Morocco

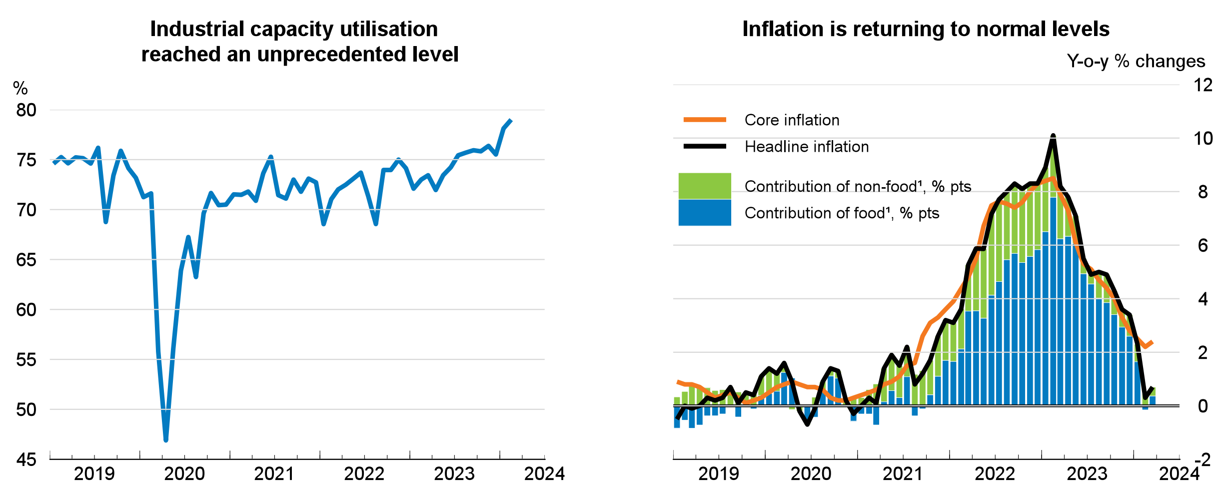
Economic activity is set to strengthen further with real GDP projected to grow by 3.5% in 2024 and 4% in 2025. Although the agricultural sector remains impacted by drought, the strong performance of the services sector and exports will continue to support overall growth. Reconstruction activity following the 2023 earthquake, along with housing assistance programmes and incentives of the new investment charter, will help to strengthen investment. Lower inflation and the implementation of social programmes, including direct social assistance and health insurance for the vulnerable population, will stimulate household spending, although the phasing out of subsidies will damp this effect. Key risks include a prolongation of water stress, a slowdown in European demand and a new surge in shipping costs.

The central bank should continue to monitor inflation closely, particularly as subsidies are phased out, and maintain interest rates at their present level as long as necessary. Continued budgetary consolidation through expansion of the revenue base and more targeted support for vulnerable households is a priority to ensure fiscal sustainability. Priority structural reforms include continued improvement of the business climate to stimulate private investment, better integration of women and youth into the labour market, and accelerating climate change adaptation measures.

Economic activity continues to recover

Economic activity continues to rebound, driven by domestic consumption, investment, and robust export and services performance. The rise in transfers and subsidies aimed at supporting the ongoing social protection reform and bolstering financial capabilities in critical social sectors, particularly education and healthcare, is driving up public consumption. Business confidence is improving, capacity utilisation has risen to 79%, and industrial exports increased by 6.1% year-on-year in February 2024. Annual rates of headline and core inflation have continued to decline since March 2023, standing at 0.7% and 2.4% respectively in March 2024.

Morocco



1. Contribution to headline inflation.
Source: CEIC; Le Haut Commissariat au Plan; Bank Al-Maghrib; and OECD calculations.

StatLink https://stat.link/7sl3rf

Morocco: Demand, output and prices

Morocco	2020	2021	2022	2023	2024	2025
	Current prices MAD billion	Percentage changes, volume (2014 prices)				
GDP at market prices	1 152.5	8.0	1.3	3.2	3.5	4.0
Private consumption	680.8	6.9	-0.7	1.2	2.1	3.3
Government consumption	223.6	7.2	3.3	3.7	5.5	4.3
Gross fixed capital formation	304.1	7.6	-2.2	6.8	4.5	4.1
Final domestic demand	1 208.5	7.2	-0.2	3.1	3.3	3.7
Stockbuilding[1]	27.6	2.0	-1.4	0.0	0.0	0.0
Total domestic demand	1 236.1	9.3	-1.9	3.0	3.2	3.6
Exports of goods and services	354.9	7.9	20.4	9.8	6.5	6.8
Imports of goods and services	438.5	10.4	9.0	8.2	5.5	5.6
Net exports[1]	- 83.6	-1.5	2.9	-0.2	-3.0	-1.0
Memorandum items						
GDP deflator	_	2.4	3.1	4.5	2.4	2.0
Consumer price index	_	1.4	6.6	6.1	2.3	2.0
Central government budget balance (% of GDP)	_	-5.6	-5.2	-4.5	-4.1	-3.7
Central government gross debt (% of GDP)	_	69.5	71.6	71.0	70.4	69.8
Current account balance (% of GDP)	_	-2.3	-3.5	-0.6	-2.5	-2.9

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/7yckio

The expected drought this year may result in a rise in wheat imports, but this potential adverse impact on the trade balance will be offset by lower bills for energy and food imports following moderation in international oil and wheat prices. Export activity has continued to increase in key industrial sectors including automotives, fertilisers, aerospace, electronics and textiles.

The fiscal deficit is narrowing and monetary policy remains tight

The stabilisation of global energy prices, alongside a 150-basis point cumulative monetary tightening until March 2023, has helped to curb inflation. As food and gas subsidies are being phased out, the central bank should closely monitor price developments and keep its policy rate unchanged as long as necessary. The central government budget deficit will narrow steadily to its pre-pandemic level as the economy recovers, value added taxes are revised, and the gas and food subsidies replaced by more targeted social programmes.

Growth will be supported by domestic consumption and investment

Real GDP is expected to grow by 3.5% in 2024 and 4% in 2025. This recovery will be supported by strong domestic demand and robust services and manufacturing exports, buoyed by increased foreign demand for Moroccan goods and services. Early signs of drought suggest a weakening in agricultural production, negatively affecting the labour market and boosting food imports. Post-earthquake reconstruction and housing aid programmes, along with incentive measures, will bolster investment. Foreign direct investment receipts and equipment credits have already shown significant increases over the year to February 2024 (17.5% and 10.8% year-on-year respectively). Declining inflation and the implementation of social programmes for the vulnerable population, including direct social assistance and health insurance, will support household spending, although the phasing out of subsidies and the impact of the drought on rural employment will dampen the effect. Inflation is expected to gradually recede to 2.3% in 2024, supported by lower energy and food prices and as a result of past policy interest rate increases. The main downside risks surrounding the outlook are a prolonged drought affecting agricultural production, a sharper slowdown in activity in key European markets, and a renewed surge in imported commodity prices and shipment costs. Upside risks include an increase in phosphate prices, which would boost industrial production and government revenues.

Reforms are needed to boost productivity and tackle climate change

Continued fiscal consolidation is necessary to reduce the budget deficit and maintain the public debt ratio on a sustainable path. The medium-term budget framework envisages a gradual fiscal consolidation based on the implementation of tax reforms and the revamp of the subsidy system. However, careful management of the budgetary impacts of social programmes for vulnerable households will be essential, in particular by continuing to improve the targeting system. Further formalisation of the economy, improved investment efficiency, upskilling, and greater inclusiveness for women and youth through strengthened basic skills and more practical skills, are necessary to enhance productivity and create better jobs. Morocco must accelerate its green transition, by enhancing water management, increasing renewable energy production, and reducing reliance on fossil fuels, and also prepare for climate change adaptation.