MOROCCO

Highlights

- **The economy is contracting in 2020 as a result of the Covid-19 crisis and related containment measures.** Unemployment is growing, the fiscal deficit is widening and public debt is increasing, but inflation has remained low.
- **To combat the Covid-19 crisis, the authorities implemented a range of response measures.** A US$ 1 billion special fund was established, the government announced a programme to support micro, small and medium-sized enterprises (MSMEs) in certain sectors, and Bank Al-Maghrib extended credit lines guaranteed by the Central Guarantee Fund.
- **The government has advanced structural reforms.** A draft law on crowdfunding was submitted to parliament, a national programme for water was signed, a new strategy for the agricultural sector was launched and the government announced a fiscal stimulus package.

Key priorities for 2021

- **Reforms to achieve digital transformation are urgent in light of the Covid-19 crisis.** Measures are needed to promote the universal access to telecommunications and broadband networks and provide opportunities for the digital transformation of enterprises and administration. The focus should also be on e-government and digital and financial services access for small and medium-sized enterprises (SMEs) and entrepreneurs.
- **Measures to improve the banks' lending portfolios need to be prioritised.** The value of outstanding bank loans is rising, reflecting the government's efforts to ensure continued bank credit availability for borrowers and avert repayment difficulties during the Covid-19 crisis. The quality of banks' lending portfolios appears to be deteriorating, and, coupled with the rising cost of risk for banks, this suggests that systemic stresses in the banking sector need to be mitigated.
- **There is a need to promote trade integration and global value chains.** This would be achieved through removing current impediments to trade integration, boosting trade agreements with the European Union, sub-Saharan Africa and the Arab Maghreb Union, and defining appropriate policies and support to global value chains.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020 proj.
GDP growth	1.0	4.2	3.0	2.2	-5.0
Inflation (average)	1.5	0.7	1.8	0.2	0.7
Government balance/GDP	-4.5	-3.5	-3.7	-4.1	-7.8
Current account balance/GDP	-4.1	-3.4	-5.3	-4.1	-7.3
Net FDI/GDP [neg. sign = inflows]	-1.5	-1.5	-2.4	-0.5	-0.1
External debt/GDP	33.7	35.0	32.1	33.1	n.a.
Gross reserves/GDP	24.3	23.9	20.7	22.3	n.a.
Credit to private sector/GDP	62.5	61.6	60.9	62.4	n.a.

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Covid-19: macroeconomic implications

The economy is contracting as a result of the Covid-19 crisis and related containment measures. Stagnant growth in the first quarter of 2020 was followed by a 13.8 per cent contraction year-on-year in the second quarter. The main sectors affected by the lockdown were retail, tourism, restaurants and construction. The agriculture sector continued to contract because of a drought during the early planting season. Unemployment increased substantially to 12.3 per cent in the second quarter of 2020, but annual inflation remained low at 0.6 per cent on average in the first nine months of 2020, due to a drop in the prices of food and transport.

The fiscal deficit is widening, reflecting the fallout from the Covid-19 crisis. The deficit is expected to reach 7.8 per cent of GDP in 2020, compared with 4.1 per cent in 2019. Both tax and non-tax revenues are decreasing, the result of the disruption of economic activity from the lockdown in key sectors. Meanwhile, fiscal stimulus packages are increasing expenditures, although many of the measures were financed by voluntary donations. Moreover, public debt is expected to increase to 75 per cent of GDP at the end of 2020, and to account for 90 per cent of GDP when including guaranteed debt for public economic agents.

Both imports and exports have fallen, and tourism and remittances are also down. Lower demand for consumption and investment reduced imports in the first half of the year (except food products, which increased because of the drought). Exports also declined, mainly those from the agricultural, agribusiness and automotive sectors, which in recent years were Morocco's largest exports. The most negative economic effects of Covid-19 are the decline in tourism receipts and the fall in remittances. Nevertheless, international reserves increased to US$ 32.0 billion in October 2020, covering over 10 months of imports. Relying on its large reserves, which provide stability to the exchange rate, Bank Al-Maghrib (the central bank) broadened the dirham's fluctuation band in March 2020 to +/- 5 per cent (from +/- 2.5 per cent), and cut interest rates by a cumulative 75 basis points in March and June 2020 in response to the Covid-19 crisis.

The contraction in GDP in 2020 will likely be followed by a robust recovery in 2021. We expect GDP to contract by 5.0 per cent in 2020, before rebounding to 3.5 per cent growth in 2021. The recovery in 2021 may be helped by an expansion in mining, as the decline in China's production of phosphate may benefit Morocco, the world's second-largest producer of this substance. Downside risks include rising social discontent, a slower-than-expected recovery in the main trading partners in Europe, and the continued vulnerability of agricultural production to adverse weather and fluctuations in agricultural commodity prices.

Policy response to Covid-19

To combat the Covid-19 crisis, the authorities implemented a range of response measures. A US$1 billion special fund, financed by the government and by tax-deductible voluntary contributions from public and private entities, was established in March 2020 to cover the costs of upgrading medical facilities and support businesses and households. The government also announced a programme to support MSMEs who manufacture medical products and equipment with up to 30 per cent refunds. Meanwhile, to reduce volatility on the market, the Bank Al-Maghrib called on credit institutions to suspend all distribution of dividends or shareholder profits for the 2019 financial year and reduced the maximum variation thresholds applicable to financial instruments listed on the Casablanca Stock Exchange. Moreover, it created a banking credit line to finance businesses' operational expenses, guaranteed by the Central Guarantee Fund, and tripled the refinancing capacity of banks with Bank Al-Maghrib by providing dirham and foreign exchange liquidity, widening the scope of securities accepted for bank refinancing and extending the duration of loans.

A new fiscal stimulus package is in place. In July 2020 the government announced a MAD 120 billion (US$ 13 billion, 11 per cent of GDP) fiscal stimulus package. The bulk of the package will consist of state-guaranteed bank loans to businesses, including public-sector enterprises. The remaining part will take the form of a strategic investment fund that will finance public-private partnership infrastructure projects. One-third of the total value of the fund will be financed directly from the state budget, while the remaining amount is to be raised from domestic and international institutional investors.

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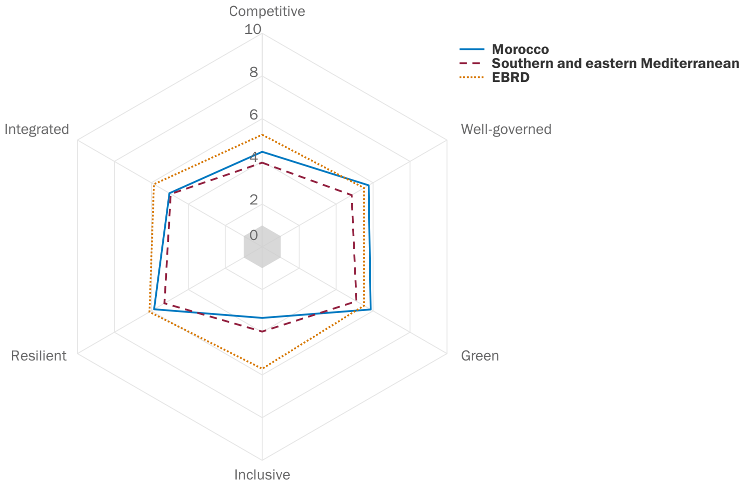
Assessment of transition qualities (1-10)



Structural reform developments

A draft law on the establishment of electronic crowdfunding platforms has been prepared. The new law was submitted to parliament in November 2019. The law, which has been in development since 2017, would allow large numbers of people to finance projects in small increments and allows platform operators to facilitate three different types of crowdfunding transactions: loans, equity investments and donations. The legislation would bolster the availability of financing for micro and small businesses in particular, as well as helping to bring funds from Moroccans living abroad into the national economy. Moreover, this move to introduce crowdfunding comes against a backdrop of wider efforts to boost financial inclusion.

The government fully drew down the US$ 3 billion IMF Precautionary and Liquidity Line (PLL) in April 2020. This is the first time the authorities are drawing on funds available under their fourth consecutive two-year PLL since 2012. The funds were used to maintain an adequate level of official reserves and mitigate pressures on the balance of payments stemming from the economic impact of the Covid-19 crisis.

The preparation of a new development model has been delayed. In December 2019, the King formed a commission, headed by a former interior minister and ambassador to France and comprising 35 members, responsible for designing a new model of socioeconomic development. It consists of a combination of senior political figures, business and public-sector representatives, economists and other specialists and academics, members of civil society organisations, public intellectuals and journalists. Recent signs of socioeconomic and political discontent, as well as the anaemic medium-term economic performance, spurred the need for a new development model. Given the Covid-19 crisis and related measures, the commission has yet to deliver its conclusions and recommendations.

The Green Generation 2020-2030 strategy was launched in February 2020. The new strategy for the agricultural sector aims to create jobs, promote income-generating activities in rural areas, support the agricultural middle class and bolster farming exports and agricultural production, and is based on two pillars. First, it aims to enhance the human element, by promoting the emergence of a new generation of agricultural middle class (some 400,000 households). Second, it encourages young entrepreneurs, through the development of one million hectares of collective land and the creation of 350,000 jobs for the benefit of young people. The new strategy builds on achievements accomplished by the Green Morocco Plan (Plan Maroc Vert), which was launched in 2008 and boosted agricultural exports and investments, created jobs, improved the resilience of agriculture against droughts and contributed to the expansion of SMEs in the agribusiness sector.