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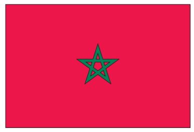
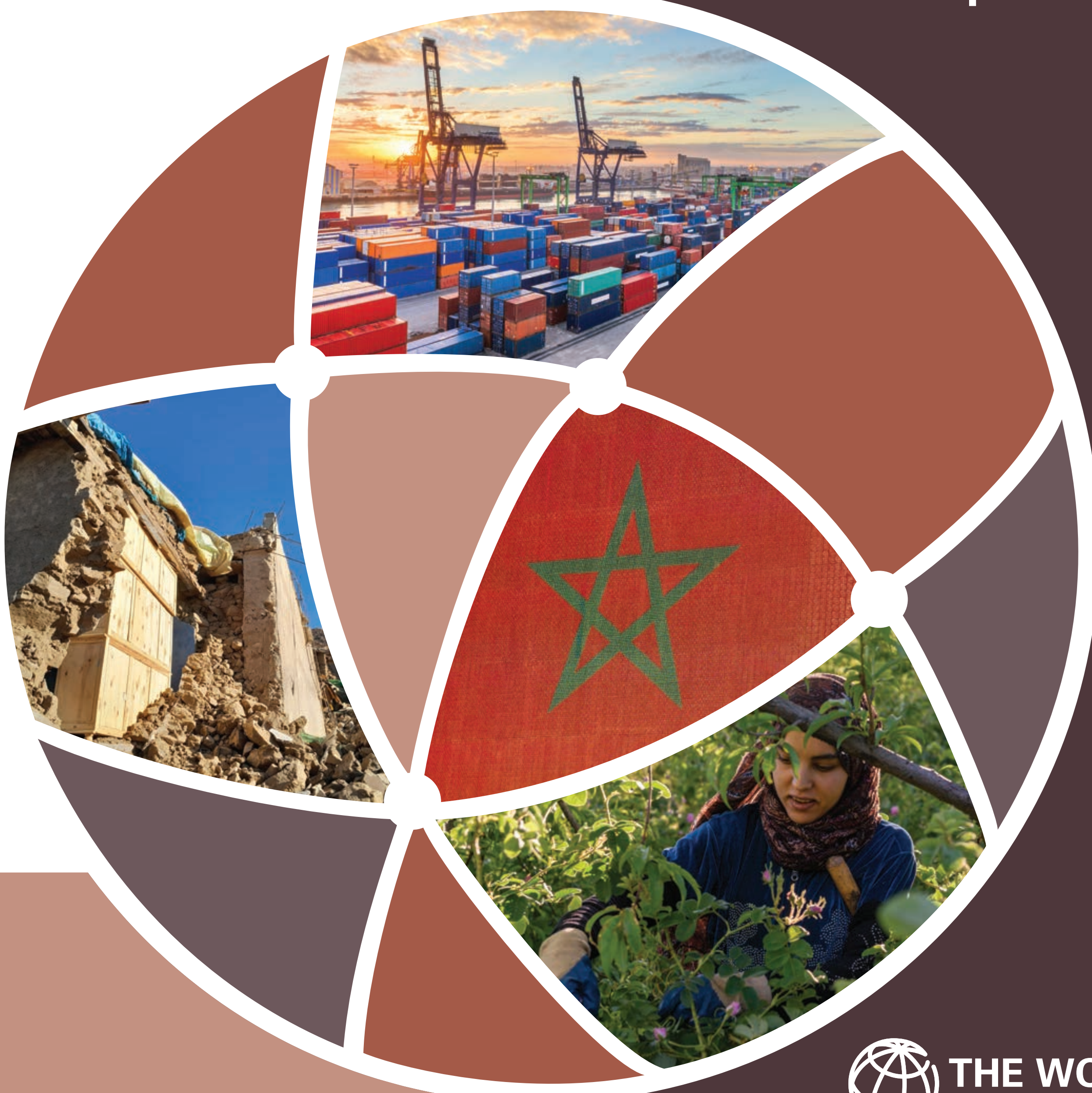


ECONOMIC MONITOR

From resilience to shared prosperity

Fall 2023



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Middle East & North Africa

Morocco Economic Update

From resilience to shared prosperity

Fall 2023

Middle East and North Africa Region

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

LIST OF ACRONYMS

ARA	Assessing Reserve Adequacy
BAM	Bank-Al-Maghrib
CBAM	Carbon Border Adjustment mechanism
CPC	Climate Prediction Center
CPI	Consumer Price Index
DEC	World Bank's Development Economics department
ECB	European Central Bank
EMBI	Emerging Market Bond Index
EMDEs	Emergent markets and Developing Countries
FAOSAT	Food and Agriculture Organization Corporate Statistical
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FLFP	Female Labor Force Participation
FSEC	Fonds de Solidarité Contre les Evènements Catastrophiques
FTA	Free-Trade agreement
GBV	Gender Based Violence
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GoM	Government of Morocco
HCP	High Commission of Planning
IMF	International Monetary Fund
MENA	Middle East and North Africa
MMI	Modified Mercalli Index
MTI	Macro Trade and Investment
NOAA	National Oceanic and Atmospheric Administration
OECD	Organization for Economic Co-operation and Development
POV	Poverty
RWI	Relative Wealth Index
SME	Small and Medium Enterprises)
SOE	State-Owned Enterprise
SPI	Standard Precipitation Index
UK	United Kingdom
WB	World Bank

ACKNOWLEDGEMENTS

The Morocco Economic Monitor is a semiannual report from the World Bank economic team on recent economic developments and economic policies. This report presents our current outlook for Morocco. Its coverage ranges from the macroeconomy, financial stability and private sector development, to human development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Morocco.

The Morocco Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade & Investment (MTI) Global Practice of the World Bank Group. The report was prepared by Javier Diaz-Cassou (Senior Economist, MTI), Federica Marzo (Senior Economist, POV), Amina Iraqi (Economist, MTI), with contributions from Remi Trier (Senior Water Resources Management Specialist, SMNAG), Nabila Gourroum (Senior Agriculture Specialist, SMNAG), Majda Benzidia (Consultant, POV), Kersten Kevin Stamm (Economist, DECPG), Benny Istanto (Consultant, DESC), Adrian Cavia (Consultant, MNCMA), Robert Andrew Maty (Research Analyst, DIME4), Rashmin Gunasekera (Senior Disaster Risk Management Specialist, GFDRR), and Antonio Pomonis (Consultant, GFDRR).

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EXECUTIVE SUMMARY

The Moroccan economy is recovering. Following a sharp deceleration in 2022 caused by various overlapping commodity and climatic shocks, economic growth increased to 2.9 percent in the first semester of 2023, driven primarily by services and net exports. Inflation has halved between February and August 2023, but food inflation remains high. Lower commodity prices have also contributed to a temporary narrowing of the current account deficit. The response to recent crises and the unfolding reform of the health and social protection systems are exerting pressures on public spending. However, the government is managing to gradually reduce the budget deficit.

Growth is expected to further firm-up in the medium term. After expanding by 2.8 percent in 2023, real GDP growth is projected to reach 3.1 percent in 2024, 3.3 percent in 2025 and 3.5 percent in 2026, as domestic demand gradually recovers from recent shocks. The recent improvement in the current account deficit is expected to revert as energy prices bounce back and a more dynamic domestic demand feeds imports. The budget deficit is projected to continue its gradual decline and reach 3.6 percent of GDP in 2025, contingent on the continued successful implementation of tax reform and on the reform of the system of price subsidies. This would allow for a stabilization of Morocco´s debt ratio.

The September Al Haouz earthquake had devastating human and material consequences localized primarily in remote mountain communities but is unlikely to have major macroeconomic impacts. Close to 3 thousand lives have been lost, 60 thousand buildings destroyed, including more than 500 schools located for the most part in the rural provinces of Al Haouz, Chichoua and Taroudant, while major urban centers have been largely spared. Although this disaster will unavoidably disrupt local economic activities and livelihoods, the earthquake will have limited impacts at the macro level, as the most affected areas account for a small share of Morocco's GDP. The government has responded to the disaster with financial assistance to affected households and an ambitious new development plan for the High Atlas provinces, which has the potential to stimulate more inclusive growth in the medium and the long-term. Depending on how it is financed, the implementation of that plan could exert additional pressure on public finances.

Showcasing Morocco´s external resilience, the country has managed to effectively respond to recent shocks. The Al Haouz earthquake of September 8th is the last of a series of shocks that have struck Morocco since the COVID-19 pandemic. The authorities have demonstrated a strong capacity to cope with these disturbances, another example of which has been the humanitarian response to the seism and the ambitious development plan put forward by the authorities to unlock the development potential of the most affected provinces. Other signs of Morocco´s external resilience are: the solid (and growing) external demand for the country´s goods and services despite the slowing of the international economy; the strength of FDI inflows, increasingly directed towards the manufacturing sector, suggesting that Morocco may be benefiting from the ongoing near-shoring process; the emergence of various modern industrial niches well connected to global value chains, partly fueled by strategic investments such as the construction of the Tangier-Med port; and the sovereign´s maintained access to international capital markets despite the ongoing tightening of global financial conditions.

But the domestic welfare impacts of these shocks remain pronounced. Households´ confidence indicators continue to deteriorate and have reached an all-time low, with 87.3 percent of surveyed individuals declaring in the second quarter of 2023 that their quality of life has deteriorated over the past year. Per capita GDP has not yet returned to pre-pandemic levels and final consumption expenditure per capita is roughly where it was in 2019. Aggregate statistics mask the fact that food inflation is disproportionately affecting the poor and vulnerable. A large proportion of women and the youth remain excluded from labor markets, with declines in activity rates. Jobs continue to be lost in rural areas as agricultural activities suffer from the multi-year drought that began in 2019. The Al Haouz earthquake has also raised awareness about the pockets of poverty that persist in rural areas, many of which have barely participated in the profound economic transformations undergone elsewhere in Morocco over the past two decades.

Additional reforms are needed to capitalize on Morocco´s external resiliency and boost prosperity. The potential growth rate of the Moroccan economy has significantly declined since the 2000s, and is currently estimated at 3.6 percent, below the average for emerging market and development economies. The materialization of such a growth rate over coming years would be clearly insufficient to achieve the ambitious objectives set by the New Development Model. The Moroccan authorities are aware of the challenge and have launched ambitious reforms to improve human capital and incentivize private investments. However, these reforms may fail to yield the desired economic take-off unless other critical micro-constraints to growth are relieved. Morocco still needs to deepen reforms aimed at removing the regulatory and institutional obstacles that limit competition and slow the reallocation of production factors towards more productive firms and sectors. Moreover, evaluating the policies and reforms under implementation will be key to ensure that they yield the desired outcome, for which a greater access to data is necessary, an unfinished agenda in Morocco.

Increasing Female Labor Force Participation (FLFP) would have a strong economic and social dividend. International evidence shows that gender equality is not only a matter of social justice and human rights, but also a powerful driver of socio-economic development. In this context, Morocco's low and declining FLFP constitutes a major missed opportunity and constraint to potential output and growth. World Bank simulations show that meeting the New Development Model objectives of a 45 percent FLFP rate could increase growth by almost 1 percentage point per year, may reduce inequality by between 1 and 2 Gini points. In addition, increasing women's economic agency will have wider knock-on effects such as increased investment in human capital for today's children.

Although several ambitious reforms have already been undertaken, a paradigm shift is still needed to economically empower Moroccan women. This effort needs to address the specific constraints faced by women in different contexts. In rural areas, these include solving mobility problems and increasing financial and digital inclusion to enable women to engage in productive activities outside the household. In urban areas, where wage work is more common, promoting gender-friendly conditions in the workplace is of the essence. Cross-cutting constraints also need to be addressed, including the supply of economic opportunities, the need for an enabling environment for women to take up these opportunities, including via further legal reforms, the provision of acceptable and affordable childcare options, and shifting traditional social norms.

RÉSUMÉ ANALYTIQUE

L'économie marocaine se redresse. Suite à un ralentissement marqué en 2022, dû à divers chocs climatiques et sur les matières premières survenus de manière concomitante, la croissance économique a repris son élan, atteignant 2,9 % au cours du premier semestre 2023 principalement grâce aux services et aux exportations nettes. L'inflation a baissé de moitié entre février et août 2023, mais l'inflation alimentaire reste élevée. La baisse des prix des matières premières a également contribué à une réduction temporaire du déficit du compte courant. La réponse aux crises récentes et la réforme en cours des systèmes de santé et de protection sociale exercent des pressions sur les dépenses publiques. Cependant, le gouvernement parvient à réduire progressivement le déficit budgétaire.

La croissance devrait continuer à se raffermir à moyen terme. Après avoir augmenté de 2,8 % en 2023, la croissance du PIB réel devrait atteindre 3,1 % en 2024, 3,3 % en 2025 et 3,5 % en 2026, la demande intérieure se remettant progressivement des chocs récents. L'amélioration récente du déficit du compte courant devrait s'inverser à mesure que les prix de l'énergie rebondissent et qu'une demande intérieure plus dynamique alimente les importations. Le déficit budgétaire devrait continuer à diminuer progressivement et atteindre 3,6 % du PIB en 2025, à condition que la réforme fiscale et celle de la Caisse de Compensation continuent d'être mises en œuvre avec succès. Cela permettrait de stabiliser le taux d'endettement du Maroc.

Le récent tremblement de terre d'Al Haouz en septembre dernier a eu des conséquences humaines et matérielles dévastatrices, localisées principalement dans les communautés montagneuses isolées, mais il est peu probable qu'il ait des impacts macroéconomiques majeurs. Près de 3 000 personnes ont perdu la vie, 60 000 bâtiments ont été détruit, dont plus de 500 écoles situées pour la plupart dans les provinces rurales d'Al Haouz, Chichaoua et Taroudant, tandis que les grands centres urbains ont été largement épargnés. Bien que cette catastrophe perturbe inévitablement les activités économiques locales et les moyens de substance, ses effets au niveau macro seront limités car les zones les plus touchées ne représentent qu'une part modeste du PIB du Maroc. En réponse à la catastrophe, le gouvernement a fourni une assistance financière aux ménages affectés et a mis en place un nouveau plan de développement ambitieux pour les provinces du Haut Atlas, visant à favoriser une croissance plus inclusive à moyen et long terme. En fonction de son mode de financement, la mise en œuvre de ce plan pourrait exercer une pression supplémentaire sur les finances publiques.

Illustrant la résilience externe du Maroc, le pays a réussi à répondre de manière efficace aux chocs récents. Le séisme d'Al Haouz du 8 septembre est le dernier d'une série de chocs qui a frappé le Maroc depuis la pandémie de COVID19. Les autorités ont fait preuve d'une forte capacité à faire face à ces perturbations, comme en témoignent la réponse humanitaire apportée au séisme et le plan de développement ambitieux proposé par les autorités pour libérer le potentiel de développement des provinces les plus affectées. On peut également noter d'autres indicateurs illustrant la résilience extérieure du Maroc notamment: une demande extérieure robuste (et croissante) pour les biens et services du pays malgré le ralentissement de l'économie mondiale; la vigueur des flux d'IDE, de plus en plus orientés vers le secteur manufacturier, suggérant que le Maroc pourrait tirer parti du processus actuel de délocalisation; l'émergence de diverses niches industrielles modernes étroitement liées aux chaînes de valeur mondiales, en partie alimentées par des investissements stratégiques tels que la construction du port de Tanger-Med; et le maintien de l'accès de l'État aux marchés financiers internationaux malgré le resserrement actuel des conditions financières mondiales.

Mais l'impact de ces chocs sur le bien-être intérieur reste prononcé. Les indicateurs de confiance des ménages continuent de se dégrader et ont atteint un niveau historiquement bas, avec 87,3 % des personnes interrogées ont déclaré au deuxième trimestre 2023 que leur qualité de vie s'est détériorée au cours de l'année précédente. Le PIB par habitant n'a pas encore retrouvé ses niveaux prépandémie et les dépenses de consommation finale par habitant se situent à peu près au même niveau qu'en 2019. Ces statistiques globales qui dissimulent le fait que l'inflation alimentaire frappe de manière disproportionnée les personnes pauvres et les personnes vulnérables. Une grande partie des femmes et des jeunes reste exclue du marché du travail, avec des baisses des taux d'activité. Les pertes d'emploi se poursuivent dans les zones rurales, les activités agricoles souffrent de la sécheresse pluriannuelle qui a débuté en 2019. Le tremblement de terre d'Al Haouz a également mis en lumière des poches de pauvreté persistantes dans les zones rurales, dont bon nombre ont peu bénéficié des profondes transformations économiques observées ailleurs au Maroc au cours des deux dernières décennies.

Des réformes supplémentaires sont nécessaires pour tirer parti de la résilience extérieure du Maroc et stimuler la prospérité. Le taux de croissance potentiel de l'économie marocaine a considérablement diminué depuis les années 2000 et est actuellement estimé à 3,6 %, soit en dessous de la moyenne des marchés émergents et des économies en développement. La concrétisation d'un tel taux de croissance dans les années à venir serait nettement insuffisante pour atteindre les objectifs ambitieux fixés par le Nouveau Modèle de Développement. Les autorités marocaines sont conscientes de ce défi et ont lancé des réformes ambitieuses pour améliorer le capital humain et inciter les investissements privés. Cependant, ces réformes risquent de ne pas produire le décollage économique souhaité tant que d'autres contraintes microéconomiques cruciales à la croissance ne sont pas résolues. Le Maroc doit encore approfondir les réformes visant à éliminer les obstacles réglementaires et institutionnels entravant la concurrence, tout en ralentissant la réallocation des facteurs de production vers des entreprises et des secteurs plus productifs. Par ailleurs, l'évaluation des politiques et des réformes en cours de mise en œuvre sera essentielle pour s'assurer qu'elles produisent les résultats escomptés, nécessitant un accès étendu aux données, un aspect en cours en cours d'élaboration au Maroc.

L'augmentation de la participation des femmes au marché du travail (PFMT) aurait des retombées économiques et sociales importantes. Les données internationales montrent que l'égalité des genres n'est pas seulement une question de justice sociale et de droits humains, mais aussi un puissant moteur de développement socio-économique. Dans ce contexte, la faiblesse et le déclin du taux d'activité des femmes au Maroc constituent une occasion manquée significative et un obstacle à l'augmentation de la production et de la croissance potentielle. Les simulations de la Banque mondiale indiquent que la réalisation des objectifs du Nouveau Modèle de Développement avec un taux d'activité des femmes de 45 %, pourrait accroître la croissance de près d'un point de pourcentage par an, et réduire les inégalités de 1 à 2 points de Gini. De plus, l'autonomisation économique des femmes aurait des effets d'entraînement plus larges, tels que l'augmentation des investissements dans le capital humain pour les enfants d'aujourd'hui.

Bien que plusieurs réformes ambitieuses aient déjà été entreprises, un changement de paradigme est encore nécessaire pour renforcer l'autonomisation économique des femmes marocaines. Cet effort doit cibler les contraintes spécifiques auxquelles sont confrontées les femmes dans différents contextes. Dans les zones rurales, Cela implique notamment de résoudre les problèmes de mobilité et d'accroître l'inclusion financière et numérique pour permettre aux femmes de se lancer dans des activités productives en dehors du foyer. Dans les zones urbaines, où le travail salarié est plus répandu, il est essentiel de promouvoir des conditions de travail favorables aux femmes. Des contraintes transversales doivent également être prise en compte, notamment en améliorant l'offre d'opportunités économiques, en créant un environnement propice permettant aux femmes de saisir ces opportunités, particulièrement par le biais de nouvelles réformes juridiques, fournissant des options de garde d'enfants acceptables et abordables, et en transformant les normes sociales traditionnelles.

ملخص تنفيذي

الاقتصاد المغربي يتعافى. وبعد التباطؤ الحاد في عام 2022 الناجم عن مختلف الصدمات السلعية والمناخية المتداخلة، ارتفع النمو الاقتصادي إلى 2.9 % في النصف الأول من عام 2023، مدفوعا بشكل أساسي بالخدمات وصافي الصادرات. وانخفض التضخم بمقدار النصف بين فبراير/ شباط وأغسطس/ آب 2023، لكن تضخم أسعار المواد الغذائية لا يزال مرتفعا. كما ساهم انخفاض أسعار السلع الأساسية في تضييق مؤقت لعجز الحساب الجاري. وتؤدي الاستجابة للأزمات الأخيرة، والإصلاحات الجارية في أنظمة الصحة والحماية الاجتماعية إلى فرض ضغوطات على النفقات العامة. ومع ذلك، تمكنت الحكومة من خفض عجز الموازنة تدريجياً.

ومن المتوقع أن يتعزز النمو على المدى المتوسط. وبعد التوسع بنسبة 2.8 % في عام 2023، من المتوقع أن يصل نمو إجمالي الناتج المحلي الحقيقي إلى 3.1 % في عام 2024، و3.3 % في عام 2025، و3.5 % في عام 2026، مع تعافي الطلب المحلي تدريجياً من الصدمات الأخيرة. ومن المتوقع أن ينعكس التحسن الأخير في عجز الحساب الجاري، مع انتعاش أسعار الطاقة، وتزايد الطلب المحلي الديناميكي الذي يغذي الواردات. ومن المتوقع أن يواصل عجز الموازنة تراجعه التدريجي ليصل إلى 3.6 % من إجمالي الناتج المحلي في عام 2025، وهو الأمر المرتبط بمواصلة التنفيذ الناجح للإصلاح الضريبي، وإصلاح نظام دعم الأسعار. وهذا من شأنه أن يسمح باستقرار نسبة الدين في المغرب.

كان لزلزال الحوز في سبتمبر/أيلول عواقب إنسانية ومادية مدمرة تركزت بشكل أساسي في المجتمعات الجبلية المعزولة، ولكن من غير المرجح أن يكون له آثار كبيرة على الاقتصاد الكلي. وقد فقد ما يقرب من 3 آلاف شخص أرواحهم، ودُمِّر 60 ألف مبنى، بما في ذلك أكثر من 500 مدرسة يقع معظمها في الأقاليم الريفية الحوز، شيشاوة وتارودانت، في حين نجت المراكز الحضرية الكبرى إلى حد كبير. وعلى الرغم من أن هذه الكارثة ستؤدي حتما إلى تعطيل الأنشطة الاقتصادية، وسبل العيش المحلية، إلا أن الزلزال سيكون له آثار محدودة على المستوى الكلي، حيث أن المناطق الأكثر تضررا تمثل حصة صغيرة من إجمالي الناتج المحلي للمغرب. وقد استجابت الحكومة للكارثة بتقديم المساعدات المالية للأسر المتضررة، إضافة إلى خطة تنمية جديدة طموحة لمقاطعات الأطلس الكبير، والتي لديها القدرة على تحفيز نمو أكثر شمولا على المدى المتوسط والطويل. واعتماداً على كيفية تمويلها، فإن تنفيذ هذه الخطة يمكن أن يفرض ضغوطاً إضافية على المالية العامة.

تمكنت البلاد من الاستجابة بفعالية للصدمات الأخيرة، مما يدل على الصمود الخارجي للمغرب. فزلزال الحوز الذي وقع يوم 8 سبتمبر/أيلول هو الأخير في سلسلة من الصدمات التي ضربت المغرب منذ جائحة كوفيد 19، وقد أظهرت السلطات قدرة ملحوظة على التعامل مع هذه الاضطرابات، كما هو واضح من خلال الاستجابة الإنسانية للزلزال، وخطة التنمية الطموحة التي طرحتها السلطات لإطلاق إمكانات التنمية في المقاطعات الأكثر تضرراً. ومن العلامات الأخرى التي تشير على صمود المغرب الخارجي: الطلب الخارجي القوي (والمتزايد) على سلع وخدمات البلاد على الرغم من تباطؤ الاقتصاد الدولي؛ وقوة تدفقات الاستثمار الأجنبي المباشر، الموجهة بشكل متزايد نحو قطاع الصناعات التحويلية، مما يشير إلى أن المغرب قد يستفيد من عملية **التوطين القريب** الحالية؛ وظهور مختلف المجالات الصناعية الحديثة المرتبطة بشكل جيد بسلاسل القيمة العالمية، والتي تغذيها جزئيا الاستثمارات الاستراتيجية؛ مثل بناء ميناء طنجة المتوسط، وحفاظ الدولة على إمكانية الوصول إلى أسواق رأس المال الدولية، على الرغم من التشديد المستمر للأوضاع المالية العالمية.

لكن تأثيرات هذه الصدمات على الرفاهية المحلية تظل واضحة. تستمر مؤشرات ثقة الأسر في التدهور، ووصلت إلى أدنى مستوياتها على الإطلاق، حيث أعلن 87.3 % من الأفراد الذين شملهم الاستطلاع في الربع الثاني من عام 2023، أن نوعية حياتهم قد تدهورت خلال العام الماضي. ولم يعد نصيب الفرد من إجمالي الناتج المحلي بعد إلى مستويات ما قبل الجائحة، كما أن نصيب الفرد من الإنفاق الاستهلاكي النهائي هو تقريبا ما كان عليه في عام 2019. وتخفي الإحصاءات الإجمالية حقيقة أن تضخم أسعار الغذاء يؤثر بشكل غير متناسب على الفقراء والفئات

الأكثر احتياجا. ولا تزال نسبة كبيرة من النساء والشباب مستبعدة من أسواق العمل، مع انخفاض معدلات النشاط. ولا يزال فقدان الوظائف في المناطق الريفية، حيث تعاني الأنشطة الزراعية من الجفاف، الذي دام عدة سنوات، والذي بدأ في عام 2019. كما أدى زلزال الحوز إلى زيادة الوعي حول جيوب الفقر التي لا تزال قائمة في المناطق الريفية، والتي لم يشارك الكثير منها بالكاد في التحولات الاقتصادية العميقة التي شهدتها مناطق أخرى في المغرب خلال العقدين الماضيين.

هناك حاجة إلى إصلاحات إضافية للاستفادة من الصمود الخارجي للمغرب وتعزيز الرخاء. وقد انخفض معدل النمو المحتمل للاقتصاد المغربي بشكل ملحوظ منذ العقد الأول من القرن الحادي والعشرين، ويقدر حاليا بنسبة 3.6 %، أي أقل من المتوسط في اقتصادات الأسواق الناشئة والاقتصادات النامية. ومن الواضح أن تحقيق معدل النمو هذا على مدى السنوات المقبلة لن يكون كافيا لتحقيق الأهداف الطموحة التي حددها نموذج التنمية الجديد. وتدرك السلطات المغربية حجم التحدي، وقد أطلقت إصلاحات طموحة لتحسين رأس المال البشري، وتحفيز الاستثمارات الخاصة. ومع ذلك، قد تفشل هذه الإصلاحات في تحقيق الانطلاقة الاقتصادية المرجوة، ما لم يتم تخفيف القيود الجزئية الحاسمة الأخرى أمام النمو. ولا يزال المغرب بحاجة إلى تعميق الإصلاحات الرامية إلى إزالة العقبات التنظيمية والمؤسسية، والتي تحد من المنافسة، وتبطئ إعادة تخصيص عوامل الإنتاج نحو الشركات والقطاعات الأكثر إنتاجية. علاوة على ذلك، فإن تقييم السياسات والإصلاحات قيد التنفيذ سيكون أساسيا لضمان تحقيق النتائج المرجوة، والتي تتطلب الوصول إلى البيانات، وهو مجال غير مكتمل في المغرب.

إن زيادة مشاركة المرأة في سوق العمل سيكون لها فوائد اقتصادية واجتماعية كبيرة. وتظهر الأدلة الدولية أن المساواة بين الجنسين ليست مجرد مسألة تتعلق بالعدالة الاجتماعية وحقوق الإنسان، ولكنها أيضا محرك قوي للتنمية الاجتماعية والاقتصادية. وفي هذا السياق، يشكل ضعف وتراجع معدل مشاركة المرأة في سوق العمل في المغرب فرصة كبيرة ضائعة وعائقاً أمام تعزيز النمو والناتج المحتمل. وتظهر عمليات المحاكاة التي أجراها البنك الدولي، أن تحقيق أهداف نموذج التنمية الجديد المتمثلة في مشاركة المرأة في سوق العمل بنسبة 45 % يمكن أن يزيد النمو بنحو نقطة مئوية واحدة سنويا، وقد يقلل من عدم المساواة بمقدار نقطة إلى نقطتين حسب مؤشر جيني (Gini). وبالإضافة إلى ذلك، فإن زيادة التمكين الاقتصادي للمرأة سيكون له تأثيرات جانبية أوسع نطاقا، مثل زيادة الاستثمار في رأس المال البشري على أطفال اليوم.

وعلى الرغم من أن العديد من الإصلاحات الطموحة قد تم تنفيذها بالفعل، إلا أنه لا تزال هناك حاجة إلى نقلة نوعية لتمكين المرأة المغربية اقتصاديا. ويجب أن يركز هذا الجهد على قيود محددة تواجهها النساء في سياقات مختلفة. ويشمل ذلك في المناطق الريفية حل مشاكل التنقل، وزيادة الشمول المالي والرقمي لتمكين المرأة من المشاركة في أنشطة إنتاجية خارج الأسرة. أما في المناطق الحضرية، حيث العمل مقابل الأجر أكثر انتشارا، فمن الضروري تعزيز ظروف العمل الملائمة للنوع. ويجب أيضًا معالجة القيود الشاملة، بما في ذلك توفير الفرص الاقتصادية، والحاجة إلى بيئة تمكينية للمرأة لاغتنام هذه الفرص، ولا سيما من خلال المزيد من الإصلاحات القانونية، توفير خيارات مقبولة وبأسعار معقولة لرعاية الأطفال، وتغيير الأعراف الاجتماعية التقليدية.

1

RECENT ECONOMIC DEVELOPMENTS

Morocco's high Atlas region is hit by a powerful earthquake

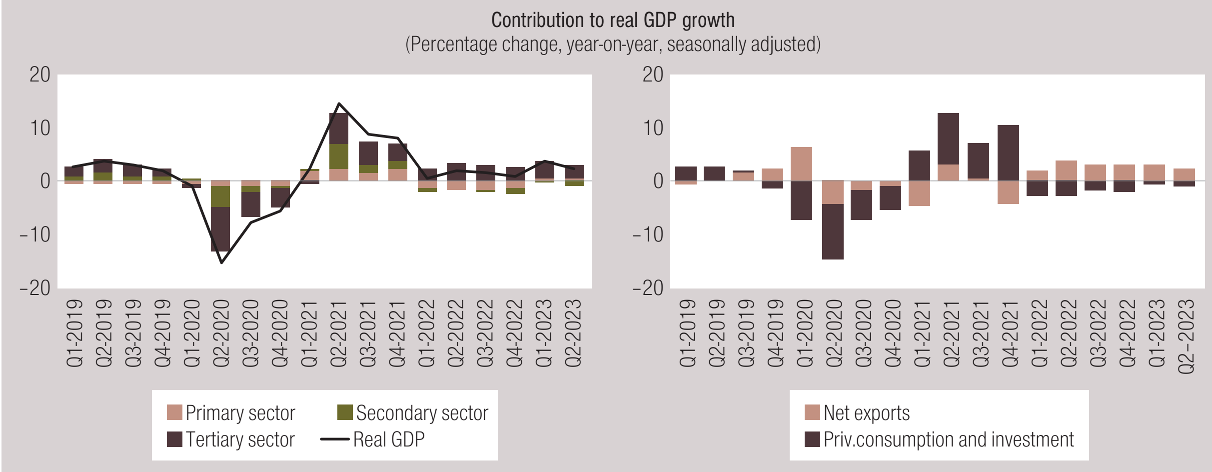
A devastating earthquake struck the high Atlas on September 8th, claiming close to three thousand lives. The epicenter of this 7 magnitude earthquake was located 70 km southeast of Marrakech, with human and material losses concentrated in the provinces of Al-Haouz, Taroudant, and Chichaoua, and to a lesser extent in Marrakech, Ouarzazate and Azilal. The government estimates that close to 60 thousand buildings have been totally or partially destroyed, mostly in remote and impoverished mountainous villages, affecting at least 300,000 people (Source: Interior Ministry). Despite the heavy impacts suffered in some structures of the old Medina, conditions normalized relatively fast in the city of Marrakech, while impacts were overall modest in other major urban centers.

The government and civil society response to the earthquake has been overall effective. The basic needs of most population were covered within days of the disaster, including medical care, the distribution of food and water, and of temporary shelter for affected households. The government also undertook immediately an impact assessment of damages and of the needs of affected population and regions. Since then, it has disclosed a new vision for the region, which combines immediate financial support to affected households with an ambitious development plan for the provinces of the high Atlas. This constitutes another indication of Morocco's resilience against shocks, which has been repeatedly put to the test in recent years. However, the disaster also serves as a reminder of the pockets of poverty that are still present in many rural areas, communities that have so far ripped limited benefits from the growth and modernization of the Moroccan economy over the past two decades. This chapter exploits the limited statistical information that is available to characterize the socio-economic conditions of the affected populations, while chapter 2 provides a preliminary analysis of potential macroeconomic impacts.

Economic growth has accelerated on the back of a partial agricultural recovery, the rebound of tourism, and net exports

After a weak 2022, the Moroccan economy has gained dynamism in 2023. Last year was marked

FIGURE 1 • Agriculture, services and net exports are sustaining the recovery



Source: HCP and world bank staff calculations.

by various mutually reinforcing shocks, with a severe drought leading to a collapse of domestic agricultural production, compounded by surging international commodity prices, all of which triggered inflationary pressures long unseen in Morocco. In this context, partly due to a base effect, real GDP growth dropped from 8 percent in 2021 to 1.3 percent in 2022, a comparatively large deceleration. As these shocks begin to dissipate, growth has recovered to 2.9 percent in the first semester of 2023.

The partial recovery of agricultural production contributes to explain this acceleration, but Morocco continues to face unusually dry conditions and key crops remain at risk. A succession of adverse climate shocks has resulted in abrupt fluctuations in the country's agricultural output in recent years, with major impacts on overall GDP growth. In 2022, the production of cereals collapsed from 103 to 34 million quintals, and the resulting contraction of agricultural GDP (−12.9 percent on an annual basis) explains almost a third of the economic deceleration undergone that year. By contrast, due to a low base effect and to improved precipitations during the fall and winter months, agricultural value-added expanded by 6.6 percent year-on-year (y/y) in the first semester of 2023, making a substantial contribution to the ongoing economic recovery. However, Morocco has not yet overcome what has become one of the worst and longest droughts in its recent history (see Box 1), which could continue to have major impacts on an agricultural sector that still represents 10–12 percent of GDP and employs close to 30 percent of the labor force.

A rebound in tourism is also contributing to lift growth. Before the earthquake, the Moroccan economy was fully capitalizing on the tourism boom that is taking place globally. Indeed, the sector's statistics have been impressive during the first semester: the number of international arrivals increased by 92.3 percent from last year (from 3.4 to 6.5 million) and has already surpassed pre-COVID levels by more than 20 percent; the number of hotel overnight stays increased by 86 percent (+134 percent for non-residents); travel receipts have increased by 69 percent, reaching almost 7 percent of GDP. This is boosting the services sector, which posted a 4.9 percent growth rate in the first Semester of 2023 and has consistently been the main contributor to Morocco's growth on the supply side since the country begun recovering from the pandemic crisis (Figure 1). By contrast, despite the continued success of certain industrial niches such as automobiles and aeronautics, the secondary sector contracted by 1.7 percent in 2022 and by a further 2.1 percent y-o-y in the first semester of 2023, pulled by a construction slowdown that can be partly attributed to cost inflation and to an environment of higher interest rates.

On the demand side, net exports have become the main contributor to growth. Recent shocks seem to have shifted the key drivers of

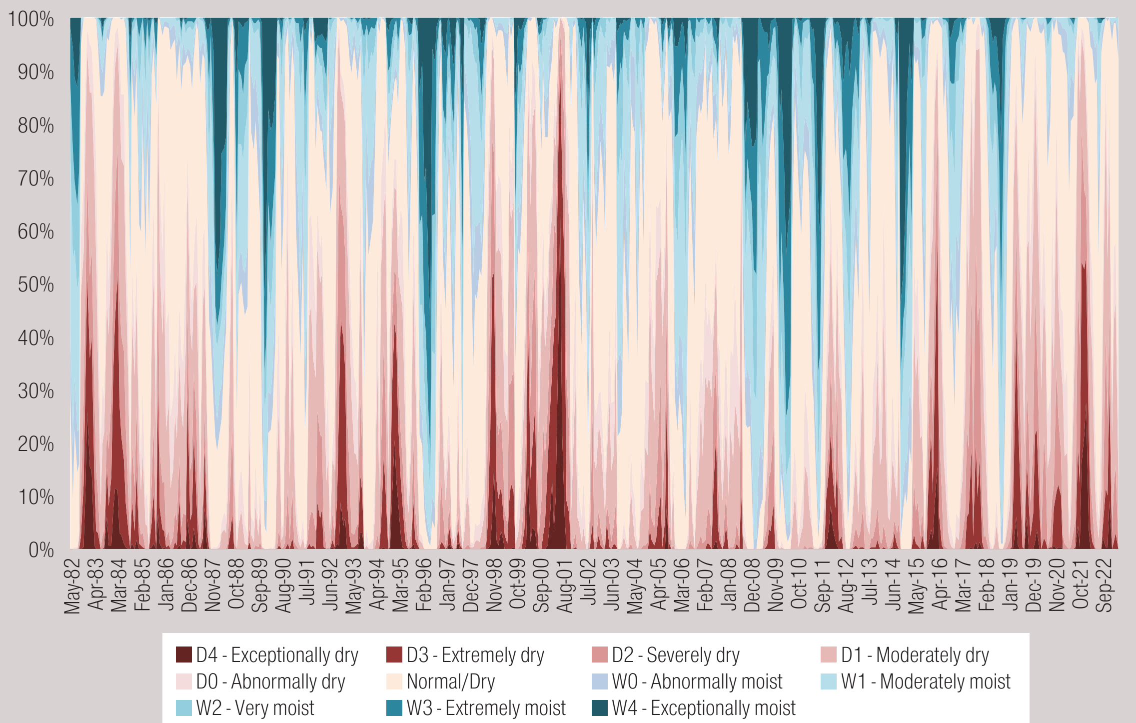
BOX 1: MONITORING MOROCCO'S DROUGHT WITH SATELLITE IMAGERY DATA

The Standard Precipitation Index (SPI) is an indicator that is widely used to monitor the evolution of droughts based on satellite imagery. In this box, we utilize the 6-month SPI, which, at each point of the time series, compares the deviation of precipitation levels in the preceding six months with the average for corresponding 6-month intervals throughout the entire available historical period. This is done using a gridded satellite images dataset that captures conditions throughout the Moroccan territory from January 1981 to May 2023. Depending on the value of the SPI, each observation (grid cell and month) is assigned to one of eleven categories, from extremely dry to extremely moist. The main summary indicator that we use below is the share of Morocco's territory that falls into each of these categories.

This indicator helps identify the various multi-year droughts undergone over past decades, such as that of the 1980s or that of the late 90s and early 00s (Figure 2). It also shows that the extended drought that began in 2019 is comparable to those episodes, with precipitations that have consistently remained well below historical averages since then across a substantial portion of Morocco's territory, with only a few short-lived respites. Rainfall remains a crucial determinant of agricultural output in Morocco, as illustrated by the strong positive correlation between the proportion of the territory under comparatively moist conditions and cereal production (Figure 3). However, it is not the only one: the evolution of temperatures and the repartition of rainfall throughout the agricultural campaign can also have important impacts on yields. This is why some outliers can be found in the data series, such as the 2020–21 agricultural campaign, which was overall dry, but had relatively frequent precipitations of low intensity well distributed over time, explaining why that year's crop was above average.

The share of Morocco's territory under dry conditions declined from 85 percent on average during the 2021–22 agricultural campaign to 64 percent in the 2022–23 campaign (Figure 4), which has contributed to the ongoing agricultural recovery. However, when comparing that indicator with its average over the entire historical period (39 percent) it emerges that Morocco has not yet overcome the drought that commenced in 2019, which is continuing to affect certain crops. Moreover, the extended length of the drought implies that irrigated agriculture, which in normal times is protected from short-term fluctuations in rainfall, is threatened as well. Indeed, despite the moderate decrease in the severity of the drought that the SPI index evidences, the filling level of Moroccan dams has increased by just 1.3 percentage points over the past year and remained at an alarmingly low 25.5 percent in early October, against more than 63 percent in late 2019, at the early stages of the current drought. In this context, water continues to be severely rationed for irrigation purposes in Morocco.

FIGURE 2 • Percentage of Morocco's area by class (6-month SPI)



Source: World Bank staff using data from National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center (CPC).

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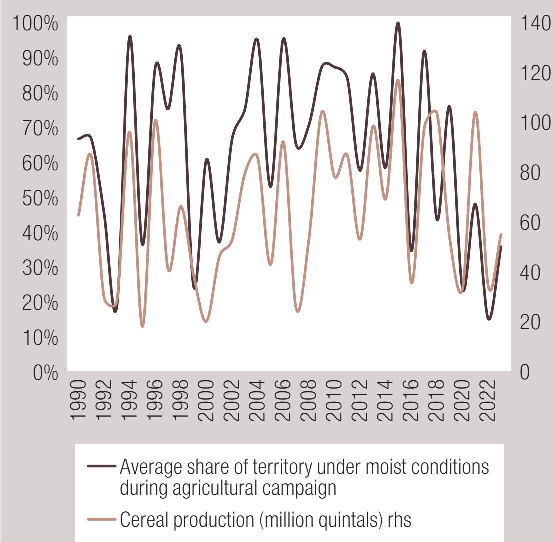
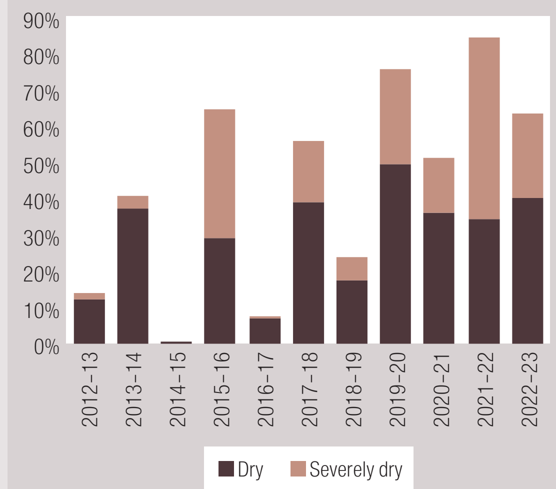
BOX 1: MONITORING MOROCCO'S DROUGHT WITH SATELLITE IMAGERY DATA *(continued)*

FIGURE 3 • Precipitations and cereal production in million quintals[a]



Source: World Bank staff using data from FAOSTAT and National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center (CPC).
[a] Moist conditions groups five categories of the 11 captured in Figure 4: abnormally, moderately, very, extremely, and exceptionally moist.

FIGURE 4 • Average share of territory under dry conditions, past agricultural campaigns[b]

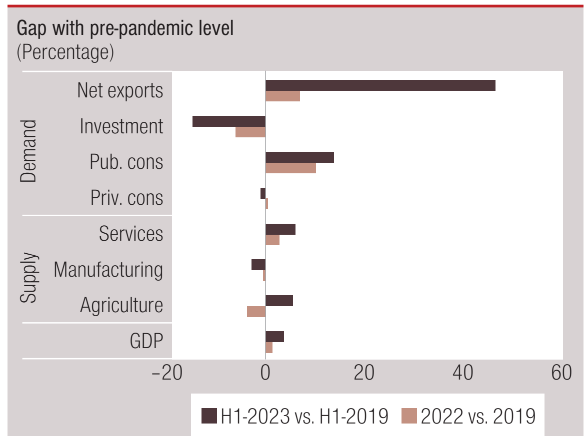


Source: World Bank staff using data from FAOSTAT and National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center (CPC).
[b] Dry conditions groups five categories: abnormally, moderately, severely, extremely, and exceptionally dry. Severely dry groups the three drier categories (severely, extremely, and exceptionally dry).

Morocco's post-COVID growth dynamics (Figure 1, right-hand panel). While the immediate recovery that began in late 2020 was primarily driven by the pull of domestic demand, the contributions of private consumption and investment to overall GDP growth turned negative in 2022, a turnaround that can be partly attributed to the inflationary shock (see below). Almost symmetrically, net exports' contribution to growth turned positive in early 2022 and has been the main driver of the acceleration undergone in the first quarter of 2023. This was at first due to the dynamism of exports, and more recently also to a reduction in imports as the 2022 terms of trade shock dissipated during the first semester of the year.

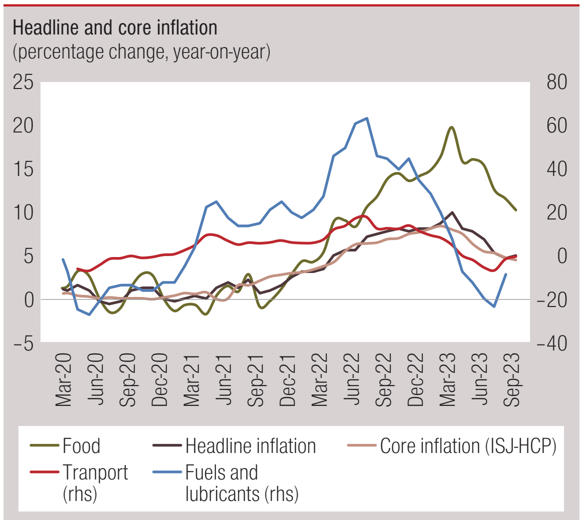
Private investment has yet to return to pre-pandemic levels. Recent shocks are having long-lasting impacts on the structure of the Moroccan economy, as evidenced by the contrasting gap of the various components of supply and demand with 2019 levels (Figure 5). On the demand side, while net exports and public consumption already surpass pre-pandemic levels by a substantial margin, private consumption has barely recovered, and total investment still falls short of 2019, which is entirely attributable to private capital formation (by 6.2 percent when com-

FIGURE 5 • Investment continues to lag behind pre-pandemic levels



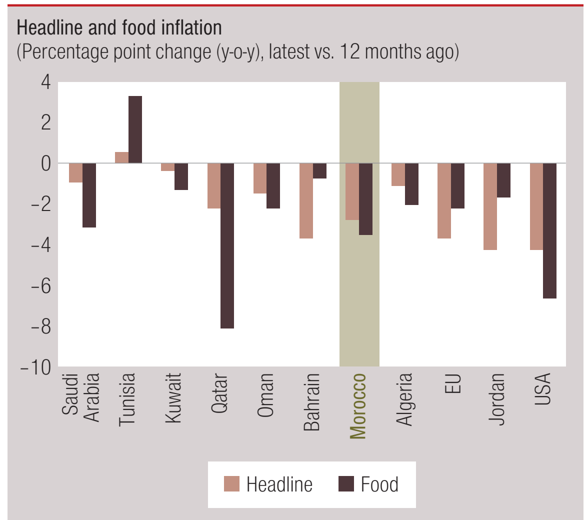
Source: HCP and world bank staff calculations.

FIGURE 6 • A decline in energy prices has eased inflationary pressures...



Source: World Bank staff calculations, HCP, BKAM, Haver Analytics.

FIGURE 7 • ...but food inflation has fallen less than in other countries



Source: World Bank staff calculations, HCP, BKAM, Haver Analytics.

paring 2022 with 2019, by 15 percent when comparing the first semester of 2023 with the first semester of 2019).[1] This is a worrisome development given that a decline in private investment is likely to not only affect current growth but also future growth, which could be one of the scars inherited from the multiple crises undergone since 2020. Trends are somewhat less pronounced on the supply side, but the participation of services is increasing, while the weight of the manufacturing sector has stagnated and that of agriculture has been markedly volatile due to climate shocks.

Macroeconomic policy remains overall supportive

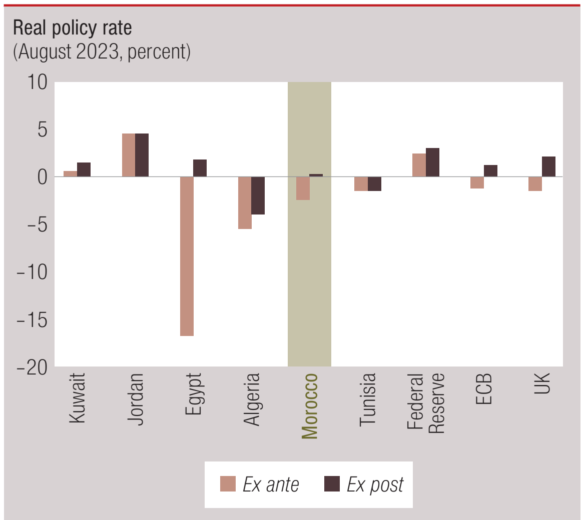
Price pressures have begun to ease. Headline inflation has declined from a peak of 10.1 percent in February 2023 to 4.9 percent in September (Figure 6). Price pressures have moderated for most categories of goods and services included in the CPI, but the decline in inflation has been primarily driven by the slowdown in the prices of volatile food products, fuels and lubricants. In turn, this was mostly due to the evolution of international energy prices, which in August had dropped by 37 percent y/y according to the World Bank's commodity price index. Core inflation is also on a downward trend (from 8.5 percent in February to 4.6 percent in September), suggesting that easing price pressures are becoming more broad-based. The recent evolution of Morocco's headline inflation is broadly aligned with global trends. However, it is worth noting that the decline in food inflation observed over the past twelve months seems to be less pronounced than in other countries, which is probably due to adverse climatic conditions' impact on domestic supply (Figure 7).

With inflation on a downward trajectory, the central bank has decided to pause the monetary policy tightening cycle. After three consecutive policy rate hikes for a cumulative 150 basis points between September 2022 and March 2023, at its June and September quarterly meetings, BAM's monetary policy council decided to keep interest rates unchanged at 3 percent. The policy rate remains negative in real terms and is well below its neutral level, as estimated by the IMF (Figure 8).[2] In fact, the

1 HCP does not disaggregate between private and public investment in national account statistics. However, given that public investment has increased between 2019 and 2023, the decline in total investment can only be attributable to the private sector.

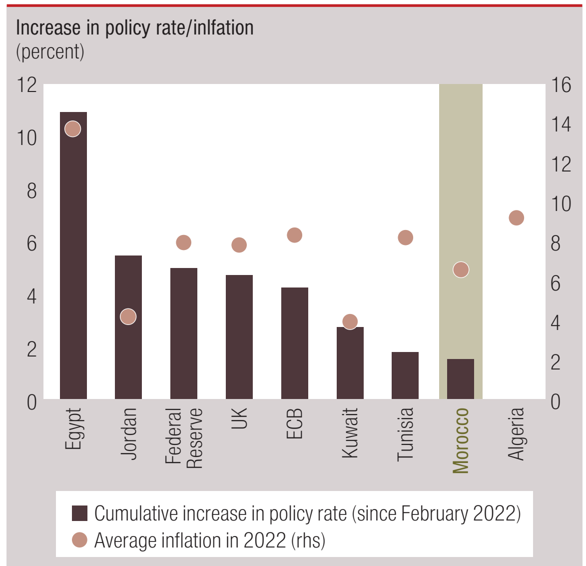
2 Based on an IMF's recent estimate, Morocco's neutral real interest rate is between 0.9 and 4 percent (Queyranne et al., 2021).

FIGURE 8 • The policy rate remains negative in real terms…



Source: BKAM and World Bank staff calculations.
[a] *ex ante* interest rate calculated with latest annual inflation rate available for each country. *Ex post* interest rate is calculated with projected year-end inflation for 2023.

FIGURE 9 • …and the monetary policy tightening has been comparatively mild



Source: BKAM and World Bank staff calculations.

cumulative increase in interest rates that has taken place since the beginning of the tightening cycle is significantly smaller in Morocco than in most other advanced economies and in many EMDEs (Figure 9). BAM's cautious approach could be justified by the fact that inflation has been driven almost exclusively by a series of supply shocks, as opposed to most advanced economies, where a resilient demand and tight labor markets have also exerted significant pressures on prices. Two-year inflation expectations have also begun to decline (3.9 percent in the third quarter of 2023, against 4.7 percent in 2023Q3), but are still above historical averages and also surpass the nominal policy rate.[3]

The authorities are increasingly resorting to non-monetary measures to confront food inflation. Despite the ongoing easing of price pressures, food inflation remains stubbornly high at 9.9 percent in September. As discussed in the previous edition of the MEU, food represents a higher portion of vulnerable households' consumption basket, implying that the inflationary shock is likely to be having a disproportionate impact at the bottom of the income distribution. The government has adopted various measures to boost domestic supply as part of its anti-inflationary strategy. For instance, it began to temporarily restrict tomato exports in February amid surging import demand from Europe, a decision that had a significant impact on containing prices during the highly sensitive month of Ramadan, but which could discourage domestic production or compromise Morocco's future presence in export markets (Box 2).[4] To absorb part of the cost increases undergone by the sector, emergency programs for cattle food (barley) and additional subsidies for seeds and fertilizers have also been approved. Finally, the authorities have reinforced controls over abusive market practices that distort prices while taking action to increase transparency. There is room to continue improving the efficiency of food supply chains to further moderate prices (Box 2). Another public policy to contain food inflation has been the public support provided to road transport operators and the maintenance of electricity tariffs, aimed at avoiding the diffusion of higher energy prices to the broader economy.

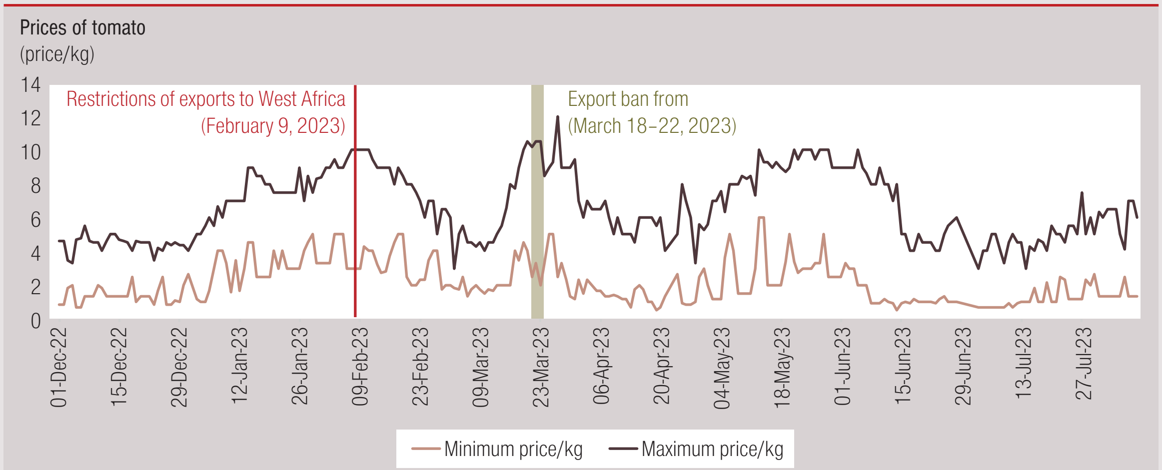
[3] Source: Bank al Maghrib, Monetary Policy Report (various editions).
[4] New restrictions have been recently announced for other products, such as olives and onions.

BOX 2: RECENT MEASURES TO ADDRESS FOOD INFLATION

As in many other countries, food inflation has understandably become a major source of concern in Morocco. This was the case particularly during the weeks that preceded the holy month of Ramadan, when price increases peaked at 20 percent y/y. Complementing other anti-inflationary measures such as the monetary policy tightening or the maintenance of key subsidies and regulated prices, Morocco's measures to cope with food inflation can be broadly grouped in three areas: trade measures; inputs' subsidization; support to supply chains.

Trade measures. Morocco's emergence as a major exporter of fruits and vegetables has brought important benefits to the agricultural sector and to the broader economy. However, it has also blurred the segmentation between domestic and international markets, increasing the exposure of domestic prices to disturbances originating from abroad. The recent volatility exhibited by the price of tomatoes provides a good illustration of the forces at play (Figure 10). According to FAO-STAT, as access to European markets was progressively expanded, the proportion of tomatoes that Morocco exports increased from 10–20 percent of total production in the early 00s to almost 50 percent in the 2020s. In this context, out-of-the-ordinary inflationary spikes in export markets can be quickly transmitted to the domestic market. This was the case last winter, as surging energy prices led to sharp disruptions in Europe's heated greenhouse production of tomatoes and other vegetables, which quickly exerted pressures on Morocco's domestic prices.

FIGURE 10 • Tomato prices in domestic markets (ASAAR database, distinguishing periods)



Source: ASAAR database (Ministry of Agriculture).

The government initially responded to this shock with quantitative restrictions on exports that were in place since late February, which were intensified prior to the beginning of Ramadan. These measures were followed by a reduction in domestic prices, which offered some respite to consumers. However, this impact was short-lived. It could eventually turn negative if the uncertainty originated by export restrictions induces producers to downscale cropping plans, which would adversely impact consumers. It could also have eroded importers' confidence on Morocco's reliability as a trading partner, which could affect future exports, although the most recent export statistics published by the authorities suggest that this risk is not materializing. It is worth noting that new export restrictions have been recently adopted for olives and onions.

Inputs' subsidization. In line with the measures launched in early 2022 to cope with the drought and its potential impact on the agricultural sector, the government has approved in June new subsidies aimed at reducing the cost of key inputs, including barley, imported cattle food, seeds and fertilizers. The objective of these subsidies is to mitigate the impact that recent shocks could have on the country's animal and vegetal capital stock, and to relieve pressures from domestic prices. However, such programs are expensive: the subsidies announced in June alone will mobilize MAD 9 billion or 0.6 percent of GDP. Moreover, part of these subsidies will be inevitably leaked to export markets and will therefore not benefit domestic consumers. Going forward, a more effective alternative to channel support towards disadvantaged households affected by a price shock could be articulated around the new family allowances program that is about to be deployed, which will use the Unified Social Registry (RSU) as a targeting scheme.

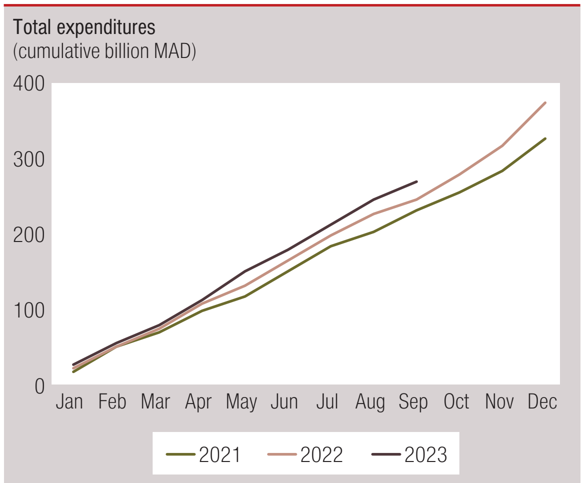
Support to supply chains. On top of the control measures that were announced around the Ramadan period to combat abusive market practices, the Moroccan authorities are considering other structural measures to increase the efficiency of supply chains and thus contribute to alleviate price pressures in domestic markets. These include: (i) the modernization of wholesale markets of fresh fruits and

(continued on next page)

BOX 2: RECENT MEASURES TO ADDRESS FOOD INFLATION *(continued)*

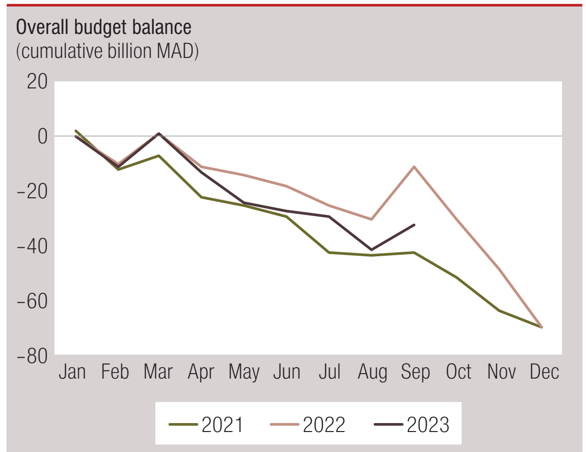
vegetables to turn them into multi-service platforms including refrigerated storage, packaging, direct sales, etc. ; (ii) the gradual relaxation of the norm that currently imposes a 7 percent ad valorem tax on all transactions of fruits and vegetables, irrespective of whether they are commercialized through wholesale markets; (iii) the formalization of transactions and actors across the value chain, which would help regulate the sector and reinforce transparency on price formation; (iv) the reinforcement of norms and quality standards, limiting the current practice of mixing products with different qualities far upstream in the marketing chain, which penalizes consumers and hampers price monitoring in domestic markets (in contrast with export markets, for which strict norms are enforced).

FIGURE 11 • Public spending is on the rise…



Source: MEF and World bank staff calculations.

FIGURE 12 • …contributing to a higher budget deficit



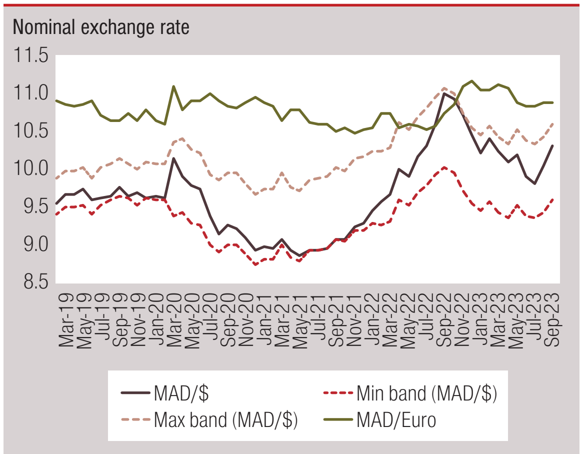
Source: MEF and World bank staff calculations.

Despite an (exogenous) decline in price subsidies, public spending continues to edge upward. Total subsidies have declined by 30.1 percent y/y during the first nine months of 2023, the mechanical effect of lower butane gas prices in international markets. This windfall of approximately MAD 9.6 billion has not resulted in a reduction of overall spending, which increased by 9.6 percent between January and September (4.5 percent in real terms). This was primarily due to a 25.4 percent increase in investment, while the wage bill has slightly declined in real terms. Public revenues are also still on the rise (+5.3 percent nominal, +0.4 percent real), despite a decline in indirect tax collection. The net impact of these trends has been an increase of the budget deficit during the first nine months of the year. As a result, public debt increased by 7.6 percent in nominal terms at end of August 2023 compared to its level at the end of December 2022. This increase is skewed in favor of external debt (+14 percent vs. +5.5 percent for domestic debt).

Recent shocks have tested the external resilience of the Moroccan economy

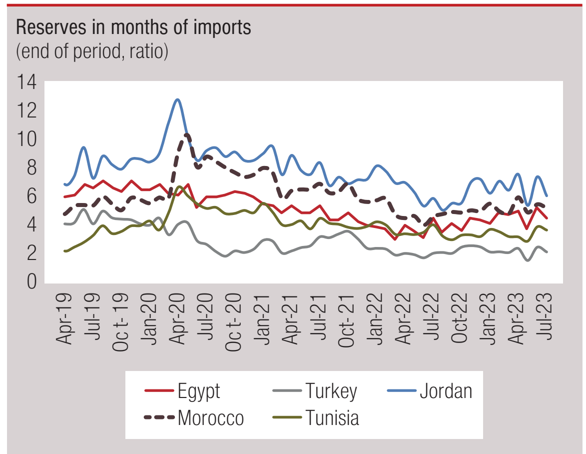
Morocco continues to exhibit a remarkable capacity to navigate through abrupt disturbances. The recent earthquake and the terms-of-trade deterioration that followed Russia's war on Ukraine are the last of a series of exogenous shocks undergone by the Moroccan economy over the past four years, together with the COVID-19 pandemic, a major tightening of global financial conditions, and a multi-year drought. Several trends evidence the country's external resilience in the face of such shocks. Although following the widening of the fluctuation band the exchange rate has begun to play a shock absorption role, the dirham has remained relatively stable (Figure 13); foreign exchange reserves continue to provide a comfortable buffer against external shock, and are adequate according

FIGURE 13 • The dirham remains well anchored...



Source: BKAM, Haver analytics and World bank staff calculations.

FIGURE 14 • ...official reserves remain adequate



Source: BKAM, Haver analytics and World bank staff calculations.

to the ARA metric (Figure 14);[5] sovereign spreads are comparatively low (Figure 15) and a successful sovereign bond issuance in March evidences that investors have a strong appetite for Morocco's debt;[6] the country continues to attract relatively large FDI inflows despite the weakness of the global economy (Box 3). The Flexible Credit Line approved in April 2023 by the IMF is another sign of the country's international credibility. Indeed, beyond its financial significance as a precautionary buffer which could mobilize USD 5 billion in case of need over the next couple of years, the FCL constitutes a powerful seal of approval that it is reserved for countries with very strong policies, institutional frameworks, and economic fundamentals.

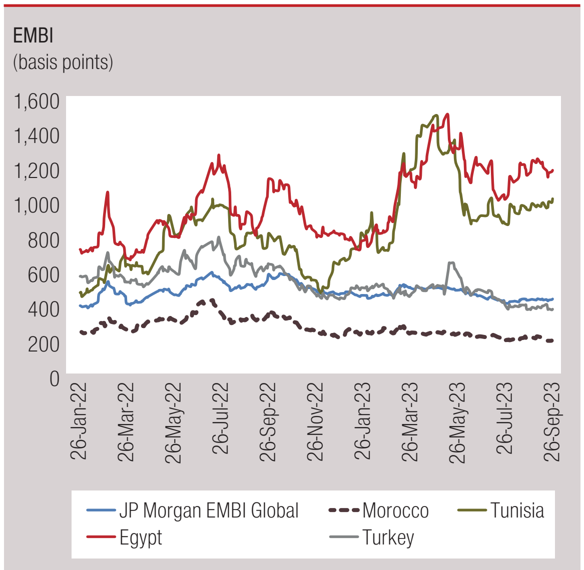
Falling commodity prices and thriving exports of goods and services narrowed the trade and current account deficits during the first semester of 2023. Although Morocco is the world's largest producer of phosphates, it remains a net commodity importer, more so when adverse climatic conditions undermine domestic agricultural output, as was the case in 2022. International commodity prices peaked in mid-2022, and last year saw the trade (goods and services) and current account deficits expand to 11.5 and 3.5 percent of GDP respectively. This terms-of-trade shock dissipated in the first semester of 2023, as prices fell back below their pre-war level,[7] helping contain Morocco's imports of goods, which contracted by almost 2 percent. Despite a 38 percent decline in the value of phosphates' sales, mostly due to a price effect, total merchandise exports increased by 1 percent during the same period, while exports of services increased by 38 percent owing to the rebound of international tourism. As a result, the trade deficit has declined by 32 percent, to about 8.9 percent of GDP in the first semester of 2023. Together with the continued expansion of worker's remittances (almost 8 percent of GDP), this has led to a rapid reduction in the current account deficit, which even posted a small surplus in the first quarter of the year.

5 Source: IMF, Request For an Arrangement Under the Resilience and Sustainability Facility (September, 2023).

6 On March 2023, Morocco issued USD2.5 billion in international financial markets, a first tranche of USD1.25 billion with a 5-year maturity and a yield of 6.2 percent, and a second tranche of USD1.25 billion with a ten-year maturity and a yield of 6.6 percent.

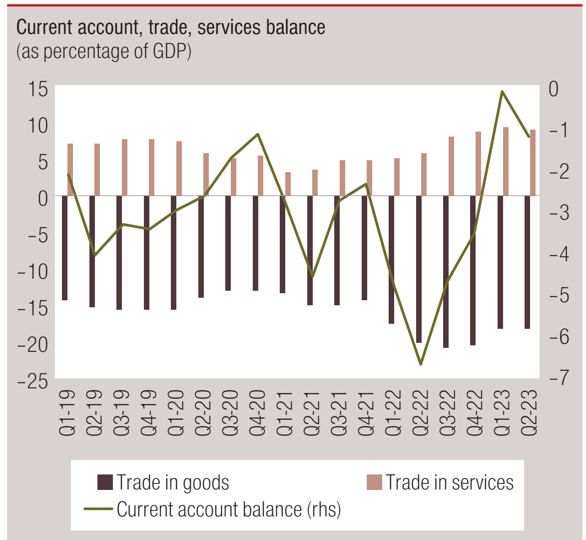
7 In June 2022, the annual growth rate registered by the World Bank's commodity price index reached 58 percent (+85 percent for energy, +18 percent for food, +23 percent for energy). One year later, it was declining by 37 percent (−45 percent for energy, −13 percent for food, −15 percent for grains). This decrease has been partly reverted for oil prices in recent weeks, although wheat prices remain low.

FIGURE 15 • Sovereign spreads are comparatively low



Source: Morocco exchange office, Haver analytics, and World bank staff calculations.

FIGURE 16 • The trade and current account deficits have narrowed and are largely financed with FDI



Source: Morocco exchange office, Haver analytics, and World bank staff calculations.

BOX 3: TRENDS IN FOREIGN DIRECT INVESTMENT (FDI) INFLOWS TOWARDS MOROCCO

The numerous disruptions to global supply chains that have taken place over recent years have increased the appeal of "nearshoring" for advanced economies' transnational firms. This refers to the process of bringing previously offshore production closer to domestic markets with the purpose of shortening (and thus securing) supply chains. Morocco has various characteristics that could make it an attractive nearshoring destination, including the country's proximity and open access to European and other markets with its vast network of FTAs, its political and macroeconomic stability, and modern infrastructures. In addition, Morocco is well-endowed with renewable energy sources, which could become another comparative advantage for attracting FDI in the context of the decarbonization effort that is taking place at the global scale, which the recent introduction of a carbon border adjustment mechanisms (CBAM) in Europe could further accelerate. This box reviews some recent statistics on FDI suggesting that Morocco may indeed be beginning to reap the benefits of this nearshoring trend.

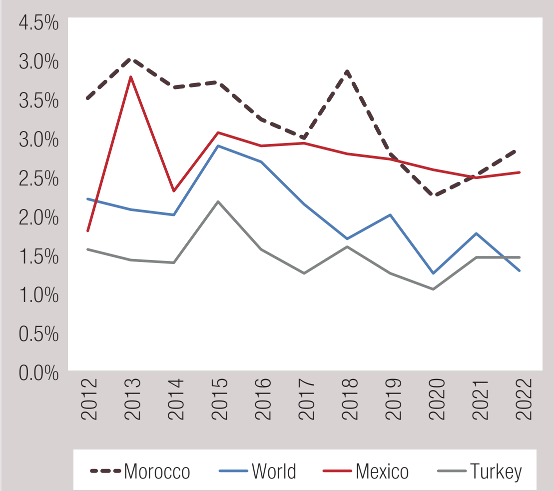
According to OECD statistics, global FDI dropped by 24 percent in 2022, from 1.8 to 1.3 percent of the World's GDP (Figure 17). By contrast, FDI inflows to Morocco increased by 22 percent (from 2.5 to 2.9 percent of GDP) and posted a 52 percent increase since 2020. Perhaps even more remarkable is that the total scale of announced greenfield FDI projects has soared from USD3.8 billion in 2021, to USD15.3 billion in 2022 and to USD38 billion in 2023 (Source: Financial Times FDI Intelligence). Turkey and Mexico constitute two interesting comparators as nearshoring destinations, given their geographic proximity to the EU and the US and their economic ties with these markets. Against global trends, FDI inflows towards these two countries also increased in 2022. However, this increase was less pronounced than in Morocco (10 percent in Turkey and 15 percent in Mexico), and FDI inflows' overall weight in their economy is also lower (2.6 percent of GDP in Mexico and 1.4 percent of GDP in Turkey).

Another trend that suggests that Morocco could be becoming one of the destinations chosen by multinational firms wishing to shorten their supply chains is the changing composition of FDI inflows. Real estate has historically been the sector that attracted the highest volumes of FDI in Morocco (25.3 percent of total between 2014 and 2019). In recent years, however, the share of FDI inflows to the manufacturing sector has steadily increased from 24.9 percent of total between 2014 and 2019 to a peak of 37.2 percent in 2022, thus becoming the main recipient of foreign investment (Figure 18). The industrial niches that have attracted the highest volumes of FDI since 2020 are the automotive sector (37 percent of total), the chemical industry (22 percent), the food industry (10 percent) and the pharmaceutical industry (9.5 percent). European countries are by far the largest investors in Morocco, with almost 70 percent of total FDI inflows since 2020. However, the United States and the United Arab Emirates have gained weight in recent years, while Chinese investment remains relatively low.

(continued on next page)

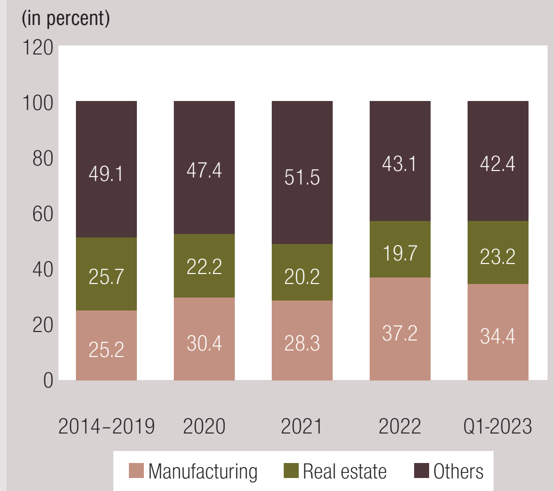
BOX 3: TRENDS IN FOREIGN DIRECT INVESTMENT (FDI) INFLOWS TOWARDS MOROCCO *(continued)*

FIGURE 17 • Gross FDI inflows (percent of GDP)



Source: OECD and Office des Changes, WB staff calculations.

FIGURE 18 • Composition of FDI inflows



Source: OECD and Office des Changes, WB staff calculations.

Morocco boasts various success stories in tradeable sectors. Although the overall participation of the Moroccan manufacturing sector in the country's GDP has barely moved over recent decades, some industrial niches have thrived, with a combined 40 percent increase in combined automotive, aerospace and electronics exports since 2019. Between 2012 and 2022, Morocco roughly quadrupled its motor vehicle production, up to 465 thousand units.[8] This has turned Morocco into the 23rd largest car manufacturer at the global level, the second in Africa. Illustrating the economic significance of the sector, automobiles have surpassed phosphates and fertilizers as Morocco's main export, reaching MAD111 billion in 2022 (USD10.9 billion), about 8 percent of GDP (6.5 percent of GDP in 2019).[9] This is partly due to the emergence of Tangier-MED as a major logistical hub in the Mediterranean, and the fourth best performing container port at the global level.[10] Indeed, more than 50 percent of Morocco's merchandise exports are already channeled through Tangier Med.[11] Another Moroccan champion in the tradeable sector is the national phosphate company, OCP, which has managed to increase its downstream participation in the value chain, moving from mining to the production of fertilizers, with a growing focus on the African market.

But Morocco has not yet overcome the welfare impacts of recent shocks, and the earthquake highlights the presence of poverty clusters that have not benefited from the broad transformations undergone by the Moroccan economy in past decades

As it improve its macroeconomic resilience, the key challenge for Morocco is to increase prosperity and share it more broadly. Various indicators of subjective and objective well-being suggest that the economic situation of a large proportion of the population has stagnated or even deteriorated since the COVID-19 pandemic. This does not mean that external resilience has not made a difference. Indeed, the experience of many other countries shows that the welfare impacts of recent domestic and external

8 Source: International Organization of Motor Vehicle Manufacturers.

9 Source: Office des Changes.

10 Source : World Bank, Container Port Performance Index.

11 Source: Tangier Med annual report, 2021.

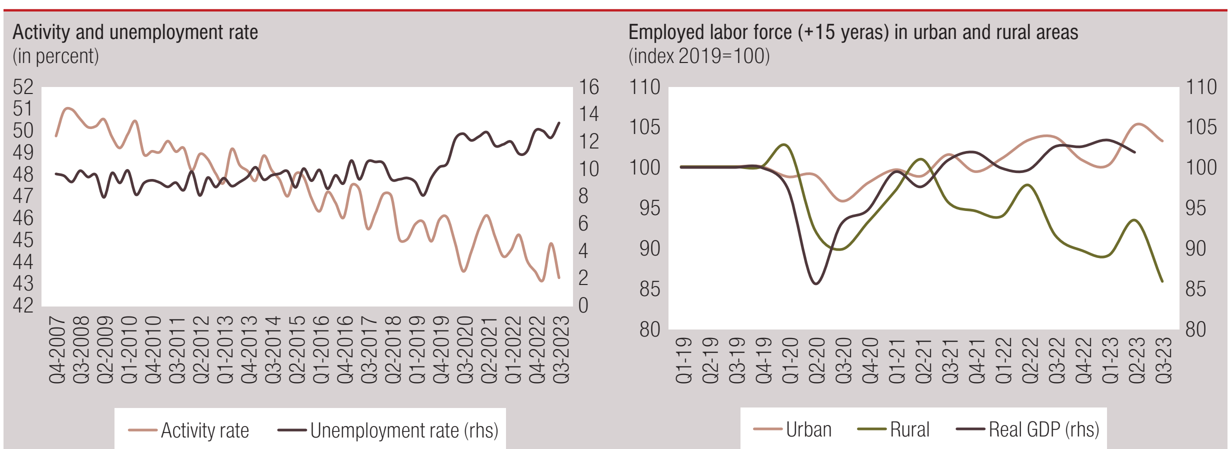
turbulences could have been much larger had the country not managed to prevent these shocks from turning into a full-blown crisis. The challenge is now to take advantage of Morocco's comparative strengths, which include its external resilience, into a lever for development and shared prosperity. Chapters 2 and 3 discuss some of the policies and reforms that would help transition towards a more solid and inclusive growth pathway.

Household confidence indicators have reached a historical low. The recent acceleration of economic growth appears to have already improved business sentiment: according to the central bank's quarterly survey, the share of Moroccan firms that consider current conditions to be adverse has dropped from 36 to 20 percent between 2022Q2 and 2023Q3. By contrast, the household confidence index has continued to drop in the first and second quarters of 2023, reaching an all-time low since that indicator begun being produced by HCP in 2008. As many as 87.3 percent of surveyed households consider that their quality of life has deteriorated over the past year, and only 53.4 percent of them declare having sufficient revenues to cover their expenses.

Per capita income and consumption are stagnating, especially for poorer households. If measured in purchasing power parity international dollars, per capita GDP has not yet returned to pre-pandemic levels (−1.7 percent between 2019 and 2022), and final consumption expenditure per capita is roughly where it was in 2019. Although economic growth picked up in the first half of 2023, private consumption expanded by a mere 0.2 percent y/y, after having contracted by 0.7 percent in 2022, which is likely to be due to the impact that high inflation is still having on disposable incomes. Moreover, these aggregate impacts hide the asymmetric consequences of recent shocks, which are substantially larger at the bottom of the distribution. Indeed, as discussed in the previous edition of this report, inflation is higher for poorer households given the larger weight of food items in their consumption basket. This implies that the erosion of their already low real disposable incomes induced by inflation has been larger, which is likely to have pushed many households below the poverty and the vulnerability lines.

A large proportion of women and young Moroccans are excluded from the labor market. Activity rates have shown a persistent downward trend since the late 2000s, dropping from 52 percent in 2007 to 43.2 percent in the third quarter of 2023 (Figure 19). In addition, the COVID-19 pandemic seems to have marked a turning point in unemployment, which increased from levels that oscillated around 10 percent prior to 2020 to 12–13 percent since then, and a peak of 13.5 percent in the third quarter of 2023. As discussed in detail in Chapter 3, this exclusion problem is particularly pronounced for women, and Morocco has one of the lowest levels of female labor force participation of the world. The

FIGURE 19 • Labor markets have not yet recovered from recent shocks



Source: HCP, Haver analytics and world bank staff calculations.

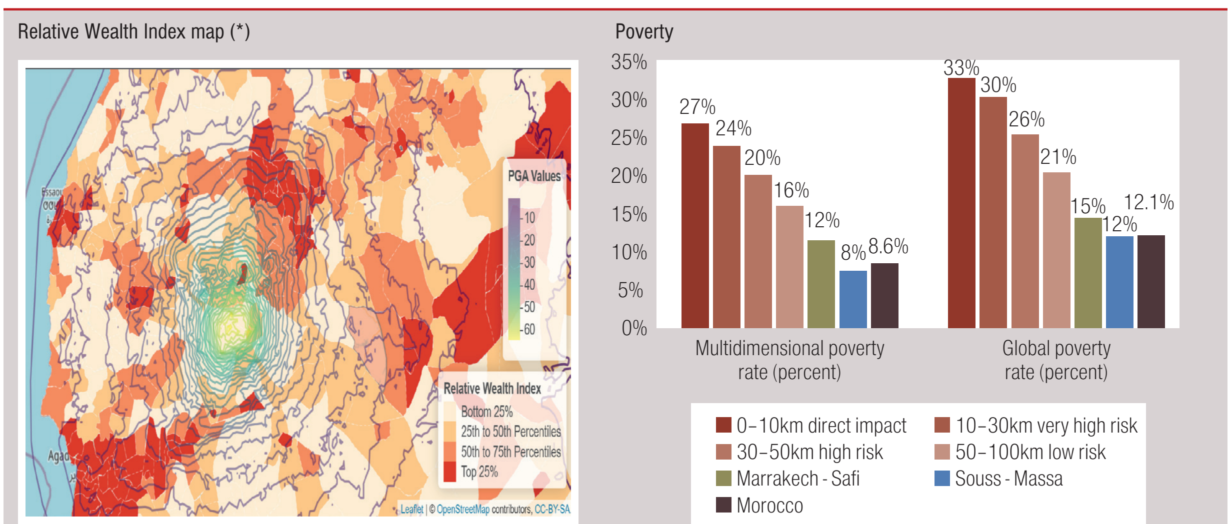
young also present high inactivity rates, which probably contributes to explain why as many as 47 percent of Moroccans aged 18 to 29 still express a willingness to emigrate according to the latest Arab Barometer survey. It should be noted, however, that this share has declined substantially in recent years (it stood at 70 percent before the pandemic) Recent statistics also illustrate the contrasting dynamics between urban and rural labor markets, as the latter continues to be impacted by the multi-year drought described in box 1. Indeed, while the number of active occupied workers in rural areas has dropped by 14.4 percent between 2019 and the third quarter of 2023, that same indicator has increased by 3.2 percent in urban centers (Graph 19, right-hand panel).

The Al-Haouz earthquake has raised awareness about the development challenges faced by remote mountainous rural areas in Morocco. Much of the public debate following the earthquake has been centered around the fact that the most affected areas are also among the poorest in the country, almost exclusively rural and with lower capabilities to cope with a disaster of this magnitude. Given the scarcity of recent statistical information about these remote communities, we rely on the Relative Wealth Index (RWI), an indicator that exploits alternative data sources to characterize socioeconomic conditions at the local level (Chi et al., 2022). As shown in Figure 20, most of the *communes* (municipalities) that are located near the epicenter are in the bottom 25 percent of the RWI distribution, and thus should be expected to be among the poorest in the country. This is consistent with the indicators that can be derived from HCP's 2014 poverty map, which shows that the closer to the epicenter, the higher the incidence of both multidimensional and monetary poverty, well above regional and national averages.[12] Education indicators such as the illiteracy rate also tend to deteriorate close to the epicenter, which also present a higher share of women, presumably because of men's tendency to migrate from these areas.

Morocco has seized recent shocks as an opportunity to launch ambitious reforms, of which the development plan for the High Atlas announced by the authorities following the

12 A more recent household survey has been conducted by HCP in 2020 but the microdata are not available to researchers so the most of to date poverty map for Morocco dates from 2014. Given the numerous and large shocks (e.g., droughts, covid) a map drawn a decade ago could be relatively out of date for some regions.

FIGURE 20 • The earthquake struck comparatively poor communities.



Source: World bank staff calculations based on Chi et al. (2022) and HCP poverty maps (2014).(*) the RWI applies machine learning algorithms to vast and heterogeneous data to estimate standard of living within countries at a 2.4 km resolution. It uses data from satellites, mobile phone networks, topographic maps, and well-aggregated and de-identified connectivity data from Facebook. A lower RWI (bottom 25 percent) denotes a lower standard of living; the PGA refers to Peak Ground Acceleration and measures the maximum ground acceleration that occurred during the earthquake at a given location.

earthquake is another example. Past editions of this report have already discussed the reforms launched in the aftermath of the COVID-19 pandemic, emphasizing that their successful implementation could place Morocco on a stronger and more inclusive development path (World Bank, 2021).[13] The recovery plan announced by the government constitutes another example of Morocco's capacity to turn crises into opportunities. Indeed, less than three weeks after the earthquake, the authorities had already committed not only to provide significant financial assistance for a one-year period to the families that have been affected by the earthquake and to help rebuild houses and affected infrastructure, but also to launch a five-year plan with an envelope of USD11.7 billion (8.3 percent of 2023 GDP) to address the root causes of the underdevelopment in six provinces which target a population of more than 4 million people. Again, the successful implementation of this plan would contribute to reduce the persistent inter-regional equity gaps that characterize Morocco, helping rural areas benefit from the economic modernization that has taken hold over the past couple of decades in other parts of the country. As discussed in the following chapters, to achieve these objectives the government will need to continue addressing the bottlenecks that still constrain Morocco's ability to turn its many comparative advantages into engines for economic growth and social inclusion.

13 https://www.worldbank.org/en/country/morocco/publication/morocco-economic-monitor-building-momentum-for-reform.

2

OUTLOOK AND RISKS

Outlook

Despite the material devastation and the casualties that it caused, the Al Haouz earthquake is unlikely to have major short-term macroeconomic consequences. The recent earthquake presents certain features that will limit its impact on economic growth: the most affected areas contribute to a small percentage of national GDP, tend to rely on low value-added small-scale agricultural activities, and are weakly integrated into the national economy (Box 4). The most relevant risk at the macro level are the indirect spillovers that the earthquake may trigger on other regions if it adversely affects tourism, a major contributor to recent GDP growth (see Chapter 1). However, the limited information available to date suggests that conditions have normalized quickly in the country's main destinations, most notably Marrakech. Moreover, the international evidence discussed in Box 4 suggests that earthquakes tend to have modest impacts on tourism when critical infrastructure is spared, as has been the case with the September 8th seism. Finally, the significant volume of private and public donations received by the government (15 billion dirham, or 1.1 percent of GDP by early October 2023), together with the resources that could be made available through the Solidarity Fund against Natural Catastrophes (FSEC) will limit short-term fiscal impacts.[14]

The response launched by the authorities could increase both GDP growth and the budget deficit in the medium-term. The first pillar of the plan (MAD 21 billion or 1.5 percent of 2023 GDP) is focused on sustaining the livelihoods of the affected population, through cash transfers that will mitigate the income lost by the disruption to local economic activities, while financing the reconstruction of their homes, and through the rehabilitation of the region's infrastructure. The second pillar (MAD 99 billion or 6.7 percent of 2023 GDP) is more forward-looking and aims at realizing the growth potential of the High Atlas provinces, through investments to upgrade infrastructure, promote tourism and agriculture, reha-

[14] FSEC is a public compensation mechanism with a mandate to provide partial compensation to uninsured vulnerable households. It has a multi-layer financing strategy, which includes an excess parametric risk transfer product that was specifically designed for severe earthquakes.

bilitate urban centers, and improve the quality of public services. A reconstruction and development plan of this magnitude could have a positive impact on growth during its implementation period (2024 to 2028) and beyond. Depending on how it is financed, it could also add pressure on already stretched public finances. Insufficient information was available at the time of writing on the details of the plan and its financing sources to fully incorporate it in our baseline fiscal projections.

BOX 4: PRELIMINARY ASSESSMENT OF THE MACROECONOMIC IMPACTS OF THE AL HAOUZ EARTHQUAKE

The economic impacts of natural disasters are often classified into direct or indirect losses. The former refers to the destruction of property and assets caused by these events, while indirect impacts refer to resulting losses of income or output following the event. While the former is a static concept that is unambiguously negative, the latter is dynamic, likely negative in the short-term due to the associated destruction of production factors, but potentially declining and even reverting over time depending on the government's ability to reallocate resources towards reconstruction and on the behavioral response of affected populations. Another crucial difference between the two types of impacts is that only the latter is captured by GDP. This box aims at shedding light on the direction and potential order of magnitude of the impacts that the Al Haouz earthquake may have on economic growth. It should be noted upfront that this analysis falls short of a full assessment, which will require information and data that were not yet available at the time of writing.

The macroeconomic consequences of the earthquake will ultimately depend on: (i) the economic impacts caused by the disaster at the local level; (ii) the overall economic significance of the most impacted areas; (iii) potential economic spillovers to other regions.

Regarding the first of these three determinants, and without factoring in the government's response to the disaster, the impacts of the earthquake will be pronounced on local economic activities, at least in the short-term. According to the Ministry of Interior, the seism caused 2,946 casualties and more than 18 thousand injured; the partial or complete destruction of almost 60 thousand buildings; significant damages to various roads, hydraulic infrastructures, more than 500 schools and several health centers. In addition, the earthquake is reported to have caused the death of numerous cattle, an important source of food and income for mountain communities. This constitutes a major loss of labor and capital that will inevitably affect potential output in these areas.

On the other hand, the reconstruction process could also boost local economies in the medium and the long-term. First, the cash transfers that will be allocated to affected households for a period of one year and the wages potentially generated by the reconstruction effort could boost consumption, particularly in remote mountain communities where income opportunities were limited before the disaster. Second, the government's investments could offer significant opportunities to substitute the traditional activities that were prevalent in the area (primarily small-scale agricultural and pastoral activities) for new occupations in higher value-added sectors such as construction. Third, to the extent that the ambitious plan announced for the High Atlas succeeds at unlocking the touristic and agricultural potential of these provinces, it may catalyze a longer-lasting reallocation of production factors to more productive activities. Whether these positive impacts get to surpass the negative ones discussed above remains to be seen during the implementation of the plan. But the government's "build-back better" vision is sufficiently ambitious to potentially change the development dynamic of a region that has so far been largely excluded from the profound socioeconomic transformations undergone elsewhere in Morocco over the past two decades.

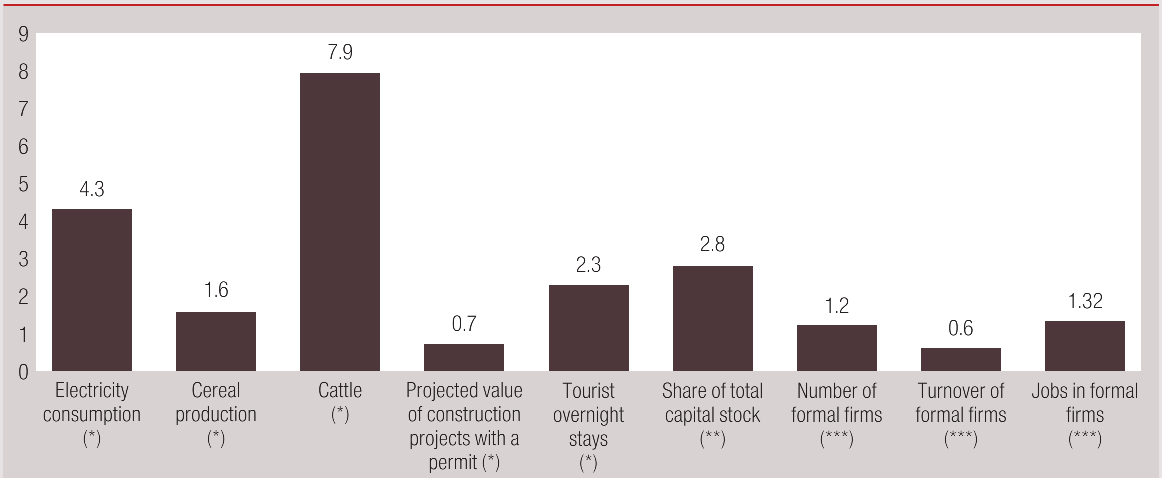
The second key determinant of the earthquake's impact at the macro level is the economic weight of the area where economic activity has been disrupted due to the disaster. The two regions which concentrate impacts (Marrakech–Safi and Sous–Massa) contributed to 15 percent of national GDP on average between 2014 and 2021. However, conditions are reported to have normalized relatively fast in most urban centers, and the main disruptions to economic activity are now restricted to rural communities in the provinces of Al Haouz, Chichaoua and Taroundant. Morocco does not produce national accounts at the provincial level, but using electricity consumption as a proxy suggests that these three provinces could contribute to approximately 4.3 percent of GDP.[a] Other statistics confirm that the three provinces have a limited economic weight at the national level (Figure 21), which will dilute the impact of local economic disturbances on national GDP.

Even within the three most affected provinces, damages (and thus disturbances to economic activity) were rather localized, concentrated in rural communities for which no publicly available statistical information exists. To assess the economic weight of these communities, we resort to alternative data sources based on satellite imagery or administrative data shared by the authorities. According to World Bank calculations, the area where the intensity of the earthquake was sufficient to cause considerable damage to buildings and infrastructure (VII or above on the MMI scale) contribute to about 1 percent of the country's total capital stock and 0.3 percent of total nighttime light (data for 2022).[b] The statistics obtained from the SME observatory point in the same direction, as formal firms headquartered in the communities that are closer to the epicenter contribute to less than 0.1 percent of total turnover and jobs of Moroccan formal firms.

(continued on next page)

BOX 4: PRELIMINARY ASSESSMENT OF THE MACROECONOMIC IMPACTS OF THE AL HAOUZ EARTHQUAKE *(continued)*

FIGURE 21 • Participation of the three most affected provinces over national total (percentage), as proxies for their economic weight prices in domestic markets (ASAAR database, distinguishing periods)



* Data from HCP (annuaire statistique des régions).

** World Bank staff calculations. Total capital stock calculated using a perpetual inventory approach. Provincial disaggregation produced with: (i) spatial allocation of exposures based on high resolution global population layers (GHSL etc.); (ii) built floor areas obtained via m2 per person in urban/rural areas making also use of latest building footprints datasets and then distributed to different structural typologies/vulnerability classes using census; (iii) urban/rural mapping also done using global layers such as GHSL SMOD; (iv) replacement unit construction cost values (US$/$m^2$) for different types of buildings based on engineering data.

*** Obtained from the database of the Moroccan Observatory for SMEs (Observatoire Marocain de la TPME), an institution attached to the central bank which gathers administrative data for the Moroccan formal private sector, analyses them, and produces indicators and decision-making tools.

Finally, the macro impacts of the earthquake could be channeled through the spillovers that economic disruptions in the most affected areas could have on other regions. Available information suggests that many of the communities that have been hardest hit by the earthquake have generally weak interlinkages with the national economy, which will limit the scale of such potential spillovers. However, the earthquake could adversely affect international tourists' willingness to travel to Morocco, most notably to Marrakech, which is both the top tourism destination in the country and the only one that has suffered some significant material damages due to the seism. Available evidence to date suggests that this scenario is not materializing, as international arrivals have increased by 7.1 percent y/y in September despite the earthquake. The World Bank and IMF annual meetings having taken place in October may have reinforced the attractiveness of the Marrakech brand for international travelers.

The empirical evidence on the impact of earthquakes on tourism also calls for cautious optimism. Roselló, Becken and Santana-Gallego (2020) use a global dataset on natural disasters, and find that even if the number of casualties is high, when the direct losses caused by an earthquake are limited and critical infrastructure is spared (such as airports or major hotels), as is the case with the September 8th seism, tourism tends to recover fast, and even surpass pre-disaster levels by 2 percent after six months and by 3 percent after twelve months. Several contributions have focused on specific events, finding mixed results. While some earthquakes such as Sichuan (2008) or Nepal (2015) are found to have been followed by an increase in inbound tourism, others, such as Marmara (1999) triggered the opposite effect (Huang et al., 2020; Min et al., 2020; Bayram and Cifi, 2021).

[a] Al Haouz, 0.9 percent; Chichaoua, 0.6 percent; Taroudant, 2.8 percent.

[b] The Modified Mercalli Index (MMI) is a scale used to measure the intensity of shaking and damage caused by an earthquake at specific locations. It ranges from I to XII, with VII and beyond considered sufficiently strong to cause considerable damage to buildings.

GDP growth is expected to accelerate to 2.8 percent in 2023, and to firm up to 3.1 percent in 2024. The agricultural sector should contribute to the acceleration, as key crops gradually recover from last year's drought and return to average levels in 2024. Services will remain a major contributor to growth on the back of a buoyant tourism sector, expected to recover fast from the impact of the earthquake. Despite the maintained strength of the export-oriented manufacturing niches that has been observed in recent years, the performance of the secondary sector will be tempered by weak global conditions and a modest performance of construction in a context of higher interest rates. Domestic demand is forecasted to begin recovering from recent shocks, supported by an improvement in labor market conditions, remittances, the upcoming deployment of the family allowances program, and the gradual moderation of inflation.

The current account deficit is expected to narrow in 2023 due to improved terms-of-trade, but rising energy prices and the recovery of domestic demand could widen it in 2024. Together with the fading terms-of-trade shock that was triggered by the Russian invasion of Ukraine, growing tourism and remittances inflows will contribute to reduce the current account deficit to 1.8 percent of GDP in 2023. However, energy prices surged by 8.3 percent in September, and have continued to remain strong following the conflict in the Middle East; this could exert renewed pressure on the trade balance in the months to come. Together with the progressive increase in domestic absorption that will take place as consumption and investment begin to recover from recent shocks, this would widen the deficit to 2.5 percent of GDP in 2024. Despite the temporary decrease observed in the first semester of 2023, we expect FDI to remain strong and sufficient to cover most of this current account deficit, as large new manufacturing greenfield investment projects continue to be announced.

Despite strong spending pressures, the budget deficit is expected to gradually return to pre-pandemic levels. The measures adopted to cope with recent shocks and the water crisis, the rollout of an ambitious health and social protection reform, and the reconstruction effort following the earthquake could continue to increase public spending. However, the authorities are also implementing several measures to create fiscal space, including the ongoing tax reform, the absorption of various pre-existing social programs into the family allowances, or the envisaged reform of price subsidies on butane gas, flour, and sugar. In addition, the government plans to continue mobilizing significant amounts of non-tax revenues through asset monetization operations. Overall, this should help contain the budget deficit, which is expected to close 2023 at 4.6 percent of GDP, and to reach 3.6 percent of GDP by 2025. In this scenario, the debt ratio would stabilize below 70 percent of GDP.

Risks to the macroeconomic outlook

The balance of risks is tilted to the downside. As emphasized in Box 1, Morocco continues to confront unusually dry conditions, implying that the gradual recovery of agricultural production is far from guaranteed. The government has renewed its investment and reform efforts to address the structural water scarcity problem that the country is increasingly facing in the context of a rapidly changing climate. Should these policies prove insufficient, water may have to be rationed for agriculture but also to other sectors of the economy, which could cost up to 6.5 percent of GDP in the long term (World Bank, 2022). On the international front, Morocco is exposed to the risks posed by current geopolitical tensions, which could result in new terms-of-trade shocks should the price of food and energy commodities surge again. This could result in a higher trade deficit, reducing the recent contribution of net exports and FDI to growth. It could also slow the ongoing disinflationary process, which would adversely impact households' real disposable income and thus consumption, while potentially forcing BAM to review the stance of its monetary policy, which would affect investment.

Morocco needs to reconstitute its room for maneuver to cope with future shocks. As discussed in Chapter 1, Morocco has demonstrated a remarkable capacity to cope with global disturbances in recent years. However, the government's response to these shocks has eroded fiscal buffers, which could limit the country's capacity to address future disturbances. Given the increasing frequency of interconnected crises at the global level, Morocco needs to rebuild these buffers, which are essential to prevent future shocks from derailing its development process. This will require prioritizing reforms to increase its public revenue mobilization capacity and the efficiency of public spending, and reinforcing the countercyclical role played by public finances. Together with the fiscal reform that has already began, the envisaged introduction of a carbon tax could be an effective tool both to increase public revenues and to accelerate the decarbonization of the economy. In turn, this agenda could help preserve, and possibly improve, access to European export markets, which are increasingly focused on the climatic agenda, the most recent indication of which is the introduction of a Carbon Border Adjustment Mechanism (CBAM).

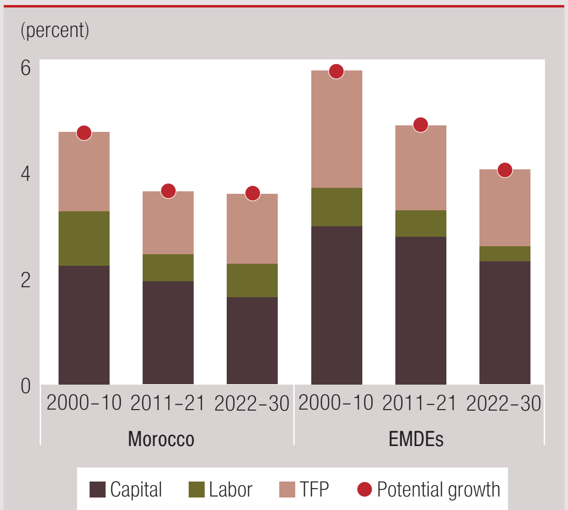
Reverting declining potential growth remains a major development challenge for Morocco. As discussed in Box 5, recent estimates confirm that Morocco's potential growth has declined over the past two decades. It currently hovers around 3.6 percent, below the average for emerging markets and developing economies (EMDEs). The materialization of such a growth rate over the years to come

BOX 5: MOROCCO'S POTENTIAL GROWTH IN COMPARATIVE PERSPECTIVE

Potential growth can be defined as the real growth rate of output when all factors of production are allocated optimally. Since potential output cannot be observed, it needs to be estimated, for which different methodological approaches have been developed. Following Kose and Ohnsorge (2023), this box applies the production function approach, analyzing the evolution of Morocco's potential growth since the turn of the century together with international comparisons, and providing projections until 2030. Under this approach, potential growth is calculated as a function of total factor productivity (TFP), fully utilized capital stock, and the potential labor force.[a] While potential TFP and employment are estimated using panel regressions, the potential capital stock is based on consensus forecast estimates.

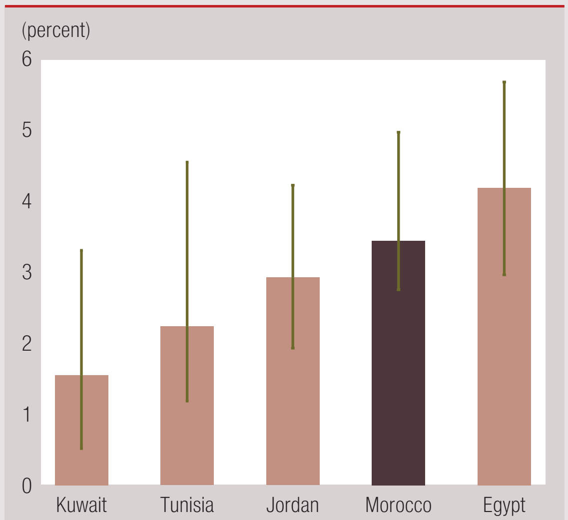
According to these estimations, Morocco's potential growth has declined from an average of 4.8 percent between 2000 and 2010 to 3.7 percent between 2011 and 2021 (Figure 22). This is aligned with the global trend observed in emerging and development economies (EMDEs), 57 percent of which underwent a decline in potential growth during these two periods. However, Morocco's recent potential growth is below that of EMDEs, which is estimated at 4.9 percent on average for the 2011–2021. On the other hand, it is higher than that observed for most of the regional peers considered in this analysis, with the only exception of Egypt (Figure 23). Morocco's potential growth is expected to stand at 3.6 percent on average in 2022–2030, still somewhat below the average in EMDEs, but clearly surpassing the Middle East and North Africa region (2.5 percent).

FIGURE 22 • Contribution to potential growth



Source: World Bank staff based on Kose and Ohnsorge (2023).

FIGURE 23 • Comparison with peers (2011-21)



Source: World Bank staff based on Kose and Ohnsorge (2023).

[a] Potential labor supply is estimated as the as the population-weighted aggregate of predicted values of age- and gender-specific labor force participation rates from regressions on policy outcomes and cohort characteristics, business cycles, and country effects.

would be clearly insufficient to achieve one of the key objectives of Morocco's New Development Model: doubling per capita income by 2035.[15] This provides a strong justification for the reforms launched by the authorities to boost human capital and stimulate private investment. However, this effort may not lead to the economic take-off that is desired unless other critical micro-constraints to growth are relieved. More specifically, additional market reforms may still be needed to remove the regulatory and institutional obstacles that limit competition and slow the reallocation of production factors towards more productive firms and sectors. This would increase the contribution of total factor productivity (TFP) to economic growth and boost job creation, which in turn would facilitate the inclusion of women into the labor market. But a higher female labor force participation could also increase economic growth by itself, potentially creating a virtuous cycle that is discussed in more detail in the following chapter.

[15] Reaching this doubling of per capital income by 2035 would require Morocco to have an average annual growth rate of more than 7 percent per year.

TABLE 1 • Morocco, selected economic indicators, FY19–FY26

				Estimated			Projected	
	2019	2020	2021	2022	2023	2024	2025	2026
Real Economy	**(annual percent change, unless otherwise indicated)**							
Real GDP	2.9	−7.2	8.0	1.3	2.8	3.1	3.3	3.5
Agricultural GDP	−5.0	−8.1	19.5	−12.9	1.5	5.7	3.1	3.3
Non-Agricultural GDP	3.8	−7.1	6.7	3.1	2.6	2.8	3.1	3.4
Industry	4.1	−5.2	7.1	−1.7	0.3	2.0	2.5	3.0
Services	3.9	−7.9	5.8	5.4	4.0	3.1	3.5	3.7
Private Consumption	2.2	−5.6	6.9	−0.7	1.0	2.1	2.7	3.4
Government Consumption	4.8	−0.6	7.2	3.3	3.4	3.6	3.3	3.0
Gross Fixed Capital Investment	1.7	−10.0	7.6	−2.2	1.6	2.0	2.4	3.2
Exports, Goods and Services	5.1	−15.0	7.9	20.4	10.8	6.9	10.9	12.9
Imports, Goods and Services	2.1	−11.9	10.4	9.0	6.4	4.8	8.4	9.5
Unemployment rate (ILO definition, in percent)	9.2	11.9	12.3	11.8	...	...	...	...
Inflation (average CPI, in percent)	0.2	0.7	1.4	6.6	6.2	3.8	2.8	2.0
Fiscal accounts						**(in percent of GDP)**		
Expenditures	27.4	34.1	31.3	32.2	32.2	31.5	30.6	30.4
Revenues, including all grants	23.8	27.0	25.3	27.0	27.6	27.4	27.0	27.1
Budget Balance	−3.6	−7.1	−6.0	−5.2	−4.6	−4.1	−3.6	−3.3
Central Government Debt	60.3	72.2	69.5	71.6	70.3	69.7	69.3	69.1
Selected Monetary accounts				**(annual percent change, unless otherwise indicated)**				
Broad Money	3.8	8.36	5.1	8.4	...	...	...	...
Interest (key policy interest rate)	2.3	1.5	1.5	2.5	...	...	...	...
Balance of payments				**(in percent of GDP, unless otherwise indicated)**				
Current Account balance	−3.4	−1.2	−2.3	−3.5	−1.8	−2.5	−2.2	−2.0
Imports, Goods and Services	42.0	38.1	42.5	56.3	51.9	51.5	50.5	49.1
Exports, Goods and Services	34.2	30.8	33.2	44.8	42.3	41.4	40.7	42.3
Net Direct Investment	0.6	0.8	1.1	1.2	1.3	1.3	1.4	1.5
Gross official reserves (bln US$, eop)	26.4	36.0	35.6	32.3	35.6	36.5	37.7	39.3
In months of imports	6.9	7.1	5.3	5.3	5.5	5.6	5.7	6.0
Local currency per U.S. dollar (period average)	9.6	9.5	9.0	10.2	...	...	...	...
Memo items								
Nominal GDP (in billion dirhams)	**1,240**	**1,152**	**1,275**	**1,330**	**1,452**	**1,554**	**1,650**	**1,747**

Source: WB staff estimates and forecast; actual data from MEF, HCP and BAM.

3

WOMEN'S ECONOMIC EMPOWERMENT AND DEVELOPMENT

There is an impressive amount of international evidence confirming the positive impacts that women's participation in labor markets can have on economic growth and long-term development. In this context, Morocco's low and declining female labor force participation (FLFP) constitutes a major untapped potential for economic and social dynamism. This special focus chapter analyzes the roots of Morocco's high rates of female inactivity from a comparative perspective. It also presents some simulations illustrating the major impacts that increasing FLFP could have on the economy. Finally, it discusses some of the measures and reforms that could contribute to economically empower Moroccan women.

International evidence

Global evidence shows that gender equality and women's empowerment can result in overall long-term socio-economic development. Gender equality is not only a matter of social justice or human rights, but also a critical driver of economic and social development. When it comes to economic empowerment, the reason is intuitive: the exclusion of women from the labor force implies that the economy is not making full use of the existing talent stock, an untapped resource that hinders total labor productivity and potential growth, particularly when the quality of the female labor force increases with education. Discrimination in the labor market, difficult access to human capital, and patriarchal social norms translate into a misallocation of women's innate talent across occupations, as they are not realizing their comparative advantage (Hsiesh et al., 2019). When misallocation impacts entrepreneurial talent and female human capital accumulation, it can also have negative impact on technology adoption and innovation (Esteve-Volart, 2009). For example, the progressive integration of women and African American men is estimated to have contributed to between 20 percent and 40 percent of growth in aggregate market output per person between 1960 and 2010 in the United States.

Furthermore, when women are economically empowered, their children are healthier and better educated. This knock-on effect increases children' own chances of finding a job and be productive as adults, contributing to increasing welfare for both their families and the overall economy (The World

Bank 2012; Duflo, 2012; IMF 2013; Heintz 2006; Galor and Weil, 1993).

Despite this compelling evidence, women continued to have a disadvantaged position in labor markets, in particular in the MENA region. The difference between men's and women's total expected lifetime earning is still as high as US$172.3 trillion globally, twice the world GDP (Wodon et al., 2020). Gender gaps in employment, and especially in entrepreneurship, cause an average income loss of 15 percent in the OECD, and 27 percent in the Middle East and North African (MENA) region (Coubiere, 2016). In the MENA region, women only generate 18 percent of GDP (world average 37 percent) and increasing women labor force participation to the levels of men could boost GDP by 47 percent directly (McKinsey Global Institute, 2015). In the Maghreb countries of Morocco, Tunisia and Algeria, less than 3 out of 10 women work, only slightly higher than the MENA average of 19 percent and less than half the level of low- and middle-income countries.

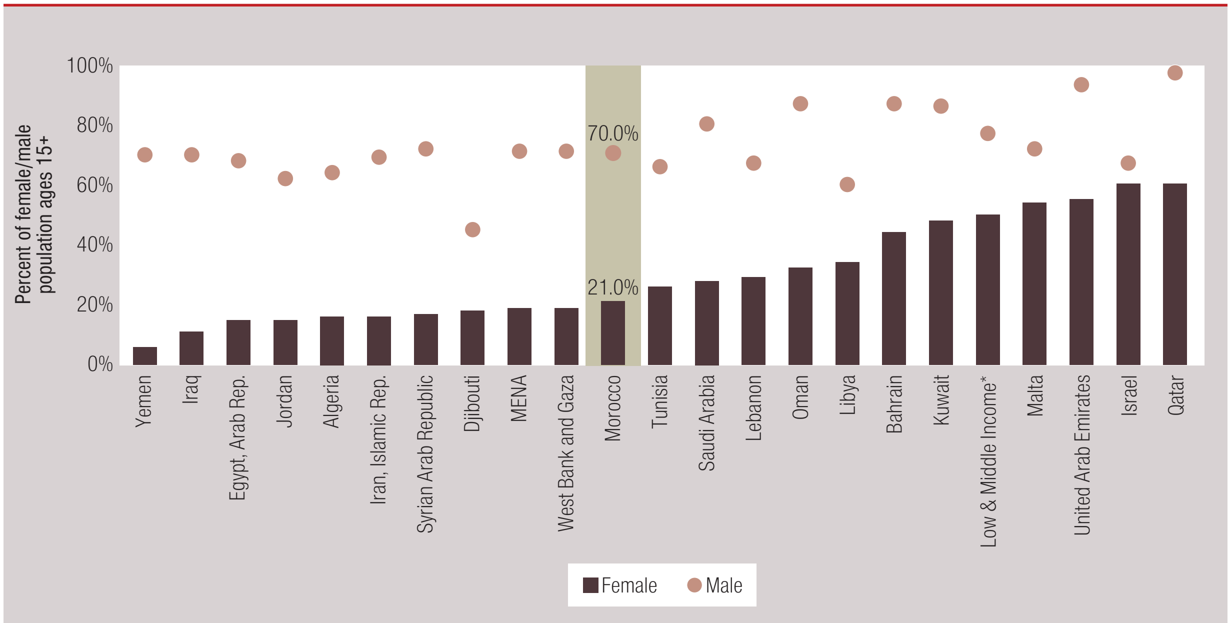
2023 Nobel laureate Claudia Goldin's U-shape theory on the relationship between FLFP and economic development does not seem to hold for the MENA region, where participation should be higher and already increasing. According to that theory, women participate fully in economic activity in the early stages of development, doing unpaid work on farms and family businesses. With development, however, they tend to withdraw from the workforce as jobs migrate to industries and cities. Plausible explanations for the decline in women's participation include the fact that households are gradually dependent on less than two incomes, as well as the stigmatization of the phenomenon of women engaged in manufacturing activities in factories (Caraway, 2007). As a result, countries tend to experience a reduction in their FLFP rate as they develop economically, followed by a recovery (Goldin, 1995). However, the theory does not describe well the MENA region, where current levels of income should correspond to a higher and increasing FLFP, especially when the level of education is factored in (Verme, 2015; Gaddis and Klasen, 2014; and Klasen, 2019). Proposed explanations concern the role of social norms, affecting the way households allocate time to different tasks and determining the exit of women from the labor market at the age of marriage, as well as the limited expansion in sectors that we proved critical for expanding female employment like manufacturing and services.

Female labor force participation in Morocco

Despite economic and social improvements, FLFP in Morocco has been declining over the past two decades and is now among the lowest in the world. According to official numbers, women participation in the labor market decreased from 30.4 percent in 1999 to 19.8 percent in 2022, an almost 11 percentage points drop (HCP). The disparity between male and female participation has remained significant and consistent, fluctuating around 50 percentage points. These findings contrast with the trends observed in other indicators typically associated with higher FLFP rates. Notably, despite recent economic growth, decreasing fertility rates, and an increase in female education levels (as depicted in Figure 25.), the low level and decline in FLFP persists. Such low rates places Morocco at the bottom of the world distribution, as the recent international ranking of the World Economic Forum places Morocco 142th in the sub-index of Economic Participation and Opportunity of their Global Gender Gap Index out of 146 countries.

Overall dynamics in labor markets cannot fully explain FLFP structurally low level, suggesting that specific constraints are at play. As depicted in Figure 26, Morocco's declining FLFP in Morocco between 2001 and 2018 is predominantly attributable to a fall in agricultural employment, not compensated by job creation in manufacturing and urban services. Although urban net job creation was positive over the period, it was insufficient to absorb these losses and the expanding labor force (Lopez-Acevedo et al., 2021). However, of the total number of jobs created over the period, only 5.8 percent went to women, and out of approximately 13 million working-age women, only 2.5 million were working in 2018, of which 1.5 million were remunerated. These numbers suggest that additional constraints are preventing women from accessing the few existing economic opportunities that are available.

FIGURE 24 • Labor force participation rate in MENA



Source: International Labour Organization. Accessed April 25, 2023.

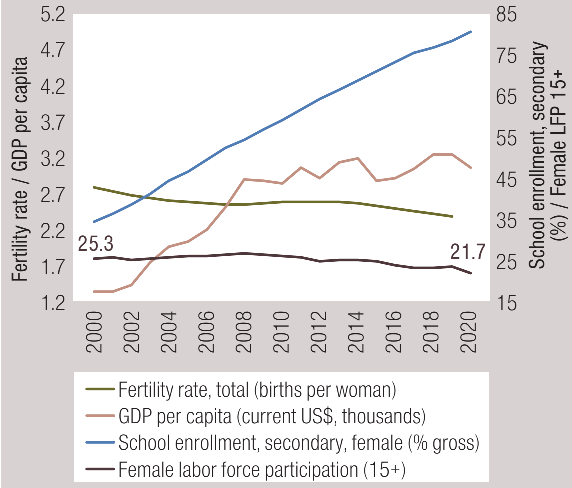
Data from the SME Observatory *(Observatoire Marocain de la TPME)* show that in 2022 women represented only a third of total formal private sector employment, with a very marked sectorial segregation. Approximately 50 percent total female formal employment is concentrated in agriculture, manufacturing, and retail. In these sectors, the wage gap is particularly important, with 63 percent of women operating in the lowest salary bracket (less than 2,800 DH), against 43 percent of men.[16] On the other hand, there is an overrepresentation of women in the education and health and social action sectors (70 and 71 percent of total formal employment, respectively), while they feature relatively well in manufacturing (45 percent). Increasing opportunities in these sectors where the share of women is already high, minding discrimination in career progression and wages, could be beneficial. However, while female employment in the former two sectors has increased in line with the evolution of sectorial value added (VA), this is not the case for manufacturing, where VA increased by one third between 2007 and 2018, but the share of female employment decreased by 7p.p., according to HCP.

In Morocco, constraints differ in nature and intensity across women's characteristics over the lifecycle. The existence, intensity, and persistence of gender gaps in outcomes, including participation in the labor market, are determined by the interactions of several, country specific factors including markets, legal frameworks, social norms, and household preferences (World Bank, 2012). Such interactions affect women differently, based on their level of education, resources, the contexts they evolve in, and specific moments in their life. Morocco is no exception: educated women in urban areas are subject to different constraints compared to those in rural areas, while all of them seem to be penalized, at varying extents, by marriage, motherhood, and the number of dependents in the household (World Bank 2023).

Women with higher levels of education are more likely to be active and employed, but do not manage to overcome gender specific constraints preventing their transition and staying in the labor market. Unlike men, women with secondary or higher education exhibit a higher probability of being active (34 percent for secondary, 64 percent for higher

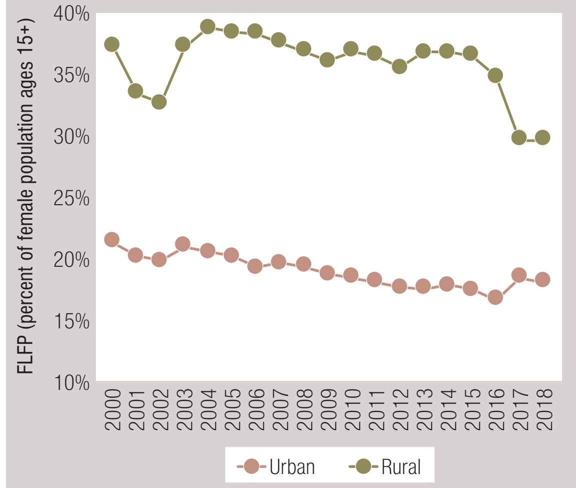
16 Importantly, information for experience and education level is not available to control for these aspects while assessing the wage gap.

FIGURE 25 • Macro and socio-economic indicators



Source: WDI and World Bank 2023.

FIGURE 26 • FLFP by area of residence (2001–2018)



Source: HCP LFS series.

education) as well as higher employment rates (see regression analysis in Appendix 1). However, their participation has significantly declined (–11 p.p.), contributing to a 27 percent rise in inactive educated women since 2000 and representing an increasingly larger share. Educated women also have a significantly lower participation rate compared to men (–22 p.p) and higher unemployment rates (+16p.p), despite the narrowing of the education gap. While skills mismatch does not seem to be a gender specific issue (Betcherman et al, 2022), sectorial segregation, non-gender-friendly conditions in the workplace and low wages represent important constraints for educated women to transition into employment and pick up the existing opportunities for middle-level skilled workers.

Rural women are more likely to work but evolve in more traditional contexts and are less connected to opportunities outside the household. They are mostly working in agricultural activities within the household's premises (92 percent of them). Less educated compared to working age women in urban areas, they mostly work as unpaid, informal family worker (71percent). Traditional social norms are more prevalent and stringent in rural areas, affecting women capacity to seek economic opportunities outside the households, or accessing productive resources for personal investments. Such norms put most value in the role of women as spouses and mothers, rather than economic agents. Structural constraints exacerbate these norms, including a limited offer of safe public transport in rural areas, lower financial inclusion and access to digital technologies, and skills do not help bypass existing constraints.

In urban areas, women generally have higher quality jobs, but work relatively less. Urban women are more likely to hold formal wage work (82 percent urban vs. 9 percent rural) in the service sector (30 percent of total female employment), or in public administrations (24 percent urban vs. 11 percent rural), enjoying more stable contracts and better conditions. However, activity among urban women with low education is the lowest, mostly restricted to low value-added services, including especially education, care activities and services to households. Working outside the household, more common and necessary in urban settings, comes with a different set of constraints, exacerbated by existing social norms: typically, pervasive harassment in public spaces and non-gender friendly conditions in the workplace (including suitable working hours, a safe environment and an adequate salary), greatly discourage women's participation. Importantly, the lack of childcare service is a major constraint for urban women, who often lack the resources to afford private childcare services. Married urban women have a – 35 percent probability to participate than unmarried peers, and – 23 percent probability than divorced or widowed women, which amplifies with pre-school kids and elderly dependents (Appendix 1).

The potential economic dividends of increasing FLFP in Morocco

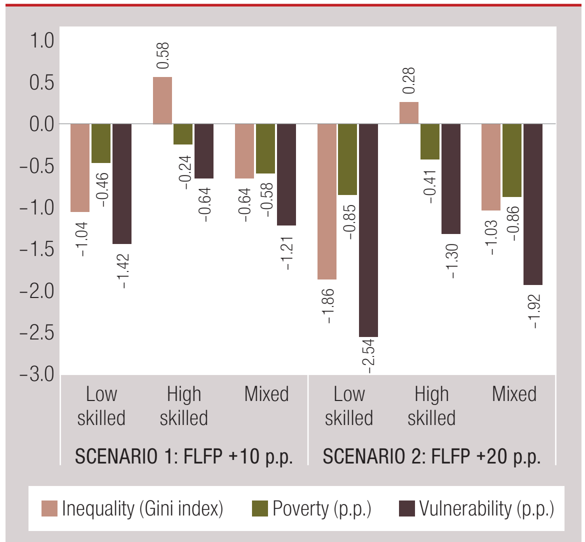
Increasing FLFP could help revert Morocco's declining potential growth. The production function approach that was applied in Box 5 is used to simulate the potential impacts of accelerating the inclusion of Moroccan women in the labor markets. Two simulations are conducted. The first scenario is conservative and assumes that the FLFP ratio increases linearly from 20 percent in 2022 to 25 percent in 2026. The second one is more ambitious and assumes that the FLFP rate reaches the long-term objective of the NDM (45 percent in 2035). The impact of both scenarios is significant, increasing potential growth by 0.3 and 0.8 percentage points respectively. As a result, by 2035 potential GDP would be 2.4 percent higher than the baseline in the conservative scenario, and 7.2 percent in the ambitious one.[17] This is the direct effect only—knock-on effects (i.e., higher investment in human capital) would be additional to this.[18] Macro-economic estimations recently produced by the Government of Morocco (Bargain and Lo Bue 2021) based on a panel of countries and considering the effect of increased investment in human capital, conclude that per capita GDP would increase by 39.8 percent in Morocco, should the employment gap be completely eliminated.

Women's economic empowerment can also support Morocco in reducing poverty and inequalities. World Bank calculations show that an increase the women employment among low-skilled workers may reduce inequality by between 1 and 2 Gini points (Fig. 27). This would happen by increasing the available income of households concentrated at the bottom of the distribution. Considering that most of the inactive are low-skilled women, a random increase in participation across the female population would also reduce inequality. Similar impacts are likely for vulnerability.

Policies for the economic empowerment of women

As a testimony of its commitment to improve women economic inclusion, Morocco has implemented several important reforms in the recent past, especially of its legal framework. The Government implemented two national plans for promoting gender equality in 2012–16 and 2017–21, with the goal of addressing gender inequities in several key areas, including education and access to basic services, economic empowerment, gender-based

FIGURE 27 • The effect of an increase in women employment (by 10 p.p. - Scenario1; and by 20 p.p - Scenario 2) on inequality, poverty and vulnerability; percentage points (p.p.) change



Source: WB calculations based on the HCP – Household Budget Survey 2013–14 (HBS, 2013–14).
Note: The distribution of households' disposable income (consumption) is uprated from the survey year (2013–14) to 2019 considering quintile-specific growth rates from 2013 to 2019. Population weights are updated to the policy year using 12 age-group's growth rates by area (rural and urban). Inequality is measured by the Gini coefficient; official national poverty and vulnerability liens have been updated from 2013 using CPI. New workers were randomly selected among the inactive and unemployed, based on their level of education: low skills equals no education and primary, high skills equals secondary or tertiary education. Increases in FLFP was simulated by Wages are approximated using official data on minimum salary (SMIG) from CNSS: low skilled workers were attributed 60 percent of SMIG, high skilled workers were attributed 140 percent of SMIG.

17 Other estimate point in the same direction: raising FLFP to equal the participation rate of men could result in 39 percent increase of average per capita GDP (World Bank, 2023).

18 Several other types ef exercise achieve results of the same order of magnitude. World bank estimates of different definition of GEGI indicators suggest that long term per capita GDP would increase by 38% if the employment gap was eliminated (World Bank 2023).

BOX 6: FEMALE LABOR FORCE PARTICIPATION IN SAUDI ARABIA

Since 2016, Saudi Arabia has witnessed an extraordinary surge in the participation of women in the labor force. This remarkable transformation represents a historic shift for the country, occurring within an exceptionally brief timeframe. The sharpest increase started in 2017, with a clear acceleration in 2020, when FLFP jumped from 24.6 to 29.5 percent in one year only. It is essential to recognize that Saudi Arabia embarked on this journey from a historically low starting point in terms of female labor force participation, ranking among the world's lowest, while confronting substantial policy barriers for women's employment. Saudi women swiftly secured employment opportunities, now constituting 38 percent of the total private sector workforce in the country.

The rapidity of change is due to the progressive dismantling of existing constraints, including the removal of legal barriers, and the setting up of new economic opportunities for women. Rather than a single cause, this achievement finds its roots in a multisectoral set of changes, energetically triggered by the government in a coordinated way. These include a significant number of reforms of the legal framework starting in 2015, with an impressive number of key reforms concentrated between 2019 and 2020 and ranging from enabling women to pursue employment across all occupations and work hours, granting them the right to drive, enhancing maternity leave provisions, to the elimination of workplace gender segregation. Importantly, a revamp of many government programs and the creation of new programs with a focus on female employment followed the launch of Vision 2030, addressing gaps, including in accessing childcare, transport, flexible work options, and skills development, and providing concrete opportunities for women to seize, within a suddenly more gender-friendly enabling environment.

Importantly, a mix of factors contributed to generate an unprecedented shock on labor demand, partly triggered by the COVID pandemic. Since the introduction of Saudi Vision 2030, the Saudi government has been dedicated to modernizing and diversifying the economy. The reforms implemented in this framework led to an expansion of the non-oil private sector. In parallel, the Saudization process, that found its origins back in 1985, accelerated in 2017 with the obligation of having 100 percent Saudis in certain sectors, including several branches of the retail subsector. This dynamic, coupled with the new job opportunities, resulted in an 87 percent increase in the number of working Saudi women between the beginning of 2017 and mid-2023. Last but not least, the COVID pandemic proved to be a catalyst of change, as it generated severe labor shortages due to the sudden departure of expatriate workers at the pandemic's onset, followed by a swift reopening of the economy six months later. As Saudi women began to enter the workforce and sectors dominated by expatriates such as transportation, accommodation and food services and manufacturing, the broader societal mindset swiftly aligned with this new reality, thus amplifying the employment of Saudi women. Such demand side shocks are not unique to Saudi Arabia and have been in the past very effective to bring women into the labor force in other countries and regions of the world.

Lastly, social norms on women working were ripe for rapid change. Recent research has unveiled that prevailing social norms regarding women's employment were ready for transformation. The evidence points to the fact that many Saudi men and women were open to the idea of women working, even so they believed that others held more conservative views on the matter. Essentially, their assumptions about what others thought were mistaken. In such a scenario, when people's actual attitudes become clear, social norms can shift swiftly.

What learnings can be extracted from the Saudi experience for Morocco? Notwithstanding the important differences characterizing the two countries, including in the economic structure, the labor market conditions, and in governance and institutions, few lessons can be drawn. First, the role of policy is crucial. Removing legal barriers, implementing workplace protections, providing family support systems like parental leave and childcare, along with flexible work arrangements and other programs like transport support, are essential to enable women's meaningful participation in the labor market, particularly for wage work in the private sector. Second, spreading widespread and visible information regarding the changing role of women in the labor market is essential. In many instances, societal acceptance may have existed but remained unspoken. Promoting the value of women's workforce participation can serve as a catalyst for positive shifts in societal attitudes, further facilitating the integration of women into the labor force. Third, in the case of Saudi Arabia, a positive labor demand shock helped spreading the information that social norms on women working have shifted, besides generating real opportunities for women. While labor market conditions are deeply different in Morocco, where labor shortages as well as the presence of foreign workers are largely not an issue, this point goes back to the need to unleash private sector-led job creation, and facilitate women's access to existing and new opportunities.

violence (GBV), and women in positions of management and leadership in the public and private sectors. As a result, gender parity was achieved in education, several programs to increase female entrepreneurship have been implemented, and meaningful legal reforms have been undertaken.[19] Morocco has been one of the pioneers in the world to implement Gender Sensitive Budgeting. Since the Organic Budget Law

19 Such as the reform of the Constitution in 2011 affirming gender equality, the reform of the Moudawana in 2004 (the Family Code), and the reform of the Labor Code and the passage of Law No. 103.13 in 2018, intended to tackle GBV along four key legal dimensions prevention, protection, justice, and support. In 2021, Morocco adopted a new law establishing a gender quota of 40 percent in public limited companies (EPAs) Boards of Directors or Supervisory Boards within six years from adoption.

reform in 2015, the gender dimension is streamlined in ministerial programming and budgeting, with the objective of strengthening the oversight and coordination of the governmental action for gender equality. Reflecting this progress, Morocco scored 75.6 out of 100 in the World Bank's Women Business and the Law index (2022), considerably higher than the MENA average of 51.5. Recently, HM the King has requested the Head of the Government, as a follow up on his speech of July 2022, to propose reforms to the Family Code (the Moudawana), currently containing articles concerning the status and rights of divorced women, as well as gender-discriminating inheritance laws, both seen as impediments to women's economic empowerment. While it is too early to know the specific components of the reform, this provides a clear indication on the roadmap in which Morocco is embarking.

The achievement of the ambitious objectives set of the New Development Model will require a paradigm shift. The priority measures spelled out in this development plan are organized in three pillars: addressing the social constraints that limit women's ability to actively participate in the economy; strengthening the provisions for women's education, training, placement, mentoring, and financial inclusion; and instilling the value of gender equality while insisting on zero-tolerance to gender-based discrimination and violence. To achieve its ambitious objective, Morocco will have to strengthen the institutional set up of gender actions, including a strong leadership capable of coordinating a multisectoral plan of prioritized actions with associated budget commitments, and a monitoring and evaluation framework to communicate on progress and to generate learning on what works (and what not).

Both context-dependent and crosscutting constraints will need to be addressed. In rural areas, where women have acute mobility issues and are mostly engaged in productive activities within the households, financial inclusion could play an important role to facilitate access and management of resources, while digital technologies could be leveraged to increase productivity and access markets. In urban areas, where wage work is more prevalent, tackling gender-friendly conditions in the workplace, including reducing discrimination by looking at HR processes, labor codes norms, and fiscal incentives will be critical. Crosscutting issues, on the other hand, include the supply of economic opportunities, the improvement of the enabling environment for women to take up these opportunities, including via further legal reforms, the provision of acceptable and affordable childcare options, and shifting traditional social norms.

Morocco needs to create more jobs to be able to absorb inactive women and new entrants in the labor market. Insufficient job creation is an important barrier to the increase FLFP, although not the only one. Between 2000 and 2019, the working-age population grew on average by about 374,000 annually while the economy created an average of 112,000 additional jobs per year, resulting in a large and growing employment shortfall. Morocco's growth has had a low capacity to create employment compared to many other countries, and this employment intensity of growth slowed after the 2008 financial crisis. Lack of contestability and the important role of SOEs have been identified as major obstacles to private firms' entry, growth, and job creation (Asif et al., 2022).

Despite recent reforms, the Moroccan legal framework still needs some change both on content and application. Legal reforms can lead to higher FLFP, greater movement out of agricultural employment, and higher rates of women in wage employment (Hallward-Driemeier et al, 2013; Adnane 2021). Gender equality in the law also facilitates cross-country income convergence over time (IMF, 2022). In Morocco, explicit and implicit normative discrimination against women persist in several legal codes and need to be progressively addressed. Importantly, the lack of impact of recent reform has been attributed to flaws in their implementation, and the limited access women still have to the justice system. Insufficient information and knowledge about existing rights is an issue, especially in rural areas (The World Bank, 2023).

To strengthen female labor supply, the provision of quality, affordable and socially acceptable childcare services will be essential. More and more global evidence confirms the benefits of childcare provision (especially daycare and preschool interventions) on FLFP, mainly because women, who disproportionately bear the burden of care within the households, can free some of their time to dedicate to productive activities (Evans, Jakiela, and Knauer, 2021). Moreover, developing the childcare supply also generates new jobs and entrepreneurship opportunities, resulting in short-term employment effects that are higher than corresponding investment in less labor-intensive industries such as construction (which has the highest employment-to-growth elasticity in Morocco). Increasing access to childcare can also support children's cognitive development and preparedness for primary school, with long-term implications for social mobility and productivity. While pre-school for children age 4 to 6 has been made compulsory in Morocco and scaled up dramatically in the last five years, the system to deliver is nascent. Most services for the zero to 4 years-old are private daycare facilities, geographically concentrated in urban areas and largely unaffordable. To expand the service, it will be important to look into the demand for childcare, which is different in urban and rural areas and determines its acceptability (in terms of quality and social norms), the role of the private sector, including as employer, as well as a system of incentives and quality assurance to support enrollment across all levels of income.

Social norms can affect women's decision to work and/or to pursue careers in particular sectors and occupations, but these norms are malleable than we think. The male breadwinner-female caregiver model, based on the belief that men are supposed to economically provide for the household while women are supposed to bear and raise children, and care the family and home is prevalent in Morocco, as elsewhere in MENA. A recent study shows that approximately half of the respondents in Morocco still agree with the statement that women should not work if the husband or father earns a sufficient income to cover household needs (Sqalli et al., 2023). However, perceptions are different across genders, as 72 percent of Moroccan men agree that "a woman's most important role is to take care of the home and cook for the family" compared to 49 percent of Moroccan women (Promundo and UNWomen, 2017). Importantly, things are shifting in the country, as witnessed by the vibrant advocacy activity of civil society, or the increasingly insistent stance of HM King Mohamed V. An upcoming World Bank study on "Social Norms and Women's Employment" is uncovering stereotypes in the household, community and schools that may impact women's participation in the labor market. It will include experiments that, test the extent to which behavior shifts occur when information perceptions and on economic opportunities or correcting misperceptions are accessible (Bursztyn et Al. 2018).

APPENDIX 1: DETERMINANTS OF THE FEMALE PROBABILITY OF BEING ACTIVE

The likelihood of women's (15–64) labor market participation is assessed considering individual traits (age, education, marital status), household features (size, child ages, elderly, head education, male wage-earner), and local labor market conditions (employment composition, residential area, regional effects). The model is estimated separately using census data for (i) 2004, (ii) 2014, (iii) 2014 urban, and (iv) 2014 rural. Findings show that higher education improves women's labor market prospects, offset by marriage. Household duties, childcare, and elderly care limit activity when there are more young children or elderly members. Male wage-earner presence suppresses female participation, impacting need for female labor. Household head's education role is less clear over time. Local labor demand quality affects women's activity. More high-skilled employment at the provincial level increases female participation due to suitable job opportunities.

TABLE 2 • Estimation results (average marginal effects): determinants of the female probability of being active (probit model)

Sample		2004	2014	2014 urban	2014 rural
Education *(ref. less than primary)*	Primary	0.0799***	0.0553***	0.0729***	0.0105**
	Secondary	0.253***	0.281***	0.249***	0.183***
	University	0.381***	0.531***	0.447***	0.354***
Marital status *(ref. Single)*	Married	−0.355***	−0.333***	−0.343***	−0.164***
	Divorced/Widowed	−0.129***	−0.0910***	−0.0829***	−0.0354***
Household characteristics	Household size	−0.000227	−0.00449***	−0.00701***	−0.00277***
	N of children in the HH (0–5)	−0.00678**	−0.0183***	−0.0350***	−0.00426**
	N of children in the HH (6–15)	0.00197	0.000409	−0.00612**	0.00471***
	N of elderly in the HH (65+)	−0.00397*	−0.0120***	−0.0180***	−0.00475*
	HH head education: primary	−0.0103*	−0.0168***	−0.0133***	−0.0257***
	HH head education: secondary	0.0160**	−0.00653*	−0.000601	−0.00752
	HH head education: university	0.0462***	−0.000328	0.00940	−0.00777
	Wageworkers in the HH	−0.0244***	−0.0178***	−0.00920**	−0.0195***
Structure of local employment Share of male workers 15–64 at the province level by type of job *(ref. Low-skills blue collar)*	High-skills blue collar	0.00394***	0.000521	−0.000511	0.0000644
	Low-skills white collar	−0.00198	−0.00122	−0.0000745	−0.00371*
	High-skills white collar	0.00880***	0.00629***	0.00446***	0.00797**
Area of residence *(ref. Rural area)*	Urban area		0.0727***		
	Region F.E.	Yes	Yes	Yes	Yes
	Observations	440,729	997,437	612,226	385,211
	Pseudo-R2	0.24	0.26	0.29	0.11

Data: Census, 2004, 2014 (IPUMS). Sample: women (15–64) excluding students.
Note: p-values: * p<0.05 ** p<0.01 *** p<0.001. Standard errors clustered at the province level.

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The Special Focus of the ‘’Fall 2022’’ ME’ analyzes the impact of the inflationary surge across the income distribution. It shows that inflation is substantially higher for poorer households due to the larger weight of food in their consumption basket. Existing price subsidies have somewhat softened the impact of inflation on poverty and vulnerability. However, a disproportionate share of the public resources needed to sustain Morocco’s untargeted price subsidy schemes end up flowing to wealthier households, which in absolute terms consume more of the subsidized goods. In the future, a well targeted cash transfer program would constitute a more effective and efficient tool to mitigate the impact of the shock on poor and vulnerable households. This analysis also underlined the importance of computing high-frequency price indicators at the local level to improve the measurement and monitoring of poverty and vulnerability.

Spring 2022 MEU: “The Recovery is Running Dry”

The impacts of rainfall shocks on the Moroccan economy have been rendered increasingly apparent by a recent succession of droughts: three in the past four agricultural campaigns. Although the agricultural sector contributes to a moderate share of GDP and modern irrigation systems have been successfully expanded over past decades, erratic rainfall levels remain an important source of macroeconomic volatility in Morocco, a trend that climate change could be intensifying. Coping with water scarcity has long been a governmental priority and massive infrastructure investments are still planned for that purpose in the decades to come. However, international experience suggests that, when not paired with strong demand management policies, “engineering” solutions alone may not succeed at curbing pressures on increasingly scarce water resources.

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