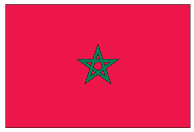
MOROCCO



ECONOMIC MONITOR

From resilience to shared prosperity

Fall 2023

THE WORLD BANK
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Middle East & North Africa

EXECUTIVE SUMMARY

The Moroccan economy is recovering. Following a sharp deceleration in 2022 caused by various overlapping commodity and climatic shocks, economic growth increased to 2.9 percent in the first semester of 2023, driven primarily by services and net exports. Inflation has halved between February and August 2023, but food inflation remains high. Lower commodity prices have also contributed to a temporary narrowing of the current account deficit. The response to recent crises and the unfolding reform of the health and social protection systems are exerting pressures on public spending. However, the government is managing to gradually reduce the budget deficit.

Growth is expected to further firm-up in the medium term. After expanding by 2.8 percent in 2023, real GDP growth is projected to reach 3.1 percent in 2024, 3.3 percent in 2025 and 3.5 percent in 2026, as domestic demand gradually recovers from recent shocks. The recent improvement in the current account deficit is expected to revert as energy prices bounce back and a more dynamic domestic demand feeds imports. The budget deficit is projected to continue its gradual decline and reach 3.6 percent of GDP in 2025, contingent on the continued successful implementation of tax reform and on the reform of the system of price subsidies. This would allow for a stabilization of Morocco´s debt ratio.

The September Al Haouz earthquake had devastating human and material consequences localized primarily in remote mountain communities but is unlikely to have major macroeconomic impacts. Close to 3 thousand lives have been lost, 60 thousand buildings destroyed, including more than 500 schools located for the most part in the rural provinces of Al Haouz, Chichoua and Taroudant, while major urban centers have been largely spared. Although this disaster will unavoidably disrupt local economic activities and livelihoods, the earthquake will have limited impacts at the macro level, as the most affected areas account for a small share of Morocco's GDP. The government has responded to the disaster with financial assistance to affected households and an ambitious new development plan for the High Atlas provinces, which has the potential to stimulate more inclusive growth in the medium and the long-term. Depending on how it is financed, the implementation of that plan could exert additional pressure on public finances.

Showcasing Morocco´s external resilience, the country has managed to effectively respond to recent shocks. The Al Haouz earthquake of September 8th is the last of a series of shocks that have struck Morocco since the COVID-19 pandemic. The authorities have demonstrated a strong capacity to cope with these disturbances, another example of which has been the humanitarian response to the seism and the ambitious development plan put forward by the authorities to unlock the development potential of the most affected provinces. Other signs of Morocco´s external resilience are: the solid (and growing) external demand for the country´s goods and services despite the slowing of the international economy; the strength of FDI inflows, increasingly directed towards the manufacturing sector, suggesting that Morocco may be benefiting from the ongoing near-shoring process; the emergence of various modern industrial niches well connected to global value chains, partly fueled by strategic investments such as the construction of the Tangier-Med port; and the sovereign´s maintained access to international capital markets despite the ongoing tightening of global financial conditions.

But the domestic welfare impacts of these shocks remain pronounced. Households´ confidence indicators continue to deteriorate and have reached an all-time low, with 87.3 percent of surveyed individuals declaring in the second quarter of 2023 that their quality of life has deteriorated over the past year. Per capita GDP has not yet returned to pre-pandemic levels and final consumption expenditure per capita is roughly where it was in 2019. Aggregate statistics mask the fact that food inflation is disproportionately affecting the poor and vulnerable. A large proportion of women and the youth remain excluded from labor markets, with declines in activity rates. Jobs continue to be lost in rural areas as agricultural activities suffer from the multi-year drought that began in 2019. The Al Haouz earthquake has also raised awareness about the pockets of poverty that persist in rural areas, many of which have barely participated in the profound economic transformations undergone elsewhere in Morocco over the past two decades.

Additional reforms are needed to capitalize on Morocco´s external resiliency and boost prosperity. The potential growth rate of the Moroccan economy has significantly declined since the 2000s, and is currently estimated at 3.6 percent, below the average for emerging market and development economies. The materialization of such a growth rate over coming years would be clearly insufficient to achieve the ambitious objectives set by the New Development Model. The Moroccan authorities are aware of the challenge and have launched ambitious reforms to improve human capital and incentivize private investments. However, these reforms may fail to yield the desired economic take-off unless other critical micro-constraints to growth are relieved. Morocco still needs to deepen reforms aimed at removing the regulatory and institutional obstacles that limit competition and slow the reallocation of production factors towards more productive firms and sectors. Moreover, evaluating the policies and reforms under implementation will be key to ensure that they yield the desired outcome, for which a greater access to data is necessary, an unfinished agenda in Morocco.

Increasing Female Labor Force Participation (FLFP) would have a strong economic and social dividend. International evidence shows that gender equality is not only a matter of social justice and human rights, but also a powerful driver of socio-economic development. In this context, Morocco's low and declining FLFP constitutes a major missed opportunity and constraint to potential output and growth. World Bank simulations show that meeting the New Development Model objectives of a 45 percent FLFP rate could increase growth by almost 1 percentage point per year, may reduce inequality by between 1 and 2 Gini points. In addition, increasing women's economic agency will have wider knock-on effects such as increased investment in human capital for today's children.

Although several ambitious reforms have already been undertaken, a paradigm shift is still needed to economically empower Moroccan women. This effort needs to address the specific constraints faced by women in different contexts. In rural areas, these include solving mobility problems and increasing financial and digital inclusion to enable women to engage in productive activities outside the household. In urban areas, where wage work is more common, promoting gender-friendly conditions in the workplace is of the essence. Cross-cutting constraints also need to be addressed, including the supply of economic opportunities, the need for an enabling environment for women to take up these opportunities, including via further legal reforms, the provision of acceptable and affordable childcare options, and shifting traditional social norms.

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