MOROCCO ECONOMIC MONITOR

Responding to Supply Shocks

Winter 2022/23

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Morocco Economic Update

Responding to Supply Shocks

Winter 2022/23

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AE	Advanced Economies
ANGSPE	Agence nationale de gestion stratégique des participations de l'État
BAM	Bank Al-Maghrib
CCDR	Country Climate and Development Report
CDS	Credit Default Swap
CESE	Economic, Social and Environmental Council
CIT	Corporate Income Taxes
COVID	Coronavirus Disease
CPI	Consumer Price Index
DEPF	Department of Studies and Financial Forecasts
EAP	East Asia Pacifique
ECB	European Central Bank
EMBI	Emerging Market Bond Index
EMDE	Emergent markets and Devoloping contries
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GoM	Government of Morocco
HCP	High Commission of Planning
HSB	Household Budget Survey
IMF	International Monetary Fund
IRF	Impulse Reaction Functions
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
MENA	Middle East North Africa
MRE	Moroccan Resident abroad
MTI	Macro Trade and Investment
NDM	New Development Model
NPLs	Non-Performing Loans
ONEE	National Office of Electricity and Drinking Water
POV	Poverty
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
VAT	Value Added Taxes
WB	World Bank
WEO	World Economic Outlook

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The Morocco Economic Monitor is a semi-annual report from the World Bank economic team on recent economic developments and economic policies. This report presents our current outlook for Morocco given the recent COVID-19 developments. Its coverage ranges from the macroeconomy to business environment and private sector development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Morocco.

The Morocco Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade & Investment (MTI) Global Practice in the World Bank Group. The report was prepared by Javier Diaz-Cassou (Senior Economist, MTI), Amina Iraqi (Economist, MTI), Federica Marzo (Senior Economist, POV), and Marco Fregoni (Consultant, POV).

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The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of the World Bank or the governments they represent. For information about the World Bank and its activities in Morocco, please visit www.worldbank.org/en/country/morocco (English), www.worldbank.org/ar/country/morocco (Arabic), or www.banquemondiale.org/fr/country/morocco (French). For questions and comments on the content of this publication, please contact Javier Diaz Cassou (jdiazcassou@worldbank.org).

EXECUTIVE SUMMARY

After a strong post-COVID rebound, the Moroccan economy is undergoing the impact of a string of overlapping supply shocks, both domestic and imported. First, the agricultural campaign was extraordinarily dry, leading to the collapse of rainfed crops and to a worrisomely low volume of water stored in reservoirs that poses a threat to irrigated agriculture, and potentially to other sectors of the economy. Second, as in much of the world, the war in Ukraine, rising geopolitical tensions and the reordering of global supply chains have triggered a supply-side driven inflationary surge, with CPI annual growth peaking at 8.3 percent towards the end of 2022. Lastly, despite the resilience of remittances and merchandise exports, and a rapid improvement in tourism receipts, the commodity price shock has affected external balances.

Overall, this has led to a rapid deceleration of economic activity, with important welfare impacts. Real GDP growth dropped from 7.9 percent in 2021 to an estimated 1.2 percent in 2022, while the current account deficit increased from 2.3 to 4.1 percent of GDP. The extreme volatility of agricultural output due to increasingly frequent climate shocks explains about half of that deceleration. HCP confidence surveys show that the subjective well-being of the population has dropped markedly, falling below the levels observed even during the worst months of the pandemic crisis. In addition, and mostly due to the drought, more than two hundred thousand jobs have been lost in rural areas, where most of Moroccan poor households reside. By contrast, labor markets have been more resilient in urban centers.

Poor, vulnerable, and rural households are disproportionately suffering from the impact of the inflationary surge. Together with the general inflation level, the dispersion in the evolution of the prices that compose the CPI basket has increased markedly in recent months, implying that the inflationary surge is having heterogenous welfare impacts on households depending on the goods and services that they consume. Indeed, the calculations presented in this report show that annual inflation may be 30 percent higher for the poorer decile of the income distribution than for the wealthier one. Moreover, inflationary pressures may be more intense in rural environments, where poverty levels are also higher. These inflation differentials are mostly due to the impact of food price increases, which represent a higher share of poorer households' consumption baskets.

The government has responded to ongoing supply shocks with a costly policy package focused on preserving households' purchasing power through price subsidies. Morocco's countercyclical response has been articulated primarily around the maintenance of pre-existing regulated prices and, to a lesser extent, through the provision

of ad hoc financial support to various sectors of the economy including transport, tourism, agriculture, and livestock rearing. Overall, this policy package has shielded almost one quarter of the consumption basket from the inflationary surge, requiring the mobilization of additional public spending for an amount of almost 2 percent of GDP, mostly in the form of price subsidies. This approach cushioned what would have otherwise been a more pronounced increase in poverty and vulnerability.

In the future, though, better targeted social protection instruments (such as cash transfers) will constitute a more cost-effective tool to mitigate the impacts of these supply shocks. A disproportionate share of the public resources needed to sustain Morocco's untargeted price subsidy schemes end up flowing to wealthier households, which in absolute terms consume more of the subsidized goods. From an equity perspective, this provides a solid justification for the substitution of current price subsidies by family allowances as part of the ongoing health and social protection reform. Indeed, such a targeted scheme will allow the government to protect poorer households more effectively and efficiently from the impacts of the deteriorating economic environment. It will also avoid another potentially adverse consequence of coping with supply shocks through price subsidies: muting the price signal, which can slow consumers' adjustment to the shock, undermine allocative efficiency, and possibly add pressure on the balance of payments.

Calibrating the monetary policy response to current shocks is far from easy, and BAM has so far opted for prudence, raising policy rates while maintaining an accommodative stance. BAM has raised interest rates twice since September by a cumulative 100 basis points. However, the policy rate remains negative in real terms and is still below its estimated neutral level. In other words, monetary policy remains accommodative. As many other central banks, BAM currently confronts a complex trade-off. On the one hand, recent shocks have their origin primarily on the supply side, could be temporary, and have unfolded in the context of a negative output gap, undermining the logic of monetary policy as an anti-inflationary tool. On the other hand, price pressures have gradually widened and now go well beyond the products that were most affected the supply shocks. Hence, there is a risk that inflation expectations could become de-anchored, which could justify a more forceful monetary policy tightening. Going forward, Morocco's optimal monetary policy response will depend on the persistence of inflation and on whether second round effects become more likely as prices pressures continue to propagate across the economy. In this complex setting, the authorities could consider complementing the anti-inflationary effort with structural policies to ease supply constraints, particularly for food items, where the large divergence between farmgate and retail prices are partly due to market disfunctions.

Economic growth is expected to accelerate to 3.1 percent in 2023, but risks are tilted to the downside. In 2023 the Moroccan economy will continue to confront an adverse international environment as its main trading partners in the Eurozone undergo a deceleration, potentially a recession in the first months of the year. This is expected to reduce non-agricultural growth which should be more than compensated by the rebound of the primary sector that would materialize if Morocco's main crops bounce back to average levels. However, although the beginning of the agricultural campaign has been relatively humid, nothing guarantees that the drought has come to an end, and a repetition of last year's poor crops could lower our overall growth projections by almost one percentage point.

RÉSUMÉ ANALYTIQUE

Après un fort rebond post-COVID, l'économie marocaine subit l'impact d'une série de chocs d'offre, d'origine domestique et importé. Tout d'abord, la campagne agricole a été extraordinairement sèche, entraînant une forte baisse des cultures pluviales et un volume inquiétant des réserves d'eau qui menace l'agriculture irriguée, et potentiellement d'autres secteurs de l'économie. Deuxièmement, comme dans une grande partie du monde, la guerre en Ukraine, la montée des tensions géopolitiques et la reconfiguration des chaînes de valeur mondiales ont entraîné une poussée inflationniste tirée par l'offre, avec une croissance annuelle de l'indice des prix à la consommation (IPC) atteignant son pic de 8,3 % vers la fin de 2022. Enfin, malgré la résilience des recettes des Marocains résidents à l'étranger (MRE), des exportations de biens et l'amélioration rapide des recettes touristiques, le choc des prix des matières premières a affecté la balance des paiements.

Dans l'ensemble, cela a entraîné une décélération rapide de l'activité économique, avec d'importantes répercussions sur le bien-être. La croissance du PIB réel a chuté de 7,9 % en 2021 à environ 1,2 % en 2022, tandis que le déficit du compte courant s'est creusé de 2,3 à 4,1 % du PIB. L'extrême volatilité de la production agricole due à des chocs climatiques de plus en plus fréquents explique environ la moitié de cette décélération. Les enquêtes de confiance du HCP montrent que le bien-être subjectif de la population a nettement diminué, tombant en dessous des niveaux observés même pendant les mois les plus difficiles de la pandémie de COVID-19. En outre, et principalement en raison de la sécheresse, plus de deux cent mille emplois ont été perdus dans le milieu rural, où réside la plupart des ménages pauvres marocains. En revanche, le marché du travail a mieux résisté dans le milieu urbain.

Les ménages pauvres, vulnérables et ruraux souffrent de manière disproportionnée de l'impact de la poussée inflationniste. Parallèlement au niveau général de l'inflation, la dispersion de l'évolution des prix qui composent le panier de l'IPC a considérablement augmenté ces derniers mois, ce qui signifie que la poussée inflationniste a des effets hétérogènes sur le bien-être des ménages en fonction des biens et services qu'ils consomment. En effet, les calculs présentés dans ce rapport montrent que l'inflation annuelle peut être 30 % plus élevée pour le décile le plus pauvre que pour le décile le plus riche. En outre, les pressions inflationnistes pourraient être plus intenses dans le milieu rural, où les niveaux de pauvreté sont également plus élevés. Ces écarts d'inflation sont principalement dus à l'impact de la hausse des prix des produits alimentaires, qui représentent la part la plus importante du panier de consommation des ménages les plus pauvres.

Le gouvernement a répondu aux chocs d'offre actuels par un ensemble de mesures visant à préserver le pouvoir d'achat des ménages par le biais des subventions de prix

qui ont été coûteuses. La réponse contracyclique du Maroc s'est articulée principalement autour du maintien des prix réglementés préexistants et, dans une moindre mesure, par un appui financier ad hoc à divers secteurs de l'économie, notamment le transport, le tourisme, l'agriculture et l'élevage. De manière générale, cet ensemble de mesures a contribué à préserver près d'un quart du panier de consommation de la poussée inflationniste, ce qui a nécessité la mobilisation de dépenses publiques supplémentaires pour un montant de près de 2 % du PIB, principalement sous la forme de subventions. Cette approche a permis d'éviter une augmentation plus prononcée de la pauvreté et de la vulnérabilité.

A l'avenir, cependant, des instruments de protection sociale mieux ciblés (tels que des transferts en espèces) constitueraient un outil efficient pour atténuer les effets de ces chocs d'offre. Une part disproportionnée des ressources publiques nécessaires pour soutenir les subventions des prix non ciblés du Maroc profite aux ménages les plus riches, qui, en termes absolus, consomment davantage de biens subventionnés. Du point de vue de l'équité, cela justifie pleinement le remplacement des subventions actuelles par des allocations familiales, dans le cadre de la réforme en cours de la santé et de la protection sociale. En effet, un tel système ciblé permettra au gouvernement de protéger les ménages les plus pauvres de manière plus efficace et efficiente contre les effets de la détérioration de l'environnement économique. Il permettra également d'éviter une autre conséquence potentielle de la gestion des chocs d'offre par des subventions de prix : l'atténuation du signal de prix, qui peut ralentir l'ajustement des consommateurs au choc, nuire à l'efficacité de l'allocation des ressources et éventuellement accroître la pression sur la balance des paiements.

Calibrer la réponse de la politique monétaire aux chocs actuels n'est pas facile, et la Banque central (Bank-Al-Maghrib, ou BAM) a jusqu'à présent opté pour la prudence, en relevant les taux directeurs tout en maintenant une politique accommodante. Depuis septembre, BAM a relevé ses taux d'intérêt à deux reprises, de 100 points de base au total. Toutefois, le taux directeur reste négatif en termes réels et se situe toujours en dessous de son niveau neutre estimé. En d'autres termes, la politique monétaire reste accommodante. Comme de nombreuses autres banques centrales, BAM est actuellement confrontée à un arbitrage complexe. D'une part, les chocs récents trouvant leur origine principalement du côté de l'offre, pourraient être temporaires et sont survenus dans le contexte d'un écart de production négatif, affaiblissant la logique de la politique monétaire en tant qu'outil anti-inflationniste. D'autre part, les pressions sur les prix se sont progressivement élargies et vont désormais bien au-delà des produits les plus touchés par les chocs d'offre. Il y a donc un risque que les anticipations d'inflation se désancrent, ce qui pourrait justifier un resserrement plus fort de la politique monétaire. À l'avenir, la réponse optimale du Maroc en matière de politique monétaire dépendra de la persistance de l'inflation et de la probabilité que les effets de second tour s'accentuent à mesure que les pressions sur les prix continuent de se propager dans l'économie. Dans ce contexte complexe, les autorités pourraient envisager de compléter l'effort anti-inflationniste par des politiques structurelles visant à assouplir les contraintes d'offre, en particulier pour les produits alimentaires, où l'écart important entre les prix à la production et les prix de détail est en partie due à des dysfonctionnements du marché.

La croissance économique devrait s'accélérer à 3,1 % en 2023, mais les risques restent élevés. En 2023, l'économie marocaine continuera de faire face à un environnement international défavorable, notamment la décélération de la croissance attendue de ses principaux partenaires commerciaux de la zone euro, voire une récession dans les premiers mois de l'année. Cela devrait réduire la croissance non-agricole qui devrait être plus que compensée par le rebond du secteur primaire qui se matérialiserait si les principales récoltes du Maroc rebondissent à des niveaux moyens. Cependant, bien que le début de la campagne agricole ait été relativement humide, l'occurrence d'une nouvelle année de sécheresse n'est pas à exclure, et le Maroc pourrait revivre le même scénario que l'année dernière avec un niveau de récoltes faible, réduisant la croissance économique que nous prévoyons pour 2023 de près d'un point de pourcentage.

ملخص تنفيذي

بعد انتعاش قوي بعد جائحة كورونا ، يمر الاقتصاد المغربي بتأثير سلسلة من صدمات العرض المتداخلة ، المحلية والمستوردة على حد سواء. أولاً ، كانت الحملة الزراعية جافة بشكل غير عادي ، مما أدى إلى انهيار المحاصيل البعلية وإلى انخفاض مقلق في حجم احتياطيات المياه التي تشكل تهديدًا للزراعة المروية ، وربما لقطاعات أخرى من الاقتصاد. ثانيًا ، كما هو الحال في معظم أنحاء العالم ، أدت الحرب في أوكرانيا ، والتوترات الجيوسياسية المتزايدة ، وإعادة تنظيم سلاسل القيمة العالمية إلى زيادة تضخمية مدفوعة من جانب العرض ، حيث بلغ النمو السنوي لمؤشر أسعار المستهلكين ذروته عند 8.3 في المائة في نهاية عام 2022. أخيراً ، على الرغم من مرونة التحويلات وصادرات البضائع ، والتحسن السريع في إيرادات السياحة ، فقد أثرت صدمة أسعار السلع الأساسية على ا التوازنات الخارجية.

بشكل عام ، أدى ذلك إلى تباطؤ سريع في النشاط الاقتصادي ، مع تأثيرات مهمة على الرفاهية. انخفض نمو إجمالي الناتج المحلي الحقيقي من 7.9 في المائة في عام 2021 إلى ما يقدر بنحو 1.2 في المائة في عام 2022 ، في حين زاد عجز الحساب الجاري من 2.3 إلى 4.1 في المائة من إجمالي الناتج المحلي. إن التقلب الشديد في الإنتاج الزراعي بسبب الصدمات المناخية المتكررة يفسر حوالي نصف هذا التباطؤ. تظهر استطلاعات الثقة أن الرفاه الشخصي للسكان قد انخفض بشكل ملحوظ ، حيث انخفض إلى ما دون المستويات التي لوحظت حتى خلال أسوأ شهور أزمة الوباء. بالإضافة إلى ذلك ، وبسبب الجفاف في الغالب ، فقد أكثر من مائتي ألف وظيفة في المناطق الريفية ، حيث تعيش معظم الأسر المغربية الفقيرة. على النقيض من ذلك ، استقر سوق العمل بشكل أفضل في المناطق الحضرية.

تعاني الأسر الريفية ،الفقيرة والمستضعفة بشكل غير متناسب من تأثير الارتفاع التضخمي. إلى جانب مستوى التضخم العام ، زاد التشتت في تطور الأسعار التي تتكون منها سلة مؤشر أسعار المستهلكين بشكل ملحوظ في الأشهر الأخيرة ، مما يعني أن الارتفاع التضخمي له آثار غير متجانسة على رفاهية الأسر التي حسب السلع والخدمات التي تستهلكها. في الواقع ، تظهر الحسابات الواردة في هذا التقرير أن التضخم السنوي قد يكون أعلى بنسبة 30 في المائة للشريحة العشرية الأفقر من توزيع الدخل مقارنة بالفئة الأكثر ثراءً. علاوة على ذلك ، قد تكون الضغوط التضخمية أكثر حدة في المناطق الريفية ، حيث تكون مستويات الفقر أعلى أيضًا. ترجع فروق التضخم هذه في الغالب إلى تأثير ارتفاع أسعار المواد الغذائية ، والتي تمثل حصة أكبر من سلة استهلاك الأسر الفقيرة.

استجابت الحكومة لصدمات العرض الحالية بمجموعة من الإجراءات المكلفة التي تهدف إلى الحفاظ على القوة الشرائية للأسر من خلال دعم الأسعار. تمحورت التدابير المضادة للتقلبات الدورية التي اتخذها المغرب بشكل رئيسي حول الحفاظ على المواد ذات الأثمان المحددة الموجودة مسبقًا ، وبدرجة أقل ، من خلال توفير الدعم المالي المخصص لمختلف قطاعات الاقتصاد بما في ذلك النقل والسياحة والزراعة وتربية المواشي. بشكل عام ، ساعدت هذه المجموعة من الإجراءات على حماية ما يقرب من ربع سلة الاستهلاك من الارتفاع التضخمي ، الأمر الذي تطلب تعبئة إنفاق عام إضافي بما يقرب من 2 في المائة من الناتج المحلي الإجمالي ، معظمها في شكل دعم للأسعار. وخفف هذا النهج ما كان يمكن أن يكون لولا ذلك زيادة أكثر حدة في الفقر والهشاشة الاجتماعية.

ومع ذلك ، في المستقبل ، يمكن أن تكون أدوات الحماية الاجتماعية الموجهة بشكل أفضل (مثل التحويلات النقدية) أداة أكثر فعالية من حيث التكلفة للتخفيف من آثار صدمات العرض هذه. حصة غير متكافئة من الموارد العامة اللازمة لدعم برامج دعم الأسعار غير المستهدفة في المغرب تعود بالفائدة على الأسر الأكثر ثراءً ، الذين يستهلكون ، بالأرقام المطلقة ، الكثير من السلع المدعومة. ومن منظور الإنصاف ، فإن هذا يبرر تمامًا استبدال الإعانات الحالية بعلاوات الأسرة كجزء من الإصلاح الجاري للصحة والحماية الاجتماعية. في الواقع ، مثل هذا المخطط المستهدف سيسمح للحكومة بحماية الأسر الفقيرة بشكل أكثر فعالية وكفاءة من آثار تدهور البيئة الاقتصادية. وسيسمح أيضًا أ بتجنب عواقب سلبية

أخرى محتملة للتعامل مع صدمات العرض من خلال دعم الأسعار: كتم إشارة السعر ، الذي يمكن أن يبطئ من تكيف المستهلكين مع الصدمة ، و يضر بالكفاءة التخصيصية وربما يزيد الضغط على ميزان المدفوعات. .

ليس من السهل معايرة استجابة السياسة النقدية للصدمات الحالية، وقد اختار بنك المغرب حتى الآن توخي الحذر ، ورفع أسعار الفائدة الرئيسية مع الحفاظ على سياسة تيسيرية. قام بنك المغرب برفع أسعار الفائدة مرتين منذ سبتمبر بمعدل تراكمي قدره 100 نقطة أساس. ومع ذلك ، لا يزال معدل السياسة سلبيًا بالقيمة الحقيقية ولا يزال أقل من مستواه المحايد المقدر. بعبارة أخرى ، تظل السياسة النقدية متيسرة. مثل العديد من البنوك المركزية الأخرى ، يواجه بنك المغرب حاليًا مقايضة معقدة. فمن ناحية ، يعود أصل الصدمات الأخيرة في المقام الأول إلى جانب العرض ، ويمكن أن تكون مؤقتة وتحدث في سياق فجوة إنتاجية سلبية ، مما يضعف منطق السياسة النقدية كأداة لمكافحة التضخم. من ناحية أخرى ، اتسعت ضغوط الأسعار تدريجياً وتتجاوز الآن المنتجات الأكثر تأثراً بصدمات العرض. وبالتالي ، هناك خطر من أن التوقعات التضخمية يمكن أن تصبح غير ثابتة ، مما قد يبرر تشديد السياسة النقدية بشكل أكثر قوة. للمضي قدما، سوف تتوقف استجابة السياسة النقدية المثلى للمغرب على استمرار التضخم وما إذا كانت آثار الجولة الثانية ستصبح أكثر احتمالا مع استمرار ضغوط الأسعار في الانتشار عبر الاقتصاد. في هذا الوضع المعقد ، يمكن للسلطات النظر في استكمال جهود مكافحة التضخم بسياسات هيكلية لتخفيف قيود العرض ، لا سيما بالنسبة للمواد الغذائية ، حيث يرجع الاختلاف الكبير بين أسعار المزرعة والتجزئة جزئيًا إلى اختلالات السوق.

من المتوقع أن يتسارع النمو الاقتصادي إلى 3.1 في المائة في عام 2023 ، لكن المخاطر تميل نحو توقعات متدهورة . في عام 2023 ، سيستمر الاقتصاد المغربي في مواجهة بيئة دولية معاكسة حيث يعاني شركاؤه التجاريون الرئيسيون في منطقة اليورو من التباطؤ ، وربما الركود في الأشهر الأولى من العام. ومن المتوقع أن يؤدي ذلك إلى خفض النمو غير الزراعي الذي ينبغي تعويضه أكثر من خلال انتعاش القطاع الأولي الذي سيتحقق إذا انتعشت المحاصيل الرئيسية في المغرب إلى المستويات المتوسطة. ومع ذلك ، على الرغم من أن بداية الموسم الزراعي كانت رطبة نسبيًا ، فلا شيء يضمن أن الجفاف قد وصل إلى نهايته ، وتكرارمحاصيل العام الماضي الضعيفة يمكن أن يخفض توقعات النمو الإجمالية لدينا بنحو نقطة مئوية واحدة.

1

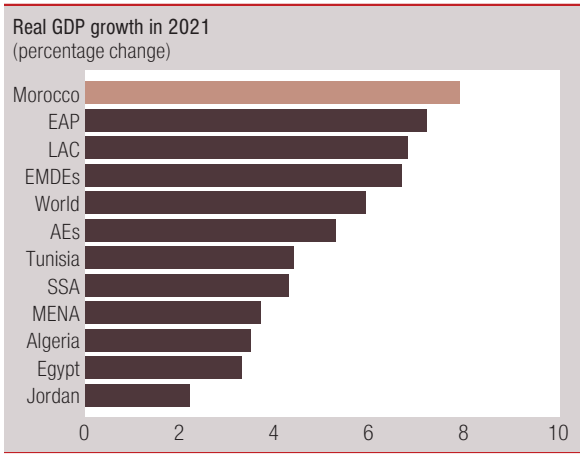
RECENT ECONOMIC DEVELOPMENTS

The Moroccan Economy Slowed Down Markedly in 2022 after a Strong (technical) Rebound in 2021…

Morocco was among the World's fastest growing economies in 2021. Real GDP expanded at an unprecedented 7.9 percent rate, well above the rest of the MENA region (3.7 percent) and the World Economy (6 percent), and even surpassing the fastest growing emerging economies of East Asia and the Pacific (7.2 percent) and Latin America (6.9 percent). This allowed Morocco to recover the output loss undergone during the first year of the pandemic, as GDP returned to pre-pandemic levels. As discussed in previous editions of our Morocco Economic Monitor, this rebound was in part technical (due to the very low 2020 base of economic activity during the peak of the Covid-19 containment phase); it was also supported by exogenous climate-related factors (a relatively rainy year after two consecutive dry ones) and by the effective policy response to COVID-19 put forward by the authorities both on the sanitary and the macroeconomic fronts.

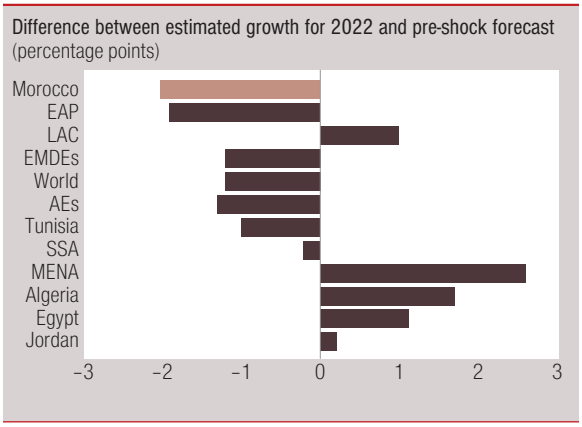
But the post-COVID rebound has stalled amid headwinds emanating from a succession of international and climatic supply shocks. In 2022, the world economy began to decelerate due to the spillovers from the Russian Federation's invasion of Ukraine (especially to commodities, including food, oil and gas), the synchronous monetary policy tightening taking place in advanced economies, and new disruptions to global value chains. As discussed later in more detail, in Morocco this adverse international scenario has been compounded by a severe drought, explaining why the drop in economic growth has been comparatively abrupt (Figure 2). This economic slowdown has unfolded asymmetrically both on the demand and on the supply sides. While domestic consumption was more resilient, still expanding by 3 percent between January and September (households: +2.2 percent; public administration: +5.4 percent), gross capital formation contracted by 1.6 percent (Figure 3). On the supply side, the drought resulted in a 15.3 percent contraction of the primary sector's value added, while the manufacturing sector expanded by 0.3 percent and services by 5.4 percent, supported by a solid recovery of the tourism industry, which represents close to 7 percent of GDP according to HCP (Figure 4).

FIGURE 1 • Morocco was among the world's best performing economies in 2021…



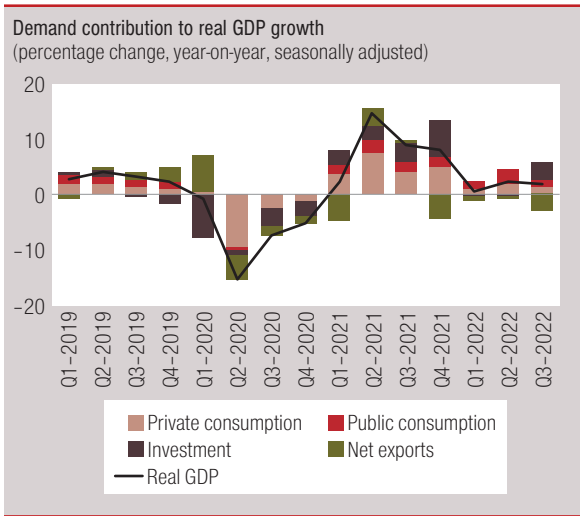
Source: GEP January 2023, World Bank.

FIGURE 2 • …but ongoing shocks resulted in an abrupt deceleration in 2022



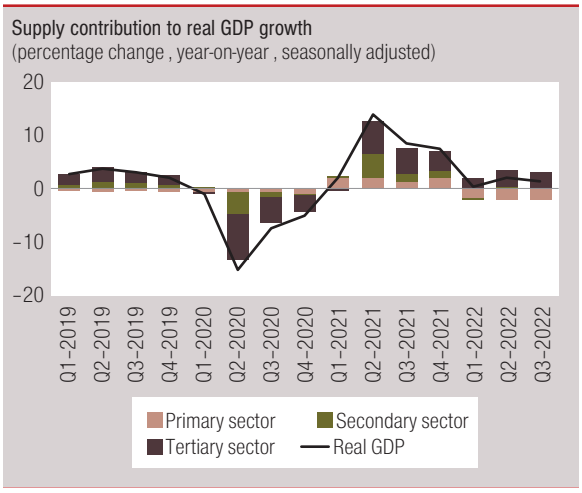
Source: GEP January 2023, World Bank.

FIGURE 3 • Private consumption and investment have been hit particularly hard…



Source: World Bank staff calculations with HCP data.

FIGURE 4 • …while tourism has boosted the services sector



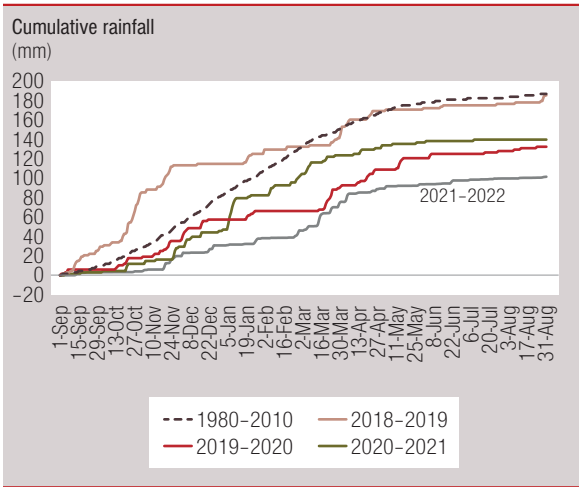
Source: World Bank staff calculations with HCP data.

…Driven by a Collapse of Agricultural Production due to a Drought.

Morocco went through its driest year in more than three decades The level of precipitations was extremely low during most of 2022, particularly in the months that matter the most for the country's main rainfed crops (Figure 5). This crisis forced the authorities to restrict the use of water for irrigation purposes, which implies that the drought had an impact not only on rainfed crops but also on other higher value-added products. Around the summer and fall months, the authorities were also forced to restrict residential water supply in some areas, anticipating what could become a much more widespread response to the current water crisis unless precipitations gather pace and dams' filling levels return to more manageable levels. In November 2022, the filling rate of Moroccan reservoirs reached 23.7 percent, their lowest level since 1995, subsequently recovering to 31.5 percent (as of January 10, 2023) thanks to the intense precipitations that took place in December (Figure 6).

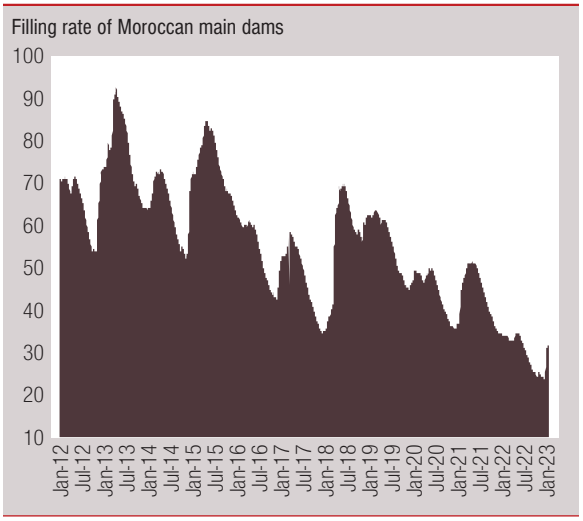
The collapse of agricultural production explains almost half of the economic deceleration

FIGURE 5 • Precipitation levels were abnormally low throughout 2022



Source: Ministry of Equipment and Water.

FIGURE 6 • And total water stored in Morocco's reservoirs is extremely low



Source: Ministry of Equipment and Water.

in 2022. Agricultural output collapsed by 67 percent for cereals, 14 percent for citruses and 21 percent for olives. The resulting contraction of the agricultural sector's value added (15 percent) contributed to 47.6 percent of the reduction in overall GDP growth that occurred between January and September 2022 and the same period of a year before, turning it into the most relevant driving force behind the weakening performance of the Moroccan economy.[1] Once again, this reflects the key role played by climatic shocks as a source of macroeconomic volatility in Morocco, as emphasized in the recently published Country Climate and Development Report (World Bank, 2022).

The government has responded to the water crisis with several measures to provide immediate relief to producers, and with a renewed effort to deploy water infrastructure. Early in 2022, the authorities adopted various emergency measures to support producers, including the distribution of subsidized cattle feed, the acceleration of the implementation of drought insurance of drought insurance, and a reduction of financial charges for farmers. More recently, the Moroccan government has taken a more structural approach to tackle the water crisis, a first pillar of which will be the accelerated deployment of new water infrastructure projects with an increasing reliance on non-conventional technologies such as desalination and wastewater reuse.[2] The second pillar of the approach that is gradually emerging for the sector is demand rationalization, which may require tighter controls on the overexploitation of underground water sources, and potentially a targeted increase in tariffs to reflect the real cost of what is becoming an increasingly scarce resource.

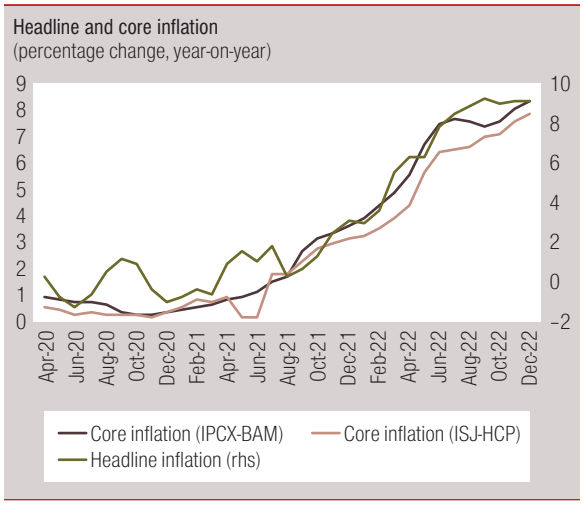
An Inflationary Spiral Has Forced the central Bank to Increase the policy Rate

Morocco's inflation is at its highest level in three decades. The price pressures that emerged towards the end of 2021 accelerated in 2022, and headline inflation peaked at 8.3 percent in December (Figure 7). This increase in inflation has been led by exogenous supply factors, including the global rise in commodity prices and the decline in domestic agricultural production. Indeed, fuel prices increased by 45.3 percent in November (y-o-y), and food products with volatile prices

[1] Indeed, while overall GDP y-o-y growth declined from 8 percent (Jan–Sept, 2021) to 1.3 percent (Jan–Sept. 2022), non-agricultural GDP growth just declined from 6.9 percent to 3.4 percent.

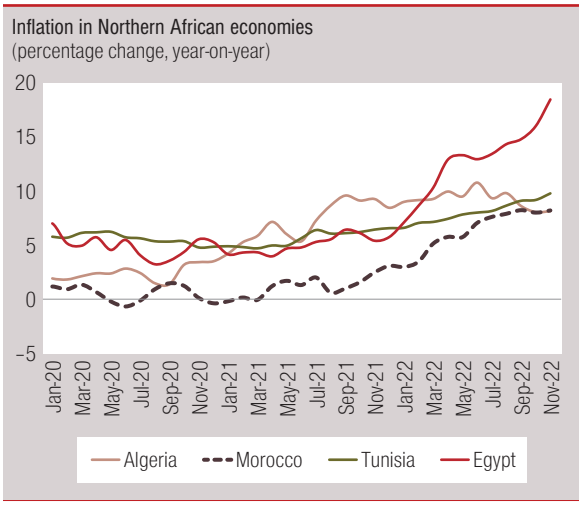
[2] This is clearly reflected in the 2023 Budget Law, which envisages a 49 percent increase in the budget allocation to the Water and Equipment Ministry.

FIGURE 7 • Price pressures have gradually intensified, and now go well beyond energy and food items…



Source: HCP, BAM, WB staff calculations.
Note: Figure 7 shows the evolution of the two different measures of core inflation produced by BAM (IPCX) and HCP (ISJ).[a]
[a] Core inflation is calculated with the exclusion method, which is designed to give zero weight to products with erratic price movements and to products with administered prices. Their selection is based on the standard deviation criterion with an exclusion threshold. The choice of this threshold is the result of a trade-off between the concern to minimize the volatility of core inflation and the criterion of representativeness. This explains the difference between the two underlying indices of BAM and HCP, which lies in the choice of products to be excluded.

FIGURE 8 • Morocco´s inflation took longer to take off but has converged to regional peers



Source: HCP, BAM, WB staff calculations.
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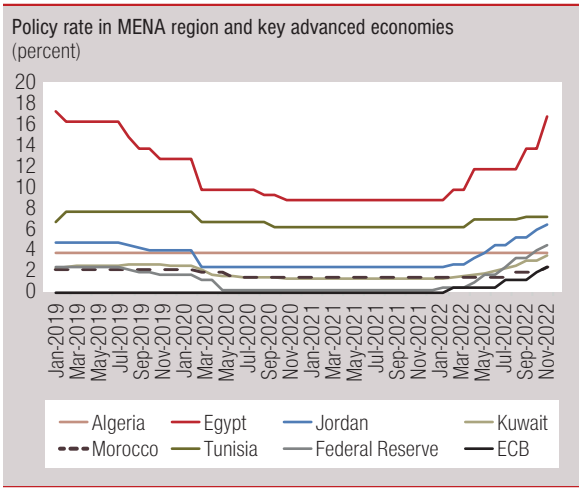
by 16.1 percent. However, and of more concern, core inflation has also increased to 7.6 percent (against an average of 5.5 percent in the second quarter and 3.5 percent in the first one), reflecting the fact that price pressures are gradually widening across the basket of goods and services included in the CPI.

Bank-al-Maghrib (BAM) has increased its policy rate twice since September, but monetary policy remains accommodative. Over the past two decades BAM successfully managed to control inflation while progressively reducing interest rates. Bringing that cycle to an end, the central bank's Council increased the policy rate by 50 basis points in September, with an additional tightening of the same magnitude in December. Despite this move, the policy rate remains low from a historical perspective, and is well below that of regional peers (Figure 9). Moreover, even after the tightening, the real (ex-ante and ex-post) interest rate remains negative and has not yet reached the lower bound of its estimated neutral level (Figure 10).[3] This suggests that BAM has opted for a prudent approach, opting not to overreact to the inflationary surge, a decision that is justified by the nature of the shocks currently undergone by the Moroccan economy. Indeed, these shocks have been originated primarily on the supply side, and the output gap has turned negative, implying that demand factors are likely not to be playing a dominant role in the inflationary surge. Going forward, however, the optimal monetary response to the shocks could be a further tightening if high inflation turns out to be persistent, and price pressures continue to diffuse across the economy, posing a threat to the solid anchoring of inflation expectations achieved in recent years.

The monetary policy tightening has (understandably) not yet had a clear impact on inflation and the exchange rate. The CPI annual growth rate fell from 8.3 to 8.1 percent between September and October (right after the first interest rate hike) but jumped back to 8.3 percent in November

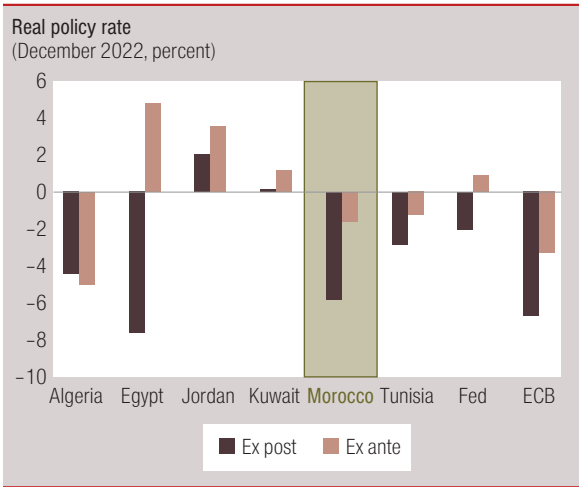
[3] Morocco's neutral real interest rate ranges is estimated to lie in between 0.9 to 4 percent (Queyranne et al., 2021).

FIGURE 9 • Despite the hike, Morocco's policy rate remains comparatively low



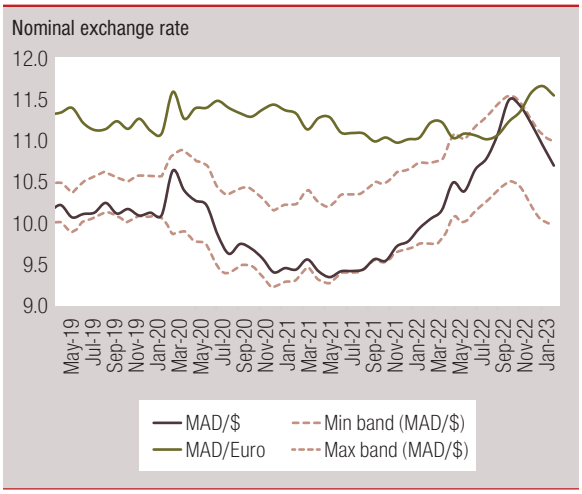
Source: IMF.

FIGURE 10 • The policy rate is still negative in real terms



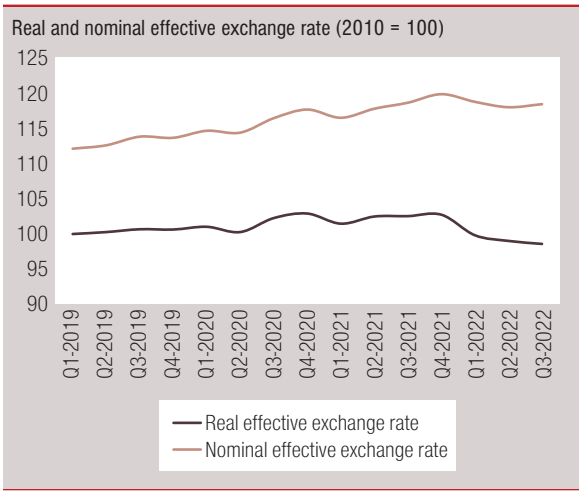
Note: ex post rate calculated with latest available annual inflation; ex ante rate calculated with projected inflation for 2023 (IMF-WEO).

FIGURE 11 • The dirham has hovered around the upper limit of the US dollar fluctuation



Source: BAM.

FIGURE 12 • The effective exchange rate (nominal and real) has depreciated moderately



Source: BAM.

and December. Although it is still early to gauge the impact of the tightening, there are various reasons to argue that the interest rate passthrough could be limited in Morocco (see chapter 2), as the country's inflation rate is primarily determined by its past levels (persistence) and by external factors (Lahlou and Bennouna, 2022). According to BAM's surveys, inflation expectations have continued to increase, from 3.6 percent in the third quarter to 4.8 percent in the fourth quarter.[4] In recent months the global weakening of the US dollar fed an appreciation of the dirham vis-à-vis the dollar (Figure 11). However, it has remained close to the upper bound of the fluctuation band. During the first three quarters of 2022, the nominal effective exchange rate depreciated by a cumulative 1.9 percent, while the real effective exchange rate depreciated by 4.2 percent (Figure 12).

[4] Refers to the average inflation expected by surveyed financial experts over the coming eight quarters (source: various editions of BAM's quarterly monetary policy report).

A Surge in International Commodity Prices Has Widened the Current Account Deficit

Imports have surged in 2022, primarily due to a price effect compounded by the depreciation of the dirham. The dirham-value of Moroccan imports increased by 42.3 percent y-o-y between January and November, reaching 677 billion MAD or the equivalent of 49 percent of GDP. Close to 50 percent of that increase is exclusively explained by energy and food imports (+111 percent and +48.8 percent respectively), the two groups of items most affected by the international commodity shock and the nominal depreciation of the dirham.[5] Reflecting the dynamism of the industrial niches more tightly connected with international value chains (such as the automobile industry), semi-finished and equipment goods' imports also increased markedly, contributing to about 37 percent of the total surge in the value of imports. By contrast, consumption goods had a minor contribution to the increase in the imports bill (5.6 percent of total).

Merchandise exports and remittances have retained their dynamism through the year, while international tourism staged a strong recovery after the last travel restrictions were dropped in early 2022. Continuing a trend already visible in 2021, the value of Moroccan merchandise exports increased by 33.1 percent y-o-y between January and November 2022, two thirds of which concentrated in phosphates and fertilizers (+55 percent) and automobiles (+35 percent). Workers' remittances continued to increase in 2022, reaching 99.5 billion dirham between January and November 2022 (7.2 percent of GDP).[6] The increase in tourism receipts (+153 percent, up to 81.7 billion dirham between January and November 2022 or the equivalent of 5.9 percent of GDP) has also been remarkable and even surpassed pre-COVID levels in recent months, an important development given the sector's job creation potential.

But the dynamism of exports was not sufficient to avoid the widening of the current account balance. The surge in imports weighed significantly on the trade merchandise deficit, which widened from MAD 55 billion in Q1-2022 to MAD205 billion in Q3-2022 (17 percent of GDP to 20.3 percent of GDP). However, the services trade surplus improved from 5 percent of GDP to 7.7 percent of GDP during this period due to fast upturn of tourism revenues.[7] Alongside the resilience of remittances, this has softened the impact on the current account, which nonetheless widened to 4.9 percent of GDP in Q3-2022 from 2.6 percent of GDP a year before.

Despite the adverse international environment, Morocco is attracting increasing volumes of FDI, contributing to finance the current account deficit. According to UNCTAD, tighter financial conditions and the various ongoing geopolitical and economic shocks led to a drastic slowdown of global FDI flows from the second quarter of 2022 onwards (UNCTAD, 2022). Morocco seems to have escaped this trend so far, as FDI inflows increased by 31.5 percent y-o-y between January and November 2022, already surpassing 2.5 percent of GDP. Importantly, 45 percent of these investments flowed to the manufacturing sector (FDI decomposition only available for the first semester), against an average of 25 percent between 2014 and 2019. This is an encouraging trend that could result from the nearshoring process that the pandemic and other recent shocks may have triggered, as European industrial investors try to shorten their value chains.

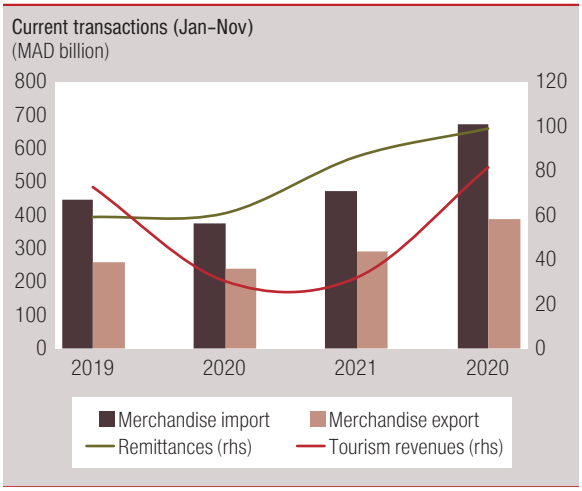
The stock of foreign exchange reserves has declined due to a valuation effect, but still provides a solid external liquidity buffer. The dollar value of Morocco's reserves fell by almost 10 percent throughout 2022. However, the dirham value of foreign exchange reserves increased by 2 percent during that same period, suggesting that recent movements in

5 A compounding factor has been the drought, which has forced Morocco to increase the volume of cereals imported between January and November of 2022 by 36 percent.

6 One of the theories used to explain the post-COVID surge in remittances was that travel restrictions had led to a shift from informal to formal channels, thus making them visible in official statistics but not necessarily adding to the real volume of transfers from abroad (Kpodar et al., 2021). According to that line of thought, formal remittances should have declined or at least slowed as travel conditions normalized, which does not seem to have been the case in Morocco. Thus, remittances during Covid-19 were mostly of the insurance type, i.e., Moroccan nationals overseas sent higher amounts home as the country was facing an unusually large shock.

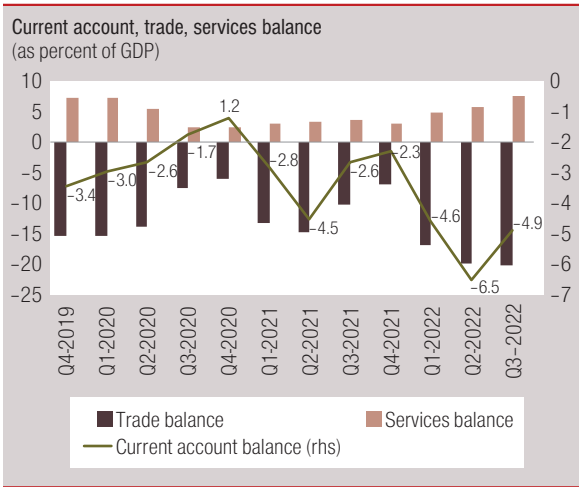
7 Tourism revenues were 12 percentage points above pre-crisis level (end November 2019).

FIGURE 13 • Merchandise imports have surged in 2022…



Source: Foreign exchange office and WB staff calculations.

FIGURE 14 • …leading to a deterioration of external balances



Source: Foreign exchange office and WB staff calculations.

the dollar value of reserves are primarily explained by the depreciation of the dirham. Despite the dirham's convergence towards the upper limit of the dollar's fluctuation band, Bank al Maghrib does not consider that there is a fundamental misalignment in the exchange rate, and has thus not intervened in foreign exchange markets. This has contributed to preserve BAM's foreign exchange position, which still provides a comfortable cushion of almost 6 months of imports, covering about 120 percent of the ARA adequacy metric produced by the IMF (Article 4 report, January 2023).

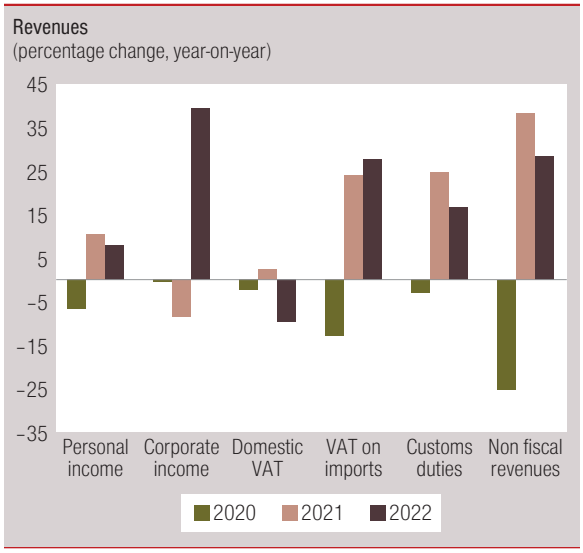
Fiscal Policy Has Focused on Defending Households' Purchasing Power from the Impacts of the Shocks, and on the Implementation of Reforms

The Moroccan authorities have taken various countercyclical measures to support households and specific sectors of the economy. The government decided to maintain the regulated prices of gas, wheat, and electricity, and channeled supplementary budget allocations to the Compensation Fund (the Entity that funds price subsidies) and the SOE sector, for a total amount of MAD33.4 billion. In addition, various ad hoc measures have been adopted to mitigate the impact of the shocks on specific sectors, namely transport to counter the increase in fuel prices, tourism in response to the COVID-19 restrictions still in place in early 2022, and agriculture for the drought. This has driven public spending up by 14.5 percent in 2022, with the largest increase concentrated in subsidies (Figure 16). As argued in the special focus chapter, untargeted price subsidies are a less cost-effective and equitable tool to cushion the impact of supply shocks on vulnerable households than targeted transfers. Moreover, such subsidies also weaken the price signal, which undermines allocative efficiency and slows the adjustment process.

However, the dynamism of revenues was sufficient to offset the increase in spending, placing the budget deficit on a downward trajectory and containing the debt ratio. Tax revenues rebounded in 2022, partly linked to the strong performance of the economy in 2021 and the windfall profits generated by the surge in phosphate prices (CIT, +40), and rising imports' prices (VAT on imports, +28; customs duties, +16.9). Non fiscal revenues are also contributing to narrow the fiscal deficit, in part due to higher SOE proceeds (+22.7 percent) but also to the sizeable asset monetization operations concluded by MEF.[8]

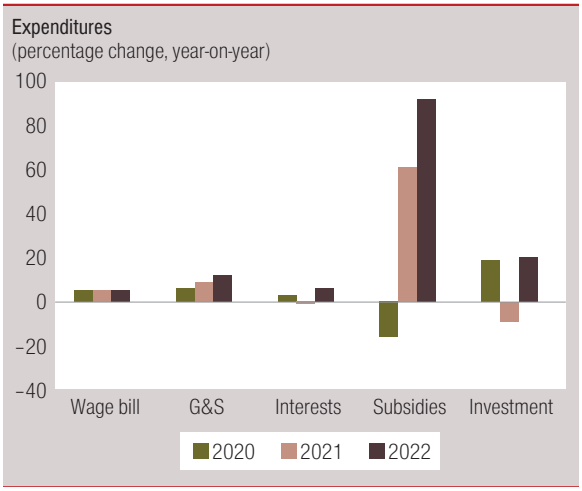
[8] Such operations, referred to as innovative financing operations by MEF, refers to the transfer of assets (largely real estate) to private operators. The government receives an upfront payment for these assets, and commits to pay a fee for the usage.

FIGURE 15 • Non fiscal revenues and corporate income taxes have surged in 2022…



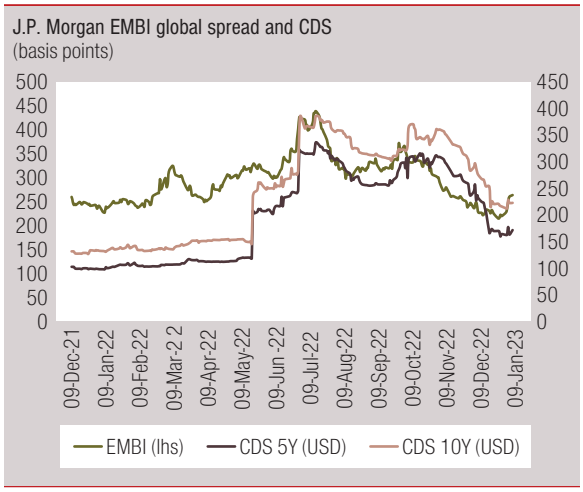
Source: MEF and WB staff calculations .

FIGURE 16 • …helping to fund the price subsidies programs



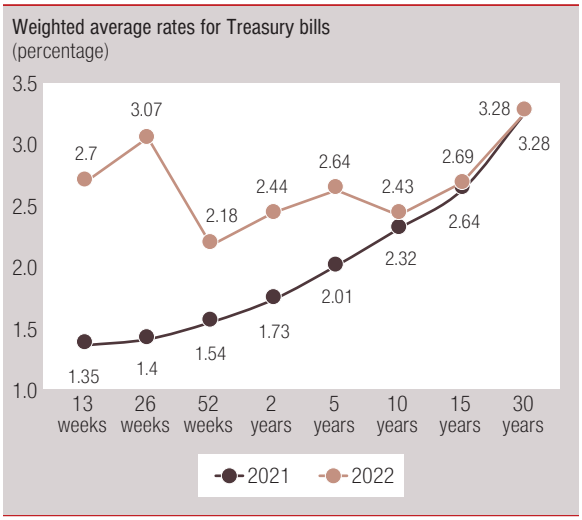
Source: MEF and WB staff calculations .

FIGURE 17 • Sovereign risk has improved towards the end of 2022



Source: J.P Morgan and Bloomberg.

FIGURE 18 • Domestic financing conditions have tightened

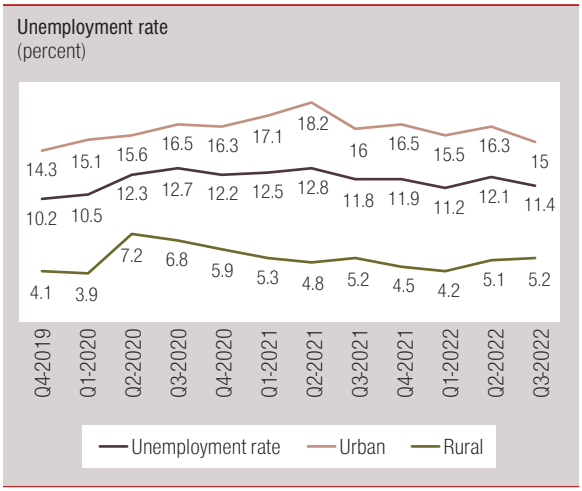


Source: MEF.

As a result, the budget deficit fell by about 10 percent in nominal dirham terms, closing the year at close to 5.1 percent of GDP, against 5.5 percent of GDP in 2021. This allowed Morocco to contain the increase in public indebtedness below 70 percent of GDP.

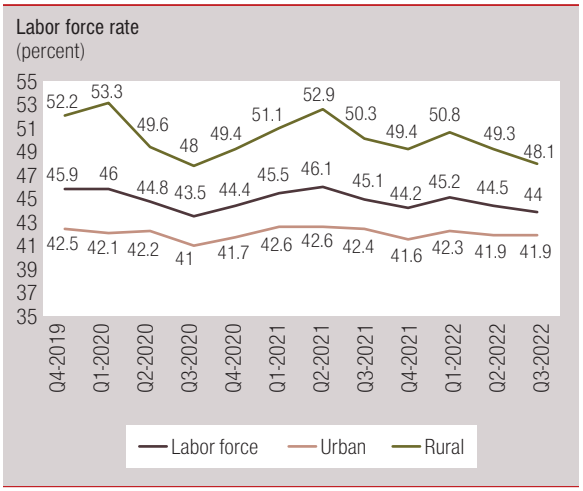
The sovereign's financing conditions have tightened moderately throughout 2022. About 135 basis points have been added to the interest rate attached to domestic treasury bill short-term issuances (61 b.p. for five-year issuances) in 2022. BAM has recently purchased Treasury bills in the secondary market to inject liquidity and thus contain this increase in the interest rate of new issuances. The government has not tapped international financial markets since December 2020, but the recent evolution of CDS spreads (+54 and +75 basis points respectively for 5 and 10 years CDS throughout 2022) suggests that future issuances could carry a premium when

FIGURE 19 • The unemployment rate has remained stable despite the economic deceleration…



Source: HCP.

FIGURE 20 • …but the labor force participation rate is declining, especially in rural areas



Source: HCP.

compared to the last ones. However, it is worth mentioning that after peaking at 441 b.p. in mid-July, the EMBI spread declined through the second half of the year to close at just 217 b.p., and that Moroccan spreads remains substantially lower than those of all the other MENA countries included in the index.[9] In case of need, the government could also mobilize the recent SDR allocation of the IMF.

The Various Shocks Are Having Significant Impacts on Welfare and the Labor Market

Existing surveys suggest that the subjective well-being of Moroccan households has plunged in recent months. The survey-based household confidence index constructed by HCP began to decline towards the end of 2021, reaching a 14-years low in the third quarter of 2022. Worrisomely, more than half of surveyed households consider that their financial situation has worsened during the past year, while 81 percent consider that their standard of living has deteriorated, and 87 percent expect an increase in unemployment going forward.

The Moroccan labor market exhibits a contrasting dynamic between urban and rural environments, with an overall net jobs loss over past quarters. Between the third quarter of 2021 and the same period of 2022, the Moroccan economy created 136,000 jobs in urban centers, while losing 194,000 jobs in rural areas. This reflects the contrasting evolution of the mostly urban services sector (+189,000 jobs) and the agricultural sector (-237,000 jobs), heavily affected by the drought. During this period, the unemployment rate remained relatively stable (Figure 19), which was only possible due to a significant decline in the rural labor force participation rate (Figure 20).

[9] As of October 17th, Egypt's EMBI stood at 1,103 bp, Iraq's at 844 bp; Jordan's at 511 bp, and Tunisia's at 2,582 bp.

2

OUTLOOK AND RISKS

Outlook

Under "normal" rainfall conditions, the agricultural sector should boost economic growth in 2023 up to 3.1 percent of GDP. The projections presented in this report are built on the assumption of an average agricultural campaign in 2023, with a cereal crop in the vicinity of 75 million quintals. Driven by the strong base effect from 2022's weak crop, this would result in a 9 percent expansion of the agricultural sector. The dynamism of the primary sector would compensate for the deceleration that is forecasted for non-agricultural GDP (from 3.2 percent in 2022 to 2.5 percent in 2023) due to the adverse international environment described below, the moderate impact of the interest rate hike, and the effects of inflation on consumption and investment. Overall, this would yield a GDP growth rate of 3.1 percent for 2023. The services sector will expand at a relatively solid rate (3.1 percent) as the recovery of the tourism industry gains ground, while a more muted evolution of the manufacturing sector is expected given the slowdown of the European economy. Domestic demand will be the main driver of growth, while external demand will contribute negatively to growth given the deceleration in Morocco's main trading partners.

Morocco will continue to confront an adverse international environment in 2023. The global economy is set to decelerate sharply, particularly in the Euro Area (Morocco's main trading partner), where growth is projected to decline from 3.3 percent in 2022 to 0 percent in 2023 (World Bank's Global Economic Prospects, January 2023). This will reduce Europe's demand for Moroccan goods and services, thus adversely impacting economic growth. However, the econometric analysis presented in Box 1 suggests that these impacts should dissipate relatively fast, affecting the Moroccan economy mostly during the first months of the year, coinciding with the short-lived recession that is expected in Europe. Due to the protracted war in Ukraine, international commodity prices will remain elevated in 2023, although a substantial drop is expected for both energy and non-energy products (−11.2 percent and −8.1 percent according to the World Bank's Global Economic Prospects, January 2023), which should moderately support growth, while helping Morocco harness inflationary

BOX 1: THE IMPACT OF EUROZONE DEMAND SHOCKS ON THE MOROCCAN ECONOMY

This box applies the local projections method developed by Jordá (2005) to study the response of Morocco's GDP to changes in demand from the Eurozone. Two different specifications were used in this analysis: a linear one and a non-linear one, the latter allowing for a differentiation between the impact of negative vs. positive shocks.

The linear representation of the local projections is represented as follows:

$$y_{t+h} = \alpha_h + \theta_{yx,h} x_t + y'_h r_t + \sum_{l=0}^{p} A_{h,j} Y_{t-j} + u_{h,t}$$

Where y_{t+h} is the response at time $t + h$, x_t is the impulse variable (Eurozone demand), and the r_t is the vector of domestic control variables (inflation and unemployment), $u_{h,t}$ is the projection residual and α_h, $\theta_{xy,h}$, y_h, $A_{h,j}$ are the projection coefficients.

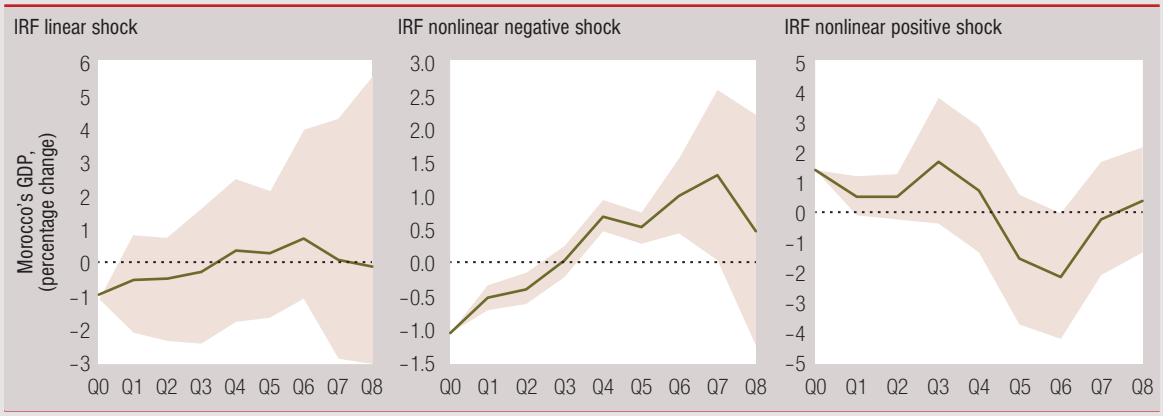
In turn, the nonlinear representation is the following:

$$y_{t+h} = \theta^{+}_{yx,h} (D^{+} \times x_t) + \theta^{-}_{yx,h} (D^{-} \times x_t) + \sum_{l=0}^{p} A_{h,j} Y_{t-j} + u_{h,t}$$

Where D^{+} is a dummy variable equal to one if the variation of Eurozone demand is positive and zero otherwise, D^{-} is the same dummy variable for negative variation of Eurozone demand. The coefficients $\theta^{+}_{yx,h}$ and $\theta^{-}_{yx,h}$ are the effect of positive and negative variation in the impulse variable.

The response of Morocco's GDP to shocks in Eurozone demand is large and abrupt but tends to dissipate fast. As shown in the Impulse Reaction Functions (IRFs) depicted below, a 1 percent reduction in European demand is associated with an almost equal contemporary (Q0) contraction of Morocco's GDP. This effect, however, is no longer statistically significant by Q1 according to the linear specification and by Q3 according to the non-linear one. Moreover, the non-linear specification points at a rebound effect one year after the initial shock (between Q4 and Q7). Positive shocks to European demand also provide a sizeable boost to Morocco's GDP (+1.3 percent in response to a 1 percent increase), an effect that appears to be more persistent than the negative shock (albeit no longer statistically significant from Q2 onwards). This result confirms that the Moroccan economy is highly exposed to shocks in the Eurozone, which is unsurprising given its tight trade links with the region. However, it also implies that the ongoing sharp but short recession that is expected in Europe should not have long-lasting impacts on Morocco's GDP.

The dynamic response of Moroccan output to changes in Eurozone demand



Source: World Bank staff calculations based on HCP and World Bank data.
Note: gray zones depict 95 percent confidence intervals

pressures. The ongoing tightening of global financial conditions is expected to have a moderate impact on the performance of the Moroccan economy, given the structure of public and private debt (mostly domestic and denominated in dirhams) and, more generally, the country's creditworthiness.

The short-term impacts of the interest rate hike are expected to be modest. There are various

factors that limit the passthrough of interest rates on output in Morocco: (i) despite the recent widening of the fluctuation band, the dirham remains pegged to the euro and the dollar, implying that movements in the exchange rate will only moderately amplify the impact of the interest-rate hike;[10] (ii) the large volumes of cash in circulation and the low levels of financial inclusion that characterize the Moroccan economy also reduce the effectiveness of monetary policy;[11] (iii) more than 85 percent of loans to the private sector are contracted at fixed rates. In this context, a 100 bp interest-rate hike is estimated to lower output by a maximum of about 0.18 percentage points, peaking after 9 quarters.[12] The contractual features of most private loans limit the immediate impact of the interest-rate hike on firms and household's balance sheets, and thus on financial stability. However, such impacts could be eventually felt by those economic agents that are forced to roll-over current obligations or to contract new loans, and some may be pushed into debt distress in an environment of higher interest rates. The NPL rate already stands at 8.8 percent of total credit, up from 8.6 percent at the end of 2021 and 7.6 percent in December 2019, right before the pandemic outbreak. Despite this deterioration in the quality of their assets, Moroccan banks remain well capitalized and feature stable funding, strong liquidity, and relatively solid profitability.

Avoiding the de-anchoring of inflation expectations is key to sustain the growth prospects of the Moroccan economy. Although the literature is not fully settled on the causal relationship between inflation and economic activity, most studies find that, beyond a certain threshold and when it becomes entrenched, inflation is harmful for sustained growth.[13] This suggests that, irrespective of the limited short-term impacts that could be associated with a monetary policy tightening, the current inflationary surge poses a risk for the potential growth of the Moroccan economy. Cognizant of this risk, the central bank's recent communiqués have downplayed the importance of the trade-off between interest rates and growth, while signaling that monetary tightening is needed to avoid the de-anchoring of inflation expectations.[14] This implies that, should the CPI growth rate remain stubbornly high and fail to converge towards BAM's projections (3.9 percent for 2023 and 4.2 percent for 2024),[15] additional interest rate hikes could be on the horizon.

As Morocco reaches a critical stage in the implementation of key reforms, public spending will remain elevated in 2023, but the revenue mobilization measures enacted in the budget law should help harness the budget deficit. The 2023 budget law envisages a substantial increase in spending in nominal terms when compared to the budget originally approved for 2022 (+12.5 percent), but more muted when compared with the supplemented 2022 budget (+1.7 percent). This reflects the government's commitment with the implementation of the health and social protection reform (including the deployment of universal family allowances late in 2023), but also with the education reform that is beginning to unfold. Another priority will be to deploy new water infrastructure investments. The budget law includes several measures aimed at increasing revenues while eliminating some of the distortions that characterize the tax system, which would be achieved by progressively harmonizing the CIT and VAT rates. Together with the monetization of public assets (referred to as innovative financing operations by the Ministry of Finance) on which the government is increasingly relying, this is expected to increase total revenues by 19.6 percent, which would help reduce the budget deficit to 4.5 percent of GDP and continue declining over following years. The debt-to-GDP ratio is expected to stabilize at around 69 percent.

The current account deficit is expected to narrow in 2023. We project it to fall from 4.1 percent

[10] This is consistent with a growing body of literature showing that the transmission channel of monetary policy tends to be substantially weaker in EMDEs with pegged exchange rate regimes. See for instance, Marques et al. (2020).

[11] Bennouna and Mossadak (2016)

[12] Queyranne et al. (2021).

[13] See Bruno and Easterly (1998), or Sahnoun and Abdennadher (2019) for Northern African economies.

[14] Source: BAM press conferences, Sept. 27th, 2022 and Dec. 20th, 2022.

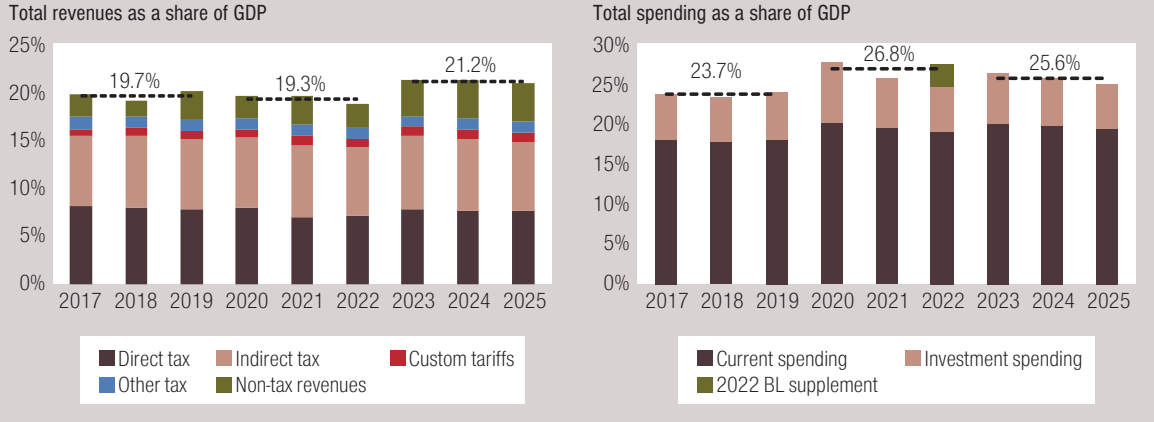
[15] The increase inflation projected for 2024 is due to the price subsidy reform that is scheduled to take place that year.

BOX 2: STRUCTURAL TRENDS IN MOROCCO'S PUBLIC FINANCES

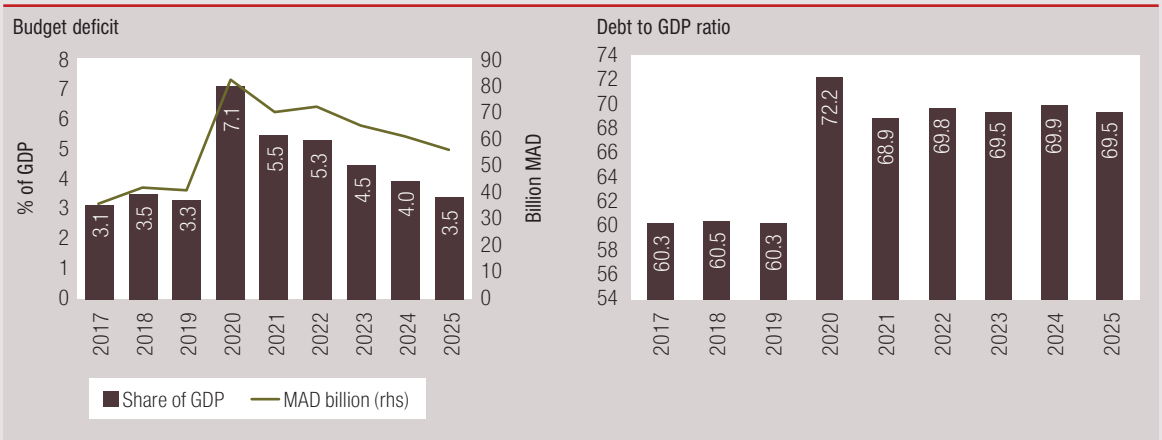
An important addition to 2023's budget law has been the publication of a global medium-term budget which provides some visibility about the government's plans not only for 2023 but also for 2024 and 2025. Based on that information and on past fiscal data, this box identifies some structural breaks that appear to be emerging in the evolution of Morocco's fiscal aggregates. To do so, it distinguishes between three periods: (i) the pre-crisis years (2017–2019); (ii) the crisis years (2020–2022); (iii) the post-crisis years (2023–2025), interpreted as a "new normal" for Morocco's public finances.

Morocco's central government budget is going through a structural upsizing as the government unfolds key reforms. Making abstraction of the crisis period, which was marked by the exceptionality of the COVID-19 pandemic, the war in Ukraine and highly volatile GDP figures, a comparison between the "new normal" and the "pre-crisis years" shows a significant increase in the budget, from an average of 23.7 percent of GDP (2017–2019) to 25.6 percent of GDP (2023–2025). Alongside this increase in the size of the central government, a spending re-composition is underway, as Ministries in the social sectors have increased their participation in the total budget by about 3 percent between 2017 and 2023. This trend could intensify beyond 2023, as the government reaches a critical stage in the implementation of the health and social protection systems. The reduction in price subsidies should finance a substantial part of that reform: according to the medium-term budget, the allocation to the compensation fund will fall from MAD26.6 billion in 2023 to just MAD8.9 billion in 2024 (0.6 percent of GDP) and MAD0.2 billion in 2025 (0.1 percent of GDP).

Total revenues should follow suit, as the government implements the ongoing tax reform and continues to rely on the monetization of public assets. The government forecasts a substantial increase in total revenues between the pre-crisis years (2017–2019) and the "new normal (2023–2025): on average, from 19.7 percent of GDP to 21.2 percent of GDP. This reflects the various measures that are being put in place to increase the revenue mobilization capacity of the State, which is critical to absorb the impact of the additional expenditure that ongoing



Note: figures for 2023 from the BL, figures for 2024 and 2025 from the new medium-term budget.



Source: MEF medium-term budget and WB staff calculations

(continued on next page)

BOX 2: STRUCTURAL TRENDS IN MOROCCO'S PUBLIC FINANCES *(continued)*

reforms will require. Interestingly, however, when non-tax items (mostly the monetization of public assets, or innovative financing operations in MEF's terms) are excluded from the calculation, the size of revenues in terms of GDP decreases between the two periods (from 17.4% of GDP to 17.1% of GDP), providing a more nuanced view on the revenue-generating potential impact of the ongoing tax reform.

Overall, the government intends to return to pre-COVID levels of budget deficit by 2025, and to stabilize the debt ratio below 70 percent of GDP. According to the medium-term budget, the fiscal consolidation process will be gradual, and the deficit should converge to 3.5 percent of GDP in 2025. This should be sufficient to stabilize the debt ratio slightly below 70 percent of GDP, up by close to nine points of GDP when compared to the pre-crisis period, but down from the peak of 72.2 percent of GDP reached in 2020.[a]

[a] The 2020 peak was partly due to the fact that a large international sovereign bond issuance took place in December, partly pre-financing year 2021.

of GDP in 2022 to 3.7 percent of GDP in 2023, as the impact of current shocks begins to fade away and tourism receipts remain strong. The current-account deficit will contract further to an annual average of 3.2 percent of GDP in the medium term. Net FDI flows are expected to remain stable over the medium term, covering a substantial portion of Morocco's external financing needs. The reminder will be met with official debt and, potentially, foreign exchange reserves.

Risk to the Macroeconomic Outlook

A major risk for the Moroccan economy would be a continuation of the drought through 2023. Our baseline projection on agricultural value added is subject to high uncertainty, with risks tilted to the downside. Although the beginning of the 2022–23 agricultural campaign has been relatively humid, with abundant precipitations towards the end of last year, the sector's performance will ultimately depend on how increasingly erratic rainfall levels will evolve in the months to come. Moreover, the water restrictions imposed in 2022 could have adversely affected irrigated crops, which contribute to more than 50 percent of agricultural value added even in humid years. Finally, the surge in the price of fertilizers that has taken place in 2022 could have reduced their use during the present agricultural campaign, which could also adversely impact certain crops in 2023. Should agricultural value-added fail to expand in 2023 under an adverse climatic scenario, the overall growth rate of the Moroccan economy could drop to 2.1 percent.

A further deterioration of the international context would also dent Morocco's growth performance in 2023 while continuing to feed inflationary pressures. Among the international shocks that could still materialize are a further rise in geopolitical tensions, which could push commodity prices even higher; renewed global supply disruptions; a further tightening of global financial conditions; new pandemic-related disruptions. The materialization of some of these shocks would reduce external demand for Morocco's exports of goods and services while preserving the push factors that have driven inflation up.

The government could face difficulties to meet its medium-term fiscal targets. The ambitious social sector reforms and additional investments in the water sector will exert significant pressures on public finances, and much of the projected fiscal consolidation depends on the success of the asset monetization operations that are being conducted by MEF, and on the politically challenging substitution of untargeted price subsidies by direct cash transfers targeted at poor and vulnerable households. In this demanding context, it could take longer than anticipated in the medium-term budget to converge to pre-COVID levels of budget deficit.

On the upside, the international environment could improve faster than anticipated, and the long-term performance of the Moroccan economy should be supported by the structural reforms that are underway. Some encouraging news have emerged in recent weeks regarding a faster than anticipated drop in inflation in key advanced economies, and a shallower than expected recession

in the eurozone. An improvement in the international context cannot therefore be ruled out, which would provide a boost to the Moroccan economy. Such a scenario, however, would also add additional pressures on international prices, which would complicate Morocco's anti-inflationary effort. In addition, the domestic structural reform process continues to gain ground in Morocco, albeit unevenly. So far, reforms have centered primarily on the health, social protection, and education sectors, as the authorities are determined to improve key public services both in terms of access and quality. Progress has also gained pace in other sectors, and the recent appointments of the heads of the Mohammed VI investment fund and of the new agency for State participations in SOEs (APE) will help operationalize two key reforms. In addition, following the approval of a new Investment Charter, the government is in the process of approving new regulations for private investment and the ongoing tax reform is gradually eliminating some of the distortions that characterize the current system. The successful implementation of these reforms would increase potential growth, which will be critical to place the country on a more solid development pathway going forward and to strengthen its resilience against future shocks.

TABLE 1 • Morocco, selected economic indicators, FY19-FY25

				Estimated		Projected	
	2019	2020	2021	2022	2023	2024	2025
Real Economy			**(annual percent change, unless otherwise indicated)**				
Real GDP	2.9	-7.2	7.9	1.2	3.1	3.3	3.5
Agricultural GDP	-5.0	-8.1	17.8	-15.1	9.0	2.5	4.0
Non-Agricultural GDP	4.0	-6.9	6.6	3.2	2.5	3.3	3.4
Industry	4.1	-5.2	6.8	0.4	1.6	3.0	3.2
Services	3.9	-7.9	6.4	5.1	3.1	3.5	3.6
Private Consumption	2.2	-5.6	8.2	2.2	2.4	3.1	3.3
Government Consumption	4.8	-0.5	5.6	5.4	6.7	3.5	3.1
Gross Fixed Capital Investment	1.7	-10.0	9.3	1.7	2.6	3.4	3.5
Exports, Goods and Services	5.1	-15.0	8.7	21.3	5.2	9.8	13.1
Imports, Goods and Services	2.1	-11.9	11.8	19.0	4.6	8.0	10.1
Unemployment rate (ILO definition, in percent)	9.2	11.9	12.3	11.8	–	–	–
Inflation (average CPI, in percent)	0.2	0.7	1.4	6.6	4.0	4.3	2.3
Fiscal accounts			**(in percent of GDP)**				
Expenditures	27.3	34.1	30.6	32.1	31.7	30.5	29.6
Revenues, including all grants	23.9	27.0	25.1	27.1	27.2	26.6	26.1
Budget Balance	-3.3	-7.1	-5.5	-5.1	-4.6	-4.0	-3.5
Central Government Debt	60.3	72.2	68.9	69.2	69.0	67.9	67.5
Selected Monetary accounts			**(annual percent change, unless otherwise indicated)**				
Broad Money	3.8	8.5	5.2	–	–	–	–
Interest (key policy interest rate)	2.3	1.5	1.5	–	–	–	–
Balance of payments			**(in percent of GDP, unless otherwise indicated)**				
Current Account balance	-3.4	-1.2	-2.3	-4.1	-3.7	-3.5	-3.1
Imports, Goods and Services	-42.0	-38.1	-42.1	-46.4	-44.4	-43.9	-43.0
Exports, Goods and Services	34.2	30.8	33.0	34.9	35.3	35.5	35.7
Foreign Direct Investment	0.6	0.8	1.2	1.5	1.4	1.4	1.4
Gross official reserves (bln US$, eop)	26.4	36.0	35.6	32.0	33.0	33.2	35.5
In months of imports	6.9	7.2	5.8	5.7	5.4	5.3	5.4
Local currency per U.S. dollar (period average)	9.6	9.5	10.0	–	–	–	–
Memo items							
Nominal GDP (in billion dirhams)	**1240**	**1152**	**1284**	**1385**	**1486**	**1600**	**1695**

Source: WB staff estimates and forecast; actual data from MEF, HCP and BAM.

3

INFLATION INEQUALITY IN MOROCCO

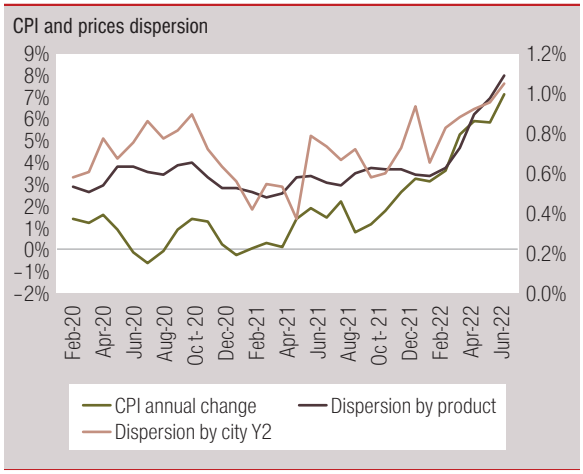
This special focus analyzes the impact of the inflationary surge across the income distribution. It shows that inflation is substantially higher for poorer households due to the larger weight of food in their consumption basket. Existing price subsidies have somewhat softened the impact of inflation on poverty and vulnerability. However, a disproportionate share of the public resources needed to sustain Morocco's untargeted price subsidy schemes end up flowing to wealthier households, which in absolute terms consume more of the subsidized goods. In the future, a well targeted cash transfer program would constitute a more effective and efficient tool to mitigate the impact of the shock on poor and vulnerable households. This analysis also underlines the importance of computing high-frequency price indicators at the local level to improve the measurement and monitoring of poverty and vulnerability.

This special focus analyzes the impact of consumer price inflation across the Moroccan population and the mitigating effects of existing subsidies. The distributional impact of monetary policy and of the recent inflationary surge have gained increasing attention worldwide. Prior to the recent shocks, this debate was centered on whether the prolonged monetary accommodation that followed the global financial crisis exacerbated inequality by boosting the price of assets disproportionately held by wealthier households. More recently, the focus has shifted towards the impact of price rises on households' welfare and, within this topic, the question of whether the ongoing inflationary surge is disproportionately eroding the purchasing power of poorer households is gaining prominence. Intuitively, price inflation hits every consumer.[16] However, the magnitude of the impact differs across the population depending on the specific items driving prices up, the composition of the consumption baskets of households, the presence of administered prices, and consumers' income and wealth[17]. Similarly, the

[16] It should be noted that inflation has other channels of impact on households, for example, it benefits debtors as the real value of their liabilities is eroded—this special focus analyses solely the impact on consumers.

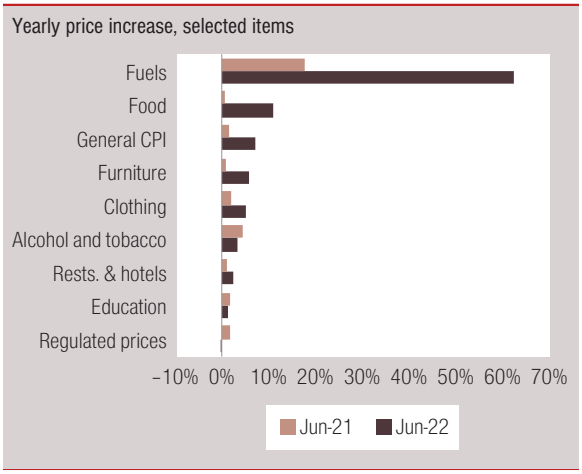
[17] Richer consumers would have a different elasticity of substitution than poorer one, i.e., faced with a same price increase, a richer consumer might react by continuing to buy similar quantities of a product whereas a poorer one would have to substitute to a less desirable but cheaper product.

FIGURE 21 • Price dispersion has also increased markedly



Source: Own calculations based on HCP data.

FIGURE 22 • Fuel and food prices have experienced the sharpest increases



Source: HCP and BAM data.

impact and effectiveness of government's basic food and energy subsidies depends on their incidence across the population.

Between 2021 and 2022, the dispersion in the evolution of prices of the various components of the CPI has increased markedly in Morocco. The standard deviation of the year-on-year price increase undergone by the various groups of goods and services included in the CPI has increased from less than 3 percent in the first quarter of 2021 to more than 8 percent in June 2022 (Figure 21).[18] This dispersion implies that the ongoing inflation surge may be having increasingly heterogenous impacts on the purchasing power of Moroccan households (and hence their welfare level), depending on their consumption basket.

The consumption baskets of poor and rich households differ markedly. Poorer households are more exposed to price inflation of food, housing and utilities while wealthier Moroccans are more affected by transport and health price increases. Food represents almost half of the poorest households' expenditure, against one fifth for the most affluent, suggesting that the recent food price rises have a larger impact at the bottom of the distribution (Figure 23).[19] Noteworthily, the lowest deciles also spend relatively more on "housing, water, gas, electricity and other fuels", the second largest item of consumption (almost a third of the bottom decile's consumption). On the other hand, the wealthiest households are more exposed to inflation in transport, as they allocate four times more resources to this expenditure category than the poorest, although this share is limited to 11 percent of their budget.[20] Other consumption items that are more relevant for the richest are health (10 percent vs 6 percent for the lowest decile) and miscellaneous goods (14 percent vs 3 percent), prices that have not increased in the last year.

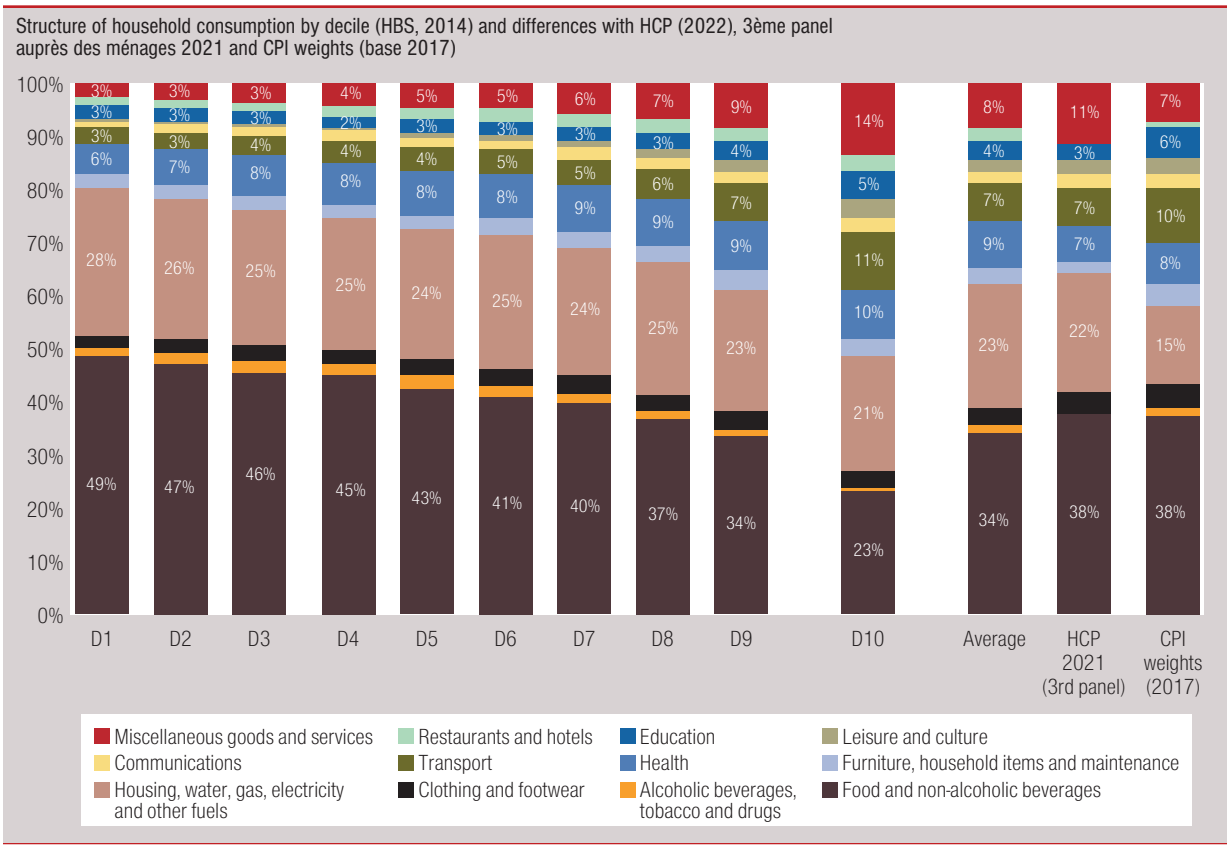
We find that the poorest households disproportionately suffered from the recent

[18] Albeit less markedly, the increase in the general price level has also progressed asymmetrically in the 17 cities covered in the CPI, with an increase in the standard deviation (by city) from 0.6 percent in January 2021 to more than 1 percent in June.

[19] We derive the incidence of food on households' consumption from the HBS 2014, the latest available data. This is lower than the actual weight used in the CPI (based 2017), which according to the most recent household survey run by HCP in 2022 (3ème panel auprès des ménages), is very close to the current average budget share. This implies that our exercise may be underestimating the true impact of food price increase.

[20] Almost 90 percent of top decile expenditure for transport is for purchase of vehicles, maintenance and repair, and fuel in contrast to 27 percent for the poorest that at the opposite devote most on public transport.

FIGURE 23 • Poorer households spend more on food, while wealthier households spend more on transport



Source: HCP.

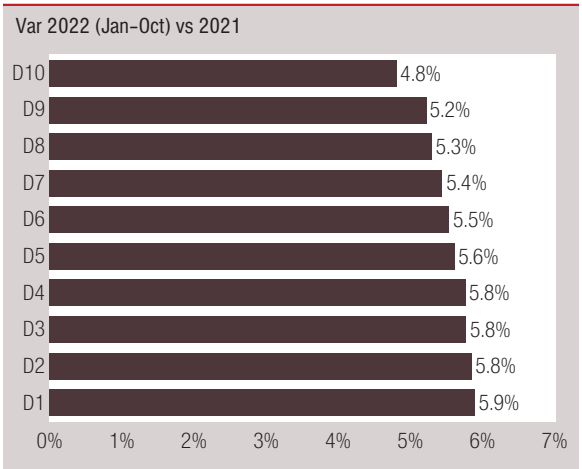
inflationary surge. Between January and October 2022, inflation was higher for those in the lower part of the distribution, with the poorest household facing an average increase of 5.8 percent, in contrast to 4.8 percent for the richest (Figure 24).[21] This inflation gap has widened with time (+2.1 p.p. in October 2022), leaving the poorest suffering a significantly higher burden from the cost-of-living shock (Figure 25). Moreover, poorer households not only face higher prices but also have more limited possibilities to adjust their consumption behavior to cope with the shock, as they can make use of fewer resources including assets, savings, or precautionary balances.

The official inflation rate (CPI) does not measure inflation in rural areas, but impacts may be larger there. The Moroccan CPI survey covers only a sample of eighteen cities. While this provides evidence of increasing heterogeneity of inflation rates in urban areas across the country, spanning from the highest value (over the last ten months) of Beni-Mellal (7.7 percent) to the lowest of Agadir (4.7 percent) (Figure 26), it does not shed light on the potential gap between rural and urban areas. To construct a CPI for rural areas, the admittedly strong assumption that rural prices have evolved in line with the average for urban centers has to be made. Due to the difference in area-specific consumption baskets, rural areas appear to experience a higher overall inflation rate in 2022 when compared to urban centers (6.1 vs 5.0 percent), contrary to previous years in which rural inflation was lower (Figure 27).

The World Bank estimates that poverty could have increased by 2.1 percentage points in 2022 due to inflation. Our simulations suggest that the poverty rate could have increased from

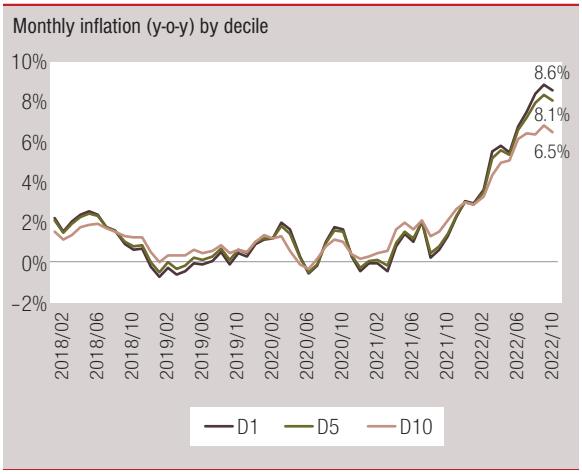
[21] Based on the consumption basket composition across the distribution, a CPI index by decile of expenditure is produced.

FIGURE 24 • Annual inflation is higher for poorer households



Source: World Bank staff calculations.

FIGURE 25 • The inflation differential is widening



Source: World Bank staff calculations.

3.4 percent[22] to 5.5 percent[23] (+2.1 p.p) due to the inflationary surge (Figure 28).[24] Most hit are rural areas, where the incidence of poverty could have increased from 6.7 percent to 10.6 percent, compared to urban centers (from 1.2 percent to 2.2 percent). Similarly, vulnerability increases to 14% (+3.6 p.p.). The simulations also show that inflation has increased inequality, as measured by the Gini coefficient (+0.1).

Consumer price index in 2022 would have been higher if the government had not maintained its subsidy system at a significant fiscal cost. Using BAM's classification, goods and services with regulated prices have a total weight of 22 percent in the consumer price index produced by HCP.[25] As shown in Figure 22, the annual increase in the reconstructed weighted price index for this group of goods and services has declined from 1.8 percent in June 2021 to -0.1 percent in June 2022. In other words, the government's policy has effectively shielded a significant share of the overall consumption basket from the surge in prices, in the absence of which the overall inflation rate would have certainly been significantly higher. Indeed, according to a recent note by the Ministry of Finance, the absence of the gas, wheat, transport and sugar subsidies would have resulted in an additional 5.9 percentage points of inflation (MEF-DEPF, 2022). The stabilization of prices for 22 percent of the consumption basket, however, has been achieved at a substantial fiscal cost that includes: (i) 42 billion dirhams in explicit price subsidies (gas, sugar and wheat); (ii) 5 billion dirham in central government's financial support to the national water and electricity company ONEE;[26]

[22] Simulated using HBS 2014, based on quintile-based growth rate from HCP. The poverty rate obtained is marginally different from the official number of HCP (3.0% as in Table 1). According to data recently released by HCP, poverty increased in 2021 due to the consequences of COVID, moving from 1.7% in 2019 to 3% in 2021, with the indicator increasing from 0.5% to 1.0% in urban areas, and from 3.9% to 6.8% in rural areas. Source: HCP (2022) «Evolution du niveau de vie des ménages et impact de la pandémie COVID-19 sur les inégalités sociales».

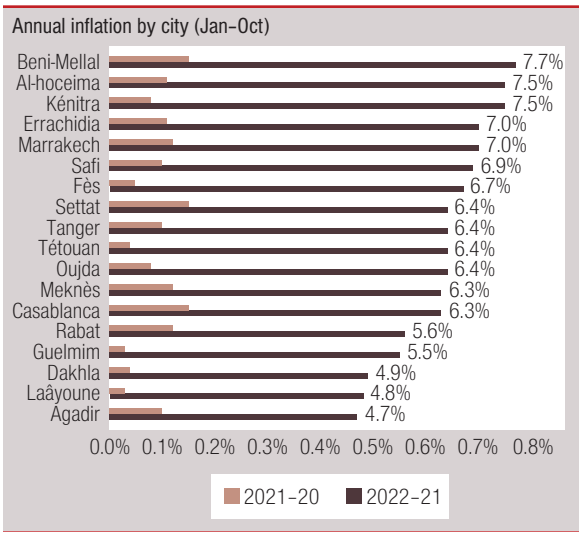
[23] Values for 2021 are simulated.

[24] These simulations are conducted with the 2014 Household Budget Survey and the decile-specific CPIs presented above.

[25] These include, gas (2 percent), electricity (3.6 percent), water and sanitation (2.4 percent), medical, hospital, dental and paramedical services (4.4 percent), pharmaceutical products (3.6percent), road passengers' transport (2.5 percent), sugary products (1 percent), tobacco (1.4 percent), vehicle services (0.6 percent), books (0.8 percent) and other services (0.2 percent).

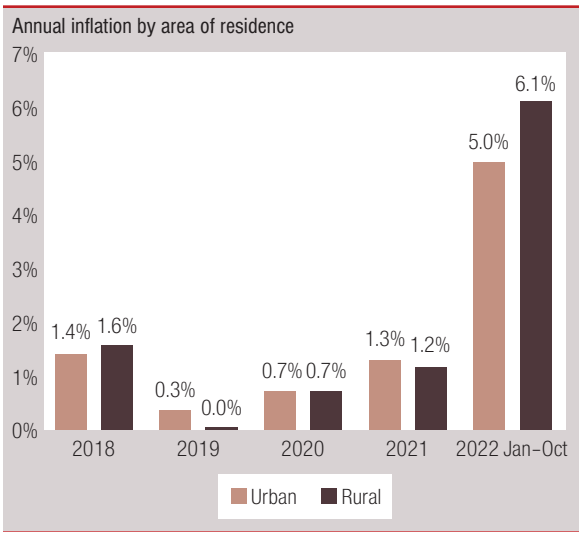
[26] In "normal" years ONEE cross-subsidizes water with electricity tariffs. However, this was no longer possible in 2022, as the surge in international coal and gas prices led to a large increase in electricity generation costs which was not translated into higher electricity tariffs.

FIGURE 26 • Inflation also varies by city…



Source: World Bank staff calculations with HCP data.

FIGURE 27 • …and could be higher in rural areas



Source: World Bank staff calculations with HCP data.

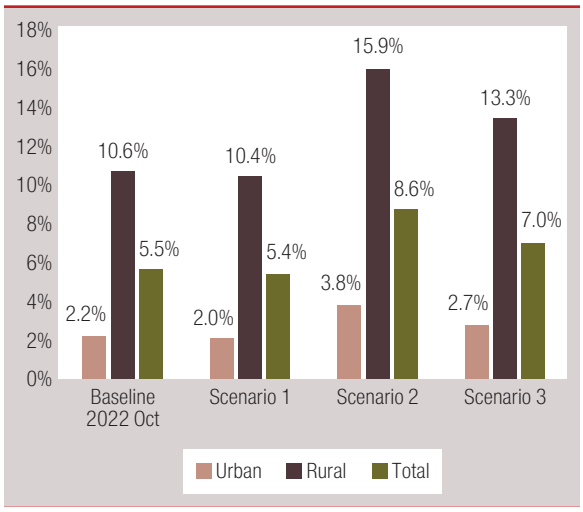
(iii) direct support to transport operators (an estimated 4.4 billion dirham). Overall, this represents close to 3.5 percent of GDP.

Subsidies have played a sheltering role, containing the increase in poverty and inequality induced by inflation. To analyze this sheltering effect, the simulations conducted to quantify the impact of the inflationary shock on poverty and inequality included two additional scenarios: S3, in which the overall budgetary resources allocated to these subsidies had remained constant (at the level of 2021); S2, in which such subsidies had not been in place at all. These simulations show that had the government decided not to increase the budgetary allocation to price subsidies to respond to the shock, poverty and inequality would have increased by an additional 1.5 and 2.0 pp. In turn, had subsidies not been in place, poverty and vulnerability would have increased by a further 3.1 and 3.4 p.p. (Figures 28 and 29).

However, price subsidies tend to disproportionately benefit richer households. The current explicit price subsidy system, which includes primary food products (sugar and wheat) and LPG, is progressive in terms of relative incidence: the share of expenditure devoted to subsidized products is higher for poorer households. However, most of the benefits go to the top deciles, both in per capita terms and of absolute incidence (share of total consumption of subsidized goods). Indeed, in 2021, the most affluent households received on average about 1.9 times the per capita amount received by the poorest, raising questions about their efficacy and efficiency as a social protection tool (Figure 30). This is because while richer households spend a small share of their budget on subsidized item, the quantity they consume of these products is far larger than poorer households.

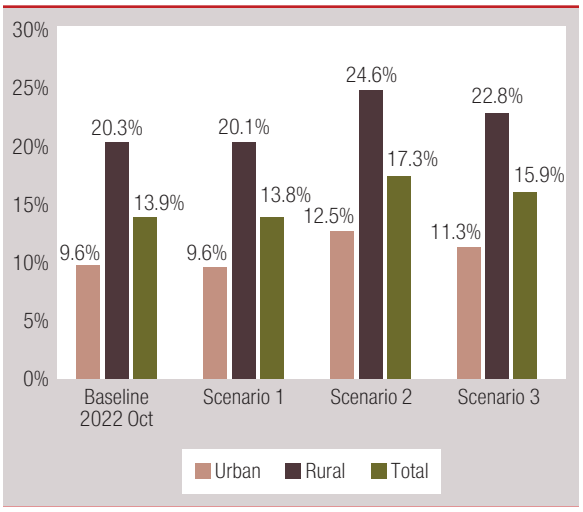
The fact that the current subsidy system benefits, in an important way, the well-off households motivates the government's ongoing reforms to improve the adequacy, targeting and adaptability of the social protection system to mitigate the impact of economic shocks. Cognizant of the limitations of the current subsidy system, the government of Morocco is working at setting up a new cash transfers program as part of a broader reform of the health and social protection system. This cash transfer will be targeted towards the most vulnerable and could provide the opportunity to progressively substitute the costly and regressive subsidy system currently in place. Furthermore, the establishment of a social registry may allow for the implementation of an adaptive support system, with programs being scaled up and down based on needs. Such targeted mechanisms would be more efficient in protecting the poor

FIGURE 28 • Inflation has increased poverty…



Source: World Bank staff calculations.
Note 1: baseline scenario uses the decile-specific CPI to estimate the incidence of poverty and inequality; scenario 1 uses the official (unified) CPI to conduct that estimation; scenario 2 simulates the impact of inflation in the absence of price subsidies; scenario 3 simulates the impact of inflation had the budgetary allocation to price subsidies not increased in 2022.
Note 2: Poverty and vulnerability were measured using the updated poverty and vulnerability lines produced in 2014 (4667 DH for Urban and 4312 doe rural areas, and 1.5 times the poverty line for the vulnerability line). Updates were done by deflating the lines using HCP CPI 2022-2014. For scenarios S2 and S3 the CPI was adjusted to reflect the removal of subsidies.

FIGURE 29 • …and vulnerability



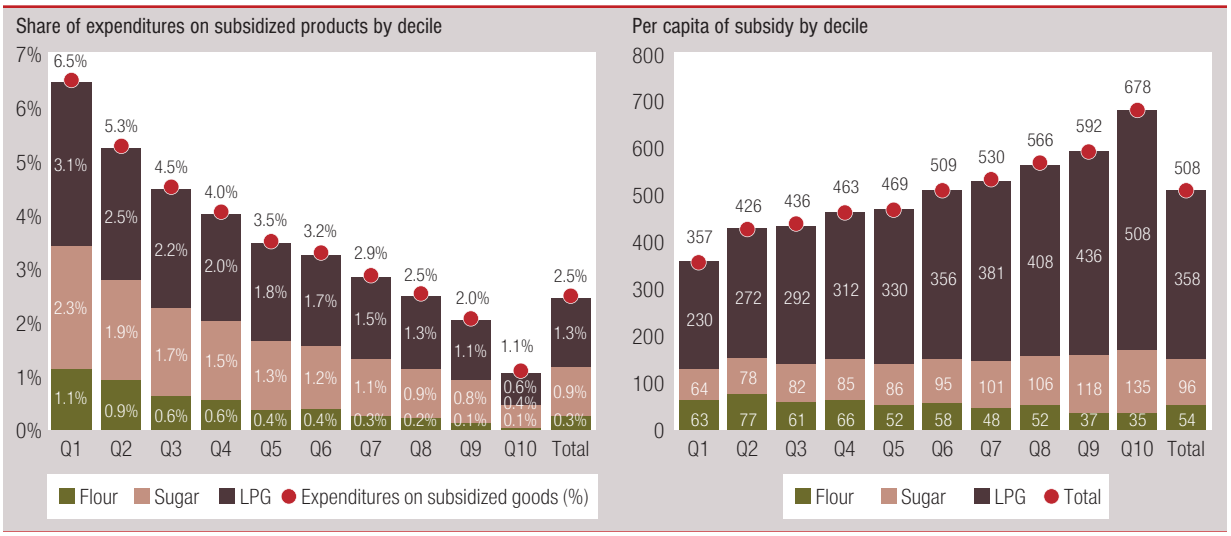
Source: World Bank staff calculations.
Note 1: baseline scenario uses the decile-specific CPI to estimate the incidence of poverty and inequality; scenario 1 uses the official (unified) CPI to conduct that estimation; scenario 2 simulates the impact of inflation in the absence of price subsidies; scenario 3 simulates the impact of inflation had the budgetary allocation to price subsidies not increased in 2022.
Note 2: Poverty and vulnerability were measured using the updated poverty and vulnerability lines produced in 2014 (4667 DH for Urban and 4312 doe rural areas, and 1.5 times the poverty line for the vulnerability line). Updates were done by deflating the lines using HCP CPI 2022-2014. For scenarios S2 and S3 the CPI was adjusted to reflect the removal of subsidies.

from various types of shocks, including prices. As mentioned in chapter 1, it would have the additional advantage of not distorting the price signal, contributing to improve allocative efficiency, and facilitating the adjustment to shocks.

Our findings that inflation can differ widely across households' income also imply that poverty and inequality could be mismeasured, i.e., underestimated in the case of Morocco in 2022. The findings illustrated above confirm the results of a growing body of economic research, suggesting that prices evolve differently across the income distribution, and that at times (as during the recent inflationary surge), they may increase faster for the most disadvantaged. In the absence of frequent household surveys, poverty and inequality indicators are often updated using general inflation rates, mostly collected in urban areas and calibrated on average households' consumption baskets, therefore leading to inaccurate estimation of the evolution of welfare from one year to the next. HCP could therefore consider expanding price collection to rural areas or computing an alternative high-frequency price indicators allowing for a better monitoring of poverty (and food insecurity), the latter being key for the adaptive social protection schemes mentioned in the above-mentioned paragraph.

While inflation can have an important distributional dimension, monetary policy might not be the most effective at stabilizing the prices of the products that dominate poorer households' consumption baskets. Given the inflation differentials emphasized above, harnessing recent price pressures would disproportionately benefit poorer households, providing a further justification for the ongoing (nominal) monetary policy tightening. However, while such a change in the stance of monetary policy should be expected to affect the common component of inflation, it will not affect all prices equally (Borio et al. 2021). As shown in Figure 23, food represents almost half of the consumption basket of poorer households. In line with the findings of Bhattacharya and Jain (2020), monetary policy may not be an effective tool to influence the prices of food items in emerging and

FIGURE 30 • Moroccan price subsidies are regressive



Source: Simulation for 2021 based on data from the Household Consumption and Expenditures Survey 2013/14, HCP. Authors calculations.

developing economies, which are particularly sensitive to idiosyncratic developments. This implies that reducing the price pressures that are eroding poorer households' purchasing power the most cannot be done with policy monetary alone, and hence needs to be complemented with other policy tools.

The authorities could prioritize the implementation of policies to strengthen food security and reduce the divergence between farmgate and retail prices of food items. Limited information is available on the evolution of food prices along the various stages of the distribution chain in Morocco. However, some studies indicate that producer prices can be multiplied by four before reaching final consumers, which may not always be justified by the value added along the distribution chain (CESE, 2022). Identifying the disfunctions and bottlenecks that contribute to explain this price increase is particularly relevant in the current inflationary context, especially for poorer households which, as emphasized above, spend a larger portion of their consumption basket on food. Among the problems that affect the distribution and marketing systems of food in Morocco are the weak regulation, governance, and management of wholesale markets;[27] the unregulated proliferation of intermediaries facing weakly integrated small and medium producers with limited direct access to markets; an asymmetric knowledge on prices which places producers at a further disadvantage vis-à-vis intermediaries;[28] comparatively large post-harvest losses, partly due to suboptimal storage and transport conditions.

[27] To address these weaknesses, a new wholesale market endowed with modern governance is currently under construction.

[28] On this topic, the Ministry of Agriculture is developing an information system and an app called "Asaar" to reduce this asymmetry of information between farmers and middlemen.

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Spring 2022 MEU: "The Recovery is Running Dry"

The impacts of rainfall shocks on the Moroccan economy have been rendered increasingly apparent by a recent succession of droughts: three in the past four agricultural campaigns. Although the agricultural sector contributes to a moderate share of GDP and modern irrigation systems have been successfully expanded over past decades, erratic rainfall levels remain an important source of macroeconomic volatility in Morocco, a trend that climate change could be intensifying. Coping with water scarcity has long been a governmental priority and massive infrastructure investments are still planned for that purpose in the decades to come. However, international experience suggests that, when not paired with strong demand management policies, "engineering" solutions alone may not succeed at curbing pressures on increasingly scarce water resources.

FALL 2021 MEU: "Policy Pathways to Accelerate Morocco's Economic Growth"

The New Development Model (NDM) sets ambitious objectives, the materialization of which would require a quantum leap in economic growth. To embark on a growth trajectory consistent with the ambitions of the NDM, the sustained implementation of a cross-cutting policy agenda will be key. The historical account presented in this report demonstrates that episodes of accelerated growth such as that envisaged by the NDM have been rare but not unprecedented in the World Economy. To achieve it, Morocco will have to overcome its overreliance on capital accumulation as its main source of growth. Rather, various simulations suggest that doubling per capita GDP by 2035 will require the Kingdom to markedly increases the contributions of productivity, labor, and human capital formation to economic growth. This will only be possible if the NDM translates into sustained and multi-faceted structural reforms.

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