MOROCCO

Table 1	2019
Population, million	35.6
GDP, current US$ billion	119.7
GDP per capita, current US$	3363.6
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]	113.9
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) Most recent WDI value (2018).

With the double domestic and external shocks stemming for the COVID-19 shock, the economy is projected to face a deep recession, its first recession since 1995. Fiscal consolidation paused given the pressures on expenditures and downturn in economic activity. The decrease in remittances, tourism and FDI along with the significant drop of exports are adversely impacting the external position. Growth is expected to gradually recover but the pace and length of the recovery are subject to high uncertainty.

Key conditions and challenges

The COVID-19 pandemic hit Morocco's economy in a context of low and below potential economic growth, constrained by low productivity. The economic impacts of the crisis through the drop in the production of goods and services, a reduction in exports, disruption of global value chains, as well as a decline in tourism have been translated into unprecedented and daunting challenges for the country trying to mitigate both health and economic impacts of the pandemic. Consequently, a large degree of uncertainty surrounds the projected pace of recovery and risks are still tilted to the downside. Delayed vaccine, new Covid-19 waves and a renewed lockdown would further worsen growth. On the external side, the recession in Europe could be deeper than anticipated, leading to a potential reduction of Moroccan exports', tourism revenues, remittances and FDI, which would have knock-on effects on the external balance and put pressure on the foreign reserve position. A continued disruption of global financial markets could hinder access to finance. Furthermore, sluggish economic activity and its volatility negatively impact households' wellbeing too, particularly the wellbeing of those whose consumption expenditure is just above the poverty line; a small negative shock can push this group back into poverty. As result, poverty and vulnerability are expected to grow and invert a trend observed in the last years of fast poverty reduction.

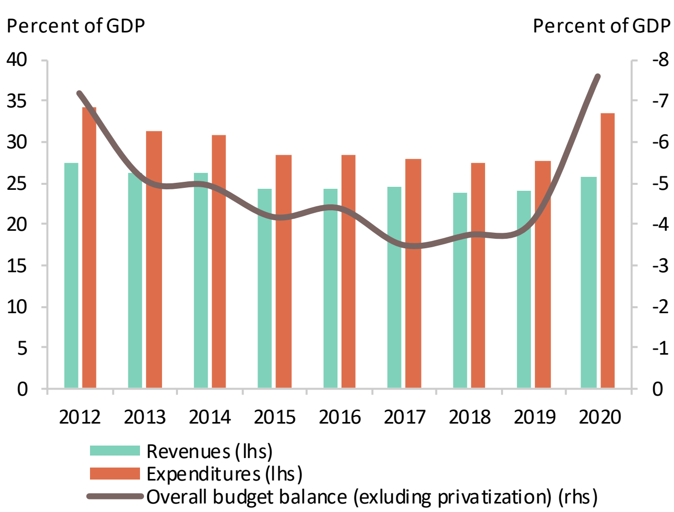
Recent developments

With a far longer period of disruption and lockdown (almost three months) taking place in Q2-2020, economic output contracted significantly by 13.8 percent in Q2-2020 compared to a 0.1 percent increase in Q1-2020. On the supply side, manufacturing industries declined significantly, by 6 percent in H1-2020, as many industries stopped their activities in mid-March, in particular the automotive sector. The services sector, the main engine of economic growth over the past 20 years, also dropped significantly, by 5 percent in H1-2020, thus dragging down non-agricultural growth to -6.8 percent in H1-2020. The central bank cut its policy rate by 75 bp to 1.5% and increased bank refinancing from 5% to 11% of GDP. Meanwhile, the unemployment rate worsened from 8.1 percent to 12.3 percent in H1-2020.

On the external front, despite an improved trade balance, the decline of tourism receipts (-33.2 percent) and remittances (-8.1 percent) worsened the current account balance. International reserves have increased thanks to foreign financing, including $3bn IMF PLL in March 2020 and €1bn bonds (5 and 10 year) issued in September 2020.

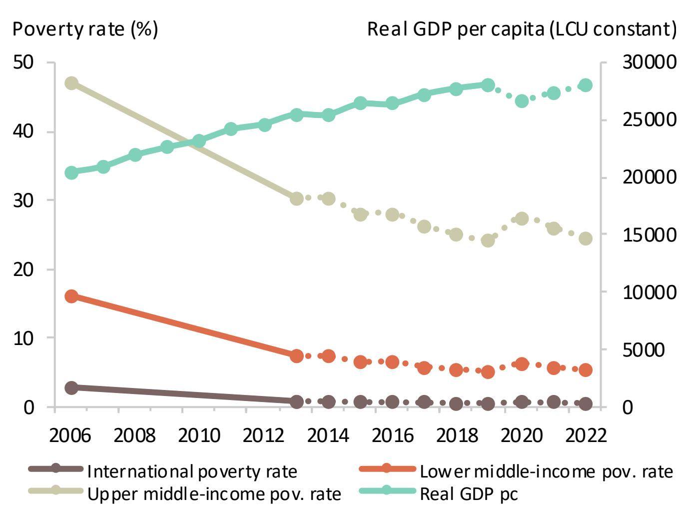
The fiscal consolidation efforts undertaken by the authorities in recent years have been discontinued, as expenditures increased

FIGURE 1 Morocco / Slowing fiscal consolidation



Sources: Ministry of Economy and Finance, World Bank staff estimates.

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



Sources: World Bank. Notes: see Table 2.

mainly driven by the budgetary support of the Covid-19 fund (Government contributed 1 percent of GDP). The latter aims to supports households with cash payments and short-term work benefits as well as credit guarantees for firms. The Covid-19 Fund revenues has reached nearly (3 percent of GDP) at end-August, while spending reached 2.1 percent of GDP. In addition, the collapse in economic activity has resulted in a shortfall of tax revenues by 8.3 percent mainly from customs duties, goods and services, income and profits, all of which increased the budget deficit.

The sudden economic stop has led to income losses. A recent High Commission of Planning's survey indicated that 34 percent of households claim to have no income source due to the shutdown of their activities during confinement (35 percent in rural areas).

Outlook

Real GDP is projected to contract by 6.3 percent in 2020, primarily due to the COVID-19 pandemic but also to poor rainfall conditions impacting the agriculture sector. On the demand side, except public consumption, all components of aggregate demand are expected to significantly decline. Over the medium term, the economic recovery will likely be a protracted one as agricultural output recovers to its historical growth rate while non-agricultural output slowly picks up as economic activity gradually restarts. Tourism may recover at a slower rate as concerns about subsequent waves of COVID-19 and reduced household incomes may limit global tourism demand. Morocco plans the creation of a Strategic Investment Fund (4 percent of GDP) as a public limited company to support recovery financing in the short-run and infrastructure financing in the medium-to long run.

The current account deficit is expected to widen to 9.9 percent of GDP in 2020 before narrowing over the medium term. The external shock has led to sharp decline in imports, exports, tourism revenues and remittances. Although imports (except food imports) will decrease, this will not fully offset the decline in exports and tourism revenues. On the fiscal front, revenue will be lower than expected in both 2020 and 2021 while expenditures are projected to increase in 2020 on the back of additional spending related to COVID-19 policy responses. As a result, the overall fiscal deficit will widen to 7.6 percent of GDP in 2020. Central government debt is projected to rise, reaching 78.9 percent of GDP in 2022 before gradually declining to 76.4 percent by 2025.

In 2020, the extreme poverty (international poverty line US$1.90 PPP) will slightly increase but remain below 1 percent, while the poverty measured with the US$3.2 PPP line will increase by 1 percentage point in 2020 and reach 6.2 percent. The percentage of the population "vulnerable" to fall into poverty is expected to increase in 2020 from 24.4 percent to 27.5 percent of the total population. Poverty is projected to decline in 2021 and 2022 but at a much slower pace than previous years and poverty indicators won't return to the pre-Covid-19 situation before 2022. However, the planned increase of social spending with a better targeting can accelerate the pace of poverty reduction.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	3.1	2.5	-6.3	3.4	3.6
Private Consumption	3.8	3.4	1.8	-5.1	3.4	3.7
Government Consumption	2.1	2.7	4.7	8.9	4.5	3.5
Gross Fixed Capital Investment	-0.2	1.2	1.0	-8.7	4.7	4.9
Exports, Goods and Services	11.1	6.0	5.5	-10.7	6.5	6.8
Imports, Goods and Services	7.9	7.4	3.3	-6.3	4.3	4.5
Real GDP growth, at constant factor prices	4.4	3.0	2.5	-6.2	3.4	3.7
Agriculture	13.1	2.4	-4.6	-5.7	8.1	3.8
Industry	3.6	3.0	3.5	-7.4	2.4	3.5
Services[a]	2.7	3.1	4.0	-5.8	2.7	3.8
Inflation (Consumer Price Index)	0.7	1.9	0.2	0.7	1.0	1.5
Current Account Balance (% of GDP)	-3.4	-5.5	-4.1	-9.9	-6.5	-5.2
Net Foreign Direct Investment (% of GDP)	1.5	2.4	0.5	0.6	1.5	1.8
Fiscal Balance (% of GDP)	-3.5	-3.7	-3.6	-7.6	-5.3	-4.2
Debt (% of GDP)	65.1	65.2	65.2	76.6	78.6	78.9
Primary Balance (% of GDP)	-0.9	-1.3	-1.3	-4.9	-2.7	-1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.7	0.6	0.8	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	5.8	5.4	5.2	6.2	5.8	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.3	25.1	24.4	27.5	26.1	24.6

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; might differ from official sources.
(b) Calculations based on 2013-ENCDM .Actual data: 2013. Nowcast: 2014-2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2013) with pass-through = 1 based on GDP per capita in constant LCU.