MOROCCO

Table 1	2023
Population, million	37.8
GDP, current US$ billion	143.1
GDP per capita, current US$	3782.4
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	114.2
Life expectancy at birth, years[b]	74.0
Total GHG emissions (mtCO2e)	90.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014).
b/ WDI for School enrollment (2022); Life expectancy (2021).

Economic growth has accelerated thanks to a partial recovery of agricultural output, solid manufacturing and services exports, and supportive macroeconomic policies. But the country faces adverse labor market dynamics as the private sector is still recovering from recent shocks and a five-year long drought is destroying rural jobs. Limited employment opportunities and eroded real disposable incomes due to the recent inflationary surge are likely to have negative impacts on welfare, which will be partly mitigated by ongoing social protection reforms.

Key conditions and challenges

Despite a challenging global environment, Morocco is leveraging its presence in international markets. Dynamic manufacturing and services exports together with workers' remittances are contributing to a pronounced improvement in the current account balance. The succession of greenfield FDI projects announced in recent months suggests that Morocco has become increasingly attractive for foreign investors. Low sovereign spreads and a stable currency are additional signs of the confidence instilled by the Moroccan economy.

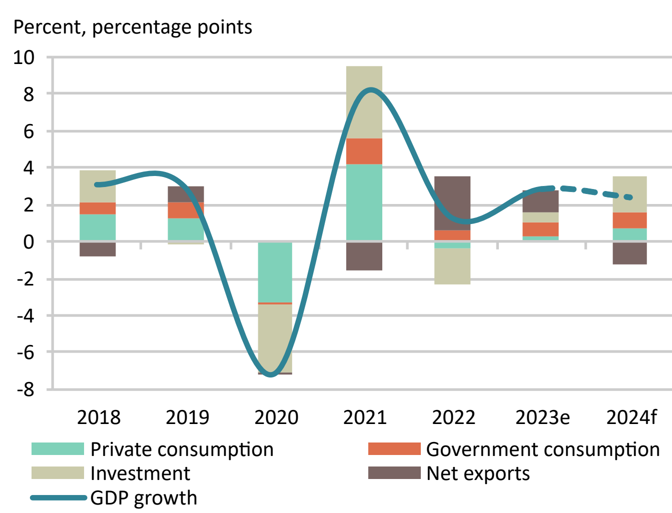
Yet, the private sector still lacks the dynamism that would be required to meet the landmark targets of the New Development Model. Estimated potential growth is half of that which would be needed to double per capita income levels by 2035. Gross capital formation continues to be led by the public sector, while domestic private investment is still recovering from recent shocks. The performance of labor markets remains underwhelming, with a spike in unemployment and a sustained increase of inactivity that disproportionately affects women and the youth. Although the recent inflationary shock is subduing, labor income losses, especially in rural areas, could have a negative impact on households' purchasing power and welfare.

After five consecutive years of drought, water scarcity is posing a growing threat to the Moroccan economy and society. Rainfall has remained well below historical averages since 2019, reducing dams' filling rates to little over 25 percent and aggravating the overexploitation of underground water sources. The government is responding to the looming water crisis with the deployment of new infrastructure, including desalination plants. It is also imposing water restrictions on irrigated agriculture and other activities, which may need to be tightened if climatic conditions do not improve.

Recent developments

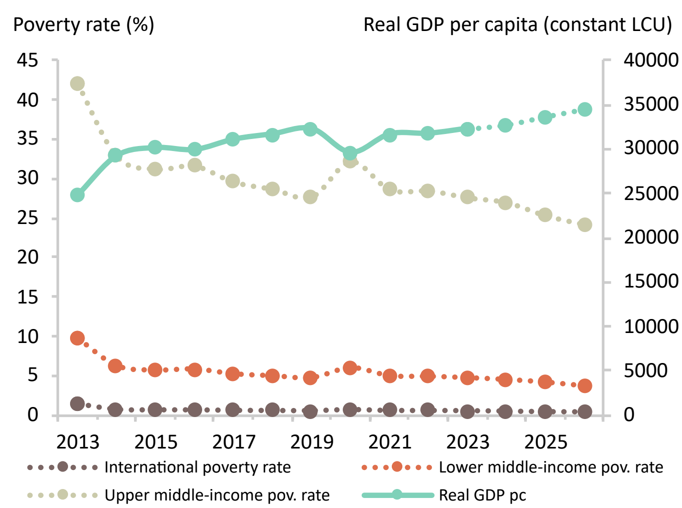
The expansion of the agricultural sector owing to a base effect and the strong performance of tourism-related services have pulled real GDP growth to 2.8 percent in 2023. Although some export-oriented niches are growing at double digits, industrial growth has been dampened by the contraction of phosphates - fertilizers and the construction sector. On the demand side, growth has been pulled by net exports and (mostly public) investment. After contracting in 2022, private consumption increased moderately in 2023 supported by a decline in inflation from 10.1 percent in February 2023 to 2.3 percent in January 2024. In the context of weakening price pressures, the central bank has maintained the monetary policy rate unchanged at 3 percent since March 2023, back in positive territory in real terms.

FIGURE 1 Morocco / Real GDP growth and contributions to real GDP growth



Sources: HCP and World Bank staff estimates.

FIGURE 2 Morocco / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The current account deficit declined from 3.5 to 0.4 percent of GDP due to a rebound of tourism inflows, a 27.5 percent expansion of automobile and electronics exports, lower energy prices, and strong remittances. Gross FDI inflows contracted by 17.8 percent, to 2.2 percent of GDP, but new greenfield investment projects continue to be announced.

The budget deficit declined from 5.4 to 4.3 percent of GDP in 2023. An emergency plan for the water sector and ongoing social sector reforms are exerting pressures on public spending, which increased by 5.8 percent in 2023. But this was more than offset by the dynamism of tax and especially non-tax revenues originating from asset monetization operations.

Despite rising economic growth, the labor force participation rate decreased to 43.6 percent in 2023 (-0.7 p.p), with a gender gap of 50 p.p. Unemployment increased to 13 percent. Although most of the job losses are in rural, non-remunerated activities, unemployment is concentrated among the educated urban youth. Losses in labor income may explain the drop in household confidence, at its lowest level since 2008. Households lament a worsening of living conditions due to high food prices and the deterioration of public services, education in particular.

Outlook

Real GDP growth is projected to decline to 2.4 percent in 2024 and to accelerate to 3.7 percent in 2025. The agricultural sector is expected to contract by 2.8 percent, as unusually dry and warm conditions are compromising key crops. On the contrary, the manufacturing sector is expected to accelerate to 2.3 percent, supported by the continued momentum of the automotive and electronic industry, an improved performance of phosphates and fertilizers, and a more dynamic construction sector pulled by new programs of direct financial support to home-buyers and the post-earthquake reconstruction effort. The services sector is expected to slow moderately (to 3.7 percent), as tourism begins to revert to long-term growth patterns. On the demand side, private consumption is projected to gradually firm-up, supported by milder inflationary pressures.

The current account deficit is projected to widen to 2 percent of GDP as domestic demand recovers and cereal imports increase. It will continue to be financed by long-term official debt and FDI inflows, which are expected to increase as the recently announced projects begin to materialize. The solid progression of tax and non-tax revenues will allow the government to maintain the budget deficit on a downward trend despite a solid growth of public spending pulled by social sector reforms and ongoing water investments. This would allow public debt to slightly decline over time (as a ratio of GDP).

The balance of risks remains tilted to the downside. A continuation of the drought would depress agricultural output and potentially affect other sectors. More geopolitical tensions could adversely affect Morocco's terms-of-trade and slow the disinflation process. The ongoing fiscal consolidation increasingly relies on asset monetization operations that create a stream of future payment obligations from the State.

In 2023, poverty fell to its pre-covid levels and will continue to slowly decrease in 2024, despite the announced negative performance of the agricultural sector. At the national level, the new direct cash transfer program, better targeted and more generous than the previous ones, will at least partly compensate welfare losses from price rises and rising inactivity. However, for the growth process to be more inclusive and resilient, a more intense job creation is more than ever needed, especially for women and youth.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	8.0	1.3	2.8	2.4	3.7	3.3
Private consumption	6.9	-0.7	0.5	1.3	2.1	2.3
Government consumption	7.2	3.3	3.6	4.6	4.1	3.6
Gross fixed capital investment	7.6	-2.2	6.3	4.4	4.6	4.9
Exports, goods and services	7.9	20.4	10.8	7.6	8.3	8.1
Imports, goods and services	10.4	9.0	6.4	8.8	6.3	7.0
Real GDP growth, at constant factor prices	7.8	1.0	3.1	2.4	3.7	3.3
Agriculture	19.0	-12.7	6.7	-2.8	8.1	0.7
Industry	7.1	-1.7	-0.4	2.3	2.5	3.1
Services	5.8	5.4	4.0	3.7	3.3	4.2
Inflation (consumer price index)	1.4	6.6	6.1	2.2	2.4	2.1
Current account balance (% of GDP)	-2.3	-3.5	-0.4	-2.0	-2.4	-2.1
Net foreign direct investment inflow (% of GDP)	1.1	1.2	0.1	1.0	1.1	1.2
Fiscal balance (% of GDP)	-6.0	-5.4	-4.3	-4.1	-3.5	-3.0
Revenues (% of GDP)	25.3	28.7	28.6	28.3	27.4	26.8
Debt (% of GDP)	69.5	71.6	70.6	70.2	69.5	68.4
Primary balance (% of GDP)	-3.7	-3.2	-2.2	-1.6	-1.0	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.6	0.6	0.6	0.5	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.0	4.9	4.7	4.5	4.2	3.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.7	28.5	27.6	27.0	25.4	24.2
GHG emissions growth (mtCO2e)	5.4	-0.7	0.5	1.0	2.7	2.7
Energy related GHG emissions (% of total)	74.7	74.7	74.6	74.8	75.4	75.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2013) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.