

SU/20/187

December 22, 2020

**The Acting Chair's Summing Up
Morocco—2020 Article IV Consultation and Proposal for Post-Program Monitoring
Executive Board Meeting 20/123
December 18, 2020**

Executive Directors agreed with the thrust of the staff appraisal. Morocco has been hard hit by the global pandemic and suffered from a severe drought. They commended the authorities' swift policy response that helped mitigate the social and economic impact of these shocks. Directors emphasized the exceptional uncertainty around the outlook and encouraged the authorities to continue supporting the economy until the recovery is well entrenched.

Directors agreed that fiscal policy has appropriately supported households and firms in the wake of the pandemic, aided by voluntary contributions to the COVID-19 Fund, and will need to continue sustaining the recovery in the short term. However, fiscal consolidation should resume as soon as the economy recovers from the pandemic. Directors encouraged the authorities to publish a medium-term fiscal framework that would show a credible commitment to put the public debt on a firmly downward trajectory, with further decisive reforms to improve tax policy and increase the efficiency of public spending.

Directors welcomed the exceptional measures adopted by Bank Al-Maghreb to smooth the impact of the pandemic on financial markets and the real economy. The monetary policy stance would need to remain accommodative until inflationary pressures reemerge. Directors welcomed recent progress in increasing exchange rate flexibility and called for completing the transition to the planned inflation targeting framework to strengthen monetary policy transmission. While the banking sector system has so far weathered the crisis relatively well, Directors recommended continued close monitoring of the impact of the crisis on bank asset quality, including through regular stress testing. They also called for accelerating efforts to strengthen the AML/CFT framework and to finalize the bank resolution framework.

Directors supported the authorities' plan to overhaul the large state-owned enterprises sector to improve its efficiency and governance, and support private sector development. Given the large volume of credit guarantees granted during the crisis and renewed efforts to boost public-private partnerships, Directors called for strengthening the management and reporting of associated fiscal risks. While recognizing past progress, they welcomed continuous efforts to improve governance and modernize public sector administration and fight corruption.

Directors welcomed the authorities' commitment to extend the social protection system to expand its coverage, make access to benefits more equitable, and improve targeting and efficiency of spending. Given the limited fiscal space, they underlined the need to ensure adequate long-term financing for such reforms. Directors also underscored the critical role of education reforms to build human capital and improve long-term productivity.

Directors noted that the decision to draw on the Precautionary and Liquidity Line (PLL) arrangement in April 2020 has helped ease external financing pressures and to maintain official reserves at an adequate level. They welcomed today's announcement that the authorities intend to repurchase soon part of the amount purchased under the PLL arrangement. This may make post-program monitoring no longer necessary. Directors looked forward to continued close Fund engagement with the authorities.

The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.