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Building Momentum for Reform

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Building Momentum for Reform

With a Special Focus on
COVID-19, Inequality, and Jobs in Morocco

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ACRONYMS

BAM	Bank Al-Maghrib
CAB	Current Account Balance
CPI	Consumer Price Index
CCG	Caisse Centrale de Garantie (Central Guarantee Agency)
COVID	Coronavirus Disease
DSA	Debt Sustainability Analysis
DB	Doing Business
EMDEs	Emerging Market Developing Economies
EU	European Union
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoM	Government of Morocco
HDI	Human Development Index
ICT	Information and Communications Technology
IOM	International Organization for Migration
LPI	Logistics Performance Index
MENA	Middle East North Africa
MoF	Ministry of Finance
MSME	Micro Small Medium Enterprises
NGO	Non-Government Organization
NPLs	Non-Performing Loans
PP	Percentage Point
PPE	Personal Protective Equipment
PPP	Public-Private Partnership
SNGFE	Société Nationale de Garantie et de Financement de l´Entreprise
SOEs	State-Owned Enterprises
WBG	World Bank Group
WDI	World Development Indicators
WGI	Worldwide Governance Indicators

PREFACE

The *Morocco Economic Monitor* is a semi-annual report from the World Bank economic team on recent economic developments and economic policies. This report presents our current outlook for Morocco given the recent COVID-19 developments. Its coverage ranges from the macro-economy to business environment and private sector 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 in the World Bank Group. The report was prepared by Javier Diaz-Cassou, Amina Iraqi, Federica Alfani and Vasco Molini. The present edition of this report has been prepared with data available until May 30th 2021.

The report was prepared under the direction of Jesko Hentschel (Country Director for the Maghreb), and Eric Le Borgne (Practice Manager, MTI). The team is grateful for the comments, helpful inputs received from colleagues, in particular, Matina Deen on the impact of the crisis on the corporate sector, and Gabriel Sensenbrenner (EFI Program Leader, Maghreb), as well as senior staff from the Ministry of Finance. Special thanks to Muna Salim (Senior Program Assistant, MTI) for her administrative support.

The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of the World Bank or the governments they represent. For information about the World Bank and its activities in Morocco, please visit *www.worldbank.org/en/country/morocco* (English), *www.worldbank.org/ar/country/morocco* (Arabic), or *www.banquemondiale.org/fr/country/morocco* (French). For questions and comments on the content of this publication, please contact Javier Diaz Cassou (*jdiazcassou@worldbank.org*).

EXECUTIVE SUMMARY

Morocco stands out as a country that has seized the COVID-19 crisis as an opportunity to launch an ambitious program of transformative reforms. After its initial efforts to mitigate the immediate effects of the pandemic on households and firms, the authorities have launched various policies to correct long-standing inequities and overcome some of the structural bottlenecks that have constrained the performance of the Moroccan economy in the recent past. This reform program has the following pillars: (i) the creation of a Strategic Investment Fund (the Mohammed VI Fund) to support the private sector; (ii) the overhaul of the social protection framework to boost human capital; (iii) the restructuring of Morocco's large network of State Owned Enterprises. In addition, the government has recently unveiled the terms of a new development model that places significant emphasis on human development and gender equity, and on the need to reinvigorate recent efforts to incentivize private entrepreneurship and boost competitiveness.

If successfully implemented, these reforms could lead to a stronger and more equitable growth path. There are various channels through which the reform impetus described above could increase the growth potential of the Moroccan economy: (i) by increasing market contestability, levelling the playing field, and streamlining the role of the SOE sector in the economy, more firms would be enabled to enter markets, grow and create jobs; (ii) a more dynamic private sector could make a better use of the large stock of physical capital accumulated over past decades, thus increasing the growth dividend of existing infrastructure, which so far has disappointed; (iii) accelerating the pace of human capital formation could enable more Moroccan citizens to realize their productivity potential, which would contribute to raise living standards and accelerate the growth of aggregate output.

In the shorter-term, however, the recovery from the crisis could be gradual and uneven. Although activity picked up in the second half of the year, 2020 closed with the largest economic recession on record. We project real GDP growth to rebound to 4.6 percent in 2021, supported by the strong performance of the agricultural sector and by a partial recovery of the secondary and tertiary sectors. In this baseline scenario, real GDP will not return to its pre-pandemic level until 2022, and the cumulative output loss caused by the crisis will be large. Moreover, the balance of risks remains tilted to the downside given the global spread of new and more infectious coronavirus variants, the supply constraints that are affecting Morocco´s vaccination campaign, and the macro-financial vulnerabilities triggered by the crisis.

The large and unequal socio-economic impact of the crisis were partly mitigated by the extensive cash transfer programs rolled out during

the lockdown period. In Morocco as elsewhere, poorer segments of the population have been more exposed to the health and economic consequences of the pandemic. As a result, the incidence of poverty has increased after several years of sustained social progress and is not expected to return to pre-pandemic levels until 2023. A peculiarity of the Moroccan case, however, is that the mitigation measures adopted by the authorities have successfully cushioned the income reduction that a large proportion of poorer households (both formal and informal) would have otherwise undergone, thus avoiding a significantly larger increase in poverty.

However, these measures were temporary in nature, and a more structural approach will be needed to ensure that the benefits of the post-COVID recovery will be evenly distributed. The Kingdom already announced a sweeping reform of the social protection system, including the universalization of health insurance and family allowances. The long-term challenges that characterize Morocco's labor markets will also need to be addressed, namely, its insufficient capacity to create new jobs even when the economy is growing, high inactivity especially among the young and the female population, and slowly declining levels of informality.

RESUME SYNTHÉTIQUE

Le Maroc se distingue comme étant un pays qui a su profiter de la crise du COVID-19 pour en faire une opportunité de lancer un ambitieux programme de réformes transformatrices. Après ses premiers efforts pour atténuer les effets immédiats de la pandémie sur les ménages et les entreprises, les autorités ont lancé diverses politiques pour corriger des inégalités de longue date et surmonter certains obstacles structurels qui ont limité par le passé la performance de l'économie marocaine. Ce programme de réformes repose sur les piliers suivants : (i) la création d'un Fonds d'investissement stratégique (le Fonds Mohammed VI) pour soutenir le secteur privé ; (ii) la refonte du cadre de protection sociale pour dynamiser le capital humain ; (iii) la restructuration du vaste réseau d'entreprises publiques marocaines. En outre, le gouvernement a dévoilé les termes d'un nouveau modèle qui met l'accent sur le développement humain et l'équité entre les sexes, tout en redynamisant les efforts récents pour encourager l'entrepreneuriat privé et stimuler la compétitivité.

Si leur mise en œuvre est réussie, ces réformes pourraient déboucher sur une trajectoire de croissance plus forte et plus équitable. Il existe différents canaux par lesquels les réformes décrites ci-dessus pourraient augmenter le potentiel de croissance de l'économie marocaine: (i) en augmentant la contestabilité du marché, en renforçant la concurrence et en rationalisant le rôle des entreprises publiques dans l'économie, un nombre croissant d´entreprises privées pourrait accéder aux marchés, croître et créer des emplois; (ii) un secteur privé plus dynamique pourrait faire un meilleur usage du large stock de capital physique accumulé au cours des dernières décennies, augmentant ainsi les gains en termes de croissance des infrastructures existantes, dont la performance a été jusqu'à présent décevante; (iii) accélérer le rythme de formation du capital humain pourrait permettre à plus grand nombre de citoyens marocains de réaliser leur potentiel de productivité, ce qui contribuerait à relever le niveau de vie et à accélérer la croissance économique.

Cependant, à plus court terme, la reprise économique pourrait être progressive et irrégulière. Bien que l'activité ait repris au second semestre, l'année 2020 s'est clôturée avec la plus grande récession économique jamais enregistrée. Nous prévoyons que la croissance du PIB réel rebondira à 4,6 pour cent en 2021, soutenue par la bonne performance du secteur agricole et par une reprise partielle des secteurs secondaire et tertiaire. Dans ce scénario de référence, le PIB réel ne reviendrait à son niveau d'avant la pandémie qu'en 2022 et la perte cumulative de production causée par la crise serait importante. De plus, la balance des risques à la baisse demeure prépondérante compte tenu de la propagation mondiale de nouveaux variants de coronavirus plus infectieux, des contraintes d'approvisionnement qui affectent la campagne de vaccination du Maroc et des vulnérabilités macro-financières déclenchées par la crise.

L'impact socio-économique important et inégal de la crise a été en partie atténué par les vastes programmes de transferts monétaires mis en place pendant la période du confinement. Au Maroc comme ailleurs, les catégories de la population les plus pauvres ont été plus exposées aux conséquences sanitaires et économiques de la pandémie. Par conséquent, l'incidence de la pauvreté a augmenté après plusieurs années de progrès social soutenu et ne devrait revenir aux niveaux d'avant la pandémie qu'en 2023. Une particularité du cas marocain est, cependant, que les mesures d'atténuation adoptées par les autorités ont réussi à amortir la réduction des revenus qu'une grande partie des ménages (formels et informels) les plus pauvres aurait autrement subi, évitant ainsi une augmentation beaucoup plus importante de la pauvreté.

Cependant, ces mesures ayant été de nature temporaire, une approche plus structurelle serait nécessaire pour garantir que les avantages de la reprise post-COVID soient plus uniformément répartis. Le Royaume a déjà annoncé une réforme en profondeur du système de protection sociale, y compris la généralisation de l'assurance maladie et des allocations familiales. Néanmoins, les défis à long terme qui caractérisent le marché du travail au Maroc doivent être relevés, à savoir sa capacité insuffisante pour créer de nouveaux emplois même lorsque l'économie est en croissance, une forte inactivité, en particulier parmi les jeunes et la population féminine, et l´insuffisante baisse des niveaux d'informalité.

الملخص التنفيذي

برز المغرب كدولة استغلت أزمة فيروس كورونا كفرصة لإطلاق برنامج طموح للإصلاحات التحويلية. بعد بذل الجهود الأولى للتخفيف من الآثار المباشرة للوباء على الأسر والشركات، أطلقت السلطات سياسات مختلفة لتصحيح التفاوتات طويلة الأمد والتغلب على بعض العقبات الهيكلية التي حدت من أداء الاقتصاد المغربي في الماضي. يقوم برنامج الإصلاح هذا على الركائز التالية: (1) إنشاء صندوق استثماري استراتيجي (صندوق محمد السادس) لدعم القطاع الخاص. (2) إصلاح إطار الحماية الاجتماعية لتعزيز رأس المال البشري؛ (3) إعادة هيكلة الشبكة الواسعة للمؤسسات العمومية المغربية. بالإضافة إلى ذلك، فإن الحكومة على وشك الكشف عن شروط نموذج التنمية الجديد الذي ينبغي أن يركز على التنمية البشرية، المساواة بين الجنسين وإعادة تنشيط الجهود لتشجيع مباشرة الأعمال الحرة وتحفيز التنافسية.

قد تؤدي هذه الإصلاحات إلى مسار نمو أقوى وأكثر إنصافًا إذا نجح تنفيذها. هناك قنوات مختلفة يمكن من خلالها أن يؤدي الدافع للإصلاحات الموصوفة أعلاه إلى زيادة إمكانات النمو للاقتصاد المغربي: (1) من خلال زيادة التنافس في السوق، من خلال إتاحة فرص متكافئة لجميع فعاليات السوق ومن خلال ترشيد دور المؤسسات العمومية في الاقتصاد المغربي، يمكن لمزيد من الشركات الوصول إلى الأسواق والنمو وخلق فرص العمل؛ (2) يمكن لقطاع خاص أكثر ديناميكية أن يستخدم بشكل أفضل المخزون الكبير من رأس المال المادي المتراكم على مدى العقود الماضية، وبالتالي زيادة المكاسب من حيث نمو البنية التحتية، والتي كانت مخيبة للآمال حتى الآن؛ (3) يمكن أن يسمح تسريع وتيرة تكوين رأس المال البشري لمزيد من المواطنين المغاربة بتحقيق إمكاناتهم الإنتاجية، مما سيساعد على رفع مستويات المعيشة وتسريع نمو الإنتاج الكلي.

ومع ذلك، قد يكون الانتعاش الاقتصادي تدريجيًا وغير منتظم على المدى القصير. على الرغم من انتعاش النشاط في النصف الثاني من العام، إلا أن سنة 2020 عرفت أكبر ركود اقتصادي على الإطلاق. نتوقع أن ينتعش نمو إجمالي الناتج المحلي الحقيقي إلى 4.6 في عام 2021، مدعومًا بالأداء الجيد للقطاع الزراعي والانتعاش الجزئي في القطاعين الثانوي والثالث. في ظل هذا السيناريو الأساسي، لن يعود الناتج المحلي الإجمالي الحقيقي إلى مستوى ما قبل الجائحة حتى عام 2022 وستكون الخسارة التراكمية للإنتاج الناجمة عن الأزمة كبيرة. بالإضافة إلى ذلك، لا تزال مخاطر الجانب السلبي مرجحةً نظرًا للانتشار العالمي لمتغيرات فيروس كورونا الجديدة والأكثر عدوى، قيود العرض التي تؤثر على حملة التطعيم في المغرب ونقاط الضعف على صعيد الاقتصاد الكلي والصعيد المالي التي سببتها الأزمة.

تم تخفيف جزئيًا الأثر الاجتماعي والاقتصادي الكبير وغير المتكافئ للأزمة من خلال برامج التحويلات النقدية الكبيرة التي تم وضعها خلال فترة ا العزل. في المغرب كما في بلدان أخرى،، كانت الفئات الأشد فقراً من السكان أكثر تعرضاً للعواقب الصحية والاقتصادية للوباء. ونتيجة لذلك، زاد معدل انتشار الفقر بعد عدة سنوات من التقدم الاجتماعي المستمر، ولا يُتوقع أن يعود إلى مستويات ما قبل الجائحة حتى عام 2023. ومع ذلك، فإن خصوصية الحالة المغربية هي أن تدابير التخفيف التي اتخذتها السلطات نجحت في التخفيف من انخفاض الدخل الذي كان سيشهده جزء كبير من أفقر الأسر (الرسمية وغير الرسمية)، وبالتالي تجنب زيادة أكبر في الفقر.

ومع ذلك، كانت هذه التدابير مؤقتة بطبيعتها ، وستكون هناك حاجة إلى نهج أكثر هيكلية لضمان توزيع متساوي لفوائد الانتعاش الاقتصادي. أعلنت المملكة بالفعل عن إصلاح معمق لنظام الحماية الاجتماعية، بما في ذلك تعميم التأمين الصحي و الاستحقاقات الأسرية. يجب معالجة التحديات طويلة المدى التي تميز سوق العمل في المغرب، وهي عدم كفاية قدرته على خلق وظائف جديدة حتى مع نمو الاقتصاد، عدم النشاط خصوصا في صفوف النساء والشباب، والانخفاض التدريجي في مستويات التوظيف غيررسمية.

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RECENT ECONOMIC DEVELOPMENTS[1]

The Moroccan economy is exhibiting some encouraging trends, sustained by a marked improvement in the epidemiological situation, the successful beginning of the vaccination campaign, the strong performance of certain export-oriented sectors and, to a lesser extent, a rise in private consumption. However, the recovery is far from complete, and year 2020 closed with the largest contraction of real GDP on record. Moreover, recent surveys indicate that the corporate sector is still struggling and the stock of nonperforming loans (NPLs) is on the rise, which may delay the recovery of private investment. Despite the government's prudent fiscal response to the shock, the debt-to-GDP ratio increased markedly in 2020. In turn, the evolution of Morocco's external position has been strengthened by a partial recovery of exports, a sharp contraction of imports, an increase in workers' remittances and maintained access to external finance. In the current context of below potential economic activity, price pressures remain subdued despite an expansionary monetary policy stance.

Morocco's Successful Epidemiological Containment and Vaccination Campaign

After a sharp increase in COVID-19 cases between September and November, Morocco has managed to contain the spread of the pandemic. Partly because of the stringent social distancing measures adopted by the authorities during a 12 week-long lockdown, the first wave of the pandemic was relatively mild (Figure 1).[2] However, cases began to pick up soon after the deconfinement was launched in mid-June, and the second wave of the pandemic ended up taking a heavier toll than the first one.[3] In December 2020 the epidemiological situation reached a turning point, as the number of cases began to decline markedly. By February and March, the emergency was brought under control, and

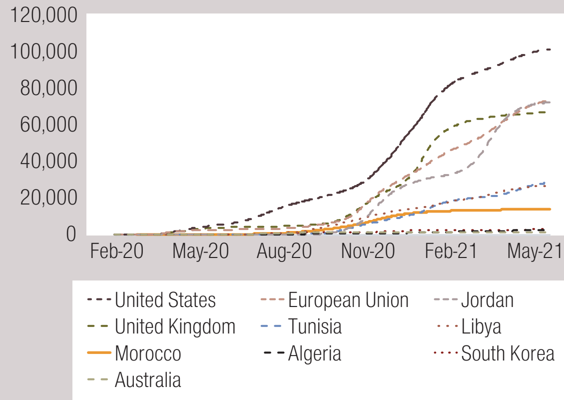
[1] The present edition of this report was prepared with data available until May 30th 2021.

[2] In stark contrast with Morocco's northern neighbors, the number of confirmed cases rose moderately during the first wave, from 617 in March to 4,423 in April and 7,807 in May. In terms of infections and deaths, Morocco was among the best performers in the MENA region, and compared favorably even with Australia and South Korea.

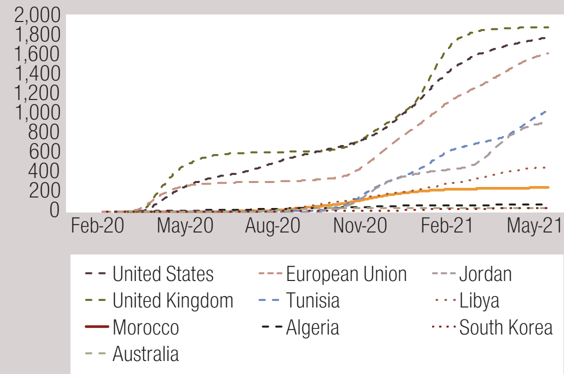
[3] Confirmed contagions increased gradually from an average of 784 new daily cases in the last week of July and reached a peak of 6,195 new daily cases in November 12th. The number of new infections started to decline in December, with on average 2,672 new daily cases in that month, 1,031 cases in January, 446 in February, and 401 in March. The number of deaths followed suit with an average of 25 daily COVID-19 related fatalities in August, 35 in September, 48 in October, 71 in November, 49 in December, 28 in January, 12 in February and 6 in March.

FIGURE 1 • After a hard second Wave, Morocco has successfully contained the spread of the pandemic

Cumulative confirmed COVID-19 cases per million people
The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



Cumulative confirmed COVID-19 deaths per million people
Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.



Source: Johns Hopkins University CSSE COVID-19 Data.

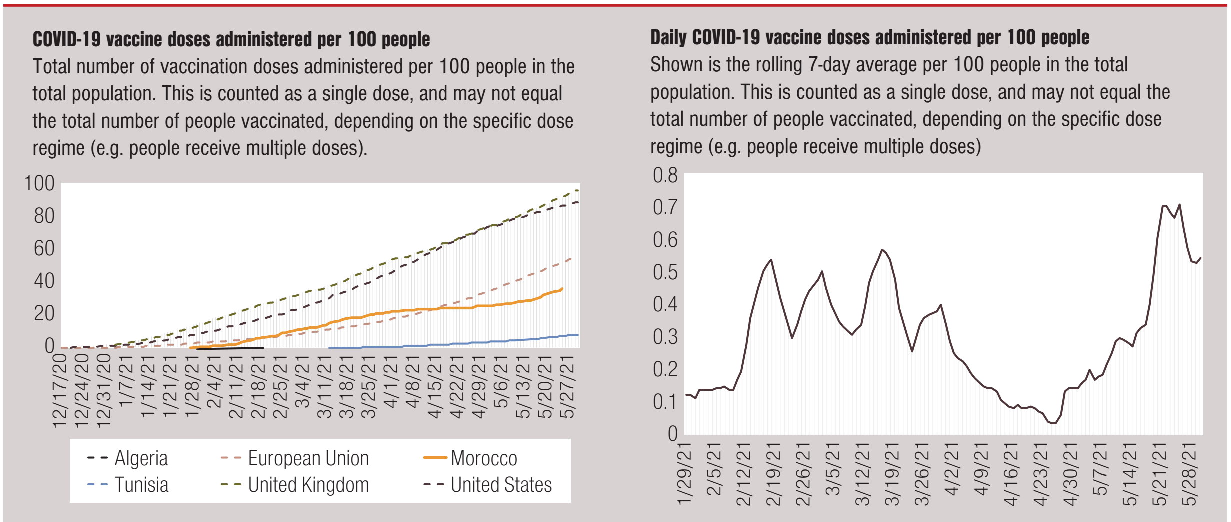
new COVID-19 variants seem to be posing less of a challenge in Morocco than in other countries. The progressive reintroduction of travel restrictions (at the time of writing, international flights are suspended with 54 countries, including most of the European Union) may contribute to explain the slow spread of these new variants.

Morocco has launched an ambitious vaccination campaign. On January 28, 2021, the authorities initiated a nationwide vaccination program aimed at covering 80 percent of the adult population (around 25 million citizens) within the first Semester of 2021. For that purpose, the country announced the purchase of a sufficient number of vaccines to inoculate its entire eligible population, mostly from Sinopharm and AstraZeneca, in addition to Morocco's allocation from COVAX Advanced Market Commitment. The country has so far received close to 18 million doses from AstraZeneca (Covishield) and Sinopharm. The groups targeted by the first phase of the vaccination campaign are health professionals over the age of 40, public authorities, the Royal Armed Forces, teachers over 45 and people over 75 in the most affected areas. On February 23, 2021, the campaign was expanded to include all the population above the age of 60, as well as individuals with comorbidities, and on May 8th it was further extended to the population above the age of 50..

The vaccination campaign has so far been a success. From January 29, 2021 to February 9, 2021, Morocco delivered an average of about 0.1 daily doses per 100 people. The pace of the campaign picked up afterward, surpassing 0.5 doses daily per 100 people in mid-March (more than 200,000 inoculations per day). As of May 15, 2021, Morocco has administered 10.6 million doses, or about 29.3 doses per 100 inhabitants (Figure 2). This places the Kingdom in the first position in Africa, the fourth in the MENA region (after the United Arab Emirates, Bahrein, and Qatar), and in the 16th position globally.

However, Morocco´s vaccination campaign confronts delivery constraints. India´s decision to suspend exports has affected the countries that were more reliant on the doses produced by the Serum Institute of India, including Morocco. In addition, the Kingdom has received less doses of the Sinopharm vaccine than originally anticipated. These delivery delays reduced the pace of the vaccination campaign, which dropped to 0.1 doses per 100 inhabitants in mid-April. However, the recent arrival of new doses from Sinpharm has enabled the authorities to reaccelerate the vaccination campaign, and the government has launched additional procurement processes to diversify their supply base, with negotiations going on with the producers of the Sputnik V and the Johnson and Johnson vaccines. In any case, these events serve as a reminder that, despite the highly effective logistical arrangements that have been put in place,

FIGURE 2 • The beginning of the vaccination campaign was a success, but it has lost pace due to delivery constraints



Source: Official data collated by Our World Data.

the ultimate success of Morocco´s vaccination campaign also hinges upon factors that are beyond the control of the authorities.

An Uneven Economic Recovery

The COVID-19 shock triggered the most abrupt economic contraction since records began. During the second quarter of 2020, which broadly coincides with the lockdown, real GDP fell by an unprecedented 15.1 percent y-o-y. On the production side, the decline was more pronounced in the secondary sector (–17.3 percent y-o-y), driven by the underperformance of the manufacturing industry (–22 percent), mechanical, metallurgical and electrical industries (–53.6 percent), textiles and leather (–46.7 percent). In turn, the tertiary sector contracted by 14.9 percent of GDP y-o-y, with a particularly severe impact for activities related with tourism, such

FIGURE 3 • The various components of production and demand are unevenly contributing to the recovery

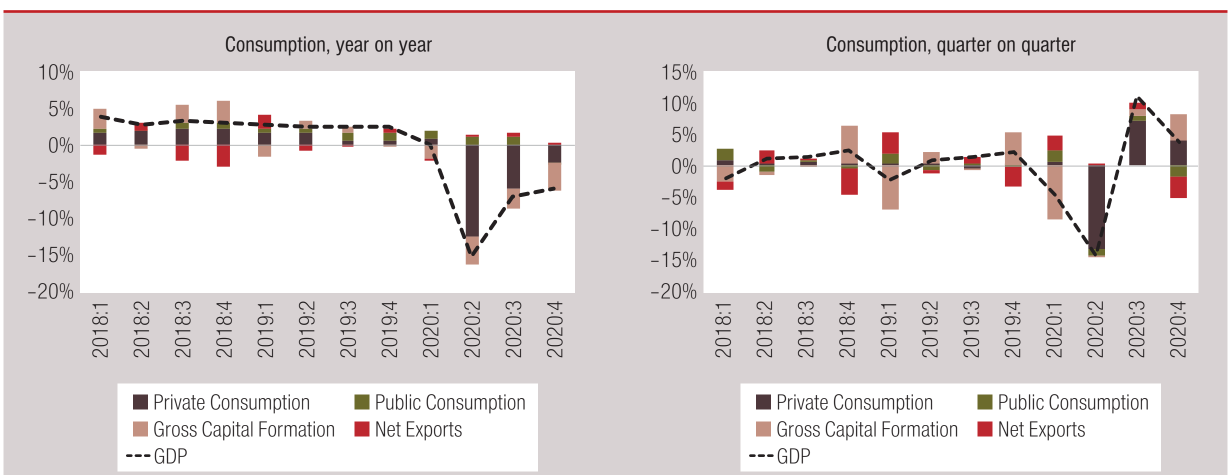


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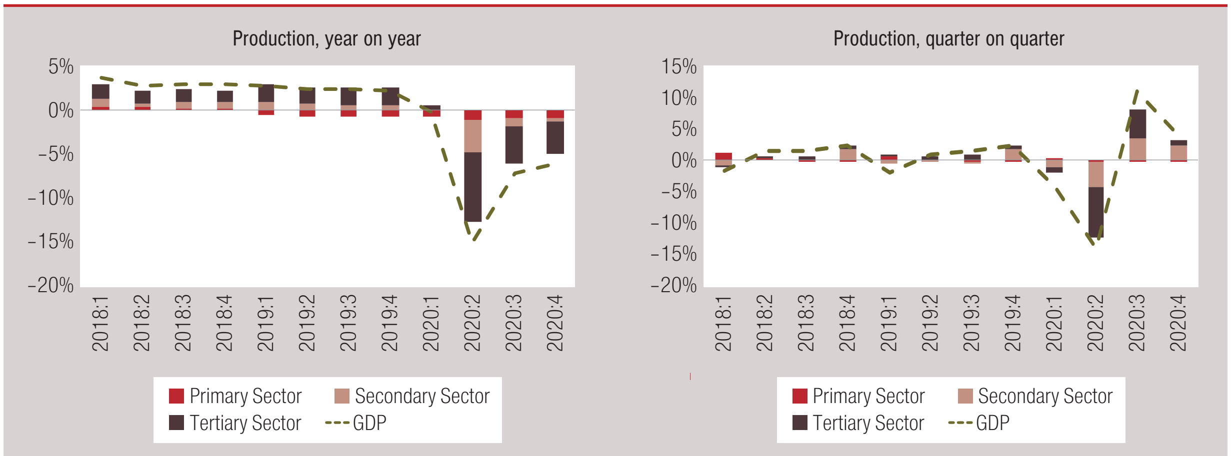
FIGURE 3 • The various components of production and demand are unevenly contributing to the recovery *(continued)*



Source: HCP.

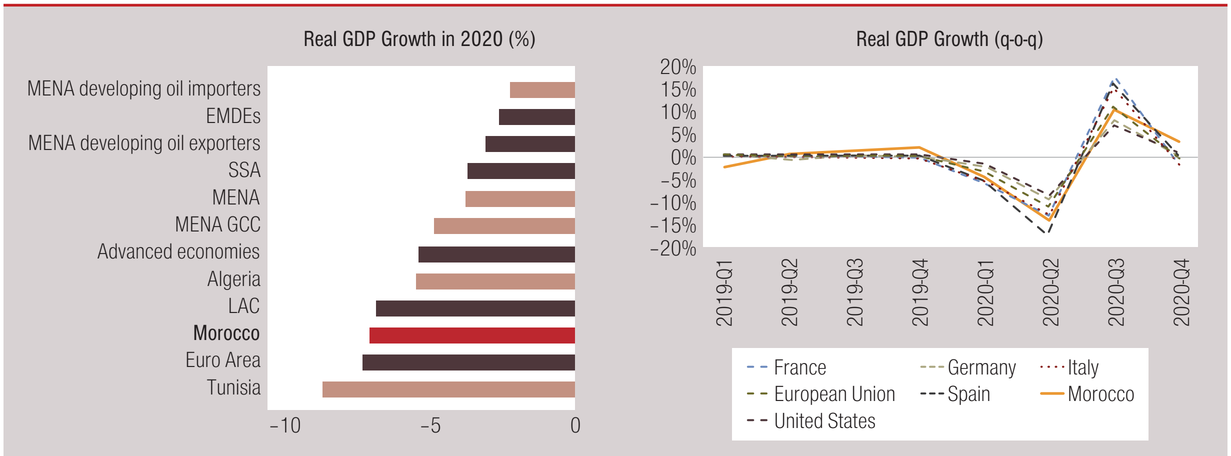
as hotels and restaurants (–90 percent) or transport (–55.7 percent). Finally, the primary sector contracted by 8.2 percent y-o-y, mostly because of the compounding effect of a severe drought on agricultural production. On the demand side, private consumption and investment dropped by 21.2 and 11 percent respectively, which was partially compensated by a 5.8 percent increase in government consumption.

Economic activity has recovered some dynamism during the second semester, driven primarily by external demand. The performance of the secondary sector was particularly robust (+15.4 percent q-o-q in the third quarter and +10.1 percent in the fourth), followed by the tertiary sector (+9.1 percent and +1.9 percent). The primary sector, instead, continued its slide during the second half of the year (-1.6 percent q-o-q in the third quarter and –3.4 percent in the fourth) owing to the poor performance of agricultural production. On the demand side, the recovery has been driven primarily by exports, which expanded by 31.4 percent q-o-q on the third quarter (+5.1 percent in the fourth), and to a lesser extent by private consumption (+12.9 percent q-o-q in the third quarter and +7.2 percent in the fourth quarter). Despite the resiliency of public investment, gross capital formation has been less dynamic (especially during the third quarter, with a +3.3 percent expansion q-o-q), and public consumption declined during the second semester.

This partial recovery was insufficient to avoid a comparatively large overall contraction of GDP in 2020. Despite the encouraging trends observed in the second semester, real GDP declined by 7.1 percent last year.[4] From an international perspective, Morocco´s recession was milder than that of the European Union, advanced economies and Latin American and Caribbean economies, but larger than that estimated for the world economy as a whole, for the MENA region and for Sub-Saharan Africa (Figure 4). There are various factors that contribute to explain the comparatively large magnitude of the Moroccan recession including: (i) the aforementioned underperformance of the agricultural sector in a year of drought (the production of cereals fell by 39 percent); (ii) a stringent confinement that succeeded in controlling the pandemic, but implied a sudden stop for several economic activities; (iii) the impact that the disruption of global value chains had for Morocco´s emerging manufacturing sectors during the early stages of the pandemic, and the deep recessions undergone by southern European countries, the most relevant markets for the Kingdom's exports; (iv) the

[4] On the production side, the primary sector contracted by 7 percent (mostly unrelated to COVID), the secondary sector by 5.6 percent and the tertiary sector by 5.6%. On the demand side, private consumption declined by 8.7 percent, gross capital formation by 8.6 percent, net exports of goods and services by 1.3 percent, while public consumption increased by 4.4 percent.

FIGURE 4 • Morocco's 2020 recession was comparatively large



Source: World Bank MPO (April 2021) and OECD Stats.

relatively large weight of the Moroccan tourism sector, whose revenues have been particularly affected by crisis.

The private sector has not yet recovered from the shock. The decisive government response to the crisis has so far avoided the wave of corporate bankruptcies that could have otherwise taken place.[5] However, the various surveys that are being conducted to monitor the situation of the corporate sector still paint a challenging picture (see Box 1 for the results of the second World Bank Enterprise Follow Up Survey). Indeed, according to the latest HCP survey, almost 50 percent of Moroccan firms

5 As was discussed in detail in the previous edition of this report (Fall, 2020), the Moroccan government put in place various measures to help the formal private sector weather the crisis, including the deferral of corporate income tax and social contribution payments, direct transfers to employees, public credit guarantees to support firms´ working capital, an expansionary monetary policy and liquidity injections to the banking system.

BOX 1. SECOND COVID-19 ENTERPRISE FOLLOW UP SURVEY

The World Bank Group has conducted three consecutive surveys that help monitor the impact of COVID-19 on a representative sample of firms in the Moroccan formal private economy: one just prior to the pandemic outbreak (December 2019), one in July-August 2020, and a last one in February 2021. The results of the second survey were analyzed in detail in the Fall edition of Morocco´s Economic Monitor. This box summarizes the key trends observed in the last survey, conducted nearly a year after the first case of COVID-19 was detected in Morocco.

The second follow-up survey confirms that Moroccan formal firms continue to bear the full brunt of the crisis: the share of respondents declaring to have permanently closed their operations has increased from 6 to 10 percent since the first follow-up survey conducted over the summer; 86 percent of firms report to be experiencing a decline in demand for their products (82 percent in the previous survey); 92 percent of firms have seen a deterioration in their liquidity situation, against 72 percent in the previous survey. In addition, the share of firms reporting a decline in their turnover has fallen slightly, although it remains overwhelming: 86 percent, compared to 87 percent in August 2020. On a more positive note, the average contraction in respondent firms´ turnover has decreased from 47 to 39 percent. Overall, small- and medium-size firms report worse indicators than larger companies, suggesting that the impact of the crisis continues to be unequally distributed also in the corporate sector.

The new survey confirms that, at least in the formal sector, Moroccan firms have tended to adjust along the intensive margin of labor utilization rather than resorting to permanent layoffs of employees. Indeed, while 54 percent of respondents declare to have reduced the numbers of hours worked in their firms (50 percent in the previous follow up survey), their permanent full-time workforce has declined by only 3 percent (5 percent in August 2020). Another relevant trend is the substantial increase in the number of firms that reported receiving some form of governmental support: 37 percent in February 2021, against 20 percent in August 2020. The most common form of governmental support has been wage subsidies, followed by tax relief and direct transfers. Interestingly, despite their worsening liquidity situation, few respondents consider that a facilitated access to new credit is among the forms of public support that their firm needs most at this juncture of the crisis.

are concerned about their future solvency, more than 16 percent of companies were in permanent or temporary shutdown at the end of 2020, 40 percent of companies completely lack cash buffers, and 8 percent have reserves allowing them to hold for less than a month.[6] This complex scenario has hindered the recovery of private investment, which could constrain future economic growth, providing a solid justification for the government's effort to deploy the Mohammed VI Fund (see next chapter for more details). Among the indicators that illustrate this sluggish recovery of private investment are: (i) the evolution of capital goods´ imports, which contracted by 13.6 percent in 2020, and in January-February 2021 were still 6.9 percent below their level of these same two months of 2020 (source: Office des Changes); (ii) the evolution of banks´ investment loans to private firms, which continue to decline in the last quarter of 2020 and in January 2021 in spite of the overall expansion of credit to the private sector, which is being driven primarily by liquidity loans (Source: Bank Al-Maghrib)

The crisis is also leading to a temporary increase in poverty and vulnerability. As will be discussed in more detail in the Special Focus of this report, the socioeconomic impact of the pandemic is large, persistent, and unequally distributed. According to the latest World Bank estimates (Macro Poverty Outlook, April 2021), the crisis may have pushed more than half a million additional Moroccan citizens below the US$3.2 PPP poverty line in 2020, increasing the poverty rate from 5.8 percent to 7.1 percent and the vulnerability rate from 26.1 to 29.6 percent, after several years of sustained social progress in the country. As will be discussed in the Special Focus of this report, this increase in poverty would have been higher hadn't it been for the cash transfer programs to formal and informal workers that were put in place by the authorities during the lockdown period.

Large Fiscal Impacts, but a Resilient External Position

Faced with the pandemic's health, social, and economic impact, the government launched a targeted counter-cyclical policy. With the onset of the pandemic, the fiscal consolidation process that was put forward in the aftermath of the global and Euro area crises was appropriately discontinued. Indeed, soon after the pandemic outbreak, the authorities made space for additional expenditures (mostly targeted to the health sector and to cash transfers in favor of formal and informal workers) while accommodating the impact of the collapse in economic activity on tax revenue collection (which contracted by 6.5 percent in 2020). As a result, in 2020 the overall deficit increased to 7.7 percent of GDP from 3.6 percent of GDP in 2019. An increase of that magnitude in the fiscal deficit, however, compares favorably with all the other northern African economies, with the average for the MENA region, and is far below that observed in most advanced economies (Figure 5). This reflects the prudent fiscal approach that has been prioritized by the authorities, and the mobilization of contributions from banks, wealthy individuals, private firms and SOEs to the extrabudgetary special COVID-19 fund that has covered the cost of upgrading the health system and supporting households.[7]

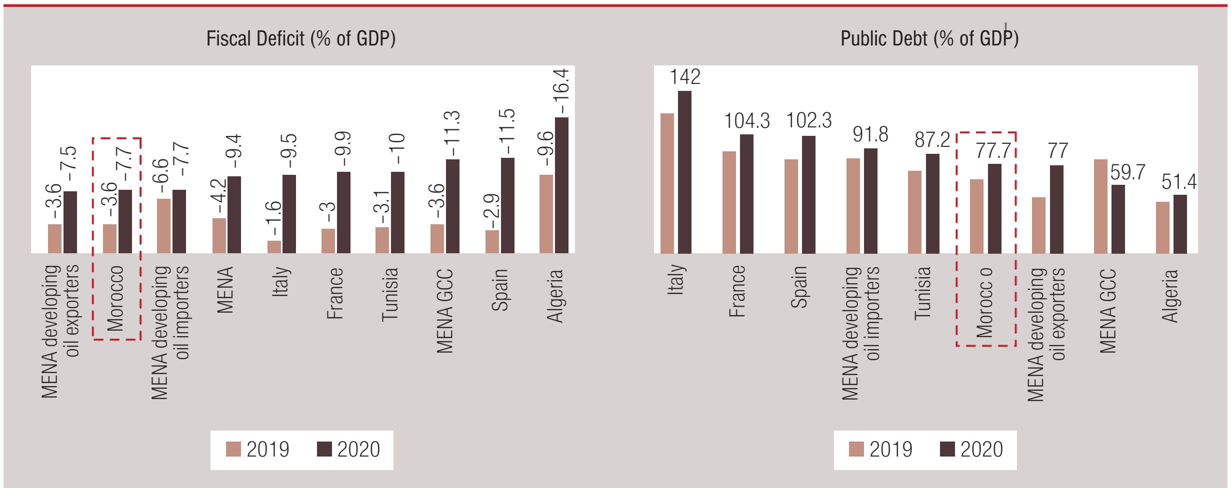
The recession and the large fiscal deficit have led to a marked increase in the debt-to-GDP ratio. Central government debt increased from 65.4 percent in 2019 to 77.7 percent of GDP in 2020 (Figure 5).[8] The authorities have continued to rely primarily on the domestic debt market to cover its financing needs, with issuances that averaged 12.7 billion MAD per month throughout 2020 (almost 14.1 percent of GDP cumulatively). As a result, the domestic debt ratio has increased by 7.9 percentage points of GDP. The central government has also gone at great length to mobilize credit from multilateral institutions and international financial markets, leading to a net increase in external debt for an amount of

6 HCP: Effets du Covid-19 sur l'activité des entreprises – 3ème enquête -Janvier 2021

7 The special COVID-19 Fund amounted to about 3.1 percent of GDP, and the contribution from the central government amounted to close to 1 percent of GDP.

8 Morocco's consolidated general government debt at the end of 2019 stood at 56.4 percent of GDP (56 percent of GDP in 2018 and 54.1 percent of GDP in 2017), almost 10 percentage points lower than the central government debt-to-GDP ratio.

FIGURE 5 • Morocco's budget deficit and public debt have increased less markedly than in neighboring countries

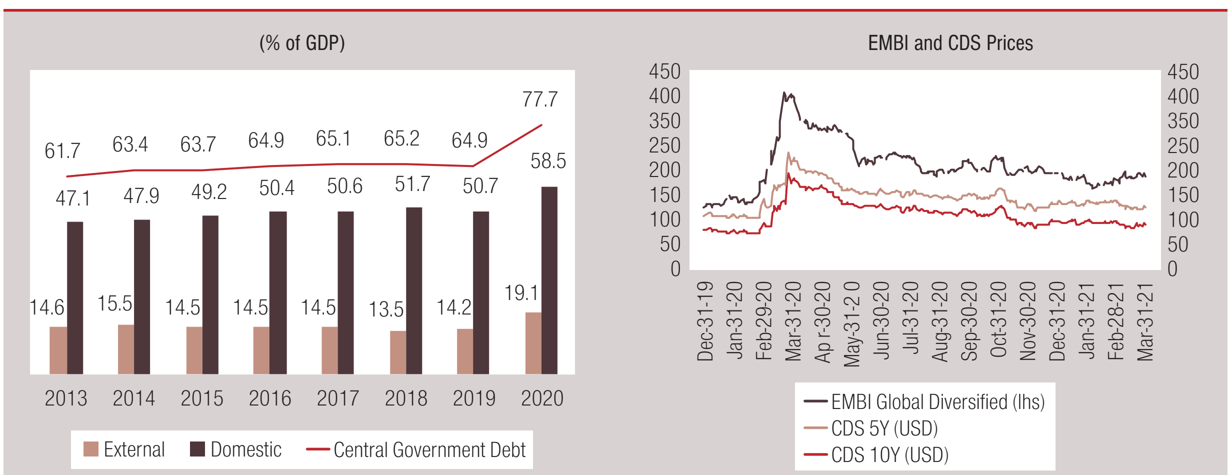


Source: World Bank MPO (April 2021), World Bank MENA Economic Update (April 2021), IMF.

5 percent of GDP. SOEs add an additional 16 percent of GDP to Morocco's public external debt (most of which is guaranteed by the sovereign), although, as opposed to the central government's debt, the value of these obligations decreased in 2020.

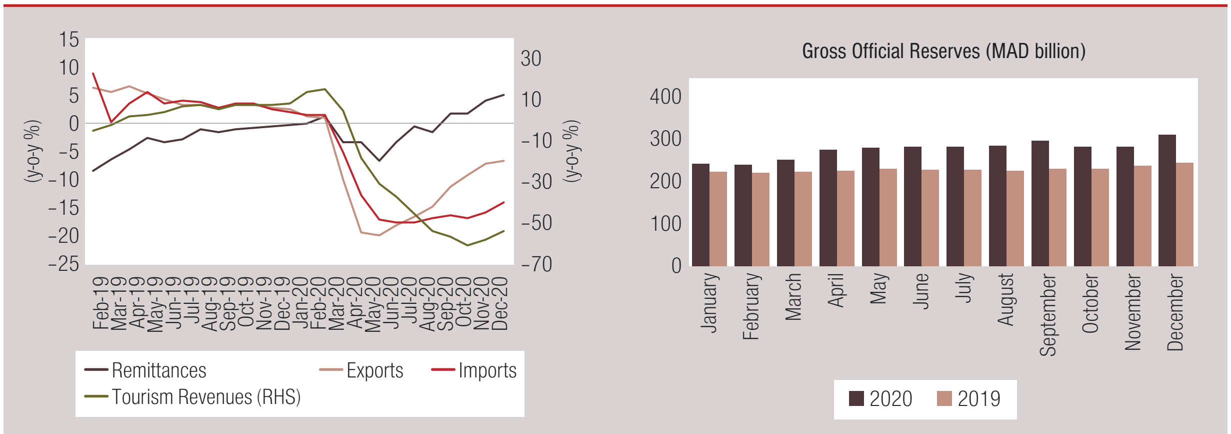
Despite recent credit rating downgrades, the sovereign has retained significant access to international financial markets. After Fitch's and Standard and Poor´s negative rating actions in October 2020 and April 2021, Morocco is no longer rated investment grade by any of the three major agencies. So far, however, these downgrades have had little impact on sovereign spreads (EMBIG) or on the price of Credit Default Swaps (Figure 6). Furthermore, Morocco's December US$3 billion sovereign bond issuance was a success, and like September's €1 billion issuance, it was largely oversubscribed and carried moderate coupons.

FIGURE 6 • Despite the increase in public debt, markets perceive that Morocco's sovereign risk remains contained



Source: World Bank MPO (April 2021) and Macrobond.
Note: the EMBI spread compares the return of Moroccan international bonds with those of comparable US Treasury securities.
CDSs are a financial derivative that allows investors to offset credit risk, and their price indicates perceived risks of default.

FIGURE 7 • The various components of the current account are recovering unevenly, and external buffers have been bolstered



Source: Office des Changes.

Morocco´s external position has been more resilient than originally anticipated. Despite the COVID-19 shock, the current account deficit is estimated to have closed 2020 with a deficit of just 1.5 percent of GDP, down from 3.7 percent of GDP in 2019. During the first stage of the pandemic, a plummeting external and domestic demand quickly affected all components of the current account, and in particular exports, the value of which declined by almost 25 percent between the second quarter of 2019 and the same period of 2020. However, Morocco's exports of goods began to recover in the second half of the year, limiting the annual contraction to 7.6 percent, although tourism revenues have remained depressed (Figure 7). The recovery of imports has picked up at a much slower pace, posting an overall decline of 14 percent for goods and 31.4 percent for services in 2020. Workers' remittances increased by 5 percent in 2020, reaching an unprecedented 6.4 percent of GDP, which has contributed to ease the impact of the crisis not only on households but also on the balance of payments (Figure 7).[9]

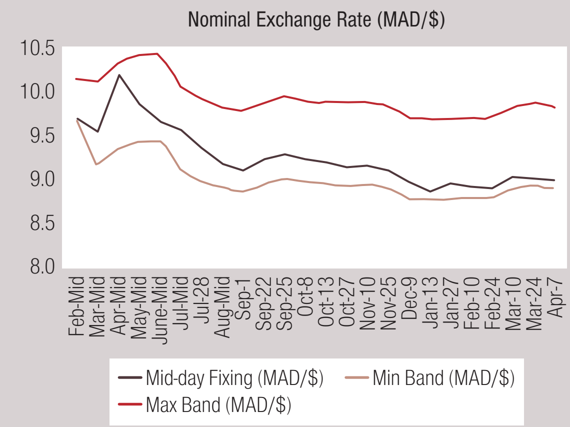
After an initial decline following the onset of the pandemic, the stock of foreign exchange reserves recovered. During the first weeks of the pandemic, international reserves fell by 4 percent (from US$26.4 billion on March 6, 2020 to US$25.3 billion on March 20, 2020). This trend was reversed when Morocco purchased all available resources under its Precautionary Liquidity Line (PLL) arrangement with the IMF (approximately US$3 billion). In the aftermath of that disbursement, reserves continued to edge upwards, reaching almost 30 percent of GDP by year-end (more than 7.5 months of imports, up from 5.4 months of imports at the beginning of 2020) and US$35 billion at the end of January 2021(Figure 7). The increase in reserves was made possible by the better than anticipated performance of the current account, large multilateral disbursements, two successful sovereign bond issuances in international financial markets and relatively resilient net foreign direct investment (FDI) flows. As a result, the government decided to bring forward the partial repayment of the IMF´s PLL for an amount of close to US$ 936 million, a repurchase that was made effective on January 8th, 2021.

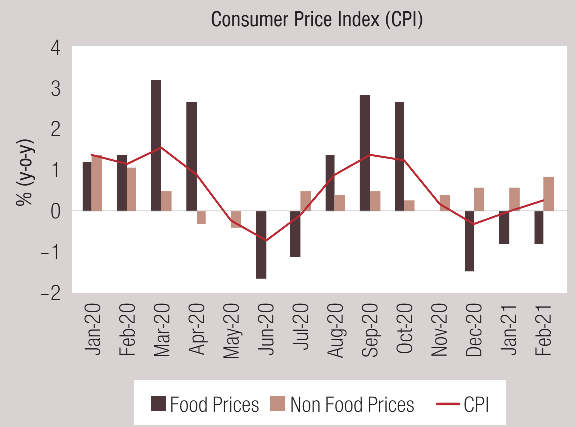
Monetary and Financial Sector Developments

Morocco's resilient external position has translated into an absence of exchange rate pressures. As part of a transition towards an inflation targeting monetary framework (discontinued in the context of the pandemic), the central bank has relaxed its exchange rate peg to the euro and the US dollar, with the

9 For a qualitative review of workers' remittances in Morocco, wee World Bank (2021).

FIGURE 8 • Absence of exchange rate and price pressures





Source: Bank Al.Maghrib and HCP.
Note: a fall in the nominal exchange rate as defined in this graph (Moroccan dirham to US$) implies an appreciation.

widening of the band from ±0.3 percent to ±2.5 percent in January 2018 and to ±5 percent in March 2020. This move was put to the test during the COVID-19 crisis. Like other emerging market currencies, during the weeks that followed the onset of the pandemic, the dirham depreciated against both the euro and the US dollar, helping to absorb the external shock. However, that trend was later reversed as markets started differentiating country risks with the dirham appreciating against the dollar and being relatively stable vis-à-vis the euro (Figure 8). The absence of exchange rate pressures, along with the above mentioned strong and favorable access to international capital markets, are signs of market confidence in the resilience and prospects of the Moroccan economy.

In the current context of weak economic activity, price pressures remain subdued. The Consumer Price Index rose by just 0.3 percent (y-o-y) at the end of February 2021, driven by a fall in food prices since December (Figure 8). Non-food inflation has increased slightly, primarily because of the recent evolution of energy prices, reaching 0.9 percent in February. However, this level of inflation is still below that of February 2020 (1.1 percent). Core inflation remains low and has not surpassed 0.5 percent in the last four months.

Monetary policy is accommodative, and the central bank has increased its capacity to inject liquidity into the financial system. Bank Al Maghrib (BAM) has recently announced that, for the time being, its policy interest rate will remain unchanged at 1.5 percent, its historical low (both in nominal and in real terms) after the two cuts adopted in 2020 (25 basis points in March 2020 and 50 basis points in June). Early in the crisis, BAM also expanded the scope of its refinancing operations, the scale of which increased by close to 60 percent between March and August. Since the end of last year, however, the average size of BAM´s refinancing operations has turned downwards, evidencing a decline in banks´ liquidity needs linked to a deceleration in the demand for cash (which, according to BAM's latest projections, is only temporary) and to a drop in banks´ net foreign exchange position.

So far, the banking system has weathered the crisis relatively well. Short-term interbank rates have declined to around 1.5 percent in line with recent policy rate cuts, and average lending rates hovered around 4.3 percent in the fourth quarter of 2020 (down from 4.9 percent a year before). Together with the various guarantees in place, this reduction in lending rates has helped sustain banking credit, which has continued to expand in 2020, mostly in the form of liquidity loans. Bank deposits have also grown since the start of the crisis, with a shift from term to demand deposits, reflecting increased preference for liquidity. It is worth noting that the authorities have recently enacted the reform of the CCG, which has been transformed into a public limited company under the full supervision of the central bank: the *Société Nationale de Garantie et de Financement de l'Entreprise* (SNGFE). This reform is aimed at ensuring greater independence and improved management. By placing all guarantees on the SNGFE balance sheet rather than on the government´s balance sheet, this change will incentivize risk-based decision making on the part of the new entity regarding the issuance and management of guarantees.[10]

However, the COVID-19 pandemic is causing a deterioration of the quality of bank´s credit portfolio. The ratio of non-performing loans (NPLs) has increased from 7.6 percent in December 2019 to 8.4 percent at the end of 2020, to which the largest banks have responded with a substantial increase in their provisioning levels. According to stress tests carried out by the Central Bank, NPLs could surpass 10 percent of credit in 2021.

[10] The reform assigns four layers of risk coverage for any losses generated from the guarantees: (a) annual transfers from the Treasury, which will define/limit the amount of guarantees that can be provided by SNGFE; (b) a security fund to be created by the SNGFE; (c) equity capital of SNGFE; and (d), as a last resort, the state guarantee.

2

OUTLOOK

After its initial efforts to mitigate the impact of the pandemic on households and firms, the Moroccan government is seizing the opportunity to engage in an ambitious reform process that is aimed at laying the foundations of a new development model. Over the medium-term, the successful implementation of these reforms could lead to a stronger and more equitable growth path. In the shorter-term, however, the recovery is likely to be gradual and uneven. We project real GDP to grow by 4.6 percent in 2021, sustained by the strong performance of the agricultural sector following two consecutive years of drought, and by the successful initial rollout of Morocco´s vaccination campaign. However, this expansion would be insufficient to return to pre-pandemic levels of economic activity, poverty and vulnerability this year, and our central outlook is still subject to substantial uncertainty given the spread of new Coronavirus variants, challenges in procuring additional vaccines, and the risk of new restrictions in Morocco or elsewhere. Furthermore, the COVID-19 crisis is increasing Morocco's macro-financial vulnerabilities, which warrant close monitoring.

Morocco's Reform Momentum

As we enter the second year of the pandemic, the Moroccan government has articulated an ambitious agenda of transformative reforms. As previously detailed (*Morocco Economic Monitor, Fall 2020*), following Morocco's deconfinement, the authorities announced the launch of a reform program with the following pillars: (i) the creation of a Strategic Investment Fund (the Mohammed VI Fund) to support the capitalization of the private sector and the acceleration of the PPP program; (ii) the overhaul of the social protection framework to boost human capital; (iii) the restructuring of Morocco's large network of State Owned Enterprises.

A Law and a Decree have been passed to establish the Mohammed VI Fund in the form of a limited company (*société anonyme*). Although some of its specific governance arrangements are still being defined, the choice of such a corporate structure is aimed at securing that the new institution will meet high transparency and accountability standards, increasing its attractiveness for potential investors. The Fund is set to receive seed capital from the central government (an already budgeted 15 billion MAD, close to US$1.66 billion) and aims to raise up to US$3.3 billion from public and private institutional investors, and from Development Finance Institutions (DFIs). It will function as a fund-of-funds structured to pursue various objectives. In the shorter-term, and in collaboration with the SNGFE (former CCG) and the banking system, it will provide quasi-equity to struggling SMEs in need of financial restructuring, thus functioning as another backstop against the wave of corporate insolvencies that the COVID-19 shock could still trigger. Once the Fund is fully operational, and in collaboration with private managers selected through a competitive process and organized along thematic lines, the Mohammed VI Fund will directly inject equity into private firms deemed to have a high growth potential. Finally, the Fund will also include an infrastructure component focused on PPPs, mobilizing resources to support the development of a pipeline of bankable projects, and providing long-term financing for some of these projects.

The first phase of an ambitious social protection reform is also underway. This reform will be articulated in two phases. During the first one (2021–2022), it will concentrate on the universalization of the health insurance system (*Assurance Maladie Obligatoire* – AMO) and on increasing access to existing cash transfer programs (family allowances). During the second stage (2023–2024), the reform will concentrate on the old age pension scheme and on the expansion of unemployment benefits to a larger share of the formal labor force. The Framework Law that sets the reform in motion has already been approved by the House of Representatives, the initial focus of which will be to expand the coverage of AMO to an estimated 11 million traders, artisans, farmers, liberal professions and their families by 2021, and to incorporate another 11 million of poor and vulnerable citizens currently covered by the non-contributory *Régime d´Assistance Médicale* (RAMED) by 2022. In addition, the government will soon begin to gradually expand the scope of family allowances to cover all children, and not only those of the formally employed, as was the case until recently. According to the authorities, this overhaul of the social protection framework will cost 51 billion MAD (US$5.7 billion) per year, 23 billion of which will be provided through budget allocations from the central government, and 28 billion from contributory payments.

Two laws are currently under preparation to reorganize Morocco's network of SOEs. A central element of this reform will be the creation of a new state holding agency that will implement the government's policy for the state-owned corporate sector and oversee those entities that function under a commercial logic. Moreover, SOEs' assets will be regrouped by sector to leverage synergies, and the public establishments that are deemed no longer necessary will be eliminated to create fiscal space. In this way, Morocco is about to adopt a model that has already been tested in various advanced economies to maximize the economic, financial, and social profitability of public firms.

Morocco is among the countries that could benefit the most from the ratification of the African Continental Free Trade Area (AfCFTA). Although Morocco has yet to ratify the agreement, the government remains fully committed to participate in the AfCFTA. According to recent estimates, by 2035 the successful implementation of AfCFTA could increase Morocco's real income by up to 8 percent (World Bank, 2020a). Moreover, Morocco would be among the countries that would benefit the most from a faster growth of intra-AfCFTA exports.

In addition to the reforms that have already been initiated, the government has recently unveiled the terms of a new development model that will guide public policies in the years to come. Even before the pandemic outbreak, declining economic growth, slow job creation and persistent social and spatial inequalities prompted His Majesty the King Mohammed VI to call for the elaboration of a new development model. For that purpose, a high-level commission has worked for over a year, conducting deliberations with a participatory approach that has included several stakeholders from the public and the private sectors and from civil society. The much-awaited report produced by this commission has recently been made public, providing a policy roadmap that could shape Morocco's future. It proposes four transformation axes aimed at doubling per capita GDP by year 2035: (i) boosting entrepreneurship and competitiveness to transition towards a productive and diversified economy capable of generating value-added and good quality jobs; (ii) improving the quality of education and health services to boost human capital; (iii) reducing gender disparities, promoting the participation of the youth in society, and securing a minimum level of social protection; (iv) deepening the decentralization process and empowering regions to promote development at the local level. The specific content of the proposed reforms will be analyzed in detail in a future edition of the Morocco Economic Monitor.

In sum, the policy changes that the COVID-19 pandemic is helping to crystalize could place Morocco on a stronger and more equitable growth path. The Kingdom stands out as one of the countries of the world that is seizing this crisis as an opportunity to remove some of the structural constraints that had negatively affected its socioeconomic performance in recent years. However, whether this reform package has the expected results will depend on its successful implementation and on the opportunities that the post-pandemic international economic landscape will create for a country with Morocco's characteristics.

Outlook

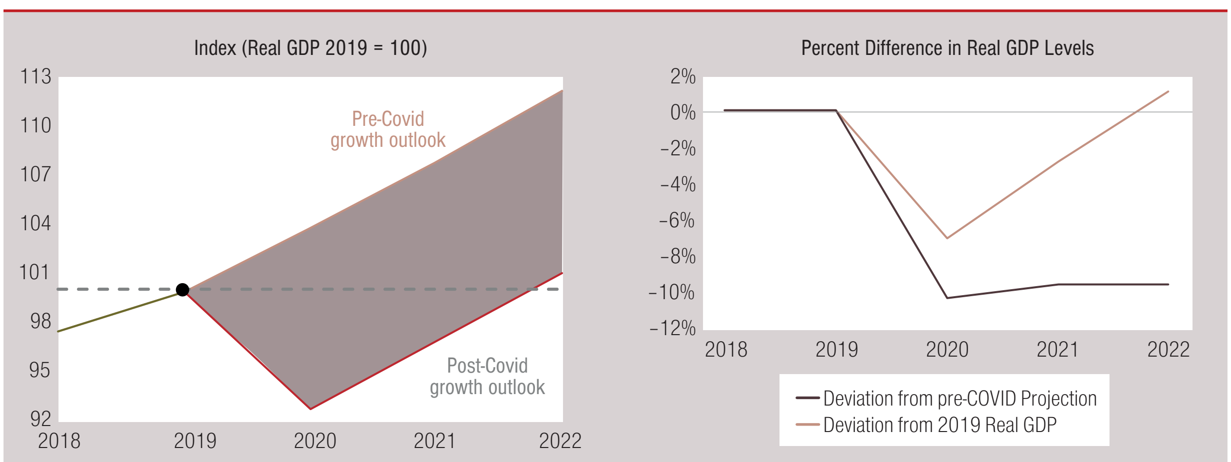
We project real GDP growth to accelerate to 4.6 percent in 2021. In this baseline scenario, agricultural output surpasses historical trends; the vaccine is progressively rolled-out; monetary policy remains accommodative; the fiscal consolidation process is gradual, with a moderate reduction in the deficit taking place already in 2021. The recovery of the manufacturing and services sectors is expected to be gradual (3.4 and 3.1 percent value added growth respectively), initially constrained by the recent slowdown in Morocco´s trading partners and by a protracted return of international tourism.

After two consecutive years of drought, preliminary data suggest that the 2020/21 agricultural season will be strong. Abundant rainfall in recent months have led to a substantial revision of the forecasted production of Morocco's main crops: according to the Ministry of Agriculture, the production of cereals could almost triple, while a 29 percent increase is expected for citruses, a 14 percent increase for olives and a 4 percent increase for dates. As a result, agricultural value added is now expected to increase by 13.5 percent in 2021.

Economic activity is not expected to recover to pre-pandemic levels until 2022, and the ultimate cumulative output loss associated with the COVID-19 crisis will be large. Only in 2022 is real GDP projected to return to the level of 2019 (Figure 9). However, even for that year, we estimate a negative output gap of more than 7 percent of GDP. Cumulatively (2020 to 2022), the output loss obtained by comparing our pre- and post-COVID projections amount to more than US$34 billion. In this context of partial recovery and negative output gap, inflation is expected to pick up only moderately, reaching 1.1 percent in 2021. This lack of significant price pressures should enable the central bank to maintain an accommodative stance until the recovery is well entrenched.

Our central projection, however, is still subject to high uncertainty, and the balance of

FIGURE 9 • The cumulative output loss caused by the crisis is expected to be large



Source: World Bank staff.

risks remains tilted to the downside. The favorable epidemiological trends observed in Morocco over recent months continue to be at risk given that some of the new coronavirus variants that have emerged globally are more contagious and lethal. In fact, the global spread of these strains has already prompted the adoption of new containment measures in Morocco and in most of its main trading partners, the maintenance and/or intensification of which could have an impact on economic activity. Moreover, the world still faces the risk that some of the new variants that are emerging may exhibit a greater resistance to the vaccines, which would call for a substantial revision of the current strategy to confront the pandemic. Even if that scenario does not materialize, India's decision to ban exports has already slowed down the Moroccan vaccination campaign, raising doubts about whether the government will succeed in immunizing a large share of the population within the first semester. In this highly uncertain and risky context, the economic recovery is likely to be uneven.

Over the medium-term, we expect real GDP growth to exceed its pre-pandemic trend as potential output is boosted thanks to ongoing reforms. There are various channels through which the reform impetus described above could increase the growth potential of the Moroccan economy. First, by increasing market contestability, levelling the playing field, and streamlining the role of the SOE sector in the economy, more firms would be expected to enter markets, grow, and create jobs (IFC, 2019). Second, a more dynamic private sector could make a better use of the large stock of physical capital accumulated over past decades, thus increasing the growth dividend of existing infrastructure, which so far has disappointed (HCP, 2016). Third, accelerating the pace of human capital formation could enable more Moroccan citizens to realize their productivity potential, which would contribute to accelerate the growth of aggregate output (World Bank, 2020).[11] However, anticipating the magnitude and pace of the growth-enhancing effects of these reforms, which will depend on their successful implementation, is a difficult task.

In 2021, poverty is expected to decline but not to return to the pre-crisis level. As a result of the economic expansion forecasted for 2021, we expect poverty to decrease by 0.5 percentage point and reach 6.6 percent. In turn, the percentage of the population "vulnerable" to fall into poverty is expected to slowly decrease in 2021 to about 28.4 from 29.6 in 2020. These trends are expected to continue through 2022 and 2023, but poverty and vulnerability indicators may not return to the pre-Covid-19 situation until 2023.

The budget deficit is expected to fall gradually, helping to stabilize the debt-to-GDP ratio and to place it on a downward path over the medium term. The 2021 budget law already envisages a moderate reduction in the deficit, which we expected to reach 6.7 percent of GDP this year. Over the medium term, the fiscal deficit is expected to continue declining gradually as tax revenues recover and government spending stabilizes. These changes would allow the debt-to-GDP ratio to stabilize below 79 percent of GDP and to begin declining by 2024.

The current account deficit is expected to increase, but to stabilize below 4 percent of GDP. After the sharp contraction registered in 2020, imports are expected to increase in 2021 in the context of the recovery of domestic demand and of rising energy prices. Certain exports are expected to return to pre-pandemic levels (automobiles) or to maintain their recent expansion (agro-industry); in contrast, the recovery of tourism revenues is likely to be protracted (see box 2 for an overview of the situation in the tourism sector). Remittances are expected to stabilize in 2021 after the above-trend increase observed in 2020. As a result, the current account deficit is projected to increase from 1.5 percent of GDP in 2020 to 3.5 percent of GDP in 2021 and 3.9 percent of GDP in 2022.

Morocco should retain comfortable external buffers. Foreign exchange reserves have markedly increased since the beginning of the pandemic and are expected to remain above 30 percent of GDP in 2021 and beyond. In addition, the government maintains a solid engagement with multilateral lenders. Following December´s successful sovereign issuance, the

[11] Morocco´s Human Capital Index (HCI) currently stands at 0.5, implying that it is estimated that, under the status quo, children born today will be only half as productive as they would have been had they enjoyed access to complete education and full health (World Bank, 2020b).

BOX 2. COVID-19 IMPACT ON TOURISM SECTOR

Morocco's tourism sector has exhibited strong growth since it was identified as a strategic sector in the early 2000s: it directly contributes to 11 percent of GDP, 17 percent of the workforce and 19 percent of the exports of goods and services. Between 2002 and 2019, foreign tourists' arrivals tripled, rising from 2.2 million people to 7 million people. The key source markets are France, with nearly 1.7 million tourists and 16 percent of total arrivals every year, Spain (7 percent), followed by the United Kingdom (4 percent), and Germany and Italy (about 3 percent). Moroccans living aboard (MLA) constituted nearly half of all international tourists between 2012 and 2019, with arrivals increasing by an average of 4 percent per year over this period.

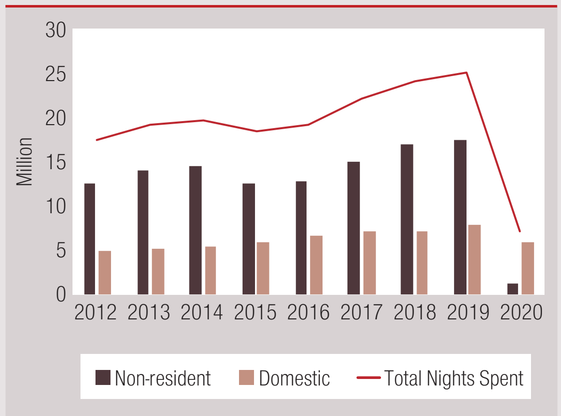
The tourism sector has suffered heavily from the effects of the health crisis and the restrictive measures put in place by the authorities to contain the Covid-19 pandemic. Indeed, the sector experienced a rapid and sharp fall in foreign tourists' arrivals and a surge in job losses, putting many SMEs at risk. The suspension of all international passenger flights and maritime links on March 15, 2020 and the declaration of a state of health emergency in the country resulted in an almost total shutdown of tourism activity. Tourism revenues dropped by about 56 percent in 2020 and had negative spillovers to the food and accommodation and transportation, among other sectors. These three sectors represent over 41 percent of total tourist expenditures and were the first to experience the shock: food and accommodation value added declined by 54.8 percent and transport by 27.4 percent.

The fall in hotel nights spent during the first wave of the pandemic was the most pronounced, and only slightly higher for foreign travelers than for domestic consumers. During the summer 2020 season, the authorities announced various measures to reopen borders gradually, requiring tourists to obtain both a serological and PCR test to 48 hours before the flight. Although the sector recovered some ground, tourism is still far from a return to pre-pandemic levels. As was the case in many other countries, cross-border travel was affected much more strongly than domestic tourism. A new relaxation of rules was announced, in October 1, with the extension of the duration of the results to 72 hours instead of the 48 hours with elimination of the serological tests. However, cross-borders tourists fell by 79.8 percent in Q4–20, due to the decline of 92 percent for foreign tourists and 59 percent for MLA. Nights spent fell by 82.6 percent, resulting in a reduction of 94 percent for non-residents tourists and 52.3 percent for residents. In 2020, tourist arrivals fell by 78.5 percent compared to a gain of 5.2 percent in 2019 and overnight stays fell by 72.4 percent compared to growth of 5.1 percent in 2019.

Significant decline of tourist arrivals and of tourism receipts

Source: Ministry of Tourism, Handicrafts, Air Transport and Social Economy.
Note: MLA refers to Moroccans Living Abroad.

Domestic tourism has been more resilient



Source: Ministry of Tourism, Handicrafts, Air Transport and Social Economy.

The current pandemic could have long-lasting effects on international tourism. Tourists may become more cautious about travelling abroad. Moreover, new variants of the virus may still pose a threat for quite some time, further increasing reluctance to international travel. On the other hand, although the resumption of foreign tourists' travel may be slow, home-bound travel of Moroccans living abroad may recover faster once travel regulations allow. Given that the average stay of Moroccan tourists is much longer than that of foreign tourists (17 days vs. 8 days on average), migrants returns could cushion the impact of the crisis on tourism revenues this year. However, the tourism industry, in particular hotels and airlines, might not see a recovery for some time.

central bank partially anticipated the repayment of the Precautionary Liquidity Line (PLL) with the IMF, which was drawn right after the beginning of the pandemic outbreak. Presumably, this would facilitate the request for another contingent facility with the IMF, although no concrete announcements have been made in that regard.

Challenges

The pandemic has increased Morocco´s macro-financial vulnerabilities. Among the risks that are becoming more apparent at this stage of the crisis are the following: (i) an already high debt-to-GDP ratio that could increase further if some of the contingent liabilities (credit guarantees to corporate credit) that have been accumulated as one of the pillars of the recovery strategy come to materialize; (ii) an international financing environment that could become more challenging for emerging and developing economies in a context of rising US Treasury yields; (iii) an ongoing increase in the stock of non-performing loans that could intensify if the economic recovery does not gather pace or if the public credit guarantees that have been put in place begin to be downscaled. Although these challenges are significant and need to be closely monitored, this section identifies various mitigating factors and emphasizes that, as part of the ongoing reforms, the Moroccan authorities are taking appropriate actions to contain macro-financial risks.

Morocco has a comparatively high level of debt but a well-balanced portfolio. At 77.7 percent, Morocco's debt-to-GDP ratio is significantly above the median for the world economy (61.7 percent of GDP), for low-income economies (63.8 percent of GDP) and for high-income economies (63.8 percent of GDP). Still, in terms of debt-to-GDP, the Kingdom compares favorably with most oil importers within the MENA region. Of particular relevance is the fact that exchange rate and interest rate risks are mitigated by a solid debt profile, with a large share of obligations denominated in domestic currency (75.4 percent in December 2020) and contracted with a maturity of more than five years at fixed rates. In addition, the average cost of foreign currency denominated debt has fallen substantially over recent years, and currently stands at a historical low of 2.5 percent.

The rising stock of contingent liabilities constitutes an additional source of fiscal risk. The materialization of the public guarantees to corporate credit that the government has extended to respond to the crisis could lead to a further deterioration of the fiscal outlook. As of October 2020, these guarantees amounted to 3.7 percent of GDP, and the recovery plan envisages a further increase up to close to 6.5 percent of GDP. In addition, the stock of SOE debt guaranteed by the central government stands at more than 15 percent of GDP, and most of it is denominated in foreign currency, exposing borrowers that lack a natural hedge to currency risk. In recent months, however, the government has initiated various reforms that should reinforce its fiscal risk management framework. Firstly, as mentioned already, the former Central Guarantee Fund has been transformed into a limited financial company supervised by the central bank, a scheme that is designed to enable the new entity to manage and potentially absorb a first layer of risk associated with the corporate credit guarantees. Second, the ongoing restructuring of SOEs should improve their financial management, hence helping to reduce the probability of loan defaults in that sector. Another mitigating factor is that SOEs guaranteed debt is mostly contracted on concessional terms.

Covering Morocco's fiscal financing needs could become more challenging in a context of rising global yields. Public gross financing needs reached 20.1 percent of GDP in 2020 and, even in a scenario of gradual fiscal consolidation, the government may need to mobilize more than 16.5 percent of GDP per year on average between 2021 and 2024. So far, the authorities have had ample space to cover financing needs of that magnitude at moderate costs thanks to the depth of Morocco's debt markets and a large pool of domestic savings, an accommodative monetary policy that has reduced domestic yields, and abundant liquidity in international financial markets. This is best illustrated in the successful US$3 billion bond issued in December 2020, with a 2.375 percent coupon for the seven-year maturity tranche; 3 percent for the 12-year maturity tranche; and 4 percent for the 30-year maturity tranche. Global yields, however, could increase in anticipation of a rise in inflation associated with the ultra-loose monetary and fiscal stance of advanced economies, a trend that was already observed in March 2021, but which has receded in recent weeks. If the rise in global yields was to resume, capital outflows from emerging markets and developing economies could be triggered, creating a more challenging environment for Morocco to tap international markets. As a result, the government may have to increase its reliance on domestic debt issuances, which could crowd out private investment and thus affect the pace of the recovery.

The liquidity squeeze facing the private sector could still result in widespread loan defaults and may erode banks' capital position. Through the credit guarantee programs and the central bank's refinancing efforts, the Moroccan authorities have taken decisive action to prevent the liquidity shock triggered by the pandemic from turning into a solvency crisis. However, a majority of Moroccan firms still report to be facing a worsening liquidity situation,[12] and the crisis is aggravating the late payment problem, which was already a major constraint for smaller companies before the pandemic outbreak.[13] Furthermore, recent empirical evidence suggests that, following economic crises, insolvencies' build-up is a lengthy process that may take several quarters to peak (Muro, 2021). In addition, close to a third of households report to be resorting to debt in order to cope with the loss of income caused by the crisis (HCP, 2021b). In this context, the stock of non-performing loans is likely to continue rising beyond its already high current levels. Although Moroccan banks´ capital and liquidity buffers are still large enough to absorb losses of this magnitude, a further deterioration of their credit portfolio could impair credit to the private sector, which would also adversely affect the pace of the post-COVID recovery. In this context, the central bank is exploring options to accelerate the resolution of NPLs through the creation of a secondary market for distressed loans.

12 As mentioned in Box 1, 92 percent of respondents to the second wave of the Enterprise Survey declare to have witnessed a deterioration in their liquidity situation since the month of August 2020. In addition, a survey conducted by HCP in January indicates that 40 percent of firms lack cash buffers, 26 percent of company managers consider that they face a severe risk of insolvency, and an additional 25% report to be facing a moderate risk of insolvency (HCP, 2021a).

13 According to the General Confederation of Moroccan Companies, since the beginning of the crisis, the average length of payment delays between firms has increased as much as 52 days, a problem that is particularly pronounced for smaller companies.

SPECIAL FOCUS: COVID-19, INEQUALITY, AND JOBS IN MOROCCO

Beyond the aggregate effects of the COVID-19 pandemic, it is becoming clearer that the economic consequences of the crisis are being unequally distributed. This is mostly due to the disproportionately large labor market impacts that the pandemic is having on the poorer segments of the population in Morocco and in many other emerging and developing economies. A peculiarity of the Moroccan case is that the policy response to the crisis has been effective at cushioning the income reduction that a large proportion of poorer households would have suffered in the absence of the widespread emergency cash transfers that were rolled out during the lockdown period. However, these measures were temporary in nature, and a more structural approach will be needed to ensure that the benefits of the post-COVID recovery will be evenly distributed. The sweeping social protection and health insurance reforms the Kingdom is embarking on are responding to such necessity. Further, the long-term challenges that characterize Morocco's labor markets may need to be addressed, namely, its insufficient capacity to create new jobs even when the economy is growing, high inactivity especially among the young and the female population, and slowly declining levels of informality.

The Unequal Effects of COVID-19: Evidence from Across the Globe

Poor and vulnerable citizens are more exposed to the health risks posed by the COVID-19 pandemic. Among the risk-enhancing factors that disproportionately affect this segment of the population, the following stand out in particular: (i) poor people are more likely to live in cramped conditions, with worse options for e.g. regular handwashing and the purchase of masks; (ii) they are also more likely to live in multi-generational households, increasing the transmission risks to vulnerable elderly who cannot be isolated from interactions with others in their homes; (iii) when they work, poor individuals are more likely to be engaged in client facing activities, and are less likely to receive adequate protective equipment; (iv) low income segments of the population tend to have more underlying health conditions, evidenced by a sharp gradient in life expectancy by wealth, which makes them more susceptible to becoming severely ill with COVID;[14] (v) they also have less access to

[14] In the USA for instance, the richest American men live 12 years longer than the poorest men, while the richest American women live 10 years longer than the poorest women (Isaacs and Choudhury, 2017).

treatment, and for many the cost of consultations with medical doctors and expenses for treatment are beyond their financial means.[15]

The poor and vulnerable tend to be employed in sectors that have been more affected by the pandemic. Although it is estimated that, globally, one in five jobs can be performed from home, this proportion falls to one in 26 jobs in low income countries (Sanchez at al., 2020). Within countries, the ability to telework is correlated with income, as white-collar jobs are more suited to be done from home, and as wealthier households tend to have better internet connectivity. In addition, poorer individuals are less likely to work in the public sector, which has been better able to avoid lay-offs and salary reductions. By contrast, they tend to be engaged in activities where social distancing is hard to be observed, and therefore more likely to have been paralyzed by lockdowns and social distancing measures (such as construction, labor-intensive manufacturing, or small retail). Finally, given their greater propensity to be employed informally, poor individuals are more likely to be uninsured, and hence less protected against economic, health, or life-cycle shocks.

The COVID-19 pandemic is also increasing gender disparities. It has been estimated that, globally, the percentage of employed women working in sectors that have been severely hit by the pandemic is higher than that of men: 40 percent vs. 37 percent (Madgavkar et al., 2020; UN Women, 2020). Furthermore, whilst more men than women appear to be dying of COVID-19, women are exposed to a higher risk of infection because they make up to 70 percent of the health workforce (Boniol et al., 2019).

Past experiences also show that pandemics should be expected to increase poverty and inequality, but the scale of the disruptions caused by COVID-19 is unprecedented. The literature shows that SARS, MERS, H1N1, Ebola or Zika had adverse effects on poverty and inequality (Barro et al., 2020; Furceri et al., 2020; Ma et al., 2020). What is different about COVID is the scale of the pandemic and hence its impact. According to recent projections, extreme poverty could increase across the globe due to COVID-19 by at least 119 million people. Moreover, income inequality is expected to rise in low-income and emerging countries alike.

Early evidence suggests that COVID-19 is also exacerbating inequality in the MENA region. Since the onset of the pandemic, various statistical agencies (including Djibouti, Egypt, Iraq, Libya, Morocco, Palestine, Saudi Arabia, Tunisia, and Yemen) have begun collecting data to assess the socioeconomic impacts of COVID-19 on households.[16] Its results indicate that the widespread impacts of the pandemic amplify pre-existing inequalities between rich and poor countries and between haves and have-nots within countries (Sanchez-Paramo and Narayan, 2020). A good example is that of Tunisia, where five rounds of phone interviews have been conducted between April and October 2020, allowing us to track the impact of the pandemic, controlling for different household characteristics. Among the factors that are correlated with a higher probability of respondents having declared a deterioration in their living standards are the following: (i) belonging to poorer households; (ii) having a lower degree of education; (iii) being younger; (iv) being unemployed, self-employed or being a non-wage worker with lower than usual, or no business income at all (for more details, see Alfani et al., 2021). The results reported for Tunisia are representative of the trends observed elsewhere in the region.

The mitigation measures put forward in the region have generally been insufficient to avoid significant increases in poverty. The phone surveys conducted in MENA suggest that a low proportion of poorer households have benefited from cash transfer programs (as will be seen later, Morocco has been a remarkable exception in that regard). This reflects the high prevalence of labor informality among this segment of the population, which in many cases has precluded access to existing benefit schemes. Consequently, the

15 Even in countries where medical care is freely provided, one observes that COVID has become a disease of the poor. In the UK for instance, the Office for National Statistics (ONS) shows that those living in the most deprived neighborhoods have been more than twice as likely to die from COVID as those in the least deprived.

16 The findings of some of these surveys can be found in the World Bank´s COVID-19 High Frequency Survey Global Dashboard. https://www.worldbank.org/en/data/interactive/2020/11/11/covid-19-high-frequency-monitoring-dashboard.

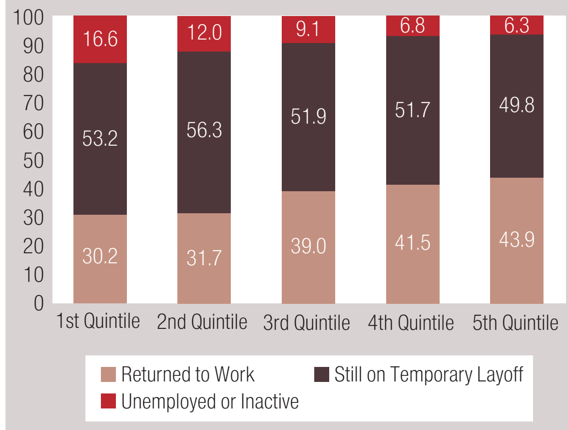
fractions of households reporting to be food insecure have reached dramatic levels in some countries: in Palestine as many as 42 percent of households report to be consuming less food, a proportion that reaches 26 percent in Djibouti and 16 percent in Tunisia. In Iraq, almost half of interviewed households adopted at least one negative coping strategy (such as the sale of assets) to ensure that the family has enough to eat.

Distributional Impact of the COVID-19 Pandemic in Morocco

The confinement had a severe impact on Morocco´s labor market. The *Haut Commissariat du Plan* (Morocco's statistical institute, HCP) conducted two surveys to monitor the economic impact of the lockdown on households, one in April and another one in June 2020. These surveys show that 66 percent of employed workers had to interrupt their activity during the confinement period, a proportion that reaches 74 percent in the case of self-employed workers and 84 percent for those employed in the construction sector. This was mainly the result of temporary layoffs and of the suspension of business activities, although fear of contamination also played a part, especially for people with chronic diseases, for women and for the elderly.

Morocco is not an exception, and the impact of the confinement was harsher for the most vulnerable segments of the population. Indeed, 72 percent of the respondents to the surveys that had to stop their activity belonged to the poorest 40 percent, whereas slightly less than half of the wealthier 20 percent of respondents found themselves in that situation. Remote working was much more common among senior executives (61 percent either full time or alternate with on-site work) than for other categories of workers, and especially for the self-employed, only 10 percent of which could opt for that option. Close to 62 percent of employed workers reported to have suffered a decrease in their income. However, whereas 74 percent of employed workers belonging to the poorest 20 percent were in that situation, only 44 percent of those belonging to the wealthiest 20 percent reported declining incomes. Unsurprisingly, the scale of average falls in income also appears to be negatively correlated with socioeconomic status, reaching 67 percent for the bottom two quintiles, against 32 percent for the top quintile.

FIGURE 10 • Employment status after confinement of workers who stopped working, by quintiles



Source: HCP-2020, first and second COVID-19 panels.

Wealthier individuals are more likely to have returned to work after the end of the confinement period. As of June 24, 2020, more than half of Moroccan employed workers (53 percent) were still on layoff, while 36 percent had resumed their activity, and 11 percent were either looking for a new job or inactive. However, these proportions hide significant variation along social status, rising progressively from 30.2 for workers in the 1st quintile up to 43.9 percent for respondents in the 5th quintile (Figure 10). In addition, urban workers were more likely to resume their activity than rural workers (39 percent vs. 31 percent), a result that may also be due to the drought. The sector of activity also mattered, as 44 percent of workers in the manufacturing sectors reported having returned to their jobs, against 41 percent in trade, 34 percent in services, 33 percent in construction and just 32 percent in agriculture.

The cash transfer programs put forward by the government became a crucial source of support, especially for households with lower incomes.[17] About 30 percent of the working-age

[17] The Moroccan authorities have gone at unprecedented length to financially assist Moroccan households during the 14-week confinement period. Formal workers

BOX 3. MICROSIMULATION ANALYSIS OF THE COVID-19 EFFECTS ON THE BLUE ECONOMY

The analysis presented in this box quantifies the socioeconomic effects of COVID-19 on workers in the fishery and blue tourism sectors in Morocco, two strategic sectors that have exhibited significant growth rates in pre-COVID times. Indeed, Morocco has a long coastline on the Mediterranean and the Atlantic, which constitutes a marine economic zone. The fishing and blue tourism sectors employ more than 1 million people and contribute to more than 10 percent of national GDP. Fishing and fish processing activities account for about 3 percent of national GDP, with a significant share of workers operating informal.

To estimate the effects produced by the lockdown, the analysis presented here also accounts for the policy mitigation measures implemented by the government during the early stages of the pandemic. It uses data collected by a labor force survey conducted in 2018 that is representative of the Moroccan population, and the information on the public response to the crisis was obtained from different sources. These data were used to carry out a microsimulation that quantifies the impact of COVID-19 on poverty and employment outcomes.

The results of the microsimulation confirm that the early phase of the pandemic had a massive impact on tourism, while the fishery sector suffered somewhat milder effects. More specifically, almost 13 percent of fishermen lost their jobs, against 76 percent for workers in the blue tourism sector. The effects of the pandemic on incomes and poverty, however, were mitigated by Morocco's compensation programs. In the absence of those compensation schemes, the effects of COVID-19 would have been a 39 percent reduction of per capita expenditures for fishermen and 49 percent for blue tourism employees. Owing to the cash transfers, the reduction in per capita expenditures was limited to just 19 and 33 percent, respectively. Moreover, without the governmental compensation program, 26 percentage points of additional fishers and 34 percent of blue tourism workers would have fallen below the USD 5.5 a day poverty line. Owing to the compensation program, that increase was limited to 14 percent in the case of fishermen and to 19 percent for blue tourism employees.

population requested one or another form of assistance, which 73 percent of claimants obtained (22.4 percent of the total working-age population, almost 6 million individuals).[18] Evidencing the cushioning effect of these programs, public aid compensated for an average of 35 percent of lost income. Moreover, the share of workers that received some form of government support decreases with their level of income, reaching 27 percent in the lowest quintile against only 13 percent for the top quintile. Workers in the construction and trade sectors (60 and 51 percent respectively) were far more likely to benefit from the government´s support than workers in the agriculture and services sector (36 and 33 percent respectively). On the other hand, women appear to have been less likely to benefit from these programs (10 percent, against 35 percent for men), and the relative scale of the transfers that they received was also lower (20 percent of lost income, against 39 percent for men).

The government's policies in time of COVID-19 have avoided a much larger increase in poverty than would have otherwise materialized. Using a novel household income survey, HCP has estimated that, hadn´t it been for emergency cash transfer programs, the poverty rate (national poverty line) would have increased from 1.7 percent in 2019 to 11.7 percent during the confinement period, while vulnerability would have increased from 7.3 percent to 16.7 percent, and the Gini index from 38.5 to 44.4 (HCP, 2021c). However, as a result these programs, the poverty and vulnerability rates increased only mildly (to 2.5 and 8.9 percent respectively), while the GINI index barely moved. This conclusion about the mitigating effects of cash transfer programs is consistent with the results of recent microsimulations conducted by the World Bank in the specific context of the Blue Economy (Box 3).

Long-Term Trends in Morocco's Labor Markets

Morocco´s labor markets present some long-standing challenges that may hinder the inclusiveness of the post-COVID economic recovery.

(affiliated to social security) affected by the pandemic received a monthly transfer of 2,000 MAD (US$ 223), and informal workers received a monthly transfer of 800–1,200 MAD (US$89–134) depending on their household size.

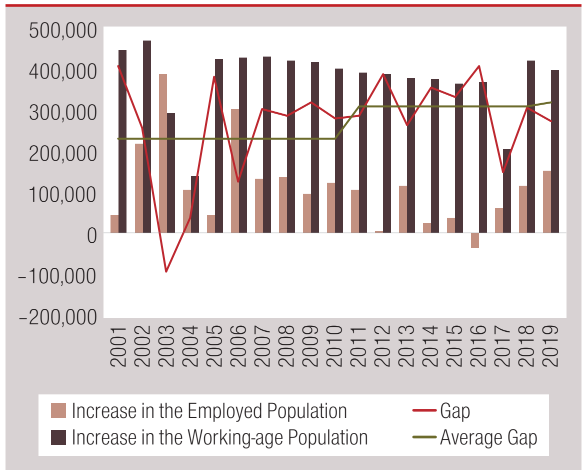
18 The Tadamon COVID programs aimed to compensate informal workers for the impact of COVID. Total beneficiaries were almost 4.5 million.

Although the emergency measures adopted by the authorities proved to be highly effective at cushioning the effects of the pandemic on the more disadvantaged segments of the Moroccan population, their temporary nature implies that a more structural approach will be needed to ensure that the benefits of the recovery will be equitably shared. For that purpose, the ongoing reform of the social protection framework that the authorities are putting forward is an important step. But to increase shared prosperity, the Moroccan economy also needs to generate more and better jobs than in the recent past. This section summarizes the key messages of a recent *joint HCP-World Bank report* on the main issues and challenges facing Morocco´s labor markets (HCP – World Bank, 2021).

Despite its sustained growth over the past decades, the Moroccan economy has failed to generate enough jobs to absorb the increase in the working-age population. While the working-age population expanded on average by about 372,000 individuals annually between 2001 and 2019, the economy was able to create an average of 112 thousand additional jobs per year—leaving an average annual jobs shortfall of 262,000. This difference worsened from 227 thousand between 2001 and 2009 to 300 thousand between 2010 and 2019 (figure 11). In this context, the contained evolution of the unemployment rate, which has evolved in the 8–12 percent range since the financial crisis, is partly the result of a relatively low labor force participation rate, as 54 percent of the working age population was classified as inactive in 2019. Various factors explain the inability of the labor market to absorb the working-age population, and the employment challenge can be seen from two different angles: one related to the shortage of jobs needed to satisfy the labor supply, and the other concerning the poor quality of the jobs that are being created. The elements that contribute to these challenges are high population growth, low employment intensity of economic activity, slow improvement in the efficiency in the use of production inputs, and the slow pace of structural change.

Morocco's economic growth is not employment-intensive, a problem that seems to have aggravated with time. The so-called "jobs-poor" growth that characterizes the Moroccan economy (Dadush,

FIGURE 11 • Annual change in working-age population and employment, 2001-2019



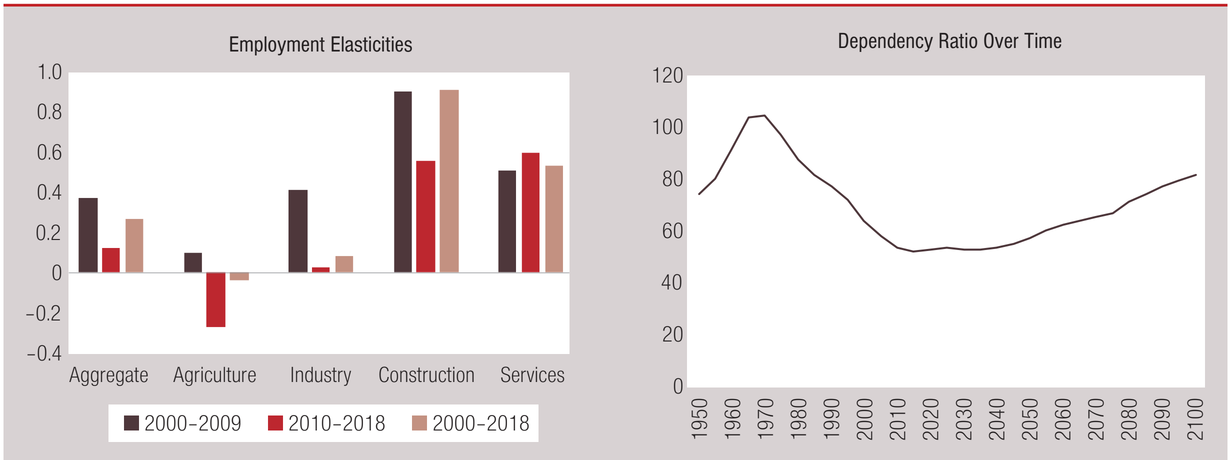
Source: HCP – World Bank, 2021.

2017) can be analyzed computing output employment elasticities.[19] The elasticity of employment to growth for the aggregate economy was 0.27 between 2000 and 2018 (figure 12). The results also show that growth in economic output has resulted in less additional employment since 2010 than in the decade before: 0.12 percent increase in employment for an additional one percent increase in output against 0.37 prior to 2010. Differences by sector are quite marked, with construction and services generating more jobs per additional unit of output growth than the rest of the economy, while agriculture is a particular case, given that it exhibits a 0.27 percent decrease in employment per one percent increase in output (2010–2018).

Growth in labor productivity reflects high capital accumulation, but not greater economic efficiency. Over the 2000–14 period, physical capital accounted for 60 percent of Morocco's growth (Chaffour 2018). This has reflected high investment, with an important share coming from the public sector.

19 Employment elasticity is the percentage change in the number of employed persons in an economy or region associated with a percentage change in economic output, measured by gross domestic product. Here elasticities are calculated using a multivariate log-linear regression model Kapsos (2005).

FIGURE 12 • Employment elasticities and dependency ratio over time



Source: United Nations, World Population Prospects, 2019
Notes: (i) dependency ratio is an age-population ratio of those not typically in the labor force (0–14 and 65+ years old) to those in working age (15–64); (ii) elasticity over the 2000–2009- and 2010–2018 periods, and between 2000 and 2018 has been generated using a multivariate log-linear regression model following Kapsos (2005).

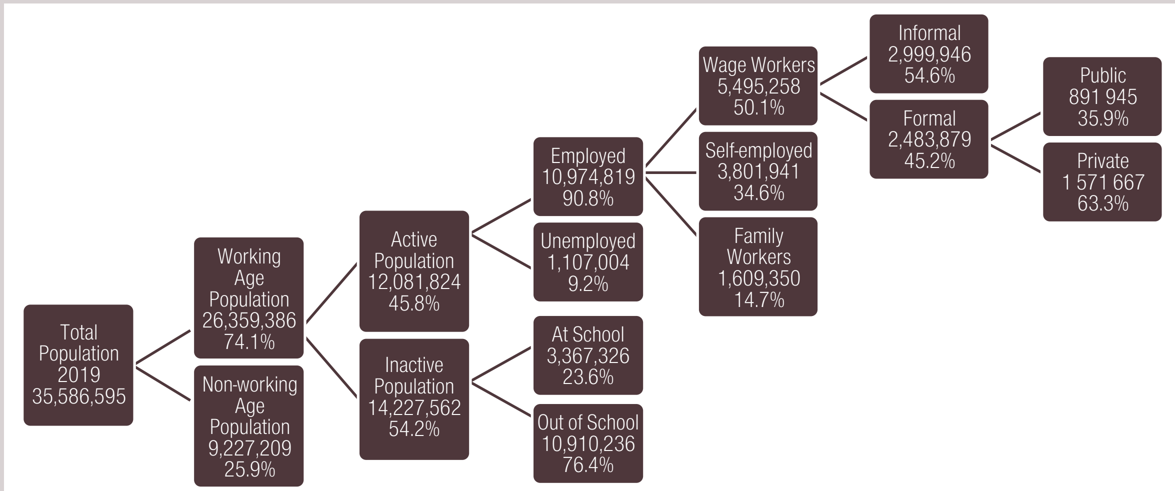
However, this capital accumulation has not generated high growth. Indeed, HCP (2016b) showed that capital investments in Morocco have decreasing efficiency and marginal returns. Efficiency gains are therefore key to creating growth opportunities and employment, especially good jobs. Moreover, three factors can explain the weak link between capital accumulation and efficiency in the country: the accumulated capital is "low quality", it has not been efficiently allocated to potentially dynamic sectors, and labor force skills have not been adequate to fully exploit the capital (Abbad, 2018).

Morocco's demographic situation constitutes an underutilized economic opportunity for the country. Its dependency ratio (share of the total population either under 15 or over 65 compared to the working age population) has decreased markedly between 1970 and 2010. Furthermore, it is expected to remain at a low level for the next couple of decades. This has been largely due to a sharp decline in the fertility rate from 7 children per woman in 1960 to about 2.2 in 2014 (HCP, 2016). As a result, there is both a slowdown in the growth of the overall population and a change in the structure of the population. Such an increase in the working-age population has the potential to boost economic growth, the so-called "demographic window of opportunity". However, for a favorable demographic structure to result in faster economic growth, enough jobs need to be created to absorb the young that enter the working force, which is not occurring in Morocco.

Inactivity rates are high and rising. Evidencing this challenge, the category of the inactive accounted for about 9 million people in 2000, and have since then increased to about 14 million in 2019 (Figure 13).[20] Rather than declining -as one would expect due to the increasing levels of education-, female inactivity has increased over the last decades, turning Morocco into one the world´s worst performers in terms of female labor force participation (FLFP), currently at about 22 percent, which represents a significant waste and underutilization of human capital, especially given the costly educational investments that Morocco has made in recent years. The distribution of the inactive is rather uniform across regions. As at national level, the vast majority of the inactive are women living in urban areas, and, rather interestingly, in all regions women account for up to 76 percent of all the inactive. The most common profile—urban women—is particularly present in both the most populous (Casablanca-Settat) and least populated region (southern regions), where it accounts for about 61 percent of the local inactive in both regions. On the other hand, in the relatively poorer

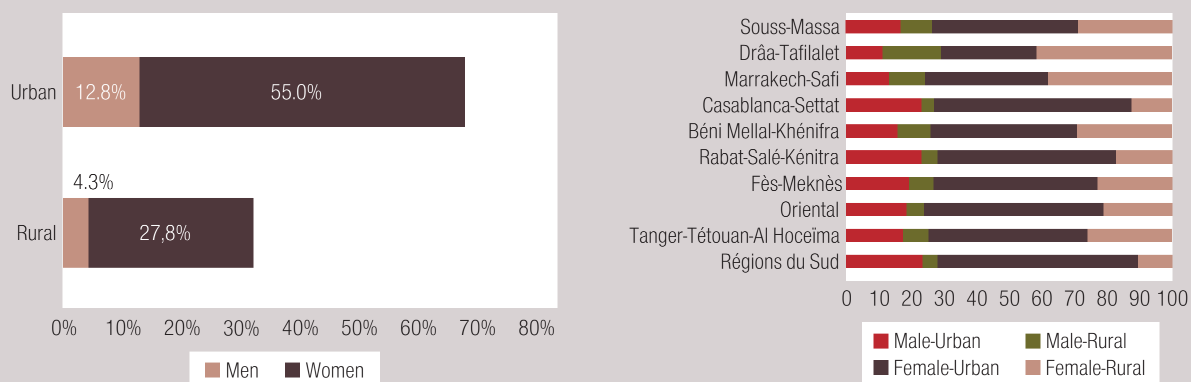
20 The inactive are those who are neither employed in any economic activity nor looking for a job (i.e., housemakers, students, retired and other inactive).

FIGURE 13 • Labor status of the population in Morocco, 2019



Source: HCP – World Bank, 2021.

FIGURE 14 • The profile of the inactive population, 2019



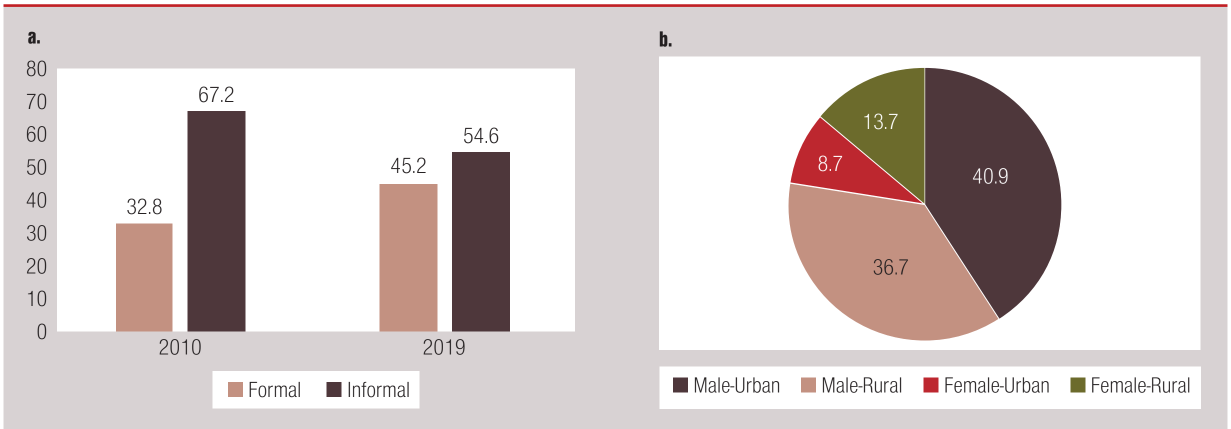
Source: HCP – World Bank, 2021.

and more rural Drâa-Tafilalet region, women living in rural areas account for 42 of the inactive population.

Informality has declined but continues to be widespread. Between 2000 and 2019 the number of formal wageworkers has increased by 1.3 million individuals. However, a majority of Moroccan workers (almost 3 million in 2019, or 54.6 percent of employees) continue not to pay taxes on their incomes, do not have regular contracts and, most importantly, do not contribute to a pension scheme or are covered by a health insurance unless they are part of the publicly financed *Régime d'Assistance Médicale* (RAMED), a social health insurance scheme (Figure 15).[21] Informal wageworkers tend to be men with lower levels of education. The informal population is split almost

[21] In 2002, the Moroccan government launched a series of health financing reforms to establish universal health coverage through a subsidized social health insurance scheme. Under the so-called *Régime d'assistance Médicale* (RAMED), the poor make no contributions, the vulnerable make small contributions, and all others are covered by nonsubsidized mandatory health insurance schemes (*Assurance Maladie Obligatoire*, AMO).

FIGURE 15 • Formal and informal wageworkers over time (a) and the profile of informal wageworkers in 2019 (b)

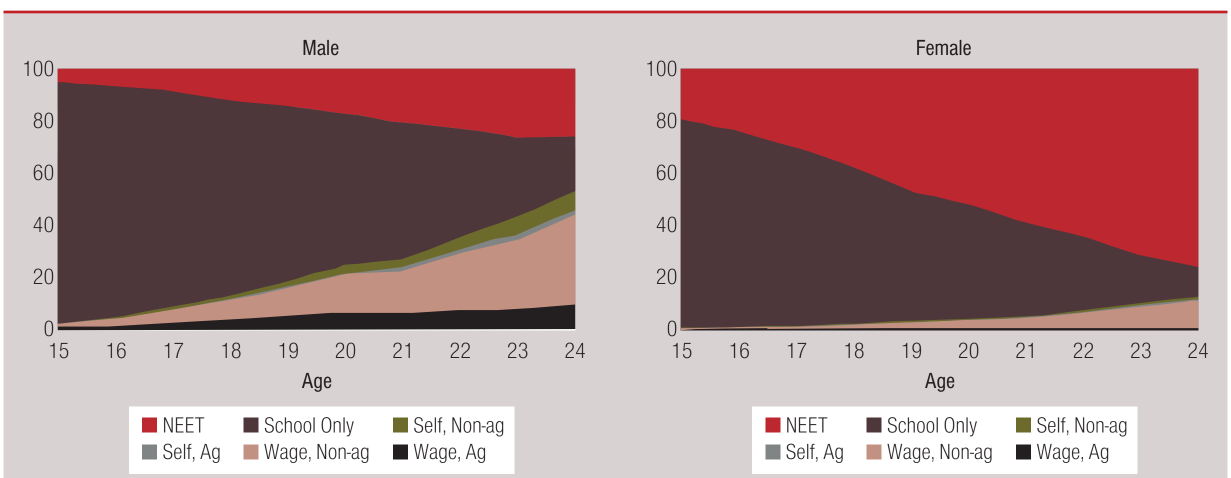


Source: HCP – World Bank, 2021.

evenly between urban and rural areas (49.6 and 50.4 percent of total respectively). However, given the urbanization process that has taken place in Morocco (64 percent of its population now live in urban centers), this implies that the incidence of informality is much higher in rural areas. The formalization process has been more intense among low skilled workers than highly skilled ones, suggesting that a majority of the new formal wageworkers have found jobs in low value-added services and manufacturing sectors.

Differences in the labor market status of men and women begin early in life and amplify with age. Although the early secondary education attendance rate is now relatively high with 80 percent of 15-year-old women and 95 percent of 15-year-old men in school, gender differences start to manifest soon thereafter. In 2019, most young men continued through secondary school, about 10–15 percent started working, and only a small percentage became "not in education, employment, or training" (NEET). Figure 16 illustrates a different picture for young women, with high shares either continuing schooling or becoming NEET as age increases. In addition, school enrollment appears to decline much faster for women than for men: at the age of 18, about 60 percent of women were still in school compared

FIGURE 16 • Labor status of the population in Morocco, 2019



Source: HCP – World Bank, 2021.

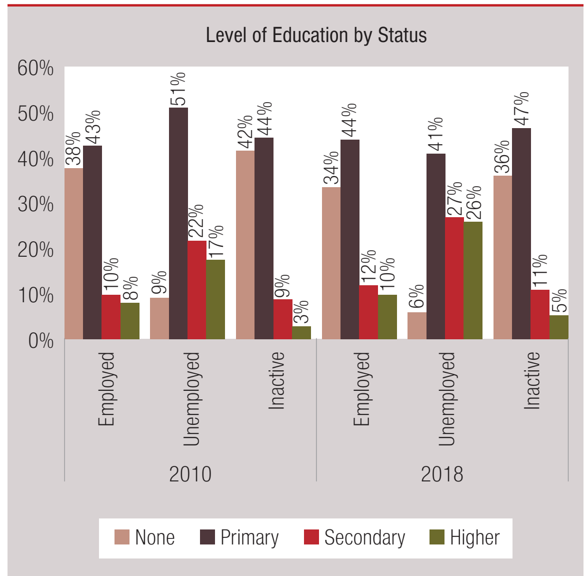
to 80 percent of men. Moreover, about 22 percent of 24-year-old men were NEET in 2019 compared to more than 70 percent of women—a very large difference that points to severe retrenchment for women (Alfani et al. 2020).

The universalization of schooling is leading to an improvement in educational attainment. For the past two decades, the share of working age population people with only lower education has declined substantially, which is resulting in a more educated workforce. As a result, the average length of schooling for the Moroccan population reached 5.6 years in 2019—6.6 years for men and 4.7 years for women (UNDP 2020, HDI). Despite this progress, about 78 percent of the employed had either no schooling or only primary education in 2018 (figure 17). Only 12 percent had secondary education, and just 10 percent had postsecondary education.

But the employability of postsecondary graduates represents a major source of concern. Surprisingly, highly educated individuals exhibit poor labor market outcomes. In 2018, working age population with postsecondary education accounted for 26 percent of the unemployed, while the share of the employed population with higher education was 10 percent, decreasing to 5 percent in the case of the inactive. These results can be partly explained by the limited creation of higher-skilled jobs in Morocco given the slow growth of higher-value-added sectors of the economy. However, the situation also raises questions about whether the skills acquired in postsecondary education match employers' needs.

The labor force has tended to move towards the low productivity services and the construction sector, suggesting that structural transformation of the Moroccan economy has been slow. Between 2000 and 2019, the total number of Moroccan wageworkers increased by more than 2.1 million, of which 1.3 million found employment in services. Another sector that gained weight during this period was the construction sector, as opposed to the agriculture sector, whose participation in total employment barely changed over the past two decades, and of the industry sector, whose relative weight declined, evidencing the slow pace of structural transformation in the Moroccan economy. Similar

FIGURE 17 • Educational attainment of working-age population by labor force status, 2010 and 2018



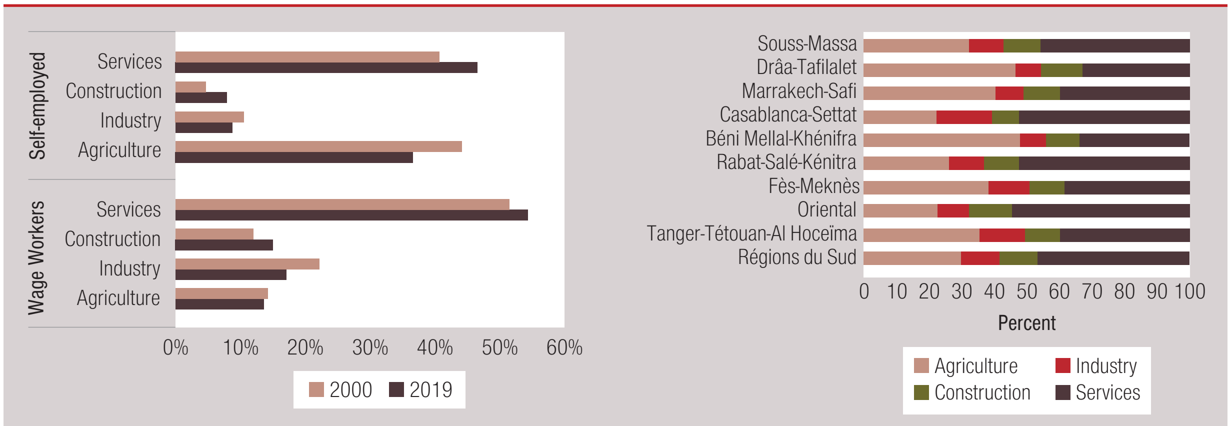
Source: HCP – World Bank, 2021.

trends are observed among self-employed workers. These tendencies, however, hide important regional differences in the evolving sectoral composition of the labor market. The share of the labor force in the construction sector is particularly high in low-populated provinces (e.g., Drâa-Tafilalet and Oriental), while service workers concentrate mostly in densely populated areas (e.g., Casablanca-Settat and Rabat-Salé-Kénitra). The presence of service workers is particularly high in tourist destinations, such as in the Agadir province (61 percent of workers are service workers), Marrakech (65 percent), Fès (60 percent), and in the two growth poles of Casablanca (66 percent) and Rabat (81 percent).

The Way Forward

In conclusion, Morocco needs to tackle a set of specific challenges if the labor market is to drive development and economic growth, while generating opportunities for everyone. After the launch of the Jobs report we have summarized above, the World Bank, in collaboration with Moroccan think tanks and the HCP, will carry out focused research

FIGURE 18 • Variation of workers by sector in 2000 and 2019. b) Sectoral distribution of workers by region in 2019



Source: HCP – World Bank, 2021.

to provide evidence that will inform policy makers in addressing these labor market challenges. Data will be an essential input into that analysis and the chapter identifies the data requirements and the current data gaps. It is important to highlight that the policy analysis we carry out will also be informed by experiences in countries that have faced similar challenges to those identified in this report for Morocco.

Four key challenges have been identified as crucial elements to improve the performance of the Moroccan labor market: (i) accelerating structural transformation to create more and better jobs in higher-productivity sectors; (ii) encouraging formalization and improving the quality of jobs; (iii) increasing female labor force participation (FLFP) and connecting women to better jobs; and (iv) supporting youth in their transition from education to the labor market and lower the large numbers of youth not working.

A slow structural transformation process has hampered the creation of more, better, and inclusive jobs. Successful development experiences that result in strong job creation have been driven by a process of structural change, where resources shift over time from less productive to more productive sectors and activities. Morocco has experienced some structural transformation, but the process has been slow relative to that of comparator countries. Workers have shifted out of agriculture but without industrial jobs to absorb them. Meanwhile, increases in the share of services have also been slow compared to comparator countries, and a large share of workers remain engaged in informal services.

There is significant scope for further expanding the benefits of formalization, especially in some sectors. Despite gains in formalization, most of the working population remains in the informal sector, and such workers or the self-employed do not have access to regular contracts, pension schemes, or good and reliable health insurance. The fundamental reform of the social protection and health insurance system that is currently beginning will expand health insurance and family allowance coverage also to those working in the informal sector, a very important step. But the persistent informality in some parts of the economy is likely a reflection of low productivity. Increasing productivity and formalization, which could also have an important impact on tax revenues, should remain an important goal for the Moroccan economy.

The labor market has not been inclusive, with women placed at a particular disadvantage. Morocco's female labor force participation (FLFP) was close to 22 percent in 2019, which is low even within the Middle East and North Africa (MENA) region. Moreover, this is a problem that has worsened despite an ongoing improvement in women's access to education. In addition, many of the women who do work are in low-quality jobs. The exclusion of women from full participation in the labor market signals the need to address a variety of factors, including persistent social norms, that may limit their work options.

The young are the other larger population group with significant difficulties to enter the labor market. Though literacy levels have been improving, about one-third of youth are not in education, employment, or training (NEET). The NEET phenomenon has left a large number of discouraged young workers, which can hamper their long-term ability to acquire skills and contribute to the economy. At the same time, unemployment is very high for well-educated youth, which has concerning consequences for the economy and social inclusion in the future.

The recently disclosed new development model outlines some core elements for a more job-inclusive economic growth path. Such job-centric development model includes a renewed focus on human development and the building of relevant skills of the young population, a significant increase of women participating in the labor market, a dynamization of the private sector by boosting competition and competitiveness, a concerted effort to use financial and digital technologies to reach more households and firms, as well as a review of existing labor market institutions to facilitate job entry and transitions.

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DATA APPENDIX

TABLE 1 • Morocco: Selected Economic Indicators, 2018-2024

			Estimated	Projected			
	2018	2019	2020	2021	2022	2023	2024
Real Economy			**(annual percent change, unless otherwise indicated)**				
Real GDP	3.1	2.5	−7.1	4.6	3.4	3.7	3.8
Agricultural GDP	3.7	−5.8	−8.0	13.5	2.0	3.6	3.6
Non-Agricultural GDP	3.1	3.5	−7.0	3.3	3.7	3.8	4.0
Industry	3.0	3.5	−5.6	3.4	3.6	3.7	3.7
Services	3.1	3.8	−7.4	3.0	3.7	3.9	4.1
Private Consumption	3.4	1.8	−8.7	3.9	4.3	4.5	4.5
Government Consumption	2.7	4.7	4.4	5.6	4.7	4.5	4.0
Gross Fixed Capital Investment	1.2	1.0	−8.6	5.5	5.7	5.9	6.1
Exports, Goods and Services	6.0	5.5	−14.8	7.6	6.3	7.5	8.0
Imports, Goods and Services	7.4	3.3	−11.5	6.3	7.9	8.4	8.5
Unemployment rate (ILO definition, in percent)	9.5	9.2	11.9	–	–	–	–
Inflation (average CPI, in percent)	1.6	0.2	0.7	1.1	1.4	1.7	1.9
Fiscal Accounts			**(in percent of GDP)**				
Expenditures	27.2	27.9	31.9	30.1	30.1	29.5	28.9
Revenues, including all grants	23.5	24.3	24.2	23.7	23.8	24.5	24.7
Budget Balance (excl. privatization)	−3.8	−4.1	−7.7	−6.7	−6.6	−5.2	−4.3

(continued on next page)

TABLE 1 • Morocco: Selected Economic Indicators, 2018–2024 *(continued)*

			Estimated	Projected			
	2018	2019	2020	2021	2022	2023	2024
Central Government Debt	65.2	64.9	77.7	78.0	78.5	78.7	78.3
Selected Monetary Accounts			**(annual percent change, unless otherwise indicated)**				
Broad Money	4.1	3.8	–	–	–	–	–
Interest (key policy interest rate)	2.25	2.25	1.5	–	–	–	–
Balance of Payments			**(in percent of GDP, unless otherwise indicated)**				
Current Account balance	−5.5	−3.7	−1.5	−3.5	−3.9	−3.8	−3.6
Imports, Goods and Services	−46.9	−45.2	−41.0	−42.6	−43.8	−44.1	−43.9
Exports, Goods and Services	36.6	36.8	33.2	34.5	35.3	36.2	37.1
Net Direct Investment	2.4	0.7	1.1	1.0	1.1	1.1	1.2
Gross official reserves (bln US$, eop)	24.9	26.4	33.7	35.3	36.3	37.4	38.3
In months of imports	5.3	6.9	7.5	7.2	7.1	7.1	6.9
Exchange rate (average)	9.4	9.6	9.5	–	–	–	–
Memo items							
Nominal GDP (in billion dirhams)	1,108	1,151	1,072	1,131	1,186	1,251	1,324
GDP per capita (in current US$)	3,348	3,370	3,007	3,329	3,490	3,640	3,809

Source: Moroccan authorities and World Bank staff estimates.
Note: CPI = Consumer Price Index; ILO = International Labor Organization; ; ... — = Not available.

TABLE 2 • Morocco: Key fiscal indicators 2015-2022 (in percent of GDP)

			Estimated	Projected			
	2018	2019	2020	2021	2022	2023	2024
Total Revenues	**23.5**	**24.3**	**24.2**	**23.7**	**23.8**	**24.5**	**24.7**
Tax Revenues	21.2	20.8	20.8	19.4	19.5	20.2	20.4
Grants (GCC)	0.3	0.1	0.2	0.1	0.0	0.0	0.0
Other revenues (including Privatization Proceeds)	2.0	3.4	3.3	4.2	4.3	4.3	4.3
Total Expenditures	**27.2**	**27.9**	**31.9**	**30.1**	**30.1**	**29.5**	**28.9**
Compensation of employees	9.6	11.1	12.5	12.4	12.5	11.8	11.3
Use of goods and services and grants	8.0	7.0	7.6	8.0	8.0	8.1	8.1
Subsidies	1.6	1.4	1.3	1.2	1.0	0.9	0.8
Interest payments	2.5	2.3	2.7	2.7	2.7	2.7	2.6
Other expenses (incl. capital expenditures)	5.6	6.1	7.9	5.8	5.9	6.0	6.0
Overall Balance (excl. privatization)	**–3.8**	**–4.1**	**–7.7**	**–6.7**	**–6.6**	**–5.2**	**–4.3**
Primary balance (excl. privatization)	–1.3	–1.8	–5.0	–4.1	–3.9	–2.6	–1.7
Overall Balance (incl. privatization)	**–3.8**	**–3.6**	**–7.7**	**–6.4**	**–6.3**	**–5.0**	**–4.1**
Arrears	0.3	–0.4	1.4	–	–	–	–
Government Financing	**–3.5**	**–4.0**	**6.3**	**6.4**	**6.3**	**5.0**	**4.1**
External (net)	–0.2	1.5	4.0	2.7	1.2	2.0	1.0
Domestic (net)	3.6	2.5	2.3	3.7	5.1	3.1	3.1
Central Government Debt Stock	**65.2**	**64.9**	**77.7**	**78.0**	**78.5**	**78.7**	**78.3**
External (net)	13.5	14.2	19.1	18.1	16.2	16.6	16.6
Domestic (net)	51.7	50.7	58.5	59.9	62.2	62.1	61.8
Memorandum Items:							
SOE's & Public Establishments' Debt Stock	25.2	25.4					
of which: external debt	16.1	15.5					

Source: Moroccan authorities and World Bank staff estimates.
Note: External and domestic debt definition is defined on a currency-based classification.

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