MOROCCO

Highlights

- **Several sectors of the economy are improving in 2021.** Exports rose, agricultural output increased – supported by favourable weather conditions – and the economy returned to growth in the first half of 2021. However, inflation is accelerating, tourism continues to decline and unemployment is on the rise.
- **The report on Morocco's new development model was completed.** The ambition of the new development model, which sets out goals up to 2035, is a thriving, prosperous, skilled, inclusive, sustainable and pioneering Morocco.
- **The National Business Environment Policy 2021-25 was adopted.** It aims to simplify administrative procedures and improve the legal and regulatory framework for businesses. The policy was set in partnership with the public and private sectors, under the National Business Environment Committee that was created in 2010 and chaired by the prime minister.

Key priorities for 2022

- **Measures to stimulate competition and level the playing field for new entrants would support the private sector.** As highlighted by the report of the Special Commission on the Development Model, several factors restrict competition and innovation, including regulations, the system of economic incentives and the ineffective implementation of competition policy. Strengthening the Competition Council should be prioritised.
- **To improve access to finance and promote financial inclusion, there is a need to expand the range of digital financial services and enhance financial literacy.** The outbreak of the Covid-19 pandemic exacerbated the urgent need to address financial inclusion gaps. Digitalisation would increase access to financial services for customers, as well as enhance the internal processes of banks and other financial institutions, thus helping to channel funds to the economy more effectively.
- **Social safety nets need to be strengthened.** As the government moves ahead with subsidy reforms, an inclusive and consolidated system is needed for targeted transfers. The decision to harmonise all current social assistance programmes into a single family allowance scheme, starting from 2023, is a step in the right direction.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.2	3.1	2.6	-6.3	5.0
Inflation (average)	0.7	1.6	0.2	0.6	1.1
Government balance/GDP	-3.5	-3.7	-3.8	-7.6	-6.5
Current account balance/GDP	-3.4	-5.3	-3.7	-1.5	-3.1
Net FDI/GDP [neg. sign = inflows]	-1.5	-2.4	-0.7	-1.1	-1.4
External debt/GDP	34.8	31.8	33.1	43.7	n.a.
Gross reserves/GDP	23.9	20.7	22.0	30.8	n.a.
Credit to private sector/GDP	63.0	62.4	63.4	70.0	n.a.

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Covid-19: macroeconomic implications

The economy contracted by 6.3 per cent in 2020 but rebounded in the first half of 2021. In 2020 the drought-burdened agricultural sector declined by 8.6 per cent, while non-agricultural activities, mainly tourism, transport, retail and manufacturing, dropped by 6.0 per cent. In the first half of 2021 the economy returned to growth, at 7.6 per cent year-on-year, driven by the agricultural sector, which benefited from above average rainfall. Non-agricultural economic activity expanded, despite the continued contraction in tourism and slow growth in transport. Inflation accelerated to a three-year high of 2.2 per cent year-on-year in July 2021, largely on the back of volatile food prices, although averaging 1.0 per cent in the first nine months of the year, in line with Bank Al-Maghrib's projections. Meanwhile, the unemployment rate rose to 12.8 per cent in the second quarter of 2021, with higher-than-average rates for women (15.9 per cent), in urban areas (18.2 per cent), graduates (20.4 per cent) and young people (30.8 per cent).

The fiscal deficit widened significantly in 2020. The deficit reached 7.6 per cent of gross domestic product (GDP), compared with 3.1 per cent on average in 2015-19. Both tax and non-tax revenues declined due to the drop in economic activity, the absence of privatisations and the decline in payments from state-owned enterprises, while spending on transfers to workers in the informal sector, support to companies and health rose to contain the socio-economic impact of the crisis. As a result, total debt increased to 77.7 per cent of GDP in 2020, from 64.8 per cent on average in 2015-19.

The current account deficit narrowed in 2020 as exports, tourism and imports fell, and remittances increased. For 2020 as a whole, the current account deficit was 1.5 per cent of GDP. In the first half of 2021 both exports and imports increased, reflecting not just the low base effect but also the recovery in external demand and in trading partners, as well as the rebound in the key export sectors of automotive, phosphates and textiles. Nevertheless, tourism revenues declined by 58.1 per cent year-on-year, reflecting the continued impact of the Covid-19 pandemic. Reserves reached US$ 34.8 billion in August 2021, comfortably covering more than seven months of imports.

A solid recovery is expected in 2021. We forecast GDP growth of 5.0 per cent in 2021, as Morocco benefits from the relative success of its vaccination campaign (61.5 per cent of the population was fully vaccinated as of early November) and therefore a relatively faster reopening of the economy, despite a cautious resumption of tourism globally. The economy will also benefit from a good rainy season and the expected recovery in Europe, Morocco's main trading partner, as well as the strengthening in exports from the phosphate and automotive sectors. In 2022 a slower expansion is projected (at 3.2 per cent), as base effects subside and the pace of growth returns to pre-Covid-19 pandemic levels. The outcome depends partly on political developments as well as uncertainty over the future of the pandemic.

Policy response to Covid-19

The government extended some fiscal and monetary response measures to support the economy. First, it extended social transfers to employees temporarily unemployed until the end of March 2021 (MAD 2,000 per month; US$ 225) and further deferred social contribution payments for businesses in some sectors – including tourism – with fewer than 500 employees made temporarily idle and experiencing a reduction in turnover of more than 50 per cent. In February 2021 Bank Al-Maghrib extended the reduction in the capital conservation buffer, initially announced in March 2020, by 50 basis points until June 2022. In March 2021 the government extended the Damane Relance facility until June 2021. Originally, Damane Relance was set up in May 2020 as a post-crisis facility to support businesses. It provides financing to cover working capital needs at subsidised interest rates, a sovereign guarantee, and offers a seven-year tenor and two-year grace period.

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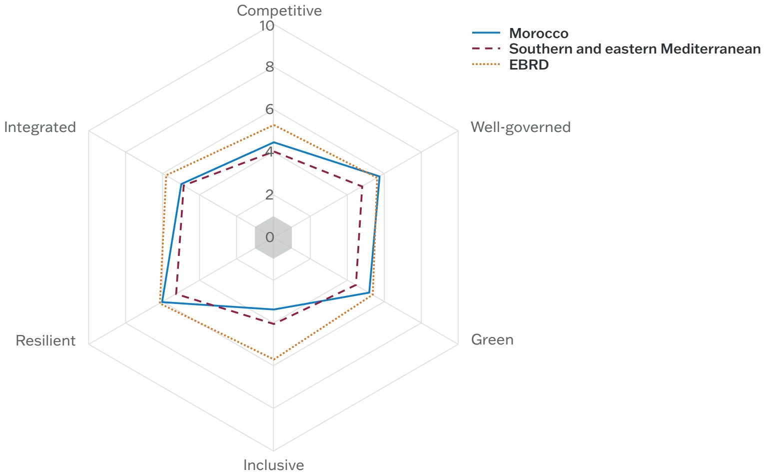
Assessment of transition qualities (1-10)



Structural reform developments

The report for Morocco's new development model was completed and presented to the King in May 2021, after some delay. In November 2019 the King established the Special Commission on the Development Model comprising a broad range of prominent stakeholders from the government, the private sector, academia and civil society. It was mandated to review the achievements and identify any inadequacies of Morocco's current development trajectory and suggest a new development model. In May 2021 the commission published a general report outlining key findings, including diagnoses, forecasts and projections up to 2035. The new development model envisages a prosperous, skilled, inclusive, sustainable and pioneering Morocco. The four priority areas highlighted are: a productive and diversified economy that creates value-added and quality jobs; enhanced human capital that is better prepared for the future; opportunities for inclusion for all and a stronger social bond; and resilient territories.

A bill was approved to integrate the micro credit sector further into the financial system and improve its governance. The new bill, approved by parliament in June 2021, aims to broaden the scope of activity of microfinance institutions, including granting micro credit, collecting deposits and conducting micro-insurance operations. Under this bill, the micro credit ceiling will be set by decree, depending on the category, objectives and financial resources of each company. It also aims to adapt to the provisions of the banking law and to ensure a single representation for micro credit establishments regardless of their legal form, while also offering the possibility of creating micro credit institutions either as an association or a joint stock company assimilated to a credit institution. Lastly, the new regulatory framework raises the loan limit to MAD 150,000 (US$ 16,800), from MAD 50,000 (US$ 5,600).

The Maroc Mines 2021-30 plan was launched. The new plan, launched in June 2021, updates the development strategy put in place for the period 2013-25. It aims to revitalise the national mining sector, enhance its performance and economic and social impact, and transform it into a driving force for responsible and sustainable development at the local, regional and national levels. It also aims to strengthen the sector's ability to respond to the intrinsic challenges it faces, including the need to discover new fields and maximise the value added of the mineral substances exploited. The plan is based on four strategic pillars: developing a network of competitive players; overhauling the institutional organisation of the sector; strengthening the social impact and the responsible nature of the sector; and adapting the legislative framework of financial and fiscal resources to the new ambitions of the sector.

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The government has announced plans to cut subsidies on butane gas, sugar, wheat and flour from 2022. This move, in July 2021, follows several rounds of subsidy reforms conducted successfully by the authorities in recent years. They aim to replace subsidies on key products, which tend to disproportionally benefit consumers with higher levels of consumption, with targeted social protection mechanisms to support low-income families, thus making government spending more efficient and improving Morocco's fiscal position. Eliminating subsidies on commodities will be gradual, with wheat and flour subsidies to be reduced in 2022 and removed by 2023, subsidies on sugar to be eliminated in 2022, and butane gas subsidies to be reduced by at least 50 per cent in 2023 before being fully eliminated in 2024.

The National Business Environment Committee – the public-private dialogue platform created in 2010 – adopted the National Business Environment Policy 2021-25. The new policy, adopted in May 2021, includes 33 reform projects relating to the simplification of administrative procedures and the improvement of the legal and regulatory framework for businesses, payment deadlines and access to financing, infrastructure and public procurement. The policy also aims to improve the quality of human capital, strengthen support mechanisms for businesses and integrate the informal sector into the formal economy. It aims to develop an integrated strategic vision to create favourable conditions for investors. The policy is based on three pillars: improving the structural conditions of the business environment; simplifying companies' access to the necessary resources; and reinforcing transparency, inclusion and cooperation between the public and private sectors.