MOROCCO

Highlights

- **Growth and fiscal consolidation are slowing down.** Gross domestic product (GDP) growth slowed to 2.6 per cent year-on-year in the first half of 2019, mainly due to a drop in agricultural production. Meanwhile, fiscal consolidation continued at a slower pace and unemployment remains high among young people and women, particularly in urban areas.
- **A multi-year privatisation programme is under way.** The privatisation programme aims to improve the performance of state-owned enterprises (SOEs) and governance in the public sector, thus leading to further incentives for public-private partnerships.
- **Structural reforms are advancing.** The authorities recently accelerated the implementation of business reforms, enhanced competition, lowered hiring costs, and boosted financial and gender inclusion.

Key priorities for 2020

- **Economic diversification is needed to boost economic growth and to promote employment.** It is essential to divert the triggers of growth away from dependence on agriculture and to decrease the impact of rainfall on economic growth.
- **Measures to enhance the efficiency of the labour market are needed.** The authorities should ease restrictive regulations, support labour mobility across highly productive sectors and tackle informality, as well as enhance the quality of the educational system and vocational training and address skills mismatches.
- **Commitment to structural reforms should continue.** Top priorities in the short term include developing regional transportation, modernising the irrigation system and introducing social programmes that efficiently target the most vulnerable households.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	4.5	1.1	4.2	3.0	2.7
Inflation (average)	1.5	1.6	0.8	1.9	0.6
Government balance/GDP	-4.2	-4.5	-3.5	-3.7	-3.7
Current account balance/GDP	-2.1	-4.0	-3.4	-5.4	-4.5
Net FDI/GDP [neg. sign = inflows]	-2.6	-1.5	-1.5	-2.5	-1.7
External debt/GDP	33.4	33.7	34.5	31.1	32.5
Gross reserves/GDP	22.5	24.3	23.9	20.6	21.0
Credit to private sector/GDP	62.4	62.5	61.6	60.5	n.a.

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Macroeconomic performance

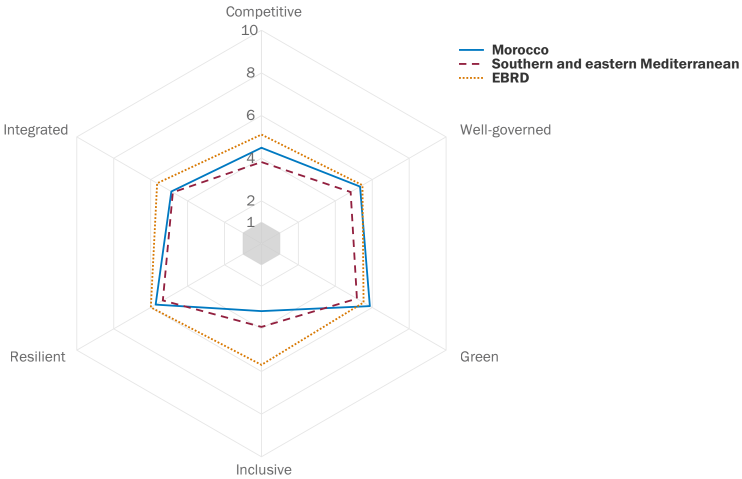
Economic growth slowed in 2018 and the first half of 2019. In 2018, the rate of GDP growth was 3.0 per cent, compared with 4.2 per cent in 2017, the slowdown being mainly due to falling agricultural output. This pattern continued in the first half of 2019, as growth decelerated to 2.6 per cent year-on-year, compared with 3.5 per cent over the same period in 2018, as a result of poor rainfall. Inflation remained low at 0.3 per cent in September 2019, due to lower prices of food, oil and lubricants, with average inflation in the first nine months of the year standing at only 0.2 per cent. Despite the poor harvest and substantial agricultural job losses, unemployment declined from 9.8 per cent in 2018 to 8.5 per cent in the second quarter of 2019, but a very high unemployment rate persists among young people in urban areas, at 40.3 per cent in mid-2019.

Fiscal consolidation continued, but at a slower pace. The fiscal deficit (including privatisation proceeds) narrowed slightly to 3.6 per cent of GDP in the first half of 2019 (compared with 3.7 per cent of GDP in 2018). The deficit was wider than the government's target of 3.0 per cent of GDP, mostly because of a sharp rise in oil prices and the subsequent increase in the cost of energy subsidies for liquefied petroleum gas, as well as lower-than-expected grants from the Gulf Cooperation Council. Meanwhile, public debt remained broadly stable at 64.9 per cent of GDP in 2018.

The current account deficit widened to 5.4 per cent of GDP in 2018. This was due to higher imports, mainly energy and capital goods, only partly balanced by increased exports of phosphate, aeronautics and cars. Tourism picked up in the first half of 2019 by 6.6 per cent compared with the same period in 2018. The flow of foreign direct investments declined by 19.6 per cent in the first half of 2019, compared with the same period in the previous year. International reserves increased to US$ 24.4 billion in July 2019, covering 5.3 months of imports.

Growth is expected to remain moderate in 2019-20. GDP is expected to grow at 2.7 per cent in 2019, improving gradually to 3.3 per cent in 2020. The increase in 2020 is expected to be driven by stronger non-agricultural growth, – particularly in mining and the automotive and aeronautics industries – a rebound in agriculture, continued recovery of tourist arrivals, improved fiscal management and an increase in foreign direct investment. Downside risks include falling growth in Europe, lower commodity prices, rising social discontent and the vulnerability of agricultural production to weather and price developments.

Assessment of transition qualities (1-10)



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Major structural reform developments

The government has initiated an overhaul of SOEs. The reform will result in the government withdrawing from sectors that could be covered by the private sector. A draft bill to expand the list of companies eligible for privatisation was adopted by the Government Council in November 2018. The intention is to raise up to MAD 6 billion (US$ 620 million) in privatisation proceeds. The government started implementing the privatisation programme in June 2019, with the sale of 8.0 per cent of its shares in Maroc Telecom.

The King has launched a new economic development model. The new model, launched in July 2019, is planned to be the driving force of inclusive growth, social equity and sustainable development. In this regard, it seeks to address the shortcomings of the former development plan and reduce social disparities through improving living conditions in rural areas, fostering private-sector investment in communal agricultural land and promoting vocational training.

Morocco continues to make significant progress in easing business conditions. The country rose to 53rd place in the World Bank's *Doing Business 2020* report, compared with 115th in 2011. Significant improvements have been made in dealing with construction permits, getting electricity, protecting minority investors, paying taxes, trading across borders, enforcing contracts and registering property. However, several obstacles continue to hinder Morocco's business environment. These include shortages of highly skilled labour, inefficient bureaucracy, regional disparities and non-inclusive economic growth.

Fiscal decentralisation has progressed. A draft law to reform the Regional Investment Centres was submitted to the parliament in October 2018. The law aims to strengthen the role of these centres in encouraging and promoting investments, as well as exploiting further investment opportunities. In addition, the decentralisation charter was implemented in late 2018 and transparent criteria for the transfer of public resources to regions were adopted.

New laws on access to information and digital platforms were introduced in 2019. They aim to reinforce public accountability and transparency, in addition to making the public sector more transparent and accountable, simplifying administrative procedures, promoting e-government and countering corruption.

Education reforms are advancing. The Ministry of National Education, Vocational Training, Higher Education and Scientific Research launched the national platform Maroc Université Numérique in July 2019. This platform, the first of its kind in Morocco, and indeed in Africa, aims to develop private online courses for small groups. It is intended to solve issues related to overcrowding in universities and to improve the quality of training. Parliament also approved a new framework law for education, which aims to promote access to equal education for all Moroccan citizens and allows technical subjects to be studied in foreign languages. The government has increased social spending for the education and health sectors in the 2019 budget to help move towards universal access to pre-school by 2027 and to finance the expansion of the Tayssir facilitation programme. This programme aims to increase student participation in primary schools and reduce the dropout rate, through providing conditional cash transfers to families with children aged six to 15.

A national strategy for financial inclusion is under way. The strategy, approved in March 2019, supports access to finance for small and medium-sized enterprises, as well as women and young people. In addition, it aims to increase financial literacy, expand electronic payment infrastructures and ease constraints on microcredit activities. Furthermore, in July 2019 the parliament approved a law governing Sharia-compliant insurance (*takaful*) to boost Islamic finance.

Universal subsidies are being replaced by targeted mechanisms. The government plans to replace across-the-board subsidies on all remaining products with a targeted compensation mechanism. The introduction of a unified social registry will be finalised in 2019 to address the vulnerability of middle and low-income households to the impact of reduced subsidies, higher property costs and expensive alternatives to poor-quality public services.