# MOROCCO

## Highlights

- **Growth remained sluggish in 2016.** The economy remains sensitive to volatile agricultural output, and non-agricultural activity has been subdued. Fiscal and current account deficits are above 4 per cent of GDP but reserve coverage has strengthened in the past year.
- **The six-month political gridlock, which started in October 2016, ended with the appointment of a new coalition government.** The coalition is broader and more fragmented, which may slow policy-making. However, policy priorities do not differ from those of the previous administration, implying a continuation of sound policies and strong reforms.
- **Important fiscal and public sector reforms are advancing.** In the past year pension system and civil service reforms have continued, the implementation of the organic budget law (OBL) came into effect, steps to address risks related to state-owned enterprises were taken, and the authorities implemented tax reforms.

## Key priorities for 2018

- **Fiscal policy reforms should continue.** The focus should be on continuing fiscal consolidation and decentralisation, civil service reform and strengthening the oversight of state-owned enterprises.
- **Financial policy framework reforms would make the financial sector more resilient.** Critical measures include adopting the central bank law, continuing to implement the joint IMF-World Bank Financial Sector Assessment Program recommendations, and moving towards a more flexible exchange rate regime.
- **Further measures are needed to improve the business climate and enhance competitiveness.** Access to finance would be improved by enacting the draft law on collateral and aligning the insolvency regime with international best practices. It is also important to make the Competition Council operational by appointing all its members, and to implement the recently adopted national strategy to fight corruption.

Main macroeconomic indicators %

| | 2013 | 2014 | 2015 | 2016 | 2017 proj. |
|---|---|---|---|---|---|
| GDP growth | 4.5 | 2.7 | 4.5 | 1.2 | 4.2 |
| Inflation (average) | 1.9 | 0.4 | 1.6 | 1.6 | 1.2 |
| Government balance/GDP | -5.6 | -5.2 | -4.5 | -4.1 | -3.5 |
| Current account balance/GDP | -7.6 | -6.0 | -2.2 | -4.4 | -4.0 |
| Net FDI/GDP [neg. sign = inflows] | -2.8 | -2.8 | -2.6 | -1.6 | -1.6 |
| External debt/GDP | 29.3 | 33.3 | 33.9 | 34.6 | n.a. |
| Gross reserves/GDP | 17.1 | 19.8 | 22.8 | 24.9 | n.a. |
| Credit to private sector/GDP | 84.3 | 83.9 | 80.2 | 81.3 | n.a. |

CONTINUES

## Macroeconomic performance

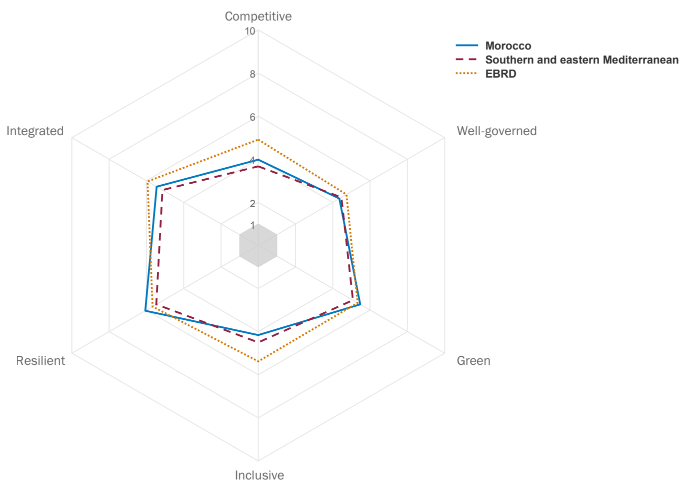
**Growth slowed significantly in 2016 but picked up in the first half of 2017.** GDP growth declined to 1.2 per cent in 2016, from 4.5 per cent in 2015, due to a sharp slow-down in agriculture and subdued non-agricultural activity. The 12.8 per cent contraction in agriculture was due both to a drought and a negative base effect following record agricultural production in 2015. The disappointing 2.7 per cent growth in non-agriculture was due to slowing industry. In the first three quarters of 2017 growth picked up to 3.9 per cent, driven by the rebound in agriculture. The unemployment rate increased to 9.3 per cent in the second quarter of 2017 from 9.1 per cent in the same quarter of 2016, while youth unemployment increased to 22.5 per cent in 2016.

**Fiscal developments were positive, although less favourable than envisaged.** For 2016, the deficit was 4.1 per cent of GDP, down from 4.5 per cent in 2015, but higher than the authorities' objective of 3.5 per cent. This was primarily due to a revenue shortfall related to lower-than-expected growth and to accelerated VAT reimbursements (to ease SME financing constraints), while increased capital spending (to support growth) was offset by lower current spending. For the first half of 2017, fiscal performance improved and the deficit narrowed to 1.2 per cent of GDP, compared with 2.4 per cent in the same period of 2016, due to strong tax revenue performance.

**The external position remained strong in 2016, as international reserves increased.** The current account deficit widened to 4.4 per cent of GDP in 2016, from 2.2 per cent in 2015, and by more than expected. This was due to stronger capital equipment and food imports, and to the impact of lower phosphate prices that offset strong export growth in emerging sectors such as automobiles. In the first half of 2017 the deficit increased further to 7.3 per cent of GDP compared with 4.8 per cent in the same period of 2016. Meanwhile, steady foreign direct investment inflows, international bond issuances and trade credit supported the capital account. As a result, international reserves reached 6.3 months of imports at the end of 2016 and 5.9 months of imports in September 2017.

**Growth is expected to rebound to 4.2 per cent in 2017.** This reflects the pick-up in agricultural output, but is subject to steadfast reform implementation, including agricultural sector modernisation and reforms to improve the business climate and boost productivity. The outlook remains subject to downside risks, including from social unrest, weak growth in Morocco's main trading partners, geopolitical risks and global policy uncertainty.

### Assessment of transition qualities (1-10)




CONTINUES

## Major structural reform developments

**Pension system and civil service reforms have continued.** Parliament passed draft laws to reform the pension system run by the Moroccan Pension Fund (CMR) in July 2016 and gradual implementation began in September 2016. This reform gradually raises the retirement age, increases the rate of employer and employee contributions, and introduces new rules for calculating benefits. It will extend the sustainability of the pension system managed by the CMR and lower the deficit of the system. Moreover, to keep the public payroll below 10.5 per cent of GDP over the medium term, several reforms have been pursued, including the recent introduction of contractual employment and increased personnel mobility across ministries.

**Implementation of the 2015 OBL started in 2016 and steps to reform the governance of state-owned enterprises (SOEs) have advanced.** The OBL was adopted in 2015 and took effect in 2016, with most of its provisions implemented. The provision establishing the limiting nature of personnel appropriations to limit the risks of exceeding those appropriations entered into force on 1 January 2017, and the regulatory measure limiting the carry-forward of investment appropriations was renewed, pending the introduction of the relevant OBL provisions on 1 January 2018. A draft law to strengthen the governance and auditing of public enterprises and establishments in order to further improve their performance was submitted to the General Secretariat of the Government in 2017, with a view to finalising and submitting it to the Government Council. The authorities have also taken steps to address potential SOE-related fiscal risks, for which specific provisions are missing from the OBL.

**The authorities are implementing tax reforms.** The reforms are in line with recommendations from the 2013 national tax conference. Key measures implemented since then include: the taxation of self-employed and liberal professions; the introduction of corporate tax brackets in the 2016 budget, rather than a unique 30 per cent corporate income tax rate; the introduction of VAT deductions in some agro-industrial inputs; and improvements to the VAT refund system. Revisions were also introduced on excise tax rates, and the social contribution for the public sector increased in September 2016 with the implementation of the new pension law. Lastly, the government has simplified various administrative procedures related to compliance and settlement of tax disputes.

**Plans to introduce greater exchange rate flexibility and inflation targeting have been delayed.** While the central bank had plans to gradually introduce a floating exchange rate starting in the second half of the year, it is now unclear when this will take place. Currently, the dirham is pegged to a two-currency basket weighted 60 per cent to the euro and 40 per cent to the US dollar. By delaying, the government may be missing a good opportunity, given the current strong economic health due to the improvement in fiscal and external buffers, the resilience of the financial sector, the alignment of the exchange rate with fundamentals, and the gradual diversification of the economy.

**The business environment has improved but some reforms are lagging.** Efforts have been made recently to simplify administrative procedures (such as for customs transactions, property rights and enterprise creation), and to reduce payment delays from the public to the private sector. Morocco's 2018 World Bank Doing Business ranking remained broadly the same at 69, against 68 in 2017, but an improvement compared with 75 in 2016. However, other key reforms are lagging, including the appointment of all members of the Competition Council (which would make it operational), and determined implementation of the recently adopted national strategy to fight corruption.