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December 16, 2020

**Statement by Mr. Sylla and Mr. Carvalho da Silveira on Morocco
(Preliminary)
Executive Board Meeting
December 18, 2020**

We thank staff for the well-written set of papers and Mr. El Qorchi for his helpful Buff statement.

We broadly agree with the staff's assessment and policy advice and support the proposal for Morocco to engage in post-program monitoring (PPM) with the Fund. The pandemic is causing significant strain on the Moroccan economy, despite the solid progress made in tackling fiscal and external vulnerabilities and entrenching macroeconomic stability over the years under the Precautionary and Liquidity Line (PLL) arrangements. Furthermore, the proactive actions taken by the authorities to mitigate the impact of Covid-19 and protect households and businesses are commendable. However, we note that the fiscal and external positions are expected to deteriorate severely in 2020 as a result of the pandemic shock and that important downside risks to the outlook persist. Against this backdrop, a PPM with the Fund can help the authorities address macroeconomic challenges and provide an impetus to implement critical fiscal and structural reforms to support the recovery and achieve medium-term macroeconomic stability and inclusive growth.

We concur that a strong rules-based fiscal framework is paramount to achieve fiscal sustainability and bring public debt on a downward path over the medium-term. We are pleased to note that the automatic stabilizers were allowed to play their role in helping the fiscal response and welcome the authorities' intention to continue to support the economy in the short-term. As the crisis subsides, we agree that the authorities should stand ready to scale back the temporary measures and slowly resume fiscal consolidation when conditions allow. Therefore, adopting a clear medium-term fiscal framework will be critical to increase fiscal space, rebuild buffers and safeguard debt sustainability. In this respect, the introduction of pluriannual budgeting in the Organic Budget Law represents a step in the right direction. In addition, the fiscal framework should be complemented by other fiscal reforms aimed at rationalizing expenditure and boosting revenues, including broadening the tax base,

increasing the progressivity of the tax system, introducing a carbon tax, reforming the civil service and advancing digitalization, in line with staff's recommendations. Fiscal risks arising from the activation of the sovereign guarantees to SOE debt and public-private partnerships (PPPs) also warrant close monitoring given its potential impact for the budget. *Could staff elaborate on the progress achieved with the privatization program since its inception in 2019?*

We share the view that the current monetary policy stance is appropriate, but continued vigilance is warranted considering the potential financial risks. We encourage the authorities to be prepared to adjust the monetary policy stance if needed and continue to make progress in their gradual transition to a more flexible exchange rate regime as well as ensure that a clear communication strategy is in place. These actions will be useful in anchoring expectations. On the financial sector, it is encouraging to note that the banks are healthy and well-capitalized despite the impact of the crisis. Nonetheless, given the upcoming expiration of moratoria on credit, it will be essential to continue closely monitoring and assessing potential risks to banks' balance sheets, with the view to safeguard financial stability. In this connection, the Bank Al-Maghrib should consider using all available tools if needed, including temporary suspension of dividends and increased provisioning, amongst others. Progress should continue to be made in implementing the remaining 2015 FSAP recommendations and addressing the identified gaps in the AML/CFT framework in line with international standards. *We would appreciate staff's comments on whether the usage of syndicated lending has helped alleviate risks from large credit exposure since the last Article IV Consultation.*

Structural reforms should be geared towards reforming SOEs, improving social safety nets and strengthening governance. We acknowledge the noticeable progress achieved in advancing the reform agenda over the years. Notwithstanding, we agree that further efforts are needed to tackle existing structural bottlenecks in education and training, labor market participation of the youth and women, and access to finance for small and medium-sized enterprises (SMEs). Improving the efficiency of social programs through a comprehensive reform of the social protection system will be necessary to better protect the most vulnerable populations, particularly during a period when these groups are being disproportionately affected. Finalizing SOE reforms and continuing efforts in improving governance are equally important.

With these remarks, we wish the authorities of Morocco every success in their endeavors.