

MOROCCO

Recent developments

Table 1 **2018**

Population, million	35.2
GDP, current US\$ billion	117.1
GDP per capita, current US\$	3326
National poverty rate ^a	4.8
Lower middle-income poverty rate (\$3.2) ^a	7.7
Gini index ^a	39.5
School enrollment, primary (% gross) ^b	112.3
Life expectancy at birth, years ^b	76.1

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2014).

(b) Most recent WDI value (2017).

Morocco's growth momentum slowed in 2019, largely driven by a volatile rainfed agricultural sector. The unemployment rate fell, but remains high, especially for the youth and women. The fiscal deficit edged down, but remains above medium-term target of 3 percent of GDP, reflecting high and rigid current expenditures. Looking forward, a higher contribution of productivity gains to economic growth is needed to ensure the sustainability of Morocco's development path, improve job creation, expand economic inclusion and thereby reduce social and political tensions.

Morocco's economy continues to operate below potential, with the rainfed agricultural sector contributing to volatility and a timid recovery of the other sectors. Real GDP is expected to slow further to 2.7 percent in 2019, due to a decline in agricultural output (minus 2.1 percent). Non-agricultural growth will improve (3.4 percent in 2019 compared to 3 percent in 2018), driven by better performance of phosphates, chemicals, and textiles output. On the demand side, private consumption will contribute the most to growth, boosted by higher salaries and low inflation. The contribution of net exports will remain negative, reflecting low competitiveness of exports and dependence on energy imports. Thanks to sound monetary policy and ample supply of fresh food, inflation has remained low, under 0.6 percent. The unemployment rate will slightly decline to 9.3 percent in H1-2019, underlined by a protracted fall in the labor force participation, which dropped to 46.1 percent.

Public finance will remain under stress with high and rigid current expenditures. The fiscal deficit will not decline as expected and will stall at 3.6 percent of GDP in 2019 (vs. 3.7 percent of GDP in 2018), impacted by higher wage bill and subsidies. The wage bill increased due to the rolling out of the social dialogue agreement adopted in April 2019, while rising subsidies reflect higher consumption of LPG. On the revenue side, fighting tax evasion efforts will compensate the negative impact

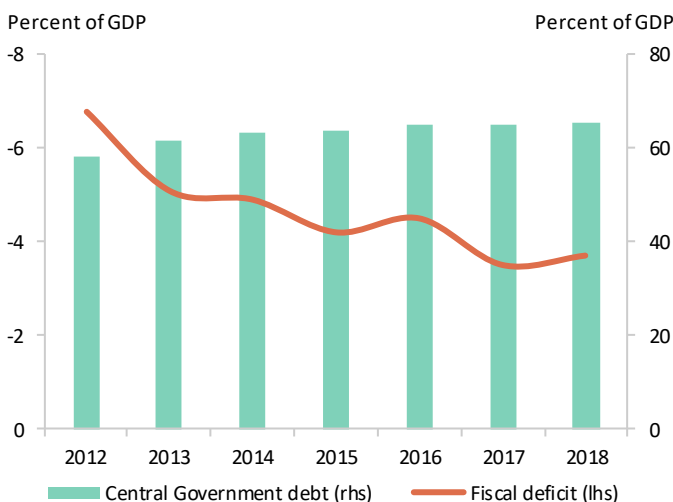
on tax revenue of weaker economic activity. A new national Tax Conference was organized in May 2019 to generate consensus around an overhaul of the tax system to enhance its efficiency, equity, and contribution to growth. The next step on tax reform is the approval of the multiannual programming framework law that will bring together all relevant recommendations of the Tax Conference and will serve as a reference for the next Budget laws.

The external position, while sustainable, has some vulnerabilities stemming from the structural trade deficits driven by weak competitiveness of exports and energy import dependence. The current account balance is expected to drop to around 4.3 percent of GDP in 2019 compared to 5.5 percent of GDP in 2018, helped by declining import prices, especially of energy, and intermediate and consumer goods.

Outlook

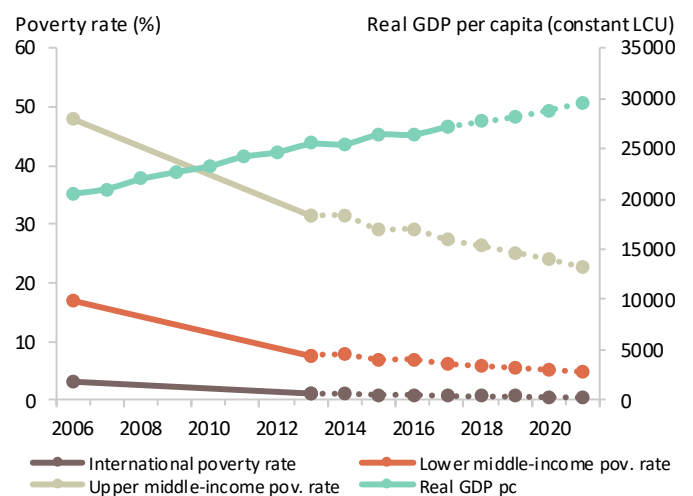
Growth is expected to pick up gradually and average 3.3 percent over 2020–2021, mainly driven by more dynamic secondary and tertiary activities, bolstered by high foreign investments. In particular, significant FDIs continue to flow into automotive industries, especially in the new Peugeot plant –that will eventually double the sector's production capacity– as well as into logistics and trade services following the expansion of the Tangiers port. Inflation is projected to average around 1 percent over the medium term.

FIGURE 1 Morocco / Morocco's fiscal deficit / Central government debt



Source: Ministry of Economy and Finance.

FIGURE 2 Morocco / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The medium-term outlook assumes sustained reforms including those to maintain fiscal restraint, strengthen tax revenues, improve governance and oversight of SOE's, enhance exchange rate flexibility, and reform the business environment and labor markets.

The 2020 Budget Law under preparation is expected to reflect the Government's commitment to increase social spending financed by expanded efforts to mobilize revenue and controlling some recurrent expenditures. Subsidy policy will continue, especially for LPG (Liquefied petroleum gas) consumption. A hedging system will be put in place to protect the Budget against any surge in LPG prices. In the context of the Social Dialogue agreement, the wage bill increase will cost the Budget a total of MAD 14.2 billion over 2019-21 (or 1.2 percent of GDP). In order to control the wage bill, the government intends to rationalize the creation of new public positions, inter alia by opting for human resources redeployments at sectoral and territorial levels. Consequently, fiscal deficit is forecast to slightly improve, averaging 3.5 percent of GDP over 2020-2021.

The current account balance is expected to gradually improve over the forecast period due to the growth of manufacturing exports – especially automobiles,

agribusiness, electronics, and chemicals – and rising tourism receipts, supported by a price easing of the main imported commodities and goods. Foreign direct investment will remain at 2 percent of GDP over the forecast period. Net international reserves should remain above 5 months of imports in 2019-20.

With contained inflation, and no imminent subsidy cuts, real incomes will be protected. However, poverty reduction is expected to be modest given the growth outlook. In the first part of 2010s Morocco experienced significant poverty reduction. Predictions based on GDP per capita indicate that poverty will decline but at a much slower pace. In 2020, extreme poverty, measured using the international poverty line of US\$1.9 PPP, will be below 1 percent and poverty measured with the US\$3.2 PPP line will be just above 5 percent. The planned increase of social spending accompanied by a better targeting can speed up the pace of poverty reduction beyond the current predictions.

Risks and challenges

Risks remain tilted to the downside, mitigated by a sound macroeconomic policy

framework and a precautionary IMF arrangement. External risks include low and decelerating global trade, volatile prices of main commodities, both exacerbated by uncertainties of geopolitical environment. There are also domestic risks, including the impact of climate change on the agriculture sectors and social demands for jobs (especially for the young), better public services and social protection programs. Energy imports could worsen the trade deficit if oil prices continue to rise, and delays in implementing key structural and financial sector reforms could adversely affect growth potential and in turn heighten social tensions.

Economic volatility can impact households' wellbeing, especially those whose consumption expenditure is just above the poverty line; a small negative shock can push this group back into poverty. The percentage of the population "vulnerable" to falling into poverty varies depending on the household expenditure adopted as a threshold. Using an expenditure threshold of US\$5.5 PPP, the numbers of poor and those not poor but vulnerable to falling into poverty are strikingly high: more than 24 percent of the population, or nearly 9 million Moroccans can be considered poor or at risk of poverty.

TABLE 2 Morocco / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	1.1	4.2	3.0	2.7	3.5	3.6
Private Consumption	3.7	3.8	3.3	3.5	3.5	3.7
Government Consumption	1.5	1.9	2.5	2.9	2.5	1.9
Gross Fixed Capital Investment	8.8	-0.2	1.2	2.2	1.9	2.5
Exports, Goods and Services	6.0	11.1	5.8	7.2	7.5	8.1
Imports, Goods and Services	14.5	7.9	7.5	6.5	6.6	7.6
Real GDP growth, at constant factor prices	0.1	4.4	2.8	2.7	3.5	3.6
Agriculture	-12.5	13.1	2.7	-2.1	4.8	3.8
Industry	0.6	3.6	3.0	3.5	3.5	3.6
Services ^a	3.4	2.6	2.7	3.6	3.2	3.5
Inflation (Consumer Price Index)	1.6	0.7	1.9	0.6	1.1	1.7
Current Account Balance (% of GDP)	-4.1	-3.4	-5.5	-4.3	-3.7	-3.3
Net Foreign Direct Investment (% of GDP)	-1.5	-1.5	-2.5	-1.8	-1.9	-1.8
Fiscal Balance (% of GDP)	-4.5	-3.5	-3.7	-3.6	-3.5	-3.4
Debt (% of GDP)	64.9	65.1	65.3	65.4	65.1	64.8
Primary Balance (% of GDP)	-1.9	-1.0	-1.2	-1.2	-1.1	-1.1
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	0.9	0.7	0.7	0.7	0.6	0.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	6.9	6.2	5.8	5.5	5.1	4.8
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{b,c}	29.1	27.4	26.3	25.2	24.1	22.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry to ensure internal consistency, and therefore might be different from official sources.

(b) Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2018. Forecast are from 2019 to 2021.

(c) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.