MOROCCO

Table 1	2021
Population, million	37.3
GDP, current US$ billion	128.6
GDP per capita, current US$	3442.4
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	115.2
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	98.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014).
b/ WDI for School enrollment (2020); Life expectancy (2019).

The economy rebounded in 2021, due to a strong agricultural output, solid exports and remittances, supportive macroeconomic policies, and significant progress on COVID-19 vaccination. The authorities adopted a New Development Model, an ambitious reform program that aims to foster stronger, greener, and more inclusive growth. They also embarked on ambitious reforms in health insurance, social protection, and education. In the short-run, the authorities will need to address the socio-economic effects of a severe drought and higher global energy and food prices.

Key conditions and challenges

A strong economic rebound in 2021 has enabled Morocco to recover most of the output and job losses caused by the COVID-19 crisis. However, real GDP is still 6.4 percent below the pre-pandemic trend, potential growth has been declining since the early 2010s, volatile precipitations are increasingly affecting the economy, and the crisis may leave socio-economic scars if not treated well.

Morocco's growth has not been sufficiently labor intensive to absorb a growing working-age population, owing to the slow pace of structural transformation. The labor market is characterized by a large informal sector, high rates of inactivity and low female labor force participation. This is related to the prevalence of low-valued-added services, and a difficult business environment, especially for start-ups and young firms.

The authorities recently adopted a New Development Model that calls for an ambitious and transformative reform agenda. It envisages an acceleration and diversification of Morocco's growth, which in the recent past has been heavily reliant on high levels of public investment with a relatively low multiplier effect. Another key challenge is to foster human capital accumulation and address long-lasting inequities in access to services and social protection. To this end, the government has embarked on a broad reform to universalize access to health insurance, create a unified cash transfer program for the poor and vulnerable, and improve educational outcomes.

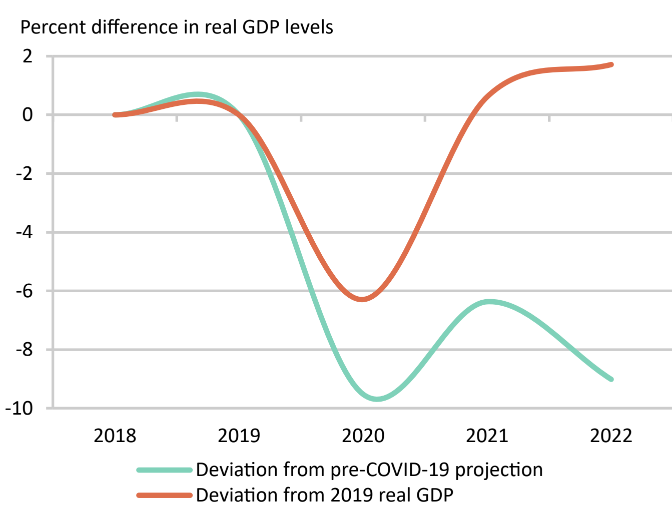
Recent developments

The authorities responded to the COVID-19 Omicron variant with a suspension of international travel from November 29, 2021 to February 7, 2022, one of the most stringent measures globally. According to official statistics, new COVID-19 cases have fallen in March 2022 to their lowest level since April-May 2020. Morocco has achieved one of the highest levels of vaccination in the African continent, with 63 percent of the population fully vaccinated as of March.

GDP growth rebounded to 7.4 percent in 2021 after contracting by 6.3 percent in 2020. This was partly due to an exceptional cereal crop after two consecutive years of severe drought. Agricultural value-added grew by 19 percent. The performance of the industrial sector was solid (7.7 percent annual growth), while that of services (4.8 percent) was muted by a slow recovery of tourism. On the demand side, growth was boosted by consumption, supported by a surge in workers' remittances and recovering labor markets.

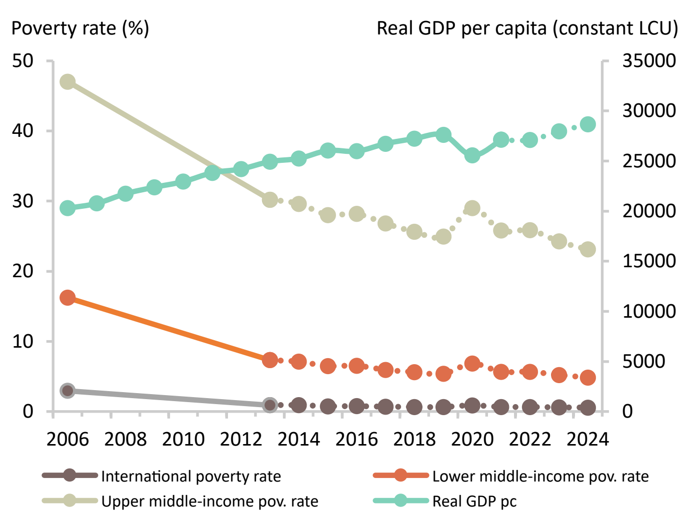
Annual inflation remained contained at 1.4 percent on average, notwithstanding the emergence of imported cost-push pressures towards the end of 2021. CPI posted a 3.6 percent yearly increase in February 2022. Bank Al-Maghrib has maintained the policy rate at 1.5 percent since June 2020.

FIGURE 1 Morocco / Actual and projected real GDP, percent deviation from 2019 level and pre-COVID-19 forecast



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The budget deficit declined from 7.6 to 6 percent of GDP in 2020-2021, as continued increases in public spending in 2021 - due to the vaccination campaign, higher public sector wages and rising energy subsidies - was more than offset by the rebound in labor income taxes and VAT. The debt-to-GDP ratio declined slightly from 76.4 to 75.6 percent.

The current account deficit widened from 1.5 to 2.6 percent of GDP in 2020-2021, as strong exports and remittances (7.8 percent of GDP) were more than offset by growing imports and depressed tourism receipts. The current account deficit was financed by higher net FDI flows and multilateral disbursements. The exchange rate has been overall stable, and foreign reserves increased by 3.3 percent to 6.3 months of imports.

Following the sharp increase in poverty in 2020, living conditions started to progressively normalize in 2021 due to an improvement in labor market performance and the exceptionally good agricultural season. Poverty at $3.2 line (2011 PPP) decreased by 17 percent and extreme poverty at $1.9 line (2011 PPP) by 26 percent, reaching 5.7 percent and 0.7 percent.

Outlook

Growth is projected to slow to 1.1 percent in 2022, as agricultural output declines by 17.3 percent due to another severe drought. The economy is projected to be driven by a still solid but moderating industrial performance and a faster recovery of tourism. Ongoing reforms are expected to increase potential growth over the medium-term.

The fiscal impact of the health and social protection reform and postponement of the LPG and flour subsidy reform will slow the consolidation of the budget deficit (6.2 percent of GDP in 2022). Public debt is projected to stabilize below 80 percent of GDP. The current account deficit is expected to widen to 5.5 percent of GDP due to higher energy and food import bill.

This outlook is subject to various downside risks. The war in Ukraine is pushing up global commodity prices, which together with the drought, could push up Morocco's import bill and public subsidies, thereby impacting the current account and the budget balance. A weaker recovery could exert additional pressures on household and firms' debt servicing capacity. Inflationary pressures could force the central bank to raise rates, which together with changes in the monetary stance of advanced economies would tighten financing conditions for the public and the private sector.

Rising prices and decreasing agricultural revenues are expected to slow down the post-COVID-19 normalization of socioeconomic conditions. Poverty and extreme poverty are expected to stagnate in 2022 at best, and will not get back to pre-COVID-19 levels until 2023. Given inflationary pressures, especially for food and energy products, as well as the impacts of the severe drought, measures to support the most vulnerable as well as the broader planned social dialogue will be important measures for Government to take.

TABLE 2 Morocco / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.6	-6.3	7.4	1.1	4.3	3.6
Private Consumption	1.9	-4.1	6.7	2.4	4.4	3.9
Government Consumption	4.8	1.7	5.4	2.7	2.6	2.5
Gross Fixed Capital Investment	1.0	-9.0	9.8	5.7	5.7	4.7
Exports, Goods and Services	6.2	-14.3	4.9	11.2	11.7	10.4
Imports, Goods and Services	3.4	-12.2	9.8	13.2	9.7	9.0
Real GDP growth, at constant factor prices	2.7	-6.1	6.7	1.1	4.3	3.6
Agriculture	-4.6	-6.9	19.0	-17.3	16.5	4.9
Industry	3.6	-3.8	7.7	3.3	3.4	3.5
Services	4.0	-7.1	4.8	3.6	3.6	3.7
Inflation (Consumer Price Index)	0.2	0.7	1.4	4.0	1.8	1.7
Current Account Balance (% of GDP)	-3.7	-1.5	-2.6	-5.5	-4.0	-3.7
Net Foreign Direct Investment (% of GDP)	1.3	1.4	1.3	1.5	1.5	1.5
Fiscal Balance (% of GDP)	-3.8	-7.6	-6.0	-6.2	-5.8	-5.7
Debt (% of GDP)	64.8	76.4	75.6	79.8	79.5	79.6
Primary Balance (% of GDP)	-1.5	-5.1	-3.7	-3.9	-3.4	-3.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.7	0.9	0.7	0.7	0.6	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.4	6.8	5.7	5.7	5.2	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.9	29.0	25.8	25.9	24.3	23.1
GHG emissions growth (mtCO2e)	6.3	-4.5	5.3	1.2	3.5	3.3
Energy related GHG emissions (% of total)	69.3	67.9	69.4	69.4	69.8	70.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2013-ENCDM.Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.