

<p>EXECUTIVE BOARD MEETING</p>

EBS/20/182
Supplement 1

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—Informational Annex**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Friday, December 18, 2020**

Publication: Yes*

Questions: Mr. Cardarelli, MCD (ext. 38059)
Mr. Queyranne, MCD (ext. 36297)
Mr. Balima, MCD (ext. 37379)
Mr. Noah Ndela Ntsama, MCD (ext. 39772)
Mr. Some, SPR (ext. 38797)
Ms. Ocampos, MCD (ext. 37972)

Document Transmittal in the Absence of an Objection and in accordance with Board policy: After Board Consideration—Arab Monetary Fund, African Development Bank, Caribbean Development Bank, Islamic Development Bank, World Trade Organization

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



MOROCCO

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

December 3, 2020

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND	2
RELATIONS WITH THE WORLD BANK GROUP	6
STATISTICAL ISSUES	10

RELATIONS WITH THE FUND

(As of November 19, 2020)

Membership Status

Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	894.40	100.00
Fund holdings of currency	2,897.92	324.01
Reserve position in Fund	147.35	16.47

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	561.42	100.00
Holdings	524.03	93.34

Outstanding Purchases and Loans

	SDR Million	Percent Allocation
Precautionary and Liquidity Line	2,150.80	240.47

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	12/17/2018	04/07/2020	2,150.80	2,150.80
Precautionary and Liquidity Line	07/22/2016	07/21/2018	2,504.00	0.00
Precautionary and Liquidity Line	07/28/2014	07/21/2016	3,235.10	0.00

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDR):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal				537.70	1,075.40
Charges/interest	8.26	33.19	33.20	31.72	12.52
Total	8.26	33.19	33.20	569.42	1,087.92

Exchange Rate Arrangement and Exchange System

Morocco has a pegged exchange rate within horizontal bands. In January 15, 2018, Bank Al-Maghrib (BAM) announced the widening of the dirham fluctuation band to ± 2.5 percent (from ± 0.3 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent. As part of a gradual and orderly transition to a more flexible exchange rate regime, the authorities further broadened the dirham's fluctuation band to ± 5 percent on March 6, 2020.

BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Restrictions for the use of foreign currency for current payments and transfers are in the process of being loosened (e.g. lower surrender requirements for exports, higher limits to purchase foreign currency by Moroccan residents for tourism abroad). In addition, capital control operations are gradually relaxing (e.g. higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of December 1st, 2020, the USD/dirham exchange rate was USD 1=DH 9,0855.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on May 13, 2019. The discussions for the 2020 consultation were held virtually during October 18–November 2, 2020.

Technical Assistance

MCM	Macro-Economic Modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the Open Data Platform for Data Reporting	January 2014
LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	March 27–April 14, 2014
MCM/MCD	Exchange Rate Flexibility	May 26–30, 2014
RES	Quarterly Prediction Model (4 short visits)	May through December 2014
AFR/MCM/MCD	Pan-African Cross-Border Banks Exercise	June 2–6, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	June 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	July 2014
RES	Quarterly Prediction Model (6 short visits)	February. through Nov.2015
MCM	Exchange Rate Flexibility	September 15–19, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 22–October 3, 2014
MCM	Development of Macro Prudential Instruments	November 3–14, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	May 2015
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 2015
RES	Forecasting and Policy Analysis system (FPAS)	Nov.30–Dec.3, 2015
RES	MAPMOD Framework for Macroprudential	January 12–15, 2016

MCM	Crisis Management and Banking Resolution	February 8–12, 2016
STA	National Accounts Assessment	April 25–29, 2016
STA	Government Financial Statistics	April 20–29, 2016
MCM	Take Stock ER Flexibility	May 26–27, 2016
RES	FPAS Under ER Flexibility	May 26–June 2, 2016
RES	Macro-Prudential Policy	September 26–30, 2016
MCM	Exchange Rate Flexibility	October 17–27, 2016
RES	Building Capacity for Macroeconomic Modeling	October 31–November 8, 2016
MCM	Management of Foreign Currency Liabilities,	April 5–14, 2017
MCM	Monetary and Financial Statistics	July 17–28, 2017
METAC	ER Flexibilization: Enhancing Risk-Based and Forward-Looking Banking Supervision	September 4–8, 2017
FAD	Public Investment Management Assessment	September 5–21, 2017
STA	Government Finance Statistics Capacity Development	September 11–22, 2017
MCM	Control and Audit Frameworks of Macroeconomic Models	October 16–20, 2017
FAD	Revenue Administration Gap Analysis Program	September 17–22, 2018
STA	Public Finance Statistics	September 24–October 5, 2018
STA	Financial Sector Indicators	October 15–26, 2018
FAD	Public Corporations Fiscal Risks Management	October 22–November 5, 2018
MCM	Systemic Risk Monitoring – Stress Testing	February 21–March 1, 2019
MCM	Macroprudential Policy	April 23–May 2, 2019
METAC	National Accounts and Price Statistics	June 10–11, 2020
FAD	Tax Administration and Medium-Term Revenue Strategy	November 12–25, 2019
METAC	Internal Capital Adequacy Assessment Process (ICAAP)	January 20–24, 2020
STA	External Sector Statistics	January 20–30, 2020
METAC	Cash Management	January 28–February 6, 2020
MCM	Inflation-Targeting Framework and Exchange Rate Regime (virtual)	July 6–17, 2020
METAC	Producer Price Index (virtual)	September 21–October 2, 2020
MCM	Insurance Supervision (virtual)	October 19 – November 5, 2020
METAC	Fiscal Risks from PPPs (virtual)	November 1–8, 2020
METAC	Implementation of Basel II and III standards (virtual)	October 26–November 3, 2020
METAC	Fiscal Risks from SOEs (virtual)	November 9–20, 2020

FSAP Update

The latest update of the Financial Sector Assessment Program was performed in April 2015. The findings were discussed with the authorities during the October/November 2015 Article IV mission and discussed by the Board on December 14, 2015. Continued progress is being made to upgrade the financial sector policy framework in line the 2015 FSAP recommendations.

Safeguard Assessment

The 2019 assessment found strong safeguards at the Bank Al-Maghrib (BAM). The amendments to the BAM Law, that were enacted in 2019 shortly after the assessment was completed, substantially strengthened the governance and autonomy provisions. Separately, the BAM has taken steps to improve financial reporting transparency and the transition to International Financial Reporting Standards (IFRS) is expected to be in accordance with the timelines of the national convergence project in Morocco.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of November 19, 2020

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program	<p>a. Development Policy Lending on:</p> <ul style="list-style-type: none"> Inclusive Green Growth DPL2 Transparency and Accountability DPL2 Capital Market Development and SME Finance DPL2 Financial Inclusion and Digital Economy Disaster risk financing CAT DDO Financial and Digital Inclusion Second Financial and Digital Inclusion <p>b. P4R Lending on:</p> <ul style="list-style-type: none"> Integrated Risk Management Project Health Sector Support Casablanca Municipal Support Program Education support Urban Transport Project Agribusiness Program Municipal Performance Morocco Public Sector Performance Morocco Green Generation Urban Transport Program AF <p>c. Investment Lending</p> <ul style="list-style-type: none"> Seed and Early Stage Equity Financing Youth economic inclusion Improving Social Protection Delivery Financing Innovative Startups & SMEs Identity and Targeting for SP Large Scale Irrigation Modernization COVID-19 Social Protection Emergency Response North-East Economic Development 		<p>FY16</p> <p>FY16</p> <p>FY17</p> <p>FY19</p> <p>FY20</p> <p>FY20</p> <p>FY21</p> <p>FY16</p> <p>FY16</p> <p>FY18</p> <p>FY19</p> <p>FY16</p> <p>FY18</p> <p>FY20</p> <p>FY21</p> <p>FY21</p> <p>FY21</p> <p>FY17</p> <p>FY19</p> <p>FY17</p> <p>FY17</p> <p>FY17</p> <p>FY16</p> <p>FY21</p> <p>FY21</p>

Title	Products	Provisional timing of missions	Expected delivery date
Bank work program	<p>d. Economic and Sector Work (ESW)</p> <ul style="list-style-type: none"> • Morocco #P3 Development of Local Capital Markets and SME Finance Country Partnership Framework • Morocco Government Debt and Risk Management Program • Climate-related Risks in the Moroccan Banking Sector: Monitoring and Supervision • Improving Infrastructure Service Delivery and PPPs in • Support Policy Dialogue in the Agri-Food Sector in the Maghreb Countries• AF- Accessing Overseas Employment Opportunities for Moroccan Youth- Evaluation, Knowledge & Dissemination • Sustainable Development - COVID Monitoring in the Maghreb countries <p>e. Technical assistance (TA)</p> <ul style="list-style-type: none"> • Financing urbanization Morocco • Strengthening Urban Resilience in Morocco • Morocco Programmatic Poverty Work and Jobs • Morocco Health Sector Support • Morocco - Impact of transport investments on job creation • Covid19 Infrastructure Recovery Strategy • Morocco Clean and Efficient Energy Transition Support • Support to the new agricultural strategy in Morocco • Green, Resilient and Inclusive Recovery in Morocco 		<p>FY21FY19-FY24</p> <p>FY22</p> <p>FY22</p> <p>FY22</p> <p>FY22</p> <p>FY21</p> <p>FY22</p> <p>FY22</p> <p>FY22</p> <p>FY21</p> <p>FY22</p> <p>FY21</p> <p>FY21</p> <p>FY22</p>

Title	Products	Provisional timing of missions	Expected delivery date
Bank work program	<ul style="list-style-type: none"> • Morocco Higher Education Policy Dialogue • Morocco: Pathways to deeper trade-led integration in goods and services markets • Morocco Public Expenditure Review • Trust in Morocco • Morocco: monitoring of COVID economic impacts and policy responses 		FY21 FY22 FY21 FY22 FY21 FY21
	<ul style="list-style-type: none"> • Public Investment Management • Poverty Monitoring • Int. Urban Water Mgmt. Strategic Sup. • Urbanization Financing • City Resilience • Public Investment Management • Procurement reform • Market contestability • Bank resolution • Digital payments • Capital market development • Climate entrepreneurship 		FY17 FY17 FY17 FY19 FY19 FY17 FY19 FY20 FY19 FY19 FY20 FY20
IMF work program	<ul style="list-style-type: none"> • Bank Regulation and Supervision • Financial Soundness Indicators • National Accounts Statistics • Public Financial Management • Revenue Administration • Second Review of the PLL • Public Investment Management • Government Finance Statistics • Article IV Consultation • Third Review of the PLL • Request for a PLL Arrangement • First Review of the PLL • Article IV Consultation • Macprudential policies • Second Review of the PLL • Monetary Policy Framework and Exchange Rate Flexibility 	FY17 April 2017 Jan./Feb. 2017 FY17 FY17 June-July 2017 September 2017 September 2017 December 2017 January 2018 January 2019 June 2019 July 2019 FY19-20 January 2020 June 2020	

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

STATISTICAL ISSUES

As of November 19, 2020

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance. Morocco compiles annual and quarterly GDP. The base year (2007) used to derive constant price estimates is outdated. The HCP is currently developing a price index for services. Plans are in place to develop a construction cost index, and a producer price indexes for agricultural products. The CPI weight reference period is 2017.	
Government finance statistics: Fiscal data are adequate for surveillance. Recent expansion of the coverage of public sector debt data to consolidated general government is important progress, but the continuous dissemination of subsectors (central government, social security schemes and local governments) is relevant for analysis and surveillance. Future enhancements could include the dissemination of debt data at both face and nominal value and initiating the compilation of other accounts payable and nonfinancial corporations debt data.	
Balance of payments statistics: External sector data are adequate for surveillance.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department (STA) using the standardized report forms. Bank Al Maghrib reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.	
Financial Sector Surveillance. Morocco does not report financial soundness indicators (FSIs) to STA. A technical assistance mission conducted in October 2018 assisted Bank Al Maghrib in compiling a set of FSIs for deposit takers based on internationally accepted standards as set out in the IMF's <i>FSI Compilation Guide</i> . Regular reporting of FSIs is expected to begin by end-2020.	
II. Data Standards and Quality	
Morocco has been a SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance

(As of November 9, 2020)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo items	
						Data Quality – Methodological soundness ⁸	Data Quality – Accuracy and reliability
Exchange Rates	Aug. 2020	10/01/2020	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sep. 2020	10/28/2020	M	M	M		
Reserve/Base Money	Sep. 2020	10/28/2020	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Sep. 2020	10/28/2020	M	M	M		
Central Bank Balance Sheet	Sep. 2020	10/28/2020	M	M	M		
Consolidated Balance Sheet of the Banking System	Sep. 2020	10/28/2020	M	M	M		
Interest Rates ²	Sep. 2020	10/28/2020	M	M	M		
Consumer Price Index	Sep. 2020	11/17/2020	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Sep. 2020	10/19/2020	A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Budgetary Central Government	Sep. 2020	10/19/2020	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q2/2020	11/1/2020	Q	Q	Q		
External Current Account Balance	Q2/2020	10/02/2020	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Q2/2020	10/02/2020	Q	Q	Q		
GDP/GNP	Q2/2020	10/05/2020	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2020	11/1/2020	Q	Q	Q		
International Investment Position ⁶	Q2/2020	10/01/2020	Q	Q	Q		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³ Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

⁸ Reflects the assessment provided in the data ROSC published on April 4, 2003 and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).