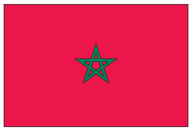
MOROCCO



ECONOMIC MONITOR

Prioritizing reforms to boost the business environment

Winter 2025

PROSPERITY

Middle East and North Africa

THE WORLD BANK

Morocco Economic Update

Prioritizing reforms to boost the business environment

Winter 2025

Middle East and North Africa Region

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

LIST OF ACRONYMS

BAM	Bank-Al-Maghrib
CIT	Corporate Income Tax
CPI	Consumer Price Index
CRI	Regional Investment Center
EMBI	Emerging Market Bond Index
EMDEs	Emergent markets and Developing Countries
FDI	Foreign Direct Investment
FLFP	Female Labor Force Participation
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GoM	Government of Morocco
HCP	High Commission of Planning
IFC	International Finance Corporation
IMF	International Monetary Fund
MEF	Ministry of Economy and Finance
MENA	Middle East and North Africa
MTI	Macro Trade and Investment
NDM	New Development Model
NPL	Non-Performing Loans
PIT	Professional Income Tax
POV	Poverty
SOE	State-Owned Enterprise
VAT	Value Added Tax
WB	World Bank

ACKNOWLEDGEMENTS

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

The Morocco Economic Monitor is a product of the Middle East and North Africa (MENA) unit in Economic Policy Global Practice of the World Bank Group. The report was prepared by Javier Diaz-Cassou (Senior Economist, Economic Policy), Amina Iraqi (Economist, Economic Policy), Thami El Maaroufi Senior Private Sector Specialist, FCI), Federica Marzo (Senior Economist, POV) and Hajar Kabbach (Consultant, POV), Zeina Afif (Senior Social Scientist, DIME); Kaliope Azzi-Huck (Senior Education Specialist, EDU); Dana Ghazi Nabeeh Qarout (consultant, DIME).

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EXECUTIVE SUMMARY

Despite the drought causing a modest deceleration of overall GDP growth to 3.2 percent, the Moroccan economy has exhibited some encouraging trends in 2024. Non-agricultural growth has accelerated to an estimated 3.8 percent, driven by a revitalized industrial sector and a rebound in gross capital formation. Inflation has dropped below 1 percent, allowing Bank al-Maghrib to begin easing its monetary policy. While rural labor markets remain depressed, the economy has added close to 162,000 jobs in urban areas. Morocco's external position remains strong overall, with a moderate current account deficit largely financed by growing foreign direct investment inflows, underpinned by solid investor confidence indicators. Despite significant spending pressures, the debt-to-GDP ratio is slowly declining.

Real GDP growth is expected to accelerate to 3.6 percent in 2025. Satellite data reveal that, while climatic conditions remain challenging, they have improved compared to last year, which should allow for a partial recovery of output. Agricultural GDP is hence projected to expand by 4.5 percent, assuming a modest increase in cereal production and continued trends in higher value-added irrigated crops. In contrast, non-agricultural growth is projected to decelerate slightly to 3.5 percent. This is largely due to a base effect, as the high growth rate of some of the components of aggregate supply (phosphates) and demand (investment) that drove the acceleration in 2024 decline somewhat, while remaining robust. Overall, this paints a positive economic outlook, with inflation under control, a lower-than-average current account deficit, solid external liquidity buffers, a continuing gradual fiscal consolidation, and an evenly poised balance of risks**.**

Yet, insufficient job creation remains a fundamental challenge. Over the past decade, the working-age population has grown by more than 10 percent, while employment has increased by only 1.5 percent. This structural job creation gap can be attributed to several factors, including the significant cumulative effects of post-pandemic shocks, the limited discernible impact of current policies and reforms on economic growth, and gender social norms that constrain women's participation in the labor market. As discussed in the previous edition of this report, another contributing factor is a lack of dynamism in the Moroccan private sector, which is characterized by a slow emergence of high-growth firms, critical contributors to job creation in other countries. This situation may reflect underlying shortcomings within the business environment.

The B-Ready dataset offers a valuable tool to prioritize reforms to continue improving

Morocco's business climate. Morocco has performed well overall in the first edition of the B-Ready, tending to outperform countries at a similar income level on the assessment of regulatory frameworks and public sentences, but not on operational efficiency, which is critical for public policies to have an impact on business dynamics. A frontier analysis with leading countries provides a more nuanced assessment, highlighting significant gaps that could be addressed with well targeted reforms. In the labor market, Morocco faces significant obstacles and costs to hire formally, contributing to a high prevalence of informality and creating a stark "insiders-outsiders" gap. In dispute resolution, substantial gaps exist in procedural certainty, the organizational structure of courts, and the digitization and transparency of processes, which are crucial for reducing uncertainty for companies and boosting investor confidence. In the area of insolvency, the main issues are related to the completion of the legal framework, the digitization of key services for liquidating struggling companies, and improving the timeliness and efficiency of reorganization proceedings.

RÉSUMÉ ANALYTIQUE

En dépit de la sécheresse qui a légèrement freiné la croissance globale du PIB à 3.2 %, l'économie marocaine a montré des signes prometteurs en 2024. La croissance du secteur non agricole s'est accélérée, pour atteindre un taux estimé à 3,8 %, tirée par le dynamisme du secteur industriel et la reprise de la formation brute de capital. L'inflation est passée sous la barre des 1 %, permettant à Bank Al-Maghrib de commencer à assouplir sa politique monétaire. Bien que les marchés du travail ruraux demeurent stagnants, l'économie a généré près de 162 000 emplois en milieu urbain. La position extérieure du Maroc reste globalement solide, avec un déficit du compte courant modéré, largement financé par l'augmentation des flux d'investissements directs étrangers et soutenu par des indicateurs de confiance des investisseurs robustes. Malgré des pressions budgétaires importantes, le ratio dette/PIB poursuit sa lente diminution.

La croissance du PIB réel devrait s'accélérer pour atteindre 3,6 % en 2025. Les données satellitaires indiquent que, bien que les conditions climatiques demeurent difficiles, elles se sont améliorées par rapport à l'année précédente, ce qui devrait favoriser une reprise partielle de la production. Le PIB agricole devrait ainsi augmenter de 4,5 %, sous l'hypothèse d'une augmentation modeste de la production céréalière et du maintien de la croissance des cultures irriguées à plus forte valeur ajoutée. En revanche, la croissance non agricole devrait légèrement ralentir pour s'établir à 3,5 %, en raison principalement d'un effet de base. Le taux de croissance élevé de certaines composantes de l'offre globale (comme les phosphates) et de la demande (notamment l'investissement) qui ont contribué à l'accélération de la croissance en 2024 a quelque peu diminué, tout en restant robuste. Dans l'ensemble, les perspectives économiques restent positives, avec une inflation maîtrisée, un déficit du compte courant inférieur à la moyenne, des réserves de liquidités extérieures solides, la poursuite progressive de l'assainissement des finances publiques et une répartition équilibrée des risques.

Cependant, la création insuffisante d'emplois demeure un défi fondamental. Au cours de la dernière décennie, la population en âge de travailler a augmenté de plus de 10 %, tandis que l'emploi n'a progressé que de 1,5 %. Cet écart structurel en matière de création d'emplois s'explique par plusieurs facteurs, notamment l'impact cumulé des chocs post-pandémiques, l'effet encore limité des politiques et réformes actuelles sur la croissance économique, ainsi que des normes sociales liées au genre, qui restreignent la participation des femmes au marché du travail. Comme mentionné dans l'édition précédente de ce rapport (publié en juillet 2024), un autre facteur contributif est le manque de dynamisme du secteur privé marocain, avec peu d'entreprises à forte croissance, essentielles à la création d'emplois selon l'expérience d'autres pays. Cette situation pourrait refléter des faiblesses structurelles sous-jacentes dans l'environnement des affaires.

La base de données B-Ready peut servir pour prioriser les réformes visant à poursuivre l'amélioration du climat des affaires au Maroc. Dans l'ensemble, le Maroc a obtenu de bons résultats dans la première édition du rapport B-Ready, surpassant en grande partie les pays de niveau de revenu similaire en matière d'évaluation des cadres réglementaires et des services publiques. Toutefois, il affiche des performances moins favorables en termes d'efficacité opérationnelle, un facteur clé pour que les politiques publiques puissent réellement influencer la dynamique des entreprises. Une analyse comparative avec les pays les plus performants fournit une évaluation plus nuancée, mettant en évidence des écarts significatifs qui pourraient être comblés grâce à des réformes ciblées. Sur le marché du travail, le Maroc fait face à des obstacles et à des coûts élevés lies à l'embauche dans le secteur formel, ce qui favorise une forte prévalence du travail informel et accentue le fossé entre les « insiders » et les « outsiders ». Dans la résolution des litiges, des lacunes importantes persistent en matière de sécurité juridique, de structure organisationnelle des tribunaux, ainsi que de numérisation et de transparence des processus, autant d'éléments essentiels pour réduire l'incertitude pour les entreprises et renforcer la confiance des investisseurs. Enfin, dans le domaine de l'insolvabilité, les principaux défis concernent l'achèvement du cadre juridique, la numérisation des services clés liés à la liquidation des entreprises en difficulté, ainsi que l'amélioration de la rapidité et de l'efficacité des procédures de réorganisation.

ملخص تنفيذي

على الرغم من الجفاف الذي تسبب في تباطؤ متواضع في نمو إجمالي الناتج المحلي الكلي إلى 3.2%، فقد أظهر الاقتصاد المغربي بعض الاتجاهات المشجعة في عام 2024. فقد تسارعت وتيرة النمو غير الزراعي إلى ما يقدر بنحو 3.8 %، مدفوعة بتنشيط القطاع الصناعي وانتعاش إجمالي تكوين رأس المالالإجمالي. وانخفض معدل التضخم إلى أقل من 1 %، مما سمح لبنك المغرب بالبدء في تخفيف سياسته النقدية. وفي حين أن أسواق العمل في المناطق الريفية لا تزال تعاني من الركود، إلا أن الاقتصاد أضاف ما يقرب من 162 ألف فرصة عمل في المناطق الحضرية. وتظل الوضعية الخارجية للمغرب قوية بشكل عام، مع عجز متوسط في الحساب الجاري، يتم تمويله بشكل كبير من خلال تدفقات الاستثمارات الأجنبية المباشرة المتزايدة، وبدعم من مؤشرات ثقة المستثمرين القوية. وعلى الرغم من الضغوط الكبيرة على النفقات، فإن نسبة الدين إلى الناتج المحلي الإجمالي تتناقص ببطء.

ومن المتوقع أن يتسارع نمو إجمالي الناتج المحلي الحقيقي إلى 3.6 % في عام 2025. وتكشف بيانات الأقمار الصناعية أنه على الرغم من أن الظروف المناخية لا تزال تنطوي على تحديات، إلا أنها تحسنت مقارنة بالعام الماضي، الأمر الذي من شأنه أن يسمح بانتعاش جزئي للناتج. وبالتالي، فمن المتوقع أن ينمو إجمالي الناتج المحلي الزراعي بنسبة 4.5 %، بناءً على فرضية زيادة معتدلة في إنتاج الحبوب واستمرار نمو المحاصيل المعتمدة على الري ذات القيمة المضافة العالية. وفي المقابل، فمن المتوقع أن يتباطأ النمو غير الزراعي قليلاً إلى 3.5 %. ويرجع ذلك بشكل رئيسي إلى تأثير فترة الأساس، حيث أن معدل النمو المرتفع لبعض مكونات العرض الكلي (مثل الفوسفات) والطلب (خاصة الاستثمار) التي ساهمت في تسارع النمو في عام 2024، قد انخفض قليلاً، مع بقائه قويا. وبشكل عام، يرسم هذا الوضع آفاقا اقتصادية إيجابية، في ظل السيطرة على التضخم، وانخفاض العجز في الحساب الجاري بنحو أقل من المتوسط، ووجود احتياطيات نقدية خارجية قوية، واستمرار ضبط أوضاع المالية العامة تدريجيا، وتوزيع متوازن للمخاطر.

ومع ذلك، فإن ضعف خلق فرص العمل يشكل تحديا جوهريًا. فعلى مدى العقد الماضي، زاد عدد السكان في سن العمل بأكثر من 10 %، في حين لم تشهد العمالة إلا زيادة بنسبة 1.5 % فقط. ويمكن أن ترجع هذه الفجوة الهيكلية في خلق فرص العمل إلى عدة عوامل؛ بما في ذلك الآثار التراكمية الكبيرة لصدمات ما بعد الجائحة، والتأثير المحدود للسياسات والإصلاحات الحالية على النمو الاقتصادي، والأعراف الاجتماعية المتعلقة بالمساواة بين الجنسين، والتي تقيد مشاركة المرأة في سوق العمل. وكما نوقش في الإصدار السابق من هذا التقرير، هناك عامل آخر يتمثل في نقص الديناميكية في القطاع الخاص المغربي، الذي يتسم ببطء نشوء الشركات ذات النمو المرتفع، وهي عوامل أساسية تساهم في خلق فرص العمل في بلدان أخرى. وقد يعكس هذا الوضع ثغرات كامنة في بيئة الأعمال.

وتتيح مجموعة بيانات تقرير جهوزية الأعمال لأنشطة الأعمال أداة قيمة لإعطاء الأولوية للإصلاحات التي تهدف مواصلة تحسين مناخ الأعمال في المغرب. وبشكل عام، فقد حقق المغرب نتائج جيدة في الإصدار الأول من تقرير جهوزية الأعمال، حيث تفوق على البلدان ذات مستوى الدخل المماثل في تقييم الأطر التنظيمية والأحكام العامة، ولكن ليس على مستوى الكفاءة التشغيلية، التي تعتبر حاسمة لكي يكون للسياسات العامة تأثير على ديناميكية الشركات. ويقدم تحليل لحدود العمل مع بلدان رائدة تقييما أكثر دقة، حيث يسلط الضوء على الفجوات الكبيرة التي يمكن معالجتها من خلال إصلاحات مستهدفة جيدًا. وفي سوق الشغل، يواجه المغرب عقبات وتكاليف كبيرة للتوظيف في القطاع الرسمي، مما يسهم في ارتفاع كبير للقطاع غير الرسمي ويخلق فجوة واضحة بين «الداخلين»

و»الخارجـين«. وفي مجـال حـل النزاعـات، توجـد فجـوات كبـيرة في اليقـين الإجـرائي، والهيـكل التنظيمـي للمحاكـم، ورقمنـة العمليـات وشـفافيتها، وهـي أمـور بالغـة الأهميـة للتقليـل مـن عـدم اليقـين بالنسـبة للـشركات، وتعزيـز ثقـة المسـتثمرين. وفي مجـال الإعسـار، تتعلـق المشـاكل الرئيسـية الرئيسـية باسـتكمال الإطـار القانـوني، ورقمنـة الخدمـات الرئيسـية لتصفيـة الـشركات المتعـثرة، وتحسـين سرعـة وكفـاءة إجـراءات إعـادة التنظيـم.

1

RECENT ECONOMIC DEVELOPMENTS

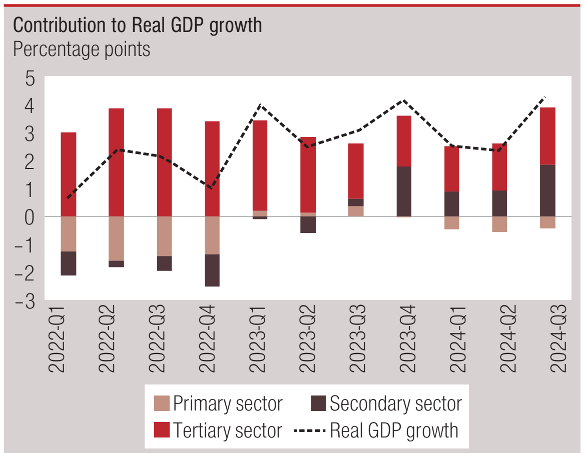
The drought continues to take a toll on the Moroccan economy, but non-agricultural growth has accelerated, driven by the industrial sector and investment

Real GDP growth remained overall steady in 2024, but this stability conceals notable shifts in the drivers of economic activity. At 3.1 percent, average growth in the first three quarters was identical in 2023 and 2024. However, as opposed to last year, activity appears to be accelerating in recent months (growth in Q3-2024 reached 4.3 percent, against 3 percent in Q3-2023). The composition of growth has also changed. On the supply side, agricultural value added, which positively contributed to economic growth in 2023, has contracted in 2024 due to adverse climatic conditions. In contrast, non-agricultural growth has accelerated, driven by a revitalized industrial sector. On the demand side, after a sluggish 2023, gross capital formation is showing significant dynamism in 2024, whereas the recovery of household consumption is progressing more slowly amid weak confidence indicators.

Morocco continues to experience a prolonged drought, severely affecting key crops and accelerating the transformation of the agricultural sector. Cereal production (mostly rainfed) dropped by 43 percent in the 2023–24 agricultural campaign, to 31.2 million quintals compared to 55 million in the previous year. Low dam levels continued to force the authorities to prioritize water for human consumption, impacting irrigated production as well. However, some export-oriented crops, predominantly irrigated and increasingly reliant on desalinated water, continued to perform, as evidenced by a 3.1 percent increase in agricultural and agro-industrial exports y/y in 2024 (Jan–Nov). This highlights a growing divide in the agricultural sector, where rainfed and irrigated crops dependent on surface water allocations struggle with climate change, while higher value-added irrigated crops using groundwater and/or unconventional water resources continue to benefit from Morocco's advantageous access to key export markets. Despite this, the strong performance of the latter couldn't offset the former's weakness, leading to a 4.9 percent contraction in overall agricultural GDP during the first three quarters of 2024.

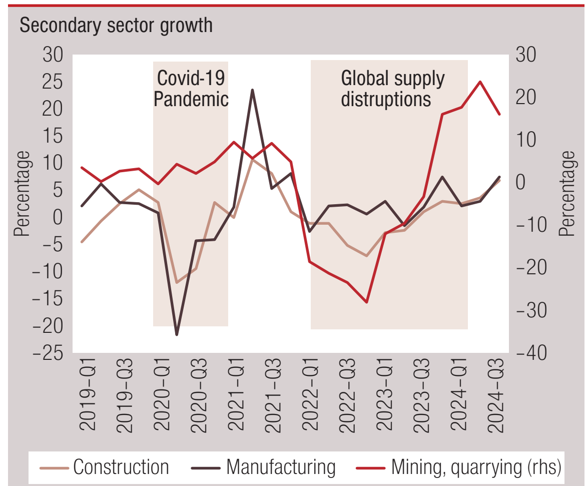
Non-agricultural growth has gained pace in recent months, with industrial activity offsetting a slowdown in services. While non-agricultural annual growth remained stable in the first semester

FIGURE 1 • Despite adverse climatic conditions, non-agricultural growth remained resilient…



Source: World Bank calculations staff and HCP.

FIGURE 2 • …driven mainly by manufacturing and extractive industries.



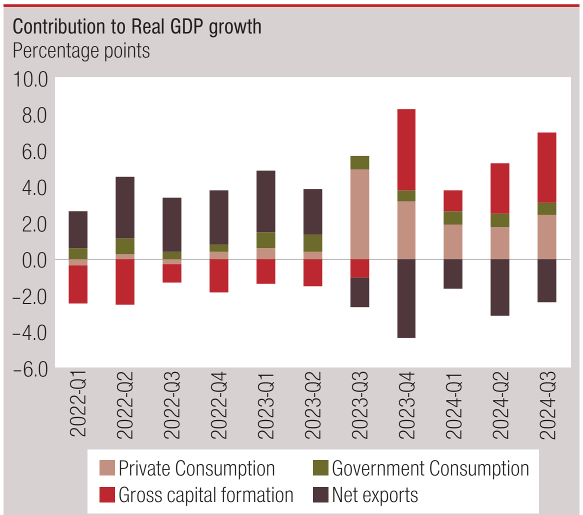
Source: World Bank calculations staff and HCP.

of 2024, a significant acceleration is observed in the third quarter, with y/y growth rising from 3.2 percent in 2023 to 5.4 percent in 2024. As a result, average non-agricultural growth for the first three quarters of the year rose from 3.3 percent in 2023 to 4 percent in 2024. Considerable changes can be observed in the composition of non-agricultural growth. Services have decelerated from 4.8 percent in 2023 (Jan–Sep) to 3.3 percent in 2024 despite a double-digit expansion of international tourists' arrivals. This deceleration was more than offset by a remarkable turnaround of the industrial sector, which moved from a y/y contraction of 0.6 percent in January-September 2023 to 5 percent growth in the same period of 2024, reaching 7.6 percent in Q3.

Industrial dynamism is led by phosphates and fertilizers, along with construction. The secondary sector's substantial recovery following recent disruptions (Figure 2) is explained by the strong performance of a few industrial branches. Extractive industries accounted for nearly 27 percent of the total increase in industrial value added observed from Q1 to Q3 of 2024, driven by the pull of phosphate production and a stabilization of prices following a challenging 2023. The large fluctuations undergone by the sector over recent years stem from geopolitical shocks, global supply disruptions and trade restrictions. With strong linkages to phosphates due to the prominence of fertilizer production, the chemical sector contributed an additional 19 percent of the growth in industrial value added. The construction sector also played a key role, contributing to 18 percent of industrial value-added growth between 2023 and 2024. It has rebounded from six consecutive quarterly contractions until mid-2023 to achieve a 6.9 percent annual expansion in Q3 of 2024. This renewed dynamism is linked to public policies, including ongoing infrastructure investments and the government's new direct financial support for homebuyers. More in line with recent years, the strong post-COVID performance of the automotive sector persists, contributing to 21 percent to the growth in industrial value added in 2024.

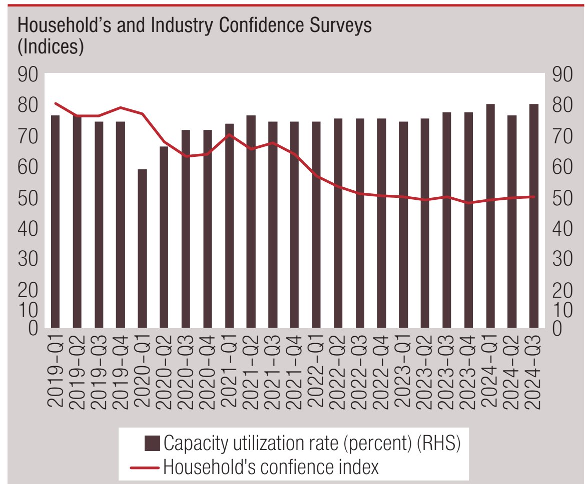
Investment is leading the recovery of aggregate demand. After six consecutive quarters of negative growth, gross capital formation resumed its expansion towards the end of 2023, rising by 9 percent year-on-year between January and September 2024. This recovery in gross capital formation has been supported by both public and private investment, as the government advances key infrastructure projects and foreign direct investment (FDI) sees a notable increase of 24.7 percent year-on-year in 2024. However, at nearly 29.2 percent of GDP, gross investment remains below a historical average of around 32 percent between 2014 and 2022. Household consumption expanded by 3.3 percent, bolstered by subsiding inflation, robust remittances, and the gov-

FIGURE 3 • Investment has emerged as the main driver of growth…



Source: World Bank staff calculations and HCP.

FIGURE 4 • …household confidence indicators remain weak, while business' confidence has strengthened.



Source: WB staff calculations, HCP and BKAM.

ernment's new cash transfer "Direct Social Aid" program. It might still be constrained by low levels of household confidence, which according to HCP's index is yet to recover following the inflation shock (Figure 4). Lastly, the contribution of net exports to real GDP growth has shifted from positive to negative since the second half of 2023, as tends to be the case when domestic demand accelerates.

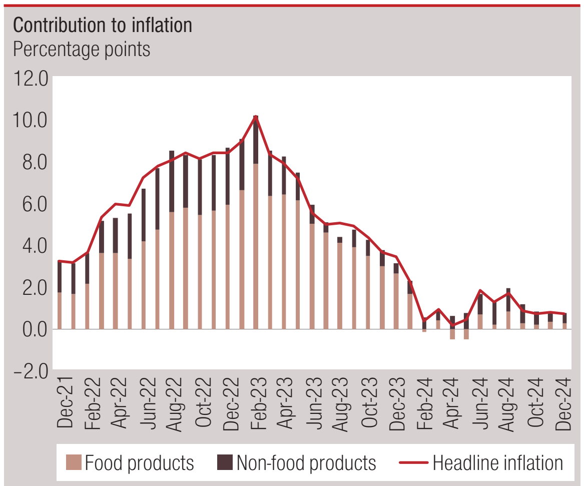
The recovery of domestic demand has been supported by a rapid disinflation process. Annual headline inflation has decreased from a peak of 10.1 percent in February 2023 to just 0.9 percent on average 2024 (Figure 5). This decrease has been led by the evolution of food and energy prices, which were the key items originally impacted by the global supply shocks. However, core inflation has also dropped from a peak of 8.5 percent in February 2023 to an average of 2.4 percent in 2024, indicating that as the supply shocks dissipate, a broader easing of price pressures is taking place across the economy. Two-year inflation expectations have fallen substantially, and currently stand at 2.3 percent.

Bank al Maghrib (BAM) is the first central bank in North Africa to initiate a relaxation of its monetary policy stance after the inflation shock. BAM had originally responded to the shock with three policy rate hikes for a cumulative 150 basis points (bp). Following the decline in inflationary pressures and after four consecutive pauses, it began reviewing its monetary policy stance in June 2024, reducing the policy rate by 25 basis points (bp) to 2.75 percent. After keeping it unchanged in September, BAM reduced the policy rate by an additional 25 bp in December. While BAM's policy aligns with global easing trends, it stands out regionally as other North African central banks have not yet started reversing the monetary policy tightening given more persistent inflationary pressures than in Morocco (Figure 6). Overall, this reflects positively on Bank al-Maghrib's management of the recent inflationary shock, the first of its kind in decades.

Despite some recent improvements in urban areas, job creation remains a critical challenge

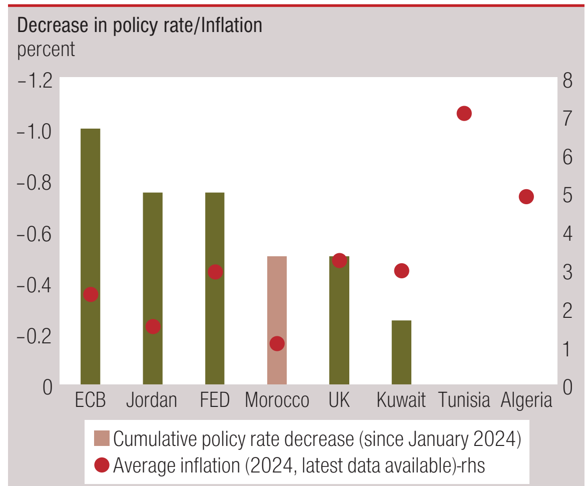
Recent trends in urban labor markets indicate some positive developments. In 2024, approximately 162,000 jobs were created in urban areas, compared to 41,000 in 2023. This represents a 2.5 percent increase in urban employment. The modest increase in the urban unemployment rate observed in 2024 (from 16.8 to 16.9 percent) indicates that the active urban population has grown slightly faster than the employed urban population, which is not

FIGURE 5 • Inflation has dropped below 1 percent…



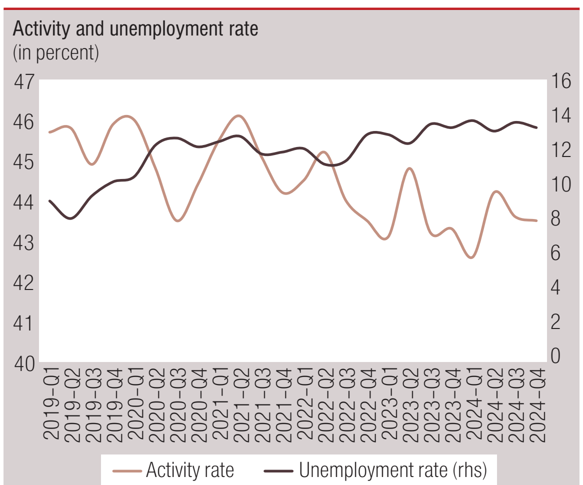
Source: WB staff calculations and BAM.

FIGURE 6 • …allowing BAM to ease monetary policy.



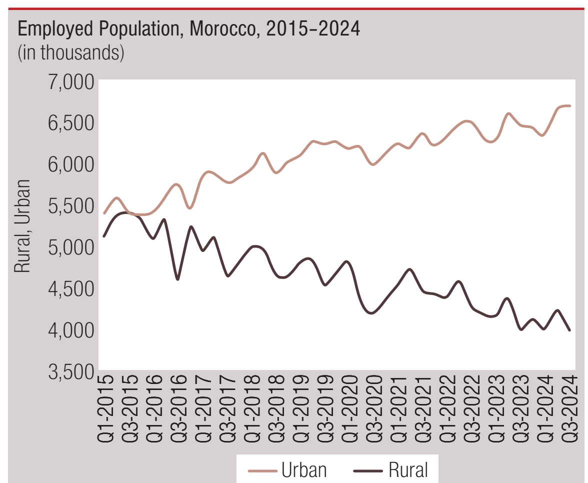
Source: WB staff calculations and BAM.

FIGURE 7 • Insufficient job creation is resulting in a sustained increase in inactivity and unemployment…



Source: WB staff calculations based on WDI.

FIGURE 8 • …there are pronounced differences in the employment trends of urban vs. rural areas.

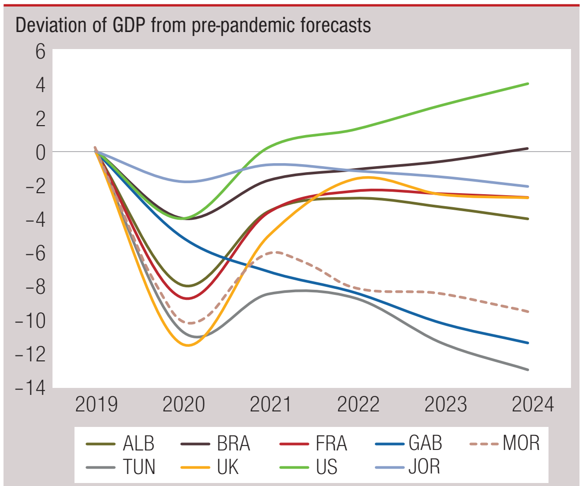


Source: WB staff calculations based on WDI.

inherently a negative outcome. In stark contrast, during the same period employment dropped by 1.9 percent in rural areas (mostly non-salaried), and the rural active population dropped by 1.5 percent.

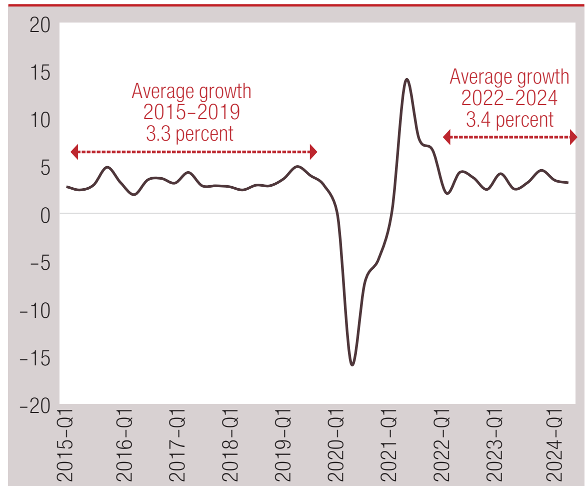
However, long-term trends reveal a structural job creation challenge. Over the past decade, Morocco's employed population has increased by close to 1.5 percent, while the nation's total population and the working age population have increased by 8.8 and 11.4 percent respectively according to the 2024 census. In this context, most labor market indicators have been on a downward trajectory for several years, particularly the labor force participation rate, which has declined by nearly 4.6 percentage points over the past decade (2.3 points since 2019), and the unemployment rate, which remains over 4.1 percentage points higher than pre-pandemic levels (Figure 7). Again, these aggregate statistics mask significant differences between urban and rural labor markets: while the urban (mostly salaried) employed population has increased by nearly 24% over the past decade (though at a slower pace

FIGURE 9 • The Moroccan economy is still recovering the output loss caused by recent shocks…



Source: WB staff calculations, IMF World Economic Outlook.

FIGURE 10 • …average post-pandemic non-agricultural growth has only modestly accelerated.



Source: WB staff calculations and HCP.

since the pandemic), the rural (mostly non-salaried) employed population has decreased by 22% (Figure 8).[1] This disparity reflects a confluence of factors, including rising water scarcity impacting rural livelihoods, rapid productivity growth in Morocco's agricultural sector leading to reduced labor intensity, and the ongoing shift towards a more service-oriented economy (Dalvit et al., 2024).

Insufficient job creation partly reflects the comparatively large cumulative impact of the post-COVID shocks. Recent editions of this report have praised Morocco for its capacity to cope with severe exogenous disruptions and adopt ambitious policies to mitigate impacts on households and firms, avoid what in a weaker policy setting could have turned into a full-blown crisis, and thus preserve overall macroeconomic stability. However, the Moroccan economy is yet to recover the output losses caused by the shocks, which has hindered job creation. This is evident when comparing actual GDP to pre-pandemic projections, which reveals a significant cumulative impact compared to most peer economies (Figure 9). The disparity between the recovery of real GDP in Morocco and that of its peers reflects the compounding impact of the drought discussed above, which has exacerbated the effects of the global shocks undergone by the world economy in recent years.

The government's reform agenda has the potential to boost growth and job creation, but its impact on economic activity has been modest so far. Some of the policies launched in recent years that could boost potential growth include: (i) an ambitious human capital agenda focused on revamping health and social protection systems and improving the quality of education; (ii) a reform of State-Owned Enterprises aimed at enhancing public sector efficiency and creating a level playing field for private businesses; (iii) the deployment of public subsidies for job-creating private investment projects; and (iv) a broad tax reform which is mitigating distortions and disincentives rooted in Morocco's tax system. Additionally, the government is engaged in large-scale public investment programs, including investments in water infrastructure, preparations for the 2030

[1] Labor market statistics reveal other significant disparities between urban and rural areas. According to latest figures, in urban areas, remunerated employment accounts for 97.8% of total employment, compared to just 79.1% in rural areas. Moreover, while 71.9 percent of remunerated workers in urban areas are wage workers, that proportion only reaches 55.6% in rural areas. In other words, close to 70 percent of the employed in urban areas are wage workers, against just 44 percent in rural areas. Therefore, the trend depicted in Figure 8 also reflect a shift from non-salaried to salaried work.

Football World Cup, and reconstruction efforts in the High Atlas provinces affected by the 2023 Al Haouz earthquake. Despite these efforts, average nonagricultural growth after the post-pandemic rebound has only slightly accelerated (Figure 10).

Certain features of the private sector contribute to explain Morocco's structural job creation deficit. International evidence points at the disproportionate contribution that High Growth Firms (HGFs) tend to have for the creation of decent jobs (Goswami and Medvedev, 2019). Yet, recent micro-evidence for Morocco shows that the country's formal firms struggle to grow, and that HGFs have a limited footprint in the economy (Dalvit et al., 2024). As a result, the corporate sector is characterized by the presence of a few large firms that play an outsize role in the economy but add a limited number of new jobs over time, and by a preponderance of micro-enterprises with more limited potential to grow and create good jobs. The missing middle that characterizes Morocco's private sector is confirmed by the recent economic census completed by HCP, which shows that firms with 10 to 49 employees contribute to only 13.1 percent of total employment, compared with 32.7 percent for firms with 50 or more employees, and 54.2 percent for firms with less than 10 employees. Chapter 3 provides new evidence on Morocco's business climate using the recently launched World Bank B-Ready indicators, helping identify some of the factors that may be hinder firms' dynamics in Morocco.

Structural constraints to Female Labor Force Participation (FLFP) pose another crucial challenge. FLFP has dropped significantly over the past two decades, from 30.4 percent in 1999 to just

BOX 1: HOW GENDER SOCIAL NORMS AND STRUCTURAL CONSTRAINTS AND INEQUALITIES INTERACT TO DETERMINE WOMEN'S WORK IN MOROCCO

Social norms significantly influence women's work in Morocco, interacting with structural constraints and inequalities to explain low female labor force participation. Social norms are behavioral rules individuals follow based on community expectations and observed behaviors. A new World Bank study in Morocco provides empirical evidence linking social norms, structural constraints, and women's work. It finds that women's odds of working are 1.4 times higher under social norms that support women's work. For instance, when men in households view it as acceptable for spouses to share financial responsibilities, women are 3 times more likely to be working. Moreover, married women are 1.6 times more likely to be working when husbands are unconcerned about community reactions. International evidence shows that countries with restrictive social norms experience sharper declines in female agricultural employment (ranging from less than –2 percent to over –6 percent in low-income countries), exacerbating the negative effects of structural transformation on women's employment (Eberhard and Sahay 2024[a]).

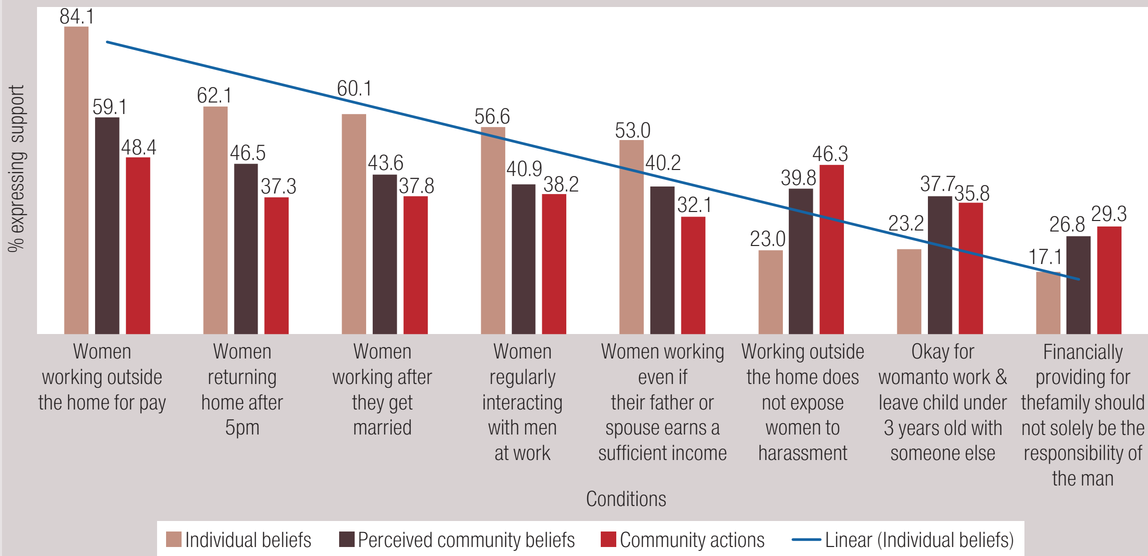
Restrictive gender norms about household roles create social barriers for women's employment. Traditional norms position men as breadwinners and women as caregivers, with 63% of respondents stating that a woman's primary role is managing the home and cooking, regardless of her work status. These norms shape women's employment opportunities, influencing social acceptance, working conditions, and women's willingness to participate in the workforce. While 81% of respondents personally accept women working, this acceptance drops under specific conditions: working late (62%), after marriage (61%), or without financial necessity (54%). Additionally, most respondents believe relying on childcare outside the family should begin at age 3, with family care preferred over formal daycare due to concerns about cost, safety, and accessibility. Acceptance of women working falls to 21% when a child under three is present and the mother has to leave the child with someone outside the family. Harassment is also a widespread concern, with only 23% of respondents believing working women are unlikely to face harassment (see Figure 11).

Despite the overall decline in female labor force participation (FLFP) in Morocco, many Moroccan women—especially educated and urban women—want to work and tend to be in better-paying jobs. While FLFP has steadily dropped, 90% of women pursuing higher education aim to join the workforce Among non-working women aged 18–55, 48% wish to work, and among all women of that age group, 60% express a desire to work. Urban and highly educated women stand out, as they are three times more likely to enter the workforce and approximately 2.3 times more likely to secure paid employment, even when accounting for social norms. This underscores the critical role of targeted public policies in harnessing the potential of young, educated women and reversing long-term FLFP declines. To enable and sustain women's participation, public policies should address structural barriers, expand economic opportunities, improve workplace conditions, and ensure safety in public and private spaces. Key measures include increasing access to affordable, high-quality childcare and transport, promoting women's entrepreneurship through financial inclusion and skill-building, and fostering job creation. Policies must also address existing norms around financial decision-making to support women's greater economic engagement.

(continued on next page)

BOX 1: HOW GENDER SOCIAL NORMS AND STRUCTURAL CONSTRAINTS AND INEQUALITIES INTERACT TO DETERMINE WOMEN'S WORK IN MOROCCO *(continued)*

FIGURE 11 • Social norms surrounding the acceptability of women's employment



Source: (World Bank, Forthcoming).

The underestimation of community support for women's work creates an opportunity for public policies to align personal beliefs with social expectations. While 81% of individuals personally accept women working, only 56% believe their community shares this view. This misperception is important given the significant role of community expectations in shaping women's paid employment outcomes. This gap leaves room for targeted information campaigns and media featuring positive role models to correct misperceptions and normalize women's economic participation. Community-based efforts and early interventions in the education system are also essential, as younger men often hold more restrictive attitudes toward women working compared to older generations. These initiatives can help foster long-term shifts in perceptions and greater acceptance of women's work.

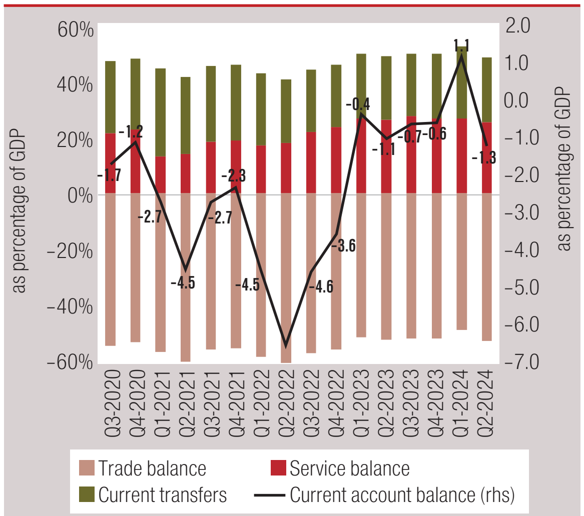
[a] Gender and Transformation. Andreas Eberhard and Abhilasha Sahay. Background paper to the Jobs for Development Flagship report of the Word bank. 2023.

19.1 percent in 2024, one of the lowest rates globally. This decline has occurred despite an improvement in other indicators typically associated with higher FLFP, such as decreasing fertility rates and rising education levels among women. The drop in FLFP is largely due to a reduction in agricultural jobs, which hasn't been offset by urban job creation, particularly for women, who accounted for only 5.8 percent of new positions. Rural women are often confined to unpaid agricultural work within the household, while urban women face barriers like sectoral segregation, non-family-friendly work conditions, and a lack of childcare and safe transport options, all exacerbated by social norms strictly defining gender roles and limiting women's economic agency (See Box 1).

The external position of the Moroccan economy has strengthened considerably

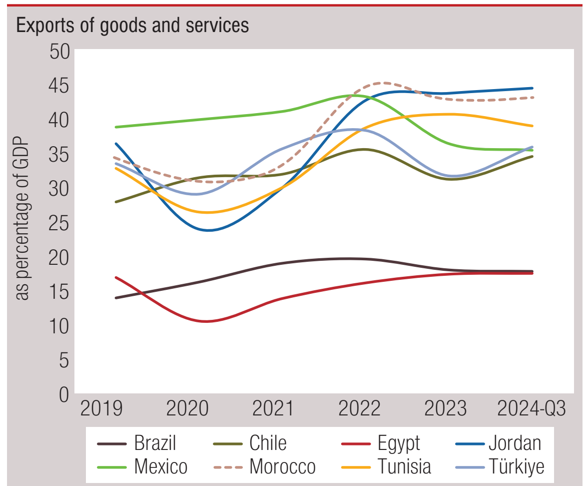
The current account deficit has narrowed markedly in recent years. The COVID-19 pandemic seems to have marked a structural break in the evolution of the current account deficit, which fell from an average of 5 percent of GDP in the 2010s to just 1.9 percent since 2020 (data available until Q3-2024) and reached its lowest point in 2023 (0.6 percent of GDP). This decline in the current account deficit reflects the fall in gross capital formation as a share of GDP that has materialized since the pandemic, which has substantially altered the savings-investment balance of

FIGURE 12 • The current account deficit has narrowed...



Source: WB staff calculations, Exchange office.

FIGURE 13 • ...as Morocco becomes an increasingly export-oriented economy.



Source: WB staff calculations, Haver analytics.

the Moroccan economy. More recently, the decline of the current account deficit has started reversing, reaching about 1.5 percent of GDP in the first nine months of 2024, which is consistent with the solid recovery of investment that is under way. However, the current account deficit remains well below historical averages.

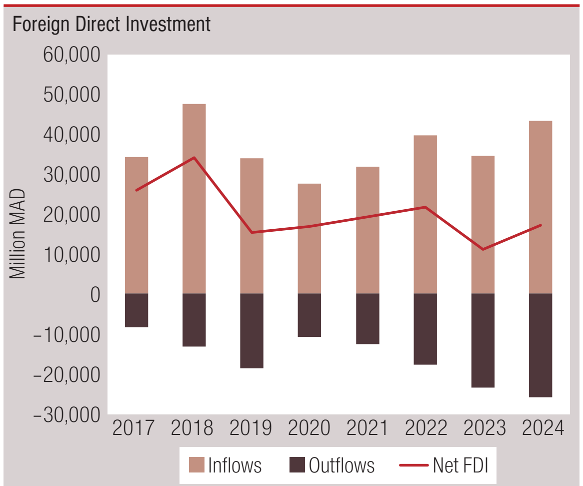
Morocco's economy is becoming more export-oriented. Exports of goods and services grew by 6.3 percent year-on-year in 2024. This expansion was led by automobiles (+6.3 percent), aeronautics (+14.9 percent), phosphates and derivatives (+13.1 percent), and tourism receipts (+7.2 percent). The latest data underscores a post-pandemic trend, which has seen the exports of a selected group of goods and services expand significantly faster than nominal GDP. As a result, the contribution of exports of goods and services to Morocco's GDP increased from 33–35 percent in the years that preceded the pandemic to nearly 40 percent on average between 2022 and 2024 (Figure 13). This is considerably higher than the average for lower and higher middle-income economies (27 and 25 percent of GDP respectively), holding significant promise for Morocco's future development trajectory.

Foreign direct investment is recovering, and risk indicators have improved. FDI inflows have increased by 24.7 percent in 2024, in part due to a base effect following the decline that occurred in 2023 (Figure 14). As discussed in the previous edition of this report, announced greenfield FDI projects have boomed in recent years, indicating an increasing confidence from international investors in the Moroccan economy, as also reflected by the recent improvement in country risk indicators (Figure 15). The boost in investment announcements may also highlight the potential opportunities that Morocco could rip from an increasingly fragmented trade environment. Indeed, its strong macroeconomic policy framework, robust infrastructures, proximity to Europe, and preferential access to key markets seem to be turning Morocco into an increasingly attractive destination for investors seeking to nearshore production or to relocate it away from the countries that are more likely to be affected by mounting trade and geopolitical tensions. These global shifts could contribute to explain high profile investments such as the announced establishment of an electric battery gigafactory in Morocco.

The footprint of the public sector on the Moroccan economy is on the rise

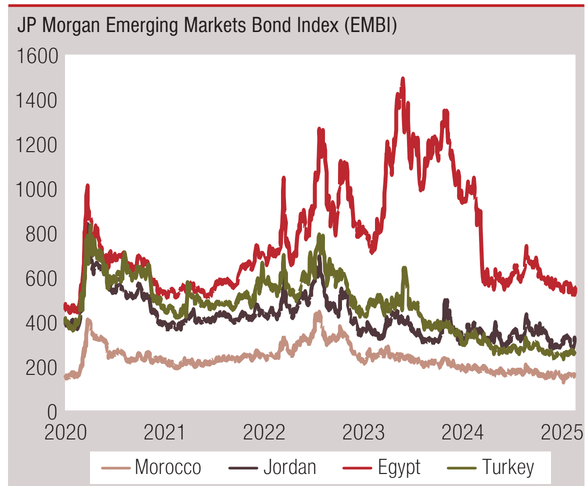
The budget deficit is steadily returning to pre-pandemic levels. It closed 2024 at 3.9 percent of GDP, reflecting the progress made by the authori-

FIGURE 14 • FDI inflows towards Morocco are on a clear upwards trend…



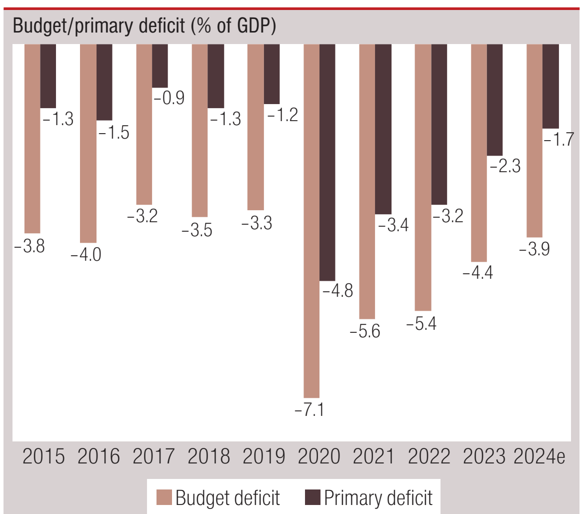
Source: Exchange office and WB staff calculations.

FIGURE 15 • …bolstered by an improved perception of the country's risk.



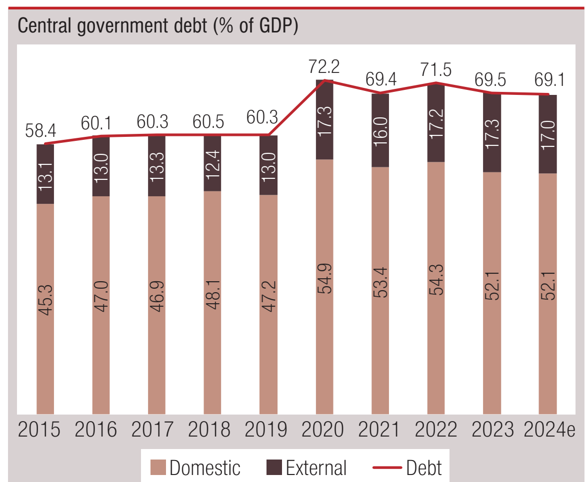
Source: J.P. Morgan Emerging Market Bond Index.

FIGURE 16 • The budget deficit has declined significantly…



Source: Exchange office and WB staff calculations.

FIGURE 17 • …and the debt to GDP ratio has begun to decline after the COVID surge.

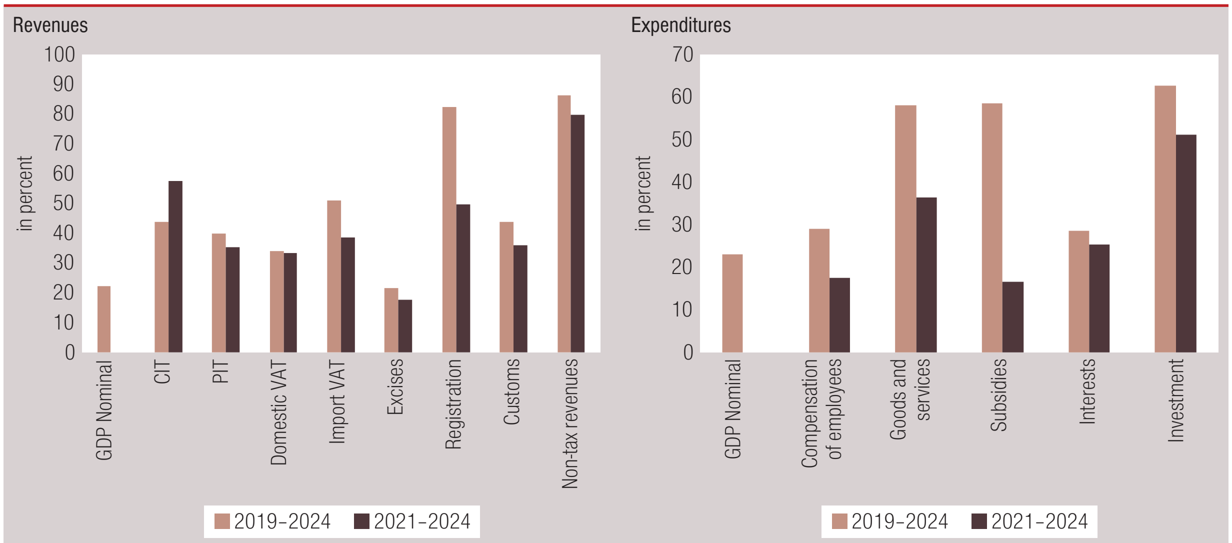


Source: Exchange office and WB staff calculations.

ties since the deficit peaked at 7.1 percent of GDP in 2020 (Figure 16). As a proportion of GDP, the primary deficit has already reached levels comparable to those observed in the year preceding the pandemic. Consequently, the government has managed to steer the debt-to-GDP ratio towards a downward trajectory (Figure 17). However, a key component of the fiscal consolidation strategy remains the ongoing sales-and-lease-back "innovative financing" operations, which mobilized close to 2.3 percent of GDP in 2024. These operations involve transferring ownership of public assets and hence are not recurrent in nature, implying that the improvement in Morocco's structural fiscal position is more modest than the recent evolution of headline figures suggest.

The recent performance of tax revenues has exceeded expectations, cushioning part of the increase in spending. Tax revenues increased by 13 percent in 2024, exceeding the original Budget Law forecast by almost 11 percent. This dynamism reflects the progress achieved with the ongoing tax reform, which has so far focused on the CIT and the

FIGURE 18 • Most components of public revenues and expenditures have risen significantly faster than nominal GDP since the pandemic outbreak.



Source: WB staff calculations and MEF.
Note: the comparison with 2019 captures changes since the pandemic; the comparison with 2021 captures changes since initiation of the implementation of the tax reform.

VAT, as well as the government's increasingly effective efforts at combatting fraud and tax evasion. It is also due to the tax amnesty decreed in 2024, which allowed taxpayers to regularize undeclared taxable income by paying a 5% contribution, generating additional revenues amounting to approximately 0.4 percent of GDP. Central government's expenditures increased by 5.7 percent in 2024, largely due to a cost-of-living adjustment agreed for civil servants to mitigate the impact of the recent inflationary shock. This was partly offset by a reduction in public subsidy outlays, resulting from the increase in domestic butane gas prices decreed in May.

The size of the public sector has increased markedly since the pandemic. Central government revenues as a share of GDP have surged by 3.8 percentage points, rising from 20.4 percent in 2019 to 24.1 percent of GDP in 2024, while total expenditure has also climbed by 4.4 percentage points, from 23.7 percent to 28.1 percent of GDP. This expansion is evident across most components of public revenues and expenditure, which have grown significantly faster than nominal GDP during this period (Figures 18). On the revenue side, it is driven primarily by increased collection of corporate income tax and value-added tax (the two main items covered so far by the ongoing tax reform), further bolstered by the expansion of non-tax revenues. On the expenditure side, subsidies, goods and services spending, and investment have been the key drivers, although the pace of growth in the former two has slowed since 2021. These trends align with the New Development Model (NDM) introduced by Moroccan authorities in 2021, which anticipated that the financing needs for implementing the planned reforms would rise to 4% of GDP in 2022–2025 and then to 10% of GDP by 2030. However, the NDM also projected that a significant acceleration of economic growth would help cushion such a large fiscal expansion. As discussed previously, this acceleration is yet to materialize, highlighting the critical importance of growth-enhancing reforms not only to achieve the NDM's objectives but also to cement the long-term sustainability of public finances.

2

OUTLOOK AND RISKS

Outlook

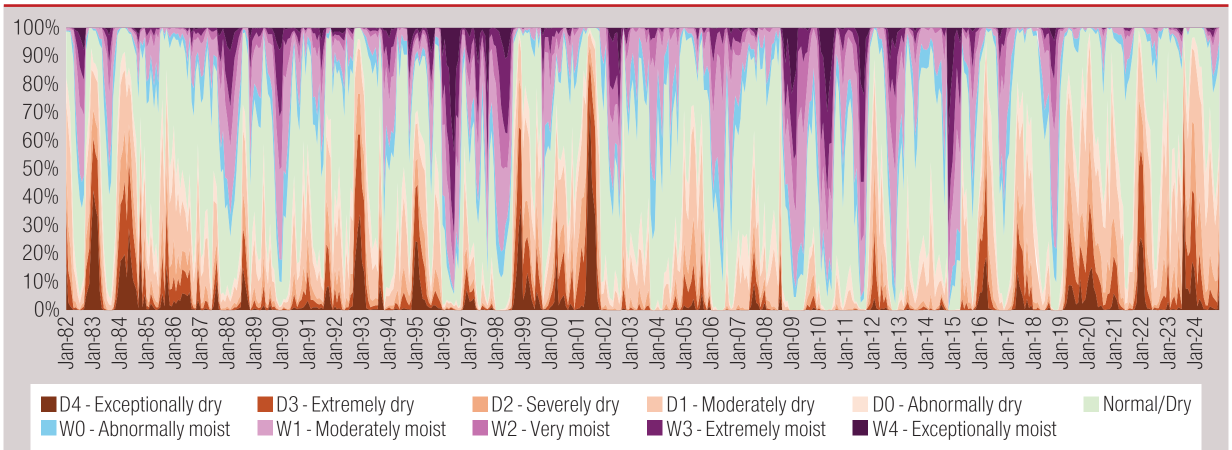
Real GDP Growth is anticipated to increase to 3.6 percent in 2025, up from 3.2 percent in 2024. This acceleration will be mainly driven by a partial recovery in the agricultural sector after the large contraction in 2024. Non-agricultural growth is expected to decelerate slightly to 3.5 percent in 2025. This slowdown will be concentrated in certain components of aggregate supply (such as phosphates and the chemical industry) and aggregate demand (like investment), which are anticipated to return to lower, yet still robust, growth rates.

The agricultural sector continues to face uncertain prospects due to adverse climatic conditions, yet it is expected to show some improvement in 2025. The 6-month Standard Precipitation Index, commonly used to monitor droughts based on satellite imagery, indicates an improvement in climatic conditions over the past year. Specifically, the share of Morocco's territory under dry conditions has decreased from 96 percent in December 2023 to 60 percent in December 2024 (Figure 19).[2] However, this remains significantly above the historical average of approximately 30 percent between 1981 and 2019, suggesting that climatic conditions are still far from normalizing and/or that the country may be converging towards a new, much drier normal in the context of climate change. In this context, agricultural GDP is projected to partially recover from the contraction experienced in 2023. This projection assumes a modest increase in cereal production, which will still fall below historical averages, and a continuation of recent trends in higher value-added irrigated crops. Consequently, agricultural GDP is expected to expand by 4.5 percent, a baseline scenario that remains subject to substantial uncertainty and could be significantly impacted by adverse weather conditions in the coming months.

Non-agricultural growth is expected to slow down to 3.5 percent in 2025, primarily due to a base effect following the robust rebound of key components of aggregate supply and demand in 2024. Key sectors that sustained the acceleration of industrial growth in 2024, such as phosphates, the

2 More information about SPI and the methodology used to track the drought in the Fall 2023 Edition of the Morocco Economic Update, From Resilience to Shared Prosperity.

FIGURE 19 • The share of Morocco's territory under dry conditions has decreased, but remains well above historical averages.



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

chemical industry, and construction, are expected to remain robust in 2025, albeit at a slightly lower growth rate. Conversely, services are expected to maintain their recent dynamism, sustained by a strong tourism sector stimulated by the organization of major sporting events, including the African Cup of Nations to be held in Morocco. On the demand side, the modest slowdown in non-agricultural growth will stem primarily from a moderation in gross capital formation. However, investment is still expected to grow by a healthy 6.7 percent as the government progresses with its infrastructure plans, FDI retains its recent dynamism, and private investment benefits from stable inflation, monetary policy easing and improved business confidence. Private consumption growth is expected to remain stable in 2025.

The current account deficit will slightly widen in 2025; however, it is expected to remain below historical averages. The ongoing recovery of domestic demand and higher agricultural imports are expected to widen the current account deficit to 1.5 and 1.9 percent of GDP in 2025 and 2026, still significantly below historical averages. FDI inflows are expected to accelerate as announced greenfield projects continue to materialize. Foreign exchange reserves are expected to continue covering close to five months of imports, which in combination with the resources made available by the IMF's Flexible Credit Line provide a significant cushion against external shocks.

The budget deficit is expected to slowly decline to pre-pandemic levels. The 2025 Budget Law provides for a continuation of recent fiscal trends, with a significant expansion of public spending (+4.6 percent) driven primarily by the social dialogue commitment to increase salaries, large infrastructure investments, and an increase in social spending related to ongoing reforms. Tax revenues are also set to continue increasing (+6.6 percent) despite the measures included in the 2025 budget law to reduce personal income tax for middle class households, which will reduce revenues by around 0.3 percent of GDP. Non-tax revenues will stabilize, as the government continues to engage in sale and lease-back "innovative" financing operations to keep the budget deficit under control. Over the medium term, the authorities plan to reign on current spending through a more modest increase in salaries and the subsidies' reform, and to increasingly channel investment through Public Private Partnerships. This would be consistent with a gradual reduction of the budget deficit over the projection period (3.1 percent of GDP in 2026–2027), already in line with pre-pandemic levels (Box 2).

Risks

The balance of risks for Morocco's economy appears to be evenly poised. On one hand, the

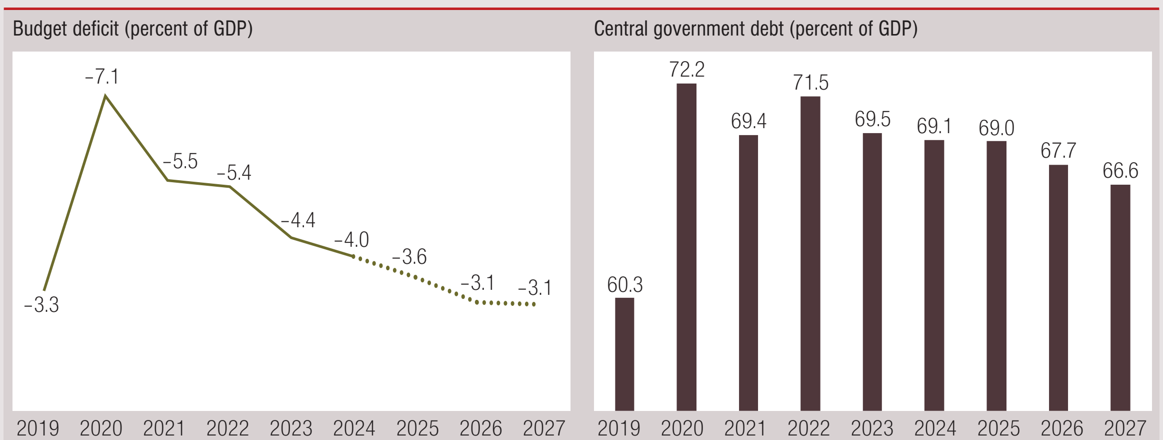
BOX 2: MEDIUM-TERM ORIENTATION OF MOROCCO'S PUBLIC FINANCES ACCORDING TO THE 2025 BUDGET LAW

This box summarizes key trends in the medium-term budgetary framework (2025–2027). It outlines a gradual fiscal consolidation strategy that builds on the government's commitment to restoring fiscal margins while addressing urgent priorities, including prioritizing social reforms, stimulating job creation through targeted measures, and advancing the ongoing reform agenda. This fiscal strategy targets a gradual reduction of the budget deficit to 3.1 percent of GDP over 2026–2027, while keeping the debt-to-GDP on a downward trend, to 66.6 percent of GDP by 2027. The medium-term budget recognizes the potential climate-related risks to public finances and identifies budgetary risks associated with State Owned Enterprises and public guarantees.

Public spending will continue to expand over the medium-term, while streamlining compensation-related expenditures, subsidies and investment costs. A key priority of the budget is the continued expansion of social protection, including broadening the retirement scheme and implementing unemployment benefits. Current expenditures are expected to increase significantly in 2025 (+14.3 percent y/y), reaching 21.9 percent of GDP, up from 20.1 percent of GDP in 2024, driven by wage increases (9.5 percent) under the social dialogue agreement and debt-related expenditures (25.7 percent), partially offset by the reduction in subsidies (–32.7 percent y/y). However, the pace will reverse in 2026–27, with current expenditures expected to decline to 20.1 percent of GDP, resulting from slower salary growth and continued butane gas subsidy reform. MEF also forecasts investment expenditures to decline as a share of GDP, from 6.9 percent in 2021–2024 to 5.9 percent in 2025–2027. This should be facilitated to a growing resort to Public-Private Partnerships (PPPs).

MEF expects rising expenditure to be financed through strong revenue collection. Overall tax revenues are expected to reach an average of 20 percent of GDP between 2025–2027, significantly higher than previous years (+1.7 percent of GDP compared to 2021–24, and +2.7 percent of GDP compared to 2019). In contrast, non-fiscal revenues are projected to stabilize, as the government intends to reduce its reliance on sales and lease-back operations (which will decrease from 2.2 percent of GDP in 2025 to 1.5 percent of GDP in 2026–2027). While the ongoing tax reform focused on the Corporate Income Tax (CIT) in 2023 and the VAT in 2024, the 2025 Budget Law has centered on the Personal Income Tax (PIT), aimed at providing relief to middle-class households and encourage formalization.[a] As per the framework law approved in 2021, the tax reform should be completed in 2026, which measures that will include the introduction of a carbon tax and provisions to support innovation.

FIGURE 20 • The medium-term budget foresees the gradual fiscal consolidation to continue.



Source: 2025 Budget Law.

[a] The exemption threshold will be raised from 30,000 to 40,000 MAD, benefiting lower-income individuals. Additionally, tax brackets will be revised and expanded to reduce rates. The top marginal PIT rate will be reduced from 38% to 37%. Other measures include increasing the family charge deduction from 360 to 500 MAD per dependent and revising the conditions for internship exemptions to promote employment. The revenue loss associated with the reform is estimated at about 0.3 percent of GDP

country continues to grapple with challenging climatic conditions, which could have a persistent impact on agricultural GDP and rural households. Additionally, spending pressures are likely to strain the budget, and the reliance on non-recurring revenue sources such as innovative sales and leaseback operations will need to be replaced by more sustainable, recurrent sources to ensure fiscal consolidation. This could challenge the government's ability to meet its medium-term fiscal targets. On the other hand, Morocco's ambitious reform agenda, strategic geographic position, and strong economic ties through free trade agreements position the economy well to benefit from the nearshoring process resulting from the fragmentation of global value chains. However, this also exposes the country to the risks posed by the recent increase in protectionist tensions on the global scene, the prospects of which remain uncertain for Morocco.

Job creation remains the main development challenge facing Morocco's economy and society today, necessitating a comprehensive agenda of structural reforms. To address this challenge, it is essential to tackle constraints on both the demand and supply sides of the labor market and to improve labor regulations and policies. On the demand side, the lack of dynamism among high-growth firms is a significant constraint. On the supply side, enhancing conditions for women's economic empowerment and aligning young workers' skills with market needs are crucial. Furthermore, the high costs associated with hiring and firing processes, as well as the fragmentation of labor market programs, hinder progress. The recently unveiled government job creation roadmap emphasizes enhancing active labor market programs and introducing targeted incentives to stimulate SME investment.

Enhanced transparency regarding budgetary risks along with the new Organic Law on Finance under preparation mark a positive development for Morocco's economic management. The government has significantly improved the transparency with which it presents budgetary risks, which are now explicitly analyzed as part of the medium-term budget. Indeed, the most recent Budget Law includes sensitivity analyses that explicitly analyze the potential impact of the drought, volatile commodity prices, and a potential slowdown in the euro area, as well as expenditure-related risks like transfers to public establishments and public guarantees. In addition, the authorities are working on a new Organic Law on Finance expected to introduce significant changes, including the integration of non-commercial SOEs in the scope of the Budget Law and the introduction of a debt-anchored fiscal rule that could provide more visibility on the medium-term orientation of public finances. This proactive approach underscores the government's commitment to maintaining macro-fiscal stability despite the budget strains that may arise as its ambitious reform and investment programs unfold.

TABLE 1 • Selected Economic Indicators 2021-2027

				Estimated		Projected	
	2021	2022	2023	2024	2025	2026	2027
Real Economy							
Real GDP	8.2	1.5	3.4	3.2	3.6	3.5	3.6
Agricultural GDP	19.0	−11.8	1.6	−4.6	4.5	2.6	2.8
Non-Agricultural GDP	6.9	3.2	3.6	3.9	3.5	3.6	3.7
Industry	7.8	−2.7	1.3	5.1	3.6	3.8	3.9
Services	5.7	6.8	4.4	3.5	3.4	3.5	3.6
Private Consumption	6.8	0.0	3.7	3.2	3.1	3.2	3.4
Government Consumption	7.2	3.0	4.1	3.9	4.1	3.6	3.5
Gross Fixed Capital formation	7.5	−4.0	1.9	9.1	6.7	4.5	4.5
Exports, Goods and Services	7.9	20.5	8.8	8.3	7.7	8.3	7.1
Imports, Goods and Services	10.4	9.5	7.4	11.1	8.1	7.4	6.5
Unemployment rate (ILO definition, in percent)	12.3	11.8	13	13.3	–	–	–
Inflation (average CPI, in percent)	1.4	6.6	6.1	0.9	2.4	1.8	1.5
Fiscal accounts							
Expenditures	31.2	34.1	32.7	34.6	34.8	33.0	32.3
Revenues, including all grants	25.3	28.7	28.4	30.7	31.2	29.6	29.0
Budget Balance	−6	−5.4	−4.3	−3.9	−3.7	−3.4	−3.3
Central Government Debt	69.4	71.5	69.5	69.1	68.2	67.5	66.6
Balance of payments							
Current Account balance	−2.3	−3.6	−0.6	−1	−1.5	−1.9	−2.1
Imports, Goods and Services	42.4	56.3	51.1	52	53.5	54.6	55.1
Exports, Goods and Services	33.2	44.8	42.8	43.1	44.3	45.1	45.4
Foreign Direct Investment	1.1	1.2	0.2	1.5	1.6	1.7	1.7
Gross official reserves (bln US$, eop)	35.6	32.3	36.3	37.1	39.6	40.9	42.1
In months of imports	5.3	5.4	5.4	5.1	5.3	5.4	5.5
Local currency per U.S. dollar (period average)	9	10.2	10.1	–	–	–	–
Memo items							
Nominal GDP (in billion dirhams)	1277	1331	1463	1524	1616	1702	1790

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

3

MOROCCO'S BUSINESS CLIMATE, INSIGHTS FROM THE B-READY DATASET

The New Development Model sets an ambitious vision to turn private investment into the main engine of economic growth in Morocco. The successful implementation of that vision will be key to create jobs at scale, the most effective way to defeat poverty and improve welfare. This will require a healthy business environment, broadly defined as the conditions that are needed for a vibrant private sector to emerge. Recent evidence on firms' dynamics suggest that the Moroccan private sector is characterized by the slow emergence of innovative, high-growth, job creating enterprises, which may be due in part to weaknesses in the business environment.[3] *The new B-Ready dataset discussed in this special focus chapter can serve as a tool to prioritize the policies and reforms that have the greatest potential to close existing gaps between Morocco's business climate and that of leading nations.*

The B-Ready approach

The World Bank Group has ushered in a new era in assessing the global business climate with the launch of its Business Ready (B-READY) program. This initiative succeeds the Doing Business program, which was discontinued in 2021, and aims to provide a more nuanced, balanced, and comprehensive analysis of the business environment worldwide (Box 3). It delves into the regulatory framework, the quality of public services, and the effectiveness of their practical implementation, organized around themes that are deemed essential to private sector development. B-READY is the result of extensive consultations with international experts, academics, practitioners, and stakeholders from both the public and private sectors. Its primary goal is to serve as a reference tool for governments and the private sector, guiding them towards reforms that can boost investment, develop entrepreneurship, create jobs, and foster sustainable and inclusive economic growth.

The program examines ten key topics covering the entire life cycle of a company, from starting a business to resolving insolvency, including accessing public utilities, the labor market, financial services, international trade, taxation, dispute settlement, and markets and competition. This holistic approach also incorporates crucial

[3] Source: Dalvit et al., 2024.

BOX 3: FROM THE DOING BUSINESS REPORT TO THE BUSINESS READY DATASET

The launch of the new Business Ready (B-READY) program marks a significant methodological shift in the World Bank's approach to business climate assessment. The Doing Business report faced criticism for its reliance on aggregate country rankings, which often overshadowed the nuances of the structural reforms needed to improve the business climate, fostering instead a competition between nations aiming for higher rankings, with limited impacts on the real economy. B-READY departs from this approach by dropping aggregate rankings and focusing instead on disaggregated, quantifiable indicators grouped by thematic scores and pillars. This methodology provides nuance in the analysis of each economy's strengths and weaknesses, allowing for a more granular identification of areas requiring priority reforms.

B-READY significantly expands the scope of business climate assessments. It now includes areas like labor markets, public procurement, access to water and internet for businesses, and competition, and integrates environmental and social considerations, including labor and women rights, consumer protection, and environmental sustainability. This broader perspective allows for a more comprehensive understanding of economic dynamics and the interactions between firms of all sizes, while also providing valuable insights into the welfare dimension of the business climate. It is further enhanced by B-READY's three-dimensional framework, which systematically examines the legal framework, the quality of the associated public services, and their effectiveness in practice for each area analyzed. Such approach recognizes that there can be significant departures between the 'de jure' (rules) and the 'de facto' (actual implementation) which need to be factored in when assessing countries' business climate. Another value addition comes from the fact that B-READY combines data collected through 21 new questionnaires (compared to 11 in the previous model) with pre-existing firm-level surveys, such as the Enterprise Survey. It analyzes approximately 1,200 indicators and sub-indicators.

B-READY prioritizes transparency, rigor, and scalability. All data and methodologies are publicly available, fostering broad ownership of the results and enabling in-depth analyses. The methodology is designed to be scalable, with regular updates incorporating feedback and evolving best practices. This commitment to transparency and continuous improvement ensures that B-READY remains a robust and relevant tool for assessing and improving business climates globally.

cross-cutting dimensions such as environmental sustainability, gender equality, and the impact of the digital transformation. Rolling out over a three-year period, B-READY will progressively expand its geographic coverage, assessing 50 economies in 2024, 108 in 2025, and 174 in 2026. By providing disaggregated and transparent data, the program helps identify country-specific strengths and weaknesses, offering a solid basis for targeted reforms.

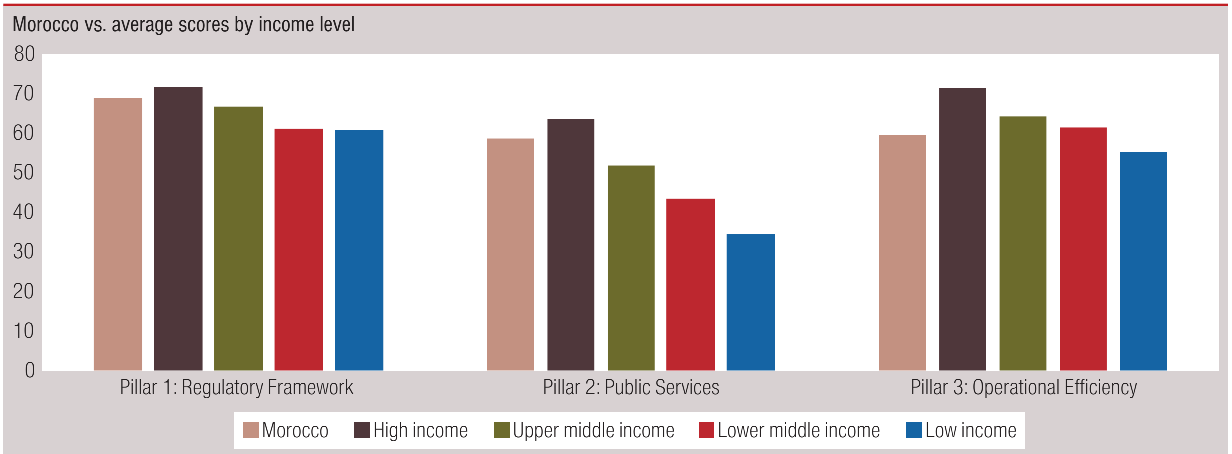
Morocco in the 2024 B-Ready Report

Morocco, included in the first cohort of countries covered by the B-Ready initiative, has tended to outperform countries at a similar income level on the assessment of regulatory frameworks and public services, but not on operational efficiency. The inaugural edition of B-Ready positions Morocco favorably, surpassing both Lower Middle-Income Countries (its own group) and Higher Middle-Income Countries (aspirational group) in two of the three pillars: the regulatory framework and public services. However, it performs less strongly in the operational efficiency dimension, slightly below the average for both Upper and Lower Middle-Income Economies. These overall scores reflect the significant progress Morocco has made in improving its business climate. Nonetheless, a detailed review of the sub-indices provides a more nuanced interpretation, revealing significant strengths alongside weaknesses that could be useful in identifying key priority reforms moving forward.

Morocco demonstrates notable strengths in several key topics covered by the B-Ready. Notably, Morocco outperforms upper middle income countries' average on business entry and business location, where Morocco outperforms even high-income economies, reflecting the progress achieved by the business climate initiative over the past decade. It also performs higher than high income countries in the topic of utility services, securing broad access to electricity, water, and the Internet. Morocco also outperforms most peers on international trade, thanks to the country's good access to international markets and the digitization of import/exports.

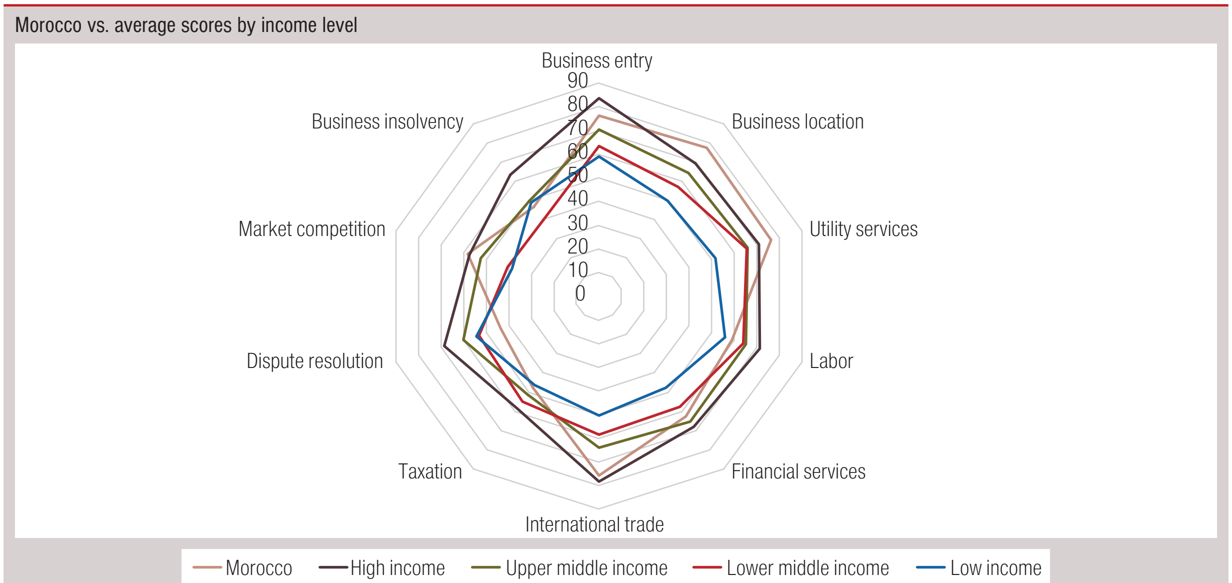
On the other hand, when compared to aspirational peers, Morocco also presents some weaknesses that deserve attention. The key areas in which Morocco underperforms relative to other

FIGURE 21 • Comparative results by pillar.



Source: WB staff calculations, B-Ready.

FIGURE 22 • Comparative results by topic.



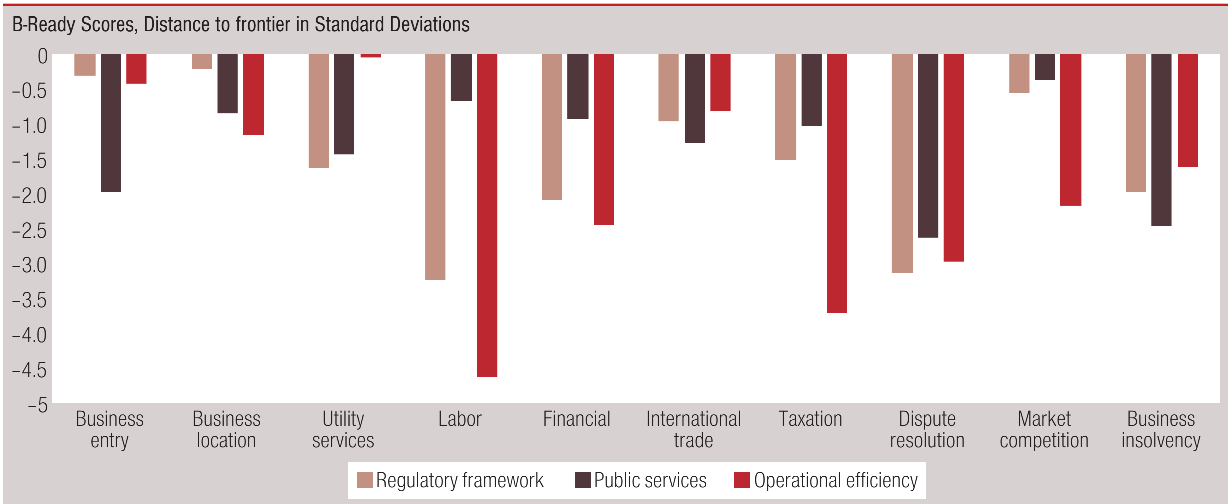
Source: WB staff calculations, B-Ready.

middle income and high-income countries are the labor market, dispute resolution and businesses' insolvency. Importantly, the weaknesses observed for Morocco in these topics tend to concentrate on public services and operational efficiency, rather than on the regulatory framework, which tends to perform rather well. Although Morocco's overall scores are close to the average for higher middle-income economies on other topics, such as financial services or market competition, this result also tends to mask a divergence between the strong performance of the regulatory framework and a weaker performance in terms of public services or operational efficiency. Overall, this suggests that while there is room for improvement in certain regulatory frameworks, Morocco should prioritize enhancing its capacity to effectively implement policies to improve the business environment.

A frontier analysis to prioritize reforms

Comparing Morocco's performance to that of leading nations in the topics covered by the

FIGURE 23 • Results by topic and pillar, frontier analysis.



Source: WB staff calculations, B-Ready.
Notes: (i) measures distance to the frontier (top-performing nation for each of the topics and analytical dimensions) in standard deviations of scores from all 50 countries included in the first edition of the B-ready dataset; (ii) Appendix 1 offers a more disaggregated presentation of the sub-indicators included in the themes that present the largest gap with the frontier.

B-Ready dataset can serve as an effective tool for prioritizing reforms with the highest developmental potential. Rather than comparing with different country averages, this section presents a frontier analysis, the main results of which are provided in Figure 23. It also delves into a more detailed level, identifying the sub-indicators with the largest gaps within these broad thematic categories, which are discussed below.

The largest distance to the frontier is observed in the regulatory framework and operational efficiency of labor markets. Within the regulatory framework, a notable imbalance emerges from the data: while Morocco scores highly on worker conditions, particularly in labor rights and termination of employment, it lags significantly in areas such as employment restrictions and costs, including terms of employment, minimum wage rates, and termination procedures. Similarly, operational efficiency also shows substantial gaps concerning employment restrictions and costs. These indicators suggest that while Morocco's formal workers are well-protected, firms encounter significant obstacles and costs to hire formally. This likely contributes to the high prevalence of informality in the country, even within formal firms, creating a stark "insiders-outsiders" gap. In this scenario, formal workers (the ´insiders´) enjoy significant legal protection and benefits, whereas informal workers (the ´outsiders´) face highly precarious conditions. This disparity is likely to exacerbate social inequalities and job creation, underscoring the need for a revision of the Labor Code that has been announced by the authorities.

Significant gaps are also evident in the area of dispute resolution, which is crucial for reducing uncertainty for companies and boosting investor confidence. The distance to the frontier is particularly pronounced in several sub-indicators: procedural certainty in court litigation (regulatory framework), the organizational structure of courts, the digitization and transparency of processes (public services), and the reliability of courts and alternative dispute resolution mechanisms for resolving commercial cases (operational efficiency). To enhance the performance of the judicial system, Morocco may need to: (i) accelerate the reform of the Civil Procedure Code; (ii) modernize and digitize judicial procedures; (iii) strengthen open data and data transparency; and (iv) reinforce the skills of magistrates and judicial officers specialized in commercial justice.

Morocco's business insolvency framework lags behind those of frontier economies, hindering the restructuring and liquidation of businesses and thereby limiting the reallocation of

resources to more productive uses. A robust insolvency framework is essential for minimizing risks to creditors, preserving economic activity, and fostering business dynamism and productivity growth. According to the B-Ready indicators, the distance to the frontier is particularly pronounced when it comes to post-commencement standards in liquidation and reorganization (regulatory framework), the digitization of public services, and the time required to resolve reorganization proceedings (operational efficiency). To enhance Morocco's insolvency system, the country could focus on completing the legal framework of the insolvency law, including the adoption of decrees related to the qualification and fees of receivers, digitizing key services for liquidating struggling companies, and improving the timeliness and efficiency of procedures.

While Morocco has made significant progress regarding financial services, some localized gaps emerge from the B-Ready indicators. The sub-indicators for financial services reveal significant disparities, with some sub-indicators that are very close to the frontier coexisting with significant gaps concentrated in a few specific areas, including the use of movable assets to secure loans (of particular relevance for SMEs), and the development of e-payment systems. Some of the actions that could be adopted to close these gaps include regulatory adjustments to expand the types of movable assets, debts, and obligations that can be used as collateral, while raising awareness about the benefits of the National Electronic Registry of Personal Property Collateral to improve its utilization and impact. Developing electronic payment systems could also be prioritized, with a focus on reducing costs to encourage widespread adoption. Additionally, improving data collection and sharing by credit bureaus is vital for increasing transparency and efficiency in the financial market.

Recent reforms have closed the gap with frontier economies in terms of market competition, but Morocco still lags behind on certain aspects of innovation and public procurement. The recent reform of the legal framework on price freedom and competition, along with the reform of the Competition Council operationalized in 2022, has aligned Morocco with international legal standards, as evidenced by the short distance to the frontier on the regulatory framework and public services dimensions of the B-Ready Indicators. Yet, Morocco presents a large gap on operational efficiency. This is due to the low proportion of firms that innovate or use international quality certifications, which underscores the need to upscale the public policies that support innovation, a critical boost for productivity growth. Another gap emerges on public procurement process, given private businesses´ perceived difficulties when bidding for a public contract, and the delays in the awarding process. To improve this situation, MEF could continue reviewing the legal and operational public procurement framework, and the Competition Council could be given a greater role in ensuring that procurement processes are competitive, transparent, and efficient, as is increasingly the case in other jurisdictions.

Other areas where the data suggest there is room for improvement include the following:

- Morocco could still improve digital public services and transparency of information for **business entry.** This could be achieved through the operationalization of the digital platform dedicated to the online creation of companies, coupled with the implementation of the electronic register of beneficial owners and the integration of gendered data in the business creation barometer.
- Regarding **business location**, some gaps emerge on the digitization of public services, environmental services and access to land. Access to information on real estate transactions and land disputes should be facilitated by increased digitization of processes and enhanced interoperability between relevant services. The systematic publication of statistics and tariff schedules would provide greater legal certainty and facilitate access to land, a key lever for business development and the attractiveness of private investment. Furthermore, the optimization of administrative processes and the reduction of delays, through better coordination of the various administrations involved, are essential to improve operational efficiency and simplify the procedures related to the acquisition and management of land. Optimizing building energy standards and regulating health risks asso-

ciated with construction materials are also possible areas for improvement.

- While Morocco excels on the operational efficiency of **utility services**, some lags emerge regarding the regulatory framework, the governance and transparency of electricity, water and internet provision. To continue improving the quality of services, Morocco could thus focus on strengthening coordination and efficiency in infrastructure management, fostering greater synergy between the various stakeholders, accelerating the digitization of administrative procedures, and optimizing performance indicators.
- Despite Morocco's overall good access to markets, **international trade** infrastructure at border crossings with equipment adapted to the needs of economic operators could be reinforced. Establishing mutual recognition agreements for Authorized Economic Operator programs, both domestically and with major trading partners, would help facilitate trade and enhance the country's competitiveness. Finally, special attention needs to be paid to promoting digital cross-border trade, further encouraging firms to exploit the opportunities offered by digital transformation to increase their presence in international markets.
- Morocco's scoring in **taxation** has been somewhat penalized by the weakness of environmental fiscal instruments, the perceived time and functionality of processes (time to fill and pay taxes, use of electronic systems to file, and time to review a tax dispute), and on the financial burden that taxes impose on firms. Improving communications with taxpayers and continuing to simplify procedures would help to close these gaps. The introduction of a carbon tax, as foreseen by the ongoing tax reform, would reinforce Morocco´s environmental fiscal policies.

Cross-cutting themes: Digital transformation, environmental sustainability and gender

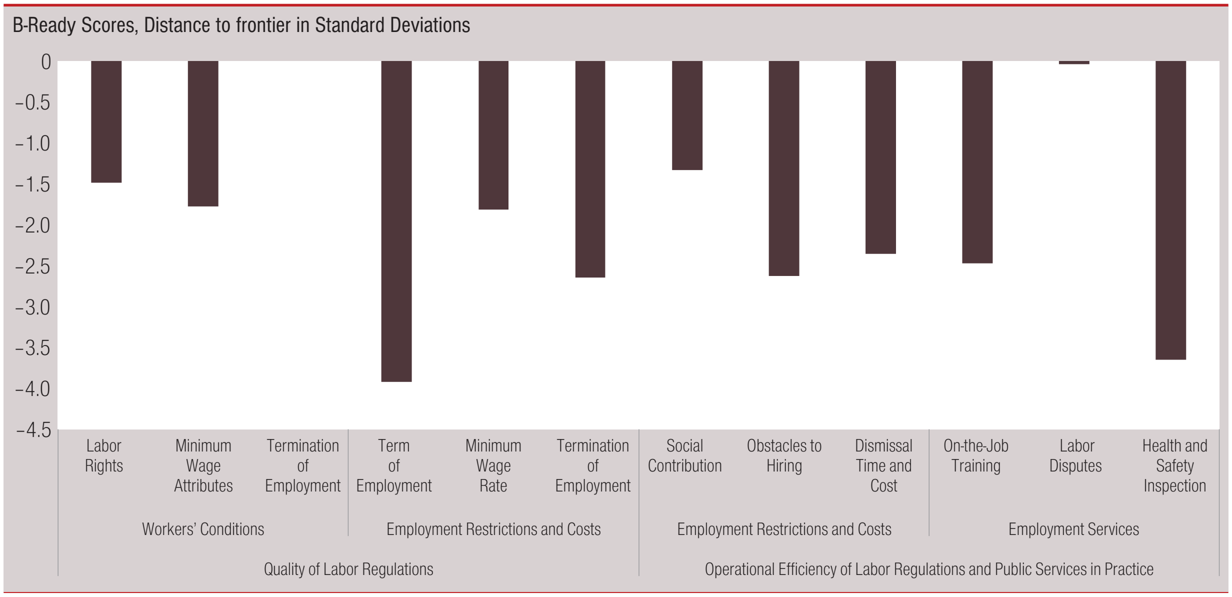
Morocco must embrace digital transformation to enhance its business environment and competitiveness. The Business Ready underscores the immense economic potential of digitizing public services, while also revealing uneven and fragmented adoption across countries and industries. Morocco's performance in that dimension shows that while some progress has been achieved in certain areas of digitalization, significant gaps remain. To attract more investment and strengthen its competitiveness, Morocco must accelerate its digital transformation by developing robust infrastructure, implementing comprehensive and user-friendly online services, and improving interoperability and data transparency. These measures are crucial for modernizing the economy, simplifying administrative procedures, reducing costs and delays, and fostering sustainable and inclusive growth.

The B-Ready report suggests the presence of a gap between Morocco stated environmental ambitions and the reality on the ground. Several indicators suggests that the implementation, monitoring and operational efficiency of existing environmental regulations remain uneven. To bridge this gap, Morocco must promote sustainable practices, enhance transparency, and integrate environmental considerations into all business procedures. Digitalizing environmental public services, incentivizing green innovation and construction, and strengthening enforcement mechanisms are crucial steps. Additionally, developing environmental fiscal instruments and incorporating environmental criteria in public procurement would be important.

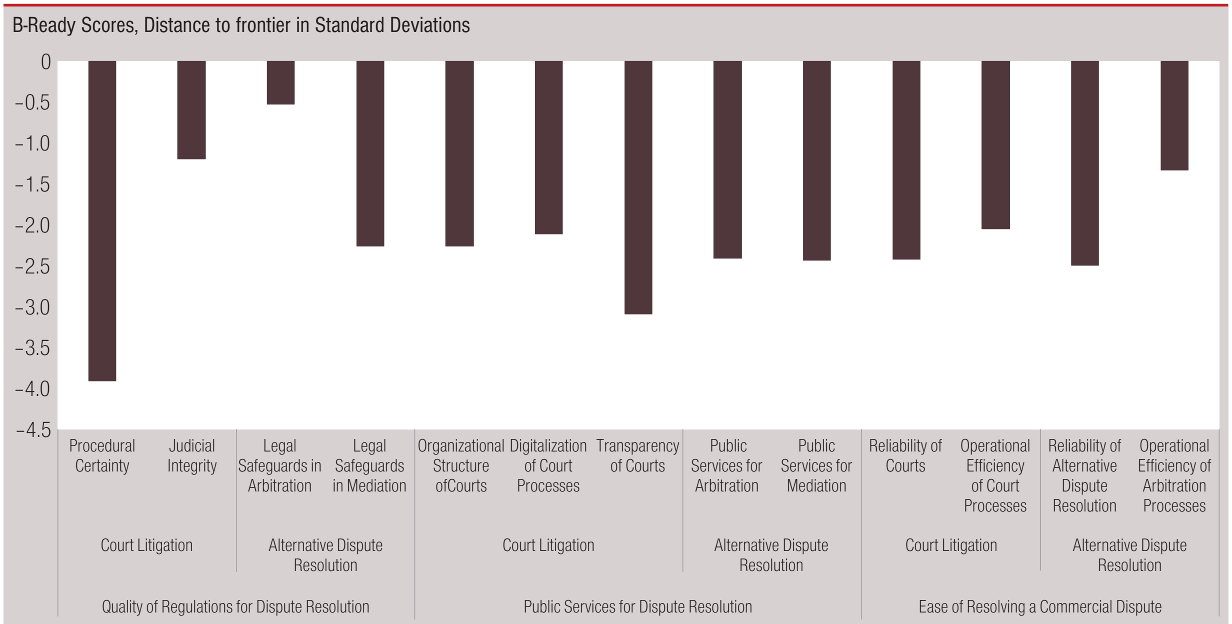
Morocco's efforts to ensure gender equality in the business environment are commendable but requires further improvements. The B-Ready suggests that the lack of gender-disaggregated data is a significant barrier to accurately assessing the situation and designing effective policies. To address this, Morocco could strengthen its gender policies, improve the collection and analysis of gender-disaggregated data, and ensure equitable participation and access to economic opportunities for women across all sectors. Prioritizing specific support mechanisms for women entrepreneurs, better integrating gender considerations into public services, and ensuring fair access to public procurement could be important steps in that direction.

APPENDIX 1: B-READY SUB-INDICATORS, FRONTIER ANALYSIS

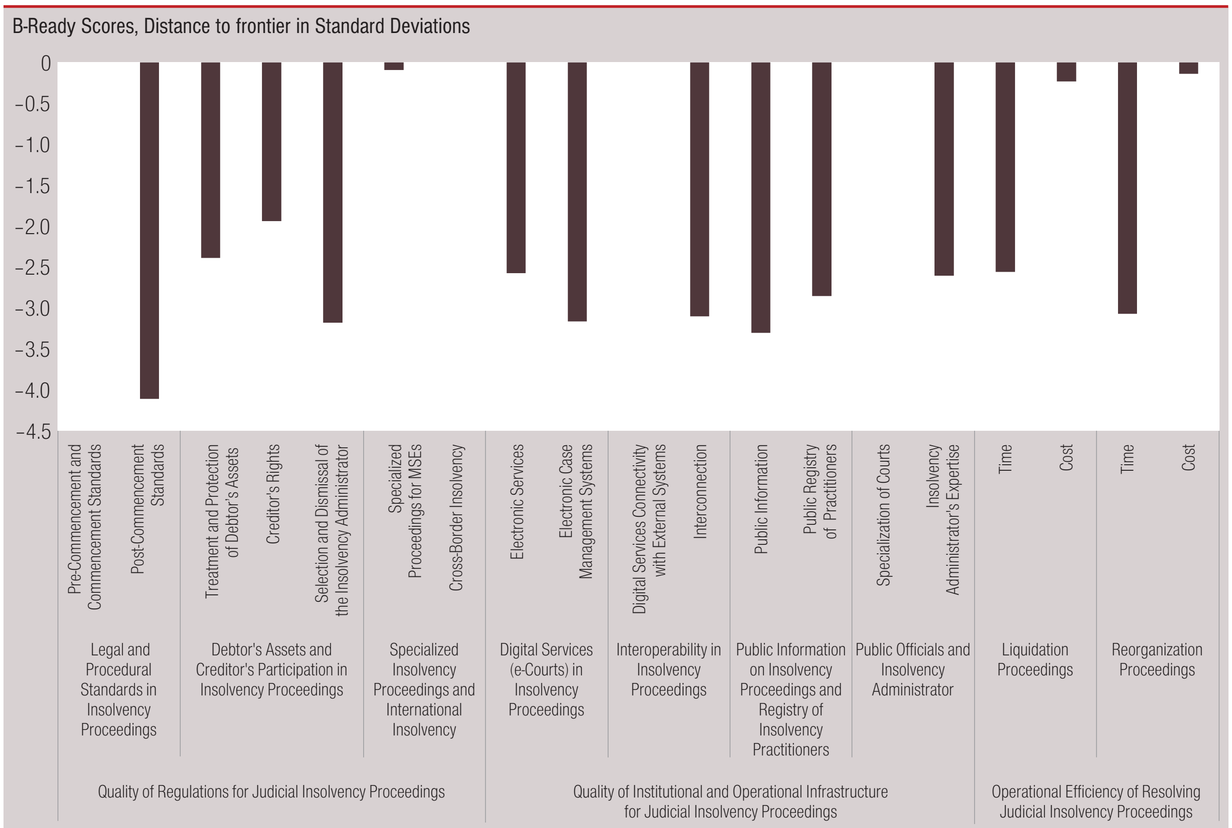
LABOR



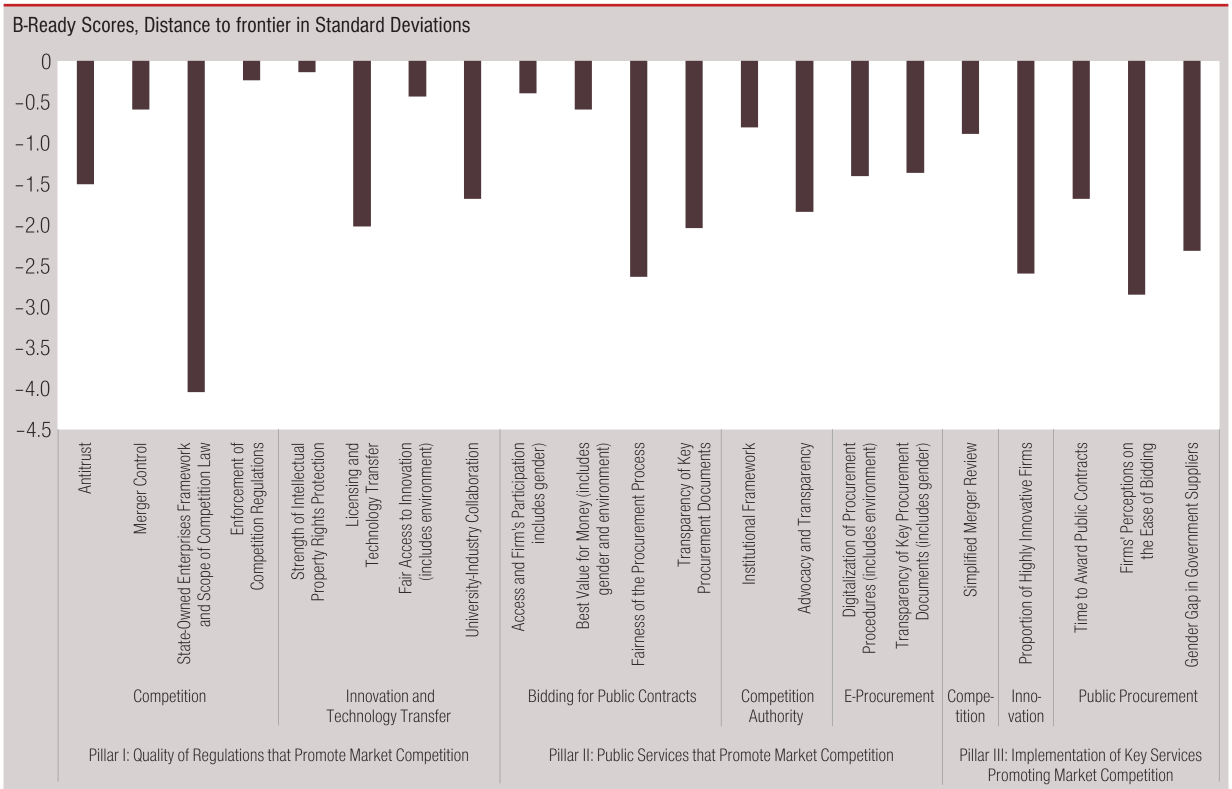
DISPUTE RESOLUTION



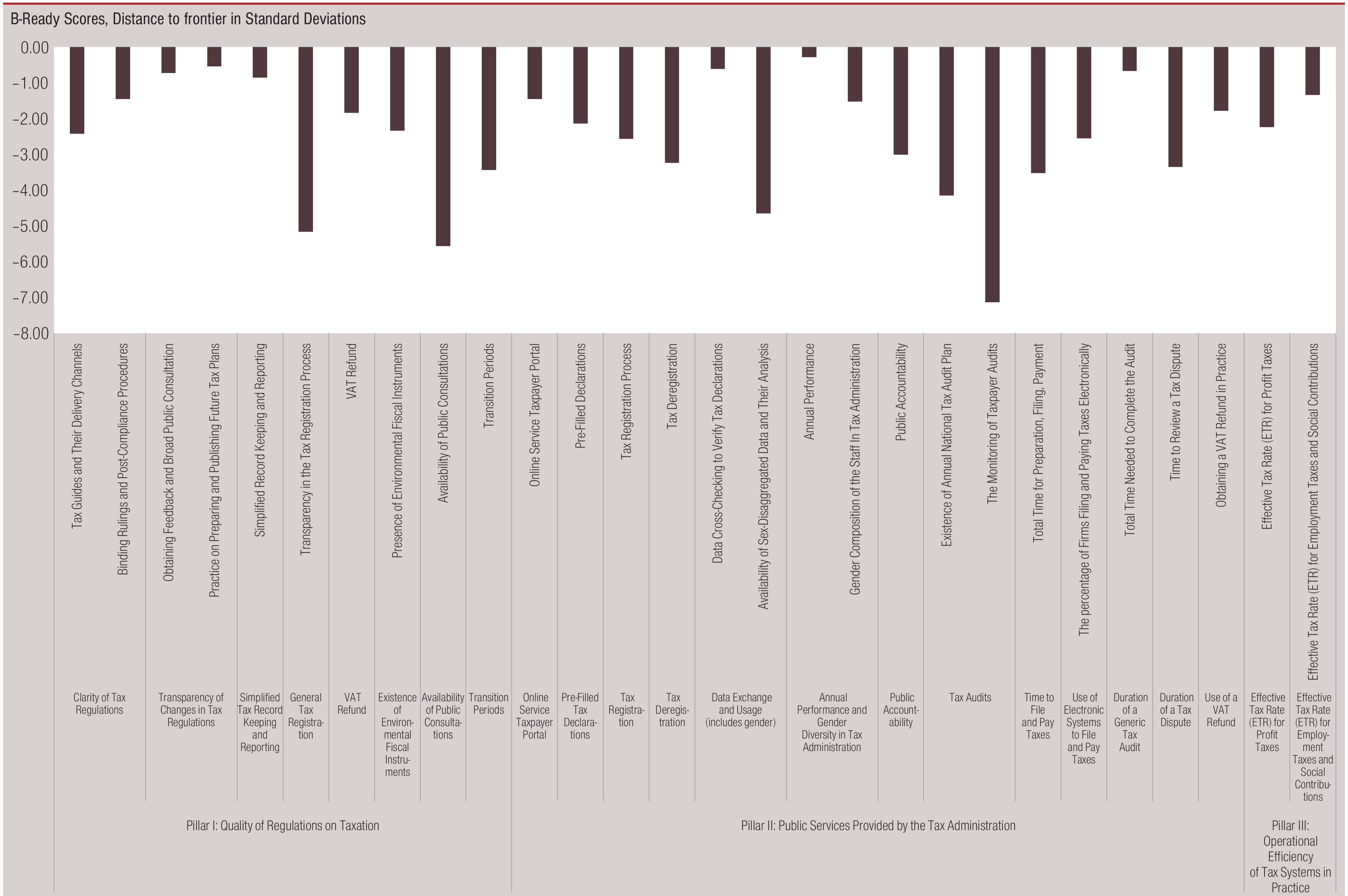
BUSINESS INSOLVENCY



MARKET COMPETITION



TAXATION


B-Ready Scores, Distance to frontier in Standard Deviations
0.00
−1.00
−2.00
−3.00
−4.00
−5.00
−6.00
−7.00
−8.00
Tax Guides and Their Delivery Channels
Binding Rulings and Post-Compliance Procedures
Obtaining Feedback and Broad Public Consultation
Practice on Preparing and Publishing Future Tax Plans
Simplified Record Keeping and Reporting
Transparency in the Tax Registration Process
VAT Refund
Presence of Environmental Fiscal Instruments
Availability of Public Consultations
Transition Periods
Online Service Taxpayer Portal
Pre-Filled Declarations
Tax Registration Process
Tax Deregistration
Data Cross-Checking to Verify Tax Declarations
Availability of Sex-Disaggregated Data and Their Analysis
Annual Performance
Gender Composition of the Staff In Tax Administration
Public Accountability
Existence of Annual National Tax Audit Plan
The Monitoring of Taxpayer Audits
Total Time for Preparation, Filing, Payment
The percentage of Firms Filing and Paying Taxes Electronically
Total Time Needed to Complete the Audit
Time to Review a Tax Dispute
Obtaining a VAT Refund in Practice
Effective Tax Rate (ETR) for Profit Taxes
Effective Tax Rate (ETR) for Employment Taxes and Social Contributions
Clarity of Tax Regulations
Transparency of Changes in Tax Regulations
Simplified Tax Record Keeping and Reporting
General Tax Registration
VAT Refund
Existence of Environmental Fiscal Instruments
Availability of Public Consultations
Transition Periods
Online Service Taxpayer Portal
Pre-Filled Tax Declarations
Tax Registration
Tax Deregistration
Data Exchange and Usage (includes gender)
Annual Performance and Gender Diversity in Tax Administration
Public Accountability
Tax Audits
Time to File and Pay Taxes
Use of Electronic Systems to File and Pay Taxes
Duration of a Generic Tax Audit
Duration of a Tax Dispute
Use of a VAT Refund
Effective Tax Rate (ETR) for Profit Taxes
Effective Tax Rate (ETR) for Employment Taxes and Social Contributions
Pillar I: Quality of Regulations on Taxation
Pillar II: Public Services Provided by the Tax Administration
Pillar III: Operational Efficiency of Tax Systems in Practice

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Morocco's Growth and Employment Prospects: Public Policies to Avoid the Middle-Income Trap	March 2019	Policy Research Working Paper

SUMMARY OF SPECIAL FOCUSES FROM THE LATEST MOROCCO ECONOMIC UPDATES

Summer 2024 MEU: "Unlocking the potential of the private sector to spur growth and job creation "

The Summer 2024 MEU provided an in-depth analysis of the evolving dynamics of the Moroccan private sector. It is based on the results of an analysis jointly conducted with the Moroccan Observatory of Small and Medium Enterprises (OMTPME) which exploits a comprehensive database on formal firms. The productivity performance of the private sector has been lackluster, primarily due to a worsening of allocative efficiency. Larger firms tend to exhibit a lower productivity than their smaller peers, suggesting that markets are not sufficiently rewarding more efficient and innovative firms. In addition, Moroccan SMEs struggle to grow, and the density of High Growth Firms remains very low. This is problematic feature of the private sector given that in other settings such firms have been shown to disproportionately contribute to job creation. Addressing the constraints facing the private sector would help overcome the disappointing job creation capacity that the Moroccan economy has exhibited in recent years.

Fall 2023 MEU: "From resilience to shared prosperity "

The Special Focus of the ''Fall 2023'' MEU analyzes the roots of Morocco's high rates of female inactivity from a comparative perspective. Morocco's low and declining FLFP constitutes a major missed opportunity and constraint to boosting potential output and growth. World Bank simulations show that meeting the New Development Model objectives of a 45 percent FLFP rate could increase growth by almost 1 percentage point per year, may reduce inequality by between 1 and 2 Gini points. In addition, increasing women's economic agency will have wider knock-on effects such as increased investment in human capital for today's children.

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