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IMF Executive Board Concludes 2017 Article IV Consultation with Morocco

On December 13, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Morocco.¹

Following last year's drought, economic growth has picked up in 2017 and is expected to reach 4.4 percent, mostly driven by a significant rebound in agricultural activity while non-agricultural activity remains subdued. The unemployment rate increased to 10.6 percent in Q3 2017 (year-on-year) while youth unemployment remains high at 29.3 percent. Headline inflation (year-on-year) is expected to decline to 0.6 percent in 2017, reflecting lower food prices.

Following a marked deterioration in 2016, the current account deficit is projected to improve in 2017 to 3.9 percent of GDP. This primarily reflects Morocco's global environment, particularly the stronger recovery in Europe, and strong export growth (6.5 percent), mostly due to the good performance of food product and phosphate and derivatives exports. International reserves are expected to remain comfortable, at about six months of imports.

On the fiscal side, the consolidation process continues and developments as of end-October 2017 were broadly positive. Tax revenues performed better than projected, but grant revenues were lower than anticipated. Public spending on wages and interest payments was below expectations and capital expenditures decelerated (by 2 percent year-on-year).

Banks are well capitalized, and the risks to financial stability are limited. Nonperforming loans remain relatively high but they are closely monitored and are well provisioned. Regulatory limits to reduce credit concentration as well as collaboration with cross-border supervisory bodies to contain risks related to Moroccan banks' expansion in Africa are being strengthened. Morocco's medium-term prospects remain favorable, with growth expected to reach 4.5 percent by 2021. However, risks remain elevated, 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 regarding labor market efficiency, access to finance, quality of

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.

education, public spending efficiency, and further improvements to the business environment. Strengthening the social safety nets system will also be crucial to achieve more inclusive growth.

Executive Board Assessment²

Executive Directors commended the authorities for the sound macroeconomic policies and reform implementation that have helped improve the resilience of the Moroccan economy, upgrade the fiscal and financial policy frameworks, and increase economic diversification. To consolidate the gains achieved and promote higher and more inclusive growth, Directors underscored the need to maintain sound fiscal and monetary policies and to step up structural reform efforts, supported by measures to strengthen the social safety net.

Directors welcomed the resumption of fiscal consolidation to ensure debt sustainability. They supported efforts to control spending on wages and goods and services to create fiscal space for priority spending in the medium term. Directors agreed that continued fiscal consolidation should benefit from a comprehensive approach to tax reforms, aiming to broaden the tax base and promote greater equity and simplicity. They supported a careful implementation of fiscal decentralization, a comprehensive civil service reform, strengthened state-owned enterprise (SOE) oversight, and steps to improve the targeting of social spending to protect vulnerable segments of the population.

Directors noted that inflation was likely to remain moderate while the accommodative monetary policy allowed for continued credit recovery. Directors supported the authorities' intention to move to a more flexible exchange rate regime and a new monetary policy framework, which will help the economy to absorb external shocks and remain competitive.

Directors noted that the banking sector remains sound and well capitalized, but stressed the need to remain vigilant. They welcomed Bank Al Maghrib's continued efforts to increase supervisory capacity in line with 2015 Financial Sector Assessment Program recommendations, including more risk-based and forward looking supervision and tighter provisioning requirements.

Directors emphasized the importance of sustained implementation of broad-based structural reforms. Continued efforts to strengthen the business environment, including through better governance, improved education and vocational training, will be key to reduce unemployment, especially among the youth, and to increase women's participation in the labor force. Directors looked forward to further progress in implementing the national strategy against corruption and in making the Competition Council operational.

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>.

Morocco: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016	Proj.	
					2017	2018
	(Annual percentage change)					
Output and Prices						
Real GDP	4.5	2.7	4.5	1.2	4.4	3.1
Real agriculture GDP	17.2	-2.2	11.9	-12.8	15.2	-1.0
Real non-agriculture GDP	2.9	3.4	3.7	3.1	3.0	3.6
Consumer prices (end of period)	0.4	1.6	0.6	1.8	0.9	1.6
Consumer prices (period average)	1.9	0.4	1.5	1.6	0.6	1.3
	(In percent of GDP)					
Investment and Saving						
Gross capital formation	34.7	32.5	30.8	32.6	33.4	34.5
<i>Of which:</i> Nongovernment	29.6	27.2	25.3	26.9	28.0	29.0
Gross national savings	27.1	26.6	28.7	28.2	29.5	30.8
<i>Of which:</i> Nongovernment	25.6	24.6	25.6	25.0	26.3	27.0
	(In percent of GDP)					
Public Finances						
Revenue	27.8	28.0	26.5	26.1	26.1	26.5
Expenditure	32.9	32.9	30.7	30.2	29.6	29.5
Budget balance	-5.1	-4.8	-4.2	-4.1	-3.5	-3.0
Primary balance (excluding grants)	-3.2	-3.6	-1.9	-2.4	-1.9	-1.3
Cyclically-adjusted primary balance (excl. grants)	-2.9	-3.0	-1.6	-2.2	-1.8	-1.2
Total government debt	61.7	63.3	63.7	64.7	64.3	64.0
	(Annual percentage change; unless otherwise indicated)					
Monetary Sector						
Credit to the economy	3.8	2.5	2.0	4.3	5.7	...
Base money	9.0	6.2	5.7	5.0	6.0	...
Broad money	3.1	6.2	5.7	5.0	6.0	...
Velocity of broad money	0.9	0.9	0.9	0.8	0.8	...
	(In percent of GDP; unless otherwise indicated)					
External Sector						
Exports of goods and services (in U.S. dollars, percentage change)	4.5	7.4	-7.0	2.9	6.5	7.2
Imports of goods and services (in U.S. dollars, percentage change)	4.3	1.0	-16.5	9.6	5.3	6.0
Merchandise trade balance	-20.5	-18.7	-14.5	-17.1	-16.4	-16.0
Current account excluding official transfers	-8.3	-7.6	-2.6	-5.3	-4.8	-4.3
Current account including official transfers	-7.6	-5.9	-2.1	-4.4	-3.9	-3.7
Foreign direct investment	2.8	2.8	2.6	1.6	1.9	2.4
Total external debt	29.3	33.3	33.9	34.6	33.5	33.9
Gross reserves (in billions of U.S. dollars)	19.0	20.5	23.0	25.4	24.8	27.6
In months of next year imports of goods and services	4.6	6.0	6.1	6.4	5.9	6.2
In percent of Fund reserve adequacy metric 1/	74.3	79.9	94.7	99.3	90.3	93.8
Memorandum Items:						
Nominal GDP (in billions of U.S. dollars)	106.8	110.1	101.2	103.6	110.0	117.6
Unemployment rate (in percent)	9.2	9.9	9.7	9.4	5.0	...
Population (millions)	33.4	33.8	34.1	34.5	-0.8	35.2
Population growth (in percent)	1.21	1.17	1.05	1.06	9.3	1.06
Net imports of energy products (in billions of U.S. dollars)	-12.2	-11.0	-6.8	-5.5	34.9	-7.3
Local currency per U.S. dollar (period average)	8.4	8.4	9.8	9.8
Real effective exchange rate (annual average, percentage change)	1.8	0.0	0.3	2.3

Sources: Moroccan authorities; and IMF staff estimates.

1/ Based on revised ARA weights.