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December 16, 2020

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

1. We thank the staff for a detailed note and Mr. El Qorchi for his informative Buff statement. We broadly concur with the staff's assessment. We understand that following the purchase of all available resources on April 7, 2020, the PLL arrangement has expired. Thus, in the absence of a successor Fund arrangement, we agree with the recommendation of the Managing Director for initiation of a Post-Program Monitoring.

2. The authorities think that the staff's baseline scenario is excessively pessimistic, given the signs that several important sectors of the Moroccan economy have begun to rebound starting in June 2020. They expect growth to be close to 6 percent in 2020, with a faster return to pre-crisis output levels due to the recovery plan, investment, and a new generation of sectoral strategies. *In the staff's view what could be the key factors that will hold back growth and lead to significant divergence from the assessment of the authorities?*

3. In the staff's view, the ample output gap, low inflation, and downside risks to the recovery point to the need for a transition to an inflation targeting (IT) framework with a more flexible exchange rate. If one looks at the record of inflation control in Morocco, it will be noticed that even without inflation targeting Morocco has registered an average inflation rate of just 1.5% over the last two decades. Even the staff's long-term inflation projections are around this trajectory, which also implies that inflation expectations are well-anchored without an inflation targeting regime. *What additional benefits can Morocco derive by moving over to an inflation-targeting regime? And could there be some negative outcomes from such a radical departure from existing successful practice.*

4. The staff estimates that a comprehensive tax reform aimed at extending the tax base and increasing the progressivity of the tax system could increase tax revenues by between 1.5-2 percent of GDP over the medium term. **We believe that the advice on devising a progressive tax system should be carefully analyzed keeping in view the risk of higher**

progressivity shouldn't simultaneously lead to greater tax evasions. Rather the focus should be on tightening the tax administration and tax compliance. While growth is expected to collapse in 2020, Morocco seems to stand out among the developing countries in maintaining its high tax-GDP ratio. We would like to understand from the staff the underlying factors which bring such resilience to tax revenues. Second, the staff suggests that reducing the debt-GDP ratio over the medium-term would require more ambitious tax reforms, with a focus on broadening the tax base. **Given that the tax-GDP ratio for Morocco is already high at 21-22 percent, which is above the average level of the middle-income countries, could it be too ambitious a suggestion to achieve incremental buoyancy in taxes?**

5. **We believe that the pandemic has exposed deficiencies in the healthcare, social safety, and social sectors across developing countries and the need for greater public investment in these areas once the pandemic is behind us.** The authorities' decision to harmonize all current social assistance programs into a single family-allowance scheme starting from 2023 is a step in the right direction.

6. Like the staff, we encourage authorities 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. It is encouraging to note that the authorities are considering a draft amendment of the AML/CFT law that should regulate the adoption of financial sanctions.