MOROCCO

Table 1	2018
Population, million	35.2
GDP, current US$ billion	117.9
GDP per capita, current US$	3346
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]	110.3
Life expectancy at birth, years[b]	75.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) Most recent WDI value (2016)

Economic growth remains sluggish and below potential, dependent on natural resource sectors and constrained by low productivity. Unemployment is high despite declining participation rates, especially for the youth and women. The pace of fiscal consolidation slowed, and current account deficit increased with a still narrow export base. A higher contribution of productivity gains to economic growth is needed to ensure improve job creation, expand economic inclusion and thereby strengthen cohesion.

Recent developments

Real GDP growth slowed down in 2018 to an estimated 3 percent compared to 4.1 percent in 2017, owing to the decline of agricultural value-added growth, which was only partially compensated by otherwise good performance of nonagricultural activities. Mining activities contributed the most to growth apart from agriculture, mostly driven by phosphates production and exports. The unemployment rate slightly decreased to 9.8 percent, yet it masked a protracted decline in the labor force participation, which dropped by 0.5 percentage point to 46.2 percent. With an exchange rate pegged to a basket of euro and U.S. dollar, inflation remained below 2 percent.

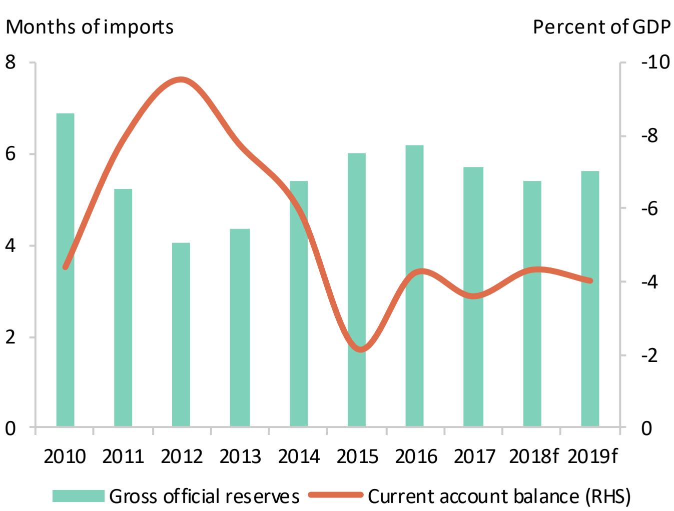
Although the pace of fiscal consolidation has slowed recently, fiscal adjustment over the past five years and record low interest rates have helped contain indebtedness. Fiscal deficit fell short of the authorities' target, which did not allow to generate the envisaged savings in the context of low growth. On the revenue side, measures to improve tax collection through extension of the tax base, harmonization of tax rates, and efforts to fight tax evasion compensated for the impact of weaker economic activity on tax revenue. On the expenditure side, rising global energy prices led to higher subsidy outlays. Overall, fiscal deficit stood at 3.6 percent of GDP, the same level as in 2017, and the public debt ratio has been stable at around 65 percent of GDP.

The external position remains solid, despite the recent deterioration of the current account due to the impact of higher prices of imported energy. Consistent with the government's fiscal tightening measures, the current account deficit has fallen considerably since 2012, but the trade deficit has risen reflecting lack of competitiveness and increasing energy dependence. The decline in oil prices since mid-2014 contributed to a reduction in the current account deficit to 3.6 percent of GDP in 2017. However, despite the turnaround of exports, the decrease was reversed in 2018, and the deficit estimated to have grown to 4.3 percent of GDP. At the same time, net FDI flow increased by 25.9 percent and tourism receipts increased by 1.5 percent, while remittances declined by 1.7 percent.

Outlook

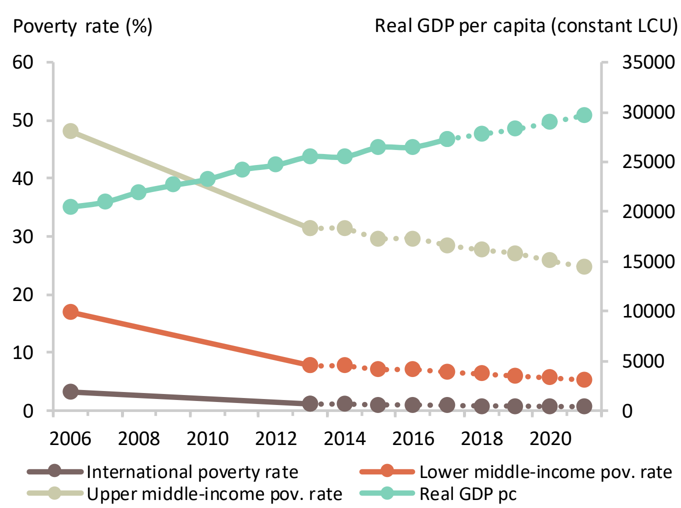
Over the medium term, economic performance is expected to improve enabled by sound fiscal and monetary policies, more consistent sector strategies, and an improved investment environment, all of which are aimed at supporting gradual competitiveness gains. While growth is expected to drop to 2.9 percent in 2019 due to low projected increase of agricultural output after two exceptional years, growth will stabilize around an average of 3.6 percent over the medium term. This moderate performance will mainly be driven by more dynamic secondary and tertiary activities, bolstered by substantial

FIGURE 1 Morocco / Current account balance and gross official reserves



Sources: Central Bank: Bank-Al-Maghrib, World Bank staff estimates.

FIGURE 2 Morocco / Poverty reduction in Morocco, 2006-2021



Sources: Household Survey up to 2014; thereafter, HCP and staff estimates.

foreign investments in the automotive and aeronautic industries as well as expanding services to businesses and households. Since inflation expectations are well-anchored, the rate of inflation should remain below 2 percent.

The overall fiscal deficit is expected to converge to 3 percent of GDP by 2021, resulting in a downward path for public debt ratio, provided that the government maintains its current path of fiscal consolidation and improves the efficiency of public investment. External public financing requirements are a moderate concern, given the relatively low public external debt and Morocco's investment-grade ratings on international markets. The government put in place a list of State-Owned Enterprises (SOEs) to transfer to the private sector starting in 2019, which will mitigate the likely reduced grant amounts from the GCC over the next few years. Regarding external imbalances, the current account deficit is expected to stay below 4 percent of GDP due to growth of exports, tourism receipts and remittances, which will offset increasing energy import costs.

In the first part of 2010's Morocco experienced significant poverty reduction; predictions based on GDP per capita indicate, however, that poverty will decline but at a much slower pace. In 2019, extreme poverty-measured using the international poverty line of US$1.9 PPP will be still slightly below 1 percent and poverty measured with the US$3.2 PPP line will be just above 6 percent, not much progress indeed compared to 2018 when it was predicted at 6.36 percent.

Risks and challenges

Risks remain titled to the downside, mitigated by a sound macroeconomic policy framework and a precautionary IMF arrangement. On the external side, the main risks include weaker than expected growth in the euro area, which could affect economic growth and in turn fiscal and external balances, and uncertainty of global trade and capital flow policy environment, which could create more volatility in financial markets and weaken investor confidence. Financing needs have downside risk if the current support agreement with the Gulf Cooperation Council (GCC) countries is not renewed. On the domestic side, risks are related to the reversal of previous fiscal reforms, especially given high expectations about addressing social needs through the budget. Energy subsidies could squeeze fiscal space 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 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. 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 25 percent of the population, or nearly 10 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 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	1.1	4.1	3.0	2.9	3.5	3.6
Private Consumption	3.7	3.4	3.4	3.5	3.5	3.7
Government Consumption	1.5	1.5	2.2	2.7	1.9	1.6
Gross Fixed Capital Investment	8.7	-0.8	2.9	3.5	3.5	3.7
Exports, Goods and Services	5.5	10.9	4.9	5.6	6.3	7.5
Imports, Goods and Services	14.7	7.4	6.1	6.5	6.6	7.6
Real GDP growth, at constant factor prices	0.1	4.3	3.1	2.8	3.5	3.5
Agriculture	-12.5	13.2	3.8	0.2	3.4	3.7
Industry	1.0	3.1	2.8	3.2	3.2	3.2
Services	3.4	2.6	3.1	3.3	3.6	3.6
Inflation (Consumer Price Index)	1.6	0.7	1.7	1.7	1.7	2.0
Current Account Balance (% of GDP)	-4.2	-3.6	-4.3	-4.0	-4.0	-3.8
Net Foreign Direct Investment (% of GDP)	-1.5	-1.5	-2.5	-1.7	-1.8	-2.1
Fiscal Balance (% of GDP)	-4.3	-3.6	-3.6	-3.7	-3.2	-3.0
Debt (% of GDP)	64.9	65.1	64.9	65.3	64.5	63.3
Primary Balance (% of GDP)	-1.6	-1.0	-1.2	-1.4	-0.9	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.8	0.7	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	7.1	6.7	6.4	6.0	5.7	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	29.7	28.5	27.7	27.1	25.8	24.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.