Morocco: 2021 Article IV Consultation-Press Release and Staff Report

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/36

MOROCCO

February 2022

2021 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Morocco, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 2, 2022 on a lapse-of-time basis, following discussions that ended on December 10, 2021 with the officials of Morocco on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 11, 2022.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/27

IMF Executive Board Concludes 2021 Article IV Consultation with Morocco

FOR IMMEDIATE RELEASE

Washington DC, February 7, 2022. On February 2, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Morocco on a lapse of time basis.[2]

Economic activity has recovered most of the ground lost during the severe global recession of 2020. This performance owes to continued fiscal and monetary stimulus, the rebound of exports, buoyant remittances, and the exceptional harvest following two years of drought. After shrinking by 6.3 percent in 2020, GDP is forecast to have grown by 6.3 percent in 2021, among the highest in the Middle East and North Africa region. Despite having recovered most of the jobs lost in 2020, the unemployment rate of 11.8 percent is still above pre-pandemic level, driven by a rebound of the participation rate. Moroccan banks have weathered the crisis well, thanks to the prompt and exceptional support from Bank al-Maghrib.

GDP growth is projected at around 3 percent in 2022, as agriculture output returns to average levels and non-agricultural activity continues to recover. Recent inflationary pressures have remained manageable and are expected to wane in the medium term, as cost pressures from global supply disruptions are reabsorbed. After the sharp contraction in 2020, the current account deficit is projected to return in 2021 to levels closer to before the pandemic and to stabilize around 3.5 percent of GDP over the medium term. While this outlook remains subject to uncertainty, with much of the risks depending on the evolution of the pandemic, a fast and effective implementation of structural reforms should increase growth over the medium term.

Executive Board Assessment

In concluding the Article IV consultation with Morocco, Executive Directors endorsed the staff’s appraisal as follows:

Morocco’s economy is rebounding from the 2020 recession, thanks to the exceptional harvest, the rebound of exports, accommodative monetary and fiscal policy stances, and the continued strength in remittances. After a strong compression in 2020, the current account deficit is returning to levels closer to pre-pandemic, but Morocco has emerged from the crisis with a much stronger international reserve position. Staff expects GDP to grow at around 3 percent over the next few years, as the effects from the pandemic on potential activity are gradually reabsorbed and to accelerate gradually thereafter under the positive impact of structural

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[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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reforms. These projections remain subject to a high level of uncertainty, related both to the evolution of the pandemic and the pace of implementation and effectiveness of the reforms.

The faster than expected closure of the output gap and higher government debt ratio would require a tighter fiscal policy stance than currently envisaged. Staff expects the fiscal deficit to fall very slowly over the medium term and the central government debt-to-GDP ratio to stabilize at close to 80 percent. While public debt remains sustainable, a faster fiscal consolidation process that brings the debt-to-GDP ratio closer to pre-pandemic levels over the medium term would make Morocco less vulnerable to further negative shocks and free more resources for private sector investment. The fiscal policy should be anchored by a credible medium-term macro-fiscal framework and underpinned by a comprehensive reform of the tax system and systematic review of government spending, supplemented by a civil service reform to contain wage bill increase.

Lower fiscal deficits would allow monetary policy to remain accommodative for longer, assuming inflationary pressures will remain manageable. The recent rise in inflation is limited and expected to subside as the imported cost pressures from supply-side bottlenecks and higher commodity prices become less relevant over time. As long as these pressures do not contaminate domestic inflation expectations, BAM has the space for a gradual normalization of monetary policy conditions but should stand ready to tighten its stance if inflationary pressures further accelerate. The recent appreciation of the dirham to the lower end of the exchange rate band offers an opportunity to accelerate the planned transition to an inflation-targeting framework.

Staff welcomes the authorities’ commitment to a new wave of structural reforms. The generalization of the social protection system should remove existing gaps in coverage and quality of health care services and strengthen Morocco’s social safety net. Together with the full implementation of the Unified Social Registry, these reforms should improve inclusiveness and efficiency. Reforming SOEs should reduce their financial burden on the budget and remove distortions that prevent market neutrality and hinder private sector development. Finally, the New Model of Development (NMD) contains several useful recommendations for strengthening the competitiveness of Moroccan firms, improving governance, boosting human capital, and building a more inclusive society.

Careful implementation of the reforms will be critical for their success. The reforms already ongoing and those suggested in the New Model of Development report have the potential to yield a stronger, more inclusive, and sustainable growth path for Morocco. Still, given the potentially large financing needs associated with these reforms, the uncertain impact on potential output, and the narrow fiscal space, carefully designing and sequencing are needed, on the basis of an adequate financing plan and within a coherent and stable macroeconomic framework.

Morocco: Selected Macroeconomic Indicators, 2017–26

Population: 36.911 million; 2020
Quota: SDR 894.4 million
Main exports: automobiles, phosphate and derivatives; 2020
Key Export Markets: France and Spain (44 percent of total exports); 2020

Per capita GDP: $3,009; 2020
Poverty rate: 4.8 percent; 2014

	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Output (annual percent change)										
Real GDP growth	4.2	3.1	2.6	-6.3	6.3	3.1	3.0	3.0	3.1	3.3
Real nonagricultural GDP growth	2.9	3.1	3.7	-6.0	4.7	3.9	3.0	3.0	3.1	3.3
Employment (percent)										
Unemployment	10.6	9.4	10.2	12.2	11.8	11.3	10.9	10.4	9.9	9.3
Prices										
Inflation (end of period)	1.7	0.1	1.0	-0.9	1.9	1.7	1.6	1.8	2.0	2.0
Inflation (period average)	0.7	1.6	0.2	0.7	1.3	1.8	1.6	1.8	2.0	2.0
Central government finances (percent of GDP) 1/										
Revenue	26.0	26.1	25.6	28.6	25.3	26.0	26.2	26.4	26.8	26.9
Expenditure	30.1	29.8	29.4	36.1	32.2	32.3	32.1	31.3	30.9	30.5
Fiscal balance	-3.5	-3.7	-3.8	-7.6	-6.8	-6.3	-5.9	-4.9	-4.1	-3.6
Public debt	65.1	65.2	65.1	76.4	76.9	77.5	79.2	79.5	79.0	78.3
Money and credit (annual percent change)										
Broad money	5.5	4.1	3.8	8.4	…	…	…	…	…	…
Claims to the economy 2/	3.3	3.4	5.6	4.6	…	…	…	…	…	…
Velocity of broad money	0.8	0.8	0.8	0.7	…	…	…	…	…	…
Balance of payments										
Current account including official transfers (percent of GDP)	-3.4	-5.3	-3.7	-1.5	-3.0	-3.2	-3.1	-3.3	-3.4	-3.4
Exports of goods (in U.S. dollars, annual percent change)	12.7	11.6	1.9	-15.2	22.5	12.7	5.8	5.8	5.9	5.7
Imports of goods (in U.S. dollars, annual percent change)	9.3	12.2	-2.3	-14.8	29.0	10.5	5.0	5.7	6.2	5.8
Merchandise trade balance	-16.5	-17.2	-16.5	-13.5	-15.4	-16.5	-16.5	-16.6	-16.8	-16.9
FDI (percent of GDP)	1.5	2.4	0.7	1.1	1.4	1.5	1.4	1.4	1.4	1.3
Gross reserves (months of imports)	5.7	5.4	6.9	7.1	6.5	6.6	6.6	6.1	5.7	5.4
External Debt (percent of GDP)	34.8	31.8	33.1	43.7	40.5	41.6	41.2	40.7	40.2	39.8
Exchange rate										
REER (annual average, percent change)	-0.4	0.8	0.7	1.1	…	…	…	…	…	…
Memorandum Items:										
Nominal GDP (in billions of U.S. dollars)	109.7	118.1	119.9	114.6	126.1	131.2	138.1	145.4	153.5	153.5
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-5.2	-7.7	-9.4	-9.2	-9.6	-9.8	-9.9
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.5	…	…	…	…	…	…

Sources: Moroccan authorities; and Fund staff estimates.
1/ Include grants.
2/ Includes credit to public enterprises.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

January 11, 2022

KEY ISSUES

Economic context: Thanks to a successful vaccination campaign, COVID19 cases have declined sharply in 2021, and the Moroccan economy is rebounding. Economic activity has recovered most of the ground lost with the severe recession of 2020 and is expected to grow at 6.3 percent in 2021. Among the factors propelling the rebound are the exceptional harvest after two years of drought, continued fiscal and monetary stimulus, and the persistent buoyancy of remittances. Going forward, Morocco's growth is expected to remain at about 3 percent, assuming the acceleration of new cases in early 2022 proves transitory and the effects of the pandemic on activity gradually fade. Recent inflationary pressures remained manageable and are expected to wane in 2022, as cost pressures from global and domestic supply disruptions are reabsorbed. After its sharp contraction in 2020, the current account deficit is projected to widen in 2021 and over the medium term, but Morocco emerges from the pandemic with a much stronger international reserve position.

Main policy challenges: Morocco's main policy challenge is to strike the right balance between sustaining the recovery, financing structural reforms, and lowering public debt. A faster pace of fiscal consolidation than envisaged in the 2022 Budget is warranted, given the earlier-than-expected closure of the output gap, the risk that continued high government financing needs may crowd out private sector investment, and the need to reduce vulnerabilities associated with high public debt. Bank al-Maghrib's (BAM) current accommodative stance is appropriate as long as inflation expectations remain anchored, while the central bank needs to accelerate the transition to an inflation-targeting regime with a more flexible exchange rate and continue to closely monitor the evolution of bank asset quality.

Structural reforms: The new government is determined to implement an ambitious plan of structural reforms in line with the recommendations of the New Model of Development (NMD) royal report. While the effective implementation of these reforms might significantly boost Morocco's potential growth, the size and timing of their economic impact are surrounded by significant uncertainty and the substantial financing needs stemming from reforms are unlikely to be met through faster GDP growth. Thus, structural fiscal measures should be designed to create the fiscal space needed to finance these reforms and safeguard fiscal sustainability. A comprehensive tax reform that extends the tax base, improves progressivity of the system, and explores new taxes such as a carbon tax or new forms of taxation of wealth, as well a government spending review that prioritizes and rationalizes expenditure would be key components of this strategy.

Approved By
Taline Koranchelian and Natalia Tamirisa (SPR)

The discussions took place during November 30–December 10, 2021. The team consisted of Roberto Cardarelli (head), Hippolyte Balima, Olivier Bizimana and Maximilien Queyranne (all MCD), David Bartolini (FAD), Modeste Some (SPR), Daniel Baksa (ICD), and Luisa Malcherek (LEG). Kubi Johnson, Iris Monteiro and Tatiana Pecherkina (all MCD) assisted in the preparation of the report. The mission met with the Head of Government Mr. Akhannouch, the President of the Chamber of Representatives Mr. Talbi Alami, the Minister of Economy and Finance Mrs. Fettah Alaoui, the Governor of the Central Bank Mr. Jouahri, and other senior officials and representatives of civil society. Mr. El Qorchi (OED) participated in most meetings.

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Glossary

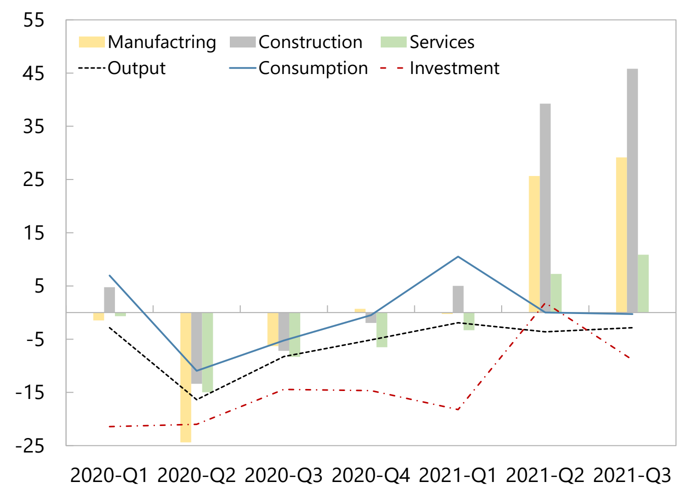
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BAM	Bank al-Maghrib
CA	Current Account
CNSS	Social Security National Fund
ER	Exchange Rate
FATF	Financial Action Task Force on Money Laundering
FDI	Foreign Direct Investment
FX	Foreign Currency
GDP	Gross Domestic Product
IT	Inflation-Targeting
NMD	New Model of Development
NPLs	Nonperforming Loans
PP	Percentage Point
PPP	Public-Private Partnership
Q	Quarter
SOE	State-Owned Enterprise
VAT	Value-Added Tax
USD	United States Dollar
WEO	World Economic Outlook

RECENT DEVELOPMENTS: REBOUNDING FROM THE 2020 RECESSION

1. **The Moroccan economy is rebounding from last year's severe recession** (Figure 1). After falling 6.3 percent in 2020, output has grown at an average of close to 8 percent in the first two quarters of 2021. The better-than-average harvest has boosted agricultural output after two consecutive years of drought. The successful vaccination campaign has helped the country overcome the increase in the number of COVID-19 cases experienced over the summer, although cases have picked up in early 2022 due to the rapid spread of the Omicron variant, and mobility has returned to pre-pandemic levels (Figure 2). This has supported consumption, together with strong remittances and accommodative monetary and fiscal policy stances. Base effects and cost pressures from supply disruptions and higher commodity prices have pushed inflation upwards, but average headline and core inflation remain low (at 1.2 percent and 1.5 percent in November, respectively). Despite having recovered most of the jobs lost in 2020, the unemployment rate was still 11.8 percent in 2021Q3, 1.6 percentage points above pre-pandemic level, driven by a rebound of the participation rate.

Economic Recovery: Output and Components

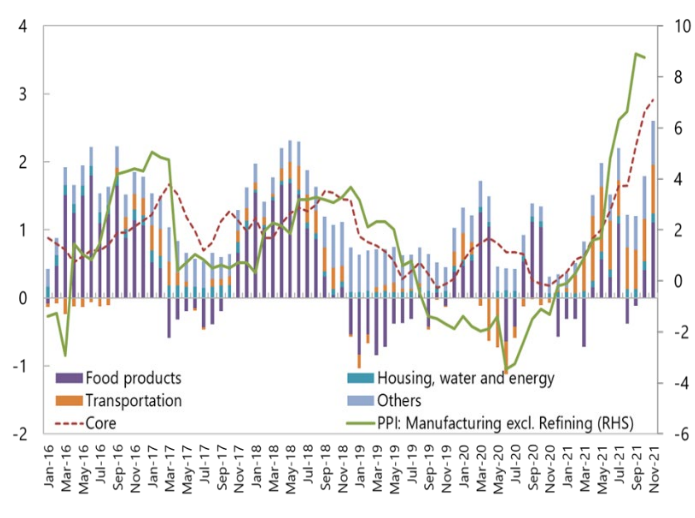
(Percent deviation from 2019-Q4)



Sources: HCP; Haver and IMF staff calculations.

Contributions to Headline Inflation, Core and PPI

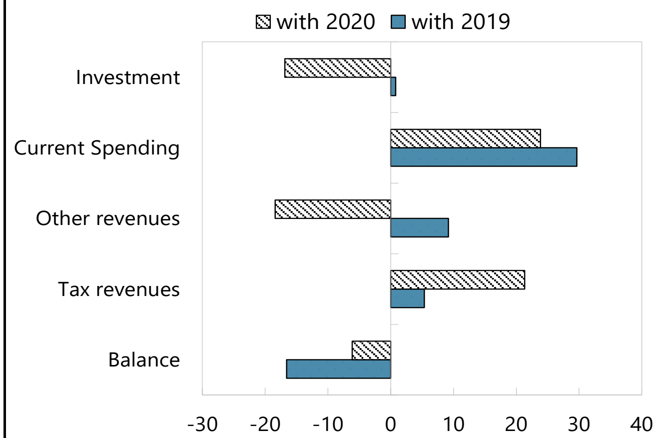
(Percent, y-o-y)



Sources: HCP; Haver and IMF staff calculations.

2. The fiscal deficit has increased in the first ten months of the year. It was estimated at about 4.9 percent of GDP in October compared to 4.6 percent for the first ten months of last year and 3.5 percent in 2019. Tax revenues have rebounded in line with stronger economic activity (particularly personal income taxes and Value Added Tax, while corporate income taxes are affected by last year's recession). This has partly offset the decline in other fiscal revenues that were boosted by voluntary contributions to the COVID-19 fund in 2020. But overall spending has increased relative to last year, as lower capital spending has been offset by the acceleration of current spending on the back of higher public sector wages and energy subsidies, mainly following the increase in wages under the social dialogue agreement of 2019 and higher energy prices, respectively.

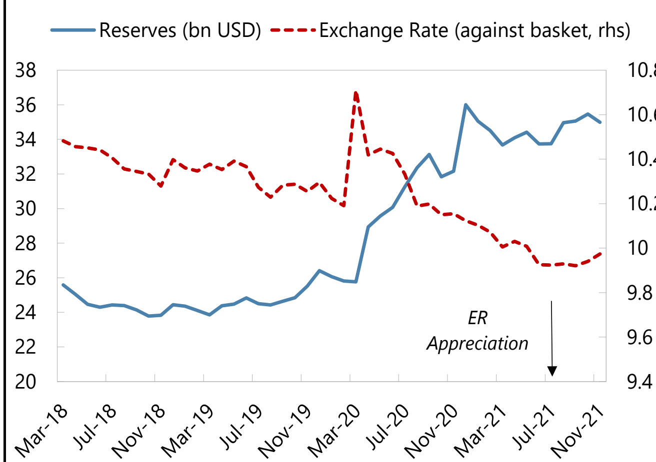
Differences in Fiscal Outcomes
January – October 2021 vs previous years
(in billions MAD)



Source: National Authorities

3. The central bank has maintained its policy rate at 1.5 percent in 2021. The wider refinancing window and zero reserve requirement introduced last year in response to the pandemic were also maintained. An excess supply of foreign currency over the summer (partly reflecting the greater inflows of FX from higher seasonal tourism, but also some carry-over activity induced by the large interest rate differential) caused the dirham to appreciate to the lower edge of the fluctuation band. With the banking sector accumulating large net foreign exchange positions, FX transactions in the interbank market came to a halt. To re-establish normal market conditions, BAM purchased FX for the equivalent of USD 1.6 billion between September and December. These purchases bolstered BAM's official reserves and, as they were not sterilized, helped the dirham depreciate slightly.

FX Reserves and the Exchange Rate



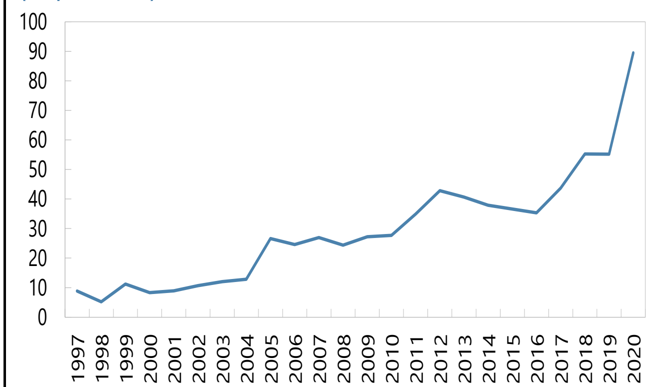
Source: Haver; IMF Staff calculations

4. Morocco's external position deteriorated in 2021 as the economy recovered (Figure 3). Solid expansion in foreign demand, particularly among European trading partners, led to a strong rebound in goods exports (particularly automobile, phosphate, and textile). The increase in imports, however, caused the goods trade balance to worsen relative to last year. While tourism receipts remained weak, remittances continued to grow at a solid pace in 2021. As a result, the current account (CA) deficit has widened to about 2.5 percent of GDP in the

first half of the year compared to 1.5 percent in the same period last year. The higher CA deficit has been partly financed by stronger net FDI inflows (mainly as outward investment remained subdued) and positive net portfolio flows. International reserves have increased by about US$2 billion relative to last year, to around seven months of imports, reflecting both the SDR allocation (US$1.2 billion) and BAM's foreign exchange purchase.

5. **Credit growth remained subdued, with the pandemic leaving a legacy of higher corporate debt and increased banks' provisioning**. Credit to non-financial firms has been mainly to finance working capital (thanks to the publicly guaranteed lending schemes) rather than equipment and machinery (Figure 5). This may reflect demand factors, as Moroccan large non-financial firms have emerged from the pandemic with higher debt, with total corporate debt about 6 percentage points of GDP higher than before the pandemic. The supply of credit may have also suffered from the deterioration of bank asset quality during the pandemic, with nonperforming loans (NPLs) rising to 8.8 percent of total loans in October 2021, from 7.5 percent before the pandemic, as banks recognized problem loans early on. As a result, banks sharply increased provisioning for loan losses. Indicators of banks profitability have deteriorated in 2020, also on account of banks' contributions to the COVID-19 fund. Despite these challenges, banks have maintained regulatory capital ratios well above minimum requirements and improved liquidity ratios, also thanks to BAM support.

Non-Financial Listed Firms, Debt-to-Sales Ratio
(in percent)

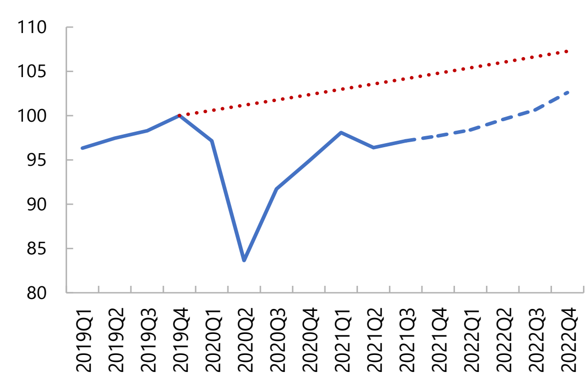


Source: Worldscope

OUTLOOK AND RISKS

6. **The economic recovery is expected to continue next year, causing the CA deficit to widen.** After growing at 6.3 percent this year, real GDP is projected to grow at 3.1 percent in 2022, as the successful vaccination campaign contains the health impact of the Omicron wave, agriculture output returns to average levels, the tourism sector recovers slowly from the health-crisis slump, and fiscal and monetary policy stances remain accommodative. Private consumption will be the main driver of growth, while private

Real GDP
(2019-Q4 = 100)

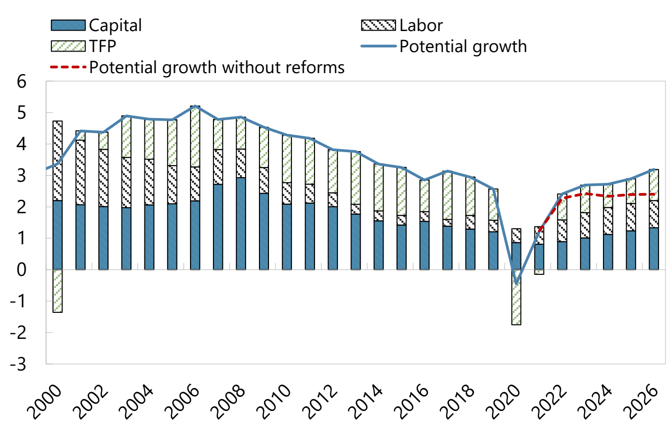


Source: HCP; Haver; IMF Staff calculations

investment is expected to rebound more slowly as firms recover from the pandemic legacy of higher debt and lower retained earnings and banks accelerate provisions to safeguard the quality of their assets and fund larger government financing needs. In real terms, output is projected to return to its pre-pandemic level in the second half of 2022, but to remain below pre-crisis (projected) trends. Staff expects recent inflationary pressures to subside and average headline inflation to remain moderate at 1.3 percent in 2021 and 1.8 percent in 2022. The current account deficit is expected to widen to 3.0 percent of GDP in 2021 and to inch up to around 3.2 percent next year, with the gradual recovery of tourism revenues partly offsetting the rising goods trade deficit (Annex I-External Assessment).

7. **In the medium run, successful implementation of structural reforms would help absorb the long-lasting consequences of the pandemic on Morocco's potential**. Morocco's potential growth was trending lower even before the pandemic. Staff estimates that potential growth dropped from about 5 percent before the great financial crisis to about 2½ percent in 2019. This decline reflects mainly weaker capital accumulation but also lower potential employment, owing to a decline in labor force participation and a slight pick-up in Morocco's structural unemployment rate. Potential output growth is estimated to have fallen to -0.5 percent in 2020, as adjustment costs associated with disruptions to work routines and supply chains, increased skill mismatches in labor markets, and costly reallocation of resources across sectors all reduced total factor productivity, while lower investment slowed capital accumulation. Going forward, staff expects the impact of the pandemic on investment and productivity to fade slowly and, in the absence of structural reforms, potential output growth to return to about 2½ percent by 2026. Staff's baseline assumes that implementing structural reforms (both ongoing and as suggested in the NMD report) will add about ¾ percent to potential output by 2026 and about 2 percent in cumulative terms by 2035, relative to a no reform scenario. These estimates, however, are surrounded by high uncertainty, as they depend on both the speed and effectiveness of the reforms. While the baseline reflects a median successful scenario, a more successful scenario can be constructed where the reforms could add up to 6 percent to potential output by 2035 (Box 2).

Morocco Potential Growth and its Drivers
(Percent)



Source: IMF Staff calculations

8. **This outlook remains subject to significant uncertainty, with broadly balanced risks around the baseline** (Annex II-Risk Assessment Matrix). The main downside risk remains a longer-than-expected duration of the health crisis, as a deeper impact of the Omicron variant and the potential for the emergence of new variants could trigger additional containment efforts (both

domestically and abroad) that weaken demand. Greater than projected inflationary pressures from more persistent supply-demand mismatches and rising commodity prices could force a faster monetary tightening globally, which could also hurt Morocco mainly via the trade channel (as the relatively closed capital account and large domestic saving base may help attenuate the contagion via the financial channel compared to other EMEs). Fiscal slippages and/or the realization of contingent liabilities could raise public sector financing needs, with negative effects on market rates spreads and credit flows. On the upside, a rapid and efficient implementation of the Mohammed VI Investment Fund (that is still to become fully operational) and a faster implementation of the structural reform agenda under the NMD could boost the recovery.

Authorities' Views

9. The authorities broadly agreed with staff's assessment of near-term growth but are more optimistic about medium-term potential growth. They expect growth at 6.4 percent and 3.2 percent in 2021 and 2022, respectively, broadly in line with staff projections. However, the authorities were more confident about private investment's contribution to growth beginning from next year, thanks to the measures taken in the Recovery Plan last year and those included in the 2022 Budget, and stronger growth of bank credit. While being aware of the uncertainty over the time required for structural reforms to produce their expected impact, the authorities were more optimistic about Morocco's potential growth over the medium term, both on account of a faster return to pre-pandemic potential growth and a stronger effect of the structural reforms initiated in the past few years and still ongoing.

POLICY DISCUSSIONS: REBUILDING MARGINS AND MOVING TO A NEW MODEL OF DEVELOPMENT

Given the rebound of economic activity, the pace of fiscal consolidation should be accelerated to bring the debt-to-GDP ratio closer to pre-pandemic levels. Doing so whilst sustaining the budgetary cost of the announced reforms will require tax and spending measures that durably create the fiscal space needed to achieve both objectives. The monetary policy stance has been appropriately accommodative and, especially with a faster fiscal consolidation, could remain so over the near future, unless recent inflationary pressures were to prove stronger and more persistent than expected. Over the long run, moving to a stronger, more inclusive, and sustainable growth path will require a careful sequencing and designing of structural reforms within a coherent and stable macro-economic framework.

A. Fiscal Policy

10. The fiscal deficit is expected to fall slightly in 2022 and decline slowly thereafter. The 2022 Budget projects the overall fiscal deficit to decline from 6.5 percent of GDP in 2021 to 6.3 percent next year. Tax revenues are expected to increase by about ¾ percent of GDP, largely reflecting the lagged effect of the economic recovery but also the impact of recent tax measures, including the change in the corporate income tax system, the renewal of the solidarity contribution to firms and individuals, and the introduction of taxes on energy-intensive

goods.[1] Current expenditure is projected to increase by a similar amount, driven by measures to boost employment (including a program to create 250 thousand temporary jobs of public utility in the next two years, to sustain the recovery of the labor market), transfers to State-Owned Enterprises (SOEs), and more spending on education and health care. The extension of the social protection system will add about 1½ percent of GDP to current spending per year over the next five years, but the impact on the budget would be offset by a reduction of gas subsidies (for about ¾ percent of GDP) and a gradual decline in the wage bill.[2] The overall fiscal deficit is projected to return to pre-crisis levels only towards the end of the forecasting horizon, and the government debt-to-GDP ratio to increase somewhat over the next few years before declining slightly to 78½ percent of GDP by 2026, about 13 percentage points of GDP above pre-crisis levels.

2022 Budget: Change in Fiscal Deficit Relative to 2021

(Percent of GDP)

Source: National Authorities; IMF Staff calculations

11. The earlier-than-expected closure of the output gap warrants a faster pace of fiscal consolidation. The rebound in economic activity suggests there is less need for a fiscal stimulus in 2022. A faster reduction of the fiscal deficit would also allow to free more resources to fund private sector investment, a key component of the structural reform agenda. Finally, while debt remains sustainable (see Annex III-DSA), a central government debt ratio close to 80 percent of GDP makes Morocco more vulnerable to further negative shocks (also considering the contingent liabilities from credit guarantees and unfunded pensions system).[3] Based on these considerations, staff argues in favor of a lower fiscal deficit in 2022, and a faster reduction of the debt-to-GDP ratio over the medium term than projected in the baseline, that brings it closer to pre-crisis levels by 2026 (Box 1).

[1] The change in corporate income taxation consists in moving from a progressive taxation of profits (with greater rates applied as earnings move to an upper bracket) to a proportional system where the whole earnings are taxed at just one of the rates (depending on their level). Although this change is accompanied by a reduction of the top rate for manufacturing companies from 28 to 26 percent and a reduction of the minimum tax for companies, it is expected to increase overall tax revenues by about 1 billion dirhams (0.1 percent of GDP) starting from 2022. Tax revenue projections also include the reimbursement of VAT credits to the private sector for about 1 percent of GDP.

[2] This mainly reflects a slower increase in public wages after the fast increase in the last three years on the back of the social dialogue agreement signed in 2019.

[3] Public sector guaranteed debt of SOEs is estimated at about 15 percent of GDP. The credit guaranteed schemes launched by the government in response to the pandemic have added another 5 percent of GDP. Contingent liabilities from underfunded pension schemes have been reduced by a series of parametric reforms, including most recently the change in annual pension indexation for retired workers of SOEs (from 100 percent to 75 percent of the wage increase, in line with other pension schemes).

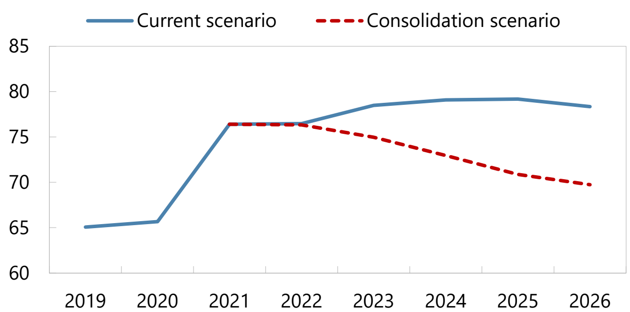
Box 1. An Illustrative Faster Fiscal Consolidation Path

This illustrative scenario is based on a package of tax and spending measures that would reduce the overall fiscal deficit by an average of about 1.5 percentage points of GDP over the next five years and bring debt to about 70 percent of GDP by 2026. These measures are in line with the objectives of the Framework Law on the Tax Reform and the NMD report of simplifying the tax system and improving its efficiency and equity. They include the simplification of the VAT system, from the current four VAT rates (7, 10, 14, 20) to only two rates (a reduced 10 percent rate and the standard 20 percent rate); the reduction of tax expenditure, focusing on VAT exemptions (that account for about half of the total) but also those benefiting the real estate sector; the introduction of a carbon tax; the reduction of spending on goods and services, also thanks to recent reforms of the public administration (including digitalization); lower growth in the wage bill, reflecting the implementation of a civil service reform; and the reduction of capital transfers to SOEs.

To assess the impact of the package on aggregate demand, staff used a small macroeconomic model for Morocco 1/, with an aggregate fiscal multiplier based on standard estimates of tax multipliers (0.2 for the VAT reform, 0.4 for the reduction of tax expenditure, and 0.5 for the introduction of a carbon tax) and spending multipliers (0.3 for public consumption of good and services, 0.7 for capital transfers to SOEs, and 0.5 for the changes in the wage bill). 2/ The aggregate fiscal multiplier resulting from these specific multipliers is about 0.5.

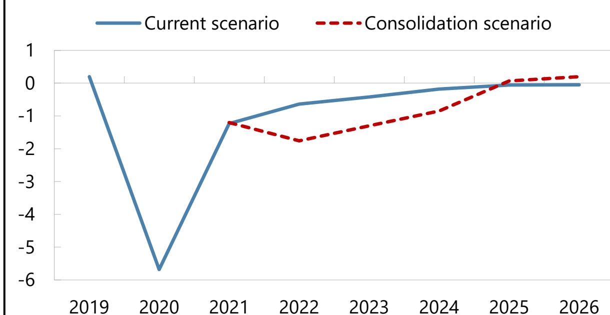
Faster fiscal consolidation is expected to have a negative impact on growth in the short run, with the non-agricultural (negative) output gap about ¾ percent of GDP higher in 2022 than in the baseline. However, the output gap returns to baseline in the medium term. This is because, in the model, the faster decline of the fiscal deficit and public debt ratio leads to easier monetary policy conditions and a compression of risk spreads, which, in turn, lead to a faster growth of private sector credit and investment.

Total Government Debt
(Percent of GDP)



Source: Staff calculations

Output gap
(Percent of Non-agricultural GDP)



Source: Staff calculations

1/ Baksa D. et al, 2021, *A Simple Macrofiscal Model for Policy Analysis: An Application to Morocco*, IMF WP N.190.

2/ These multipliers are in line with the ones used by IMF (see Forni et al, 2014, *Fiscal Multipliers: Size, Determinants, and Use in Macroeconomic Projections,* IMF Technical Notes and Manuals No. 2014/04) and those estimated for Morocco as in Ndela Ntsama, 2016, *Fiscal Multipliers in Morocco*, Selected Issue Papers, IMF Country Report No. 16/36.

12. **Structural reforms will require additional funding through new measures that extend the tax base and rationalize spending**. While not in government current policies and staff baseline, the NMD report estimates the cost of reforms to be about 4 percent of GDP annually over the next five years, rising to 10 percent of GDP per year by 2030. These large financing needs are expected to be met through higher economic growth and a combination of borrowing and fiscal measures.

However, the uncertainty over the size and timing of the impact of structural reforms on output suggests caution in considering that the reforms will pay for themselves (Box 2).[4] Given the already high level of debt, the authorities should introduce fiscal measures that create enough fiscal space to finance the structural reforms while ensuring that the government debt ratio is placed on a steady downward path. A comprehensive reform of the tax system along the lines suggested by the framework law approved in July 2021 could help extend the tax base and durably increase revenues by up to 2 percent of GDP in the medium term.[5] New forms of taxation of wealth (for example, by taxing inheritances above a certain threshold) and a carbon tax would not only raise revenues but also improve tax progressivity and contribute to Morocco's green transition, respectively. A systematic review of government spending, with clear medium-term objectives and integrated into the annual budget process, would re-prioritize outlays, increase efficiency and targeting, and free additional resources to fund the reforms. The high level of the wage bill and the risks around its projected decline over the medium-term call for the implementation of a reform of the civil service that would change the national statute of 1958 and include, among other things, simpler and more flexible regulation and salary structures, greater mobility, and reliance on merit-based career progression.

13. A medium-term macro-fiscal framework and greater fiscal transparency would enhance credibility and increase the fiscal space. A medium-term fiscal framework, with clear and realistic paths for revenues, expenditure, and financing that are consistent with a reduction of the government debt-to-GDP ratio, could reassure lenders and facilitate the mobilization of financial support, both external and domestic. Consideration could be given to a fiscal rule, consisting of a well-calibrated medium-term debt anchor with operational limits (on budget balance or government expenditure) and pre-determined escape clauses, as this could better anchor expectations around fiscal policy. A better monitoring and reporting of fiscal risks (including from sovereign credit guarantees and Public-Private Partnerships -PPPs) and more transparent fiscal accounting (including a more limited use of Special Treasury Accounts as vehicles for spending and their integration within a unified and comprehensive pluriannual budget process), would improve accountability, facilitate the understanding of fiscal operations, and ensure their consistency with the government's broader macroeconomic and social objectives.[6]

[4] Assuming the reforms will be financed through borrowing and that GDP growth is as in staff baseline (based on the medium success reform scenario) would bring the debt-to-GDP ratio to about 95 percent of GDP in the medium run (Annex III-DSA).

[5] Key aspects of the tax reform are: improving VAT neutrality, by reducing exemptions and imbalances due to different treatment of imported and domestic products, as well as reducing the number of tax rates; reducing tax exemptions, including by harmonizing different preferential tax regimes; improving personal income tax progressivity while extending the tax base, including enhancing the implementation of the Single Professional Tax to increase formalization of self-employed and liberal professions.

[6] A better assessment of fiscal risks related to SOEs would require continuing to develop the capacity for assessing budgetary costs and risks stemming from the state support to SOEs and including these costs in the budget process (also leveraging on new IMF SOEs health check and stress-test tools).

Box 2. Assessing the Impact of Reforms on Morocco's Potential Output

We estimate the impact of reforms on medium-term potential output in three steps. First, we identify a few structural indicators in areas where Morocco has launched structural reforms and assess Morocco's gaps with the OECD average for each of them. Second, we use results from Chapter 3 of the 2019 IMF *World Economic Outlook*, which estimate the relationship between structural indicators and potential output. And finally, we simulate scenarios in which structural reforms have a different degree of "success" in closing Morocco's gap with the OECD average.

We assess the impact of reforms on the following structural indicators:

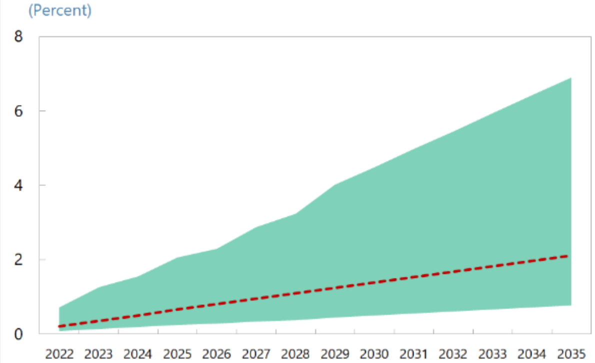
- For the quality of human capital, we use the average years of education where Morocco fares worse than most OECD countries (about 76 percent lower than the OECD average); and the World Bank's Human Capital index, which measures the contributions of health and education to worker productivity (about 50 percent lower than OECD average).
- For product market reforms, we use the World Economic Forum's indicator of the degree of competition in product markets (Morocco's score is about 20 percent below the OECD average).
- For governance reforms, we use a composite indicator of the quality of governance, from the World Bank's Worldwide Governance Indicators, capturing the quality of regulatory framework and the rule of law, degree of corruption, voice and accountability, political stability, and government effectiveness (Morocco's scores is 62 percent below OECD average).
- Female labor force participation (FLFP) rate, which at close to 20 percent in Morocco in 2021: Q3 is about 40 percent below the average for OECD economies (of 55 percent).

The impact on Morocco's potential output from structural reforms that reduce these gaps is estimated using a production function approach: $Y_t = A_t K_t^{1-\beta} (H_t L_t)^{\beta}$, where Y_t is GDP, A_t is total factor productivity (TFP), K_t is the capital stock, and $H_t L_t$ is the effective labor input (L_t is the number of workers and H_t an indicator of the quality of human capital). An increase in FLFP would improve L_t while the impact on output from an improvement in the quality of human capital is captured through the increase in H_t. For the impact of product market and governance reforms, we use the estimated effects of these indicators on TFP from IMF (2019).

Our analysis finds that boosting growth at rates close to what is envisaged in the NMD report is possible only if the reforms managed to close a significant portion of Morocco's structural gaps relative to OECD averages. To illustrate the large uncertainty around our estimates, we look at three different scenarios:

- A *median success reform*, where we assume that structural reforms would close half of the distance with the OECD average over fifteen years, while the FLFP rate would increase by 0.05 percentage point per year (reaching 21¼ percent in 2035). In this scenario, potential output would increase by 0.8 percent by 2026, and (on a cumulative basis) by 2.1 percent by 2035, lifting GDP per capita by almost 50 percent.
- A *low success reform* scenario, in which Morocco would close only 20 percent of this gap over thirty years while FLFP would remain constant. Potential output would increase by 0.3 percent by 2026 and up to 0.8 percent by 2035. This would lift the 2019 real GDP per capita by roughly 30 percent by 2035.
- A *high success reform* scenario, in which structural reforms would close 80 percent of Morocco's gaps over ten years, while FLFP would increase to close 20 percent of the gap with the average OECD in thirty years (equivalent to the FLFP rate reaching 25 percent by 2035). In this case, potential output could increase by 2 percent by 2026 and up to 6.1 percent (on a cumulative basis) by 2035—almost doubling 2019's real GDP per capita.

Impact of Reforms on Potential Output
(Percent)



Source: IMF staff estimates. The dash line represents the median success reform scenario. The upper and lower shaded areas denote the high and low success reform scenarios, respectively.

Authorities' Views

14. While agreeing on the need to reduce debt in the medium term, the authorities stressed that a gradual deficit reduction is justified in light of residual uncertainty and the need to finance ongoing reforms. In light of looming threats from the pandemic, they believe that a faster fiscal consolidation could harm the recovery and undermine the implementation of the much-needed reforms. In implementing the structural reform agenda, the authorities stressed that they are well aware of the need to find the appropriate fiscal space to fund the reforms while safeguarding fiscal stability. This may require a careful sequencing of the reforms, as further efforts are deployed to implement the planned overhaul of the fiscal system, further rationalize government spending, and strengthen the role of the private sector by using leveraged financings and PPPs.

B. Monetary Policy

15. The monetary policy stance has been appropriately accommodative, but BAM should stand ready to tighten its stance if inflationary pressures further accelerate. While the real interest rate is only slightly above staff estimates of the real neutral interest rate,[7] the appreciation of the dirham towards the lower edge of the band has tightened somewhat monetary conditions. While the baseline reflects a gradual increase in interest rates, a faster process of fiscal consolidation will allow maintaining an accommodative monetary stance for longer, with low interest rates and continued support to liquidity helping the private sector reabsorb the higher debt service burden and cash-flows difficulties, thus sustaining aggregate demand. That said, BAM should remain vigilant against upside inflation risks stemming in particular from longer-than-expected supply disruptions, commodity price increases, and surging inflation in major trading partners, especially if there were signals that the output gap is closing faster than expected and inflation expectations are rising (Box 3).

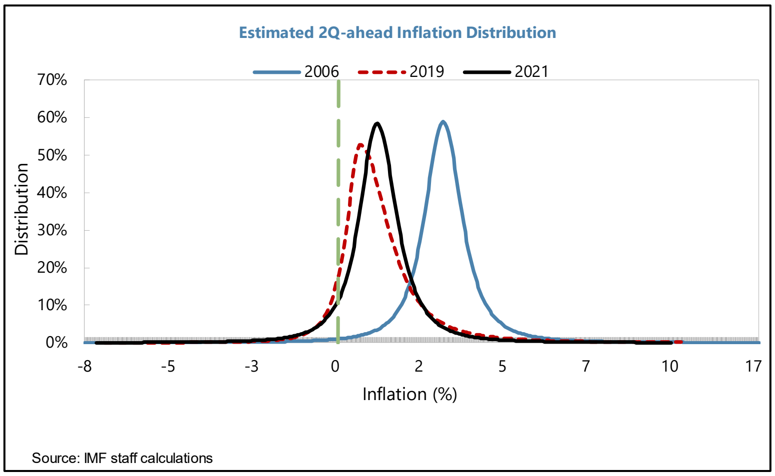
16. The appreciation of the dirham to the lower edge of the band provides a good opportunity for accelerating the transition to an inflation-targeting framework (IT). BAM's decision to purchase FX is justified by the likely transitory nature of the appreciation pressures (the excess supply of FX should fade as the trade balance worsens). However, sustained appreciation pressures would point to the need to reconsider whether the current ER band is well aligned with the monetary policy stance, or with other economic fundamentals. Conducting monetary policy in an IT regime would let the dirham fluctuate more freely and find its own footing, with BAM focusing (and communicating) only on its policy rate decision and inflation forecasts. As the uncertainty over the economic effect of the pandemic wanes, BAM should accelerate the transition to an IT regime.

[7] Queyranne, Maximilien, Vassili Bazinas, Daniel Baksa, and Azhin Abdulkarim, 2021, *Morocco's Monetary Policy Transmission in the Wake of the COVID-19 Pandemic*, IMF Working Paper 21/249.

Box 3. Inflation Risks in Morocco

In order to analyze inflation risks, staff estimated an Inflation-at-Risk model for Morocco. Similar to the Growth at Risk framework, this model allows to assess the entire distribution of future possible inflation outcomes rather than just the point (baseline) forecast.1/ The probability distribution of future inflation outcomes is obtained in two steps. First, we run quantile regressions to estimate the relationship between future (two-quarters ahead) inflation in Morocco and a series of domestic and external macroeconomic and financial variables that can affect inflation (like agricultural and non-agricultural output, current inflation, commodity prices, Euro-area inflation, financial volatility as measured by the VIX, and the exchange rate). Second, we obtain the inflation distribution by fitting a parametric distribution to the estimated inflation quantiles. The advantage of this approach is that it allows to estimate the relative importance of key drivers of future inflation across different inflation quantiles and forecasting horizons, and to assess both upside and downside risk to inflation forecasts.

The results suggest that while inflation risks increased in 2021, the distribution of inflation outcomes remains centered around low levels of inflation. Estimates of the distribution of inflation outcomes in 2006 and 2019 reveal the progress made by BAM in reducing inflation and anchoring inflation expectations over the last two decades. The distribution of inflation outcomes (conditional to the macroeconomic and financial conditions at those point in time) moved to the left and into negative territory in 2019, pointing to the existence of deflationary (tail) risks before the pandemic. After the pandemic, however, the distribution of future inflation outcomes has moved to the right pointing to a somewhat greater balance between downside and upside risks. Still, the distribution remains well centered around relatively low values of inflation rates, pointing to relatively small risks that inflation will accelerate above 2 percent over the next two quarters. That said, as these results are based on regression analysis, they may underplay the role of possible recent structural changes in the drivers of global inflation. Given that current inflation is an important determinant of future inflation in staff model, showing significant inertia, keeping inflation low and stable is critical to avoid self-reinforcing inflation dynamics. This will require following closely the evolution of wages and inflation expectations indicators.



1/ Prasad A. et al., 2019, *Growth at Risk: Concept and Application in IMF Country Surveillance*, IMF WP N.19/36.

17. In the pursuit of monetary policy, BAM's mandate should remain primarily focused on price stability. The NMD report proposes changing BAM's mandate, from the current focus on price stability to one that includes stimulating economic activity and improving access to credit. Staff believes that the best contribution that BAM could give to unlocking Morocco's growth potential is by maintaining inflation low and stable, especially in the transition to an inflation-targeting regime. Running monetary policy under an IT regime with price stability as the primary objective and a more flexible ER (that acts as shock absorber) would not prevent monetary policy from supporting economic activity in the face of negative shocks.

Authorities' Views

18. The authorities noted that the current monetary policy stance provides adequate support to the economy and that inflation pressures remain under control. They view the accommodative stance as instrumental to support credit to the economy and stressed that BAM's independence is critical to maintain macroeconomic stability, which was further strengthened with the large increase in official reserves in 2021. They consider price pressures as mostly imported and inflation expectations well anchored. BAM appreciated the technical assistance of the Fund in the preparatory work for the transition to inflation-targeting.

C. Financial Stability

19. The supervisor should continue to closely monitor that banks provision against impaired loans and have effective strategies to deal with increases in NPLs. BAM has lifted most of the prudential measures introduced to support the banking sector during the pandemic, except for the 50-basis-points reduction in the capital conservation buffer, which has been extended until June 2022. The central bank also made progress in adopting the Basel III standards by introducing the leverage ratio for the banking sector and implementing the Interest Rate Risk in the Banking Book (IRRRBD) framework. While Moroccan banks appear to have weathered the crisis well, asset quality is expected to deteriorate further, particularly in the hard-hit hospitality and tourism transport sectors, as some loans that benefited from forbearance measures which were lifted in 2020 are reclassified, potentially adding up to 1.3 percentage point to the NPLs ratio. Further extending forbearance could mask the full extent of credit quality deterioration. Instead, supervisors should ensure that banks' provisions cover expected losses and that banks take prompt recovery action on unviable debtors. Active NPL management is also needed to reduce NPL levels and strengthen credit provision, by writing-off problem loans and putting in place a framework for managing distressed assets to allow banks to offload the risk to third parties.

20. Revising the banking law would strengthen the resolution framework and contribute to ensuring financial stability. The 2019 BAM statute recognizes its role in ensuring financial stability. The authorities are working on a reform to entrust BAM with the responsibility of acting as the bank resolution authority that should define criteria for triggering the entry of a failing bank into resolution, establish governance arrangements to ensure BAM's independence, and include bail-in as a resolution tool to minimize the cost borne by taxpayers. In addition, BAM should continue to

update its macro stress test exercises and its contingency plans. After amending the AML/CFT Law in June 2021, the authorities should continue and deepen efforts to address identified weaknesses of the AML/CFT framework to exit the FATF grey list and support the fight against corruption. Key priorities of their current action plan include strengthening AML/CFT risk-based supervision of designated non-financial businesses and professions (DNFBPs) and completing reforms of the framework for targeted financial sanctions and its implementation by financial institutions and DNFBPs.

Authorities' Views

21. **The authorities were confident that the pandemic crisis would not leave significant effects on the Moroccan financial system**. They viewed domestic risks to the banking sector as more contained in 2021, with subsidiaries in Sub-Saharan Africa contributing positively to bank profits and benefiting from strong provisioning. They consider the risks from potentially tighter external financial conditions as very limited, as Moroccan banks mostly refinance themselves domestically.

D. Moving Towards a New Model of Development

22. **Implementing the structural reforms proposed in the NMD report has the potential to yield a more developed and inclusive economic model**. The report, commissioned by King Mohammed VI, provides a comprehensive blueprint for reforms that aims at doubling Morocco's GDP per capita by 2035, reducing the share of informal jobs from current 70 to 20 percent, doubling women's labor participation rate to 45 percent, and increasing renewable energy from less than 10 percent to 40 percent of energy consumption. The report fully endorses the ongoing reforms of the social protection system, SOEs, and education system. It also emphasizes the need for deep reforms of the governance and regulatory frameworks that remove bottlenecks and distortions limiting competition in product markets, hinder Morocco international competitiveness, encourage informal activity, and reduce the trust in the public sector and judicial system.

23. **While the report sets very ambitious goals, it is important to be realistic on the size and timing of the impact of the reforms**. Doubling Morocco's GDP per capita by 2035 would require an annual GDP growth of about 7 percent over the next 13 years. Staff estimates suggest that achieving this objective will require implementing a series of structural reforms that manage to close a sizeable portion of key Morocco's structural gaps relative to advanced economies, in a relatively short period of time (Box 2). Given the uncertainty over the impact of the reforms on growth, the existence of complementarities across them,[8] and their expected high cost, the authorities may need to carefully prioritize and sequence the reforms on the basis of an adequate financing plan and a coherent and stable macroeconomic framework.

[8] Word Economic Outlook, 2019, "*Reigniting Growth in Emerging Market and Low-Income Economies: What Role for Structural Reforms?*", Chapter 3, October.

24. Extending social protection to all Moroccans remains an urgent priority. The authorities have continued to work to extend health care insurance to about 22 million Moroccans. A series of decrees have been approved in 2021, or are expected to be approved shortly, to clear the way to the inclusion of about 3.5 million new contributors (self-employed) to the healthcare insurance scheme. While the reform will improve equity, more changes are needed to improve the quality of care and ensure that the overall cost of the new system remains manageable. This would include a clear separation of the financing (that should be managed by the Social Security National Fund or CNSS) from the provision of health care (from regional health authorities, hospitals, and doctors). This would allow the CNSS to implement a strong strategic purchasing system, by aligning incentives across the health care system and paying providers depending on their ability to deliver cost effective and high-quality care. Harmonizing all current social assistance programs into an extended family allowance scheme (from 2023) will improve the efficiency of Morocco's social safety net. Ultimately, the equity, efficiency, and sustainability of Morocco's new social protection system will depend on the full implementation of the Unified Social Registry, which is expected to be introduced as a pilot project in early 2022.

25. An essential component of the structural reform agenda is the development of Moroccan private sector. This will require reducing red tape and regulatory burden, strengthening independent regulators, lowering business cost (e.g., from logistic and energy), improving the quality of both human and physical capital (including increasing broadband access across Morocco), and creating a system of incentives for allocating resources to sectors with high value-added and job multipliers (mainly through tax incentives). In developing the private sector, the authorities would need to address the most evident cases of policy and market failures, conditioning their intervention to a cost-and-benefit analysis which considers both the socioeconomic returns and budgetary impact of their policies. This holds especially for the proposal to creating new special economic zones to attract international investors and for the activity of the Mohammed VI Investment Fund, which should start catalyzing private investment towards key sectors of the Moroccan economy by providing equity or quasi-equity to local firms in those sectors. It is also important to limit measures that could unnecessarily inhibit imports and import-substitution strategies, which may provide only short-term relief to national production while imposing long-run welfare costs.[9] Developing the private sector and strengthening human capital would allow Morocco to take greater advantage of its successful integration into global value chains, by moving towards higher value-added stages of the production process and further integrating local firms and suppliers.

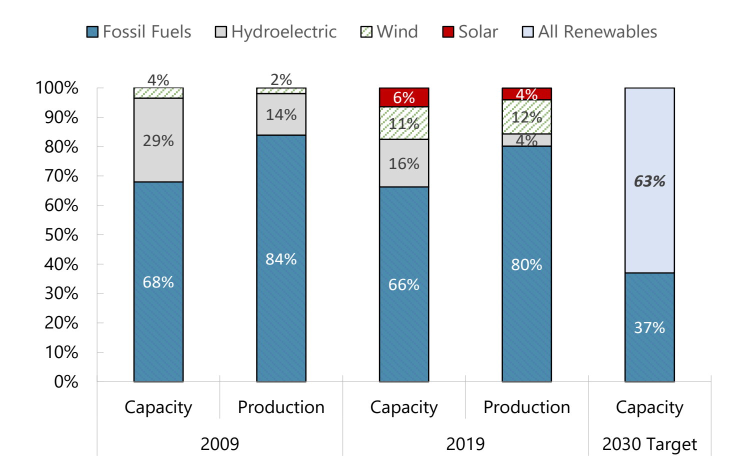
26. An overhaul of the SOE sector is a pre-condition for leveling the playing field for private and public firms. The approval in July of the framework laws that set the objectives of the reform and establish the National Agency responsible for consolidating and optimizing Morocco's SOEs portfolio is an important step. Still, significant implementation challenges lie ahead, beginning

[9] MFN tariffs were increased to 30 percent in January 2020 and to 40 percent in July (in compliance with WTO and PTA commitments) affecting about 10 percent of overall imports outside trade agreements, mainly from Asia. The 2021 Budget included the objective to substitute imports worth of DH 34 billion (about US$ 3.7 billion) with locally produced goods in a number of targeted sectors (textile, transport, metal, plastic, electrical). New regulation has been issued to operationalize a series of measures from previous legislation, including that offers of foreign companies seeking to secure public procurement contracts would be increased by 15 percent compared to offers from domestic producers.

with making the Agency fully operational and ensuring that it effectively pursues market neutrality between public and private sector firms, including by breaking SOEs monopolistic position in key sectors of Morocco economy (like electricity and communication), eliminating special tax and regulatory regimes, and setting clear targets and objectives to safeguard against distorting cross-subsidization practices. The corporatization of activities of a commercial nature, clear separation of SOE ownership, policy, and management functions, and greater financial transparency of commercial SOEs would all improve their governance. The authorities should also continue to work on their anti-corruption efforts as a policy priority. The implementation of the national anti-corruption strategy should continue (including the government's identified priority actions for 2020), with a stronger focus on the effectiveness of existing anti-corruption measures. National coordination on anti-corruption efforts should be improved across agencies, including through more effective prosecution and convictions for corruption-related offences. Beneficial ownership information of legal entities that are awarded public procurement contracts should be published on a government website. The authorities should also urgently resubmit a bill on illicit enrichment aligned with international standards and conventions and prioritize its implementation. Finally, as stated in the NMD report, further efforts are needed to improve the efficiency and transparency of Morocco's judicial system, including by accelerating the digitization of internal procedures, the publication of court decisions, and the creation of an e-justice platform.

27. **Finally, Morocco has a unique opportunity to make green investment a key driver of growth and jobs.** Most of the energy is produced from fossil fuels, with coal representing almost a third of the total. While Morocco has increased the share of renewables to 33 percent of installed capacity in 2019, renewable energy represents only 20 percent of production and 7 percent of energy consumption, reflecting the still relatively higher cost of this type of energy. Increasing competition in the electricity sector may contribute to reducing costs and boosting both production and consumption of renewable energy (Box 4). Morocco's resilience to climate change will also depend on greater investment in adaptation infrastructure, given the more frequent occurrence of droughts in the recent past is likely to have contributed to lower potential growth in Morocco.

Distribution of Energy Production and Installed Capacity



Source: ONEE: MASEN

Authorities' Views

28. **The authorities concurred with staff on the crucial importance of structural reforms and the need of a pragmatic approach in their design and implementation.** They stressed the strong political will to push reforms forward. They agreed that it is important to be prudent in

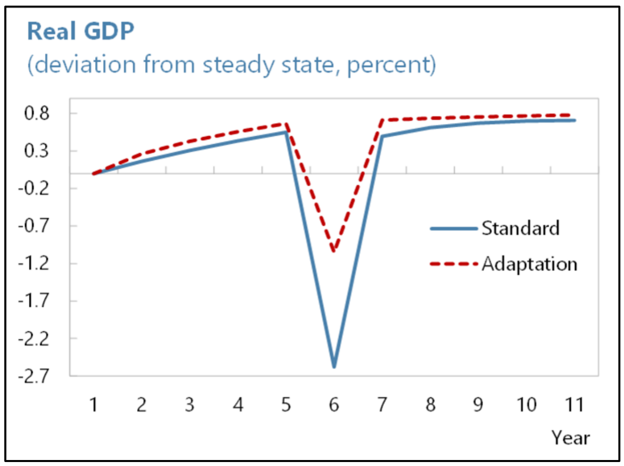
factoring the impact of reforms on growth when it comes to planning for their financing. They acknowledged the need to prioritize the reforms, carefully design their sequencing within a more general macro-fiscal framework and measure their ex-post impact. As for the energy sector, in addition to efforts to increase production and consumption of renewable energy, they emphasized the need to reinforce Morocco's access to international supply of natural gas and the importance of increasing competition in both renewable resource and natural gas markets. Finally, the authorities restated Morocco's longstanding commitment to opened trade and investment, in full compliance with bilateral and multilateral commitments and that the plan to promote domestic production is not based on protectionist measures or obstacles to foreign trade, but rather on strengthening the national manufacturing industry and its integration into global value chains.

Box 4. Climate Mitigation and Adaption in Morocco

Ambitious plans for renewable energy development will support climate mitigation goals and could lift Morocco's economy. Morocco's government wishes to bring renewable energy—wind, solar, and hydroelectric— up to 63 percent of installed capacity by 2030. The World Bank's Clean Energy Employment assessment tool estimates investments in solar and wind technologies could generate 25,000 net jobs each year and enhance interconnectedness. Drawing on its favorable climate for wind and solar power, Morocco could become a renewable energy exporter in response to Europe's growing demand. An early example of this potential is the project proposal for a 3,800 km undersea cable linking Moroccan solar and wind producers with 7 million British homes.

However, heavy reliance on coal and natural gas generation risks undercutting Morocco's energy mix and emissions targets. Morocco's Nationally Determined Contribution (NDC) as part of its international climate agreements is to reduce emissions by 45 percent in 2030. A potential challenge to this goal is the lack of effective competition in the generation segment.1/ This in turn depends on the fact that many private players are locked in inflexible, long-term power purchase agreements (PPA) for thermal energy generation. And also, on the lack of a wholesale electricity market, as electricity distribution companies need to purchase electricity from the public company that acts as a single buyer, ONEE (National Office for Electricity and Potable Water). Splitting the national utility's transmission from generation and distribution segments would provide easier access to the Moroccan energy grid for renewable energy providers. Additionally, unbundling the utility would help increase tariff transparency and hopefully boost competition among both fossil fuel and renewable energy producers.

Drought-resistant infrastructure would help shield Morocco from more frequent and intense events generated by climate change. Morocco's National Water Plan (PNE) aims to invest 33 percent of its 2021 GDP over the next 30 years to improve the country's ability to meet future water demand (new dams, irrigation systems, desalination plants). This type of investment is likely to have a higher economic return compared to other infrastructure investments. A forthcoming IMF paper (IMF 2022) shows that compared to standard investment of the same size (starting in year 1 for 1 percent of GDP every year), investment in water and irrigation capacity can reduce GDP losses by nearly 60 percent when a severe drought occurs in year five of the scenario (chart).



1/Some progress has been made in this area over the past few years, including through legislation that allowed independent producers to join the transmission network and sell their surplus of renewable energy to the ONEE, removed zoning requirements for solar energy projects, and introduced the national grid carrying capacity, a new regime allowing distribution network operators to acquire up to 40 percent of the total energy supplied from renewable energy sources. However, only a few private players have been able to take advantage of these changes and most of the renewable energy is produced by the national agency MASEN (Moroccan Agency for Sustainable Energy).

STAFF APPRAISAL

29. Morocco's economy is rebounding from the 2020 recession. Most of the ground lost in 2020 has been recovered, thanks to the exceptional harvest, the rebound of exports, accommodative monetary and fiscal policy stances, and the continued strength in remittances. After a strong compression in 2020, the current account deficit is returning to levels closer to pre-pandemic, but Morocco has emerged from the crisis with a much stronger international reserve position. Staff expects GDP to grow at around 3 percent over the next few years, as the effects from the pandemic on potential activity are gradually reabsorbed and to accelerate gradually thereafter under the positive impact of structural reforms. These projections remain subject to a high level of uncertainty, related both to the evolution of the pandemic and the pace of implementation and effectiveness of the reforms.

30. The faster than expected closure of the output gap and higher government debt ratio would require a tighter fiscal policy stance than currently envisaged. Staff expects the fiscal deficit to fall very slowly over the medium term and the central government debt-to-GDP ratio to stabilize at close to 80 percent. While public debt remains sustainable, a faster fiscal consolidation process that brings the debt-to-GDP ratio closer to pre-pandemic levels over the medium term would make Morocco less vulnerable to further negative shocks and free more resources for private sector investment. The fiscal policy should be anchored by a credible medium-term macro-fiscal framework and underpinned by a comprehensive reform of the tax system and systematic review of government spending, supplemented by a civil service reform to contain wage bill increase.

31. Lower fiscal deficits would allow monetary policy to remain accommodative for longer, assuming inflationary pressures will remain manageable. The recent rise in inflation is limited and expected to subside as the imported cost pressures from supply-side bottlenecks and higher commodity prices become less relevant over time. As long as these pressures do not contaminate domestic inflation expectations, BAM has the space for a gradual normalization of monetary policy conditions but should stand ready to tighten its stance if inflationary pressures further accelerate. The recent appreciation of the dirham to the lower end of the exchange rate band offers an opportunity to accelerate the planned transition to an inflation-targeting framework.

32. Staff welcomes the authorities' commitment to a new wave of structural reforms. The generalization of the social protection system should remove existing gaps in coverage and quality of health care services and strengthen Morocco's social safety net. Together with the full implementation of the Unified Social Registry, these reforms should improve inclusiveness and efficiency. Reforming SOEs should reduce their financial burden on the budget and remove distortions that prevent market neutrality and hinder private sector development. Finally, the NMD contains several useful recommendations for strengthening the competitiveness of Moroccan firms, improving governance, boosting human capital, and building a more inclusive society.

33. Careful implementation of the reforms will be critical for their success. The reforms already ongoing and those suggested in the NMD report have the potential to yield a stronger,

more inclusive, and sustainable growth path for Morocco. Still, given the potentially large financing needs associated with these reforms, the uncertain impact on potential output, and the narrow fiscal space, carefully designing and sequencing are needed, on the basis of an adequate financing plan and within a coherent and stable macroeconomic framework.

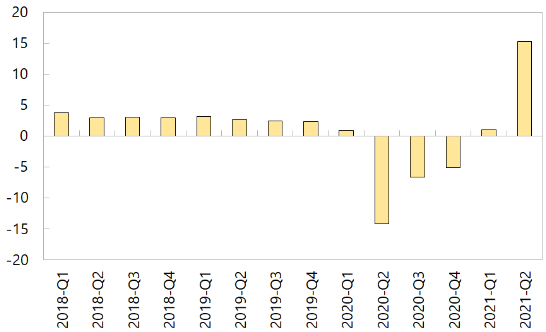
34. The next Article IV consultation with Morocco is expected to be conducted on the standard 12-month cycle.

Figure 1. Morocco: Real Sector Developments

Real GDP growth has rebounded in 2021:H1…

Real GDP Growth

(Percentage change, y-o-y, seasonally adjusted)

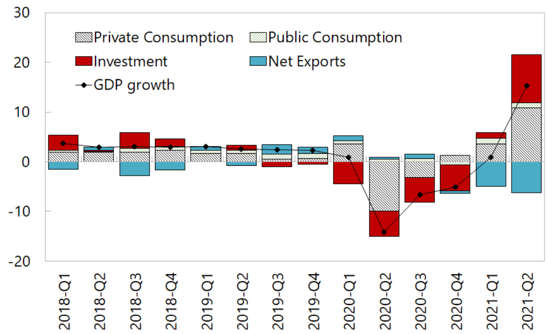


Source: Haver.

… mainly driven by private consumption.

Demand Contribution to Real GDP growth

(Percentage change, y-o-y, seasonally adjusted)

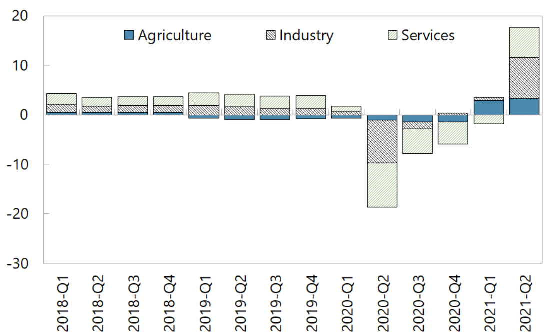


Sources: Haver and Fund Staff Calculations.

The service sector was the most affected by the pandemic and is still lagging behind.

Supply Contribution to Real GDP Growth

(Percentage change, y-o-y, saisonally adjusted)

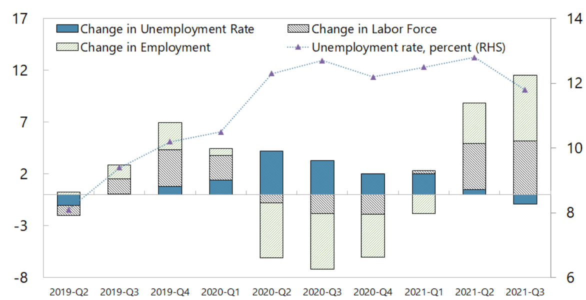


Sources: HCP and Haver and Fund Staff Calculations.

Unemployment rate remains well above pre-pandemic level, driven by higher participation in the labor force.

Contributions to Employment

(Percentage Points, y-o-y)

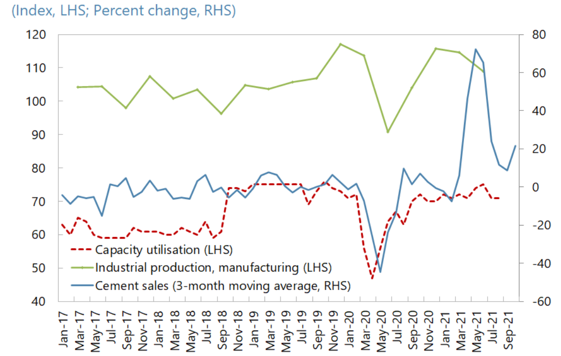


Sources: Haver and Fund Staff Calculations.

Manufacturing, capacity utilization and cement sales are returning to historical averages, …

Industrial Production, Capacity Utilization and Cement Sales

(Index, LHS; Percent change, RHS)

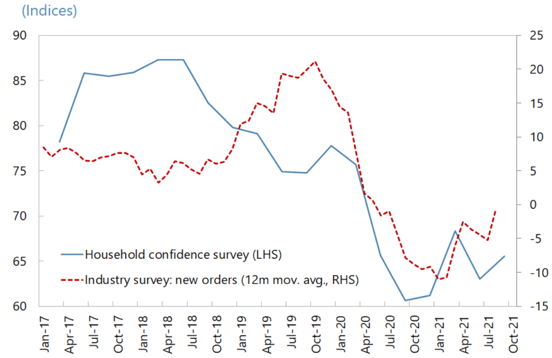


Sources: HCP, Bank Al-Maghrib, and Ministry of Regional Development.

… while confidence is recovering gradually.

Household and Industry Confidence Surveys

(Indices)

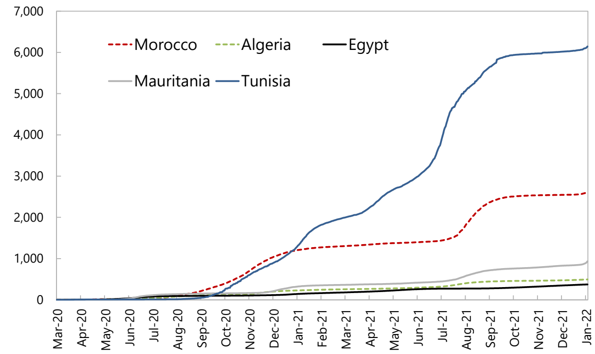


Source: HCP.

Figure 2. Morocco: COVID-19 Health Indicators

Morocco hasn't been spared by the pandemic.

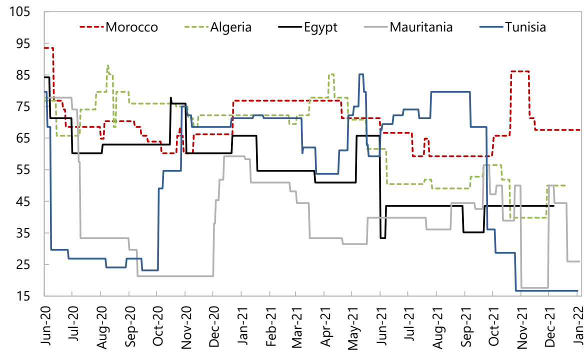
COVID-19 Cumulative Confirmed Cases
(Per 100,000 inhabitants)



Sources: Johns Hopkins University, World Bank's World Development Indicators, and IMF staff calculations.

The authorities acted swiftly to limit its impact and have maintained a number of containment measures in 2021

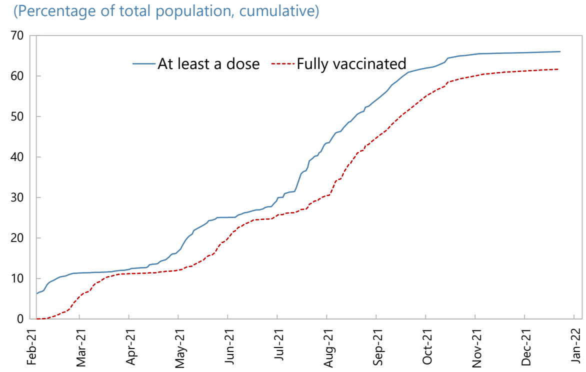
Oxford Stringency Index
(Score out of 100)



Source: Oxford COVID-19 Government Response Tracker.

The vaccination campaign is progressing rapidly...

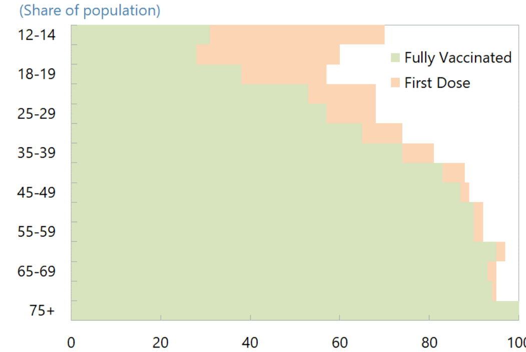
Morocco: Vaccine Doses Administrated
(Percentage of total population, cumulative)



Source: Our World in Data.

... with a sizeable proportion of the elderly fully vaccinated.

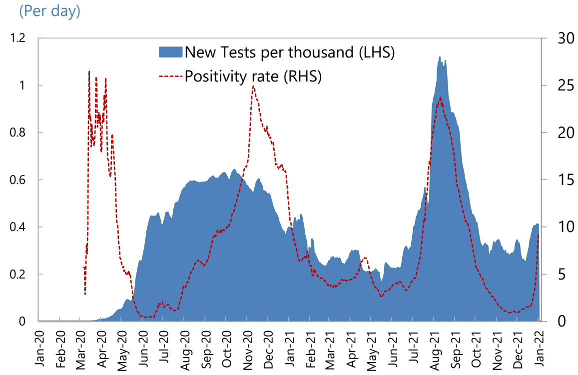
Vaccination by Age Brackets
(Share of population)



Source: Ministry of Health, as of October 8, 2021.

As a result, the rate of COVID-19 positive tests declined in H2:2021, until the Omicron variant caused a reversal in early 2022

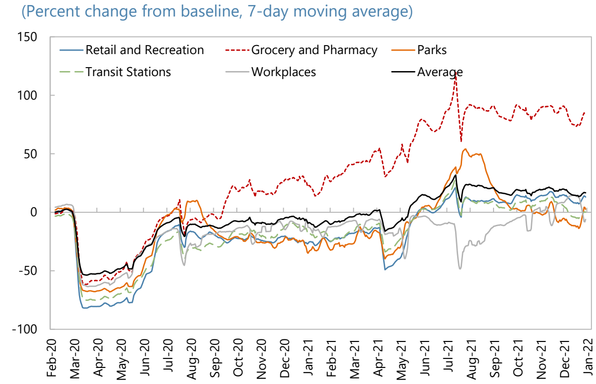
Morocco: COVID-19 Testing and Positivity Rate
(Per day)



Source: Our World in Data.

Social mobility has returned to pre-pandemic levels in 2021.

Morocco: Community Mobility
(Percent change from baseline, 7-day moving average)



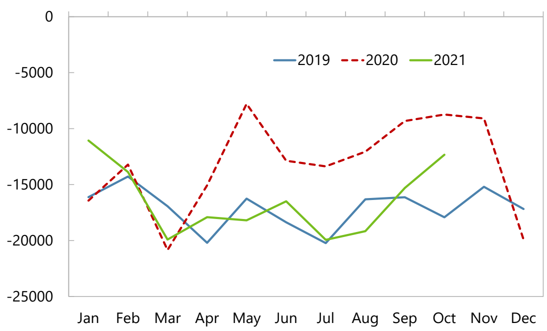
Source: Google's COVID-19 Community Mobility Reports.

Figure 3. Morocco: External Developments

The trade balance has widened so far in 2021 compared to last year, as both good exports and imports rebounded

Trade Balance (Monthly)

(Mil Dirhams)

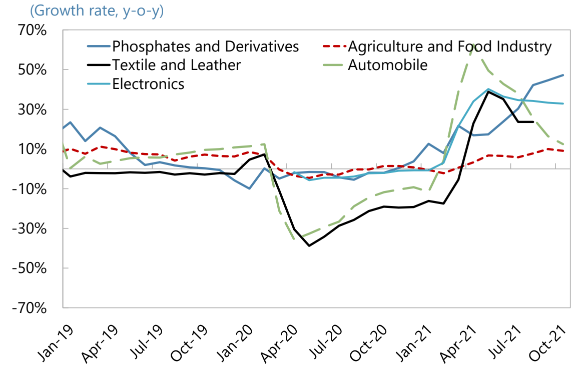


Source: Office des Changes

Exports were driven by strong expansion in automobile, phosphate, and derivatives as well as textile

Goods Exports

(Growth rate, y-o-y)

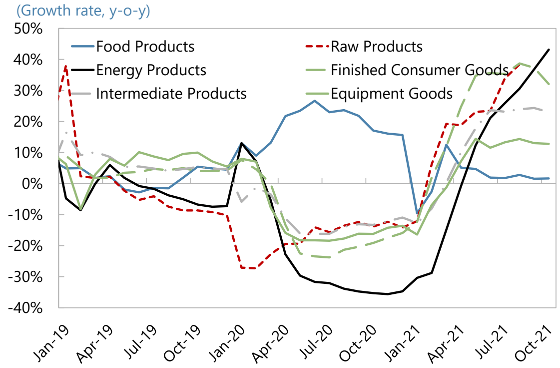


Source: Office des Changes

Imports rebounded across product groups, reflecting demand recovery and higher commodity prices

Goods Imports

(Growth rate, y-o-y)

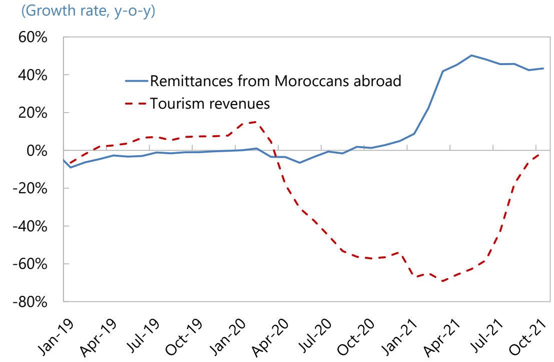


Source: Office des Changes

While tourism revenues remained depressed, remittances stayed solid

Tourism Revenues and Remittances

(Growth rate, y-o-y)

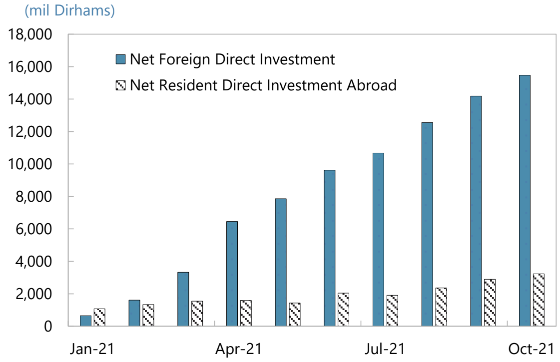


Source: Office des Changes

Net FDI increased strongly, reflecting higher inward FDIs and a decline in Morocco's investment abroad.

Direct Investment

(mil Dirhams)

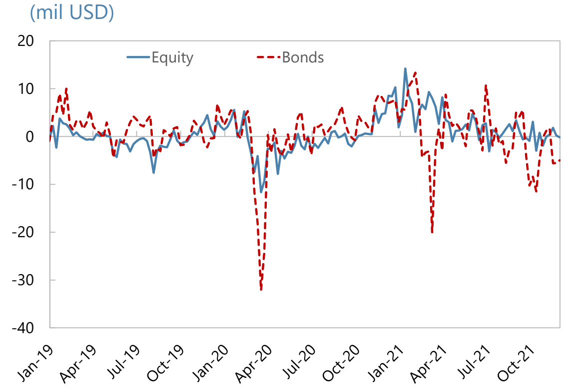


Sources: Office des Changes

Portfolio flows have recovered, although they slowed in H2:2021.

Morocco: ETFs/Mutual Funds, Flows

(mil USD)

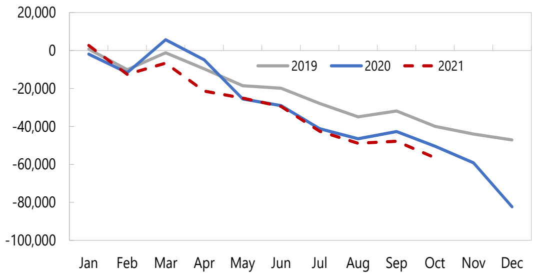


Sources: National authorities; and IMF staff estimates.

Figure 4. Morocco: Fiscal Developments

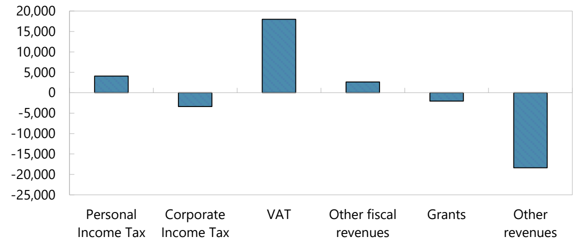
Over the first 10 months of 2021, the overall fiscal deficit was slightly higher than last year…

Overall Fiscal Balance
(mil Dirhams, year-to-date)



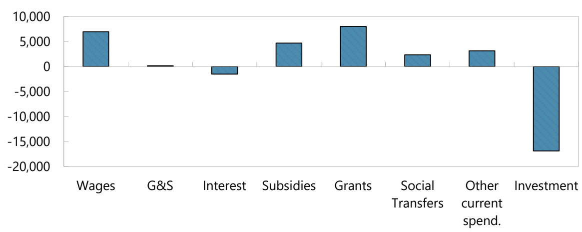
…as tax revenues (especially VAT) recovered, offsetting the fall in other revenues (which last year included the Covid-19 fund).

Revenues
(October 2021 minus October 2020, in million dirham)



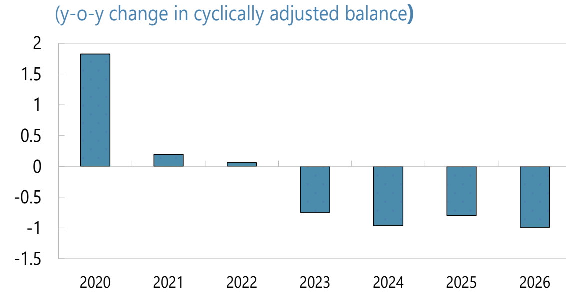
…while the increase in current spending was parly offest by lower investment spending.

Expenditure
(October 2021 minus October 2020, in million dirham)



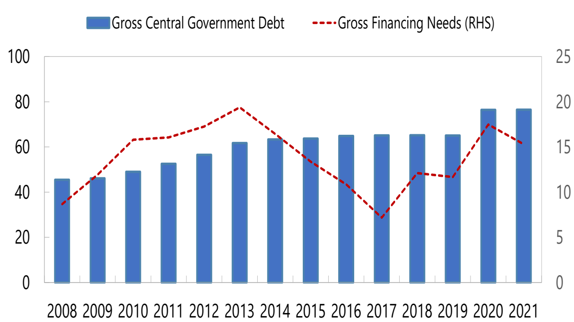
Fiscal policy will remain accommodative into 2022, before gradually tightening from 2023.

Fiscal Impulse
(y-o-y change in cyclically adjusted balance)



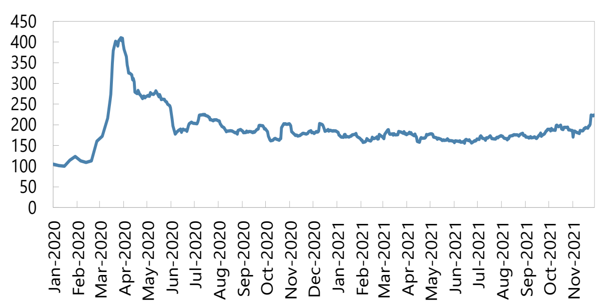
Public debt and gross financing needs increased as result of the expansionary fiscal stance

Central Government Debt and Gross Financing Needs
(in percent of GDP)



Sovereign spreads have stabilized in 2021 after falling from last year's peak and have picked up somewhat at year end.

Weighted Average Spread[1/]
(bps)



1/ Equals the par-value weighted spread across all of Morocco's bonds with more than one year remaining maturity

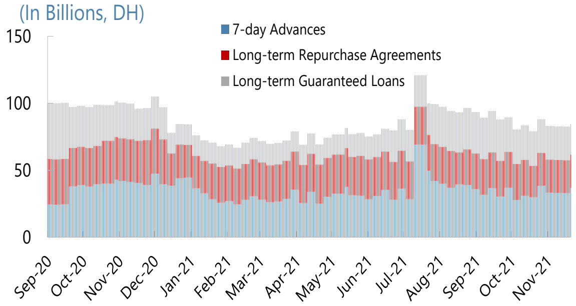
Sources: National authorities; and IMF staff estimates.

Figure 5. Monetary and Financial Developments

BAM broadly maintained its long-term liquidity provision in 2021...

BAM's Monetary Interventions

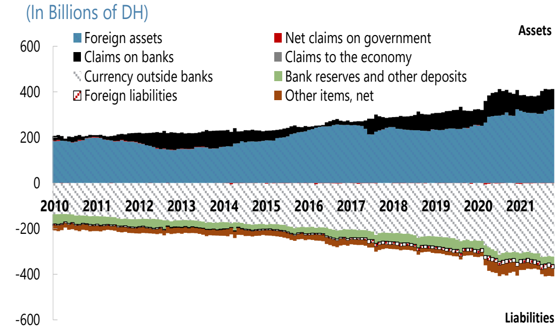
(In Billions, DH)



...contributing to build-up its balance sheet, along with rising official reserves

Morocco: BAM Analytical Balance Sheet, 2010-2021

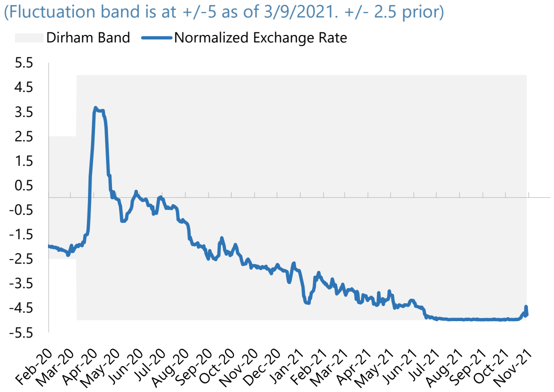
(In Billions of DH)



After depreciating in the wake of the pandemic, the dirham has appreciated to the lower edge of the fluctuation band...

Exchange Rate Normalized around Peg

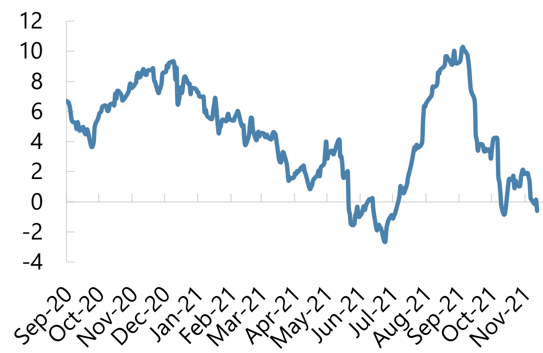
(Fluctuation band is at +/-5 as of 3/9/2021. +/- 2.5 prior)



...on the back of rising bank FX net position, which declined sharply following BAM's FX purchase

Banks' Foreign Exchange Net Position

(Billions of Dirhams)

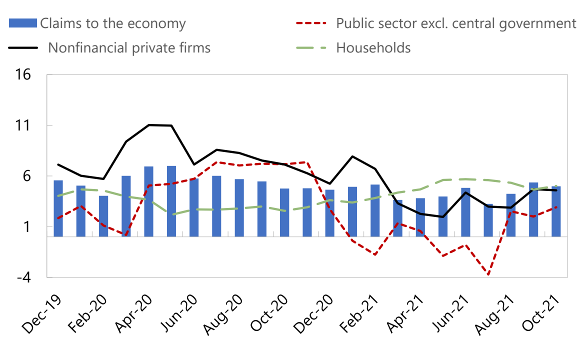


Source: Bank Al-Maghrib

While credit to households and SOES have recently picked up, credit to private firms has decelerated markedly...

Banking Credit Growth

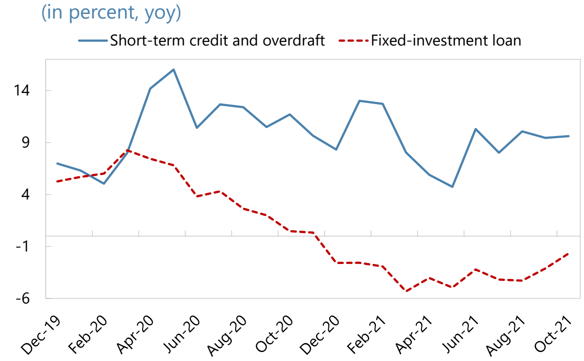
(in percent, yoy)



...as short-term loans slowed after the discontinuation of public guarantees and investment credit continue to fall

Banking Credit Growth

(in percent, yoy)



Sources: National authorities; and IMF staff estimates.

Table 1. Morocco: Selected Economic Indicators, 2017–26

	2017	2018	2019	2020	Proj. 2021	2022	2023	2024	2025	2026
					(Annual percentage change)					
Output and Prices										
Real GDP	4.2	3.1	2.6	-6.3	6.3	3.1	3.0	3.0	3.1	3.3
Real agriculture GDP	15.2	3.7	-5.8	-8.6	18.8	-3.3	3.0	3.1	3.2	3.3
Real non-agriculture GDP	2.9	3.1	3.7	-6.0	4.7	3.9	3.0	3.0	3.1	3.3
Consumer prices (end of period)	1.7	0.1	1.0	-0.9	1.9	1.7	1.6	1.8	2.0	2.0
Consumer prices (period average)	0.7	1.6	0.2	0.7	1.3	1.8	1.6	1.8	2.0	2.0
Output gap (percentage points of non-agricultural GDP)	0.0	0.2	0.2	-5.7	-1.1	-0.4	-0.3	-0.1	-0.1	0.0
Unemployment rate (in percent)	10.6	9.4	10.2	12.2	11.8	11.3	10.9	10.4	9.9	9.3
					(In percent of GDP)					
Investment and Saving										
Gross capital formation	32.6	33.4	31.9	28.4	28.3	28.4	28.9	29.2	29.4	29.8
Of which: Nongovernment	27.2	28.2	27.4	22.5	23.2	23.7	23.7	24.0	24.2	24.6
Gross national savings	29.1	27.8	27.8	26.7	25.3	25.2	25.8	25.8	26.0	26.4
Of which: Nongovernment	32.7	31.8	32.1	34.5	32.1	31.5	31.6	30.7	30.1	30.0
					(In percent of GDP)					
Public Finances										
Revenue	26.0	26.1	25.6	28.6	25.3	26.0	26.2	26.4	26.8	26.9
Expenditure	30.1	29.8	29.4	36.1	32.2	32.3	32.1	31.3	30.9	30.5
Budget balance	-3.5	-3.7	-3.8	-7.6	-6.8	-6.3	-5.9	-4.9	-4.1	-3.6
Cyclically-adjusted primary balance (excl. grants)	-2.0	-1.7	-1.8	-3.5	-4.2	-4.1	-3.2	-2.7	-2.0	-1.4
Total government debt	65.1	65.2	65.1	76.4	76.9	77.5	79.2	79.5	79.0	78.3
					(Annual percentage change; unless otherwise indicated)					
Monetary Sector										
Claims to the economy	3.3	3.4	5.6	4.6	...	...	...	...	...	...
Broad money	5.5	4.1	3.8	8.4	...	...	...	...	...	...
Velocity of broad money	0.8	0.8	0.8	0.7	...	...	...	...	...	...
					(In percent of GDP; unless otherwise indicated)					
External Sector										
Exports of goods and services (in U.S. dollars, percentage change)	12.7	11.6	1.9	-15.2	22.5	12.7	5.8	5.8	5.9	5.7
Imports of goods and services (in U.S. dollars, percentage change)	9.3	12.2	-2.3	-14.8	29.0	10.5	5.0	5.7	6.2	5.8
Merchandise trade balance	-16.5	-17.2	-16.5	-13.5	-15.4	-16.5	-16.5	-16.6	-16.8	-16.9
Current account (including official transfers)	-3.4	-5.3	-3.7	-1.5	-3.0	-3.2	-3.1	-3.3	-3.4	-3.4
Foreign direct investment	1.5	2.4	0.7	1.1	1.4	1.5	1.4	1.4	1.4	1.3
Total external debt	34.8	31.8	33.1	43.7	40.5	41.6	41.2	40.7	40.2	39.8
Gross reserves (in billions of U.S. dollars)	26.2	24.4	26.4	35.3	35.4	38.1	40.2	39.6	38.9	39.2
In months of next year imports of goods and services	5.7	5.4	6.9	7.1	6.5	6.6	6.6	6.1	5.7	5.4
In percent of Fund reserve adequacy metric 1/	92.3	85.4	87.7	106.5	101.7	101.9	101.0	95.0	88.9	85.5
In percent of CA deficit and ST debt at rem. mat. basis	437.1	287.4	327.1	649.0	471.6	455.8	582.0	413.9	464.7	452.0
Memorandum Items:										
Nominal GDP (in billions of U.S. dollars)	109.7	118.1	119.9	114.6	126.1	131.2	138.1	145.4	153.5	161.5
Nominal GDP per capita (in U.S. dollars, percent change)	5.1	6.5	0.5	-5.4	8.9	3.0	4.3	4.3	4.6	4.3
Population (millions)	34.9	35.2	35.6	36.0	36.3	36.7	37.0	37.4	37.7	38.1
Population growth (in percent)	1.06	1.06	1.04	1.03	1.00	0.98	0.96	0.94	0.92	0.90
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-5.2	-7.7	-9.4	-9.2	-9.6	-9.8	-9.9
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.3	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change, depreciation -)	-0.4	0.8	0.7	1.1	...	...	...	...	...	...
Interest rate (money market rate, end of period, in percent)	2.32	2.32	2.26	1.5	...	...	...	...	...	...

1/ Based on revised ARA weights.

Table 2a. Morocco: Budgetary Central Government Finance, 2017–26
(Billions of dirhams)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Proj.					
Revenue	282.4	289.8	295.2	311.1	296.6	322.5	340.0	358.4	380.6	402.6
Taxes	232.1	242.5	246.9	230.8	241.7	261.5	276.4	291.9	311.0	329.4
Taxes on income, profits, and capital gains	93.3	95.5	97.8	95.8	90.0	97.6	103.6	109.7	116.6	123.6
Taxes on property	12.6	12.6	11.8	9.9	11.2	13.0	13.5	14.1	14.9	15.7
Taxes on goods and services	111.0	117.6	121.0	110.8	123.5	131.4	139.4	147.2	156.0	165.2
Taxes on international trade and transactions	9.0	10.1	10.2	9.9	11.6	12.8	13.0	13.7	14.5	15.4
Other taxes	6.0	6.7	6.1	4.3	5.5	6.6	6.9	7.2	9.0	9.5
Grants	11.4	4.4	2.8	5.0	1.7	2.2	2.2	2.2	2.2	2.3
Other revenue	39.0	42.9	45.5	75.4	53.2	58.9	61.4	64.2	67.4	70.9
Expense	261.6	272.9	286.9	328.6	317.7	342.2	348.0	354.8	365.5	379.3
Compensation of employees	122.2	124.5	131.4	133.5	140.9	151.2	154.6	156.2	159.1	163.1
Of which: wages and salaries	104.9	106.0	111.5	115.0	121.8	132.0	135.1	136.5	139.2	142.9
social contributions	17.3	18.5	19.9	18.6	19.1	19.2	19.5	19.7	19.9	20.2
Use of goods and services and grants	75.2	81.9	92.3	98.5	108.0	113.7	114.2	113.8	120.9	127.3
Of which: Use of goods and services	27.6	29.6	31.2	33.1	34.5	33.4	35.2	36.8	38.6	40.6
Grants 1/	47.6	52.3	61.1	65.3	73.5	80.4	79.0	77.0	82.3	86.7
Subsidies	15.3	17.7	16.1	13.5	18.0	17.0	6.4	6.6	6.3	6.2
Social benefits	3.0	3.0	3.0	23.3	8.4	8.6	20.3	21.7	20.9	20.9
Interest	27.1	26.9	26.3	28.8	29.0	28.2	28.8	31.1	31.6	33.7
Other expenses 2/	18.8	18.8	17.9	31.0	13.4	23.4	23.7	25.4	26.7	28.1
Net acquisition of nonfinancial assets	57.9	57.9	52.3	64.9	59.0	57.6	66.5	69.5	72.9	76.7
Primary balance	-10.1	-14.1	-17.7	-53.6	-51.0	-49.1	-45.6	-34.9	-26.3	-19.7
Overall balance	-37.1	-41.0	-44.0	-82.4	-80.0	-77.3	-74.5	-66.0	-57.9	-53.4
Cyclical adjusted balance	-45.2	-46.0	-47.5	-67.0	-78.2	-77.9	-71.7	-67.5	-59.5	-55.5
Change in net financial worth	-37.1	-41.0	-44.0	-82.4	-80.0	-77.3	-74.5	-66.0	-57.9	-53.4
Net acquisition of financial assets	0.0	0.0	-5.3	0.0	-4.0	-5.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	-5.3	0.0	-4.0	-5.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	-5.3	0.0	-4.0	-5.0	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	37.1	41.0	38.7	82.4	76.0	72.3	74.5	66.0	57.9	53.4
Domestic	33.6	42.8	21.4	39.3	64.6	54.2	62.1	53.5	44.8	36.1
Currency and Deposits	2.0	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Securities other than shares	31.6	38.8	20.4	38.3	63.6	53.2	61.1	52.5	43.8	35.1
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	3.6	-1.8	17.3	43.1	11.5	18.1	12.3	12.5	13.1	17.4
Memorandum Item:										
Total investment (including capital transfers)	76.7	76.7	70.2	95.9	72.4	81.0	90.2	94.9	99.6	104.8
GDP	1,063.0	1,108.5	1,152.8	1,089.5	1,171.1	1,226.5	1,279.7	1,338.0	1,403.9	1,477.2

Sources: Ministry of Economy and Finance; and IMF staff estimates.

1/ Includes transfers to other general government units, international organizations, and foreign governments

2/ Includes capital transfers to public entities.

Table 2b. Morocco: Budgetary Central Government Finance, 2017–26
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Proj.					
Revenue	26.6	26.1	25.6	28.6	25.3	26.3	26.6	26.8	27.1	27.3
Taxes	21.8	21.9	21.4	21.2	20.6	21.3	21.6	21.8	22.2	22.3
Taxes on income, profits, and capital gains	8.8	8.6	8.5	8.8	7.7	8.0	8.1	8.2	8.3	8.4
Taxes on property	1.2	1.1	1.0	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	10.4	10.6	10.5	10.2	10.5	10.7	10.9	11.0	11.1	11.2
Taxes on international trade and transactions	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Other taxes	0.6	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Grants	1.1	0.4	0.2	0.5	0.1	0.2	0.2	0.2	0.2	0.2
Other revenue	3.7	3.9	3.9	6.9	4.5	4.8	4.8	4.8	4.8	4.8
Expense	24.6	24.6	24.9	30.2	27.1	27.9	27.2	26.5	26.0	25.7
Compensation of employees	11.5	11.2	11.4	12.3	12.0	12.3	12.1	11.7	11.3	11.0
Of which: wages and salaries	9.9	9.6	9.7	10.6	10.4	10.8	10.6	10.2	9.9	9.7
social contributions	1.6	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4
Use of goods and services and grants	7.1	7.4	8.0	9.0	9.2	9.3	8.9	8.5	8.6	8.6
Of which: Use of goods and services	2.6	2.7	2.7	3.0	2.9	2.7	2.8	2.8	2.8	2.8
Grants 1/	4.5	4.7	5.3	6.0	6.3	6.6	6.2	5.8	5.9	5.9
Subsidies	1.4	1.6	1.4	1.2	1.5	1.4	0.5	0.5	0.5	0.4
Social benefits	0.3	0.3	0.3	2.1	0.7	0.7	1.6	1.6	1.5	1.4
Interest	2.5	2.4	2.3	2.6	2.5	2.3	2.3	2.3	2.3	2.3
Other expenses 2/	1.8	1.7	1.5	2.8	1.1	1.9	1.8	1.9	1.9	1.9
Net acquisition of nonfinancial assets	5.5	5.2	4.5	6.0	5.0	4.7	5.2	5.2	5.2	5.2
Primary balance	-0.9	-1.3	-1.5	-4.9	-4.4	-4.0	-3.6	-2.6	-1.9	-1.3
Overall balance	-3.5	-3.7	-3.8	-7.6	-6.8	-6.3	-5.8	-4.9	-4.1	-3.6
Cyclical adjusted balance	-4.3	-4.1	-4.1	-6.2	-6.7	-6.4	-5.6	-5.0	-4.2	-3.8
Change in net financial worth	-3.5	-3.7	-3.8	-7.6	-6.8	-6.3	-5.8	-4.9	-4.1	-3.6
Net acquisition of financial assets	0.0	0.0	-0.5	0.0	-0.3	-0.4	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	-0.5	0.0	-0.3	-0.4	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	-0.5	0.0	-0.3	-0.4	0.0	0.0	0.0	0.0
Foreign Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.5	3.7	3.4	7.6	6.5	5.9	5.8	4.9	4.1	3.6
Domestic	3.2	3.9	1.9	3.6	5.5	4.4	4.9	4.0	3.2	2.4
Currency and Deposits	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	3.0	3.5	1.8	3.5	5.4	4.3	4.8	3.9	3.1	2.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Loans	0.3	-0.2	1.5	4.0	1.0	1.5	1.0	0.9	0.9	1.2
Memorandum Item:										
Total investment (including capital transfers)	7.2	6.9	6.1	8.8	6.2	6.6	7.0	7.1	7.1	7.1
GDP (Billions Dirham)	1,063.0	1,108.5	1,152.8	1,089.5	1,171.1	1,226.5	1,279.7	1,338.0	1,403.9	1,477.2

Sources: Ministry of Economy and Finance; and IMF staff estimates.

1/ Includes transfers to other general government units, international organizations, and foreign governments

2/ Includes capital transfers to public entities.

Table 3. Morocco: Balance of Payments, 2017–26
(In billions of U.S. dollars, unless otherwise indicated)

					Proj.					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account	-3.7	-6.2	-4.4	-1.7	-3.8	-4.2	-4.3	-4.8	-5.3	-5.5
Trade balance	-18.0	-20.3	-19.8	-15.5	-19.4	-21.7	-22.8	-24.1	-25.7	-27.3
Exports, f.o.b.	21.5	24.6	24.7	23.6	29.0	31.9	33.6	35.6	37.9	40.2
Food products	5.1	5.7	5.9	6.1	6.9	7.3	8.3	8.8	9.2	9.5
Phosphates and derived products	4.6	5.5	5.1	4.3	5.8	6.2	6.9	7.0	7.3	7.5
Automobiles	6.1	6.9	8.0	7.4	8.9	9.5	10.3	11.1	11.8	12.5
Imports, f.o.b.	-39.5	-44.9	-44.5	-39.0	-48.4	-53.6	-56.4	-59.7	-63.6	-67.5
Energy	-7.2	-8.8	-7.9	-5.2	-7.7	-9.4	-9.2	-9.6	-9.8	-9.9
Capital goods	-11.3	-12.8	-13.2	-11.5	-13.1	-14.1	-15.1	-16.2	-17.3	-18.3
Food products	-4.4	-4.9	-5.0	-5.8	-6.0	-6.4	-6.7	-7.0	-8.8	-8.8
Services	7.5	8.1	9.7	6.7	5.7	7.5	8.3	8.9	9.4	9.9
Tourism receipts	7.4	7.8	8.2	3.8	3.9	5.9	6.5	7.0	7.5	8.0
Income	-1.9	-2.1	-2.0	-1.5	-1.9	-1.9	-2.1	-2.2	-2.2	-2.3
Transfers	8.8	8.0	7.7	8.6	11.9	11.9	12.3	12.6	13.3	14.1
Private transfers (net)	7.6	7.6	7.4	8.1	11.5	11.5	11.9	12.5	13.1	13.9
Workers' remittances	6.8	6.9	6.7	7.1	10.4	10.4	10.7	11.2	11.8	12.5
Official grants (net)	1.2	0.4	0.3	0.5	0.4	0.4	0.4	0.2	0.2	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.0	3.9	5.3	7.4	4.2	6.4	6.1	5.4	5.2	5.8
Direct investment	1.7	2.8	0.8	1.3	1.7	1.9	2.0	2.0	2.1	2.2
Portfolio investment	-0.1	-0.8	1.2	2.2	0.5	0.9	0.5	0.5	0.5	0.9
Other	0.4	1.9	3.3	3.9	2.0	3.5	3.6	2.8	2.6	2.7
Private	-1.4	2.0	2.4	2.1	0.2	2.2	2.2	1.5	1.1	1.2
Public medium-and long-term loans (net)	1.8	-0.1	0.9	1.8	1.8	1.3	1.4	0.2	-0.1	-0.1
Reserve asset accumulation (-increase)	0.9	1.0	-2.3	-5.8	-0.5	-2.1	-1.8	-0.6	0.1	-0.3
IMF financing				3.0	0.8	0.0	0.0	-1.4	-0.8	0.0
Errors and omissions	0.8	1.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(Percent of GDP)					
Current account	-3.4	-5.3	-3.7	-1.5	-3.0	-3.2	-3.1	-3.3	-3.4	-3.4
Trade balance	-16.5	-17.2	-16.5	-13.5	-15.4	-16.5	-16.5	-16.6	-16.8	-16.9
Exports, f.o.b.	19.6	20.8	20.6	20.6	23.0	24.3	24.3	24.5	24.7	24.9
Food products	4.6	4.8	4.9	5.3	5.5	5.6	6.0	6.0	6.0	5.9
Phosphates and derived products	4.2	4.7	4.2	3.7	4.6	4.8	5.0	4.8	4.7	4.6
Automobiles	5.5	5.9	6.7	6.4	7.0	7.3	7.5	7.6	7.7	7.8
Imports, f.o.b.	-36.1	-38.0	-37.1	-34.1	-38.4	-40.8	-40.8	-41.1	-41.4	-41.8
Energy	-6.5	-7.4	-6.6	-4.6	-6.1	-7.2	-6.6	-6.6	-6.4	-6.1
Capital goods	-10.3	-10.8	-11.0	-10.1	-10.4	-10.7	-11.0	-11.1	-11.2	-11.4
Food products	-4.0	-4.1	-4.1	-5.1	-4.8	-4.9	-4.8	-4.8	-5.7	-5.4
Services	6.8	6.9	8.1	5.9	4.5	5.7	6.0	6.1	6.1	6.2
Tourism receipts	6.8	6.6	6.8	3.3	3.1	4.5	4.7	4.8	4.9	5.0
Income	-1.8	-1.8	-1.7	-1.3	-1.5	-1.5	-1.5	-1.5	-1.5	-1.4
Transfers	8.0	6.8	6.4	7.5	9.4	9.1	8.9	8.7	8.7	8.7
Private transfers (net)	6.9	6.4	6.2	7.1	9.1	8.8	8.6	8.6	8.6	8.6
Workers' remittances	6.2	5.8	5.6	6.2	8.2	7.9	7.7	7.7	7.7	7.8
Official grants (net)	1.1	0.3	0.2	0.4	0.3	0.3	0.3	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.8	3.3	4.4	6.5	3.3	4.8	4.4	3.7	3.4	3.6
Direct investment	1.5	2.4	0.7	1.1	1.4	1.5	1.4	1.4	1.4	1.3
Portfolio investment	-0.1	-0.7	1.0	1.9	0.4	0.7	0.3	0.4	0.3	0.6
Other	0.4	1.6	2.7	3.4	1.5	2.7	2.6	1.9	1.7	1.7
Private	-1.3	1.7	2.0	1.8	0.1	1.7	1.6	1.0	0.7	0.8
Public medium-and long-term loans (net)	1.7	-0.1	0.7	1.5	1.4	1.0	1.0	0.2	-0.1	-0.1
Memorandum items:										
Exports of goods and services (in U.S. dollars, percentage change)	12.7	11.6	1.9	-15.2	22.5	12.7	5.8	5.8	5.9	5.7
Imports of goods and services (in U.S. dollars, percentage change)	9.3	12.2	-2.3	-14.8	29.0	10.5	5.0	5.7	6.2	5.8
Current account balance excluding official grants (percent of GDP)	-4.5	-5.6	-3.9	-1.9	-3.3	-3.5	-3.4	-3.5	-3.5	-3.5
Terms of trade (percentage change) 1/	-0.3	2.3	3.8	4.1	-1.4	-0.4	-0.6	-0.4	0.7	0.6
IMF financing				2.6	0.6	0.0	0.0	-1.0	-0.5	0.0
Gross official reserves	26.2	24.4	26.4	35.3	35.4	38.1	40.2	39.6	38.9	39.2
In months of prospective imports of GNFS	5.7	5.4	6.9	7.1	6.5	6.6	6.6	6.1	5.7	5.4
In percent of the Assessing Reserve Adequacy (ARA) metric 2/	92.3	85.4	87.7	106.5	101.7	101.9	101.0	95.0	88.9	85.5
In percent of the adjusted Assessing Reserve Adequacy (ARA) metric	121.5	112.5	114.9	141.3	134.1	133.9	132.1	124.4	116.5	112.0
Debt service (percent of export of GNFS and remittances) 3/	7.6	6.3	6.3	10.4	8.4	8.3	5.6	8.5	5.9	6.4
External public and publicly guaranteed debt (percent of GDP)	31.2	29.9	30.3	36.1	35.0	34.9	34.4	33.8	33.2	32.9
DHs per US$, period average	9.7	9.4	9.6	...	...	...	...	...	...	...
GDP (US$)	109.7	118.1	119.9	114.6	126.1	131.2	138.1	145.4	153.5	161.5
Oil price (US$/barrel; Brent)	52.8	68.3	61.4	41.3	69.8	75.7	70.2	67.3	65.2	63.8

Sources: Ministry of Finance; *Office des Changes*; and IMF staff estimates and projections.

1/ Based on WEO data for actual and projections.

2/ Based on revised ARA weights.

3/ Public and publicly guaranteed debt.

Table 4. Morocco: Monetary Survey, 2017–21

	2017	2018	2019	2020	2021-proj.
	(Billions of dirhams)				
Net foreign assets	262.3	250.2	263.9	316.5	320.8
Net domestic assets	1,006.8	1,070.4	1,106.7	1,168.6	1,276.5
Domestic claims	1,157.3	1,225.9	1,292.3	1,371.1	1,479.0
Net claims on the government	167.8	203.0	212.4	241.0	298.1
Bank Al-Maghrib	0.2	0.8	0.6	-4.2	-4.8
Of which: deposits	-3.9	-2.9	-3.3	-7.3	-7.9
Deposit money banks	167.6	202.2	211.9	245.2	302.8
Claims to the economy	989.5	1,022.9	1,079.9	1,130.1	1,180.9
Other liabilities, net	-150.5	-155.5	-185.6	-202.5	-202.4
Broad money	1,269.1	1,320.6	1,370.5	1,485.1	1,578.7
Money	811.0	858.7	911.8	1,019.4	1,087.9
Currency outside banks	218.8	233.6	250.2	300.6	323.1
Demand deposits	592.2	625.1	661.6	718.8	764.8
Quasi money	417.0	424.5	416.6	426.0	447.3
Foreign deposits	41.1	37.4	42.0	39.8	43.5
Net foreign assets	262.3	250.2	263.9	316.5	320.8
Net domestic assets	1,006.8	1,070.4	1,106.7	1,168.6	1,276.5
Domestic credit	1,157.3	1,225.9	1,292.3	1,371.1	1,479.0
Net claims on the government	167.8	203.0	212.4	241.0	298.1
Claims to the economy	989.5	1,022.9	1,079.9	1,130.1	1,180.9
Banking credit (percent change)	3.1	3.2	5.3	4.5	3.4
Broad money	1,269.1	1,320.6	1,370.5	1,485.1	1,578.7
	(Change in percent of broad money)				
Net foreign assets	1.7	-1.0	1.0	3.8	0.3
Domestic credit	4.8	5.4	5.0	5.7	7.3
Net claims on the government	2.1	2.8	0.7	2.1	3.8
Claims to the economy	2.7	2.6	4.3	3.7	3.4
Memorandum items:					
Velocity (GDP/M3)	0.84	0.84	0.84	0.73	0.74
Velocity (non-agr. GDP/M3)	0.74	0.75	0.75	0.66	0.65
Claims to economy/GDP (in percent)	93.1	92.3	93.7	103.7	100.8
Claims to economy/nonagricultural GDP (in percent)	104.9	103.9	105.4	116.1	115.1

Sources: Bank Al-Maghrib; and IMF staff estimates.

Table 5. Morocco: Financial Soundness Indicators, 2017–21
(Percent, unless otherwise indicated)

	2017		2018		2019		2020		2021
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Regulatory capital 1/									
Regulatory capital to risk-weighted assets	13.7	13.8	14.0	14.7	15.1	15.6	15.5	15.7	16.0
Tier 1 capital to risk weighted assets	11.0	10.9	10.5	10.9	11.0	11.5	11.4	11.4	11.9
Capital to assets	9.1	9.1	9.1	9.1	9.2	9.5	9.3	9.6	9.5
Asset quality									
Sectoral distribution of loans to total loans									
Industry	17.8	17.1	17.8	16.5	15.5	15.9	16.3	15.5	15.9
Of which : agro-business	3.3	3.3	3.6	3.6	3.3	3.4	3.3	3.4	3.5
Of which : textile	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.8
Of which : gas and electricity	6.2	5.5	5.6	4.9	4.6	4.5	4.7	3.8	3.7
Agriculture	3.6	3.8	3.6	4.1	4.0	4.1	3.9	3.8	3.8
Commerce	6.7	6.7	6.6	6.4	6.6	6.4	6.6	6.4	6.5
Construction	11.2	11.3	11.1	10.5	10.4	10.2	9.5	9.9	9.6
Tourism	1.9	1.8	1.8	1.6	1.6	1.5	1.6	1.8	1.8
Finance	13.0	12.7	11.6	12.5	12.2	12.7	13.1	13.5	13.1
Public administration	4.6	4.9	5.7	8.4	8.2	8.6	8.2	8.3	8.6
Transportation and communication	4.8	4.5	4.7	4.0	4.5	4.2	4.1	4.1	4.0
Households	32.4	32.6	32.8	31.9	31.8	31.6	30.5	30.9	30.8
Other	4.0	4.6	4.2	4.3	5.2	4.8	6.2	5.8	5.9
FX-loans to total loans	2.8	2.3	2.7	2.7	3.1	3.3	3.8	3.0	3.8
Credit to the private sector to total loans	89.9	89.2	88.2	85.9	86.2	86.0	86.4	86.6	86.7
Credit to non financial public enterprises to total loans	5.5	6.2	6.1	6.1	6.0	5.5	5.5	5.2	4.8
Nonperforming Loans (NPLs) to total loans	7.5	7.5	7.5	7.3	7.5	7.5	8.0	8.2	8.3
Specific provisions to NPLs	70.0	71.0	70.0	69.1	69.3	69.3	67.9	68.6	68.6
NPLs, net of provisions, to Tier 1 capital	16.3	15.8	16.4	16.5	16.3	16.0	17.9	17.5	17.7
Large exposures to Tier 1 capital	318.0	284	296.0	288	262.9	240.1	255.0	237.0	249.0
Loans to subsidiaries to total loans	8.8	8.5	8.3	8.3	8.7	8.1	8.4	8.3	8.4
Loans to shareholders to total loans	1.0	0.6	0.8	1.0	0.7	0.5	0.6	0.7	0.6
Specific provisions to total loans	5.3	5.3	5.2	5.0	5.2	5.2	5.4	5.6	5.7
General provisions to total loans	1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.3
Profitability									
Return on assets (ROA)	1.1	0.9	1.1	0.9	1.1	0.9	0.6	0.5	1.2
Return on equity (ROE)	11.2	9.5	11.5	9.5	11.8	9.4	5.6	4.8	12.2
Interest rate average spread (b/w loans and deposits)	3.9	3.9	3.9	na	3.7	3.7	3.7	3.8	3.7
Interest return on credit	4.9	4.9	4.8	na	4.7	4.6	4.5	4.5	4.6
Cost of risk as a percent of credit	0.9	0.8	0.9	0.9	0.8	0.8	1.4	1.3	0.9
Net interest margin to net banking product (NPB) 2/	71.4	70.1	72.1	71.2	68.6	67.5	68.2	68.2	69.6
Operating expenses to NPB	46.4	50.6	46.7	50.6	46.1	50.2	45.8	50.0	44.6
Operating expenses to total assets	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7
Personnel expenses to noninterest expenses	47.5	47.5	47.0	47.5	47.5	47.6	47.6	47.4	46.8
Trading and other noninterest income to NPB	28.6	29.9	27.9	28.8	31.4	32.5	31.8	31.8	30.4
Liquidity									
Liquid assets to total assets	11.8	13.7	12.9	12.2	12.8	14.0	14.8	16.1	16.4
Liquid assets to short-term liabilities	15.7	17.3	14.4	15.1	16.2	17.9	18.7	20.0	20.3
Deposits to loans	104.2	107.5	104.9	103.8	102.2	102.2	101.1	103.2	103.2
Deposits of state-owned enterprises to total deposits	2.4	2.4	1.9	2.7	2.2	2.2	1.7	1.6	2.3
Sensitivity to market risk									
FX net open position to Tier 1 Capital	5.6	7.0	7.0	6.9	0.0	-1.6	8.0	5.8	…

Source: Bank Al-Maghrib.
1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.
* Provisional figures calculated according to Basel III definition and transitional provisions.

Annex I. External Sector Assessment Report

Overall Assessment: *Preliminary data shows that the external position of Morocco in 2021 is broadly in line with the level of fundamentals and desirable policies. This assessment is based on a deteriorating CA deficit in 2021, driven by a strong rebound in imports after the pandemic. The CA deficit is expected to increase slightly in 2022 and to gradually converge to the estimated medium-term norm. The assessment remains subject to great uncertainty related to the evolution of the pandemic and its impacts on trade in both Morocco and its trading partner countries.*

Foreign Assets and Liabilities: Position and Trajectory

1. Background. After deteriorating sharply between 2005 and 2012 (by around 30 percentage points of GDP, on the back of an increased in foreign liabilities, mainly FDIs), Morocco's Net International Investment Position (NIIP) has remained relatively stable at about -66 percent of GDP over 2014-2020. Staff projects this position to slightly improve to about -65 percent of GDP in 2021, on the back of lower liabilities. In staff baseline, Morocco's NIIP is projected to worsen only slightly to around -67 percent of GDP through the medium term, reflecting the gradual widening of current account deficits.

2. Assessment. Morocco should be able to sustain its larger net debtor position following the pandemic, assuming the CA deficit will increase slowly towards its estimated norm amidst implementation of structural reforms (that should increase Morocco's attractiveness for FDI) and fiscal consolidation (that should reduce the dependence on external debt).

	NIIP	Gross Assets	Res. Assets	Gross Liab.	Debt Liab.
2021 (% GDP)	-65.0	43.0	28.1	108.0	40.5

Current Account

3. Background. After improving by 7 pps of GDP between 2012-2015, on the back of sustained automobile industry exports and favorable terms of trade shocks, Morocco's CA weakened somewhat, reaching -3.7 percent of GDP in 2019 due to higher imports of capital goods and weaker export growth. In 2020, in the wake of the Covid-19 pandemic, the CA deficit shrank to 1.5 percent of GDP on account of a sharp fall in imports that more than offset lower exports (and the collapse of tourism revenues) and resilient remittances. The CA deficit is expected to deteriorate in 2021 to 3.0 percent of GDP, on the back of the strong rebound in imports and higher energy prices, and to gradually return to about 3.4 percent of GDP over the medium term, as the economic recovery continues, tourism revenues recover slowly, and structural reforms boost private sector competitiveness and savings (with fiscal consolidation also sustaining national savings).

Real Exchange Rate

4. Background. The REER has been on a modest appreciating trend since 2012 (at the end of 2020 was about 5 percent stronger than in mid-2012), reflecting the nominal appreciation of the dirham (pegged to a basket including the Euro and US Dollar). So far in 2021, the REER has remained broadly stable, as still relatively low inflation offset the nominal effective appreciation of the dirham.

5. Assessment. Based on the EBA current account assessment, the REER was broadly aligned with fundamentals and desirable policies in 2021. The external sustainability (ES) approach for 2021 suggests that a somewhat stronger REER (by about 4 percent) would be consistent with a NIIP-stabilizing current account balance.

Capital and Financial Accounts: Flows and Policy Measures

6. Background. Morocco's CA deficit tends to be financed mainly by external borrowing (including trade credit) and net FDI inflows. In 2020, Morocco benefited from a significant increase in external borrowing (from both international markets and IFI and bilateral lenders) as well as positive financing from net FDI flows (mainly as a result of a decrease in direct investment abroad). This has allowed to fund the CA deficit and, even more, boost the country' reserve position. So far in 2021, net FDI and portfolio flows have been the main source of financing. In the medium term, FDIs are expected to continue to increase, as the economy recovers and benefit from pro-private sector reforms, while external borrowing should slow from last year's highs (mainly on account of lower government financing needs).

7. Assessment. The process of fiscal consolidation and structural reforms that increase the attractiveness of key sectors of the Moroccan economy should limit vulnerabilities. Risks are also limited by remaining capital account controls and the structure of external debt (its long maturity and the relatively low share of foreign currency-denominated instruments, slightly less than one third of the total).

FX Intervention and Reserves Level

8. Background. Morocco's exchange rate is pegged to a basket including the Euro and the US Dollar, with weights of 60 and 40 percent, respectively. The currency can fluctuate within a band that was widened to +- 5 percent at the onset of the pandemic. In 2020, reserves increased by US$ 9 billion to US$ 35.3 billion from 2019. Staff expects reserves to further increase in 2021 to US$ 35.4 billion partly reflecting the new SDR allocation of $1.2 billion and BAM FX purchases of $ 0.9 billion, and to gradually stabilize to around US$ 39 billion over the medium term. Reserve coverage is expected to remain at above 104 percent of the standard reserve adequacy metric this year, and slowly fall to around 85 percent by 2026.

9. Assessment. Morocco's reserves are adequate. Moving to an IT flexible ER regime would reduce the need for reserve holdings over the medium term, outside a budget that could fund FX interventions in case of excessive market volatility.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
		Global Risks	
Global resurgence of the Covid-19 pandemic	**Medium** Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	**High** Further containment efforts would negatively affect Morocco's economic activity directly through supply and demand shocks and through persistent behavioral changes. With limited policy space, markets' reassessing of risks could lead to assets repricing, unmask debt-related vulnerabilities, and weaken domestic financial institutions' health. Protectionist measures could disrupt trade and Morocco's integration into the global value chains.	Given limited fiscal space, fiscal policy should allow automatic stabilizers to operate while targeting support toward the most hard-hit firms and workers. Government should reduce less essential spending and/or raise additional revenues (through voluntary contributions or progressive forms of taxation) to avoid an excessive increase in debt and financing needs. It should adopt a clear and transparent medium-term fiscal framework to support investors' confidence in a gradual return to lower level of public debt. Space to cut policy rates has become more limited and once reached the effective lower bound, BAM could explore quantitative easing measures, including reviving its funding-for-lending schemes and (within an IT framework) buying Treasury bonds in secondary markets to reduce long-term interest rates. BAM may need to intervene promptly to address weaknesses in financial sectors, by maintaining liquidity provisions, relaxing capital buffers, and providing viable banks with longer timeframes for restoring minimum solvency. The authorities should also stand ready to provide additional guarantees on bank liabilities, and to create the fiscal space to provide capital to systemically important banks.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.	**Medium** A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	**Medium** A tightening of external financial conditions would negatively affect Morocco's external borrowing costs and exchange rate, but its impact would be cushioned by the current exchange rate arrangement. The peg associated with capital controls on residents' investment abroad are expected to limit large exchange rate depreciation risk and to prevent capital flight. The impact on government funding should also be contained, as the share of public debt denominated in FX is relatively low (about 25 percent). However, the government is exposed to large contingent liabilities stemming from SOEs external debt (about 12 percent of GDP) which is mostly government guaranteed.	• Avoid tightening monetary policy prematurely until there is more clarity on underlying price dynamics and external financial conditions. • Maintain fiscal credibility for inflation anchoring and for containing rise in credit spreads. • Limit SOEs' new external borrowing with government guarantee.
A faster resolution of the Covid-19 pandemic	**Medium** With broad availability of vaccines in Morocco's main trading partners in Europe, as well as progress toward full immunization in Morocco, faster normalization could accelerate the recovery from the pandemic.	**High/ Medium** Faster-than-expected recovery would boost confidence and economic activity.	• Rebuild policy buffers, by accelerating fiscal consolidation to bring public debt on a firmly downward path
Intensified geopolitical tensions and security risks	**High** Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	**High** Morocco is a very open economy, highly dependent on trade (including that associated with key global value chains, like the automotive one), remittances, tourism, and energy imports. Hence any disruption on each of these areas is bound to deeply affect economic activity.	• Accelerate the transition to an inflation targeting framework with a flexible exchange rate regime to smooth further external shocks. • Maintain Morocco's involvement in key global value chains by working with key trading partners to avoid measures that distort trade flows and hinders FDIs • Implement structural reforms to support international competitiveness and productivity.

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Rising commodity prices amid bouts of volatility.	**Medium** Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	**Medium** As Morocco is a net oil importer, higher oil prices are a downside risk for the country that would increase the current account deficit and deteriorate the government deficit as it would raise the cost of energy subsidies. Increased volatility in energy prices could increase uncertainty and affect cash constrained firms and households.	• Reduce volatility of energy prices by recurring to forms of hedging against further increase and/or through automatic price adjustments that could smooth the impact on final consumers. • Accelerate effort to reduce Morocco's dependence on imported energy, boosting the supply of renewable sources.
Higher frequency and severity of natural disasters related to climate change	**Medium** Higher frequency and severity of natural disasters related to climate change generate severe economic damage and disruptions. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	**Medium** Morocco is exposed to more frequent drought that affects its agriculture sector and a large share of the population which livelihood depends on agriculture.	• Optimize water resources in the agriculture sector • Invest in mitigation measures to reduce the economic and social impact of natural disasters • Develop green industries (solar and wind power) to increase the share of renewables in the energy mix • Create natural disaster-related buffers to offset fiscal risks
		Domestic Risks	
Uncontrolled Covid-19 local outbreaks	**Medium** Outbreaks in slow-to-vaccinate countries force new lockdowns. Policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.	**Medium** Progress to full immunization is well on track thanks to Morocco's successful vaccination campaign. However, localized outbreaks could further delay tourism sector's recovery by affecting travelers' confidence. A reinstatement of restrictions could also affect consumers' confidence and delay the recovery.	• Accelerate efforts to reach full immunization. • Maintain the pandemic's rescue measures for the most hard-hit sectors (i.e., tourism).

Source of Risk	Relative Likelihood	Expected Impact	Policy Response
Disorderly transformations	**Medium** Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects, and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	**Medium** Resource reallocation is likely to be impeded by limited market competition, significant barriers to entry, a large informal sector that favors rent seeking, and excessive red tape. Permanent changes in both demand and supply from the pandemic could require reallocating workers across sectors, but Morocco suffers from low participation and rigid labor market institutions.	• Remove barriers to entry and reduce the informal sector • Improve competitiveness and the quality of production factors. • Improve labor market efficiency, including through more active labor market policies and enhanced vocational training.
Fiscal slippages or greater than expected fiscal contingent liabilities	**Medium** The authorities could find difficulties in reducing the fiscal deficit or there could be greater concerns about the government contingent liabilities from the subsidized and guaranteed credit programs (including to SOEs) and/or the worsening of financial conditions of public pensions funds	**High** With the fiscal space at risk, fiscal slippages and/or the realization of contingent liabilities (including from pensions) could weaken confidence and raise concerns on the sustainability of public debt, triggering an adverse market reaction	• Increase transparency on public sector contingent liabilities. • Implement a more decisive and comprehensive tax reform. • Increase efforts to contain current spending and improve efficiency. • Adopt a credible medium-term fiscal framework. • Rationalize the SOE sector • Reform the pension system to ensure its financial sustainability.
Slower than expected pace of structural reforms.	**Medium** Slower than expected implementation of structural reforms than assumed in baseline.	**Medium** Lack of structural reforms could increase fiscal vulnerabilities and social tensions, lower potential growth, and negatively affect investor confidence and the absorption of external imbalances.	• Advance toward a new model of economic development that promotes sustainable and inclusive growth. • Build strong consensus on reforms needed to support social welfare, reduce vulnerabilities, strengthen governance, and foster a more inclusive growth.
Widespread social discontent	**Medium** Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	**Medium** Social tensions could exacerbate preexisting socioeconomic inequities, disrupt domestic economic activity, and negatively impact Morocco's external and fiscal positions.	• Accelerate structural reforms to improve inclusive growth. • Gradually strengthen the social protection system as from the reforms recently announced, improve quality of education, boost active labor market policies.

Annex III. Public Debt Sustainability Analysis

The Covid-19 crisis left a legacy of a significantly higher central government debt-to-GDP ratio and gross financing needs. Even under the gradual fiscal consolidation process in staff baseline, Morocco's public sector debt remains sustainable. But the worse starting position points to increased vulnerabilities to the various shocks considered under the DSA. Contingent liabilities from both sovereign guaranteed credit to SOEs and unfunded pension schemes reinforce the importance of a cautious approach to fiscal policy and a steadfast commitment to reforms.

1. **Debt coverage and definition**. This DSA covers central government debt. Specifically, it analyses the debt of the Treasury (both domestic and external) excluding sovereign guarantees (mainly of external debt to SOEs). The authorities have started to produce general government data, with technical assistance from the Fund. Under this accounting, the perimeter of public debt would include the Treasury, extrabudgetary central government (e.g., public non-profit enterprises), local entities, pension funds, and social welfare organizations. The authorities are planning to start publishing these statistics soon.

Background

2. **The COVID-19 crisis has raised Morocco's central government debt-to-GDP ratio to 76.9 percent of GDP in 2020.** This increase in public debt (11.6 percent in 2020) was mostly driven by the worse real interest rate/growth differential (6.2 percent) and the impact of the pandemic on the primary deficit (5.1 percent of GDP). Gross financing needs for the central government significantly increased to 17.5 percent of GDP in 2020, from 13 percent of GDP in the original budget. Both debt level and gross financing needs were thus above the empirically determined high-risk benchmarks for emerging market economies (70 and 15 percent of GDP, respectively).

Baseline Projections

3. **Under staff baseline scenario, the stabilize public debt is expected to increase slightly over the medium term.** Central government debt-to-GDP ratio is expected to reach 76.5 percent of GDP in 2021 and gradually increase to 79.5 percent of GDP in 2024 and starts falling from 2025 to reach 78.3 percent of GDP in 2026. The projected debt path has slightly deteriorated relative to the 2020 AIV report, on account of the slower fiscal consolidation over the next 3 years, compared to what projected last year. The primary deficit is projected to decrease by 1.7 percentage points of GDP between 2021-24 while growth is expected to hover around 3 percent over the medium term. The projected fiscal consolidation efforts over the medium term seems realistic relative to the distribution of fiscal adjustment efforts in a group of peer countries (see Figure 3) and previous episodes of fiscal consolidation (for example 2012-17). Privatization receipts (projected at about 1½ percent of GDP in 2021-24) should also help reduce financing needs

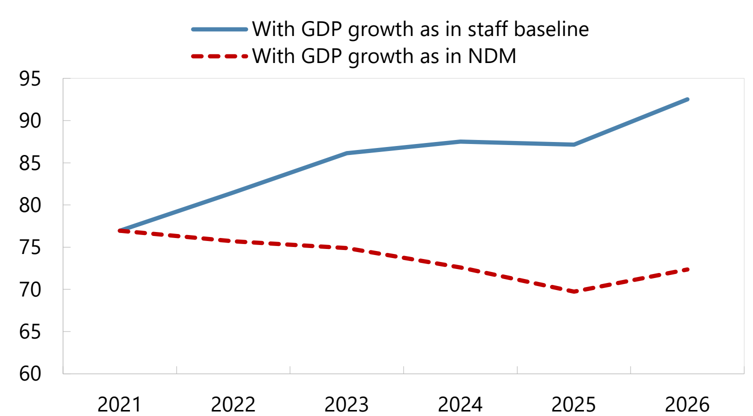
4. **Financing needs have slightly decreased in 2021, and while relatively high are still manageable in the medium term owing in part to active debt management operations**. Gross financing needs are expected to decrease to 14.6 percent of GDP in 2021 but to remain around 15

percent of GDP in the medium term. Financing needs in 2021 are expected to be covered by the issuance of Treasury bills and bonds in the domestic market (for around 11 percent of GDP) and external borrowing. In staff baseline, accounting for debt management operations that will swap old debt with new debt at more favorable terms (longer maturities and lower interest rates), financing needs are projected to remain around the benchmark of 15 percent over the projection period. Mitigating factors include i) a relatively stable cost of debt, as both domestic and international interest rates are projected to remain low, ii) improved debt management, which helped maintain a long average maturity and low interest payment in 2022, and iii) a significant share of external borrowing on a concessional basis.

5. **Overall, Morocco's central government debt remains sustainable.** While the central government debt-to GDP ratio has significantly increased in 2021 (+11.9 percentage points of GDP) relative to 2019 , as a consequence of the government response to the Covid-19 pandemic, a few characteristics of the debt profile continue to limit potential vulnerabilities, in particular (see Figure 2): i) its relatively long maturity (weighted average maturity of about 7.5 year), ii) the relatively low share denominated in FX (about 25 percent) and iii) the investment base made mostly of local investors, many of whom are long-term investors. Thanks to such features, as well as to its solid track record and favorable ratings, Morocco's government has maintained steady access to international capital markets at favorable terms over the last 10 years, and more recently after the health crisis.

6. **A full implementation of the reforms in the New Model of Development (NMD) could significantly increase public debt if the projected acceleration in growth does not materialize.** As said in the text of the Report, the NMD report estimates the cost of reforms to be about 4 percent of GDP annually over the next five years, rising to 10 percent of GDP per year by 2030. While an acceleration of growth to about 7 percent of GDP per year between 2022 and 2035 (necessary to double Morocco's GDP per capita in this period, an objective of the NMD) would help maintain the debt-to-GDP at relatively stable levels, under a scenario where the cost of reforms is fully accounted for in the financing needs, but growth remains at as in staff baseline projections, public debt will increase to around 95.5 percent of GDP by 2026 (chart).

Impact of NDM Reforms on Public Debt
(Percent of GDP)



Source: IMF Staff Calculations

Stress tests

7. **However, the worse starting conditions after the pandemic means that Morocco's public debt sensitivity to shocks in the near term has increased.** The debt level remains well above the benchmark of 70 percent of GDP for emerging markets when various shocks are considered (including shocks to real GDP growth or to the primary balance), although it always resumes a downward path in the medium term. Vulnerabilities linked to the profile of debt are mostly moderate and short-term debt represents a very small part of the total debt (about 3 percent of GDP at end-2020). Relevant indicators (except bond spread over U.S. bonds, and change in short-term debt) exceed the lower early-warning benchmarks, but not the upper risk assessment benchmarks (Figure 5). Contingent liabilities from guarantees to SOEs (15.0 percent of GDP) and subsidized credit schemes under the COVID-19 crisis (4.9 percent of GDP) could represent an additional vulnerability, although the transmission of the latter to a new financial institution under BAM supervision (which will absorb the first layer of losses from potential activation of guarantees) represents a mitigating factor. Contingent liabilities from unfunded public pension schemes also represent a risk.[1] These risks highlight the importance of accelerating the path of fiscal consolidation in the context of a renewed commitment to structural reforms, to bring the debt-to GDP ratio closer to the empirical high-risk level of 70 percent of GDP over the medium term.

[1] However, at least in part such liabilities are already recognized in the analysis, as the central government debt includes Treasury bonds that are held by the social security administration (by about 10 percentage points of GDP).

Figure 1. Morocco: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

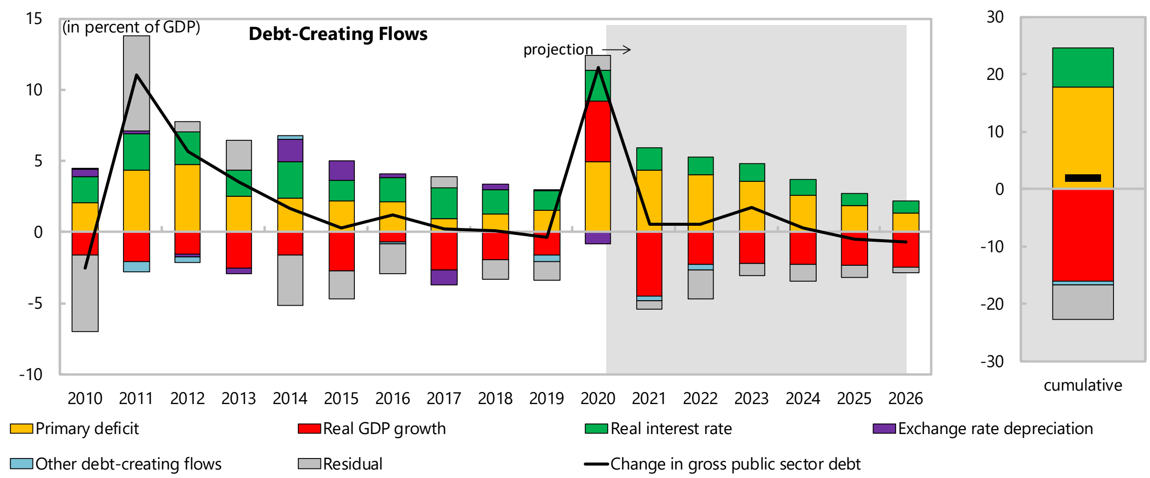
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of May 05, 2021		
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	59.6	64.8	76.4	76.9	77.5	79.2	79.5	79.0	78.3	EMBI (bp) 2/		220
Public gross financing needs	14.5	11.3	17.5	14.6	15.9	16.2	15.8	15.0	14.8	CDS (bp)		120
Real GDP growth (in percent)	3.6	2.6	-6.3	6.3	3.1	3.0	3.0	3.1	3.3	Ratings 3/	Foreign	Local
Inflation (GDP deflator, in percent)	0.9	1.4	0.8	1.2	1.4	1.3	1.5	1.8	1.8	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	4.5	4.0	-5.5	7.5	4.7	4.3	4.6	4.9	5.2	S&Ps	BB+	BB+
Effective interest rate (in percent) 4/	4.7	3.6	3.9	3.5	3.1	3.0	3.1	3.0	3.0	Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	2.3	-0.4	11.6	0.5	0.5	1.7	0.3	-0.5	-0.7	1.9	
Identified debt-creating flows	2.8	0.9	10.6	1.1	2.6	2.6	1.5	0.4	-0.3	7.9	
Primary deficit	2.5	1.5	4.9	4.4	4.0	3.6	2.6	1.9	1.3	17.7	-1.6
Primary (noninterest) revenue and grants	27.0	25.6	28.6	25.3	26.3	26.6	26.8	27.1	27.3	159.3	
Primary (noninterest) expenditure	29.5	27.1	33.5	29.7	30.3	30.1	29.4	29.0	28.6	177.1	
Automatic debt dynamics 5/	0.4	-0.2	5.6	-2.9	-1.0	-0.9	-1.2	-1.5	-1.6	-9.1	
Interest rate/growth differential 6/	0.1	-0.2	6.4	-2.9	-1.0	-0.9	-1.2	-1.5	-1.6	-9.1	
Of which: real interest rate	2.0	1.4	2.1	1.6	1.2	1.3	1.1	0.8	0.9	6.9	
Of which: real GDP growth	-1.9	-1.6	4.3	-4.5	-2.2	-2.2	-2.3	-2.3	-2.5	-16.0	
Exchange rate depreciation 7/	0.3	0.0	-0.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	-0.5	0.0	-0.3	-0.4	0.0	0.0	0.0	0.0	-0.7	
CG: Privatization Proceeds (negative)	-0.1	-0.5	0.0	-0.3	-0.4	0.0	0.0	0.0	0.0	-0.7	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	-0.4	-1.3	1.0	-0.6	-2.1	-0.9	-1.2	-0.9	-0.4	-6.0	



Source: IMF staff.

1/ Public sector is defined as central government and debt figures do not incorporate deposits at the Treasury from third parties (SOEs, private entities and individuals).

2/ Bond Spread over U.S. Bonds.

3/ Based on available data. Moody's credit rating is unsolicited.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

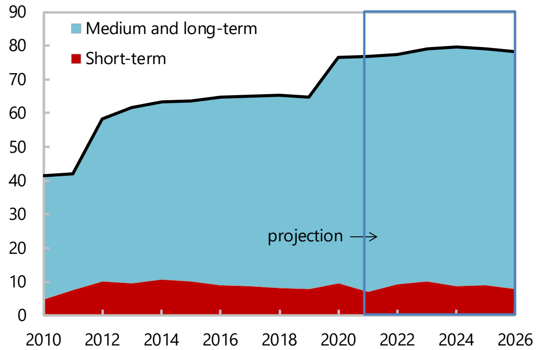
7/ The exchange rate contribution is derived from the numerator in footnote 5/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

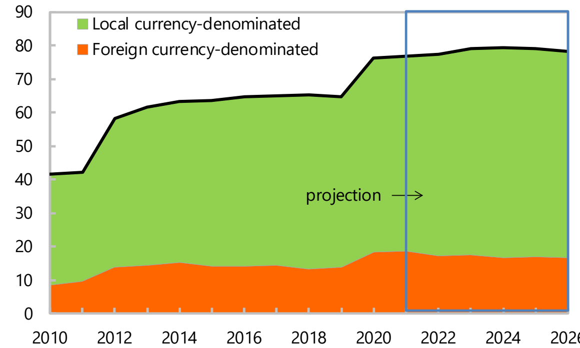
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

By Maturity
(in percent of GDP)



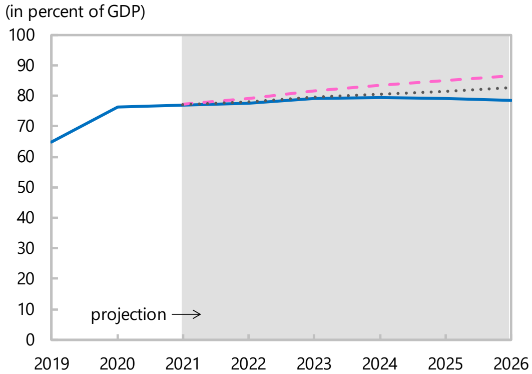
By Currency
(in percent of GDP)



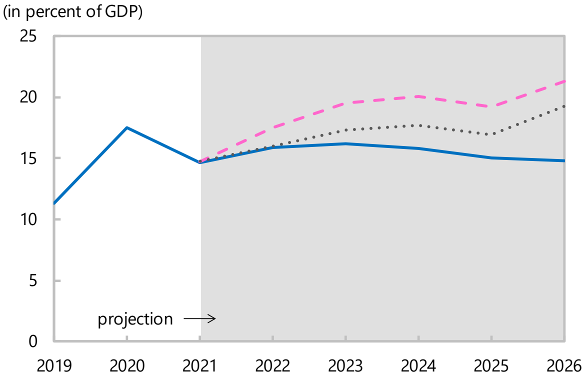
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



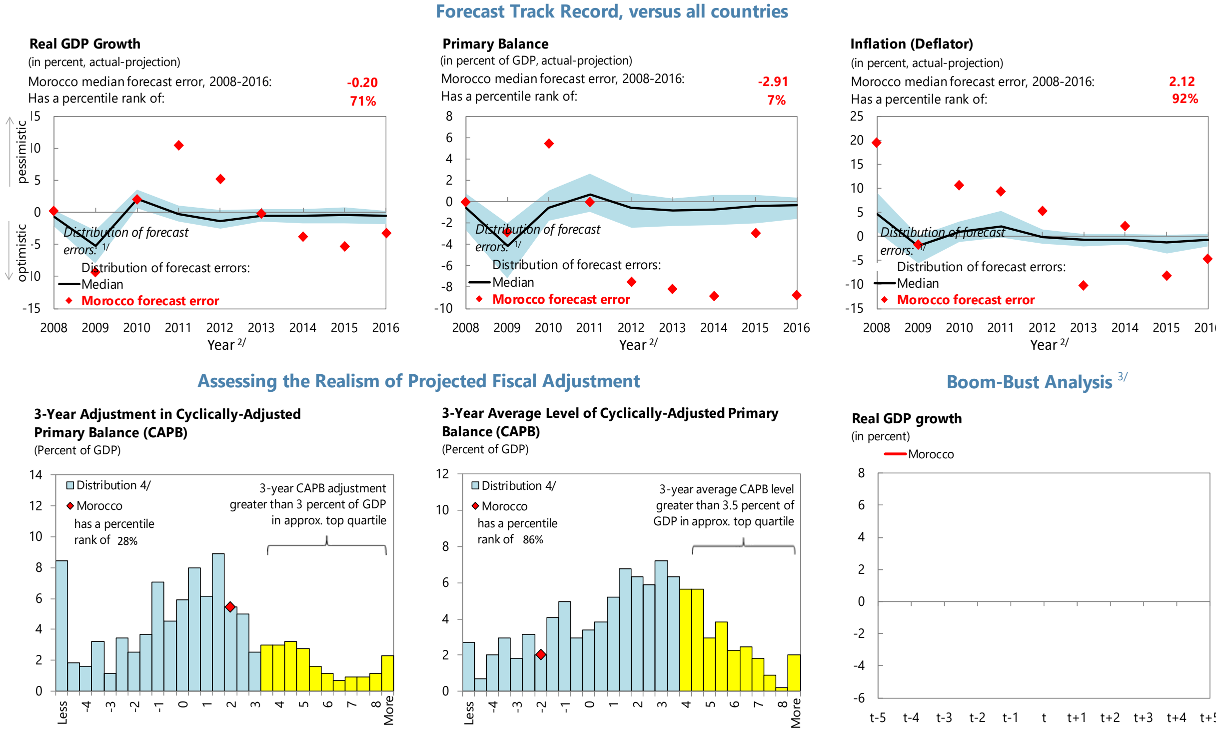
Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.3	3.1	3.0	3.0	3.1	3.3
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary Balance	-4.4	-4.0	-3.6	-2.6	-1.9	-1.3
Effective interest rate	3.5	3.1	3.0	3.1	3.0	3.0
Constant Primary Balance Scenario						
Real GDP growth	6.3	3.1	3.0	3.0	3.1	3.3
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary Balance	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	3.5	3.5	3.1	3.0	2.8	3.0

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.3	2.5	2.5	2.5	2.5	2.5
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary Balance	-4.4	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	3.5	3.5	3.5	3.4	3.3	3.6

Source: IMF staff.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions



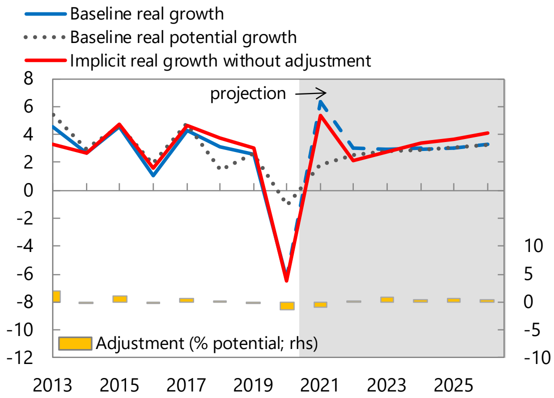
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Morocco.
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions (concluded)

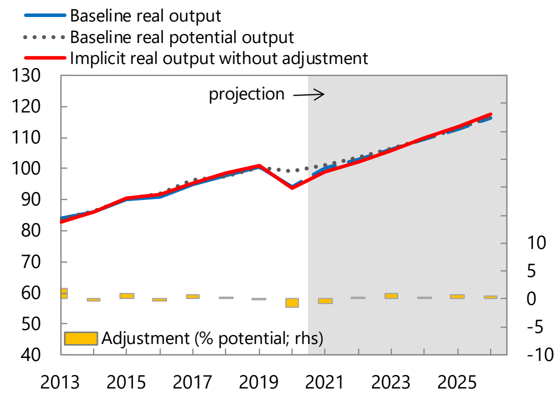
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.6, persistence of 0.6

Real GDP Growth
(in percent)

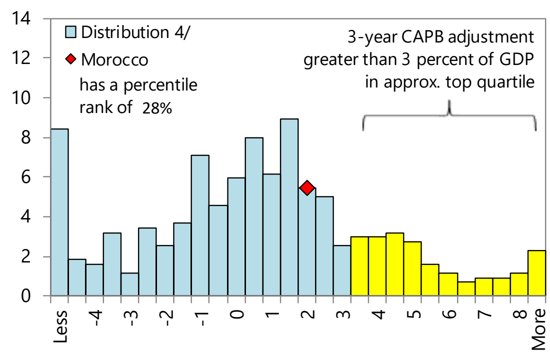


Real Output Level
(Baseline real output in 2021=100)

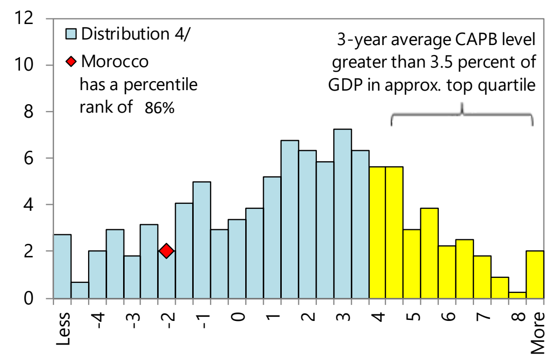


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



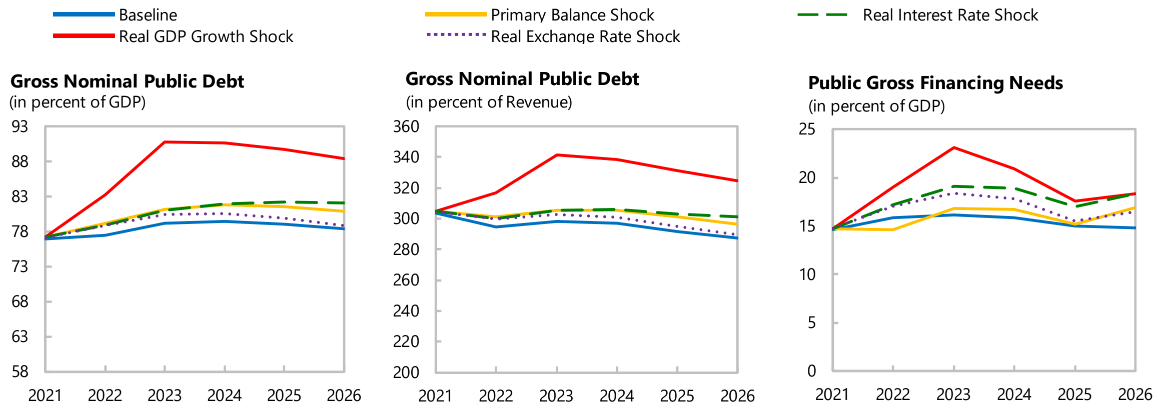
3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



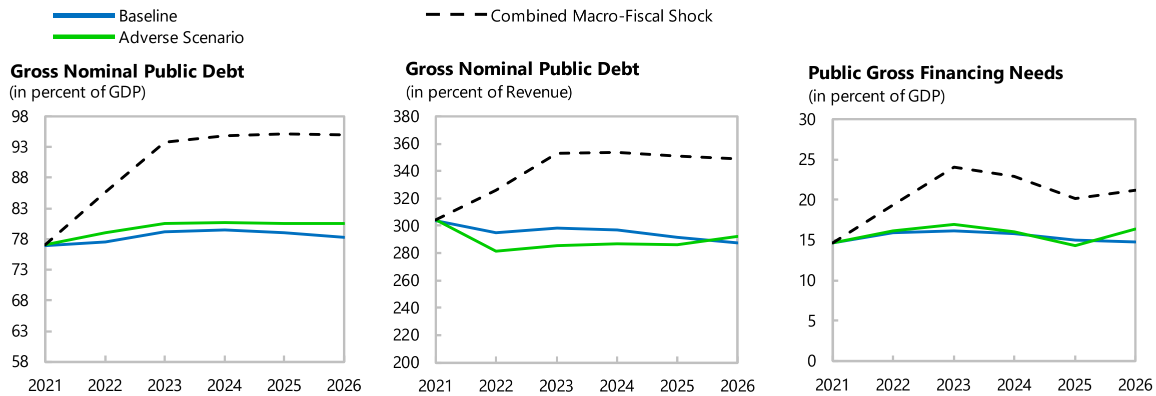
Source : IMF staff.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	6.3	3.1	3.0	3.0	3.1	3.3
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary balance	-4.4	-4.2	-3.8	-3.1	-2.2	-1.6
Effective interest rate	3.5	3.5	3.2	3.0	2.9	3.1
Real Interest Rate Shock						
Real GDP growth	6.3	3.1	3.0	3.0	3.1	3.3
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary balance	-4.4	-4.0	-3.6	-2.6	-1.9	-1.3
Effective interest rate	3.5	3.5	3.9	4.0	4.0	4.4
Combined Shock						
Real GDP growth	6.3	-0.3	-0.4	3.0	3.1	3.3
Inflation	1.2	0.6	0.5	1.5	1.8	1.8
Primary balance	-4.4	-5.3	-6.2	-3.1	-2.2	-1.6
Effective interest rate	3.5	3.5	3.9	4.0	4.0	4.4
Adverse Scenario						
Real GDP growth	6.3	1.4	1.3	1.4	1.4	1.7
Inflation	1.2	1.4	1.3	1.5	1.8	1.8
Primary balance	-4.4	-2.8	-2.1	-1.2	-0.8	-1.0
Effective interest rate	3.5	3.5	3.3	3.2	2.9	3.2

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	6.3	-0.3	-0.4	3.0	3.1	3.3
Inflation	1.2	0.6	0.5	1.5	1.8	1.8
Primary balance	-4.4	-5.3	-6.2	-2.6	-1.9	-1.3
Effective interest rate	3.5	3.5	3.2	3.1	2.8	3.1
Real Exchange Rate Shock						
Real GDP growth	6.3	3.1	3.0	3.0	3.1	3.3
Inflation	1.2	4.6	1.3	1.5	1.8	1.8
Primary balance	-4.4	-4.0	-3.6	-2.6	-1.9	-1.3
Effective interest rate	3.5	3.5	3.1	3.0	2.8	3.0

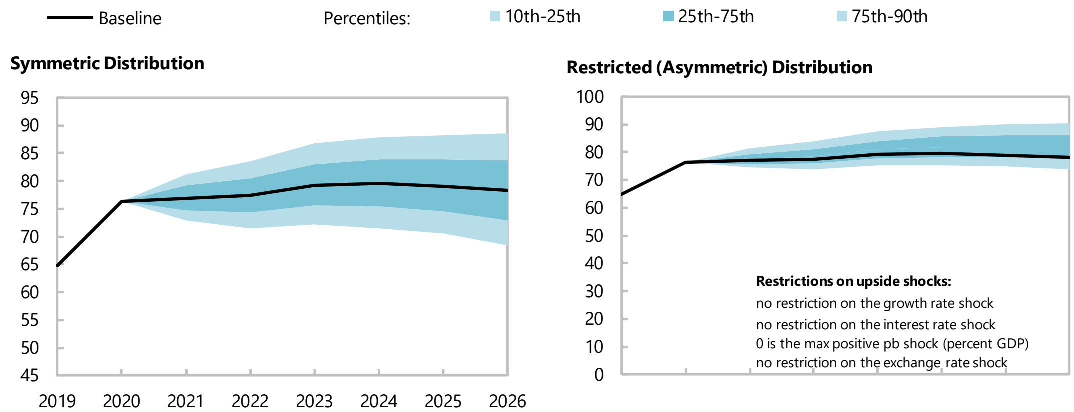
Source: IMF staff.

Figure 5. Morocco: Public DSA—Risk Assessment

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

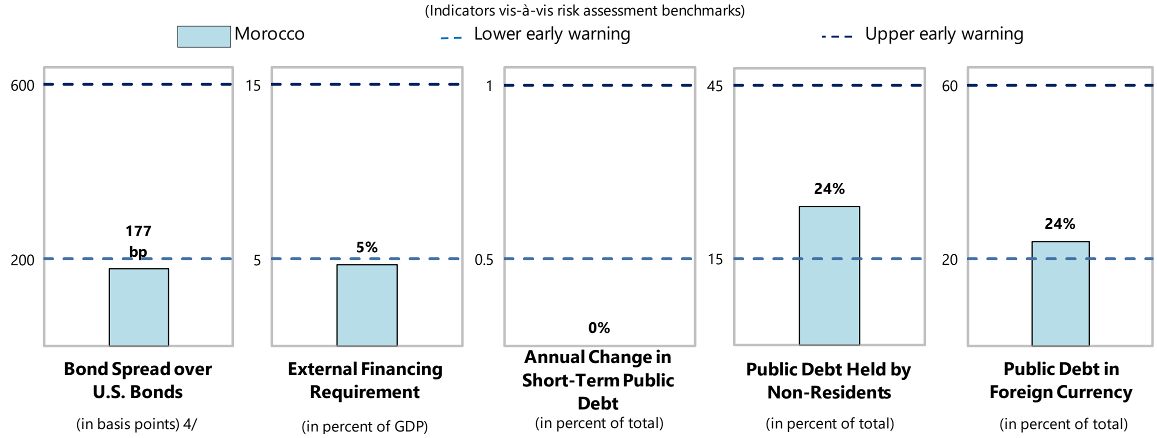
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 04-Feb-21 through 05-May-21.

INTERNATIONAL MONETARY FUND

MOROCCO

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

January 11, 2022

Prepared By	The Middle East and Central Asia Department (in consultation with other departments)

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RELATIONS WITH THE FUND

(As of November 30, 2021)

Membership Status
Joined April 25, 1958; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	894.40	100.00
Fund holdings of currency	2,246.92	251.22
Reserve position in Fund	147.35	16.47

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,418.66	100.00
Holdings	1,463.09	103.13

Outstanding Purchases and Loans

	SDR Million	Percent Allocation
Precautionary and Liquidity Line	1,499.80	167.69

Latest Financial Arrangements (In millions of SDR)

Type	Date of arrangement	Expiration Date	Amount Approved	Amount Drawn
Precautionary and Liquidity Line	12/17/2018	04/07/2020	2,150.80	2,150.80
Precautionary and Liquidity Line	07/22/2016	07/21/2018	2,504.00	0.00
Precautionary and Liquidity Line	07/28/2014	07/21/2016	3,235.10	0.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDR):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal				962.10	537.70
Charges/interest		15.77	15.77	11.71	1.75
Total		**15.77**	**15.77**	**973.81**	**539.45**

Exchange Rate Arrangement and Exchange System

Morocco's de jure exchange rate system is a pegged exchange rate within horizontal bands. In January 15, 2018, Bank Al-Maghrib (BAM) announced the widening of the dirham fluctuation band to ±2.5 percent (from ±0.3 percent) on either side of a reference parity, based on a Euro/US dollar basket with respective weights of 60 and 40 percent. As part of a gradual and orderly transition to a more flexible exchange rate regime, the authorities further broadened the dirham's fluctuation band to ±5 percent on March 6, 2020. Accordingly, the de facto exchange rate arrangement has been reclassified to a pegged exchange rate within horizontal bands from stabilized exchange rate, effective March 24, 2020.

BAM intervenes in the market to maintain the exchange rate within its target range, defined around a fixed central rate. Rates for most currencies quoted in Morocco are established based on the daily dirham-euro rate and the cross rates for those currencies in relation to the euro in the international exchange markets. Morocco's exchange system is free of multiple currency practices and restrictions on payments and transfers for current international transactions, except for restrictions that Morocco maintains solely for the preservation of national or international security and have been notified to the Fund pursuant to Executive Board Decision 144 (52/51). Capital controls are currently in place in Morocco, but are in the process of being loosened (e.g. lower surrender requirements for exports and higher ceilings for direct investments of residents, particularly for investments in Africa and in the financial sector). As of December 10, 2021, the USD/dirham exchange rate was USD 1=DH 9.26350.

Article IV Consultation

Morocco is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on December 18, 2020. The discussions for the 2021 consultation be held during November 30–December 10, 2021.

Technical Assistance

MCM	Macro-Economic Modeling	September 11–26, 2013
LEG	AML/CFT Supervision	November 3–16, 2013
STA	Leverage the Open Data Platform for Data Reporting	January 2014
LEG	AML/CFT: Structures and Tools	January 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	March 27–April 14, 2014
MCM/MCD	Exchange Rate Flexibility	May 26–30, 2014
RES	Quarterly Prediction Model (4 short visits)	May through December 2014
AFR/MCM/MCD	Pan-African Cross-Border Banks Exercise	June 2–6, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	June 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	July 2014
RES	Quarterly Prediction Model (6 short visits)	February. through Nov.2015
MCM	Exchange Rate Flexibility	September 15–19, 2014
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 22–October 3, 2014
MCM	Development of Macro Prudential Instruments	November 3–14, 2014

RES/ICD	Improving Monetary Frameworks – Inflation Targeting	May 2015
RES/ICD	Improving Monetary Frameworks – Inflation Targeting	September 2015
RES	Forecasting and Policy Analysis system (FPAS)	Nov.30–Dec.3, 2015
RES	MAPMOD Framework for Macroprudential	January 12–15, 2016
MCM	Crisis Management and Banking Resolution	February 8–12, 2016
STA	National Accounts Assessment	April 25–29, 2016
STA	Government Financial Statistics	April 20–29,2016
MCM	Take Stock ER Flexibility	May 26–27, 2016
RES	FPAS Under ER Flexibility	May 26–June 2, 2016
RES	Macro-Prudential Policy	September 26–30, 2016
MCM	Exchange Rate Flexibility	October 17–27,2016
RES	Building Capacity for Macroeconomic Modeling	October 31–November 8, 2016
MCM	Management of Foreign Currency Liabilities,	April 5–14, 2017
MCM	Monetary and Financial Statistics	July 17–28, 2017
METAC	ER Flexibilization: Enhancing Risk-Based and Forward-Looking Banking Supervision	September 4-8, 2017
FAD	Public Investment Management Assessment	September 5–21, 2017
STA	Government Finance Statistics Capacity Development	September 11–22, 2017
MCM	Control and Audit Frameworks of Macroeconomic Models	October 16-20, 2017
FAD	Revenue Administration Gap Analysis Program	September 17–22, 2018
STA	Government Finance Statistics	September 24-October 5, 2018
STA	Financial Sector Indicators	October 15-26, 2018
FAD	Public Corporations Fiscal Risks Management	October 22–November 5, 2018
STA	Government Finance Statistics	February 14-20, 2019
MCM	Systemic Risk Monitoring – Stress Testing	February 21–March 1, 2019
STA	Government Finance Statistics	April 1-12, 2019
MCM	Macroprudential Policy	April 23–May 2, 2019
METAC	National Accounts and Price Statistics	June 10-11, 2020
FAD	Tax Administration and Medium-Term Revenue Strategy	November 12– 25, 2019
METAC	Internal Capital Adequacy Assessment Process (ICAAP)	January 20-24, 2020
STA	External Sector Statistics	January 20-30, 2020
METAC	Cash Management	January 28-February 6, 2020
MCM	Inflation-Targeting Framework and Exchange Rate Regime (virtual)	July 6-17, 2020
STA	Government Finance Statistics	September 14-25, 2020
METAC	Producer Price Index (virtual)	September 21-October 2, 2020
MCM	Insurance Supervision (virtual)	October 19 – November 5, 2020
METAC	Fiscal Risks from PPPs (virtual)	November 1-8, 2020
METAC	Implementation of Basel II and III standards (virtual)	October 26-November 3, 2020
METAC	Fiscal Risks from SOEs (virtual)	November 9-20, 2020
ICD	Review of Forecasting and Policy Analysis System (FPAS) (virtual)	November 16, 2020- January 29, 2021
METAC	Risk Management Unit and Tax Governance (virtual)	March 1-15, 2021
METAC	Fiscal Risks from SOEs (virtual)	March 8-19, 2021

METAC	Implementation of Basel II and III Standards (virtual)	April 2021
METAC	Supervisory Review and Evaluation Process (virtual)	June 25–July 27, 2021
ICD	Review of Forecasting and Policy Analysis System (FPAS) and Communications (virtual)	August 23-September 10, 2021
METAC	Internal Control framework (virtual)	October 11-22, 2021

FSAP Update

The latest update of the Financial Sector Assessment Program was performed in April 2015. The findings were discussed with the authorities during the October/November 2015 Article IV mission and discussed by the Board on December 14, 2015. Continued progress is being made to upgrade the financial sector policy framework in line the 2015 FSAP recommendations.

Safeguard Assessment

The 2019 assessment found a robust safeguards framework at the BAM. The transition to International Financial Reporting Standards (IFRS) in accordance with the timelines of the national convergence project in Morocco will build on the steps taken by the BAM to enhance financial reporting transparency.

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

As of November 10, 2021

Projects (worldbank.org)

STATISTICAL ISSUES

As of December 7, 2021

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate to conduct effective surveillance.	
National accounts: Real sector data are adequate for surveillance. Morocco compiles annual and quarterly GDP. The base year (2007) used to derive constant price estimates is outdated. The HCP is currently developing a price index for services. Plans are in place to develop a construction cost index, and a producer price indexes for agricultural products. The CPI weight reference period is 2017.	
Government finance statistics: Fiscal data are adequate for surveillance. Recent expansion of the coverage to consolidated general government is an important progress, but the continuous provision of individual subsectors (central government, social security schemes and local governments) is relevant for analysis and surveillance. Future enhancements could include the provision to the Fund of debt data at both face and nominal value and initiating the compilation of other accounts payable and nonfinancial corporations debt data.	
Balance of payments statistics: External sector data are adequate for surveillance. The Office des Changes of Morocco submits timely balance of payments and international investment position statistics and participates regularly in the annual Coordinated Direct Investment Survey.	
Monetary and financial statistics: They are adequate for surveillance. Morocco reports monetary and financial statistics (MFS) for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department (STA) using the standardized report forms. Bank Al Maghrib reports some key indicators of the Financial Access Survey (FAS), including the two indicators adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults). **Financial Sector Surveillance.** Morocco does not report financial soundness indicators (FSIs). A technical assistance mission conducted in October 2018 assisted Bank Al Maghrib in compiling a set of FSIs for deposit takers based on internationally accepted standards as set out in the IMF's *FSI Compilation Guide but* regular reporting of FSIs has not started yet.	
II. Data Standards and Quality	
Morocco has been an SDDS subscriber since December 2005.	The results of a data ROSC mission were published in April 2003 (Country Report No. 03/92).

Morocco—Table of Common Indicators Required for Surveillance

(As of December 7, 2021)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo items: Data Quality – Methodological soundness[8]	Memo items: Data Quality – Accuracy and reliability
Exchange Rates	Oct. 2021	11/29/2021	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2021	11/29/2021	M	M	M		
Reserve/Base Money	Oct. 2021	11/29/2021	M	M	M	LO, O, LNO, LO	LO, LO, O, O, LO
Broad Money	Oct. 2021	11/29/2021	M	M	M		
Central Bank Balance Sheet	Oct. 2021	11/29/2021	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2021	11/29/2021	M	M	M		
Interest Rates[2]	Oct. 2021	11/29/2021	M	M	M		
Consumer Price Index	Oct. 2021	11/20/2021	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]			A	A	A	LO, LNO, LO, O	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	Oct 2021	10/29/2021	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2020	11/1/2020	Q	Q	Q		
External Current Account Balance	Q2/2021	10/01/2021	Q	Q	Q	LO, LO, LO, LO	LO, LO, O, LO, LNO
Exports and Imports of Goods and Services	Oct. 2021	12/02/2021	Q	Q	Q		
GDP/GNP	Q2/2021	09/30/2021	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, O, O, LNO
Gross External Debt	Q2/2021	10/18/2021	Q	Q	Q		
International Investment Position [6]	Q2/2021	10/01/2021	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing by instrument (currency and deposits, securities, loans, shares, and other accounts payable)
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published on April 4, 2003 and based on the findings of the mission that took place during January 16–30, 2002, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).