Morocco

Highlights

- **The economic rebound of 2021 was short lived, as growth slowed in the first half of 2022.** A drought-induced decline in the agriculture sector has offset strong non-agriculture growth in 2022 and inflation has been well above target levels due to increasing global food prices.
- **The government has responded to rising global prices with a range of measures.** These include direct support for farmers, transport-sector subsidies and the doubling of budgetary spending on subsidies for gas, flour and sugar. The central bank increased its benchmark rate by 50 basis points in September 2022.
- **A new government programme, setting the country's path to 2026, has been announced.** The programme targets an annual growth rate of 4 per cent over the next few years and the creation of at least 1 million jobs by 2026. New employment and entrepreneurial programmes and labour-market reforms will underpin job growth.

Key priorities for 2023

- **A comprehensive approach to employment and investment promotion is essential.** The announced programmes and reforms are positive steps, but would benefit greatly from close coordination and links to complementary sectoral policies and action plans that create an attractive business climate.
- **Targeted support for vulnerable population groups is needed in the form of a stronger social safety net.** The government's decision to harmonise current assistance programmes into a single allowance scheme, starting in 2023, is a welcome step as part of broader subsidy reform.
- **The country should accelerate the development of renewables while leveraging the private sector's role.** This would enhance overall competitiveness (especially given rising fossil-fuel prices) and boost the achievement of Morocco's ambitious climate change objectives.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.1	2.9	-7.2	7.9	1.1
Inflation (average)	1.6	0.2	0.6	1.4	6.2
Government balance/GDP	-3.4	-3.6	-7.1	-5.9	-5.3
Current account balance/GDP	-4.9	-3.4	-1.2	-2.3	-4.3
Net FDI/GDP [neg. sign = inflows]	-2.2	-0.6	-0.8	-1.2	-1.5
External debt/GDP	35.0	36.7	44.5	37.1	n.a.
Gross reserves/GDP	19.2	20.5	29.7	25.0	n.a.
Credit to private sector/GDP	56.4	57.4	64.3	60.1	n.a.

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Macroeconomic developments and policy response

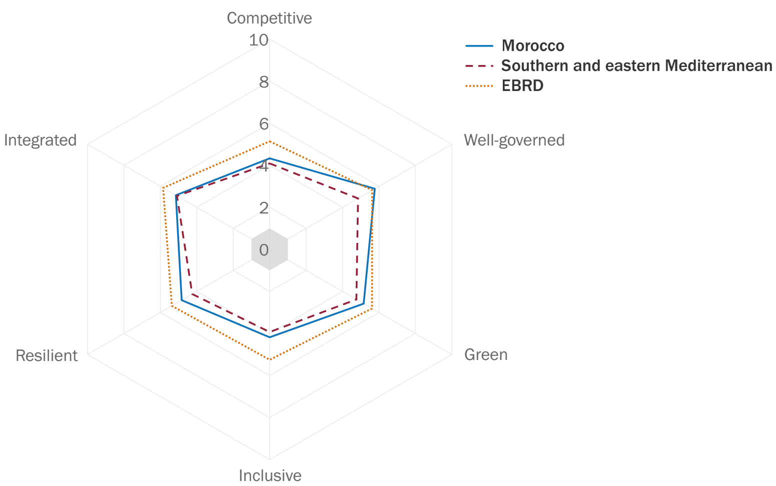
Following a strong rebound in 2021, the economy slowed in the first half of 2022. In 2021 the economy grew by 7.9 per cent, driven by strong growth in agriculture, manufacturing and trade. In the first half of 2022 the economy slowed, with growth of just 1.1 per cent year on year. The agriculture sector faced severe drought, but non-agricultural growth reached 3.2 per cent year on year. Inflation was 5.1 per cent in the first six months of 2022, well above the central bank's target of 2 per cent. This was mainly driven by a 7.8 per cent increase in food prices. Meanwhile, unemployment decreased slightly to 12.1 per cent in the first quarter of 2022 and was higher among women (17.3 per cent), the youth (33.4 per cent) and in urban areas (16.3 per cent).

The authorities implemented a range of measures to counteract the effects of the war on Ukraine. In March 2022 the government announced almost US$ 1 billion of support for farmers, initially in response to the country's drought, but also to help with soaring commodity prices, as feed and fertiliser prices had doubled since the beginning of the year. Between March and July 2022, Moroccan road freight companies received US$ 203 million in subsidies to help curb the impact of rising global fuel prices on domestic inflation. The government also doubled the budget for subsidies for butane gas, flour and sugar to US$ 3 billion (two-thirds of which was for butane). The space for further fiscal measures is limited, as the fiscal deficit was 6 per cent of GDP in 2021, and general government debt was 76.4 per cent of GDP as of the end of 2021.

External imbalances have risen. In 2021 the current account deficit widened to 2.3 per cent of GDP (from 1.2 per cent in 2020), as imports rose significantly, outweighing the increase in exports. The same trend continued in the first half of 2022, fuelled by higher energy and food prices. Even though tourist arrivals quadrupled in the first half of 2022, they are still just 63 per cent of pre-pandemic levels. The added demand for hard currency reduced the country's foreign-exchange reserves to US$ 32.9 billion in June 2022, but they still cover a healthy nine months of imports.

Growth is expected to pick up in 2023, but significant uncertainties remain. In 2022 we expect growth to slow to 1.1 per cent, due mainly to adverse weather conditions affecting agricultural production, the fallout from the war on Ukraine and a decline in tourism due to travel disruptions and higher costs. Agriculture is expected to recover in 2023 and we forecast the pace of growth to return to its pre-pandemic level of 3.3 per cent. However, Morocco remains vulnerable to increases in hydrocarbon prices, as it imports most of its energy, and global supply-chain disruptions may continue to provide further headwinds to growth.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

The government has set out a new programme for the country's path to 2026. The three strategic axes of the programme announced in October 2021 are to: strengthen the social foundations of the state; stimulate the economy for the benefit of employment; and improve public-sector governance and management. The programme targets an annual growth rate of 4 per cent over the next few years and the creation of at least 1 million jobs. The government has also addressed women's unemployment, aiming to increase the activity rate from the current 20 per cent to more than 30 per cent. The aim is to reduce the poverty rate among the most vulnerable by 2026 by introducing a minimum pension of MAD 1,000 (US$ 97) for each person over 60, as well as a family allowance of MAD 300 (US$ 29) per month for every child.

The Awrach (building sites) employment programme was launched in January 2022. The programme aims to create 250,000 public-service jobs in 2022 and 2023, including in infrastructure construction, the renovation of urban spaces and government-led cultural and sports activities. It seeks to improve the employability of discouraged workers, enabling them to enter the labour market more easily. The initiative is geared towards Moroccans who lost their jobs in the Covid-19 pandemic and those who have never worked or who have been registered with the National Agency for the Promotion of Employment and Skills (ANAPEC) for more than two years. The programme has two components: the first concerns temporary public worksites, where 80 per cent of the new jobs will be allocated, and the second involves support for sustainable integration, which includes personal assistance services, education or sports activities. Associations, cooperatives or companies that commit to hiring the remaining 20 per cent of the programme's beneficiaries will receive a subsidy of approximately MAD 1,500 (US$ 145) per month, for a period of 18 months for each integrated employee. The workers will be paid a minimum wage and will benefit from social security coverage.

The government has adopted a new Investment Charter. The Charter, in development since 2016 and finally adopted in July 2022, provides a strategy for increasing the share of private investment to two-thirds of total investment by 2035. It includes improving conditions for creating permanent jobs and reducing disparities between provinces and prefectures in terms of investment attractiveness. In addition, it aims to steer investments towards high value-added productive sectors to ensure sustainable development, as well as to increase Morocco's attractiveness for foreign direct investment.

The government has continued to promote digitalisation by introducing a national digital identity platform. New national electronic identity cards were introduced in 2020 and allow citizens to identify themselves digitally for numerous public and private (online) services. Functionalities have been expanded since then; for example, citizens can now choose directly which data to share, through a web platform and an app, with additional layers of security introduced in parallel.