MOROCCO

Table 1	2020
Population, million	36.0
GDP, current US$ billion	114.7
GDP per capita, current US$	3186.1
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]	114.8
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	88.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014).
(b) Most recent WDI value (2019).

Real GDP growth is projected to rebound to 5.3 percent in 2021, sustained on by the extraordinary performance of the agricultural sector. Although ongoing reforms should improve the long-term performance of the Moroccan economy, the short-term outlook is subject to significant risks given the spread of new COVID-19 variants and the persisting financial vulnerability of the private sector. Poverty indicators should resume their declining trajectory in 2021, but the number of poor is only expected to return to pre-pandemic level by 2023.

Key conditions and challenges

Morocco´s growth model showed signs of exhaustion even before the COVID-19 crisis hit. The reforms implemented since the late 1990s contributed to increase real GDP growth from an average of 3.6 percent between 1980 and 1999 to 4.8 percent between 2000 and 2009. However, during the past decade, it fell back to 3.5 percent. This weakening performance was partly the result of various exogenous shocks, but it also evidences the increasingly apparent structural limitation of a development model that has relied on public capital accumulation as an engine of growth, with insufficient productivity and human capital gains, and with persistently high inactivity rates in the labor market.

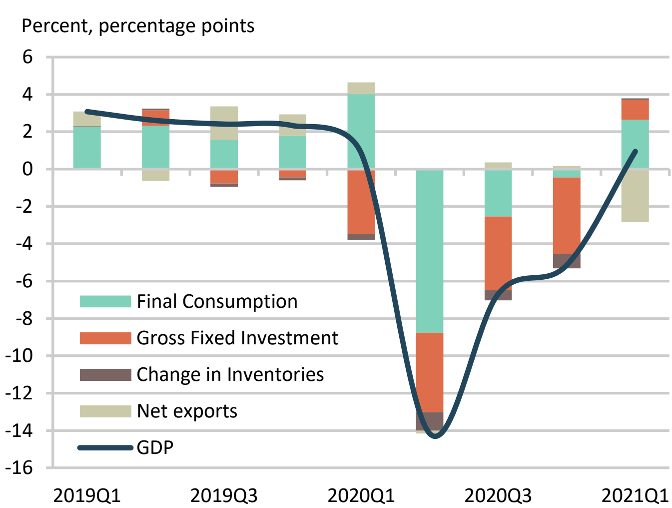
Morocco, however, stands out for having seized the COVID-19 crisis as an opportunity to launch ambitious transformative reforms to correct the weaknesses of its growth model. The recovery strategy included important measures to reform the SOE sector, modernize its social protection system and support the recovery of private investment. More recently, a New Development Model (NDM) has been unveiled, prioritizing: (i) structural reforms to boost competitiveness and private sector development; (ii) improvement in the quality of education and health services to boost human capital; (iii) deepening of the decentralization and deconcentration process to address territorial inequities; and (iv) preservation of natural resources.

By accelerating productivity growth and human capital accumulation, the implementation of this plan could improve the long-term performance of the economy. In the shorter-term, however, the growth dividend associated with these reforms may take time to materialize, and Morocco will have to cope with the increased macro-financial and social vulnerabilities derived from the crisis.

Recent developments

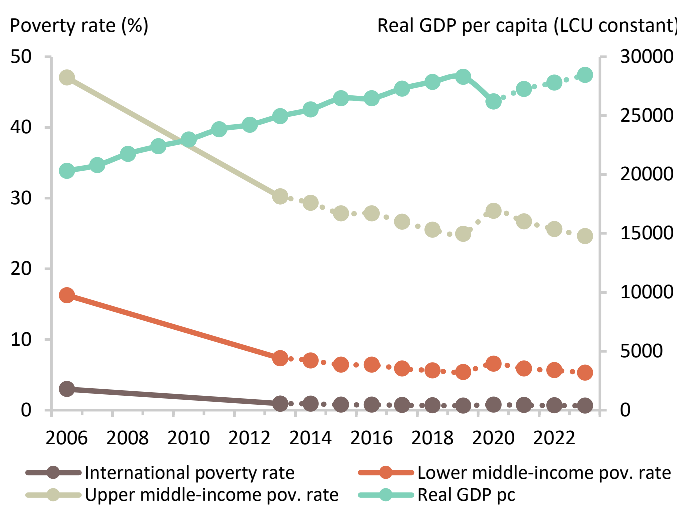
An incipient recovery began in late 2020, but it is still incomplete. After a 6.3 percent contraction in 2020, the economy posted a 1 percent real GDP YoY expansion during the first quarter of 2021, boosted by the strong rebound of agricultural value added (20.5 percent expansion) after abundant rainfall and by certain manufacturing exports. The service sector, instead, still posted a contraction, pulled by the underperformance of Morocco's relatively large tourism industry. Various indicators suggest that the recovery of non -agricultural activity may have slowed during the second quarter: 50,000 urban jobs were lost QoQ; total exports and cement sales contracted, and the consumer confidence index declined. Despite the success of its vaccination program (48.6 percent of the population fully vaccinated as of September 22), Morocco has undergone a third wave of COVID-19 contagions over the summer.

FIGURE 1 Morocco / Real GDP growth and contributions to real GDP growth



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.

Macroeconomic policy continues to be supportive. The fiscal response to the shock led to a widening of the budget deficit to 7.6 percent of GDP in 2020, and total public spending has continued to edge upwards in 2021. Following the US$3 billion international bond placed in December 2020, the government has relied primarily on domestic markets to cover its financing needs. In a context of moderate price pressures, the central bank's policy rate has remained at a historical low of 1.5 percent. The non-performing loans have stabilized, but still represent 8.4 percent of credit. Morocco´s external position has been resilient and foreign exchange reserve still cover seven months of imports, but the trade deficit is widening due to a rise in oil prices and the recovery of imports.

The government's cash transfer program alleviated the impact of the pandemic on poverty, particularly during the confinement. However, these measures were temporary in nature, and insufficient to fully offset the impact of a historically large recession on labor incomes and households´ livelihoods. As a result, poverty as measured by the US$3.2PPP/day line is expected to have reached 6.6 percent in 2020 up from 5.4 percent one year earlier. Based on a recent national panel survey across 2,500 households, the national statistics institute reports that poorer households were disproportionately impacted by revenue losses, with 44 percent of the poor reporting income losses, versus only 10 percent among the wealthy. The most affected households operate in the urban, informal sector and are engaged in precarious jobs in services and art crafts sectors.

Outlook

Growth is projected to rebound to 5.3 percent in 2021, led by a base effect and an extraordinary agricultural campaign rather than by a broad-based acceleration of economic activity. Morocco may return to its pre-pandemic level of GDP only in 2022, followed by a gradual acceleration of growth, contingent on the successful implementation of ongoing and planned reforms. Sustained mainly by the recovery of indirect taxes, the budget deficit is expected to start falling in 2021 (6.7 percent of GDP), stabilizing debt below 79 percent of GDP. By contrast, the current account deficit will widen to 3.7 percent of GDP, as the recovery of imports more than offsets the good performance of manufacturing exports and remittances. This baseline scenario is subject to high uncertainty. The last wave of contagions evidences that the pandemic may still postpone a complete normalization of economic activities. The crisis has increased Morocco´s macro-financial vulnerabilities and a surge in corporate bankruptcies and loan defaults cannot be discarded yet given the precarious liquidity situation that characterizes a large share of businesses. Under such a scenario, the banking sector's capital base and lending capacity would be impaired, potentially affecting public finances through the contingent liabilities associated with loan guarantee programs.

In 2021, poverty is expected to resume its decline but not to return to its pre-crisis level. Extreme poverty (US$1.90 PPP line) should remain below 1 percent, while poverty (US$3.2 PPP line) is expected to fall below the 6 percent threshold, a level achieved in 2017. The percentage of "vulnerable" population (US$5.5 PPP line) is expected to slowly decrease in 2021 to about 26.7 percent from 28.2 in 2020. This decline is expected to continue thereafter, but poverty indicators are not expected to get back to pre-Covid-19 levels until 2023. The successful implementation of the social protection reform or a boost to job creation, particularly among women and youth, could accelerate that process.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.6	-6.3	5.3	3.2	3.5
Private Consumption	3.4	1.9	-4.1	3.0	3.2	3.5
Government Consumption	2.7	4.8	1.7	4.9	2.9	2.7
Gross Fixed Capital Investment	1.2	1.0	-9.0	4.7	4.8	5.1
Exports, Goods and Services	6.0	6.2	-14.3	10.5	9.5	11.7
Imports, Goods and Services	7.4	3.4	-12.2	5.2	8.8	10.4
Real GDP growth, at constant factor prices	3.0	1.8	-6.1	5.4	3.3	3.5
Agriculture	2.4	-4.6	-6.9	17.6	-2.0	3.1
Industry	3.0	3.6	-3.8	3.1	3.1	3.5
Services	3.1	2.7	-6.8	3.3	4.9	3.7
Inflation (Consumer Price Index)	1.9	0.2	0.7	1.3	1.5	1.7
Current Account Balance (% of GDP)	-5.3	-3.7	-1.5	-3.7	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	3.0	1.3	1.4	1.2	1.3	1.2
Fiscal Balance (% of GDP)	-3.8	-4.1	-7.6	-6.7	-6.6	-5.3
Debt (% of GDP)	65.2	64.8	76.4	77.9	78.8	77.8
Primary Balance (% of GDP)	-1.4	-1.8	-5.1	-4.3	-4.1	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.7	0.6	0.8	0.7	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.6	5.4	6.6	5.9	5.6	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	25.5	24.9	28.2	26.7	25.6	24.6
GHG emissions growth (mtCO2e)	1.3	1.7	-5.4	3.9	2.5	2.4
Energy related GHG emissions (% of total)	67.9	68.4	68.7	68.1	68.0	68.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2013-ENCDM .Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2013) with pass-through = 0,7 based on GDP per capita in constant LCU.