MOROCCO

After a poor agricultural season in 2016, the primary sector is expected to rebound in 2017, pushing GDP growth to 3.8 percent. Meanwhile, non-agriculture activity and inflation remain subdued. Morocco's already low labor participation rate keeps declining. Sustained fiscal consolidation efforts and the fall in international oil prices helped cut the twin deficits in recent years. Looking forward, Morocco continues to face the paramount challenges of promoting stronger private-sector-led growth and job creation, and increasing shared prosperity.

Recent developments

The vagaries of the weather continue to drive Morocco's economic growth. After a record cereal production in 2015, Morocco was affected by a severe drought in 2016. Agricultural production, which still represents almost 15 percent of Morocco's GDP, contracted by around 10 percent and dragged overall GDP growth down to 1.1 percent in 2016. Despite large public-investment efforts in recent years, nonagricultural growth remained sluggish around 3 percent. While the unemployment rate decreased slightly to 9.4 percent, it masked a protracted decline in the labor force participation rate, which is now well below 50 percent. The number of youth aged 15-24 not in education, employment or training reached and estimated 1.7 million in 2016. With an exchange rate pegged to a basket of the Euro and U.S. dollar, inflation has remained below 2 percent.

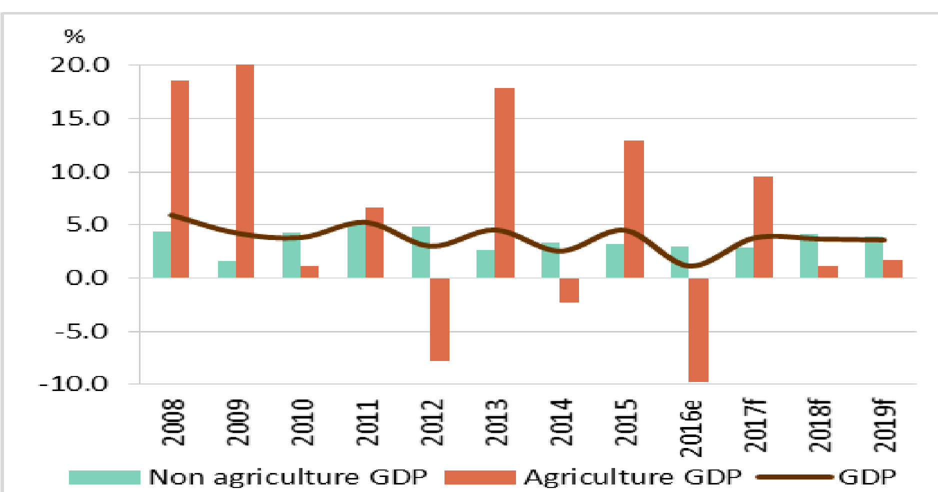
Prudent macroeconomic policies has helped reduce external and fiscal imbalances in recent years. The completion of the subsidy reforms initiated in 2014 coupled with a solid fiscal management and financial oversight contributed to further reducing the fiscal deficit to an estimated 3.9 percent of GDP in 2016 and to stabilizing the public debt at around 66 percent of GDP. Improvements in the government investment-saving balance and the fall in international oil prices led to a significant reduction in the external current account in recent years; which was only reversed in 2016 as a result of the effects of an accommodative monetary policy and a recovery in investment lending to the private sector. With continued sizeable FDI inflows, Morocco's foreign exchange reserves strengthened further to reach 6.4 months of imports of goods and services at end-2016.

Outlook

With good rainfall since the fall of 2016, GDP growth is projected to bounce back to 3.8 percent in 2017. The cereal crop is expected to be above its historical average and agricultural GDP to grow by close to 10 percent. Nonagricultural GDP is also projected to rise slightly above its recent trend due to the agriculture spillover effect and rising confidence of both consumers and producers. However, the positive cyclical developments are unlikely to translate into major structural improvements in labor market outcomes. Since inflationary expectations are well-anchored, the rate of inflation should remain around 2 percent.

The ongoing delays in forming the new government following the October 2016 legislative elections are slowing reform momentum. A draft 2017 budget law that contemplates a further reduction in the fiscal deficit to 3 percent of GDP is nevertheless being implemented. The projected increase in international oil prices will contribute to worsening the current account but the external financing requirements will remain a moderate concern

FIGURE 1 **Morocco** / Volatility of growth rate



Source: World Bank.

given Morocco's relatively low external debt and access to international markets. Furthermore, the second two-year PLL arrangement from the IMF will continue to serve as insurance against external risks.

Over the medium term, Morocco's economic outlook is expected to improve, provided the forthcoming government remains committed to pursuing prudent macroeconomic policies and implementing structural reforms to, inter alia, reinforce the business environment, modernize the public administration, and improve access to quality public services. The gradual move to a more flexible exchange rate regime announced by Bank Al -Maghrib should also help strengthen Morocco's competitiveness. The planned implementation of the organic budget law and decentralization process are opportunities to strengthen the governance and efficiency of the public sector. Overall, annual GDP growth is projected to reach its current potential of 4 percent on average.

Risks and challenges

Given Morocco's agriculture output volatility, weak economic prospects in the euro area and the continued possibility of adverse geopolitical developments in the region, the risks to the outlook are tilted to the downside. Modernizing the agricultural sector, diversifying the industrial sector, and scaling-up the services sectors would help mitigate the risks that are under the government control. This would require major efforts at strengthening Morocco's market institutions, especially those governing the efficient allocation of labor and capital and the further integration into global value chains. Following the successful liberalization of petroleum prices at the pump, the projected 30 percent rise in international oil prices will also test the acceptability and robustness of the new pricing system.

Morocco remains confronted by the challenge of a relatively slow structural transformation. The country has remained structurally oriented toward non-tradable activities (such as construction). Given this orientation, the country has made little productivity gains over the past two decades despite high levels of investment. Investment efforts–dominated by publicly funded large infrastructure projects–have not yet triggered a growth takeoff.

To secure higher gains in productivity and competitiveness over the medium term, major efforts are needed to strengthen public governance, modernize the public administration, strengthen connectivity across regions, and improve the education system outcomes. Ultimately, Morocco's future prosperity is fundamentally linked to its capacity to accumulate human capital. The low labor force participation rates of youth and women also highlight the need to enhance inclusion.

TABLE 1 **Morocco** / Macro outlook indicators (annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	2.6	4.5	1.1	3.8	3.7	3.6
Private Consumption	3.6	2.4	2.6	4.0	2.9	2.9
Government Consumption	1.8	1.9	1.3	1.5	1.7	1.9
Gross Fixed Capital Investment	-2.1	1.5	3.9	3.8	4.0	4.1
Exports, Goods and Services	8.4	6.0	4.5	5.9	7.3	7.1
Imports, Goods and Services	3.3	-3.1	7.9	4.5	4.6	4.9
Real GDP growth, at constant factor prices	1.7	3.5	0.4	4.0	2.8	3.0
Agriculture	-2.3	13.0	-9.8	9.6	1.1	1.7
Industry	2.9	2.8	1.9	2.1	2.5	2.7
Services	2.3	1.3	2.6	3.4	3.3	3.5
Inflation (Consumer Price Index)	0.4	1.6	1.6	2.0	2.0	2.0
Current Account Balance (% of GDP)	-5.7	-1.9	-4.0	-4.2	-4.0	-4.0
Fiscal Balance (% of GDP)	-4.7	-4.3	-3.9	-3.0	-3.0	-3.0
Debt (% of GDP)	63.5	64.1	66.2	66.3	66.0	65.5
Primary Balance (% of GDP)	-2.0	-1.6	-0.9	0.1	0.2	-1.0

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice.
Notes: e = estimate, f = forecast.