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December 16, 2020

Statement by Mr. Moreno and Ms. Moral Betere on Morocco
(Preliminary)
Executive Board Meeting
December 18, 2020

We thank staff for its complete and insightful report and Mr. El Qorchi for his helpful buff statement. We broadly concur with staff's assessment and policy recommendations and support the proposal for a Post-Program Monitoring (PPM). After the expiration of the fourth PLL in April, and with an outstanding credit to the IMF expected to remain above SDR1.5 billion, the initiation of PPM will provide an important role in signaling economic confidence in Morocco in a context of elevated uncertainty and risks

The Moroccan economy has been hit hard by the combined effects of the draught and the pandemic. Despite strong policy response the economy is expected to contract by 7,2 percent in 2020. Going forward, the economy is expected to recover but the output is likely to remain below pre-crisis levels over the medium term. We note the differences in this regard between the authorities and the staff. *Could staff elaborate on where the main differences lie? Do the most recent data point towards a stronger recovery?*

We concur with staff that the fiscal response has been appropriate, and that consolidation should start once the recovery is underway with the aim of preserving debt sustainability. In this vein, the implementation of a credible medium-term fiscal framework is paramount as well as the acceleration of the tax reform to enhance revenue mobilization. We share staff's approach for a comprehensive reform, including broadening the tax base, avoiding its multiple and generous exemption regimes, increasing progressivity, as well as the introduction of new taxes including a new carbon tax and the reinforcement of tax recollection. We note that the 2021 budget is contingent on privatization receipts. This will be key to lower government financing needs and also to improve the performance of SOEs. In this respect, we welcome the announced reform of SOEs. *Could staff advice on the progress made on this?*

The DSA update considers that Morocco's public debt remains sustainable, but we note that debt sensitivity to shocks in the near term has increased and that gross financing needs are now projected to be about 17.5 percent of GDP in 2020. The recent successful return to the international capital market, the bilateral and multilateral borrowings, and the ample availability of domestic savings look reassuring.

Monetary policy has been accommodative with room for further easing in light of very low inflationary pressures. We agree with staff that this provides a good opportunity to adopt an inflation targeting framework with a more flexible exchange rate (ER). However, we support authorities in their intention to seize the most appropriate environment to do the transition. In this process, transparency and strong communication will be paramount.

We encourage the authorities to continue with financial sector reform and to closely monitor the effects of the pandemic on bank balance sheets. Morocco's financial system has been resilient, but the effects of the pandemic and the remaining vulnerabilities should be addressed. We note that some of the FSAP recommendations have already been implemented; however, many are still in progress. Further efforts are needed, particularly to improve the supervisory and regulatory frameworks. We also strongly encourage authorities to step up their efforts to address the weaknesses of AML/CFT measures as they risk being categorized as a country with strategic deficiencies by the FATF.

The pandemic has exacerbated the challenges that Morocco faces in fostering sustainable and inclusive growth; structural reforms have therefore become more crucial. We encourage the authorities to continue improving the education system and strengthen the social safety net, improve the business environment, and strengthen public administration and governance. These reforms will help to gain competitiveness and curve down the structural component of the external deficit. The pandemic's impact on employment and labor force participation highlights the need for a renewed emphasis on improving labor market efficiency Further efforts are needed to increase female participation in the labor market which remains very low. We note the Government commitment to launching a recovery plan and the strategic fund for investment *Does staff have any analysis on their impact on growth, productivity and employment?*