Morocco

Highlights

- **Growth recovered in 2023, but will potentially be affected by the severe earthquake of September 2023.** Following the acute drought of 2022, better weather conditions and easing inflation led to faster growth in the first half of 2023 and to some reduction in unemployment rates. An earthquake (measuring 6.8 on the Richter scale) in September caused the loss of thousands of lives, as well as widespread destruction in and around Marrakech and the Atlas mountains.
- **Steps have been taken to mitigate the effects of inflation, but public finances remain sound.** The government raised the minimum wage and extended a range of subsidies and tax exemptions to stabilise prices, but the fiscal deficit narrowed and public debt remains contained.
- **Reforms have been adopted to address water scarcity, improve food security and support private investment.** The country's water and electricity company launched a new investment programme for water infrastructure, and the government enacted a new legal framework to enable independent power producers (IPPs) to sell and export renewable energy.

Key priorities for 2024

- **Diversifying the economy remains a top priority.** This includes promoting innovation, boosting private investment in export-oriented industrial sectors and exploring new export markets. In addition, continued efforts to improve the business environment and promote private investment are essential.
- **Investing in agricultural resilience is vital to mitigate climate risk.** Morocco needs to adopt a long-term plan to address climate challenges (notably the impacts of drought). This includes investing in water storage, wastewater treatment and alternative water sources, as well as strengthening value-chain resilience.
- **Continued investment in renewables and infrastructure is important for the country to become an energy hub.** Capitalising on renewable energy resources and leveraging the private sector could enhance energy security and reduce import dependence. Moreover, investing in infrastructure, including in electricity interconnections, green hydrogen and its derivatives, could boost exports and provide immense opportunities in the long run.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	2.9	-7.2	8.0	1.3	3.1
Inflation (average)	0.2	0.7	1.4	6.6	6.3
Government balance/GDP	-3.6	-7.1	-6.0	-5.2	-4.9
Current account balance/GDP	-3.4	-1.2	-2.3	-3.5	-3.1
Net FDI/GDP [neg. sign = inflows]	-0.6	-0.8	-1.2	-1.5	-1.4
External debt/GDP	42.5	50.8	47.4	50.9	n.a.
Gross reserves/GDP	20.5	29.7	25.1	24.7	n.a.
Credit to private sector/GDP	58.9	66.2	62.4	64.2	n.a.

Macroeconomic developments and policy response

Following a slowdown in 2022, growth picked up in 2023. Gross domestic product (GDP) growth decelerated to 1.3 per cent in 2022, driven by a drought-induced contraction in the agricultural sector (the wheat harvest fell by 69 per cent), a slowdown in non-agricultural activities and rising inflation, which damped household demand. In the first half of 2023, growth recovered to 3.4 per cent year on year, as inflation eased, domestic demand recovered, and the agricultural and non-agricultural sectors expanded. Unemployment decreased slightly to 12.4 per cent in the second quarter of 2023, but remains higher among women (17 per cent), youth (33.6 per cent) and in urban areas (16.3 per cent).

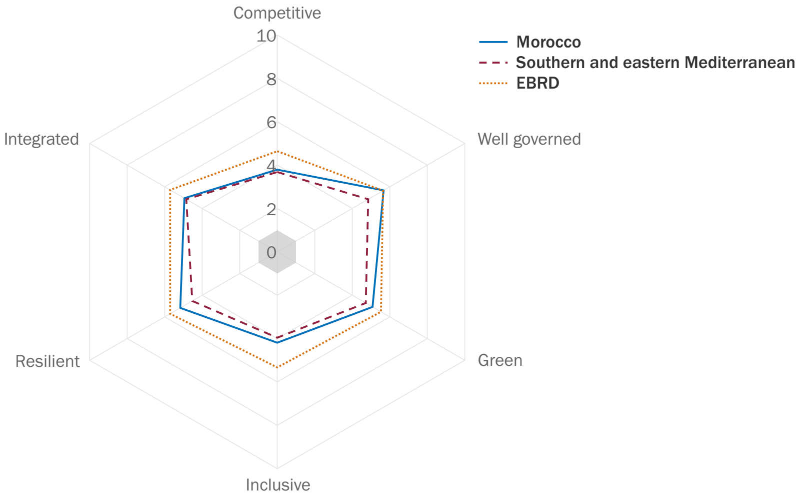
An earthquake in September 2023 caused the loss of more than 3,000 lives and widespread destruction. The devastation and the subsequent reconstruction spending will strongly affect the country's macroeconomic performance in the coming year. The epicentre of the earthquake was in the Atlas Mountains near Marrakech. It caused physical damage to both historical buildings and essential infrastructure, demolishing entire villages. Given the affected region's moderate contribution to GDP, the immediate impact on national output is likely to be modest. The government announced a reconstruction plan amounting to MAD 120 billion (around €11 billion, or 8 per cent of GDP) over five years, which is likely to boost GDP and could help mitigate regional disparities, as many of the affected villages are remote and disadvantaged. The plan would significantly increase financing needs, already estimated at 15 per cent of GDP for 2023.

The government adopted several measures to mitigate the impact of inflation. Annual inflation eased to 4.9 per cent in September 2023 from a peak of 10.1 per cent in February 2023 after the central bank raised interest rates by a cumulative 150 basis points from October 2022. The government extended a range of subsidies to stabilise the prices of butane gas and other basic commodities and to help specific sectors facing higher fuel prices. In 2023 the government confirmed that it would maintain those subsidised electricity prices and announced the removal of value-added tax on agricultural inputs. Moreover, it recently announced a plan to amend the 2023 budget law, increasing spending by US$ 1 billion (€0.95 billion) to address drought and inflation challenges.

The fiscal position remains strong, although external imbalances increased in 2022. The budget deficit narrowed to 5.2 per cent of GDP in 2022 and is expected to shrink further to 4.9 per cent of GDP in 2023 on the back of improved tax collection and higher non-tax revenues. Public debt remained sustainable at 69 per cent of GDP. Still, the current account deficit widened to 3.5 per cent of GDP in 2022 on the back of a larger trade deficit, due to a doubling of energy imports and a rise in grain imports amid a poor harvest and higher prices. Meanwhile, exports of automotive, textile, agriculture and fertiliser products expanded, benefitting from higher global prices. The current account deficit is expected to narrow to 3.1 per cent of GDP in 2023 as energy prices ease, weather conditions improve, and tourism and remittances pick up. Foreign reserves declined to US$ 32.2 billion (€30.5 billion) at the end of 2022, but recovered slightly to US$ 35.5 billion (€33.7 billion) in August 2023, covering around 5.8 months of imports.

Growth is expected to continue to recover in the short term, with some downside risks. The economy is forecast to grow by 3.1 per cent in 2023 and remain stable at around 3 per cent growth in 2024. This will be driven by improved agricultural production as weather conditions improve, a continued recovery in tourism, easing inflation and a relative pick-up in domestic and external demand as European markets recover. These forecasts do not incorporate the effects of the earthquake, as the likely impact on overall economic activity remains difficult to gauge at this stage. In addition, Morocco's high dependence on energy imports and seasonal agricultural production make the country vulnerable to global instability and climate risks.

Assessment of transition qualities (1-10)



Structural reform developments

A new International Monetary Fund programme should mitigate potential financing risks and accelerate reform. The country's two-year US$ 5 billion (around €4.7 billion) Flexible Credit Line was approved in April 2023. It is designed to build up the country's external buffers and provide insurance against risks, enabling the authorities to create the necessary policy space for and accelerate the implementation of a comprehensive reform agenda. The programme is expected to catalyse the country's New Model of Development 2021-35, which aims to enhance governance, human capital, inclusion, sustainability and regional leadership.

Morocco continues to address the increasing challenges of water scarcity and food insecurity. Capitalising on the National Drinking Water Supply and Irrigation Programme (PNAEPI) 2020-27, in May 2023 the government increased the programme's budget allocation to US$ 14.3 billion (€13.6 billion) from an initial investment of US$ 11.5 billion (€10.9 billion). The PNAEPI aims to scale up investments in the water sector, strengthen the supply of drinking water and irrigation, and build resilience against climate risks. The additional investment would accelerate the construction of dams, connect various water basins (raising Morocco's freshwater storage capacity), increase the share of reused treated wastewater and speed up the transition to alternative water sources (the government has embarked on an ambitious desalinated seawater programme). Moreover, in June 2023 the government signed a framework agreement worth US$ 1 billion (€0.95 billion) with agricultural sector professionals to reduce the impact of drought on agriculture and strengthen resilience.

Multiple reforms are under way to support competition, investment and renewable energy. The new investment charter, passed in December 2022, aims to make the country a hub for investments from abroad. It offers investment support systems in the form of subsidies or grants for investment projects carried out in key regions and sectors, and boosts investment in small and medium-sized enterprises (SMEs). This was complemented in early 2023 by legislation amending existing laws on renewable energy and the regulation of the electricity sector, so that IPPs can: (1) produce energy for their own consumption, (2) sell surplus energy from renewable sources to other consumers by connecting to the national grid, and (3) export renewable electricity through national electricity grid interconnections. However, further clarification is required from the National Electricity Regulation Agency on tariffs and conditions for feeding electricity into the network while preserving grid stability. In addition, the Moroccan Competition Council, which oversees the country's antitrust regime, has become more active over the past year, especially in the field of merger control. Reforms to ensure the smooth handling of cases include a simplified filing form for no-issue transactions and the introduction of a filing fee, with an optional expedited process for an additional fee.

The government introduced a new programme to support industrial innovation. Launched in September 2022, the innovation programme plans to invest US$ 30 million (around €28.5 million) over 2023-25 to promote research and innovation by industrial SMEs. The programme aims to support at least 100 qualified projects by supporting: (1) the development of patents (by contributing 80 per cent of the patent process costs), (2) innovation, research and development of new products or processes in the design-to-prototype phase (by contributing 60 per cent of the costs of inputs and services), and (3) the industrialisation of products and processes in the pilot phase (by contributing 30 per cent of investment costs).

Efforts are being made to unify corporate tax rates and promote investment. The Finance Law 2023 introduced a four-year, phased reform aimed at promoting convergence to a unified corporate tax rate from the current multi-rate system (depending on profits, sector and location). By 2026 the regime will comprise a tax rate of 20 per cent for standard companies, 35 per cent for companies with profits of at least MAD 100 million (around €9 million) and 40 per cent for financial institutions. The reform would particularly benefit medium-sized firms (with profits between MAD 1 million [€90,000] and MAD 100 million [€9 million]) and industrial companies (with profits of less than MAD 100 million [€9 million]), which would benefit from a gradual reduction in their tax rate by 2026. This is expected to improve tax revenues, as lower rates should encourage formalisation and widen the tax base, while simplifying the system and improving incentives and resource allocation.