MOROCCO

Table 1	2020
Population, million	36.9
GDP, current US$ billion	111.0
GDP per capita, current US$	3006.7
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]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) WDI for School enrollment (2019); Life expectancy (2018).

The combination of a pandemic with an agricultural shock pushed the Moroccan economy into a deep recession in 2020. However, the government response to the crisis has been appropriate, and the ambitious reforms being implemented could set the stage for a solid recovery. Growth is expected to accelerate to 4.2 percent in 2021, although significant downside risks remain. A piecemeal recovery with slow job creation would delay the return to pre-pandemic poverty levels.

Key conditions and challenges

The COVID-19 crisis has been compounded by an agricultural shock in a context of declining long-term growth rates. Although Morocco's last yearly contraction was in 1997, activity had already lost steam before the pandemic due to adverse climatic conditions and to low total factor productivity growth.

The government is putting forward an ambitious growth enhancing and pro-equity reforms program to mitigate the health and economic impacts of the pandemic and to support the recovery. Among other measures, it is revamping its social protection systems to stimulate human capital formation, supporting the capitalization of the private sector through the creation of a Strategic Investment Fund, and upgrading its industrial and agricultural policies. Their successful implementation could increase the growth potential of the Moroccan economy.

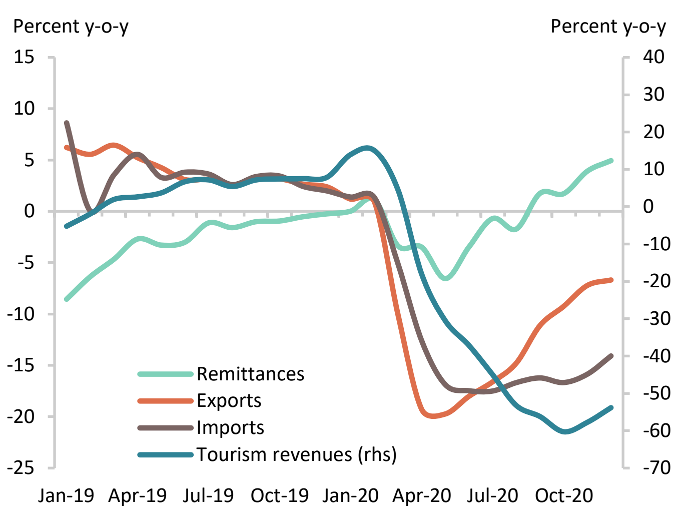
In the shorter-term, however, the recovery could be gradual. Despite encouraging epidemiological trends and the successful beginning of the vaccine rollout, the global environment remains uncertain, and economic activity has recently weakened in Morocco´s trading partners and will affect the recovery of the tourism sector. The COVID-19 crisis has adversely impacted households´ wellbeing and accentuated inequality. According to the High Commission of Planning (HCP), during confinement, 74 percent of workers belonging to the bottom quintile experienced a reduction in income against 44 percent in the top quintile. Also, the loss in monthly income was more pronounced in the bottom rather than top quintile: 66 against 32 percent respectively.

Recent developments

A stringent confinement, collapsing tourism revenues, the disruption of global value chains and an agricultural shock contribute to explain the magnitude of the recession. During the second quarter of 2020, real GDP contracted by 15.1 y-o-y. Although activity began to pick up in the third quarter, preliminary estimates indicate that real GDP contracted by 7 percent in 2020. On the production side, the impact of the crisis has been particularly severe for the hospitality industry and transports, and for the manufacturing segments most exposed to international trade. In addition, agricultural value added contracted by 7.1 percent due to the drought. On the demand side, private consumption contracted by 9.4 percent, partly compensated by a 6.2 increase in public consumption. In this context, headline inflation averaged 0.7 percent in 2020 and the share of non-performing loans increased to 8.4 percent of banks' credit portfolio (7.6 percent in December 2019).

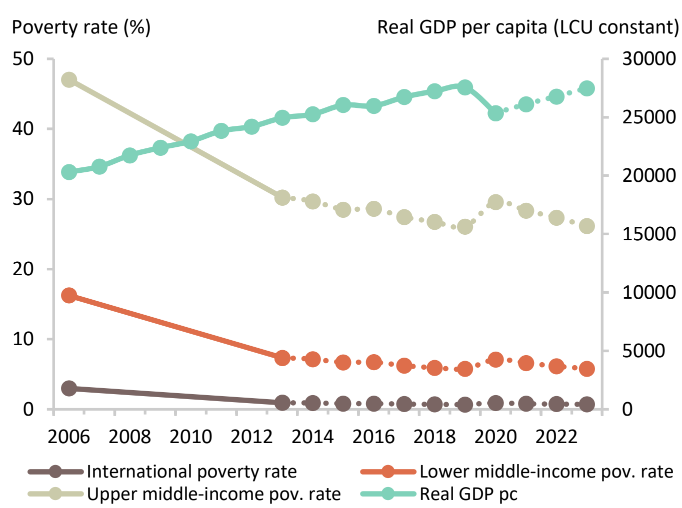
The fiscal response to the pandemic, mostly debt financed, has supported firms and households to compensate for their revenue losses. The resulting increase in

FIGURE 1 Morocco / An asymmetric recovery reflected in the behavior of the current account



Sources: Morocco exchange office.

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



Sources: World Bank. Notes: see Table 2.

expenditures and a sharp contraction in tax revenues led to a deterioration of the budget deficit (7.7 percent of GDP in 2020), and the debt to GDP ratio increased by more than 12 percentage points to 77.8 percent of GDP. This is the largest increase ever registered in the debt-to-GDP ratio in a single year since that series is available. The current account closed with a deficit of just 3 percent of GDP (4.1 percent of GDP in 2019), owing to the contraction of imports and the resilience of workers' remittances. Morocco has preserved good access to external finance, with large multilateral disbursements, two successful sovereign bond issuances (€1 billion in September and US$3 billion in December), and resilient net FDI flows. Foreign exchange reserves increased by 26.6 percent in 2020, reaching 30 percent of GDP, more than seven months of imports.

After several years of declines, the poverty rate (US$3.2 PPP line) is estimated to have increased from 5.8 percent in 2019 to 7.1 percent in 2020, an increase that could have been larger hadn't it been for the government's cash transfer programs. The unemployment rate spiked to 11.9 percent (9.2 percent in 2019) and a recent HCP survey indicates that 37.5 percent of the firms have reduced their workforce in the second half of 2020 (compared to 2019), with larger contractions among very small business and SMEs.

Outlook

GDP growth is expected to accelerate to 4.2 percent in 2021. In this baseline scenario, agricultural output returns to historical trends, the vaccine rollout proceeds according to the government´s plans, monetary policy remains accommodative and the fiscal stimulus is maintained. The recovery of the manufacturing and services sectors is expected to be gradual, initially constrained by the recent slowdown in Morocco´s trading partners and by a protracted return of international tourism. Real GDP growth is expected to remain slightly above its pre-pandemic trend during the projection period as the output gap narrows gradually and the ongoing reforms begin to have an impact. The current account deficit is expected to stabilize below 4 percent of GDP while the fiscal deficit is expected to fall gradually.

There are significant downside risks. The evolution of the pandemic remains uncertain given the global spread of new coronavirus variants, which may lead to the adoption of new containment measures in Morocco or elsewhere. Large gross financing needs have increased the exposure of the economy to an external shock and the ongoing increase in non-performing loans could weigh on banks´ balance sheets. The materialization of the contingent liabilities associated with the credit guarantee program could result in a deterioration of the fiscal outlook.

In 2021, poverty is expected to decline but not to return to the pre-crisis levels. Extreme poverty (US$1.90 PPP line) should remain below 1 percent, while poverty (US$3.2 PPP line) is expected to decrease by 0.5 percentage point in 2021 and reach 6.6 percent. The percentage of "vulnerable" population is expected to slowly decrease in 2021 to about 28.35 from 29.56 in 2020. This trend is expected to continue through 2022 and 2023, but poverty indicators may not return to the pre-Covid-19 situation until 2023. The successful implementation of the social protection reform could accelerate that process.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.5	-7.0	4.2	3.7	3.8
Private Consumption	3.4	1.8	-9.4	3.7	4.1	4.3
Government Consumption	2.7	4.7	6.2	5.6	4.7	4.5
Gross Fixed Capital Investment	1.2	1.0	-8.5	5.5	5.7	5.9
Exports, Goods and Services	6.0	5.5	-14.1	6.9	7.4	7.9
Imports, Goods and Services	7.4	3.3	-12.1	6.3	7.9	8.4
Real GDP growth, at constant factor prices	3.0	2.5	-6.7	4.2	3.7	3.8
Agriculture	2.4	-4.6	-7.1	10.3	4.1	4.0
Industry	3.0	3.5	-6.3	3.4	3.6	3.7
Services[a]	3.1	4.0	-6.8	3.1	3.7	3.7
Inflation (Consumer Price Index)	1.9	0.2	0.7	1.1	1.4	1.7
Current Account Balance (% of GDP)	-5.3	-4.1	-3.0	-3.5	-3.9	-3.8
Net Foreign Direct Investment (% of GDP)	3.0	1.3	1.5	1.3	1.3	1.2
Fiscal Balance (% of GDP)	-3.8	-3.6	-7.7	-6.5	-6.4	-5.1
Debt (% of GDP)	65.2	64.9	77.8	78.4	78.7	79.0
Primary Balance (% of GDP)	-1.4	-1.3	-5.2	-4.0	-3.9	-2.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.7	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	5.9	5.8	7.1	6.6	6.1	5.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.7	26.1	29.6	28.3	27.3	26.1

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: 2014-2020. Forecast are from 2021to 2023.

(c) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.