MOROCCO ECONOMIC MONITOR

WORLD BANK GROUP

Morocco Economic Monitor

July 2020

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ACRONYMS

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

PREFACE

The *Morocco Economic Monitor* is a semi-annual report from the World Bank economic team on recent economic developments and economic policies. This report presents our current outlook for Morocco given the recent COVID-19 developments. Its coverage ranges from the macro-economy to the business environment and private sector development. It is intended for a wide audience, including policymakers, 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 Amina Coulibaly (Senior Economist, MTI) and Amina Iraqi (Economist, MTI), with contributions and guidance from Khalid El Massnaoui (Senior 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 grateful for the comments, helpful inputs received from colleagues in particular 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.

 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 Amina Coulibaly (*acoulibaly4@worldbank.org*), or Eric Le Borgne (*eleborgne@worldbank.org*).

EXECUTIVE SUMMARY

Over the past two decades, Morocco has achieved significant social and economic progress due to large public investments, structural reforms, along with measures to ensure macroeconomic stability. The resulting growth has led to dramatic improvements towards eradicating extreme poverty; increased life expectancy; greater access to basic public services, and significant public infrastructure development. These have enabled the country to narrow the standard-of-living gap with southern European countries.

The COVID-19 shock is, however, abruptly pushing the economy into a severe recession, the first one since 1995. The economy is expected to be doubly impacted by domestic and external economic shocks. Real GDP is projected to contract by 4 percent in 2020 in the baseline scenario, a sharp contrast to the 3.6 percent expansion projected before the outbreak. Few sectors have been spared but the contraction is primarily driven by a drop in the production of goods and services, a reduction in exports, disruption of global value chains, as well as a decline in tourism due to travel restrictions and border lockdowns. Further extensions of the lockdown would have a further negative short-term impact on real GDP growth.

The labor market is facing a shock of historical proportion, with vulnerable workers, including those in the informal sector being particularly affected. Enterprises have faced disruption of value chains, workers' mobility, temporary closures as well as slowing global demand. The combined negative effects have led to widespread job and income losses. According to HCP, Government assistance has partly mitigated income loss for 19 percent of households.

Morocco's twin deficits are projected to deteriorate but remain manageable. Despite lower imports, the current account deficit is expected to widen to 8.4 percent in 2020 reflecting sharp declines in export and tourism revenues and remittances. On the fiscal front, revenue will be lower than previously expected in 2020 and 2021 while expenditures are projected to increase in 2020 on the back of additional spending on health, social protection, and other COVID-19 policy responses. As a result, we expect the overall fiscal deficit to widen to 7.5 percent of GDP in 2020, almost 4 percentage points larger than projected pre-COVID-19. Both public and external debt are projected to rise but to remain sustainable.

The government's response to date has been swift and decisive. The proactive response has enabled the country to avoid a massive outbreak, thus saving lives. In addition to quickly closing borders, building, and strengthening the health system, GoM has created a Special Fund to mitigate economic impacts. The policy responses include the compensation of households impacted by the pandemic, including—innovatively—those working in the informal sector, and the preparation of a Revised Finance Law, the first in 30 years. Continued good policy measures, including developing a clear roadmap for lifting containment measures, are key to shorten and lessen the economic, social, and health trough, and to hasten the recovery.

The post-pandemic economic recovery is projected—with unusually large uncertainty—to be a protracted one, with growth only returning to the pre-pandemic trend by 2022. The uncertainty surrounding the projected pace of recovery arises as this pace is intrinsically linked to unknown factors such as the discovery of effective treatments against COVID-19, as well as future actions of policymakers, the evolution of the global economy. Given the extreme level of uncertainty, the pace of recovery is also critically dependent on the behavior of both households and firms, that are expected to take strong precautions. This could be a strong drag on private consumption and investment.

Faced with the risk of a protracted pandemic, moving from mitigation to an adaptation phase is key to ensuring a resilient, inclusive, and growing Moroccan economy. Despite potential volatility in the economic recovery phase, Morocco has an opportunity to build a more sustainable and resilient economy by developing a strategy to adapt, similar to its approach to the environment front.

RESUME SYNTHÉTIQUE

Au cours des deux dernières décennies, le Maroc a réalisé des progrès sociaux et économiques significatifs en raison d'investissements publics importants, de réformes structurelles et de mesures visant à assurer la stabilité macroéconomique. La croissance qui en résulte a conduit à des améliorations spectaculaires vers l'éradication de l'extrême pauvreté; l'augmentation de l'espérance de vie; un meilleur accès aux services publics de base et un développement important des infrastructures publiques. Celles-ci ont permis au pays de réduire l'écart de niveau de vie avec les pays du sud de l'Europe.

Le choc du COVID-19 pousse brusquement l'économie marocaine dans une grave récession, la première depuis 1995. L'économie devrait être doublement affectée par les chocs économiques intérieurs et extérieurs. Le PIB réel devrait contracter de 4% en 2020 dans le scénario de référence, ce qui contraste fortement avec l'expansion de 3,6% prévue avant l'épidémie. Peu de secteurs ont été épargnés, mais la contraction est principalement due à une baisse de la production de biens et services, une réduction des exportations, une perturbation des chaînes de valeur mondiales, ainsi qu'à une baisse du tourisme due aux restrictions de voyage et aux fermetures de frontières. Une extension des mesures de confinements aura un impact négatif à court terme sur la croissance du PIB réel.

Le marché du travail fait face à un choc de proportions historiques, les travailleurs vulnérables, notamment ceux du secteur informel, étant particulièrement touchés. Les entreprises ont été confrontées à des perturbations des chaînes de valeur, à la mobilité des travailleurs, à des fermetures temporaires ainsi qu'à un ralentissement de la demande mondiale. Les effets négatifs combinés ont conduit à des pertes d'emplois et de revenus généralisées. L'aide gouvernementale a en partie atténué la perte pour 19% des ménages.

Les déficits jumeaux du Maroc devraient se détériorer mais restent gérables. Malgré la baisse des importations, le déficit du compte courant devrait se creuser et atteindre 8,4% en 2020, reflétant une forte baisse des recettes d'exportation et touristiques ainsi que des transferts. Sur le plan budgétaire, les recettes seront inférieures aux prévisions antérieures en 2020 et 2021, tandis que les dépenses devraient augmenter en 2020 grâce à des dépenses supplémentaires en matière de santé, de protection sociale et d'autres réponses politiques COVID-19. En conséquence, le déficit budgétaire global devrait s'élargir à 7,5% du PIB en 2020, près de 4 points de pourcentage de plus que prévu avant COVID-19.

La dette publique y compris extérieure devrait aussi augmenter mais rester soutenable.

À ce jour, la réponse du gouvernement a été rapide et décisive. La réponse proactive du Gouvernement a permis au pays d'éviter une épidémie massive, sauvant ainsi des vies. En plus de fermer rapidement les frontières et de renforcer le système de santé, le GoM a créé un fonds spécial pour atténuer les impacts économiques**.** Les réponses politiques comprennent l'indemnisation des ménages touchés par la pandémie, y compris — de manière innovante — ceux qui travaillent dans le secteur informel, et la préparation d'une loi de finances révisée, la première en 30 ans. La poursuite de bonnes mesures politiques, notamment l'élaboration d'une feuille de route claire pour la levée des mesures de confinement, est essentielle pour raccourcir et réduire le creux économique, social et sanitaire, et pour accélérer la reprise

La reprise économique post-pandémique est prévue—avec une grande incertitude autour de ces projections— d'être prolongée ; la croissance ne revenant à la tendance d'avant la pandémie qu'en 2022. Le degré élevé d'incertitude entourant le rythme de reprise est intrinsèquement lié à des facteurs tels que la découverte de traitements efficaces contre COVID-19, ainsi que les actions futures des décideurs et l'évolution de l'économie mondiale. Le rythme dépendra également du comportement des ménages et des entreprises, qui, compte tenu du niveau d'incertitude extrême, devraient prendre d'énormes précautions; ce qui pourrait être un frein important à la consommation et à l'investissement privés.

Face au risque d'une pandémie prolongée, passer d'une phase d'atténuation à une phase d'adaptation est la clé pour assurer une économie marocaine résiliente, inclusive et en croissance. Malgré la volatilité probable de la phase de reprise économique, le Maroc a l'opportunité de construire une économie plus durable et résiliente en développant une stratégie d'adaptation, similaire à son approche sur le front de l'environnement.

الملخص التنفيذي

حقق المغرب على مدى العقدين الماضيين تقدمًا اجتماعيًا واقتصاديًا كبيراً بسبب الاستثمارات العامة الضخمة، الإصلاحات الهيكلية، إلى جانب التدابير الرامية إلى ضمان استقرار الاقتصاد. وقد أدى النمو الناتج إلى تحسينات كبيرة نحو القضاء على الفقر المدقع؛ زيادة متوسط العمر المتوقع؛ تحسين الولوج إلى الخدمات العامة الأساسية وتطوير البنية التحتية العامة. وقد مكنت هذه الإنجازات المغرب من تضييق الفجوة في مستويات المعيشة مع دول جنوب أوروبا.

تدفع جائحة فايروس كوفيد – 19 الاقتصاد المغربي إلى أعمق ركود اقتصادي متوقع منذ عام 1995. من المتوقع أن يتأثر الاقتصاد بشكل مضاعف بالصدمات الاقتصادية المحلية والخارجية. حيث انه من المتوقع أن ينكمش الناتج المحلي الإجمالي بقيمته الحقيقية بنسبة 4 في المائة في عام 2020 في سيناريو مرجعي ، وهو تباين حاد مقارنة بنسبة 3.6 في المائة المتوقعة قبل تفشي الجائحة. عدد قليل من القطاعات لم تتأثر بالجائحة ولكن الانكماش يرجع بشكل رئيسي إلى انخفاض إنتاج السلع والخدمات، انخفاض الصادرات، تعطيل سلاسل القيمة العالمية وكذلك تراجع السياحة بسبب قيود السفر وإغلاق الحدود. إن تمديد إجراءات الحجر الصحي سيكون له تأثيرسلبي على نمو الناتج المحلي الإجمالي بقيمته الحقيقية على المدى قصير.

يواجه سوق العمل صدمة ذات أبعاد تاريخية، حيث يتأثر العمال المستضعفون، ولا سيما العاملين في القطاع غير الرسمي. واجهت الشركات اضطرابًا في سلاسل القيمة، تنقل العمال، الإغلاق المؤقت وتباطؤ الطلب العالمي. وقد أدت الآثار السلبية إلى خسائر واسعة النطاق في الوظائف والدخل. وقد مكنت المساعدة الحكومية من تخفيف بشكل جزئي فقدان الوظائف لـ 19 بالمائة من الأسر.

من المتوقع أن يتدهور العجز المزدوج في المغرب لكنه يبقى تحت السيطرة. على الرغم من انخفاض الواردات، من المتوقع أن يتسع عجز الحساب الجاري لميزان المدفوعات إلى 8.4 في المائة في عام 2020 مما يعكس انخفاضا حادا في عائدات الصادرات والسياحة والتحويلات المالية من الخارج. على الصعيد المالي، ستكون الإيرادات أقل مما كان متوقعًا سابقًا في 2020 و2021 بينما من المتوقع أن تزيد النفقات في 2020 نتيجة الإنفاق الإضافي على قطاعات الصحة والحماية الاجتماعية وغيرها من سياسات الاستجابة لتداعيات الجائحة. وبالتالي، من المتوقع أن يتسع العجز المالي الإجمالي إلى 7.5 في المائة من الناتج المحلي الإجمالي في عام 2020، أي بزيادة ما يقرب 4 نقاط مئوية عما كان متوقعًا قبل تفشي الجائحة. كما من المتوقع أن يرتفع الدين العام والخارجي على حد سواء، ولكنه سيبقى مستدامًا.

كان رد الحكومة حتى الآن سريعاً و **حاسماً**. ساهمت الإجراءات الاستباقية التي اتخذتها الحكومة من تجنب تفشي الوباء بشكل واسع النطاق وإنقاذ الأرواح. بالإضافة إلى إغلاق الحدود بسرعة وتعزيز النظام الصحي ، تم إحداث صندوق خاص لمواجهة الوباء والتخفيف من آثاره الاقتصادية. قد شملت سياسات الاستجابة لتداعيات الجائحة قرار تعويض الأسر المتضررة من الوباء، بما في ذلك الذين يعملون في القطاع غير الرسمي. إن السعي إلى اتخاذ تدابير سياسية جيدة يشكل ضرورة أساسية لتقصير وتقليل الفجوة الاقتصادية، الاجتماعية والصحية، وتسريع الانتعاش الاقتصادي.

من المتوقع أن يكون الانتعاش الاقتصادي بعد الجائحة، مع درجة كبيرة غير معتادة من عدم اليقين بطيء، حيث ان عودة النمو الاقتصادي إلى

وضعه الطبيعي لن تتم قبل حلول عام 2022. ويرتبط عدم اليقين المحيط بالوتيرة المتوقعة للانتعاش ارتباطًا جوهريًا بعوامل غير معروفة مثل اكتشاف اللقاحات الفعالة ضد كوفيد – 19 ، بالإضافة إلى الإجراءات المستقبلية لمقرري السياسات، وتطور الاقتصاد العالمي. وستعتمد الوتيرة أيضًا على سلوك الأسر والشركات، والتي، نظرًا لمستوى عدم اليقين الشديد، يجب أن تتخذ احتياطات هائلة؛ وهذا في حد ذاته قد يشكل عائقِا على الاستهلاك الخاص والاستثمار.

أمام احتمال **حدوث أزمة مطولة لتفشي وباء، فإن الانتقال من مرحلة التخفيف إلى مرحلة التكيف هو أمر أساسي لضمان اقتصاد مرن، شامل ومتنامي.** على الرغم من التقلبات المحتملة في مرحلة الانتعاش الاقتصادي، فإن المغرب لديه فرصة لبناء اقتصاد أكثر استدامة ومرونة من خلال وضعه استراتيجية للتكيف، على غرار ما يفعله على الصعيد البيئي.

1

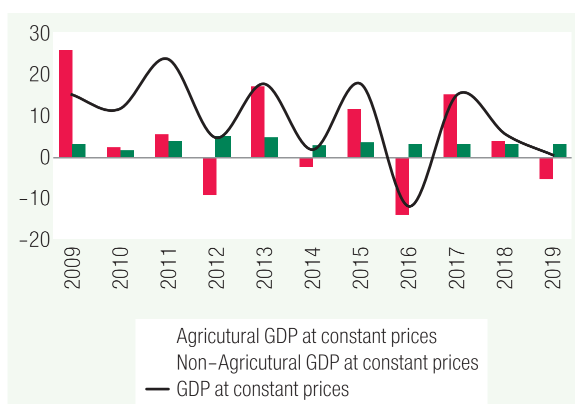
RECENT ECONOMIC AND POLICY DEVELOPMENTS BEFORE COVID-19

Economic growth remained relatively sluggish in 2019 and below potential. Meanwhile, the external position improved and remained sustainable despite some vulnerabilities. Following five years of strong fiscal consolidation efforts, the fiscal deficit widened anew in 2019, and debt remained high. Since early 2020, the COVID-19 pandemic drastically and negatively impacted the economy and introduced significant uncertainty and risks to the outlook.

Economic Activity Driven by Private Demand

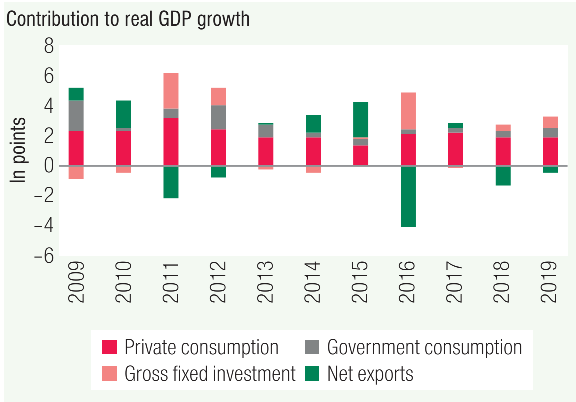
Economic growth has been moderate but volatile during the past decade. On the supply side, this growth pattern has been driven by large swings in the growth of mainly rain-driven agriculture, and by moderate non-agricultural growth. Following two consecutive years of good cereal harvest, agriculture production, which still represents almost 13 percent of Morocco's GDP, suffered a drought-induced contraction in 2019, (minus 5.8 percent) and dragged the overall GDP growth down to 2.5 percent. Non-agricultural growth (3.8 percent in 2019 vs. 2.9 percent in 2018 and 2017) continued at a moderate pace driven by better performance of energy, industry, and services sectors (Figure 1). On

FIGURE 1 • Morocco's Growth Rate Volatility



Source: World Bank Staff using HCP data..

FIGURE 2 • Domestic Demand-driven Growth



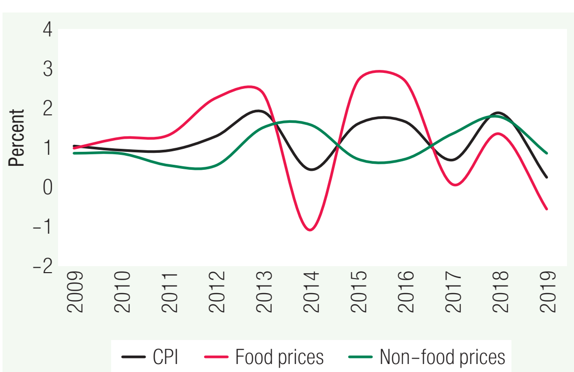
Source: World Bank Staff using HCP data.

the demand side, domestic demand remains the main growth driver, fueled by investment (primarily public) and private consumption. In 2019, private consumption contributed the most to growth, boosted by higher salaries and low inflation, while net exports contributed marginally to growth, reflecting low competitiveness of exports and dependence on energy imports (Figure 2).

Stable Prices and Inflation

Inflation remains low and relatively stable notwithstanding more volatile food prices. With an exchange rate pegged to a basket of the Euro and the U.S. dollar, inflation is well-anchored and has remained low and controlled under 2 percent since 2008

FIGURE 3 • Inflation Remains Low and Stable



Source: World Bank Staff using HCP data..

(Figure 3). In 2019, consumer prices increased by 0.2 percent on a year-on-year basis, reflecting declining food prices (−0,5 percent) and a 0.9 percent increase in non-food prices.

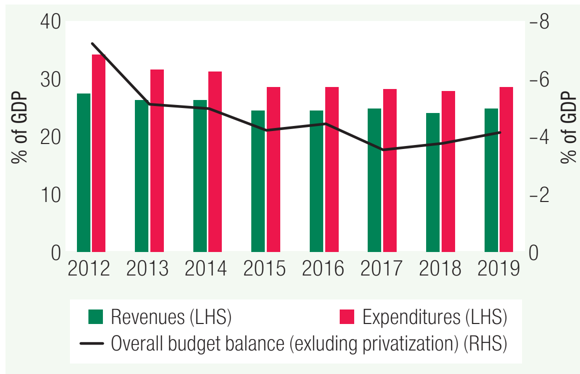
Challenging Jobs and Labor Market

As economic growth decelerated so did job creation; inclusiveness and job quality are particularly challenging, especially for youth, women, and educated workers. With the working-age population increasing by over 300,000 a year, net job creation has been insufficient. The unemployment rate remains elevated at 9.2 percent in 2019 and is significantly higher among women and youth, while labor force participation has been experiencing a protracted decline to below 46 percent and female labor force participation to 21.3 percent only. Informality is significant. Only 17 percent of the economically active population has a formal job, and less than 10 percent has a formal private-sector job. Furthermore, unemployment spells tend to be long: more than 70 percent of the unemployed have been so for more than a year, and this share is higher among those with tertiary education.

Public Finance and Public Debt under Pressure

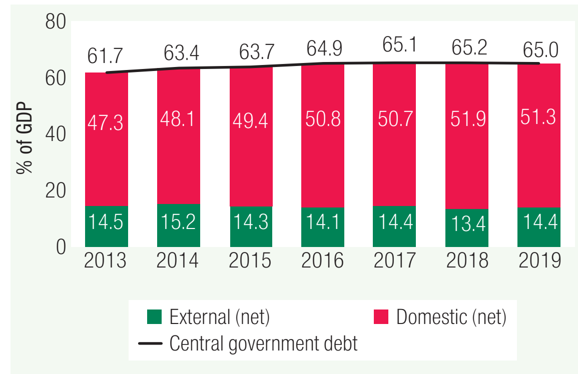
The fiscal deficit widened anew in 2019. The countercyclical fiscal policies deployed in 2008 by the authorities to mitigate the impact of the global financial crisis and subsequently the EU debt crisis led to a sharp deterioration in Morocco's fiscal balance. As a result, the public debt-to-GDP ratio rose from 45.4 percent in 2008 to 58.2 percent in 2012. 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. Fiscal consolidation paused and slightly reversed in 2019, with the fiscal deficit widening to an estimated 4.1 percent of

FIGURE 4 • Slowing Fiscal Consolidation



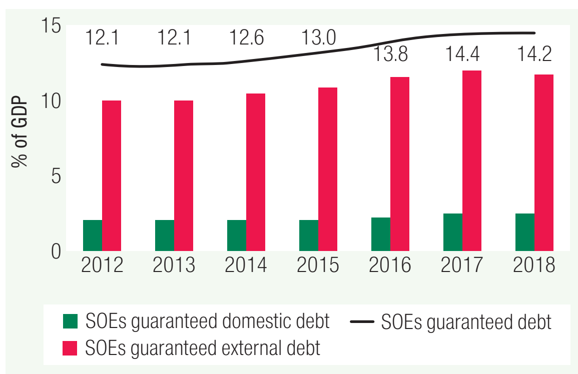
Source: World Bank staff using Ministry of Finance data.

FIGURE 5 • Central Government Debt-to-GDP Ratio



Source: World Bank staff using Ministry of Finance data.

FIGURE 6 • SOEs Guaranteed Debt Is Rising



Source: World Bank staff using Ministry of Finance data.

GDP (Figure 4). This was driven mainly by lower than forecasted corporate tax revenue and grants from the GCC (Gulf Cooperation Council) and by increased spending on goods, services, and capital expenditures. Privatization proceeds helped finance the government in 2019. Consequently, the central government debt-to-GDP ratio has stabilized at 65 percent (Figure 5), with a guarantee to SOEs' debt representing an additional 14 percent of GDP (Figure 6).

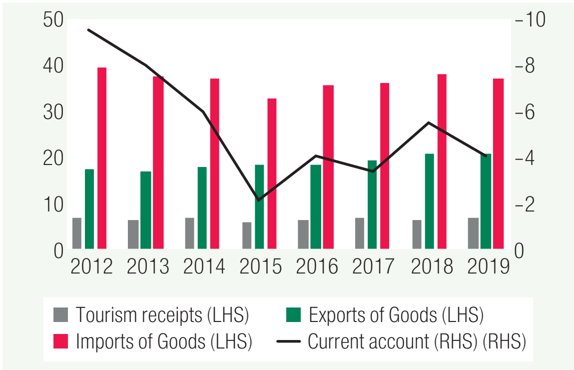
Reforms are being implemented to improve the equity and efficiency of the tax system. Following the Third National Tax Conference (*Troisième Assises Nationales sur la Fiscalité*, TANF), which took place in May 2019, a governmental committee has been working on a multiannual programming framework law (MAPFL). This law is expected to translate the 100 recommendations formulated by the TANF into fiscal reforms and measures to be implemented over 2020–2024. The MAPFL is expected to instill the key principles of the conference outcomes, such as equity, efficiency, and simplicity of the tax system while ensuring greater revenue mobilization and economic growth. This is expected to be achieved by ensuring the progressivity of taxes, harmonizing rules around deductions and allowances, and rationalizing tax incentives. The tax system reforms are also expected to include efforts to reduce corporate tax rates while expanding the tax base and bringing the tax rates in export zones in line with corporate tax rates. Efforts have also been made to improve spending efficiency through reforms to establish a unified framework for public investment management.[1]

Improved External Position

The current account deficit narrowed in 2019 (Figure 7). Data through end-2019 reveal a year-on-year growth of exports by 2.4 percent, primarily driven by an increase in automotive and aeronautics exports. The performance of tourism receipts (7.8 percent) and the reduction in energy imports (–7.2 percent given

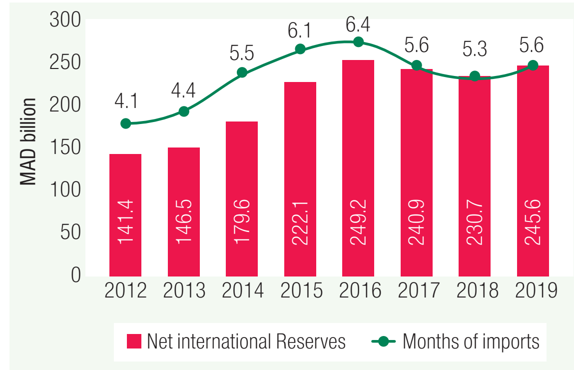
[1] The reforms aim to set up a unified framework throughout the life cycle of all public investment projects including the legal framework, information system as well as tools for better project selection and monitoring.

FIGURE 7 • Narrowing Current Account Deficit



Source: World Bank staff using Morocco exchange office data.

FIGURE 8 • Net International Reserves Recovering in 2019



Source: World Bank staff using Morocco exchange office data.

the decline in oil prices) has supported a decline in the current account deficit to 4.1 percent of GDP in 2019 despite the stagnation of remittances.

Morocco's pre-established Precautionary Lending Line (PLL) from the IMF proved prescient as it enabled the country to boost its foreign exchange reserves at a time of emerging market stress. While Morocco's net foreign exchange reserves still comfortable at 5.6 months of import coverage by end-2019 (MAD 245.6 billion)—Figure 8—, these started to noticeably decline as the COVID-19 pandemic spread to Morocco. At end-March 2020, reserves had declined to US$ 25.9 billion. On April 7, 2020, the Moroccan authorities purchased all available resources under the IMF's PLL arrangement (around US$ 3 billion). This purchase bolstered official reserves during a time of unprecedented external and domestic shock due to the COVID-19 pandemic.

Monetary Policy Measures

Morocco's monetary policy has been prudent and responsive. Bank Al-Maghrib (BAM), the central bank, cut its key policy rate three times between 2014 and 2016, reaching 2.25 percent. The policy rate was further reduced to 2.0 percent in March 2020 and then to 1.5 percent in June 2020 in response to the economic shock expected from the COVID-19 pandemic. BAM has also increased longer-term refinancing and adjusted prudential requirements in line with prudential practices in Europe.

The widening of the exchange rate band in January 2018 from ±0.3 percent to ±2.5 percent and in March 2020 to ±5 percent has contributed to improving the economy's shock absorption capacity. Since January 2018, the exchange rate (pegged to a two-currency basket that is weighted 60 percent to the Euro and 40 percent to the US Dollar) has remained close to the middle of the band, reflecting its alignment with macro fundamentals. Following the onset of the COVID-19 pandemic, the real effective exchange rate has appreciated by about 0.86 percent in the first quarter of 2020. While this exchange rate reform could increase vulnerability to imported inflation, it will enhance competitiveness and improve the economy's shock absorption capacity.

2

OUTLOOK AND CHALLENGES

Outlook

We project the economy to be in a severe recession in 2020 due, primarily, to the COVID-19 pandemic but also poor rain conditions impacting the agriculture sector. Compared to our pre-COVID-19 forecast, Morocco's real GDP growth has been revised downwards by 7.6 percentage points (pp) to -4.0 percent in 2020, primarily due to the impact of the pandemic on non-agricultural growth (-4.2 percent in 2020). The fall in economic activity is projected to be more pronounced in Q2 and Q3 of 2020 with recovery taking place, gradually, from Q4 onwards. Industrial value-added is projected to contract by 5.4 percent as manufacturing industries (including automotive and textiles) are affected by the decline in foreign demand and disruption of global value chains while production is hampered by social distancing policies. Mining value added is also expected to decline as foreign demand drops and as the prices of crude phosphate and its derivatives decrease. We expect the services sector to face a substantial contraction estimated at 5.2 percent in 2020 due to social distancing measures and travel restrictions which will most acutely impact transport, tourism, and trade activities. In a downside scenario, where the pandemic lingers much longer and containment measures would have to remain in place, the real GDP growth could decline further reflecting depressed private consumption and investment. Inflation is projected to decline to 0.2 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 gradually recover but the pace and length of the recovery are subject to high uncertainty, given unknowns such as the discovery of treatments or vaccines against COVID-19. The post-pandemic economic recovery is projected to be protracted, with growth only returning to the pre-pandemic trend, at the earliest, by 2022. In 2021, the economy is projected to expand by 3.4 percent as agricultural output owing to more normal weather while non-agricultural output slowly picks up as domestic economic activity gradually restarts along with the recovery in Morocco's key exports markets in Europe. Tourism is projected to recover at a slower rate than the domestic services sector and goods exports 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 3.8 percent over 2022–2024.

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, particularly from goods and services, customs duties, and income and profits, 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, social protection, as well as recovery spending. As a result of this combination of automatic stabilizers and mitigation-related spending to protect households and firms, the overall fiscal deficit (excluding privatization proceeds) is projected to widen to 7.5 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 75.2 percent of GDP in 2020 (compared to 65 percent in 2019). Over the medium term, the fiscal deficit will be gradually declining to an average 4.1 percent of GDP over 2021–2024 compared to 3.3 percent in the pre-COVID-19 pandemic forecast. Central government debt is projected to rise. It would reach 77.8 percent of GDP in 2022 due to the protracted economic recovery from the COVID-19 pandemic shock, and will gradually decline to 74.5 percent by 2025, as growth rebounds and accelerates over the medium term, and as fiscal deficits decline.

Due to the COVID-19 shock, the current account deficit is expected to widen significantly 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 8.4 percent in 2020. The external shock has led to sharp declines in export and tourism revenues, remittances, and capital inflows. Although energy imports will decrease in an environment of low global oil prices, this will not fully offset the decline of exports and tourism revenues. The current account deficit is projected to shrink starting in 2021 to 6.4 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 0.6 percent of GDP in 2020, again on account of the COVID-19 shock, before recovering to around 2 percent of GDP over the medium term. We expect gross international reserves to temporarily dip to 4.1 months of imports in 2020 before gradually recovering, reaching 4.9 months by 2025.

Fiscal and external gross financing needs are, accordingly, wider but Morocco's macroeconomic management prior to the pandemic provides had built important buffers (e.g., the $3 billion IMF Precautionary Lending Line that Morocco drew on at the onset of the pandemic). Public gross financing needs (GFNs) are projected to reach 16.1 percent of GDP in 2020, 4.5 percentage points (pp) higher than the pre-COVID19 pandemic forecast. External gross financing needs (EFN) in 2020 are expected to reach 11.4 percent of GDP, around 5.6 pp above the pre-pandemic forecast.

Challenges

Like the rest of the world, the outlook is subject to an unusual amount of risks, tilted to the downside. The eventual discovery (or lack thereof) of an effective treatment or vaccine to the COVID-19 is, by far, the primary source of risk to our outlook, but these are mostly unknown to date. For example, should a vaccine be delayed (or cannot be found, as is the case with diseases such as Ebola, MERS), new COVID-19 waves are likely to recur, potentially in a more lethal variant (as was the case with the 1918–1920 Spanish Flu); this would further worsen the global economic outlook, and adversely affect economic activity in Morocco. This, along with a potential reduction in FDI and remittances due to the pandemic would have knock-on effects on the fiscal and current account balances and the foreign reserve position. The pandemic hurts the pace of public finance consolidation and, consequently, on gross financing needs and debt. Continued disruption of global financial markets could hinder access to finance and/or increase the cost of financing fiscal and external deficits. A reversal of the recent drop in global oil prices would affect fiscal and external accounts.

SPECIAL FOCUS: THE IMPACT OF COVID-19 ON MOROCCO'S ECONOMY

The COVID-19 pandemic hit Morocco's economy—like most others in the world—fast and hard. The country is experiencing both domestic and external economic shocks and a toxic mix of sharp and sudden supply and demand shocks. Notwithstanding Morocco's prompt and decisive policy measures to contain COVID-19's spread and to mitigate its negative impact on the economy, the country is projected to face a deep recession, its first recession since 1995. Few sectors have been spared. Continued good policy measures are critical both to shorten and lessen the economic, social, and health trough, and to hasten the recovery.

The COVID-19 pandemic has pushed, at rapid speed, the global economy into the worst global recession in eight decades. Lockdowns and other restrictions needed to address the public health crisis, together with spontaneous reductions in economic activity by many producers and consumers, constitute an unprecedented combination of adverse supply and demand shocks that is causing a deep recession. The sudden stop in economic activity severely affects businesses, households, financial institutions, and markets. The World Bank is projecting global growth to contract by 5.2 percent in 2020, despite unprecedented fiscal and monetary policy support (Figure 9). The global recession could still be deeper if controlling the pandemic takes longer than expected, or if current liquidity issues morph into solvency ones (for households, firms, and/or sovereigns).

The economic crisis is putting pressure on both government budgets, households and, the private sector. Lower revenues in the context of higher expenditures to contain the spread of the disease are putting the government budget under pressure**.** Meanwhile, households are losing jobs from lower external demand, containment measures as well as lower remittances from abroad. Labor markets are also under pressure as many jobs are informal or temporary. Morocco services sector is sharply affected by travel restrictions especially the tourism sector. The effects of the pandemic are adding to the overall underperformance of the agricultural sector in 2019. 57 percent of private businesses declared having permanently or temporarily stopped their activities including 72 percent of very small enterprises and 26 percent of SMEs (HCP, April 2020).

Despite challenges, COVID-19 is an opportunity to accelerate long-standing economic reforms. Tracking the COVID-19 pandemic and its subsequent economic impact call for building up the resilience of the Moroccan economy including through the development of adaptation measures. Restarting the economy will depend on how the health system can be able to detect and respond to local COVID-19 transmission levels as well as on the duration of the COVID-19 pandemic. Nevertheless, policy responses to support employers and workers through the crisis will determine how quickly the country can recover in the aftermath of this crisis.

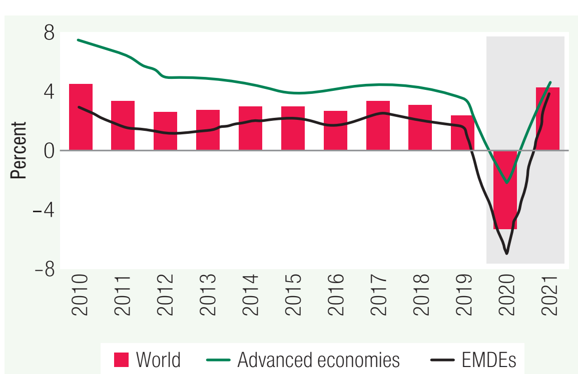
Global and Regional Context[2]

The COVID-19 pandemic and the plunge in oil prices are causing significant economic impacts in the world through simultaneous shocks. More than a decade after the global financial crisis, the world is struggling with the health and economic effects of a profound new crisis caused by the COVID-19 pandemic. The latter has, with alarming speed, delivered a global economic shock of enormous magnitude, leading to steep recessions in many countries.

The global economy is projected to fall into a severe recession this year, before regaining some strength in 2021. In the advanced economies, growth is projected to shrink by 7 percent in 2020, as widespread social distancing measures, a sharp tightening of financial conditions, and a collapse in external demand depress activity (Figure 9). Assuming that the outbreak remains under control and activity recovers later this year. China, the first country to have suffered from the crisis, is projected to slow to 1 percent in 2020—by far the lowest growth it has registered in more than four decades. Due to the negative spillovers from weakness in major economies, alongside the disruptions associated with their own domestic outbreaks, emerging market and developing economies (EMDEs), GDP is forecast to contract by 2.3 percent in 2020 (Figure 10). Given the nature of the shock, EMDEs with large domestic COVID-19 outbreaks and limited health care capacity; that are deeply integrated into global value chains; that are heavily dependent on foreign financing; and that rely extensively on international trade, commodity exports, and tourism will suffer disproportionately. Commodity-exporting EMDEs will be hard hit by adverse spillovers from sharply weaker growth in China, and by the collapse in global commodity demand, especially for oil. Consequently, the global economy is expected to shrink by 5.2 percent this year. This would be the deepest global recession since World War II, and almost three times as steep

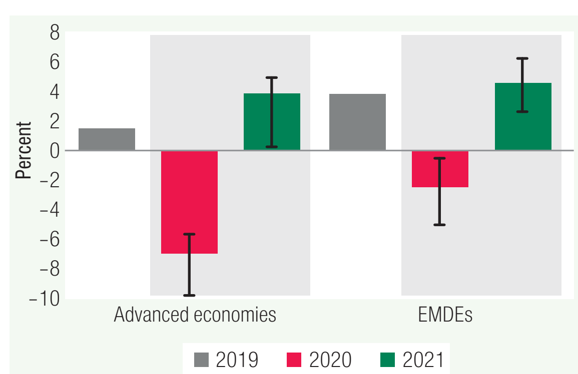
[2] For further details, see our recently released World Bank *Global Economic Prospects (GEP)*, June 2020.

FIGURE 9 • Global Growth



Source: World Bank (2020) GEP, June.

FIGURE 10 • Recession in Advanced Economies and EMDEs



Source: World Bank (2020) GEP, June.

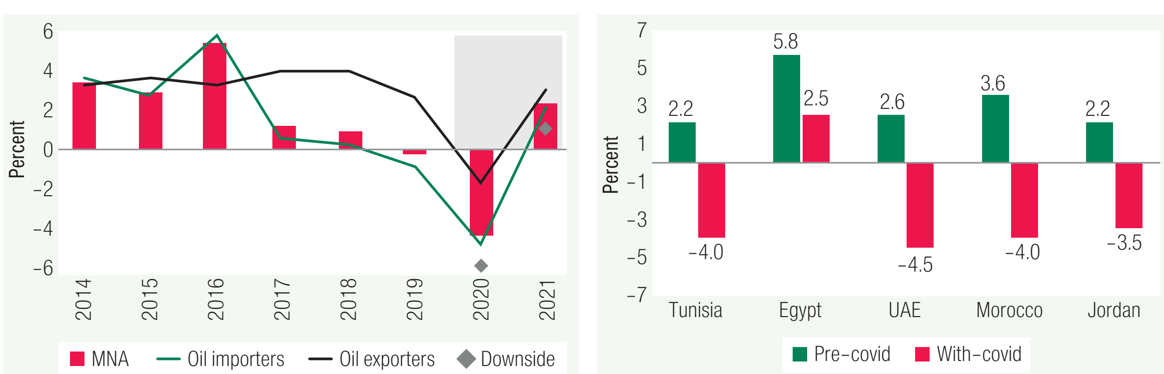
as the 2009 global recession. Per capita incomes in the vast majority of EMDEs are expected to shrink this year, tipping many millions back into poverty.

As a consequence of the pandemic and market developments, GDP in the MENA region is expected to sharply drop. In the baseline scenario, the real GDP growth in the MENA region is expected to contract in 2020 by more than 4 percent—a downward revision of 6.8 ppts compared to the pre-COVID-19 2020 forecast—as consumption, exports, and services activity such as tourism are severely disrupted by the pandemic, and in oil exporters, export and fiscal revenues collapse with the plunge in oil prices (Figure 11). Fiscal and monetary policy support in response to the pandemic has been swift in large regional economies, although some oil exporters, like the Kingdom of Saudi Arabia, have announced large tax increases and expenditure cuts to limit surging fiscal deficits. Regional growth is expected to resume in 2021 as the impact of the pandemic fades and investment improves. Risks to the outlook are heavily tilted to the downside and include much more widespread and longer-lasting regional COVID-19 outbreaks, deeper lower global activity, and intensification of regional conflicts.

In Morocco—as in most countries in the world—the outbreak has quickly evolved from a health emergency into an economic crisis. The economic impacts of the crisis were transmitted simultaneously through several channels: the drop in the production of goods and services, a reduction in exports, disruption of global value chains, as well as a decline in tourism due to travel restrictions and border lockdowns, to name a few. These translated into unprecedented and daunting challenges for the country trying to mitigate both the health and economic impacts of the pandemic. The sharp initial declines in activity following shutdowns and restrictions on mobility are very similar to that emerging from business surveys, high-frequency daily indicators, and the sharp output contraction observed already in the first semester this year. Consequently, an unusually large degree of uncertainty surrounds the projected economic outlook and is intrinsically linked to unknown factors such as the discovery, and rollout of effective treatments and/or vaccines against COVID-19, as well as future actions of policymakers, and evolution of the global economy.

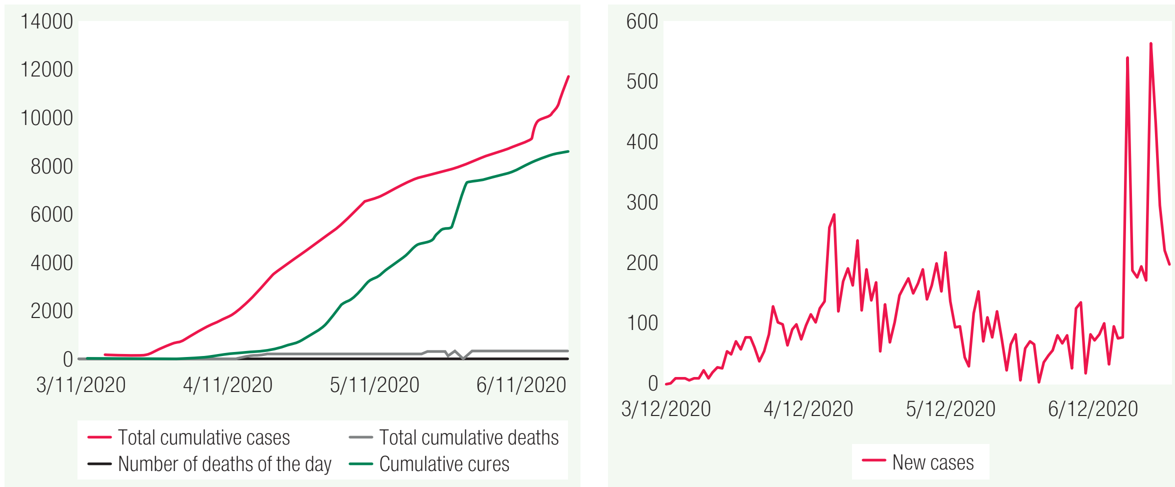
Due to prompt and firm policy actions, Morocco has experienced a moderate COVID-19 pandemic to date despite the large tourism sector. As in most countries, the COVID-19 outbreak poses a substantial challenge for Morocco's public health system, with wide-ranging social and economic implications (Figure 13). As of June 26, 2020, the outbreak has resulted in 11,633 confirmed cases and 218 death in total, bringing the fatality rate to 1.87%. (Figure 12a). This is considered remarkable compared to the outcomes of its neighbors to the North of the Mediterranean. The Government has taken rapid and important steps to contain the spread of the virus; these include (1) implementing an immediate response plan

FIGURE 11 • Real GDP Growth in MENA Rapidly and Markedly Slumped into a Recession in 2020



Source: World Bank (2020) GEP, June.

FIGURE 12(a-b) • Evolution of the COVID-19 Pandemic in Morocco

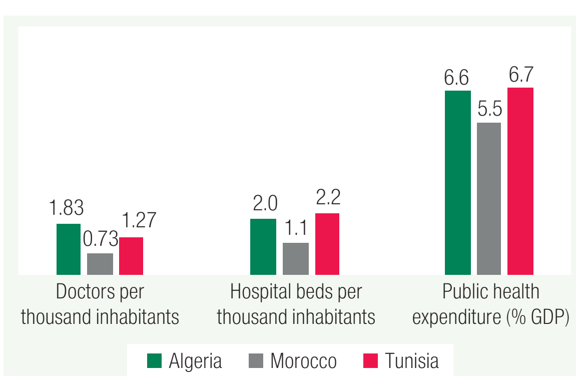


Source. https://www.coronavirus-statistiques.com/stats-pays/coronavirus-nombre-de-cas-maroc/.

after the first confirmed case that was based on a series of preventive actions; (2) the closure of borders except for goods and gradually, and (3) the closure of schools and universities, cafes, restaurants, and non-essential shops. As a result of these timely measures, the number of new COVID-19 cases has been steadily trending down over the past few weeks (Figure 12 (a–b)).

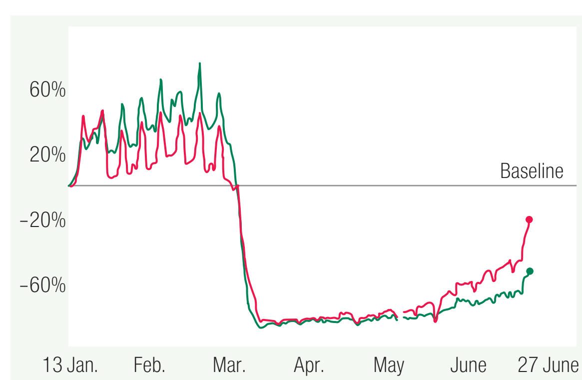
The domestic outbreak combined with the confinement measures has put the country's population and its economy at a standstill. The COVID-19 pandemic has compelled the population to drastically change its behavior, especially in terms of mobility (Figure 14). More specifically, driving and walking transit traffic dropped around 70 percent during the confinement period compared to pre-COVID mobility. The significant decline of mobility entails a sharp drop in services activities such as hotel and catering services, as well as a decline in trade activities. This is also impacting private consumption as households are limiting spending, both because of a lack of opportunity to spend (lockdowns), reduced income, and also because of a precautionary motive given the uncertainty that the recession is having on jobs and income prospects.

FIGURE 13 • Health systems in the Maghreb (2017)



Source: World Bank WDI.

FIGURE 14 • Morocco: Change in Mobility Patterns



Source: Apple Mobility reports, as of June 27, 2020.

Impact on Economic Activity in Morocco

The pandemic hit the economy in a context of low and below potential economic growth, constrained by low productivity. Due to the COVID-19 shock, Morocco's economy is projected to be in recession in 2020, the worst in a generation (Figure 15). Before the COVID-19 outbreak, real GDP was expected to expand at a reasonable pace of 3.6 percent in 2020, but with the far-reaching effects of COVID-19, the economy, like most others around the world, has plunged into a deep recession. On the supply side, national value chains were affected by cash flow problems, declining demand and, the bankruptcy of certain SMEs. Disruption of value chains combined with the effect of containment measures on labor mobility will affect productivity. On the demand-side, the slowdown results in the loss of certain jobs, particularly in services, and therefore a loss of income and drop in private consumption.

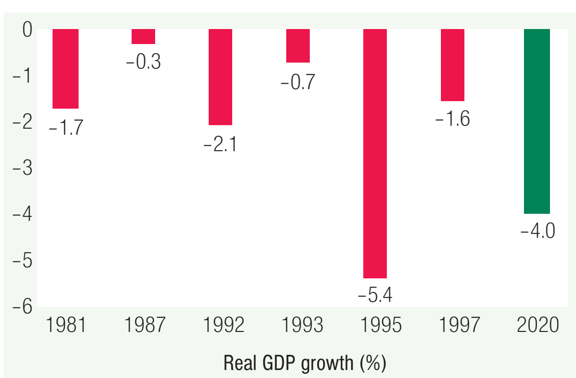
The pandemic started to adversely impact economic activity in Q1 2020 as it abruptly affected the production of goods and services for local use due to social distancing measures (Figure 16) The textile sector suffered from a low supply of raw materials which are typically imported from China and Asia more broadly. It has also been affected by the decline in foreign demand, especially from Spain and France which represent 60 percent of the sector's exports. The services sector including tourism, travel-related activities and, retail sectors have been among the hardest hit as result of the confinement policy and the associated closure of businesses. Road and rail transport sectors have been affected following the overall ban on the movement of passenger vehicles.[3] On the demand-side, private consumption has been depressed while investment is slowing as result of the slowdown in infrastructure and real estate investment, firms' lack of visibility regarding future demand and, the pressure most are facing on their cash flow (Figure 17).

Impact on Prices

Inflation remains broadly unchanged in 2020 but COVID-19 is creating some sharp movement in some consumption items (e.g., food prices are up, but transport prices are down) (Figure 18 (a–b). Morocco's annual inflation rate, as measured by the CPI, decreased by 0.2 percent y-o-y in May 2020, the lowest inflation rate since last November, due to the negative effects of the coronavirus crisis. The data indicate lower consumer prices in the sector affected by the crisis including transport (–7.3 percent),

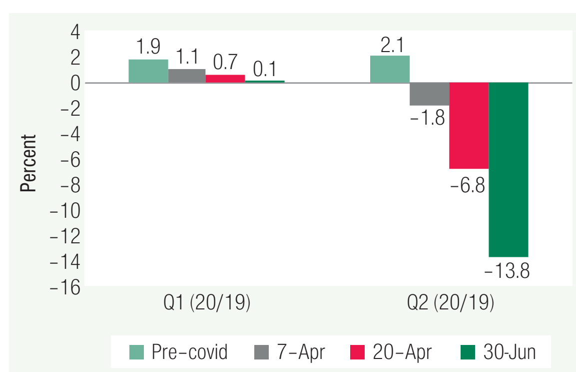
[3] In addition to the COVID-19 shock, low rainfall has been adversely impacting agricultural output and is expected to further depress growth.

FIGURE 15 • Historical Episodes of Economic Contraction in Morocco, 1980-2020



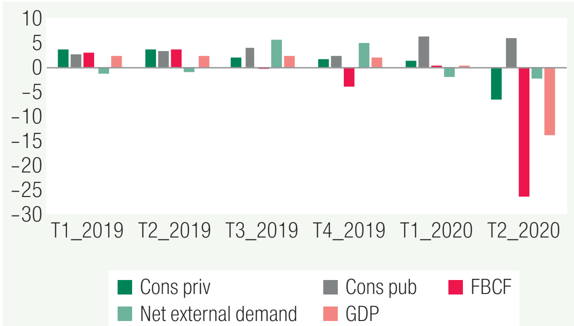
Source: World Bank staff calculations using HCP data.

FIGURE 16 • Sharp Downward Growth Revision (percentage points)



Source: World Bank staff calculations using HCP data.

FIGURE 17 • Decline in Demand-Side Components (percentage points)



Source: World Bank staff calculations using HCP data.

communication (−0.4 percent) as well as recreational and cultural activities (−1.1 percent). Meanwhile, food prices have stagnated compared to the same period in 2019. The situation in Morocco is in line with price developments observed in other MENA countries during COVID-19. Price volatility is elevated in several of countries.

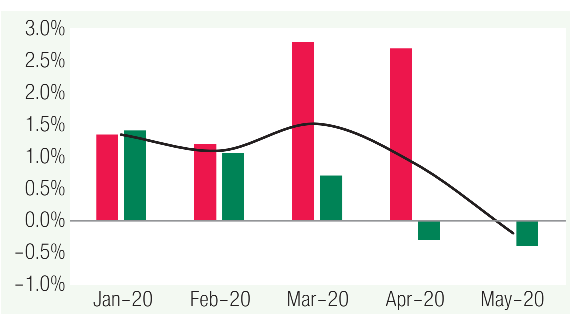
Impact on the Exchange Rate

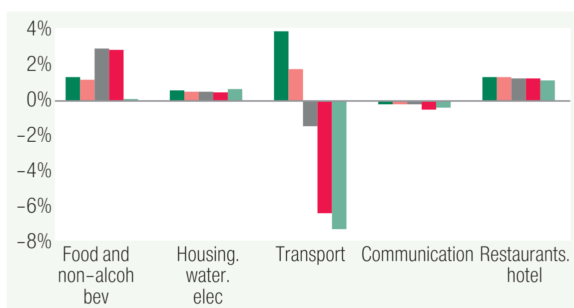
Following the onset of the COVID-19 pandemic, the real exchange rate has appreciated by about 0.86 percent in the first quarter of 2020. In March, BAM widened the dirham's fluctuation band to ±5 percent around an unchanged basket of currencies comprising the euro (60%) and the US dollar (40%) from ±2.5 percent previously. The dirham has continued to remain stable within the ±5 fluctuation band after the widening of the band in March

Impact on Public Finances

As is the case in many countries, the pandemic will create significant fiscal pressures and also increase public debt. Notwithstanding the progress made towards fiscal sustainability, Morocco's fiscal deficit target (3 percent of GDP) has been difficult to meet during the past years. This target will be even more challenging to reach due to the COVID-19 shock and its aftermath, as declining tax revenues, due to the drop in economic growth, and additional COVID-19 related spending will shrink fiscal space. Policy measures to contain and mitigate the impact of the pandemic include higher health allocations and measures targeting households and businesses. These will primarily be financed by the newly created COVID-19 fund which is a special treasury account financed by a transfer from the Budget as well as donations from SOEs, firms, and individuals (with tax incentives). The overall fiscal deficit is projected to widen noticeably in 2020, which in turn will push the public debt-to-GDP ratio above 70 percent. Fiscal risks are also on the rise as commercial SOEs (holding 15.8 percent of GDP in external debt as of mid-2019, most of it guaranteed by the sovereign) are facing significant revenue drops and may need support from the state.

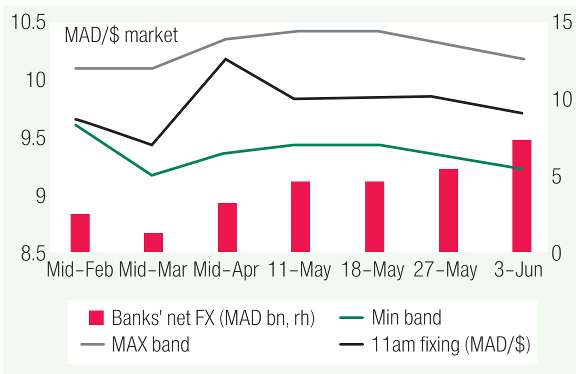
FIGURE 18(a-b) • Y-o-y Inflation Turned Negative in May with Strong Relative Changes Due to COVID-19





Sources: World Bank staff calculations using HCP data.

FIGURE 19 • No Pressure in the Exchange Rate Market



Source: World Bank staff using Bank Al-Maghrib data.

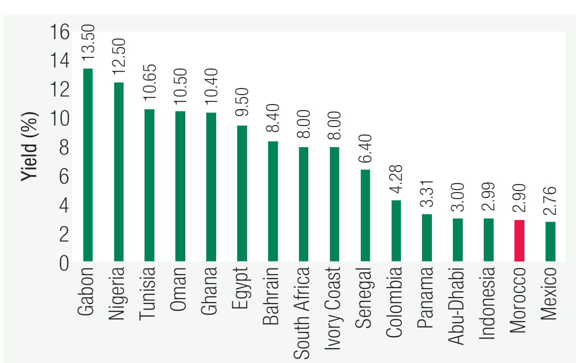
Borrowing costs remain favorable so far. Morocco has better financing conditions than many of its peers (Figure 20). Despite increased issuances since the outbreak of the pandemic, the borrowing conditions in the domestic market remain favorable, with low-interest rates and issuances well subscribed (Figure 21). Eurobond yields have sharply increased in March reflecting the confirmation of the first COVID-19 cases in the country before gradually declining and finding renewed stability. Meanwhile, yields on the outstanding 10-year bond in local currency remained stable throughout the period.

A Revised Finance Law is under preparation to reflect COVID-19's impact and its mitigation, the first in 30 years. Since 1990, Morocco has not adopted a Revised Finance Law. The negative impact of COVID-19 on revenues in a context of higher expenditure warrants such a revision. The Revised Finance Law is expected to include revised macro-economic aggregates, new revenue and ,expenditure projections and allocations as well as a multi-year framework for the economic recovery.

Impact on the External Sector

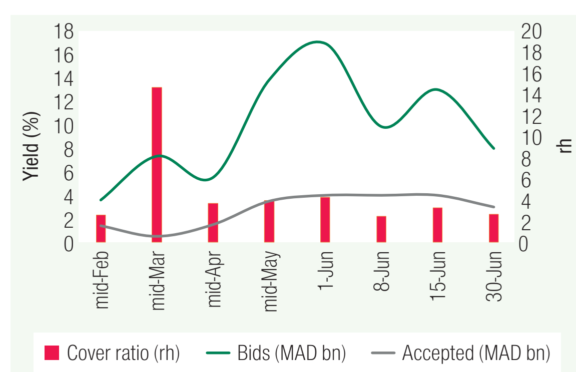
On the external front, Morocco's open economy is highly sensitive to international developments, in particular the euro area. The current account balance is to a large extent supported by net FDI inflows, tourism receipts and, remittances; however, these sources of financing are now severely strained by the pandemic fallout. More specifically, the disruption of international value chains as well as lower economic growth of trading partners is leading to a decline in international demand for Moroccan inputs and intermediate goods, thus increasing the trade deficit. Another economic side effect of COVID-19 is the drastic reduction of migrants' transfers from the Moroccan diaspora, which many families rely on. Morocco's total remittances reached \$6.7 billion in 2019 (6 percent of GDP). During the first four months of 2020, the external shock resulting from the COVID19 pandemic has resulted in sharp declines in export (Figure 22), imports (Figure 23),

FIGURE 20 • Lower External Financing Cost for Morocco



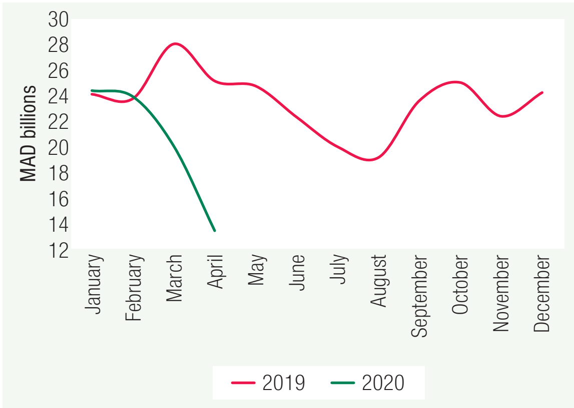
Source: World Bank staff using Ministry of Finance data.

FIGURE 21 • Stable Cover Ratio of Government Securities



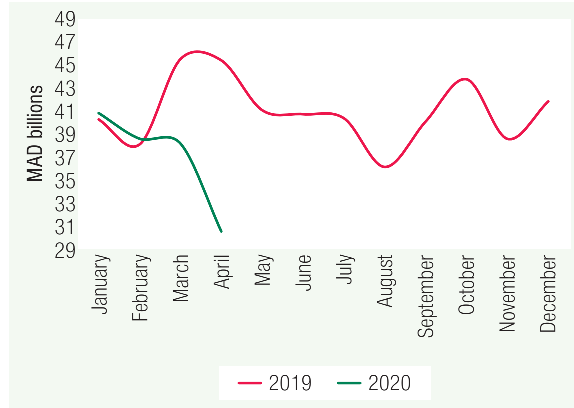
Source: World Bank staff using Bank Al-Maghrib data.

FIGURE 22 • Declining Exports Q1-2020



Source: World Bank staff using Morocco exchange office data.

FIGURE 23 • Declining Imports Q1-2020



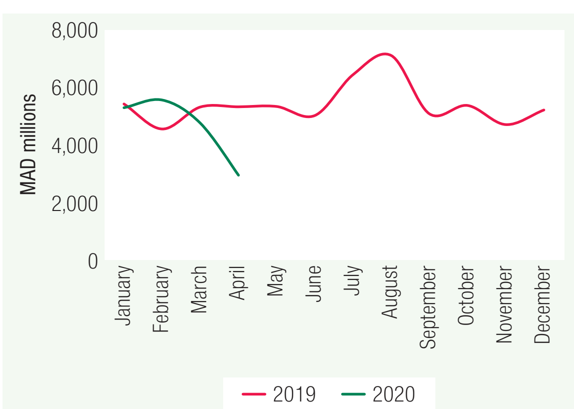
Source: World Bank staff using Morocco exchange office data.

tourism revenues (Figure 27), remittances (Figure 24) and net foreign direct investment (FDI)—Figure 26.

Tourism is one of the hardest-hit sectors by the pandemic. Worldwide, international tourist arrivals are projected to decline between 58 to 78 percent in 2020 as result of travel restrictions and containment measures (UNWTO, May 2020).[4] Tourism is the second-largest sector in Morocco's economy, accounting for 11 percent of GDP, and one of the economy's main growth drivers. The sector is also critical for job creation, providing 750,000 direct and more than 2.5 million indirect jobs. The tourism sector has a large multiplier effect, as it contributes to the growth of several other sectors such as construction, agriculture, agro-industry, services, etc. In addition to the outbreak, the uncertainty and further restrictions are dramatically impacting tourism destinations, leading to a surge in job losses, and putting many SMEs at risk. The number of arriving visitors in Morocco dropped by 100,000 in March alone. Air transport lost around 4.9 million passengers worldwide and around US$728 million with 225,000 jobs impacted (UNWTO, May 2020). Preliminary estimates from the National Tourism Confederation

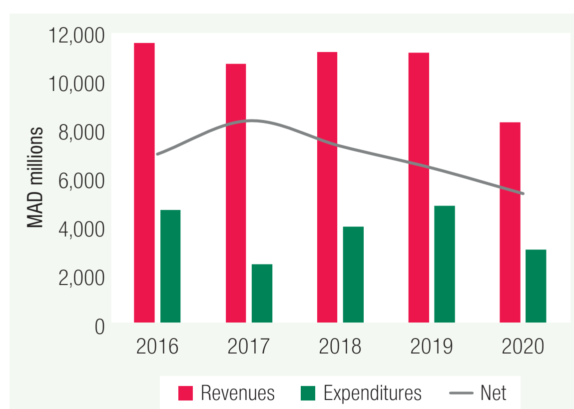
[4] https://www.unwto.org/news/COVID-19-international-tourist-numbers-could-fall-60-80-in-2020.

FIGURE 24 • Declining Remittances Inflows



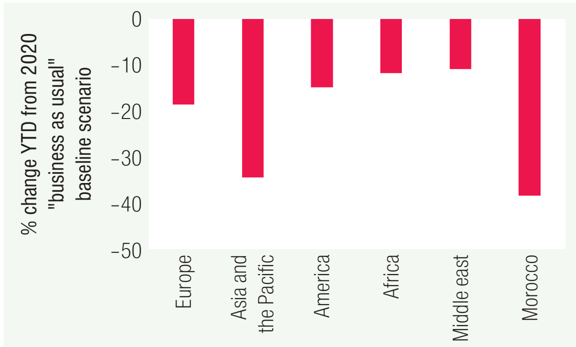
Source: World Bank staff using Morocco exchange office data.

FIGURE 25 • Declining FDI (January-April)



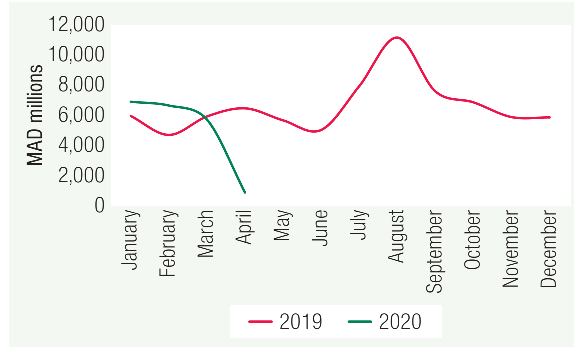
Source: World Bank staff using Morocco exchange office data.

FIGURE 26 • Change in Airport Passenger Arrival



Source: World Bank staff using Morocco exchange office and ICAO data, June 2020.

FIGURE 27 • Declining Tourism Revenues



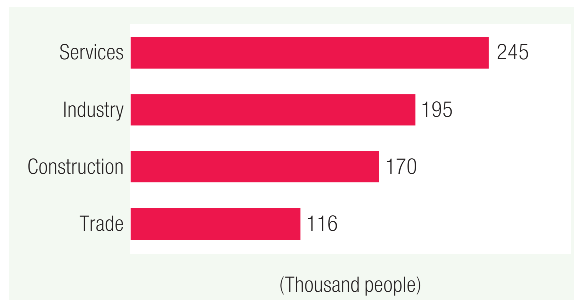
Source: World Bank staff using Morocco exchange office data.

(CNT) estimated Morocco will see a 39 percent drop in tourists (Figure 26) and lose over US$13.85 billion in tourism revenue between 2020 (Figure 27) and 2022. Despite Government's measure to mitigate the impact on the sector, the depth of the pandemic is likely to have a longer-lasting effect on it as people will become more cautious about traveling overseas in the future.

Impact on Firms and Households

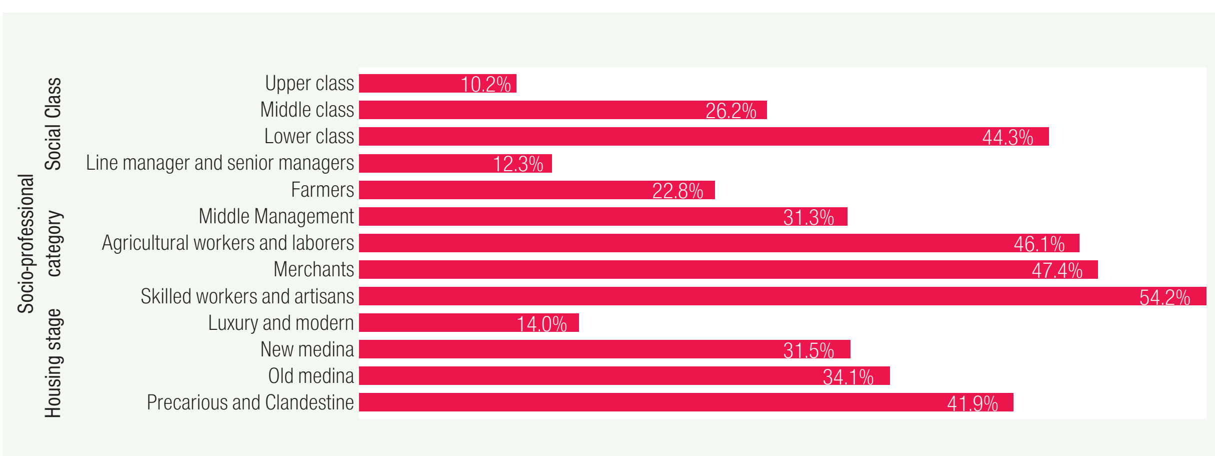
The sudden economic stop has led to widespread job and income losses. Workers in hard-hit sectors

FIGURE 28 • Morocco: Reported Jobs Losses (April 2020)



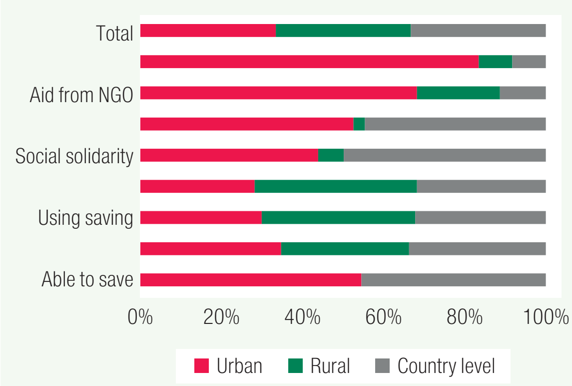
Source: HCP survey carried out by telephone from April 1 to 3, 2020 on a sample of 4,000 companies.

FIGURE 29 • Share of Households without Sources of Income Due to the Lockdown



Source: HCP (April 2020).

FIGURE 30 • Current Financial Sources of the Household (in %)



Source: HCP (April 2020).

FIGURE 31 • Share of Households Receiving Government Assistance for Job Loss (in %)

Feature	Government assistance (CNSS)	Government assistance (RAMED)	Total
Areas			
Urban	7.8	14.5	22.3
Rural	1.9	9.3	11.2
Total	6.0	12.9	19
Social Class (subjective)			
Lower	4.9	18.4	23.3
Middle	6.9	8.6	15.5
Upper	NS	–	–
Total	6.0	12.9	19

Source: HCP (April 2020).

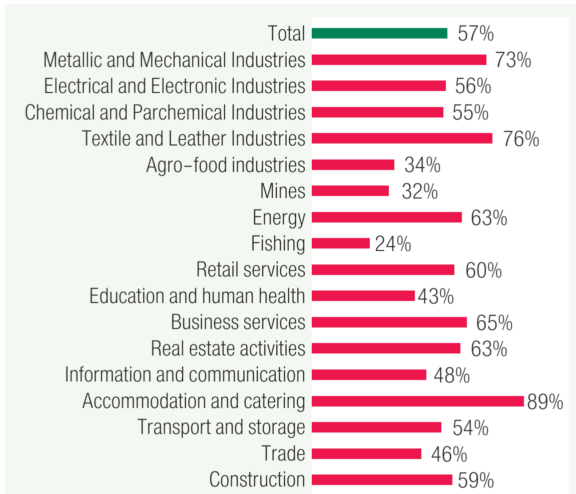
such as tourism, retail, textile, garment industries, transportation, and logistics in supply chains. (Figure 28). Given the relatively low salaries for many workers in those sectors, they are at risk of falling into poverty. More than a third of employees affiliated with the CNSS has been declared by their employers to be furloughed. The recent survey released by the HCP on the impact of COVID-19 on the economic, social and psychological situation of households reveals that 34 percent of households lost their source of income (Figure29). Figure 30 indicates also that 83 percent of the household is relying on social solidarity as sources of incomes while 22 percent are using their saving to mitigate losses of incomes. This has been partly mitigated by government assistance to compensate for job loss (19 percent of households)—Figure 31.[5] The results showed that the services sector is the most affected, with 245,000 workforce reductions. However, 60 percent of households with a member who lost a job have difficulty accessing government assistance including 54.5 percent in urban areas and 68 percent in rural areas. These percentages amount to 21 percent at the national level, 19 percent in urban areas and, 26 percent in rural areas calling for an acceleration of government support.

Moroccan women are likely to be disproportionately impacted by the economic and health consequences of the pandemic. Female labor force participation in Morocco stood at 21.3 percent before the pandemic started and has concentrated in the agricultural and industrial sectors. The latter is negatively impacted by the crisis and lockdown measures. Further, 38.5 percent of employed women are working in the services sector, one of the most affected sectors. Moreover, around 17 percent of women in non-agricultural employment are working in the informal sector, leaving them more vulnerable. Given that 52 percent of RAMED beneficiaries are women, some women have received support for income losses as head of households (18.4 percent of Moroccan women are heads of household) (HCP, 2018). Disease outbreaks increase girls' and young women's duties such as caring for elderly and ill family members while quarantine measures are increasing the risk of gender-based violence. Lastly, evidence from past epidemics indicates healthcare resources are often diverted from routine health services, further reducing the already limited access of many girls and young women to sexual and reproductive health services.[6]

5 This proportion is slightly higher in rural area with (35 percent) than urban areas (33 percent). Also, 44 percent among poor households, to 42 percent among households in precarious housing, to 54 percent among craftsmen and skilled workers, to 47 percent among traders, and 46 percent among agricultural workers and laborers.

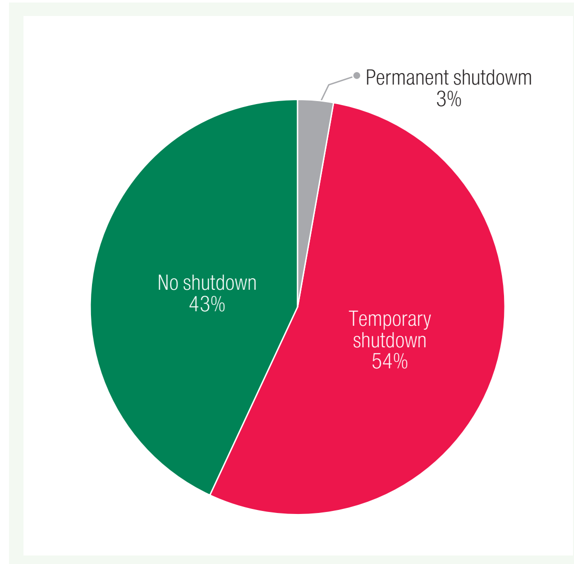
6 CARE (2020) "Gendered Implications of COVID-19 Outbreaks in Development and Humanitarian Settings."

FIGURE 32 • Proportion of Companies Temporarily or Permanently Shut Down by Sector of Activity



Source: HCP (April 2020).

FIGURE 33 • Status of the Firm's Activity



Source: HCP (April 2020).

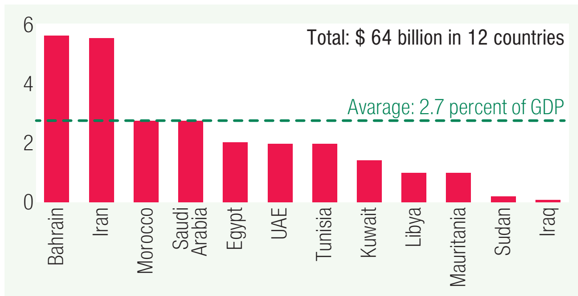
Businesses are negatively affected reflecting the risks presented by COVID-19 and subsequent containment measures. According to the recent survey released on April 2020 by the HCP on the impact of COVID-19 on firms' activity, almost 142,000 businesses, or 57 percent of all businesses, indicated that they had ceased activity temporarily or permanently (Figure 33). Of this total, more than 135,000 companies had to temporarily suspend their activities while 6,300 ceased their activities permanently. The sectors most affected by this crisis are accommodation and food services with 89 percent of companies out of business, the textile and leather industries and the metal and mechanical industries with 76 percent and 73 percent, respectively (Figure 32).

The economic fallout from the COVID-19 outbreak is expected to test the resilience of the banking sector. The non-performing loan ratio (7.8 percent at end-April 2020) is likely to increase given the negative impact of the pandemic. Loans repayment problems are expected to rise, possibly quite markedly, due to borrower concentrations (e.g., banks have significant exposure to SMEs in Morocco and Sub-Saharan Africa countries—17.5 percent of the loan portfolios). The significant exposure of the country's top banks to sub-Saharan Africa needs will need close attention. Also, banks are highly exposed to SMEs with a high concentration of borrowers. SMEs represent 37 percent of loans granted to businesses and their vulnerability in the current situation poses serious risks to the Moroccan banking system. All these factors will lead to a deterioration in the profitability of Moroccan banks, cause banks' asset quality to deteriorate; this, in turn, could result in a reduced supply of credit to the economy and slowdown the pace of the economic recovery.

Policy Responses to Date

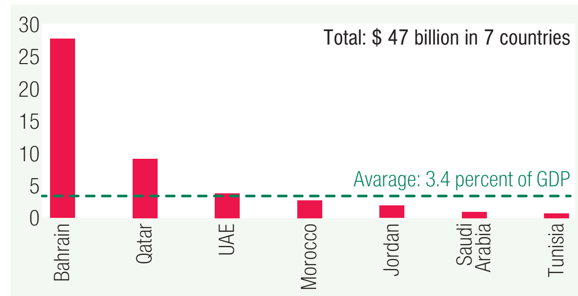
The GoM has been prompt in dealing with the outbreak, starting with the creation of a COVID-19 commission to monitor the situation and formulate policies. A special COVID-19 Fund with contributions from the budget, public and private institutions, individuals and, external donors) has been created to support incomes of formal sector workers and—innovatively—informal workers, pay for medical expenditures and, support economic recovery. The immediate policy responses included both fiscal support of 2.7 percent of GDP (Figure 34) as well as liquidity support to SMEs (Figure 35). The COVID-19 Pandemic Fund is made

FIGURE 34 • Fiscal Support in Selected MENA



Source: IMF, MCD Regional Economic Outlook, April 2020.

FIGURE 35 • Liquidity Support in Selected MENA

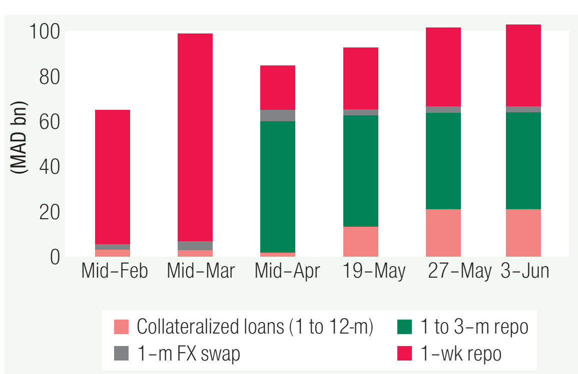


Source: IMF, MCD Regional Economic Outlook, April 2020.

up of contributions from the GoM, private sector, as well as individuals.[7] The Fund aims to reach over 5 million people and households (950,000 formal sector workers affiliated to the National Social Security Agency and 4.3 million workers operating in the informal sector). A committee, the *Comité de Veille Economique* (CVE), was put in place to assess the situation under the Coronavirus crisis and to take appropriate measures to support impacted sectors. It has defined an action plan through end-June 2020 with a series of economic response measures (Box 1).

Bank Al-Maghrib complemented the Government's policy response by adding liquidity support to mitigate the sudden stop and the associated liquidity pinch. BAM lowered the monetary policy rate on March 29, 2020, by 25 basis points to 2 percent and to 1.5 percent on June 16 as well as announced a series of monetary measures to support

FIGURE 36 • Increased Central Bank Refinancing Maturity



Source: World Bank staff using Bank Al-Maghrib data.

access to credit for businesses and households. It also increased significantly the maturity of its refinancing (Figure 36). Measures have been taken to reinforce the specific refinancing program for the benefit of very small enterprises and SMEs by integrating, in addition to investment credits, operating credits and, increasing the frequency of their refinancing. BAM has also established a credit line for twelve months for refinancing new loans disbursed in favor of MSMEs, as part of the integrated business support and financing program. A decree was also adopted on March 29, 2020, to allow Morocco to meet its foreign exchange needs, in particular, through the use of borrowing on the international market. On June 16th 2020, Bank Al Maghrib also reduced to zero a previous 2 percent reserve requirement, a step that would unlock Dh10bn (US$1.03bn) in liquidity for the sector.

As the pandemic gradually comes under control, a roadmap for lifting containment measures and for the economic recovery plan is being developed. As a gradual rollback of confinement measures could lead to an increase in new COVID-19 infections, constant health monitoring and, a readiness to adjust will remain key. Meanwhile, countries around the world are developing concrete plans to continue or end support for firms and households. This will be important for consumers and businesses to anticipate economic decisions including on investments and workers hiring for the private sector.

[7] Budget and public enterprises (67%), banks (10%), the private sector (13%) and, others (10%) contribute to the Fund.

BOX 1: KEY MEASURES TAKEN BY THE ECONOMIC WATCH COMMITTEE (EWC) TO DATE

Economic crisis response		Health crisis response
Support employees (including informal sector) and RAMED:	**Support Businesses (including SME, MSMEs and, liberal professions) :**	
• Employees registered to the private sector pension fund (CNSS) at the end February 2020 and who become unemployed will receive a monthly flat-rate allowance of 2000 dirhams net of family allowances and AMO (Assurance Maladie Obligatoire) benefits. They can also put off repayment of the maturities of bank credits (consumer credit and buyer credit) until June 30, 2020. • Households operating in the informal sector that no longer have income due to compulsory confinement can benefit from subsistence aid through the National Medical Assistance Program (RAMED). This help will be disbursed by the Coronavirus Fund, determined as follows: 800 dirhams for households of two people or less; 1000 dirhams for households of three to four people; and 1200 dirhams for households of more than four people. • Households without RAMED operating in the informal sector who are also impacted by confinement will receive the same financial assistance • As of May 18, 4.1 million households in the informal sectors had benefited from transfers.	• Businesses can defer social contribution payments until June 30, 2020; companies with an annual turnover lower than 20 million dirhams can defer tax payments. • Moratorium on the repayment of bank credit maturities and the reimbursement of leasing maturities until June 30 without payment of fees or penalties. • Activation of an additional operating credit line granted by banks and guaranteed by the central guarantee fund (CCG) • The launch of DAMANE OXYGENE, a guarantee from CCG to banks for 95% of new loans to MSMEs with turnover below 500 million dirhams, and whose activities have been impacted by the crisis. This new line of credit is intended to finance current expenses which cannot be carried over or suspended by companies. The real estate sector is eligible. The duration of Damane Oxygene was extended until the end of December 2020 and no collateral would be required from borrowers. • DAMANE RELANCE. is a guarantee to companies for 80–90% of new loans depending on their size (turnover above 10 million dirhams). The amount of the loan is capped at one month and half of the annual turnover for industrial companies, one month for others. 50 percent of the loan has to be used to pay suppliers to reduce payment delays. • Guarantees on bank loans to SOEs. The Government will guarantee bank loans on the condition that 50 percent of the loans are used for paying their suppliers. • For self-entrepreneurs, the implementation of a zero-interest rate credit has been introduced, up to 15,000 dirhams. This credit will be reimbursed over 3 years with a grace period of one year. The insurance industry compensates banks for the interest rate subsidy. • Postponing deadlines for personal income tax returns and exemption from income tax on the additional allowances paid to employees affiliated to the CNSS by their employers (up to 50% of the average net monthly salary of the beneficiary). • Deductibility of donations to the Coronavirus Fund as well as ad-hoc accounting treatment to deduct them over 5 years.	Allocation of 2 billion MAD to strengthen the capacities of the health system

DATA APPENDIX

TABLE 1: MOROCCO: SELECTED ECONOMIC INDICATORS, 2016-2023

				Est.	Proj.	Proj.	Proj.	Proj.
	2016	2017	2018	2019	2020	2021	2022	2023
Real Economy	(annual percent change, unless otherwise indicated)							
Real GDP	**1.1**	**4.2**	**3.0**	**2.5**	**−4.0**	**3.4**	**3.6**	**3.8**
Agricultural GDP	−13.7	15.2	3.7	−5.8	−3.0	8.1	3.9	4.0
Non-Agricultural GDP	3.0	2.9	2.9	3.3	−4.2	2.7	3.5	3.7
Industry	0.6	3.6	3.0	3.6	−5.4	2.4	3.4	3.5
Services	2.9	2.7	2.7	3.2	−4.2	2.8	3.5	3.9
Private Consumption	3.7	3.8	3.3	3.3	−3.7	3.0	3.6	3.7
Government Consumption	1.5	1.9	2.5	3.5	3.7	4.5	3.5	3.1
Gross Fixed Capital Investment	8.8	−0.2	1.2	2.4	−3.4	3.0	3.7	3.9
Exports, Goods and Services	6.0	11.1	5.8	4.2	−4.8	3.3	3.8	4.1
Imports, Goods and Services	14.5	7.9	7.5	4.2	0.5	3.7	4.0	4.2
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**	**0.2**	**1.2**	**1.7**	**2.0**
Fiscal accounts	(in percent of GDP)							
Expenditures	28.5	28.0	27.5	28.0	31.7	28.4	28.4	28.1
Revenues (incl. grants and privatization proceeds)	24.2	24.5	23.8	24.4	24.2	23.3	24.4	24.5
Budget Balance (excl. privatization)	−4.4	−3.5	−3.7	−4.1	−7.5	−5.4	−4.3	−3.7
Central Government Debt	64.9	65.1	65.2	65.0	75.2	77.0	77.1	76.4

(continued on next -page)

TABLE 1: MOROCCO: SELECTED ECONOMIC INDICATORS, 2016-2023 *(continued)*

				Est.	Proj.	Proj.	Proj.	Proj.
	2016	2017	2018	2019	2020	2021	2022	2023
	(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**	**–5.3**	**–4.1**	**–8.4**	**–6.4**	**–5.2**	**–4.8**
Imports	–43.7	–45.0	–46.9	–45.8	–40.5	–44.2	–44.4	–44.5
Exports	33.3	35.3	36.7	37.1	28.5	34.1	35.0	35.6
Foreign Direct Investment	1.5	1.5	2.4	0.3	0.6	1.5	1.8	2.0
Gross Official Reserves (billion US$, eop)	25.1	26.2	24.4	26.4	23.0	23.1	25.8	27.8
In months of Imports	6.4	5.6	5.3	6.0	4.1	4.2	4.3	4.7
Exchange rate (average)	**9.8**	**9.7**	**9.4**	**9.6**	**...**	**...**	**...**	**...**
Memorandum items								
Nominal GDP (in billion Dirhams)	1013	1063	1108	1151	1107	1158	1220	1291
GDP per capita (in current US$)	2969	3128	3373	3363	3194	3328	3473	3646

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

TABLE 2: MOROCCO: KEY FISCAL INDICATORS, 2016-2023

				Est.	Est.	Proj.	Proj.	Proj.	Proj.
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenues	**24.2**	**24.5**	**23.8**	**24.4**	**24.2**	**23.3**	**24.4**	**24.5**	**24.6**
Tax Revenues	20.9	21.2	21.2	20.9	19.2	19.6	20.8	21.0	21.2
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants and Privatization Proceeds	0.8	0.9	0.3	0.6	0.3	0.3	0.3	0.1	0.1
Other Revenues	2.6	2.4	2.3	2.9	4.7	3.4	3.4	3.4	3.3
Total Expenditures	**28.5**	**28.0**	**27.5**	**28.0**	**31.7**	**28.4**	**28.4**	**28.1**	**28.0**
Compensation of Employees	10.3	9.9	9.6	9.7	10.8	10.6	10.4	10.2	9.9
Use of Goods and Services and Grants	5.6	5.5	5.6	6.0	8.1	7.2	7.2	7.3	7.4
Subsidies	1.4	1.4	1.6	1.4	1.2	1.2	1.1	1.0	1.0
Interest Payments	2.7	2.6	2.5	2.6	2.6	2.5	2.5	2.5	2.4
Other Expenses (incl. capital expenditures)	8.5	8.5	8.2	8.3	9.0	6.9	7.2	7.2	7.3
Overall Balance (excl. privatization)	**–4.4**	**–3.5**	**–3.7**	**–4.1**	**–7.5**	**–5.4**	**–4.3**	**–3.7**	**–3.5**
Primary Balance (excl. privatization)	–1.6	–0.9	–1.2	–1.5	–4.8	–2.9	–1.8	–1.2	–1.1
Overall Balance (incl. privatization)	**–4.3**	**–3.5**	**–3.7**	**–3.6**	**–7.5**	**–5.1**	**–4.0**	**–3.6**	**–3.4**
Arrears	0.5	–0.1	0.3	–0.4					
Government Financing	**3.8**	**3.6**	**3.4**	**4.0**	**7.5**	**5.1**	**4.0**	**3.6**	**3.4**
External (net)	0.3	0.3	–0.2	1.5	3.9	2.1	1.2	1.6	0.8
Domestic (net)	3.5	3.2	3.6	2.5	3.6	3.0	2.8	1.9	2.5
Central Government Debt Stock	**64.9**	**65.1**	**65.2**	**65.0**	**75.2**	**77.0**	**77.1**	**76.4**	**75.3**
External (net)	14.1	14.4	13.4	14.2	18.8	20.1	20.2	20.7	20.3
Domestic (net)	50.8	50.7	51.8	50.8	56.4	57.0	56.9	55.7	55.0
Memorandum items									
SOE's & Public Establishments' Debt Stock	**24.8**	**25.0**	**25.2**						
of which: External Debt	16.6	16.8	16.1						

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

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