139.7	190–240

4. **Under staff baseline scenario, fiscal consolidation and improved growth prospects will help reverse the public debt trajectory at the end of the forecasting horizon.** Central government debt-to-GDP ratio is expected to stabilize at around 77½ percent of GDP until 2024, before falling to 76½ percent by 2025. This reflects the projected fiscal consolidation of about 4.2 percent of GDP in the primary deficit (excluding grant) over the next five years, as well as sustained growth recovery. Privatization receipts (about 1.3 percent of GDP in 2021-24) should also help reduce financing needs.

5. **Baseline assumptions underpinning these projections appear realistic** (see Figure 3). Based on the results of the DSA's realism tool, the projected fiscal consolidation efforts over the medium term are well in line with cross-country experiences and with previous episodes of fiscal consolidation in Morocco (as the one that took place during 2012-17). Growth forecasts are associated with lower median forecast errors, statistically and economically, as Morocco has experienced few recessions. However, forecast errors for inflation could be larger than those of peer countries (e.g. during 2014−16) due to Morocco lower inflation.

6. **While financing needs have increased, they continue to be manageable**. Higher gross financing needs in 2020 are expected to be covered by greater issuances of Treasury bills in domestic markets, access to international markets (with EUR 1 billion issued in Q3) and greater access to external borrowing already assured from bilateral and multilateral institutions (for about 3 percent of GDP). In staff baseline, financing needs are projected to exceed the benchmark of 15 percent until 2024, gradually falling to about 14 percent of GDP in 2025. This decline reflects the envisaged reduction of the primary deficit and a relatively stable cost of debt, as both domestic and international interest rates are projected to remain low for a few years, improved debt management will contribute to maintain a long average maturity, and a significant share of external borrowing will remain on concessional basis.

7. **However, the worse starting conditions means that Morocco's public debt sensitivity to shocks in the near term has increased relative to last year (heat map).** The debt level remains well above the benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, including to real GDP growth or to the primary balance, although it always resumes a downward path in the medium term. Vulnerabilities linked to the profile of debt are mostly moderate, with short-term debt representing a very small part of total debt (about 8.2 percent of

GDP at end-2019). Relevant indicators (except bond spread over U.S. bonds, and change in short-term debt) exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (Figure 5).

8. Contingent risks from systemic SOEs require close monitoring. SOE debt explicitly guaranteed by the Treasury was about 11 percent of GDP at end 2019 (mainly external debt). The credit guaranteed schemes launched by the government in response to the health crisis imply new contingent liabilities that could add up to about 6.5 percent of GDP. These contingent liabilities from guaranteed credit to SOEs and subsidized credit schemes under the COVID-19 crisis could represent an additional vulnerability to a slower-than-expected economic recovery. Contingent liabilities from unfunded public pension schemes also represent a risk.[1] These risks highlight the importance of resuming a gradual path of fiscal consolidation in the context of a renewed commitment to structural reforms, while carefully managing the maturity profile of public debt.

[1] However, at least in part such liabilities are already recognized explicitly in the analysis, as the central government debt includes Treasury bonds that are held by the social security administration (by about 10 percentage points of GDP).

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

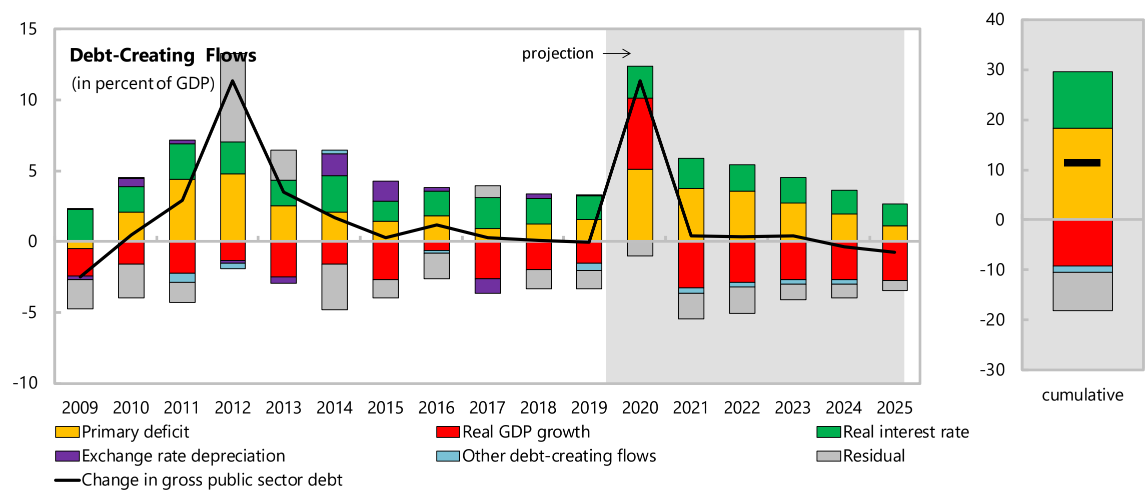
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of November 05, 2020		
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	56.8	65.2	65.2	76.5	76.9	77.3	77.7	77.3	76.6	EMBI (bp) 2/		220
Public gross financing needs	14.3	12.1	11.6	17.5	17.0	17.8	17.0	16.0	14.2	CDS (bp)		120
Real GDP growth (in percent)	3.7	3.1	2.5	-7.2	4.5	3.9	3.6	3.7	3.7	Ratings [3/]	Foreign	Local
Inflation (GDP deflator, in percent)	0.7	1.1	1.3	0.5	0.6	1.1	1.4	1.6	1.8	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	4.5	4.3	3.9	-6.8	5.1	5.0	5.1	5.3	5.5	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	4.9	3.9	4.1	3.7	3.5	3.6	4.0	3.9	3.9	Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.1	0.1	0.0	11.4	0.4	0.3	0.4	-0.4	-0.8	11.4	
Identified debt-creating flows	2.5	1.4	1.2	12.4	2.2	2.2	1.6	0.6	0.0	19.0	
Primary deficit	2.2	1.3	1.5	5.1	3.8	3.6	2.7	1.9	1.1	18.2	-1.2
Primary (noninterest) revenue and grants	27.3	26.1	25.6	26.9	26.2	26.4	26.6	26.8	27.2	160.3	
Primary (noninterest) expenditure	29.4	27.4	27.2	32.0	30.0	30.0	29.3	28.8	28.4	178.5	
Automatic debt dynamics [5/]	0.4	0.1	0.2	7.3	-1.2	-1.0	-0.8	-1.0	-1.2	2.1	
Interest rate/growth differential [6/]	0.2	-0.2	0.1	7.3	-1.2	-1.0	-0.8	-1.0	-1.2	2.1	
Of which: real interest rate	2.1	1.8	1.7	2.3	2.1	1.8	1.8	1.7	1.6	11.3	
Of which: real GDP growth	-1.9	-2.0	-1.6	5.0	-3.3	-2.9	-2.7	-2.7	-2.7	-9.2	
Exchange rate depreciation [7/]	0.2	0.4	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	0.0	-1.3	
CG: Privatization Proceeds (negative)	-0.1	0.0	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	0.0	-1.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.3	-1.3	-1.3	-1.0	-1.8	-1.9	-1.1	-1.0	-0.7	-7.6	



Source: IMF staff.

1/ Public sector is defined as central government and debt figures do not incorporate deposits at the Treasury from third parties (SOEs, private entities and individuals).

2/ Bond Spread over U.S. Bonds.

3/ Based on available data. Moody's credit rating is unsolicited.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5/ as ae(1+r).

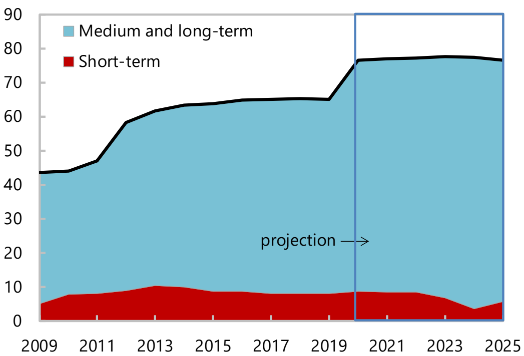
8/ For projections, this line includes exchange rate changes during the projection period.

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

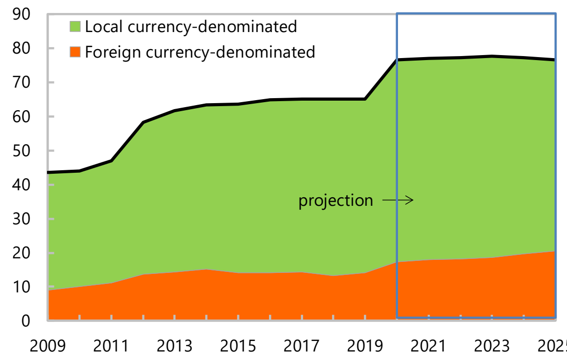
Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



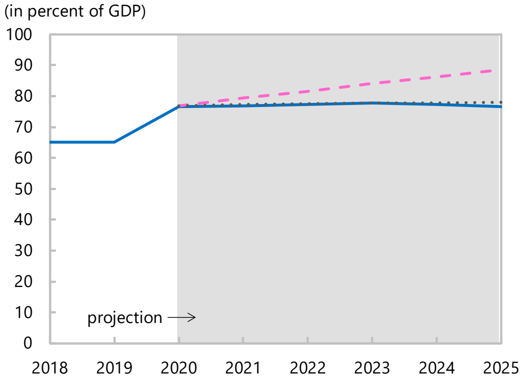
By Currency
(in percent of GDP)



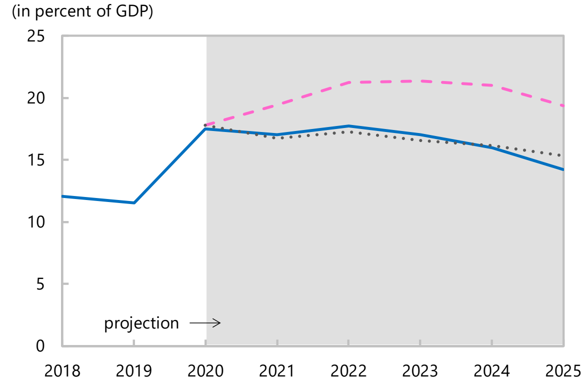
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	4.5	3.9	3.6	3.7	3.7
Inflation	0.5	0.6	1.1	1.4	1.6	1.8
Primary Balance	-5.1	-3.8	-3.6	-2.7	-1.9	-1.1
Effective interest rate	3.7	3.5	3.6	4.0	3.9	3.9
Constant Primary Balance Scenario						
Real GDP growth	-7.2	4.5	3.9	3.6	3.7	3.7
Inflation	0.5	0.6	1.1	1.4	1.6	1.8
Primary Balance	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1
Effective interest rate	3.7	3.8	4.0	4.5	4.4	4.1

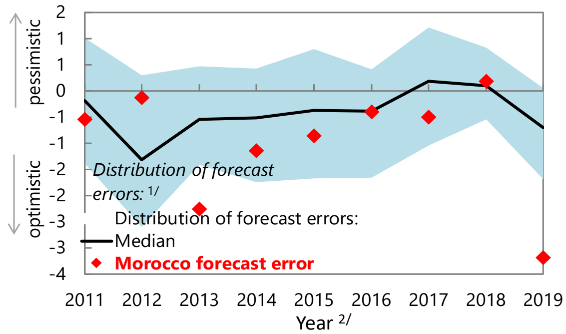
Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	3.5	3.5	3.5	3.5	3.5
Inflation	0.5	0.6	1.1	1.4	1.6	1.8
Primary Balance	-5.1	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate	3.7	3.8	4.2	4.6	4.5	4.3

Source: IMF staff.

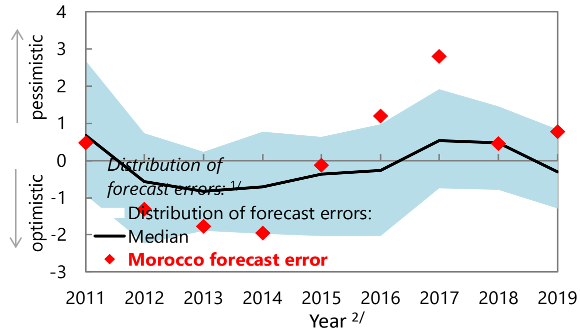
Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries

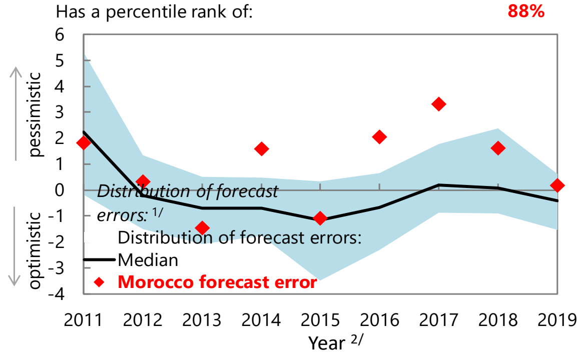
Real GDP Growth
(in percent, actual-projection)
Morocco median forecast error, 2011-2019: **-0.55**
Has a percentile rank of: **35%**



Primary Balance
(in percent of GDP, actual-projection)
Morocco median forecast error, 2011-2019: **0.45**
Has a percentile rank of: **71%**

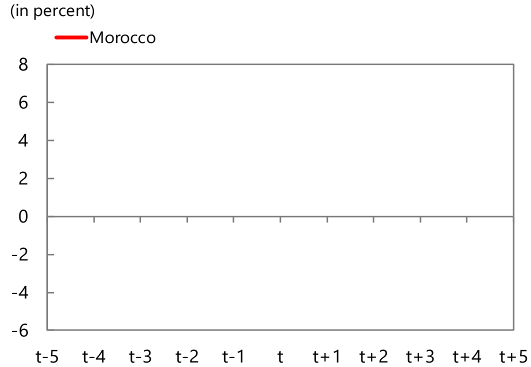


Inflation (Deflator)
(in percent, actual-projection)
Morocco median forecast error, 2011-2019: **1.58**
Has a percentile rank of: **88%**



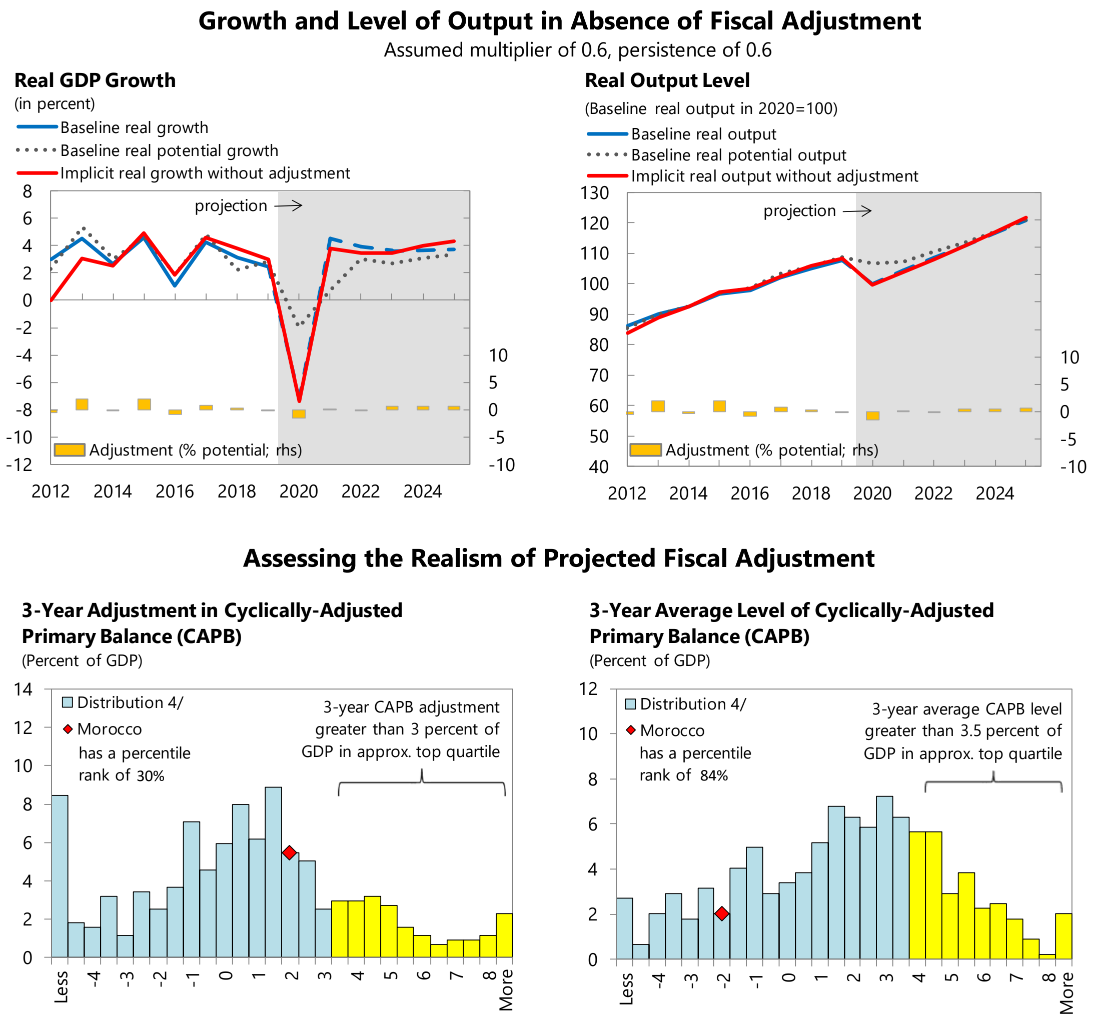
Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Morocco

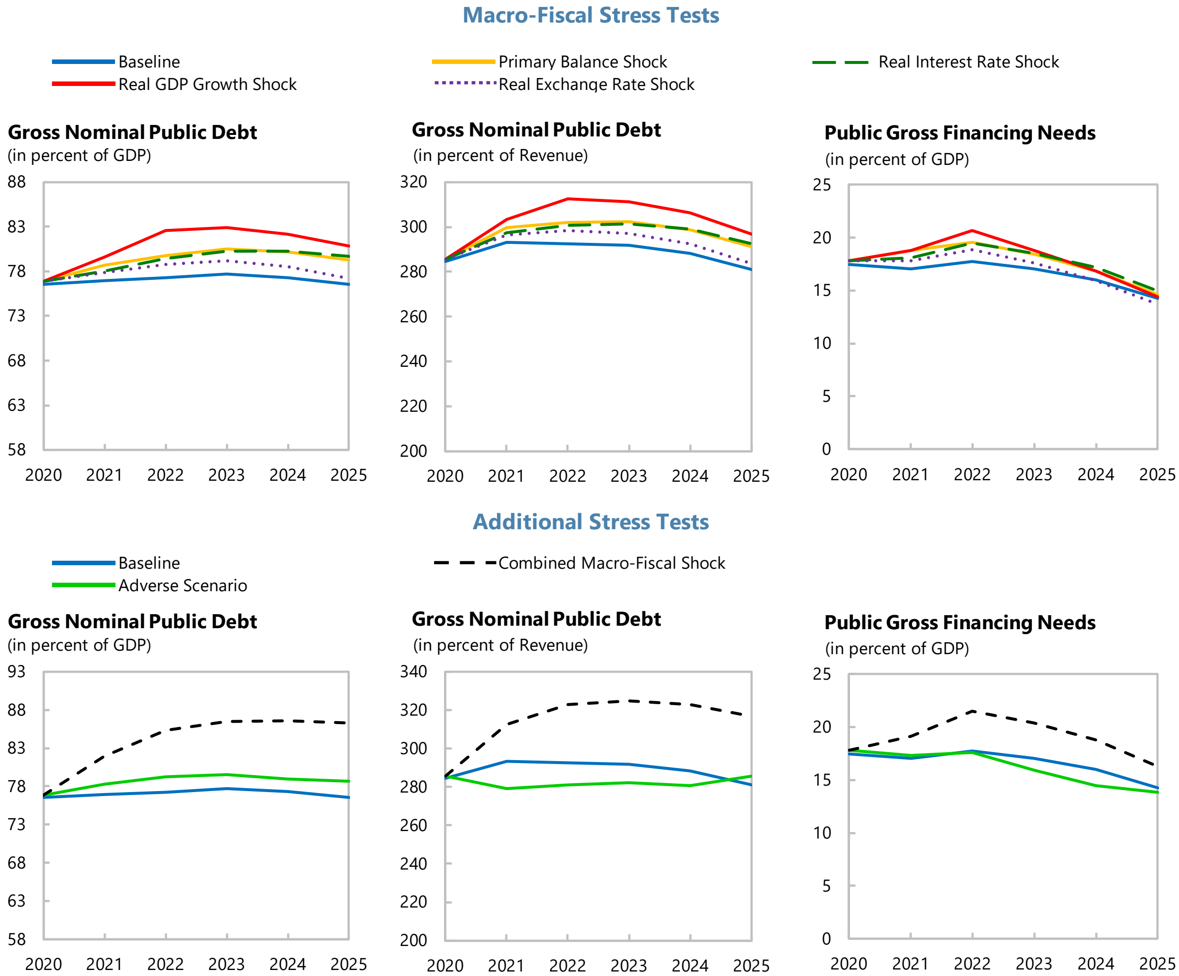
Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions (concluded)



Source : IMF staff.

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

Figure 4. Morocco: Public DSA—Stress Tests



Source: IMF staff.

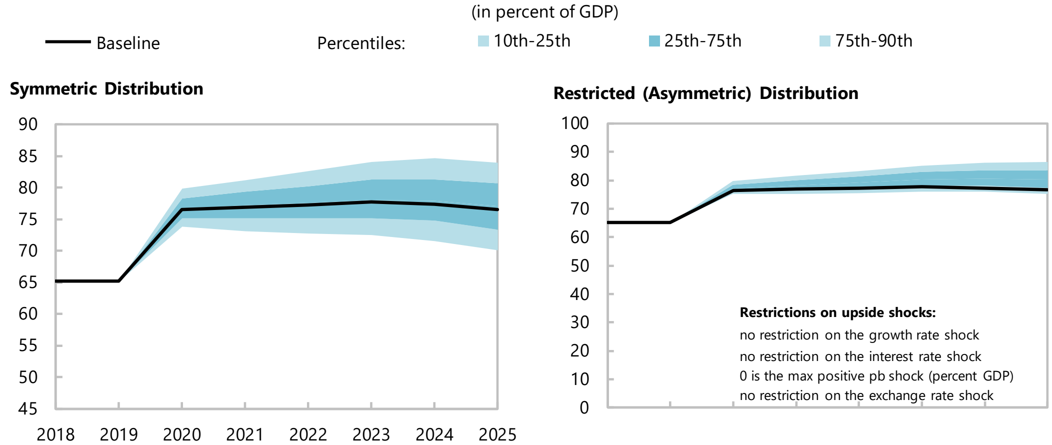
Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

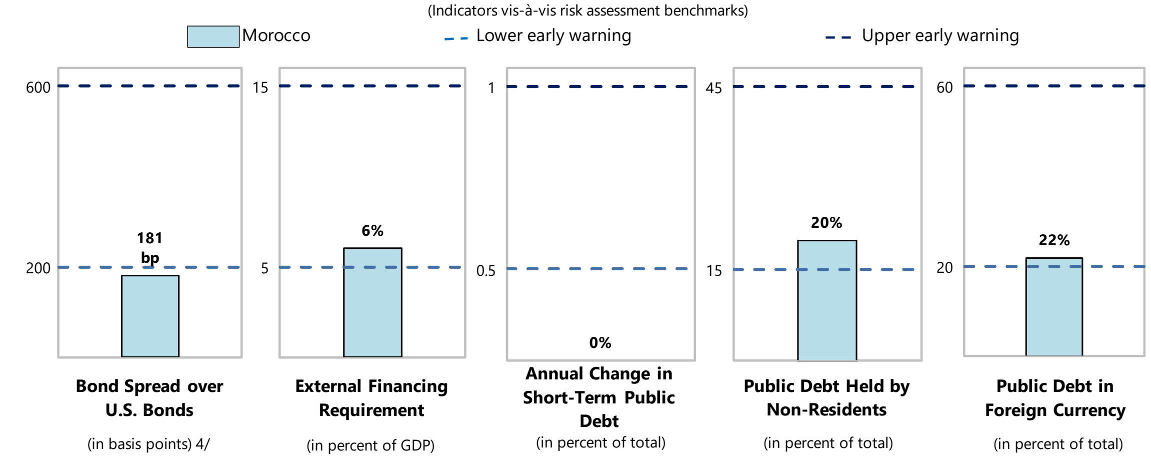
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

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

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 07-Aug-20 through 05-Nov-20.

PRESS RELEASE

Appendix I. Draft Press Release

IMF Executive Board Concludes 2020 Article IV Consultation with Morocco

FOR IMMEDIATE RELEASE

Washington, DC – **December 18, 2029:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Morocco.

Despite the prompt response of the authorities, economic activity has slowed sharply in the first half of 2020 on account of the combined effect of the pandemic and the drought (that affected agricultural production). The economic slowdown has caused an increase in the unemployment rate in Q3, despite lower participation rate, and drove inflation lower so far in 2020.

With greater public sector spending financed by the voluntary contributions to the Covid-19 Fund, the deterioration of the fiscal position has been mainly driven by the fall in tax revenues. The current account deficit has increased so far in 2020 on account of lower tourism receipts. Still, the resilience of remittances and lower imports have contained Morocco's external financing needs, and international reserves remain comfortably above last year' levels also thanks to the purchase of the IMF precautionary liquidity line in April and the greater recourse to external financing.

Banks have so far weathered the recession relatively well, and credit has continued to increase in 2020, reflecting both the strong response of the central bank, that has improved liquidity conditions and cut interest rates, and the government's guaranteed credit schemes.

IMF staff expects GDP growth to fall to 7.2 percent in 2020 and rebound next year to about 4¼ percent, as the effects of the drought and pandemic wane and monetary and fiscal policy remain accommodative. Still, the pandemic is expected to have persistent effects on output, with GDP returning to pre-crisis levels by 2022 and remaining below its pre-crisis trend over the medium term. The recovery of tourism and export receipts is expected to lead a gradual improvement of the current account deficit. This outlook remains subject to exceptional uncertainty, with near-term risks

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

tilted to the downside as the surge in virus cases in Morocco and its trading partners may continue to hinder external and domestic demand.

Executive Board Assessment[2]

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

Morocco: Selected Economic Indicators, 2017–25

Population: 35.587 million; 2019
Quota: SDR 894.4 million
Main exports: automobiles, phosphate and derivatives; 2018
Key export markets: France and Spain (37% of total trade), 2018

Per capita GDP: $3,460; 2019
Poverty rate: 4.8 percent, 2014

	2017	2018	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Output									
Real GDP growth (%)	4.2	3.1	2.5	-7.2	4.5	3.9	3.6	3.7	3.7
Real nonagricultural GDP growth (%)	3.1	3.1	3.7	-7.5	4.2	3.9	3.6	3.6	3.7
Employment									
Unemployment (%)	10.2	9.8	9.2	12.5	10.5	9.7	9.1	8.7	8.5
Prices									
Inflation (end of period)	1.7	0.1	1.0	0.2	0.8	1.2	1.6	1.8	2.0
Inflation (period average)	0.7	1.6	0.2	0.2	0.8	1.2	1.6	1.8	2.0
Central government finances									
Revenue (% GDP) 1/	26.6	26.1	25.6	26.9	26.2	26.4	26.6	26.8	27.2
Expenditure (% GDP)	30.1	29.9	29.7	34.6	32.6	32.7	32.2	31.7	31.3
Fiscal balance (% GDP) 1/	-3.5	-3.7	-4.1	-7.7	-6.3	-6.2	-5.6	-4.8	-4.0
Primary balance	-2.0	-1.7	-1.8	-5.5	-3.9	-3.7	-2.8	-2.1	-1.2
Public debt (% GDP)	65.1	65.2	65.2	76.5	76.9	77.3	77.7	77.3	76.6
Money and credit									
Base money	5.5	4.1	3.7	5.1	…	…	…	…	…
Broad money (% change)	5.5	4.1	3.7	5.1	3.6	3.8	4.1	4.2	4.3
Credit to the economy (% change) 2/	3.3	3.4	5.4	3.4	3.9	3.9	4.0	4.0	4.0
Velocity of broad money	0.8	0.8	0.8	0.7	…	…	…	…	…
Balance of payments									
Current account excluding official transfers (% GDP)	-4.5	-5.6	-4.3	-6.7	-5.8	-5.1	-4.6	-4.5	-3.8
Current account including official transfers (% GDP)	-3.4	-5.3	-4.1	-6.0	-5.4	-4.8	-4.3	-4.4	-3.7
Exports of goods (in U.S. dollars, percentage change)	12.8	14.5	0.2	-18.4	15.1	10.2	7.7	6.6	6.8
Imports of goods (in U.S. dollars, percentage change)	7.8	13.5	-0.5	-18.0	14.4	7.4	6.0	6.2	6.3
Merchandise trade balance	-16.5	-17.2	-16.7	-14.6	-15.1	-14.8	-14.6	-14.6	-14.6
FDI (% GDP)	1.5	2.4	0.5	1.2	1.1	1.3	1.4	1.4	1.5
Gross reserves (months imports) 3/	5.7	5.3	6.8	7.3	6.9	6.7	6.5	6.3	6.9
External Debt (% GDP)	35.0	32.0	32.8	39.7	39.3	39.3	39.9	39.0	39.1
Exchange rate									
REER (annual average, % change)	-0.4	0.9	0.5	…	…	…	…	…	…
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	109.7	118.1	119.7	113.0	124.2	131.1	138.2	145.7	153.8
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-3.9	-5.0	-5.1	-5.2	-5.6	-5.9
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.5	9.1	9.0	9.0	9.0	9.0

Sources: Moroccan authorities; and Fund staff estimates.
1/ Include grants.
2/ Includes credit to public enterprises.
3/ As of 2009, reserves include the new SDR allocation.