# MOROCCO

# ECONOMIC MONITOR

## Unlocking the potential of the private sector to spur growth and job creation

Summer 2024

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# Morocco Economic Update

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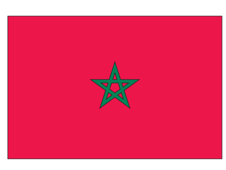

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| | |
|---|---|
| AMDIE | Investment and Export Development Agency |
| BAM | Bank-Al-Maghrib |
| CIT | Corporate Income Tax |
| CPI | Consumer Price Index |
| CRI | Regional Investment Center |
| EMBI | Emerging Market Bond Index |
| EMDEs | Emergent markets and Developing Countries |
| KNOMAD | Global Knowledge Partnership on Migration and Development |
| FDI | Foreign Direct Investment |
| FLFP | Female Labor Force Participation |
| FTA | Free Trade Agreement |
| GCC | Gulf Cooperation Council |
| GDP | Gross Domestic Product |
| GEP | Global Economic Prospects |
| GoM | Government of Morocco |
| HCP | High Commission of Planning |
| HGF | High Growth Firms |
| IFC | International Finance Corporation |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IRA | Inflation Reduction Act |
| LLC | Limited Liability Companies |
| MEF | Ministry of Economy and Finance |
| MENA | Middle East and North Africa |
| MTI | Macro Trade and Investment |
| NDM | New Development Model |
| NPL | Non-Performing Loans |
| OECD | Organization for Economic Co-operation and Development |
| OMTPME | Moroccan Observatory of Small and Medium Enterprises (Observatoire Marocain de la Très Petite, Petite et Moyenne Entreprise) |
| PIT | Professional Income Tax |
| PME | Small and Medium Enterprises |
| POV | Poverty |
| SOE | State-Owned Enterprise |
| SME | Small and Medium Enterprises) |
| UAE | United Arab Emirates |
| UMIC | Upper Middle-Income countries |
| UK | United Kingdom |
| US | United States |
| VAT | Value Added Tax |
| 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) and Amina Iraqi (Economist, MTI) with contributions from Nicolo Dalvit (Economist, ETIIC), Hind Kadiri (Senior Private Sector Specialist, FCI), Michiel Jean M Van Acoleyen (Associate Economist, IFC), Abel Bove (Senior Public Sector Specialist, GOV), Walid Roudani (Consultant, MTI) and Federica Marzo (Senior Economist, POV).

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# EXECUTIVE SUMMARY

## Unlocking the potential of the private sector to spur growth and job creation

**Economic growth has recovered.** The Moroccan economy has shown resilience in the face of various challenges, including a slowdown in the global economy, an inflation shock, and the Al Haouz earthquake. Despite these obstacles, economic growth has accelerated, with real output increasing by 3.4 percent in 2023. The key drivers of this acceleration have been the rebound of the tourism sector, export-oriented manufacturing niches that include automobiles and aeronautics, and a recovery of private consumption.

**Morocco's external performance has been remarkable**. Booming FDI announcements have the potential to present significant development opportunities for the country. Country risk indicators provide further evidence of the confidence instilled by Morocco internationally. The post-pandemic impulse of some capital-intensive industries is resulting in a substantial change in the composition of Moroccan exports, which are exhibiting an increasing level of complexity. The current account deficit has declined to its lowest level since 2007.

**A supportive macroeconomic stance has contributed to the acceleration of economic growth**. The size of the Moroccan public sector has grown substantially following the pandemic, sustaining aggregate demand through recent shocks. The solid performance of public revenues coupled with a containment of certain expenditures has allowed the government to reduce the budget deficit. However, Morocco's fiscal consolidation strategy also relies on innovative financing operations (sale and lease-back) which are aimed at actively managing the government's real estate portfolio to finance public investment, but which also constitute non-recurrent sources of revenues, and which create a stream of future payment obligations from the State. Morocco's comparatively rapid disinflation process affirms the effectiveness of Bank Al-Maghrib's cautious response to the recent price shock.

**But Moroccan firms and households are struggling to recover from recent shocks**. Morocco is witnessing a pronounced increase in business insolvencies. Despite the acceleration of economic growth, the performance of the labor market remained underwhelming in 2023, with almost 200 thousand jobs lost in rural areas. Reflecting the cumulative impact of recent shocks on welfare, per capita consumption has only barely returned to pre-pandemic level. However, the government's new direct social aid program is poised to provide an important relief for poorer households.

**The economy is projected to decelerate moderately in 2024 due to a weak agricultural campaign.** Economic growth is projected to fall to 2.9 percent. This is primarily due to a 3.3 percent contraction of agricultural value added given adverse weather conditions throughout the 2023–24 campaign. Non-agricultural GDP will be more resilient, driven by a recovery of domestic demand and a stronger industrial sector. Growth is expected to pick up from 2025 onwards, under the assumption of a normal agricultural campaign. The current account deficit is projected to widen to 1.5 percent of GDP in 2024, while the budget deficit is expected to gradually return to pre-pandemic levels in the coming years.

**This report includes a special focus chapter focused on the dynamics of the Moroccan private sector.** It is based on the results of an analysis jointly conducted with the Moroccan Observatory of Small and Medium Enterprises (OMTPME) which exploits a comprehensive database on formal firms. The productivity performance of the private sector has been lackluster, primarily due to a worsening of allocative efficiency. Larger firms tend to exhibit a lower productivity than their smaller peers, suggesting that markets are not sufficiently rewarding more efficient and innovative firms. In addition, Moroccan SMEs struggle to grow, and the density of High Growth Firms remains very low. This is problematic feature of the private sector given that in other settings such firms have been shown to disproportionately contribute to job creation. Addressing the constraints facing the private sector would help overcome the disappointing job creation capacity that the Moroccan economy has exhibited in recent years.

# RÉSUMÉ ANALYTIQUE

## Libérer le potentiel du secteur privé pour stimuler la croissance et la création d'emplois

**La croissance économique s'est redressée.** L'économie marocaine a fait preuve de résilience face à divers défis, notamment un ralentissement de l'économie mondiale, un choc inflationniste et le tremblement de terre de la province d'Al Haouz. Malgré ces obstacles, la croissance économique s'est accélérée, avec un une augmentation du PIB de 3,4 pour cent en 2023. Les principaux catalyseurs de cette accélération ont été le rebond du secteur touristique, les niches manufacturières orientés vers l'exportation notamment le secteur automobile et aéronautique, ainsi que la reprise de la consommation privée.

**La performance de l'economie Marocaine à l'international a été remarquable**. Les annonces de projets d'investissements directs étrangers (IDE) sont en plein essor, ce qui pourrait offrir un potentiel significatif de développement pour le pays. Les indicateurs de risque pays sont une preuve supplémentaire de la confiance qu'inspire le Maroc à l'international. L'impulsion postpandémique de certaines industries à forte intensité capitalistique entraîne une modification substantielle de la composition des exportations marocaines, qui présentent un niveau de complexité croissant. Le déficit du compte courant a diminué pour atteindre son niveau le plus bas depuis 2007.

**L'orientation de la politique macroéconomique a contribué à l'accélération de la croissance économique. La taille du secteur public marocain a considérablement augmenté après la pandémie, ce qui a permis de soutenir la demande globale pendant les chocs récents.** La solide performance des recettes publiques, couplée à la maîtrise de certaines dépenses, a permis au gouvernement de réduire le déficit budgétaire. Cependant, la stratégie d'assainissement budgétaire du Maroc repose également sur des opérations de financement innovants, (*sale and lease-back*), visant à gérer activement le patrimoine immobilier de l'État pour financer les investissements publics, mais qui constituent des recettes non récurrentes et qui créent un flux d'obligations de paiement futures de l'État. Le processus relativement rapide de désinflation au Maroc indique que la réponse prudente de Bank Al-Maghrib au choc des prix récent a été efficace.

**Cependant, les entreprises et les ménages marocains peinent à se remettre des chocs récents**. Le Maroc connaît une forte augmentation des faillites d'entreprises. Malgré l'accélération de la croissance économique, les performances du marché du travail sont restées décevantes en 2023, avec près de 200 mille emplois perdus en milieu rural. Reflétant l'impact cumulé des chocs récents sur le bien-être, la consommation par habitant a à peine retrouvé son niveau avant la pandémie. Cependant, le nouveau programme d'aides sociales directes du gouvernement s'annonce comme un soulagement important aux ménages les plus pauvres.

**L'économie devrait ralentir légèrement en 2024 en raison d'une mauvaise campagne agricole.** La croissance économique devrait tomber à 2,9 pour cent. Cela est dû principalement à une contraction de 3,3 pour cent de la valeur ajoutée agricole en raison des conditions météorologiques défavorables tout au long de la campagne 2023–2024. Le PIB non agricole sera plus résilient, soutenu par une reprise de la demande intérieure et un secteur industriel plus solide. La croissance devrait s'accélérer à partir de 2025, sous l'hypothèse d'une campagne agricole normale. Le déficit du compte courant devrait se creuser pour atteindre 1,5 pour cent du PIB en 2024, tandis que le déficit budgétaire devrait progressivement revenir aux niveaux d'avant la pandémie dans les années à venir.

**Ce rapport comprend un chapitre spécial consacré à la dynamique du secteur privé marocain.** Il s'appuie sur les résultats d'une analyse menée conjointement avec l'Observatoire Marocain des Petites et Moyennes Entreprises (OMTPME), qui exploite une base de données exhaustive sur les entreprises du secteur formel. Les performances du secteur privé en matière de productivité ont été décevantes, principalement en raison d'une détérioration de l'efficience allocative. Les grandes entreprises ont tendance à afficher une productivité inférieure à celle de leurs homologues de plus petite taille, ce qui donne à penser que les marchés ne récompensent pas suffisamment les entreprises plus efficientes et innovantes. En outre, les Petites et Moyennes Entreprises (PME) marocaines peinent à se développer et la densité des entreprises à forte croissance reste très faible. Il s'agit là d'un aspect problématique du secteur privé, car dans d'autres contextes, il a été démontré que ces entreprises contribuent de manière disproportionnée à la création d'emplois. Lever les contraintes auxquelles est confronté le secteur privé permettrait de surmonter la faible capacité de création d'emplois dont l'économie marocaine a fait preuve ces dernières années.

# ملخص تنفيذي

## تحرير إمكانيات القطاع الخاص لتحفيز النمو وخلق فرص العمل

**النمو الاقتصادي قد شهد التعافي.** أظهر الاقتصاد المغربي القدرة على الصمود في مواجهة التحديات المختلفة، بما في ذلك تباطؤ الاقتصاد العالمي، وصدمة التضخم، وزلزال الحوز. وعلى الرغم من هذه العقبات، تسارعت وتيرة النمو الاقتصادي، حيث ارتفع الناتج الحقيقي بنسبة 3.4٪ في عام 2023. وكانت المحفزات الرئيسية لهذا التسارع هي انتعاش قطاع السياحة، وقطاعات الصناعات التحويلية الموجهة نحو التصدير التي تشمل السيارات والطيران، ، وكذلك مع انتعاش الاستهلاك الخاص.

**كان أداء المغرب الخارجي رائعا.** يمكن أن تتيح الإعلانات عن الاستثمار الأجنبي المباشر فرصا إنمائية كبيرة للبلاد. وتقدم مؤشرات مخاطر الدولة دليلا إضافيا على الثقة التي يبثها المغرب على الصعيد الدولي. ويؤدي التحفيز بعد الجائحة لبعض الصناعات الرأسمالية الكبيرة بتغيير جوهري في تركيبة صادرات المغرب، مع ازدياد مستوى التعقيد. وانخفض عجز الحساب الجاري إلى أدنى مستوى له منذ عام 2007.

**وساهم اتخاذ موقف داعم على صعيد الاقتصاد الكلي في تسريع وتيرة النمو الاقتصادي.** وقد نما حجم القطاع العمومي المغربي بشكل كبير في أعقاب الجائحة، مما أدى إلى استدامة الطلب الكلي خلال الصدمات الأخيرة. وقد مكّن الأداء القوي للإيرادات العامة للحكومة، إلى جانب السيطرة على بعض النفقات من خفض عجز الموازنة. غير أن استراتيجية ضبط أوضاع المالية العامة في المغرب تعتمد أيضا على عمليات تمويل مبتكرة (البيع وإعادة التأجير)، تهدف إلى الإدارة الفعالة للأملاك العقارية للدولة لتمويل الاستثمارات العامة، ولكنها تشكل إيرادات غير متكررة وتخلق تدفقًا لالتزامات الدفع المستقبلية للدولة. وتؤكد عملية خفض التضخم السريعة نسبيا في المغرب فعالية استجابة بنك المغرب الحذرة لصدمة الأسعار الأخيرة.

**ومع ذلك، تعاني الشركات والأسر المغربية من صعوبة في التعافي من الصدمات الأخيرة.** يشهد المغرب زيادة واضحة في حالات الإعسار التجاري. وعلى الرغم من تسارع وتيرة النمو الاقتصادي، ظل أداء سوق العمل مخيبا للآمال في عام 2023، مع فقدان ما يقرب من 200 ألف وظيفة في المناطق الريفية. وتجسيدا للأثر التراكمي للصدمات الأخيرة على الرفاهة، نجد أن نصيب الفرد من الاستهلاك لم يعد إلا بالكاد إلى مستواه ما قبل الجائحة .و مع ذلك، فإن البرنامج الجديد للدعم الاجتماعي المباشر الذي تنفذه الحكومة يقدم تخفيفاً مهماً للأسر الأكثر فقراً.

**ومن المتوقع أن يشهد الاقتصاد تباطؤا معتدلا في عام 2024 بسبب ضعف المحصول الزراعي .** ومن المتوقع أن ينخفض معدل النمو الاقتصادي إلى 2.9٪. ويرجع ذلك في المقام الأول إلى انكماش القيمة المضافة الزراعية بنسبة 3.3٪ نظرا للظروف المناخية السيئة طوال حملة 2023–2024. وسيكون إجمالي الناتج المحلي غير الزراعي أكثر قدرة على الصمود مدفوعا بتعافي الطلب المحلي وقوة القطاع الصناعي. ومن المتوقع أن ينتعش النمو اعتبارا من عام 2025 فصاعدا، بافتراض حملة زراعية عادية. ومن المتوقع أن يتسع عجز الحساب الجاري إلى 1.5٪ من إجمالي الناتج المحلي في عام 2024، في حين يتوقع أن يعود عجز الموازنة تدريجيا إلى مستويات ما قبل الجائحة في السنوات القادمة.

**ويتضمن هذا التقرير فصلا خاصا يركز على ديناميكيات القطاع الخاص المغربي.** ويستند هذا التقرير إلى نتائج تحليل أجري بالاشتراك مع المرصد المغربي للمقاولات الصغيرة جدا والصغيرة والمتوسطة والذي يستغل قاعدة بيانات شاملة عن الشركات الرسمية. وكان أداء إنتاجية القطاع الخاص ضعيفا، ويرجع ذلك أساسا إلى تدهور الكفاءة التخصيصية. ويبدو أن الشركات الكبيرة تظهر إنتاجية أقل من نظرائها الأصغر حجماً، مما يشير إلى أن الأسواق لا تكافئ بشكل كافٍ الشركات الأكثر كفاءة وابتكاراً. بالإضافة إلى ذلك، تعاني الشركات الصغيرة والمتوسطة المغربية من صعوبات في النمو، وتظل كثافة الشركات ذات النمو العالي منخفضة جداً. وهذه سمة إشكالية للقطاع الخاص بالنظر إلى أنه في سياقات أخرى تبين أن هذه الشركات تساهم بشكل غير متناسب في خلق فرص العمل. وسيساعد معالجة القيود التي يواجهها القطاع الخاص في زيادة القدرة الضعيفة في خلق فرص الشغل التي أظهرها الاقتصاد المغربي في السنوات الأخيرة.

1

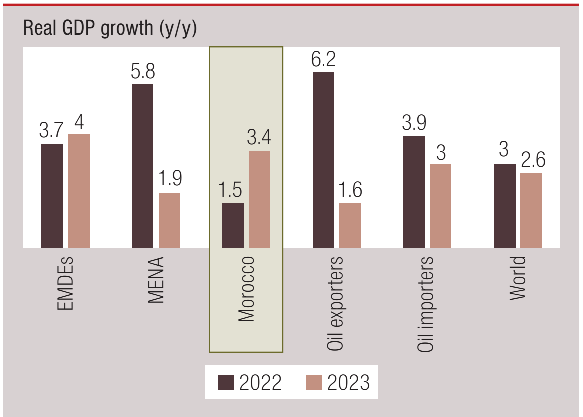
# RECENT ECONOMIC DEVELOPMENTS

## Economic growth has recovered

**Despite facing headwinds, economic growth accelerated in 2023.** Last year continued to be marked by challenging conditions, including a widespread slowdown in the world economy, an inflation shock, lower than average levels of precipitations and the devastating Al Haouz earthquake. Showcasing once more the resilience of the Moroccan economy, this did not hinder real output growth, which increased from 1.5 percent to 3.4 percent, in contrast with the decline observed for the World and most of the country groups depicted in Figure 1. Economic dynamism recovered particularly strongly towards the end of the year, and some indicators suggest that this positive momentum has been sustained in the first months of 2024. Nevertheless, the Moroccan economy grew at a slower pace than the average Emerging and Developing Economy (Figure 1).

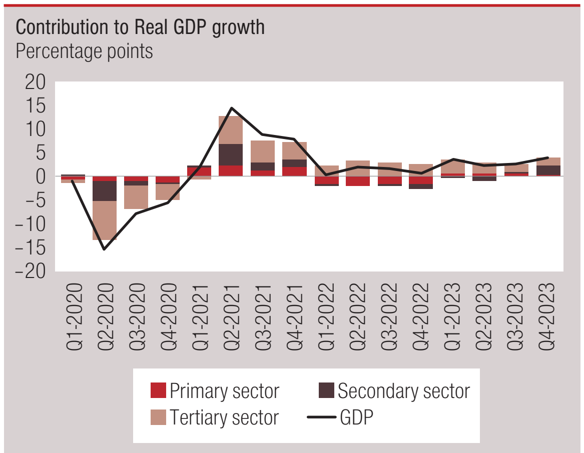
**This growth recovery was uneven across sectors and components of aggregate demand.** Although climatic conditions remained unfavorable, agriculture's value added grew by 1.4 percent, largely due to a base effect as production partially recovered from the severe drought of 2022. Meanwhile, industry saw modest overall growth of 1.3 percent, but this figure masks significant variation across sectors: a contraction in phosphates and construction coupled with double-digit growth rates in the value added of the automotive and electronics sectors. The contribution of the manufacturing sector to overall GDP growth increased markedly in the final quarter of 2023 (Figure 2). A continuation of the tourism industry's rebound (see Box 1) was a major contributor to the solid performance of the services sec-

FIGURE 1 • As opposed to most other comparator countries, activity accelerated in 2023…



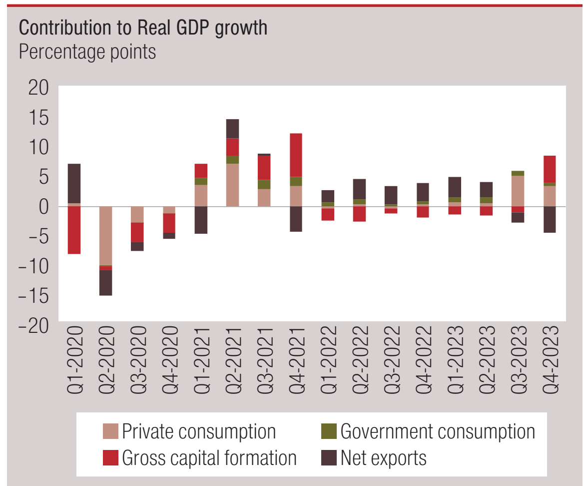

*Source*: GEP January 2024, World Bank Staff calculations.

FIGURE 2 • …the contribution of manufacturing to growth increased towards the end of 2023…




*Source*: HCP and World Bank staff calculations.

FIGURE 3 • …as did that of private consumption and gross capital formation




*Source*: HCP and World Bank staff calculations.

tor, which grew by 4.4 percent. On the demand side, gross capital formation grew by 1.5 percent, displaying a growing dynamism in the final months of the year (Figure 3). Despite the inflationary shock, private consumption increased by 3.7 percent in 2023.

## Despite a challenging international environment, the external performance of the Moroccan economy has been remarkable

**Morocco's economy is bolstering its position on the global stage.** The succession of greenfield FDI projects announced in recent months suggests that the country is becoming increasingly attractive for foreign investors. Low sovereign spreads and a stable currency are additional signs of the confidence instilled by the Moroccan economy, bolstered by large external liquidity buffers. Dynamic manufacturing and services exports together with workers' remittances have contributed to a pronounced improvement in the current account balance.

**Booming FDI announcements have the potential to present significant development opportunities for Morocco.** Although realized FDI inflows contracted in 2023, new large-scale projects

### BOX 1: MOROCCO'S TOURISM SECTOR IN THE AFTERMATH OF COVID-19

**Tourism is an important contributor to Morocco's economy, serving as a major source of revenue, employment, and foreign exchange.** According to HCP's most recent published Tourism Satellite Account, the sector contributes to approximately 7 percent of Morocco's GDP.[a] Its true economic significance is likely to be larger considering tourism's extensive interlinkages and multiplier effects across various other sectors. Tourism provides more than half a million direct jobs, about 5 percent of the labor force. As depicted in Table 1, except for the years of the pandemic, the sector generated foreign exchange receipts that have consistently hovered around 6–7 percent of GDP during the past two decades, although its participation in total exports has declined. Morocco has sustained an annual bed capacity increase of about 5.3 percent on average, but real spending per tourist has declined.

**Morocco's tourism industry staged a pronounced rebound following the relaxation of COVID-19 travel restrictions.** In 2022 tourism arrivals had already surpassed average levels of the 2010s, while setting an all-time high in 2023 with 14.5 million International tourist arrivals and MAD 104.7 billion in receipts. Among the reasons that explain this rebound was the pent-up demand that was unleashed following the end of the pandemic in emitter markets, and the large influx of the Moroccan diaspora that had been blocked from travelling in 2020 and 2021. As a result, the value added of the hospitality sector grew by 68 percent in 2022 and by 23.5 percent in 2023.

*(continued on next page)*

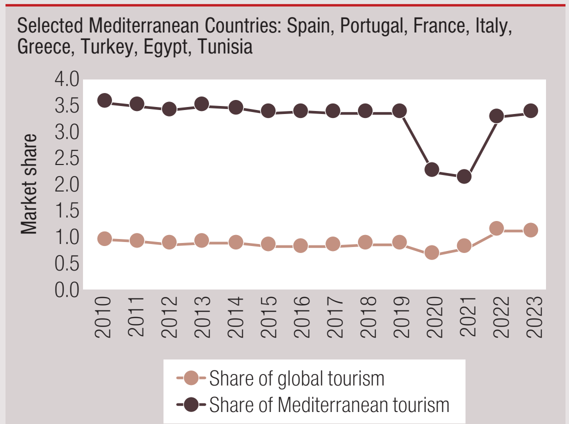
## BOX 1: MOROCCO'S TOURISM SECTOR IN THE AFTERMATH OF COVID-19 *(continued)*

TABLE 1 • Key indicators of Morocco's tourism sector

| | 2000–2010 | 2010–2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Tourist arrivals (million) | 6.2 | 10.5 | 2.8 | 3.7 | 10.9 | 14.5 |
| o/w Moroccan diaspora | 3.0 | 5.0 | 1.4 | 3.4 | 5.8 | 7.3 |
| Tourist receipts (% of GDP) | 6.6% | 6.2% | 3.2% | 2.7% | 7.1% | 7.2% |
| Tourist receipts (% of exports of goods and services) | 23.4% | 19.6% | 10.2% | 8.2% | 15.7% | 16.7% |
| Average spending per tourist (Real Dirhams) | 7,379 | 5,766 | 11,722 | 8,132 | 7,124 | 5,613 |
| Bed capacity | 115,571 | 223,877 | 276,546 | 279,635 | 283,283 | 290,833 |

**Despite recent trends, Morocco has not increased its market share among competitors in the Mediterranean basin.** World Tourism Organization statistics show that Morocco managed to slightly increase its global market share in 2022 and 2023, from 0.9 percent of total cross-border tourists prior to the pandemic to about 1.1 percent. Its market share in the Mediterranean basin remained unchanged at close to 3.4 percent, suggesting that Morocco did not outperform its closer competitors in these years (Figure 4). According to the World Tourism Organization, global tourism is forecasted to return to pre-pandemic levels in 2024, after which annual growth figures are likely to begin reverting to long-term trends. Unless Morocco succeeds at increasing its market share, the performance of the tourism sector should be expected to follow a similar path.

FIGURE 4 • Moroccan share of Tourism, 2010-2023




*Source*: Office des Changes, Ministry of Tourism, Observatoire du Tourisme, IFS, World Tourism Organization, World Bank staff calculations.
Note: share of Mediterranean tourism market includes : Spain, Portugal, France, Italy, Greece, Turkey, Egypt, Tunisia.
[a] Source: Compte satellite du tourisme de 2019, HCP.

have continued to be announced, suggesting that Morocco could be about to witness a surge in foreign investment (Box 2). Conventional wisdom holds that FDI can bolster economic growth and development by bringing in capital, advanced technologies, and managerial experience, enhancing the productivity and competitiveness of the recipient economy. However, the vast empirical literature produced on the subject provides a more nuanced assessment, and for the most part has failed to find a conclusive causal link between FDI and growth in developing countries (Bénétrix, Pallan and Panizza, 2023). Nevertheless, there are successful cases in which the contribution of FDI to development is largely recognized, such as Taiwan, Singapore, and various Chinese provinces. Beyond ensuring that announced FDI projects end up materializing, Moroccan authorities should therefore prioritize policies aimed at absorbing the positive spillovers that could emanate from upcoming investments. This would require a renewed focus on the infusion of technologies and knowhow brought by transnational firms, on developing the domestic value chains that have the greatest potential to source foreign investors and, more generally, on addressing the structural constraints facing Moroccan firms, especially small and medium enterprises (see Chapter 3).

**Country risk indicators provide further evidence of the confidence instilled by Morocco**

## BOX 2: FDI IN MOROCCO, A NEW GENERATION OF INVESTMENTS AND INVESTORS?

**Global geoeconomic fragmentation, coupled with Morocco's unique advantages in terms of geographic location, trade agreements, renewable energy potential, sound infrastructure, and stable environment, may be driving a fundamental shift in the country's FDI attraction potential.** This box highlights some indicators suggesting that this change is ongoing: a large increase in announced greenfield FDI projects, also from non-traditional investors, and a shift in the composition of investments. The push factors that may be driving these trends are recurrent supply-chain disruptions and rising geopolitical tensions, which are resulting in an increased interest on the part of transnational firms to build operational resilience through reshoring or friend-shoring. The pull factors include Morocco's geographic proximity to major markets, a sound macroeconomic management and infrastructure system, recent government efforts to upgrade the country's investment promotion landscape,[a] a vast renewable energy potential and a diversified network of Free Trade Agreements (FTAs). In fact, Morocco stands out as the only African nation with FTAs with the EU, Gulf Cooperation Council (GCC) and the US, the last of which is allowing investors to tap into incentives of the Inflation Reduction Act (IRA), notably for selected supply chains in battery components. Within this context, Morocco seems to be emerging as an attractive gateway for the localization of services and the finishing and re-exports of goods to markets in Africa, Europe, the United States, and the Middle East.

**Recent realized official gross FDI inflows have declined following the pandemic.** According to the *Office des Changes*, gross FDI inflows averaged 3.2 percent of GDP from 2012 to 2022. These inflows dipped to 2.3 percent of GDP in the initial year of the pandemic but recovered to 3 percent of GDP in 2022, before adjusting to 2.2 percent of GDP in 2023. By the end 2021, European nations and the UAE made up over 60 percent and approximately 20 percent of the FDI stock, respectively. Manufacturing accounted for 24 percent of this stock (of which 37 percent in the automotive sector), followed by real estate (19 percent), telecommunications (12 percent) and tourism (9 percent). More recent figures indicate some shifts in the origin and the sectoral composition of FDI. In 2022–23 the United

FIGURE 5 • Stock by country (2021)

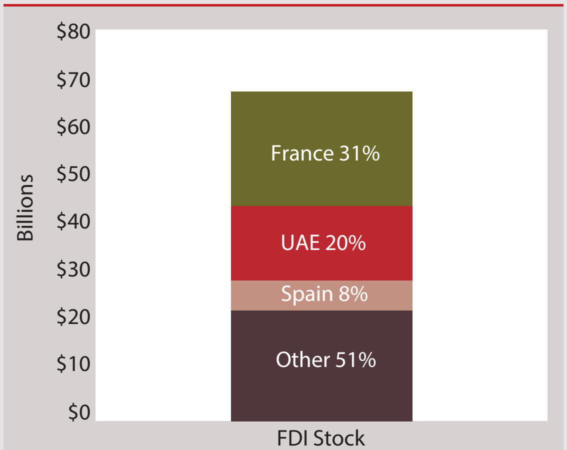



FIGURE 6 • Flows (2022-2023) by country

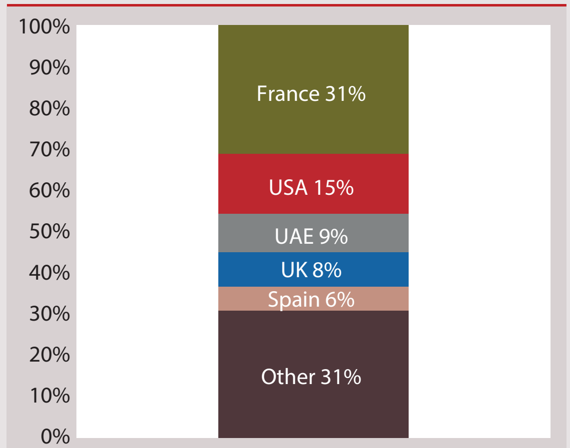



FIGURE 7 • Stock by sector (2021)

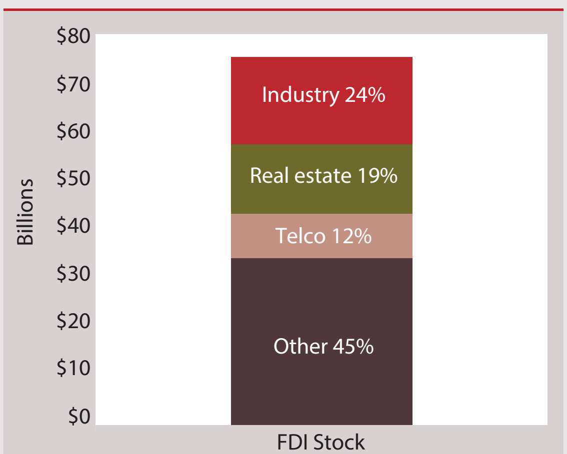
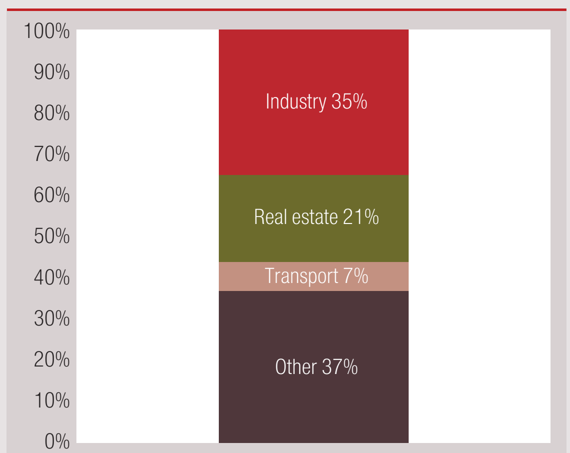



FIGURE 8 • Flows (2022-2023) by sector



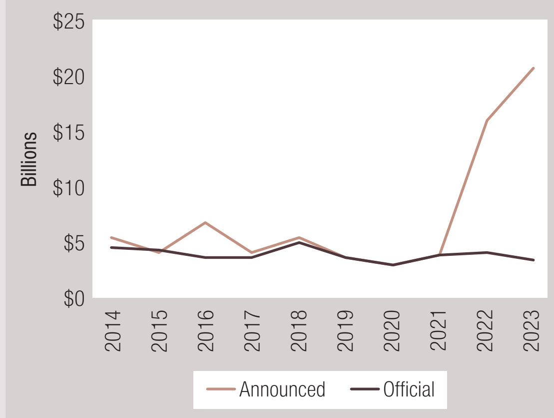

*(continued on next page)*

## BOX 2: FDI IN MOROCCO, A NEW GENERATION OF INVESTMENTS AND INVESTORS? *(continued)*

States became the second largest investor, representing 15 percent of total FDI compared to a historical 5 percent share in the FDI stock. Additionally, the participation of industrial FDI increased to 35 percent, with particularly large investments in the chemical and pharmaceutical sectors.

**However, FDI announcements are surging, marked by the robust entry of China as a major investor in Morocco.** Announced greenfield FDI by international firms has more than quadrupled, from US$3.8bn in 2021 to US$15.6bn in 2022 and US$20.4bn in 2023. China has emerged as the new leading investor, accounting for 29 percent of all announced greenfield FDI capital expenditures for 2022–2023, while European countries and the UAE accounted for 53 and 6 percent, respectively, and the US for only 1 percent. New technologies and sectors are emerging as well. Renewables remain important, as large new scale green hydrogen projects have been announced. In parallel, electronic manufacturing became the second largest target industry (19 percent), driven by battery component production for electric vehicles. Data also shows that the average capital expenditure per announced project surged to around US$210 million over 2022–2023, compared to US$48 million in over 2018–2019.

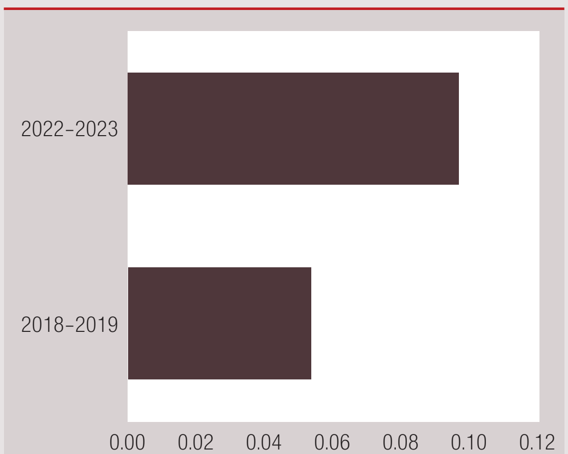
### FIGURE 9 • Greenfield FDI announcements surged




*Source*: FDI Markets, a service from the Financial Times Ltd., and Office des Changes, calculations and analyses by IFC.

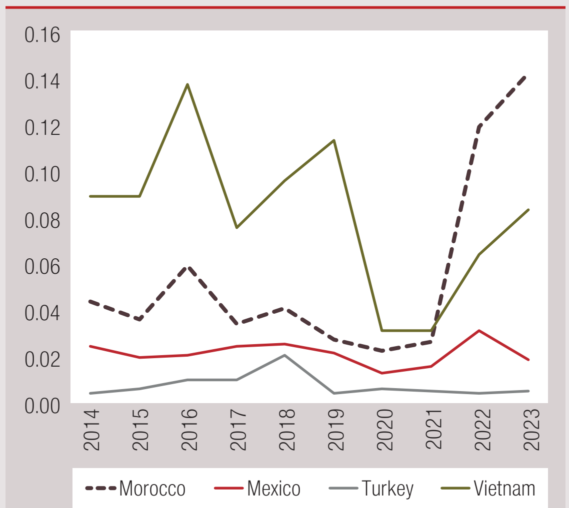
**Morocco's strong performance in attracting greenfield FDI announcements in 2023 stands in contrast with the general slowdown observed in Africa, while also surpassing that of other nearshoring destinations.** The total value of announced capital expenditures across the continent decreased by almost 10 percent in 2023, from US$196bn in 2022 to US$176bn. Morocco's share in Africa in terms of value of FDI announcements has therefore jumped to almost 10 percent over 2022–2023, compared to around 5 percent over 2018–2019. As a result, the country entered the top three of African destinations for cumulative FDI announcement value since 2014. Turkey and Mexico, two comparator nearshoring destinations, did not record a similar sustained surge in incoming greenfield FDI announcements over both 2022 and 2023 (Figure 11).

### FIGURE 10 • Share of Morocco in total announced FDI in Africa almost doubled since 2018-2019 (% of total FDI announcements in Africa)




*Source*: FDI Markets, a service from the Financial Times Ltd., and Office des Changes, calculations and analyses by IFC.

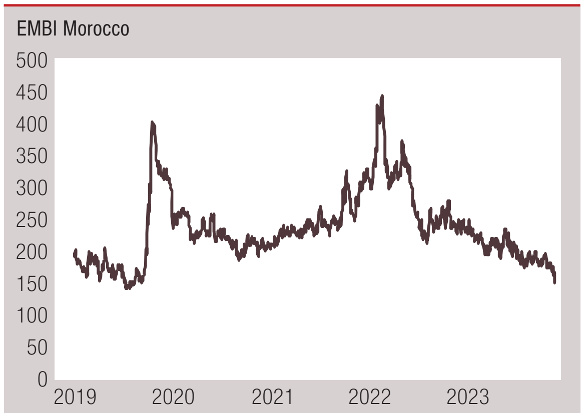
### FIGURE 11 • FDI Morocco outperformed peers (FDI announcements as a share of GDP)




*Source*: FDI Markets, a service from the Financial Times Ltd., and Office des Changes, calculations and analyses by IFC.

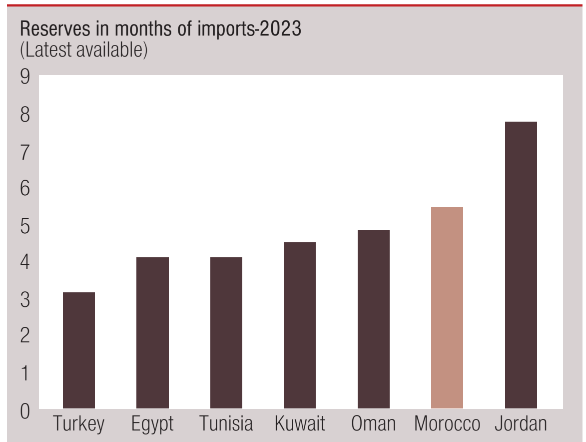
[a] The Ministry of Investment, Convergence and Evaluation of Public Policies was established in 2021 to proactively raise FDI in strategic sectors. Next to this, the authorities updated the Investment Charter in 2022, expanding incentives for foreign investment, and institutional changes have ensured a closer integration between Morocco's Investment and Export Development Agency (AMDIE) and the 12 Regional Investment Centers (CRIs).

FIGURE 12 • The market's perception on Morocco's country risk has improved markedly…




*Source*: HCP and World Bank staff calculations.

FIGURE 13 • …bolstered by the country's solid external liquidity buffers



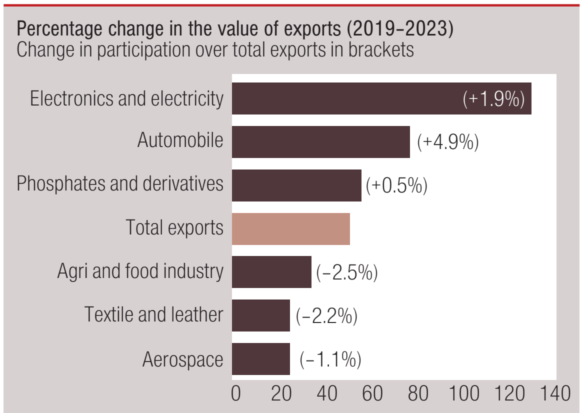

*Source*: HCP and World Bank staff calculations.

**internationally.** The EMBI spread is comparatively low and has compressed significantly over recent quarters, from a peak of 441 basis points in mid-July 2022 to 186 basis points on average in the first quarter of 2024, close to pre-pandemic levels (Figure 12). This has eased the sovereign's access to international capital markets, as evidenced by the large oversubscription of recent bond issuances even when they have coincided with phases of uncertainty in the global economy, as was the case of that of March 2023. The market's trust in the Moroccan economy is likely to have been bolstered by strong external liquidity buffers. Indeed, as of February 2024, Morocco was among the MENA economies with the largest stock of international reserves (Figure 13) and has a long track record sustaining a stable exchange rate without resorting to foreign exchange market interventions. The USD 5 billion made available under the Flexible Credit Line, the IMF precautionary facility that is reserved for countries with very strong fundamentals, has added another layer of protection against external shocks. In this context, Standard & Poor's has recently revised Morocco's outlook to BB+/B, suggesting that progress is being achieved towards regaining investment grade, which was lost during the Covid-19 pandemic.

**The post-pandemic impulse of some capital-intensive industries is resulting in a substantial change in the composition of Moroccan exports.** Transport equipment exports are up by 76.9 percent since the year that preceded the COVID-19 pandemic, while electronics' exports have progressed by close to 129 percent (Figure 14). As a result, the participation of these two product groups over total exports has increased from 31.8 to 38.6 percent. In 2023, the strong dynamism of these exports was offset by the underperformance of phosphates (34.1 percent decline) after an extraordinary 2022. Overall, these changes in the composition of Morocco's export basket suggest that its economy is moving up in the complexity spectrum following the COVID-19 pandemic, which has been shown to be a powerful engine for long-term development (Hidalgo and Haussman, 2009). On the other hand, the emerging export-oriented industries are highly capital intensive which could contribute to explain the disappointing job-creation performance of the Moroccan economy (see below).

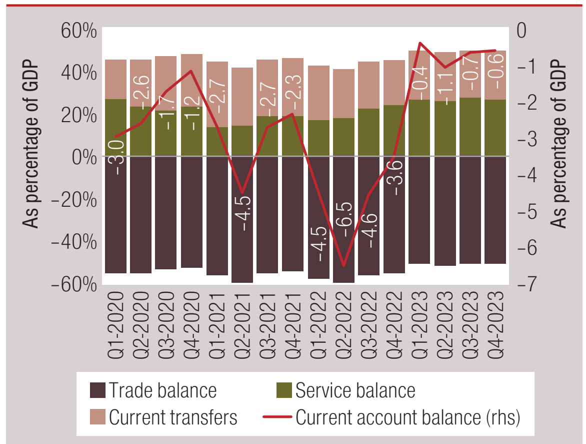
**The current account deficit has declined to its lowest level since 2007.** It closed 2023 at just 0.6 percent of GDP, against 3.6 percent of GDP in 2022 and an average of 3.7 percent over the past decade. This improvement was primarily driven by the dynamism of key services and merchandise exports and by a 20.4 percent reduction in energy imports, the equivalent of almost 2.2 percent of GDP. Remittances have become an increasingly important component of the current account as well as a crucial financial lifeline helping Moroccan households navigate through turbulent times. Gross remittances have amounted to about

FIGURE 14 • The economic complexity of Morocco's export basket is increasing




*Source*: Office exchange and World Bank staff calculations.

FIGURE 15 • The current account balance narrowed in 2023




*Source*: Office exchange and World Bank staff calculations.

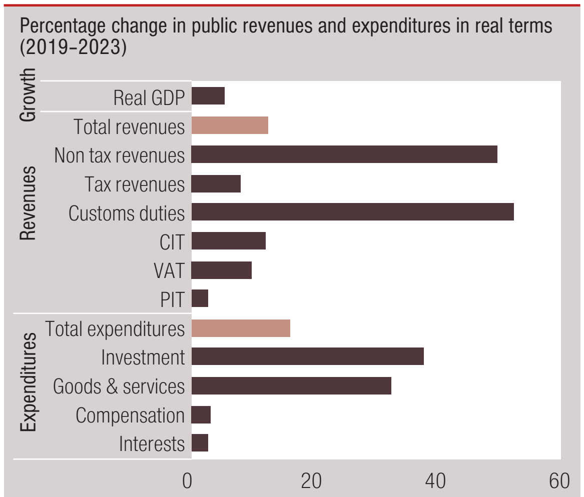
8 percent of GDP over the past three years against 5.2 percent of GDP prior to the pandemic. Last year they were enough to cover 93 percent of the trade deficit, up from 67 percent in 2019 (81 percent in 2020 and 2021). According to the World Bank KNOMAD database, Morocco has become the fourteenth largest recipient of remittances in absolute terms (excluding high income countries), and the eleventh LMIC with the highest remittances as a share of GDP. The increase in remittances observed in Morocco since the pandemic has far exceeded global trends (74 percent vs. an 18 percent increase).

## A supportive macroeconomic stance has contributed to the acceleration of economic growth

**The size of the Moroccan public sector has grown substantially following the pandemic, sustaining aggregate demand through recent shocks.** Between 2019 and 2023 central government spending increased by 16 percent in real terms, against an expansion of 5.4 percent in Morocco's GDP (Figure 16). As a result, the relative size of the central government increased from 23.7 to 27.1 percent of GDP. Public investment was particularly dynamic after 2021, in part reflecting the government's effort to confront the prolonged drought with the deployment of new water infrastructure. In contrast with public investment, gross capital formation as reported in national accounts' statistics has barely recovered to pre-pandemic levels. This suggests that despite the ambitious targets set by the New Development Model, the participation of the private sector in total investment has declined further in recent years, justifying the analysis presented in Chapter 3.

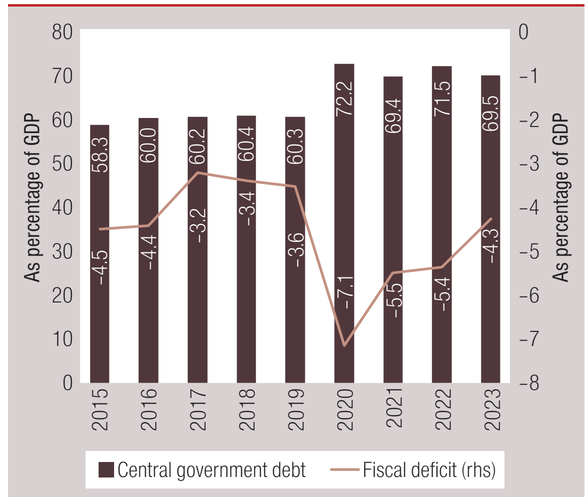
**The solid performance of public revenues has allowed the government to reduce the budget deficit.** Total revenues have increased by 12.7 percent in real terms between 2019 and 2023, which led to an increase in their share in GDP from 20.4 percent to 22.7 percent. Tax revenues have contributed to 71 percent of that increase in total revenues, led by the expansion of VAT collection (+19 percent) and CIT (+21 percent). This reflects the ongoing implementation of the tax reform, which has prioritized the broadening of the tax base and the elimination of several distortions in the structure of the CIT and the VAT. In addition, the tax administration is leading an effort to combat fraud and tax evasion, and the outcomes are beginning to show in the data. The progression of non-tax revenues has been even more pronounced in relative terms (+50 percent between 2019 and 2023), led among others, by an increasing resort to sale and lease-back operations (the so-called innovative financing operations), which since 2020 have generated an accumulated US$ 6.2 billion for the central government. These operations imply the transfer of public assets off the central government balance sheet and

FIGURE 16 • The size of the public sector has increased substantially since COVID-19…




*Source*: HCP and World Bank staff calculations.

FIGURE 17 • …but dynamic revenues are keeping the budget deficit on a downward trajectory




*Source*: HCP and World Bank staff calculations.

hence should not be considered recurrent sources of revenue. In addition, the government continues to raise revenues through special treasury accounts for specific purposes, such as the response to the Al Haouz earthquake (MAD 20 billion collected in 2023). Overall, this has allowed the government to progressively reduce the budget deficit, from a peak of 7.1 percent of GDP during the first year of the pandemic to 4.3 percent of GDP in 2023, broadly stabilizing public debt as a ratio of GDP (Figure 17).

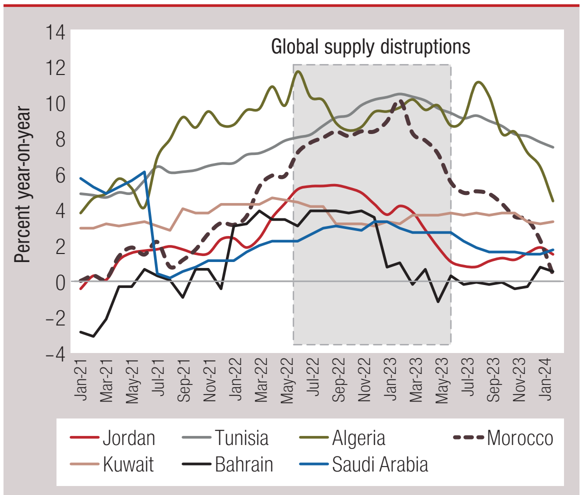
**Morocco's comparatively rapid disinflation process affirms the effectiveness of Bank Al-Maghrib's cautious response to the recent price shock.** Headline inflation declined by almost 10 percentage points between February 2023 and February 2024. Consistent with the supply-driven nature of the shock, easing price pressures were initially led by energy and food, and gradually become more widespread. Indeed, core inflation has declined from a peak of 8.5 percent in February 2023 to 2.4 percent in March 2024 (latest available data at the time of writing). Notably, the recent decline in inflation has been more abrupt in Morocco than in most other MENA countries (Figure 18). It has also been faster than in advanced economies, where the inflationary shock had a demand-driven component that was absent in Morocco. This vindicates BAM's decision to pause the monetary policy tightening cycle early (Figure 19), which has minimized the disruptions that a larger increase in interest rates could have had on the domestic economy. With this rapid easing of price pressures, Morocco's monetary policy rate has recently returned to positive territory if using the most recent annual inflation data point and is close to doing so if using three-year inflation expectations.

## But Moroccan firms and households are struggling to recover from recent shocks

**Despite the general improvement in economic conditions, several indicators suggest that firms and households remain under stress.** Business insolvencies are on the rise, suggesting that a growing number of firms is proving unable to cope with the cumulative impact of recent shocks. Inflation has eroded households' real disposable income and job creation remains weak. In this context, the ongoing deployment of the government's new targeted cash transfer (the Direct Social Aid Program) will provide significant relief for poorer households.

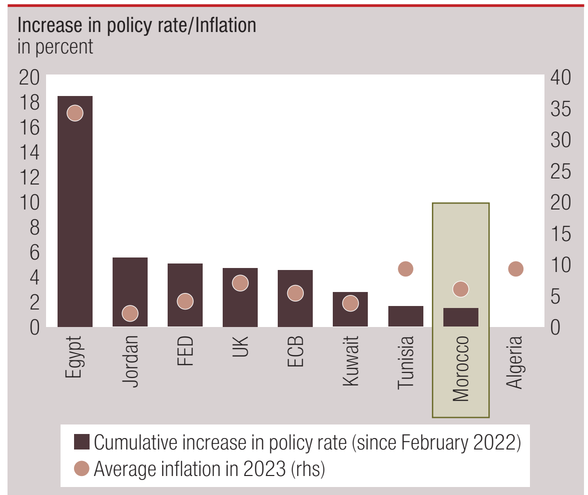
**Morocco is witnessing a pronounced increase in business insolvencies.** The latest annual report from the Moroccan Observatory of SMEs (OMTPME) shows a significant increase in the

FIGURE 18 • the disinflation process has been comparatively fast in Morocco…



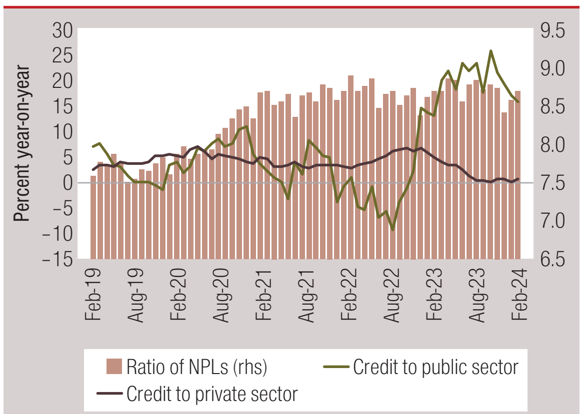

*Source*: HCP and World Bank staff calculations.

FIGURE 19 • … despite BAM's modest monetary policy tightening



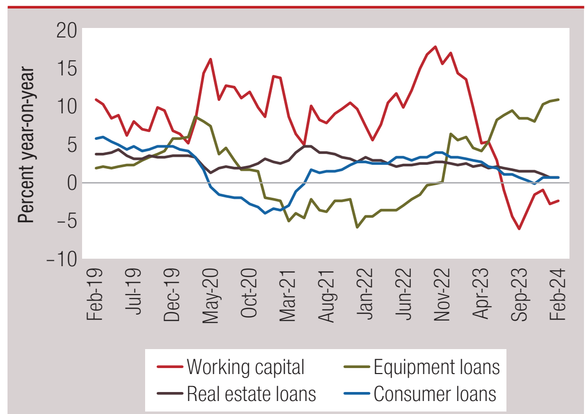

*Source*: HCP and World Bank staff calculations.

FIGURE 20 • Credit to the private sector slowed in 2023…




*Source*: Bank-Al-Maghrib and World bank staff calculations.

FIGURE 21 • …especially for short-term liquidity loans

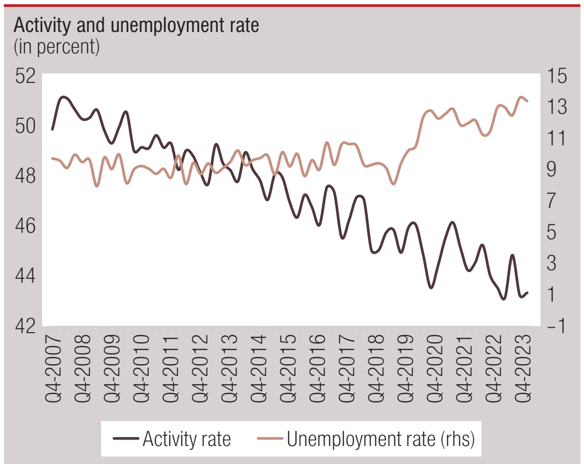



*Source*: Bank-Al-Maghrib and World bank staff calculations.

number of firms going through a formal dissolution process in recent years, up by 8.5 and 28 percent in 2021 and 2022 respectively when compared to pre-pandemic levels. According to Allianz Trade Global Insolvency Report this trend continued through 2023, turning Morocco into one of the countries with the fastest acceleration of business insolvencies among those included in their database (Allianz Trade, 2024). A lesser availability of financing may have contributed to recent insolvency trends. Indeed, credit to the private sector slowed in 2023, in contrast with the double-digit expansion of credit to the public sector (Figure 20). Most notably, short-term (working capital) lending abruptly shifted from double digit growth rates to a pronounced contraction (Figure 21). Combined with their structurally low capitalization levels, this may have left a growing number of firms unable to bridge liquidity shortages resulting from recent shocks.

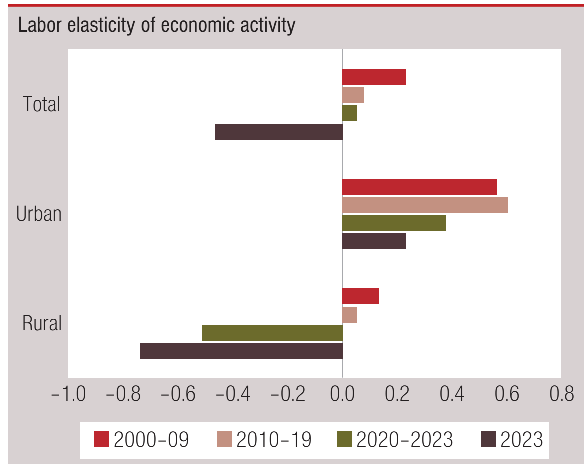
**Despite the acceleration of economic growth, the performance of the labor market remained underwhelming in 2023.** Even though agricultural value added expanded in 2023, rural areas suffered a net loss of 198 thousand jobs, only partly compensated by the creation of 41 thousand jobs in

FIGURE 22 • Labor markets indicators have worsened significantly…




*Source*: HCP and World bank staff calculations.
*Note*: The labor elasticity of employment is calculated as the ratio of the percentage change in total employment from one year to the next to the percentage change in real GDP over the same period. Urban Employment Elasticity is determined by dividing the percentage change in urban employment by the percentage change in non-agricultural GDP. Similarly, Rural Employment Elasticity is calculated by dividing the percentage change in rural employment by the percentage change in agricultural GDP.

FIGURE 23 • …the responsiveness of job creation to economic activity has declined




*Source*: HCP and World bank staff calculations.
*Note*: The labor elasticity of employment is calculated as the ratio of the percentage change in total employment from one year to the next to the percentage change in real GDP over the same period. Urban Employment Elasticity is determined by dividing the percentage change in urban employment by the percentage change in non-agricultural GDP. Similarly, Rural Employment Elasticity is calculated by dividing the percentage change in rural employment by the percentage change in agricultural GDP.

urban areas. In this context, inactivity continues to rise in Morocco, and by the first quarter of 2024 had reached 57.4 percent (53.3 percent in 2017), disproportionately affecting women (81.7 percent) and young Moroccans (78.5 percent). Unemployment is also on the rise, having peaked at 13.7 percent (17.6 percent in urban centers), more than 4 p.p. higher than before the pandemic. In this context, the government has emphasized that job creation will be atop of its agenda during the second half of the current legislature.

**The long-term trends observed in the labor market reflect the weakening growth performance of the Moroccan economy, but also a decline in its labor intensity.** As discussed in greater detail in Chapter 3, real GDP growth has tended to decline since the turn of the Century, especially with the succession of overlapping exogenous shocks that followed the COVID-19 pandemic. A compounding factor has been that the elasticity of employment to growth, a measure of the responsiveness of job creation to economic activity, has also declined substantially (Figure 23). The negative value observed in 2023 for that indicator, however, constitutes a clear anomaly in the historical series. This raises the question of whether a significant number of respondents to the labor market surveys (in particular, non-salaried rural workers, which concentrated most of the job losses in 2023) is misreporting their real work situation for fear of losing their eligibility to non-contributory health insurance program deployed as part of the ongoing reform. But the long-term trend observed in employment elasticities also suggests that some of the activities that have driven growth in recent years, like export-oriented agriculture or the new thriving manufacturing niches described above, have a lower labor intensity than traditional sectors. This structural transformation process may also contribute to explain the ongoing decline in female labor force participation. Indeed, there is evidence that the capital-intensive industries that are driving manufacturing sector growth have a higher male-to-female employment ratio than the light manufacturing on which Morocco tended to specialize in the past (Acevedo and Robertson, 2023)[1].

[1] Although focusing on three countries (the Arab Republic of Egypt, Morocco, and Tunisia), this study gives us broader lessons on how to solve the apparent puzzle of greater exposure to trade not being followed by greater labor market outcomes in the region. It points out, among other factors, how market segmentation by gender shapes the effects of trade shocks like higher exports.

## BOX 3: RECENT WORLD BANK RESEARCH ON INSTITUTIONAL TRUST IN MOROCCO

There is a well-established literature on the importance of trust in government and public action for economic development.[a] Among other channels, higher levels of trust have been found to positively associated with private investment and economic growth, social cohesion, and wellbeing. Trust is also at the core of Morocco's New Development Model (NDM), which prone to o "Free the energies and restore trust to accelerate the march towards progress and prosperity for all".

The World Bank has recently published a study on trust in Morocco,[b] based on a phone survey of about 6,000 respondents, making the data publicly available.[c] Some of the key takeaways produced by that analysis are the following:

1. Trust levels vary considerably between individuals, with males and older individuals more likely to trust institutions than women and younger citizens. Low- and high-income individuals also express higher trust in institutions than citizens in the middle-income group.
2. Institutions tasked with ensuring law and order (justice, police, army) are endowed with higher levels of trust than executive or legislative institutions, a dynamic that is also observed in other countries of the MENA region.
3. Trust is correlated with citizen's levels of optimism. Individuals with higher levels of confidence in government are more likely to perceive that they are free and have control over their own lives, and that their country and society can change through their individual choices and actions.
4. Individuals with higher levels of institutional trust are more likely to be willing to pay redistributive taxes than citizens with low levels of trust.
5. Higher levels of trust increase citizen's willingness to cooperate, and thus facilitates the implementation of public policies. This was particularly apparent during the COVID-19 pandemic, as citizens who trusted the government were more likely to be willing to get vaccinated.

[a] See Kumagai and Iorio, 2020 for a review of the literature.
[b] https://www.worldbank.org/en/country/morocco/brief/maghreb-technical-notes.
[c] https://microdata.worldbank.org/index.php/catalog/6187.

**Reflecting the cumulative impact of recent shocks on welfare, per capita consumption has only barely returned to pre-pandemic level.** Real household consumption per capita declined by 6.6 percent during the first year of the pandemic, and partially recovered in 2021. It contracted again in 2022 (by 1 percent) as households' real purchasing power was eroded by inflation, only returning to pre-pandemic levels in 2023. Between 2019 and 2023 household consumption has increased by just 0.5 percent, as compared to a cumulated growth of 6 percent in the previous four years (2015–2019). Moreover, these aggregate trends are unlikely to be homogenously distributed across levels of income. Indeed, as discussed in previous editions of this report, given that food items, for which price pressures have been more intense, absorb a higher share of poor and vulnerable households' consumption baskets, the adverse impact of the shock is likely to have been higher on this group.

**The government's new direct social aid program is poised to provide an important relief for poorer households**. The new cash transfer has increased the amount of financial aid directed at Moroccan households, while improving its targeting through the Unified Social Registry and tackling the complexity and fragmentation of previous social protection schemes. Once fully deployed in 2026, it will grant monthly payments of 200 dirhams per children with a minimum of 500 dirhams per family (equivalent to US$50), including those without children. Additionally, a sum of 2,000 dirhams (US$ 200) will be disbursed for the birth of the first child, and 1,000 dirhams for each subsequent one. The new scheme is comparatively generous, extending benefits to the first six deciles of the income distribution. The total financial assistance mobilized through the new program is set to offer significant relief to mitigate the social impact of recent and future shocks. It is hence expected to result in a significant improvement of income distribution and poverty indicators. Between December 2, 2023 and March 31, 2024, more than 3.5 million families received direct aid. Additionally, at least 1.4 million childless families received a monthly lump sum allowance of 500 dirhams.

# 2

# OUTLOOK AND RISKS

## Outlook

**The Moroccan economy is expected to experience a moderate slowdown in 2024 and to return to a more dynamic growth trajectory in 2025.** Overall GDP growth is projected at 2.9 percent in 2024, pulled by the expected contraction of the agricultural sector, which continues to be impacted by a persistent and severe drought. Conversely, the non-agricultural sector is expected to accelerate, bolstered by the industrial sector's robust performance, along with a recovery in household consumption and private investment. Assuming that cereal production returns to normal levels in the subsequent years, it is projected that economic growth will pick up, to 4 percent in 2025 and average 3.6 percent over the medium term.

**The agricultural sector is set to contract in 2024 due to adverse weather conditions**. The season began with sparse and sporadic rainfall, followed by exceptionally high temperatures early in 2024, which have severely impacted the autumn and winter crops. Although recent months have seen increased rainfall, benefiting some of the spring crops, this has not been sufficient to offset a sharp decline in cereal production. Projections now estimate the harvest to be less than 40 million quintals for the 2023–24 season, a significant drop from the 55 million quintals recorded the previous year. Consequently, it is expected that the agricultural value added will decrease by 3.3 percent in 2024. This downturn is likely to negatively influence the incomes and consumption of rural households and heighten the nation's dependence on cereal imports to satisfy local demand.

**Non-agricultural growth is expected to firm-up to 3.7 percent in 2024, underpinned by a robust industrial sector, which offsets a slight deceleration in the services sector.** The first four months of 2024 have seen automobile and aeronautics exports expand at a double-digit rate, a trend that is anticipated to continue throughout the year. The phosphates and fertilizers sector is also expected to see an upswing in 2024, following a lackluster performance in 2023. Moreover, a notable increase in cement sales—3.5 percent year-on-year in the January–April period and a sharp 21 percent rise in April alone—indicates a strengthening in construction activity. This upturn will likely be spurred by projects related to the upcoming African Cup of Nations in 2025/2026 and the 2030 World Cup. Additionally, the launch of the High Atlas Development Agency is

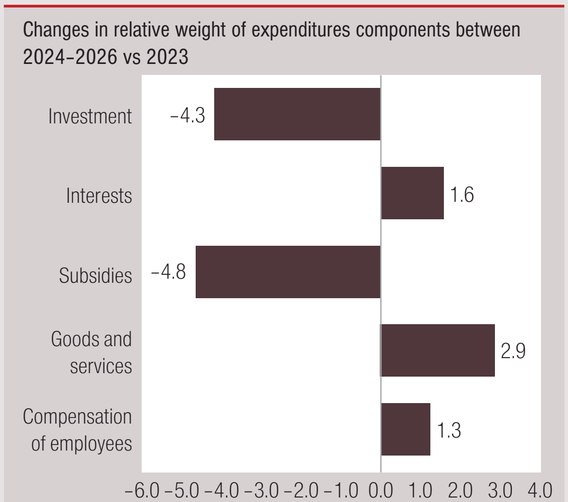
## BOX 4: MEDIUM-TERM ORIENTATION OF MOROCCO'S PUBLIC FINANCES

**This box summarizes key trends in the medium-term budgetary framework (2024–2026).** Overall, the government's medium-term budget aims at striking a balance between restoring fiscal margins, reinforcing the social safety net, and executing major structural reforms. It targets a reduction of the budget deficit to 3 percent of GDP in 2026 (close to the average deficit in the three years that preceded the pandemic), and a reduction of the primary deficit to less than 1 percent of GDP.

**On the expenditure side, the government is reallocating subsidies to fund the Direct Social Assistance Program and intends to leverage public-private partnerships to curb investment spending.** Significant changes in the composition of public spending are expected for 2024–2026 (Figure 24). The government has started a new cash transfer program costing 1.6 percent of GDP annually on average. It will be partly funded by savings from the phasing out of certain subsidies that have already began (the price of the 12 kg butane gas bottle increased by 25 percent in May 2024) and the consolidation of pre-existing social programs. Employee compensation is set to rise by 4.5 percent annually until 2026, but its projected GDP share will decrease slightly. Investment spending will fall by 3.3 percent annually, with PPPs expected to play a growing role in financing infrastructure and environmental projects. As a result, central government investment is projected to fall to 6.2 percent of GDP, down from 7.7 percent. Overall, public spending growth is limited to an average of 3.1 percent annually over the next three years. This would reduce the size of the central government, from 26.9 percent of GDP in 2021–2023 to 25.5 percent in 2024–2026.

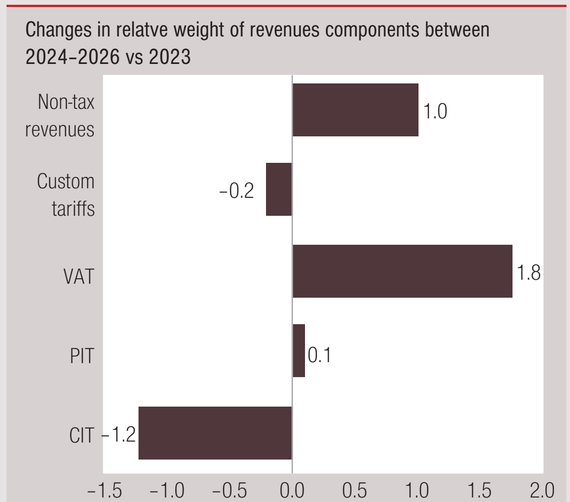
**On the revenue side, the government is expediting tax reforms, with a focus on Value-Added Tax (VAT) adjustments in 2024.** Total revenues as a share of GDP are expected to moderately increase from 21.8 percent of GDP in 2021–2023 to 22 percent in 2024–2026. The ongoing tax reform is expected to lead to a substantial increase in the participation of the VAT over total revenues, which will compensate for a reduction in Corporate Income Tax (CIT) revenues resulting from the measures included in the 2023 budget law (Figure 25). Non-tax revenues will rely mainly on asset recycling operations, which are expected to mobilize close to 2.2 percent of GDP annually between 2024 and 2026 (35 billion dirhams).

FIGURE 24 • Changes in the relative weight of expenditure components between 2024-2026 vs 2023




*Source*: MEF and WB staff calculations.

FIGURE 25 • Changes in the relative weight of revenues components between 2024-2026 vs 2023




*Source*: MEF and WB staff calculations.

poised to expedite rebuilding in regions impacted by the Al Haouz Earthquake in September 2023. While service sector growth is forecasted to remain strong, it is expected to experience a slight slowdown to 3.7 percent as the tourism industry begins to align with its long-term trend.

**Domestic demand is anticipated to strengthen, driven by a recovery of private consumption and investment spending.** After a downturn in 2022 due to inflationary pressures household consumption recovered in 2023. It is expected to grow by 4 percent in 2024, buoyed by subsiding inflation, robust remittances, and the new cash transfer program introduced by the government. Despite potential short-term fluctuations caused by rising butane gas prices amid the ongoing subsidy reform, inflation is projected to stabilize around 2 percent. Net Foreign Direct Investment (FDI) into Morocco has significantly surged (+110 percent year-on-year) from January to May, a dynamism that is likely to continue as previously announced projects start to materialize (see Box 2). This should contribute to a recovery in private investment. With the acceleration of domestic demand, net exports are expected to make a negative contribution to growth.

**The current account deficit, which narrowed in 2023, is anticipated to widen in 2024.** It is projected to grow to 1.5 percent of GDP in 2024, up from 0.6 percent in 2023, driven by a recovery in domestic demand and an increase in cereal imports. Despite this, the dynamic performance of manufacturing and service exports, along with workers' remittances, is expected to help keep the current account deficit below 3 percent of GDP in the medium term. The deficit will likely be financed by long-term official debt and foreign direct investment (FDI) inflows. Foreign exchange reserves should stabilize at around 5.5 months of imports, thereby providing a substantial buffer against external shocks.

**The budget deficit is projected to stabilize at 4.4 percent of GDP, with an expected return to pre-pandemic levels by 2026.** The government's fiscal consolidation strategy is centered on the mobilization of tax and non-tax revenues coupled with the containment of public spending, including the progressive removal of butane gas subsidies to finance the new targeted cash transfer programs. Significant strides have been made since the ongoing tax reform was launched in 2021, which has begun the gradual standardization of corporate tax rates, strengthened personal income taxation, and streamlined VAT rates.[2] Additionally, the government plans to continue engaging in innovative financing operations to reduce the deficit. Overall, this fiscal stance is anticipated to result in a steady reduction in the budget deficit that would allow the public debt ratio to gradually decline over time and remain below 70 percent of GDP.

## Risks

**Morocco's labor market could remain under significant stress, particularly in rural areas.** As highlighted in the first chapter, these areas experienced a notable decline in employment in 2023, despite an increase in agricultural value added during the same period. This situation could worsen in 2024, as agricultural production is now decreasing. The recent rise in inactivity and unemployment could partly be attributed to misreporting issues. This may stem from the health and social protection reform currently underway, which might incentivize non-salaried workers to report themselves as inactive. A clear grasp of the incentives created by the reform for this category of workers is thus crucial to avert unintended impacts on the labor market.

**Innovative financing (sale and lease-back) operations create a stream of future payment obligations from the State.** The details of these transactions are not publicly disclosed, but it is understood that they will result in higher current expenditures due to rental payments for the involved assets. These transactions represent non-recurring revenue sources, and when assessing structural budget balances, the notion that the post-pandemic fiscal deficit has improved becomes more nuanced. Although this approach may be justified in light of the series of exogenous shocks experienced by the Moroccan economy in recent and the need to sustain public investment, continuing to closely monitor the use and impact of this instrument as well as to provide full transparency of its use will be important. According to the authorities, the upcoming medium-term budget (published alongside the budget law) will provide additional information on the budgetary impact of innovative financing operations.

**Certain elements of the ongoing reform of the national health insurance system (AMO) generate fiscal risks that deserve careful consideration.** This is the case particularly for the scheme

2 The reform reduces the number of VAT rates from the current four (7, 10, 14, and 20 percent) to two (10 and 20 percent) over 2024–2026. It also introduces a withholding and self-declaration option that allows buyers of goods and services to collect and pay the VAT from non-compliant and non-registered suppliers, among other measures to improve collection.

TABLE 2 • Morocco selected economic indicators FY19-26

| | | | | | Estimated | Projected | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **Real Economy** | (annual percent change, unless otherwise indicated) | | | | | | | |
| Real GDP | 2.9 | −7.2 | 8.2 | 1.5 | 3.4 | 2.9 | 4.0 | 3.6 |
| Agricultural GDP | −5.0 | −8.1 | 19.5 | −11.3 | 1.4 | −3.3 | 9.5 | 0.7 |
| Non-Agricultural GDP | 3.8 | −7.1 | 6.9 | 3.2 | 3.6 | 3.7 | 3.6 | 4.0 |
| Industry | 4.1 | −5.2 | 7.8 | −2.7 | 1.3 | 3.0 | 3.2 | 3.3 |
| Services | 3.9 | −7.9 | 5.7 | 6.8 | 4.4 | 3.7 | 3.5 | 4.2 |
| Private Consumption | 2.2 | −5.6 | 6.8 | 0.0 | 3.7 | 4.0 | 4.2 | 3.7 |
| Government Consumption | 4.8 | −0.6 | 7.2 | 3.0 | 4.1 | 4.6 | 4.1 | 3.6 |
| Gross Fixed Capital formation | 1.7 | −10.0 | 7.5 | −4.0 | 1.9 | 3.9 | 4.3 | 4.5 |
| Exports, Goods and Services | 5.1 | −15.0 | 7.9 | 20.5 | 8.8 | 7.6 | 8.3 | 8.1 |
| Imports, Goods and Services | 2.1 | −11.9 | 10.4 | 9.5 | 7.4 | 8.2 | 6.3 | 7.0 |
| Unemployment rate (ILO definition, in percent) | 9.2 | 11.9 | 12.3 | 11.8 | 13.0 | – | – | – |
| Inflation (average CPI, in percent) | 0.2 | 0.7 | 1.4 | 6.6 | 6.1 | 1.5 | 2.7 | 2.4 |
| **Fiscal accounts** | (in percent of GDP) | | | | | | | |
| Expenditures | 27.4 | 34.1 | 31.3 | 34.1 | 33.0 | 33.1 | 30.8 | 29.5 |
| Revenues, including all grants | 23.8 | 27.0 | 25.8 | 28.7 | 28.6 | 28.6 | 27.0 | 26.3 |
| Budget Balance | −3.6 | −7.1 | −5.5 | −5.4 | −4.3 | −4.4 | −3.8 | −3.3 |
| Central Government Debt | 60.3 | 72.2 | 69.4 | 71.5 | 69.5 | 70.0 | 68.6 | 67.2 |
| **Balance of payments** | (in percent of GDP, unless otherwise indicated) | | | | | | | |
| Current Account balance | −3.4 | −1.2 | −2.3 | −3.6 | −0.6 | −1.5 | −2.8 | −2.5 |
| Imports, Goods and Services | 42.0 | 38.1 | 42.4 | 56.3 | 51.1 | 52.2 | 53.6 | 53.1 |
| Exports, Goods and Services | 34.2 | 30.8 | 33.2 | 44.8 | 42.8 | 44.4 | 44.8 | 45.4 |
| Net Direct Investment | 0.6 | 0.8 | 1.1 | 1.2 | 0.2 | 1.0 | 1.1 | 1.2 |
| Gross official reserves (bln US$, eop) | 26.4 | 36.0 | 35.6 | 32.3 | 36.3 | 38.6 | 39.5 | 40.4 |
| In months of imports | 6.9 | 7.1 | 5.3 | 5.4 | 5.5 | 5.3 | 5.4 | 5.6 |
| Local currency per U.S. dollar (period average) | 9.6 | 9.5 | 9.0 | 10.2 | 10.1 | – | – | – |
| **Memo items** | | | | | | | | |
| **Nominal GDP (in billion dirhams)** | 1240 | 1152 | 1277 | 1331 | 1463 | 1529 | 1633 | 1732 |

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

that is being deployed for non-salaried workers (AMO-TNS), which has been designed to be financially balanced under the assumption that the vast majority of such workers contribute to the system and that its benefits are close to those received by formal employees. So far, a low share of non-salaried workers has enrolled, while those that are covered have abnormally high claim rates, which is resulting in a deficit that is still manageable, but which could increase over time.

**After five consecutive years of drought, water scarcity is posing a growing threat to the Moroccan economy and society.** Morocco has seen rainfall below average since 2019, affecting dam replenishment and leading to overuse of groundwater. The government is countering the water shortage by constructing infrastructure like desalination plants. Erratic weather may continue to exacerbate the volatility of agricultural production (and thus overall GDP growth), causing hardship for rural populations. Continued low rainfall may compel the government to enforce more water restrictions on irrigation and other sectors, potentially hampering economic growth.

3

# PRIVATE SECTOR DYNAMICS IN MOROCCO

*As famously stated by Paul Krugman in 1994, "Productivity isn't everything, but in the long-term it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker" (Krugman, 1994). This claim is substantiated by a rich body of empirical contributions showing that the bulk of cross-country differences in per capita income levels can be attributed to productivity differentials, i.e., the amount of output that countries produce with the same amount of inputs.*[3] *Moreover, the literature suggests that the importance of productivity as a determinant of economic growth increases with countries' income level, and becomes critical to overcome the so-called "middle-income trap". This is fully aligned with the diagnosis offered by the New Development Model, which emphasizes the role that productivity and private sector dynamism needs to play for Morocco to transition towards a more robust growth trajectory. The analysis presented in this special focus chapter focuses on productivity trends in Morocco both from a macroeconomic and a microeconomic perspective. It has been produced in collaboration with the Moroccan Observatory for SMEs (OMTPME), exploiting a novel firm-level database built from administrative sources. It anticipates some of the findings that will be included in a more comprehensive report on private sector dynamics and productivity, which is scheduled to be jointly published by the World Bank and OMTPME in the coming months.*[4]

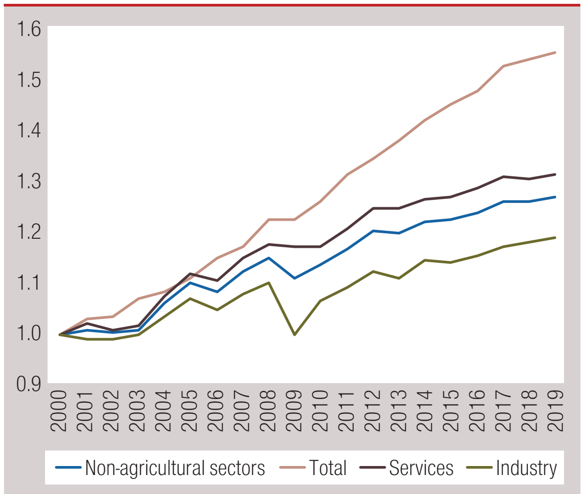
## Aggregate productivity trends

**This section uses two indicators of aggregate productivity (Labor Productivity and Total Factor Productivity) and compares Morocco with various benchmark countries.** Labor productivity measures the output produced per unit of labor input (value added per worker). It thus focuses specifically on the contribution of labor to production, as opposed to Total Factor Productivity (TFP), which captures the overall efficiency of all inputs used in the produc-

[3] See, for example Easterly and Levine (2001), Daude and Fernández-Arias (2010), Bulman, Eden and Nguyen (2017).

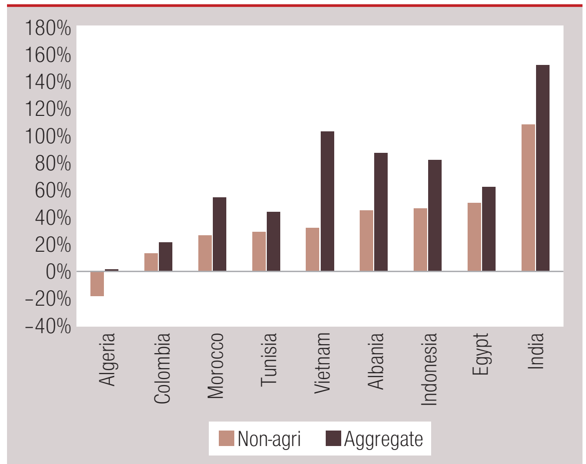
[4] The key messages presented below are consistent with the findings of a recent publication by HCP which also uses firm-level data to analyze the dynamics of the industrial sector (HCP, 2024).

FIGURE 26 • Labor productivity (2000=1)




*Source*: WB staff calculations based on World Development Indicators.

FIGURE 27 • Cumulative growth of labor productivity (2000-2019)




*Source*: WB staff calculations based on World Development Indicators.

tion process.[5] We compare Morocco with structural peers in North Africa (Algeria, Tunisia and Egypt) and with two categories of aspirational peers selected on the basis of the objectives of the New Development Model: (i) Albania, Bosnia and Herzegovina, and Colombia, upper middle income economies (UMICs) that currently have a level of per capita income twice as high as Morocco (the flagship NDM target); (ii) India, Indonesia and Vietnam, high-growth economies that have managed to double their per capita income levels in the 21st century.

**Although total labor productivity has increased significantly since the turn of the century, that of non-agricultural sectors of the economy has lagged.** Total value-added per worker increased by 55.7 percent between 2000 and 2019.[6] A significant part of that increase was due to the evolution of labor productivity in the agricultural sector, which expanded by 152 percent. Instead, with a cumulative growth of 31.7 and 19.2 percent respectively during this period, labor productivity was much less dynamic in services and manufacturing (Figure 26). In fact, among the benchmark countries considered in this exercise, Morocco's non-agricultural labor productivity growth compares favorably only to Algeria and Colombia (Figure 27). India's non-agricultural labor productivity cumulative growth rate quadrupled that of Morocco between 2000 and 2019, and Indonesia's was almost twice as high.

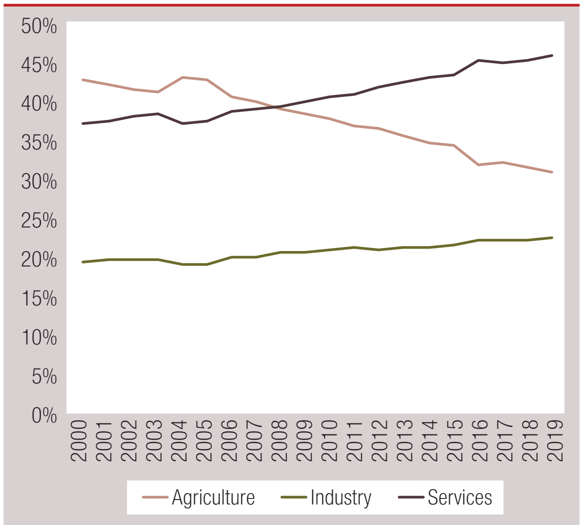
**Accelerating the structural transformation of the economy is key to increase labor productivity growth.** Despite its slower growth over recent decades, value added per worker in the manufacturing and services sectors remains close to three times that in agriculture. Therefore, the reallocation of labor away from agriculture, a process known as structural transformation, strongly enhances productivity at the aggregate level. Between 2000 and 2019 the share of Moroccan workers in agriculture declined by 11.5 p.p. while that in industry increased by 3 p.p. and that in services by 8.4 p.p. (Figure 28).[7] This sectoral reallocation of workers increased labor productivity by 18.4 percent between 2000 and 2019, while within-sector productivity growth increased total productivity by 37.3 percent during the same period. The contri-

5 TFP is calculated with reference to a production function as a "Solow residual", i.e., the part of output growth that cannot be explained by increased utilization of inputs (labor and capital).

6 This chapter focuses primarily on the pre-COVID period given that the shocks that have erupted in recent years and the ensuing policy response led to wide macroeconomic fluctuations that render the identification of structural trends more difficult.

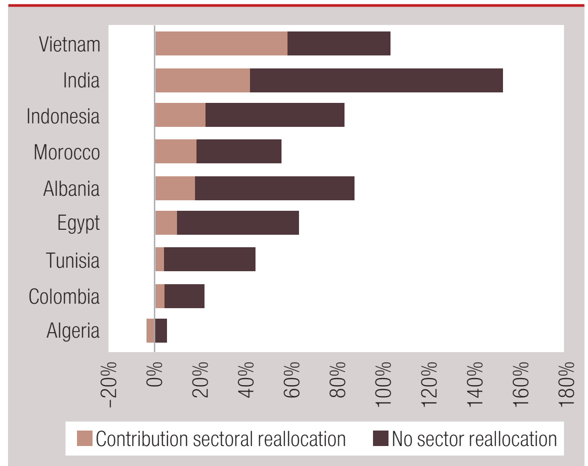
7 However, at 31.5 percent, the share of employment in the agricultural sector is still comparatively high in Morocco, only surpassed by India and Albania among considered peers.

FIGURE 28 • Share of employment by sector




*Source*: WB staff calculations based on World Development Indicators.

FIGURE 29 • Contribution of sectoral reallocation to labor productivity growth (2000–2019)




*Source*: WB staff calculations based on World Development Indicators.

bution of structural transformation to total productivity growth has been lower in Morocco than in all three high-growth aspirational peers (Figure 29). This suggests that further deepening the structural transformation process would be needed for Morocco to yield the growth acceleration envisaged by the NDM.

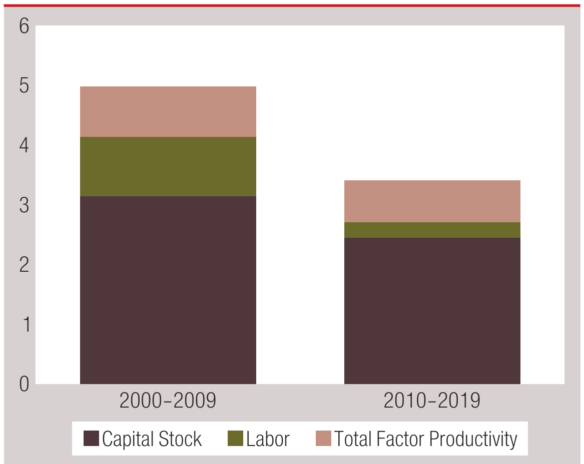
**Efficiency gains in the utilization of production factors (TFP) has had a relatively modest contribution to economic growth in Morocco.** More than two thirds of the GDP expansion of the past two decades is explained by fixed capital accumulation, reflecting a large and sustained investment effort led primarily by the public sector (Figure 30). TFP has added on average 0.7 p.p. of economic growth per year between 2000 and 2019, a fifth of the contribution that capital accumulation had during this period. Labor's contribution to economic growth has been low and declining (just 0.2 p.p. per year on average in the 2010s). A critical question for Morocco is why, rather than boosting economic growth, the ongoing demographic transition is resulting in a progressive decline in the labor market participation rate, the key driver of economic exclusion for women and the youth.

**The contribution of TFP to economic growth has been lower in Morocco than in other countries that have recently managed to double per capita income in a length of time comparable to that envisaged by the NDM.** Efficiency gains in the use of production factors had a higher contribution to growth in Morocco than in regional north-African peers and in most of the upper middle-income comparators used in this exercise (Figure 31). However, it was significantly lower than in the three high-growth comparators: TFP contributed on average 3.5 p.p. per year in India, 1.5 p.p. in Vietnam, and 1.1 p.p. in Indonesia. Importantly, these countries not only managed to double per capita income in the 21st Century, they also correspond to economies that sustained an investment effort comparable to that of Morocco as a share of GDP. Another relevant question is therefore why such a high level of capital formation translated into weaker productivity growth in Morocco than in these countries. A possible explanation is that much of that investment effort has been shouldered by the public rather than the private sector. But in that case, the logical follow-up question is why the noteworthy improvement in Moroccan infrastructures that has resulted from public capital formation has not crowded in more private investment. Shedding light on this important issue requires a more granular analysis of the constraints facing Morocco's private sector.

## Microeconomic drivers of productivity in Morocco's formal private sector

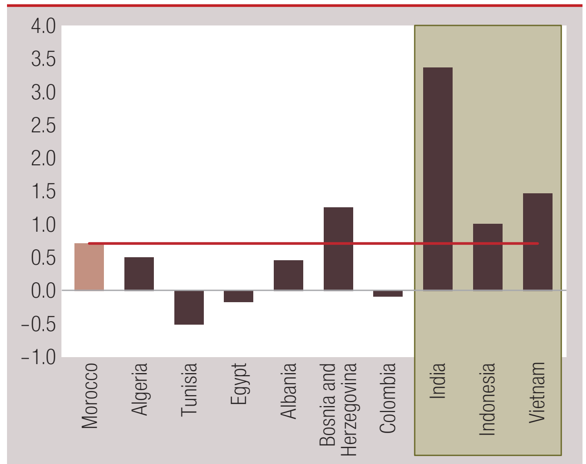
**Examining the dynamics of the private sector is essential to develop a better understanding of**

FIGURE 30 • Average contributions to GDP growth




*Source*: WB staff calculations.

FIGURE 31 • Contribution of TFP to growth (2000–2019)




*Source*: WB staff calculations.

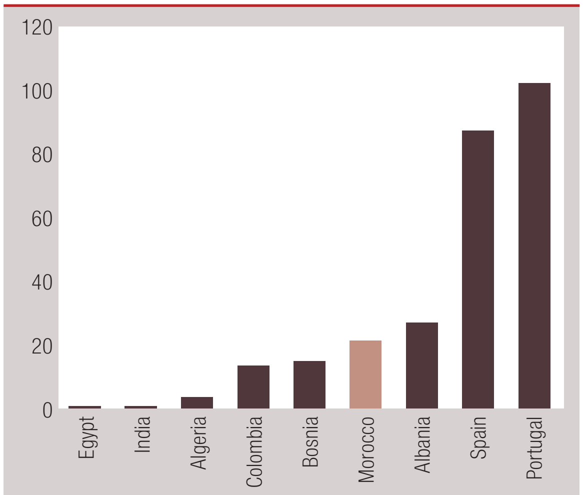
**aggregate productivity trends.** This is the reason why micro-level data are being increasingly used both in advanced economies and a growing number of EMDEs to design policies aimed at improving the performance of the private sector. Among the most salient messages that have emerged from this literature (including the upcoming World Development Report of the World Bank) is that a dynamic business environment where innovative firms can enter markets and grow to potentially challenge larger incumbents, is crucial to overcome the Middle-Income Trap. The literature has also placed emphasis on the importance of the reallocation of resources from less to more productive firms as a critical driver of aggregate productivity growth (Hsieh and Klenow, 2009). This section exploits the OMTPME firm-level database to analyze the role that firms' growth and reallocation have played in Morocco's formal private sector. It focuses on the period 2016–2019 given that the pandemic and the extraordinary measures adopted to address it render the interpretation of results for 2020–2022 more difficult.

**The overwhelming majority of Moroccan firms remain small.** As of 2019, companies with revenue between 0 and 1 million dirhams (micro-enterprises) represented 84.4 percent of all companies in Morocco, followed by 7.5 percent for companies with revenues between 1 and 3 million dirhams. Medium and large enterprises account for 0.6 percent and 0.3 percent of all companies respectively. More than 80 percent of firms employ less than 10 employees even after 10 years of activity.

**The density of formal firms has increased considerably in Morocco, but this is partly due to a proliferation of inactive firms.** The number of Limited Liability Companies per thousand inhabitants (a measure of firm density) has registered a fourfold increase since 2006. At 21.8, it compares favorably with all considered peers except for Albania (Figure 32), although it remains well below that of advanced economies (88 in Spain and 103 in Portugal). This increase in firm density is explained by a healthy number of new businesses opening each year, but also by a surprisingly low *de jure* exit rate, i.e. the share of firms that formally dissolve per year. However, Morocco's private sector is characterized by a proliferation of inactive firms, resulting in a high *de facto* exit rate: in 2019 (last year before the pandemic), 7.9 percent of formal incorporated firms that were operating in 2018 had stopped operating without formally closing their activity. In this context, the positive trend in the evolution of firm density should be interpreted with caution.

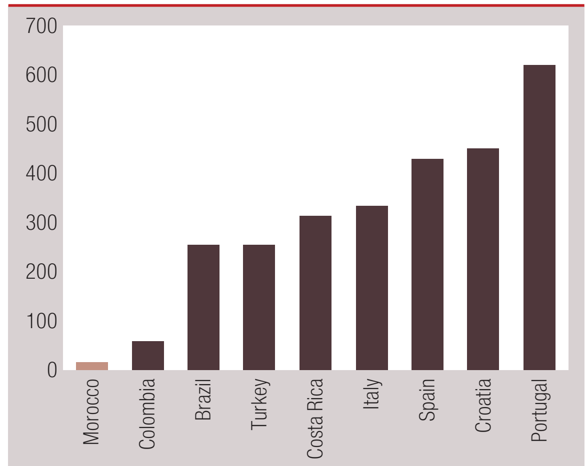
**Moroccan firms struggle to grow, contributing to explain the country's formal jobs' deficit.** The estimations conducted with the OMTPME data suggest that Moroccan firms surviving up to 15 years are only 24.5 percent larger (in terms of workforce)

FIGURE 32 • Comparative firm density (LLCs per 1,000 inhabitants; 2019)




*Source*: WB and OMTPME staff calculations based on Moroccan firm-level administrative data; WB Entrepreneurship Database; OECD.

FIGURE 33 • Density of high growth firms (number of HGF per million inhabitants)



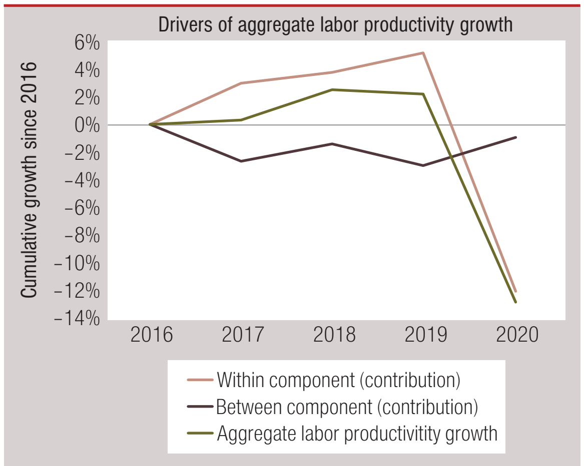

*Source*: WB and OMTPME staff calculations based on Moroccan firm-level administrative data; WB Entrepreneurship Database; OECD.

than their average size at age 1. In Vietnam, that same cohort of firms is estimated to have increased their average size by 65 percent. In addition, the density of High Growth Firms (HGFs) in the economy (defined as companies with at least 10 employees that manage to increase their workforce by 10 percent or more over a period of three years) is comparatively very low (Figure 33). This is in part due to the reduced number of firms that manage to reach 10 employees, evidencing the limited development that Moroccan micro-enterprises manage to sustain over time. Moreover, Moroccan HGFs are found to be comparatively small and to concentrate in low-skilled sectors such as construction, with a limited footprint in higher value-added activities such as the Information and Communication Technology Sector. The weakness of this segment of the Moroccan corporate sector could thus be an important factor to explain the insufficient number of formal jobs created by the economy in recent decades, and thus its incapacity to absorb a labor force that is still growing at a considerable pace due to the ongoing demographic transition.

**The recent productivity performance of the formal private sector has stagnated due to worsening allocative efficiency.** Between 2016 and 2019 labor productivity in the corporate sector grew by 2.2 percent, underperforming that of the rest of the economy, which saw labor productivity increase by 5 percent over the same period. Part of this subdued productivity growth could reflect the gradual expansion of the formal sector through the progressive formalization of less productive businesses, which is a positive development. However, it also reflects a deterioration in allocative efficiency. Aggregate productivity growth can be decomposed between: (i) a 'within-firm' component which captures whether formal firms are making a more efficient use of production factors on average; (ii) a 'between-firm' component which captures whether labor is reallocating towards more productive firms. The 'within-firm' measure of productivity growth obtained from this decomposition was positive in the years that preceded the COVID-19 shock, suggesting that a general upgrading of productive efficiency was taking place during this period. Instead, the 'between-firm' measure of productivity growth was negative, implying that, other things equal, less productive firms expanded faster (in terms of workforce size) than more productive firms. In other words, the allocative efficiency of the Moroccan formal private sector tended to deteriorate prior to the pandemic, explaining the lackluster evolution of overall productivity.

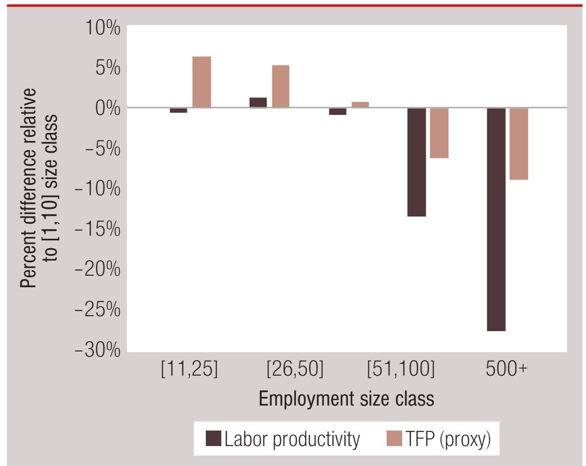
**Moroccan markets appear not to be rewarding most productive firms**. The data show that large Moroccan firms—as measured by the size of their workforce—tend to be less productive

FIGURE 34 • Misallocation is slowing productivity growth…




*Source*: WB and OMTPME staff calculations based on Moroccan firm-level administrative data.

FIGURE 35 • …larger firms tend to be less productive




*Source*: WB and OMTPME staff calculations based on Moroccan firm-level administrative data.

than their smaller peers, while medium-sized firms are most productive (Figure 35). These results suggest that once Moroccan firms reach a certain size, productivity begins to lose relevance as a determinant of their future capacity to continue growing, a feature of the formal private sector that probably contributes to explain the misallocation problem described above.

## Policy implications

**Overcoming the bottlenecks that explain the productivity dynamics of the formal private sector is critical to accelerate economic growth and job creation in Morocco.** This would require a policy response designed to address the root causes that are behind the allocative inefficiencies that characterize the formal private sector. Among the policy domains that could explain these productivity trends, the following stand out in particular: (i) shortcomings in the competitive environment may be allowing incumbents to rely on their market power rather than on efficiency gains to survive and grow; (ii) a related possibility is that the presence of regulatory failures may be distorting firms' capabilities and incentives, impeding their entry into markets and their capacity to sustain growth through efficiency investments, and hindering the "creative destruction process" that occurs through the smooth exit of unviable firms; (iii) informal competition and an unequal access to key inputs such as finance, digital services, or skilled workers may be disproportionately affecting smaller firms, limiting the expansion of potential high growth firms.

**Morocco is beginning to make substantial progress in the fight against anticompetitive practices**. Following the operationalization of the Competition Council in 2018 and the amendment of the Competition Law in mid-2023, an important landmark investigation was concluded in November 2023 on nine fuel distributors and their industry association. As a result, these firms agreed on a voluntary settlement amounting to MAD 1.84 billion for anti-competitive pricing conduct, and on other commitments to prevent future collusion. The Competition Council has also reinforced its institutional capacity and stepped-up other activities, including the review of more than 300 mergers, the issuance of opinions on draft regulations, or the preparation of studies on the state of anti-competitive practices in key sectors of the economy. This signals the authorities' resolve to promote greater market competition. In addition, the State-Owned Enterprise reform that is currently being implemented with the creation of the National Agency for the Strategic Management of State Participations

(*Agence Nationale de Gestion Stratégique des Participations de l'État*) is expected to reinforce the competitive neutrality of commercial SOEs in the markets in which they operate. This will require, among others, more stringent standards to limit the cross subsidization between their commercial and noncommercial activities.

**However, more is needed to level the playing field for all market players.** Morocco's public policies have successfully promoted and supported FDI and large-scale investment projects over recent years, as evidenced in the statistics offered in Box 2. However, this special focus chapter suggests that less success has been achieved with smaller firms, which may have been put at a competitive disadvantage by the emergence of large sectoral 'champions' (IFC, 2019). Leveling the playing field would require ensuring that the business support mechanisms deployed by the Moroccan State do not exacerbate the observed diverging dynamics that characterize different segments of the private sector, while creating the enabling conditions that are needed for potential high growth firms to emerge and thrive. A thorough review of product market regulations and existing government programs in support of SMEs would help identify and correct specific constraints and disincentives facing these firms over their life cycle.

**The ongoing tax reform is correcting some of the distortions that may have disincentivized firms' growth, and further analysis would be needed to evaluate the impact of existing (and future) tax incentives**. In the 2010s Morocco reformed its Corporate Income Tax (CIT) system, introducing a marginal rate that increased with firms' net profits. This progressive CIT system may have created a disincentive for smaller firms to grow, which is among the reasons why the ongoing tax reform aims at converging towards a uniform 20 percent rate by 2026. In addition, the Framework Law on the tax reform has set the objective of rationalizing tax incentives or expenditures. This process should entail an evaluation of whether the programs that have benefited Moroccan formal firms (generating tax expenditures of about 1.3 percent of GDP in 2022) create incentives that have contributed to the misallocation problem described above, as has been found to be the case in other economies.[8]

**The Moroccan private sector perceives that competition from the informal sector is a major constraint to their operations, which may be disproportionately affecting smaller firms.** The informal sector employs close to 77 percent of the labor force and is estimated to account for almost a third of GDP.[9] According to the Enterprise Survey, 47 percent of Moroccan firms face informal competition, and more than 40 percent perceive that this type of competition affects their operations. There is substantial empirical evidence on the impact that informal competition can have on formal firms' performance.[10] Moreover, several studies have found that smaller firms are more likely to face informal competition, thus constraining their growth potential.[11] This implies that combating informality may be important also to increase productivity and thus economic growth. The Moroccan authorities are currently engaged in various far-reaching reforms expected to contribute to the formalization of the economy, including the health and social protection reform and the tax reform. An important by-product of these reforms could be an acceleration of productivity growth, especially if they manage to bring in the sub-set of economic actors that opportunistically remain informal but would have the potential to survive in the formal sector. Instead, the formalization of subsistence informal entrepreneurs is likely to have less impact on productivity, given these firms' low growth potential and survival likelihood.

**Lack of access to critical productive resources is another constraint that may be slowing the growth of Moroccan firms**. Although Morocco has a relatively large financial system,[12] access to credit is highly asymmetrical, with smaller

8 See, for instance, Benedeck et al. (2019).

9 See Elgin et al., 2021; Lahlou, Doghmi and Schneider, 2020.

10 Using firm-level survey data for a large cross-section of countries, Amin, Ohnsorge and Okou (2019) find that the average labor productivity of firms facing competition from the informal sector is 25 percent lower than for firms that do not.

11 See Lamanna and Gonzalez (2017) and Amin (2021).

12 Credit to the private sector amounted to 61.8 percent of GDP in 2022, a share that was higher than in all peers considered with the exception of Vietnam.

and younger firms disproportionately credit constrained.[13] The data also shows that more productive firms are not more likely to access credit than less productive ones, implying that financial intermediation may be contributing to the misallocation problem described above. These trends suggest that the various programs deployed by the Moroccan authorities to support SME's, which have placed a particular emphasis on access to external sources of financing through credit guarantees and direct loans, may require an evaluation and potentially a fine-tuning. Accelerating the operationalization of recent reforms such as the deployment of a national movable collateral registry or the extension of the data used by credit bureaus may also be needed to address the information asymmetry problems that are likely to explain banks' reluctance to lend to smaller and younger firms, thus addressing the credit misallocation problem. In addition, recent surveys show that despite the pronounced improvement in the educational profile of Morocco's youth, firms continue to perceive access to skills as a significant constraint for their operations. Addressing this skills mismatch is thus of critical importance. Finally, a lack of access to affordable digital services could be another constraint, particularly for smaller firms.

[13] Between 2016 and 2019, only 16 percent of firms with less than 4 employees and 50 percent of firms with between 4 and 10 employees had an active credit contract with a financial institution, compared to 70 percent of firms with at least 50 employees. The rate of use of financial credit also increases with age, with 59 percent of firms older than 10 years having an active credit program, against 31 percent of firms aged 2 to 5 years old.

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# SUMMARY OF SPECIAL FOCUSES FROM THE LATEST MOROCCO ECONOMIC UPDATES

## Fall 2023 MEU: "From resilience to shared prosperity "

The Special Focus of the "Fall 2023" MEU analyzes the roots of Morocco's high rates of female inactivity from a comparative perspective. Morocco's low and declining FLFP constitutes a major missed opportunity and constraint to boosting 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.

## Fall 2022 MEU: "Responding to Supply Shocks"

The Special Focus of the "Fall 2022" MEU 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.

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