MOROCCO ECONOMIC MONITOR

From Relief to Recovery

Fall 2020

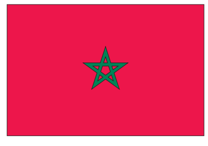
WORLD BANK GROUP
Middle East and North Africa Region

Morocco
Economic Monitor

From Relief to Recovery

With a Special Focus on
COVID-19 and the Moroccan Formal Private Sector

Fall 2020



Middle East and North Africa Region

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Cover photos used with the permission of Anne-Lucie Lefebvre.
Publication design and layout by The Word Express, Inc.

TABLE OF CONTENT

List of Figures

List of Tables

List of Boxes

ACRONYMS

BAM	Bank Al-Maghrib
CAB	Current Account Balance
CPI	Consumer Price Index
COVID	Coronavirus Disease
DSA	Debt Sustainability Analysis
DB	Doing Business
ECA	Europe and Central Asia
EMDEs	Emerging Market Developing Economies
EAP	East Asia and Pacific
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoM	Government of Morocco
GVC	Global Value chains
HCP	High Comission of Planning
HDI	Human Development Index
ICT	Information and Communications Technology
IMF	International Monetary Fund
IOM	International Organization for Migration
LAC	Latin America and Caribbean
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
SA	South Asia
SME	Small Medium Enterprises
SOEs	State-Owned Enterprises
VAT	Value-Added Tax
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 led by Javier Díaz-Cassou (Senior Economist, MTI) and Amina Iraqi (Economist, MTI).

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 very grateful for the helpful inputs received from Matina Deen on the impact of the crisis on the corporate sector, from Vasco Molini on Morocco's statistical capacity, and from 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 Díaz-Cassou (*jdiazcassou@worldbank.org*).

EXECUTIVE SUMMARY

The COVID-19 pandemic has abruptly interrupted more than two decades of sustained socio-economic progress in Morocco. In 2020 the country will suffer its first recession since mid-1990s, and the economic contraction registered in the second quarter (broadly coinciding with the confinement) is the largest on record. This is the result of the combined supply, demand and external shocks triggered by the pandemic, but also of the effects of adverse weather conditions on agricultural output. The crisis is having a severe impact on jobs and household incomes, generating a spike in unemployment and a deterioration of poverty and vulnerability indicators.

Although the Moroccan economy exhibits some signs of recovery, the situation remains fragile given that epidemiological trends are worse now than they were during the first wave of contagions. Although the economy is still contracting, the last few months have witnessed a partial recovery of mobility indicators, and certain exports have resumed their pre-pandemic expansion. However, after a relatively mild first wave, the number of contagions began to pick up in the aftermath of the confinement, and Morocco is now struggling to flatten the curve and reduce the pressure of COVID-19 on its health system. In this uncertain context, we expect real GDP to contract by 6.3 percent in 2020, and to return to its pre-pandemic level only in 2022.

As in much of the world, the current crisis will lead to a considerable increase in indebtedness. Tax revenues have collapsed, and public spending has been crucial to confront the health emergency and to sustain households' income. This has understandably put an end to the fiscal consolidation efforts of the past few years, and we now project the public deficit to increase to 7.8 percent GDP in 2020 and public debt to reach 76 percent of GDP. The current account deficit is also expected to increase to 6 percent of GDP this year. Despite the severity of the crisis, Morocco is better placed than other emerging economies to weather this storm thanks to the credibility of its macro-fiscal framework, to its relatively large external buffers and to its good access to international financial markets.

The Moroccan authorities have put forward an ambitious recovery strategy. The government intends to mobilize close to 11 percent of GDP in the form of loan guarantees, direct equity injections in Moroccan corporates, and to give a new impulse to infrastructure-related Public-Private-Partnerships. To this end, a new strategic investment fund is being created, and the Central Guarantee Agency is being transformed into a limited company. In addition, various important structural reforms have been announced, including the generalization of health insurance, a revamping of the social protection system around a universalization of family allowances, the streamlining of Morocco's large network of State-Owned Enterprises

(SOEs) and a number of measures to especially support the SME sector in the recovery.

The follow-up Enterprise Survey conducted by the World Bank in Morocco after the outbreak, provides new evidence on the large and persistent impact that the COVID-19 pandemic is having on the formal private sector. Among its most relevant results, 6.1 percent of surveyed formal sector firms are reported to have ceased their operations, and as many as 86.9 percent report a fall in sales of, on average, 50.4 percent of their pre-pandemic level. The survey also provides information about the coping strategies of Moroccan enterprises, which includes a growing use of the government's lines of support, a reduction in the number of worked hours (but, comparatively, less lay-offs than in other countries), the use of internal funds to meet cash flow shortages, and increasing business activity online.

Going forward, the current crisis provides a window of opportunity to remove the constraints that in the past have limited the development of a more dynamic private sector. In the short run, using all available policy space to inject liquidity and equity into the private sector is still essential to prevent liquidity problems from turning into a wave of corporate insolvency. With a longer-term perspective, Morocco could stimulate competition and level the playing field for new entrants in goods and services markets, while upgrading its human capital and institutional frameworks. In addition, appropriate industrial policies would help to consolidate Morocco's position as a nearshoring destination for multinational companies and thus to take advantage of the strategic opportunities that could emerge globally in the post-pandemic world.

RESUME SYNTHÉTIQUE

La pandémie du COVID-19 a brusquement interrompu plus de deux décennies de progrès socio-économique soutenus au Maroc. En 2020, le pays devrait subir sa première récession depuis les années 1990, et la contraction économique qui a eu lieu au deuxième trimestre (coïncidant largement avec le confinement) est la plus importante jamais enregistrée. C'est le résultat de la combinaison des chocs de l'offre et de la demande et des chocs externes provoqués par la pandémie, mais aussi des effets que des conditions climatiques défavorables ont eu sur la production agricole. La crise a eu un impact sévère sur les emplois et les revenus des ménages, générant le pic du chômage et une détérioration des indicateurs de pauvreté et de vulnérabilité.

Bien que l'économie marocaine montre quelques signes de reprise, la situation reste fragile étant donné la dégradation récente de la situation épidémiologique. Bien que l'économie continue de se contracter, les derniers mois ont connu une reprise partielle des indicateurs de mobilité, et certaines exportations ont repris leur expansion pré-pandémique. Cependant, après une première vague relativement modérée, le nombre de contagions a commencé à augmenter à la suite du déconfinement, et le Maroc a maintenant du mal à aplanir la courbe et réduire la pression du COVID-19 sur son système de santé. Dans ce contexte incertain, une contraction du PIB réel de 6,3 pour cent est prévue en 2020 tandis qu'un retour au niveau préalable à la pandémie ne devrait pas intervenir avant 2022.

Comme dans une grande partie du monde, la crise actuelle entraînera une augmentation considérable de l'endettement. Les recettes fiscales ont chuté et les dépenses publiques ont été cruciales pour faire face à l'urgence sanitaire et soutenir les revenus des ménages. Cela a naturellement mis fin aux efforts d'assainissement budgétaire des dernières années, et nous prévoyons une augmentation du déficit budgétaire à 7,8 pour cent du PIB en 2020 et la dette publique devrait dépasser 76 pour cent du PIB. Le déficit du compte courant devrait également augmenter pour atteindre 6 pour cent du PIB cette année. Malgré la gravité de la crise, le Maroc est mieux placé que d'autres économies émergentes pour résister à cette tempête grâce à la crédibilité de son cadre macro-budgétaire, à ses tampons extérieurs relativement importants et à son accès aisé aux marchés financiers internationaux.

Les autorités marocaines ont une stratégie de relance ambitieuse. Le gouvernement mobiliser près de 11 pour cent du PIB sous forme de prêts garantis, capitaux entreprises marocaines et une nouvelle impulsion aux partenariats publics-privés liés aux infrastructures. A cet effet, un nouveau fonds d'investissement stratégique est en cours de création et la Caisse Centrale de Garantie se transformera en société anonyme. En outre, diverses réformes structurelles importantes ont été annoncées, notamment la généralisation de l'assurance maladie, une refonte du système de protection sociale autour d'une universalisation des allocations familiales, la rationalisation du vaste réseau des entreprises publiques et un certain nombre de mesures pour soutenir le secteur des PME dans la reprise.

L'enquête auprès des entreprises menée par la Banque mondiale au Maroc fournit de nouveaux éléments sur l'impact important et persistant de la pandémie du COVID-19 sur le secteur privé formel. Parmi ses résultats les plus pertinents, 6,1 pour cent des entreprises du secteur formel auraient cessé leurs activités et 86,9 pour cent signalent une baisse des ventes de 50,4 pour cent en moyenne par rapport à leur niveau pré-pandémique. L'enquête fournit également des informations sur les stratégies d'adaptation des entreprises marocaines, qui incluent une utilisation croissante des lignes de soutien du gouvernement, une réduction du nombre d'heures travaillées (mais moins de licenciements en comparaison avec d'autres pays), l'utilisation de fonds internes pour faire face aux pénuries de trésorerie et un accroissement de l'activité du commerce en ligne.

À l›avenir, la crise actuelle ouvre une fenêtre d'opportunité pour éliminer les contraintes qui, dans le passé, ont limité le développement d'un secteur privé plus dynamique. Dans le court terme, l'utilisation de tout espace politique disponible pour injecter des fonds et des capitaux propres dans le secteur privé est toujours indispensable afin d'éviter que les problèmes de liquidité ne se transforment en une vague d'insolvabilité des entreprises. Dans une perspective à plus long terme, le Maroc pourrait stimuler la concurrence et instaurer des conditions équitables pour les nouveaux entrants sur les marchés des biens et services, tout en améliorant son capital humain et ses cadres institutionnels. En outre, les politiques industrielles appropriées contribueraient à consolider la position du Maroc en tant que destination nearshoring pour les entreprises multinationales et ainsi tirer parti des opportunités stratégiques qui pourraient émerger globalement dans le monde post-pandémie.

الملخص التنفيذي

قد أدى وباء كوفيد 19- إلى توقف بشكل مفاجئ لأكثر من عقدين من التقدم الاجتماعي والاقتصادي المستمر في المغرب. في عام ٢٠٢٠، من المتوقع أن تشهد البلاد أول ركود لها منذ منتصف التسعينات، والانكماش الاقتصادي المسجل في الربع الثاني (الذي يتزامن إلى حد كبير مع الحجر صحي) هو الأكبر على الإطلاق. إن هذا ناتج عن مزيج بين صدمات العرض والطلب والصدمات الخارجية التي سببها الوباء ، ولكن أيضًا نتيجة تأثير الظروف المناخية غير المواتية على الإنتاج الزراعي. كان للأزمة تأثير كبيرعلى الوظائف ودخل الأسرة، مما أدى إلى ارتفاع معدل البطالة إلى الذروة وتفاقم مؤشرات الفقر والضعف.

على الرغم من أن الاقتصاد المغربي أظهر بعض بوادر الانتعاش، إلا أن الوضع لا يزال هشًا حيث أن الاتجاهات الوبائية الأخيرة أسوأ مقارنة بالموجة الأولى من العدوى. على الرغم من استمرار الاقتصاد في الانكماش ، شهدت الأشهر القليلة الماضية انتعاشًا جزئيًا في مؤشرات التنقل، واستأنفت بعض الصادرات توسعها قبل انتشار الوباء. ومع ذلك، بعد الموجة الأولى المعتدلة نسبيًا، بدأ عدد الإصابات في الازدياد مباشرة بعد رفع تدابير تدابير الحجر الصحي، ويكافح المغرب الآن لتسوية المنحنى وتقليل ضغط كوفيد 19- على نظامه الصحي. في ظل هذه الخلفية غير المؤكدة ، نتوقع أن ينكمش إجمالي الناتج المحلي الحقيقي بنسبة ٦ ،٣ في المائة في عام ٢٠٢٠ وأن يعود إلى مستويات ما قبل الجائحة حتى عام ٢٠٢٢.

كما هو الحال في كثير من أنحاء العالم ، ستؤدي الأزمة الحالية إلى زيادة كبيرة في الديون. انخفضت الإيرادات الضريبية وكان الإنفاق العام حاسماً في معالجة الطوارئ الصحية ودعم دخول الأسر. و قد أنهى هذا جهود ضبط أوضاع المالية العامة في السنوات القليلة الماضية، ونتوقع أن يرتفع عجز الموازنة إلى ٧ ،٨ في المائة من إجمالي الناتج المحلي في عام ٢٠٢٠ ، ومن المتوقع أن يتجاوز الدين العام ٧ ٦ في المائة من إجمالي الناتج المحلي. ومن المتوقع أيضًا أن يرتفع عجز الحساب الجاري إلى ٦ في المائة من إجمالي الناتج المحلي. على الرغم من شدة الأزمة ، فإن المغرب في وضع أفضل من الاقتصادات الناشئة الأخرى لمواجهة هذه العاصفة بفضل مصداقية إطاره المالي وآلياته العازلة الخارجية الكبيرة نسبيًا و إمكانية الوصول إلى الأسواق المالية الدولية.

اقترحت السلطات المغربية استراتيجية إنعاش طموحة. تعتزم الحكومة تخصيص ما يقرب من ١١ في المائة من الناتج المحلي الإجمالي في شكل قروض مضمونة، وضخ رأس المال المباشر في الشركات المغربية، وتعزيز الشراكة بين القطاعين العام والخاص المرتبطة بالبنية التحتية. ولهذه الغاية، يتم إنشاء صندوق استثمار استراتيجي جديد وتحويل صندوق الضمان المركزي إلى شركة عامة محدودة. بالإضافة إلى ذلك، تم الإعلان عن العديد من الإصلاحات الهيكلية الهامة، بما في ذلك بذل تعميم التأمين الصحي، إصلاح نظام الحماية الاجتماعية حول تعميم التعويضات العائلية، وترشيد الشبكة الواسعة من الشركات العامة المغربية.

تقدم الدراسة الاستقصائية لدى الشركات التي أجراها البنك الدولي في المغرب رؤى جديدة حول التأثير الكبير والمستمر لوباء كوفيد 19- على القطاع الخاص. من بين أكثر النتائج الأكثر أهمية، ٦، ١ في المائة من الشركات التي شملها الاستطلاع قد توقفت عن العمل و ٨٦ ،٩ في المائة أبلغت عن انخفاض بنسبة ٥ ،٠ ٤ في المائة في المتوسط في المبيعات مقارنة مع مستوى ما قبل الوباء. يوفر الاستطلاع أيضًا معلومات عن استراتيجيات التكيف للشركات المغربية ، والتي تشمل زيادة استخدام خطوط الدعم الحكومية ، تقليل عدد ساعات العمل (ولكن عدد تسريح العمال أقل مقارنة بالدول الأخرى) ، استخدام الموارد الداخلية للتعامل مع النقص النقدي وزيادة نشاط التجارة الإلكترونية.

في المستقبل، تفتح الأزمة الحالية فرصة لإزالة القيود التي تحد من تنمية قطاع خاص أكثر حيوية. وعلى المدى القصير، لا يزال من الضروري استخدام كل المساحة السياسية المتاحة لضخ السيولة والأسهم في القطاع الخاص لمنع مشاكل السيولة من التحول إلى موجة من إفلاس

الصناعية المناسبة تساعد ترسيخ مكانة المغرب كوجهة قريبة للشركات متعددة الجنسيات، وبالتالي الاستفادة من الفرص الاستراتيجية التي يمكن أن تنشأ عالميا في ما بعد الجائحة.

الشركات. على المدى الطويل ، يمكن للمغرب أن يحفز المنافسة ويخلق مجالًا متكافئًا للوافدين الجدد في أسواق السلع والخدمات ، مع تحسين رأس المال البشري والأطر المؤسسية. وبالإضافة إلى ذلك، فإن السياسات

1

RECENT ECONOMIC DEVELOPMENTS

As in much of the world, the COVID-19 pandemic has simultaneously triggered a supply and a demand shock on the Moroccan economy. This is causing a severe recession, and Q2-2020 (which broadly coincides with the lockdown) witnessed the largest economic contraction on record. After the most stringent social distancing restrictions were lifted in June, economic activity began exhibiting some encouraging signs. However, the epidemiological situation is worse now than it was during the first wave of contagions, which cast doubts on the pace of the recovery. The COVID-19 shocks are resulting in an expansion of Morocco's budget deficit and the debt to GDP ratio is on the rise.

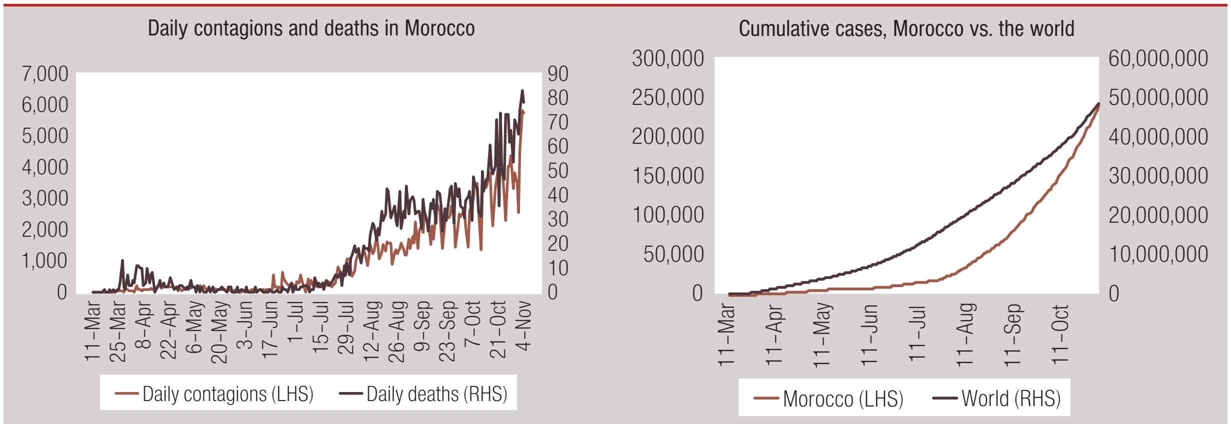
Epidemiological Developments: A Tale of Two Waves

The first wave of contagions from the COVID-19 pandemic was relatively mild in Morocco. The first case of COVID-19 was confirmed on March 02, 2020, after which the number of contagions began to increase steadily: by the end of March 617 cases had been confirmed, against 3,806 new cases in April, 3,384 in May and 4,726 in June (Figure 1). However, Morocco did not experience the exponential growth in infections and fatalities that affected much of the world. After a peak of 137 in April, the number of daily fatalities from COVID-19 fell to 35 in May and to only 20 in June.

This successful containment of the first wave of contagions was made possible by the stringent measures adopted early on by the Moroccan authorities. By March 15, all international flights and ferry crossings had been suspended, schools had been shut down, and a strict confinement took effect on March 20. The stringency of the social distancing response adopted by the authorities is illustrated in Figure 2, which shows how quickly Morocco became one of the countries of the world with the stricter measures in place. In fact, between March 25 and June 10, Morocco was on average the eighth country of the world with the highest stringency index (compiled by Oxford University, measured from 0 to 100): 94, against 73 in the MENA region, 84 in Tunisia, 82 in France, 81 in Algeria, 79 in Spain and 76 in Italy.

However, following the relaxation of the lockdown in July, COVID-19 cases began to pick up, and the second wave of contagions is taking a heavier toll than the first one, as is the case in many countries. On June 11, the authorities eased

FIGURE 1 • Epidemiological Situation



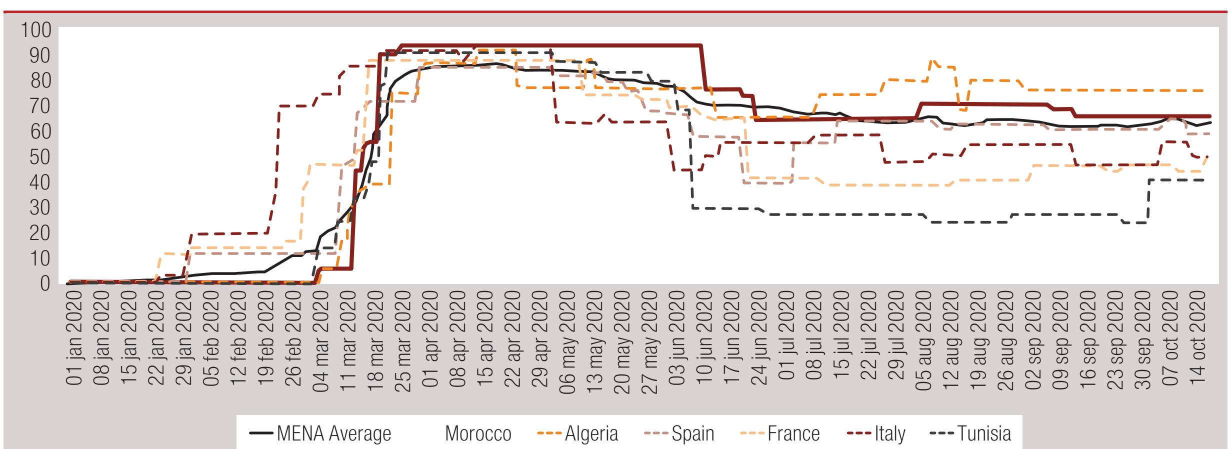
Source: Ministry of health Morocco-Our world in Data .

the lockdown in the regions and cities that had been less severely hit by the pandemic, and by June 24, the confinement came to an end in the entire country. During the first four weeks of the post-confinement period, the pandemic remained under control, with an average of 252 daily new cases between June 24 and July 22. However, in late July contagions began to pick up, and have remained on an upward trend until recently: on average 570 new daily cases between July 22 and July 31; 1,230 in August; 1,993 in September; 3,029 in October. The number of deaths followed suit, with an average of 25 COVID-19 related fatalities in August, 35 in September and 47 in October. If compared internationally, at the time of writing Morocco finds itself in an intermediate situation, with on average 130 reported new cases per million inhabitants in the first 20 days of November, against a world average of 73, but well below most advanced economies and in a 60th position globally.[1]

The authorities have so far responded with more targeted social distancing measures to the second wave of contagions. In late July, the government re-imposed restrictions to internal mobility

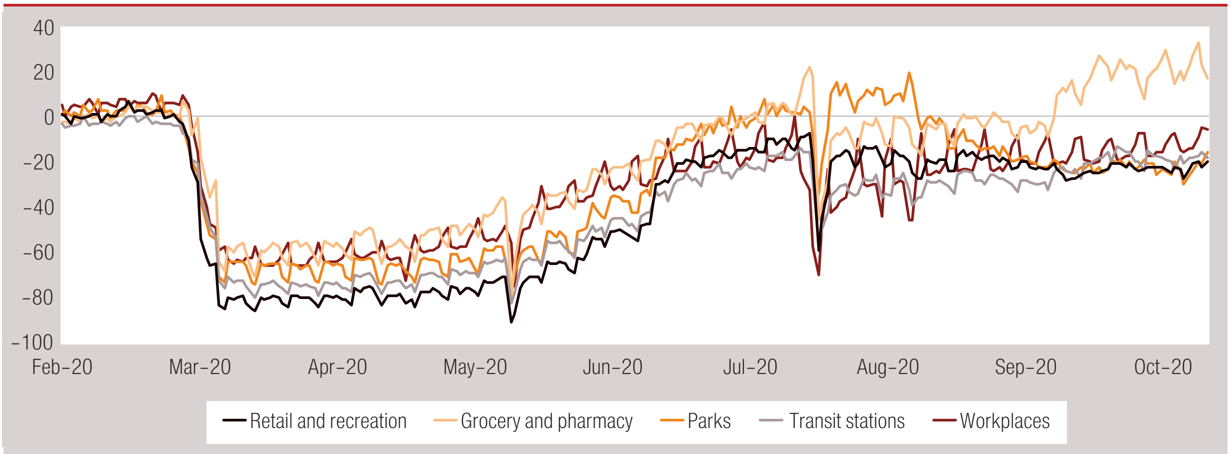
[1] However, it is important to note that such international comparisons have serious limitations because of sharp differences in countries' testing capacities.

FIGURE 2 • Government Response Stringency Index



Source: own calculations based on the Coronavirus Government Response Tracker Database (Oxford University).

FIGURE 3 • Morocco Mobility Data (% change from pre-COVID-19 baseline)



Source: Google mobility data.

in response to the spike in contagions. In addition, the most affected cities, including Casablanca, Marrakesh, and some areas of Rabat and Tangier, have been placed under partial lockdown and imposed nighttime curfews, among other restrictions. However, as suggested by the evolution of the stringency index displayed in Figure 2, these measures are nowhere near the strict response to the first wave of contagions, reflecting the fact that the government is now much more aware about their potential economic, social and psychological impacts. Instead, the authorities intend to move forward with the vaccinations program as fast as possible, although H.M. the King himself has warned about the possibility of a new confinement should the pressure on the Moroccan health system continue to mount.

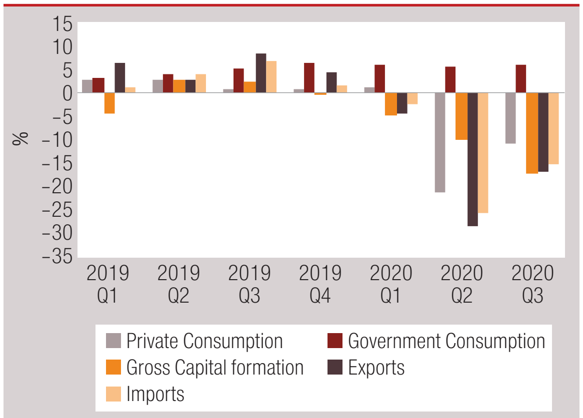
A Recession of Historical Proportions Puts an End to more than Two Decades of Sustained Economic Expansion

The Moroccan economy has entered its first recession since 1995. The lockdown imposed by the authorities to confront the pandemic brought economic activity to a sudden stop. A commonly used proxy to illustrate that trend is Google's mobility data, which exhibited an 80 percent decline in retail and recreation visits or a 60 percent fall in visits to workplaces during the confinement (Figure 3). As the lockdown was gradually eased in June, these mobility indicators began to pick up, but have only reached the pre- COVID baseline in the case of the visits to grocery and pharmacy. In this context, it is not surprising that after a lackluster first quarter, GDP growth collapsed during the second quarter, registering a 14.9 percent y-o-y contraction, the worst data point ever to be found in that series.

An unusually dry weather has contributed to aggravate the crisis. An estimated 16 percent decline in rainfall in the 2019–20 season has resulted in a sharp drop in certain crop yields, and especially of rainfed wheat, the production of which has halved. As a result of persistently adverse climatic conditions, agricultural value added has registered six consecutive quarters of negative y-o-y growth, which reached –6.8 percent between April and June 2020. With even more intensity than the pandemic itself, the draught is having a severe social impact in rural areas given that, although the agricultural sector only represents 12 percent of GDP, it still employs 38 percent of Morocco's labor force.

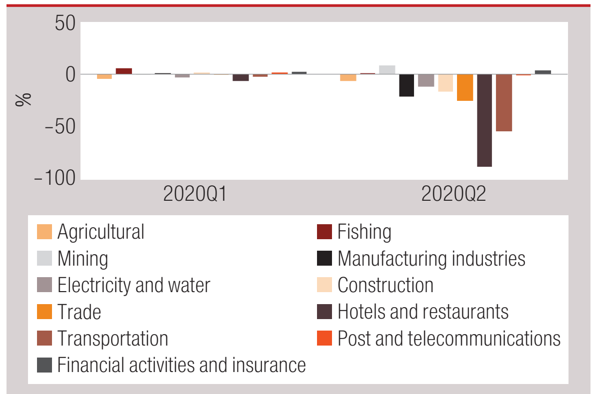
Although few sectors have been spared, the impact of the shock on the various components of supply and demand has been uneven. On the production side, manufacturing industries underwent a 22 percent y-o-y decline during the second quarter, and the automobile, aeronautics and electronics sectors suffered the most as a result of the disruptions in Global Value Chains (GVCs)

FIGURE 4 • GDP: Decreasing Demand (y-o-y %)



Source: HCP.

FIGURE 5 • GDP: Uneven Impact of the Crisis on the Supply Side (y-o-y %)

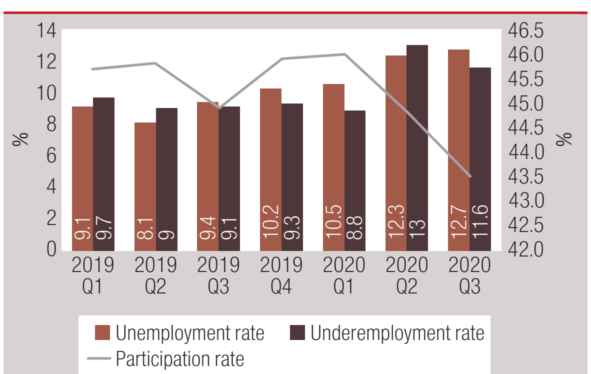


Source: HCP.

caused by the pandemic. The services sector, which has been the main engine of economic growth over the past 20 years, dropped by 14.9 percent in Q2-2020.Therefore non-agricultural growth declined by −15.5 percent. During this economic crisis, just a few sectors have continued to grow in Q2-2020: fisheries, extractive industries, and the chemical, health and financial sectors. By contrast, the hardest hit sectors have been hotels and restaurants (−90 percent) and transportation (−55.7 percent). On the demand side, private consumption dropped by 21.2 percent and investment by 17.4 percent, a decline that was only partially compensated by an increase in government consumption. Net exports also weighed negatively on growth, with the drop in exports (−28.7 percent) exceeding that of imports (−25.7 percent).

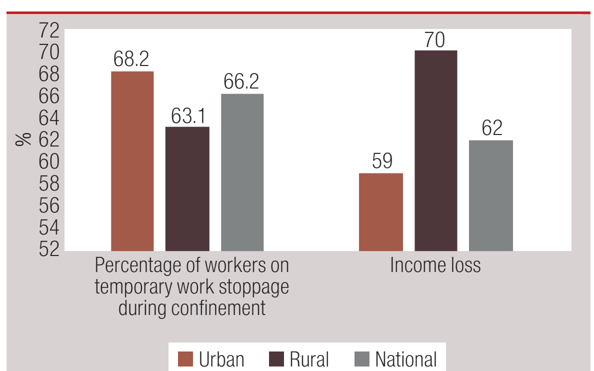
The sudden stop in economic activity is having a severe impact on jobs and household incomes. It is estimated that close to 581,000 jobs have been lost between September 2019 and September 2020, 258,000 in the primary sector, 61,000 in the secondary sector and 260,000 in the tertiary sector (Source: HCP). During the second quarter, which broadly coincides with the lockdown, the average number of worked hours more than halved (from 45 to 22 per person per week). Furthermore, the surveys conducted by HCP indicate that about two thirds of workers had to stop their activity during confinement while 62 percent have experienced an income loss during that period. In this context, poverty and vulnerability rates are expected to spike this year, putting an abrupt end to the uninterrupted

FIGURE 6 • Increasing Unemployment



Source: HCP.

FIGURE 7 • Loss of Income



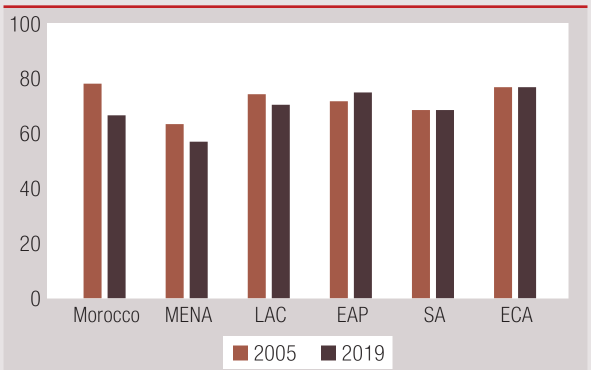
Source: HCP.

BOX 1. MOROCCO'S STATISTICAL CAPACITY

Among its other unexpected consequences, the global spread of the COVID-19 has generated increased public attention to the relevance, timeliness and accuracy of statistics. Indeed, data analyses quantifying the socio-economic impact of COVID are of high demand all over the world, including information on the proportion and characteristics of laid-off workers and firms which exited the market.

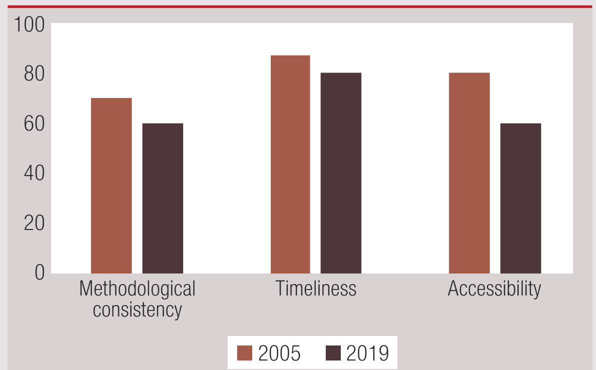
Morocco's Statistical Capacity Indicator (a composite score ranging from 0 to 100) is above the average of the MENA region, and slightly below that registered on average in Latin America and the Caribbean (LAC) (Figure 8). However, and in line with the MENA as well as the LAC regions, Morocco's SCI has tended to decline between 2005 and 2019. Moreover, the index has declined in each of the three statistical sub indicators that are used to compute the SCI: methodological consistency with international standards, timeliness and accessibility (Figure 9). Stepping up the country's efforts to cover existing gaps in the capacity of Morocco's National Statistical System is particularly critical in the context of Covid-19, given the importance of good quality, up to date, and accessible data to mount an effective response to the pandemic.

FIGURE 8 • The Statistical Capacity Indicator (SCI)



Source: World Development Indicators.

FIGURE 9 • SCI Sub-Components, Morocco



Source: World Development Indicators.

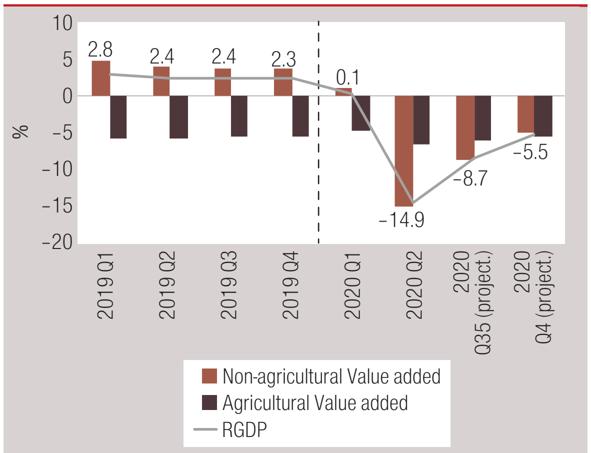
improvement in social indicators achieved by Morocco since the turn of the century (HCP, UN and WB, 2020).[2] Nonetheless, assessing the socio-economic impact of the COVID crisis in Morocco is a complex task given the country's still relatively weak statistical capacity (Box 1).

Although economic activity picked up in the aftermath of the Spring-Summer confinement, the recovery is still fragile, despite sustained efforts to mitigate economic disruptions. The data displayed in Figure 3 evidences that, although still below its pre- COVID baseline, mobility has increased substantially after the most stringent social distancing restrictions were lifted. Among the green shoots that can already be discerned are the evolution of certain exports, such as automobiles and agro-industrial products, which have already posted positive y-o-y growth rates on Q3-2020. However, according to HCP's most recent nowcasts, the y-o-y decline in GDP did continue during the third quarter mainly driven by the drop in non-agricultural value added (–9 percent). Kickstarting investment is proving especially challenging, as gross capital formation still contracted by 17.4 percent y-o-y during the third quarter. Also contributing to explain the weak recovery, HCP still expects a 10.8 percent contraction in households' consumption in the third quarter.

In this context of depressed economic activity, price pressures remain subdued. Headline inflation on year-on-year basis averaged 0.7 percent

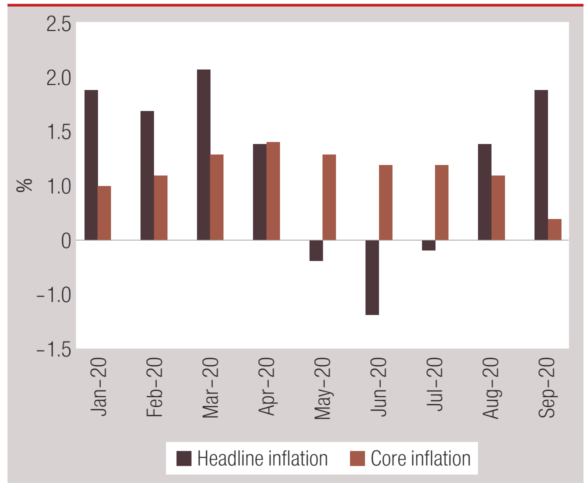
[2] Note stratégique: Impact social et économique de la crise du COVID-19 au Maroc (2020) https://www.hcp.ma/Note-strategique-Impact-social-et-economique-de-la-crise-du- COVID-19-au-Maroc_a2582.html.

FIGURE 10 • Slow Recovery for Q3 and Q4 2020 (y-o-y %)



Source: HCP.

FIGURE 11 • Absence of Price Pressures



Source: HCP.

during the first nine months of 2020, although it increased to 1.4 percent in September-20, probably reflecting the partial recovery of economic activity in the aftermath of the confinement. Food prices have been the major driver of headline inflation, as core inflation remains close to 0 (0.2 percent y-o-y). At its most recent meeting, in September, the central bank left its policy rate unchanged at 1.5 percent, after two consecutive rate cuts in March and June, when the policy rate was cut by a cumulative 75 basis points (see section 2 for more details on the monetary response to the crisis).

The COVID-19 Shock is Adding Pressure on Morocco's Budget Deficit, but the Current Account is Behaving Better than Anticipated

The COVID-19 pandemic has put an end to Morocco's fiscal consolidation efforts. The countercyclical fiscal policies deployed in 2008 by the authorities to mitigate the impact of the global financial crisis and subsequently the EU debt crisis led to a sharp deterioration in Morocco's fiscal balance. In 2013, as the impact of the above crisis waned, Morocco initiated a process of fiscal consolidation that allowed it to reduce its fiscal deficit from 7.2 percent of GDP in 2012 to 3.7 percent in 2018. This process included the liberalization of gasoline and diesel prices, the containment of the wage bill, a pension reform, as well as measures to improve tax collection through broadening the tax base, harmonizing tax rates, and fighting tax evasion. With the onset of the pandemic, the fiscal consolidation efforts have, understandably, been discontinued to allow for additional expenditures, mainly driven by the budgetary support of the COVID-19 fund (Government contributed 1 percent of GDP), and to accommodate the impact of the collapse in economic activity on tax revenues collection (which contracted by 8.4 percent during Jan–Aug 2020 compared with Jan–Aug 2019)—Figure 12. As a result, during the first eight months of 2020, the overall budget deficit increased by 32 percent to 46.5 billion MAD (4.3 percent of GDP) and the Treasury's debt has increased by 53.7 billion MAD between December 2019 and July 2020, from to 65.4 percent to 73.7 percent of GDP, respectively (Figure 13).[3] The total debt of SOEs stood at 25.4 percent of GDP at the end of 2019. Almost 60 percent of that amount is external debt (16.6 percent of GDP in mid-2020) guaranteed by the state, most of which is denominated in foreign

[3] Note that these debt statistics include only the Treasury's obligations, and not the public sector's overall debt (e.g, they exclude state owned enterprises, public financial institutions and subnational governments' debt).

FIGURE 12 • Decreasing Revenues (y-o-y %)

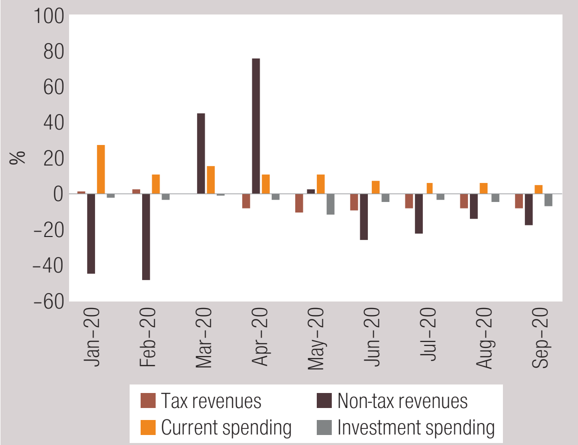
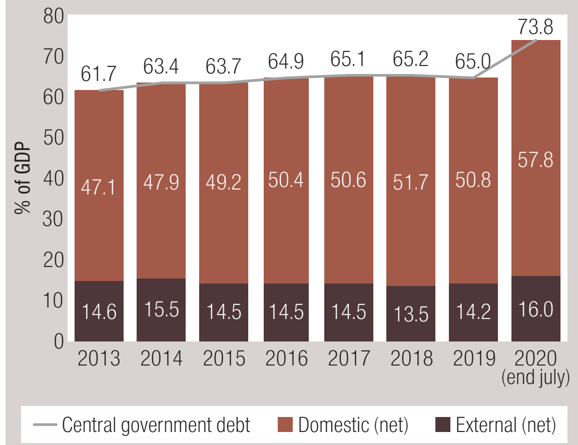


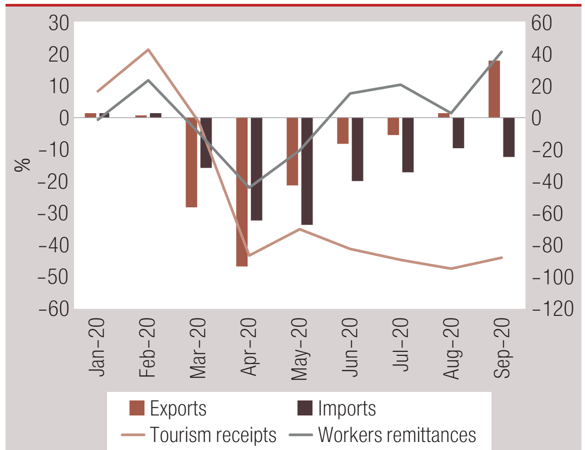
FIGURE 13 • Rising Central Government Debt



currency, exposing borrowers that lack a natural hedge to currency risk. Morocco's consolidated 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.[4]

The crisis is having a stronger effect on imports than on exports, and the current account deficit fell during the first semester. Plummeting external demand adversely impacted export performance, which declined by 11.8 percent between January and September 2020 and the same period in 2019. The contraction of exports was particularly severe in the automotive (−16.1 percent), aeronautics (−24.7 percent) and textile (−22.13 percent) sectors. However, the fall in imports was even larger (−16.2 percent), implying that Morocco's merchandise trade balance has improved (Figure 14). Another component of the current account that has deteriorated is tourism receipts (−55.3 percent), while workers' remittances have been resilient, especially in recent months. The current account deficit reached 3.5 percent of GDP during the first semester of 2020, against 5.1 percent of GDP during the same period of 2019. After an initial decline in the weeks that followed the onset of the pandemic, international reserves have edged upwards, primarily as a result of the decision to draw the entire amount of Morocco's Precautionary Liquidity Line with the IMF (close to US$3 bn) in March and a successful €1bn sovereign

FIGURE 14 • Current Transactions (y-o-y % changes)



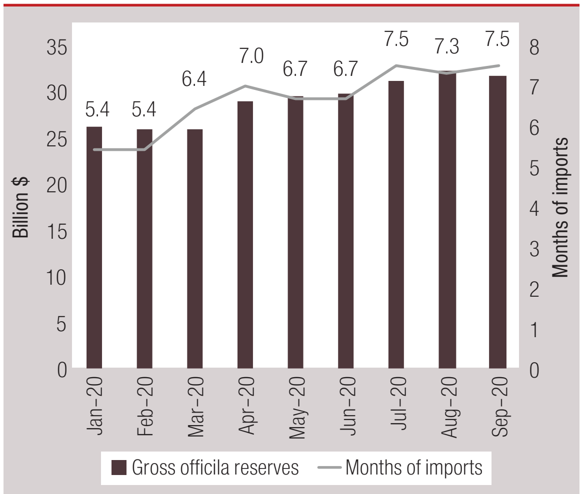
Source: Morocco office des changes.

bond issuance in September (Figure 15). On the other hand, net FDI flows have contracted by close to 28 percent between January and August 2020 and the same period a year before.

The Dirham has appreciated vis-à-vis the US dollar. Morocco's exchange rate peg to the Euro

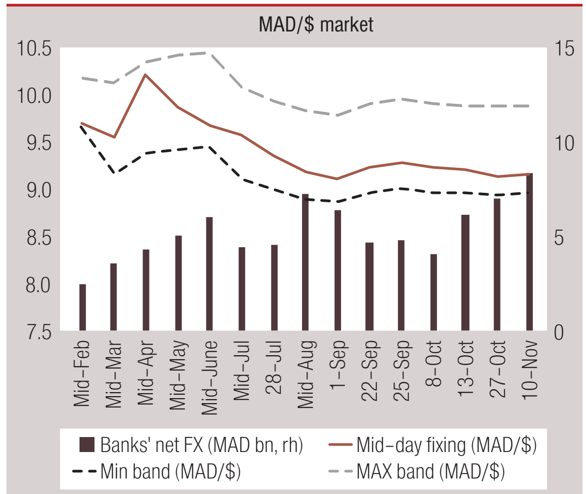
[4] The consolidation of public debt involves the netting out of inter-governmental obligations. The government has began only recently to publish that information, as part of a broader effort to increase the transparency of debt statistics.

FIGURE 15 • Stable Gross Official Reserves



Source: Morocco office des changes.

FIGURE 16 • No Pressure on the Exchange Market



Source: Bank-Al-Maghrib.

and the US dollar has been partially relaxed with the widening of the band. This move has been aimed at increasing the external shock absorbing capacity of the Moroccan economy and was put to the test during the COVID-19 crisis. In fact, as expected, during the weeks that followed the onset of the pandemic, the dirham depreciated against both the Euro and the US dollar. From April onwards, however, this trend was reversed, and the Moroccan dirham stabilized vis-à-vis the Euro while appreciating against the dollar (7.1 percent between April and October). The appreciation of the real effective exchange rate has been primarily the result of a basket effect that reflects the weakening of the US dollar, itself the product of broader forces in the world economy (Figure 16). However, this trend can also be interpreted as a sign of confidence on the resilience of the Moroccan economy.

2

OUTLOOK AND CHALLENGES

The government of Morocco has taken a pro-active approach to mitigate the effects of the pandemic on the economy through a combination of tax and other payments deferrals, wage subsidies, credit guarantees, public investment and structural reform. However, activity will probably remain subdued until health risks abate. We project real GDP to contract by 6.3 percent in 2020 and to return to its pre-pandemic level only in 2022. In the meanwhile, Morocco's twin deficits will expand in the short-term, generating additional external financing needs in a global context that remains highly uncertain. Unchaining the growth potential of the Moroccan economy, which disappointed even before the onset of the pandemic, continues to be a central challenge.

Morocco's Economic Policy Response to the Pandemic: From Relief to Recovery

Morocco's response can be broadly categorized into two stages: emergency management and recovery support. As was the case in most countries, the authorities focused initially on the mitigation of the immediate effects of the lockdown, which was done primarily through direct subsidies and the deferment of certain payments, together with a series of monetary and financial measures aimed at preventing the emerging liquidity pressures from turning into a wave of corporate insolvencies. Subsequently, as most businesses were allowed to resume their activities in June, the authorities transitioned towards a longer-term more strategic approach aimed at supporting the recovery and at adapting Morocco's development model to the new normal that is expected to emerge in the post-pandemic world.

The government's response was initially focused on partially compensating households and firms for the loss of income associated with the lockdown, for which a special fund was created. The extrabudgetary special COVID-19 fund was endowed with contributions from the central government and other public entities (primarily SOEs), banks and private companies, wealthy individuals and foreign donations, for a total amount of 33.7 billion DH (US$3.6 billion, close to 3.1 percent of GDP). These resources were used to fund the public health response to the pandemic, but also to finance the distribution of approximately 22.4 billion MAD (2.1 percent of GDP) in direct transfers to formal and informal workers affected by the interruption of economic activities (Box 2). Another element of the

BOX 2. REVIEW OF THE MAIN MITIGATION MEASURES ADOPTED DURING MOROCCO'S LOCKDOWN

Crisis management governance. A Committee (the so-called *Comité de Veille Économique*) was created to monitor and mitigate the impact of the pandemic on the Moroccan economy. This committee brings together senior officials from the government and the central bank with representatives from the financial and the corporate sectors. It has met on 10 occasions between March and October.

Fiscal stimulus. On April 6, a decree was passed to authorize the government to surpass the external borrowing ceiling originally contemplated in the 2020 Budget Law. One day later, the authorities purchased all available resources under the IMF's Precautionary and Liquidity Line (about US$3 billion). Apart from the direct 10 billion MAD (0.9 percent of GDP) contribution of the central government to the COVID-19 fund, the public response to the pandemic has resulted in an increase in certain expenditures, which will contribute to a substantial expansion of the budget deficit. In July, the government passed a revised Budget Law for 2020 that incorporated the effects of the measures adopted to confront the pandemic and updated macroeconomic projections.

Payment deferrals. Formal companies with an annual turnover below 20 million MAD were allowed to defer the declaration and payment of corporate income tax corresponding to fiscal year 2019; companies with an annual turnover above 20 million MAD were allowed to request for a deferral of corporate income tax payments; firms with less than 500 employees were allowed to postpone social contributions until the end of June (or through September for hard-hit sectors, such as tourism). In addition, firms and individuals could postpone the amortization of certain types of loans.

Emergency cash transfer for formal and informal workers (March–July). A monthly 2,000 MAD transfer (net of family and health benefits) was approved for workers affiliated to the social security scheme (CNSS) affected by the lockdown (for firms that completely interrupted their activity, or whose turnover decreased by at least 25 percent). It is estimated that close to 900,000 workers have been eligible for this benefit in April and May, and almost 600,000 in June. For informal workers, an 800 MAD monthly transfer was put in place for households of two people or less; 1,000 MAD for households of three to four people; 1,200 MAD for households of more than four people. This component was targeted at the beneficiaries of the non-contributory health insurance scheme—the Medical Assistance Regime (RAMED)—and an online application process was set up for households not benefiting from RAMED. It is estimated that this component of the emergency cash transfer program benefited approximately 5.5 million households, at a cost of close to 15 billion MAD.

Monetary and liquidity measures. The central bank reduced its policy rate by 75 bp and the foreign exchange band was widened to +/-5 percent. To increase its ability to inject liquidity into the financial system, the BAM also expanded the types of collateral that it accepts in its Repos, it lengthened the maturity of its refinancing operations, and began providing foreign exchange swaps to Moroccan banks. To stimulate credit, the BAM allowed banks to reduce their liquidity cover ratios below 100 percent and to suspend their provisioning requirements, while reserve requirements were lowered from 2 percent to 0 percent and the capital conservation buffer was reduced by 0.5 percent.

Guarantees. The Damane Oxygene program was launched on March 26 to support firms' working capital. It provided a 95 percent guarantee for credits to firms with a yearly turnover of less than 200 million MAD but was also made available for larger companies (turnover between 200 and 500 million MAD). It covered credits for up to 3 months of beneficiary firms' operating expenditures, with a ceiling of 20 million MAD. A few weeks later, the government launched another guarantee program for self-entrepreneurs covering 85 percent of credits up to 15,000 MAD.

authorities' approach to mitigate the impact of the shock was to carry over social security contributions and defer taxes for both firms and individuals during the lockdown period, as well as a temporary postponement of debt servicing obligations.

In addition, various measures were taken to inject liquidity into the economy, support firms' cash position and keep credit flowing, thus preventing corporate bankruptcies. This mitigation strategy was built on four pillars: an expansionary monetary policy; liquidity injections into the banking system; relaxation of microprudential norms to stimulate credit; loan guarantees.

At a second stage, a longer-term approach was taken to support the economic recovery expected to take place in the aftermath of the lockdown. The key elements of this strategy were outlined in the National Pact for Economic Recovery and Employment (*Pacte National pour la Relance Économique et l'Emploi*)—henceforth the Pact—signed in early August between the government, the General Confederation of Moroccan Enterprises and the Banking Association. It set four major medium-term objectives to be jointly pursued by the public and the private sector: accelerating the recovery, safeguarding jobs, fostering the formalization of the economy and improving governance.[5] The Pact also announced that, to meet these objectives, 120 billion MAD (11 percent of GDP) would be mobilized through State guarantees to corporate credits, and through a strategic investment fund. In addition, it was established that more targeted plans would be developed to mitigate the impact of the pandemic on the most affected sectors of the economy. An important feature of the Pact is that it is based on the principle of co-responsibility, implying that, in exchange for the government's support, the private sector accepts a commitment to respect sanitary protocols, preserve jobs, combat informality and prioritize the acquisition of intermediate goods with a high local content (among others).

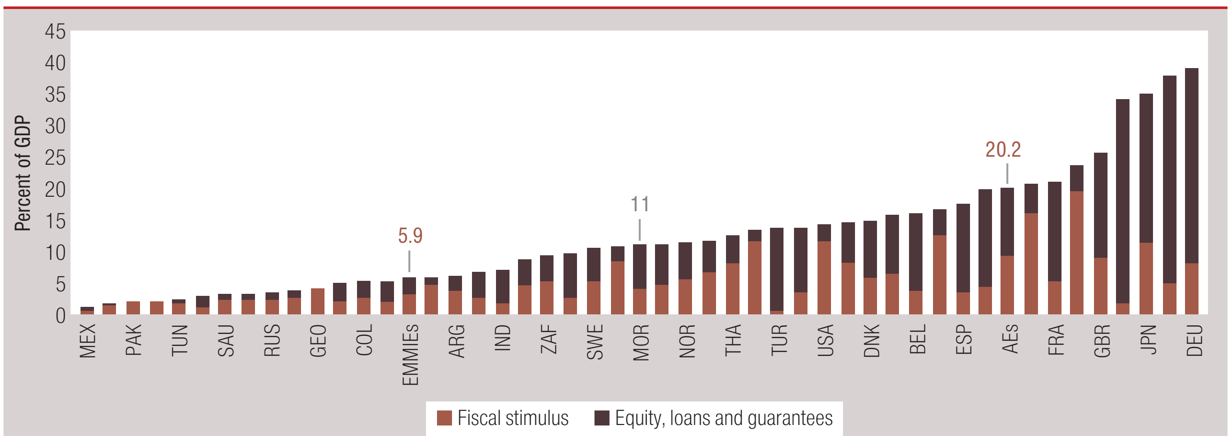
The scale of the resources that will be mobilized by Morocco's recovery plan compares favorably with other middle-income economies. The fiscal stimulus program that has been announced in Morocco amounts to 4.1 percent of GDP, against an average of 3.4 percent of GDP in emerging and developing economies (and 9.3 percent of GDP in advanced economies)—Figure 17. In turn, the guarantees programs amount to almost 6.9 percent of GDP, against 2.5 percent of GDP in Morocco's comparison group (11 percent of GDP in advanced economies).

Morocco's recovery plan envisages the mobilization of 75 billion MAD (6.5 percent of GDP) in guaranteed credit, part of which will be earmarked to mitigate payment delays. This includes the upgrading of the guarantee program that was used to support firms during the lockdown (Damane Oxygene), and two new programs with longer maturity structures and grace periods.[6] In addition, the plan includes a guarantee for public companies aimed at supporting the repayment of their obligations with other private companies. In fact, mitigating the late payments problem that structurally

5 Ensuring that the State would assign enough resources to implement the recovery plan, the budget law that was passed in November 2020 reaffirmed its main objectives. In addition, the Law identified the reform of the social protection system and of the administration (in particular, SOEs) as its main priorities for 2021–2023.

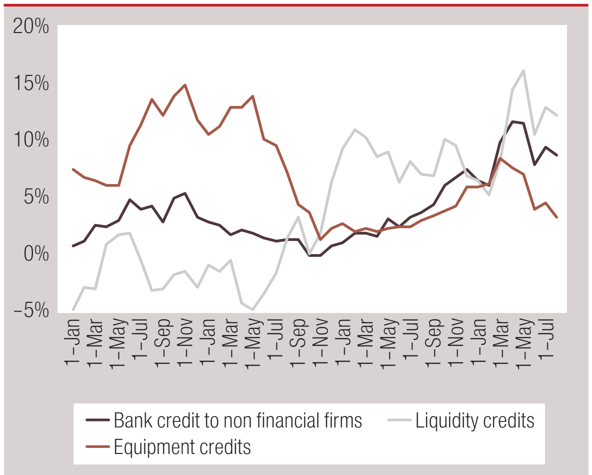
6 These are: (i) "Relance TPE", a 95% guarantee for small firms (yearly turnover under 1 million DH) covering credits for up to 10% of yearly turnover; (ii) "Damane Relance", an 80–90% guarantee for larger firms, covering credits for up to 1.5 months of yearly turnover in the case of industrial companies, and 1 month for firms operating in other sectors; (iii) "Intelak", to support micro-enterprises, self-employed workers and young entrepreneurs both through guarantees and direct public financing.

FIGURE 17 • Policy Response, Selected Countries



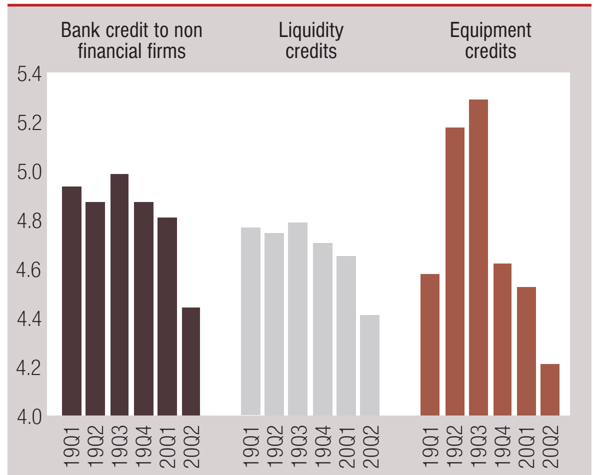
Source: WBG and IMF, Fiscal Monitor, 2020.
EMMIEs: Emerging Markets and Middle-Income Economies; AES: Advanced Economies.
Note 1: as in the 2021 Budget Law, the figure considers the entire resources that the government intends to mobilize through the Mohammed VI Fund as public investment, even though a yet unspecified portion of it will be used to inject equity.
Note 2: the timeframe of the measures that are captured in Figure 15 may not coincide, which limits the comparability of the policy responses.

FIGURE 18 • Bank Credit for Firms (% y-o-y change)



Source: World Bank staff calculations based on BAM data.

FIGURE 19 • Interest Rate on Corporate Credit (%)



Source: World Bank staff calculations based on BAM data.

pervades the Moroccan economy, and which has been aggravated as a result of COVID-19, is one of the objectives pursued by the guarantee programs, which is why the Pact included a commitment on the part of the private sector to use at least 50 percent of the resources mobilized through guaranteed credits to service inter corporate loans.

The authorities' strategy has helped increase corporate credits and reduce the cost of finance. The various guarantee programs put forward by the authorities have had a significant effect (Figures 18 and 19).[7] Indeed, banks' credit to non-financial firms increased by 9.6 percent between March and August 2020 and the same period in 2019. This is mostly due to the evolution of liquidity credits, which increased by 12.2 percent in that same period. Equipment loans also increased, although much more tepidly (+5.6 percent y-o-y) and with a decelerating trend, which suggests that Moroccan firms have mainly used the guarantee programs for cashflow management purposes, and not so much to engage in new investment endeavors, as one would expect during a crisis where sales dropped precipitously and for an uncertain duration. The cost of credit has also fallen by 42bp between the last quarter of 2020 and the second quarter of 2020 (29bp in the case of liquidity loans and 40bp for equipment loans).[8]

The second pillar of the recovery plan is the creation of a Strategic Investment Fund (SIF) (named the Mohamed VI Fund) endowed with 45 billion MAD (4.1 percent of GDP). The resources of the Fund will come from the central government (15 billion MAD) and domestic and foreign institutional investors (30 billion MAD). Although limited information has been released so far about how the Fund will function in practice, one of its priorities will be to support Public-Private Partnerships (PPPs) as an investment modality for large infrastructure projects. In addition, the Fund will be used to channel direct equity injections into public and private companies.

More targeted recovery plans are also being put forward to support some of the sectors that are being most affected by the pandemic. Following the model of the Pact, the authorities are signing sectoral agreements with various business associations. These mostly consist of maintaining

[7] According to the authorities: (i) "Damane Oxygene" has benefited almost 50,000 firms, mobilizing close to 17 billion MAD in credit; (ii) "Autoentrepreneurs COVID-19" benefited more than 3,000 self-employed entrepreneurs, mobilizing credit for 32 million MAD; (iii) "Relance TPE" has benefited 18,000 firms, mobilizing 3.6 billion MAD; (iv) "Damane Relance" has supported almost 6,000 firm, mobilizing 21 billion MAD.

[8] Although no public information has been disclosed yet, the reduction in the BAM's policy rate in June is likely to have reduced further the average interest rate of corporate loans during the third quarter.

some of the direct lines of support that were used during the lockdown for workers and companies, while emphasizing an element of co-responsibility on private firms to limit the social impact of the crisis. The first of these was signed with the tourism sector in August, which according to the government's estimates represented 7 percent of GDP (close to 12 percent if the activities indirectly linked to the tourism sector are accounted for) before the crisis, employed close to 550,000 workers and generated an inflow of about 80 billion MAD in hard currency.[9] Subsequently, other agreements have been reached for sectors such as real estate (with new guarantees designed for construction projects), caterers and events' managers, or amusement parks.

The authorities' recovery plan envisages further improvements in the business climate and an integral reform of State-Owned Enterprises (SOEs). A central pillar of Morocco's public policies during the past decades has been the progressive upgrading of the regulatory framework to enhance business activities, which brought about a marked improvement in the country's position in international rankings.[10] The authorities intend to continue deepening this reform effort, and the Pact envisages measures to simplify and digitize firms' registration and other administrative formalities, as well as actions aimed at fostering financial inclusion and mobile payments. In addition, the authorities have initiated a reform of the Regional Investment Centers, which provide services to entrepreneurs, with a focus on small and medium enterprises at the local level. Finally, the government is creating a new agency (*Agence Nationale de Gestion Stratégique des Participations de l'État*) that will centralize the State's ownership in public enterprises, some of which will be merged into homogeneous holdings and transformed into limited companies, while others will be eliminated if their existence is deemed no longer justified.

As part of an ongoing reconsideration of Morocco's development model, the government intends both to foster a certain degree of import substitution industrialization and to take advantage of the restructuring of GVCs. The recovery plan included a commitment to give preference to local suppliers in public procurement processes, and the 2021 draft Budget Law envisages an increase in the import tariffs of certain consumption products.[11] Along the same line, the Ministry of Industry has unveiled a plan that intends to substitute imports for a total amount of up to 34 billion MAD, for which specific investment projects that have already been identified will be supported through grants and advisory services. On the other hand, the authorities intend to consolidate Morocco's positioning as a nearshoring destination for European firms seeking to reduce their supply chain risks. For that purpose, the country's industrial policy will continue prioritizing international competitiveness, especially in strategic sectors such as the automotive industry and other new potential niches.

The government's strategy also includes a broad-based plan to reform Morocco's social protection framework. This reform will be carried out in two phases. During the first stage (2021–2022), the authorities will concentrate on the universalization

9 Among the more salient elements of the agreement reached for the tourism sector, the following stand out in particular: (i) the extension of the 2,000 MAD per month direct subsidy to the employees of tourism companies that have seen their turnover decline by at least 50%; (ii) a commitment on the part of the private sector to maintain a stable employment relationship with at least 80% of their pre-crisis workforce; (iii) the extension until December 31, 2020 of the deferral of taxes, social contributions and debt service payments; (iv) a commitment on the part of the recipients of the government's support to register their informal employees in the social security system (to self-register, in the case of independent guides); (v) the introduction of credit guarantees specifically designed for the needs of the tourism industry; (vi) other cross-cutting measures such as the introduction of a health certificate for operators, support to human capital formation in the tourism sector, or the promotion of internal tourism.

10 Between 2010 and 2020 Morocco climbed 55 positions in the Doing Business ranking (from 128th to 53rd).

11 The amended budget law for 2020 had already increased tariffs. These measures exclude imports from countries and blocs with whom Morocco has a free trade agreement, and affect a heterogeneous group of products the domestic production of which at could presumably increase, including toner cartridges, polyester, certain fabrics, chocolates or umbrellas.

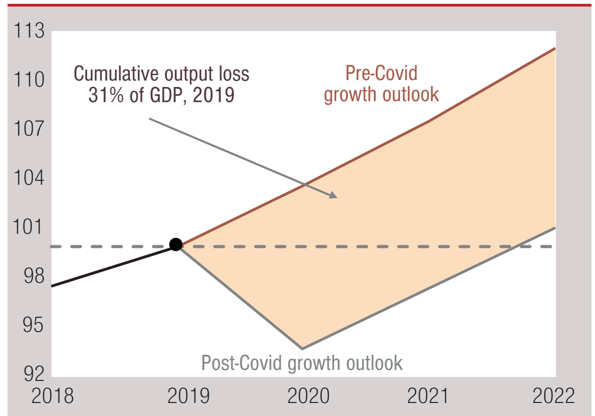
of health insurance and the unification of the various existing schemes, a reform that should integrate more than 10 million Moroccans currently covered by the non-contributory basic scheme (RAMED) into the contributory health insurance scheme (AMO). In addition, access to family allowances will be expanded to include self-employed and non-salaried employees. In turn, the second stage (2023–2024) will concentrate on the old age pension scheme and on the expansion of unemployment benefits.[12]

Outlook

We project a 6.3 percent contraction in 2020 due primarily to the COVID-19 pandemic, but also to poor rain conditions impacting the agriculture sector. Compared to our pre- COVID-19 forecast, Morocco's real GDP growth has been revised downwards by 9.9 percentage points. This overall projection for 2020 is consistent with a continuation of the economic decline through the second half of the year, albeit with a lesser intensity than in Q2, which is expected to be the peak of the recession. Resulting from the disruption of global value chairs and the effects of the lockdown on production, industrial value added is projected to contract by 7.4 percent. In turn, we expect the services sector to face a 5.8 percent contraction in 2020 due to social distancing measures and travel restrictions, which are impacting most acutely transport and tourism. Inflation is projected to reach 0.7 percent in 2020 as a result of the pandemic-induced demand shock dominating the supply shocks stemming from the virus and drought impact on agricultural production.

Over the medium term, growth is expected to pick up gradually, but the pace and length of that recovery are subject to high uncertainty. The post-pandemic economic recovery is projected to be protracted, with real GDP only returning to the pre-pandemic trend, at the earliest, by 2022. In 2021, the economy is projected to expand by 4 percent as agricultural output recovers to its historical growth rate while non-agricultural output slowly picks up as economic activity gradually restarts. Tourism is projected to recover at a slower rate as concerns about subsequent waves of COVID-19, as well as reduced household incomes and savings due to the global recession, potential quarantines for international arrivals, etc. may limit global tourism demand. Growth is projected to average 3.9 percent over 2022–2024. This projection implies a cumulative output loss of 31 percent of 2019 GDP between 2020 and 2022 (Figure 20).

FIGURE 20 • Cumulative Output Loss



Source: World Bank staff estimates.

We expect the pandemic to widen the fiscal deficit and drive up public debt in both 2020 and 2021. On the revenue side, tax revenues will be lower than previously expected in 2020 and 2021. On the expenditures side, significant increases are projected in 2020, driven by additional spending on health and social protection. As a result of this combination of automatic stabilizers and mitigation-related spending to protect households, the overall fiscal deficit (excluding privatization proceeds) is projected to widen to 7.8 percent of GDP in 2020 (compared to a projected deficit of 3.7 percent pre- COVID-19 pandemic). Consequently, public debt is projected to rise to 77.4 percent of GDP in 2020 (compared to 65 percent in 2019). Over the medium term, the fiscal deficit will be gradually declining to average 5.5 percent of GDP over 2021–2024 compared to 3.3 percent in the pre- COVID-19 pandemic forecast. Central government debt is also expected to return to a downward path in the medium-term.

[12] In addition, the reform plans that have been unveiled envisage the reinforcement of existing social protection programs, for which a social registry will be implemented.

Due to the COVID-19 shock, the current account deficit is expected to widen in 2020, before narrowing in the medium term. The current account deficit is expected to widen from 4.1 percent of GDP in 2019 to 6 percent in 2020. The external shock has led to sharp declines in export and tourism revenues, and capital inflows. The current account deficit is projected to shrink starting in 2021 to 5.5 percent of GDP and would continue to gradually narrow over the remainder of the forecast period as exports, tourism receipts, FDI, and remittances recover and as manufacturing export sectors (especially automobiles, electronics, and chemicals) expand. Foreign direct investment is expected to decrease to 1.6 percent of GDP in 2020, again on account of the COVID-19 shock, before recovering to around 3.2 percent of GDP over the medium term. We expect gross international reserves to remain at a comfortable level of 6.9 months of imports in 2020 thanks to foreign financing.

Challenges

The second wave of the pandemic could affect the pace of the recovery. Given the scale of the disruptions caused by the lockdown and the sense that there is a general pandemic fatigue among the population, the government seems more reluctant now to impose stringent measures to control the virus than it was in March. However, the number of confirmed contagions remains high. As is already happening in many European countries, the ongoing health crisis may eventually force the Moroccan authorities to adopt new restrictions, which would slow the economic recovery. Furthermore, even if the government manages to avoid measures that could further disrupt activity, the measures that have been taken to contain the second wave elsewhere will have an impact on exports, tourism receipts, workers' remittances and FDI flows, given that Morocco's main trading partners have already been forced to re-impose partial lockdowns.

The policy space to mitigate the effects of the COVID-19 is more limited now than it was at the onset of the crisis. On the fiscal side, the government's response to the pandemic contributes to explain a 10 points-plus increase in the debt-to-GDP this year, and an 11 percent of GDP recovery plan is being put forward by the authorities. In addition, the expansion of state-sponsored credit guarantees to prevent corporate bankruptcies implies that the public sector is accumulating contingent liabilities on a substantial scale, part of which could materialize in the medium-term, which could further limit fiscal space. The monetary response has also been extraordinary with the BAM's policy interest rate at its historical minimum for close to four months. While this has certainly limited the impact of the crisis on the real economy, going forward, the authorities will have less room for maneuver should the pandemic aggravate its course, or the global economic environment deteriorate further.

The Moroccan government could begin to face a more challenging financing environment. The gross financing needs of the public sector are expected to surpass 15 percent of GDP both in 2020 and 2021. While the government has so far maintained good access to international financial markets (the last €1 billion sovereign issuance that took place in September 2020 was largely oversubscribed), Fitch's recent decision to downgrade Morocco to sub-investment grade could have an impact on future issuances.[13] In this context, external financing might become more constrained, and Morocco's exposure to the risk of a disruption in global financial markets has increased.[14] However, for the time being, the reaction of international financial markets has been muted with yields on Morocco's benchmark 2031 retracing their reaction to the downgrade.

The COVID-19 pandemic is deteriorating banks' credit portfolio. The ratio of non-performing loans (NPLs) has increased from 7.6 percent in December 2019 to 8.4 percent in September 2020. In its most recent bank stress tests, BAM estimates that

[13] The only major agency that has reaffirmed Morocco's rating is Standard and Poor's, although it has recently changed its outlook from stable to negative. Fitch's recent downgrade is relevant because Morocco was just one notch above investment grade.

[14] According to Hanusch et al. (2016), based on a cross country study of 20 developed and developing economies covering the period between 1998 and 2005, losing investment grade results in a 138 b.p. increase in financing costs.

the NPL ratio could reach 9.9 percent by the end of this year, and 10.8 percent in 2021. Moroccan banks remain well capitalized, but this deterioration in the quality of their assets could eventually pose a threat to financial stability.

Increasing Morocco's growth potential becomes even more important in the post-pandemic world. The Moroccan economy was already showing signs of stagnation prior to the current crisis, prompting the government to create a high-level commission to submit proposals for a new development model. In the post-pandemic world, reigniting growth will be even more important to create jobs and revert the deterioration in social indicators that is expected in the short-term, and to help bring the debt-to-GDP ratio to a downward path. To unchain the growth potential of the Moroccan economy, moving forward on structural reform is key, as detailed in the next section.

SPECIAL FOCUS: COVID-19 AND THE MOROCCAN FORMAL PRIVATE SECTOR

The crisis is taking a heavy toll on Moroccan enterprises, many of which have been forced out of the market, while others are still experiencing sharp drops in sales. On a more positive note, the crisis is also accelerating the digital transformation of the economy, including the corporate sector, which could pave the way for a more solid recovery. Going forward, the corporate sector still requires immediate liquidity support to prevent widespread bankruptcies, while a more structural approach is needed to remove the constraints that in the past have limited the development of a more dynamic private sector.

The corporate sector shake-up that the COVID-19 crisis has unleashed globally is affecting SMEs disproportionately and could be more difficult to address in the developing world. Based on survey data from 51 countries, the World Bank has recently produced new evidence about the large and persistent effects of the COVID pandemic on enterprises, showing an 43 percent average drop in sales even 12 weeks after the peak of the shock and an adjustment in employment levels on the part of 57percent of firms (Apedo-Amah et al., 2020).[15] The IMF estimates (WEO, October 2020) that between 9 and 13 percent of SMEs are in financial distress as a result of the pandemic in a sample of 21 mostly advanced economies. As a result, up to 40 percent of jobs could be at risk in sectors such as food and accommodation, and arts and entertainment. These figures could be even larger in the developing world, where a greater portion of the labor force is self-employed or employed in the informal sector, with more limited access to finance and to the State's support.

Morocco is among the lower middle-income economies that have put forward an ambitious recovery plan. The global policy response to mitigate the impact of the pandemic has been unprecedented, and the overall amount of the resources associated with the measures that have been announced for that purpose is estimated at close to 12 percent of the world's GDP (IMF, Fiscal Monitor, 2020). However, developing countries have had a much more limited policy space to confront the crisis, primarily because their central banks cannot provide monetary stimulus

[15] https://openknowledge.worldbank.org/handle/10986/34626.

or engage in assets' purchases on a comparable scale. As already emphasized, Morocco intends to mobilize close to 11 percent of GDP to support the private sector, one of the larger recovery plans that developing economies have put forward so far.

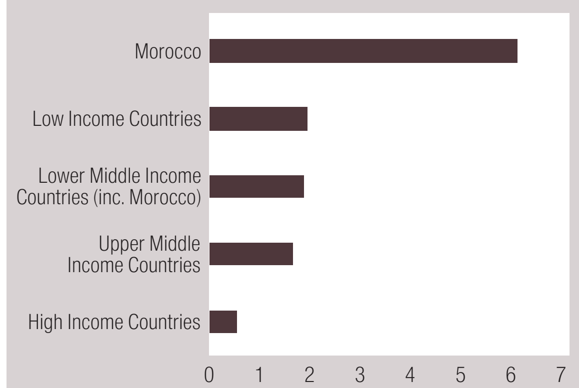
Going forward, the crisis will also bring opportunities to better exploit Morocco's comparative advantages. The effects of the pandemic on the corporate sector are profound and could drag on for a long time. However, the crisis will also bring opportunities, and in the case of Morocco it is helping to crystallize an ambitious agenda of structural reforms, the successful implementation of which could resolve long-lasting bottlenecks and increase potential growth. In addition, the country is well placed to take advantage of the restructuring of Global Value Chains (GVCs) that the COVID-19 crisis has accelerated.

How have Morocco's Firms Coped with the COVID-19 Crisis?

This section evaluates the impact of the pandemic on the Moroccan corporate sector using primary data collected by the COVID-19 Enterprise Follow-up Survey. Just prior to the COVID-19 outbreak (December 2019), a representative sample of 1,096 firms were surveyed in order to obtain information about the Moroccan business environment. In July and August 2020, these firms were re-contacted to generate additional information about the impact of COVID-19. The results obtained in this follow-up survey confirm that the consequences of the crisis are severe and persistent, but also that Moroccan corporations are taking action to adapt to the new reality.

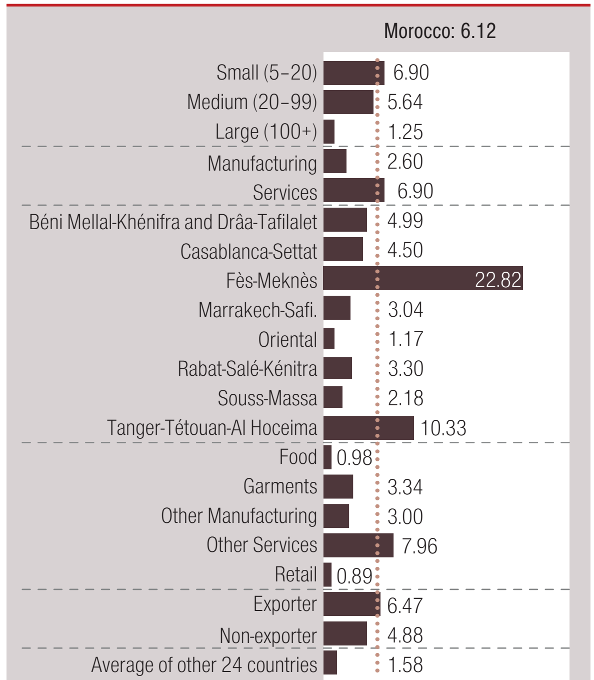
Between December 2019 and July/August 2020, 6.1 percent of Moroccan firms have ceased operations. This is the highest percentage observed in the countries in which a follow-up survey has been conducted (Figure 21). However, it worth noting that only 0.2 percent of firms had filed for insolvency at the time of the survey. By size, the most impacted firms are small businesses (5–19 employees), with 6.9 percent of firms reporting to have closed, followed by medium-sized firms (20–99 employees), with 5.6 percent (Figure 22). Larger firms, instead, seem to have been better equipped to confront the crisis, as only 1.3 percent of businesses with more than 100 employees have reported to have permanently closed. Firms in the service sector are more affected than firms in the manufacturing sector firms (6.9 vs. 2.6 percent of closures). Geographically, firms in

FIGURE 21 • Percent of Firms Confirmed Permanently Closed since COVID-19 (percent)



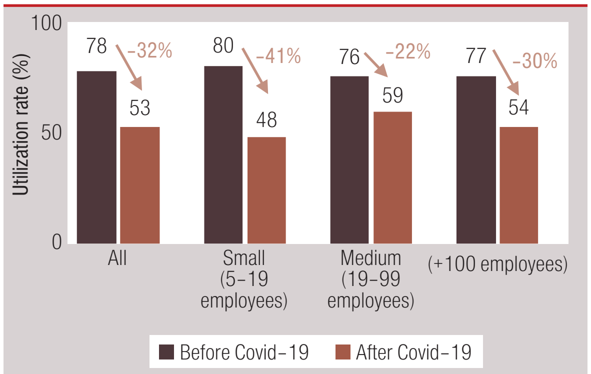
Source: WBG, COVID-19 Follow-up survey 2020.
Note: Low Income Countries include Chad, Guinea, Niger, and Togo; Lower Middle Income Countries include Morocco, Honduras, Mongolia, Moldova, El Salvador, Nicaragua and Zimbabwe; Upper Middle Income Countries include Jordan, Georgia, Albania, Russian Federation, Guatemala; High income countries include Poland, Italy, Cyprus, Greece and Slovenia.

FIGURE 22 • Breakdown of Closed Firms (%)



Source: WBG, COVID-19 Follow-up survey 2020.

FIGURE 23 • Manufacturing Capacity Utilization Loss Due to COVID19



Sources: WBG, Enterprise surveys 2019; COVID19 Follow-up survey 2019 (1st wave); own calculations.

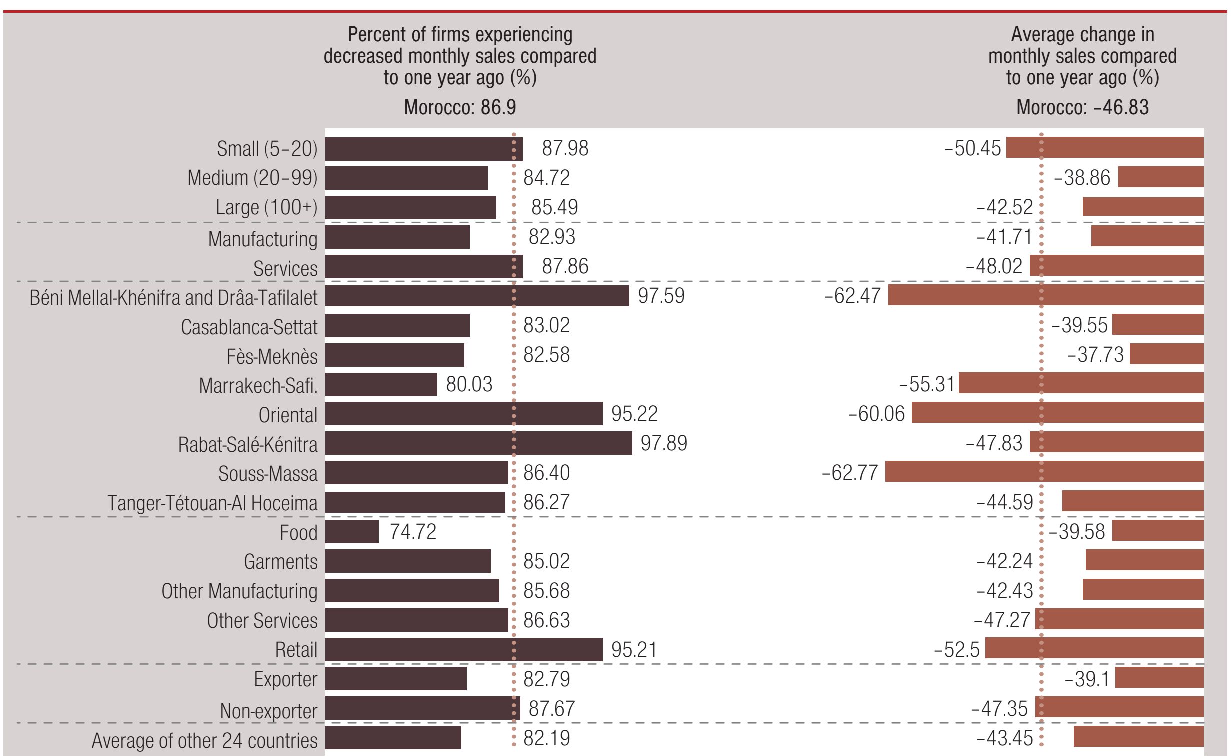
Fès-Meknès and Tanger-Tétouan-Al Hoceima regions suffered significantly more than firms located in other regions.

The manufacturing firms that survived the crisis were forced to reduce their capacity utilization. Indeed, the follow up survey reports a 32 percent decline in the capacity utilization of manufacturing firms during the months that followed the outbreak of the pandemic (Figure 23). Again, small enterprises were the most affected, with a drop in utilization rates of 41 percent, followed by large firms (30 percent decline). The strongest impact is observed in firms located in the Northern region, where capacity utilization fell by as much as 66 percent.

The demand shock was compounded by a disruption in the supply of inputs. 82.5 percent of Moroccan firms report to have experienced a decrease in the demand for their products and services, while only 3.1 percent report the opposite. In addition, 82.6 percent of firms suffered from a decrease in the supply of inputs, while 2.6 percent report the opposite trend. Exporting and food industry firms and business located in Fès-Meknès appear to have been somewhat less affected by these negative trends.

Firms' sales have been heavily impacted by the pandemic. The negative effect of COVID-19 was larger in Morocco than in the average of the other 24 surveyed countries (Figure 24). Indeed, 86.9 percent

FIGURE 24 • Impact of the Pandemic on Firms' Sales



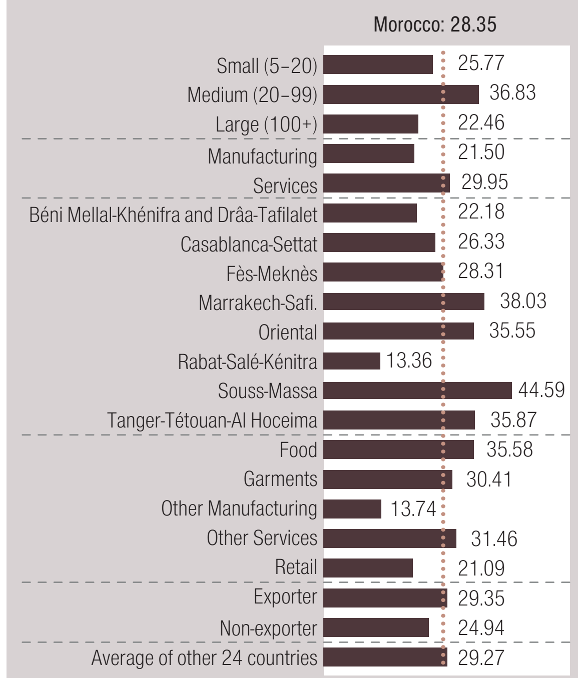
Source: WBG, COVID19 Follow-up survey 2020 (1st wave).

of Moroccan firms experienced a decrease in monthly sales of, on average, 50.4 percent (82.2 percent and 43.4 percent respectively in the comparison countries). Once again, smaller firms were more affected, with a substantially larger decline in sales (50.4 percent vs. 38.9 percent in medium-sized firms and 42.5 percent in large companies). The survey reveals wide regional differences, with a larger drop in sales for firms located in Rabat-Salé-Kénitra, Oriental, Béni Mellal-Khénifra and Drâa-Tafilalet. Non-exporting firms and companies in the retail sector also tended to undergo a more severe fall in sales.

Moroccan firms expect a slow return to normalcy, although they are more optimistic than those of comparator countries. The surveyed companies that report to have suffered a drop in demand expect to return to their normal levels of sales within 5.2 months.[16] It is worth noting, however, that Moroccan firms seem to be more optimistic than those in the other countries where a follow-up survey was conducted, which on average expect longer recovery periods. Medium-sized firms and companies based in Fès-Meknès, Casablanca-Settat and Tanger-Tétouan-Al Hoceima tend to be more optimistic about the return to normalcy than small and large firms. Instead, the outlook seems grimmer for companies located in the Oriental, Souss-Massa and Marrakesh-Safi regions, which expected recovery periods of 7.7 months, 7.0 months and 6.8 months, respectively. The sectors that expect a faster recovery are non-food, non-garment manufacturing (3.2 months).

Close to one out of three formal firms reported to have received the government's assistance at the time of the survey. More specifically, 28.4 percent of Moroccan firms reported to have either received or expected to receive some form of government assistance as of the first wave of the pandemic, a result that does not differ substantially from the average observed in the other 24 countries in which a follow-up survey was conducted (Figure 25). This proportion is larger for medium-sized firms (36.8 percent) than for small and large companies (25.8 and 22.5 percent respectively). In addition, exporting firms and companies in the services sector, as well as enterprises located in the Souss-Massa, Marrakech-Safi and the Oriental regions, were more likely to have benefited from some form of public support.

FIGURE 25 • Percent of Firms That Received/ Expect to Receive National or Local Government Assistance - Breakdown

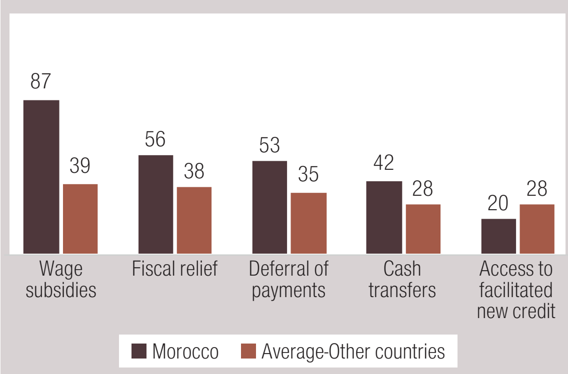


Source: WBG, COVID19 Follow-up survey 2020 (1st wave).

Wage subsidies have been the most common form of government assistance in Morocco. The follow-up surveys have distinguished between 5 types of support: cash transfers, deferral of payments, access to new credit, fiscal relief and wage subsidies. In terms of public aid intensity, the subset of Moroccan firms that reported to have received public assistance benefited, on average, from 2.57 measures (Figure 26). Most of them (86.6 percent)

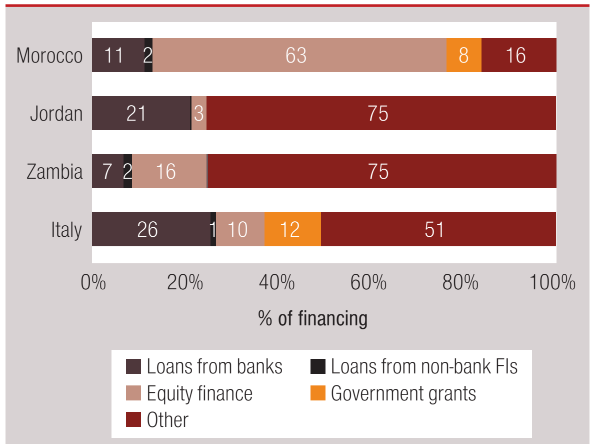
[16] This result is similar to that obtained by HCO, which found that 57 percent of firms that have not yet returned to normal activity levels expect to do so in 6 months at the most, while 44% think that it will take at least a year. Two thirds of manufacturing firms expect to find their normal activity levels in no more than 6 months. This proportion drops to 55 percent among firms in the service sector. HCP: «*Reprise d'activité des entreprises suite à la levée du confinement: 2ème enquête sur l'impact de la COVID-19 sur l'activité des entreprises*», July 2020. https://www.hcp.ma/region-drda/Reprise-d-activite-des-entreprises-suite-a-la-levee-du-confinement-2eme-enquete-sur-l-impact-de-la- COVID-19-sur-l_a319.html.

FIGURE 26 • Coverage Rate of Government Assistance (% out of the total of firms that received government assistance)



Source: WBG, COVID19 Follow-up survey 2020 (1st wave).

FIGURE 27 • Sources of Financing for Cash Flow Shortages



Source: WBG, COVID19 Follow-up survey 2020 (1st wave).

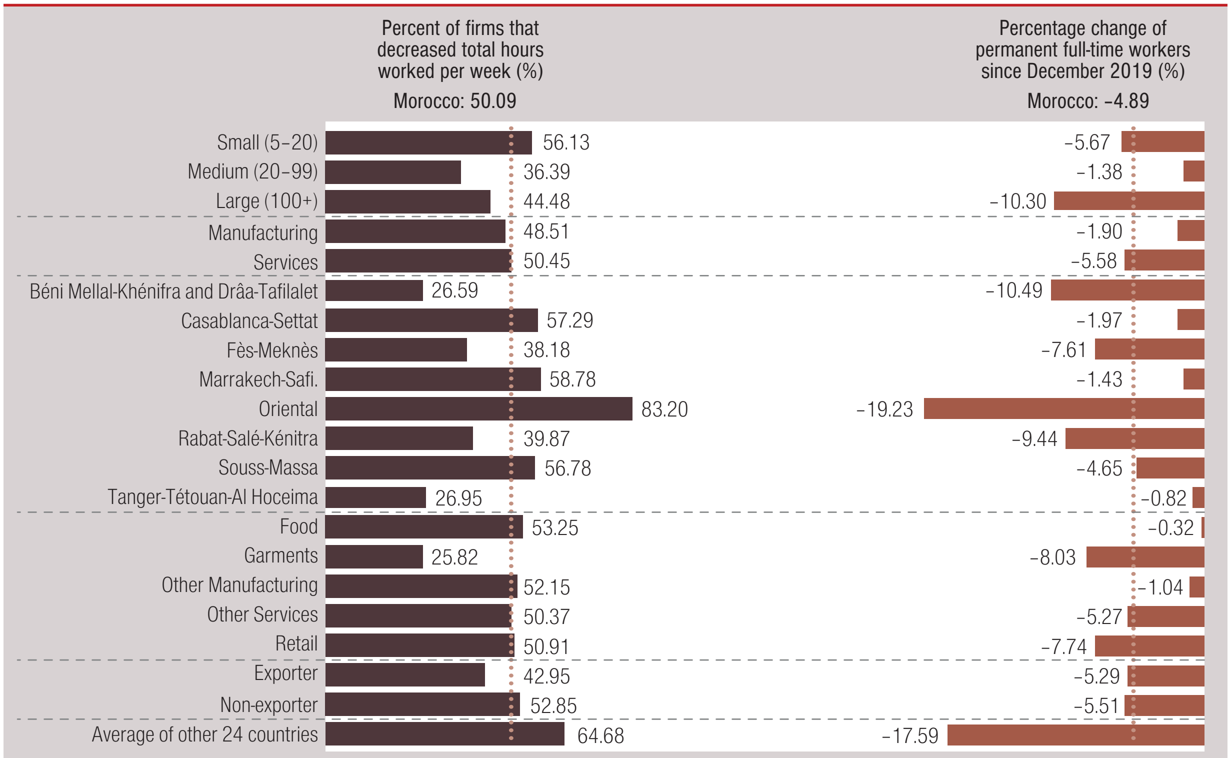
received wage subsidies, a much larger proportion than in the other surveyed countries (39 percent). The second most common form of support were fiscal exemptions or reductions (55.8 percent), followed by deferrals of payments (52.8 percent) and cash transfers for businesses (42.2 percent). In turn, only 20.1 percent of firms reported to have benefited from access to facilitated credit, although that proportion is likely to have increased substantially in the aftermath of the survey, given the various guarantee programs that have been launched. It is worth noting that nearly all small firms that have received the government's assistance have benefited from some form of wage subsidies, while 70.3 percent of supported large firms were granted a deferral of payments (i.e., credit payments, rent or mortgage, suspension of interest payments, or rollover of debt). Larger firms were also more likely to received fiscal relief than middle-sized or small firms.

Moroccan firms are covering their cash flow shortages primarily with internal funds. 72 percent of Moroccan firms experienced decreased liquidity or cash flow availability. Smaller and larger firms were more likely to suffer from liquidity shortages (75 percent for both categories) than middle sized enterprises (67 percent). Liquidity shortages appear to have been more acute in Marrakesh-Safi, Fès-Meknès and Rabat-Salé-Kénitra than in the rest of the country. Equity finance accounted for 63 percent of cash flow shortages' financing during the pandemic, compared to 3 percent in Jordan, 16 percent in Zambia or 10 percent in Italy (Figure 27).

Dwindling liquidity is aggravating the late payment problem. 62.1 percent of surveyed firms reported to be behind in their payments to suppliers, landlords and tax authorities. By size, small enterprises were the most likely to fall behind on their payments (67.5 percent, compared to 51 percent for both medium and large enterprises). This problem is particularly acute in in Béni Mellal-Khénifra and Drâa-Tafilalet (86.3 percent), followed by the Oriental, Souss-Massa, and Rabat-Salé-Kénitra regions with 72.3 percent, 70.1 percent and 66.7 percent, respectively. In addition, 21.4 percent of firms were overdue on their obligations to financial institutions. Large and small firms reported the highest incidence of overdue obligations, with 28.8 percent and 23.6 percent, respectively, compared to 14 percent among medium-sized firms. Another worrisome indicator is that 40.8 percent of Moroccan firms anticipate falling in arrears on outstanding liabilities.

Although the number of hours worked has decreased substantially, a relatively low proportion of Moroccan formal sector firms report to have permanently laid off their employees. Indeed, 50.1 percent of firms have reduced the total hours worked per week, but only 14.4 percent have decreased the total number of permanent employees (Figure 28). As a result, the average change in permanent full-time workers since

FIGURE 28 • Impact of the Pandemic on Employment



Source: WBG, COVID19 Follow-up survey 2020 (1st wave).

December 2019 is minus 4.9 percent. These numbers compare favorably with other countries in which a follow-up survey has been conducted, suggesting that the Moroccan government's mitigation labor market measures have been effective. Large firms reported to have let go a higher proportion of their workforce (10.3 percent) than medium-sized firms (1.4 percent) and small firms (5.7 percent). Companies in the Oriental region recorded the largest workforce reduction, with 19.2 percent, followed by Béni Mellal-Khénifra and Drâa-Tafilalet and Rabat-Salé-Kénitra (10.5 percent and 9.4 percent, respectively). Instead, employment seems to have been less affected in the Northern region, where 27 percent of firms reported to have decreased working hours worked, with a 0.8 percent drop in permanent full-time employees. Firms in the food and other manufacturing sectors were the least affected, with a slight reduction of 0.3 percent in working hours and of 1 percent in the number of permanent employees. On the other extreme, firms in the garments sector reported an 8 percent reduction of permanent full-time workers since December 2019.

Moroccan firms are adapting to the new economic reality, and the crisis is accelerating the digital transformation of the corporate sector. As much as 42.3 percent of surveyed companies report to have adopted measures to adapt to the pandemic context. Firms in the garments industry (56.7 percent) were more likely to convert their production lines to address changing market needs. Regionally, firms in Fès-Meknès and Tanger-Tétouan-Al Hoceima showed more flexibility than their counterparts in the rest of Morocco. Particularly noteworthy is the fact that 29.8 percent of the surveyed firms report to have started or increased their online business activity in response to COVID-19 pandemic, a proportion that was larger among middle-size firms increased and in the Casablanca-Settat and Souss-Massa regions. Similarly, 22.6 percent of firms in Morocco started or increased delivery of goods, services or carryout, and 23.4 percent of firms offered flexible remote work arrangements for their workers, bringing the share of the workforce working remotely to 7.1 percent.

Maintaining the Reform Momentum

The private sector still requires extensive emergency support to minimize the long-term impact of the crisis. Although the economy is already exhibiting some post-lockdown green shoots, the situation of large sections of the corporate sector is still severely compromised. In this context, the government prioritizes using its remaining policy space to inject equity and liquidity into the system through innovative schemes, such as the Mohammed VI Fund, and through existing credit guarantee programs and the BAM's refinancing windows. Indeed, the alternative could result in a wave of corporate insolvencies from which the Moroccan economy would take a long time to recover. The data from the follow-up Enterprise Survey presented in the previous section suggests there is scope to broaden access to existing lines of support. For that purpose, the requirements associated with the various guarantees will have to be constantly monitored (on a risk-adjusted basis) and, if necessary, amended, as has been recently done to broaden the universe of firms potentially eligible for these programs.

In the meanwhile, the government is right to build momentum on structural reform with a view to exploit Morocco's comparative advantages in a post- COVID world. The pandemic and its devastating economic consequences are helping to crystallize an ambitious policy agenda that could address long-standing social inequities while unleashing the potential of Morocco's private sector. This unique juncture provides an opportunity to build upon the structural reforms already implemented during the past decades, and in so doing accelerate the transition towards a development model that is more reliant on productivity and private investment as sources of growth. The reform agenda could also be shaped by a strategic appraisal of the opportunities that could emerge in the post-pandemic world. In particular, the current crisis is accelerating the transformation of international trade, and Morocco is well placed to take advantage of European multinational firms' drive to shorten supply chains, as the authorities have rightly pointed out in their new industrial strategy for 2021–23.

Morocco's participation in more sophisticated GVCs can continue to be encouraged. Many of the domestic policies recommended by the 2020 World Development Report (Box 3) to enhance participation in GVCs have been under implementation in Morocco for quite some time, explaining the emergence of various success stories in the automotive or aeronautics sector. However, there is room to intensify that effort in order to capitalize on Morocco's policy track record and geographical location as drivers for a greater participation GVCs. An area of reform that could be explored further is labor policy, which according to the 2019 Enterprise Survey is a major concern for 23 percent of Moroccan firms, against an average of 12 percent in the world and 9 percent in the MENA region. Deepening the association agreement with the EU could also be useful and making additional progress with the de-carbonization of the Moroccan economy could become increasingly important to secure access to European markets.[17] Progress could also be sought with other integration processes (most notably, the African Continental Free Trade Area), which would help develop regional value chains and position Morocco as an ideal hub to reach new markets. In this process, the short-term adjustment costs of a greater international integration should be taken into considerations and mitigated to reduce adverse local impacts on workers and firms. Finally, trade policy inconsistencies, such as those that may result from the adoption of protectionist measures that increase the price of inputs for the firms that participate in GVCs, could become counterproductive.

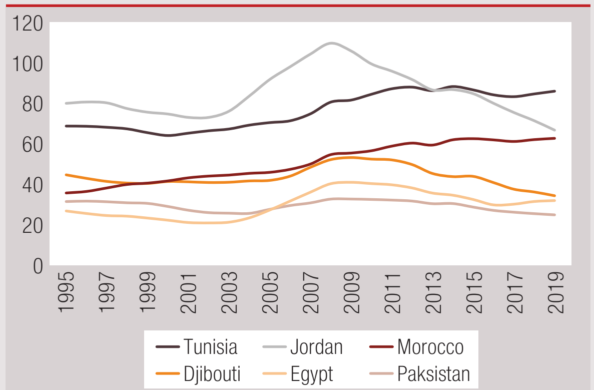
A proactive approach is needed to engage anchor firms with local suppliers. To realize their full potential as a source of jobs and of knowledge and technology spillovers, the participation of local SMEs into GVCs needs to be encouraged. For that purpose, local SMEs may benefit from additional support and coordination, and the public sector could play a more

[17] Indeed, the EU's post- COVID recovery strategy is emphasizing the transition to a greener economy, which may encourage European multinational firms to look for more sustainable supply options along the GVCs in which they participate.

BOX 3. NATIONAL POLICIES TO TRANSITION TO A MORE SOPHISTICATED PARTICIPATION IN GVCS

As opposed to many other countries in the MENA region, over the past decades Morocco has managed to substantially expand the economic significance of merchandise trade, which increased from 41.6 percent of GDP in 1999 to 63.9 percent of GDP in 2019. Among other things, this trend reflects the authorities' activism in the negotiation of bilateral and preferential trade agreements, which has significantly increased Morocco's integration into the global economy. However, despite well-known success stories in the automotive, electronics and aeronautics sector, Morocco's participation in GVCs exhibits some signs of stagnation. Indeed, measured as a share of gross exports, forward and backward linkages to GVCs have barely changed during the past decade. To some extent, this may reflect the disruptions to global trade that have tended to characterize the aftermath of the global financial crisis. However, it may also suggest that Morocco is not doing enough to capitalize on some of the comparative advantages that could turn it into a more relevant player in GVCs, including its geographical proximity to the European markets, a dense network of FTAs and still competitive labor costs.

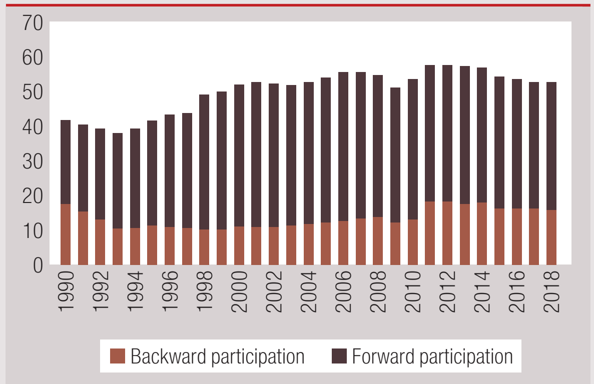
FIGURE 29 • Merchandise Trade (% of GDP)



Source: IMF, UNCTAD Eora Global Supply Chain Database.

The 2020 *World Development Report* focuses on GVC and their potential contribution to development and shared prosperity. It warns about the risk of traditional industrial policies relying on tax incentives, subsidies and local content requirement, given the distortions they can generate in today's GVCs. Indeed, with few exceptions in Asia, most of the countries that have relied on those instruments to promote integration into GVCs have had limited success. Instead, the report encourages the adoption of domestic policies aimed at correcting the market failures which prevent participation in GVC. These actions can be grouped in the following four categories:

FIGURE 30 • Morocco's Participation in GVCs (% of gross exports)



Source: IMF, UNCTAD Eora Global Supply Chain Database.

Endowments. Eliminate barriers to investment, adopt supportive FDI policies (including well-designed investment promotion strategies to attract multinational GVC lead firms) and improve the business climate. Foster access to banking credit and equity finance. Reform services policies (telecommunications, finance, transports and other business services). Avoid rigid labor regulations and exchange rate misalignments. Improve technical and managerial skills. Invest in human capital, educate for innovation and open-up to foreign talent.

Market size. Reduce tariffs and non-tariff measures to improve access to inputs. Pursue and deepen trade agreements to include services and investment. Harmonize and mutually accept standards, especially with the countries that participate in the targeted GVCs.

Geography. Improve trade infrastructure, by reforming customs and border procedures, liberalizing transport and logistics services and investing in ports and roads. Provide advanced logistics services by investing in multimodal transport infrastructure. Liberalize ICT services, invest in ICT infrastructure and expand high speed broadband.

Institutions. Improve policy predictability, also through the negotiation of deep trade agreements. Strengthening certification and testing capacity to ensure compliance with international standards. Enhance contract enforcement and protect intellectual property rights.

Source: World Bank, 2020 World Development Report.

effective intermediating role between them and lead GVC multinational firms, for instance by providing information about local supply options. In addition, the government could invest in sector specific skills, providing training and managerial skills to the local SMEs that have the potential to connect with the larger firms that are integrated into GVCs. Technical assistance can also be an effective tool to help local firms reach the quality levels that are required to work with anchor firms. Finally, the authorities may explore the possibility of adding measures to facilitate access to finance for local firms that have the potential to supply lead GVC multinational firms.

Morocco needs to stimulate competition and level the playing field for new entrants in goods and services markets. As already emphasized, over the past two decades, the country has implemented several structural reforms that have substantially improved the business climate. This progress, however, has been uneven, which has limited the overall effectiveness of the reform process in delivering a more dynamic corporate sector. The main bottlenecks lie in the lack of contestability in many markets, which is associated with certain sector-specific regulations, with the unequal treatment of incumbents and new entrants, and with the ineffective implementation of competition policy. Solving these problems may take some time, which could be perceived to be in short supply given the urgency to support the post- COVID recovery. However, there are effective measures that could be implemented relatively quickly, including the strengthening of the Competition Council (which became operative less than two years ago) and the extension of public procurement rules to all levels of governments and to SOEs. Additionally, the SOE reform in which the government is embarking could prioritize competitive neutrality, thus ensuring that the commercial participation of the State in the economy does not prevent new firms from entering new markets and thriving and in the process drive improve quality/ lower prices of goods and services to consumers.

The COVID-19 pandemic may offer a window of opportunity to develop innovative approaches to tackle informality. The high rates of labor and business informality that characterize many developing countries have stood in the way of global efforts to mitigate the impact of the crisis. A first challenge has been to reach informal sector firms, for which direct cash transfers and the deferral of certain payments have been common policy responses globally. Going forward, it is important to acknowledge that the informal sector is highly heterogeneous, and that there are no silver bullets to promote formality. For a vast majority of workers and businesses, informality is not a choice, but the consequence of a lack of opportunities, inadequate skills and low productivity. This segment, therefore, requires public policies that contribute to create opportunities through financial and digital inclusion, broader access to social insurance systems or human capital development. Instead, for the segment of the informal economy that has reached a level of productivity that enables it to compete with the formal sector, the focus could be on providing the right incentives to progress toward formality. Having altered these actors' perceptions about the costs and benefits of falling under the radar of the public sector, the current crisis may provide new opportunities to advance in that direction. For instance, the direct subsidies and guarantees that are being put in place to support the recovery could be designed in such a way as to reward the informal self-employed workers or microenterprises that opt to register.[18]

Additional approaches could be explored to combine skill upgrading with income support. Although the transfers put in place during the lockdown (and thereafter for specific sectors) were crucial to support household's income, they did little to improve formal or informal workers' employability. The authorities could explore options to combine active labor market policies with income support, complementing the social protection reforms which have been announced by his Majesty the King. Indonesia, for example, has used such a cash for training programs which provides subsidized

18 This might be especially relevant for the tourism industry, which is characterized by its high informality rates, and for which most of the emergency measures adopted by the government during confinement have been extended due to the severity of the crisis.

vouchers for skilling and re-skilling targeted at unemployed workers. In the current context, such programs could emphasize the skills that are more likely to gain relevance in the post-pandemic world, such as those related with the digital economy and e-commerce. With a longer-term perspective, the announced reinforcement of the unemployment benefit scheme could provide an interesting platform to integrate the provision of adequate income support with more effective active labor market policies.

The government could reinforce its institutional framework in order to maximize the crowing in effect of its renewed investment effort and could initially prioritize maintenance works and green projects. There is solid empirical evidence suggesting that the fiscal multiplier of public investment is higher during uncertain times such as the current pandemic (IMF, *Fiscal Monitor*, 2020), which justifies the government's decision to prioritize capital accumulation in its recovery plan. Indeed, the endorsement of new projects by the State could be a particularly effective tool to anchor expectations and boost the confidence of private entrepreneurs precisely when economic agents are more likely to defer their hiring and investment decisions. However, scaling up public investment can also result in the selection of projects with sub-optimal social and economic returns and in cost overruns. Therefore, for the investment pillar of Morocco's recovery strategy to be effective, strong institutional safeguards need to be in place throughout the project life cycle, but especially at the selection/ex ante evaluation and at the procurement phases. The reforms that are required to reinforce public investment governance could also take some time to be implemented. Given the current sense of urgency around the need to support the recovery through public investment, the authorities could initially prioritize maintenance, while appropriate methodologies are put in place to evaluate and select new projects. Such investments have the advantage of adding value to existing infrastructure, and of being labor intensive and relatively easy to implement. Complementarily, the government could prioritize climate-smart investments with potentially large long-term returns, aimed at de-carbonizing the Moroccan economy and at increasing the resilience of agricultural systems.

To foster SMEs' access to finance, the government could complement its guarantee programs with a regulatory reform of the microfinance sector and with additional support to the supply of equity for early-stage companies. Although the stock of credit to the private sector is relatively high in Morocco (above 70 percent of GDP) and the guarantee schemes put forward by the authorities have supported credit for established formal firms, Moroccan entrepreneurs and smaller companies continue to suffer from a lack of access to finance. One way to address these segments' needs would be to strengthen the regulatory framework for microfinance institutions, which are still severely constrained by their current legal status as associations, and in terms of the services they can provide.[19] A new microfinance law (already in process) could pave the way for increasing these institutions' financial intermediation role for low income segments of the population, by allowing them to offer savings accounts and to venture into new products, such as micro-leasing or insurance. In addition, the newly created Mohamed VI Fund could play a decisive role to mobilize institutional investors in the provision of private equity and venture capital available for start-ups and new SMEs.

There is a dire need for additional measures to tackle late payments. Such delays were already a pervasive problem before the crisis, which the pandemic seems to be aggravating: according to the data collection firm Inforisk, the COVID crisis has lengthened payment delays by 28 percent in the case of microenterprises, 57 percent for middle-size firms and by 63 percent for the largest firms. However, as a result of their lower bargaining power, late payments continues to be a more pressing problem for smaller firms (on average, 272 days for microenterprises, against 178 days for middle-size firms and 143 days for large companies). This lengthening of payment terms could push hundreds of otherwise solvent firms into bankruptcy, which calls for a bolder government response (beyond the requirement to use part of the credit mobilized by guarantees to

---

19 A positive development in this area was the increase of the microfinance loans size cap from 50,000 MAD to 150,000 MAD decreed in 2019.

cancel financial obligations with other firms).[20] Among the measures that could be contemplated are the following: (1) reducing payment delays on the part of the public sector, in particular with regards to VAT refunds; (2) enforcing the financial penalties already contemplated by law, or introducing an automatic entitlement to interest charges for suppliers that are paid with excessive delays; (3) the progressive non-deductibility of VAT for invoices that are paid with a certain delay; and (4) greater transparency about payment practices, for instance, through the imposition of additional reporting requirement on this topic for larger firms, or through the compilation of a database on late payers. In addition, the government could further increase the supply of official credit for firms experiencing cash flow difficulties as a result of late payments or provide insurance products to facilitate their access to private credit.

Laying the foundations of a credible medium-term consolidation plan is desirable in these times of uncertainty and rapidly deteriorating fiscal space. Over the last decade, Morocco has earned a solid reputation for the robustness of its macroeconomic framework. But, as discussed in sections 1 and 2, the COVID-19 shock will substantially expand Morocco's twin fiscal and current account deficits. Given the severity of the current recession, the authorities are wisely using available fiscal space to support the recovery. However, the trajectory of public debt has already resulted in a credit rating downgrade, which could adversely affect not only the sovereign's but also private firms' access to finance. To minimize the risk of further downgrades and an excessive increase in financing costs, the government could begin to articulate a medium-term fiscal consolidation plan and communicate it effectively. A key pillar of that plan could be to reinvigorate the tax reform process. Indeed, converging towards Morocco's potential tax base through a series of well targeted measures could mobilize enough revenues to put the debt ratio on a downward path without unduly hurting the economy's long-term growth prospects. In addition, enhancing transparency would help economic agents cope with the current uncertainty. This could be done by disclosing the contingent liabilities associated with the government's recovery strategy and by providing more clarity on the fiscal implications of the reforms that have been announced in recent months (such as the expansion of the social protection network). Finally, the large unanticipated increase in indebtedness caused by the pandemic is raising awareness across the globe about the need for a solid fiscal risk management framework in these uncertain times.

[20] According to IFC (2019), close to 40% of insolvencies are due to late payments or to payment defaults in Morocco.

DATA APPENDIX

TABLE 1 • Morocco: Selected Economic Indicators, 2016–2023

	2016	2017	2018	Est. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Real Economy	(annual percent change, unless otherwise indicated)							
Real GDP	1.1	4.2	3.0	2.5	−6.3	4.0	3.7	3.8
Agricultural GDP	−13.7	15.2	3.7	−5.8	−5.7	11.0	4.0	4.4
Non-Agricultural GDP	3.0	2.9	3.1	3.5	−6.3	3.1	3.7	3.8
Industry	0.6	3.6	3.0	3.5	−7.4	2.6	3.4	3.5
Services	2.9	2.7	2.7	3.8	−5.8	3.0	3.7	3.8
Private Consumption	3.7	3.8	3.4	1.8	−5.1	3.5	3.8	4.1
Government Consumption	1.5	2.1	2.7	4.7	8.9	3.8	3.5	3.1
Gross Fixed Capital Investment	8.8	−0.2	1.2	1.0	−8.7	4.7	4.9	3.9
Exports, Goods and Services	3.5	11.1	6.0	5.5	−10.7	6.5	6.8	6.9
Imports, Goods and Services	14.5	7.9	7.4	3.3	−6.3	4.3	4.5	4.6
Unemployment rate (ILO definition, in percent)	9.9	10.2	9.5	9.2	–	–	–	–
Inflation (average CPI, in percent)	1.6	0.7	1.9	0.2	0.7	1.3	1.7	2.0
Fiscal accounts	(in percent of GDP)							
Expenditures	28.5	28.0	27.5	27.8	30.4	29.9	29.4	28.8
Revenues, including all grants	24.2	24.5	23.8	24.2	22.6	23.3	23.7	23.9
Budget Balance (excl. privatization)	−4.4	−3.5	−3.7	−4.1	−7.8	−7.0	−5.9	−5.0
Central Government Debt	64.9	65.1	65.2	65.0	77.4	80.1	81.7	81.9
	(annual percent change, unless otherwise indicated)							
Selected Monetary accounts								
Broad Money	4.7	5.5	4.1	3.8	–	–	–	–
Credit to non-government	4.4	2.8	–	–	–	–	–	–
Interest (key policy interest rate)	2.25	2.25	2.25	2.25	–	–	–	–
Balance of payments	(in percent of GDP, unless otherwise indicated)							
Current Account balance	−4.1	−3.4	−5.5	−4.1	−6.0	−5.5	−4.8	−4.1
Imports, Goods and Services	−43.7	−45.0	−46.9	−45.8	−38.6	−44.1	−47.1	−47.1
Exports, Goods and Services	33.3	35.3	36.5	36.8	27.6	33.7	37.2	37.5
Net Direct Investment	1.5	1.5	2.4	0.5	0.6	1.5	1.7	1.8
Gross official reserves (bln US$, eop)	25.9	25.2	24.9	26.3	30.6	29.5	30.5	31.9
In months of imports	6.4	5.6	5.3	6.3	6.9	6.6	6.8	7.1
Exchange rate (average)	9.8	9.7	9.4	9.6	–	–	–	–
Memo items								
Nominal GDP (in billion dirhams)	1013	1063	1108	1151	1087	1144	1207	1278
GDP per capita (in current US$)	2998	3144	3348	3370	3135	3287	3439	3630

Source: World Bank staff estimates.
Note: CPI = Consumer Price Index; ILO = International Labor Organization.

TABLE 2 • Morocco: Key Fiscal Indicators 2015–2022 (in percent of GDP)

	2016	2017	2018	Est. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Total revenues	**24.2**	**24.5**	**23.8**	**24.2**	**22.6**	**23.3**	**23.7**	**23.9**
Tax Revenues	20.9	21.2	21.2	20.7	19.0	19.1	19.5	19.7
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants (GCC)	0.7	0.9	0.3	0.1	0.2	0.1	0.0	0.0
Other revenues (including Privatization Proceeds)	2.6	2.4	2.3	3.4	3.5	4.1	4.2	4.2
Total expenditures	**28.5**	**28.0**	**27.5**	**27.8**	**30.4**	**29.9**	**29.4**	**28.8**
Compensation of employees	10.3	9.9	9.6	9.7	12.5	12.2	12.0	11.4
Use of goods and services and grants	7.9	7.8	8.0	8.3	7.6	8.0	7.9	8.0
Subsidies	1.4	1.4	1.6	1.4	1.1	1.2	1.1	0.9
Interest payments	2.7	2.5	2.5	2.3	2.6	2.5	2.4	2.4
Other expenses (incl. capital expenditures)	6.3	6.3	5.9	6.1	6.6	6.0	6.1	6.2
Overall balance (excl. privatization)	**-4.4**	**-3.5**	**-3.7**	**-4.1**	**-7.8**	**-7.0**	**-5.9**	**-5.0**
Primary balance (excl. privatization)	−1.6	−0.9	−1.3	−1.8	−5.2	−4.5	−3.4	−2.6
Overall balance (incl. privatization)	**-4.3**	**-3.5**	**-3.7**	**-3.6**	**-7.8**	**-6.6**	**-5.8**	**-4.9**
Arrears	0.5	−0.1	0.3	−0.4	…	…		
Government financing	**3.8**	**3.6**	**3.4**	**4.0**	**7.8**	**6.6**	**5.8**	**4.9**
External (net)	0.3	0.3	−0.2	1.5	3.0	2.8	1.5	2.1
Domestic (net)	3.5	3.2	3.6	2.5	4.8	3.9	4.3	2.8
Central Government debt stock	**64.9**	**65.1**	**65.2**	**65.0**	**77.4**	**80.1**	**81.7**	**81.9**
External (net)	14.1	14.5	13.5	14.2	18.2	20.0	20.3	21.2
Domestic (net)	50.8	50.6	51.7	50.8	59.2	60.1	61.1	60.2
Memorandum items:								
SOE's & Public Establishments' Debt Stock	**24.8**	**25.0**	**25.2**	**25.4**				
of which: external debt	16.6	16.8	16.1	15.5				

Note: External and domestic debt is defined on a currency-based classification; government financing includes privatization.

SELECTED RECENT WORLD BANK PUBLICATIONS ON MOROCCO

(For an exhaustive list, please go to: https://www.worldbank.org/en/country/morocco)

Once NEET, Always NEET ? A Synthetic Panel Approach to Analyze the Moroccan Labor Market	May 2020	Policy Research Working Paper
Morocco Economic Update – Spring 2020	April 2020	Brief
Water Scarcity in Morocco : Analysis of Key Water Challenges	Jan. 2020	Report
Morocco - Supporting the Design of Performance-Based Contracts to Improve Results in Education	Dec. 2019	Brief
Polarization and Its Discontents: Morocco before and after the Arab Spring	Oct. 2019	Policy Research Working Paper
Doing Business 2020: Comparing Business Regulation in 190 Economies - Economy Profile of Morocco	Oct. 2019	**Doing Business**
Morocco Economic Update – Fall 2019	Oct. 2019	Brief
The Moroccan New Keynesian Phillips Curve: A Structural Econometric Analysis	Sept. 2019	Policy Research Working Paper
Lessons from Power Sector Reforms: The Case of Morocco	August 2019	Policy Research Working Paper
Leveraging Urbanization to Promote a New Growth Model While Reducing Territorial Disparities in Morocco: Urban and Regional Development Policy Note	June 2019	Publication
Morocco: Systematic Country Diagnostic (العربية, English, French)	June 2019	**SCD**
Creating Markets in Morocco a Second Generation of Reforms: Boosting Private Sector Growth, Job Creation and Skills Upgrading	June 2019	**CPSD**
Morocco's Growth and Employment Prospects: Public Policies to Avoid the Middle-Income Trap	March 2019	Policy Research Working Paper
Gender Gaps in the Labor Market and Economic Growth	Dec. 2018	Policy Research Working Paper
Doing Business 2019: Training for Reform - Morocco	Oct. 2018	**Doing Business**
Climate Variability, Drought, and Drought Management in Morocco's Agricultural Sector	Oct. 2018	Working Paper
The optimal mix of pricing and infrastructure expansions to alleviate traffic congestion and in-bus crowding in grand Casablanca	June 2018	Policy Research Working Paper
Maroc – Pour une Nouvelle Stratégie de Mise en Œuvre et de Gouvernance de l'Urbanisme et de l'Aménagement Urbain : Défis, Contraintes et Leviers d'Action (French)	May 2018	Working Paper
Morocco 2040 – Emerging by Investing in Intangible Capital, Country Economic Memorandum (العربية, English; French)	Oct. 2017	**CEM**

WORLD BANK GROUP
1818 H Street, NW
Washington, DC 20433