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December 16, 2020

Statement by Mr. Azal and Mr. Meizer on Morocco
(Preliminary)
Executive Board Meeting
December 18, 2020

We thank staff for the comprehensive set of reports and Mr. El Qorchi for his informative Buff statement. The economic and social impacts of the COVID-19 pandemic on the Moroccan economy have been significant, and the authorities' response was timely. Although Morocco has a proven track record of sound policies and favorable underlying fundamentals, further reforms will be needed to ensure a sustainable and resilient recovery. We welcome the authorities' readiness and commitment in this regard.

While the COVID-19 pandemic has hit Morocco hard, partly due to the structure of its open economy, some indicators already point to a gradual economic recovery. Meanwhile, Morocco has registered a steady decline both in households' confidence and industry new orders expectations, which warrants vigilance regarding the short-term outlook. **Given that the recovery is still fragile and risks remain tilted to the downside, the authorities need to strike a right balance between maintaining the fiscal stimulus in the short term and preserving fiscal sustainability over the medium term**. We welcome the authorities' recovery plan and also note the strong need for well-targeted measures. *Given that the plan would inject about 12 percent of GDP into the economy, we would appreciate further details on its key elements.* We share staff's view that the authorities should attach great importance to employment policies. A comprehensive set of measures is needed to improve labor market efficiency, as well as reduce unemployment and the informal sector. Although the extension of social protection to all Moroccans is very important, the authorities will need to cautiously approach the introduction of the new solidarity contribution. Further progress in improving the tax system may be also warranted.

We also welcome that Morocco was able to return to the international capital market in recent months, after fully drawing from the Precautionary and Liquidity Line (PLL) arrangement in April. *Could staff please provide more detail on the use of the PLL funds and whether Morocco would be able to maintain an adequate level of official reserves without the expected improvement in its external position?* We encourage the authorities to devote special attention to maintaining an adequate reserve position, as well as to further mitigate the vulnerabilities. We also take positive note of staff̀s assessment that public debt remains sustainable. **We fully concur with the Managing Director's recommendation to initiate post-program monitoring, considering that Morocco's outstanding credit to the IMF is expected to remain above the SDR 1.5 billion threshold until early 2024.**

While we commend the central bank for the effective crisis response, we also share staff̀s view that the monetary policy should remain accommodative. Although there is no inflationary pressure on the horizon, financial stability should also be taken into account when assessing the possible further easing of monetary policy. We agree with staff's recommendation that the scaling-up of the central bank's funding-for-lending scheme could also be considered. Greater exchange rate flexibility could also help the Moroccan economy to better absorb external shocks. We also take note that prudential policies allowed temporary forbearance on some areas to avoid constraining credit supply. We suggest that the authorities closely monitor the implications of these forbearance measures, also considering that the developments in credit conditions continue to play an important role in promoting the recovery. The next round of bank stress tests can also help better capture emerging risks. We join staff in encouraging the authorities to bolster efforts to address weaknesses in the AML/CFT framework to prevent the Financial Action Task Force from listing Morocco as a country with strategic AML/CFT deficiencies in February 2021.

Morocco's path to a sustainable and resilient recovery will depend significantly on the authorities' commitment to structural reforms. While we encourage the authorities to continue their reform agenda, we would also like to draw attention to the importance of prioritization so that the related measures ensure the greatest possible support for recovery, in addition to achieving long-term goals. The authorities need to take bold steps to mitigate scarring effects on growth prospects to the extent possible. We welcome that the authorities intend to pursue further reforms in many fields, with clear performance indicators and well-defined implementation plans. We encourage the authorities to put a premium on measures that will further strengthen governance and reduce corruption, and develop more effective public-private partnerships.