MOROCCO - ECONOMIC AND SOCIAL DEVELOPMENTS

Overview

During the last 30 years, Morocco has embarked on a gradual but solid program of human development and political liberalization. Since the 1970s, gross national income per person increased five-fold from $550 to $2,730. The average life expectancy has increased from 55 years in 1970 to 73 in 2009. During the same period, the average number of births per woman has seen a dramatic decline from 6.3 to 2.3 while the number of children dying before age one has dropped from 115 to 32 (per 100,000 live births). Substantial educational improvements include a primary school net enrollment increase from 52.4 percent in 1990/91 to 97.5 percent in 2009/10. Access to safe water is expanding particularly rapidly with quasi-universal access to potable water in urban areas where 83 percent of households are connected to reliable network service and the rest rely on standpipes and vendors.

Morocco has made strong economic progress since 2001 with growth rates averaging 5 percent, a progressive diversification of the economy and solid macro-economic management. This has allowed it to bring about a decrease in the overall poverty rate from 15.3 percent in 2000/01 to 9 percent in 2006/07. It is committed to regional integration, particularly with Europe where it holds “Advanced Association Status” with the EU. Investors’ confidence has increased substantially in response to the reforms in the investment climate which have been supported by the Bank among others. Unemployment rates are falling constantly and are now at a 30-year low, although they do still remain high at around 9 percent. These features, together with a relatively good base of human and physical capital and a critical geographic position on the Mediterranean, have positioned Morocco well on the international stage to achieve stronger growth and development and derive greater benefits from integration and globalization.

Despite progress, Morocco still confronts formidable challenges, which include vulnerability to shocks (natural and economic); inadequate social indicators relative to the country’s income level; high unemployment, especially among youth; and increasing pressure on natural resources, especially water, which is exacerbated by climate change. Large segments of the population remain socially and economically marginalized and, notwithstanding the considerable reduction of absolute poverty, economic vulnerability remains widespread. Health indicators – especially for women and children – are well below what they should be with an especially high incidence of maternal mortality (227 for 100,000 live births in 2003) and child malnutrition (estimated at one in five children). The speed with which primary education has been generalized has not been accompanied by a similar progress in education yields: access to primary education is almost universal yet only two-thirds of children aged 6-11 complete primary school. Although Morocco is a strong reformer in the area of private sector development, the pace of structural change of the economy remains slow and the private sector is still not fully convinced of the credibility of reforms, the effectiveness of policies and their equal enforcement across the board.

Consolidating development achievements will necessitate sustained and faster growth which itself will hinge on improving competitiveness. So far, Morocco has pursued a strategy of selective market opening through bilateral agreements which have allowed it to grasp some of the opportunities offered by global markets. But its overall trade regime retains a fundamental anti-export bias compounded by the fixed exchange regime. To reap more benefits of globalization, Morocco will need to step up its efforts on reforming the trade regime and opening the domestically-focused services sectors to competition. Moroccan agriculture remains one of the least productive in the region, employing about half of the labor force but contributing just 16 percent to GDP. The challenge is to move up the value-chain in agricultural production and reform the sector through phasing out the ineffective subsidy system and protection of cereal production. Finally, the role of the secondary and tertiary sectors will need to expand in order to bring about the much sought-after employment creation. This calls for further sophistication, identification of production niches where competitiveness can be pursued and a transformation of the economy to a more knowledge-based one.
Morocco is also confronted by a poor endowment of natural resources which is being further threatened by the negative impacts from climate change. Water scarcity is the most urgent issue in this regard – Morocco already faces insufficient water resources to meet current needs and climate change will impose further constraints. This is exacerbated by poor water use in agriculture and weak water sector institutions. The country is heavily dependent on energy imports (97%) and lacks the needed investments to maximize the vast potential offered by solar and wind energy sources.

**Government Program**

The Government has set out a clear path for its development goals and has embarked on a wide-ranging economic and social reform program. This program is intended to continue and improve the good performance in growth rates with stepped-up efforts in strengthening governance, improving the business climate and ensuring greater prioritization and implementation of reform efforts. In assuming the throne in 1999, King Mohammed VI set out a vision of rapid growth, poverty eradication and better social conditions. Since then, successive governments have articulated this vision by identifying the sectoral and structural constraints based on sound analysis, developing a set of sector strategies and allocating public funding to strategic priorities. The result is an ambitious program of political, economic and social reforms, whose effects are starting to be visible today.

**Recent Economic Developments**

The Moroccan economy is recovering from the impact of the global crisis after its downturn last year in non-agricultural activities. Non-agricultural activities gained 5.6 percent (y/y) in the first quarter 2010 and are estimated to grow at 5 percent in the second one. Economic recovery has been supported in large part by a booming mining sector (up 108 percent), but also by fisheries (up 9.8 percent), electricity and water (up 6.7 percent), tourism related services (up 6.7 percent), and education and health services (up 6.4 percent). However, growth of manufacturing (up 1.5 percent), financial services (up 1.2 percent), and telecommunication (up 1.8 percent) remained low due to the sluggish external and domestic demand for corresponding products. At the same time, agricultural output receded 8.4 percent over the first half of this year despite a very good crop owing to the exceptional record output registered in 2009 (up 31 percent). As a result, GDP grew by 3.5 percent over the period compared to 3.2 percent the same period last year.

Unemployment slightly deteriorated in 2010. It attained 9.1 percent over the first half of 2010, up from 8.8 percent the same period last year. Most of the new jobs were created in construction sector and services, and to a lower extent in industry, while agriculture destroyed jobs. Inflation remained subdued, helped by tight money liquidity and continued protection of domestic markets from increases in world prices of some commodities, especially fuels. The fiscal situation remains sustainable despite the deterioration of the budget deficit. Budget deficit reached 4.4 percent of GDP in the first half 2010, the highest deficit since 2005, and much higher if compared to the average deficit of the last four years (less than 1 percent of GDP). It is expected that the deficit would deepen further to around 5 percent of GDP by end 2010. The deterioration of the fiscal situation is mainly explained by soaring subsidies (up 238 percent) driven by the recent rise in world prices of fuels and cereals and by the effect of the global crisis and related stimulus package on fiscal revenues (minus 2.2 percent).

The central government’s debt remains relatively low despite its recent increase. The Central Government’s debt increased to 48.9 percent of GDP compared to 46.3 percent registered in June 2009, reflecting the higher budget deficit. The external position is solid although international reserves declined. Morocco suffered from deteriorating terms of trade with export prices declining by 28 percent,
while those of import gained 10 percent. As a result, the trade deficit edged up to 20.7 percent of GDP, from 19.8 percent of GDP the same period last year.

**Economic prospects for 2011 are globally good.** Thanks to solid macroeconomic stance, Morocco weathered well the moderate effects of the global crisis on the real economy. Furthermore, there are no apparent signs that the recent sovereign debt crisis of Greece and the subsequent restrictive policies of some European countries have had any additional impact on exports or capital inflows. At the same time, domestic demand continued its momentum, although with less strength than before. In this context, the recent recovery of the Moroccan economy is expected to firm up through 2011. As a result, GDP would gain 4.4 percent in 2011—up from 3.5 percent estimated for 2010—mostly driven by domestic demand, but also by improving exports. Inflation would remain low around 2 percent. After the higher rate estimated for 2010 (5 percent of GDP), the budget deficit should decline to around 3.4 percent of GDP in 2011 helped by enhanced tax collection and controlled recurrent expenditures. The current account deficit would improve in 2011 (4.5 percent of GDP compared to 5.3 percent in 2010) as exports, workers’ remittances and tourism continue to recover. The external position would remain strong with international reserves amounting to 6.5 months of imports and higher than the country’s external debt.
WORLD BANK ENGAGEMENT

The World Bank has a broad engagement in Morocco that covers the full menu of activities for a well-performing middle-income country – lending, AAA, and a broad trust fund portfolio. The central tenet of the Bank’s partnership with Morocco is alignment on the country’s vision. Morocco is a sophisticated MIC with a clear understanding of the challenges ahead, a reform process underway in most sectors and a set of forward-thinking strategies already laid out.

The new Country Partnership Strategy (CPS) for FY10-13 was discussed by the Board in January 2010. The partnership detailed in the CPS has evolved between the Government and the Bank over the past two previous CAS cycles and is based on clear principles and rules of engagement that have emerged. The Bank and the Government have agreed on three pillars: (1) Growth, employment, competitiveness; (2) Services to citizens; and (3) Development sustainability in a changing climate. Continued flexibility is emphasized and the program will seek to provide support with the potential for path-changing, long-run impact.

In FY10, the Bank delivered a record level of lending in Morocco - $730 million, a direct result of the Government’s strategic choice to engage more external debt and the global economic downturn. For FY11-12, the volume of lending is expected to be $600-700 million each year, possibly more if the Government requests it and the lending thresholds accommodate it. The Bank’s program is now strongly defined by its focus on DPL support across medium-term reform programs with different phases of IBRD lending. In the past 18 months, the Bank has delivered DPLs in support of public administration reform, solid waste management, education, and financial sector reform and continued support to these sectors has been requested. In addition, there are several DPLs under preparation in sectors where the Government has more recently invited the Bank to be a partner - urban transport, agriculture and health. Finally, we expect to deliver at least $200 million in FY11 in investment lending to the Ouarzazate Concentrated Solar Power Project, in combination with $150-200 million in Clean Technology Funds.

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<th>FY11 Pipeline</th>
<th>Project</th>
<th>US$ million</th>
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<tr>
<td></td>
<td>Urban Transport DPL</td>
<td>140</td>
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<td>Plan Maroc Vert (Agriculture) DPL</td>
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<td>Solid Waste DPL</td>
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<td>Health DPL</td>
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<td>Ouarzazate Solar Power</td>
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<td>INDH 2</td>
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<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>725</strong></td>
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As of September 15, 2010, the Bank’s portfolio in Morocco consisted of 12 projects for a total net commitment of US$1,068 million. Total undisbursed balance is $711 million although 2 DPLs will soon disburse - $60 million for education and $66 million for the Financial sector. The portfolio was strengthened most recently by the addition of three new investment projects in the Water and Sanitation sector for a combined total of $285 million. There are two problem projects – Rain-fed Agricultural Development and ONE Support to National Electricity Office. The former was recently restructured and the latter will be restructured during the up-coming mid-term review.

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