Morocco

Highlights

- **Growth has slowed in 2024 but the economy continues to show resilience to negative shocks.** Droughts have badly affected the agricultural sector but overall economic performance has proved resilient, despite the 6.8-magnitude earthquake in September 2023 which caused widespread destruction around the High Atlas Mountains near Marrakech.
- **Inflation has fallen significantly in 2024 as supply shocks were resolved.** The central bank (Bank Al-Maghrib) began loosening its monetary policy in June 2024 given projections of continued falls in food prices and core inflation.
- **Morocco has taken steps to become an energy hub.** The government aims to improve the attractiveness and competitiveness of the renewables sector by developing a conducive regulatory framework for investors, notably by publishing tariffs for network access and usage and bringing greater clarity on the country's electricity network capacity, although some secondary legislation to operationalise the framework is still pending. Known as the "Morocco Offer", the initiative has seen developer interest and will support the expansion of the green hydrogen sector.

Key priorities for 2025

- **Governance reforms at state-owned enterprises (SOEs) will be important for private sector growth.** The implementation of the state ownership policy and restructuring at key SOEs will signal commitment to the reform agenda. The continued strengthening of the Competition Council would enable further enforcement against anti-competitive practices.
- **Economic diversification would improve Morocco's resilience to external shocks.** GDP growth has been badly affected by droughts, highlighting the importance of integrating climate change and social considerations into policymaking.
- **The authorities should enable further investment in renewable energy and related infrastructure.** Morocco can improve its energy security by encouraging private sector participation and prioritising investments in electricity interconnections and green hydrogen.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-7.2	8.0	1.3	3.0	2.9
Inflation (average)	0.7	1.4	6.6	6.1	2.2
Government balance/GDP	-7.1	-6.0	-5.4	-4.4	-4.3
Current account balance/GDP	-1.2	-2.3	-3.5	-0.6	-2.6
Net FDI/GDP [neg. sign = inflows]	-0.8	-1.1	-1.2	-0.1	-0.9
External debt/GDP	54.2	45.9	49.5	49.1	na
Gross reserves/GDP	29.7	25.1	24.7	25.2	na
Credit to private sector/GDP	90.9	86.2	87.7	83.4	na

CONTINUES ›

Macroeconomic developments and policy response

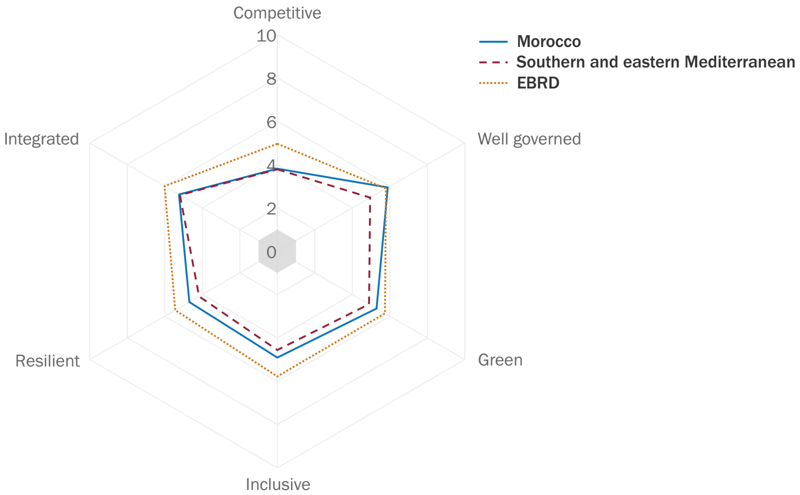
Growth has slowed during 2024. Real GDP grew by 2.5 per cent year on year in the first quarter of 2024, compared with 3.9 per cent in the same period last year. The slowdown was driven by a contraction in the agricultural sector due to drought, while non-agricultural sectors expanded at a slightly slower pace than the previous year. Rainfall continues to be significantly below average despite a year-on-year increase in the first four months of 2024. Growth is supported by consumer demand, bolstered by an expansion in social protection. Agriculture accounts for 14 per cent of GDP and close to 30 per cent of employment. Around 200,000 jobs in the sector were estimated to have been lost in 2023 as a result of the ongoing drought, with a disproportionate impact on rural populations and women. Post-earthquake reconstruction is continuing. The government announced a reconstruction plan amounting to MAD 120 billion (around €11.7 billion, or 8 per cent of GDP) over five years soon after the earthquake in September 2023. The remoteness of some of the affected area is hampering efforts to rebuild the 60,000 damaged or destroyed homes. Despite a dip in tourist arrivals immediately after the earthquake, a record 14.5 million tourists visited Morocco in 2023 and figures for the first half of 2024 show a further increase of 14 per cent year on year, alleviating fears of a wider impact on the economy.

Inflation is in low single digits. The annual core rate of inflation dropped to 2.4 per cent in September 2024 from its peak in February 2023 at 8.5 per cent. In June 2024, Bank Al-Maghrib became the first central bank in North Africa to cut its policy rate, bringing it down by 25 basis points to 2.75 per cent. The dirham continued to trade within its determined fluctuation band.

Fiscal and current account imbalances are minor. The budget deficit is expected to stand at 4.3 per cent of GDP in 2024 (compared with 4.4 per cent in 2023) and narrow further in 2025 due to a shrinking primary deficit, despite higher social benefit expenses. Central government debt-to-GDP is expected to fall to 70.4 per cent in 2024 from its peak of 72.2 per cent in 2020. Meanwhile, the current account registered a surplus of 1.1 per cent of GDP in the first quarter of 2024. This follows a significant narrowing in the deficit to 0.6 per cent of GDP in 2023 from 3.5 per cent the preceding year, driven by lower energy imports and higher remittances and tourism and automotive exports. Net foreign exchange reserves rose by 1.3 per cent year on year to €34 billion in August 2024, covering around five months of imports.

Growth is expected to continue to recover in the medium term, with some downside risks to the outlook. Recovering domestic and external demand and easing inflation should keep economic activity buoyant while the fiscal consolidation plan continues, giving a forecast growth rate of 2.9 per cent in 2024 and 3.6 per cent in 2025. On the downside, Morocco's high dependence on energy imports and seasonal agricultural production increases its vulnerability to global and climate risks.

Assessment of transition qualities (1-10)



CONTINUES >

Structural reform developments

Morocco continued to perform well on its International Monetary Fund-supported programmes, on the back of strong macroeconomic policies and commitment to structural reforms. In March 2024, the country successfully concluded its mid-term review under the Flexible Credit Line Arrangement (FCL) and first review under the Resilience and Sustainability Facility (RSF). The two-year US$ 5 billion FCL (€4.6 billion, approved in April 2023) aims to build up the country's external buffers and create the necessary policy space to accelerate the implementation of the reform agenda (New Model of Development 2021-35). Moreover, the 18-month US$ 1.3 billion RSF (€1.2 billion, approved in September 2023) aims to support Morocco's green transition and improve its climate resilience.

SOE reforms are advancing. In June 2024 the Council of Ministers took the first step towards developing a state ownership policy (SOP) by approving its strategic orientation. This was followed by a favourable opinion issued by the consultation body on the draft SOP, chaired by the head of government, in September 2024. The SOP will provide a basis on which the country can enhance the efficiency, governance and transparency of SOEs. The National Agency for the Strategic Management of State Participations (ANGSPE) became operational in 2023 and is tasked with developing the SOP and managing and monitoring 57 public institutions and enterprises. In early July 2024, a US$ 350 million (€319 million) World Bank programme was signed which will further contribute to SOE reforms.

Efforts to restructure the electricity and water sectors are under way. Legislation passed in 2023 permits the operation of regional multiservice companies (SRMs) in the electricity and drinking water sectors, along with wastewater collection and treatment. The first SRM was created in October 2024. The state-owned electricity and water company, ONEE, also aims to eventually unbundle its generation, transmission and distribution activities, initially by separating its financial accounts. Once achieved, this will support greater private sector participation in the electricity sector by ensuring transparent and non-discriminatory access to the network.

The government has implemented policies to improve the competitiveness of the renewable energy sector. In January 2024, the National Electricity Regulatory Authority (ANRE) started publishing information on the capacity of the national electricity network to absorb additional renewable energy for the regulatory period 2024-28. Publication will provide potential investors with clear signals regarding project site selection and planning based on available capacity. New transparent tariffs to access and use the transmission network were announced in early 2024, which should increase the competitiveness of the electricity sector and attractiveness of the renewables sector to investors, although publication of distribution tariffs is still pending.

The government has announced the "Morocco Offer" for the development of the green hydrogen sector. The initiative, launched in March 2024, builds on Morocco's potential for solar and wind energy – as hydrogen production is energy-intensive – and is targeted at both local and international developers and investors. The Offer relates to integrated projects of scale along the entire value chain, includes allocations of suitable public land, and makes use of existing tax exemptions. Developers signalled strong interest as of August 2024, with 40 proposals having been received by the Moroccan Agency for Sustainable Energy (MASEN), the agency tasked with managing the application process.

The government is gradually implementing fiscal consolidation measures. This includes a reform of social protection and the gradual lifting of subsidies, including on gas butane and other commodities. Value-added tax (VAT) reform will reduce the number of rates from five to three over the coming three years. The government is also reforming the Organic Budget Law to include a medium-term fiscal framework (MTFF) and debt anchor. Current improvements to the MTFF include an evaluation of previous years' budget performance, reconciliation of macroeconomic assumptions and identification of fiscal risks.

Morocco has launched a programme to expand its social protection system in response to the Covid-19 pandemic. Reforms will focus on expanding healthcare coverage by moving to compulsory health insurance, and providing family, pension and unemployment benefits. The first two pillars of the programme (health insurance and cash transfers to the poor) have been implemented. Beneficiaries of the health insurance system number approximately 14 million, with a further 22 million to be added. Remaining reforms will be phased in during 2025.