Economic recovery on the horizon for Morocco

TEASER

Despite the challenges brought about by the pandemic, the country has managed to find its footing and its economy is expected to spring back to life this year.

Like the rest of the world, Morocco faced hardship last year as the COVID-19 pandemic triggered a global health and economic crisis. But the country is expected to make an impressive recovery, and be among the fastest growing economies in the Middle East and North Africa (MENA) region.

Morocco's economy witnessed a 7% contraction in 2020, according to the International Monetary Fund (IMF), and had lost 581,000 jobs year on year by the third quarter of that year.

The government acted quickly to support the economy, but that has understandably resulted in lower GDP, and a downturn in key sectors including tourism. In addition, the kingdom also faced a drought, which further deepened the economic contraction.

The Moroccan government introduced a number of measures to protect citizens from hardship as the pandemic negatively affected business and investment activity. These included USD 8.49 billion of loans guaranteed by the state and USD 5.09 billion allocated to a Recovery Fund (Essor), apart from other fiscal and monetary measures to support the economy. However, the government saw reduced revenues from taxes, levies, and lower receipts from tourism and other sectors as the global economy shut down for a period of time.

Policymakers also stepped up efforts to introduce social safety nets through innovative banking apps, which helped transfer funds to 5 million families across the country.

"Most of these measures, of these actions, made it possible [for] Morocco to strengthen its growth for this year, but also to put itself on a better path to the future in order to find recovery and to improve growth and construct an economy, which would be more integrated and more just," said Jihad Azouri, IMF director of Middle East and Central Asia Department.

The country's GDP is expected to rebound this year, rising 4.5% amid a recovery in consumer demand and an uptick in exports and global trade. Across MENA only Libya (131%) and West Bank and Gaza (up 5.7%) will see higher growth, according to the IMF.

The recovery of tourism and export receipts are also expected to lead to a gradual improvement of the current account deficit.

The tourism sector endured a tough 2020, with revenues declining 53.8%. Since then, the country has reopened its borders to visitors, but with strict COVID-19 safety and health protocols in place. The country's six busiest cities are open and handling international flights, restaurants and hotels are open, while tours and excursions are being offered, albeit with some restrictions.

The Moroccan National Tourist Office also recently adopted an "aggressive reconquest" strategy aimed at reviving the country's tourism sector. These includes overhauling its brand strategy, launching marketing and promotional campaigns and focusing on international and domestic tourism.

These include plans to reinvigorate the VisitMorocco campaign in France, Spain, the United Kingdom and Germany, and other main source markets.

The tourism sector accounted for 6.7% of GDP in average annual gross current account receipts in 2017-2019, and its measured recovery and resulting influx of foreign exchange will help reduce the country's current account deficit, according to Fitch Ratings.

The country also maintained good access to external finance, with successful sovereign bond issuances (EUR 1 billion in September and USD 3 billion in December), and resilient net foreign direct investment flows.

Meanwhile, Moroccan banks remain resilient and credit has continued to rise in 2020, after the central bank proactively took measures to improve liquidity conditions and cut interest rates.

VACCINE ACTION

Vaccine rollouts will be key to the country returning to normalcy, and the most important growth driver.

In March, Morocco said it expects to receive 4.2 million COVID-19 doses soon, in addition to the 8.5 million already received.

COVID-19 cases have dipped considerably to around 540 daily for a country of 36.5 million people, according to the Johns Hopkins University.

In Africa, Morocco's vaccination rate per capita is second only to Seychelles, with 13% of the population vaccinated, which is better than that of European countries like Switzerland, Sweden and the Netherlands.

With tourism highly dependent on global vaccine rollout and lifting of strict travel advisories across the world, Morocco's industrial sector is expected to be the main growth driver.

Morocco is already among the most industrialised countries in Africa, and thanks to a series of reforms proposed under the Industrial Acceleration Plan of 2014-20. The country has managed to diversify its economy away from agriculture, phosphates and tourism and develop more competitive industries, including the automotive, aeronautic, and textile industries.

Manufacturing output is estimated to have contracted by 7.8% in 2020, driven by a decline in the coke and refined petroleum products sector, but the industry is poised for a rebound.

"In 2021, manufacturing output is expected to expand by just over 6.0%, driven by growth in the motor vehicles and parts sector," according to Oxford Economics.

The fastest growing industrial sectors over the next decade are expected to be repair and installation of machinery, pharmaceuticals and metal products.

ROAD TO RECOVERY

The automotive sector could also play an increasingly important role in the economy, and is expected to rise 5.6% over the 2019-24 period, according to Industry Research.

Morocco's automotive sector already accounts for 83.4% of North Africa's combined output, and the country could benefit from European automakers' plans to relocate their Asian operation to the Mediterranean basin countries, according to the Moroccan Institute of Strategic Intelligence (IMIS).

In a report published last year, IMIS "proposed several key measures to increase Morocco's share of the global automotive production, notably diversifying export markets, digital transformation, enhancing technical skills and abilities of SMEs, boosting local skills, and creating synergies with other industry players, such as the aviation industry".

Another major boost to the economy could come from two significant natural gas projects that are poised to take final investment decisions this year.

In March, UK-based Chariot Oil & Gas Ltd. signed a memorandum of understanding with the Ministry of Industry, Trade and Green and Digital Economy on the Anchois gas development, which contains more than 1 trillion cubic feet of natural gas.

Meanwhile, Sound Energy Ltd. is developing the 377-billion-cubic-feet Tendara concession, which could emerge as a micro LNG development if the UK-based company takes a final investment decision.

SUNNY DAYS AHEAD

Global renewable energy companies also view Morocco as a sustainable energy investment magnet. The country's renewable energy exports jumped 670% between 2018 and 2019, while energy imports were down by 93.5%, thanks largely to the Noor Solar thermal power plant, the world's largest solar complex.

Morocco announced a number of solar projects last year that have the backing of major international and bilateral institutions. This positions the country as a major exporter of renewable energy to Europe and elsewhere.

The kingdom is also eyeing hydrogen from sun and wind, which could emerge as another source of foreign direct investment and, eventually, export revenues.

«One can reasonably foresee that Morocco's recent engagement in green hydrogen developments may trigger additional shares of renewables in its energy mix, while facilitating storage solution to better manage integration of REN into the grid,» according to a report by Middle East Solar Industry Association.

Morocco's focus on high-tech industries, including the automotive and clean-tech sectors, makes it well-placed to prosper in the post-pandemic world.