Executive Board Minutes 20/123-1

December 18, 2020–10:00 a.m.

Morocco - 2020 Article IV Consultation and Proposal for Post-Program Monitoring

Documents: EBS/20/182 and Cor.1 and Sup.1 and Sup.2

Staff: Cardarelli, MCD; Steinberg, SPR

Length: 1 hour 13 minutes

ISSUED: August 17, 2022
APPROVAL: August 24, 2022

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

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.

EXECUTIVE BOARD DECISION

Morocco - Proposal for Post-Program Monitoring

Morocco is expected to engage in post-program monitoring with the Fund, in accordance with Decision No. 13454-(05/26), as amended. (EBS/20/182, 12/04/20)

Decision No. 16945-(20/123), adopted
December 18, 2020

EXECUTIVE BOARD ATTENDANCE[1]

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
	O. Odonye (AE)
	F. Sylla (AF)
	R. Morales (AG), Temporary
	A. Grant (AP)
	B. Saraiva (BR)
	M. Law (CC), Temporary
P. Moreno (CE)	
L. Levonian (CO)	
	H. Azal (EC)
A. Buisse (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
D. Fanizza (IT)	
	S. Naka (JA), Temporary
	M. El Qorchi (MD)
	M. Merhi (MI), Temporary
	T. Manchev (NE), Temporary
	J. Sigurgeirsson (NO)
A. Mozhin (RU)	
M. Mouminah (SA)	
	F. Mochtar (ST)
	M. Peter (SZ)
S. Riach (UK)	
	R. Farber (US), Temporary

H. Al-Atrash, Acting Secretary
S. Kalra, Summing Up Officer
B. Zhao, Board Operations Officer
M. Eddy, Verbatim Reporting Officer

Also Present
Communications Department: W. Amr, C. Light, N. Mombrial. Fiscal Affairs Department: S. Thomas. Finance Department: M. Kida, O. Unteroberdoerster. Legal Department: K. Kwak, N. Schwarz. Middle East and Central Asia Department: A. Abdulkarim, J. Azour,

[1] For countries in each constituency, please see the Constituency Codes in the annex.

W. Balima, R. Cardarelli, J. Ferrer Catalan, T. Koranchelian, J. Noah Ndela Ntsama, L. Ocampos Balansa, M. Queyranne. Monetary and Capital Markets Department: A. Haron. Strategy, Policy, and Review Department: F. Raei, Y. Some, C. Steinberg. Executive Director: A. Andrianarivelo (AF), H. Hosseini (MD), A. Mahasandana (ST), I. Mannathoko (AE), M. Mahmoud (MI), E. Shortino (US). Alternate Executive Director: S. Geadah (MI), A. Guerra (CE), C. Just (EC), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), L. Palei (RU), V. Rashkovan (NE), D. Ronicle (UK), P. Rozan (FF). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), K. Badsi (MD), M. Choueiri (MI), I. Fragin (GR), M. Ismail (AE), B. Lischinsky (AG), Son T. Nghiem (ST), S. Potapov (RU), C. Sassanpour (MD), F. Spadafora (IT), G. Vasishtha (CO), M. Zhunusbekova (SZ). Advisors to Executive Directors: P. Al-Riffai (MI), A. Arevalo Arroyo (CE), S. Belhaj (MD), K. Carvalho da Silveira (AF), L. Cerami (IT), T. Cham (AE), V. Djokovic (SZ), D. Fadhel (MI), K. Florestal (BR), G. Khurelbaatar (AP), G. Meizer (EC), R. Moral Betere (CE), E. Ondo Bile (AF), K. Osei-Yeboah (MD), T. Persico (IT), M. Shimada (JA), B. Singh (IN), J. Al Saud (SA), F. Lopez (CE), D. Coelho (BR), P. Robitaille (US), R. Masood (UK), C. Roman (FF).

DISCUSSION RECORD[2]

The Acting Chair (Mr. Furusawa):

Welcome to the Board meeting on Morocco to discuss the 2020 Article IV Consultation and Proposal for the Post-Monitoring Program (PPM). The World Bank staff is attending this meeting. All Directors issued gray statements.

In the gray statements, Directors noted that both the COVID-19 pandemic and the drought took a heavy toll on Morocco's economy. Directors welcomed the authorities' swift response to mitigate the economic and social impact of the negative shocks.

Directors agreed that the fiscal policy faces a delicate balancing act between supporting the recovery and rebuilding of fiscal space. Directors have called on Morocco's central bank to maintain an accommodative monetary policy stance, continue the transition to a monetary policy regime with a more flexible exchange rate, and follow closely the impact of the crisis on the Moroccan banks.

Directors have all highlighted the need for continued structural reforms that improve the coverage and efficiency of Morocco's social protection system, rationalize state-owned enterprises (SOEs), help develop a more vibrant private sector, fight corruption, and improve governance.

Finally, in the gray statements, Directors have all supported the initiation of the post-program monitoring, in line with Fund policy.

Mr. El Qorchi:

I would like to take the floor at this stage to inform the Board that my authorities have decided to make an early repurchase of part of the credit outstanding to the Fund. This decision builds on an improved international reserve position following the December bond issuance that raised US$3 billion at favorable conditions, which was over-subscribed more than four times. It is also a recognition by my authorities of the monetary character of the Fund.

[2] Edited for clarity.

The staff representative from the Middle East and Central Asia Department (Mr. Cardarelli):

We gave written answers to all the questions on Morocco we received. I apologize if we missed any, but I am available to provide more details if needed and to answer any other questions that may come from the discussion.

Mr. Alkhareif:

I am very pleased to hear Mr. El Qorchi's remarks that Morocco plans to have an early repayment of the precautionary and liquidity line (PLL), partial repayment. This is indeed a sign of strength, and we hope that the market will take it positively.

Since we have issued a detailed gray statement, I can be very brief and focus my remarks on commending the authorities for their swift policy response to mitigate the impact of the COVID-19 crisis. Indeed, their efforts are commendable and can draw lessons from the case of Morocco in how to enhance social spending and provide adequate social protection to the population. Reading the report and understanding what the Middle East and Central Asia Department (MCD) has recently done in enhancing inclusiveness in the region, we can draw a few lessons from Morocco.

The recent G-20 IMF forum on enhancing access to opportunities in the Arab countries has been timely. In reading Morocco's report, we encourage staff to draw lessons from the experience of Morocco and to update the menu of policy options and inclusiveness.

Inclusiveness is critical in the Near East and North Africa (NENA) region, including with youth unemployment and enhancing access to opportunities to the private sector, improving the efficiency and governance in the government sector, and we hope that we will see a continued effort in this area.

Mr. Buisse:

I published a gray statement with our UK colleagues, but I would like to make a few comments for emphasis.

First, I would like to commend the authorities for maintaining macroeconomic stability during the COVID-19 crisis. The Moroccan economy is heavily affected by the combined effects of the drought and of the pandemic, strong impacts on tourism, construction, and the transport sector, but the authorities have taken strong measures to weather the storm. Let me underline here that the steadfast response was allowed by the strong macroeconomic framework and policies put in place by the authorities over the year.

The challenge ahead will be to strike the right balance between sustaining the economic recovery and rebuilding the policy buffers used in response to the crisis. It is not an easy trade-off for any country.

Second, I want to underline that continued structural reforms are essential to sustain the recovery and ensure higher, more resilient, and more inclusive growth. The extension of social protection to all Moroccans will be a landmark reform, paving the way for further reforms on family allowances, compensation for unemployment, and generalized pension systems for active individuals. I also support the authorities' efforts to implement the education reform and to fight youth unemployment.

Finally, the reform of state-owned enterprises (SOE) and plans for privatization should lead to a more efficient use of public resources and is essential for future works.

Third, I want to strongly underline that the authorities' engagement with the IMF under the now-expired precautionary and liquidity line (PLL) arrangement. And over the period from 2012 to 2019, it has delivered strong results. The excellent relationship with the Fund has supported confidence around the policy framework to weather external shocks and firm up confidence.

The authorities benefited from this instrument due to their sound fundamentals, and they used it wisely to respond to the worsening environment. When the authorities draw on the PLL, reserve the pickup, and the country has been able to successfully tap markets, it is a testament to the signaling effects of this instrument and to the fact that drawing down on the instrument is really not perceived negatively by the markets—actually, quite the contrary.

Let me thank Mr. El Qorchi and his authorities this morning for their comment. I very much welcome the fact that the authorities have decided to reimburse part of the credit outstanding. It is a very positive signal

Mr. von Kleist:

As we have issued a gray statement, I can be brief this morning. Like others, I strongly welcome the announcement by Mr. El Qorchi on the planned early repurchase and the emphasis of his authorities on the monetary character of the Fund, so we strongly welcome that.

Morocco's macroeconomic resilience and policy buffers have proven to be valuable in the current crisis. Like many countries around the world, the Moroccan economy is now facing a careful balancing act between sustaining the still fragile recovery and rebuilding policy buffers. Other speakers, including Mr. Buisse, have just made this point.

While recognizing the authorities' crisis response, we note that downside risks are still significant, including from high growth financing needs, as well as from sizable contingent liabilities. The recent market access, of course, proves to be comforting in this context. This reinforces the importance of a cautious fiscal policy, an incredible medium-term fiscal framework and firm reform commitments.

We also welcome that the authorities consider their anticorruption strategy a priority and encourage them to remain steadfast in their efforts.

In this context, we second staff's recommendation to make information on beneficial ownership of legal entities that we were awarded procurement contracts publicly available in order to increase transparency.

More broadly and like staff, we strongly encourage the authorities to timely address the weaknesses of the AML/CFT to prevent Financial Action Task Force (FATF) listing in February 2021.

Mr. Saraiva:

We also issued a comprehensive gray statement, but I would like to make three points for emphasis. One is of a general nature and the others are specific.

The first point is that the PLL has proven to be an effective instrument to support Morocco's sound macroeconomic management and reform agenda throughout the years in which it was in place. This was, of course, underpinned by the strong ownership and commitment by the Moroccan authorities, but I recall that in 2017, at some point, the idea of terminating the

PLL gained traction within the Fund, and I am really glad that we avoided to take any action to shut down this facility. It is very important to have a facility that supports countries' sound fundamentals and policies in a precautionary way so that we can give this kind of support to countries that are not yet in a condition to qualify for a flexible credit line (FCL). I am glad that we have the PLL and that Morocco was a very good example of how it can be an effective instrument.

The information given by Mr. El Qorchi this morning about the early repayment from the Moroccan authorities in a way also reinforces this point because it shows that the PLL resources were used in a moment of need. It was a precautionary instrument. In the moment of need, it was activated. As circumstances evolved in a more favorable way and Morocco regained access to the market in favorable conditions, they are in a position now to make a prepayment of the instrument. It shows how important the instrument is and, as other Chairs have raised in past discussions, the Short-term Liquidity Line (SLL) could be changed to provide support at the PLL-level requirement. If we make that change in the criteria for accessing the SLL and bring it to the level of the PLL requirement, perhaps we may have an even stronger facility to provide liquidity for countries with those characteristics.

My second point is just to highlight the contrasting views between staff and the authorities on the growth forecast. We have seen that in other cases. I understand that it is something that may happen, either taking into account several different factors, but we think it is very important for staff to really take into account country-specific aspects. In particular, in terms of the projections for 2021, even though it is still immersed in a lot of uncertainty, but the expected recovery of the main trade partners and responsive tourism flows like France and Spain may play an important role.

Also, we expect a further impulse with vaccination becoming more widespread and the payoffs of structural reforms that have been implemented over the years, for example, slashing the red tape in administrative processes and so on.

On top of that, the end of the drought should provide most-welcomed relief for the agriculture. Perhaps, staff could comment on the main difference, although I note the response was given in written but a more focused response on the 2021 projections would be welcome. Perhaps, there is an upside risk that may be taken into account.

My third point, as Mr. El Qorchi, Mr. Buisse, and Mr. von Kleist have highlighted, we welcome the decision to expand social protection to Moroccans over the five-year horizon. This is very important to underpin the inclusive character of economic growth. It all depends on a timely implementation of a comprehensive reform agenda that the Moroccan government is undertaking. In this context, I also emphasize the criticality of strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) framework and making progress in fighting corruption.

At the end of the day, ownership, prioritization, and proper sequencing are final pillars of a successful reform agenda.

Mr. Sylla:

The announcement Mr. El Qorchi made this morning will be important to the Morocco and Fund relationship. We also thank staff for their reports and the comprehensive answers to our questions.

We have issued a gray statement in which we commended the authorities for the productive action taken to mitigate the impact of COVID-19 and supported the proposal to engage in PPM, so we will limit ourselves to the following points.

First, we encourage the authorities' intention to continue to support the economy in the shock and resume fiscal consolidation when recovery is established.

Above the medium period, we agree that adopting a clear fiscal framework will be critical to increase fiscal space, rebuild buffers, and safeguard debt sustainability. However, we would like to reiterate our concern about the fiscal risk arising from contingency liability from sovereign guarantees to SOE debt and public-private partnerships. Therefore, we encourage the authorities to closely monitor this risk and swiftly advance the announced SOE reform to improve their governance, structure, and efficiency.

For my second point, I would like to take this opportunity to underscore the importance of Moroccan's investment in the sub-Saharan financial sector. In this regard, we call the authorities to continue to monitor risk to the bank balance sheets, take decisive steps to implement the remaining 2015 Financial Sector Assessment Program (FSAP) accommodation and strengthen the AML/CFT framework to prevent the listing of Morocco as a country with strategy deficiency by the Financial Action Task Force. Having

Morocco on this list will have a huge impact on the financial sector of our countries.

Mr. Morales:

Morocco has maintained strong policies through consecutive period arrangements, showing the benefits that this type of arrangement can bring in several dimensions, from helping to maintain a fruitful dialogue between the Fund and mere income-member countries by ensuring access to financial markets at times of turmoil, such as the ongoing crisis.

In addition, the drawing under the PLL has allowed Morocco to maintain an adequate level of reserves while putting in place proven policies to keep stability, sustain the recovery, and support the vulnerable population. The repayment announced by Mr. El Qorchi today will be again a positive signal to markets and could highlight the benefits of having in place a flexible arrangement such as a PLL.

The report strongly recommends taking advantage of favorable conditions to finalize the transition towards an inflation-targeted framework with high exchange rate flexibility.

As we said in our gray statement, we support this recommendation, as it would give the authorities more flexibility in the use of instruments, and it would also improve the effectiveness of monetary policy transmission.

From the staff responses, most technical preconditions for a successful transition are in place already, suggesting that transition costs would be modest and more than fully offset by the benefits of a transparent framework in the medium term.

If the authorities decide to go ahead with a move to an indicative target (IT) framework, clear communications of the considerations for such a decision would be key, as well as a detailed explanation of the policies adopted within the new framework from the outset.

Mr. Law:

We have issued a comprehensive gray statement so I will limit our comments to the following for emphasis.

The authorities' prompt response has helped contain the social and economic damage from the drought and pandemic shock. However, the fall in tourism revenues have widened the current account deficit. Although there is an optimistic news on the vaccine recently, it takes time for tourism to return to its pre-pandemic position.

We welcome the authorities' plan to support the recovery in 2021 through investment and the reform of the social protection and education systems.

We note that the authorities are not considering a successor Fund arrangement at this stage. Like other Directors, we welcome the early repayment mentioned by Mr. El Qorchi just now, which we believe will send a strong signal to the market.

With that said, we support the managing Directors' representation for the initiation of the PPM. As mentioned in our gray, in the future we welcome staff to provide some high-level information of the proposed PPM, such as the area of focus in the report.

We also underscore the necessity for Morocco to continue structural reforms to sustain the recovery and achieve higher, more resilient, and more inclusive growth. This includes strengthening corporate governance and efficiency of SOEs and improving the business environment.

Lastly, I would like to extend a special thanks to the Moroccan authorities for their extra efforts in preparing for the 2022 Annual Meeting in Marrakesh.

Mr. Azal:

We issued a gray statement supporting the proposed decision; I will be very brief and want to touch on four points.

The first one is, we take positive note that Morocco has adequate external reserves, which were further augmented by the PLL. However, we see merit on greater exchange rate flexibility linked with inflation targeting. That would help Morocco absorb future external shocks and the usual need for holding externals over the medium term.

We also share staff's view on the necessity of SOE reform. Strong presence of the public sector in the economy has externalized the private sector and restored competitiveness, as staff and the authorities come to terms that divesting from sectors that can be held by the private sector is a good start. However, we would like to stress that a broader public management reform would enhance the governance. Although the authorities mentioned that the special budgetary funds are an integral part of the budget, we agree with staff to reduce the numbers and include them into the universal budget, which would broadly increase accountability.

The last point is the implementation of the national anti-corruption strategy, which is paramount, as that work is estimated that 5 to 7 percent of the GDP is the economic cost of corruption. To this end, we encourage the authorities to step forward to share the information on beneficial ownership of companies awarded government procurement contracts, which will further increase transparency. Continued implementation of structural reforms remains crucial to boost growth or growth potential and avoid a protracted recovery.

Mr. Moreno:

We have issued a gray statement; let me focus on a few points.

First, like others, I would like to stress the good performance under the PLL. The instrument has proven useful. Here, I would like to echo Mr. Saraiva's words on the usefulness of this facility. It has helped anchor confidence in the Moroccan economy. And thanks to the authorities' strong engagement, it has delivered strong results, including now on fiscal and current account deficits, and is increasing exchange rate flexibility in the reform agenda.

Mr. El Qorchi has just announced that the authorities are expecting repayment. This is good news. This is also related to the confidence in the economy and the long-term debt issuance.

I understand that it seems the obligations to the Fund would come below 1.5 billion. The PPM is no longer a requirement so this should be reviewed in coordination with the authorities, and we could support moving to regular Article IV Consultation and not necessarily going through with the PPM.

Second, on the outlook, we note differences between the authorities and staff. The economy has been hard hit, but the authorities have also implemented measures to minimize its impact. We have also seen, in the update, there is this new vaccination campaign, which apparently would cover up to 80 percent of the population. The risk will probably tilt towards the upside moving on.

Third, we will highlight, like others, the importance of moving or continuing with the fiscal reforms and some sort of a medium-term forward guidance to fiscal policy.

The preliminary annual budgeting provides a useful, transparent, medium-term path to reducing the debt-to-GDP ratio, which would allow for greater fiscal space in the short term.

In order to sustain this positive signaling effect, it would be important to accelerate tax reform and enhance revenue mobilization. Here, we support staff's very comprehensive approach, including broadening the tax base, progressivity, or improving green taxation.

Of course, this is necessary to provide space for the necessary and important reforms of the social safety net and education reforms. These are the two reforms that we would highlight the most among the plans of the authorities.

Fourth, on monetary policy, we support the authorities' intentions to seize a better moment or appropriate moment to adopt an inflation-targeting framework at a more flexible exchange rate. It may come once we are fully out of the pandemic.

Finally, on the structural reform front, we will highlight the importance of improving the business environment, labor market efficiency and participation, and especially also female participation.

Mr. Sigurgeirsson:

Let me start by congratulating the authorities' success in the bond market and welcoming their decision to repurchase outstandings to the Fund under the PLL. I only have a couple comments for emphasis since we have issued a gray statement.

First, we welcome measures mentioned in staff's answers to technical questions stating that the authorities have launched a 2030 strategy plan to improve women employment.

Second, we believe that structural reforms and improving governance remain essential. We therefore welcome the announced reforms to SOEs, which should pave the way for more efficient use of public resources.

We welcome the authorities' efforts to continue leveling the playing field and improve the business sector for the private sector.

Finally, while many of us probably regret not being able to visit Morocco in the coming year, the reasons are fully understandable, but we look forward to visiting a year later.

Mr. Farber:

We issued a gray statement but would like to take the opportunity to make a few other points.

We welcome the progress Morocco has made in strengthening its macroeconomic policies. Improvements in macroeconomic management enabled the authorities to effectively implement a range of responses to alleviate the health and economic consequences of the dual issues of the COVID-19 pandemic and the drought.

As we noted in the gray statement, given these advancements, we feel that now is an opportune time to move towards a more flexible exchange rate regime, as pointed out earlier by Mr. Morales, and we would just like to expound on that just a little bit.

Staff notes that the main risk from moving to a flexible exchange rate regime is a loss of credibility. We stress that communication would be important.

We asked the question just for clarity, if by loss of credibility staff was referring to the possibility that exchange rate depreciation could undermine the public's confidence that inflation would stay low.

With inflationary pressures at bay and considerable economic slack, and with unemployment in double-digit territory, an indicative target (IT) framework would enable the authorities to pursue a more aggressive policy response to promote economic recovery.

While it is true that emerging market economies are especially vulnerable to disturbances from abroad, and these disturbances often move the exchange rate, the exchange rate changes will eventually pass through to consumer prices and show up in inflation. However, if the public understands the authorities' commitment to the inflation goal, the effects of these disturbances on inflation should be transitory. Both investors and the public would see through these movements because they expect inflation to move back to the target. The effects of these disturbances on longer-term interest rate would be relatively small, and so we urge staff to, in their conversations with the authorities, to see if they can accelerate the rate of this implementation.

And then, finally, like many others, we thank Mr. El Qorchi for the announcement regarding the repayment and the success of the PLL.

Mr. Odonye:

We issued a gray statement and largely agree with the thrust of staff's assessment in supporting the proposed decision. I will limit this intervention to three points.

One, we welcome the early repurchase of the Fund facility announced by Mr. El Qorchi, which underscores the difficult time domestically and among Morocco's trading partners. Morocco will need to continue with strong reforms under a fragile recovery. We would appreciate staff's quick reflection on the confidence engendered by the repurchase arrangement.

Two, we support the modernization of a public procurement system through electronic procurements which enhances Morocco's fiscal transparency and governance. We see scope for more efficiency by purchasing the Electronic Complaint Management System and expanding the use of E-procurement among small and medium enterprises. Looking forward, we would welcome updates on leveraging fintech and related technology to target assistance to different segments of the economy and enhance transparency.

Lastly and relatedly, we underline the large and vibrant informal sector of Morocco. That remains a cornerstone of the economy. Dealing with a protracted shock needs more than one of intervention. To this end, we encourage the authorities to reconsider a little longer support to a large chunk of the most vulnerable to sustain the livelihood and set the stage for strong and more inclusive recovery.

Mr. Fanizza:

I also would like to thank Mr. El Qorchi for a very nice and clear buff statement. Let me say that we issued a very supportive gray statement. I want to focus on, first of all, Morocco's track record of good policies, that has been done for a while. I would say that Morocco's policies have been nothing but exemplary, particularly in comparison to other countries in the region. Remember, Morocco went through the Spring like everybody else in the region, but the results were quite different from the rest of the region. This should be contributed to the authorities' capacity to build consensus about policies and improve reforms even under difficult circumstances.

In fact, one point that I would like to stress is that actually did not only seem to have accelerated structural reforms in the context of the COVID crisis, which is something which we do not see somewhere else—let us be frank. Particularly, I was impressed by the plans—apart from the health sector, I was impressed by the plans for privatization of SOEs. Many other countries, including my own country, interaction in the policy has taken a quite different direction since rebuilding the presence of SOEs in the economy, maybe with reasons, but that is what it is.

On the PLL, we are very happy to hear that the authorities plan to repay part of it. That is a clear signal that the instrument, the tool works, and what I want to say is that it works. It is a precautionary instrument and it is there to be used. Any time there is a drawing, people start to say, we are adding more risk. It is not like that at all. It is there for being used. And then they are repaying back now, which is very good.

I will go even further and I would say that the staff and the authorities should consider qualifying Morocco for an FCL. That could be the way in which one could implement a successful transition to an inflation-targeting regime with a flexible exchange rate. The authorities are being cautious, making some progress on exchange rate flexibility, but I agree with Mr. Moreno and disagree with Mr. Morales that this is not the moment to take major steps in that direction. We are still in the midst of a big crisis, and we should be cautious. What the authorities have repeated again and again is that they want to adopt a fully floating exchange rate from a position of strength, not because of being imposed by the crisis. Let us wait until things improve, and actually what has already been done is much, much work.

My last two comments, one on fiscal policy and the fiscal anchor. I see a lot of inertia in our Fund advice on fiscal anchors. We saw it yesterday on the UK and we see it today too. We do not realize that the world has changed. The crisis is not one event. The authorities and the Moroccans believe in maintaining fiscal discipline once the recovery is well-entrenched, but at the same time we should not think that we should go back to the previous target. We are fooling ourselves. This is a step increase in the level of debt, and any possible reduction in the debt-to-GDP ratio should come from growth and structural reforms that increase productivity to that purpose, not from a strongly restrictive fiscal policy, which has not been the way of fiscal discipline. To the contrary, we sympathize with the gradual approach expressed by the authorities.

Also, we see that staff with all this do not agree on the growth progression, with the authorities a bit more synchronous with staff. We do not see major differences there, but I would like to stress that what is important in a policy discussion should be policies, not growth. If the difference is not that significant for that purpose, why do we keep a difference. It is to focus actually on the policy, which I think there is pretty much a broad agreement.

Ms. Riach:

We issued a gray statement, and I had not intended to intervene today, but I did want to come in briefly to join others in warmly welcoming Mr. El Qorchi’s announcement this morning on repayment of the PLL and congratulate Morocco on their success in the markets.

I strongly associate myself with Mr. Buisse and Mr. Saraiva on the use of the PLL and the welcomed impact it has had in Morocco.

The PLL allows the Moroccan authorities to preserve reserves and rebuild market confidence, while undertaking important reforms and taking action to protect households and the economy during a very challenging period. The PLL, if it is working as it should, should provide flexible support to countries with sound policy frameworks. Morocco is an excellent example of a country using it flexibly to support important reforms to the benefit of the country and to the wider benefit of the international community.

I hope that the Fund’s precautionary instruments will continue to bring benefits to Morocco. I like Mr. Fanizza’s suggestion that staff might look at the possibility of a path towards FCL. I also hope that Morocco will provide a positive example to other countries who might benefit from the use of the PLL and other precautionary instruments.

Mr. Palei:

We have issued a comprehensive gray statement, and I would like to offer a few comments today.

First, we welcome the authorities' decision to repurchase during the part of the period outstanding, and we also welcome the authorities' plan to implement a nationwide COVID-19 vaccination campaign. This is clearly an upside risk to the outlook.

The economic rebound next year should allow the government to resume comprehensive structural reforms and eventually a fiscal consolidation strategy.

Second, it is very encouraging that Morocco has been able to maintain an adequate level of international reserves, drawing on the IMF's PLL, compounded with significant monetary measures, has underpinned the country's financial stability. The recent international bond issuance pointed to strong market confidence, which is a good sign.

Third, we believe that the economic shock from COVID-19 has been partially offset by the widening of the fluctuation band to 5 percent. We agree that transition to an inflation target in monetary policy framework with a more flexible exchange rate should provide additional safeguards against external shocks.

At the same time, we understand the authorities' careful approach in this area and agree that the transition should be well-calibrated and the possible risks should be mitigated with a transition, of course.

Finally, on the role of the PLL, today is not a policy discussion, but since several of my colleagues expressed their views on the utility of the PLL, I should say that the views differed at the time of the review of the facilities and they continue to differ now.

We will have another review in 2022, and until that time, there is a possibility to use all the toolkit we have. At the time of the approval of the PLL for Morocco, we suggested that the policies were good enough for the FCL. At the time we imagined a different type of exit from this facility for Morocco through the FCL, and we entertained this idea in connection with the Annual Meetings. Well, due to the COVID-19 pandemic, the Annual

Meetings in Morocco are delayed and the authorities today feel strong enough not just to exit the facility but to prepay the Fund as well.

So today we do not have any users of PLL, and it is a sign of a few of the questions about this facility. A few of the suggested users we questioned in the past, and we still have doubts about the suggestions.

The drawing on Fund resources is now common for FCL and PLL, and here I can also note that none of the FCL users was able to exit the facility yet, but Morocco did, which is also food for thought.

With these remarks, I wish the authorities all the best. We appreciate Morocco's performance under the PLL, and we encourage the authorities to continue collaborating closely with the Fund into a post-program monitoring.

Ms. Merhi:

We issued a comprehensive gray statement; I will be brief.

We welcome Mr. El Qorchi's announcement this morning that Morocco plans to early purchase part of the PLL. This is another testimony of the authorities' sound macroeconomic policies, strong buffers, and various consolidation management of policies in response to the crisis.

Like Mr. El Qorchi mentioned, it is based on the improved international reserve position following the issuance of the US$3 billion bond, which was more than four times over-subscribed and which underscores the positive investor perceptions of Morocco.

Like Mr. Moreno mentioned, the outstanding credit to the Fund will fall below the threshold of SDR 1.5 billion; we would be also interested to hear from staff their views about the implications for post-program monitoring.

Again, we commend the authorities for their skillful management of the crisis and for maintaining macroeconomic stability, as well as for taking timely and decisive actions to preserve public health and to mitigate the economic and social impact of these shocks.

The priority is to sustain the fragile recovery and adjust the shortcomings in the social protection system. Here we encourage the authorities to continue supporting the economy until the recovery is well-entrenched.

Finally, continuing with the structural reforms will be a stance first to promote inclusive growth, improve productivity, diversify the economy, and build an enabling business environment.

The staff representative from the Middle East and Central Asia Department (Mr. Cardarelli):

I will pass the word directly to Mr. Steinberg, because two points were raised on the policy, in particular, the PPM implications of the early repayment on the PPM.

The staff representative from the Strategy, Policy, and Review Department (Mr. Steinberg):

I will respond as Mr. Cardarelli says, to questions raised by Directors about the PLL and the PPM policy, which is relevant because of the announcement to repurchase.

First, on the PLL, including a question about its role in our toolbox: as noted in the gray statements, the PLL, FCL, and SLL will all be reviewed in the context of the review of our precautionary instruments likely in 2022, five years after the last review, which was completed in 2017.

It is too early to telegraph the outcome of that review at this time, but still we continue to see the PLL as a useful instrument, as demonstrated in today's discussion, and staff is not considering its termination at this point, as was considered in 2017, but we note Directors' concerns, which we have also noted in the past.

The PLL's purpose is akin to the FCL for countries with weaker frameworks. Our thinking on this matter has not changed. As we have noted previously in discussions of the Fund's response to the crisis, precautionary instruments can play a critical role in providing needed liquidity and insurance against further shocks.

Morocco's recent purchase, as well as Colombia's purchase, are a testament to these instruments' usefulness in this crisis. We also think the fact that we may also soon have a new PLL user is also an indication that our membership continues to value this instrument at this time.

On the PPM policy, there was a question about the potential impact of Morocco's intention to repurchase. Let me just restate what the policy is in this case: PPM is terminated when its either outstanding credit falls below all applicable thresholds, a new program is approved, or the Board accepts a proposal from management for early termination. Thus, if Morocco repays all its credit outstanding from the Fund, PPM will terminate automatically.

If Morocco repays part of its outstanding credit, as is indicated in this case, and credit falls below all applicable thresholds, PPM also terminates unless there is a Board decision recommending that PPM be extended.

This extension would only happen if there are developments that suggest a need for closer monitoring of the member's capacity to repay and particularly with developments prone to question the member's progress towards external vulnerability.

Mr. El Qorchi:

I would like to sincerely thank Directors for their engagement and support, but particularly appreciate their policy recommendations, which I will convey very faithfully to my authorities. I also want to thank Fund staff and management for their very useful policy advice and constructive engagement.

I must underscore my authorities' high appreciation for Fund technical assistance, which has proven to be very useful and instrumental, particularly in the ongoing transition toward a more flexible exchange rate regime and eventually to inflation targeting.

I would also like to confirm my authorities' strong commitment to macroeconomic and financial stability and their plan to return to fiscal consolidation in 2022.

While their immediate concern is to manage the fallout of the pandemic and to vaccinate 80 percent of the population at no cost is understandable, my authorities are also determined to implement major structural reforms. In fact, the cost variable impact of the pandemic-related crisis on the population and the economy has just strengthened their determination to speed up the pace of structural reforms. As a result, they have formulated far-reaching economic and social reforms aimed at addressing the major impediments hampering inclusive growth.

As detailed in my buff statement, these reforms include introducing in the near term universal mandatory health coverage, implementing the tax reform, overhauling SOEs, and boosting investment through an enhanced PPP framework.

In the long-term, further strengthening social protection, reforming the health and education sectors, revamping and modernizing public administration, and fighting corruption have been urgent actions to put the economy on a faster growth path and foster its resilience to shocks.

As was raised by a few Directors on the increase of remittances, I would like to add a clarification to those made by staff. This increase could be explained by the inability of Moroccans residing abroad to visit their home country this year. In fact, half of tourists visiting Morocco each year are Moroccans living abroad.

This year, their inability to travel home and their saving on travel spending were at least partly converted into increased transfers of funds to sustain their families in Morocco.

On exchange rate flexibility, after widening the float, the floating band of the program in March, the authorities remain committed to moving towards a flexible exchange rate once the necessary requisites are in place.

The next phase of the reform will be crucial, as it entails abandoning the basket and the band. Therefore, such crucial transition requires greater macroeconomic stability and an international environment with reduced uncertainty.

Regarding AML/CFT, several actions have been taken by the authorities to reinforce the control in terms of technical conformity and efficacy. These actions have improved the rating of 13 recommendations in the first enhanced follow-up report on Morocco presented and validated by NENA in November 2020.

Further progress has been achieved, including, 1, the upgrading of the legislative and the regulatory system; 2, developing the control and inspection procedures within the supervision and control authority; 3, reinforcing the capacity of the national authorities' concern by the AML/CFT in identifying and preventing AML/CFT infringement; 4, reinforcing national coordination and international cooperation; and, 5, strengthening the fight against alternative financial systems and reducing the informal economy risks.

I want to thank the Board and management and staff again for their continued support to Morocco and for the excellent cooperation with the authorities.

The Acting Chair (Mr. Furusawa):

Morocco is an Article VIII member and no decision is proposed under Article VIII. The 2020 Article IV Consultation with Morocco is hereby concluded.

The Chair adjourned the discussion.

ANNEX

- Staff's Statement
- Gray Statements
- Staff’s Responses to Executive Director’s Technical Questions
- Constituency Codes

BUFF/20/29

December 17, 2020

Statement by the Staff Representative on Morocco
Executive Board Meeting
December 18, 2020

1. **This statement provides additional information that has become available since the Staff Report (EBS/20/182) was circulated to the Executive Board on December 4, 2020.** The information does not alter the thrust of the staff appraisal.

2. **Morocco has recently announced a nationwide Covid-19 vaccination campaign.**[1] Morocco has pre-ordered about 30 million Covid-19 vaccine doses from AstraZeneca and Sinopharm and is developing partnerships to manufacture Covid-19 vaccines in Moroccan laboratories. The goal is to cover 80 percent of the Moroccan population over 18 years old (about 25 million people) over a 3-month period, though the starting date is still to be determined. While the baseline forecast in the Staff Report assumes a resolution of the pandemic in 2021, the recent acceleration on the vaccine front, both domestically and globally, suggests that there are upside risks to staff projections for GDP growth next year.

3. **The Parliament has adopted the 2021 Budget with some amendments that slightly increased the overall deficit for next year.** Employees who regain employment after having lost their jobs between March and September 2020 will be exempted from the payment of income taxes for a period of 12 months. This exemption will be capped at a monthly salary of 10,000 dirhams (about US$ 1,000). All interest payments on government securities issued in 2021 will also be exempt from income taxation. In its final configuration, the Budget envisages a fiscal deficit at 6.5 percent of GDP in 2021, against 6.3 percent in the draft Budget law (and Staff Report).

4. **On December 15, 2020, Bank Al-Maghrib (BAM) decided to keep its main policy rate unchanged at 1.5 percent**. BAM considers the current stance of monetary policy as adequately accommodative. GDP growth is projected at -6.6 percent for 2021, 4.7 percent in 2021 and 3.5 percent in 2022. Risks around this scenario are seen mainly on the upside, reflecting both better prospects for vaccination and the implementation of the Mohammed VI Investment Fund. Inflation is projected to increase from 0.7 percent in 2020-2021 to 1.3 percent

[1] As of December 10, Morocco has experienced 391,529 confirmed cases of Covid-19, with 6,492 deaths.

in 2022, as domestic demand recovers. In line with recent data, BAM also forecasts that the 2020 current account deficit will be 4.2 percent of GDP, close to last year's ratio.

5. Morocco issued three USD denominated bonds for a total of US$ 3 billion on December 8, 2020. The issuance comprised a 7-year bond of US$ 0.75 billion (with a coupon rate of 2.375 percent), a 12-year bond of US$ 1 billion (with a coupon rate of 3 percent), and a 30-year bond of US$ 1.25 billion (with a coupon rate of 4 percent). Rates and spreads (of 175, 200 and 261 bps, respectively) fare well relative to previous international issuances (see Table in the DSA). There was strong participation from international investors, with orders reaching USD 13 billion. The issuance allows to pre-finance next year's needs while taking advantage of current favorable market conditions.

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BUFF/ED/20/169

December 15, 2020

Statement by Mr. El Qorchi on Morocco
Executive Board Meeting 20/123
December 18, 2020

On behalf of my Moroccan authorities, I would like to thank Mr. Cardarelli and his team for the candid discussions and their flexibility to delve deeper into a wide range of issues of interest to the authorities. Overall, the policy dialogue was constructive and useful even though at times divergence of views emerged between staff and the authorities, particularly on the economic impact of the policies implemented or planned in 2020 and 2021.

Morocco has an open and diversified economy, with a proven track record of sound macroeconomic and financial policies and structural reforms, implemented by solid institutions. Under the expired PLL arrangement and over the 2012-19 period, the fiscal and current account deficits narrowed. Significant progress has been achieved in removing regressive fiscal subsidies and increasing exchange rate flexibility. Sustained progress was on track until the pandemic hit the economy in early 2020.

The Human, Social and Economic Cost of the Pandemic

Morocco, like all other countries, was not spared by the pandemic, which has taken a heavy toll on the population and the economy. Recent data show that, since the onset of the pandemic, Morocco has registered so far over 403,600 infection cases (about 1,111.4 per 100,000 inhabitants) and over 6,700 deaths. The authorities responded swiftly by closing schools and borders, suspending inter-city passenger transportation, imposing a general three-month lockdown and a state of health emergency.

The COVID-19 pandemic has affected adversely an economy already weakened by a drought for the second consecutive year. The lockdown imposed economic hardship particularly on the micro and small-sized enterprises (MSMEs) and left jobless a large number of workers, including in the informal sector. Based on a survey conducted by the High Commission of Planning in early April 2020, around 60 percent of total enterprises temporarily or permanently shut down, causing large job losses. The Unemployment rate rose to 12.7 percent in Q3 2020 from 9.4 percent in the same quarter of 2019. Concomitantly, both poverty and vulnerability to poverty are also expected to rise.

Emergency Support to the Population and the Economy in Response to an Unprecedented Shock

The emergency support to the population and the economy was swift and commensurate with the challenge. In doing so, the authorities have been attentive to minimizing the consequences on macroeconomic stability and preserving the conditions for a prompt economic recovery once the pandemic abates. To support the population, the authorities created a special fund for the COVID-19 pandemic that raised about 3 percent of GDP, relying primarily on national solidarity. They granted a monthly allowance to employees enrolled in social security who were partially or totally out of work. Using a specific IT platform, the authorities also granted allowances to more vulnerable households and offered an extension of credit maturities on loans to households in distress ranging from three to four months.

Emergency support was also extended to eligible companies. Companies impacted by the crisis benefited from deferral of their tax payments, bank loans and leasing maturities, and additional lines of credit covered by government guarantees. Furthermore, a state guarantee scheme was established to help ailing enterprises and finance the recovery phase for both public and private enterprises. About 80,000 MSMEs benefited from guaranteed loans at subsidized rates with sovereign guarantee ("Damane Oxygen" and "Damane Recovery"). To date, government guarantees granted under various schemes amounted to 5 percent of GDP.

Macroeconomic and Financial Policy Response

The government policy, as stated in the 2020 supplementary budget and the newly-approved 2021 budget law, is aimed at increasing support to social sectors and enhancing social safety nets, preserving a high level of public investment, and initiating the process of containing the fiscal deficit. In addition, the government committed to launching a recovery plan, in the context of an economic recovery and employment pact concluded between the private and public sectors, to inject about 12 percent of GDP into the economy.

Fiscal policy has been calibrated to reflect government priorities. Given the immediate and large needs of the health and education sectors, the 2021 budget has allocated 3,500 additional positions to these two sectors. The health sector budget was increased by an allocation of MAD3 billion in addition to the MAD19 billion (about 2 percent of GDP) appropriated in the 2020 budget. Further fiscal policy measures will be taken to support the most affected sectors by the crisis, notably tourism. To promote youth employment, the 2021 budget is extending income tax exemptions to companies that offer open-ended contracts to under 35 cohorts for 36 months.

The government has decided to "generalize" social protection to all Moroccans over a five-year horizon. This far-reaching policy measure will start with the establishment of a universal mandatory medical coverage in January 2021. The universal coverage will rely on the restructuring of the existing medical coverage (AMO, RAMED, etc.) and be financed by the tax overhaul predicated on the 2019 tax conference and by a new solidarity contribution. The solidarity contribution will be levied on income and profit in 2021, but applied only to individuals earning an annual after-tax income exceeding MAD240,000 and companies with annual net profits higher than MAD5 million. Further reforms will also be introduced starting 2023-24, including a system of family allowances (cash transfers), compensation for unemployment, and generalized pension systems for active individuals.

The monetary policy has also been supportive using conventional and unconventional instruments. Bank Al Maghrib (BAM)'s response to the crisis included cutting the policy rate by 25 bps in March and 50 bps in June to 1. 5 percent, reducing reserve requirement to zero down from 2 percent, and expanding the list of eligible assets that could be held as collateral for refinancing operations. This expansion has tripled the potential refinancing by banks to DH450 billion (about 47 percent of GDP). The authorities are pursuing the exchange rate reform after they widened in March the floating band of the Dirham from +/- 2 ½ percent to +/-5 percent against a Euro-dollar basket.

Prudential policies allowed temporary forbearance on liquidity, capital, and provisioning ratios to avoid constraining credit supply. Monetary and prudential policy measures combined with the establishment of state guarantee schemes have sustained the supply of credit to the economy. However, to guard against possible emerging risks, BAM requested banks to suspend the distribution of dividends for the 2019 exercise.

Economic Performance in 2020 and Outlook for 2021

Key economic sectors such as tourism, construction, and transports suffered significantly from the crisis in 2020. However, preliminary indicators show visible signs of recovery in Q3 in several sectors. More generally, growth contraction in 2020 might be less pronounced as production capacity in few sectors has reached its January level. As a result, the authorities' GDP growth projections in 2020 and 2021 are slightly more optimistic than staff's projections. The performance of the external sector is also much better than expected. Exports recently rose across sectors partially reversing the decline in Q2. Remittances have even recorded a 1.7 percent increase in 2020 compared to 2019. Despite the sharp drop in tourism revenue, the current account deficit should be in better standing then initially projected, hovering around 4.2 percent in 2020, which is equivalent to its 2019 level.

The authorities intend to start fiscal consolidation in 2022 with a view to ensuring debt sustainability. Owing to the pandemic-related crisis, the decline in tax revenues and the rise in social benefits led to the widening of the fiscal deficit estimated at 7.5 percent in 2020.

However, the deficit is projected to narrow to 6.5 percent of GDP in 2021. To finance budget spending, the government will continue to use innovative financing schemes, and resort to active management of government portfolio and privatization. Public debt increased in 2020 by over 11 percentage points, but remains sustainable as underscored by staff.

The banking system displayed sound ratios as reflected in the results of a macro stress test conducted by BAM in June 2020. BAM is closely monitoring the implications of the crisis on financial stability and has asked banks to conduct a second stress test by end-2020, assuming a stronger shock.

Reserve management and exchange rate reform are key priorities for the Moroccan authorities. After raising Euro 1 billion in September 2020, Morocco returned to the international capital market this month for a US$3 billion offering at favor conditions. The drawing on the PLL, bilateral and multilateral borrowings and two successful international bond issuances enabled international reserves to be at a comfortable level above 7 months of imports. The authorities remain committed to moving towards a flexible exchange rate once the necessary prerequisites are in place. They consider that the move to the next phase of the exchange rate reform requires stronger macroeconomic stability and an external outlook with greater certainty.

Important Structural Reforms are Underway

The pandemic has underscored the need for further structural reforms. Even prior to the pandemic, the authorities have acknowledged the need for revamping the role of the public sector in the economy. A royal commission entrusted with formulating a new development model is expected to submit its final report in early 2021. The authorities are committed to continuing their reform agenda to promote inclusive growth, improve productivity, diversify the economy, and build an enabling business environment.

Far-reaching health related measures will be implemented. At present, the authorities' immediate concern is to manage the fallout of the COVID-19 pandemic and they are preparing starting this month a large-scale vaccination campaign free of charge for 25 million people over the age of 18. Moreover, the authorities recognize the imperative of addressing the challenges facing the health sector as a pillar of inclusive growth and economic and social transformation. They view public health reform as a priority that requires a holistic strategy aimed at not only offering basic health to the population and reducing regional disparities, but also includes developing the medical infrastructure and training health-care professionals.

Considerable efforts to overhaul the education system have been made and a comprehensive reform strategy is being finalized. The strategy is premised on three pillars: equal opportunities, quality, and good governance, and its focus is on developing education curricula and skills in line with the evolving requirements of the private sector. The reform covers all levels of the education system with clear performance indicators and well-defined implementation plans.

The reform of SOEs, which has already started, is central to the government's modernization policy. The government is in the process of creating a national agency for the strategic management of government portfolio and for monitoring the performance of public institutions. The reform seeks to transform some public entities into public limited companies, merge others to improve their profitability, and liquidate those that are no longer viable. The government plans to divest from activities that can be devolved to the private sector. A list of eligible SOEs for privatization is identified and the divestment of some companies is scheduled for 2021. A strategic fund for investment that will mobilize high leverage funding from institutional investors and international partners to support productive activity and accompany large projects financing in both the private and the public sectors. This fund will play a key role in, and have a positive impact on, economic recovery.

Reforming the public administration and fighting corruption are also two key priorities for the government. Draft laws are being discussed in Parliament to improve the performance and efficiency of the administration, simplify its procedures, and develop e-administration and digitalization. The fight against corruption has made noticeable progress as many high-profile cases were brought to justice, several senior officials were sentenced, their properties confiscated, and misused funds restituted.

Concluding Remarks

Like all other countries, the pandemic hit hard Morocco given the structure of its open economy, but the authorities' response was timely and commensurate. The government secured the vaccine and has elaborated a large-scale vaccination campaign based on a well-defined plan that spans over a 12-week period. The vaccine will be administered at no cost for the population.

Recent signs of stronger economic performance in manufacturing and in the external sector led the authorities to project a faster economic recovery. Implementing the tax and subsidy reforms, enhancing public investment and PPPs, overhauling SOEs governance, and privatization will support recovery. The accelerated pace of reforms comfort the authorities in their more optimistic projections of economic performance.

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GRAY/20/3762

December 16, 2020

Statement by Mr. Sigurgeirsson and Mr. Evjen on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the report and Mr. El Qorchi for his informative Buff statement. Morocco's economy has been hard hit by the pandemic and a severe drought. We welcome the authorities' prompt response that has helped contain the social and economic damage from the shocks. Notwithstanding this, a severe contraction of GDP has been difficult to avoid. We broadly share staff's appraisal and offer the following comments for emphasis.

We note that following the purchase of all available resources on April 7, 2020, the PLL arrangement has expired, and that, in the absence of a successor Fund arrangement and with Morocco's outstanding credit to the IMF expected to remain above the SDR 1.5 billion threshold until early 2024. Against this background, **we support initiation of post-program monitoring, in line with IMF policy**.

Fiscal consolidation should resume once the recovery is well established. Going forward, finding the appropriate balance between sustaining a fragile economic recovery and safeguarding debt sustainability will be key. Pursuing these dual objectives will require fiscal stimulus in the short run, while over the medium and longer term the priority should be to rebuild fiscal buffers, including through implementing a tax reform and rationalizing current spending. We agree that publishing a medium-term fiscal framework with a clear and transparent path to a lower public debt ratio will help to provide credibility about fiscal stability.

Continuing structural reforms and improving governance remain essential to achieve higher and more inclusive growth. The pandemic is expected to have persistent effects on output. In order to help boost potential growth we encourage the authorities to continue their implementation of structural reforms, including efforts aimed at strengthening the governance and efficiency of SOEs, leveling the playing field and improving the business environment for private sector, and improving the social protection system. The crisis has highlighted the need to overhaul Morocco’s social safety net and harmonize social assistance programs. The impact of the pandemic on employment and labor force participation calls for new measures to improve labor market efficiency. To that end, we see merit in measures targeting hard-hit sectors and groups, including women and young people. Moreover, we stress the importance of continued implementation of the education reform. Lastly, we strongly welcome the authorities’ prioritization of combatting corruption.

Addressing weaknesses identified in Morocco's AML/CFT framework remains important. We join staff in encouraging the 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. Moreover, while we welcome the authorities’ continued progress in upgrading the financial sector policy framework in line with the 2015 FSAP recommendations, we encourage the authorities to finalize the bank resolution framework.

GRAY/20/3763

December 16, 2020

Joint Statement by Ms. Grant, Mr. Mochtar, Mr. Naka, Mr. Nghiem, Mr. Khurelbaatar, and Mr. Shimada on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the informative report and Mr. El Qorchi for his insightful Buff statement. While Morocco's economy has been significantly affected by the pandemic, as well as drought, the authorities' decisive actions have helped contain the social and economic impact. We positively note that external financing, including the full drawdown of the Fund's PLL, has helped to maintain the adequacy of foreign reserves, thereby stabilizing the economy. In order to limit the scarring effect of the pandemic and achieve inclusive growth – noting the projected increase in the poverty rate and the rate of vulnerability to poverty – it will be important to rebuild policy buffers for further shocks and steadily implement structural reforms.

While the fiscal stance has been eased appropriately to mitigate the impact of the pandemic, fiscal consolidation should start once the recovery is well established and a medium-term fiscal framework should be adopted. With regard to maintaining fiscal sustainability in the medium term, we encourage the authorities to undertake tax reforms, including broadening the tax base and simplifying the VAT and corporate tax system. On the spending side, public wage containment, careful implementation of fiscal decentralization and strengthening the oversight of SOEs are key priorities. We support the authorities' plan to start publishing public debt data at general government level. This initiative will support policy formulation and enhance transparency.

We welcome the accommodative monetary policy stance to mitigate the pandemic impact. The ample liquidity injection, in line with policy rate cuts, has effectively supported the economy while external borrowing and PLL disbursement also helped Morocco to maintain its level of foreign reserves despite negative effects arising from the pandemic. We take note of staff recommendations to transition to the inflation targeting (IT) framework with more exchange rate flexibility to enhance authorities' abilities and policy tools to deal with potential deflation pressures and better absorb external shocks. We also note authorities' view that the preparations for adoption of IT are on track, but they are waiting for the opportune time. *We would like staff to elaborate more on the timing of the shift and the preconditions for the successful implementation of the new regime, providing the uncertainties from the pandemic remain high and the economic outlook is still fragile from the impact of the pandemic.*

The financial sector warrants close monitoring. While we welcome that the Moroccan banking sector has shown resilience thanks to strong bank balance sheets before the crisis, careful monitoring is warranted given the pandemic could deteriorate bank assets further, as already shown by the increase in NPLs. The substantial exposure of Moroccan banks to other African countries, which have been facing regional security and geopolitical risks in addition to dealing with the pandemic, is another source of concern. *In this regard, could staff elaborate on the potential negative feedback loop between the Moroccan banking sector and other African countries?* Furthermore, while we note the authorities' view that they have taken action to address the weakness in the current AML/CFT framework, *we would like staff to elaborate on specific areas where the authorities should do more to prevent them from being included in the FATF grey list.*

We welcome authorities' commitment to implement structural reforms to support stronger and more inclusive growth. In this regard, the enhancement of the social safety net as well as structural reforms in the area of education and the business environment are indispensable. We note with concern that the pandemic is expected to disproportionately affect the most vulnerable, especially in high contact sectors (such as tourism and transportation) that also have a high degree of informality. In this juncture, we welcome the extension of the mandatory health care insurance to all Moroccans as well as the decision to harmonize all current social assistance programs into a single family-allowance scheme provided that fiscal sustainability is maintained by the authorities. We also welcome the authorities' intention to restructure SOEs through two draft laws to clarify SOEs' mandate business models as well as strengthen their governance structure. We highlight the necessity to secure a level playing field between private and state-owned enterprises and the importance in improving the educational system to strengthen human capital. We take comfort in knowing the authorities' continued efforts in combating corruption and improving governance that would also enhance the business environment as well as boost productivity and economic growth.

Lastly, we support the initiation of post-program monitoring. Given the high uncertainty, it is valuable to have close engagement with the Moroccan authorities.

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GRAY/20/3764

December 16, 2020

Statement by Ms. Levonian and Ms. Vasishtha on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for their report and Mr. El Qorchi for the helpful Buff statement. The Moroccan economy has been hit hard by the combined effects of the pandemic and the severe drought, which has significantly affected agricultural output. Although strong policy actions have helped limit the economic and social fallout from the twin shocks, economic activity is expected to contract sharply in 2020. The external and fiscal positions have deteriorated significantly, owing mainly to lower tourism receipts and tax revenues, respectively. Significant policy challenges lie ahead as the authorities endeavor to sustain a fragile recovery while rebuilding policy buffers utilized in response to the pandemic. Against this backdrop and given that the PLL arrangement has expired, we agree with the proposed initiation of Post-Program Monitoring.

While the fiscal response to the crisis has been appropriate, gradual fiscal consolidation should begin once the recovery is firmly entrenched. Over the short term, the authorities should continue to focus on sustaining the fragile recovery and supporting the most vulnerable, including women and youth. Over the medium term, the focus will need to shift toward fiscal consolidation, in order to rebuild fiscal buffers and safeguard debt sustainability. Tax reform and the rationalization of current spending will be critical in this regard. Sizeable contingent liabilities, from both sovereign guaranteed credit to SOEs and unfunded pension schemes, coupled with high gross financing needs further reinforce the importance of a cautious approach to fiscal policy and commitment to reforms.

We note with some concern the recent increase in Morocco's debt and financing risks. Given the country's reliance on external financing, a deterioration in global financial conditions could have significant negative consequences. *Could staff clarify Morocco's potential recourse in the event of a deterioration in external financing conditions? What are the country's prospects for accessing additional bilateral or multilateral funding?*

Morocco's financial system is in relatively good shape, due to a strong initial position and supportive measures from the central bank. In line with staff's view, we encourage the authorities to take advantage of these relatively stable financial conditions and the strong international reserves position to finalize the transition to an inflation targeting framework and a more flexible exchange rate regime.

Structural reforms remain critical for achieving more robust and inclusive growth over the medium and long term. We encourage the authorities to continue efforts to invest in health and education, strengthen the social safety net, improve the business environment, and strengthen public administration and governance, including efficiency of SOEs. We also urge the authorities to continue implementing the national anti-corruption strategy. Furthermore, the pandemic's impact on employment and labor force participation highlights the need for a renewed emphasis on improving labor market efficiency as well as additional measures to support hard-hit sections of the population. *Could staff provide an update on the policies being adopted/considered to reduce female unemployment and address the low and declining rate of female labor force participation?*

GRAY/20/3766

December 16, 2020

Statement by Mr. Peter and Mr. Djokovic on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We commend the authorities' swift response in containing the Covid-19 impact. Good progress in strengthening macroeconomic frameworks and buffers over the past years have bolstered Morocco's ability to weather shocks. The economy has been severely hit by the combined effect of the pandemic and the drought, and appropriate fiscal and monetary accommodation helped cushion the fallout. Greater reliance on external financing, including full drawing of PLL resources and tapping international markets, were pivotal in closing financing gaps and upholding Morocco's external reserves. Going forward, growth-supporting consolidation over the medium term and the continuous implementation of the authorities' post-Covid-19 reform agenda would be key to sustain the recovery and preserve confidence. We support the initiation of Post-Program Monitoring, given the above-the-threshold exposure to Morocco and the absence of a successor arrangement with the Fund.

Fiscal adjustment and structural reforms over the medium term are key for buttressing a sustainable and inclusive recovery and for mitigating risks. The crisis has notably highlighted the need to strengthen the health care system and the social safety nets. At the same time, the extension of the social protection and education system reform should not endanger Morocco's fiscal recovery. We note the authorities' preference to focus on stabilizing public debt over the forecasted period. However, resuming gradual, growth-friendly and equitable fiscal consolidation that will put public debt on a clear and transparent downward path once the recovery is entrenched would improve confidence, strengthen buffers and safeguard debt sustainability. In this regard, we underscore the importance of a well-designed and credible medium-term fiscal framework. In addition, the success and credibility of the adjustment would hinge on implementing high-quality and durable fiscal measures aimed at improving the efficiency of spending and enhancing revenue mobilization.

The accommodative monetary policy stance is appropriate at this juncture. We support the efforts towards greater exchange rate flexibility and the transition towards an inflation targeting regime. While the banking sector showed resilience over the course of the pandemic, active oversight and sound stress testing are warranted given the high NPLs and asset quality uncertainty. Morocco is vulnerable to AML/CFT risks, and we encourage the authorities to resolutely address identified AML/CFT shortcomings, as well as to complete implementing the remaining 2015 FSAP recommendations.

Continued reform efforts are also required to improve the business environment and labor market efficiency. The overhaul of Morocco's vocational education system is a step in the right direction that could be further strengthened by broader involvement of the private sector. Improving SOE governance and performance is key for minimizing contingent fiscal risks while ensuring efficient provision of services. Looking ahead, the economy would benefit from an improved business environment, and the authorities should spare no effort to strengthen the legal framework, including through ensuring the level-playing field among all companies, modernize business-related administrative procedures and the insolvency regime, along with the continued implementation of the anti-corruption strategy.

GRAY/20/3767

December 16, 2020

Statement by Mr. von Kleist and Mr. Fragin on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for its comprehensive report and Mr. El Qorchi for his helpful Buff statement.

Morocco is facing a balancing act between sustaining the still fragile recovery and rebuilding policy buffers. We take positive note of the reforms in the past years that have strengthened Morocco's macroeconomic resilience and buffers and have proven to be valuable in the crisis. These include significant progress in removing regressive fiscal subsidies, stable international reserves and increasing exchange rate flexibility. Looking ahead, rebuilding buffers will be critical. Given that Morocco's outstanding credit to the Fund is expected to remain above the SDR 1.5 billion threshold until 2024, we support the initiation of Post-Program Monitoring. **We concur with the thrust of the staff appraisal** and will focus our comments on a few points mainly for emphasis:

We recognize that the fiscal response to the crisis has been appropriate while emphasizing that - once the recovery is underway - the debt-to-GDP ratio needs to be clearly placed on a downward path, also to ensure that Morocco's uninterrupted access to international capital markets may continue. Furthermore, the private sector contributions to the COVID-19 fund have certainly helped to finance higher discretionary spending. We acknowledge staff's assessment that these measures, while overall budget-neutral, have had a significant redistribution effect and have contributed to growth. In addition, we take positive note of the authorities' plan to gradually compress the wage bill in order to preserve fiscal space. Nonetheless, gross financing needs and the materialization of contingent liabilities from the sovereign guaranteed credit to SOEs and unfunded pension schemes could lead to concerns about debt sustainability. These risks reinforce the importance of a cautious fiscal policy anchored in a credible medium-term fiscal framework and firm reform commitments.

In this context, we support staff in their call for reducing the number of special budgetary funds in order to enhance the transparency and effectiveness of fiscal policy.

We agree with staff that finalizing the transition to an inflation targeting framework could contribute to mitigate the impact of adverse shocks on the output gap and on inflation. From a position of relatively stable reserves and good financing conditions, the authorities are well advised to move forward with the transition to a more flexible exchange rate regime. We therefore welcome that the authorities' preparations, which are important prerequisites for adopting an IT framework, are on track.

We strongly echo staff's call for increased efforts to address weaknesses of the AML/CFT framework to prevent the listing of Morocco as a country with strategic deficiencies in this area by the FATF in February 2021.

Regarding governance issues, we agree on the importance attached to the continued fight against corruption. Given the costs of corruption (estimated at up to 5-7 percent of GDP), we recognize that the authorities intend to pursue anti-corruption efforts with high priority. We would like to underscore the importance of having adequate safeguards in place to ensure that public finances are used for their intended purposes. Therefore, it is important to make information on beneficial ownership of legal entities that were awarded procurement contracts publicly available in order to increase transparency.

Regarding the remarkable resilience of remittances, could staff elaborate on the likely reasons for this observation? Given widespread lockdowns and the economic downturn in Europe, one could speculate that the incomes of Moroccan migrants living/working abroad would be negatively affected as well.

GRAY/20/3770

December 16, 2020

Statement by Mr. Rashkovan and Mr. Manchev on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the focused report, and Mr. El Qorchi for his informative Buff statement, and support the Managing Director's recommendation to initiate the PPM, given Morocco's large outstanding credit to the IMF. We understand that the COVID-19 related risks and uncertainty warranted the authorities' decision to purchase all available resources under the PLL arrangement earlier this year. Going forward, the authorities should continue to implement structural reforms to mitigate the growing risks and recover economic potential to achieve higher, more resilient, and more inclusive growth in the medium term.

We support the authorities' prompt response to mitigate the economic and social impact of the pandemic. Despite strong policy actions, the Moroccan economy has been heavily affected by the combined effects of the drought and the pandemic, which have deteriorated the external position and have disproportionately impacted the most vulnerable population. Given the expectations of the pandemic to have a persistent effect on output and economic potential, we agree with staff that the accommodative policy mix should continue in 2021, combined with efforts to boost the public-private partnerships to sustain the fragile recovery. At the same time, the authorities should address the shortcomings in the social protection system and ease some of the existing impediments to potential growth and mitigate the downside risks. The compression of non-essential current spending and measures to mobilize fiscal revenues should continue to limit the increase of public debt. A shift in the composition of the stimulus to infrastructure investment and SMEs development, including through the newly established Mohammed VI Investment Fund, is a welcome step in the right direction and should be accompanied by a sound transparency and accountability framework.

Once the pandemic abates, the authorities should immediately return to the pace of gradual fiscal consolidation, rebuild the fiscal buffers, and safeguard debt sustainability. We agree with staff that a credible medium-term fiscal framework is needed to safeguard the fiscal space, increase fiscal transparency and accountability, and reduce the fiscal risks stemming from the SOEs. Further steps are needed to increase the efficiency and equitability of the current tax system, as well as, a gradual reform of the civil service, the digitalization of public services, and the introduction of a unified social registry to rationalize public spending. The ongoing changes in the management framework of sovereign credit guarantees require a sound legal basis and close monitoring and reporting going forward to minimize the potential adverse budgetary effects.

We underscore the necessity of Morocco to maintain a strong reform momentum in the coming years. A focused and more proactive authorities' reform stance in line with the staff recommendations would help to better address the uncertainty and pave the way toward a more sustainable and inclusive private sector-led growth in the medium- and long term. Continued efforts at implementing the education reform and strengthening the social protection system are essential to developing human capital over the longer run. These efforts should be accompanied by measures to increase domestic competition, improve the digitalization of public administration, and implement the anti-corruption strategy that would enhance the business environment and boost productivity and potential growth.

Finally, strengthening of the supervisory and regulatory frameworks and close monitoring of the regulatory forbearance would be essential in the ongoing recession. It should prevent deterioration of the bank credit portfolios after the expiration of the moratoria on credit repayment. The bank resolution framework should be completed by designating a resolution authority, defining clear triggers for resolution, and expanding the range of resolution tools. Continued efforts are also needed to assess the risks from concentrated credit exposure and the cross-border expansion of the Moroccan banks. The Moroccan supervisors should establish a closer collaboration with the host-country authorities, accompanied by an effective risk-based AML/CFT supervision and preventive measures that ensure the stability of correspondent banking relationships. We also encourage the authorities to address the remaining weaknesses of the AML/CFT framework.

With these remarks we would like to thank The Kingdom of Morocco for extending their kind invitation by 12 months to host the 2022 World Bank Group-IMF Annual Meetings, and wish them success with their reform agenda.

GRAY/20/3771

December 16, 2020

Statement by Mr. Mouminah, Mr. Alkhareif, and Ms. Al Saud on Morocco (Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the comprehensive report and Mr. El Qorchi for the helpful Buff statement. We broadly agree with the thrust of the staff appraisal and support the proposed decision. Here, we would like to offer the following points.

We welcome the authorities' swift policy response to the COVID-19 pandemic. We very much welcome the authorities' continued efforts to sustain the recovery and advance their support to the social sectors. Particularly, we are pleased by the authorities' commitment to undertake additional measures to target hard-hit sectors and households. This is indeed critical given the disproportionate impact of this crisis.

Fiscal consolidation should resume once the recovery is well established. Here, we concur with staff that publishing a credible medium-term fiscal framework with a clear and transparent path to a lower public debt ratio will help in safeguarding the fiscal space in the short term. Relatedly, the decision to harmonize all current social assistance programs into a single family-allowance scheme is a step in the right direction. The digitalization of public services and the introduction of a unified social registry would also help in rationalizing public spending.

Monetary policy should remain accommodative until inflationary pressures resurface. We welcome the decisive actions taken by BAM to mitigate the impact of the pandemic on the real economy and the financial sector. In this regard, we welcome the authorities' intention to keep its monetary policy stance accommodative to further support to economic recovery. While we understand staff's views on the IT framework, we tend to agree with the authorities that the gains from more flexible exchange rates could be limited at this juncture given the high global uncertainty.

We welcome the authorities' commitment to continuing their structural reform agenda. It is indeed essential to continue the efforts to improve productivity and achieve higher and more inclusive growth. We welcome the ongoing efforts aimed at boosting PPPs, strengthening the governance and efficiency of SOEs, as well as improving the business environment, quality of education, and labor market policies. Last but not least, we encourage the authorities to continue their efforts to strengthen the AML/CFT framework to prevent the listing of Morocco as a country with strategic AML/CFT deficiencies by the Financial Action Task Force.

With these remarks, we wish the authorities continued success.

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GRAY/20/3778

December 16, 2020

Statement by Mr. Fanizza and Mr. Spadafora on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for an informative report and Mr. El Qorchi for his candid Buff statement.

Despite strong policy actions, the Moroccan economy has been severely impacted by the combined effects of the drought and the pandemic. We call on the authorities to build on the emergency measures and improve Morocco's social safety net while ensuring its financial sustainability by identifying stable sources of funding. We particularly welcome the recent decision to establish a universal mandatory medical coverage in January 2021. In addition, the authorities should preserve their enviable record of macroeconomic stability in the region by further enhancing the fiscal and monetary policy frameworks. We also encourage the authorities to continue their structural reform agenda to boost potential growth in the medium-term.

- **We agree with staff that, in the short run, fiscal policy's priority is to sustain the fragile recovery and improve the social protection system**. *Can staff elaborate on the size and nature of the private sector contributions to the COVID-19 Fund to finance the increase in discretionary spending?*
- **We support the staff's call for a credible medium-term fiscal framework** that envisages a gradual fiscal consolidation. However, given the exceptional uncertainty around the outlook and heightened risks, **we tend to side with the authorities' view that the stabilization of the public debt-to-GDP ratio until 2024 is to be preferred to the pace proposed by staff**, which instead would entail a significant reduction in the debt-to-GDP ratio starting from 2022. Indeed, the DSA shows that a temporary higher level of debt and financing needs would not jeopardize Morocco's public debt sustainability because of the low interest rates, the long maturity of public debt, the ample availability of domestic savings – with long-term local investors making up a large part of the investment base – and the relatively low share FX-denominated debt. We also fully share the staff's recommendations that a slower-than-expected recovery would call for a slower pace of adjustment or even a pause.
- **We welcome the authorities' intentions to resume their privatization program** which along with a lowering of the wage bill (as a percent of GDP) would be essential to ensure

fiscal discipline. We also support the improvements in the management framework of sovereign guarantees, which have grown in response to the crisis and deserve closer monitoring of potential fiscal risks.

- **We agree with staff and the authorities that there might be some room for easing further monetary policy in the near term**, given lower-than-targeted inflation, a large output gap, downside risks, and the need to complement measures to provide liquidity to the banking sector and boost domestic credit. We also agree that more progress toward a floating exchange rate system – embedded in an inflation targeting monetary policy framework – would have much helped in providing more scope for monetary action. However, noting that at the onset of the pandemic the authorities widened (to ±5 percent) **the currency peg's fluctuation band, we fully understand the authorities' cautious approach under the circumstances**. A major crisis is not the right moment to introduce key changes to the exchange rate regime and depart from the gradual path that the authorities have so far deliberately and successfully followed. **We encourage the authorities to make further progress in upgrading the financial sector policy framework** by implementing the 2015 FSAP recommendations and welcome the actions taken to address the weaknesses identified in Morocco's AML/CFT framework.
- Finally, **we support the Managing Director's recommendation to initiate a post-program monitoring**.

GRAY/20/3784

December 16, 2020

Statement by Mr. Mozhin and Mr. Potapov on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

1. We thank staff for their insightful report and Mr. El Qorchi for his informative Buff statement. The Moroccan economy has been heavily hit by the combined effect of the COVID-19 pandemic and the severe drought. The buffers accumulated over the recent years helped the authorities contain the social and economic damage from the shocks. Nonetheless, output is expected to contract by around 7 percent in 2020, with rising fiscal and current account deficits, unemployment, and poverty. The virus resurgence, both in Morocco and its key trading partners, poses additional risks and uncertainty to the outlook. Over the medium term, continued implementation of structural reforms and gradual fiscal consolidation should help improve growth prospects and put the level of public debt on a downward trajectory.

2. According to staff, the current mix of accommodative monetary policy and expansionary fiscal stance is appropriate due to the large output gap and significant downside risks to the outlook. It is not surprising that, given the unprecedented uncertainty, there is some divergence between staff's and the authorities' growth projections. The authorities are more optimistic in projecting GDP growth rates in 2020-21. *Could staff elaborate on the key assumptions and reasons for this divergence?* At the same time, we welcome the broad agreement between the authorities and staff on the main policy recommendations aimed at supporting the economic activity, while gradually rebuilding fiscal buffers and addressing the structural challenges.

3. Fiscal policy is rightly focused on supporting the recovery in 2021, mainly through investment in infrastructure and SME development and the large program of subsidized and guaranteed credit. While public debt has risen rapidly in 2020 due to the pandemic response, we note that it is expected to stabilize over the medium term. We agree with staff that the adoption of a medium-term fiscal framework can provide additional fiscal space in the short run by reassuring markets about the authorities' commitment to fiscal discipline. The authorities are well advised to design a comprehensive tax system and civil service reforms, as well as strengthen the social protection system, public investment management, and

monitoring of fiscal risks. We agree with staff that the growing size of sovereign credit guarantees requires close monitoring. *Could staff elaborate on the special budgetary funds in Morocco, including their governance structures?*

4. We agree with the authorities and staff that monetary policy conditions should remain accommodative until inflationary pressures resurface. The full drawing under the IMF Precautionary and Liquidity Line (PLL) arrangement, international bond issuances, and the decision to widen the band around the exchange rate peg have helped maintain international reserves at adequate levels. Moving to an IT monetary policy framework with a more flexible exchange rate will provide additional safeguards against external shocks. We note with interest staff's views that the assets purchase programs (APPs) could be a useful instrument in the BAM's toolbox to provide further monetary accommodation if needed. *Could staff elaborate on the key benefits, costs, and policy tradeoffs of the APPs for the Moroccan economy and its central bank?*

5. The BAM's strong measures and banks' sound initial capital and liquidity positions have helped to maintain resilience of the banking sector. At the same time, the crisis impact on asset quality should be closely monitored going forward. We share staff's calls that further efforts are needed to strengthen the bank resolution framework and the AML/CFT framework.

6. The COVID-19 crisis has heightened the need for ambitious structural reforms to foster economic and social transformation of the Moroccan economy. We welcome the authorities' focus on the key priority areas that include social safety net, health care sector, labor market efficiency, human capital, public administration, and SOEs governance. The resumption of the privatization program can also help increase the efficiency of the state role in the economy. When the Fund's surveillance eventually moves from a streamlined mode to a more comprehensive approach, we would be interested in an in-depth analysis of the key structural issues, including the authorities' plans to expand social protection to all citizens over the next five years.

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GRAY/20/3786

December 16, 2020

Statement by Mr. Lischinsky and Mr. Morales on Morocco (Preliminary) Executive Board Meeting 20/123 December 18, 2020

We thank staff for a clear report and Mr. El Qorchi for his insightful Buff statement. Morocco's strong policies have been effective in narrowing macroeconomic imbalances and initiating important reforms, helped by four successive PLL arrangements, including this year's full drawing that contributed to keeping reserves stable and maintaining access to external borrowing. However, the impact of the Covid-19 pandemic and a severe drought affecting the agriculture sector have deteriorated the macroeconomic outlook. Therefore, we support the initiation of post-program monitoring proposed by the Managing Director to maintain the dialogue between the Fund and the Moroccan authorities as they manage the difficult balance between sustaining the fragile recovery and rebuilding policy buffers.

A resumption of new infections, domestically and worldwide, along with the severe drought, is putting significant pressure on the economy. Lockdown measures led to the weakening of economic activity and rising employment, with a disproportionate impact on the most vulnerable population, while the absence of rain compromised agricultural production. In addition, weak external demand caused a contraction of manufacturing exports, while remittances and FDI remained resilient. In the staff's baseline scenario, GDP is expected to return to pre-crisis levels by 2022, but some persistent effects on output are expected. Therefore, the authorities should carefully target further fiscal stimulus in the event that downside risks materialize and enhance the social safety net to support the vulnerable population in the transition to recovery.

Morocco's fiscal policy has been appropriate, as the authorities allowed automatic stabilizers to operate while raising health-related and social spending. We agree with staff that fiscal stimulus should be maintained with a shift towards investment, with fiscal consolidation starting in 2022. We note that the authorities have room to offset the narrowing fiscal space with non-tax revenue from the mobilization of real estate assets and privatization. However, we encourage the authorities to take steps to improve the tax system and rationalize spending to boost fiscal buffers, given that non-tax resources are by definition temporary and often uncertain. We agree with staff that fiscal transparency would help highlight the government's commitment to fiscal discipline, including by providing information on sovereign credit guarantees and other fiscal risks, ideally in the context of a credible medium-term fiscal framework showing the path to gradually approach the 60 percent debt-GDP anchor in the long run.

Monetary policy should remain accommodative until the recovery consolidates. While the real policy rate is below its neutral level, inflation is expected to be below target, and the large output gap suggests further room for easing monetary policy if necessary. Decisive monetary policy measures ensured sufficient liquidity provision and allowed for continuous growth in bank credit and deposits. *We would welcome a broader explanation of the rationale for the removal of some restrictions in the BAM lending scheme recommended by staff*. The authorities could move towards a full inflation-targeting framework to allow for flexibility in the use of monetary policy tools, taking advantage of favorable conditions, including a still-wide output gap and persistent low inflation.

The structural reform agenda should adapt to the urgencies made evident by the Covid-19 crisis. In this regard, we welcome the authorities' plans to deliver more equitable access to health care, which should be accompanied by sustainable funding schemes and an upgrade of the framework for the timely provision of health services. Also, the envisaged harmonization of social assistance programs would be a decisive step towards reducing fragmentation of all social programs, taking lessons from the successful experience with cash transfers. In addition, the relaxation of criteria for accessing unemployment insurance benefits could be complemented by better targeting the most vulnerable population.

With these comments, we wish the authorities and people of Morocco all the best in these difficult times.

GRAY/20/3788

December 16, 2020

Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the report and Mr. El Qorchi for his useful statement.

The pandemic has inflicted a heavy economic toll on the Moroccan economy, aggravated by a severe drought. The crisis has jeopardized Morocco's external position and growth outlook, as tourism revenues plunged and external demand remained weak. That said, the authorities must be commended for having adopted appropriate fiscal and monetary responses to support the economy, safeguard financial stability and protect the most vulnerable. Access to external borrowing and funding provided by the PLL arrangements contributed to maintaining international reserves at an adequate level. The remaining downside risks, however, reinforce the need to further build up fiscal buffers and reduce vulnerabilities to cope with external shocks in the future. In spite of the mounting challenges, we are encouraged by the authorities' track record and renewed commitment to sensible macroeconomic management and a comprehensive agenda of structural reforms.

A well-balanced fiscal policy and the steadfast implementation of a properly sequenced reform agenda are key to minimize the scarring from the crisis and make the economic recovery sustainable. Fiscal policy should remain appropriately supportive of the recovery in the short term, but over the medium term, gradual consolidation is required to restore fiscal space and improve the growth outlook. We agree that a medium-term fiscal framework would increase confidence on fiscal sustainability and reduce the risks of having access to markets curtailed. Overall, rebuilding the fiscal buffers by broadening the tax base and increasing its progressivity while rationalizing spending should remain a priority. The restored fiscal space would allow for financing the announced extension of the social protection system and education reform. In addition, we welcome the authorities' intention of scaling up PPPs through flexible and transparent policies. We concur with the staff that assessing, monitoring and reporting the fiscal costs and risks associated with sovereign credit guarantees and PPPs would increase transparency and the efficiency of the overall fiscal policy. It would, as well, improve the implementation of the specific partnership projects.

While the monetary policy has been appropriately supportive, additional steps to embed more flexibility in the framework would allow Bank Al-Maghrib (BAM) to expand its policy toolbox. Since the completion of the second review under Morocco's PLL arrangement, the transition to greater exchange rate flexibility has improved BAM's capacity to absorb external shocks, such as the one caused by the pandemic. A transition to an inflation targeting regime could enhance monetary policy efficiency and expand the toolbox available to BAM to anchor inflation expectations and more aptly adjust its policies as circumstances evolve. We acknowledge, however, that the authorities are in a better position to determine the appropriate timing and pace for such a critical move.

Given the broad reform agenda, we encourage the authorities to keep momentum and consider prioritizing and appropriately sequencing the remaining structural reforms. We welcome the significant progress on policy and structural reforms over the four consecutives PLLs. Indeed, the PLL has been an effective instrument over the several years in which it was in place to support Morocco's reform agenda and sound macroeconomic management. We highlight that in the current health crisis the authorities have demonstrated their commitment by providing impetus to further reforming efforts. Continuity of reform momentum will be critical on economic and equity grounds, including by reinforcing the social safety net and the health care system, improving labor market efficiency, closely monitoring the implementation of the Education Act of 2019, strengthening SOEs' governance and increasing private sector participation. Overall, timely implementation of a comprehensive reform agenda with full ownership, prioritization and proper sequencing could help promote stronger and inclusive growth, create jobs, and further underpin economic resilience.

Finally, we welcome the Managing Director's recommendation of a post-program monitoring and wish a fruitful engagement with the authorities in this matter.

GRAY/20/3790

December 16, 2020

Statement by Mr. Odonye and Mr. Cham on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the comprehensive report and Mr. El Qorchi for his insightful Buff statement.

Moroccan economy has been hit hard by the COVID-19 pandemic and exacerbated by drought. Significant contraction is expected in 2020, widening both fiscal and current account deficits. The authorities acted swiftly to contain the crisis and continue to take steps on the second wave. The 2020 supplementary budget and the newly approved 2021 budget law provided for enhancing social safety nets, preserving public investment, and reining the fiscal deficit. Nevertheless, the measures imposed have depleted the buffers with significant loss of tax revenues and fall in tourism receipts. A fragile recovery is projected starting in 2021, subject to the path of the virus in Morocco and among its trading partners. In this regard, we broadly agree with the thrust of the staff assessment and welcome the government's recovery plan in collaboration with the private sector for a robust, inclusive growth.

Significant output contraction has been projected for 2020 with several downside risks. Against this background, the authorities should urgently rebalance their focus between sustaining the fragile economic recovery and rebuilding policy buffers. They need to maintain fiscal stimulus in the short run to address the social and economic fallout while placing debt-to-GDP ratio on a downward trajectory once the recovery firms up. Going forward, they should publish medium term fiscal framework with a clear and transparent path, implement tax reform, and rationalize current spending to lower public debt-to-GDP ratio. As public investment will be constrained by fiscal consolidation and a limited private investment, we encourage continuing reforms to improve the business climate, enhance productivity, diversify the economy, and increase public private partnerships (PPPs) to promote inclusive growth.

We note that greater access to external borrowing, including the full drawing of the IMF Precautionary and Liquidity Line (PLL) arrangement helped Morocco maintain adequate international reserves through 2020. The recur in COVID-19 cases would undoubtably increase spending when Morocco's outstanding credit to the IMF exceeded the SDR 1.5

billion threshold through 2024. *Could staff elaborate on the implications for Morocco's sustainable debt levels? Are there compelling reasons that Moroccan authorities could not support households in the informal sector under high level of poverty and vulnerability beyond July? Given the high cost of living with regional peers, are the authorities planning to increase the cap of 40 percent monthly wage for unemployment cash transfer to firms and employees in the formal sector?*

The accommodative monetary policy of the Bank al-Maghrib (BAM) remains appropriate contingent on the output gap, high degree of uncertainty and an anticipated low inflation rate. We support monetary easing in the near term until inflationary pressures reemerge and monetary policy should be data driven. We encourage the authorities to continue the transition to an inflation targeting (IT) framework and a more flexible exchange rate. We urge the BAM to work with banks to ease lending under the Micro and Small-sized Medium Enterprises (MSMEs) scheme to credible borrowers with a view to amplifying the impact of the funding-for-schemes.

We positively note that the banking system remains sound with adequate capital and liquidity. However, further strengthening of the supervisory and regulatory framework would be important for sector stability. We encourage the authorities to continue the progress in upgrading the financial sector policy framework in line with the 2015 FSAP recommendations and suspension of the distribution of dividends to build buffers. Going forward, they should undertake frequent stress tests and recalibrate credit risks model to capture emerging vulnerabilities. More steps expected include the completion of the bank resolution framework, cross-border crisis management framework, and effective risk-based AML/CFT supervision. Resolving the weaknesses of the AML/CFT framework would be helpful to avoid the FATF list of countries with strategic AML/CFT deficiencies.

Finally, structural reforms remain key to ensure strong recovery and achieve more inclusive growth. The authorities' social protection measures have mitigated impact of the pandemic on lives and livelihoods but would need further refinement into a single-family support program to allow access to healthcare insurance and improve efficiency and targeting. Revamping the education system would be helpful to improve human capital while enhancing the digitalization of public administration to increase productivity. Further, the authorities should strengthen the State-Owned Enterprises (SOEs) through refocusing on their core mandates and liquidating economically unviable firms. Continued implementation of the anti-corruption strategy would improve governance, enhance efficiency and productivity of public administration and strengthen citizens' trust on the government. We see merit in the Fund Managing Director's recommendation to initiate post-program monitoring (PPM) and encourage the authorities to embrace it.

GRAY/20/3791

December 16, 2020

Statement by Mr. Moreno and Ms. Moral Betere on Morocco
(Preliminary)
Executive Board Meeting 20/123
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?*

GRAY/20/3799

December 16, 2020

Statement by Mr. Azal and Mr. Meizer on Morocco
(Preliminary)
Executive Board Meeting 20/123
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 staff`s 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 staff`s 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.

GRAY/20/3801

December 16, 2020

Statement by Mr. Bhalla and Mr. Singh on Morocco
(Preliminary)
Executive Board Meeting 20/123
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.

GRAY/20/3802

December 16, 2020

Joint Statement by Mr. Buissé, Ms. Riach, Mr. Rozan, Mr. Masood, and Mr. Roman on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We would like to thank staff for their insightful report and Mr. El Qorchi for his instructive buff statement. We commend the authorities for maintaining macroeconomic stability during the COVID-19 crisis. The authorities' management and engagement with the IMF under the expired PLL arrangement and over the 2012-19 period has delivered strong results, with narrowing fiscal and current account deficits, and progress in removing regressive fiscal subsidies and increasing exchange rate flexibility. It has also supported public confidence that the authorities will take the policy measures required to reduce remaining vulnerabilities.

In a context where the Moroccan economy is heavily affected by the combined effects of the drought and the pandemic, with strong impacts on the tourism, construction and transport sectors, we commend the authorities for their strong measures to weather the storm. The combination of support to households, firms, workers in the informal sector, an accommodative monetary policy stance and macro prudential measures, helped mitigate the effect of the crisis. The challenge ahead will be to strike the right balance between sustaining the economic recovery and rebuilding the policy buffers used in response to the crisis. It will require keeping the fiscal stimulus in the short run and placing the debt-to-GDP ratio, which increased by about 11 percentage points of GDP at end-2020, on a downward path as soon as the economic recovery is on its way. In line with the pluriannual budgeting practices introduced in the Organic Budget Law, publishing a medium-term fiscal framework with a clear and transparent path to a lower public debt-to-GDP ratio would help safeguard fiscal space in the short term, while implementing a tax reform and rationalizing current spending will do so over the medium term.

The Moroccan Central Bank has taken decisive actions to mitigate the impact of the pandemic. Bank Al Maghrib (BAM)'s response to the crisis included cutting the policy rate, reducing reserve requirement and expanding the list of eligible assets that could be held as collateral. We note that that preparations for adopting an inflation targeting framework are well on track, and that the authorities remains committed to complete the transition at the opportune time.

Continued structural reforms are essential to sustain the recovery and achieve higher, more resilient, and more inclusive growth. The extension of social protection to all Moroccans will be a landmark reform, paving the way for further reforms on family allowances, compensation for unemployment, and generalized pension systems for active individuals. Support to youth employment, with measures extending income tax exemptions to companies that offer open-ended contracts to under 35, is also commendable. In addition, continued efforts to implement education reform, including the vocational system, are essential to develop human capital over the longer run. The reform of State-Owned Enterprises (SOEs) and plans for privatization should lead to a more efficient use of public resources and is essential to sustain the recovery and achieve higher, more resilient, and more inclusive growth. We note the risks from contingent liabilities stemming from sovereign credit guarantees (including for SOEs) and agree with Staff that these risks should be managed carefully, to avoid them being transferred to government balance sheets. This underscores the need to reform such sectors. *How do staff monitor sovereign guarantee programs, that have increased in prevalence due to COVID and factor these into assessments of debt sustainability?* Finally, measures to increase domestic competition, improve the digitalization of public administration, and implement the anti-corruption strategy would enhance the business environment and boost productivity and growth.

GRAY/20/3803

December 16, 2020

Statement by Mr. Mohieldin, Ms. Abdelati, and Ms. Merhi on Morocco (Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the informative report and timely review. We also thank Mr. El Qorchi for this insightful Buff statement.

As in many other countries, the COVID-19 shock has inflicted a heavy economic toll on the Moroccan economy, pushing the country into a severe recession – the first recession since 1995. Economic output is expected to contract by 7% as a result of the lockdown but also due to a sharp reduction in exports caused by the disruption of global value chains, the collapse of tourism receipts, and a fall in remittances. These shocks have been compounded by the underperformance of the agricultural sector as a result of intense droughts this year. We take note of the recent signs of stronger economic performance in manufacturing and in the external sector since June, as mentioned by Mr. El Qorchi, and hope this will lead to a smaller contraction this year and faster economic recovery in line with the authorities' expectations.

We commend the authorities for the timely and decisive actions taken to preserve public health and lessen the effects of the pandemic on the most vulnerable and keep workers employed. We also welcome the roadmap announced by the King to boost recovery and spur inclusive growth through the Mohammed VI Investment Fund which will seek partnerships with the private sector to invest in infrastructure and small and medium enterprises. Other measures also include health coverage for all Moroccans within a 5-year timeframe; the expansion of social welfare to vulnerable segments of the population; advancing the reform of state-owned enterprises and privatization. We would be interested in further elaboration of the strategic fund for investment that will mobilize high leverage funding from institutional investors and international partners and accompany large project financing in the private and public sectors. We welcome the extension of medical care to all nationals, which will deliver more equitable access to higher quality service; but it would be important to ensure that it is financially sustainable in the medium-term.

We take positive note that the full drawing of the IMF Precautionary and Liquidity Line (PLL) arrangement has helped maintain international reserves at adequate levels

so far in 2020 and build buffers that were utilized in the response to the pandemic crisis. However, the second wave of the pandemic is leading to an amplification of Morocco's twin deficits, thus increasing the country's financing needs. We take note in this regard of the kingdom's first and recent US dollar-denominated bond issue for seven years of $3bn, which was more than four times oversubscribed. This underscores the positive investor perceptions and the catalytic role of Fund support, to help finance needs arising from the severe shock.

Continued fiscal support remains warranted until the impact of the crisis abates, and fiscal consolidation should be gradual thereafter. In the short run, we concur with staff that the priority is to sustain the fragile recovery and address the shortcomings in the social protection system which were exacerbated by the crisis. We note the increase in poverty rates to 6.6 percent in 2020 and *would be interested to learn more about the involvement of other development partners in programs to reduce poverty and better target social assistance*. We welcome in this regard the decision to harmonize all current social assistance programs into a single family allowance scheme starting from 2023. We also welcome the planned far-reaching health related measures and overhaul of the education system, which will improve access to opportunities. The materialization of contingent liabilities from the sovereign credit guarantees extended during or before the crisis particularly to SOEs could increase risks to debt sustainability. However, we are encouraged by the announced SOE reform plan, whose implementation has started, and which could be a catalyst for more efficient use of public resources. We support the authorities' intention to start fiscal consolidation in 2022 and to return to their debt anchor of 60 percent of GDP over the longer term.

Monetary policy should continue to be accommodative until inflationary pressures resurface. We take positive note that the preparations for adopting an IT framework are well on track and that the authorities remain committed to complete the transition at the opportune time. The financial system has so far weathered the crisis relatively well, helped by the strong response of the Central Bank. However, it will be important to closely monitor the evolution of bank balance sheets to assess the consequences of the crisis, given the continued increase in the stock of non-performing loans.

Accelerating structural reforms is essential to promote inclusive growth, improve productivity, diversify the economy away from agriculture, and build an enabling business environment. The key challenge will be to develop a more vibrant SME sector which could be a major engine of new job creation. We look forward in this regard to the final report of a new royal commission that is formulating of a new development in early 2021. *Does the staff have more information on this plan?*

With these remarks, we wish the authorities the best in managing the current challenges.

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GRAY/20/3804

December 16, 2020

Statement by Mr. Sylla and Mr. Carvalho da Silveira on Morocco
(Preliminary)
Executive Board Meeting 20/123
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.

GRAY/20/3808

December 16, 2020

Statement by Mr. Jin and Mr. Law on Morocco
(Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for the informative set of reports and Mr. El Qorchi for his helpful Buff statement. We broadly agree with the thrust of staff's appraisal and would limit our comments to the following for emphasis.

We welcome the authorities' swift response to the COVID-19 pandemic. The authorities' prompt response has helped contain the social and economic damage from the shocks, but could not avoid a severe contraction, with GDP expected to fall by about 7 percent in 2020. The loss of tax revenues had deteriorated the fiscal position, while the fall in tourism receipts widened the current account deficit. Despite the recent optimistic news on a vaccine, it takes time for tourism to return to its pre-pandemic position. We welcome the authorities' plan to support the recovery in 2021, mainly through investment and the reform of the social protection and education systems.

We take note that Morocco had four successive PLL arrangements since 2012, which have supported reforms that strengthened Morocco's macroeconomic resilience and built the buffers that have been utilized in response to the pandemic crisis. As the pandemic crisis is ongoing, we wonder if a successor Fund arrangement should be considered by the authorities. *Staff's comments are welcome.* In the absence of a successor Fund arrangement and with Morocco's outstanding credit to the Fund expected to remain above the SDR 1.5 billion threshold until early 2024, **we support the Managing Director's recommendation for the initiation of post-program monitoring (PPM), in line with Fund policy.** Nevertheless, *would staff elaborate on how the PMM would be conducted, and what are the areas of focus?* In the future, it would be useful if staff can provide in the report some high-level information of the proposed PPM.

Morocco is one of the only two countries that have used PLL since its introduction a decade ago. With the expiration of the PLL arrangement for Morocco, no country is currently making use of PLL. While the PLL is scheduled to be reviewed in 2022, alongside with the Flexible Credit Line and the Short-Term Liquidity Line, there would be a more thorough discussion of the roles of different Fund lending instructions by then. *Could staff shed some light on their early thoughts of the future role of PLL*?

We underscore the necessity for Morocco to continue structural reforms to sustain the recovery and achieve higher, more resilient, and more inclusive growth. We concur with staff that reforming SOEs could be a catalyst for a more efficient use of public resources and private sector development. The reform effort should strengthen corporate governance and efficiency of SOEs, as well as improve the business environment of the country by leveling the playing field for all market participants.

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

GRAY/20/3818

December 17, 2020

Statement by Ms. Shortino, Mr. Farber, and Ms. Robitaille on Morocco (Preliminary)
Executive Board Meeting 20/123
December 18, 2020

We thank staff for their very informative report and Mr. Qorchi for his helpful Buff statement. **We commend the authorities for implementing a range of responses to mitigate the health and economic effects of the COVID-19 pandemic.** These efforts were bolstered by positive steps taken by the authorities to improve public finances in the years preceding the crisis.

While recognizing that staff and the authorities have differing views on the growth outlook, we stress that both forecasts result in significant impacts to GDP over the medium term. In both staff and the authorities' forecasts, the level of real GDP in 2024 is expected to be at least 10 percent below the level of GDP that was predicted in the October 2019 WEO. This underscores the need for the authorities to further strengthen the macroeconomic policy framework, including through greater movement towards a flexible exchange rate and progress on structural reforms.

We strongly support staff's call for a medium-term fiscal framework to guide the fiscal consolidation plan and provide a strong signal that the authorities are serious about bringing down the level of public debt. We have reservations about the authorities' use of special budgetary funds (the *Comptes Speciaux du Trésor*) which obfuscate the economic and distributive effects of fiscal policies. It is unclear to what extent the public debt burden constrains the authorities' ability to use fiscal policy to respond to future adverse shocks. We also note that the authorities' estimate of debt to GDP excludes holdings of government debt by the country's pension funds and implicit and explicit government guarantees on the sizeable commercial debt of the State-Owned Enterprises (SOEs). We share staff's concerns about the potential fiscal risks arising from the rise in public guarantees. *Can staff provide more details on the authorities' plans to divest stakes in SOEs and on the expected potential fiscal impact?* Moreover, the pension fund system faces growing imbalances in coming years, which underscores the need to institute a medium-term fiscal framework to assuage concerns about the path of public debt.

We take note of staff recommendations to transition to the inflation targeting (IT) framework with more exchange rate flexibility. We also note that according to Mr. Qorchi's Buff statement, the authorities feel that exchange rate reform should wait until there is stronger macroeconomic stability and an external outlook with greater certainty. *We would welcome staff's views on the timing of a shift to a new IT framework and greater exchange rate flexibility. In particular, our understanding is that several emerging market economies successfully transitioned to an IT framework amid what was considerable macroeconomic uncertainty at the time of the policy shift.* The reform of the monetary policy framework has been in the works for several years and several past technical missions have helped central bank staff build macroeconomic models for forecasts. Exchange rate flexibility would not only allow the exchange rate to absorb future shocks but also allow monetary policy to focus on domestic stabilization objectives. The authorities were able to lower the policy rate by 75 basis points in recent months, but under a flexible exchange rate regime, would be able to lower the policy rate even further. With inflationary pressures at bay and amid considerable economic slack, with unemployment in double-digit territory, an IT framework would enable authorities to pursue a more aggressive policy response to promote economic recovery.

We strongly support staff's call for the authorities to monitor the health of the banking system, including more frequent stress tests, given the severity of the adverse shock. We also echo staff's call to improve the bank resolution framework, oversight of banks' activities abroad, particularly in Africa, and address weaknesses in the AML/CFT framework.

Finally, we are encouraged that the authorities remain determined to persevere on reforms that strengthen the social safety net, including the health system, as well as foster longer-term growth. Reforms have improved the business environment in recent years, contributing to a rise in foreign direct investment. Privatizations, along with other types of asset sales, would help to crowd-in private activity and foster long-term growth.

Morocco

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/20/123—December 18, 2020

Staff's responses to technical questions are below. Broader policy questions in the areas of [e.g., tax reforms, pace of monetary policy, and challenges to the structural reform agenda] will be addressed in staff's intervention at the Board meeting.

Outlook / Risks

1. Regarding the remarkable resilience of remittances, could staff elaborate on the likely reasons for this observation?

- There are a few possible explanations for the resilience of remittances so far in 2020 (one could not rule out a lagged effect of the crisis on remittances). One is that transfers that used to occur in different forms (like cash brought back physically when traveling to Morocco) were done more formally this year, and therefore were recorded as remittances. The fact that individual transfers have declined but the volume (number of people sending remittances) has increased this year point to this direction. Another possible reason may be that many Moroccans abroad work in sectors deemed essential (or more exposed to informality) such as agriculture and construction, and so have been relatively "spared" by lockdown measures.

2. The authorities are more optimistic in projecting GDP growth rates in 2020-21. Could staff elaborate on the key assumptions and reasons for this divergence?

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?

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?

- There is of course great uncertainty around any forecast for growth this year and the next. The Monetary Policy report issued by the central bank this week has GDP growth at -6.6 percent in 2020, 4.7 percent in 2021, and 3.5 percent in 2022, which are close to staff projections. It's not easy to attribute the differences to any specific factor. Staff lowered its GDP growth forecast for 2020 (relative to the October WEO, when GDP forecast was -7 percent) after the reintroduction of targeted lockdown measures in the Fall, following the acceleration of the number of Covid 19-related cases. Indeed, a few indexes show that those measures have stalled the return of mobility to pre-crisis levels. Most recent data suggest that the worst of the crisis is over, as a number of high frequency indicators have reached a bottom in Q3 and started increasing again on a sequential basis (month over month or quarter over quarter, though still falling on a year over year basis). But consumer confidence and firms' expectations have continued falling based on latest data, suggesting the recovery will be slow. Staff, however, recognizes that the recent acceleration on the vaccine front, both domestically and globally, point to upside risks to staff projections for GDP growth next year (staff baseline assumes a resolution of the pandemic in the second half of 2021). Moreover, based on monthly trade data, a lower current account deficit for 2020 cannot be excluded, given the stronger-than-expected fall of imports.

Fiscal Policy

3. Could staff clarify Morocco's potential recourse in the event of a deterioration in external financing conditions? What are the country's prospects for accessing additional bilateral or multilateral funding?

Morocco has a track record of steady sovereign access to international capital markets. The Euro bond issuance in September and the most recent issuance of USD denominated treasury bonds (for a total of US$ 3 billion at favorable rates and large investors participation) shows that this year's deterioration of the fiscal position hasn't reduced the appetite for Moroccan government bonds. Going forward, Treasury's external financing is projected to be lower (also reflecting this year's prefunding of future needs). This gives Morocco some cushion against the risk of a worsening of external financing conditions. On external loans, there are good prospect for continued access to large multilateral financing in 2021 (the World Bank for example plans operations for USD 1.5 billion next year, about the same amount disbursed this year).

4. Can staff elaborate on the size and nature of the private sector contributions to the COVID-19 Fund to finance the increase in discretionary spending?

- The authorities have set a special "COVID-19 fund" to cope with exceptional expenses from COVID-19 pandemic. Initially endowed with 10 billion dirhams (1 percent of GDP) from the central budget, the fund benefited from financial contributions of various stakeholders, including institutional partners (like regions), public sector agencies and private sector (banks, non-financial firms, and citizens). As of October 2020, the fund's revenues reached about 3.4 percent of GDP (of which about 2 percent of GDP from the private sector).

5. Could staff elaborate on the special budgetary funds in Morocco, including their governance structures?

- Special budgetary accounts are structured into five categories**:** special allocation, financing, membership to international organizations, monetary operations, and expenditure endowments. The organic budget law sets the provisions for special budgetary accounts and stipulates that their operations should be authorized and executed under standard budgetary rules, unless exceptions provided by the budget law. As noted in the staff report, these accounts serve to earmark funds to finance specific projects over several years. The allocated funds that are not spent during a year can be kept in the account and carried over to the next year, instead of being subject to the annual appropriation process. Of note, the number of special budgetary accounts has fallen sharply over the last two decades, dropping from 156 accounts in 2001 to 67 in 2019 and to 69 in 2020.

6. Could staff elaborate on the implications for Morocco's sustainable debt levels? Are there compelling reasons that Moroccan authorities could not support households in the informal sector under high level of poverty and vulnerability beyond July? Given the high cost of living with regional peers, are the authorities planning to increase the cap of 40 percent monthly wage for unemployment cash transfer to firms and employees in the formal sector?

- After a first stage (March-July) in which all households in the informal sector received cash support (of US$ 80-120 per month), the authorities decided to phase out the program and concentrate the limited fiscal resources on more targeted support to those working in (formal) sectors that were particularly affected by the pandemic (like tourism related sectors).

- Employees who became temporarily unemployed received cash transfers between April and June, covering on average 40 percent of their net monthly wages. These measures have been extended to December for those working in sectors mostly affected by the health crisis, like tourism. The authorities have not signaled their intention to increase the cap above 40 percent monthly wage for unemployment.

7. 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?

- It is true that overall tax revenues to GDP ratios in Morocco are not small if compared to peer countries. While marginal top income tax rates are also quite high (31 percent for the CIT and 38 percent for the PIT), the tax base is relatively narrow, and efforts should be aimed at its extension. This may require removing some of the (generous and less targeted) tax exemptions (for example for firms operating in the real estate sector) and enforcing tax payments. This would allow to reduce the high tax burden (especially on private sector employees) and make the tax system more efficient and equitable.

8. How do staff monitor sovereign guarantee programs, that have increased in prevalence due to COVID and factor these into assessments of debt sustainability?

- The information that staff has on the sovereign guarantee programs come from the authorities and concern their overall amount. These guarantees (before the pandemic mostly limited to external debt of SOEs) are not added to central government debt in line with the authorities' reporting, but risks related to contingent liabilities are signaled in the DSA through the heat map. It should be noted that these guarantees have been triggered only once in the past (in the 1980s, for a small SOEs operating in the fishing industry).

9. Could staff elaborate on the progress achieved with the privatization program since its inception in 2019?

Can staff provide more details on the authorities' plans to divest stakes in SOEs and on the expected potential fiscal impact?

- The authorities announced in late October 2018 a multi-year privatization program to help improve the performance of SOEs and refocus them on core activities. The program started in 2019 with the divestment of 8 percent of the capital of Maroc Telecom (at 8.9 billion dirhams) and the cession of the Ryad Development Company (for 900 million dirhams), which made it possible to achieve the privatization receipts expected in the budget. The 2020 budget envisaged the privatization of some SOEs on the government's list, however, due to the health crisis, which strongly impacted SOEs (including those on that list), the authorities decided to postpone those operations of privatization to the years ahead. This year's Budget envisages a restart of the privatization program, which should generate MAD 12 billion (about 1 percent of GDP) between 2022 and 2024.

Monetary and Financial Policy

10. We would like staff to elaborate more on the timing of the shift and the preconditions for the successful implementation of the new regime, providing the uncertainties from the pandemic remain high and the economic outlook is still fragile from the impact of the pandemic.

We would welcome staff's views on the timing of a shift to a new IT framework and greater exchange rate flexibility. In particular, our understanding is that several emerging market economies successfully transitioned to an IT framework amid what was considerable macroeconomic uncertainty at the time of the policy shift.

- Staff views current conditions as favorable to move to an inflation targeting framework with a more flexible ER. While it's true that there is high uncertainty on the recovery, inflation is low, the output gap is high, downside risks are still significant, and policy interest rates are quite low. This suggests that if another negative shock were to hit Moroccan economy next year, BAM would not have many ammunitions to react and avoid deflationary pressures. It would be exactly in those circumstances that BAM could benefit from the exchange rate channel of monetary policy transmission. An extra benefit of the new regime would be that, if needed, BAM could also try and lower long-term yields by purchasing treasury bonds in secondary markets.

- Staff believes that most technical preconditions for a successful transition to an IT monetary policy framework are already in place, including: (i) inflation is very low; (ii) BAM enjoys operational independence to pursue its mandate and has built strong credibility in keeping inflation low and stable; (iii) BAM has built its modeling capacity and developed tools to produce macro-economic forecasts both under a pegged and floating exchange rate; (iv) Morocco has developed a relatively deep hedging market; (v) there is limited currency mismatch in the financial sector.

- Having said, the decision on the timing of the transition rest with the authorities, and staff remains actively engaged, including through technical assistance, to support this process.

11. 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.

- The rationale for finalizing the transition to a monetary policy regime where inflation is the nominal anchor, rather than the exchange rate, was explained in the previous response. To reiterate, adopting an IT monetary policy framework would strengthen the transmission of monetary policy to the economy, and allow BAM to better buffer output from a new negative real shock (a 2000 IMF WP from Brandao Marques confirms that the effect of monetary policy shocks on output tend to be significantly larger in IT countries).

- In the case of Morocco, the transition to an inflation-targeting regime is part of a gradual strategy that the authorities adopted in 2017 with IMF technical assistance. The first step was a widening of the FX band from +/-0.3 to +/-2.5 percent in 2018, followed by another widening to +/- 5 percent in March 2020. There is therefore already some flexibility under the current regime and the exchange rate has moved significantly more compared to historical standards since March. This in turn contributed to further deepening of FX spot and hedging markets.

- The main risk from moving to a different monetary policy regime is a loss of credibility and some extra volatility in exchange rates and financial markets. This is the reason why clearly and effectively communicating the rationale of the change, and the benefits of the new regime, is key.

- There would also be two safeguards against the risk of excessive volatility of the exchange rate: first, Morocco would maintain capital controls that limit capital flights, and second, the current comfortable FX reserve position would allow BAM to adopt (and communicate) an FX intervention rule.

12. Could staff elaborate on the key benefits, costs, and policy tradeoffs of the APPs for the Moroccan economy and its central bank?

- Purchasing government bonds (in secondary markets: BAM is not allowed to buy Treasuries at issuance) could help BAM reducing borrowing costs for both private and public sector. This would help stimulate the economy and meet the inflation objective in the presence of further negative shocks. With policy rates and inflation already at an all-time low, there is limited conventional policy room left to the central bank. Indeed, transmission to the government yield curve, which is the primary pricing benchmark of the banking system, has remained relatively strong until 2-3-year maturity but has been weakening at the long end of the curve.

- The risks from such programs comes from market participants interpreting it as a form of fiscal dominance that weakens central bank independence and autonomy. BAM may lose its hard-won credibility if the APP were to be perceived by market participants as equivalent to monetary financing of the fiscal deficit.

- This risk would be smaller if the APP were to occur after BAM had successfully transitioned to an IT regime. Under that regime, BAM would commit to maintain long-term inflation expectations anchored, and would therefore run QE programs consistent with its mandate. Moreover, an APP might be truly effective only in the context of an IT regime where the exchange rate can react more freely to real shocks than allowed under the current band.

13. In this regard, could staff elaborate on the potential negative feedback loop between the Moroccan banking sector and other African countries?

- The significant footprint and concentrated credit exposure of Moroccan banks in Africa could create spillovers risks at home and across host countries. Cross-border financial institutions could amplify macro-financial linkages, especially in a downturn shock as collateral values may decline, and capital may be insufficient to absorb losses. A liquidity or solvency problem in a foreign subsidiary could also pass on to the home country. Following the 2015 FSAP which highlighted some of those risks, Morocco has made significant progress in strengthening cross-border supervision and vulnerabilities from subsidiaries in Africa have not materialized in the wake of the pandemic.

14. Furthermore, while we note the authorities' view that they have taken action to address the weakness in the current AML/CFT framework, we would like staff to elaborate on specific areas where the authorities should do more to prevent them from being included in the FATF grey list.

- Morocco was found to have insufficient levels of effectiveness in most areas of implementation of the AML/CFT framework, with the exception of the following area: "investigation, prosecution and sanctioning of terrorist financing offences and activities". The most severe deficiencies are in the areas of prevention of misuse of legal persons; investigation, prosecution and sanctioning of money laundering; and the prevention of financing of proliferation of weapons of mass destruction. Strong progress in these areas would be needed.

15. We would welcome a broader explanation of the rationale for the removal of some restrictions in the BAM lending scheme recommended by staff.

- Compared with funding for lending programs implemented in other advanced and emerging market economies, Morocco's program appears to be relatively more prescriptive about the utilization of the funds, something that could potentially limit the overall impact of the programs (particularly SMEs' access to financing).

16. 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?

- So far, the USD 3 billion under the PLL arrangement with Morocco that were purchased in April haven't been used. They are contributing to the current, comfortable level of FX reserves at BAM (at about USD 32 billion, 5 USD billion above last year level, 99 percent of ARA metric or 7 months of imports). The level of FX reserves is bound to increase further after the USD 3 billion bond issuance last week.

- Morocco appears able to maintain an adequate level of reserves even if the projected improvement in the external position would not materialize. Indeed, a rough rule of thumb calculation suggests that FX reserves would still be above 80 percent of the ARA metric by 2025 if the current account deficit were to remain at the currently projected -6 percent of GDP till then (everything else staying the same).

17. 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.

- Large Moroccan banks have used syndicated loans to continue lending to large corporations (in particular to finance infrastructure projects) while limiting their large credit exposure. The large exposure to Tier 1 capital ratio has declined significantly since 2016 (see Table 6), and total exposure has declined by 5.9 percent in 2019.

Fund engagement

18. As the pandemic crisis is ongoing, we wonder if a successor Fund arrangement should be considered by the authorities. *Staff's comments are welcome.*

- The authorities are not considering a successor Fund arrangement at this stage.

19. We support the Managing Director's recommendation for the initiation of post-program monitoring (PPM), in line with Fund policy. Nevertheless, would staff elaborate on how the PMM would be conducted, and what are the areas of focus?

- Under the PPM, the staff will undertake an additional formal consultation with the Moroccan authorities each year, in addition to the Article IV consultation. The PPM will focus on macroeconomic and structural policies and risks that have implications for Morocco's external viability and capacity to repay the IMF.

Structural Issues

20. Could staff provide an update on the policies being adopted/considered to reduce female unemployment and address the low and declining rate of female labor force participation?

- The authorities launched a 2030 strategy plan to improve women employment and to leapfrog barriers to the labor market participation. While its translation into action plans has yet to be seen, this strategy, elaborated in coordination with UN Women, aims at achieving a 30 percent employment rate among women and doubling their vocational training rate by 2030. In addition, a three-year common platform aimed at encouraging companies to promote Moroccan women's employability and professional development in companies was launched in November 2020 by the International Finance Corporation (IFC), in partnership with the General Confederation of Moroccan Enterprises (CGEM). The CGEM-IFC platform intends to promote a group of "champion" employers of women in Morocco's private sector through i) highlighting the benefits of gender diversity within companies and ii) suggesting concrete solutions to improve women employment.

21. In this respect, we welcome the announced reform of SOEs. Could staff advice on the progress made on this?

- The two drafts laws aim at reforming the SOEs have already been prepared and are expected to be adopted by the Parliament in the coming weeks. The implementation of the reforms will start in 2021, following the draft laws adoption.

22. 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?

- The recovery plan is based on the mobilization of 120 billion of Dirham (11 percent of GDP), of which 75 billion as guaranteed credit (but almost all of this envelope has already been used this year) and 45 billion through the strategic fund for investment, or Mohammed VI Fund (of which 15 billion is the contribution from the Treasury, the other 30 billion is a projected contribution from the private sector).

- It is still not clear when and how the funds allocated to the strategic fund for investment will be spent. The draft law on the Mohammed VI Fund envisages that it will be structured as a "fund of funds", with a master fund investing in 6 thematic funds (targeting the following sectors: agriculture, tourism, manufacturing, innovation, infrastructures and SMEs). These thematic funds will be managed by private asset managers selected through a competitive process and will seek to raise private financing (for the 30 billion mentioned above). The sub- funds are also expected to provide equity financing to SMEs and SOEs that are deemed to need equity injections.

- Given the complexity of the program, which is still in early stages of implementation, it is difficult to assess the impact on growth productivity and employment. In the short term, the easiest way of boosting growth is to finance infrastructure projects already in the pipeline, also through PPPs. Staff assume that this will be the main utilization of the Fund, which will contribute to sustain overall investment in the next few years.

23. We note the increase in poverty rates to 6.6 percent in 2020 and would be interested to learn more about the involvement of other development partners in programs to reduce poverty and better target social assistance.

- The World Bank has provided emergency financing to mitigate the effect of the pandemic on poverty including i) US$ 275 million "disaster" loan against the pandemic, ii) US$ 400 million loan to help retroactively with the government cash transfers between march and July, and iii) US$ 500 million loan for supporting financial inclusion. Other development partners—including the European Investment Bank and KfW Development Bank—have also contributed to the government's effort to mitigate the effect of the pandemic. In addition, the World Bank is involved in the design and introduction of a unified social registry that would improve efficiency and targeting of the social protection system.

24. We look forward in this regard to the final report of a new royal commission that is formulating of a new development in early 2021. Does the staff have more information on this plan?

- The details related to the new model of development work are not yet available, as the commission's work timeline has been reshaped by the pandemic. The commission's report is expected to be released in early 2021

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States