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IMF Executive Board Concludes 2016 Article IV Consultation with Morocco

On January 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Morocco.[1]

Morocco's macroeconomic conditions have improved since 2012, but growth has remained sluggish. In 2016, growth slowed due to a sharp contraction in agricultural output and subdued non-agricultural activity. The unemployment rate decreased to 9.6 percent in Q3 2016 while youth unemployment remains high at 21.8 percent. Headline inflation (year-on-year) reached 1.6 percent, reflecting higher food and energy prices.

External imbalances have fallen substantially since 2012, even though the current account deficit increased to 2.9 percent of GDP in 2016, against 2.2 percent in 2015. Strong manufacturing and agriculture exports, and a rebound in tourism and remittances, have more than offset the impact of increased equipment and food imports and low phosphate prices. As a result, and with continued robust foreign direct investment (FDI), international reserves strengthened to about seven months of imports.

Fiscal consolidation has continued with a deficit down from 4.4 percent in 2015 to about 4 percent of GDP against the objective of 3.5 percent of GDP for 2016. This reflects resilient tax

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

revenues and well contained current expenditures, which offset the grant shortfall of about 0.3 percent of GDP and allowed for an increase in investment spending.

Banks are well capitalized and have stable funding, but nonperforming loans are rising and credit concentration risks, while declining, are still elevated. The expansion of Moroccan banks into Sub-Saharan Africa opens new channels of risk transmission, but cooperation with host country supervisors is intensifying and supervisory requirements for cross-border activities are being upgraded.

Morocco's medium-term prospects are favorable, with growth expected to rebound to 4.4 percent in 2017 and reach 4.5 percent by 2021. However, risks remain substantial, and relate mainly to growth in advanced and emerging countries, geopolitical tensions in the region, world energy prices, and global financial market volatility. Stronger medium-term growth will hinge on continued implementation of comprehensive reforms with regard to labor participation and labor market efficiency, access to finance, quality education, public spending efficiency, and further improvements to the business environment. Continued poverty reduction, and lower regional and gender disparities, will also be crucial to achieve higher, sustainable and more inclusive growth.

Executive Board Assessment[2]

Executive Directors commended the authorities for their sound macroeconomic policies and reforms, which have helped reduce domestic and external vulnerabilities, enhance the fiscal and financial policy frameworks, and increase economic diversification. Directors noted that, while the medium-term outlook is favorable, risks remain elevated. Against this backdrop, they welcomed the authorities' continued strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/m/qualifiers.htm.

Directors commended the continued progress made in fiscal consolidation, particularly the recent containment of current spending, the energy subsidy reform, and the reform of the public pension system. Going forward, they encouraged the authorities to gradually reduce the level of public debt over the medium term while preserving pro-growth and social spending. Directors agreed that efforts should focus on accelerating tax reforms to broaden the tax base and on careful and well-planned implementation of the fiscal decentralization to mitigate any related fiscal risks. Directors also encouraged the authorities to reform the civil service to help contain the public wage bill.

Directors endorsed the currently accommodative monetary policy stance in the context of moderate inflation and the nascent credit growth recovery. They supported the authorities' intention to move gradually to a more flexible exchange rate regime and a new monetary policy framework, which will help preserve competitiveness and better insulate the economy against shocks. In this regard, Directors concurred that the conditions for a successful transition in 2017 are in place. Directors also encouraged the authorities to submit to parliament the draft central bank law, which will strengthen Bank Al-Maghrib's (BAM) independence and expand its roles in the promotion of financial stability and inclusion.

Directors welcomed that the banking sector remains sound and well capitalized, and stressed that rising non-performing loans, credit concentration risks, and the expansion into Sub-Saharan Africa require continued monitoring. They also welcomed BAM's continued efforts to strengthen the financial regulatory and supervisory framework in line with 2015 Financial Sector Assessment Program recommendations, including ongoing advances on cross-border bank oversight, more risk-based and forward looking supervision, a stronger macroprudential policy framework, and efforts to strengthen supervisory resources in view of expanding responsibilities.

Directors emphasized the importance of sustained implementation of structural reforms to promote higher and more inclusive growth. They recommended continued efforts to improve the business climate, particularly for small and medium-sized enterprises, including by enhancing their access to financing. Directors also called for improved labor market regulations as well as increased efficiency of public spending on education and vocational training that better

addresses skill mismatches, which will be critical to bolster growth, reduce unemployment—especially among the youth—, lower gender gaps, and strengthen competitiveness. Directors welcomed ongoing efforts to reinforce the governance and oversight of public enterprises, and looked forward to further progress in implementing the national strategy to fight corruption.

Morocco: Selected Economic Indicators, 2012–17

					Projection			
					PLL 1/	Rev.	PLL 1/	Rev
	2012	2013	2014	2015	2016		2017	
				(Annual percentage change)				
Output and Prices								
Real GDP	3.0	4.5	2.6	4.5	1.8	1.5	4.8	4.4
Real agriculture GDP	-9.1	17.2	-2.2	12.8	-10.5	-9.8	13.7	10.8
Real non-agriculture GDP	4.7	2.9	3.2	3.5	3.5	3.0	3.6	3.5
Consumer prices (end of period)	2.6	0.4	1.6	0.6	1.2	1.5	1.3	1.2
Consumer prices (period average)	1.3	1.9	0.4	1.5	1.3	1.6	1.3	1.2
				(In percent of GDP)				
Investment and Saving								
Gross capital formation	35.0	34.8	32.2	30.2	30.2	31.2	30.7	32.1
Of which: Nongovernment	29.6	29.8	26.8	24.7	25.2	26.0	25.7	27.4
Gross national savings	25.7	27.2	26.6	28.1	29.0	28.3	29.3	29.8
Of which: Nongovernment	26.1	25.8	24.5	25.2	25.8	25.0	25.0	26.7
				(In percent of GDP)				
Public Finances								
Revenue	28.0	27.8	28.1	26.5	26.9	26.7	27.5	26.0
Expenditure	35.3	33.0	33.0	30.9	30.4	30.2	30.5	29.1
Budget balance 2/	-7.3	-5.2	-4.9	-4.4	-3.5	-3.5	-3.0	-3.0
Primary balance (excluding grants)	-4.9	-3.3	-3.7	-2.1	-1.9	-1.8	-1.3	-1.4
Cyclically-adjusted primary balance (excl. grants)	-5.0	-3.0	-3.1	-1.8	-1.8	-1.6	-1.3	-1.3
Total government debt	58.3	61.7	63.5	64.1	64.4	64.3	63.8	63.8
				(Annual percentage change; unless otherwise indicated)				
Monetary Sector								
Credit to the private sector 3/	4.8	3.8	2.5	1.9	4.5	4.8	...	5.1
Base money	-0.5	9.0	6.2	5.7	5.5	6.0	...	6.0
Broad money	4.5	3.1	6.2	5.7	5.5	6.0	...	6.0
Velocity of broad money	0.9	0.9	0.9	0.9	0.8	0.8	...	0.8
Three-month treasury bill rate (period average, in percent)	3.4	3.4	2.5	...	...	...	...	...
				(In percent of GDP; unless otherwise indicated)				
External Sector								
Exports of goods and services (in U.S. dollars, percentage change)	-0.1	4.5	7.4	-7.0	4.4	3.0	6.7	5.4
Imports of goods and services (in U.S. dollars, percentage change)	2.2	4.3	1.0	-16.5	4.5	6.1	6.5	3.9
Merchandise trade balance	22.3	-20.5	-18.8	-14.6	-14.3	-15.9	-14.4	-15.8
Current account excluding official transfers	-9.6	-8.3	-7.4	-2.6	-2.3	-3.8	-2.3	-3.3
Current account including official transfers	-9.3	-7.6	-5.7	-2.2	-1.2	-2.9	-1.4	-2.3
Foreign direct investment	2.4	2.8	2.8	2.6	2.5	2.0	2.4	2.1
Total external debt	28.5	29.3	33.2	33.4	32.6	32.8	32.1	31.9
Gross reserves (in billions of U.S. dollars)	17.4	19.0	20.5	23.0	26.7	25.7	30.2	27.6
In months of next year imports of goods and services	4.3	4.6	6.0	6.3	7.1	6.8	7.6	6.9
In percent of Fund reserve adequacy metric 4/	75.6	74.3	80.0	94.6	102.8	99.5	109.6	101.7
In percent of CA deficit and ST debt at rem. mat. basis	156	189	257	527	698	463	847	606
Memorandum Items:								
Nominal GDP (in billions of U.S. dollars)	98.3	106.8	109.9	100.6	104.9	103.6	111.1	106.6
Output gap (percentage points of GDP)	0.9	-0.8	-0.3	1.0	...	-2.0	...	0.8
Unemployment rate (in percent)	9.0	9.2	9.9	9.7	...	...	...	...
Population (millions)	32.5	32.9	33.2	33.5	33.8	33.8	34.2	34.2
Population growth (in percent)	1.04	1.02	0.99	0.98	0.97	0.97	0.95	0.95
Net imports of energy products (in billions of U.S. dollars)	12.4	-12.2	-11.0	-6.8	-5.7	-5.7	-6.4	-6.4
Local currency per U.S. dollar (period average)	8.6	8.4	8.4	9.8	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-2.0	1.8	0.0	0.3				

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 3rd PLL arrangement in CR/16/265.

2/ The fiscal deficit for end-2016 does not reflect the latest estimates.

3/ Includes credit to public enterprises.

4/ Based on revised ARA weights.