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REPORT

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Scaling the Atlas: Growth and Jobs for a Prosperous Morocco

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REPORT

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ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Programs
ANAPEC	Agence Nationale de Promotion de l'Emploi et des Compétences
BAM	Bank Al-Maghrib
B-READY	Business Ready
CCG	Caisse Centrale de Garantie
CEM	Country Economic Memorandum
CIT	Corporate Income Tax
CNSS	Caisse Nationale de Sécurité Sociale
CNEA	Comité National de l'Environnement des Affaires
CRI	Centre Régional d'Investissement
CV	Curriculum Vitae
DGI	Direction Générale des Impôts
DIOC	Database on Immigrants in OECD Countries
EPMA	Entreprise Personne Morale Active
EPPA	Entreprise Personne Physique Active
FAT	Firm-Level Adoption of Technologies
FDI	Foreign Direct Investment
FLFP	Female Labor Force Participation
FM6I	Fonds Mohammed VI pour l'Investissement
FTA	Free Trade Agreement
GBF	General Business Function
GDP	Gross Domestic Product
GNI	Gross National Income
HCP	Haut Commissariat au Plan
HGF	High-Growth Firm
HR	Human Resources
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Initial Public Offering
ISCO-08	International Standard Classification of Occupations (2008)
ISCED-97	International Standard Classification of Education (1997)
ISIC	International Standard Industrial Classification of All Economic Activities
LFS	Labor Force Survey
MENA	Middle East and North Africa
MFMOD-GJ	Macro-Fiscal Model for Growth and Jobs
MFMOD-SA	Macro-Fiscal Model – Stand Alone
MIEPEEC	Ministère de l'Inclusion Économique, de la Petite Entreprise, de l'Emploi et des Compétences
MFN	Most Favored Nation
NAP	National Nomenclature of Occupations
NDM	New Development Model

NEET	Not in Employment, Education, or Training
NES	National Enterprise Survey
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
ODP	Observatoire des Délais de Paiement
OMTPME	Observatoire Marocain de la Très Petite, Petite et Moyenne Entreprises
ONCF	Office National des Chemins de Fer
OFPPT	Office de la Formation Professionnelle et de la Promotion du Travail
PIM	Public Investment Management
PISA	Programme for International Student Assessment
PIRLS	Progress in International Reading Literacy Study
PMR	Product Market Regulation
PPP	Public–Private Partnership
SAFE	Simple Agreements for Future Equity
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SMP	Significant Market Power
SOE	State-Owned Enterprise
SPEI	Standardized Precipitation–Evapotranspiration Index
STEM	Science, Technology, Engineering, and Mathematics
STRI	Services Trade Restrictiveness Index
TFP	Total Factor Productivity
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and Vocational Education and Training
UMIC	Upper-Middle-Income Country
VAT	Value Added Tax
WBES	World Bank Enterprise Survey
WBG	World Bank Group
WDI	World Development Indicators
WDR	World Development Report

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OVERVIEW

Morocco Country Growth and Jobs Report

This Country Growth and Jobs Report is conceived as an analytical contribution to support Morocco in realizing the ambitions of its New Development Model (NDM). Issued in 2021 by a Special Commission convened by His Majesty King Mohammed VI, the NDM articulated a bold and coherent vision for modernizing Morocco's economy and society. It set concrete targets: doubling per capita gross domestic product (GDP) by 2035, raising female employment to 45 percent, and formalizing 80 percent of employment. Since then, Morocco has moved with purpose, advancing landmark reforms across social protection, state-owned enterprise (SOE) governance, private investment promotion, the business environment, and taxation, among other areas. As a result, growth is accelerating, with World Cup-related investments providing an additional tailwind and strong momentum projected to continue in the coming years. Yet, sustaining current trends alone will not be enough to achieve the trajectory envisaged by the NDM. This report offers policy recommendations to help bridge that gap and put Morocco on a faster path to its development goals.

As a pilot for the World Bank's new approach to growth-and-jobs analytics, the report introduces several innovations. First, it places jobs at the center of the analysis, focusing on the interactions between growth and labor market dynamics. Second, it deploys an integrated analytical toolbox that combines microeconomic and macroeconomic approaches, enabling a more comprehensive understanding of the interplay between firm- and individual-level behaviors and economy-wide trends. Third, it delivers actionable policy recommendations, their potential impact estimated through scenario analysis and advanced macro-modeling, thereby strengthening the link between diagnostics and policymaking. Cutting across all three, the report was developed in close collaboration with key representatives from Morocco's policy research sphere, with several analytical exercises conducted jointly, reflecting a deliberate commitment to grounding the analysis in local knowledge and building lasting analytical capacity.

The report adds value by leveraging novel data to advance the knowledge frontier on Morocco's economy, drawing on several new or previously underutilized sources. The private sector analysis relies on a comprehensive administrative dataset on formal businesses compiled by an observatory created by the central bank (*Observatoire Marocain de la Très Petite, Petite et Moyenne Entreprises*, OMTPME), complemented by information from the tax administration (*Direction Générale des Impôts,* DGI). A Product Market Regulation (PMR) assessment was conducted using the Organization for Economic Co-operation and Development (OECD) methodology. Two firm surveys were fielded for this report: one on technology adoption and another one focused on firms' practices in hiring and promoting in manufacturing, with a gender focus. Labor market dynamics were examined using non-public microdata from the Labor Force Survey (LFS). For targeted exercises, the Ministry of Employment's firm panel survey, linked to employee administrative records from the National Social Security Fund (*Caisse Nationale de Sécurité Sociale*, CNSS), was also utilized.

The remainder of this report is structured as follows. Chapter 1 analyzes the macroeconomic drivers of growth and job creation in Morocco. Chapter 2 examines firm dynamics, exploring how resources are allocated across firms and what this reveals about the constraints on private sector productivity. Chapter 3 deepens that analysis by examining the market structures and regulatory conditions that shape incentives and limit competition. Chapter 4 turns to the supply side of the labor market, tracing the challenging pathways of displaced farmers, youth, and women, and the barriers they face in accessing quality jobs. Chapter 5 proposes policy recommendations based on the preceding analysis and uses macroeconomic modeling to estimate the growth and employment impacts of the proposed reforms.

Strong foundations, but persistent challenges

Over the past few decades, Morocco has undergone one of the most sustained economic transformations in the Middle East and North Africa (MENA) region. Anchored in political stability and disciplined macroeconomic management, the country has laid the foundations for a modern and diversified economy. Infrastructure has expanded rapidly, establishing Morocco as a major investment, trade, and logistics hub connecting Europe and Africa. New export-oriented industries have emerged, with the automotive and aeronautics sectors driving a deepening integration into global value chains. Living standards have risen, with sharp reductions in poverty accompanied by sustained investments in education that have expanded human capital and progressively drawn in girls and women at all levels of schooling. These are genuine and significant achievements, underpinning solid medium-term growth projections and positioning Morocco with well-founded confidence as it enters the mid-2020s.

Yet these achievements have not fully resolved the economy's most consequential structural weaknesses: its insufficient capacity to create jobs at the scale demanded by a growing working-age population. Despite sustained economic expansion, between 2000 and 2024 Morocco generated, on average, 215,000 fewer jobs per year than needed to keep the employment rate stable. A succession of compounding exogenous shocks tended to worsen that shortfall over time, with it reaching 370,000 per year in 2020–2024. More recently, the country has entered a new period of stronger growth, but available indicators suggest it has yet to translate this dynamism into job creation.

Understanding why growth is not translating into sufficient jobs requires examining the nature of Morocco's growth model itself, one that has relied heavily on capital accumulation while generating limited productivity gains. Since 2000, Morocco has maintained investment rates close to 30 percent of GDP, among the highest in the world and well above countries at comparable income levels. That reliance has deepened over time: capital accumulation accounted for 68 percent of growth in the 2000s and 85 percent since 2010, a pattern that the recent acceleration has further consolidated. Yet decades of heavy capital outlays have not been accompanied by commensurate efficiency gains. Total factor productivity (TFP) contributed about 0.8 percentage points per year to growth in the 2000s, 0.7 in the 2010s, and less still after the pandemic, below the high-growth emerging economies that Morocco would like to emulate. This is mirrored in labor productivity: non-agricultural output per worker has grown slowly, pointing to an

economy that is adding capital while not sufficiently raising the productive capacity of its workforce. In sum, capital accumulation has kept economic growth going, but the productivity gains that are needed to escape the middle-income trap have proved elusive. Explaining this deficit requires looking beneath the aggregates at the microeconomic conditions shaping firm performance and resource allocation, which this report examines in depth.

The composition of national investment has likely weighed on productivity. Although official statistics do not provide a precise breakdown, available estimates suggest the public sector has borne at least half, and possibly up to two-thirds of total investment. This dominance could have impacted productivity through three channels. First, translating large-scale public investment into sustained private sector dynamism will require stronger project selection, evaluation, and implementation frameworks. Second, the scale of public and SOE borrowing has absorbed a large share of domestic savings, likely constraining the credit available to private firms, particularly the young and innovative businesses most capable of lifting aggregate productivity. Third, the public sector's large presence in multiple sectors of the economy has shaped market functioning in ways that may have hindered the emergence of more productive private firms.

The structural challenges of firm growth and market efficiency

Morocco has an abundance of firms, but too few jobs. With about 363,000 businesses reporting to the tax administration in 2022, the country has reached or surpassed comparator economies in terms of firm density. Yet this abundance of firms has not translated into an abundance of jobs. The overwhelming majority (about 94 percent) are very small, concentrated in non-tradeable activities such as retail and construction, and operating at a scale that limits their potential contribution to employment. More than two-thirds of the employed population work without a formal contract, and formal firms themselves employ about half of their own workforce informally. In other words, Morocco has built a large base of firms that are yet to become a dynamic engine of formal job creation.

Beyond their small size, most firms in Morocco grow too slowly to create jobs at scale. In the most dynamic economies, young firms tend to expand rapidly, challenge incumbents, and become the primary source of productive employment. In Morocco, this dynamic has been more limited. A surviving firm can be expected to be only one-third larger after ten years, roughly half the growth rate of counterparts in comparator countries like Vietnam. The density of high-growth firms (HGFs) and ‘scalers’, which drive disproportionate shares of job creation in dynamic economies, is below that of peer countries. Compounding this, larger firms are on average less productive than smaller ones — the inverse of what is typically observed in more advanced economies, where scale and productivity reinforce each other. This suggests that market power may be a stronger determinant of firm growth than productive efficiency.

This pattern reflects a broader allocative efficiency challenge. During the period under analysis, less productive firms expanded while more productive ones contracted, a dynamic that more than halved potential private sector productivity growth over that period. Beyond this direct effect, when efficiency is a weak determinant of which firms grow, the incentive to innovate and adopt new technologies is correspondingly weakened, generating second-round effects on aggregate

productivity. Evidence from the technology adoption survey is consistent with this assessment; Moroccan firms remain at an intermediate stage of technological sophistication and larger firms seem to exhibit weaker pressure to innovate than their smaller counterparts. Addressing these allocative weaknesses is therefore not just about improving productivity in the abstract; it is about creating conditions under which firms face the right incentives to grow, hire, and invest in the technologies that raise wages.

A key driver of these allocative distortions is the large share of Moroccan sectors operating under weak competition pressures, partly reflecting regulatory frameworks that are comparatively restrictive. Many industries exhibit signs of weak competition, and the majority appear less competitive than comparable sectors internationally. An assessment of PMRs conducted for this report finds Morocco's regulatory environment more restrictive than that of most benchmarked countries, driven in part by the direct involvement of the State in several sectors of the economy. This manifests across three key areas: network industries show incomplete market opening and oversight; professional services face stringent rules on entry and conduct; and digital markets lack tailored ex ante rules and ex post enforcement. Such regulatory constraints raise entry and scale-up costs, limit contestability, and blunt market selection.

Beyond market-level frictions, firms still face cross-cutting constraints that slow scaling and the creation of salaried jobs. First, steeply progressive corporate income taxation may have acted as a disincentive to firms' growth in the past, a distortion now being addressed through reforms that flatten rates for most businesses. Second, a high labor tax wedge on low-income earners — driven by social security contributions — combined with inflexible labor regulations and uneven enforcement, creates other disincentives for firms to grow: remaining small allows them to stay below the enforcement threshold and continue relying on informal hiring. Third, the financial system disproportionately serves incumbents: larger, older firms capture most credit while smaller, scalable firms rely on internal financing, due to information asymmetries, collateral requirements, and an overhang of non-performing loans (NPLs), among other factors. Fourth, payment delays remain widespread, with larger, less productive firms effectively receiving supplier credit from smaller, more productive ones, further undermining an already uneven playing field. Finally, business facilitation policies have primarily supported micro-entrepreneurship and large strategic investors, leaving a 'missing middle' at the scale-up stage.

Meeting workers' expectations and addressing structural barriers to labor force participation; the supply side of the jobs gap

Morocco has witnessed a steady decline in labor force participation, from 53.1 percent in 2000 to 43.5 percent in 2024. This is not simply a reflection of rising school enrollment; even after accounting for the welcome expansion of access to education, the share of working-age adults who have stopped looking for work, or never entered the search at all, has grown significantly. The challenge is therefore not only about creating more jobs, but about understanding why many workers have stopped looking for them, a distinction that matters for policy design.

A widening gap has likely opened up between what the labor market offers and what an increasingly educated population expects. Entry-level wages have remained largely stagnant,

held down by weak productivity gains. At the same time, workers' reservation wages, that is, the minimum they are willing to accept to enter employment, are likely to have risen through two channels. First, rapid advances in educational attainment have raised earnings expectations that the market has struggled to meet, with increasingly qualified workers unwilling to accept the low-wage, informal employment that remains prevalent in much of the economy. Second, a post-pandemic surge in remittances, now about 8 percent of GDP, has reinforced this dynamic, relaxing short-term income constraints for many households and reducing the pressure to accept poorly matched or poorly paid work. The result is a labor market where a growing share of workers finds available opportunities insufficiently attractive not out of a preference for inactivity, but because the gap between expectations and actual offers has widened.

Two decades of sustained investment have significantly raised youth enrollment and attainment, but a growing share of graduates work in occupations misaligned with their studies, with about 43 percent of tertiary graduates overqualified for their current roles. This represents a misallocation of both public investment and individual effort. In the near term, the priority should be to continue realigning what the education system produces with the skills the economy is currently demanding. Evidence from this report points to medium-skill occupations as the segment where labor demand and supply are most reliably matched, and where employment gains are most likely to materialize. Over the longer term, however, curricular reform alone will not suffice, and a deeper transformation of the productive fabric through demand-side measures will also be needed to realize the returns on the stock of human capital that Morocco has accumulated.

The challenge looks different for Morocco's least educated workers and its rural communities. Despite progress, foundational learning outcomes in basic education continue to lag, weakening the pipeline of core competencies that workers need to access better opportunities and limiting progression into higher-skill roles. These gaps are particularly acute among the groups that account for a disproportionate share of young people not in employment, education, or training (NEETs), who face a labor market that offers few accessible pathways to formal employment. Climate change has sharpened this vulnerability: between 2015 and 2024, rural employment fell by 1.2 million (a decline of 23 percent) as increasingly frequent and severe droughts displaced agricultural workers faster than the broader economy could absorb them. Many are transitioning into low-productivity, informal service activities in urban areas, without the skills or support needed to move into better opportunities. Reaching them requires a new generation of employment policies, with strengthened vocational pathways, modular and competency-based certification that recognizes informal learning, and delivery models designed around the realities of low-skilled workers in transition. The Jobs Roadmap announced by the authorities in 2025 is already pushing in that direction.

Women face structural barriers to labor market participation that go well beyond those confronting men and today represent the largest untapped pool of human capital in the Moroccan economy. Despite steady gains in girls' and women's education, female labor force participation (FLFP) has fallen sharply, from 28 percent in 2000 to just 19 percent in 2024, leaving a gap of nearly 50 percentage points with men that is among the widest in the world. There are, however, encouraging signs: participation among urban women age 25–34 rose from 26 percent in

2016 to 34 percent in 2024, suggesting that norms and behaviors can shift when conditions allow. The barriers holding most women back are both attitudinal and structural. Survey evidence indicate that 47 percent of firms employ no women, few offer flexible working arrangements, and equally or more qualified female candidates are less likely to be selected than their male peers. These attitudes are reinforced by structural constraints such as the limited availability of affordable childcare, safe transport, and family-friendly workplace arrangements, all of which raise the effective cost of work for women and prolong career breaks. Expanding female entrepreneurship offers one underused lever. Women lead only 14 percent of formal firms, but when they do, they employ significantly more women, a pattern that points to the potential for targeted support to female-led businesses to simultaneously broaden inclusion and strengthen the productive base.

Policies to create more and better jobs

The diagnostic presented in this report points to a set of interconnected challenges that are creating a divergence between the employment opportunities that Morocco's economy generates and the needs and expectations of its population. On the demand side, a growth model built on public capital accumulation has sustained expansion without producing the productivity gains, business dynamism, and employment intensity needed to escape the middle-income trap. On the supply side, a population that is better educated, more connected, and with rising expectations for economic inclusion and mobility is confronting an economic structure that has not kept pace, leaving significant segments of the population excluded or disengaged. These are not independent phenomena, but mutually reinforcing dimensions of a shared challenge: closing the distance between Morocco's considerable productive potential and the outcomes its economy currently delivers. The historical record is clear: the countries that managed to escape the middle-income trap did so by moving to a growth model powered by productivity gains realized through the emergence of dynamic businesses operating in well-functioning markets, and by broader participation in the labor force.

Morocco is already implementing ambitious reforms to address the challenges analyzed in this report. These include: (a) an ambitious human capital agenda, which includes a reform to universalize access to the national health insurance system, the introduction of a comparatively broad and generous cash transfer program for poor and vulnerable households, and a sustained effort and investment to improve access to better education; (b) a reform of SOEs aimed at enhancing the efficiency of the public sector while levelling the playing field for private businesses; (c) a continued effort to improve the business climate and facilitate private investment at the regional level; and (d) a comprehensive tax reform which is reducing the number of VAT and CIT standard rates to overcome the distortions and disincentives created by Morocco's tax system. In addition, the government is engaged in various large-scale public investment programs that are to be deployed in the coming years, and a new Jobs Roadmap was introduced in 2025, aimed at modernizing employment policies.

This report's recommendations are intended to complement and reinforce that momentum and to deliver on the NDM's ambitions. They are organized around four interconnected outcomes: efficient markets, dynamic firms, impactful public investment, and a more active

workforce. These should not be interpreted as independent policy tracks. Stronger competition and a more level playing field are preconditions for business dynamism; more dynamic firms generate the demand for labor that draws workers back into the market; and better-targeted public investment crowds in private activity. On the supply side, reducing barriers to women's participation and improving pathways for youth and rural workers would unlock a large pool of underutilized human capital, but those workers need a productive structure capable of absorbing them. The interconnections thus run in both directions: supply-side reforms without demand-side transformation risk adding to the pool of discouraged workers, while productivity gains without inclusion would leave Morocco's accumulated human capital untapped.

1. **Efficient markets: Strengthening contestability is the foundation of a more productive economy. The following measures would contribute to this outcome:**

    i. Scaling up enforcement by the Competition Council against collusive practices, abuse of dominance, and bid-rigging in public procurement, while separating regulators from market operations in transport and strengthening the energy regulator.
    ii. Implementing pro-competitive reforms across key sectors: fostering wholesale competition and infrastructure sharing in telecommunications; completing the regulatory framework for renewable energy and accelerating unbundling in the energy sector; enabling competition-based private participation in transport and updating sector rules to accommodate new models such as ridesharing; relaxing rules on legal form, ownership, and entry into regulated professions in professional services; and creating additional pathways to enter those professions.
    iii. Leveling the playing field with SOEs through competitive neutrality, stronger corporate governance, and a rationalization of their presence in competitive markets.
    iv. Reducing payment delays and improving contract enforcement through supply chain finance instruments, electronic invoicing, streamlined commercial justice, and modernized insolvency procedures — measures that would disproportionately benefit the smaller, more productive firms that are currently net losers in Morocco's credit allocation.

2. **Dynamic firms: A more dynamic private sector requires removing the fiscal and regulatory disincentives that discourage firms from growing and hiring formally:**

    i. Completing the reform to flatten the corporate income tax (CIT) rate, which has in the past penalized firms' growth, and reducing the labor tax wedge on low-income earners (driven by social security contributions) that makes formal hiring costly precisely at the wage levels where Morocco most needs to expand employment.
    ii. Deepening access to finance for small and medium enterprises (SMEs) by operationalizing the movable collateral registry, expanding credit bureau coverage, boosting the fintech sector, developing secondary markets for NPLs, and completing the regulatory framework for quasi-equity instruments such as convertible bonds.

iii. Reforming labor regulations to make hiring and separations less costly and more predictable, paired with the introduction of an unemployment insurance scheme — turning flexibility and security into complementary rather than competing objectives.
iv. Integrating and streamlining support programs for firms across the full firm life cycle into a single-window interface, with sharper targeting toward genuine market failures and rigorous impact monitoring, and simplifying and digitizing private investment authorization and permit procedures.

3. **Impactful public investments and policies: Morocco's strong public investment drive has been central to its development trajectory. Building on this foundation calls for strengthening the strategic coherence and quality of public spending, while ensuring it creates the conditions for private activity to thrive:**
   i. Establishing a centralized, standardized framework for project selection and requiring robust ex-ante evaluations of investment projects to improve value for money and discipline large-scale capital spending.
   ii. Setting aggregate ceilings on public and SOE borrowing and embedding SOE financing plans in the annual budget process to free up domestic credit for the private sector, while expanding infrastructure financing through capital markets, public-private partnerships (PPPs), and blended finance.
   iii. Institutionalizing evidence-based policymaking through stronger center of government coordination, modernized data infrastructure and administrative data sharing, and a reformed national statistical office — giving Morocco the analytical foundation needed to design, monitor, and adjust an ambitious reform agenda.

4. **More active women and youth: Unlocking Morocco's underutilized human capital requires confronting barriers that are simultaneously legal, economic, social, and logistic:**
   i. Ensuring equal legal treatment for women, strengthening protections against gender-based violence, and addressing the hiring biases documented in this report's firm survey evidence.
   ii. Reforming the childcare sector to streamline registration and improve affordability, improving women's mobility through safe and reliable transport, and promoting flexible work arrangements to reduce the participation costs that disproportionately affect women.
   iii. Strengthening foundational learning outcomes in literacy and numeracy, improving career counseling, and aligning technical and vocational education and university curricula with industry needs through co-design with employers.
   iv. For those furthest from the labor market, expanding access to active labor market programs (ALMPs) for NEETs and equipping the *Agence Nationale de Promotion de l'Emploi et des Compétences* (ANAPEC) to provide tailored profiling and counseling, with delivery models designed around the realities of low-skilled and rural workers — and not only urban job seekers with secondary or tertiary education.

v. Facilitating circular migration programs and establishing a diaspora investment fund to channel the savings of Moroccan communities abroad into productive investment at home.

Simulations conducted for this report suggest that well-coordinated reforms could generate sizable gains in both growth and employment. A reform package addressing market efficiency, firm dynamism, public investment quality, and female and youth participation could lift real GDP to 17 percent above the baseline by 2035 and nearly 24 percent by 2050. That acceleration would translate into 1.7 million more and better jobs by 2035 and 2.5 million by 2050, with real wages 15 percent higher than they would otherwise be. The simulations also carry a warning: policies to expand labor force participation generate the largest employment gains, but only when paired with productivity-enhancing reforms. Without the latter, a larger workforce risks putting downward pressure on wages rather than raising them. The message is therefore one of complementarity: no single lever is sufficient, and the distance between Morocco's current trajectory and the ambitions of its NDM will only be closed through a reform agenda that is as coherent as it is ambitious.

CHAPTER 1 MACROECONOMIC FEATURES OF GROWTH AND JOBS

This chapter examines Morocco's macroeconomic performance in the twenty-first century. Underpinned by a strong macroeconomic policy framework, the impulsion provided by sustained public investment in physical and human capital, and the structural reforms of the early 2000s, a steady economic expansion allowed living conditions to rise to unprecedented levels for Morocco over this period. At the same time, aggregate growth was roughly in line with the world median, and income convergence remained limited. Four interrelated factors weighed on performance: an outsized reliance on public-sector-led capital accumulation that may have limited the space for private sector dynamism; a slowing structural reform momentum; weak productivity growth; and insufficient mobilization of labor despite favorable demographic conditions. The most pressing challenge is a persistent jobs shortfall that has increased inactivity, especially in rural areas and among women and youth. While recent reforms and sizable investments ahead of the 2030 World Cup are reviving growth momentum, realizing the New Development Model's goals of doubling per capita GDP by 2035 and substantially expanding formal employment will require an accelerated and sustained reform effort beyond current trends. Advancing faster toward these targets will require opening space for private sector participation, deeper productivity-enhancing reforms, and concerted efforts to tackle labor market frictions.

1.1. Patterns of growth and jobs

Morocco's economic trajectory since 2000 can be segmented into four phases. The first phase, spanning the 2000s, was marked by a significant acceleration and stabilization of growth, with real GDP expanding by an average of 4.7 percent annually and no recessions—a sharp departure from the volatility of previous decades (Figure 1.1, panel a). The second phase, covering the 2010s, saw a deceleration, though the economy maintained relative stability. The third phase began with the onset of the COVID-19 pandemic, which, compounded by a severe drought and the global inflationary surge, triggered Morocco's only recession of the century and ushered in larger macroeconomic swings. The fourth and current phase, from 2023 onward, features accelerating growth, driven by post-shock recovery, early reform gains, and the rollout of major investments, with momentum expected to build as implementation progresses.

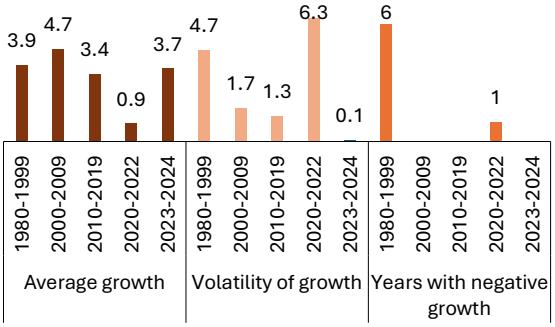
While Morocco has made significant strides relative to its own historical record, the country's economic performance in the twenty-first century has largely mirrored global trends. The expansion of the Moroccan economy over recent decades has been robust enough to drive a pronounced improvement in living standards, as reflected in the decline in multidimensional poverty—from 25 percent in 2004 to 5.7 percent in 2022. However, while Morocco's average annual per capita GDP growth rate since the turn of the century outpaced that of most MENA oil-importing countries, it remained close to the global median (Figure 1.1, panel b). In other words, although the twenty-first century has represented a substantial improvement over previous decades, Morocco's growth did not stand out globally and relative to peer countries.[1] That said, and as discussed later

1 Whenever possible, a benchmarking approach is used to support the analysis presented in this and subsequent chapters. Three groups of peers have been selected, two of which are based on the objectives of Morocco's New Development Model (NDM), the national development plan. A first group of aspirational peers that currently have a per capita GDP about twice that pf Morocco, the level targeted by the NDM, includes Albania and Colombia. A second group of aspirational peers that have recently managed to sustain an economic expansion sufficient to double their per capita GDP over a period comparable

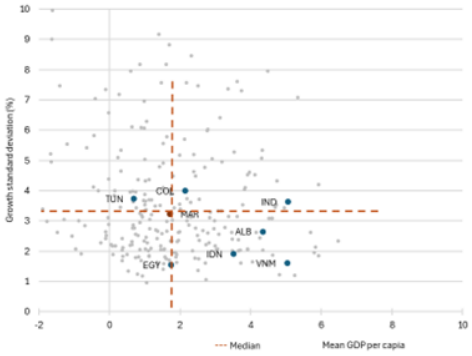
in more detail, this period has also seen a marked reduction in growth volatility, reflecting genuine improvements in macroeconomic management.

Figure 1-1: Morocco's steady expansion since 2000 is broadly aligned with the global median.

a. Patterns of GDP growth in Morocco



b. Growth and volatility in Morocco and other countries (2001-2019).



Source: Haut Commisariat au Plan (HCP) and World Bank staff calculations.

Source: World Development Indicators (WDI).

Morocco's growth trajectory has delivered limited income convergence. After some gain during the 2000–2009 expansion, when per capita Gross National Income (GNI) relative to the high-income average rose by nearly 2 percentage points, convergence stalled in the 2010s and partially reversed after the pandemic. By 2023, per capita income stood at 7.7 percent of the high-income average, just 0.7 percentage points above its 2000 level, surpassing the MENA oil-importer average but below most benchmark peers (Figure 1.2, panel a). The distance to the upper-middle-income country (UMIC) threshold narrowed in the 2000s but barely moved thereafter; Morocco's per capita GNI was 80 percent of the UMIC cutoff in 2010 and 82 percent in 2023, indicating limited progress toward transitioning to a higher income group. This slow convergence partly reflects structural headwinds specific to Morocco's context, including recurrent drought shocks and the absence of the strong regional integration and trade spillovers that have propelled faster-growing peers in Asia.

The labor market has not created jobs at the pace required to absorb a growing working-age population. Between 2000 and 2024, the working-age population increased by 47 percent,[2] while the employed population expanded by 20.7 percent and the unemployed population by 19.7 percent. Consequently, the labor force participation rate declined from 53.1 to 43.5 percent. While some of this decline reflects increased youth enrollment in secondary and tertiary education, activity rates still fell by more than 5 percentage points between 2000 and 2024 when students are excluded from the computation. On average, the economy generated 215,000 fewer jobs per year than needed to keep the employment rate unchanged year on year.[3] This shortfall rose from 138,000 in the 2000s to 208,000 in the 2010s, reaching an average of 370,000 between 2020 and 2024 (Figure 1.2, panel b).

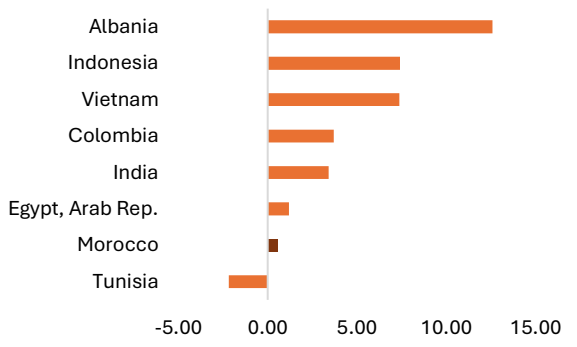
to that needed for Morocco to meet the NDM target includes India, Indonesia, and Viet Nam. Last, the group of regional peers at a similar level of development and facing comparable conditions include Egypt and Tunisia.

2 Age15 years or more

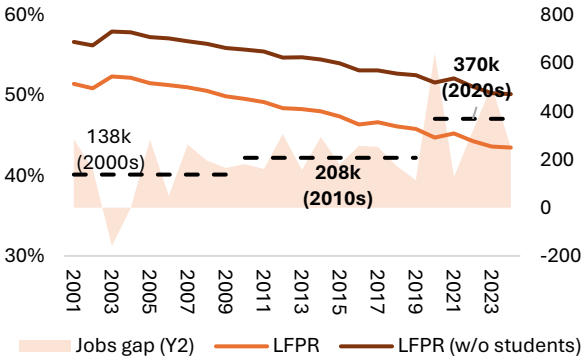
3 The student population is excluded from this computation to factor in the increased enrollment in secondary and tertiary education.

Figure 1-2: Income convergence and job creation have been slow since 2000.

a. Change in per capita GNI as a share of high-income economies (2000-2023, p.p.)



b. Labor force participation rate and jobs shortfall



Source: World Bank staff calculations based on WDI. Source: World Bank staff calculations based on HCP data.

Note: the jobs shortfall is calculated as the additional number of jobs that would have had to be created to keep the labor force participation constant year-on-year.

1.2. Drivers of growth and labor market outcomes

This section discusses the forces shaping growth and job dynamics in Morocco. A strong macroeconomic policy framework bolstered resilience and allowed Morocco to build a stronger physical and human capital base and to sustain growth, but its development model may be constraining private sector dynamism. Growth has been predominantly investment-led, with capital accumulation accounting for a rising share of output gains, while productivity improvements have remained modest. Early market reforms delivered significant short- to medium-term gains before waning momentum contributed to a productivity slowdown. The section also underscores a feedback loop between slowing growth and labor underutilization — compounded by a declining job intensity of growth and climate-driven rural displacement — as the economy struggles to absorb workers into productive non-agricultural employment.

1.2.1. Morocco has built a robust macroeconomic policy framework and sustained large and growing public sector

Prudent macroeconomic policies have been a cornerstone of Morocco's growth and resilience. After the turbulent periods of the 1980s and 1990s, Morocco adopted a policy framework that has maintained macroeconomic stability through multiple shocks (see Box 1). Overall sound fiscal management allowed the state to boost investment in physical and human capital and to respond countercyclically to exogenous disturbances without compromising the sustainability of public finances. Monetary and financial sector policies have maintained an environment of low and stable inflation while also improving domestic financial conditions and supporting credit expansion. As a result of these policies, the volatility of Morocco's growth declined markedly after the turn of the century (Figure 1.1) and remained well below that of most other countries (except during the 2020-2022 pandemic). Growth volatility would have been even lower

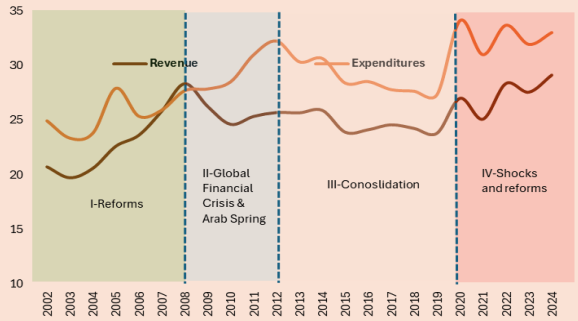
but for the country's severe exposure to climate shocks and water scarcity, which explain an estimated 37 percent of the variance in Morocco's output over the medium term.[4]

Box 1-1: Morocco's macroeconomic policy framework

Fiscal policy. Public spending and indebtedness have increased substantially after the COVID-19 pandemic, but the government has managed to keep the deficit on a downward trend in recent years. It is currently implementing a broad tax reform aimed at strengthening revenue mobilization capacity while addressing economic distortions induced by the structure of Value Added Tax (VAT) and Corporate Income Tax (CIT). Morocco's debt, primarily long-term, domestically held, and dirham-denominated, remains sustainable and the sovereign retains steady access to international capital markets on terms comparable to those of investment-grade countries. Fiscal policy is governed by the 2015 Organic Budget Law, which reinforced accountability over public finances. More recently, a medium-term fiscal framework has been introduced (regularly published with the annual budget law), and the authorities are planning to adopt a debt-anchored fiscal rule.

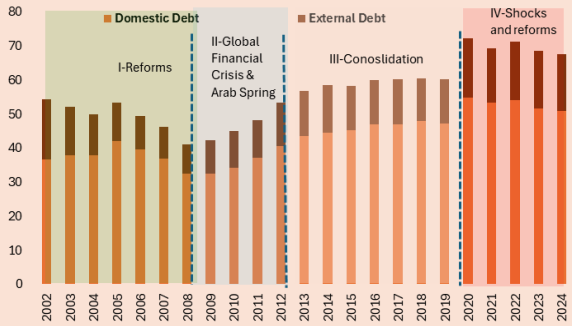
Figure 1-3: Morocco has sustained a significant fiscal expansion, but debt has stabilized.

a. Revenues and expenditures (percentage of GDP)



Source: MEF and World bank staff calculations.

b. Central government debt (percentage of GDP)



Source: MEF and World bank staff calculations.

Monetary policy. The operational independence of Bank-Al-Maghrib (BAM) has been reinforced following reforms that have allowed monetary policy to prioritize price stability as its primary objective. Morocco has traditionally relied on the exchange rate as the nominal anchor, coupled with capital controls that have retained some room for discretionary monetary policy. This framework effectively maintained inflation below 2 percent for over a decade leading up to the most recent global inflationary shock, while allowing for an easing of financing conditions, without causing a misalignment of the real exchange rate. In recent years BAM has initiated a transition toward an inflation-targeting regime, making room for some fluctuation of the dirham within a band that was progressively widened from ±0.6 percent to ±2.5 percent (2018) and to ±5 percent (2020). As a result, the exchange rate began to adjust to changing external conditions and absorb economic shocks. BAM's cautious response to the recent price shock has been effective, resulting in a rapid disinflation process despite a comparatively modest policy rate tightening (World Bank 2024a). Morocco maintains comfortable external liquidity buffers, including a sizeable stock of foreign exchange reserves and access to the contingent resources made available by the International Monetary Fund (IMF) under a Flexible Credit Line.

Financial stability. Morocco has a relatively large bank-led financial system: domestic bank credit amounted to 88 percent of GDP in 2022, against an average of 47 percent of GDP in lower middle-income economies but still far from the 144 percent of GDP average of upper middle-income economies.[5] Prudential and

4 The Country Climate and Development Report offers an in-depth analysis of the macroeconomic implications of rainfall shocks and water scarcity in Morocco (World Bank, 2022).
5 Source: WDI

supervisory frameworks have been significantly strengthened following the passing of a new banking law in 2014, and BAM has recently begun to assess climate risks to the financial system. Despite recent shocks, banks remain well-capitalized and have stable funding. However, at close to 8 percent, the non-performing loans (NPLs) ratio is relatively high (cf. Chapter 4), and banking in Morocco remains concentrated.

Over the years, Morocco has developed a sizable public sector that has steered national development but also increased administrative complexity. Its footprint has risen markedly, with total public expenditure (excluding SOEs) reaching an estimated 34.5 percent of GDP in 2025, versus an average of 31.7 percent in emerging and developing economies.[6] This reflects the central role assigned to the public sector in Morocco's development model and its prioritization of physical and human capital formation, with public investment serving as an important catalyst in several sectors. The challenge going forward is less one of size than of impact; ensuring that public resources translate more consistently into private sector dynamism, productivity, and job creation. On government effectiveness, Morocco has made notable progress, recording its best Worldwide Governance Indicator score since 1996 in 2024 (0.18), on par with Indonesia, though it still trails higher-performing comparators such as India (0.40). Sustaining and deepening this progress in public sector governance remains critical, particularly given the complexity that comes with managing a large public footprint.

Three areas offer particular potential to enhancing public sector productivity: tighter cross-government coordination, systemic spending reviews embedded in the budget process, and data-driven policymaking. As Morocco's NDM itself acknowledged, policy delivery has at times been affected by coordination challenges across strategies and institutions, with strengthened interministerial steering and clearer mandates offering significant potential to enhance the execution of cross-cutting reforms. Despite the results-oriented approach embedded in the Organic Budget Law, spending reviews are rarely undertaken, and when they are, their findings are seldom used to recalibrate annual budgets or the medium-term fiscal framework. Similarly, greater use of statistical and administrative data in policymaking could help reduce fragmentation across programs and strengthen monitoring and evaluation. To overcome these challenges, Morocco could strengthen center-of-government functions to coordinate cross-cutting reforms (for example, building on the *Comité National de l'Environnement des Affaires* [CNEA] model); institutionalize systematic spending reviews and require their findings to inform annual budget ceilings and the medium-term fiscal framework; and modernize the national statistical system while enabling secure, interoperable exchange of administrative data across public authorities.

1.2.2. Capital accumulation has been the dominant factor in Morocco's growth trajectory

Morocco has consistently maintained a comparatively large public-sector-led investment effort, resulting in a notable upgrading of infrastructures. At almost 30 percent of GDP, Morocco's average investment between 2000 and 2024 surpasses the global average by a substantial margin. It also surpasses the average of selected peers, although Morocco's investment rate does not stand out when compared with the fastest-growing economies in this group (Figure 1.4, panel a). Investment has been skewed towards infrastructure projects and activities in other

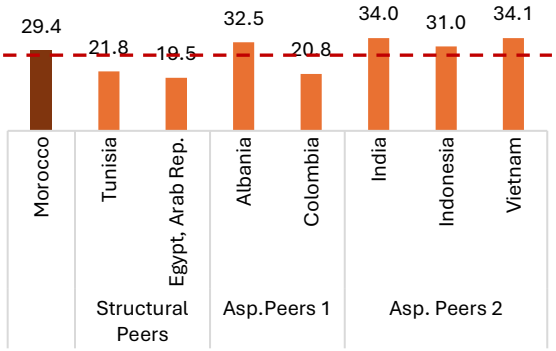
6 No other benchmark peers in this Growth and Jobs Report has a larger public sector. The gap is especially stark relative to the high-growth subset, where the government sector accounts for 16.5 percent of GDP in Indonesia, 21.7 percent in Vietnam, and 27.3 percent in India.

non-tradable sectors led by the central government and SOEs. While infrastructure quality has markedly improved,[7] public-sector-led investments have also contributed to Morocco's sizable trade deficit (Sauvé and Dadush 2023).

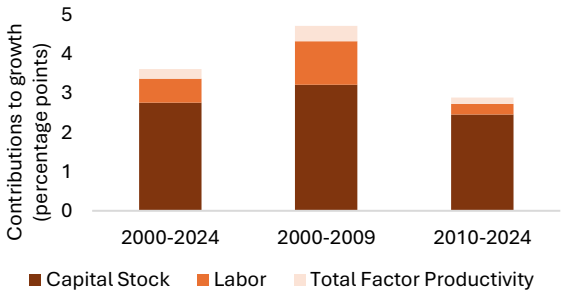
Capital accumulation has powered most of Morocco's growth over recent decades. Close to 76 percent of real GDP growth between 2000 and 2024 can be attributed to the expanding capital stock (Figure 1.4, panel b). The average absolute contribution of capital to growth decreased between the 2000s and the 2010-24 period, from 3.2 to 2.5 percentage points per year. This reflects the investment slowdown during this period. However, the relative contribution of capital accumulation to growth increased between the two periods, from 68 percent in the 2000s to 85 percent since 2010. This suggests that Morocco's growth trajectory has become increasingly reliant on capital accumulation over the years, even if its capacity to sustain high public sector-led investment rates somewhat weakened over time (and until recently).

Figure 1-4: Investment and capital accumulation have been the key drivers of growth.

a. Investment as percentage of GDP, 2000-2024



b. Components of growth, 2000-2024



Source: World Economic Outlook, IMF. Source: World Bank staff, CEM 2.0 tools.

Note: Aspirational peers 1 are countries with Morocco's target per capita GDP level for 2035. Aspirational peers 2 are countries with historical growth rates that would allow Morocco to reach the target in time.

The growth impact of capital accumulation has been constrained by the composition and efficiency of investment. Official statistics do not provide a breakdown between public and private investment, but available estimates indicate that the public sector (including SOEs) accounts for between half and two-thirds of total investment, a share that is high compared to peers. This limited participation of the private sector in capital accumulation helps explain why the contribution of capital to growth was more modest in Morocco than in other countries with similar investment rates (Figure 1.5, panel a). Recent research highlights that public investment efficiency in Morocco stands below the average for both upper and lower middle-income economies (Doghmi 2024). This reflects that there is room to improve Morocco's public investment management (PIM) system, particularly on project selection, ex-ante evaluation, and implementation Public Expenditure and Financial Accountability 2024).

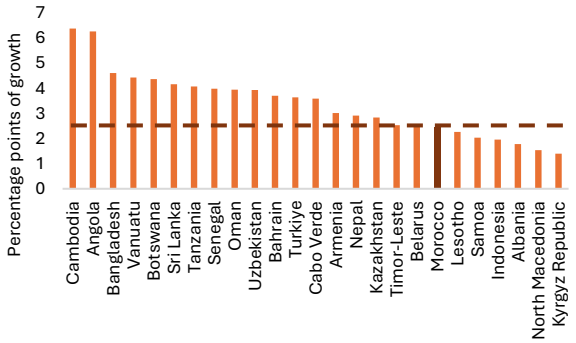
7 According to the last available edition of the Global Competitiveness Report, the perceived quality of Morocco's infrastructures surpasses that of all considered peers but Egypt (WEF, 2020).

Morocco's sustained public investment has absorbed a large share of national savings and may be crowding out private investment. Several structural features point in this direction: about 15 percent of banks' assets are allocated to government bonds; public issuers absorb over 90 percent of the bond market; and SOEs and local governments account for nearly a quarter of equipment bank credit. Since the onset of the pandemic, bank credit to public borrowers has grown at more than twice the rate of credit to private firms and households (48.1 percent versus 21.6 percent), with an even starker divergence over the past decade (137.4 percent versus 39.3 percent).[8] These patterns suggest a quantity-rationing channel (banks allocating preferentially to lower-risk sovereign borrowers) rather than the classical interest-rate channel, though weak private investment demand may also partly explain the divergence. The net effect is reduced financing for SMEs and new entrants. As discussed in Chapter 3, the credit that does reach the private sector flows predominantly to large and older firms. Coupled with weak competitive pressures and an uneven playing field, this crowding-out dynamic has likely hindered SMEs' dynamism and new firms' entry, contributing to the employment gap.

To mitigate crowding-out and unlock private investment, Morocco could rebalance public borrowing, sharpen project selection, and deepen market-based infrastructure financing. One option could be to set an overall ceiling for SOE borrowing, coupled with a medium-term glide path to lower the share of bank lending to SOEs. Complementarily, the authorities could strengthen project selectivity by institutionalizing rigorous ex-ante evaluations of economic, social, and employment impacts and applying transparent, PIM-anchored prioritization rules to focus resources on higher-value projects. Finally, Morocco could foster infrastructure financing through capital markets by building a pipeline of bankable projects with clear risk allocation and financial viability, operationalizing the PPP framework with transparent caps on contingent liabilities and fiscal risks, and deploying blended-finance solutions and targeted de-risking instruments.

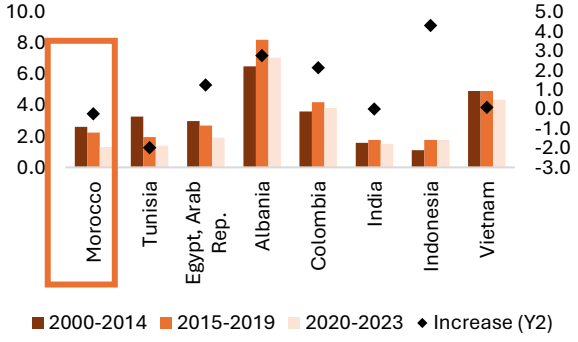
Figure 1-5: Capital contributed less to growth than in countries with similar investment levels.

a. Capital stock contribution to real GDP growth



Source: World Bank staff, CEM 3.0 tools. Figure shows countries with average investment rates between 27 and 30 percent of GDP from 2000 to 2024.

b. Net foreign direct investment (FDI) as a percentage of GDP, 2000 and 2023



Source: World Bank staff based on WDI.

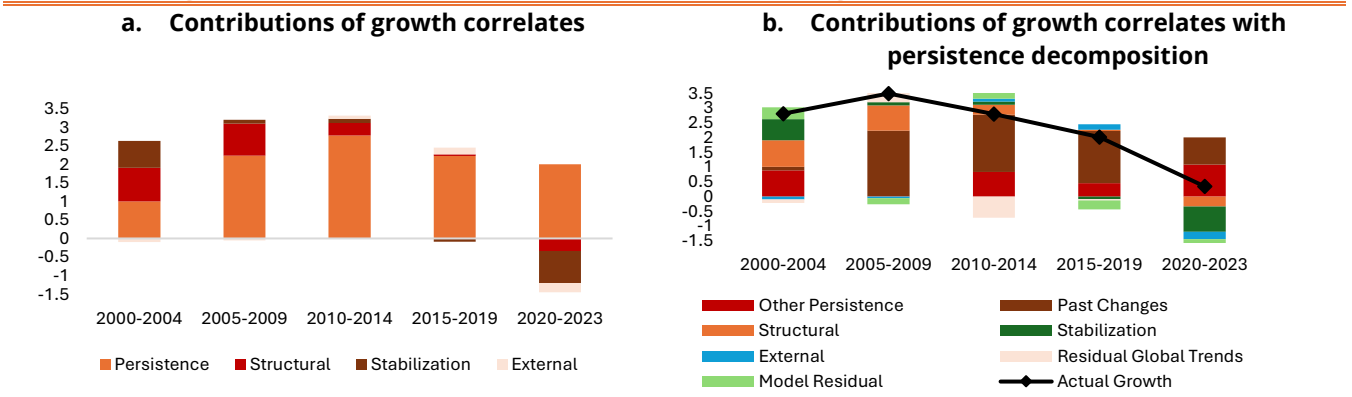
8 Source: Bank Al-Maghrib statistics; author's calculations.

Foreign savings could offset the crowding-out effects potentially caused by a large public footprint, but Morocco's attractiveness to FDI has lagged peers. Net FDI as a share of GDP has trended down since the 2010s and remains relatively low internationally (Figure 1.5, panel b). A sizable share of inflows has concentrated in Special Economic Zones (SEZs), underscoring their appeal but also suggesting investors seek conditions and incentives not available economy-wide. This comparatively low FDI may reflect the market access entry restrictions highlighted by Morocco's scoring in the Services Trade Restrictiveness Index (STRI) that is discussed below. More recently, however, greenfield investment announcements have surged even as SEZ tax incentives are being rolled back, and realized FDI has gained momentum in 2025, reflecting improved investment-promotion policies and global push factors that have raised awareness of Morocco's comparative advantages.[9] The immediate challenge is converting announcements into realized, job-creating projects, which hinges on supportive regulations, faster permitting, and lower entry barriers. The growth impact of incoming FDI would be amplified by policies that foster technology and know-how spillovers and by developing domestic value chains around these projects.

1.2.3. Structural reforms have slowed down over the last decade

The market-oriented reforms initiated in the late 1990s, especially the opening of the economy to external markets, significantly contributed to the growth take-off of the 2000s. The reform agenda encompassed a wide range of initiatives, including trade liberalization, the privatization of some public enterprises and the partial deregulation of the banking, energy, and telecommunication sectors. This wave of market-oriented reforms is estimated to have initially contributed to about 1 percentage point of additional real GDP growth per year (Figure 1.6). As evidenced by the significance of the persistence component of growth during the 2010s, the structural reforms of the early 2000s are also likely to have continued fueling growth well after their implementation.

Figure 1-6: The contribution of structural reforms to growth declined after 2010.



Source: World Bank staff estimates using CEM 3.0 Growth Correlates Tool following Araujo et al. (2016) and Wacker, Beyer, and Moller (2024).
Note: Structural factors include trade openness, infrastructure index, temperature volatility, government spending, urbanization, financial depth, inward FDI, export diversification, the human capital index, and the Gini coefficient measure of inequality. Stabilization factors include inflation, an indicator for financial crises, the volatility of growth, and political events. External factors include the terms of trade, and a measure of residual global trends.

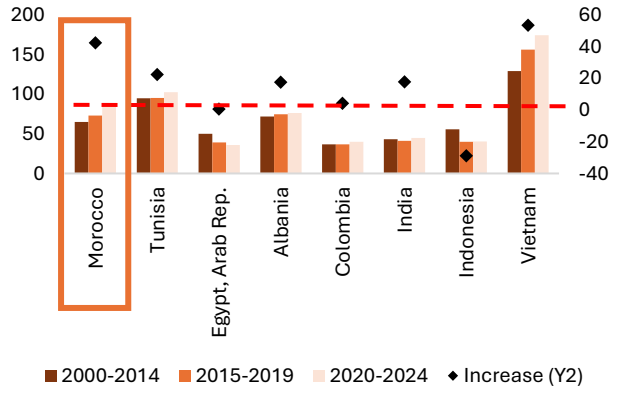
9 Announced greenfield FDI by international firms has more than quadrupled between 2021 and 2023, from US$3.8 billion to US$20.4 billion. As discussed in World Bank (2024a), the push factors that may be driving these trends are recurrent supply-chain disruptions and rising geopolitical tensions, which are resulting in an increased interest on the part of transnational firms to build operational resilience through reshoring or friend-shoring. The pull factors include Morocco's geographic proximity to major markets, a sound macroeconomic management and infrastructure system, recent government efforts to upgrade the country's investment promotion landscape, a vast renewable energy potential and a diversified network of free trade agreements (FTAs).

However, the loss of momentum in growth-enhancing reforms that had characterized the early 2000s contributed to the economic deceleration of the 2010s. In the aftermath of the global financial crisis—and with renewed urgency following the COVID-19 pandemic—Moroccan public policies shifted toward strengthening the social safety net, critically improving living standards, sustaining domestic consumption, and building Morocco's human capital. This reorientation of policy priorities, however, was accompanied by a waning pace and scope of market-oriented reforms, which reduced their contribution to economic growth throughout the 2010s. Recognizing these challenges, the NDM underscores the need for a new wave of reforms aimed at addressing persistent structural rigidities that continue to weigh on Morocco's economic performance and private sector dynamism.

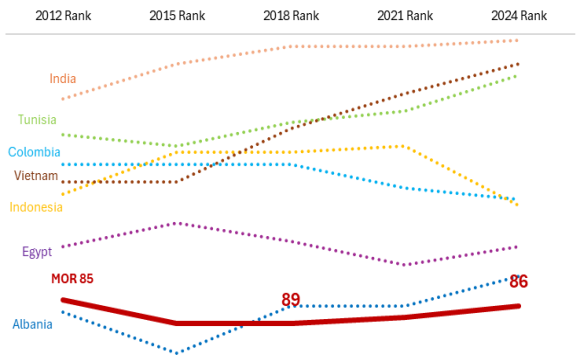
Morocco's liberalization reforms boosted international trade. Tariffs were significantly reduced during the market-oriented reforms of the 2000s, from a Most Favored Nation (MFN) simple mean of 31.7 percent in 2000 to a low of 11.2 percent in 2014, and Morocco signed several FTAs, most notably with the European Union and the United States. As a result, trade (measured as the sum of exports and imports of goods and services) increased from 53.4 percent of GDP in 2000 to 76.1 percent in 2019 and 92.3 percent in 2024.[10] This is a faster expansion of trade than that of all considered peers except for Vietnam, and Morocco is now among the most open economies among this group of countries (Figure 1.7, panel a).

Figure 1-7: International trade expanded rapidly but economic complexity lags comparators.

a. Trade as percentage of GDP, 2000-2024



b. Economic Complexity Index ranking, 1995-2023



Source: WDI

Source: Atlas of Economic Complexity (Harvard Growth Lab)

Yet, there remains room to grow exports in both volume and diversification. Morocco's exports have grown significantly - up 139 percent in per capita terms between 2000 and 2022 - building a solid foundation for further expansion. Aspirational peers have achieved even sharper growth, with Vietnam at 915 percent, Albania at 539 percent, India at 472 percent, and Indonesia at 151 percent, pointing to substantial headroom for Morocco to deepen its export base and broaden its product mix. Over the last 20 years, the share of medium-high technology products in Morocco's export basket has risen from 16 percent to 50 percent, reflecting significant progress in the

10 Exports expanding from 24.2 percent in 2000 to 34.2 percent of GDP in 2019 and 42 percent of GDP in 2024 and imports from 29.2 percent to 42 percent of GDP in 2019 and 50.3 percent of GDP in 2024.

automotive, chemical, aeronautics, and electrical equipment sectors, but also the decline of other less sophisticated (but more labor-intensive) industries, such as textiles. However, Morocco's ranking in the Economic Complexity Index still lags that of considered peers (Figure 1.7, panel b). This indicates that further accumulation of productive knowledge is needed for Morocco to diversify its export base and converge to higher income levels.

In recent years, Morocco has partially recalibrated its trade policies. After the consistent reductions observed in the preceding period, the average most favored nation (MFN) tariff increased from 12.5 percent to 16.6 percent between 2015 and 2023, while the average duty for non-agricultural products rose from 9.5 percent to 13.7 percent (World Trade Organization, 2024). Additionally, various government initiatives have been adopted to actively promote the substitution of imports by local production. While this does not constitute a fundamental shift toward an inward-looking model, it reflects the authorities' more nuanced views on the benefits of international trade and a growing interest in protecting domestic industries from foreign competition (Sauvé and Dadush, 2023). Recent adjustments in trade policy, however, do not appear to have dented the growth of Morocco's exports, which accelerated after 2015, especially in the post-COVID period.

Significant restrictions on trade in services are in place. According to the Services Trade Restrictiveness Index (STRI), regulatory barriers to trade in several key service sectors (including professional services, telecommunications and transport) remain above the global average. These elevated STRI scores reflect significant regulatory bottlenecks to trade in services, including limitations on foreign entry, complex licensing requirements and restrictions on the movement of people and capital.

1.2.4. Productivity gains have contributed only modestly to growth

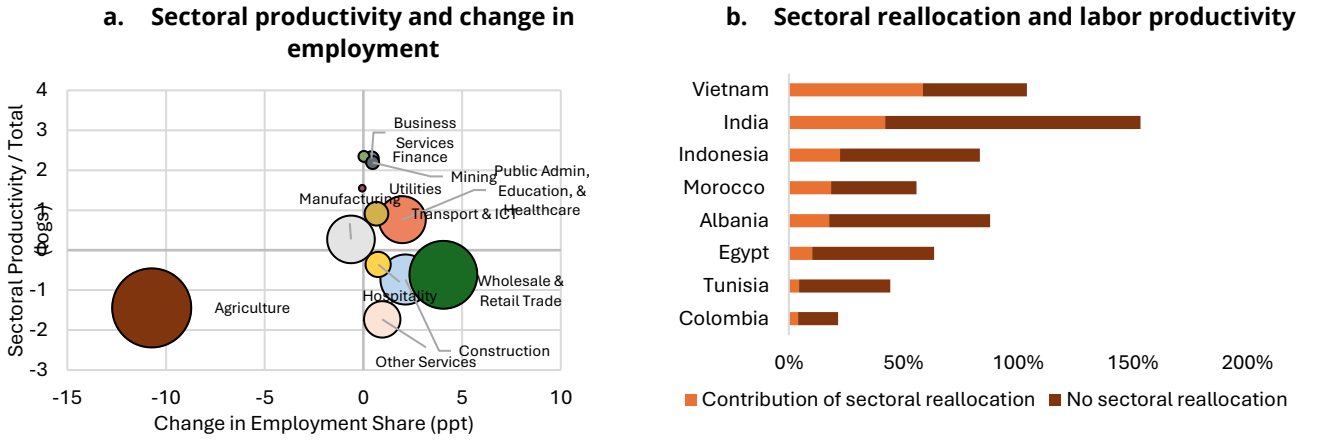
Morocco's investment effort has not yielded a productivity take-off. A rapid accumulation of physical capital and better access to infrastructure should improve the efficiency of production processes and thus translate into faster productivity growth. Yet, the contribution of total factor productivity (TFP) to overall growth has been limited in Morocco, declining from 0.8 percentage points per year in the 2010s to 0.7 percentage points in the 2010s and less following the pandemic shock. When compared internationally, the contribution of TFP to growth was clearly surpassed by all aspirational peers, especially those that sustained an investment effort comparable to that of Morocco over recent decades. Identifying the factors that have limited the impact of capital accumulation on TFP is critical to understand Morocco's recent growth dynamics.

Despite significant gains in labor productivity since 2000, Morocco's economy has been outpaced by high-growth aspirational peers, particularly in non-agricultural sectors. Total value-added per worker rose by 76 percent between 2000 and 2024, outperforming all North African peers except Egypt. High-growth aspirational peers such as India (182 percent), Vietnam (192 percent), and Indonesia (116 percent) demonstrate that substantially higher productivity gains are within reach, pointing to considerable room for Morocco to accelerate further. The performance of non-agricultural sectors has been comparatively poor, with cumulative productivity growth in agricultural labor productivity twice as high as that of the total economy between 2000 and 2019. In fact, labor productivity growth in non-agricultural sectors has exhibited a persistent slowdown

since 2008, particularly in industry. From a comparative perspective, Morocco's non-agricultural labor productivity increased faster than in Colombia but lagged all other peers.

There is room to increase the impact of structural transformation on aggregate productivity. Value-added per worker remains 4.5 times higher in non-agricultural sectors compared to agriculture, implying that shifts out of agriculture remain strongly productivity-enhancing — and with agriculture still employing 26.3 percent of the workforce, the scope for further gains is significant. Between 2000 and 2023, the share of Moroccan workers in agriculture fell by 19.6 percentage points, while the share in industry increased by 4.8 percentage points and in services by 14.7 percentage points. This structural transformation process increased labor productivity by 18.4 percent over the period, while continued within-sector productivity growth contributed a further 37.3 percent. However, as shown in Figure 1.8, panel a, the non-agricultural sub-sectors that have seen the largest employment gains (for example construction and hospitality) are not the ones with the highest productivity (for example financial services and mining). This has limited the overall contribution of structural transformation to productivity growth, which has been lower in Morocco than in the three high-growth aspirational comparators (Figure 1.8, panel b). There is therefore potential to further accelerate Morocco's structural transformation and, critically, to better direct it toward higher-productivity activities, thus enhancing its contribution to growth.

Figure 1-8: Despite ongoing structural transformation, labor productivity growth lags.

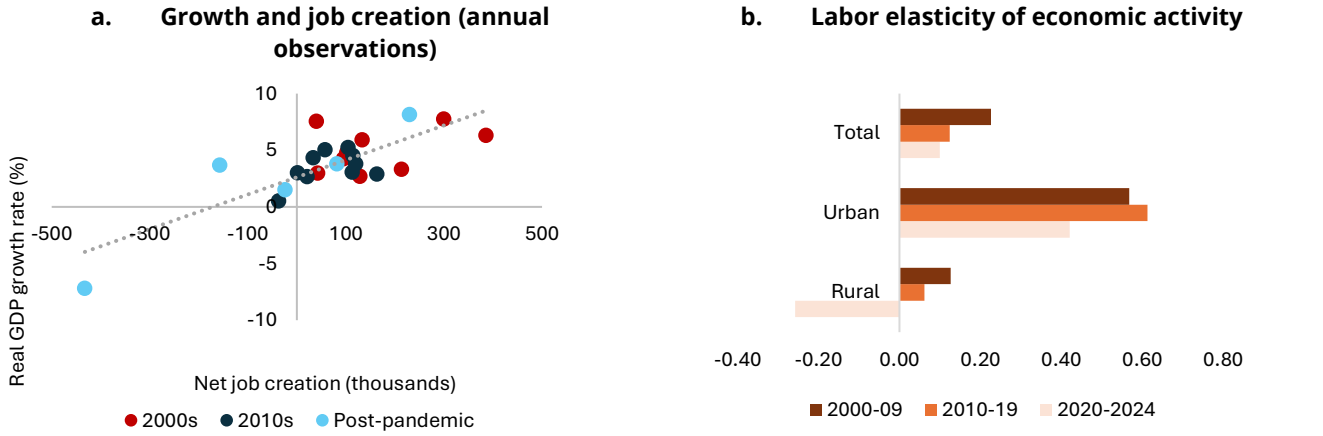


Source: World Bank staff calculations based on HCP data.
Note: The graph shows relative sectoral productivity plotted against changes in employment shares. The size of the bubbles represents the sector's share of total employment. Sectoral productivity is measured as sectoral value added relative to total value added in logarithms.

1.2.5. Falling activity rates have kept labor's contribution to growth limited

Despite favorable demographic conditions, labor has had a low and declining contribution to economic growth. As discussed in detail in Chapter 4, Morocco's working-age population has expanded fast since the early 2000s, albeit at a decelerating pace, broadly in line with that of high-growth aspirational peers. Labor accumulation added 1 percentage points of annual real GDP growth per year in the 2000s, but just 0.2 percentage points since then. This is significantly lower than in most aspirational peers (1.0 percentage points per year in Colombia, 0.7 percentage points in Indonesia, 0.6 percentage points in Albania, 0.5 percentage points in Vietnam) and suggests that Morocco is not fully reaping the benefits of its ongoing demographic transition to accelerate growth.

Figure 1-9: Growth has become less job-creating.



Source: World Bank staff calculations based on HCP data.

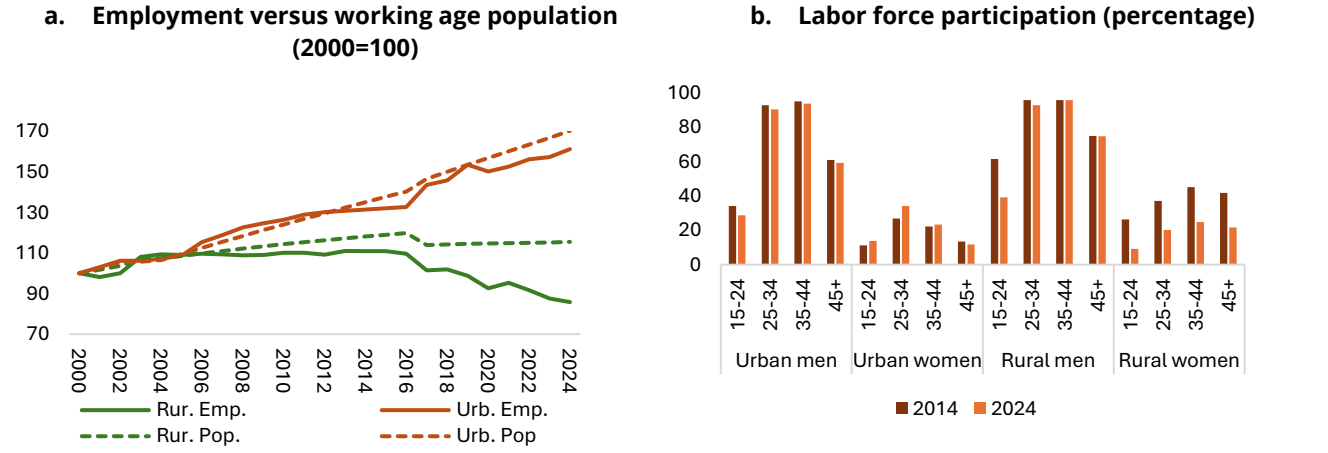
Job creation has been adversely affected by a combination of progressive economic slowdown and a declining labor intensity of growth. Net employment growth fell from roughly 160,000 jobs per year in the 2000s to 72,000 in the 2010s, turning into average net losses of about 60,000 jobs per year over 2020–2024. This trend reflects two underlying forces. First, lower growth rates have translated into weaker employment gains over time (Figure 1.9, panel a). Second, the employment elasticity of growth has progressively declined: in the 2000s, each percentage point of real GDP growth was associated with about 22,500 net new jobs, falling to 8,300 in the 2010s and to just 5,800 since the pandemic (Figure 1.9, panel b). The declining employment elasticity is consistent with a capital-intensive, public-led model that has favored large projects over more labor-absorbing private activity.

Increasingly frequent climate shocks are having pronounced impacts on the labor market. Total employment has followed increasingly divergent dynamics in urban and rural areas, with the former adding more than 2.5 million jobs since the turn of the century, while the latter saw a net loss of 675,000 jobs, a trend that has intensified in recent years (Figure 1.10, panel a). This is due in part to the ongoing structural transformation of the economy and comparatively fast productivity growth in agriculture. It also results from increasingly frequent droughts, which have accelerated rural job losses since the late 2010s (see Chapter 4). Part of this pattern may also reflect a measurement challenge inherent to the transition period of the ongoing health and social protection reform. As the non-contributory health insurance scheme (AMO-Tadamon) is rolled out, some non-salaried agricultural workers may be adjusting their reported labor status in ways that affect the accuracy of official statistics — a behavioral response to coverage eligibility criteria that has been documented in similar reform contexts elsewhere (World Bank, 2024a). This underscores the importance of interpreting labor market data with caution during periods of significant social policy change, thus warranting careful interpretation of the negative labor elasticity observed in rural areas between 2020 and 2024 (Figure 1.9, panel b).

Declining labor force participation rates have been particularly pronounced for women and youth. Changes in labor force participation have been highly heterogeneous in recent years (Figure 1.10, panel b). By age, the most affected group has been those age 15–24, particularly rural men,

reflecting progress in school enrollment but also a high incidence of youth not in employment, education, or training (NEETs), which affects close to a quarter of this cohort (Alfani et al., 2020). Rural women have also been particularly affected, with cumulative declines across all age groups exceeding 20 percentage points. There has been some progress among urban women, especially those age 25–34. However, even in this group, participation levels remain much lower than for urban men. As discussed in greater detail in Chapter 4, this decline in labor force participation may reflect, in part, a widening gap between stagnating entry-level wages and rising reservation wages for a growing share of youth and women. Remittances, which increased from 6.0 percent of GDP in 2010–2019 to 7.3 percent in 2020–2024, have likely contributed to this dynamic by providing households with non-labor income that raises the minimum wage at which they are willing to work.

Figure 1-10: Urban and rural labor markets are diverging and excluding women and youth.



Source: World Bank staff calculations based on HCP data.

Informality remains a significant challenge for Morocco. Although it has declined over the years, the rate of informal employment still stood at 69.4 percent in 2024, surpassing that of other North African countries such as Egypt (68.2 percent, 2022) and Tunisia (36.9 percent, 2019), as well as upper-middle-income peers like Colombia (56.1 percent), but slightly below the rates observed in high-growth peers like India (88.1 percent, 2024) and Indonesia (81 percent, 2023).[11] The informal sector contributes an estimated 28-33 percent of Morocco's GDP, indicating that, as tends to be the case elsewhere, informal workers are engaged in less productive sectors and activities.[12] As discussed in Chapters 2 and 3, widespread informality may negatively affect firm dynamism, amplifying its adverse overall impact on economic growth.

1.3. Long-term growth projections

The Moroccan economy is gaining momentum and may be moving onto a stronger growth trajectory. Economic activity is clearly accelerating, and after averaging 3.7 percent in 2023-24, real GDP growth reached almost 5 percent in 2025. This renewed momentum is being sustained by both traditional and emerging drivers of growth. Capital accumulation remains central, as Morocco is

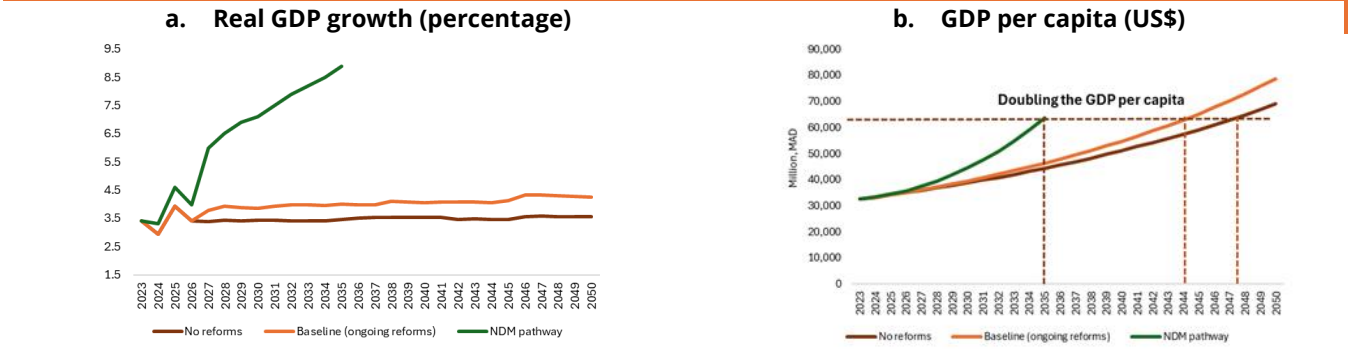
11 The data for Morocco is obtained from the Labor Force Survey (LFS) as the share of employed workers 15 years or older not covered by social security. Data for peers is obtained from the International Labour Organization (ILO).
12 The size of the Moroccan informal sector as a share of GDP is larger than in all peers except for Colombia and Tunisia.

undertaking large-scale investments related to the preparations for the 2030 World Cup and expanding desalination capacity to bolster water security, among other national priorities. At the same time, new growth engines are coming to the fore, as Morocco emerges as a regional manufacturing and trading hub, attracts growing volumes of greenfield FDI and the reforms enacted in recent years start to yield their intended effects. The key question is how persistent and sizable these gains will be, and whether they will suffice to meet Morocco's long-term aspirations.

The NDM, introduced in 2021, aims to drive a deep socioeconomic transformation and significantly accelerate economic growth and job creation. It advocates for the adoption of transformational reforms to diversify Morocco's sources of growth beyond public capital accumulation and rebalance investment in favor of the private sector, while improving education and health services, and resolving barriers preventing women and youth from actively participating in the labor force. The NDM sets ambitious goals, including doubling per capita GDP by 2035, increasing employment formalization to 80 percent, and improving women's employment rate to 45 percent. To achieve these targets, an average annual growth rate of almost 7 percent would have to be sustained for over a decade, significantly higher than what has been recorded since national accounts statistics are available, even during the acceleration phase of the 2000s.

In line with the orientations of the NDM, several key reforms have been launched in recent years. These include: (a) an ambitious human capital agenda, which includes a reform to universalize access to the national health insurance system, the introduction of a comparatively broad and generous cash transfer program for poor and vulnerable households, and a sustained effort and investment to improve access to better education; (b) a reform of SOEs aimed at enhancing the efficiency of the public sector while levelling the playing field for private businesses; (c) a continued effort to improve the business climate and facilitate private investment at the regional level; and (d) a comprehensive tax reform which is reducing the number of VAT and CIT standard rates to overcome the distortions and disincentives created by Morocco's tax system. In addition, as mentioned, the government is engaged in various large-scale public investment programs that are to be deployed in the coming years, and a new Jobs Roadmap was introduced in 2025, aimed at modernizing employment policies.

Figure 1-11: Current reforms will increase growth but fall short of NDM targets.



Source: World Bank staff calculations using the MFMOD GJ model.

These reforms have the potential to boost GDP growth over the coming decades, but sustaining the full trajectory envisaged by the NDM would require deepening their scope and ambition. A baseline scenario is constructed using the Macro-Fiscal Model for Growth and Jobs

(MFMOD GJ). In this baseline, investments linked to the 2030 World Cup temporarily lift real GDP growth to just under 5 percent, while ongoing reforms raise medium-term growth potential by an estimated 0.6 percentage points per year, to an average of 4.2 percent (Figure 1.11, panel a). This remains below the ambitious 6.9 percent that would be consistent with the NDM target; in the baseline scenario Morocco would only double 2023 per capita income levels around year 2044, 9 years later than envisaged by the NDM (Figure 1.11, panel b). The macrosimulations presented in Chapter 5 show that with a renewed reform effort, Morocco could come significantly closer to the NDM trajectory.

1.4. Conclusion

This chapter has examined Morocco's recent growth and jobs performance from a macroeconomic perspective. Over the twenty-first century, sound macroeconomic management, large scale investments, and an early wave of structural reforms generated sufficient growth to significantly improve living standards. However, overall growth has not stood out when compared internationally, and insufficient job creation now representing the country's most pressing development challenge. Five key messages emerge. First, lagging productivity growth has been a major factor behind the limited convergence to a higher income level observed in recent decades. Second, continued reliance on public investment as the primary engine of growth risks limiting private sector participation and dampening productivity gains. Third, reinvigorating the structural reform agenda would help deliver on the ambitious objectives of the NDM. Fourth, Morocco has built a large public sector, and there is scope to strengthen coordination as well as the effectiveness and efficiency of public spending. Fifth, the substantial jobs shortfall disproportionately affects women and youth, highlighting the need to address the specific barriers faced by these groups in the labor market.

Understanding what lies behind these macroeconomic patterns requires shifting the analytical lens to the level of the firm, the market, and the worker. The remainder of this report makes this shift from the macro to the micro. It will examine firm-level evidence to shed light on why productivity gains have remained elusive (Chapter 2), the market conditions and constraints that are preventing a more dynamic private sector from emerging (Chapter 3), and the forces through which a slow productive upgrading of the economy is contributing to the disengagement of youth and women from the labor market (Chapter 4). It will argue that these forces are tightly interconnected. Firms' productivity has stagnated largely because of allocative inefficiencies driven by market frictions, regulatory constraints, and persistent barriers to the emergence of young and innovative firms. In turn, an economy that prevents the emergence of new entrants and does not become more productive is also one that does not create opportunities commensurate with the expectations of an increasingly educated workforce. In this light, weak productivity gains and declining labor force participation become two sides of the same coin, which the policy package proposed in Chapter 5 is designed to address.

CHAPTER 2 MICROECONOMIC FEATURES OF GROWTH AND JOBS

To realize its growth and jobs potential, Morocco will need to harness the economic forces of creation, preservation, and destruction. As emphasized in the 2024 World Development Report (WDR), successful middle-income economies can transition to higher income levels by rewarding new entrants that create value, facilitating the rapid exit of unviable firms, enabling production factors to reallocate to more productive firms, and creating incentives for larger businesses to invest at scale in technology and efficiency. Assessing how far a country is from these optimal conditions requires a granular, country-specific diagnostic based on micro data. This chapter offers such a diagnostic by leveraging new sources of information and methodological advances. Several key findings emerge, helping to explain the macroeconomic dynamics discussed in Chapter 1. While Morocco has a relatively high density of firms, the business sector is not hiring at sufficient scale. This is largely due to sub-optimal firm dynamics: incumbents that have grown without commensurate productivity gains; younger firms growing too slowly to challenge them; resource misallocation that reinforces the advantages of incumbents; and weak incentives for technology adoption. Going forward, reforms should prioritize the most binding constraints to productivity growth: more competitive factor and product markets and more effective government regulations.

2.1. Firm dynamics in Morocco

Building on recent World Bank analytics (Dalvit et al., 2024), the first section of this chapter leverages firm-level data to unearth key trends in the dynamics and productivity of Morocco's formal private sector.

2.1.1. Morocco's firm landscape holds untapped job creation potential

The number of formal businesses in Morocco has grown rapidly. It comprised about 363,000 firms reporting to the tax administration in 2022 and 315,000 reporting to the social security administration. The number of registered firms has been growing by more than 5.3 percent per year since 2016, in part owing to ongoing government efforts to formalize micro firms. The rapid growth in the number of formal businesses enabled Morocco to reach, and in some cases surpass, comparator countries on indicators of firm density (Dalvit et al., 2024). There remains significant potential for further progress in the formalization of firms, as the HCP national survey estimates that nearly two million informal production units were operating in Morocco in 2023 (HCP, 2025).

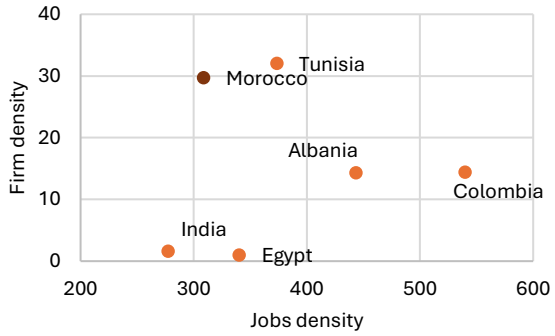
However, the job creation and growth potential of most formal businesses is constrained by their legal form and sectoral orientation. A more detailed decomposition of the formal firm population reveals that about 86,000 formal firms were registered as sole proprietors (*entreprise personne physique active*, EPPA). Firms in this group are less likely to expand because their owners are personally liable for business debts and obligations, limiting their appetite for risk. An additional 17,000 firms are formally registered but de facto inactive.[13] The remaining 212,000 formal firms are limited liability companies (*entreprise personne morale active*, EPMA) but they are predominantly

13 De facto inactive firms are firms that did not deregister but failed to file declarations with tax authorities, the social security fund, or the business registry for two consecutive years.

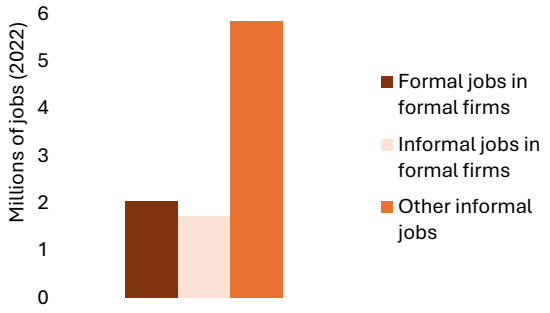
small: about 94 percent of formal firms in Morocco recorded revenues below MAD 10 million (around US$1 million) and 97 percent employed fewer than 50 workers (OMTPME 2023). Small companies are predominantly active in construction and retail – two non-tradable sectors that account for more than 50 percent of Morocco's formal firm population. The current size of these firms, and the sectors in which they are active, inherently limit their ability to contribute to longer-term growth and job creation.

Figure 2-1: Morocco's formal firms create too few formal jobs.

a. Firms and job density, Morocco and comparators



b. Formal and informal jobs in Morocco



Source: World Bank staff based on World Bank Entrepreneurship Database and ILO statistics

Source: World Bank staff based on HCP LFS and Acevedo et al. (2023)

Note: In panel a, firm density is calculated as the number of limited liability companies per 1,000 adult population and jobs density is calculated as non-agriculture employment per 1,000 adult population. Firm values are from 2022 except for Egypt (2020). Jobs values are from 2023 except for Morocco (2022), Egypt (2022), Albania (2021), and Tunisia (2019). In panel b, the category "Formal jobs in formal firms" sums up self-reported employment as business owners and formal employment in formal firms. The latter is estimated using the self-reported share of salaried workers with a work contract and the share of firms in formal wage employment as provided by Acevedo et el. (2023). The number of business owners as reported by labor force surveys corresponds broadly to the number of registered businesses reported by OMTPME. Business owners are treated as formally employed as they are presumed to formally engage in work for profit or pay even though they may not be required to contribute to social security. The category "Informal jobs in formal firms" shows self-reported employment in formal firms without a work contract. The category "Other informal jobs" includes self-reported employment as own-account workers and contributing family workers.

Moroccan firms employ too few workers and informality remains a challenge. A comparison of the firm and worker population across countries suggests that Morocco's numerous firms employ a smaller share of working-age adults than firms in comparator countries (Figure 2.1, panel a). This also holds for structural peers such as Tunisia and Egypt. A more detailed breakdown indicates that most jobs in Morocco continue to be informal (Figure 2.1, panel b). More than two-thirds of the employed population – about 7.5 million or 69 percent of workers – can be presumed to have worked without a formal contract in 2022.[14] The share of the informally employed appears to have been decreasing over time, albeit from a high of 75 percent in 2018. Formal firms are reported to register more workers (OMTPME 2024), but they continue to employ about half of their workforce without a contract and they are slow to hire workers from outside the formal business sector.

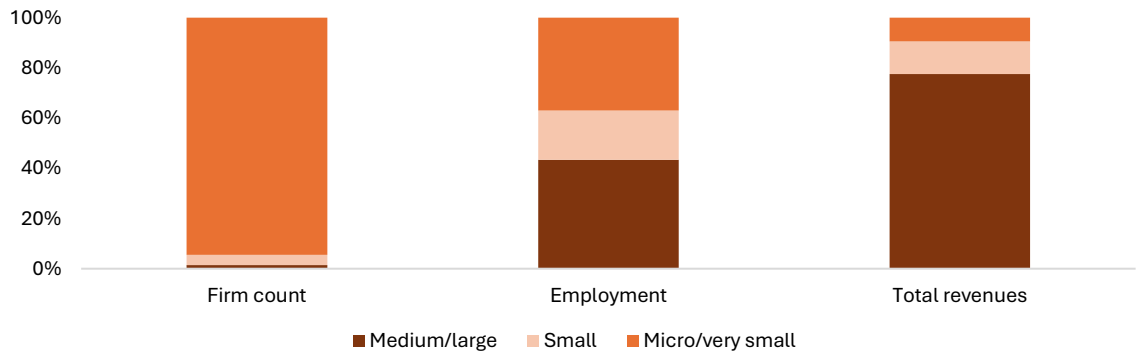
2.1.2. Large firms play an outsized role but tend to be less productive

Larger firms make up a small share of the formal business sector but account for the bulk of recorded economic activity. In Morocco, firms are officially no longer considered small when their sales exceed MAD 50 million (about US$5 million). According to government statistics, there existed

14 This group comprised self-employed workers (close to 30 percent of the working population), workers informally employed in formal firms (around 27 percent of the working population), and contributing family workers (about 12 percent of the working population).

approximately 4,900 such companies in 2022 (OMTPME 2024). Larger firms were reported to employ about 43 percent of formal workers but they accounted for more than 78 percent of total recorded sales, while firms with revenues above MAD 10 million (about US$1 million) made up about 63 percent of employment and 91 percent of total sales (Figure 2.2). Tax statistics confirm the outsized role of a few large firms, with 90 percent of corporate income taxes paid by 3.1 percent of declaring firms while half is paid by 0.1 percent of declarants (OECD 2024). High levels of concentration are further highlighted by a significant degree of conglomerate ownership: about 21 percent of revenues in Morocco's larger firms (US$5 million or more in sales) are earned by firms sharing the same majority owner, and two majority owners alone account for more than half of sales by conglomerate firms.[15]

Figure 2-2: Large firms make up a small share of formal businesses but account for the bulk of sales.



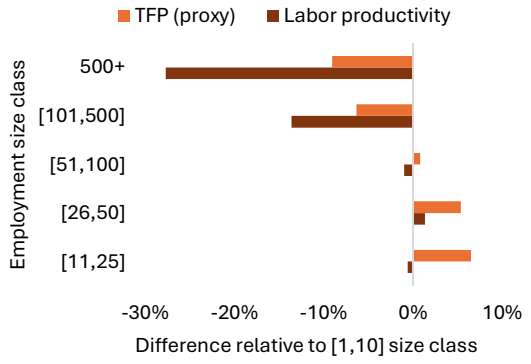
Source: World Bank staff based on OMTPME (2024).
Note: According to national definitions, large firms are firms with more than MAD 175 million in sales. Medium firms are firms with sales of MAD 50-175 million. Small firms are firms with sales of MAD 10-50 million. Very small firms are firms with sales of MAD 3-10 million. Micro firms are firms with sales below MAD 3 million.

At the same time large firms tend to be less productive, on average. The outsized role of large firms in Morocco would not be a problem if large firms were a driver of productivity growth. However, World Bank analysis of administrative firm-level data reveals that workers in the largest firms are 27 percent less productive than workers in smaller firms (Figure 2.3, panel a).[16] Labor productivity is the highest in medium-size firms. Larger firms appear also to have lower TFP, that is, they combine capital and labor less efficiently than smaller firms. Moreover, results from the World Bank Firm-Level Adoption of Technologies (FAT) indicate that larger Moroccan firms are farther away from the technology frontier than smaller firms (Figure 2.3, panel b). In Morocco, the average large firm achieves a score of 2.2 on a standard index of technology sophistication versus 3.0 in Korea. The observed gaps in productivity and technology adoption among larger firms suggest that market dynamics may not be generating sufficient incentives for incumbents to innovate or improve efficiency.

15 World Bank staff analysis of data covering 3,627 firms with revenues above US$ 5 million for which at least one sales value was recorded in 2020, 2021, 2022, or 2023 in the Orbis database. Firms with consolidated financial statements were excluded to avoid double-counting.
16 The report focuses on labor productivity as the main measure of firm-level productivity and uses a proxy measure of TFP as a robustness check due to noise in the estimation of the production function. The proxy measure is equal to the residual of a regression of log value added on log employment and log physical capital stock, estimated for each 2-digits sector separately – thus assuming a Cobb-Douglas production function. While more robust to noise and outliers in the data, this measure does not control for the endogeneity of firms' optimal input choice.

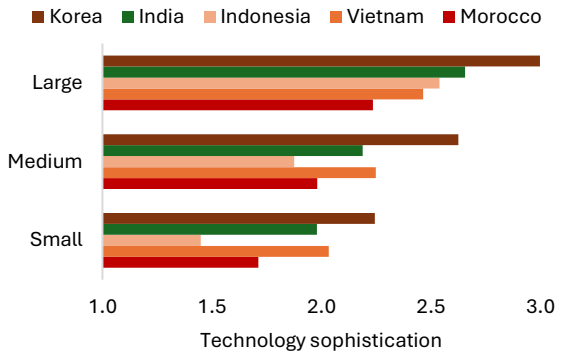
Figure 2-3: Larger Moroccan firms are less productive and lag the technology frontier more.

a. Firm size and productivity in Morocco



Source: Dalvit et al. (2024), World Bank and OMTPME staff calculations based on OMTPME data.

b. Firm size and technology sophistication, Morocco and aspirational peers



Source: World Bank staff based on the World Bank FAT survey for Morocco and Cirera and Lee (forthcoming).

Note: In panel a, the proxy measure for TFP is obtained as the residual of a regression of log value added on log-employment and log-capital, estimated for each 2-digits sector. In panel b, technology sophistication is measured using a standard index covering general business functions (for example, marketing, sales). The index is computed using data of the FAT survey developed by Cirera et al. (2022) and ranges from 1 (least sophisticated) to 5 (most sophisticated). Large firms are firms with 100 or more employees, medium firms are firms with 20-99 employees and small firms are firms with 5-19 employees. The results are preliminary and no data is available for other peer countries.

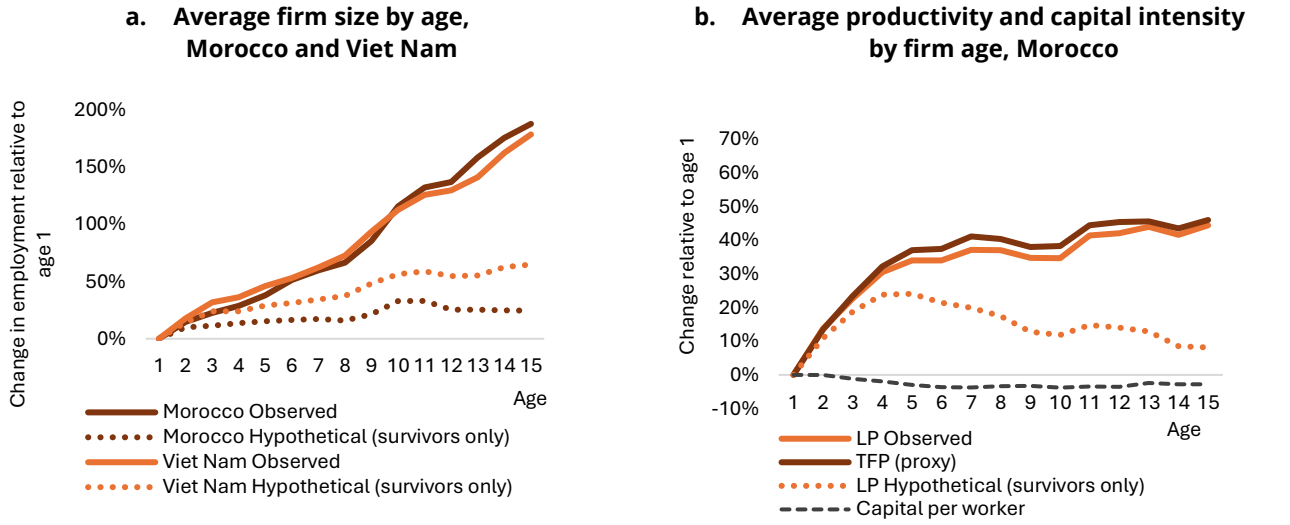
2.1.3. Young firms grow too slowly to challenge larger businesses

Young firms should expand fast, or exit. Firms usually start small and small firms make up most firms in middle-income countries. What differentiates dynamic, fast-growing economies is the ability of young firms to grow rapidly if they are competitive or exit when they are not. In the United States, for instance, only a minority of firms remain small 15 years after their creation and an average firm more than quadruples in size by the time it reaches 30 years of age (Hsieh and Klenow 2014; Akcigit, Alp and Peters 2021). The 2024 WDR contrasts these up or out dynamics with the opposite realities in many middle-income countries in which young firms expand more slowly and a larger share of small firms remains in the market (World Bank 2024e).

In Morocco the average young firm grows slowly. At first glance, an average firm aged ten employs more than twice as many workers as an average one year-old firm, a ratio similar to that of Viet Nam, one of Morocco's aspirational peers for which comparable data are available (Figure 2.4, panel a, solid lines).[17] However, this simple comparison overlooks the fact that many firms that are currently one year-old will become inactive before they reach age ten. To correct the bias originating from firms' exit, a simulation is conducted to track only those businesses that survive over time (Figure 2.4, panel a, dotted lines). This analysis reveals that the average surviving Moroccan firm can be expected to be only one third larger after ten years, about half the growth recorded by its Vietnamese counterpart. Moreover, after ten years, the average surviving firm in Morocco begins a slow but steady decline whereas its Vietnamese peers shrink too but eventually recover.

17 Recent analysis using older firm-level data for Morocco estimated similar age-size relationships and found that Moroccan firms grow faster than firms in India but slower than firms in Mexico (HCP 2024).

Figure 2-4: As Moroccan firms age they become only slightly larger and more productive.



Source: Dalvit et al. (2024), World Bank and OMTPME staff calculations based on OMTPME and WB data.
Note: The age patterns presented in the panel a are estimated for the 2016-2019 period for Morocco and the 2017-2019 period for Vietnam, controlling for year and 2-digits sectors fixed effects. Pre-COVID periods are shown due to data availability and to isolate structural patterns free from pandemic-related shocks. Specifications are first estimated in logs and results are subsequently converted into estimated growth rates. Survivors are defined as hypothetical firms that remain active until the corresponding age on the x-axis of the graphs. The employment growth of survivor firms is estimated based on the estimated difference in employment at age T between firms that exit at age T+1 and firms that remain active at age T+1. The last and first year (age 0) of a firm in the data is not considered for the estimation. The proxy measure for TFP is obtained as the residual of a regression of log value added on log-employment and log-capital, estimated for each 2-digit sector.

In addition, young firms in Morocco become only marginally more productive as they grow. In dynamic economies firms tend to become more productive as they grow, owing not only to efficiencies and experience, but also to the process of selection which allows more productive firms to prevail over their less productive rivals. Labor productivity and TFP in an average five-year old Moroccan firm is indeed one third higher than productivity of an average firm with one year of experience (Figure 2.4b, solid lines). However, productivity growth plateaus as firms grow older and increase in size. This slowdown does not seem to be related to capital intensity, which remains almost constant with firm age and growth (Figure 2.4, panel b, dashed line). A simulation further suggests that the productivity of firms that survive declines from age five onward (Figure 2.4, panel b, dotted line). In other words, the modest increases in average firm productivity after age five are entirely driven by the exit of unproductive firms, while larger surviving firms show limited dynamism and become less efficient as they grow older.

Relatedly, the density of high growth firms (HGFs) in Morocco remains low. HGFs have been shown to make disproportionate contributions to productivity growth and job creation (Goswani et al., 2019; OECD, 2021). According to data from the tax administration (DGI), approximately 2,800 Moroccan firms met the OECD criteria for HGFs in 2024, up from about 2,500 in 2021.[18] Among firms with at least ten employees, HGFs accounted for 7.9 percent, a share lower than that observed in most countries analyzed by the World Bank (Goswani et al. 2019). Similarly, about 7,500 firms qualified as 'Scalers' in 2024, based on the Eurostat definition.[19] While this represents nearly 21 percent of all firms

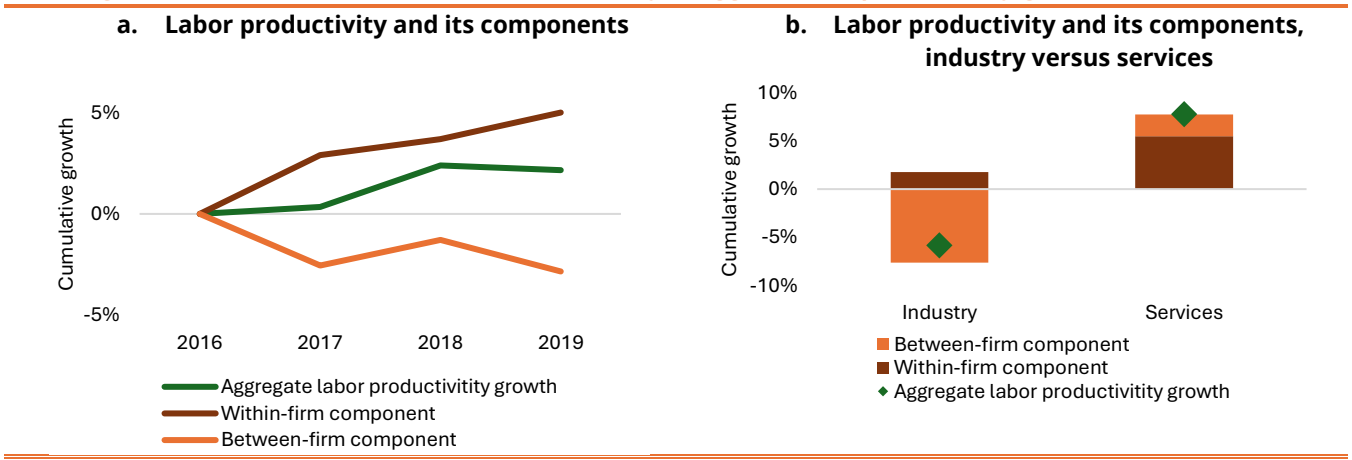
18 The OECD defines HGFs as enterprises with at least 10 employees at the start of a three-year observation period, that achieve average annualized growth in employment greater than 20 percent.
19 According to Eurostat, scalers are firms with at least 10 employees at the start of a three-year observation period that achieve average annualized growth in employment greater than 10 percent.

with at least ten employees three years earlier, the density of scalers (measured as the number of scalers per million inhabitants) is much lower than in countries included in the Eurostat dataset; 192 in Morocco, compared to 402 in the European Union or 351 in Türkiye.

2.1.4. Resource misallocation has been a drag on productivity and, hence, wage growth

On average, Moroccan firms became more productive over time, but resource misallocation has more than halved productivity growth. Productivity growth can be decomposed into a within-firm component, capturing efficiency gains or losses in the average business, and a between-firm component, showing whether production factors reallocate to more or to less efficient firms. Either component can contribute negatively or positively to productivity growth – and the direction and size of this contribution determines policy priorities. In Morocco, the contribution of the within-firm component was positive between 2016 and 2019, suggesting that the average business became more efficient during this period owing to changes internal to the firm (Figure 2.5, panel a, blue line). However, the contribution of the between-firms component was negative, indicating that less productive firms were able to expand while more productive firms shrank (Figure 2.5, panel a, orange line). If this negative development had not occurred and resources had been allocated with constant efficiency over time, cumulative labor productivity growth between 2016 and 2019 would have been twice as high. Resource misallocation appears even more pronounced when accounting for changes in the structure of the economy and the resulting labor movements across sectors.[20]

Figure 2-5: Resource misallocation in industry dragged down productivity growth in Morocco.



Source: Dalvit et al. (2024), World Bank and OMTPME staff calculations based on OMTPME and World Bank data.
Note: The graphs plot percent changes relative to 2016. Pre-COVID periods are shown due to data availability and to isolate structural patterns free from pandemic-related shocks. Labor productivity is in logs. The green markings track changes in the simple average labor productivity across firms. The brown markings plot changes in averages of labor productivity across firms weighted by employment levels. The orange markings are the difference between green and brown markings (the covariance between firms' productivity and firms' employment share). Industry includes construction.

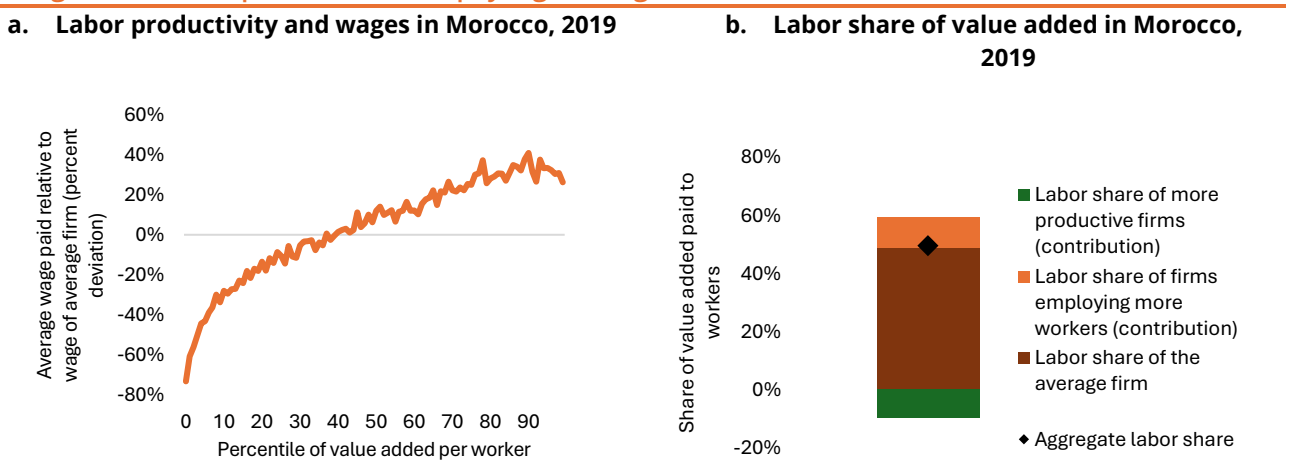
Resource misallocation has been more pronounced in industry than in services, suggesting that constraints are structural and market-level rather than firm-specific. Industrial firms underwent a 5.6 percent decline in labor productivity between 2016 and 2019 (Figure 2.5, panel b). This was driven by a strong decline in allocative efficiency, coupled with an insufficient level of upgrading among industrial firms which in turn could be partly explained by the decline in the

20 Sectoral reallocation is controlled for by keeping the share of employment and share of firms in each 2-digit sector fixed at their 2019 level when performing the Olley-Pakes decomposition of aggregate productivity growth.

average quality of installed physical capital or by insufficient innovation and adoption of new technologies. By contrast, in services, labor productivity increased by 8 percent between 2016 and 2019, and the reallocation of labor towards more productive firms had a modest but positive contribution to aggregate growth. This divergence indicates that, although firm-level factors may matter, the key constraints are likely to operate at the level of markets, justifying the analysis that is provided in Chapter 3.

Allocative inefficiencies are contributing to hold back job creation and wage growth in Morocco. Data on Moroccan formal businesses confirms that more productive firms tend to pay higher wages (Figure 2.6, panel a). Firms in the top 10 percent of the labor productivity distribution pay, on average, wages that are about 32 percent higher than those paid by the average firm. At the same time, more productive firms hire slowly, suggesting that resource misallocation is associated with missed opportunities for higher-wage work in Morocco. Limited bargaining power of workers may be also holding back wage growth: while more productive firms pay higher salaries, they distribute a smaller share of the value added that they generate to their workers – a quantity known as the labor share of value added – compared to less productive firms, a fact that reduces aggregate labor share by 9.8 p.p. (Figure 2.6, panel b).

Figure 2-6: More productive firms pay higher wages but share less value added with workers.



Source: World Bank and OMTPME staff calculations based on OMTPME and World Bank data.
Note: 2019 data is shown due to data availability and to isolate structural patterns free from pandemic-related shocks.

2.1.5. Muted firm dynamics weaken incentives for technological catch-up

Moroccan firms lag in technology adoption. Aggregate productivity can improve both through more productive firms gaining market share and through firms adopting more efficient technologies and innovating. The World Bank FAT survey shows that Moroccan firms' average digitalization levels are close to the median among the 18 countries for which comparable information is available but remain at a considerable distance from the technological frontier (Figure 2.7, white circles).[21] Morocco ranks below both India and Vietnam, the two high-growth peers

21 The FAT survey, developed by Cirera et al. (2020) and implemented by the World Bank, provides a nationally representative dataset on technology adoption among formally registered firms in Morocco. Conducted in 2024, the survey for Morocco covers 1,256 firms in manufacturing and services, stratified by size, region, and sector. It collects granular information on the adoption and use of over 300 technologies across more than 60 business functions, including both general and sector-specific processes. The FAT survey measures not only whether firms have adopted specific technologies (extensive margin),

in this group of countries. While many Moroccan firms have adopted basic digital technologies, a much lower share integrate them in their core business functions. The gap between Moroccan firms and the technological frontier is especially pronounced among enterprises at higher levels of sophistication (Figure 2.7, black circles). In comparator countries, such as India, firms of different sizes follow the frontier more closely and uniformly.

Figure 2-7: Moroccan firms are at an intermediate stage of technology sophistication.

Source: Cirera and Lee (forthcoming).

Note: The figure plots for each country covered by the Firm-level Adoption of Technology (FAT) survey an index of technology sophistication in general business functions (GBFs) across all firms and the 20 percent most advanced firms in each country. The index is regressed on country dummies, controlling for sector, firm size, and age groups. The predicted values from country dummies are presented with 95 percent confidence intervals. Technology frontier refers to firms with an index equal to or higher than 3.5. Manufacturing includes firms in food processing, apparel, motor vehicles, pharmaceuticals, leather, and other manufacturing. Services relate to firms in land transport, health services, accommodation, and other services. All estimates are weighted by sampling weights.

These adoption gaps carry a significant cost, given the productivity gains that technology can deliver. An analysis of survey results paired with complementary firms' data suggests that differences in the intensive use of digital technologies explain between 8 and 12 percent of the variation in productivity among Moroccan firms (Cirera and Lee, forthcoming). Digitalizing core corporate functions, such as business administration and production planning, can yield productivity gains of up to 70 percent, while digital supply chain management and quality control could raise efficiency by 50 percent.

Businesses perceive competition as the number one driver of technological catch-up in Morocco. According to the FAT survey, approximately two in five firms identify competition as the main driver of technology adoption. Other factors, such as depreciation or access to new markets, were highlighted by every eighth firm, on average. One in four businesses identified costs as a major barrier, while other obstacles such as uncertainty, access to finance, and know-how were cited less commonly. Managers self-assessed the level of technological sophistication similarly across firms despite evident variation across businesses, suggesting that behavioral biases such as overconfidence may also be limiting adoption. Overall, the central role of competition in the perceptions of businesses suggests that the same factors that may depress firm dynamics and the efficient allocation of resources across firms, may also limit technology improvements within firms.

but also the degree to which these technologies are intensively used in core operations (intensive margin), enabling a nuanced analysis of digital transformation, its drivers, and barriers in the Moroccan private sector.

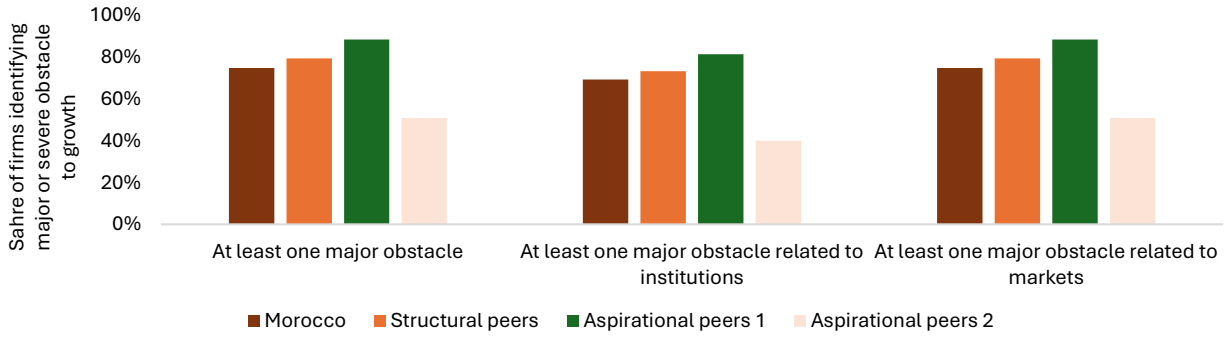
2.2. Policy priorities

The previous section highlighted the need for Morocco's growth and jobs strategy to promote the expansion of more productive firms and the contraction and exit of less productive firms. This section identifies the policy areas most relevant to this agenda, drawing first on businesses and experts' perspectives on the functioning of markets and institutions in Morocco, and then providing additional analysis on how removing specific constraints could shape the growth of productive firms relative to their less productive rivals.

2.2.1. Firms perceive markets and institutions as obstacles to growth in Morocco

About 75 percent of Moroccan firms report at least one major constraint to growth compared to about 50 percent in aspirational peers (Figure 2.8). Morocco's firms mention fewer hurdles than firms in structural comparator countries and aspirational comparator countries with higher GDP per capita. However, the share of firms reporting at least one major constraint of growth is noticeably higher in Morocco than among high-growth aspirational peers. Constraints to growth appear to compound in Morocco: a similar share of firms identifies at least one major obstacle related to the functioning of government institutions and at least one major obstacle related to market performance.

Figure 2-8: More firms cite obstacles to growth in Morocco than in peer economies.

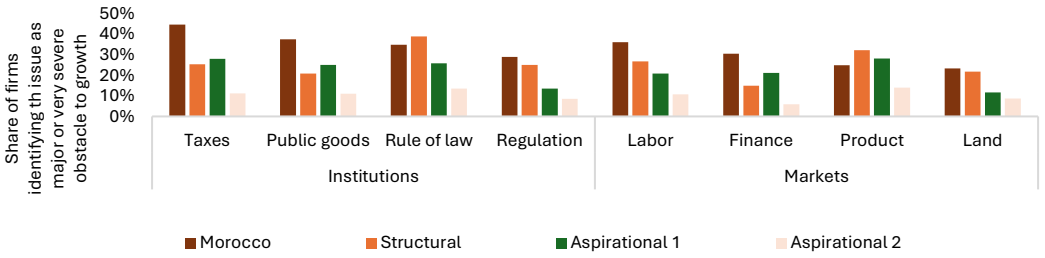


Source: World Bank staff analysis using 2023 World Bank Enterprise Survey data.
Note: Structural peers are Tunisia and Egypt. Aspirational peers 1 are countries with Morocco's target per capita GDP level for 2035: Albania and Colombia. Aspirational peers 2 are countries with historical growth rates that would allow Morocco to reach the target in time: India, Indonesia, and Viet Nam. The "Institutions" category aggregates replies related to crime, courts, corruption, political instability, tax administration, tax rates, business licensing and permits, customs and trade regulations, labor regulations, and competition from firms in the informal sector. The "Markets" category aggregates replies related to access to capital, skilled workers, land, electricity, and transportation.

Moroccan firms cite institutional factors as a constraint to growth more frequently than firms in aspirational peer countries. Nearly half of businesses surveyed by the World Bank in Morocco raised issues related to taxes, while approximately one third mentioned concerns around governance and informality (Figure 2.9). These concerns were more common in Morocco than among aspirational peers where about one fifth of firms identified them as major constraints to growth. Similar concerns are prevalent in the 2019 and 2013 Enterprise Surveys. The tax system, corruption, informal competition, courts, and licenses and permits were the specific constraints raised by firms. These issues are similar in that they relate to the functioning of government

institutions, emphasizing the need to continue investing in public goods (for example, justice) and improve government-to-business services (for example, courts, permitting).

Figure 2-9: Markets and institutions are sources of concerns for businesses in Morocco.



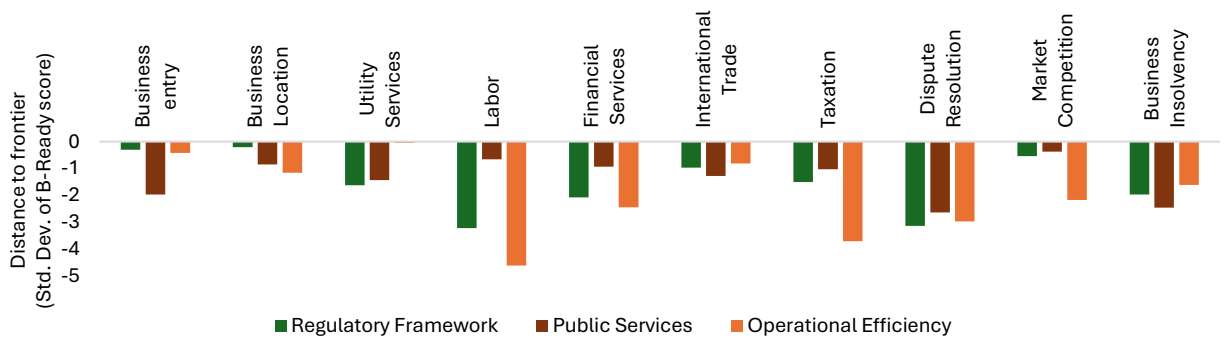
Source: World Bank staff analysis using 2023 WBES data.
Note: Structural peers are Tunisia and Egypt. Aspirational peers 1 are countries with Morocco's target per capita GDP level for 2035: Albania and Colombia. Aspirational peers 2 are countries with historical growth rates that would allow Morocco to reach the target in time: India, Indonesia, and Viet Nam. The "Taxes" category aggregates replies related to the tax administration and tax rates. The "Public Goods" refers to firm perceptions about crime. The "Rule of law" aggregates replies related to courts and corruption. The "Regulation" category aggregates replies related to business licensing and permits, customs and trade regulations, labor regulations, and competition from firms in the informal sector. The "Product markets" category aggregates replies related to electricity and transportation. The remaining categories are standalone.

Input market constraints weigh more heavily on Moroccan firms than on those in comparator countries, though the burden appears to have eased over time. The WBES track firm perceptions on the functioning of five markets that provide essential inputs to production: labor, capital, land, electricity, and transportation. Three quarters of Moroccan firms identify input markets as major constraints to their growth. This is a higher proportion than in comparator countries but noticeably lower than in 2013, when 80 percent of firms highlighted at least one input market as a major area of concern. The performance of land markets and product markets appears to have improved the most, while access to finance and skilled labor continues to affect more than 30 percent of businesses.

The World Bank's Business Ready (B-READY) provides additional indications on the growth constraints faced by Moroccan businesses. B-READY produces a quantitative assessment of the business environment using expert consultations and firm surveys. While Morocco is overall well-placed in the first edition of B-READY, a frontier analysis reveals some significant gaps with leading nations, particularly on labor markets, dispute resolution and insolvency procedures (Figure 2.10). Labor market constraints stem from high costs and complex procedures for formal hiring and termination, fueling informality and a pronounced 'insiders-outsiders' divide (see Chapter 3).[22] In dispute resolution, businesses encounter uncertainty due to procedural gaps, court structures, and limited digitization and transparency, all of which undermine investor confidence and slow commercial case resolution. The insolvency framework is hampered by a lack of practitioners, slow and inefficient reorganization processes, and insufficient digitization of key services, making it more difficult for unviable firms to exit markets orderly, for lenders to recover their credit, and for younger firms to access financing.

22 The relevance of labor market regulations for productivity growth is further confirmed by the 2023 WBES in which Moroccan firms report relatively high tolerance of worker underperformance and high severance payments, suggesting that less productive workers are allowed to stay on in formal employment.

Figure 2-10: B-READY reveals lags in the areas of labor, dispute resolution and insolvency.



Source: World Bank staff based on 2024 B-READY data.

Note: The y-axis measures distance to the frontier (top-performing nation for each of the topics and analytical dimensions) in standard deviations of scores from all 50 countries included in the first edition of the B-READY dataset.

2.2.2. Economic analysis points to domestic distortions as a reform priority

Resource misallocation often stems from distortions introduced by government policies or market failures. An efficient allocation of resources is achieved when the marginal benefit of each unit of production equals its marginal cost. Allocative efficiency tends to be higher when firms and consumers can act in their own interest, prices reflect underlying preferences, and market failures do not reduce aggregate welfare. In such conditions, productive firms enter and grow, and less productive firms shrink and exit. Distortions are factors that cause markets to deviate from an efficient allocation. Economic distortions can be linked to inherent market imperfections or government interventions (Restuccia and Rogerson 2017). Caliendo, Parro, and Tsyvinski (2022) differentiate between distortions linked to external and domestic factors and simulate reforms at the sectoral level. Atkin and Donaldson (2022) survey the literature on domestic distortions and provide an analytical approach to compare the effects of different types of distortions. Both approaches are adopted in this section to triage priority policy areas for Morocco's growth and jobs strategy.

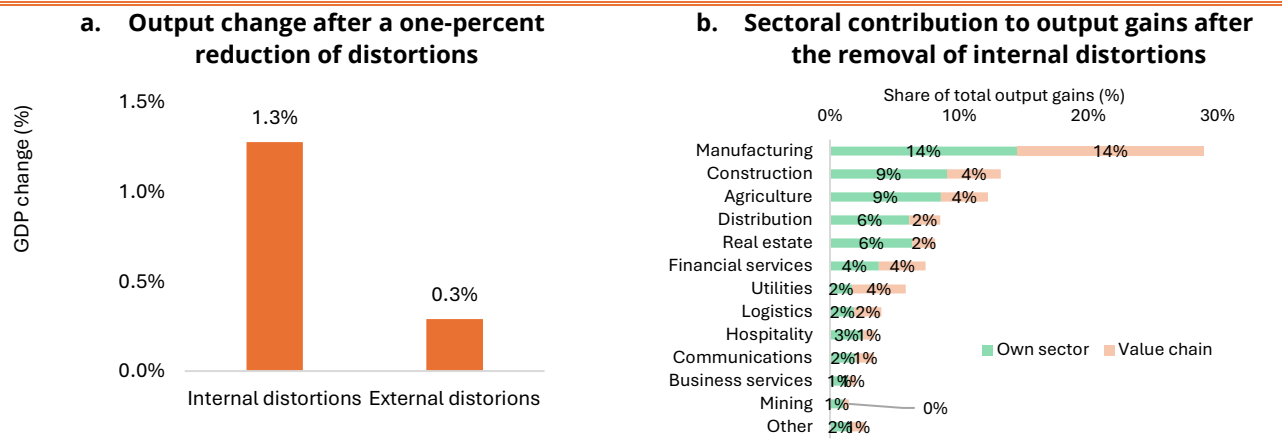
In Morocco, domestic market distortions weigh more heavily on growth than external ones. Internal distortions concern market transactions within a country whereas external distortions affect cross-border transactions. Examples of internal distortions include preferential regulations, whereas external distortions are often linked to trade and investment barriers. In Morocco, internal distortions appear to have a four times larger negative effect on output than external distortions (Figure 2.11, panel a). This finding is consistent with a long-standing line of research that underscores the role of internal distortions in economic development (Banerjee and Duflo 2005, Restuccia and Rogerson 2008, Hsieh and Klenow 2009). External distortions may have also attenuated following Morocco's open trade policies discussed in Chapter 1.[23]

Removing distortions in manufacturing, construction and agriculture is estimated to have the largest potential positive effect on output. Distortions arise from differences in the

23 Between 1988 and 2023, Morocco has signed nine trade agreements, including an FTA with the European Union which covers most of its exports.

conditions under which firms operate. These differences can be sectoral and include market failures and targeted government interventions (or their absence) that are linked to specific economic activities. A decomposition of output gains from addressing domestic distortions in Morocco suggests that three sectors alone – manufacturing, construction, and agriculture - account for 54 percent of the total impact (Figure 2.11, panel b). Reforms raise production in the sectors directly affected by distortions as well as sectors that receive inputs from the distorted sectors. In the case of manufacturing, for instance, half of reform-induced output gains are achieved within the sector and the other half in sectors that rely on manufactured products (for example, agriculture, construction, distribution).

Figure 2-11: Morocco's economy responds more strongly to reductions in internal distortions.

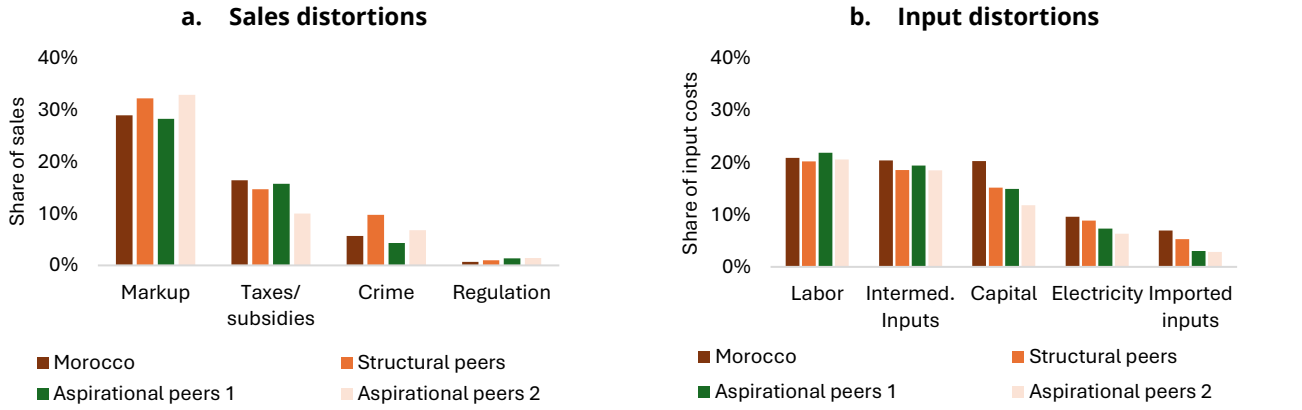


Source: World Bank staff analysis based on Caliendo, Parro and Tsyvinski (2022).
Note: The analysis is based on a world input-output model and production/consumption functions with constant elasticities of substitution as well as time-invariant preferences and technology. The model is applied to 2019 data on 159 countries and 20 sectors sourced from the GLORIA MRIO database. The GLORIA MRIO database draws on multiple primary data sources; where needed estimates are made to fit the available data. Three sectors – Public Administration and Defense, Education and Health – are included in the calculations but not shown on the right-hand panel.

The most significant distortions in Morocco appear to be linked to mark-ups, taxes/subsidies, and domestically sourced inputs. Conceptually, economic distortions can be classified into three types: (a) statutory rules that favor some types of economic activities over others (for example, product market regulations); (b) differential provision of resources across firms (for example, preferential loans); and (c) inherent market imperfections (for example, monopolistic competition) (Restuccia and Rogerson 2017). In practice, the measurement of different types of distortions is challenging as it requires firm-level or transaction-level data as evidence. A basic benchmarking of nine quantifiable distortions suggests that mark-ups, taxes/subsidies, and inefficiencies related to domestically sourced inputs (labor, capital, and intermediates) affect the decisions of Moroccan markets the most (Figure 2.12). Other estimated distortions linked to crime, regulation, and imported inputs seem to matter less. These findings align broadly with earlier research by Morocco's High Planning Commission which compared the perceptions of undersized and oversized firms – relative to their optimal size calculated under the assumption of allocative efficiency (HCP and UNECA 2024).[24]

24 Business perceptions were compared across seven obstacles to growth: (i) access to finance; (ii) access to land; (iii) logistics; (iv) labor market regulations; (v) informality; (vi) favoritism; and (vii) corruption. The largest statistically significant differences between undersized and oversized firms were found for logistics (31 percentage points) and access to land (26 percentage points), followed by labor market regulations (18 percentage points), favoritism (12

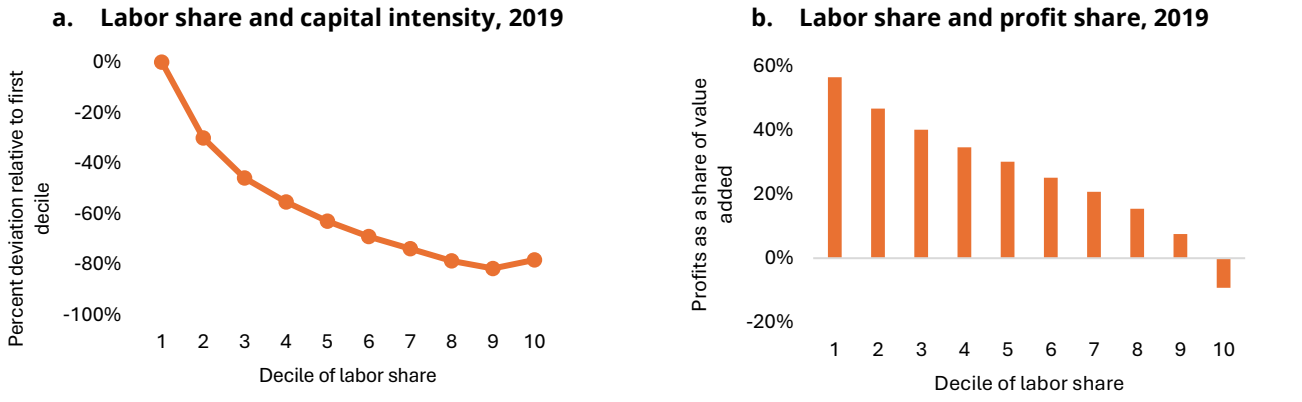
Figure 2-12: Mark-ups, taxes/subsidies, and domestic inputs drive the largest wedges in Moroccan markets.



Source: World Bank staff analysis based on Atkin and Donaldson (2022).
Note: Structural peers are Tunisia and Egypt. Aspirational peers 1 are countries with Morocco's target per capita GDP level for 2035: Albania and Colombia. Aspirational peers 2 are countries with historical growth rates that would allow Morocco to reach the target in time: India, Indonesia, and Viet Nam. 'Taxes' has been renamed to 'Taxes and subsidies' as the measurement also includes data on agricultural subsidies. Distortions related to "Intermediate inputs" are measured using survey answers on the functioning of courts due to their importance for enforcing contracts with relationship-specific suppliers.

The presence of distortions has impacts on job creation and wage growth. In Morocco, the labor share of value added is lower in more capital-intensive firms (Figure 2.13, panel a), which is not necessarily an inefficient outcome if it reflects their higher investment needs. However, other factors linked with distortions could be at play to explain the observed variation in the labor share across firms. Firms with a lower labor share tend to make higher pure profits relative to the value added that they generate (Figure 2.13, panel b). This could be due to the weaker competitive environment faced by these firms, coupled with some level of monopsony power and informality in the labor market. Such distortions can impact the working population through two channels: first, a weak competitive environment allows firms to charge higher prices by reducing output, thereby lowering labor demand; and second, monopsony power in the labor market enables firms to limit wage growth.

Figure 2-13: The labor share is smaller not only in more capital-intensive but also more profitable firms.



Source: World Bank staff analysis based on OMTPME data and World Bank staff calculations.

percentage points), corruption (8 percentage points) and informality (-15 percentage points). Differences in the perceptions of access to finance were not significant. The analysis relied on data from the National Survey of Economic Structures (NSES) and the National Enterprise Survey (NES) conducted by the HPC in 2014 and 2019, respectively.

2.3. Conclusion

Microeconomic evidence suggests that Morocco's firm dynamics constrain the country's growth and job trajectory. Chapter 1 highlighted key macroeconomic trends that are preventing Morocco from absorbing a growing working-age population: (a) a slowdown in growth-enhancing reforms; (b) modest aggregate productivity gains despite a large and sustained investment effort; and (c) the insufficient contribution of labor to growth. Chapter 2 provides more granular evidence on the firm dynamics that contribute to these macroeconomic trends: (a) younger, more productive businesses do not scale fast enough to challenge larger, less productive incumbents; (b) over time resources flow to less, not more productive firms; and (c) firms lack strong incentives for technology adoption. Together, these factors constrain the ability of the formal business sector to create more jobs and pay higher wages.

Morocco can shift the economy into a higher gear by prioritizing reforms in areas that minimize distortions and thus enable more productive firms to scale faster. Moroccan firms identify more constraints to growth than firms in high-growth comparator countries. Markets and institutions are the most common categories of concern among respondents. But prioritizing the issues raised most often by firms is only a good strategy if they are also the most binding for productivity growth. The evidence provided in this chapter and prior work suggest that some policy areas are particularly important for productivity growth in Morocco: more competitive factor and product markets, and more effective government regulations. Unlike other domains (e.g., public goods), these areas are not only seen as constraints by businesses (Table 2.1, column a) but they have been shown to distort the growth of Morocco's most productive firms (Table 2.1, column b).

Table 2-1: Morocco's growth and jobs strategy should prioritize policy areas that are known to distort the growth of productive firms.

Policy area			A. Do businesses perceive the issue as growth constraint?		B. Does micro evidence point to distortionary effects?			C. Is there other supporting evidence of distortions?	
			Y/N	GJR	Y/N	GJR	Prior work	Y/N	Prior work
Mark-ets	Product markets		Yes	Fig. 2.8	Yes	Fig. 2.13	HCP (2024)	Yes	STRI D&C (2024)
	Labor markets		Yes		Yes			Yes	A (2023)
	Land markets		Yes		Yes	n.a.		Yes	L (2019)
	Capital markets		Yes		Yes	Fig. 2.13	D (2024) HCP (2024)	n.a.	
Insti-tutions	Taxes/ subsidies		Yes	Fig. 2.8	Yes		n.a.	Yes	D (2024)
	Rule of law		Yes		Yes	n.a.	HCP (2024)	Yes	R (2022)
	Regulation	Labor	Yes		Yes	Fig. 2.13		Yes	STRI
		Firms	Yes		No			Yes	STRI D&C (2024)
	Public goods		Yes		No		n.a.	n.a.	

Source: World Bank staff analysis.
Note: A (2023) = Acevedo et al. (2023) ; BOS = Business of the State data; D (2024) = Dalvit et al. (2024); D&C (2024)= Drozd and Ciborowska (2024); L (2019) = Lall et al. (2019); R (2022) = Ruckteschler et al. (2022); STRI = Services Trade Restrictiveness Index.

CHAPTER 3 FOSTERING EFFICIENT MARKETS AND DYNAMIC FIRMS

What reforms can the Government of Morocco undertake to help firms grow and hire? First, firms need to face a level playing field – fair 'rules of the game'. In such a setting markets allow for more productive firms to reveal themselves and to challenge their less efficient rivals. Examples of policies to level the playing field include reducing barriers to entry and exit, enforcing competition laws, strengthening commercial justice, and minimizing interventions that are distortive in design or effect. Second, well-functioning markets are a necessary but not sufficient condition. Market discipline needs to be paired with public policies that ease firms' access to finance, skills, technologies, and new markets, allowing efficient businesses to invest, scale and innovate. Effective tools include sound labor and capital market policies, well-targeted firm support programs, fiscal interventions, and trade reforms. Using soccer as an analogy, the first priority sets a smooth pitch through clear rules, fair play, and good refereeing, while the second condition is about team composition, coaching, club management, and the caliber of rivals. The following sections shed light on specific policy barriers that prevent Moroccan markets from identifying productive firms and that hinder these firms from reaching their potential.

3.1. Efficient markets

3.1.1. Markets show room for stronger competitive dynamics

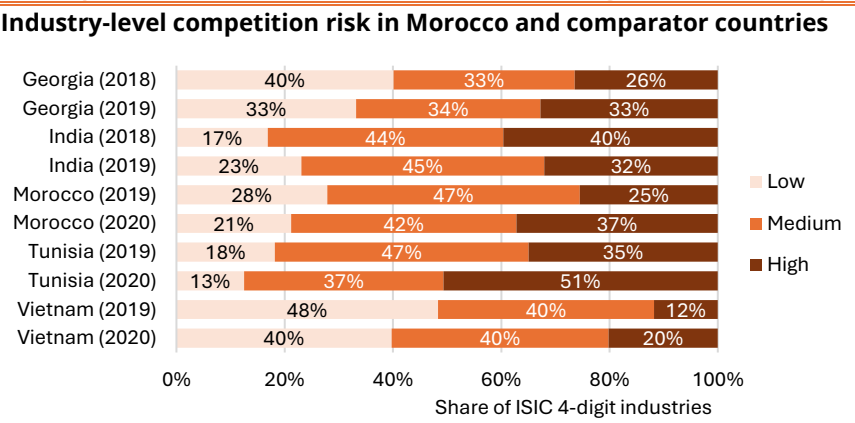
Well-functioning markets spur firm performance and the creation of better jobs. Competition drives firms to innovate, improve efficiency, and deliver higher-quality goods and services. By pushing companies to optimize their operations and adopt new technologies, it strengthens overall firm performance. At the same time, more productive firms are better positioned to create higher-quality, more stable, and better-paying jobs. Competition occurs at the level of the market which comprises products/services that are substitutable in specific geographies. The analysis of individual markets across an entire economy is practically impossible as most readily available data sources focus on sectors or industries which do not distinguish between different markets. Nevertheless, economic activities can be screened for competition risks based on a careful reading of key microeconomic variables, pinpointing sectors at risk and identifying reform priorities. Recent analysis by Philippon (2019), for example, attributes differences in the development of key economic sectors in the United States and France to different levels of competition intensity and proposes specific reform actions on this basis.

New World Bank evidence suggests that a sizable share of Moroccan industries shows signs of weak competition. The analysis relies on the combined reading of the annual levels and three-year changes in industry concentration,[25] profit margins,[26] labor productivity,[27] and entrenchment[28]

25 Concentration is measured as the revenue share of the top four firms within a 4-digit International Standard Industrial Classification of All Economic Activities (ISIC) industry. Higher industry concentration can be the outcome of a weaker competitive environment, although it could also be the outcome from stronger competition that allows the more productive firms to gain higher market shares.
26 Profit margin is measured as the price-cost margin—a proxy of the Lerner index—which is the ratio of the difference between price and marginal cost to price. In the absence of data on price and marginal cost, the ratio of the difference between revenue and total variable cost to revenue is used, with total variable cost measured as the sum of materials and labor costs. The Lerner Index is a measure of a firm's market pricing power—the ability to raise and maintain prices above marginal cost. Under perfect competition, marginal cost pricing would prevail, hence the price would equal the marginal cost.
27 Labor productivity is measured as revenue per worker.
28 Entrenchment rate is measured as the share of the top four firms in a 4-digit ISIC industry in year t-3 that remained in the industry's top 4 in year t. Higher entrenchment levels imply less business dynamism at the top.

at the lowest possible sector disaggregation, based on a methodology developed by the World Bank (Begazo et al., 2025). In 2019, roughly 25 percent of industries[29] within Morocco exhibited signs of weak competition relative to similar industries in other countries, with the proportion increasing to 37 percent in 2020 (Figure 3.1). Approximately two-thirds of these industries showed signs of weak competition when compared to the rest of the Moroccan economy.

Figure 3-1: Over one quarter of industries in Morocco shows signs of weak competition.



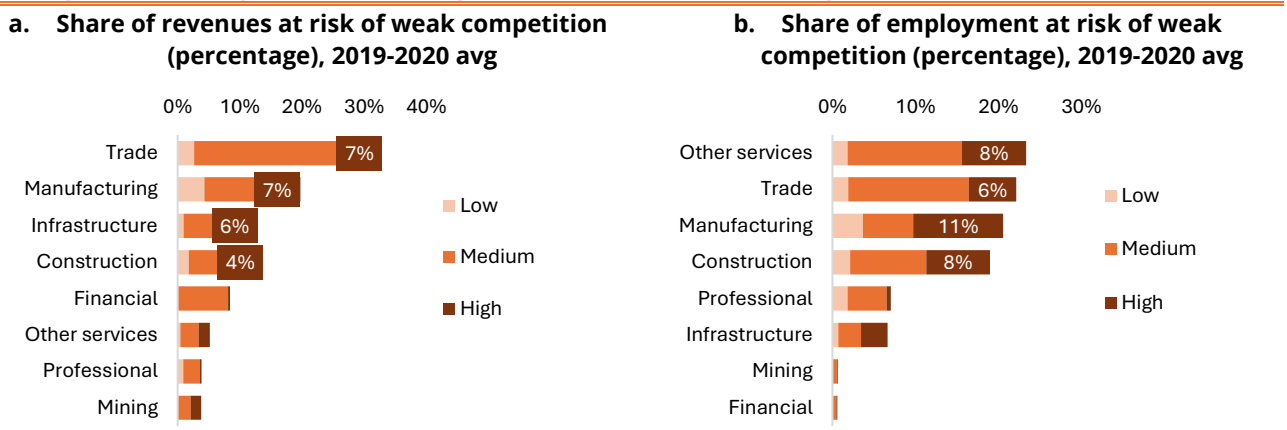
Source: World Bank and OMTPME staff calculations based on OMTPME data and World Bank methodology (Begazo et al. 2025).
Note: Industry-level competition risk is assigned for each of 4-digit sector in Morocco relative to the conditions in the same sector in other countries. The same analysis is conducted for comparator countries.

Moroccan sectors most at risk of weak market functioning include trade, manufacturing and infrastructure. Trade sectors, which include wholesale and retail trade, accounted for about 33 percent of firm revenues between 2019 and 2020, and 7 percentage points of this was from high-risk industries (Figure 3.2, panel a). Manufacturing and infrastructure sectors accounted for 20 percent and 12 percent of overall revenue, respectively, out of which 7 percent and 6 percent were from industries with high risk of weak competition. Industries in the construction sector also exhibited significant competition risks, while the financial sector was less affected. About half of the jobs in the manufacturing sector and one quarter in the trade sector – accounting together for 40 percent of all jobs between 2019 and 2020 – are in industries with above-average risk of weak competition (Figure 3.2, panel b).

Moroccan industries that show signs of weak competition exhibit lower wage growth. Correlation analysis between productivity growth and competition risk shows that industries with high competition concerns experienced statistically significantly lower average wage per worker growth (relative to industries with low competition concerns), conditional on the industry's size, capital intensity, and 2-digit sector and year fixed effects (Figure 3.3). A similar analysis on jobs growth shows no statistically significant correlation. This is likely linked to competition being associated with the reallocation of jobs from lower-wage, less productive firms to higher-wage, more productive firms.

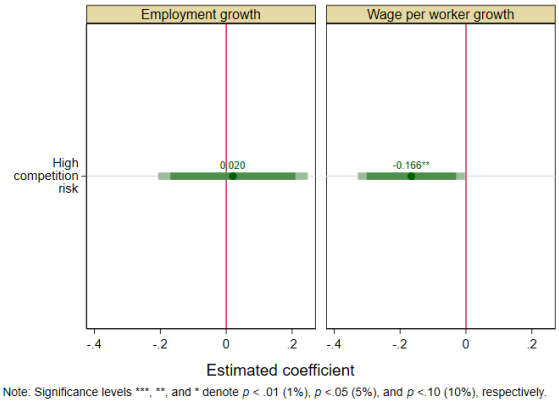
29 An industry is defined at the four-digit code level of the International Standard Industrial Classification of All Economic Activities (ISIC).

Figure 3-2: Competition risk is highest in trade, manufacturing and infrastructure sectors.



Source: World Bank and OMTPME staff calculations based on OMTPME data and WB methodology (Begazo et al. 2025).
Note: Trade includes wholesale and retail trade. Infrastructure sectors include electricity, gas, steam, and air conditioning supply; information and communication; transport and storage; and water supply. Other services include arts entertainment and recreation; real estate activities; accommodation and food services, administrative and support service activities, and other service activities

Figure 3-3: Wage growth is lower in industries with high competition risk.

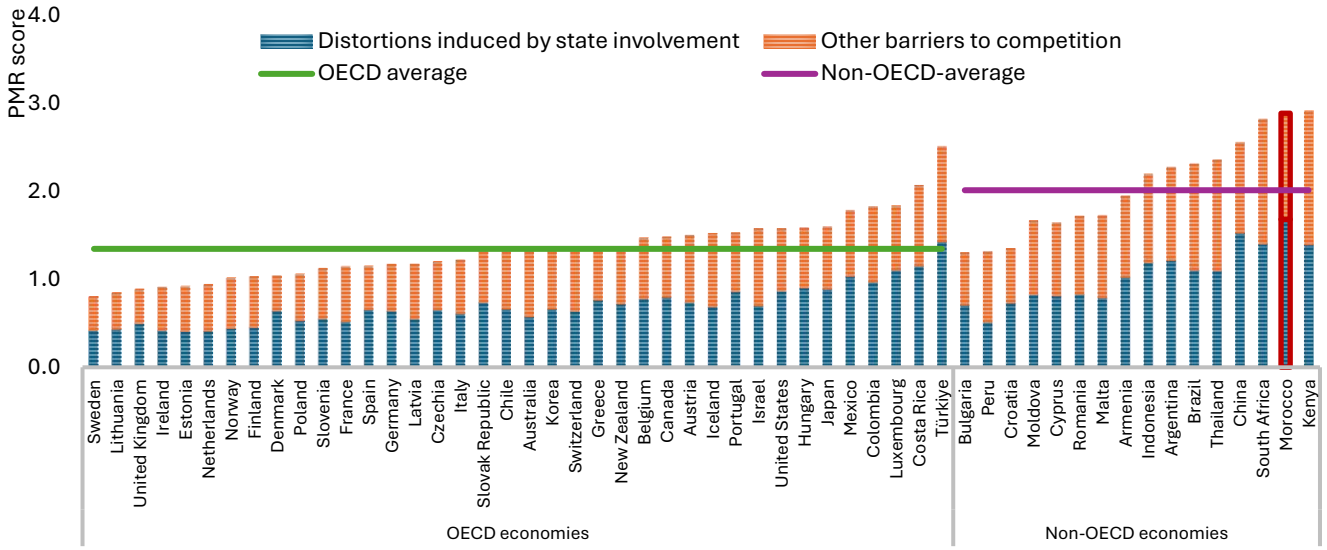


Source: World Bank staff based on OMTPME data and World Bank methodology (Begazo et al. 2025).

3.1.2. Restrictive regulations are holding back market competition

Moroccan PMR are less favorable to competition than those of comparator countries. Market regulations can either hamper or foster competition, with their optimal design depending on inherent market features. New evidence suggests that the regulation of Moroccan markets restricts competition through two channels: the absence of rules that are pro-competitive and the presence of rules that are overtly anti-competitive. The first issue primarily concerns infrastructure sectors, which require tailored rules to prevent operators from acquiring a dominant position in the market and engaging in exclusionary behavior. The second issue applies to all sectors of the economy. Overall, Moroccan regulations are less favorable to competition than most countries covered by the OECD–World Bank Group PMR indicators collected for this report (Figure 3.4).

Figure 3-4: PMRs in Morocco are more restrictive than in other countries.



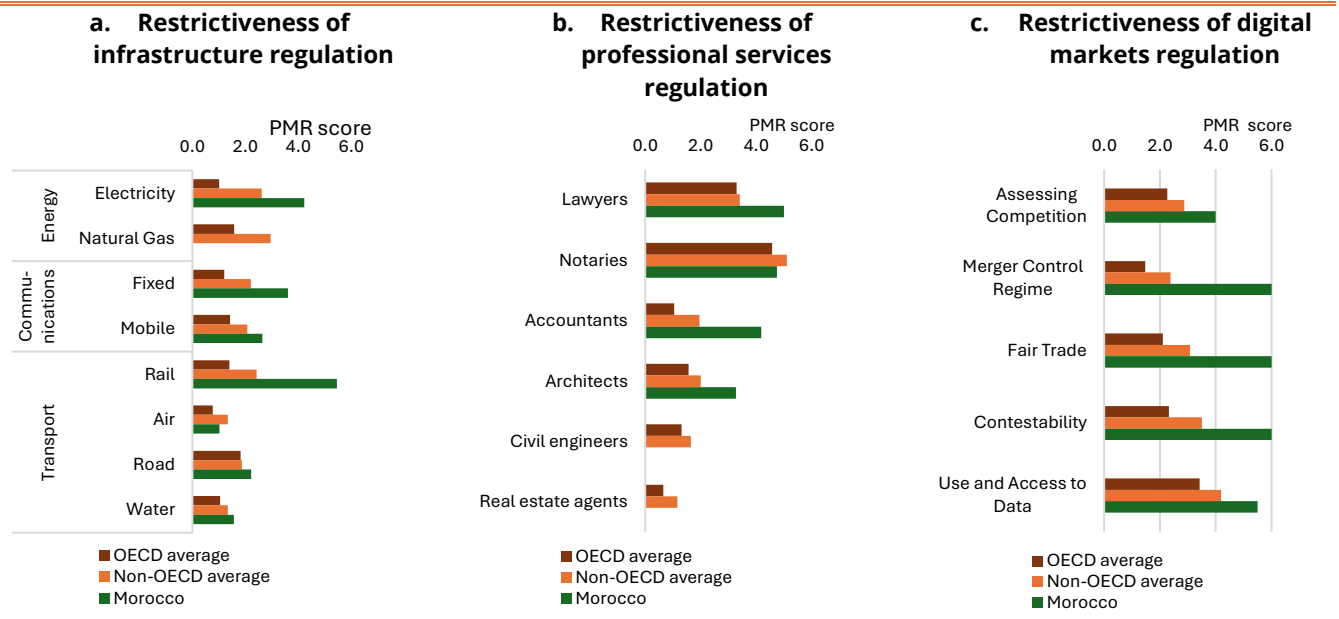
Source: World Bank staff calculations based on the OECD PMR and OECD-WBG PMR databases.
Note: PMR score is from 0 (least restrictive) to 6 (most restrictive). Non-OECD average excludes Morocco. PMR data for Morocco is current as of January 2024. The remaining data points are current as of January 2023, January 2024 or January 2025.

More than half of Morocco's restrictiveness score is due to direct state involvement in the economy. As discussed in Chapter 1, Morocco has a relatively large state footprint in the economy, with the government participating directly in 17 of the 24 sectors tracked by the PMR indicators, compared to 11 sectors in the average OECD country. The World Bank's Business of the State database confirms extensive SOE presence, with activities spanning 51 of 77 sectors (World Bank 2023a). In recent years, Morocco has been undertaking major reforms to strengthen the governance and competitive neutrality of SOEs, including the establishment of a new SOE agency in 2022, the adoption of the state ownership policy in 2024, the ongoing restructuring of the SOE portfolio, corporatization, and the appointment of independent board members. These are important steps, and continued progress in this direction would help Morocco close the remaining distance to OECD standards of corporate governance and competitive neutrality. Areas where further reform could yield significant gains include: the separation of regulatory and commercial functions currently combined in some SOEs; the progressive alignment with International Financial Reporting Standards; the extension of competition law enforcement across all SOE activities; clearer accounting of public service obligations to ensure commercial activities are not cross-subsidized by government transfers; and the strengthening of board independence in large SOEs.

Despite reforms, regulatory gaps persist in infrastructure sectors. The OECD-WBG PMR indicators benchmark rules on market entry, non-discriminatory access to infrastructure, vertical separation, and direct state involvement in business operations, among other topics. Morocco's market regulations are most competition-friendly in transport sectors (Figure 3.5, panel a), except for rail, which lacks independent regulatory oversight and is exclusively provided by the state-owned rail company Office National des Chemins de Fer (ONCF). Additional barriers exist in the road passengers' transport, where intercity services are limited by exclusive rights over specific routes and the lack of established rules on ridesharing. In telecoms, there are no legal limits on the number

of firms, and the regulator has been actively engaged in the issuance and enforcement of competition rules. That said, sector governance is hampered by limited transparency (for example, regarding the spectrum allocation process, use of the Universal Service Fund, mapping of existing network infrastructure) and the degree of market power is not regularly and comprehensively assessed, leaving out key market segments such as international gateways. Finally, the PMR indicators reflect Morocco's gradual but incomplete reforms to open the electricity sector. The Kingdom has succeeded in creating an independent regulator, allowing more flexibility in the sale and self-generation of renewable energy, and creating separate regional distribution companies. Yet there is room to continue improving market functioning by completing and implementing the existing regulatory framework related to renewable energy, fully implementing third-party access, unbundling transmission from production, enabling cross-regional sales of electricity, and creating fully functioning wholesale and retail markets.

Figure 3-5: Competition in key economic sectors is hindered by market rules.



Source: World Bank staff calculations based on the OECD PMR and OECD-WBG PMR databases.
Note: PMR score is from 0 (least restrictive) to 6 (most restrictive). Non-OECD economies include Argentina, Armenia, Brazil, Bulgaria, China, Croatia, Cyprus, Indonesia, Kenya, Malta, Moldova, Peru, Romania, South Africa, and Thailand. Non-OECD average excludes Morocco. PMR data for Morocco is current as of January 2024. The remaining data points are current as of January 2023, January 2024 or January 2025

Professional services regulations also tend to be overly restrictive in Morocco. Professional service providers are subject to rules on entry and conduct to foster quality of service. Some of these rules go beyond the necessary standard and limit competition and market-based incentives to raise quality. Qualification requirements, for example, are a common means to reduce information asymmetries and promote quality of service. However, if requirements go beyond qualifications and impose limits on the number of providers or type of service, they can unduly hinder entry and competition. The PMR indicators provide a standardized way to assess whether regulatory requirements are proportionate. In Morocco, notaries and attorneys are the most heavily regulated professions, with the regulation for attorneys differing the most from rules in other countries (Figure 3.5, panel b). This is due to limits on both entry and conduct. Entry into the

profession is limited to one pathway whereas in other countries additional pathways exist.[30] Conduct is limited by rules on ownership, legal form, business cooperation, and advertising. Major barriers to competition are also present in the case of accounting and architecture services. For example, the Chamber of Accountants and the Chamber of Architects have been sanctioned recently by the Competition Council for fixing minimum prices of services.

Morocco has yet to adapt its market rules and antitrust enforcement to the realities of digital markets. Digital technologies are transforming how firms create and capture value, giving rise to new business models built around data, platforms, and ecosystems. Digital platforms, for example, have increased efficiency by connecting large groups of sellers and buyers in online marketplaces. At the same time, the evolution of digital business models has brought about new challenges to market contestability linked to killer acquisitions,[31] network effects,[32] strategic use of algorithms, or control of data and technology. The PMR indicators allow for comparisons of how governments respond to these challenges. This comparison shows that Morocco is yet to embark on adapting market rules and antitrust enforcement to the realities of digital markets; regulators have begun to conduct competition assessments in this area, but have not yet updated merger control rules or adopted ex ante regulation tailored to digital platforms related to trading practices, contestability, and data (Figure 3.5, panel c).

Regulatory restrictiveness is linked to weak market functioning. Comparing data on competition risk and regulatory barriers shows that, on average, industries with weaker competition are more restricted by government regulations. In 2019, before the onset of the COVID pandemic, sectors at risk of competition in Morocco relative to other countries scored on average 2.94 on the PMR scale of restrictiveness, compared to 2.42 for sectors not at risk. At the same, time wage growth is weaker in industries with competition risk. Overall, this evidence lends further support to the case for pro-competition regulatory reforms in key sectors of the Moroccan economy as a means to improve market functioning and foster the creation of better jobs.

3.1.3. Persistent payment delays penalize small productive firms

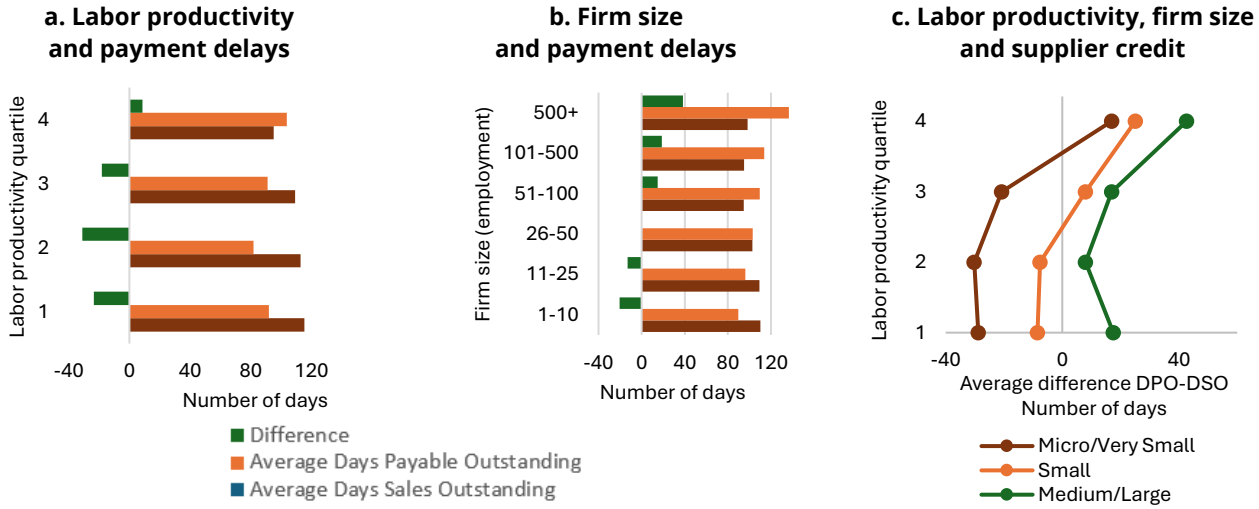
Payment delays are a widespread and systemic challenge in Morocco. The analysis of financial statements of Moroccan businesses reveals that Moroccan firms wait, on average, more than three months to collect payments from clients and pay suppliers. The speed of government-to-business payments has improved (ODP, 2025), and the adoption of Law 69-21, which as of January 2025 mandates payment within 120 days and imposes fines for non-compliance, represents an important step toward addressing the broader problem. However, business-to-business transactions remain problematic. Average delays are similar for both receivables and payables, pointing to a chain reaction where firms delay payments because they themselves are paid late. The contagious nature of payment delays is a systematic vulnerability that has been linked to increased risk of corporate default and lower aggregate output (Costello 2020, Kiyotaki and Moore 1997, Jacobson and von

30 In Morocco, attorneys are law graduates who have completed a traineeship of three years in an established law firm and passed the Bar exam. An established law firm is defined as a firm operating for at least five years. In other countries, additional flexibilities exist. For example, law firms are not required to operate for five years to take in trainees while working as inhouse counsel counts toward the traineeship requirement.
31 Killer acquisitions are transactions in which the buyer seizes control over potential competitors before they can become a competitive threat and either shuts them down or limits the development of their products.
32 Network effects occur when the value of a product or service increases as it is used more widely or intensively.

Schedvin 2015), also in Morocco (IFC, 2019) especially following shocks such as COVID-19 (Bureau, Duqueroy and Vinas 2024).

Smaller firms in Morocco are particularly affected by payment delays. Firms that can collect payments more quickly than they pay their suppliers use delays to their advantage and receive a form of interest-free credit from their suppliers. Conversely, firms that pay suppliers before receiving payment face negative cashflow and higher risk of default. Combining financial data with other firm characteristics shows, unsurprisingly, that more productive firms in Morocco tend to benefit from supplier credit (Figure 3.6, panel a). These firms are more efficient owing to more favorable payment terms or they obtain better terms because they are more efficient. More worryingly though, the combined dataset also reveals that it is the larger firms that tend to benefit from payment delays whereas smaller firms are at a disadvantage. In 2023, firms with 500 employees, for example, received payment on average 38 days *before* being paid while micro enterprises were paid 20 days *after* settling with suppliers (Figure 3.6, panel b).

Figure 3-6: Smaller firms provide credit to larger firms even when they are more productive.



Source: World Bank and OMTPME staff using OMTPME data for 2023.
Note: According to national definitions, large firms are firms with more than MAD 175 million in sales. Medium firms are firms with sales of MAD 50-175 million. Small firms are firms with sales of MAD 10-50 million. Very small firms are firms with sales of MAD 3-10 million. Micro firms are firms with sales below MAD 3 million.

Payment delays diminish the growth prospects of productive firms and the whole economy. Differences in payment terms persist when comparing firms of different sizes and similar productivity. Smaller firms tend to face worse payment terms than larger firms at all levels of productivity (Figure 3.6, panel c). This is particularly striking when analyzing the most efficient 25 percent of firms. When a smaller firm makes it to this elite group, it has positive cashflow for 26 days less than a large efficient firm. Worse still, well-performing smaller firms face less favorable payment terms than inefficient large firms. This suggests that smaller firms face a size penalty that productivity alone cannot offset. By constraining the growth prospects of Morocco's smaller productive businesses, payment delays reduce the capacity of the Moroccan economy to raise productivity overall and scale the creation of better-paid jobs.

To combat late payments effectively, Morocco could strengthen commercial justice and enable settlement markets. Governments have three tools at their disposal to address late

payments: (i) setting regulatory standards; (ii) strengthening commercial justice; and (iii) enabling settlement markets. The Government of Morocco has embraced the first approach by adopting Law 69-21 which as of January 2025 mandates payment in 120 days or less and imposes fines for non-compliance.[33] While the law sets limits on what is permissible, its effectiveness hinges on the ability to mitigate the imbalance of power between buyers and sellers. Strengthening commercial justice offers one avenue of doing so, for example by streamlining small claims procedures and enhancing the enforcement of judicial decisions. Key complementary measures include deepening supply chain finance including factoring and reverse factoring, which allow suppliers to obtain immediate liquidity, either by selling receivables to a financial intermediary or through buyer-approved early-payment arrangements. Tailored sectoral rules on fair trading practices could also be considered.[34]

3.2. Dynamic firms

3.2.1. Reforms are underway to correct corporate tax disincentives to firm growth

Over the past decades, Morocco has adopted several tax measures to encourage formalization and firm entry. These include simplified regimes for micro-entrepreneurs and SMEs,[35] a streamlined corporate tax schedule, and the digitization of tax procedures to lower compliance costs. As evidenced by the robust rate of formal firm entry in recent years, these measures have been impactful. Under the current tax system, formalizing businesses does not entail major corporate tax costs, although, as argued below, the labor tax wedge may still create a significant disincentive to labor formalization.

Before the 2023 reform, Morocco's CIT system featured a progressive rate structure that likely discouraged firm growth. The CIT schedule applied different marginal rates based on profit levels: 10 percent for profits below MAD 300,000; 20 percent for profits between MAD 300,000 and MAD 1 million; and 31 percent for profits above MAD 1 million. This structure, combined with uneven utilization of tax expenditures, resulted in a sharp increase in the effective CIT rate as firms grew larger (Figure 3.7, panel a). Although a hump-shaped effective tax curve is a common feature in many tax systems, Morocco's rate increased more steeply with firm size than in other countries with comparable analyses (Bachas et al. 2025). The bunching of firms just below CIT thresholds further suggests that enterprises may have intentionally limited their growth to avoid moving into higher tax brackets and facing increased marginal rates (Figure 3.7, panel b).

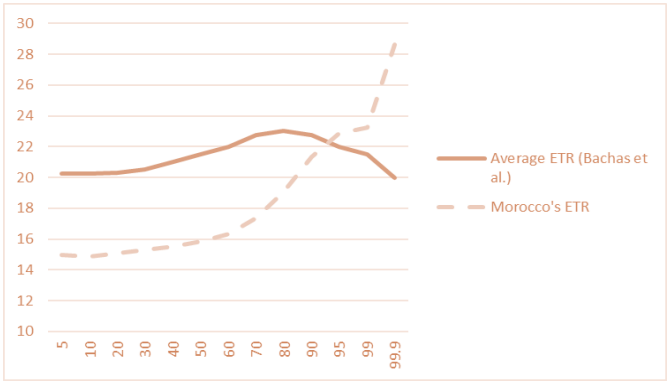
33 Law 69-21 applies to firms with an nnual turnover of MAD 2 million (close US$ 200,000) or more excluding taxes. The law foresees also a default period of 60 days in case the contract does not specify a payment due date. On an exceptional basis, for some sectors only and following consultations with the Competition Council, the government can issue a decree to extend the maximum time period for payments to 180 days. The prescribed due dates are calculated from the issuance of the invoice.

34 In the European Union, Directive 2019/633, for example, does not allow for payment later than 30 days for perishable agricultural and food products, while payment for other agri-food products is to occur within 60 days. Other unfair trading practices such as short-notice cancellations of orders of perishable products and unilateral contract changes are also prohibited.

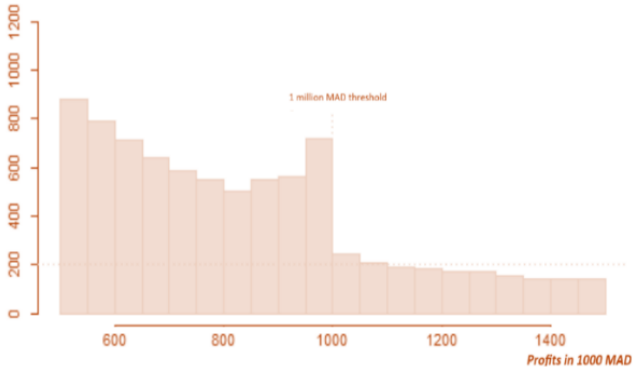
35 Morocco's two main simplified tax regimes for small businesses are: (a) the 'auto-entrepreneur' status, offering reduced tax rates (1–2 percent), VAT exemption, and simple compliance for individuals below turnover thresholds; and (b) the Unified Professional Contribution (CPU), which consolidates multiple tax obligations into a single presumptive payment for eligible small businesses and self-employed individuals, based on turnover brackets.

Figure 3-7: The effective CIT rate increases steeply with firm size, distorting business behavior.

a. Effective CIT rate by firm size (2024)



b. Number of CIT payers by profit (2017)



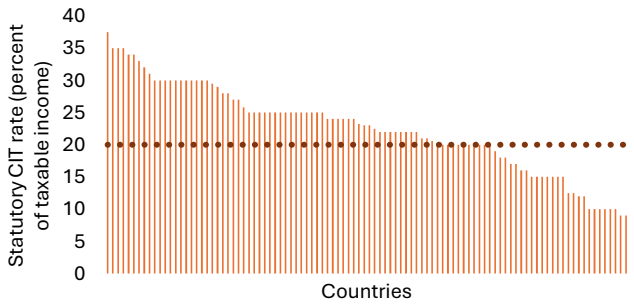
Source: World Bank and DGI staff calculations based on Bachas et al (2025). Source: World Bank and DGI staff calculations

Note: The calculation of the effective tax rate for Morocco closely follows Bachas et al. (2025) but it does not take into account the entire universe of tax incentives (for example, incentives linked to SEZs).

Morocco's ongoing tax reform directly addresses the disincentives to firm growth created by the corporate income tax (CIT) structure. Initiated in 2023 and set for full implementation by 2026, the reform involves flattening the CIT rate to 20 percent for companies with net taxable income below MAD 100 million (about US$ 10 million), while companies exceeding this threshold will be subject to a 35 percent rate. This change will mitigate fiscal disincentives to growth for the vast majority of Moroccan firms, although a relatively narrow group of large companies will continue to face higher marginal CIT rates. Overall, the reform represents a significant step toward correcting distortions caused by corporate taxation in Morocco.

The transition to the new regime will inevitably create both winners and losers among firms of different sizes, with potential short-term effects. Estimates suggest that only a few Moroccan firms will experience a reduction in their CIT liabilities as the convergence toward the 20 percent rate progresses, while the vast majority of firms is expected to face increased liabilities. This adjustment will impose additional costs on many firms, which could affect their operations in the short term. Nevertheless, it is important to highlight that the 20 percent rate is below both the average (22.5 percent) and the median (23 percent) statutory CIT rates among jurisdictions with a unified rate worldwide (Figure 3.8). This indicates that Morocco is not seeking to impose excessive tax pressure on the majority of its business sector.

Figure 3-8: Morocco's 20 percent CIT rate remains moderate in comparison to other countries.



Source: World Bank staff based on PWC (tax summaries).

3.2.2. The costs of labor formalization and the uneven enforcement of rules disincentivize firm growth

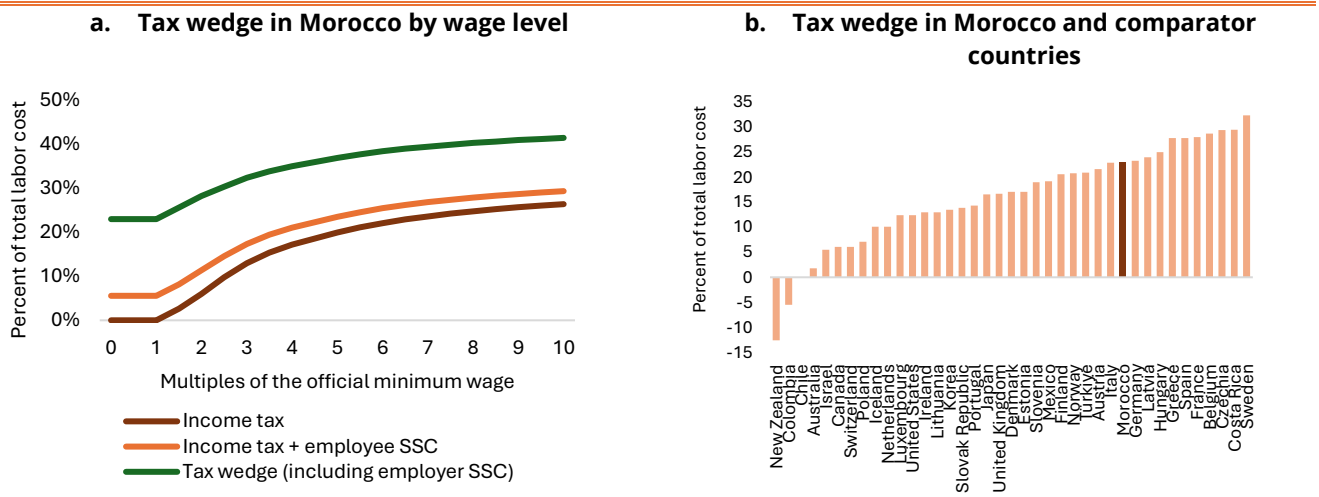
Informality can hinder firm dynamics if informal enterprises compete "unfairly" with formal ones or if businesses have incentives to "fly under the radar" by staying small. By avoiding taxes and regulations, informal firms may gain a marketplace advantage over formal businesses even when they are less productive, leading to allocative inefficiency. Smaller firms may also be less likely to attract scrutiny from public authorities, making it easier for them to retain the benefits of informality. This can create a disincentive to grow and, consequently, to create jobs. Cross-country evidence confirms that competition from informal firms negatively affects the growth rate of SMEs, particularly in environments where formalization is more challenging (Amin 2023; Ulyssea 2020). At 55.4 percent, the share of Moroccan firms that report competing against unregistered or informal businesses is comparatively high, suggesting that these dynamics are at play (2023 WBES).[36]

Fully informal Moroccan firms are mostly very small and thus unlikely to pose significant competition to formal firms above a certain size. A recent HCP survey (2024) finds that informal firms employ an average of just 1.2 people, with 85.5 percent of them being single-person operations. These firms are weakly integrated into formal value chains: 57 percent of their inputs come from other informal businesses, and only 2.4 percent of their sales are to formal firms. The prevalence of very small informal production units is partly due to the success of recent government efforts to formalize businesses. This contrasts with other countries, where medium-size informal businesses fill the 'missing middle' overlooked by an exclusive focus on formal enterprises (Abreha et al., 2022).

However, informality within formal firms (the intensive margin) remains significant and varies by firm size. As discussed in Chapters 1 and 2, informal employment is widespread in Morocco's formal business sector. Although tracking the extent of informal employment in formal firms is challenging due to data limitations, existing evidence suggests that it is asymmetrically distributed across businesses of different sizes. The Ministry of Employment's panel survey shows that 41.1 percent of employees in small firms lack contracts, compared to 20.2 percent in medium-sized firms and just 3.1 percent in large companies (MIEPEEC, 2023). Lopez-Acevedo et al. (2023) similarly finds that very small and small firms account for 90 percent of informal wage employees but less than a third of formal employment. This suggests that smaller formal businesses are more likely to bypass mandatory charges and labor regulations than larger ones, which may discourage growth and contribute to allocative inefficiency.

36 This is substantially higher than in most considered peers for which recent ES Enterprise Survey data are available: Albania (44.7), Colombia (44.4), Egypt (39.1), India (32.7), Indonesia (55.6), Vietnam (37.1).

Figure 3-9: The formal sector tax wedge is high, a significant disincentive for formalization.



Source: World Bank and Observatory of Employment of MIEPEEC based on CNSS administrative data on workers and firms.
Note: Panel b shows the tax wedge for households with a single earner at 67 percent of the average wage and two children. The tax wedge is defined as the sum of the income tax, employee social security contributions, and employer social security contributions, less cash benefits.

Mostly due to social security contributions, the labor tax wedge is comparatively high for low-income earners, contributing to the higher prevalence of informality in smaller firms. The tax wedge is defined as the ratio between personal income tax plus employee and employers' social security contributions and the total labor cost for the employer (salary plus employer social security contribution). In Morocco it is estimated at 23 percent for workers earning the legal minimum wage in non-agricultural sectors, increasing to 28.3 percent at twice the minimum wage and 32.3 percent at three times the minimum wage. Social security contributions explain all of the tax wedge for workers at the minimum wage level, and five-sixths for workers at twice the minimum wage (Figure 3.9, panel a). Personal income tax, by contrast, plays a negligible role at low wage levels, a pattern that Morocco's 2025 IR reform is set to reinforce.[37] Importantly, although the tax wedge is lower in Morocco than on average in OECD countries for workers earning the average salary (34.9 percent), it is significantly higher than the 15.8 percent average for low-income workers in single-earner households with children, the typical household in Morocco (Figure 3.9, panel b). Such a comparatively high tax wedge for low-income workers may discourage labour formalization in smaller firms, which are more likely to hire at or near the minimum wage and tend to operate on already tight margins.

Box 3-1: Morocco's Labor Code

Morocco's Labor Code, enacted in 2004, establishes employment protections that are comparatively stringent by regional and international standards, particularly regarding contract types and dismissal procedures. While these rules are designed to provide workers with stability and protection, they also introduce constraints on employers' flexibility which are relevant to understanding formal hiring incentives. Fixed-term contracts (*contrats à durée déterminée*) are permitted only for non-permanent tasks, capped at 12 months with no renewal, one of the most restrictive arrangements in the MENA region (Gannat and Betcherman, 2022). As a result, the open-ended contract (*contrat à durée indéterminée*) becomes the default

37 Morocco's 2025 Personal Income Tax (IR) reform introduced several measures to reduce the tax burden on households, particularly at lower income levels. These include raising the tax-exempt threshold from MAD 30,000 to MAD 40,000 annually; broadening the remaining tax brackets while lowering their applicable rates, including a reduction of the top marginal rate from 38 to 37 percent; and increasing the annual deduction for family charges. By further reducing the IR component of the tax wedge, the reform is a step in the right direction for low-income earners.

for any continuing employment relationship, which limits firms' ability to adjust their workforce in response to changing economic conditions**.**

Terminating workers under open-ended contracts involves multiple procedural steps. Employers are required to explore retraining and reassignment options before any redundancy. For group dismissals, the approval of the Ministry of Labor is required, a process that can introduce administrative uncertainty. Notably, economic redundancy procedures are not available for firms with fewer than 10 employees, which account for most Moroccan enterprises. Severance obligations escalate steeply with seniority.

These procedural requirements are compounded by a legal environment that tilts toward employees in dismissal disputes. Moroccan courts apply a high standard of justification for termination, and in practice the burden falls heavily on employers to demonstrate that a dismissal was warranted. Where courts find that justification was insufficient, a determination that is difficult to predict ex ante, employers face additional indemnities on top of statutory severance (Lopez-Acevedo et al., 2021). This judicial exposure creates meaningful uncertainty; even procedurally compliant dismissals can be successfully challenged, making the effective cost of separation higher and less predictable than the written rules alone suggest.

Limited uptake implies that collective bargaining (*conventions collectives*) is rarely used by firms and workers to adapt working conditions beyond the Labor Code's baseline provisions. Although compatible with the current legal framework, few collective agreements have been ratified at the level of private enterprises. This reflects two structural constraints: the fragmentation of the trade union movement, which makes it difficult to reach the 35 percent representativeness threshold required to negotiate, and the dominance of SMEs whose low-cost business models leave little room for negotiated improvements above the statutory minimum.

The varying enforcement of labor market regulations is also likely to contribute to the asymmetric distribution of the intensive margin of informality in Morocco. Morocco has comparatively restrictive labor regulations, particularly regarding contract terminations. Enforcement of these regulations, however, is likely to vary by firm size. Limited institutional capacity, as evidenced by the comparatively low number of labor inspectors relative to the ILO benchmark for lower-middle-income economies, means that smaller businesses are less likely to be scrutinized than larger firms. This disparity in enforcement could help explain the higher prevalence of employees without contracts in smaller firms and may be a factor discouraging firm growth and slowing the expansion of formal employment.

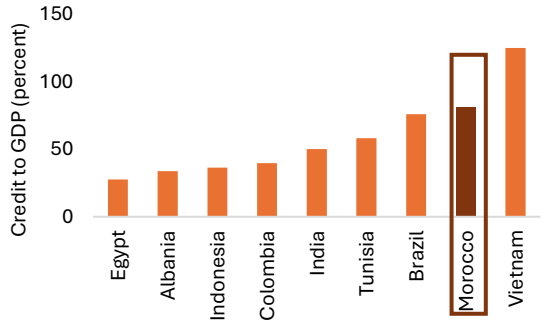
3.2.3. Despite a developed banking sector, emerging and expanding firms face limited access to credit and capital

Morocco has a comparatively large banking system, yet a substantial proportion of its firms continues to face significant credit constraints. In 2024, domestic credit to the private sector reached about 80 percent of GDP, second only to Viet Nam among the peers considered in this report (Figure 3.10, panel a). Nevertheless, only 22 percent of surveyed firms in Morocco reported having a bank loan in 2023, compared to 40.5 percent in Viet Nam, 41.6 percent in Albania, 49.1 percent in Colombia, and 59.2 percent in Brazil. The share of firms that are fully credit-constrained was also higher in Morocco than in all other countries for which comparable data is available, except Tunisia. Short-term liquidity and long-term investments are particularly constrained; 94 percent of working capital and 77 percent of investments into fixed assets is self-financed (Figure 3.10, panel b). These indicators suggest that while overall credit volumes are high, loans are more concentrated

than in other countries. Consequently, Morocco's financial sector is not yet meeting the credit needs of a significant portion of businesses.

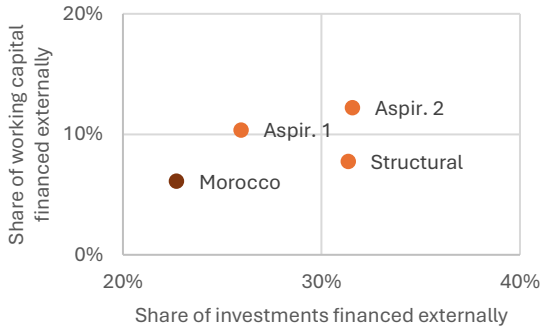
Figure 3-10: A relatively high share of firms continues to be credit-constrained in Morocco.

a. Domestic credit to the private sector



Source: World Bank staff calculations based on WDI

b. Working capital and investments financed externally



Source: World Bank staff calculations based on WBES 2019-2024

Note: Structural peers are Tunisia and Egypt. Aspirational peers 1 are countries with Morocco's target per capita GDP level for 2035: Albania and Colombia. Aspirational peers 2 are countries with historical growth rates that would allow Morocco to reach the target in time: India, Indonesia, and Viet Nam.

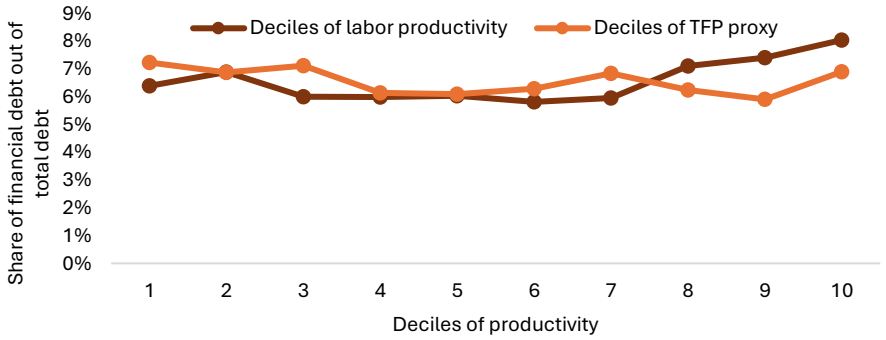
Bank credit is heavily concentrated among larger and older firms, leaving market entrants underserved. OMTPME data for 2023 shows that large firms (with revenues of more than MAD 175 million) receive 59 percent of bank credit to businesses, despite representing only 1.3 percent of total loan contracts and contributing just 28 percent of formal employment. In comparison, small firms (MAD 10–50 million) and medium-size firms (MAD 50–175 million) receive only 10 percent and 11.7 percent of credit, respectively, even though they account for 18.9 percent and 16 percent of employment. Furthermore, firms that are at least 10 years old receive over 76 percent of total business credit (and account for 58.6 percent of jobs), while firms five years old or younger receive just 10.7 percent of credit (despite representing 22 percent of jobs). These figures suggest that larger incumbents enjoy advantages in access to finance over smaller and younger businesses.

Firm productivity appears to be a weak determinant of access to credit in Morocco, suggesting that the financial system may be contributing to resource misallocation in the private sector. Analysis of firm-level data shows no meaningful correlation between estimated productivity and the proportion of total debt financed through financial credit (Figure 3.11). This indicates that credit allocation by financial institutions is not closely linked to firm performance. As a result, credit is not consistently directed toward more productive firms, which could otherwise use financing to support growth and innovation. This misalignment may restrict the expansion of dynamic enterprises and limit the broader impact of financial intermediation on Morocco's economic development.

Information asymmetries are a major barrier to credit access for young and innovative firms. Banks and investors often lack reliable information about the potential and risks of new ventures, while entrepreneurs possess more accurate knowledge about their projects. This information imbalance leads lenders to impose high collateral requirements on younger firms, penalizing startups and SMEs. Morocco has put in place instruments to partially offset these barriers, including guarantee funds through Tamwilcom and sectoral credit lines, as well as the Mohammed VI

Investment Fund (*Fonds Mohammed VI pour l'Investissement* [FM6I]). Nonetheless, two categories of structural gaps continue to limit the reach of these programs and constrain credit access for smaller and younger firms, reflecting the inherent challenges of lending to higher-risk borrowers with limited collateral and track records. The first is data infrastructure: credit bureau coverage remains limited, credit histories are absent for most young firms, and alternative data sources are not yet integrated into risk assessment.[38] The second is legal and institutional: the framework for movable collateral remains underdeveloped, audited financial statements are scarce among smaller firms, and secured transactions law is not yet fully operational. Together, these gaps leave banks with few reliable tools to assess the creditworthiness of younger and more dynamic businesses.

Figure 3-11: Firm productivity is a weak determinant of credit.



Source: World Bank and OMTPME staff calculations based on firm-level administrative data. The proxy measure for TFP is obtained as the residual of a regression of log value added on log-employment and log-capital, estimated for each 2-digits sector.

One reason large firms absorb most bank credit in Morocco is the limited dynamism of capital markets. Initial Public Offering (IPO) activity has picked up, but the equity market has been broadly stagnant for 15 years: by end-2024, 77 companies were listed on the Casablanca Stock Exchange (74 in 2010), while market capitalization fell from 68 percent to 53 percent of GDP. Liquidity is low—stock circulation is just 6 percent and trading volumes are modest—making the market unattractive for most firms. The bond market is dominated by the public sector (93 percent). Private equity remains underdeveloped and weakly oriented toward venture capital (though it may regain momentum with the Mohammed VI Fund). With few viable alternatives, banks face little competition from capital markets and non-bank finance, operate in a largely "captive" market serving large and public clients, and have limited incentives to lend to younger, dynamic enterprises—ultimately constraining the private sector's growth potential.

An additional factor constraining access to finance for innovative and dynamic young firms is the substantial stock of NPLs, which is particularly concentrated in the SME segment. According to BAM, the overall ratio of NPLs to total credit stands at 8.8 percent, but this figure rises to over 13 percent for credit extended to non-financial enterprises. Although detailed data on the distribution of NPLs by firm type is not publicly available, these distressed loans are likely to be concentrated among smaller market players, who are generally less equipped to withstand economic shocks than their larger counterparts. The prevalence of distressed credit among SMEs

38 A recent step forward is the Charte relative au financement et à l'accompagnement des TPE, signed in December 2025, which commits ecosystem stakeholders to developing a national scoring system for very small enterprises that integrates alternative data.

not only undermines the quality of banks' assets but also restricts the flow of new credit to young and potentially more dynamic enterprises. This, in turn, reinforces the bias toward larger, established firms and stifles innovation and job creation.

To overcome information asymmetry problems facing smaller businesses, Morocco could upgrade financial sector infrastructure and regulations. Morocco could expand credit bureau coverage to include alternative data sources, fully operationalize the movable collateral registry, and strengthen the legal framework for secured transactions. Improving data quality and interoperability between public agencies and financial institutions is essential, as is investing in digital infrastructure and financial literacy. Reviewing lending rate caps and consolidating fragmented consumer protection laws will support transparency and inclusion.

Accelerating the development of the fintech sector could open a complementary financing channel for firms that remain underserved by the banking system. Morocco has already put in place the foundations for fintechs, which has expanded alternative financing mechanisms, especially for supplier credit. More could be done to encourage technological start-ups: (a) establishing a regulated open finance framework – moving beyond fragmented, bilateral data-sharing arrangements that currently expose banks and fintechs to risk, (b) streamlining startup financing through instruments such as Simple Agreements for future Equity (SAFE); and (c) strengthening policy coordination across the government and Morocco's three regulators (BAM, ACAPS, and AMMC).

The creation of a secondary market for NPLs would enable banks to divest distressed loans more efficiently and make space for new credit to younger and more dynamic firms. When banks are burdened with high levels of NPLs, their capital is tied up in loss provisions and their risk appetite diminishes, leading to a reduction in new credit, often hitting young, innovative, and higher-risk firms the hardest. Offloading NPLs from bank balance sheets is essential to increase their ability to provide fresh lending beyond the restricted network of larger market players that have concentrated credit in recent years. Substantial international evidence shows that allowing banks to sell NPLs to specialized investors or asset management companies through secondary markets can help clean up balance sheets and free up capital for new lending. Experiences from central, eastern, and southeastern Europe, Spain, and parts of Asia demonstrate that timely NPL resolution through secondary markets increases credit supply and improves access to finance for SMEs and new market entrants.

Boosting the development of capital markets to finance established market players and infrastructure needs could also free up bank lending for younger dynamic firms. To increase the attractiveness of Morocco's capital markets for larger firms, it is essential to address persistent challenges around market liquidity and the limited number of new issuers, in part due to the reluctance of family conglomerates to share information on capital and governance. Strengthening corporate governance, improving disclosure requirements, and enhancing investor protection are critical steps to encourage more listings and broaden participation by institutional investors. Establishing a local credit rating agency to improve transparency, strengthening risk assessment,

and fostering a genuine risk culture, is also essential. Morocco's reforms should also prioritize hybrid and convertible instruments tailored to startups and innovative young firms.

3.2.4. Firm support programs could be more integrated and adapted to reach scale effects

Morocco has built a comprehensive institutional ecosystem to support private firms. Key actors include Tamwilcom (formerly *Caisse Centrale de Garantie* [CCG]) for credit guarantees and bank risk-sharing; the FM6I to provide catalytic equity and quasi-equity in strategic sectors and firms; the incentive regime deployed under the 2022–2023 Investment Charter; AMDIE for FDI attraction and export promotion; Regional Investment Centers (CRI) for investment facilitation; and Maroc PME for technical assistance and upgrading. Together, these institutions offer a wide range of instruments and services that mobilize substantial public resources, underscoring the strategic priority Moroccan authorities place on developing a dynamic national private sector.

However, the system's delivery and governance could benefit from stronger coordination. Multiple ministries and ad hoc institutions act with limited alignment, deploying narrowly targeted instruments that often duplicate each other and are not anchored in a whole-of-ecosystem vision. As a result, firms face a complex landscape, leading to high transaction costs and limited uptake, particularly for less-structured SMEs. Coordination gaps also prevent synergies that could originate from pairing investment grants with credit de-risking guarantees and technical assistance. While some programs operate at sufficient scale to move markets, many others remain too small to make a systemic difference, especially in technical assistance and capability upgrading. Weak monitoring and evaluation further limit course correction and prioritization. Overall, Morocco would gain from an in-depth mapping of mandates, instruments, budgets, beneficiaries, and outcomes to identify overlaps and gaps, and from using this diagnosis to craft a coherent, sequenced strategy that integrates instruments for maximum impact.

Support is relatively strong at the entry stage but thins out markedly at scale-up. Creation-focused schemes like Intelaka (close to 32,000 beneficiaries since 2020) and Damane Express (49,000 guarantees in 2024) have high reach, and several initiatives target micro-entrepreneurs and very small enterprises. By contrast, once micro, small and medium enterprises (MSMEs) reach a certain level, they tend to lose access to financing and capacity building support. The result is a gap at the scale-up and investment-readiness stage and a lack of a coordinated continuum across the firm life cycle. This support gap falls on firms that have crossed the threshold where scaling becomes more likely. The national guarantee system provides some continuity in this regard, with instruments such as Damane Atassyir and Damane Istitmar covering working capital and investment financing needs at more advanced stages of firm development. Nonetheless, a gap remains at the scale-up and investment-readiness stage, particularly in non-financial support and the coordinated sequencing of instruments across the firm life cycle.

The recently introduced SME investment grant scheme helps level the playing field for growth-oriented medium-size firms, but sharper targeting could further increase its impact. The Investment Charter promulgated in 2022 is the landmark framework through which Morocco aims at accelerating private sector participation in the economy. It deploys performance-based grants to investment projects, but until recently, only large projects were eligible, further reinforcing

the advantage of incumbents over rapidly growing young firms. The new SME scheme, adopted in late 2025, extends grants to medium-size projects, helping to narrow this gap. As with the large project window, SME grants are subject to eligibility conditions and are allocated against measurable outcomes on jobs created, location in lagging regions, and activity in a priority sector. However, international evidence indicates that such types of programs are more effective when targeted to clear market failures, such as information externalities in export markets, technology adoption gaps, and financing constraints.

International experience can guide Morocco in transitioning to a firm support framework that is more integrated, leverages synergies across instruments, and prioritizes job-creating scalable enterprises. France's BPI, rolled out in 2013, offers a one-stop nationwide network that integrates financing, guarantees, equity, innovation support, and export services (through Team France Export), delivering a seamless client journey backed by shared data and streamlined processes. Comparable integrated systems include Enterprise Singapore, which bundles capability and tech-adoption grants (EDG, PSG) and export-readiness support (MRA) through a unified Business Grants Portal to sequence firm upgrading and market entry. Adapting some of these elements, such as single-window access, shared client data and diagnostics, bundled and sequenced instruments, performance-based grants tied to jobs/technology/export outcomes, and rigorous impact evaluation, would help Morocco fine-tune its firm support ecosystem to improve business dynamism and boost job creation.

CHAPTER 4 FROM TALENT TO JOBS

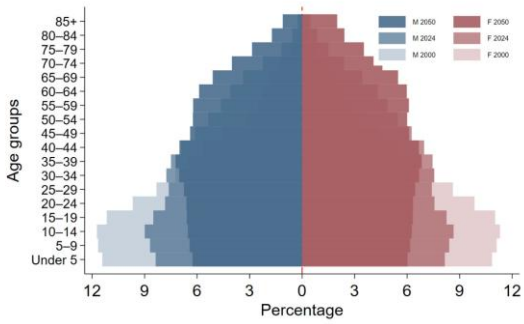
Two powerful tailwinds should be propelling growth and job creation in Morocco: a favorable demographic profile and an increasingly educated workforce, particularly among women. Yet, the dividends from these tailwinds are not fully materializing as both are offset by a pronounced rise in inactivity. This chapter asks why, and identifies four inter-related forces driving the disengagement of youth and women from the labor market. The first is job quality at entry. In a context of sluggish productivity growth, the educational profile of the population has outpaced job upgrading, and a growing share of youth find the low and declining entry-level wages offered in the market below their reservation threshold. The second is a misalignment between the skills produced by the education system and the needs of the private sector, which entails a misallocation of resources, leads to the underutilization of human capital, and further discourages labor market participation. The third is a set of structural barriers that limit women's participation in the labor market, including social norms, employer biases, and the scarcity of family-friendly workplace conditions. The fourth is the double-edged nature of international migration, which supports human capital investment and household welfare, but also drains talent abroad and may contribute to discouraging work domestically.

4.1. Morocco's intertwined missed opportunities: demographic dividend, idle talent, and gender exclusion

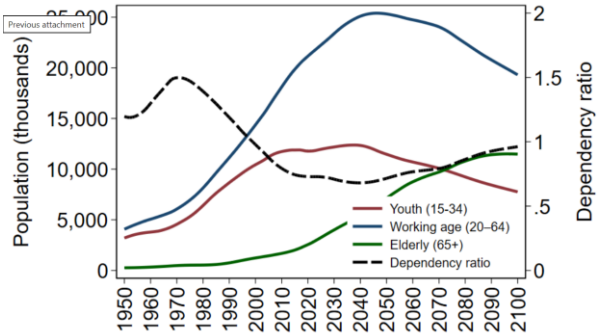
Morocco still benefits from a demographic dividend, but this window of opportunity will begin to close soon. The country enjoys a sizable working-age population capable of boosting growth if jobs materialize. However, the population's composition is changing fast: the youth cohort (15–34) is contracting, the working-age population is near its zenith, and the elderly share has begun to climb (Figure 4.1). As a result of these trends, the dependency ratio will begin to rise after 2030, marking the gradual closure of the demographic dividend (Figure 4.1). The policy implications are clear; absent more inclusive job creation, today's demographic advantage could soon weigh on growth.

Figure 4-1: The demographic window of opportunity is closing.

a. Age structure of Morocco's population



b. Dependency ratio

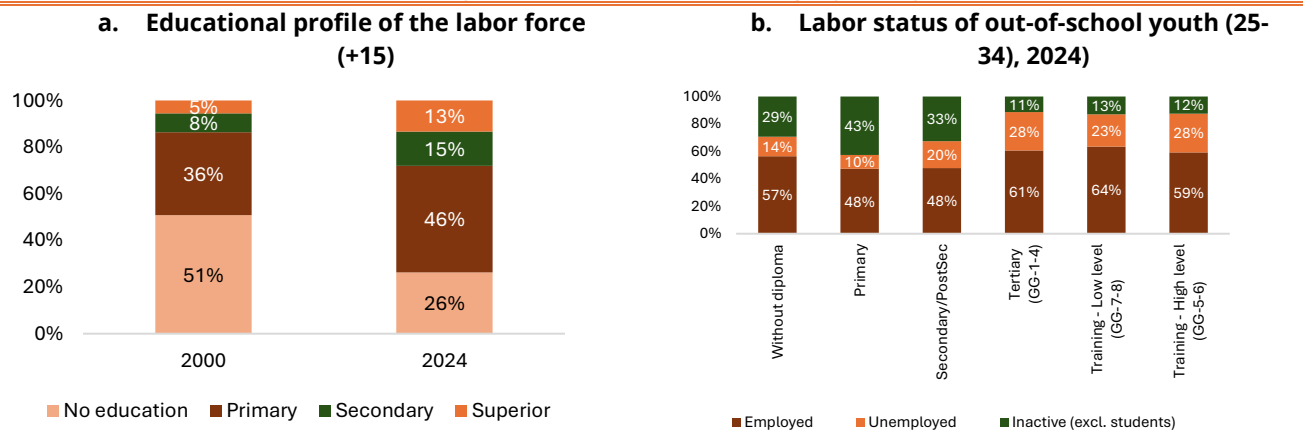


Source: World Bank calculations based on United Nations World Population Prospects (2024).

Morocco's youth have seen marked improvements in their educational profile, but diplomas are far from guaranteeing jobs. Reflecting sustained government investment in human capital, the share of Morocco's working-age population with no education has halved since 2000, while the share having completed secondary education has nearly doubled and the share of tertiary-educated

has almost tripled (Figure 4.2, panel a). However, young holders of technical and vocational education and training (TVET) or tertiary diplomas are only slightly more likely to be employed than those with no education (Figure 4.2, panel b). Indeed, the effect of education as a determinant of labor force participation has weakened over time,[39] especially for women, reducing the effective returns to the government's efforts to raise Morocco's education level.

Figure 4-2: The educational profile of the working force has improved, but more education does not necessarily translate into better employability.



Source: World Bank and HCP calculations based on LFS series (HCP).

The gender gap in school enrollment has closed, and contemporary Moroccan women are more likely than men to be enrolled in tertiary education, yet this talent remains largely underutilized. The gender gap in gross secondary enrollment has progressively declined from nearly 10 percentage points in the early 2000s (about 35 percent for females versus 45 percent for males) to zero in the 2020s (both near 90 percent). Progress among women in tertiary education has been even more pronounced, with gross enrollment surpassing 50 percent in the 2020s (up from about 10 percent in the early 2000s), compared with a little over 40 percent for men. In this context, the low and declining female labor force participation (FLFP) highlighted in Chapter 1 implies that Morocco is failing to tap a large share of the talent women have accumulated through education over recent decades.

4.2. Navigating Moroccan workers' labor market transitions

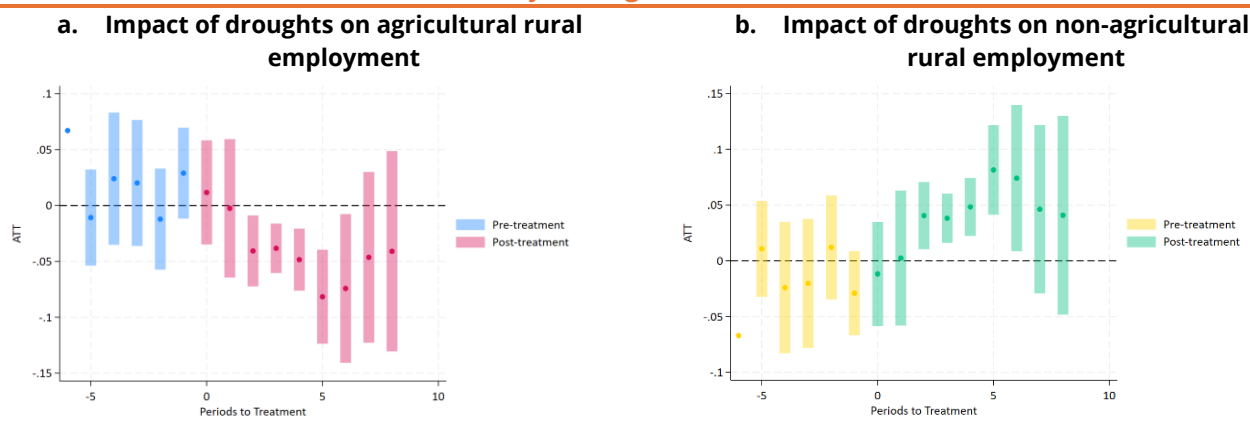
What are the pathways that Moroccan workers follow in the labor market? Employment results from life-cycle movements across sectors, firm types, and forms of employment. Barriers can arise at different points along this journey. This section focuses on how these barriers operate across three key transitions. The first is the displacement of agricultural workers by climate shocks, and sets the structural context; it reshapes the pool of workers seeking non-farm employment and compresses the time available to address the frictions that follow. The second and third - youth transitioning from education to employment and women's work transitions through their lifecycle -

39 We estimate a probit model for women and men's labor force participation separately, using pooled cross-sections from 2000 and 2023. The covariate includes age, education, and household characteristics, as well as dummies for regions. To assess whether the predictive role of education has changed over time, we interact education categories with an indicator for the recent survey year (that is 2023). The marginal effects associated with these interaction terms measure how the contribution of education to participation probabilities in 2023 differs relative to 2000.

are where the supply-side frictions identified in this chapter bear most directly, and where policy interventions can have the greatest impact.

Hydric stress is severely affecting rural employment, leading to labor movements across sectors. As discussed in Chapter 1, a defining feature of Morocco's jobs landscape is the rapid loss of agricultural employment, as droughts become more frequent and intense, producing excess labor which the broader economy has struggled to absorb. Indeed, after rising by nearly half a million between 2000 and 2015, rural employment fell by 1.2 million (23 percent) between 2015 and 2024. Analysis of LFS microdata highlights three key features of climate shocks in Morocco (Figure 4.3): (a) they are persistent and tend to intensify over time; (b) they are unevenly distributed, disproportionately affecting women and youth, in particular the most vulnerable among them; and (c) they are only partially offset by the emergence of new non-agricultural job opportunities in rural areas. Panel evidence shows that female employment declines by nearly 10 percentage points following a drought, and youth by more than 4 percent, with non-educated workers—the poorest in the country —experiencing the most severe impacts.

Figure 4-3: Droughts have large and persistent impacts on agricultural employment, only partially absorbed by non-agricultural sectors.

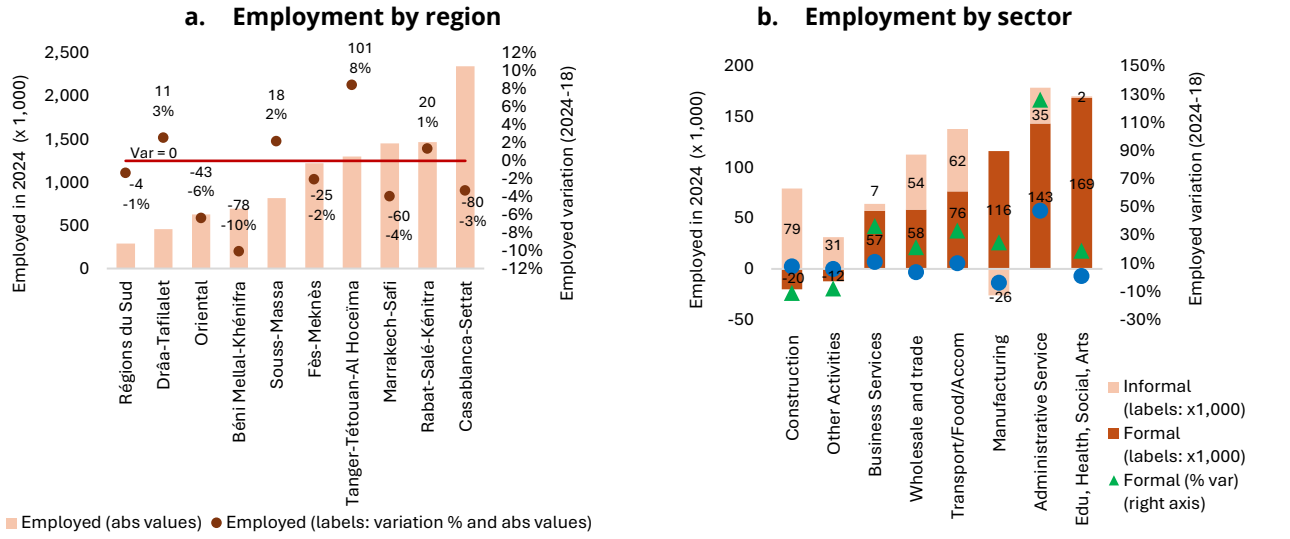


Source: World Bank and HCP calculations based on LFS series (HCP).
Note: This figure plots the estimated effect of entering a drought episode on provincial labor-market outcomes. The coefficient measures the average change in the outcome for a province in the year it first crosses the Standardized Precipitation–Evapotranspiration Index (SPEI) drought threshold and in all subsequent years, relative to provinces not yet exposed. Estimates come from a staggered Difference-in-Differences model applied to repeated LFS cross-sections aggregated at the province–year level. Treatment is defined by the onset of a drought episode (absorbing treatment), and identification exploits both cross-sectional differences in drought risk across provinces and temporal variation in the timing of drought events. All specifications include province and year fixed effects.

Climate change also contributes to internal population movements, with most jobs concentrated in a few urban areas and in low-productivity services. According to the Morocco Country Climate and Development Report (World Bank 2022), climate-related job displacement is likely to continue in the coming decades, affecting an estimated 1.9 million workers—close to 6 percent of the population. At the same time employment opportunities are unevenly distributed: Casablanca, Marrakech, Tanger, and Rabat contributed 62 percent of total employment in 2024, despite the decrease in the employment rates of the last five years observed in some of these regions (Figure 4.4, panel a). Job gains are concentrated in services, including hospitality, administrative, business, and personal services, which are often characterized by high informality

or low productivity (Figure 4.4, panel b). These locations and sectors are likely absorbing most of the excess labor displaced by climate change that remains active.

Figure 4-4 : Employment is concentrated in major cities and in services.



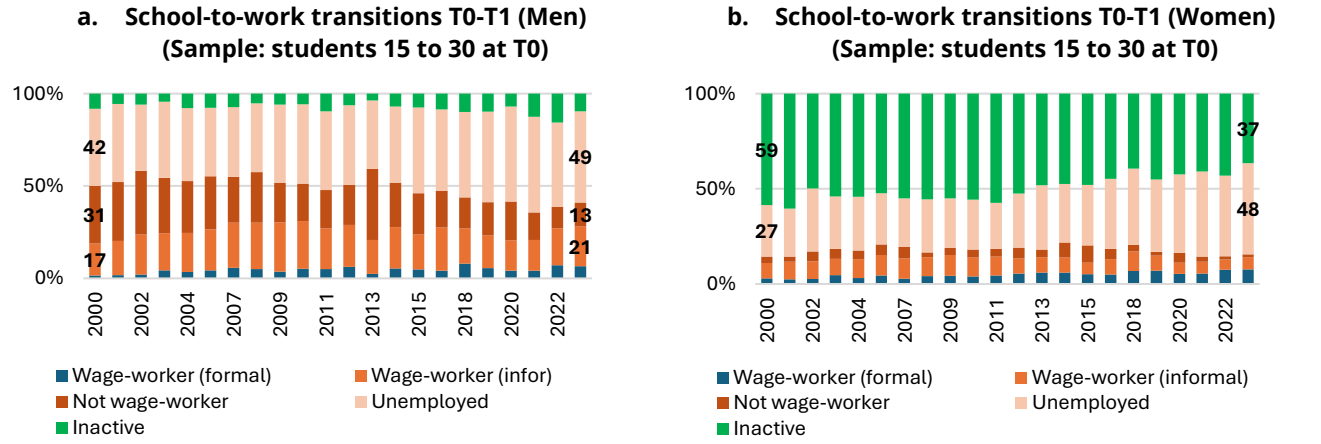
Source: World Bank and HCP calculations based on LFS series (HCP).

Moroccan youth face significant hurdles entering the labor market after completing their education. Panel data from HCP's employment series can be used to track youth employment outcomes one year after leaving school (Figure 4.5). It shows that unemployment is the predominant outcome (48–49 percent of the total), with a marked increase since the early 2000s, particularly among women. Although steadily growing, formal employment opportunities remain scarce, absorbing only about 10 percent of young graduates. Young men are more likely to enter informal wage work or (mostly informal) self-employment (21 and 13 percent, respectively), whereas a much smaller share of young women follow this path. Consequently, inactivity one year after school remains far more common among young women than among young men, although this gap has narrowed over time.

Once they enter the labor market, youth face low entry-level salaries, which could discourage labor force participation. The daily salary reported to the CNSS in the formal sector for young Moroccans upon entry is MAD 108 current dirham per day (median value, about US$12).[40] Average reported wages have experienced subdued growth over recent decades and have declined in real terms since 2019, driven by inflationary pressures and structural labor-market factors. This has motivated significant efforts by the authorities to support purchasing power, notably through successive increases in the minimum wage since 2021 and the expansion of social protection systems. The situation is more precarious in the informal sector, where most young Moroccans begin their professional careers (Figure 4.6, panel a). A Mincer regression on salaries using LFS data indicates that formality is associated with a wage premium of more than 50 percent. Low entry-level salaries may be pushing a significant share of young Moroccans — particularly women — to opt out of the labor market altogether or to pursue emigration (see section 4.5).

40 This figure may be biased by an under-reporting of wages, partly attributable to the CNSS contribution ceiling of MAD 6,000, which may reduce the incentive to declare higher earnings.

Figure 4-5: Young Moroccans struggle to enter the labor market after leaving school.



Source: World Bank and HCP calculations based on LFS series (HCP).
Note: Labor-market transitions are identified using the two-year rotating panel embedded in the LFS sampling design, which re-interviews a subsample of households in T0 and T1. Longitudinal weights are applied to correct for differential re-interview probabilities and panel attrition. The estimation sample consists of individuals who, at baseline (T0), are classified as students and are age 15–30.

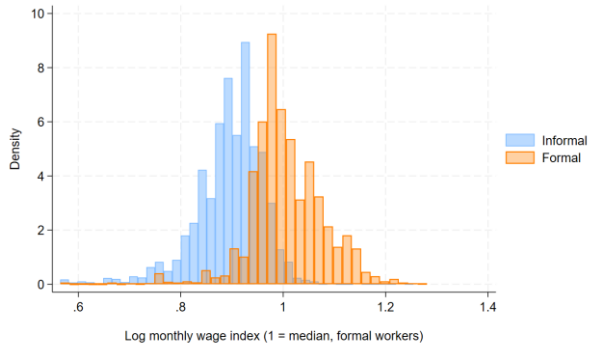
The public-private wage gap may be further reinforcing low labor force participation and delayed entry into the private labor market. Mincer estimates using LFS private-sector wage data suggest that, *ceteris paribus*, public-sector wages are more than 20 percent higher than private-sector wages. For young people who have invested in education, this wedge can make private employment less attractive, encouraging queuing for public sector jobs even as the public sector is no longer able to absorb new cohorts. While the aggregate effect may be modest — public sector employment represents roughly 8 percent of total employment and has remained broadly stable in recent years — the dynamic can be particularly consequential for women, for whom social preferences and norms often make public sector jobs more acceptable and compatible with family responsibilities.[41]

Late entry into the formal labor market carries lasting consequences for wage progression. In the formal sector, tenure and experience are central to wage growth (Figure 4.6, panel c), underscoring the importance of early entry into stable employment. Age-at-entry analysis confirms that many young Moroccans spend several years in informal work, inactivity, or unemployment before accessing formal employment, delaying their progression along the wage ladder. In sum, credentials alone rarely secure good jobs, and the path matters as much as the qualification. There is, however, a positive development: young cohorts who do succeed in entering the formal sector today receive higher starting salaries than past cohorts did at the same age of entry (Figure 4.6, panel d), reflecting the returns to expanding education. Taken together, this evidence provides strong justification for effective labor intermediation policies aimed at smoothing youth transitions from education to the labor market.

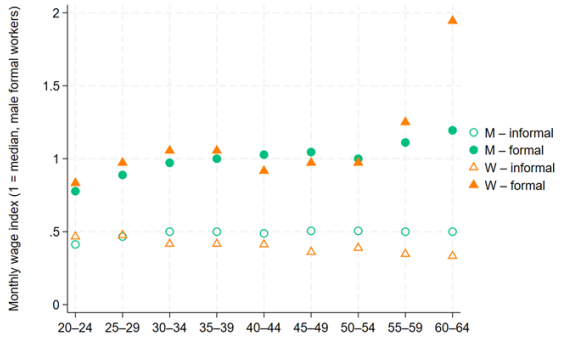
41 Evidence for Morocco is provided by Boudarbat (2008) and El Aoufi and Bensaïd (2005). For a broader discussion of similar public-sector dynamics across MENA labor markets, see Assaad (2014).

Figure 4-6: Entry-level wages are low but increase fast for early entrants in the formal sector.

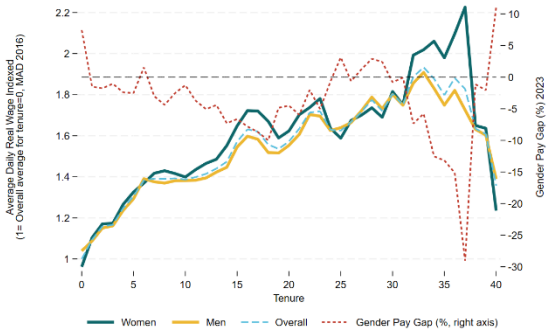
a. distribution of wages in informal and formal sectors



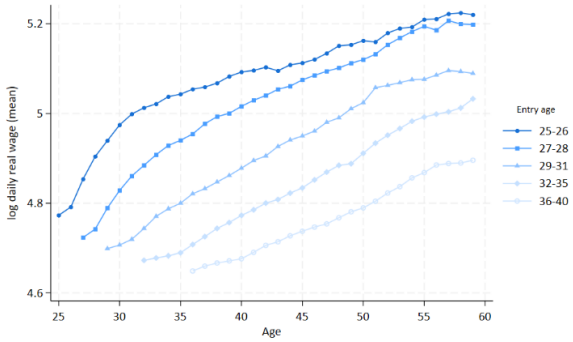
b. Monthly wage in formal and informal sectors (index=2022)



Panel c. Real wages (index) in the formal sector by years of experience in the job



Panel d. Wage by age of entry in the formal sector

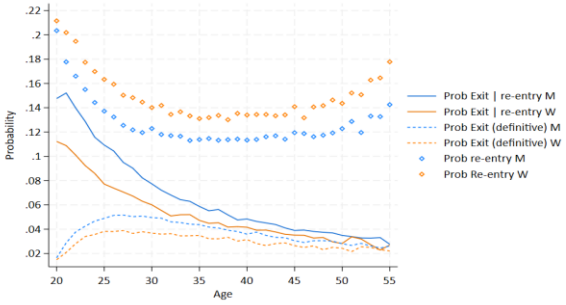


Source: World Bank staff analysis based on HCP's LFS (panels a and n) as well as MIEPEEC and CNSS data on workers and firms (panels c and d).

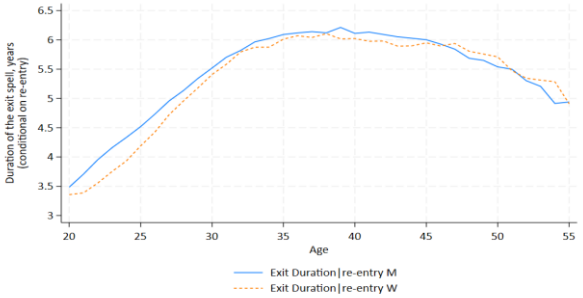
Early access to formal employment significantly improves women's labor market trajectories over the life cycle. Women are much more likely than men to drop out of the labor force because of family choices and care responsibilities (World Bank 2024). Emerging evidence suggests that this dynamic is particularly acute in the informal sector, which employs 61 percent of working women. Informal female workers are far more likely than men to transition into inactivity within a year: in 2023, roughly one in five women exited the labor market, compared with near-zero rates for men. While this gap has narrowed since 2006, it remains stark. Exit rates are similarly high for women age 20–35 and 36–50, suggesting that this vulnerability extends well beyond early family formation. It reflects, more broadly, the limited capacity of informal employment to absorb care- and household-related shocks across the life cycle. By contrast, women employed in the formal sector face a lower probability of leaving the labor market — even lower than men (Figure 4.7, panel a) — and are quicker to return to employment when they do exit (Figure 4.7, panel b). This evidence suggests that enabling more women to access formal jobs early in their professional careers could significantly reduce the risk of informality-driven labor market withdrawal that many women currently face.

Figure 4-7: In the formal sector, women are more likely to stay and re-enter faster than men.

a. Probability of exiting and reentering the formal labor market, by age and sex



b. Duration of the exit spells by age and sex.



Source: World Bank and Observatory of Employment of MIEPEEC based on CNSS administrative data on workers and firms (based on a random sample of 300,000 workers aged 20-60, tracked from 2005 to 2023).
Note: The left-hand figure reports age profiles of labor market exit dynamics for men (blue) and women (orange). "Prob Exit" (solid lines) denotes the probability of exiting the formal sector both temporarily and permanently. The right-hand figure reports the average duration of exit spells (in years), conditional on eventual re-entry. Observation period: 2005-2023.

4.3. Education, labor, and the skills mismatch

Are the skills produced by Morocco's education and training system aligned with the economy's needs? This section examines skill mismatches (see McGuinness, Pouliakas and Redmond 2017), distinguishing between their vertical dimension (when workers' education levels exceed or fall short of job requirements) and their horizontal dimension (when workers are employed outside their field of study). Skill mismatches matter for at least four reasons. First, they may help explain the frictions youth face when entering the labor market if the skills acquired through education are not aligned with employers' demands. Second, they may lead more educated individuals to self-select out of the labor market or migrate rather than accept low-quality jobs that do not match their skills. Third, the productivity gains from education are maximized when graduates work in occupations aligned with their training. Fourth, the presence of mismatches may indicate misallocation in the state's sizable investment in education.

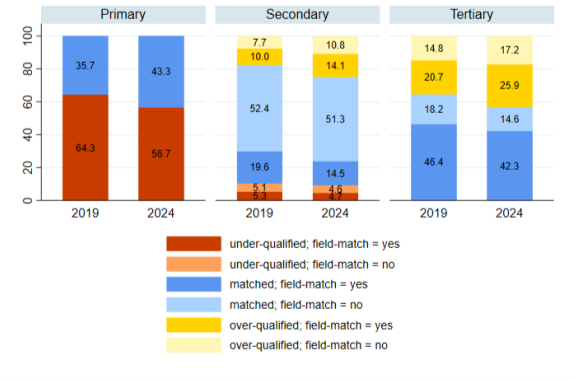
Vertical skill mismatches are sizable and have increased over time among the more educated. At one end of the spectrum, about 57 percent of workers with only primary education are underqualified for their jobs, and international large-scale assessments (for example, Trends in International Mathematics and Science Study [TIMSS], Programme for International Student Assessment [PISA]) indicate that basic schooling, notwithstanding significant signs of improvement,[42] still falls short of equipping students with the foundational skills needed to thrive in the labor market (Figure 4.8, panel A). Secondary graduates (including those from secondary TVET) show the highest degree of match, indicating that Morocco's labor demand remains concentrated in medium-skill occupations. At the other end of the spectrum, overqualification affects more than 43 percent of tertiary graduates (up from 34 percent in 2019) and 70.7 percent of

42 While students continue to score well below international averages, Morocco improved its Progress in International Reading Literacy Study (PIRLS) fourth grade reading score from 358 in 2016 to 372 in 2021 despite the pandemic, when many countries experienced major learning losses. Although to be interpreted in the context of rapid system expansion, learning levels remain low overall, with only 18 percent of students reaching baseline proficiency in mathematics, 19 percent in reading, and 25 percent in science in PISA 2022.

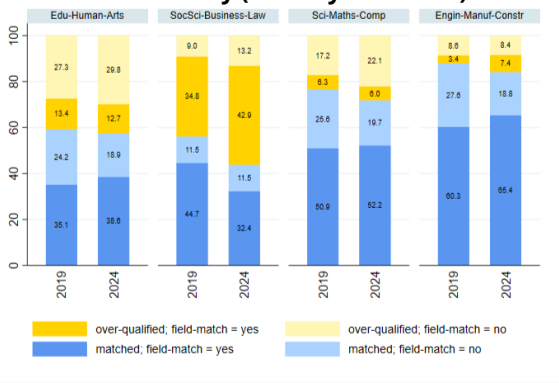
tertiary TVET graduates. This pattern suggests that labor demand has not kept pace with rising educational attainment.

Figure 4-8: Tertiary graduates face increasing vertical and horizontal skills mismatches suggesting that labor demand lags educational gains.

a. Incidence of mismatch by type and education level



b. Incidence of mismatch by type and field-of-study (tertiary educated).



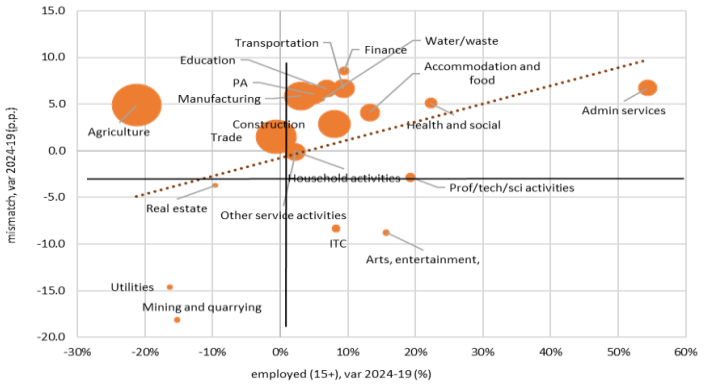
Source: World Bank and HCP calculations based on LFS series (HCP).
Note: Vertical skill mismatch is measured using a normative approach that links workers' highest completed education to the skill requirements of their occupations. Education is classified using HCP's national nomenclature (HCP, 2014) (regrouped for analysis), and occupations from National Nomenclature of Occupations (NAP) 2014 are mapped to low, medium, or high skill levels using the ILO (ILO, 2012) correspondence between the International Standard Classification of Occupations 2008 (ISCO-08) occupational groups and the International Standard Classification of Education 1997 (ISCED-97) education levels. Overqualification occurs when educational attainment exceeds the occupation's required skill level, and underqualification when it falls short. The analysis focuses on individuals age 25–34 to enhance comparability and reflect post–school-to-work outcomes, adapting international ILO/OECD concepts to Morocco through joint work with HCP. Horizontal skill mismatch is measured by linking workers' field of study to the occupational domain in which they are employed, following an OECD-inspired (Montt ,2015), Morocco-adapted normative approach developed jointly with HCP.

Horizontal mismatch is also substantial among higher-educated workers and is growing across most disciplines, particularly among high-level TVET graduates. Fields such as engineering, manufacturing, construction, social sciences, business, and law show the highest rates of field of study mismatch, suggesting that many graduates are taking jobs that do not leverage their specialized training (Figure 4.8, panel b). By contrast, science, technology, engineering, and mathematics (STEM) graduates display the lowest mismatch, reflecting clearer professional pathways and/or tighter regulation of access and credentials. The horizontal mismatch is particularly high for TVET graduates, where close to 30 percent of graduates work in a different field. The broad-based increase since 2019 points to a growing field-level disconnect between training supply and job structures.

Sectors with the strongest employment growth also show the sharpest increase in skill mismatches among tertiary graduates, pointing to a structural bias toward low-skill job creation. Indeed, there is a positive and significant correlation between sectoral employment growth and the rise in both vertical and horizontal mismatches among tertiary graduates. This pattern suggests that skill mismatches are driven less by an insufficient supply of educated workers than by the nature of job creation itself: most dynamic sectors continue to demand primarily low- to medium-skill profiles, leaving limited room for the productive absorption of tertiary-educated workers. This is consistent with the limited uptake of new technologies at the firm level discussed in Chapter 2.

Figure 4-9: High-growth sectors face increasing mismatch of tertiary graduates.

Evolution of employment and tertiary mismatch by sector 2024-19
(Bubbles are proportional to the number of employed)



Source: World Bank and HCP calculations based on LFS series (HCP).
Note: The y-axis presents a combined measure of horizontal and vertical mismatch among tertiary graduates.

In sum, evidence on the extent and evolution of the skills mismatch points to a persistent structural misalignment between what education and training systems deliver and what the Moroccan economy demands, with sizable individual and social losses. Patterns of both vertical and horizontal mismatch—particularly the rising overqualification of tertiary graduates and the concentration of employment growth in low- to medium-skill sectors—suggests that the dominant constraint is not low educational attainment per se, but the interaction between slow structural transformation, misaligned training content, and weak matching mechanisms. Educational attainment has evolved faster than the structural transformation of the productive base, pushing a growing share of young Moroccans to accept jobs for which they are overqualified, to work outside of their field of study, to stay unemployed waiting for a better match, or to exit the labor market altogether. Individual losses are considerable: overqualification reduces earnings by 20 percent and by an additional 10 percent in presence of field of study mismatch.[43] The evidence also suggests that this mismatch could be reduced if more young people accessed training for medium-skill occupations. From a supply side perspective, achieving this would require, first, better guidance to direct students towards programs with stronger employability outcomes, and second, a recalibration of TVET offerings to align curricula and delivery more closely with labor market needs.

Recent trends also suggest that there is scope to strengthen labor intermediation services to facilitate school-to-work and job-to-job transitions and better align training systems to labor demand. From a transitions perspective, ALMPs and intermediation services should not be seen as standalone programs but as complementary mechanisms to reduce frictions at critical transition points—particularly from school to work, from agriculture to non-farm employment, and from inactivity back into jobs. Effective intermediation services provide the backbone for Active Labor Market Policies (ALMPs) delivery by connecting registration, profiling, service referral, employer engagement, and monitoring—allowing supply and demand to be connected more efficiently than through isolated programs operating in silos. This is particularly relevant in the current economic

43 A Mincerian regression was carried out by the World Bank Staff with HCP in background work to this report, using wage data from the LFS series, (HCP).

context, where the recovery is concentrated in a few growth hubs while climate shocks continue to destroy jobs in rural areas.

In Morocco, ALMPs have faced three interrelated shortcomings (Ibourk and Ghazi, 2024). First, access to ALMPs has been limited for vulnerable youth such as non-holders of upper secondary degrees and rural populations, leaving a sizable share of NEETs underserved, the majority of whom are young women. Second, ALMPs have tended to be fragmented and insufficiently evidence-based, and hence rarely evaluated and adjusted in response to results. Third, coordination between ALMPs and the TVET ecosystem has been weak, missing opportunities to leverage synergies between these two pillars of labor market institutions. Importantly, the Jobs Roadmap launched by the Moroccan government in early 2025 is taking decisive action to address these shortcomings.

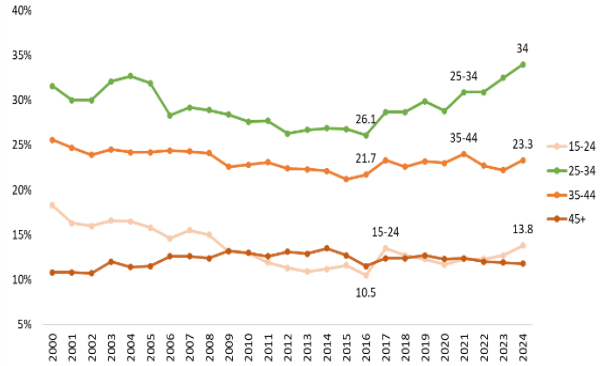
4.4. Barriers to women employment

What structural constraints slow Moroccan women's participation in the formal labor market? When an economy generates few formal jobs and traditional norms persist, female participation tends to stagnate or decline during structural transformation (Eberhard, 2024). Evidence from Morocco — the evolution of productive sectors, the scarcity of formal jobs, and signs of female selectivity in labor market entry — suggests this is precisely what is occurring. International evidence indicates that expanding formal job opportunities and removing barriers to access them could translate into significant gains in female labor force participation. This section examines four interrelated barriers. First, sectoral trends have shifted toward capital-intensive, male-dominated activities, with slower growth in historically female-intensive sectors. Second, adverse social norms interact with structural constraints to limit women's labor supply and narrow the range of socially acceptable jobs. Third, employer preferences shape recruitment and promotion practices, while the lack of workplace amenities and flexibility further penalizes female employment. Fourth, limited support for female entrepreneurship has constrained a channel that, in other contexts, has proved a powerful driver of women's employment.

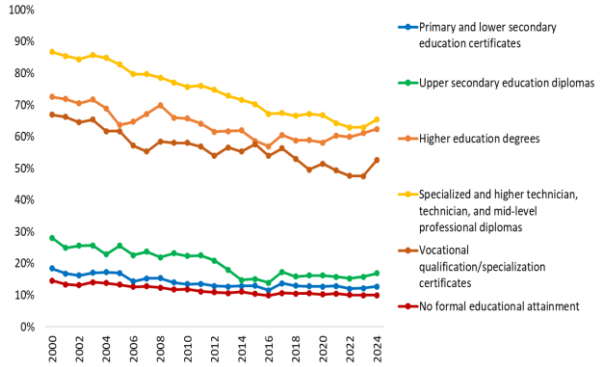
National FLFP levels remain worrisome, but some encouraging trends emerging in urban areas. As discussed in Chapter 1 and section 4.2 of this chapter, the decline in women's activity rates has been driven mainly by the displacement of rural agricultural workers involved in mostly unpaid family labor. The historical trend was also influenced by the industrial sector's shift toward capital-intensive, male-dominated sectors, and the decline of traditionally female-intensive sectors, such as textiles (Roche et al., 2023). In the last five years, the urban picture has turned more favorable; active participation rose from 26.1 percent in 2016 to 34 percent in 2024 among women ages 25–34 (Figure 4.10, panel a). Education remains a strong predictor of women's activity in urban areas (albeit with weakening influence) suggesting that recent gains in tertiary enrollment have contributed to these improvements. Historically, however, activity rates have declined or stagnated across all education levels, indicating that women at every level of schooling continue to face persistent barriers (Figure 4.10, panel b).

Figure 4-10: LFP shows signs of green shoots among better-educated urban young women.

a. Activity rate of urban women (15+), by age



b. Activity rate of urban women (15+), by education



Source: World Bank and HCP calculations based on LFS series (HCP).

Enduring social norms continue to shape women's labor supply decisions in Morocco, constraining their access to emerging economic opportunities. On the structural side, limited formal jobs, insufficient financial inclusion, and the lack of safe transport and trusted childcare are among the barriers documented as limiting women's ability to join the labor market (World Bank, 2024). Recent World Bank studies show that prevailing norms interact with and reinforce these constraints (Barnett, 2025; World Bank, 2024). These norms assign the breadwinner role to men and the caregiver role to women. While women's employment is broadly accepted, it is viewed more favorably when childcare is secured and jobs are in activities perceived as appropriate — such as public administration, education, and health — or in sectors offering family-friendly schedules and safe working conditions. Norms are more restrictive in rural areas, and support for women's employment is higher among working women and urban respondents — though even among the latter, the prevailing view is that household care falls primarily on women. These norms carry direct labor market consequences, reflected in the lower employment probability of married women with young children, urban women's preference for formal work, and rural women's concentration in home-based informal employment (World Bank, 2024).

Gender norms shape expectations around 'appropriate' work, driving persistent occupational and sectorial segregation. In rural areas, women's work is predominantly informal, often as unpaid family labor in farming or small non-farm activities. In urban areas, by contrast, women's participation is more formalized — especially among educated women — but remains heavily concentrated. Four sectors alone — manufacturing, public administration, social services, and commerce — absorb 63 percent of all formal female employment (CNSS data), and within formal manufacturing the concentration is even starker: about 76 percent of female workers are employed in textiles and food processing. Although the sectoral composition of female employment has slowly evolved, with declining shares in manufacturing and expanding services, segregation remains deeply entrenched. This pattern extends to the firm level: 47 percent of formal firms report zero female employees — rising to 52 percent among male-led firms.

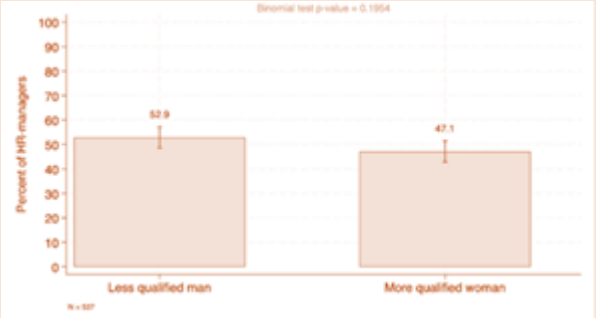
Box 4-1: Results of a randomized experiment on gender bias

As part of the survey, addressed to human resources (HR) managers or firm's CEOs, a randomized experiment was conducted to identify gender bias. Respondents were presented with two CVs and asked to select a candidate in a simulated recruitment exercise. The curriculum vitae varied randomly across sex and qualification level, covering combinations including same sexes with different qualifications, different sexes with identical qualifications, and different sexes with different qualifications — in both directions. Results confirmed the presence of behavioral bias: more qualified men were significantly more likely to be selected over less qualified women, while the reverse — a more qualified woman against a less qualified man — yielded no significant effect. Men were also significantly more likely to be selected when qualifications were equal. Two key findings are highlighted below.

Figure 4-11: Hiring decisions in manufacturing are shaped by gender bias.

a. Choice between female and male candidate (equally qualified), 95% CI

b. Choice between female (more qualified), and male candidate (less qualified), 95% CI



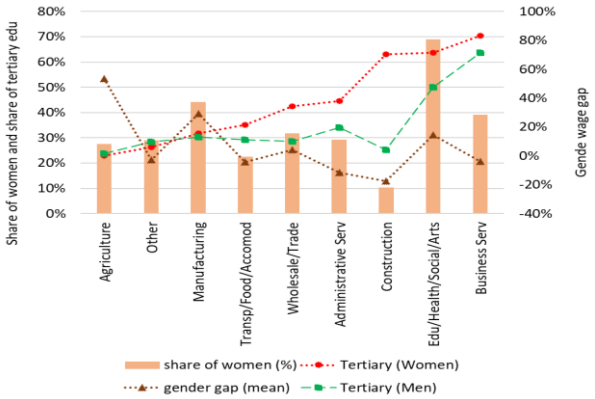
Source: World Bank calculations based on World Bank and OMTPME enterprise survey on HR practices in Manufacturing, 2025.

In addition to supply-side norms and structural constraints, employer attitudes and firm practices further constrain women's access to jobs and advancement. Explicit and implicit biases among employers have been shown to reinforce existing patterns by favoring men and restricting women's access to higher-paying sectors and positions (Casarico and Lattanzio, 2025). Evidence from a new survey of manufacturing firms fielded for this report confirms that these dynamics are at work in Morocco.[44] Some 41 percent of employers believe men are more motivated to work; 37 percent consider men better suited for technical roles; and one-third view differential treatment of men and women as justified. These attitudes translate into hiring behavior: declared male preferences are most pronounced in traditionally male-dominated sectors such as automotive and heavy industry, and sectoral gaps in female staffing and new hires closely track those stated biases. A randomized experiment conducted as part of the survey provides further evidence of gender bias, showing that employers and HR managers consistently favor male candidates — even when female candidates are more qualified (Box 4.1).

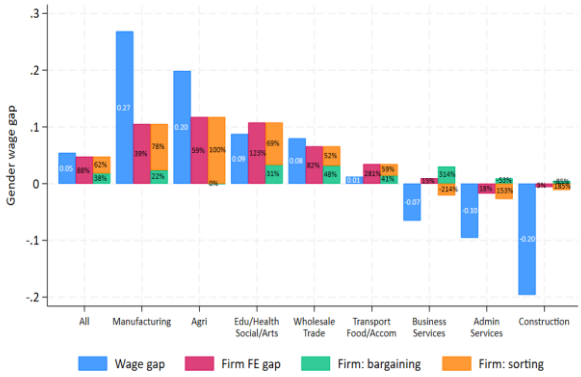
44 In the framework of this report, a new Enterprise survey was conducted in collaboration with OMTPME. The survey aimed at studying firms practices for hiring and promoting staff, with a gender perspective. The survey, conducted between June and September 2025, covered 1156 firms of the manufacturing sector, and is representative for eight subsectors and three regions (north, center and south).

Figure 4-12: Wage gaps persist in female-intense sectors, where wages for women are lower and career opportunities more limited.

a. Selection effects, by sector (formal)



b. Firms fixed effects, and the relative weight of sorting and bargaining, by sector (formal).



Source: World Bank, HCP and Observatory of Employment of MIEPEEC based on CNSS administrative data on workers and firms. Panel b: the figure shows sector-level gender wage gaps and the decomposition of the firm pay-premia component into sorting (between-firm) and bargaining (within-firm) channels, following the Card, Cardoso, and Kline (2016) methodology applied to gender-specific AKM estimates. The analysis is based on the dual connected set, obtained by intersecting the male and female connected sets satisfying the strong leave-out-worker condition. Our decomposition relies on the standard AKM identifying assumption of conditional random mobility. It assumes that, conditional on observed covariates and time-invariant individual characteristics, job-to-job moves are not systematically triggered by unobserved factors that also influence wages (that is,, mobility is not endogenous to wage shocks). Wages are residualized as in Card et al. (2018): log real daily earnings are regressed on calendar-year fixed effects, a cubic polynomial in age and experience, with the age profile constrained to be flat at 40. The 'Wage gap' is the mean difference in residualized wages between men and women; the "Firm FE gap" is the corresponding gap in firm fixed effects. Sorting reflects gender pay differences in the distribution of firms, while bargaining captures gender differences in firm premia within the same firm.

The aggregate formal-sector wage gap was closed in recent years, but this owes largely to the types of sectors and firms women are able to enter, rather than to broad improvements in equality. Female-intensive sectors tend to offer lower pay and limited career progression, while male-dominated sectors employ few women, who tend to be highly skilled and concentrated in higher-paying roles. Figure 4.12 illustrates this by using the share of tertiary-educated workers as a proxy for occupational level. In the manufacturing sector, where the wage gap persists at over 25 percent, women represent more than 44 percent of the labor force, of whom only 16 percent hold a high-skill occupation. By contrast, in the construction sector, where women represent only 10 percent of the total workforce, the wage gap favors women, of whom 70 percent hold a high-skill occupation. These patterns, together with faster-growing wages for women — partly linked to minimum wage increases — suggest that positive selection, rather than wage convergence *per se*, is the main driver behind the closing of the aggregate formal-sector wage gap. Between 2005 and 2023, that gap narrowed from 11 percent to zero.[45]

Firm-level analysis using administrative data confirms that firms play a major role in this dynamic. Most of the gap reflects sorting across firms: women are more likely to work in lower-premium firms, in part because they are concentrated in particular sectors and occupations, reflecting both preferences and constraints around flexibility and work–life balance, and possible discrimination in hiring. A smaller but meaningful share reflects within-firm pay setting, consistent with gender differences in negotiation, task allocation, promotion, and earnings penalties after childbirth. The data also show that women are more likely than men to move to firms where the

45 Notwithstanding the sectorial heterogeneity, while the wage gap has always been minimal for low percentiles and decreased to zero in 2023, a six-percent gap persists at the top of the wage distribution, signaling remaining barriers to advancement.

wage gap is higher than in their previous job — by 6 percentage points on average — reinforcing inequality, particularly among older cohorts. Limited access to male-dominated sectors, combined with the pull of non-monetary amenities — including family-friendly working conditions and access to childcare — may channel women toward certain firms despite lower pay. These results suggest that closing the gap in any meaningful sense will require policies that expand women's access to higher-paying firms and sectors, strengthen career progression in female-intensive industries, and improve family-friendly provisions in better-paying firms.

Few firms in Morocco's manufacturing sector offer standardized recruitment processes, flexible work schedules, or other family-friendly amenities, despite evidence that they are key to attracting and retaining women in the labor market. Across countries, inadequate workplace conditions — low flexibility, lack of childcare, unsafe environments, and long commutes — are consistently cited as key barriers to women's participation.[46] The Moroccan manufacturing firm-level survey corroborates this. Firms with standardized recruitment methods show higher female hiring rates, particularly in male-dominated subsectors where gender bias is stronger, and firms offering family-friendly amenities — especially childcare and more generous parental benefits — employ higher shares of women, even within the same sector. Yet the survey also reveals that the features women value most remain rare: while reinforced security and safety measures exist in over 90 percent of firms, only 0.1–0.2 percent offer part-time work, 0.1–0.4 percent offer remote work, and roughly 10 and 22 percent provide childcare and transport, respectively.

Various policy levers could help promote fairer recruitment and career progression for women in the formal sector. The planned reform of the labor code to allow and regulate flexible work arrangements would be a meaningful step toward making formal employment more accessible to women. Beyond flexibility, incentive-based measures — including the use of public procurement to favor women-led businesses or firms with high shares of female employees, and the expansion of subsidized in-facility childcare — could further promote equal and merit-based hiring practices. On the regulatory side, while successive reforms since 2004 have strengthened protections against discrimination, Morocco's legal framework still lacks positive incentives for the private sector to hire and retain female talent.[47] The 2021 law imposing gender quotas for listed firms has yielded some progress but has not met its intermediate targets; extending its scope to middle management positions, as other countries have done, could help sustain momentum.[48]

Female entrepreneurship remains marginal in Morocco. As is the case in other countries (World Bank, 2025), formal women-led firms employ a higher share of female workers (41 percent in 2023) than men-led firms (31 percent), and female leadership is associated with a 23 percent higher share

46 More than 30 percent of working women identify poor safety or flexibility as their main constraint (Ray et al., 2017), over 30 percent of married Indian women report they would work only if offered part-time jobs (Fletcher et al., 2017), and women are willing to accept a 14 percent wage cut for shorter commutes (Le Barbanchon et al., 2021). Evidence from Brazil similarly shows that expanding maternity protection, childcare, or flexible arrangements increases women's retention and queues for jobs that offer such amenities (Corradini et al., 2023), while experimental studies in India demonstrate that access to home-based or flexible work can triple women's take-up of employment (Ho et al., 2023; Jalota and Ho, 2023).

47 Morocco's legal framework to promote women's rights has evolved over the past two decades: the Family Code (Moudawana) was reformed in 2004 and amended in 2008 to strengthen women's rights in marriage, divorce, custody, and guardianship; the 2011 Constitution enshrines gender equality (Article 19); discriminatory provisions allowing a rapist to avoid prosecution by marrying his victim were repealed in 2014; and law 103-13 on gender-based violence, in force 2018/2019, criminalizes violence against women and provides enhanced protection measures.

48 Law No. 19-20 (Official Bulletin No. 7014, 19 August 2021) modified Law No. 17-95 to impose a minimum of 30 % female representation on the boards of publicly traded companies from January 2024, rising to 40 % by January 2027.

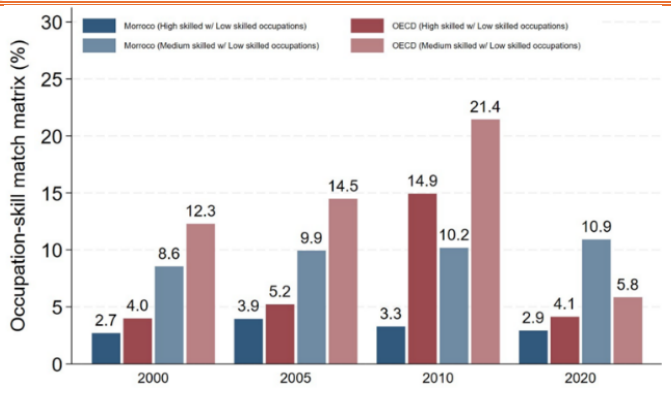
of female labor.[49] Despite their potential, women-led firms remain a small minority (14 percent of formal firms in 2022). The barriers are well-documented and span multiple dimensions: limited access to finance and credit, gaps in business experience and confidence, complex regulatory and administrative burdens, and restricted access to networks, mentorship, and markets. Traditional expectations around women's roles also limit their time, mobility, and decision-making freedom for business activities (Kourad, 2024; Touzani and Mouti, 2024).

The economic gains from unleashing female entrepreneurship in Morocco could be substantial. To quantify the potential gains, an occupational choice model allowing for gender-specific distortions is used to assess the economic spillovers of greater female entrepreneurship in Morocco (Chiplunkar et Al., 2026 forthcoming). The results are striking: removing barriers to female entrepreneurship could nearly quintuple women's share of entrepreneurship, halve the gender gap, increase formal female employment by 40 percent, and raise overall female labor force participation by 10 percent. Female earnings could rise by 6 percent and overall income by 1.3 percent, underscoring that supporting female entrepreneurship generates benefits well beyond the firms themselves.

4.5. The trade-offs of international migration

Limited opportunities in the domestic labor market are pushing many young Moroccans to pursue international migration as a route to professional fulfillment and higher earnings. The total number of Moroccan migrants in OECD countries has more than doubled from 1.5 million in 2000 to 3.2 million in 2020. Among them, 29 percent were young (15–34) and 57 percent were prime age (15–44) (OECD--Database on Immigrants in OECD Countries [DIOC]). Emigration represents a particularly meaningful opportunity for Moroccan women, as their labor force participation in OECD destinations is substantially higher than at home, ranging between 43.2 and 49.4 percent.

Figure 4-13: Emigration also leads to an underutilization of Morocco's human capital.



Source: World Bank calculations based on the OECD (DIOC).
Note: The figure compares vertical mismatch rates between 2000 and 2020 for high- and medium-skilled Moroccan workers, both within Morocco and across OECD destinations. In this context, skill mismatch refers to the probability that a Moroccan worker with a given education level is employed in an occupation requiring a lower level of education. Each bar shows the share of workers experiencing such vertical occupation–skill mismatch—that is, the percentage of individuals whose job requires fewer skills or qualifications than they possess. For instance, the first navy bar indicates that in 2000, 2.7 percent of tertiary-educated Moroccans employed in Morocco were working in low-skill occupations against 4.0 percent for the Moroccans in the OECD.

49 These results come from a regression analysis, conducted by the Worls Banks Staff with the OTMPE in a background work to this report. A set of explanatory variables was regressed over the log of the female-to-male employment ratio within firms. The explanatory variables include firm-level characteristics related to the presence of female employees, regional location, firm size, owner's gender, and legal status.

There is evidence of brain drain, but emigration tends to result in a skill downgrading. More than one-fourth of working-age Moroccans with tertiary education (26.1 percent) were living and working in OECD countries in 2020, almost twice the rate observed among medium-skilled Moroccans (14.7 percent) and nearly three times that of low-skilled workers (9.1 percent). In fact, a college graduate is estimated to be 1.8 times more likely to emigrate than someone with a secondary degree, and 2.9 times more likely than a low-skilled individual (Changom and Marzo, 2026, forthcoming). The rise in emigration is particularly pronounced in high-skill disciplines facing strong domestic mismatch, such as information technology. However, available data suggest that human capital is also underutilized abroad as it is at home, given the persistent skills downgrading of Moroccan emigrants (Figure 4.13).

On the other hand, emigration can also yield long-term human capital gains. By improving expected wage prospects abroad, migration may encourage young Moroccans to invest more in education. Estimates suggest that the prospect of emigration raises the education premium by 29.5 percent and, over the long run, increases Morocco's aggregate stock of human capital by 48.6 percent, as more individuals acquire skills in anticipation of higher returns overseas (Changom et al. 2025). Empirical evidence for Morocco further indicates that remittances increase schooling and human capital investment among children and youth (Bouoiyour and Miftah, 2016). In parallel, diaspora networks transmit skills, knowledge, and innovation back to Morocco through returnee entrepreneurship, technology transfer, and professional connections. Together, these dynamics justify policies that promote circular and return migration and strategically engage the diaspora as conduits of knowledge — shifting the balance from brain drain toward brain gain.

Outmigration affects Morocco's domestic labor market in complex ways and can further discourage FLFP by raising women's reservation wage. Recent evidence points to the conflicting directions through which migration affects remainers' decisions in the labor market. On the one hand, it has been shown that outmigration of male household members tends to increase women's work due to labor re-allocation within the household (Lenoel and David, 2019). However, this work often takes the form of unpaid family labor, with limited gains in empowerment or financial independence. On the other hand, remittances, now a significant and stabilizing income source that has helped households absorb shocks and raise living standards, may simultaneously distort labor choices differently for men and women. Indeed, in contexts where social norms constrain the acceptability of women's work, remittances can raise women's reservation wages and depress female labor force participation (Zennati, 2025).[50] The quantitative significance of this channel should not be underestimated: in 2024, remittances per working-age member in remittance-receiving households are of the same order of magnitude as the SMIG,[51] implying that for some households this transfer can effectively replace one minimum-wage job. This mechanism may contribute to explain the concurrent rapid rise in remittances in recent years (from 5.4 percent of GDP in 2019 to over 8 percent of GDP in 2024) and the decline in female activity rates discussed in

50 Empirical micro evidence linking remittances to lower female labor force participation in MENA is provided by David and Marouani (2018) for Tunisia, Al-Assaf (2022) for Jordan, and Binzel and Assaad (2011) for Egypt.

51 Back of the envelope calculations based on the average number of working-age members per household from LFS, 2024; the share of households receiving remittances from Lenoël, A., and David, A. (2019) based on "Enquête Nationale sur les niveaux de vie des Ménages, 2007"; and the total personal remittances received (2024, current USD) from WDI.

previous sections. It underscores the need for policies that promote the productive use of remittances.

4.6. Policy implications

The recommendations derived from this chapter focus on options to address the labor market supply-side frictions that affect key life-cycle transitions in Morocco. The analysis has examined constraints on the productive use of Morocco's pool of talent in light of the opportunities offered by its demographic and educational transitions. Absorbing this talent will ultimately depend on the broader upgrading of the productive fabric — and its capacity to drive demand for workers with the skills now available in the Moroccan workforce. However, supply-side measures can also go a long way in supporting these transition, through strengthened foundational learning, the generation of more adaptive and job-relevant skills, and the removal of institutional and structural barriers that constrain the productive absorption of human capital.

Morocco can continue building on recent progress to strengthen foundational learning while improving education quality and relevance. Despite major progress in enrollment and signs of positive inflexion for foundational skills, learning outcomes remain lower than expected for a middle-income country, especially in primary and lower-secondary education. Strengthening foundational skills such as literacy, numeracy, and problem-solving is essential to ensure that all students acquire the competencies needed to adapt to changing labor market conditions. Ongoing efforts to scale up quality early childhood education, targeted remediation, formative assessment, improved classroom teaching, and strengthened school quality will require consistent financing and broad engagement to sustain ongoing ambitious reforms, particularly in lagging rural areas and disadvantaged schools with high learning poverty.

Greater alignment between education and training systems and labor market needs represents another area of opportunity. Curricula should be updated to embed practical and digital skills, and university and vocational programs developed in close partnership with employers. This includes boosting apprenticeships, systematic workplace learning, and regular assessments of emerging skill needs to align training supply with market demand. Incentivizing firms — especially SMEs — to provide on-the-job training through co-financing schemes, tax incentives, or public-private training funds can enhance both worker employability and firm productivity. Such training is also essential for developing digital competencies, which remain scarce but increasingly required across most occupations.

Modernizing credentialing, skill recognition, and job-matching systems would help Morocco's qualifications framework keep pace with its increasingly educated workforce. Formal qualifications often do not reflect actual skills, contributing to high overqualification and weak signaling in the labor market. Moving toward modular, competency-based certification systems — recognizing both formal and informal learning — would help workers demonstrate employable skills more transparently, encourage lifelong learning, and facilitate transitions between education, work, and self-employment. Strengthening the labor market information system, improving timely data on skill demand and returns to education, and modernizing and integrating public employment

services can help young job seekers make informed choices while contributing to more efficient labor markets.

Progress on gender-specific barriers, through both regulatory reform and firm-level action, could significantly expand women's access to quality formal employment. Such barriers currently prevent women from accessing good jobs and often concentrate them in low-wage sectors and firms. Priority actions include investments in basic services such as safe mobility, and measures to incentivize the private sector to offer family-friendly provisions. The adoption of HR practices to counter discrimination at the firm level would support more inclusive recruitment and promotion in high-wage-premia firms and sectors. Reforming labor regulations to promote flexibility and supporting women's entrepreneurship — including through targeted finance and business development services — could further help create more inclusive labor markets.

Expanding access to affordable, quality childcare remains one of the most binding constraints on women's labor force participation and warrants priority attention. Improving quality of services — through streamlined registration, workforce certification, and support to meet quality standards — and expanding access will need to go together. Investing in diverse childcare models that respond to working women's needs, addressing restrictive social norms, and ensuring affordable or free options for low-income families are all essential. Incentivizing the private sector to provide or subsidize childcare services can also help expand supply. Strengthening childcare provision is not only a social policy priority but a central economic intervention to enable sustained female participation and productivity.

Migration and diaspora engagement represent underutilized levers for skill formation and productivity that Morocco is well placed to harness. Further facilitating circular migration, recognizing skills acquired abroad, and channeling remittances and diaspora expertise and networks into productive sectors can amplify the developmental impact of migration while mitigating the risk of brain drain. At the same time, given the scale of remittance flows and their potential to reinforce existing disincentives to female labor force participation, policies that promote the productive use of remittances — including through financial inclusion and targeted support for women's economic engagement in remittance-receiving households — deserve attention.

Sound policies across these areas are necessary but not sufficient — what will matter equally is how they are implemented and coordinated across institutions. Fragmented institutions and stand-alone programs limit impact, even when individual interventions are well designed (ILO, 2015). Effective labor markets rely on integrated systems rather than isolated programs operating in silos — a challenge that is particularly acute for youth activation, women's labor force participation, and the reallocation of labor out of agriculture, where multiple institutions must act in a coordinated manner over time. As Morocco implements its new Jobs Roadmap, strengthening policy delivery — how interventions are coordinated, implemented, and scaled — will be as important as the policy choices themselves in translating intent into sustained employment gains**.**

CHAPTER 5 POLICY RECOMMENDATIONS

Buoyed by a vigorous rebound from recent shocks and sizable investments, the Moroccan economy is gaining significant traction. Sustained policy efforts have also built widely recognized comparative advantages: solid macroeconomic management, advanced infrastructure, a deepening human capital base, and openness to global markets. However, fully unlocking this potential may require a new generation of structural reforms. Drawing on the preceding analysis, this chapter proposes policy recommendations organized around mutually reinforcing outcomes. It argues that Morocco is well-placed to strengthen productivity dynamics through concrete measures to improve the performance of markets, firms, and public investments. Stronger productivity dynamics would not only lead to faster growth, but would also yield higher wages, drawing Morocco's increasingly educated youth back into the labor market and realizing the returns of the investments in education and skills accumulated over recent decades. Overcoming structural barriers to women's participation in the workforce would be a critical step towards strengthening the economy's inclusiveness while unlocking the contribution of a large, currently underutilized pool of human capital to growth. These reforms are estimated to sustain annual growth of close to 5.6 percent and lift real GDP by roughly 30 percent over the long term. This would translate into an estimated 1.7 million more and better jobs by 2035 and 2.5 million by 2050, bringing Morocco substantially closer to the ambitions of the New Development Model.

5.1. Policy recommendations

This section distills the report's recommendations around four mutually reinforcing policy outcomes aligned with the pillars of the World Bank Job Strategy and designed to unlock faster, more inclusive growth and create quality jobs at scale. Anchored in the diagnostic evidence provided in earlier chapters, these recommendations target the structural bottlenecks that are preventing Morocco from realizing its full potential. Beyond defining broad reform domains, Table 5.1 outlines actionable measures to: (a) level the playing field in markets to improve resource allocation and productivity; (b) scale up dynamic firms to generate better jobs; (c) strengthen government effectiveness to maximize the public sector's positive spillovers to the broader economy; and (d) reduce the binding constraints on youth and women labor force participation. Importantly, some of these recommendations correspond to reforms that are already underway at different stages of implementation. Therefore, the policies discussed here are best understood as a deepening of the transformation envisaged by the NDM and the efforts deployed in recent years, which include landmark reforms across social protection, state-owned enterprise (SOE) governance, private investment promotion, the business environment, and taxation, among other areas.

Table 5-1: Policy recommendations.

Policy area	Policy actions
Outcome 1: Efficient markets **WBG Jobs Strategy Pillar 2 (Governance and Business-Enabling Policies)**	
1.1. Continue implementing antitrust rules	• Continue strengthening capacities of Morocco's Competition Council • Scale up enforcement against concerted practices and abuse of dominance • Implement mechanisms to screen public procurement and launch first bid-rigging investigations • Separate regulators from market operations in transport sectors and continue strengthening the regulator in the energy sector
1.2. Adopt and implement pro-competition market regulations	In the **Telecommunications sector**: • Promote a competitive wholesale market and foster infrastructure sharing to reduce the costs of deploying fixed/mobile ultrafast broadband networks • Improve sector governance and transparency (for example, regarding the spectrum allocation process, use of the Universal Service Fund, mapping of existing network infrastructure) • Conduct Significant Market Power (SMP) assessments more regularly and comprehensively. In the **Energy sector**: • Complete the regulatory framework under laws 40-19 and 82-21 related to renewable energy transactions and self-generation; accelerate the unbundling of production and transmission in line with Law 48-15 • Continue developing a functioning wholesale market for electricity, enabling a bigger volume of transactions between producers, distributors and consumers. In the **Transportation sector**: • Enable competition-based private sector participation in transport infrastructure tailored to market conditions, including direct provision and shared arrangements such as PPPs and service/management contracts • Strengthen competitive neutrality of SOEs, including by accounting for public service obligations. • Update sector rules to stimulate market growth and competition between service providers (for example, negotiating international agreements to deepen cross-border transport, adopting transparent ridesharing rules, abolishing monopoly rights and price controls for coach transport). In the **Professional Services sector**: • Continue enforcement against anti-competitive practices by professional chambers (for example, price recommendations) • Relax rules on legal form, business ownership, interprofessional cooperation and advertising • Create additional pathways to enter regulated professions. In the **Manufacturing and Distribution sectors**: • Remove anti-competitive laws and policies
1.3. Level the playing field with SOEs	• Advance competitive neutrality (including accounting for public service obligations) • Strengthen corporate governance (including by corporatizing SOEs and fostering the independence of corporate boards) • Rationalize SOE presence in competitive markets.

1.4. Reduce payment delays and improve contract enforcement	• Support the development of supply chain finance instruments, in particular factoring and reverse factoring, to help firms bridge payment delays. • Strengthen commercial justice by streamlining small claims procedures and enhancing the enforcement of judicial decisions. • Enhance insolvency procedures by regulating judicial administrators' roles, digitizing insolvency procedures, and streamlining dissolution processes for smaller firms. • Adopt electronic invoicing and automated platforms to streamline invoice processing and reduce administrative lags; leverage the e-invoicing system to monitor payment delays.
Outcome 2: Dynamic firms **WBG Jobs Strategy Pillar 2 (Governance and Business-Enabling Policies) and Pillar 3 (Private Capital Mobilization)**	
2.1. Continue correcting fiscal disincentives to firm growth and the creation of formal jobs	• Complete the reform to flatten the CIT rate and complete the rationalization of tax expenditures, avoiding size-dependent provisions. • Reduce compliance costs (tax and social contributions) through streamlined and digitized procedures for intermediate-size firms. • Reduce the labor tax wedge (social security contributions) for low-income earners and offset the revenue loss through social contributions and taxes not specifically levied on the formal sector (carbon-environmental, health taxes, VAT).
2.2. Deepen SMEs' access to finance and capital	• Reduce information asymmetries in SME credit markets by fully operationalizing the national movable collateral registry (RNESM) and expanding credit bureau coverage through the integration of non-financial and alternative data. • Encourage fintech development by establishing a regulated Open Finance framework, streamlining and expanding their financing (for example, via frameworks like Simple Agreements to Future Equity), and strengthening policy coordination • Create a secondary market for NPLs, enabling banks to offload distressed assets more efficiently, release provisions and capital, and expand new credit to SMEs. • Complete the regulatory framework for the issuance of quasi-equity instruments, such as convertible bonds, adapted to the risk profiles of innovative firms and high-growth start-ups.
2.3. Reform labor market regulations to make hiring and separations predictable, fast and fairly compensated	• Complete the social protection reform with the introduction of an unemployment insurance scheme as an additional layer of protection for formal employees paving the way for more balanced labor regulations • Reform the labor code to rebalance workers' rights with firms' flexibility in hiring and firing formal employees. • Encourage collective bargaining agreements to facilitate the adjustment of employment terms to firm and market realities.
2.4. Recalibrate firm support programs	• Integrate and streamline the ecosystem, establishing a single-window client interface, sharing data across public agencies, standardizing diagnostics and application processes to cut transaction costs and improve uptake for SMEs. • Sequence instruments across the firm life cycle, designing a coordinated continuum from start-up to scale-up, pairing entry-stage guarantees with investment-readiness technical assistance, and bundling scale-up grants with credit de-risking and catalytic equity. • Sharpen targeting and scale what works, focusing grants and support on clear market failures (export information externalities, technology adoption, financing constraints) and installing rigorous governance and impact monitoring.

	• Support the development of supply chain finance solutions aimed at facilitating the participation of SMEs in the procurement processes of "anchor" firms integrated in global value chains.
2.5. Streamline and digitize private investment procedures	• Streamline authorization/permit processing procedures for private investment projects and strengthen ex post control systems • Strengthen regional investment centers as one-stop shops, providing coordinated support and guidance throughout the investment lifecycle
Outcome 3: Impactful public investments and policies **WBG Jobs Strategy Pillar 1 (Foundational Infrastructure) and Pillar 2 (Governance and Business-Enabling Policies)**	
3.1. Strengthen Public Financial Management (with a particular focus on PIM)	• Establish a centralized, standardized public investment selection and preparation framework to ensure alignment with performance objectives. • Require robust ex ante evaluations of investment projects to ensure consistency and value for money across sectors.
3.2. Mitigate potential crowding out effects of public investment	• Embed SOE investment and financing plans in the annual budget law process and medium-term fiscal framework, setting aggregate ceilings. • Cap and taper bank lending to public investment projects (including SOEs) by setting a consolidated ceiling and applying a declining path. • Foster infrastructure financing through capital markets, building a pipeline of bankable projects, operationalizing the PPP framework, and deploying blended-finance solutions.
3.3. Foster integrated, evidence-based policymaking	• institutionalize evaluation across all levels of public administration, starting with pilot reviews that assess the General Budget, Special Treasury Accounts, and SOEs expenditures in selected sectors. • Establish center of government coordination bodies to strengthen cross-ministry collaboration and integrate policy development and delivery. • Foster administrative data sharing among Moroccan public institutions through an adapted legal framework and centralized data platform, standardized data formats and quality, and modernized interoperability technology and infrastructure. • Modernize the national statistical office through a reform of HCP. Foster transparency through open data initiatives, clear communication channels, and stakeholder engagement.
Outcome 4: More active women and youth in the labor market **WBG Jobs Strategy Pillar 1 (Foundational Infrastructure) and Pillar 2 (Governance and Business-Enabling Policies)**	
4.1. Undertake reforms for women economic empowerment and inclusion	• Ensure equal treatment of men and women under the Moroccan legal system. • Reform Gender-Based Violence Law to combat harassment in public places. • Reform labor regulations to allow for flexible arrangements tailored to mothers' needs. • Foster female entrepreneurship through gender-oriented financial inclusion policies and rewards for women-led businesses in public procurement.
4.2. Enhance gender-responsive services and infrastructure	• Reform the childcare sector to streamline authorization processes for new nurseries, certify professionals, and regulate alternative service delivery options suitable for low-income households. • Improve women's mobility through safe and reliable transport.
4.3. Improve the relevance of education to current and future jobs.	• Continue strengthening foundational learning by prioritizing early-grade literacy and numeracy through efficient resource allocation, targeted teacher deployment, and scaling the successful *Écoles Pionnières* model, tracked with routine classroom assessments.

	• Strengthen career counseling by providing labor-market-informed guidance, transparent program employability data, and stigma-reducing pathways into vocational training—supported by regular tracking of graduates' outcomes, • Diversify and enhance TVET relevance by co-designing programs with industry, using graduate employability analytics to update offerings, and achieving better coordination with labor intermediation programs. • Expand access to workplace learning and on-the-job training through the provision of incentives for firms. • Strengthen credentialing and skills recognition systems.
4.4. Increase the relevance and effectiveness of labor intermediation services	• Expand NEETs' access to ALMPs by extending eligibility to youth without an upper secondary diploma and scaling delivery in rural areas, with targeted outreach and simplified enrollment. • Equip ANAPEC to provide tailored support through systematic profiling and individualized counseling, and to track and prioritize firms offering women-friendly conditions (e.g., flexible schedules, childcare support, safe transport) to match eligible young mothers wishing to reenter the labor force. • Strengthen coordination between ANAPEC and OFPPT to exploit synergies between ALMPs and vocational training. • Refine ANAPEC programs to reward sustained employment and upskilling by conditioning employer incentives on post-subsidy retention. • Consolidate ALMPs into fewer, higher-impact programs by rigorously evaluating existing schemes and aligning offerings to labor-market intelligence.
4.5. Actively manage migration for development	• Facilitate circular migration programs • Align the national certification of skills with international standards to encourage Moroccan workers to acquire globally recognized qualifications • Establish a dedicated diaspora investment fund to channel migrants' savings into national development projects • Provide incentives for remittances to be channeled into investments in women-led SMEs.

5.2. From recommendations to results

The approach taken to estimate the potential impact of this policy package is anchored in the World Bank's macro-fiscal model (Burns et al. 2019) and follows the following steps:

Stage 1: Baseline macroeconomic projection. A baseline economic projection, consistent with Morocco's medium-term macroeconomic framework was established, representing the economy's trajectory absent the implementation of the reforms proposed in Table 5.1. This baseline projection, presented in Chapter 1, accounts for demographic dynamics, labor force growth, capital accumulation, and sectoral productivity trends, establishing the reference scenario against which reform impacts are measured.

Stage 2: Microeconomic evidence on policy impacts. Evidence was gathered from policy evaluations in comparable contexts on the direct impacts of individual policy recommendations on specific economic outcomes (firm productivity, employment decisions, investment responses, and technology adoption). Key transmission mechanisms and elasticities linking policy instruments to economic responses were defined.

Stage 3: General equilibrium integration. Microeconomic evidence was integrated into a dynamic macrostructural model calibrated to Morocco's economic structure, enabling estimation of economy-wide effects accounting for cross-sectoral linkages, factor market interactions, and

dynamic capital accumulation. Policy changes were introduced incrementally to assess complementarities and identify potential conflicts between reform components.

Stage 4: Macroeconomic impact assessment. Policy reform scenarios were compared with the baseline projection to assess comprehensive impacts on GDP growth, sectoral composition, employment levels, wage distribution, household consumption, and public finance outcomes.

Box 5-1: An illustration of impact assessment: the case of PIM reforms

While increasing the volume of infrastructure spending is critical for economic development, the efficiency of that spending is equally vital. Strengthening PIM ensures that every dirham invested yields higher returns in productive capital, thereby maximizing the growth dividend of the government's NDM.

To assess the macroeconomic impact of PIM reforms, the model calibrates the efficiency of public capital accumulation. Drawing on multiplier estimates and literature on public investment efficiency (Kraay, 2014), which analyzes data across 102 developing countries, the assessment differentiates between baseline and reform scenarios:

- Baseline scenario: Under current efficiency levels, public investment multipliers are estimated at approximately 0.3 in the short term and 1.0 over a five-year horizon.

- Reform scenario: With substantial improvements in PIM—specifically in project appraisal, selection, and procurement processes—the efficiency of capital spending improves. Consequently, the model assumes an increase in multipliers to 0.4 in the short run and 1.2 in the medium term.

In the general equilibrium Macro-Fiscal Model – Stabd Alone (MFMOD-SA) framework, these efficiency gains are implemented by altering the production function parameters (elasticities) of public capital. This adjustment reflects a higher marginal product of public capital expenditure. In addition, the simulation results suggest that improving PIM not only raises the immediate output impact of fiscal spending but also fosters stronger medium-term growth. By achieving a multiplier greater than 1.0 in the medium term, the reform is projected to crowd in private investment rather than crowd it out, as the improved quality of infrastructure lowers the cost of doing business. This efficiency shock is estimated to structurally raise potential GDP, creating fiscal space and supporting sustained job creation.

5.3. Results

5.3.1. Impact on economic growth

The proposed reforms are projected to increase Morocco's average annual real GDP growth rate by 1.0 percentage point to 5.4 percent over the 2025–2050 period. Faster GDP growth would result in real GDP levels 17.0 percent above the baseline projection in 2035 and 23.8 percent above the baseline projection in 2050. Policies in Outcome 1, enabling market efficiency, and in Outcome 2, supporting more productive and dynamic firms. would primarily impact macroeconomic outcomes through increased productivity, though capital market reforms would also contribute to higher levels of investment. Policies in Outcome 3 strengthening the investment framework would increase investment spending multipliers, while those reducing institutional fragmentation would contribute to higher productivity. Outcome 4 increasing the participation of women and youth in the labor market would affect growth through higher labor force participation and employment.

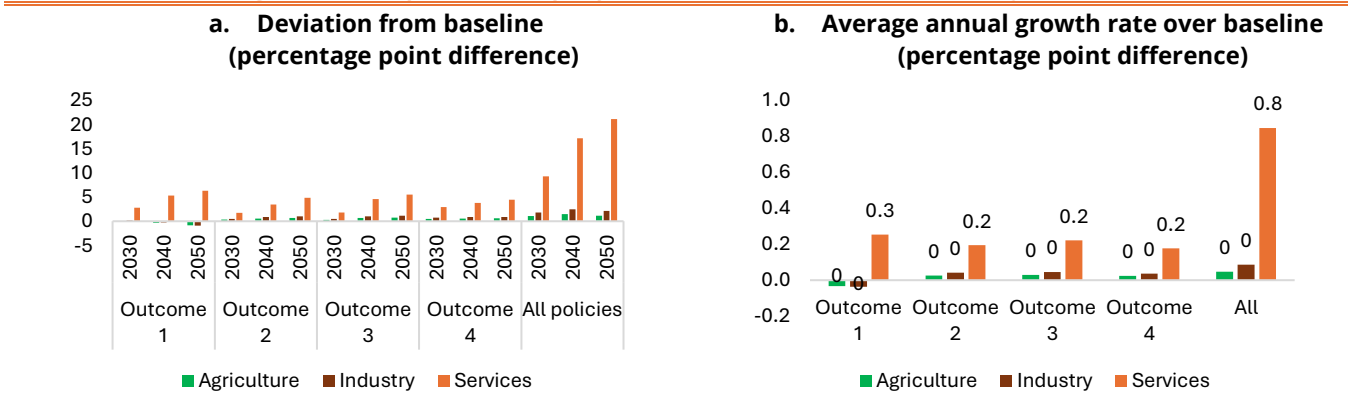
On the supply side, growth is expected to be mainly driven by services, followed by industry. All outcome areas would boost services the most, followed by industry. In comparative terms, investment policies would have the largest impact on the industrial sector and capital accumulation, while policies promoting women and youth participation in labor markets would increase potential growth through employment growth, which would translate into a larger contribution to services. The impact of all outcomes would remain relatively muted in agriculture given the nature of the policies proposed and agriculture's dependence on climate conditions.

Table 5-2: Growth impact of proposed policies.

	Real GDP (Deviation from baseline, in percentage)		**Real GDP Growth** (Deviation from baseline average growth, in percentage)
	2035	*2050*	*2025-2050*
All Policies	**17.0**	**23.8**	**1.0**
Outcome 1: Efficient markets	4.4	6.2	0.3
Outcome 2: Dynamic firms	3.3	5.8	0.2
Outcome 3: Impactful public investments and policies	5.1	6.5	0.3
Outcome 4: More active women and youth in the labor market	4.2	5.2	0.2

Source: World Bank staff calculations based on World Bank country specific MFMOD-SA.

Figure 5-1: Impact of the proposed reforms on value added by sector.



Source: World Bank staff calculations based on World Bank country specific MFMOD-SA.

Table 5-3: Impact of the proposed reforms on GDP by demand component.

	Demand side components (Deviation from baseline, percentage)		
	2030	*2040*	*2050*
Consumption	4.5	4.0	2.8
Investment	9.7	12.3	14.1
Exports	1.0	5.6	9.0
Imports	4.3	2.1	1.7

Source: World Bank staff calculations based on World Bank country specific MFMOD-SA.

On the demand side, the proposed policies would boost both investment and consumption. The overall impact of policies would be driven in about equal measure by investment and

consumption dynamics. Given the nature of policies considered, government consumption would not play a significant role. Net exports would overall contribute positively in the longer-term, but imports would initially rise more than exports to meet rising investment demand.

5.3.2. Impact on employment and wages

The proposed policies would increase labor force participation, employment, and wages. ALMPs emphasizing youth and female inclusion are projected to generate 5.6 percent increase in employment by 2050. Combined with policies enhancing labor productivity through skills development and technology adoption, employment is projected to expand by 7.9 percent relative to the baseline, generating over 800,000 additional formal sector jobs.

Real wages under the policy reform scenario are 8.3 and 15 percent higher than the baseline in 2035 and 2050, respectively. The most significant gains come from measures that enhance productivity and market functioning, specifically Outcome 1 (Efficient Markets) and Outcome 3 (Impactful Public Investments), which are projected to raise real wages by 4.9 percent and 6.6 percent, respectively, in the long term. Conversely, while Outcome 4 (More active women and youth) successfully integrates more workers into the labor market, this positive supply shock is estimated to exert a slight downward pressure on real wages (-1.8 percent in 2035 and -0.9 percent in 2050), partially moderating the strong aggregate gains driven by market reforms.

Table 5-4: Impact of the proposed reforms on employment and real wages.

	Employment (Deviation from baseline, percentage)		**Real wages** (Deviation from baseline, ipercentage)	
	2035	*2050*	*2035*	*2050*
All Policies	**7.9**	**7.9**	**8.3**	**15.0**
Outcome 1: Efficient markets	0.3	0.3	3.2	4.9
Outcome 2: Dynamic firms	1.5	1.5	1.9	4.4
Outcome 3: Impactful public investments and policies	0	0	5.0	6.6
Outcome 4: More active women and youth in the labor market	6.2	6.2	-1.8	-0.9

Source: World Bank staff calculations based on World Bank country specific MFMOD-SA.

The pathway to employment transformation hinges on synchronizing labor supply expansion with productivity acceleration. Policies that encourage labor market participation, particularly Outcome 4 (More active women and youth), are projected to increase employment by 6.2 percentage points by 2050, accounting for a substantial share of employment growth and contributing to over 800,000 additional formal sector jobs. However, without complementary productivity improvements, this positive supply shock could exert downward pressure on wages (estimated at -1.8 percent in 2035 and -0.9 percent in 2050). Productivity-enhancing policies, mainly Outcome 1 (Efficient Markets) and Outcome 3 (Impactful Public Investments), are critical to stimulating labor demand and ensuring that wage growth keeps pace with employment expansion,

with projected long-term wage increases of 6.6 percentand 4.9 percent respectively. Together, the combined reform package, including labor market, productivity, and market efficiency measures, facilitates a new equilibrium where employment expands by over 7.9 percent relative to baseline, while real wages rise by 15 percent in 2050, delivering both quantitative employment gains and qualitative improvements in job quality for Moroccan workers.

5.3.3. Impact on more and better jobs indicator

The more and better jobs indicator is projected to expand significantly over the long run. By 2050, the reform scenario results in 2.5 million more and better jobs, reflecting broad-based improvements across all policy objectives. This is underpinned by expanded employment opportunities and rising real wages. Policy measures targeting efficient markets (Outcome 1), dynamic firms (Outcome 2), impactful public investments (Outcome 3), and labor force activation (Outcome 4) work mutually to raise living standards. The convergence of higher employment and higher wages translates directly into improvement in the more and better jobs indicator, suggesting that the reform package not only delivers immediate welfare improvements but also establishes a foundation for long-term, inclusive prosperity, ensuring that the benefits of economic transformation are widely shared.

Table 5-5: Impact of the proposed reforms on more and better jobs.

	More & Better Jobs (in million)	
	2035	*2050*
All Policies	**1.7**	**2.5**
Outcome 1: Efficient markets	0.4	0.6
Outcome 2: Dynamic firms	0.4	0.6
Outcome 3: Impactful public investments and policies	0.5	0.7
Outcome 4: More active women and youth in the labor market	0.5	0.6

Source: World Bank staff calculations based on World Bank country specific MFMOD-SA.

Box 5-2: Growth trajectories: the 8 percent ceiling versus the 13 percent leap

Addressing structural impediments to inclusive and jobs-rich growth requires steadfast commitment to advancing structural reforms. The government's NDM, centered around boosting long-term, inclusive growth and reinforcing economic resilience, provides a good foundation to entrench the inclusive growth agenda. While significant progress has been achieved in broadening social protection and reforming the SOE sector, deepening the structural reforms offers substantial potential for increasing Morocco's long-term prosperity. Two distinct, but complementary, reform packages have been highlighted and modeled to illustrate the scale of dividends depending on the level of ambition.

Low-Hanging Fruit Package: Public Sector Reforms

The first package focuses on maximizing the efficiency of current public resources and streamlining the regulatory environment for private investment. This involves reforms requiring lower political

capital but delivering measurable short-to-medium-term gains. Key components include strengthening PIM capacity, reducing policy and institutional fragmentation, streamlining and digitizing private investment procedures (building on the 2022 Investment Charter), and correcting specific policy-driven disincentives for growth.

Together the implementation of these administrative reforms is projected to deliver a substantial GDP uplift of 5.8 percent in the medium term and about 8 percent of GDP in the long term, relative to the baseline. These gains are primarily anchored on reducing policy and institutional fragmentation, which alone contributes to 4.9 percent growth in the long term through reduced redundancy, inconsistency, and regulatory fragmentation.

Ambitious but Feasible Package: Deep Structural Transformation

While the efficiency gains are important, unlocking Morocco's full economic potential requires addressing deeper structural impediments, particularly those concerning labor market flexibility and competition. This ambitious package targets high-impact reforms that require significant legislative support but yield far greater returns over the long run. The three primary structural levers in this package include increasing FLFP, enhancing labor market flexibility, and strengthening antitrust and competition.

This package yields a medium-term growth dividend of about 9.6 percent, accelerating sharply to close to 13 percent gain in the long term. Most of this long-term dividend is driven by the flexibility of the labor market and the expansion of the workforce through enhanced FLFP, reflecting the severity of current structural labor market constraints, combined with leveling the playing field reforms.

5.4. Conclusion

The proposed reforms establish an integrated policy framework addressing multiple binding constraints on Morocco's economic development trajectory. Policy effectiveness requires coordinated implementation across all outcome areas, as individual policies generate interdependencies and complementarities. Labor market participation policies, while essential for demographic adjustment, must be accompanied by productivity-enhancing investments to ensure that wage growth accompanies employment expansion. Similarly, private capital mobilization requires parallel efforts to strengthen market contestability and remove competitive barriers, ensuring that capital flows toward productive, high-return investments rather than rent-seeking activities.

Implementation of this comprehensive reform package offers Morocco a feasible pathway toward higher, more inclusive growth trajectories aligned with national development aspirations. By systematically addressing institutional fragmentation, regulatory barriers, market contestability constraints, and human capital development gaps, the reform program establishes foundations for Morocco's transition toward a higher-productivity, knowledge-intensive economy generating substantial increases in formal employment and household living standards.

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ANNEX 1: STANDARDIZED TABLES

Morocco

Table I Summary of the projection

Annual percentage change, unless indicated otherwise

	2015	2020	2025	2030	2035	2040	2045	2050
Real Economy								
Real GDP at Market Price (LCU)	4.3	-7.2	5.0	4.4	4.1	4.1	4.0	3.9
Potential GDP	5.0	-6.1	3.7	4.3	4.1	4.1	4.0	3.9
Output Gap	6.2	-2.2	-1.4	-0.8	-1.4	-0.9	-0.7	-0.7
Sectoral output								
Agricultural output	14.0	-7.1	5.2	2.2	1.7	1.4	0.8	0.1
Indsutrial output	1.8	-5.2	5.0	4.8	4.5	4.5	4.4	4.2
Service-sector output	2.1	-7.9	5.0	4.5	4.3	4.3	4.2	4.1
Factor supply								
TFP	1.5	-9.0	0.9	0.9	1.1	1.1	1.3	1.3
Employment	0.4	0.3	0.8	1.0	0.9	0.7	0.5	0.4
Capital	4.9	3.3	4.3	4.4	4.0	4.1	4.0	4.0
Human Capita;								
Investment to GDP ratio	26.5	27.5	30.0	30.0	29.0	29.0	28.6	28.6
Government								
GG balance	-4.5	-7.1	-4.3	-4.4	-4.4	-4.4	-4.4	-4.4
Primary balance	-2.0	-4.7	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3
GG Debt	58.4	72.2	69.9	68.1	67.8	67.1	66.9	67.1
External balance								
Current Account Balance	-2.0	-1.2	-2.4	-2.1	-2.1	-2.1	-2.1	-2.1

Morocco

Table 2 Source of growth

Annual percentage change, unless indicated otherwise

	2015	2020	2025	2030	2035	2040	2045	2050
GDP								
Real GDP at Market Price (LCU)	4.3	-7.2	5.0	4.4	4.1	4.1	4.0	3.9
Potential GDP	5.0	-6.1	3.7	4.3	4.1	4.1	4.0	3.9
Output Gap	6.2	-2.2	-1.4	-0.8	-1.4	-0.9	-0.7	-0.7
Sectoral GDP								
Agricultural value added	11.3	9.9	9.2	8.4	7.5	6.6	5.7	4.8
Industrial value added	25.2	26.0	24.2	24.6	25.1	25.5	26.0	26.4
Services value added	53.6	54.2	56.4	56.8	57.3	57.7	58.2	58.6
Potential output	4.9	-6.3	3.7	4.2	4.0	4.0	3.9	3.8
Contributions to potential growth								
- from TFP	1.5	-9.4	0.9	0.9	1.0	1.1	1.3	1.3
- from employment	0.2	0.1	0.4	0.5	0.4	0.3	0.3	0.2
- from human capital	0.5	0.5	0.5	0.6	0.5	0.5	0.3	0.3
- from capital stock	2.7	2.4	1.9	2.3	2.1	2.1	2.1	2.1
TFP growth	1.5	-9.4	0.9	0.9	1.0	1.1	1.3	1.3
Contributions to TFP growth								
- Capital intensity	-2.5	-2.3	-1.4	-1.7	-1.7	-1.7	-1.8	-1.8
- Human capital	-0.5	-0.5	-0.5	-0.6	-0.5	-0.5	-0.3	-0.3
- Output per worker	4.5	-6.6	2.8	3.2	3.2	3.3	3.4	3.4
- o/w Sectoral productivity	2.9	-6.5	1.8	2.7	2.7	2.8	2.9	2.9
- o/w Sectoral employment shares	0.4	1.0	0.6	0.2	0.2	0.2	0.2	0.2
- o/w net tax residual	1.2	-1.1	0.4	0.3	0.3	0.3	0.3	0.3
Human capital growth								
years of schooling	4.8	5.3	5.9	6.5	7.0	7.5	7.8	8.2
human capital	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.6
Structural change								
Potential output	5.0	-6.1	3.7	4.3	4.1	4.1	4.0	3.9
Contribution from employment	0.4	0.3	0.8	1.0	0.9	0.7	0.5	0.4
Contribution from employment shares	2.9	-6.5	1.8	2.7	2.7	2.8	2.9	2.9
Contribution from sectoral labor productivity	0.4	1.0	0.6	0.2	0.2	0.2	0.2	0.2
Sectoral output								
Agriculture (% GDP)	12.6	11.0	10.3	9.3	8.3	7.3	6.3	5.3
Industry (% GDP)	27.9	28.8	26.9	27.4	27.9	28.4	28.9	29.4
Servics (% GDP)	59.5	60.2	62.8	63.3	63.8	64.3	64.8	65.3
Sectoral Employment								
Agricultural emp share	39.0	31.3	30.0	29.0	28.0	27.0	26.0	25.0
Industry Empl share	20.5	22.9	24.5	25.0	25.5	26.0	26.5	27.0
Service sector Empl share	40.5	45.8	45.5	46.0	46.5	47.0	47.5	48.0
Demographics								
Effective Employment	-6.3	2.3	5.8	-0.1	-1.8	-1.9	-2.0	-14.0
o/w Employment	-19.8	33.2	14.8	-0.2	-3.8	-4.6	-4.5	-4.9
o/w human capital	0.0	-4.1	0.0	0.0	0.0	0.0	0.0	-20.0
Employment rate	43.0	41.0	40.1	40.0	40.0	40.0	40.0	40.0
Participation rate	47.4	45.3	44.2	44.0	44.0	44.0	44.0	44.0
Unemployment rate	9.3	9.6	9.3	9.1	9.1	9.1	9.1	9.1
Female employment	3.2	3.0	3.0	3.1	3.3	3.4	3.5	3.6
Female working age pop	15.1	16.0	16.9	17.8	18.7	19.4	20.1	20.5
Female Labor Force	3.6	3.4	3.4	3.5	3.7	3.8	4.0	4.1
Female Employment rate	21.2	19.0	17.7	17.6	17.6	17.7	17.7	17.7
Female participation rate	23.7	21.3	19.9	19.7	19.8	19.8	19.8	19.8
Female Unemployment rate	10.3	11.0	10.9	10.8	10.7	10.7	10.7	10.7
Male employment	9.8	10.2	10.6	11.1	11.7	12.1	12.4	12.7
Male working age pop	15.2	16.2	17.0	17.9	18.7	19.4	19.9	20.4
Male Labor Force	10.8	11.2	11.6	12.2	12.8	13.2	13.6	13.9
Male Employment rate	64.5	62.8	62.3	62.3	62.4	62.4	62.4	62.4
Male participation rate	70.9	69.1	68.4	68.2	68.3	68.3	68.3	68.3
male Unemployment rate	9.0	9.1	8.9	8.7	8.6	8.6	8.6	8.6
Investment Savings Balance								
Investment to GDP ratio	26.5	27.5	30.0	30.0	29.0	29.0	28.6	28.6
Capital Output ratio	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Capital Labor ratio	225389.7	280680.5	323801.5	381445.6	444521.0	522005.4	615422.5	730871.7
Total savings rate (% GDP)	26.5	27.5	30.0	30.0	29.0	29.0	28.6	28.6
Public savings (%GDP)	-4.5	-7.1	-4.3	-4.4	-4.4	-4.4	-4.4	-4.4
Private savings (%GDP)	29.1	33.5	31.9	32.3	31.3	31.3	30.9	30.9
Foreign Savings (%GDP)	2.0	1.2	2.4	2.1	2.1	2.1	2.1	2.1
Current Account								
Current Account Balance	-2.0	-1.2	-2.4	-2.1	-2.1	-2.1	-2.1	-2.1
Government								
GG balance	-4.5	-7.1	-4.3	-4.4	-4.4	-4.4	-4.4	-4.4
Primary balance	-2.0	-4.7	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3
GG Debt	58.4	72.2	69.9	68.1	67.8	67.1	66.9	67.1

ANNEX 2: EMPLOYMENT TABLE

	Annualized Growth, %							Composition- Share of total employment, % (2022)		
	Morocco					Comparators (2010-2022 avg)				
Sector	1991-2009	2010-2022	2020	2021	2022	Structural	Aspirational	Morocco	Structural	Aspirational
Total Employment	2.5	0.4	-4.1	3.5	0.2	0.8	1	100.0	100.0	100.0
Agriculture	1.3	-2.2	-5.1	1.1	-6	-2	-0.9	29.3	13.6	28.8
Mining	6.3	6.4	4.3	4	3.8	1.3	-1.5	0.9	0.7	0.9
Manufacturing	2.4	-0.1	-4.1	3	-0.1	0.6	2.1	10.9	14	14.4
Utilities	-0.4	-1.2	-8.4	2.9	-0.9	6.6	5.3	0.3	1.7	1.4
Construction	5.2	2	-3.8	7.7	2.2	1.3	2	12	14.5	8.5
Wholesale & Retail Trade	4.7	2.1	-4	5.4	3.3	2.8	1.8	21.7	15.2	15.1
Transport & ICT	-0.1	2.6	-4.7	2.3	8.1	2.6	1.9	2.8	7.7	6
Hospitality	5.3	2.6	-8.3	7.8	3.8	0.5	3.5	3.2	3	4.9
Finance	0.8	0.7	1.2	4	3.5	0.5	4.2	0.7	0.7	1.4
Business Services	2.8	4.1	-4.6	1.3	6.8	3.4	7.6	1.2	2.7	3.7
Public Administration	8.6	0.5	-0.8	2.4	0.9	-0.2	0.7	4.9	10.1	3.8
Education	28.4	4.5	-2.6	3.1	3.2	0.8	1.1	4.6	8.8	4.2
Health	-3.1	1.8	-0.4	3.2	4.8	1.1	2.9	1.1	3.6	2.7
Other Services	0.6	1.7	-3.9	3.5	7.1	2.1	0.9	6.5	3.6	4.4

Source: World Bank Structural Change and Employment Database (based on ILO modelled estimates).

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