MOROCCO

Table 1	2017
Population, million	35.7
GDP, current US$ billion	110.2
GDP per capita, current US$	3083
National poverty line[a]	4.8
Gini coefficient[a]	39.5
School enrollment, primary (% gross)[b]	114.7
Life expectancy at birth, years[b]	75.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) Most recent WDI value (2015)

Economic growth has recovered in 2017, while non-agricultural activity remained subdued, reflecting an economy, which the production still depends on rain-fed agriculture. Thanks to prudent fiscal policy, the fiscal deficit was reduced to 3.5 percent of GDP. Although, Morocco's current account deficit declined, the trade deficit widened due to high energy prices. Job creation has improved, but unemployment remained high especially for the young. Over the medium term, the challenges include broadening the middle class and catalyzing the private sector.

Public Disclosure Authorized

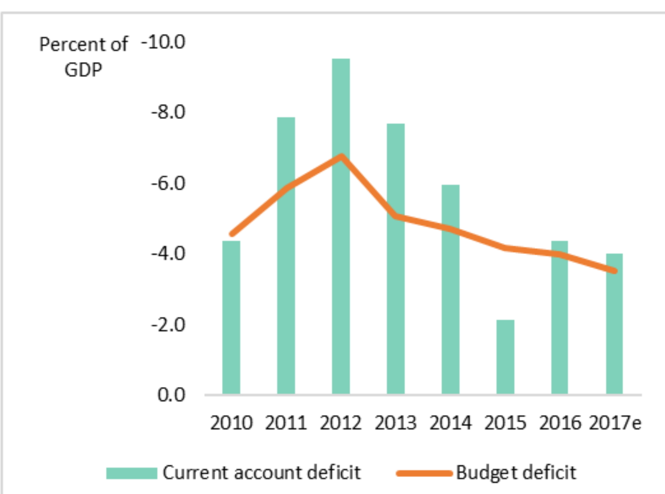
Recent developments

Following a sharp slowdown in 2016, real GDP growth rate reached 4 percent in 2017 (from 1.2 percent in 2016), boosted by a strong rebound in agricultural output. Driven by better than average cereal production, the agricultural sector has experienced a strong recovery, with a growth rate of 15.1 percent. However, non-agricultural GDP remained sluggish at around 2.8 percent. Mining activities contributed the most to growth outside agriculture, mostly driven by the recovery in phosphates. Inflation remained low at 0.7 percent. Unemployment remained on an upward trend, rising from 9.9 in 2016 to 10.2 percent in 2017, especially prevalent among the young and the educated, as well as women (26.5 percent 17.9 percent and 14.7 percent respectively), reflecting the weak capacity of the economy to generate inclusive growth. International poverty estimates for Morocco are expected to be available in June 2018. Results based on the national poverty line indicate a sharp decline in poverty between 2001 and 2014. Poverty was at 15.3% in 2001 and declined to 8.9% in 2007 before dropping to 4.8% in 2014.

The fiscal deficit declined in 2017, while the slight improvement of exports was not enough to reduce the trade deficit as imports increased. Thanks to prudent fiscal policy, the fiscal deficit was reduced to 3.5 percent of GDP in 2017 and the central government debt ratio has been stabilized at around 65.1 percent. Regarding the current account deficit, it is estimated to have declined to 4 percent of GDP in 2017 (compared with 4.4 percent in 2016). The trade deficit widened by 2.8 percent despite the surge in phosphates exports. In fact, exports picked up by 9.4 percent, while imports increased by 6.4 percent (from a larger base), reflecting a sharp rise in oil prices. Tourism receipts and remittances remained steady.

Morocco's Central Bank finally adopted the reform towards a more flexible exchange regime, allowing the currency to fluctuate within a wider band of ± 2.5 percent, compared with the previous band of 0.3 percent. The reform was delayed given expectations that it would start last July, but the government appears to have strong ownership of the reform since its introduction in mid-January 2018. Two reasons could explain this shift: first, the shock absorption capacity of the economy had been weak, particularly given current constraints on fiscal space, and exchange rate flexibility will help; secondly, the uncertainty in which the global economy is evolving which involves strong external risks and again more ability to adjust. While this reform could increase vulnerability to increases in the price of imported goods, the benefits of greater competitiveness and less exposure to other forms of economic shock would more than outweigh the costs of the move. In addition, this reform will allow the country to be better-positioned for a flexible credit line arrangement with the IMF.

FIGURE 1 Morocco / Morocco's twin deficits



Sources: Ministry of economy and finance, World Bank staff estimates.

FIGURE 2 Morocco / Young, women, educated

Source: High-Commission of Planning.

Outlook

GDP growth is projected to decline to 3 percent in 2018. Cereal production is projected to return to its historical average and non-agricultural GDP growth is expected to remain around 3 percent in the absence of more decisive structural reforms.

The fiscal deficit is expected to decline to 3.3 percent of GDP in 2018 in line with the government's commitment to bring down the deficit to 3 percent of GDP by 2019-2021 and to reduce public debt to 60 percent of GDP by 2021. To achieve this target, it would be appropriate for the government to ensure a comprehensive tax reform including measures to reduce tax exemptions, lower corporate tax rates, and better enforce tax payments by the self-employed and liberal professions and improved public investment management. In line with this fiscal consolidation and oil price projections, the current account deficit is projected to remain below 4.5 percent of GDP in 2018.

Over the medium term, Morocco's economic outlook should improve provided the government remains committed to implement deep and comprehensive reforms. The outlook remains linked to continued fiscal consolidation, flexibly managed exchange rate regime and to the implementation of structural reforms in key areas such as education and the labor market in order to reduce unemployment, especially among the young, improve the business environment, and enhance human capital for higher and inclusive growth.

Risks and challenges

Morocco's growth model shows signs of weaknesses as it is confronted with a series of sustainability issues that risk, with varying degrees of intensity, impeding further progress. The economic model based on domestic demand, especially public investment, risks petering out without a significant increase in investment spillovers and productivity. Growth in the past two decades has been mainly based on public capital accumulation, sometimes through FDI joint ventures with SOEs, that will be difficult to maintain without higher total factor productivity gains in the future. This calls for a shift toward a more export-led model, where the private sector is playing a greater role as an engine of growth and employment.

Slow job creation and entry barriers generate high unemployment among the young and educated. With the working age population increasing by 300,000 a year, job creation, at 129,000 per year, has been insufficient. Youth unemployment is twice the rate of total population. This rate among urban youth has been worsening since the financial crisis, growing from 31.3 percent in 2010 to 41 percent in 2016. Furthermore, unemployment spells tend to be long: more than 70 percent are unemployed for more than a year, and this share is higher among those with tertiary education.

The persistence of vulnerabilities and the lack of inclusion remain the main challenges for Morocco's economy. These are closely related to the lack of inclusive and contestable market institutions, public governance, human capital formation, and opportunities for productive jobs or entrepreneurship in urban areas. Climate change adaptation is increasingly urgent, and will require policy reforms and investment.

TABLE 2 Morocco / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	4.5	1.2	4.0	3.0	3.5	3.7
Private Consumption	2.3	3.4	4.0	3.1	3.7	3.4
Government Consumption	2.4	2.1	0.8	1.7	1.3	1.1
Gross Fixed Capital Investment	0.2	9.3	3.4	3.9	4.4	4.6
Exports, Goods and Services	5.5	5.1	8.8	6.1	7.3	7.5
Imports, Goods and Services	-1.1	15.4	5.9	5.6	5.1	5.6
Real GDP growth, at constant factor prices	3.2	0.0	4.4	2.3	4.5	3.8
Agriculture	11.6	-11.3	13.6	-1.8	10.5	3.6
Industry	1.8	1.2	2.9	2.9	3.1	3.3
Services	1.7	2.7	2.7	3.1	3.6	4.1
Inflation (Consumer Price Index)	1.6	1.6	0.7	1.5	1.2	1.2
Current Account Balance (% of GDP)	-2.1	-4.4	-4.0	-4.2	-4.4	-4.5
Fiscal Balance (% of GDP)	-4.2	-4.0	-3.5	-3.3	-3.0	-3.0
Debt (% of GDP)	63.7	64.7	65.1	65.0	65.0	65.0
Primary Balance (% of GDP)	-1.4	-1.3	-1.0	-1.0	-0.7	-1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.